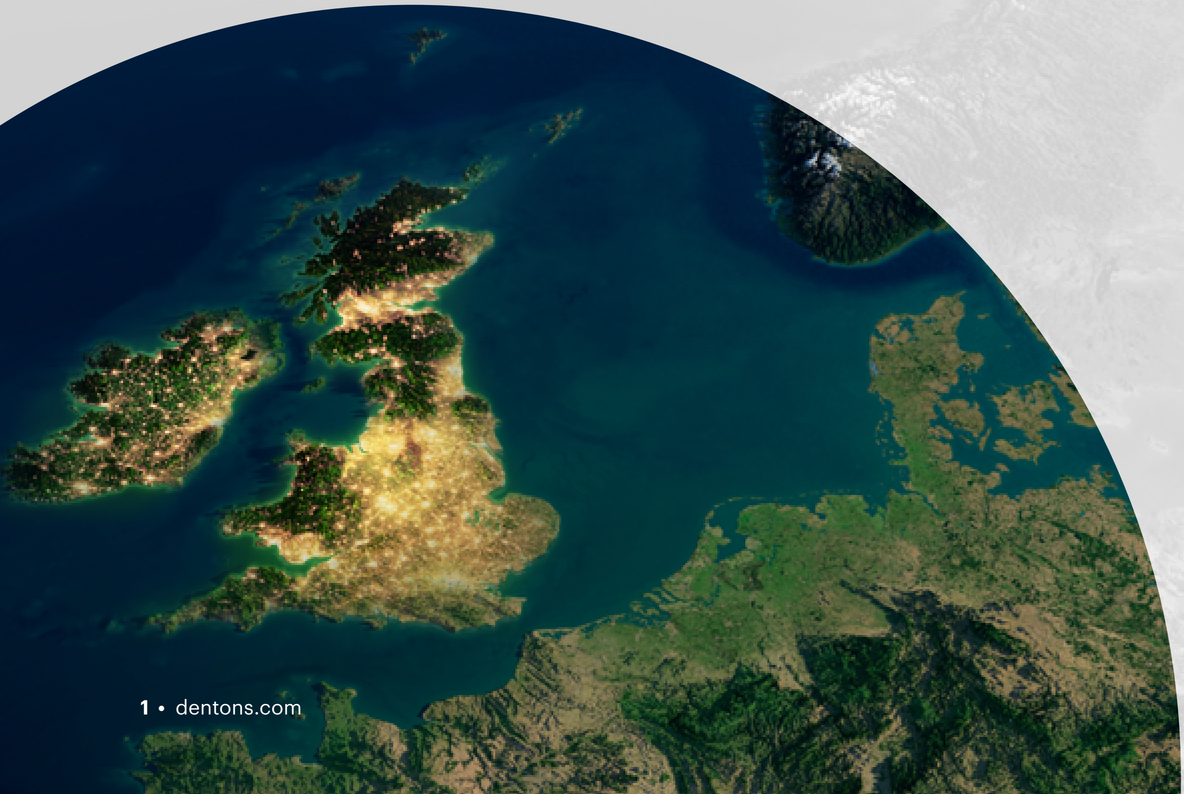
22 Real Estate Views on 2022

Grow | Protect | Operate | Finance

February 2022

Resilience, re-imagination and responsibility were the key themes that emerged from our real estate predictions event in 2021. Last year was certainly not without its challenges but for those willing to take them on, there were still plenty of opportunities within the UKI real estate market. It is clear that those opportunities will continue to grow in 2022 with particular emphasis on alternative asset classes, ESG and demand for best in class.

To hear more about what is in store for the UKI Real Estate market from different perspectives and different sectors, take a look at the following 22 real estate views on 2022 gathered from key contacts and Dentons lawyers.



Exciting and busy year for innovation

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Real Estate in 2022 will remain as busy as it was in 2021. We expect to see diversification in traditional portfolios and that we are going to see hotels and leisure come back and, most importantly, we think that the S in ESG will take increasing prominence. An exciting and busy year for innovation.

Deepa Deb
Head of UK Real Estate, Dentons

Real growth in M&A activity and operational real estate sectors in Scotland

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It is a year, where I would expect ESG to be a big factor in the market, given that people generally accepting the need to decarbonize, we are seeing lenders, investors, and developers all taking account of this decision-making and this will drive investment in coming year.

