UNITED KINGDOM

PROPERTY SNAPSHOT

NOVEMBER 2018

ECONOMY

An improved performance in the construction and production sectors helped Q3 GDP reach its strongest rate of growth since Q4 2016. However, business investment fell for the third consecutive quarter and latest PMI results from IHS Markit suggest that business activity eased markedly at the start of Q4 with the forward looking indicators pointing to a slow end to 2018. By year end, the UK economy is therefore likely to have grown at the weakest rate since the global financial crisis, falling from 1.7% y/y in 2017 to 1.3% y/y - below the EU average for the third year running. The Office for Budget Responsibility (OBR) expects a slight acceleration to 1.6% in 2019, largely as a result of stronger government consumption and investment, while the EU Commission is more pessimistic, predicting growth of just 1.2%. Business investment has been subdued this year, but may pick up in 2019 should the EU and UK reach a business friendly deal. CPI and RPI inflation were unchanged at 2.4% and 3.3% respectively. Real wages continue to grow as average weekly earnings increased by 3.2%. Interest rates are expected to remain at their current level until at least the middle of next year.

COLLIERS VIEW: The uptick in GDP growth is welcome, but partly linked to a strong summer and base effects. Expect weaker Q4 growth figures and a benign interest rate environment.

INVESTMENT

Preliminary data shows that transaction volumes slowed to £3.5bn in October, down from £6.4bn in September, but broadly in line with the October 2017 figure. Despite the slowdown, 2018 investment volumes will break through the £50bn mark for the sixth year running. There were a number of +£200m deals across all of the traditional sectors, led by City Developments Ltd's £385m purchase of a 329,000 sq ft office building on London's Old Broad Street at 4.7% IY. Aviva Investors were active in Manchester, purchasing a £300m mixed-use asset that comprises TV and film studios, hotel/leisure and offices. Overseas capital continues to account for around 50% of all UK investment.

Retail: An Asian investor acquired a 50% stake in Leicester's Highcross Shopping Centre for £236m (5.5% IY) in 2018's second largest shopping centre deal and Sports Direct bought Glasgow's House of Fraser building on Buchanan Street for £95m at 4.2% IY, vowing to create the "Harrods of the north". Only a limited number of retail warehouses and supermarkets changed hands in October.

RETAIL TRANSACTIONS	VALUE	DEALS	OCTOBER SELECTED YIELDS
Unit Shops	£124m	10	4.2% Glasgow/ 4.8% Exeter
Retail Warehouses	£23m	4	6.2% Darlington
Shopping Centres	£266m	2	5.5% Leicester
Supermarkets	£29m	2	5% Cheltenham

Source: Colliers International, Property Data Ltd.

Offices: At £1.6bn, offices remained the most sought after commercial property class in October with a number of notable deals taking place in London. In addition to the above mentioned deal, Ella Valley Capital purchased 55 Gresham Street for £200m at 3.95% IY. Outside of London, Valesco Group acquired a £100m asset in Reading's Thames Valley Park in a JV at 6.6% IY and BLME Investment Solutions purchased 1 Atlantic Quay in Glasgow for £52m at 5.2% IY.

OFFICE TRANSACTIONS	VALUE	DEALS	OCTOBER SELECTED YIELDS
London	£883m	14	3.9% - 5% City
Regional	£701m	19	5.2% Glasgow/ 6.6% Reading

Source: Colliers International, Property Data Ltd.

Industrial: Investor interest for industrial remained strong in October, with transaction volumes at £744m, up from £520m in September and the highest monthly figure since June. In the largest deal of the month, Ascendas REIT bought a logistics portfolio for £258m at 5.39% IY. The portfolio comprises 26 assets with a total of 22 leases and an average lease expiry of 9.1 years. A couple of notable deals took place in Corby with Tritax Big Box REIT buying a distribution warehouse for £89m at 5.2% and LXi REIT purchasing a 121-acre car storage facility for £60m at 5.25% IY.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	OCTOBER SELECTED YIELDS
Distribution	£426m	12	5% Sherburn-in-Elmet/ 5.2% Corby
Multi-Let parks	£349m	30	5.25% Corby/ 5.65% Belvedere

Source: Colliers International, Property Data Ltd.

