IPF Research

The Size and Structure of the UK Property Market: End-2015 Update

JULY 2016

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This Programme supports the IPF's wider goals of enhancing the understanding and efficiency of property as an investment. The initiative provides the UK property investment market with the ability to deliver substantial, objective and high-quality analysis on a structured basis. It encourages the whole industry to engage with other financial markets, the wider business community and government on a range of complementary issues.

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The Size And Structure of the UK Property Market: End-2015 Update

Report

IPF Research Programme 2015–2018

July 2016

The Size And Structure of the UK Property Market: End-2015 Update

Research

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CONTENTS

1. EXECUTIVE SUMMARY

- The values of both the total amount of commercial property in the UK and that which is owned by investors reached their highest levels recorded to date in 2015, surpassing the previous peaks recorded in 2006 and 2007 respectively. The total amount of commercial property (whether owner-occupied or held as an investment) increased to £871bn (an uplift of 11% on 2014), while the amount held as an investment rose to £483bn (an increase of 9% on 2014).
- The value of the UK's stock of commercial property rose mainly because of higher prices. In particular yields, which are inversely and disproportionately related to prices, fell by 40 basis points; rental growth of 4.0% also contributed to increases in prices. Total floorspace, however, declined marginally.
- Since 2006/2007, however, the growth in the value of the UK's commercial property stock, has been primarily driven by higher rents; by contrast, yields (which have been the principal driver of the recent growth in property values) have only now recovered to 2006/2007 levels. The total amount of floorspace has increased by only 0.9% since 2006.
- London's commercial property stock increased relatively quickly in 2015, such that it now accounts for 38% of the UK total, compared to 36% in 2014, primarily because of relatively strong rental growth.
- While the total value of commercial property in London is 38% higher than in 2006, in the rest of the country it is 14% lower. Since 2006, rents have increased and yields have fallen in London; in the rest of the country, rents on average have declined and yields have risen.
- Retail remains the largest commercial property sector, accounting for 41% of the total. However, its value – constrained by virtually flat rental growth – increased by only 6% in 2015. Offices saw the greatest increase in value, albeit only slightly ahead of Industrial and Other commercial property (which sector includes hotels, leisure, etc.).
- The value of UK commercial property held by investors reached its recorded level to date level of £483bn in 2015. Helped by rising prices, almost all investor types recorded increases in value.
- Overseas investor holdings continue to grow relatively quickly, reflecting both net purchasing and a focus on the buoyant central London markets (77% of their holdings are in London). Overseas investors now account for 28% of UK investment property (and 16% of all commercial property), compared to 17% of investment property (and 9% of all commercial) in 2007.
- Overseas investors dominate the City office market, owning 61% of investment properties, and are increasing their exposure to the West End and Midtown office markets, now owning 39% of investment property located here. These markets, together with offices in Docklands and suburban London, London hotels and, to a lesser extent, retail in central London, have the highest rates of overseas ownership and, hence, are potentially the most exposed to any change in foreign investor sentiment that may the result of the referendum on UK membership of the European Union, held on 23 June 2016.
- Property owned by UK insurance companies continued to grow relatively slowly in 2015, now comprising only 9% of the investment market, compared to 15% in 2007.
- Collective investment schemes and listed property companies (including real estate investment trusts) are the largest domestic owners of UK investment property, accounting for 31% between them (compared to 17% in 2007).
- Investment portfolio structures continue to shift towards central London offices, due to relatively strong price growth and increases in UK investor purchases in 2015. London, for the first time, accounts for the majority of property in commercial investment portfolios; London dominates overseas investor portfolios.
- Recent research by De Montfort University (*The UK Commercial Property Lending Market*) drew attention to the 'London centric' nature of lending secured on commercial property but central London's reported share of 43% is broadly in line with its 38% share of the commercial investment market.

1. EXECUTIVE SUMMARY

- A perceived aversion to the management-intensive nature of small lot sizes, which typically characterise commercial property markets outside London, may be a major reason for the relatively small amount of regionally located property in investment portfolios. Overseas investors appear to have an underlying bias in favour of central London.
- Residential property (including student accommodation) is treated separately in the analysis. Mainstream investor holdings increased rapidly in 2015 (increasing in value by 26%) although – with total ownership of some £29bn, including student accommodation – this represents a very small proportion of a private rented sector valued in excess of £1 trillion.

Table 1.1: Total Commercial and Residential Universes and Invested Property Universe

	2014	2015
COMMERCIAL PROPERTY UNIVERSE VALUE £bn	£788	£871
% change on previous year	15%	11%
of which London £bn	£288	£330
% change on previous year	18%	15%
of which Rest of UK £bn	£500	£541
% change on previous year	12%	8%
COMMERCIAL INVESTMENT UNIVERSE VALUE £bn	£442	£483
% change on previous year	15%	9%
of which:		
UK investors £bn	£329	£348
Overseas £bn	£113	£135
% Overseas	26%	28%
London £bn	£216	£246
% London	49%	51%
of which Rest of UK £bn	£226	£237
% Rest of UK	51%	49%
RESIDENTIAL TOTAL STOCK VALUE £bn	£5,062	£5,375
% change on previous year	9%	6%
of which:		
Private rented sector (PRS) £bn	£922	£1,015
Mainstream investors: Residential £bn	£14	£17
Mainstream investors: Student accommodation £bn	£9	£12
Mainstream investors: Residential & student accommodation as % of PRS	2.5%	2.9%
Mainstream investors: Residential & student accommodation as % of commercial & residential investments	4.9%	5.7%

2. INTRODUCTION

2.1 Objectives and structure of the report

This report updates the size and structure of the UK commercial property market to end-2015 and provides brief commentary on the key estimates of the market, which were presented in detail, covering the period from 2003 to mid-2013, in the IPF's *The Size and Structure of the UK Property Market 2013: A Decade of Change*. Subsequent reports updated these figures to end-2013 and end-2014.

Section 3 examines the size of the UK's stock of commercial property, comprising both investment and owner-occupied property. The value and ownership of investment property is outlined in Section 4. A more detailed assessment of property sectors is given in Section 5 and includes a special examination of the reasons investment holdings are disproportionately low outside London and the South East. Section 6 identifies the size of the residential market and the extent to which this is investment property. Appendices provide further detail of the sources and methodologies used in making these estimates and of the data.

