What's in store in '24? Leading industry figures give their forecasts for the next 12 months. Part one

By BE News Team

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BE News asked some of the biggest names from across the built environment to share their thoughts on the challenges and opportunities ahead. In the first of three instalments, 24 industry experts give their predictions for 2024:

Nick Walkley

Principal and UK president, Avison Young

2024 will be a year of elections at local and national levels. Despite potential political changes, prioritising levelling up to address geographical inequalities remains a priority. Commitments to decentralise power persist, but incoming administrations face challenges due to a decade of poor funding and rising costs. However, optimism prevails as UK cities showcase resilience, particularly in advanced manufacturing, health, life sciences, creative and the digital industries – crucial for job creation, talent retention and regeneration. New regional authorities, notably in the North East, offer prospects for long-term developments. While regional strategies demand national support, the shift towards public-private collaboration is crucial for growth. Meaningful partnerships can unlock cities' potential, fostering innovation, growth, and inclusivity. 2024 could mark a turning point with devolved funding powers reaching all the UK, including untapped opportunities in Belfast City. Early engagement between mayors and the new government will be pivotal in this transformative period."

Ghislaine Halpenny

Corporate affairs and ESG director, Regal London

People expect the greenest and healthiest buildings now – in which to live, work, shop and play – and the sector needs to make sure we're delivering. That's both our challenge and opportunity. There are now clear drivers for sustainability in the commercial sector, with both investors and occupiers demanding ESG-aligned buildings, and the market now providing a green premium for sustainable offices. The challenge is extending that product to markets beyond central London, as Regal London is doing with The Clarendon Works (TCW) in Watford. The early demand for TCW is showing us that there is certainly a market for best-in-class sustainable offices in locations beyond central London, which offers a great opportunity for the industry as there is a huge need to upgrade 'brown' regional office stock to greens standards. We also see huge opportunity in the curation of offices, with a focus on a mix of businesses including local enterprises, which add character and root the building in its community. For this to work successfully, developers need to become 'custodians', retaining a long-term interest in the building and its local area, as Regal London is doing with TCW and with our commercial building in Shoreditch. Ultimately, we think this 'hyper-local' approach makes for a more successful building and helps create a better place.

Dan Drogman

Founder and CEO, Smart Spaces

Improving air quality is fundamental to the future enjoyment of our urban centres. The recent expansion of the Ultra Low Emissions Zone (or the 'ULEZ') has been a clear focus for London's legislators. Depolluting the workplace is a vital and overlooked component of the air quality discussion. By leveraging biophilic design (indoor planting), natural ventilation and, crucially, smart technology, office owners can improve the sustainable operation of assets and to bolster the wellbeing of occupiers. Smart Spaces is pioneering new ways to monitor and improve indoor air quality, informing the placement of indoor plants and monitoring for harmful pollutants. Air quality is central to London's future as a liveable city. This goes beyond our public spaces and is also true of our workplaces.

Harvey M Soning, FRICS

Chairman, James Andrew International

We left 2023 in the midst of a downturn and some tough trading conditions. I think inflation is now under control, which will ease the pressure on interest rates, albeit I don't see rates falling before 2025. 2024 is going to be a very interesting and potentially turbulent year. There are two important elections, our own in the UK and of course the election across the 'pond'. I am not going to predict the outcome of either, but there will be uncertainty until these are resolved. We also have two wars continuing, both of which may have far reaching consequences. So, what does that mean for real estate?

With the elections and wars in the background, it seems likely that very few significant decisions will be made. Of course, I am still expecting some fallout from the interest rate increases and year-end valuations, which could see values fall and the banks seeking capital to reinstate LT's. This could bring some distressed stock to the market and, with it, opportunities for the fleet of foot. Looking at the various sectors of the market, Prime Grade A offices will continue to thrive and the shortage of supply should see rents hit record highs. Those with lesser stock will see values declining and tenants will be difficult to secure. For the retail world, convenience shopping will remain strong, but the high street is still under pressure from the internet. Footfall on high streets is recovering to pre-pandemic levels, but they now seem to be primarily used for window or comparison shopping. Logistics will remain the golden sector as internet shopping continues to grow. We need more up-to-date distribution warehouses. Yields have moved as interest rates rise, but we can see rental growth in the sector.

