

Quadrant Real Estate Advisors LLC

U.K. Economic & Commercial Real Estate Market Commentary

4th Quarter 2019



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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 December 31, 2019, Quadrant had approximately \$11 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.

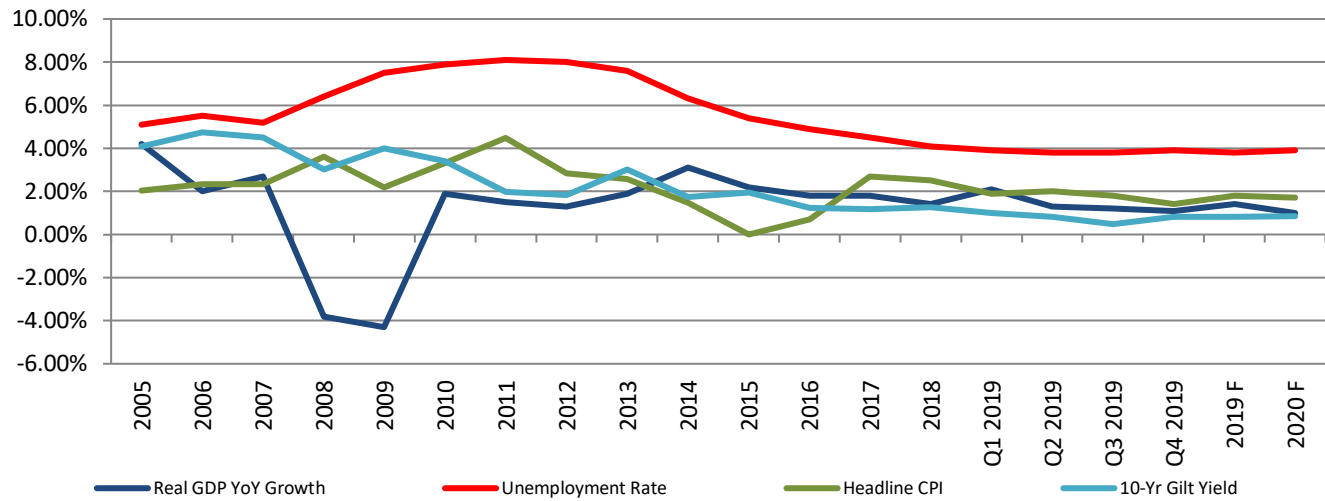
Since 1993, Quadrant's senior management has worked together as a team providing the firm's clients with access to both privately placed and publicly traded commercial real estate debt and equity investments through commingled funds and single client accounts. In addition to experience, senior management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

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

Executive Summary

- **The full year 2019 GDP was 1.4% (revised).**
 - Real Gross Domestic Product (“GDP”) growth in the U.K. year-on-year for the quarter ending December 31, 2019 is estimated to be 0.0%, down compared to the same quarter for 2018 at 1.5% (revised).
- According to the National Statistics Office, 76.5% of people were employed in Q4’2019, compared to 75.8% in Q3’2018.
- The Bank of England Bank Rate remained unchanged at 0.75%.

Key Economic Indicators



Source: Bloomberg, Capital Economics, Office for National Statistics

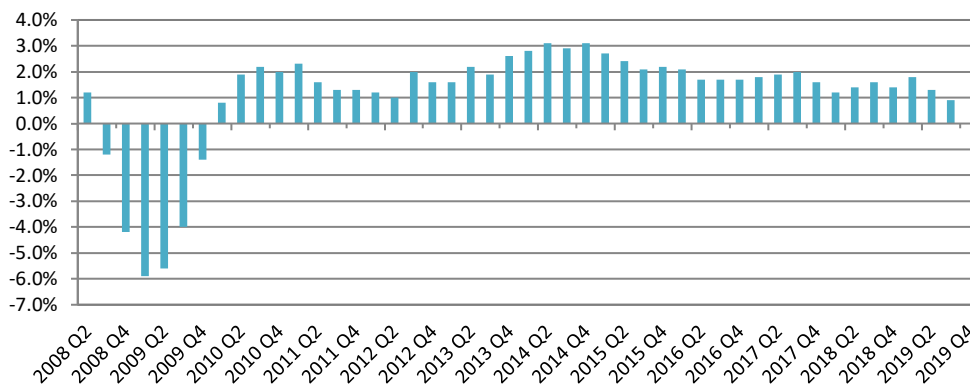
- The pound increased by 6.50% against the US dollar to \$1.31 at the end of the current quarter. The pound decreased 4.49% against the Euro to €0.85 at the end of the current quarter.
- The UK officially left the European Union on January 31st, 2020, starting a yearlong transition period during which, the Government will negotiate additional 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 and what, if any, trade deal will look like come 2021.
 - Quadrant remains cautious on UK commercial real estate.

