WHAT'S TRENDING IN REAL ESTATE TODAY THAT WILL STILL BE TRENDING TOMORROW?

A cross panel of industry experts came together for a roundtable discussion hosted by *BE News*, and sponsored by Clearbell Capital and PwC, to discuss what hot new sectors are emerging within the built environment sector

In association with

THE PANEL

Phil Bayliss, chief executive, Infinium Logistics Solutions

Manish Chande, senior partner, Clearbell Capital

Richard Fine, managing director, Brotherton Real Estate

Emma Goodford, head of life sciences and innovation, Knight Frank

Marco Bonnington-Carter, associate director, Linesight

Gareth Lewis, director, real estate M&A and emerging trends lead, PwC

Anna Moore, co-founder and chief executive, Hestia

Niamh O'Connor, partner, Summix Capital

Patrick O'Gorman, chief executive, Bywater Properties

Ben Walford, director, Prestbury Investments

Rob West, managing partner, Clearbell Capital

Liz Hamson, editor-in-chief, *BE News*

The built environment industry has gone through a metamorphosis in the past decade, changing beyond recognition. The traditional markets of offices and physical retail have faltered, while newer entrants such as purpose-built student accommodation (PBSA), build to rent (BTR), urban logistics, life sciences, data centres, senior living and flexible workspace have gone from strength to strength.

But the question is: have today's hot new arrivals, and the fast-growing subsectors of single-family housing and micro logistics, got staying power? And can the likes of AI, tech and data make an impact, all while businesses globally are coping with the current unsettled and unpredictable political and economic outlook?

Earlier this month, prominent voices from across the built environment gathered at a roundtable lunch discussion, held by *BE News* and sponsored by Clearbell Capital and PwC, to explore these questions and offer up answers.

Opening the debate, chaired by *BE News* editor-in-chief Liz Hamson at Clearbell Capital's West End head office, Manish Chande, senior partner, acknowledged that "it is imperative that future investment decisions must more closely follow customer dynamics, whether in emerging alternative asset classes or in the mainstream sectors, such as offices and logistics, if they are to succeed."

PwC's Gareth Lewis quoted PwC's *Emerging Trends in Real Estate: Global*, report written in collaboration with the Urban Land Institute and launched in March at Mipim. The report painted an overall positive view that 2024 would be a more active year than the previous one, "but it's still a bit sluggish, and not matching the [original] optimism", added Lewis.

Buyers are starting to accept the elevated interest rate environment and are finding a middle ground on pricing, he said.

But he added: "What has complicated the picture is investors grappling with fundamental changes around the industry's role in society, and what makes buildings, and real estate, fit for purpose in an uncertain future."

Geopolitical backdrop

While interest rate movements are the industry's top concern, "the geopolitical backdrop is causing uncertainty and may override or destabilise that level of stability", said Lewis, referring to the conflicts in Ukraine and Gaza and to tensions between China and Taiwan, as well as to "the 60-plus elections happening globally in 2024 that are all weighing heavily on sentiment".

The message in what is driving investor and occupier behaviour is no longer around the core, traditional real estate sectors, added Lewis, but increasingly the

Gareth Lewis

Rob West

three Ds: digitalisation, demographics and decarbonisation. These are, he said, "enforcing the case for new, emerging alternative real estate sectors that often emerge gradually, in plain sight, but end up with significant consequences across all [areas], and demand a rethink of delivery models in real estate".

Lewis added that the relationship between building owners and occupiers was going to have to become more intertwined.

"*What has complicated the picture is investors grappling with fundamental changes around the industry's role in society*

Gareth Lewis

Emma Goodford

The panel was then asked for their views on key trends. Knight Frank's Emma Goodford highlighted life sciences, and particularly biotech, as a current trend, with the convergence between science and AI, and more broadly technology, as "an absolute driver for the industry".

Affordability, in terms of renting and making premises viable, as well as the use of design and the importance of

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>
> *Anna Moore*


Patrick O'Gorman


Anna Moore

sustainability are challenges that the real estate industry needs to solve, according to Patrick O'Gorman of Bywater Properties. "AI is an important part of that solution, to make things more efficient," he said. "With the way people are going to use real estate, 'efficiency' is going to be the number-one word."

In terms of housing, Hestia's Anna Moore also said affordability was becoming an issue as developers talk more about the private rented sector (PRS), BTR blended schemes and PRS consolidation. "We still have enormous demand for housing, and new developments coming through, but there's going to be a cap on how many people can afford amenity-rich properties. We'll start to see pressure there," she explained.

"People are looking at 'what are you delivering for me?' with the bar on proptech and sustainability being that much higher."

Carbon pricing

Decarbonisation features more widely on the agenda for Clearbell Capital, which is increasingly focused on retrofitting across the office sector, said the firm's Rob West. "What we have differently in the commercial space is the pricing of efficiencies of carbon operation," he added. "If it's cheaper to run and measurable, people will pay more rent for it, and they can show their staff there's a physical benefit.

"What [the real estate industry] isn't good at doing is pricing embodied carbon.


Phil Bayliss

With retrofitting, you can show what the carbon saving is, but we can't get more rent for it. That could change in time if carbon disclosure on companies increases, and carbon taxes possibly introduced – regulation can drive change there, which can claw back value for us as developers in the investment we're making."

