

Quadrant Real Estate Advisors LLC

U.K. Economic & Commercial Real Estate Market Commentary

1st Quarter 2020



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About Quadrant Real Estate Advisors

Quadrant Real Estate Advisors LLC ("Quadrant") is a United States SEC registered investment adviser and Australian Securities and Investments Commission ("ASIC") Foreign Registered Corporation (ABN 39 123 863 963). Quadrant has been approved by the Central Bank of Ireland to act as an Investment Manager on behalf of Investment Funds. QREA Europe LLP ("QREA") is a subsidiary of Quadrant and is authorised and regulated by the Financial Conduct Authority (registration number 610613). As of March 31th, 2020, Quadrant had approximately \$1.3 billion of commercial and multifamily real estate investments under management on behalf of institutional investors. Clients include insurance companies, pension funds and sovereign wealth management funds.

Since 1993, Quadrant's senior management has worked together as a team providing the firm's clients with access to both privately placed and publicly traded commercial real estate debt and equity investments through commingled funds and single client accounts. In addition to experience, senior management controls 100% of the firm, thereby providing true alignment of interests and accountability.

The firm's executive leadership includes Kurt Wright, Chief Executive Officer; Walter Huggins, Executive Vice President; and Jessica Eggins, Executive Vice President.

Executive Summary

- **COVID-19**

General

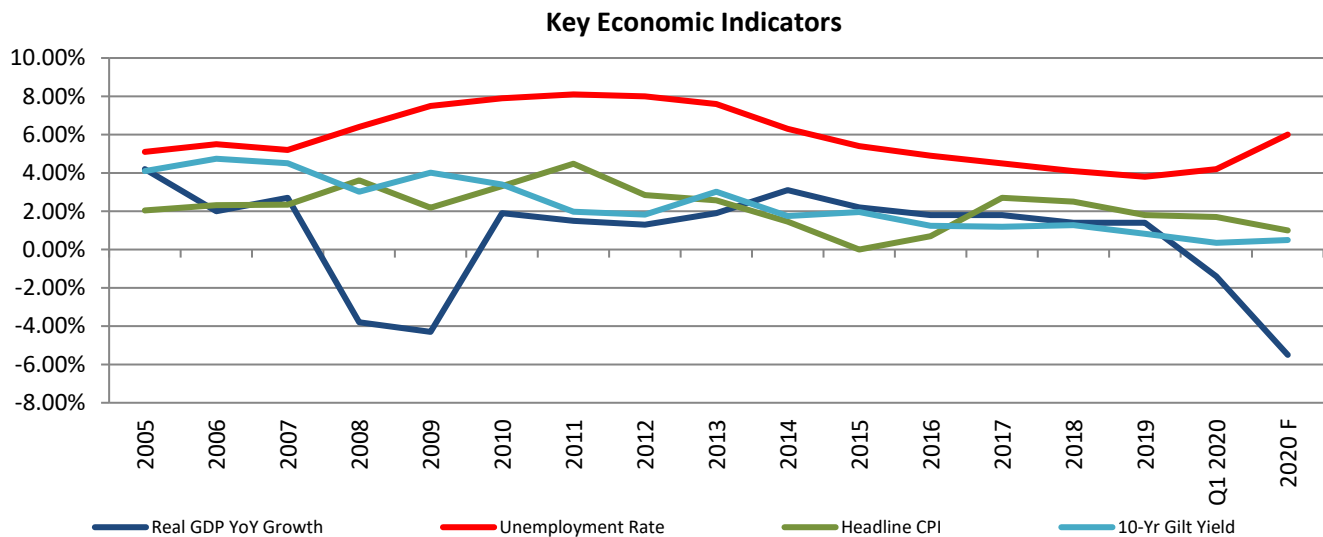
- The COVID-19 pandemic has led to the British Government enforcing a shutdown of all non-essential travel and jobs in mid-March. The economic impact of COVID-19, and the measures in place to combat it, have placed enormous strain on all sectors of the economy.
- The full impact of COVID-19 will become more transparent in Q2'2020 and Q3'2020.

