The CoStar 2024 panel review: Leading industry figures take stock across the sectors

Leaders from Blackstone, British Land, NewRiver REIT and Leumi discuss the key themes of 2024

(from left to right), Mark Stansfield, Peter Krause, Soraya Shamji, Allan Lockhart, Mike Wiseman, Paul Norman (Panayis Chrysovergis/CoStar)

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CoStar News

12 December 2024 | 14:46

CoStar recently hosted a seminar at the 22 Bishopsgate tower in the City of London looking at market trends from 2024 and the opportunities and risks as the rebound takes hold.

Senior director of market analytics **Mark Stansfield** opened the session with market forecasts based on CoStar's latest data, across UK office, retail, industrial and hospitality sectors.

Paul Norman, managing editor for news in the UK, was joined by an expert panel to explore their expert perspectives on current performance, reasons for optimism, geopolitical risks on the horizon, and more. They were: **Mike Wiseman,** head of workspace leasing and science & technology at British Land**, Allan Lockhart,** CEO of NewRiver REIT, **Peter Krause,** senior managing director, Blackstone and **Soraya Shamji,** relationship director, Leumi UK.

PN: What was the key theme for each of you for your sector this year and how did you respond personally and as a business? Mike, if I could come to you first.

Mike Wiseman: Well, I think a lot of the themes have been picked up in the presentation we've just had. London offices, particularly around here [22 Bishopsgate], that tightening of supply, strong pricing and good levels of demand has been the big theme of the year tied with some delay in decision-making from occupiers.

In terms of how we've responded at BL, I guess there's a couple of things. So, looking at that tightening supply picture, particularly into 2026, '27, '28, you know we had ourselves in a position to deliver 2FA, our big 700,000-square-foot plus building in the City. We took that pretty bold decision, particularly when we look at those stats that are out there to get on with delivery. It was vindicated pretty quickly with a major letting to Citadel.

I think the other one is looking at how we can deliver more into that near-term window because in '25, '26, '27 there's not much there, so we obviously did the deal a year ago with Meta to take a building back at Regent's Place and brought in a JV partner to be able to help accelerate it, and we are now on site to deliver that repositioning next year, which feels good.

And then I suppose on the more challenging end, how we responded to some of the challenges in the market, one of the themes has been that mid and smaller end of the market and not being able to make the decision [about] cost on fit-out limiting people's ability to be able to get on and take space and commit, so by early next year we will have delivered over 200,000 square feet of work-ready space which removes the need for our customers to fit-out, creating a more friction-free entry point to our portfolio.

PN: Alan, obviously you, like Mike, had a very busy year. You've been in the news all the time.

AL: Yes, it's been an interesting year for us and I think the main theme for us, has really been the continuing recovery in retail real estate, which is something that was picked up in some of those charts and that's reflected I think around the UK consumer being more resilient than perhaps financial markets had anticipated. We believe our occupational markets are probably in the best position for at least five years and confidence is now back in the capital markets so that's been really pleasing to see that continuing recovery.

How we've responded is that we've been sitting on elevated cash for about two-and-a-half years waiting for the right opportunities to emerge and also reflecting the increased confidence we have in our marketplace and this year we've started to really deploy our excess cash in two corporate transactions, the major one being the transaction with Capital & Regional which hasn't completed yet and we're still technically in an offer period. So we can't really discuss it, but we expect that to get wrapped up next month.

PN: Your focus is the local shopping centre market and local community. Is that a particularly strong area of the market?

AL: Well, retail parks, which got highlighted earlier on, are very strong. The vacancy rates have been coming down driven by increased demand from a range of retailers from omnichannel through to retailers where a physical store is actually vital to them and retail parks are just so compatible with online retail – the

accessibility, the free car parking, the service, the size of the units – so that's a great area in the market and and we currently have about 30% of our portfolio invested into retail parks.

And when it comes to shopping centres, you're right we're focused on local convenience community centres which are performing very well. We're seeing that in our spending data up to the end of June, I think our portfolio was doing about 9% year on year spending growth, way above the national average. So I think that demonstrates the appeal of that type of retail to the consumers.

