

Professional Conferences, Manchester, May 2023

Risk, reality and UK recovery

Dr Walter Boettcher, Head of Research, Colliers

Agenda

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

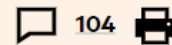
UK economy to shrink in H1 2023, but recovery in H2 2023

Economic forecasts (GDP) strengthening

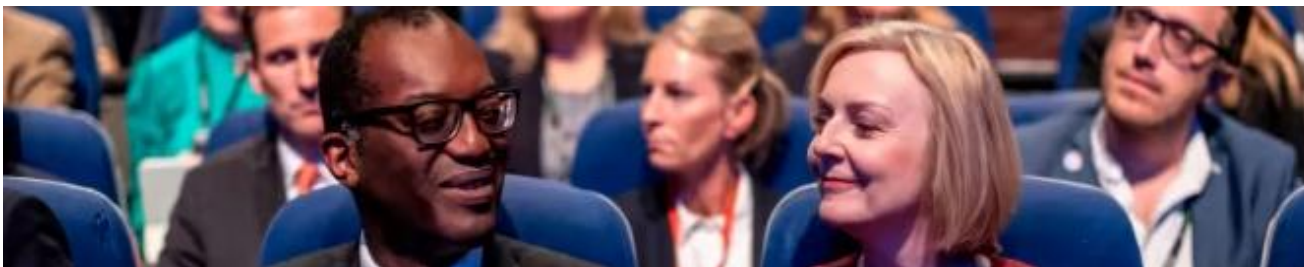
BoE outlines two bleak scenarios for taming inflation

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

Chris Giles in London NOVEMBER 3 2022

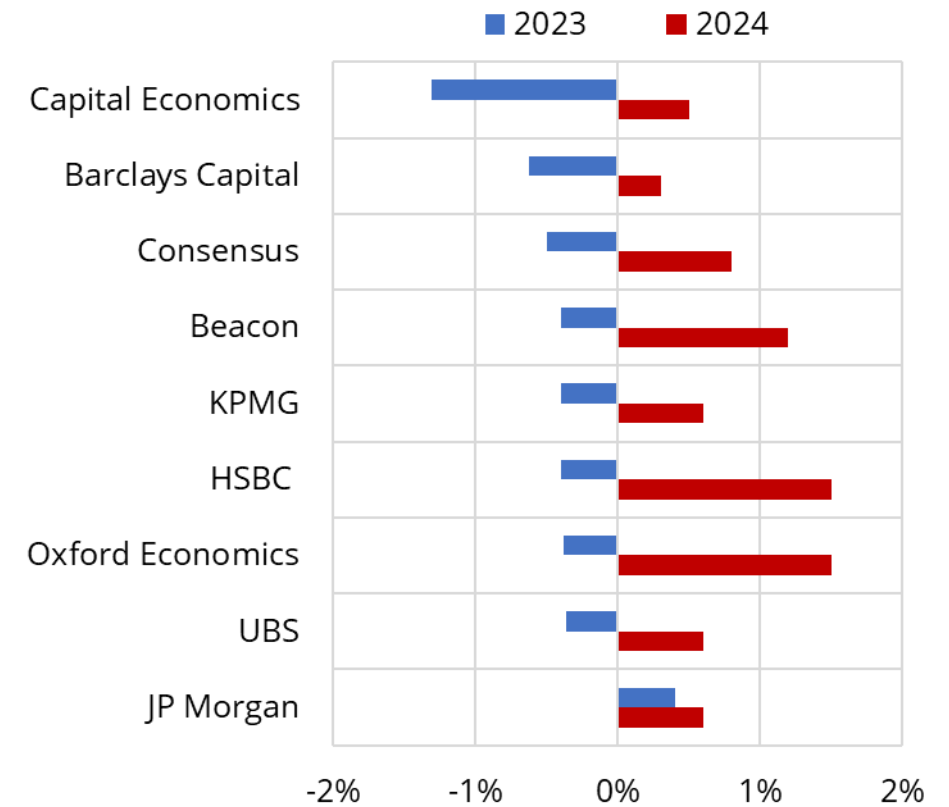


- (BoE) November : 2.9% decline and longest recession in history
- (BoE) May : 0.25% rise in 2023 and 0.75% rise in 2024
- (HM Treasury April Consensus) : 0.0% rise in 2023 and +0.8% growth in 2024
- No contraction in H1 2023. Modest strength in H2 2023



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GDP economic growth forecasts



Source: HM Treasury Consensus Forecasts
Survey 1st to 9th March 2023)

UK economy to shrink in H1 2023, but recovery in H2 2023

Economic forecasts (GDP) strengthening

UK economy set to shrink by 0.3% in 2023, says IMF

Chris Giles in Washington

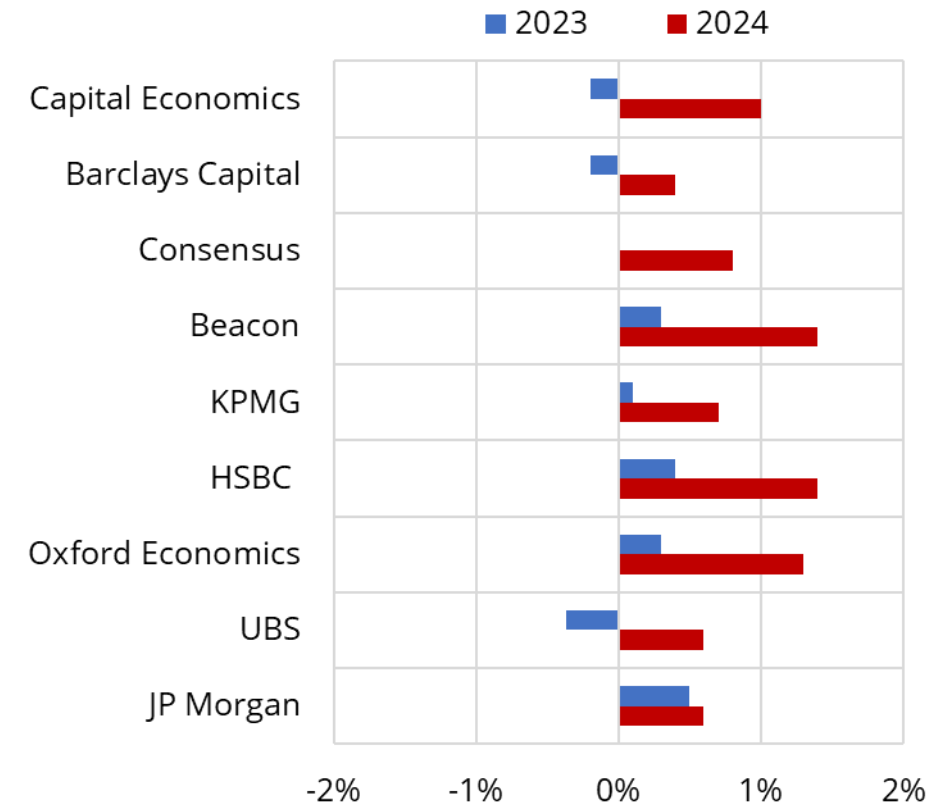
Chancellor Jeremy Hunt's efforts to revitalise the UK economy have not been sufficient to raise it from the foot of the global league table this year, according to forecasts published by the IMF on Tuesday.

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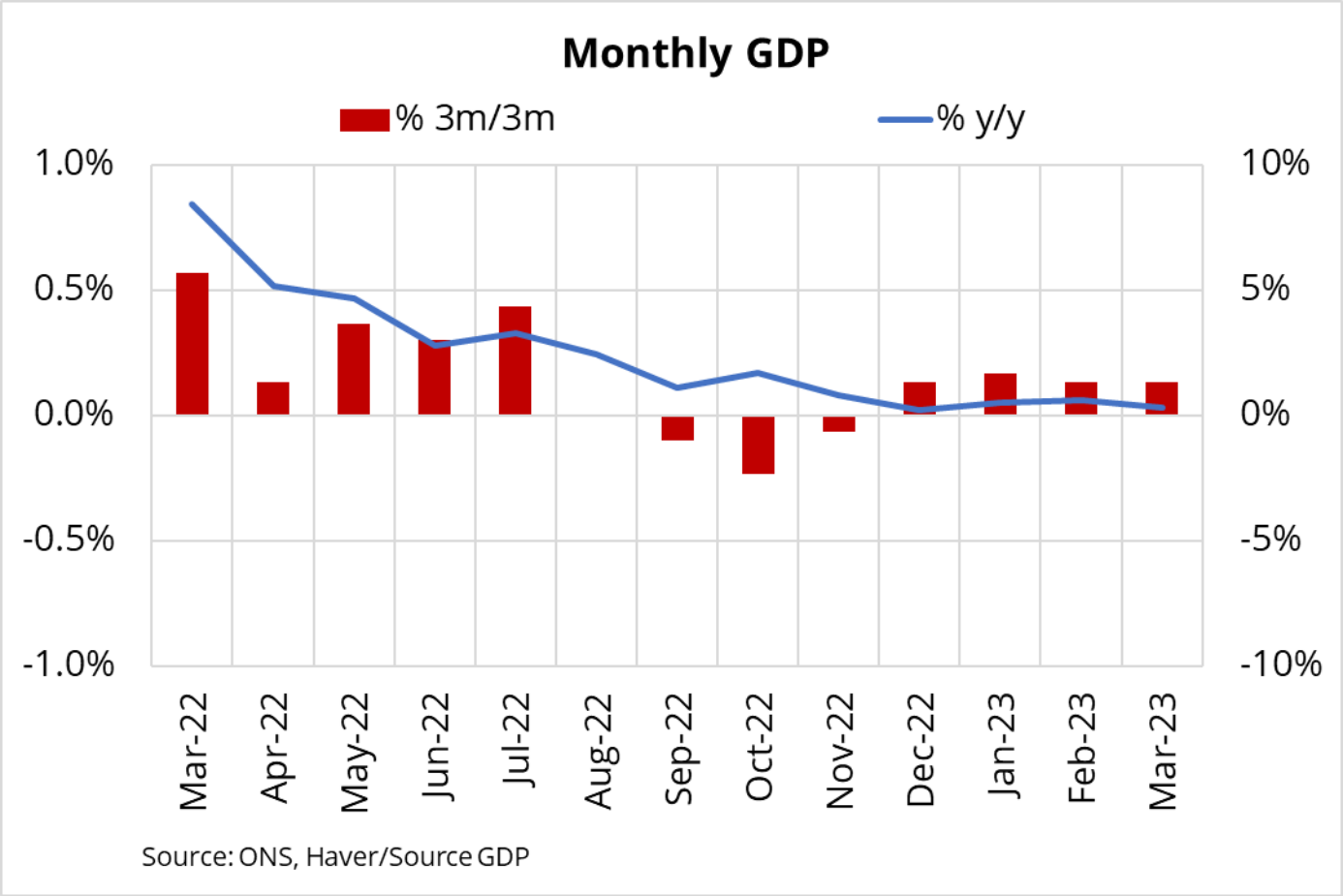
GDP economic growth forecasts



Source: HM Treasury Consensus Forecasts Survey 4th to 14th April 2023)

Bank of England monetary policy problematic

Economic performance continues to surprise to the 'upside'



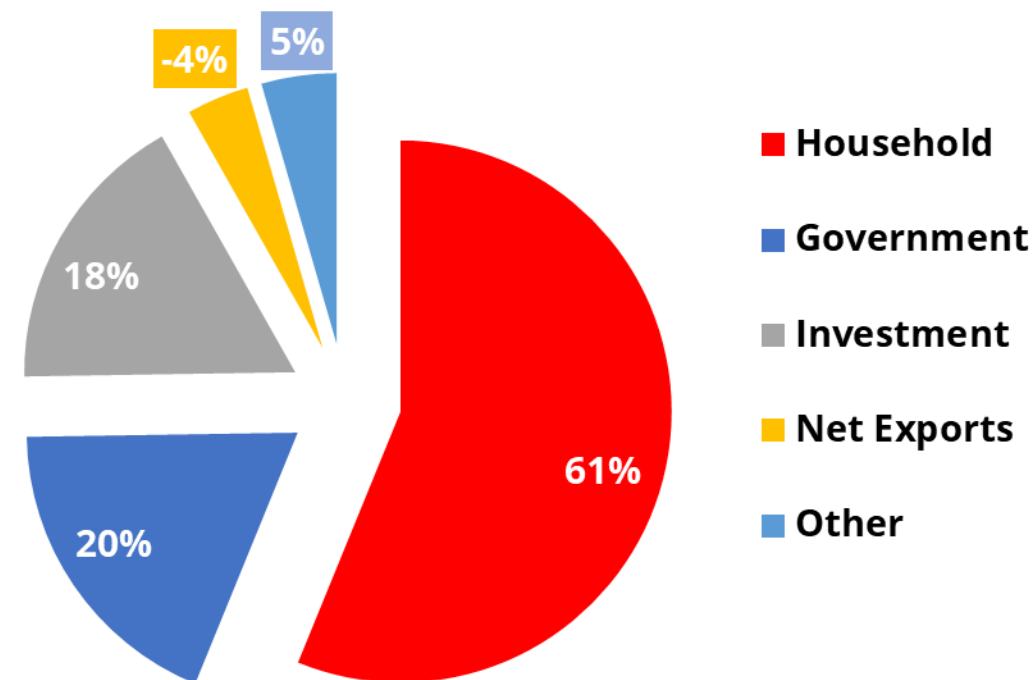
Household spending accounts for 61% of UK GDP

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 improving (-30 April) but up on Truss/Kwarteng (-49) and pandemic (-35)
- Pandemic savings gone
- House prices down in 7 of last 8 months. April (+0.5% m/m or -2.7% y/y).
- Bank Rate decisions crucial

GDP by expenditure components

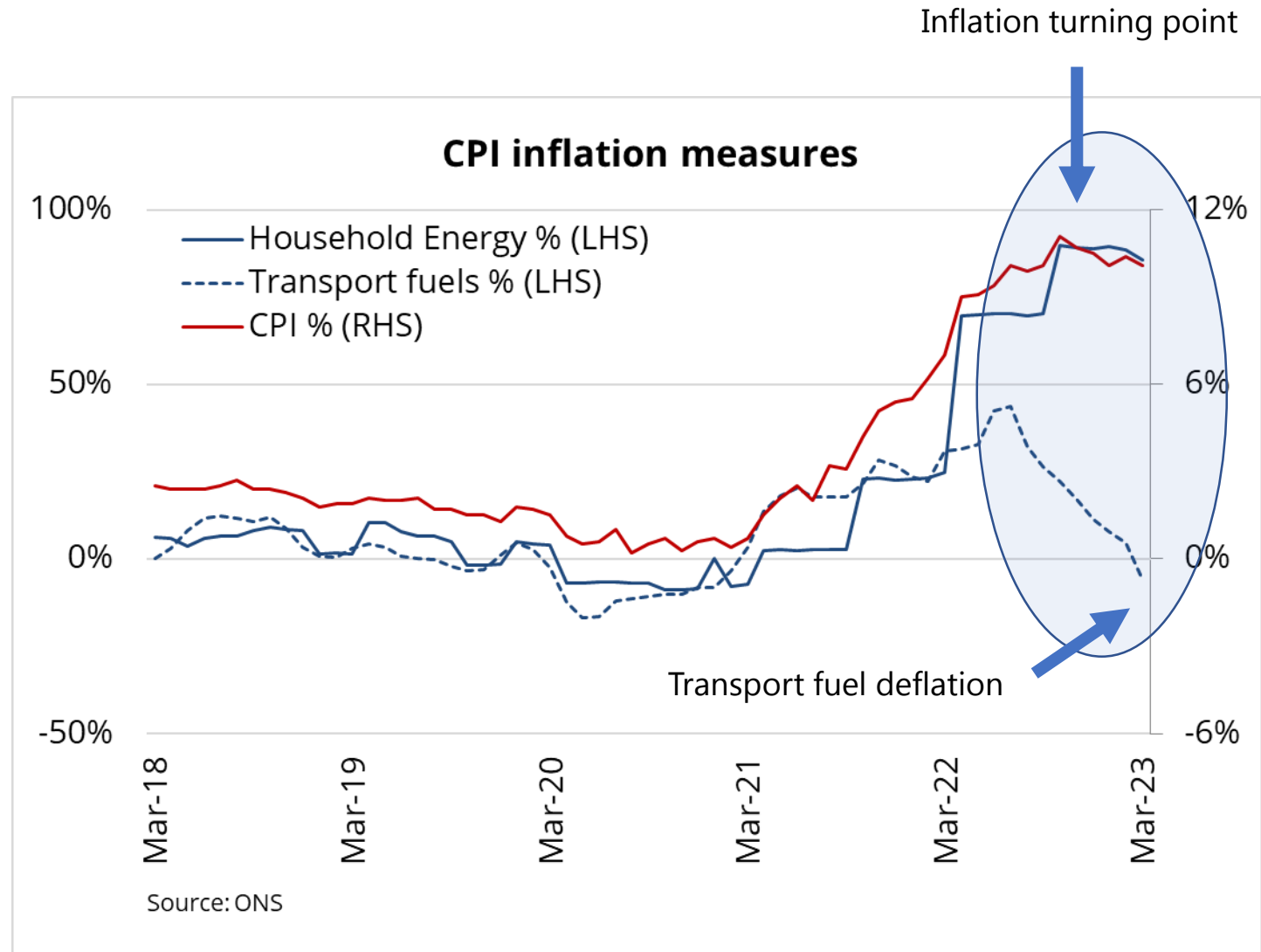


Source: ONS

Inflation set to fall rapidly in Q2 2023

Good news!

