



Professional Conferences, Bristol, March 2023

Risk, reality and UK recovery

Dr Walter Boettcher, Head of Research, Colliers

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1 2

Agenda

- 01 Economy and rates
- 02 Property dynamics
- 03 Levelling up agenda
- 04 Q&A



UK economy to shrink in H1 2023, but recovery in H2 2023 Economic forecasts (GDP) strengthening

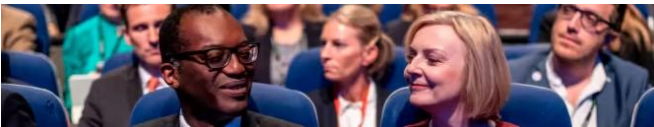
BoE outlines two bleak scenarios for taming inflation

Even under the central bank's dovish forecast, the UK is heading into a protracted recession

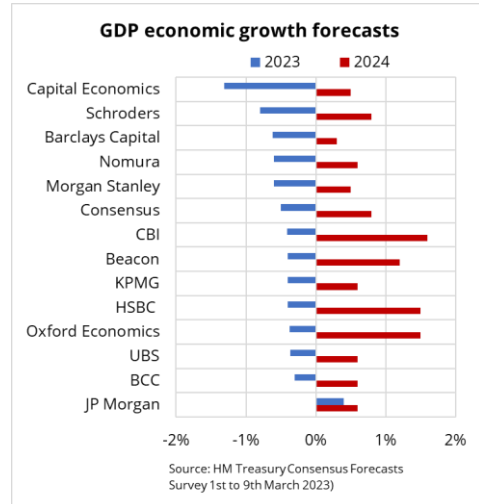
Chris Giles in London NOVEMBER 3 2022

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- November - 2.9% decline and longest recession in history
- In February, data shows no UK economy in 2022
- Treasury consensus: -0.5% in 2023 and +0.8% growth in 2024
- Most contraction in H1 2023. Recovery in H2 2023



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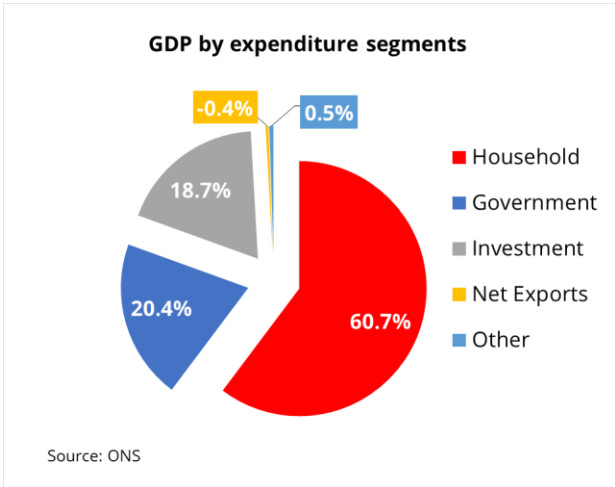
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Household spending accounts for 61% of UK GDP

Key downside risk – inflation & interest rates`

Risk	Impact
Inflation	Real disposable income
	Discretionary spending
High interest rates	
	Mortgage rates
	Real disposable income
	Home equity & savings
	'Wealth effect' eroded

- Consumer confidence near record lows (lower than pandemic and GFC)
- Pandemic savings gone
- House prices down for six consecutive months
- Bank Rate decisions crucial



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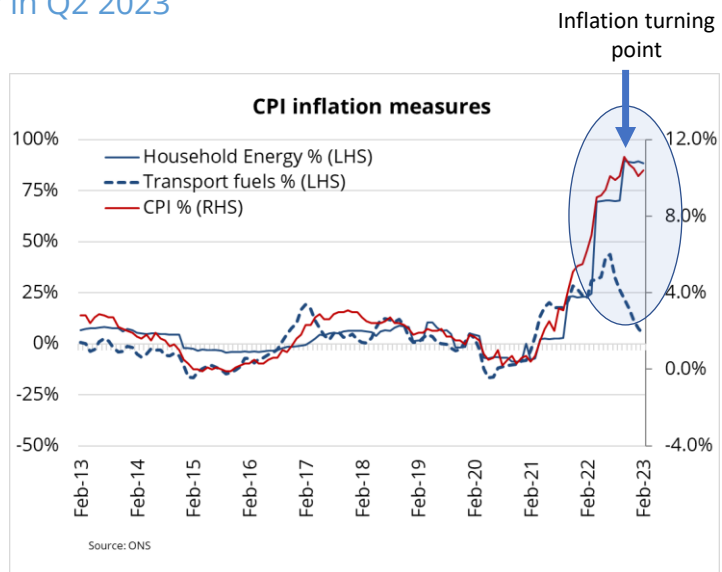
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Inflation set to fall rapidly in Q2 2023 Good news!

- Inflation to fall rapidly in Q2 23
- Consumer and business confidence will improve
- Economy stronger than expected (PMI - Feb 53.1 & Mar 52.2)
- Unemployment (3.7%)
- Bank Rate may have peaked!



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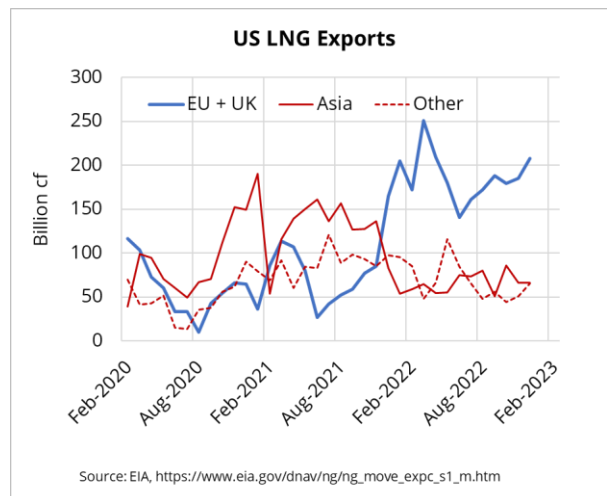


