

Quadrant Real Estate Advisors LLC

U.K. Economic & Commercial Real Estate Market Commentary

4th 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 December 31st, 2020, Quadrant had approximately \$1.32 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.

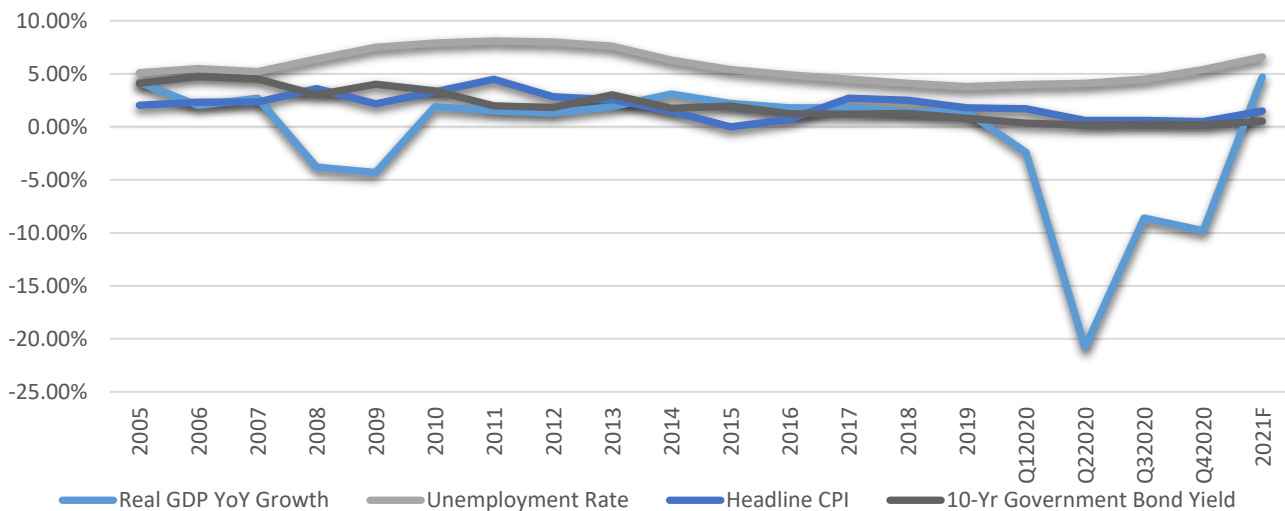
Since 1993, Quadrant’s senior management has worked together as a team providing the firm’s clients with access to both privately placed and publicly traded commercial real estate debt and equity investments through commingled funds and single client accounts. In addition to experience, senior management 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; Linda Hoard, Executive Vice President; Linda Nel, Executive Vice President.

Executive Summary

- **2020 GDP is forecast at -10.6%.**
 - Real Gross Domestic Product (“GDP”) growth for the quarter ending December 31, 2020 is estimated at -9.8%, compared to 0.1% for the same period ending Q4 2019.
 - According to the Office of National Statistics (ONS), 75.0% of people were employed in **Q4 2020**, compared with 75.2% in **Q3 2020**.
- **Impact of COVID-19:**
 - The UK Government announced a lockdown starting January 2021, shutting all non-essential work and travel.
 - Education and construction sites are among the few sectors permitted to remain open. Restrictions are set to relax over Q1 2021 and Q2 2021.

