Carney continues to focus on economic activity, labour costs (as opposed to wage growth) and core inflation (excluding energy and food costs). Carney also has financial stability concerns and his remarks, though focussed on quantitative measures, are offered to curtail what might charitably be described as ‘market exuberance.’

In light of this latest guidance, an update of Colliers’ February 2014 publication “Will interest rate rises undermine commercial property values?” seems timely, especially as property yields continue to match and fall below the low levels seen in 2007/8 suggesting to some that an ‘asset bubble’ is either imminent or upon us already. Furthermore, these low yield levels, accommodated as they are by low interest rates, are all the more remarkable in the absence of undisciplined lending and over-leveraged property investment. Clearly, the low level of interest rates (especially bond rates) and the international search for yield are a key driver of the low yield commercial property environment.

To the pessimists this suggests that while the monetary environment may be truly different to 2007, the eventual result may look the same. To the optimists, the difference this time may be the benign trajectory of rate rises. Rates are unlikely to reach beyond 2.5% in the next cycle according to Carney and Yellen. The timing of the first rate hike is perhaps less important than the magnitude and frequency of subsequent hikes unless it is done in the midst of a new economic crisis.

Imminent Interest Rate Rise? Think again!

Interest rate expectations are in the headlines again with media pundits warning homeowners with tracker mortgages that their mortgage rates could begin to rise by year end. According to the media, the Bank of England Governor, Mark Carney, has been giving ‘forward guidance’ that a rate hike might come sooner than expected. Similar guidance has been given before. In August 2013, the Bank of England’s Monetary Policy Committee (MPC) advised that rates would not rise until the unemployment rate fell to 7% - a threshold reached in early 2014. The MPC also advised that it was ‘more likely than not’ that CPI inflation in mid-2015 would be half a percentage point or more above the 2% target. CPI inflation in this period has been ‘nil’, with a period of modest deflation and little prospect of reaching the 2% target for a period that may prove to be measured in years rather than months. Given the Chinese crisis and economic slowdown, the only thing that looks imminent is another wave of global deflation and, if the IMF has its way, imminent global rate increases look set to be pushed back at least into 2016.

In contrast to summer media reports, Carney’s guidance only suggests that the basis for deciding when to raise rates would be more apparent by year end. This is a long way from suggesting a base rate rise is likely.

Mark Carney’s recent guidance

“The decision as to when to start a process of adjustment will probably come into sharper relief around the turn of the year.”
(Mark Carney, July 2015)

“Developments in China are unlikely to change the process of rate increases from limited and gradual to infinitesimal and inert.”
(Mark Carney, August 2015)
In the February 2014 Colliers forecasted interest rates were unlikely to rise until Q1 2016 due to seven key factors:

(1) Economic reliance on household spending sensitivity
(2) Exchange rates and export growth
(3) Benign inflation and deflation risks
(4) Government debt costs
(5) Timing of a mid-cycle slowdown
(6) Availability of alternate macro-prudential tools to target asset bubbles
(7) The UK general election

The analysis at that time suggested the first rate hike was likely in Q1 16. The questions now are: Are these key factors still relevant? Should the rate hike expectation be pushed out further? Is UK property more or less vulnerable than in the previous cycle?

Are the factors still relevant? - undoubtedly

Considerable water has passed under the proverbial bridge since February 2014, but many things have not changed. The UK’s economic performance is still reliant on household spending, exports are still not making a sustained contribution, the public sector may be downsizing but its contribution to GDP is static and the long awaited surge in investment (capital formation) has not yet materialised. The graphical picture certainly has not changed as the figure reveals.

**Contribution to real GDP by expenditure**

![Graph showing contribution to real GDP by expenditure](source: ONS)

(1) Economic reliance on household spending - little substantive change

In Q1 2014, household spending accounted for 61.2% of real GDP; in Q2 2015, it accounted for 61.6%. In the absence of robust wage growth, household spending still relies on low interest rates, both directly through low mortgage rates and indirectly through buoyant house prices, or what might be described as the ‘wealth effect’ that boosts confidence.

