

UNITED KINGDOM PROPERTY SNAPSHOT

SEPTEMBER 2018

ECONOMY

The UK economy gathered pace in July, with GDP rising at a monthly rate of 0.3%, pushing the rolling three-month average to 0.6% - the highest since February 2017. The service sector remained the main source of growth, although construction also provided a boost, as the sector bounced back from a weather-induced weak start to the year. A slight worry is that the industrial sector continued to struggle, with output falling 0.5% in the three months to July. However, even if monthly production levels stall in August and September, it would provide a positive contribution to Q3 quarterly economic growth, boosted by base effects. PMI data suggests that the economy continued to grow at a steady pace as we move through the third quarter. CPI and RPI inflation accelerated to 2.7% and 3.5% respectively, meaning that, despite earnings surprising on the upside, consumers may face a renewed tightening of real incomes. Despite higher inflation, retail sales continued its upward trend suggesting a further recovery in household spending, at least in Q3.

COLLIERS VIEW: We expect stable GDP growth of around 0.4% q/q in Q3, as base effects offset some of the July strength in services and construction.

INVESTMENT

Transaction activity re-accelerated in August, reaching £4.7bn, up from £3.3bn in July – a 45% increase. Three of the five largest deals took place in the office sector, with NPS of Korea's £1.2bn purchase of Plumtree Court, EC4 topping the list. Several PRS assets also changed hands, led by Invesco Real estate's purchase of 1000 BTR units across two sites for £400m. Overseas capital made up almost two thirds of all investment in August, up from 42% in July.

Retail: A private Hong Kong investor bought 41 Bond Street for £65m at 2.72% IY, with the property being single let to Cartier until June 2034, representing the eighth sub-3% IY retail deal so far this year. German Patrizia Immobilien was also active in Central London, acquiring 49-63 King Street for £21.4 at 5.1% IY. Following a quiet July, two shopping centre deals were recorded in August. Activity in the retail warehouse and supermarkets sub-sectors slowed, following a relatively strong July.

RETAIL TRANSACTIONS	VALUE	DEALS	AUGUST SELECTED YIELDS
Unit Shops	£116m	21	2.7% London / 4.5% York
Retail Warehouses	£35m	2	4% London
Shopping Centres	£30m	2	n/a
Supermarkets	£10m	2	4.9% Milton Keynes

Source: Colliers International, Property Data Ltd.

Offices: August marked a rebound in office investment, following a subdued July. The £1.2bn acquisition of Plumtree Court, Shoe Lane represents the largest office deal so far this year. Spanish PonteGadea Inmobiliaria's bought 1-11 John Adam Street in London at 4.4% IY in August's second-largest office deal. Outside of London, Spelthorne Council purchased a £285m office portfolio across Reading, Uxbridge and Slough.

OFFICE TRANSACTIONS	VALUE	DEALS	AUGUST SELECTED YIELDS
London	£2.3bn	22	4% - 4.6% City
Regional	£534m	23	5.8% Leeds / 6% Edinburgh

Source: Colliers International, Property Data Ltd.

Industrial: UK institutions and overseas investors remained active in the industrial market, with Aviva Investors Lime Property fund's £73.4m acquisition of Ansty Park in Coventry and Blackstone Real Estate's £61.5m purchase of a portfolio (6.3% IY) representing the two largest deals in August. At 9.15% IY (£53.7m), Hansteen Holdings bought a North West and West Midlands focused portfolio at one of the highest industrial yields so far this year.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	AUGUST SELECTED YIELDS
Distribution	£367m	18	4.3% Harlow / 4.6% Birmingham
Multi-Let parks	£160m	24	4.45% Heston

Source: Colliers International, Property Data Ltd.

Alternatives/Other: A couple of £100m+ assets changed hands in August. Invesco Real Estate bought a 1,000 bed portfolio across two sites for £400m and Legal and General acquired 350 PRS units on Manchester's Deansgate Sq for £200m. Outside the residential sub-sector, Unite Group purchased a 680 student bed asset on First Way Campus in Wembley (£98m), Dalata Hotel Group acquired Clayton Hotel in Aldgate (£91m) and Motcomb Estates bought 'The Curtain' in Shoreditch (£90m).

ALTERNATIVES/ OTHER	VALUE	DEALS	AUGUST SELECTED YIELDS
PRS	£622m	11	7.2% Liverpool
Motor Trade	£257m	16	7.3% London

Source: Colliers International, Property Data Ltd.

COLLIERS VIEW: Unchanged. Demand and pricing remain firm and industrial yields are likely to compress further.

KEY INDICATORS	LATEST ¹	END AUGUST	END JULY
	UK GDP (%q/q)	0.4% (Q2 18)	0.4% (Q2 18)
UK PMI (composite)	54.1 (August)	54.1	53.7
EURO PMI (composite)	54.5 (August)	54.5	54.3
UK CPI (%)	2.7 (August)	2.5	2.4
UK RPI (%)	3.5 (August)	3.2	3.4
UK BASE RATE (%)	0.75	0.75	0.5
UK 10YR GILT (%)	1.48	1.41	1.43
GBP 3M LIBOR (% eop)	0.80	0.80	0.80
STERLING EFFECTIVE (BoE)	78.2	77.9	77.9
GOLD (USD eop)	1197	1201	1224
OIL BRENT (USD eop)	78.6	77.4	74.3
FTSE 100 (eop)	7304	7432	7749
IPD All property IY	▼ 4.59 (Q2)	4.59	4.61 (Q1)
IPD All property EY	▼ 5.47 (Q2)	5.47	5.51 (Q1)

¹ Sep 13th (data and revisions)
Sources: FT, BoE, Haver, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

The positive trend in retail sales volumes continued in August, after a very weak start to the year. The 3m/3m rate stood at 2%, down slightly from 2.4% in July, but well above the 2017 average (0.3%). Food and household goods stores continued to benefit from the warm weather, according to the ONS. The latest BRC - KPMG Retail Sales Monitor (RSM) also pointed to a sustained rise in retail sales in August, although the weather-related positive momentum that drove food and grocery sales has started to fade. Structural changes within the industry paired with pressure on margins from a rising cost base mean that high street shops will remain under pressure, while retailers with a strong online presence will continue to perform better.