Ariel Levy

Co-founder, Gen Two

This year, the fundamentals of real estate will continue to drive value – in particular, the imbalance between supply and demand of fitted lab space. While supply will be alleviated by larger life sciences schemes coming forward, supply will increase at a slower than projected pace due to increased costs, namely construction and debt financing, putting pressure on appraisals. With these high entry barriers in the real estate space, established players will continue to grow portfolios and take market share. As the life sciences market matures, a lot of the features of a well-designed office will continue to permeate lab and 'write-up' space for desk-based tasks. These include breakout spaces, informal meeting rooms, flexible board rooms and private booths. Biotech is not a 9am to 5pm industry, with tenants continuing to choose locations they can work out of with unrestricted business hours. With the Mansion House Compact helping to unblock some of the funding plumbing in the UK to scaling larger companies, we might see more choosing to do further funding rounds in the UK, instead of being bought by foreign companies. This will have the dual effect of keeping the IP in the UK and ensuring their R&D space is occupied for longer, helping to grow the sector.

Prabhu Ramachandran

CEO and co-founder, Facilio

In 2024, property operations will undergo a transformation, with integrated solutions and purposeful innovation taking centre stage. Following 2023's consolidation, the trend leans towards impactful, purpose-built solutions. Cost optimisation is a top concern, prompting increased automation in energy efficiency and processes. Software buying shifts to a strategic, portfolio-level approach. Despite tech spending reductions, there's a surge in demand for AI-driven tools cutting operational costs. In 2024, real estate will focus on boosting workforce efficiencies and tenant experiences, aligning with prop-tech's purposeful evolution. COP28's Buildings Breakthrough, backed by 27 countries, is targeting 'near-zero and resilient buildings' by 2030. Navigating the path to net zero involves IoT-led operations using the 'crawl, walk, run' approach, starting with monitoring, then prediction and finally optimisation. In summary, 2024 will see continued adoption of platform solutions, increased automation, AI integration for efficiency and IoT's pivotal role in achieving net zero.

Natasha Guerra

CEO, Runway East

There is still a lot looming over the property sector from high borrowing costs to political misfiring, along with a general election and geopolitics. The big players are restructuring, but this is a huge opportunity for entrepreneurs and SMEs. In the flexible workspace sector, we are seeing the giant that is WeWork self-combust, which is symbolic of the overreliance on borrowed money and VC. At the same time, businesses like ours and boutique operators are thriving because we're growing organically with demand. We are still playing with the same deck of cards as the last few years – there is still a demand for hybrid working, there is still a cost of living crisis, our high streets have the same problem and we still have a shortage of homes along with huge uncertainty and caution towards risk. This said, there is an opportunity for those who aren't hellbent on growth for the sake of it!

Charlie Wade

EMEA MD, VTS

2023 was a challenging year for many, but in 2024 there will be opportunities for agile business to capitalise on the green shoots of recovery. One shining light has been the resilience of the London office market as it maintains overall strong levels of demand. However, the devil is in the details as tenant behaviour has changed dramatically and the US continues to influence both the capital and occupier trends. As landlords look to get ahead, technology, both at an operational and building level, will have an ever-increasing impact. Driving efficiencies within day-to-day workflows, developing a robust data strategy and the importance of tech-enabled buildings, are some of the basic building blocks that will enable companies to find their competitive edge. In 2024, those that have already seen the benefits will double down and do more at speed, while those that are slow to adapt will find themselves lagging behind, unable to capitalise as the opportunities undoubtedly surface.

Richard Hart

Partner, head of property management, Workman

It's no secret that many institutional investors are looking to dispose of some assets during 2024 and we can expect new, less traditional, entrants to invest in a broader range of assets than may previously have been accessible to them. With different funding scenarios and investment horizons, these purchasers have very specific business plans to deliver. In retail, we've seen local authorities invest in town centre assets for several years, while in offices we're increasingly advising various purchasers with ambitious plans to repurpose assets into something different. The role of property managers – both during the due diligence process and then to make a success of the investment post-acquisition – will be crucial. A clear grasp of the business plan, close relationships with occupiers, a forensic understanding of future non-recoverable and capital expenditure and a flexible approach to financial reporting will be key to successfully delivering and future-proofing these new investors' plans.

