

The Investment Property Forum Consensus Forecasts Survey of Independent Forecasts for UK Property Investment

Summary Report

June 2008

Introduction

The latest IPF Consensus Forecast shows a continuation of last quarter's downward revision of commercial property returns. The consensus total return forecast for 2008 at the all property level is -5.2%, down from -2.6% last quarter. This expectation of worsening performance is replicated across all sectors for 2008 and is driven by further reductions in capital and rental value growth expectations.

The City and West End office markets are again badly affected as confidence in the financial services sector weakens. The City of London office market is forecast negative rental and capital value growth throughout the three and five year view in this quarter's forecast. The forecasts for West End offices are also weaker with rental and capital value growth both substantially reduced for 2008 and negative for 2009.

The forecast recovery shown for 2009 in the last two surveys now looks less certain. The improved total return figures reported for 2009 in the last survey have fallen back and, whilst still showing an improvement on 2008, are nonetheless weaker. This is particularly the case for West End and City offices which are now showing below inflation and negative total returns respectively for 2009.

The 2010 forecasts show improving total returns on the back of stronger capital value growth and a limited return to positive rental value growth. However these figures are also lower than those reported last quarter. Having been clustered around a 6% return last quarter the five year forecast has dropped to 5.4%.

These markedly weaker figures than those reported in Q1 of 2008, appear to reflect growing concerns regarding the wider economy. The UK economy grew by 0.4% in Q1 2008, down from 0.7% in Q4 2007. The Treasury consensus of economic forecasts predict GDP of 1.7% for 2008 and 1.5% for 2009. This is a significant downward shift from the 2% GDP predicted for 2009 last quarter.

Production industry output¹ has fallen in the last quarter, and growth in the service sector has slowed from 0.7% to 0.5%, with business and services particularly affected. Retail sales volumes also experience slower growth this quarter, with sales in household goods stores

¹ Source: National Statistics, May 2008.

particularly affected. In contrast, sales in the retail sector that incorporates games, mobile phone and sports stores increased by 5.3%, the largest growth in the series.

The employment data is giving mixed messages this quarter. The employment rate has increased again and at 74.9% remains the highest since comparable records began in 1971. The number of working age people in employment increased by 117,000 in Q1 2008, the number of job vacancies increased and the number of hours worked also increased. In contrast, the number of unemployed people increased by 14,000 in Q1.

Continued concerns regarding economic growth and the housing market led to a further ¼ point cut in the Bank of England base rate to 5% in April 2008. However, concerns about inflation remain strong, with CPI reaching 3% in April and expected to remain at or about this level for the next 12 months. As might be expected, rising fuel and food prices were largely behind this increase. The latest HM Treasury economic consensus forecasts for 2008² forecast CPI at 3% for 2008 and 2.2% for 2009.

Key points

The consensus forecast all property total return in 2008 has moved down sharply for the third quarter in a row, falling from -2.6% to -5.2%. Rental and capital value forecasts for all sectors have been revised downwards for 2008 and 2009.

- Both the office and industrial sector total return forecasts have been revised sharply downwards, but retail warehousing remains expected to be the lowest performer for 2008. It is expected to be eclipsed in 2009 by the office sector in light of substantial reductions in both rental and capital value growth figures.
- The city and west end office sub-sectors have seen continued significant reductions in both rental and capital value growth forecasts. The consensus forecast shows negative rental value growth for City offices throughout the three and five year views.
- The partial recovery suggested for 2009 in the last forecast as been replaced by continued falling capital value growth as yields are expected to move out further next year, in spite of sharp adjustments in 2008. This quarter's consensus forecast suggests a longer downturn than was perhaps forecast in Q1.

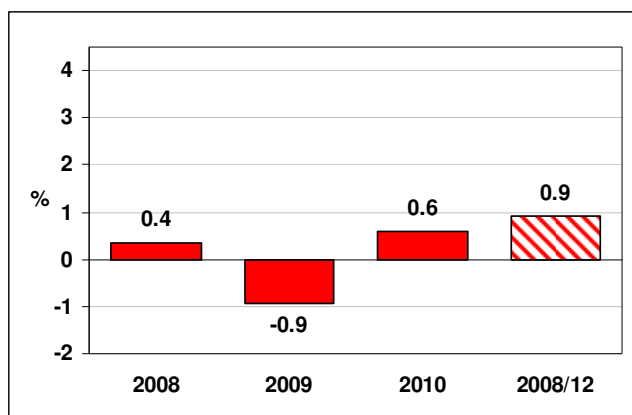
The substantial downward revisions in forecasts for all sectors in the last two surveys are further reinforced this quarter.

