UNITED KINGDOM

PROPERTY SNAPSHOT

DECEMBER 2018

Colliers INTERNATIONAL

ECONOMY

Quarterly GDP growth reached its strongest rate since 2016 in Q3, but there are already signs that momentum was not maintained into Q4. Latest figures from the Office for National Statistics (ONS) suggest that the economy grew 0.4% in the three months to October, down from 0.6% in the previous period. The headline PMI figure fell to 51.0, which is, with the exception of the brief downturn following the EU referendum in 2016, the lowest reading since 2013. IHS Markit expect GDP growth of only 0.1% q/q in Q4. CPI and RPI inflation currently stand at 2.3% and 3.2% respectively, having slowed considerably since the beginning of the year. The Bank of England has one more scheduled meeting in 2018, but we expect no change in the Bank Rate.

COLLIERS VIEW: GDP growth is expected to have slowed to 1.3% y/y in 2018 – the weakest rate since the global financial crisis. A pick-up in 2019 is still likely, but downside risks have risen.

INVESTMENT

Transaction activity weakened to £3.1bn in November, down from £4bn in October and the second-lowest figure in 2018. Although investment has slowed, we have already broken through the £50bn mark for the sixth year running. Rule of thumb would suggest that 2018 total volumes will reach £55bn. London offices remain in high demand and account for two of the three largest deals in November, led by Wing Tai Holdings' purchase of Commerzbank AG's London headquarters at 30 Gresham Street for £425m. Outside the London office market, Grainger Plc acquired a 35-asset PRS portfolio across London and the South East for £396m (4.9% IY) and Royal Mail Pension Fund bought an office asset in Cardiff for £90m (4.25% IY).

Retail: Only a very limited number of retail assets changed hands in November, with investment volumes barely reaching the £250m mark. Crosstree Real Estate's purchase of a shopping centre in Edmonton Green for £72m (5.2% IY) was by far the largest retail deal, followed by the acquisition of a retail warehouse in Ipswich for £22m (5.2% IY) by an undisclosed purchaser. Interest in the retail sector has not been lower since 2000, according to transactional data.

RETAIL TRANSACTIONS	VALUE	DEALS	NOVEMBER SELECTED YIELDS
Unit Shops	£17m	8	6.3% Kingston-upon-Thames
Retail Warehouses	£64m	7	5.2% Ipswich/ 6.0% Evesham
Shopping Centres	£77m	2	5.2% London
Supermarkets	£14m	3	n/a

Source: Colliers International, Property Data Ltd.

Offices: Overall investment volumes in the office sector exceeded £20bn for the fifth time in six years in 2018, with November's figure of £1.6bn broadly in line with the monthly average this year. Cross boarder capital continued to account for a large share of investment volumes in London, as highlighted by Wing Tai Holdings' £425m (no IY reported) purchase of Gresham Street and Hana Financial Group's £285m (4.2% IY) acquisition of Great Smith Street. Outside of the capital, St Helier attracted £134m of investment, followed by Cardiff (£90m).

OFFICE TRANSACTIONS	VALUE	DEALS	NOVEMBER SELECTED YIELDS
London	£981m	10	4.2% SW1
Regional	£655m	19	4.25% Cardiff/ 6.0% Glasgow

Source: Colliers International, Property Data Ltd.

Industrial: Transaction volumes in the industrial sector fell to £304m in November, down from £744m in October. Nonetheless, 2018 is on course to be the second-strongest year in terms of investment volumes since the data series started in 2000. Royal London Asset Management bought a distribution warehouse in Maidenhead for £32m (4.5% IY) was the largest industrial deal in November, followed by St James's Place PF's £28m (no IY reported) purchase of an eight-unit industrial estate in Dunstable.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	NOVEMBER SELECTED YIELDS
Distribution	£132m	10	4.5% Maidenhead/ 6.4% Swindon
Multi-Let parks	£173m	27	6.72% Telford/ 6.9% Dudley

Source: Colliers International, Property Data Ltd.

