

Capital Economics predicts rise in commercial deal activity

Commercial property transactions appear to have found a floor with evidence activity levels will improve in coming quarters, says Capital Economics.

The research firm said the higher degree of activity will push yields lower, generating a total return this year that is less negative than existing forecasts.

Property economist Kelvin Davidson said: "There are increasing signs that activity levels in the commercial property investment market have stopped falling.

"On a 6-month moving average basis (which smoothes volatility and reduces the influence of any seasonality in the data), figures from Propertydata.com show that the value of transactions has been stable at around £1.4bn per month since late last year.

"It does seem probable that the volume of commercial property transactions will increase over the coming quarters, even if the improvement is modest in scale."

Davidson said pooled property funds may well start to spend the net inflow of new money received from retail investors in Q2, and listed property companies' recent fundraisings will also find their way into the market.

"A number of UK institutional investors are also reported to be poised to re-enter the market," he added.

Davidson said the correction in capital values could have finished "making our existing total returns forecast for this year (-18%), and that of the IPF Consensus (-15%), look too downbeat".

"Indeed, broadly flat capital values combined with decent income returns could instead be enough for total returns to be a less dramatic -7% this year, and then a solid +6% in 2010."