IPF Research Programme

Investment Property Forum
UK Consensus Forecasts

AUTUMN 2018

COMMISSIONED BY THE IPF RESEARCH PROGRAMME

This research was funded and commissioned through the IPF Research Programme.

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 makes a contribution to the Programme and gratefully acknowledges the support of these sponsoring organisations:

The Investment Property Forum Consensus Forecasts Autumn 2018 Survey of Independent Forecasts for UK Commercial Property Investment – November 2018

25 organisations contributed data for the Autumn 2018 report, comprising forecasts dating from late August (one) to mid-November. Key points include:

2018 performance expectations strengthen further

- At the **All Property** level, average continued to weaken, to **0.8%** from 0.9% in August (as poorer retail growth prospects offset further improvements in both office and industrial forecasts).
- Stronger **capital growth** expectations for Offices and Industrials of 1.8% and 10.2% (reflecting rising of 136 and 54 bps respectively) despite further weakening in retail markets (down between 72 and 106 bps on average, Standard Retail and Retail Warehouses respectively) has led to a rise of almost 50 bps in the **2018 All Property average**, which now lies at **1.5%.**
- As a result, the **2018 All Property total return**, has increased to **6.2%**, from 5.8% last quarter (and from 4.6% at the beginning of the year).

2019 outlook weaker for most markets

- At the All Property level, forecasts have continued to decline over the quarter, with falls of just under 20 bps reported for both rental growth and total returns, whilst capital value growth is virtually unchanged (the 0.1% fall being as a result of rounding).
- Again, poorer prospects for the three retail sub-sectors broadly offset improving Office and Industrial rental and capital growth forecasts (at -0.3% and 2.6% and -2.3% and 2.7% respectively for each measure). The **2019 All Property rental and capital growth** averages now lie at **0.2%** and **-1.7%** (from 0.4% and -1.6% last quarter).
- The current 2019 average forecast for All Property total return dropped over 25bps, to 3.0%, from 3.2% In August (having started the year at 4.2%).

Likely recovery in retail no closer

- In a repeat of the August trend, with the exception of the Industrial sector, average **2020 rental value growth** forecasts fell over the quarter, to lie between -0.9% (Shopping Centres) and 2.2% (Industrial), producing an **All Property average** of **0.5%**, compared to 0.7% three months ago. **Capital growth** also weakened, ranging from -3.2% (Shopping Centres) to 0.6% (Industrial) with an **All Property average** of **-1.2%** (some 35bps lower than in August, resulting in a fall of 45 bps to the **2020 average total return**, now **3.5%**.
- Sentiment for **2021 rental growth** weakened across all sectors, to produce an **All Property average** of **1.1%** (1.2% previously), whilst capital growth prospects are more varied, with a significant reversal of last quarter's improvement in the outlook for Standard Retail (down from August's average by over 70 bps). The **All Property capital value average** of **-0.3%**, from 0.5% in August, has caused the **All Property total return** to fall to **4.5%** from 5.4% three months ago.
- All **2022** sector **rental growth** forecasts are weaker or flat as compared to the August return, leading to an **All Property average** of **1.4%**. Capital growth projections were unchanged for Offices and Industrials but sentiment for Retail Warehouses rose over the quarter (by 2-bps) in contrast with a drop of almost 200 bps for Standard Retail. The **2022 All Property average capital growth** rate now stands at **0.3%** (from 1.0% in August) and a **total return** of **5.2%** (6.0% previously.

Five-year averages continue to slip

- Since the last survey, the **annualised All Property rental value growth** rate has fallen by 15 bps, to **0.8%** per annum, and the **annualised capital value growth** projection by 35 bps to **-0.3%** (0.0% previously).
- The **All Property total return** average declined over the quarter by almost 40 bps, to **4.5% per annum** (from 4.8%).

Summary Results

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	-0.3	0.3	0.8	1.8	-2.3	-1.8	-0.5	6.0	1.9	2.5	3.8
Industrial	4.1	2.6	2.2	2.6	10.2	2.7	0.6	2.8	15.2	7.4	5.2	7.5
Standard Retail	-0.6	-0.8	-0.2	0.0	-2.0	-3.3	-1.9	-1.5	2.1	0.9	2.4	2.9
Shopping Centre	-1.3	-1.5	-0.9	-0.8	-6.6	-5.4	-3.2	-3.6	-2.2	-0.6	1.6	1.3
Retail Warehouse	-1.1	-1.1	-0.4	-0.4	-3.7	-3.9	-1.9	-2.0	1.8	1.6	3.4	3.6
All Property	**0.8**	**0.2**	**0.5**	**0.8**	**1.5**	**-1.7**	**-1.2**	**-0.3**	**6.2**	**3.0**	**3.5**	**4.5**
West End office	0.1	-0.6	0.3	0.9	1.2	-2.6	-1.6	-0.3	4.5	0.4	2.0	3.2
City office	0.5	-1.1	-0.2	0.5	1.9	-3.0	-1.9	-0.5	5.6	0.6	2.2	3.4
Office (all)	0.8	-0.3	0.3	0.8	1.8	-2.3	-1.8	-0.5	6.0	1.9	2.5	3.8

All Property Average by Forecast Month

	Rental value growth (%)				Capital value growth (%)				Total return (%)			
Month of forecast (no. contributors)‡	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
September (4)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
October (8)	0.7	0.3	0.6	0.9	1.6	-1.4	-0.6	0.1	6.1	3.2	4.1	4.8
November (12)	0.8	0.0	0.3	0.6	1.4	-2.1	-1.8	-0.6	6.3	2.7	3.0	4.2
All Property (25)	**0.8**	**0.2**	**0.5**	**0.8**	**1.5**	**-1.7**	**-1.2**	**-0.3**	**6.2**	**3.0**	**3.5**	**4.5**

‡ 1One forecast was generated in late August.

Survey contributors

There were 25 contributors to this quarter's forecasts, comprising 11 Property Advisors and Research Consultancies, 13 Fund Managers and one Other. Full All Property forecasts were received from all 25 contributors. Forecasts were received for all sectors from 21 contributors and from 21 for full West End and City sub-office sector forecasts. All forecasts were generated within 12 weeks of the survey date (14 November 2018). Named contributors appear on the final page of this report.

Notes

Consensus forecasts further the objective of the Investment Property Forum (IPF) to enhance the efficiency of the market. The IPF is extremely grateful for the continuing support of the contributors, including those noted on the last page of this publication. This report is only possible thanks to the provision of the individual forecasts.

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

Sector figures are not analysed by contributor type – all figures presented are at the all-forecaster level.

Economic background

In line with predictions from the Bank of England and other forecasters, UK gross domestic product (GDP) grew by 0.6% in the third quarter of 2018 (July to September), as reported by the latest ONS release[1] - its fastest rate since Q4 2016. The services sector was the main contributor (at over 0.3%), followed by construction, which recorded its highest quarterly growth since Q1 2017 (at 2.1%), and contributing a little over 0.1% to the total. Manufacturing returned to growth after two consecutive quarters of contraction, with Q2's fall in production of 0.8% reversed to just over 0.1% in Q3.

In the most recent ONS statistic bulletin on public sector finances[2], PSB net borrowing (excluding public sector banks) in the current financial year-to-date (April to October 2018) was £26.7 billion, £11.2 billion less than in the same period in 2017 and the lowest YTD since 2005. Public sector net debt as at the end of September 2018 was £1,791.6 billion (or 84% of GDP), an increase of £1.9 billion (or a decrease of 2.7%) over 12 months.

At its meeting, ending on 31 October 2018, the Bank of England Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 0.75%, as well as to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The MPC also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion. Summarising its latest quarterly Inflation Report[3], the Bank noted pay is also rising a little faster than prices, unlike in 2017, easing the squeeze on people's living standards, which should continue over the next few years and that greater spending power, supported by low interest rates, should foster growth in the economy. Most of the increase in inflation due to the fall in the pound has now happened but higher pay is exerting upward pressure on companies' costs. With the economy growing a little faster than it has capacity to, a gradual and limited increase in interest rates over the next few years is needed to bring inflation back towards the Bank's 2% target.

The 12-month inflation rate, as measured by the Consumer Prices Index (CPI), including owner-occupier housing costs (CPIH), was 2.2% in October[4], unchanged from a month earlier. The principal large downward contributions to the change were from food and non-alcoholic beverages, clothing and footwear, although some transport elements were offset by rising petrol, diesel and domestic gas prices. Other smaller upward pressures were through items in the miscellaneous goods and services, recreation and culture, and communication sectors. The Consumer Prices Index (CPI) 12-month rate was 2.4% in October.

The ONS estimated[5] 32.41 million people in work, 23,000 more compared with April to June 2018 and 350,000 more than for a year earlier, representing an employment rate of 75.5% for people aged 16 to 64, which is little changed from the three-month period to the end of June but higher than 12 months ago (75.0%). 1.38 million people were not in work but seeking and available to work; this is 21,000 more than for the quarter to June 2018 but 43,000 fewer than for a year earlier. The current level of unemployment is 4.1%. The number of economically inactive aged 16 to 64 years (i.e. not working and not seeking or available to work) has risen to 8.74 million (from 8.72 million three months ago) but 147,000 fewer than a year ago. Average weekly earnings in nominal terms increased by 3.2% including bonuses, year-on-year (adjusted for price inflation, the increase was 0.9%).

The ONS first estimate of retail sales in volume and value terms for October 2018[6] indicates the quantity of goods purchased fell by 0.5% when compared to the previous month, with a strong decline of 3.0% experienced by household goods stores, following a particularly strong August and September. Compared to October 2017, the quantity bought in the month increased by 2.2%, with growth across all sectors except fuel (down 1.8%). Non-store retailing growth for the year weakened to 11.0% (from 16.4% in the year to July) and by 1.4% month-on-month. Online sales increased by 12.6% for the amount spent in October 2018 when compared with October 2017, with all sectors except food showing strong year-on-year growth. Household goods stores reported the largest year-on-year growth of 26.5% followed by other stores with a growth of 25.8%. The month-on-month picture was also one of growth with online sales increasing by 1.2% when compared with September 2018. As a proportion, online sales represented 18.0% of all retailing in October 2018, marginally lower than July's 18.2%.

