



Professional Conferences Webinar 21<sup>st</sup> June 2023

# Risk, reality and UK recovery

**Dr Walter Boettcher, Head of Research, Colliers (UK)**

# Agenda

01 **Economy and rates**

02 Property dynamics

03 Levelling up agenda

04 Q&A

# No recession despite previous Bank of England warnings

## 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

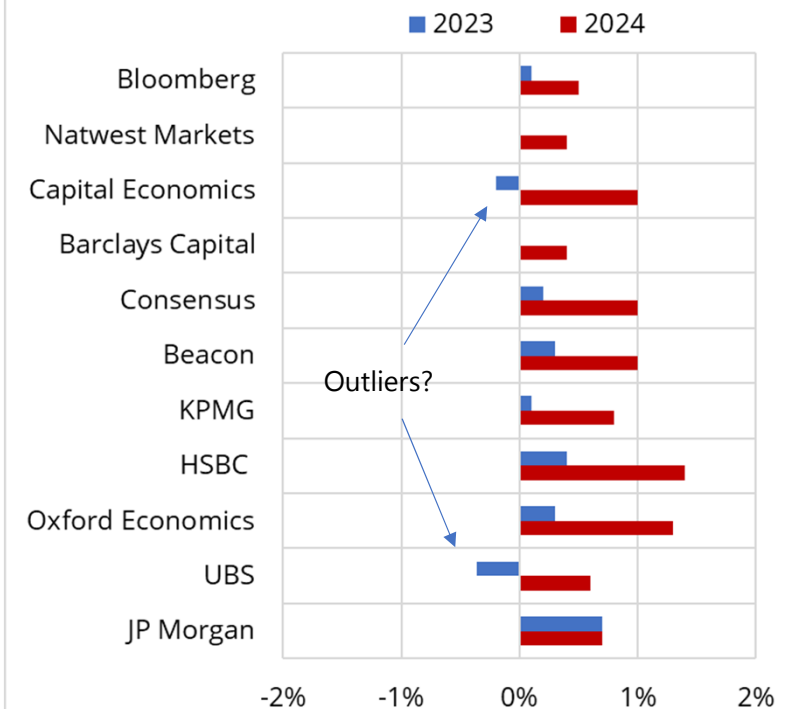
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- (BoE) November : 2.9% decline/longest recession in history
- (BoE) May : 0.25% rise in 2023 and 0.75% rise in 2024
- (HM Treasury May Consensus) :
  - 0.2% rise in 2023
  - 1.0% rise in 2024
- Noteworthy outliers (Capital Economics, UBS)



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### GDP economic growth forecasts



Source: HM Treasury Consensus Forecasts Survey (1st - 12th May 2023)

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# No recession despite previous Bank of England warnings

## Economic forecasts (GDP) strengthening

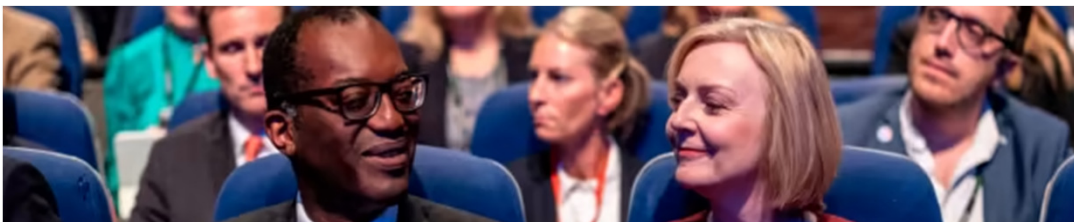
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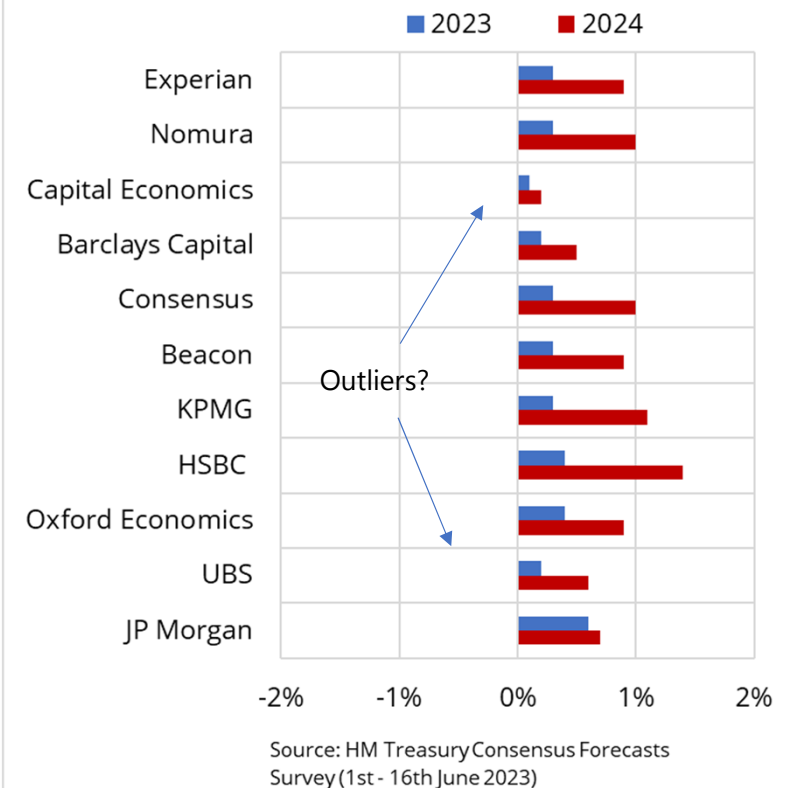
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### GDP economic growth forecasts



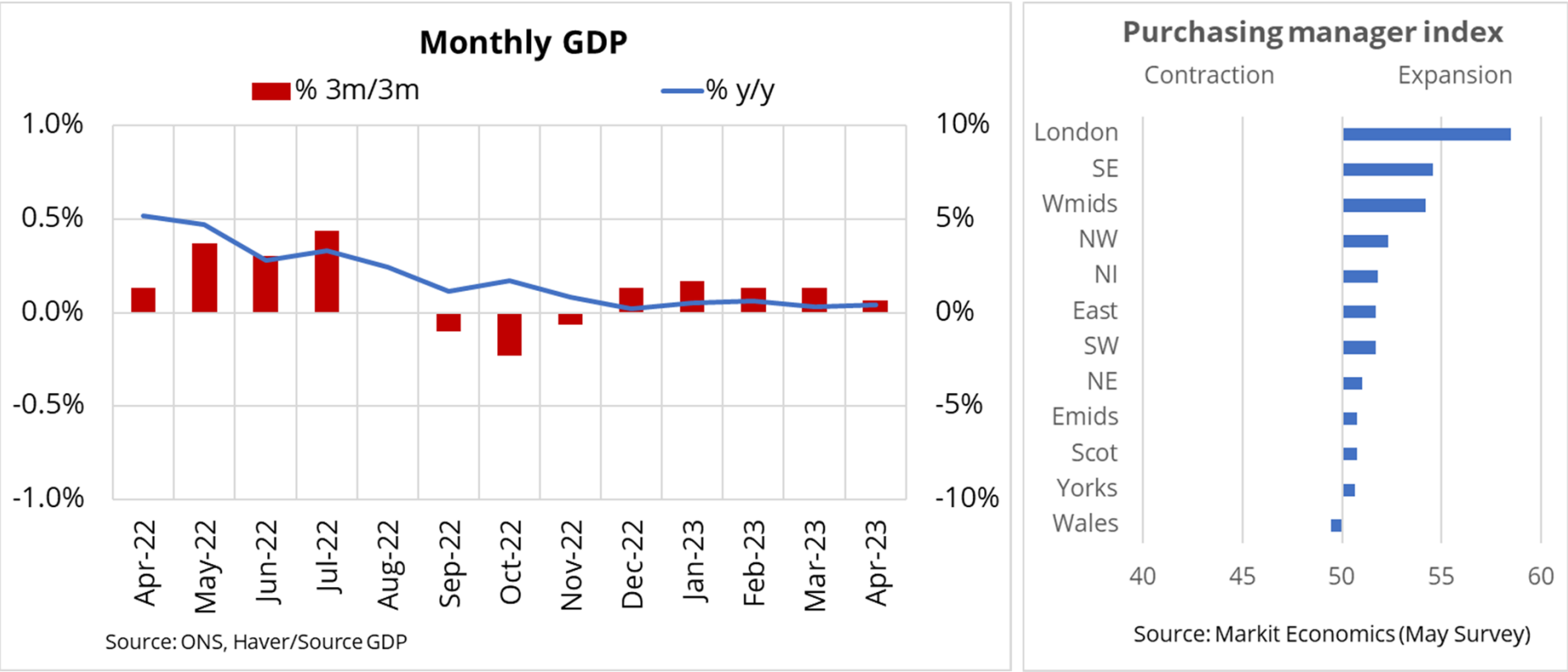
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Bank of England monetary policy problematic

Economic performance upside surprises – pandemic ripples?



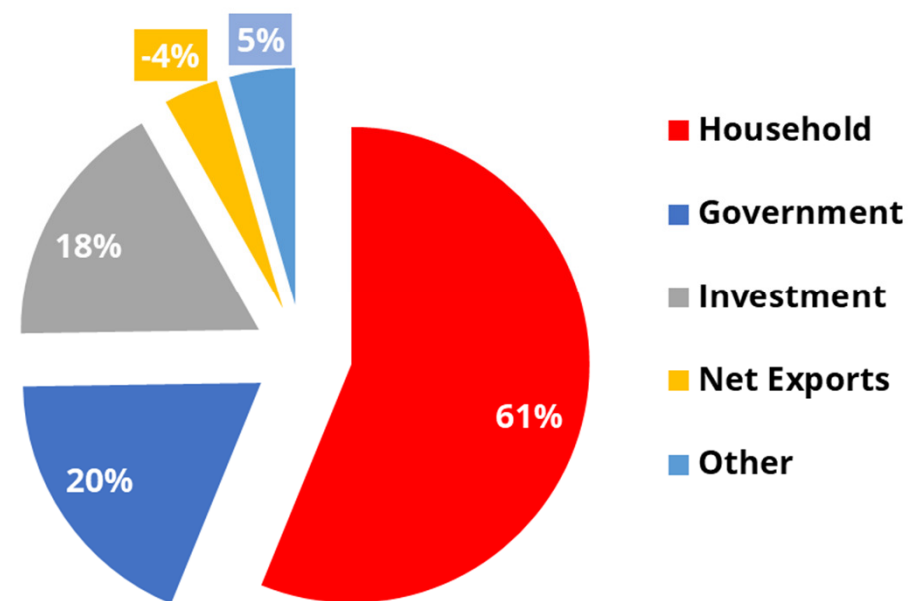
# Household spending accounts for 61% of UK GDP

## 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 (-27 May) but up on Truss/Kwarteng (-49) and pandemic (-34)
- 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

