Press Cutting

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2020: hopes, fears and predictions

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EG asked the industry to look into a crystal ball and assess its prospects for the year ahead…

Retail


David Atkins, Hammerson

David Atkins, chief executive, Hammerson: “I expect retail to remain challenging in 2020 as brands come to terms with the structural changes we’re seeing in the sector, as well as cost pressures from things like business rates, although some progress on Brexit would help to improve consumer confidence. The main trends that we’ve seen this year will continue, with consumers increasingly looking for an experience when they go shopping, combining retail with a meal or a trip to a leisure offer. The sector will become more polarised, as both brands and consumers focus on the very best locations.”

Andrew Jones, chief executive, LondonMetric Property: "We expect online non-food retail sales to increase to at least 30% [of total non-food retail sales], so it is fair to assume the UK is oversupplied with retail space by around 30%. Therefore rents in the retail space will need to fall by at least 30%. This isn't a perfect correlation, but I don't think it is too far away. Logistics real estate is a direct beneficiary of this shift online. Historically there has been very little rental growth in warehouse rents and so there is no affordability issue in the same way that physical retail is suffering from."

David Ebbrell, chief executive, M7 Real Estate: "Retail, an area of opportunity but with a health warning, is not dead. However, for retail to survive, it either must be an experience, or highly convenient for customers. Retail warehousing is highly convenient, with true last mile locations and excellent car parking. It is an asset class that has similar physical characteristics to last mile logistics, which is seeing inverted pricing to retail warehousing. Given the flexible characteristics of this asset class, and the continued appeal of what are essentially enhanced planning designated warehouses to both consumers and omni-channel retailers, the pricing reduction appears to be a case of the blanket tarnishing of retail, making it an asset class to watch."

Peter Ferrari, chief executive, Ashby Capital: "Retail property will continue to be a turbulent subsector of the market, but there will be significant opportunities in 2020 and the years that follow for investors with the knowledge, time and energy to transform retail assets and rework difficult portfolios."

Offices

Gordon Aitchison, director of investment and development, L&G: "At most investor meetings we ended up talking about Brexit or WeWork or both. I fear, despite the scale of the Conservative victory, 2020 will be little different. Of more importance will be the continuation of what WeWork represents: a structural shift toward flexibility and service between owner and occupier. Partnerships, management contracts and fit-out options will blur the lines between 'flexible space' and just 'good space'."


Barings' Charles Weeks

Charles Weeks, head of real estate equity, Europe and Asia Pacific, Barings: "A near post-GFC development hiatus means chronic shortages of modern office space exist in many markets, including the UK. Although the WeWork hype is already subsiding, the two office sector risks that investors need to be mitigated are managing shortening lease lengths and avoiding locations where the working-age populations will begin to shrink."

Neil Sinclair, chief executive, Palace Capital: "We envisage that there will be an increase in the appetite for speculative office development in key regional cities as well as in some cities where it has not as yet been undertaken since the previous financial crisis. Increased graduate retention across major northern cities like Liverpool, Leeds and Manchester will continue to underpin regional office demand as more and more office occupiers such as Channel 4 and TalkTalk relocate north from London, to take advantage of this expanding skilled labour workforce."

Yuichiro Shioda, chief executive, Mitsubishi Estate London: "For developers, pushing the button on a new scheme means staring into a crystal ball to determine what space will be needed in three years' time or more. Is the market for flexible workspace as large as previously thought? Will new working patterns change the floorplate requirements of major corporate occupiers? What facilities will be demanded by workers as the competition for talent intensifies? The answers to these questions will shape London for years to come."

Simon Price, real estate partner, Linklaters: "When you compare the 4% plus prime yields in London to equivalent values in key European cities – where the demand throughout 2019 was intense – it is likely that a pent-up demand for UK offices will see overseas investors flooding back into the market in 2020. We expect to see higher levels of development as the supply of large-scale buildings looks constrained over the next few years."

Residential

Helen Gordon, chief executive, Grainger: "We see good prospects for the build-to-rent sector, shaped by a number of factors: a more certain political picture, a strong labour market and high wage growth, coupled with a continued growth in demand and an ongoing supply imbalance in the PRS. Despite the Conservative Party's commitment to drive home ownership, they have been supportive of BTR previously, and we don't believe this will change."

