

# UK property in a period of political and economic transition

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Professional Conferences

East Grinstead, 26<sup>th</sup> November 2024

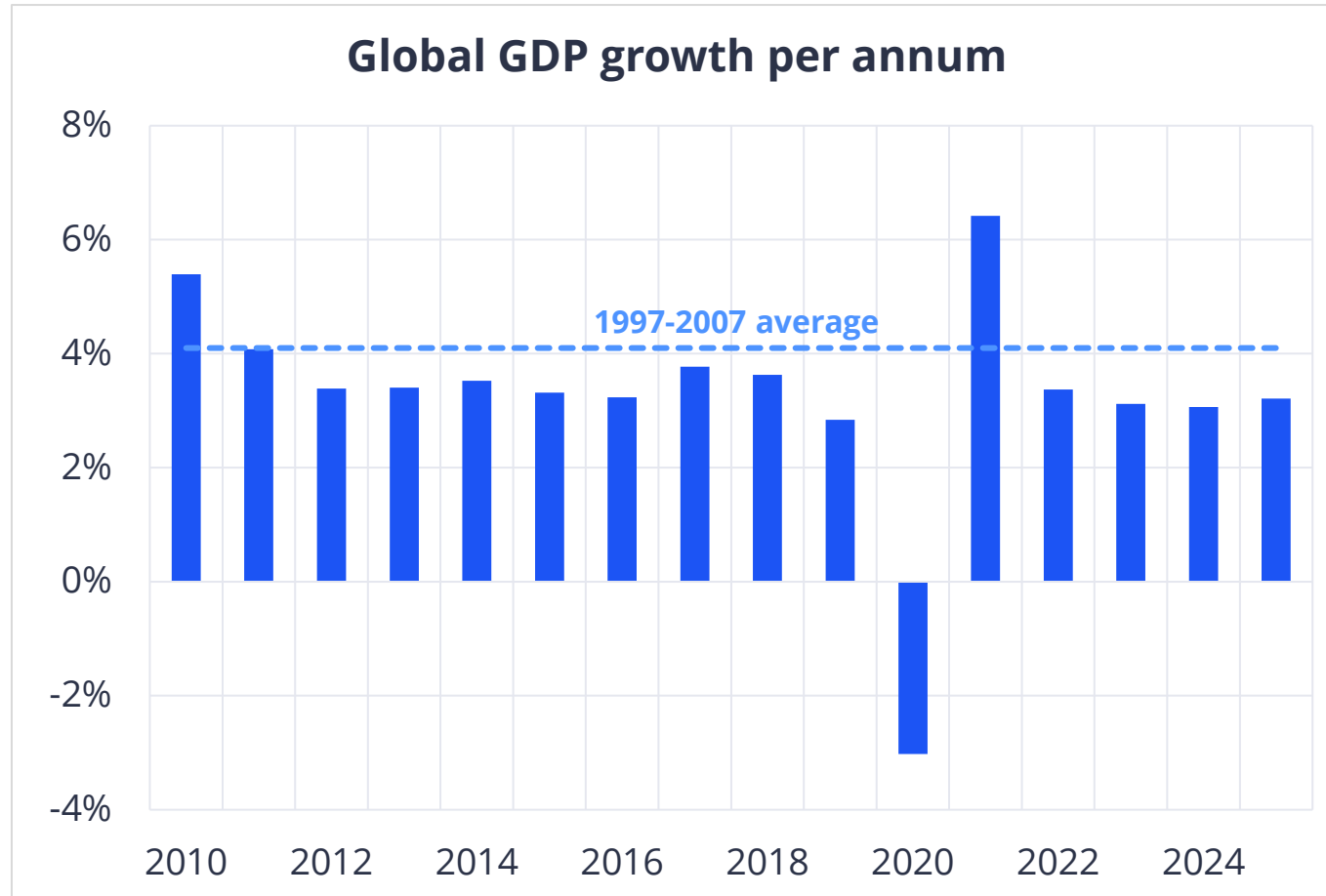
# Colliers' briefing – Q3 2024

- 1 UK economy in a global context
- 2 UK economy and interest rates
- 3 Recent property trends
- 4 Regional development notes



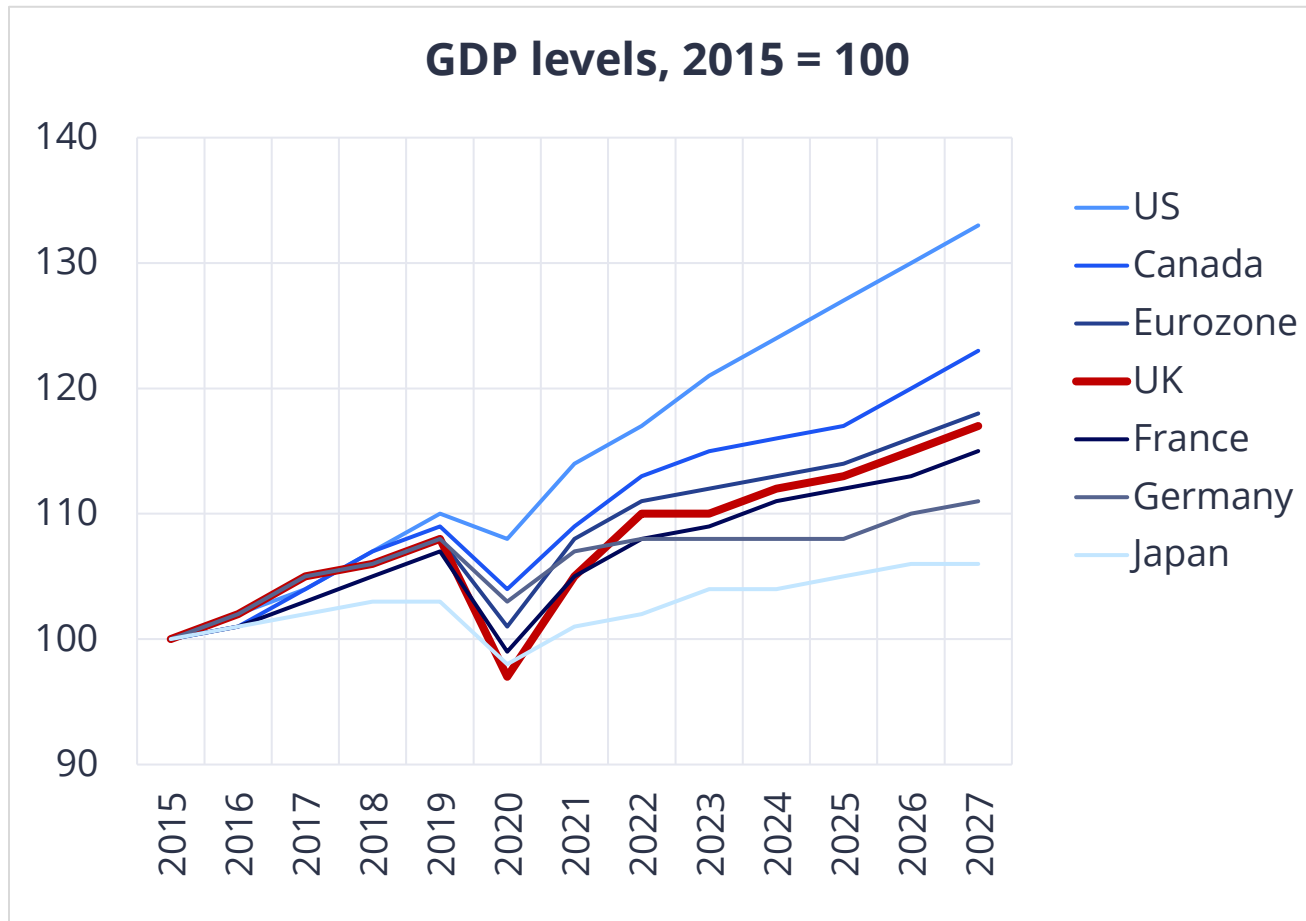
The global economy is adjusting to a 'new normal'

## Growth to stabilise at 3%+ (non-recessionary)



- Global economy is adjusting to lower interest rates
- GDP growth rates remain below historic standards
- Growth in China to slow from an average of 10% pa to around 4% pa (\$1.4 trillion support announced)
- Despite lower 'new normal', economic growth should strengthen as interest rates fall further and real incomes rise and support spending

# Global economies continue to recover UK not a 'laggard'



Source: Oxford Economics

2021

UK business [+ Add to myFT](#)

UK economists' survey: recovery will be slower than in peer countries

2024

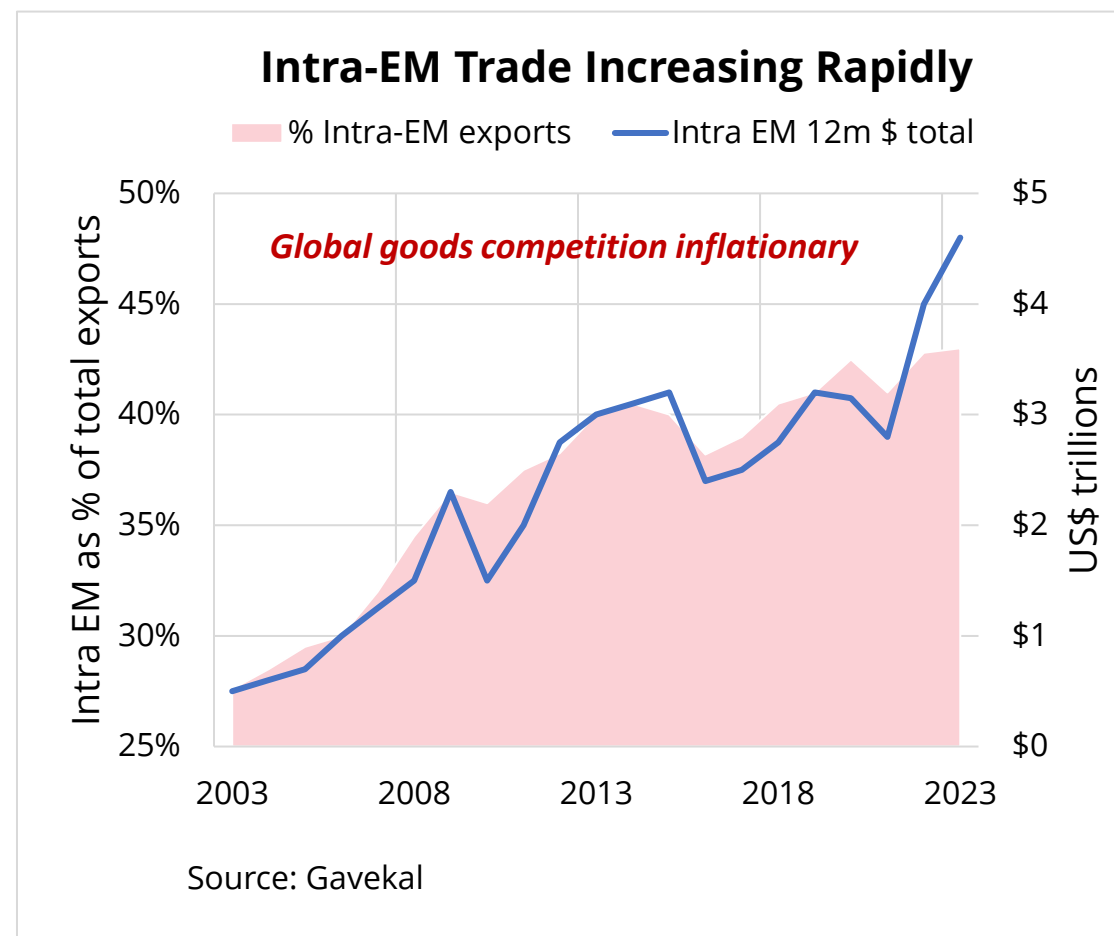
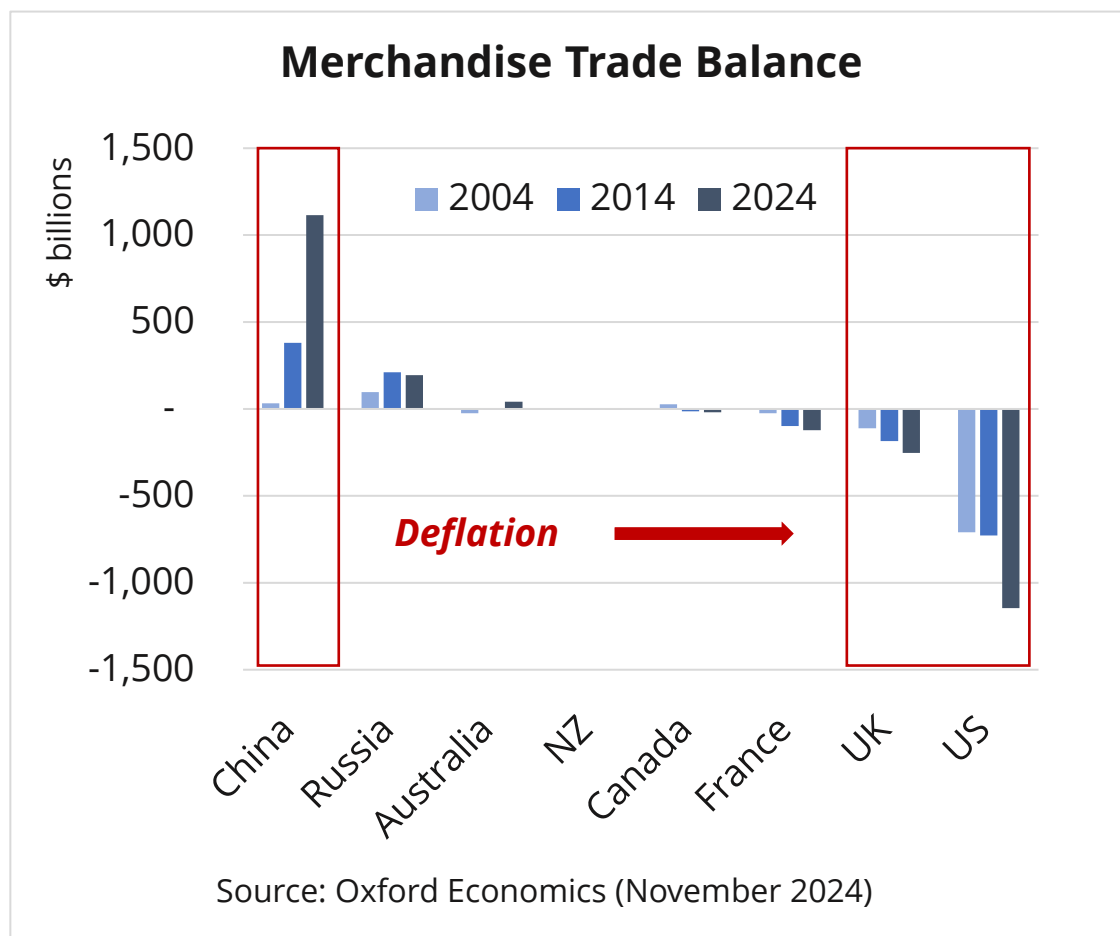
UK economy [+ Add to myFT](#)

