

IPF UK CONSENSUS FORECASTS – AUTUMN 2018

Based on contributions from 25 leading property consultants and fund/investment managers and forecasts generated between end-August and mid-November.

The outlook for capital values and total returns in the current year improved generally over the quarter, although the 2019 All Property forecasts continued to weaken.

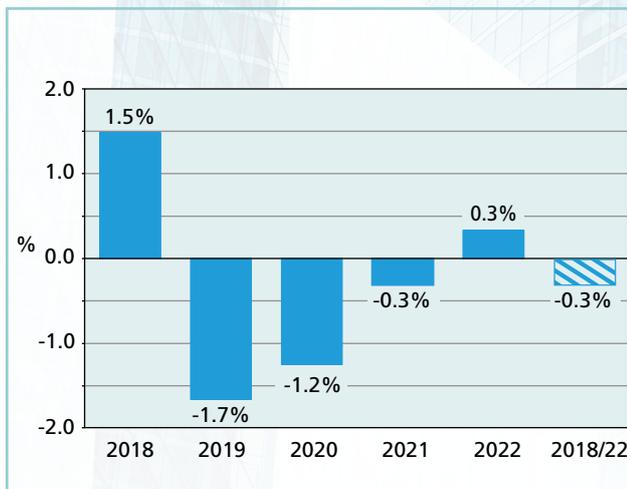
Rental value growth

The All Property rental growth forecast for 2018 fell marginally over the quarter.

For each year surveyed, rental growth projections weakened over the quarter. The 2018 average is some 10 bps lower than three months ago.

2019 remains the weakest year of the forecast period, falling a further 17bps since August, with similar reductions in growth rates in remaining years.

With individual forecasts years weakening, the five-year average has fallen by 15 bps (from 1.0%).



Capital value growth

2018 forecasts have continued to strengthen, rising 46 bps over the quarter, from 1.0% in the summer.

The average capital growth forecast has continued to improve, rising by over 45bps over the quarter (having been -0.2% at the start of the year). A weakening in sentiment, previously reported for later years, has continued with each yearly average growth lower than reported in August. In a reversal of the forecasts three months ago, averages for the final two years have fallen - by almost 80 bps in 2021 and over 70 bps for 2022.

The resultant five-year rolling average fell to -0.3% per annum, a drop of over 25 bps.

Total returns

With further improvement in capital value growth expectations in 2018, the All Property total return forecast rose 44bps over the quarter (from 5.8% in August).

Similarly, 2018 total return expectations continued to improve over the quarter). Throughout the rest of the period, however, averages declined, as negative capital growth predictions significantly impact these forecasts, with a weakening in sentiment only slowing by 2022.

The pattern of recovery from 2019 is more muted than in earlier surveys: the potential of better than previously expected performance is no longer supported as capital growth expectations have fallen in 2021 and 2022. This is further evidenced by the decline in the five-year average, to 4.5% per annum from 4.8% in August.



Summary Average by Sector

	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Office	0.8	-0.3	0.3	0.8	1.8	-2.3	-1.8	-0.5	6.0	1.9	2.5	3.8
Industrial	4.1	2.6	2.2	2.6	10.2	2.7	0.6	2.8	15.2	7.4	5.2	7.5
Standard Retail	-0.6	-0.8	-0.2	0.0	-2.0	-3.3	-1.9	-1.5	2.1	0.9	2.4	2.9
Shopping Centre	-1.3	-1.5	-0.9	-0.8	-6.6	-5.4	-3.2	-3.6	-2.2	-0.6	1.6	1.3
Retail Warehouse	-1.1	-1.1	-0.4	-0.4	-3.7	-3.9	-1.9	-2.0	1.8	1.6	3.4	3.6
All Property	0.8	0.2	0.5	0.8	1.5	-1.7	-1.2	-0.3	6.2	3.0	3.5	4.5
West End office	0.1	-0.6	0.3	0.9	1.2	-2.6	-1.6	-0.3	4.5	0.4	2.0	3.2
City office	0.5	-1.1	-0.2	0.5	1.9	-3.0	-1.9	-0.5	5.6	0.6	2.2	3.4
Office (all)	0.8	-0.3	0.3	0.8	1.8	-2.3	-1.8	-0.5	6.0	1.9	2.5	3.8

Key Points

Current year

Forecasts for capital value growth and total returns improved over the quarter, whilst there was a decline in the overall rental growth outlook. At the All Property level:

2018

- The forecast now averages 0.8% (from 0.9% in August), as sector forecasts of retail growth averages have continued to decline;
- The average capital value growth rate has maintained its upward momentum, rising almost 50bps to 1.5%, again driven by a substantial increase in the Industrial growth rate which has increased to 10.2% for the year (from 8.7% previously) in contrast to further declining rates within retail (down between 72 and 106 bps on average for Standard Retail and Shopping Centres respectively);
- Whilst the implied income return is marginally lower, at 4.7% (4.8%), the average total return projection has risen, supported by strengthening Industrial and Office forecasts, to lie at 6.2% currently (from 5.8% in August and 4.6% in Q1).

2019

As in August, with the exception of Industrial and Office averages, sector forecasts for next year declined again over the quarter.

- Averages for rental and capital value growth now lie at 0.2% and -1.7% (from 0.4% and -1.6%); this is in spite of rising Industrial growth forecasts (now 2.6% and 2.7% respectively, from 2.5% and 1.6%) and by more modest improvements for Offices (-0.3% and -2.3%, from -0.4% and -2.6%);
- The 2019 average total return forecast has continued to decline, to 3.0% from 3.2% in August.

2020 and beyond

Recovery from the low-point of 2019 is now projected to be slower than in previous surveys, with sentiment softening further across the majority of sectors and measures.

- Rental growth forecasts for each year currently average 0.5%, 1.1% and 1.4% (from 0.7%, 1.2% and 1.6% in August), with lower capital growth projections of -1.2%, -0.3% and 0.3% (from -0.9%, 0.5% and 1.0%);
- The total return forecast for 2020 now lies at 3.5% (previously 4.0%), rising to 4.5% in 2021 (5.4%) and 5.2% (6.0%) by 2022.

Five-year averages

Rolling five-year average forecasts (previous quarter in brackets) are currently:

- Rental value growth: 0.8% per annum (1.0%)
- Capital value growth: -0.3% per annum (0.0%)
- Total return: 4.5% per annum (4.8%)

Click [here](#) to download the full report from the IPF website.

Acknowledgement

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