United Kingdom

Property Snapshot

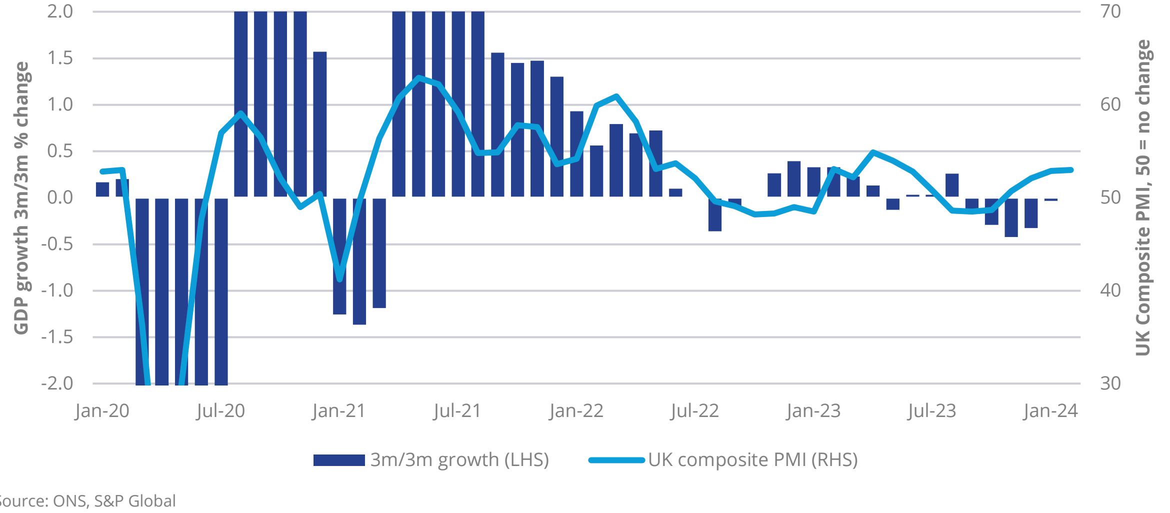
April | 2024

Economy

- GDP rose by 0.1% m/m in February following a 0.2% m/m increase in January.
- On a 3m/3m basis, GDP was up 0.1%, suggesting that the economy came out of recession at the start of the year.
- The UK Composite PMI fell slightly to 52.8 in March but was indicative of sustained moderate growth at the end of Q1.
- CPI inflation fell to 3.2% in March, marking the slowest price increase since September 2021. Inflation is expected to fall below the BoE's 2% target within the next few months.
- Retail sales volumes were flat in March (0.0%), following a 0.1% increase in February. Q1 sales volumes were up by 1.9% on the previous quarter but remained below pre-pandemic levels.
- The unemployment rate stood at 4.2% in the three months to February while the number of job vacancies rose slightly. Nominal wage growth held steady at 5.6%.
- HM Treasury forecasts show interest rates falling to around 4.5% by the end of 2024 and 3.5% by the end of 2025.
- At the time of writing, the GBP/USD exchange rate stands at 1.25. Gilt yields are firmly above 4%.
- The two-year 75% LTV mortgage rate rose from 4.77% in February to 4.97% at the end of March but remained below July's peak of 6.22%.

***Colliers' view:** Interest rates are expected to be cut in the summer, but the economy will most likely move sideways this year.*

Figure 1: UK GDP growth (Feb) and the PMI (Mar)

