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Annual all-property returns are expected to turn negative this year for the first time since 2008 as rental performance and pricing concerns in the retail sector are driving increases in yields. Colliers expects negative total returns of -2.6% in 2019, worse than the -1.2% we predicted in the Q2 REIF. However, we predict a return to positive growth thereafter. Negative capital growth of -7.0% contrasts with sustained positive income returns of 4.7% (0.3% residual). However, we expect the market to bottom out this year and over the five-year horizon until 2023, we predict all-property annual average returns of 4.1%.

The retail sector will take the hardest hit in 2019 and we anticipate total returns to fall from negative 0.5% in 2018 to negative 13.0% in 2019. Positive income returns contrast with negative capital growth, with values expected to decline by 17.7%. This is considerably stronger than the 5.3% drop in capital values in 2018. Shopping Centres and Retail Warehouses will perform particularly poorly, with negative total returns of 22.6% and 18.0% respectively. Supermarkets are holding up better with predicted total returns growth of 4.7% (-0.6% capital growth and 5.3% income). Brexit uncertainty, the rise of e-commerce, business rates and the National Living Wage are all negatively impacting the sector. We expect a substantial softening of yields across all retail segments, with the exception of supermarkets, where yields are predicted to drift out only slightly over the next few years.

Despite remaining the standout performer, we believe that the double-digit growth in the industrial sector we’ve seen over the past few years will come to an end in 2019, with total returns forecast to increase by a more modest 5.9%, comprising 1.5% capital growth and 4.4% income returns. Over the five-year forecast horizon, Colliers predicts annual growth of all-industrial total returns to average 6.6%, as demand for ‘last mile’ delivery units, larger distribution centres, increasing interest from retailers and the right asset in the right location will continue to drive growth. Equivalent yields will move out only slightly, with some parts of the market, such as London standard industrial seeing very little yield movement.

Offices will also record positive total returns growth of 1.7% in 2019, comprising -2.3% capital growth and 4.0% income return, down from 6.2% in 2018. Rest of London and West End will see the strongest returns (2.8% in both cases) while Midtown will experience negative returns of -1.2% in 2019, before returning to positive growth in 2020. Equivalent yields in City of London will see very little if any yield movement this year as demand for trophy and other prime assets remains strong, while supply remains limited. Over the five-year period until 2023, all office total returns will grow at 5.0% per annum.

**ALL PROPERTY FORECASTS**

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<tr>
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<th>DEC-21</th>
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<tr>
<td>Capital Growth (% p.a.)</td>
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</table>

Source: Colliers International, MSCI
TOTAL RETURN BY SECTOR

- Retail
- Office
- Industrial
- All Property

Source: Colliers International, MSCI / IPD

ERV GROWTH 2019 - 2023 %pa

Source: Colliers International

TOTAL RETURN 2019 - 2023 %pa

Source: Colliers International
ECONOMIC OUTLOOK

The all-sector PMI fell below the 50.0 no-change mark for the second time in the past three months in August. The survey data is consistent with a marginal decline in GDP in Q3, but we believe that the weakness in the survey data will not translate into an actual contraction in the economy, at least for now. Instead, the economy is holding up reasonably well. Monthly GDP data for July suggests that a technical recession will be avoided this year, despite the economy shrinking by 0.2% q/q in Q2 2019. A large part of the contraction can be attributed to the shutdown of car factories and inventories, which had contributed positively to GDP growth at the start of the year when companies were stockpiling goods in anticipation of the original Brexit deadline. Both of these effects seem to have reversed in Q3. Moreover, household spending is holding up, rising 0.5% q/q in Q2 (0.6% q/q in Q1) thanks to a healthy labour market and sustained real wage growth. At 3.8%, unemployment is at a 45-year low and average earnings grew by 4.0% y/y in the three months to July. This is the strongest rate of wage growth in more than 10 years. Overall, the labour market still looks set to continue supporting consumer spending. The Monetary Policy Committee (MPC) forecasts GDP growth of 0.2% q/q in Q3.

Annual CPI dropped below the Bank of England’s 2.0% target in August and, at 1.7%, recorded its lowest level since December 2016. RPI inflation came in at 2.8%, down from 3.2% a year ago.