Tracey Hartley, head of residential, Howard de Walden Estate: "It's likely we'll see more co-living providers entering the UK market, offering flexible, short-term leases and the opportunity to live as part of a community with all bills covered in the price. This is the newest asset class to the sector, so it remains to be seen whether or not it'll prove successful in the long run. Certainly, the benefits that are being offered are something that the PRS will look to accommodate, where possible, in order to remain competitive."

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– Helen Gordon, Grainger

Graham Bates, senior director for strategy (Europe), LIV Group: "Investment in the BTR sector to date has been dominated by just a handful of large institutional investors. In 2020, we will see the emergence of new investment groups committing to the sector due to rising demand for the product and as Brexit uncertainty recedes. Furthermore, overseas investment from the US and mainland Europe will be competing for the most attractive schemes. This will not only be in London, but in other parts of the country, such as Birmingham, Leeds and Manchester, where some of the best yield returns are."

Mark Pollack, director and co-founder, Aston Chase: "There is little doubt that a Boris Johnson-led Conservative government for the next five years will prove to be a huge boost to the residential property market in London given the political stability this affords and the greater likelihood of Brexit finally 'getting done', allowing private individuals and investors alike to get on with planning their lives for the immediate future."

David Woodward, chief executive, Global Apartment Advisors: "It is clear from the client engagement requests we are receiving that the BTR sector in the UK is entering the 'operational phase', where investors are turning more of their attention to who will operate their assets and how they will be operated. A related trend is that the large investors are evaluating setting up in-house property management divisions. This is a trend that we did not see in the US over the past few decades as there have been so many good third-party property management options that institutional investors have not had to set up their own property management groups."

Deals and investment


AXA's Isabelle Scemama

Isabelle Scemama, chief executive, AXA Investment Managers – Real Assets: "We expect that allocations to real estate and infrastructure assets will continue to rise, despite the perceived lateness in the cycle. A key driver of this is the ongoing low, and in some cases negative, interest rates set by the central banks amid concerns of a global economic slowdown, further increasing the attractiveness of real assets as alternative sources of income for investors."

Jonathan Hollick, chief investment officer, EMEA, UBS-Asset Management REPM: "In the UK we had hoped we might see a bit of a bounce in activity early in 2020, with the returns available in central London in particular looking attractive compared to other core European markets. Foreign buyers sat on the sidelines in 2019 and, while some of these may now have sufficient confidence to recommence investment activity, obstacles remain; the new Conservative government has already moved to make it impossible to extend the transition period beyond the end of 2020, meaning next year may end up in another cliff-edge scenario which could go against the UK market."

David Sleath, chief executive, SEGRO: "I believe that we will remain in a 'lower for longer' environment, as it is difficult to see what will make interest rates rise in the near future. With that in mind, yields for well-let industrial property will continue to make it an attractive home for global capital in 2020."

Nick Braybrook, head of London capital markets, Knight Frank: "Emboldened by the renewed sense of certainty following the election result and, with Brexit uncertainty beginning to ease, investors are poised and ready to return to London. With this in mind, we remain bullish on where prices will go into the new year. We expect a strong occupier market, rising rents coupled with the currency advantage and attractive yields to encourage that resurgence of demand."

Chris Taylor, head of private markets, Hermes Investment Management: "We continue to remain cautious about the level of real estate pricing in absolute terms given the continued profound structural changes affecting the fundamentals of occupational demand;

for many investors, of course, the positive yield gap between real estate and bonds continues to support the investment case for relative value, which has arguably created a real assets bubble.”

Scott Tyler, senior partner, Allsop: “With the greater clarity we now have following the General Election, I expect investors and occupiers who were sitting on the fence to act, boosting investment and leasing volumes in 2020. This particularly applies to overseas investors, who were not only concerned about Brexit but the Corbyn factor. We expect good interest from Germany, US, Far East and the Middle East.”

Sustainability and social impact

Jess Berney, fund manager, Schroder UK Real Estate Fund: “ESG and impact investment are sure to have an even greater significance across real estate in 2020. Occupiers are a lot more aware of climate change and as such we have already seen an increase in demand for space with good sustainability credentials, and health and wellbeing considerations at the core.”