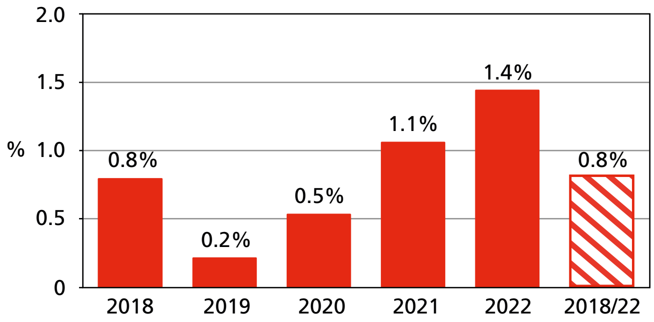
[1] ONS: GDP monthly estimate, UK: September 2018. Release date: 9 November 2018
[2] ONS: Public sector finances, UK: October 2018. Release date: 21 November 2018
[3] Bank of England Inflation Report, November 2018
[4] ONS: Consumer price inflation, UK: October 2018. Release date: 14 November 2018
[5] ONS: UK Labour Market Statistics: November 2018. Release date: 13 November 2018
[6] ONS: Retail Sales, Great Britain: October 2018. Release date: 15 November 2018

All Property rental value growth forecasts

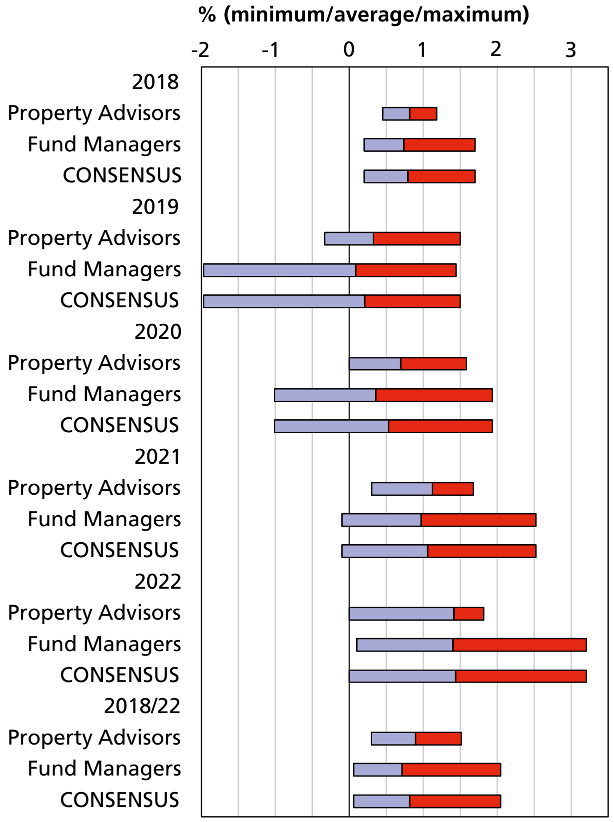
For each year surveyed, rental growth projections weakened over the quarter. The 2018 average is some 10 bps lower than three months ago (previously 0.9%).

2019 remains the weakest year of the forecast period, falling a further 17bps since August, with similar reductions for the remaining years.

With declines in each year, the five-year average has fallen by 15 bps (from 1.0%).



Rental value growth forecasts by contributor



At the contributor group level, average expectations deteriorated across all time periods, although remaining weakly positive throughout.

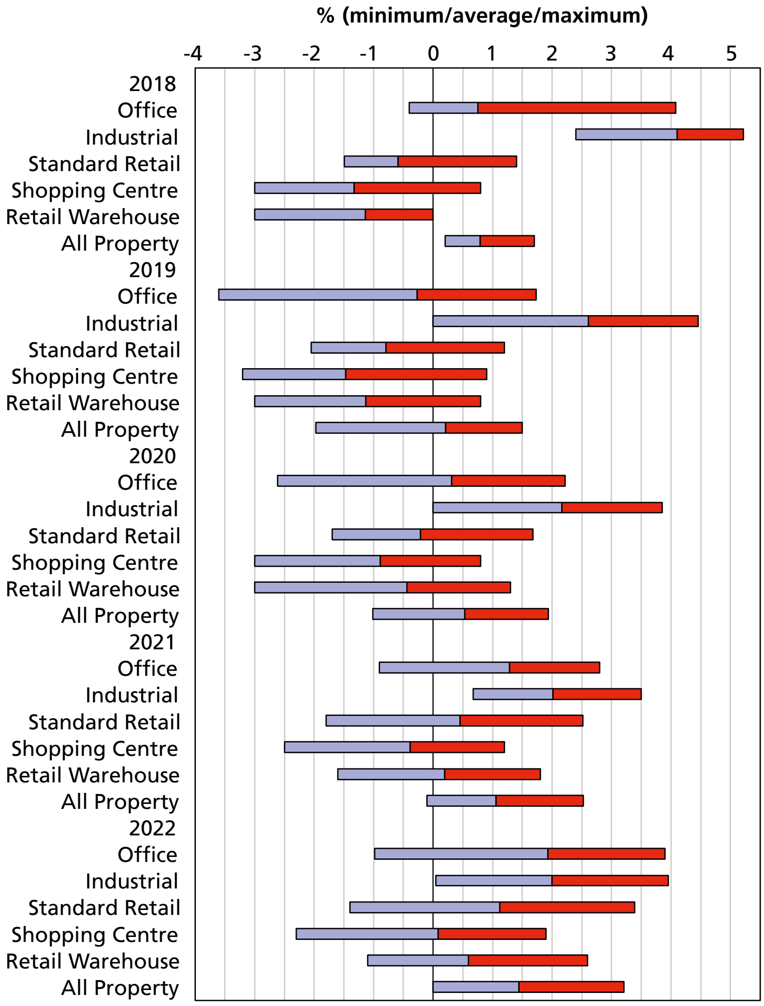
2018 averages lie between 0.8% and 0.7% for Property Advisors and Fund Managers (from 1.0% and 0.8% previously). The range of opinion between individual Advisors narrowed considerably (from 1.3% to 0.7%), compared to Managers virtually unchanged for a second quarter running (down less than 10 bps to 1.5%). The minimum projection improved to 0.2% (from 0.1% in August).

2019 is the only year in which both groups' minimum forecasts are negative, with 10 contributors in total producing sub-zero projections (four Advisors and six Managers). Negative Fund Manager forecasts persist in both following years, although confined to a single contributor by 2021. In contrast, Property Advisor minimum forecasts for these years firmed over the quarter although average sentiment declined.

Advisors show the closest accord in all years, ranging between 1.8% in 2019 and 0.7% for the current year. Fund Manager forecasts vary by between 3.5% and 1.5% in the same years.

N.B. One 'Other' contributor returned data in addition to the 24 Property Advisors and Fund Managers.

Sector rental value growth annual forecasts



With a quarterly rise of almost 50 bps, to 0.8%, Offices have again recorded the greatest sector improvement for rental growth in 2018, although the range of opinion has widened to 4.5% (1.8% previously). The Industrial average has also increased, to 4.1% (c. 20 bps higher) but remaining forecasts have weakened by between 35 and 70 bps (Standard Retail and Shopping Centres) with only two contributors anticipating positive growth in these sub-markets (and universally negative for Retail Warehouse rental growth). The resultant 0.8% All Property average reflects an 10 bps drop overall.

In each of the following years, minimum forecasts for Industrials are positive, having been marginally negative for 2021 and 2022 in August, and this is the only sector to record above-zero averages throughout the forecast period.

Turning to the other sectors, with the exception of Offices in 2019 (where the average forecast rose by 10 bps to -0.3%), averages fell again over the quarter with Shopping Centre averages around 50 bps lower in each year than those reported in August, although near-term sentiment for unit shops has weakened by a similar degree (down 50 bps in 2019, compared to 32 bps in20 20 and 42 bps in 2021), as forecast ranges widen for this market year-on-year to reach a spread of 4.8% by 2022.

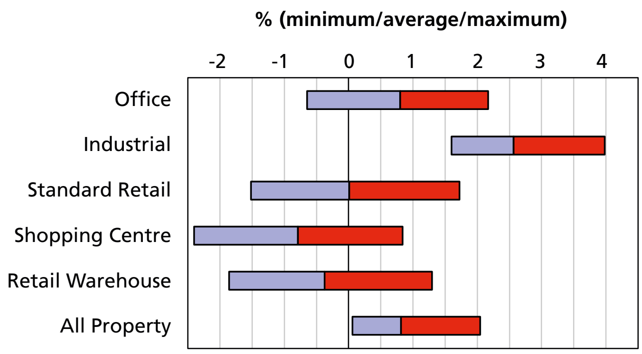
Minimum forecasts for both Shopping Centres and Retail Warehouses are lower than last quarter, with the vast majority of contributor forecasts weaker or, at best, flat.

Sector rental value growth five-year average forecasts

Over the quarter, the All Property rental value growth rate has fallen by almost 10 bps, to 0.8% per annum, reflecting the continuing weakening in outlook for retail markets over each period of the survey.

Industrial rental growth remains the sector expected to outperform the All Property average, at 2.6% per annum (from 2.5% in August), with only Offices also offering positive growth (remaining at 0.8%) as the five-year average for Standard Retail growth stalls (0.0% from 0.3% previously).

With annualised averages falling over the quarter by between 36 and 53 bps, Retail Warehouse and Shopping Centre growth have weakened to -0.4% and 0.8% respectively (from 0.0% and -0.3% per annum in August).

