

Capital Markets Research

Monthly Property & Economic Commentary

1 Summary

Property

- Monthly total returns spike in September
- Investment volumes highlight record yearly total for Living and Industrial & Logistics sectors
- Private Equity funds continue to target European real estate
- All Property 12-month total returns surge beyond pre-pandemic levels

Economy

- Consumers and businesses alike have higher hopes for the future

Table 1: JLL Annual Forecast: IPD UK (%), September 2021

	2021	2022	2023
Total returns			
All Property	8.7	5.3	5.1
Office	6.3	5.1	5.2
Retail	2.1	4.0	4.3
Industrial	17.4	7.1	6.2
Capital growth			
All Property	4.2	1.0	0.9
Office	2.2	1.1	1.2
Retail	-2.9	-1.0	-0.8
Industrial	12.9	3.2	2.4

Source: JLL

Property Markets

Monthly total returns spike in September

All Property monthly total returns increased to 1.9% in September from 1.4% in August. This was largely on the back of a jump in industrial returns from 2.3% in August to 3.1% in September. Unsurprisingly, cumulative total returns in the 12 months to September were 13.4%, up from 11.6% in August. This was the highest 12-monthly total returns seen since January 2016 (13.7%).

September saw inclining monthly capital values (All Property) from 1.0% in August to 1.5% in September. Performance across all sectors was varied. Industrial capital values increased from 1.9% in August to 2.7% in September. Office and retail monthly capital growth spiked from the previous month, 0.0% and 0.9% in August to 0.1% and 1.6% in September. Similarly, hotel monthly capital values jumped from 0.0% in August to 0.6% in September.

Annual All Property capital value growth spiked from 5.8% in the 12 months to August to 7.5% in the 12 months to September.

While income returns remain stable, All Property rental value growth bounced back from 0.2% in August to 0.3% in September. Both office and industrial sectors rental value growth increase to 0.2% and 0.8% in September from 0.1% and 0.6% in August. Residential rental growth dropped from 0.0% the previous month to -0.5% in September.

Table 2: IPD UK Monthly Index, September 2021 (%)

	Income return	Capital value growth	Rental growth	Total returns
All Property	0.4	1.5	0.3	1.9
Office	0.4	0.1	0.2	0.5
Retail	0.6	1.6	-0.2	2.1
Industrial	0.3	2.7	0.8	3.1
Residential	0.4	0.3	-0.5	0.7
Hotels	0.4	0.6	0.0	1.0

Source: MSCI

**We have now added the MSCI monthly figures for residential and hotels and will continue to do so going forward, to better reflect the current commercial property landscape. Please note these are based on significantly smaller sample sizes and as such data may be more volatile.*

Investment volumes highlight record yearly total for Living and Industrial & Logistics sectors

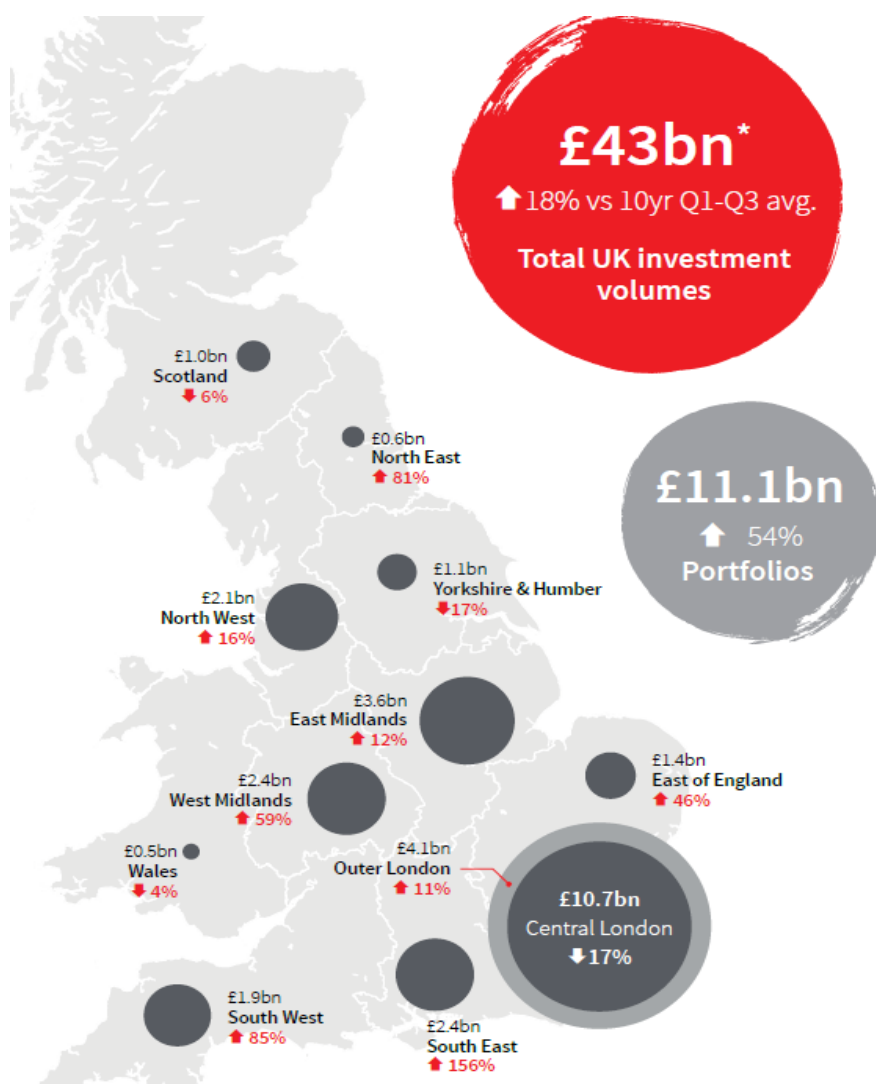
Investment volumes in Q3 were £14.8 billion across the UK, representing a 50% increase year-on-year (£9.3 billion in Q3 2020) and 12% above the Q3 10-year average. This brings total investment volumes in 2021 Q1-Q3 to £43 billion, 81% higher than last year's Q1-Q3 total and 18% above the 10-year average.

