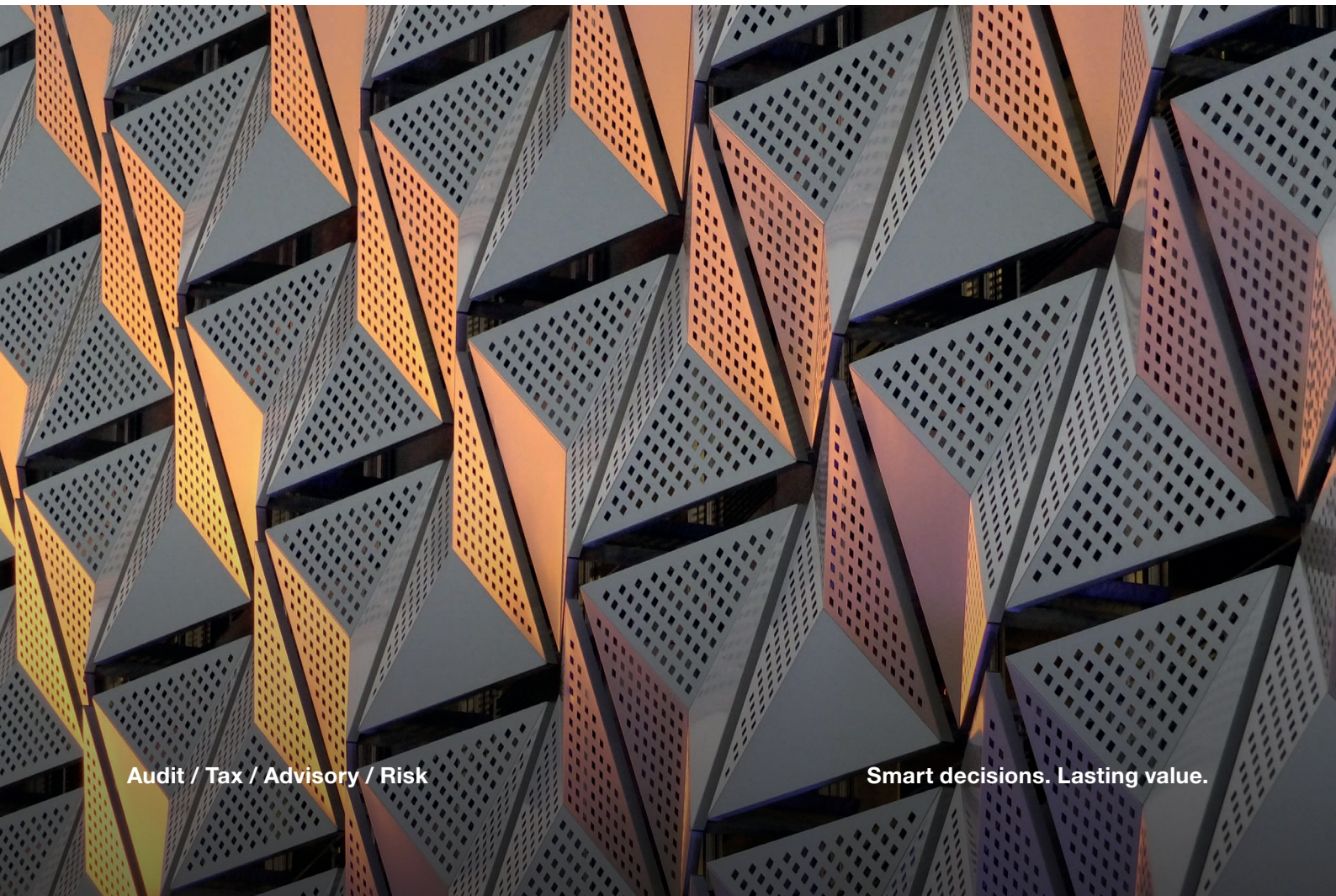




# 2019 Property & Construction Outlook Report



Audit / Tax / Advisory / Risk

Smart decisions. Lasting value.



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## Foreword

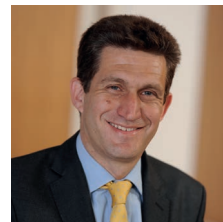
Much like last year, the results of this year's report once again highlight concern around the uncertain political and economic environment and how this may impact the property and construction industry.

Among things causing the most concern to businesses are Brexit negotiations, political uncertainty, an impending General Election and the impact it will have on business operations, closely followed by the state of the UK economy.