Brian Hutcheson
Head of Scotland Real Estate, Dentons

We expect 2022 to be a very active year for Irish real estate

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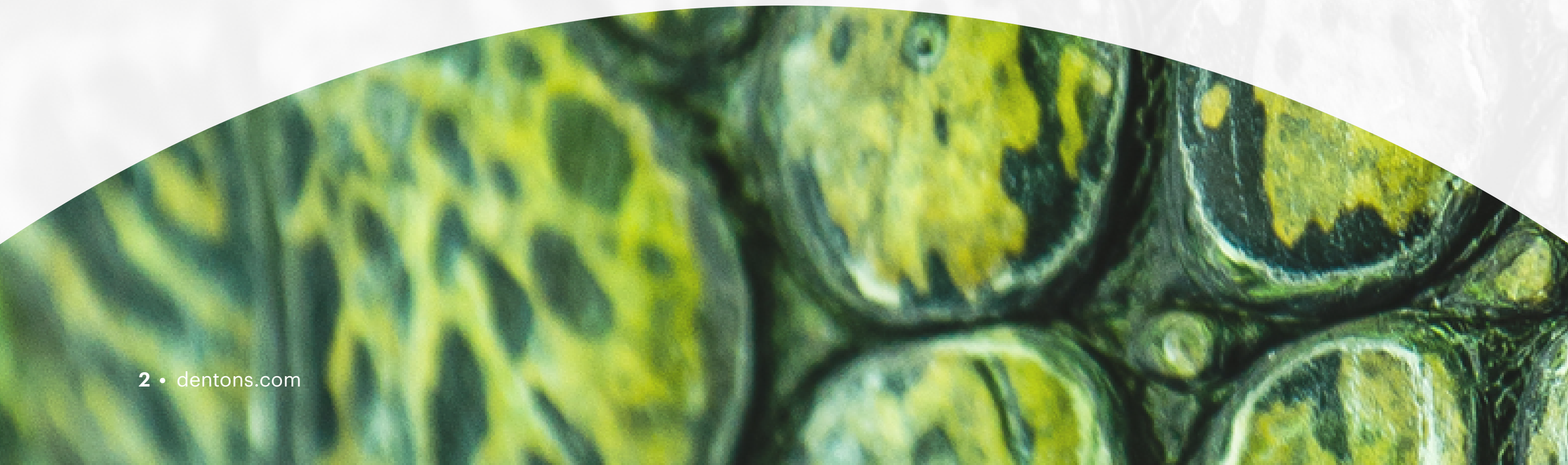
2022 will see investment volumes of similar levels to 2021. While the main areas of activity in 2022 are likely to continue be residential, logistics, offices and healthcare there is increasing focus on alternative sectors such as data centres and life sciences.

Andrew Muckian
Head of Ireland Real Estate, Dentons



Core UK real estate remains strong

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UK real estate has adjusted surprisingly well to the challenges of pandemic and post-Brexit complexities. Supply chain difficulties and construction cost inflation remain areas of concern but overall the appetite of both UK and international investors for exposure to core UK real estate remains strong despite the need for significant adaptation of traditional asset classes like office and retail. The evolution of the sector from 'bricks and mortar first' to 'space as a service' and a focus on the consumer was already underway but has now accelerated enormously.

Residential, now often labelled 'living' asset classes are particularly attractive as the demand pressures across all tenures of the housing market push prices up and affordability will continue to be a hot topic for 2022.

Alex Notay
Placemaking and Investment Director PfP Capital

Reopening of society and the economy will provide tailwinds for sectors

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2022 promises to be another very strong year for the Irish property market. Last year, we saw the second highest ever level of capital deployed and we expect a similarly strong performance this year. Sectors such as industrial and logistics performed especially well during the pandemic and we see this momentum building further in 2022. Furthermore, the reopening of society and the economy will provide tailwinds for sectors that were particularly impacted by the pandemic, with occupier activity in retail and offices set to rebound sharply. Overall, there is a great sense of optimism for the year ahead.

Mark Reynolds
Managing Director, Savills Ireland

The focus on structural change and ESG

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For the UK real estate market 2022 will be all about keeping the recovery on track, despite the numerous headwinds facing the sector from the final unwinding of government COVID support measures (rates relief, reduced VAT and commercial rent protections), inflationary cost pressures, rising interest rates and the growing tax burden on developers. The focus on structural change and ESG will continue at pace but despite all the headwinds the weight of pent-up capital eager to invest in UK real estate means, overall, 2022 looks like a bright year for most in UK real estate with more winners than losers.

