The UK in 2015: decent growth, low inflation... and political uncertainty

Another year of strong performance in 2015

A year for M&A in the UK’s listed real estate sector

The battle for retail space has shifted to convenience formats and is set to intensify in 2015

A period of major changes to bank lending starts in 2015

Wealthy overseas investors raise their stakes in UK real estate

Cost pressures to drive M&A in the construction sector

Serviced offices will go from strength-to-strength in 2015

Real estate remains key to the government’s deficit reduction plans

2015: the year that data analytics takes centre stage in environmental compliance
Introduction

UK real estate had some year in 2014: the headlines will highlight the phenomenal performance, with total returns reaching their highest level for over 20 years. However, behind this we have seen some fascinating developments including a wave of new investors, an occupier market changing at a rapid pace – driven by technological disruption, economic shocks, both positive and negative – the twists and turns of new regulation, and real signs of increasing M&A activity in the sector to name but a few.

Given all this excitement it is perhaps unsurprising that the consensus envisages a moderation in performance in 2015, but our view is that this cycle has further to run. We are confident the UK economy will show reasonable growth, even if the pace will be more measured than last year. This will provide a solid foundation for another year of robust performance, with rental growth and further yield compression driving returns.

We expect 2015 to see continued demand from a wide range of investor groups targeting UK real estate, and amongst those increasingly active in the UK we single out UHNWIs (Ultra High Net Worth Individuals) as ones to watch. Meanwhile, with competition for stock set to remain fierce, we will be on the look-out for further real estate M&A activity in 2015 as investors seek ways to deploy capital quickly and efficiently.

Like many, we enter 2015 with some specific concerns. Alarm bells are ringing for superstores – the race for space has left some retailers over-exposed to large out-of-town sites when the consumer appetite for convenience increasingly favours the high street, and discounters are stealing a march. Likewise, we would not be surprised to see further distress in the construction industry as some firms struggle to complete projects under today’s rapidly rising construction costs, potentially leading to corporate activity in this sector as well. And of course, May will bring the added uncertainty of a general election.

So as we consider what 2015 has in store for the UK, one thing is for sure: it looks set to be another dynamic year. Success will be measured by the ability to navigate through the fast changing world in which we now find ourselves.
The UK in 2015: Decent growth, low inflation... and political uncertainty

2014 was a standout year for the UK economy, with growth the strongest in the industrialised world and sharply lower inflation. The economy enters 2015 showing signs of the pace of growth easing, with inflation set to fall further and facing an increasingly unpredictable political scene.

Housing activity cooled markedly through 2014, partly in response to tighter mortgage conditions. Meanwhile, business sentiment, including our index of optimism among chief financial officers, weakened in the final months of 2014. Such indicators are widely seen as reliable lead indicators of activity. But how great is the risk that, with the euro area mired in slow growth, UK activity could peter out? Three factors point to a modest deceleration, not a sharp slowdown, in UK growth in 2015.

First, uncertainties about the global economy, especially the euro area, suggest that UK rates will stay lower for longer. Financial markets assume that interest rates will not increase until the second half of 2015 and that the upward path will be far gentler than expected as recently as mid-2014. The UK is likely to remain easy money territory for years to come.

Second, lower commodity prices are feeding through to lower inflation. After several years of soaring increases, food, petrol and energy prices have tumbled, helping push inflation to a five year low. It seems quite likely that UK inflation will stay below its official 2.0% target for the next two years. Together with a gradual pickup in average earnings, this means that 2015 is likely to be the first year for six years in which real earnings have risen. A recovery in spending power should support further growth in consumer expenditure through 2015.

Third, global growth is likely to strengthen somewhat, driven partly by an acceleration in US activity. Net exports are unlikely to make a significant contribution to UK growth in 2015, but a stronger world economy should ensure that they do not act as a major drag on performance. Despite hopes of an export-led recovery, the reality is that growth in 2015 is likely to be led by domestic demand, especially consumer spending and business investment.

Perhaps the area of greatest disappointment for the UK is the failure of stronger growth to have a more pronounced effect on the level of public borrowing. The UK is only halfway through a deficit reduction programme which stretches towards the end of the next parliament. The IMF estimates that the UK deficit in 2014 was larger than those of Greece, France, Italy or Ireland. The government’s plans imply a tightening of fiscal policy and cuts in real government consumption spending for each of the next five years, leaving the private sector to drive economic growth through the next parliament. The recession may be over, but much of the pain of deficit-reduction still lies ahead.