UK Response

- The UK has implemented several policies to combat the COVID-19 crisis. The main programs of note are:
 - Coronavirus Job Retention Scheme
 - Furloughed workers receive 80% of their current salary. The program has been extended until October 2020.
 - Grant funding for small businesses and wider support for the retail, hospitality, and leisure sectors.
 - Government backed Business Continuity loans.
 - Business Rates (property tax) and VAT holiday for retail, hospitality and leisure businesses.
 - Businesses in the retail, hospitality and leisure sectors in England will not have to pay Business Rates for the 2020 to 2021 tax year.
 - Eviction holiday
 - Landlords will not be able to start proceedings to evict tenants for at least a three-month period starting March 25th, 2020.

- **2020 GDP is forecast to see a -5.5% contraction.**

- Real Gross Domestic Product ("GDP") growth in the U.K. for the quarter ending March 31, 2020 is estimated to have declined -2.0%, down from +2.0% for the same quarter in 2019.
 - This is the sharpest quarter decline in GDP since 2008.
- According to the Office of National Statistics (ONS), 76.6% of people were employed in Q1'2020, compared with 76.5% in Q4'2019.
 - However, it is important to note that the ONS suspended the reporting of these figures at the end of February, and thus the impact of COVID-19 is not reflected in above statistics.
 - The initial indications are that the unemployment rate at end of Q1 2020 was between 8%-10%, sharply up from 3.8% in February 2020. This figure excludes workers placed on furlough under the Coronavirus Job Retention Scheme, which is estimated to cover a further 7.5 million employees.
- The Bank of England Bank Rate was cut during March from 0.75% to 0.1% as an emergency measure in the wake of the COVID-19 pandemic.



Source: Bloomberg, Capital Economics, Office for National Statistics

- The pound decreased by -6.11% against the US dollar to \$1.23 at the end of the current quarter. The pound decreased -3.39% against the Euro to €1.14 at the end of the current quarter.

• **Brexit**

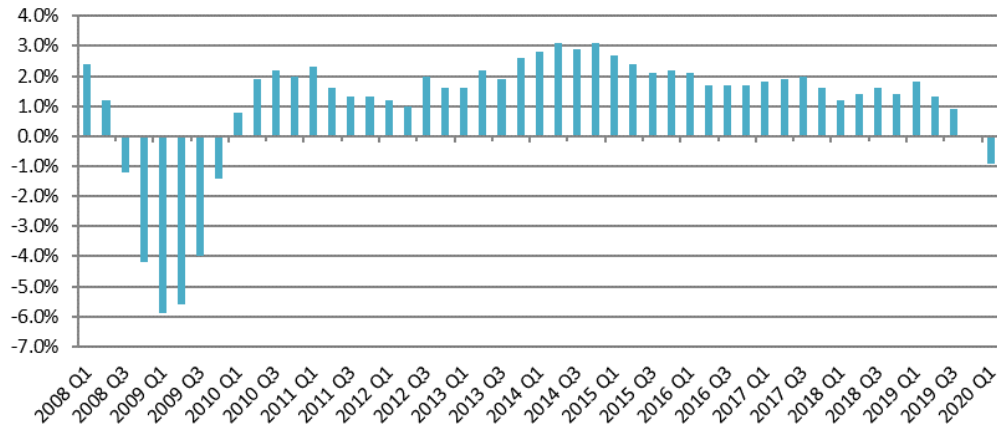
- The UK officially left the European Union on January 31st, 2020, starting an eleven-month transition period during which, the Government will seek to negotiate arrangements and trade deals.
- The current rules on trade, travel, and business will continue to apply during the transition period, ending January 1st, 2021.
- However, there is still significant uncertainty surrounding the manner in which the UK will leave the EU, specifically whether a deal can be agreed and what it will look like.
- Quadrant remains cautious on UK commercial real estate.

U.K. Economy

Gross Domestic Product ("GDP")

- Real Gross Domestic Product ("GDP") growth in the UK year-on-year for the quarter ending March 31, 2020 is estimated to be -0.9%, down from 2.0% in the same period ending March 31, 2019 (290 BPS decline).
 - This was attributed to the emergence of the COVID-19 pandemic in the middle of March, which has had a widespread negative impact on all branches of the economy.
 - The true impact of the pandemic will be more transparent in Q2 & Q3 2020, for which the current forecasted GDP's are -11.4% and -5.9% respectively.