PN: And for the retail as well, I guess the rents have been in the right place for the ones that are expanding?

AL: Right, rents have been rebased. But many retailers over the last seven to eight years have been very focused on delivering operational efficiency; a laser-like focus around margin and margin growth, not just volume growth like back in the 2000s. And then we're starting to see the results really coming through in terms of increased profitability. A great example of that is Marks and Spencer, which got back into the FTSE 100 last year and is delivering exceptional results along with Next and many others. So the sector is in a much stronger position from an occupational perspective today.

The panel listens to Shamji (centre). (Panayis Chrysovergis/CoStar)
PN: Soraya, in the hotels market, in the lending market, it's all combining the two here, but hotels in particular, what's been the key trend that has helped you make decisions?

Soraya Shamji: Basically in 2022 and 2023 it was easier for average daily rate. We had 10 to 15% increases above 2019 rates and so we saw very high consumer rates. So, we were expecting to start to see that same ADR increase and that didn't happen. I mean tourism demand continues to remain strong in events, and leisure continues to do good business, but we didn't see that expected rise in rates which was kind of a shock.

And also, we saw more portfolio transactions in the market. There was Ares's EQ deal with Landsec, we saw Starwood buy the Edwardian, and the Blackstone Village deal so there's been a lot of transactions. So that shows much more activity than 2023. On the

Leumi front, actually H1 has been quite quiet for us, which we were surprised about as we had been so busy in previous years, and we have been one of the lenders that was open. But H2 has been really focused on development.

We're seeing a lot more development projects, offices converting to hotels. We're seeing rebrands or shifting models to drive ADR or moving from three star to four-star, either driven by the brands or driven by the owners. We are seeing a lot of investment into assets and that's what we're going to be focusing on for the rest of year.

PN: And then coming down to Peter with an industrial hat on, what's been the key for you?

Peter Krause: I would say from the leasing market, we believe that we are at or around peak vacancy rates and are a little more bullish on that in comparison to six to nine months ago. Our UK business, Indurent, is a leading owner and operator in UK logistics and so far this year, the occupier interest has rebounded quite strongly. It is taking a little bit longer to get a lease over the line, but the occupier market is in a much stronger position today than a year ago.

On the capital markets I would say from a 2024 perspective, we've seen a number of listed company buyers return to the market in 2024 and that's contributed to liquidity in the transaction markets.

PN: What has the process of taking St Modwen and Industrials private been like?

PK: It's been very smooth. Over the last three years, we have privatised two businesses: St Modwen which is a mid-box developer supporting local businesses, supporting urban areas with new grade A warehousing. And Industrials REIT, which has a tremendous financial technology around how to lease small units and the industrial estate type product.

So we've got a really unique skillset that relates to the land procurement and construction delivery under the St Modwen brand, and then we have overlaid the Industrials REIT leadership team which is more focused on the financial technology. The combined business is led by Julian Carey, who was the president of Industrials REIT and we're really excited about the potential of that business becoming a leading logistics specialist in the UK.

PN: The buildings that you develop or invest in or lend to, how have they changed in terms of what occupiers are beginning to demand and how you've responded to that? And in particular, obviously with offices, there's a big question around the return to the office and how that is going?

MW: Well, a lot of this was well-talked about in the presentation earlier, this idea of the flight-to-quality is the biggest theme. I think it's a bit more nuanced though.

I think the five-star rating, I think it's useful, but I think it is more nuanced than that. I think within that five-star category, there's probably quite a lot of more vanilla products versus that which is more interesting, that really meets occupier needs. So that's buildings like this one, amenity-rich buildings where you can provide that flexibility. That's not every five-star building. So that's where we're really focused on, delivering the absolute best product. Flight to quality is obviously the big theme and the evidence of the last few years points to this.