The UK economy is still just as reliant on household spending

A mortgage payment of £1,000 per month in 2007 supporting a £150,000 mortgage, now cost £650 per month

In 2007, the interest rate on a 75% loan-to-value two-year fixed mortgage was 6%, in July 2015 it was 1.87%. A mortgage payment of £1,000 per month in 2007, supporting a £150,000 mortgage, now costs £650 per month. For household spending, this low rate has two material impacts:

(1) Households that re-mortgaged recently have an additional £350 per month of disposable income. This supports consumer spending, retail sales and other forms of discretionary spending (e.g. big ticket items, leisure, tourism, etc).

(2) Households that decided to maintain a £1,000 per month mortgage payment can now afford a £230,000 mortgage, that is, a more expensive house. This supports the economy by supporting house price growth.

Any interest rate rise will impact on these figures immediately, not only through falling disposable income, but also through falling confidence as house price growth stalls and possibly reverses in fully priced market segments.

Given the reliance on low mortgage rates and house price growth to support the economy, an obvious pre-condition of any UK interest rate hike must be a sustained recovery in real wage growth. While it may be true that real wages have been rising since October 2014 and, most recently at a rate that is similar to pre-recession levels, nominal wage growth is still running at about half of pre-recession levels. Nominal wage growth from 2001 to 2008 averaged 4.3% y/y. Since the beginning of 2015, it has averaged 2.4% y/y and the June figure was 1.9% y/y.
Nominal wages are still running at about half the pre-recession level

The temptation to suggest that if inflation were at target (2%) there would be no real wage growth is an oversimplification. Inflation usually arises from underlying economic expansion and is driven in part by wages. Nevertheless, real wage growth over the last six months has occurred in tandem with falling commodity prices, that is, real wages are rising because of imported deflation, not because of the inherent strength in the employment market. Furthermore, falling commodity prices have been amplified in the UK by sterling appreciation (also interest rate sensitive).

The trajectory of real wage growth is uncertain. Expectations of a renewal of commodity price inflation by year end has given way to expectations of a sustained period of commodity price weakness that will continue to inflate wages artificially. Importation of deflation may be the reason why Carney suggested that ‘core inflation’ and ‘labour input costs’ (not wage growth) are better measures to judge economic performance. The latest ONS Labour Productivity Statistical Bulletin, Q1 2015 (01 July 2015) suggests, among other things, that it is too early to say whether recent wage growth (AWE) strength “... heralds an upturn in productivity growth” as productivity growth usually forms the basis for sustained wage growth.

(2) Exchange rates and export growth – rebalancing and exports still sensitive to sterling

Rebalancing the economy away from household spending to investment and trade is a priority of the government as detailed in HM Treasury’s recent Fixing the foundations: creating a more prosperous nation, (July 2015). Rebalancing is part of the plan to balance the public finances by increasing productivity, raising wages and ultimately generating greater tax revenues. So far, there has been little progress despite some successes in manufacturing, especially the automotive sector. Although, UK manufactured exports tend to be less price sensitive, exports look to have been impacted by sterling appreciation over the last two years with the Manufacturing Purchasing Manager Index falling from a high of 58.1 (suggesting very strong expansion) in November 2013 to 51.5 (marginal expansion) in August 2015.

Export growth is struggling against the weight of strengthening sterling

Over the course of the same period, sterling’s trade weighted index (broad) has appreciated by 12.2% over the same period to 93.1, though it is still down by 12% on its previous peak (105.2) in January 2007. Given growing expectations of a base rate hike, currency analysts suggest that sterling is headed back to the 95 to 105 range, where it was in the mid-2000s. Raising interest rates will undermine export growth led manufacturing. One analyst suggested that starting monetary policy normalisation would lead to further sterling appreciation, which in itself was likely to accomplish most of the tightening sought by the Bank of England (FT, 21 July 2015).