Alternatives/Other: Croydon Council acquired Colonnades Leisure Park in Croydon for £53m (2.5% IY), consisting of a hotel, health & fitness unit and retail assets, while LXi REIT Plc bought a 387 bed Travelodge portfolio across five hotels for £45m (5.8% IY). The largest alternative deal was Grainger Plc's purchase of the GRIP portfolio for £396m (4.9% IY), consisting of 35 PRS units.

ALTERNATIVES/ OTHER	VALUE	DEALS	NOVEMBER SELECTED YIELDS
Student	£35m	2	n/a
Hotel	£176m	9	5.8% Travelodge portfolio
Other	£763m	17	4.9% PRS portfolio

Source: Colliers International, Property Data Ltd.

COLLIERS VIEW: Demand for UK commercial property has slowed in recent months, but has already topped £50bn in 2018 for the sixth year running.

KEY INDICATORS

	LATEST[1]	END NOV	END OCT
UK GDP (%q/q)	0.6% (Q3 18)	0.6% (Q3 18)	0.4% (Q2 18)
UK PMI (composite)	51.0 (Nov)	51.0	52.2
EURO PMI (composite)	52.7 (Nov)	52.7	53.1
UK CPI (%)	2.3 (Nov)	2.3 (Nov)	2.4
UK RPI (%)	3.2 (Nov)	3.2 (Nov)	3.3
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	1.28	1.43	1.43
GBP 3M LIBOR (% eop)	0.91	0.89	0.82
STERLING EFFECTIVE (BoE)	76.0	77.6	77.9
GOLD (USD eop)	1238	1222	1216
OIL BRENT (USD eop)	60.3	58.7	75.5
FTSE 100 (eop)	6845	6980	7128
IPD All property IY	↓ ⬇ 4.58 (Q3)	4.58	4.59 (Q2)
IPD All property EY	↓⬇ 5.45 (Q3)	5.45	5.47 (Q2)

[1] Dec 14th (data and revisions)

Sources: FT, BoE, Haver, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

The surge in retail sales we have seen over the summer has come to an end. Official figures from the ONS showed a monthly decline in sales volumes and the latest KPMG/BRC Retail Sales Monitor suggested that Black Friday failed to lure consumers, with like-for-like sales in November down 0.5% on last year. Retailers will now be hoping for a pick-up in sales in the lead up to Christmas. Consumer confidence remains subdued, despite a further acceleration in real wage growth, which should, in theory lead to increased spending. However, business rates, the National Minimum Wage, changing consumer preferences and, in some cases, the failure to adapt to a changing retail landscape all continue to challenge retail operators.

COLLIERS VIEW: Retail sales have slowed in Q4, following a strong summer. Headline rents are expected to fall across all segments bar Central London unit shops.

OFFICES

Central London: Demand for London office space remains strong. Overall vacancy continued to decline, while pre-letting activity reached its highest quarterly total for four years. Overseas capital continues to dominate the London office market, accounting for over 70% of all transaction volumes.

Regional CBDs: strong leasing activity continues to limit office supply across all grades. There are reports of office take-up in Manchester reaching a record high of 1.5 million sq ft by the end of 2018. Prime rents across the CBDs have all topped £30 psf and are predicted to show further upward movement in the coming years.

COLLIERS VIEW: Some Central London sub-markets will see downward pressure on headline rents, but positive growth should be maintained in other parts of the UK.

INDUSTRIAL

Industrial production growth slowed at the start of Q4, following a solid 0.8% q/q rise in Q3, with monthly GDP figures from the ONS suggesting that manufacturing output stagnated in October. Latest PMI data also points to a lacklustre picture of the sector, despite the headline figure rising from October's 27-month low of 51.1 to 53.1. Any increase in demand was driven by the domestic economy, as some businesses continued to increase inventories in response to Brexit uncertainty and potential supply-chain disruptions. Positive rental growth across the sector was maintained in Q3, according to the latest MSCI index, and we expect all industrial rental growth of 4.2% y/y by the end of the year, down only slightly from 5.3% y/y in 2017.