The reader is referred to *The Size and Structure of the UK Property Market 2013: A Decade of Change* for full contextual information on the estimates and the trends between 2003 and mid-2013 and for a detailed description of sources and methodologies.

2.2 Definition of commercial property

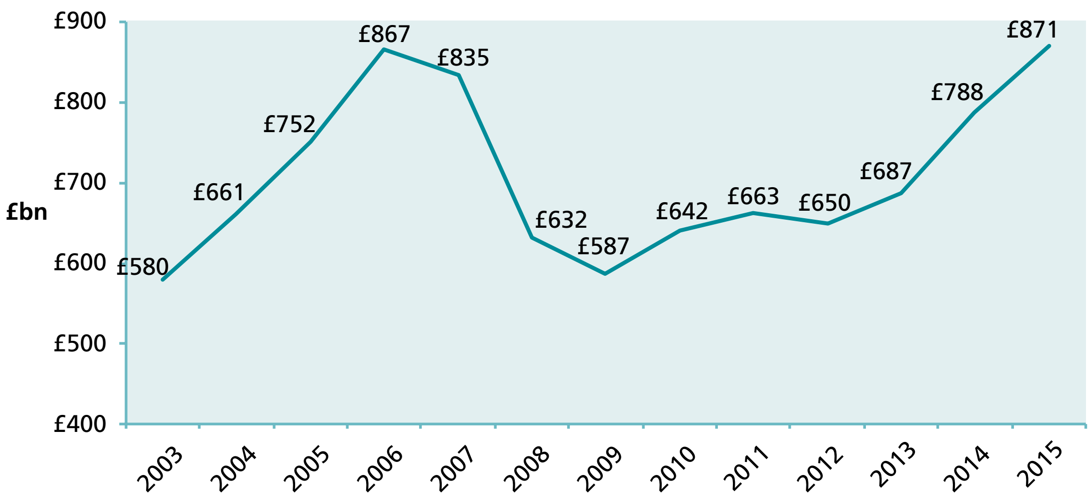
Commercial property is defined on the basis that the building type is predominantly enclosed, is typically occupied by businesses and is mainly privately-owned. Defined this way, any commercial property that is either owned or occupied by the public sector is included. Incomplete developments and undeveloped land are excluded throughout.

The definition incorporates retail (including restaurants and pubs), offices and industrial, plus miscellaneous other commercial property, such as hotels, leisure, conference and exhibition centres, purpose-built car parks, petrol stations, etc. It excludes health and education, museums and libraries, sports grounds, courts and prisons, heavy industrial plants, infrastructure and open structures, such as theme parks. Further details are presented in Appendix A.

3. HOW BIG IS THE UK'S COMMERCIAL PROPERTY STOCK?

- The value of the UK's commercial property universe rose to £871bn in 2015, representing (as can be seen from Figure 3.1) an all-time high and an increase of 11% on 2014. The uplift was largely driven by a decline in yields, although a well above inflation 4% increase in rents per square metre also helped; the volume of floorspace fell marginally.
- Growth since the previous peak in 2006, however, has been driven primarily by higher rents. Yields – which are inversely related to prices and whose sharp declines since 2012 have driven the rise in property values – are still marginally above 2006 levels. The volume of floorspace is only 0.9% higher than in 2006, representing an extremely sluggish rate of growth by comparison to previous periods.

Figure 3.1: Capital Value of Commercial Property Universe, 2003 to 2015



Source: PMRECON estimates using VOA, Scottish Government and IPD data.

- Retail, as Table 3.1 indicates, remains the largest property sector by value. This 41% share of the commercial property total fell in 2015 in the face of much stronger uplifts in value in the office and industrial sectors and as a result of comparatively weak rental growth.
- The value of commercial property in London continued to increase at a faster rate than the rest of the country (15% versus 8%). The capital now accounts for £330bn of commercial property, representing 38% of the UK total. This compares with London's 23% share of GDP. London benefitted in particular from stronger growth in rents and also from a structure disproportionately weighted towards the buoyant office sector.
- While the total value of commercial property in London is 38% higher than in 2006, in the rest of the country it is 14% lower. Since 2006, rents have increased and yields (which are inversely related to prices) have fallen in London; by contrast, in the rest of the country, rents on average have declined and yields have risen.
- Greater detail and a longer time series for all commercial property sectors are presented in Appendix B.

3. HOW BIG IS THE UK'S COMMERCIAL PROPERTY STOCK?

Table 3.1: Capital & Rental Values and Stock of Floorspace of Commercial Property Universe, End-2015

	Retail	Offices	Industrial	Other	Total
Capital value (£bn)	£360	£270	£169	£73	£871
Change since 2014	6%	15%	13%	12%	11%
Rental value (£bn)	£21	£16	£13	£4	£55
Rental value per sq m	£137	£150	£34	£107	£80
Floorspace (million sq m)	155	108	383	38	683
Reversionary yield	5.9%	6.0%	7.8%	5.6%	6.3%
Capital value London (£bn)	£111	£173	£24	£23	£330
London as % of UK	31%	64%	14%	32%	38%
Capital value Rest of UK (£bn)	£250	£97	£145	£50	£541

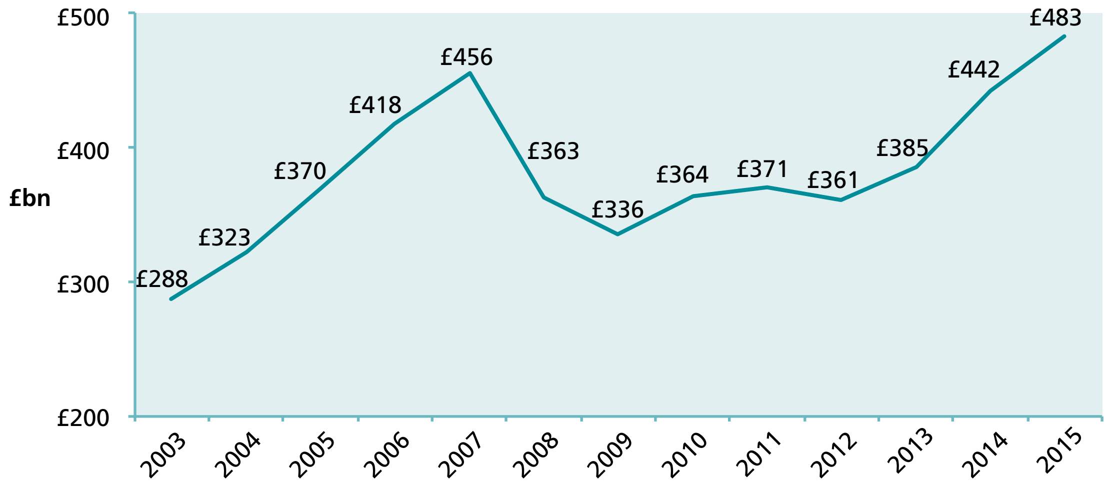
Source: PMRECON estimates derived from VOA and Scottish Government rateable values updated to current prices, capitalised by IPD yields adjusted to reflect the more secondary nature of average property.