The Bank of England kept interest rates on hold 0.75% at its September meeting, with QE and corporate bond purchases unchanged at GBP435bn and GBP10bn respectively. However, the MPC sounded more dovish than previously, as underlying growth has slowed and global trade tensions intensified. The future of the economy and monetary policy heavily depends on Brexit, and the Bank stated that in the event of no-deal, the monetary policy response would not be automatic and could be in either direction. In order to smooth the Brexit transition, monetary policy must be accompanied by fiscal stimulus.

The Bank of England predicts GDP growth of 1.3% for both 2019 and 2020 before accelerating to 2.3% in 2021, while Capital Economics forecast growth of 1.3%, 1.5% and 2.0% respectively. Of course, much will depend on Brexit and these forecasts could move significantly in either direction. Overall, the UK economy is holding up relatively well in a period of intense uncertainty, but the growth trajectory has clearly weakened and will remain below potential in the short term.
INVESTMENT MARKET

Investment volume data suggests a subdued start to the year, followed by a very weak May and June. The UK commercial property market attracted £19.9bn over H1 2019, down by almost a third from the £28.9bn recorded in H1 2018 and the weakest H1 figure since 2012. However, there are some signs of a mild rebound in Q3. Transaction activity in July and August amounted to over £8bn, according to preliminary figures and there is a high possibility that Q3 will be the strongest quarter in 2019 so far. Over 2019 as a year, investment volumes will be down on 2017 and 2018 levels, both of which saw more than £60bn invested. Based on historical trends and activity seen so far this year, we believe that volumes will fall in the £40-£45bn range by year end. In the first eight months of the year, the alternatives/mixed use sector attracted 45% of all investment, followed by offices (34%), industrial (11%) and retail (10%).

There has been significant interest in the alternative sector in July and August, with seven out of the top ten deals in those two months recorded outside the traditional office, industrial and retail sectors. The student housing sector saw a surge in transaction activity, with £2.3bn invested in Q3 so far. In this year’s largest deal so far, Unite Group bought the Liberty Living Portfolio for £1.4bn at 5.3% IY, comprising over 20,000 student beds across 43 assets located in 16 UK cities. Elsewhere, DWS acquired the eight-asset Vita Student Portfolio, comprising 3,198 beds across six major UK cities and Unite UK Student Acc Fund purchased Cardiff’s Liberty Living portfolio, made up of 3,480 beds across eight assets for £253m.

There was also big interest in the PRS and assisted living sectors over the past few months. Schroder REIM and Octopus have founded a JV to develop more than 500 units across four retirement villages for £400m. Audley will be responsible for the operational delivery of the villages and long-term ownership. Riverstone Living were also active and acquired a 190-unit scheme under which retirement homes will be developed across two buildings at London’s Royal Warwick Square. The agreed price for the deal was £300m. In the largest deal in the medical sector so far this year, Medical Properties Trust acquired eight private hospitals for £347m at an undisclosed yield in July. The eight hospitals are currently let to Ramsay Health Care.

US and Middle Eastern investors have so far this year continued to invest at healthy rates. In the first eight months of the year, US capital amounted to £4.7bn (£4.3bn in 2018) while Middle Eastern capital amounted to £2.0bn (£2.7bn in 2018). However, Far Eastern and European investors have been more cautious, with £2.5bn (£10.8bn in 2018) and £2.2bn (£6.0bn in 2018) invested in 2019 so far.

Given this weaker investment demand profile, all property equivalent yields have started to move out during the first half of 2019, rising modestly from 5.45% at the end of 2018 to 5.50% in Q2 2019. Nonetheless, this is only 3bps higher than a year ago. Retail is in fact the only segment in which yields are now higher than a year ago (+28bps). All industrial yields are 14bps lower than a year ago, while all office yields are 7bps below Q2 2018 levels. We anticipate large yield shifts in the retail sector by the end of the year, especially for Retail Warehouses and Shopping Centres. The repricing and repurposing of assets will be the dominant theme across retail capital markets, and for the foreseeable future is set to produce some buying opportunities.
£28.5 bn

Source: Property Data
RETAIL

STANDARD SHOPS

Structural changes, a rising cost base and subdued consumer confidence continue to negatively impact on the retail sector. However, there are also opportunities going forward. Colliers’ Midsummer Retail Report 2019 highlights that the ‘Golden Age’ of online retailing is coming to an end and that online retailers will be increasingly compelled to engage with physical shopping environments to stay competitive. Moreover, environmental concerns over the impact of online shopping delivery may eventually lead to the introduction of a ‘suburban congestion charge’.

