



thinking
— Real Estate
ISSUE EIGHT

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Welcome to the eighth edition of Thinking Real Estate where we share thoughts and ideas on topics across the real estate industry. In this latest edition we're focusing on some practical issues affecting various parts of the sector:

- Making construction great to work in again - With nearly half the workforce over the age of 45, what can be done to attract new workers to the industry?
- Permitted development rights - The Government is undertaking a consultation on whether to extend permitted development which could increase housing delivery and revitalise struggling high streets. But what could be the impact on the wider real estate market?
- Omni-use development - The Student Hotel concept in the Netherlands combines a number of uses into one development: hotel, student accommodation, private rental, co-working and restaurant with shared facilities. Is this a concept that could take off in the UK?
- Cities of the future - Two-thirds of the world's population may live in cities in 20 years' time and technology is radically changing our working practices, lifestyles, communication and transport. How will this shape our cities and how they develop?
- Impact investment - Investing in a way that benefits wider society is a hard sell. But is there a growing appetite for more socially conscious investment and impact investment which actively seeks to do social good and what is driving it?

We hope you're enjoying Thinking Real Estate – we've tried to write it in the way we like to talk to our clients, unstuffy, pragmatic and conversational.

Please get in touch with any of us directly at thinkingrealestate@trowers.com with any questions or comments, and continue the debate with us on twitter @Trowers.

MARCH 2019

MAKING CONSTRUCTION GREAT TO WORK IN AGAIN

According to the Chartered Institute of Building (CIOB), the construction industry will need to attract 157,000 workers by 2021 to meet demand.

With nearly half the workforce over the age of 45 and Brexit having deterred EU workers (7% of the construction industry workforce is from the EU), the need to attract new workers to the industry is vital.

However, in order to attract more workers, the industry needs to be a more appealing career option. Its reputation and image need an overhaul if it is to appeal to the next generation but it is not a simple task.



There is a real dichotomy as to where the industry should put its efforts,”

says Assad Maqbool, partner, Trowers & Hamlins.

Last year the Government set up a £22m fund administered by the Construction Industry Training Board (CITB) which will benefit 26 large scale projects by helping them set up onsite training hubs.

It's an important initiative but does it adequately highlight the wide variety of careers the construction industry offers in order to make it an attractive proposition to people of different skill levels?

Technological advances such as BIM (Building Information Modelling) means the range of jobs and skills required to work in the industry is broadening. Similarly, modular technology is moving some building work into high-tech factories which generate a range of jobs from low skilled to high-tech.

Raising awareness of the high-tech and the higher-skilled jobs available is important, not least because it can help broaden the appeal of the industry and break down some common assumptions about the type of work available.

Land surveyor Alison Watson MBE and architect Dan Gibson have been working in this area since 2009 when they set up A Class of Your Own targeting the curriculum within STEM subjects and designed a course with construction industry backing which gives students hands-on, practical experiences working on projects directly related to the built environment.

Seventy schools now run the course putting mentors from the industry into schools where they can teach the course and promote the different careers on offer. This also allows students to forge links with local businesses and potentially move into apprenticeships. However, 70 schools is just a drop in the ocean.

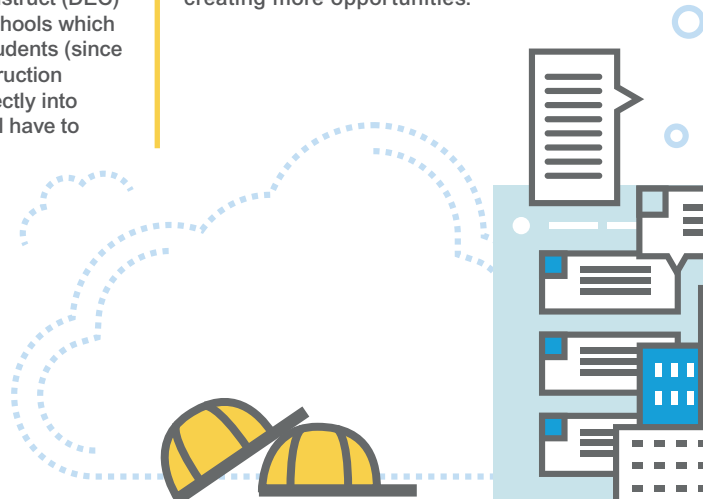
“Whilst the Design Engineer Construct (DEC) course is highly valued by the schools which teach it to their 14-18 year old students (since it is a qualification that the construction industry endorses and leads directly into job opportunities), DEC does still have to

compete against the traditional A-Levels and new technical qualifications that the government is promoting as well,” says Katie Saunders, partner, Trowers & Hamlins. “This is why Trowers has supported DEC with creating and teaching a bespoke construction law module which provides another facet to the course and elevates the benefits of the course for more academic students”