Alternatives/Other: Swedish investor Pandox AB purchased Manchester's Midlands Hotel for £115m at 5.7% IY and Union Investment acquired a 127-bed Premier Inn on Edinburgh's East Market Street for £38m in October's largest hotel deals. KKR Financial Holdings were active in the student housing sector, buying four student schemes across Coventry, Glasgow and London totalling 2,163 beds for £180m at an undisclosed yield.

ALTERNATIVES/ OTHER	VALUE	DEALS	OCTOBER SELECTED YIELDS
Student	£199m	3	6.2% Dundee
Hotel	£553m	17	5.7% Manchester
Medical	£124	8	n/a

Source: Colliers International, Property Data Ltd.

COLLIERS VIEW: Unchanged. Demand for UK commercial property remains firm despite Brexit worries and will top £50bn in 2018 for the sixth year running.

KEY INDICATORS

	LATEST[1]	END OCT	END SEPT
UK GDP (%q/q)	0.6% (Q3 18)	0.4% (Q2 18)	0.4% (Q2 18)
UK PMI (composite)	52.2 (Oct)	52.2	53.9
EURO PMI (composite)	53.1 (Oct)	53.1	54.1
UK CPI (%)	2.4 (Oct)	2.4	2.4
UK RPI (%)	3.3 (Oct)	3.3	3.3
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	1.56	1.43	1.56
GBP 3M LIBOR (% eop)	0.87	0.82	0.80
STERLING EFFECTIVE (BoE)	79.2	77.9	78.2
GOLD (USD eop)	1206	1215	1192
OIL BRENT (USD eop)	71.2	75.5	82.7
FTSE 100 (eop)	7105	7128	7510
IPD All property IY	↓ 4.58 (Q3)	4.58 (Q3)	4.59 (Q2)
IPD All property EY	↓ 5.45 (Q3)	5.45 (Q3)	5.47 (Q2)

[1] Nov 12th (data and revisions)
Source: FT, BoE, Haver, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

Retail sales volumes enjoyed a boost from an exceptionally warm summer and the Football World Cup, but the average growth rate in the year to date (2.4%) is far lower than it was between 2014 and 2016 (3.9%) when consumer spending propelled the UK economy forward and latest data from the ONS highlight a clear slowing in sales. Food stores and department stores fared particularly poorly in the past three months. Business rates, the National Minimum Wage, changing consumer preferences and, in some cases, the failure to adapt to a changing retail landscape all continue to challenge retail operators. In order to help struggling retailers, Philip Hammond announced a number of measures in the Autumn Budget, such as business rate relief and the introduction of a UK Digital Services Tax. Time will show if these measures have the desired positive impact on retailers. Market rental growth[1] remained in negative territory, according to the latest MSCI quarterly index.

COLLIERS VIEW: Headline rents are falling and are likely to decline further. The business rate relief programme will help small retailers, but large department stores won't benefit.

OFFICES

Central London: Pre-letting activity reached its highest quarterly level in four years in Q3 2018 despite political uncertainty. However, demand for new built Grade A space slowed as scarcity of product impacted upon transaction levels. Upward pressure on headline rents has eased and incentive packages are generally stable.

Regional CBDs: Headline rents across the Big-Six CBDs have all topped £30 psf and supply shortages are expected to drive further rental growth. Some markets are approaching £35 psf and Manchester could see prime rents reach £40 psf by 2020

COLLIERS VIEW: Unchanged. Headline rents are likely to increase further as supply remains limited in a setting of steady demand.

INDUSTRIAL

Industrial production rose 0.8% q/q in Q3, following two consecutive quarterly declines. However, latest PMI results from IHS Markit signal a sharp slowdown in manufacturing activity at the start of Q4, with the headline figure falling from September's 53.6 to 51.1, its lowest level since immediately after the referendum. More worryingly, the new orders measure fell for the first time in over two years as companies grew more concerned about rising global trade tensions and Brexit, according to IHS Markit. Despite a probable slowdown in manufacturing activity at the year-end, latest results from the MSCI quarterly index showed that rental growth was maintained. Although slowing from 1.3% q/q to 0.9% q/q, industrial rents continued to outperform the other sectors.

