For Professional Clients and/or Qualified Investors only

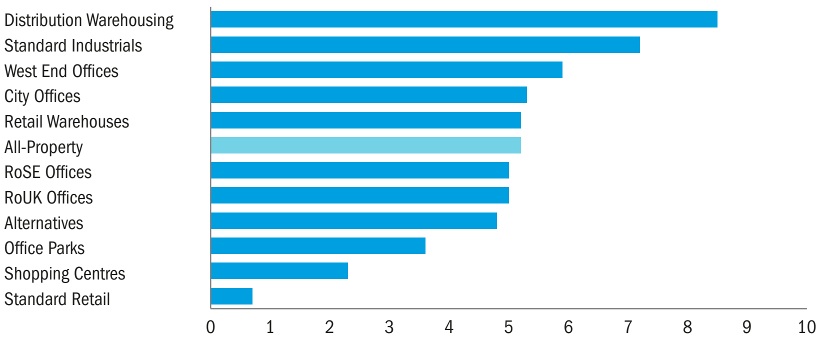
UK Property Market Trends

February 2021

The UK property market has seen some recovery following the shock of the pandemic.

The current year is expected to be challenging, but to be followed by a period of recovery, helped by continued low interest rates, and with polarisation by segment.

BMO REP Forecast Total Returns by Segment, Five Years to end 2025 per cent per annum



Source: BMO REP Jan-21

Forecasts are provided for illustrative purposes; are not a guarantee of future performance; should not be relied upon for investment decisions; and are subject to change without notice.

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Key Risks

Our review and outlook is a marketing communication providing an overview of the recent economic and property market environment. It should not be considered as advice or a recommendation to buy, sell or hold investments. Nor is it investment research and has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

The value of directly held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.

Economic and Property Market Overview

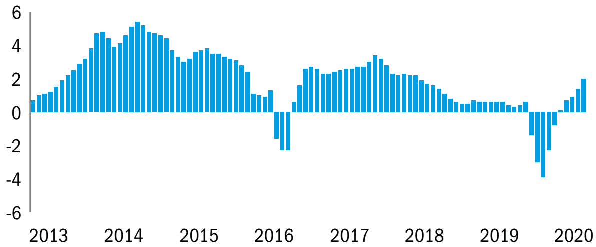
Total return performance gathered pace in the quarter, as industrials pulled ahead.

Market Snapshot three months to Dec-20	All	Retail	Offices	Industrial	Alternatives
Total Return	2.0	-0.6	-0.1	6.5	-0.5
Income Return	1.4	1.8	1.3	1.2	1.6
Capital Growth	0.6	-2.4	-1.3	5.2	-2.2
Rental Growth	-0.4	-2.1	-0.1	1.1	-1.1
Gross Rent Passing	-1.2	-1.5	-1.8	0.4	-3.4
Net Initial Yield	5.1	6.7	4.6	4.4	5.1

Source: MSCI UK Monthly Property Digest Dec-20. The definition of Alternatives is the Portfolio Analysis Service definition of "other" which includes hotels, residential, leisure etc.
Past performance is not an indication of future performance.

Sentiment remained dominated by the pandemic. Progress regarding vaccines was counterbalanced by a resurgence of the virus, new lockdowns, and fears of a no deal Brexit. Despite fiscal and monetary stimulus, employment data is starting to reflect the crisis.

All-Property Total Return – Three Month Rolling Average to December 2020 – per cent



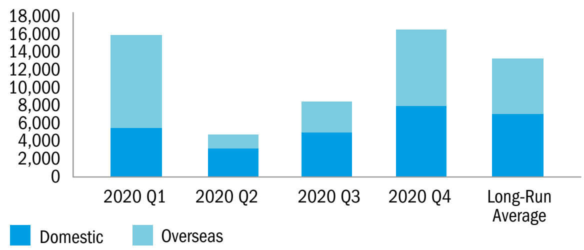
Source: MSCI UK Monthly Property Digest Dec-20

The market has seen a recovery following the shock of the pandemic. All-property total returns have been improving month on month since March, but total returns were negative for the full year. The material uncertainty clause applied by valuers in March has been lifted and several open-ended property funds re-opened, but restrictions on pursuing rent collection remained in force.

The crisis has been notable for its impact on rent collection rates and with some resilience for offices and industrials contrasting with weakness in retail and leisure.

The quarter was characterised by further polarisation within the sectors. Distribution and standard industrials drove the upturn in total return performance and at 6.5% for all-industrials, this was the strongest three-month performance seen in the sector since 2010. The quarter also saw total returns for retail warehousing and hotels turning positive and improved quarterly total returns for supermarkets and residential. In contrast, offices faltered across all segments and total returns for offices outside London turned marginally negative. Leisure weakened further and retail continued to lag the market, with performance worsening for shopping centres and more dramatically for Central London shops.