Alison Watson is working towards getting the course officially recognised by the Government which can only help with the uptake. And, apprenticeships are becoming a bigger part of the narrative again having lost favour with successive Governments focused on increasing higher education attendance.

They are an essential piece of the jigsaw as they focus on a variety of skills from the more traditional trades through to professions like surveying.

But better coordination and perhaps bigger incentives are needed not only in promoting apprenticeships but also in creating more opportunities.



“Quite often what will happen is that apprentices are taken on but if there is a flux in work then they will be the first people who are let go,” says Maqbool.



Something that we have worked on is looking at ways in which main contractors and secondary contractors can pool apprenticeships through an alliance.”

This means apprentices go where the work is but it requires projects of scale to work. CITB have brought this together in their National Skills Academies for Construction.

Another solution is greater incentives for businesses to take on apprentices particularly for public procurement projects.

Saunders explains: “A major contractor bids on the basis they will provide X amount of apprenticeships and training opportunities; it becomes part of their evaluation and selection criteria to win the project and once appointed they are contractually signed up to provide those things.”

It is something that is already being used in Wales and a way of putting social value into the contract. Trowers has also worked with HACT to support the housing charity on a Social Value Toolkit to enable public sector clients to evaluate employment opportunities being offered by bidders.

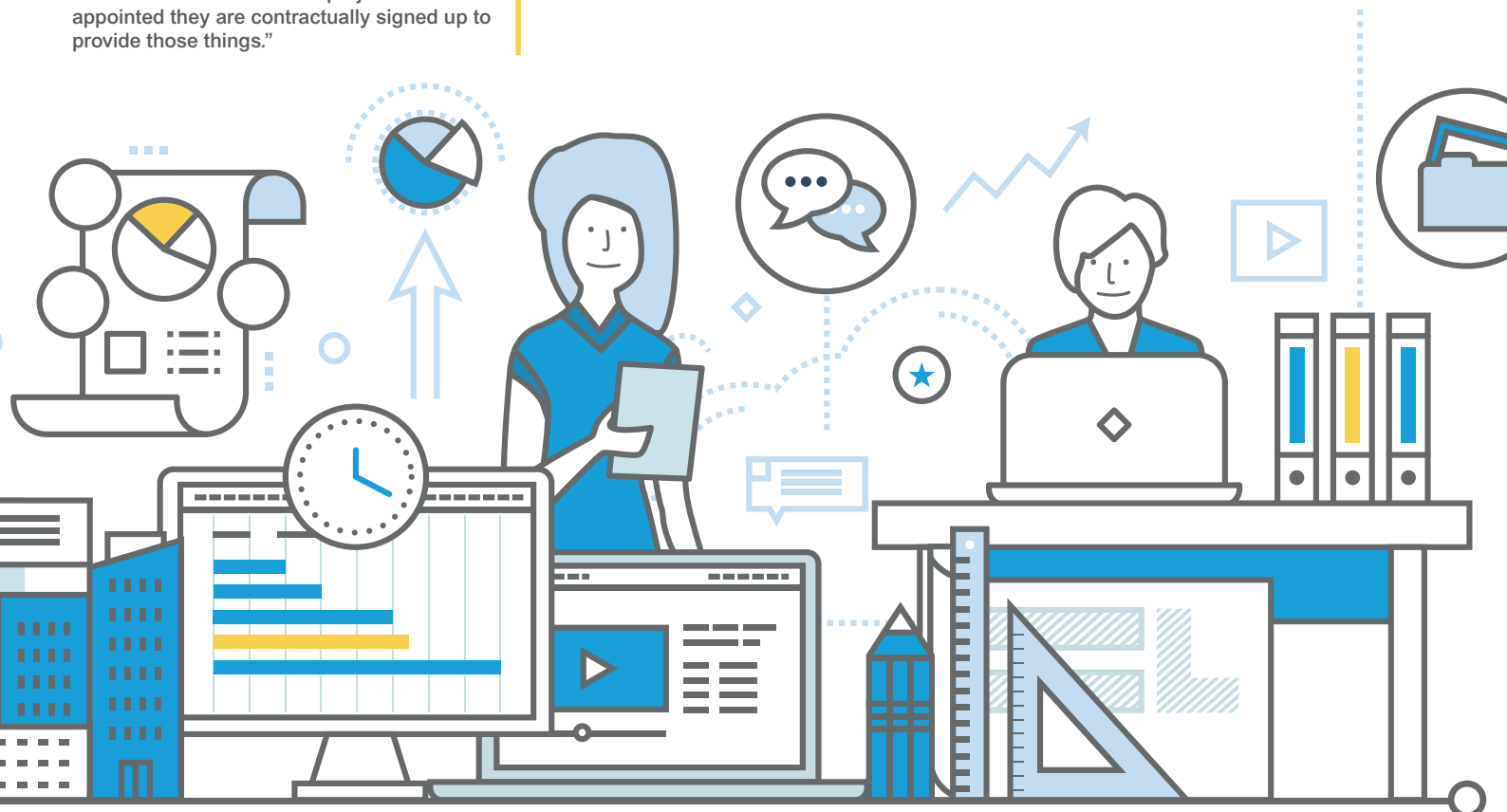
Charities like the Construction Youth Trust are also playing a part.