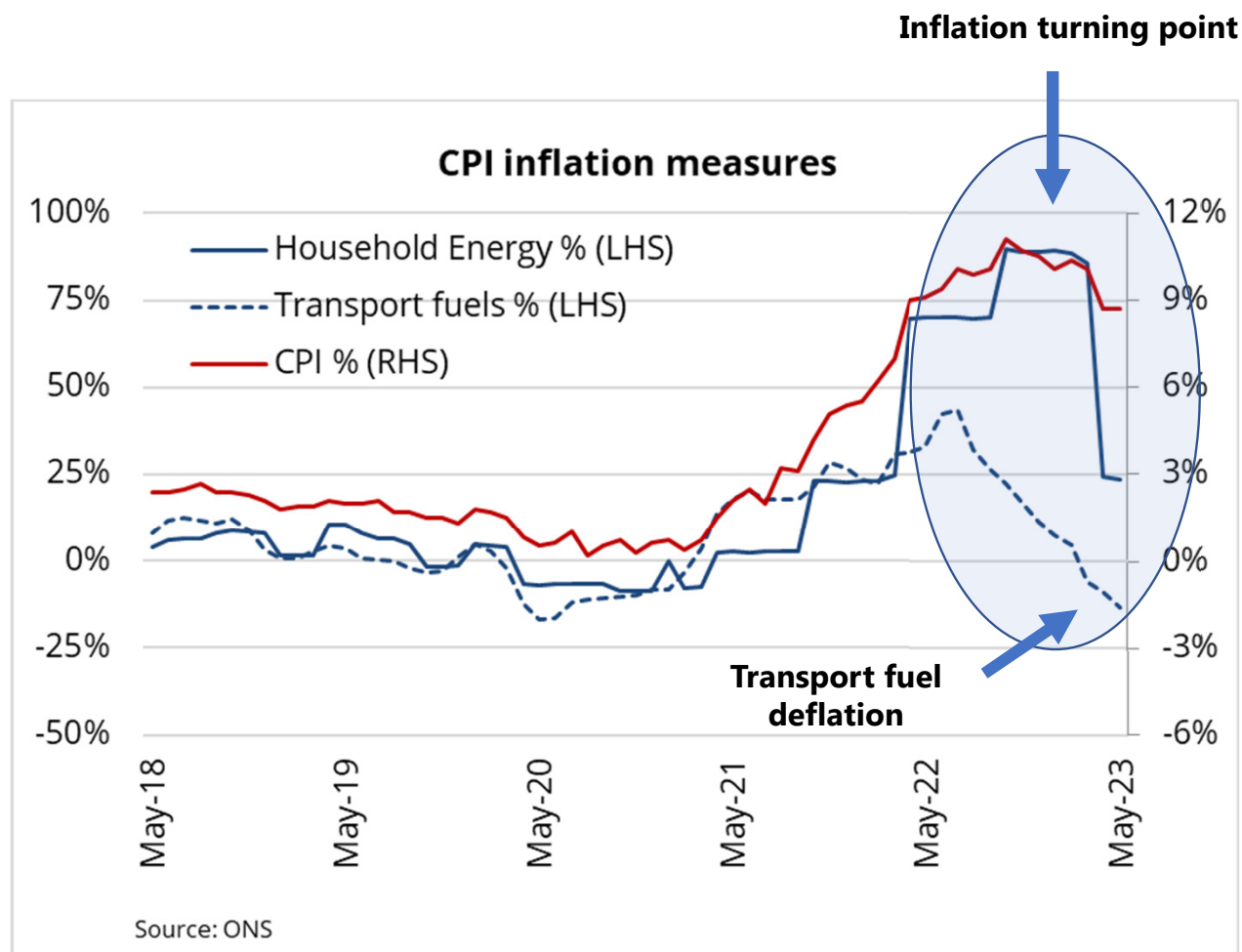


Source: ONS

## Inflation set to fall rapidly in Q2/Q3 2023

### Good news!

- Inflation to fall rapidly in Q2 23
- Fuel prices already deflating
- Ofgem cap to fall again in July!
- Consumer and business confidence will improve
- Economy stronger than expected (PMI – April 54.9 / May 54.0)
- Unemployment (Jan-Mar 3.9)
- Bank Rate may have peaked?



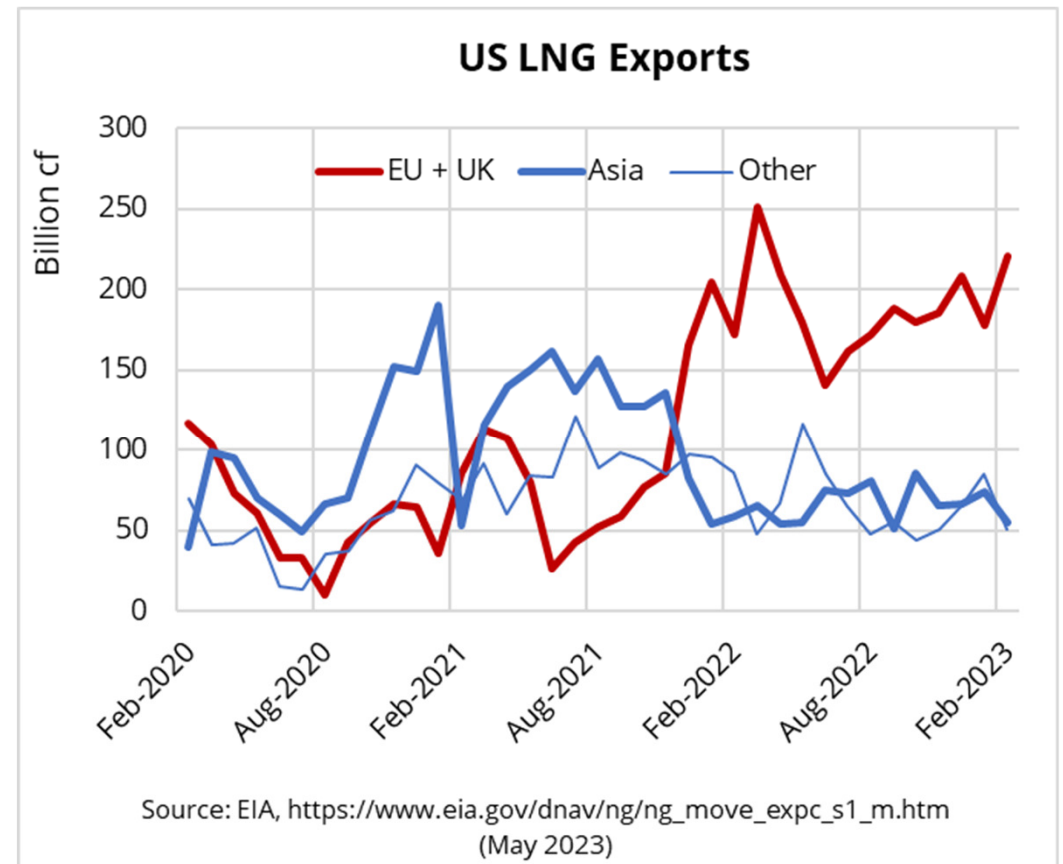
## Phenomenal supply response from US suppliers

### More good news! UK/European energy security improved

- ✓ Gas reserves 20% > five-year average
- ✓ Mild European winter
- ✓ 20% increase in energy efficiency by energy intensive industries (in Germany)
- ✓ **Phenomenal supply response!**



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Phenomenal supply response from US suppliers  
More good news! UK/European energy security improved



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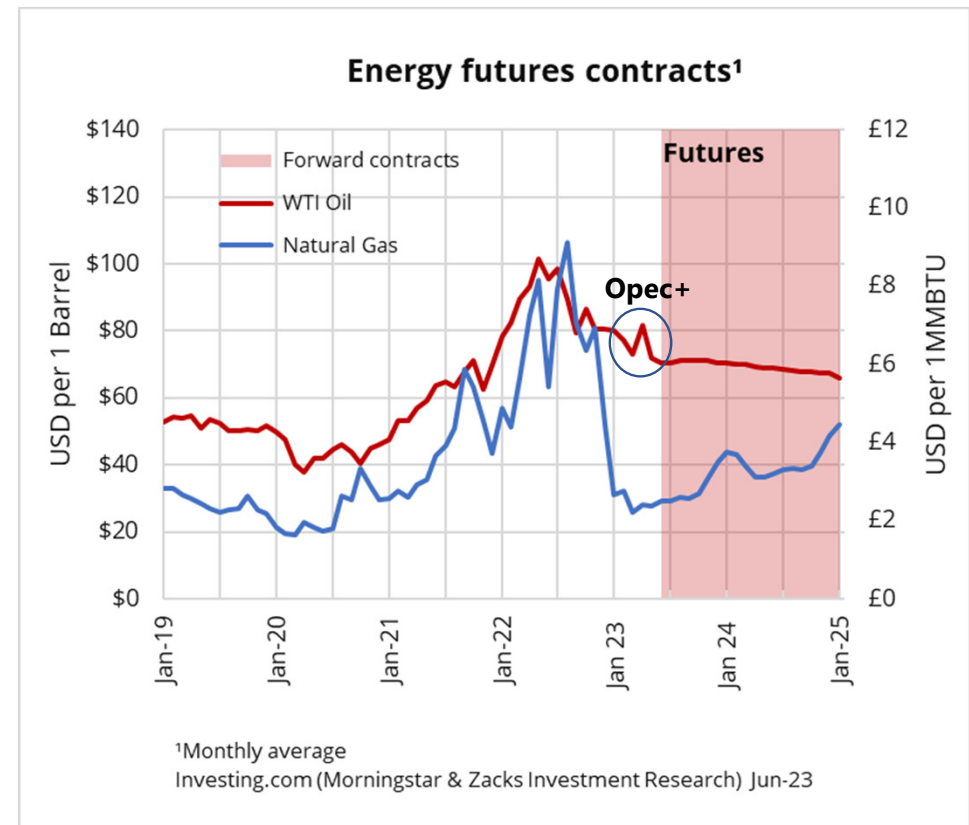
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Natural gas prices at 18-month low (pre-Russian aggression)

More good news! UK and European energy security improved

- Forward contracts and inventories suggest that European supplies secure through 2024
- Transport fuel prices are already falling
- Uncertainty remains:
  - *OPEC+ supply restrictions ineffective*
  - *Global economy and Chinese re-opening*
  - *Dollar (US monetary policy)*
  - *Further Russian aggression*
- **Conclusion: energy prices likely to remain elevated, but at a sustainable level**



## 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	\$72	\$71	\$71	\$71	\$71	\$71	\$71	\$71
2022 (Oil inflation)	65%	54%	69%	64%	71%	50%	52%	42%	17%	21%	29%	15%
2023 (Oil inflation)	2%	-6%	-19%	-13%	-29%	-27%	-28%	-21%	-10%	-18%	-12%	-12%