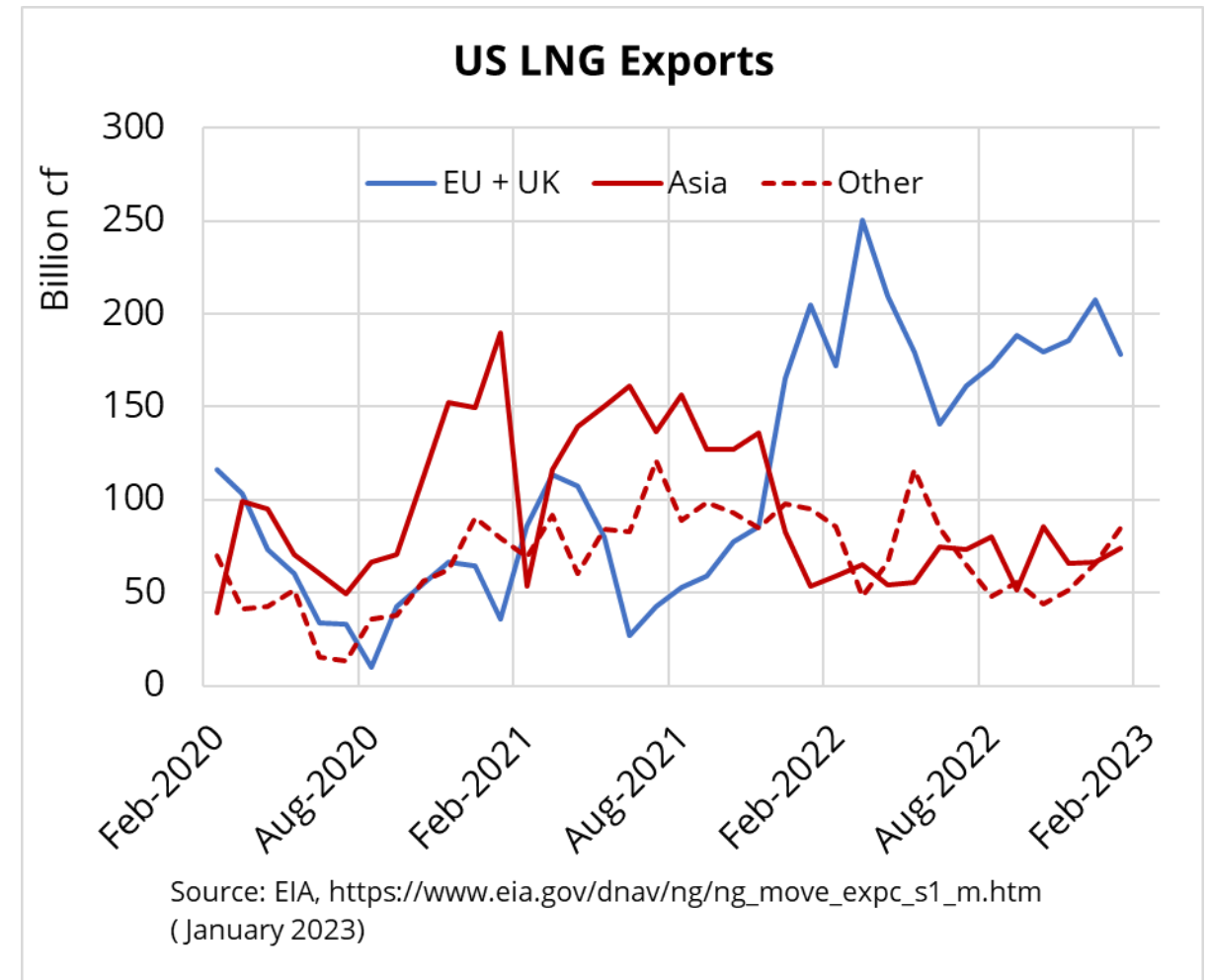
- Inflation to fall rapidly in Q2 23
- Fuel prices already deflating
- Consumer and business confidence will improve
- Economy stronger than expected (PMI – April 54.9)
- Unemployment (April 3.8%)
- Bank Rate may have peaked!



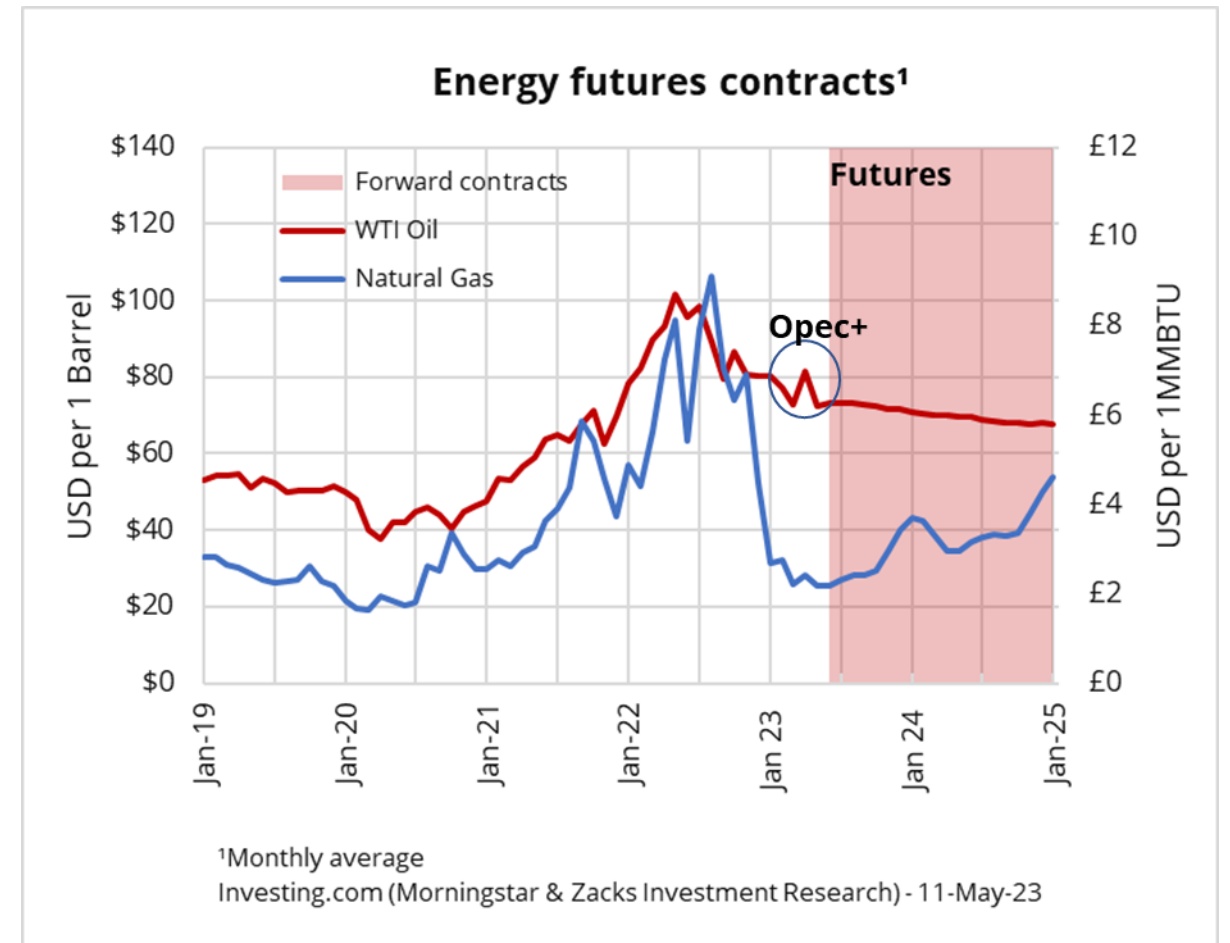
Natural gas prices at 18-month low (pre-Russian aggression)

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*
 - ✓ *gas reserves 20% > 5 year average*



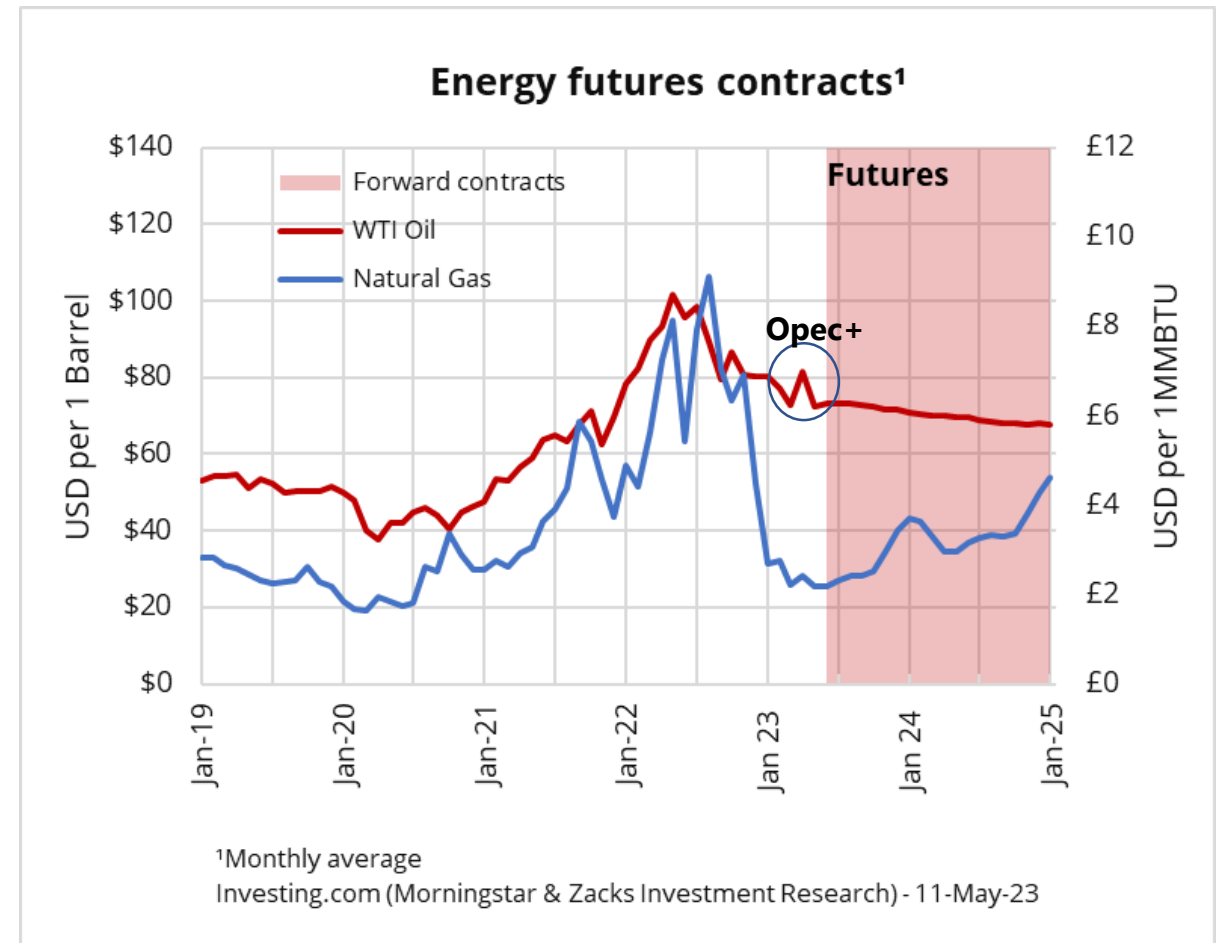
Natural gas prices at 18-month low (pre-Russian aggression) More good news! UK and European energy security improved



Natural gas prices at 18-month low (pre-Russian aggression)

More good news! UK and European energy security improved

- Natural gas prices at 18-month low:
 - ✓ *mild European winter/spring*
 - ✓ *20% increase in energy efficiency by energy intensive industries (in Germany)*
 - ✓ *phenomenal supply response*
 - ✓ *gas reserves 20% > 5 year average*
- Forward contracts and inventories suggest that European supplies secure through 2024
- Transport fuel prices are falling
- Uncertainty remains (global economy, OPEC+, the dollar US monetary policy and further Russian aggression)



Annual 'base effects' set to drive CPI inflation lower

WTI crude (price per barrel)

	J	F	M	A	M	J	J	A	S	O	N	D
2021 (Oil price)	\$48	\$53	\$53	\$57	\$59	\$64	\$65	\$63	\$68	\$71	\$63	\$70
2022 (Oil price)	\$78	\$82	\$90	\$93	\$101	\$96	\$99	\$90	\$79	\$87	\$81	\$80
2023 (Oil price)	\$80	\$77	\$73	\$82	\$73	\$73	\$37	\$73	\$73	\$72	\$72	\$71
2022 (Oil inflation)	65%	54%	69%	64%	71%	50%	52%	42%	17%	21%	29%	15%
2023 (Oil inflation)	2%	-6%	-19%	-13%	-28%	-23%	-26%	-18%	-8%	-16%	-11%	-11%

