

Professional Conferences, Peterborough, 14th June 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

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

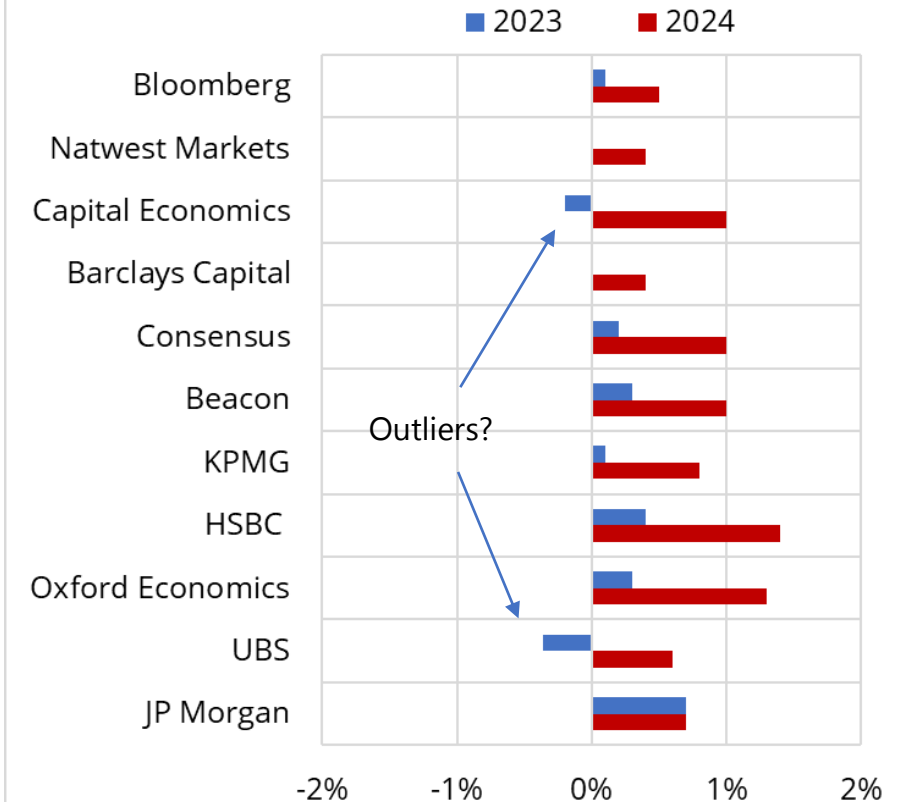
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- (BoE) November : 2.9% decline/longest recession in history
- (BoE) May : 0.25% rise in 2023 and 0.75% rise in 2024
- (HM Treasury May Consensus) :
 - 0.2% rise in 2023
 - 1.0% rise in 2024
- Noteworthy outliers (Capital Economics, UBS)



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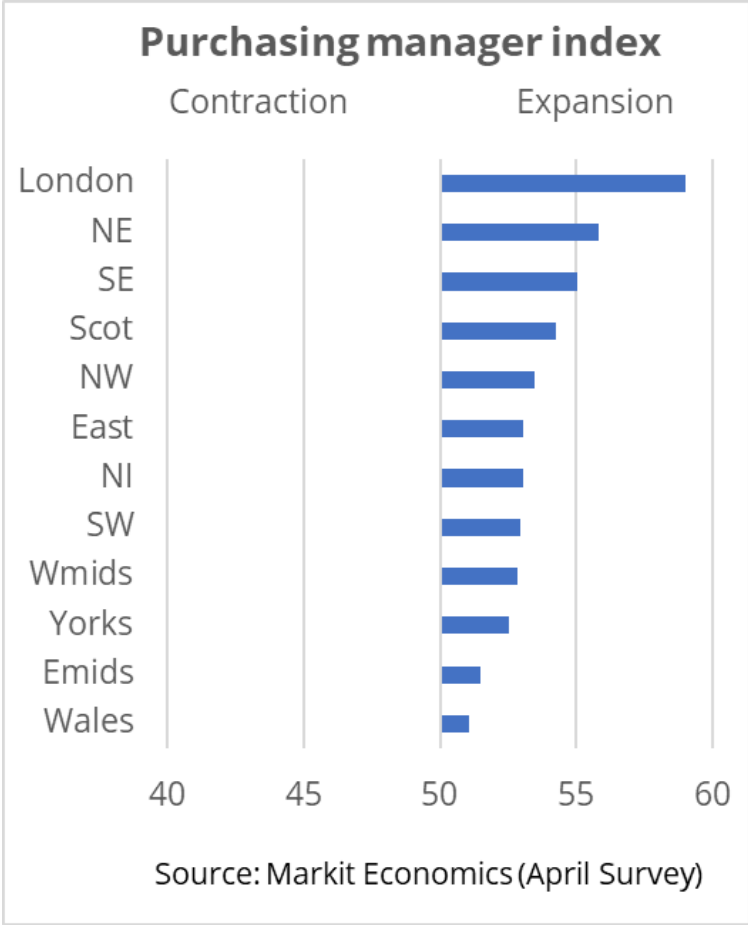
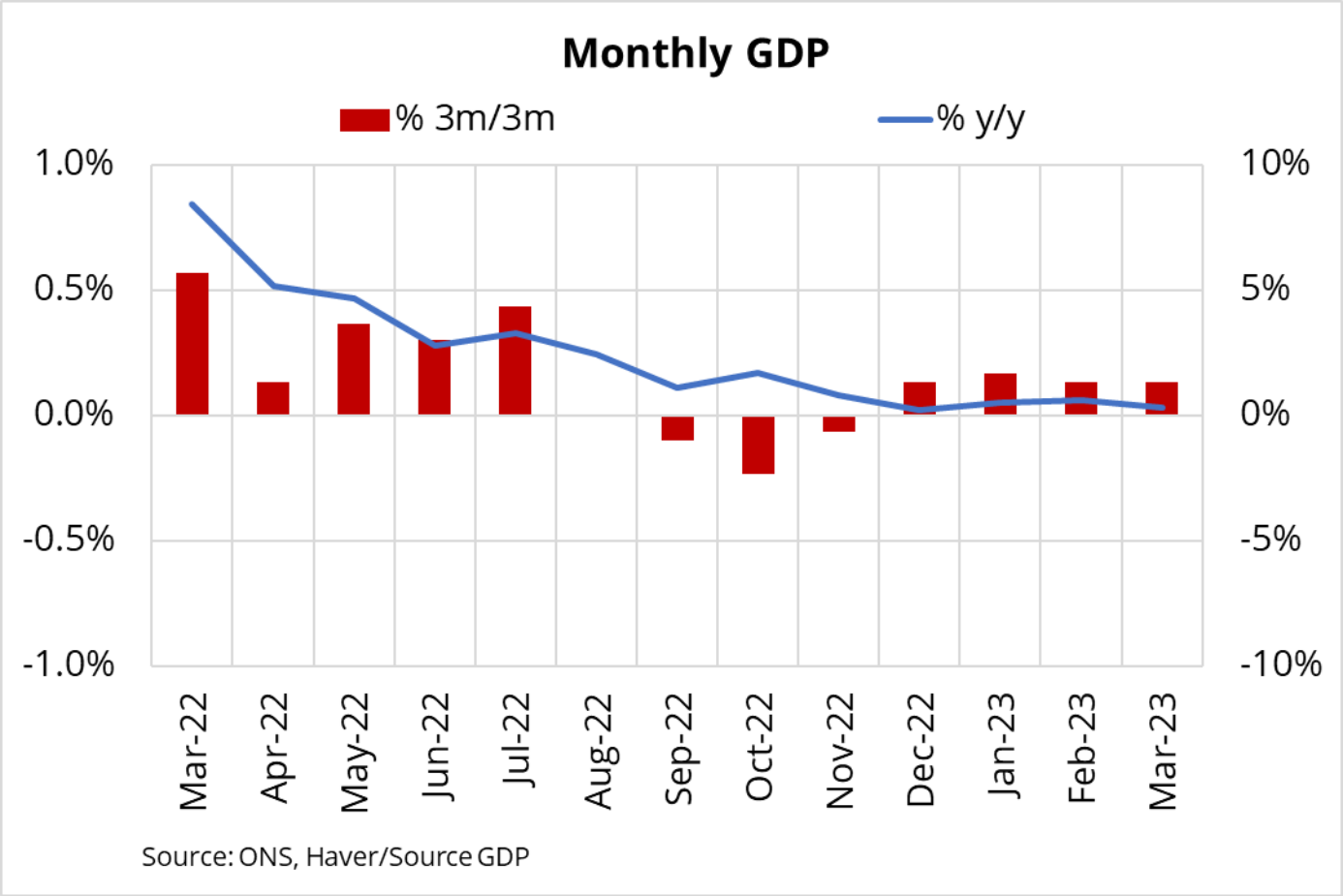
GDP economic growth forecasts



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

Bank of England monetary policy problematic

Economic performance upside surprises – pandemic ripples?



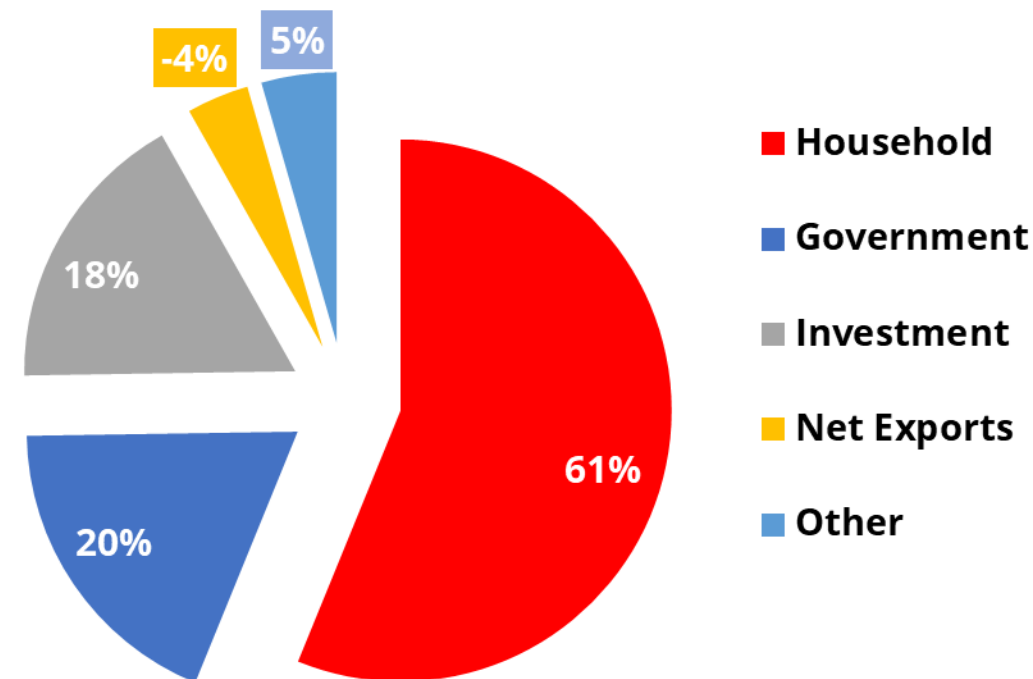
Household spending accounts for 61% of UK GDP

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 (-24 May) 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

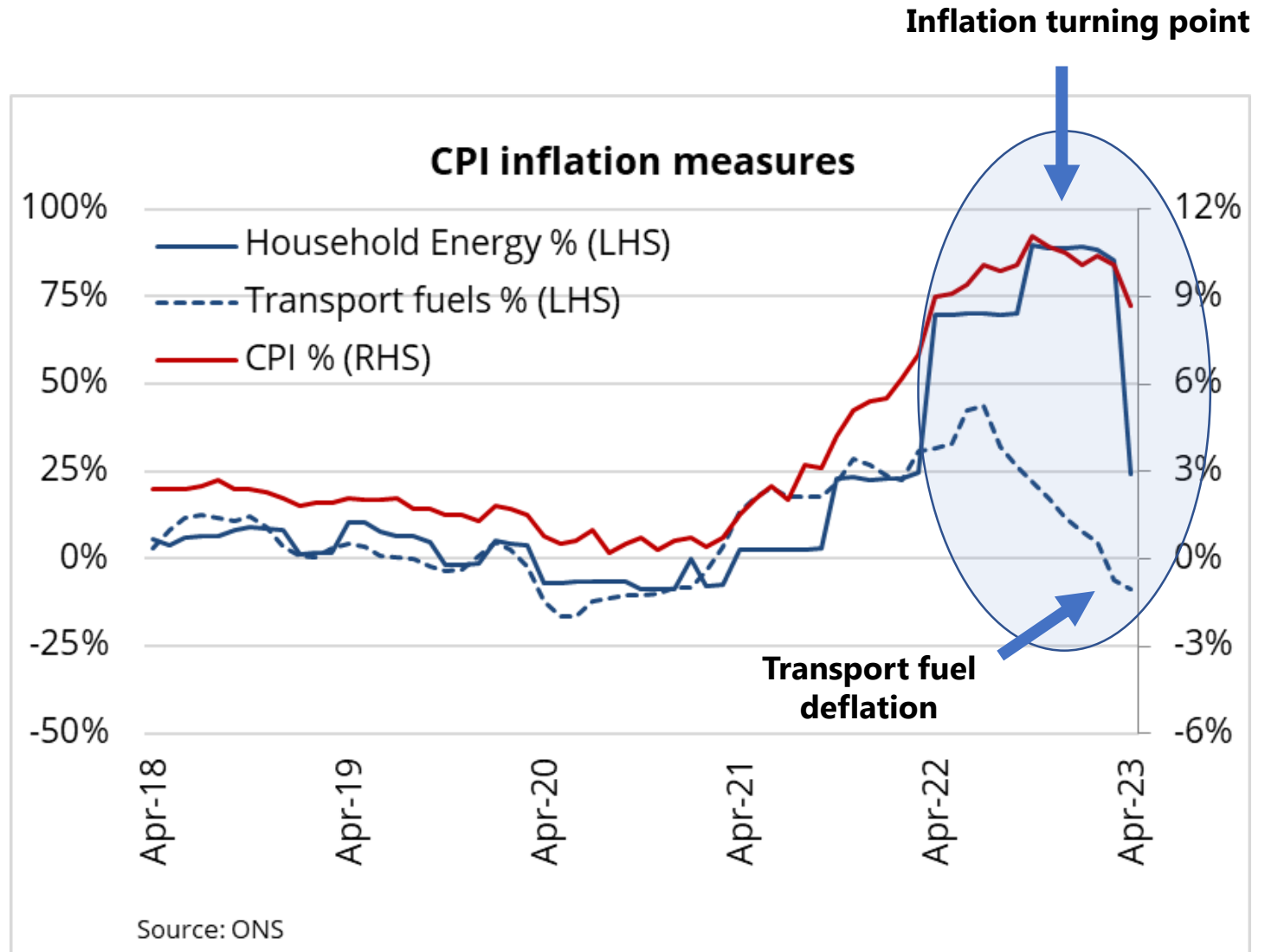


Source: ONS

Inflation set to fall rapidly in Q2/Q3 2023

Good news!