Investment Activity £m



Source: Property Data Feb-21

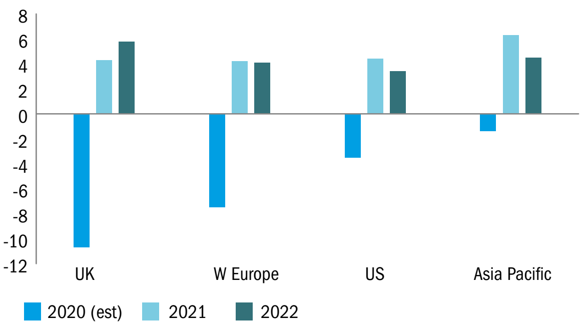
The investment market recovered further in the quarter to exceed the long-run average. Overseas buyers continued to be the main net investors. Activity was skewed towards Central London offices and industrial/logistics. Leisure and shopping centres remained out of favour. Net lending to property is negative and appears to be narrowly focused by sector.

The Economic and Property Market Outlook

The next few months will be challenging and highly uncertain, but we expect a period of gradual recovery to follow, characterised by sector polarisation and low interest rates.

Economic prospects for the next few months will continue to be driven by the intensity of the pandemic and the dislocation around Brexit. A difficult early-2021 is in prospect. The outlook may improve as the year progresses, as vaccination becomes widespread and restrictions can be eased or lifted. With a less severe downturn in 2020, Asia Pacific and the US may lead recovery in 2021, ahead of the UK and Europe. Consensus estimates are that pre-pandemic levels of output will not be achieved until at least 2023 in the UK. Fiscal and monetary policy is expected to remain supportive, and interest rates could stay low for some time, providing support for property.

Consensus Real GDP Forecast – per cent



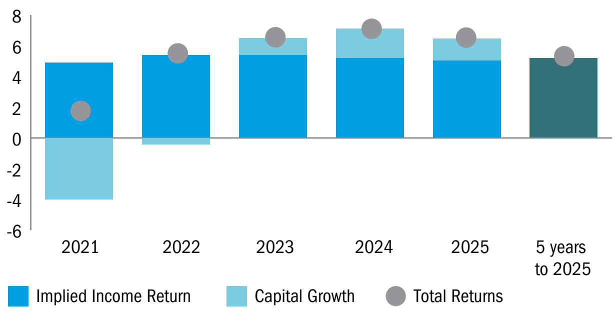
Source: Consensus Economics Jan-21

There is upside potential should pandemic savings be spent, as restrictions ease and confidence returns. However, many people have seen their incomes fall and as the crisis lengthens, the potential for long-term scarring in the economy rises, especially once current support measures are reined in. The avoidance of a cliff-edge in the spring will be critical.

The BMO REP property market forecasts are based broadly on the consensus economic outlook. The all-property total return forecast for 2021 at 0.9% is barely positive, with strength in industrials being offset by continued weakness in retail. The forecasts are more downbeat than the latest Investment Property Forum (IPF) consensus forecast of 1.5%, published in November 2020. The outlook for 2021 is exceptionally uncertain given the macro-economic backdrop.

After the muted total return performance in 2021, the forecasts see some building of momentum, but with the income return continuing to underpin property performance.

Components of BMO REP Forecast All-Property Total Returns – per cent per annum



Source: BMO REP Jan-21

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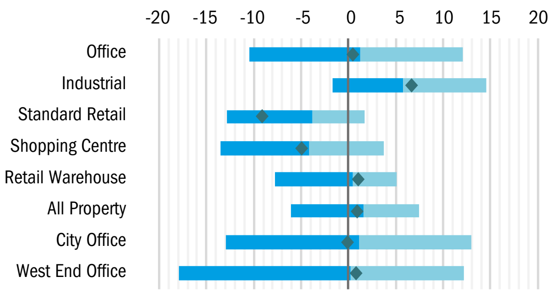
Investor sentiment remains cautious. Projections by brokers are for a recovery in 2021 and surveys indicate a strong appetite for residential and industrial/logistics and an aversion to retail. The latest INREV survey shows the UK's appeal as a European property investment destination losing ground to France and Germany in the current uncertain climate.

On a sector basis, the market is expected to remain highly polarised.

The structural problems affecting retail are expected to persist and a permanent shift to greater spending online is likely. The Christmas lockdowns will have hit a weak sector hard, especially in London and the big cities. The problems could be compounded by a weak domestic economy, the loss of income from tourism and reduced commuting. Re-purposing space both in and out of town is probable. There will be variations in performance and supermarkets, suburban London, thriving affluent towns, food-anchored or discount retail warehousing may prove relatively resilient.

BMO REP Forecasts versus IPF Consensus Forecast Range. Total Returns 2021 – per cent



Sources: BMO REP Jan-21 (marked as diamonds), Investment Property Forum (IPF) Consensus Forecasts Nov-20.