(3) Benign inflation and deflation risks – imported deflation still a risk, wage growth not yet entrenched

CPI inflation has been nil or thereabouts so far in 2015, including a short period of deflation. To raise interest rates, in what may prove to be a sustained deflationary environment, makes little sense, if the inflation target is 2%. It is argued that Carney and the MPC are looking beyond short-term commodity price aberrations. This betrays an expectation that by December, the anniversary of the oil price collapse, ‘base effects’ will increase the inflation rate. Likewise, food price base effects may also begin to be felt from September 2015 onwards. These views, though, are giving way to expectations that commodity prices may fall further and remain low for a few years. These expectations are probably one of the largest impacts of the recent Chinese turmoil, but are also grounded in oil politics.
Many large oil exporting economies are dependent on oil revenues

Commodity prices. Examining long-term trends reveals that a decade-long commodity super-cycle may have come to an end. Oil production capacity has responded to several years of very high prices and over-supply may now be a feature of the market for some considerable time.

Key long-term factors that may come into play when considering future oil prices include a growing dependence of oil producing countries on oil revenue to support public finances and an increase in new oil production technologies.

A few relevant oil facts:

- Oil exports account for 35% of OPEC GDP.
- The largest producer, Saudi Arabia (12 mbd), announced a bond issue to cover government expenditure. Given Saudi Arabia’s large cash reserves ($600bn+), this may betray an expectation that low oil prices may be with us for some time.
- Break even for shale projects is likely to fall below $50 per barrel. New technologies are expected to lower costs by 30% in the short-to-medium-term. Shale oil/gas producers are a permanent feature of the market.
- International normalisation of relations with Iran will add another two million barrels of oil production per day over the next two years. This does not include a large inventory to clear with immediate effect.

Given these and other demand-side uncertainties, such as China’s economic slowdown, the sustainability of the eurozone’s economic recovery and US’ economic performance, it is far from clear where the price of oil is likely to stabilise. This is evidenced by volatility in futures and options contracts as the EIA’s, Market Prices and Uncertainty Report, August 2015 reveals. Increasingly, it looks certain that oil prices are likely to remain flat for the next two years.

What is true of oil is also true of most commodity classes. Ignoring the short-term impacts of a large US harvest this year on agricultural commodity prices, the Bloomberg Commodity Index (BCOM:IND) shows the same secular trend across all commodity classes, with the index falling by 45% over a sustained period since a recent peak in April 2011.

A decade-long commodity super-cycle may have come to an end

The index is weighted energy (36%), metals (30%) and agriculture/livestock (34%). Coupled with further sterling appreciation, driven partly by improved economic performance and partly by strengthening expectations of a rate hike, the importation of further commodity deflation looks likely. The OBR’s Economic and fiscal outlook (July 2015, pp. 50-52) suggests that the 2% inflation target is unlikely to be reached until 2020, in part due to sterling appreciation continuing to ‘bear down’ on import costs, as well as the lagged effects of commodity price falls as utility firms buy forward contracts of up to two years in advance (p. 51).

(4) Government debt costs – deficit improving, but national debt still increasing

Since Colliers’ 2014 report, great progress has been made in reducing Government debt servicing levels from ominous levels that attracted unwanted attention of the IMF and international capital markets to a level that are considered sustainable. Interest payments to support the national debt peaked at just over £51bn per annum in November 2011 (12 month rolling average), which has since fallen to £45bn in July 2015. In comparison, the average...
from 2001 to 2007 was around £25bn per annum. In November 2011, annual interest payments on the national debt as a percentage of total government receipts reached a worrying 9.5%. This has since fallen to 7.5%. From 2001 to 2007, the average was 5.9%. The difference is around £9bn. For context, it might be observed that this is equal to the total Adult Social Care budget for people over the age of 65, which totalled £8.9bn in 2013/4 (HSCIC). Clearly, reducing the government debt load is crucial to the sustainability of government finance.

