Bristol Planning Policy and Law Conference
Ben Burston – Head of Office Research, JLL

November 2014
Key Messages

- UK recovery broad based and on firm foundations
- A stand-out performer in global context
- Risks to the global outlook portend potential slowdown, not crisis
- Rebalancing in composition of growth, and the labour market
- Solid outlook for the Big 6
- Beyond the Big 6: growth picture far less even
- The urban tendency and its implications
- Office demand is strengthening, exposing a shortfall of new supply: expect rental growth in 2015
- Global search for yield: weight of money targeting commercial property and infrastructure investment
Strong GDP growth outlook

Source: Oxford Economics

United Kingdom: 3.0% (2014), 2.5% (2014-18 average)
United States: 2.2% (2014), 2.7% (2014-18 average)
Japan: 1.0% (2014), 1.5% (2014-18 average)
Eurozone: 1.3% (2014), 1.6% (2014-18 average)
Surging employment growth

Total UK employment growth

-2%  -1%   0%    1%    2%

Focus on London….

Historic and forecast employment growth

Greater London total employment growth

Source: Oxford Economics

FBS employment growth: global cities

Source: Oxford Economics
House price growth has been concentrated

Average house price growth by region

Greater London
South East
Eastern
....but current growth burst is across a broad regional base

Regional PMIs

<table>
<thead>
<tr>
<th></th>
<th>Latest PMI score</th>
</tr>
</thead>
<tbody>
<tr>
<td>North East</td>
<td>64.8</td>
</tr>
<tr>
<td>South West</td>
<td>59.4</td>
</tr>
<tr>
<td>East of England</td>
<td>58.9</td>
</tr>
<tr>
<td>Wales</td>
<td>59.3</td>
</tr>
<tr>
<td>London</td>
<td>58.4</td>
</tr>
<tr>
<td>East Midlands</td>
<td>58.4</td>
</tr>
<tr>
<td>Yorkshire</td>
<td>58.1</td>
</tr>
<tr>
<td><strong>UK overall</strong></td>
<td><strong>58.0</strong></td>
</tr>
<tr>
<td>South East</td>
<td>58.0</td>
</tr>
<tr>
<td>North West</td>
<td>57.8</td>
</tr>
<tr>
<td>West Midlands</td>
<td>57.6</td>
</tr>
<tr>
<td>Scotland</td>
<td>55.9</td>
</tr>
</tbody>
</table>
Rate rises off the table for now

Source: Oxford Economics
Borrowing costs down: competitive tension on quality assets

Source: Datastream, JLL
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Deflation in the eurozone?

Source: Oxford Economics
Downside risk has risen…. 

<table>
<thead>
<tr>
<th>Probability</th>
<th>Upside 10% (↓)</th>
<th>Central 60% (-)</th>
<th>Downside 30% (↑)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>Eurozone turnaround</td>
<td>Slow steady recovery</td>
<td>Eurozone stagnation</td>
</tr>
<tr>
<td>Real Estate Impact</td>
<td>Rents ↑↑ Yields ↓</td>
<td>Rents ↑ Yields -</td>
<td>Rents - Yields ↑</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
….but base case outlook is still for gradual recovery
Stubbornly high fiscal deficits

Source: Oxford Economics
Stubbornly low wage growth

Source: Datastream
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A healthy rebalancing underway

Composition of growth – GDP and major components

Source: Oxford Economics
Employment is also rebalancing

UK office employment – forecast growth by sector

Source: Oxford Economics

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total Growth 2014-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8%</td>
</tr>
<tr>
<td>Professional, scientific and technical</td>
<td>15%</td>
</tr>
<tr>
<td>Administrative and support</td>
<td>14%</td>
</tr>
<tr>
<td>Information and communication</td>
<td>13%</td>
</tr>
<tr>
<td>Financial and insurance</td>
<td>-1%</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>-15%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
Sectoral shares point to regional differences

<table>
<thead>
<tr>
<th></th>
<th>Share of office employment in P,S&amp;T or I&amp;C</th>
<th>Share of office employment in public administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edinburgh</td>
<td>40.9%</td>
<td></td>
</tr>
<tr>
<td>Leeds</td>
<td>39.7%</td>
<td></td>
</tr>
<tr>
<td>Manchester</td>
<td>36.1%</td>
<td></td>
</tr>
<tr>
<td>Bristol</td>
<td>36.0%</td>
<td></td>
</tr>
<tr>
<td>Birmingham</td>
<td>30.4%</td>
<td></td>
</tr>
<tr>
<td>Glasgow</td>
<td>27.5%</td>
<td></td>
</tr>
<tr>
<td>Birmingham</td>
<td></td>
<td>18.6%</td>
</tr>
<tr>
<td>Glasgow</td>
<td></td>
<td>15.2%</td>
</tr>
<tr>
<td>Bristol</td>
<td></td>
<td>12.7%</td>
</tr>
<tr>
<td>Manchester</td>
<td></td>
<td>12.7%</td>
</tr>
<tr>
<td>Leeds</td>
<td></td>
<td>12.4%</td>
</tr>
<tr>
<td>Edinburgh</td>
<td></td>
<td>11.8%</td>
</tr>
</tbody>
</table>
Faster growth in cities with favourable sectoral mix
Forecast output growth (GVA) for selected cities