Maqbool is a trustee of CYT: “The Trust is focused on working with young people in secondary schools and colleges, prioritising those not well-represented in the industry, those most likely to miss out on opportunities, and those facing barriers to employment. We aim to coordinate across the industry, ensuring schools are able to engage with the breadth of the built environment sector. In 2018, the Trust engaged over 7,000 young people through bespoke programmes of employer engagement and has ambitious plans to reach even more this year.”

But should there be an overall leader in all these initiatives to ensure consistency and to maximise the benefits?

“Currently, there is not really an overall programme that either the Government or the construction industry put together which is uniform across the country and that would make sense,” says Maqbool.

However there are many diverse and successful initiatives being led by the industry and perhaps CITB should be bringing them together. Currently it is being left to charities like the Construction Youth Trust and disrupters such as Alison Watson and Mark Farmer, author of the Modernise or Die report, to raise awareness about the pressing need to make the sector more attractive as a career option for new entrants and to retain talent.



PERMITTED DEVELOPMENT RIGHTS



When office to residential permitted development rights (PDR) were introduced to stimulate the housing market after the financial crash there were concerns about what impact it would have on adjoining land uses, living conditions for occupiers and infrastructure.

Converting offices to residential without having to go through a costly full planning process, can help to stimulate development by improving viability.

The Government is now undertaking a consultation on whether to extend PDR to include adding up to two storeys to existing buildings and converting retail space to other uses. This could potentially solve two problems: increasing housing delivery and revitalising struggling high streets.

But what are the wider implications?

Office to residential PDR was disliked by a lot of local authority councillors because it circumvented their decision-making process and while fears over the lack of quality control on developments have largely not materialised, some feel the move has been to the detriment of the office market.

Jacqueline Backhaus, partner in the planning team at Trowers & Hamblins, says: "There is a feeling that the office space being lost is actually required for business and some authorities are having to designate new areas, often in the greenbelt, in their local plan to accommodate the loss of employment space."