**UK debt servicing cost % of UK tax receipts**

In November 2011, annual interest payments on the national debt as a percentage of total government receipts reached an ominous 9.5%

This reduction in debt servicing costs has been achieved partly by taking measures to keep government borrowing rates low. Austerity was, in the very first instance, conceived to ensure the on-going support of international capital markets. With gilt yields still at around 2% the strategy has obviously worked. As gilt rates increase in a setting of increasing base rates, additional costs will accrue to outstanding debt. While the MPC is independent of the Government, the financial stability mandate provides an overarching framework for de facto policy harmonisation. Given the progress that has been made toward reducing the budget deficit, it is tempting to conclude that, until the national debt stops increasing and debt servicing costs begin to fall in line with long term averages, there will be pressure from the Treasury on the Bank of England to keep rates lower for longer. Carney’s comments have always shown a pre-disposition toward financial stability considerations.

(5) Timing of the next mid-cycle slowdown – impending period of modest cooling

Despite the relatively strong 0.7% q/q growth reported in Q2 2015, a mid-cycle slowdown may already be in the making in the UK. Typically, since the early 1990s, a mid-cycle slowdown occurs regularly. Measuring these cycles definitively is elusive, but troughs in economic growth appear regularly and, on average, are separated by around 12 quarters. By year-on-year measures, Q4 2014 looks increasingly like a peak with growth at a 3.4% y/y rate. The rate cooled to 2.9% y/y in Q1 2015 and the second estimate for Q2 2015 showed growth at 2.6% y/y. Furthermore, the latest composite PMI data in August (55.3) was the lowest in over two years and also suggests cooling.

**Mid-cycle slowdowns**

Given on-going austerity it is not hard to imagine a modest economic trough in mid- to late-2016

The OBR July forecasts for GDP shows growth in 2015 finishing the year at 2.4% and falling slightly in 2016 to 2.3% before a slight recovery to 2.4% in 2017. This appears to be in line with a modest slowdown and recovery. Given on-going austerity programmes and the current political cycle it is not hard to imagine a modest trough in mid-to-late-2016. It is hard to see the MPC raising interest rates in light of evidence of a slowdown. Unfortunately, save for the evidence of past cycle, there is little compelling evidence to guide the MPC in this respect. Again, to return to Mark Carney’s forward guidance, this is one more issue that will be much clearer at the end of 2015.
(6) Availability of alternate macro-prudential tools – housing stable, commercial debt leverage limited

Probably the biggest change that has occurred since Colliers’ 2014 review was the effective cooling of housing market bubbles. This was achieved with macro-prudential tools rather than interest rate policy. In 2014, the government sought to cool the housing market by redirecting the Funding for Lending Scheme away from supporting the residential mortgage market and toward supporting lending to small and medium sized enterprises (SMEs). Also in 2014, the Mortgage Market Review (MMR) changes came into effect. The greatest impact has been on lenders, making them fully responsible for assessing whether customers can afford loans and mortgages. The effect has been to limit income multiples used in assessing loan applications and has had a direct effect on affordability and ultimately house price growth. This has been especially apparent outside London and the South East.

House Prices and Mortgages

![House Prices and Mortgages](source: Bloomberg)

The point of the foregoing is that risks to financial stability posed by the UK housing and commercial property sectors have been reduced without resort to interest rate policy.

(7) The UK general election – increased political stability and greater continuity of policy

As noted in the Colliers’ 2014 report, an important part of the MPC remit is to assist in implementing government economic policy by creating an accommodating environment. The key MPC remit may be price stability, a fundamental pre-requisite for investment and economic growth, but returning public finances to a sustainable position by keeping interest rates low is equally important. In 2014, it was argued that it was hard to see how the MPC could act to derail Government policy during the run-up to an election. In 2015, it is now hard to see how the MPC could act to de-rail what now looks more like a ‘political mandate’ and a low interest rate environment is part of that mandate. In short, unless medium-term inflation expectations begin to rise substantially beyond the 2% target, it is hard to see how the MPC can justify any significant rate rises and run the risk of undermining the Government’s economic agenda, especially when the use of macro-prudential tools has proven so effective in moderating excesses within segments of the UK economy.

