UNITED KINGDOM

PROPERTY SNAPSHOT

JUNE 2020

Colliers INTERNATIONAL

ECONOMY

The impact of the lockdown measures are now fully visible in the economic data. After the UK PMI dropped to a historic record low of 13.8 in April, monthly GDP figures for the same month showed a record 20.4% m/m decline in GDP. The size of the economy is now back at a level consistent with 2002. The most substantial declines were in air transport (-92.8% m/m) and accommodation and food services (-91.7% m/m). Business and consumer confidence have deteriorated strongly and the Treasury has said that close to 9 million people have been furloughed - a quarter of the UK's workforce. The business survey data have since improved, although still signal a significant decline in economic activity in May. A recent report from the OECD projects the initial hit to the UK economy to be of a similar magnitude to the expected declines in France and Italy. Having recovered after record falls in March, global stock markets took another hit in June fuelled by the rising concerns of a second wave of infections and the Federal Reserve's pessimistic economic outlook. Sterling remains broadly stable at around $1.25. The gold price is trending upwards and is around 20% higher than at the beginning of 2020, while UK 10-year gilts have fallen to below 0.30%, down from 0.85% over the same period.

COLLIERS' VIEW: An unprecedented decline in GDP in Q2 will be followed by an unprecedented bounce-back in Q3, but, the size of economy will remain below its pre-Covid level until the end of 2021.

INVESTMENT

Activity remained subdued in May with investment volumes failing to break through the £1bn mark for a second month running. Preliminary data suggest that £751m in overall investment was transacted during May, down from an already weak £860m in April and the weakest monthly figure since the global financial crisis. Travel restrictions and restricted access to buildings for valuations, inspections and due diligence have clearly impacted on activity. This trend is not just observed in the UK, but worldwide, with global monthly volumes down by around 70% against the five-year monthly average. The largest deals in May were a mix of UK portfolios and single London assets, led by British Land's sale of a 26-unit Sainsbury's portfolio to Supermarket Income REIT for £102m. Encouragingly, activity has picked up again in June. As of 15th June, monthly volumes were up to £700 and it looks likely that this will rise to more normal levels by the end of the month. All property yields have been moving out since the beginning of the year with the monthly MSCI index showing a 15bps increase in March, followed by a further 10bps in April. Some segments, such as supermarkets, London standard industrial and Central London offices are generally stable.

Retail: Despite remaining weak by historical standards, transaction volumes picked up from a very weak April during which only £74m were transacted. The May figure of £255m was boosted by the above mentioned Sainsbury's portfolio deal for £102m. Other notable deals include Amazon's purchase of Pentavia Retail Park in London NW7 for £65m, an additional British Land sale of a standalone unit in Bristol for £42m to Tesco and the acquisition of a Waitrose on London's St Johns Road for £25m at 3.99% IY. No shopping centres were traded during May and activity in the unit shop sub-sector was very limited. All retail equivalent yields have moved out by 53bps over the past two months, led by a 153bps movement for out of town shopping centres, according to the latest MSCI monthly index.

RETAIL TRANSACTIONS	VALUE	DEALS	MAY SELECTED YIELDS
Unit Shops	<£10m	16	7.85% Nottingham
Retail Warehouses	£72m	3	n/a
Shopping Centres	n/a	n/a	n/a
Supermarket	£178m	5	3.99% London SW11

Sources: Colliers International, Property Data Ltd.

Offices: Office investment activity remained subdued in May, with preliminary data suggesting that £217m were transacted across 16 deals. The sale of 10 Fenchurch Street to Retain Prosper Ltd for £94m at 4.2% IY represents the largest deal by value in May and compromises 78,000 sq ft of office and retail space. Also in London, a JV between Angelo, Gordon & Co and Beltane Asset Management acquired 129-137 Marylebone Road for £48.5m and a JV led by CLI Dartriver bought 2-3 Eldon Street for £40m at 4.81% IY. The sale price of £40m represents a 3.6% discount to its valuation as at 31 March. Outside of the capital, Ipswich Borough Council purchased Peterborough Business Park for £22.5 at 7.1% IY. The four-unit asset is let to various tenants including Anglian Water and PS Financials. A number of deals are on hold or have been withdrawn. According to React, Chinese investor Poly Global withdrew the sale of 5 Fleet Place in response to an attempted chip of the agreed price of £180m at 4.17% IY.