Stamp Duty Land Tax (SDLT) remains the biggest tax barrier to business growth, while respondents believe regional retail property will continue to be affected by low growth over the next 12 months.

We have collected the opinions of those working in the property and construction industry, identifying the key challenges and opportunities they face. These views and the insight we have into the industry are outlined in our Property and Construction Outlook Report.

We provide a unique snapshot into the sector's conditions and identify ways in which the government can provide the support the sector needs.



**Stacy Eden**  
Head of Property  
and Construction









# 01

## Summary of findings



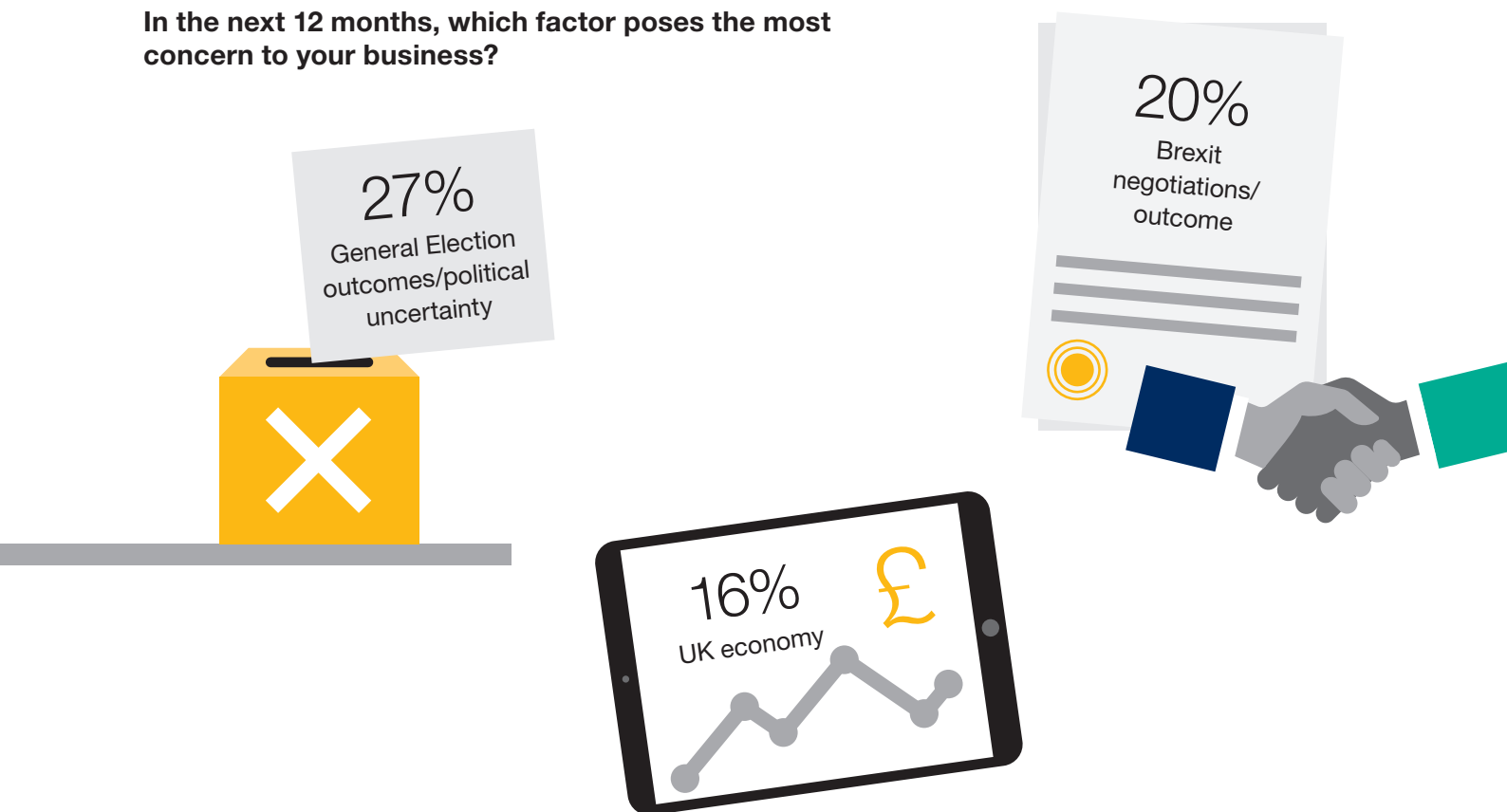
## Brexit and UK economy

At the time of the survey the United Kingdom (UK) was due to leave the European Union (EU) on 31 October 2019. However, deep uncertainty remains surrounding whether the UK will leave – and if it does, will it be with a deal or without? Our respondents are clearly calling out for stability in the political and economic environment. The General Election on 12 December may result in a way forward regarding Brexit, or more uncertainty regarding our relationship with Europe.

