



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

November 2008: Summary report

Introduction

The Q4 2008 IPF Consensus Forecast reports further downward adjustments in all contributor forecasts for all sectors. All property total return for 2008 is forecast here at -16.8% which does not look unreasonable against the IPD monthly total return figure of -14.4% to end of October. This substantial downward shift over the last three months has been driven by both falling capital and rental value growth forecasts.

The prospects for 2009 have worsened further with total return for all sectors now forecast as negative. All the forecasts were produced in either October or November, i.e. post the banking crisis and at least one interest rate reduction. Where 12 months ago 2009 was expected to be the year of recovery it is now expected to mark the bottom of the market. Furthermore, the bottom of the market is now forecast to be much lower than predicted three months ago.

The 2010 total return forecasts have inevitably been adjusted in line with the significantly poorer prospects for 2009. Whilst 2010 is expected to see positive total returns in each sector, rental value growth remains negative across all sectors. Capital values are also forecast to still be falling in all sectors other than standard shops and shopping centres, albeit less dramatically.

These downward revisions to the forecasts were inevitable in light of sharp reductions in GDP and employment reported in the last three months. The 0.5%¹ fall in GDP reported for Q3 2008 to September marked the first contraction of the economy, as opposed to reduction in level of growth, since the recession of the early 1990's. The HM Treasury² consensus forecast of GDP for 2009 is now -1.1%. The last time UK GDP contracted at this rate was 1990. The slow down of the early 2000's saw GDP fall to below 1%, but it did not turn negative.

The key sectors contributing to this reduction in overall growth were construction, where output fell by 0.8%, production where manufacturing fell by 1%, and services. Business services and finance were big contributors to the deceleration in service sector growth as were distribution, hotels and restaurants. Two sectors showed positive growth: Government and other services and Agriculture forestry and fishing.

The downward trend in employment is continuing with the claimant count rising by 36,500 to 980,900 at the end of October. The unemployment rate has risen to 5.8% in Q3, a 0.4% increase on the Q2 figure. Earnings growth excluding bonuses was stable at 3.6%, substantially below current inflation levels, suggesting a real reduction in earnings over the course of the year. The only thing rising is the average number of hours worked per week by those still in employment.

¹ Economic statistics sourced from the NSO at www.statistics.gov.uk

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

The weaker employment figures and relatively high level of inflation have generated a reduction in the level of retail sales. In August and September total sales volume fell by 0.4% with non-food stores being worst affected. Non-store retailing and repairs rose again, by 12% over the three months to September.

The biggest change over the last quarter has been in the prospects for inflation and hence interest rates. No longer struggling with rising inflation, the spectre of potential deflation has now arisen as output, employment and spending have all fallen. In a matter of weeks we have moved from interest rates cuts being unlikely to seeing the most substantial cuts in a generation. Whilst the cuts were welcome the rapid change of direction illustrates the unpredictable state of the economy which is inevitably unsettling for the markets.

Key points

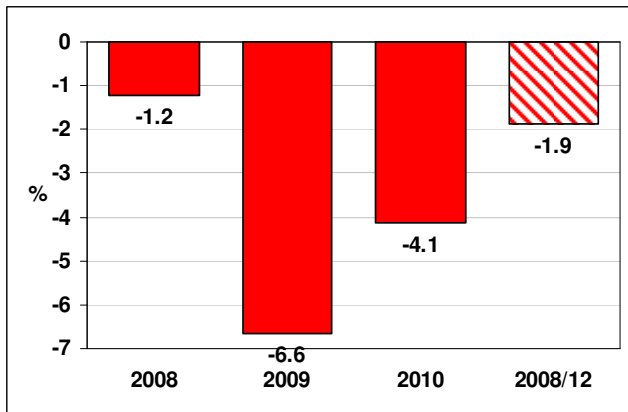
The consensus All Property total return forecast for 2008 has fallen sharply again moving from -10.6% down to -16.8%. The 2009 figure has turned negative for the first time.

- The unusual level of market uncertainty coupled with weakening economic data has seen substantial reductions in all three elements of the 2008 all property forecasts. The 2008 forecast spreads have narrowed as the year end approaches, albeit with one or two outliers.
- Perhaps the more significant change is the sharp reduction in forecast total return for 2009. This has fallen from 0.3% to -5.3% this quarter. The outlook for 2009 has shifted over the course of 12 months from being the expected year of recovery to being expected to mark the bottom of the downturn
- The forecasts for 2010 have also been revised downwards. Whilst 2009 is expected to mark an increasingly low trough in the market, the recovery forecast for 2010 is now looking more sluggish. Total return remains positive for 2010 but against a backdrop of negative capital value and rental value growth figures.

