

Professional Conferences, Leeds, April 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

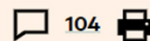
# UK economy to shrink in H1 2023, but recovery in H2 2023

## 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

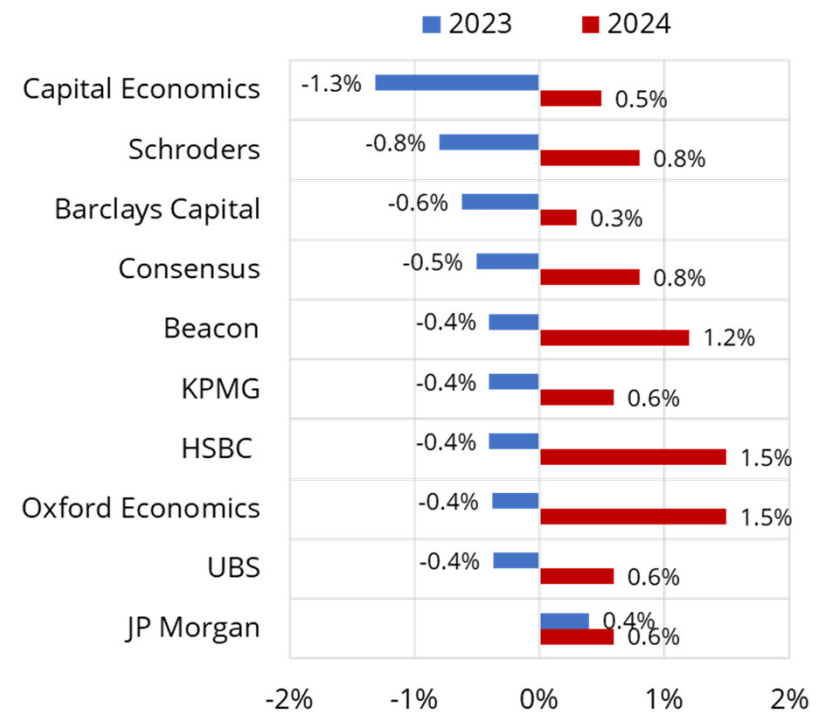


- November - 2.9% decline and longest recession in history (BoE)
- GDP revisions in January (+0.4m/m) and February GDP (0.1%) suggests no UK recession in Q1 2023
- Treasury consensus: -0.0% in 2023 and +0.8% growth in 2024
- Modest contraction in H1 2023. Recovery in H2 2023



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### GDP economic growth forecasts



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

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

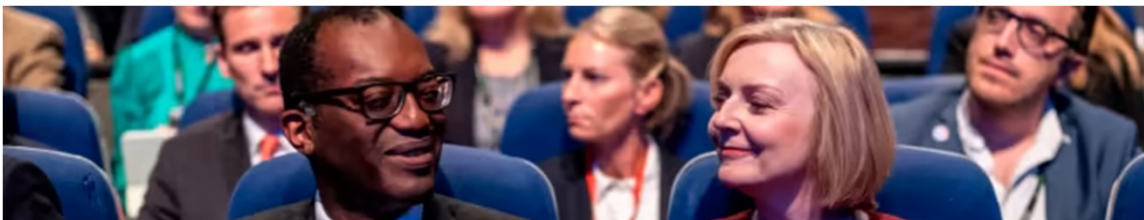
## Economic forecasts (GDP) strengthening

### UK economy set to shrink by 0.5% in 2023, says IMF

Chris Giles in Washington

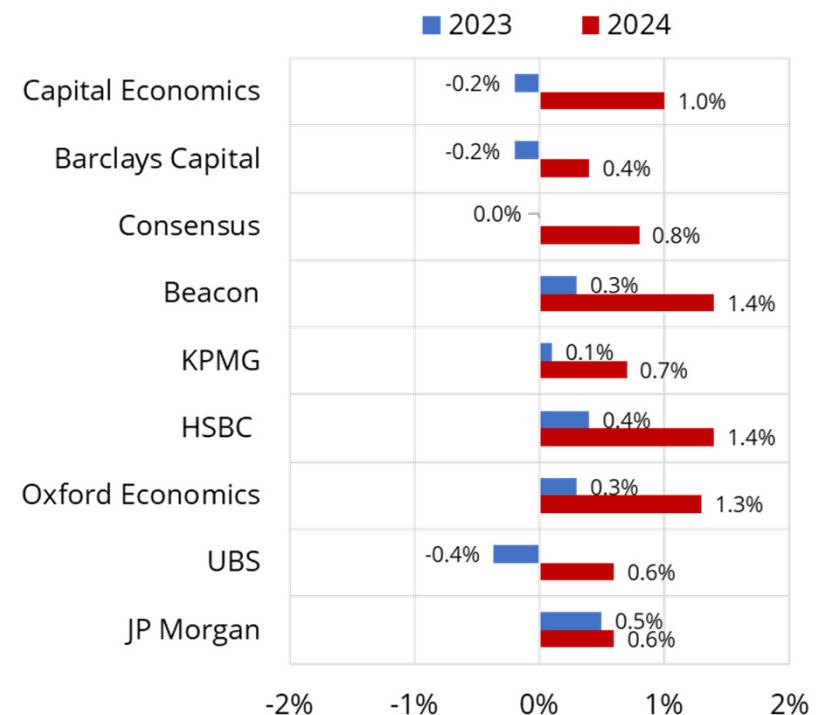
Chancellor Jeremy Hunt's efforts to revitalise the UK economy have not been sufficient to raise it from the foot of the global league table this year, according to forecasts published by the IMF on Tuesday.

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### GDP economic growth forecasts



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

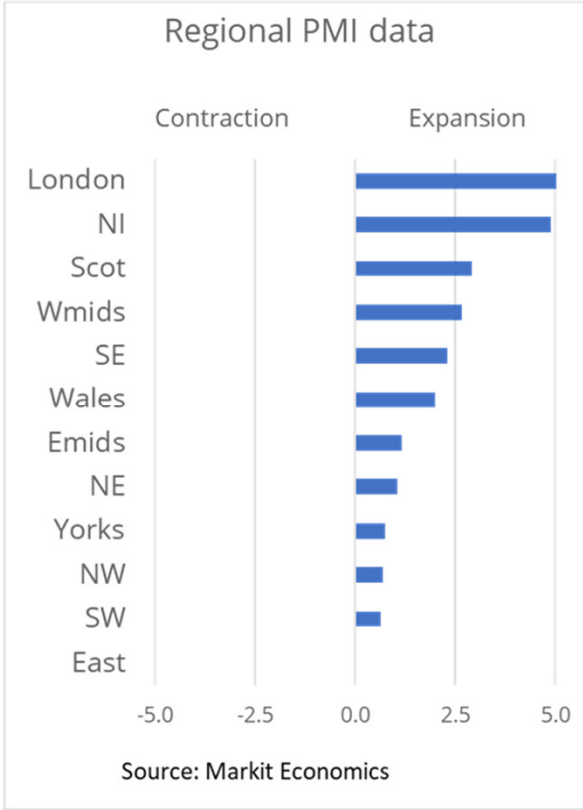
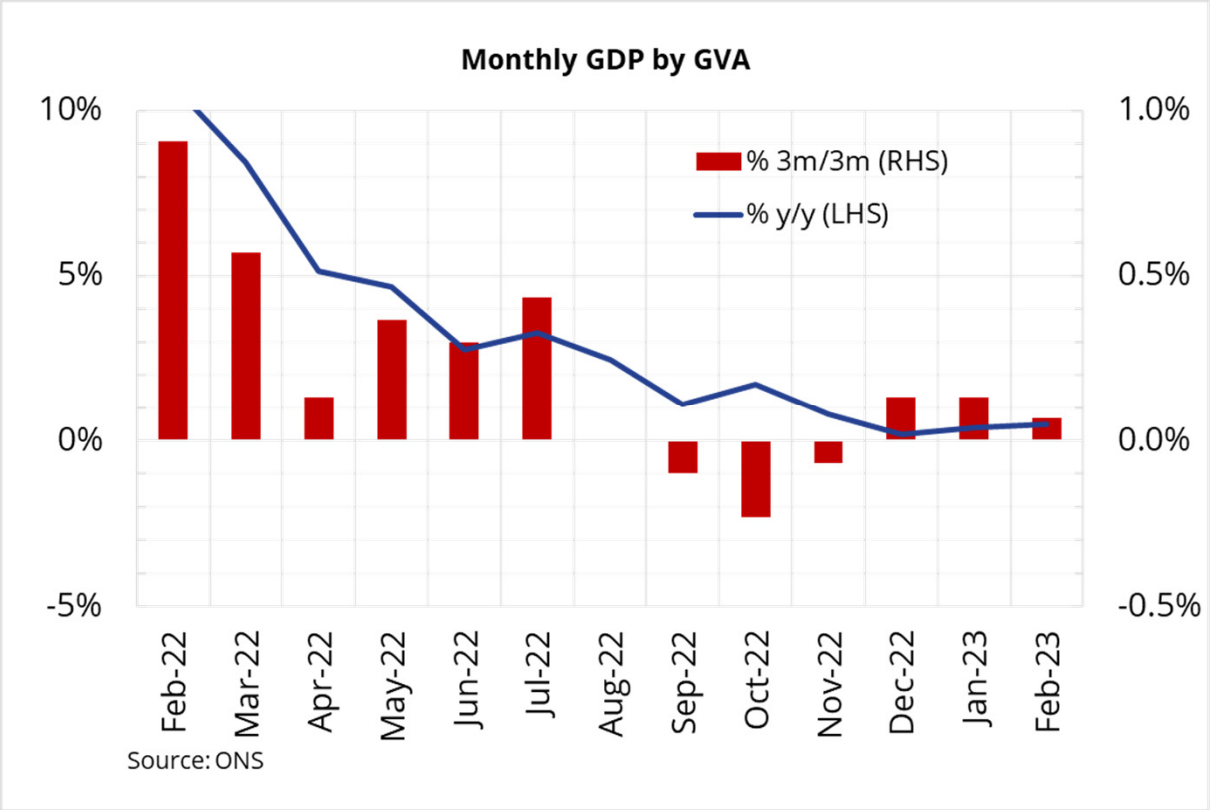
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Bank of England monetary policy problematic