With the general election due on 7 May concerns about political risk at home have climbed the corporate agenda; at the same time concerns have mounted around the weakness of the euro area economy and events in the Middle East and Russia. Deloitte’s CFO Survey shows that chief financial officers’ greatest concern for 2015 relates to the risk of political change and uncertainty around the general election. The shrinkage of the membership base of the main political parties, and the growth of smaller parties, mean that the outcome of the election is particularly uncertain. Compared to most post-war elections, the chances of a hung parliament, and the possibility that the UK may see another Coalition government, are relatively high.

The UK economy enters 2015 in pretty good shape. Economic fundamentals look better than most might have expected a year ago. Two of the key challenges for 2015 are dealing with political risk at home and managing the effects of geopolitical and economic uncertainties overseas.
Too early to call the cycle yet

2014 saw total returns climb to the highest level in over 20 years, and investment volumes reached a new high. This will be a difficult act to follow in 2015, but does the consensus underestimate the potential for upside?

Yields fell further and faster in 2014 than most expected, driving total returns to over 20%; well ahead of the consensus forecast in place at the start of the year. We believe there is still scope for further yield compression to come as we see no let-up in the volume of capital targeting UK commercial property. Strong performance in 2014 has continued to attract fund inflows, which will need to be deployed, and the UK’s appeal as a destination for overseas capital remains unrivalled.

We also expect to see rental growth assume a more prominent role in driving performance. Improving occupational demand is taking hold as the economy expands, and not just in London, but with a much broader geographic spread than we saw last year. Indeed, our Businesses Leading Britain report found that two thirds of the UK’s fastest growing medium-sized companies are now based outside London and the South East. M&A mega-deals have returned, and we expect 2015 to see dealmaking spread out across a much broader range of mid-sized firms, resulting in further leasing transactions as newly merged or divested firms reassess their real estate requirements.

So far, however, office supply is struggling to keep pace. Our current projection of office development in central London suggests the market will remain undersupplied for the next couple of years, even if all potential projects go ahead. As our recent Manchester Crane Survey highlighted, this scenario is mirrored in a number of major regional cities, supporting the prospects of rental growth in these locations.

We do not see the office sector escaping the tech revolution that is rapidly transforming both retail and industrial property. Our recent research has highlighted the potential for a third of UK jobs to be automated, and that future employment growth will be focused on more cerebral, creative, and collaborative job types. The current regimented style of office accommodation will not be the best fit for employees in these jobs who benefit from being able to work in a variety of spaces depending on the task at hand. We are starting to see office design respond to some of these needs, but it is becoming increasingly apparent that creating high quality working environments requires the close collaboration of a company’s talent, technology, location and building strategies. Most organisations won’t see this integration completed in 2015, but they will recognise that the office is a hugely valuable component in their overall offer to staff.

Clearly there will be headwinds to come: the May general election could result in some procrastination within both the investment and occupational markets, and the debate as to the timing and pace of monetary tightening will rumble on. But while this year is likely to see a slowdown from the strength of 2014, we think the consensus outlook for returns to halve is too pessimistic: we believe that there are many reasons for 2015 to be another year of strong performance for UK real estate.
A period of major changes to bank lending starts in 2015

2014 was a year of increasing regulation and closer scrutiny for banks with important implications for the future of bank lending to real estate.

The major authorities in the UK, Europe and the US have all announced new banking regulatory measures over the past year and the European Central Bank carried out its year-long comprehensive assessment of 130 banks, which included the latest European Banking Authority (EBA) stress-testing exercise. In October, the European Central Bank published the results of its asset quality review (AQR). This was a more granular assessment of the individual loans sitting on banks’ books, and the process identified a further €53 billion of non-performing real estate loans, bringing the known total close to €400 billion.

One effect of the AQR and the other regulatory measures has been that many banks have raised additional capital reserves. However, this may not be the end of the story as the impact of new rules imposed by the EBA on forbearance (the modification of loan contracts as a result of the debtor’s financial difficulties) and exposure to non-performing loans, could turn out to be much greater in the longer term, especially for real estate.

Under the new rules, banks have had to make significant improvements to their risk management and governance processes, as well as to the quantity and quality of information they provide on their loans. In addition, any instance of forbearance will be publicly recorded, while two instances for the same debtor will automatically qualify the exposure as non-performing. Consequently, the number of non-performing loans is likely to increase, and also the make-up of each bank’s loan book will be more transparent.

