

Economy

The last Q4 15 estimate surprised on the upside as GDP growth was revised to 0.6%, with the services sector continuing to fuel growth. However, despite 12 consecutive positive quarters, business sentiment suggests a slowdown in Q1 16. PMI surveys were generally subdued, albeit all above the expansionary threshold of 50. Construction PMI was unchanged at 54.2 in March, but manufacturing and services recorded increases, reaching 51.0 and 53.7 respectively. Nevertheless, the latest readings were generally running below the long-term average. GDP growth in Q1 16 is anticipated to be close to 0.4% which, while respectable by Western European standards, is consistent with a mid-cycle slowdown. Price growth, meanwhile, began to accelerate as 'base effects', particularly from oil and energy prices, filtered through. CPI picked up to 0.5% y/y in February, while RPI reached 1.6% y/y – the highest rate since December 14. The labour market remains tight and unemployment is running at 5.1%.

Colliers' view: EU referendum uncertainty is impacting on investment and business sentiment. Inflation is accelerating but not rapidly enough to significantly shift interest rate expectations.

Investment

A total of £13.6bn worth of assets was transacted in the first three months of 2016 according to preliminary estimates from Property Data. This translated into a 27% y/y decline in trading volumes in Q1 16. With the exception of the industrial sector, which saw its share rise, all sectors witnessed a fall in volumes. However, this decline was particularly marked for leisure, alternative and mixed-use assets which, when combined, accounted for a shortfall of almost £4.4bn on the same period last year. Most of the quarterly slowdown and difference can be explained by a subdued March, with the £4.9bn transacted significantly below the £10.1bn recorded in the same month last year, albeit March 15 was the peak. The UK investment market continues to be driven by overseas investors and three of the top five acquisitions in March had an Asian flavour. Mapletree Investments acquired the Ardent UK portfolio, which consists of 25 buildings across 12 UK cities, making it the largest transaction (£417mn, IY 6.0%) and suggesting continued interest for student housing. Elsewhere, a JV between Resolution (UK) and Fosun (China) acquired six buildings at Thomas More Square in Wapping for £297.5mn (IY 5.84%). Finally, March also saw Malaysian Employees Provident Fund buying a portfolio (Project Phoenix), comprising office and industrial assets scattered across the UK, from IM Properties for £200mn.

Retail Shops: A cluster of small sub-£10mn deals were transacted in March, with only five transactions above this mark. The highlight was the sale of the BHS flagship store on Oxford Street for £55mn to Oxford & City. A pre-let has already been agreed with Reserved, a Polish retailer, who are expected to open their first flagship store in the UK. **Shopping Centres:** Only one deal finalised; the acquisition of the Bell Walk Shopping Centre in Uckfield (£3.5mn, IY 9.5%)

Retail Warehouses: A relatively quiet month with only a handful of deals transacted. The largest was the acquisition of a mixed leisure, retail and retail warehouse development in Dover (£35m, IY 6.25%). **Supermarkets:** Two transactions recorded in March. TH Real Estate purchased a Tesco Superstore in Portsmouth from William Pears for £35mn (IY 5.00%). Elsewhere, Colliers Capital purchased a Tesco unit in Leeds for £7.75mn (IY 6.10%).

Central London Offices: In addition to the Thomas More Square transaction and the St George Street benchmark deal (£121.7mn, IY 3.50%) mentioned in the March Snapshot, Hong Kong's Pacific Eagle acquired 71 Queen Victoria Street for £220mn (IY 4.50%). Meanwhile, a JV between Sidra Capital (Saudi Arabia), backed by Al Murjan Group (Saudi Arabia), and 3 Associates Capital acquired the landmark 1 Pall Mall East office block for £85mn (IY 3.47%).

Regional: Noticeably better activity in Birmingham and Manchester compared with March last year. The largest regional deal was finalised in Birmingham where the Three Snowhill development was purchased by M&G Real Estate for £200mn. Good activity in Manchester where the multi-let 3 and 4 Piccadilly Place were purchased by Ares Management for £115mn (IY 6.05%). **Industrial:** M&G was also active in the industrial sector as it acquired a large unit in Tamworth for £81mn (IY 5.14%). Elsewhere, Tritax purchased Argos' national distribution centre in Burton-Upon-Trent for £74.7mn (IY 5.55%).

Colliers' view: Activity has slowed given the uncertainty around the EU referendum, but pricing is holding firm and bidding numbers are still healthy in selected locations. Nevertheless, some investors are adopting a 'wait-and-see' approach, which should translate into a post-vote rally if the status quo is maintained.

Key Indicators

	Latest ¹	End-March	End-Feb	End-Jan
UK GDP (%q/q)	0.6	0.6(3rd est)	0.5(2nd est)	0.5(1st est)
UK PMI (weighted average)	53.4	53.4	52.6	55.4
EURO PMI (composite)	53.7	53.7	53.0	53.6
UK CPI (%)	0.5	0.5	0.3	0.3
UK RPI (%)	1.6	1.6	1.3	1.3
UK BASE RATE (%)	0.5	0.5	0.5	0.5
UK 10YR GILT (%)	1.56	1.50	1.40	1.63
GBP 3M LIBOR (%)	0.59	0.59	0.59	0.59
STERLING EFFECTIVE (FT)	86.4	85.7	84.8	88.3
GOLD (USD)	1255	1237	1235	1112
OIL BRENT (USD)	44.0	40.2	36.6	35.9
FTSE 100	6354	6174	6097	6084
IPD All property IY	4.97	4.97	4.98	4.99
IPD All property EY	6.04	6.04	6.05	6.05

¹ Apr 20th (data and revisions)

