

# UK real estate: 2020 visions

Brexit turmoil and the volatile state of British politics may well have made for a challenging year in the UK real estate sector, but does the new government's comfortable majority change the state of play?\*

Political and economic uncertainty has characterised post-Brexit referendum Britain – ambiguity which has been felt acutely in the domestic real estate sector.

Those with interests in London's real estate market may take some comfort from the fact that the UK capital is, and regardless of the outcome of Brexit, is expected to continue to be, at the centre of Europe's, if not the world's business community.

The Conservative Party's decisive election victory on 12 December certainly seemed to buoy sentiment in London and across other parts of the UK in the immediate aftermath, but there are undoubtedly still significant risks ahead for real estate and the broader economy.

To protect its importance as a global centre, London must deal with two major challenges which stand to impact the local and wider real estate market; namely, the city's perceived detachment from the rest of the UK, and its impending physical detachment from the rest of Europe.

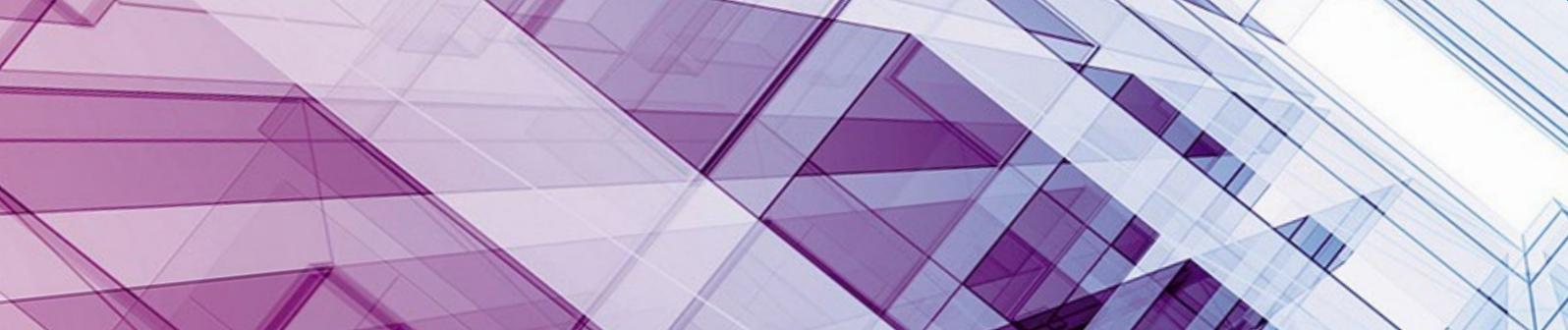
## London's role in the UK real estate market

In a highly centralised state, the perception that London receives more than its fair share of public and private investment in residential and commercial real estate and infrastructure has an impact on both the city's and the UK's future.

This is because the policy and investment support London needs cannot happen without nationwide public backing.

Promoting London's contribution to the wider UK economy – in terms of tax surpluses, intra-UK trade, its role in supply chains and in providing a base for companies with regional British presence – is important, but so are efforts to encourage devolution and decentralise the nation, politically and economically.

\*The above note is based on a presentation by John Dickie, Director of Strategy and Policy at London First, followed by a discussion and survey of industry representatives conducted by European law firm, Fieldfisher. The survey was conducted prior to the General Election on 12 December 2019.



## Brexit's impact on the real estate sector

The Conservative government majority makes it certain that Brexit will happen and provides a timetable for the first steps of the "leave" mandate, with the UK due to officially exit the EU on 31 January.

Whatever the longer-term consequences, there is general consensus that Brexit will continue to have a destabilising effect on the whole UK economy for the foreseeable future – which is worrying for real estate investors.

Aside from delaying investment decisions until a stable, long-term relationship with the EU is established, the UK, especially London, is facing a yawning gap in its construction work force if developers are denied access to EU labour.

It remains to be seen how the new UK government will address decentralisation and post-Brexit negotiations with potential trading partners, and how this will affect the real estate sector.

Needless to say, the UK real estate market will and must pay close attention to how these situations unfold, and be ready to respond quickly.

## Focus on housing

All UK political parties agree on the need to build more houses in London and across the UK, although they are divided on how to achieve this.

While the election result may have delivered some of the certainty private sector participants in the housing sector craved, it does not offer an immediate solution for local authorities looking to build more social housing.

It is generally accepted that planning authorities need to bring more land into development. Options for this include identified brownfield land with significant capacity for development (in London, such sites have been dubbed "**opportunity areas**" under the Mayor's London Plan March 2015); the modernisation of high streets and town centres; the under-utilised disposal of public land; and more sophisticated use of the greenbelt.

Planners and developers also need to think about how to develop more densely, while preserving attractiveness; this does not mean reinventing the wheel, but rather looking at what can be learned from other densely populated capitals, which have successfully combined high density with high popularity.

## Planning and infrastructure development

There is clear room for improvement in the UK planning system, in London and nationally, and local planning departments need to be properly resourced, supported and incentivised to make the necessary changes.

Infrastructure improvements in the form of better, faster connections between major cities, and between where people work and live, are also an urgent priority across the UK.

The real estate sector has an important role to play in this, by supporting investment in infrastructure from which developments stand to benefit through value capture.

The UK is becoming increasingly urban, which creates opportunities in terms of efficiency but also challenges in terms of pressure on real estate and infrastructure.

The history of urbanisation shows that successful cities will continue to grow, so it is necessary to think in terms of how to adapt urban systems to keep cities functioning, rather than about whether there are limits on how big urban centres can become.