[1] While excluded from the commercial property universe (i.e. the total of invested and owner-occupied property), a small amount of heathcare, educational and other non-commercial property is held in investors' portfolios and, hence, will be included in the commercial investment universe. Residential property, including student accommodation, is covered separately and excluded from both the commercial property and investment universes.

4. HOW MUCH STOCK IS OWNED BY INVESTORS?

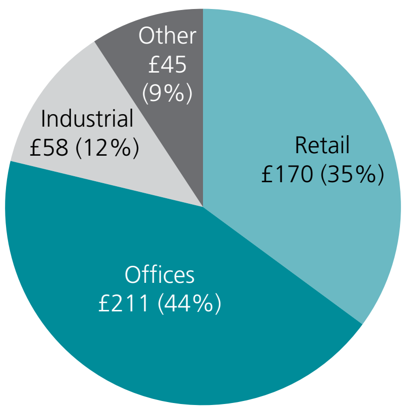
- The value of UK commercial property held by investors, as Figure 4.1 illustrates, reached its highest recorded level to date of £483bn in 2015. This value accounts for 55% of the total stock of commercial property in the UK, the same proportion as in 2014.
- Offices, as Figure 4.2 shows, remains the largest sector in investor portfolios, representing 44% of their total holdings. This weighting is larger than the 31% offices represent of the overall commercial stock, an imbalance which mainly reflects stronger overseas investor preference for the sector (see Section 5 for further discussion).
- Retail's weighting in investment portfolios continues to fall with the sector now accounting for 35% of investment property, having been joint largest (at 40%) in 2007. The Other commercial property sector which excludes residential and student accommodation and is described separately in Section 6) accounts for 9% of the total, from 7% in 2007.

Figure 4.1: Commercial Investment Property Universe, 2003 to 2015



Source: PMRECON estimates using data from company accounts, IPD, ONS, PFR and Real Capital Analytics/ Property Data (RCA/PD).

Figure 4.2: Commercial Investment Property Universe by Sector, End-2015 (£bn)



Source: PMRECON estimates using data from company accounts, IPD, ONS, PFR and RCA/PD.

4. HOW MUCH STOCK IS OWNED BY INVESTORS?

- Table 4.1 details holdings by investor type. The aggregated overseas investor type remains the largest, while UK and Channel Islands domiciled collective investment schemes (mainly unit trusts and similar, limited partnerships, etc.) represent the second-biggest owner by type. UK REITs and listed property companies are the second-largest domestic investor type. These latter two types – that indirectly meet the property needs of other investors – account for 31% of investment property in the UK.
- The traditional UK institution (insurance companies and pension funds) share of the commercial property investment universe continues to reduce. The decline of insurance company direct ownership is particularly notable, having held £68bn of property in 2007, compared to £46bn currently.
- The decline in UK private property company ownership in 2015 is primarily as a result of the takeover of AIM-listed Songbird by overseas funds (Songbird's main property being Canary Wharf with the company's commercial properties assigned a value of £5.5bn in 2014).
- The relatively strong growth recorded for UK charities and traditional estates and for UK private investors reflects their bias towards the buoyant central London market and, to a lesser extent, net purchasing in 2015.
- Overseas ownership continued to increase relatively quickly in 2015, reflecting both the concentration of assets in the buoyant London market (which accounts for 77% of these holdings) and significant net purchasing. Overseas investors now account for 28% of the UK's commercial property investment universe (and 16% of all commercial property, including that which is owner-occupied). Figure 4.3 illustrates how the growing significance of overseas investors in the market was unabated in 2015.

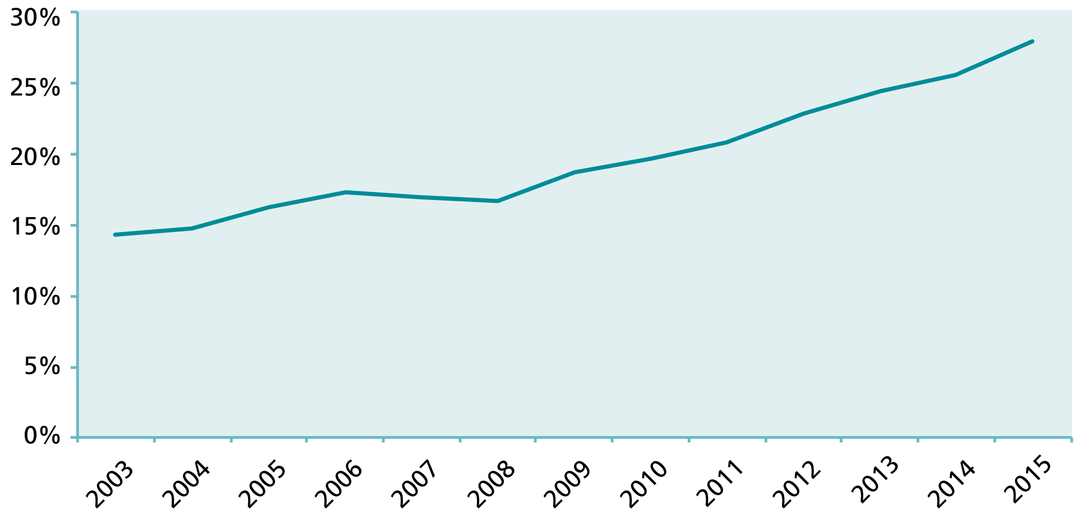
Table 4.1: Commercial Investment Property Universe by Investor Type, End-2015

Investor type	End-2015 £bn	End-2015 share	% change since 2014
UK insurance company funds	£46	9%	3%
UK segregated pension funds	£39	8%	5%
UK & Channel Island domiciled collective investment schemes	£79	16%	9%
UK REITs & listed property companies	£71	15%	8%
UK private property companies	£59	12%	-1%
UK traditional estates & charities	£23	5%	17%
UK private investors	£13	3%	14%
UK other	£20	4%	1%
UK SUB-TOTAL	*£348*	*72%*	*6%*
OVERSEAS	£135	28%	19%
TOTAL	£483	100%	9%

Source: PMRECON estimates using data from company accounts, IPD, ONS, PFR and RCA/PD.

