

## ECONOMY

Although Q3 quarterly GDP growth is likely to reach its highest level since the end of 2016, some see dark clouds building over the UK's short to medium-term outlook. 2018 will see the slowest expansion of the economy since the global financial crisis, but a modest improvement may be on the cards for 2019. Downside risks to the 2019 outlook include Brexit uncertainty and its effect on business and consumer confidence, as well as exchange rate volatility. Alternatively, clarity over the UK's future could in fact boost business investment and consumer confidence. The Bank of England raised interest rates only once this year and it looks as if the normalisation of rates will be a slow process. Further tightening of monetary policy before March 2019 is very unlikely. CPI and RPI inflation came in at 2.4% and 3.3% respectively, while average weekly earnings (excluding bonuses) reached its strongest growth in almost a decade.

**COLLIERS VIEW:** GDP growth is likely to have accelerated in Q3, but 2018 will nonetheless see the weakest expansion of the UK economy since the GFC.

## INVESTMENT

Transaction volumes broke through the £5bn mark for the second month running in September and, at £6.3bn, were 36% higher than the monthly average this year so far. This brings the quarterly figure to £15.8bn, up from £14.6bn in Q2. If the past two years are anything to go by, we should expect a pick-up in Q4, with 2018 figures expected to be in the £55bn - £60bn range. Blackstone Real Estate and Telereal Trillium's £1.46bn purchase of the Arches Portfolio was by far the largest deal in September and includes around 5,200 properties. Overseas capital accounted for around 50% of all investment.

**Retail:** Tesco's £57m purchase (5.2% IY) of a site in Cirencester represents the largest retail deal in September, accounting for a quarter of all transaction volumes. At £95m, retail warehouses were the most sought after sub-sector in terms of value, while only one shopping centre changed hands and activity in the unit shops sub-sector slowed as the high street continues to struggle.

RETAIL TRANSACTIONS	VALUE	DEALS	SEPTEMBER SELECTED YIELDS
Unit Shops	£80m	28	4.2% Richmond/ 7% Liverpool
Retail Warehouses	£95m	7	6% Wellingborough
Shopping Centres	£7m	1	12.9% Droylsden
Supermarkets	£58m	3	5.2% Cirencester

Source: Colliers International, Property Data Ltd.

**Offices:** Investment volumes reached £2bn in September, following a very strong August (£3bn). Eight of the ten largest deals took place in London, led by the £460m purchase of the Verde Building at 10 Bressenden Place by Deka Immobilien. Worspace Group was also active, acquiring the Shepherds Building for £125 at 4.8% IY. Outside of London, Royal London Asset Management bought an asset on Bristol's Finzels Reach for £62m at 4.75% IY and Canada Life Assurance purchased Riverside House in Rotherham for £90m at 2.9% IY.

OFFICE TRANSACTIONS	VALUE	DEALS	SEPTEMBER SELECTED YIELDS
London	£1.7bn	19	4% - 4.8% City
Regional	£668m	42	4.8% Bristol/ 5.5% Manchester

Source: Colliers International, Property Data Ltd.

**Industrial:** Tritax Big Box REIT's £68.7m purchase of a development site at Florida Farm in Haydock at 4.9% IY was the largest deal in September. TH Real Estate was active in Portsmouth and Southampton and RDI REIT acquired two sites in Bicester and Farnborough, each priced at £26m. Domestic investors dominated the industrial market in September.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	SEPTEMBER SELECTED YIELDS
Distribution	£204m	18	4.4% Warrington/ 4.9% Haydock
Multi-Let parks	£285m	41	4.9% Manchester/ 5.9% Glasgow

Source: Colliers International, Property Data Ltd.

**Alternatives/Other:** Singapore Press Holdings bought the Mayflower student housing portfolio for £181m at 6.3% IY in September's largest alternatives transaction. REIT's remained active in the PRS sub-sector, with Multifamily Housing REIT closing four deals comprising 658 homes across 22 assets, totalling £70m (5.8% - 7.5% IY). The 5\* Beaumont Hotel on 8 Balderton Street in London was acquired by Ellerman Investment for £140m at an undisclosed yield.

