Research & Forecast Report

UK | Property Snapshot
December 2015

Accelerating success.

Economy

Economic growth in Q3 15 was confirmed at 0.5% q/q and the latest PMI data suggests that the Q4 15 result will be closer to 0.7% q/q. Service sector PMI for November strengthened from 54.9 in October to 55.9. UK inflation remains flat with marginal CPI deflation (-0.1%) in October replaced by marginal inflation (+0.1%) in November. RPI and core inflation remain subdued at 1.1% and 1.2%, respectively. The US Fed rate hike is unlikely to have much impact on UK monetary policy, especially in a setting of strong sterling and falling commodity prices. At the same time, the ECB cut its deposit rate to -0.3% and announced further QE. This has created unfamiliar dynamics for the MPC to navigate as the gulf between policies in two large trading partners diverges further.

Colliers view: Sound UK economic fundamentals will continue to be supported by accommodative monetary policy. The EU referendum is beginning to impact sentiment.

Investment

November volumes (£2.9bn) fell short of last November (£5.5bn), but 2015 year-to-date volumes remain up by 10%. The annual total looks set to match 2014 levels, but matching last year's December frenzy (£12bn) looks unlikely. Reports of 'deal congestion' or lack of capacity to deliver desired volumes may be overdone, but equally a good deal of unfinished business will be carried into 2016. UK institutions remain well-funded, although net inflows slowed in September (£204m) and October (£163m) compared to January (£428m). Foreign investors continue to account for the largest share (57%) of purchases in Q4 15 with UK institutions (14%) lagging behind (Property Data Ltd). Globally, IPE reports that fund allocations to property continue to increase and are expected to approach 10% by the end of 2016. A few large US institutions have already increased allocations to between 18 and 20%. Property yields remain stable even though the number of bidders on individual assets has thinned.

Retail Shops: Central London yields remain firm. A Russell & Bromley shop (short-lease) on Oxford Street sold to St Georges Hall Holdings for £45m at 2.3% IY. Also, an Old Street parade (fully let) was sold to Crosstree for £23m at 3.8% and a Boots (long lease) in Camden was sold for £10m at 3.9% IY. Outside London, three portfolios with a value of £128m were bought by two foreign capital funds and a UK property company. The appetite remains strong. **Shopping Centres:** Two sales completed in November, including the Walnuts SC in Orpington (including a Premier Inn and Odeon) bought by Rockspring for £44m at 6.3% IY. The Bridgend Designer Outlet Mall was bought by M&G for £115m at 5.8% IY. **Retail Warehouses:** Interest continues to come from a wide range of investors including domestic funds, propcos and foreign. An open-A1 park (Stour RP) was sold to a Credit Suisse/foreign JV for £24m at 5.5% IY. The largest deal, a park portfolio (Derby, Dundee and Gateshead) was also completed with a foreign investor (Ares) for £274m at 6.4% IY. Several other RP sales will also complete in December. **Supermarkets:** Two prime assets changed hands at around 5% IY suggesting that prime supermarket yields have moved out by between 25 to 50 bps in the last 6 months.

Central London Offices: The top three deals (£525m) were linked to re-development on Old Street (Helical), East India Dock (LaSalle JV) and 103-5 Bunhill Row (CIT Group). In the West End, 6 Duke Street was sold to Standard Life for £58m at 3% IY, with strong tenants and two vacant floors. Other low yielding assets changed hands in High Holborn (4% IY) and Southampton Street (3.9% IY). **Regional:** The South East remains a focus as three sizeable assets changed hands in Maidenhead (£55m at 7.2% IY), Reading (£98m at 7.5% IY) and West Malling (£106m at 7.3% IY). Regional prime pricing remains firm with an asset in Brindleyplace (Deutsche Bank) purchased by GLL (German) for £37m at 5.2% IY. The North West remains on the radar as one of the 'Three Graces' in Liverpool was sold to a Middle East investor for £28m.

Industrial: Recent completions include an interesting mix of assets including several distribution sheds, a Travis Perkins sale and leaseback portfolio, a prime industrial park in Sutton, a manufacturing facility and headquarters. Yields ranged from 4.8% for a multi-let park to 5.2% for a WH Smith distribution shed to 8% for a few mixed asset portfolios. UK property companies accounted for the lion's share, followed by UK institutions.

Colliers view: The total UK annual investment volume will match last year's level, but many agreed deals will not complete until January. This may augur well for momentum in 2016.

Key Indicators

	Latest[1]	End-Nov	End-Oct	End-Sep
UK GDP (%q/q)	0.5	0.5 (2nd est)	0.5	0.7 (2nd est)
UK PMI (weighted average)	55.8	55.8	55.4	53.6
EURO PMI (composite)	54.2	54.2	53.9	53.6
UK CPI (%)	0.1	0.1	-0.1	-0.1
UK RPI (%)	1.1	1.1	0.7	1.1
UK BASE RATE (%)	0.5	0.5	0.5	0.5
UK 10YR GILT (%)	1.94	1.83	1.92	1.81
GBP 3M LIBOR (%)	0.59	0.57	0.58	0.59
STERLING EFFECTIVE (FT)	92.4	93.3	92.8	90.8
GOLD (USD)	1062	1066	1142	1132
OIL BRENT (USD)	38.6	44.3	49.4	48.2
FTSE 100	6013	6356	6361	6062
IPD All property IY	5.05	na	5.05	5.08
IPD All property EY	6.15	na	6.15	6.18

[1] 15 Dec 15 (data and revisions)
Sources: ONS, Markit, FT, EIA, IPD, Haver

OCCUPIER MARKETS

Retail

Sales growth (ex-petrol) remains steady, expanding at a 3.9% y/y rate in November and driven by on-going discounting. November data shows that prices were falling across all sales categories, with the retail sales deflator declining by -2.3% y/y. November sales were buoyed by Black Friday, but the early evidence suggests that the promotion helped online retailers more than high street shops. Retail rental growth continues to lag behind other commercial sectors with the annual rate for all retail posting a 0.5% y/y increase in November. Shops outside of London and the South East fell by 0.3% y/y over the same period. Likewise, shopping centres continue to see rental declines, down by 0.7% y/y. Despite positive real wage growth, disposable income and consumer confidence, UK retail remains under pressure from major structural changes in the industry.