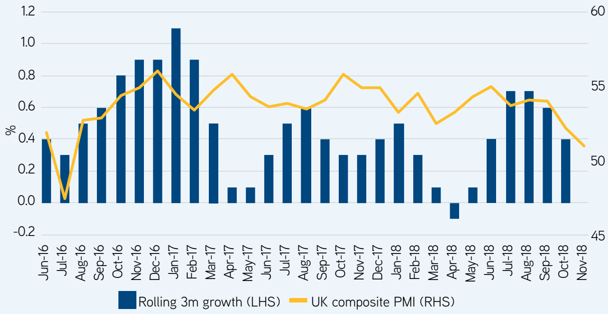
COLLIERS VIEW: Manufacturing growth in Q4 will be minimal at best, but strong demand, especially from retailers, will continue to drive rental growth.

RESIDENTIAL

The housing market remains muted, with the Halifax index pointing to the weakest increase in house prices in almost six years. Although the Nationwide measure picked up slightly, it remained close to October's five-and-a-half-year low. The average stock of homes for sale per surveyor fell further and is now at its lowest level since 2013, according to the October 2018 RICS UK Residential Market Survey. The 2 year fixed (75% LTV) mortgage rate dropped slightly to 1.73%, but is still 12bps higher than a year ago. Monthly residential property transactions reached a 14-month high in October, but the annual total for 2018 will nonetheless be the weakest figure since 2013.

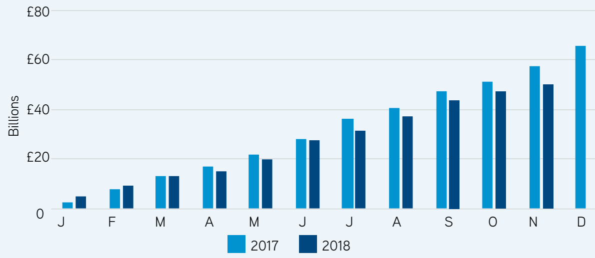
COLLIERS VIEW: House price growth has slowed across most regions, with the London market seeing declines. Mortgage rates remain supportive.

CHART 1: UK GDP GROWTH & PMI DATA COMPARED



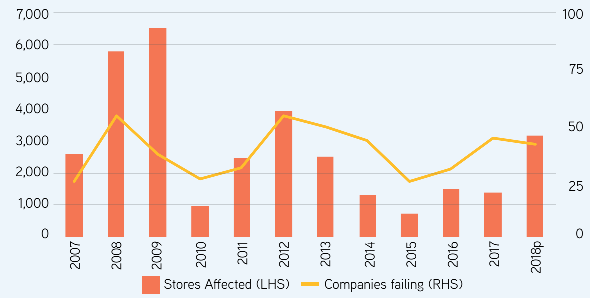
Sources: ONS, IHS Markit

CHART 2: INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)



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

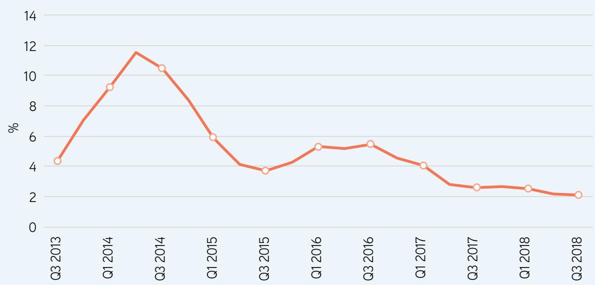
CHART 3: RETAIL FAILURES



2018 figures are estimated based on January - November data

Source: Centre for Retail Research

CHART 4: ANNUAL HOUSE PRICE GROWTH



Source: Nationwide

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