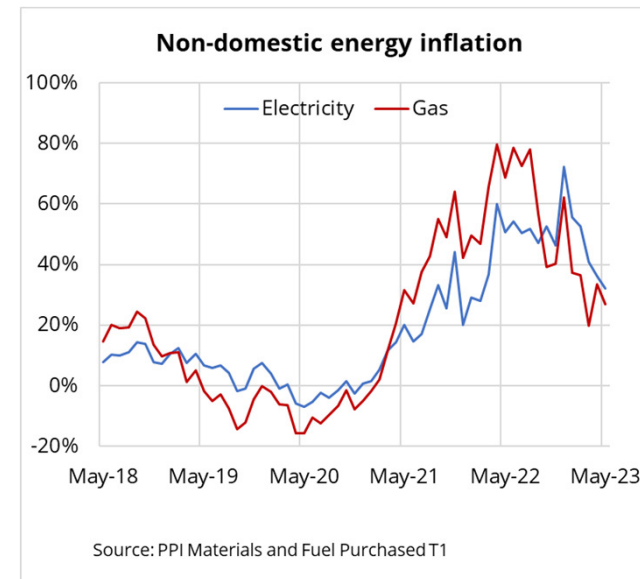
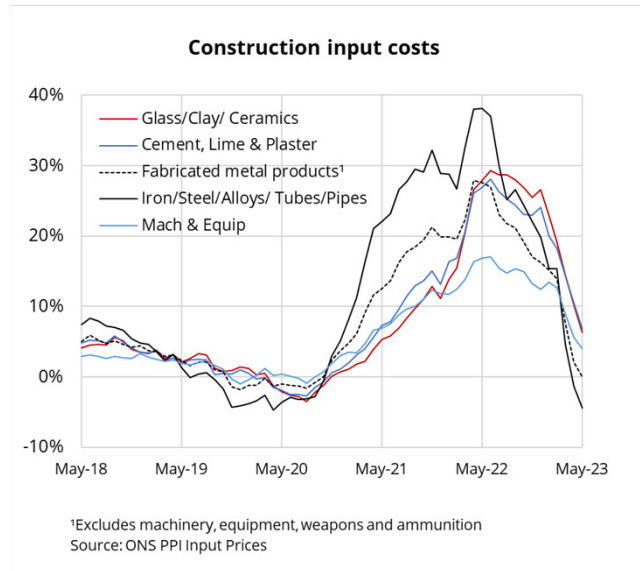
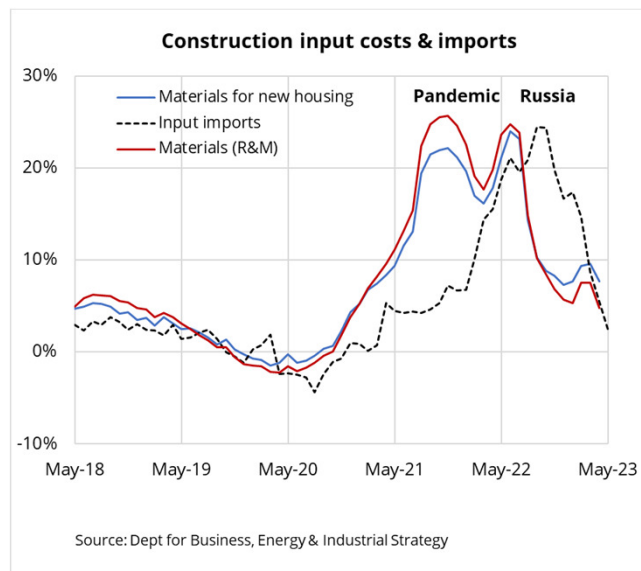
- Oil is stabilising this year in the low seventies per barrel
- But oil price *inflation* will be negative (deflation), because this year's price is being compared to last year's price
- CPI is a *year-on-year* comparison figure
- The 'base' is 2022 and is so high that this year's CPI figure will be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





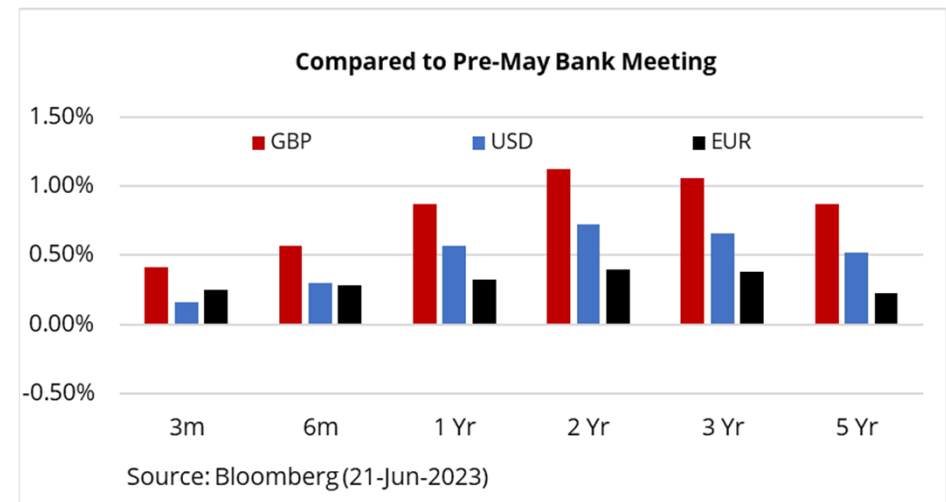
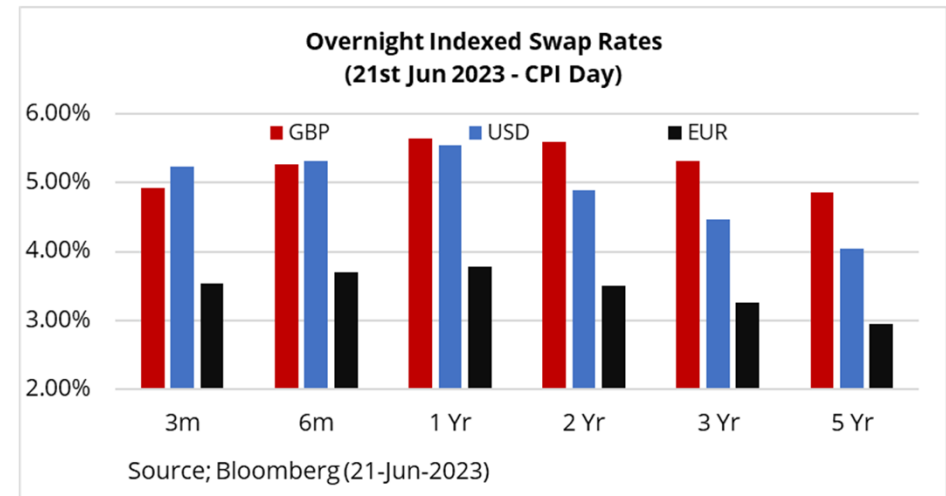
# Swap rates suggest Bank Rate at or near peak

## UK interest rate peaked?

- **Key dates to watch:**

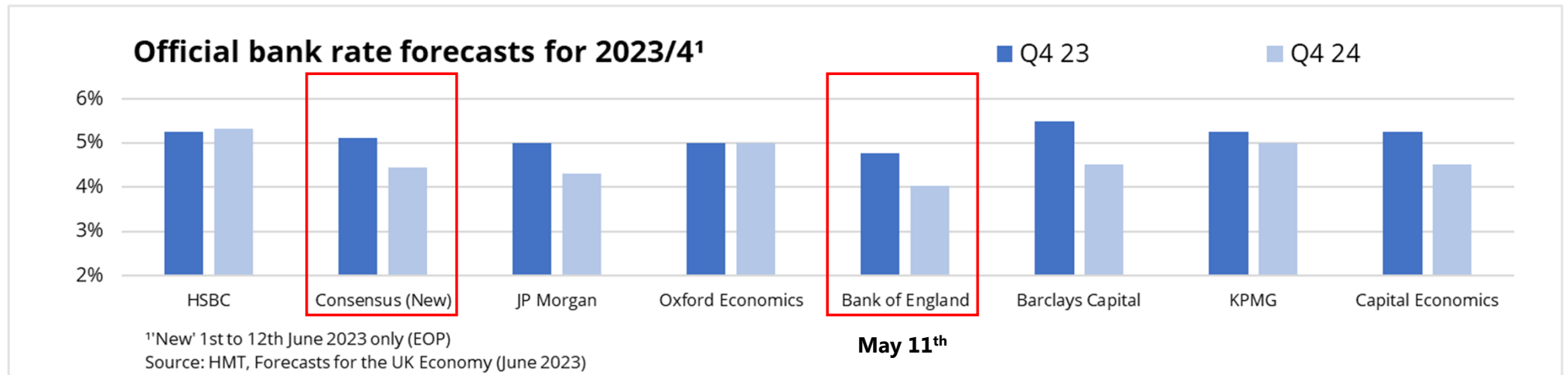
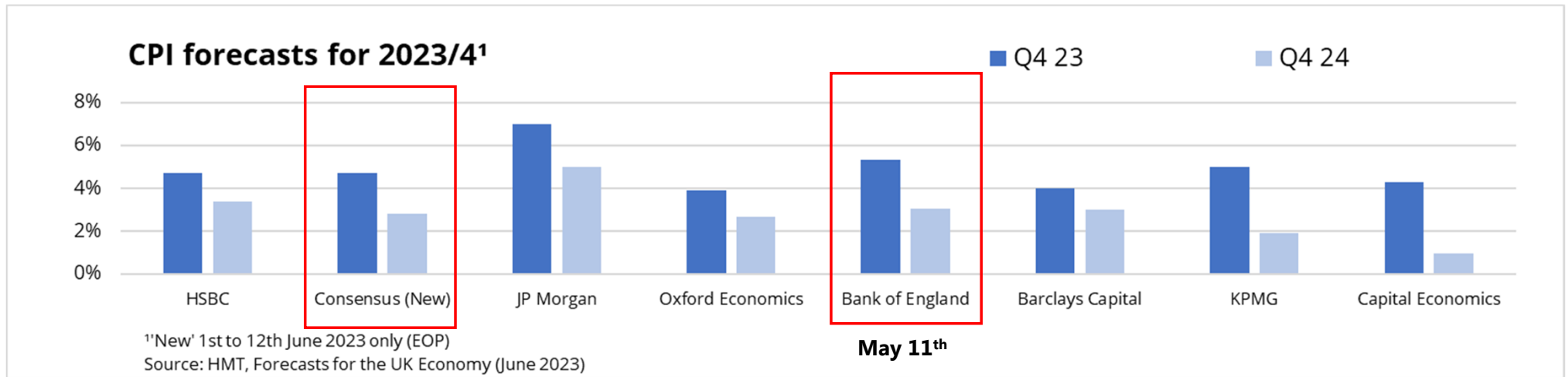
- ✓ (1) *Spring Budget (15<sup>th</sup> March)*
- ✓ (2) *February CPI release (March 22<sup>nd</sup>)*
- ✓ (3) *Bank of England meeting (23<sup>rd</sup> March)*
- ✓ (4) *March CPI (19<sup>th</sup> April)*
- ✓ (5) *Bank of England Meeting (11<sup>th</sup> May)*
- ✓ (6) *April CPI (22<sup>nd</sup> May)*
- (7) Bank of England Meeting (22<sup>nd</sup> June)**
- (8) July CPI (10<sup>th</sup> August)**

- May CPI stable, but core inflation may defer rate peak.  
Greater business confidence likely in H2 2023
- Heightened risk perceptions by banks, though, may prove to be a decisive driver of debt costs and conditions