- All sectors are showing negative capital value growth forecasts for 2008 and 2009, with the exception of standard shops with a mean forecast capital value growth of 0.1% in 2009, matching its forecast rental value growth figure.
- Rental value growth has also been revised downwards for all sectors in all years, including the 5 year view. City and West End offices again show the biggest falls.
- City offices expected total return performance for 2008 has fallen from -4.8% to -9.5%, driven by further downward revisions in expected capital value growth and rental value growth forecasts. City and West End office total returns are expected to bounce back in 2010 on the back of stronger capital value growth performance.
- Retail rental value growth forecasts have weakened further for both 2008 and 2009 and remain below inflation for the 3 and five-year forecast views. The improved capital value growth forecasts for 2009 and 2010 seen last quarter have been revised downwards again.

² Source: HM Treasury, Forecasts for the UK Economy, May 23, 2008

- Total return forecasts for the industrial sector have moved down sharply this quarter. Both rental and capital value growth is now expected to continue to be negative for this sector into 2009.
- The forecasts for 2010 reflect expectations of a recovery at that stage. However, these figures have been revised downwards since last quarter, all-offices and the office subsectors most substantially.
- The five-year view continues to show above inflation total returns for all sectors except City offices, but by a reduced margin on last quarter.

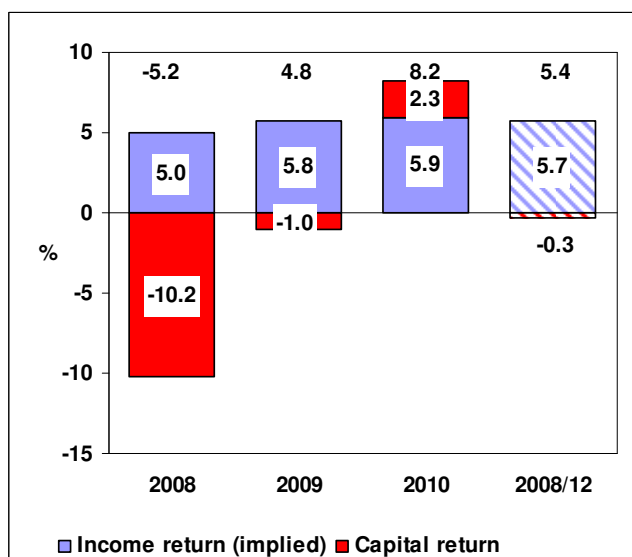
All Property rental value growth forecasts



The all property mean rental growth forecast for 2008 and 2009 fell back further this quarter. Mean rental growth forecasts turned negative for 2009 suggesting a weaker occupier market than previously expected.

Whilst the 2010 figures show signs of an improvement in performance, there is no expectation of a return to above inflation rental growth for the five-year view and these figures are weaker than those polled in Q1 2008.

All Property total return forecasts



The consensus view shows further downward revision to total return forecasts for 2008 as capital growth predictions fall back further.

The more upbeat predictions of the previous two quarters for 2009 have also been scaled back with only 2010 figures showing any marked improvement.

The five year view still shows positive, real total returns at the all property level but these have also fallen, again as a result of lower capital growth forecasts.

All Property survey results by contributor type

(Forecasts in brackets are March 2008 comparisons)

Property advisors and research consultancies (10 contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	3.2	(3.7)	0.9	(2.0)	2.2	(2.9)	-8.0	(-3.8)	2.0	(6.9)	4.8	(5.0)	-3.1	(1.5)	8.0	(13.1)	10.9	(11.1)
Minimum	-2.5	(-1.7)	-4.4	(-3.5)	-1.2	(-0.5)	-13.5	(-12.5)	-6.6	(-5.5)	-0.9	(-0.2)	-9.1	(-8.1)	-0.9	(0.1)	5.6	(6.2)
Range	5.7	(5.4)	5.3	(5.5)	3.4	(3.4)	5.5	(8.7)	8.6	(12.4)	5.7	(5.2)	6.0	(9.6)	8.9	(13.0)	5.3	(4.9)
Median	0.9	(1.5)	-0.1	(1.0)	1.3	(2.0)	-9.2	(-6.5)	0.3	(1.6)	3.5	(3.1)	-4.5	(-1.0)	6.1	(7.3)	9.6	(9.1)
Mean	0.6	(1.3)	-0.7	(0.6)	0.9	(1.7)	-9.9	(-7.3)	-0.6	(1.5)	3.1	(3.0)	-5.1	(-2.3)	5.2	(7.3)	9.1	(8.9)

