IPF Research Programme 2011–2015

UK CONSENSUS FORECASTS | SUMMARY

Investment Property Forum UK Consensus Forecasts

This research was commissioned by the IPF Research Programme 2011–2015

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This Programme supports the IPF's wider goals of enhancing the understanding and efficiency of property as an investment. The initiative provides the UK property investment market with the ability to deliver substantial, objective and high-quality analysis on a structured basis. It encourages the whole industry to engage with other financial markets, the wider business community and government on a range of complementary issues.

The Programme is funded by a cross-section of businesses, representing key market participants. The IPF gratefully acknowledges the support of these contributing organisations:

Survey of Independent Forecasts for UK Commercial Property Investment

November 2014

The last quarter has seen a further strengthening of forecasts for 2014, with the mean All Property total return figure rising to 18.9% (from 17.0% in August and 13.7% in May). Rental and capital value growth average projections have risen to 3.1% and 12.6% respectively (from 2.8% and 10.9% three months ago), the latter driven by double-digit growth for offices (17.0%), industrials (14.9%)and standard retail (up to 10.0% from 8.9% in August), in parallel with increased rental growth projections in each of these sectors for the current year. However, this buoyant outlook is short-lived as forecasts moderate considerably over the remaining years of the survey.

Key points

Clear expectation of overall performance peaking in current year

- Slight reductions in rental value growth expectations in the Shopping Centre and Retail Warehouse sectors have been more than offset by improved capital growth figures, leading to **2014 total returns** projections ranging from 15.1% for Standard Retail and Shopping Centres to 22.6% for Offices, whilst the **All Property** total return forecast has risen to **18.9%**.
- For **rental value growth**, the 2014 All Property forecast has risen to **3.1%**, from 2.8% in August, driven primarily by the Office forecast figure of 6.7%, with continuing, albeit more modest, improvements in sector level forecasts for Industrials and Standard Retail.
- The major contributor to the total return measure of performance remains **capital value growth**, with the greatest recorded increase in individual sector forecasts over the quarter being for Industrials, where the average projection has risen by over 200 basis points, to 14.9%. Led by an average Office forecast of 17.0% (from 15.0% in August), the **All Property** capital value growth rate now stands at **12.6%** (from 10.9% three months ago).

2015 forecasts broadly firmer but downward trajectories of all measures maintained

- Whilst average capital value growth rates are expected to fall back substantially next year, the majority of **2015** forecasts for both rental and capital value growth have firmed over the last three months, the exception being for the level of Retail Warehouse rental growth, now expected to average 1.6% in the year ahead, from 1.7% in August.
- At the All Property level, rental value growth is now expected to fall from 3.3% in 2015 to 1.9% by 2018, whilst the rate of capital value decline is predicted to accelerate to just below zero by the end of the forecast period, from 5.4% next year. The wide variations between individual sectors in the earlier years of the survey diminish with time.
- As total returns forecasts reduce, the performance rankings between sectors shifts, with the Industrial sector outperforming Offices in 2016 and the latter is expected to be the weakest market segment for the last two years of the survey period.

Five-year averages distorted by 2014

- Annualised rental and capital value growth rate averages have increased over the quarter (to 2.7% and 3.6% respectively), by virtue of further improvement in near-term expectations, although still not likely to reach their long-run averages.
- The All Property five-year total return average forecast (currently 9.2%) is exceeded only by the 2014 and 2015 average forecasts, with performance prospects falling to below 6.0% in the last two years of the survey.
- As one contributor volunteered, however, using 2014-2018 numbers flatters the outlook, whereas a very different picture of the market would emerge by omitting 2014 from the forecast. The resultant 2015-2018 four-year averages would be 2.6%, 1.6% and 6.9% for rental and capital value growth and total returns respectively.

Economic background

The latest estimate of gross domestic product (GDP) from the Office for National Statistics (ONS)[1] reported a GDP increase of 0.7% in Q3 2014 compared with Q2 2014. Between Q3 2013 and Q3 2014, GDP increased by 3.0% in volume terms. In the latest quarter, growth was recorded in all four main industrial groupings: construction and services increased by 0.8%, whilst agriculture, forestry & fishing increased by 0.3%. Within production, although components such as water supply and sewerage, mining and quarrying fell, manufacturing, which holds the largest weight within the group, grew to show an overall increase of 0.2% from Q2 2014.

Public sector borrowing[2] was £0.7 billion in October 2014, £0.2 billion lower than October 2013, whilst public sector net debt reached £1,449.2 billion, or 79.5% of GDP in October 2014.

