

# 2023 PROPERTY FORECAST: THE CHALLENGES AND OPPORTUNITIES

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**Robert Evans**, Joint Managing Partner, Argent Services, and Partner, Related Argent

**Peter Freeman**, Chair, Homes England

**Chris Horler**, Director, TREIO – The Real Estate Investment Office

**Akeel Malik**, Fund Manager, Urban Splash Residential Fund

**Heather Powell**, Partner, Head of Property and Construction, Blick Rothenberg

**Sean Randall**, Partner, Stamp Duty, Blick Rothenberg

**Rebekah Tobias**, Managing Director, Marcol

**Professor Tony Travers**, Director of LSE London, LSE

**Darren Williamson**, National Head of Real Estate, Freeths

**Debra Yudolph**, Founder, SAY Property Consulting

**Chair: Liz Hamson**, Editor-in-chief, *BE News*



2023

Some of the biggest names from across the built environment joined *BE News* editor-in-chief Liz Hamson last month for the '2023 Property Forecast' roundtable dinner debate, hosted by sponsor Blick Rothenberg. Here we share the edited highlights of the lively, wide-ranging debate on the challenges and opportunities for the property market in the year ahead:

**QUESTION:** There has been a lot of speculation about what is going to happen over the next few months investment-wise, with some experts anticipating a correction in values and a flurry of distressed sales, and others a stabilisation of the market in the wake of greater political stability. What do you expect to see happen?

**HORLER:** My personal view is it's not going to be GFC [global financial crisis] level. I see little bits of value out there. Industrial has been too strong, so its fall is going to be the greatest. We all know where retail is. It's had its ups and downs, but it's been severely hit over the last 10 years anyway, so where does it go? With retail, it's all about repurposing and what you are going to do with it. In terms of offices, a multi-let office still feels good because you're spreading your tenant risk, but due to the dynamics of people who go into the office three days a week it's hard



to predict what's going to happen there.

I don't see complete freefall, but there's got to be adjustment in some sectors. The big one is on the development side because the people who bought over the last two to five years did so based on a set of assumptions that gave them their residual value. But if you start factoring in steel costs at £1,400 [per tonne] when they used to be £300, labour costs, the labour shortage, the cost of concrete, getting hold of bricks etc and then your interest cover and your development finance costs, suddenly there's only one thing that's elastic and it's the land price.

**QUESTION:** Do you see any clarity emerging this year?

**FREEMAN:** I don't think you will see any clarity in the sense there is a 20% fall in



***I don't see complete freefall, but there's got to be adjustment in some sectors***

*Chris Horler, TREIO*



price. It could fall by anything from 10% to 50%. When you get a downturn, rents tend to fall and the yield tends to go out, so it's a double-whammy. You only need one to come back to make a profit.

**EVANS:** People do try and sit on land to see whether the problem will disappear and the public sector is as good at doing that as the private sector. If it has to come to market through a liquidator, or something else, then those sorts of price adjustments come through, but a lot of land just ends up sitting and waiting. So, it comes down to time and there's a lag factor. If the market rebounds within a couple of years, a lot of land that should come to market probably won't. If it lasts longer than that, you might see it coming through. However, there are an awful lot of people who will just look at it and go: ➤

"Can I afford to sell at that price? No. I'll just find some way of playing keepy-uppy with it." And they do.

**YUDOLPH:** There's a massive difference at the moment between commercial rents and residential rents. From a residential perspective, there's a shortage of stock and rents have gone up, so the residential market – from an investment, build-to-rent perspective – is probably holding up better, because the rental market has really helped to support yields.

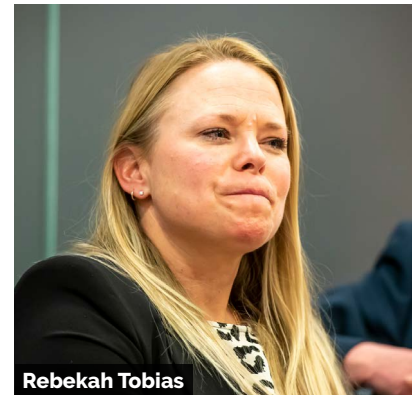
Coming into this year, we had a lot of clients say "we're putting everything on pause" – it was like the fear of f\*\*\*ing up. Now we're moving towards the fear of missing out from a residential build to rent or even development perspective and that's only because rental values and lack of stock have really helped support the returns.