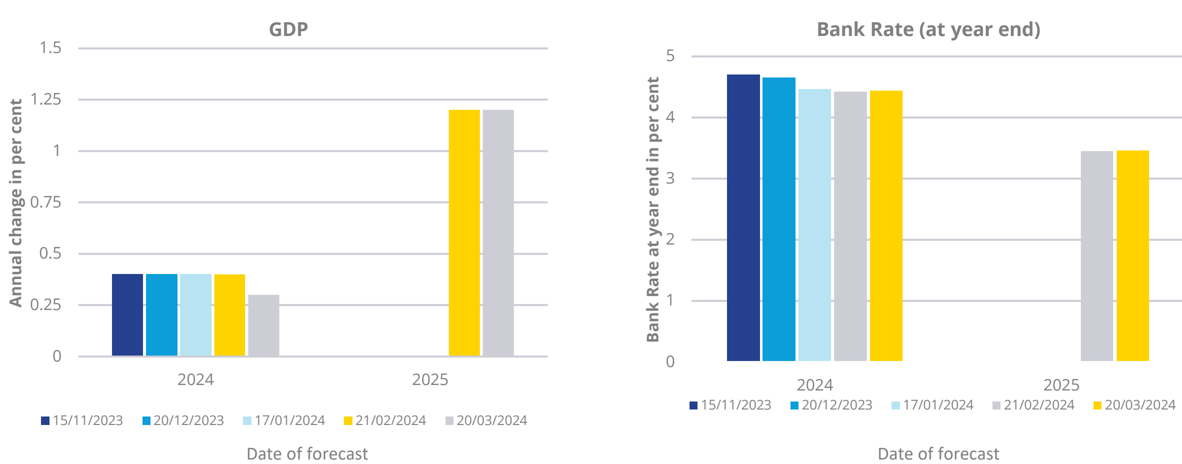


Source: ONS, S&P Global

Key Indicators	Latest[1]	End March	End February
UK GDP (3m/3m)	+0.1% (Feb)	0.0% (Jan)	-0.3% (Dec)
UK PMI (flash composite)	54.0 (Apr)	52.8 (Mar)	53.0 (Feb)
EURO PMI (flash composite)	51.4 (Apr)	50.3 (Mar)	49.2 (Feb)
UK CPI (%)	3.2 (Mar)	3.4 (Feb)	4.0 (Jan)
UK RPI (%)	4.3 (Mar)	4.5 (Feb)	4.9 (Jan)
UK BASE RATE (%)	5.25	5.25	5.25
UK 10YR GILT (%)	4.40	3.98	4.12
SONIA DAILY (%)	5.20	5.19	5.19
STERLING EFFECTIVE (BoE, Jan 2005=100)	82.3	82.8	82.5
GOLD (USD eop)	2335	2238	2046
OIL BRENT (USD eop)	89.0	87.5	83.6
FTSE 100 (eop)	8079	7953	7625
IPD ALL PROPERTY IY	▲ 5.11 (Q4 23)	▲ 4.92 (Q3 23)	▲ 4.91 (Q2 23)
IPD ALL PROPERTY EY	▲ 6.51 (Q4 23)	▲ 6.39 (Q3 23)	▲ 6.24 (Q2 23)

[1]April 25th (data and revisions)
Sources: FT, BoE, S&P Global, MSCI, ONS, Royal Mint

Figure 2: HM Treasury consensus forecasts (by date of forecast)



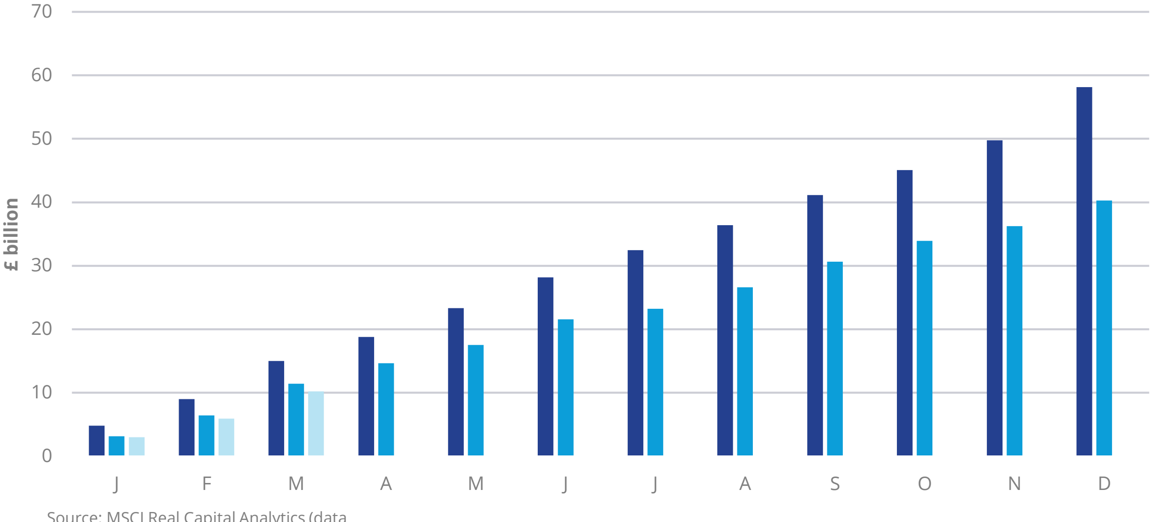
Source: HM Treasury Forecasts for the UK economy