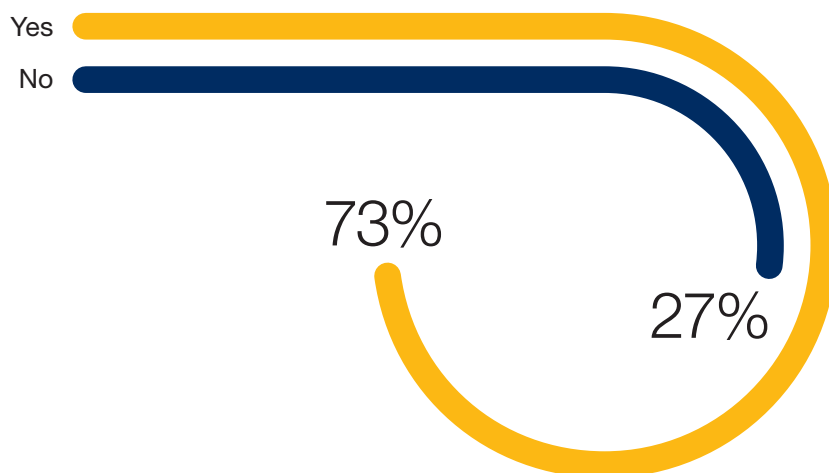




**In the next 12 months, which factor poses the most concern to your business?**



**Do you have concerns around a no-deal Brexit?**



## UK tax systems and government

For a third consecutive year, the majority of respondents (65%) highlighted that the tax system is not favourable for property developers and investors, with a further 22% stating that they are unsure. This is due in part to the increasing complexity of the tax system, including SDLT.

Over the past five years there have been considerable changes to the SDLT, as the sector has seen it increase at the top end, slashed at the bottom and boosted for Landlords. However, according to official figures released by HMRC in October 2019, revenues from land and property stamp taxes fell last year for the

first time in a decade. Receipts from duty charged on residential and commercial property transactions fell by 7% to £11.9 billion in the year to 5 April 2019, making this the first year-on-year decline seen since the property slump following the global financial crisis in 2008.

“As a transactional tax, the recent higher rates of SDLT have become a significant drag on liquidity in the property market. This, coupled with more complexity within the legislation SDLT now has 11 possible rates that can apply with a difference of 15%. Politically, there appears to be a desire to reduce the rates of SDLT but sadly not much noise about making it more straightforward.”