**TOBIAS:** The rental market has been really strong because mortgage rates have been going up so people aren't buying. I would be more nervous about build to sell than I am about build to rent.

**MALIK:** What we are seeing on the vendor side is there are quite a few opportunities that have come through this year that have been sites that have been build-to-sell sites and all of a sudden there's a question about whether to do a complete flip [to build to rent].



Tony Travers



Rebekah Tobias



Debra Yudolph

A lot of investors do seem to be a little bit on pause or focusing on secondaries where they might be able to realise more value in the short term, and then maybe by Q2 or Q3 they might go back into those areas and pick things up.

**TRAVERS:** If we'd been sitting here in 2007 and somebody said to us "in the next 14 or 15 years there's going to be a financial banking



Akeel Malik

and finance crisis, the UK is going to vote to leave the European Union, there's going to be a global pandemic leading to a two-year lockdown, and a war in Ukraine", and if we had known what we know tonight, I think we'd have been pleased knowing how resilient we've been.

Whatever people say about Rishi Sunak and Keir Starmer, these are broadly sensible people and they want a degree of stability. ➤



Peter Freeman

so unless some other fabled 'black swan' event happens, I would say the future looks curiously attractive and I'm the world's most pessimistic person.

**FREEMAN:** I think you're right. Although we've had black swan after black swan after black swan (Brexit, Covid, Ukraine), globalisation and improvements in management techniques have kept our economies going. On the other hand, the gap between the rich and the poor has grown unacceptably in the last 15 years. There is a younger generation who can't afford housing and feel excluded. I think there is a bubble of anger and you could interpret what Tony's said as just one more straw could break the camels backs. Overall, I'm probably an optimist and I think we will middle forward, but society and the economy has been under a lot of strain.



Darren Williamson

argue it's a weakness that nobody is against it. Governments have been trying to decentralise economic policy and trying to decentralise jobs from London since the run-up to the Second World War. The economic problems that led to the need for levelling up have been in place since 1900, and ever since then the economy has been changing and moving away from manufacturing and moving into services. And that's such a long process; it's not going to be solved in the lifetime of one Government.

**WILLIAMSON:** I don't think I've ever known a period, certainly not in my career, when we've had as much friction in terms of new legislation. We've got the Building Safety Act, Decent Homes Standard, MEES; we've got the carbon emissions bill coming and the whole lifecycle of buildings. These are all admirable in many ways, but that creates so much uncertainty, from a cost perspective, from a planning perspective.

**QUESTION:** There are a number of important deadlines looming this year. For instance, on 2 March, the consultation ends on reforms to the National Planning Policy Framework under the Levelling-up and Regeneration Bill. What do we expect the outcome to be? How committed really is this Government to levelling up – or radically reforming the planning system?

If you could take the system as we have got it and just put more funding into it to provide more planning officers and PPAs (planning performance agreements) etc, would it work? Is radical reform really necessary or is it better to work with what we've got?



Robert Evans

**TRAVERS:** The issue with levelling up is that it has no opponent and you might

**EVANS:** I think resource is a big part of it. The strength of the system we have is it is very discretionary, so therefore it is very flexible. ➤

With the right people you can stretch it and make it work. If you want to be a blocker and you want to use it to just stop things, it's not that difficult either. We talk about a planned system, but we don't really have one anymore. It's not planning by appeal either – it's basically planning by negotiation. It's this whole series of one-off negotiations.

I think the system as a whole is becoming much more now a giant negotiation around viability, and I think because the land market and the yields and the rents change so quickly, it's very difficult for the planning system to ever keep up and to have the right policy that lasts more than five minutes.