U.K. Economy

Gross Domestic Product (“GDP”)

- The preliminary estimate of 4rd Quarter 2019 year-over-year real GDP growth is 0.0%, down from 1.5% in 2018.
- 4rd Quarter GDP was down 150 BPS, compared to the same quarter last year.
 - This was attributed to contraction in productivity, construction and general Brexit concerns.

Real Gross Domestic Product Growth (GBP-denominated)

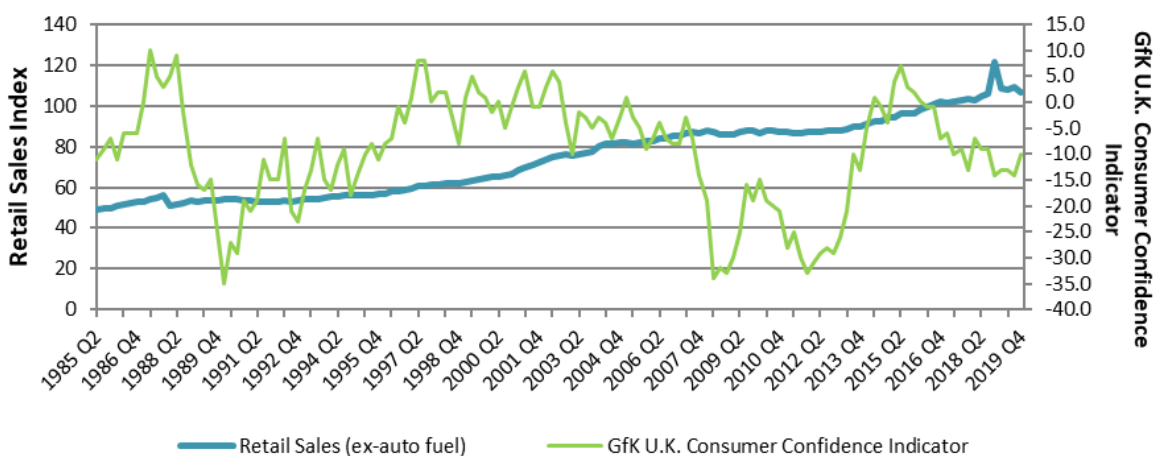


Source: Bloomberg, Office for National Statistics

Consumer Outlook

- The GfK U.K. Consumer Confidence Indicator for Q4’2019 improved to -10 from -14 in Q3’2019.
- Nominal retail sales (excluding automobile fuel) decreased by 2.1% quarter-over-quarter, and 12% year-over-year.

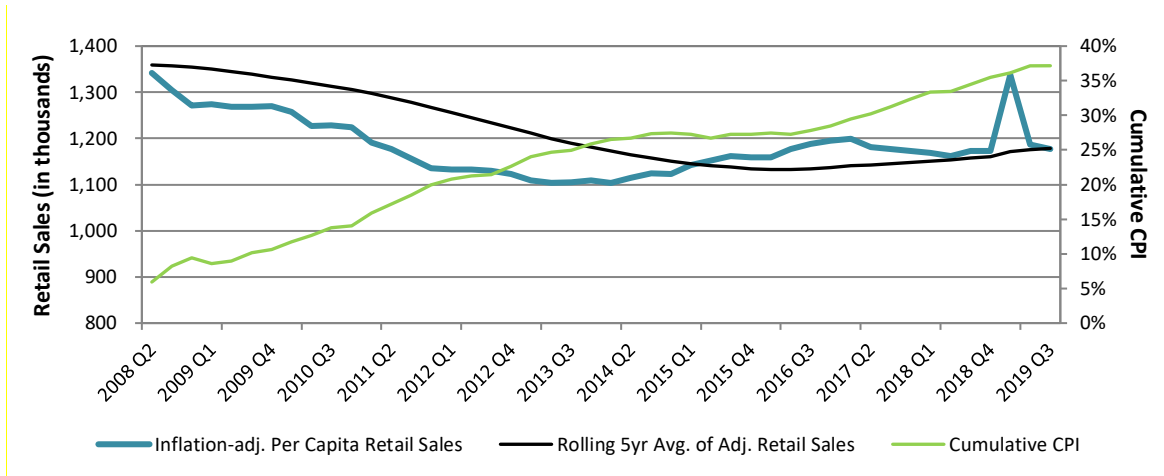
Consumer Confidence and Nominal Retail Sales



