Research Programme
2015-2018

AT A GLANCE
September 2017

IPF UK CONSENSUS FORECASTS – SUMMER 2017

The third UK Consensus Forecasts report of 2017 is based on independent forecasts from 26 leading property consultants and fund/investment managers.

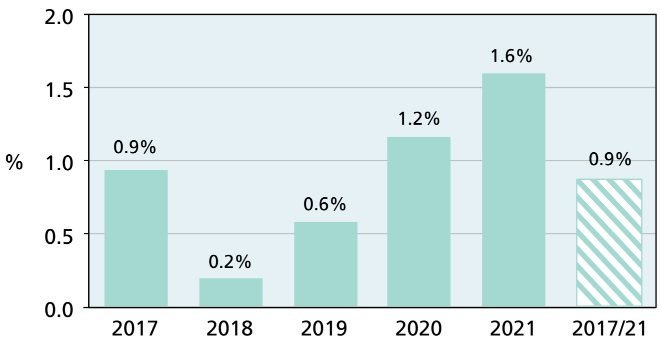
Despite a continued weakness in GDP growth over the last three months, the short-term outlook for commercial property has continued to improve. The quid pro quo to this increased optimism, however, appears to be a lowering in expectations for the remaining years of the survey.

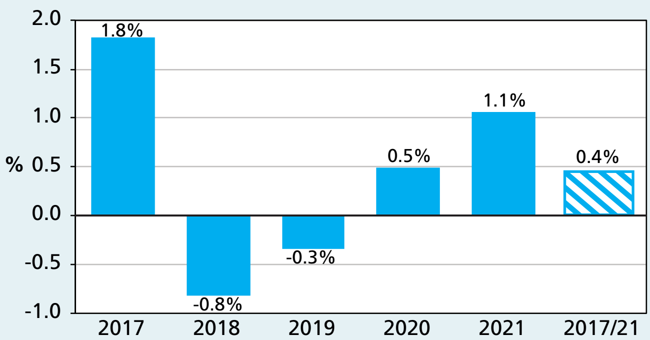
Rental value growth

Reflecting more optimistic near-term sentiment for occupier demand, there has been a further improvement of almost 40bps in the 2017 average forecast (0.6% in May).

In remainning years, however, projections have weakened by 9, 13 and 19 bps in 2018, 2019 and 2021, whilst staying broadly flat in 2020.

Overall, these movements have resulted in a virtually unchanged five-year annualised average – just 4 bps lower over the quarter.





Capital value growth

Similar to the rental market, capital growth prospects for 2017 have continued to improve – by over 190 bps this quarter, compared to a rise of almost 150 bps three months ago, resulting in a positive growth projection of 1.8%.

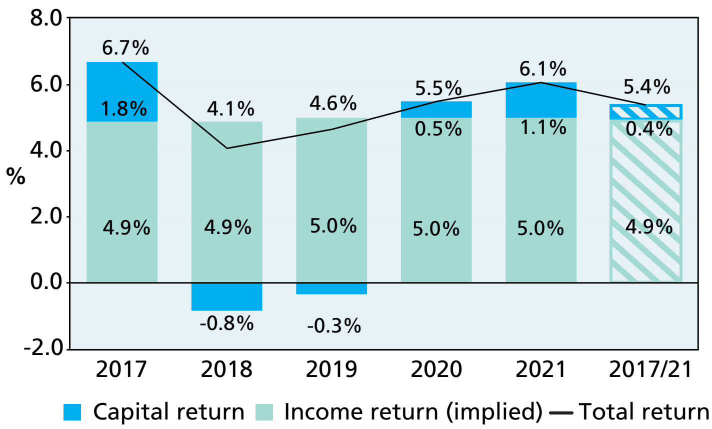
Expectations for all other years have fallen back however – by between 54 and 19 bps in 2020 and 2021 (from 1.0% and 1.3% in May) – maintaining a trend of weakening sentiment for the later years of the survey period.

This improvement in the near-term average has contributed to a slight increase in the annualised average over five years, which has risen 9 bps over the quarter.

Total returns

The current consensus for 2017 has risen significantly (from 4.8% last quarter) due to a further strengthening in capital growth expectations, which have served to sustain the substantial improvement in the average forecast since the start of the year (-1.6%).