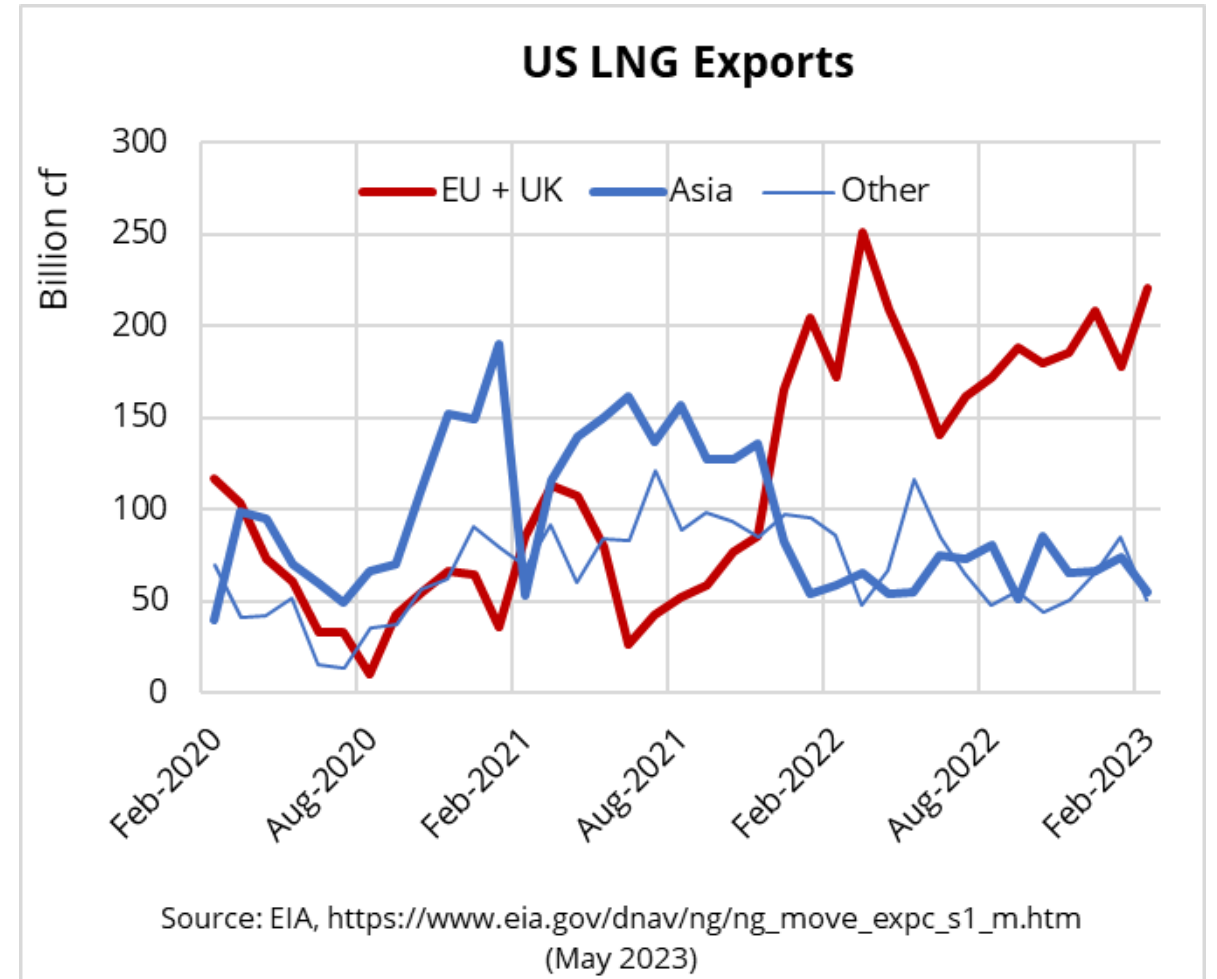
- Inflation to fall rapidly in Q2 23
- Fuel prices already deflating
- Ofgem cap to fall again in July!
- Consumer and business confidence will improve
- Economy stronger than expected (PMI – April 54.9 / May 53.9)
- Unemployment (Jan-Mar 3.9)
- Bank Rate may have peaked?



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!**



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



Colliers confidential

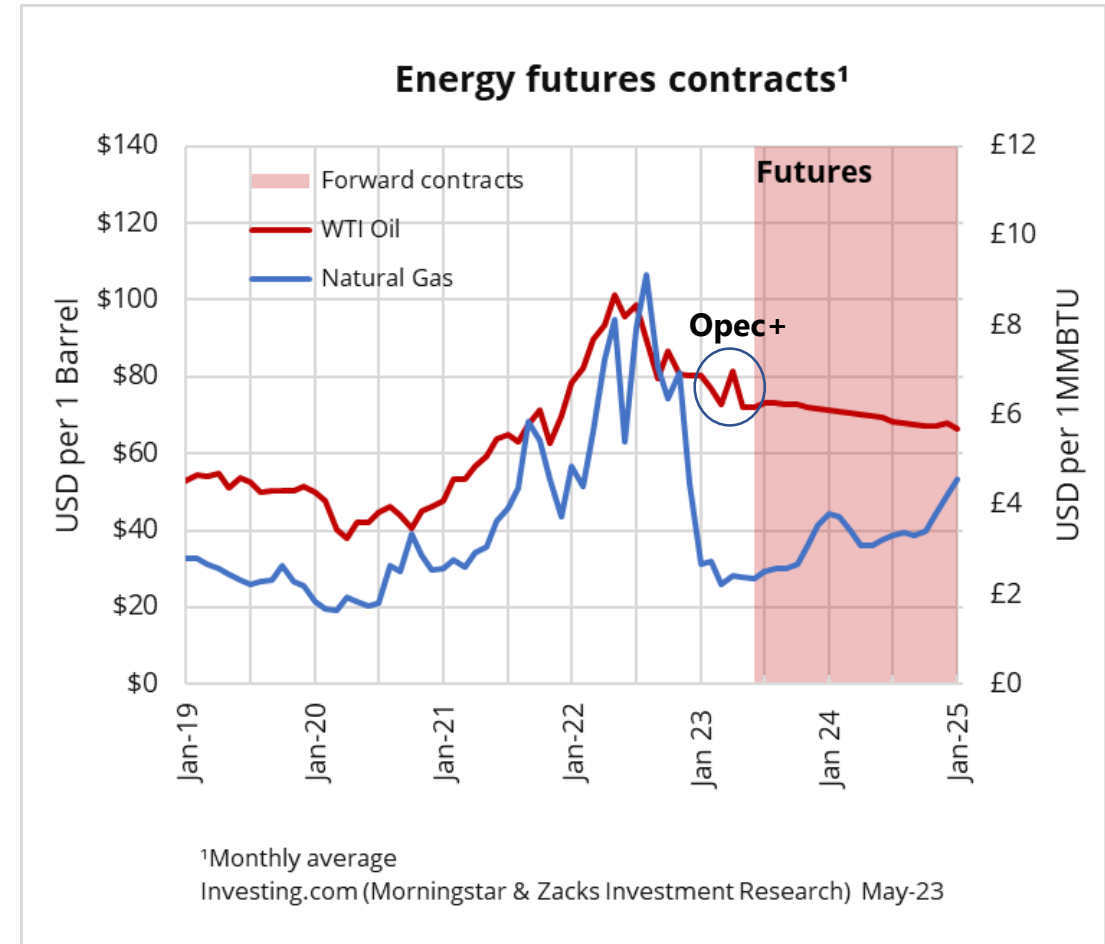


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Natural gas prices at 18-month low (pre-Russian aggression)

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	\$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%

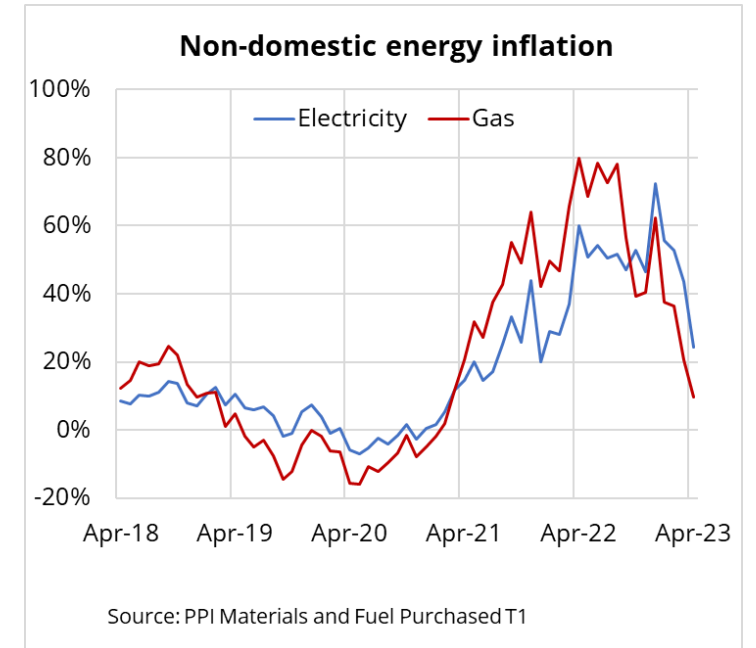
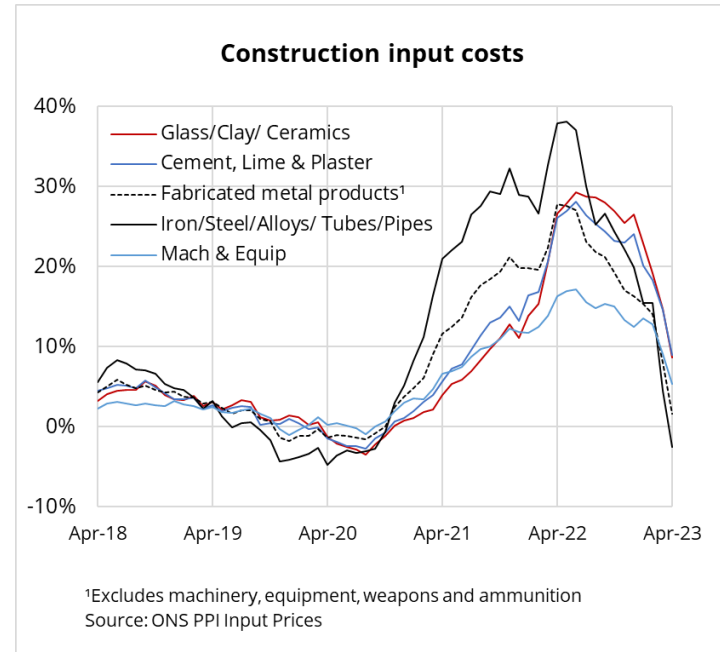
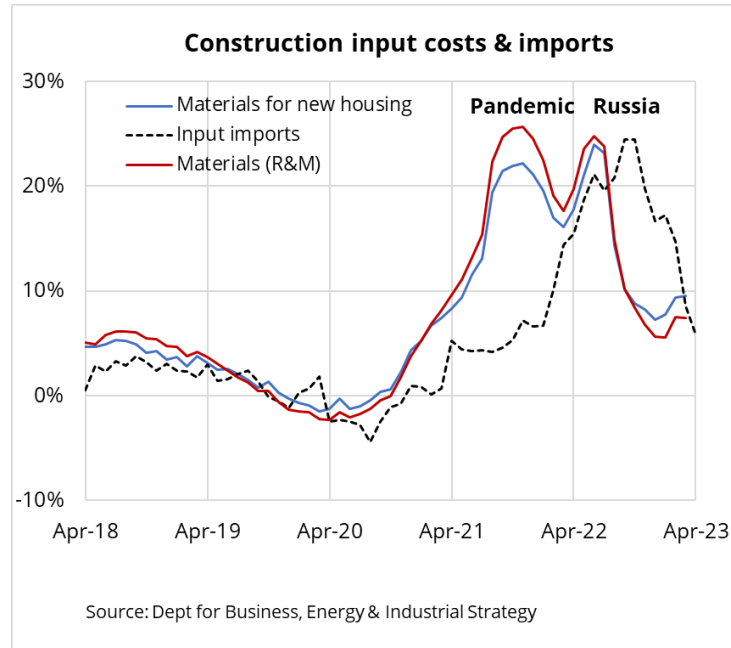
- Oil is stabilising this year in the low seventies per barrel
- But oil price *inflation* will be negative (deflation), because this year's price is being compared to last year's price
- CPI is a *year-on-year* comparison figure
- The 'base' is 2022 and is so high that this year's CPI figure will be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