FT economists survey: 'anaemic' economy needs 'investment, investment, investment'

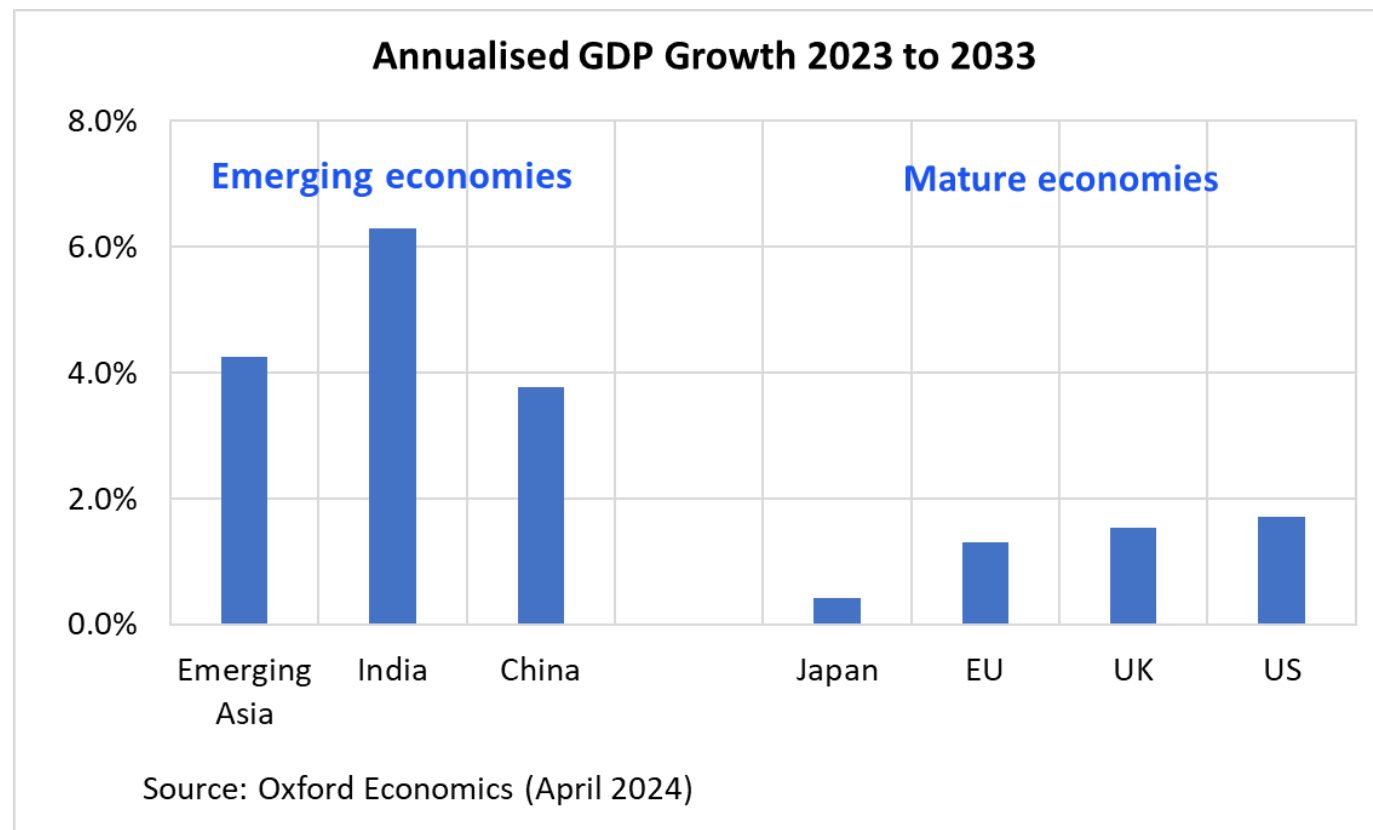
- Of the developed world, UK saw steepest decline in GDP during the pandemic...
- ... followed by the strongest recovery
- US/Canadian economies always the strongest due to longer working hours
- Germany suffering from weak exports

# China knows where its bread is buttered, but . . .

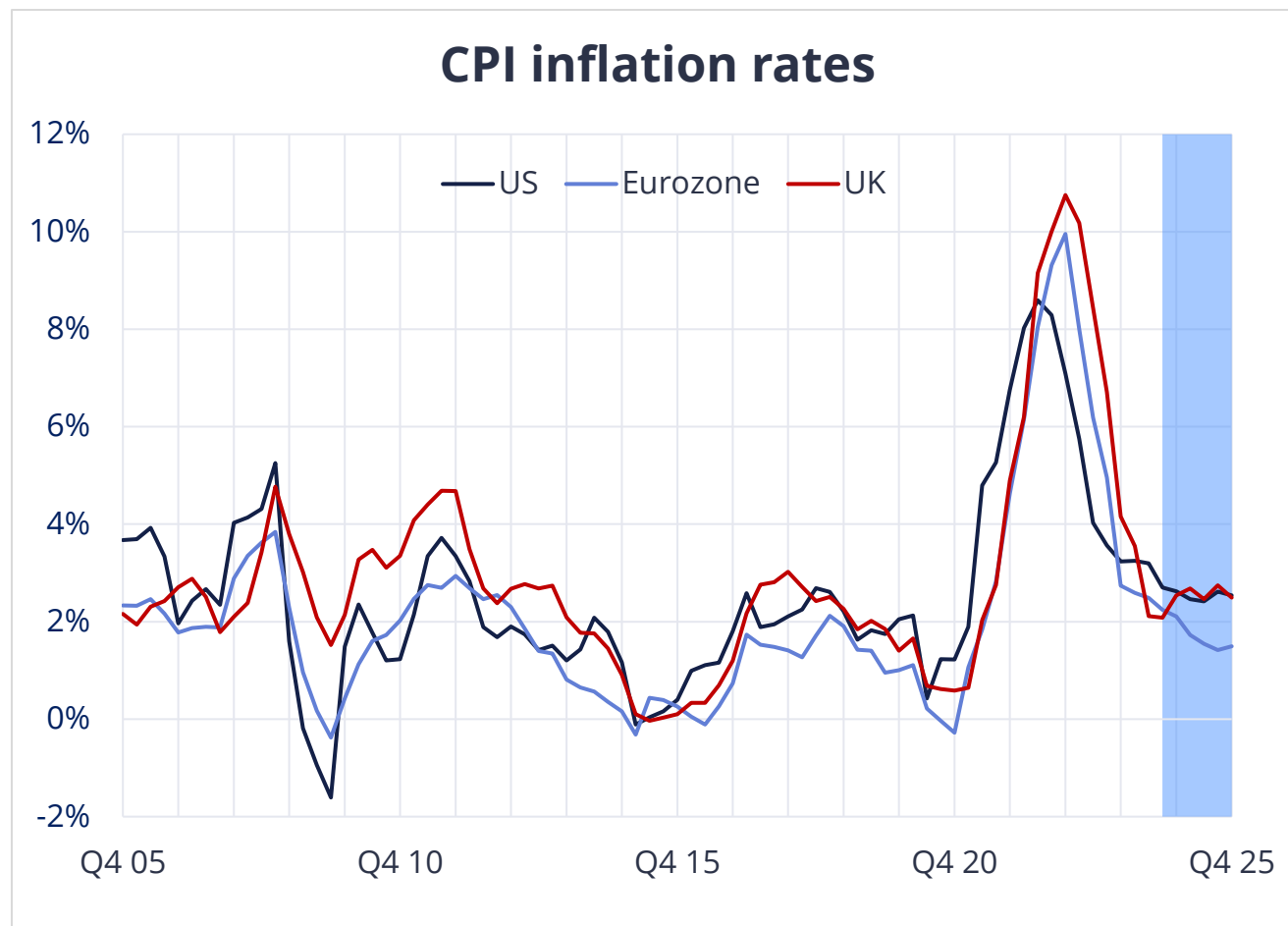
## Trade and geopolitics – sides of the same coin



... but China has other options  
Asian EM growth potential will remain strong



# Global inflationary spike looks historical, for the moment . . . Inflation in abeyance?



Source: Oxford Economics + local statistical agencies

CPI inflation rates	Post Covid max	Latest
Australia	7.8	2.8
Canada	7.6	1.6
China	5.0	0.3
France	6.1	1.2
Germany	8.6	2.0
India	7.3	5.5
Japan	3.9	2.5
Russia	16.9	8.6
South Korea	5.8	1.3
Spain	10.1	1.8
<b>UK</b>	<b>10.8</b>	<b>1.7</b>
US	8.6	2.4