ALTERNATIVES/ OTHER	VALUE	DEALS	SEPTEMBER SELECTED YIELDS
Student	£260m	4	6.3% Portfolio
Hotel	£361m	15	3.5% London/ 7% Birmingham

Source: Colliers International, Property Data Ltd.

**COLLIERS VIEW:** Unchanged. Demand for UK commercial property remains firm despite Brexit worries. Industrial yields continue to harden while retail yields are moving out. The appetite for alternatives remains strong.

### KEY INDICATORS

	LATEST <sup>1</sup>	END SEP	END AUG
UK GDP (%q/q)	0.4% (Q2 18)	0.4% (Q2 18)	0.2% (Q1 18)
UK PMI (composite)	54.0 (Sep)	54.0	54.1
EURO PMI (composite)	54.1 (Sep)	54.1	54.5
UK CPI (%)	2.4 (Sep)	2.4	2.7
UK RPI (%)	3.3 (Sep)	3.3	3.5
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	1.63	1.56	1.41
GBP 3M LIBOR (% eop)	0.81	0.80	0.80
STERLING EFFECTIVE (BoE)	79.0	78.2	77.9
GOLD (USD eop)	1229	1192	1201
OIL BRENT (USD eop)	80.8	82.7	77.4
FTSE 100 (eop)	7030	7510	7432
IPD All property IY	↓ 4.59 (Q2)	4.59	4.61 (Q1)
IPD All property EY	↓ 5.47 (Q2)	5.47	5.51 (Q1)

<sup>1</sup> Oct 16th (data and revisions)  
Sources: FT, BoE, Haver, IHS Markit, MSCI, ONS

# OCCUPIER MARKETS

## RETAIL

Latest ONS data highlighted ongoing trend growth<sup>1</sup> in retail sales in the third quarter, with volumes up 3.4% compared to Q3 2017. This represents the strongest quarterly growth rate since the end of 2016. The measure clearly indicates a welcome uptick in spending in the past few months, following a very subdued start to the year. Part of the strength in the figures can be attributed to temporary factors, such as good weather and the football World Cup which supported sales over the summer. Meanwhile, monthly data indicated a decline in sales, heavily weighed down by a large fall in food store sales. The latest BRC-KPMG Retail Sales Monitor also signalled that the spending surge we have seen over the summer has come to an end, heavily weighed down by a disappointing performance in the non-food categories. The BRC recently called for the government to freeze business rate rises until 2021 in an attempt to support high street shops. Earnings growth (excluding bonuses) rose to 3.1% y/y in the three months to August, the highest it's been in nearly 10 years. With inflation at 2.5% over the same period, real wages continued to grow, which, if sustained for the remainder of the year, should support household spending.

**COLLIERS VIEW:** The surge in retail sales that we have seen over the summer has moderated. High street shops remain under pressure.

## OFFICES

**Central London:** Demand for office space in London remains strong with take-up figures showing no signs of a slowdown ahead of the UK leaving the EU in March 2019. The availability of new/refurbished space continues to falter, with availability critically low in areas such as Mayfair, Fitzrovia, Soho and Marylebone.

**Regional CBDs:** Strong leasing activity continues to limit supply for prime space across most markets. Much of new Grade A space scheduled for completion in 2019 is already pre-let. Demand is also strong for high quality Grade B space.

**COLLIERS VIEW:** Headline rents have reached £35 psf in Bristol and Manchester and are likely to increase further as supply remains limited in a setting of steady demand.

## INDUSTRIAL

Total production volumes returned to growth in the three months to August, rising 0.7% 3m/3m. Therefore, the industrial sector will most likely have contributed positively to overall economic growth in Q3, having acted as a drag to GDP growth during the first half of the year. September's manufacturing PMI signalled an improvement in the performance of the UK manufacturing sector with the headline index rising to 53.8, from 53.0 in August. The business optimism measure improved, although there were several mentions of Brexit uncertainty and volatile exchange rates weighing on confidence. This is in line with relatively subdued business investment data from the ONS. Industrial rents are expected to increase 4.0% y/y in 2018, before slowing to 2.5% y/y, according to the latest Colliers Real Estate Investment Forecasts (REIF).