As a result, banks may become less willing to run the risk of originating or holding loans which could trigger forbearance. They may turn into more conservative lenders, both in terms of the standing of borrowers they are prepared to lend to, and of the structures that they are prepared to use. Another possible effect is that the forbearance rules, combined with the higher capital provisions necessary for real estate loans, and a greater administrative burden, could cause lenders to raise the cost of their loans, or even to leave the market completely.

The process is likely to be evolutionary. As banks start to record the incidence of forbearance more accurately and get a better grasp of the amount of potential problem loans already on their balance sheets, they will start to understand more clearly how they might change their existing lending practices to reduce the likelihood of forbearance in the future.

So if banks start to reduce their exposure to the real estate lending market, who will step in to fill the void? We might see traditional opportunistic providers of finance, such as mezzanine lenders, return to greater prominence, as they did during the last downturn. However, there may also be an opportunity for private equity funds to enter the loan origination market. Having been very active in the pursuit of distressed debt portfolios during the downturn, they have built up much of the infrastructure required to make new loans. With the opportunities in distressed debt gradually waning, in the UK at least, this may be a viable proposition for some.
Significant press coverage was given to the major property sector M&A transactions that were pursued in 2014, even if few of them were ultimately successful. 2015, however, could be the year that sees listed real estate M&A deals start to gain traction. In addition we expect a raft of new REIT vehicles to enter the market.

There is a large and growing volume of global capital targeting a finite pool of UK investment grade assets. Rapid growth in funds managed by emerging market savings and pensions institutions, insurance funds and sovereign wealth funds, combined with a gradual easing of restrictions on global capital flows, has meant that these types of investors are increasingly active in the UK commercial property market. Many have significant amounts of capital to spend, and given the high level of competition for suitable stock, some are struggling to do so quickly and efficiently.

The purchase of an existing portfolio of assets, such as a listed property company or REIT (real estate investment trust) is one potential solution, facilitating the acquisition of a sizeable stock of investment property complete with a team in place to manage it.

Taking a listed property company private is not necessarily easy. Despite disclosing high levels of information, REIT management can still have an information advantage over potential purchasers that is difficult to overcome without the cooperation of the REIT management, while major shareholders can be loath to lose the market exposure provided by their investment. Hostile takeovers are therefore not common.

Aside from an offer too good to pass up, what would prompt shareholders in a listed company to consider selling out? An acceptance that net asset value (NAV) is fairly represented is likely to be a prerequisite. Since the downturn, UK REITs have spent much time trading some way below NAV, but that picture reversed in 2014 with the market overall trading at a premium for most of the year. There may also be efficiencies of scale to be gained from mergers.

But while some REITs may merge or be bought, others may be launched. REITs will remain the tax efficient vehicle of choice for raising capital both in the UK and globally, evidenced by the number of new launches in 2014. They will also continue to be used by overseas institutional investors as their platform for UK property investment.

At the other end of the scale, there may also be a rise in demand from individuals. In 2014 the government announced that pension savings will no longer need to be annuitised on retirement, providing the opportunity to access investment flows previously destined for annuities. REITs have the potential to harness some of this investment, but in order to be most suitable for people seeking a source of retirement income, they might consider adopting an approach closer to the US model which prizes stable, long term income, than to that of the UK developer-REITs, for which income can be more variable.
Wealthy overseas investors raise their stakes in UK real estate

Ultra High Net Worth Individuals from around the world made a powerful contribution to UK investment volumes in 2014, and we believe they have every reason to raise their stakes in the market during 2015.

Often investing via dedicated family wealth management offices, wealthy overseas individuals were responsible for some of the UK’s most high-profile property transactions in 2014. Having been quietly building their presence in the market, they now typically account for between 15% and 20% of overseas investment into the UK commercial property market. Demand continues to be fuelled by rapid global growth in personal wealth, and the desire to diversify portfolios following the global financial crisis.

A host of factors such as good quality stock, high levels of liquidity and transparency, as well as some softer advantages such as language and culture have made the UK particularly attractive to private overseas investors. They have often favoured investing in prime assets over very long time horizons, with income return being less of a concern than capital preservation.

Consequently, they continue to prove formidable competition when bidding on assets, sometimes being prepared to accept yields lower than many other types of investors. Although they are increasingly investing in property across the UK, London remains the traditional starting point for those seeking exposure to the UK commercial property market for the first time, and in 2014 it still accounted for 80% of family office investment.