# Economic performance continues to surprise to the 'upside'

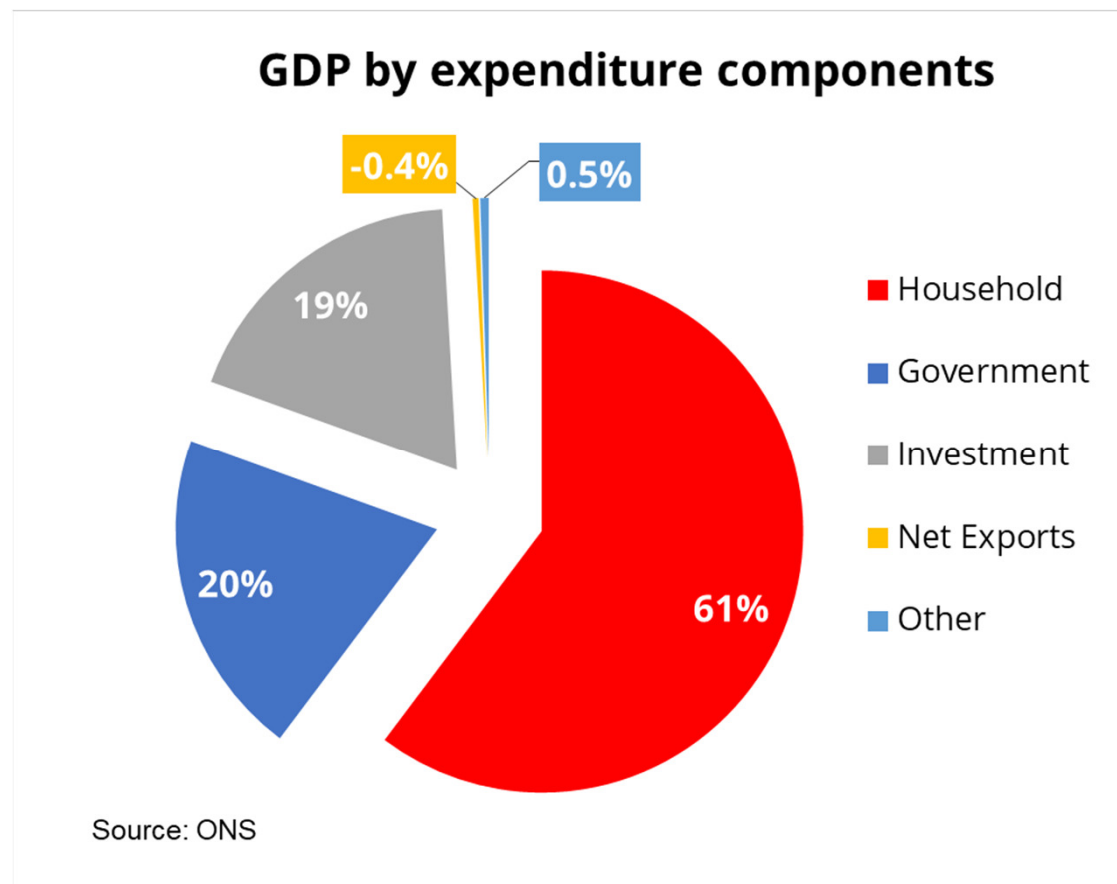


# Household spending accounts for 61% of UK GDP

## Key downside risk – inflation & interest rates

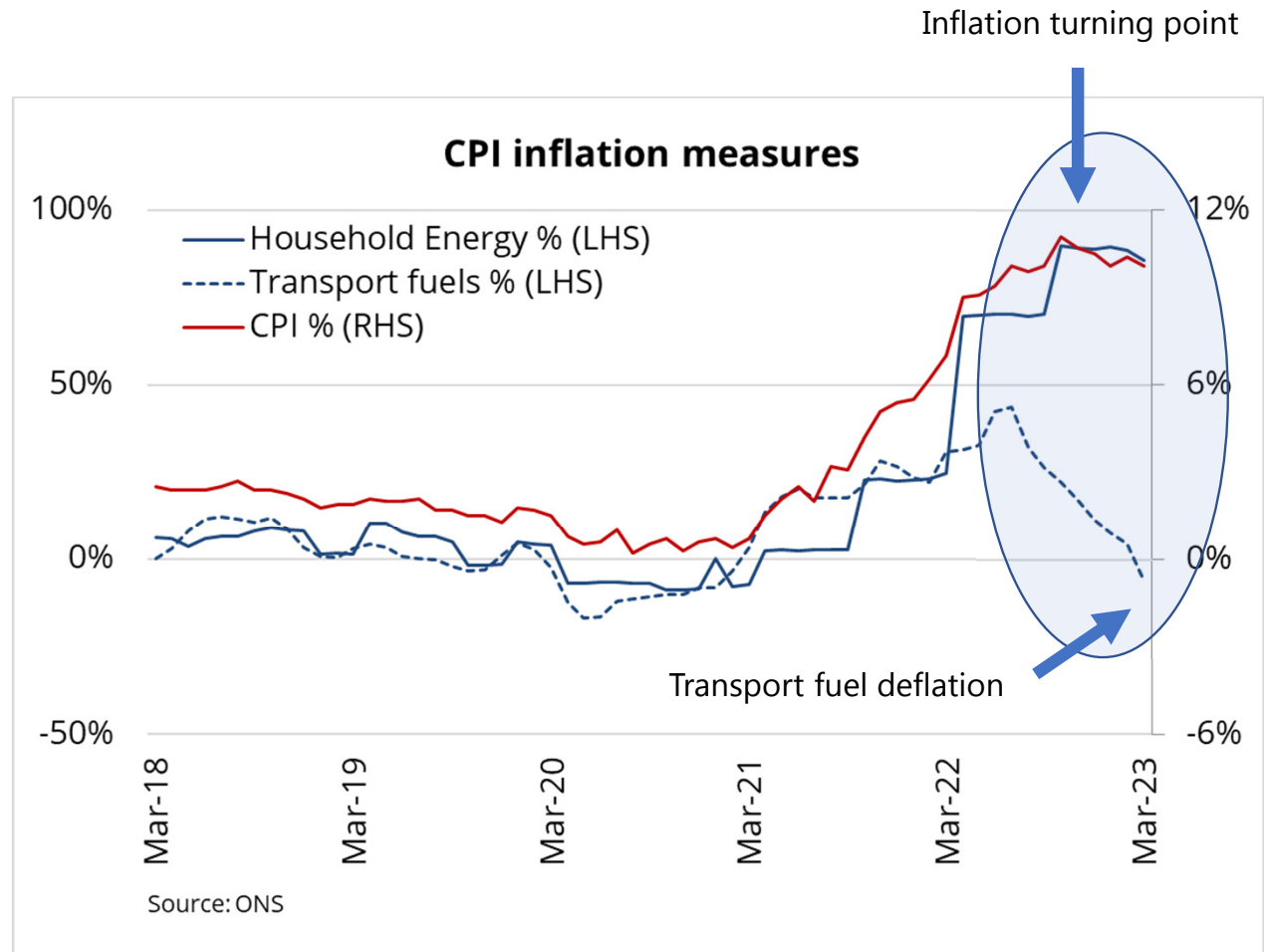
Risk	Impact
<b>Inflation</b>	Real disposable income
	Discretionary spending
<b>High interest rates</b>	
	Mortgage rates
	Real disposable income
	Home equity & savings
	'Wealth effect' eroded

- Consumer confidence improving (-38) but in line with pandemic low)
- Pandemic savings gone
- House prices down for 7 consecutive months
- Bank Rate decisions crucial



## Inflation set to fall rapidly in Q2 2023 Good news!

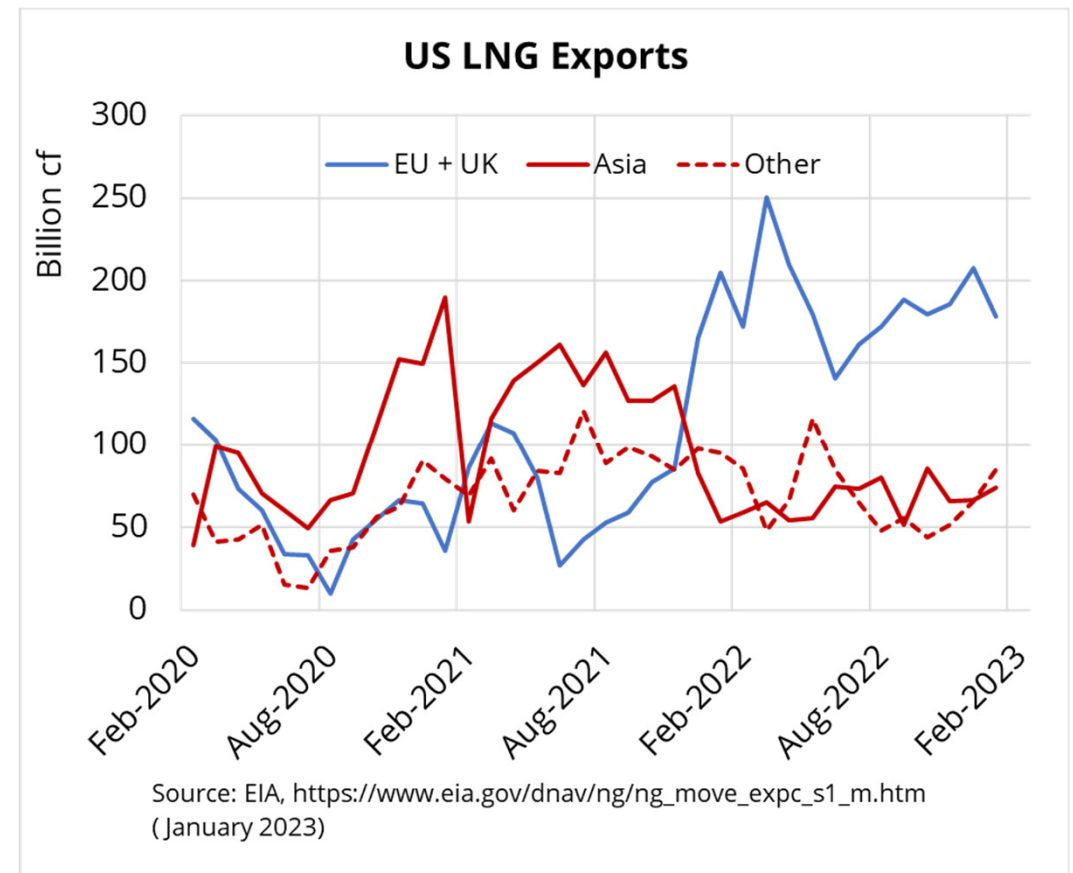
- Inflation to fall rapidly in Q2 23
- Fuel prices already deflating
- Consumer and business confidence will improve
- Economy stronger than expected (PMI – April Flash 54.9 – 52.9 consensus)
- Unemployment (3.8%)
- Bank Rate may have peaked!



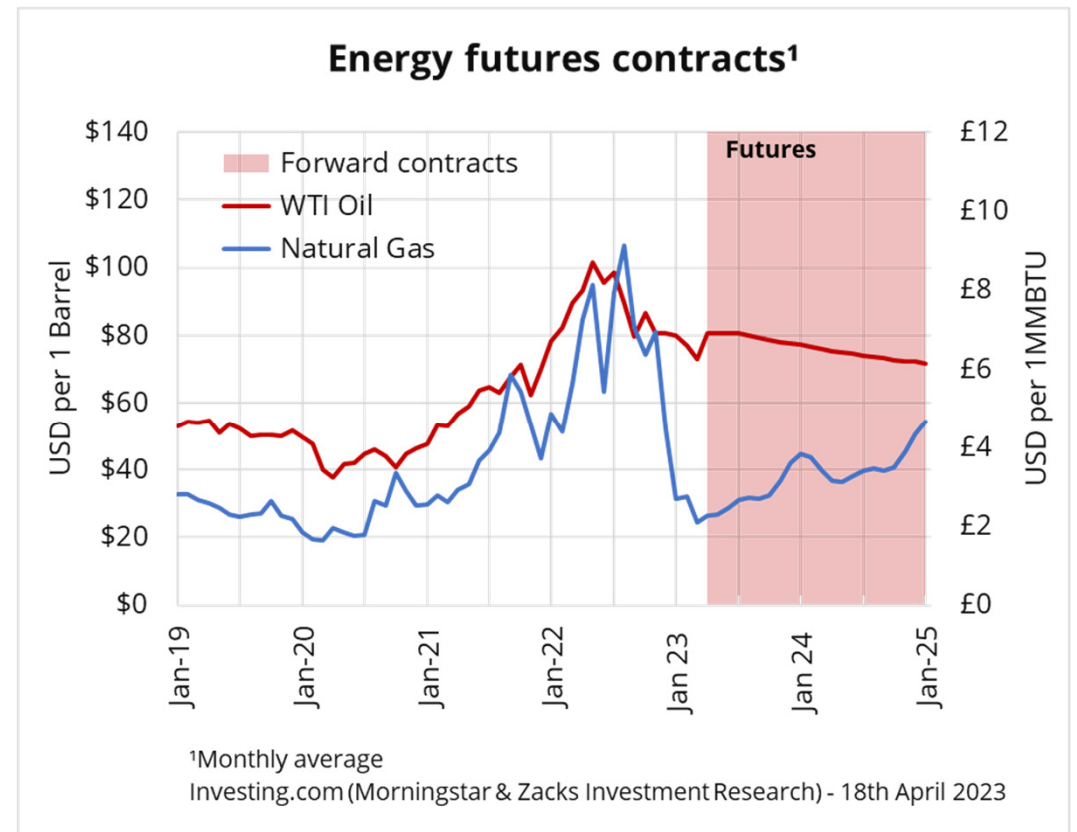
## Natural gas prices at 18-month low (pre-Russian aggression)