Unit shops investment volumes stood at £1.6bn in the first eight months of 2019, down only slightly from the £1.8bn transacted over the same period in 2018. London accounted for around a quarter of the investment, down from a third in 2018. Nonetheless, three of the five largest unit shops deals this year so far were located in the capital, the other two being portfolios. Most of the activity took place in the first half of the year, led by Ashby Capital’s purchase of Kensington Arcade for £200m and the acquisition of 172 New Bond Street for £74m at 1.58% IY by a Chinese investor. July and August saw only very limited activity. Despite the weakness over the past few months, there is a substantial and growing group of investors who are currently sitting quietly on the sidelines eyeing healthy retail assets that are starting to look cheap.

Despite declining by 0.2% m/m in August, retail sales performed surprisingly well so far in 2019. The Office for National Statistics reported a 0.6% 3m/3m increase in sales volumes in August, little-changed from the 0.5% 3m/3m recorded in July. Although this is lower than the strong 1.7% 3m/3m rates we have seen between March and May, the August increase marks 16 months of continuous growth in retail sales on the 3m/3m measure. Some of the weakness can be explained by slight declines in household goods (-0.2% 3m/3m) and clothing sales (-0.9% 3m/3m), with the latter attributed to smaller discounts in summer clothing. The consumer outlook heavily depends on Brexit, but market fundamentals are still favourable, with unemployment at a 45-year low, wage growth at an 11-year high and borrowing costs remaining low. However, consumer sentiment has wakened recently which raises concerns that the consumer sector may soon succumb to the Brexit malaise.

Rents are falling across the board, with the exception of Central London, where marginal growth of 0.2% y/y was maintained in Q2 2019. Standard shops in “Rest of UK” (-1.5% q/q) and “Rest of South East” (-1.0% q/q) recorded particularly steep declines in rents, according to the latest MSCI quarterly index. Rents are predicted to decline across all segments in 2019, with Rest of UK predicted to see the steepest drop (-10.0%), followed by Rest of South East (-7.8%). Although Central London will hold up somewhat better, it is almost certain that rents will fall here too. The decline is forecast to be of a much smaller magnitude though (-1.5%). With consumer confidence remaining

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<th>RETAIL FORECAST SUMMARY</th>
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<tr>
<td>ERV Growth (% p.a.)</td>
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<td>Equivalent Yield (% eop)</td>
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<td>Total Return (% p.a.)</td>
<td>-13.0</td>
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<tr>
<td>2019 - 2023</td>
<td>-0.4</td>
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Source: Colliers International, MSCI
muted, landlords becoming more flexible on rents, and continued Brexit uncertainty, the occupier outlook for 2019 remains very cautious and it is generally believed that the market will continue to become more challenging. According to the Centre for Retail Research, 31 retailers have gone bust in 2019 so far, affecting around 1,200 stores. More CVAs are expected in the remainder of 2019 which is likely to negatively impact rental growth.

SHOPPING CENTRES

Shopping centre investment slowed from £893 in the first eight months of 2018 to £407m over the same period this year – a decline of over 50%. The number of deals fell from 28 to 18. Councils accounted for five of those deals. Cale Street Partners’ acquisition of a 50% stake in intu Derby makes up almost half of all shopping centre investment over this period. The 50% interest was bought for £186.3m at 6.6% IY and the asset is located in the centre of Derby with an annual footfall of 22 million. It’s tenants include key retailers such as M&S, Debenhams, H&M and Sainsbury’s.