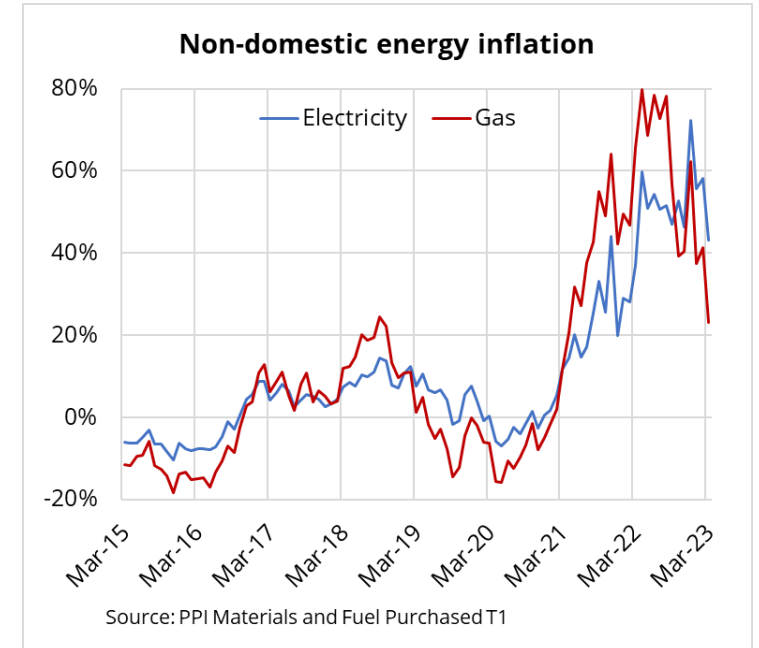
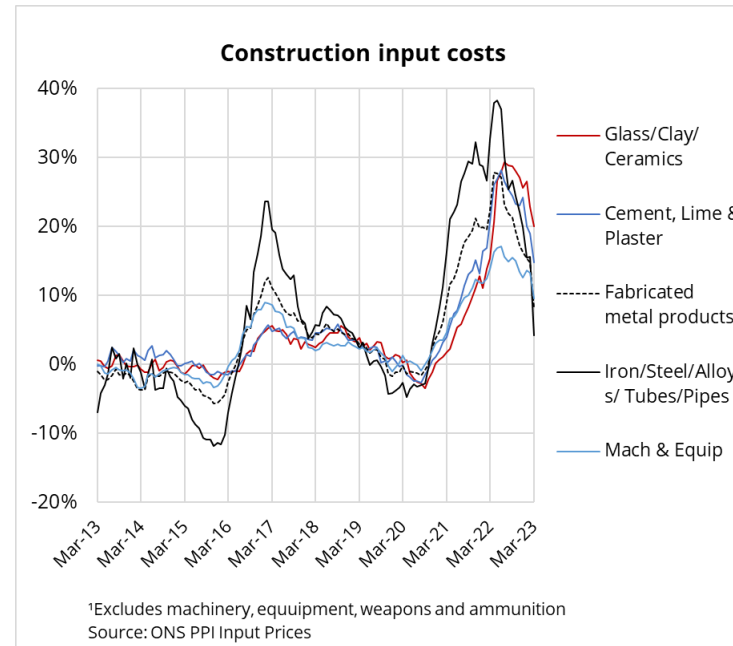
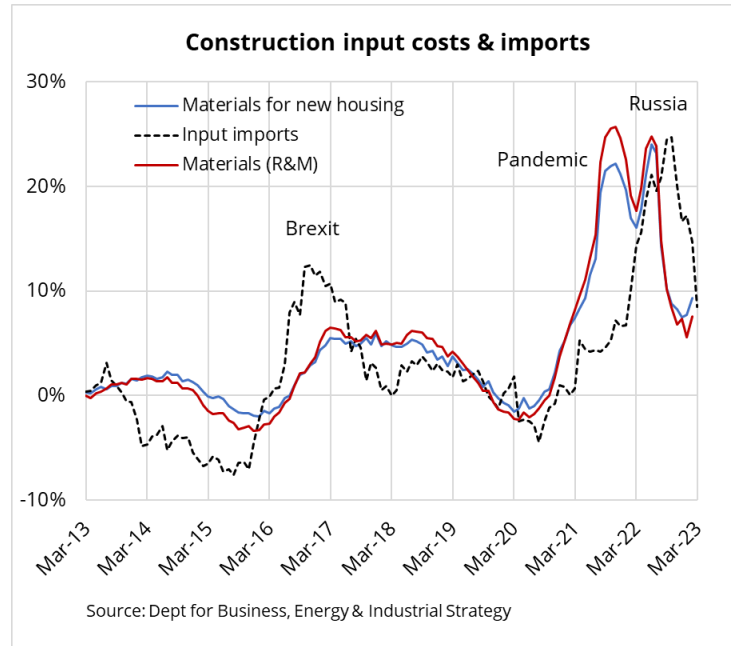
- Oil is stabilising this year in the low seventies per barrel
- But oil price *inflation* will be negative (deflation), because this year's price is being compared to last year's price
- CPI is a *year-on-year* comparison figure
- The 'base' is 2022 and is so high that this year's CPI figure will be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

Base effect



Supply chains recovering and domestic production increasing

Business input and import costs falling



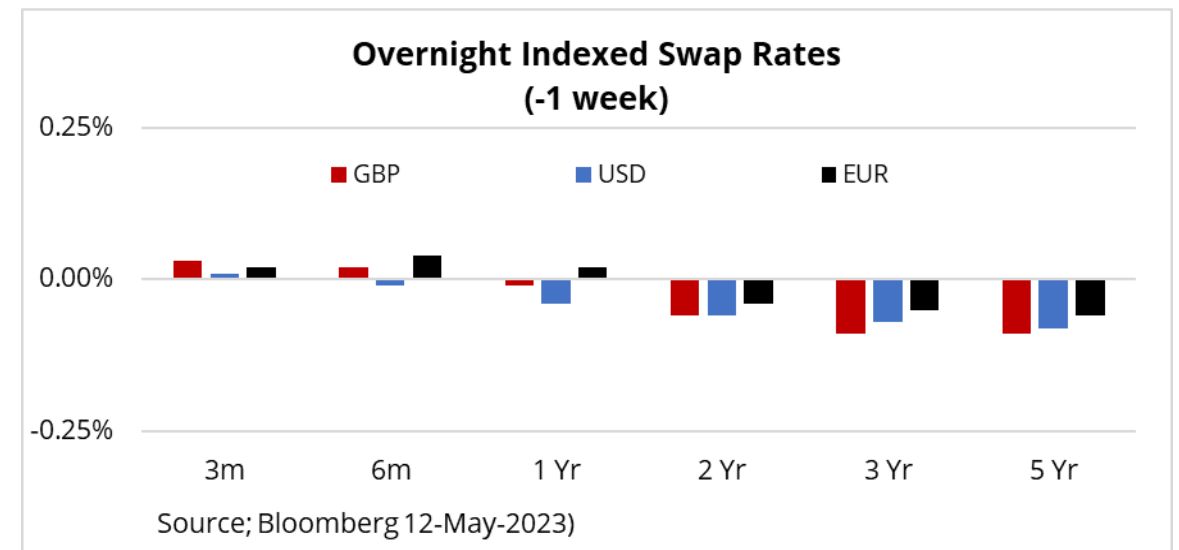
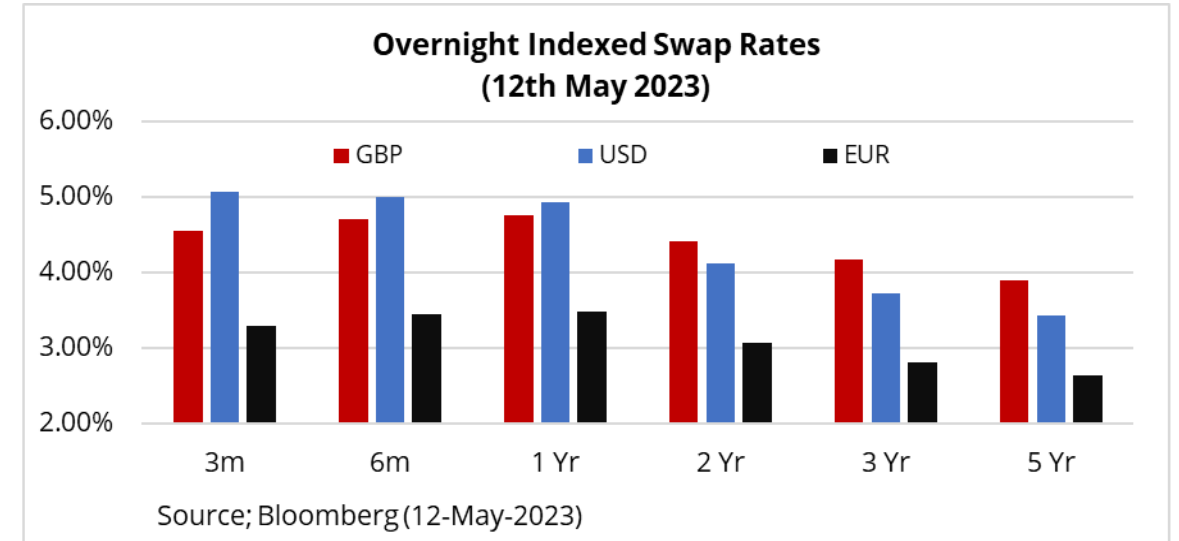
Swap rates suggest the Bank Rate may have peaked

UK interest rate peak?

- **Key dates to watch:**

- ✓ (1) Spring Budget (15th March)
- ✓ (2) February CPI release (March 22nd)
- ✓ (3) Bank of England meeting (23rd March)
- ✓ (4) March CPI (19th April)
- ✓ (5) Bank of England Meeting (11th May)
- (6) April CPI (22nd May)**

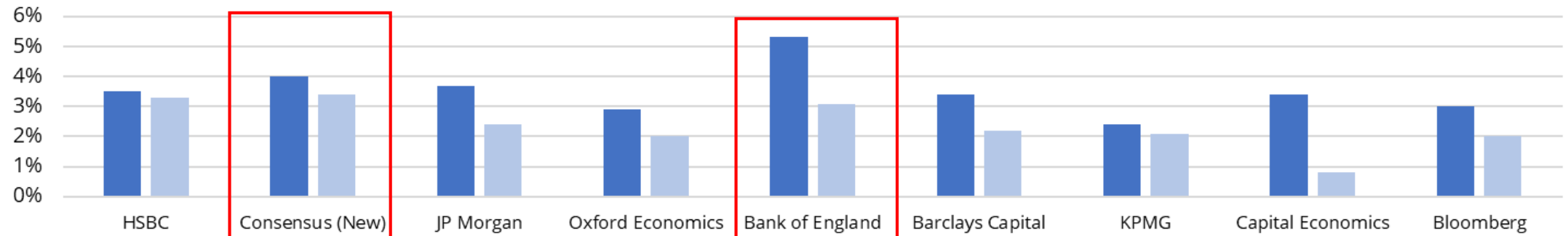
- A substantial fall in April CPI would provide greater confidence that the rate has peaked and provide greater business confidence in H2 2023
- Heightened risk perceptions by banks, though, may prove to be a decisive driver of debt costs and conditions



The Bank Rate may have peaked?

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

CPI forecasts for 2023/4¹

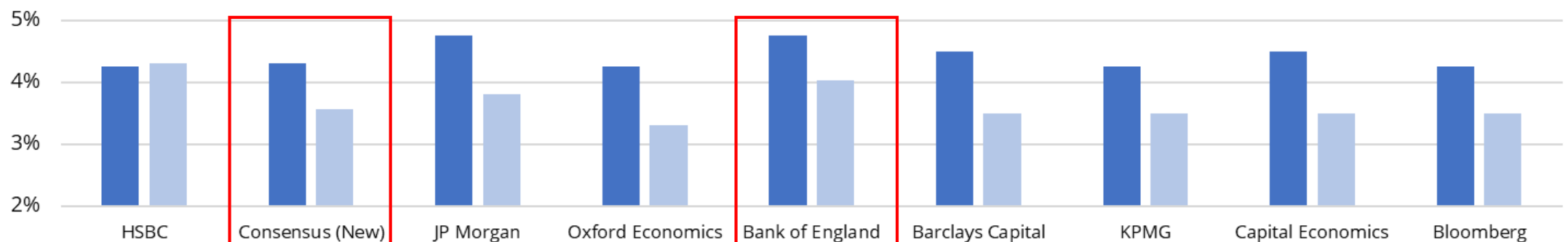


¹New' 4th to 14th April 2023 only (EOP)

Source: HMT, Forecasts for the UK Economy (Mar 2023)

May 11th

Official bank rate forecasts for 2023/4¹



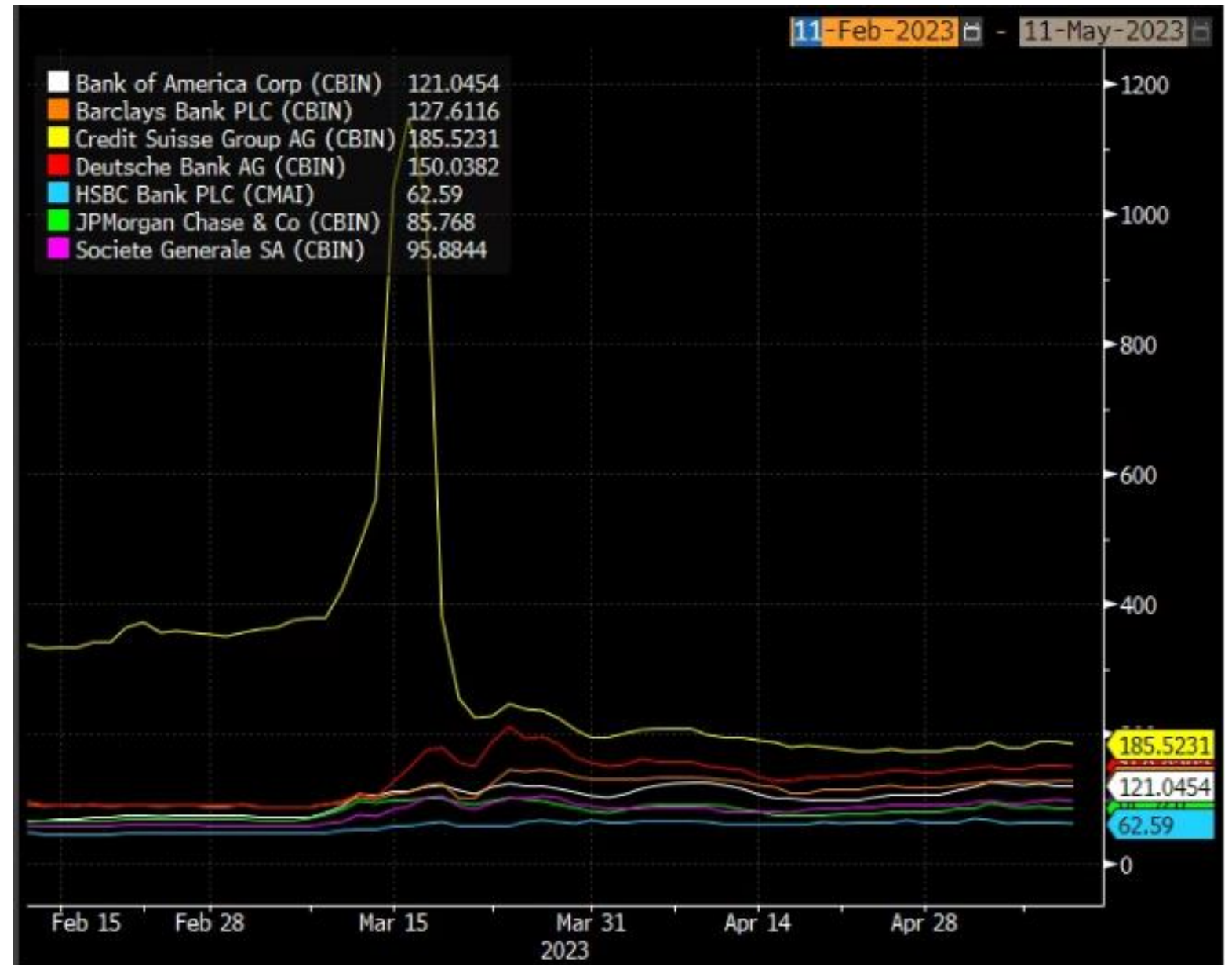
¹New' 4th to 14th April 2023 only (EOP)

Source: HMT, Forecasts for the UK Economy (Mar 2023)

May 11th

Data still suggest no significant contagion among global systemically important banks, but credit still affected

A new financial crisis?