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Natural gas prices at 18-month low (pre-Russian aggression) More good news! UK and European energy security improved

- Natural gas prices at 18-month low:
 - ✓ *mild European winter*
 - ✓ *20% increase in energy efficiency by energy intensive industries (in Germany)*
 - ✓ *phenomenal supply response*



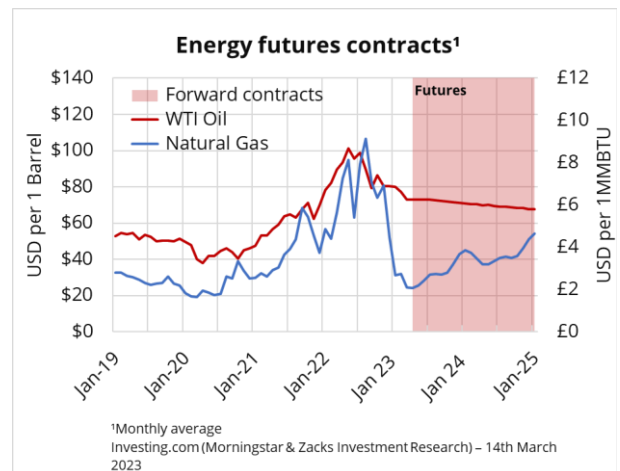
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Natural gas prices at 18-month low (pre-Russian aggression) More good news! UK and European energy security improved

- Natural gas prices at 18-month low:
 - ✓ *mild European winter*
 - ✓ *20% increase in energy efficiency by energy intensive industries (in Germany)*
 - ✓ *phenomenal supply response*
- Forward contracts and inventories suggest that European supplies secure through 2024
- Transport fuel prices are falling (speculative?)
- Uncertainty remains (China's economy, Russia's aggression, global banking system, central bank policies)



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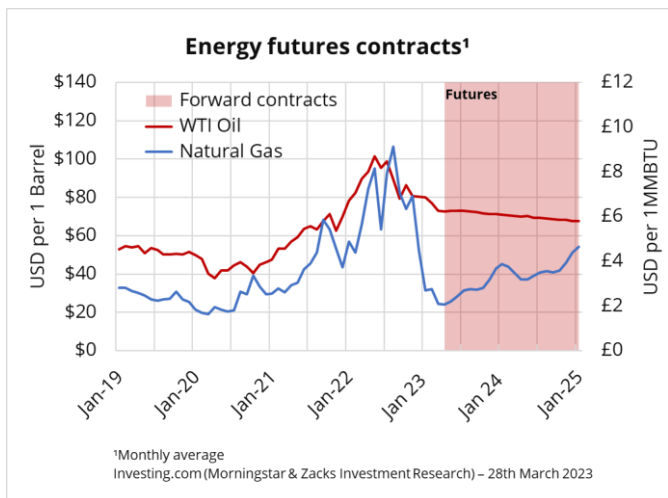
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Natural gas prices at 18-month low (pre-Russian aggression) More good news! UK and European energy security improved



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Annual 'base effects' set to drive CPI inflation lower Brent crude (price per barrel)

	J	F	M	A	M	J	J	A	S	O	N	D
2021 (Oil price)	\$55	\$62	\$65	\$65	\$69	\$73	\$75	\$71	\$74	\$84	\$82	\$74
2022 (Oil price)	\$87	\$97	\$117	\$105	\$113	\$123	\$112	\$100	\$90	\$93	\$91	\$81
2023 (Oil price)	\$82	\$82	\$73	\$73	\$73	\$73	\$73	\$73	\$72	\$72	\$71	\$71
2022 (Oil inflation)	58%	56%	79%	61%	65%	68%	49%	42%	21%	12%	12%	9%
2023 (Oil inflation)	-5%	-16%	-37%	-30%	-35%	-40%	-35%	-27%	-20%	-23%	-22%	-12%

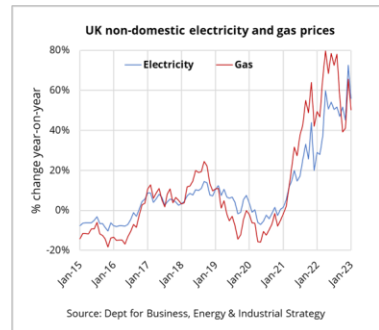
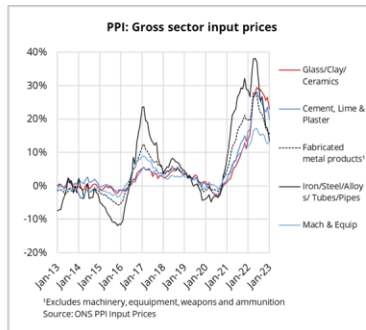
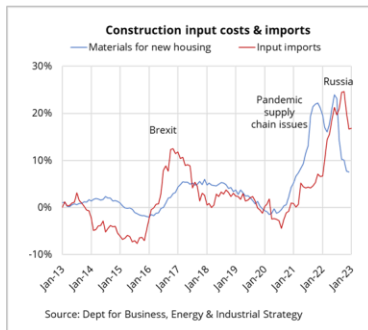
- Oil is stabilising this year at around \$71 per barrel
- But oil price *inflation* will be deeply negative, because this year's price is being compared to last year's price
- CPI is a *year-on-year* comparison figure
- The 'base' is 2022 and is so high that this year's CPI figure will be very low!
- This is also referred to as the '*denominator effect*'

Base effect



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Supply chains recovering and domestic production increasing Business input and import costs falling

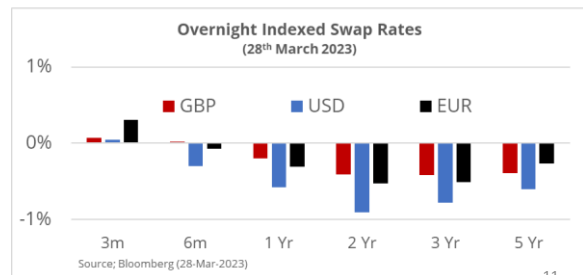
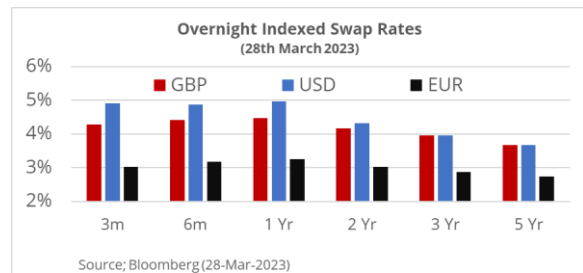


One- and two-year swap rate movements seem to support this view Interest rate peak may have arrived in UK?

