Has the Budget derailed the recovery?

UK Commercial Property Outlook

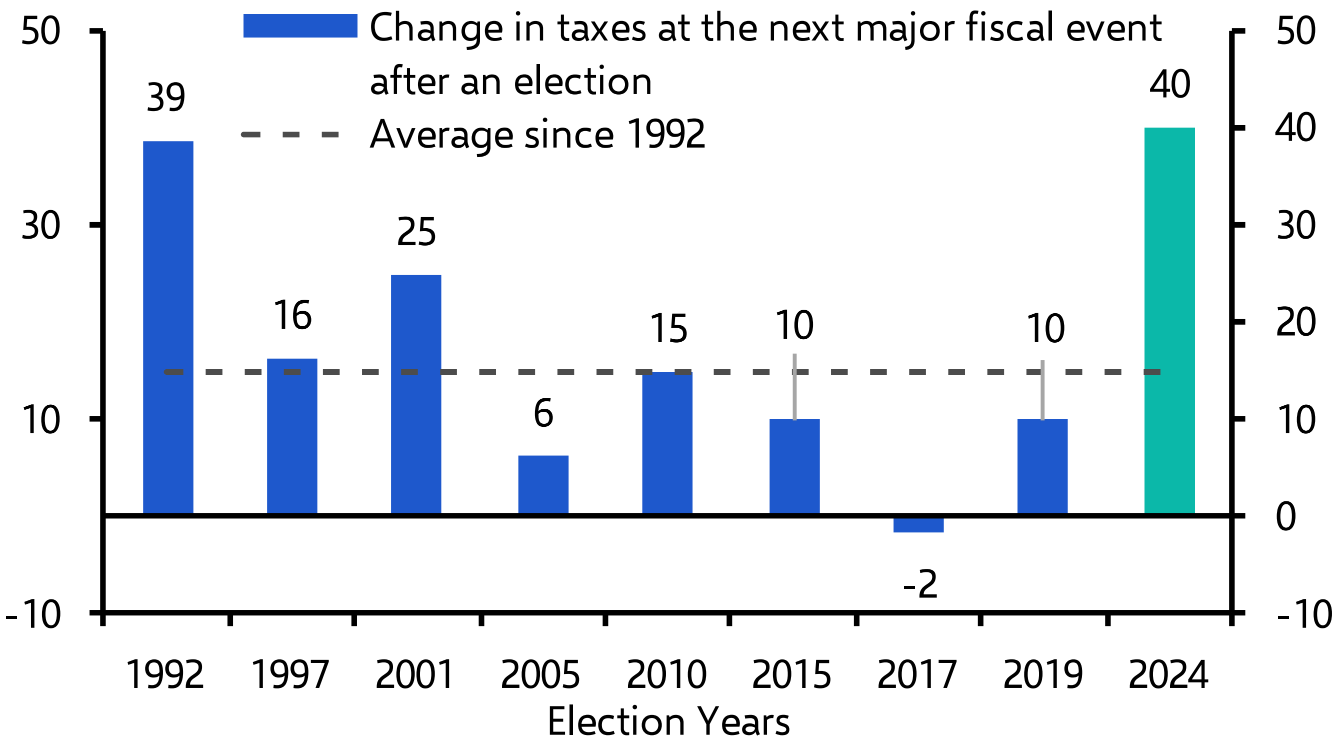
Matthew Pointon, Senior Commercial Real Estate Economist

CAPITAL ECONOMICS

Agenda

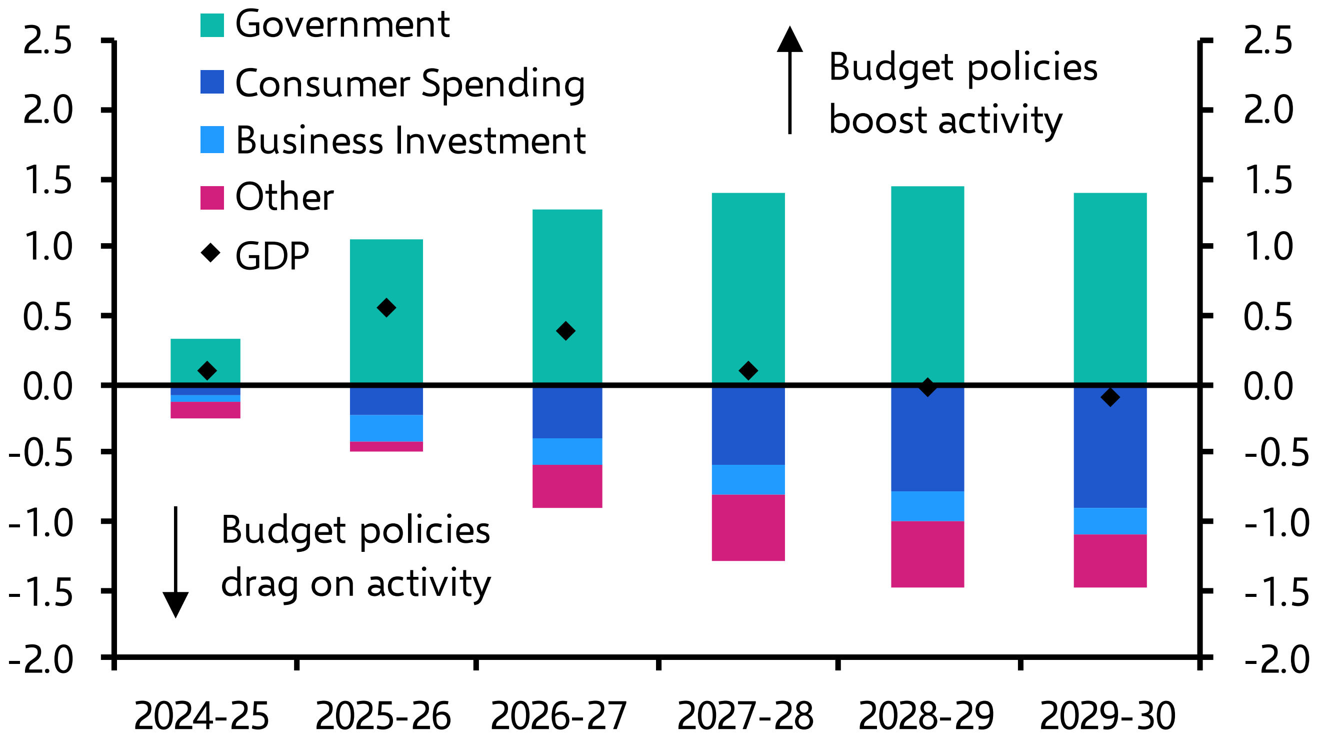
- The Budget – what impact will it have on the economy and markets?
- What will the recovery in commercial real estate look like?
- Why we think retail and resi will outperform.
- What happens if Trump wins?

