UNITED KINGDOM

# PROPERTY SNAPSHOT

SEPTEMBER 2020

## ECONOMY

The economic recovery continued in July, with official data from the Office for National Statistics showing that GDP rose 6.6% m/m, building on the 2.4% m/m and 8.6% m/m recorded in May and June respectively. Although the size of the economy remains around 12% smaller than pre lockdown, Q3 figures (12th November release) will show that the UK is 'technically' out of recession. The UK PMI rose to a six-year high in August, suggesting that the economy enjoyed a mini-boom, helped by the Eat Out to Help Out scheme and the reopening of businesses after the lockdown. Despite retail sales rising strongly, consumer confidence remains subdued by historical standards as economic and renewed political uncertainty weigh on sentiment. Claimant count figures suggest that the unemployment rate will rise significantly in the coming months, with some forecasters predicting a rate of as high as 10%. Government has stepped up efforts to support the economy and public sector net debt is now in excess of 100% of GDP, up from 85% at the start of the year and the highest since records began in 1975. Very low interest rates, though mean that the debt burden is sustainable. Ten-year gilts stand at 0.23%, down from 0.85% in January. Financial and equity markets are relatively stable, but the FTSE remains some 20% below its pre-pandemic level. Sterling enjoyed a mini-surge at the end of August, but, at the time of report writing, trades back at around $1.28.

***COLLIERS' VIEW:*** Economic recovery continues and the technical recession will be short-lived, but the size of the economy will not return to pre-lockdown levels until the end of 2021. Unemployment remains a significant downside risk.

## INVESTMENT

Transactional activity slowed in August, following a slight recovery in July. Investment volumes fell to £1.1bn, according to preliminary data, bringing the year-to-date total to £23bn. This is around 30% below the corresponding 2019 level of £32bn. The largest deal in August by value was Columbia Threadneedle's purchase of the MAGIAL portfolio, comprising industrial assets, development land and hotel and office space around the Manchester, East Midlands and Stansted airports for £340m. A number of business parks, such Bourne and Maxis, changed hands during the months. Central London saw only very limited activity. So far this year, cross-border acquisitions account for almost 60% of all investment deals by value, up from just under 50% in 2019. As a comparison, globally, cross-border investments account for just 20% of all transactions. Yields continue to drift out across most market segments, according to evidence from MSCI. The leisure and retail segments saw particularly large shifts, but movement was very limited across prime city offices and supermarkets.

**Retail:** Retail investment activity fell to a record low in August, with less than £50m transacted. Monthly volumes were down from £256m in July and 90% below the 2019 monthly average of £414m. Federated Hermes bought a 102,000 sq ft retail warehouse on York's Hull Road for £16m at 8.66% IY in August's largest retail transaction. The asset is let entirely to B&Q until 2025. The only other £10m+ deal was the sale of a 42,000 sq ft Morrisons in Telford to Supermarket Income REIT for £14.25m at 5% IY. The property comes with an unexpired lease term of 17 years with a break option in year 12. No shopping centres traded during August. There are signs of a revival in September, however, with M7 Real Estate buying a six-asset retail park portfolio for £157m at 7.5% IY and Israeli MDSR Investments acquiring three shopping centres for a combined £80m at 11% IY.

| RETAIL TRANSACTIONS | VALUE | DEALS | AUGUST SELECTED YIELDS |
|---|---|---|---|
| Unit Shops | <£20m | 11 | 8.75% Brentwood |
| Retail Warehouses | <£20m | 2 | 8.66% York |
| Shopping Centres | n/a | 0 | n/a |
| Supermarket | <£20m | 2 | 5% Telford |

Sources: Colliers International, Property Data Ltd.

