UNITED KINGDOM

PROPERTY SNAPSHOT

AUGUST 2019

ECONOMY

UK GDP contracted by 0.2% q/q in Q2 2019, following a 0.5% q/q increase in Q1. Some payback from the strong Q1 figures was already expected, but the degree of this weakness may have come as a bit of a surprise to some analysts and economists. However, a large part of the contraction can be attributed to 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. On a slightly more positive note, household spending held up, rising 0.5% q/q (0.6% q/q in Q1) thanks to a healthy labour market and sustained real wage growth. Latest PMI results point to a slight improvement in economic conditions at the start of Q3, with the headline index rising from June's 49.2 to 50.3 in July. CPI inflation ticked up marginally to 2.1% in July, while RPI inflation eased slightly to 2.8%. UK 10 year gilts fell to 0.58% down from 1.25% at the beginning of the year as expectations of weaker economic performance impact. The pound has weakened almost 5% against the dollar in July and August over fears of a no-deal Brexit, which should in theory raise import costs and thereby lead to inflationary pressures.

COLLIERS VIEW: Unchanged: Economic and political uncertainty persists and a short-lived technical recession in 2019 is possible after GDP contracted in Q2.

INVESTMENT

Investment volumes showed a welcome pick-up in July, rising from June's £2.7bn to £4.7bn. The July figure is the highest so far this year and follows a very subdued May and June. Despite the encouraging start to Q3, transaction activity in the first seven months of 2019 is down by around a quarter from the same period last year. The alternative and mixed-use segments of the market accounted for roughly two thirds of all activity (£2.9bn) in July, while office investment remained above the £1bn mark. There was only limited activity in the industrial and retail sectors. Overseas cash made up over 40% of all investment. By far the largest deal of the month was Unite Group's £1.4bn purchase of the Liberty Living Portfolio at 5.3% IY, comprising over 20,000 student beds across 43 assets located in 16 UK cities. In July's second-largest deal, Medical Properties Trust acquired eight private hospitals for £347m at an undisclosed yield. The eight hospitals are currently let to Ramsay Health Care.

Retail: Retail investment slowed from June's £310m to just £165m in July – one of the lowest monthly figures since the global financial crisis and highlighting the continued reservation by investors given pricing uncertainty. MSCI yields shifted out by 28 bps since Q2 18. Between January and July 2019, the retail sector attracted £2.5bn of capital, down from £4.0bn over the same period in 2018. Saudi investor Arbah Capital bought Glasgow's Sauchiehall Building for £55m at 6.3% IY in July's largest retail transaction. The mixed-use asset's tenants include Primark, TK Maxx and Sports Direct. Also in Scotland, Franklin Templeton acquired the Cameron Toll Shopping Centre in Edinburgh for £38m at 8% IY.

RETAIL TRANSACTIONS	VALUE	DEALS	JULY SELECTED YIELDS
Unit Shops	£3m	5	6.25% Bristol
Retail Warehouses	£3m	6	7.55% Hexham
Shopping Centres	£47m	2	8% Edinburgh
Supermarkets	0	0	n/a

Source: Colliers International, Property Data Ltd.

Offices: Office investment volumes reached £1.6bn in July, up from £1.2bn recorded in June. Nine of the top ten deals took place in London with four deals worth more than £200m. 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. Outside the capital, CLLA Investment Management purchased Bristol's 1 Queen Street for £35m at 5.2% IY. Overseas capital accounted for over 50% of all office investment in July.

OFFICE TRANSACTIONS	VALUE	DEALS	JULY SELECTED YIELDS
London	£1.5bn	21	4% EC2/ 4.14% W1
Regional	£97m	21	5.15% Bristol

Source: Colliers International, Property Data Ltd.

Industrial: It was a weak month for the industrial sector in terms of investment volumes. Transaction activity slowed to just £188m in July, down from £539m in June and well below the 2018 monthly average of £723m. Only a few notable deals were recorded, led by Gazeley's purchase of three warehouses at Panattoni Park in Northampton for £80m. The units, which total 625,000 sq ft in size, are let to Eddie Stobart on a 10-year lease. Elsewhere, InfraRed Capital Partners acquired a 105,000 sq ft multi-let industrial estate at LEFA Business Park in Sidcup for £20m. Royal London Asset Management were also active, buying a multi-let industrial estate of five units at Peterborough's Harrier Park for £7m at 5.08% IY.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	JULY SELECTED YIELDS
Distribution	£107m	13	6.5% Nottingham
Multi-let parks	£81m	23	7.2% Peterborough

Source: Colliers International, Property Data Ltd.