COLLIERS VIEW: Performance in the sector improved in Q3 and rents will continue to rise as supply shortages persist.

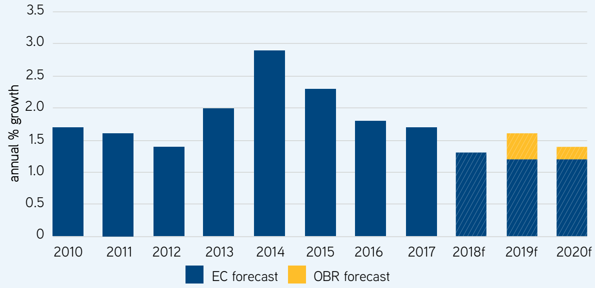
RESIDENTIAL

Annual house price growth slowed to a five-year low in October, according to both the Halifax and Nationwide measures. The former reported an easing to 1.5% y/y from 2.5% y/y in September, while the latter signalled a weakening to 1.6% y/y, down from 2.0% y/y. Nationwide commented that the slowdown was widely anticipated as a squeeze on household budgets and an uncertain economic outlook dampened demand. Weaker demand was highlighted by a 2.7% y/y decline in the number of residential property transactions. The monthly average figure in 2018 so far stands at 98,000, down from 102,000 in 2017 and the weakest since 2013. The 2 year fixed (75% LTV) rose slightly to 1.76%. Among some other proposals, the Chancellor of the Exchequer announced in the Autumn Statement that the Help-to-Buy equity scheme programme to will be extended 2023 and first-time buyer SDLT relief will be extended to include purchasers of the first share in a qualifying shared ownership property worth £500,000 or less.

COLLIERS VIEW: House price growth has slowed with some regions experiencing declines. Mortgage rates remain supportive.

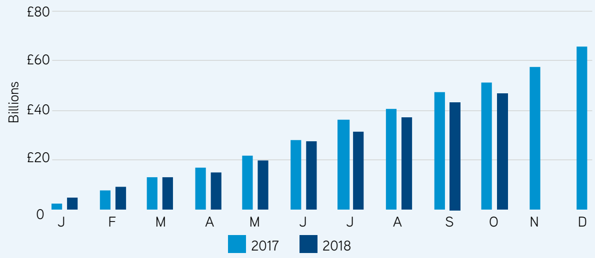
[1] Refers to the quarterly rate. In the 12 months to Q3, Central London Standard Shops saw rental growth of 2.8% y/y.

CHART 1: **UK GDP GROWTH**



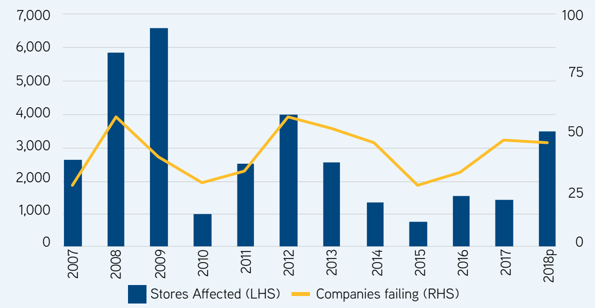
Source: OBR, ONS, European Commission

CHART 2: **INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)**



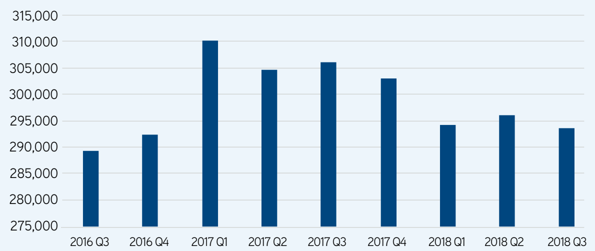
Source: Property Data Ltd., Colliers International, October 2018

CHART 3: **RETAIL FAILURES**



2018 figures through October 2018. Forecast for 2018 simple exptrapolation.
Source: Centre for Retail Research

CHART 4: **QUARTERLY PROPERTY TRANSACTIONS SINCE EU REFERENDUM**



Source: HMRC

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