

# IPF UK CONSENSUS FORECASTS – WINTER 2017/18

The first UK Consensus Forecasts report of 2018 is based on independent forecasts from 23 leading property consultants and fund/investment managers, generated over a 12-week period from mid-November 2017.

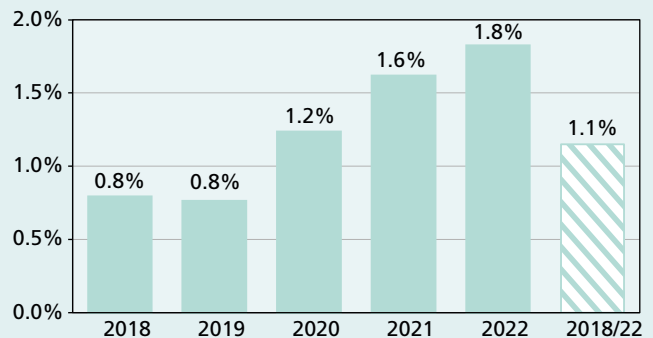
The short-term outlook for commercial property has improved over the last quarter so that 2019 now appears to mark the low point in the market for the five years surveyed. Whilst the pattern across the three measures is one of year-on-year improvement, forecaster sentiment has weakened since November.

## Rental value growth

The 2018 average forecast rose by almost 40bps against the final forecast of 2017 (of 0.4%, from 0.2% in August).

The 2020 growth expectation was broadly unchanged, whilst the 2021 average was around 10 bps lower. The new 2020 projection indicated continuing year-on-year improvement, however.

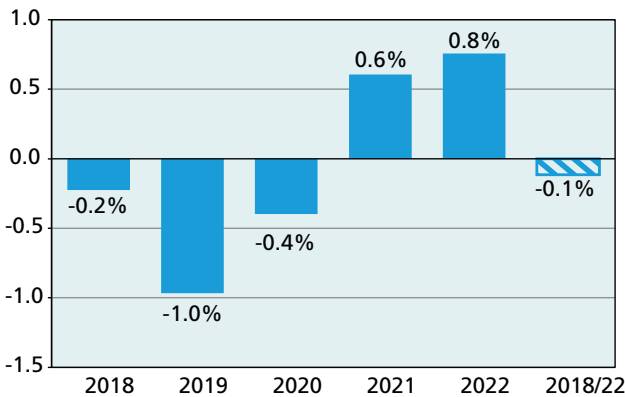
Despite the loss of the 2017 All Property growth rate, the near-term strengthening of forecasts maintained the five-year average rental growth rate at 1.1%.



## Capital value growth

The average projection for 2018 capital growth moderated, from -0.7% three months ago. However, the outlook for the next two years weakened – by over 30 bps in 2019 and by almost 80 bps in 2020, indicating three consecutive years of sub-zero growth. A return to positive growth may not occur until 2021 and the recovery may be slower than previously anticipated, continuing the trend seen in earlier surveys.

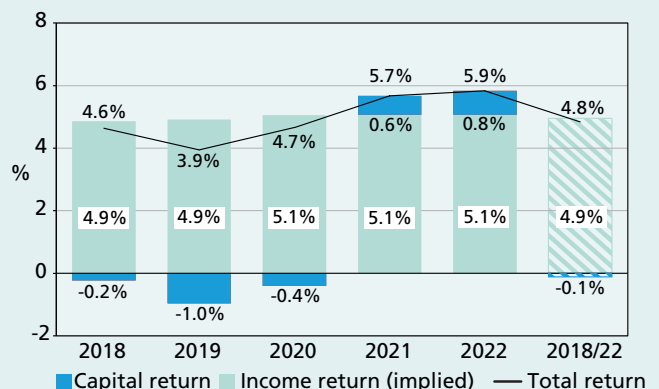
The weakening in mid-term forecasts produced a negative five-year projection, the rolling average having been 0.6% previously (falling almost 70 bps over the quarter).