Fund managers (13 contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	2.0	(2.4)	0.9	(2.0)	1.5	(2.3)	-5.9	(-4.9)	3.4	(4.4)	6.6	(6.2)	-0.5	(0.4)	9.2	(10.4)	12.2	(12.8)
Minimum	-0.6	(0.4)	-2.0	(0.0)	-1.2	(0.2)	-17.1	(-11.0)	-5.3	(-1.6)	-0.3	(-0.3)	-12.2	(-5.7)	0.8	(4.2)	6.0	(5.9)
Range	2.6	(2.0)	2.9	(2.0)	2.7	(2.1)	11.2	(6.1)	8.7	(6.0)	6.9	(6.5)	11.7	(6.1)	8.4	(6.2)	6.2	(6.9)
Median	0.9	(1.3)	-0.8	(0.9)	0.9	(1.6)	-10.0	(-8.1)	0.0	(1.0)	1.5	(2.0)	-5.0	(-3.1)	5.8	(6.1)	7.5	(7.8)
Mean	0.7	(1.4)	-0.5	(0.9)	0.6	(1.4)	-10.5	(-7.9)	-0.5	(0.8)	2.2	(2.3)	-5.4	(-2.6)	5.4	(6.7)	8.2	(8.3)

Equity brokers (4 contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	0.5	(1.0)	0.0	(1.0)	1.5	(2.0)	-6.0	(-4.0)	-1.4	(-1.0)	1.5	(2.0)	-1.0	(1.0)	3.6	(5.2)	6.5	(7.0)
Minimum	-2.8	(-2.5)	-6.9	(-6.1)	-2.2	(-1.7)	-14.0	(-12.0)	-5.9	(-5.7)	-0.3	(-0.2)	-9.0	(-6.7)	0.1	(0.2)	5.0	(6.1)
Range	3.3	(3.5)	6.9	(7.1)	3.7	(3.7)	8.0	(8.0)	4.5	(4.7)	1.8	(2.2)	8.0	(7.7)	3.5	(5.0)	1.5	(0.9)
Median	-1.4	(-0.3)	-2.2	(-1.2)	0.4	(0.5)	-10.0	(-10.4)	-4.0	(-2.0)	0.4	(1.0)	-5.1	(-5.1)	1.0	(3.0)	5.9	(6.7)
Mean	-1.3	(-0.5)	-2.8	(-1.9)	0.0	(0.3)	-10.0	(-9.2)	-3.8	(-2.7)	0.5	(1.0)	-5.0	(-4.0)	1.4	(2.9)	5.8	(6.6)

All forecasters (27 Contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	3.2	(3.7)	0.9	(2.0)	2.2	(2.9)	-5.9	(-3.8)	3.4	(6.9)	6.6	(6.2)	-0.5	(1.5)	9.2	(13.1)	12.2	(12.8)
Minimum	-2.8	(-2.5)	-6.9	(-6.1)	-2.2	(-1.7)	-17.1	(-12.5)	-6.6	(-5.7)	-0.9	(-0.3)	-12.2	(-8.1)	-0.9	(0.1)	5.0	(5.9)
Range	6.0	(6.2)	7.8	(8.1)	4.4	(4.6)	11.2	(8.7)	10.0	(12.6)	7.5	(6.5)	11.7	(9.6)	10.1	(13.0)	7.2	(6.9)
Std. Dev.	1.4	(1.2)	1.7	(1.6)	1.0	(1.0)	2.5	(2.6)	2.9	(2.4)	2.0	(1.7)	2.6	(2.7)	3.0	(2.5)	2.0	(1.7)
Median	0.5	(1.2)	-0.8	(0.9)	0.9	(1.6)	-9.9	(-8.0)	-0.5	(1.2)	1.6	(2.2)	-4.9	(-2.8)	5.1	(6.8)	7.5	(8.0)
Mean	0.4	(1.1)	-0.9	(0.5)	0.6	(1.4)	-10.2	(-7.8)	-1.0	(0.7)	2.3	(2.4)	-5.2	(-2.6)	4.7	(6.5)	8.2	(8.4)