OFFICE TRANSACTIONS	VALUE	DEALS	MAY SELECTED YIELDS
London	£194	5	4.2% EC3/ 4.81% EC2
Regional	£23	11	7.1% Peterborough

Sources: Colliers International, Property Data Ltd.

Industrial: The industrial sector saw only limited investment activity in May, with volumes slowing to £85m across 23 deals. This is well below the 2019 monthly average of £622m. In May's largest transaction by value, Blackstone bought a five-asset portfolio across Greater London for £30m, totalling 138,000 sq ft of industrial space. Elsewhere, TJ Morris Ltd acquired a 79-acre plot for the development of an 800,000 sq ft national distribution centre and training facility in Hatfield for £25m. However, there has been a notable uptick in transactional activity in June, with volumes standing at £264m at the time of report writing as SEGRO acquired a-23 unit estate at Perivale Park in Greenford for £202.5m at 3.5% IY.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	MAY SELECTED YIELDS
Distribution	£77m	12	4.5% Westerham
Multi-let parks	<£10m	11	5.8% Walsall

Sources: Colliers International, Property Data Ltd.

Alternatives/Other: In line with the trend across the other market segments, investment activity in the alternative/mixed-use and leisure sectors was limited in May. Residential schemes accounted for £110m worth of transactional activity, led by Aberdeen Standard's forward-funding of 170 BTR units at Barking's old Abbey Sports Centre on Axe Street worth £50m. Outside the PRS sector, Primary Healthcare Properties acquired a portfolio of 20 purpose built medical centres across England and Wales for £47m and Kuwait-based Rasameel Investment bought two student living assets in Edinburgh and Leicester for a combined £22m. Despite the weak investment figures in May, media reports suggest that there are currently a number of PRS scheme proposals, such as Citylife's plans to build a 46-storey tower comprising 604 apartments in Leeds and Far East Consortium's submission to build 634 homes at Victoria Riverside in Manchester.

COLLIERS' VIEW: Investment volumes slowed significantly in April and May, but activity is accelerating in June, as inspections resume and viewing restrictions are eased

ALTERNATIVES/OTHER	VALUE	DEALS	MAY SELECTED YIELDS
Student	£22m	2	n/a
Residential	£110m	11	5.15% portfolio
Medical	£54m	5	n/a

Sources: Colliers International, Property Data Ltd.

KEY INDICATORS

	LATEST[1]	END MAY	END APR
UK GDP (m/m)	-20.4% (Apr)	-5.8% (Mar)	-0.2% (Feb)
UK PMI (composite)	30.0 (May)	13.8 (Apr)	36.0 (Mar)
EURO PMI (composite)	31.9 (May)	13.6 (Apr)	29.7 (Mar)
UK CPI (%)	0.8 (Apr)	1.5 (Mar)	1.7 (Feb)
UK RPI (%)	1.5 (Apr)	2.6 (Mar)	2.5 (Feb)
UK BASE RATE (%)	0.10	0.10	0.10
UK 10YR GILT (%)	0.25	0.23	0.33
GBP 3M LIBOR (% eop)	0.20	0.23	0.59
STERLING EFFECTIVE (BoE)	77.2	76.8	79.0
GOLD (USD eop)	1734	1737	1687
OIL BRENT (USD eop)	38.2	35.3	25.3
FTSE 100 (eop)	6105	6077	5901
IPD All property IY	↑ 4.79 (Q1 20)	↑ 4.69 (Q4 19)	↑ 4.64 (Q3 19)
IPD All property EY	↑ 5.68 (Q1 20)	↑ 5.55 (Q4 19)	↑ 5.54 (Q3 19)

