

IPF UK CONSENSUS FORECASTS – SUMMER 2018

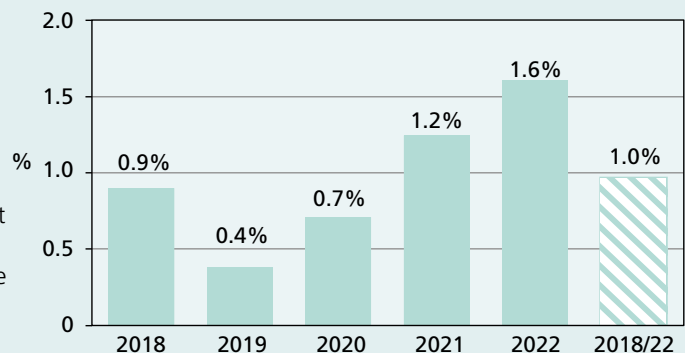
Based on contributions from 23 leading property consultants and fund/investment managers and forecasts generated between June and mid-August.

The overall outlook for 2018 improved over the quarter, contrasting with a continued weakening of 2019 forecasts.

Rental value growth

The steady improvement in 2018 rental growth prospects, recorded over the last five surveys, reversed over the current quarter, with a fall of some 15 bps.

Projections for each of the remaining years have continued to decline – by between 14bps and 26bps (2022 and 2020). 2019 continues to record the weakest forecast, having lost a further 19bps since May. As a result of the softening in forecasts, the five-year average has fallen by almost 20bps (from 1.2%).

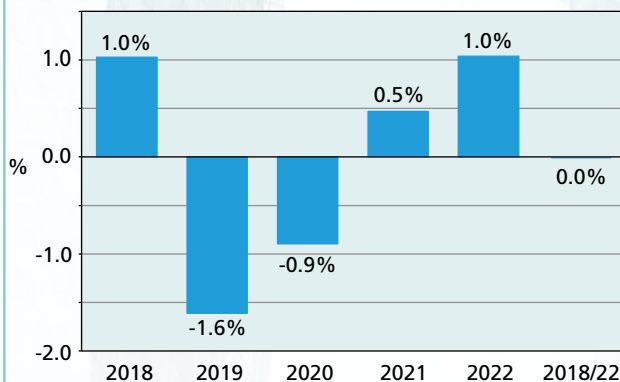


Capital value growth

The 2018 All Property average capital growth forecast rose a further 60bps over the quarter, having been -0.2% six months ago.

2019 and 2020, however, see a reversal of that sentiment, with the latest average growth rates below those reported in May – down by over 20bps for each year, reflecting expectations of a further weakening in retail values. Despite the poor prospects for these two years, averages for the final two periods have increased – by around 20bps for 2021 and nearly 30bps for 2022 (previously 0.3% and 0.7%).

As a result of near- and mid-term improvements, the five-year rolling average has risen over 10bps to 0.0% per annum.

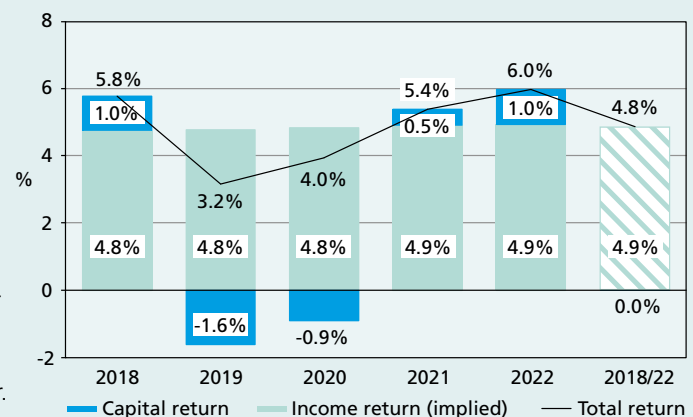


Total returns

The 2018 All Property total return forecast has risen almost 60bps since May and is now some 1.2% higher than at the start of the year.