4. HOW MUCH STOCK IS OWNED BY INVESTORS?

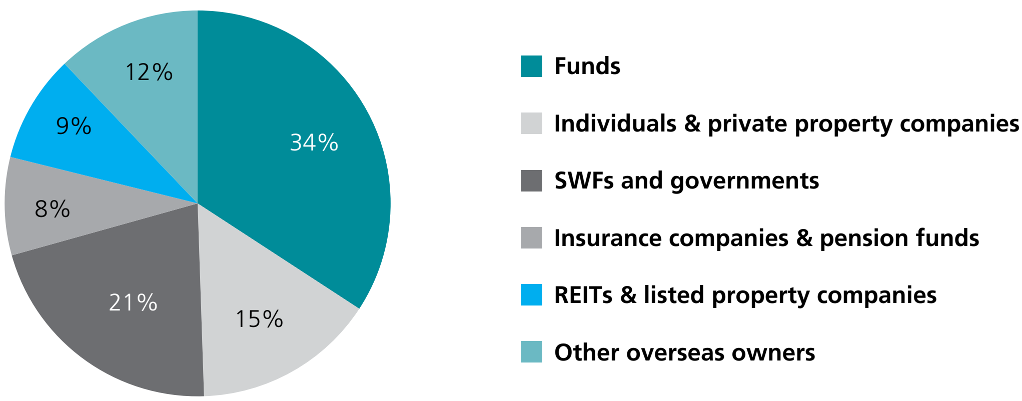
Figure 4.3: Overseas Share of UK Commercial Property Investment Universe



Source: PMRECON estimates using data from company accounts, IPD, ONS, PFR and RCA/PD.

- Collective investment schemes (i.e. funds) are the largest type of overseas owner, as Figure 4.4 illustrates. UK and overseas collective investment schemes together now account for over a quarter of the UK's investment property and represent the largest type of owner.
- Sovereign wealth funds (including other government bodies) were the fastest growing type of investor in 2015 and now account for 21% of overseas investor holdings and 6% of all commercial investment property in the UK.

Figure 4.4: Overseas Holdings by Type of Investor, End-2015



Source: PMRECON analysis of transactions data supplied by RCA/PD.

5. WHAT IS THE STRUCTURE OF THE INVESTMENT UNIVERSE?

- Offices represent the largest sector in investment portfolios, accounting for 44% of the total. The increase in share in 2015 was primarily due to strong price growth in central London (which accounts for two-thirds of offices in the UK) but also through investment purchases in regional markets.
- The value of investor retail holdings grew relatively slowly in 2015 and the sector's share of the market declined to 35%; retail was the largest sector until 2006 (when it accounted for 41%). Central London (where holdings in 2015 increased in value by around a fifth) was the only exception to an otherwise sluggish picture for retail.
- Despite significant purchasing by investors in regional office and industrial markets, London's share of commercial investment property continued to grow in 2015 and it now accounts for over half.
- Differences between the portfolio structures of UK investors and the composition of IPD's Annual Index are relatively small. The bias in the investment universe towards London offices is mainly associated with overseas owners, who are not represented in IPD's UK Index.
- Overseas investors' portfolios are extremely London-centric. As Table 5.1 shows, over three-quarters of their holdings are in London, compared to 41% for UK investors.

Table 5.1: Commercial Investment Property Universe by Segment, End-2015

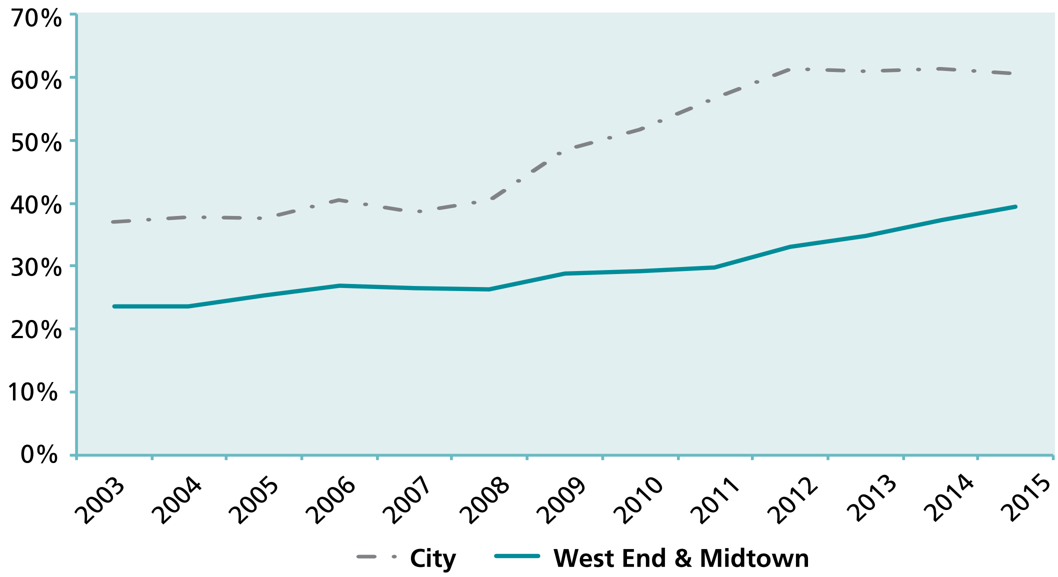
IPD segment	Total	£bn UK Investors	Overseas	Total	UK Investors	Overseas
Standard Retail South Eastern (including London)	£44	£37	£7	9%	11%	5%
Standard Retail Rest of UK	£22	£21	£1	5%	6%	1%
Shopping Centres	£57	£49	£8	12%	14%	6%
Retail Warehouses	£46	£42	£5	10%	12%	4%
City Offices	£59	£23	£36	12%	7%	26%
West End & Mid Town Offices	£78	£47	£31	16%	14%	23%
South Eastern Offices (including rest of London)	£53	£30	£23	11%	9%	17%
Rest of UK Offices	£21	£15	£5	4%	4%	4%
South Eastern Industrials (including London)	£34	£31	£3	7%	9%	2%
Rest of UK Industrials	£24	£22	£1	5%	6%	1%
Other Commercial	£45	£29	£15	9%	8%	11%
TOTAL	£483	£348	£135	100%	100%	100%
Retail	£170	£149	£21	35%	43%	15%
Offices	£211	£116	£95	44%	33%	70%
Industrial	£58	£54	£4	12%	15%	3%
Other Commercial	£45	£29	£15	9%	8%	11%
London	£246	£142	£104	51%	41%	77%