Elsewhere, Franklin Templeton purchased Edinburgh’s Cameron Toll Shopping Centre for £38m at 8% IY, Medway Borough Council bought the Pentagon Centre in Chatham for £34.875m at 9% IY and LaSalle acquired The Galleries in Bristol for £32m, also at 9% IY. Overseas capital made up around 60% of all shopping centre investment between January and August 2019. UK institutions were more cautious, investing only £32m. This is down from £223m over the same period in 2018. The private equity buying spree that took place in the shopping centre market five years ago is rapidly unwinding and we expect these assets to be effectively dumped back into the market. This will create a short-term glut of product possibly distorting the pricing profile.

Shopping centres are currently seeing the steepest decline in rents since the aftermath of the global financial crisis. Rents were down by 1.2% q/q and 1.4% q/q in Q1 and Q2 2019, respectively, according to MSCI, and there is little hope that this trend will reverse in the near future. Capital value growth is firmly in negative territory, falling some 9.5% y/y in 2018 and Colliers expects negative capital growth of -27.1% in 2019. Changing consumer behaviour, rising cost pressures and increased online sales will continue to change the retail landscape. In its annual report, shopping centre landlord intu reported a £1.4bn (equal to 13.3%) write down on the value of its properties in 2018.

Shopping centre rents will continue to fall over the next few years, and Colliers predicts the rate of decline to accelerate from -2.6% in 2018 to -15.0%, before slowing to -12.0% in 2020 and to -5.0% in 2020. The average annualised rate until 2023 is negative at -6.6% pa. Equivalent yields are predicted to soften by 128bps this year as a general repricing accelerates.
RETAIL

RETAIL WAREHOUSES

This sector has not been immune to the wider retail malaise, highlighted by a weakening in investment volumes so far in 2019. Between January and August, the segment attracted £695m, a 57% drop from the same period in 2018 (£1.6bn), with the number of transactions falling from 79 to 61. A JV between NewRiver REIT and PIMCO purchased a retail warehouse portfolio, comprising four assets across Scotland and the Isle of Wight for a combined £60.5m at 9.8% IY and Palmer Capital Partners purchased a £53m B&Q portfolio at 6.6% IY. Elsewhere, Cheshire East Council bought a retail warehouse with associated builders merchant (B&Q) and garden centre in Crewe for £21m at 7% IY. With convenience being one of the main points of competition for online retailers and internet services such as ‘next day delivery’, there will likely be greater demand for smaller urban warehouses which are an integral part of the ‘last mile’ delivery process.

Yields for warehouses were generally in the 6%-10% range, although some double-digit deals for smaller schemes were also recorded, such as Corum Asset Management’s April acquisition of a £12.25m asset in East Kilbride at 10.49% and Harry Corry Pension Fund’s purchase of Clandeboye Retail Park in Northern Ireland for £8.68m at 13.5% IY.

Retail warehouses, in line with the trend in the wider retail sector, will see rents decline over the next few years. Colliers expects negative rental growth of -9.0% and -8.0% in 2019 and 2020, respectively, before easing slightly. Capital growth will remain negative until 2021, after which a slight recovery is expected.

SUPERMARKETS

Supermarkets somewhat bucked the wider retail sector malaise, as investment demand remains stable. Investment volumes reached £858 between January and August, already surpassing the total 2018 figure (£833m) and on course for its strongest performance since 2014. The figure was boosted by Realty Income Corporation’s purchase of a 12-asset Sainsbury’s Superstore portfolio for £429m at 5% IY, which represents the largest supermarket transaction since early-2013 when Trinity College Cambridge bought a 50% stake in seven regional Tesco stores for £493m at 4.9% IY. Other notable transactions include Supermarket Income REIT’s purchase of a Sainsbury’s in Preston for £54m at 5.1% IY and BlackRock’s acquisition of a Morrisons in Reading for £46m at 4% IY. Councils remain active too and have invested close to £200m so far this year. Yields are generally stable and in the 4% to 6% range, although Altrum Capital bought a Tesco Extra in Irlam (North West) for £41m at 7.8% IY.

