

## ECONOMY

UK GDP growth slowed to 0.1% 3m/3m in November, down from 0.2% 3m/3m in October. The production sector continued to perform poorly, with output down by 0.6% 3m/3m, while service sector growth stagnated (0.1% 3m/3m). Within services, a number of sub-sectors contracted, but real estate activities, in fact, showed growth of 0.5% 3m/3m. The December UK Composite PMI remained below the 50.0 mark that theoretically separates growth from contraction and the British Retail Consortium reported the first annual decline in retail sales in 25 years, suggesting that Q4 GDP figures are also likely to disappoint. Ongoing weakness and below target inflation could sway more Monetary Policy Committee members to vote for an interest rate cut in the coming months. At its latest meeting, the nine member committee voted 7-2 in favour of keeping interest rates on hold. The next meeting is scheduled for Thursday, 30th January. CPI and RPI inflation currently stand at 1.3% and 2.2%, respectively. Sterling dropped to below \$1.30 against the dollar following the weak GDP data. UK 10 year gilts remain low in a 0.70%-0.90% range, down from 1.30% a year ago.

**COLLIERS' VIEW:** Economic weakness and sterling volatility may continue in the short term, a rate cut looks more likely than a rate rise and fiscal stimulus looks likely in the short to medium term.

## INVESTMENT

Investment volumes surged at the end of 2019, rising from £3.2bn in November to £9.4bn in December. Despite a strong year-end, the annual figure of £52bn is down by 18% from 2018. The alternative/mixed segment accounted for the largest share of December's volumes (£3.4bn), followed by offices (£3.3bn) and industrial (£1.4bn). Activity remained limited in the retail sector. Medical Property Trust's purchase of the BMI Healthcare Portfolio, which consists of 30 acute care hospital facilities located throughout the UK, for £1.5bn, was by far the largest deal in December. The second and third largest deals were PonteGadea Inmobiliaria's £608m purchase of The Post Building in London, WC1 and DTGO Corporation's acquisition of the Marathon Hotel Portfolio for £450m, respectively. There was strong interest in the regional CBDs, with Birmingham attracting £360m across six deals. Overseas capital accounted for almost 70% of all UK investment, with only limited interest from private investors and occupiers.

**Retail:** Retail investment volumes remained limited in December, despite rising from £254m in November to a three-month high of £454m. December's figure was 23% above the 2019 monthly average and the second-strongest figure of 2019. Tritax purchased a three retail park portfolio for £190m at 7% IY in December's largest transaction. The assets are located in Guildford, Crawley and Luton, totalling just over half a million sq ft in size. In the month's second largest deal, Prologis acquired Ravenside Retail Park in London, N18 for £51.4m at an undisclosed yield for conversion into warehouses for online sellers. Elsewhere, Aviva bought out BL's share in a Sainsburys in Crawley for £45m. One shopping centre changed hands in December, with Gloucester City Council buying Eastgate Shopping Centre for £11.5m at 6.6% IY.

RETAIL TRANSACTIONS	VALUE	DEALS	DEC SELECTED YIELDS
Unit Shops	£45m	14	6% Loughton/ 6.6% Romford
Retail Warehouses	£300m	8	4.95% Harlow
Shopping Centres	£12m	1	6.6% Gloucester
Supermarket	£182m	3	n/a

Source: Colliers International, Property Data Ltd.

**Offices:** Transaction volumes reached £3.3bn in December, up from £856m in November and the highest monthly figure of 2019. The large majority of investment was targeted at London, although some of the regions also recorded significant activity. The sale of The Post Building to PonteGadea Inmobiliaria for £608m was the largest deal of the month. The asset comprises 320,000 sq ft of grade A space and is partially pre-leased to McKinsey & Company, Rothesay Life and QuantumBlack. Also in London, Cording Real Estate Group acquired Southampton Place in WC1 for £245m and Northwood Investors purchased 133 Houndsditch for £170m. Outside the capital, M7 Real Estate purchased a mixed-use scheme including offices on Birmingham's Commercial Street for £189m at 6.5% IY and Frasers Logistic bought Farnborough Business Park for £90m. The asset has a net lettable area of around 550,000 sq ft and a committed occupancy rate of 99.1%.

OFFICE TRANSACTIONS	VALUE	DEALS	DEC SELECTED YIELDS
London	£2.3bn	27	3.9% W1/ 4.25% WC2
Regional	£767m	36	5.07% Chertsey/ 8.0% Edinburgh

Source: Colliers International, Property Data Ltd.