[1] June 15th (data and revisions)
Sources: FT, BoE, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

Retail sales figures are suffering under the lockdown measures, with the share of e-commerce reaching a record high. However, there is hope that with retailers re-opening, this will result in increased footfall. The New West End Company reported that footfall was up by 24% in the week ending 14 June. An increasing number of retailers are actively trying to renegotiate lease terms. WH Smith has recently revealed that it was able to secure rental savings of more than 40% on average at lease renewal and both M&S and Pret A Manger have stated that they are in negotiations with landlords in order to mitigate the impact of the pandemic. It is widely expected that June quarter day (24th June) will show a further drop in retail rent collection as many businesses had to shut completely since the government introduced lockdown measures, with no or only very limited revenue generated. In Q1, only a third of the £2.5bn rent due was paid across the retail sector. The latest monthly MSCI index shows that retail rents are falling across the board, led by standard shops outside the South East (-6.7% y/y) and shopping centres (-6.6% y/y). Retail failures have affected 29 companies and 1,481 stores in the first six months of 2020, or about 70% of last year's total (Centre for Retail Research).

COLLIERS' VIEW: Unchanged. Rents will fall further, more space will become redundant and business failures will increase. The share price of REITs with retail exposures will continue to reflect this clearly. June quarter day is likely to disappoint.

OFFICES

Central London: There is now clear evidence of a slowdown in occupier activity across the London market, with the running Q2 take-up figure standing at just below 650,000 sq ft, over 70% below the Q2 2019 equivalent. Nonetheless, a healthy amount of space is still under offer, albeit with Covid clauses. Assuming steady improvements in lockdown easing, these clauses won't be exercised. We are aware that 31% of active requirements are driven by expansion, but it remains to be seen how many of these will be revised in the coming weeks and months.
Regional CBDs: Supply levels across most regional CBD's remain constrained, but there are several larger requirements for space. BBC Studios are looking for 60,000 sq ft in Bristol, the Government Property Agency are on the lookout for 200,000 sq ft in Newcastle, and Goldman Sachs is scoping out office options of up to 60,000 sq ft in both Birmingham and Manchester. Rental growth has slowed, but is still positive, according to latest data from the monthly MSCI index.

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

INDUSTRIAL

The UK Manufacturing PMI remained firmly in negative territory in May. However, the index rose from its record-low of 32.6 in April to 40.7, suggesting that the worst of the downturn may be behind us. Occupier demand in the industrial sector remains resilient as businesses are focusing on future-proofing their supply chain capabilities. Although Q1 take-up was below the five-year quarterly average, occupiers remain active. Preliminary figures for April and May suggest that take-up reached close to 5m sq ft. Given the lockdown measures in place, this is not a bad result. Online retailer Amazon remains extremely acquisitive and is eyeing several sites across the country. It has now been confirmed that the retailer pre-committed to a 2.3m sq ft distribution centre at the Littlebrook Dartford development. The market has, so far, not seen a reduction in headlines rents. Incentives are generally firm as supply remains limited across most markets, although we are aware of some occupiers negotiating an extra month of rent free period.

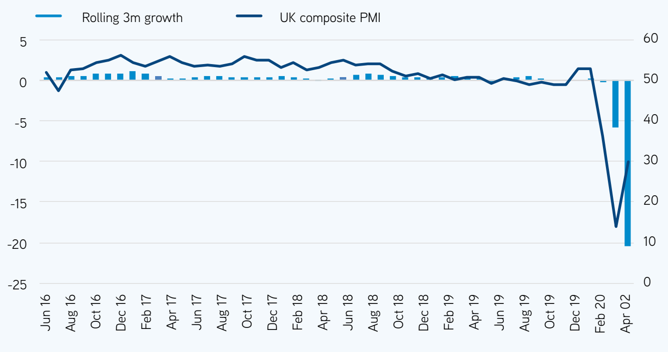
COLLIERS' VIEW: Unchanged. Industrial rents continue to rise in 2020 reflecting steady demand for limited space as companies continue to future proof supply chains in light of Brexit uncertainties. Covid impacts have stressed UK logistics, but this will prove transitory.