Real Gross Domestic Product Growth (GBP-denominated)

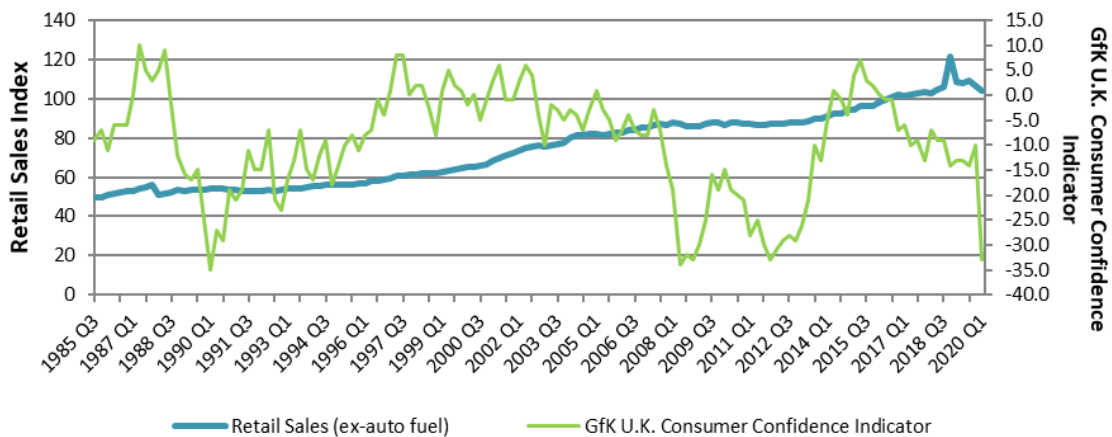


Source: Bloomberg, Office for National Statistics

Consumer Outlook

- The GfK U.K. Consumer Confidence Indicator for Q1'2020 fell to -33 from -10 in Q4'2019.
- Nominal retail sales (excluding automobile fuel) decreased by -2.5% quarter-over-quarter, and -4.1% year-over-year.

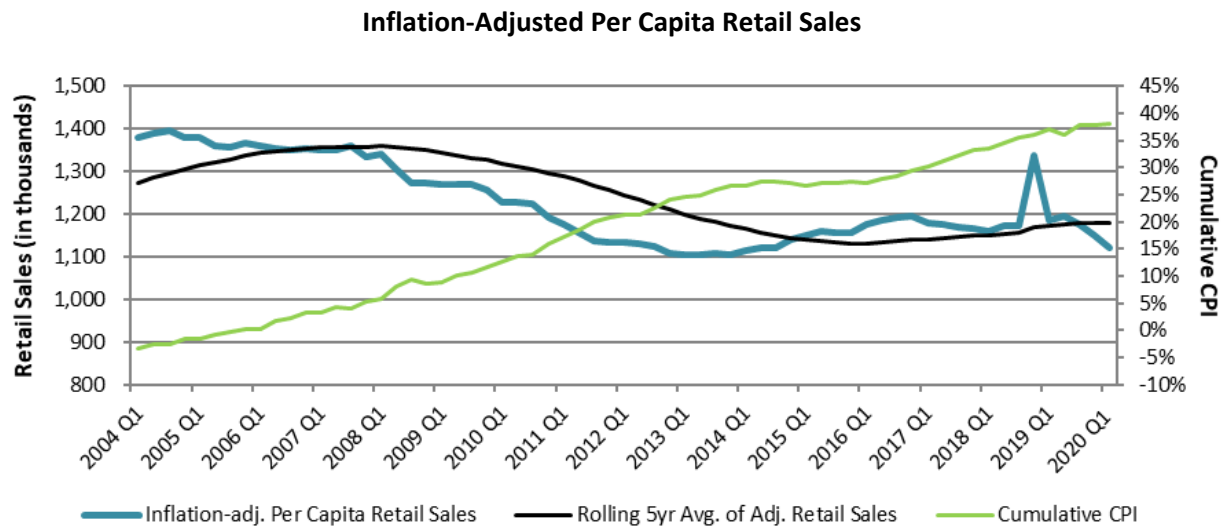
Consumer Confidence and Nominal Retail Sales



Source: GfK, Office for National Statistics

Consumer Spending & Inflation

- Inflation-adjusted per capita retail sales in Q1'2020 remained stable at £1,121.
 - The metric remained 19.7% below the first quarter 2008 pre-recessionary amount of £1,342.



