UNITED KINGDOM

PROPERTY SNAPSHOT

APRIL 2020

ECONOMY

Economic data is deteriorating and will worsen in coming weeks and months after the UK PMI fell to a record low of just 36.3 in March. The previous low was 38.1 during the height of the global financial crisis. It is clear that the UK will be hit by a sharp recession, but trying to predict the magnitude of the downturn is impossible. JPMorgan for example predicts a 3.6% decline in GDP in 2020, while Capital Economics believes the economy will shrink by 12%. The Office for Budget Responsibility has warned that the economy could shrink by 35% in Q2. However, the economy could be back to pre-crisis levels as early as the end of this year. Much depends on how long the lockdown will last and how steep the recovery is. Global financial markets have stabilised somewhat in the past weeks and seem to respond more to news on the trajectory of Covid-19 rather than economic data. Sterling remains broadly stable at just under $1.25. Bond yields are up modestly across most markets suggesting a migration into other riskier asset classes and gold prices are up around 3% in the week as investors reduce cash positions.

COLLIERS' VIEW: It is impossible to gauge the extent of the recession, but it looks like the Q2 contraction in GDP will be considerably stronger than during the height of the GFC. We believe that a V-shaped recovery is likely unless the lockdown is extended beyond mid-May

INVESTMENT

Investment volumes reached £2.8bn in March, down from a very strong February during which £8.1bn was transacted. The February figures were boosted substantially by Blackstone's purchase of the iQ student housing portfolio for £4.7bn, which represents by far the largest deal ever recorded (the second-largest deal was the Centre Parcs portfolio sold in 2015 for £2.4bn). The office, leisure and alternative/mixed use sectors all attracted more than £600m each. The industrial sector recorded activity worth £480m. Meanwhile, there was only very limited interest in retail, with investment volumes falling to below £200m. March recorded only five £100m+ deals, led by the sale of the Ritz in London to a private Qatari investor. Over the course of Q1 2020, a total of £12.7bn was transacted, up by around 10% from £11.5bn in Q1 2019. However, the number of transactions fell from 757 to 503 over the same period, and was the lowest in seven years. Despite uncertainty, pricing trends remain generally stable.

Retail: Excluding mixed-use schemes, there was only very limited transactional activity in the retail sector in March. Volumes failed to break through £200m and were down by around 70% from a solid February. The largest transaction was the sale of a 100,000 sq ft supermarket on Carina Road in Kettering to Tesco for £53m at an undisclosed yield. This was followed by Church Commissioners' purchase of Wycombe retail park for £40m at an initial yield rumoured to be around 8%. The 13-unit asset has a floor space of 110,000 sq ft. The third largest transaction was KFIM Long Income PUT's acquisition of a retail warehouse in Romford for £22 at 5.5% IY. The 72,000 sq ft asset is let to B&Q on a 15-year lease from November 2016. No shopping centre deals were recorded in March, while unit shops attracted a total of just £28m, with a couple of deals agreed at double-digit yields.

RETAIL TRANSACTIONS	VALUE	DEALS	MAR SELECTED YIELDS
Unit Shops	£28m	14	8.1% Bristol/ 10% Newcastle
Retail Warehouses	£100	8	5.5% Oxford/ 5.5% Romford
Shopping Centres	n/a	n/a	n/a
Supermarket	£54	2	5.4% Morden

Source: Colliers International, Property Data Ltd.

Offices: Transactional activity in the office sector reached £767m in March, down from £1.4bn in February and roughly half the 2019 monthly average of £1.5bn. In March's largest transaction, UBS Triton Property Fund bought 70 Wilson Street in London EC2 for £92m at 4.95% IY. The 74,000 sq ft building is leased to WeWork and its amenities include bike storage, showers, balconies and rooftops. Elsewhere, BA Pension Fund purchased Ted Baker's HQ, the "Ugly Brown" on 6a St Pancras Way for £79m at 3.87% IY. In connection with the sale, Ted Baker has entered into a short-term lease of the property. Outside of London, Square Ape Ltd acquired Liverpool's 20 Chapel Street for £40m at 6.3% IY. The building comprises 156,000 sq ft of prime grade A office space and is let to numerous national tenants including Liverpool FC, Ernst & Young and Barclays. Yields were generally firm, with a number of sub-5% deals recorded, both within and outside the capital (e.g. Yorkshire House in Leeds at 4.9%).

OFFICE TRANSACTIONS	VALUE	DEALS	MAR SELECTED YIELDS
London	£490m	14	2.4% EC2/ 3.87% NW1
Regional	£277m	31	4.9% Leeds/ 6.3% Liverpool

Source: Colliers International, Property Data Ltd.