Source: Oxford Economics
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Beyond the Big 6: Fastest population growth

Average population growth 2014-19

Source: Oxford Economics
Beyond the Big 6: Fastest employment growth

Average total employment growth 2014-19

Source: Oxford Economics
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Corporate demand is urbanising

BCO survey... which locations are expected to see increasing or decreasing demand?

- Low and zero carbon offices
- Refurbishment of existing offices
- Mixed use developments
- City centre locations
- Open plan offices
- Hub/incubator space
- High rise developments
- Conversion of other building types into offices
- Business parks
- Cellular offices

Source: BCO, 2011
Key drivers

**Demography & lifestyle**
Young skilled workers tend to live in central locations

**Immigration & globalisation**
International workforce drawn to cities

**Sustainability**
Urban locations support sustainable transport patterns

**Policy**
Government continues to restrict out of town development

**Working practices**
Rise of flexible & mobile working

**Transport improvements**
New Infrastructure will bolster cities
How young Manchester is changing….

And particularly among under 35s…
Some recent market trends

London
- Growth of “Central London”
- Major developments in former fringes
- Reurbanisation of Inner London

Major Regional Cities
- Increasing residential population in centre
- Office development expands core
- Centralisation of employment

Smaller Cities
- Decentralising jobs
- Loss of employment to larger centres
- Significant exceptions (Brighton, York, Bath)
Splitting the field:

**LARGER GROWTH**
- Leeds, Glasgow, Birmingham
- Bradford
- Liverpool
- Sheffield
- Newcastle
- Belfast
- Cardiff

**HIGHER GROWTH**
- Milton Keynes
- Reading
- Aberdeen
- Manchester
- Edinburgh
- Nottingham
- Bristol

**SMALLER**
- Warwick, Southampton, Coventry
- York
- Portsmouth
- Leicester
- Exeter
- Plymouth
- Dundee
- Swansea

**LOWER GROWTH**
- Cambridge
- Swindon
- Solihull
- Derby
- Bath
- Oxford
- Warrington
- Brighton
- Norwich
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Office take-up on the rise

Office take-up (000s sq ft)

Source: JLL, 2014
More pronounced downward trend for Grade A

Source: JLL, 2014


Birmingham  Edinburgh  Leeds  Manchester
Big 6 Speculative Development Pipeline

000's sq ft


Completed  U/C  Definite Spec Start  Likely Spec Start  50/50 Spec Start

Source: JLL, 2014
Prime Rental Forecasts

£ per sq ft


Birmingham Leeds Manchester Bristol

Source: JLL, 2014
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Rapid growth in commercial real estate investment

Investment volumes by sector, 4Q rolling average (£bn)

Alternatives have risen from 9% market share in 2010 to 20% in 9M 14

Source: JLL
Growing AUM | Massive requirement if fund allocations rise

Pension Fund allocations to Real Estate 2013

Additional investment required to reach same 11% allocation:

- Japan Govt PF: 0%
- NBIM: 1%
- UK auto-enrolment DC PFs: 3%
- NPS: 4%
- P7 PF sector*: 6%
- US Public PFs: 6%
- Calpers: 7%
- Europe’s 10 Largest PF RE investors: 11%
- CPPIB: 14%

* Tower Watson P7 are the seven largest PF countries: Australia, Canada, Japan, Netherlands, Switzerland, UK and US

Source: Tower Watson, IPD, Calpers, NBOM, NPS, CPPIB, ONS, Business Monitor MQ5, Cass Business School, IPF
Boost in demand for regions sees prime yields tighten

Source: JLL
Prime capital value history

Movements in capital values – London vs regional cities (Index, Q1 2000 = 100)

Source: JLL, 2014
Final thoughts and issues to watch

- Base case outlook is for solid, broad-based growth, but uneven pattern will continue
- Enough commercial space, but the wrong kind, and in the wrong place: need more new homes and more new supply in the places people want to be
- A new government should:
  - Harness surging equity for infrastructure and PRS
  - Spur on organic growth
  - Unlock housing supply
Thank you