Averages for 2019 and 2020 have weakened, as negative capital growth projections have significantly impacted these forecasts – reducing by around 30bps in each period.

The pattern of recovery from 2019 remains similar to previous reports, although later years may deliver better than previously expected performance due to improved capital growth projections in 2021 and 2022. The five-year average of 4.8% per annum is unchanged however.



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	0.3	-0.4	0.5	0.8	0.5	-2.6	-1.4	-0.4	4.7	1.7	3.0	4.0
Industrial	3.9	2.5	2.1	2.5	8.7	1.6	0.1	2.3	13.6	6.4	4.9	7.1
Standard Retail	-0.2	-0.3	0.1	0.3	-1.3	-2.4	-1.5	-0.8	3.0	1.9	3.1	3.7
Shopping Centre	-0.6	-0.9	-0.4	-0.3	-5.6	-4.5	-2.7	-2.7	-0.9	0.5	2.5	2.4
Retail Warehouse	-0.5	-0.6	-0.1	0.0	-2.6	-2.9	-2.0	-1.4	2.9	2.7	3.8	4.4
All Property	0.9	0.4	0.7	1.0	1.0	-1.6	-0.9	0.0	5.8	3.2	4.0	4.8
West End office	-0.4	-0.9	0.5	0.8	-0.5	-2.9	-1.1	-0.3	2.7	0.8	2.7	3.4
City office	-0.3	-1.3	0.1	0.6	0.2	-2.8	-1.3	-0.4	3.8	1.2	2.8	3.7
Office (all)	0.3	-0.4	0.5	0.8	0.5	-2.6	-1.4	-0.4	4.7	1.7	3.0	4.0

Key Points

Current year

- At the All Property level, the rental value growth forecast now averages 0.9% (from 0.8% in May), as there has been further contraction in the retail markets with averages falling by around 80bps across all three sub-sectors;
- The average capital value growth rate, driven by a substantial increase in the Industrial growth rate (up over 325bps since May), has risen 60bps to 1.0%, in spite of further declines in retail growth rates over the quarter;
- The All Property 2018 average total return projection has risen on the back of strengthening Industrial and Office forecasts (13.6% and 4.7% respectively) to lie at 5.8% currently (from 5.2% in May and 4.6% % at the start of the year).

2019

- The All Property averages for rental and capital value growth lie at 0.4% and -1.6% (from 0.6% and -1.4%) despite increased expectations for Industrial growth rates (now 2.5% and 1.6%), supported by more modest improvements for Offices -0.4% and

- 2.6%), even though the latter forecasts remain weaker than those for Standard Retail (-0.3% and -2.4% currently);
- The 2019 All Property average total return forecast has continued to decline, to 3.2% from 3.4% (3.9% in February).

2020 and beyond

- Individual sector rental and capital value growth rates are expected, on average, to remain weakly positive throughout 2021 and 2022, with the exception of 2021 Shopping Centre capital growth (-0.7%);
- The All Property rental growth forecasts for the three years currently average 0.7%, 1.2% and 1.6%, with lower capital growth projections of -0.9%, 0.5% and 1.0%;
- Total returns may recover to around 4.0% in 2020, rising to 5.4% in 2021 and 6.0% by 2022.

Five-year averages

2018/2022 All Property rolling five-year average forecast (previous quarter in brackets):

- Rental value growth: 1.0% per annum (1.2%)
- Capital value growth: 0.0% per annum (-0.1%)
- Total return: 4.8% per annum (4.8%)

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

Acknowledgement

The IPF thanks all those organisations contributing to the Spring 2018 Consensus Forecasts, including:

Aberdeen Standard Investments	CBRE	JLL	Real Estate Forecasting Limited
Aviva Investors	Colliers International	Knight Frank	Real Estate Strategies
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BMO Real Estate Partners	DWS	LGIM Real Assets	UBS Asset Management
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