The past 12 months has seen much stronger performance in the UK grocery sector from the traditional ‘Big Four’ through to the discounters who are now an established part of the supermarket scene. The discount operators, Aldi and Lidl, have outperformed the market and have been the most active grocery retailers in the last 12 months. Their aggressive expansion plans continue with Aldi taking a further 70 new stores and Lidl opening a further 50 during the past year. From existing estates of 815 stores and 700 stores respectively, the companies are both planning to have around 1,000 stores by 2022. One trend worth highlighting is that there is continued interest from some of the supermarket operators to buy back over-rented, over-performing stores. There has been an increasing number of these transactions this year.

Supermarket rents are forecast to remain under pressure in 2019, having already suffered a decline of -1.7% in 2018. By year end, rents will have fallen by 2.0% and over the 2019-2023 period, Colliers expects rental growth to average -0.3% pa. Negative rental growth will be front loaded over the forecast horizon though, as rents are expected to stabilise in 2021. Yields will move out slightly to 4.90% in 2020, and capital growth will turn negative this year (-0.6%). Total supermarket returns will reach 5.0% per annum rate through 2022, modest by historical standards, but easily outperforming any other retail segment.
**RETAIL INSOLVENCIES**

![Graph showing the number of employees and stores affected by retail insolvencies from 2007 to 2019.](source: Colliers International, Centre for Retail Research)

**HIGH STREET VACANCY RATES (NATIONAL VS LONDON)**

![Graph showing the vacancy rates for both national and London high streets from 2009 to 2019.](source: Colliers International)

**UK RETAIL SALES, 3M/3M CHANGE**

![Graph showing the monthly change in UK retail sales from 2014 to 2019.](source: ONS)

**AVERAGE RETAIL RENTAL GROWTH (2019-23)**

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<th>Category</th>
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<td>Retail Warehouses</td>
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<td>Standard Retail (Rest of UK)</td>
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</tr>
<tr>
<td>Shopping Centres</td>
<td>-6.6%</td>
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*Source: Colliers International, MSCI/IPD*
OFFICES

CENTRAL LONDON

Stock shortages, economic and political turbulence and investor caution are all combining to hold down investment volumes. This is a theme that is prevalent across all London markets. Investment volumes in the first eight months of the year stood at £6.1bn, down by over a third from a strong £9.6bn over the same period in 2018. The number of deals fell from 111 to 90 with those valued at £100m or more down from 21 to 14. It looks very likely that the annual figure will fail to match the 10-year average of £12.5bn. By far the largest transaction this year so far and the only £1bn+ deal was Citigroup’s purchase of Canada Square for £1.1bn at 4.23% IY in April. Citigroup leases the whole tower and sublets most parts of it to other tenants. Elsewhere, Lazari Investments bought 23 Savile Road for £280m at 4% IY in W1 and a JV between Stamford Land Corporation and Ow Global acquired 8 Finsbury Circus in EC2 for £260m, also at 4% IY. Both transactions took place in July.

Overseas money continued to make up the large majority of capital, despite the share of all investment volumes falling slightly from 73% in the first eight months of 2018 to 68% in 2019. However, there has been a significant withdrawal of Asia-Pacific capital, which only accounted for 9% of all Central London office investment between January and August, down from almost 50% in 2018. We expect investment volumes to improve in H2 2019, with Asia-Pacific money beginning to revisit the London market again, as cheap sterling (amid Brexit) and political uncertainties in their home markets present the perfect opportunity for these investors to return to the market.

Pricing is generally still ‘full’ on some assets, bolstered by supply shortages and the need for funds to place money from swelled cash reserves. Equivalent yields have barely moved over the past year, according to the quarterly MSCI index and we expect only a moderate softening by the end of 2019.

London offices take-up edged back up above the 10-year average in Q2 2019, but the seesawing of activity between City and West End markets continued. City transaction levels rose above average after a poor Q1, but West End volumes fell to a 30-month low. Regardless, across London, pre-letting activity rose to a 12-month high, boosted by EBRD’s (European Bank of Reconstruction & Development) decision to pre-lease 365,000 sq ft of space at 5 Bank Street.