- **Key dates to watch:**

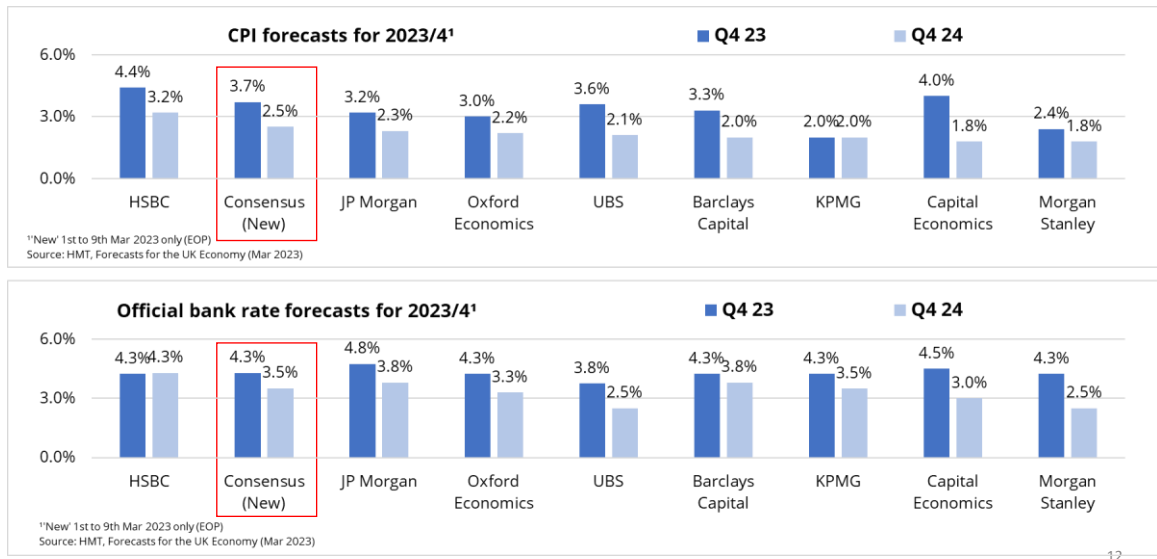
- ✓ (1) *Spring Budget (15th March);*
- ✓ (2) *February CPI release (March 22nd);*
- ✓ (3) *Bank of England meeting (23rd March); and*
- ✓ (4) *March CPI (19th April)*

- A clear path of fiscal and monetary policy will reduce uncertainty and lead to greater business confidence in H2 2023
- Bank turmoil may prove to be a key driver of moderating rate expectations



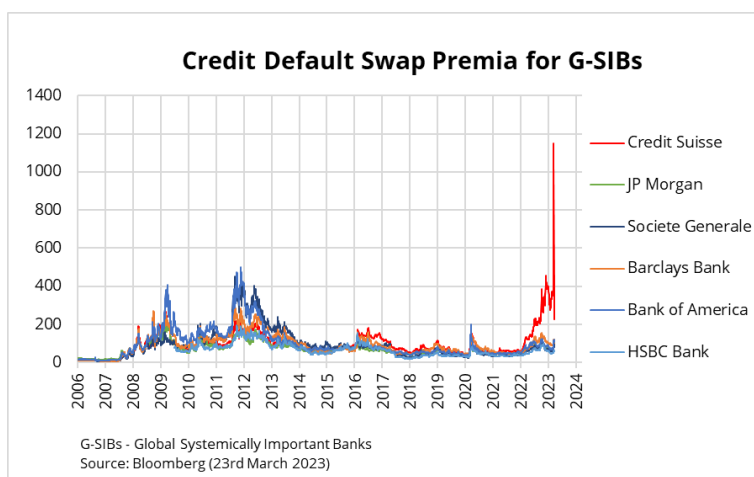
The Bank Rate may have peaked in March?

Inflation - the key policy risk, or overtightening of policy?



Data suggest no significant contagion among global systemically important banks

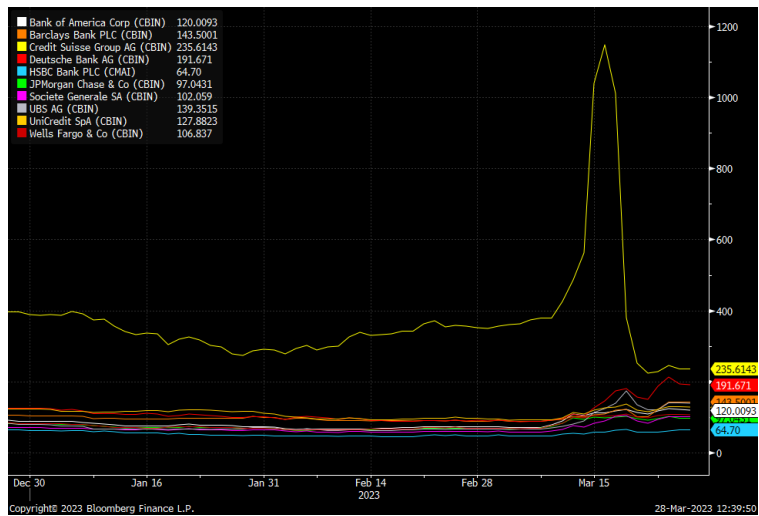
A new financial crisis?