**Caroline Fleet**

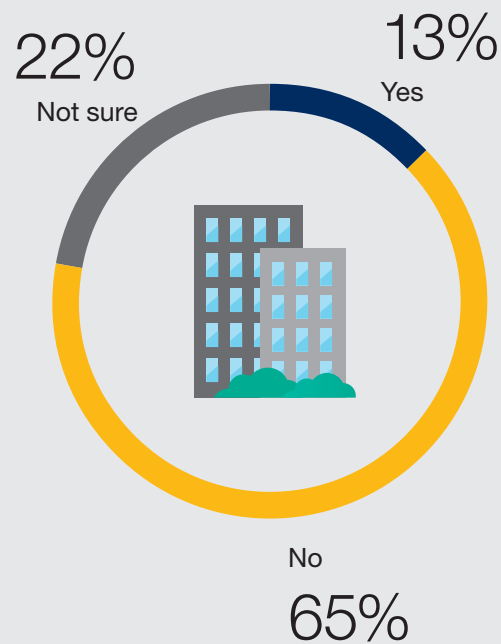
Partner, Crowe



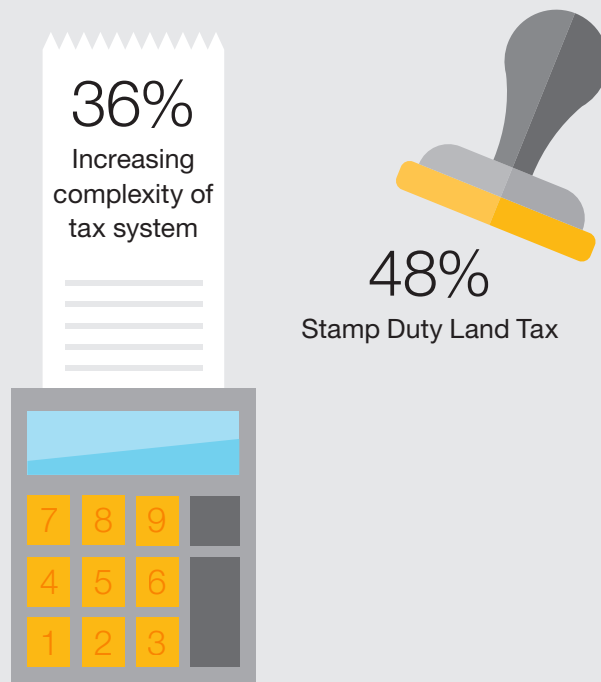
These figures have already fuelled the longstanding calls from the property and construction sector for SDLT, LBTT and LTT to be cut in an attempt to boost activity in the housing market. It could also possibly cushion any economic blow a no-deal Brexit may cause; something our respondents would likely agree with, as almost 50% found SDLT to be the biggest tax barrier to business growth.

Prime Minister Boris Johnson proposed to overhaul the SDLT by significantly increasing the threshold at which stamp duty is paid from £125,000 to £500,000, while lowering the top rate of tax from 12% to 7% – although at the time of writing, this has not yet become official party policy. Labour and the Liberal Democrats have also indicated that they may be in favour of reducing SDLT levels.

### Is the tax system favourable for property developers and investors?



### What do you perceive as the biggest tax barrier to business growth?



## Impact of technology

Earlier this year the Housing, Communities and Local Government Committee (HCLG Committee) warned the government that an over-reliance on traditional building methods will see the UK fall far short of its target to build 300,000 new homes a year by mid-2020s.

The introduction of offsite manufacturing using Modern Methods of Construction (MMC) has made a significant impact to the property and construction sector in recent years. Once again, our respondents (40%) believe MMC to be the next biggest thing to impact the industry. This thinking has been underpinned by the NHBC Foundation by Cast,

led by Mark Farmer, author of the Farmer Review, who reported that around 30% of developers were already investing in their own manufacturing facility and a further 9% had plans to do so. In addition, and as a further indication of confidence, 62% were committing funds to research and development to enhance technologies further.





One year after the publication of the Construction Sector Deal in July 2018, government and industry have worked together to deliver significant progress in implementing the commitments made. As part of the Construction Sector Deal, the government committed to investing up to £170 million through the Transforming Construction Programme, to develop and commercialise the digital and offsite manufacturing technologies to produce safe, energy efficient buildings that perform better throughout their life cycle.

In addition, over the coming year, they will focus on implementing recommendations of its *Future Skills* report: increasing direct employment to incentivise employers to invest in training and development and ensuring the industry qualifications are updated to include offsite manufacturing and smart construction, as well as ensuring funding is made available to accelerate adoption.

This is not surprising considering the advances in artificial intelligence (AI). Research suggests that shopbots are likely to be able to replicate 90% of normal human retail interactions within the next five to ten years. Virtual reality (VR) and augmented reality (AR) are looking to create completely immersive online experiences, which will enable customers to 'see' and even 'touch' the product virtually. In addition, the development of drones, self-driving vans and street delivery robots are going to reduce the cost of home delivery considerably. This may cause shoppers to turn away from the physical high street shop, in preference of making their purchases from the comfort of their own home.

Technology is also having an effect on the office market, with flexible and agile working being utilised to a greater extent. Unsurprisingly our respondents saw residential and industrial as the most the most attractive asset classes. Retail is also affected by the higher burden of business rates compared to other sectors.