While anecdotal evidence suggests that the time is ripe for rental uplift, the only firm evidence of pricing movement comes from a moderating of incentive packages. There is still appetite in the Central London office market and any Brexit bounce could support the sector, but a combination of cyclical and Brexit related effects will push Central London rents marginally into negative territory in 2019 (-0.2%). Positive Central London office rental growth is then forecast to return in 2020 and to average 1.4% pa over the forecast horizon.

SOUTH EASTERN OFFICES

Investment volumes in the South East office sector slowed from £1.2bn between January and August 2018 to £0.8bn during the same period in 2019. For the full year, we expect volumes to remain below the 10-year annual average of £1.5bn. Occupiers continued to account for around half of all activity, with particularly strong interest from councils. Overseas capital only made up a minor share (13% in Jan-Aug 2019, 10% in Jan-Aug 2018). The largest deal of the year so far was Portsmouth City Council’s purchase of a 594,000 sq ft business campus at Lakeside North in Portsmouth for £138m at an undisclosed yield. The campus has an occupancy rate of 97% and more than 80 occupiers, including IBM and Regus. The next largest deals were Kennedy Wilson Europe’s acquisition of a 198,000 sq business park at Slough’s Ditton Park for £41.3m at an undisclosed yield and St James’s Place PF’s purchase of 65,000 sq ft of Grade A accommodation at Brighton’s Brinell Building for £39m at 4.75% IY. The development is fully pre-let to three tenants, Unity Technologies, Diversified and Dehns.

The tech & media sector surpassed manufacturing this quarter as the most active occupiers across the South East accounting for 26% and 21% of total take-up respectively. However, Q2 2019 take-up levels (662,198 sq ft) were more subdued than Q1 levels. Leasing activity was significantly below the 5-year
**OFFICE FORECAST SUMMARY**

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Source: Colliers International, MSCI
quarterly average of 818,255 sq ft, as well as down year-on-year. The largest leasing deals include TSYS Managed Systems who leased 58,000 sq ft at Burystead Court, Milton Keynes and Gartner, who leased 46,000 sq ft at One Causeway. The serviced office sector saw no additional take-up this quarter, which is the first time since Q1 2018. Tightening supply dynamics in the South East is keeping headline rents strong. Some key centres have witnessed annual rental increases include Bracknell (14%), Ealing (10%), Stockley Park (10%) and Brighton (7%). Colliers expects rental growth for the South East as a whole to be 1.0% in 2019 and 1.5% in 2020. The five-year annualised growth rate is anticipated to reach 1.8% in 2019-2023. Coupled with steady investment demand, yields will drift out only slowly, hence total returns will average 5.6% per annum over the forecast period, placing South East offices in the stronger tier of performance.

REST OF UK OFFICES

Investment volumes outside London and the South East reached £2.9bn in the first eight months of the year, down from £3.5bn over the same period in 2018. The largest deal this year, so far, was Goldman Sachs’ acquisition of the Croxley Business Park in Watford for £400m at 2.5% IY, leased to Watford Borough Council until 2059, at which point the council has an option to buy the freehold of the business park for a nominal £1. Elsewhere, Legal and General acquired two adjoining grade A office buildings at Wellington Place in Leeds for £211m at 4.3% IY. The building which is due for practical completion at the end of the year is pre-let to The Secretary of State for Communities and Local Government for a term of 25 years. A limited development pipeline and sustained demand for Grade A offices continue to exert upward pressure on rents. Colliers predicts Rest of UK office rents to increase by 1.0% in 2019 and by 1.5% in 2020. Like South East offices, the Rest of the UK will be among the stronger tier of performance with total returns forecast to average 5.5% per annum through 2023.
ANNUAL OFFICE RENTAL GROWTH FORECASTS

INCREASE IN £ PER SQ FT BETWEEN Q2 2018 AND Q2 2019

Source: Colliers International
STANDARD INDUSTRIAL AND DISTRIBUTION WAREHOUSES

Investment volumes had a relative slow start to the year and the uncertainty around Brexit has undoubtedly played a part in hampering activity over the first half of 2019. Transaction activity slowed from £5.4bn between January and August 2018 to £3.4bn during the same period in 2019. The three largest deals so far this year all took place in Q1, led by Tritax Big Box REIT’s purchase of Project Hurley for £250m. The acquisition represents interests in land or options over land totalling over 2,500 acres of which 248 acres has planning consent for logistics use. Under current plans, this equates to 26 schemes for the development of Big Box assets and related logistics facilities. The second largest deal in the year to date was M&G Real Estate’s purchase of a multi-let distribution park in Hoddesdon for £145m at 4.02% IY. The park sits in close proximity to the M25. Completing the top three was Westbrook Partners’ acquisition of the IO2 Portfolio, comprising 30 industrial estates for £140m at 6.75% IY.

