Economics & Real Estate

Q1 2017

Growth sustained despite never-ending political flux

Economic Highlights

- The final estimate of GDP for Q4 2016 confirmed quarterly growth at 0.7%, with an annual expansion of 1.8%. Business investment declined 0.9% in Q4, and in 2016 overall it fell 1.5% versus 2015.
- Consumer price inflation (CPI) increased by 2.3% in the year to March; the highest rise since September 2013. Higher prices are mainly feeding through from imported goods (owing to sterling's weakness). The Bank of England is not expected to raise rates in response to above-target inflation figures given tepid growth in wages.
- The latest employment statistics for the three months to February 2017 show an increase in employment of 39,000 when compared against the three months to November 2016. Unemployment fell by 45,000 to 1.6 million, with the unemployment rate falling marginally to 4.7%.
- Brexit update: the United Kingdom is due to a have a General Election on 8th June. The markets, thus far, have received the news well: it is being interpreted as a chance for the Prime Minister, Theresa May, to establish a strong mandate for Brexit and a (predicted) larger majority to see it through, with consensus suggesting it will give her the chance to pursue a softer Brexit than recent rhetoric has suggested.

The IMF's World Economic Outlook, April 2017, forecasts UK growth of 2.0% in 2017 and 1.5% in 2018.

Consumer spending continues to be a key driver of growth; the quarterly household savings ratio fell sharply, to 3.3%, in Q4 2016.

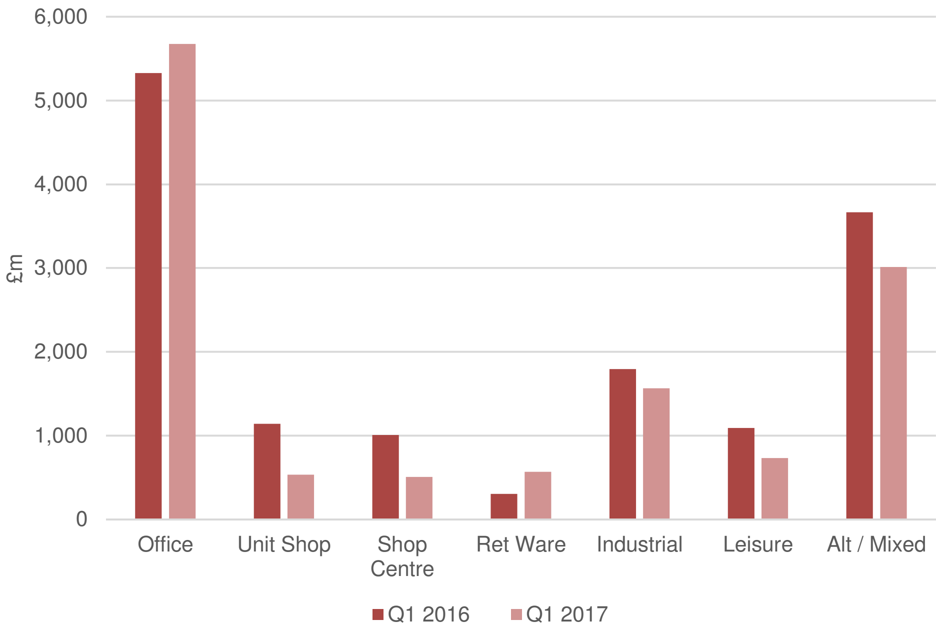
Sector Highlights

- Office – the UK Services PMI increased in March, reaching 55.0 compared to 53.3 in February. The index has now seen eight consecutive months of growth. (Markit/CIPS)
- Industrial – the UK Manufacturing PMI fell to a four-month low of 54.2 in March. However, it remains in growth territory and well above the long-run trend of 51.6. (Markit/CIPS)
- Retail – retail sales volumes in February rose 1.4% versus the previous month. The three months to February, however, saw sales fall 1.4% versus the previous three months, the largest contraction since March 2010. (ONS)
- Construction – the UK Construction PMI recording a reading of 52.2, marginally down on the previous month's 52.5. Weaker growth was mainly driven by a loss of momentum in the house building sector. (Markit/CIPS)
- UK house prices increased 1.1% in Q1 2017, and were up 4.1% on an annual basis. London house prices saw growth of 2.4% in the first quarter, with annual growth standing at 5.0%. (Nationwide)

According to the average of independent forecasters' views compiled by HM Treasury for April, UK CPI is expected to be 3.0% in 2017. Above the Bank of England's 2.0% target.

%

Investment Activity



Source: Property Data as at 18/04/2017

Q1 2017 saw investment volumes of £12.6bn, 12% down on the same quarter last year (£14.4bn).

Overseas investors accounted for 53% of the market in the first quarter, and 46% in the 12-months to the end of Q1 2017.

Prime Yields

	Sector	Prime Yield*	Direction (next six months)
Industrial	Logistics (15 years)	5.00	Stable
	Industrial Estate - Greater London	4.50	Stable
	Industrial Estate – National	6.25	Tightening
Office	City	4.00	Stable
	West End	3.50	Stable
	South East	5.25	Stable
	Provincial	5.25	Stable
Retail	High Street - Regional Centre	4.00	Stable
	Out of Town (open A1)	5.00	Stable
	Shopping Centre	4.50	Stable
Alts	Healthcare	4.50	Stable
	Hotels	4.50	Stable
	Student	4.75	Stable

*The achievable yield for a freehold, prime investment; fully let and rack-rented to tenant/s of strong financial credibility on lease terms typical of prime property in that segment. Alts = Alternatives

Prime yields in Q1 were stable, with bidding remaining strong at current pricing.

Moreover, the first two months of data for 2017 from the IPD UK Monthly Index suggest that yields in the wider market have stabilised, following the negative yield impact seen across most sectors in the aftermath of the Brexit vote.

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