The Industrial & Logistics sector continues its stellar year, with Q3 volumes of £4.3 billion bringing the year to date total to £11.7 billion, ahead of any previous full year volumes. Similarly, the Living sectors also continue to perform well, with Q3 volumes of £2.5 billion pushing the Q1-Q3 total over the £10 billion mark for the first time. Having re-established itself as the largest sector in Q2, the office sector remained more active in Q3, with volumes of £5.7 billion bring the year-to-date volumes up to £14.6 billion. Office investment accounted for 34% of total investment volumes, ahead of all sector shares, but still below long-term average levels.

The standout regions were in the Midlands, driven by the strength of Industrial & Logistics demand. The South East and South West also saw substantial investment.

International investors account for 50% of purchases so far this year. The most active groups were Americas (16%) and Global funds (15%), driven predominantly by large portfolio purchases. The USA (£6.6 bn) was the largest source of capital followed by Germany (£2.2 bn) and Singapore (£1.3 bn).

Chart 1 – UK investment volumes, sector share, 2021 Q1-Q3

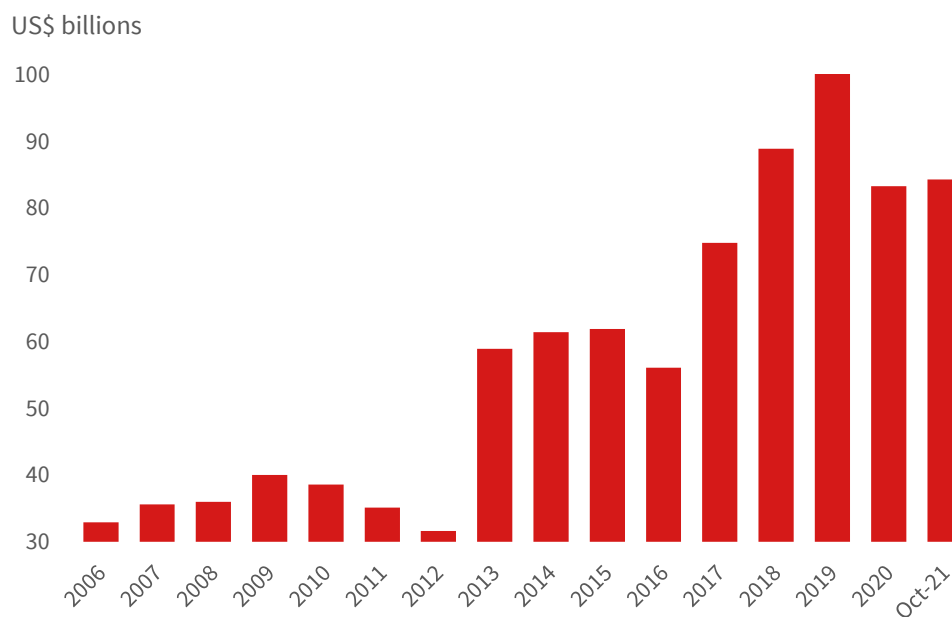


Source: JLL

Private Equity funds continue to target European real estate

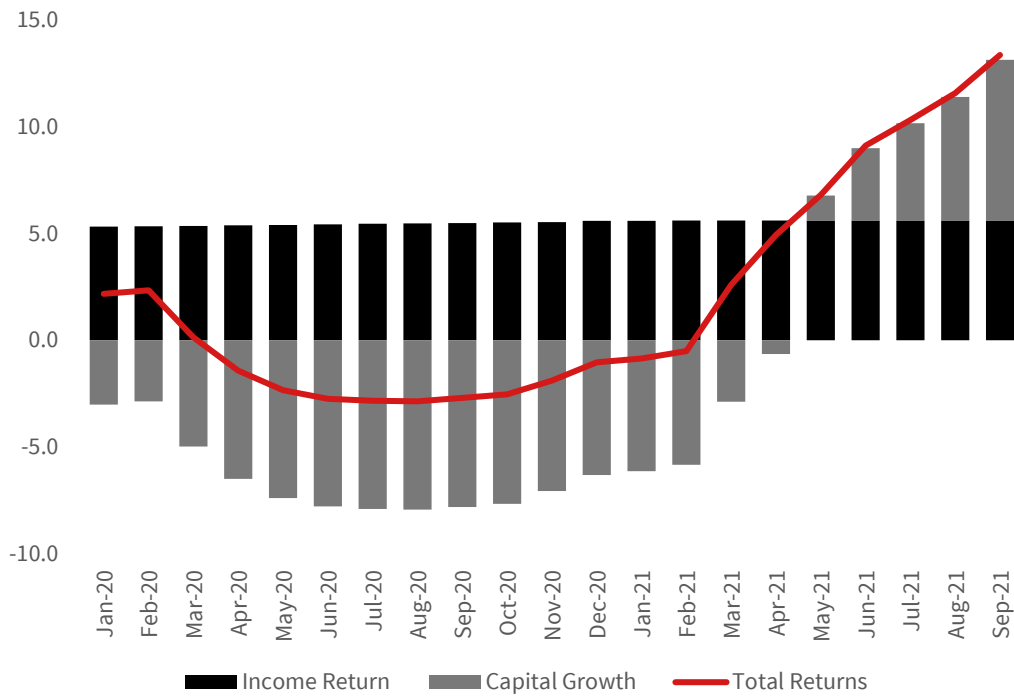
