

2016

# PROPERTY OUTLOOK

Carter Jonas



## MARKET SUMMARY

- Returns for **Commercial Property** will reach 8.8% in 2016, as the rate of capital growth declines sharply on 2015
- For most sectors, **income** will take over as the main driver of returns
- Investors will need to rely increasingly on **asset management** to deliver outperformance
- **Central London offices** will outperform, followed by Industrial
- **Retail** is forecast to lag behind, but out-of-town retail parks are expected to perform well
- Total returns for **Rural property** are expected to reach 9% on the back of steady capital growth
- **Residential** will see total returns of 7-8%, with higher-yielding markets outside London generally performing better

## RESEARCH BY CARTER JONAS SUGGESTS THAT TOTAL RETURNS FOR **COMMERCIAL PROPERTY WILL AMOUNT TO 8.8% IN 2016, AGAINST RETURNS OF 13.4% FOR 2015, WITH OFFICES AND INDUSTRIAL OUTPERFORMING THE WIDER MARKET.**

However, with yields now at or approaching their previous peaks, income will be the main driver of returns and investment strategy will need to focus increasingly on adding value through asset management.

The forecasts reflect a relatively positive economic outlook for the UK in the next twelve months, although the prospect of higher interest rates and a degree of uncertainty surrounding the UK's position in the EU may dampen investor sentiment.

The **London office market** remains particularly strong and will continue to outperform in 2016. While further significant yield compression is unlikely as prime yields are now lower than their previous peak, strong rental growth is still likely to push total returns to near double digits as availability continues to fall.

However, there is a growing sense that parts of Central London are expensive and growth will shift more

towards emerging locations such as Victoria, Battersea and Stratford.

Most **regional CBD office markets** have had a good year – especially Birmingham and Manchester – a trend which is expected to continue into 2016. With development yet to pick up significantly and steady occupier demand across the board, next year is likely to see solid rental growth and a further, albeit marginal, hardening in yields.

**Industrial** continues to go from strength to strength, as retailers realign their distribution networks to cater for the growth in online retailing. Typically, well-located logistics units offer a combination of still relatively high yields and low rents, providing the opportunity for gains through rental and capital growth.

In the **retail sector**, London shows little sign of slowing, as the capital's major thoroughfares such as Bond

Street and Oxford Street continue to set new benchmark rental levels on the back of a constant stream of incoming international retailers. Across the wider retail arena, the out-of-town market is expected to outperform high street shops and shopping centres, with rental growth for big boxes expected to accelerate in the coming year.

For the **rural sector**, our total return forecasts of 9.0% reflect a lower, and more sustainable, rate of capital growth in 2016, with the income return remaining minimal at circa 1.0%. Despite this moderation, land remains a safe haven amongst the typically more volatile commercial and residential property sectors.

In the **residential market**, weak capital value growth in most parts of the country means that rental income will make up an increasing proportion of total returns. A growing number of investors are responding to this shift by



re-focussing their attentions towards property benefitting from higher rental yields, resulting in increased activity in regional towns and cities benefitting from favourable demographics.

In **London's housing market**, a greater reliance on demand from domestic buyers will result in the uncommon scenario of affordability constraints affecting prices in the near-term, while the Prime Central London market is expected to see modest rental and capital value growth against relatively flat levels of employment and remuneration growth in the financial services sector.

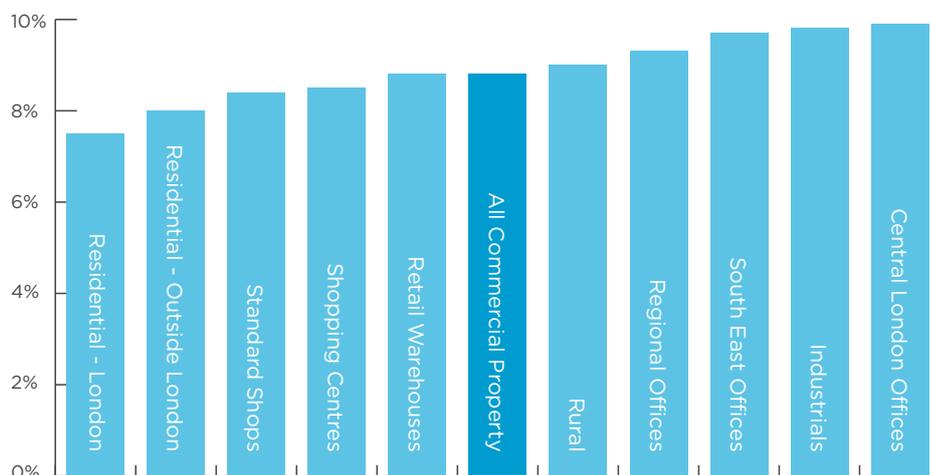
**Specialist property** meanwhile is seeing more interest and activity and student accommodation, healthcare, hotels and car dealerships are now seen as mainstream rather than "alternative".



## THE FORECASTS REFLECT A RELATIVELY POSITIVE ECONOMIC OUTLOOK FOR THE UK IN THE NEXT TWELVE MONTHS...

Total return forecasts for 2016

Source: Carter Jonas





## 36 OFFICES ACROSS THE COUNTRY, INCLUDING 12 IN CENTRAL LONDON

Bangor	Leeds
Basingstoke	Marlborough
Bath	Newbury
Boroughbridge	Newbury - Sutton Griffin
Bury St Edmunds	Northampton
Cambridge South	Oxford
Cambridge North	Peterborough
Cambridge Central	Shrewsbury
Cambridge - Sawston	Suffolk
Edinburgh	Wells
Harrogate	Winchester
Kendal	York
National HQ One Chapel Place	Hyde Park & Bayswater
Barnes	Knightsbridge & Chelsea
Barnes Village	Marylebone & Regent's Park
Fulham Bishops Park	Mayfair & St James's
Fulham Parsons Green	Wandsworth Common
Holland Park & Notting Hill	Waterloo

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