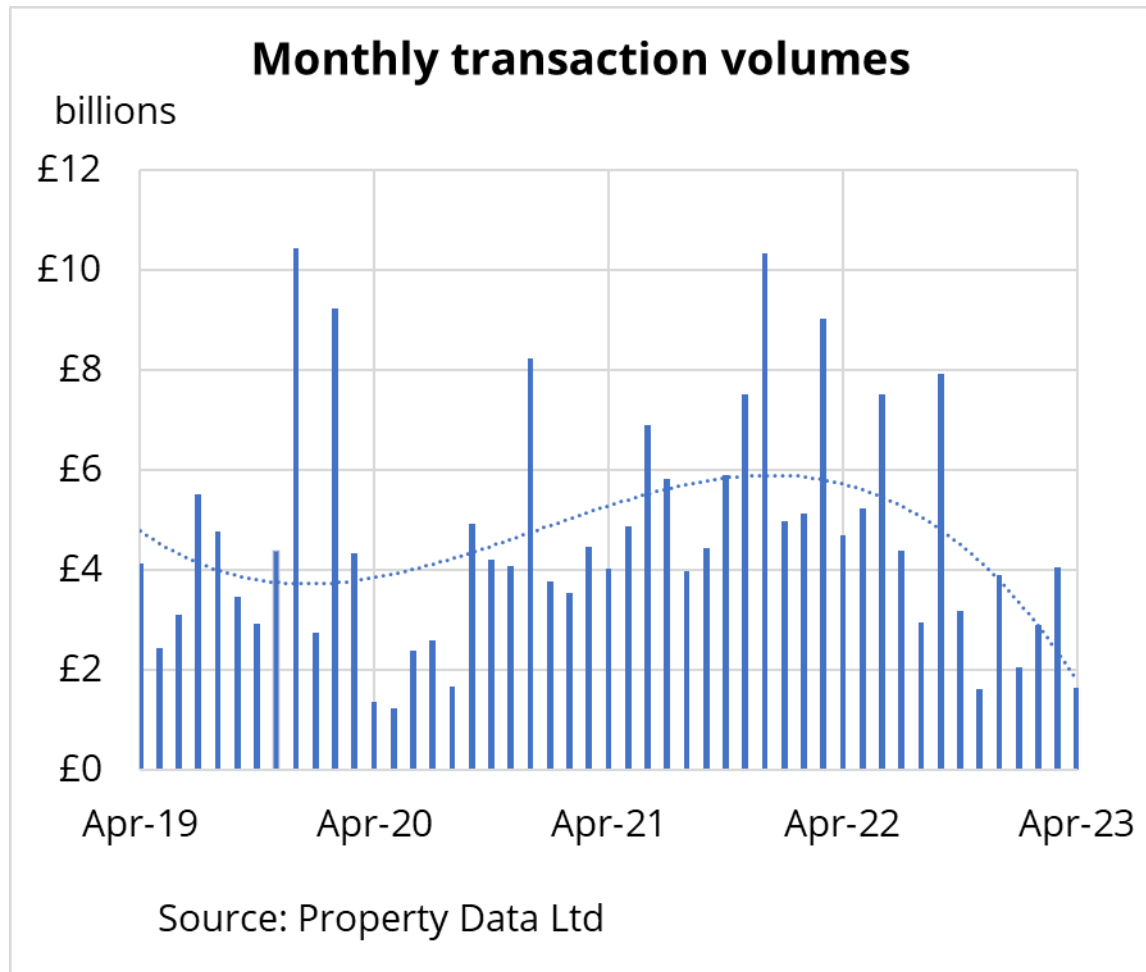


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Uncertainty and rising cost of debt prompting re-appraisal

Transactional flow at a snails pace in early 2023

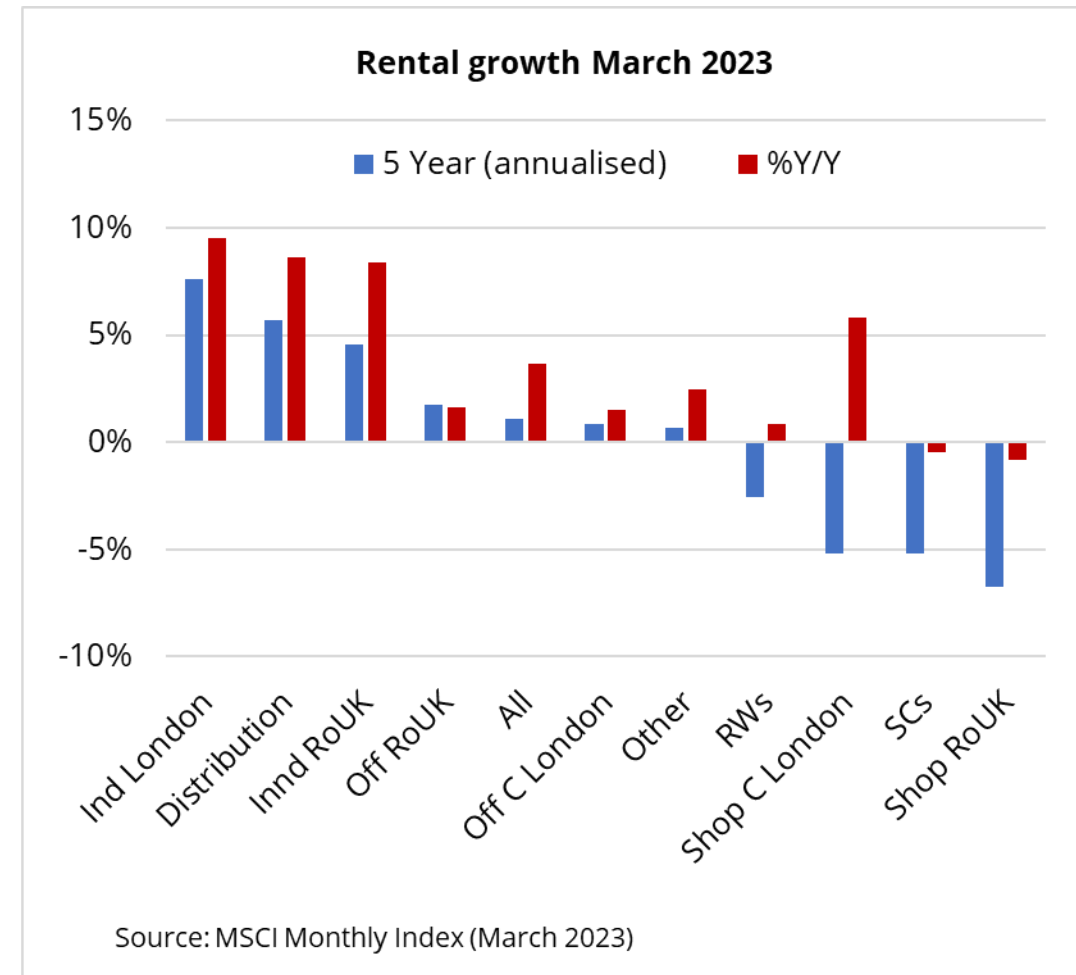
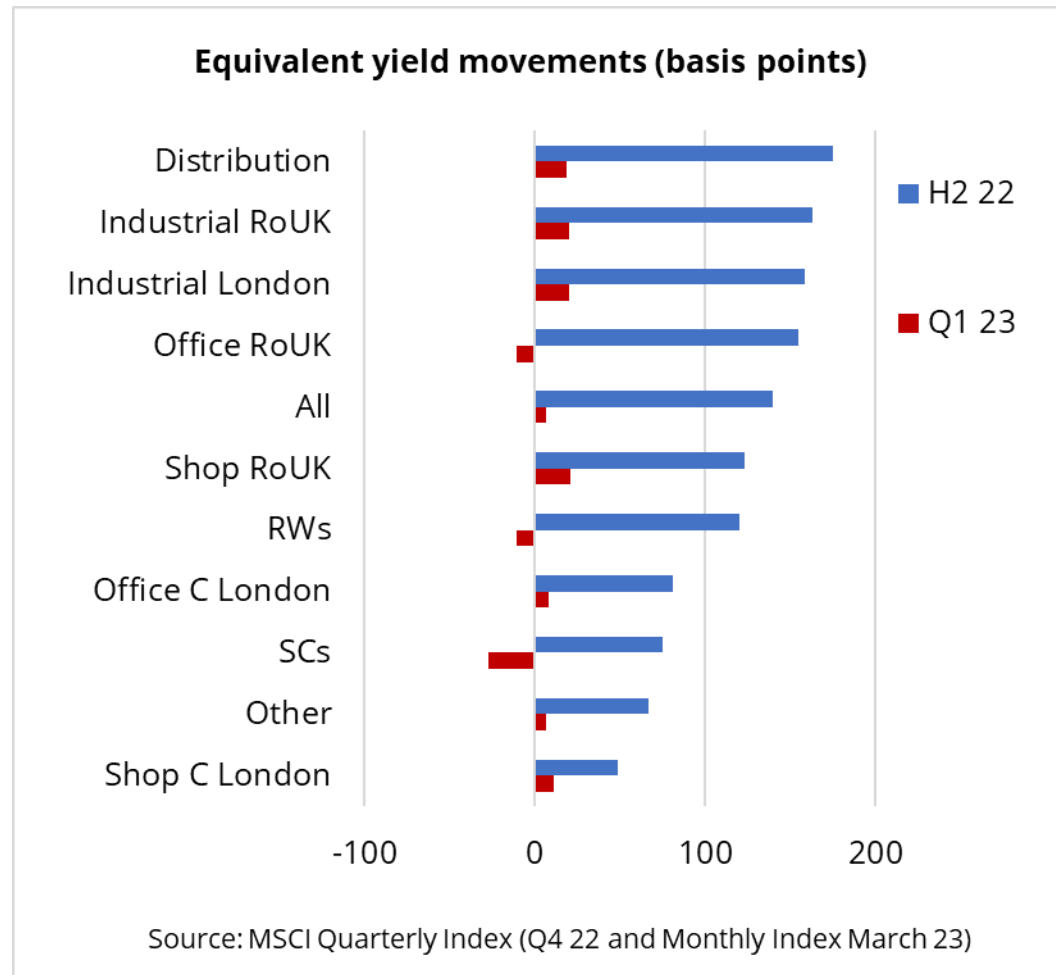


- Lowest level of activity since GFC
- All sectors impacted
- Sentiment driven?
- Debt cost driven?
- **Weight of capital remains a defining force!**

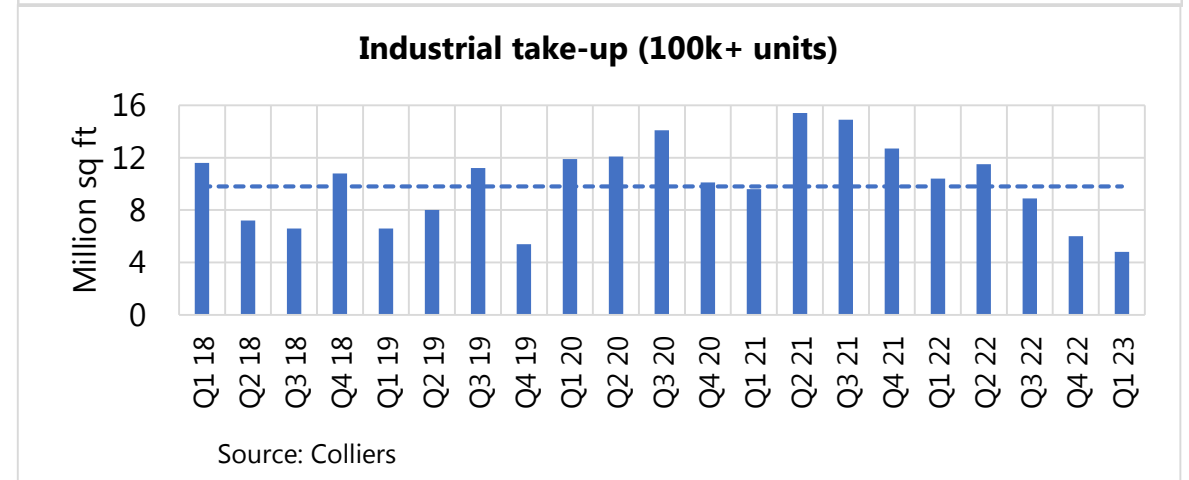
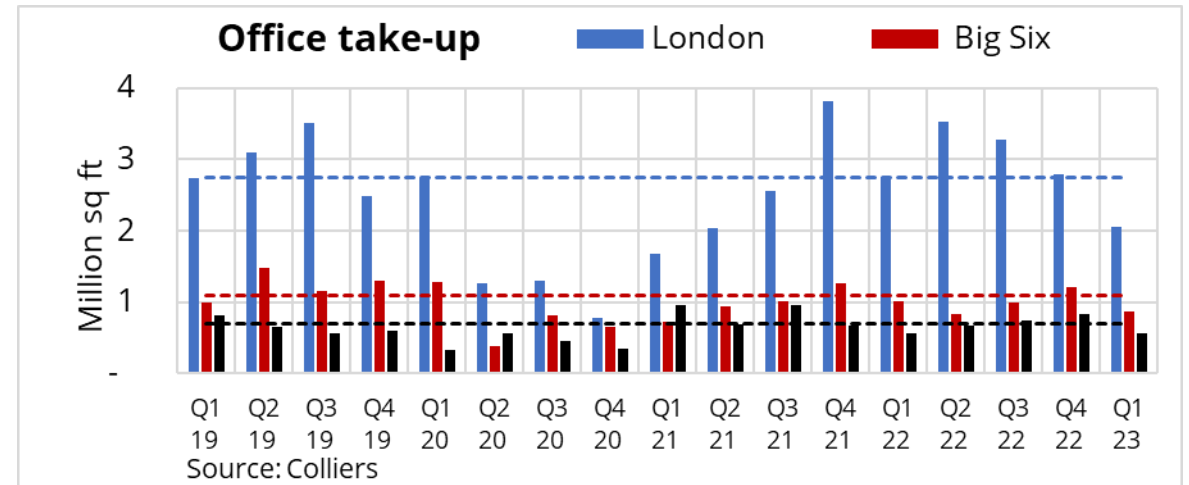
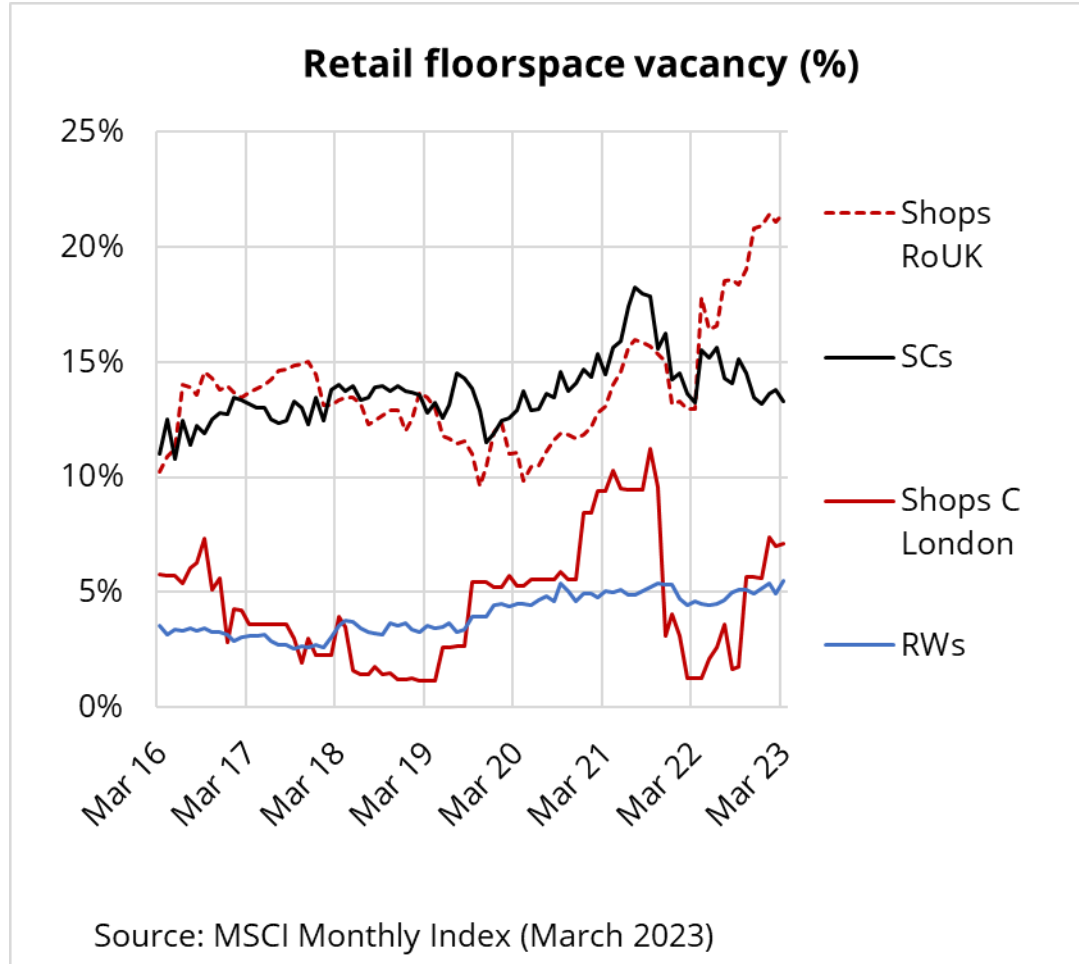
Return expectations			Risk profile
2019	2022	2023	
17%+	15%+	20%	Opportunistic
12-17%	10-15%	12-15%	Value-add
8-12%	7-10%	8-12%	Core+
5-8%	4-7%	6-8%	Core