Source: Bloomberg, Office for National Statistics, Quadrant Real Estate Advisors

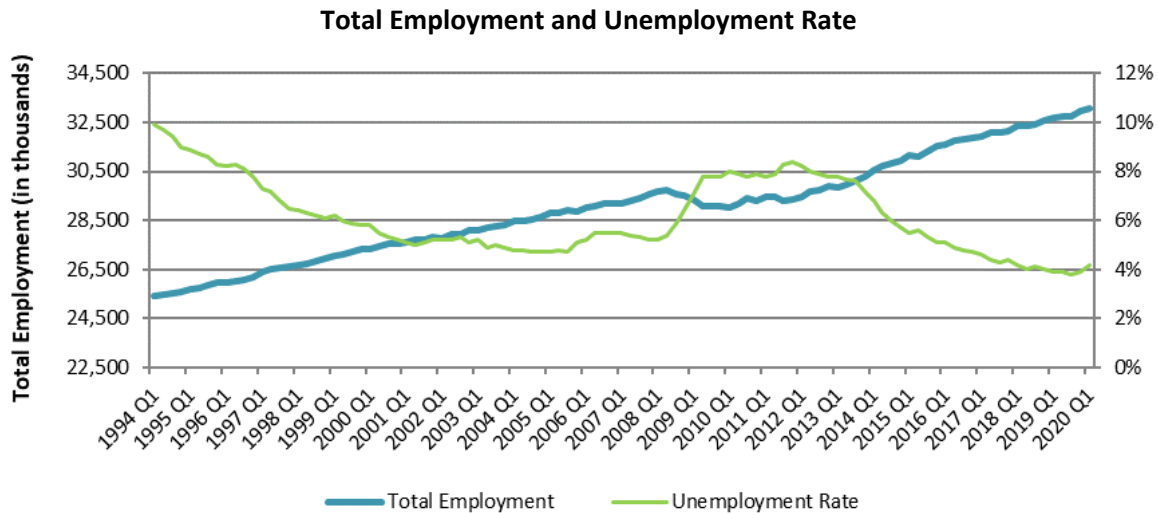
Note: Retail sales represent Retail Sales (excluding automobile fuel). Quadrant has adjusted Retail Sales to reflect per capita Retail Sales in December 1991.

- The Bank of England has maintained its inflation target of 2% per annum.
- The Consumer Price Index (“CPI”) remained stable at 1.7% year-on-year.

Labor Market

Note: The COVID-19 Pandemic has led to a spike in unemployment and furloughed workers. The UK’s Office of National Statistics is only reporting figures from the end of February, before the full impact of the crisis.

