

Quadrant Real Estate Advisors LLC

U.K. Economic & Commercial Real Estate Market Commentary

3rd 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. As of September 30th, 2020, Quadrant had approximately \$1.29 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

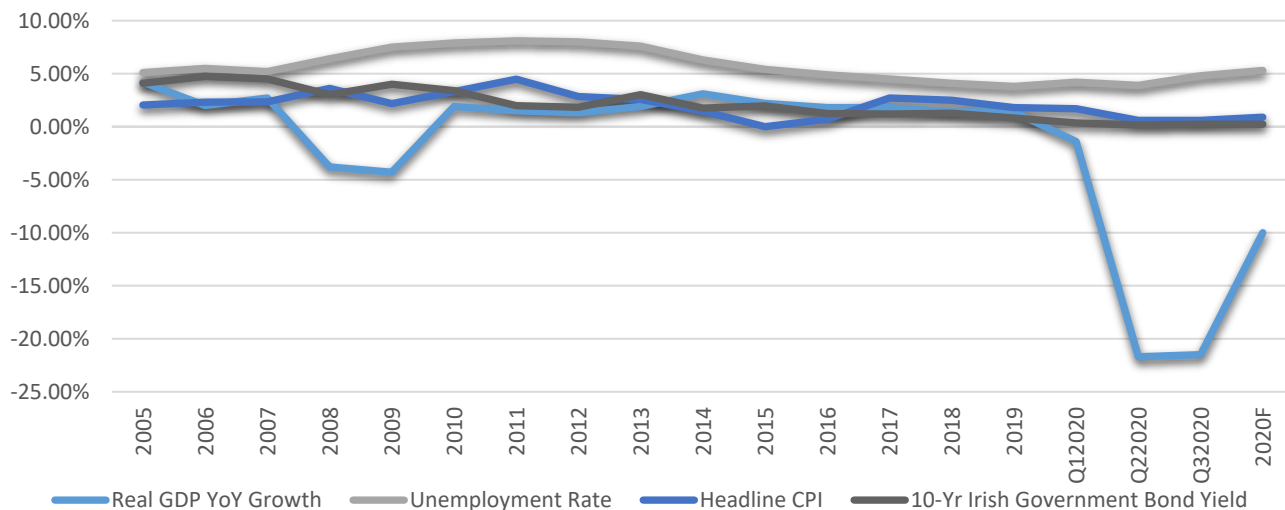
- **Impact of COVID-19:**

- Economic activity increased minimally in Q3 2020 as government restrictions eased. However, social distancing regulations and travel restrictions will likely remain in place for several months, straining economic activity.

- **2020 GDP is forecast at -10.0%.**

- Real Gross Domestic Product (“GDP”) growth for the quarter ending September 30, 2020 is estimated at -21.5%, compared to 0.9% for the same period ending Q2 2019.
- According to the Office of National Statistics (ONS), 75.3% of people were employed in Q3 2020, compared with 76.4% in Q2 2020.
- 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 ECB has set an inflation target of approximately 2.00% over the medium term. During Q3 2020, Euro inflation decreased 60 basis points to -0.3%.
 - Interest rates on bank reserves remain unchanged at -0.5%.
 - The ECB’s Quantitative Easing program has been expanded as a result of the COVID-19 pandemic. The Pandemic Emergency Purchase Program (“PEPP”) has expanded the overall QE program to €1,350 billion (increased from €750 billion in Q1 2020). The aim is to lower borrowing costs and increase lending throughout the EU.
 - The ECB is also temporarily easing capital restrictions for banks, aimed at increasing lending liquidity in the short term.

- **Key Economic Indicators**



Source: Bloomberg, Capital Economics, Office for National Statistics

- The pound decreased by 4.03% against the US dollar to \$1.29 at the end of the current quarter. The pound remained unchanged at €0.91.

- **Brexit**

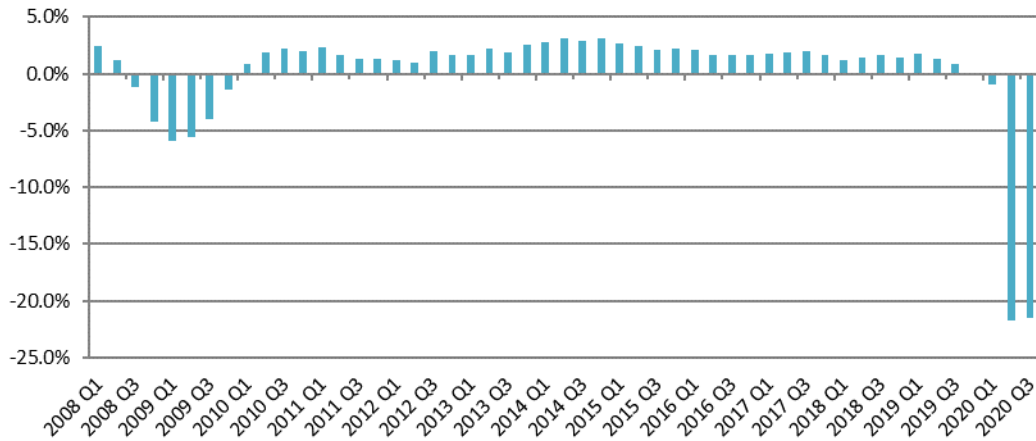
- The UK officially left the European Union on January 31st, 2020, starting an eleven-month transition period during which, the Government will seek to negotiate arrangements and trade deals.
- The current rules on trade, travel, and business will continue to apply during the transition period, ending January 1st, 2021.
- 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 September 30, 2020 is estimated to be -21.5%, unchanged from June 30, 2020.
 - The current forecasted GDP growth for Q4 2020 and Q1 2021 are -7.2% and -4.3% respectively.