The Consumer Prices Index (CPI) grew by 1.3% in the year to October 2014[3], up from 1.2% in September (the smallest rate of increase in five years), motor fuels and air fares being the main contributors to this rise. However, falling food and motor fuel prices (down 1.6% and 4.8% respectively over the year) continue to impact on the rate of inflation. This slowing in the rate of inflation may be explained by a number of factors, including, in the case of food, increased supermarket competition and falling wheat prices, whilst in the 12 months to September 2014 the price of oil (a major input in motor fuels and other manufactured goods) fell by 16%. The Government’s alternative measure of household inflation, CPIH, which includes housing costs, has been withdrawn as an official national statistic following the discovery of inaccuracies in the measure, meaning CPIH could be 0.2% higher than currently calculated, and is currently under review.

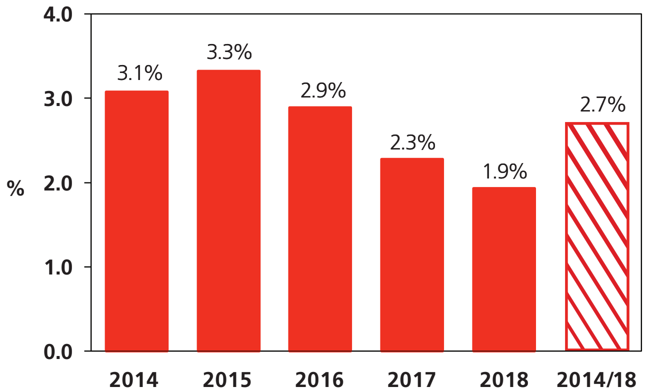
The latest Bank of England Inflation Report[4] warns of inflation potentially falling below 1% over the next six months, as a result of lower food, energy and import prices, alongside weak growth in Europe and other markets. The Governor does not expect inflation to reach the targeted rate of 2% for three years and the Bank will continue to keep its interest rate at 0.5% for some time - interpreted by observers to mean the prospect of a rate rise will be no earlier than mid 2015, after next year’s general election.

In its latest labour market release[5] the ONS records sustained growth in employment with unemployment continuing to fall. For the period July to September 2014, 73.0% of people aged between 16 and 64 were in work, representing an increase of 112,000 over the quarter and up from 71.6% a year earlier. The unemployment rate over the period fell to 6.0%, from 6.4% in the previous quarter and 7.6% in September 2013. Pay including bonuses for employees was 1.0% higher than a year earlier (1.3% higher excluding bonuses).

ONS reports[6] the quantity bought in the retail industry increased by 4.3% compared with October 2013, to deliver a 20th period of consecutive year-on-year growth, the longest period of sustained growth since November 2007. In October 2014, the amount spent in retail increased by 2.8% compared with a year earlier and by 0.7% compared with a month earlier. Non-seasonally adjusted data show average weekly spending in October 2014 of £7.1 billion compared with £6.9 billion in October 2013 and £6.8 billion in September 2014. The proportion of online sales made fell by 0.1%, to represent 11.2% of all sales in October 2014. Online sales increased by 7.5% compared with October 2013, to deliver the lowest year-on-year increase for two years, since November 2012 (6.9%).

[1] ONS Gross Domestic Product: Second Estimate of GDP, Q3 2014, 26 November 2014
[2] ONS Public Sector Finances, October 2014, 21 November 2014
[3] ONS Consumer Price Inflation, October 2014, 18 November 2014
[4] Bank of England Inflation Report November 2014, 12 August 2014
[5] ONS Labour Market Statistics, November 2014, 12 November 2014
[6] ONS Retail Sales, October 2014, 20 November 2014

All Property rental value growth forecasts

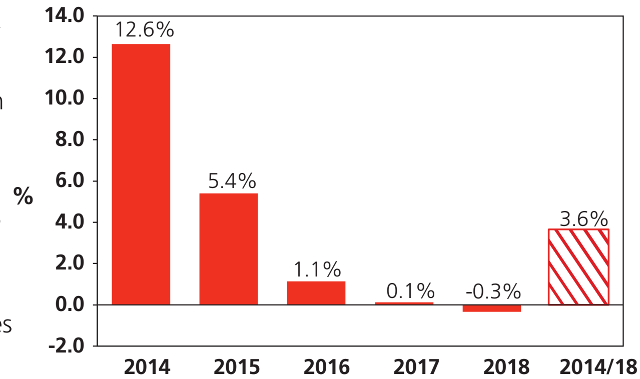


Rental value growth projections for 2014 and 2015 have improved again since the August survey. Expectations for 2015 to be the best performing year within the forecast period are maintained. Thereafter, sentiment weakens and the average growth rate forecasts in the final two years have fallen (from 2.4% and 2.1% respectively in August). Notwithstanding this, the earlier projections continue to impact the five-year average, taking it above the 2.6% annual rate recorded three months ago.