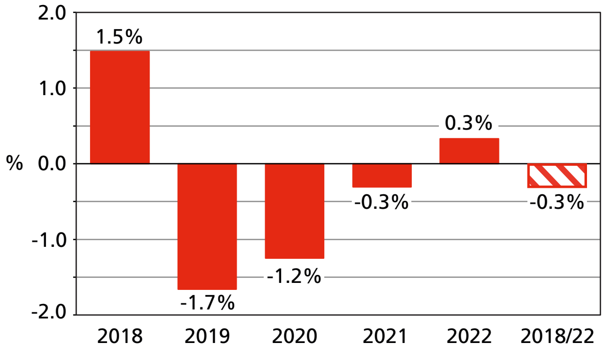


All Property average capital value growth forecasts

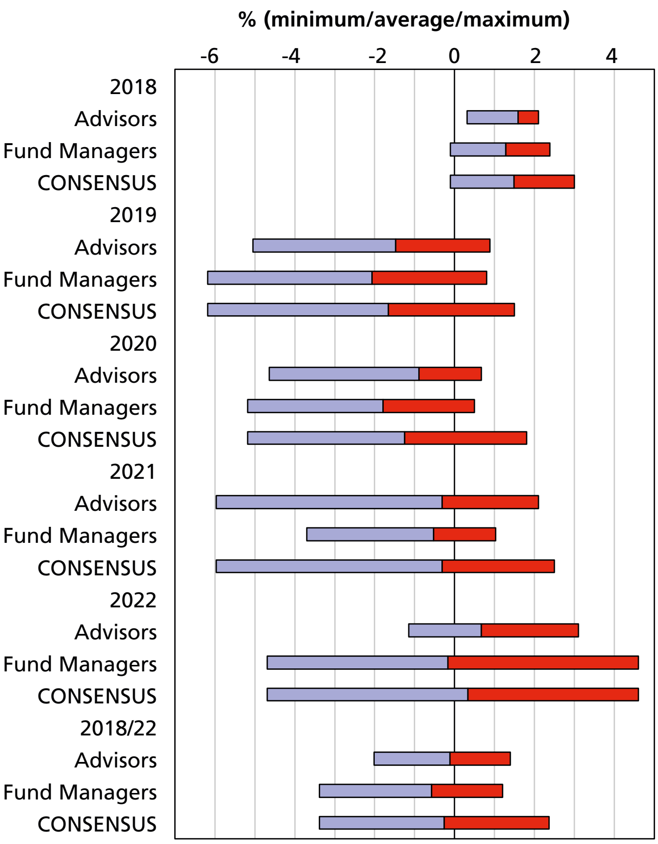
The 2018 All Property average capital growth forecast has continued to improve, rising by over 45bps over the quarter (having been -0.2% at the start of the year).

The weakening sentiment previously reported for later years has continued. Each yearly average growth rate is lower than reported in August, although 2019 is virtually unaltered (the 0.1% headline fall being due to rounding. In a reversal of August's forecasts, averages for the final two years have fallen by almost 80 bps in 2021 and over 70 bps for 2022 (previously 0.5% and 1.0%).

The resultant five-year rolling average fell to -0.3% per annum, a drop of over 25 bps.



Capital value growth forecasts by contributor



With the exception of two Fund Manager contributors, the majority (23) of survey participants forecast positive growth in 2018, ranging between 0.0% and 3.0%. Minimum forecasts rose by over 110 bps in the case of Advisors and by almost 190 bps for Managers. Upper end projections have reduced by between 90 bps and 50 bps resulting in much narrower ranges (to 1.8% and 2.5% for Advisors and Managers), although the Consensus widens as a result of the inclusion of one 'Other' forecast.

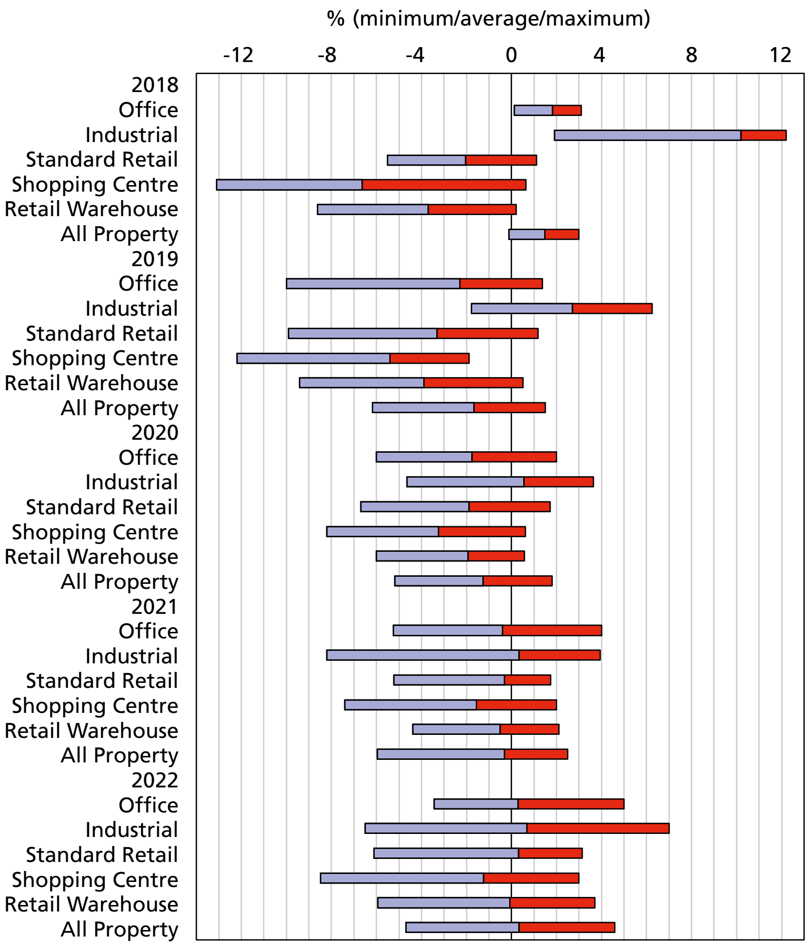
In 2019, however, only four contributors now predict positive growth, although the most pessimistic outlook has improved (by 93 and 82 bps to -5.0% and -6.2% for Advisors and Managers respectively), with narrowing forecast arrays (down by between 234 and 47 bps) to a range of 7.7%, from 9.3% in August.

By 2020, with nine of the 25 contributors anticipating positive growth, the average projection has continue to weaken (by 35 bps to -1.2%) despite a rise of 65 bps in the lowest Fund Manager forecast, whilst the uppermost Advisor prediction fell by over 220 bps.

Current minimum, average and maximum forecasts for 2021 deteriorated over the quarter for both Advisors and Managers, resulting in an average of -0.3%, compared to 0.5% in August. In 2022, despite a negative average Manager forecast (of -0.2%), the Advisor outlook (0.7%) helps to maintain a positive, albeit weaker (down 70 bps) growth average.

N.B. One 'Other' contributor returned data in addition to the 24 Property Advisors and Fund Managers.

Sector capital value growth annual forecasts



With double-digit growth of 10.2% (8.7% previously), Industrials dominates the sector outlook for 2018. Of the remainder, only Offices, averaging 0.8% (from 0.5%), is anticipated to shown positive growth this year. All three retail sub-market forecasts have continued to weaken, with averages falling by around 100 bps for both Shopping Centres and Retail Warehouses (from -5.6% and -2.6% last quarter).

Over the remaining period, Industrials is the only sector delivering positive growth throughout, although at a much reduced and declining rate. Downside risk within retail is reflected in weakening averages across the five years and, with the exception of Industrials in 2019 and 2020, along with Offices in 2019 and Retail Warehouses in 2020, all sector average estimates are lower than three months ago.

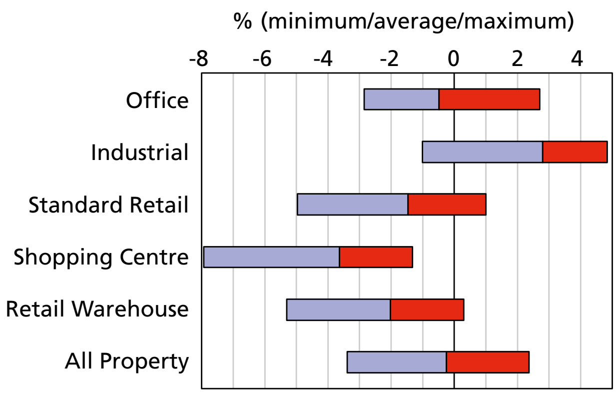
Shopping Centres persist in attracting considerable differences in contributor views (ranging by over 13.7% in 2018 and more than 10.0% in 2019 and 2022). However, Industrial forecasts also generate wide ranges of opinion in 2021 and 2022 (spanning 12.2% and 13.5% respectively).

Sector capital value growth five-year forecasts

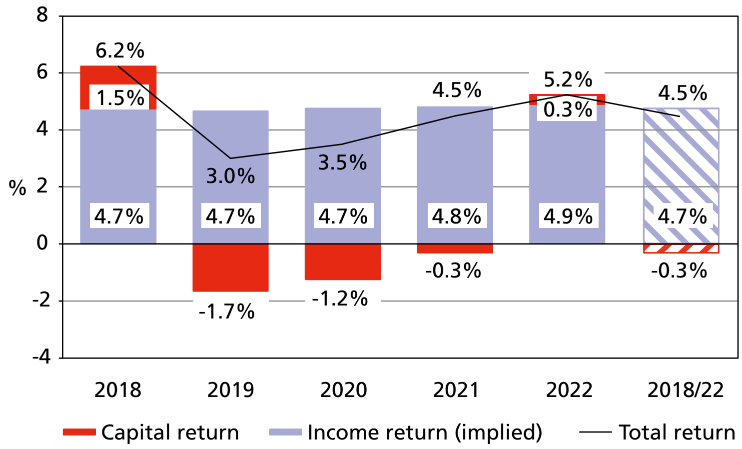
Over five years, with the exception of Industrials, at 2.8% per annum (from 2.5% in August), all other sectors are anticipated to under-perform the All Property annualised average, which has fallen to -0.3% from 0.0% in August.