- **Key Economic Indicators**



Source: Bloomberg, Capital Economics, Office for National Statistics

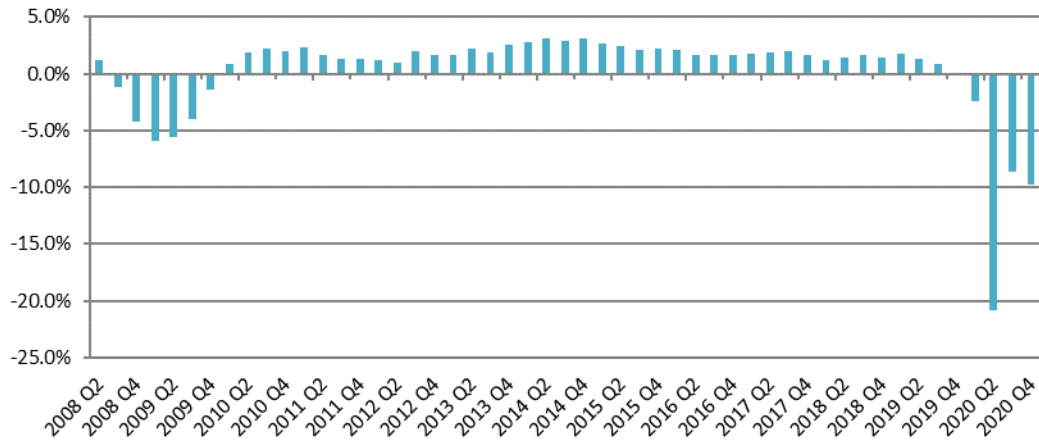
- The Pound increased by 5.43% against the US Dollar to \$1.36 at the end of the current quarter. The Pound increased by 0.91% against the Euro to €1.11.

U.K. Economy

- **Gross Domestic Product ("GDP")**

- The current forecasted GDP growth for Q1 2021 and Q2 2021 are -9.0% and 17.2% respectively.

Real Gross Domestic Product Growth (GBP-denominated)

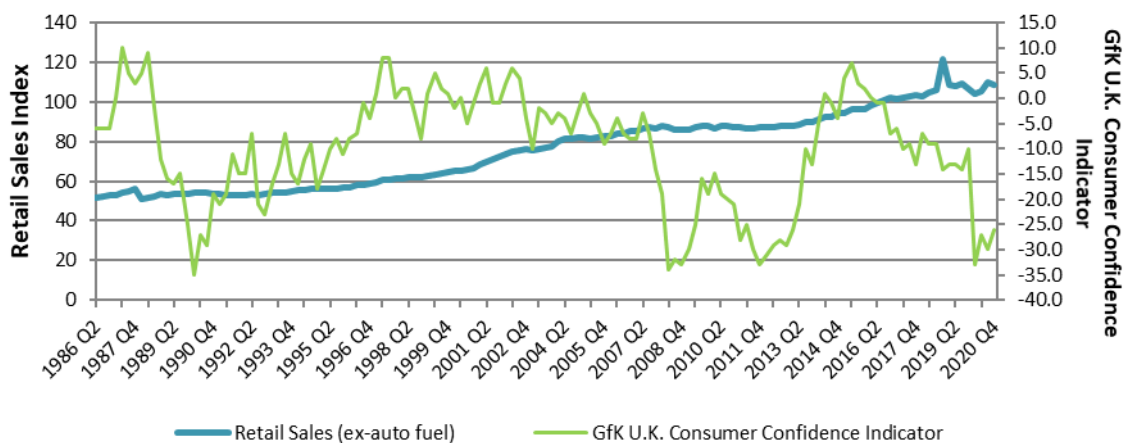


Source: Bloomberg, Office for National Statistics

Consumer Outlook

- The GfK U.K. Consumer Confidence Indicator for Q4 2020 increased to -26 from -30 in Q3 2020.
- Nominal retail sales (excluding automobile fuel) decreased by -1.3% quarter-over-quarter and increased by 1.4% year-over-year.

