BE NEWS

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THE 2025 STATE OF THE NATION FORECAST DEBATE

Industry leaders joined *BE News* and sponsor HB Reavis to share their thoughts on the challenges - and opportunities - that lie ahead in 2025

INDUSTRY GUESTS:

Rob Bristow, Director, climate, planning and Transport, London Borough of Lambeth

Adam Francis, VP, asset management, international real estate, Quadreal

Louise Ioannou, Head of workspace UK, HB Reavis

Ryan Jakes, Development manager, HB Reavis

Sarah Jones, Partner, higher education, Cushman & Wakefield

Andrei Martin, Partner, PLP Architecture

Andy McDonald, MD/head of real estate finance, HSBC

Anthony Mellalieu, COO, Urbanest

Martin Samworth, Chairman, RICS

Steven Skinner, CEO, HB Reavis

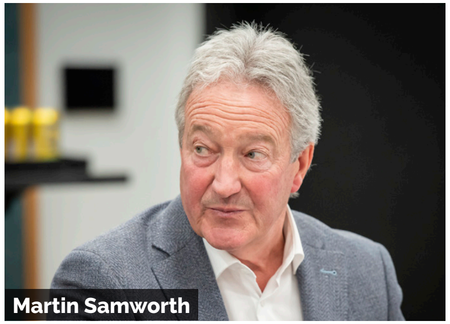
Liz Peace, Adviser on property, politics and the built environment

Jules Pipe, Deputy mayor planning, regeneration & the fire service

Elliot Prosser, Executive director, European real estate, JPMorgan Asset Management

Chris Valentine, Head of strategic clients London and science and innovation agency, JLL

Liz Hamson, editor-in-chief, *BE News* (chair)


Martin Samworth


Liz Peace

Last year was a rollercoaster ride for the built environment industry for myriad reasons - the change in government, "£40bn tax raid" Budget and US presidential election to name but a few.

However, while the economic outlook remains weak there has been a series of bold policy announcements from government including: the revised NPPF, a commitment to delivering 1.5m new homes, the Planning and Infrastructure Bill, a commitment to turn the Oxford-Cambridge Growth Corridor into "Europe's Silicon Valley" and a plan for growth that, in chancellor of the exchequer, Rachel Reeves' words, will go "further and faster" than previous efforts to kickstart the economy.

So, what does this all mean for the built environment industry? Will it be a continued fight for survival or is the industry poised to thrive in 25? What will be the biggest challenges – and the biggest opportunities?

These were just some of the questions discussed during a dynamic roundtable event moderated by BE News editor-in-chief Liz Hamson and held at sponsor HB Reavis's new Worship Square office scheme in London.

QUESTION: What's everyone's read of the outlook right now for the real estate sector and the level of government support - or not - that's currently being offered to the industry?

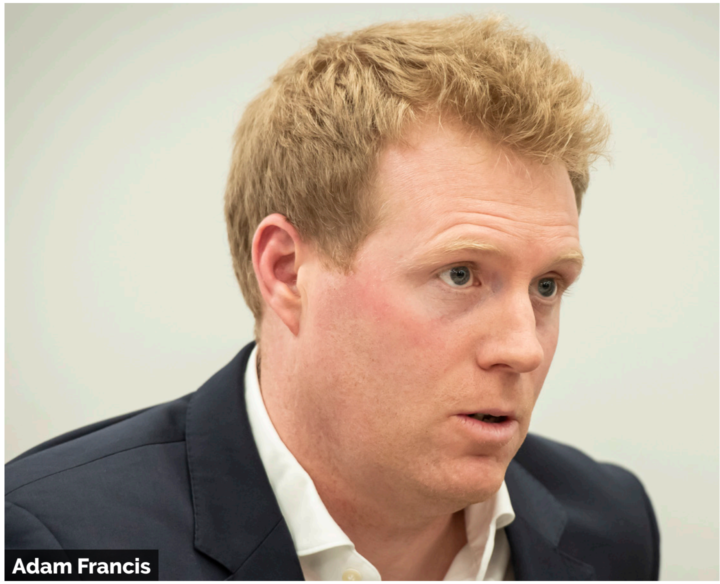
SAMWORTH: I'm personally quite concerned about it. One of the benchmarks that is quite useful to bear in mind is people that help generate growth in the country are leaving in their droves.