Investment

- Monthly investment volumes rose from February's £2.9bn to a one-year high of £4.3bn in March.
- The March figure was 9% below the five-year monthly average of £4.7bn.
- The £10.2bn transacted in 2024 so far is 14% below the corresponding 2023 level.
- Around £4.4bn of the 2024 year-to-date total targeted London, followed by Manchester at £470m.
- Cross border capital accounts for 44% of all sales volumes so far in 2024. The 2023 total was 50%.
- Investor interest has been diverse in 2024 so far with offices, industrial, retail, and hotels all accounting for similar shares of activity.
- In one of March's largest transactions by value, RLAM bought One Triton Square in London for £385m.
- Elsewhere, Elevation Advisors purchased aa 11-asset care home portfolio for £207m.
- March's MSCI data showed "All Property" net initial yields holding steady.

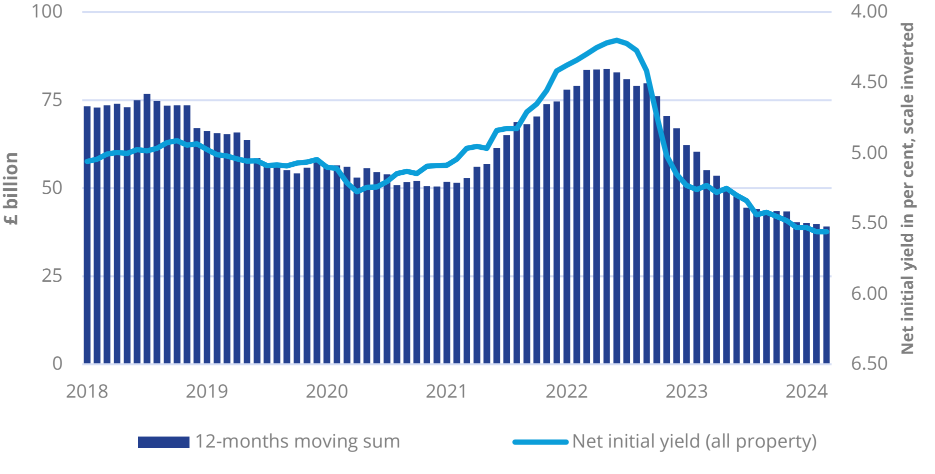
Colliers' view: *Unchanged. Investment activity will remain subdued in H1 2024 but should improve as we move through the year and interest rates are cut.*

Figure 3: 2024 investment transaction volumes (cumulative)



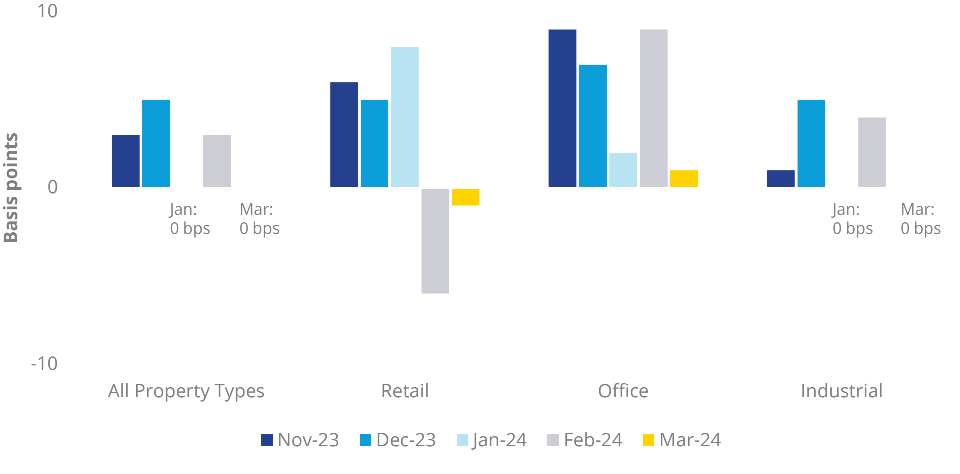
Source: MSCI Real Capital Analytics (data from 25th April 2024)