Consumer Confidence and Nominal Retail Sales

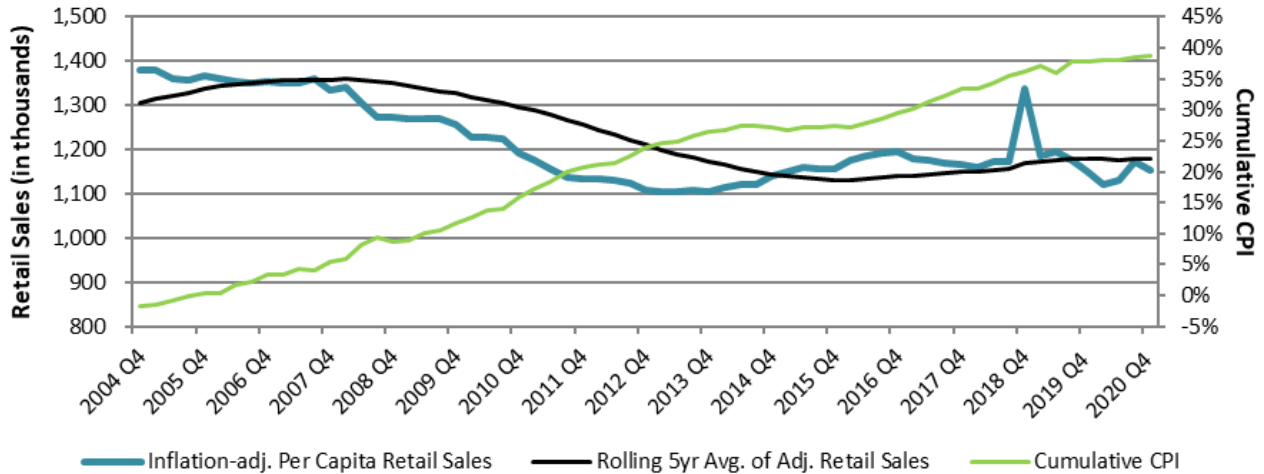


Source: GfK, Office for National Statistics

Consumer Spending & Inflation

- Inflation-adjusted per capita retail sales in Q4 2020 remained stable at £1,154.
 - The metric remained below the first quarter 2008 pre-recessionary amount of £1,342.

Inflation-Adjusted Per Capita Retail Sales



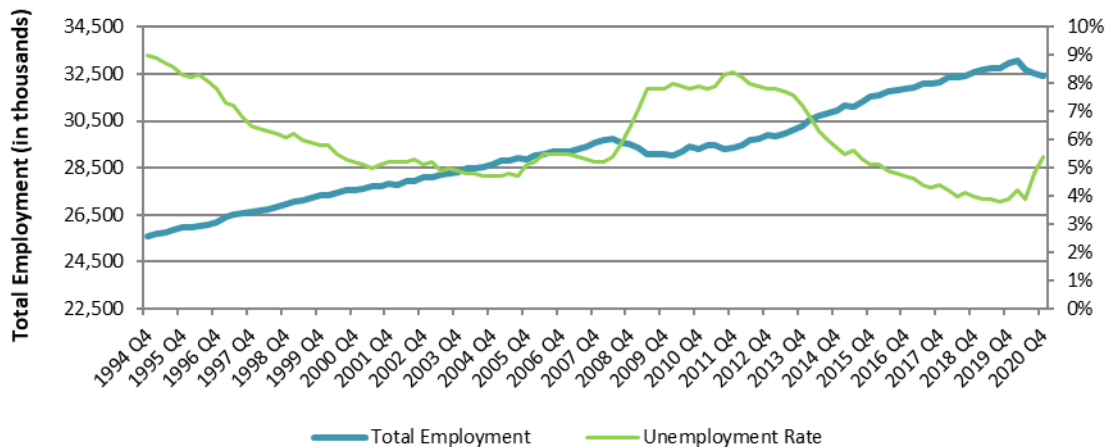
Source: Bloomberg, Office for National Statistics, Quadrant Real Estate Advisors

- The Bank of England has maintained its inflation target of 2.00% per annum.
- The Consumer Price Index (“CPI”) decreased to 0.6% year-on-year.

Labor Market

- Total employment decreased to 32,393,000 at end December 2020, down by -117,000 from Q3 2020.
- The unemployment rate increased by 0.6% to 5.4% for Q4 2020.