### 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*



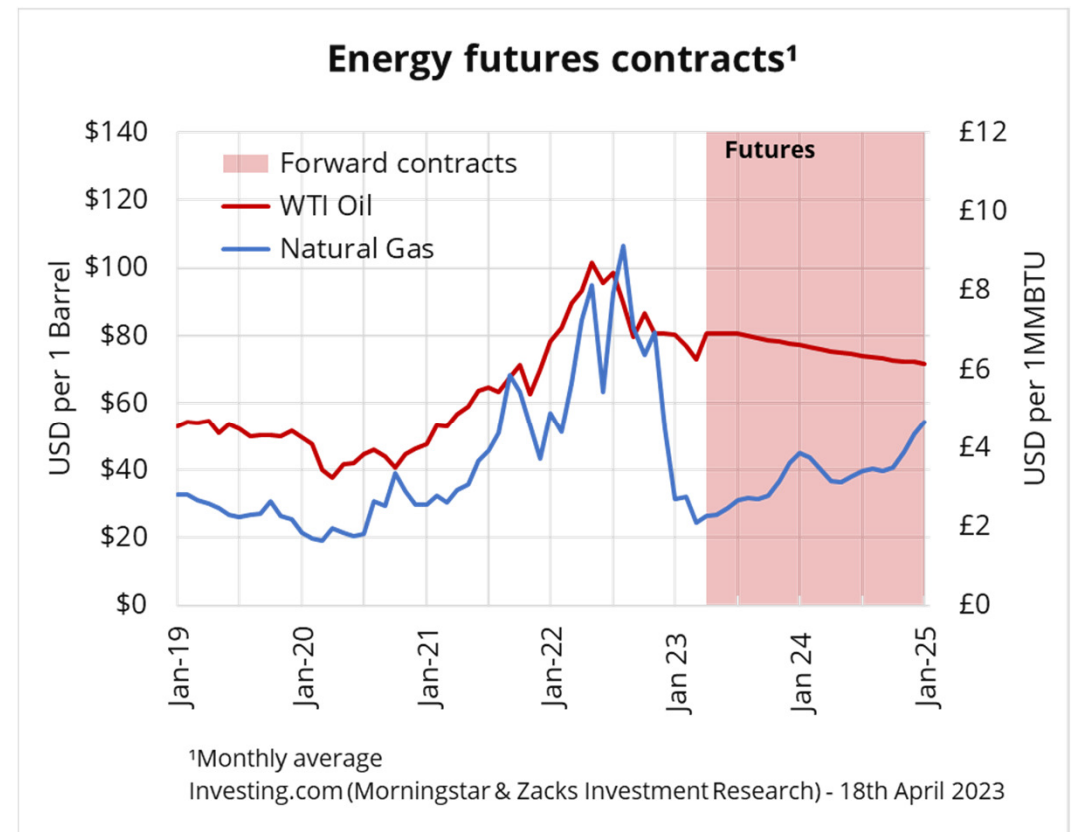
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- Natural gas prices at 18-month low:
  - ✓ *mild European winter*
  - ✓ *20% increase in energy efficiency by energy intensive industries (in Germany)*
  - ✓ *phenomenal supply response*
- Forward contracts and inventories suggest that European supplies secure through 2024
- Transport fuel prices are falling
- Uncertainty remains (China's economy, OPEC+, IEA forecasts, the dollar, US central bank policy and 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	\$82	\$81	\$81	\$80	\$80	\$79	\$78	\$78
2022 (Oil inflation)	65%	54%	69%	64%	71%	50%	52%	42%	17%	21%	29%	15%
2023 (Oil inflation)	2%	-6%	-19%	-13%	-20%	-15%	-18%	-10%	0%	-8%	-3%	-4%

- Oil is stabilising this year at around \$80 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*'

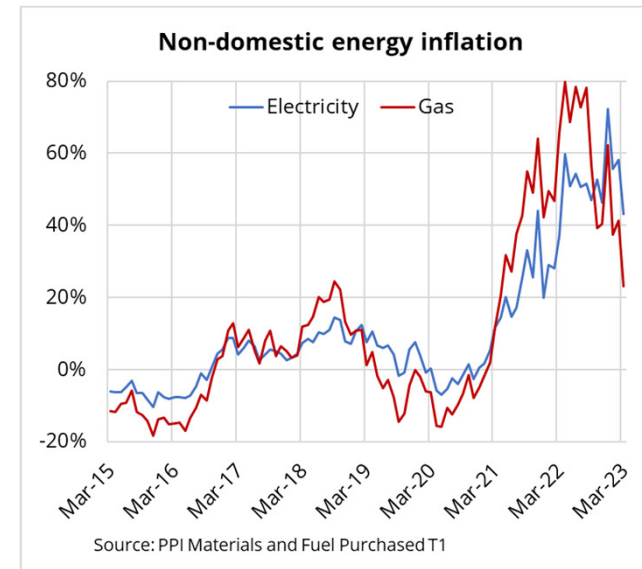
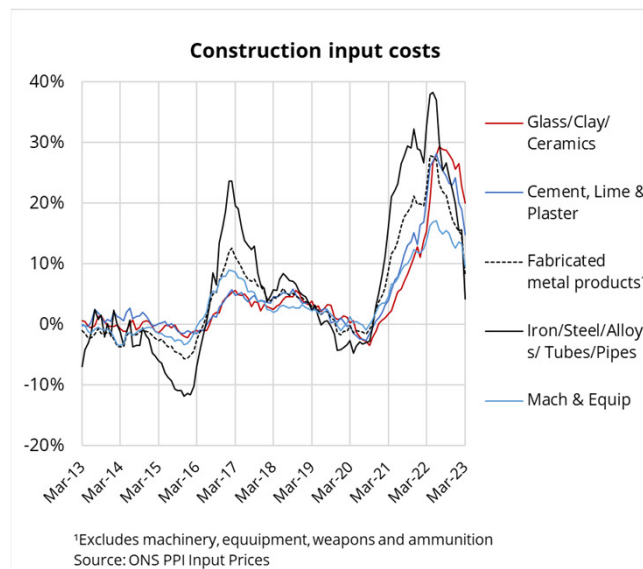
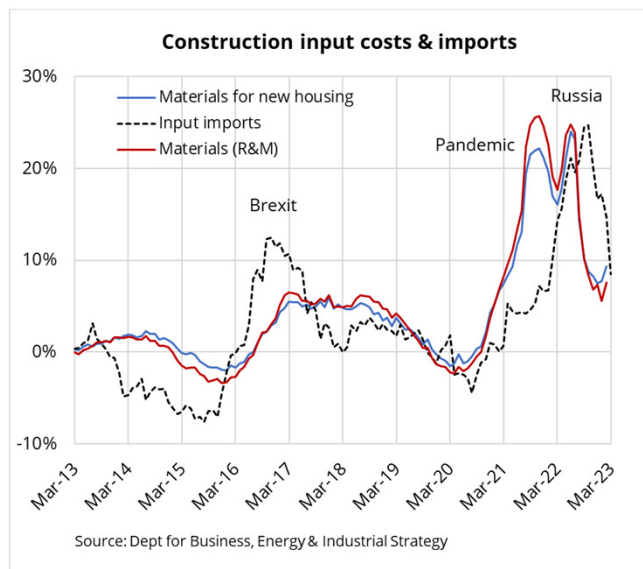
#### Base effect





# Supply chains recovering and domestic production increasing

## Business input and import costs falling





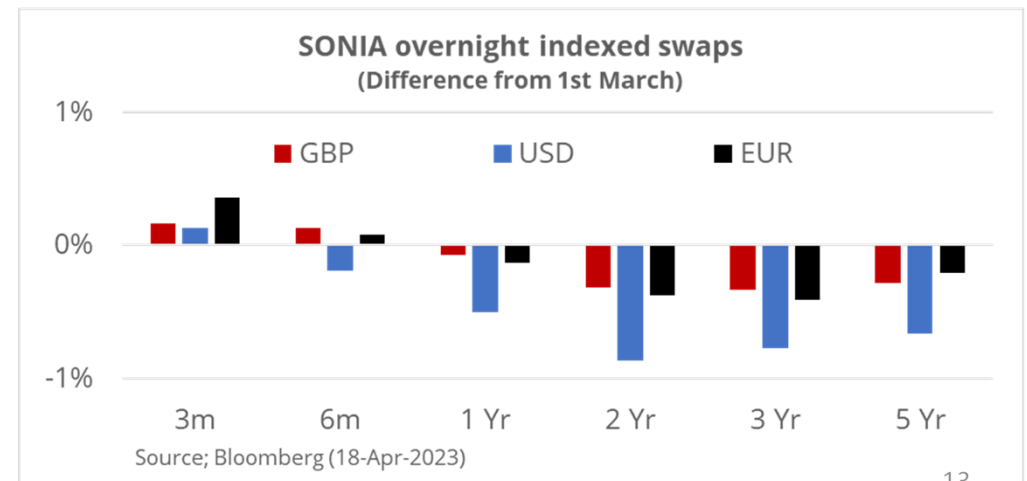
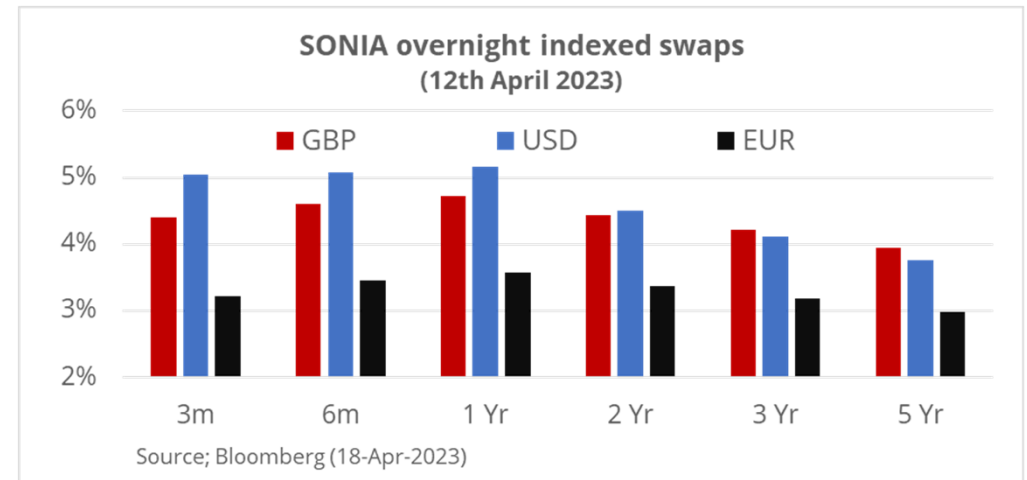
# One- and two-year swap rate movements suggest one more hike

## Interest rate peak arriving in UK?

- **Key dates to watch:**

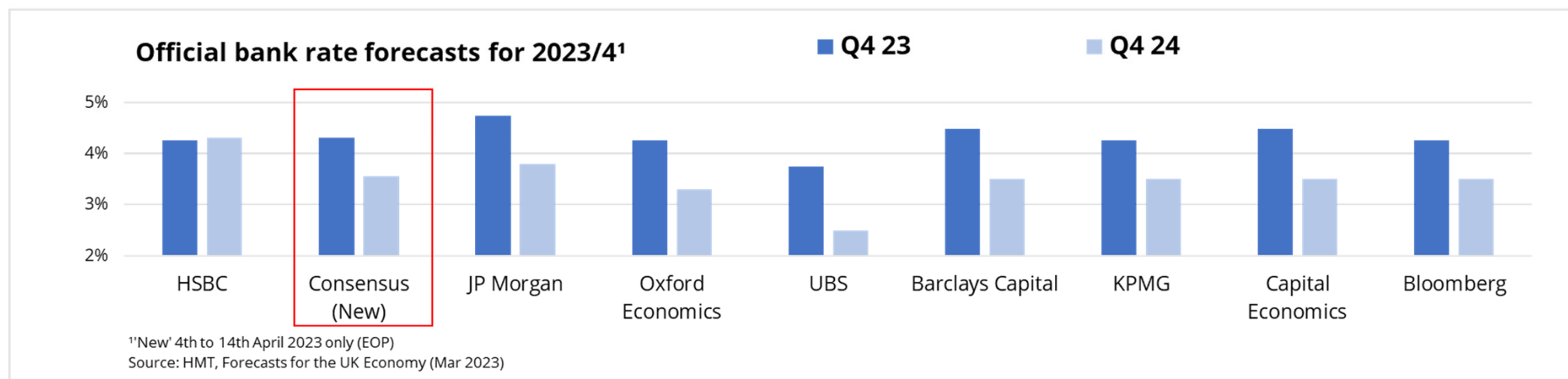
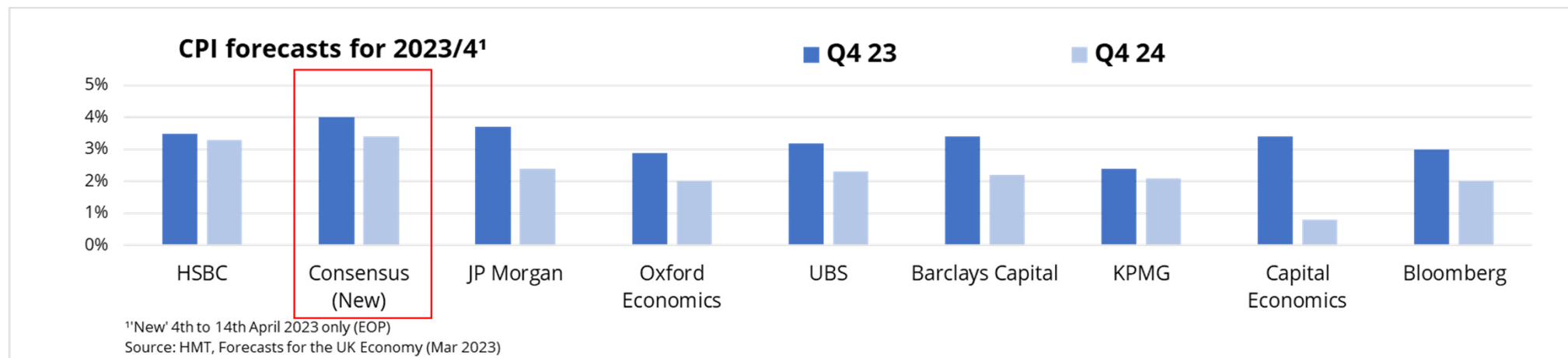
- ✓ (1) *Spring Budget (15<sup>th</sup> March)*
- ✓ (2) *February CPI release (March 22<sup>nd</sup>)*
- ✓ (3) *Bank of England meeting (23<sup>rd</sup> March)*
- ✓ (4) *March CPI (19<sup>th</sup> April)*
- (5) *Bank of England Meeting (11<sup>th</sup> May)*
- (6) *April CPI (22<sup>nd</sup> May)*