Rental and capital value growth forecasts have been revised downwards for all sectors for all years reported. City and West End office markets are forecast negative total returns for the 5 years from 2008 to 2012.

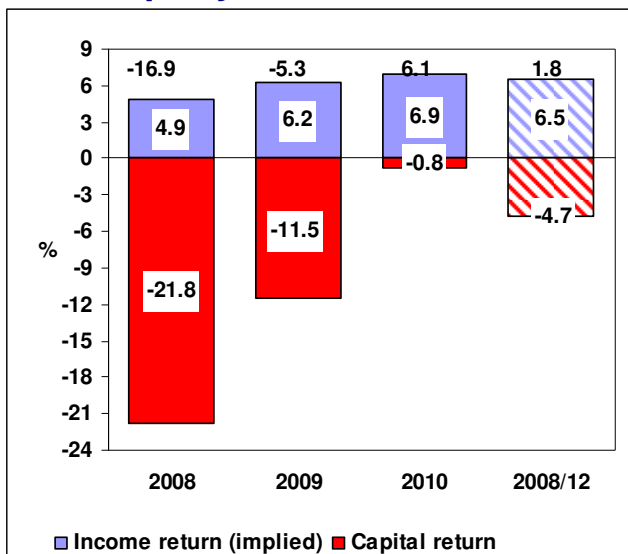
- Rental value growth forecasts for each sector have been reduced for 2009 with West End offices showing the sharpest fall. There appears to be less confidence now that the naturally restricted supply of space in the West End will support this market.
- Capital value growth forecasts have fallen sharply. All sectors have seen substantial downward revisions for 2008 as market conditions have worsened amid economic uncertainty and the extremely limited supply of debt.
- The office sector remains the worst effected with capital and rental value growth moving down again. The 5-year view shows barely positive total return forecasts for the sector.
- All three retail subsectors have suffered significant falls in capital value growth forecasts for 2008 and 2009. The prospect of lower interest rates has failed to make much impression on the outlook for these markets. Retail warehousing is expected to be the worst performing retail sector over the full forecast period.
- 2009 is looking particularly bleak overall. During the three months since August the total return figures have moved from positive in each sector except offices, to forecasting substantially negative total returns for all sectors reported here.
- 2010 remains the year of recovery but from a deeper trough than previously expected. This has inevitably lowered expectations of the speed of recovery and further reduced the expected 5-year performance figures for each sector. West End and City offices are now expected to produce negative returns over the 2008 – 2012 period.

All Property rental value growth forecasts



The All Property rental value growth forecasts have fallen substantially this quarter. The sharp readjustment for 2009 seen last quarter had been repeated with a substantial mismatch between occupier demand and supply of space expected. The forecast for 2010 has also been substantially reduced as economic uncertainty deepens.

All Property total return forecasts



The All Property total return forecasts for 2008 have fallen again, driven by substantial further reductions in forecast capital value growth. The 2009 figures are similarly reduced.

Total return is expected to remain positive in 2010 but driven by an increased implied income return as capital return is now expected to fall in 2010.

The five year outlook for the sector is weak having fallen from 3.5% to 1.8% this quarter.



All Property survey results by contributor type

(Forecasts in brackets are August 2008 comparisons)

Property advisors and research consultancies (11 contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	-0.4	(3.0)	-4.2	(-0.3)	0.8	(0.9)	-19.1	-6.0	5.5	1.8	-19.1	-6.0	-14.4	(-4.4)	0.5	(5.0)	12.0	(13.0)
Minimum	-2.4	(-3.4)	-10.4	(-7.4)	-11.6	(-3.2)	-25.5	-13.7	-11.6	-9.9	-25.5	-13.7	-20.0	(-13.0)	-7.9	(-4.3)	-4.8	(3.7)
Range	2.0	(6.4)	6.2	(7.1)	12.4	(4.1)	6.4	7.7	17.1	11.7	6.4	7.7	5.6	(8.6)	8.4	(9.3)	16.8	(9.3)
Median	-1.0	(-0.7)	-6.5	(-3.1)	-3.1	(0.1)	-20.6	-10.1	0.9	-5.0	-20.6	-10.1	-16.2	(-10.1)	-4.0	(2.7)	7.8	(8.2)
Mean	-1.0	(-0.8)	-6.6	(-2.9)	-3.9	(-0.2)	-21.4	-10.1	-0.4	-4.2	-21.4	-10.1	-16.6	(-10.3)	-3.8	(1.7)	6.5	(8.3)