Tax Hikes (£bn)



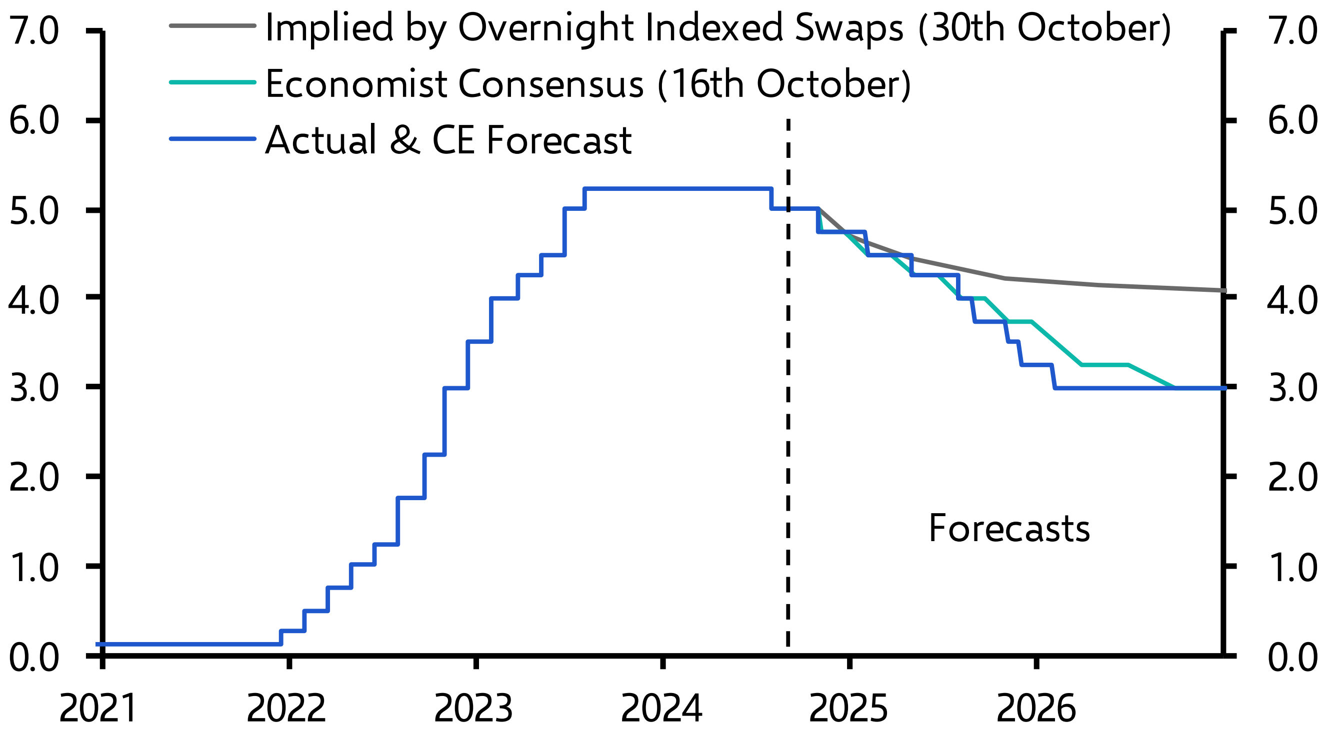
Source: OBR

Impact of Budget Policy Decisions on GDP (%)