Ten per cent of the UK's highest taxpayer community contributes 60% of the tax contributions and many of those are moving out. It certainly felt like the Budget burst a bubble somewhat, and I think we're still recovering from that.

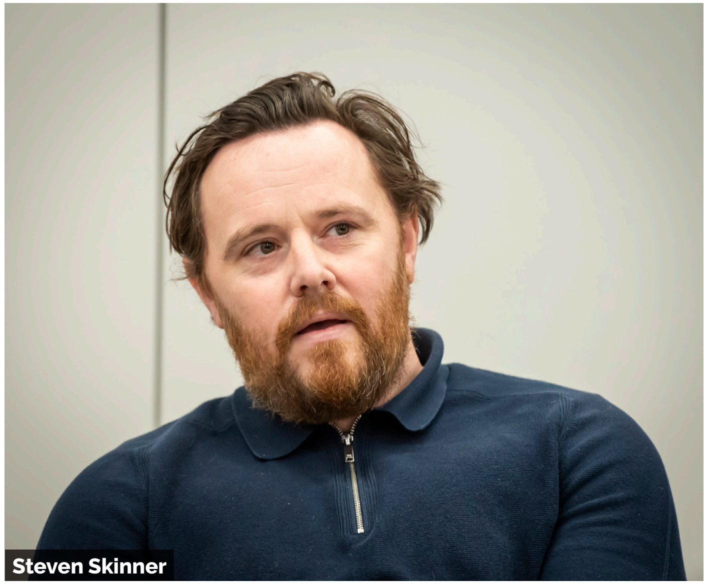
So, an improved environment that was expected in H1 2025, is probably going to take longer into the year to really be felt. On a positive note, there's lots of inbound investment coming into the UK and there's lots of money coming into the living space.

So, rents are rising, yields will harden as interest rates come down and things will get brighter, but it isn't going to suddenly roar away.

PEACE: What worries me is that as a sector every so often we get quite lemming-like. For instance, we've been chasing PBSA as the next great thing and I wonder about that for the future because university recruitment of students across the country is an issue.



Adam Francis



Steven Skinner

Science-based development has also been slightly overdone.

So, we're getting lots of people piling in, and suddenly there'll be an oversupply. On the policy side of things, I'm always deeply cynical about great initiatives to suddenly change things. I don't believe a lot of the changes to the planning system will live up to the hype of the announcement.

It is very, very difficult to really move the dial, unless you want to do something absolutely dramatic to the planning system, like take planning committees out of it completely.

That's the only way you can really change and fast track decisions. Put the democracy into the plan-making and then the decision making on individual schemes becomes a technocratic exercise.

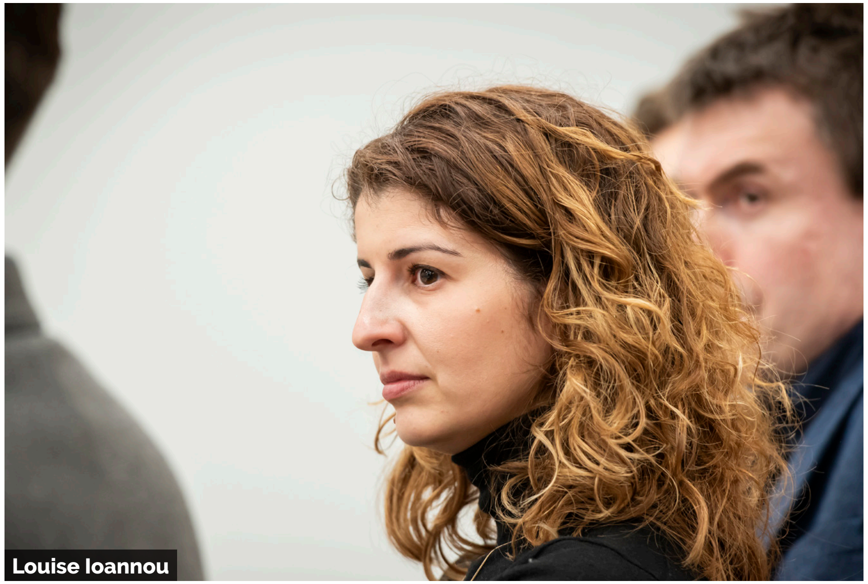
> ***I don't believe a lot of the changes to the planning system will live up to the hype.***
>
> *Liz Peace*