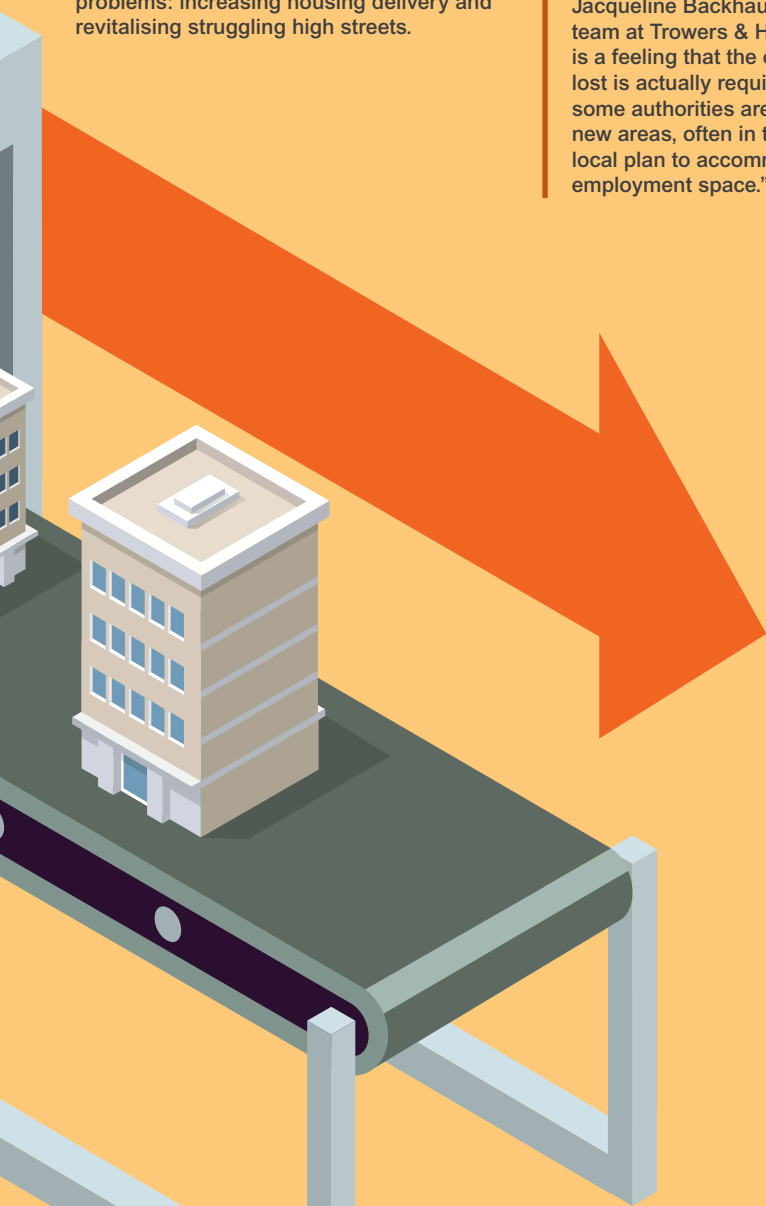
Extending PDR was the brain-child of Mayor for London Sadiq Khan back in 2017 and the numbers make the argument for extending compelling.

Research by Knight Frank found that in London's zones 1 and 2 enough space could be created on the top of existing buildings to provide 40,000 new homes.

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An alternative survey was done prior to that across Greater London as a whole and that yielded a result of 140,000 new homes," says Backhaus.

However, many of the concerns around office to residential conversion do not disappear with this proposal not least is the increasing shift away from local planning control.



“What sort of places are you going to be left with?” asks Backhaus. If planning is deregulated in this way, you could potentially lose primary shopping frontages altogether.



By taking that decision-making role away from local authorities and politicians you could potentially create completely different places. Where will that lead us in terms of the placemaking local authorities are trying to bring forward through a plan making system?” she says.

Office to residential PDR were granted subject to the condition that prior approval had to be gained from local authorities on a number of factors such as environmental impact, flood risk, transport and noise.

Rory Stracey, a fellow planning partner at Trowers & Hamblins, says: “What range of considerations will the government introduce for the build-up proposals? Will they go any further, for example, requiring that local authorities have design or layout approval for the flats or the impact on the street scene?”

“And when you start getting to those sorts of stipulations you have to ask, what is the point of PDR?”

Yes, reducing costs for developers can encourage more development – although building up is more complex and potentially more expensive than conversion. And removing an element of the politics from planning system allows developers to potentially side-step nimbyism. But is it right to do it at the expense of building a proportion of affordable homes?

There is also the issue of legacy. Development of this sort isn't temporary and, therefore, you are shaping the look and feel of towns and cities for decades to come.

Are market dynamics rather than planning to blame for housing targets being missed?

The housing market is like any other in that those delivering stock will want to balance supply with demand in order to maintain value. And this could be what is hindering housing delivery, rather than planning.