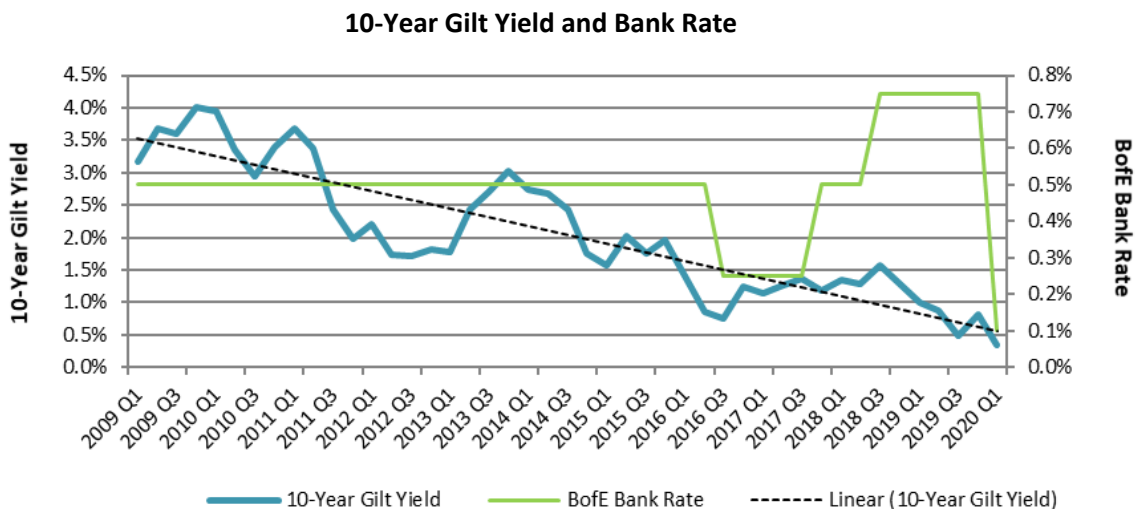
- Total employment increased to 33,073,000 as at end February 2020 which is 352,000 more than a year earlier.
- Employment among people aged between 16 and 64 remained stable 76.6%.
- The unemployment rate increased by 0.1% to 4.0% for Q1’2020 equating to 1.36 million people.
 - If the coronavirus crisis is factored in, it is estimated that the unemployment rate at end of Q1 2020 was between 8%-10%, sharply up from 3.8% in February 2020. This figure excludes workers placed on furlough under the Coronavirus Job Retention Scheme, which is estimated to support a further 7.5 million employees.



Source: Bloomberg, Office for National Statistics

Interest Rates

- The Bank of England Bank Rate was cut during March from 0.75% to 0.1% as an emergency measure in the wake of the COVID-19 pandemic.
 - The rate was originally cut to 0.25% on 11 March 2020 and was cut again a week later to 0.1% in response to the worsening COVID-19 conditions.
- It is expected that any increases in the bank rate after the crisis will be implemented at a gradual and slow pace, depending on the length and severity of the economic downturn.
- 10-Year Gilt yields decreased quarter-over-quarter from 0.820% to 0.350%.



Source: Bloomberg

Interest Rate Benchmarks

Benchmark	December 2019	March 2020
3-month LIBOR	0.79%	0.59%
3-year LIBOR	0.82%	0.49%
10-year EUR Swap	1.02%	0.59%

Source: Bloomberg.

U.K. Commercial Real Estate Market Fundamentals**Property Investment Yields (Cap Rates)**