What is interesting now, though, is that as the supply of the very best space rapidly reduces there is some evidence that occupiers are beginning to compromise on product to be in the right location, showing the critical importance of location. It will be interesting to see how this evolves in the next 12 months and whether we see occupiers begin to look at new markets to be in best-in-class buildings – there is some early evidence of this at locations like Canada Water.

PN: And you have Storey now which is a growing part of your business. Is it really important to have that flexibility and are leases becoming more flexible?

MW: It is different buildings. We've got a really broad book of work, both geographically, in terms of size, in terms of type of space. For our brand new best in class buildings there is no real impact on lease and if anything, at the moment in the tight market, we have got the opportunity to push for longer leases and that seems to be accepted because there's such a supply demand imbalance.

Storey is a really important part of the proposition, though. It's for a couple of reasons. We, as a business focus, on campuses, so collections of buildings rather than individual assets and having an entry point into those campuses for small high growth businesses is really important. That's the idea, that they can come in there, start the journey in a Storey space and then be able to grow into the rest of the campus.

We didn't have that entry point six to seven years ago. So we really embrace that. We think it's good for those smaller businesses, but then also good for our bigger businesses to have that flexibility on demand and whether that's Storey workspace or the meeting rooms, event spaces that we deliver alongside those. So I think a really important part of the mix. I don't think it is shortening length of lease for bigger spaces. It's just an important part of the overall product offer that we have.

Lockhart (left) and Norman (right) listen to Wiseman. (Panayis Chrysovergis/CoStar)

PN: So Allan, we'll come to you on retail.

AL: I mean generally in retail over the last 10 years occupiers are demanding more flexibility in their leases. So overall lease lengths have become shorter. And we've seen that particularly within shopping centres and we're relaxed about that. For us it is all about are the rental cash flows sustainable, will our tenants be profitable and making money, and therefore will they remain and stay in our assets?

And what we're seeing in our portfolio generally is very high occupancy at 96% to 97% and we have an incredibly high retention rate when it comes to lease expiry or when a tenant has an option to break, so we're currently around about 90%, which for us is indicating that our tenants are trading well and profitably and therefore are happy to continue. In retail parks we are seeing lease lengths improving and I think that's just more reflective around increased

demand for space and supply is rapidly tightening. So we're practically fully let in our retail park portfolio. So that is positive.

But this year we're investing heavily in data to give us a far greater insight as to what our customers are actually doing and and how they're spending their time and where they're coming from and their average transaction values, the health of those customers, and we're using that data to pretty much support us in making better decisions right across the whole asset management spectrum, from leasing strategy, from decisions around whether we maintain our capital within that asset or think about selling it, to car-parking pricing to marketing and it covers everything. And data is going to be for us more and important going forward. So that's really exciting to be able to add some high quality customer spending data and more will make us better asset managers going forward.

PN: And you share that with the retailers as well?

AL: No, we don't. We procure it ourselves, we are paying for it ourselves. And so when, as an example, when a tenant will say trade is terrible we're going to exercise the break, you know for maybe seven years real estate asset managers have just been physically beaten up, so they're almost psychologically damaged. When they're armed with great information as to actually what these tenants are doing in terms of spending and how profitable they are psychologically you just go into that negotiation in a much better position. So we're already seeing the benefits just from those aspects of having really good-quality spending data.

PN: Soraya, with hotels, what is changing in terms of what we as customers want from a hotel and how companies are responding. Is technology a big factor?

SS: It is a big factor. You can check in on the phone and you see the brand investing heavily into technology, making it a part of their product standards. You see robots serving you food. And I think that's going to get bigger and bigger. I think there's going to be challenges on the [profit and loss] with cost increases, particularly from the

recent Budget and so I think you're going to see less staffing and you're going to see much more use of technology. Premier Inn is investing heavily into having robots do housekeeping. Things are being much more automated. You are going to see check-ins that have nobody. You see vending machines instead of the coffee shops now. So, you will see that develop as a trend, consumers don't mind that. The younger generation doesn't mind that in particular.