**Offices:** There was a notable slowdown in office transactions in August. Excluding the above mentioned MAGIAL Portfolio, which includes some office space, only £355m was transacted across 26 deals. This is one of the weakest monthly figures since the global financial crisis in 2008/09. The sale of Bourne Business Park in Addlestone to Straits Real Estate for £77m at 7.1% IY was the largest deal by value in August. The site comprises 182,300 of office space and has an occupancy rate of 96% with a WAULT of 7.5 years. The second largest deal was Fraser Logistics' acquisition of Bracknell's Maxis Business Park for £67m. The 192,000 sq ft asset is 100% occupied and the majority of tenants come from the technology and telecommunication sectors. A private Danish investor bought St Pauls House in London EC4 for £44m at 3.8% IY in the capital's largest August deal. The asset is let to Co-operative Group on a 20-year term from June 2013. Yields remain relatively stable, especially when compared to other sectors.

| OFFICE TRANSACTIONS | VALUE | DEALS | AUGUST SELECTED YIELDS |
|---|---|---|---|
| London | £169 | 8 | 3.8% EC4 |
| Regional | £165 | 18 | 4.6% Bristol/ 7.1% Addlestone |

Sources: Colliers International, Property Data Ltd.

**Industrial:** As is the case across other sectors, investment activity in the industrial sector was limited in August, with £200m transacted across 27 deals. While this is up from a weak £131m in July, transactional activity remained well below the 2019 monthly average of £620m. The slowdown merely represents a lack of investment stock as yields continue to hold firm. The largest transaction by value was the sale of the Hillthorn Park development site in Washington to Legal & General for £60m. Completion of the 620,000 sq ft site is anticipated in 2024. Elsewhere, Orchard Street IM bought a seven-unit asset at Portsmouth's Merlin Park for £19m at 4.5% IY and St. James's Place purchased four industrial units, comprising 63,000 of space at Centro Industrial Estate in Hemel Hempstead for £15m at 4% IY.

| INDUSTRIAL TRANSACTIONS | VALUE | DEALS | AUGUST SELECTED YIELDS |
|---|---|---|---|
| Distribution | £87m | 11 | 5.6% Bracknell |
| Multi-let parks | £113m | 16 | 4.5% Portsmouth |

Sources: Colliers International, Property Data Ltd.

**Alternatives/Other:** Investment volumes in the alternative/mixed-use and leisure sectors slowed to £470m in August, down from £800m transacted in July and below the 2019 monthly average of £1.5bn. The above mentioned MAGIAL Portfolio was by far the largest deal in August. There was only limited activity outside the mixed-use segment. The residential sector attracted £73m during the month, led by the sale of 324 BTR units at Clarendon Quarter in Leeds to Aberdeen Standard for £41m at 4.25% IY. A couple of care homes changed hands, with Aedifica buying a 69-bed scheme in Ampthill for £16.5m and Civitas Social Housing purchasing 65 beds across two Welsh sites for £12.4m. No significant transactions were recorded in the student housing and hotel sectors.

***COLLIERS' VIEW:*** Investment volumes in the first eight months are down by 30% on 2019 levels. Available data for September points to a pick-up in activity and we expect a strong Q4.

| ALTERNATIVES/OTHER | VALUE | DEALS | AUGUST SELECTED YIELDS |
|---|---|---|---|
| Student | <£10m | 3 | n/a |
| Residential | £73m | 12 | 4.25% Leeds |
| Medical | £31m | 6 | n/a |

Sources: Colliers International, Property Data Ltd.

***KEY INDICATORS***

| | LATEST[1] | END AUG | END JULY |
|---|---|---|---|
| UK GDP (m/m) | 6.6% (Jul) | 8.6% (Jun) | -2.4% (May) |
| UK PMI (composite) | 59.1 (Aug) | 57.0 (Jul) | 47.7 (Jun) |
| EURO PMI (composite) | 51.8 (Aug) | 54.8 (Jul) | 48.5 (Jun) |
| UK CPI (%) | 1.0 (Jul) | 0.6 (Jun) | 0.5 (May) |
| UK RPI (%) | 1.6 (Jul) | 1.1 (Jun) | 1.0 (May) |
| UK BASE RATE (%) | 0.10 | 0.10 | 0.10 |
| UK 10YR GILT (%) | 0.31 | 0.38 | 0.17 |
| GBP 3M LIBOR (% eop ) | 0.06 | 0.06 | 0.08 |
| STERLING EFFECTIVE (BoE) | 76.4 | 78.9 | 78.2 |
| GOLD (USD eop) | 1950 | 1968 | 1976 |
| OIL BRENT (USD eop) | 40.3 | 45.3 | 43.3 |
| FTSE 100 (eop) | 6032 | 5964 | 5898 |
| IPD All property IY | ↑ 4.82 (Q2 20) | ↑ 4.79 (Q1 20) | ↑ 4.69 (Q4 19) |
| IPD All property EY | ↑ 5.80 (Q2 20) | ↑ 5.68 (Q1 20) | ↑ 5.55 (Q4 19) |

