Research Programme

AT A GLANCE
AUGUST 2019

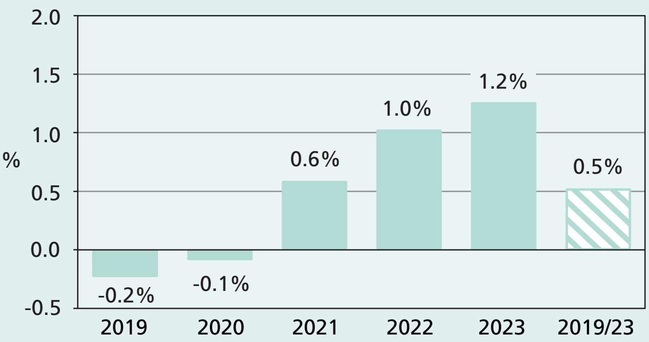
IPF UK CONSENSUS FORECASTS – SUMMER 2019

26 organisations contributed to the third survey of 2019, with forecasts dating from the beginning of June to mid-August 2019.

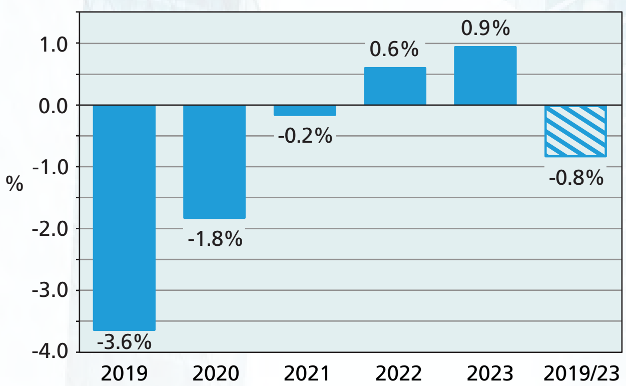
Rental value growth

Whilst the 2019 and 2021 annual growth forecasts were static over the quarter, average projections for remaining years fell marginally – by between 5 and 14 bps. Zero or negative growth in the current year was recorded in 16 forecasts, compared to 11 in 2020. By 2022, only one contributor expects marginally negative All Property growth of -0.1%, compared to a maximum estimate of 2.0%. Mean and median forecast values are almost identical for each of the years surveyed.

Although the five-year average weakened over the quarter by fewer than 10 bps, four participants predict negative averages, the lowest being -0.9% pa, compared to a maximum of 1.4% pa.



Capital value growth



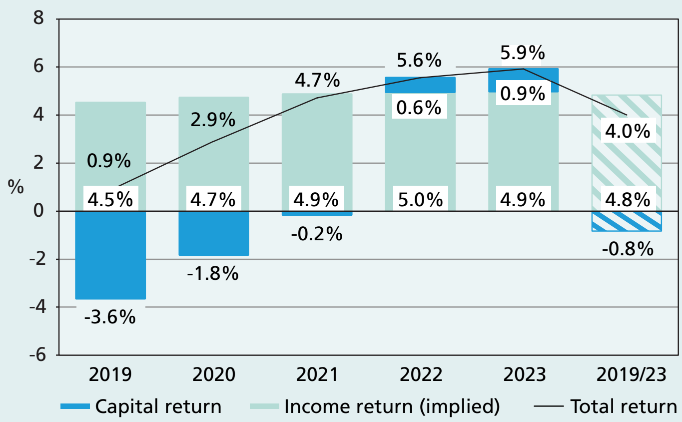
The average for 2019 declined substantially over the quarter (down 86 bps from -2.8% in May), with all but one contributor forecasting negative capital value growth for the current year, and the 2020 forecast also weakened slightly (from -1.7%). However, averages in remaining years improved (previously -0.5%, 0.3% and 0.6% respectively from 2021 to 2023).

Improvements in average forecasts over later years have cancelled out the impact of increased falls in 2019 and 2020 on the five-year projection, which remains -0.8% pa.

Total returns

The 95 bps fall in the 2019 average was driven by the weaker capital growth forecast for the year but later projections indicate an improving outlook, with the 2020 average down only 16 bps from 3.1% in May.

Rises of over 30 bps in each of the remaining three years are insufficient to offset the impact of the lower 2019 mean on the five-year average, which remains 4.0% pa. The implied income return for 2019 has softened slightly (falling 9 bps from 4.6% in May), with other years broadly unaltered, the 2022 increase being as a result of rounding.



Summary Average by Sector

	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2019	2020	2021	2019/23	2019	2020	2021	2019/23	2019	2020	2021	2019/23
Office	0.7	0.6	1.3	1.3	-1.1	-1.1	0.5	0.2	2.9	3.1	4.9	4.6
Industrial	3.0	2.0	1.7	2.0	2.1	1.1	1.5	1.5	6.6	5.7	6.1	6.1
Standard Retail	-3.1	-2.1	-0.9	-1.2	-8.1	-4.4	-1.4	-2.7	-3.9	0.1	3.3	1.9
Shopping Centre	-4.7	-3.3	-1.8	-2.3	-13.8	-7.2	-3.7	-5.7	-8.8	-1.5	2.3	0.0
Retail Warehouse	-3.8	-2.5	-1.0	-1.5	-10.8	-5.7	-1.9	-3.9	-5.2	0.5	4.6	2.4
All Property	**-0.2**	**-0.1**	**0.6**	**0.5**	**-3.6**	**-1.8**	**-0.2**	**-0.8**	**0.9**	**2.9**	**4.7**	**4.0**
West End office	0.8	0.5	1.6	1.6	-1.2	-0.9	0.9	0.6	2.2	2.6	4.6	4.3
City office	0.5	0.1	1.6	1.4	-2.0	-1.3	1.2	0.4	1.8	2.7	5.3	4.5

Key Points

2019

The outlook for capital value growth rates fell over the quarter, with particularly weak averages recorded for all measures in the retail sub-markets. At the All Property level:

- The rental value growth average forecast held at -0.2%;
- The average capital value growth rate declined to -3.6% (from -2.8% previously). Industrial is, again, the only sector expected to deliver positive growth this year, although the rate continues to decline (55 bps weaker than the May average of 2.6%);
- The average 2019 total return forecast has weakened to 0.9% for the year, from 1.8% last quarter, resulting in a slightly weaker implied income return of 4.5%.

For central London offices, 2019 growth projections improved for West End and City rents, to average 0.8% and 0.5% respectively. The capital growth average rose 50 bps over the quarter for West End offices (from -1.7%), whilst holding at -2.0% in the City. Rental growth is now expected to be weaker for both locations in 2020 before recovering in 2021. A return to positive capital growth on average is likely by 2021, with stronger year-on-year increases throughout the remainder of the period than reported last quarter.

Rolling five-year averages

Continued weakening in retail forecasts over the last three months has served to depress the five-year rental growth average further but improved expectations for other sectors have negated the impact on capital growth and total returns:

- Rental value growth: 0.5% pa (0.6% previously)
- Capital value growth: -0.8% pa (-0.8%)
- Total return: 4.0% pa (4.0%)

Click **here** to download the full report from the IPF website.

Acknowledgement

The IPF thanks all those organisations contributing to the Summer 2019 Consensus Forecasts, including:

Aberdeen Standard Investments
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