

IPF UK CONSENSUS FORECASTS – AUTUMN 2017

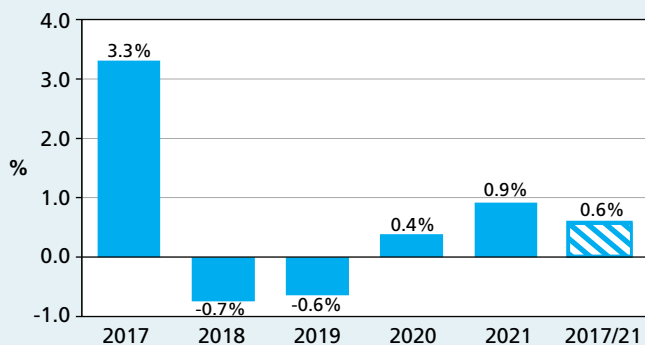
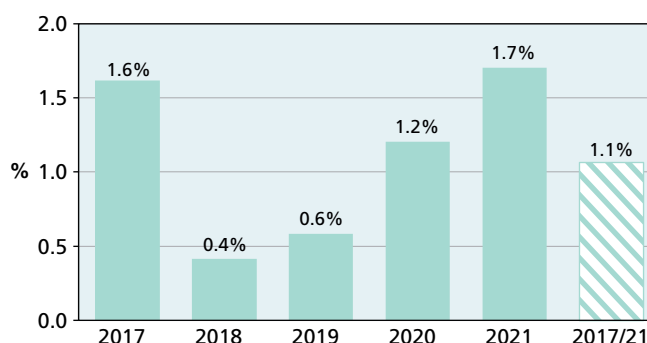
The final UK Consensus Forecasts report of 2017 is based on independent forecasts received from 22 leading property consultants and advisors and fund/investment managers, generated over an 11-week period from 31 August 2017.

The improvement in the near-term outlook, as reported last quarter, has continued. Forecaster sentiment in regard to later years has weakened however and lower capital growth expectations are reflected in total return projections from 2019 onwards.

Rental value growth

The 2017 average forecast has risen by almost 70bps to 1.6% against the last quarter's forecast of 0.9% (from 0.6% in May). The 2018 projection has also strengthened, by 20 bps, from 0.2% to 0.4% with growth expectations in the remaining survey years broadly unchanged from the September report.

These near-term movements have caused the five-year average rental growth rate to rise by almost 20 bps, from 0.9% per annum previously.



Capital value growth

Capital growth prospects for the current year have improved, with the average rising by almost 150 bps to 3.3%, from 1.8% last quarter. The anticipation of a substantial fall in the growth rate next year remains, although 2018 is expected to mark the low point.

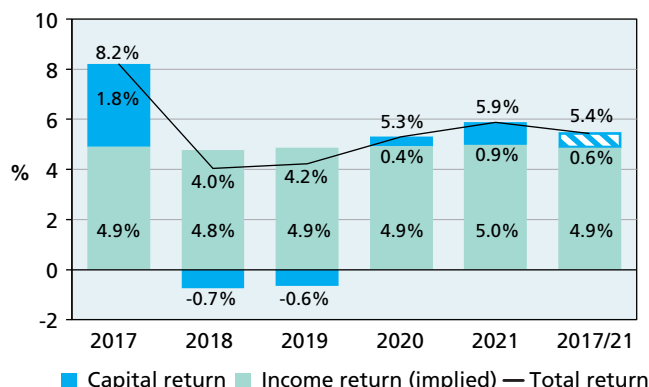
The 2019 average is 30bps weaker than a quarter ago and rates in remaining years are also more muted – falling by 11 and 15 bps in 2020 and 2021 – which is a continuation of the trend seen earlier in the year.

Once again, an improvement in the near-term average has resulted in a modest increase in the annualised growth rate over five years, which has risen 12 bps over the quarter.

Total returns

Total return prospects for 2017 have again risen substantially (from 6.7% last quarter and 4.8% in May) driven by strong capital growth expectations, maintaining the trend of improvement through the year.

Although the 2018 figure is broadly unchanged subsequent years are weaker than forecast previously (the 2020 average has fallen by more than 40 bps over the quarter). Poorer capital growth rates and flat income returns limit overall performance, leaving the five-year average at 5.4% per annum.