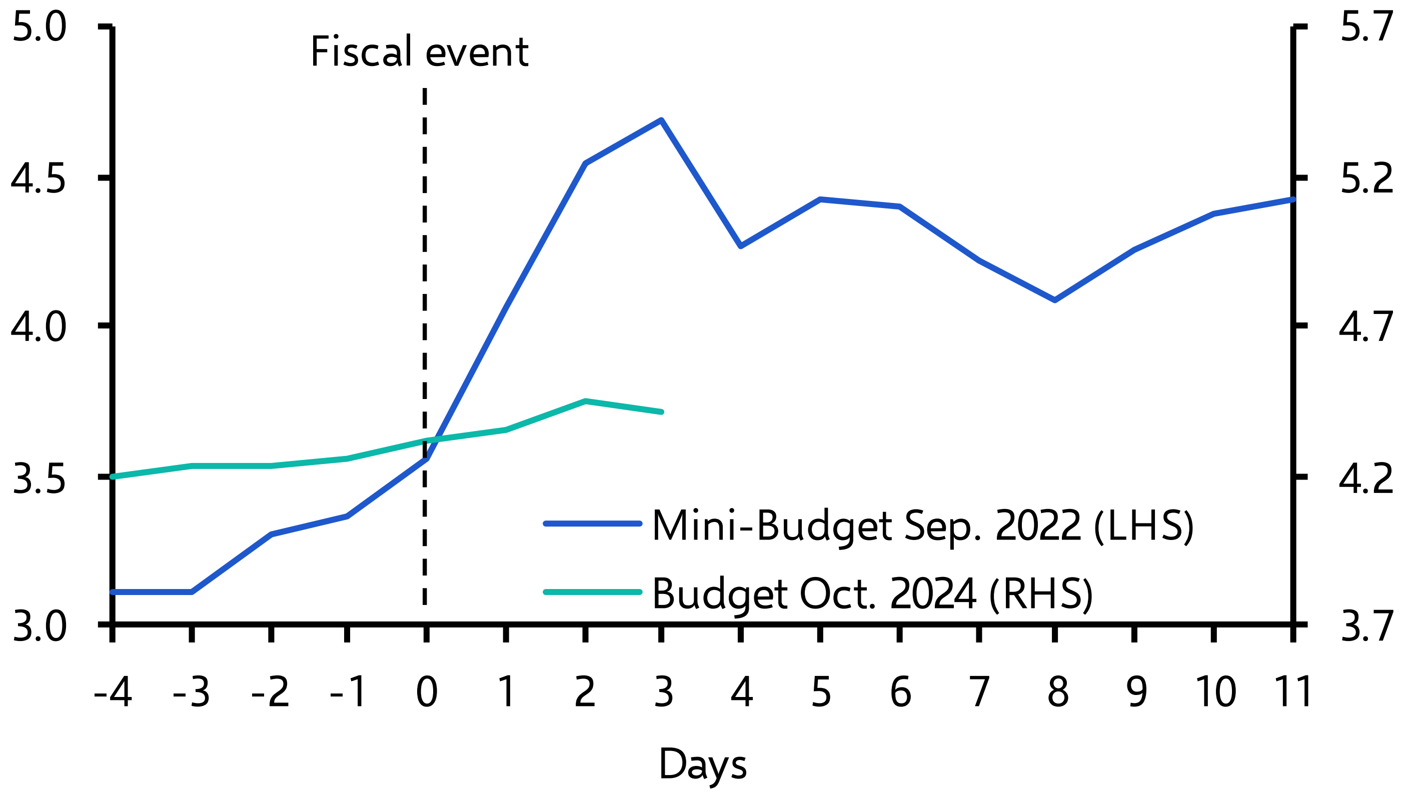
Source: OBR

Bank Rate Forecasts (%)



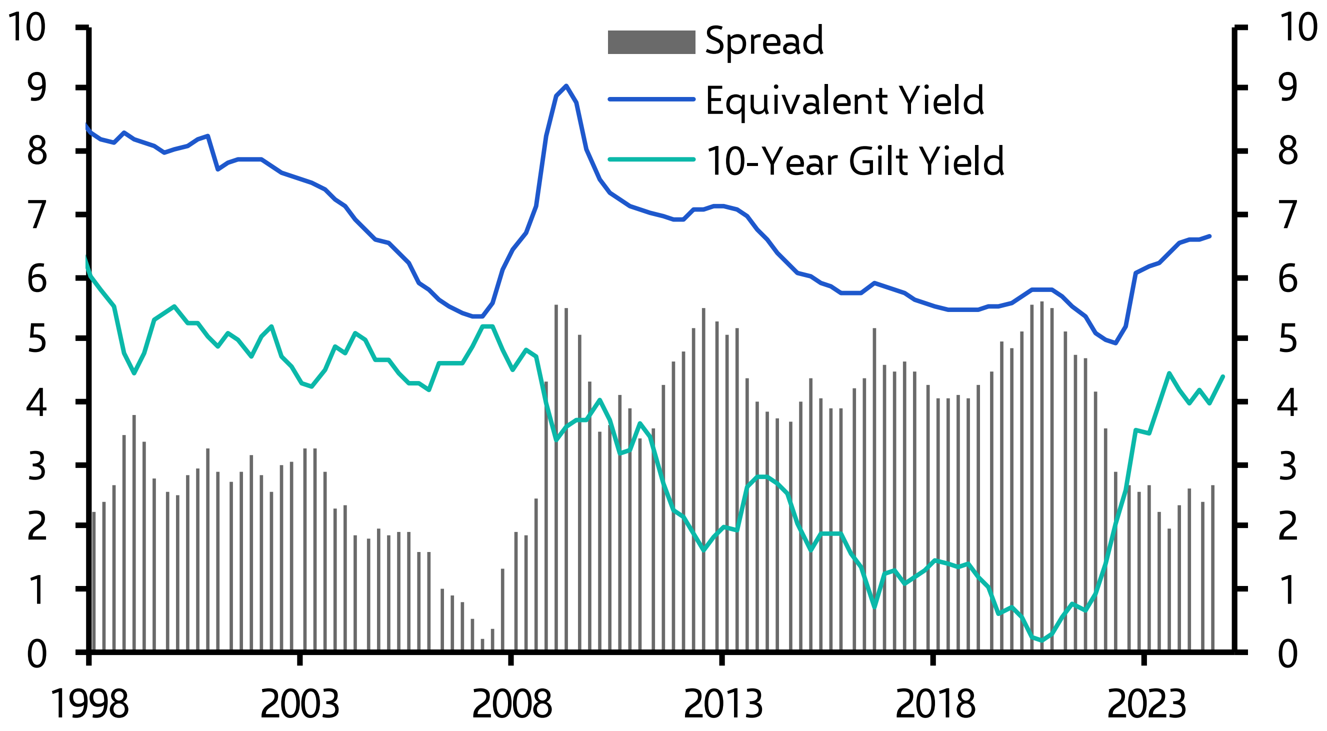
Sources: LSEG Data, Capital Economics

10-Year Gilt Yield (%)