Private Equity (PE) funds have increasingly become more active over the last few years. Much of this has been through large portfolio deals in sectors such as student housing, multifamily and logistics. It is unsurprising that large portfolios are being targeted, given the amount of equity being held by PE funds waiting to be deployed – there is currently \$84.3 bn in ‘dry powder’ targeting European real estate. The largest global private equity fund is Blackstone, with their AUM closing in on \$230 bn after another quarter of high inflows and strong performance. The US-based firm reported real estate inflows of \$16.0 bn for the quarter.

Chart 2 – Private Equity ‘dry powder’ targeting European real estate, 2006 - 2021



Source: Preqin

Chart 3 – All Property 12-month total returns surge beyond pre-pandemic levels



Source: MSCI

The COVID-19 pandemic had a severe impact on the global economy and commercial real estate markets. While economic output remains below pre-pandemic levels, the property markets have recovered far more quickly. In Chart 3, 12-month all-property total returns fell from 2.3% in February 2020, the last month before the pandemic, to -2.9% in August 2020 6 months later. This has rebounded very quickly, with 12-monthly cumulative returns reaching 13.4% in September 2021, far higher than pre-lockdown figures. These movements were driven by capital value growth, which declined to -7.9% in 12 months to August 2020 compared to 7.5% in September 2021, comfortably ahead of the pre-pandemic figures.