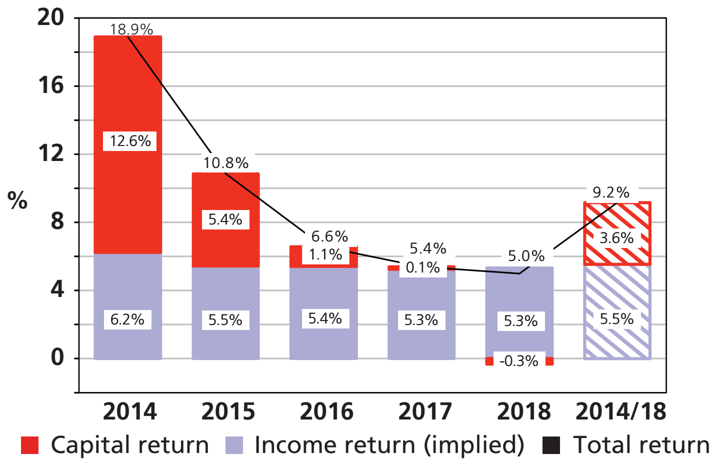
All Property average capital value growth forecasts

The principal drivers of strong investment flows and growth in the UK economy have again impacted on the All Property capital value growth forecast for the current year. A further significant increase has been recorded over the quarter, with the average rising from 10.9% in August (7.7% in May).

The subsequent fall back in growth rates in 2015 is particularly marked, although contributors are more positive in their expectations than three months ago, when the reported average was 4.8%. However, the weakening outlook for 2016 and beyond is evidenced by lower averages for that and subsequent years (from 1.5%, 0.3% and 0.0% in August). Nonetheless, the strong influence of 2014 serves to increase the five-year average to 3.6% per annum (from 3.4% in August).



All Property total return forecasts



The significant contribution of capital value growth to a 2014 total return forecast approaching 19% contrasts with the remainder of the survey period. Despite lower growth prospects in 2015 (albeit an improvement on August's 4.8%), the current average indicates it is likely to fall below the implied income return, whilst, in the final years of the forecast, total return is expected to be wholly reliant on income.

Following a significant fall in the implied income return in 2015, in parallel with very weak capital growth, this element should remain relatively static for the rest of the survey period.

Despite declining capital growth expectations in later years, the five-year total return average has increased, from 9.0% in August and 8.3% in May, driven by improved 2014 and 2015 projections.

All Property survey results by contributor type

(Forecasts in brackets are August 2014 comparisons)

Property Advisors and research consultancies

12 (13) contributors	Rental value growth (%)						Capital value growth (%)						Total return (%)					
	2014		2015		2014/18		2014		2015		2014/18		2014		2015		2014/18	
Maximum	3.6	(3.6)	6.0	(3.8)	4.3	(3.0)	14.2	(12.8)	7.6	(8.0)	5.6	(7.9)	21.1	(19.3)	13.3	(14.5)	11.2	(14.1
Minimum	2.3	(2.2)	2.3	(2.2)	2.2	(2.0)	9.6	(7.1)	2.5	(1.0)	1.2	(2.0)	15.6	(13.2)	8.0	(6.4)	6.3	(8.0)
Range	1.2	(1.4)	3.7	(1.5)	2.1	(1.0)	4.6	(5.7)	5.1	(7.0)	4.3	(5.9)	5.5	(6.1)	5.3	(8.1)	4.9	(6.1)
Median	3.1	(2.8)	3.3	(3.0)	3.0	(2.8)	12.7	(12.0)	4.9	(4.5)	4.3	(3.8)	18.7	(18.0)	10.4	(10.0)	9.6	(9.3)
Mean	**3.1**	**(2.8)**	**3.5**	**(2.9)**	**2.9**	**(2.6)**	**12.5**	**(11.0)**	**5.2**	**(4.5)**	**3.9**	**(3.9)**	**18.6**	**(17.2)**	**10.7**	**(10.2)**	**9.4**	**(9.6)**

Fund Managers

16 (15) contributors	Rental value growth (%)						Capital value growth (%)						Total return (%)					
	2014		2015		2014/18		2014		2015		2014/18		2014		2015		2014/18	
Maximum	3.7	(3.8)	4.7	(4.7)	3.7	(3.9)	15.1	(14.7)	11.9	(9.1)	5.9	(5.7)	21.2	(19.6)	17.7	(14.0)	11.1	(10.9)
Minimum	2.7	(1.6)	2.0	(2.1)	1.4	(1.6)	8.0	(4.0)	1.0	(0.7)	0.5	(0.3)	17.6	(11.0)	6.3	(5.9)	6.2	(5.9)
Range	1.0	(2.2)	2.7	(2.6)	2.3	(2.3)	7.1	(10.7)	10.9	(8.4)	5.4	(5.3)	3.6	(8.6)	11.4	(8.1)	4.9	(5.0)
Median	3.0	(2.8)	3.2	(3.1)	2.6	(2.7)	12.7	(11.7)	5.8	(4.8)	2.8	(2.8)	18.9	(17.0)	10.9	(10.6)	8.6	(8.4)
Mean	**3.1**	**(2.9)**	**3.2**	**(3.2)**	**2.5**	**(2.7)**	**12.7**	**(10.8)**	**5.4**	**(4.9)**	**3.2**	**(2.9)**	**19.0**	(16.7)	**10.7**	**(10.3)**	**8.7**	**(8.3)**

