Research & Forecast Report

United Kingdom | Property Snapshot
March 2018

Economy

Recently revised GDP figures show that the economy grew by 1.7% in 2017. HM Treasury consensus forecasts show growth of 1.6% and 1.5% for 2018 and 2019, respectively. A possible upside could be in the making with Capital Economics and JP Morgan both forecasting a 2.0% for the 2018 out-turn based on a more positive view of business investment as greater certainty arises from the Brexit negotiations. The latest 'all-sector' PMI rose from 53.1 to 54.2 in February, signalling a modest acceleration in growth. At 4.4%, the unemployment rate remains near a four-decade low and, with inflation forecast to fall to 2.4% by year end, a return to positive real wage growth looks imminent. This will boost consumer confidence and household spending later this year. Gilt yields remain elevated compared to levels of the last 18 months, reflecting expectations that the MPC may raise rates later this year and possibly as early as May. Data from the IHS Markit Household Finance Index show that over one third of UK households expect a rate hike within the next three months.

Colliers view: GDP may surprise to the up side in 2018 as inflation falls, real wages rise and household spending recovers. Base rate will rise at least once this year.

Investment

Preliminary transaction data suggests strength in February despite some slowing from a strong January. Trading volumes reached around £3bn, bringing the year-to-date figure to £7.4bn, in line with 2017. Overseas investors continue to account for almost one-half of all purchases. Portfolios, mixed use and residential assets remain in focus for both domestic and international investors. The Woolwich Estate was acquired by BL for £103m at 4.1% IY. The estate includes 300k+ sq ft of retail, 50k+ sq ft of residential and office space. The area will be served by the Elizabeth Line, opening later this year. Elsewhere, Invesco forward funded a 383-unit residential scheme in Liverpool for £86m. Tribeca Holdings bought Brixton Market for £37.3m at 3% IY.

Retail: Despite the Woolwich and Brixton deals, Central London deals were limited. Outside of London, Aviva bought a long-income Morrisons in Leeds for £31m at 4.5% IY. New River was active and bought higher yielding retail parks in Dewsbury (£14.3m at 7.9% IY) and Cardiff (£12.2 at 10% IY). Only one shopping centre traded – Canterbury CC bought the remaining 50% share in Whitefriars Quarter for £75m at 6.75% IY.

Retail transactions	Value	Deals	February selected yields
Unit Shops	£53m	14	4.3% Cheltenham/ 5.7% Oxford
Retail Warehouses	£91m	5	7.9% Dewsbury
Shopping Centres	£75m	1	6.75% Canterbury
Supermarkets	£85m	4	4.5% Leeds

Source: Colliers International, Property Data Ltd.

Offices: Overseas investors accounted for 60% of activity in the office sector - Far East appetite for Central London continues. A Singapore based investor purchased 5 Chancery Lane for £76m at 5% IY. Japanese investors may be re-entering the market evidenced by the purchase of long government income in High Holborn for £154m. Outside London, Swiss Life bought 6 Queen Street in Leeds for £37m at 5.4% IY and part of the Oxford Business Park for £35m at 4.9% IY.

Office transactions	Value	Deals	February selected yields
London	£350m	6	4.8% City / 2.4% Mayfair
Regional	£197m	22	4.9% Oxford / 5.4% Leeds

Source: Colliers International, Property Data Ltd.

Industrial: Demand for industrials continues to strengthen as reflected by the Blackstone/M7 purchase of the NW and Midlands based Powerhouse Portfolio (40 properties comprising 4.5m sq ft) for £320m at 6.3% IY. L&G also bought an industrial park in Dunstable for £182.4m at 5% IY. Distribution deals included Tritax's purchase of the Midlands Logistics Park in Corby for £81.8m at 5% IY and OLIM's purchase of Swan Valley in Northampton for £19.9m at 4.75% IY.

Industrial transactions	Value	Deals	February selected yields
Distribution	£236m	13	4.8% Northampton /5% Corby
Multi-let parks	£665m	23	5.3% Bishops Stortford

Source: Colliers International, Property Data Ltd.

Colliers view: Overseas demand is stable and supporting prime pricing. Industrial remains a focal point, along with London assets when they become available.

Key Indicators

	Latest[1]	End Feb	End Jan
UK GDP (%q/q)	0.4(2nd)	0.4% (2nd)	0.5% (1st)
UK PMI (weighted average)	54.2	54.2	53.1
EURO PMI (composite)	57.1	57.1	58.8
UK CPI (%)	3.0	na	3.0
UK RPI (%)	4.0	na	4.0
UK BASE RATE (%)	0.5	0.5	0.5
UK 10YR GILT (%)	1.51	1.55	1.53
GBP 3M LIBOR (% eop)	0.59	0.58	0.52
STERLING EFFECTIVE (FT)	79.6	79.6	77.9
GOLD (USD eop)	1314	1345	1270
OIL BRENT (USD eop)	62.8	68.9	66.2
FTSE 100 (eop)	7092	7534	7327
IPD All property IY	↓ 5.08	na	5.08
IPD All property EY	↓ 5.97	na	5.97

[1] Mar 6th (data and revisions)
Sources: FT, Haver, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

Retail

Inflation is still outpacing wage growth, hence household finance remains constrained and continues to impact retailers. Sales volumes (ex-petrol) were rising at a 1.5% y/y rate in January 2018, compared to a 3.1% rate in January 2017. Food store sales declined for a sixth successive month as food store prices continue to rise. Maplin and Toys 'R' Us UK went into administration at the end of February and New Look has announced a CVA that will see the closure of 60 stores. Despite the discouraging start to 2018, consumer spending should improve over the course of 2018 as positive real wage growth returns and buoys household confidence. Rents remain generally stable, despite ongoing weak sales data. Central London shop rents are unaffected and show a 3% y/y increase in January (MSCI). 'Rest of the UK' rents fell for the 13th consecutive month in January at a -1% y/y rate.