I think at the luxury end you still expect some staff at check-in and the concierge. So, when we look at a potential lending, we look at the business plan and if the owner operator understands the operating model cost they will incur particularly in the face of this new government Budget. Have they factored all the potential costs related to national insurance and living wage increases. There's nine of us in our team in London. There is probably about 60 plus years' experience on the team, and we review the business plan, the P&L and we look not just at the ADR and the occupancy, but have they accounted for the energy? What are they doing on housekeeping? So that if there are any issues that come up, we want to understand they know what to do.

PN: So Peter what are your tenants telling you they want and how are you responding?

PK: I think Mark [Stansfield]'s chart was right that there's a big focus on having a large warehouse that is somewhere centrally located that can serve the entire population in short order and we've seen the size of that warehouse dramatically increase. So 10-15 years ago the largest warehouse would be about 100,000 square feet. Now tenants want to consolidate more operations to one specific warehouse to make it more cost efficient. You're definitely seeing a push into more campus-style distribution and then you're seeing smaller last-mile depots being filled up by these larger warehouses in the country. So instead of having a 200,000-square-foot warehouse in every region you have an 1,000,000-square-foot warehouse in the centre of the country and then 50,000 square feet warehouses in each urban population and you do that last.

With land supply issues, I think building multistorey is one of the things that will get talked about more over the next few years. It is still pretty untested across Europe. Floor loading is so important for a warehouse in terms of being able to withstand the weight of the racking, as well as the robotics potentially above it, so building a first floor or second floor that can withstand that amount of weight is tricky. As you think about robotics and how that can potentially accelerate the picking of a larger warehouse, you'll certainly see some warehouses built higher. But whether there's an added second floor or first floor I think it is still not clear that it can function as well.

Shamji (left) listens to Lockhart. (Panayis Chrysovergis/CoStar)

PN: I wanted to come on now to any other major blockers that have been stopping you developing investing or lending.

AL: We are investing this year. Our job is really to allocate our capital into opportunities that are going to deliver value growth so getting our capital allocation decisions right is really, really important. So we do spend a lot of time looking at opportunities, analysing in depth the underlying risks of an asset because until you understand the risk profile of an asset you can't price it properly.

To some extent that's why we have sat on an elevated cash position for two years. We've been very, very disciplined waiting for the right opportunities that are gonna give that correct risk-reward ratio. And thankfully we've been able to unlock that this year particularly with our corporate transaction with Capital & Regional, which is going to be quite transformational for us as a business in terms of increased scale and size and it's going to be very earnings-accretive. And that's why it's been so well supported by our shareholders. You will remember to partly fund that transaction we went into the markets to raise just under £50 million and it was very, very well supported and we were two times oversubscribed. And actually we were able to raise the capital at a modest premium to our then-prevailing share price, which is generally quite rare for capital raises. But I think that's just reflective of the public equity markets being a little bit more confident around our marketplace. And obviously they like the transaction and NewRiver as a business.

PN: We've seen a lot of mergers and acquisitions. Will that continue as a theme?

AL: I do think consolidation will continue. To be really relevant in the public equity market, you probably need to be about a billion pounds in size and that's really all about trying to attract the widest range of investors on to your register.

So if you're looking to get a high quality investor to invest in your business and take a 5% stake, what they'll look at very carefully is when I want to sell how long is it going to take me to sell? And when

you're a small market cap company, a 5% holding can take them three to four months to sell out of if they want to avoid any disruption to the share price. So having that sort of size scale or increase in liquidity, it just makes you more appealing to a wider range of potential shareholders.

PN: Soraya, development is what you do. What's been holding you back?

SS: We look at everything. The biggest challenge is understanding the business plan, is it viable and is it realistic to build a hotel in the middle of nowhere and get these rates? So, we want to make sure that the owner operator really understands the business plan and is it suitable to the market, will the product suit? You know, just because you have a nice restaurant doesn't mean people will go there. So, it is really understanding their business model in terms of the cost structure.

