

Economic and Property Outlook

A presentation by Avison Young

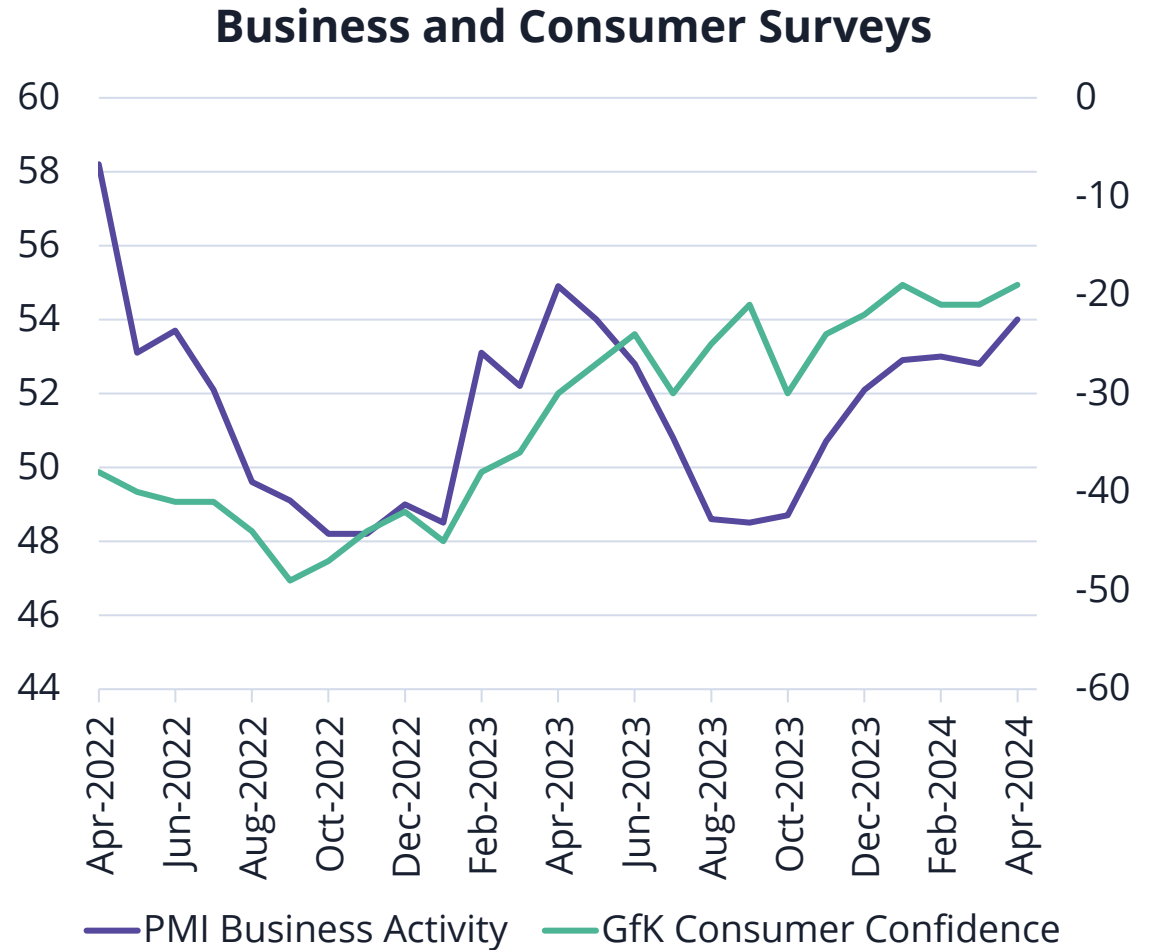
May 2024



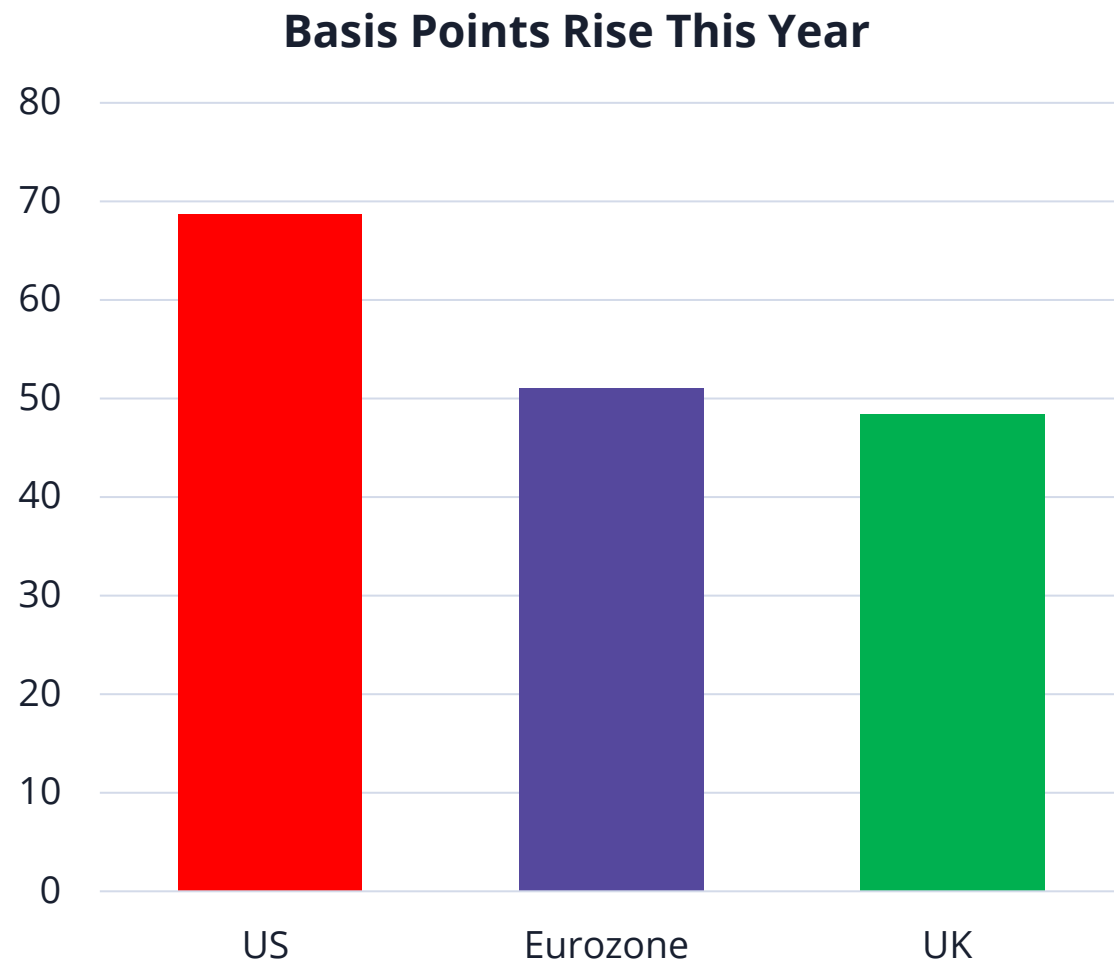
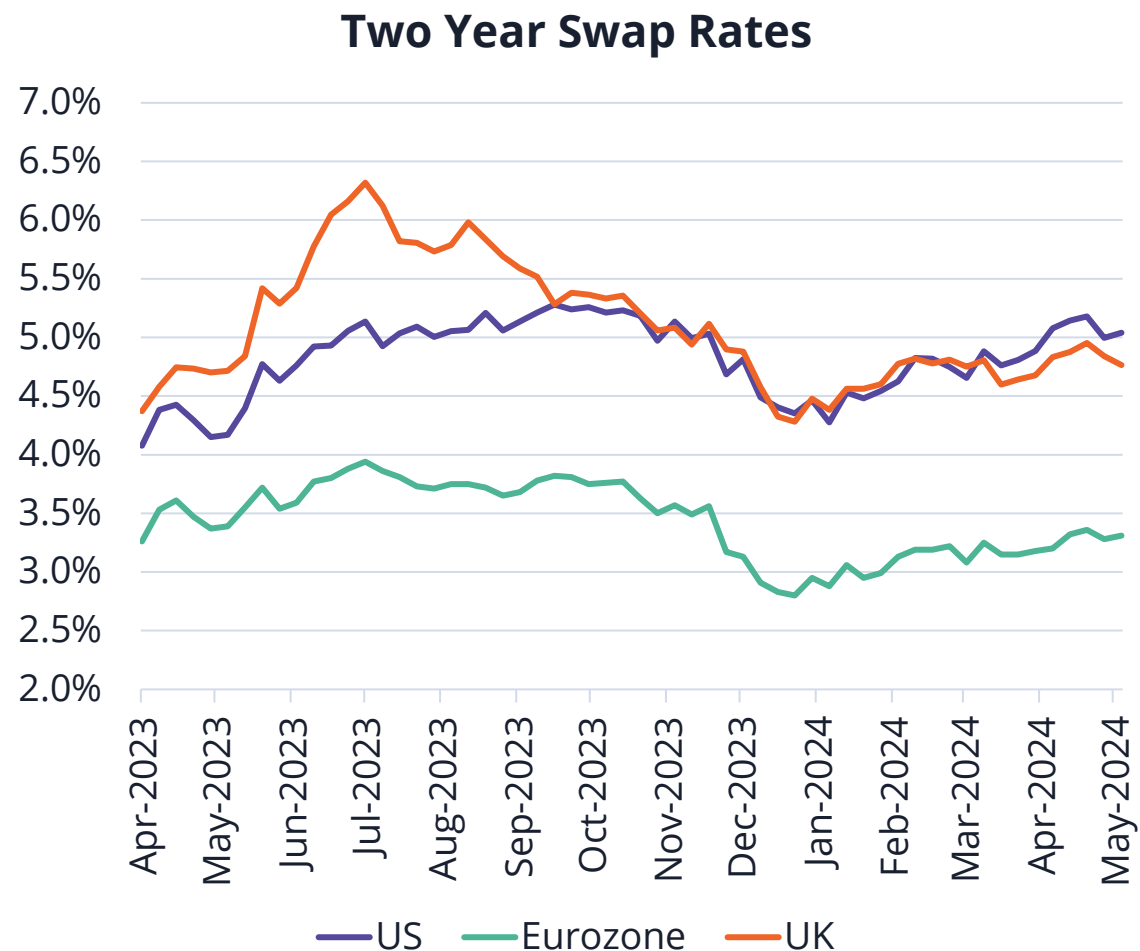
AVISON
YOUNG

Early signs of recovery

- UK exited recession in Q1.
- Survey evidence is upbeat.
- Purse strings are loosening.
- However, the labour market is slowing.



The Interest Rates Tango



The Fed Tractor Beam?



