UK ECONOMIC AND INVESTMENT BRIEFING

NOVEMBER 2017

Economic

- After a decade of monetary easing, the Bank of England's Monetary Policy Committee voted to raise the Bank Rate by 25bps to 0.5%.
- The language in the statement implies interest rates are likely to rise very gradually over an extended period of time.
- The Bank's GDP growth forecasts saw very little change: the Bank sees growth of 1.6% for 2017 down from 1.7% in August.

Investment

- Total UK investment reached £14.7bn in Q3, bringing year to end-Q3 investment volumes to £40.9bn.*
- Central London investment Q1-Q3 2017 registered one of the strongest performances post-Global Financial Crisis.
- In addition, investor appetite for commercial real estate outside London is buoyant with regional UK investment reaching £10.3bn in Q3, 56.0% above the long run quarterly average.

*Q3 figures revised at November 2017

Interest rates increased to

0.5%

BoE expect UK growth for this year to reach

1.6%

UK GDP in Q3 increased by

0.4%

To Q3 2017 investment in UK Commercial Real Estate outside London totalled

£26.4bn

Q3 2017 regional investment stood 56.0% above 10 year quarterly average

56.0%

To Q3 2017 overseas investors accounted for 37.7% regional investment

37.7%

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UK ECONOMIC UPDATE

The Bank of England raised interest rates for the first time in more than 10 years

After a decade of monetary easing, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Bank Rate by 25bps to 0.5%.

"After a decade of monetary easing, the Bank of England's Monetary Policy Committee voted to raise the Bank Rate by 25bps to 0.5%."

The MPC voted unanimously to maintain the stock of government bond QE purchases at GBP435bn and the stock of corporate bonds at GBP10bn.

The language in the statement implies interest rates are likely to rise very gradually over an extended period of time - as a result the markets pushed back expectations for the next rate rise by one month to November 2018.

The initial market reaction saw a slightly weaker sterling, down around 1.6% against the euro and around 1.2% lower against the dollar. Even though the rate rise was largely priced in, the currency markets interpreted the MPC's commentary as indicating that another rate rise is off the table for the foreseeable future.

"UK GDP increased by 0.4% q-o-q in Q3, 0.1pp above consensus. The annual growth rate was steady at 1.5%."

One reason why the rise in interest rates was largely expected was the moderate improvement in economic growth. UK GDP increased by 0.4% q-o-q in Q3, 0.1pp above consensus. The annual growth rate was steady at 1.5%.

In terms of the sector breakdown, the manufacturing sector returned to growth, rising 1% q-o-q in Q3 after a 0.3% fall in Q2. The service sector grew 0.4% q-o-q, a slight increase in the pace of growth from the first half of this year. Construction output, however, declined.

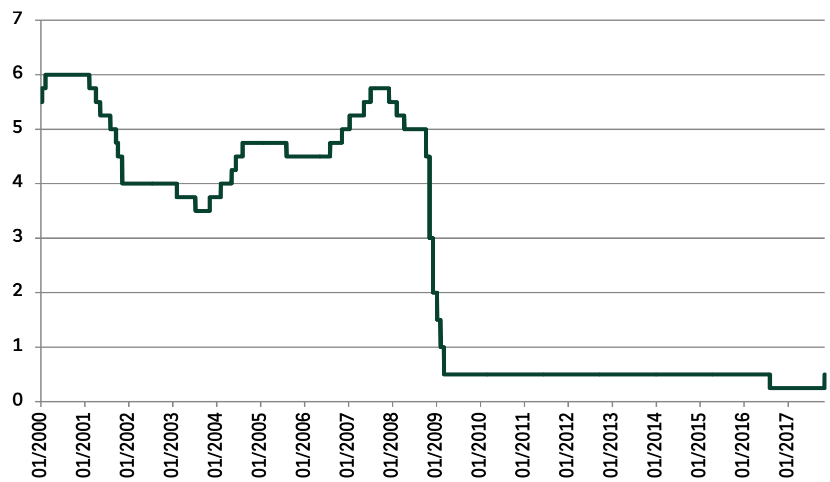
Secondly, unemployment has been falling despite the modest pace of growth. In August - two months into the third quarter - unemployment fell to a 42-year low of 4.3%.

Focusing now on the Bank's growth forecasts, recent figures show very little change. The Bank sees growth of 1.6% for 2017 (down from 1.7% in August), but unchanged at 1.6% and 1.7% for 2018 and 2019. The growth forecasts continue to be predicated on a relatively smooth Brexit.

With regards to inflation, as was largely expected the Bank has raised its near term forecasts, with inflation now forecast to peak at 3% in Q4 2017 (up from 2.75% in August). This is likely to be largely reflective of the rise in global oil prices (+14%) since August.

"The language in the statement implies interest rates are likely to rise very gradually over an extended period of time."