Nevertheless, with yields in the UK falling to such low levels over the past year, particularly in the prime central London markets popular with overseas individuals, some have begun to look at other global cities such as Sydney and Los Angeles, where gross yields are higher. But while the higher yields available on comparable properties in these markets can be attractive, in reality the impact of local taxes means that the UK often provides a better net yield. What’s more, the UK is the only one of the G20 countries not to levy capital gains tax on the sale of properties held by overseas investors, which is an important benefit when it comes to selling.

Another way that some overseas individuals are attempting to boost returns is by adopting an approach more akin to that of the private equity model, in which capital is committed to development opportunities rather than standing investments, and potentially recycled over a much shorter time frame. This strategy can generate higher returns, but it requires more intensive management, and a deeper level of market expertise. A joint venture with a local development partner can help address these issues, but even so, this will not be suitable for all types of family office.

Rising global wealth combined with ongoing global political and economic tensions will continue to provide wealthy overseas investors and their family offices with good reasons to diversify their holdings by acquiring UK real estate in 2015. Above and beyond this though, 2014 has proved that they are a significant investor class in their own right, able to compete for – and win – major assets in one of the most competitive property markets in the world: 2015 will see them build on this success to take an even greater share of the UK property market.
The retail space war has not ended, it has just moved

Meeting consumer demand for ever-greater levels of convenience is a major challenge for the retail industry, particularly for online operators, which are competing to offer the most rapid and flexible delivery services. For the high street though, the growing importance of convenience is a source of rejuvenation.

Motivated by the recession, consumers have increasingly swapped large shopping trips to destination superstores in favour of smaller top-up visits to local stores, supported by the increasing speed and ease with which deliveries of bulky goods purchased online can be arranged. More recently, the high street has become host to a plethora of different styles of click & collect services available through stores, specialist operators and dedicated lockers, to name just a few.

None of this has been lost on the supermarket operators: they may have signalled that the race for large edge-of-town sites is over, but in reality the battleground for space has merely shifted to the high street. Where did all the shops go?, our research into the fate of stores that were part of the various retail chains that entered administration, found that 11.5% were re-let to supermarkets and convenience stores. We believe that this race for space is set to accelerate and intensify during 2015. However, as the market becomes more crowded, operating a convenience format will become harder. Not having the benefit of the economies of scale of larger supermarkets, traditional convenience formats have been less price competitive. But with a variety of retailers now in the market, and many seeking to increase their footprint, competition is getting tougher and margins are being squeezed. Meanwhile, the current scale of demand for convenience locations means there is a chance that some centres may see rental growth – good news for landlords, but further hampering store profitability.

And for the supermarket operators expanding their share of the convenience market, there is always the danger that opening more small stores and encouraging consumers to use convenience formats ultimately results in cannibalisation of superstore sales.

All of this comes before the rapid expansion of the super-competitive discount sector is considered – discount retailers have accounted for an even larger share of post-administration re-lettings than supermarkets and convenience stores. Convenience retailing is therefore not an easy part of the market in which to be successful: we see clear reasons to expect further disruption, with the potential that one or more players may choose to make a tactical withdrawal.

The bigger picture is that this is all part of a further evolution in the polarisation of retailing. At one end of the spectrum there will be a greater dominance of a few leading destination shopping centres, positioned almost as much as leisure facilities as places for comparison shopping. However, at the other end, we expect that a continued rise in small, frequent shopping trips will favour convenient locations that form part of peoples’ daily transport routes: local high streets, stations, or other major transport hubs, for example. These will become the ultimate convenience shopping pitches.
Serviced offices will go from strength-to-strength in 2015

The concept is not new, but it is certainly enjoying rapid growth. Our recent London Business Footprint research showed that serviced office space in central London increased by two thirds over the past decade, and in the City market it doubled. We predict further strong growth in this market in 2015.

The serviced office sector has undergone a dramatic transformation in the past ten years, evolving from a provider of largely functional, standardised facilities, to a model that has seen leading operators create some of the most innovative and well-specified offices available. At their best, these spaces demonstrate a real understanding of today’s employees, who place increasing value on the ability to work in a variety of settings depending on the task at hand: traditional fixed desks for a normal day’s work, touch-down spots for short stints in the office and collaboration areas for team working, for example.

