UNITED KINGDOM

PROPERTY SNAPSHOT

APRIL 2019

Colliers INTERNATIONAL

ECONOMY

Growth figures surprised on the upside again in February, with the UK economy expanding 0.3% 3m/3m. Manufacturing made a comeback, with output in the sector up 2.0% over the first two months of 2019. The combination of increased manufacturing output and strongly rising imports suggests that companies may have been stockpiling in anticipation of Brexit. This is something that the PMI surveys have been indicating for the last few months. The service sector continued to expand in February, although the pace of growth slowed slightly and survey data signal a decline in service sector output in March. Despite downbeat PMI data, GDP growth in Q1 is almost guaranteed. Even if the UK economy contracts at a monthly rate of 0.5% in March, Q1 growth would still come in at 0.3% q/q, which would be higher than the 0.2% q/q recorded in Q4 2018. Whether the extension to the UK's exit date will result in a short term boost to business confidence, as the risk of a no-deal Brexit has diminished for now, is hard to predict, because, at the same time, the extension means an ongoing lack of clarity about the UK's future. CPI inflation slowed to 1.9% in February, from 2.7% a year ago and RPI inflation has fallen to 2.5%. UK 10 year gilts stand at 1.097%, down from 1.47% a year ago, but the sterling exchange rate has been relatively stable given all the political noise.

COLLIERS VIEW: Unchanged: Economic and political uncertainty persists and GDP growth is likely to slow further in 2019. A change in the Bank rate is not expected this year.

INVESTMENT

Transaction activity slowed to just £9.7bn in the first quarter of 2019, down from £17bn in Q4 2018 and around 40% below the five-year average. Investment volumes slowed across all sectors, with the exception of leisure, which, at £2.6bn, recorded its strongest quarter in almost four years. The three largest deals in March were all outside the traditional sectors, led by Queensgate Investments, who acquired the Grange Hotel portfolio for £1bn. The portfolio is made up of 1,345 beds across four London hotels. Elsewhere, a £503m BTR development partnership agreement was signed between Canadian investor PSP Investments, QuadReal and Unibail-Rodamco-Westfield, with construction work expected to start in the coming months. Overseas investors have so far, this year, accounted for over half of all investment volumes and remained the main net buyer of UK commercial property. That said, UK institutions also increased their exposure to the sector in Q1.

Retail: Monthly investment volumes in the retail sector reached £326m in March, taking the quarterly total to £860m, down around 30% from the £1.2bn invested in Q4 2018. Shopping centre and supermarket investment were particularly weak during the quarter, while unit shops and retail warehouses held up somewhat better. Some of the largest deals in March were dominated by mixed-use space, especially including offices. The largest retail only transaction was Montreaux's purchase of London's Broadway Retail Park for £44.5m (no yield reported). Outside the capital, Ashby Capital LLP bought Westside Retail Park in Leeds for £38m at 6.75% IY while CCLA Investment Management acquired Brighton's Pavilion Retail Park for £32m at 5.53% IY.

RETAIL TRANSACTIONS	VALUE	DEALS	MARCH SELECTED YIELDS
Unit Shops	£25m	18	5.29% Woodbridge
Retail Warehouses	£148m	7	5.53% Brighton/ 6.75% Leeds
Shopping Centres	n/a	0	n/a
Supermarkets	£65m	4	5.9% Altrincham

Source: Colliers International, Property Data Ltd.

Offices: Office investment also slowed in the first quarter, with preliminary data showing that transaction activity fell from £5.8bn in Q4 2018 to £2.2bn in Q1 2019, a decline of over 60%. In the absence of any trophy asset deals, Brockton Everlast's purchase of Devonshire Quarter in EC3, for £95m at 4.8% IY, represents the largest deal in March, followed by the purchase of 24 Monument Street in EC3 by a private Hong Kong investor for £90m at 4.6% IY. Outside of London, NFU Mutual Insurance acquired Victory House in Brighton's city centre for £36m at 4.9% IY and Corum Asset Management bought 2 Atlantic Quay in Glasgow for £22m (no yield reported). Overseas capital accounted for around 70% of all investment.

OFFICE TRANSACTIONS	VALUE	DEALS	MARCH SELECTED YIELDS
London	£608m	17	4.5% - 5.9%
Regional	£136m	25	4.9% Brighton/ 5.95% Hove

Source: Colliers International, Property Data Ltd.