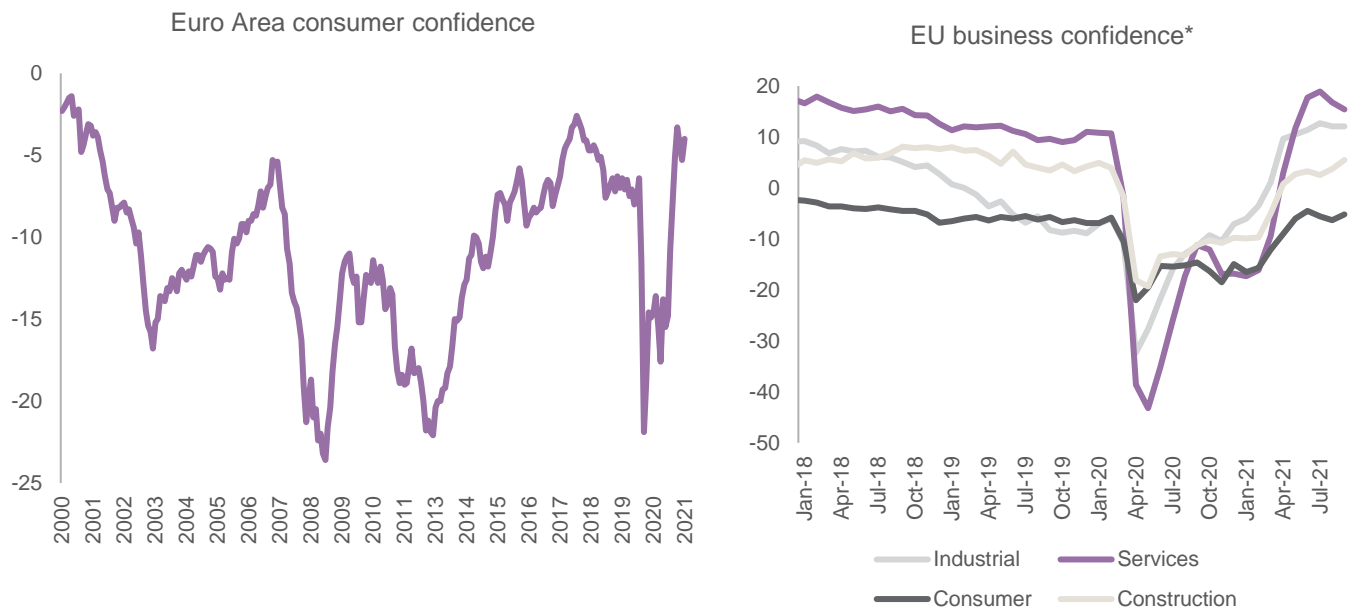
2 Economy

Consumers and businesses alike have higher hopes for the future than before the crisis

According to survey results, with the increase in immunity and share of population vaccinated, the recovery of consumer confidence has outperformed pre pandemic levels. The charts below focus on Euro Area's consumer confidence and business confidence resilience and turnover despite the uncertainty over the last year. Consumer confidence dropped to a drastic low of -18.9 in May 2020 during the initial global lockdowns. In September 2021, this rebounded to -4, even higher than pre pandemic figures.

Similarly, EU business confidence has proven to be resilient after Services fell to -43.2 in May 2020. The figure has now steadily increased to 15.4 in July 2021, higher than in 2019. The acceleration has subsequently plateaued, return to normality as human behaviour shifts back towards pre-COVID trends. This is encouraging for the economic recovery, as confidence is a leading indicator of demand.

Chart 4 – Strong rebound in confidence across the board



Source: JLL

Table 3: UK economic forecasts

	2021	2022	2023
GDP	7.2	5.7	2.4
Retail Sales Index (volumes)	4.0	1.3	2.5
Inflation (CPI)	2.4	3.6	1.5
Bank of England Base Rate	0.1	0.3	0.6
10-year Gilt Yield	0.8	1.4	1.9

Source: Oxford Economics

Table 4: Current Economic Indicators

Retail Sales (Y-o-Y):	-1.3%	▼	Consumer Confidence:	-13	▼	Unemployment:	4.5%	▼
Inflation (CPI):	3.1%	▼	UK 10-year gilt yield	1.04%	▼	BoE base rate	0.10%	◀▶

Source: BRC, ONS, GfK NOP, Refinitiv. Note: Arrows indicate movement on last month. *all figures from September 2021 / October 2021

Links to other research publications

[UK Research](#) – All the latest UK research on the office, retail, industrial and residential sectors. Includes quarterly and topical reports on the latest trends in UK real estate.

[UK Capital Markets Blog](#) – The latest insight and opinions on the commercial property investment market.

[Capital Markets Review & Outlook](#) – Biannual report reviewing recent investment activity and predicting future trends, alongside results from our latest investor surveys.

[Central London Office Market Report](#) – Quarterly update on leasing and investment activity in the Central London office market.

[UK Regional City Quarterly Reports](#) - City based overview giving a high-level summary of the key occupier and investor activity over the quarter.

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