

# BNP PARIBAS REAL ESTATE LAUNCHES FLAGSHIP CYCOLOGY RESEARCH

**A behaviour shift following the Global Financial Crisis has left the UK real estate industry significantly better prepared to face future political and economic shocks than it was in 2007, BNP Paribas Real Estate research has revealed.**

BNP Paribas Real Estate's [Cycology](#) report combines analysis of past cycles, traditional forecasts and Ipsos MORI research into the sentiment of UK real estate leaders to understand the themes that will drive real estate performance over the coming years.

The analysis, based on independent interviews with 29 of the leading real estate investors, occupiers and academics, also reveals that:

Real estate investors do not expect the triggering of **Article 50 or the US election result to cause a steep drop in UK property values**, with investment volumes supported by currency movements and London's safe-haven status,

- The current **real estate cycle is characterised as politically driven** and is expected to be shorter with less pronounced peaks and troughs and influenced by a unique set of factors,
- Real estate investors now monitor a wider range of **'leading indicators'** to identify where they are in the real estate cycle, and consider **'new fundamentals'** such as capital flows, politics and debt to be critical determinates of pricing,
- **Millennials will increasingly dictate business' property strategy**. Shorter leases, flexible working, sustainable buildings and the impact of technology are becoming critical components of business success, but have not yet been fully embraced by the property industry.

**John Slade, CEO at BNP Paribas Real Estate UK**, said: *"Uncertainty is the new normal and rapid change makes it harder to forecast using traditional models. This is why we are presenting a new way of thinking about our market, capturing the sentiment of the most senior investors and occupiers to discover the key themes and drivers that will shape this real estate cycle and the next."*

## **The impact of political shocks**

Leading investors believed the UK's decision to leave the European Union would not have a dramatic effect. The combination of lessons learnt and behavioural change contributed to a relatively optimistic view of the future, with less dramatic corrections than in previous cycles. Among key findings of the research were:

- Investor responses to the Global Financial Crisis and political uncertainty have all strengthened London's safe-haven status,
- A steep drop in capital growth is not expected, although the referendum vote was speeding up a correction in the market that was already needed,
- The devaluation of Sterling will encourage investment from overseas,
- The US election result was thought to be less important than the potential fall-out from Brexit, and should not necessarily be seen as entirely negative.

**Simon Durkin, Head of Research at BNP Paribas Real Estate UK**, said: *"This research demonstrates that investors feel significantly better prepared for the next downturn and the potential fallout from Brexit and other external shocks than they were in 2007. This is as a result of lessons learnt, the adoption of new*



*behaviours, and the impact of external regulation. The market is also more diverse, in terms of its participants and the sectors in which they invest. We increasingly see defensive activities in counter cyclical sectors such as the residential private rented sector, leisure, prime retail, and logistics. The new retailing supply chain in particular offers the income profiles sought by overseas investors, with strong covenants and long leases.”*

### **Impact on Central London Offices**

The research identified a growing divide between occupiers and investors, with occupiers a step ahead in embracing demographic and technological change. Shorter leases, flexible working, sustainable buildings and the impact of technology are becoming critical components of business success, but have not yet been fully embraced by the industry.

**Dan Bayley, head of Central London office agency at BNP Paribas Real Estate**, said: *“This research points to a future where millennial worker preference will drive occupier decision-making, and pioneering locations and exciting buildings will outperform vanilla stock. Demographic pressures will increasingly make travel to and around London a major consideration on office choice and performance. The Elizabeth Line will provide a shot in the arm to the whole of London and give a new lease of life to Canary Wharf, and be transformational for Paddington and Stratford. Occupier demands for flexibility will generally be met – the growth of WeWork, The Office Group and the like means that if owners do not provide flexible leases, these intermediaries will. Landlords will increasingly have to choose between strong covenants on flexible terms or serviced offices/co-working on longer terms.”*

### **Investors’ attitude to risk**

The research found a general consensus that a ‘flight to safety’ had taken place since 2008 and that a more strategic focus on specific locations and sectors had made investors more resilient than in the last cycle, with many claiming they were increasing their exposure to lower-risk investments, and accepting lower returns, than pre-2008.

- Better risk management and data analysis:
  - o Making fewer and lower risk investments – particularly those driven by demographic change or in less volatile sectors – distributions warehouses, residential, hotels, leisure and prime retail,
  - o Investing for the longer term and being more accepting of price fluctuations,
  - o Increased internal governance and external regulation,
  - o Reduced speculative building.
    - More detailed scenario modelling,
    - Less use of debt,
    - A greater emphasis on the quality of tenants.
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**Simon Williams, Head of Investment at BNP Paribas Real Estate UK**, said: “There is no doubt that risk is a much greater consideration in this cycle. For many investors this has meant a flight to quality and secure, long-term income.

“There are questions over what this attitude to risk will mean for the future – the number of investors who have the capital and appetite for the largest, most transformational schemes such as King’s Cross, is dwindling, but the industry needs this entrepreneurial spirit to keep moving forwards.”

### **ENDS**

*Technical note for editors: Ipsos MORI’s research for BNPPRE involved 29 interviews: 22 with investors/developers, 4 with academics, 3 with occupiers. These were undertaken via a mix of telephone and face-to-face interviews between July-September 2016 with a small number (5) of short, follow up conversations following Donald’s Trump election victory in November.*



### About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate support owners, leaseholder, investors and communities in their projects thanks to its local expertise through 37 countries (16 direct facilities and 21 Alliance network) in Europe, Middle-East and Asia.

BNP Paribas Real Estate generates € 765m of fees in 2015 with, for property development, 146 000 sqm of completions and more than 2 000 homes launched; € 22bn assets under management in Investment Management; 36m sqm managed in Property Management; 5.2m sqm taken up and € 17.1bn invested in Transaction; beyond 1 000 mission realised in Consulting and € 292bn assets given Valuations.

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