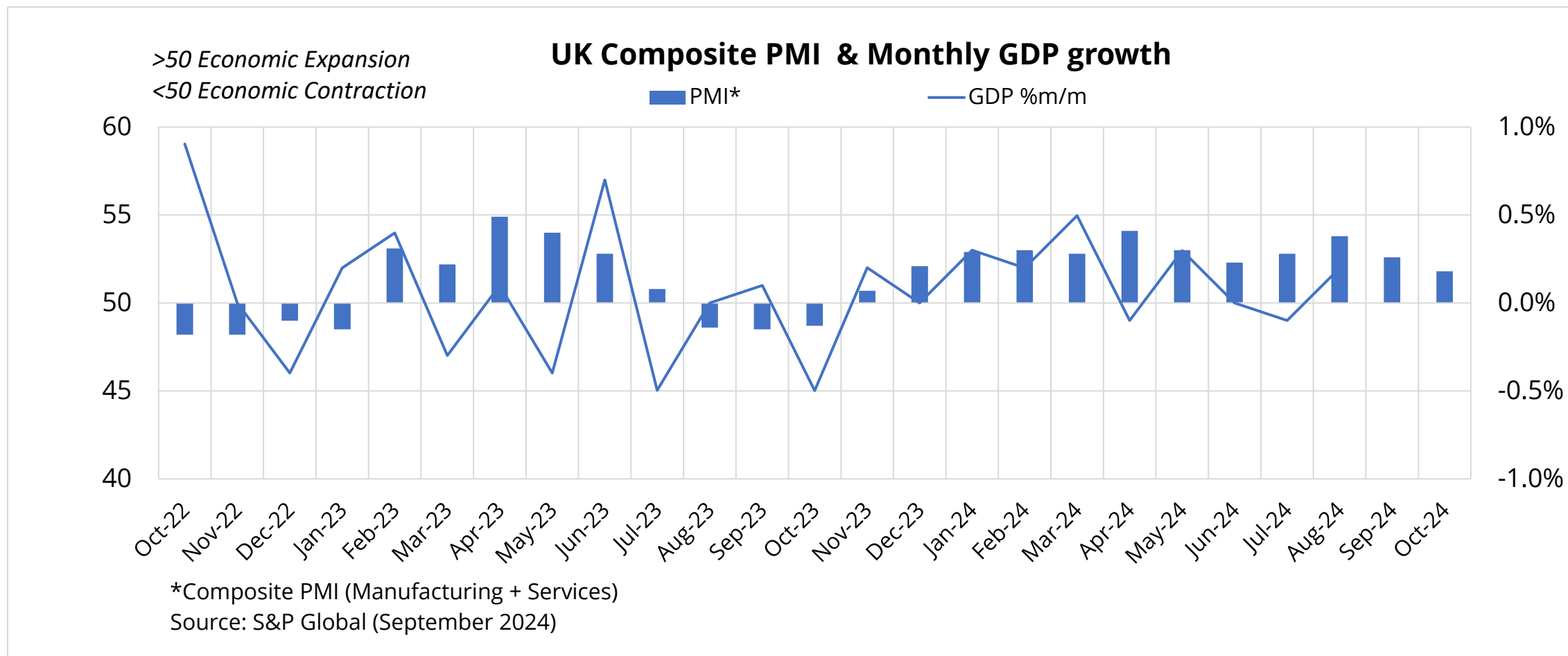
## Section 2

# UK economy and interest rates



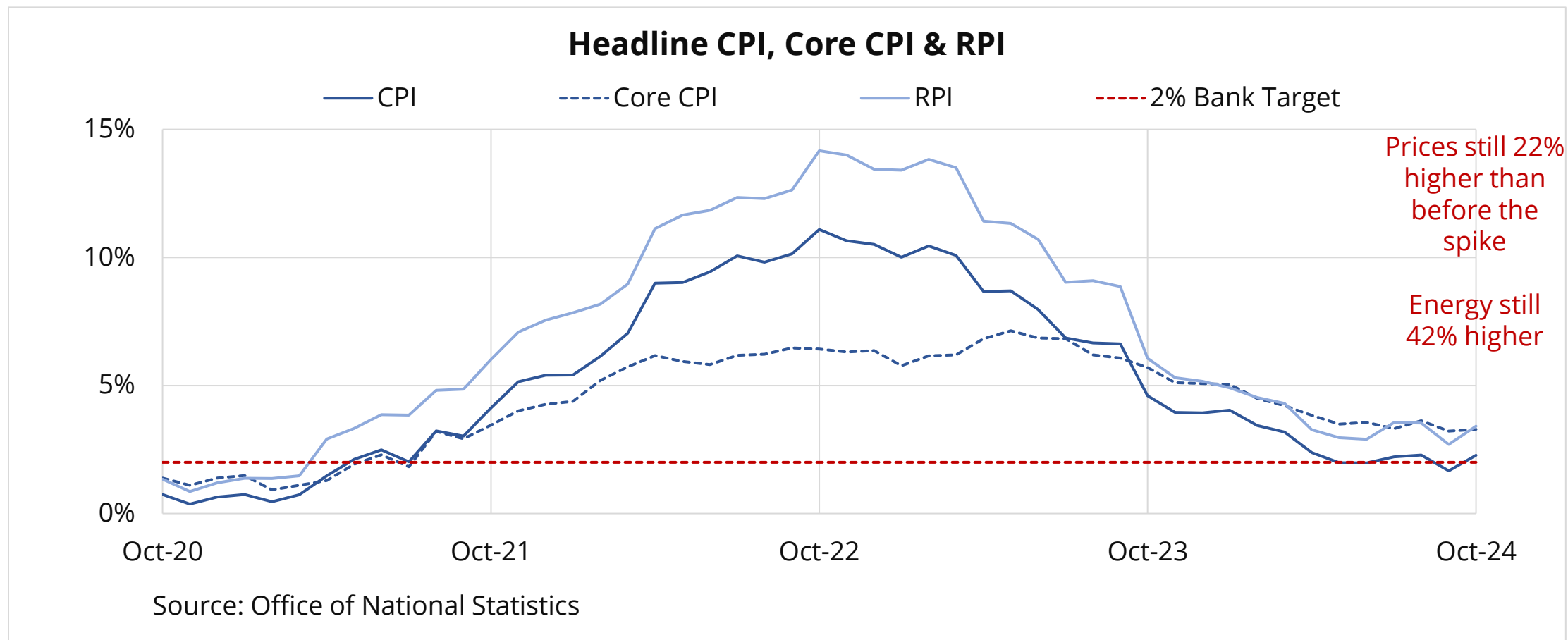
# Reasonable performance in 2024 despite high rates, but slowdown still possible

## 'Soft landing'?



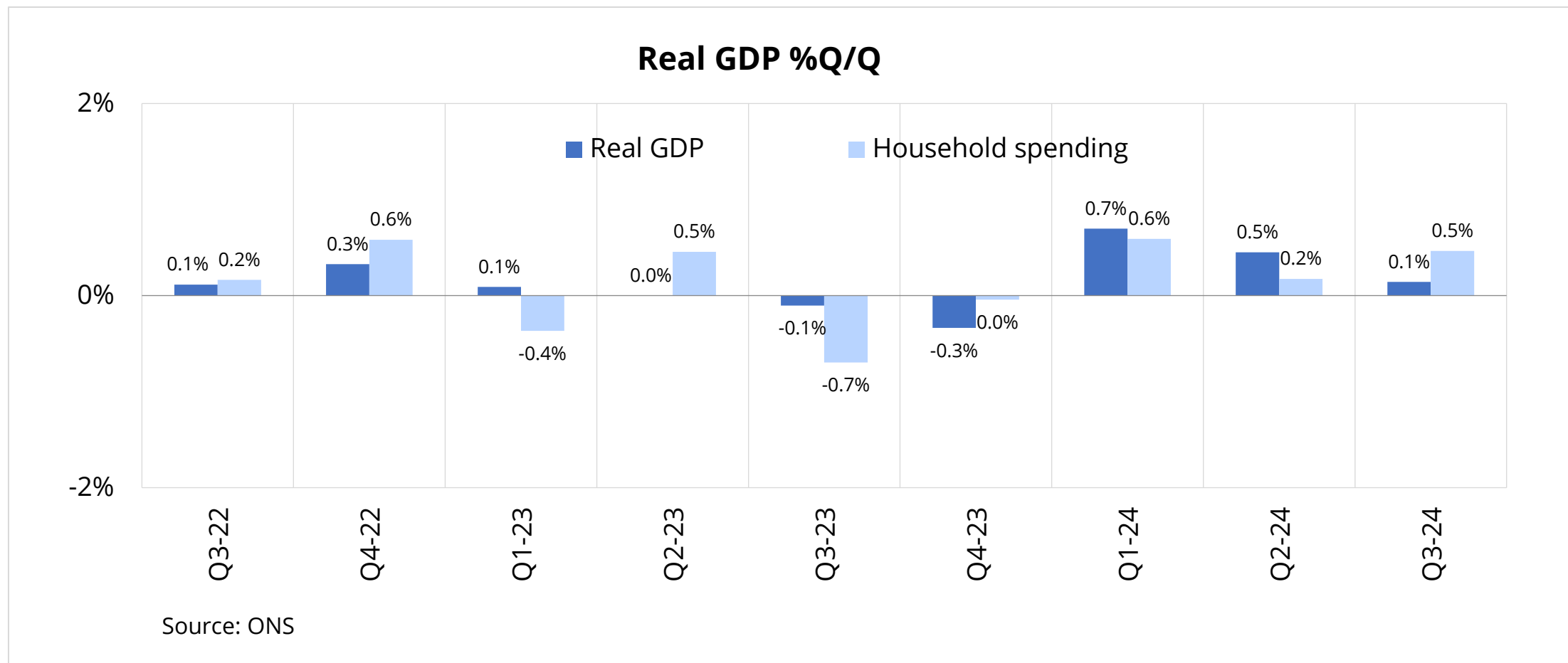
# High prices will continue to buffet household spending

## Inflation lower in short term but risks increasing



Household spending still **very** price sensitive

Will real wage growth translate into higher spending?



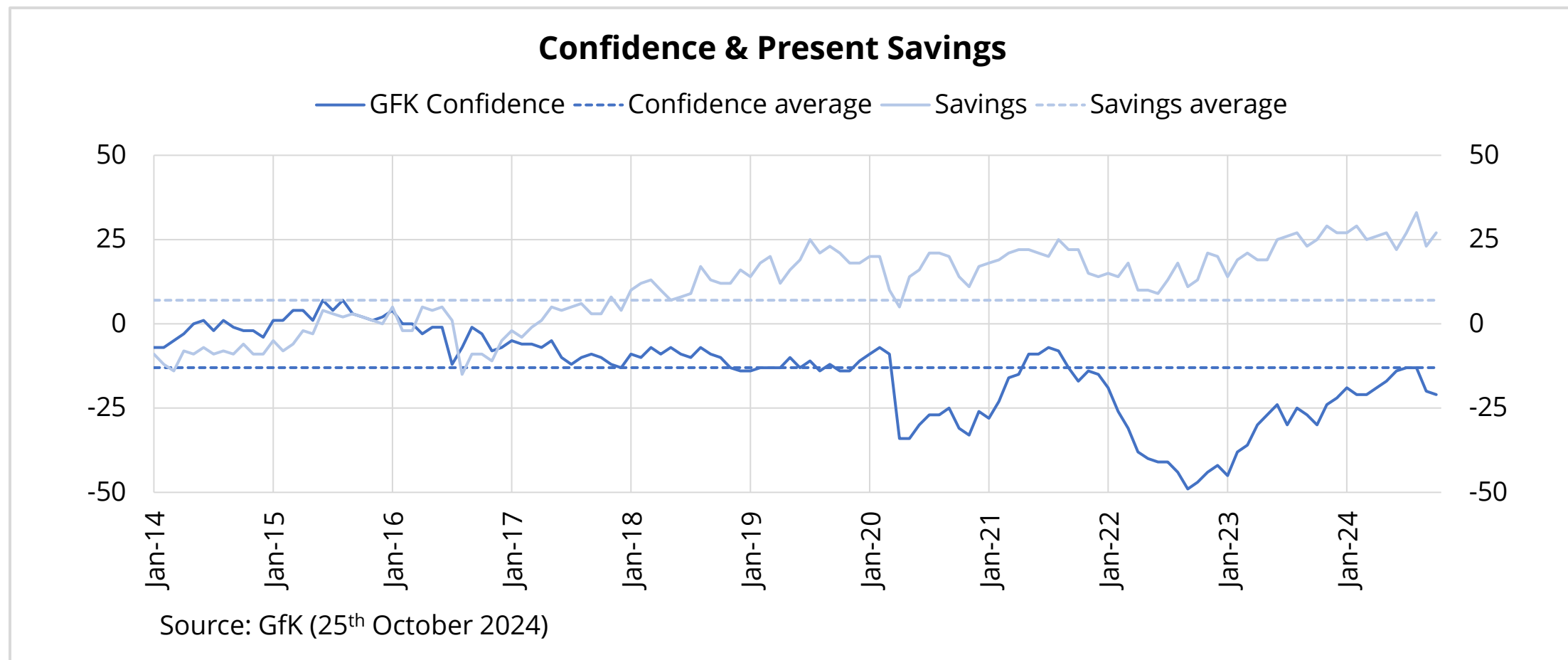
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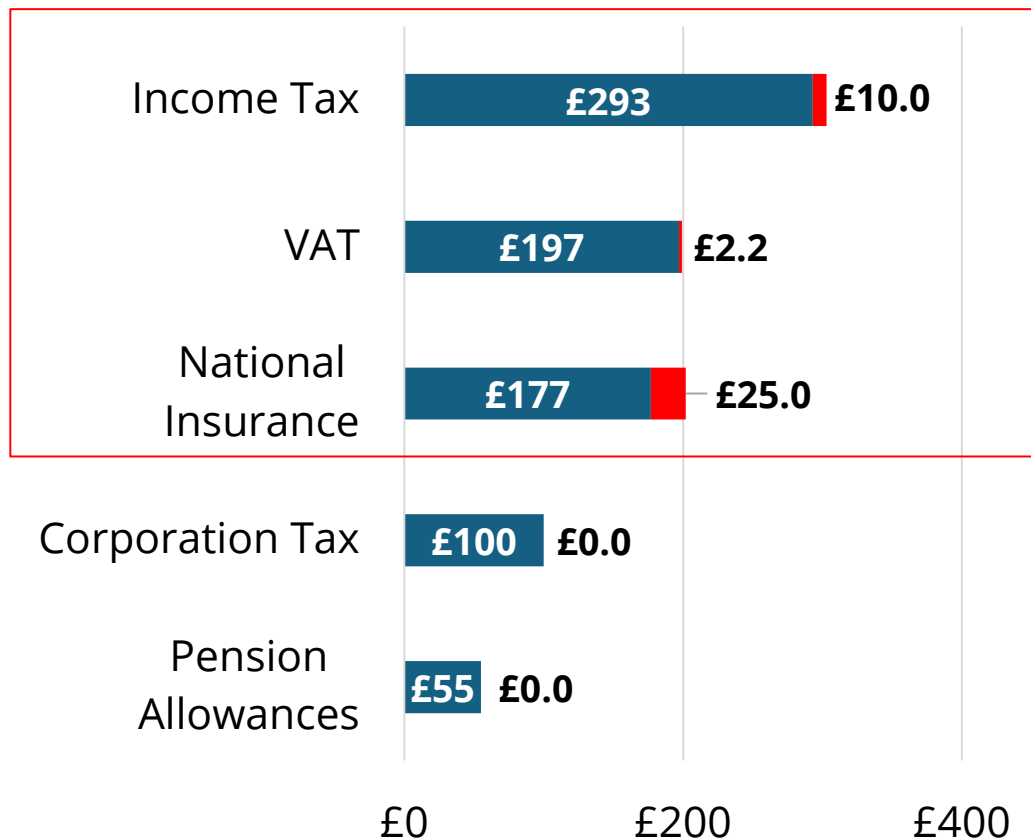
Budget verdict still out?