Till Eichenauer

Managing director, askporter

Proptech will see the increased integration of artificial intelligence in 2024, with its true transformative potential in varying models and GenerativeAI (GenAI). askporter sees AI as a dynamic tool for facilities managers, enhancing customer relationships and operational efficiency. Our digital assistant employs natural language processing (NLP) and blends large language models (LLMs) and GenAI to coordinate and triage maintenance requests effectively. Despite this, the buzz around GenAI can often be negative or ill-informed. GenAI has diverse applications and offers significant benefits: minimising human error, cutting costs, and yielding valuable data, whilst LLMs/NLP vastly improve the experience for end users. Consider tenants in a residential building: no longer will they struggle for answers when a pipe bursts at 2am on a Saturday. This year holds vast opportunities for improvements in FM. AI gives FM professionals the capacity to focus on upgrades and the provision of attention to the most pressing issues.

Jon Sturgess

Sales development manager, TAB

In 2024, the built environment sector stands at a crucial crossroads, challenged by the need to build more houses sustainably while managing costs. Embracing eco-friendly practices doesn't have to inflate expenses; it demands innovation and strategic planning. As towns expand, we need to rethink development, look beyond conventional boundaries and seek creative design solutions to update and enlarge existing housing stock as well as progress new developments. Technology offers a solution and integrating cutting-edge advancements will enhance efficiency without compromising sustainability standards. Embracing smart solutions, such as AI-driven designs, paves the way for a greener, faster and cost-effective construction.

Cem Savas

CEO and co-founder, Plentific

In 2024, we expect residential landlords to continue to face several critical challenges – namely rising costs, increased regulation and residents affected by the cost-of-living crisis – all of which have a direct impact on effective property management. Because of this, landlords and property managers will need to look to digital solutions to automate the process and support operational teams in meeting critical deadlines and enhancing the overall service delivery. As the industry acknowledges the power of data and AI in 2024, we expect to see increased interest in data that can be pulled from digital tools, enabling more effective budgeting, planning and execution of recurring tasks and empowering property managers to focus on preventative measures to maintain a property's condition and safety standards. This proactive approach will enable landlords and property managers to weather the challenges of the year to come.

Oli Farago

CEO and co-founder, Coyote Software

The Covid-19 pandemic has transformed and will continue to transform the CRE industry. Office occupancy levels in the UK languish at around 35% – half of where they were before 2020. Investors and asset managers must remain adaptable to navigate an unpredictable market, making data highly valuable in 2024.

Commercial real estate teams and investors need access to up-to-date and accurate data on the market to swiftly identify and act on the best investment opportunities. If asset managers and investors want to be competitive, they need to deploy bespoke, fit-for-purpose technology to track and analyse data. Coyote Software provides unprecedented insights into portfolio performance and risk. Our latest update is the 'portfolio insights dashboard', which provides a visual overview of your assets under management, enabling fast decision-making. While data has always been vital, 2024 marks a turning point where data will be at the core of the real estate industry.

Jenna Harris

Head of co-living, Harris Associates

Institutional funds are becoming more agnostic to living and open to co-living as the investment universe has become quite small. Investors see co-living as the last frontier of the living sector and draw many similarities to PBSA five to seven years ago. Therefore, investors that feel as though they have perhaps missed the boat on the more mature living sectors such as PBSA and BTR are looking to deploy capital into co-living in 2024. Additionally, those that have seen fantastic returns from PBSA investments are looking to deploy capital into co-living in its early stages to maximise yield compression. Investment into co-living from Asian capital is also looking to take shape in 2024 as co-living is a concept that has existed for years across Asia and therefore their capital is already sold on the model given they have invested in it domestically and seen fantastic returns.

Gareth Lewis

Emerging trends in real estate project leader, PwC

Our PwC/ULI Emerging Trends in Real Estate (ETRE) research for 2024 suggests we are entering into a point in the market cycle in which some big calls will need to be made and where rewards could be significant for those brave enough to make bold choices.