Colliers view: Ex-London retail is off to a weak start in H1 18, but real wage growth will support consumer spending in H2 18 and may begin to improve fortunes outside London.

Offices

Central London: Despite ongoing Brexit uncertainty, demand for Central London prime office space is holding up well. Recent data suggests that North American and European occupiers accelerated their take-up of space in Central London in 2017. Together these two groups leased 3.3m sq ft, with take-up at 3x and 2x their respective 10-year averages. While headline rents in Central London are likely to remain flat in 2018, there are possible upsides in submarkets impacted by the Elizabeth Line. **Regional CBDs:** Leasing demand remains steady, with ongoing shortages of grade A space. Prime rents are set to rise further over the next 12 months across the markets, with some soundings suggesting that by 2020, Manchester may be the first to reach £40 psf.

Colliers view: Demand for grade A and refurbished grade B office space remains strong, despite ongoing Brexit uncertainty.

Industrial

The UK manufacturing PMI fell marginally in February to 55.2, well above its long-term average and at a level consistent with continued growth. The PMI survey's forward-looking new orders to inventory ratio rose, suggesting that production will increase further in the coming months. Although the latest data from the ICAEW shows limited manufacturing confidence, the index reached its highest level since Q2 17, also suggesting an upbeat outlook. Occupier demand remains steady UK-wide, and the latest MSCI monthly index shows rents rising at an annual rate of 4.9% in January. Distribution operators are increasingly looking at Brexit as an opportunity for expansion. Recent thinking suggests a need for larger sheds housing larger inventories post Brexit as well as new demand for clearing facilities, both in the UK and Europe.

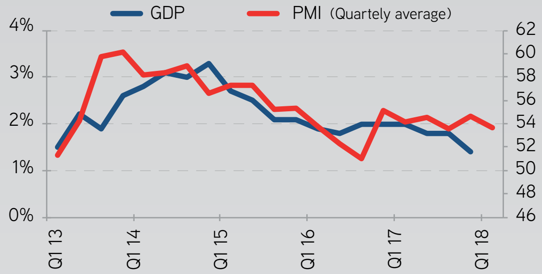
Colliers view: Little change. The rental trajectory remains positive and confidence is improving among occupiers, despite Brexit uncertainty.

Residential

UK house price growth slowed to 2.2% y/y in February 2018, according to the latest Nationwide measure. This is down from 3.2% in January and among the weakest increases since mid-2013. Halifax showed a similar figure (2.3% y/y) for February, up for a second month from December's low of 0.8% y/y. Mortgage approvals rose by almost 10% from a one-and-a-half-year low in December to 67,478 in January. The Bank of England revised down its mortgage approval outlook from 68,000 to 65,000 per month between Q1 and Q3 18 and mortgage rates are expected to rise, given that the Term Lending Scheme closed on 28th February and a base rate hike is widely expected.

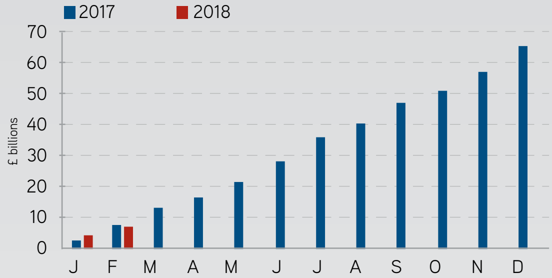
Colliers view: House price growth will remain in single digits until real wage growth is re-established. Mortgage rates look very likely to rise as the MPC begins to normalise policy.

Purchasing Manager Indices



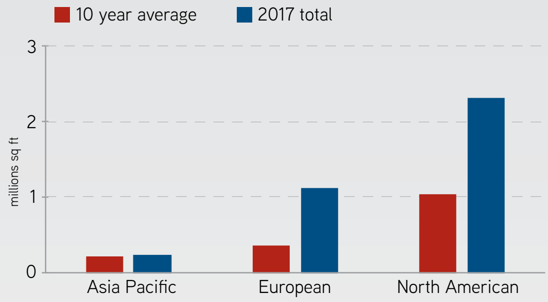
Source: ONS / CPI/IHS Markit

Investment transaction volumes (cumulative)



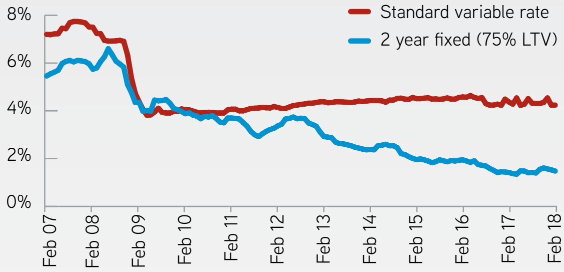
Sources: Property Data Ltd., Colliers International.
February 2018 preliminary data.

Central London leasing take-up by origin



Source: Colliers International

Mortgage Rates



Source: Bank of England

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