Research & Forecast Report

United Kingdom | Snapshot
September 2016

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Economy

Strong business activity surveys released at the beginning of the month showed a quick rebound across all the three main sectors. Services PMI, with the sector accounting for over 70% of all activity, bounced back to 52.9 in August from 47.4 in July, the steepest increase in the survey's 20-year history. Similar upward corrections were also observed for manufacturing and construction which reached 53.3 and 49.2 respectively, suggesting that the initial shock of the EU referendum result has been shrugged off. Early economic indicators are certainly more positive than many commentators were expecting. The labour market has remained robust in recent months, despite concerns of more restrictive hiring intentions by companies. The unemployment rate was static at 4.9% in the three months to July and the claimant count oscillated between a modest fall in July and a slight rise in August. Real earnings growth was also positive, albeit it did ease from 2.2% in July to 1.9% in August. Inflation was unchanged in August at 0.6%, but it is still expected to accelerate in the final months of the year and into 2017. The sharp devaluation of sterling, which has resumed in the latter days of September, together with a cut to the base rate to 0.25% in early August and the injection of another £70bn of QE measures, should propel CPI ahead. The MPC left the base rate unchanged in their September meeting, but hinted at another cut by the end of the year.

Colliers view: A further base rate cut in 2016 may be unlikely should positive economic data continue to filter through. GDP forecasts for this year have been lifted upwards.

Investment

Although activity in the first two months after Brexit was subdued, with total trading volumes in August at £1.6bn, well below the £4.4bn recorded in the same month last year, conditions and sentiment appear to have stabilised in September. Preliminary data from Property Data shows that volumes in the first half of the month amounted to £2bn, already exceeding August's total. The three most significant deals involved portfolio exchanges. Davidson Kempner Capital acquired NCP 88 car parks from Blackstone for £500mn, Fortress Investment bought a portfolio of 76 Mark & Spencer units for £450mn (IY 6.6%) and Secure Income purchased 55 Travelodge hotels for £196mn (IY 7.0%). Overseas investors continued to drive acquisitions, enticed by the sharp devaluation of sterling and a perceived discount achievable on some assets. Foreign players eclipsed others as they invested £1.5bn of the £2.3bn spent on commercial property in the first half of September. Meanwhile, IPD Monthly data suggests that all-property capital growth recovered in August to -0.7% from -2.8% in July.

Retail Shops: Excluding the Mark & Spencer portfolio transaction mentioned above, shop transactions in August to mid-September were few and far between. The largest deals last month included 9-19 St. Mary Street in Cardiff (£37mn, IY 6.25%) and the EOS portfolio (£28mn, IY 5.7%). **Shopping Centres:** Shopping centre trading remained almost non-existent, with only two small schemes changing hands in August, Govan Cross (£5mn) in Glasgow and Red Rose (£10.4mn, IY 7.4%) in Sutton Coldfield, and not much else since. **Retail Warehouses:** A total of £124mn transacted in August to mid-September, with the acquisition of Greyhound Retail Park in Chester the largest deal, finalised at £36mn. Elsewhere, a JV between Kames Capital and Oxygen AM purchased the Brimstone portfolio for £19.8mn (IY 7.2%). **Supermarkets:** Only one unit acquired, with Tesco buying back its own Superstore in Nailsea for £23.6mn (IY 4.9%), suggesting pricing for good product remains firm.

Central London Offices: Some momentum has returned to the Central London office market in the first two weeks of September. Trading volumes amounted to £506mn, significantly higher than all of August (£314mn). Key deals included 43 Tower Hill, which was acquired by China Minsheng Jiaye from Societe Generale for £84.5m (IY 6.7%) in a sale and leaseback, and 33 Gracechurch St., which was purchased by Westminster Real Estate for £75mn. **Regional:** Slow trading, with £104mn transacted to mid-September. The largest deal was the acquisition of a prime asset, 2-4 Waterloo Place in Edinburgh, by TRIUVA for £62mn (IY 5.5%).