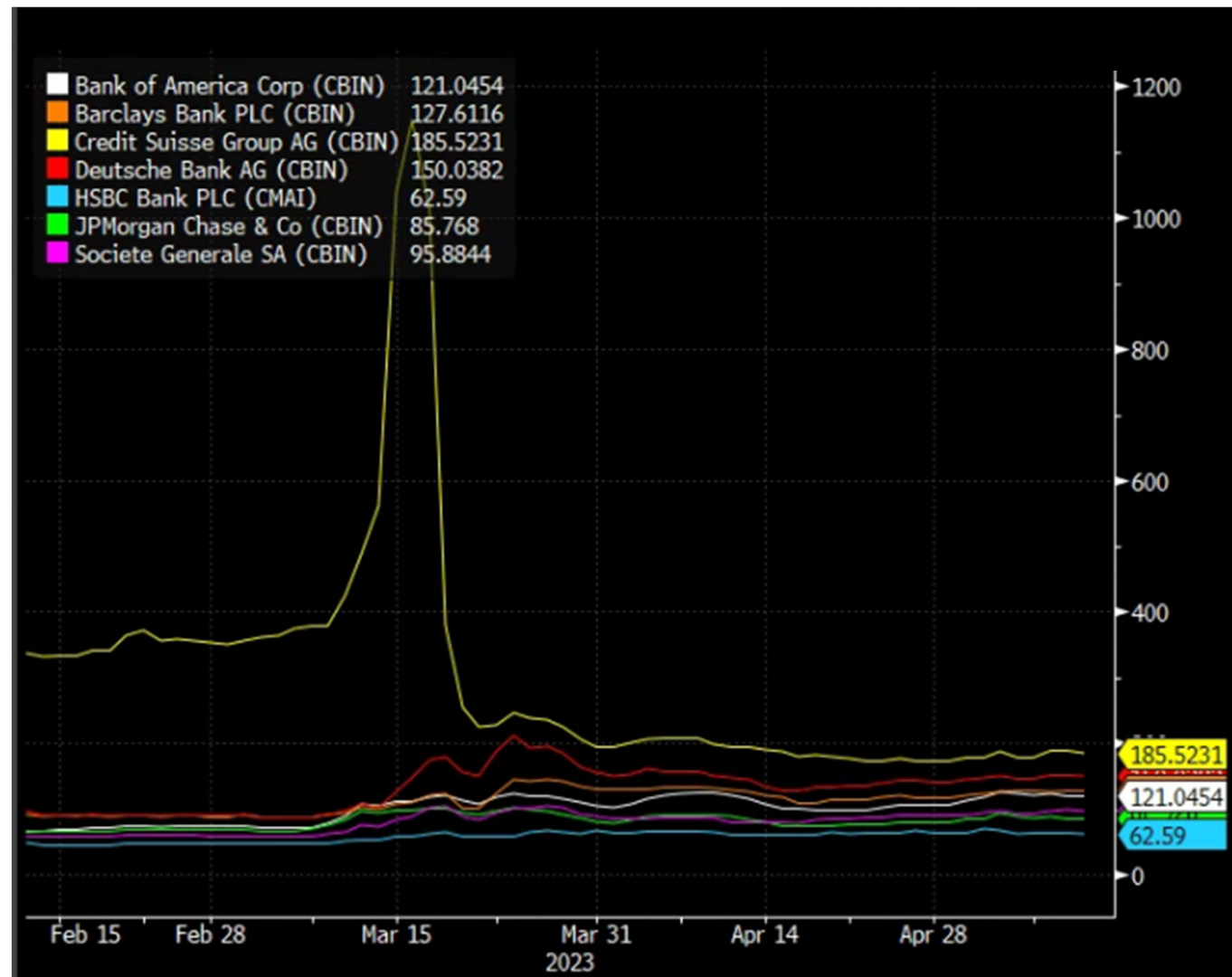
The Bank Rate may have peaked?

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



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

A new financial crisis?

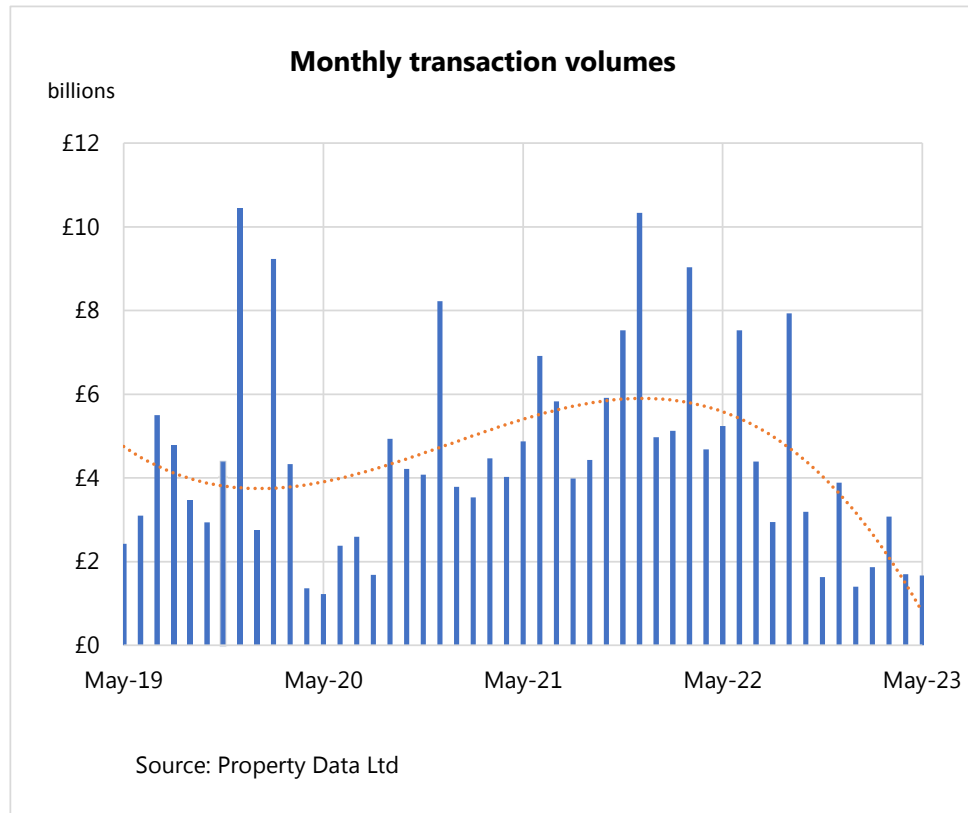


# Agenda

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- 02 **Property dynamics**
- 03 Levelling up agenda
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# Uncertainty and rising cost of debt prompting re-appraisal

## Transactional flow at a snails pace in early 2023

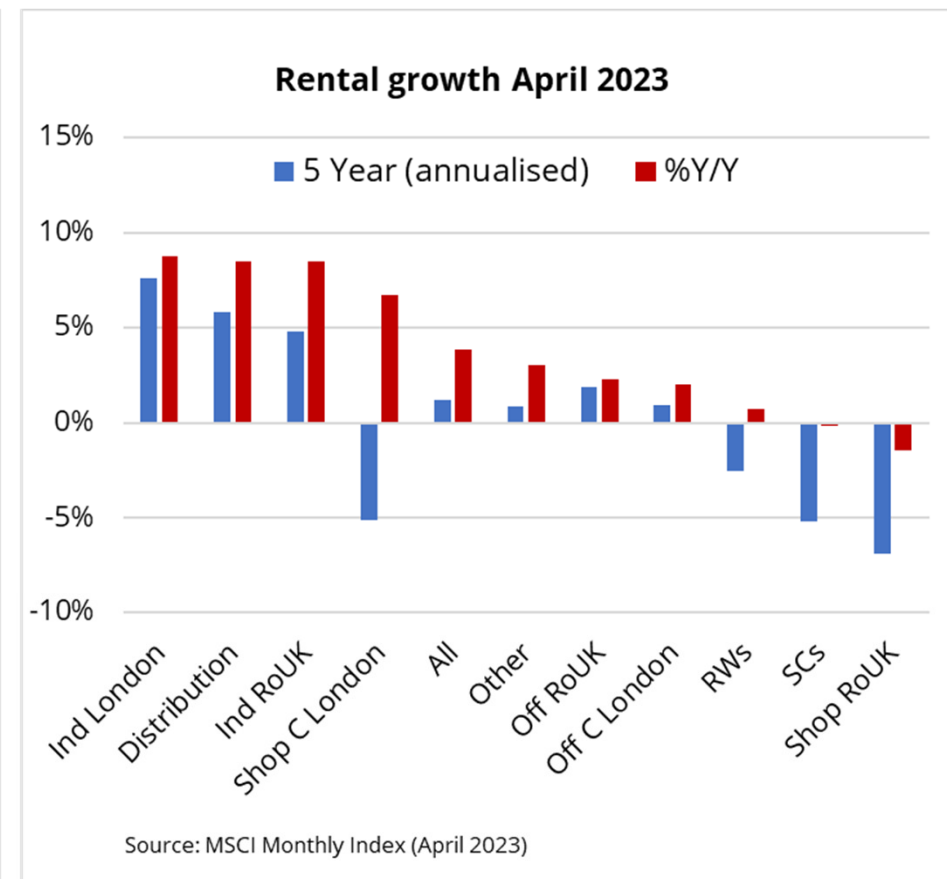
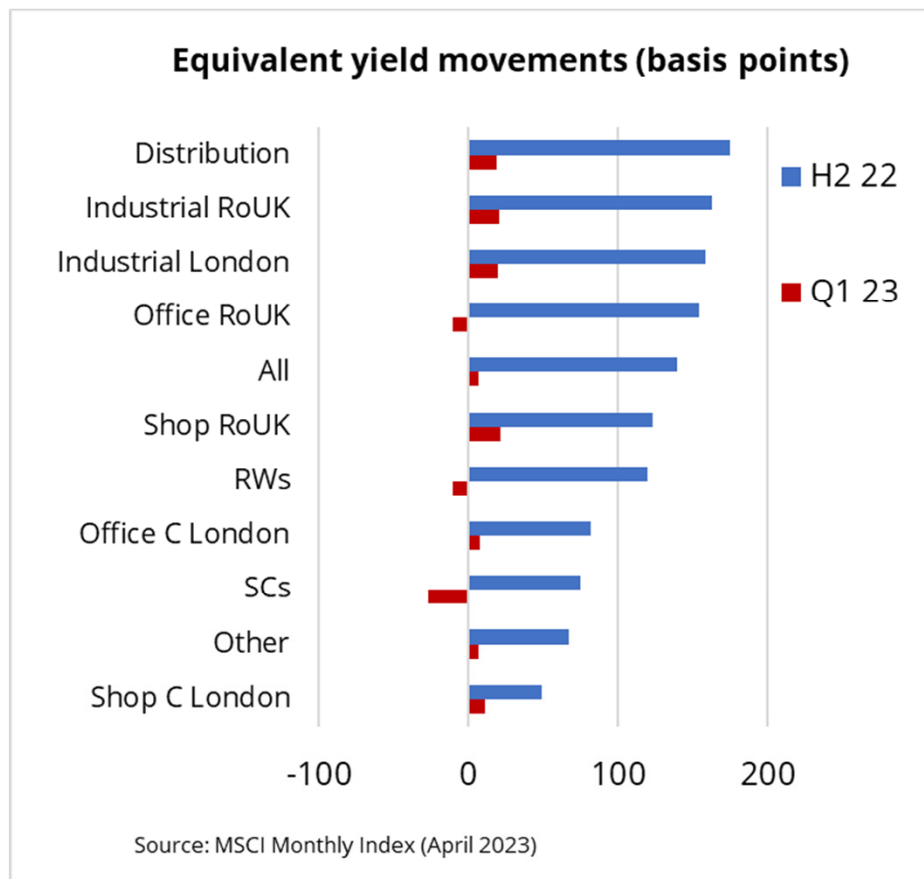


- Lowest level of activity since GFC
- All sectors impacted
- Sentiment driven?
- Debt cost driven?
- **Weight of capital remains a defining force!**