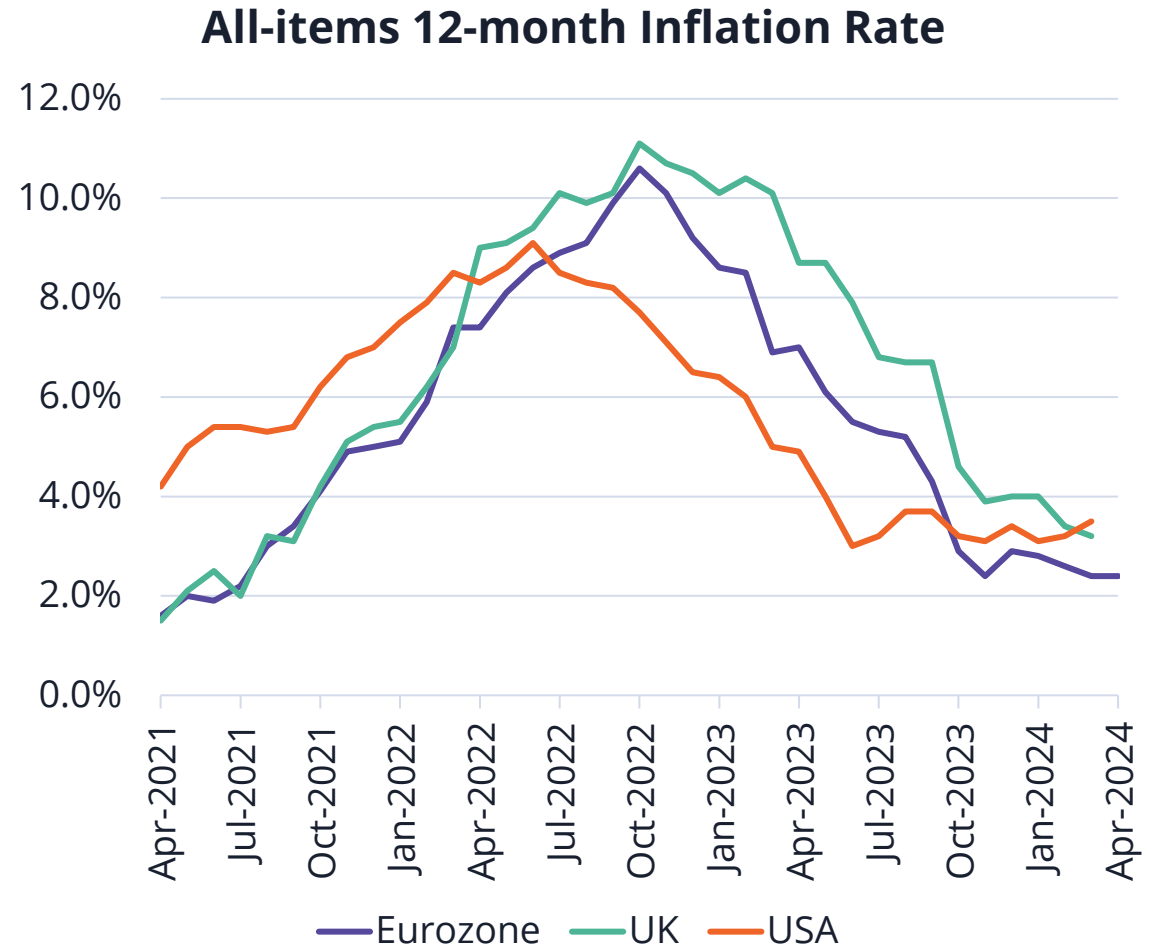
MPC guidance turns dovish

“Conditioned on market interest rates and reflecting a margin of slack in the economy, ***CPI inflation is projected to be 1.9% in two years’ time and 1.6% in three years.***”

Bank of England rate announcement press release, 9th May 2024

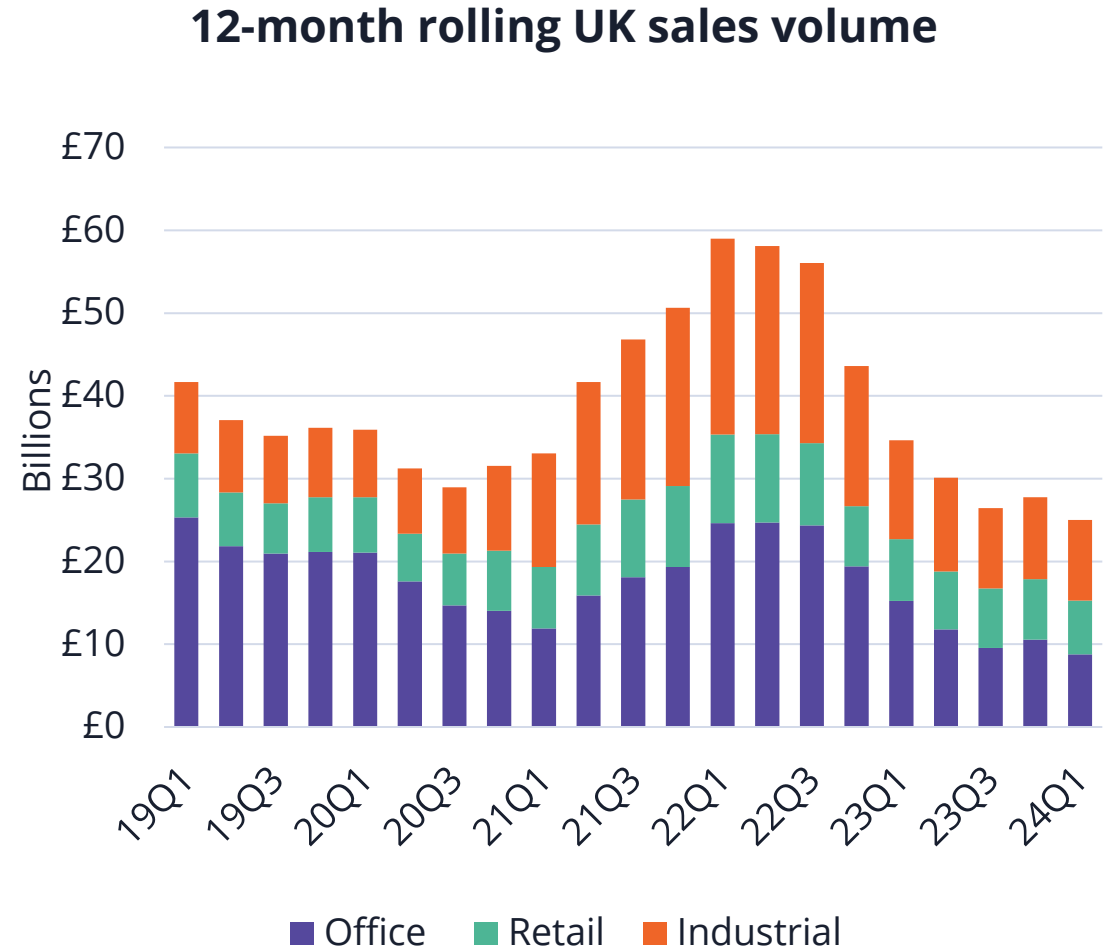
A rate cut in June or July?