With a general election looming, ESG and housing have fallen down the agenda. The panel was asked whether this had slowed down some trends, or whether they already had enough momentum that they kept going.

According to Infinium Logistics Solutions' Phil Bayliss, over the last 12 to 18 months, it feels like ESG has done a few things: "It's no longer peripheral, or a single person in a business. We've broken ESG down into everyday speak. Instead of saying technical things about the battery storage and the technology that supports it, we tell people we can save them money on their bills, and then ultimately save the planet.

"We don't need hope and altruism to get us to support ESG. We begin by saying: 'Its good business.' Those are the green shoots – we're starting to find economical ways to do good things for the planet."

From a funding perspective, if you don't have that strategy, then you don't get the borrowing, said Richard Fine of Brotherton Real Estate, adding: "The funding market is way behind the equity mindset in thinking about these things. But there needs to be a clear strategy to do it. There's no real economic incentive yet from a lending perspective."

Prestbury Investments' Ben Walford said: "The market had been focused on ESG reporting but without much consideration to how it creates value. We're now starting to really understand and see evidence of the green premiums that can be captured."

In terms of housing, Niamh O'Connor of Summix Capital said single-family housing was starting to come through, with many major housebuilders and big private equity firms ringfencing significant capital to bring it forward. "By 2025, 50,000 homes are due to be delivered in the UK, and although institutional-owned single-family housing only makes up 0.3% of rental houses, I do see it being a future focus, and next year it will be the sector that will start to grow, especially when you consider the depth of the US market in this space."

Life sciences growth

Looking at hot trends, life sciences was highlighted by the panel, despite a mixed year in 2023 that saw a sharp fall in investment across the Oxford-Cambridge Arc in the first half – but what's going to happen over the next year?

Linesight's Marco Bonnington-Carter said growth was still expected in the 'golden triangle' of Oxford, Cambridge and London, but would also be seen in places beyond, such as Norwich, "where there's a large cluster getting a lot of investment".

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> *Niamh O'Connor*

He highlighted chancellor Jeremy Hunt's May 2023 pledge of £650m to supercharge development, relax planning laws to open space and repurpose existing offices and the EWR – the East-West Rail route between Cambridge and Oxford on which work started in 2021, with 66km of new track already laid. "These are things that we see starting next years and going on until around 2028," said Bonnington-Carter.

Regarding London, he said: "There is the main hub in Hammersmith, and there are other pockets springing up, Canary Wharf being one, with banks moving out and freeing up space."

According to Goodford, if there are

Richard Fine

Ben Walford

Niamh O'Connor

two players who are successful in delivering laboratory and wider science-related developments in Canary Wharf, it is Canary Wharf Group and Kadans Science Partner UK.

"It comes back to the operation of science – not the physical operation, but ESG operation – and Kadans has an amazing network in the science industry across Europe, so you don't just take space in Canary Wharf; you lock into their European network. To a lot of science companies, that is incredibly valuable because of the connections and collaborations," she said.

What people want

Clearbell Capital's Manish Chande put the spotlight on one of Lewis's Ds – demographics – and "what people want". He said Clearbell was currently invested in Tradestars, which is taking logistics space, creating 'micro-logistics', and "being, in effect, the 'WeWork' of the logistics space".

"Despite its leadership woes, WeWork had a great product," he said. "Mark Dixon [Regus founder, now IWG chief executive] would not have changed his model had it not been for WeWork, and neither would Landsec or any other REITs. They did us a favour."

Clearbell Capital has backed the Tradestars' founders, whose idea is taking redundant space and converting that into mini-logistics from 100 sq ft to 600 sq ft for small businesses, mainly run by women, providing space, collaborative areas, podcast


Marco Bonnington-Carter


Manish Chande

and photographic studios and cafés. "Are we going to get value for those services?" asked Chande. "Probably not directly, but it will be value from the income we produce. The value of real estate is what you can grow on it, and what you can grow on it is about the income."

The final question of the session prompted a variety of answers: panelists were asked what the biggest disruptor, or transformative trend in UK real estate, would be over the next three to five years, and why.

Interest rates falling and being on a downward trend will be a trigger for the market, according to Fine.

For Bayliss, energy is going to be the biggest disruptor. "I work across Europe and there's a whole host of different energy markets, and the UK is hopeless: it's going to hold us back," he said. "We've got £200bn worth of network upgrades to do. We must lay 100 miles a week of cable for the next 10 years to do the grid upgrade. It's going to be a wartime effort to get our power systems to where they need to be in the next five years."

For Walford, construction costs will have a dominant influence on the market up to 2029. But he added: "It is only one factor and doesn't rank above interest rates. I share the consensus view that rates will be the single most influencing factor over the next three to five years."

O'Connor highlighted "increased affordability provision across sectors but especially in PBSA on the back of the London Plan and the potential for that affordable policy to seep into the regions".

Concluding, O'Gorman said the biggest disruptor would be AI. "One of the challenges we have as an economy is slow productivity," he said. "If we use AI appropriately, we will increase productivity and that will give our economy the boost it needs." □