## Household confidence took a hit in September/October



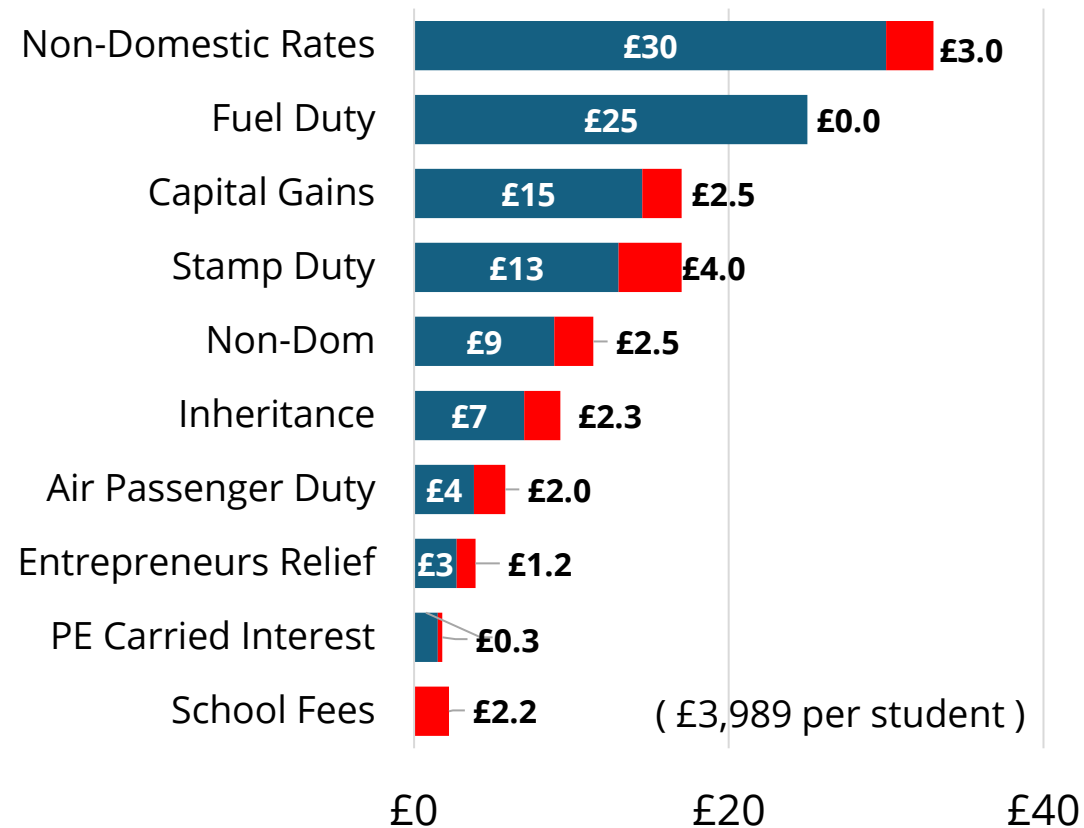
## Labour's Budget interpreted as inflationary (£72 billion)

### Tax receipts FY23/24



Source: ONS, Public sector finances, appendix D (July 2024), Capital Economics, OBR and others

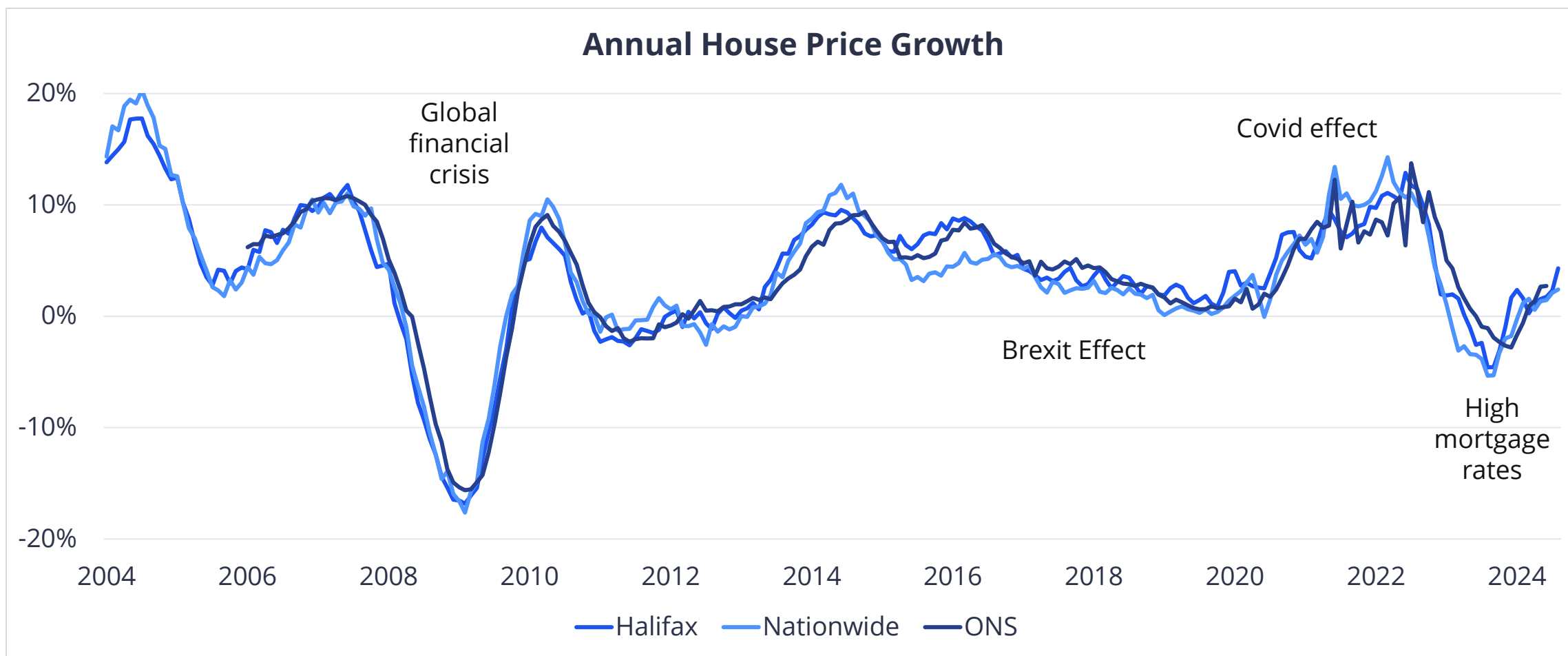
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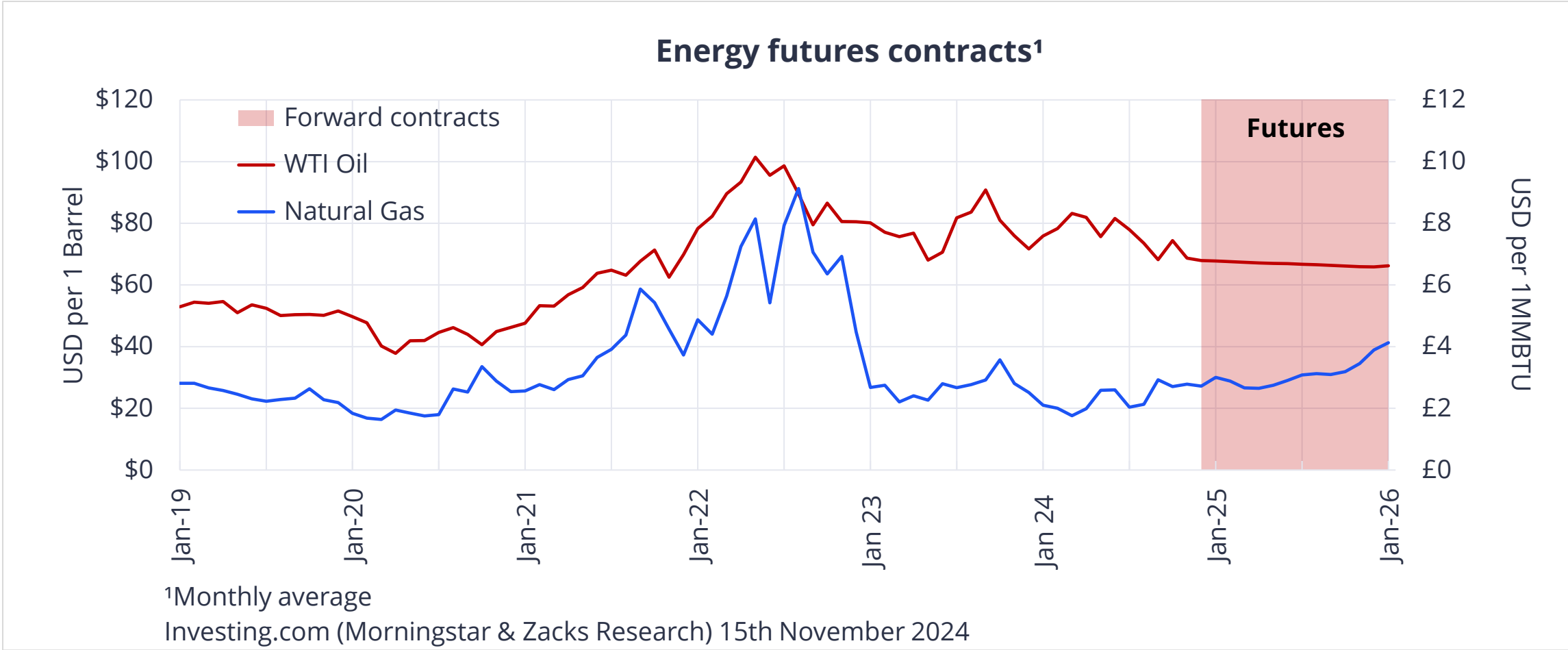
# Wealth effect supporting consumer confidence

## House prices rising again



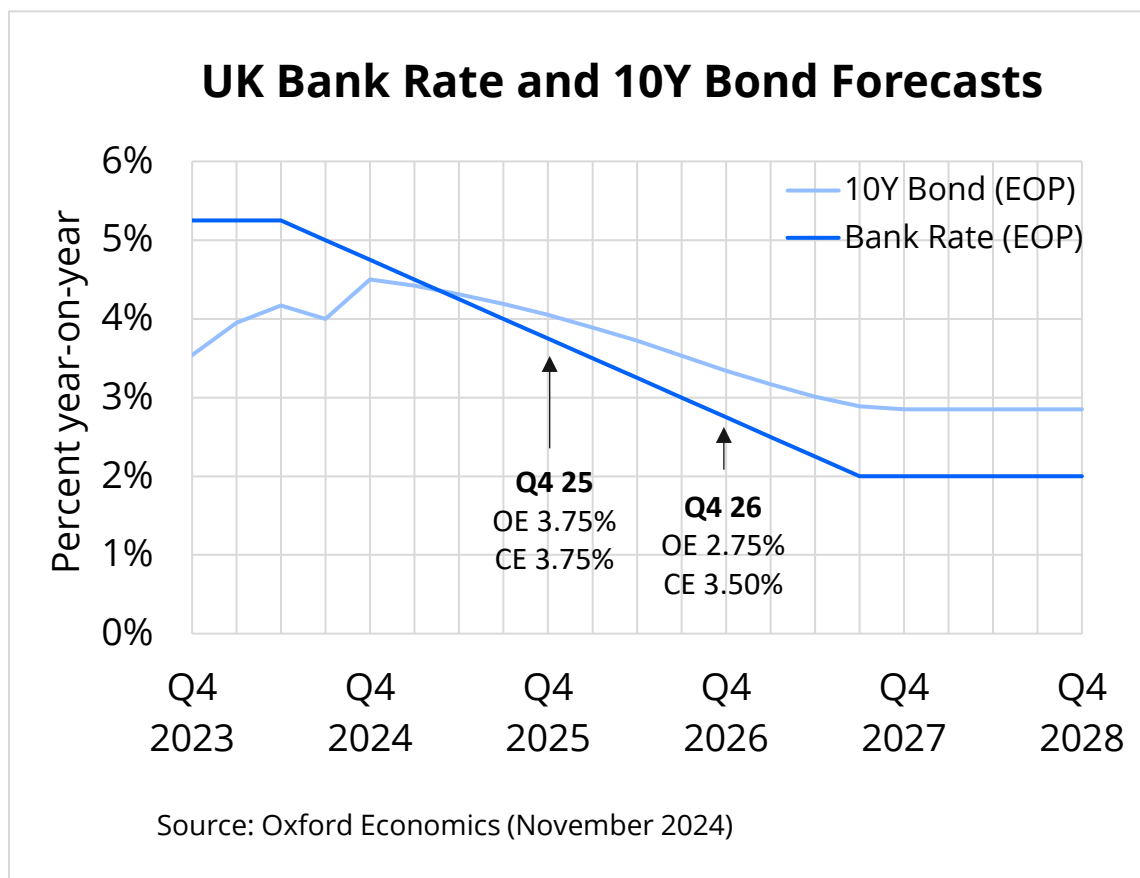
Iran oil exports (1.7mbd). Excess OPEC+ capacity (5mbd).