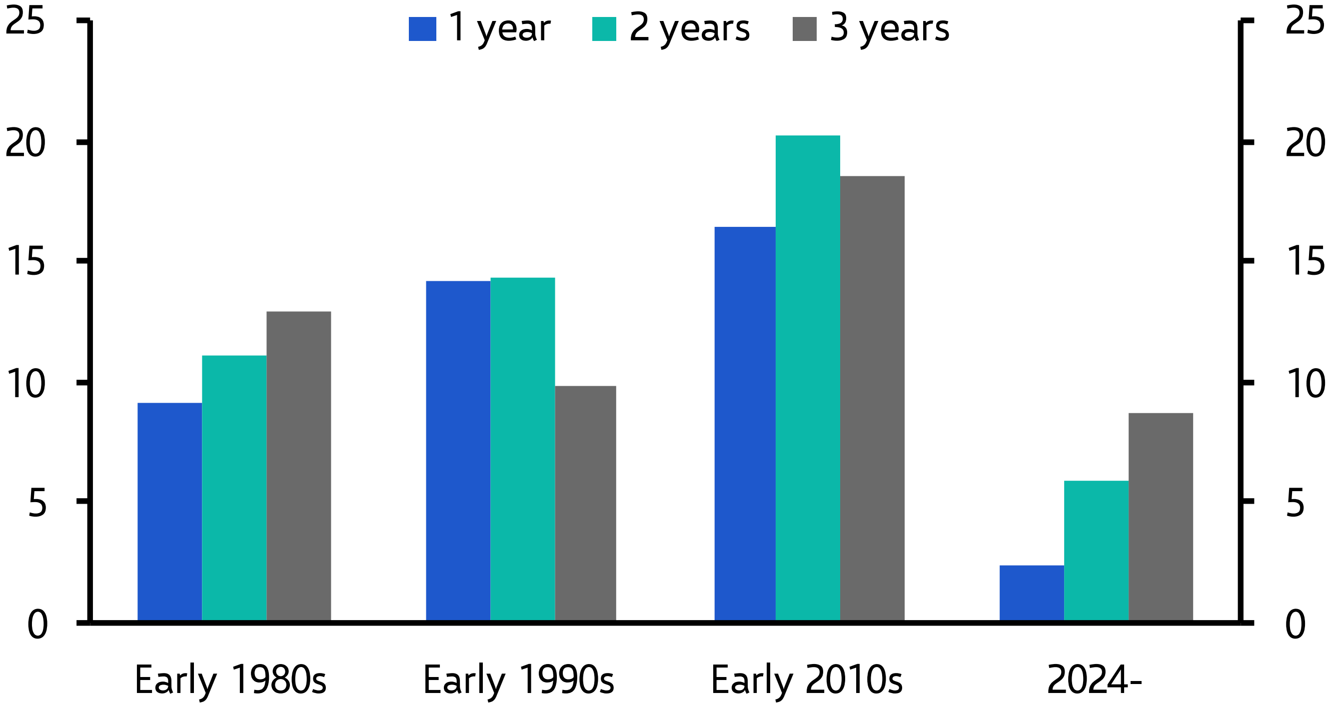
Sources: LSEG Data, Capital Economics

10-Year Treasury Yield & All-Property Equivalent Yield (%)



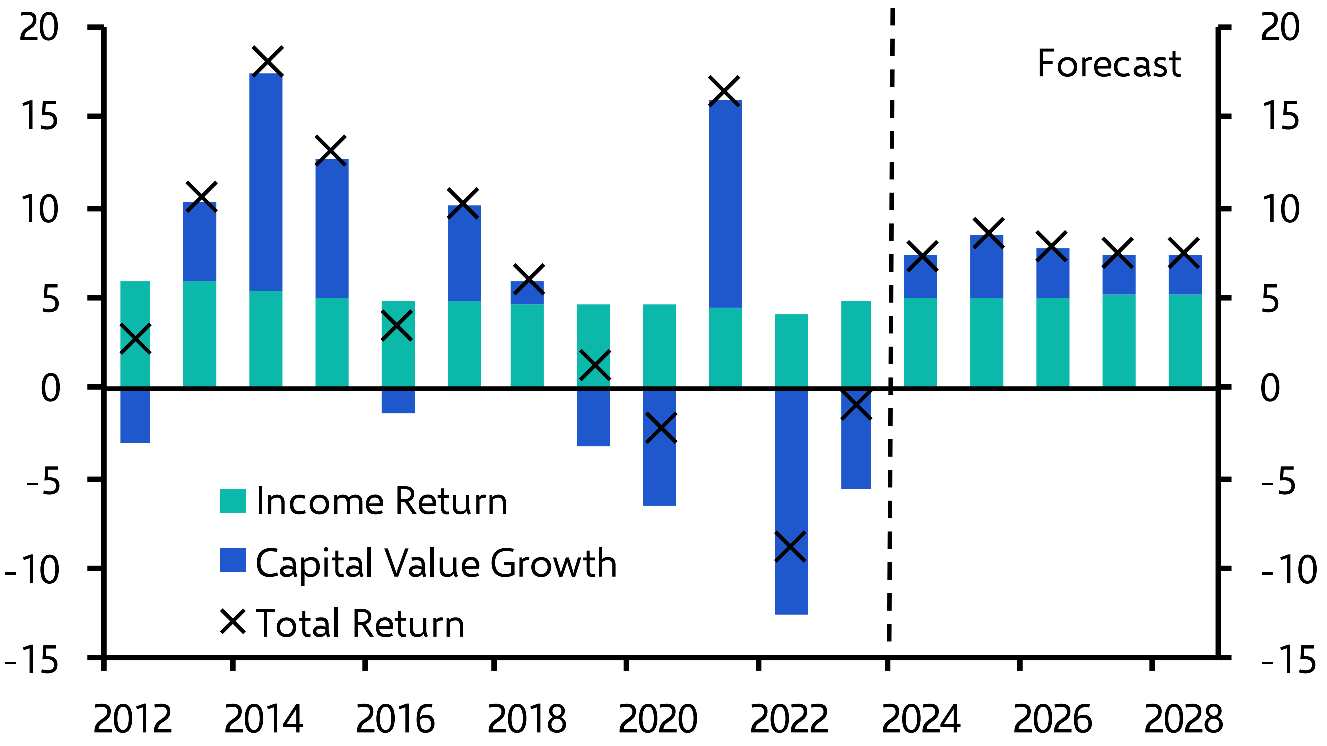
Sources: LSEG Data, MSCI, Capital Economics