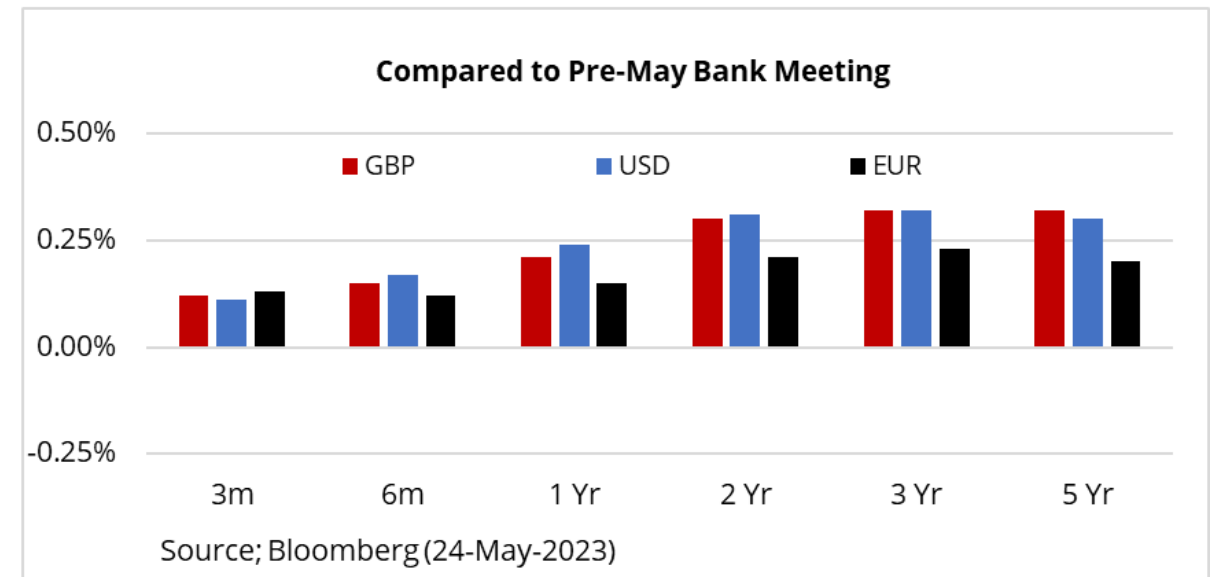
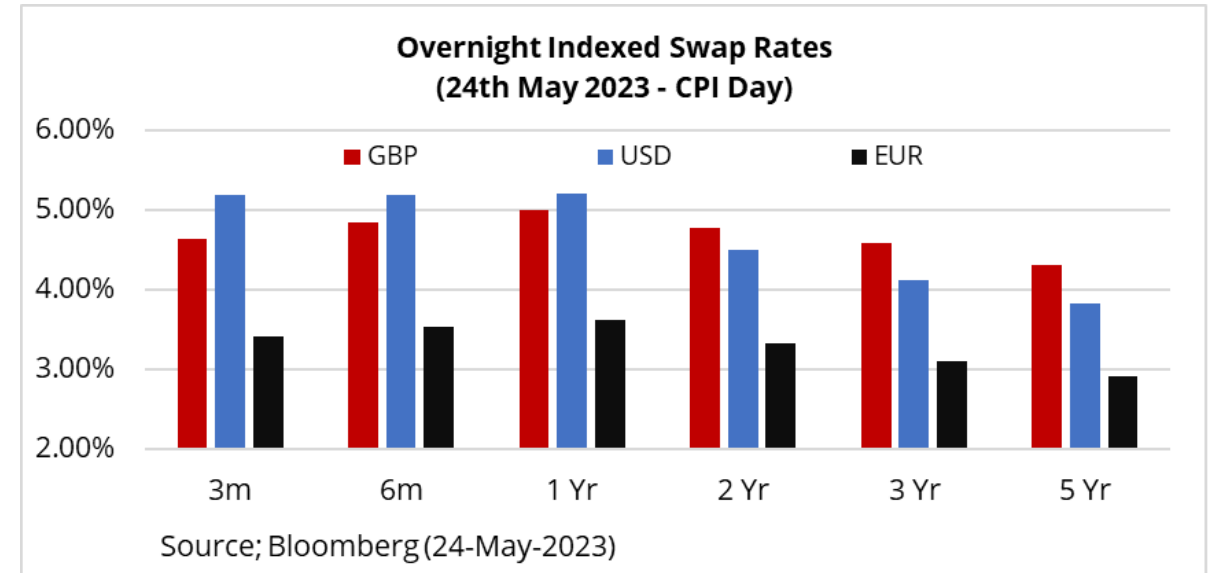
Swap rates suggest Bank Rate at or near peak

UK interest rate peaked?

- **Key dates to watch:**

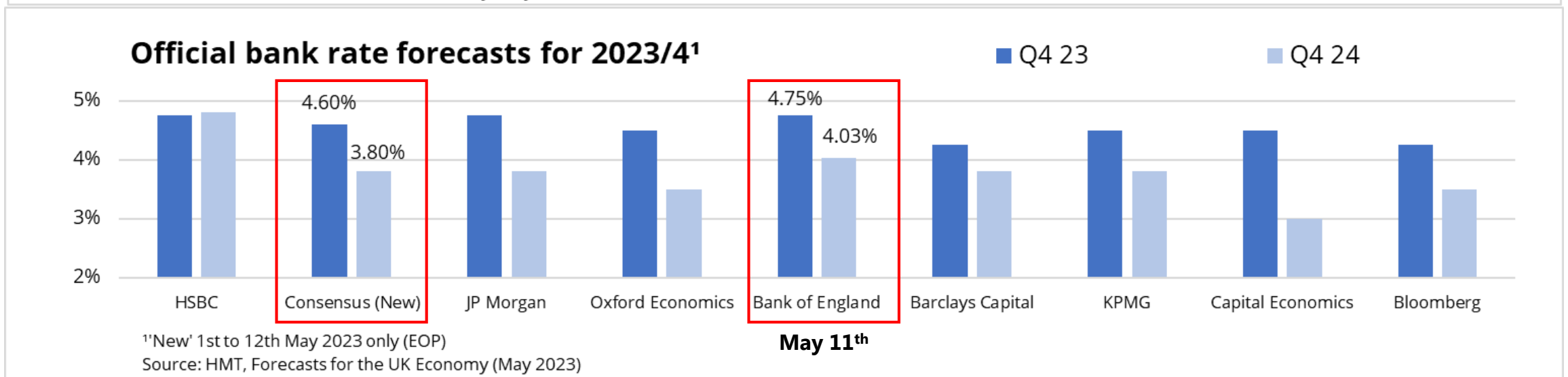
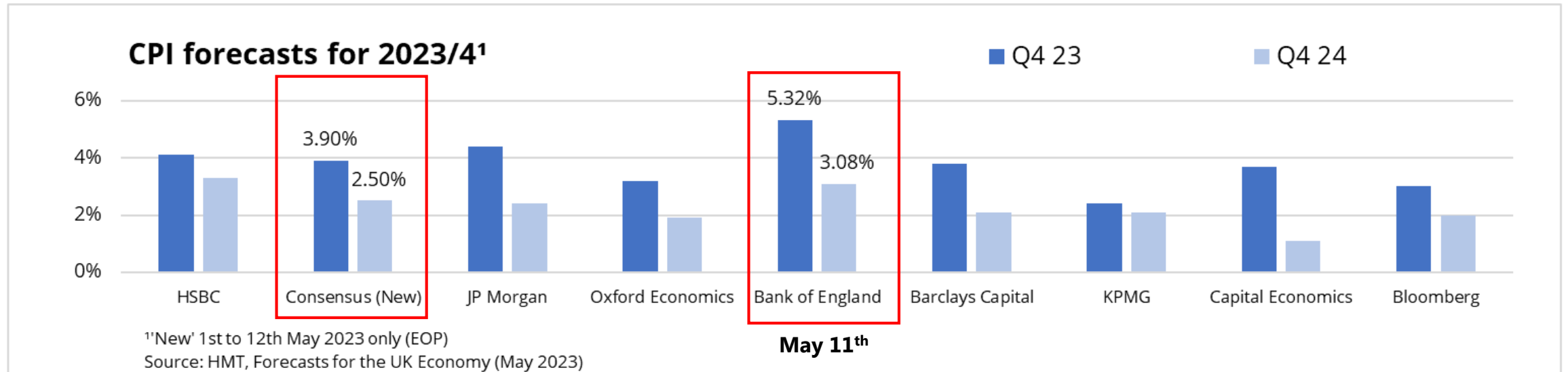
- ✓ (1) Spring Budget (15th March)
- ✓ (2) February CPI release (March 22nd)
- ✓ (3) Bank of England meeting (23rd March)
- ✓ (4) March CPI (19th April)
- ✓ (5) Bank of England Meeting (11th May)
- ✓ (6) April CPI (22nd May)
- (7) Bank of England Meeting (22nd June)**
- (8) July CPI (10th August)**

- April CPI eases, 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



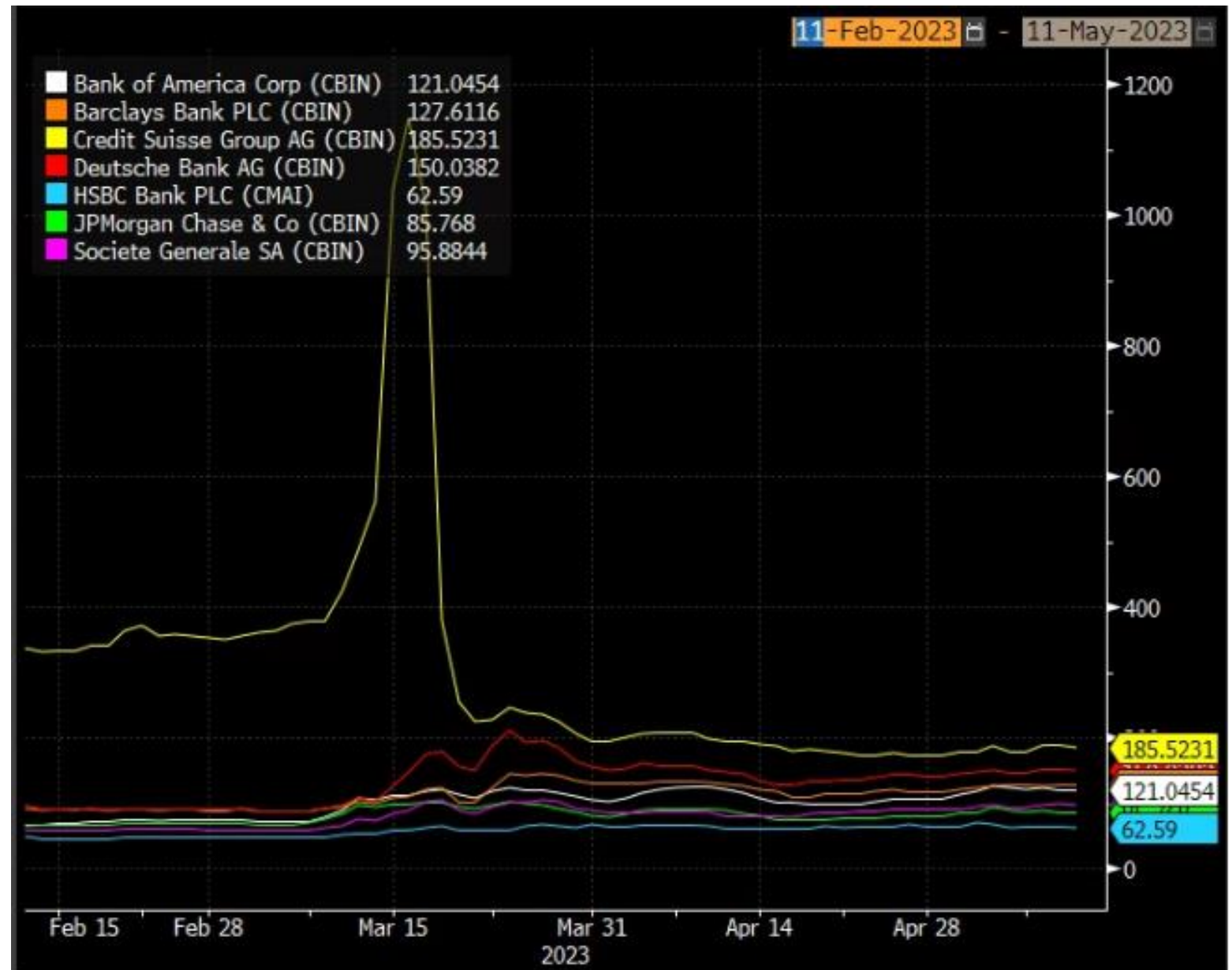
The Bank Rate may have peaked?

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?

