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PRESS RELEASE

# Survey Shows UK Investors Favour Residential as an Alternative to Retail Assets in Property Portfolios

**London – December 11, 2018** – Over a third of UK real estate investors (35%) see long-term residential investments as the best alternative to retail property if they move out of the troubled sector in the next year, according to a survey by MSCI Inc. (NYSE: MSCI), a leading provider of indexes, portfolio construction, risk management tools and services for global investors.[1]

After long-term residential assets, the survey showed that industrials and mixed-use property are the next most popular replacements to retail in portfolios, with 22% of investors saying they would opt for each of these sectors. A further 11% of investors indicated that they would choose short-term residential as a possible substitute for retail property.

The survey, conducted last month at MSCI-IPF Property Investment Conference in Brighton, highlights how the slide in UK retail property valuations is reshaping attitudes on real estate sector allocations within portfolios. Valuations in retail property have decreased by 16.4% since December 2007 (when accounting for net investment and capex), whilst capital growth across all sectors, on average has been broadly flat at +0.7% over the same period.[2] This has been driven by much better performance in other sectors like residential, for example, which enjoyed capital growth of nearly 80% on a like-for-like basis.

According to survey respondents, retail property does offer certain characteristics which are not replicated by other real estate investments. Nearly a third of investors said they would find it most difficult to replace the real rental growth of retail investments and 26% say the availability of long leases would be hard to replicate. A further 21% state the benefits of inflation-tracking returns are a strong advantage of their retail property holdings.

Even within the retail sector, there have been bright spots.  Over the same measurement period, Central London Standard Shops more than doubled in value enjoying capital growth of 124%. Supermarkets have also enjoyed positive capital growth but on a much more modest scale with 9.7% growth over the period. Whilst there is no doubt e-commerce is severely affecting certain sections of the retail property market, other sections have, at least until now, avoided such hits to capital values.

**Ken O'Brien, Head of Client Coverage, EMEA, comments**, "UK retail valuations have been going through a sustained period of decline since the global financial crisis, and brief rallies haven't repaired the overall trend, led by the shifting shopping and spending patterns of consumers.

"Through this period, retail has remained a significant part of portfolios, but if the market trend continues, investors may choose to consider other, more resilient options. Although it may be difficult to exactly replicate the positive attributes that successful retail investments historically provided, the changing real estate landscape does provide other options; whether that be the growth in multi-use developments, or the inflation-hedging characteristics of residential assets."

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1 MSCI conducted this survey of 101 property investors on 15th and 16th November 2018 at the MSCI-IPF Property Investment Conference in Brighton.

2 Data refers to MSCI UK Quarterly Property Index

## About MSCI

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