have effectively controlled house prices independent from official monetary policy, which previously had been seen as an important tool in maintaining financial stability of these markets.
Summary

Are the factors identified in 2014 as guiding interest rates still relevant? ‘Yes’ is the simple answer; perhaps ‘even more so’ might be a more rhetorical response. Since 2014, the compelling developments have included:

› A newly elected majority government has given greater authority to implement its economic policies which requires an accommodative monetary stance until the national debt level stops rising.
› Economic performance remains reliant on household spending; and economic rebalancing toward manufacturing and export remains linked to competitive international pricing and exchange rates. Higher interest rates would undermine both.
› Inflation has fallen to nil with further imported deflation likely due to falling commodity prices. Interest rate rises would increase deflationary pressures by reducing the costs of imports further.
› Coordination of the Financial Policy Committee, the Prudential Regulation Authority and the Monetary Policy Committee obviates the ‘crude’ use of interest rates to manage domestic asset bubbles and other market-specific threats to financial stability.

Given these considerations alone, it is very hard to see the rationale for any interest rate hike before the end of the year. It may be that the foregoing simply explains Mark Carney’s guidance that: “The decision as to when to start a process of adjustment will probably come into sharper relief around the turn of the year.” The evidence suggests that interest rate policy will be based on the level of economic growth, labour costs and core inflation.

Furthermore, it is also hard to see a UK rate hike before a US rate hike. While uncertainty in the US is linked to many of the same economic issues seen in the UK, there may also be financial stability issues at work. In addition to US comments suggesting that ‘normalising’ interest rates is an end in itself, ‘normalising’ may be a code word for calibrating rates so as to have ‘dry powder’ in preparation for the next financial crisis, mid-cycle slowdown or recession. The impact of such thinking on rate levels and the timing of the first rate hike in particular, is well-nigh impossible to estimate except to say that, on the margin, it could swing rates toward tightening earlier than the economic data might otherwise support. It has been suggested that the recent Chinese crisis provided a test of market resilience to a shock and may embolden the Fed to raise sooner. On balance, and in the wake of these recent events, it is hard to imagine an imminent rate hike, if only because a bad market result would require the Fed to explain its actions in the wake of on-going global instability and with the IMF clearly pushing for a delay.

Rate Rises and an Imminent Property Downturn? Think again!

Is commercial property as sensitive to interest rate increases as in the past? - ‘No’

Assessing the likely impact of rate hikes on commercial property is linked in the first instance, by convention, to the impact on property yields. Property yield levels are understood to be central to determining the attractiveness of property as an asset class when comparing them to yields on bonds and equities. In short, yields are fundamental to asset allocation decisions between the various investible classes and a substantial change in relative yields should result in a substantial change in allocations between asset classes. So the argument must be that an increase in government bond yields (also known as the risk free rate) should lead to an increase in property yields (a risk bearing rate), especially in a setting of low yielding and volatile equity markets.

This argument remains academic in that the trajectory of interest rates, according to market data, suggests that the low interest rate environment is set to continue even after the first rate hike in the US or UK, this year or next.

OIS Forward Rates Aug 2015

Source: BOE, ECB, US Treasury (1 Sep 15)

The forward curves suggest that the base rate in the eurozone will not reach 1% until 2020, the UK in 2017 and the US in 2016. Importantly, the consensus promoted by forward guidance from both the US OMC and the Bank of England MPC is that interest rates in this next cycle will peak at half the level of the previous cycle, that is, around 2.5%. These are markedly different conditions than at the peak of the last cycle in 2007 prior to the ‘credit crunch’ and ‘Great Recession’.