FRANCIS: We continue to experience several challenges, but to some extent we're used to this level of "noise". As a long-term investor we focus on sectors and markets where we believe there are attractive opportunities through the next decade.

Positively, this uncertainty generates attractive opportunities that are heightened by our position in the real estate cycle (i.e. at or near the bottom). We're seeing the bid ask spread start to narrow and I would expect to see a more active market this year.

PROSSER: We've got a lot of micro


Elliot Prosser


Louise Ioannou


Rob Bristow

problems that feel more like macro problems when we live and breathe them day-to-day in the UK, but they are micro problems relative to the macro position.

I'm more office-focused and if you walk the streets of London, you can feel more vibrancy. There's much more positivity around generally.

Across most of the CBD office markets in our portfolio - whether they're London, Paris, Berlin or Stuttgart - the occupier market is on fire. There is a desire to get people back into the office and we're finally seeing policies coming into place from some companies.

SKINNER: From the beginning of Covid to today, we've built nearly 10m sq ft of offices and sometimes people wince when we say we did that.

But we have built brand new, high quality, heavily amenitised, low-carbon buildings focused on people's wellbeing and we have less than 1% vacancy, and nearly all of that space was pre-let.

If you want to provide office space, you really have to become a retailer of that space and the industry has historically been a wholesaler. You managed people who delivered steel, glass and concrete on your behalf and they put a 'to let' board outside

If you think about how retailers or retail investors treat their customers, and the data they collect about their customers and the insight they have of their customers, you have to bring that same approach to the office market.

BRISTOW: From a local authority point of view, the outlook is quite mixed. There's some pessimism, but there's also cause for optimism.

The big challenge is there are a lot of schemes, particularly residential, that are consented, but it's getting those consents started. I'm hearing about schemes that have been stuck for up to 50 weeks due to the building safety regulations. We've got developers who want to build really good consented schemes, but the registered providers (RPs) can't take the affordable housing.

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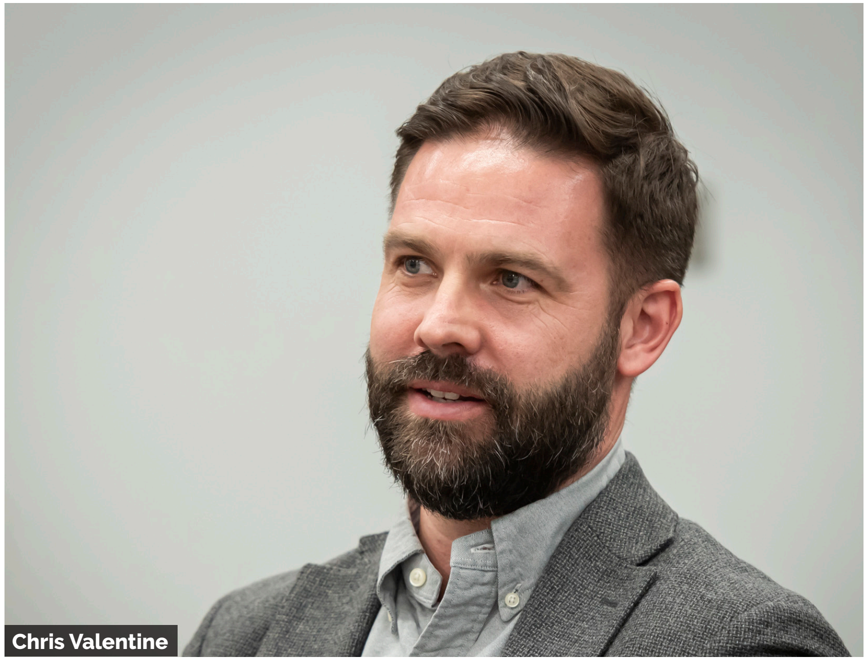
> *Steven Skinner*