Official data from the ONS showed that industrial production was down by 0.5% 3m/3m in July, with a particular weakness across the food products, beverages and tobacco and chemicals industries. The transport sector bounced back slightly, following the factory shutdown earlier in the year. The weak official data is in line with the UK Manufacturing PMI, which fell to a seven-year low of 47.4 in August as economic and political uncertainty paired with global trade tensions took a toll on manufacturers’ performance. The outlook was bleak too, with the business optimism indicator dropping to its lowest level on record.

Despite subdued investment volumes the underlying market fundamentals driving the industrial and logistics sector remain unchanged. Occupier markets continue to show some resilience to the weakness in the official and survey data. Industrial leasing take-up in 2019 is on track to reach, if not surpass, its ten-year average once again. In fact, the surge in demand for distribution space, given a period of pre-cautionary stockpiling in the run up to the previous Brexit deadline in March 2019, underscores the ongoing lack of adequate space in the UK market as a whole. Another period of stockpiling looks likely in the run-up to the October 31st Brexit deadline, and this is expected to be aggravated by the traditional inventory growth associate with the Christmas shopping season.

The logistics market is inevitably moving towards a new norm in terms of speed of delivery as consumers increasingly require shorter delivery times and immediacy. As a result, urban logistics units will increasingly become more popular. Colliers predicts that the industrial and logistics sector will continue to benefit from strong demand, thereby outperforming other commercial property sectors, especially rental growth in densely populated areas. All industrial rents are predicted to grow by 3.0% in 2019, with the strongest growth recorded in London (+4.5%) and Rest of South East (4.0%). Although rental growth will slow somewhat, the average growth rate over the 2019 to 2023 forecast horizon will be 2.6% pa.

Given these rental projections, it is not surprising that investment demand for industrial remains very strong. Yields hardened across all regions in 2018 and Colliers predicts very little movement in yields this year, before drifting out slightly over the next couple of years. Total returns for 2019 are forecast at 5.9%, down from a very strong 16.4% in 2018. Industrial remains the standout performer by most measures. Total returns annualised through 2023 will average 6.6%.
**INDUSTRIAL ANNUAL RENTAL GROWTH FORECASTS**

![Bar chart showing annual rental growth forecasts for 2013-2017, 2018, and 2019-2023 for Standard Industrials and Distribution Warehouses.](chart)

Source: Colliers International, MSCI, IPD

**STOCKS OF FINISHED GOODS INDEX**

![Graph showing the stocks of finished goods index from August 2009 to August 2019.](graph)

Source: IHS Markit

**INDUSTRIAL & LOGISTICS FORECAST SUMMARY**

<table>
<thead>
<tr>
<th></th>
<th>DEC 2019</th>
<th>DEC 2020</th>
<th>DEC 2021</th>
<th>2019 - 2023</th>
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<tbody>
<tr>
<td>ERV Growth (% p.a.)</td>
<td>3.0</td>
<td>2.5</td>
<td>2.4</td>
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<tr>
<td>Equivalent Yield (% eop)</td>
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<td>5.3</td>
<td>5.4</td>
<td>5.3 (2023)</td>
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<tr>
<td>Capital Growth (% p.a.)</td>
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<td>1.4</td>
<td>1.2</td>
<td>2.0</td>
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<td><strong>Total Return (% p.a.)</strong></td>
<td>5.9</td>
<td>5.9</td>
<td>5.7</td>
<td>6.6</td>
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</tbody>
</table>

Source: Colliers International, MSCI
FOR MORE INFORMATION

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Colliers is led by an experienced leadership team with significant equity ownership and a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years.

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