RESIDENTIAL

Annual house price growth was relatively stable in May, with Halifax reporting a 2.6% y/y increase (2.7% y/y in April), while Nationwide data showed a slowing to 1.8% y/y (3.7% y/y in April). However, prices fell on a monthly basis on both measures. Unsurprisingly, housing activity slowed sharply due to the lockdown measures. The number of property transactions halved in April when compared to the same period a year ago and mortgage approvals declined by 76% to just 16,000 in April. Moreover, latest ONS figures suggest that residential construction output fell by almost 60% in April, by far the largest monthly fall ever recorded. The latest RICS Residential Market Survey further highlights hesitation amongst both sellers and buyers. New instructions to sell fell to a record low net balance of -96%. Banks and the latest rate cuts are providing support to restart housing activity. The two-year fixed (75% LTV) mortgage rate has fallen further to 1.42% in April, down from 1.65% a year ago.

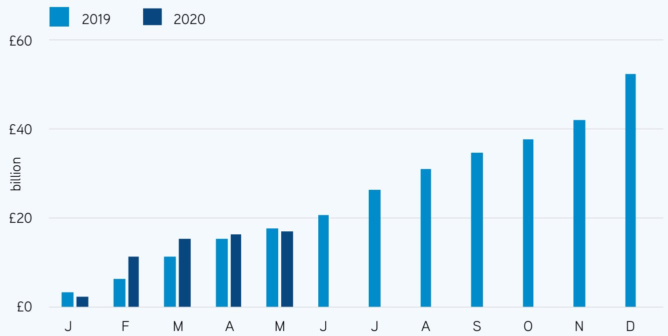
COLLIERS' VIEW: Unchanged. Housing market activity will increase as the lockdown eases. The Government may use the housing market as a key driver of recovery. House prices remain stable.

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



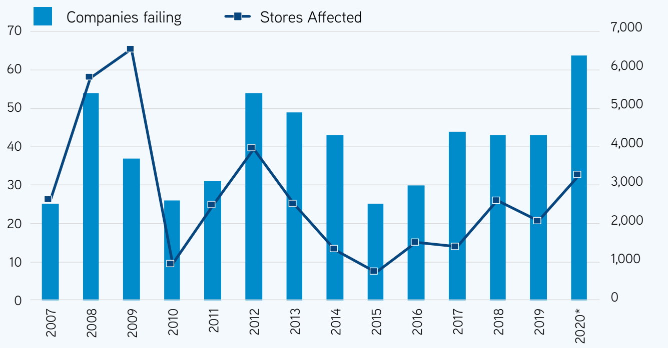
Sources: ONS, IHS Markit

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



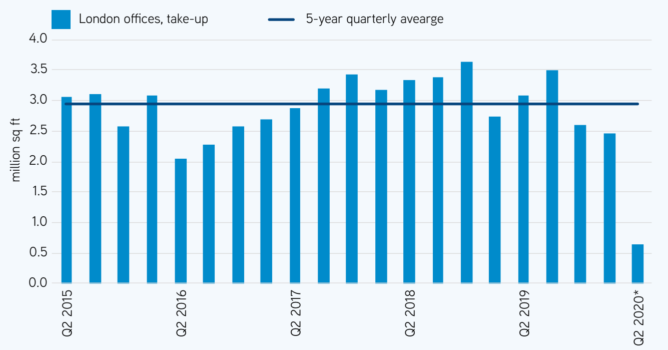
Sources: Property Data Ltd., Colliers International, June 2020.

CHART 3: **RETAIL FAILURES**



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

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



Source: Colliers International | *Running figure as at 15 June

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