Fund managers (9 contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	0.1	(1.2)	-2.1	(-1.8)	0.1	(0.1)	-19.2	(-13.3)	-6.0	(-1.2)	3.2	(6.0)	-14.4	(-8.8)	0.6	(4.9)	10.9	(12.7)
Minimum	-3.1	(-2.8)	-10.8	(-5.3)	-12.0	(-4.9)	-24.1	(-20.8)	-20.6	(-14.0)	-6.2	(-1.5)	-21.0	(-15.3)	-14.3	(-7.0)	1.8	(5.5)
Range	3.2	(4.0)	8.7	(3.5)	12.1	(5.0)	4.9	(7.5)	14.6	(12.8)	9.4	(7.5)	6.6	(6.5)	14.9	(11.9)	9.1	(7.2)
Median	-1.1	(-0.5)	-5.4	(-3.1)	-3.2	(-1.1)	-22.2	(-17.4)	-12.0	(-6.9)	-1.0	(2.8)	-16.7	(-11.4)	-4.9	(-1.0)	5.7	(8.3)
Mean	-1.2	(-0.7)	-5.9	(-3.3)	-4.6	(-1.3)	-21.8	(-16.9)	-13.3	(-6.7)	-0.5	(2.2)	-16.8	(-11.4)	-6.8	(-0.9)	6.9	(8.6)

Equity brokers (4 contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	-0.7	(0.3)	-3.0	(-0.5)	0.0	(0.0)	-18.0	(-12.0)	-5.0	(-4.0)	0.0	(0.5)	-12.0	(-7.0)	0.0	(1.0)	6.3	(6.1)
Minimum	-3.7	(-2.9)	-14.6	(-6.9)	-6.3	(-2.2)	-25.9	(-16.5)	-15.0	(-6.0)	-6.3	(-0.5)	-21.5	(-11.0)	-9.0	(-0.5)	-1.9	(4.2)
Range	3.0	(3.2)	11.6	(6.4)	6.3	(2.2)	7.9	(4.5)	10.0	(2.0)	6.3	(1.0)	9.5	(4.0)	9.0	(1.5)	8.2	(1.9)
Median	-2.0	(-2.4)	-8.0	(-3.5)	-4.2	(-0.3)	-23.7	(-12.7)	-12.6	(-5.0)	-1.5	(-0.2)	-18.3	(-8.2)	-7.0	(0.4)	4.8	(5.5)
Mean	-2.1	(-1.9)	-8.4	(-3.6)	-3.7	(-0.7)	-22.8	(-13.5)	-11.3	(-5.0)	-2.3	(-0.1)	-17.5	(-8.6)	-5.7	(0.3)	3.5	(5.3)

All forecasters (24 Contributors)

	Rental value growth						Capital value growth						Total return					
	2008		2009		2010		2008		2009		2010		2008		2009		2010	
Maximum	0.1	(3.0)	-2.1	(-0.3)	0.8	(0.9)	-18.0	(-9.4)	-5.0	(-1.2)	5.5	(6.5)	-12.0	(-4.4)	0.6	(5.0)	12.0	(13.0)
Minimum	-3.7	(-3.4)	-14.6	(-7.4)	-12.0	(-4.9)	-25.9	(-20.8)	-20.6	(-14.0)	-11.6	(-3.0)	-21.5	(-15.3)	-14.3	(-7.0)	-4.8	(3.7)
Range	3.8	(6.4)	12.5	(7.1)	12.8	(5.8)	7.9	(11.4)	15.6	(12.8)	17.1	(9.5)	9.5	(10.9)	14.9	(12.0)	16.8	(9.3)
Std. Dev.	1.0	(1.4)	2.8	(1.7)	3.2	(1.3)	2.2	(2.6)	3.9	(3.0)	3.6	(2.1)	2.4	(2.4)	3.9	(3.1)	3.9	(2.2)
Median	-1.0	(-0.7)	-6.5	(-3.1)	-3.6	(-0.4)	-22.1	(-16.0)	-11.5	(-5.0)	-1.1	(1.8)	-16.9	(-10.6)	-4.8	(0.5)	5.9	(8.0)
Mean	-1.2	(-0.9)	-6.6	(-3.2)	-4.1	(-0.8)	-21.8	(-15.7)	-11.5	(-5.5)	-0.8	(1.8)	-16.8	(-10.6)	-5.3	(0.3)	6.2	(8.0)