Data suggest limited contagion among global systemically important banks

A new financial crisis?

Credit Default Swap Premia for G-SIBs (Globally systemically important banks)



Source: Bloomberg (28-March-2023 12:39:50)

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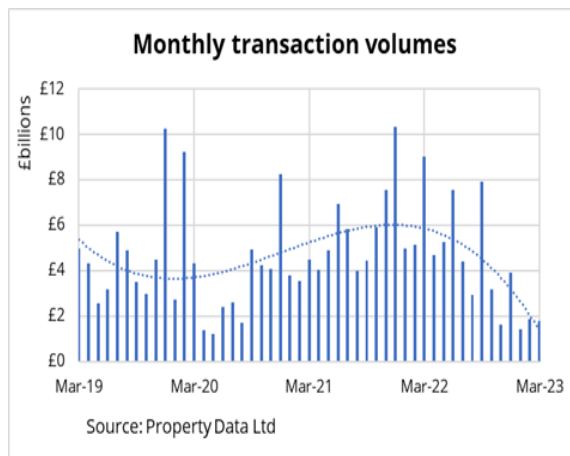
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Uncertainty and rising cost of debt prompting re-appraisal Transactional flow at a snails pace in Q1 2023



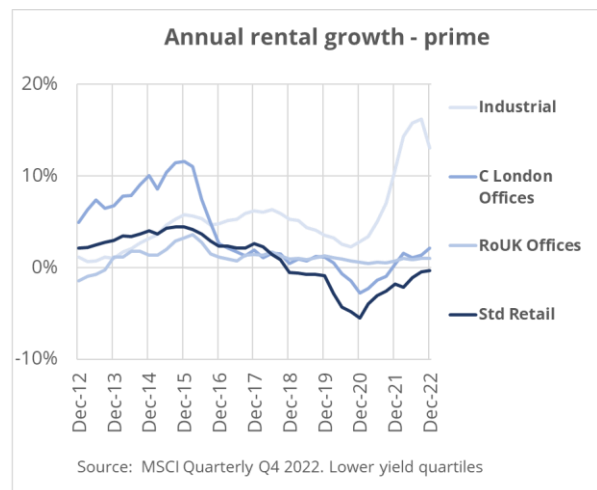
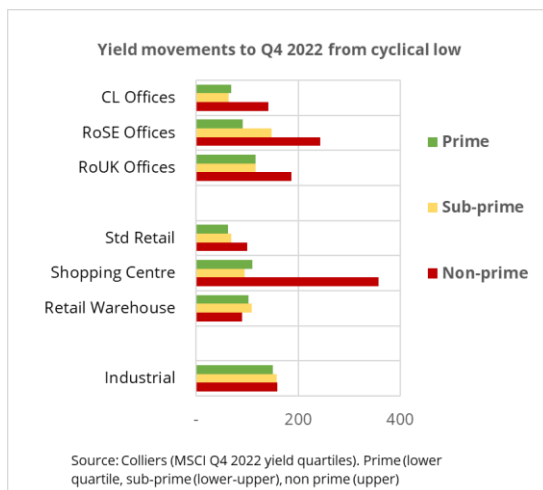
- Lowest level of activity since GFC
- All sectors impacted
- Sentiment driven?
- Debt cost driven?
- **Weight of capital remains a defining force!**

Return expectations			Risk profile
2019	2022	2023	
17%+	15%+	20%	Opportunistic
12-17%	10-15%	12-15%	Value-add
8-12%	7-10%	8-12%	Core+
5-8%	4-7%	6-8%	Core

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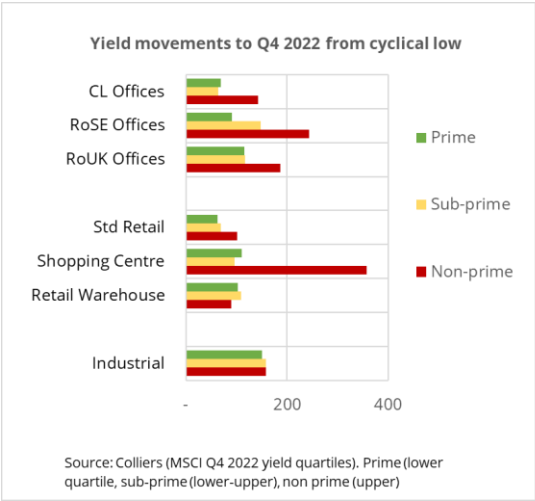
Business

Occupier markets stabilising, but ESG impact not yet visible Pricing correction substantial, limited scope for yield expansion

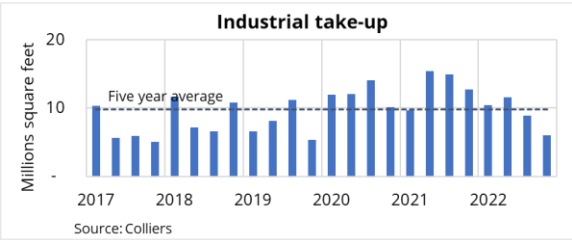
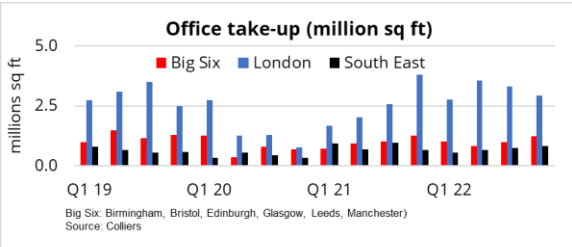