Source: PMRECON estimates using data from company accounts, IPD, ONS, PFR and RCA/PD

- Whilst City offices were the main focus initially for overseas investors, in recent years (as Figure 5.1 illustrates) the West End and Midtown markets are becoming more significant targets for this type of investor. There is little evidence that outlying regions beyond London are becoming more important for overseas investors.

5. WHAT IS THE STRUCTURE OF THE INVESTMENT UNIVERSE?

Figure 5.1: Overseas Shares in City and West End & Midtown Office Investment Universes



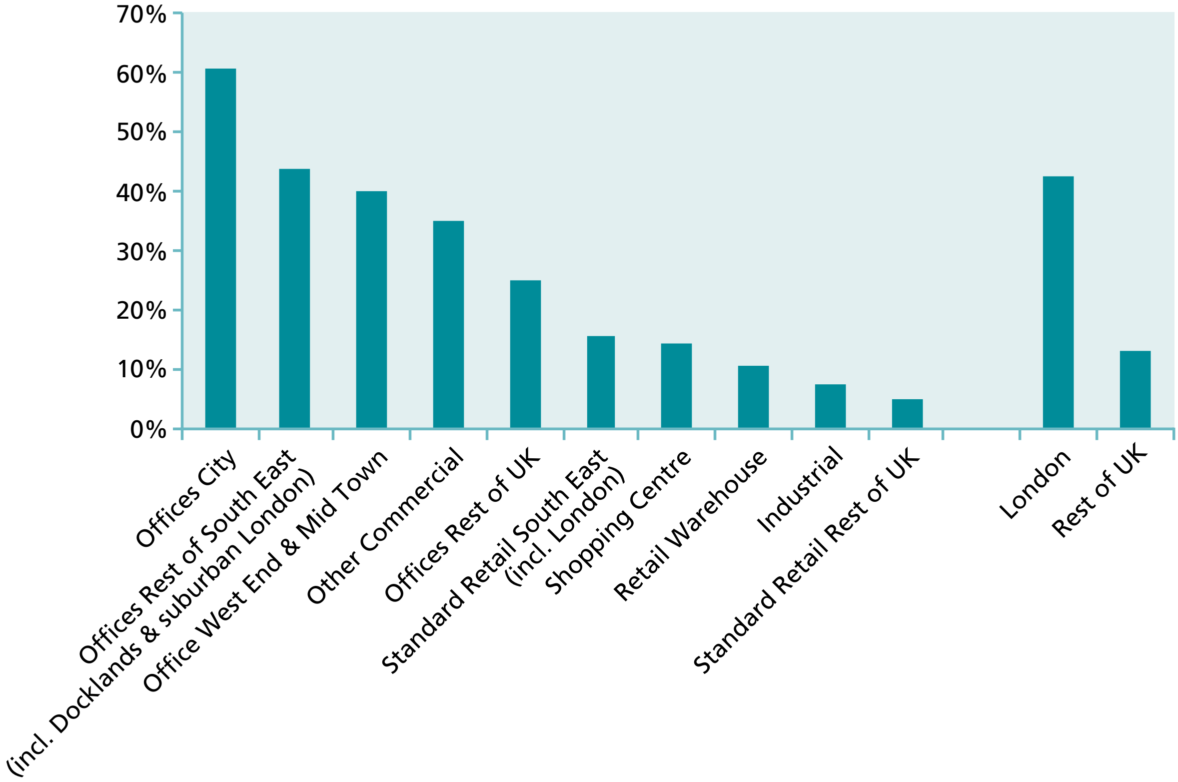
Source: PMRECON estimates using data from company accounts, IPD, ONS, PFR and RCA/PD.

- Overall, investors own three-quarters of London's total stock of commercial property. Investor ownership is much lower outside London with 44% of all commercial property outside London owned by investors. This varies, however, by sector (being much lower for industrials) and region (relatively low in Wales and the Northern and Midlands regions of England). Box 5.1 examines this disparity and concludes that relatively low levels of commercial property held for investment mainly reflects an investor aversion to small lot sizes (e.g. below £2.5m), although the analysis suggests that – even after controlling for lot size preferences – overseas investors have a bias in favour of central London offices.

Following the outcome of the referendum vote on 23 June 2016, for the UK to leave the European Union, uncertainty reagarding the impact of this decision on the UK's economy and financial markets and the response of foreign investors has increased. The latter exposure of the different sectors of the UK commercial property investment market to overseas investors is illustrated in Figure 5.2.

5. WHAT IS THE STRUCTURE OF THE INVESTMENT UNIVERSE?

Figure 5.2: Sector Exposure to Overseas Investors, 2015



The greatest concentration of foreign investor interest is in London but much less so in the rest of the country. The City office market is most exposed to foreign investors, while substantial proportions of offices in the rest of the South East (which includes Docklands and suburban London) and the West End and Midtown are also in overseas ownership. Within the Other commercial segment, which encompasses a wide range of property types, hotels (particularly those situated in London) are also subject to heavy foreign investment. Markets where such investment is more moderate comprise industrial property, standard retail (other than in central London), which mainly comprises unit shops, foodstores and department stores, retail warehousing and shopping centres although, within this final sector, overseas ownership of the largest centres is disproportionately high.

