



Real estate, recovery and a chance to reset

As the Covid-19 pandemic entered its second year, the real estate industry continued to reshape strategies and adapt ambitions in preparation for when the crisis passes

To usher in the new year, EG brought together five of listed real estate's newest leaders at Landsec, Harworth, British Land, Hammerson and St Modwen to discuss how they planned to steer their companies through the next stage of the Covid-19 crisis.

By the end of the year, all would have mapped out bold new plans for their businesses – with one snatched off the stock market during the industry's ongoing M&A run.

A corporate governance scandal engulfing RICS and the sacking of four non-executive directors dominated much of the news flow for the month. Many senior figures in the real estate industry called for more action – and faster – from the embattled trade organisation.

Some green shoots were apparent in the markets, not least office leasing, buoying agency sentiment. And there were enough new business launches – a new company from Cubex's founder and a new team at M&G targeting big deals – to prove that plenty of industry players saw the pandemic as an opportunity as well as a challenge.



With Knight Frank estimating that there could be as much as £46bn in capital trained on investment opportunities in London, there was hope the capital's office market would prove its resilience even as lockdowns and homeworking threatened activity. Planning officials at the City of London Corporation certainly seemed confident, signing off two Square Mile towers proposed by Tenacity within the space of weeks.

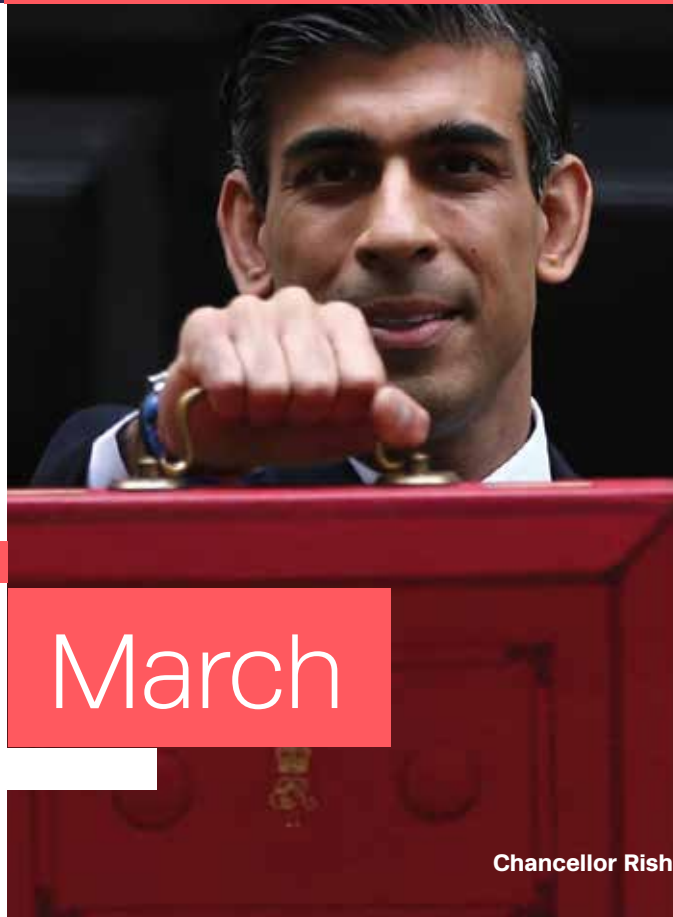
One big question was what role flexible workspace should play in the workplace of tomorrow. With M&A expected, CBRE announced plans to spin off its Hana business to New York-based Industrious. EG got the first UK interview with Industrious founder Jamie Hodari, who spoke about his desire to make a bigger mark in London.

And it wasn't only offices attracting attention. With the build-to-rent market booming, EG revealed that Australia's Macquarie was setting up a fund that will allow it to invest an initial £1bn in the UK market.

You can always rely on Bruce Dear, head of real estate at Eversheds Sutherland, for an image you can't shake from your head. In March, as chancellor Rishi Sunak delivered his Budget, it was that of "locked-down consumers, nursing their animal spirits and accumulating savings, eager to burst out of their front doors like millions of recovery Rambos".

There was plenty for real estate to digest, including rates relief, freeports chosen and a new national infrastructure bank. The government also asked the industry for advice on how ultimately to unwind the commercial eviction moratorium, which continued to pit landlords and tenants against each other.

Some of the biggest public real estate companies revealed how hard their finances had been hit by the pandemic, with Derwent posting a loss and portfolio values for the likes of Capco tumbling. The chief executive of RICS told EG he had never thought of quitting, so it was nice to see some confidence there – and also from the planning officials who gave the all-clear for the Marble Arch Mound tourist attraction, which would surely be a guaranteed crowd-pleaser?



March

Chancellor Rishi Sunak



April

As real estate prepared for whatever comes after the Covid-19 pandemic, many companies were rethinking decisions made in what already felt like a distant past and adjusting plans to reflect new realities.

For Canary Wharf Group, that

meant swapping office space for homes. For flexible office operator IWG, it meant zeroing in on unwanted retail space to turn into new offices. British Land eyed retail-to-logistics, while the City of London Corporation sought to make homes from empty offices.

But while changes of use looked

set to sweep the streets post-pandemic, the policy behind some of these changes was still causing consternation. The government's seemingly rushed introduction of planning reforms, including an expansion of permitted development rights, was criticised by parties such as the British Property Federation.



May

As real estate's M&A wave rolled on, Blackstone made a £1.2bn move for St Modwen Properties. But as the target's share price continued to rise past the level of the private equity giant's offer, it appeared that shareholders might not think the deal fairly priced. Offices seemed to be slowly filling back up, and Radius data suggested both investment and leasing markets were on the road to recovery. Agents would have been reassured by news of

deals such as Apple's new space in Canary Wharf.

