UNITED KINGDOM

PROPERTY SNAPSHOT

JULY 2019

ECONOMY

GDP expanded 0.3% m/m in May, having fallen by 0.4% m/m in April. Much of the increase in GDP can be attributed to a rebound in industrial output, which in turn was linked to a recovery in car production, following factory shutdowns in April. Service sector growth has slowed since the middle of last year and, in fact, stagnated in May. Latest PMI results point to a contraction in economic activity in June, with the headline figure signalling the second-steepest drop in output since the global financial crisis. Moreover, the PMI is in a territory that is usually associated with looser monetary policy. The market-implied probability of the MPC cutting rates by the end of January 2020 stood at 54% as of early July. However, positive retail sales figures suggest that the UK economy may have avoided a contraction in Q2. CPI inflation held steady at 2.0% in June, while RPI inflation edged down slightly from 3.0% in May to 2.9%. UK 10 year gilts fell to 0.82% down from 1.25% at the beginning of the year as expectations of weaker economic performance impact.

COLLIERS VIEW: Unchanged: Economic and political uncertainty persists and GDP growth is likely to slow further in 2019. A change in the Bank rate is not expected this year.

INVESTMENT

Transaction activity remained subdued in June, only just breaking through the £2bn mark. Preliminary data shows that investment volumes were £2.2bn, up by 28% from May's disappointing £1.7bn, but well below the 2018 monthly average of £4.9bn. During the first half of 2019, total activity was £18.2bn, which is almost 40% below the same period in 2018 and the weakest H1 since 2012. In the absence of any large-scale London deals, Gulf Islamic Investments' purchase of an office building leased to the UK government on a long-term unbreakable lease in Birmingham's Priority Court for £149m was the largest transaction of the month. Edinburgh recorded the fifth and sixth largest deals in June and attracted a total of £186m during June, led by the sale of the Leonardo Innovation Hub for £100m at 5.91% IY. The office and alternative segments were the most sought after, while the leisure segment struggled to attract capital. Overseas cash accounted for over half of all investment. Despite the May/June weakness, data available for July so far look more promising. At the time of report writing, transaction volumes already stood at £2.7bn.

Retail: Despite rising slightly from May's £242m to £268m in June, retail investment volumes remained subdued by historical standards, further highlighting a lack of appetite for the sector. During H1 2019, retail investment volumes amounted to £2.3bn, down further from an already weak £3.3bn in H2 2018 and well below the five-year half yearly average of £4.4bn. Palmer Capital Partners' £53m purchase of a B&Q portfolio at 6.6% IY was June's largest retail deal. Elsewhere, Cheshire East Council bought a retail warehouse with associated builders merchant and garden centre in Crewe for £21m at 7% IY, currently let to B&Q. A private investor acquired the St Elli shopping centre in Llanelli for £18m at 6.8% IY.

RETAIL TRANSACTIONS	VALUE	DEALS	JUNE SELECTED YIELDS
Unit Shops	£59m	17	4.9% Sheffield
Retail Warehouses	£88m	4	7.0% Crewe
Shopping Centres	£5	1	9.51% Skipton
Supermarkets	£29m	3	6.8% Llanelli

Source: Colliers International, Property Data Ltd.

Offices: Only one of June's three largest office deals took place in London, with investment volumes in the capital amounting to just £671m. This compares to a monthly average of £1.3bn in 2018. June's largest deal was recorded in Birmingham as detailed above. London's largest transaction was Beijing-based Cindat Capital Management purchase of 30 South Colonnade in E14 for £135m. The building is currently occupied by Thomson Reuters. Overseas capital accounted for around 70% of all office investment in June.

OFFICE TRANSACTIONS	VALUE	DEALS	JUNE SELECTED YIELDS
London	£671m	21	4.3% W1, 4.9% SE1
Regional	£410m	17	5.9% Edinburgh, 5.38% Glasgow

Source: Colliers International, Property Data Ltd.

Industrial: The industrial sector attracted £440m in June, up slightly from May's £306, but well below the 2018 monthly average of £723m. M7 Real Estate bought a portfolio consisting of 32 properties, predominantly located in the West Midlands, for £100m at 6.7% IY in the month's largest transaction. The portfolio is currently let to 45 tenants, including Jewson and SIG. Big Yellow Group were also active, purchasing land in Harrow for a 78,000 sq ft self-storage centre and a 110,000 sq ft warehouse for a combined £20m. Initial yields ranged from 4.71% for an industrial warehouse in Birmingham to 8% for Priory Tec Park in Hessle by the Humber Bridge.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	JUNE SELECTED YIELDS
Distribution	£114m	19	4.7% Birmingham
Multi-let parks	£296m	24	7% Beverley

Source: Colliers International, Property Data Ltd.