Fiona Freeman
Managing Director, Real Estate,
Corporate Finance & Restructuring, FTI Consulting

The industry needs to be more innovative

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As we emerge from the pandemic, there are clear signs of renewed optimism in the real estate market. However, it won't be smooth sailing against a backdrop of rising interest rates, inflationary pressures, supply chain issues, labour shortages, increased living costs and ever evolving competitive landscape. With more global capital than ever seen before chasing fewer deals, it will be increasingly difficult to hit projected returns particularly in the logistics, residential and alternative sectors. There is an emergence of a new 'super core' market in these segments and with core capital under pressure overall returns across the spectrum need to adjust. The industry needs to be more innovative, finding new ways of creating and sustaining value for the longer term utilising technology, and critical to our evolution is more honesty, transparency and accountability especially as it relates to ESG and DEI initiatives (less talk, more action!)

Rebekah Tobias
Head of Business Development, MARCOL

Investors and landlord will need to rise to the challenge of delivering high quality assets

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In January 2021 it was reported that the uncertainty caused by the pandemic scuppered £250m of deals in 2020 but as restrictions were lifted during the course of 2021 the market recovered strongly and many sectors posted record figures in terms of investment activity. Fast forward to January 2022 and investment deal flows remain strong but the challenge will be how the industry keeps that recovery on track. There is an undersupply for most asset classes (apart from retail and low quality offices) so competition for the highest quality assets will remain strong. As the last of the restrictions lift, the tenant demand for best-in-class assets, in particular, offices, will only increase. Investors and landlord will need to rise to the challenge of delivering high quality assets designed with flexibility in mind to accommodate hybrid working and sustainability in mind to reflect tightening ESG requirements.

Carla Revelo
Real Estate Senior Associate, Dentons

Rotation away from traditional investing, towards thematics-led investing

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Capital will rightly continue to aggressively pursue beds, sheds and meds, but value, outside of just scaling, will be hard to find for all but the most tenacious.

It is not the death of the office, but the evolution of it. Winners will be investors willing to commit time and capital to creating ESG and amenity-led buildings in core locations.

Social impact investing will grow exponentially. Not least the continued institutionalisation of the social housing sector - private capital solving public sector issues.

In short, we are seeing the continued rotation away from traditional investing, towards thematics-led investing.

Will Hunting
Director & Head of Investment, Vengrove

The hotel sector has proved itself to be extremely robust and resilient

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As AGO Hotels enter its second year of trading, reflecting on the year ahead for AGO Hotels and the wider industry, I expect a rebound in hotel occupancy and rate, albeit slower than we would like.

The hotel sector has proved itself to be extremely robust and resilient in the face of unprecedented challenges. We can only anticipate an upward trajectory for 2022.

With an influx of investors who have never invested in the sector, the opportunity for continued growth is tremendous. I expect deal flow to grow through the second half of 2022, with greater acceptance of the hybrid lease model.

Lionel Benjamin
Co-founder, AGO Hotels

The Year of the Protest

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2022 will be the Year of the Protest. Covid 19 temporarily interrupted the increasing trend of protest groups causing disruption in the name of protest. When daily life returns, so does the scope for disrupting it. As the Government legislates to curtail protests on highways and impose limits public demonstrations, groups like Extinction Rebellion may turn their attention to private assets with similar scope for disruption. With consumerism, meat-eating and development all being regular targets for climate protestors, shopping centres, restaurant chains and major developments may all see an increase in such activity. Police have been much less willing to intervene on private land, and landowners may have to turn to private law remedies for protection. Fortunately, the courts have shown themselves willing to respond to this novel challenge. Injunctions granted against 'persons unknown' and committal to prison of those in breach a re now well established remedies. We are going to see much more of this litigation in the year ahead.

Toby Watkin
Landmark Chambers

Secondary market in real estate funds to continue expansion

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As institutional investors look to consolidate their GP relationships and focus on co-investment opportunities, I expect 2022 will see an increase in sales of interests in real estate private equity funds.

This would represent a win/win/win scenario. Sellers get to exit positions in funds that may be coming to the end of their term, with the opportunity to recalibrate their portfolios, whilst buyers benefit through diversifying their investment portfolio, often with favourable pricing, as a counter to the single asset deals so popular in 2021. Meanwhile, managers access new investors from whom they can raise further capital in the future.