Chris Valentine

Andy McDonald

Anthony Mellalieu

QUESTION: What are the key obstacles standing in the way of growth and where are the biggest opportunities for the built environment sector to really thrive this year?

VALENTINE: The difference between the occupier markets, which have been very strong in London, and the investment markets, which have been at record lows, hasn't ever been as stark. I think that creates a real challenge.

We've seen massive rental growth through the course of the last couple of years and we've seen really good levels of take-up.

We've seen businesses wanting to expand, and businesses wanting to occupy the kind of buildings that HB Reavis is delivering, but the ability to build them is just getting tougher and tougher, and that's linked to investor sentiment, cost of debt, cost of materials, etc.

MCDONALD: We're seeing a slow reset at the moment across all markets and part of the reason for that is the markets are functioning pretty well.

Most of the cash at risk across the commercial sectors at the moment is equity not debt, and therefore, even though we've been through value correction, occupational markets are still strong and banks are being patient.

So, the opportunity comes from the reset. It comes from price adjustment, people taking losses, crystallising the loss, incurring the loss, and enabling an asset to breathe.

QUESTION: We're five years on from the start of the pandemic. In terms of the office sector specifically, what are occupiers now saying they want?

IOANNOU: From my experience, what we hear and read about in the news is different to what I see when I'm talking to occupiers, and that's everyone from occupiers taking larger space through to what we see within our flexible workspace brand HubHub with sub-2,000 sq ft requirements.

Every company I speak to wants their team to be in the office. I hate the question of how many days a week they want their team to be in the office because it doesn't really matter. It's what they're using the office for.

Companies want their people to be together, to be more productive, and whatever size company, they want their teams to be in the office.

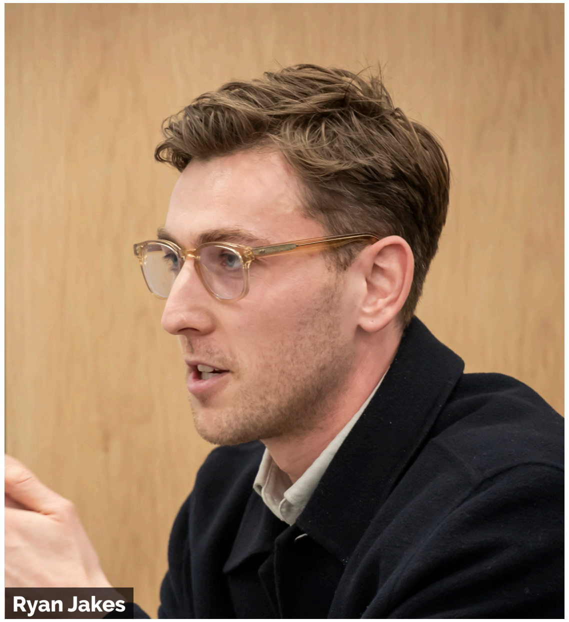
MARTIN: Architecture takes a very, very long time. Take 22 Bishopsgate, now fully let and recognised as one of the best post-pandemic office buildings.

We began designing this project more than a decade ago, so its success today speaks both to its visionary nature and its grounding in timeless principles.

The idea was to create a vertical village,

Andrei Martin

> *It's about creating touchdown spaces to facilitate those key social interactions*
>
> Anthony Mellalieu



Ryan Jakes

bringing together diverse spaces with varied content.