- Inflation (US aside) is on a downwards trajectory.
- UK inflation back to 2% in April?
- UK labour market is softening.
- Conditions in place for a rate cut.



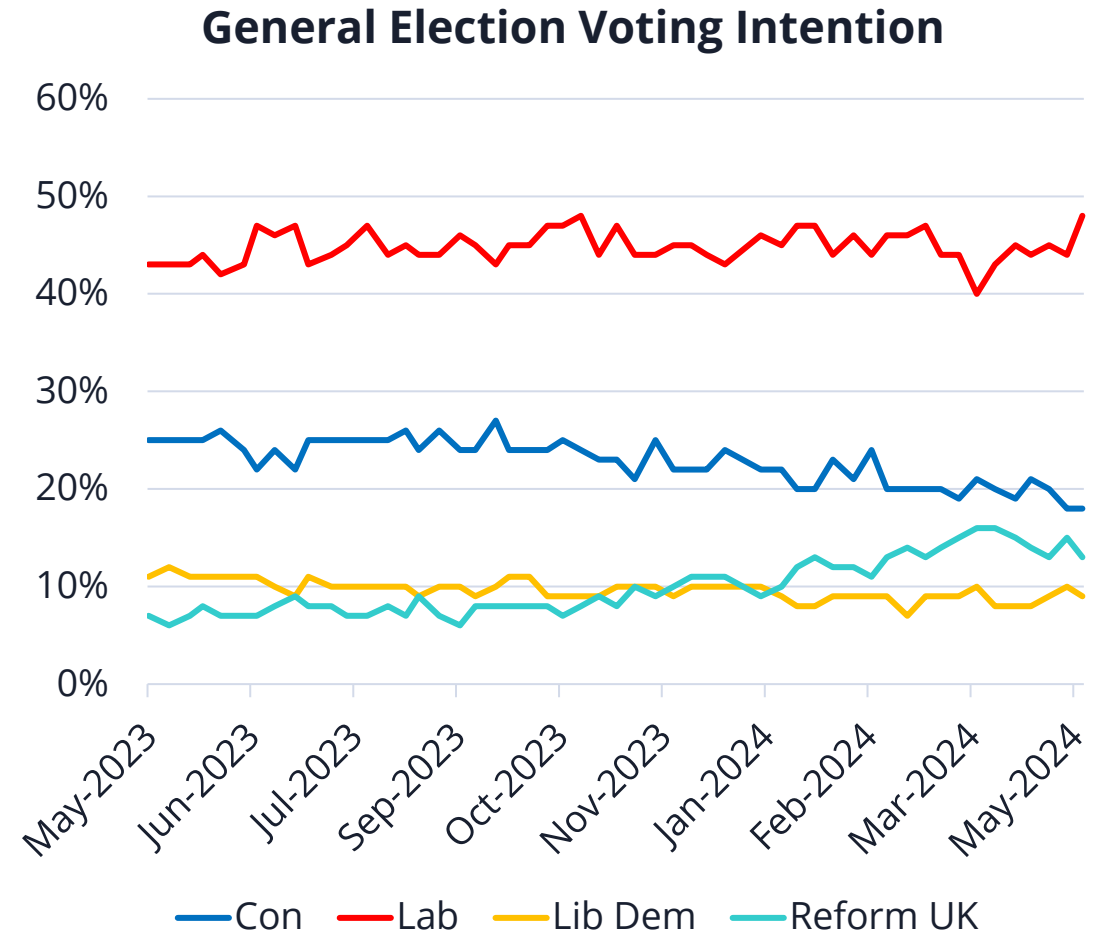
What will a rate cut mean?

- Will take 6-24 months to filter through.
- But will help sentiment in the short-term.
- Particularly on perceptions of a turning point.
 - Economy strengthening.
 - Sales volume levelling off.
 - Price correction.



Key Risks

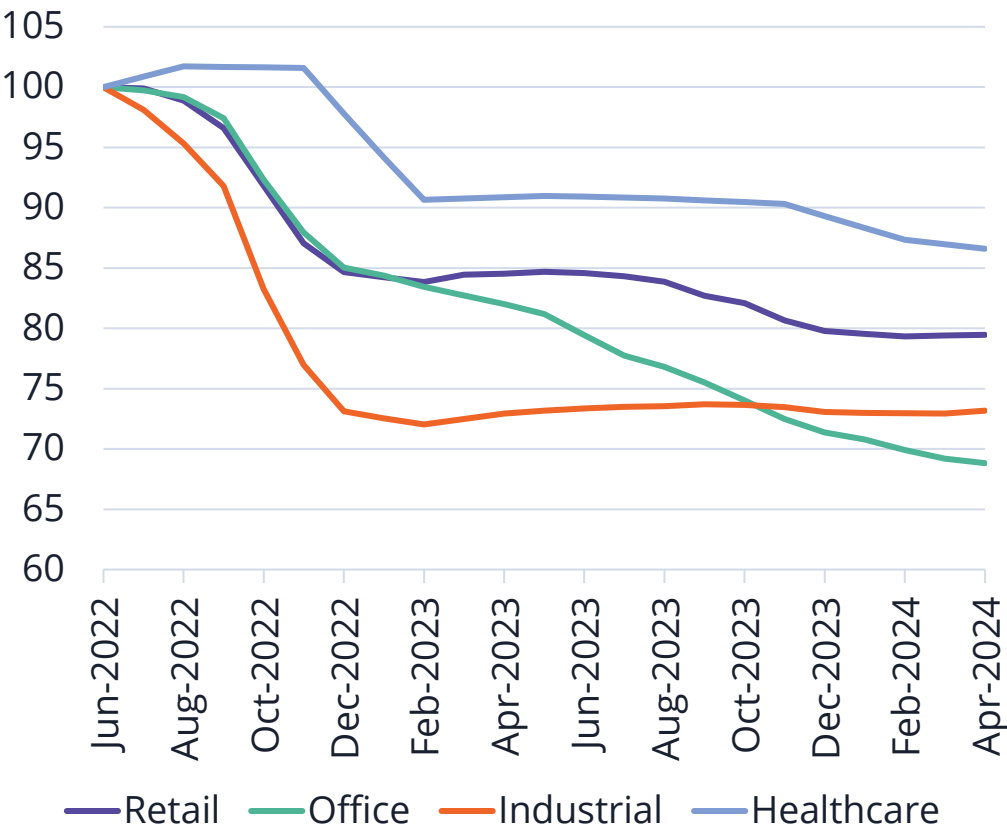
- Change of government.
- Post-election austerity.
 - Councils.
- Ukraine / Middle East.
 - Defence spending.
- Power / Tech infrastructure.