# Energy security





# The real questions are timing and level UK monetary policy on a downward trajectory



Huw Pill, Chief Economist, Bank of England

*The Bayesian Vector Auto-regression model '... gave me pause for thought about the timing and magnitude of this removal of restriction.'* (4<sup>th</sup> October at ICA conference).

# Volatility and instability the new normal

## Outlook for 2024 and beyond



### US economic & foreign policy under Trump

- 'Gaming legal system'. Autocratic threat to world rules-based order (equality of sovereigns & self-determination, business regulation, etc.)
- US Federal Reserve independence. Risk premia & US treasuries. *'Dollar weaponisation'* and capital flight
- Basel III is finished in US!
- Fiscal policies leading to inflation, high interest rates and debt crisis?
- Protectionism - Isolationism? Retribution? Negotiating tool?
- Imports for consumption more expensive (Walmart 70 to 80% imported)
- Reshoring production (higher costs = inflation)
- China and world trade pattern shifts and inflation
- Tariff Act (1930). Global Depression. Tariffs require congressional approval.

**Other than these . . . No problem!**

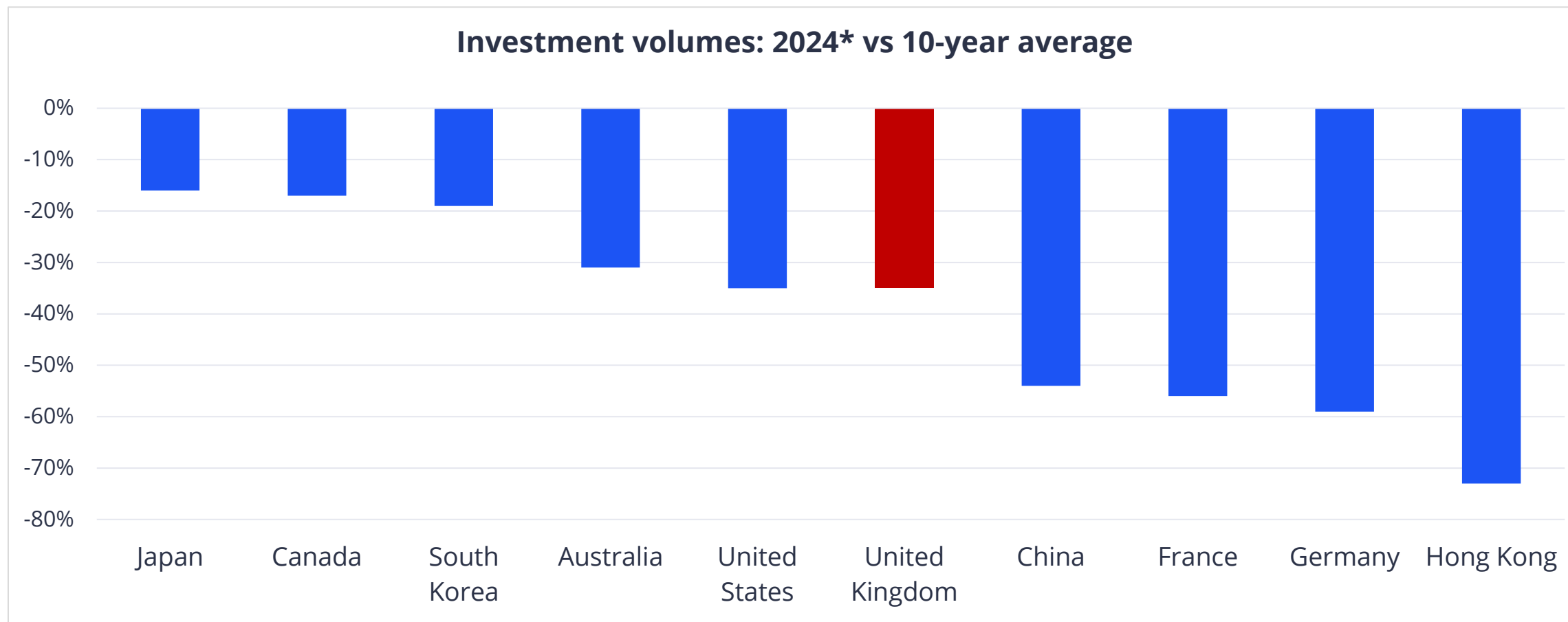
Section 3

Recent Property Trends



## Global capital markets

# All major markets feeling effects of higher rates

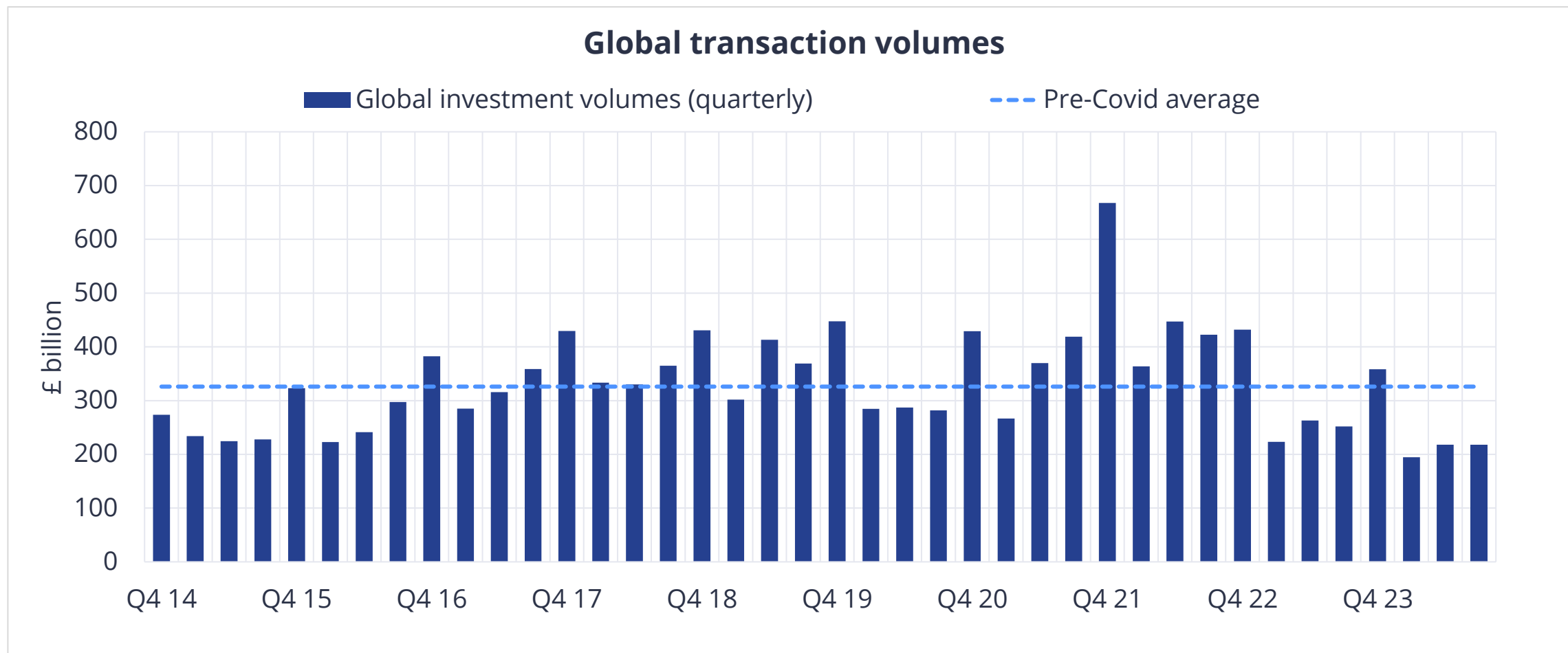


Source: MSCI Real Capital Analytics

\* Predicted 2024 total

# Global capital markets

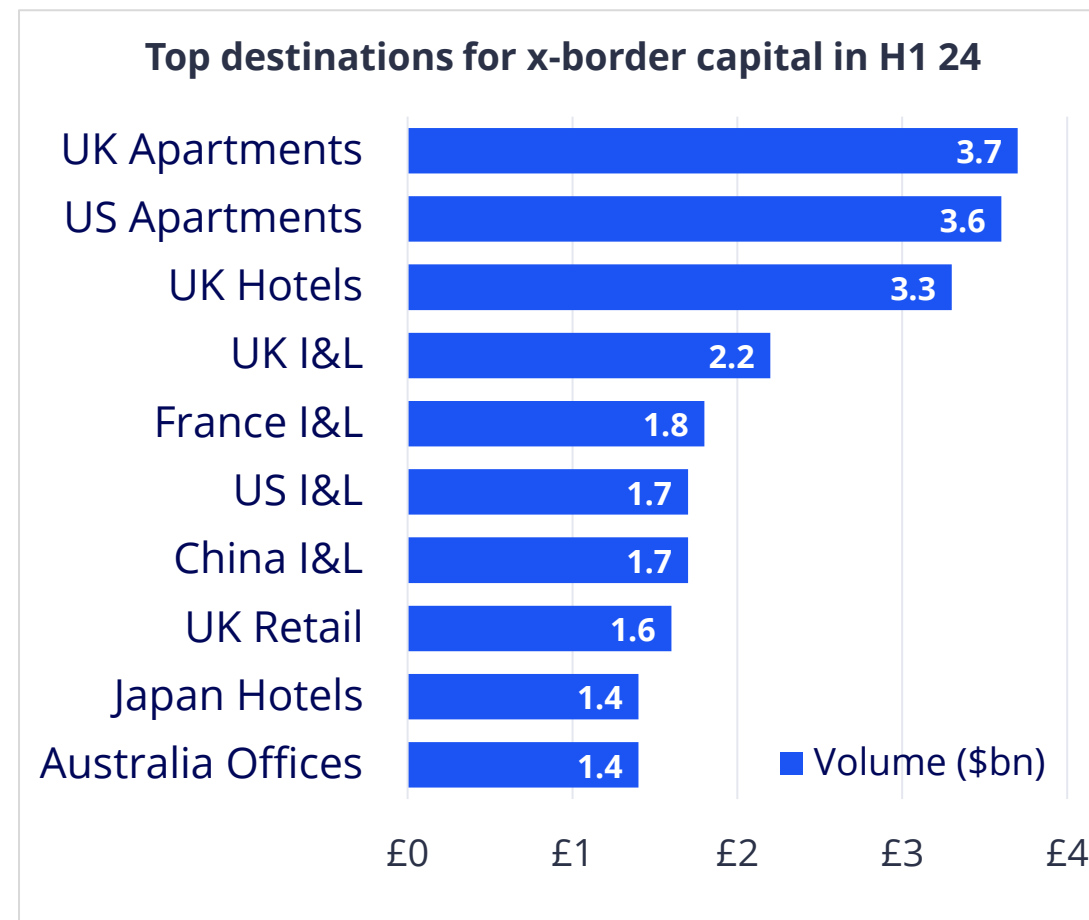
## Transactional flow still limited



# UK most rapid price adjustment (Truss/Kwarteng effect)

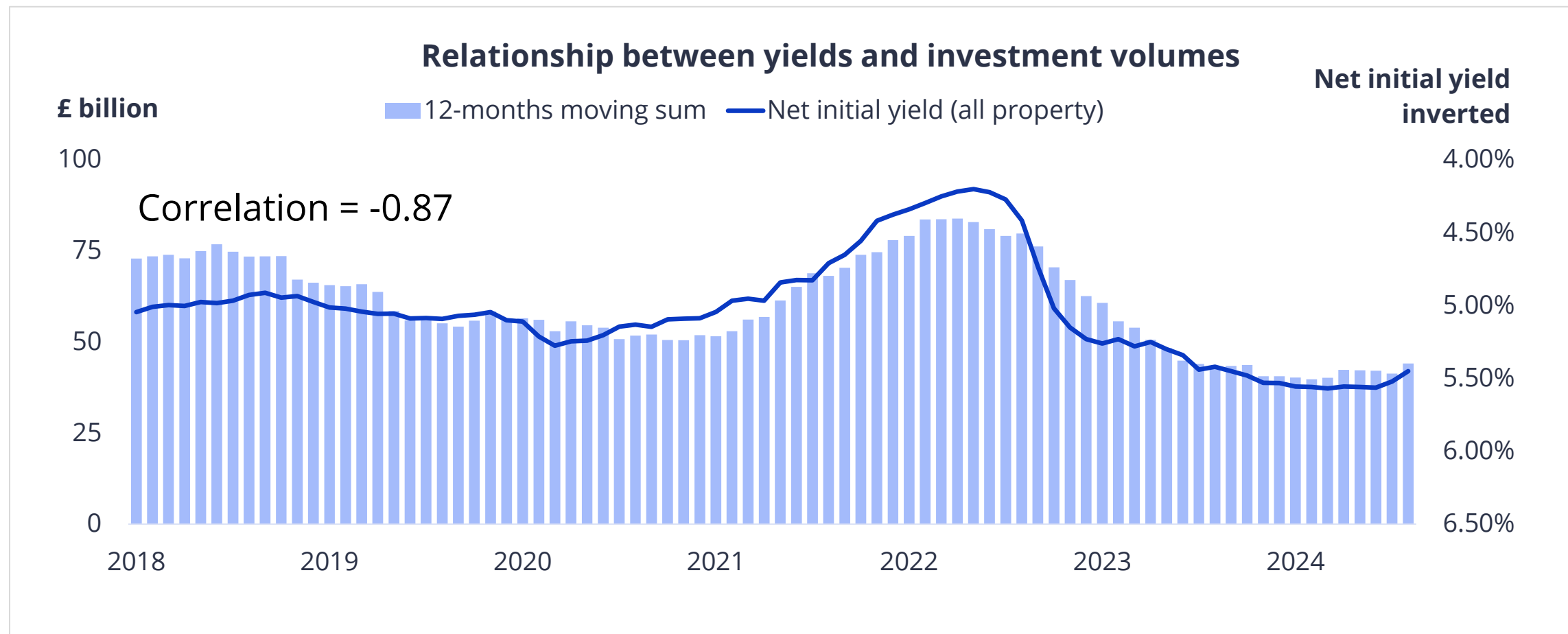
## UK on overseas investors radar (Trump effects)