All Forecasters

30 (30) contributors	Rental value growth (%)						Capital value growth (%)						Total return (%)					
	2014		2015		2014/18		2014		2015		2014/18		2014		2015		2014/18	
Maximum	3.7	(3.8)	6.0	(4.7)	4.3	(3.9)	15.1	(14.7)	11.9	(9.1)	5.9	(7.9)	21.2	(19.6)	17.7	(14.5)	11.8	(14.1)
Minimum	2.3	(1.6)	2.0	(2.1)	1.4	(1.6)	8.0	(4.0)	1.0	(0.7)	0.5	(0.3)	15.6	(11.0)	6.3	(5.9)	6.2	(5.9)
Range	1.4	(2.2)	4.0	(2.6)	2.9	(2.3)	7.1	(10.7)	10.9	(8.4)	5.4	(7.6)	5.6	(8.6)	11.4	(8.6)	5.6	(8.2)
Std. Dev.	0.3	(0.5)	0.8	(0.6)	0.6	(0.5)	1.5	(1.9)	2.7	(2.2)	1.5	(1.4)	1.3	(2.0)	2.6	(2.1)	1.3	(1.5)
Median	3.0	(2.8)	3.3	(3.0)	2.7	(2.7)	12.8	(11.9)	5.7	(4.8)	4.0	(3.6)	19.0	(17.6)	10.9	(10.3)	9.3	(9.0)
Mean	**3.1**	**(2.8)**	**3.3**	**(3.1)**	**2.7**	**(2.6)**	**12.6**	**(10.9)**	**5.4**	**(4.8)**	**3.6**	**(3.46)**	**18.9**	**(17.0)**	**10.8**	**(10.3)**	**9.2**	**(9.0)**

Survey results by sector

Sector summary means

	(no. contributors)	Rental value growth (%)				Capital value growth (%)				Total return (%)			
		2014	2015	2016	2014/18	2014	2015	2016	2014/18	2014	2015	2016	2014/18
Office	(27)	7.2	6.2	4.2	4.3	17.0	7.7	1.7	4.7	22.6	12.6	6.5	9.9
Industrial	(27)	2.4	2.8	2.6	2.5	14.9	5.7	1.2	4.3	22.0	11.9	7.1	10.5
Standard Retail	(25)	1.8	2.3	2.4	2.3	10.0	5.0	1.2	3.4	15.1	9.9	6.1	8.3
Shopping Centre	(26)	0.4	1.5	2.1	1.7	9.0	4.5	1.3	3.0	15.1	10.3	6.8	8.7
Retail Warehouse	(26)	0.5	1.6	2.2	1.8	9.7	4.5	1.1	3.1	15.9	10.1	6.6	8.7
All Property	**(30)**	**3.1**	**3.3**	**2.9**	**2.7**	**12.6**	**5.4**	**1.1**	**3.6**	**18.9**	**10.8**	**6.6**	**9.2**

Notes:

1. Figures are subject to rounding and are forecasts of All Property or relevant segment Annual Index measures published by the Investment Property Databank. These measures relate to standing investments only, meaning that the effects of transaction activity, developments and certain active management initiatives are specifically excluded.
2. To qualify, all forecasts were produced no more than 12 weeks prior to the survey date.
3. Maximum: The strongest growth or return forecast in the survey under each heading.
4. Minimum: The weakest growth or return forecast in the survey under each heading.
5. Range: The difference between the maximum and minimum figures in the survey.
6. Median: The middle forecast when all observations are ranked in order. The average of the middle two forecasts is taken where there is an even number of observations.
7. Mean: The arithmetic mean of all forecasts in the survey under each heading. All views carry equal weight.
8. Standard deviation: A statistical measure of the spread of forecasts around the mean. Calculated at the 'All forecaster' level only.
9. The sector figures are not analysed by contributor type; all figures are shown at the 'All forecaster' level.
10. In the charts and tables, 'All Property' figures are for 30 contributors, while the sector forecasts are for reduced samples (25/27) of contributors.

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Note

Consensus forecasts further the objective of the IPF to enhance the efficiency of the real estate investment market. The IPF is extremely grateful for the continuing support of the contributors as noted above. This publication is only possible thanks to the provision of these individual forecasts.

If your organisation wishes to contribute to future surveys, please contact the IPF Research Director at pcraddock@ipf.org.uk.

Disclaimer

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