5. WHAT IS THE STRUCTURE OF THE INVESTMENT UNIVERSE?

Box 5.1 Disparity in Investor Ownership between London and the Rest of the UK

Investors own three-quarters of London's stock of commercial property but less than half of the commercial stock in the rest of the country. Furthermore, overseas investor portfolios are very London-centric – 77% of their holdings are in London, compared to 41% for their UK counterparts. In total, more than half of all investor holdings are now situated in London. Why might investors – especially those from overseas – commit a disproportionately low share of their capital to outside London?

The detailed analysis in *The Size and Structure of the UK Property Market 2013: A Decade of Change* explored the reasons for this London bias and in particular highlighted two factors:

i. property is more expensive in London. Despite controlling for this price effect in the analysis, there was still a bias, even when investors' portfolios were measured in terms of floorspace;

ii. differences across regions in the lot sizes of individual buildings. Mainly for operational reasons, investors prefer not to hold a multitude of management intensive 'low value' buildings in their portfolios. Property outside London is generally of lower value and, as such, is more likely to fall below the minimum threshold set by investors.

Table 5.2 adds a further perspective on lot sizes. It suggests:

i. there is generally an inverse relationship between lot size and willingness to invest in a sector (although retail warehouses are the exception in this respect);

ii. UK investors typically hold properties whose lot sizes are characteristic of the total (owner-occupied and invested) market, other than in the industrial and regional office markets (where average lot sizes are very low) where the focus is on the more expensive properties. This narrows the investible pool of properties in industrial and regional office markets and, hence, may be a factor contributing to low investment;

iii. overseas investors typically favour the very largest lot sizes in almost all sectors (the exception being retail warehouses). The absence of large lot sizes (e.g. over £50m) in the industrial sector seems to limit their exposure to the sector; and,

iv. overseas investors appear biased towards central London offices (and, possibly, central London generally), where such ownership is disproportionately large but lower in the shopping centre sector despite the prevalence of similar lot sizes as those held in the office market.

5. WHAT IS THE STRUCTURE OF THE INVESTMENT UNIVERSE?

Table 5.2: Investor Ownership and Average Lot Sizes, 2015

Sector	Average lot size – all invested & owner-occupied properties £m	Investor ownership (as % of total sector)	Average lot size – UK investors £m	UK investor ownership (as % of total sector)	Average lot size – overseas investors £m	Overseas investor ownership (as % of total sector)
Shopping Centres	£85	86%	£75	74%	£120	12%
City Offices	£45	98%	£45	39%	£135	59%
West End & Midtown Offices	£40	93%	£40	57%	£120	37%
Retail Warehouses	£20	89%	£22	80%	£22	9%
Offices outside London	<£5	44%	£15	33%	£20	11%
Industrials	<£2.5	34%	£12	32%	£28	3%
All Commercial Property	na	55%	na	40%	na	16%

Source: Previous tables and PMRECON estimates using data from RCA/PD, IPD and other sources.

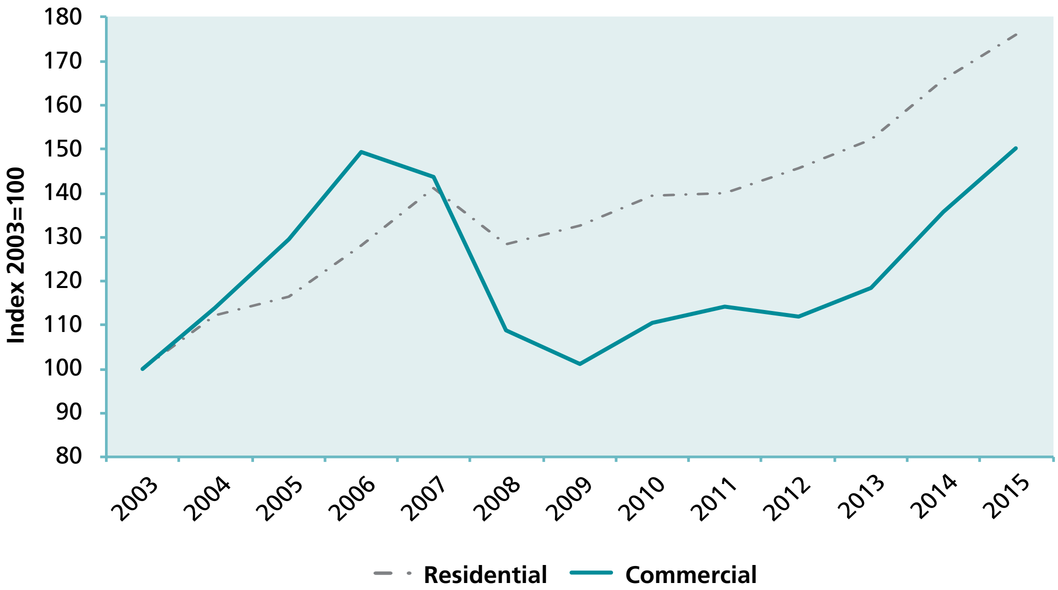
In conclusion, it seems that disproportionately low investor ownership of industrials and regional offices reflects an aversion to the small lot sizes that characterise these property markets. Overseas investors appear to be biased towards central London offices.

Recent research by De Montfort University (*The Commercial Property Lending Market Research Report - Year End 2015*) reported that 43% of lending was secured on properties in central London. This proportion, however, does not look exceptional in the context of this report's finding that almost two-fifths (38%) of commercial investment property is located in central London. Interestingly, the De Montfort University findings, that most lenders would lend at levels in excess of £20 million but that less than half would lend below £10 million, suggests that lenders are as averse to relatively small lots as their property investor counterparts. The argument that investment in regional property markets is held back primarily because of a lack of finance is still to be proven.

