Research & Forecast Report

United Kingdom | Property Snapshot
November 2017

Economy

Early business survey evidence suggests mixed fortunes for the three main sectors of the UK economy. The November manufacturing PMI reached its highest level (58.2) in more than four years, construction PMI accelerated to 53.1, however, the headline figure for the dominant services sector eased back to 53.8 (from 55.6 in October). The lower than anticipated services expansion may inhibit Q4 GDP growth, unless December surprises on the upside. Inflation was unchanged at 3.0% in October, and with the 'base effects' from sterling's post-Brexit devaluation beginning to run their course, this may signal the start of decreasing inflation profile. Nevertheless, inflationary pressures will not dissipate entirely, higher oil prices and a 4.4% rise in the national living wage from April 2018 will moderate any declines.

Colliers view: The BoE returned the base rate to its pre-EU referendum level in order to 'claw back' monetary 'ammunition' rather than set a new aggressive tightening path. Another hike is not expected until 2019.

Investment

Investment activity slowed in October, with £3bn worth of assets traded, down by 31% on October 2016. Preliminary data for November suggests trading re-accelerated and is likely to exceed the £3.5bn recorded in November 2016. Overseas investors continued to dominate acquisitions, but their share of the UK total, by value, fell to 32%, lower than the 50% observed over the past year. Indeed, UK institutions (£890m) and property companies (£659m) increased their acquisition activity noticeably, bringing their net investment into positive territory, at £328m and £84m respectively in November.

Retail. Just over £600m transacted in October, well below the £1.3bn recorded in October 2016. Shops were the most active sub-sector (£344m), boosted by the Boots portfolio acquisition by Quadrant Estates and CarVal Investors (£250m at 7% IY). Activity has increased in November. The largest deal was the purchase of Intu Chapelfield shopping centre (Norwich) by a JV between Greater Manchester PF and West Yorkshire PF. The scheme was bought from Intu for £148m and is comprised of 90 units.

Retail transactions	Value	Deals	September selected yields
Unit Shops	£344m	24	4.4% Chichester / 5.25% Edinburgh
Retail Warehouses	£179m	6	Circa 5.5% good secondary RP
Shopping Centres	£35	4	7.2% (small scheme, West Midlands)
Supermarkets	£43	4	5.5% (Cheltenham RP)

Source: Colliers International, Property Data Ltd.

Offices. Subdued trading in October, with £981m transacted and just £420m in London. Activity improved markedly in November, with early evidence suggesting total trading will exceed £1.6b UK-wide, with around £1.1b transacted in the capital. The largest October deal was signed in Manchester; 1 Spinningfields was sold by Allied London Properties and Manchester CC to a Schroder/Ilmarinen JV (£200m at 5% IY).

Office transactions	Value	Deals	September selected yields
Central London	£420m	12	4.1% City and 3.7% West End
Regional	£561m	30	4.29% Edinburgh, 5.0% Manchester

Source: Colliers International, Property Data Ltd.

Industrial. Demand for industrial properties showed no signs of slowing, with a total of £726m traded in October, making it the second most active sector. The highlight of the month was the £200m acquisition of the Revelan portfolio by Ares Management.

Industrial transactions	Value	Deals	September selected yields
Distribution	£314m	20	4.54% (Coventry)
Multi-let parks	£412m	26	3.9% (West Drayton, London)

Source: Colliers International, Property Data Ltd.

Colliers view: The dominance of overseas investors may be tested by sterling's slow recovery in the short run and the capital-gains tax reforms on foreign entities from 2019 onwards.

Key Indicators

	Latest[1]	End Oct	End Sep	End Aug
UK GDP (%q/q)	0.4(1st)	0.4(1st)	0.3(3rd)	0.3(2nd)
UK PMI (weighted average)	54.2	55.4	53.5	53.4
EURO PMI (composite)	57.5	56.0	56.7	55.7
UK CPI (%)	3.0	3.0	3.0	2.9
UK RPI (%)	4.0	4.0	3.9	3.9
UK BASE RATE (%)	0.5	0.25	0.25	0.25
UK 10YR GILT (%)	1.38	1.38	1.39	1.07
GBP 3M LIBOR (%)	0.52	0.43	0.33	0.28
STERLING EFFECTIVE (FT)	78.4	77.9	78.6	74.7
GOLD (USD)	1280	1270	1283	1320
OIL BRENT (USD)	62.6	61.1	56.7	52.7
FTSE 100	7327	7493	7373	7431
IPD All property IY	5.19	5.19	5.22	5.25
IPD All property EY	6.04	6.04	6.08	6.10

Nov 30th (data and revisions)
Sources: ONS, Markit, EIA, MSCI, Haver, DailyFX

OCCUPIER MARKETS

Retail

Trading conditions remained challenging on the high street, with annual retail sales volumes growth turning negative for the first time since 2013. October growth was down by 0.3% y/y, lower than the already disappointing 1.3% y/y rate recorded in September. Both food and non-food sectors saw negative growth of -2.2% y/y and -1.0% y/y, respectively, with household goods stores the only sub-sector evading the decline at +0.6% y/y. Higher prices and constrained real wages are impacting performance, with the fall in retail sales broad based. The retail sales deflator (incl. fuel) reached 3.3% in September, before easing slightly to 3.1% in October. Meanwhile, wage growth remains relatively modest against an inflationary backdrop. Total pay growth was little changed in the three months to September at 2.2%, albeit the single month growth rate did pick up to 2.6%. Yet, by both accounts, real wage growth remains negative and is adversely impacting on disposable income and retail spending. The MSCI Monthly rental index suggests Central London shops growth has slowed significantly over the last three months to 1.1% y/y in October, while the Rest of UK index deteriorated to -0.6%.