Figure 4: Monthly investment volumes (12-months moving sum) and yields



Source: MSCI

Figure 5: Monthly movement in net initial yield



Source: MSCI UK Monthly Property Index

Retail

£1bn
March investment volumes

+0.8%
Retail sales volumes (y/y % change) in March

-21
GfK consumer confidence in March

-1bps
IY "All Retail" movement in March

Capital markets:

- Retail investment volumes rose from a revised £770m in February (previously reported as £380m) to £1bn in March.
- The March figure was 56% above the five-year monthly average of £660m.
- In the year-to-date, investment volumes stand at £1.9bn which is 31% below the corresponding 2023 figure.
- In February's largest single-transaction, Shaftesbury Capital bought 21 James Street in London for £75m at a 5.2% yield.
- "All Retail" net initial yields compressed by 1 bps in March, having compressed by 6 bps in February. However, yields remain around 100 bps higher than in mid-2022.

Occupier markets:

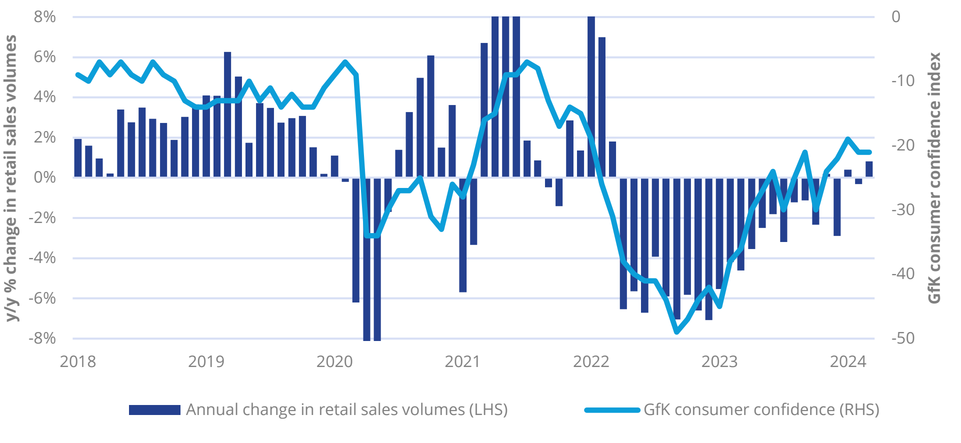
- Retail sales volumes were flat in March, following a 0.1% increase in February. Sales volumes were up by 0.8% y/y but remained 1.1% below pre-pandemic levels.
- Annual retail price inflation slowed to 4.3% in March, the lowest since July 2021.
- The GfK consumer confidence index remained at -21 in March, below its long-term average of -12.
- The Centre for Retail Research reports that 12 retailers went into administration in 2024 so far (up until end of March), affecting 308 stores.
- "All Retail" rents rose by 0.6% y/y in March, unchanged from February's growth rate.

Top March investment deals by value

Asset type	Value	Yield	Location	Seller	Buyer
Shop	£75m	5.2%	James Street, London WC2	Lothbury IM	Shaftesbury Capital
Retail Park	£56m	n/a	Parc Trostre, Llanelli	M&G Real Estate	Realty Estates
Supermarket	£46m	n/a	Tesco, Poole	abrdn	Legal & General

Source: Colliers, MSCI RCA

Figure 6: Retail sales and GfK consumer confidence



Source: Office for National Statistics, GfK

Office

£770m
March investment volumes

-57%
YTD investment volumes against 2023

+2.8%
Annual "All Office" rental growth in March

+1bps
IY "All Office" movement in March

Capital markets:

- Office investment rose from a revised £510m in February (previously reported as £380m) to £770m in March.
- The March figure was 43% below the five-year monthly average of £1.4bn.
- In the year-to-date, investment volumes stand at £1.5bn which is 57% below the corresponding 2023 figure.
- In March's largest transaction by value, RLAM acquired One Triton Square in London for around £385m.
- The MSCI Digest Index suggests that "All Office" initial yields rose by 1 bps in March, extending the outward movement that started in mid-2022 to 21 months.