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

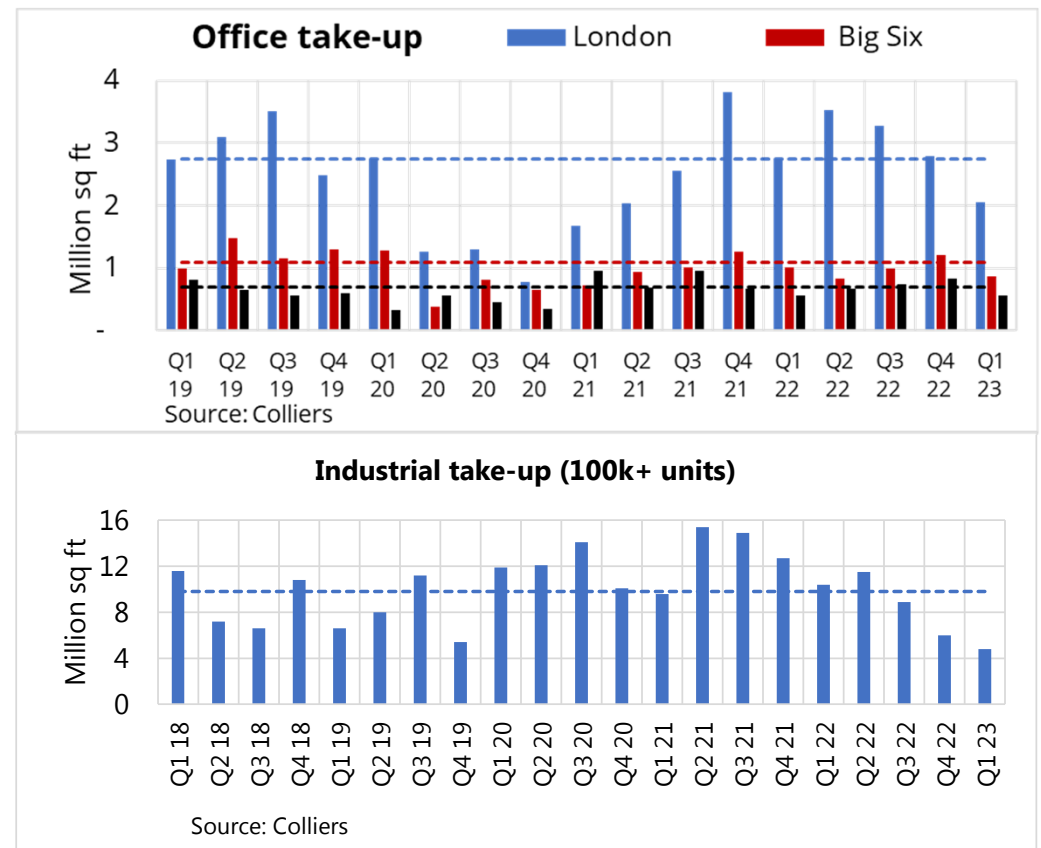
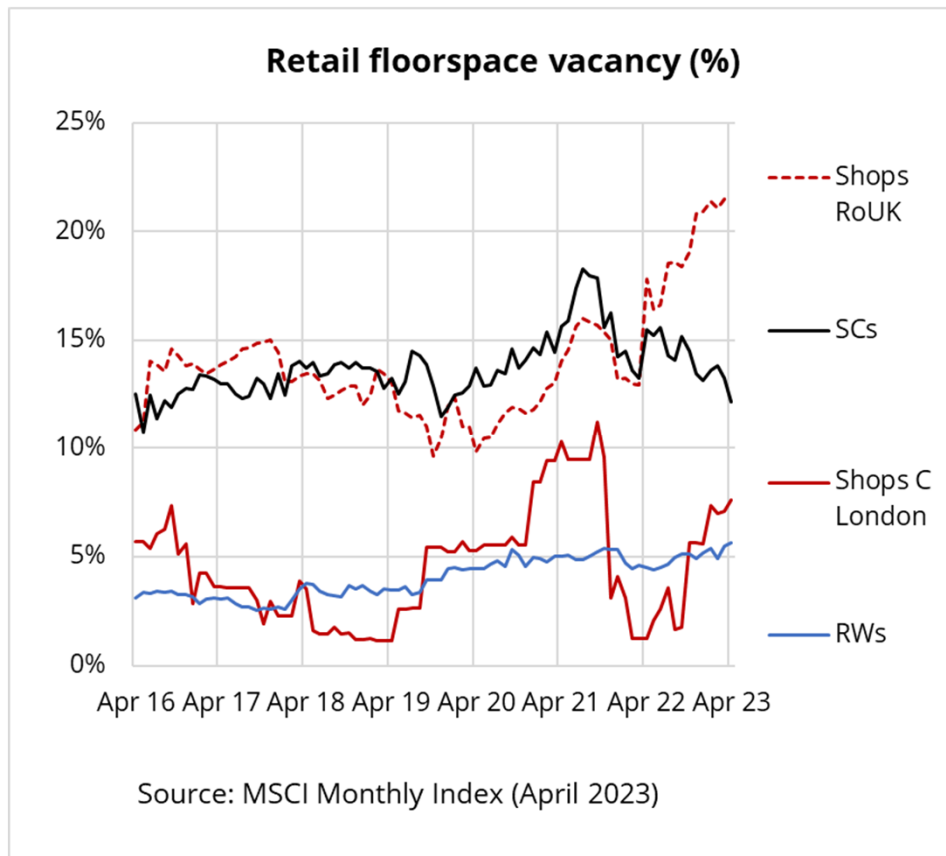
## Occupier markets stabilising, but ESG impact not yet visible

### 2022 price shift substantial, limited scope for yield expansion?



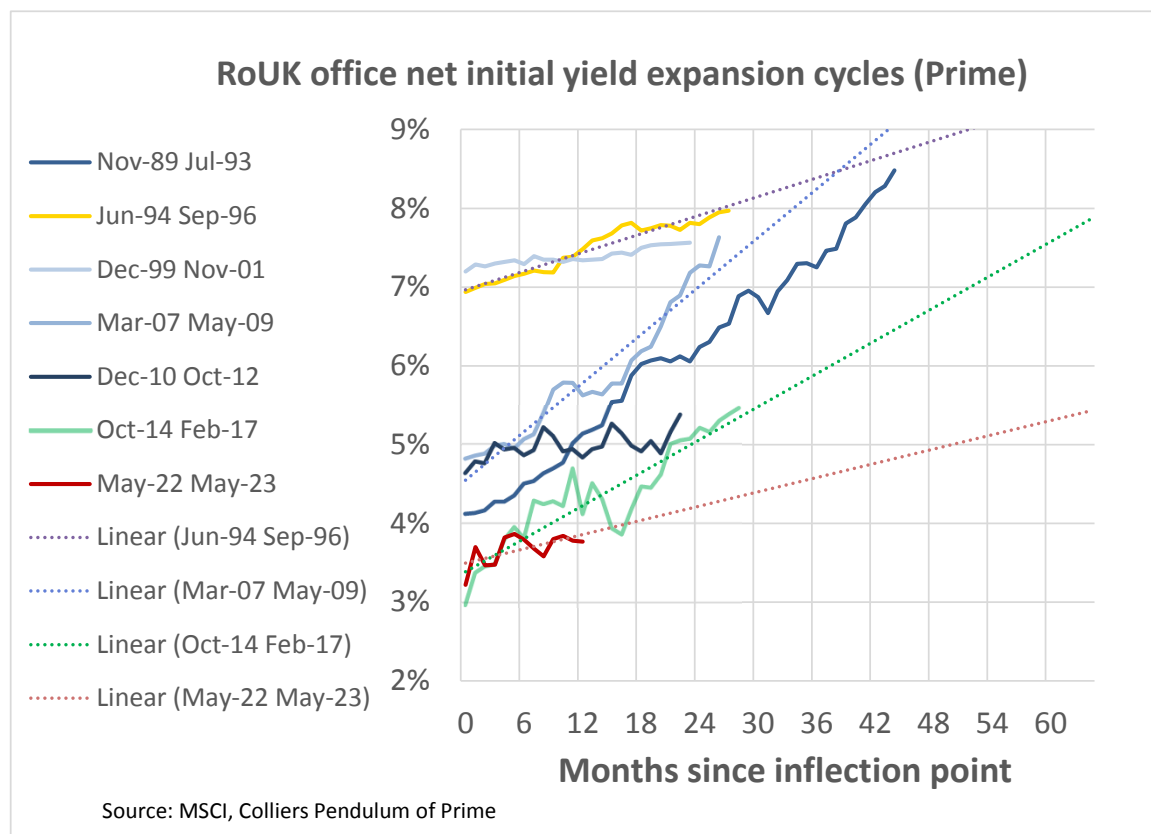
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## Demand conditions stable despite ESG and structural change . . . So far Pricing correction substantial, limited scope for yield expansion?



# Cycles are shaped by conditions in financial and property markets

## Yield expansion cycles



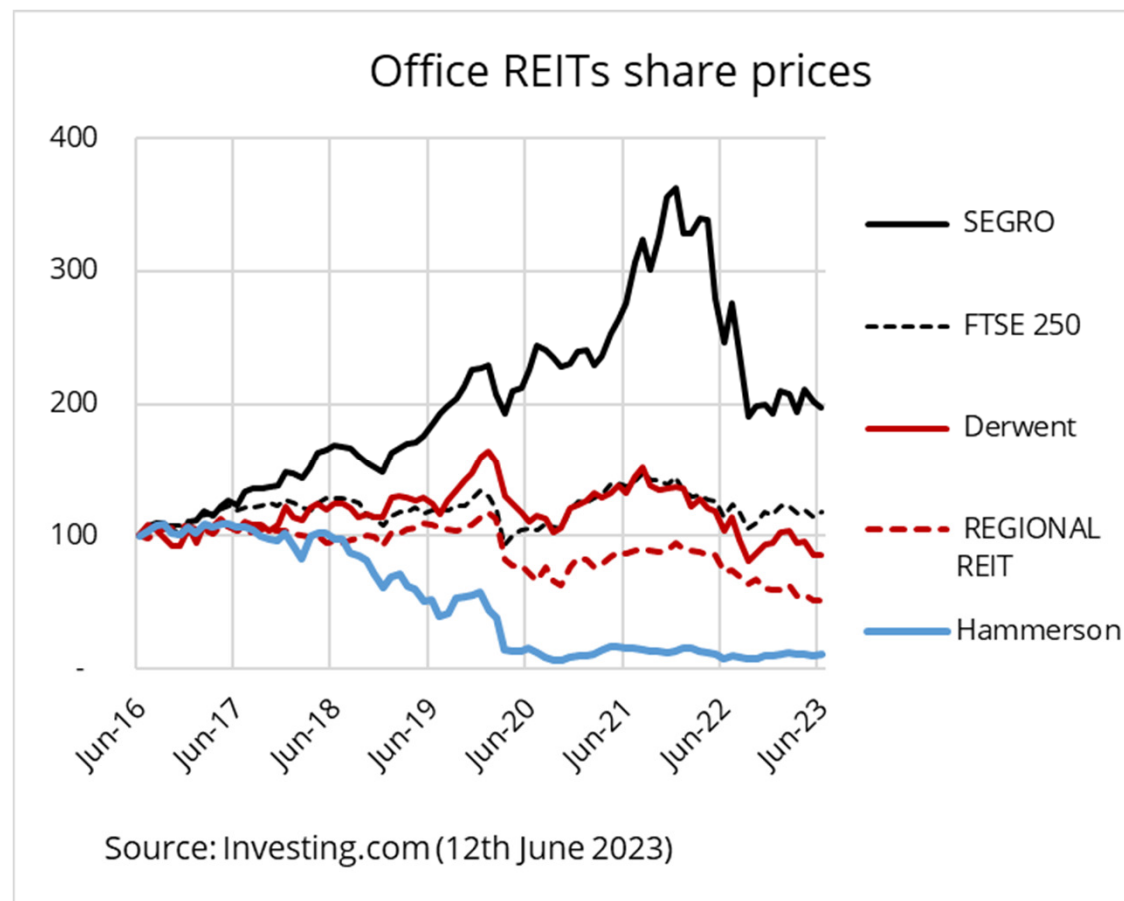
- Yield expansion cycles variable in length and amplitude
- Rate of change and duration depend on numerous variables including:
  - *Yield departure point*
  - *Ten-year bond level*
  - *Weight of capital*
  - *Debt availability & cost*
  - *Risk perceptions*
- The latest price movements appear to be 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