Interest rates are set to remain benign as market forward rates suggest
**The academic argument.** Despite property investment yields reaching virtual parity with 2007 levels at the end of 2014, base rates are 400 to 500 bps lower. So minimal or negative ‘yield gaps’ in 2007 – the difference between property yields and 10-year bond yields (the pricing benchmark for property) – have given way to very large gaps at the end of 2014 ranging from 300 to 500 bps.

It is tempting to conclude that these unprecedented differentials are sufficient to insulate property market yields from any immediate correction. In the UK, some analysts suggest that an increase in gilt yields of some 100 to 200 bps would be required to put pressure on property yields and, given the strong rental trajectory in the UK, it might take substantially more. The story, though, may be more complicated than this simple academic formulation.

If the data suggests that ‘it really is different this time’ and that the base rate trajectory is benign and that property yields are insulated by a historically large yield gap, it is also interesting to ask whether bond yields are as sensitive to base rate rises as in previous cycles and also whether commercial property has gone through a structural shift and reached a new lower yield benchmark.

**Will bond yields move in line with interest rates? - ‘Not likely’**

Given the low interest rate environment, the high-level of quantitative easing (QE) already in the US and UK systems as well as the active expansion of QE in the eurozone, a clean break from these extraordinary conditions seems unlikely for some time to come, even if interest rates begin to rise. Bond yields are still close to record lows internationally despite rising interest rate expectations, hence, to some extent interest rate rises may already be priced in.

Additionally, given the mass of global corporate cash holdings, the lack of expansionary business investment and a de facto global ‘savings glut,’ it is hard to predict how markets will respond to interest rate rises. Specifically, it is hard to say whether base rate rises and rising yields will cause a sustained exodus from bonds, let alone the much feared mass exodus leading to a liquidity crisis – the so-called $35 trillion exit – that Carney first warned about at Davos in January 2015.

**Ten-Year Bond Yields: 1995 to present**

![Graph showing ten-year bond yields from 1995 to present](image)

Source: BOE, ECB, US Federal Reserve (05/06 Aug 15)

**Bond yields have been falling for 30 years across developed markets**

Bond yields have been falling for 30 years across developed markets. While this long-term yield shift might be attributed to a declining secular shift in inflation expectations and sovereign risk due to the greater experience and credibility of central banks, a compelling story must be linked to ageing populations, the consequent higher savings rates and the resulting savings glut. Set in this context, while a modest rise in government bond rates in response to higher base rates might encourage an outflow of funds, this may well be balanced by new inflows from other existing pools of cash reserves that would welcome slightly higher yields. Hence some analysts suggest that while the bull bond market may be over,

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**Key Metrics 2014 vs 2007**

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<tr>
<th>INDICATOR</th>
<th>UK</th>
<th>EUROZONE*</th>
<th>US</th>
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<tbody>
<tr>
<td>Base rate (2007 peak)</td>
<td>5.74%</td>
<td>4.25%</td>
<td>5.26%</td>
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<tr>
<td>Base rate (latest)</td>
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<td>0.05%</td>
<td>0.13%</td>
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<td>10 year bond (2007)</td>
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<td>IPD initial yield (end 2014)</td>
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<td>4.9</td>
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<tr>
<td>Yield gap (2007 peak)</td>
<td>(-60bps)</td>
<td>+100bps</td>
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<tr>
<td>Yield gap (end 2014)</td>
<td>+300bps</td>
<td>+490bps</td>
<td>+270bps</td>
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Sources: BOE, ECB, US FED, RCA

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*10 year bund, IPD Germany
this does not imply that a bear market will follow. So, in short, there is no guarantee that bond rates will move substantially higher as might reasonably be expected when base rates begin to rise.