Remaining sector averages are lower than three months ago, lying between a slightly weaker -0.5% for Offices (from -0.4%), to -3.6% for Shopping Centres (off a further 90 bps). Standard Retail and Retail Warehouse now average -1.5% and -2.0% respectively.

Individual forecasts lie between -7.9% and -1.3% for Shopping Centres, whilst those for Offices, which has marginally overtaken Retail Warehouses as the sector showing the closest alignment of forecaster opinion, lie between -2.9% to 2.7%.



All Property total return forecasts



2018 total return expectations continued to improve over the quarter, with the current average for All Property rising by more than 40 bps (previously 5.8%).

Throughout the remainder of the survey period, averages have declined, as negative capital growth predictions significantly impact these forecasts, with a weakening in sentiment only slowing by 2022.

The pattern of recovery from 2019 is more muted than in previous surveys with the potential of better than previously expected performance no longer supported, as capital growth expectations have fallen in 2021 and 2022. This is further evidenced by the decline in the five-year average to 4.5%, from 4.8% per annum in August.

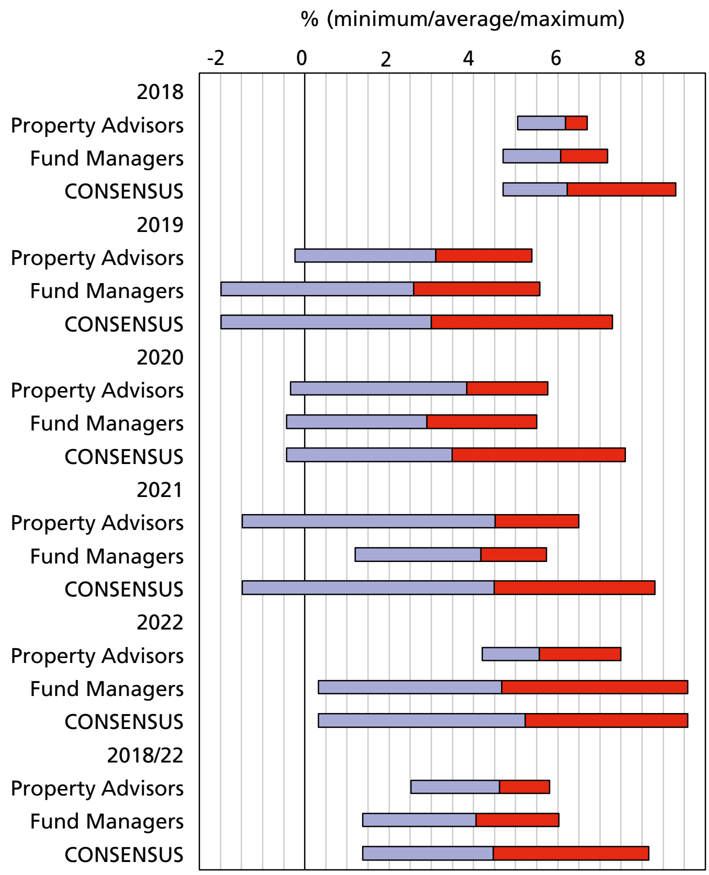
Contributors All Property total return forecasts

Both sets of contributors are more positive about the outlook for 2018; minimum projections rose by 130 and 220 bps over the quarter, whilst averages increased by almost 30 bps in the case of Property Advisors and by over 65 bps by Fund Managers. Much reduced forecast ranges for the year reinforce this confidence, at 1.7% and 2.5% from 4.3% and 5.2% respectively, although the Consensus widens as a result of the inclusion of one 'Other' forecast outlier.

2019 continues to define the low point of the survey period, with two contributors predicting a negative return (one fewer than in August (at -0.2% for Advisors and -2.0% for Managers). The average for the former group fell by a little under 15bps, to 3.1% whilst the Manager average is almost 20bps lower, at 2.6%.

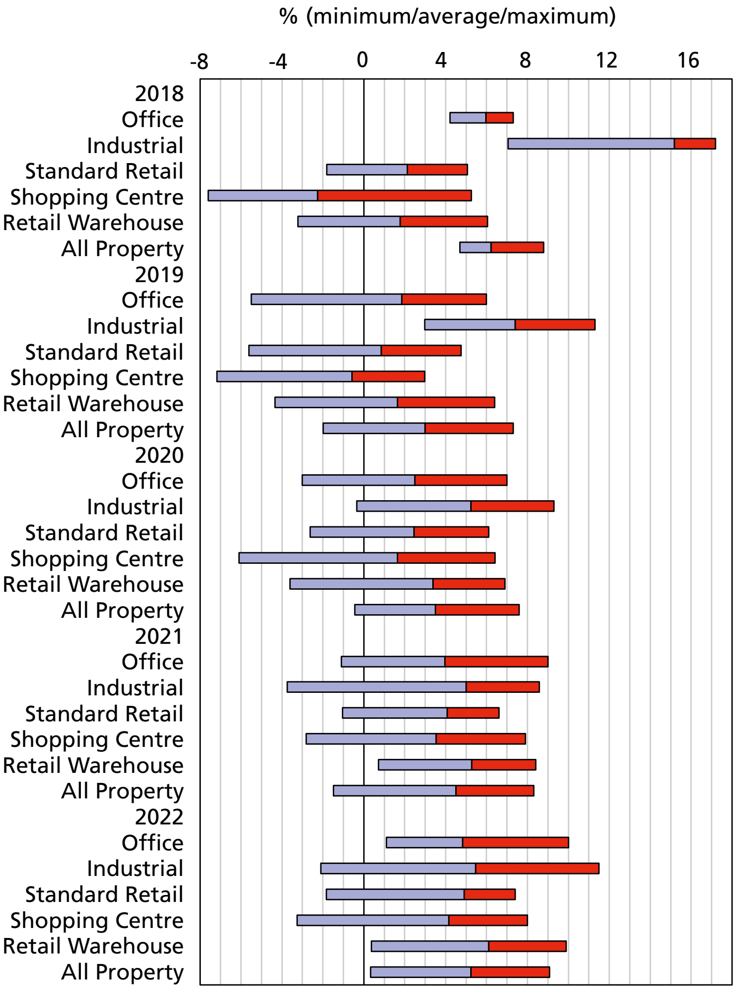
In 2020, negative returns, driven by sharply accelerating falls in their forecasts of capital value growth, have been forecast by two contributors, although the trend is one of improvement and forecast ranges have narrowed.

With only a single contributor predicting a negative return in 2021, 2022 is distinguished by positive forecasts throughout. On average, Advisors continue to be more positive in their outlook, as well as over five years (at 4.6% per annum versus Managers at 4.1%).



N.B. One 'Other' contributor returned data in addition to the 24 Property Advisors and Fund Managers.

Sector total return annual forecasts



With a substantial majority of contributors Industrial return in the teens, this phenomenal performance projection (15.2%, from 13.6% in August) has contributed to a further improvement to the All Property average and represents the only sector projected to exceed it, followed by Offices at 6.0%. The sole negative return for 2018 is Shopping Centres, at -2.2% from -0.9% three months ago, due to the impact of declining capital growth, although all three retail sub-markets averages weakened over the quarter.

Most sectors are predicted to weaken further over remaining years, reflecting those declining capital growth prospects. For 2019, Office and Industrial averages improved over the quarter, to 1.9% and 7.4% (from 1.7% and 6.4%), in contrast to further falls in the retail sub-sectors, (ranging between 1.6% for Retail Warehouses and -0.9% for Shopping Centres).

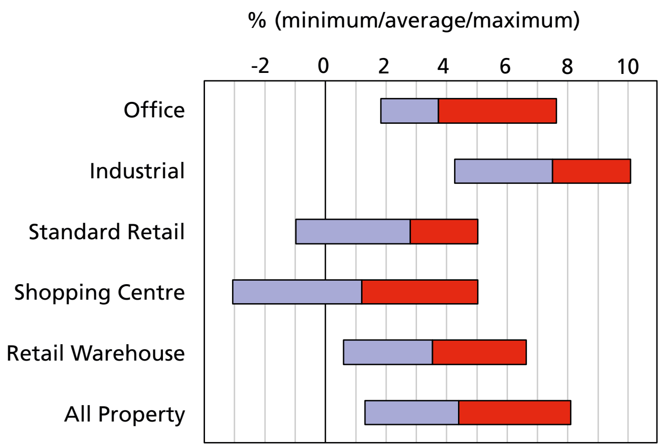
Other than a slight increase in the 2020 Industrial average, all forecasts weakened in remaining years, resulting in a slower recovery from the nadir of 2019. Rising to an expected 6.1% by 2022, Retail Warehousing is likely to overtake Industrials in the last two years to become the best performing sector.

Sector total return five-year forecasts

Further improvements in Office and Industrial forecasts for 2018 have been insufficient to offset the impact of the weaker projections that emerged for later years. Whilst the Industrial sector annualised return rose to 7.5% (from 7.1%), the Office average declined to 3.8%, from 4.0% previously.

Falling averages in the retail sub-markets (2.9%, 1.3% and 3.6% for Standard Retail, Shopping Centres and Retail Warehouses respectively, from 3.7%, 2.4% and 4.4%), have resulted in a decline in the All Property average to 4.5%, from 4.8% per annum in August.

Shopping Centres continue to attract the widest range of opinion (with a spread of 8.1%) compared to between 5.8% and 6.0% for other markets.