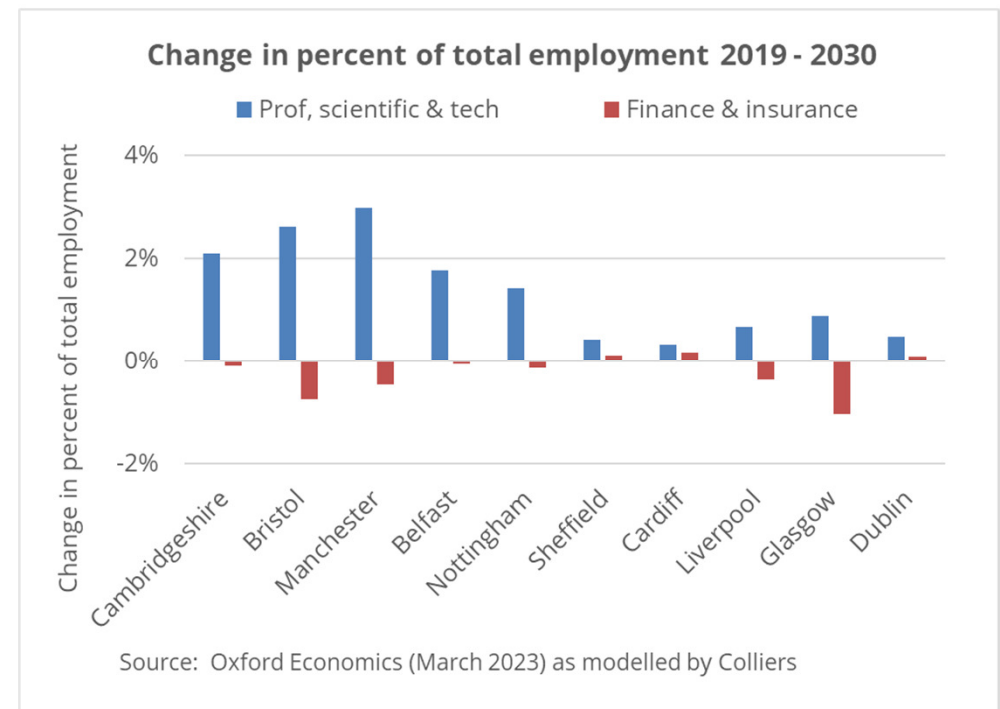
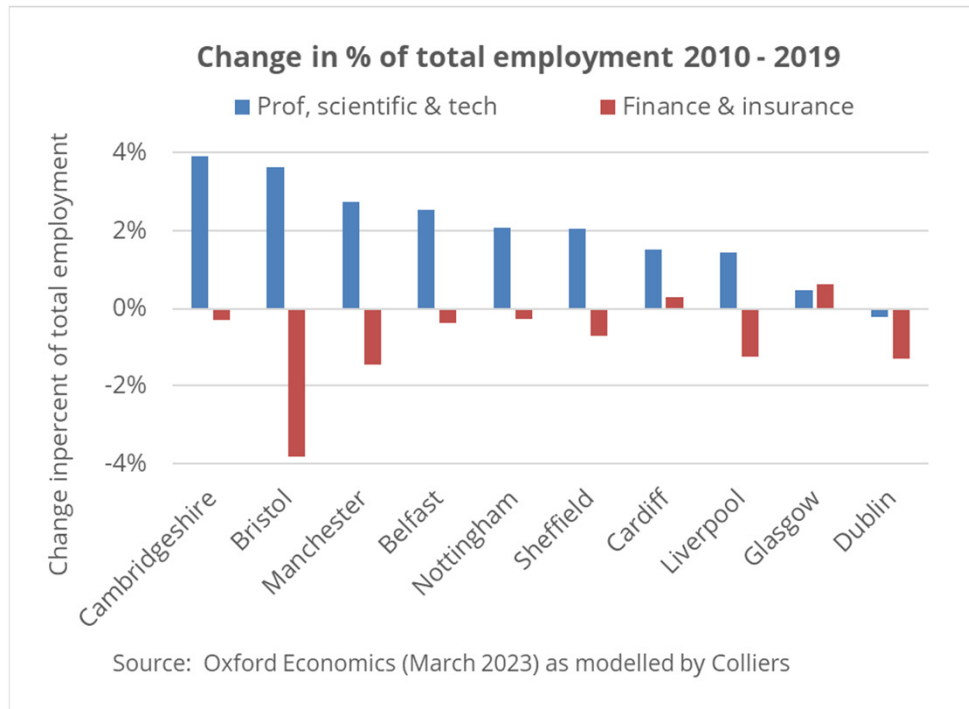
# Structural change

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



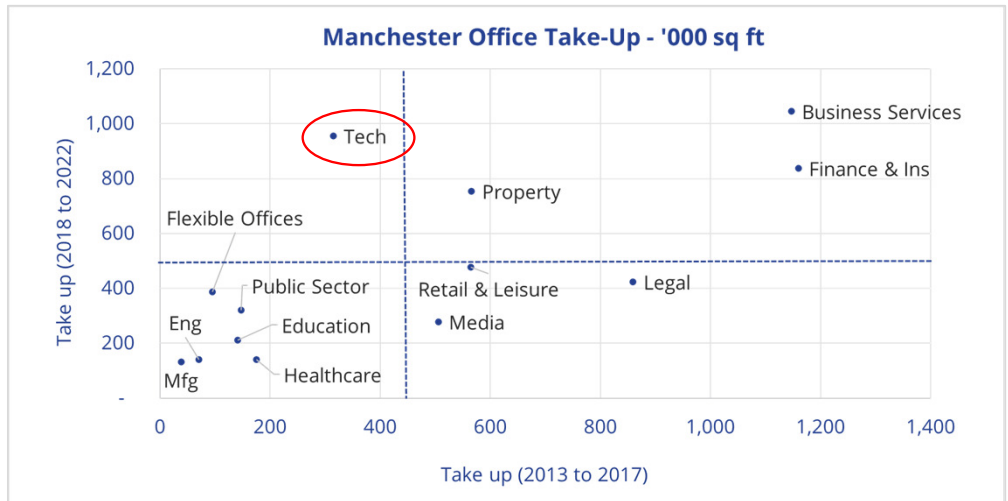
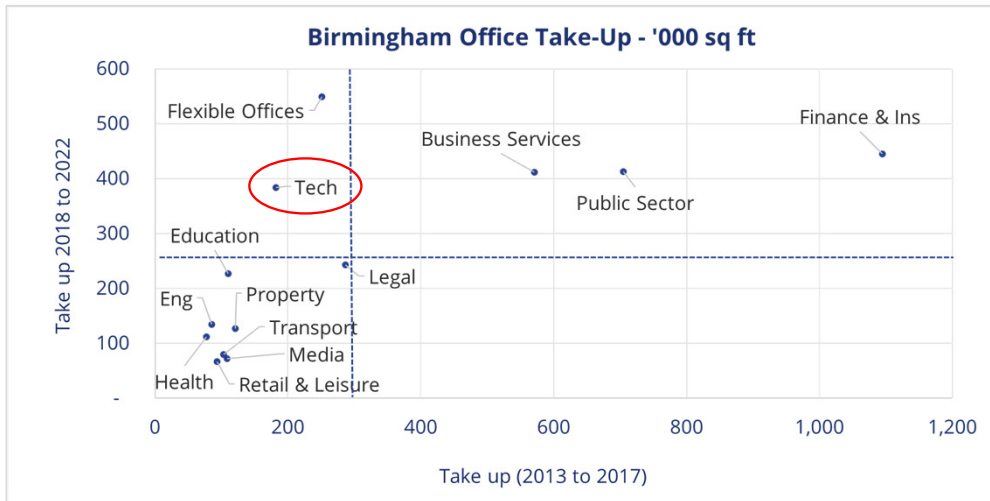
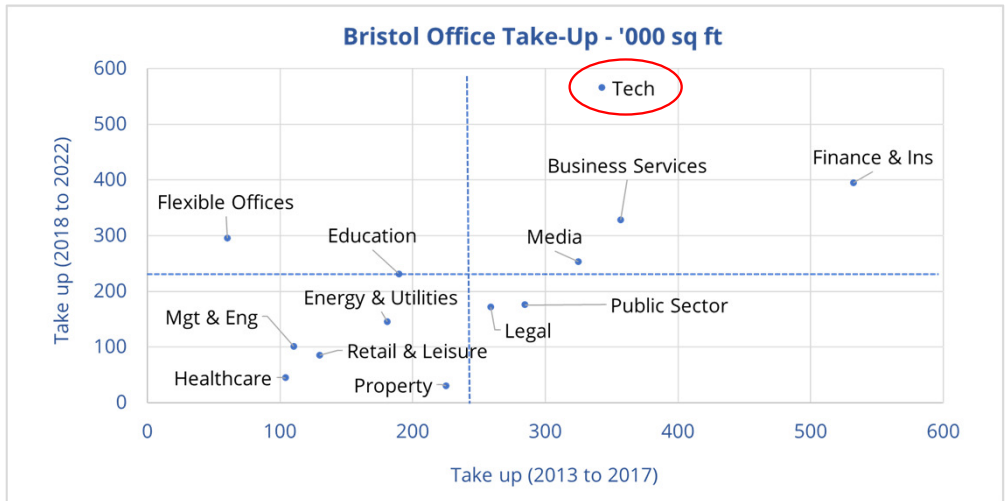
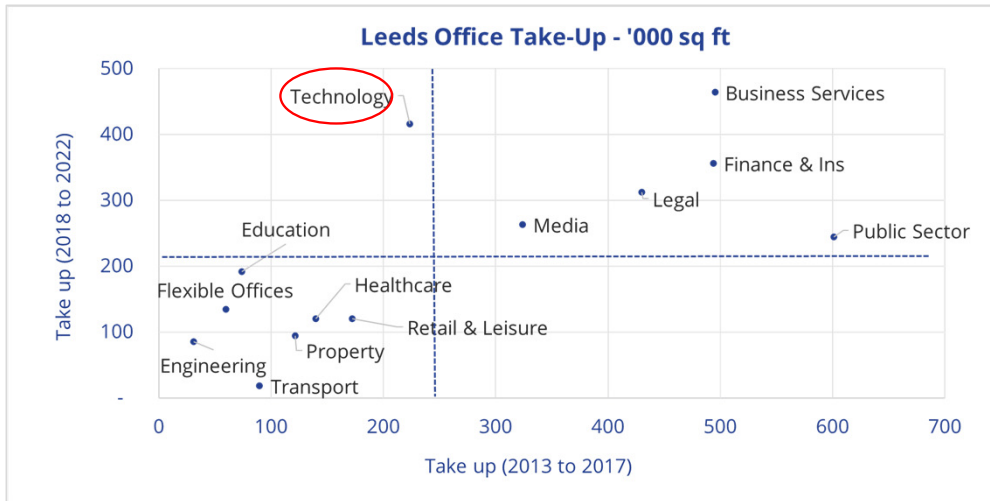
# Financial services giving way to professional and technical employment?

