

UK Real Estate Market **Predictions 2019**

It's not just the place,
it's the people too

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On 22 January 2019 Dentons held its annual Real Estate Predictions event at which industry experts gathered together to share their views on the market. Reflecting on those comments and our own transactional experience, we have identified three key trends to watch in 2019:

- Working together,
- Personalisation, and
- Interaction.



“Being social creatures
we like and need
interaction”



Working together

Online competition, business rates, poor consumer confidence and even the weather conspired to make 2018 a hard year for retail. The sector understands that it needs to reinvent itself. As part of that process, landlords and tenants are realising that they need to work together to make a success of space. Landlords are becoming more receptive to shorter and more flexible lease terms, often in return for turnover rents, setting them up to directly benefit from the success of their tenants. This is good news for wider society as the social consequences of leaving town centres blighted by the departure of retail are of real concern.

The idea of collaboration does not stop in the retail sector. Although the build-to-rent sector is rapidly crystallising into its own distinct asset class, it recognises that it needs to work as a whole to create more competition to build up its secondary tradeable market.



“Real estate
is mixing things up”

It is also not just about parties working together, but uses working together. Residential on its own is good, but a more attractive proposition is to mix residential with other uses such as offices, shops and even logistics. Real estate is mixing things up – it is no longer the norm to silo uses. Instead, mixed-use is the way forward, along with concepts of shared and flexible occupation.

The office sector has been resilient despite tough political headwinds, helped in part by the inflow of overseas capital, which continues to value the UK rule of law, and access to a wide talent pool. It has also been helped by the growing popularity of shared and flexible office space. It is no longer essential for a company to have its own exclusive space. Instead, there is merit in taking on flexible space in a building occupied by like-minded businesses. If anything, that popularity will be bolstered by the continuing political uncertainty and the desire that a business’s property portfolio moves in real time with the business’s needs.

Personalisation

It would be a mistake to think that working together means a loss of identity. On the contrary, it is clear that personalisation is becoming increasingly important to the consumer. Ultimately it is all about tailoring the product.



While a business may be happy to take on co-working space, it will often demand personalised services and, at an even more granular level, its employees will expect a personalised work environment with, for example, bespoke lighting and heating. At landlord level, institutions are working hard to create their own unique brand to attract occupants.

This trend for personalisation could also be the key to the salvation of retail. When a consumer goes to the shops, they are increasingly looking for a bespoke service – this could be having a product tailored to their taste, ranging from a mobile phone cover, through to a loaf of bread, or having a one-to-one consultation. Instead of having anchor tenants, does the future of retail lie in one-off, unique stores that you cannot find anywhere else on the high street or online? The emphasis is on the consumer experience and this is a radical shift for real estate.

The build-to-rent sector has been quick to recognise the value of personalisation. Over the last 12 months commentators have been astounded by the breadth of consumer looking at this product. This success may in part be due to the fact that build-to-rent operators have been paying close attention to what their customers want and building out different models to suit. Consequently there is a growing range of product covering different types of amenities, service offerings, geographies and scale.



“It is all about tailoring the product”

As an aside, one issue raised by a number of commentators has been valuation. Where asset classes are developing (such as build-to-rent) or evolving (such as shopping centres) the traditional methods of valuation do not always seem to be progressing at the same pace as the market. As such, valuation is an area which is likely to come under increasing scrutiny.

One area that the valuers have been keen on is logistics, which is arguably the success story of 2018. In part, that success can be attributed to this sector embracing personalisation. Whereas previously, warehouses were simply viewed as big boxes, they are now becoming increasingly sophisticated. Often logistic space is fitted out with advanced, highly specialised technology to meet the specific needs of the occupant. However, there remains the question of whether or not logistics will come out as the darling of 2019.

Interaction

While technology is transforming the way in which properties are operated and used, it is important not to forget that buildings are designed for people. Being social creatures we like and need interaction. Property can facilitate opportunities for this.

On the high street and in shopping centres around the country, there is a drive to increase the number of factors that would encourage people to visit. Historically, retail alone would have been sufficient, but that is no longer the case. Instead, mixing up uses creates multiple reasons to visit at multiple times of the day – so, for example, by mixing shops, restaurants, cinema, library and a gym, a place becomes somewhere to go to shop, to eat, to meet, to learn and to exercise – a far more attractive proposition.

Human interaction is also at the heart of office use. With the rise of flexible and remote working, there is no longer any need for much of the workforce to work in offices. There is no requirement for an employee to be present five days a week or even from 9 to 5. However, while there may be no requirement, there is still a desire – one reason people go into the office is to interact with their co-workers and clients.

Again build-to-rent is bang on trend, with many schemes incorporating space for social events and designs intended to promote the growth of community spirit.



“Place becomes somewhere to go to shop, to eat, to meet, to learn and to exercise”

At the heart of this trio of trends is placemaking

Looking at these trends holistically – working together to personalise and interact with space – it is easy to recognise that the real emphasis is on the importance of placemaking. This is not a new concept, but one that can prove difficult to put into practice. Ultimately, it is all about giving people a reason for wanting to be in a particular place at a particular time. Property can do this, but only if it listens to the demands of the end consumer.



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