## Total returns

Following a strong outturn for 2017 (MSCI reported 10.2% versus an IPF November consensus of 8.2%), total return prospects for 2018 may be modest by comparison. However, for the current year, sentiment improved over the quarter with forecasts averaging 4.6%, from 4.0% previously, reflecting improved capital growth expectations. Forecasts for subsequent years weakened however (the 2020 average fell by over 60 bps from November).

Poorer capital growth rates and static income returns resulted in a fall in the five-year average to 4.8% per annum, from 5.4% previously.



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	-0.1	1.1	0.8	-2.0	-1.9	-0.3	-0.6	2.3	2.5	4.2	3.9
Industrial	3.5	2.4	2.1	2.3	4.0	0.9	0.2	0.9	9.0	5.9	5.3	5.9
Standard Retail	0.7	0.6	1.0	1.0	-0.7	-0.8	-0.1	0.0	3.7	3.6	4.5	4.6
Shopping Centre	0.3	0.1	0.6	0.6	-2.4	-2.5	-1.0	-1.1	2.5	2.6	4.2	4.0
Retail Warehouse	0.7	0.6	0.8	0.8	0.0	-1.1	-0.3	-0.1	5.7	4.5	5.4	5.6
<b>All Property</b>	<b>0.8</b>	<b>0.8</b>	<b>1.2</b>	<b>1.1</b>	<b>-0.2</b>	<b>-1.0</b>	<b>-0.4</b>	<b>-0.1</b>	<b>4.6</b>	<b>3.9</b>	<b>4.7</b>	<b>4.8</b>
West End office	-1.6	-0.4	1.2	0.9	-2.9	-2.1	0.4	-0.3	0.5	1.5	4.1	3.4
City office	-2.6	-1.0	1.1	0.5	-3.4	-2.4	0.3	-0.8	0.4	1.6	4.1	3.2

Key Points

2018

- The All Property rental growth forecast rose by 38 bps (from 0.4% in November).
- Capital growth expectations strengthened across most of sectors over the quarter; prospects for Industrials are substantially higher than for All Property (the latter having risen from -0.7%). The Shopping Centre sector average was the only one to decline, down 30 bps.
- The 2018 All Property total return forecast rose by 60 bps, from 4.0% last quarter.

2019

- Marginally stronger sector rental growth projections led to a higher All Property average (from 0.6% previously) but capital growth rates declined in the majority of sectors, resulting in a fall in the All Property (-0.6% previously).
- The anticipated 2019 total return fell 28 bps, from 4.2% in November.

2020 and beyond

- Capital growth could remain sub-zero until 2021 as a softening in forecaster sentiment carried into 2020 – projections were lower than the previous quarter for all sectors, other than Industrials, resulting in an All Property average 80 bps lower than November's 0.4%.

- A fall in the 2020 average total return was projected – down 64 bps from 5.3%.
- Whilst improving on the 2020 forecasts, both 2021 rental and capital value growth projections were weaker than a quarter ago (then 1.7% and 0.9% respectively).
- Similarly, the All Property total return weakened, from 5.9% in November.
- The 2022 forecasts showed a continuation of the slow upward trend across all performance measures, averaging 1.8%, 0.8% and 5.8% for rental and capital value growth and total return.

Five-year averages

- The substitution of relatively strong 2017 forecasts by weaker 2022 projections impacted on the rolling five-year averages.
- At 1.1% per annum, the All Property rental value growth rate was unchanged due to rounding but weaker expectations, other than in 2018, resulted in a fall in the annualised capital growth projection of almost 70 bps.
- With an implied income return of 4.9% and capital growth of -0.1% in 2022, the All Property total return average was 60 bps lower than November's 5.4%.

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

Acknowledgement

The IPF thanks all those organisations contributing to the Winter 2017/18 Consensus Forecasts, including:

- |                               |                           |                                    |                                 |
|-------------------------------|---------------------------|------------------------------------|---------------------------------|
| Aberdeen Standard Investments | Colliers International    | Keills                             | M&G Real Estate                 |
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