Industrial: Transactional activity in the industrial sector slowed from £617m in February to £480m in March and was 25% below the 2019 monthly average of £642m. DEKA Immobilien bought a distribution warehouse in Bedford for £154m at 4.2% IY in March's largest transaction. The purpose built asset extends to approximately 1,100,000 sq ft and is let to B&M Retail Limited on a 20 year FRI lease. Meanwhile, Blackstone Real Estate acquired a 22-asset portfolio for £120m at 6.3% IY, comprising 18 single-let and four multi-let units. The portfolio has a combined floorspace of 2,000,000 sq ft and an occupancy rate of 89%. The next-largest deal was the sale of 1200 and 1300 Magna Park in Lutterworth to Ergo Real Estate for £39.8m at 6.48% IY. The 465,000 sq ft asset is let jointly to Renault UK and Nissan until June 2028 at a rent of £5.75/sq ft with a tenant break option in June 2023.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	MAR SELECTED YIELDS
Distribution	£445m	15	4.2% Bedford
Multi-let parks	£35m	20	3.57% London

Source: Colliers International, Property Data Ltd.

Alternatives/Other: The alternative/mixed-use and leisure sectors attracted £1.4bn of capital in March, accounting for around half of all transactional activity by value. The hotel sector made up the largest share, with the £700m sale of the Ritz in London to a private Qatari investor, the largest deal of the month. A few PRS deals were recorded during the month, led by Art-Invest Real Estate's purchase of a 1,000-unit scheme at Canada Water for £140m. The site includes retail and commercial space. Elsewhere, Impact Healthcare REIT acquired three medical assets for a combined £61m, the largest being a nine-care home portfolio for £47.5m at 7.4% IY. No notable transactions were recorded in the student housing sector.

ALTERNATIVES/OTHER	VALUE	DEALS	MAR SELECTED YIELDS
Student	£13m	2	n/a
Residential	£194m	17	n/a
Hotel	£778m	15	n/a

Source: Colliers International, Property Data Ltd.

COLLIERS' VIEW: An otherwise strong year is giving way to a year of great uncertainty. Pricing trends are generally stable as the market remains in a state of suspended animation.

KEY INDICATORS

	LATEST[1]	END JAN	END DEC
UK GDP (3m/3m)	0.1% (Feb)	0.0% (Jan)	0.0% (Dec)
UK PMI (composite)	36.3 (Mar)	53 (Feb)	52.8 (Jan)
EURO PMI (composite)	29.7 (Mar)	51.6 (Feb)	51.3 (Jan)
UK CPI (%)	1.7 (Feb)	1.8 (Jan)	1.3 (Dec)
UK RPI (%)	2.5 (Feb)	2.7 (Jan)	2.2 (Dec)
UK BASE RATE (%)	0.10	0.10	0.75
UK 10YR GILT (%)	0.33	0.42	0.50
GBP 3M LIBOR (% eop)	0.51	0.67	0.76
STERLING EFFECTIVE (BoE)	78.8	77.8	79.4
GOLD (USD eop)	1737	1576	1586
OIL BRENT (USD eop)	29.6	22.7	50.5
FTSE 100 (eop)	5791	5672	6581
IPD All property IY	↑ 4.69 (Q4 19)	↑ 4.64 (Q3 19)	↑ 4.61 (Q2 19)
IPD All property EY	↑ 5.55 (Q4 19)	↑ 5.54 (Q3 19)	↑ 5.50 (Q2 19)

[1] April 14th (data and revisions)
Sources: FT, BoE, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

UK retailers recorded their weakest performance for nearly seven years, even before Covid-19 lockdown. Official ONS data shows that sales volumes stagnated in February, when compared to 2019. The official data is set to turn significantly more negative in the coming months. The February figures refer to a period before the government ordered all non-essential stores to close to the public. Retail landlords are struggling to collect rents. The government's eviction ban looks to have been interpreted by many tenants as a reason not to pay, although there is genuine pain. It has been reported that Hammerson received only 37% of rent due for Q2, while Intu Properties reportedly only collected 29%. So far in 2020, 16 retailers have gone into administration, affecting over 700 stores. Rents declined across all sectors in 2019, according to the MSCI index, with department stores (-7.9% y/y), shopping centres (-5.7% y/y) and retail warehouses (-5.6% y/y) experiencing the most severe drops. Standard shops in Central London held up better, although annual rents fell for the first time in a decade (-0.4% y/y).

COLLIERS' VIEW: Unchanged. Rents will continue to fall across most market segments as more space becomes redundant and the number of failing businesses rises dramatically.

OFFICES

Central London: While demand for office space remains steady, deals execution will be strongly impacted by the Covid-19 crisis, although we would anticipate a strong bounce in activity once normality returns. Despite the crisis, new Grade A vacancy rates looks set to fall further reflecting further delays to delivery timetables. Regardless of short-term impacts, the supply-demand imbalance, forcing occupiers to widen search options in terms of geography and product, will not be corrected in the next 24 months and appetite for limited premium product in core locations will persist. **Regional CBDs:** Take-up figures across most regional centres were above their respective ten-year averages in 2019, with particularly strong growth from the flexible office sector. Limited supply has generally resulted in increased rents, with Bristol achieving a new prime rent record of £37.50. Manchester remains in the cusp of £40 psf.