Source: GfK, Office for National Statistics

- Inflation-adjusted per capita retail sales in Q4'2019 remained stable at £1,181.
 - The metric remained 12.0% 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

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

Inflation

- The Bank of England has set an inflation target of 2%.
- The Consumer Price Index (“CPI”) remained stable at 1.3% year-on-year.
- The primary factor for the slight contraction was a combination of election period uncertainty and Brexit.

Labour Market

- Total employment increased to 32,934,000 from September 2019 to December 2019.
- Employment among people aged 16 to 64 increased to 76.5%.
- The unemployment rate increased by 0.1% to 3.9% for Q4'2019.

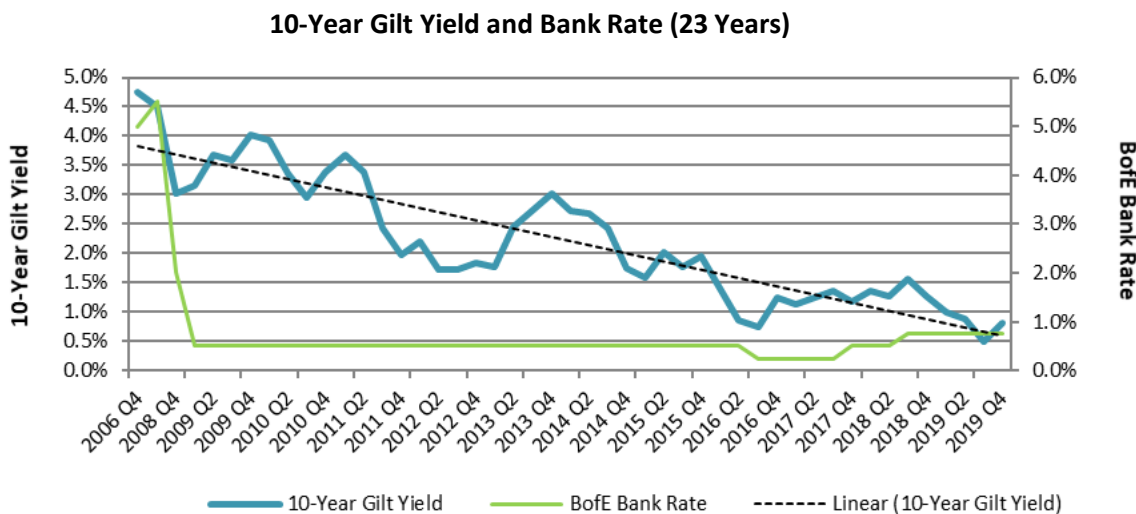
Total Employment and Unemployment Rate



Source: Bloomberg, Office for National Statistics

Interest Rates

- The Bank of England Rate remained unchanged at 0.75% during the third quarter.
- It is expected that any increases in the bank rate will be implemented at a gradual and slow pace.
- 10-Year Gilt yields increased quarter-over-quarter from 0.486% to 0.820%.



Source: Bloomberg

Interest Rate Benchmarks

Benchmark	September 2019	December 2019
3-month LIBOR	0.75%	0.79%
2-year LIBOR	0.36%	0.53%
10-year EUR Swap	0.64%	1.02%

Source: Bloomberg.

U.K. Commercial Real Estate Market Fundamentals

Property Investment Yields (Cap Rates)

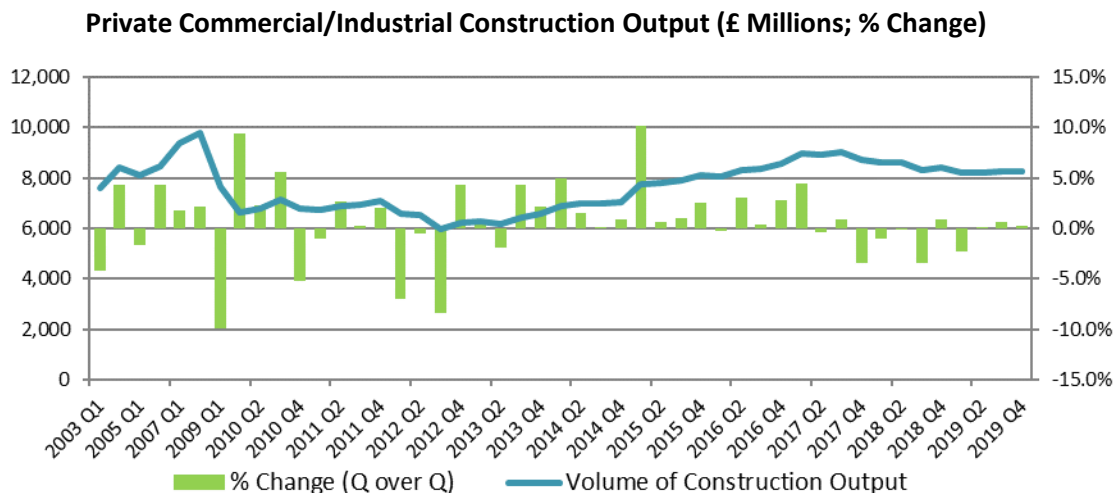
Property Sector	Market Sentiment	Dec-19	Sep-19	Dec-18
Office				
London – West End (Core)	Stable	3.50% - 3.75%	3.50% - 3.75%	3.50%
London – City (Prime)	Stable	4.00% - 4.25%	4.00% - 4.25%	4.00% - 4.25%
M25 / South East	Stable	5.00%+	5.00%	5.00%
Major Regional Cities	Stable	4.75%	4.75%	4.75%
Retail				
High Street Retail – Prime	Negative	5.25%	5.00%+	4.50%+
High Street Retail – Secondary	Negative	7.50%	6.50%+	6.50%+
High Street Retail – Sec./Tertiary	Negative	10.00%++	10.00%++	10.00%++
Shopping Centres				
Shopping Centres – Dominant Prime	Negative	7.50%	7.25%	6.25%+
Shopping Centres – Secondary	Negative	10.00%+	10.00%+	10.00%+
Shopping Centres – Secondary (out of town)	Negative	7.50%	7.25%	6.00%
Industrial				
Bulky Goods Parks – Prime	Negative	6.50%	6.25%	6.00%
Bulky Goods Parks – Secondary	Negative	8.00%	7.75%	7.50%
Distribution – Prime	Stable	4.00%	4.00%	4.00%
Distribution – Secondary	Stable	5.00%	5.00%	5.00%
Estate – Prime	Stable	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: “Strong Secondary” refers to metro areas of major regional cities, and “Secondary” refers to outlying markets.

Spatial Supply

- The supply of property available on the sales market was relatively unchanged for a fourth straight quarter.
- Output saw a 0.8% increase because of growth in all sectors apart from private new housing and public other new work, both of which fell 1.1%; the largest positive contributions came from private commercial and public new housing, which grew by 2.5% and 8.4% respectively.
- 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’ September 2019 Future Trends Survey shows a decrease in workload confidence.
- The September workload index rose to -2, after being -5 for the previous quarter.
 - Committing to business plans is becoming increasingly hard as Brexit contributes to an unpredictable and volatile market.

Spatial Demand

- Occupier demand remained negative for the 7th quarter in succession with a net balance of -12% for Q4’2019 (Royal Institution of Chartered Surveyors (“RICS”) Commercial Property Market Survey).
 - However, disaggregating the figures shows the retail sector was the only area to see outright decline, posting a net balance of -58%.
- Spatial demand remains cautious as the Brexit aftermath weighs on decision makers.

Rental Rate Growth

U.K. CRE Rental Rate Growth by Property Sector

Property Sector	Rental Growth (forecasts in gray)				Rental Growth (forecasts in gray)			
	2016	2017	2018	Q4’2019	2019	2020	2021	2022
Office	2.9%	0.7%	1.5%	0.6%	2.6%	1.2%	1.6%	1.6%
Retail	1.0%	1.4%	1.2%	-1.1%	-6.8%	-0.6%	0.9%	1.2%
Industrial/Warehouse	3.5%	10.4%	8.0%	1.5%	5.8%	1.9%	1.6%	1.6%

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*;
- *Cushman and Wakefield*;
- *Lisney*;
- *Bannon*;
- *Cogent*;;
- *PWC*;
- *HOTSTATS*;
- *Daft.ie*;
- *IDA*;
- *RICS*;
- *RIDA*;
- *Quadrant Market Discussions*.

Important Disclosures

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