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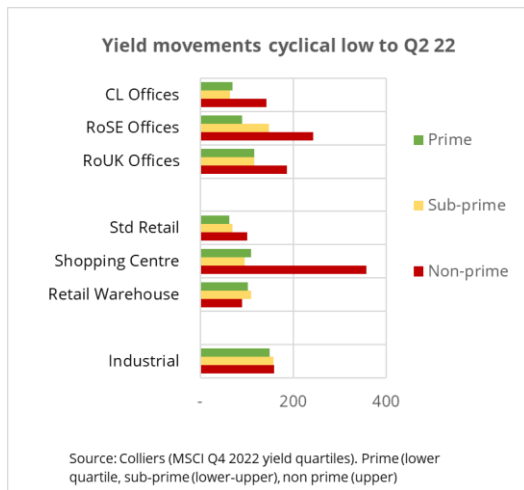
Demand conditions stable despite ESG and structural change . . . So far
Pricing correction substantial, limited scope for yield expansion



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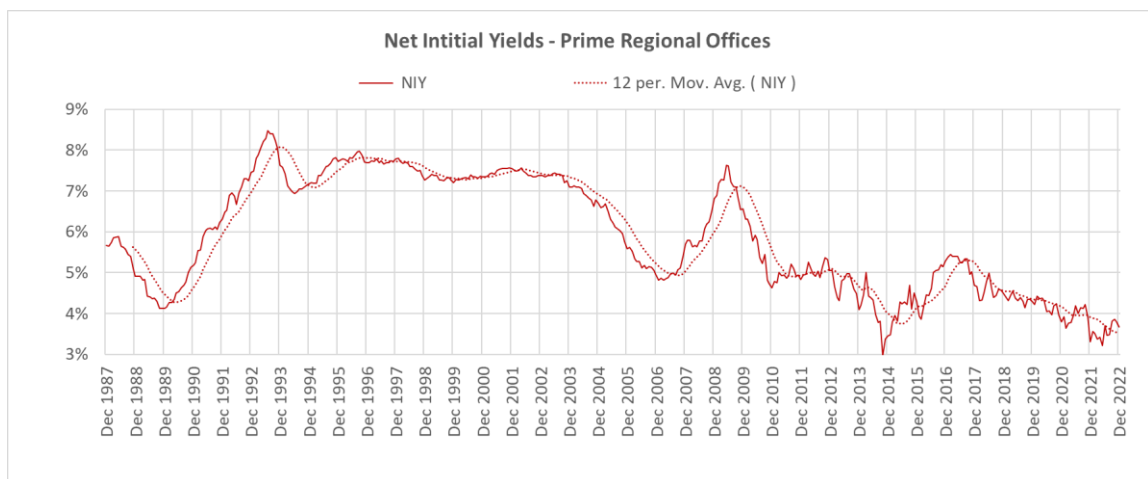


Retail linked less to market dynamics and more to structural change Pricing correction substantial, limited scope for yield expansion



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Long-term trends have distorted short-term cycles Prime regional office yields

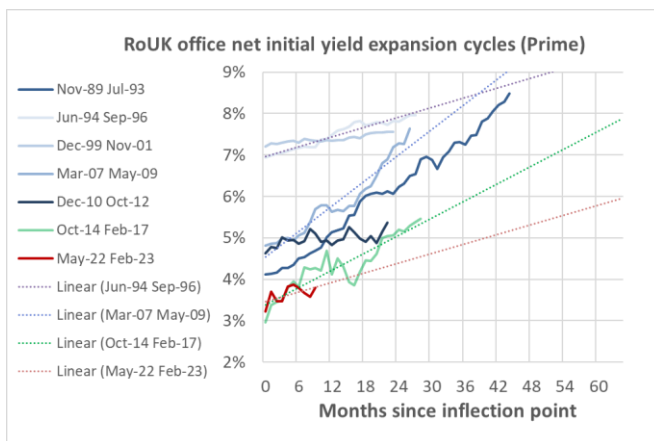


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Business

Cycles are shaped by conditions in financial and property markets

Yield expansion cycles



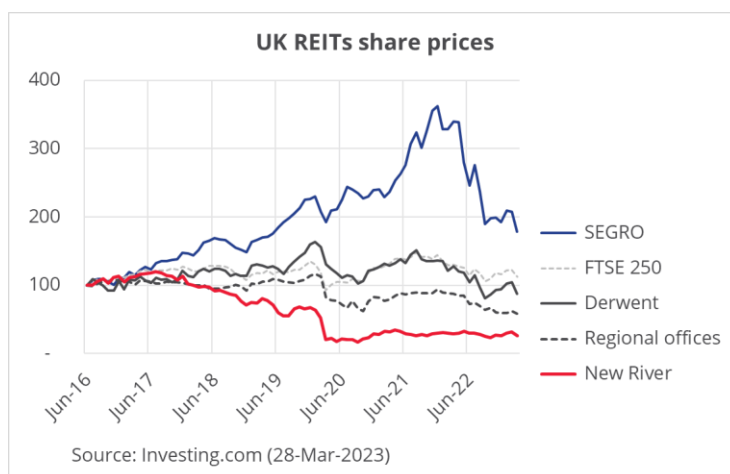
- Yield expansion cycles variable in length and amplitude
- Rate of change and duration depend on numerous variables including:
 - *Yield departure point*
 - *Ten-year bond level*
 - *Weight of capital*
 - *Debt availability & cost*
 - *Risk perceptions*
- The latest price movements appear to be moving in line with the previous 1994 to 1996 expansion cycle, but the bond market has changed radically

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Business

Short-term cycles distorted by long-term technological and social change Structural change

