M&G Real Estate Perspectives

UK Autumn Statement 2016 – impact on real estate

November 2016

Unlike George Osborne's Budget back in March, the Autumn Statement delivered by the new Chancellor Philip Hammond on 23 November contained little with direct consequences for real estate investors. There were no new announcements on stamp duty. On business rates, other than a simple reiteration that the government was committed to reducing the burden of the tax over the coming years, there was only a minor change to the transitional relief applied to introducing higher rates for properties that saw an increase since the last review (this provides a marginal benefit to London and some other property markets that have seen rents grow since 2008). Finally, a new ban on agents charging lettings fees to tenants is unlikely to have much, if any, impact on institutional investment into the residential sector. Other than these, the most significant relevant announcements relate to the potential boost to long-term sustainable growth through the new National Productivity Investment Fund, which over the next five years will add, on top of the spending already outlined in March's Budget, an extra £23 billion of investment in infrastructure and to promote greater innovation – specifically investment into housing, transport, digital communications, and R&D.

Housing

Change: In addition to £5.5 billion newly allocated to "accelerated construction" and affordable homes, a new Housing Infrastructure Fund of £2.3 billion will be set up to help unlock private house building in areas where demand is greatest.

Impact: The government expects to speed up construction of more homes on public sector land through partnerships with private sector developers, and that the new Housing Infrastructure Fund will deliver up to 100,000 new homes in high-demand areas and. This will provide new opportunities for institutional and other investors to deliver new housing on a large scale, by giving government support to building in the areas private real estate investors find most attractive – where the supply/demand imbalance is most acute. It is notable, though, that even with this additional support, Britain will still face a shortage of housing, which will continue to put upward pressure on rents.

Transport improvements

Change: Extra funding worth £2.6 billion has been confirmed to tackle congestion and ensure the UK's transport network is fit for the future, including resurfacing of strategic road networks and improving key pinch-points.

Impact: Improving transport routes and capacity will benefit both investors and businesses. In addition to smaller-scale projects that will boost local areas, new rail infrastructure projects such as HS2 and Crossrail 2 will enhance rental and capital values in newly connected markets. Long term commitments to reduce congestion and upgrade road networks will equally help to improve connectivity and provide benefits to the logistics sector, opening up and improving areas for distribution, thereby increasing occupier and investor demand.

Specific infrastructure project: Oxford-Milton Keynes-Cambridge growth corridor

Change: The government announced plans to commit £27 million in funding for a new expressway, dubbed the "brain belt", to run between Cambridge and Oxford. In addition, £100 million will be used to accelerate the construction of the East-West Rail line, connecting Oxford through to Norwich.

Impact: A completion date is yet to be set for the expressway but it is expected to cut journey times by 40%, increasing connectivity between these science clusters. This, in turn, is likely to boost occupier and investment demand along the corridor for both office and residential space. With office rents in Cambridge currently at a 50% premium to both Oxford and Milton Keynes, increased connectivity is likely to support further growth in these markets.

Digital infrastructure

Change: The government has pledged its support for the roll-out of full-fibre connections, providing 100% business rates relief, and setting up a new £400 million Digital Infrastructure Investment Fund, which is expected to be at least matched by industry. In addition, the Chancellor announced the creation of a £740 million fund for trialling 5G (fifth-generation mobile network) technology.

Impact: These investments will ensure faster and more reliable digital connections to homes and businesses across the country, ensuring the UK remains globally competitive. The investment in 5G technology suggests the UK will be an early adopter of this new technology and should benefit from the emergence of new clusters around related industries such as the Internet of Things. This government initiative also further signals support for innovation and forward-looking businesses, which increasingly drive occupier demand and which investors should look to target in their real estate strategies.

Investment in Research & Development

Change: The government plans to invest an additional £4.7 billion in R&D funding by 2020-21. This represents an increase of approximately 20% on current government investment in R&D. This investment will be directed through two channels:

- a new cross-disciplinary fund to support collaborations between business and the UK's science base
- additional funding will be allocated to increase research capacity and business innovation, to "further support the UK's world-leading research base and to unlock its full potential"

Impact: The additional funding will more than offset the loss of funding that would likely result from the UK leaving the European Research Council (a Brexit risk); the UK currently receives approximately £1 billion per year in EU funding for science projects. Increasing the funding for the UK's STEM (Science, Technology, Engineering and Maths) base, and with an emphasis on business collaboration, is intended to encourage new and existing companies to gain a competitive advantage and to expand. For real estate, a more buoyant occupier market translates into more secure income and upward pressure on rents. However, the benefits may not be felt for some time and the impact will focus on those areas with existing world-class STEM universities and innovative business clusters. For more analysis on the link between innovation and real estate, please see M&G Real Estate's 2015 paper "Investment Opportunities in Europe's Innovation Hotspots".

Conclusion

The 2016 Autumn Statement contained relatively little that directly impacts the commercial real estate market. With the asset class being so closely linked to occupier dynamism and infrastructure investment, these two elements are the key takeaways for property investors. Economies that invest more in R&D and their science base tend to have stronger long-term growth whilst a strong physical (housing, roads, rail) and digital (broadband and mobile) infrastructure provides the right support for a more productive workforce and for more successful businesses, all of which is positive for real estate investment. However, the full effects may not be realised for several years.

Contacts

Richard Gwilliam

Head of Property Research

+44 (0) 20 7548 6863

richard.gwilliam@mandg.com

Lucy Williams

Director of Institutional Business,

Real Estate, UK and Europe

+44 (0) 20 7548 6585

lucy.williams@mandg.com

Stefan Cornelissen

Director of Institutional Business

Benelux and Nordics

+31 (0) 20 799 7680

stefan.cornelissen@mandg.co.uk

Chris Andrews (CFA)

Head of Client Relationships

and Marketing

+65 6436 5331

chris.j.andrews@mandg.com

www.mandgrealestate.com

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