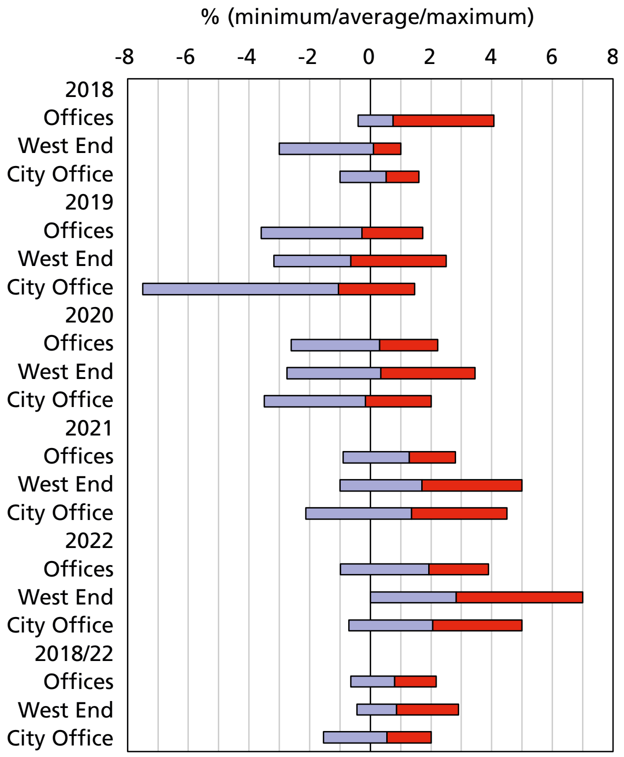


Central London offices

Leasing activity for the year to date remains buoyant, with overall demand in the City above the 10-year average[1], at 13+%, whilst West End taken up has been boosted by the Facebook pre-letting at King's Cross. Media and tech dominate by sector type in both markets – around 30% of the City total (followed by financial services at 17%) and by over 50% in the West End, with flexible office operators (at 15%) reportedly the second biggest category in that market. Eight of the 14 West End sub-markets have no new Grade A space available, whilst in the City, with over half the pipeline either pre-let or under offer, there are likely to be shortages of premium space over the next two years.

In the year to date, City investment volumes are reported1 to be above the 10-year average, with a number of domestic investors returning to the market, although overseas purchasers continue to dominate, at over 80% of all transactions. With fewer bidders actively seeking to acquire in the West End, the majority of central London 2018 market activity has been in the City (c. 70%).

Rental value growth



2018 rental prospects continued to improve over the quarter, with averages rising by between 54 and 84 bps in the West End and City respectively, to 0.1% and 0.5% and only a small number of contributors are expecting negative growth. Forecast ranges narrowed to 4.0% and 2.6% (from 6.2% and 4.3% in August).

Whilst remaining negative on average in 2019, both the West End and City markets have firmed, by between 22 and 25 bps, at -0.3% and -0.6%, which runs contrary to the weaker sentiments expressed for other sectors (although one forecaster has maintained a very negative stance for City prospects at -7.5%).

Compared to three months ago, forecasts from 2020 onwards are lower, with positive growth returning to the West End only by 2021. Respective forecasts for the three years from 2020 in the West End currently lie at 0.3%, 1.7% and 2.8% (from 0.5%, 2.0% and 3.1% in August). The lowering of expectations is more marked in the City, at -0.2%, 1.4% and 2.1%, as against 0.1%, 1.8% and 2.8% for these years last quarter.

The West End annualised five-year average is marginally higher than three months ago, at 0.9% (0.8% previously), whilst the negative forecast for 2020, combined with lower projections in 2020 and 2021, result in a slight fall to the City rental growth rate, to 0.5% per annum.

Forecast ranges fell for 2018, from 6.2% to 4.0% for West End projections, and from 4.3% to 2.6% for the City but widened in the final two years of the survey, to between 6.0% and 7.0% for the West End and 6.6% and 5.7% for the City.

[1] Colliers International London Offices Snapshot Q3 2018.

Central London offices (2)

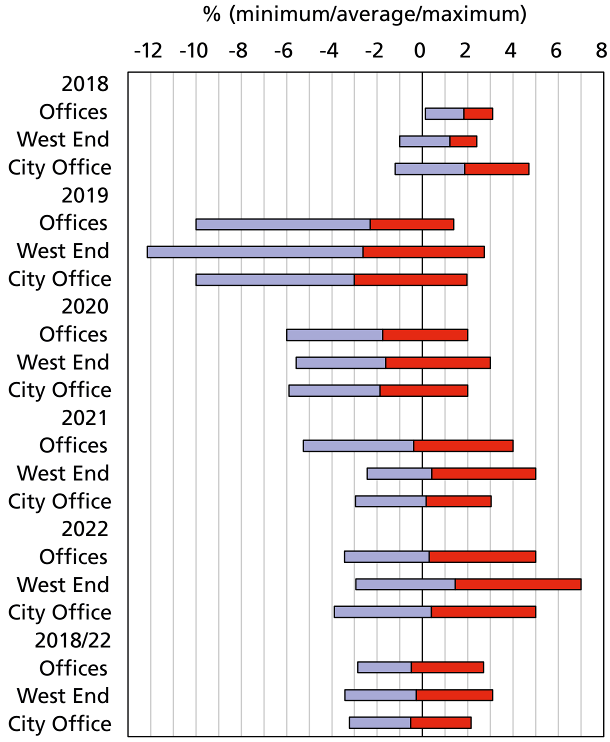
Capital value growth

Improvements in the 2018 average forecasts continued over the quarter, with the West End at 1.2% (from -0.5% in August) and to 1.9% from 0.2% in the City.

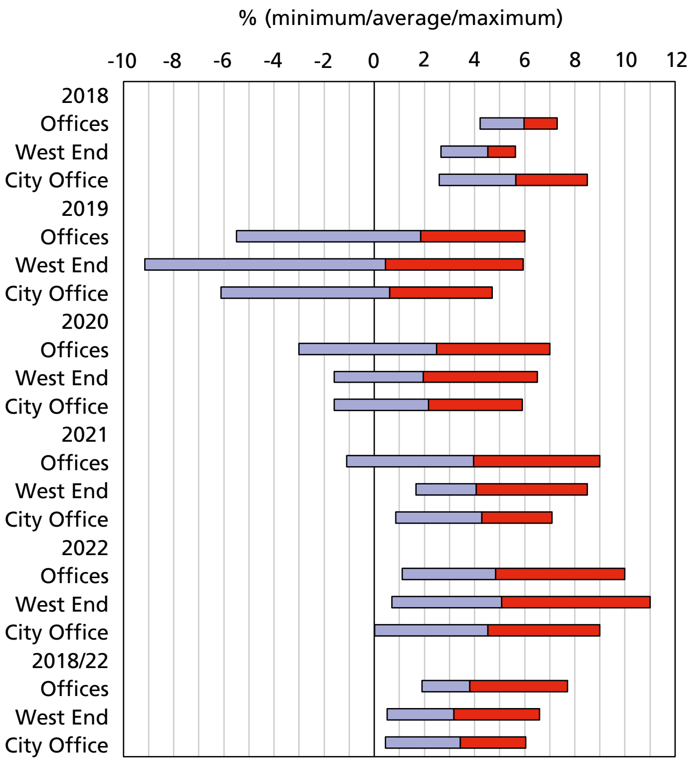
2019 expectations remain mixed and, whilst both sub-markets are forecast to return negative growth, the degree of contraction in the West End is more muted than three months ago, at -2.6% from -2.9%. In contrast, a weaker City market is projected, with the average growth rate falling around 20 bps, to -3.0%.

2020 averages remain sub-zero and below the August forecasts (down 49 and 53 bps in the West End and City respectively) at -1.6% and -1.9%. Whilst 2021 should see a return to positive growth, the latest projections for both this year and 2022 are lower (by over 50 bps for the two in 2021, to 0.4% and 0.2%, and by between 74 and 112 bps for West End and City in 2022 (now 1.4% and 0.4%).

The consensus amongst contributors has improved significantly for 2018 (down by almost 430 bps for the West End and 365 bps for the City). 2019 forecasts attracted the widest array of views, spanning 14.9% for the West End (where the lowest forecast was -12.1%) and 12.0% for the City, whilst opinions in later years are more closely aligned.



Total returns



The 2018 forecasts of total returns continued to improve, both by over 180 bps since August, to 4.5% and 5.6% (from 2.7% and 3.8%) for the West End and City, compared to 6.0% for UK offices. Predictions for 2019 weakened, however, (from 0.8% and 1.2%, to 0.4% and 0.6%).

This pattern is sustained across all remaining survey years, as the 2020 average forecast, although an improvement on 2019, declined by 75 and 68 bps over the quarter, to 2.0% in the West End and 2.2% in the City. For 2021 and 2022, the forecasts have deteriorated at an increasing rate: down 86 bps and 71 bps to 4.1% and 4.3% (from 4.9% and 5.0%) in 2021 and by 101 and 111 bps in 2022 (to averages of 5.1% and 4.5%).

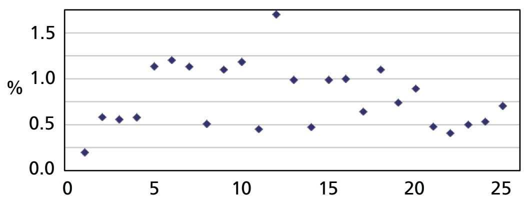
As a result, five-year annualised returns weakened over the quarter in both markets, with the West End declining to 3.2%, from 3.4% in August, and to 3.4% (from 3.7%) in the City, both being lower than the UK-wide Office return forecast of 3.8% per annum.

Distribution of forecasts

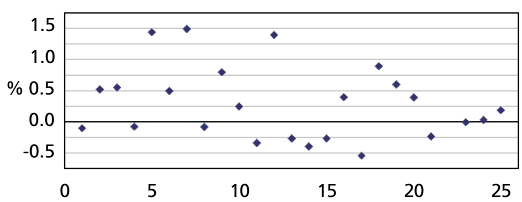
The scatter plots are the individual forecasts for All Property rental value and capital value growth. The contributors are listed in random order so that individual contributions cannot be identified. Previous quarter's forecast (August 2018) in brackets.