**Will property yields move in line with bond rates? ‘Probably not’**

Aside from the yield gap argument (above), it might also be argued that commercial property has undergone a similar secular shift, in part from forces arising from the global savings glut, lower inflation and lower return expectations, but also from a few other factors that may have permanently changed investor perceptions of risk in commercial property. Key among the factors must be included:

1. Increased transparency across commercial property markets as data sources improve and a growing historical data series permit a wider range of analytics.
2. Globalisation of the investor base has improved liquidity, especially on downward legs of pricing cycles. A widening range of investors, motives and investment timeframes creates a wider range of perceived opportunities at all points in the investment cycle.
3. Greater international institutional cross border property investment experience has led to greater cross border comfort, which in turn has led to increasing international fund weightings to property.

That these factors are impacting risk perception must explain, at least in part, that even in the absence of debt leverage, property yields have been driven down in line with the last peak in 2007. There is also academic evidence to suggest that, subject to high variability, the traditional risk premia to property may have undergone a slow but substantial secular change over most of the twentieth century falling from 3.84% (1921 to 1938) to 1.43% (1981 to 2002).

A highly caveated study in 2009 looked at IPD data and concluded that the implied risk premium in 2007 was 1.6% in a setting of strong rental growth expectations. There is one key takeaway from these arguments about improved market transparency and liquidity, and that is; that just as bond yields look less likely to respond to base rate rises, as they have in the past, so too do property yields look less likely to respond to an increase in bond yields.

**Will this cycle be determined by interest rates? - ‘On the margin’**

If the logic of the preceding sections is accepted, it is hard to conclude, save for some extreme manipulation of rates in the UK, US or Eurozone, that modest base rate rises will have any significant impact on property pricing. By way of summary, the logic is clear.

- If a base rate rise is to be based on economic data, then the pressure to raise interest rates in the US, UK and Eurozone is very limited.
- Nevertheless, the US Fed is very likely to raise rates in 2015 to achieve a ‘normalisation’ of rates (future financial stability concerns) and the UK may follow suit in early 2016.
- Given the extraordinary financial environment, long-term interest rates (10-year bonds) may not respond to base rate rises as in the past. Bonds will remain lower for longer.
- Furthermore, property yields also look as though they are less sensitive to interest rate policy because they may be less sensitive to bond yields.

Save for some new financial calamity arising from mishandling of financial stability tools or ‘asleep at the wheel’ regulation as we have seen in the memorable past, threats to property from capital market movements looks limited. This is perhaps a bold statement given that securities (equity, bonds, derivatives) as well as property markets are in the midst of the ‘financial hurricane’ season (mid-August to mid-October) when accumulated summer events have in the past conspired to bring about numerous large-scale crises.

**Political dimensions? – Has history has resumed? Hmmm**

The risk to what must be understood as a property bull run may actually lie outside of economics and finance altogether and placed with great certainty in the vagaries of politics – a theme best left until the contours of the Greek/Eurozone engagement, the UK referendum, the Spanish elections, Russian aspiration, US engagement with ISIS and, of course, oil politics all come into better focus by year’s end. Carney was right in his recent pronouncement for reasons that go beyond finance and economics. Perhaps, it is enough to say now, that political uncertainty is as great as it has been for some time and has led some observers to suggest that one consequence of the end of the Cold War and normalisation of relations is that history has resumed again after a long half century hiatus.

*The only reassurance that property professionals can take from this, is that history might be aptly defined as real estate in motion.*

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**Estimated Risk Premia 1921 to 2007**

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<tr>
<td>Risk premium</td>
<td>3.84%</td>
<td>3.69%</td>
<td>3.12%</td>
<td>1.43%</td>
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Sources:
502 offices in 67 countries on 6 continents

United States: 140
Canada: 31
Latin America: 24
Asia Pacific: 199
EMEA: 108

$1.7 billion in annual revenue

1.58 million square feet under management

16,300 professionals and staff

About Colliers International

Colliers International is a global leader in commercial real estate services, with more than 16,300 professionals operating out of 502 offices in 67 countries. A subsidiary of FirstService Corporation, Colliers International delivers a full range of services to real estate occupiers, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. Colliers International has been recognized and ranked by the International Association of Outsourcing Professionals’ Global Outsourcing 100 for 10 consecutive years, more than any other real estate services firm.

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