COLLIERS' VIEW: Unchanged. Demand is stable and supply limited. Regional CBDs will see rental growth as take-up remains strong. Central London rents may also see modest increases.

INDUSTRIAL

Data from the Office for National Statistics (ONS) shows that manufacturing output fell by 0.4% in the three months to February, thereby extending the sector's recession. Latest PMI data highlights that manufacturing output suffered its biggest decline since 2012 as Covid-19 is causing huge disruptions to manufacturing demand, supply chains and production. Major UK supermarkets have rising order backlogs giving rise to a significant uptick in flexible and short term letting requirements from occupiers who manufacture/distribute essential items. This demand will not be met swiftly, but landlords with available secondary spaces may step in to provide the extra flexibility. Industrial rental collection is stronger than other sectors with over 80% of Q1 rents collected for 100k sq ft+ facilities. Numerous landlords are showing support and assisting occupiers in coping with the new challenges. Rental growth will slow for prime assets with incentives for secondary assets to move out as manufacturing output decreases. Nevertheless, prime assets will prove more resilient and rental growth will revert to mean trend as the economy restarts in the next few months.

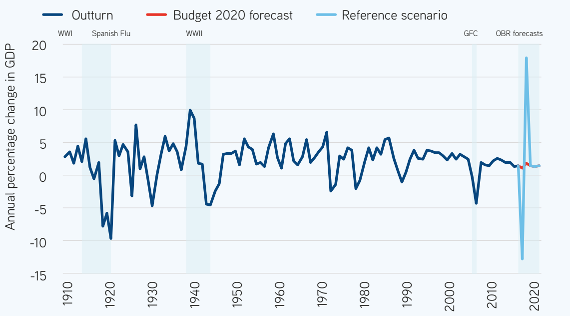
COLLIERS' VIEW: Unchanged. The industrial sector rental growth will moderate in 2020. Given the COVID-19 uncertainty, annual take-up figures are currently difficult to predict, but a rapid reversion to mean is expected.

RESIDENTIAL

Annual house price growth remained steady in March, according to both the Halifax and Nationwide measures. Although property transactions and mortgage approval numbers showed solid activity at the beginning of the year, these figures are expected to slow significantly when March and April data become available. With the government strongly encouraging people to put transactions on hold and estate agents closing their offices, activity has more or less been frozen over the coming months. The latest RICS Residential Market Survey highlights dramatic decline across most indicators, ranging from buyer demand to rent expectations. The two-year fixed (75% LTV) mortgage rate stands at 1.42%, down from 1.7% a year ago.

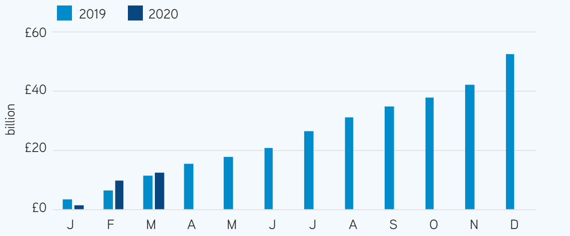
COLLIERS' VIEW: Housing market activity is at a standstill. House prices are stable, but uncertainty will increase if the lockdown is extended significantly.

CHART 1: **GDP IN HISTORICAL PERSPECTIVE**



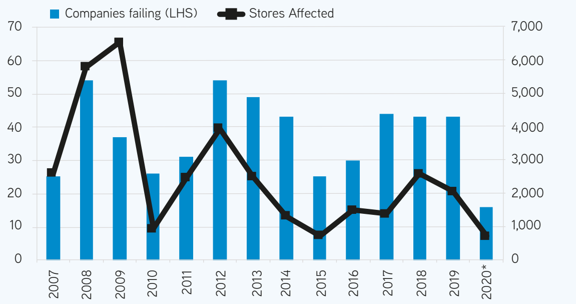
Sources: Office for Budget Responsibility

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



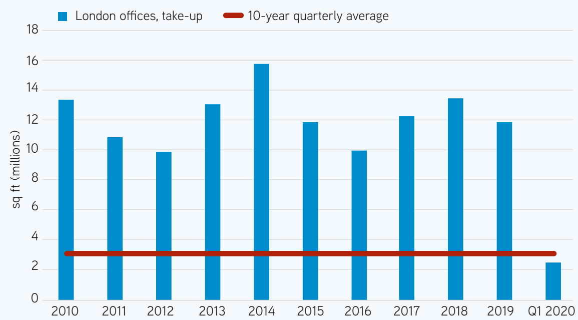
Sources: Property Data Ltd., Colliers International, March 2020.

CHART 3: **RETAIL FAILURES**



Source: Centre for Retail Research
* as at 5 April

CHART 4: **LONDON OFFICES, TAKE-UP**



Source: Colliers International

For more information, please contact:
Oliver Kolodseike: +44 20 7487 1671 | oliver.kolodseike@colliers.com

Colliers International
50 George Street
London W1U 7GA

colliers.com/uk-research

Research & Forecasting