Occupier markets:

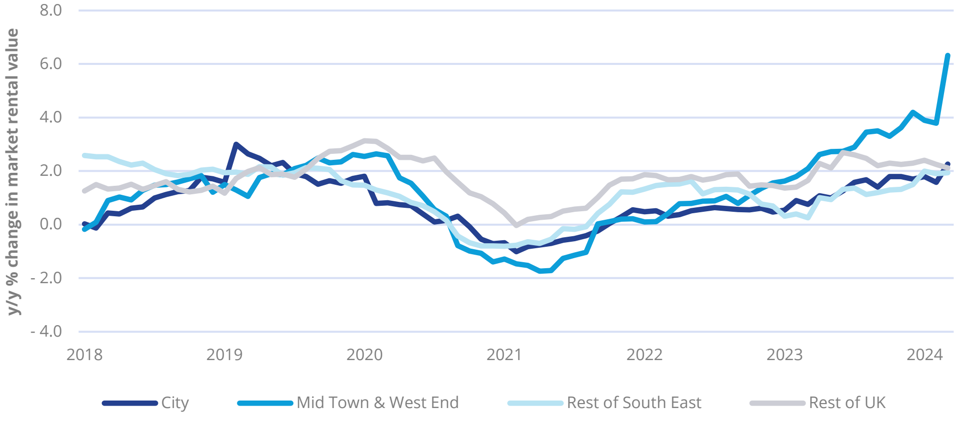
- London Q1 take-up fell to 2.1m sq ft, largely due to a shortage of larger (+100,000 sq ft) deals.
- The average deal size across London fell from 11,148 sq ft in Q4 to 7,939 sq ft.
- The 2.7m sq ft of space currently under offer is marginally above the 10-year average.
- Prime rents continue to rise across most of the London markets. Ten submarkets have seen rental growth above 6% for the last 12 months.
- "All Office" rental growth as measured by MSCI was sustained in March. The rate of growth stood at 2.8% y/y, the strongest recorded in over seven years.

Top March investment deals by value

Asset type	Value	Yield	Location	Seller	Buyer
Office	£385m	n/a	One Triton Square, London NW1	British Land	RLAM
Office	£63m	4.3%	55 St James's Street, London SW1	Lothbury IM	Nomura RE Development
Office	£48m	5.5%	111 Strand, London WC2	Edmond de Rothschild/ Esas Holding	Iino Lines

Source: Colliers, MSCI RCA

Figure 7: Market rental value growth - Offices



Source: MSCI UK Monthly Property Index

Industrial

£930m
March investment volumes

-15%
YTD investment volumes against 2023

+6.9%
Annual rental growth "All Industrial" in March

+/-0bps
IY "All Industrial" movement in March

Capital markets:

- Industrial investment rose from a revised £460m (previously reported as £260m) in February to £930m in March.
- The March figure was only slightly below the five-year monthly average of £1.1bn.
- The year-to-date investment total of £1.8bn was 15% below the corresponding 2023 figure.
- Notable warehouse transactions in March include 350,000 sq ft in Cradley Heath (£15m), and 106,000 sq ft in Warrington (£12m).
- MSCI data suggests that "All Industrial" net initial yields rose by 4 bps in March. Yields are around 150 bps higher than in mid-2022.

Occupier markets:

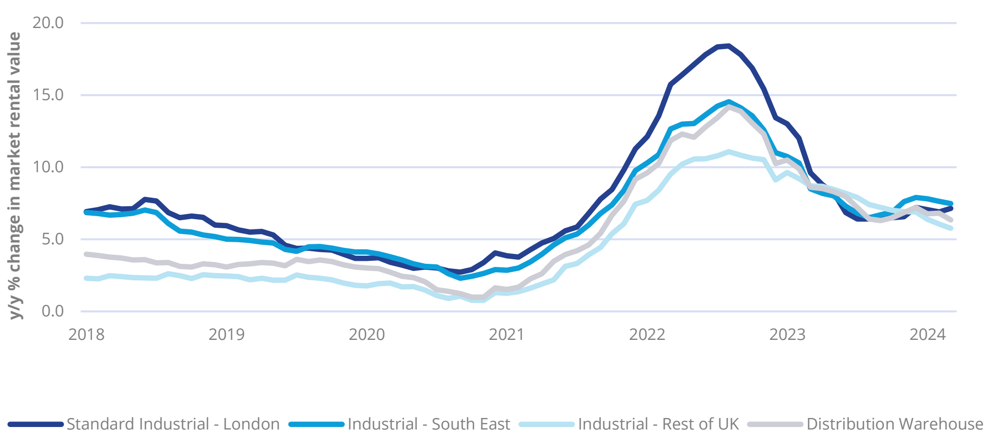
- Q1 take-up reached 5.8m sq ft which is roughly in line with the Q4 2023 figure.
- Availability for warehouses sized 100,000+ sq ft rose by 7.6% q/q to now 43m sq ft as the market witnessed the completion of 4.7m sq ft of speculative space.
- The vacancy rate has therefore risen from 6.8% in Q4 2023 to 7.2% in Q1 2024.
- Colliers' records show just under 8m sq ft of space being built or earmarked to start construction soon.
- At 6.9%, "All Industrial" annual rental growth remained above historical standards. However, rental growth slowed from 8.6% a year ago.

Top March investment deals by value

Asset type	Value	Yield	Location	Seller	Buyer
Warehouse	£110m	n/a	Mountpark, Warrington	Mountpark Properties/ Affinius Capital	KKR/ Mirastar
Warehouse	£78m	n/a	CEVA Corby	Mulberry Industrial	CEVA Logistics
Warehouse	£59m	n/a	Travis Perkins, Warrington	abrdn	M&G Investments

Source: Colliers, MSCI RCA

Figure 8: Market rental value growth - Industrial



Source: MSCI UK Monthly Property Index

Hotel

£470m
March investment volumes

+221%
YTD investment volumes against 2023

+1.8%
Annual rental growth for hotels in March

+12bps
IY "Hotel" movement in March

Capital markets:

- Investment in the hotel sector rose from a revised £360m in February (previously reported as £270m) to £470m in March.
- The March figure was well above the five-year monthly average of £280m.
- The year-to-date total of £1.7bn is more than triple the corresponding 2023 figure.
- The largest March transactions were part of the LondonMetric/ LXi REIT merger and include Travelodge Manchester Central (£46m).
- Hotel yields rose by 12 bps in March, according to the MSCI Digest Index, and are around 150 bps higher than in early 2022.

Occupier markets:

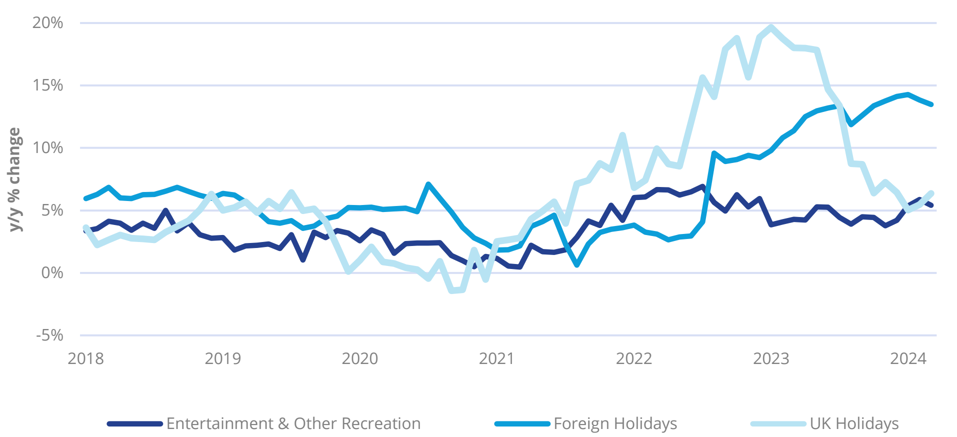
- Spending on accommodation and food services fell by 1.2% m/m in February, following a 0.8% decline in January. Spending was down by 2.8% on a year ago.
- The cost for UK holidays rose by 6.4% y/y in March, down from a rate of 19.6% at the start of 2023 but stronger than the 5.0% rise recorded in January.
- Latest MSCI Digest Index data shows that annual rental growth for hotels rose from 0.7% in February to 1.8% in March.
- Rental growth across the whole leisure sector rose by 1.3% y/y in March. This was the strongest increase since October 2022.