Capital Value Recovery Comparison (%)



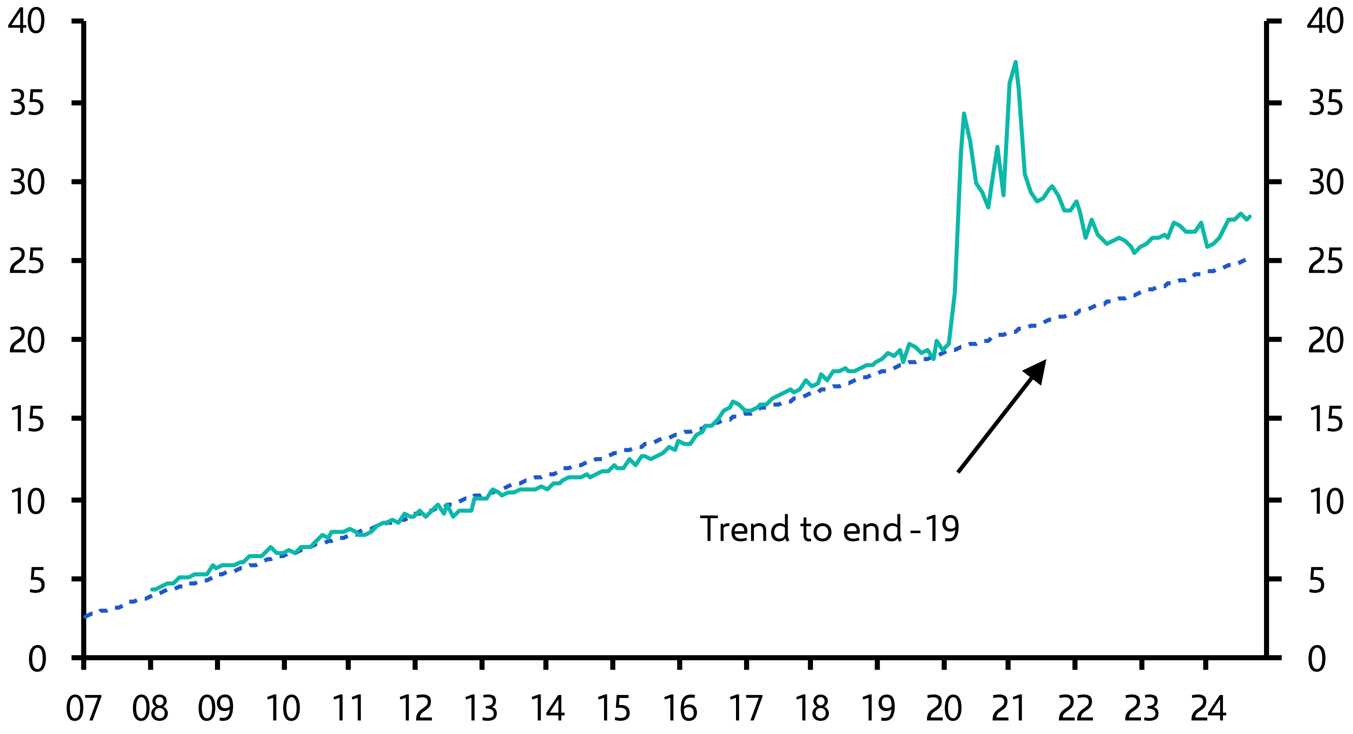
Sources: MSCI, Capital Economics

All-Property Total Return Breakdown



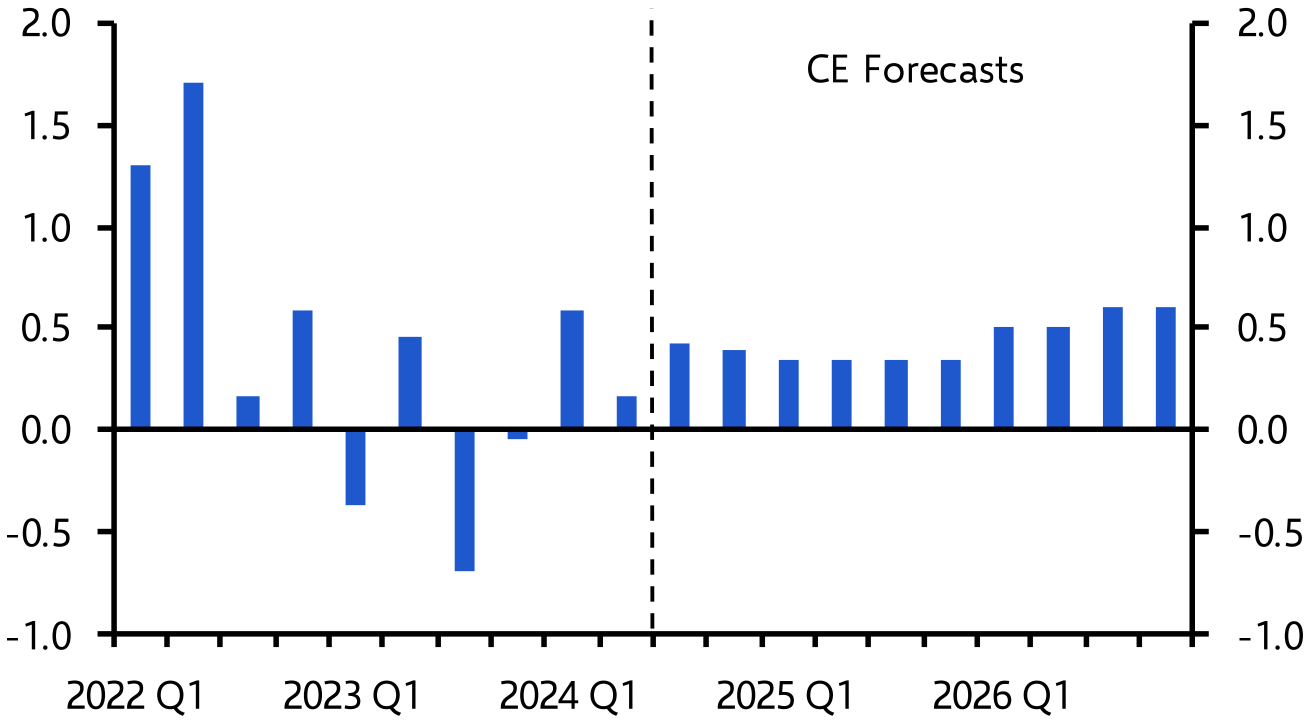
Sources: MSCI, Capital Economics

Online Share of Retail Sales (%)