Rental value growth (% pa)

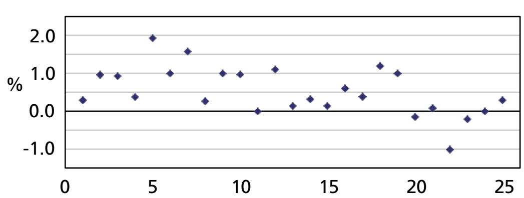
2018 Mean forecast: 0.8% (0.9%)



2019 Mean forecast: 0.2% (0.4%)

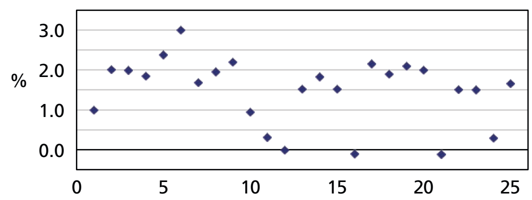


2020 Mean forecast: 0.5% (0.7%)

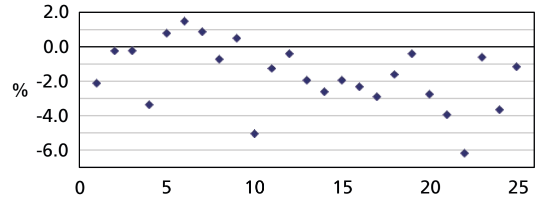


Capital value growth (% pa)

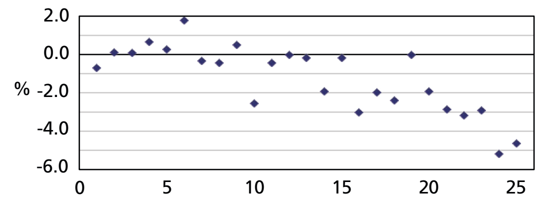
2018 Mean forecast: 1.5% (1.0%)



2019 Mean forecast: -1.7% (-1.6%)

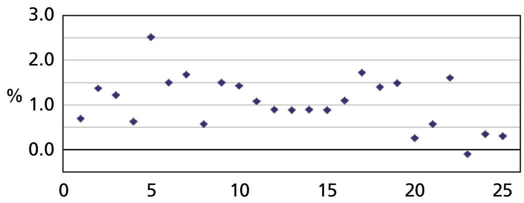


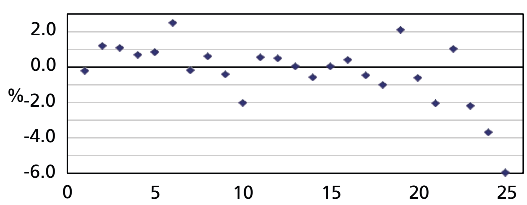
2020 Mean forecast: -1.2% (-0.9 %)



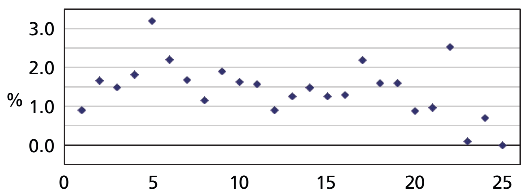
Distribution of forecasts (2)

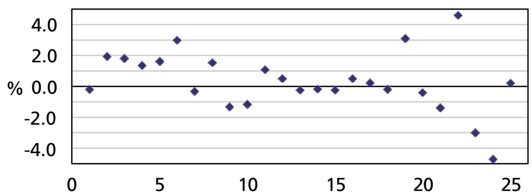
Rental value growth (% pa)		Capital value growth (% pa)	
2021	Mean forecast: 1.1% (1.2%)	**2021**	Mean forecast: -0.3% (0.5%)



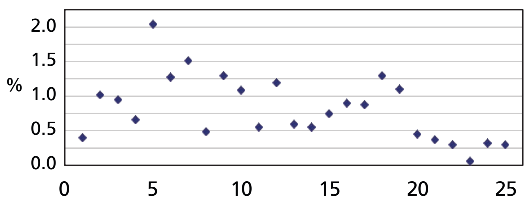


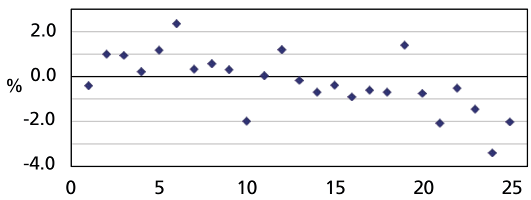
2022	Mean forecast: 1.4% (1.6%)	**2022**	Mean forecast: 0.3% (1.0%)





2018/22	Mean forecast: 0.8% (1.0%)	**2018/22**	Mean forecast: -0.3% (0.0%)

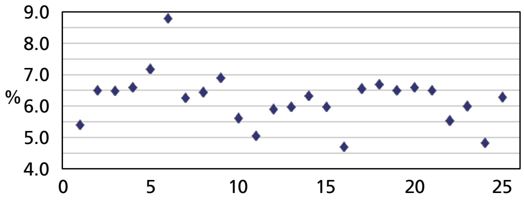




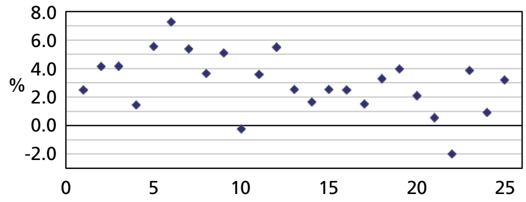
Distribution of forecasts (3)

All Property total returns (% pa)

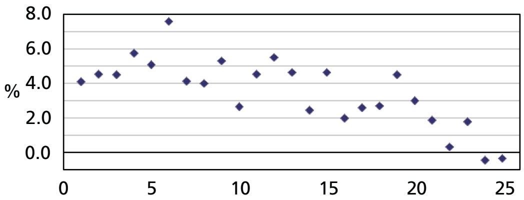
2018 Mean forecast: 6.2% (5.8%)



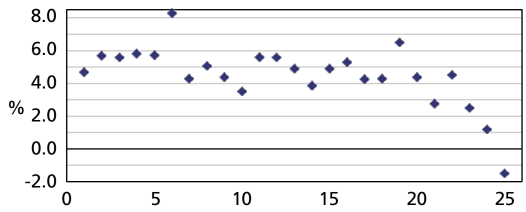
2019 Mean forecast: 3.0% (3.2%)



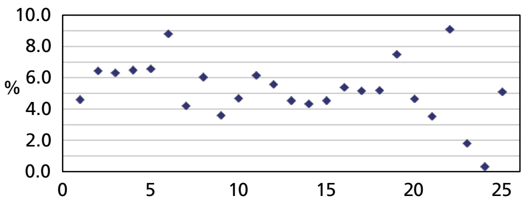
2020 Mean forecast: 3.5% (4.0%)



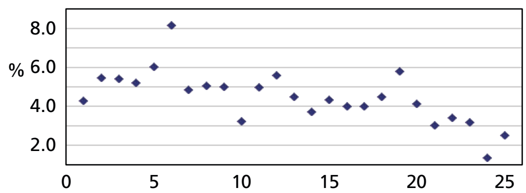
2021 Mean forecast: 4.5% (5.4%)



2022 Mean forecast: 5.2% (6.0%)



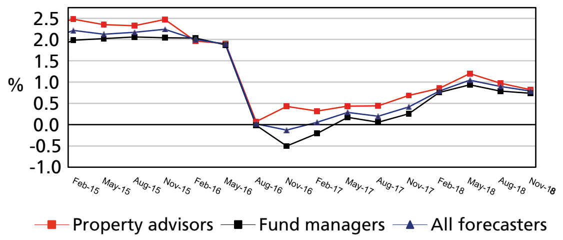
2018/2022 Mean forecast: 4.5% (4.8%)



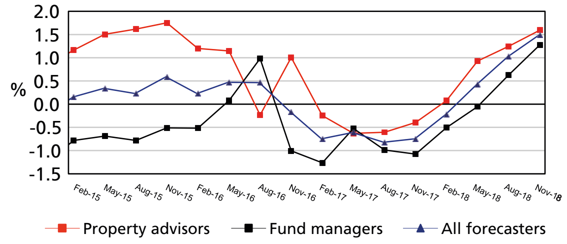
Evolution of the consensus

All Property rental value growth (% pa)	All Property capital value growth (% pa)

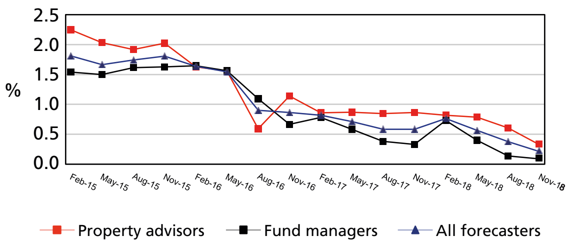
2018 Mean forecast: 0.8% (0.9%)



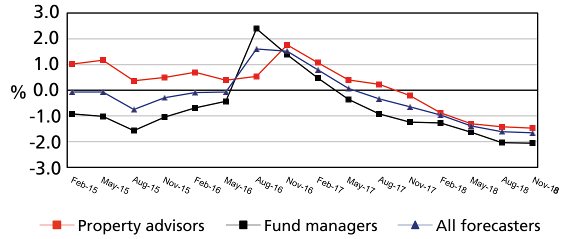
2018 Mean forecast: 1.5% (1.0%)



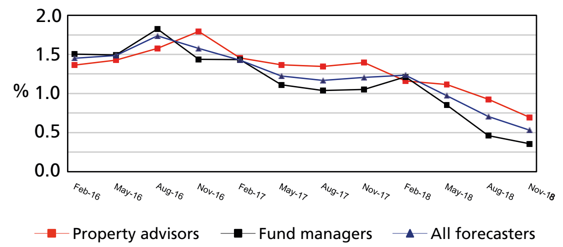
2019 Mean forecast: 0.2% (0.4%)