**COLLIERS VIEW:** Unchanged. The manufacturing sector struggled in H1, but improvements are expected in H2. Rental will continue to rise as supply shortages persist.

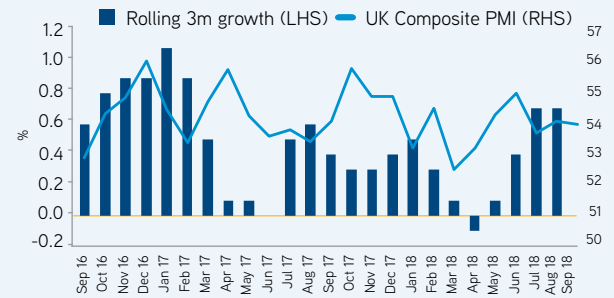
## RESIDENTIAL

The Halifax measure showed house price growth slowing to 2.5% y/y in September, down from 3.7% y/y in August and bringing the index closer in line with the more subdued Nationwide measure which showed an annual increase of 2%. The Nationwide report highlighted three regions that saw declines in house price over the past 12 months. The Outer Metropolitan region and London experienced slight falls in prices, while the North recorded a 1.7% y/y decrease. Latest ONS figures highlighted the weakest rate of house price growth in years. Monthly mortgage approval numbers rose to 66,440 in August, reaching the second-highest figure in 2018, but failing to show any significant sustained upward movement. The 2 year fixed (75% LTV) fell slightly to 1.71%.

**COLLIERS VIEW:** The housing market is generally stable, but some regions are experiencing declines in house prices. Mortgage rates remain supportive, but stamp duty has stalled the transactional flow.

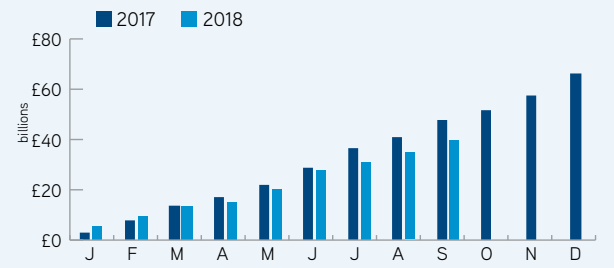
<sup>1</sup> Refers to the percentage change in the three months to September compared to the same period a year earlier

CHART 1: UK GDP GROWTH AND PMI DATA COMPARED



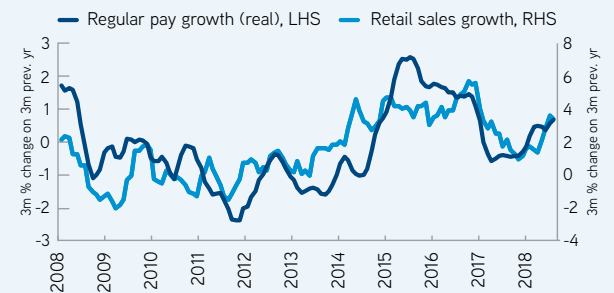
Sources: ONS, IHS Markit

CHART 2: INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)



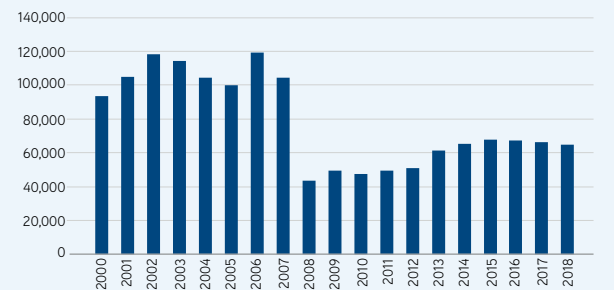
Sources: Property Data Ltd., Colliers International, September 2018.

CHART 3: REAL WAGE GROWTH AND RETAIL SALES



Source: ONS

CHART 4: MORTGAGE APPROVALS, MONTHLY AVERAGE



Source: Bank of England

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