[1] September 11th (data and revisions)
Sources: FT, BoE, IHS Markit, MSCI, ONS

# OCCUPIER MARKETS

## RETAIL

Official retail sales figures continue to rise strongly. The ONS reported that sales volumes increased by 3.6% m/m in July, building on a 14% m/m rise in June and a 12.3% m/m increase recorded in May. Encouragingly, sales were also higher compared to a year ago for the first time since January. Sales growth was driven by non-food stores, where sales volumes almost doubled between April and July. Other indicators such as Visa's consumer spending index and BRC retail sales figures also point to increased consumer demand. However, high street retailers are still struggling as online sales continue to boom. All eyes now turn to quarter day (24 September), when we will get further insight into rent collection. In the first seven months of 2020, retail failures affected 49 companies and 3,140 stores. One of the latest businesses to launch a CVA is Pizza Hut, who operate close to 250 restaurants in the UK. More CVAs are expected in the coming months.

***COLLIERS' VIEW:*** Unchanged. Rents will fall further, rental collection will remain difficult, more space will become redundant and business failures will increase. The share price of REITs with retail exposures will continue to reflect these expectations.

## OFFICES

***Central London:*** Headline rents have held firm at the start of the year, although downward pressure has emerged as grey space grows and occupiers revise requirements. The Q2 2020 MSCI rental index has turned negative across London markets. We expect the downturn initiated by the COVID-19 pandemic to be short-lived in terms of rental impacts and therefore a recovery is predicted for next year. Vacancy rates are still well below average and many occupiers will retain space to accommodate offices redesign strategies. It was a relatively muted month in terms of leasing activity. Take-up in H1 stands at 3.8m sq ft, down 35% on the corresponding 2019 figure. ***Regional CBDs:*** Anecdotal evidence suggests that demand for high quality space remains strong across major regional markets, with up to ten enquiries in play in each of the CBDs, including larger sites of over 10,000 sq ft. Recent notable lettings include Baillie Gifford's signing for 280,000 sq ft at Edinburgh's Haymarket scheme and the Passport Agency's commitment to a new 10-year lease on 84,500 sq ft in Liverpool. Elsewhere, University of Glasgow has taken 30,000 sq ft of office space in the city's West End and law firm Knights has committed to 22,000 sq ft at The Majestic in Leeds.

***COLLIERS' VIEW:*** Demand is stable and supply limited. London and regional markets will see rental growth beyond the Covid impact. Structural and behavioural change is also embryonic.

## INDUSTRIAL

Despite an ominous economic backdrop, industrial take-up activity in H1 2020 topped 18m sq ft, 20% ahead of the same period in 2019. This strong demand has continued unabated into Q3 as demonstrated by Pets at Home's pre-let of a 670,000 sq ft warehouse in Stafford; Amazon's letting of Hinckley 532 (532,000 sq ft) from IM Properties at Hinckley Park; Armstrong Logistics acquiring XDOCK377 (377,000 sq ft) at Magna Park in the Midlands, and Great Bear Logistics signing for 335,000 sq ft at Central M40 in Banbury to name a few. While this year's take-up could potentially exceed the 2018 record level of 36m sq ft, demand has been driven principally by the growth of e-commerce and the grocery sector. With supply stable and demand for space remaining strong, rents are still holding firm. Some cases providing an extra month rent free per 10-year term certain.

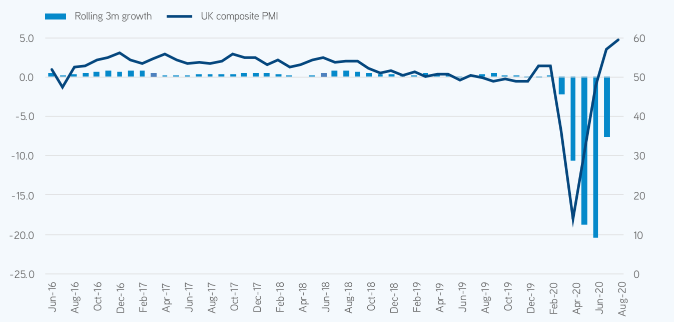
***COLLIERS' VIEW:*** The sector could reach another record year of take-up as a significant amount of space is either under offer or has strong tenant interest.