These spaces also anticipated a very robust operational layer, an invisible architecture that brings about human connection and a sense of belonging.

MELLALIEU: It is interesting listening to people who operate in the office market talk about the way to make offices work post-Covid because it sounds very similar to what we've been doing in the student housing market for years - it's about community and creating the touchdown spaces within the physical envelope of our developments to facilitate those key social interactions.

QUESTION: What about some of the older existing office stock that perhaps isn't fit for purpose anymore? How can this be upgraded or repurposed?

PIPE: In areas like Brixton that are deemed quite cool and edgy, we've had success attracting creative and cultural businesses such as architectural practice Squire & Partners, which opened The Department Store studios.

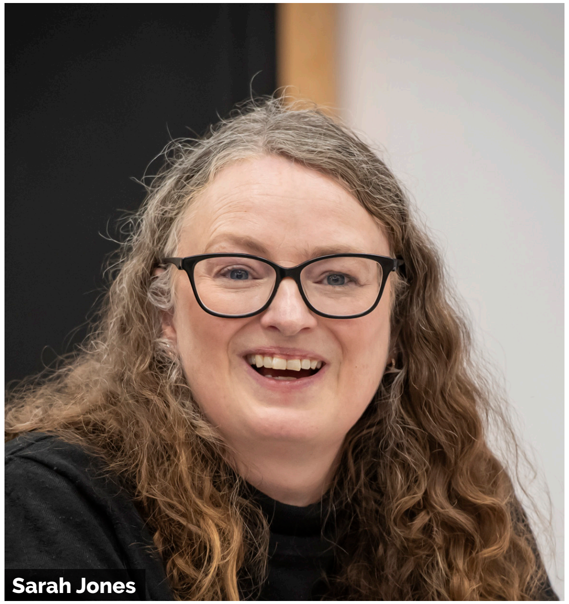
But there is a real challenge in some of those more peripheral locations that aren't deemed as cool in terms of how that stock is repurposed. What's happening at the moment is it's just being mothballed, which is a concern for us because it doesn't serve anyone's purposes.

MELLALIEU: We have seen lots of instances with PBSA planning applications [for the conversion of office space] where the mantra seems to be 'the site doesn't work, let's just do PBSA'. It's interesting to see how many offices have come across our desk recently and they very rarely work because the floor plates are too deep.

QUESTION: What are your hopes, fears and expectations for the year ahead?

JAKES: My hope is there will be some


Jules Pipe


Sarah Jones

changes made to the Building Safety Act. It's something that's affecting us a lot at the moment in the living sector and we need more clarity about what to do and what not to do if we are to be successful in meeting government housing targets.

For example, if there was something like a pre-app process and some kind of contribution that developers could make to that process, to smoothen it out and make it effective for delivering large scale projects.

I also hope the investment market improves to stimulate growth in this cycle, but my expectation is it probably won't for a little bit.

JONES: My hope is that we have some kind of breakthrough, a new business model, a magic bullet, with support from innovation or enterprise funding, which allows a bit more affordability to get into the mix of schemes being developed, because unless we do that, we won't be supporting economic development at this critical time. My expectation is the occupational markets will have to fend for themselves.

PIPE: Given the government is so reliant on the economy growing to be able to invest, my fear is the economy is just not going to grow fast enough.

However, it is always possible just to carry on anyway because London has so many positives about it that even when bits of the system are failing, it just has this natural momentum.

It might mean that we're not achieving the best outcomes and we're missing opportunities, but it's a bit like an elephant. It takes a lot to floor it.

MCDONALD: My hope is that we can find a long term, low cost source of patient capital that can actually help unlock affordable housing in this country. My fear is that we can't.

IOANNOU: Based on ongoing client engagement, I expect sentiment towards the office market continues on a positive trajectory, with greater alignment between companies and employees seeking high quality spaces that blur the lines between hospitality and the workplace.

Given the wider market uncertainties, I hope that increased occupier demand unlocks development opportunities. □

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