Research & Forecast Report

United Kingdom | Property Snapshot January 2018

Economy

The OBR's downward forecast revisions in November look decidedly overcooked. December's PMI data suggest greater resilience across all sectors and is consistent with quarterly GDP growth of 0.5%. This suggests that GDP for 2017 may reach 1.8%, well above the OBR's 1.5% forecast. A recent ONS release shows that productivity may have rebounded in Q3 17. Bank of England agents report that investment intentions are up across both the manufacturing and services sectors. This may reflect fewer worries about a hard Brexit. Positive real wage growth, driven by falling inflation, is expected in the next few months and will support a rebound in household spending (63% of GDP). Further rate hikes, amounting to 0.5% in 2018, are widely anticipated, although these would undermine any household spending rebound. Rate hikes aimed at conventional targets seem misplaced, at least until the trajectory of the economy and sterling is better known. Sterling is up in January against the dollar and is within 8% of its pre-EU Referendum trade weighted value.

Colliers view: Look for an upside surprise when GDP for 2017 is released on 26th January. EU trade talks progress will buoy confidence and sterling.

Investment

December did not disappoint, with near £6bn transacted. Annual volumes topped £60bn -- up 15% over 2016. January sentiment suggests that momentum may have carried over into 2018. Markets are still equity driven and the cross border appetite for the UK from the Far East is undiminished as a few December Canary Wharf deals (£670m) might suggest; Hengli (new market entrant from HK) bought the Lloyd's headquarters on Gresham Street for £160m. In contrast, UK institutions focused almost exclusively on UK regional assets, from Exeter to Edinburgh, while UK REITs and property companies hoovered up over £1bn of industrial and residential/mixed-use portfolios.

Retail: Pure retail investment was limited primarily to retail parks and supermarkets. Most shop sales were part of mixed use schemes with a few exceptions (AM Alpha's purchase of Debenhams in Manchester - £87m at 5% IY and DTZ Investors' purchase of a 50% share of a House Fraser in Glasgow - £35.2m at 4.7% IY). No shopping centres traded, although Shropshire CC should complete a purchase of three linked centres in January.

Retail transactions	Value	Deals	December selected yields
Unit Shops	£266m	24	5% Manchester / 4.7% Chelmsford
Retail Warehouses	£357m	21	4.6% Alton / 4.6% Harrogate
Shopping Centres	nil	nil	nil
Supermarkets	£99m	4	4% Woodford / 5.5% Cumbernauld

Source: Colliers International, Property Data Ltd.

Offices: Like the Canary Wharf and City deals (above), overseas investors are dominating London with 75% of transactions by value. Wolfe AM (Dubai) bought 240 Blackfriars Road for £267m at 3.9% IY. The West End saw limited activity, although Shaftesbury bought a strategic development asset at 72 Broadwick Street for £87m at 3.4% IY and Savills IM bought an income-led asset at 30 Broadwick Street for £190m at 4% IY. Several significant deals concluded regionally in Manchester (£55m), Hamilton (£51m) and Bristol (£34m) among others.

Office transactions	Value	Deals	December selected yields
London	£1.9bn	31	4.3% City / 4% West End
Regional	£622m	48	5% Bristol / 5.2% Edinburgh

Source: Colliers International, Property Data Ltd.

Industrial: Demand shows no let up, with another £800m traded in December. Yields remain pressured, with multi-let parks and distribution trading at sub 4%. Propcos and REITS were the most active buyers, followed by UK institutions.

Industrial transactions	Value	Deals	December selected yields
Distribution	£313m	22	3.15% Crawley / 3.8% Bedford
Multi-let parks	£527m	38	4.25% West Thurrock / 4.4% Hemel

Source: Colliers International, Property Data Ltd.

Colliers view: Sterling's strength and CGT revisions have not put off foreign investors, who continue to support the London and regional markets.

Key Indicators

	Latest[1]	End Dec	End Nov
UK GDP (%q/q)	0.4(2nd)	0.4(2nd)	0.4(1st)
UK PMI (weighted average)	54.9	54.9	54.9
EURO PMI (composite)	58.1	58.1	57.5
UK CPI (%)	3.1	n/a	3.1
UK RPI (%)	3.9	n/a	3.9
UK BASE RATE (%)	0.25	0.25	0.25
UK 10YR GILT (%)	1.32	1.28	1.33
GBP 3M LIBOR (%)	0.52	0.52	0.52
STERLING EFFECTIVE (FT)	77.8	77.9	77.9
GOLD (USD)	1341	1270	1270
OIL BRENT (USD)	69.8	66.2	62.7
FTSE 100	7777	7327	7327
MSCI All property IY	5.16	n/a	5.16
MSCI All property EY	6.01	n/a	6.01

[1] Jan 15th (data and revisions)
Sources: ONS, Markit, EIA, MSCI, Haver, DailyFX

OCCUPIER MARKETS

Retail

Christmas trading looks to have been diluted by November's Black Friday sales, but also by discounting and a shift to increased leisure spend as part of the physical shopping experience. Footfall fell by 3.3% y/y in the four weeks to Christmas, according to Springboard. Boxing Day footfall also fell by 4.5% y/y. Visa's card payment data also suggests that real high street spending fell in December by 2.7% y/y. Debenhams issued a profit warning after a combination of 'below expectations' trading post-Christmas and 'tactical promotional action' (FT 4th Jan 18). According to Centre for Retail Research, increased numbers of retail failures in 2017 (44) has not been accompanied by a great increase in store numbers affected (1,382 compared to 1,504 in 2016). Online sales rose by 2.0% y/y. The retail rental story remains relatively unchanged despite intensifying cost pressures. Central London shop rents are up 1.7% y/y to the end of November 2017 and down 0.7% y/y in the Rest of the UK.