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: means

	Rental value growth				Capital value growth				Total return			
	2008	2009	2010	2008/12	2008	2009	2010	2008/12	2008	2009	2010	2008/12
Office	-2.8	-10.3	-6.2	-3.4	-22.6	-13.3	-2.3	-5.8	-17.8	-7.3	4.5	0.5
Industrial	-0.5	-4.7	-3.0	-1.4	-20.9	-10.2	-0.6	-4.6	-15.4	-3.3	7.0	2.6
Standard shops	0.2	-4.2	-3.1	-0.8	-19.4	-9.4	0.4	-3.2	-14.3	-3.4	6.9	2.9
Shopping centres	0.0	-3.6	-1.9	-0.2	-21.4	-9.5	0.5	-3.8	-16.6	-3.4	7.1	2.3
Retail warehouses	-0.6	-4.7	-2.7	-0.6	-23.0	-10.5	-0.3	-4.5	-18.4	-4.7	6.3	1.6
All Property	-1.2	-6.6	-4.1	-1.9	-21.8	-11.5	-0.8	-4.7	-16.8	-5.3	6.2	1.7
West End offices	-3.2	-12.0	-6.2	-3.4	-22.9	-15.4	-1.4	-5.7	-19.0	-10.5	4.3	-0.6
City offices	-6.9	-15.1	-8.3	-5.3	-25.2	-15.4	-2.8	-6.9	-20.7	-9.7	3.8	-0.8
Office (all)	-2.8	-10.3	-6.2	-3.4	-22.6	-13.3	-2.3	-5.8	-17.8	-7.3	4.5	0.5

The 24 contributors to this quarter's forecasts at the All Property level include 11 property advisors, 9 fund managers and four equity brokers. Of these, 23 contributors provided sector forecasts and 19 provided West End and City office segment forecasts (10 property advisors, 6 fund managers and 3 equity brokers). All forecasts were produced in either October (10) or November (14) for this edition. This edition of the IPF UK Consensus Forecast also contains a property derivatives price curve for information purposes.

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 24 contributors while the sector forecasts are for the reduced sample (23) of contributors.

Acknowledgements

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

Property advisors (includes research consultancies): AtisReal, Capital Economics, CBRE, Colliers CRE, Cushman and Wakefield, Experian BSL, Fletcher King, GVA Grimley, Jones Lang LaSalle, Paul Mitchell Real Estate Consultancy, Real Estate Forecasting Limited and one that wishes to remain anonymous.

Fund managers: Aberdeen Property Investors, Aviva Investors, CBRE Investors, Cordea Savills, F & C Property Asset Management, HSBC Real Estate Multimanager, ING REIM (UK) Ltd, Invista REIM, La Salle Investment Management, PRUPIM, RREEF Ltd, Standard Life, SWIP.

Equity brokers: Exane BNP Paribas, Nomura International Plc, Morgan Stanley and one that wishes to remain anonymous.

Disclaimer

The IPF Survey of Independent Forecasts UK Property Investment is for information purposes only. The information therein is believed to be correct, but cannot be guaranteed, and the opinions expressed in it constitute our judgment as of the date of publication but are subject to change. Reliance should not be placed on the information and opinions set out therein for the purposes of any particular transaction or advice. The IPF cannot accept any liability arising from any use of the publication.

Copyright

The IPF makes Consensus Forecasts available to IPF members, those organisations that supply data to the forecasts and those that subscribe to them. **The copyright of Consensus Forecasts belongs to, and remains with, the IPF.**

You are entitled to use reasonable limited extracts and/or quotes from the publication in your work, reports and publications, with an appropriate acknowledgement of the source. It is a breach of copyright for any member or organisation to reproduce and/or republish in any printed or electronic form the whole Consensus Forecasts document, or substantive parts thereof, without the prior approval of the IPF. Such approval shall be on terms at the discretion of the IPF and may be subject to the payment of a fee.

Electronic copies of Consensus Forecasts may not be placed on an organisations website, internal intranet or any other systems that widely disseminate the publication within a subscriber's organisation, without the prior approval of the IPF. Such approval shall be on terms at the discretion of the IPF and may be subject to the payment of a fee.

If you or your organisation wishes to use more than a reasonable extract from Consensus Forecasts or reproduce the publication, contact the IPF in the first instance. Address enquiries to the IPF Research Director at lellison@ipf.org.uk.