Sources: ONS, Markit, FT, EIA, IPD, Haver

OCCUPIER MARKETS

Retail

Positive retail sales growth continued its uninterrupted sequence in March, extending to 35 months of consecutive year-on-year rises. Volume growth was slower compared with the first two months of the year, increasing by 2.7% y/y in March but also falling by 1.3% m/m. However, an early Easter and bad weather were partly to blame and April is anticipated to see an improvement. Heavy discounting and squeezed margins remained a common theme. Consumers and retailers will continue to be supported by an accommodative economic environment. Inflation, while picking up, remains low. What is more, despite recent lower than expected wage growth figures, the labour market is tight and unemployment is low. Additionally, the introduction of the National Living Wage may provide a boost to the retail sector in terms of increased turnover, although this may be offset by higher labour costs in the sector. Annual shop rental growth in March remained slightly below the 1% mark according to IPD Monthly data, but this continued to be driven primarily by London and the South East, with the Rest of UK index falling by 0.4% y/y. There were, however, some signs of improvements for shopping centres and retail warehouses which saw rental growth edge up.

Colliers' view: Stability is increasingly the key word. Despite the recent weakness, retail sales remain robust but continue to be fuelled by discounting. Non-store growth remains a threat to demand for retail space, but its growth should slow in the medium to long term.

Offices

Central London: In contrast to markedly slower investment market activity in Central London, the occupier market appears relatively unfazed and demand is robust, underlined by several new large-scale enquiries and some high profile lettings. What is more, vacancy rates are still low and affecting absorption levels. Media and Tech activity is, however, slowing in core locations, but with fringe and emerging markets benefitting. Rental growth in core locations has consequently moderated, while fringe sub-markets have witnessed healthy uplifts. Headline rents were unchanged in March at £70 psf in the City and £125 psf in the West End. **Regional:** Demand continues to filter through to regional cities, albeit quarterly rental growth increases were generally limited to a select number of cities in Q1, most notably in Birmingham where headline rents rose to £32.50 psf.

Colliers' view: Supply remains tight for Grade A stock and requirement levels are healthy. FBS employment and rental growth are forecast to gradually slow this year.

Industrial

The manufacturing PMI edged up from 50.8 in February to 51.0 in March. While still in expansionary territory, it remains driven by the domestic market, with consumer goods production reversing the slight contraction observed in February. Sterling's effective rate against a basket of currencies continued its downward trajectory in March and at the start of April, although it steadied and recovered some lost ground thereafter. A "Brexit" premium may now be factored into Sterling's pricing, but it remains to be seen whether it will have a meaningful impact on export growth. Supply of industrial space remains limited and it continues to support rents in the absence of the same vibrant demand seen last year. However, rental growth may be peaking and forecasts for this year are generally more modest at 4.4%.

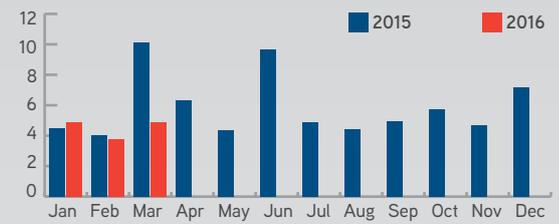
Colliers' view: A shortage of quality stock is evident, although increasingly new speculative space is available in selected regional markets.

Residential

According to Halifax, annual house price growth edged up to 10.1% y/y in Q1 16, a trend confirmed by the Nationwide survey. A rising house price to earnings ratio, now at pre-recession levels, does not appear to be cooling demand. Mortgage approvals were again strong in February, just below the 74,000 mark, with potential homeowners encouraged by ultra-low mortgage rates. The 2-year fixed rate for a 75% LTV mortgage fell to 1.88% in March. However, other buyers will have been keen to avoid the new stamp duty taxes on second homes, which may explain some of this increased activity. Nevertheless, supply remains tight, particularly in London where rising flat values continue to support double-digit price growth in some boroughs. Regulatory tightening and the introduction of the new stamp duty tax thresholds are, however, adversely impacting on prime property pricing in Central London.

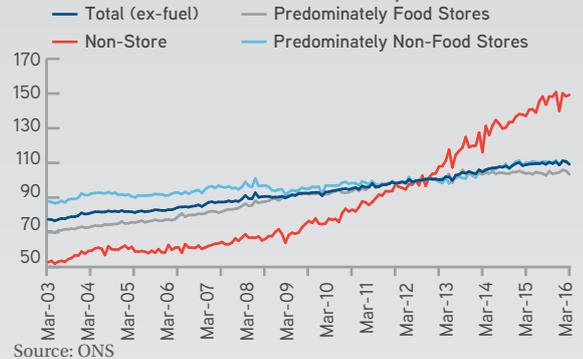
Colliers' view: House price growth continued to rise unabated, although some cooling is expected in the coming months driven by EU referendum uncertainty and stamp duty changes.

UK Investment Volumes (£ bn)



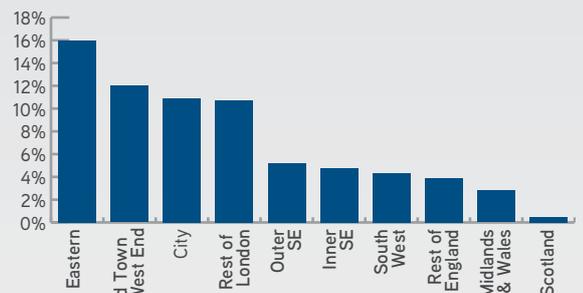
Source: Property Data Ltd

Retail Sales Value Index (ex-petrol)



Source: ONS

Annual Office Rental Growth (March 16)



Source: IPD Monthly Digest

Mortgage Rates



Source: Bank of England

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