- Indications of a rate peak will reduce uncertainty and lead to greater business confidence in H2 23
- Heightened risk perceptions by banks may prove to be a decisive driver of debt costs and conditions



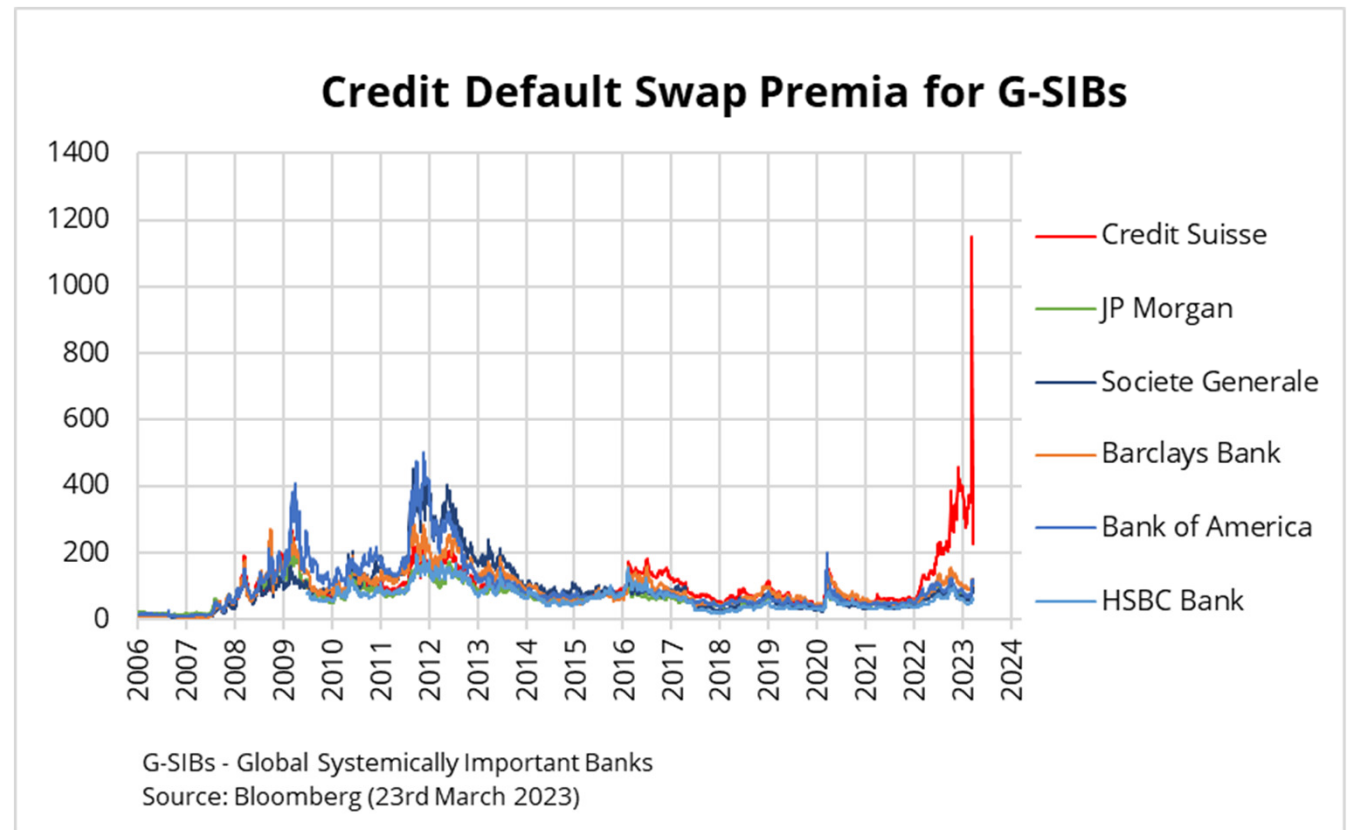
The Bank Rate may have peaked? May rise 0.25% rise likely . . .

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



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

A new financial crisis?

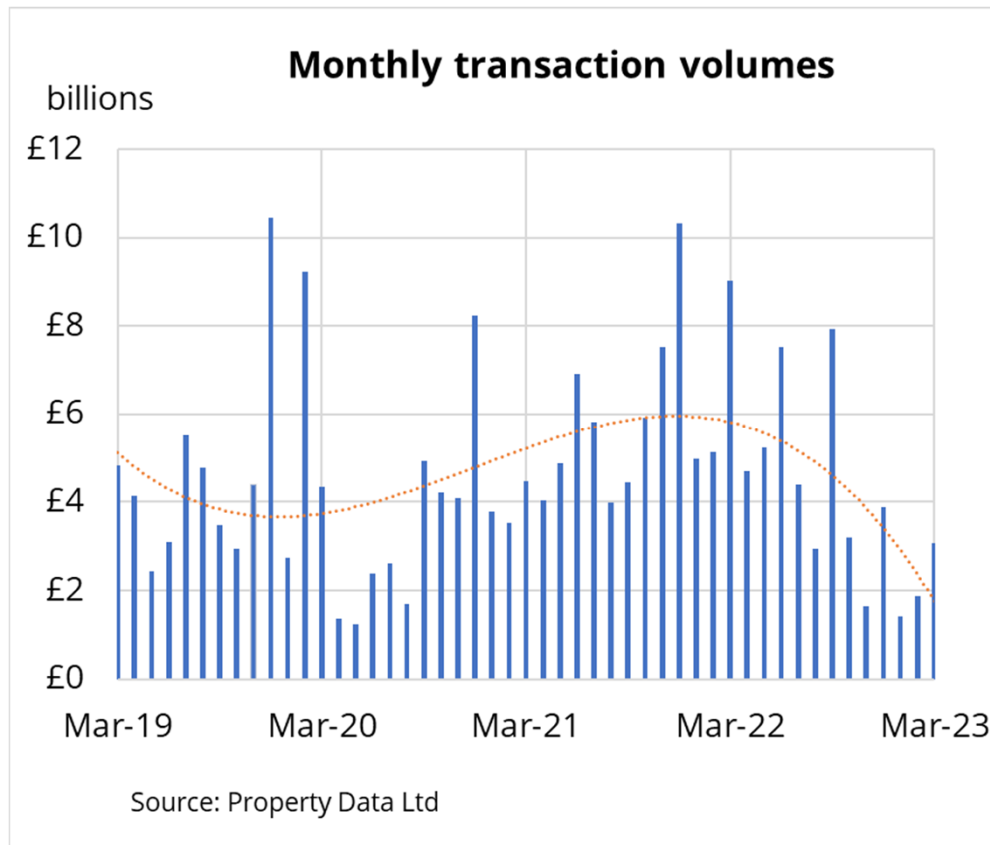


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# Uncertainty and rising cost of debt prompting re-appraisal

## Transactional flow at a snails pace in Q1 2023

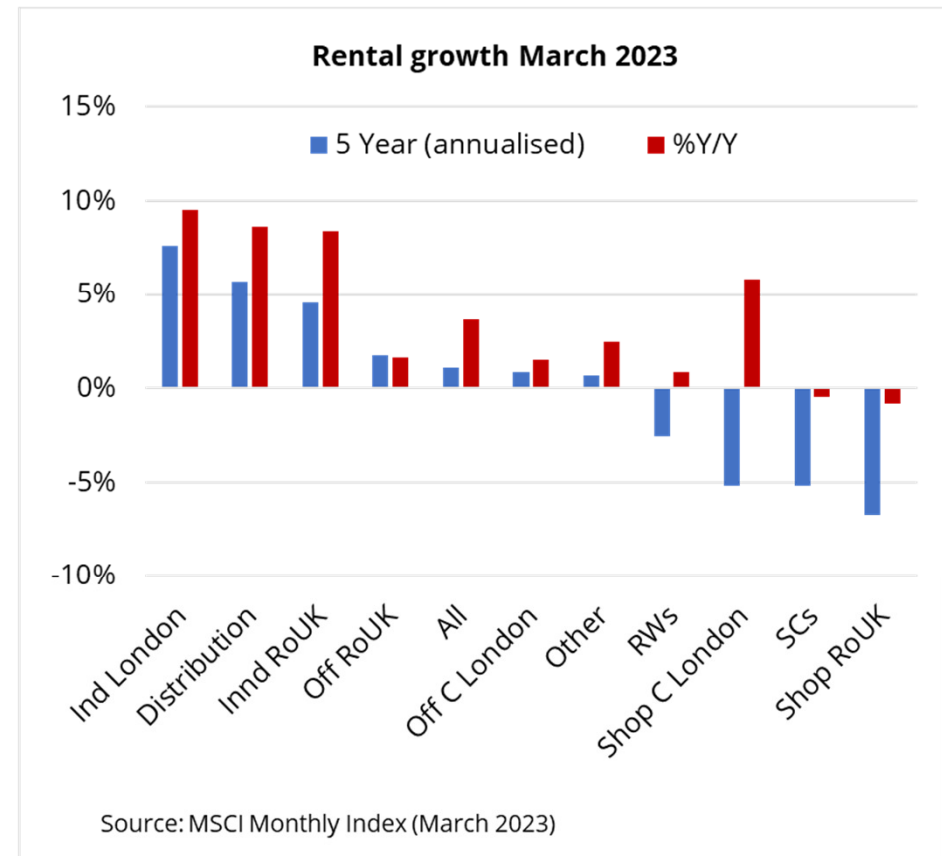
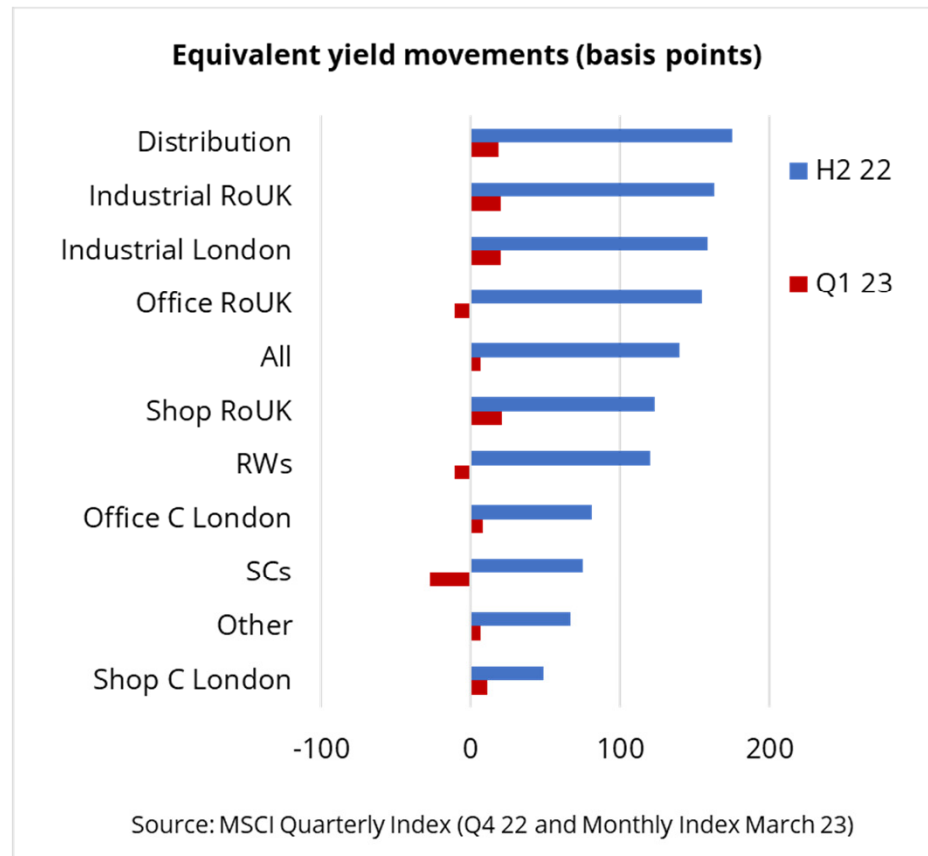