Real Gross Domestic Product Growth (GBP-denominated)

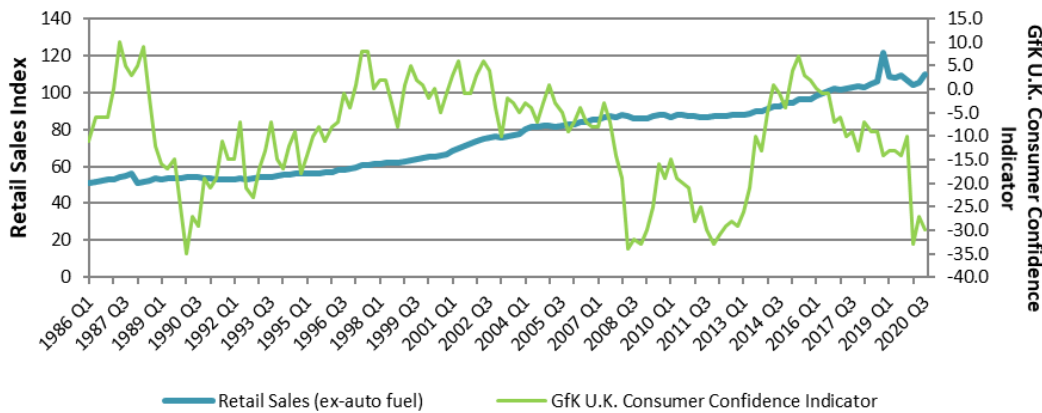


Source: Bloomberg, Office for National Statistics

Consumer Outlook

- The GfK U.K. Consumer Confidence Indicator for Q3’2020 decreased to -30 from -27 in Q2’2020.
- Nominal retail sales (excluding automobile fuel) increased by 4.47% quarter-over-quarter, and 1.01% year-over-year.

Consumer Confidence and Nominal Retail Sales

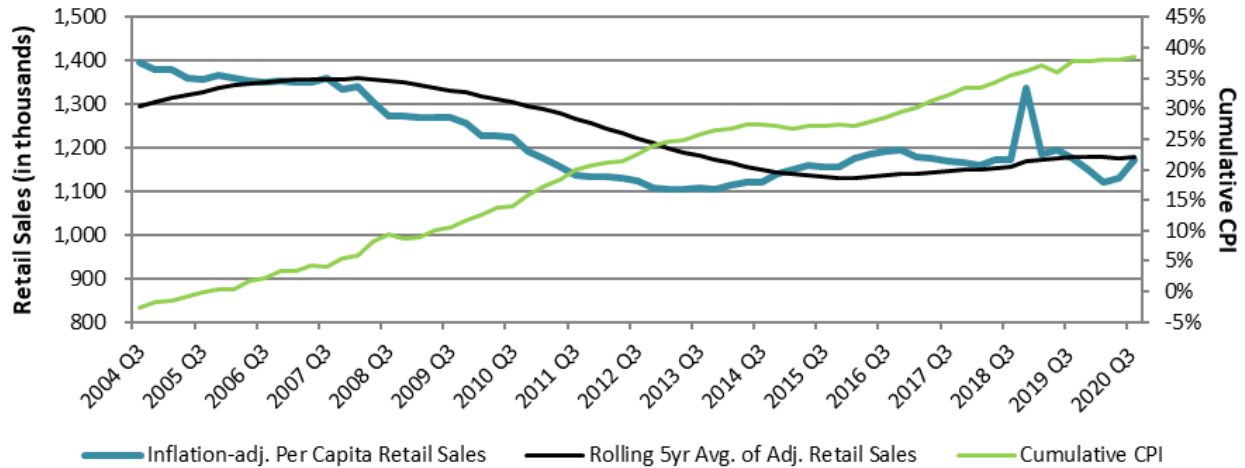


Source: GfK, Office for National Statistics

Consumer Spending & Inflation

- Inflation-adjusted per capita retail sales in Q2 2020 remained stable at £1,172.
 - The metric remained below the first quarter 2008 pre-recessionary amount of £1,342.

Inflation-Adjusted Per Capita Retail Sales



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

- The Bank of England has maintained its inflation target of 2.00% per annum.
- The Consumer Price Index (“CPI”) remained stable at 1.5% year-on-year.