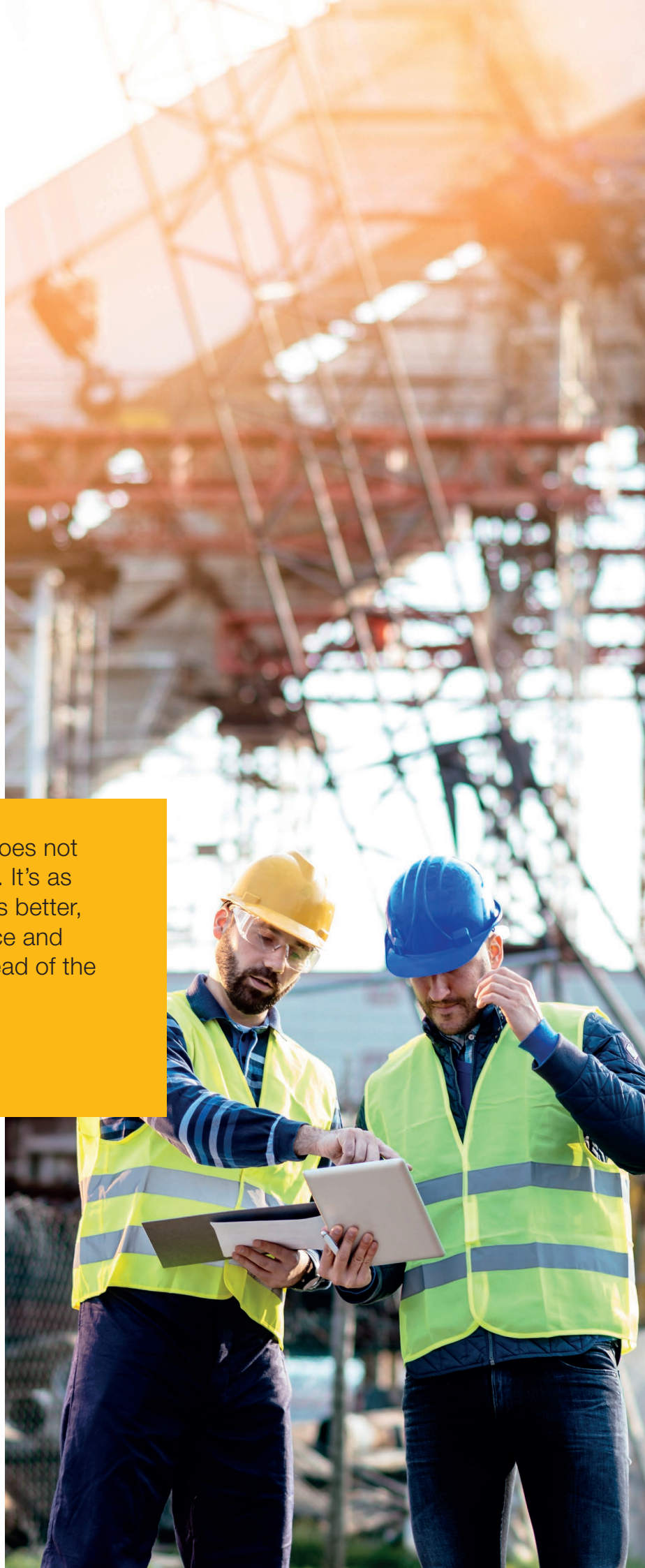
Our survey also revealed that over 50% of participants believe Retail property will be most affected by technological trends.

Innovation in the sector globally is already starting to make waves according to a recent study by Crowe Global, *The Art of Smart*, that informs discussion around strong and effective decision making. The research found that six of the top ten Real Estate companies in the study scored highest in innovation. Contrary to popular belief, the report states that – for large, established corporates with big R&D budgets – success is often driven by incremental innovation, not disruption, with companies making the decision to focus on doing what they do better rather than on radical, risky change.

“Being innovative in Real Estate does not have to mean changing the world. It’s as much about making your business better, improving the customer experience and taking calculated risks to stay ahead of the competition and drive success.”