- Lowest level of activity since GFC
- All sectors impacted
- Sentiment driven?
- Debt cost driven?
- **Weight of capital remains a defining force!**

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

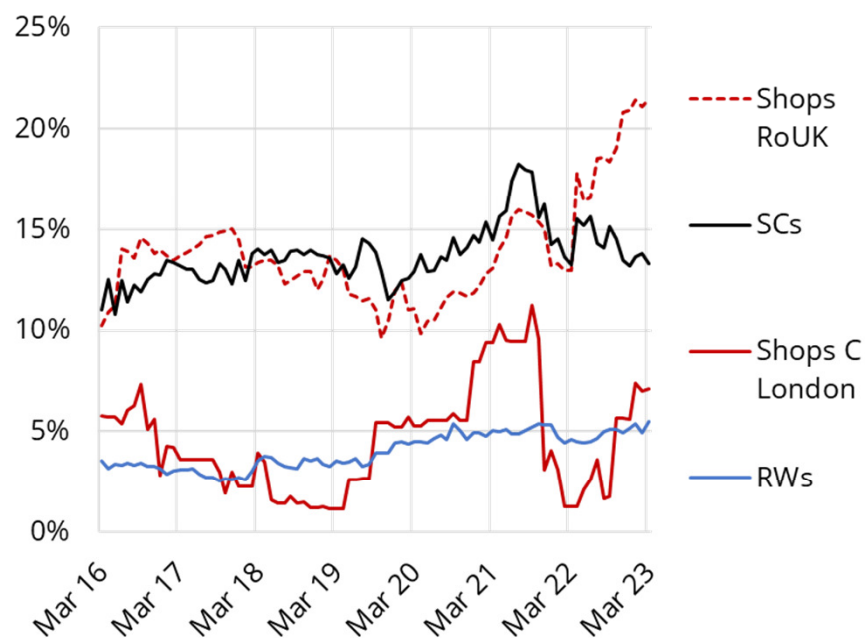
# Occupier markets stabilising, but ESG impact not yet visible

## Pricing correction substantial, limited scope for yield expansion



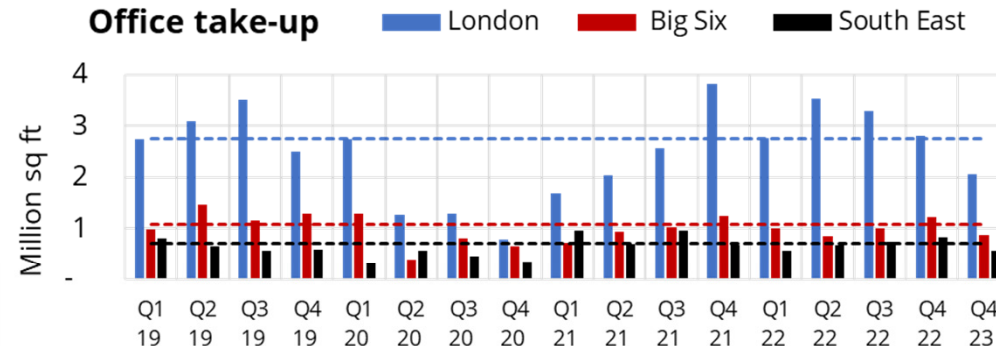
## Demand conditions stable despite ESG and structural change . . . So far Pricing correction substantial, limited scope for yield expansion

**Retail floorspace vacancy (%)**



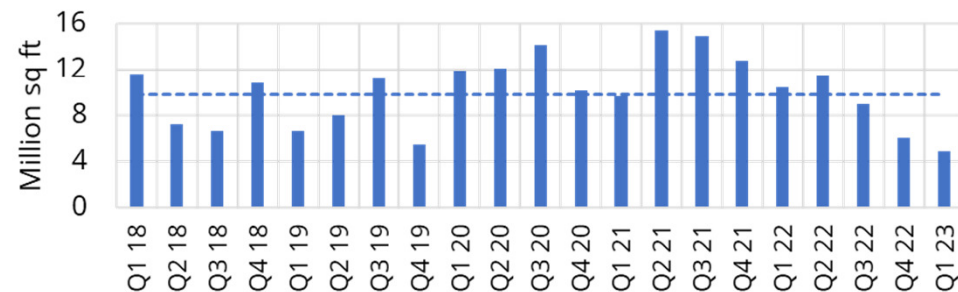
Source: MSCI Monthly Index (March 2023)

**Office take-up**



Source: Colliers

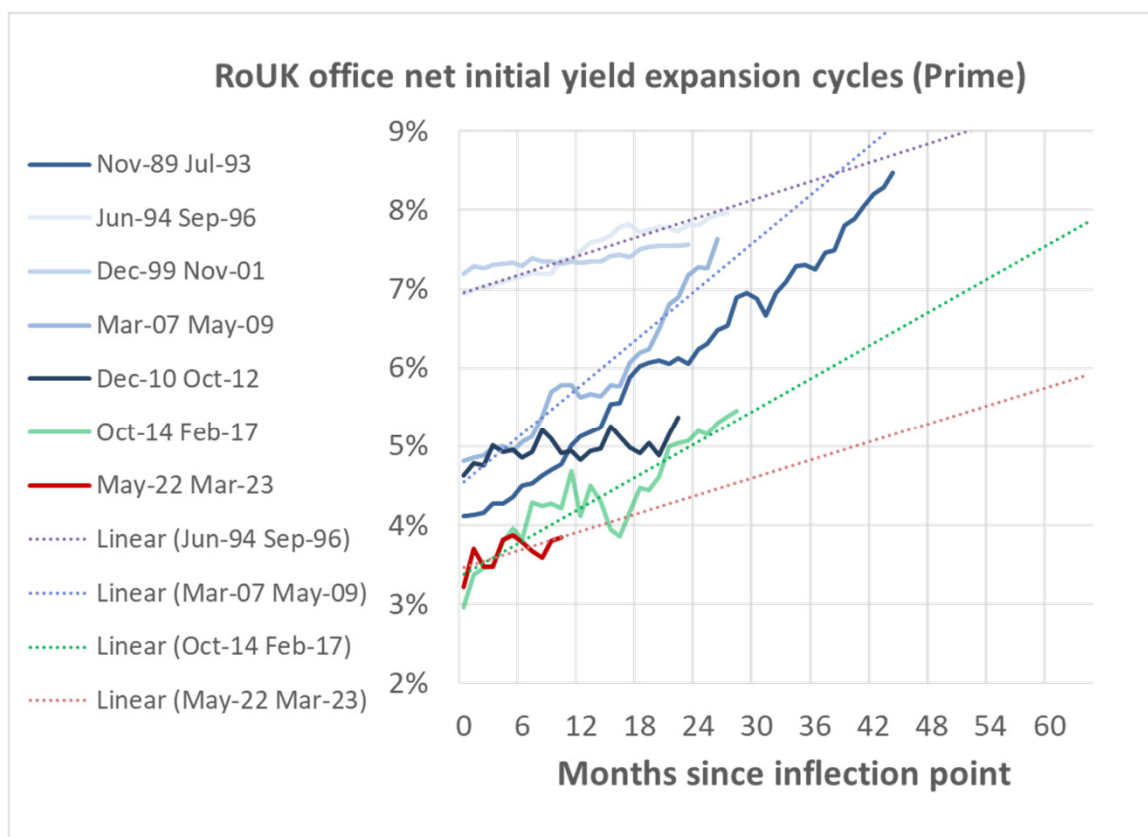
**Industrial take-up (100k+ units)**



Source: Colliers

# Cycles are shaped by conditions in financial and property markets

## Yield expansion cycles



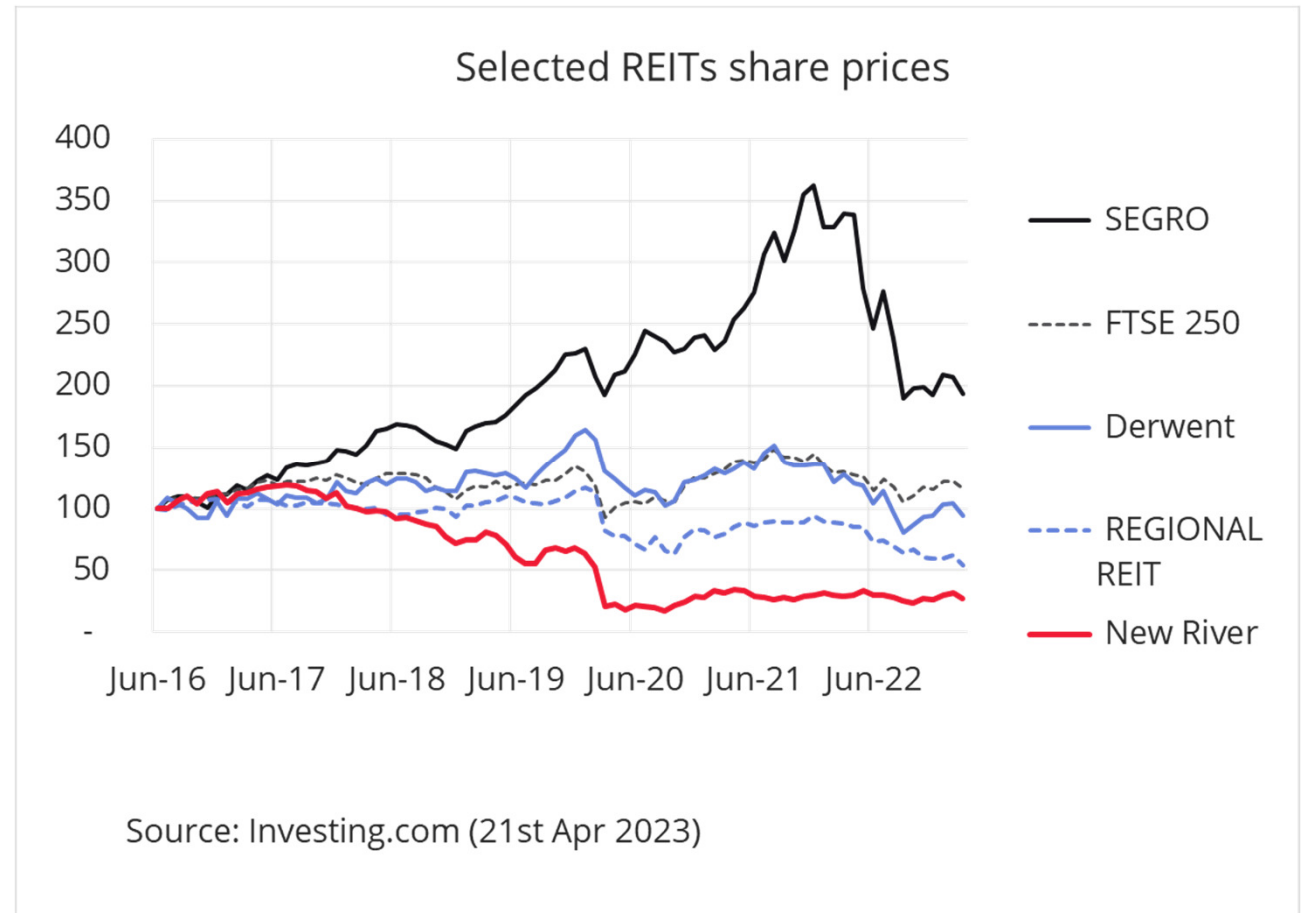
- Yield expansion cycles variable in length and amplitude
- Rate of change and duration depend on numerous variables including:
  - *Yield departure point*
  - *Ten-year bond level*
  - *Weight of capital*
  - *Debt availability & cost*
  - *Risk perceptions*
- The latest price movements appear to be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