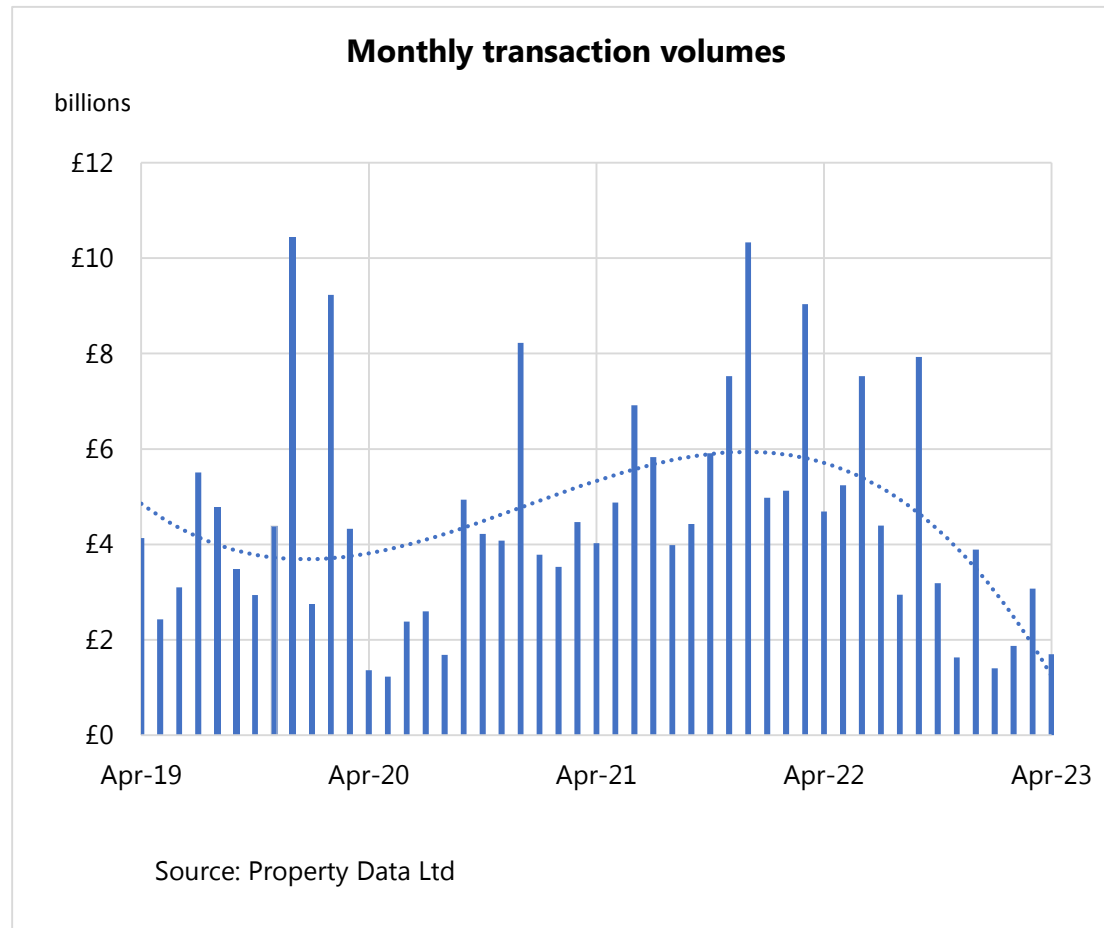


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Uncertainty and rising cost of debt prompting re-appraisal

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!**

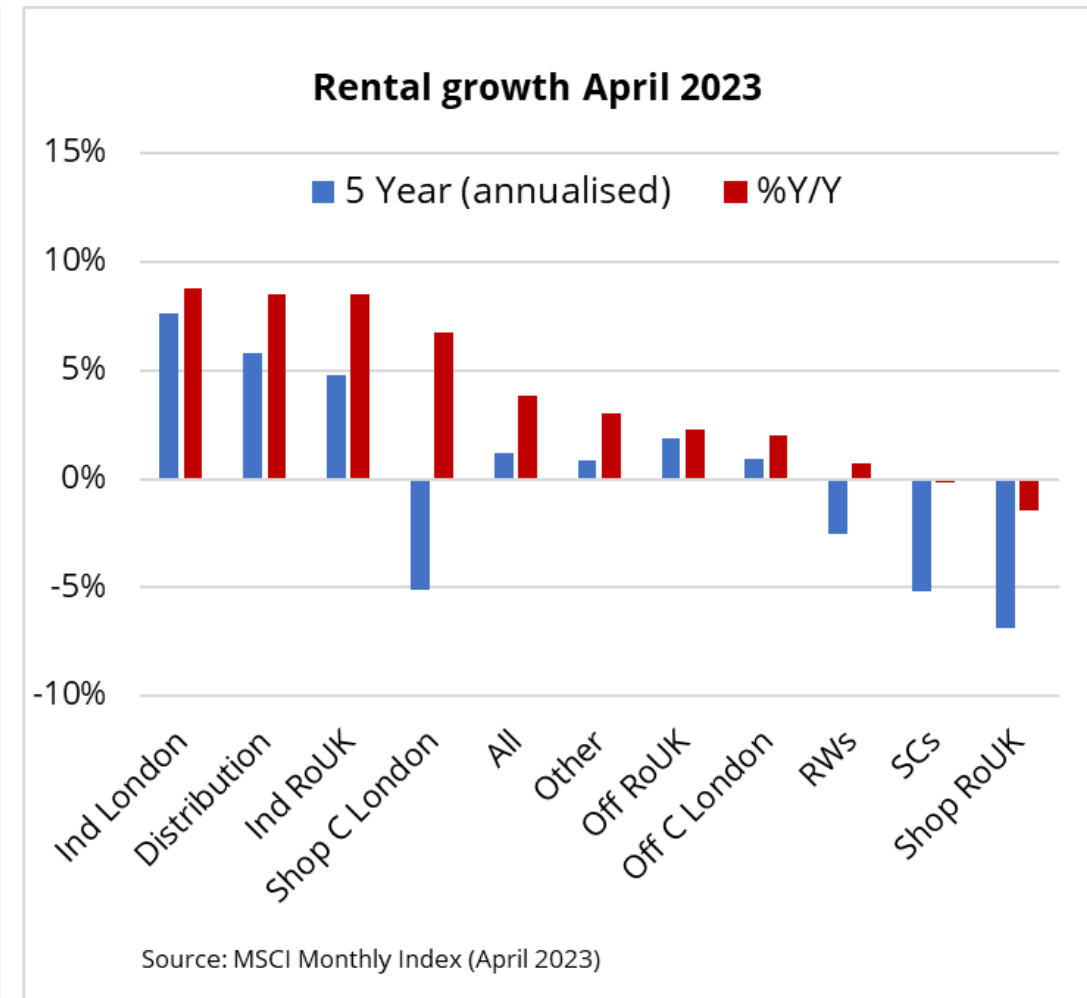
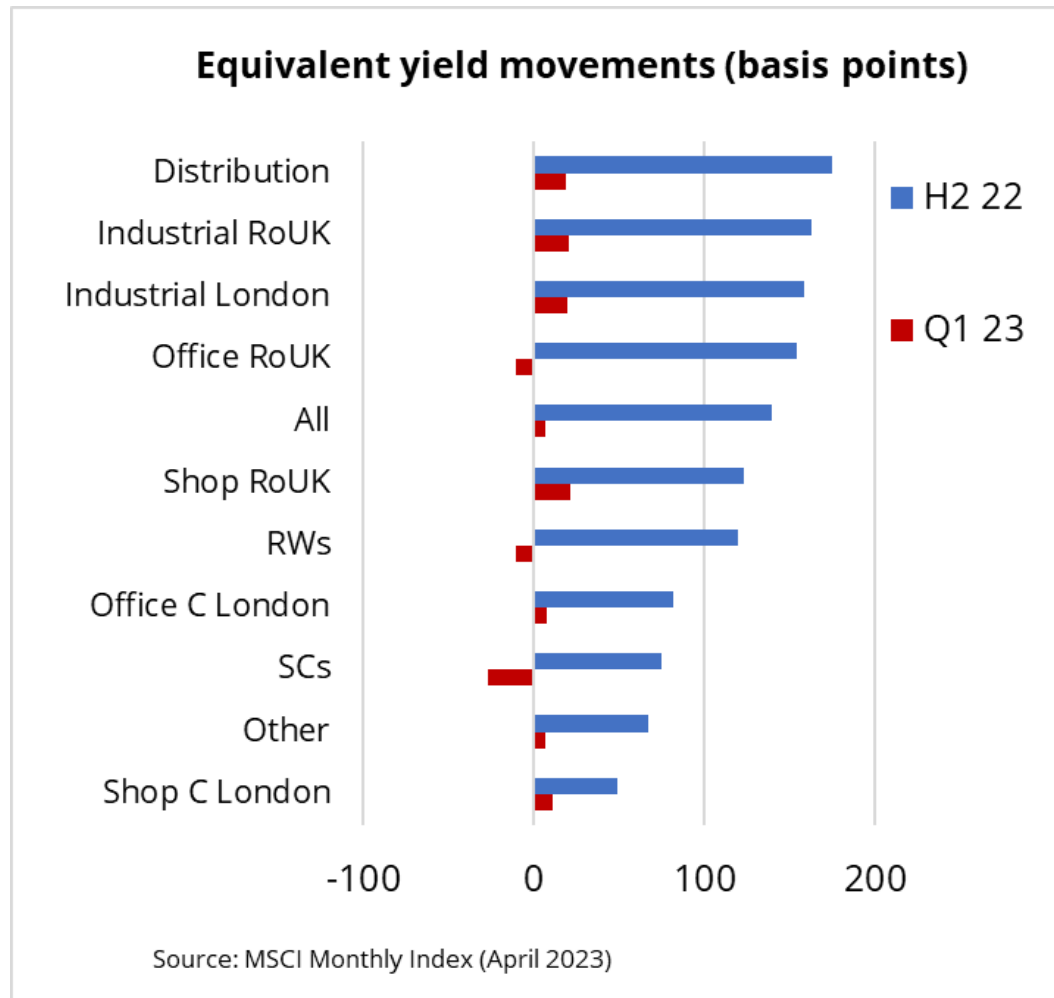
Return expectations

Risk profile

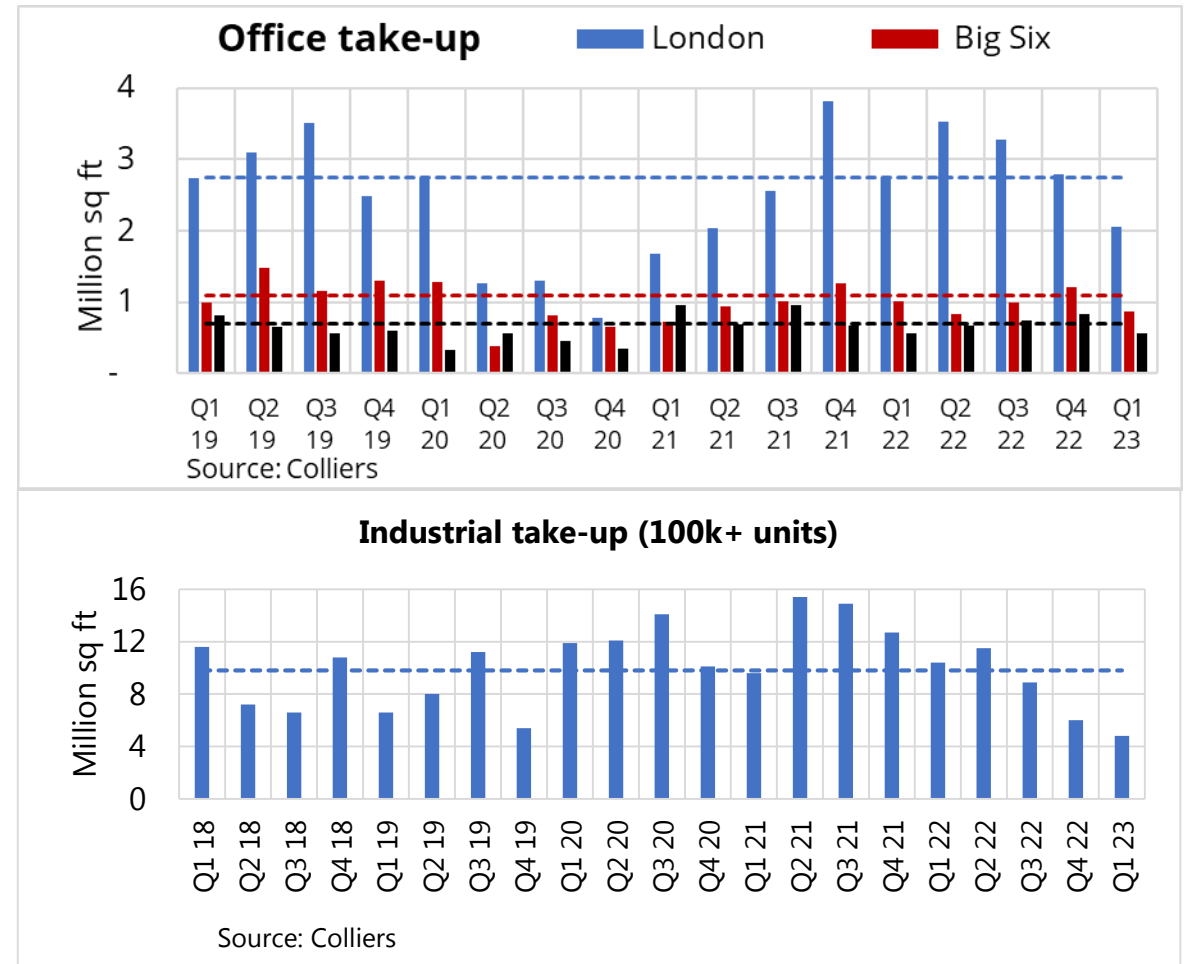
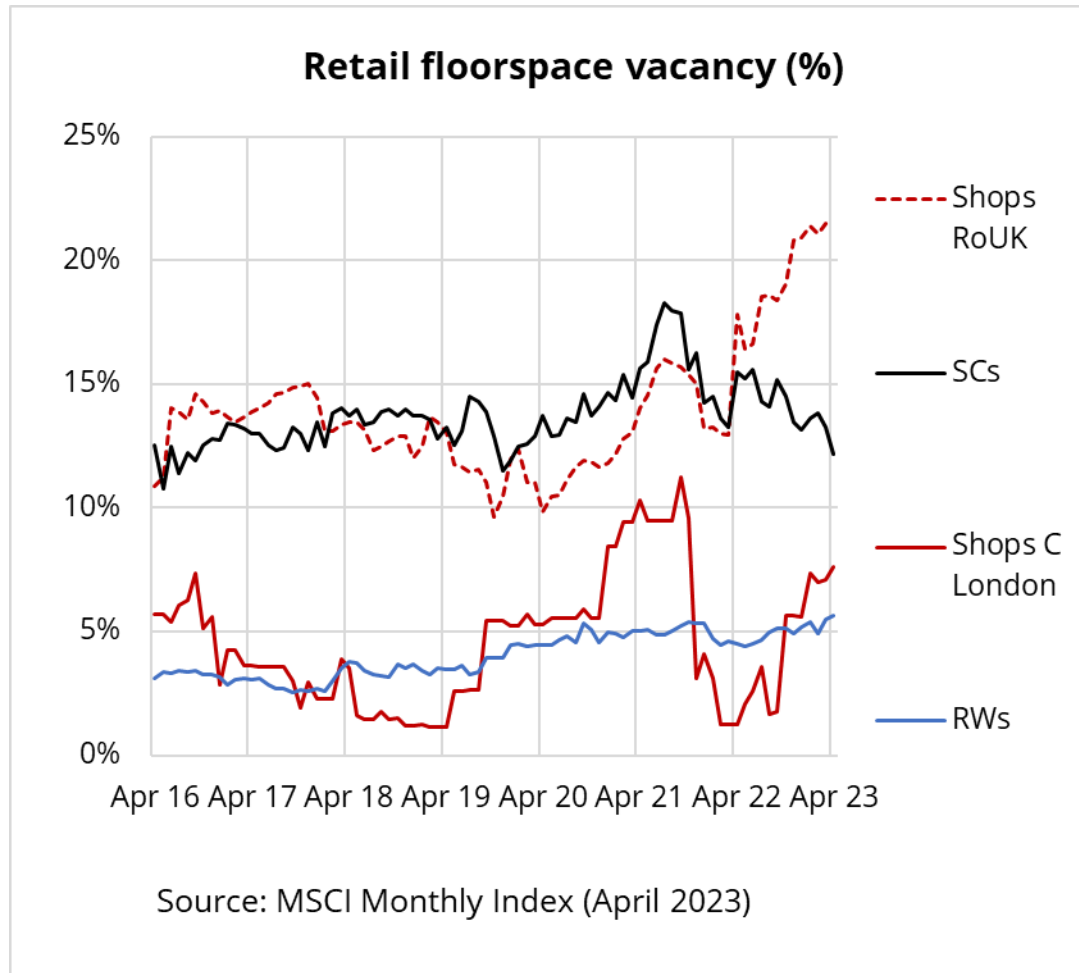
2019	2022	2023	
17%+	15%+	20%	Opportunistic
12-17%	10-15%	12-15%	Value-add
8-12%	7-10%	8-12%	Core+
5-8%	4-7%	6-8%	Core

Occupier markets stabilising, but ESG impact not yet visible

2022 price shift substantial, limited scope for yield expansion?

