

IPF UK Consensus Forecasts – SPRING 2020

17 organisations contributed to this second survey of 2020 with forecasts dating from the end of March to mid-May – a period of just over seven weeks – all of which were cognisant of the COVID-19 pandemic.

Rental value growth

Average rental growth projections for 2020 and 2021 have fallen by over 620 and 160 bps respectively, with all forecasters projecting negative growth in the current year. However, the impact of COVID-19 may be a relatively short-term phenomenon with the 2022 average only 15 bps lower and 2023 and 2024 virtually unchanged – from 0.9%, 1.1% and 1.2% respectively in February.

The depth of the reduction predicted for 2020 has had a significant impact on the five-year average, which has declined by over 140 bps per annum.



Capital value growth

The decline in the 2020 All Property capital value growth rate reflects a sharp movement in yields, although more than one-third of contributors to this quarter's survey (seven) expect flat or better than zero growth emerging in 2021 (the forecast for which is unchanged from February).

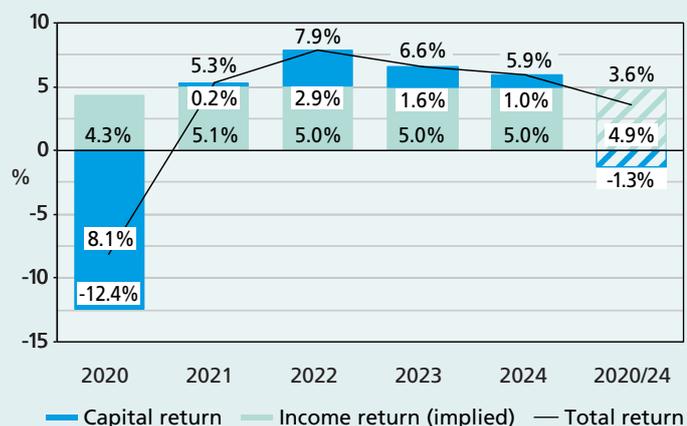
A further recovery, albeit from a lower base, may occur in the medium term, with higher projections recorded for all three remaining years (from 0.4%, 0.4% and 0.5% respectively last quarter).

However, the significant fall predicted for the current year has had a profound effect on the previously flat five-year average, representing a fall of 1.3%.

Total returns

For 2020, the substantial projected fall in total return is partially offset by the implied income return – a constant and significant contributor to real estate performance. However, Government intervention, providing relief via a temporary ban on landlords evicting tenants for nonpayment of rent, or from issuing statutory demands, does place this at risk.

The forecast deterioration in 2020 capital values and prospective rate of recovery in subsequent years combine to produce a 1.3% reduction in the five-year average (from 4.9% pa in February).



Average by sector summary

	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2020	2021	2022	2020/24	2020	2021	2022	2020/24	2020	2021	2022	2020/24
Office	-5.4	0.3	2.3	0.5	-9.5	1.4	4.9	0.2	-5.5	5.9	9.3	4.5
Industrial	-2.9	1.1	2.4	1.1	-7.1	2.9	4.7	1.0	-3.0	7.7	9.4	5.5
Standard Retail	-10.7	-3.4	-1.4	-2.9	-19.8	-1.8	1.2	-3.8	-15.5	3.8	6.6	1.3
Shopping Centre	-12.0	-5.0	-3.0	-4.2	-24.7	-4.6	-2.7	-6.9	-19.7	2.2	4.1	-0.6
Retail Warehouse	-9.6	-2.7	-0.5	-2.4	-20.2	-1.1	1.1	-4.0	-14.6	6.1	8.3	2.7
All Property	-6.3	-1.3	0.8	-0.8	-12.4	0.2	2.9	-1.3	-8.1	5.3	7.9	3.6
West End office	-5.9	0.7	3.3	0.7	-10.2	2.3	8.2	1.1	-7.1	5.9	11.8	4.5
City office	-6.6	0.2	3.7	0.2	-9.9	2.0	7.5	0.5	-5.9	6.3	12.1	4.6

Key points

Uncertain outlook results in substantial forecast ranges over next two years

- A fall of 6.2% in the 2020 average All Property rental growth forecast is primarily driven by substantial declines in Retail growth expectations, to -10.7% for Standard Retail and -12.0% for Shopping Centres, with forecast ranges of 10.1%, 10.8% and 8.9% respectively.
- 2020 capital growth forecasts plummeted over the quarter; averages fell by between -24.7% and -7.1% (Shopping Centres and Industrials), to contribute to a 11.0% decline in the All Property average (now -12.4%). Forecast ranges were even greater than for rents, although the greatest spread between contributors occurred within Industrial forecasts, of between minus 16.9% and plus 4.0%.
- Movements in total return averages broadly mirror those for capital growth; the -8.1% overall average lies within a range of 15.9% (from minus 14.7% to plus 1.2%).
- With stronger 2021 forecasts, ranges narrow: to 8.2% and 13.0% for All Property rental and capital value growth and 14.9% for total return.

2022 potentially to deliver strongest annual performance

- While Retail rental growth expectations do not match those forecast in February, all sector capital growth rates and total return projections for 2022 are substantially better than three months ago, albeit off lower values.
- Persistently wide forecast ranges, however, indicate a high degree of caution should be adopted when considering reported averages.

Rolling averages (2020/2024)

The 2020/2024 All Property rolling five-year average forecasts now comprise:

- Rental value growth: -0.8% per annum (0.7% previously);
- Capital value growth: -1.3% per annum (0.0%);
- Total return: 3.6% per annum (4.9%).

The full report may be downloaded from the IPF website: www.ipf.org.uk

Acknowledgement

The IPF thanks all those organisations contributing to the Spring 2020 Consensus Forecasts, including:

Aberdeen Standard Investments	CBRE	Peel Hunt
Avison Young	DWS	Real Estate Forecasting Limited
Aviva Investors	Fletcher King	Real Estate Strategies Limited
Capital Economics	Keills	Savills Investment Management
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