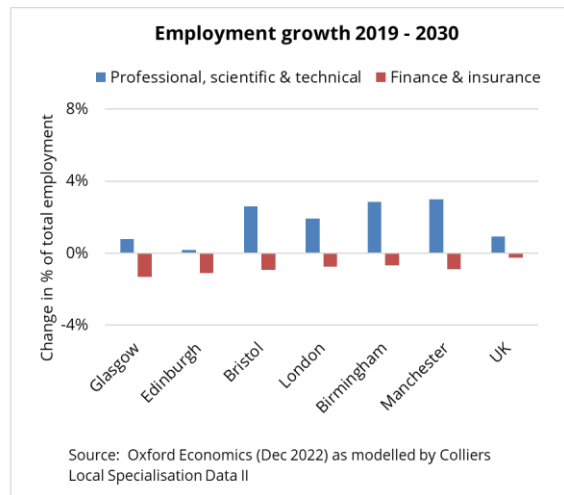
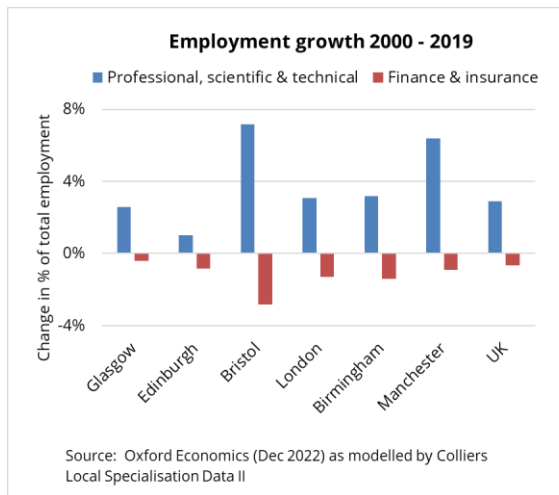
- E-commerce
- Retail provisioning
- Lifestyle choices & workplace changes
- ESG agenda
- AI integration – home working



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Business

Financial services giving way to professional and technical employment? Economic evolution – out with the old, in with the new?



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'The reports of my death are greatly exaggerated.'
Is 'levelling up' alive and well?



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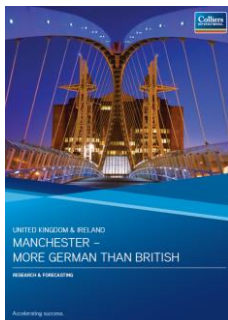
Michael Heseltine: 'The adults are back in charge'

The Tory grandee on turning 90, 'levelling up' Liverpool — and whether Britain will rejoin the EU

- Name checked by Hunt in the Spring Budget as an urban regeneration trailblazer
- Today's politicians have failed to embrace the model he envisioned

Devolution and regional development Regional revolution

Devolution



Manchester – more German than British, 2012

Devolution, local finance, comparative advantage, regional specialization, high value-add industries

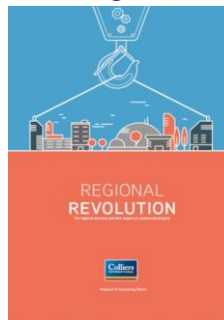
Agglomeration



Regional Revolution I: Building the UK Powerhouses, 2014

Crossrail of the North, transport infrastructure, agglomeration and productivity gains

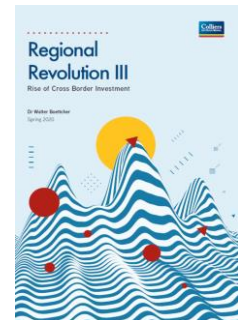
Management



Regional Revolution II: Mayoral elections & impact on commercial property, 2017

Theory, local stakeholders and projects of scale

Finance



Regional Revolution III. Rise of Cross Border Investment, 2020

Regional market liquidity and the rise of cross border investment

The Theoretical Keys to Regional Development



Devolution and regional economic development

'Levelling up' is not about emulating the status quo

- Devolution is being pursued to deliver local autonomy to bring local stakeholders together in to define and exploit local comparative advantage.
- Local leaders and stakeholders must formulate projects of scale complementing local agendas to attract private investor interest from within, but also from outside the region.

Remediation and regeneration is key Levelling up? ✓



NOMA Manchester

£800 million (8 hectare) mixed-use redevelopment scheme (4 million sq ft). Stakeholders: MCC, The Co-operative Group (founder), Hermes

<https://www.noma-manchester.com/news-item.html?hermes-acquires-the-co-op-groups-stake-in-noma>

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POWERED BY
**LEVELLING
UP**



Paradise Birmingham

Andy Street (LEP) received £61 million in funding for the West Midlands (2015) and leveraged that into a £1.2 bn regeneration project. Key stakeholders: Argent, BCC, Hermes, CPPIB

https://en.wikipedia.org/wiki/Paradise,_Birmingham

Remediation and regeneration is key Levelling up? ✓

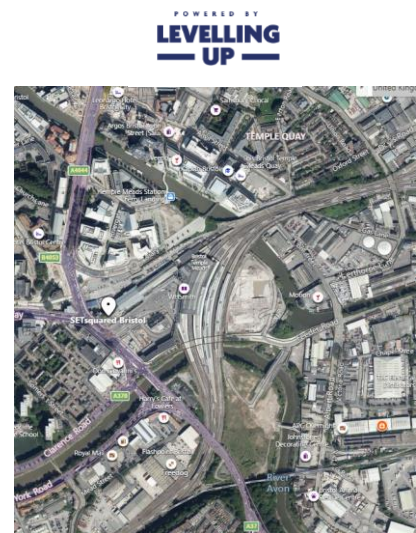
- Phase I - Railway Station and Temple Quarter (double passage capacity to 22m pa 2,500 new homes). **Funding: £95m from central government. Project value £845m.** Gateway to Bristol and the West of England
- Phase II - St Philip's Marsh (10,000 homes, 22,000 jobs over 25 years) – flood defence initiative
- **University of Bristol** Enterprise Campus £300m+ (digital, business and social innovation) – potential showcase of tech hub development located next to Temple Meads Station
- **Legal & General** and **BCC** completed £350m deal to develop Temple Island (two office blocks, 550 apartments, 345 room hotel and conference centre). **BCC to spend £32m to remediate the site**

Other projects:

Bristol City Leap Project – £424m JV (Ameresco/Vattenfall for net zero)
Whitehouse Regeneration, Bedminster £200m (2,000 homes, 600 jobs)
City Region Sustainable Transport Settlements (£191m over 5 years)



Dan Norris,
Mayor WoECA



Bristol Temple Quarter
(WoECA, BCC, NR, Homes England)