Colliers view: Little improvement in rental performance is evident outside of London due to price sensitivity of trade and on-going structural change.

Offices

Central London: Headline rents will finish the year at £125 psf in the West End and £70 psf in the City. Tower space is all but gone, although development and refurbishment will continue to bring new space to the market. Pre-lets are occurring earlier and earlier, especially in the West End, hence there is virtually no pure speculative development. Demand conditions remain strong.

Regional: Steady demand from a wide variety of sectors is driving moderate rental growth UK-wide. The lack of Grade-A space has meant that grade-B space has been leasing at a premium in several CBD markets with annual rental growth reaching double digits in some. Developers are accelerating the pace of refurbishment with the aim of cashing in on this cycle.

Colliers view: Unchanged. Occupier fundamentals continue to strengthen and demand across UK regions is holding up, supporting good to strong rental growth.

Industrial

Strong rental growth continues across the UK. IPD all industrial rental growth reached 4.9% y/y in November, the strongest figure since October 2000. London continues to lead, with rents growing at an 8.9% y/y rate. Rents in the rest of the UK, though, were up by 3.6% y/y, with distrubution warehouse rents up 3.5% y/y. Much of this growth is driven by lack of space, but also by strong domestic demand, especially from retail distribution, but also from consumer goods manufacturers. PMI data remains mixed, with recent manufacturing strength falling back in November to 52.7 after a 15-month high of 55.2 in October. The global trading environment remains challenging and made more difficult by the relative strength of sterling.

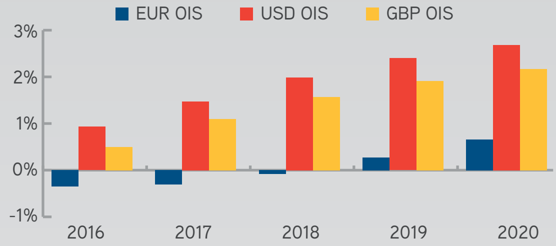
Colliers view: Phenomenal rental growth continues across the sector due to lack of quality space and strength of the domestic economy. Global trading remains tough.

Residential

House price growth is moderating despite low mortgage costs and steady demand. The main indices continued to diverge in November with Nationwide showing annual growth rate of 3.7% y/y and Halifax showing a 8.8% y/y rate, although both indices show a weakening month-on-month trend of 0.1% m/m and -0.2% m/m, respectively. Mortgage costs remain low, with the 2-year fixed 75% LTV rising slightly to 1.9% in November. Mortgage approvals remain steady at 69,630, roughly in line with the last three months. Stamp duties may be recovering after a £500m year-on-year decline in the months following implementation of new rates and thresholds in January. It is too soon to see the impact of Osborne's more recently announced tightening on private buy-to-let landlords. Accountants report that requests for company formations to circumvent new measures have increased, but point out that transferring property to these entities would in most cases trigger a capital gains liability.

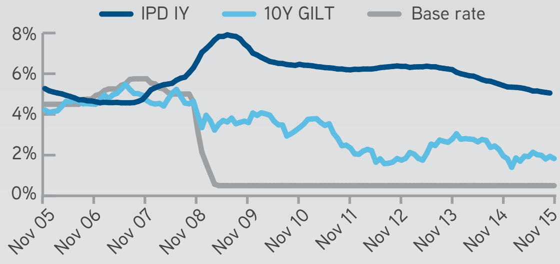
Colliers view: House price growth is moderating in response to macro-prudential and fiscal measures. The impact of new measures on the private BTL market is not yet clear.

OIS Forward Rates December 2015



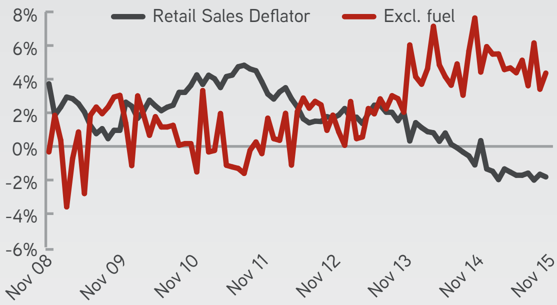
BOE, ECB, US Treasury (09 Dec)

IPD Yield and 10 Year Gilts



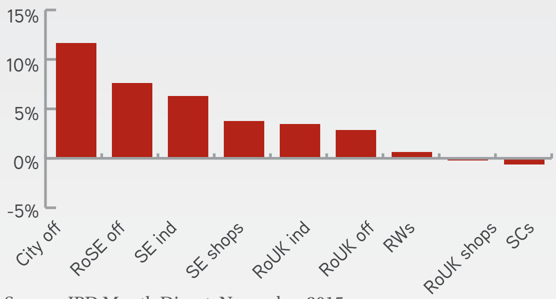
Source: Haver, IPD Monthly Index, October 2015

Retail Sales Growth %y/y



Source: ONS

Selected UK Rental Growth



Source: IPD Month Digest, November 2015

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