Developers have been criticised for sitting on sites with planning and land banking but the reality is that it doesn't make sense for a developer to deliver all their houses in one go.

Jacqueline Backhaus, partner in the planning department at Trowers & Hamblins says:

“You've got this dilemma between the private market requiring its profit and the delivery of what is actually needed and this is not always aligned.”

Speaking at the Westminster Policy Forum recently, Conservative MP Oliver Letwin suggested that in order to speed up delivery then tenure needed to be addressed. The

idea being that if you deliver, say, 100 homes then only a proportion will be for sale on the open market with the rest available for alternative tenures such as build to rent.

Rory Stracey, planning partner at Trowers & Hamblins explains:

“You wouldn't be saturating the market because you would be able to deliver a certain number of new build houses for sale and the others to rent with the intention that at some point those rented units will then be able to be sold on the open market over a more gradual period.”

“The question is whether the planning system can help by giving incentives to build those types of private rented tenures which would be retained for a certain period of time to avoid flooding the market with market sales.”



OMNI-USE DEVELOPMENT

The Student Hotel concept in the Netherlands combines a number of uses into one development: hotel, student accommodation, private rented residential, co-working and restaurant with some shared facilities.

Dubbed 'omni-development', The Student Hotel describes itself as a 'complete connected community' but could this concept take off in the UK?

Different styles of living that combine communal space are what differentiates omni-development from traditional mixed-use development. Students who enjoy the co-living experience they get from purpose-built student accommodation can move into the build to rent (BTR) space in the same building perhaps using the co-working space too.

The pull of community should not be underestimated. Increasingly BTR includes shared space as part of its design as landlords find that tenants are more likely to renew their lease if they have got to know their neighbours. Communal space helps facilitate those relationships.

Brands such as The Collective and WeLive are aimed at demand for co-living style concepts for those who are working rather than students.

Andy Barnard, partner, at Trowers & Hamlins says: "We're beginning to see student and BTR accommodation coming together in the same asset."

It makes sense from a business point of view to align the concepts, for example as a deal Amanda Hanmore, partner and lead of Trowers & Hamlins Birmingham real estate team, was involved with in Manchester, indicates.

"Select, which traditionally has invested in student accommodation, has seen an opportunity whereby it can capture its clients or tenants after university and transfer them into a similar sort of environment," she says.



There isn't a hotel element like the Netherlands' The Student Hotel but it's a very similar sort of arrangement where common areas are shared with the same management services for both."

At the moment the student and BTR accommodation are separate but run with similar styles of communal space and events in order to create continuity. Combining the different styles of accommodation into one building could be the next step.





Taking the omni-development concept one step further, the offer could be broadened out to include senior living and family accommodation.

Barnard says: “We’re increasingly seeing people wanting to look at their developments on the basis that they’re providing accommodation that works all the way through different ages, rather than having just one of these groups on the site, actually having lots of them together and generating a much more interesting place for people to live as a result. Ironically, the difficulty for some investors could be the breadth of the offer in an omni-use development. Some might have promised their customers something more restricted. But there will undoubtedly be others who see great benefit in diversifying their risk.

The Channel 4 series *Old People’s Home For 4-year-olds* highlighted some of the benefits of mixing facilities for children and retired people.

Traditional mixed-use development works because the different uses feed off each other and create continued activity throughout the day. Mixing facilities for senior living and children with students and working-age residents you create something akin to a village in one building.

Barnard explains: “So you have a building with common areas on the lower floors and that can be used by the older generations and pre-school during the day and then students and workers join them in the evening.”

All of which is great in theory but the reality of delivering omni-use development is dependent on planning and financial viability.

Hilary Blackwell, partner, Trowers & Hamblins, says:

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With this sort of development you will immediately start bumping up against planning rules and space standards is an obvious one if your individual living accommodation is smaller to balance the communal space.”

Barnard agrees: “Trying to persuade a planning authority that you’re going to have all multiple uses in the same building with the same entrance with common space – I’ve no idea how they might react to that. Student accommodation, for example, normally uses its own specific planning use which is different to normal residential.”

There is also the challenge of setting the service charge to pay for the communal facilities. How do you ensure a fair price for different tenants and use?

Blackwell says: “You have that in mixed-use buildings where you may have to divide who are using the lifts and who isn’t and you do have to get into some quite complicated service charge arrangements.”

