# Economics & Real Estate

Q3 2016

## Brexit means carry on while we wait?

### Economic Highlights

- The final estimate of GDP for the second quarter of 2016 reported that the economy grew by 0.7%, revised up from the previous 0.6%. According to the average of independent forecasters' views compiled by HM Treasury for October, UK GDP growth for 2016 is expected to come in at 1.9%, with 2017 seeing a 1% expansion.

- Consumer price inflation rose to 1.0% in the year to September, up from 0.6% in August. This is the largest monthly increase, and the highest CPI has been, in more than two years. Inflation is expected to increase over the coming year as currency hedged contracts expire and the full effects of Sterling devaluation are felt.

- The latest employment statistics for the three months to August 2016 showed an increase in employment of 106,000 when compared against the three months to May 2016. Unemployment increased by 10,000 to 1.66 million, with the unemployment rate remaining stable at 4.9%.

### Sector Highlights

- Office – the UK Services PMI fell marginally to 52.6 in September from 52.9 in August. The latest figure indicating a moderate rate of expansion at the end of the third quarter, following the contraction in July in the aftermath of the EU referendum. (Markit/CIPS)

- Industrial – the UK Manufacturing PMI improved in September, rising to 55.4 from August's 53.4, its highest level since June 2014. (Markit/CIPS)

- Retail – retail sales volumes remained unchanged month-on-month in September. The three months to September saw growth of 1.8% versus the previous three months, and a 5.4% increase against the same period last year. (ONS)

- Construction – the UK Construction PMI turned positive in September, recording a reading of 52.3, up from the previous month's 49.2 (which signalled contraction). (Markit/CIPS)

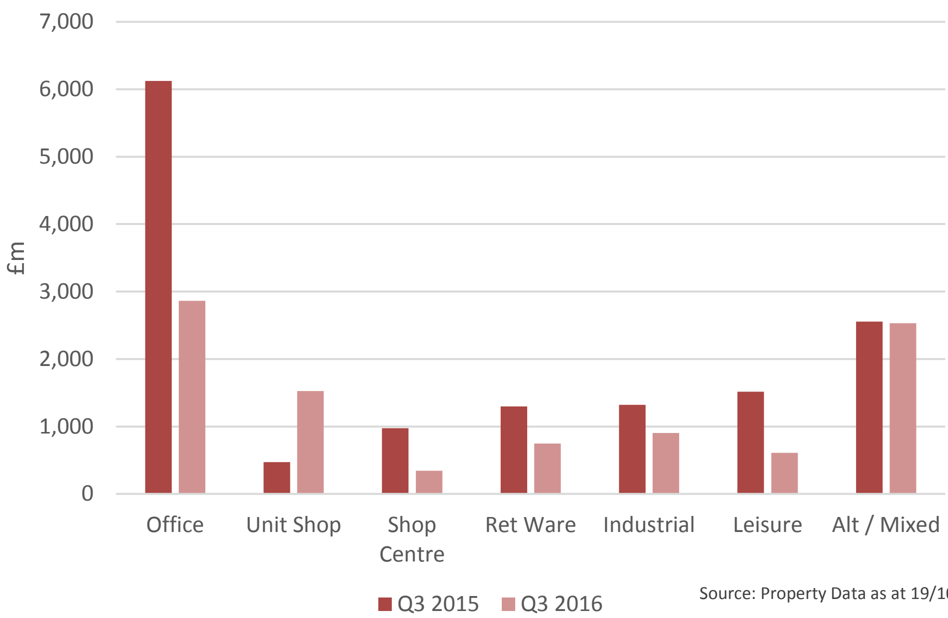
- UK house prices increased 1.3% in Q3 2016, and were up 5.4% on an annual basis. London house prices saw growth of 1% in the third quarter, and are 7.1% higher than the same period in 2015. (Nationwide)

UK growth estimates have been revised upwards for 2016 following a number of positive data releases in recent months.

The various UK purchasing managers' indices all reported an expansion of output in September.

According to the average of independent forecasters' views compiled by HM Treasury for October, UK CPI is expected to reach 2.5% in 2017. Above the Bank of England's 2% target.

## Investment Activity




Source: Property Data as at 19/10/2016

Q3 2016 saw investment volumes of £9.5bn, 33% down on the same quarter last year (£14.3bn).

The monthly IPD UK All Property Index for September reported a 3.6% fall in capital values on a three-month basis.

## Prime Yields

| | Sector | Prime Yield* | Direction (next six months) |
|---|---|---|---|
| Industrial | Distribution Centre (15 years) | 5.00% | Tightening |
| | Industrial Estate - Greater London | 4.75% | Tightening |
| | Industrial Estate – National | 6.25% | Stable |
| Office | City | 4.25% | Stable |
| | West End | 3.75% | Stable |
| | South East | 5.25% | Stable |
| | Provincial | 5.25% | Stable |
| Retail | High Street - Regional Centre | 4.00% | Stable |
| | Out of Town (open A1) | 4.50% | Mild softening |
| | Shopping Centre | 4.50% | Mild softening |
| Alts | Healthcare | 5.00% | Stable |
| | Hotels | 4.25% | Stable |
| | Student | 4.75% | Stable |

*The achievable yield for a freehold, prime investment; fully let and rack-rented to tenant/s of strong financial credibility on lease terms typical of prime property in that segment. Alts = Alternatives

Prime yields continue to hold their ground; protected by a lack of stock and buyers continuing to seek core assets.

On weaker assets, however, we are seeing a mild softening of yields given concerns regarding a weaker occupational market.

Investor demand for logistics assets continues to increase and we expect yields to decrease marginally in the coming months. With the same being true of good quality industrial estates in Greater London.

## Contact us

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