Colliers view: Rental growth is forecast to remain lacklustre next year, with inflation still relatively high and disposable incomes squeezed.

Offices

Central London: Amid ongoing political uncertainty, it is likely that supply of new product will remain constrained, despite some grey space on the market. Developers and investors are delaying major schemes, many seeking substantial pre-lets before undertaking construction, particularly in the City. Nevertheless, high profile searches and deals in advanced talks (e.g. BoA, CITI, EBRD, SNBC, TP ICAP) are set to further denude the limited speculative reservoir. **Regions:** Annual office rental growth continued to hold up well in October, led by the South West (4.7%) and Outer South East (4.7%). Notable improvements in rental growth included Eastern (3.4%) and the Midlands & Wales (1.3%). Prime rents were generally stable across major regional cities in Q3 2017, with Manchester still at £35psf and Birmingham at £32.50psf. Headline rents in the South East also remained elevated, with some towns witnessing sustained growth, exemplified by Slough at 19.3% y/y, with the headline rate at £34psf.

Colliers view: Occupier markets are stable UK-wide, while leasing activity in Central London continues to hold up better than expected, aided by limited availability of new Grade A space.

Industrial

The latest manufacturing survey data for November suggests that sentiment will continue to be propped up by favourable exchange rates and rising global GDP growth. The occupier sector in the South East remains somewhat patchy for occupiers targeting units above 100,000 sq ft, but demand is stronger in the smaller and mid-range markets. The MSCI all-industrial rental index rose for the fourth consecutive quarter in Q3 2017 reaching 5.1% y/y, supported by strong growth in London Std. Industrials (7.2% y/y) and the South East Std. Industrials (6.9% y/y). Rents are expected to continue growing across the country in 2018, with Colliers forecasting all-industrial growth of around 2.5%-3.0% next year, albeit this will be driven mostly by prime locations, especially those where supply is scarce.

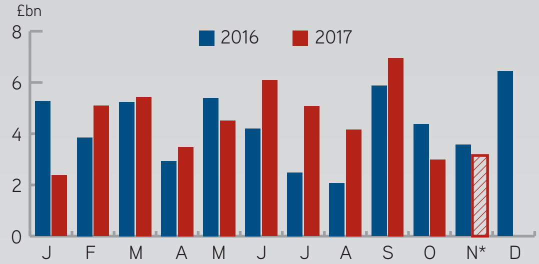
Colliers view: Structural change is evident, but workforce constraints and investor needs are limiting occupier and developer response. Limited space will continue to support rental growth.

Residential

House prices were relatively static on a month-on-month basis over the last two months, according to both Nationwide and Halifax, and annual figures are converging in the lower single digits. Halifax reports a 3.6% y/y growth rate in October and Nationwide reports 2.5% in November. Mortgage approvals recorded the fourth consecutive monthly slowdown, falling to just 64,600 in October, the lowest figure since September 2016. The prospects of November base rate hike had a material impact on the two-year 75% LTV fixed rate, which jumped to 1.55% in October, with another increase expected in November following the decision. Plans to build 300,000 houses per year up to mid-2020 looks ambitious, and would in theory cool house price growth, but it remains to be seen how many of these will eventually materialise.

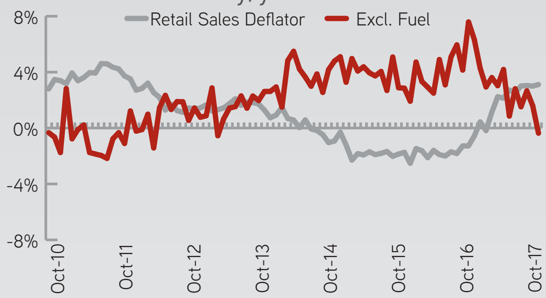
Colliers view: The government's decision to remove stamp duty for the first £300,000 of a property bought by first time buyers is expected to have a marginal impact on house prices.

Investment transaction volumes



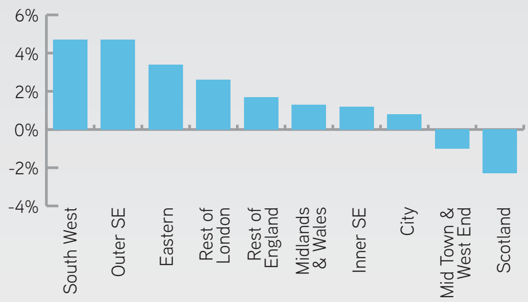
Sources: Property Data Ltd., Colliers International.
November preliminary data.

Retail Sales Growth %y/y



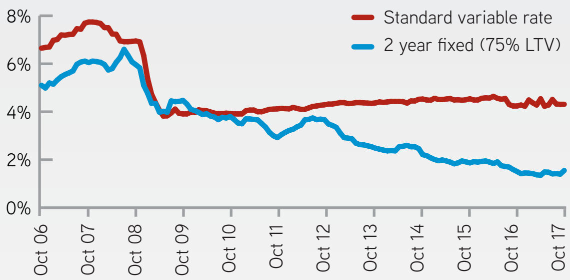
Sources: ONS

Office Annual Rental Growth (Oct-17)



Source: MSCI Monthly

Mortgage Rates



Source: Bank of England

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