ST BRIDE'S MANAGERS

Bull and Bear

Performance

This week, Bull and Bear discuss the performance of UK property in 2020 plus cast their minds towards what may lie ahead.

Bull: Bonjour Monsieur L'Ours. Ça va?

Bear: Er. Excuse me? What on earth has got into you this morning?

Bull: It's Valentine's Day, remember? A day when we all have the chance to celebrate romance, love, friendship and admiration. Nobody does all that stuff better than the French, so I thought I'd pretend to be French for the day.

Bear: There it is. *The* final piece of evidence that this latest lockdown has sent you loopy. You don't sound French. You don't look French. In fact, you sound more like Del Boy than David Ginola.

Bull: That's a bit harsh.

Bear: Valentine's Day is just a marketing scam anyway. Life is hard enough already without having to celebrate this gimmick of a day. The only upside, I suppose this year, is that I won't have to have that over-priced set-menu dinner with Mrs Bear at our local establishment this evening. Talk about a cringe-worthy occasion.

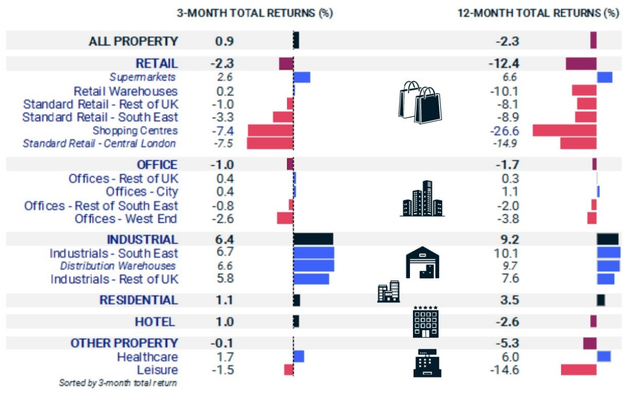
Bull: You are such a misery guts. You had a face like thunder on Monday morning when we attended the MSCI Q4 2020 Results webinar. I watched you sulk your way through the whole event.

Bear: That was simply the face of someone genuinely distressed at what we were hearing. It was sobering, didn't you think?

Bull: Not really. The results were hardly surprising. If anything, I was rather pleasantly surprised. And Friday's announcement by the ONS that the UK economy had suffered a record annual slump of 9.9% had been well rehearsed too.

Bear: Come on. 2020 was *annus horribilis* with the All Property Total Return coming in at a disastrous -2.3% pa. And it would have been so much worse had some parts of the market not bounced back in the final quarter.

Property Performance to 31 December 2020



Source: MSCI, February 2021

Bull: And there you have it. Right there. The market *did* bounce back. More rent was being collected, more deals were being transacted and valuers had discarded their uncertainty clauses.

Bear: Maybe, but this latest lockdown is doing my head in. How I long for a return to those pre-COVID days!

Bull: You and me both. But the signs are encouraging, not just with the vaccination programme numbers but also with the Q4 2020 performance figures. The total quarterly return for All Property was 0.9%, the highest quarterly return figure of the year, and the highest quarterly return since September 2018.

Bear: I guess that was encouraging, but the headline number masks the performance of a number of sectors. For example, the retail figures were catastrophic.

Bull: Yes, a whopping -12.4% pa total return for All Retail in 2020. Shopping Centres, in particular, had a complete 'mare with capital values falling by over 30% and a total return of -26.6% pa.

Bear: I nearly fell of my chair when I heard those numbers, although, perhaps in hindsight, I shouldn't have been surprised. After all, the retail sector has now experienced continued negative rental growth in each of the last thirty months. In 2020 alone, All Retail recorded -9.4% pa rental growth. That's the worst figure ever recorded.

Bull: But it wasn't all doom and gloom, was it? Industrials continue to sparkle.

Bear: It doesn't 'bear' thinking about where the performance numbers would have been without them.

Bull: I can't argue with you. Industrials delivered a total return of 9.2% pa in 2020, with the South-East reaching double digits (10.2% pa). And the sector now makes up about 25% of the index by capital value.

Bear: But none of the other sectors came anywhere close to those level of returns.

Bull: That's not quite true. Healthcare delivered 6% pa, and, under the circumstances, Residential delivered a respectful 3.5% pa return for the year.

Bear: But aside from those three, all the other sub-sectors delivered negative numbers.

Bull: There certainly was plenty of red ink on the screen.

