Research Programme
2015–2018

AT A GLANCE

IPF UK CONSENSUS FORECASTS – SPRING 2017

The latest UK Consensus Forecasts are based on independent forecasts from 24 leading property consultants and fund/ investment managers.

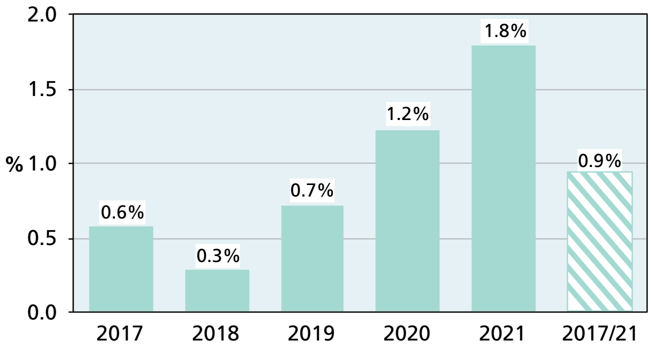
The improvement in near-term forecasts recorded in February has been maintained. Investment activity in the London office markets reached record levels in Q1 but the medium-term outlook for capital markets has continued to weaken, resulting in a fall in the average total returns forecast next year.

All Property rental value growth forecasts

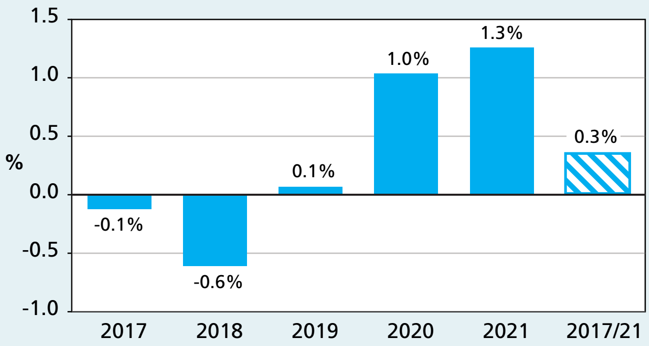
The 2017 forecast has improved a further 40 bps since the last survey (from 0.2%), whilst the 2018 projection has also improved (from 0.1%).

2019 and 2020 projections have weakened again (from 0.8% and 1.4%), although the 2021 forecast has remained steady.

The five-year annualised average has nudged up slightly (formerly 0.8%).



All Property capital value growth forecasts



Near-term forecasts for capital value growth have continued to improve; the 2017 average rate has increased by almost 150 bps since the last survey, whilst the rise in next year's average is more modest, at 14 bps.

However, growth prospects in remaining years (2019–2021) have weakened further, down by over 70 bps (from 0.8%) for 2019 and by 43 bps and 24 bps respectively for 2020 and 2021 (both previously 1.5%).

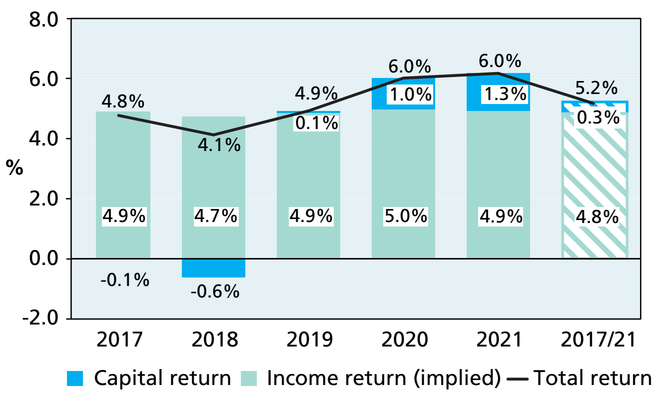
Notwithstanding the weaker growth prospects in these later years, greater confidence in the short-term has contributed to a slight improvement in the annualised average over five years, which has risen over 10 bps, from 0.2% three months ago.

All Property total return forecasts

The current forecast All Property total return for 2017 has risen over 150 bps, from 3.2% three months ago, as a result of the significant reduction in the current year's negative capital value growth projection (to -0.1% from -1.6%).

In 2018, a fall in the implied income return may produce a lower total return than the previous forecast of 4.3% (a reduction of some 16 bps). Weaker capital growth rates and lower income returns are likely to continue to constrain performance. 2019 and 2020 average return projections are over 90 bps and almost 60 bps lower than three months ago.

An improved 2017 forecast has helped to maintain the five-year average at 5.2% per annum.



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	-1.1	-1.1	0.1	0.3	-1.9	-2.4	-0.5	-0.5	2.5	1.8	4.0	4.0
Industrial	2.7	1.9	1.7	2.0	3.3	1.4	1.1	1.6	8.8	6.6	6.3	6.8
Standard Retail	0.9	0.5	0.8	1.1	0.4	-0.1	0.6	0.9	5.0	4.3	5.0	5.3
Shopping Centre	0.4	0.2	0.7	0.8	-1.0	-1.1	0.1	0.0	3.8	3.8	5.0	5.0
Retail Warehouse	0.5	0.4	0.7	0.9	-1.2	-0.8	0.4	0.2	4.3	4.6	5.7	5.5
All Property	**0.6**	**0.3**	**0.7**	**0.9**	**-0.1**	**-0.6**	**0.1**	**0.3**	**4.8**	**4.1**	**4.9**	**5.2**
West End office	-2.3	-1.8	0.3	0.2	-2.9	-3.1	-0.3	-0.4	0.8	0.3	3.2	3.2
City office	-2.3	-2.6	-0.4	-0.2	-3.0	-3.9	-0.7	-0.9	0.9	-0.3	3.2	3.1

Other key points:

2017

- The All Property average rental growth forecast for the current year has risen to 0.6% (from 0.2% in February and -0.5% in November 2016).
- Capital value growth rates have improved but remain below zero for most sectors. The All Property average forecast is now -0.6%, as against -1.6% three months ago.
- The All Property total return reflects these improvements, now standing at 4.8% from 3.2% in February.

2018/2019

- Rental growth forecasts, whilst weaker for 2018 than 2017, have firmed over the quarter (averaging 0.3% for All Property, as against 0.1% previously).
- Whilst capital growth projections for all sectors other than Industrials have fallen, the decline in the All Property average has been arrested and now stands at -0.6% from -0.7% three months ago.
- The outlook for 2019 has softened for both measures and particularly so for capital growth, down to 0.1% from 0.8%.
- Total returns for the two years are now expected to average 4.1 % and 4.9% (from 4.3% and 5.8%).

Longer-term outlook

- At the All Property level, forecasts for 2020 and 2021 are not dissimilar, coinciding with a narrowing in the range of average sector rental and capital growth expectations (mainly lying between 1.0% and 2.0%).
- Five-year averages for all measures are broadly unchanged over the quarter.

Central London office markets

- Some two-thirds of forecasters predict contracting City rental and capital values in 2017 and 2018, resulting in negative averages for both measures and a sub-zero total return projection in 2018.
- In the West End, there is even greater consensus amongst contributors, with 18 out of 21 rental and 16 out of 19 capital growth forecasts for 2017 lying below zero.
- 2018 appears to signal a floor for the rate of decline, with the West End market recovering more quickly than in the City in subsequent years.
- By 2019, two-thirds of West End rental growth forecasts are positive, although more than half of contributors project negative capital growth.
- There is broad agreement both markets will return to positive rental growth by 2020 but less confidence in a similar a recovery in capital values, with a quarter of forecasts still below zero that year.

Click here to download the full report from the IPF website

Acknowledgement

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

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