Occupier markets stabilising, but ESG impact not yet visible

Pricing correction substantial, limited scope for yield expansion

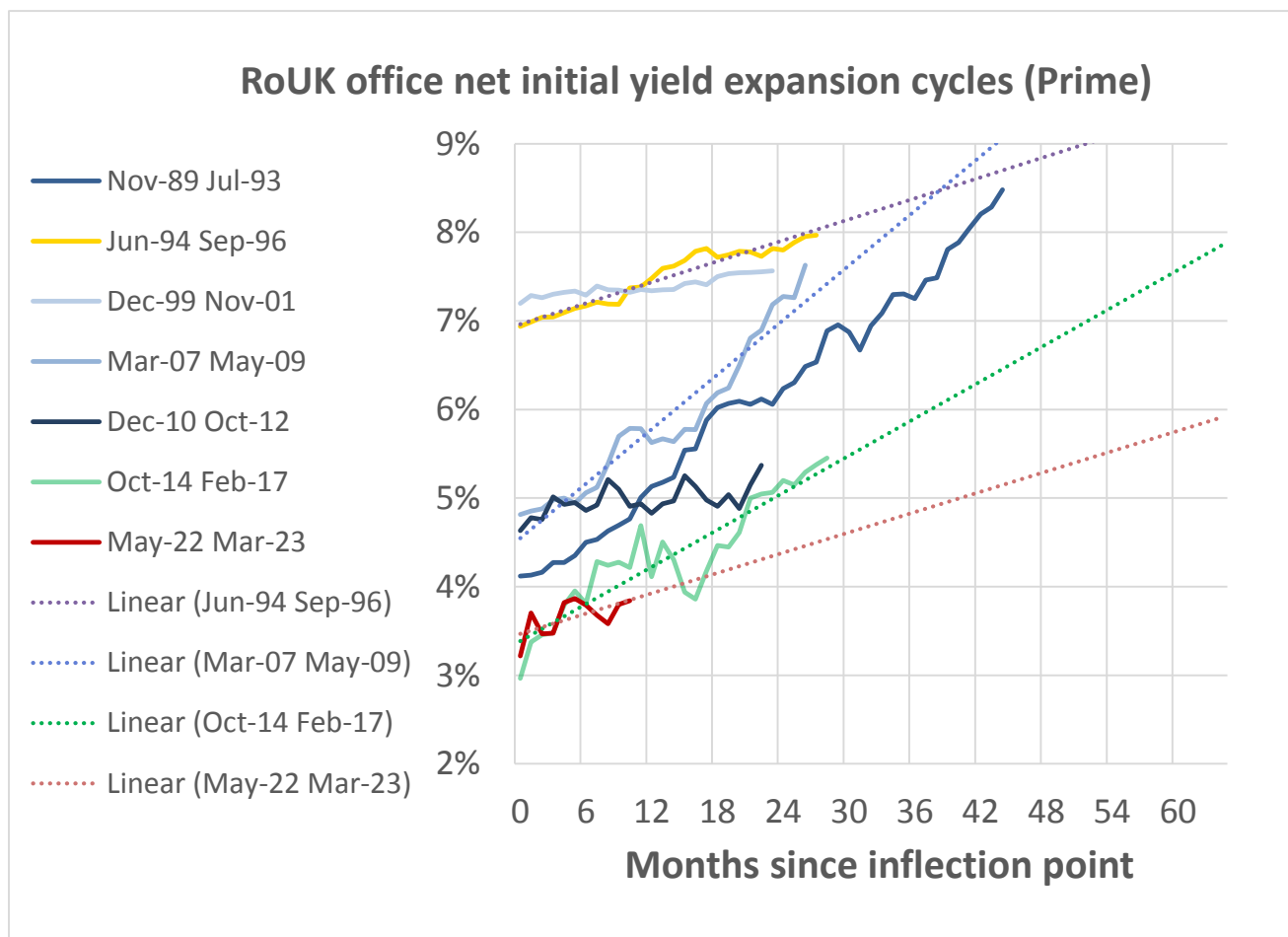


Demand conditions stable despite ESG and structural change . . . So far Pricing correction substantial, limited scope for yield expansion?



Cycles are shaped by conditions in financial and property markets

Yield expansion cycles

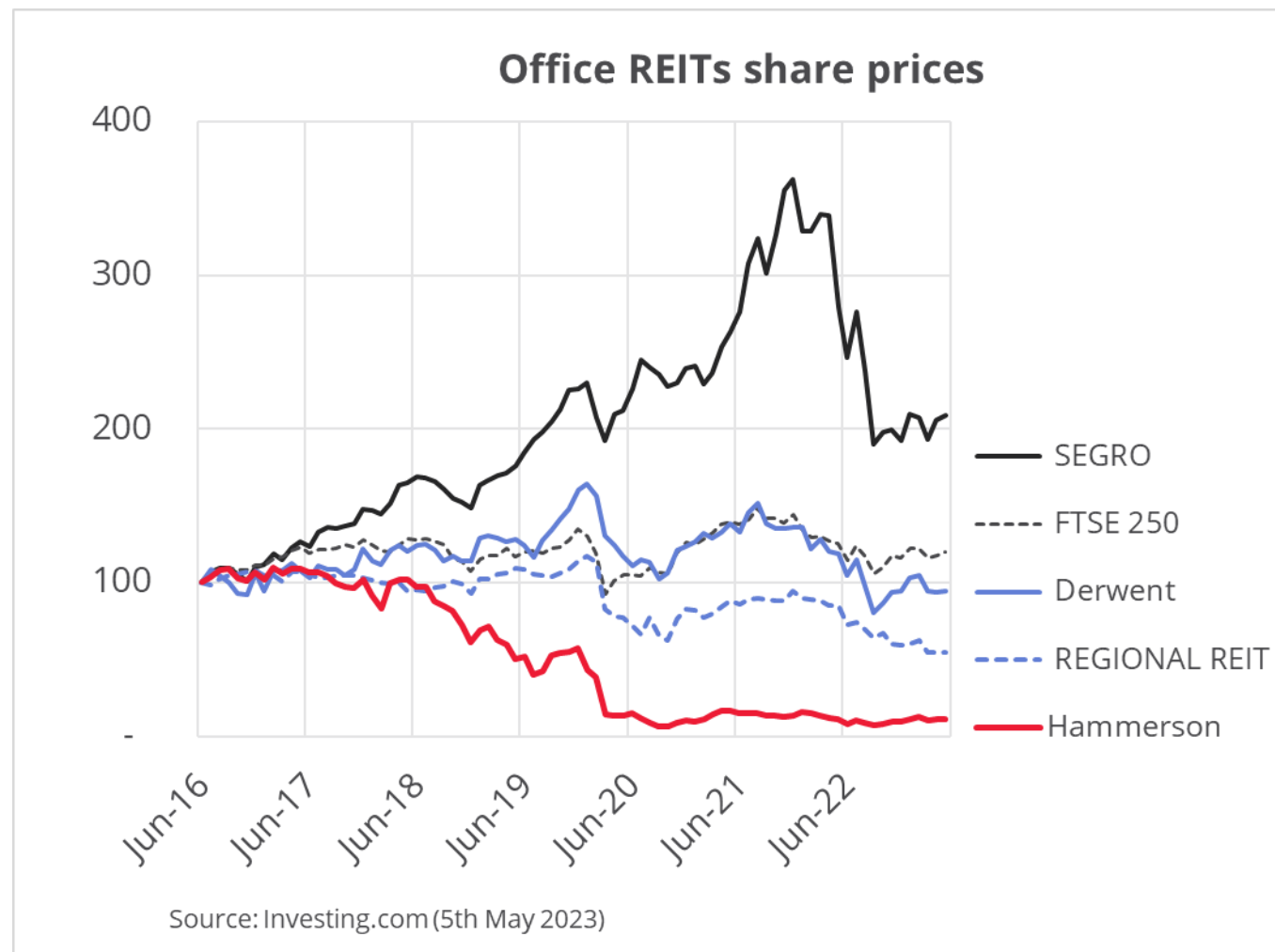


- Yield expansion cycles variable in length and amplitude
- Rate of change and duration depend on numerous variables including:
 - *Yield departure point*
 - *Ten-year bond level*
 - *Weight of capital*
 - *Debt availability & cost*
 - *Risk perceptions*
- The latest price movements appear to be moving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

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

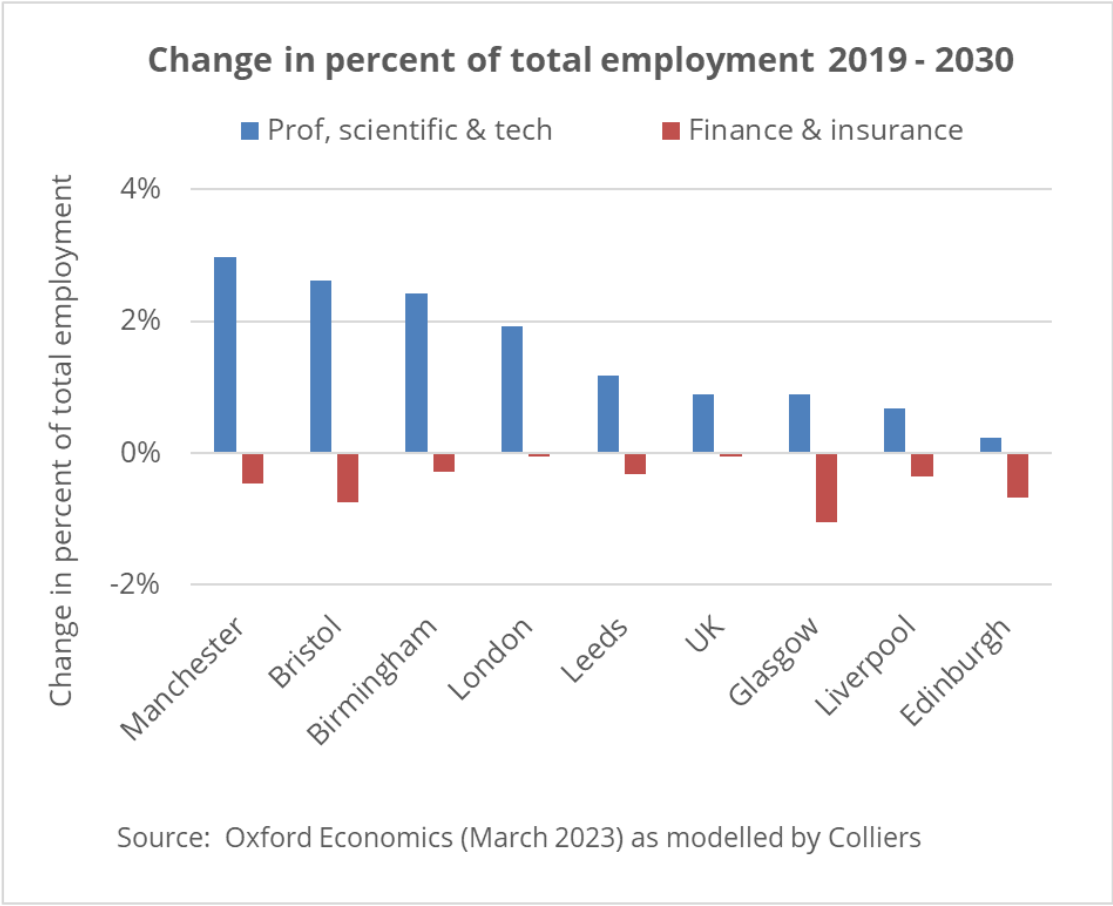
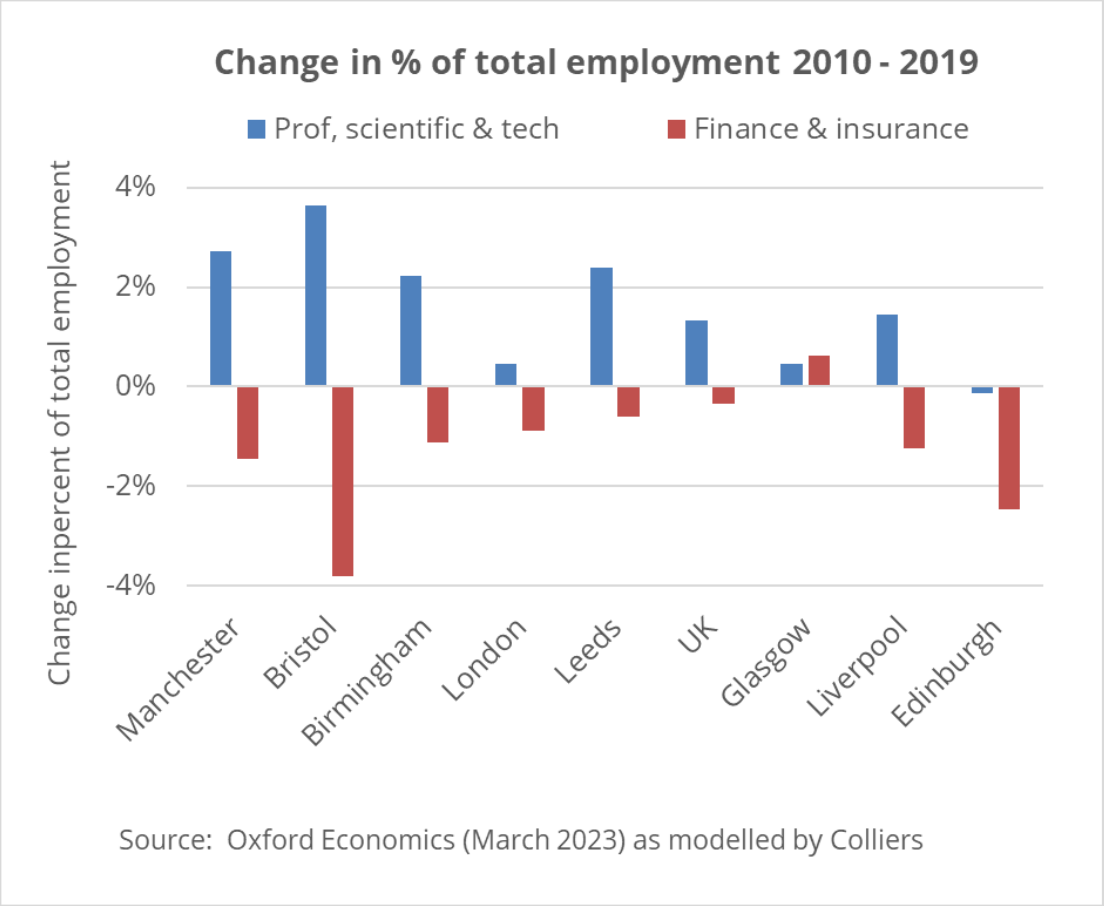
Structural change

- E-commerce - SEGRO
- Hybrid working – Derwent/Regional REIT
- Retail provisioning – Hammerson
- Lifestyle choices & workplace changes
- ESG agenda
- AI integration



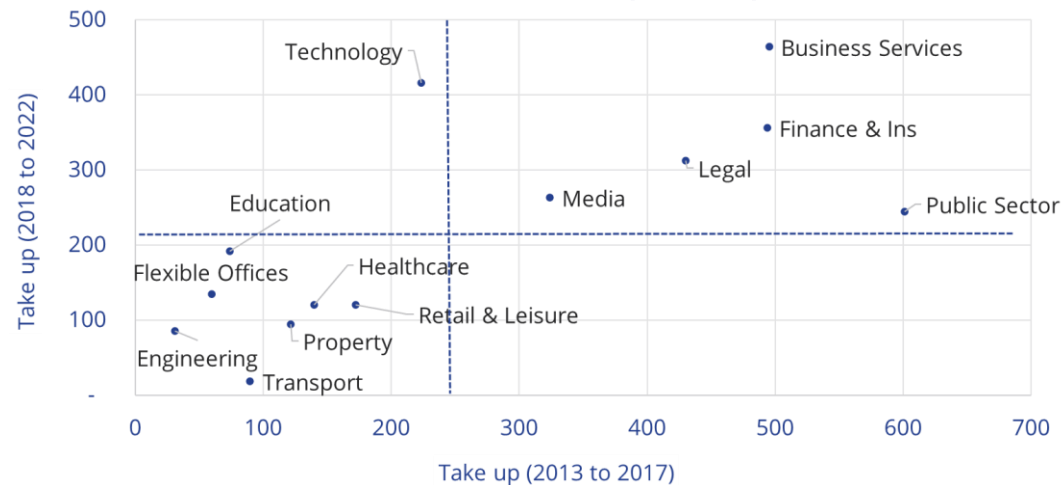
Financial services giving way to professional and technical employment?

Economic evolution – out with the **old**, in with the **new**?