For investors, the key challenge is determining risk, particularly as these operations are reliant on good management.

Hanmore says: “You have to incentivise the managing agent to deliver the income to the investor and to what extent does the managing agent take that risk? Probably the most difficult aspect after development and construction are paid for is the managing agent able to deliver the income and who takes the risk when there’s a void?”


With demand for residential space so high, particularly rental accommodation, it could be argued that the potential for voids is less risky and mixing in other uses can also help mitigate risk.

Given the trend for co-working and co-living omni-use development is an interesting concept but there are challenges to overcome. Blackwell concludes:

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It could be a thing for the future. It could take off.”





CITIES OF THE FUTURE

Two-thirds of the world's population may live in cities in 20-years' time and technology is radically changing our working practices, lifestyles, communication and transport. How will this shape our cities and how they develop?

In the past the purpose of cities and towns was clear: a place for commerce, trade, to meet and socialise. This informed the design, layout and function of the built environment.

There are many more ways of doing those things now and that presents a challenge for how cities evolve. The demands made of the built environment from a digital savvy generation could be very different from what they are now.

"Everyone buying homes in the future will be digital natives, they will have grown up with the internet and smartphones and social media and that has an impact on their expectation about how and where they live," says Amardeep Gill, partner in the public sector commercial department at Trowers & Hamblins.

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The extent of that will be played out in the years to come.”

What will the digital generation prioritise – connectivity over car parking? Well-being over workspace?

Technology is changing how we work and shop, the impact of which can already be seen in city centres across the country; office space is increasingly 'agile' fitting more in less, co-working space is growing and on the high street traditional retail is struggling.

Homes are changing too with new concepts such as co-living and the rise of build to rent. Technology is making our homes 'smart' allowing occupiers to control and monitor appliances, heating and lighting.

The way people get around is changing too with the emergence of services like Uber, shared taxis and cars and, in the not too distant future, driverless vehicles. The Department of Transport has stated it wants fully autonomous vehicle on UK roads by 2021.

It means the incentives for not owning a car are growing, particularly in urban areas. The implications are less on-street parking and car parks which opens up a wealth of possibility as to how that space might be used and what the streetscape might look like.

5G will also play a big part in shaping our cities. Current 4G networks are limited. Speed and drop off are the common complaints but 5G could put fibre-optic WiFi speeds in an individual's pocket and Birmingham is going to be the first city to test it.

The implications aren't just limited to fast, more efficient googling when on the go but it opens the door some fundamental changes in how we live and work – and by that token how the built environment will look.

Gill explains: "5G will create liberated networks which will allow people to access information and data far more quickly than they currently can, it will allow businesses and individuals greater speed and a greater choice in how they conduct themselves and go about their day to day business."

The real estate industry has an important role to play in not only developing for the next generation but in adapting the existing urban environment to meet new demands.

Perhaps the biggest challenge is in determining what those demands will be as technology advances fast, much faster than it takes to design and develop buildings.

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“It's entirely right that we ask what a city is for and we try and design things around that - part of the solution is to build more design flexibly so that buildings are much easier to convert as demands evolve,”

says Christopher Plumley, partner in the real estate department, Trowers & Hamlins.



A good example is the multi-storey car park which could become redundant if the trend away from car ownership gathers pace. However, clever design allows them to be more easily repurposed for other uses in the future.

Accommodating flexible design also requires broader thinking from local authorities in planning and use allocation.

“When councils ask developers to come forward with development proposals, they tend to be specific about the type of use they are asking for - if you ask for a specific use you will get a specific use. This means procured schemes have to have that forward thinking built into the evaluation criteria,” explains Plumley.

There is also an argument for Government intervention on longer-term projects. Public investment allows more patient capital to invest large sums to enable development that may take 10-15 years to come to fruition. At the point of procurement, there needs to be certainty that what is being built is going to still be in demand and fit for use.

The public and private sector can also come together to shape the urban landscape, as they have done in the past.

Tonia Secker, partner and head of housing and regeneration at Trowers & Hamlins says:

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London in the nineties was a grungy, horrible city and what happened was a benign autocracy of people working together using a kind of nudge theory in order to get people to a particular place.”

Coffee culture is an example born partly out of demand and partly from a vision for how the public and private sector wanted space to be used.