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The office market outlook is helped by low new supply but is clouded, especially in London, by the unresolved Brexit issues around financial services, the likely impact of hybrid office working and possibly lower occupational density. There is a reluctance to commit to new or additional space by occupiers and a flight to quality by both occupiers and investors. Rents are coming under pressure and there is polarisation by quality with grey space and re-letting becoming problematic.

The industrials market has pulled ahead of the field and is likely to benefit from the continued growth of online retailing, but it could also be hit by Brexit and retailer administrations. The investment market is strong but yields are low and compressing and further progress may be limited. It is in favour with a wide range of investors across lot sizes which is likely to support its relative performance.

The alternatives market is diverse and performance within the sector is expected to reflect this. Residential is an out-performing sector and is becoming increasingly mainstream. There are concerns about the speed of recovery in the hotel and leisure sectors, together with possible structural shifts affecting them, and also student accommodation. Covenant issues remain an area of concern for hospitality and secondary healthcare in particular.

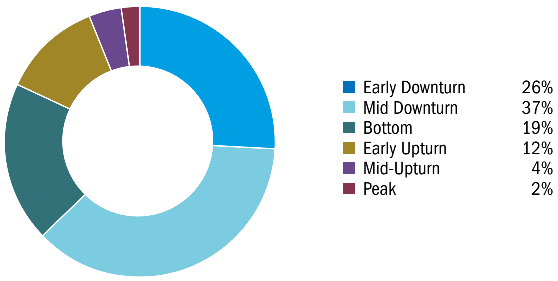
The pandemic has had a significant and lasting effect on lease structures and income streams. The town centre retail market is expected to see a prolonged period of income decline, but most other sectors may see a swifter recovery.

Trends previously in place such as home-working and e-commerce have accelerated and may have long-term consequences. There could be a move to more localised, community facilities, re-purposing of assets between sectors plus greater place-making within cities, and with ESG to the fore.

Survey data from the Royal Institution of Chartered Surveyors (RICS) indicates that respondents feel that UK property is working its way through the difficult part of the cycle. Although sentiment is still cautious, compared with three months ago, fewer people believe that property is in the early stages of a downturn and more believe that the bottom has now been reached or that the early stages of an upturn are at hand.

The current year is expected to be challenging but to be followed by a period of recovery, helped by continued low interest rates.

Perceived Stage of Property Market Cycle



Source: RICS UK Commercial Property Survey Jan-21

Key Investment Transactions Data

1&2 New Ludgate, London

Argos, Basildon – in the EPIC portfolio

1 London Wall Place, London

The UK remains in favour with overseas investors

Sun Ventures of Singapore bought 1&2 New Ludgate in London for £552m at a 4.0% yield.

Deka bought the mixed-use Clarges scheme for £177m at a 3.51% yield.

The Powerhouse office portfolio in Manchester was bought by Pictet for £119m at a 5.2% yield.

Industrial demand is buoyant

Blackstone bought the EPIC portfolio for £335m and paid £473m for Prologis' Platform portfolio.

AIMCo bought the Marlin portfolio from Starwood for £260m.

Hines bought a property at Heathrow for its pan-European core fund for £80.3m at a 3.79% yield.

Long income assets remain in favour

AGC Equity bought 1 London Wall Place from Brookfield for £472m at a 3.85% yield, let on a 22 year lease.

UK CP REIT bought an Asda store in Torquay for £16.6m at a 4.7% yield, let for 15.5 years.

Canada Life has forward-funded a £33.8m officeoffice in Newcastle to be let on a 30-year lease to Home Group at a 3.29% yield.

Build to rent (BTR) is an attractive sector

Quadreal and RealStar of Canada are forward funding the £100m BTR scheme Wembley Link.

In Birmingham, L&G is forward funding the £100m Hockley Mills BTR scheme.

PGIM and Delph Property are both forward funding separate BTR schemes in High Wycombe.

Some signs of nervousness

16-17 Connaught Place, London has been withdrawn following failed negotiations with a Chinese buyer.

The £190m McLaren sale and leaseback deal in Woking has fallen through.

First Property abandoned their purchase of Ealing Cross citing market uncertainty.

Retail warehousing has seen some modest activity

Institutions are selling. M&G sold three retail warehouse assets in London, Salford and Preston.

Other institutions selling included ASI, Kames, Nuveen and Aviva.

UK private property firms bought at Staples Corner London, Salford and Salisbury.

Supermarkets in high demand

Aldi has bought stores in Smethwick and Sutton Coldfield.

LXi REIT bought a food store-focused portfolio for £61m at a 5.7% yield.

Alternatives – ticking over

La Salle bought a Premier Inn in Birmingham for £38m.

There were three student accommodation deals in Bristol plus others in York, Edinburgh and Warwick.

Still some limited local authority buying

M&S stores in Haslemere and Ferndown were sold to a local authority for £14.7m at a 4.0% yield.

Southend Borough Council bought the town's Victoria shopping centre for £10m at an 11.3% yield.

Source: Property Data Feb-21, BMO REP Feb-21

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