BOE BASE RATE



Source: Macrobond

UK INVESTMENT UPDATE

The Central London investment market has undeniably outperformed over 2017 to date. Q1-Q3 2017 registered one of the strongest performances post-Global Financial Crisis, boosted by high levels of overseas investment and two transactions of over £1bn. However, does the strength of investment in the capital signal an increasingly polarised UK real estate investment landscape with the wider UK market losing out?

Although regional UK investment has undoubtedly fallen back from the peak levels recorded in 2015, investor appetite for commercial real estate beyond the capital has been far from subdued. Regional UK investment reached £10.3bn in Q3, 56.0% above the long run quarterly average. This brings year to date investment to a healthy £26.4bn, already in line with the 10 year average despite only being at the Q3 stage.

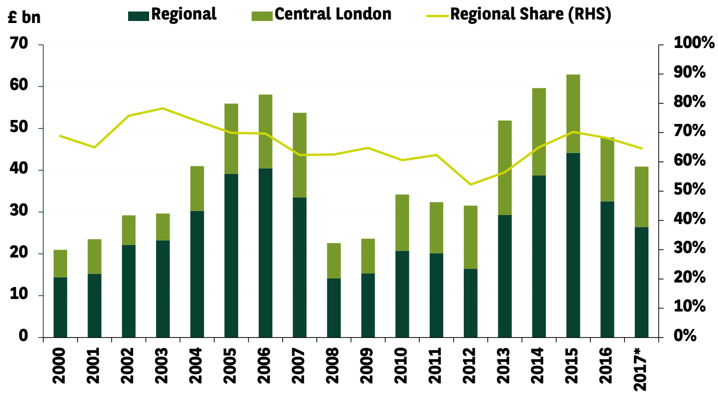
At a sector level, all sectors (with the exception of retail), have seen their Q3 quarterly performance surpass their respective 10 year averages. As we touched upon in our previous October Briefing, investor interest in long income assets has risen substantially and this is reflected in UK regional trends. At Q3, alternatives have led the way accounting for £3.3bn regional investment, up 116.0% on the 10 year average.

Focusing on investor trends, overseas investor interest is far from confined to Central London. Over Q1-Q3 2017, overseas capital accounted for 37.7% investment, the second largest share on record. This market share has been boosted by a number of high capital portfolio sales transacting over the course of the year covering the hotel, business park, multi-let industrial and student residential sectors.

Solid levels of regional investment seem set to continue, with the current yield gap between Central London and the wider UK markets offering investors opportunities for increased returns.

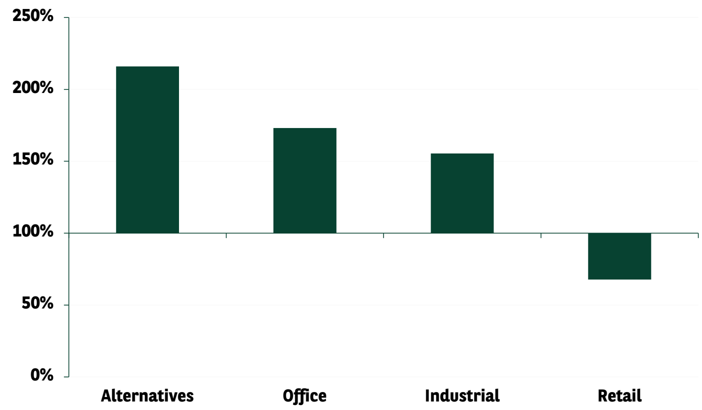
Looking ahead, key deals in the pipeline include Frasers Centrepoint's substantial £743m deal for five regional business parks. The Singaporean investor's acquisition of the parks is a clear indication that well-placed assets in core regional locations with asset management potential remain of key interest to both overseas and domestic investors.

UK INVESTMENT VOLUMES (£bn)



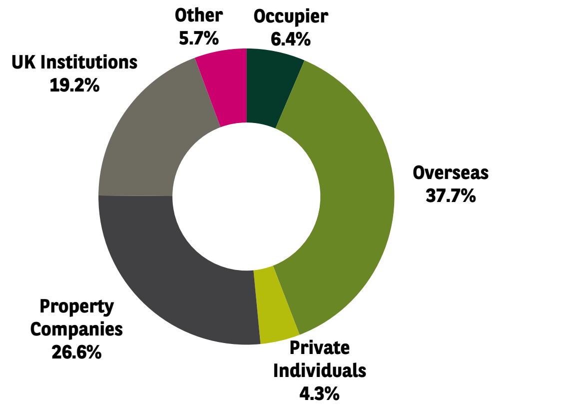
Source: BNPPRE/ Property Data, 2017* data to end-Q3

REGIONAL SECTOR PERFORMANCE: Q3 2017 AGAINST 10 YEAR QUARTERLY AVERAGE



Source: BNPPRE/ Property Data

REGIONAL INVESTMENT: INVESTOR SPLIT Q1-Q3 2017



Source: BNPPRE/ Property Data