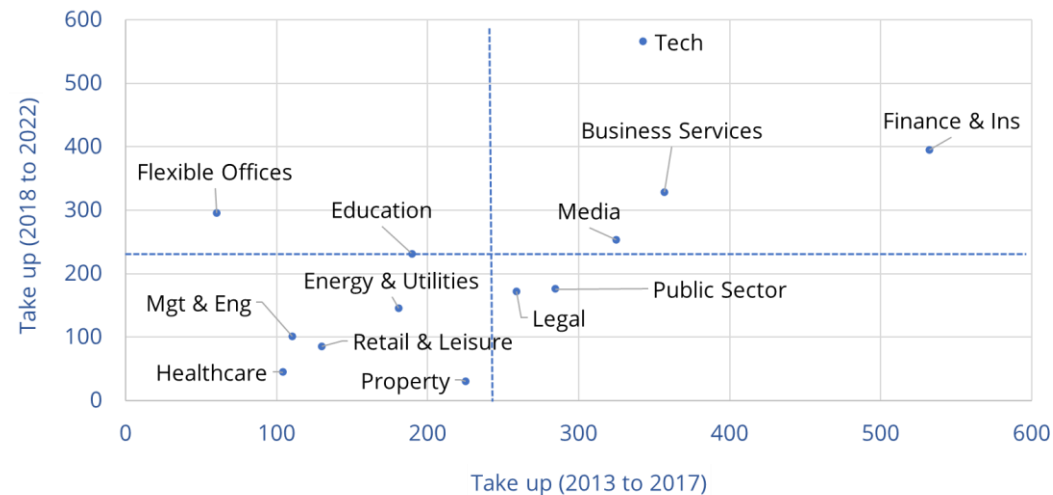


Take up summary

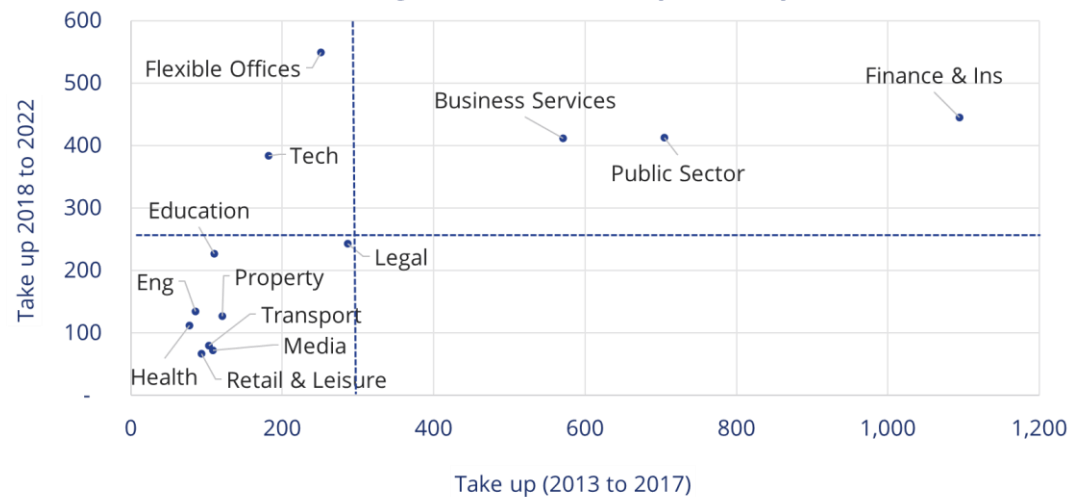
Leeds Office Take-Up - '000 sq ft



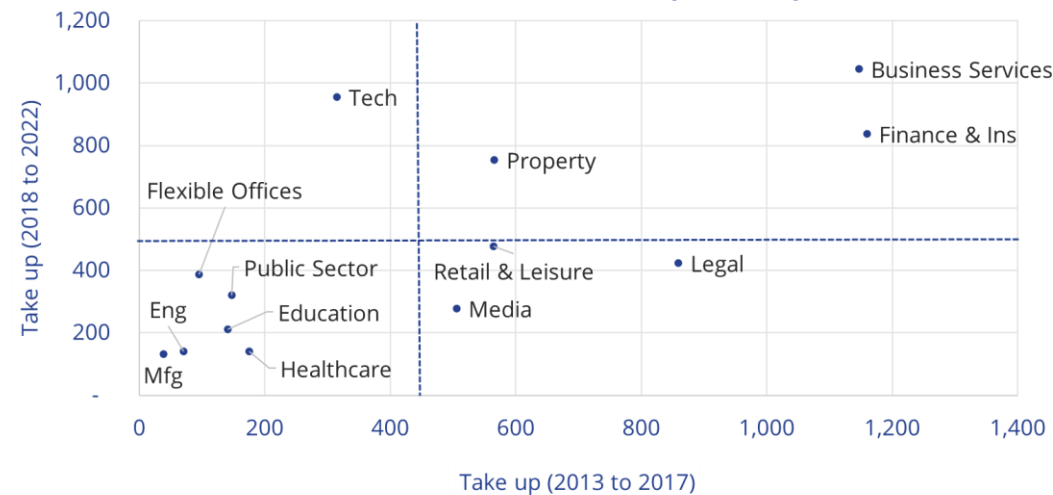
Bristol Office Take-Up - '000 sq ft



Birmingham Office Take-Up - '000 sq ft



Manchester Office Take-Up - '000 sq ft



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'The reports of my death are greatly exaggerated.'

Is 'levelling up' alive and well?



Michael Heseltine: 'The adults are back in charge'

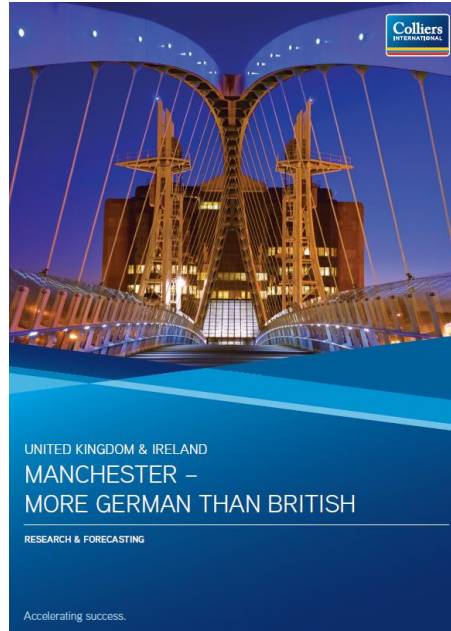
The Tory grandee on turning 90, 'levelling up' Liverpool — and whether Britain will rejoin the EU

- 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

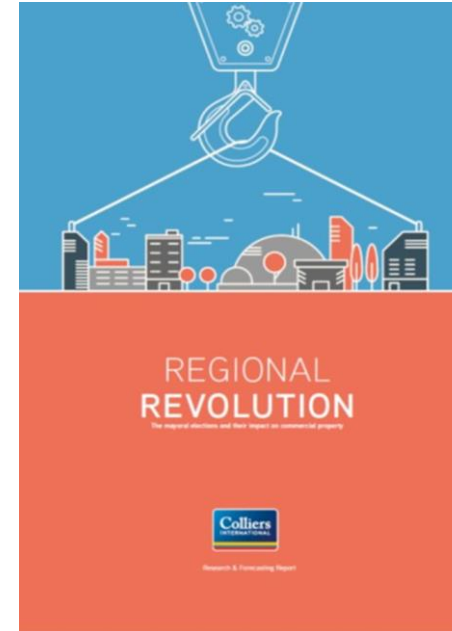
Agglomeration



Regional Revolution I:
Building the UK
Powerhouses, 2014

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

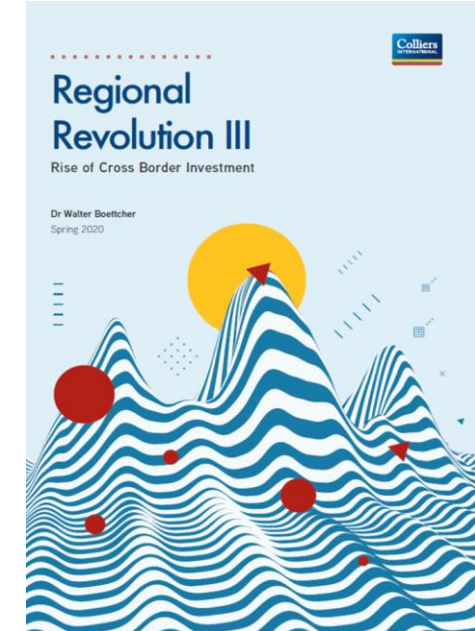
Management



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

Theory, local stakeholders and projects of scale

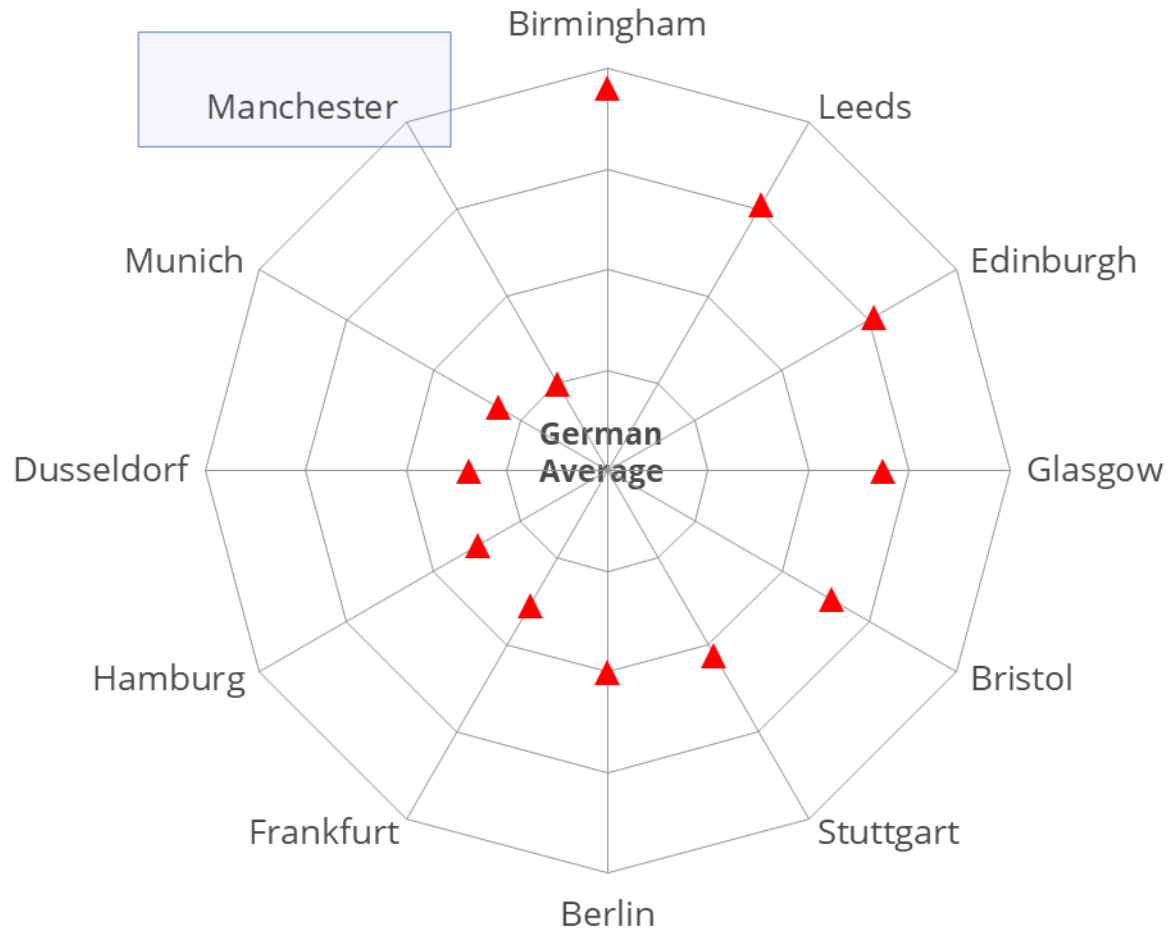
Finance



Regional Revolution III.
Rise of Cross Border
Investment, 2020

Regional market liquidity and the rise of **cross border investment**

Comparative urban economic structures (2012)



Experian as modelled by Colliers, 2012 (mean squared deviations)

Devolution and regional economic development

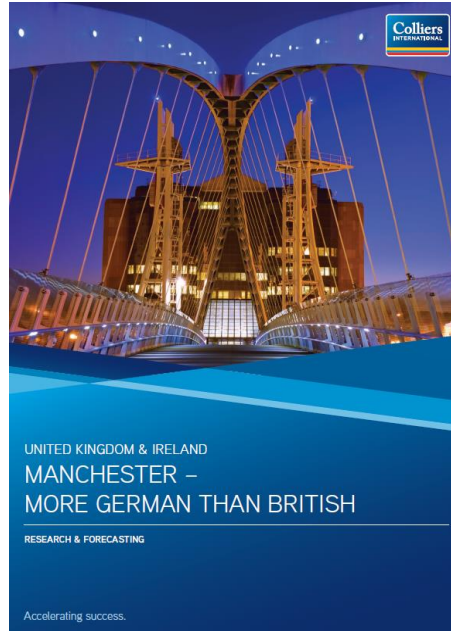
'Levelling up' is not about emulating the status quo

- 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.

Devolution and regional development

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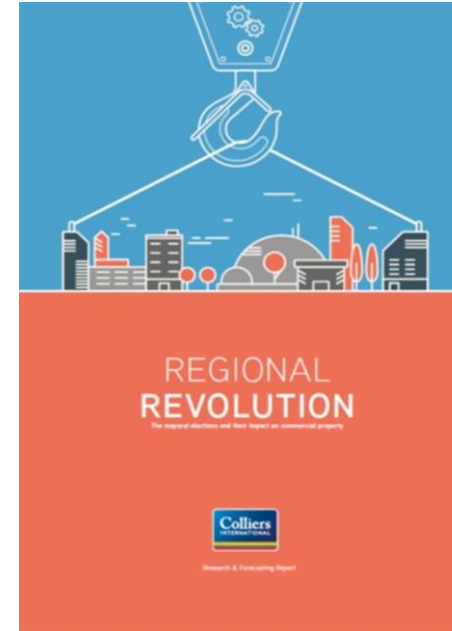
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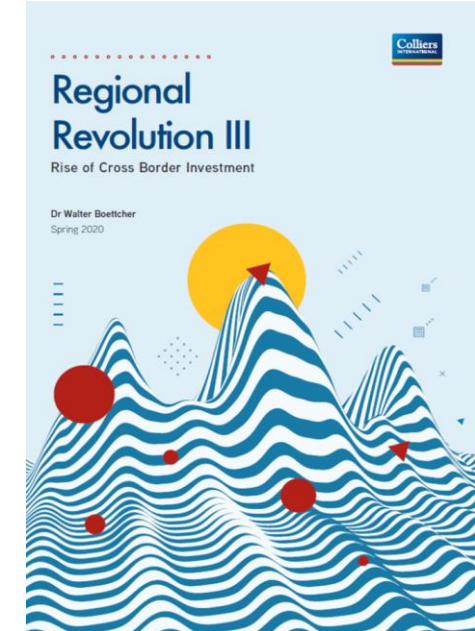
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Remediation and regeneration is key Levelling up? ✓



NOMA Manchester

£800 million (8 hectare) mixed-use redevelopment scheme (4 million sq ft). Stakeholders: **MCC** (vision, levers of power), **Co-operative Group** (land), **Hermes** (capital)

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

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— 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**