Jonathan Cantor
Corporate Partner, Dentons

Increased focus on the shopping "experience"

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The pandemic has forced some shopping habits to move online, but many customers have sorely missed the experience of shopping in person. Expect this year to therefore see an increased focus on the shopping "experience", with stores set up to enhance how customers can interact with produce before they buy and an emphasis on omni-channel purchasing habits. Out of town retail is perhaps best placed to capture this, with more affordable space and easier access enticing safety conscious customers and the larger floor plate giving more flexibility for trialling and adapting experience focused store formats.

Daniel Lowen
Real Estate Senior Associate, Dentons

Priority for real estate will be sustainability

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The UK economy is expected to make a strong recovery despite the challenges posed by shortage of construction material, energy and labour and threat of inflation. The main priority for real estate will be sustainability, with companies more likely to focus on better performing assets to deliver their corporate commitments.
The recovery of the retail, driven by consumer spending, is underway with retail parks being the leading investment. Despite the rise in hybrid working, 2022 should see a 25% increase on 2021 office occupancy levels as it is expected the office will be a part of any flexible workplace strategy.

Rob Thompson
Real Estate Partner, Dentons

The Commercial Rent (Damp Squib) Act 2022

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In the last two years, landlords and tenants have been reeling from the impact of Covid-19 on their businesses and their respective ability to receive and pay rent. There has been much animus in many sectors as landlords' income stopped or was reduced, or where tenants felt unfairly pressured to pay rent where they could not use their premises. The Treasury estimated that arrears of £9 billion accrued as a result of the pandemic.

The Commercial Rent (Coronavirus) Bill is due to become law in March 2022. Where parties cannot agree to settle their arrears, binding arbitration can take place to finally determine liabilities, overriding contractual obligations. Relying on the Act is also very uncertain and likely to be expensive. For this reason, 2022 is likely to see the final resolution of the weeping sore of Covid-19 arrears. This is not because of the effectiveness of the Act, but exactly the opposite. Whether by luck or judgment, the Act will result in landlords and tenants being much more likely to agree to settle their arrears disputes contractually to avoid the vagaries of relying on an untested and unclear arbitration process.

Bryan Johnston
Real Estate Litigation Partner, Dentons

Healthy appetite for UK hotel transactions

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After a volatile trading period, it is no surprise that hotels' rates, revenue per available room and occupancy are all expected to increase significantly in 2022, further increasing the healthy appetite for UK hotel transactions, albeit with inflationary and staffing pressures to watch out for.

Many owners and operators are considering repositioning hotels to reflect consumers' eagerness to splash out on holidays after repeated lockdowns, as well as the increase in "bleisure" (combined business and leisure) travel.

ESG remains a key consideration for developers as well as investors and operators, and could have a significant impact on yields going forwards.

Laura Gowing
Real Estate Senior Associate, Dentons

Appetite for the best in class logistics assets

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Industrial and logistics was the go to asset class of the pandemic. I expect rental growth and investor appetite for the best in class logistics assets to continue in 2022, with global capital competing with UK funds alike for logistics portfolios and bigger box deals. Supply and demand continues to be mismatched, exacerbated by some existing stock lacking in sustainability attributes, developers unable to meet investor and tenant demands quick enough and shortage of space within urban cities competing with other use classes, forcing the logistics industry to rethink traditional norms. Many investors are looking to come into the cycle earlier than historically with forward funding and forward commitment deals more common, sharing more development risk than before. So what is on the horizon for logistics sector in 2022, I would say potentially another record breaking year!

Alex Coulter
Real Estate Partner, Dentons

House prices will keep rising because of higher demand than supply

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Mortgage rates will increase which will impact sales but house prices will keep rising because of higher demand than supply and overall completions will be up on last year. Construction will continue to be hampered by troubled supply chains causing shortages, longer lead times and price increases in basics: bricks, timber and roofing. Those will be matched by continued shortages in skilled labour. Increased energy prices will increase homebuyer interest in insulation and heating systems especially heat pump technology. All of these are probably more certain than how the government's planning bill will turn out!

Robert Wyatt
Real Estate Partner, Dentons

Alternative asset classes are maturing

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This looks to be a busy year across the spectrum of housing, energy and transport infrastructure. Small and mid-sized developers have refreshed their development pipeline over lockdown. Larger projects for repurposing and redeveloping retail assets are reaching full steam, with a large bank of obsolete town centre assets in play. Alternative asset classes are maturing. The key for the planning development pipeline over the later part of the year will be whether opportunities are now all priced in or if there is real value that can still be achieved while navigating costs from increasing policy 'asks' on sustainability, affordability, green and blue infrastructure. In London, the gloves are off following High Court intervention on tall buildings, which will fuel aspirations for scale outside areas designated for height. Everywhere, there is political volatility and a greater reliance on the appeal system.

