UK ECONOMIC AND INVESTMENT BRIEFING
DECEMBER 2017

Economic

- UK GDP growth was confirmed at 0.4% q-o-q and 1.5% y-o-y in Q3.
- Survey data so far is consistent with the economy growing at a quarterly rate of 0.5% in the closing months of 2017.
- BNP Paribas have revised up global growth forecasts for 2018, reflecting a stronger end to 2017. The UK growth forecast remain unchanged for 2017 with a slight upgrade to 2018's growth forecast.

Investment

- Preliminary figures for 2017 to end-November* put UK-wide investment at over £47 billion, already in line with 2016 volumes, with the traditionally strong December finish yet to come.
- Alongside the overarching trends of trophy asset sales and substantial overseas investor activity, a small but key trend over 2016-17 has been the rise of direct investment in commercial real estate by Local Authorities.
- Provisional 2017* figures place Government & Local Authority investment at £1.63 bn, in line to match or even surpass 2016's record levels.

*2017 figures to end-November are provisional and subject to change. Source: BNPPRE/ Property Data

Survey data so far indicates UK growth in final quarter to be

0.5%

BNP Paribas expect UK growth for this year to reach

1.5%

UK GDP in Q3 confirmed at

0.4%

2017 to end-November* UK-wide investment stands at over

£47bn

2017 to end-November* investment by Government & Local Authorities has reached over

£1.6bn

Over 2016 to end-November 2017*, 83.5% of LA investment has been concentrated within their respective jurisdictions

83.5%

CONTACTS

Damian Cronk
Head of Commercial Markets
damian.cronk@realestate.bnpparibas
+44 (0)20 7318 5065

Sukhdeep Dhillon
Senior Economist
sukhdeep.dhillon@realestate.bnpparibas
+44 (0)20 7338 4834

Katie Taylor
Senior Research Analyst
katie.taylor@realestate.bnpparibas
+44 (0)20 7338 4346

UK ECONOMIC UPDATE

UK GDP confirmed at 0.4% in Q3 2017

UK GDP growth was confirmed at 0.4% q-o-q and 1.5% y-o-y in Q3. This is a small improvement on 0.3% from the previous quarter. Looking at the expenditure breakdown, consumption growth picked up from 0.2% q-o-q in Q2 to 0.6% in Q3 2017, despite the continuing real wage squeeze. Business investment increased by 0.2% q-o-q, down from 0.5% q-o-q.

Slower service sector growth but manufacturing & construction improve

The UK manufacturing PMI increased to 58.2 in November, its highest level in over four years. The improvement was broad-based. There were sharp rises in the sub-indices for new orders output expectations and new export orders.

Despite the inflation squeeze and Brexit uncertainty impairing domestic demand, many manufacturers are seeing benefits of the weaker pound and the solid global recovery. However, it remains to be seen to what extent the PMI strength will show up in actual output data.

Service sector PMI growth eased from the six-month peak seen in October. Slower service sector growth comes as the data shows improved performances of both manufacturing and construction in November.

Service providers' optimism remained weak, and is largely attributed to heightened economic uncertainty and ongoing pressure on margins from sharply rising input costs.

Despite the weaker service sector expansion, the latest survey data indicates that the economy is on course to enjoy robust growth in the fourth quarter. Survey data so far is consistent with the economy growing at a quarterly rate of 0.5% in the closing months of 2017.

BNP Paribas revise up global growth

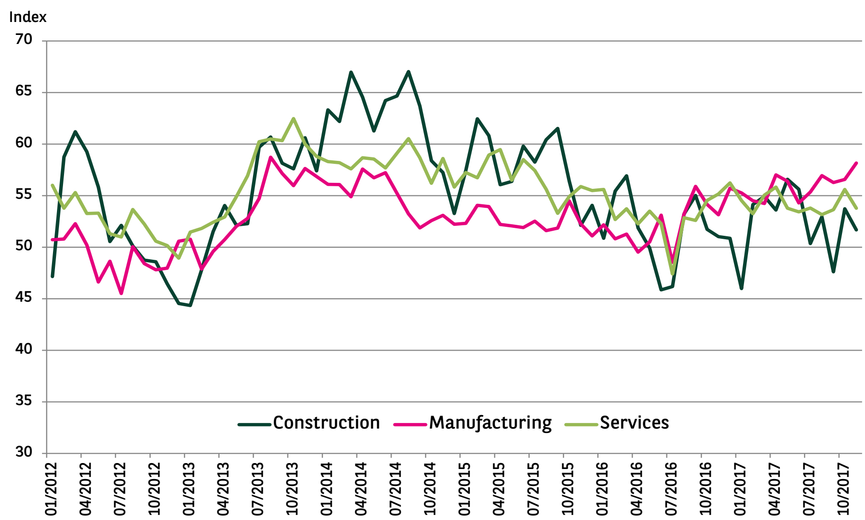
BNP Paribas have revised up global growth forecasts for 2018, reflecting a stronger end to 2017. The UK, however, is forecast to slow in 2017 and 2018 but to pick up in 2019. Strong growth on the mainland of Europe is helping to support activity in the UK. But the consumer still looks to be suffering from weaker growth in real wages as a result of inflation rising to 3%. Uncertainty continues to weigh on investment and exports, despite soft sterling and booming global trade. Therefore, UK growth is likely to be only 1.5% this year and 1.2% in 2018 before picking up to 1.8% in 2019 as some of the Brexit effects – especially slower consumption – fade.