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



# Take up summary

|



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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

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# Devolution and regional development

## Regional revolution

### Devolution



Manchester – more German than British, 2012

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

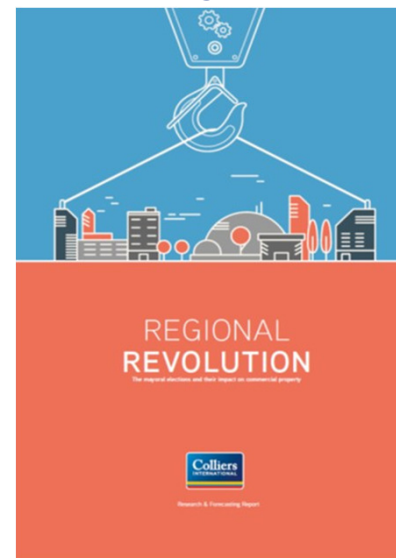
### Agglomeration



Regional Revolution I:  
Building the UK  
Powerhouses, 2014

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

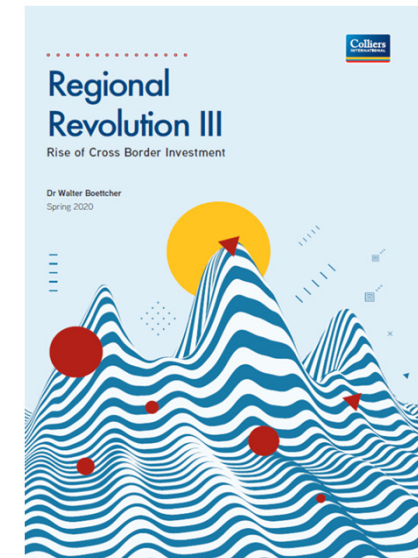
### Management



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**



# 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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## 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](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)*

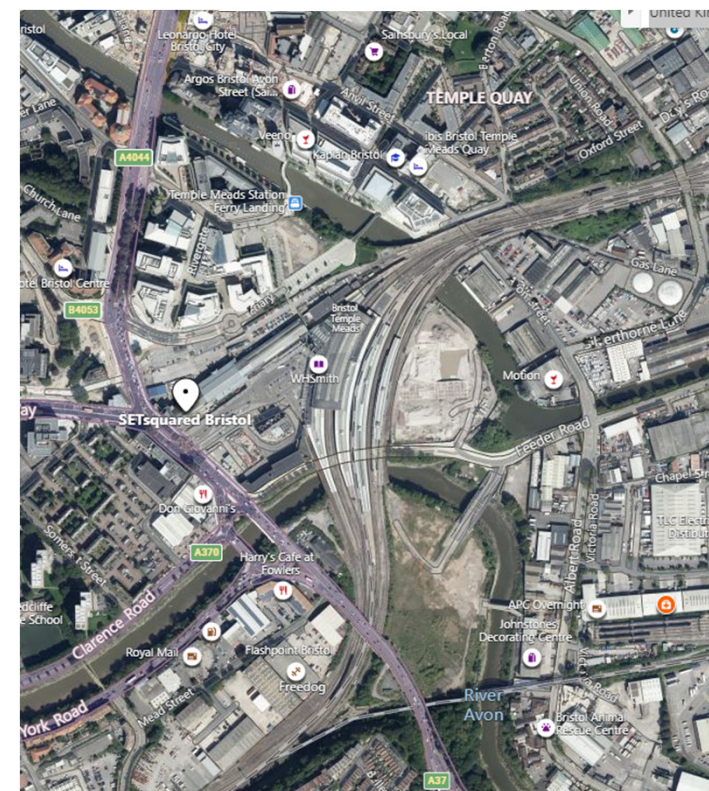
*Whitehouse Regeneration, Bedminster £200m (2,000 homes, 600 jobs)*

*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? ✓

- Funding: **Levelling up fund grant** of £48 million. Additional funding: £17 million from Peterborough CC, Network Rail, LNER. Improved pedestrian/cycle access and linkages to other targeted regeneration areas. **C&P CA is in charge of project delivery.** Planning/construction to begin in 2024 with further development through 2028.
- PSQ is a central piece in a wider £600 million city regeneration. Designed to **enable private investment in commercial and residential development.**
- **Fletton Quays government hub** (1,000 staff from Home Office, DEFRA et al. Part of £120 million Fletton Quays regeneration project. Peterborough Investment Partnership Council and JV partners developed GPA's first new build hub. **Forward funded by landowner L&G.** Peterborough CC leases their new offices and are now borrowing £50 million to buy the building from L&G.



**Nick Sandford**  
Mayor PCC



**Nik Johnson**  
Mayor C&P CA

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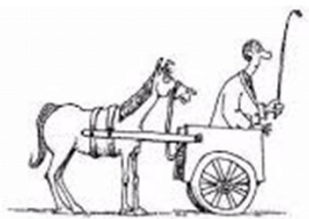


**Peterborough Station Quarter (PSQ)**  
(Gateway to the East of England)

# 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, )

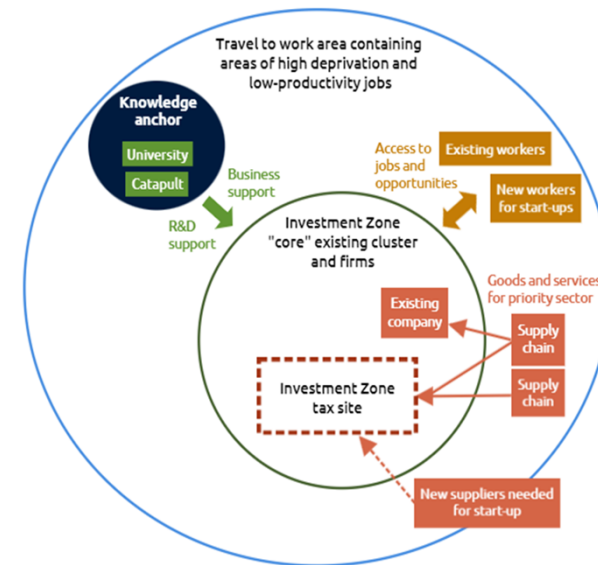
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# Investment zones based on existing and potential business ecosystem

## Regeneration is key

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

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



Source: HM Treasury, 2023

## Investment Zone Business Ecosystem



# Regeneration is key

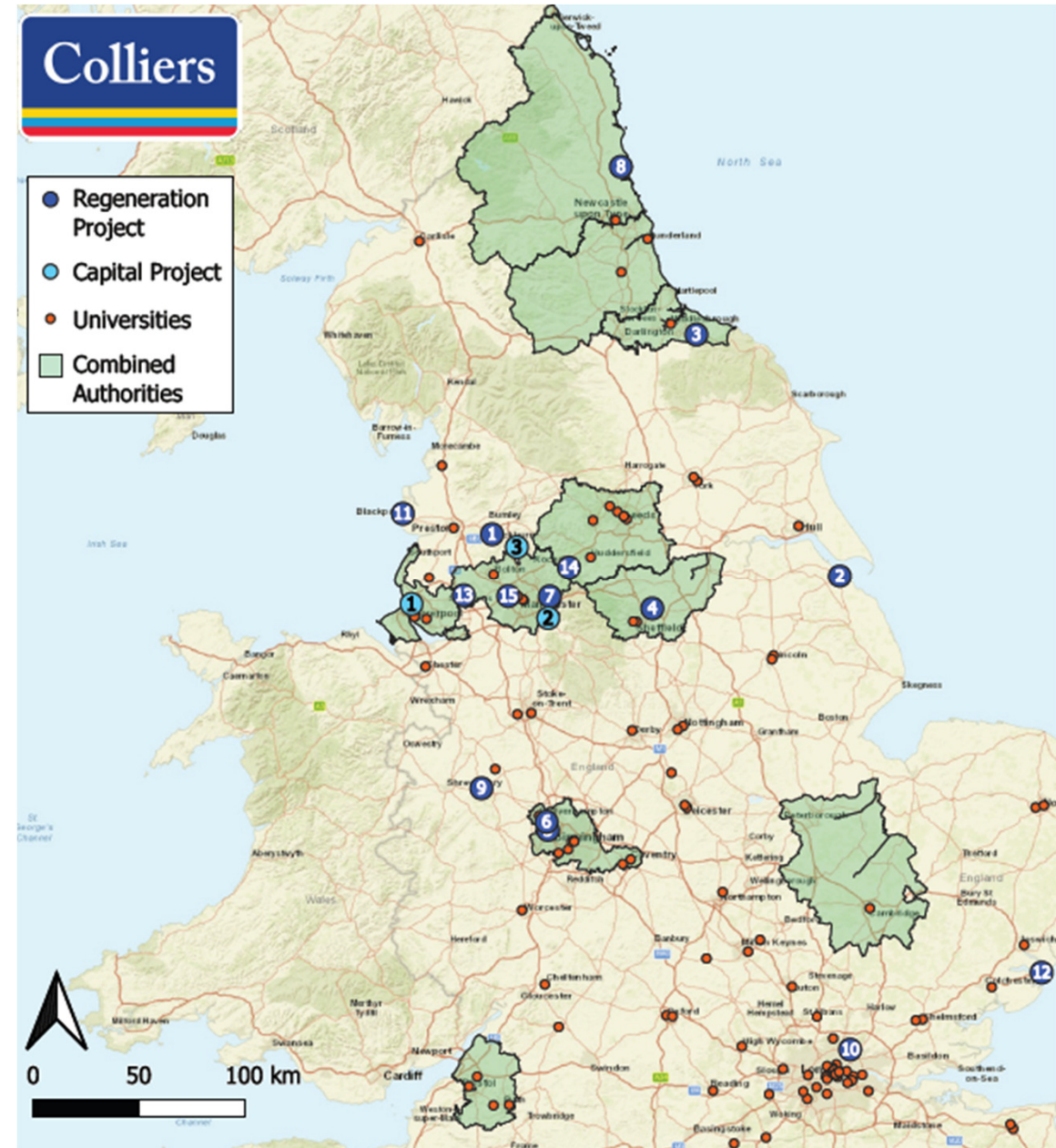
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## Capital projects

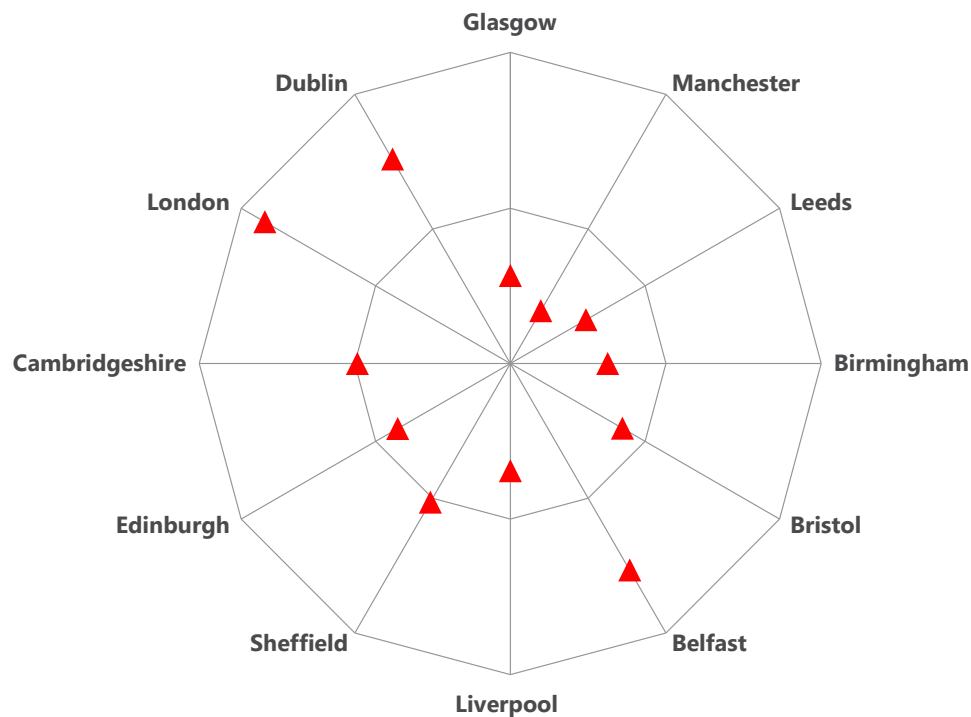
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## Regional Development

Deviation from UK Big Six average  
1990



Oxford Economics as modeled by Colliers Research

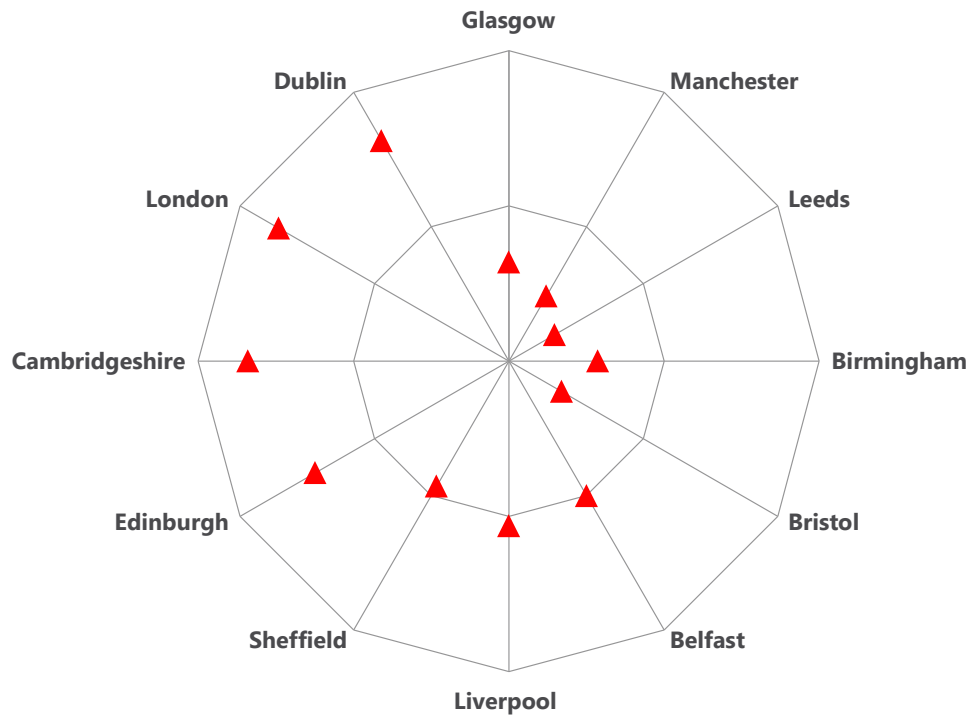
# Devolution and regional economic development

'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.