Country	H1 2024 \$bn	YOY
US	138	-3%
<b>UK</b>	<b>26</b>	<b>+8%</b>
Japan	19	-12%
China	18	-12%
<b>South Korea</b>	<b>11</b>	<b>+20%</b>
Germany	11	-26%
Canada	9	-37%
<b>Australia</b>	<b>9</b>	<b>+5%</b>

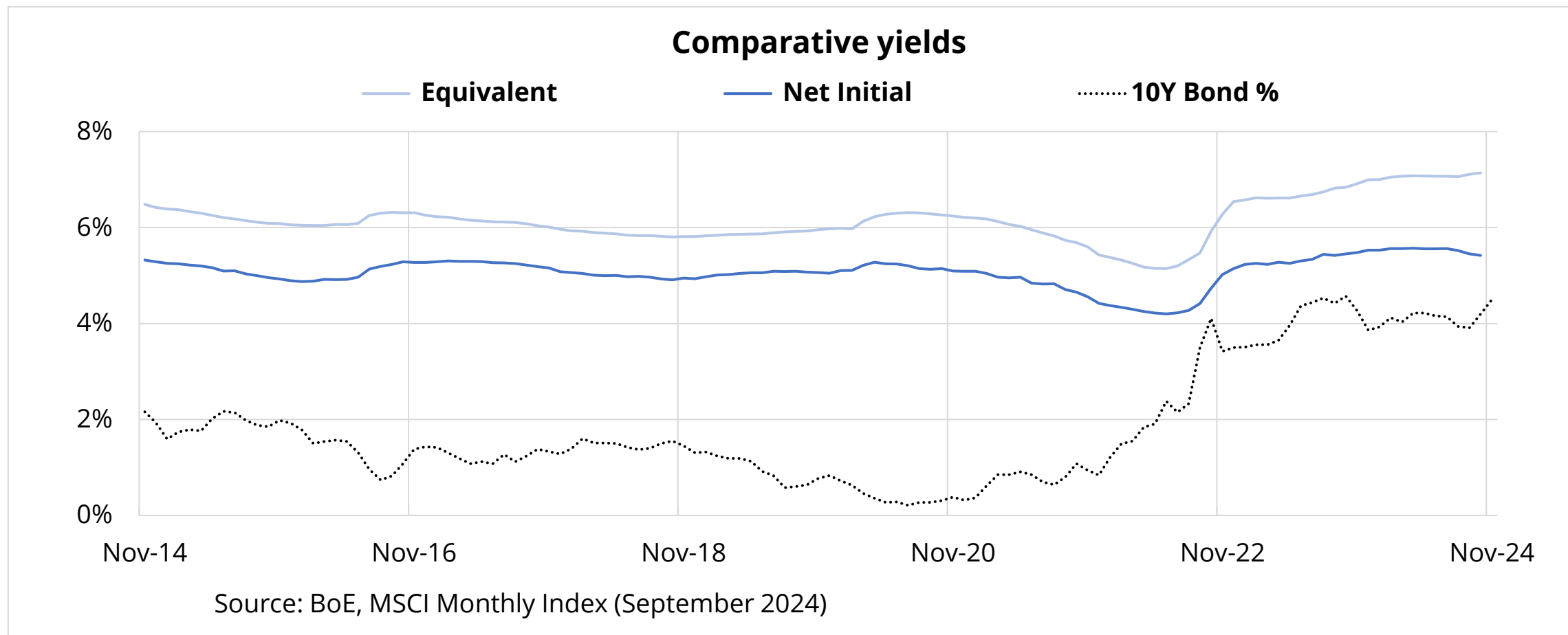


But the market may have turned?

# UK transactional flow still limited



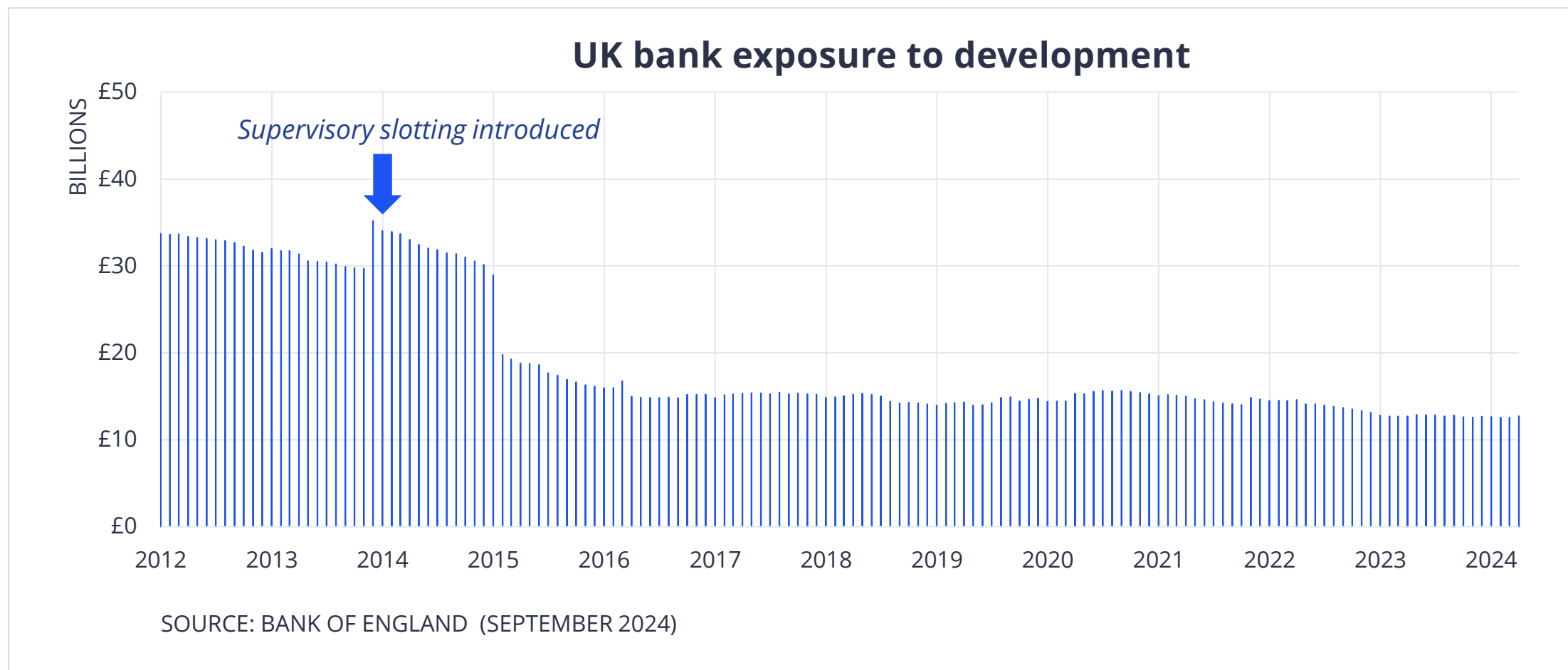
Especially for USD denominated investors. Exit yields strained !  
Higher bond yield – less scope for re-compression