The most important thing is, perhaps, to see technology as the enabler to delivering the city of the future rather than leading it which will require the best of the Government's and property industry's creative thinking and innovation.



IMPACT INVESTMENT

How do you convince a room full of billionaires, most of whom have private jets, to care about the environment?

It was an issue raised at the 2019 World Economic Forum in Davos. Environmental impact is arguably an easier pitch to investors because climate change is ultimately bad for everyone.

Investing in a way that benefits wider society is a harder sell because you have to navigate a debate around 'it's the right thing to do' and 'what's in it for me?'

But is there an appetite for more socially conscious investment and impact investment which actively seeks to do social good and what is driving it?

Environmental impact is easy to measure, and legislative sticks such as inefficient buildings being rendered obsolete have helped. Green investment funds are common including in the built environment sector.

Similarly, in business corporate social responsibility is nothing new, it helps maintain certain standards even if the reasons for doing it are sometimes more about brand marketing.

But social impact is trickier, partly because it is harder to measure and partly because it might mean a shift in priority away from pure profit.

Patrick Morris, partner in the real estate department at Trowers & Hamlins says: "If a fund is presented with two investment opportunities, one of which would have a positive impact on society and one which wouldn't, then if all else was equal they would go for the one with the positive impact."



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An investor is unlikely to take a hit on profits just for that reason, but there is growing evidence that the rewards of focusing on environmental, social and governance (ESG) factors when investing outweigh the risks of doing so.”

There are some specialised impact investment funds but is it mostly talk?

Sarah Gooden, partner in the banking and finance department at Trowers & Hamblins says: “People are getting quite excited about it, there’s quite a lot of coverage in the media but it is still a pretty small proportion of the total amount of investment in real estate that’s going on.”

But the fact that there are impact investment funds – Gooden points to a fund which specialises in investing in homes for homeless people – indicates that there is an appetite and could this be the key to a growing trend?

Morris thinks it could, particularly for pension funds: “There is a change in awareness, people actually want to know what’s happening with their money.

In fact the UK government has recently clarified the fiduciary duties of pension scheme trustees and from 1 October 2019 the financially material considerations which trustees must consider when making investment decisions include ESG factors such as climate change.”

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Businesses are starting to recognise that staff health and wellbeing impacts productivity and is a key factor in an organisation’s long term effectiveness and workspace choices are reflecting that. Since January 2019 UK companies have had to comply with a new governance code which says that a successful company is one led by a board that promotes the company’s long-term sustainable success, generating value for shareholders and contributing to wider society.

Similar trends can be seen in purpose-built student accommodation.

Rebecca Wardle, partner in the real estate department, Trowers & Hamblins explains: “Operators are looking at different ways of developing their buildings because of student wellbeing and students demanding much more out of the accommodation. Students place greater emphasis on ethics and community. Experience and wellbeing is more important than product, so providers that cater for that will be the more popular choice.

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Mental health and wellbeing can be tracked and measured and that is also what universities want now.”

Building to meet demands naturally benefits investors in the long term and ‘greater good’ becomes a happy by-product of ‘what’s in it for me’.

If the debate is weighted this way could social housing be a big beneficiary?

Demand is easily demonstrated. The number of people who are homeless, living in temporary accommodation and on waiting lists for social housing is growing, pointing to an increasing lack of suitable accommodation.

Investment into the affordable housing sector is not new, but the way in which that investment is being deployed into the sector and those who are participating in that investment is changing. The creation of for-profit registered providers of social housing is driving that trend.

Wardle says: “It is traditionally seen as a safe sector to lend to and invest in because of the relatively stable and secure financial nature of registered providers.”

The level of returns may still not be as attractive to some, but it is a growing trend with investors who are moving away from the more risky asset classes in favour of a modest but more secure return.

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It is only very recently that we have really seen for-profit providers being set up – not hundreds but a significant handful,”

she adds citing Legal & General as an example, which points to increasing investor confidence in direct investment into the sector. It has been possible to set up for-profit registered providers for some years but it is only in the last 18 months that there have been a number of significant entrants into the sector.

As long as there is demand and money to be made then arguably there is a strong case for impact investment, whether it becomes a vehicle that moves beyond that equation is surely a bigger question of social and economic change?



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