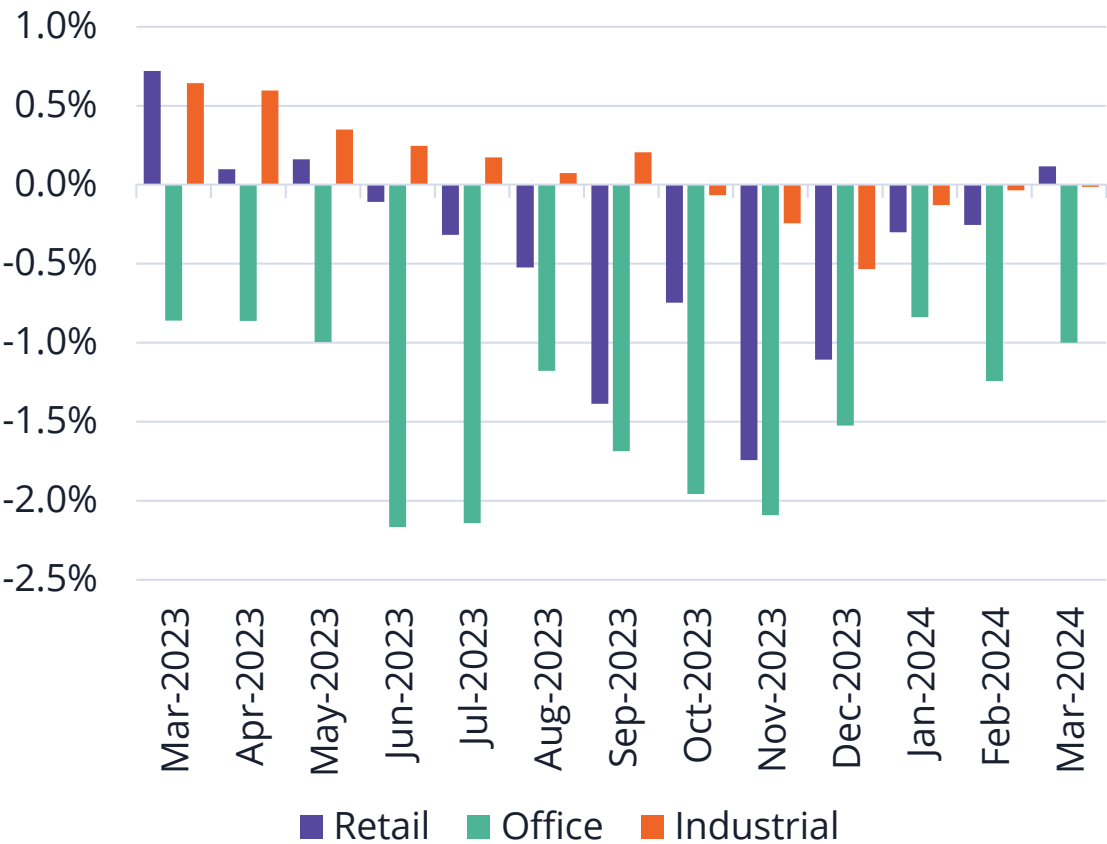
Source: YouGov

Commercial Property - bifurcated market

Capital Growth by Sector

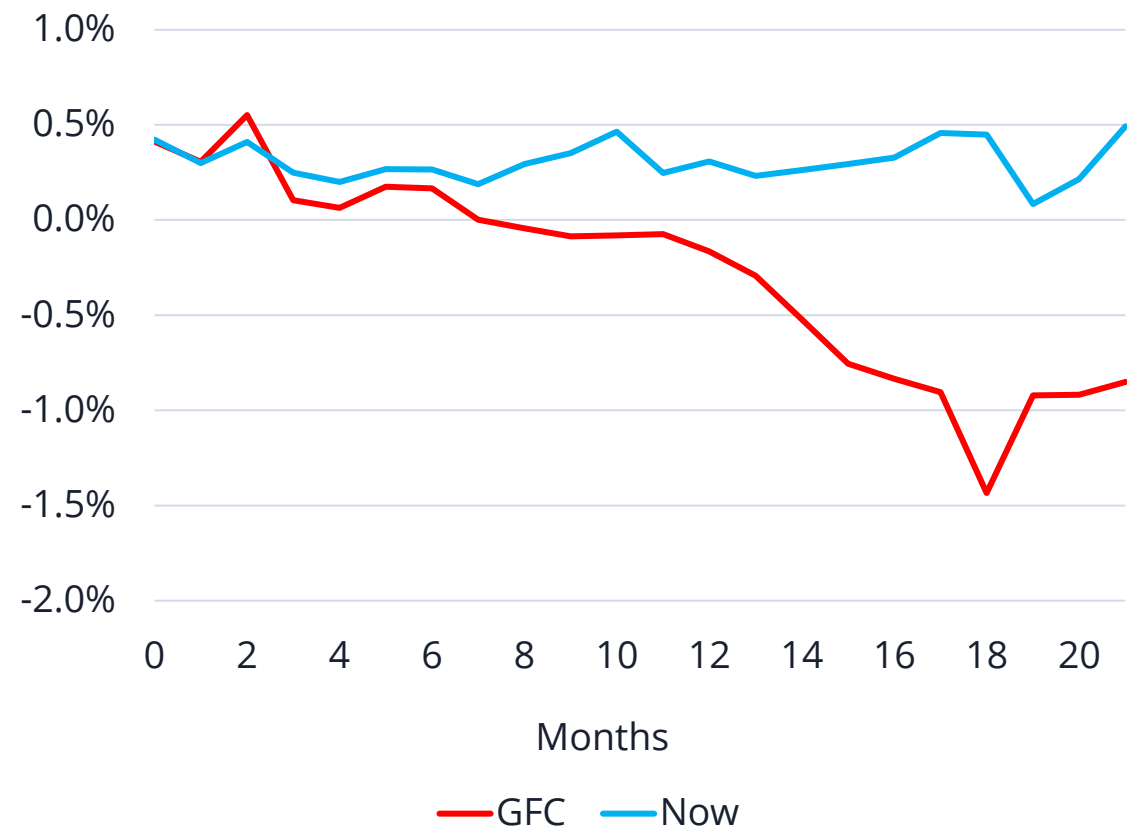