That's the big thing that we look at. So, we look at every deal and we structure the deal on a case-by-case basis. Managing that challenge and expectations of high ADRs and growth quickly, we look at that. That's important and it's very dependent on the city. If it's in London, we know it's going to stabilise much quicker, the regions will have different projections. So, we match with the marketplace.

PN: And construction costs and increased regulation, how is hotel development responding to that?

SS: We're seeing development costs coming down. We're seeing more owners invest in their assets, whether it's their choice to drive room ADRs or move to other brands. So, we're seeing a lot more activity on the development front and that's been positive for us and we expect more in 2025. We are looking more at office conversion, particularly in this area. And I think that will continue because we need the supply in London and we are seeing it also in Manchester, that's been very positive.

So, we are seeing a lot of activity and again we're focused on the development, we wouldn't just go to a new developer, they have to understand how to build a hotel. They have to have the experience. If things go wrong, can they deal with their problems, do they have the cashflow, that's where we want to build a relationship.

Krause (centre) makes a point. (Panayis Chrysovergis/CoStar)

PN: Peter, what has been holding you up this year?

PK: The UK and the US generally are very efficient capital markets. It's a very built-out buyer pool, and so when there is geopolitical volatility and inflation can move, that real-time affects base rates, and that in turn real-time affects pricing because of how efficient UK capital markets are. So as rates move from month to month, cap rates do readjust very quickly up and down, which can make certain periods trickier for us to transact.

PN: What have been the crucial changes for your sectors this year politically and economically?

SS: In the Budget with National Insurance and business rates, these are all things that concern us. We're already speaking to our current

customers seeing how they are addressing this as it is going to have an impact. I think the positive side is hotel operators are used to these constant shifting changes. They had the energy price crisis and they had housekeeping and staffing shortages. So, they become sort of adept at reacting to these changes. So, I think you'll see a lot more operational efficiencies coming in.

As I mentioned earlier, even things like night staff setting up for the morning, less staffing and more technology, that's how they're going to deal with it. But yes, we're definitely concerned about it. We do think it's going to impact EBITDA for 2025.

I think revenues will continue to be strong. There's a lot of demand especially if the Chinese come back into the market, which will help them on the occupancy element, but I do think EBITDA will be a challenge for 2025. And on top of that, interest rates are probably going to go down as well so that will impact hotel owners.

PN: Is a key story emerging around deglobalisation and near-shoring and tariffs in industrial markets?

PK: A lot of the leasing that's been signed over the last 24 months has been driven by the push for occupiers to have more warehouse space locally, more warehouse space in geopolitical areas that they trust. In Portugal, for example, you've seen a lot of manufacturing relocate there and vacancy reports at less than 1% in certain markets. And certainly in the UK pos= Brexit – domestic production here was already accelerating and we've seen that as a demand trend to complement e-commerce.

PN: So what would be the hotspots?

PK: Portugal and the Czech Republic have done very well. Where you have low unemployment, manufacturing is a high percentage of gross domestic product and the cost to produce a good is lower, and that complements a leasing market today well where occupiers are focused on reshuffling their supply chain for reliability and cost efficiency.

Allan Lockhart: Well, I mean, announcements around the increase in national living wage and National Insurance is not helpful for retailers and and indeed I think many have written this morning to the Chancellor about increased costs, but perhaps like the hotel sector, I know that many retailers are very adept at facing into challenges as they've had to do do that for the last 10 years. The impact of disruptive technology on the sector and Covid and then high inflation. So they're very capable and I'm sure they will be driving through more efficiencies into their businesses and where they can I'm sure they'll be trying to pass on some of those increases into higher prices for their products. But you know the government is in a tough place fiscally and so tough decisions were going to be made and we just have to get on with it. And I don't think they're going to be changing their mind.

What they did announce was obviously on business rates, which I think is going to be certainly helpful for part of my marketplace and that's business rates where they've announced in 2026 that they're going to introduce a permanent discount to the [uniform business rates] for retail, hospitality and leisure for units under half a million per annum. For our portfolio that's the vast majority. So, depending on what that is, that's really healthy and you know we'll be pushing the government to go much further than that because the burden of business rates on physical retail in particular has been really unfair. But the government I think recognises that.