**Industrial:** Industrial investment volumes saw a surge in December, with preliminary figures suggesting that a total of £1.4bn was transacted. The two largest transactions were both portfolios, led by the Tudor Portfolio, which was acquired by a JV between Morgan Stanley and Thor Equities for £241m at 3.9% IY. The portfolio comprises seven big box warehouses with a total floorspace of almost 2.2m sq ft and has a vacancy rate of 18.5%. In December's second-largest deal, Starwood Capital purchased a ten-asset urban industrial portfolio for £200m. The estates are located in major urban conurbations including Oxford, Birmingham and Glasgow. Elsewhere, an international investor bought a 725,000 sq ft distribution warehouse in Newark for £80.8m at 5.1% IY and separately an overseas buyer acquired two distribution warehouses (combined floorspace of 506,000 sq ft) in Doncaster for £51.2m at 6.2% IY.

INDUSTRIAL TRANSACTIONS	VALUE	DEALS	DEC SELECTED YIELDS
Distribution	£289m	23	5.42% Didcot/ 5.7% Denby
Multi-let parks	£145m	24	7.1% Hitchin/ 8.5% Newton Aycliffe

Source: Colliers International, Property Data Ltd.

**Alternatives/Other:** There was a strong interest in the alternative/mixed-use and leisure sectors in December, which, taken together, accounted for almost half of all investment volumes (£4bn). The BMI Healthcare Portfolio, which was bought by Medical Properties Trust for £1.5bn, was not only the largest December deal, it was also the largest transaction in the medical sector on record. The portfolio comprises 30 acute care hospitals located throughout the UK. Also in the medical market segment, Beijing-based Cindat Capital Management formed a JV with Omega Healthcare to acquire 3,500 beds across 57 care homes for £176m. Student housing attracted £680m across seven deals, while interest in the PRS sector was more limited (£347m across 10 deals). The largest hotel deal was the sale of the Marathon hotel portfolio to Thai-based DTGO Corporation for £450m. The portfolio comprises 17 hotels and are located across various locations, including Leeds, Birmingham and Manchester.

ALTERNATIVES/OTHER	VALUE	DEALS	DEC SELECTED YIELDS
Student	£703m	8	4.25% London E2
Hotel	£852m	9	5.6% Travelodge portfolio
Residential	£536m	11	7% Cardiff
Medical	£1.7bn	6	n/a

Source: Colliers International, Property Data Ltd.

**COLLIERS' VIEW:** Activity has been curtailed by political and economic uncertainty, but the latest evidence suggests a considerable pick-up in transactional activity in 2020.

### KEY INDICATORS

	LATEST <sup>1</sup>	END DEC	END NOV
UK GDP (3m/3m)	0.1% 3m/3m (Nov)	0.1% 3m/3m (Nov)	0.2% 3m/3m
UK PMI (composite)	48.9 (Dec)	48.9	48.9
EURO PMI (composite)	50.9 (Dec)	50.9	50.6
UK CPI (%)	1.3 (Dec)	1.3	1.5
UK RPI (%)	2.2 (Dec)	2.2	2.2
UK BASE RATE (%)	0.75	0.75	0.75
UK 10YR GILT (%)	0.88	0.91	0.74
GBP 3M LIBOR (% eop)	0.78	0.79	0.79
STERLING EFFECTIVE (BoE)	80.2	80.7	80.1
GOLD (USD eop)	1551	1517	1464
OIL BRENT (USD eop)	65.0	66.0	62.4
FTSE 100 (eop)	7588	7542	7347
IPD All property IY	↑ 4.64 (Q3 19)	↑ 4.61 (Q2 19)	↑ 4.60 (Q1 19)
IPD All property EY	↑ 5.54 (Q3 19)	↑ 5.50 (Q2 19)	↑ 5.49 (Q1 19)

<sup>1</sup> January 13th (data and revisions)  
Sources: FT, BoE, IHS Markit, MSCI, ONS

# OCCUPIER MARKETS

## RETAIL

UK retail sales disappointed at the end of the year, according to the Office for National Statistics, as sales volumes declined by 1.0% in the three months to December. Food stores fared particularly poorly, with a strong monthly decline of 1.3%. Data from Kantar had already indicated that supermarkets struggled in December, with grocers enduring the slowest rate of growth over the Christmas period in four years. Morrisons reported a decline in sales amid "challenging" trading conditions, and Aldi, despite revenues exceeding £1bn for the first time ever, also experienced a slowdown in sales growth during the festive period. The British Retail Consortium, reported that annual sales in 2019 fell for the first time in 25 years. The Centre for Retail Research puts the number of companies failing in 2019 at 43, affecting 2,051 stores and including major retailers such as Debenhams, Mothercare and Select. With more CVAs expected this year, there will be further downward pressure on rents. Our latest Real Estate Investment Forecast (REIF) report suggests that rents will fall across all retail segments in 2019. Shopping centres (-10% y/y) and retail warehouses (-8% y/y) will see by far the largest declines. Standard shops in central London and supermarkets will hold up somewhat better, but rents in these segments are also forecast to fall (-0.5% and -2.0% y/y, respectively).

