

UK Real Estate Market Update

28th April 2020



FIERA REAL ESTATE - UK REAL ESTATE MARKET UPDATE

General Commentary

- › **Economic effect** of COVID-19 has been felt globally since late February.
- › \$3.3tn estimated cost of **global health and relief measures**ⁱ. The US Fed balance sheet to increase by \$2tn (+50%) in 2020.
- › **UK balance sheet** also expanding with borrowing set to be **£273bn in 2020**.
- › **9 million employees** now being paid directly by the governmentⁱⁱ.
- › IMF predict that most G7 economies will see a **deep recession** in 2020 and a recovery from 2021 onwards, with northern European, North America, Japan and Chinese economies coping best.
- › Recovery relies on public compliance with health measures and the **creation of a cure or vaccine** for COVID-19 being widely available in the next year.

Summary: Unprecedented government intervention is unlikely to stop a very deep global recession, with the speed of recovery in the hands of science.

UK Real Estate Market Commentary

- › UK all **property valuations fell** 2.7% in Q1 2020; retail assets suffered the worst falling by 6.3%ⁱⁱⁱ, although asset valuations were caveated with Material Valuation Uncertainty clauses.
- › **Transactional volumes** have reduced very rapidly after a strong start to Q1 2020 due to physical restrictions, limiting ability for “price discovery” of an assets real value.
- › **London** is expected to hold up better than rest of UK, as overseas capital continues to seek safer haven locations and asset types.
- › **Delivery of new buildings** is reducing as many construction sites are closed (impacting 79% of residential units)^{iv}. 2020 will likely see 30% less residential units started than 2019^v.
- › Only **60%+ of tenants have paid rent** in March 2020, usually paid quarterly in advance in the UK, versus 90%+ in an average quarter^{vi}. UK Government suspended property owners remedies for non-payment.

Summary: The real estate market is in hibernation and the real impact has not yet been felt.

Fiera Real Estate UK Short Term Market Forecast (6-18 months)

- > **Tenant Default:** Non-payment of rent and vacancy rates will increase in the next few quarters as disruptions bites (Q2 2020 will be much more disrupted than Q1).
- > **Asset Sales:** Defaults on interest payments are unlikely to be ignored by banks (unlike the valuations defaults in the GFC).
- > **Demand Shock:** Changed consumer behaviour will mean many occupational sectors will collapse (leisure, hospitality, non-food retail, transport). This will outweigh the supply shock (lack of delivery), with uncertainty of income receipt increasing the risk premium investors demand for holding assets.
- > **Falling Real Values:** Asset value will decline as sales happen relatively quickly, with average values falling >20% if the UK REIT market is a guide^{vii}, although high quality assets will hold up better.
- > **Emerging Investor Activity:** More pro-active investors will start to look for blind pool funds and structures unencumbered with legacy issues through which they can enter the market.

Summary: Prepare for a short, sharp fall in values during 2020.

Fiera Real Estate UK Medium Term Market Forecast (12-36 months)

- > **Falling Yields:** Rapid and huge governmental intervention and liquidity will reduce yields across all income producing assets. As occupational markets stabilise (sector by sector) demand for Grade A income producing assets will grow, pushing yields lower.
- > **Inflation Worries:** The increased liquidity may create longer term inflation pressure that enhances the attraction of real assets.
- > **Unchecked Demand:** UK population growth will continue (it's the highest growth rate in the main European countries and the most densely populated country) ahead of the reduced new supply of assets, driving pricing in most sectors, especially residential.
- > **Gradual Economic Recovery:** As the economy slowly picks up, real rents will start to grow, especially in the office and warehousing sectors reflecting lack of supply.
- > **Brexit:** The changes driven by Brexit (new corporate real estate footprints and new supply changes) will remain, even if the UK and EU extend the transition beyond 2020.
- > **Technology:** The COVID-19 experience will accelerate the ongoing changes, with the continued growth of online sales in the UK (already No.1 per capital globally)^{viii} and shift to amenitised offices to attract remote enabled workers.

Summary: Longer term, the relative performance of real estate in the UK should be attractive for investors with better quality assets, low leverage and experienced management.



ALEX PRICE

Chief Executive, Fiera Real Estate UK

T: +44 207 409 5504

E: Alex.Price@fierarealestate.com

Sources:

- ⁱ IMF April 2020
- ⁱⁱ OBR April 2020
- ⁱⁱⁱ MSCI Monthly index April 2020
- ^{iv} Savills and MHCLG April 2020
- ^v Source JLL April 2020
- ^{vi} Savills April 2020
- ^{vii} FTSE 350 REIT performance 24th February 2020 to date
- ^{viii} Ecommerce foundation 2019

Disclaimer

This document is for information purposes only and does not constitute an offering of any security, product, service or fund; recipients should consult their respective advisors regarding such matters. This document may not be used in making any investment decision. This document contains only summary information and no representation or warranty, express or implied, is or will be made in relation to the accuracy or completeness of the information contained, by Fiera Real Estate UK. Fiera Real Estate UK is affiliated with Fiera Capital Inc. via common ownership by Fiera Capital Corporation.

Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

This document is confidential and is being provided to you on the express understanding that it will not be reproduced or transmitted by you to third parties without Fiera Real Estate UK prior written consent. If you are not the intended recipient of this document, you are hereby notified that the use, circulation, quoting, or reproducing of this document is strictly prohibited and may be unlawful. Additional information is available upon request.

Any opinions expressed in this presentation may be subject to change without notice. Although statements of fact and data contained in this presentation have been obtained from, and are based upon, sources that Fiera Real Estate UK believes to be reliable, Fiera Real Estate UK does not guarantee their accuracy, and any such information may be incomplete or condensed. No representation is made that the information contained herein is accurate or complete, and it may not be relied upon as such.

The information provided is proprietary to Fiera Real Estate UK and it reflects Fiera Real Estate UK views as of the date of this document. Such views are subject to change at any point without notice. Some of the information provided herein is from third party sources and/or compiled internally based on internal and/or external sources and are believed to be reliable at the time of production but such information is not guaranteed for accuracy or completeness and was not independently verified. Fiera Real Estate UK is not responsible for any errors arising in connection with the preparation of the data provided herein. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of such information by Fiera Real Estate UK or any other person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any information. Certain information contained in this document may constitute "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any strategy or market sector may differ materially from those reflected or contemplated in such forward-looking statements.