Top March investment deals by value

Asset type	Value	Yield	Location	Seller	Buyer
Hotel	£46m	n/a	Travelodge Manchester Central	Lxi REIT	LondonMetric Property
Hotel	£35m	n/a	The Dean, Birmingham	Press Up	Lifestyle Hospitality Capital/ Elliott Management
Hotel	£26m	n/a	Jurys Inn, Plymouth	Lxi REIT	LondonMetric Property

Source: Colliers, MSCI RCA

Figure 9: Retail Price Index – selected categories



Source: Office for National Statistics

Residential / PBSA

£230m
March residential investment volumes

£200m
March PBSA investment volumes

+0.9%
Average annual house price growth March

4.97%
2-year fixed 75% LTV mortgage rate March

Capital markets:

- Residential investment volumes slowed from £500m in February to £230m in March.
- The March figure is 43% below the five-year monthly average of £400m.
- In the year-to-date residential investment is 18% above the corresponding 2023 figure.
- The largest February transaction was the £34m sale of Sterling Gardens in Newbury (119 units).
- PBSA investment volumes rose from a revised £90m in February (previously reported as £110m) to £200m in March.
- The year-to-date figure of £430m is ahead of 2023's corresponding £140m.

Occupier markets:

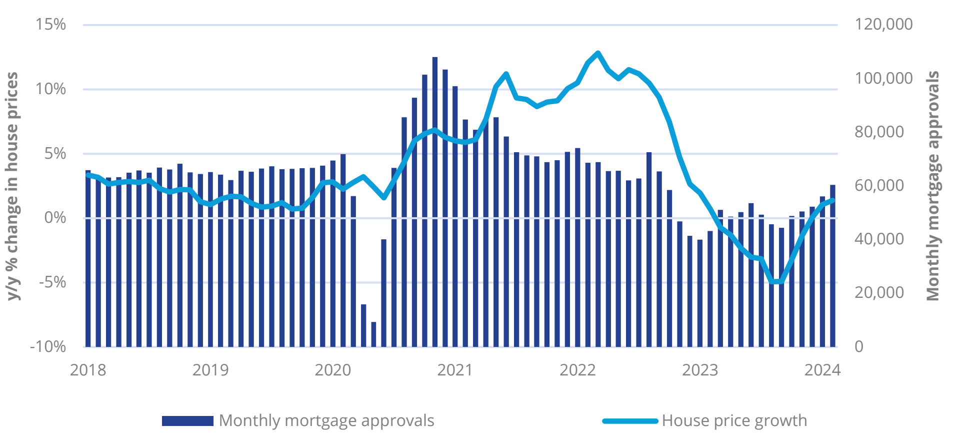
- Average house prices rose by 0.9% y/y in March, down from 1.4% in February.
- Rental growth as measured by the ONS reached a 30-year high of 7.1% y/y in March.
- The 82,940 property transactions recorded in February are down by 6% on a year ago and remain well below the five-year monthly average of 100,040.
- The number of monthly mortgage approvals rose from 56,087 in January to a 17-month high of 60,383 in February. However, they remained below the five-year monthly average of 64,469.
- The 75% two-year fixed BoE mortgage rate rose from 4.77% in February to 4.97% in March.

Top March investment deals by value

Asset type	Value	Yield	Location	Seller	Buyer
PBSA	£45m	n/a	Gas Lane, Bristol	Watkin Jones	Hines
PBSA	£44m	n/a	Capital House, Southampton	Kier Group PLC/ Investec	Greystar
Resi	£35m	n/a	Stoke & Dudley Apartment	Persimmon Homes	Gatehouse Bank/ Carlyle Group

Source: Colliers, MSCI RCA

Figure 10: House price growth and mortgage approvals



Source: Bank of England, Halifax, Nationwide

For more information

Research & Economics

Oliver Kolodseike
Director
oliver.kolodseike@colliers.com
+44 20 7487 1671

Walter Boettcher
Head of Research and Economics
walter.boettcher@colliers.com
+44 20 7344 6581

Colliers
95 Wigmore Street
London W1U 1FF
colliers.com/uk-research

Colliers
Accelerating success.

Business