UNITED KINGDOM

PROPERTY SNAPSHOT

SEPTEMBER 2019

ECONOMY

The UK economy rebounded in July, following a decline in GDP in Q2. GDP rose by 0.3% m/m thanks to a strong service sector, which expanded by 0.3% m/m, up from a flat reading in June. Meanwhile, both industrial (+0.1% m/m) and construction (+0.5% m/m) output returned to growth. It is now very unlikely that the UK economy has entered technical recession. Although subdued consumer confidence and PMI readings highlight weakness in the economy, and slowing global trade and ongoing political noise remain obstacles to stronger growth, most forecasters predict GDP growth of around 0.3%-0.4% in Q3. The tight labour market continues to exert upward pressure on wage growth, which has reached a post financial crisis high of 4.0% y/y. CPI inflation has remained in a very narrow range of between 1.8%-2.1% since the end of 2018, but fell to 1.7 in August, its lowest level since the end of 2016. RPI inflation came in at 2.6%, down from 3.5% a year ago. Sterling temporarily dropped below the 1.20 mark against the dollar in early September, but has since recovered and was close to 1.24 as of the 10th of September. UK 10 year gilts remain low at (0.5%-0.75%) down from 1.25% at the beginning of the year as expectations of weaker economic performance impact.

COLLIERS VIEW: Economic stagnation and political uncertainty persist, but it looks like a technical recession is avoided for now. The outlook remains uncertain.

INVESTMENT

Transaction activity slowed from £4.9bn in July to £3.6bn in August, in line with the monthly average so far this year. During the first eight months of the year, investment volumes are down by almost 30% compared to the same period in 2018. Yields in some market segments such as West End offices and London industrials are still stable, but the majority of segments have started to see a softening in yields. The office and alternative/mixed-use segments accounted for the vast majority of activity (87%) in August. By investor type, overseas capital made up around half of all investment, with particularly strong interest from German (£667m) and US (£715m) investors. DWS acquired the Vita student portfolio, comprising 3,198 student beds across eight assets for £600m in August's largest deal, while Schroders and Octopus formed a JV to develop more than 500 retirement homes across four sites worth £400m. The largest deal outside the alternative/mixed-use segment was Goldman Sachs' acquisition of the Croxley Business Park in Watford for £400m at 2.5% IY, leased to Watford Borough Council until 2059, at which point the council has an option to buy the freehold of the business park for a nominal £1.

Retail: Investment remained limited in August, despite rising to £213m from a very weak £189m in July. Supermarket Income REIT acquired a Sainsburys at Preston's Flintoff Way for £54.4m at 5.1% IY in August's largest retail deal. The asset has an unexpired lease term of 22.5 years, with annual, upward-only RPI-linked rent reviews and comprises 8,000 sq ft net sales area with a 12-pump petrol filling station and 520 parking spaces. Elsewhere, Corum Asset Management bought Gastons Wood Retail Park in Basingstoke for £20.7m and Wokingham Borough Council purchased a Waitrose on London Road in Twyford for £14.87m at 4.25% IY.

RETAIL TRANSACTIONS	VALUE	DEALS	AUG SELECTED YIELDS
Unit Shops	£7m	10	7.57% Truro
Retail Warehouses	£51m	6	7.19% Glastonbury
Shopping Centres	0	0	n/a
Supermarket	£69	3	4.25% Reading/ 5.1% Preston

Source: Colliers International, Property Data Ltd.

Offices: Investment volumes were stable in August, reaching £1.5bn across 39 deals. There was an even split between London and regional markets in terms of transaction activity. Excluding the above mentioned business park deal in Watford, Legal and General's acquisition of two adjoining grade A office buildings at Wellington Place in Leeds for £211m at 4.3% was the largest transaction. The building which is due for practical completion at the end of the year is pre let to The Secretary of State for Communities and Local Government for a term of 25 years. Local councils were active too. Portsmouth CC invested £138m, while Cheltenham CC spent £37.5m.

OFFICE TRANSACTIONS	VALUE	DEALS	AUG SELECTED YIELDS
London	£743m	11	4.43% EC1
Regional	£772m	28	4.02% Bristol/ 4.3% Leeds

Source: Colliers International, Property Data Ltd.