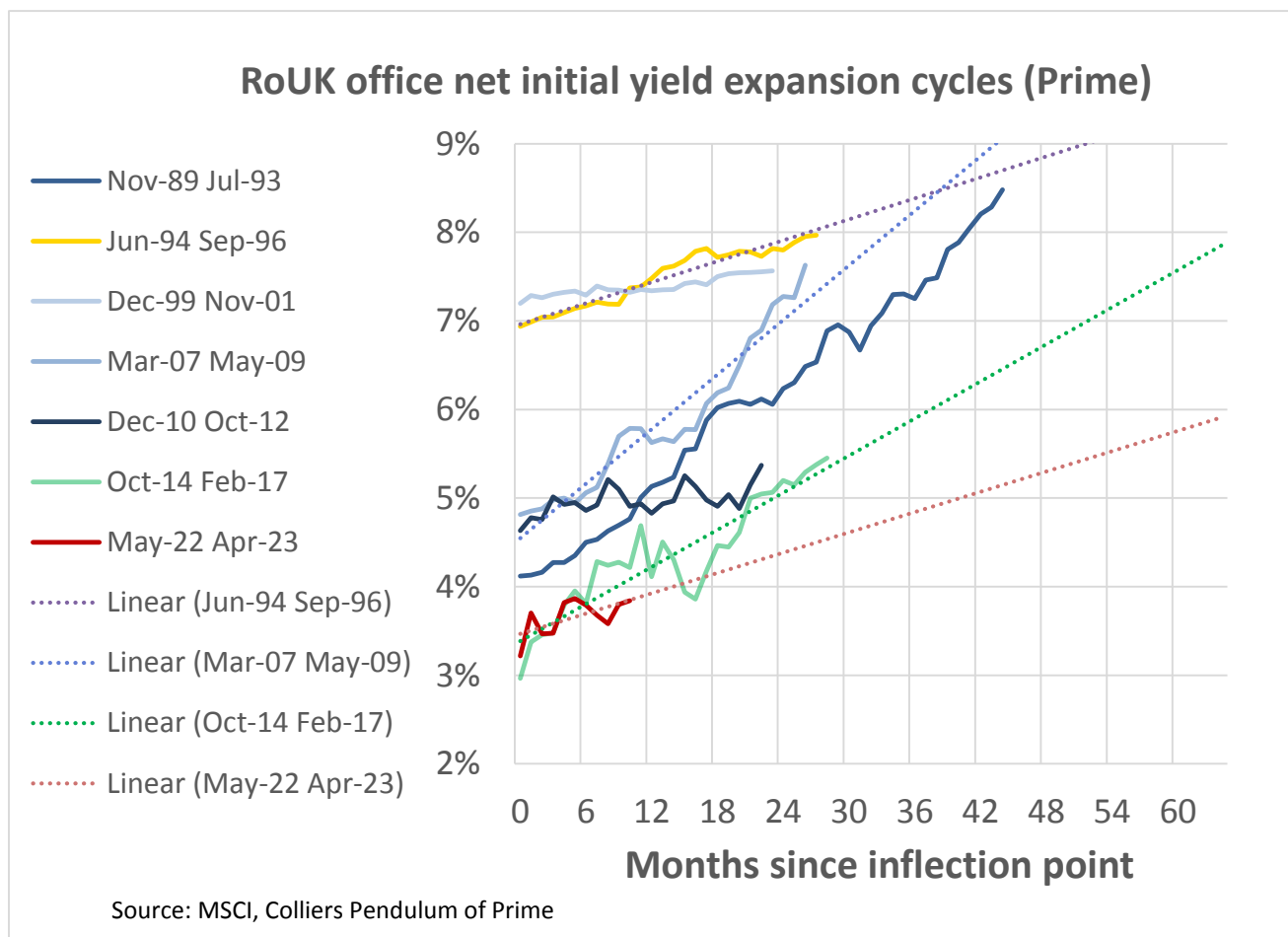


Demand conditions stable despite ESG and structural change . . . So far Pricing correction substantial, limited scope for yield expansion?



Cycles are shaped by conditions in financial and property markets

Yield expansion cycles

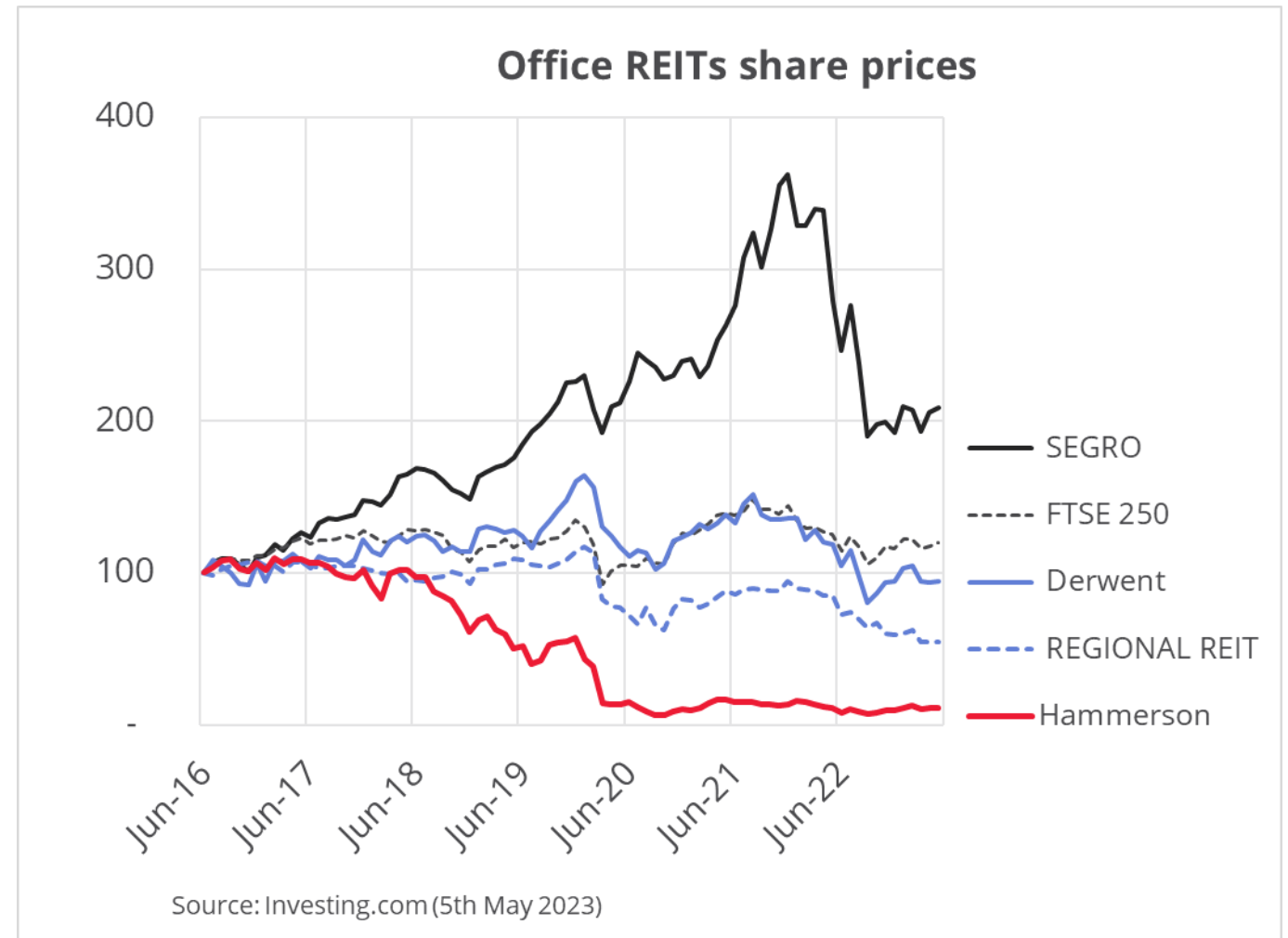


- Yield expansion cycles variable in length and amplitude
- Rate of change and duration depend on numerous variables including:
 - *Yield departure point*
 - *Ten-year bond level*
 - *Weight of capital*
 - *Debt availability & cost*
 - *Risk perceptions*
- The latest price movements appear to be moving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

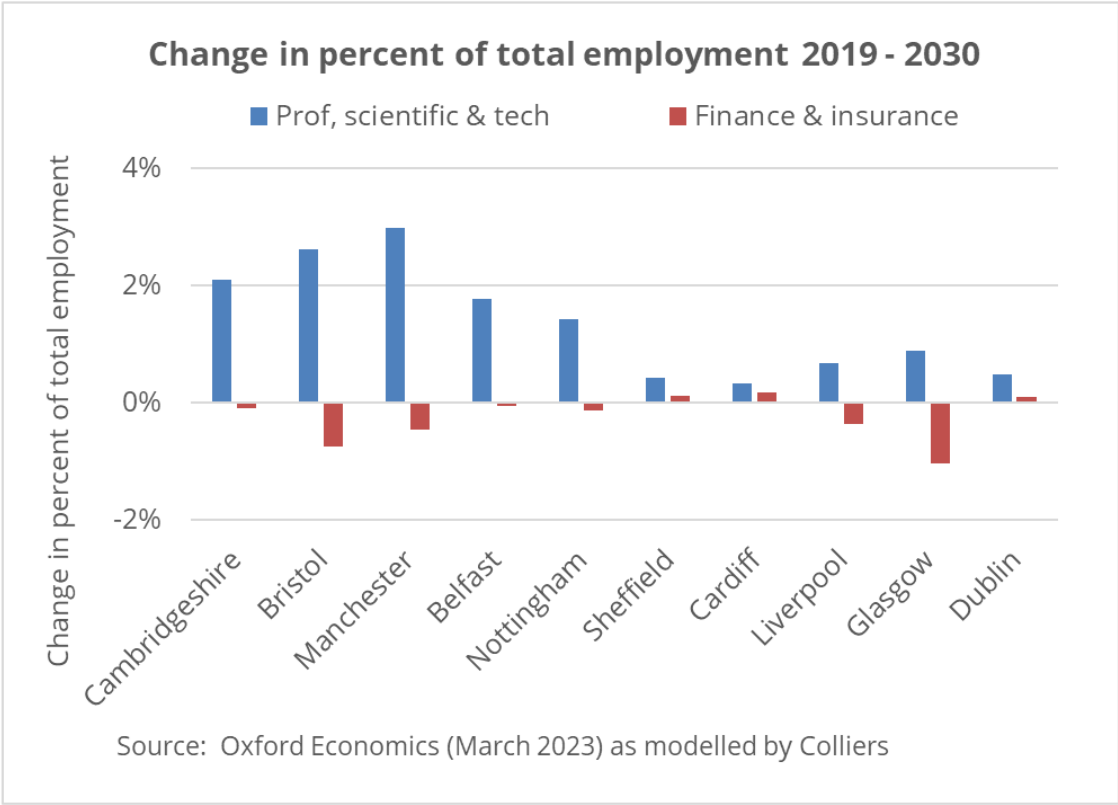
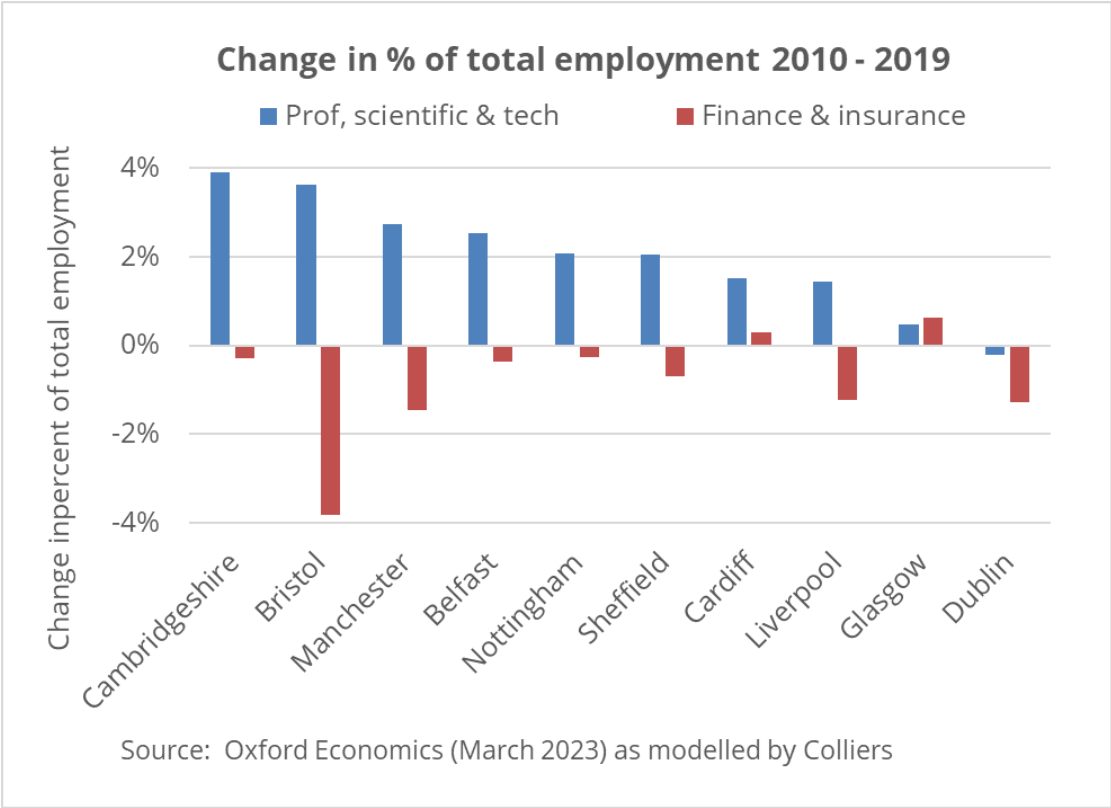
Structural change