Industrial: Preliminary data shows that transaction activity in the industrial sector stood at £399m in March, down by more than 50% from February's £858m. Over the first quarter, the sector attracted investment worth £1.5bn – 24% below the five-year quarterly average. By far the largest March deal was Westbrook Partners' acquisition of the 30-asset IO2 portfolio for £140m at 6.75% IY. Exeter Property Group were also active and invested a combined £67m in two distribution warehouse deals. They bought a 527,000 sq ft asset in Wakefield for £43.5m and a 335,000 property on Sheffield's Europa Way for £23.5m. Elsewhere, Wokingham Borough Council purchased a warehouse in Peterborough's Cygnet Park for £17m at 4.85% IY, with a passing rent of £900,000 per annum (this equates to £4.95 per sq ft).

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	MARCH SELECTED YIELDS
Distribution	£127m	14	4.85% Peterborough
Multi-let parks	£229m	23	5.8% Purfleet

Source: Colliers International, Property Data Ltd.

Alternatives/ Other: The alternative sector (including leisure) accounted for over 50% of all investment volumes in the first quarter, reaching a total of £5bn. Monthly investment volumes in PRS rose to a four-month high of £586m, while student housing attracted £324m, the highest figure since last June. By far the largest deal in March was the above mentioned Grange Hotel Portfolio, which was traded for £1bn. Elsewhere, Aprirose Real Estate Investment bought a 45-pub portfolio for £130m and Civitas Social Housing acquired a 19-asset social housing portfolio for £73.5m at an undisclosed yield.

COLLIERS VIEW: Unchanged. Political uncertainty is acting as a break on activity, but H2 19 should see a pick-up as confidence returns.

ALTERNATIVES/ OTHER	VALUE	DEALS	MARCH SELECTED YIELDS
Student	£328m	7	n/a
Hotel	£1.1bn	7	4.24% Milton Keynes
Residential	£577m	16	n/a

Source: Colliers International, Property Data Ltd.

KEY INDICATORS

	LATEST[1]	END MAR	END FEB
UK GDP (3m/3m)	0.3% (Feb)	0.3% (Feb)	0.3% (Jan)
UK PMI (composite)	50.0 (Mar)	50.0	51.5
EURO PMI (composite)	51.6 (Mar)	51.6	51.9
UK CPI (%)	1.9%	1.9% (Feb)	1.9%
UK RPI (%)	2.5%	2.5% (Feb)	2.5%
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	1.14	1.06	1.34
GBP 3M LIBOR (% eop)	0.77	0.85	0.85
STERLING EFFECTIVE (BoE)	79.6	79.4	80.4
GOLD (USD eop)	1293	1292	1314
OIL BRENT (USD eop)	71.6	68.4	66.0
FTSE 100 (eop)	7418	7279	7075
IPD All property IY	↓ ↓ 4.57 (Q4)	4.57 (Q4)	4.58 (Q3)
IPD All property EY	5.45 (Q4)	5.45 (Q4)	5.45 (Q3)

[1] Apr 12th (data and revisions)

Sources: FT, BoE, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

Retail sales volumes increased strongly at the start of 2019, although this was helped by aggressive discounting at clothing and footwear stores, something which is unlikely to be sustainable. Payments company Barclaycard reported that consumer spending rose 3.4% in March. However, much of this was driven by increased spending at pubs and restaurants, rather than at high street shops. The report also found that spending at supermarkets contracted by 0.5% and that Brexit continued to weigh on sentiment, with almost 70% of consumers surveyed downbeat about the economic outlook. A separate report from GfK showed that consumer confidence remained subdued in March. Although consumers are slightly more optimistic about their personal finances amid rising real wages, the index was dragged down by ongoing economic uncertainty. The Centre for Retail Research indicates that so far this year, 21 retailers have gone into administration.

COLLIERS VIEW: Retailers will remain under pressure in 2019 and more CVAs are likely. Rents are predicted to fall across all segments.

OFFICES

Central London: An interesting development across the London office market has been the reduction in lease lengths over the past two decades. Lease lengths have been reducing and remained at a record low of 5.5 years in 2018. This is well below the long-term average (1996-2018) of nearly 13 years. Political uncertainty, supply issues for conventional space and the quest for workspace vibrancy are all influencing lease lengths. Despite sustained interest in the Central London office market, a combination of cyclical and Brexit related effects will push Central London rents into negative territory in 2019 (-1.0%) and 2020 (-0.4%).

Regional CBDs: A limited development pipeline and sustained demand for Grade A offices continue to exert upward pressure on rents across the regional CBDs. In line with the London trend, growth in flexible office take-up is likely to continue. Prime rents in Manchester are expected to reach £40 psf soon.

COLLIERS VIEW: Unchanged. Rents in Central London are expected to decline modestly in 2019. The regional CBDs are likely to see further rental growth.