Alternatives/ Other: The largest deals outside the traditional retail, office and industrial sectors all occurred in the PRS segment. In a JV, Henderson Park and Greystar bought the former Royal Mail depot in Nine Elms for an 894-home scheme for £101m and Legal & General has agreed to forward fund a 338-unit development site at Edinburgh's Leith Docks, with an end value expected in excess of £80m. The largest hotel deal was London Pension Fund's acquisition of a 130-bed Travelodge for £130m at 4.38% IY. Practical completion of the project is expected in Q3 2020.

ALTERNATIVES/ OTHER	VALUE	DEALS	JUNE SELECTED YIELDS
Hotel	£69m	11	4.38% St Albans
Medical	£38m	9	6.6% Carlisle/ 7.2% York
Residential	£242m	12	n/a

Source: Colliers International, Property Data Ltd.

COLLIERS VIEW: Unchanged. Political uncertainty is acting as a break on activity, including long income deals. If Brexit uncertainty is lifted, H2 19 should see a pick-up as confidence returns.

KEY INDICATORS

	LATEST[1]	END JUNE	END MAY
UK GDP (3m/3m)	0.3% 3m/3m (May)	0.3% 3m/3m (May)	0.4% 3m/3m (Apr)
UK PMI (composite)	49.2 (Jun)	49.2	50.7
EURO PMI (composite)	52.2 (Jun)	52.2	51.8
UK CPI (%)	2.0 (Jun)	2.0	2.0
UK RPI (%)	2.9 (Jun)	2.9	3.0
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	0.86	0.95	0.98
GBP 3M LIBOR (% eop)	0.78	0.77	0.80
STERLING EFFECTIVE (BoE)	76.4	77.0	77.4
GOLD (USD eop)	1408	1404	1306
OIL BRENT (USD eop)	66.8	66.6	64.5
FTSE 100 (eop)	7510	7426	7162
IPD All property IY	↑ 4.60 (Q1 19)	↑ 4.60 (Q1 19)	4.57 (Q4 18)
IPD All property EY	↑ 5.49 (Q1 19)	↑ 5.49 (Q1 19)	5.45 (Q4 18)

[1] July 12th (data and revisions)
Sources: FT, BoE, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

Retail sales were off to an unusually strong start to the year and have returned to strength, after a a soft patch in April. Sales volumes grew 3.7% y/y in June, up from 2.2% y/y in May and better than most economists had expected. Consumer confidence dipped in June, as Britons grew pessimistic about their personal financial situation, according to GfK. The headline index fell from May's -10 to -13 and is at one of the lowest levels seen over the past six years. Nonetheless, wage growth is still outpacing inflation and should therefore continue to boost household spending. However, occupier conditions remain difficult, as retailer's profit margins continue to be pressured by an intensely competitive pricing environment. Structural change and ongoing Brexit and economic uncertainties continue to challenge the sector. The Centre for Retail Research puts the number of retail companies failing so far this year at 27, with 932 stores affected. Colliers forecasts all retail rents to fall 6.1% y/y in 2019, with a particularly steep declines at shopping centres (-10% y/y) and retail warehouses (-7% y/y). Standard shops in Central London will hold up somewhat better (-2% y/y).

COLLIERS VIEW: Unchanged. Sales growth will slow in the coming months as transient market supports falter. High street shops remain pressured and rents will decline further

OFFICES

Central London: Take-up has edged back above the 10-year average in Q2, with pre-letting activity reaching a four-quarter high. While activity in the City accelerated following a disappointing Q1, West End take-up volumes dropped to a two-and-a-half-year low. Across London, generally stable take-up figures and sluggish delivery of new stock mean that vacancy rates are now below 5% and it is likely that some segments of the markets will see rental uplifts in H2 2019. The only rental movements occurring at the moment, are moderations in incentive packages.

Regional CBDs: Rental growth was maintained across the regions in May, according to the monthly MSCI index. The strongest rate of growth was recorded in the East of England, where rents increased by 4.8% y/y, followed by Outer South East (4.3% y/y) and South West (3.1% y/y). Insufficient supply and sustained demand for Grade A offices continue to exert upward pressure on rents across the regional CBDs.

COLLIERS VIEW: Unchanged. The regional CBDs are likely to see further rental growth while Central London rents will remain relatively stable.