COLLIERS VIEW: A welcome improvement in retail sales. Online sales will continue growing in importance while high street shops will struggle.

OFFICES

Central London: Overseas capital continues to dominate the Central London office market, accounting for over 70% of all investment this year so far. Demand for prime assets remains strong, while there's a clear lack of new product being brought to the market, limiting the availability of larger lot sizes.

Regional CBDs: Investor demand for prime South East offices remains strong and there's clear evidence of serviced office/ co-working space growing in importance, with take-up in this segment reaching 138,800 sq ft in Q2, up significantly from 59,660 sq ft in Q1.

COLLIERS VIEW: Headline rents in Central London are stable while regional CBDs are likely to rise further reflecting steady demand and limited space.

INDUSTRIAL

Although the ONS reported a third consecutive decline in industrial production¹, base effects mean that industrial output should rise over the third quarter when compared to a very weak Q2, when declines in manufacturing and energy supply weighed on overall output. Despite signalling expansion (>50.0), the latest manufacturing PMI (52.8) fell to its lowest level in over two years, highlighting uncertainty about the sector's performance for the remainder of the year. The business confidence measure dropped to a 22-month low with companies worried about Brexit uncertainty and exchange rate volatility, according to the report. Nonetheless, the latest MSCI quarterly index points to ongoing rental growth across the industrial sector in Q2.

COLLIERS VIEW: Unchanged. The manufacturing sector struggled in H1, but improvements are expected in H2. Rental growth is set to strengthen further as supply shortages persist.

RESIDENTIAL

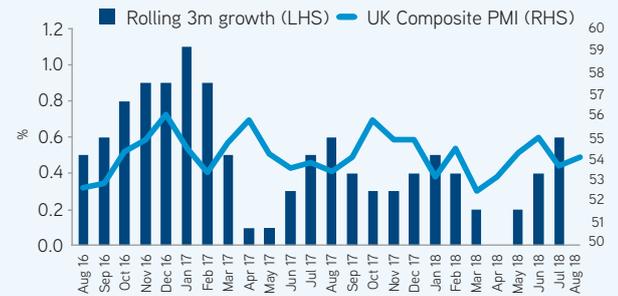
House price growth remained subdued in August and well below levels seen during the house price boom between 2014 and 2016. While the Halifax index showed a slight acceleration from 3.3% to 3.7% y/y, Nationwide reports a slowing from 2.5% to 2.0% y/y. Mortgage approval numbers remain steady at 64,768 and in line with the 12-month average (64,986) while the number of completed home sales is stagnant. First time buyers have to put down record deposits for their first home (national average: £33,127), with more than a third of new buyers receiving financial help from their parents². The 2 year fixed (75% LTV) continues to move sideways and stands at 1.75%.

COLLIERS VIEW: House price growth will remain muted this year, as consumer confidence is still fragile and real wages are growing only slowly.

¹ Refers to the 3m/3m measure

² Estimates from the Social Mobility Commission research: The impacts of family support on access to homeownership for young people in the UK, March 2017

CHART 1: UK GDP GROWTH & PMI DATA COMPARED



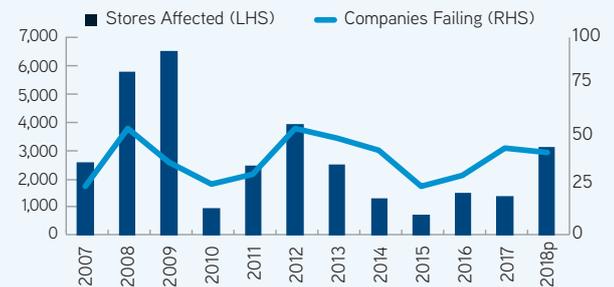
Sources: ONS, IHS Markit

CHART 2: INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)



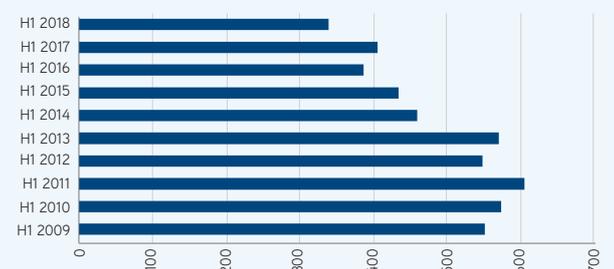
Sources: Property Data Ltd., Colliers International, August 2018.

CHART 3: RETAIL FAILURES



2018 figures through August 2018. Forecast for 2018 simple extrapolation. Source: Centre for Retail Research

CHART 4: RESIDENTIAL PROPERTY TRANSACTIONS IN FIRST HALF OF EACH YEAR



2018 figures through August 2018. Forecast for 2018 simple extrapolation. Source: Centre for Retail Research

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