WATCHING BRIEF 2023

A run-down of the organisations, projects, people, places, deals and legal cases to keep a close eye on this year

A year ago, things were looking up for the UK property industry. The country was on the verge of putting Covid-19 restrictions behind it, property prices were high and property stocks were performing well. But then came the economic downturn and the cost-of-living crisis.

Within months, the Bank of England was warning that the UK was facing the longest recession on record and property companies started to feel the pressure as construction costs increased and lending rates soared.

As we begin 2023, many economic forecasts point to a challenging year ahead for the sector. Mortgage lender Halifax predicts house prices could fall by around 8%, potentially leading to a slump in residential sales, while construction insight firm Glenigan expects the cost of construction materials to continue to rise in the first of half of 2023, squeezing margins for developers.

There is some positivity on the horizon. Savills, for example, says the current economic climate could create the "buying opportunity of a generation" for some investors. So, who will be the ones to watch as the sector negotiates difficult headwinds in 2023?

Over the following pages, the *Property Week* team identifies the organisations, projects, people, places, deals and legal cases we think might prove to be bellwethers for the sector over the next 12 months.

ORGANISATIONS TO WATCH

HOMES ENGLAND

With inflation rising, the government watering down its 300,000-new-homes-a-year target and the ongoing cost-of-living crisis, Homes England is going to have a tough year keeping housing growth on track.

All eyes will, therefore, be on how the non-departmental public body responds.

Will it focus its energies on delivering existing projects such as the creation of a new neighbourhood at Silvertown (pictured) in east London – where it has pledged to provide a £233m funding package as part of a larger £3.5bn infrastructure budget – or will it seek to find the funds for new projects?

RICS

RICS has a reputation to rebuild following its wrongful dismissal of four non-executive directors in 2018. Lord Michael Bichard's independent review last year concluded that it must carry out a "transformation of the institution at pace" or risk losing the trust of its members forever.

The government has slipped a clause into the levelling-up bill that, if passed, would allow a government-led investigation into the body.

Key to the institution's progress will be recently appointed chair Martin Samworth (pictured), whose immediate priorities include the appointment of a director-general to lead RICS through its tricky next phase.

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ORGANISATIONS TO WATCH

PERSIMMON HOMES

Last year saw share prices plunge across all listed housebuilders but Persimmon finished 2022 at the deep end of the wave, down 56% year on year.

However, it predicted it would end the year with around £700m in cash. With its share value hit so hard, questions have arisen as to whether it will be able to financially recover going into 2023. In July, Persimmon blamed a slowdown in completions on planning delays and construction shortages, and in November said economic factors had slowed sales.

The industry will now be watching to see if it can overcome these setbacks and reassure shareholders it has a bright future.

SEGRO

Industrial and logistics giant SEGRO has been riding high on the surge in demand for warehouse space in recent years.

At the start of 2022, its shares were trading at 1400p thanks to its strong financial performance. However, by the end of the year they had fallen back to nearer to 760p as it grappled with challenging economic headwinds.

In November, it launched a £350m bond with the aim of using the funds to support its pipeline of developments.

But questions remain about how the recession will affect the industrial sector and whether firms have overpaid for recent sites.

HAMMERSON

Things seemed to be looking up for shopping centre giant Hammerson when it announced unaudited results for the first half of 2022. Adjusted earnings were up 154% to £51m compared with £20m for H1 2021.

However, with the ongoing effects of the cost-of-living crisis on shoppers, there is a very tricky balancing act ahead. Occupancy levels need to be high enough to make destinations attractive to shoppers, but rents need to be both attractive enough for retailers and high enough not to impinge on the value of the assets.

The firm may need to sell off further assets but that could be easier said than done, not just because of market conditions but because of the shared ownership of some of its shopping centres.

AITCH GROUP

Boutique developer Aitch Group has beefed up its development team in recent months and has stepped up activity in both the purpose-built student accommodation and build-to-rent sectors, putting it right at the heart of two of the sectors earmarked for growth in the year ahead and beyond.

In August 2022, the group launched a £100m spending spree in London and the South East, having already deployed £31m across three new sites and committed to spend £35m on three other land opportunities.

The firm's size and flexibility put it in a strong position to perform on deals that its larger counterparts might see as too tricky. This is one firm punching well above its weight.

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BLOOM DEVELOPMENTS

Bloom Developments has been at the forefront of the trend to create small-scale logistics sites in urban areas. In less than two years, founders Tom Davies and Sam McGirr (pictured) have acquired £78m in assets across London.

In 2023, the company is expected to reach practical completion on all its sites, at which point we will see whether demand for ultra-urban industrial and logistics space is really as high as predicted.

If all goes well for Bloom, it is likely to go on a further acquisition drive – and we are likely to see more players target this niche space.

B&B HOTELS

Often when companies plan to open a large number of sites nationwide by a certain date, they face market scepticism. However, when B&B Hotels said in October that it planned to launch in the UK, the industry sat up and took notice.

Not only is B&B majority-owned by Goldman Sachs Sachs, operating 650 hotels across 14 European countries; it also has Kevin Murray (pictured), former head of acquisitions for the north at Whitbread Group, as its UK managing director.

Given these credentials, the firm's intention to open 100 hotels across the UK by 2035 seems all the more achievable. Expect news of the company's first sites soon.

WEWORK

Will 2023 be the year when flexible workspace provider WeWork puts its troubles behind it, or will it find itself mired in more financial difficulties?

The firm has racked up significant losses in recent years, partly due to legal costs attached to its failed initial public offering in 2019 and partly because of heavy spending under its founders. A new senior management team has been installed over the past two years, which claims to have steadied the ship and placed it on a good course, but will this be reflected in its next set of financial results?

There is speculation among some US ratings agencies that WeWork could actually default in 2023.

PURPLEBRICKS

The online estate agent reported a fall of 23% in revenues to £70m for the year to the end of April, which it blamed on a failed marketing plan and a difficult housing market.

Amid the losses, activist investor Adam Smith attempted to remove Purplebricks' chairman Paul Pindar and replace him with Rightmove founder Harry Hill instead. However, the coup failed and Pindar remains in post.

In December, Purplebricks told shareholders that it was on course to meet full-year expectations and that its turnaround plan was "being delivered at pace".

The company claims it is on the verge of a financial turnaround, but will this happen in 2023?

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