Colliers view: Pressure on operators should ease as inflation falls and real wage growth begins to support spending. Rental growth prospects may improve later in the year.

Offices

Central London: Headline rents eased in 2017, finishing the year at £68.50 psf in the City, down around 2% compared to 2016, and virtually unchanged at £118.00 psf in the West End. Rents are stable in a setting of steady demand and expectations of serious shortages of space, especially in the West End, where record lows in spec development are anticipated in 2018. Brexit sentiment is mixed. The EMA may be going, but a Spanish bank (Alantra Partners) announced that despite Brexit, they will move their headquarters to London, citing London's pre-eminence in global finance and M&A activities. **Regions:** CBDs all report strong year ends with several markets at or near record levels of take-up. The South East market also emerged from the doldrums with very strong take-up in Q4 17. For the first time, all Big Six CBDs report headline rents of £30.00+ psf. Manchester is still the highest at £35.00 psf.

Colliers view: Occupier markets are resilient UK-wide despite Brexit and domestic political risk. Limited Grade A space is supporting rents, but slowing take-up.

Industrial

Manufacturing survey data for December remains strong (56.3), with a promising surge in production of intermediate and investment goods. Consumer goods demand slowed and retail distribution operators are monitoring Christmas trading results, although internet sales fulfilment remains strong. Rents remain pressured, partly by demand and lack of space, but also by increased costs of land and construction. Operators are looking to meet these increased costs by minimising void periods on newly completed space, rather than relying solely on rental increases. Nevertheless, the rental trajectory remains strong, with MSCI standard industrials up 5.4% in the year to November 2017. Distribution warehouse rents grew at a more moderate 4.3%. Rental growth outside the South East and East in the Rest of the UK grew at 1.8%.

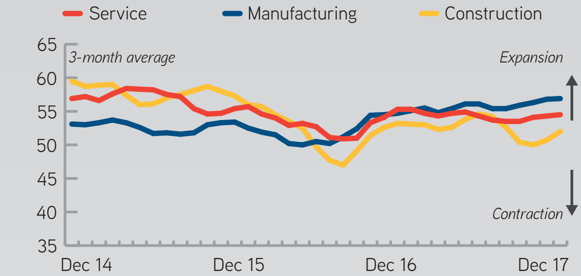
Colliers view: Limited space will continue to support rents, but increasing cost pressures will become more challenging for landlords as occupiers resist further substantial rental increases.

Residential

UK house price growth finished the year in the low single digits. Nationwide reports annual growth in 2017 of 2.5% and Halifax reported 1.1%. Mortgage rates look to have bottomed out in September at 1.40% for a two-year 75% LTV fixed, which jumped to 1.61% in November before falling back marginally to 1.57% in December. Despite these increases, mortgage approval rates are relatively stable at 65,139 in November, although this is down slightly on the previous twelve-month average of 67,190. According to Nationwide data, London house prices recorded the first full year annual decrease since 2008, down 0.5%. All remaining regions were positive, led by the West Midlands at 5.3%.

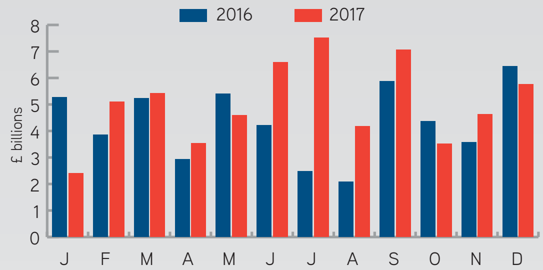
Colliers view: Recent stamp duty reform for first time buyers will affect the regions more than London. The London market awaits improvement in affordability before price growth resumes.

Purchasing Manager Indices



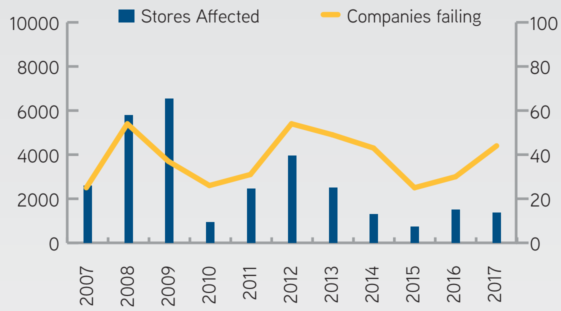
Source: CPI/Markit

Investment Transaction Volumes



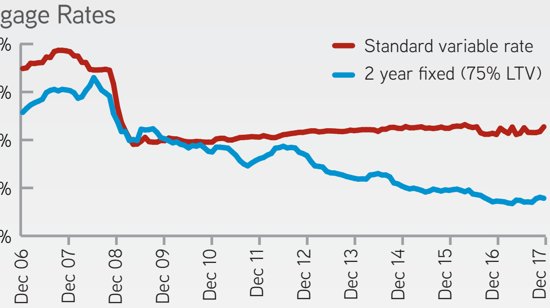
Sources: Property Data Ltd., Colliers International.
December preliminary data.

Retail Failures



Source: Centre for Retail Research

Mortgage Rates



Source: Bank of England

For more information, please contact:

Walter Boettcher
+44 20 7344 6581
walter.boettcher@colliers.com

Colliers International
50 George Street
London W1U 7GA