Alternatives/Other: There was strong demand for alternative assets in July, with investment volumes outside the traditional office, industrial and retail sectors amounting to £2.9bn. Outside the above mentioned Liberty Living Portfolio and hospital portfolio deals, Unite UK Student Accommodation Fund acquired an eight-asset student housing portfolio with 3,480 beds for £253m. In the PRS sector, CBRE were active, purchasing a development pipeline of 4,900 homes for £267m, while Mitsubishi bought a 0.9-acre plot at the Nine Elms development site, which could provide 200 apartments within a 12-storey tower, for £150m. No significant hotel deals were recorded in July.

ALTERNATIVES/OTHER	VALUE	DEALS	JULY SELECTED YIELDS
Student	£1.7bn	7	5.3% portfolio
Medical	£385m	14	4.3% portfolio
Residential	£721m	18	5.5% London/ 6.5% Leeds

Source: Colliers International, Property Data Ltd.

COLLIERS VIEW: Unchanged. Political uncertainty is acting as a break on activity, including long income deals. However, there are signs of a pick-up following a very weak Q2.

KEY INDICATORS

	LATEST[1]	END JUL	END JUN
UK GDP (%q/q)	-0.2% q/q (Q2)	-0.2% q/q (Q2)	0.5% q/q (Q1)
UK PMI (composite)	50.3 (Jul)	50.3	49.2
EURO PMI (composite)	51.5 (Jul)	51.5	52.2
UK CPI (%)	2.1 (Jul)	2.1	2.0
UK RPI (%)	2.8 (Jul)	2.8	2.9
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	0.58	0.73	0.95
GBP 3M LIBOR (% eop)	0.77	0.77	0.77
STERLING EFFECTIVE (BoE)	74.3	75.1	77.0
GOLD (USD eop)	150	1416	1404
OIL BRENT (USD eop)	58.2	65.2	66.6
FTSE 100 (eop)	7286	7587	7426
IPD All property IY	↑ 4.61 (Q2 19)	↑↑ 4.61 (Q2 19)	↑↑ 4.60 (Q1 19)
IPD All property EY	↑ 5.50 (Q2 19)	↑↑ 5.50 (Q2 19)	↑↑ 5.49 (Q1 19)

[1] August 9th (data and revisions)
Sources: FT, BoE, IHS Markit, MSCI, ONS

OCCUPIER MARKETS

RETAIL

Data from the BRC and KPMG showed that annual retail sales growth slowed to a record low in July, with department stores performing particularly poorly. The BRC report added that *"the challenging retail environment is taking its toll on many high-street brands who must contend with rising import costs, a multitude of public policy costs, and ever higher business rates"*. A separate report from Barclaycard confirmed these findings, with department store sales down by 3.9% compared to July 2018. According to the quarterly MSCI index, rents are falling across all retail segments, with the only exception of Central London Standard Shops, where marginal growth of 0.2% q/q was maintained in Q2. Particularly steep declines were recorded at Out of Town Shopping Centres (-2.5% q/q), Standard Shop – Rest of UK (-1.5% q/q) and Standard Shop SE % Eastern (-1.4% q/q).

COLLIERS VIEW: Household spending supports the economy, but high street shops remain pressured and rents will decline further.

OFFICES

Central London: Take-up has edged back above the 10-year average in Q2, with pre-letting activity reaching a four-quarter high. Major corporate occupiers still appear to be in expansion mode across London as a whole, including emerging markets such as Stratford, Wembley, Battersea and White City. In this challenging political environment, such a robust response from occupational markets is reassuring. **Regional CBDs:** Colliers data shows that rental growth was maintained across some of the Big-Six cities, with Birmingham, Edinburgh, Glasgow and Manchester all recording increases in prime rents in Q2 2019. Take-up figures point to strong activity across the CDBs, with most markets seeing strong improvements in leasing activity. It is worth noting that serviced offices accounted for an increasing share of overall take-up. In the case of Birmingham, for example, serviced offices made up 72% of total take-up.

COLLIERS VIEW: Unchanged. The regional CBDs are likely to see further rental growth as take-up figures suggest strong activity. Central London rents will remain relatively stable.