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Business

Investment zones based on existing and potential business ecosystem

Regeneration is key

Regeneration projects

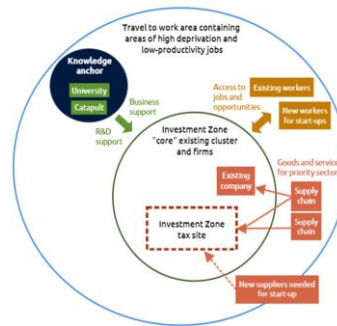
Council	Project	Grant (£m)
Blackpool BC	Hotel Indigo - Post Office Redevelopment	£8.0
Tendring DC	Dovercourt Town Centre Improvement	£6.7
Northumberland CC	Ashington Town Centre Transformation	£16.5
Tameside MBC	Stalybridge Town Centre Regeneration	£19.9
Rotherham MBC	Principal Areas of Growth	£20.0
East Suffolk Council	Lowestoft Seafront Regeneration	£4.3
Salford City Council	Eccles Town Centre Transformation	£5.4
NE Lincolnshire Council	Freshney Leisure Scheme	£20.0
Sandwell MBC	Tipton Town Centre Regeneration	£20.0
Blackburn & Darwen BC	Innovation District P1 Skills/Edu Campus	£20.0
Wigan MBC	#OurFutureAshton	£6.6
Waltham Forest LBC	Child-Friendly Chingford	£8.4
Wolverhampton CC	Bilston Health and Regeneration (HaRP)	£20.0
Redcar & Cleveland BC	Levelling Up Greater Eton	£20.0
Kirklees MBC	Marsden New Mills Redevelopment	£5.6
Telford & Wrekin Council	Wellington Market Town Re-modelling	£9.9

Capital projects

Council	Bid Name	Bid amount
Sefton MBC	Bootle Town Centre Transformation P1	£20.0
Stockport MBC	Marple Active Communities Hub	£19.7
Rossendale BC	Rossendale Sustainable Growth	£18.0

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Chancellor Jeremy Hunt announced funding of 16 regeneration projects (£200m) and three capital regeneration projects (£58m).

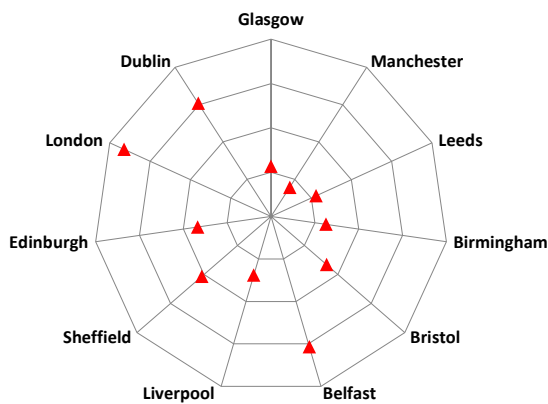


Source: HM Treasury, 2023

Investment Zone Business Ecosystem

The Theoretical Keys to Regional Development

Deviation from UK Big Six Average
1990



Oxford Economics as modeled by Colliers Research

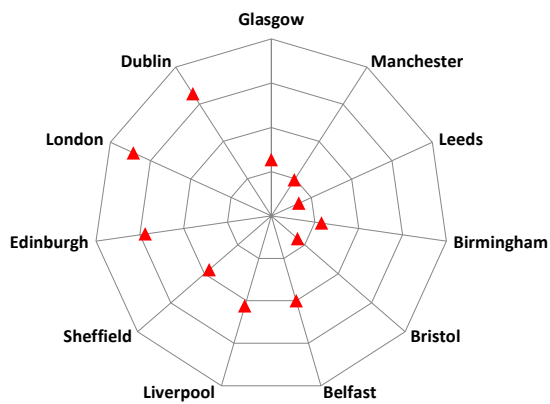
Devolution and regional economic development

'Levelling up' is not about emulating the status quo

- Devolution is being pursued to deliver local autonomy to bring local stakeholders together in to define and exploit local comparative advantage.
- Local leaders and stakeholders must formulate projects of scale complementing local agendas to attract private investor interest from within, but also from outside the region.

The Theoretical Keys to Regional Development

Deviation from UK Big Six Average
2010



Oxford Economics as modeled by Colliers Research

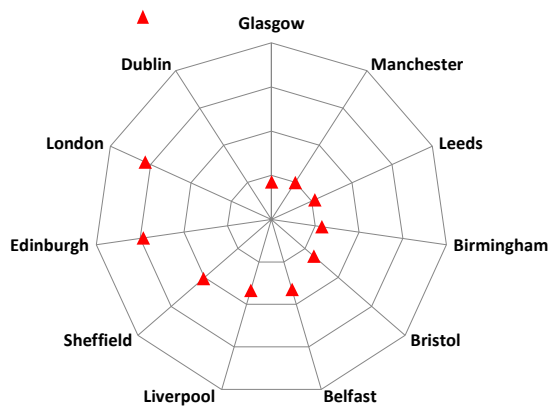
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The Theoretical Keys to Regional Development