Industrial: The only sector to markedly exceed its August figures on an annual basis, with £436 traded versus the £256mn last year. The most significant transactions included the purchase of the Amazon distribution park in Tilbury by Legal & General for £150mn (5.25%), followed by Capital Industrial's acquisition of Heston Industrial Estate (£79.5mn, IY 5.1%) in Heathrow.

Colliers view: Pricing is showing signs of stabilisation and trading volumes are slowly picking up. Overseas demand will continue to drive the market in the near term.

Key Indicators

	Latest[1]	End-Aug	End-July	End-June
UK GDP (%q/q)	0.6(1st est)	0.6(1st est)	0.6(1st est)	0.4(3rd est)
UK PMI (weighted average)	52.7	52.7	47.4	51.9
EURO PMI (composite)	52.6	52.9	52.9	53.1
UK CPI (%)	0.6	0.6	0.6	0.5
UK RPI (%)	1.8	1.8	1.9	1.6
UK BASE RATE (%)	0.25	0.25	0.5	0.5
UK 10YR GILT (% eop)	0.75	0.67	0.86	1.04
GBP 3M LIBOR (%)	0.38	0.39	0.54	0.56
STERLING EFFECTIVE (FT)	78.6	77.8	79.6	80.4
GOLD (USD)	1339	1318	1342	1324
OIL BRENT (USD)	47.5	48.8	43.2	49.2
FTSE 100	6911	6782	6721	6360
IPD All property IY	5.19	5.19	5.14	4.96
IPD All property EY	6.30	6.30	6.25	6.09

[1] Sep 22nd (data and revisions)   Sources: ONS, Markit, FT, EIA, IPD, Haver

OCCUPIER MARKETS

Retail

Retail sales remained buoyant in August at 6.2% y/y, just a shade below July (6.3%). The sector continued to be supported by good weather and a weaker sterling, which attracted more tourists and higher spending, particularly across the major thoroughfares of London. Leasing activity was unaffected by the referendum result, albeit exchange rate movements did have an impact on retailers who price their overheads in a foreign currency or those who import their products, leading to a more forensic approach by some when leasing space. However, benign forces remain in play, with another cut to the base rate, low inflation and high employment supporting spending. Although still negative, consumer sentiment steadied, with the GFK confidence index recovering from -12 in July to -7 in August. Shop rental performance is expected to remain polarised by geography, with Central London set to drive growth over the next 12 months. Colliers expects IPD all-retail rental growth to reach 0.5% in 2016, -0.2% in 2017, before turning positive again in the following three years.

Colliers view: The business rates revaluation is now on the horizon and is set to re-balance the scale at the expense of prime Central London locations. Discounting may lose some steam as import costs rise.

Offices

Central London: Vacancy rates across Central London remain close to structural lows and with new supply below trend and restrictions on new starts, oversupply is not anticipated to become an issue. Demand for pre-lets due to be completed within 6-months remains high in the West End. No evidence yet of substantial Grade A space coming onto the market. The post-Brexit landscape has generally witnessed a happy equilibrium between tenants and landlords with regard to negotiations. Although City of London prime rents are set to be eventually impacted the most by the referendum vote, in the near term incentives are likely to rise and a repeat of the dramatic corrections experienced during the last recession is unlikely. **Regional:** There were no significant signs of downward pressure on regional leasing activity post-Brexit, although Rest of UK IPD annual rental growth in August did slow to 2.1% from 2.5% in July. FBS employment growth forecasts are set to decelerate next year.

Colliers view: Office rental growth is expected to flatten in H2 and turn negative next year (-1.6%), with Central London the most affected by the EU referendum result. Nevertheless, the scale of these falls may, in the end, be more restrained the initial forecasts.