## RESIDENTIAL

House price growth accelerated in August, driven by a surge in residential property market activity after lockdown restrictions were eased during the summer months. Halifax reported a 5.2% y/y rise in house prices, while Nationwide reported a 3.7% y/y increase. Pent-up demand, behavioural shifts and the stamp duty cut are all likely to have contributed to the increase in activity and the resulting rise in house prices. Monthly property transactions rose by 14.5% between June and July, according to HMRC data, while mortgage approval numbers returned to pre-lockdown levels. However, first-time buyers will continue to struggle to get onto the housing ladder, according to the Resolution Foundation, as falling incomes and credit restrictions are likely to make home ownership more difficult. The two-year fixed (75% LTV) mortgage rate stands at 1.59% in August, the highest in a year.

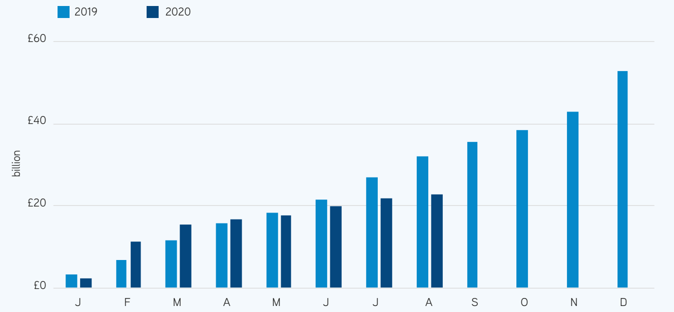
***COLLIERS' VIEW:*** Unchanged. The newly introduced stamp duty holiday on the first £500k of a residential property purchase will boost activity in the short term, but unemployment and a fall in consumer confidence when the furlough scheme ends may limit activity.

*CHART 1:* **UK GDP GROWTH AND PMI DATA COMPARED**



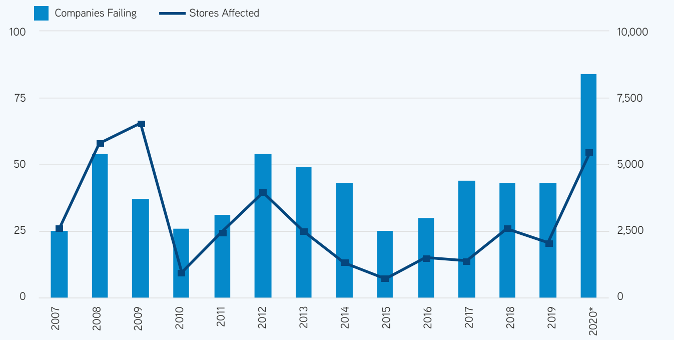

Sources: ONS, IHS Markit

*CHART 2:* **INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)**



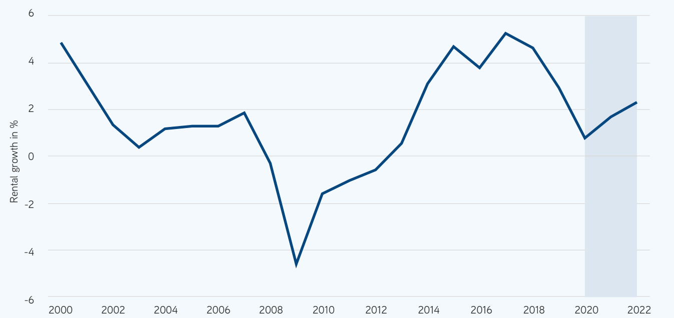

Sources: Property Data Ltd., Colliers International, August 2020.

*CHART 3:* **RETAIL FAILURES**




Source: Centre for Retail Research
* 2020 figure is simple extrapolation of data up to July

*CHART 4:* **INDUSTRIAL RENTAL GROWTH**




Source: MSCI, Colliers International
shaded area is a forecast

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