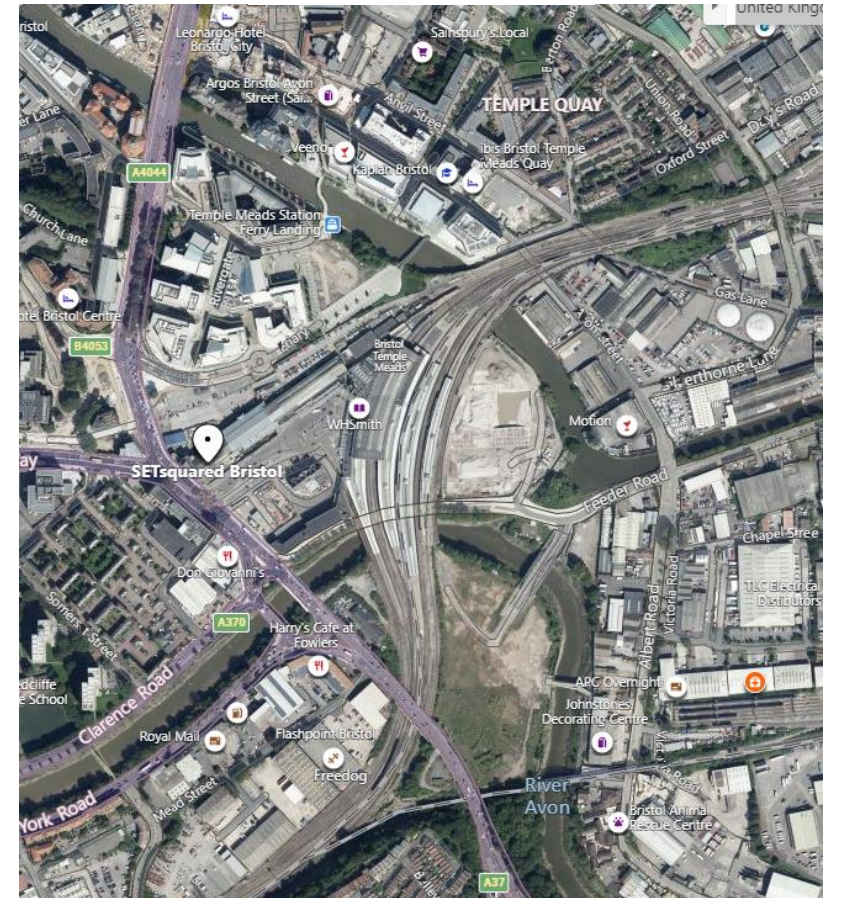
Other projects:

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**

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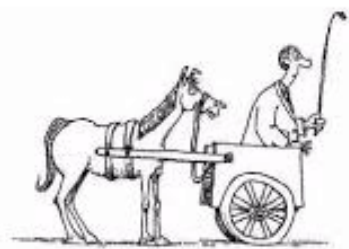


Bristol Temple Quarter
(WoECA, BCC, NR, Homes England)

Remediation and regeneration is key

Levelling up *by another name?*

- **WYCA** established in 2014 without a mayor. WYCA members proposed a Yorkshire-wide mayor, rejected by the UK government. The **first mayor was elected in 2021**, five years after the first tier mayors were elected
- South Bank driven by business community and local activists followed by local government. The LEP was also business-led. When fully developed **South Banks will double the size of Leeds CBD**
- **CEG** Temple – Globe Point 40,430 sq ft BREEAM Excellent – first of CEGs South Bank developments
- **Vastint** (Aire Park) – former Tetley Brewery. Phase I in 2023. 280k sqm commercial buildings. Partners LCC, Moortown and INHUS. Largest of initiatives of the South Bank (8.1 hectares)
- Tower Works (£57m) – L&G BTR Fund & **L&G PGGM JV** (Access)
- **Platform** (£500m) – 1,350 BTR apartments (Holbeck)



Bob Gettings,
Mayor of Leeds



Tracey Brabin
Mayor WYCA

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Leeds South Bank
(WYCA, LCC)

Investment zones based on existing and potential business ecosystem

Regeneration is key

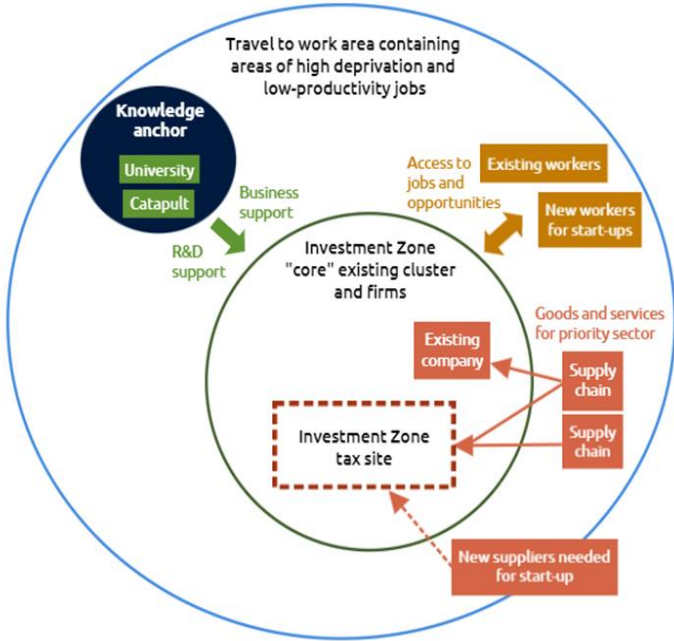
Regeneration projects

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 Eston	£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

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



Source: HM Treasury, 2023

Investment Zone Business Ecosystem

Regeneration is key

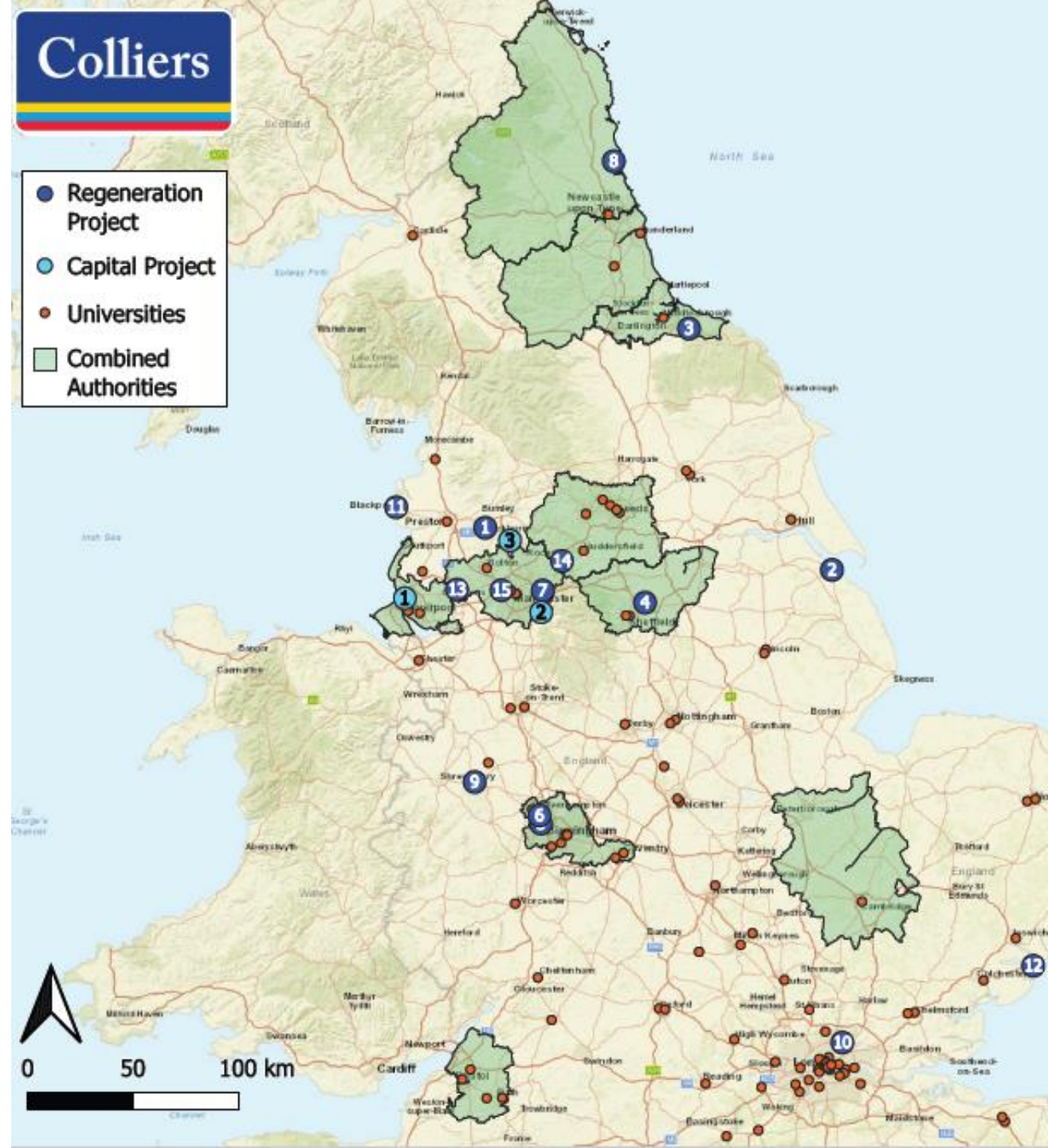
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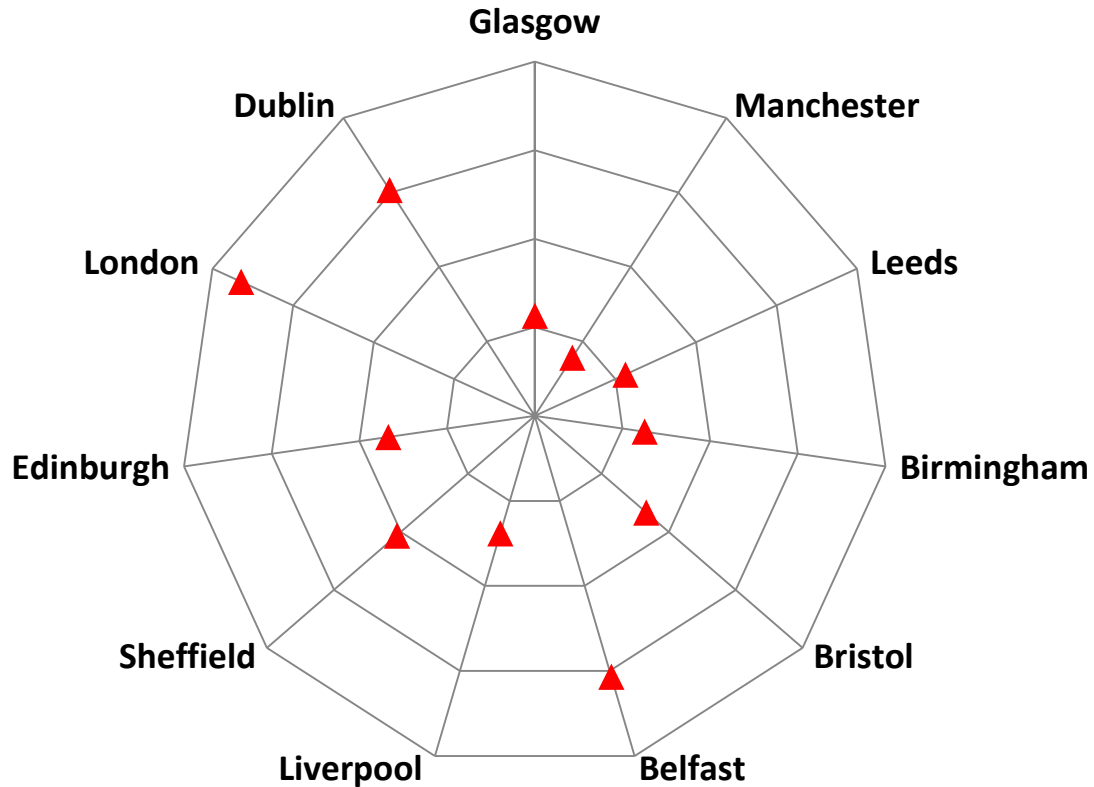
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Colliers confidential



The Theoretical Keys to Regional Development

Deviation from UK Big Six Average
1990



Oxford Economics as modeled by Colliers Research

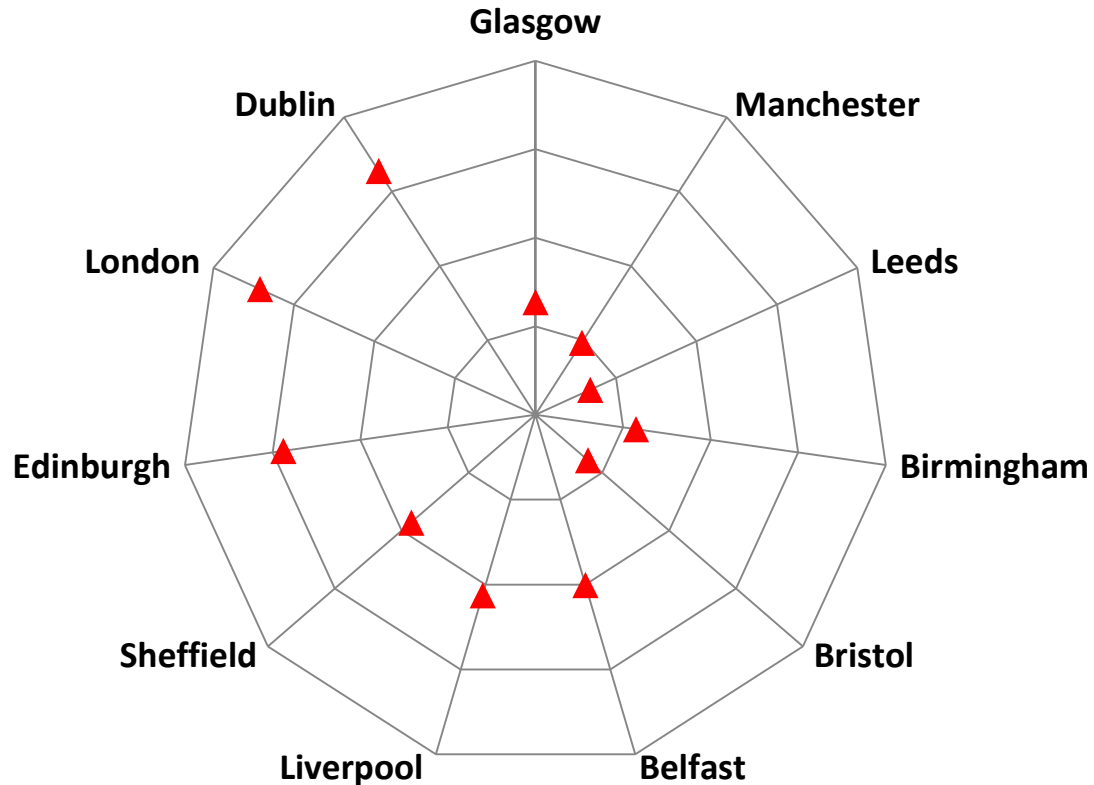
Devolution and regional economic development

'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

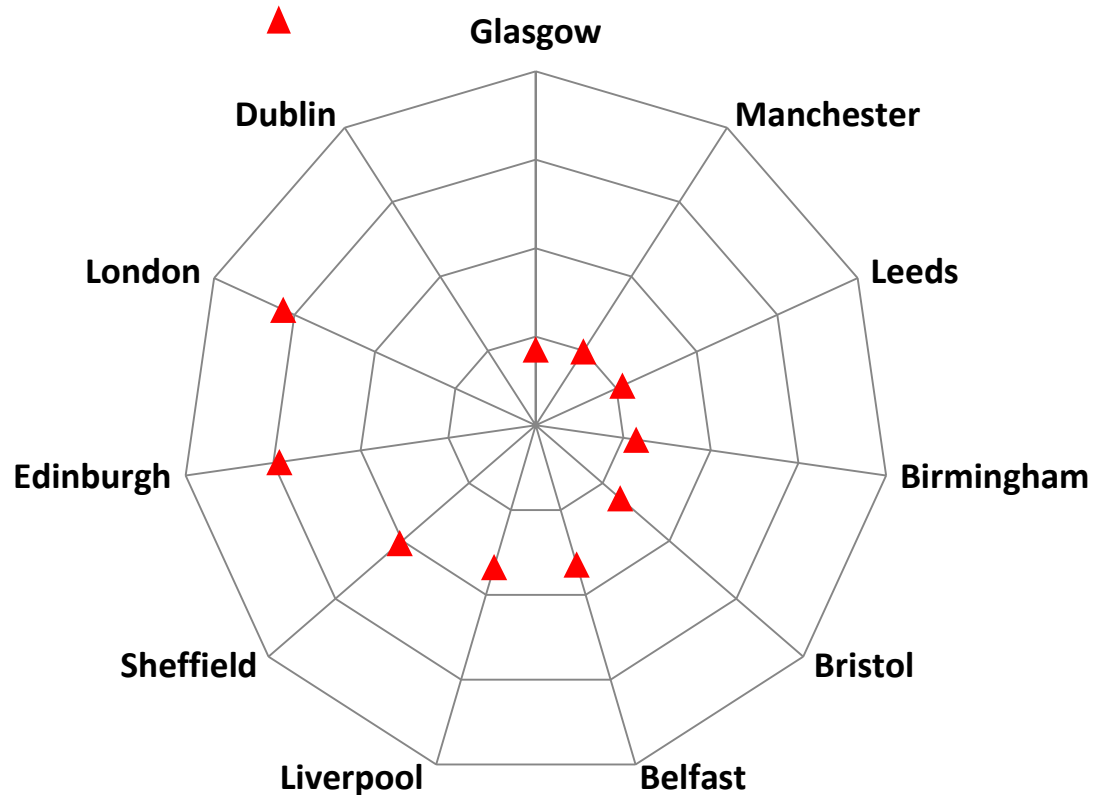
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The Theoretical Keys to Regional Development