Matthew Weiner, chief executive, U+I: “I expect to see more focus on social impact, not just environmental. The industry doesn’t do a brilliant job of highlighting the positive social impact it has. Investors are facing pressure from their own backers on what they are doing on this front, [so] they turn to us to ask us what we are doing. There will be a growing swell of capital that takes ESG beyond just greenwashing and ticking boxes, to looking for real social impact.”

James Stevens, head of development, Aviva Investors: “Truly embedded ESG practices, and specifically a consideration of more sustainable forms of construction, will become more commonplace and an expectation from all stakeholders who interact with real estate. It could be the year that the use of structural timber gains acceptance in commercial construction.”

Dan Grandage, head of ESG, real estate, Aberdeen Standard Investments: “With the increased focus on ESG related issues, notably climate resilience and net zero trajectories, I predict that we will start to see these issues being accounted for in fund cashflows/valuations in earnest. The market has been slow to genuinely account for ESG risks in valuations but I expect that in 2020 this will start to filter through. This has the potential to be transformational in terms of the assets we hold, how much we are willing to pay for them and who is holding the ‘carbon hot potato’ when market pricing catches up.”

David Workman, senior partner, Workman: “This year will be a proving ground for the value of property management and building consultancy advisory alike in delivering the collective push towards carbon reduction and net zero targets, helping clients navigate uncharted territory. Make no mistake, it will be one of the biggest challenges for our sector."

Technology


Jo McNamara, Oxford Properties

Jo McNamara, head of Europe, Oxford Properties: "Collecting, synthesising and analysing data is at a nascent stage in our industry. Leading real estate firms are deploying substantial capital to figure out how to centralise the millions of pieces of data they collect. 2020 will be the year some firms solve this conundrum and, through grinding data, will be able to extract more value from their portfolio, improve the customer experience and make investment decisions with richer, more insightful analysis."

Charlie Green, co-founder, The Office Group: "Technology will continue to evolve and become more widespread, with data being increasingly captured to better inform how we design and operate buildings. One ambition for the entire industry should be to drive efficiencies through technology in energy use and cut costs across the board."

Ross Blair, senior managing director, Hines UK: "More technology which today feels embryonic will become second nature. Developers will be forced to work out how to work this into buildings in a way that allows the tech to be updated in the future as it continues to evolve. I expect to see a widening gap between the best buildings (outperforming) and the rest of the pack (which will not)."

Niall Gaffney, chief executive, IPUT: "The impact of digital technology on global real estate will continue. The collection and application of data will grow, and investors will become increasingly interested in having more granular detail on the sustainability profile of their investments in both direct and indirect real estate. Ultimately, to stay relevant in 2020, developers and owners of office space must be as innovative as our most disruptive technology occupiers."

Charlie Wade, managing director, UK, VTS: "As more sophisticated players enter the market, it will create a natural divide in the proptech start-ups that receive funding. This will be largely a split between the smaller proptech start-ups that might provide a specific solution but aren't necessarily scalable, and the larger scale-ups with proven clients, high adoption and an established roadmap for the future. These more serious global investors will look toward the latter when making investment decisions in the UK proptech space."

Political priorities

Andy Street, mayor of the West Midlands Combined Authority: "I will be pushing the government to overhaul the current archaic business rates system, while also making the case for more funding to remediate old brownfield land sites so they can be used for housing. Our brownfield-first policy is working, as we are building record numbers of homes while protecting the greenbelt. However, we are evidently not building enough affordable homes and I will be talking to the government about the West Midlands securing an affordable housing deal like the one in place in London."

Guy Nixon, chief executive, Native: "To repay their voter base, the Conservative Party will focus their efforts on areas beyond Labour-dominated London. There will be substantial infrastructure investment planned in the northern regions and HS2 will be approved in some shape or form. Under a different disguise, the Northern Powerhouse will again become the centre of national attention and is likely to attract development."

Maxwell Shand, founding director, YardNine: "As the political pantomime of 2019 draws to a close, my wish is for a return to positivity in 2020. The behaviour of our politicians has highlighted the need to refocus on core values with honesty and authenticity."

Rob Sim, managing partner, Europa Capital: "Home ownership is at the centre of Conservative policy and there is likely to be a push towards encouraging this. While this is unlikely to have much impact in 2020 with the government's focus on negotiating a suitable Brexit deal and the NHS, in the medium term we should expect to see an extension to Help to Buy to encourage home ownership."