Deviation from UK Big Six Average
2019

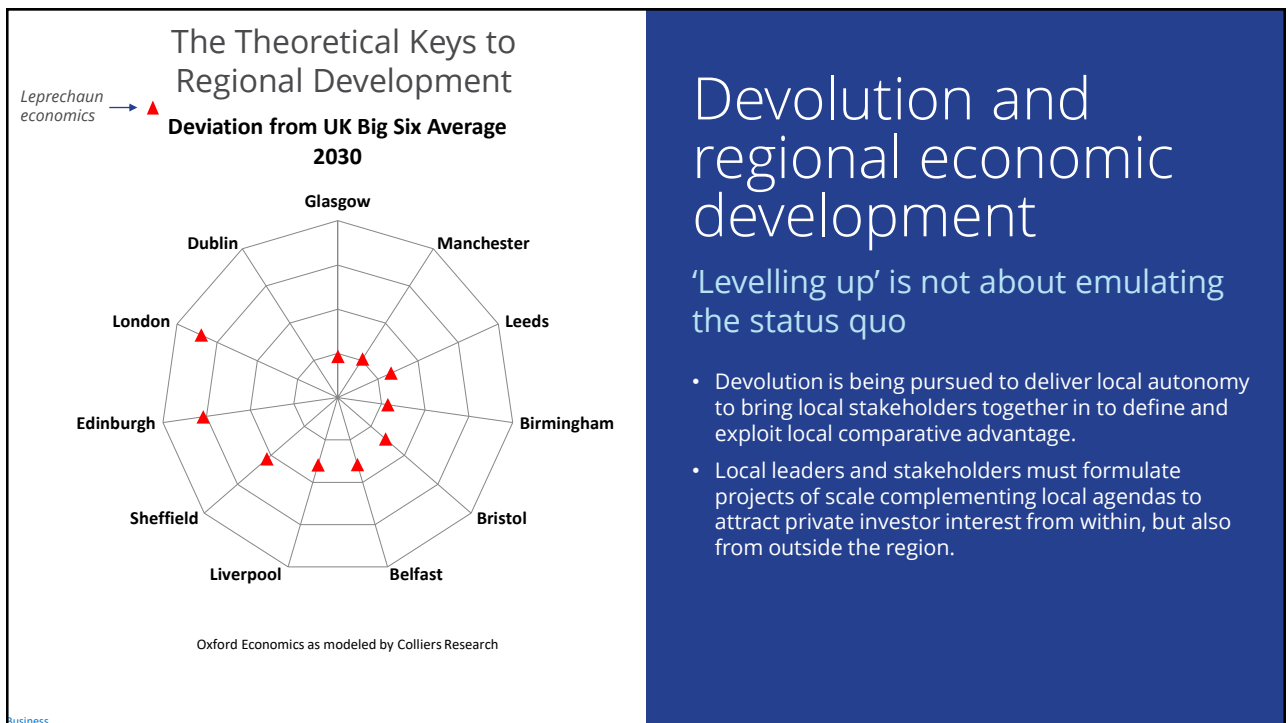


Oxford Economics as modeled by Colliers Research

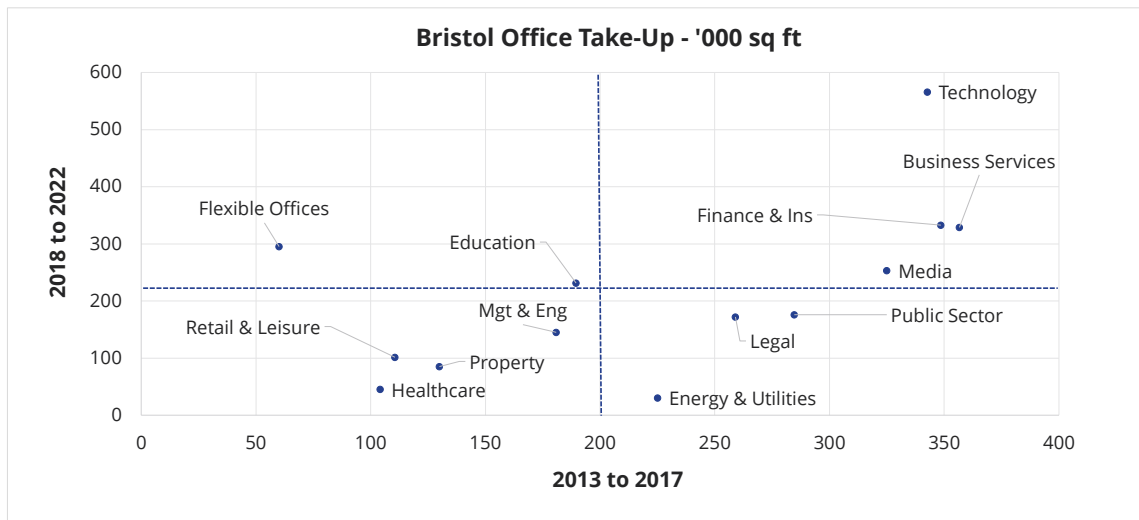
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Property reflects these trends - technology leading in both periods



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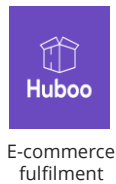
Universities key to feeding development of professional and technical services
Access to talent is key

Feeder Schools	Top Fields	Employment Growth	Employment
UoWE	Mathematics	KPMG	Capita
UoBristo	Business	Deloitte	Deloitte
UoBath	Computer	Jacobs	Jacobs
UoGlouce	IT	EY	Co-op
Open Uni	Economics		EY
			KPMG
Source: LinkedIn			

- London lost more professional services talent to Bristol in the last year than it did to Paris
- London lost more professional services talent to the UK regions than to New York and Paris combined

Wide variety of new technology businesses with a 'green' edge Business development in Bristol

Growing Local Companies

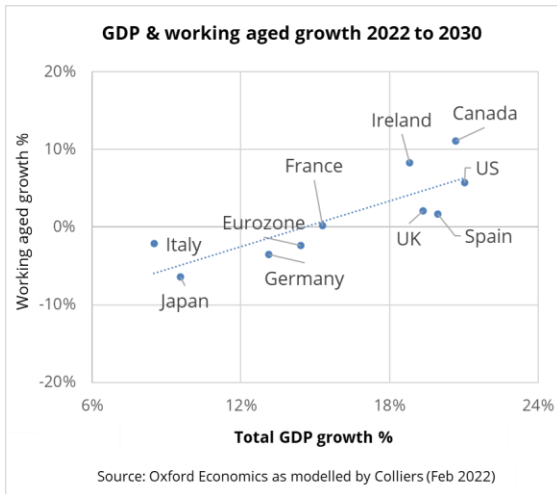


Companies Moving to Bristol



Strong correlation between population growth and economic growth

Comparative economic performance



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Accelerating success.