In terms of interest rates, BNP Paribas do not expect the Bank of England to deliver another rate hike until Q4 2018. The Fed will likely hike in December, then three more times in 2018. The ECB looks set to continue QE until end-2018 with a hike expected in June 2019.

"UK growth is likely to be only 1.5% this year and 1.2% in 2018 before picking up to 1.8% in 2019 as some of the Brexit effects fade."

"Survey data so far is consistent with the economy growing at a quarterly rate of 0.5% in the closing months of 2017."

PURCHASING MANAGERS INDICES



Source: Macrobond

UK INVESTMENT UPDATE

Preliminary figures for 2017 to end-November put UK-wide investment at over £47 billion, already in line with 2016 volumes, with the traditionally strong December finish yet to come.

Alongside the overarching trends of trophy asset sales and substantial overseas investor activity, a small but key trend to surface over 2016-17 has been the rise of Local Authorities as a more substantial direct investor in commercial real estate.

Following years of low level activity, over 2016 Government and Local Authority investment reached £1.71 bn, the highest level on record and an almost 600% rise on 2015. Latest provisional figures for 2017 to end-November indicate that momentum has been sustained with current investment standing at £1.63 bn.

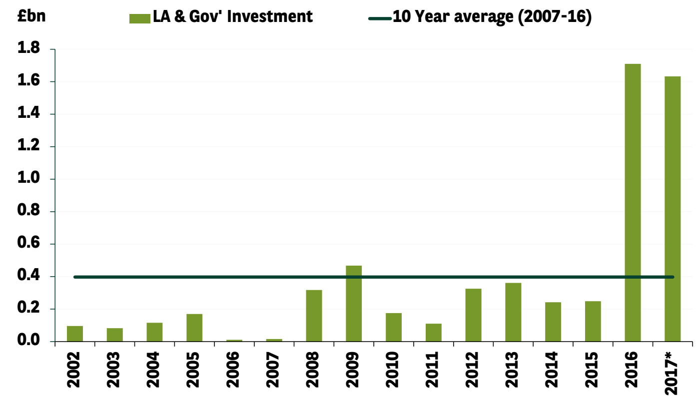
The impetus to increase investment in commercial real estate has been driven by the current climate of local government budget cuts, with local authorities targeting real estate assets as a means of generating income. This move has been supported by the provision of below market rate, long-term loans from the Public Works Loans Board, a Treasury affiliated agency.

Looking at the sectors targeted, Local Authorities have overwhelmingly focused on the office and retail sectors, with 51.2% investment over 2016 to end-November 2017 directed towards the office sector, and 31.3% allocated to retail. This is at odds with national all-investor trends, which have recorded a more varied sector allocation and much stronger focus on Alternatives (25.6% total investment 2016-2017*).

The majority of Government and Local Authority capital has been focused on assets within their respective jurisdictions, accounting for 83.5% investment 2016 to end-November 2017. This inward investment has in some cases acted as a stimulus for local regeneration and economic growth, particularly in areas of the UK where institutional investors may lack market-specific knowledge or confidence.

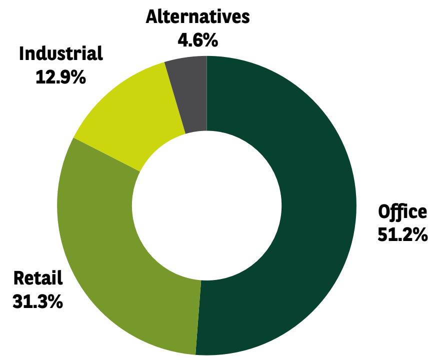
There are signs, however, of Local Authorities moving towards wider UK investment. Over 2016, investment outside jurisdictional areas accounted for just 11.9% of total investment, however over 2017 to end-November this has grown to stand at 21.3% perhaps indicating that the hunt for higher returns is becoming increasingly important, regardless of geography or jurisdiction.

GOVERNMENT & LOCAL AUTHORITY INVESTMENT VOLUMES (£bn)



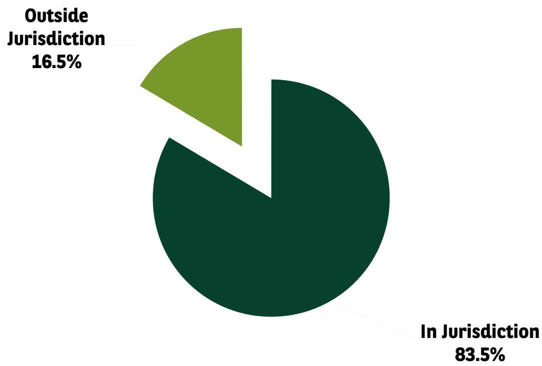
Source: BNPPRE/ Property Data, 2017* provisional data to end-Nov

GOVERNMENT & LOCAL AUTHORITY SECTOR SPLIT 2016-2017*



Source: BNPPRE/ Property Data, 2017* provisional data to end-Nov

GOVERNMENT & LOCAL AUTHORITY INVESTMENT BY JURISDICTION 2016-2017*



Source: BNPPRE/ Property Data, 2017* provisional data to end-Nov