**QUESTION:** We've also got EPC regulations. On 1 April, the new EPC regulations come into force, extending the requirement for all commercial property to have an EPC rating of band 'E' or better prior to any new leases or renewals being granted to all rented commercial properties, existing and new. What do we think the impact will be?

**POWELL:** We did a [survey](#) of people and what was horrifying was how few of them were getting ready for the new EPC rules. More than 50% claim to not be aware of it and they're almost waiting, particularly for the 2025 deadline for residential. Their attitude seems to be "we will think about it when it becomes absolute law", and they're expecting the Government to blink first.



Heather Powell

But we're not going to hit our 2050 targets unless that housing stock is improved and the direction of travel seems to be that these landlords are going to sell up; they're not going to spend the money.

I think there are going to be a lot of buy-to-let landlords at the smaller end of the scale who have perhaps got 10 to 20 properties that are old Victorian or Edwardian stock, and they're going to have to sell them because if they're going to legally let them to tenants in 2025, they've got to do a huge amount of work.



**More than 50% of people surveyed claim to not be aware of the new EPC rules**

*Heather Powell,  
Blick Rothenberg*

**QUESTION:** Who do we think are going to be the winners and the losers sector-wise this year?

**POWELL:** Build to rent has got to be a winner because there's such a demand for rental.

**EVANS:** There's an interesting question mark about life sciences. Everything is being promoted as a life sciences opportunity at the moment, but they can't all win. It's not possible. There is a lot of demand and there is growth and it has worked, but it's going to be in campuses; it's going to be in certain places. Not everything that's been talked about as a life sciences opportunity can be a life sciences opportunity; it just can't. There'll be winners and losers in there. It's definitely been overhyped.

**YUDOLPH:** I think the other winner will be student accommodation.

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

**WILLIAMSON:** In terms of hopes, wouldn't it be nice for all of this regulation and uncertainty we have floating around, as beneficial as it is to us from a living point of view, from a day-to-day decent home standard, from knowing our buildings will not burn to the ground, from them being environmentally friendly, that we



can get some certainty within that in terms of cost, in terms of standards, in terms of knowing where we're going? So, my hope for this year is we reduce all that friction.

In terms of expectations, I think it will be – based on conversations with various clients – a shallow recession. My fear is that we go down the road that we went down in September in the Budget, but I can't see that happening.

**MALIK:** I hope there's a de-escalation of the war in Ukraine and some increased stability, not only from the human perspective but the very real cost-of-living crisis that we're in. I think inflation is here to stay for the foreseeable future and if the pressure on the cost-of-living side continues and rents



***I think there's going to be quite a bit more litigation; there's so much more pressure to collect tax***

*Sean Randall,  
Blick Rothenberg*

go up, then all of a sudden in terms of that relationship between the property industry and the general public, it's quite easy to see who the bad guy is. So, I think we need to be aware of that, plan ahead and engage properly.

**RANDALL:** In the upcoming Budget, I think the 3% surcharge for additional dwellings could increase. It went up to 6% in Scotland, so the top rate of stamp duty in Scotland is 18% – ours is 17% – and I think there's one or two percentage points there that they can increase.

I'm expecting major changes on multiple-dwellings relief and mixed-use transactions, which will have an effect, particularly for build-to-rent investors and student accommodation possibly.

Hopefully we will see some changes that will alleviate the pain suffered by

start-ups exploring alternative property finance, because at the moment they're engaging some punitive stamp duty rules unfairly inadvertently. My hope is that all those who piled into the housing market over the last two years buoyed by the stamp duty incentives won't suffer when their two-year fixed-rate mortgages expire.

My fear is I've seen an uptick in HMRC activity in pursuing arguments, which before now I didn't think they would pursue, and they're taking positions that I think are unsustainable. I think there's going to be quite a bit more litigation; there's so much more pressure to collect tax.

**POWELL:** My expectation for the coming year is we will muddle forward. My fear is Ukraine. It just looks horrific and I can't see a quick exit there. My hopes are we will turn the corner in June, have a fantastic summer and people will start wanting to get out and do business again. □



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