6. HOW BIG IS THE RESIDENTIAL STOCK AND WHO OWNS IT?

- The value of the UK's residential property stock in 2015 is estimated to have risen to £5.4 trillion; it overshadows the commercial sector, being over six times as large.
- The increase in 2015, of 6%, however, was less than the 11% rate of growth in the commercial property stock. Having been impacted more by the downturn of the late 2000s, commercial property has been recovering more quickly than the residential market over the last three years, as Figure 6.1 shows.
- SImilar to commercial property, the uplift in value of the residential stock has been predominantly driven by price growth. However, growth in the net supply of housing has been greater than that in commercial property in recent years (albeit very modest, at about 0.5% per annum compared to virtually nil growth in the commercial stock).
- Private rented stock rose in value to over £1,00bn (or £1 trillion), at 10%, a greater increase than in the overall residential stock[1]. This segment now represents 19% of the total residential stock.
- Mainstream commercial property investors account for only a small proportion (less than 3%) of the residential private rented sector, which is dominated by private landlords.
- Mainstream investor exposures to housing and student accommodation, however, have been growing rapidly in recent years. The overall 26% increase in 2015 was far greater than both the rise in institutional exposure to commercial property and the increase in the size of the total private rented sector stock. Mainstream investors are also heavily involved in the development of residential properties (which, if incomplete, are excluded from this report's estimates).
- Residential including student accommodation (but excluding developments) now represents 6.4% of UK mainstream investors' property portfolios, an increase from the previous year's re-estimated 6.0%. Including overseas investors, residential's share is now 5.7%.

Figure 6.1: Value of Residential Stock versus Commercial Property Universe, 2003 to 2015



Sources: Commercial: PMRECON estimates using VOA, Scottish Government, and IPD data; Residential: ONS Blue Book to 2014; 2015 is a PMRECON estimate based on stock and price growth.

[1] This estimate assumes 5.6 million privately-rented dwellings with an average value of £182,0000, compared to the ONS's average (seasonally adjusted) UK house price of £190,0000 in December 2015.

6. HOW BIG IS THE RESIDENTIAL STOCK AND WHO OWNS IT?

Table 6.1: Residential Stock: Total, Invested and Student Accommodation, 2014 and 2015

Investor type	2014 £bn	2015 £bn	% change since 2014
Total residential stock: capital value	£5,062	£5,375	6%
Private rented residential stock value	£922	£1,015	10%
Residential investment: mainstream investors only	£14	£17	26%
Student accommodation investment: mainstream investors only	£9	£12	26%

Source: Residential stock from ONS's Blue Book, updated to 2015 by PMRECON; privated rented stock the product of the number of private rented dwellings from the DCLG and the average value of a private rented dwelling (estimated in turn from average rents and yields).

APPENDIX A. ESTIMATING THE PROPERTY AND INVESTMENT UNIVERSES

Detailed descriptions of the data, sources and methodologies used were presented in *The Size and Structure of the UK Property Market 2013: A Decade of Change*. An outline is given below.

A.1 Estimating the total stock of commercial property

Rateable values – collated by the Valuation Office Agency (VOA) in England and Wales (and its Scottish counterpart) for the purposes of business rates – are used as a proxy for rental value. As these are reviewed only periodically, IPD rental growth is used to update the base year data (currently April 2008) to current prices.

These 'rental values' are then capitalised by applying reversionary yields to derive the corresponding capital value. The yields used are IPD average reversionary yields adjusted to reflect the more secondary nature of the overall property universe.

All the analysis is undertaken at the IPD sector:region level and aggregated to derive UK estimates.

The composition of the four property sectors – and of the types of non-residential property excluded from the definition of commercial – according to VOA categories is outlined in Table A.1.

Table A.1: Commercial Property Sector Definitions and Correspondence with VOA Categories

Sector	VOA category
Retail	Shops, shopping centres, supermarkets, retail warehouses, post offices, bank branches, hairdressers and beauty salons, cafes, take-aways, restaurants and pubs, car showrooms, garden centres.
Offices	Offices, business units, data and computer centres.
Industrial	Warehouses and stores, factories and workshops, newspaper printing works, etc.
Other Commercial	Bingo halls, bowling alleys, casinos, cinemas and theatres, arenas, concert halls and exhibition centres, night clubs, hotels, health farms, gyms, sports centres and swimming pools, caravan parks and holiday sites, purpose-built car parks, petrol stations, film, TV and recording studios.
Excluded – other non-residential buildings	Health and education*, museums, galleries and libraries, community centres, public and village halls, guest houses, holiday homes and hostels, emergency service buildings, courts and prisons, heavy industry, steel plants, chemical processing and oil refining etc.
Excluded – infrastructure and other structures	Predominantly infrastructure - ports, airports, railway and bus stations, power generation, water and sewage stations, recycling plants, etc. – plus ship yards, Ministry of Defence facilities, sports grounds and stadia, amusement and theme parks, surface car parks, zoos, mineral processing.

* The small amount of healthcare (including care homes) and education property held in investment portfolios is included in the estimate of the commercial property investment universe.

APPENDIX A. ESTIMATING THE PROPERTY AND INVESTMENT UNIVERSES

A.2 Estimating the investment universe

In contrast to the 'top-down' approach used for the total property universe, the investment universe is estimated 'bottom-up' for each investor type.

Full details of the methodologies and sources were presented in *The Size and Structure of the UK Property Market 2013: A Decade of Change*. The specific approaches adopted in this update are outlined in Table A.2.

Segment structures were either based, primarily, on IPD data relating to the investor type (insurance companies, pension funds, collective investment schemes), annual reports (REITs and listed property companies), or from accumulated RCA transactions (overseas, private individuals, private property companies). The residential exposures of mainstream commercial investors were calculated using a similar approach.