## Survey results: Uncertainty and opportunity

Based on a survey of Fieldfisher real estate contacts, which included residential and commercial property developers, investors and advisers to the sector, it is clear that there continues to be considerable uncertainty in the market ahead of 2020, but also appreciation of a variety of opportunities.

### What is your main business specialism in the real estate market?



A third of those surveyed said it was impossible to predict the rate of growth in their business over the next five years.

Interestingly, however, while more than a quarter (**27%**) of those surveyed said they were only expecting flat business performance over the period, the same number of respondents were far more bullish, predicting growth in excess of **20%**.

### Over the next five years, what rate of growth are you targeting for your business?



Around half of those surveyed (**53%**) said that 2019 had been a challenging year for their business (although only **7%** of these said it had been “very challenging”), indicating positivity regarding trading conditions across the remaining c.**50%** of respondents.

This largely depended on specialism, with those at the construction end of the market (including commercial and residential property developers and construction contractors) reporting much or marginally improved conditions compared to 2018.

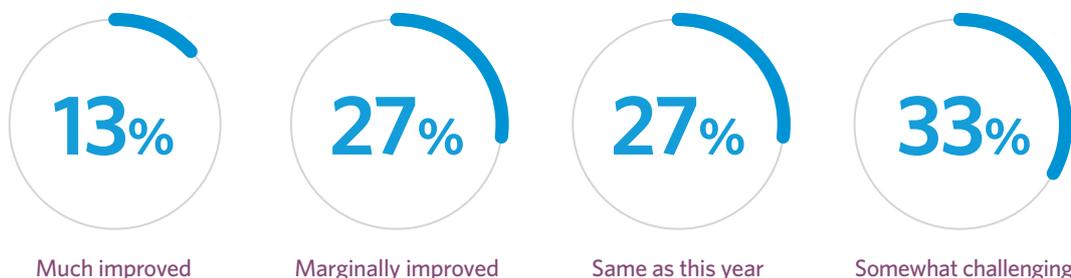
### How have trading conditions been this year compared to 2018?



Respondents' outlook for 2020 was less sanguine, however, with a third of survey respondents predicting somewhat challenging trading conditions and **27%** anticipating no change from 2019.

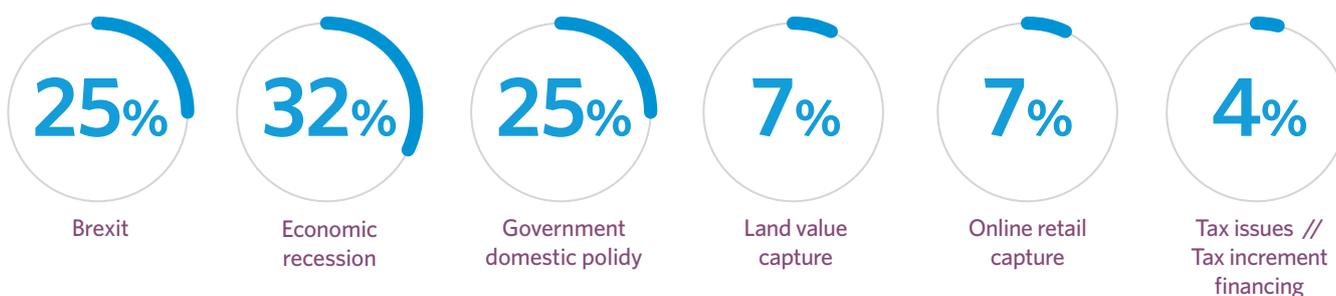
This does mean that **40%** of those surveyed are looking forward to a better year in 2020, compared to the previous year.

### What are your expectations for general trading conditions in 2020 compared to this year?



The biggest risk to the real estate sector feared by those surveyed was the possibility of economic recession (**32%**), followed in equal measures by Brexit (**25%**) and the impact of domestic government policy (**25%**).

### What, in your view, is the biggest risk to your business/industry?



Despite these perceived risks to the UK real estate sector, the vast majority of those surveyed still plan to capitalise on domestic opportunities in 2020.



44% of those surveyed said they saw the biggest growth opportunities in domestic commercial real estate, while 31% were most optimistic about UK residential.

13% identified international commercial real estate as a potential growth opportunity.

### Where do you see the biggest growth opportunities for your business in 2020?



Specifically, survey respondents were most excited about anticipated expansion in industrial real estate (30%), while other pockets of enthusiasm were fairly evenly spread between opportunities in the hotels sector, student residential, mixed-use developments and social housing.

### Which specific UK sector do you expect to perform most strongly in 2020?



By far the biggest priority for UK real estate market participants surveyed by Fieldfisher was to achieve organic growth in 2020, with 45% of respondents ranking this among their top objectives for the next 12 months.



The next most common priority was business transformation, cited by **26%** of respondents, indicating that while many are anticipating a challenging year ahead, measures are being taken to adapt to changing market dynamics.

Other key priorities included international expansion (**13%**) and maintaining flat revenues (**10%**).

### Which specific UK sector do you expect to perform most strongly in 2020?



Overall, the UK real estate market is in a state of suspension – the final quarter of 2019 running up to the General Election was marked by extreme caution among lenders, in particular; transactions have been patchy at best; while construction has performed relatively strongly.

With 2020 and a glimmer of Brexit certainty on the horizon, the UK real estate sector is bracing for further uncertainty, but also counting reasons to be hopeful.

## Survey coordinators

For more information on the issues raised above or to learn more about our real estate practice, please get in touch with your usual Fieldfisher contact.



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