**COLLIERS' VIEW:** Rents will continue to fall across most market segments as more space becomes redundant. Landlords will have to become more accommodating.

## OFFICES

**Central London:** Take-up in 2019 exceeded the 10-year average for a third year in succession. Pre-letting activity surpassed 3 million sq ft, which is more than double the 10-year average, with appetite for pipeline space continuing to drive demand across an increasing range of unit sizes. Pre-lets accounted for close to 25% of demand in 2019 a 10-year high. London-wide vacancy ended the year at 4.8%, which is below the level recorded at the end of 2018 (5.1%), although flat quarter-on-quarter and average headline rents saw uplifts of 2% during 2019. **Regional CBDs:** Take-up figures across most regional centres were above their respective ten-year averages. 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 further rental growth as take-up remains strong. Central London rents will also see modest increases.

## INDUSTRIAL

Data from the Office for National Statistics shows that industrial output fell by 0.6% 3m/3m in November 2019. Activity has now been at or below zero growth for seven consecutive months. Business survey data remains weak, consistent with the official data. The Manufacturing PMI fell to 47.5 in December, the second-lowest level for more than seven years and highlighting how economic and political uncertainty at the end of last year, as well as weak global trading, impacted on operating conditions in the sector. Although 2019 was a challenging year, as political uncertainty and exchange rate volatility made it difficult for businesses to commit to large capital expenditures, the sector benefitted from strong occupational demand driven by occupiers' need to future-proof their supply chain operations. In this respect, provisional take-up figures for large distribution warehouses greater than 100,000 sq ft topped 30 million sq ft, in line with the five year average.

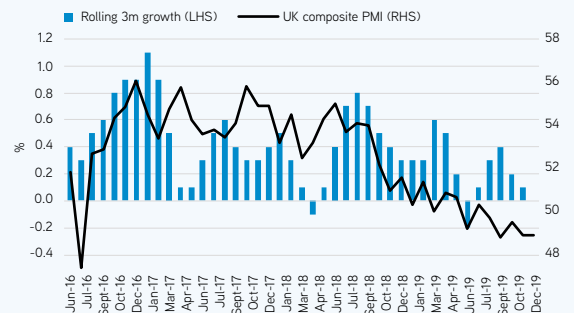
**COLLIERS' VIEW:** Pent-up demand could translate into a total take-up close to the record of 34.6m sq ft achieved in 2018.

## RESIDENTIAL

House price growth accelerated at the end of 2019, with Nationwide reporting an annual increase of 0.8% in Q4 (up from 0.3% in Q3) and Halifax suggesting that house prices grew by 4% in the 12 months to December. However, analysts believe that this rate of price growth is not sustainable. Activity indicators have been volatile over the past few months and the story of a generally subdued, but stable housing market continues. The number of monthly mortgage approvals was little-changed in November at 65,000, in line with the two-year average, according to the Bank of England. Meanwhile, the number of residential property transactions was down marginally, when compared with a year ago. The two-year fixed (75% LTV) mortgage rate stands at 1.45%, down from 1.73% a year ago.

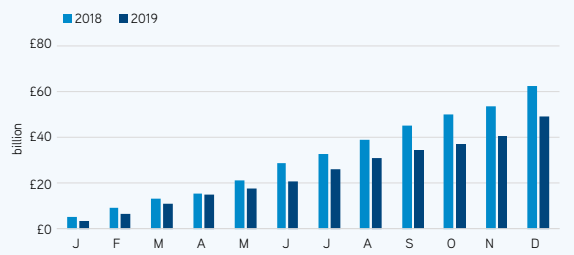
**COLLIERS' VIEW:** Increased political certainty and sustained low mortgage rates will support the market, with house prices likely to pick up. A shortage of new homes will continue to support price growth.

CHART 1: UK GDP GROWTH AND PMI DATA COMPARED



Sources: ONS, IHS Markit

CHART 2: INVESTMENT TRANSACTION VOLUMES (CUMULATIVE)



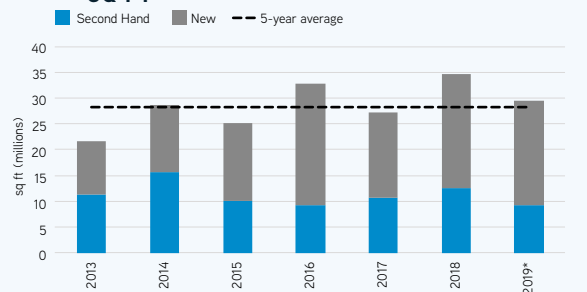
Sources: Property Data Ltd., Colliers International, December 2019.

CHART 3: REAL WAGE GROWTH AND RETAIL SALES



Source: ONS

CHART 4: INDUSTRIAL TAKE-UP, UNITS SIZED 100,000+ SQ FT



\* provisional figures  
Source: Colliers International

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