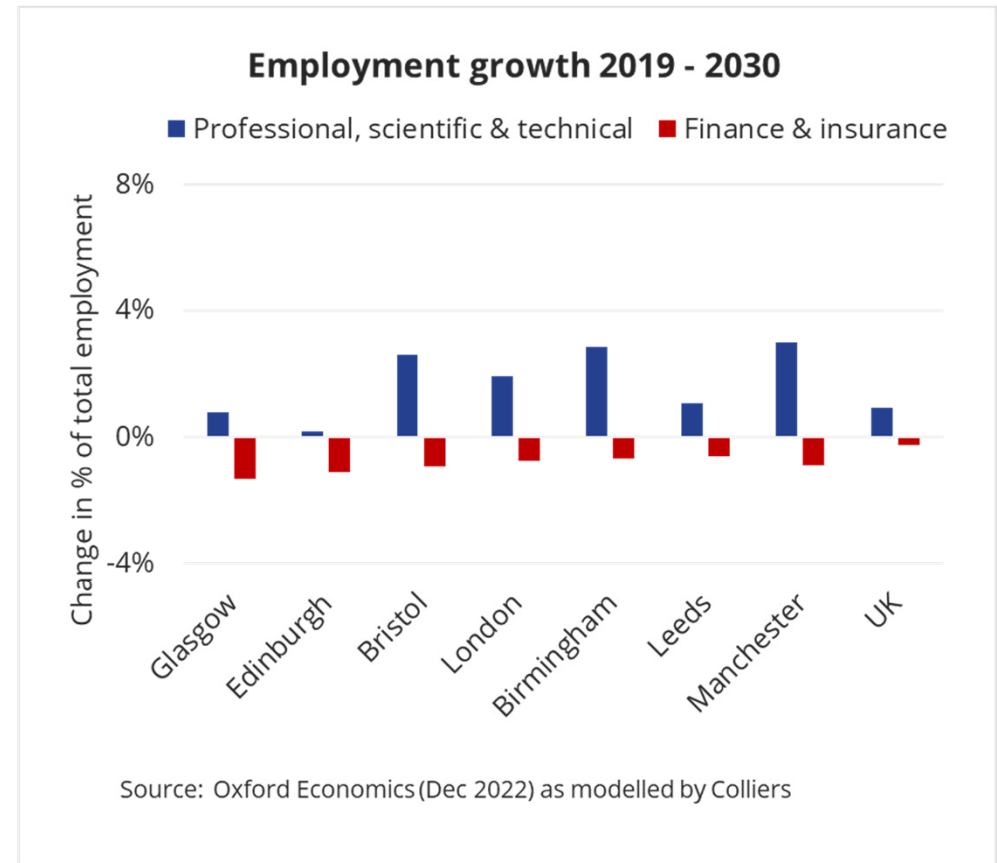
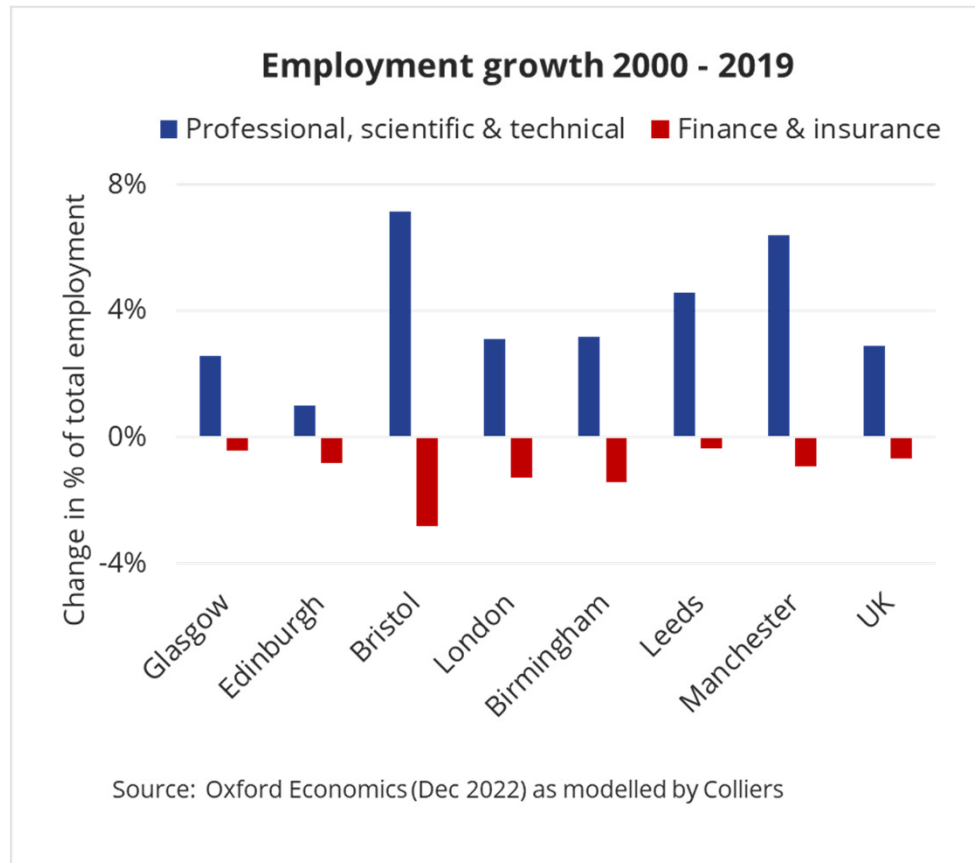
# Structural change

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



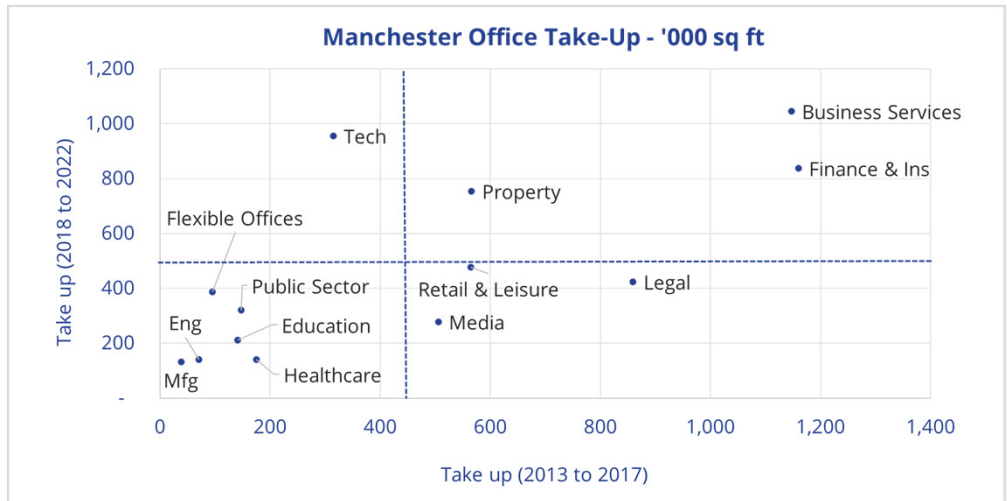
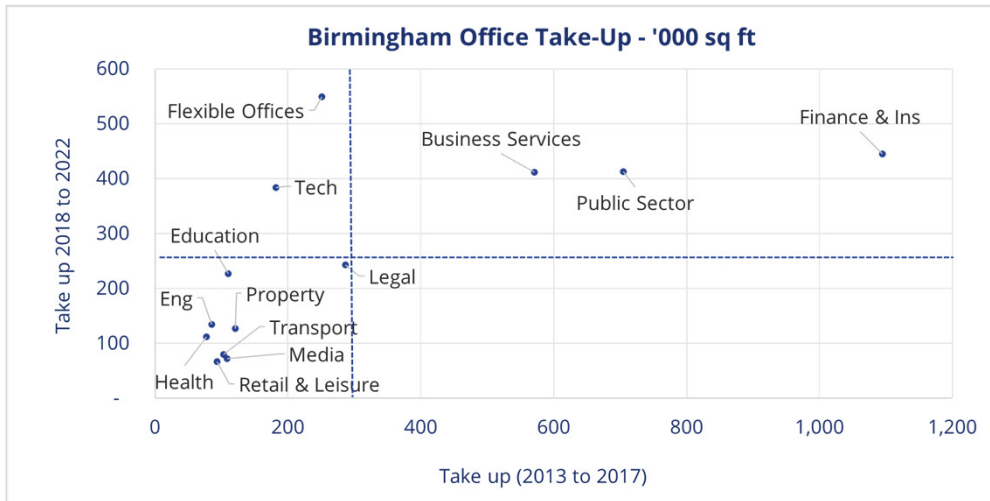
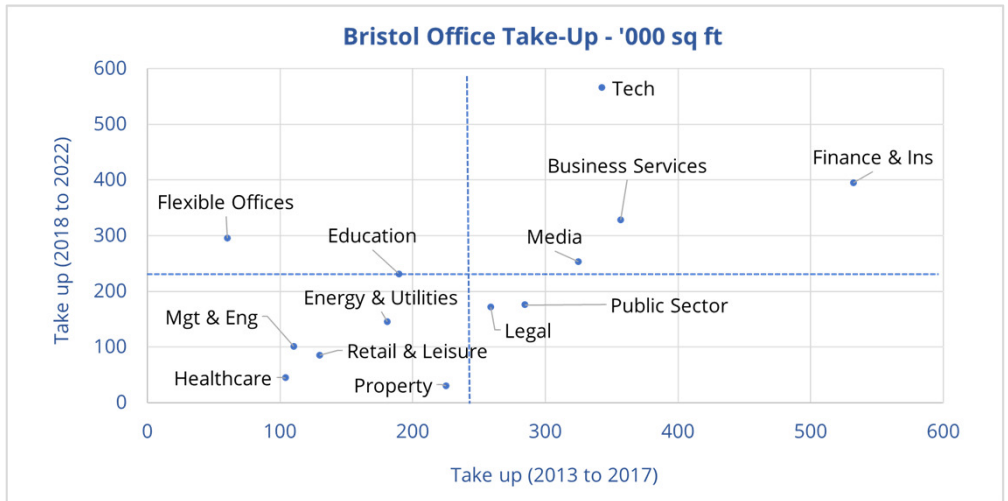
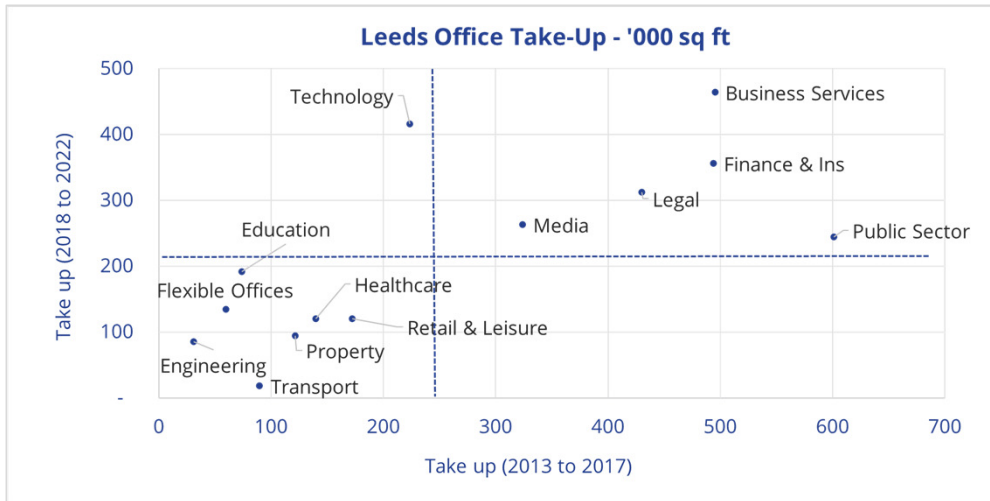
Financial services giving way to professional and technical employment?