Bear: I was surprised that Offices delivered a total return of -1.7% pa. Given all the noise about the potential death of the office and the fact that most businesses have hardly used their space for nearly a year now, I was envisaging something far worse.

Bull and Bear

Performance

Bull: The office sector is proving quite resilient, although it would be remiss of me not to mention the capital value loss of -5.5% pa. However, the signs are encouraging. Average office rental values were stable at 0.0% and total returns were 0.1% in January.

Bear: Maybe, but what about Leisure and Hotels? Their performance, or should I say 'non-performance' last year was eye-wateringly ghastly. The total return was -14.6% pa and there's plenty more pain to be inflicted. Mark my words!

Bull: I guess so. The sooner we are allowed back to restaurants, the cinema, bingo halls and bowling alleys the better. I am expecting to hear good news on that front from Boris in the next few weeks.

Bear: I would be much more cautious if I were you. The last thing we want is a third wave. I'm still expecting 2021 overall to be similar to 2020 especially for the likes of tourism and hospitality.

Bull: Maybe, but I did take some comfort from Monday's MSCI's session, which was then reinforced at CBRE's Monthly Index Webinar on Thursday morning. In Q4 2020, All Property delivered its highest total return since September 2018 at 0.9% pa. And, as for how 2021 has begun, at the All-Property level, capital values decreased by only 0.1% in January, rental values were flat and total returns were 0.4%. We are back in positive territories again my dear friend.

UK Property Monthly Index Results - January 2021			
	Total Return (%)	Capital Value Growth (%)	Rental Value Growth (%)
All Property	**0.4**	**-0.1**	**0.0**
Offices	0.1	-0.3	0.0
Retail	0.0	-0.6	-0.2
Industrial	1.0	1.0	0.1

Source: CBRE

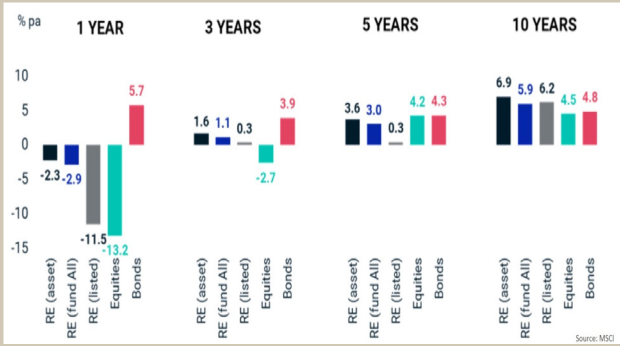
Bear: However, will it last? That's *the* million-dollar question. And compared to bonds last year, which delivered a really juicy 5.7%, property was really disappointing.

Bull: But it absolutely thrashed equities which were a lamentable -11.5%. And remember, property is a long-term play. The MSCI numbers again prove it.

Bear: Maybe.

Bull: Not maybe. Definitely. Relatively, property's performance has been more than credible over the past three and five years and over a ten-year timeframe it has been the top performer - delivering 6.9% pa. Find me an investor who would not bite your paw off for that now.

Total Returns from Main Asset Classes



Source: MSCI

Bear: Fair enough, but the IPF UK Consensus Total Return Forecast at the end of last year for 2020-2024 was for only 3.3% per annum.

Bull: Hmm. And what about for 2021?

Bear: 1.5%, with sector forecasts ranging between -4.2% (Shopping Centres) and 5.8% (Industrials).

Bull: But you need to remember that the survey was carried out between September and early November. A lot, and I mean a lot of water has passed under the bridge since then. It will be fascinating to see how sentiment may have changed when the next consensus forecast is released in a couple of weeks' time. I am expecting the word 'uncertainty' to feature rather heavily in the report.

IPF Consensus Total Return Forecasts			
Sector	2021 (%)	2022 (%)	2020-2024 (%)
Office	1.2	8.3	4.1
Industrial	5.8	8.8	6.4
All Retail	-3.8	5.0	-0.7
All Property	**1.5**	**7.1**	**3.3**

Source: IPF, Autumn 2020

Bear: Yes. At least we will have had the opportunity to read the report by the time we are asked by St Bride's Managers to give our 2021 prediction in March.

Bull: Absolutely. Plus, by then Boris should have announced his route-map out of this tedious lockdown and we may all have some greater clarity on what lies ahead.

Bear: Fingers crossed. Anyway, I must dash. Mrs B is expecting some over-priced flowers and I'm worried the petrol station may have sold out. Have a good week. See you next Sunday.