The growing popularity of serviced offices also partly reflects the changing nature of business in this economic recovery. Unemployment has fallen rapidly over the past two years, but a significant part of this has been driven by an increase in self-employment and the growth of small start-up firms, which still represent a significant share of demand for serviced office space.

This expansion looks to continue – the Autumn Statement contained a number of measures designed to increase funding for small businesses, while funding for tech start-ups, for example, is at its highest level for five years. And neither is this just a London phenomenon: as our recent Fast 50 research shows, while London remains home to the majority of the UK’s most rapidly growing tech firms, an increasing number are now located outside the capital, as are many of the UK’s fastest growing medium sized businesses.

This is creating a growing base of prospective customers for serviced offices who value the ability to adjust the amount and type of space they use as they expand, and see benefit in more collaborative working environments and incubator hubs. Some potential users are not long established, and therefore may not have the credentials to easily obtain a traditional lease, particularly given the current strength of demand for space, while others may simply not want to be tied down to long contracts.

The attraction of serviced offices is not limited to small businesses, however. Our quarterly CFO surveys show that the UK’s largest corporates have become steadily more inclined to adopt expansionary strategies, yet new office development has been relatively low over the past few years, so some are taking space in serviced offices as overflow capacity. Many professional and financial services firms already utilise serviced office space for ad-hoc project requirements which cannot be accommodated in existing offices.

All of this adds up to a small but thriving part of the UK office market. The modern breed of serviced offices can be a very attractive proposition for tenants, and landlords no longer see the sector as a ‘last resort’, only to be considered when no other occupiers can be found. Indeed, we are now seeing serviced office providers take space in some of the new developments recorded in our London Office Crane Survey series, and they are increasingly seeking to own their buildings, with a number of purchases seen in 2014.

1. London and Partners
Cost pressures to drive M&A in the construction sector

Last year our Real Estate Predictions highlighted our forecast that construction costs would jump in 2014 as pricing power shifted to contractors. This was indeed the case, with tender price inflation of over 6%, and with these pressures not yet abating, we continue to see the potential for the risk of contractor insolvencies to lead to M&A activity.

2014 saw no let-up in the cost pressures facing the construction industry, as the reduction in capacity brought about by the downturn continues to result in supply shortages and long lead-in times for certain materials. Meanwhile, as unemployment has continued to fall, hiring skilled trades has become more costly, especially as the limited opportunities for work during the downturn resulted in skilled labour leaving the industry. Cost pressures are not being felt uniformly across the phases of development – earlier trades on site including substructures and frame have been hit first as the balance of supply and demand has shifted due to increased orders. However, cost increases are likely to be seen in later trades as more projects reach further stages of procurement. This could lead to an increased possibility of further contractor insolvencies as work won in tighter markets becomes more costly to deliver.

The implications of higher demand on busier contractors are certainly being felt in the industry. Contractors in some sectors are now able to be more risk adverse: whereas in recent years a contractor may have been willing to take on onerous contract and payment terms to secure work, they are now seeking to share more risk with their clients. Contractors are beginning to turn down work, and when they are interested are starting to push back on single stage procurement approaches, which tend to introduce higher levels of risk into their contract, in favour of two stage tendering. A two stage tendering approach could help contractors as the risk of cost inflation is more likely to sit with clients.

The issue of rising costs could also be detrimental to land values. Although construction costs often represent a reasonably small part of a development appraisal, recent rises have been significant, and therefore could materially impact the price that a developer is willing to pay for a site. Equally, for those already holding sites, a higher cost to develop them could, other things being equal, reduce their value.

Construction cost pressures may not continue to rise unabated forever – there is anecdotal evidence that suggests the major adjustments in labour and material prices may be beginning to ease. However, in the short term at least, cost pressures have to be worked around. Developers may start to simplify their projects, increase the use of quicker prefabrication technologies and look overseas to suppliers manufacturing in lower cost bases.
Real estate remains key to the government’s deficit reduction plans

The government is still only halfway through its deficit reduction, and real estate will continue to play a key role as the next stage of the programme gets underway in 2015.

Despite a rationalisation programme that began in 2010, the government’s property and land holdings remain large, with a 93.6 million sq ft estate valued at £348 billion sitting on its balance sheet. This huge figure equates to almost twice the total value of the UK’s commercial office sector, or over eight times the total market cap of UK REITs.

The government plans to reduce the size of this estate, with an additional £5 billion or more of property sales expected by 2020. This clearly has the potential to generate some interesting development opportunities from sales of land, airfields, barracks and prisons, but also within central London, as sales of Whitehall offices are being considered. The timing is fortuitous following the growth in commercial property values in the UK, and in particular in London, and regardless of the outcome of the May 2015 general election, we expect that a broadly similar approach will be taken.