Capital Growth - month-on-month

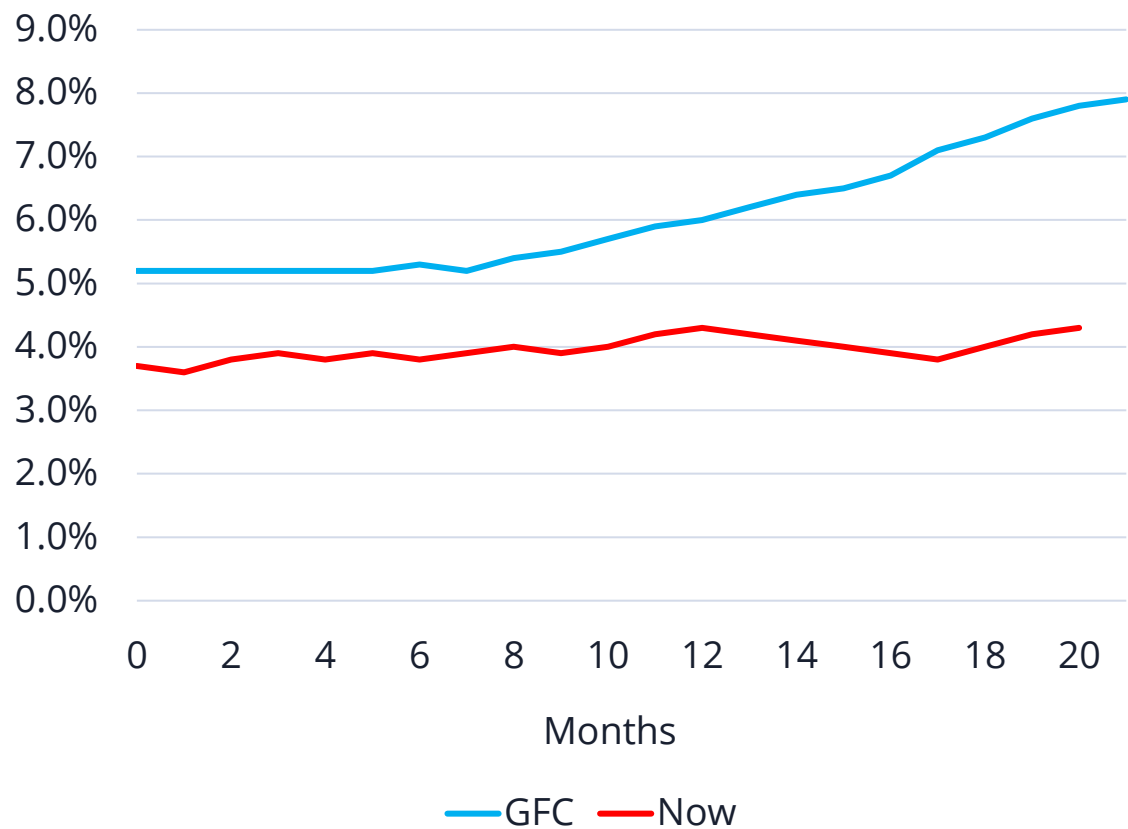


Occupier markets have held up well

Rental Growth m-on-m - GFC vs Now

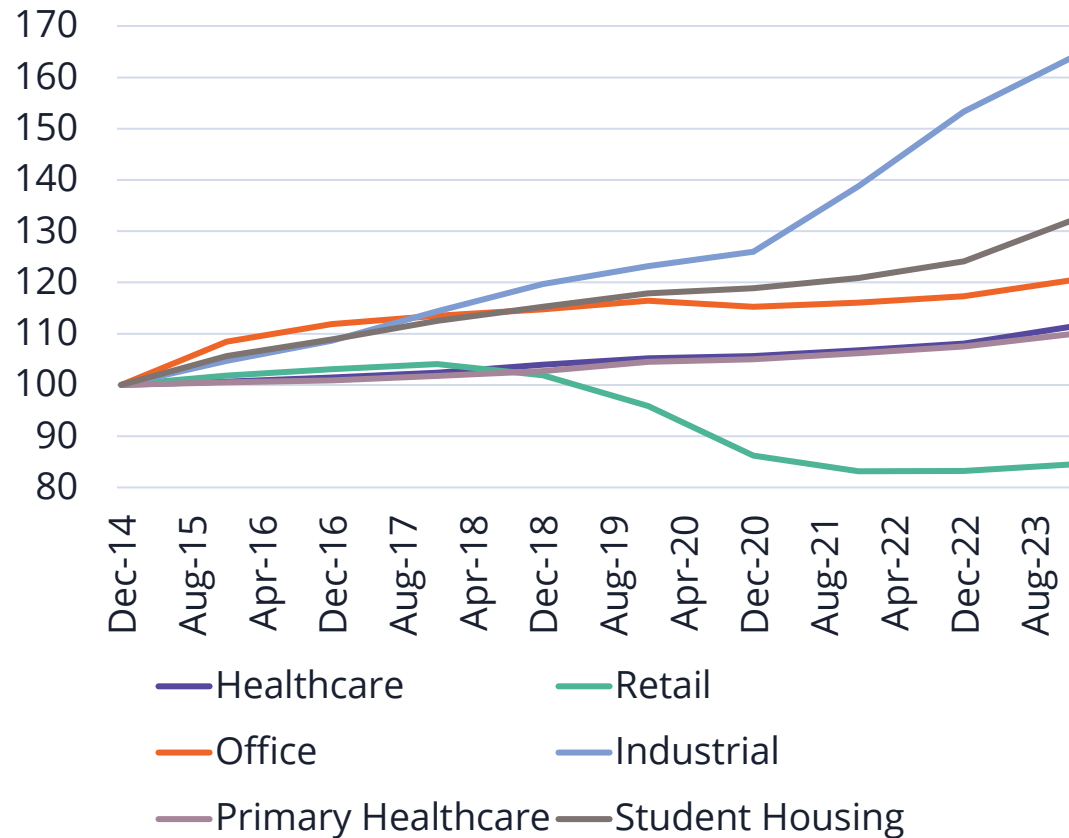