INDUSTRIAL

Industrial output rebounded in May, following a disappointing April, during which the shutdown of car factories resulted in a steep fall in car production. However, the UK Manufacturing PMI fell from May's 49.4 to 48.0 in June, the lowest level in over six years and highlighting a deepening downturn in the sector. One of the reasons behind the disappointing performance was the unwinding of earlier pre-Brexit stockpiling activity. The forward looking indicators do not offer much relief either, as business optimism dipped and demand weakened. Nonetheless, take-up of industrial and logistics in H1 2019 held up well for units over 100,000 sq ft at around 12.5m sq ft. Colliers expects that annual take-up will top the 10-year average of 25m sq ft. All industrial rents are predicted to increase 3.0% y/y in 2019, led by standard industrial London (4.5% y/y), and followed by Rest of South East (4.0% y/y).

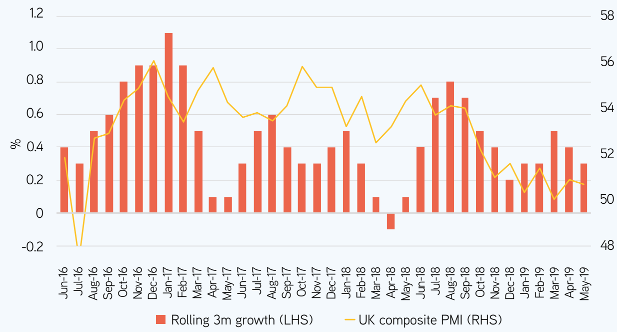
COLLIERS VIEW: Further rental growth in 2019 is likely, given steady demand, but not to the same extent seen in 2018. Rents in some locations may be approaching a ceiling.

RESIDENTIAL

House price growth remained subdued in June, with the Nationwide index pointing to a meagre 0.5% annual rise, in line with the average so far in 2019. For comparison, the corresponding figures for 2017 and 2018 were 2.9% and 2.1%, respectively. Back in 2016, the figure was 4.9%, clearly highlighting that house price growth has cooled over the past few years. Mortgage approval numbers remained steady, with Bank of England figures showing that the number of mortgages approved stood at 65,409 in May, only slightly below the five-year average of 66,138. The June RICS UK Residential Market Survey signals a stable strengthening trend emerging, with very modest rises in buyer demand and expectations for both sales volumes and prices. The two-year fixed (75% LTV) mortgage stands at 1.65%, down from 1.74% a year ago.

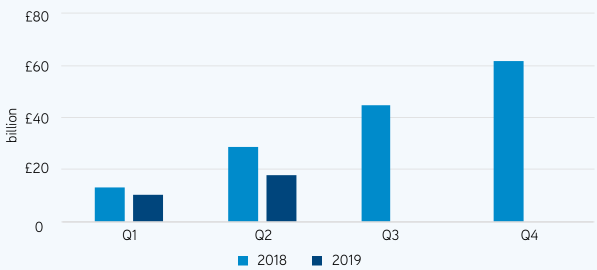
COLLIERS VIEW: Unchanged. House price growth is likely to remain muted in 2019, especially given ongoing Brexit uncertainty. Mortgage rates remain supportive.

CHART 1: UK GDP GROWTH AND PMI DATA COMPARED



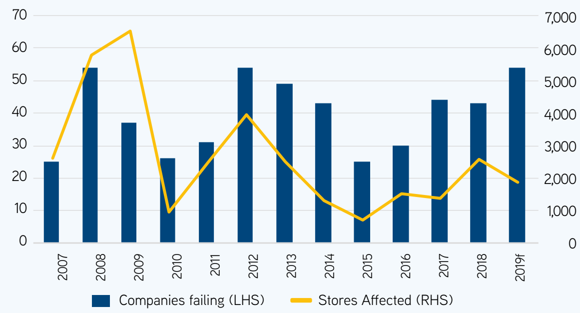
Source: ONS, IHS Markit

CHART 2: INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)



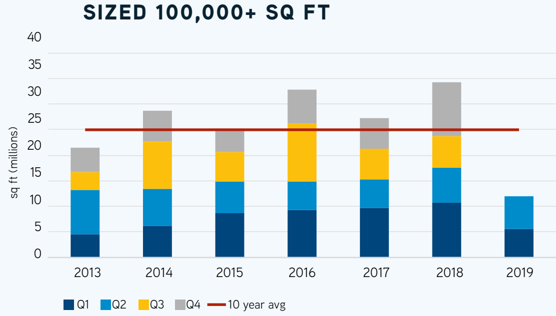
Source: Property Data Ltd., Colliers International, July 2019

CHART 3: RETAIL FAILURES



Source: Centre for Retail Research. 2019 figures are estimated, using simple extrapolation

CHART 4: QUARTERLY INDUSTRIAL TAKE-UP, UNITS SIZED 100,000+ SQ FT



Source: : Colliers International

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