APPENDIX B. ADDITIONAL DATA

Table A.2: Commercial Property Sector Definitions and Correspondence with VOA Categories

Investor type	Description of type	Sources and approach
UK insurance company funds	Insurance company long term funds, unit-linked life & pension funds, managed property funds.	ONS's MQ5: Investment by Insurance Companies, Pension Funds and Trusts. 2015 data not available at time of writing, so updated to end-2015 by report author on basis of IPD capital growth since end 2014 and MQ5 2015 net investment.
UK segregated pension funds	Own-account property portfolios of funded pension schemes managed either internally or by 3rd parties.	
UK & Channel Island domiciled collective investment schemes	Authorised and unauthorised property unit trusts and similar, limited partnerships, etc. domiciled in the UK and Channel Islands. Includes the Channel Islands property investment companies but excludes the insurance company managed property funds.	Primarily based on individual fund estimates generously supplied by Property Funds Research; excludes funds not directly investing in completed UK buildings, and funds' indirect holdings. Commercial and residential funds and holdings within diversified funds treated separately. AIC companies holdings derived from the AIC website. Supplemented with long term transactions data from RCA/PD.
UK REITs & listed property companies	Companies listed on the main market of the London Stock Exchange and incorporated in the UK under the REIT and 'Real Estate Holding & Development' categories.	Derived company-by-company from their latest balance sheet accounts, adjusted to end-2015 on the basis of IPD capital growth. Excludes non-UK investments and any fund or JV exposures counted as a collective investment scheme; also excludes land and developments.
UK private property companies	Other companies undertaking activities classfied under the 2007 SIC either as "the development of building projects", "the buying and selling of own real estate", or "the renting and operating of own real estate".	Large investors derived from their accounts (where available), otherwise based on mid-2013 estimate updated to end-2015 on the basis of IPD capital growth and net transactions from H2 2013 from RCA/PD.
UK traditional estates & charities	Charities & traditional landed estates.	Based on mid-2013 estimate updated to end-2015 on the basis of IPD capital growth and net transactions from H2 2013 from RCA/PD.
UK private investors	Individuals, familiy trusts, HNW syndicates.	Based on mid-2013 estimate updated to end-2015 on the basis of IPD capital growth and net transactions from H2 2013 from RCA/PD.
UK other	Mainly local authorities and pub owners.	Pub owners from their balance sheet accounts (excluding managed properties), local authorities from CIPFA and DCLG local authority balance sheets.
Overseas	All those domiciled outside the UK and Channel Islands, excluding those foreign owned fund managers, insurance companies and pension funds investing UK sourced capital.	Based on mid-2013 estimate updated to end-2015 on the basis of IPD capital growth and net transactions from H2 2013 from RCA/PD.

* The small amount of healthcare (including care homes) and education property held in investors' portfolios is included in the estimate of the commercial property investment universe.

APPENDIX B. ADDITIONAL DATA

Table B.1: Property Universe and Components, by Sector, 2003 to 2015

	Rental value £ per sq m	Floorspace (million sq m)	Rental value £bn	Yield	Capital value £bn
All Property					
2003	£67.4	677	£45.6	7.9%	£580
2004	£69.7	679	£47.3	7.2%	£661
2005	£71.9	675	£48.5	6.5%	£752
2006	£75.5	678	£51.1	5.9%	£867
2007	£79.1	678	£53.6	6.4%	£835
2008	£78.8	682	£53.7	8.5%	£632
2009	£73.5	681	£50.1	8.5%	£587
2010	£73.5	680	£50.0	7.8%	£642
2011	£74.1	681	£50.5	7.6%	£663
2012	£73.9	684	£50.5	7.8%	£650
2013	£74.6	684	£51.0	7.4%	£687
2014	£76.7	685	£52.5	6.7%	£788
2015	£79.8	683	£54.5	6.3%	£871
Retail					
2003	£124.9	149	£18.6	7.2%	£260
2004	£130.3	151	£19.6	6.5%	£302
2005	£135.4	148	£20.0	5.9%	£341
2006	£140.7	149	£21.0	5.4%	£390
2007	£144.3	150	£21.7	5.9%	£370
2008	£144.1	151	£21.8	7.9%	£276
2009	£135.3	152	£20.6	7.9%	£261
2010	£133.6	153	£20.5	7.0%	£292
2011	£134.0	154	£20.6	6.9%	£300
2012	£133.5	155	£20.7	7.0%	£295
2013	£133.4	155	£20.7	6.7%	£307
2014	£135.0	155	£20.9	6.2%	£339
2015	£137.4	155	£21.2	5.9%	£360
Offices					
2003	£115.4	99	£11.4	7.9%	£145
2004	£117.2	100	£11.8	7.3%	£161
2005	£121.9	100	£12.2	6.6%	£186
2006	£130.5	102	£13.4	5.8%	£230
2007	£140.9	104	£14.6	6.6%	£220
2008	£138.9	104	£14.5	8.7%	£167
2009	£122.4	105	£12.9	8.3%	£155
2010	£123.7	106	£13.2	7.6%	£174
2011	£126.8	108	£13.7	7.4%	£184
2012	£127.2	109	£13.8	7.6%	£182
2013	£130.7	108	£14.2	7.2%	£196
2014	£138.9	108	£15.0	6.4%	£234
2015	£149.5	108	£16.1	6.0%	£270

APPENDIX B. ADDITIONAL DATA

Table B.1 cont'd: Property Universe and Components, by Sector, 2003 to 2015

	Rental value £ per sq m	Floorspace (million sq m)	Rental value £bn	Yield	Capital value £bn
Industrial					
2003	£31.6	396	£12.5	9.5%	£131
2004	£32.3	395	£12.8	8.6%	£148
2005	£33.0	394	£13.0	7.6%	£170
2006	£34.1	394	£13.4	7.2%	£187
2007	£35.3	392	£13.8	7.6%	£183
2008	£35.0	392	£13.7	9.9%	£139
2009	£33.3	387	£12.9	10.7%	£121
2010	£32.8	382	£12.5	10.3%	£122
2011	£32.4	382	£12.4	10.1%	£123
2012	£32.0	382	£12.2	10.3%	£118
2013	£32.1	382	£12.3	9.7%	£126
2014	£32.9	384	£12.6	8.4%	£150
2015	£34.1	383	£13.1	7.8%	£169
Other Commercial					
2003	£93.7	32	£3.0	6.8%	£44
2004	£97.7	32	£3.2	6.3%	£50
2005	£101.5	33	£3.3	6.0%	£55
2006	£105.5	32	£3.4	5.6%	£60
2007	£108.3	32	£3.5	5.7%	£61
2008	£108.1	35	£3.8	7.5%	£51
2009	£101.5	37	£3.7	7.3%	£51
2010	£100.2	38	£3.8	7.0%	£54
2011	£100.5	38	£3.8	6.8%	£56
2012	£100.1	38	£3.8	6.9%	£55
2013	£101.2	38	£3.9	6.7%	£58
2014	£104.2	38	£4.0	6.1%	£65
2015	£106.7	38	£4.1	5.6%	£73

NOTES

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