Unemployment Rate - GFC vs Now

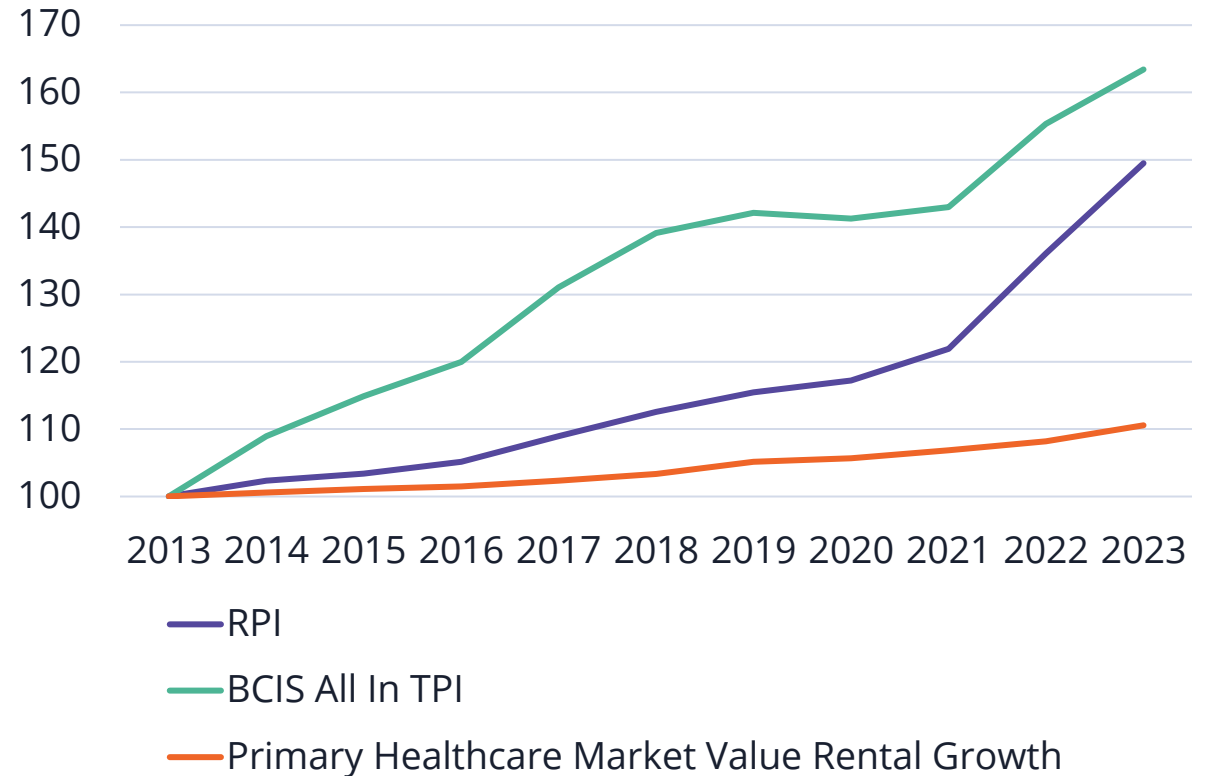


Primary care rental growth has underperformed other sectors despite strong underlying demand