The 2018 figure is broadly unchanged due to an increase in the implied income return. Although a pattern of increasing returns is maintained over ensuing years, 2019 and 2020 are weaker than forecast in May (the 2020 average is almost 55 bps lower). Poorer capital growth rates and flat or slightly lower income returns limit overall performance, though a stronger 2018 and slightly improved prospects in 2021 combine to raise the five-year average to 5.4% per annum.



SEPTEMBER 2017

Summary average by sector

	*Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2017	2018	2019	2017/21	2017	2018	2019	2017/21	2017	2018	2019	2017/21
Office	0.2	-1.0	-0.1	0.5	0.7	-2.2	-0.9	-0.1	5.0	2.2	3.6	4.4
Industrial	3.3	2.1	1.7	2.2	6.8	1.9	0.8	2.2	12.2	7.1	6.1	7.5
Standard Retail	0.8	0.2	0.6	0.8	1.3	-0.8	-0.1	0.4	5.9	3.8	4.6	5.2
Shopping Centre	0.4	-0.1	0.4	0.6	-0.1	-1.7	-0.8	-0.3	4.8	3.3	4.4	4.8
Retail Warehouse	0.5	0.1	0.4	0.6	0.2	-1.3	-0.5	-0.1	5.9	4.5	5.3	5.8
All Property	**0.9**	**0.2**	**0.6**	**0.9**	**1.8**	**-0.8**	**-0.3**	**0.4**	**6.7**	**4.1**	**4.6**	**5.4**
West End office	-1.6	-2.0	-0.2	0.2	-0.2	-3.7	-1.1	-0.4	3.1	-0.2	2.6	3.3
City office	-0.9	-2.7	-1.1	-0.3	-0.1	-4.1	-1.4	-0.8	3.5	-0.3	2.6	3.2

*One contributor provided only rental growth forecasts.

Other key points:

2017

- The All Property average **rental growth** forecast for the current year has risen to 0.9% (from 0.6% in May and 0.2% in February).
- Capital value growth rates have risen above zero for most sectors. The All Property average forecast is now 1.8%, as against -0.6% three months ago and -1.6% at the start of the year.
- The All Property total return reflects these improvements, now standing at 6.7%, from 4.8% in May.

2018/2019

- **Rental growth** forecasts are lower for **2018** than 2017 and have weakened over the quarter (to an average of **-0.2%** for All Property, as against 0.3% previously).
- Improved **capital growth** projections for Industrials and Offices contrast with falls in all retail sub-sectors and an All Property average of **-0.8%** from -0.6% three months ago.
- The outlook for **2019** has softened for both measures and particularly so for **capital growth**, which has declined to **-0.3%** from 0.1% in May and 0.8% in February.
- Whilst the 2018 average total return is virtually unchanged, at 4.1%, the 2019 forecast has fallen to 4.6% from 4.9% last quarter, having been 5.8% at the start of the year.

Longer-term outlook

- At the All Property level, total returns projections in these years have reduced over the last three months, to 5.5% (from 6.0%) and 6.1% (from 6.2%) for 2020 and 2021 respectively.
- Five-year averages for all measures are broadly unchanged, as stronger 2017 projections have served to counter the weakened forecasts of later years. The **All Property** rental growth forecast average lies within 4 bps of the previous quarter average of 0.9%, whilst the capital growth average has risen modestly to 0.4% (from 0.3% reported in May). The **total return average** has risen to **5.4% per annum** (from 5.2%).

Central London office markets

- Both rental and capital growth averages remain below zero, but 2017 prospects firmed over the quarter; a majority of West End rental forecasts were negative but fewer than half fell below zero for City offices.
- Capital value growth estimates are more encouraging: just over half of West End and two-thirds of City forecasters predict positive growth in the current year.
- 2018 forecasts currently suggest growth rates and total returns will reach their lowest points next year.
- Similar to other sector forecasts, average contributor sentiment is weaker for 2020 and 2021, although only one City forecast predicts negative total returns in 2020.

Click here to download the full report from the IPF website

Acknowledgement

IPF thanks all those organisations contributing to the Summer 2017 Consensus Forecasts, including:

Aberdeen Asset Management
Aviva Investors
AXA IM – Real Assets
BMO Real Estate Partners
Capital Economics
CBRE
CBRE Global Investors
Colliers International
Cushman & Wakefield
Deutsche Asset Management
Fletcher King
GVA
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