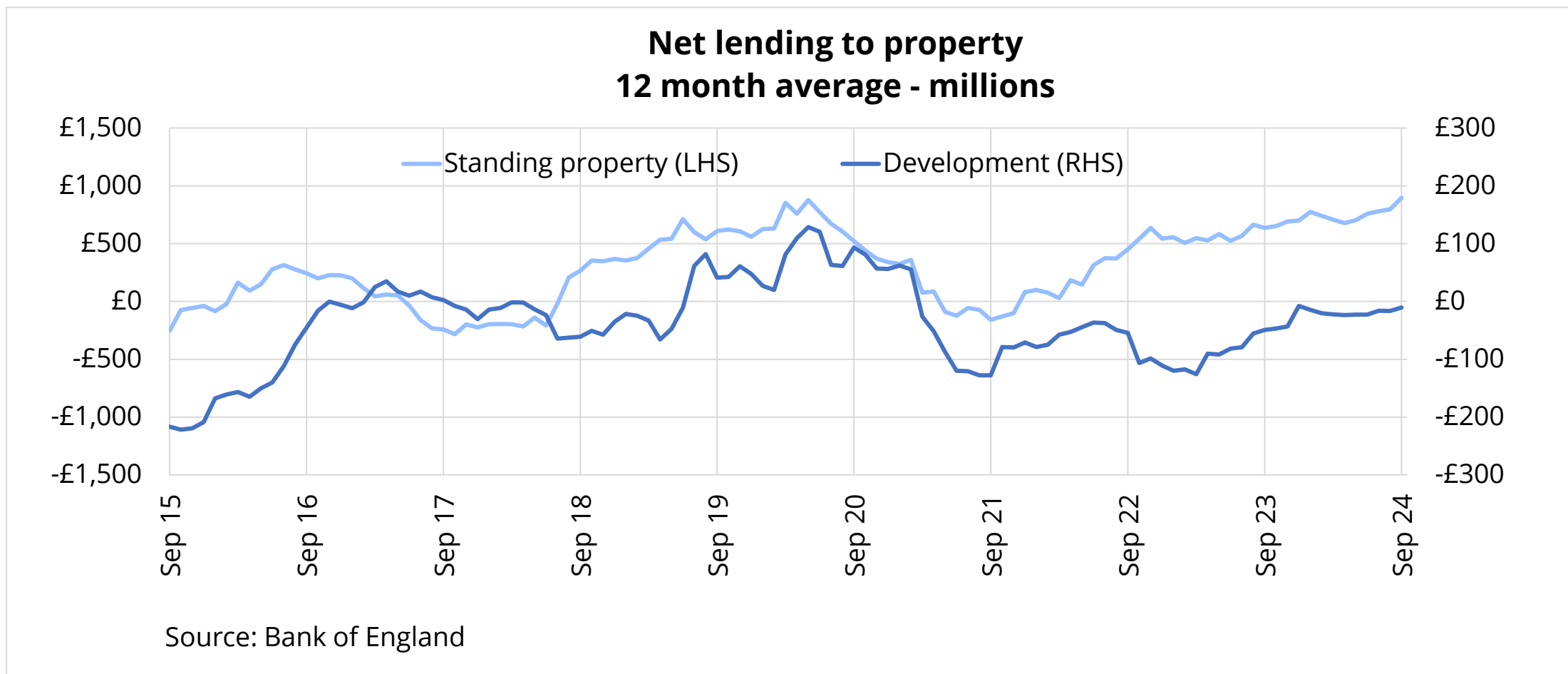


Still down by 65% against 2014

## Development debt conditions not improving

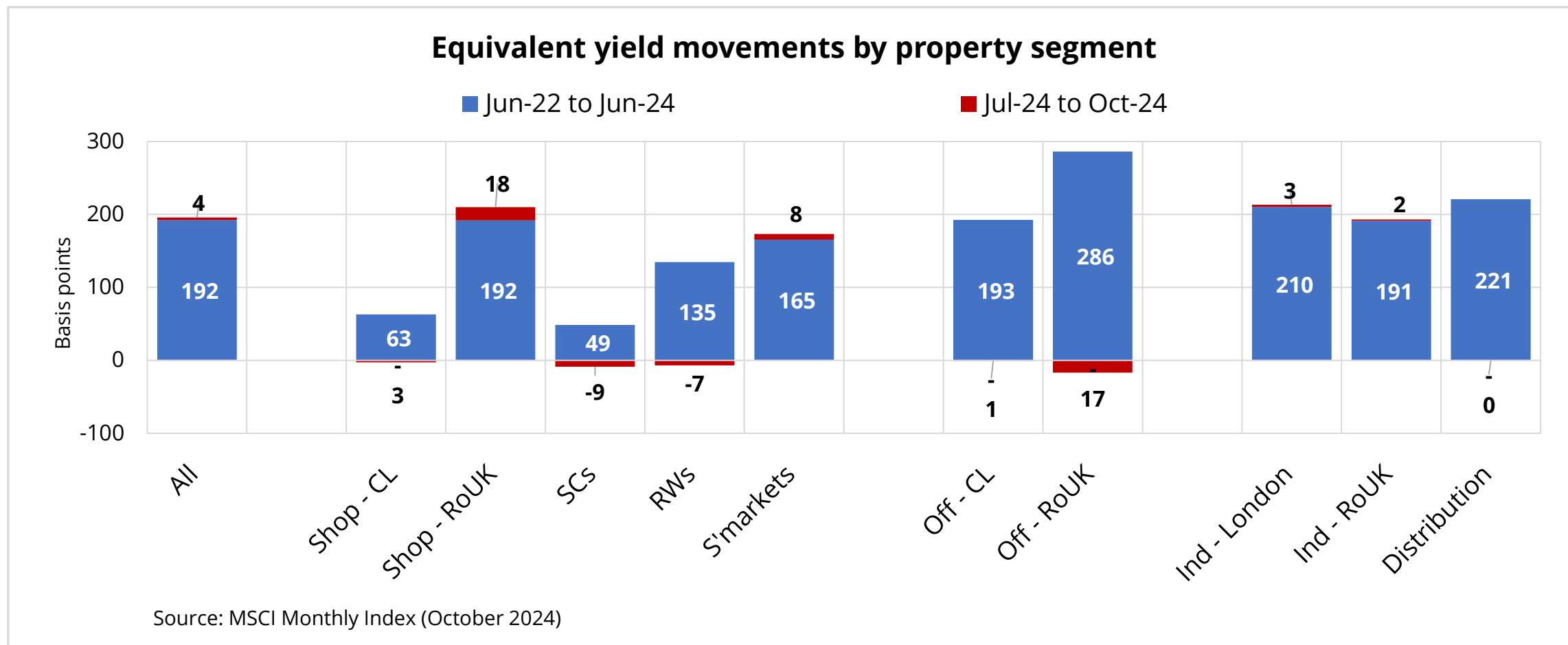


Up by 25% against 2014 but CPI up by 34% and RPI 51%!  
 Standing property debt conditions improving?



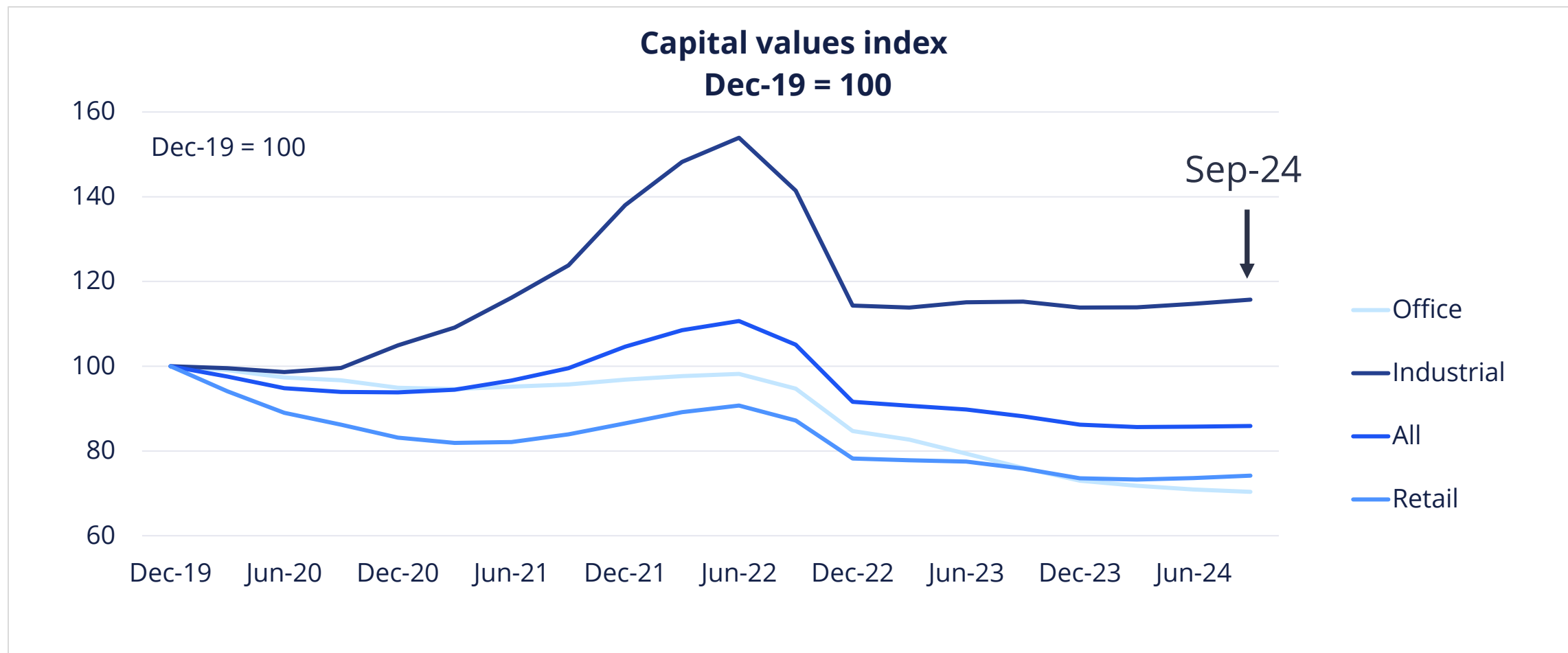
# Further price movements likely as transactional flow resumes

## Commercial property pricing stable



# Scope of value recovery in selected sectors

## Industrial is the outlier



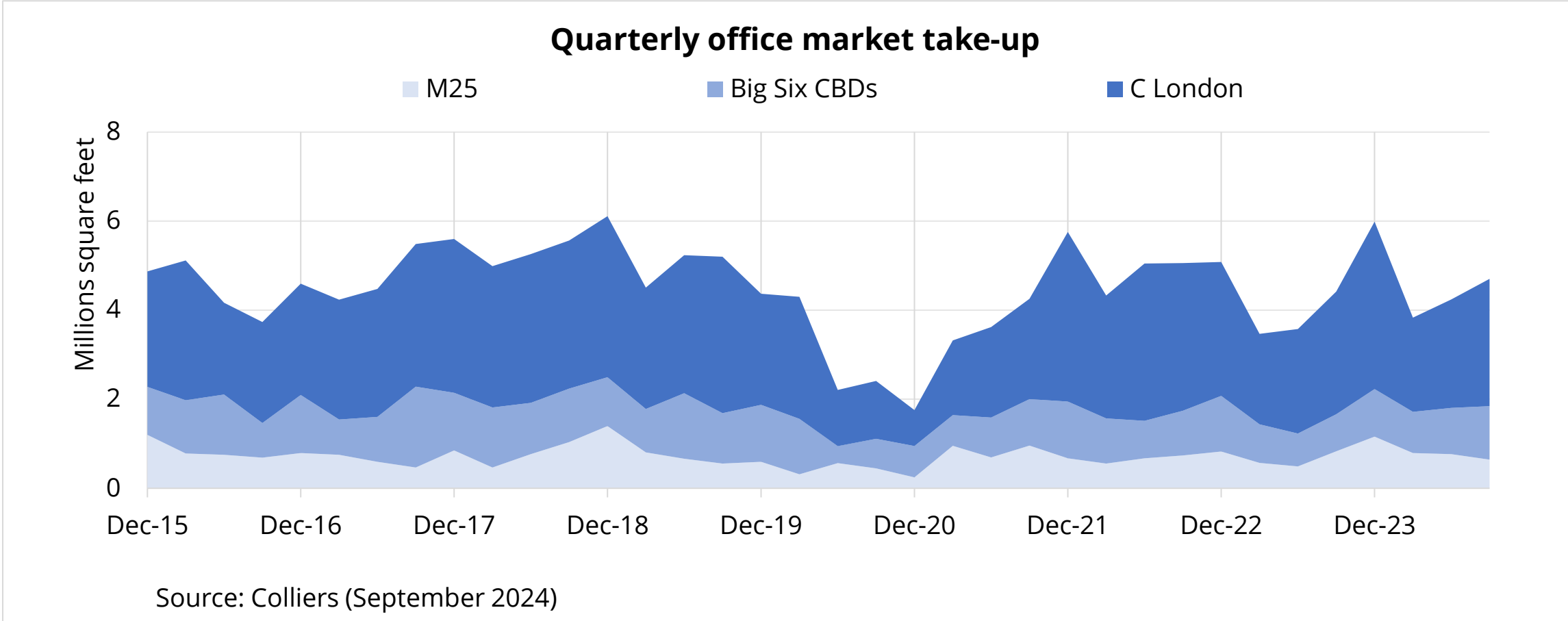
# Stabilising near pre-Covid levels

## Demand dynamics



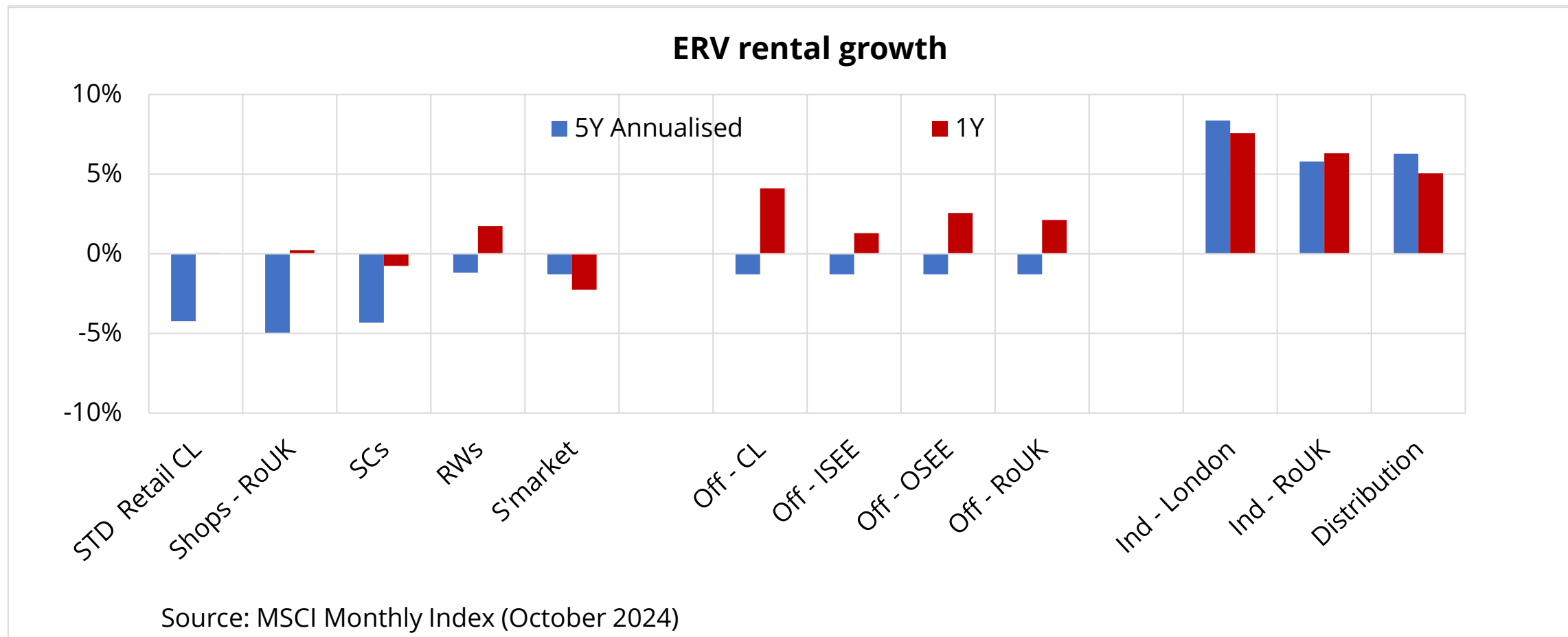
### UK office take-up jumps to a three-year high

Some big lettings push leasing up 25% year-over-year as business confidence grows