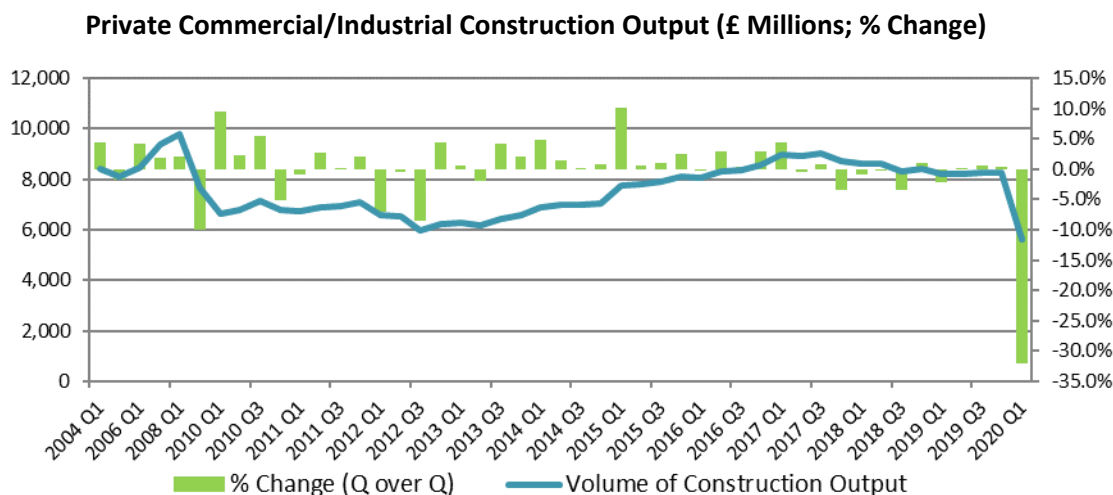
Property Sector	Market Sentiment	Mar-20	Dec-19	Mar-19
Office				
London – West End (Core)	Positive	3.50% - 3.75%	3.50% - 3.75%	3.50%+
London – City (Prime)	Positive	4.00%	4.00% - 4.25%	4.25% - 4.50%
SE Towns	Positive	5.00%	5.00%+	5.00%
Major Regional Cities	Positive	4.75%	4.75%	4.75%
Retail				
High Street Retail – Prime	Negative	5.50%	5.25%	4.50%-4.75%
High Street Retail – Good Secondary	Negative	7.50%	7.50%	6.50%+
High Street Retail – Sec./Tertiary	Negative	10.00%++	10.00%++	10.00%++
Shopping Centres				
Shopping Centres – Regional Scheme	Negative	6.00%	5.75%	5.25%
Shopping Centres – Local Scheme (successful)	Negative	8.75%	8.75%	8.50%
Shopping Centres – Local Scheme (Challenged)	Negative	11.50%	11.00%	10.00%
Industrial				
Bulky Goods Parks – Prime	Stable	6.50%	6.50%	6.00%+
Bulky Goods Parks – Secondary	Negative	8.00%	8.00%	7.50%+
Distribution – Prime	Positive	4.00%-	4.00%	4.00%
Distribution – Secondary	Positive	5.00%	5.00%	5.00%
SE London Estate – Prime	Positive	4.00%	4.00%	4.00%
Estate – Secondary	Stable	6.00%+	6.00%+	5.75%+

Source: Knight Frank & Savills – Yield guide is for indicative purposes only.

Note: "Secondary" refers to outlying markets.

Spatial Supply

- Construction output fell by 0.2% in the three months to March 2020, compared with the previous three-month period; this was driven by a 1.7% fall in repair and maintenance but partially offset by 0.6% growth in new work.
- The following chart shows private construction output volume (left axis) and quarterly percentage change (right axis).



Source: Office for National Statistics, Quadrant Real Estate Advisors, Bloomberg

- The Royal Institute of British Architects’ have reported a 33-point drop to -11 in their Future Trends Workload Index, the steepest fall in confidence on record.
 - The ‘RIBA Future Workload Index’ graph shows the difference between those expecting more work in the next three months, and those expecting less.
 - Committing to business plans is becoming increasingly hard as the status of construction sites and supply chains remain compromised during the COVID-19 pandemic.

Rental Rate Growth

U.K. CRE Rental Rate Growth by Property Sector

Property Sector	Rental Growth				
	2016	2017	2018	2019	2020 Q1
Office	2.9%	0.7%	1.5%	0.6%	0.5%
Retail	1.0%	1.4%	1.2%	-1.1%	-1.0%
Industrial/Warehouse	3.5%	10.4%	8.0%	1.5%	1.9%

Source: RICS: UK Commercial Property Market Survey, RIBA: Future Trends Survey, Capital Economics/CBRE

Sources

- *Bloomberg*, www.bloomberg.com;
- *Office for National Statistics (ONS)*, www.ons.gov.uk;
- *ECB Introductory Statement to Press Conference*, www.ecb.europa;
- *Education.ie*;
- *CBRE*;
- *Gov.uk*;
- *Cushman and Wakefield*;
- *Lisney*;
- *Bannon*;
- *Cogent*;;
- *PWC*;
- *HOTSTATS*;
- *Daft.ie*;
- *IDA*;
- *RICS*;
- *RIDA*;
- *Quadrant Market Discussions*.

Important Disclosures

This report is for informational purposes only and does not constitute, form, nor should be construed as an offer to sell or a solicitation of an offer to buy investments or any fund and does not constitute any commitment or recommendation on the part of Quadrant Real Estate Advisors. An investment offering will be made only through a confidential private offering memorandum subject at all time to revision and completion.

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