Notes

- Figures are subject to rounding, and are forecasts of All Property or relevant segment Annual Index measures published by the Investment Property Databank. These measures relate to standing investments only, meaning that the effects of transaction activity, developments and certain active management initiatives are specifically excluded.
- To qualify, all forecasts were produced no more than three months prior to the survey.
- Maximum: The strongest growth or return forecast in the survey under each heading.
- Minimum: The weakest growth or return forecast in the survey under each heading.
- Range: The difference between the maximum and minimum figures in the survey.
- 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.
- Mean: The arithmetic mean of all forecasts in the survey under each heading. All views carry equal weight.
- Standard deviation: A statistical measure of the spread of forecasts around the mean. Calculated at the 'all forecasters' level only.

Sector summary

	Rental value growth				Capital value growth				Total return			
	2008	2009	2010	2008/12	2008	2009	2010	2008/12	2008	2009	2010	2008/12
Office	0.1	-2.8	-0.5	0.4	-10.6	-2.7	1.5	-1.0	-5.7	3.0	7.5	4.8
Industrial	0.2	-0.3	0.7	0.7	-10.4	-1.0	1.7	-0.8	-4.8	5.5	8.4	5.7
Standard shops	0.4	0.1	0.8	1.1	-9.4	0.1	2.6	0.0	-4.5	5.7	8.4	5.5
Shopping centres	0.7	0.5	1.5	1.6	-9.2	-0.3	2.3	-0.1	-4.3	5.4	8.1	5.5
Retail warehouse	0.0	0.3	1.7	1.7	-10.9	-0.2	3.3	0.5	-6.3	5.2	8.9	5.7
All Property	0.4	-0.9	0.6	0.9	-10.2	-1.0	2.3	-0.3	-5.2	4.7	8.2	5.4
West End offices	2.1	-1.8	0.6	1.7	-10.2	-1.9	2.3	-0.3	-6.1	3.0	7.6	4.8
City offices	-3.1	-8.1	-2.7	-1.9	-14.1	-7.5	-0.1	-3.4	-9.5	-2.0	6.0	2.3
Office (all)	0.1	-2.8	-0.5	0.4	-10.6	-2.7	1.5	-1.0	-5.7	3.0	7.5	4.8

The 27 contributors to this quarter's forecasts at the All Property level included 11 property advisors, 13 fund managers and 4 equity brokers. Of these, 26 provided sector forecasts. In addition, 22 contributors provided West End office segment forecasts and 21 City office segment forecasts, (9 property advisors, 10 fund managers and 3 equity brokers). Out of the 27 forecasts 4 were updated in March 2008, 8 in April 2008 and 15 in May 2008.

Notes

Consensus forecasts further the objective of the Investment Property Forum to improve the efficiency of the market. The IPF is extremely grateful for the continuing support of the contributors as noted on the last page of this publication. This publication is only possible thanks to the provision of the individual forecasts.

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

The sector figures are not analysed by contributor type, with all figures shown at the all-forecaster level. In the charts and tables 'All Property' figures are for the full 34 contributors while the sector forecasts are for the reduced sample (30) of contributors.

Acknowledgements

The Investment Property Forum wishes to thank the following organisations for contributing to the IPF UK Consensus Forecasts in May 2008:

Property advisors (includes research consultancies): Capital Economics, CBRE, Cushman and Wakefield Healey and Baker, Experian BSL, Fletcher King, GVA Grimley, IPD, Jones Lang LaSalle, King Sturge, Paul Mitchell Real Estate Consultancy, Real Estate Forecasting Limited.

Fund managers: Cordea Savills, F & C Property Asset Management, Goodman Property Investors, HSBC Real Estate Multimanager, ING REIM (UK) Ltd, Invista REIM, Morley Fund Management, Prudential Property Investment Managers, RREEF Ltd, Schroder Property Investment Management, Standard Life, SWIP.

Equity brokers: Exane BNP Paribas, Merrill Lynch, Morgan Stanley and one that wishes to remain anonymous.

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