INDUSTRIAL

Official data from the ONS showed that industrial production contracted by 1.4% q/q in Q2 2019, following a 1.1% q/q increase in Q1. The Q2 weakness was to some agree expected due to the production shutdown at car factories. The results are consistent with weak PMI data, with the headline index stuck at a six-and-a-half year of 48.0 low in July. The PMI was negatively impacted by slower global demand, political uncertainty and the unwinding of earlier Brexit stockpiling activity, according to the report from IHS Markit. On a more positive note, survey respondents maintained a positive outlook and expect an improvement in the sector over the coming 12 months. Despite some negative economic data, the occupier market remains strong. Occupiers generally continue to be willing to pay a premium for the right stock in the right location and this has been confirmed by the recent uptick in the proportion of take-up for speculatively-built distribution warehouses. Moreover, the Q2 MSCI index showed that rental growth was maintained across the industrial market, although growth rates remained below their respective five-year averages.

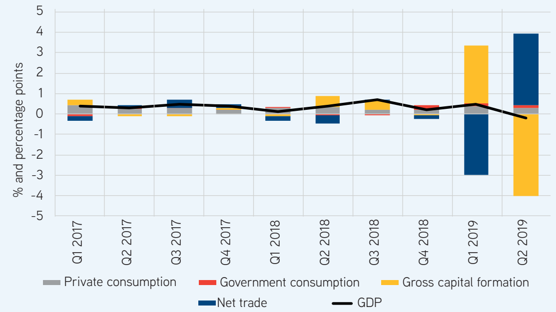
COLLIERS VIEW: Unchanged. Further rental growth in 2019 is likely, given steady demand, but not to the same extent seen in 2018. Rents in some locations may be approaching a ceiling.

RESIDENTIAL

Residential property indicators continue to send mixed signals on activity levels and the health of the market. Mortgages remain affordable thanks to a low interest rate environment and real wage growth, new buyer enquiries are up and mortgage approval rates are steady. However, actual home sales were down by 16.5% y/y in June (latest available data) and ongoing economic and political uncertainty continue to weigh on consumer confidence. House price growth remained muted in July, with the Nationwide index signalling sub-1% growth for the eighth month running. The average annual growth rate in 2019 so far stands at just 0.5%, down from an average of 2.1% in 2018. The two-year fixed (75% LTV) mortgage rate stands at 1.66%, down from 1.75% a year ago.

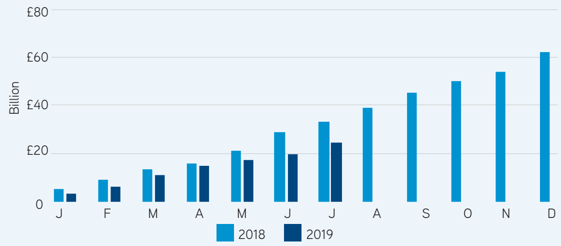
COLLIERS VIEW: Unchanged. House price growth is likely to remain muted in 2019, especially given ongoing Brexit uncertainty. Mortgage rates remain supportive.

CHART 1: **UK GDP, EXPENDITURE APPROACH. CONTRIBUTIONS TO Q/Q GDP GROWTH**



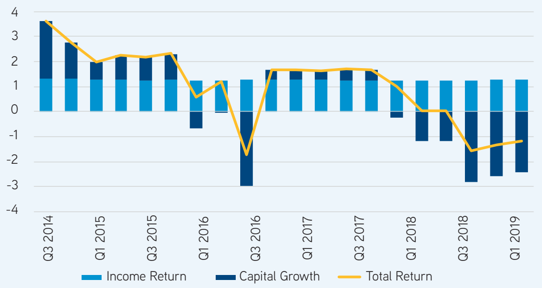
Source: Office for National Statistics

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



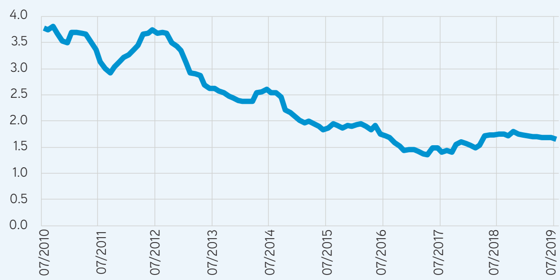
Sources: Property Data Ltd., Colliers International, July 2019.

CHART 3: **RETAIL TOTAL RETURNS, QUARTERLY CHANGE**



Source: MSCI

CHART 4: **2 YEAR FIXED (75% LTV) MORTGAGE RATE**



Source: Bank of England

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