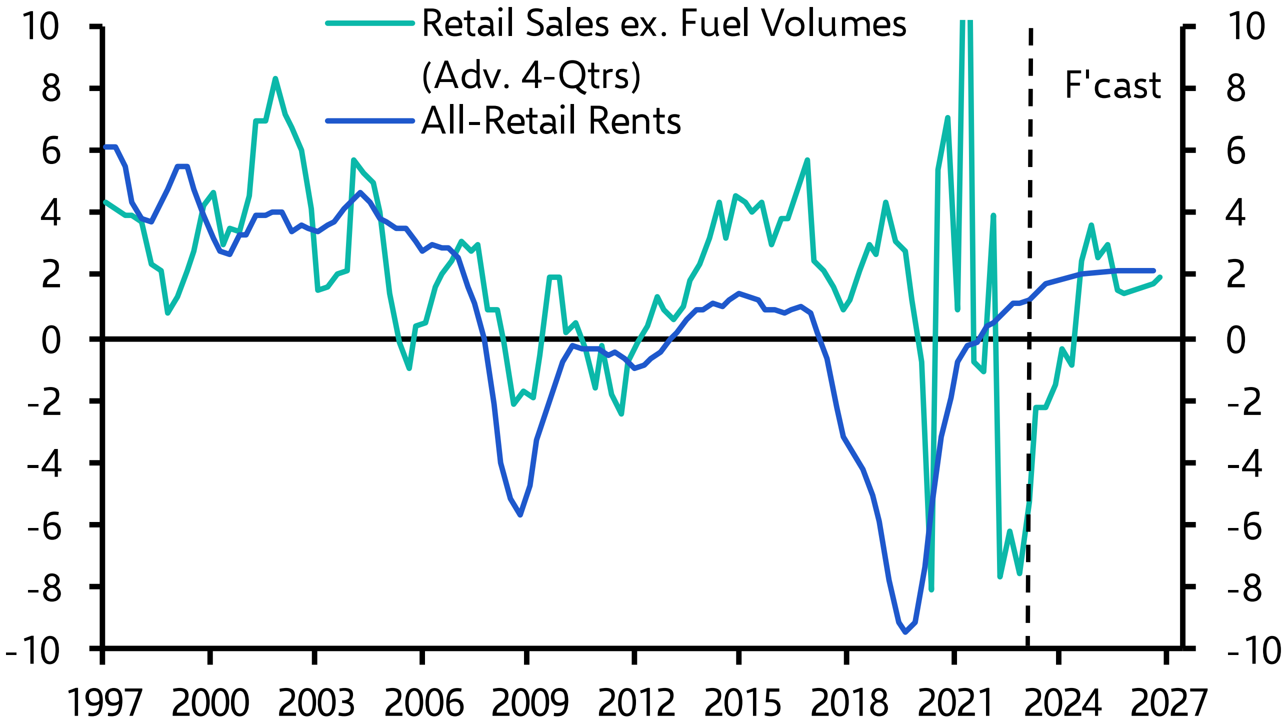
Sources: LSEG Data, Capital Economics

Consumer Spending (% q/q)