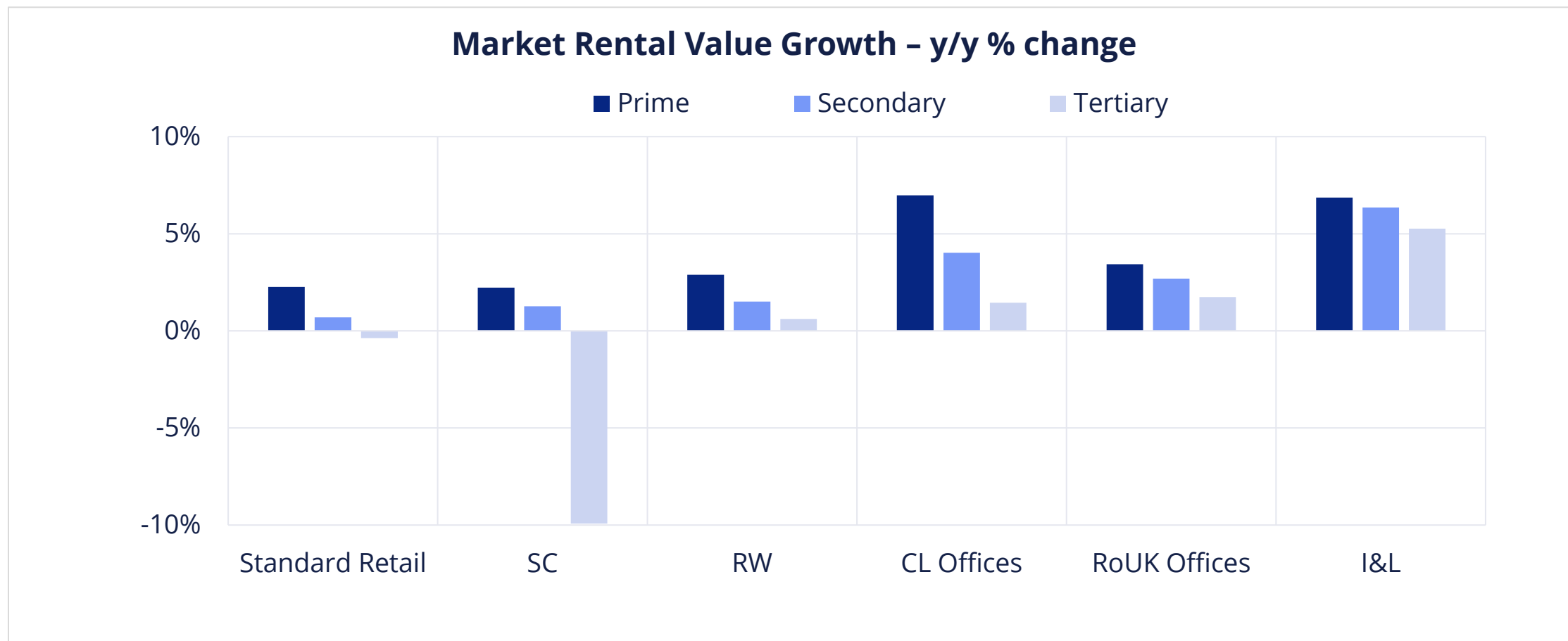
# Limited supply is the key ingredient

## Rental growth stable



Even for sub-prime assets

## Rental growth sustained across most asset types



# UK forecast to lead recovery in Western Europe

## Total Returns Commercial Property



Source: Capital Economics





## Section 4

A few notes about regional development

The slogan goes but the song remains the same?  
'Levelling up' out, 'MHCLG' in ???



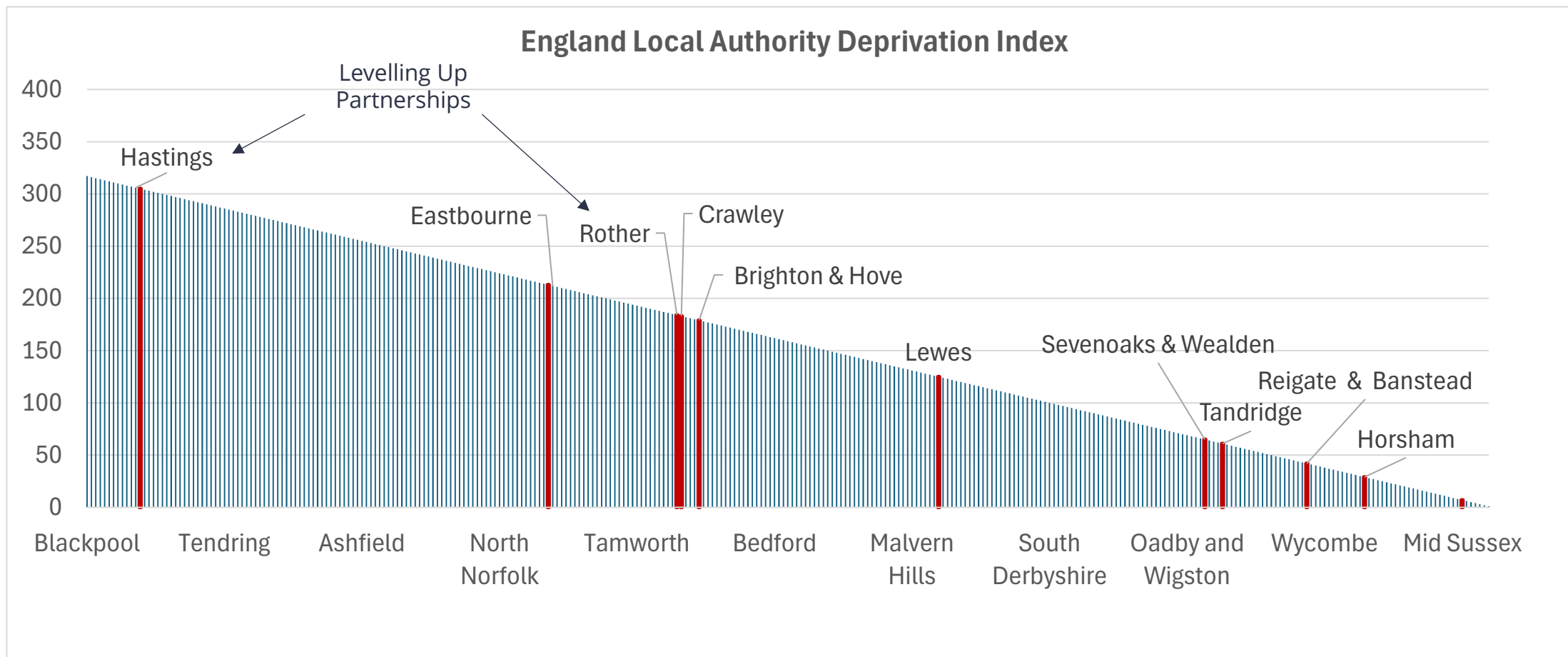
OUT



IN

# Government priorities may be focused further north

## MHCLG Government Deprivation Index



Remediation and regeneration is key

# Levelling up? ✓



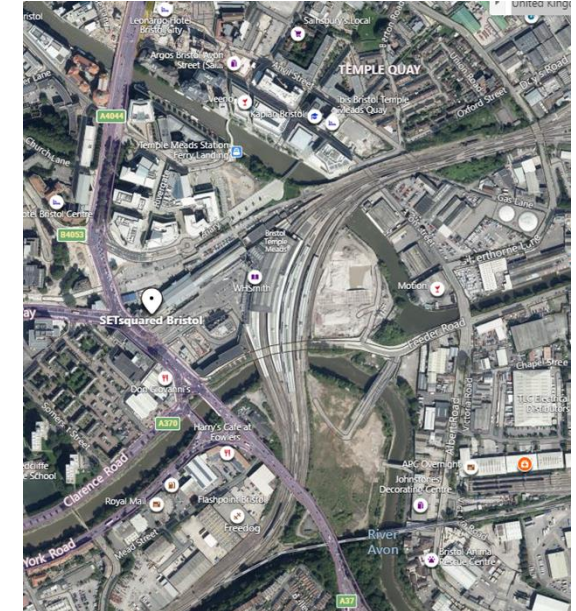
**NOMA Manchester**



**Paradise Birmingham**



**Bristol Temple Quarter**



**Leeds South Bank**



**Peterborough Station Quarter**

*If by 'levelling up' you mean regeneration, then evidence is abundant of projects across the UK enabled by local combined authorities, central government seed funding, and private investment.*

Remediation and regeneration is key

# Levelling up? ✓



Sir Howard Bernstein

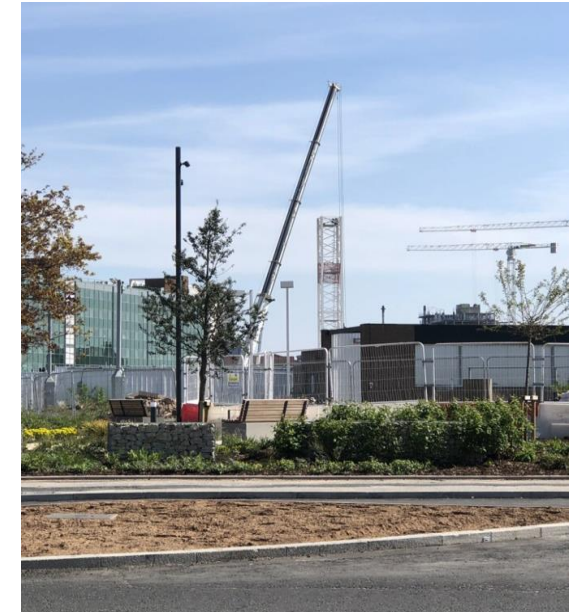
**NOMA Manchester**



**Smithfield Birmingham  
£1.9bn regeneration**



**Bristol Temple Quarter  
UOB Tops Out  
TQ Enterprise Campus**



**Leeds South Bank  
Aire Park**



**Fletton Quays &  
Passport Office Open**

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# MNWRL Initiative

## Private railway to Manchester



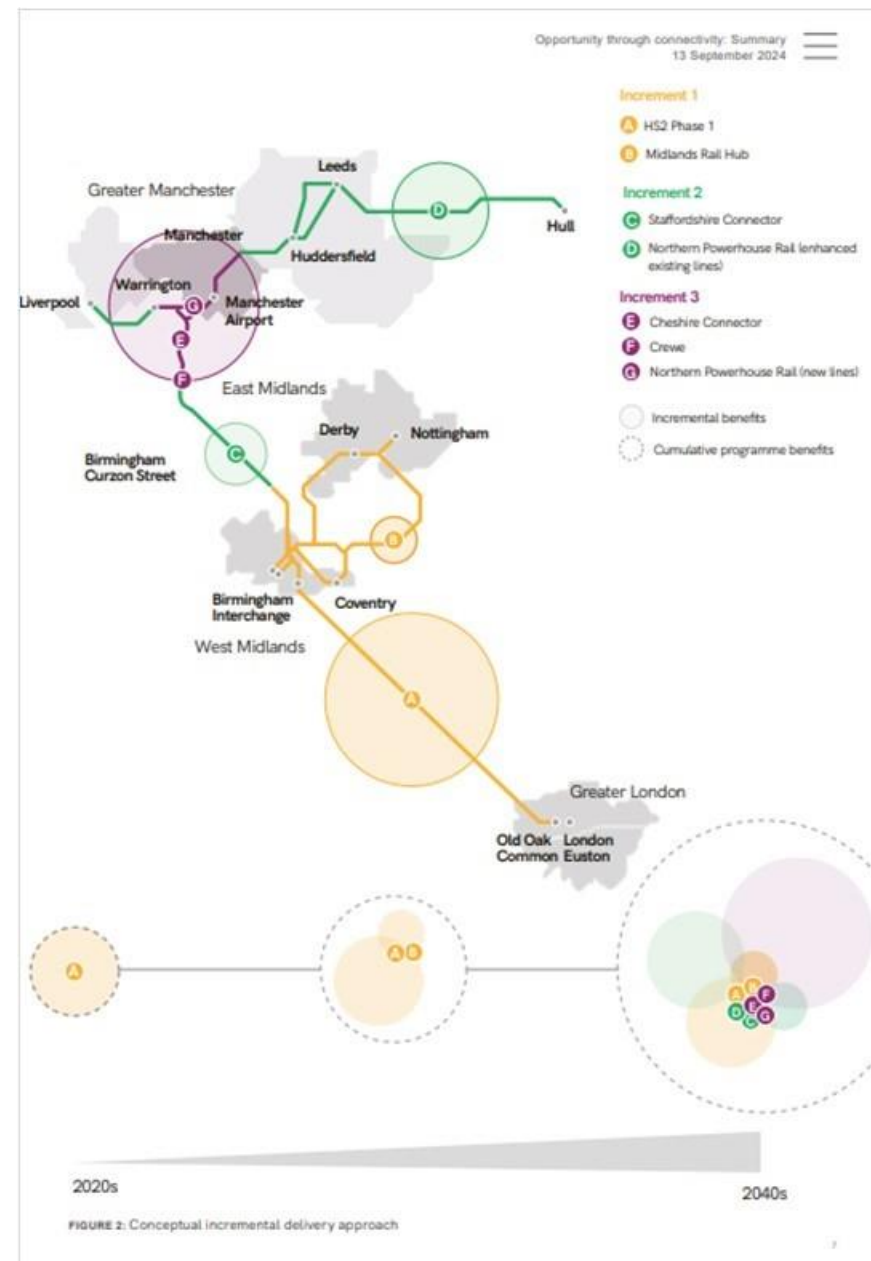
David Higgins  
United Utilities  
Gatwick Airport



Andy Burnham  
Mayor GMCA



Richard Parker  
Mayor WMCA



# Teesworks Development site for BP led net zero consortium Ground Zero of Net Zero





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