Industrial: Transaction activity remained subdued in August. At £232m, investment volumes were up slightly from July's £196m, but remained well below the 2018 monthly average of over £700m. Royal London Asset Management acquired a multi-let park in West Thurrock for £56m at 3.9% in August's largest transaction, followed by Equities Property Fund's purchase of a 261,000 sq ft warehouse in Castleford for £30.7m at 4.6%. Elsewhere, London Metric Property bought two assets in Goole (£24m at 5.2% IY) and Bognor Regis (£17.8m at 9% IY) and Alpha Capital purchased a warehouse at Manchester Airport for £15m at 4.25% IY.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	AUG SELECTED YIELDS
Distribution	£109m	12	4.2% Manchester/ 4.6% Castleford
Multi-let parks	£124m	27	3.9% West Thurrock

Source: Colliers International, Property Data Ltd.

Alternatives/Other: Demand for alternative assets remained strong in August. Investment volumes outside the traditional office, industrial and retail sectors amounted to £1.6bn, accounting for roughly half of all activity. Student accommodation and residential (including retirement homes) schemes were the most sought after segments of the alternative market in August. In addition to the above mentioned deals, Riverstone Living acquired a 190-unit retirement living scheme at London's Royal Warwick Square for £300m and Clarion Housing Group are forward funding 225 new affordable homes across two sites in Neasden and Staines for £90m.

ALTERNATIVES/OTHER	VALUE	DEALS	AUG SELECTED YIELDS
Student	£623m	5	n/a
Medical	£32m	6	6.9% Ipswich
Residential	£819m	16	6% Nottingham

Source: Colliers International, Property Data Ltd.

COLLIERS VIEW: Unchanged. Political uncertainty is acting as a break on activity, including long income deals. Yields remain stable, although retail assets may begin to be marked down.

KEY INDICATORS

	LATEST[1]	END AUG	END JUL
UK GDP (3m/3m)	0.0% 3m/3m (Jul)	-0.2% 3m/3m (Jun)	-0.2% 3m/3m (Jun)
UK PMI (composite)	49.7 (Aug)	49.7	50.3
EURO PMI (composite)	51.9 (Aug)	51.9	51.5
UK CPI (%)	1.7 (Aug)	1.7	2.1
UK RPI (%)	2.6 (Aug)	2.6	2.8
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	0.66	0.52	0.73
GBP 3M LIBOR (% eop)	0.78	0.76	0.77
STERLING EFFECTIVE (BoE)	76.3	75.6	75.1
GOLD (USD eop)	1506	1520	1414
OIL BRENT (USD eop)	60.1	60.4	65.2
FTSE 100 (eop)	7345	7207	7587
IPD All property IY	↑ 4.61 (Q2 19)	↑↑ 4.61 (Q2 19)	↑↑ 4.60 (Q1 19)
IPD All property EY	↑ 5.50 (Q2 19)	↑↑ 5.50 (Q2 19)	↑↑ 5.49 (Q1 19)

[1] September 11th (data and revisions)
Sources: FT, BoE, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

Retail sales performed surprisingly well so far in 2019, despite all the economic and political noise. The Office for National Statistics (ONS) reported a 0.6% 3m/3m increase in sales volumes in August. However, retail assets are suffering from a lack of occupier demand across many locations, and according to the Centre for Retail Research, 29 retailers have failed so far this year, affecting over 1,000 shops. Rents continue to fall across all retail segments, according to the July monthly MSCI index. The sharpest drop was recorded at department stores (-11.3% y/y), followed by Standard Shop – Rest of UK (-5.8% y/y). The decline at Standard Shop – Central London (-1.0% y/y) was less severe, but marked a ninth consecutive monthly reduction. Shopping centres saw rents drop by 3.6% y/y.

COLLIERS VIEW: The consumer outlook heavily depends on Brexit due to goods inflation. Consumption has generally held up, but high street shops remain pressured and rents will decline further.

OFFICES

Central London: Vacancy rates in London dipped below 5% for the first time in over two years, driven by a prolonged shortage of prime product and above average take-up. Moreover, the supply pipeline remains extremely constrained. While anecdotal evidence suggests that the time is ripe for rental uplift, the only firm evidence of pricing movement comes from a moderating of incentive packages. **Regional CBDs:** Take-up figures across the CBDs are healthy and strong leasing activity continues to limit supply for prime space across most markets. In Birmingham, for example, Q2 take-up was up by 65% compared to Q1 figures. A lack of available grade A space is likely to exert further upward pressure on rents going forward. Serviced offices continue to make up a growing share of take-up.

COLLIERS VIEW: The regional CBDs are likely to see further rental growth as take-up figures suggest strong activity. Central London rents will remain relatively stable.

