REAL ESTATE MARKET FORECASTS POSITIVE
- Rental growth set for at least five years -
- 33% of investment outside of London now from overseas sources -
- Real estate is the 3rd most productive industry between 2008 and 2013 -

Strong rental growth is predicted to return in all sectors by 2016, according to forecasts from BNP Paribas Real Estate, with 2015 forecasted as the best year for total returns for both retail and offices, returning just under 12%.

The leading international real estate adviser launched its research at its autumn Capitalise event for investors, in which BNP Paribas’ chief UK economist, David Tinsley, also shared his economic outlook for the UK and European economies.

During the event, BNP Paribas Real Estate’s UK CEO, John Slade stated: “In our earlier Capitalise event in January, we said that 2013 will see investment in the regions, M25 stock which is well let to strong covenants to remain at the top of institutional investors’ wish list and that there would be continuing global investment into residential. We were correct on all of these forecasts and we expect these trends to continue. However, the lack of occupational supply will lead to pricing and rental growth, and because of London’s continuing strength, we will see even further investment into the regions as well.”

Central London as a whole has accounted for around 47% of total UK investment so far this year, at circa £12bn. Nearly two-thirds of this was spent on the office sector and a further 20% on mixed use assets. Overseas demand has continued to bolster transaction volumes, with 50% of Central London investment coming from abroad, and nearly a fifth from Far Eastern investors alone. Thanks to the ongoing strength of London, this foreign money is now also investing more in the regions. Outside London, a total of £14bn has been invested so far, with a third of that sourced from overseas. North American investors continue to be among the heaviest foreign investors into the regions, although Middle Eastern money has also increased and now outstrips investment from Europe.

Slade continued: “This year, we expect a small improvement in total UK investment volumes, up to around £35.5bn from £33.5bn last year.”

BNP Paribas Real Estate’s head of research, Claire Higgins, said: “London will still finish ahead of the pack this year in terms of performance, with Central London retail, West End offices and City
offices expected to be the winners in terms of total returns with 13%, 10% and 8.7% respectively. We also anticipate other markets picking up by the end of this year, with logistics returning over 9%, just ahead of supermarkets. Industrial across the country is set to pull ahead of regional office and retail markets, with national standard industrials returning 7.3%. We are forecasting a total return to all property of 6.6% in 2013.”

Looking further ahead, London office prime rents have already recovered substantially and by 2015, BNPPRE expects them to have recovered to pre-recessionary highs (West End £120 per sq ft and City £62.50 per sq ft). For average net effective rents, the leading adviser predicts even stronger growth, with the early 2008 peak expected to be surpassed by the end of next year and further growth anticipated during 2015 (West End £46 per sq ft and City £40.25 per sq ft).

“Across the coming five years to 2017, we expect the national recovery to drive other markets to catch up to London. We are forecasting that South East offices will also provide strong returns closely followed by logistics and shopping centres, rather than Central London alone,” Higgins added.

On the wider economy, BNP Paribas’ David Tinsley outlined that the UK’s economic position looks better, with momentum not set to fade in the short-term. The UK has had better growth than other countries but the level of output is still below the pre-recession peak and it is still some way behind Germany, US and even France. However, it should pull ahead of the rest of Europe going forwards. Encouragingly, in the UK, real estate was the third most productive industry between 2008 and 2013, behind transport equipment and ‘other services’.

He warned of UK economic challenges including the referendum on the EU by 2017 and the need to protect our strong current position on exports to Europe and Euro FX trading whatever the outcome. Wider European challenges include the ongoing programmes in Portugal and Greece to reduce deficits and plug funding gaps, the German general election and the Italian senate vote on Berlusconi.

Slade concluded: “Events such as Capitalise allow us to utilise the Bank’s economic knowledge and combine it with our real estate expertise – we are the only property adviser to be in a position to offer such a service. It enables us to provide the wider picture for our clients and incorporate external factors rather than just focusing on real estate.”

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About BNP Paribas Real Estate

BNP Paribas Real Estate, leading international real estate provider, offers to its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 34 countries with more than 180 offices and 3,300 employees (17 wholly owned subsidiaries and 17 by its Alliance network, that represents today more than 3,000 people).
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For more information: www.realestate.bnpparibas.com

Press contact:
Alex Shah (née Tucker), UK Press Officer – Tel: +44 (0) 207 338 4086 / alex.shah@bnpparibas.com