Relationships between many tenants and their landlords became even more strained. Virgin Active's restructuring plan was described as a "CVA on steroids" with a "world of hurt" on the way for property owners. The BPF said Virgin Active's CVA sets a "dangerous precedent" for wealthy individuals and private equity-backed firms to use restructuring

plans as a means of ducking contractual obligations once the "good times" are over.

And finally, no one said revolutionising real estate investment would be easy, but by any measure, getting the first listing completed on the IPSX stock exchange was hard work. With the deal done at last, M7's Richard Croft said it was a career highlight: "I feel like I've climbed Everest in my underpants."

June

There was only so long it could hold out. Blackstone finally caved to pressure and upped its offer for St Modwen – one investor said the board had sold shareholders short in recommending the earlier bid. And the deals kept coming, as Sigma Capital agreed to its own private equity takeover.

Everyone eagerly awaiting the independent report into the governance scandal at RICS was sorely disappointed when its publication was delayed – and

there was a similar sense of dismay from the industry at large when the government announced an extension of the commercial evictions ban. Tech tenants gave a lift to London's leasing market, with EG breaking news of fresh activity from TikTok and Snapchat.

In what marked the end of an era for Canary Wharf Group, Sir George Iacobescu said he would step down from his executive post at the company.



Real estate found itself in the spotlight for all the wrong reasons when England was knocked from the Euro football championship. Racist abuse was directed at Black players on the England team, including a now-infamous tweet from an employee of Savills. Savills quickly distanced itself from the posts, and the individual was arrested and later lost his job. Nonetheless, many said the event underscored the prejudice that still exists in the industry, and one former real estate professional shared his own story anonymously with EG's readers, declaring that real estate is "not a safe space for people of colour".

The RICS review suffered yet another delay as members waited to see what fallout there would be from its handling of its internal crisis.

Liverpool lost its cherished Unesco World Heritage status over concerns about its waterfront developments.

Shares in heavily indebted Chinese developer Evergrande plummeted after a court froze some of its assets, as worries about the financial standing of the business grew.



July



August

So, about the Marble Arch Mound. Maybe its success wasn't quite so nailed on. As EG's Alex Daniel put it: "Not since 2000, when one Boris Johnson publicly suggested blowing up the Millennium Dome, has a public realm intervention been so emphatically and unanimously pilloried." The site was ridiculed so much that it was closed, and then reopened as a free rather than paid-for attraction.

But the mound was far from the only best-laid plan to go awry. More than 15 years after initial plans to transform Croydon's retail centre were conceived and seven years after outline plans to create a new Westfield in the south London suburb were permitted, the £1.4bn Whitgift dream died when Croydon Council confirmed that plans for the Unibail-Rodamco-Westfield and Hammerson shopping centre had been axed.

And, at last, RICS received its independent report from Alison Levitt QC. Now it just had to decide whether to make it public...

September

...It took almost a month to do so. But in mid-September, RICS said it would issue an apology to the four non-executives who lost their jobs when they criticised the handling of an internal audit report. Not only that, but the organisation dropped Fieldfisher as its legal adviser. And Sean Tompkins, the chief executive who never thought about quitting as the scandal unfolded... well... quit.

The Collective, once a poster child for the co-living market, fell into administration having been unable to find a buyer willing to save it. In a cabinet reshuffle it was Robert Jenrick out and Michael Gove in as housing secretary. What did real estate want from the man? A willingness to rock the boat, said one professional.



Housing secretary,
Michael Gove



October

In 2019, an aborted listing for flexible office provider WeWork was one of the year's most high-profile capital market embarrassments. This month, the company finally completed its initial public offering through a merger with a listed SPAC vehicle.

There was welcome news for

BTR operators, which learned they would be left out of the cladding tax in what was described as a "sector-defining" moment. The fallout from the Marble Arch Mound continued, including the departure of the council member behind that initiative and the broader revamp of Oxford Street. But there was more good news

for London's office market, with rents rising as corporate occupiers shunned all but the greenest, cleanest space – and the results of leading agencies added to the feeling that a corner had been turned. In a deal that truly showed occupiers' confidence in the future of the office, Omnicom shelled out £440m for its own London HQ.



November

To be clear, that was Omnicom, not Omicron. But by the end of November, real estate professionals had heard much more about the latter, a new variant of Covid-19 that could undo much of the recovery from the pandemic. But even that threat seemed to do little to dampen a rush of activity as the year drew to an end. Listed real estate companies

were in relatively jubilant mood: Shaftesbury cheering a West End recovery; a new REIT targeting life sciences opportunities launching; and Landsec making a move for U-I, MediaCity and a chunk of the Bluewater shopping centre.

COP26 in Glasgow meant no one could avoid the topic of the climate crisis and real estate's role in addressing it – but the

thorny issue of refurbishing versus replacing was the biggest talking point after retailer Marks & Spencer was slammed for an emissions-heavy redevelopment at its Marble Arch flagship.

And landlords were finally able to review government proposals for the arbitration process when settling disputes over rent arrears.



December

The busy end to the year continued into the first weeks of December. Fresh from its IPO, Life Science REIT hit the ground running, spending on its acquisition pipeline at a rapid rate.

In one of the year's biggest office deals, Korea's National Pension Service struck a £1.25bn purchase of UBS's London headquarters at 5 Broadgate, EC2, adding to hopes that the final quarter could surpass the market's pre-pandemic performance. With even troubled Hammerson expecting a lift to profit in its full-year results, real estate seemed hopeful that the worst could be behind.