INDUSTRIAL

Official data from the ONS showed that industrial production was down by 0.5% 3m/3m in July, with a particularly weakness across the food products, beverages and tobacco and chemicals industries. The transport sector bounced back slightly, following the factory shutdown earlier in the year. The weak official data is in line with the UK Manufacturing PMI, which fell to a seven-year low of 47.4 in August as economic and political uncertainty paired with global trade tensions took a toll on manufacturers' performance. The outlook was bleak too, with the business optimism indicator dropping to its lowest level on record. However, occupier markets continue to show some resilience to the weakness in the official and survey data. Rental growth was maintained in Q2, according to the MSCI quarterly index and Colliers expect all industrial rents to show growth of 3.0% y/y by the end of 2019, down from 4.6% y/y in 2018, but still indicative of strong demand for the right product in the right location.

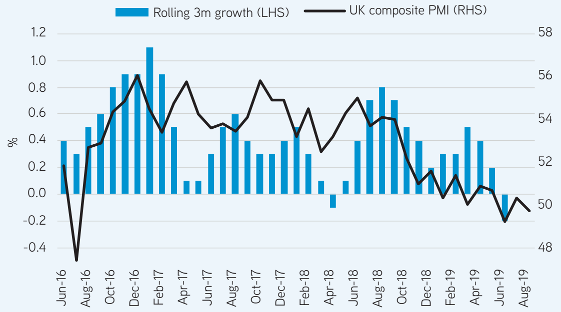
COLLIERS VIEW: Unchanged. Further rental growth in 2019 is likely, given steady demand, but not to the same extent seen in 2018. Rents in some locations may be approaching a ceiling.

RESIDENTIAL

House price growth remained muted in August. The Nationwide index stayed below the 1% mark for the ninth consecutive month and, at 0.6% y/y, was well below the corresponding figure of 2% a year ago. The Halifax measure follows a similar trend, falling from 2.7% y/y a year ago to 1.8% y/y. Other residential property indicators continue to send mixed signals. RICS reported that near term sales expectations deteriorated, demand from new buyers was flat and prices are expected to fall at the national level. However, mortgage rates remain supportive and approvals have risen to 67,306, according to Bank of England data – the highest level in two years. The two-year fixed (75% LTV) mortgage rate stands at 1.64%, down from 1.75% a year ago.

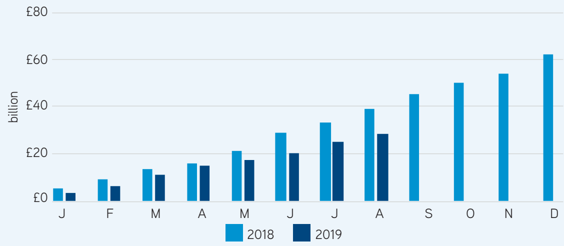
COLLIERS VIEW: Unchanged. House price growth is likely to remain muted in 2019, especially given ongoing Brexit uncertainty. Mortgage rates remain supportive.

CHART 1: UK GDP GROWTH AND PMI DATA COMPARED



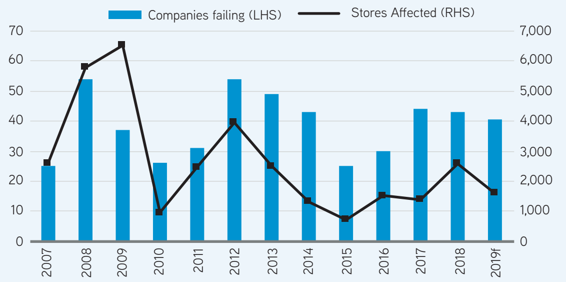
Sources: ONS, IHS Markit

CHART 2: INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)



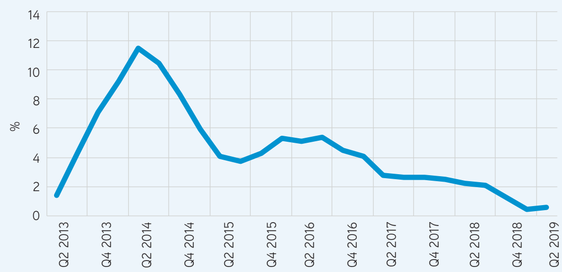
Sources: Property Data Ltd., Colliers International, August 2019.

CHART 3: RETAIL FAILURES



Source: Centre for Retail Research. 2019 figures are estimated, using simple extrapolation

CHART 4: ANNUAL HOUSE PRICE GROWTH



Source: Nationwide

For more information, please contact:
Oliver Kolodseike: +44 20 7487 1671 | oliver.kolodseike@colliers.com

Colliers International
50 George Street
London W1U 7GA

colliers.com/uk-research

Research & Forecasting