## 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

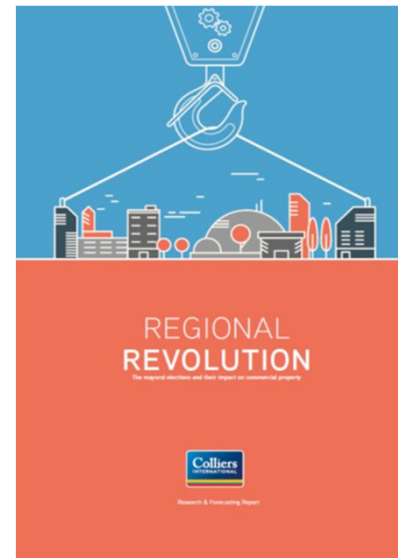
### Agglomeration



Regional Revolution I: Building the UK Powerhouses, 2014

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

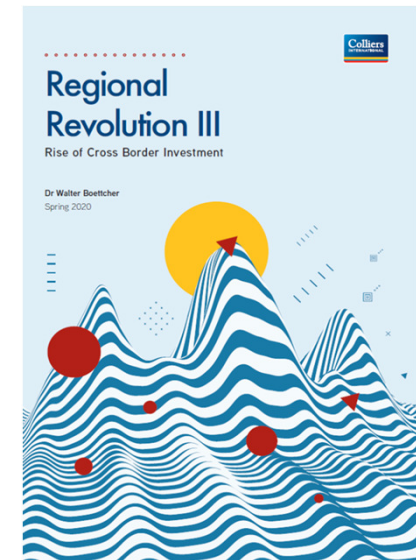
### Management



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, 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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UP**



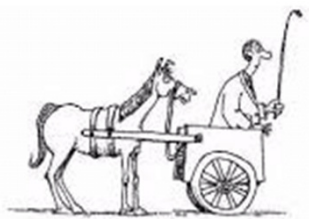
## Paradise Birmingham

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](https://en.wikipedia.org/wiki/Paradise,_Birmingham)

## 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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UP**



**Leeds South Bank  
(WYCA, LCC, )**

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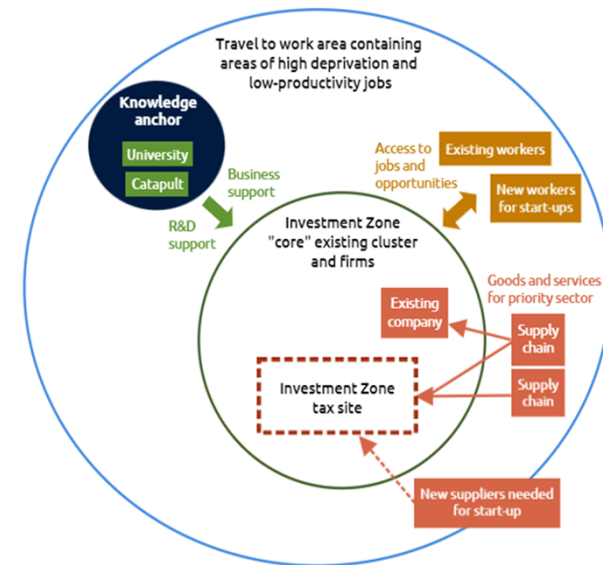


# Investment zones based on existing and potential business ecosystem

## 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

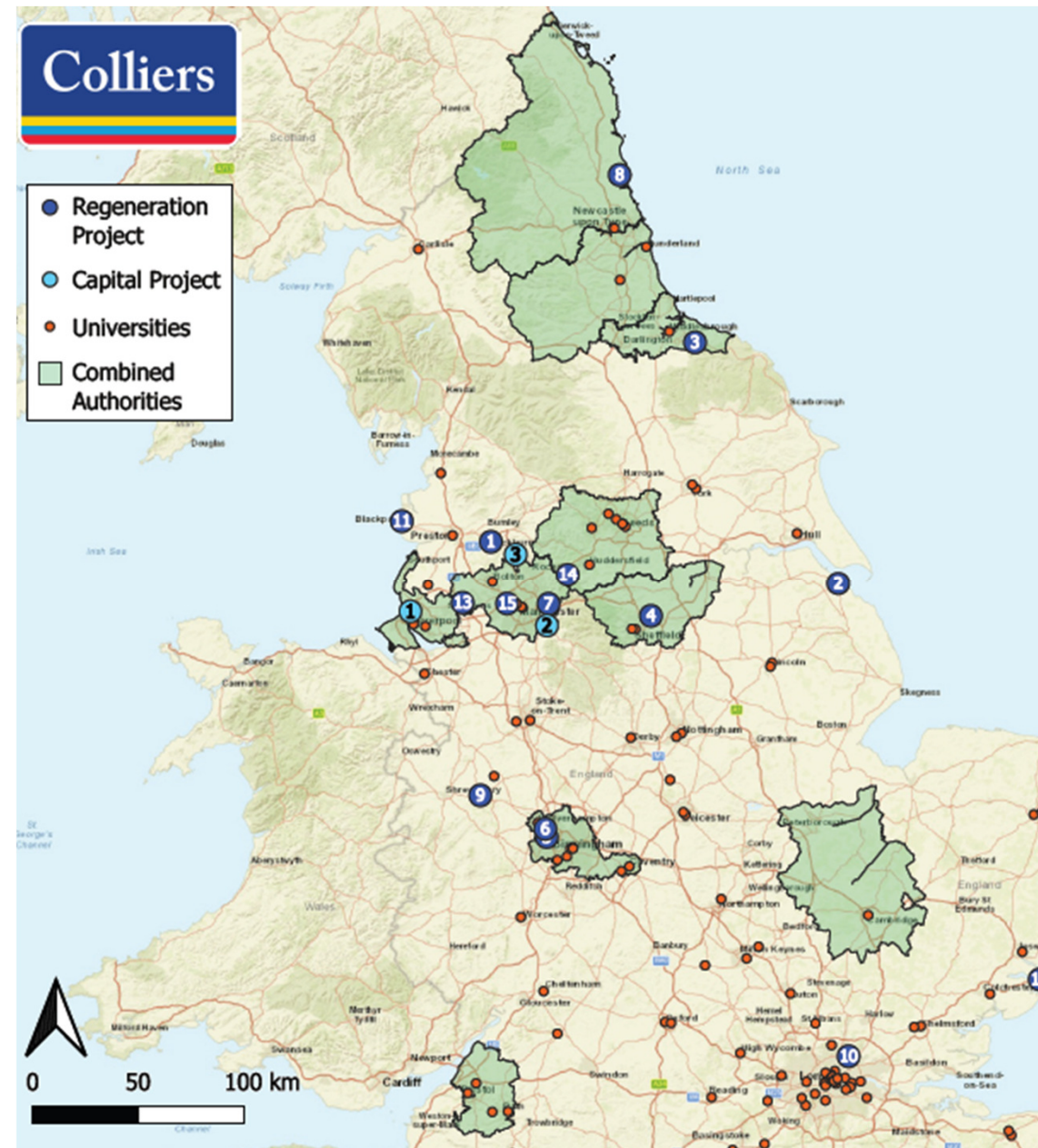
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## Capital projects

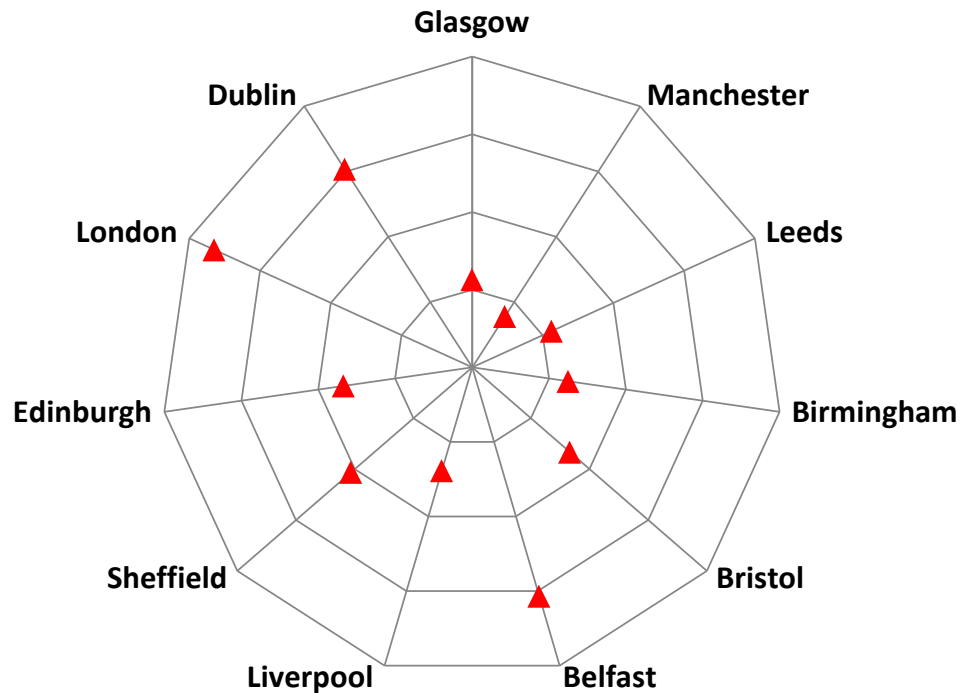
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# The Theoretical Keys to Regional Development

Deviation from UK Big Six Average  
1990



Oxford Economics as modeled by Colliers Research

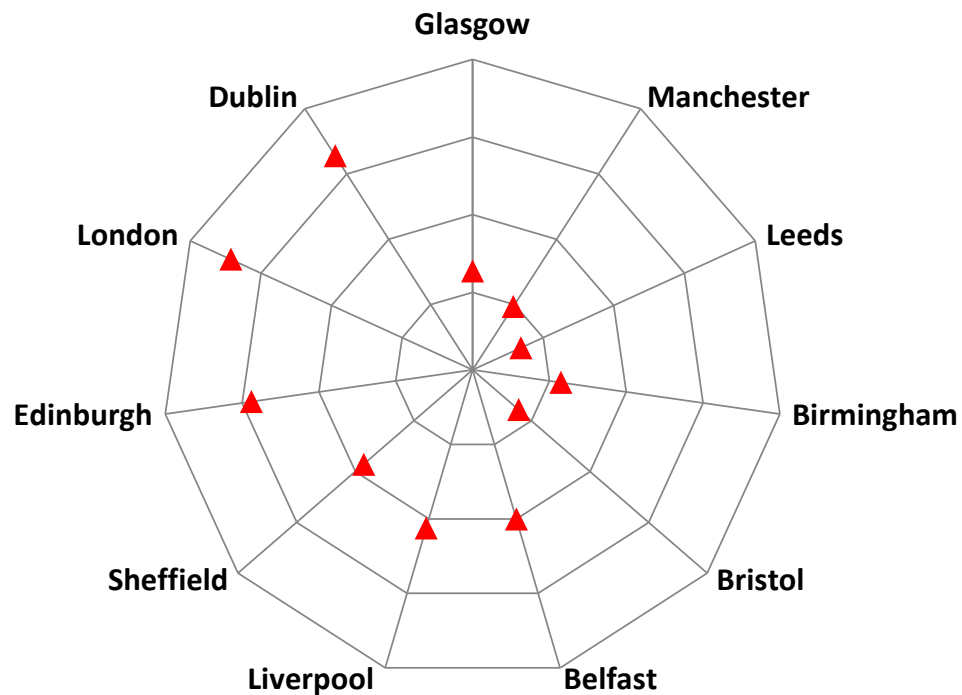
## Devolution and regional economic development

‘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

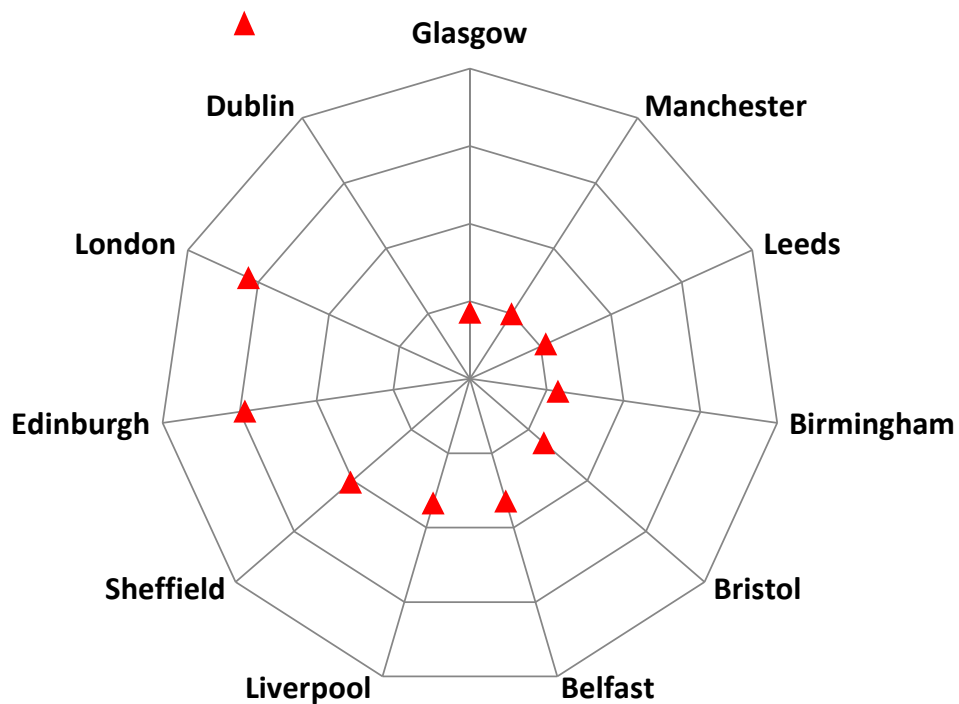
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# The Theoretical Keys to Regional Development