Longer run rental growth

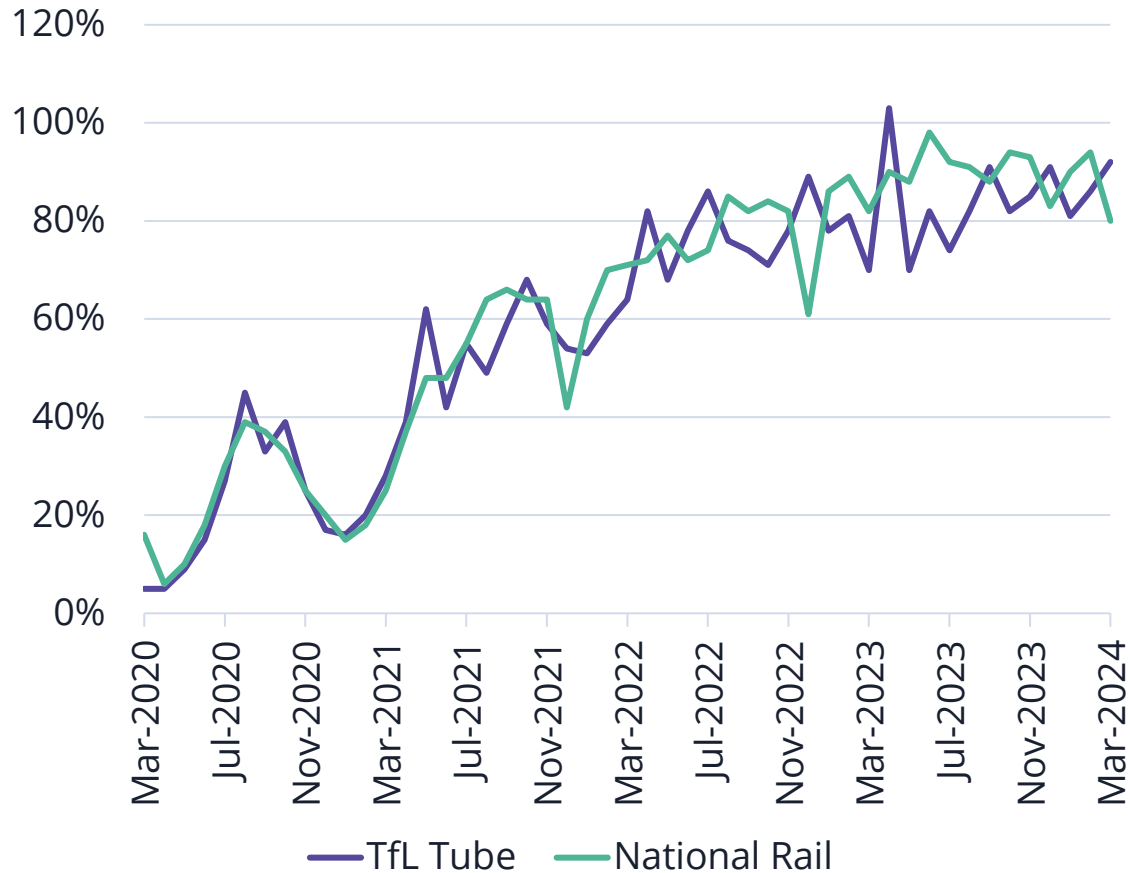


Primary care rents & inflationary measures

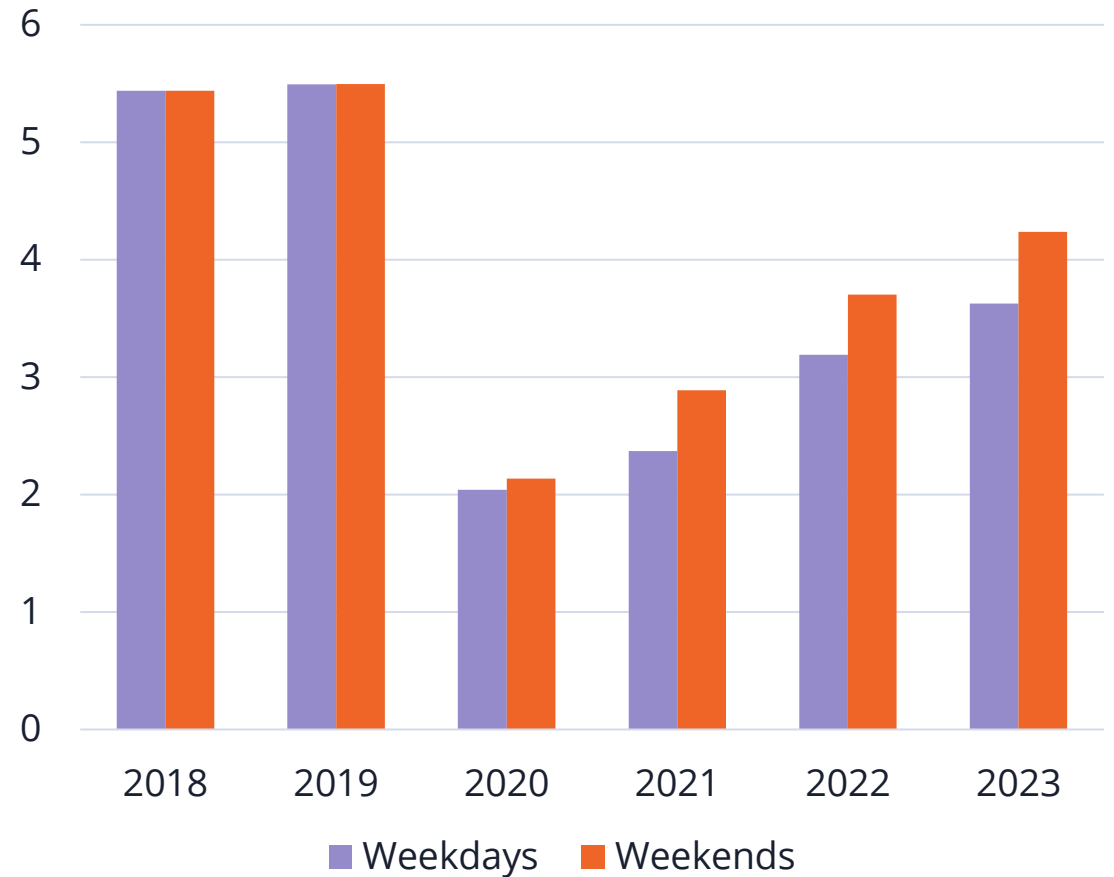


Sentiment still poor for offices

UK Mass Transit Use vs Pre-Covid



NYC Daily Subway Ridership (millions)



Outlook

- A new cycle for property, but a slow recovery.
- Back to 'Beds and Sheds'.
- Offices and retail need substantial change of use.
 - ESG issues – embedded carbon.
 - Getting it right.
- Selected opportunities within offices and retail.
 - Retail warehouses / parks.
 - High quality, green city centre offices.

Strong demand for alt/living sectors

Social Housing (4)
Retirement/Assisted Living (5)
Affordable Housing (6)
Co-living (9)
Private rented residential (10)