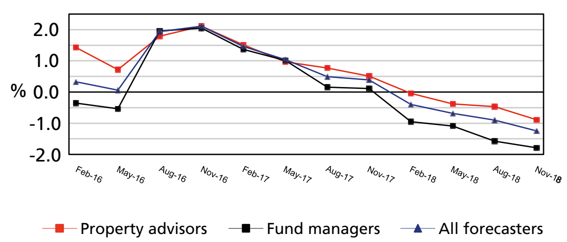
2019 Mean forecast: -1.7% (-1.6%)



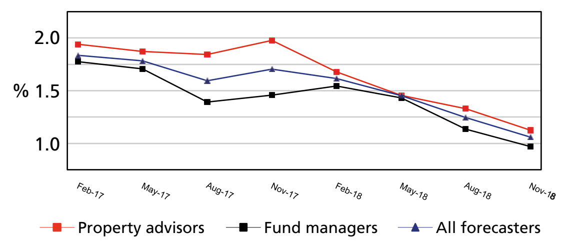
2020 Mean forecast: 0.5% (0.7%)



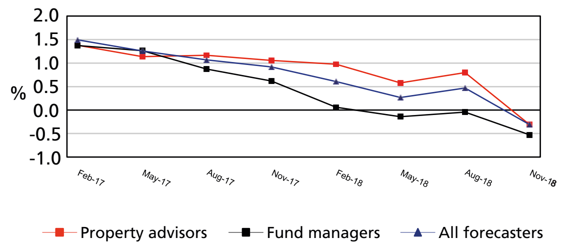
2020 Mean forecast: -1.2% (-0.9%)



2021 Mean forecast: 1.1% (1.2%)



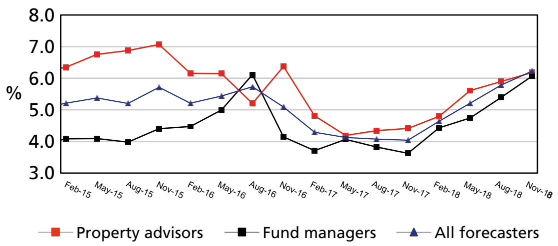
2021 Mean forecast: -0.3% (0.5%)



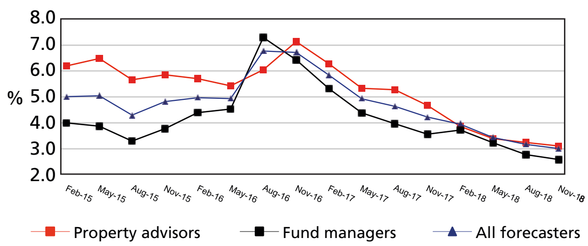
Evolution of the consensus (2)

All Property total returns (% pa)

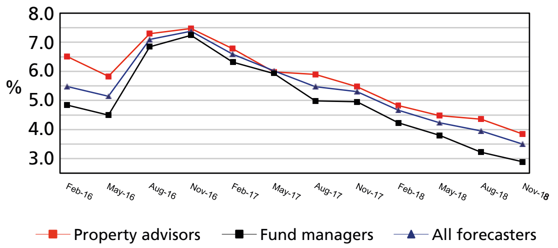
2018 Mean forecast: 6.2% (5.8%)



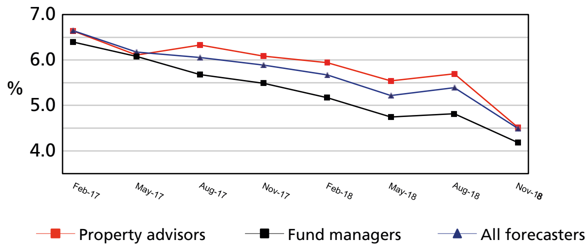
2019 Mean forecast: 3.0% (3.2%)



2020 Mean forecast: 3.5% (4.0%)



2021 Mean forecast: 4.5% (5.4%)



All Property survey results by contributor type

(Forecasts in brackets are August 2018 comparisons)

Property Advisors and Research Consultancies

11 (11)	Rental value growth (%)						Capital value growth (%)						Total return (%)					
contributors	2018		2019		2018/22*		2018		2019		2018/22*		2018		2019		2018/22*	
Maximum	1.2	(1.8)	1.5	(1.6)	1.5	(2.1)	2.1	(3.0)	0.9	(2.3)	1.4	(2.8)	6.7	(8.0)	5.4	(7.4)	5.8	(7.8)
Minimum	0.5	(0.5)	-0.3	(-0.3)	0.3	(0.2)	0.3	(-0.8)	-5.0	(-6.0)	-2.0	(-2.0)	5.0	(3.7)	-0.2	(-1.6)	2.5	(3.2)
Range	0.7	(1.3)	1.8	(1.9)	1.2	(1.9)	1.8	(3.8)	5.9	(8.3)	3.4	(4.8)	1.7	(4.3)	5.6	(9.0)	3.3	(4.6)
Median	0.7	(0.9)	0.3	(0.6)	1.0	(1.1)	1.7	(1.7)	-1.2	(-1.0)	0.1	(0.3)	6.3	(6.2)	3.3	(3.8)	4.9	(5.1)
Mean	**0.8**	**(1.0)**	**0.3**	**(0.6)**	**0.9**	**(1.1)**	**1.6**	**(1.2)**	**-1.5**	**(-1.4)**	**-0.1**	**(0.3)**	**6.2**	**(5.9)**	**3.1**	**(3.2)**	**4.6**	**(5.1)**

Fund Managers

13 (11)	Rental value growth (%)						Capital value growth (%)						Total return (%)					
contributors	2018		2019		2018/22		2018		2019		2018/22		2018		2019		2018/22	
Maximum	1.7	(1.7)	1.4	(1.4)	2.0	(2.1)	2.4	(2.9)	0.8	(0.4)	1.2	(1.8)	7.2	(7.7)	5.6	(5.8)	6.0	(6.6)
Minimum	0.2	(0.1)	-2.0	(-1.0)	0.1	(-0.1)	-0.1	(-2.0)	-6.2	(-7.0)	-3.4	(-2.7)	4.7	(2.5)	-2.0	(-2.0)	1.4	(2.0)
Range	1.5	(1.6)	3.4	(2.4)	2.0	(2.1)	2.5	(4.9)	7.0	(7.4)	4.6	(4.5)	2.5	(5.2)	7.6	(7.8)	4.7	(4.7)
Median	0.5	(0.7)	0.0	(0.1)	0.5	(0.7)	1.5	(0.6)	-2.3	(-2.3)	-0.6	(-0.6)	6.3	(5.2)	2.5	(2.5)	4.0	(4.0)
Mean	**0.7**	**(0.8)**	**0.1**	**(0.1)**	**0.7**	**(0.8)**	**1.3**	**(0.6)**	**-2.1**	**(-2.0)**	**-0.6**	**(-0.5)**	**6.1**	**(5.4)**	**2.6**	**(2.8)**	**4.1**	**(4.3)**

All Property forecasters

25 (23)	Rental value growth (%)						Capital value growth (%)						Total return (%)					
contributors	2018		2019		2018/22		2018		2019		2018/22		2018		2019		2018/22*	
Maximum	1.7	(1.8)	1.5	(1.6)	2.0	(2.1)	3.0	(3.0)	1.5	(2.3)	2.4	(2.8)	8.8	(8.8)	7.3	(7.4)	8.2	(8.1)
Minimum	0.2	(0.1)	-2.0	(-1.0)	0.1	(-0.1)	-0.1	(-2.0)	-6.2	(-7.0)	-3.4	(-2.7)	4.7	(2.5)	-2.0	(-2.0)	1.4	(2.0)
Range	1.5	(1.7)	3.5	(2.6)	2.0	(2.2)	3.1	(5.0)	7.7	(9.3)	5.7	(5.5)	4.1	(6.3)	9.3	(9.4)	6.8	(6.1)
Std. Dev.	0.3	(0.4)	0.7	(0.7)	0.5	(0.5)	0.8	(1.3)	1.8	(2.3)	1.3	(1.4)	0.8	(1.4)	2.0	(2.4)	1.3	(1.5)
Median	0.7	(0.9)	0.2	(0.3)	0.8	(0.9)	1.7	(0.9)	-1.6	(-1.4)	-0.4	(0.1)	6.3	(6.0)	3.2	(3.2)	4.5	(4.8)
Mean	**0.8**	**(0.9)**	**0.2**	**(0.4)**	**0.8**	**(1.0)**	**1.5**	**(1.0)**	**-1.7**	**(-1.6)**	**-0.3**	**(-0.0)**	**6.2**	**(5.8)**	**3.0**	**(3.2)**	**4.5**	**(4.8)**

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 (IPD). 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, forecasts must be generated within 12 weeks of the survey date (14 November 2018).
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 were contributed by 25 participants for each performance measure. Sector forecasts were received from 21 contributors (and 21 complete forecasts for central London offices).