Deviation from UK Big Six Average  
2019



Oxford Economics as modeled by Colliers Research

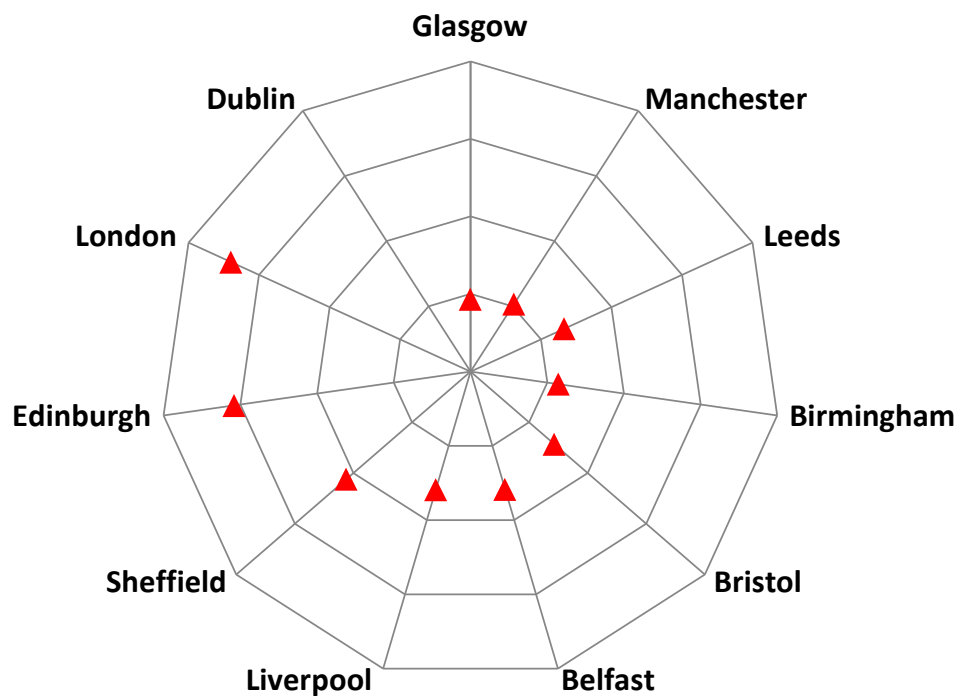
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## The Theoretical Keys to Regional Development

**Deviation from UK Big Six Average  
2030**



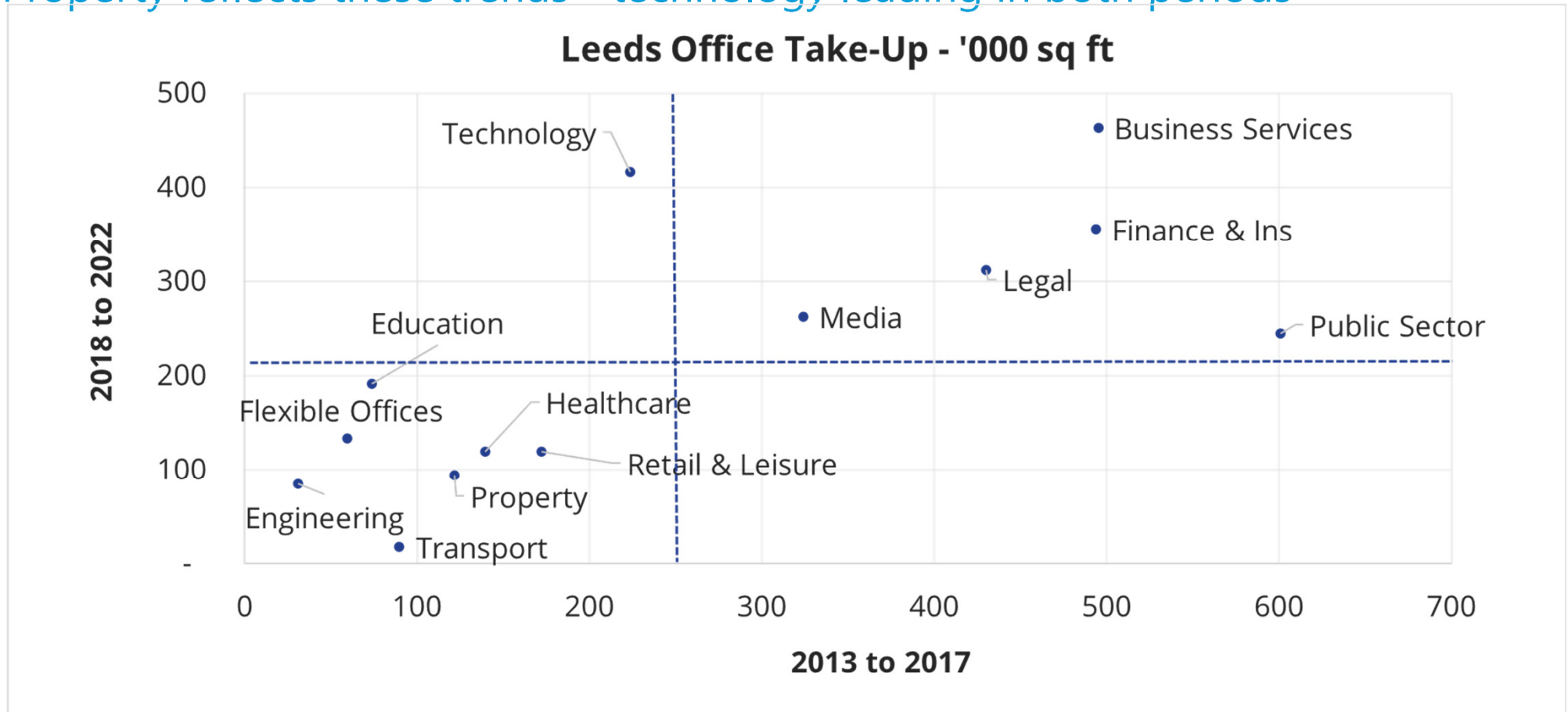
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Property reflects these trends - technology leading in both periods





Universities key to feeding development of professional and technical services

## Access to talent is key

Feeder Schools	Top Fields of Study	Employment Growth	Employment Total
UoLeeds	Law	Leeds BS	Lloyds Bank
Leeds Beckett	Business	KPMG	Yorkshire BS
UoHuddersfield	Mathematics	Deloitte	Capita
UoBradford	Management	Lowell	HSBC
Sheffield Hallam	Computer Science		Leed BS
			Halifax
Source: LinkedIn			

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



# Wide variety of professional/financial services with a bit of new tech

## Business development in Leeds

### AI applications



Business &  
government  
services



Big Four  
Consultancy



Regional  
banking



Big Four  
Consultancy



Health tech



Fintech

### Public Sector in Leeds

- 5/6 NHS national offices
- National Infrastructure Bank
- Bank of England?



The University of Law has  
an Innovation and Tech  
hub in Leeds



The Yorkshire tech  
sector attracted £120m  
in venture capital  
investment in 2021



### Useful links

<https://www.investleedscityregion.com/media/7710/fintech-sector-overview.pdf>

<https://www.investleedscityregion.com/media/7707/digital-and-tech-sector.pdf>

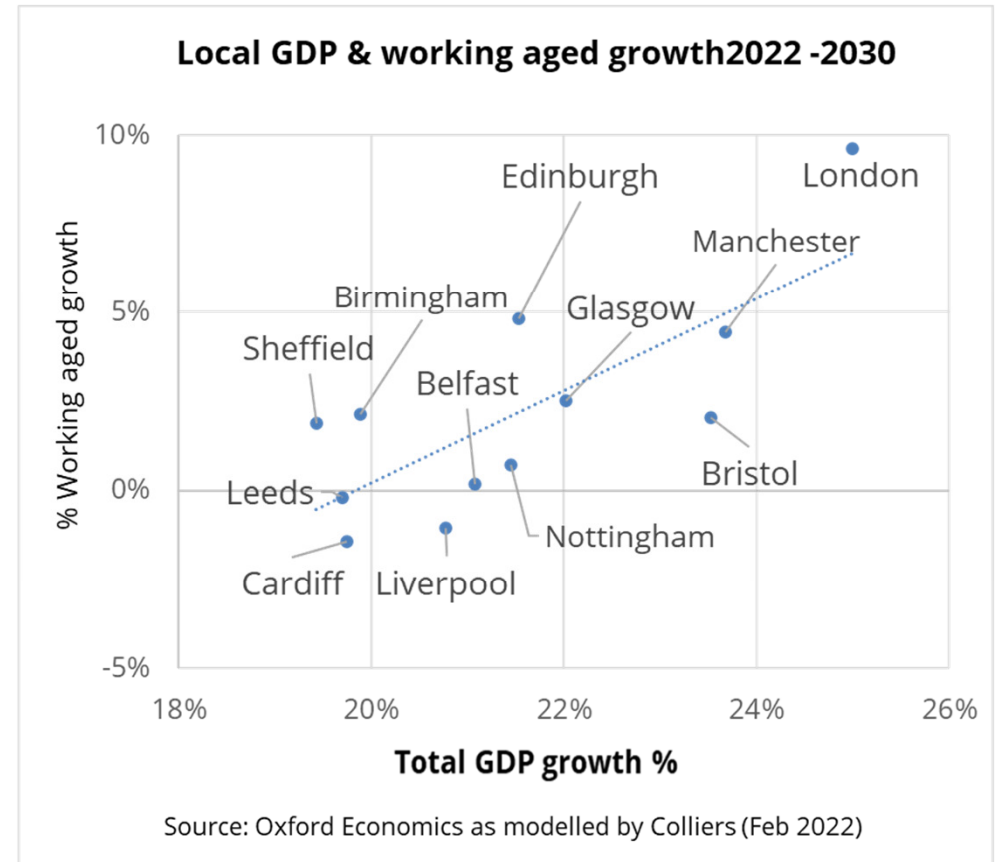
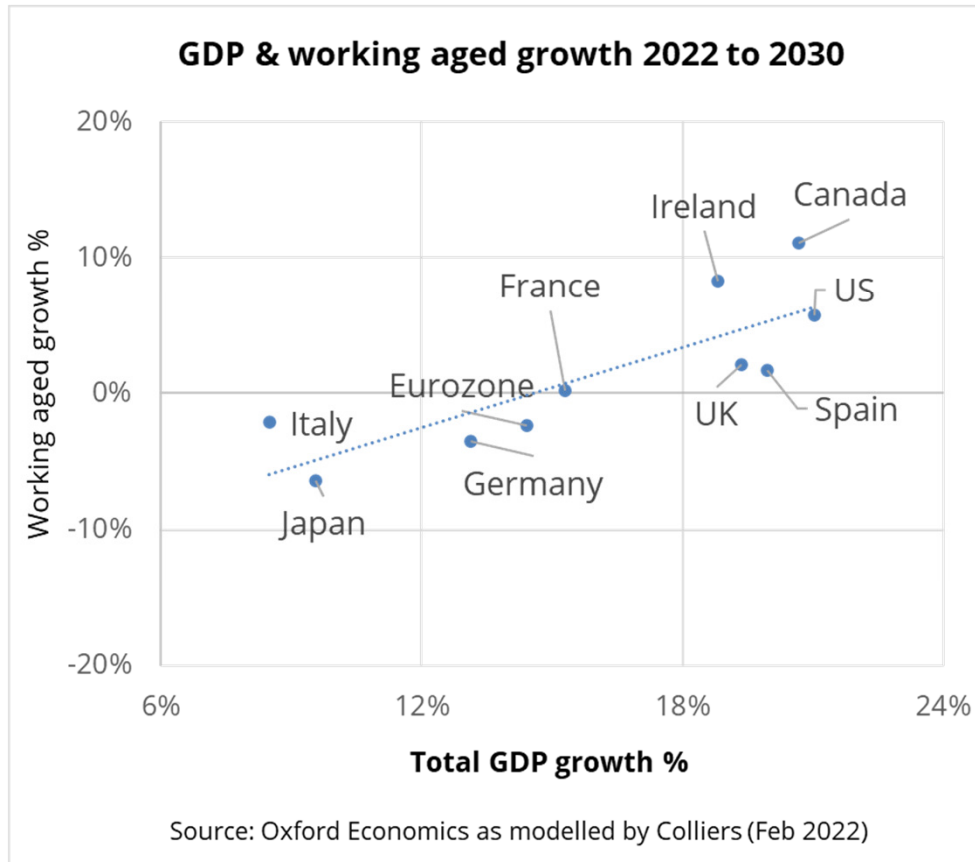
<https://www.investleedscityregion.com/media/7713/legal-services-and-tech.pdf>

<https://www.investleedscityregion.com/media/7708/digital-health-and-ai.pdf>

<https://www.investleedscityregion.com/key-sectors/healthcare-and-innovation/>

# 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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Accelerating success.