We should expect current public sector resourcing to continue to be a powerful limit to the pace that investors want to work at – resource constrained local authorities, pressures on a limited pool of planning officers, too few officers in specialist areas such as biodiversity. The well of junior planning professionals is also drying up. This requires a concerted effort to ensure that planning and related disciplines are well regarded and resourced and initiatives such as Public Practice will be crucial in rebuilding capacity.

Roy Pinnock
Head of Planning Dentons

Investors will look for value to stabilise portfolios

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As we hopefully move towards the end of the Covid pandemic and, as the economy rebounds, investors will increasingly turn to real estate assets in 2022.

We will see a rise in occupancy driven by the return to the office – whilst agile working is clearly now here to stay, many occupiers still need to assess which hybrid model best fits the requirements of their business. Nonetheless, we are likely to witness a focus on quality of environment to entice workers back into the physical office space so high demand for quality Grade A office space and pressure on yields is likely.

The demand (both at home and from overseas) for real assets across most sectors will continue and investors will continue to look for value wherever possible to stabilise and then bolster their portfolios.

Whilst inflationary concerns persist (with the threat of an interest rate rise in the short to medium term), some in the real estate industry [are bullish] see this as transitory and expect a modest interest rates rise. Only time will tell how this plays out.

Jason Sheard
Real Estate Partner, Dentons

Legal landscape of increasing scrutiny and change

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2022 will see increasing scrutiny of the real estate market in England and Wales resulting in significant legal change. For example:

- The Leasehold Reform (Ground Rent) Act 2022 which has just received Royal Assent, caps ground rents in new long residential leases at a peppercorn. However, this is just the start. Dissatisfaction with the position of residential leaseholders will continue to drive reform from measures to tackle the cladding crisis, to the potential reinvigoration of commonhold, to the abolition of no-fault evictions.
- 2022 is likely to see ESG going up the agenda both privately and politically. Talk of minimum energy efficiency standards being tightened could just be the start of the process of turning aspirational ESG targets into legal requirements.
- The Commercial Rent (Coronavirus) Bill is due to be enacted by March 2022 and has been driven by the accumulation of arrears during the pandemic. As and when enacted it will be a milestone government intervention in matters of private contract.
- Calls for greater transparency in land ownership are growing once again. Plans to introduce a public register of beneficial ownership of overseas entities that own UK land are likely to be dusted off to appear in the Economic Crime Bill which is expected during the 2022-23 Parliamentary session.

Emma Broad
Real Estate Practice Development Lawyer Dentons

What is changing legally for Scottish real estate in 2022?

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- The long-awaited Register of Persons Holding a Controlled Interest in Land (RCI) will come into force on 1 April 2022 to further the Scottish Government's aim of increasing public transparency of individuals who have control over decision-making in relation to Scottish land. This will require owners of certain interests in Scottish land to publicly register details of any "off-register" parties who have a significant influence or control over that land as a result of contractual arrangements with an individual, partnerships, trusts, unincorporated bodies or overseas entities.
- Whilst the Coronavirus (Recovery and Reform) (Scotland) Bill is still making its way through parliament, it appears likely that certain changes to the law introduced by emergency coronavirus legislation will now become permanent. Amongst these is the proposal to make all eviction grounds for various types of private residential tenancies discretionary rather than mandatory, meaning that landlords can no longer be certain of being able to evict residential tenants on grounds that were previously automatic.
- In relation to commercial leases, the Draft Leases (Automatic Continuation etc) (Scotland) Bill, produced by the Scottish Law Commission, which proposes to replace the common law of tacit relocation with a statutory scheme to promote clarity in the law, looks set to continue its journey of scrutiny and refinement.
- Finally, in a relatively minor amendment to the law, from 1 October 2022 it will become competent to have documents that have been signed with a qualified electronic signature (the highest standard of electronic signature) recorded in the Books of Council and Session. This change, whilst small in itself, may be a significant early step in the journey to true digital conveyancing. It will bring electronic signatures into more mainstream transactions and, coupled with digital submission becoming the "normal" way of registering titles, the foundations are being laid for a faster, more secure and efficient conveyancing future.

Sarah Peock
Real Estate Practice Development Lawyer Dentons

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