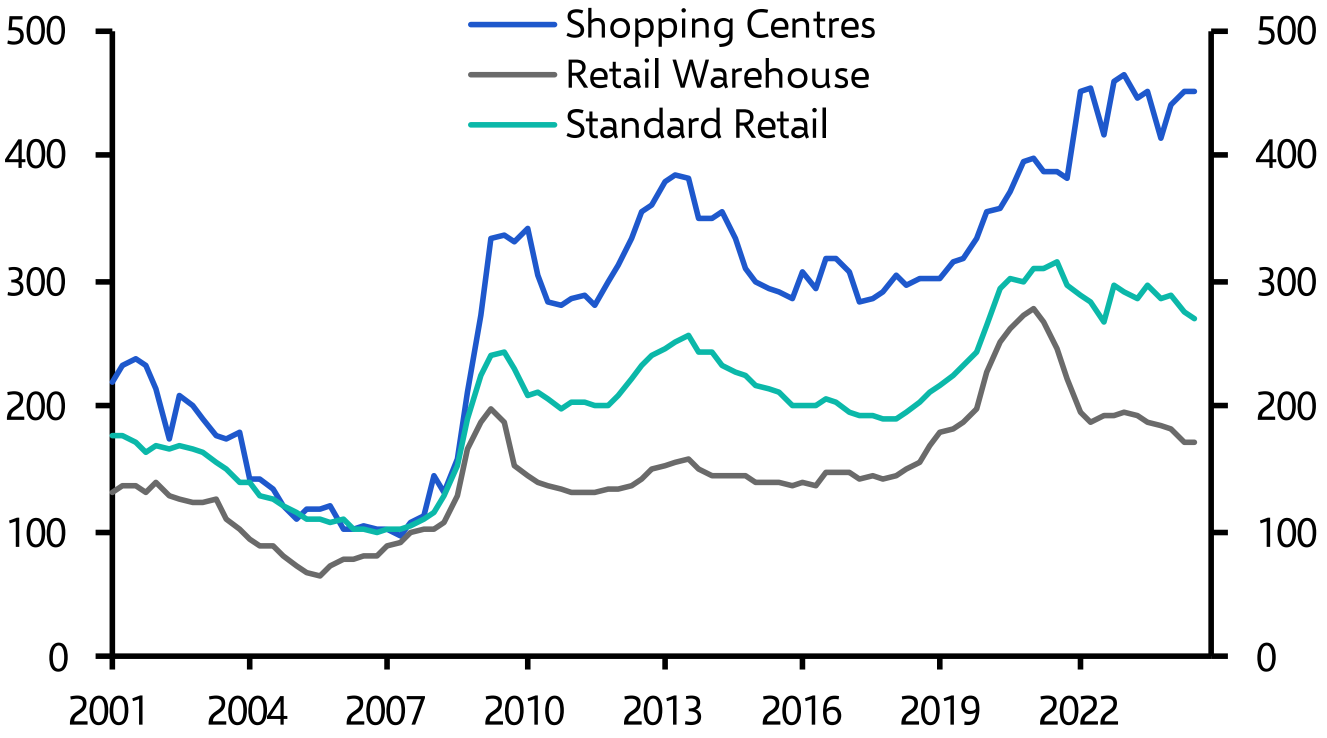
Sources: LSEG Data, Capital Economics

Retail Rents & Retail Sales (% y/y)



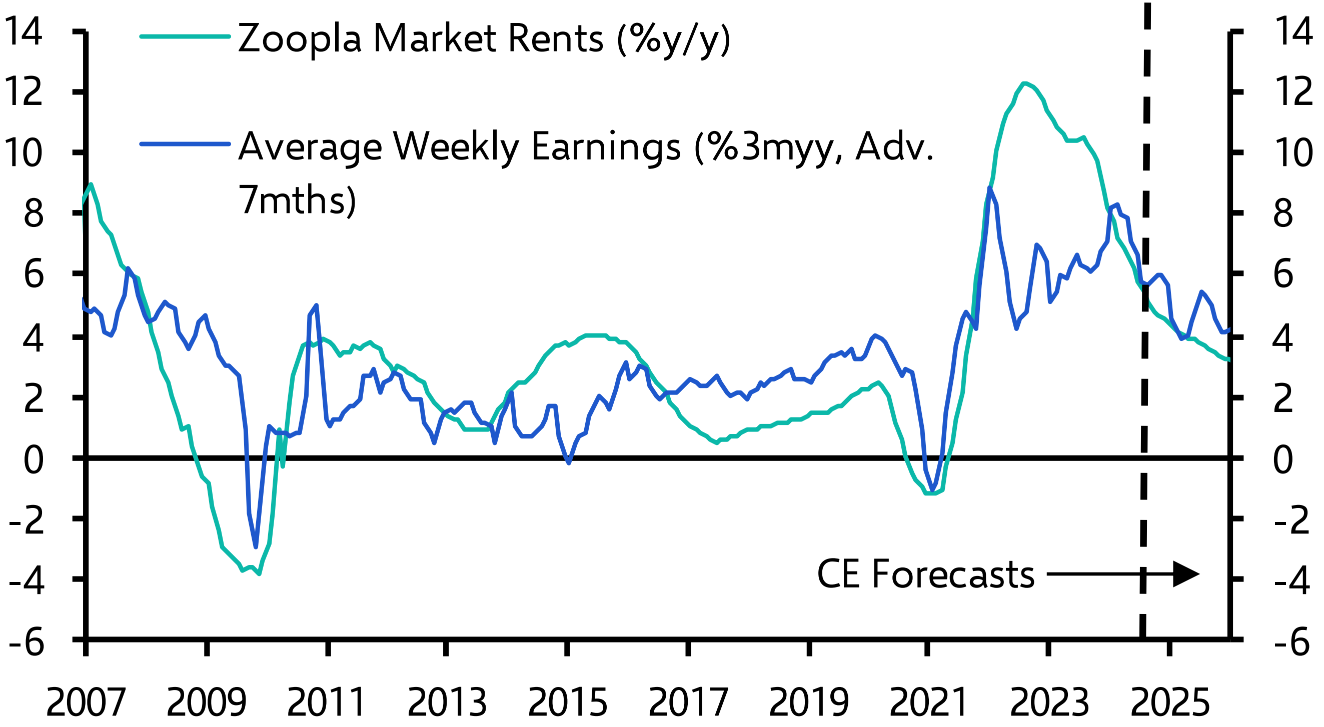
Sources: LSEG Data, Capital Economics

Prime/Non-Prime Retail Equivalent Yield Spreads (bps)