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	0.8	-1.2	-0.3	0.5	2.2	-2.4	-1.6	-0.1	6.3	1.9	3.1	4.4
Industrial	4.4	3.0	1.9	2.6	10.0	2.7	0.8	2.7	15.5	7.8	6.0	7.9
Standard Retail	1.3	0.5	0.7	1.0	2.6	-0.8	-0.5	0.6	7.1	3.7	4.1	5.1
Shopping Centre	1.0	0.0	0.2	0.6	-0.4	-2.1	-1.7	-0.8	4.6	2.8	3.3	4.3
Retail Warehouse	0.9	0.3	0.5	0.8	1.4	-1.4	-1.0	-0.1	7.2	4.3	4.7	5.7
All Property	1.6	0.4	0.6	1.1	3.3	-0.7	-0.6	0.6	8.2	4.0	4.2	5.4
West End Office	-0.3	-2.2	-0.5	0.3	2.0	-3.7	-1.6	-0.1	5.3	-0.3	2.0	3.5
City Office	0.5	-2.7	-1.3	0.0	2.3	-4.0	-2.3	-0.5	5.9	-0.3	1.7	3.4

*One contributor provided only rental growth forecasts.

Other key points:

2017

- The All Property average **rental value growth** forecast has risen to **1.6%** (from 0.9% in August).
- Positive **capital value growth** is expected in all sectors other than Shopping Centres. The All Property average forecast is now **3.3%**, from -1.6% at the start of the year.
- Reflecting these improvements, the All Property **total return** has risen to **8.2%**, from 6.7% in May.

2018/2019

- Lower **rental growth** is projected in **2018** for all property types, compared to 2017, although the All Property average has risen to **0.4%** from -0.2% last quarter (as against 0.3% in May).
- Further improvement in the average Industrial **capital growth** projection (up over 80bps, to 2.7%) contrasts with flat or falling averages elsewhere, resulting in a virtually unchanged All Property average of **-0.7%**.
- The **2019** All Property outlook is broadly stable for **rental growth**, again averaging a modest **0.6%** but **capital growth** expectations are weaker, at **-0.6%** from -0.3% a quarter ago.
- Whilst the **2018** All Property average **total return** is virtually unchanged, at **4.0%** (previously 4.1%), the **2019** forecast has fallen further this quarter, from 4.6% to **4.2%**, having started the year at 5.8%.

Longer-term outlook

- The All Property level, **total returns** projections have fallen by around 17 bps for each of the last two years of the survey, to **5.3%** (from 5.5%) and **5.9%** (from 6.1%) for **2020** and **2021** respectively.
- Over the five years, averages are little changed, although the slight strengthening in rental and capital value growth is not reflected in the **total return**, which, due to rounding, has remained static over the quarter at **5.4% per annum**.

Central London office markets

- 2017 rental growth** prospects in both markets have continued to firm; the West End average, although still negative, has risen over 120 bps, with the City improving by more 130bps, to **-0.3%** and **0.5%** respectively.
- A substantial majority of contributors anticipate positive **capital value growth** this year, of **2.0%**, from -0.2% in August, for the West End and **2.3%**, from -0.1%, for the City.
- Forecasts continue to indicate 2018 will be the low point for the central London market before a return to positive growth in 2020, similar to UK Offices more generally.
- Sentiment is weaker for both rental and capital value growth in 2020 and 2021 compared to last quarter.

The full report is available to download from the IPF website, www.ipf.org.uk

Acknowledgement

The IPF thanks all those organisations contributing to the Autumn 2017 Consensus Forecasts, including:

Aberdeen Asset Management	Colliers International	Keills	Standard Life Investments
Aviva Investors	Cushman & Wakefield	Knight Frank	TH Real Estate
BMO Real Estate Partners	Deutsche Asset Management	M&G Real Estate	UBS Asset Management.
Capital Economics	Fletcher King	Real Estate Forecasting Limited	
CBRE	GVA	Real Estate Strategies	
CBRE Global Investors	JLL	Savills Investment Management	

The 2015-2018 Research Programme is sponsored by:

