

# UK CONSENSUS FORECASTS: WINTER 2016/17

An improvement in near-term forecasts has resulted from increased investment activity towards the end of last year, although capital market sentiment has weakened for 2018, leading to a drop in the average total returns forecast next year.

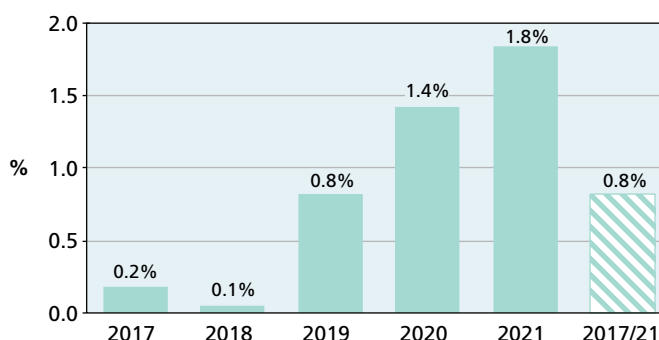
The latest UK Consensus Forecasts report is based on independent forecasts from 25 leading property consultants and fund/investment managers.

## All Property rental value growth forecasts

An improvement of around 70 bps has been recorded in the 2017 forecast since the last survey (from -0.5% in November), whilst the 2018 projection has also improved (by a little under 20 bps).

2019 and 2020 projections have weakened (from 0.9% and 1.6%), although a trend of increasing growth has been maintained.

With the 2021 forecast bettering the 2016 figure (of 1.4%) the five-year annualised average has risen slightly (formerly 0.7%).

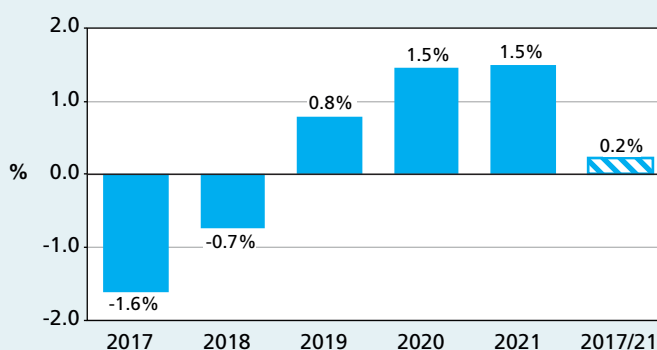


## All Property capital value growth forecasts

From 0.5% 12 months ago, 2017 capital growth expectations underwent a rapid decline immediate following the EU referendum result, to a low of -4.4% in September. Stronger market activity in the final months of 2016 have caused the current average to improve by more than 200 bps since November's survey.

Greater negativity is apparent in the latest 2018 and 2019 forecasts, however (formerly -0.2% and 1.5% respectively), which pessimism now extends to the 2020 forecast (from 2.1% three months ago).

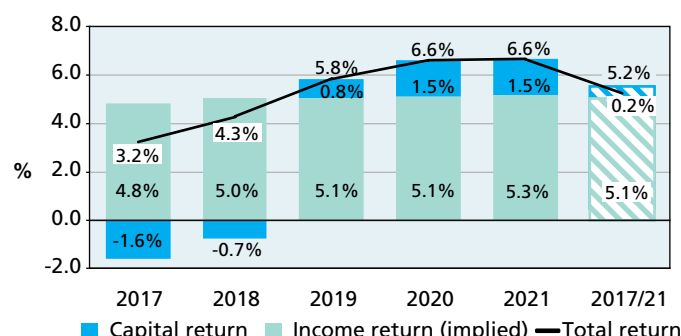
Despite poorer growth expectations in the later years, the annualised average over five years is now weakly positive due to the stronger near-term forecasts. The five-year average has increased by 105 bps over three months, from -0.8% per annum previously.



## All Property total return forecasts

A 2.0% improvement for capital value growth in the current year has directly impacted the 2017 All Property total return forecast, registering a 1.9% uplift, from 1.3% previously.

Further weakening in capital growth than anticipated in November is likely to constrain performance more than earlier survey data suggested, 2019 and 2020 average return projections being almost 90 bps and 80 bps lower than three months ago.



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	-1.3	-1.2	0.3	0.2	-3.2	-2.2	0.1	-0.6	1.5	2.5	4.8	4.1
Industrial	1.8	1.1	1.4	1.5	1.3	0.7	1.0	1.0	6.6	6.1	6.5	6.4
Standard Retail	0.7	0.4	0.9	1.0	-1.1	-0.2	1.1	0.6	3.6	4.6	6.0	5.4
Shopping Centre	0.4	0.2	0.7	0.8	-2.2	-0.9	0.6	0.0	2.8	4.4	6.0	5.2
Retail Warehouse	0.2	0.1	0.6	0.7	-1.8	-0.6	0.5	0.0	3.8	5.2	6.4	5.8
<b>All Property</b>	<b>0.2</b>	<b>0.1</b>	<b>0.8</b>	<b>0.8</b>	<b>-1.6</b>	<b>-0.7</b>	<b>0.8</b>	<b>0.2</b>	<b>3.2</b>	<b>4.3</b>	<b>5.8</b>	<b>5.2</b>
West End office	-2.5	-1.9	0.5	0.2	-4.6	-3.3	0.1	-0.8	-1.3	0.2	3.8	2.8
City office	-2.9	-2.9	-0.4	-0.5	-4.7	-3.9	-0.5	-1.4	-1.0	0.1	3.7	2.8

Other key points:

2017

- The All Property average rental growth forecast for the current year has risen to 0.2%, from -0.5% in November (-0.4% in August).
- Capital value growth rates have improved but remain below zero for most sectors (Industrial being the only one expected to return positive growth over the year). The average projection has risen by over 200 bps, from -3.6% in November (-4.4% in August).
- The impact of these improvements is seen in the All Property total return, rising by 190 bps against a forecast of 1.3% three months ago.

2018/2019

- Rental growth may be weakly positive overall in 2018 (around 180 bps better than last quarter's -0.1%).
- Confidence has deteriorated in capital market prospects next year. With all sectors registering falls in growth rates over the quarter: the All Property average declining by almost 60 bps from 0.5%.
- A further weakening of expectations for 2019, noted in November, has caused capital growth forecasts in all sectors to fall, leading to an average of 0.8% (1.5% three months ago).
- All Property total returns for the two years are now below last quarter's forecasts of 5.1% and 6.7%. 2018 sector projections range between 2.5% for Offices and 6.1% for Industrials and between 4.8% and 6.5% in 2019.

Longer-term outlook

- Despite the loss of 2016 data, being replaced by forecasts for 2021 (with better rental and similar capital growth expectations as for 2020), five-year averages for all measures have improved over the quarter.
- The five-year All Property average rental growth rate has crept up to 0.8% per annum (from 0.7% in November and 0.6% in August).
- Capital value growth has turned weakly positive, to 0.2% per annum, having previously averaged -0.8%.
- Total returns expectations have also risen, to 5.2% per annum from 3.9% last quarter.

Central London office markets

- Whilst the majority of 2017 and 2018 rental and capital growth forecasts received were below zero, a small number of contributors have adopted a contrary view.
- There is broad consensus for a return to positive rental growth in both sub-markets by 2020, although there is less consistency amongst contributors in relation to capital values.
- Certain forecasters appear to favour more severe falls in value over the next two years, followed by a sharp bounce back in 2019.
- Whilst the continued weakness of short-term forecasts is seen in the five-year averages for each performance measure, the rolling averages have either stabilised (in the case of rental growth) or improved over the quarter.

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

Acknowledgement

The IPF thanks all those organisations contributing to the Winter 2016/17 Consensus Forecasts, including:

- |                           |                           |                                 |                               |
|---------------------------|---------------------------|---------------------------------|-------------------------------|
| Aberdeen Asset Management | Colliers International    | Keills                          | Real Estate Strategies        |
| Aviva Investors           | Cushman & Wakefield       | Knight Frank                    | Savills Investment Management |
| AXA IM – Real Assets      | Deutsche Asset Management | Lazarus Research                | Standard Life Investment      |
| BMO Real Estate Partners  | Fletcher King             | Legal & General Property        | UBS Asset Management          |
| BNP Paribas Real Estate   | GVA                       | M&G Real Estate                 |                               |
| Capital Economics         | JLL                       | Real Estate Forecasting Limited |                               |
| CBRE                      | Kames Capital             |                                 |                               |

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