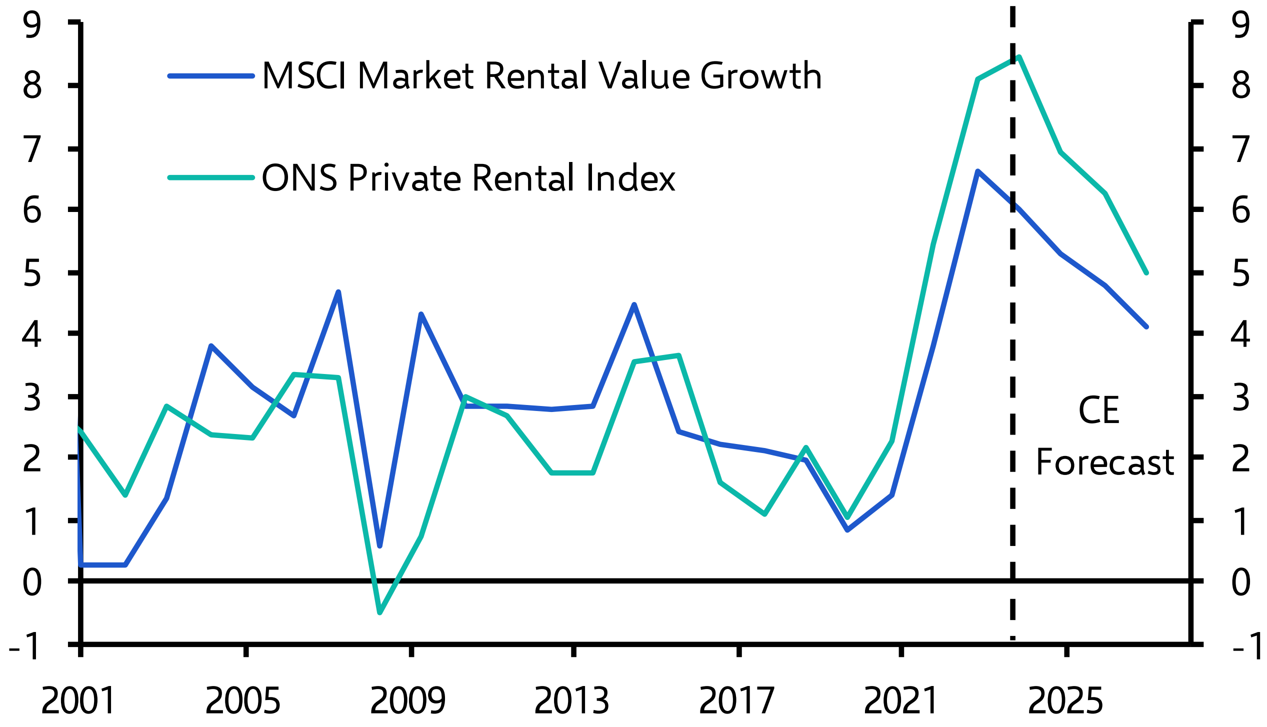
Sources: MSCI, Capital Economics

Average Weekly Earnings & Private Market Rent



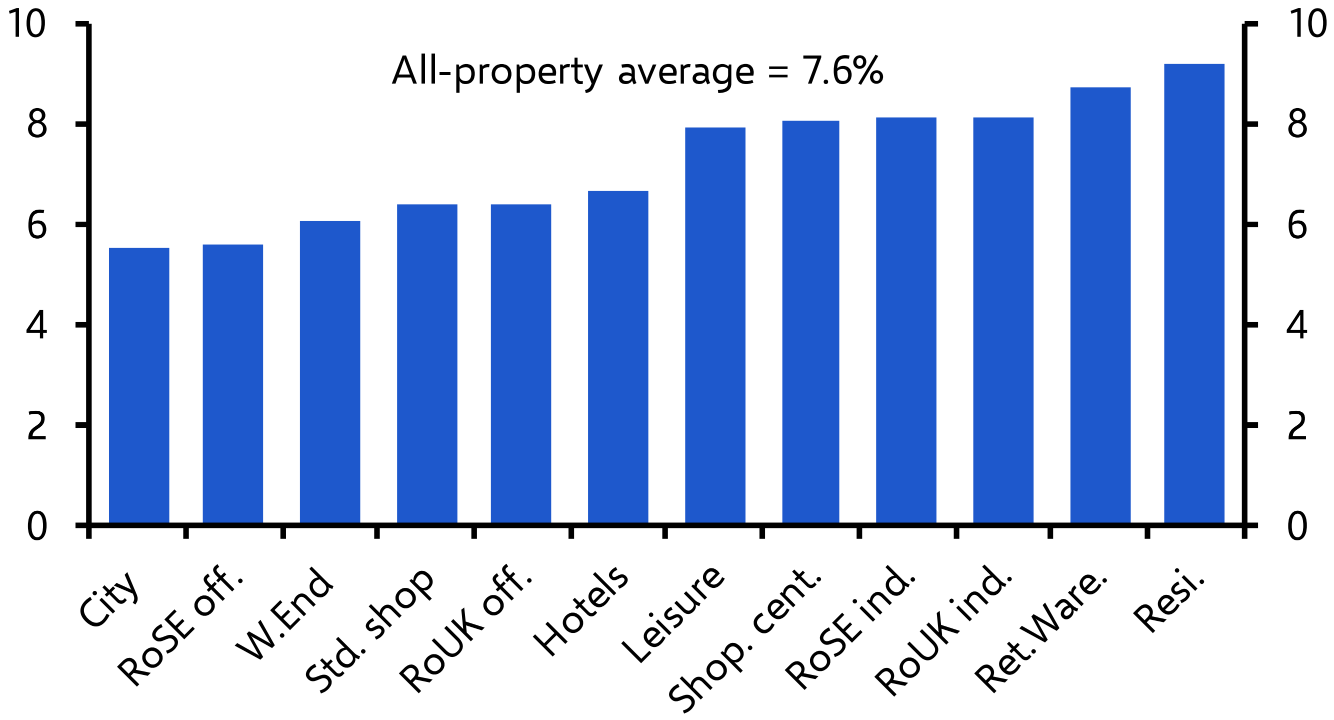
Sources: LSEG Data, Zoopla, Capital Economics

Rental Growth (% y/y)



Sources: LSEG Data, MSCI, Capital Economics

Total Returns 2024-28 (% p.a.)



Sources: MSCI, Capital Economics

The US election

- A Harris victory would mean business as usual

- A Trump victory would mean:
  - higher tariffs;
  - tighter rules on immigration and the potential removal of undocumented workers; and
  - tax cuts, particularly for corporates.

- While many of Trump’s proposed policies are likely to be diluted in practice, the common thread is that they would push up inflation.

Trump: Rhetoric vs. Reality

	Rhetoric	Reality
GDP	-1.5%	-0.8%
Price Level	+2.3%	+1.2%
Fed Response	+100-125bps	+50bps

Rhetoric: policies fully enacted on day one
Reality: policies partially enacted by Q1 2026.
Effects shown through to mid-2026

Conclusions

- A big Budget, with a fiscal loosening compared to previous government's plans.
- As a result GDP growth will be a little stronger, but interest rates higher.
- No repeat of the mini-Budget, but it will mean yield compression will be limited and the capital value recovery will be weak by past standards.
- Residential and retail warehouses to outperform, offices to struggle.
- A Trump victory would probably mean slower growth/higher inflation but proposed measures likely to be diluted in office.

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