Examples range from areas like timing the bottom of the market, deciding when and where to start putting cash to work on "brown to green" repositioning strategies to committing to a view on where the hybrid working model settles and making the call between an electric or hydrogen-fuelled car fleet of the future. The list goes on.

There is a lot to be uncertain about and, in many ways, more recent positive macro-economic data and improving sentiment from generalist investors clouds the outlook picture. While it may provide some short term relief from refinancing stress, it may also draw attention away from the very real bifurcation that's occurring in the market between those assets that are "fit for purpose" and those that are not. This could increase the possibility (albeit low in my view) that 2024 is ultimately characterised as another year of kicking the can down the road.

Robert Sloss

Chief executive, HUB

We expect that available funding for BTR will gradually start to increase in 2024, as investors anticipate UK base rate reductions, with accompanying lower costs of capital. Despite a muted deal flow in the sector over the past 18 months, we believe that multi-family BTR will continue to be highly attractive to both domestic and international investors, due the performance of existing assets, the resilience of the income stream and the strong ESG characteristics of the asset class. Furthermore, BTR has an important role to play in the growth and revitalisation of city centres and helps to increase choices available for those in the growing rental market. In that vein, with more buildings reaching the end of their current lifecycle, due to regulation constraints and structural changes in occupancy patterns, we will continue to focus on the repurposing of stranded office assets to residential. We expect to see more of this as repurposing opportunities increase and the demand to live in city centres grows. As well as BTR, we believe that the nascent co-living sector is maturing and this typology lends itself well to renovated second cycle assets. We foresee the emergence of the next generation of high quality co-living, focusing on low carbon city living and centred around community.

Camilla Topham

Co-founder, Distrkt

It's going to be a tough year for the hospitality sector with the culmination of the vast challenges of recent years. Sadly, we expect to see more high-profile closures unless the government provides further support such as a VAT reduction and reducing business rates. Despite the tailwinds, the future is brighter for those that weather the storm. Hospitality has become integral to our lives in an increasingly disconnected world. It breathes life into our developments and places but is now fundamental in attracting other uses and footfall, punching way beyond its weight in terms of shaping places. In 2024, we expect more operators to expand regionally, particularly to Manchester, as they recognise the opportunity of lower property costs within a growing and vibrant city. Galleries, theatres and other cultural institutions will also be the unlikely hosts of some of the most exciting new restaurant openings as hospitality and culture become even more closely intertwined.

Chris Gill

Head of renewables, Kajima

The UK renewable energy sector will go from strength to strength in 2024, so long as political support and willpower can keep up with the pace. Last year marked the third time renewables outperformed fossil fuels for electricity generation in the UK, an incredible achievement considering it has come from a standing start at the turn of the millennium. To continue this strong growth, the renewables sector will need to shift towards a greater mix of energy production, which has been boosted by proposed regulation changes that no longer class battery storage as a generator of grid capacity. This is quite right considering its long-term future role in alleviating grid constraints.

For our part, Kajima's renewable business, Taiyo, has achieved its first planning permission for a UK solar infrastructure site in Devon, with further solar PV and battery storage schemes in development, totalling around 200mw of renewable energy to go into the UK grid, with more in the pipeline. Others that want to convert warm words on ESG into clear action will follow suit. Meanwhile, we can expect to say goodbye to coal with the closure of the UK's final coal plant due to take place this year. It is a crucial year for politics and its impact on the long-term success of renewable energy creation in this country. With demand for electricity due to double in our drive to net zero, a nervous market, which has capital but lacks certainty, will be looking to the upcoming election for indicators of how serious central government will be in increasing grid capacity and reforming planning for the renewables sector to meet this challenge. The most recent COP in Dubai, while not without its difficulties, provided genuine hope for all of us that there will be a permanent shift away from fossil fuels to renewables. 2024 needs to build on this momentum, it's not too late.