## Regional Development

### Deviation from UK Big Six average 2010



Oxford Economics as modeled by Colliers Research

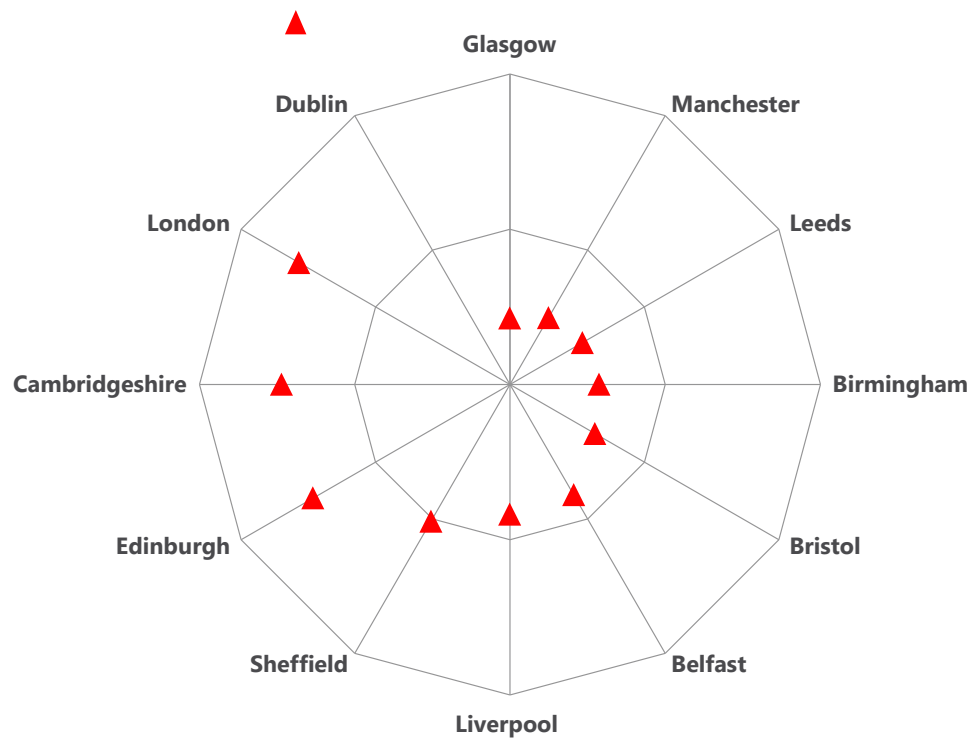
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## Regional Development

### Deviation from UK Big Six average 2019



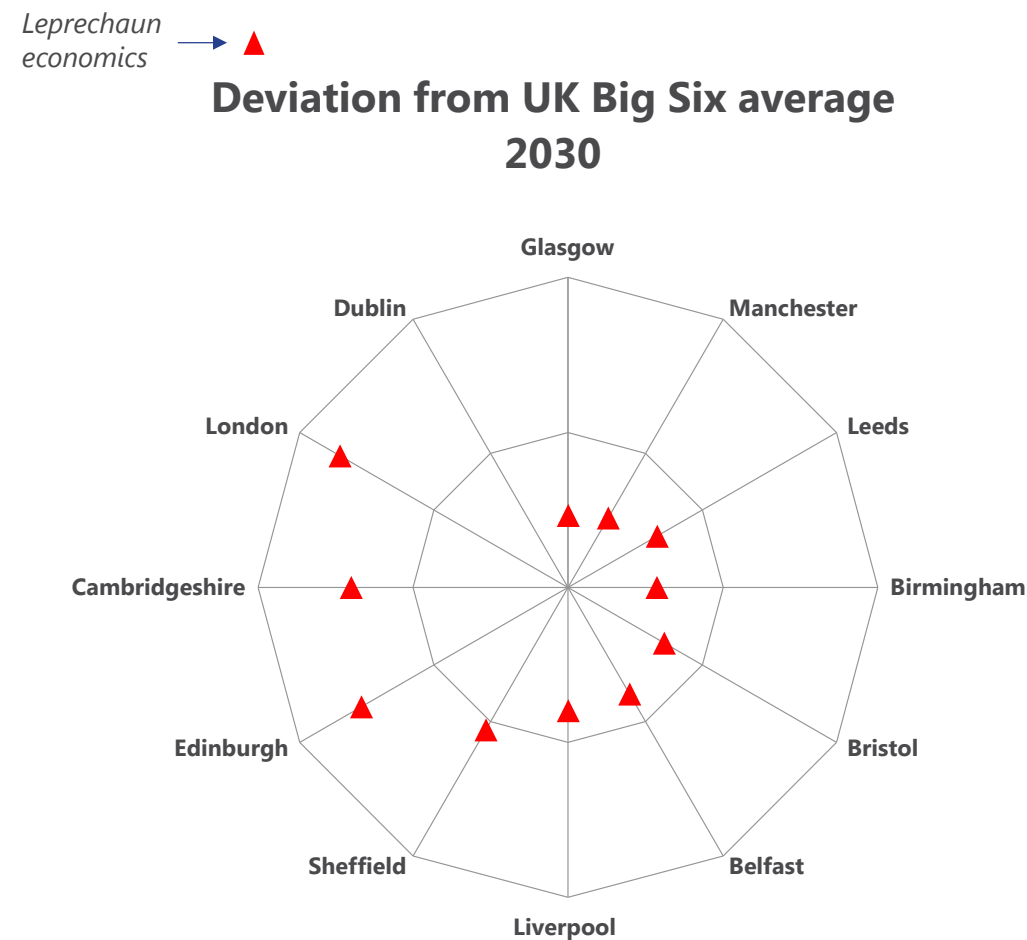
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# Devolution and regional economic development

'Levelling up' is not about emulating the status quo

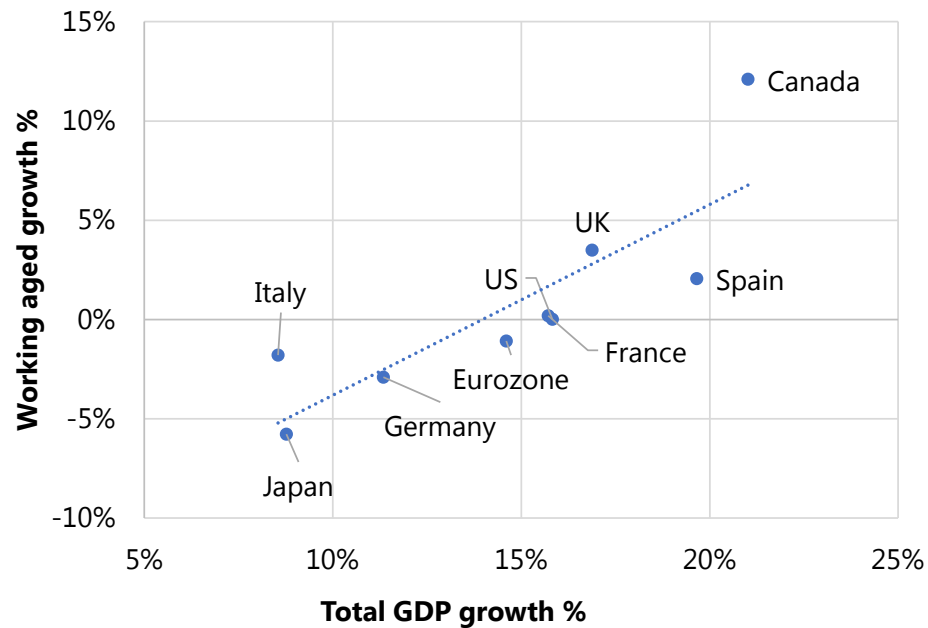
- Devolution is being pursued to deliver local autonomy to bring local stakeholders together in to define and exploit local comparative advantage.
- Local leaders and stakeholders must formulate projects of scale complementing local agendas to attract private investor interest from within, but also from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



# Correlation between population growth and economic growth

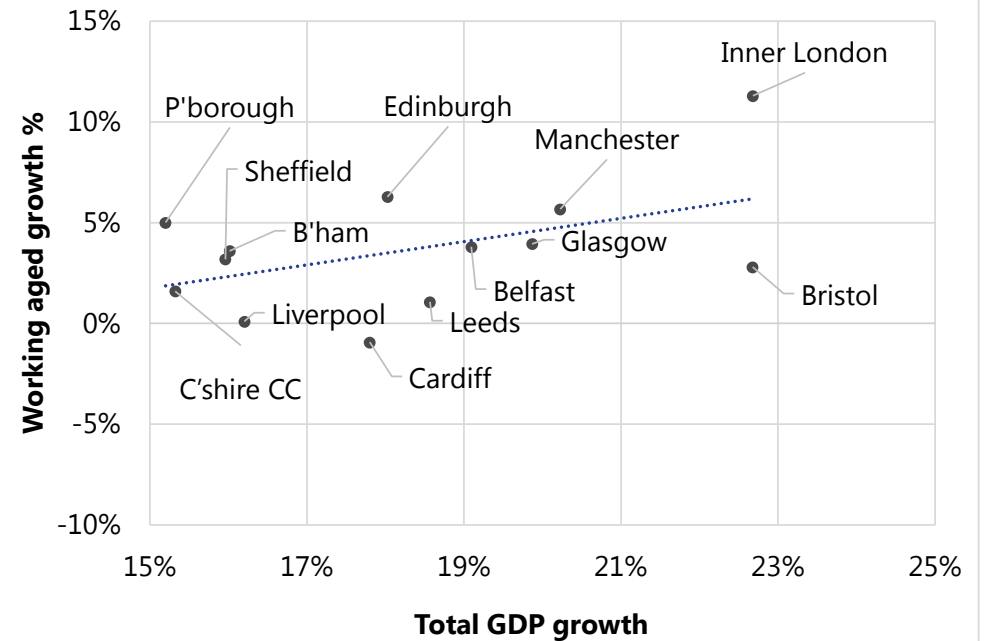
## Comparative economic performance

**GDP & working aged growth 2022 - 2030**



Source: Oxford Economics (March 2023)

**GDP & working aged growth 2022 to 2030**



Source: Oxford Economics (March 2023)

# Agenda

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





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