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	September 2020	December 2020
3-month LIBOR	0.06%	0.03%
3-year LIBOR	0.11%	0.09%
10-year EUR Swap	0.40%	0.40%

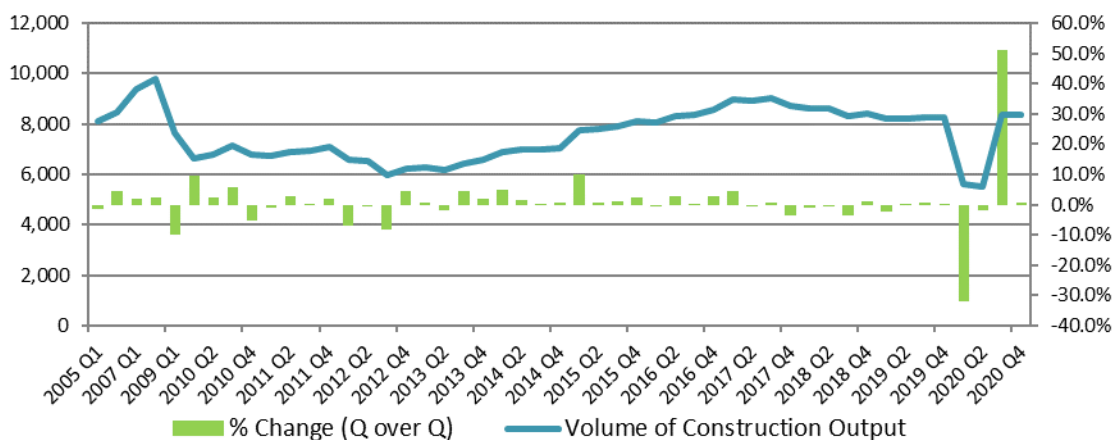
Source: Bloomberg.

- 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 real estate remains challenging for borrowers to source.
- Given high demand for cost efficient debt and limited competition from lenders, attractive risk adjusted yields of gross 6%+ can be achieved on prudent stretch senior loans.

Construction Output

- Construction output increased by 0.5% in the month-on-month all work series in December 2020, driven by an increase in productivity (3.5%).

Volume of Construction (£)



Source: Bloomberg, Office for National Statistics

U.K. Commercial Real Estate Market Yields

	Market Sentiment	Q4 2019	Q2 2020	Q3 2020	Q4 2020
Office					
London – West End (Core)	Negative	3.50% - 3.75%	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%	4.00% - 4.25%
SE Towns	Negative	5.00%+	5.25%	5.25%	5.25%
Major Regional Cities	Negative	4.75%	5.00%	5.00%	5.00%
Retail					
High Street Retail – Prime	Negative	5.50%+	6.25% - 6.50%	6.25% - 6.50%	6.25% - 6.50%
High Street Retail – Good Sec.	Negative	7.50%	8.25%+	8.25%+	8.25%+
High Street Retail – Sec./Tert.	Negative	10.00%++	10.00%++	10.00%++	10.00%++
Shopping Centres					
Shopping Centres – Regional	Negative	6.00%	7.00%	7.00%+	7.00%+
Shopping Centres – Local Scheme	Negative	8.75%	9.5% - 12.50%	9.50% - 12.50%	9.50% - 12.50%
Industrial					
Bulky Goods Parks – Prime	Negative	6.50%	7.00%	7.00%	7.00%
Bulky Goods Parks – Secondary	Negative	8.00%	8.50%+	8.50%+	8.50%+
Distribution – Prime	Stable	4.00%	4.00%-	4.00%-	3.50%
Distribution – Secondary	Negative	5.00%	5.50%	5.50%	5.00% - 5.25%
SE London Estate – Prime	Negative	4.00%	4.25%	4.25%	4.00% - 4.25%
Estate – Secondary	Negative	6.00%+	6.25%+	6.25%+	6.00%

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

Note: “Secondary” refers to outlying markets.

Sources

- *Bloomberg*, www.bloomberg.com;
- *Office of National Statistics (ONS)*;
- *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

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