Deviation from UK Big Six Average
2019



Oxford Economics as modeled by Colliers Research

Devolution and regional economic development

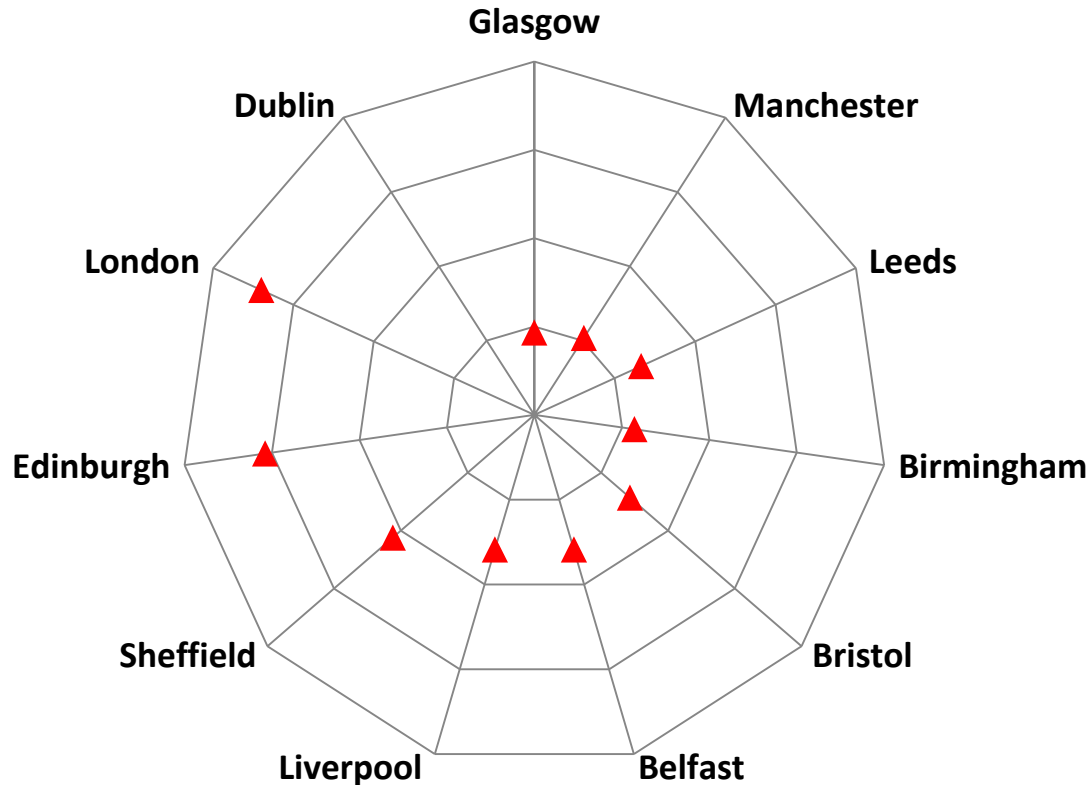
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The Theoretical Keys to Regional Development

Leprechaun economics → ▲

**Deviation from UK Big Six Average
2030**



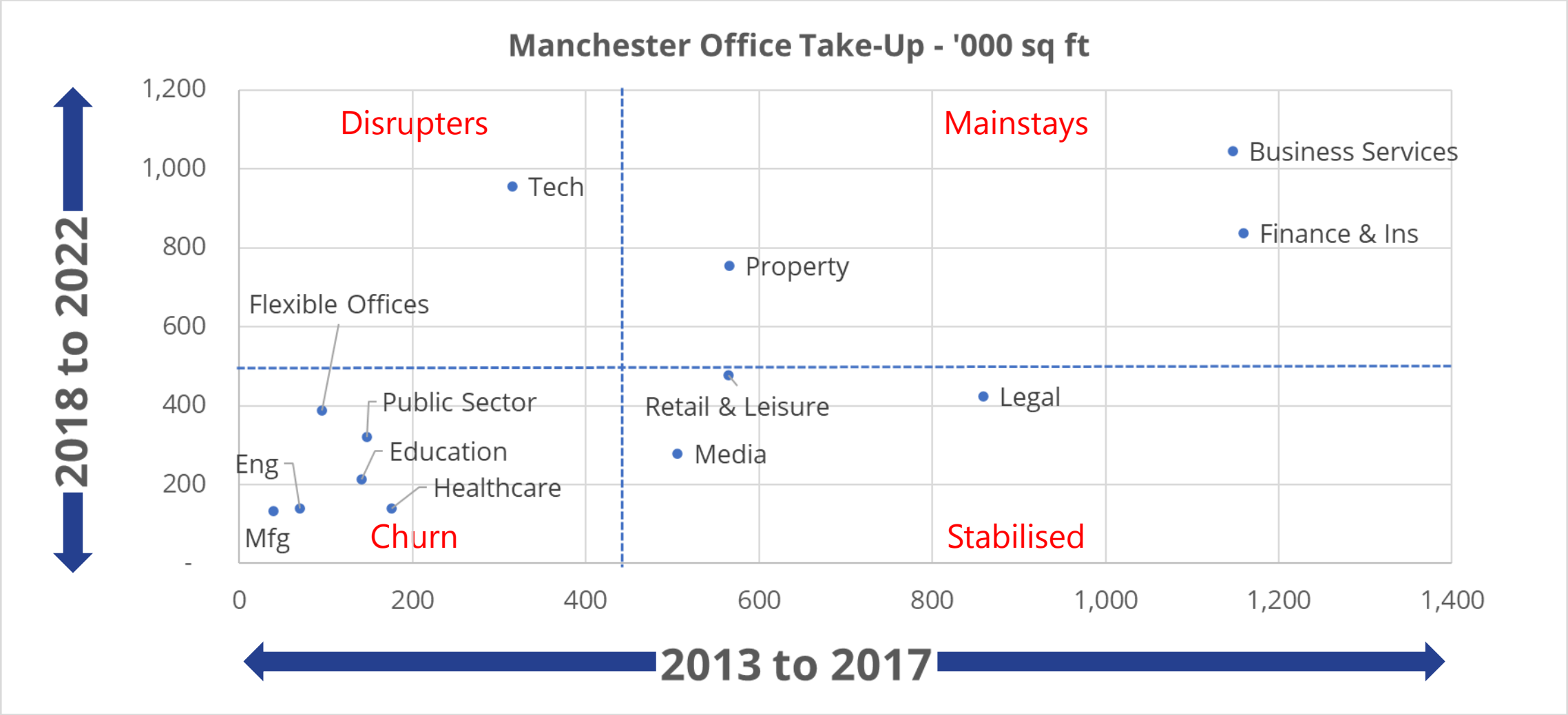
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Technology a relatively recent arrival?



Universities key to feeding development of professional and technical services

Access to talent is key - Manchester

Feeder Schools	Top Fields of Study	Employment Growth	Employment Total
Manchester MU	Law	KPMG	Co-op
UoManchester	Business	NatWest	Lloyds
UoSalford	Mathematics	Deloitte	Co-op Bank
UoLaw	Management	BNY Mellon	NatWest
UoLeeds	Economics	Lloyds	BNY Mellon
		Co-op	RBS
Source: LinkedIn			

- London lost more professional services talent to the UK regions than to New York and Paris combined
- Manchester loses most talent to London, but gained talent from most other northern cities
- Work-life balance cited as key criteria by new recruits, more so than job security and compensation

Universities key to feeding development of professional and technical services

Access to talent is key - Liverpool

Feeder Schools	Top Fields of Study	Employment Growth	Employment Total
Liverpool JL	Law	Bond Turner	Santander
UoLiverpool	Business	Barclays	Weightmans
Edge Hill Uni	Mathematics	Rathbones	Hill Dickinson
UoLaw	Management	Lloyds	Rathbones
Liverpool Hope	US Legal		Lloyds
			DWF
Source: LinkedIn			

- London lost more professional services talent to the UK regions than to New York and Paris combined
- Liverpool loses most talent to Manchester and London in that order, but has gained talent from other Big Six cities
- Work-life balance cited as key criteria by new recruits, more so than job security and compensation

Variety of professional/financial services with a bit of new tech

Tech starts ups - Manchester



Temporary work app



Medical diagnostics



NHS online services



Cancer immunotherapies



Sustainable packaging



Workplace software extensions



Genetic dementia risk



Paediatric medicine



Social media advertising



Online product info management



Domestic power solutions



Pharmaceuticals (cancer)



AI data processing, quality control

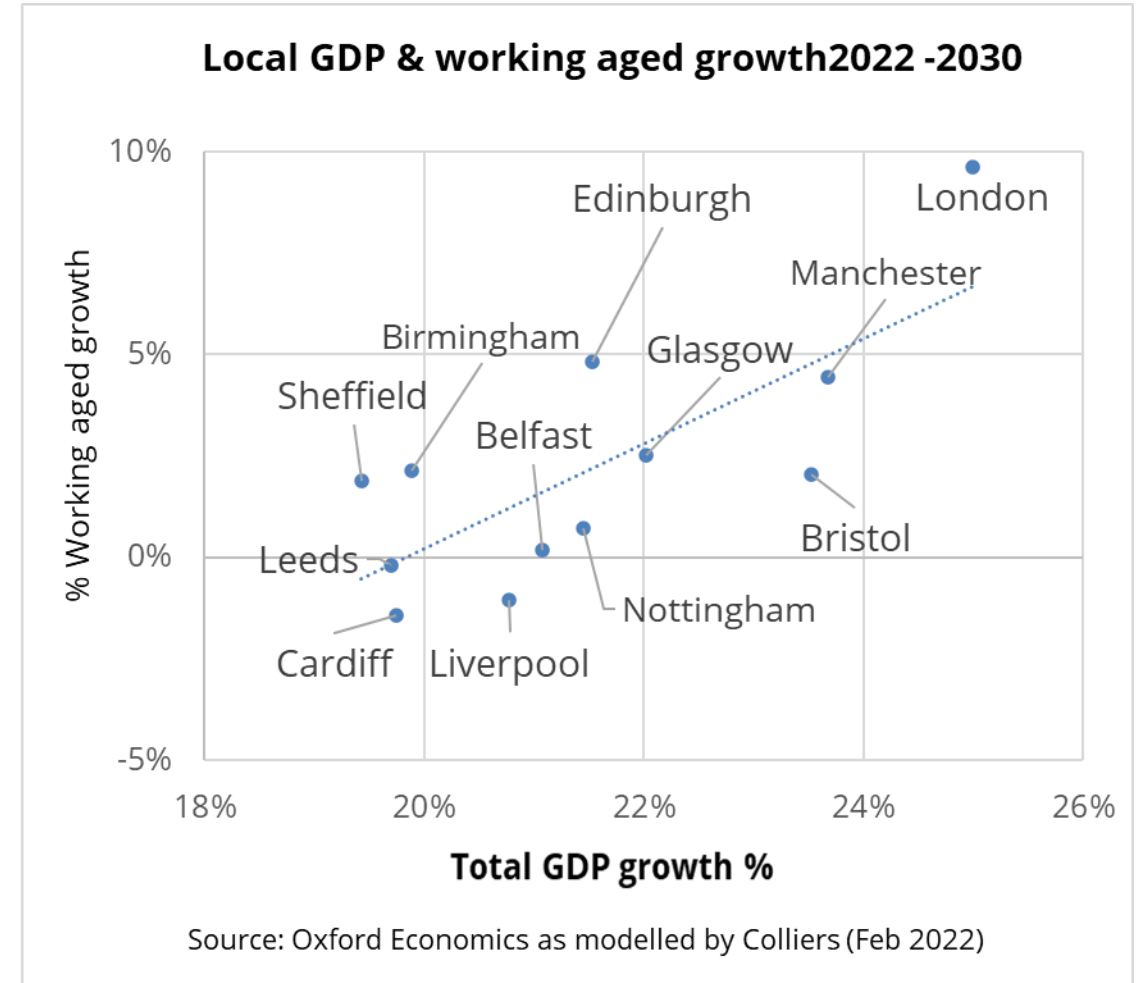
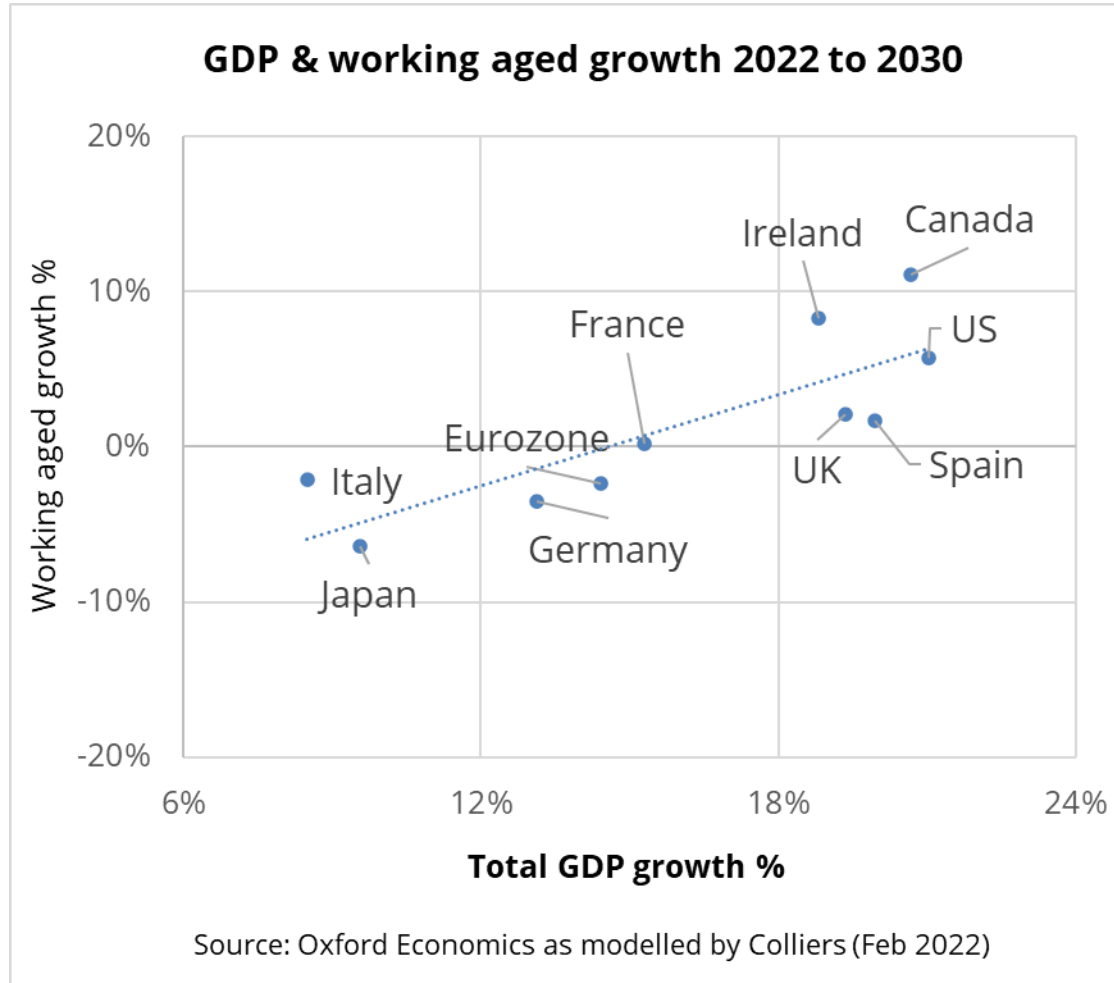


Telephony solutions

<https://www.beauhurst.com/blog/top-tech-startups-manchester/>

Strong correlation between population growth and economic growth

Comparative economic performance



Agenda

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





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