Jennet Siebrits

Head of UK research, CBRE

Investment prospects for UK commercial real estate are set to improve as value declines have stopped in some sectors and slowed in others. The high interest rate environment along with falling values has created a lack of viability for debt buyers and contributed to a thin market, but this should improve as debt costs fall. Equity buyers are set to gain from discounted values, benefiting from favourable net total returns and as yields decompress further, the mismatch between buyers and sellers will close, resulting in increased transaction activity. Divergence in performance across property types looks set to continue and obsolescence, particularly in older office and retail assets, will be a key challenge. The fall in values and rise in financing costs since mid-2022 will reduce opportunities to profitably refurbish or repurpose older stock until market conditions improve. At a sector level, we expect data centres and self-storage to benefit from further growth, underpinned by healthy investor appetite, increased demand and strong fundamentals.

Sanmi Adegoke

CEO, Rehoboth Property Group

We have identified three key challenges. The first is economic volatility. The built environment faces challenges from economic fluctuations, impacting construction projects due to increased build costs, financial uncertainties and a sluggish recovery market.

The second is planning and development complexities. Navigating the intricate and often prolonged processes for planning and development approvals within the UK's planning systems presents a significant challenge, requiring adept maneuvering through regulatory frameworks.

The third is bureaucratic hurdles. Administrative and regulatory obstacles pose potential pitfalls, demanding streamlined processes to avoid delays and inefficiencies in project execution.

However, the prevailing low-interest-rate environment creates opportunities for the built environment. Favourable borrowing conditions can stimulate construction projects, encouraging investment and development activities.

Seizing these opportunities requires strategic planning and financial acumen within the industry. As the sector confronts challenges, proactively embracing these opportunities can lead to sustainable growth and resilience in the evolving landscape of 2024.

Andrew Haines

COO, W.RE

Having previously spent 25 years as a lender and the last four years as a borrower, I am not sure which camp is going to find 2024 the most challenging. This is the first time that debt funds will be going through a significant down cycle, with most having been established in the post-GFC period of 2010 onwards, and from my discussions many have a few problem loans they are going to have to deal with. This is particularly true of development and refurbishment facilities, where the significant inflation of the last few years, overlayed with the impact of higher interest rates, means many of the original business plans for loans made in 2020-2023 are now challenged and have created 'stranded assets'.

Lenders are faced with the prospect of having to continue funding the projects and hoping rents and yields improve, asking their already stretched borrowers to inject more equity or trying to exit into a very weak buyers' market. On the new business side, while the headline returns on debt sound attractive, deploying capital at these levels will be challenging, except for recapitalisations where they could be taking on someone else's problems. For an investor in predominantly value-add assets, current pricing makes debt non-accretive and we would choose to acquire properties unlevered where possible and look to add finance when rates (hopefully) fall. We began to see some interesting distressed opportunities in the last quarter of 2023 as lenders began to lose patience with non-responsive borrowers. This is something I expect to accelerate in the new year, and so on balance I think I would rather be a borrower than lender in 2024.

Felicity Masefield

Sustainability lead and development executive, Native Land

As tenants compete to attract the best talent, we will see a continued flight to quality and best in class office spaces in great locations, with high quality amenity and top sustainability credentials. In the face of strong headwinds, hyper mixed-use and blended-use developments will prove to be the most resilient. At the same time, the increased obsolescence of poor-quality assets will present new and exciting development opportunities. For sustainability we need to see more action, embodied carbon and retrofit will increasingly be in the spotlight and we will hopefully see further clarification on government regulations, particularly around EPCs. ESG commitments will accelerate the proliferation of smart buildings and drive increased collaboration between landlords and tenants. Increasingly, tenants will realise how they occupy their space has significant impact and landlords need to be able to track and provide the data required to drive necessary behavioural change, and for their corporate reporting.

Kwamena Beecham

Architect, Buckley Gray Yeoman

2024 is a year that poses many challenges for the built environment, from the constant calls for higher fees and fair salaries to the debate surrounding hybrid working. The largest challenge I see within the built environment can also be its best opportunity. Many companies genuinely work to prioritise equality, diversity and inclusion and make efforts to represent the environment they operate in, but these practices are in the minority (pun intended). The majority still use this as a box ticking exercise, with no real change in culture or opportunities. Change needs to come from the top down, rather than from the few diverse members of staff in entry level positions. If the built environment makes sustainable changes rather than knee-jerk reactions based on pressure, then the pool of talent will grow and the best and brightest from all backgrounds will be attracted to a career in the built environment.

(https://benews.co.uk/insight/epc-delay-n

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