A second part of the government’s strategy will focus on using office space in a more efficient way, and ultimately using less. A recent OBR (Office of Budget Responsibility) report projected that a further one million public sector jobs would be cut by 2019, in addition to the 400,000 already cut.

The obvious corollary is that the public sector’s office requirements should also fall by a similar rate. The government wants to go further, however, increasing office space efficiency from 11.9 sq m per FTE (full time equivalent) employee in 2013 to 10 sq m in 2015, and to 8 sq m by 2018.

The space that central government occupies has already been reduced by almost 20% since 2010 – this was reflected in our recent London Business Footprint report, which showed a 23% fall in the share of central government office space taken in central London over the past 10 years. But we also found that the volume of local government office space in central London had effectively stagnated over this time.

In many respects these issues are ones that the private sector is also grappling with. We believe the exploitation of more flexible/remote ways of working, and making the design of the workplace fit more closely with these goals will be important in helping achieve the government’s fiscal targets. Executed well, these plans could also have a positive knock-on effect on the government’s talent attraction – our research into hiring in the banking and insurance industries, for example, shows that private sector organisations are already starting to recognise attractive workplaces as an important consideration for potential employees. Indeed, by meeting its objectives, the government could become one of the leading examples of an organisation to successfully implement more efficient, flexible working environments.

1. Government’s estate strategy, Cabinet Office; Efficiency and reform group, October 2014
2. Economic and fiscal outlook, Office for Budget Responsibility, December 2014
3. Graduate recruitment in banking and Recruiting beyond the risk averse, Deloitte, November 2014
2015: the year that data analytics takes centre stage in environmental compliance

Sophisticated data modelling and analytics are increasingly being used to support smart environmental reporting compliance. We believe 2015 will be the year that reporting non-financial metrics will become mainstream, and lead to fundamental changes in corporate thinking about the impact of real estate.

Harnessing big data can change how companies manage and respond to compliance risks and can provide a fuller picture of the impact of their operations. Within commercial real estate, for example, it can offer an increasingly accurate understanding of energy consumption across the complex interactions between property portfolios, supply chains, business operations, staff and customers.

But gathering the right data is not easy, and even harder is making effective use of it to support strategic decision making or to improve investment performance. Gathering data simply for the sake of having more makes little sense.

Pressure to measure performance is constantly growing. Emerging trends in disclosure such as Integrated Reporting (IR) and Global Real Estate Sustainability Benchmark (GRESB) are placing increasing pressure on investors and owners of commercial property to gather more data (and ever more diverse types of data). Similarly, minimum energy efficiency standards which will affect the lettable property will require investors to consider the energy performance of their portfolios.

Some large investors and corporates are leading the way in raising expectations for improved transparency, publishing broader statements of company performance as well as an increasing range of non-financial metrics and indicators within their annual reports and accounts. The next step is that these non-financial metrics are integrated into companies’ business practices so that they demonstrate performance more comprehensively, taking into account environmental, social and governance aspects.

However, the data must enhance the narrative that companies are trying to convey in their reporting. It is vital, therefore, that the right data is being gathered in reporting and benchmarking initiatives, which will most effectively encourage companies to implement improvement strategies. Firms leading the way in this area concentrate on collecting data in areas where they have a greater degree of management control and where the more significant impacts on improving sustainable investment performance can be achieved.

The industry is beginning to get to grips with what to measure and how, but with occupiers increasingly trying to understand building performance in the context of staff health, wellbeing and productivity, landlords will need to be alert to occupier preferences and demands to maintain rental income streams and to protect asset values. In this relatively new area of measurement, collecting and understanding data that relates organisational outcomes back to physical features of buildings, and more importantly acting on this information will put companies at an advantage. The leading organisations are already doing this; in 2015 it will move further into the mainstream.
Contacts

Andy Rothery  
Head of Deloitte Real Estate  
arothey@deloitte.co.uk  
+44 (0)20 7007 1847

Anthony Duggan  
Head of Real Estate Strategy  
aduggan@deloitte.co.uk  
+44 (0)20 7303 3134

Will Matthews  
Real Estate Insight  
wmatthews@deloitte.co.uk  
+44 (0)20 7303 4776
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2015 Deloitte LLP. All rights reserved.