

IPF UK Consensus Forecasts – SUMMER 2020

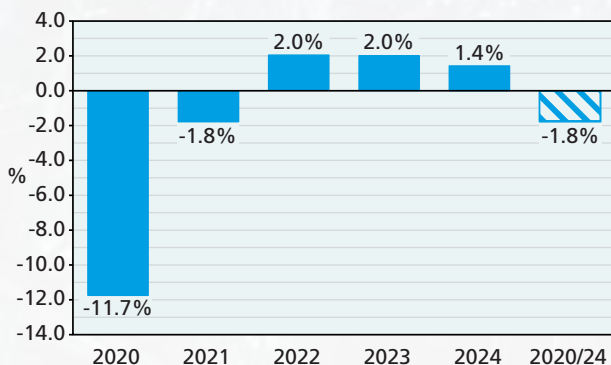
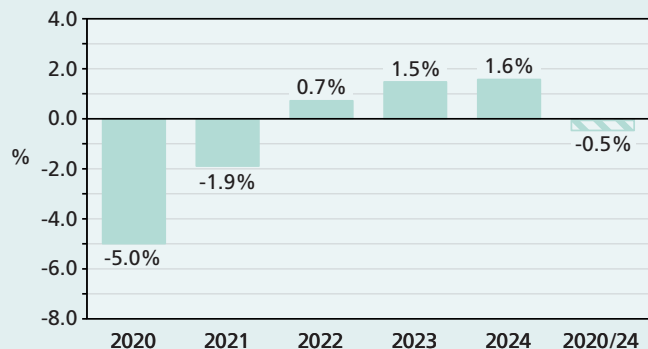
24 organisations contributed forecasts, dating from the end of May to mid-August. Views for this year are slightly less negative than a quarter ago but 2021 forecasts have deteriorated.

Rental value growth

Although the average rental growth projection for 2020 improved by 135 bps (from -6.3%) over the quarter, the 2021 outlook weakened, from -1.3% in May.

Current expectations are for 2022 growth to be marginally weaker (previously 0.8%) but a slightly stronger recovery in both 2023 and 2024 (from 1.2% last quarter).

Despite the improved 2020 forecast, the five-year average remains sub-zero (-0.8%).



Capital value growth

All but five contributors anticipate double-digit falls in the 2020 All Property capital value rate, although the average improved from last quarter's -12.4%, driven by a substantial rise in the Industrial average and a lesser rate of deterioration in Office growth.

Any recovery in 2021 or 2022 is likely to be more muted than predicted three months ago, with averages falling almost 200 bps and 80 bps respectively, from 0.2% and 2.9% in May.

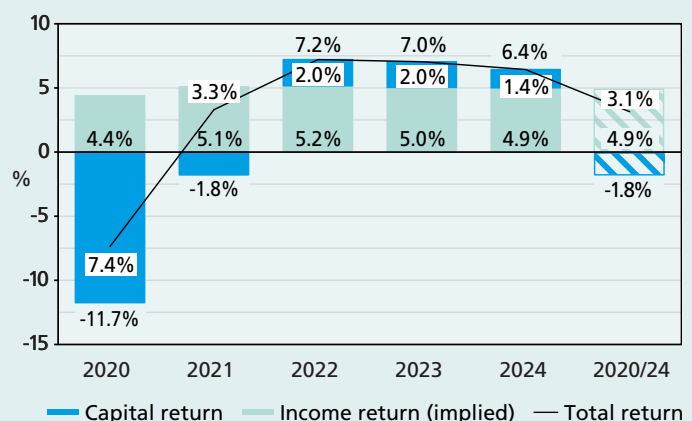
Although 2023 and 2024 average projections have risen, (from 1.6% and 1.0%), the adverse impact of a slower pick up in 2021 and 2022 is reflected in a weaker five-year average, down over 50 bps (from -1.3% pa previously).

Total returns

From a low of -8.1% last quarter, the 2020 total return forecast has increased by almost 80 bps as the rate of capital value decline now anticipated in the current year has moderated, while the implied income return has risen slightly.

Over the last quarter, a negative outlook for capital values in 2021 and lower projected growth rate in 2022 have forced the next two years' total return forecasts down – by 200 bps in 2021 and almost 70 bps in 2022 (from 0.2% and 7.9% respectively).

Although predicted returns in the final two years have risen, these improvements are insufficient to sustain the five-year average, which has fallen by over 40 bps (from -1.3% pa).



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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	-3.5	-1.0	2.2	0.4	-8.8	-1.0	3.8	-0.4	-4.9	3.5	8.3	4.0
Industrial	0.4	0.9	1.9	1.6	-3.5	1.5	3.3	1.3	0.8	6.1	7.9	5.8
Standard Retail	-10.8	-4.9	-1.9	-3.7	-20.4	-5.7	-0.1	-5.3	-16.4	-0.6	5.2	-0.4
Shopping Centre	-13.4	-6.2	-3.2	-5.1	-28.3	-8.4	-3.0	-9.2	-23.4	-1.7	4.2	-2.6
Retail Warehouse	-9.6	-4.8	-1.4	-3.2	-20.9	-5.2	0.2	-5.5	-16.0	2.1	7.7	1.3
All Property	-5.0	-1.9	0.7	-0.5	-11.7	-1.8	2.0	-1.8	-7.4	3.3	7.2	3.1
West End office	-4.5	-0.4	2.8	0.9	-7.6	0.1	4.7	0.7	-4.3	3.7	8.4	4.2
City office	-3.8	-0.8	3.0	0.9	-7.2	0.1	4.8	0.6	-3.0	4.5	8.7	4.7

Key points

Fears for 2020 moderate slightly but slower recovery now anticipated as 2021 outlook weakens

- A 2020 All Property average rental growth rate of -5.0%, representing an improvement of 135 bps over May (at -6.3%), with individual forecasts of between -11.0% and -1.8%. However, for 2021, the overall expectation is weaker than three months ago as the average has declined to -1.9%, from -1.3%.
- Projections for the All Property 2020 capital growth rate now lie between -16.0% and -4.0% (from -19.5% and -4.0%), to average -11.7% (-12.4% previously). The forecast for 2021, of -1.8%, represents a fall of almost 200 bps from May's 0.2% and reflects weaker sentiment in all sectors, with retail markets in particular being marked down further.
- Although narrowing, predictions for 2020 total returns continue to draw a wide range of views. The All Property forecasts currently lie between -12.0% (from -14.7%) and an unchanged maximum of 1.2%, to average -7.4% (from -8.1%). The 2021 average forecast has fallen to 3.3% (from 5.3% in May). Forecast ranges now lie between -0.3% and 9.1% (from -1.0% and 13.9% in May).

2022 forecast to deliver strongest annual performance

- Although rental growth expectations are for year-on-year improvement throughout the survey period, the All Property capital growth rate is projected to peak at 2.9% in 2022. The resultant total return forecast for that year is 7.2%, with an implied income return of 5.2%.

Rolling five-year averages

The 2020/2024 All Property rolling five-year average forecasts (with May's figures in brackets) now comprise:

- Rental value growth: -0.5% per annum (-0.8%);
- Capital value growth: -1.9% per annum (-1.3%);
- Total return: 3.1% per annum (3.6%).

The full report may be downloaded from the **IPF website**.

Acknowledgement

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

Aberdeen Standard Investments	Colliers International	Legal & General Investment Management
Avison Young	Cushman & Wakefield	M&G Real Estate
Aviva Investors	DWS	Real Estate Forecasting Limited
BMO Real Estate Partners	Fletcher King	Real Estate Strategies Limited
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