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



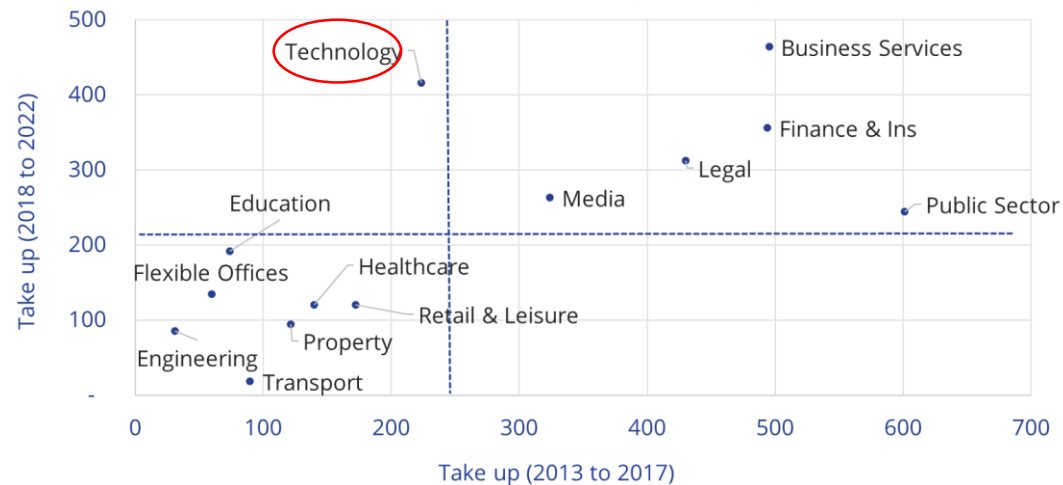
Financial services giving way to professional and technical employment?

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

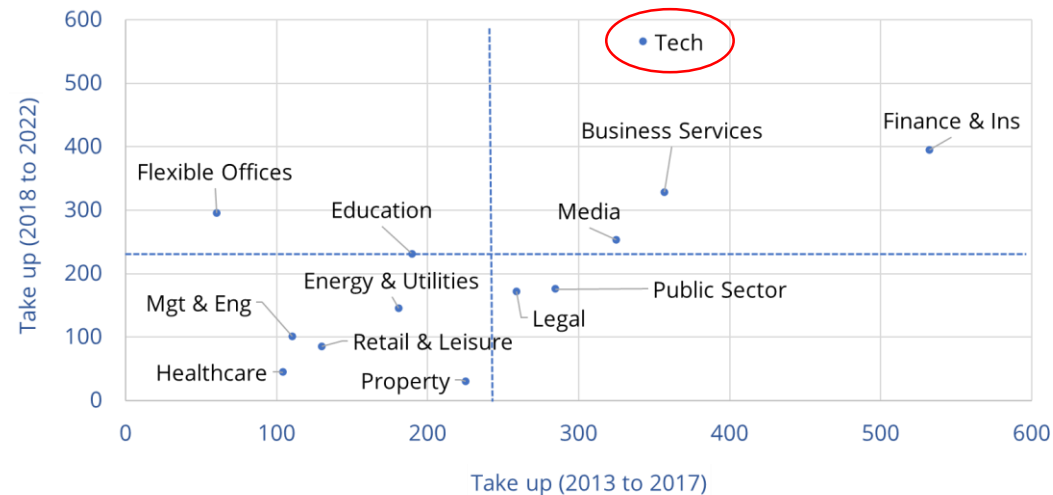


Take up summary

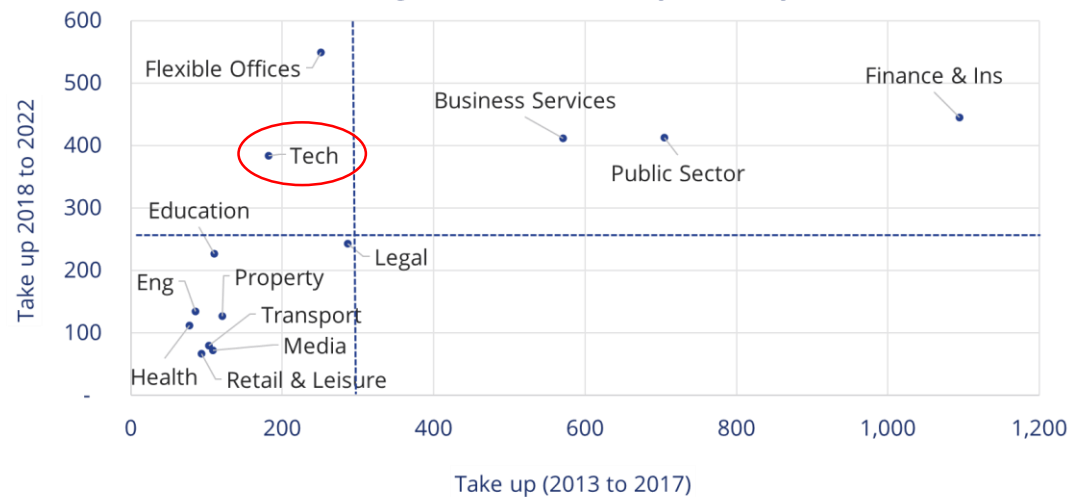
Leeds Office Take-Up - '000 sq ft



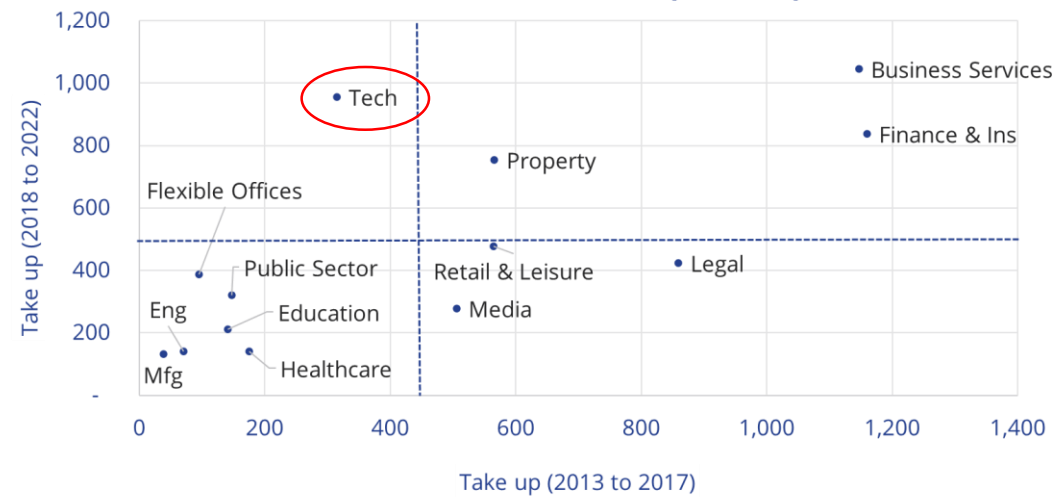
Bristol Office Take-Up - '000 sq ft



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'

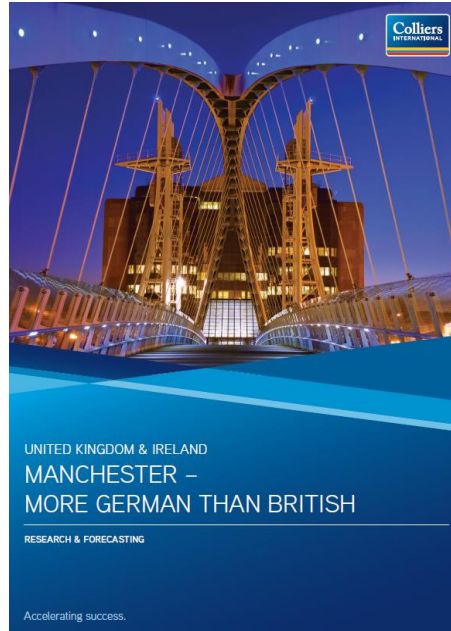
The Tory grandee on turning 90, 'levelling up' Liverpool — and whether Britain will rejoin the EU

- 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

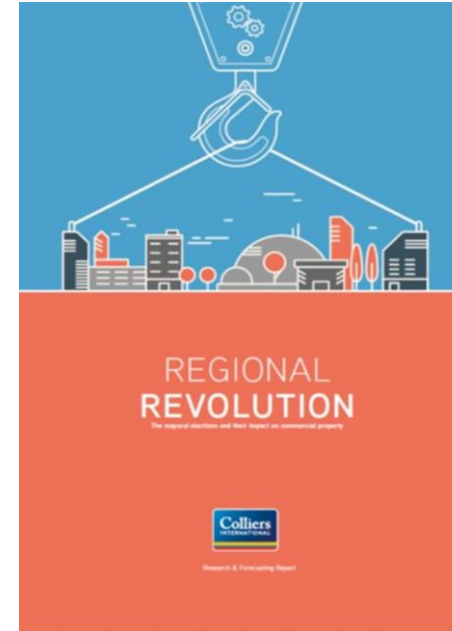
Agglomeration



Regional Revolution I:
Building the UK
Powerhouses, 2014

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

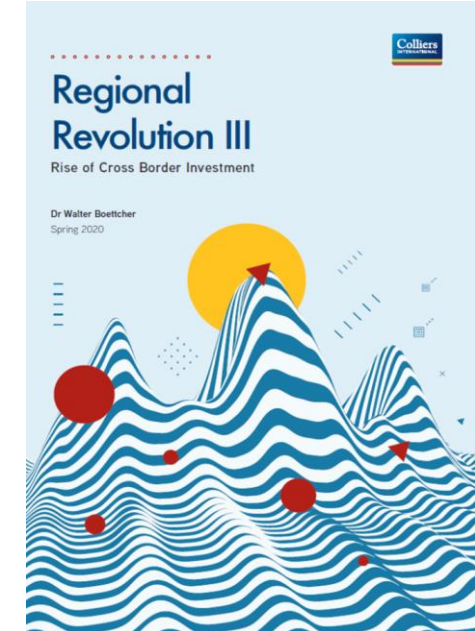
Management



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**

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

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**

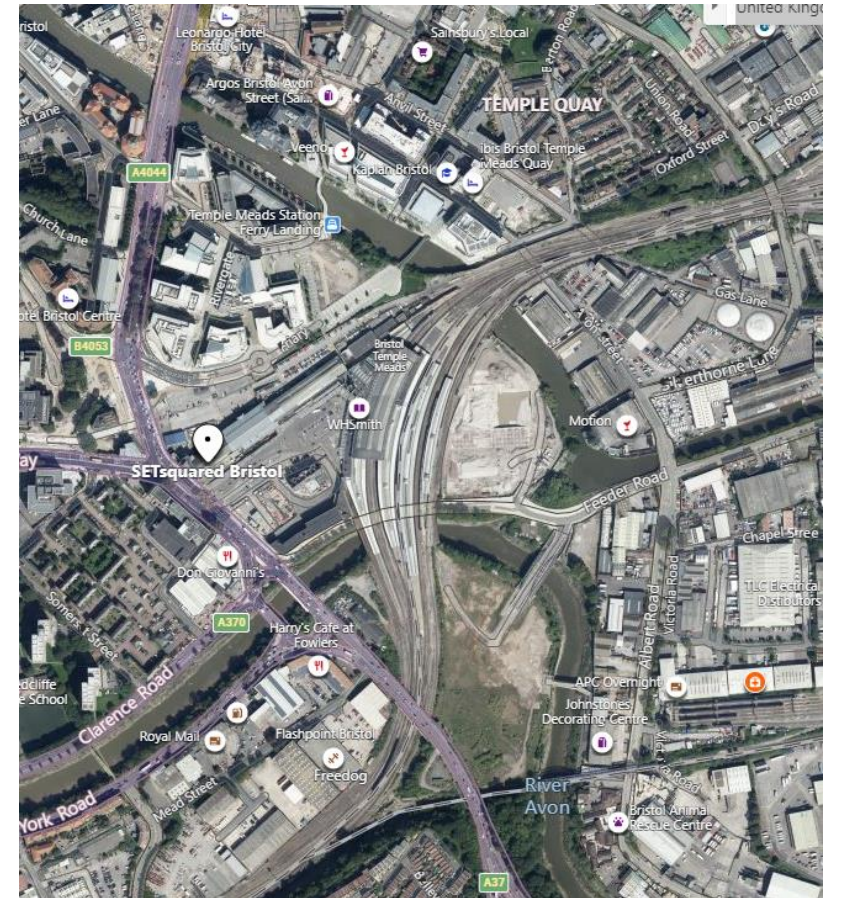
Other projects:

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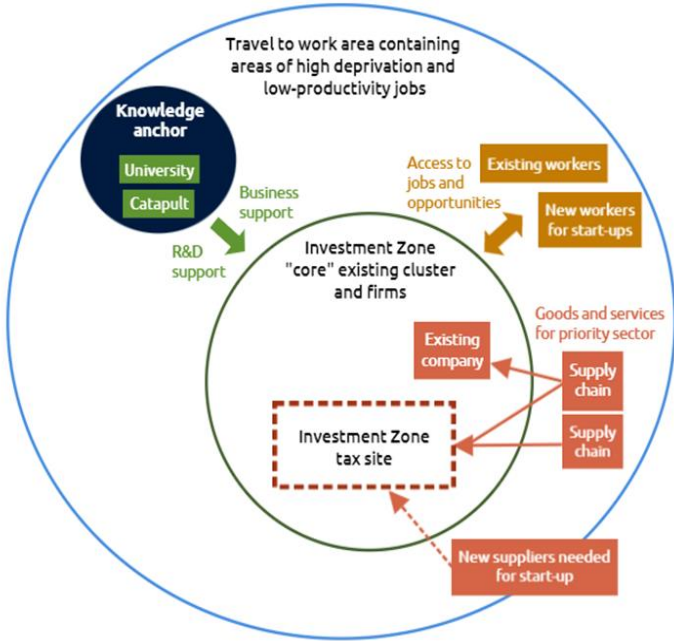
Peterborough Station Quarter (PSQ)
(Gateway to the East of England)

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

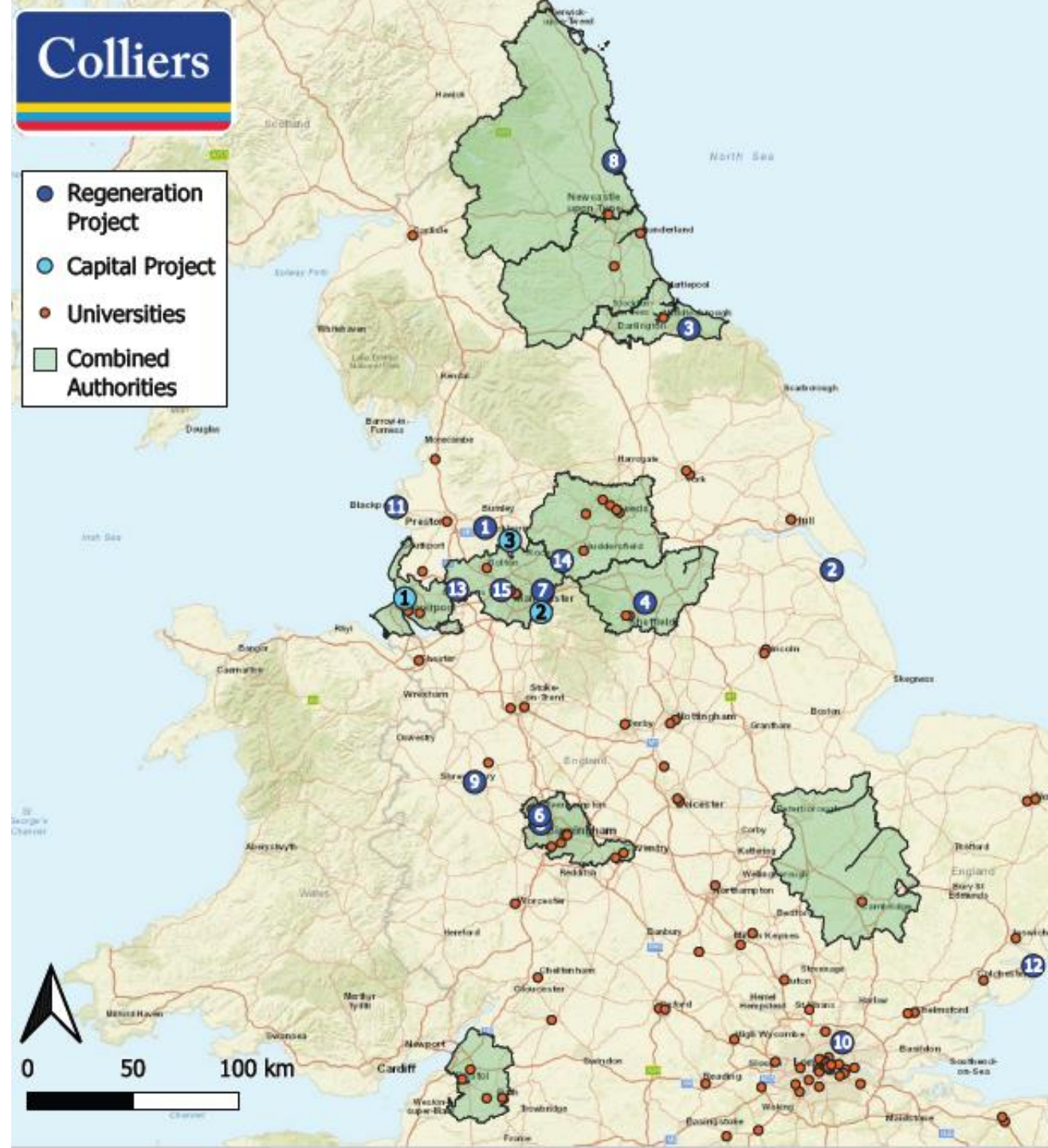
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Capital projects

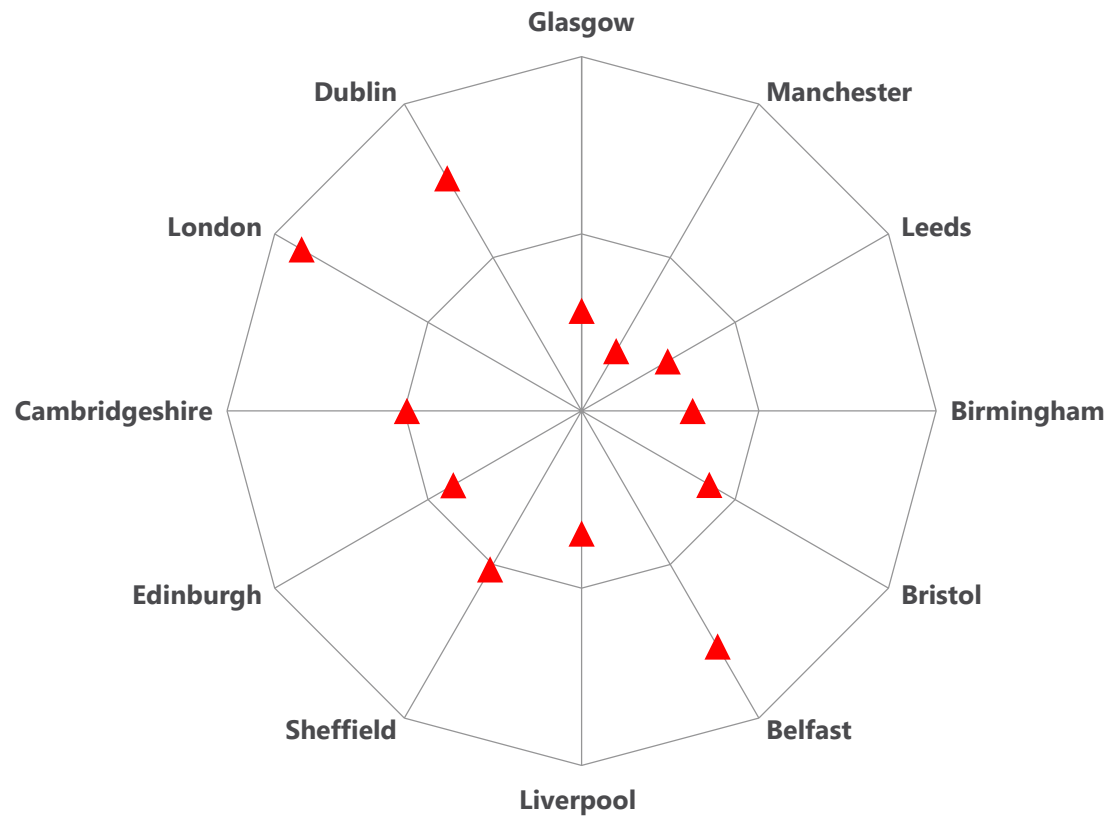
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Regional Development

Deviation from UK Big Six average 1990



Oxford Economics as modeled by Colliers Research

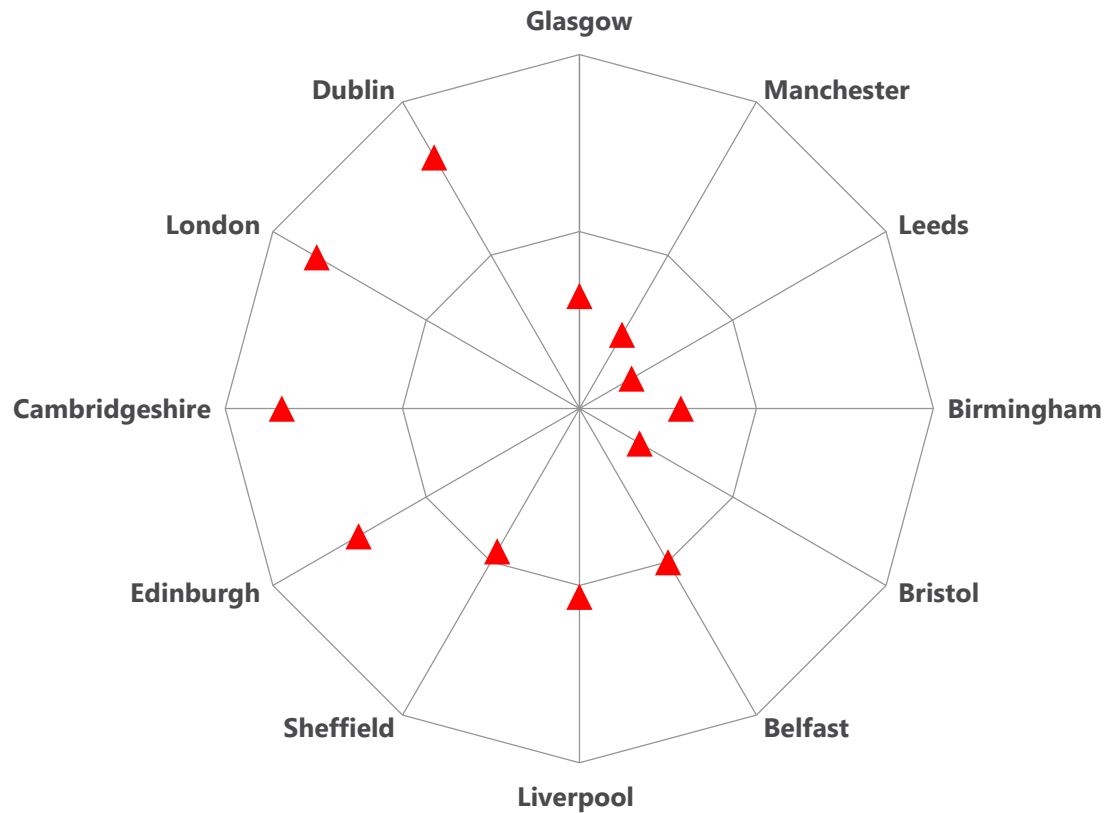
Devolution and regional economic development

'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

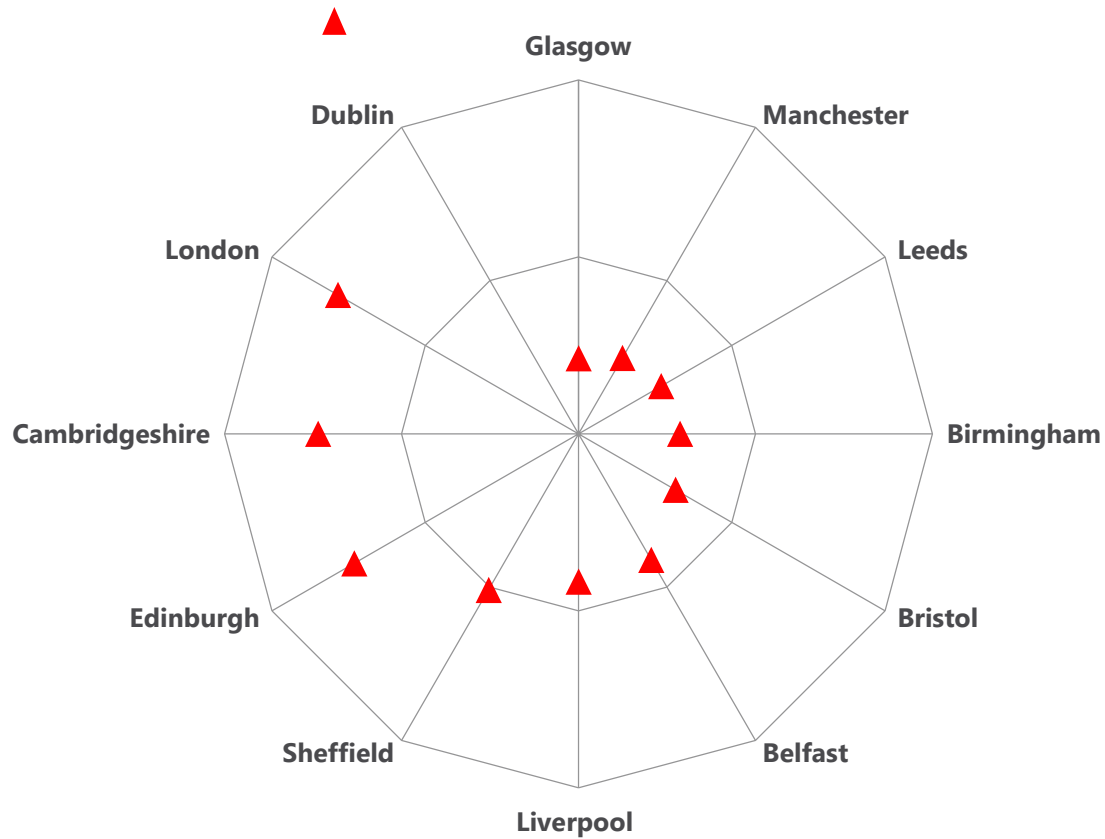
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Regional Development