When you go into government, reality smacks you, as Mike Tyson said. I just felt like whoever was going to get in their room for manoeuvre is so narrow because the fiscal position is pretty dire – the amount of debt the government has on its balance sheet – but we're not alone like that. So the options were always going to be very, very limited. So I wasn't really expecting much. You have to get on and run your business and try and drive as much performance out of it and that is what we have been doing.

PN: Mark how quickly does the data change when there are budgets and major announcement?

Stansfield (left) gives his perspective. (Panayis Chrysovergis/CoStar)

Mark Stansfield: It tends to be the investment markets rather than occupier markets that slow down. So there's a bit of a slow down in under offers or transactions before a big event, because there's a prefer to wait-and-see what will happen rather than complete on deals. So we saw that after the Brexit vote – there was a big slow down. And then investors get comfortable with the new reality. Less so on the occupier side, I would say. Q3 was a very strong quarter for office take up and the same with industrial and that was right before the Budget. So occupiers generally react less.

AL: Well I think you had a chart of consumer confidence dipping in the quarter before the Budget and that's because the government scared the living daylights out of everybody about what was about to happen in the Budget and naturally the consumers were nervous about that and that's what is seen in those confidence metrics. Because up to that point, pretty much across all consumer confidence metrics, whether that's the outlook around finance, job security, everything was trending in a positive direction. And you know, that just shows the sort of influence the government can have.

PN: OK, so what, if anything, is set to change in 2025 in your sector and what would you really like to see?

Allan Lockhart: I'm always positive, but I just think trying to predict the future is always very difficult. It's so complex and there are millions of moving parts.

Who knows what the US president might do and what might happen in the geopolitical issues, et cetera. So we just have to really concentrate on our businesses and focus on what we can control and the levers that we can pull. So we'll be watching out for things that impact our market place. So things like 10-year gilts, the swap rates, how successful the Government gilt auctions are that take place, there is a tremendous amount of refinancing which is required. We'll be looking at spending data very, very carefully. And we are also looking more and more around AI trying to understand that better

and how it's going to impact the consumer and how that might impact our market.

We've put a team together. They're all younger than me and way smarter than me. I remember watching an interview by Eric Schmidt, the former chief of Google, and when he goes in and advises big corporations in the US and the senior leadership team he basically says you're all too old, you'll never understand this, so you have to get the right people in your organisation. So we put a team together to understand how AI is going to affect the way consumers live and work and shop etc because that will ultimately impact the demand for space in the future. But we're equally wanting to understand how do we use AI to make better decisions to become more efficient. And that's really what we're trying to do because retail real estate is probably one of the main sectors where we've seen first hand how disruptive technology can be.

And that's really taken place over the last over 15 years and ultimately when you're a real estate owner, you're generally long term and with duration you're exposed to risk or you know longer duration carries higher risk. So it's really important to try and understand what all of that means, and that's what we're focusing on.

SS: I think business travel is predicted to come back next year, and we will see the retiring of online Teams [or] Zoom meetings. I think we're seeing more traffic for business travel. That's going to impact numbers. That's going to help. And again, we are hoping for Chinese travellers to return and that will drive tourist demand and that's great news for us. But we're really watching for the Budget and business rates and interest rates, all things we are very cautious about. But overall, I am Canadian so I'm always a little bit more optimistic. I am cautiously optimistic and we are already seeing a lot more business coming through the door.

Mark Stansfield: I've studied history. So to give a bit of a historical perspective about 20 years ago it was all offices, retail and industrial. For a while, the clear winner was offices. For the last five or six years,

it's been industrial. The big trends in the last few years has been many more sectors and subsectors appealing to investors. So the investment market has never been more interesting, and there has never been more scope for outperformance. And for outperformance, obviously having access to excellent data is important.