Labor Market

- Total employment decreased to 32,510,000 at end September 2020, decrease by 247,000 from Q2’2020.
- The unemployment rate increased by 0.9% to 4.8% for Q3 2020 equating to roughly 1.62 million people.

Total Employment and Unemployment Rate



Source: Bloomberg, Office for National Statistics

Interest Rates

- The Bank of England Bank Rate was decreased during March 2020 from 0.75% to 0.1%.
- 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.

Benchmark	June 2020	September 2020
3-month LIBOR	0.14%	0.06%
3-year LIBOR	0.19%	0.11%
10-year EUR Swap	0.17%	0.23%

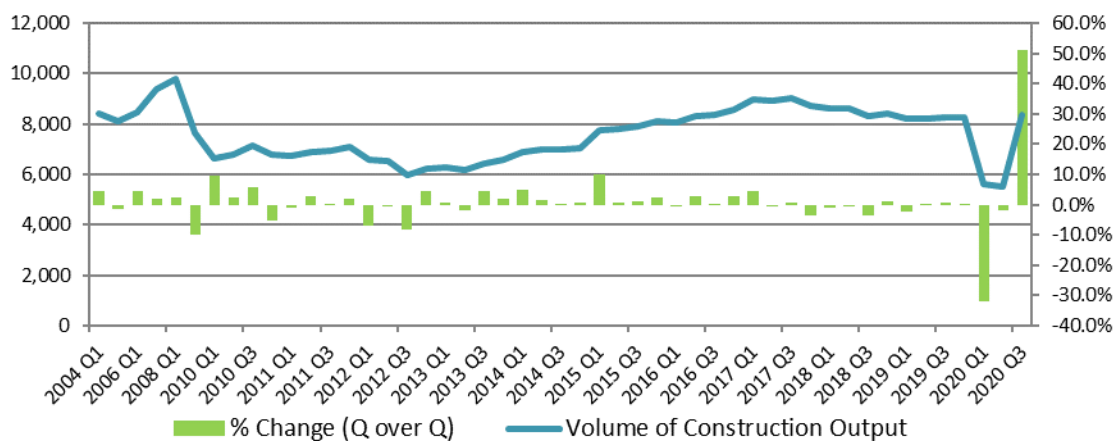
Source: Bloomberg.

- Any future movement in yields will be dependent on the availability and cost of debt and the strength of the underlying occupational markets.
- Speculative development finance for commercial assets remains challenging for borrowers to source given the current climate.
- Given high demand for cost efficient debt and limited competition from lenders, attractive risk adjusted yields of gross 8%+ can be achieved on prudent stretch senior loans.

Construction Output

- Construction output increased by 2.9% in the month-on-month all work series in September 2020, driven by increases in both new labor (2.7%) and repair and maintenance (3.4%); this is the fifth consecutive month of growth but the lowest increase in the same period.

Volume of Construction (£)



Source: Bloomberg, Office for National Statistics

U.K. Commercial Real Estate Market Fundamentals

	Market Sentiment	Q3 2019	Q2 2020	Q3 2020
Office				
London – West End (Core)	Negative	3.50% - 3.75%	3.50% - 3.75%	3.50% - 3.75%
London – City (Prime)	Negative	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%
SE Towns	Negative	5.00%	5.25%	5.25%
Major Regional Cities	Negative	4.75%	5.00%	5.00%
Retail				
High Street Retail – Prime	Negative	5.00%+	6.25% - 6.50%	6.25% - 6.50%
High Street Retail – Good Sec.	Negative	7.00%	8.25%+	8.25%+
High Street Retail – Sec./Tert.	Negative	10.00%++	10.00%++	10.00%++
Shopping Centres				
Shopping Centres – Regional	Negative	5.50%	7.00%	7.00%+
Shopping Centres – Local Scheme	Negative	8.50% - 10.50%	9.5% - 12.50%	9.50% - 12.50%
Industrial				
Bulky Goods Parks – Prime	Negative	6.25%	7.00%	7.00%
Bulky Goods Parks – Secondary	Negative	7.75%	8.50%+	8.50%+
Distribution – Prime	Stable	4.00%	4.00%-	4.00%-
Distribution – Secondary	Negative	5.00%	5.50%	5.50%
SE London Estate – Prime	Negative	4.00%	4.25%	4.25%
Estate – Secondary	Negative	6.00%+	6.25%+	6.25%+

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

Note: “Secondary” refers to outlying markets.

Sources

- *Bloomberg*, www.bloomberg.com;
- *Central Statistics Office Ireland (CSO)*, www.cso.ie;
- *ECB Introductory Statement to Press Conference*, www.ecb.europa;
- *Education.ie*;
- *CBRE*;
- *Cushman and Wakefield*;
- *Lisney*;
- *Bannon*;
- *Cogent*;
- *IDA*;
- *Hooke & Macdonald*;
- *Savills*;
- *PWC*;
- *HOTSTATS*;
- *Daft.ie*;
- *IDA*;
- *Cork Chamber Support*;
- *Irish Times*;
- *Property Week*;
- *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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