Deviation from UK Big Six average 2019



Oxford Economics as modeled by Colliers Research

Devolution and regional economic development

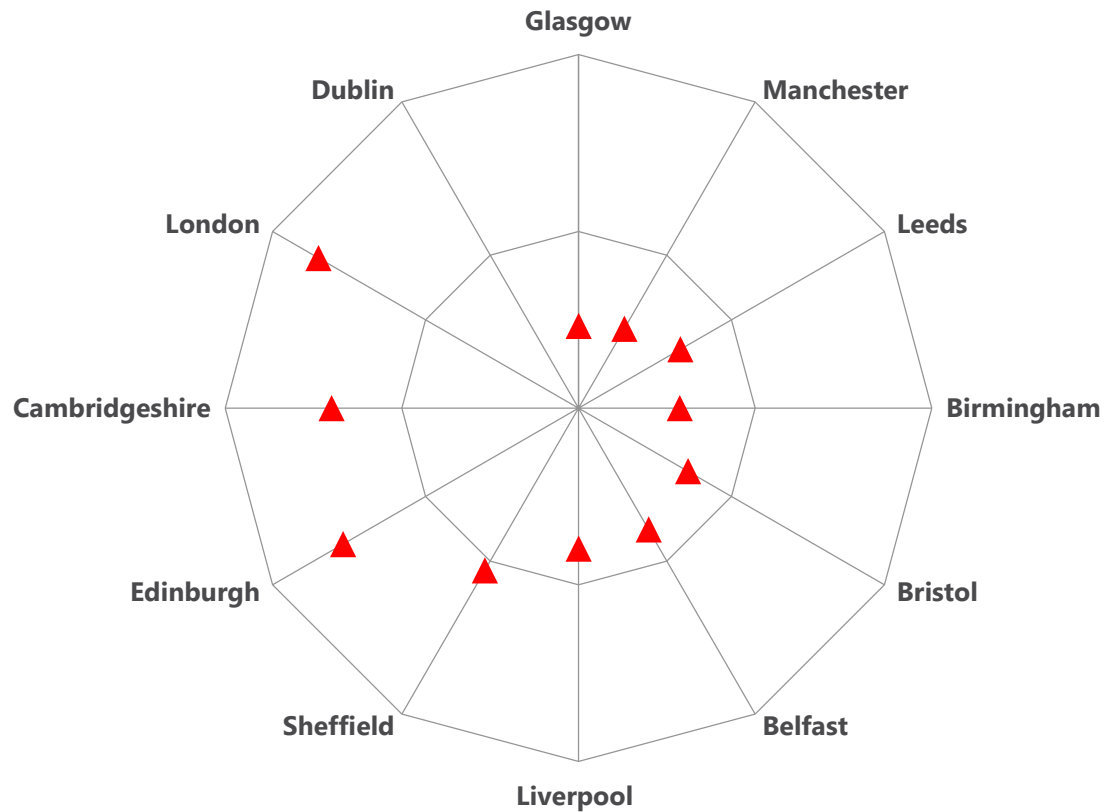
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Regional Development

Leprechaun economics → ▲

**Deviation from UK Big Six average
2030**



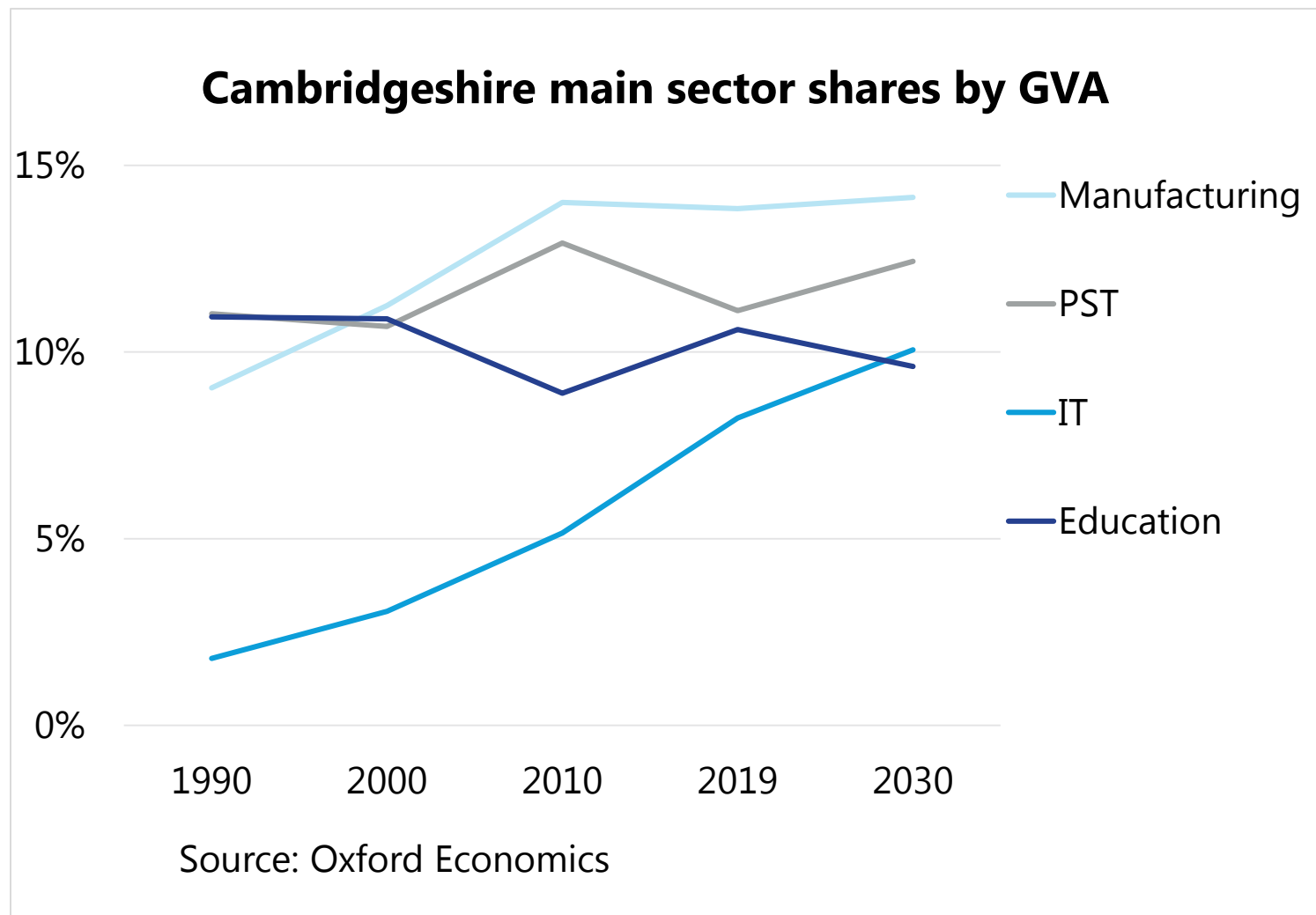
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Early surge on Professional, Scientific and Technical



- Manufacturing linked to high value add industries (eg life sciences, pharmaceutical, and technology)
- Professional, scientific & technical was an early arrival
- Finance and business service were never mainstays
- Education in line with UK as a whole

Universities key to feeding development of professional and technical services

Access to professional talent is key - Cambridgeshire

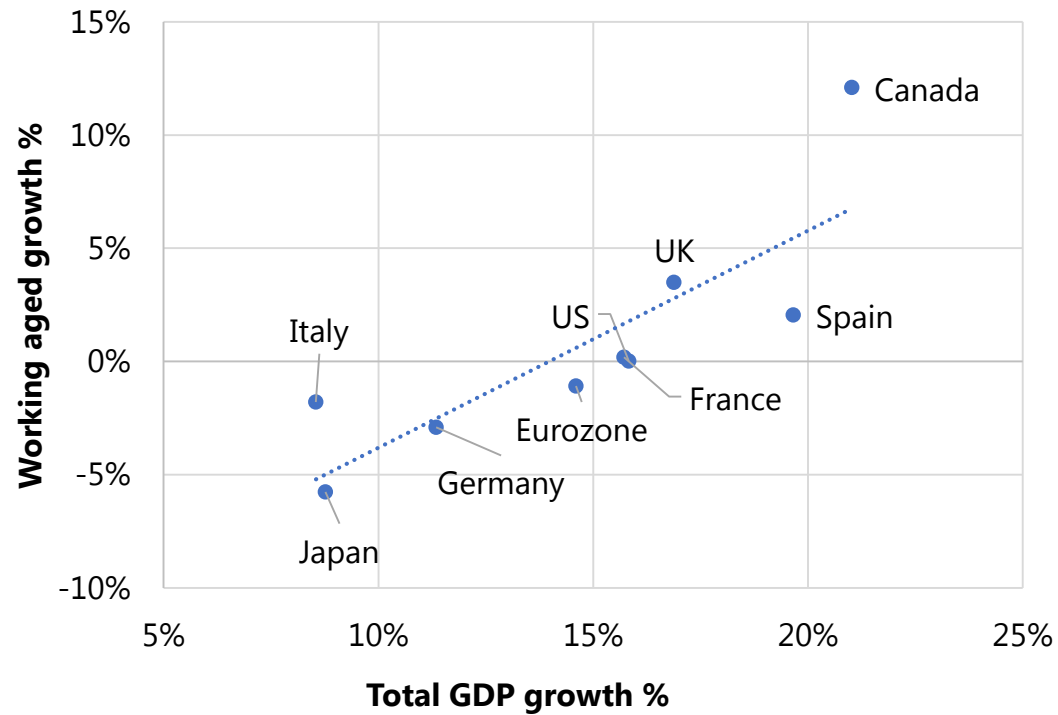
Feeder Schools	Top Fields of Study	Employment Growth	Top Employers
Cambridge	Computer Sci	ROKU (Streaming)	ARM (Software)
Anglia Ruskin	Mathematics	PA Consulting (IT acct services)	Virgin Media
Open University	Engineering	Fraser Dawbams LLP	Mayflex (Data Infrastructure)
Oxford	Law	PEM (Accounting)	ICT Services (IT support)
Cambridge Reg	Economics		PA Consulting
UoEA	Physics		PEM (Accounting)
Source: LinkedIn			

- London lost more professional services talent to the UK regions than to New York and Paris combined
- Cambridge loses most talent to London, but gained talent from most other UK cities
- IT is the top destination for professionals. About 50% have programming/analytical skills
- Work-life balance (1) cited as key criteria by new recruits, more so than job security and compensation (6)

Correlation between population growth and economic growth

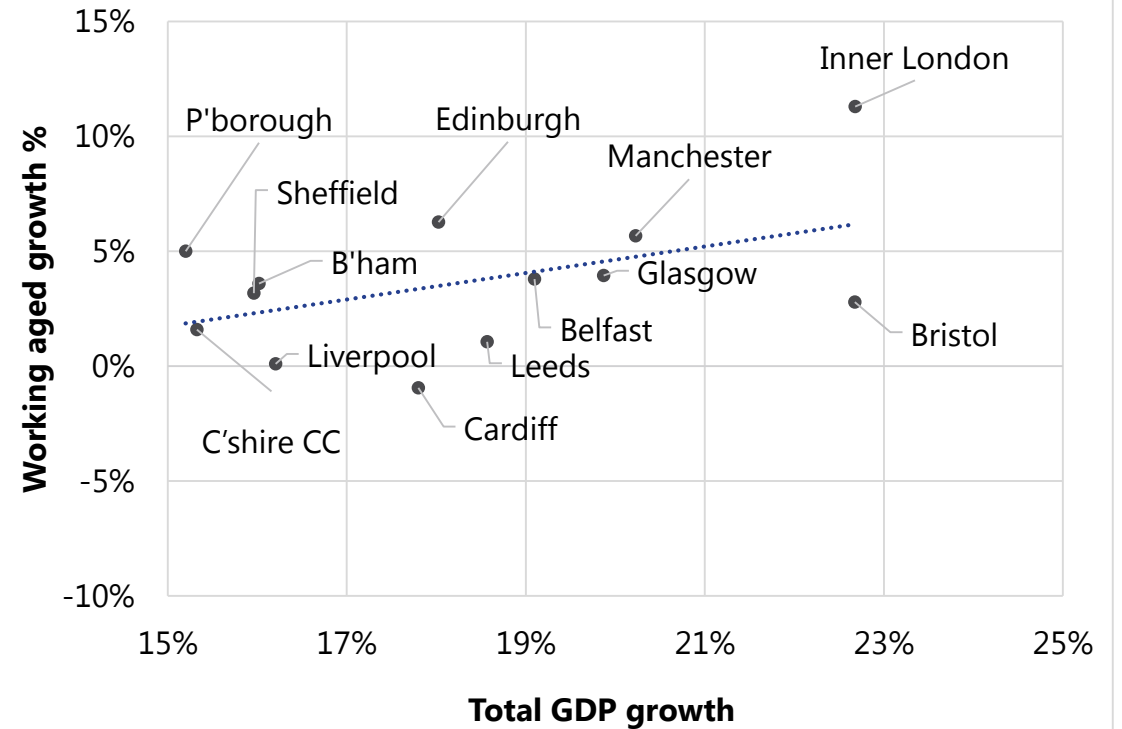
Comparative economic performance

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**





For further information, please contact Walter Boettcher, Head of Research & Economics
walter.boettcher@colliers.com
+44 07824 691 586

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