INDUSTRIAL

The latest manufacturing data signalled a welcome recovery in the sector, with output rising by 0.4% 3m/3m. The manufacturing index is now at its highest level since April 2008, according to the ONS. Survey evidence suggests that the sector continued to perform well in March. The UK Manufacturing PMI increased to 55.1, rising above the post-referendum average for the first time in a year. While this is generally a positive development, much of the improvement in the index was linked to stockpiling, which acts as a short-term boost. The increase in inventories may result in reduced activity in the near future and companies could find themselves in a situation in which they have to heavily discount their products in order to clear warehouses, unless demand improves. The monthly MSCI index highlighted ongoing rental growth across the main industrial segments in February, with London Standard Industrial seeing the largest uplift (+5.7% y/y). All industrial rents increased 3.9% y/y in February, down slightly from 4.0% y/y in January and weaker than the 4.8% y/y recorded a year ago.

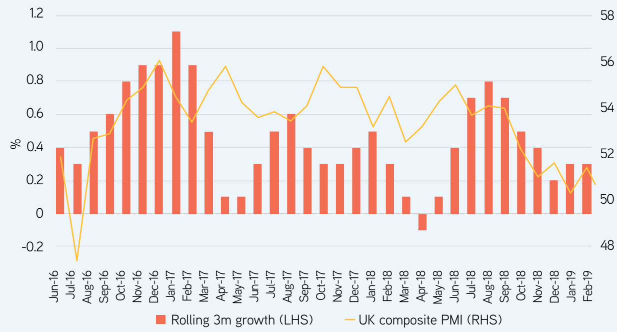
COLLIERS VIEW: Further rental growth in 2019 is likely, although not to the extent seen in 2018, as rents in some locations may be approaching a ceiling.

RESIDENTIAL

House price growth remained muted in March. The Halifax headline measure dipped from 2.8% y/y in February to 2.6% y/y, while Nationwide's index suggested that prices rose just 0.7% y/y (up slightly from 0.4% y/y in February). Over the first quarter of 2019, Northern Ireland experienced the strongest rise in house prices (3.3% y/y), followed by the North West (2.9% y/y) and the East Midlands (2.6% y/y). At the other end of the scale, house prices fell by 3.8% y/y in London, having already declined by 0.8% y/y in Q4 2018. Although monthly residential property transaction completions rose to a one-and-half year high of 101,780 in February, the figure remained in the very narrow 99,000 – 102,000 range that we have seen over the past six months and around 40% below the pre-crisis high. The number of mortgage approvals cooled slightly to 64,337 and was 2% below the six-month average. The 2 year fixed (75% LTV) mortgage fell to 1.68%, the lowest it's been for a year.

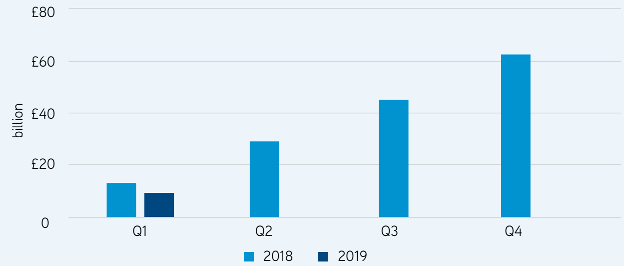
COLLIERS VIEW: Unchanged. House price growth is likely to remain muted in 2019. Mortgage rates remain supportive.

CHART 1: **UK GDP GROWTH AND PMI DATA COMPARED**



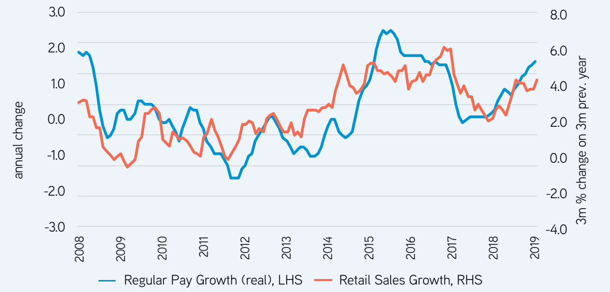
Sources: ONS, IHS Markit

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



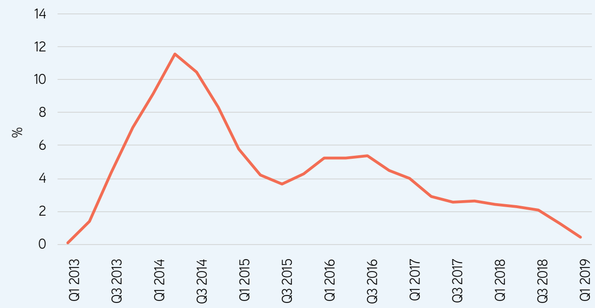
Sources: Property Data Ltd., Colliers International, March 2019

CHART 3: **REAL WAGE GROWTH AND RETAIL SALES**



Source: ONS

CHART 4: **ANNUAL HOUSE PRICE GROWTH**



Source: Nationwide

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