

Contributors

Continued



Real Estate – a three year view

It is said that the real estate market serves as a barometer for the health of the wider economy and judging by the activity proposed and currently underway in Kent things are looking good. But with Brexit now looming large, with domestic politics increasing fragmented, and international politics ever-more inward looking, how does the real estate sector view the next three years?

Over the summer of 2018, Kreston Reeves surveyed 530 privately-owned businesses across the UK with a turnover of between £1m and £25m to explore aspirations and barriers to growth. Ten per cent of businesses surveyed were drawn from the real estate sector, and our findings are encouraging.

Real estate businesses have grown significantly over the past three years – almost half (47%) reported growth of between 50 and 75% over that three-year window. Looking forward to the next three years, 69% of real estate businesses expect to see growth of between 50 and 75%.

That growth will come from many sources, with the top three drivers being investment in new technology, diversification, and expanding into other parts of the UK. Real estate businesses also told us that expansion into international markets is likely to be a significant driver of



GUY HOLLOWAY ARCHITECTS

Proposal for the 'F51' urban sports park Folkestone, which is currently under construction.

growth for a just over a third of real estate businesses. Future growth is most likely to be financed through organic business growth.

But it is not all plain sailing. The top three barriers to growth are business uncertainty (21%), access to funding (20%) and increased competitor activity (20%). Economic and political certainty is the one factor outside business leaders' control.

Our survey also asked whether businesses actively scenario plan for future events. Over a third (35%) do not carry out any kind of contingency planning at all, which at a time of considerable uncertainty is leaving future growth at risk.

That figure is perhaps understandable when our next question asked whether Brexit is seen as a threat or opportunity. 58% of our panel told us that they see Brexit as an opportunity, perhaps negating the perceived need for Brexit future scenario planning.

It is precisely because of the timing of Brexit negotiations that the Chancellor of the Exchequer decided to bring forward the date of the Autumn Budget to 29 October.

At the time of writing, we do not know what measures Philip Hammond is to announce, but we do know real estate

businesses and their advisers will keep a watchful eye on the last Budget before we leave the EU. Previous Budgets have seen some significant announcements affecting property investors and developers.

Increased stamp duty land tax rates, together with the surcharges applying to residential property investors, continue to impact the property transaction market and may be responsible for the slow-down in the residential sector in London and the South East. Investors seem to have accepted the additional cost of owning property, but there is certainly a heightened interest in opportunities that are available to mitigate stamp duty land tax.

Buy to let landlords continue to face a challenging period following changes to tax relief on mortgage interest. Buy to let mortgages have fallen dramatically over the past 12 months, and individuals can expect to see their property profits and income tax bills increase over the coming years.

A second interest rate rise in August this year to 0.75% has already been felt by borrowers, and highly leveraged businesses may struggle. Buy to let investors continue to look to pay down debt, to diversify investments, or restructure their portfolio.

Kreston Reeves has a long history of providing advice in the property and construction sector, both commercial and residential. Our clients span property investors, builders, developers, property managers and fund managers as well as professionals that service the sector. Our approach is to ensure that we work alongside our clients from the outset to avoid any potential pitfalls.

Jennifer Williamson  
Kreston Reeves  
Jennifer.williamson@krestonreeves.com  
01227 768231