Industrial

Manufacturing PMI rebounded strongly in August to 53.3 from the 48.3 recorded in July. Buoyed by work inflow from both domestic and export clients, strong retail sales and the sharp depreciation of sterling aided activity and sentiment. The pound's devaluation is anticipated to support activity for export-driven manufacturing, but its resulting higher input costs should offset some of its benefits. It was business as usual in the leasing market, with Amazon taking up a new design-and-build large shed (1.1mn sq ft) in Tilbury and another 360,000 sq ft new build in Dunstable. Rents are holding up well and IPD rental growth fell slightly in August on a monthly basis, reaching 4.3% y/y. Colliers expects industrial rental growth to end the year at 1.8% before slowing to 0.8% in 2017, but this will be enough to outperform all other sectors.

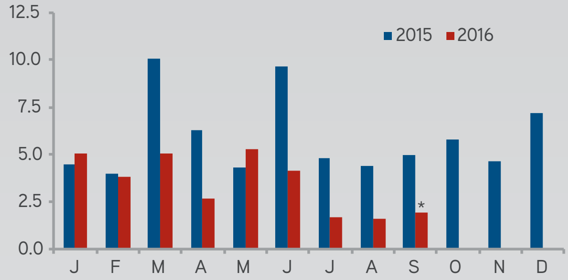
Colliers view: Tight supply and abundant demand will continue to support leasing activity and rental growth, with the sector anticipated to navigate Brexit winds better than others.

Residential

Some mixed signals from the main house price data providers. According to Halifax, house price growth in August slowed to 4.1% y/y, while the pace in Nationwide's index rose from 5.2% in July to 5.6% in August. Irrespective of these differences, demand for residential properties has not been dramatically impacted by the referendum, although it may be still too early to judge. Mortgage approvals fell to 60,900 in July, below the six-month average of circa 69,000. Enquiries and instructions also cooled according to RICS's August Residential Market Survey, albeit sales volumes stabilised. The MPC's stimulus package pushed mortgage rates to new record lows, with the 2-year fixed rate for a 75% LTV mortgage falling to just 1.66% in August.

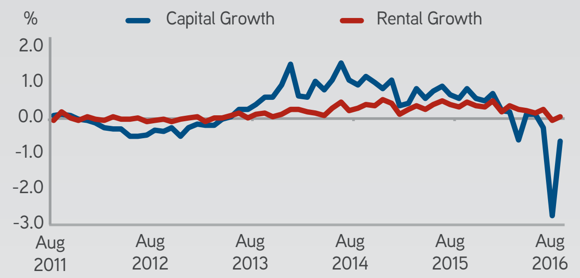
Colliers view: Despite some evidence of house prices cooling, activity and pricing in the market are holding up better than most forecasts anticipated. Lower for longer base rate expectations may push mortgage rates towards 1%.

Investment Volumes (£ billions)



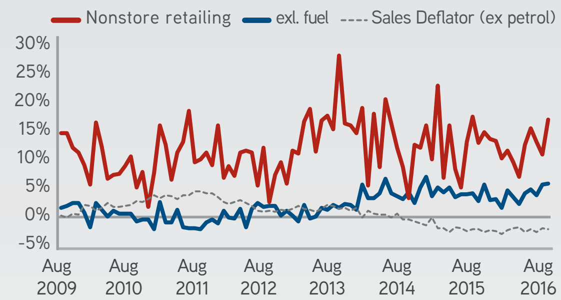
Source: Property Data Ltd *mid-September only

UK IPD All-Property Performance (m-o-m)



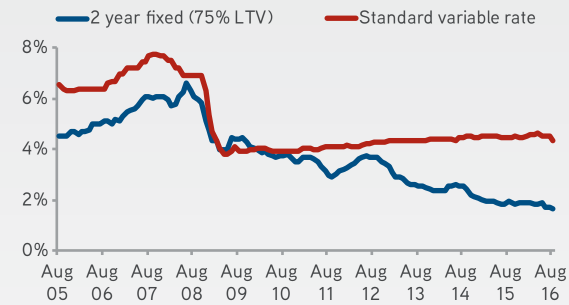
Source: IPD Monthly Digest

Retail Sales Volume Growth (y-o-y)



Source: ONS

Mortgage Rates



Source: Bank of England

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