Survey results by sector

Office

23 contributors	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	4.1	1.7	2.2	2.2	3.1	1.4	2.0	2.7	7.3	6.0	7.0	7.7
Minimum	-0.4	-3.6	-2.6	-0.6	0.1	-10.0	-6.0	-2.9	4.2	-5.5	-3.0	1.9
Range	4.5	5.3	4.8	2.8	3.0	11.4	8.0	5.6	3.1	11.5	10.0	5.8
Median	0.8	0.0	0.6	0.9	2.0	-1.1	-1.9	-0.2	6.1	3.0	2.4	3.9
Mean	**0.8**	**-0.3**	**0.3**	**0.8**	**1.8**	**-2.3**	**-1.8**	**-0.5**	**6.0**	**1.9**	**2.5**	**3.8**

Industrial

23 contributors	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	5.2	4.5	3.9	4.0	12.2	6.2	3.6	4.8	17.2	11.3	9.3	10.1
Minimum	2.4	0.0	0.0	1.6	1.9	-1.8	-4.6	-1.0	7.1	3.0	-0.3	4.3
Range	2.8	4.5	3.9	2.4	10.3	8.0	8.3	5.9	10.1	8.3	9.6	5.8
Median	4.0	2.6	2.1	2.6	10.7	3.0	1.3	3.2	15.5	7.3	5.8	7.9
Mean	**4.1**	**2.6**	**2.2**	**2.6**	**10.2**	**2.7**	**0.6**	**2.8**	**15.2**	**7.4**	**5.2**	**7.5**

Standard Retail

22 contributors	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	1.4	1.2	1.7	1.7	1.1	1.2	1.7	1.0	5.1	4.7	6.1	5.1
Minimum	-1.5	-2.1	-1.7	-1.5	-5.5	-9.9	-6.7	-5.0	-1.8	-5.6	-2.6	-0.9
Range	2.9	3.3	3.4	3.2	6.6	11.1	8.4	6.0	6.9	10.4	8.7	6.0
Median	-0.7	-0.9	-0.4	-0.2	-1.9	-2.7	-1.6	-1.1	2.2	1.7	2.9	2.9
Mean	**-0.6**	**-0.8**	**-0.2**	**0.0**	**-2.0**	**-3.3**	**-1.9**	**-1.5**	**2.1**	**0.9**	**2.4**	**2.9**

Shopping Centre

23 contributors	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	0.8	0.9	0.8	0.8	0.6	-1.9	0.6	-1.3	5.3	3.0	6.4	5.1
Minimum	-3.0	-3.2	-3.0	-2.4	-13.1	-12.2	-8.2	-7.9	-7.6	-7.2	-6.1	-3.0
Range	3.8	4.1	3.8	3.2	13.7	10.3	8.8	6.6	12.9	10.2	12.5	8.1
Median	-1.3	-1.6	-0.6	-0.6	-6.0	-4.0	-3.0	-2.7	-2.6	0.2	2.0	2.0
Mean	**-1.3**	**-1.5**	**-0.9**	**-0.8**	**-6.6**	**-5.4**	**-3.2**	**-3.6**	**-2.2**	**-0.6**	**1.6**	**1.3**

Retail Warehouse

21 contributors	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	0.0	0.8	1.3	1.3	0.2	0.5	0.6	0.3	6.0	6.4	6.9	6.7
Minimum	-3.0	-3.0	-3.0	-1.9	-8.6	-9.4	-6.0	-5.3	-3.2	-4.3	-3.6	0.7
Range	3.0	3.8	4.3	3.2	8.8	9.9	6.6	5.6	9.3	10.7	10.5	6.0
Median	-1.1	-1.0	-0.4	-0.3	-3.6	-3.0	-1.5	-1.4	1.6	2.7	4.1	4.3
Mean	**-1.1**	**-1.1**	**-0.4**	**-0.4**	**-3.7**	**-3.9**	**-1.9**	**-2.0**	**1.8**	**1.6**	**3.4**	**3.6**

All Property

25 contributors	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	1.7	1.5	1.9	2.0	3.0	1.5	1.8	2.4	8.8	7.3	7.6	8.2
Minimum	0.2	-2.0	-1.0	0.1	-0.1	-6.2	-5.2	-3.4	4.7	-2.0	-0.4	1.4
Range	1.5	3.5	2.9	2.0	3.1	7.7	7.0	5.7	4.1	9.3	8.0	6.8
Std. Dev.	0.3	0.7	0.6	0.5	0.8	1.8	1.7	1.3	0.8	2.0	1.9	1.3
Median	0.7	0.2	0.4	0.8	1.7	-1.6	-0.4	-0.4	6.3	3.2	4.1	4.5
Mean	**0.8**	**0.2**	**0.5**	**0.8**	**1.5**	**-1.7**	**-1.2**	**-0.3**	**6.2**	**3.0**	**3.5**	**4.5**

Sector Summary

Sector means

(no. contributors*)	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Office (23)	0.8	-0.3	0.3	0.8	1.8	-2.3	-1.8	-0.5	6.0	1.9	2.5	3.8
Industrial (23)	4.1	2.6	2.2	2.6	10.2	2.7	0.6	2.8	15.2	7.4	5.2	7.5
Standard Retail (22)	-0.6	-0.8	-0.2	0.0	-2.0	-3.3	-1.9	-1.5	2.1	0.9	2.4	2.9
Shopping Centre (23)	-1.3	-1.5	-0.9	-0.8	-6.6	-5.4	-3.2	-3.6	-2.2	-0.6	1.6	1.3
Retail Warehouse (21)	-1.1	-1.1	-0.4	-0.4	-3.7	-3.9	-1.9	-2.0	1.8	1.6	3.4	3.6
All Property (25)	**0.8**	**0.2**	**0.5**	**0.8**	**1.5**	**-1.7**	**-1.2**	**-0.3**	**6.2**	**3.0**	**3.5**	**4.5**

West End office

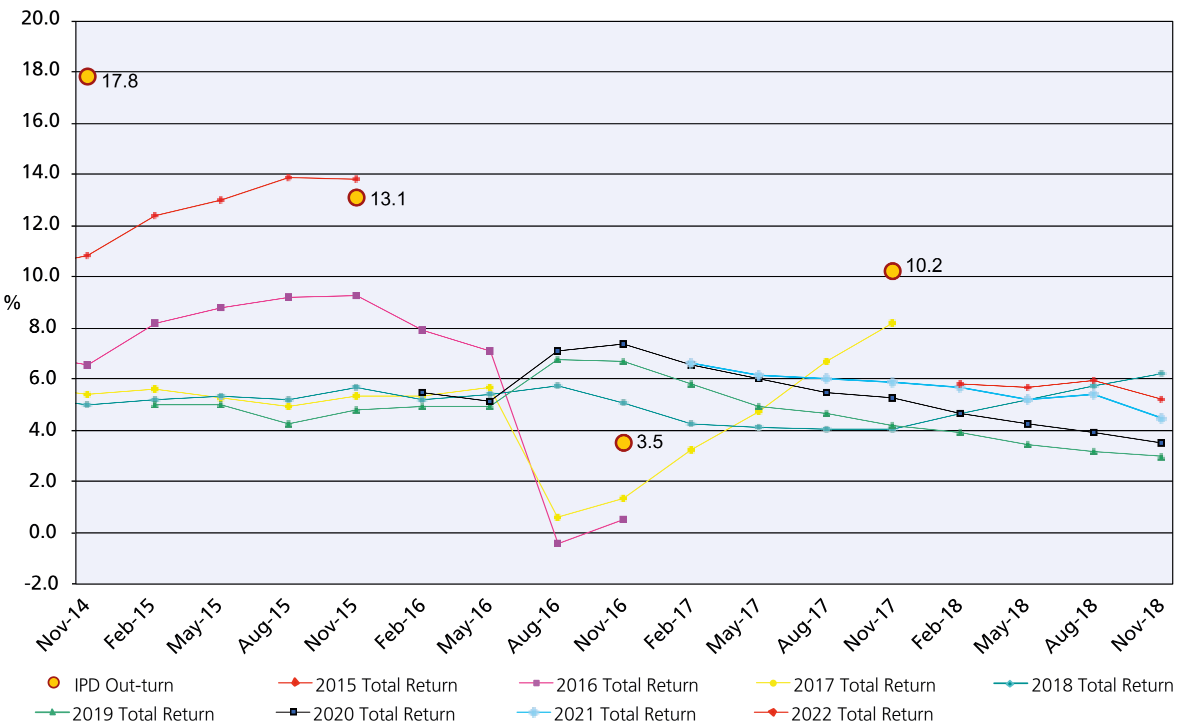
21 contributors	*Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	1.0	2.5	3.5	2.9	2.4	2.7	3.0	3.1	5.6	5.9	6.5	6.6
Minimum	-3.0	-3.2	-2.8	-0.4	-1.0	-12.1	-5.6	-3.4	2.7	-9.1	-1.6	0.5
Range	4.0	5.7	6.2	3.3	3.4	14.9	8.6	6.5	3.0	15.1	8.1	6.1
Median	0.2	-0.7	0.5	0.7	1.2	-1.6	-1.3	-0.5	4.6	1.6	2.2	2.9
Mean	**0.1**	**-0.6**	**0.3**	**0.9**	**1.2**	**-2.6**	**-1.6**	**-0.3**	**4.5**	**0.4**	**2.0**	**3.2**

City office

21 contributors	*Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2018	2019	2020	2018/22	2018	2019	2020	2018/22	2018	2019	2020	2018/22
Maximum	1.6	1.5	2.0	2.0	4.7	2.0	2.0	2.1	8.5	4.7	5.9	6.0
Minimum	-1.0	-7.5	-3.5	-1.5	-1.2	-10.0	-5.9	-3.2	2.6	-6.1	-1.6	0.4
Range	2.6	9.0	5.5	3.6	5.9	12.0	7.9	5.4	5.9	10.8	7.5	5.6
Median	0.5	-0.7	-0.3	0.4	2.1	-0.6	-1.8	-0.6	5.9	1.8	2.9	3.6
Mean	**0.5**	**-1.1**	**-0.2**	**0.5**	**1.9**	**-3.0**	**-1.9**	**-0.5**	**5.6**	**0.6**	**2.2**	**3.4**

* Of 22 forecasts received, one contributor provided only rental value growth forecasts.

Consensus Forecast All Property Total Return Forecasts versus IPD Annual Outturn



Acknowledgements

The Investment Property Forum (IPF) thanks all those organisations that contributed to the IPF UK Consensus Forecasts for Autumn 2018, including the following:

Property advisors (including research consultancies): BNP Paribas Real Estate, Capital Economics, CBRE, Colliers International, Cushman & Wakefield, Fletcher King, GVA, JLL, Lambert Smith Hampton, Real Estate Forecasting Limited and Real Estate Strategies.

Fund and investment managers: Aberdeen Standard Investments, Aviva Investors, AXA IM Real Assets, BMO Real Estate Partners, CBRE Global Investors, DWS, Keills, Knight Frank Investment Management, LaSalle Investment Management, LGIM Real Assets, M&G Real Estate, Savills Investment Management and UBS Asset Management.

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.

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