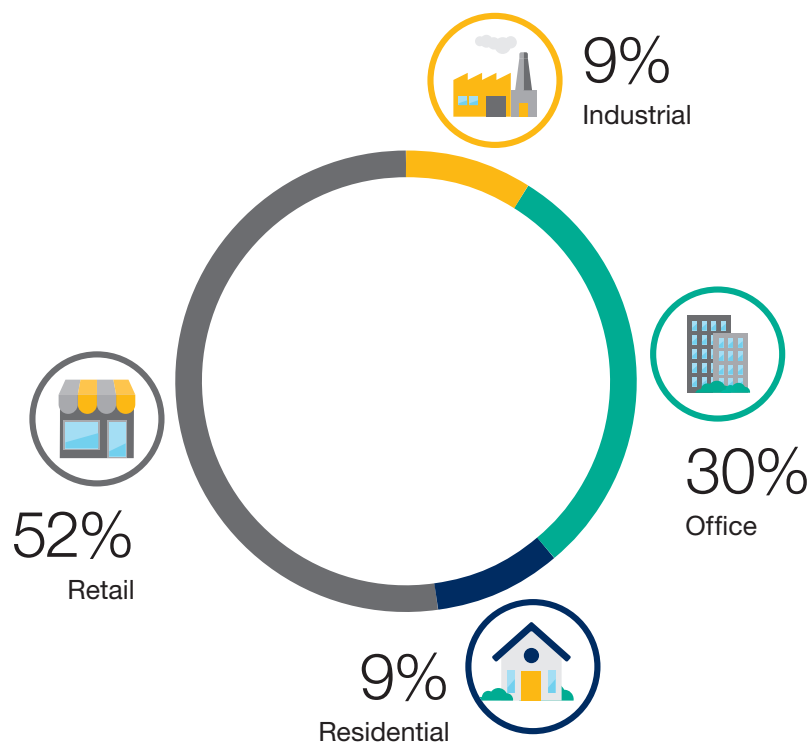
**Stacy Eden**

Head of Property and Construction, Crowe

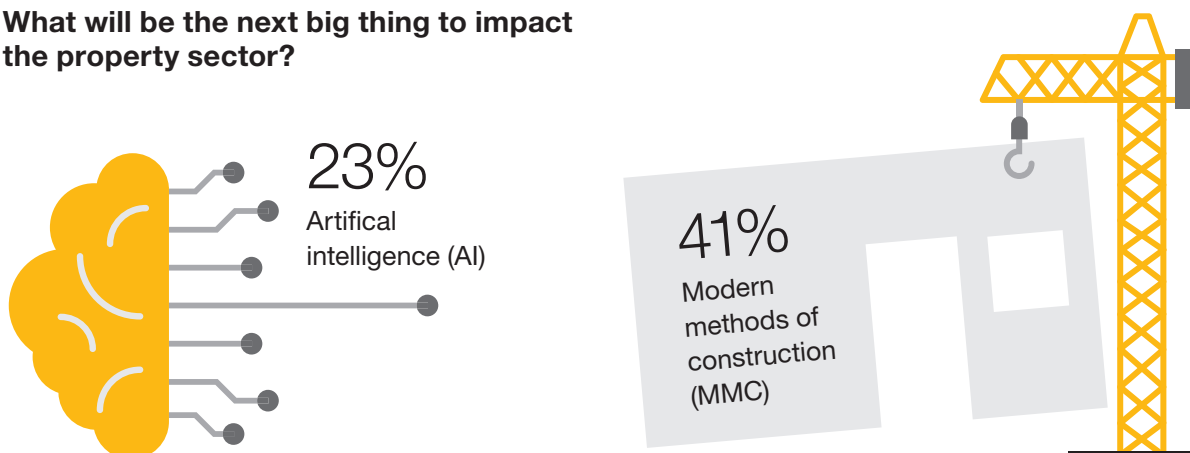




**Which types of property are most likely to be impacted by technological trends?**



**What will be the next big thing to impact the property sector?**



“The construction and, in particular, the homebuilding industries are starting to realise that long accepted traditional ways of delivering new buildings are now being shown as increasingly untenable. A growing skills crisis, reflected in pressure on resource availability as well as adequate competency at all levels, means the industry is having to reflect on some of its most basic principles like never before.

The risk of carrying on as we are is abundantly clear, whether it be increasing financial fragility in the contracting supply chain, exemplified most dramatically by the failure of Carillion, the delivery failures of major infrastructure projects such as Crossrail or the growing discontent with the quality of new homes being built in this country. Whether the risks are reputational or financial, the mantra of ‘Modernise or Die’ has never been so relevant and represents existential threats to many businesses operating in the sector.

Despite the growing awareness and actual deployment of MMC solutions and other such agents of change in the industry, there are still multiple barriers to mainstream acceptance of new, innovative delivery techniques, but it feels like change is coming. The associated adoption of technology is what will also make this structural shift in industry design and production models future proof. This is no longer about ‘building in sheds’ but is about a new wave of high quality advanced manufacturing of buildings accelerated by what will be a growing regulatory burden related to life safety, carbon reduction and better consumer protections.”

**Mark Farmer**

Founding Director & CEO, Cast Real Estate & Construction Consultancy,  
Champion for Modern Methods of Construction (MMC) in housebuilding









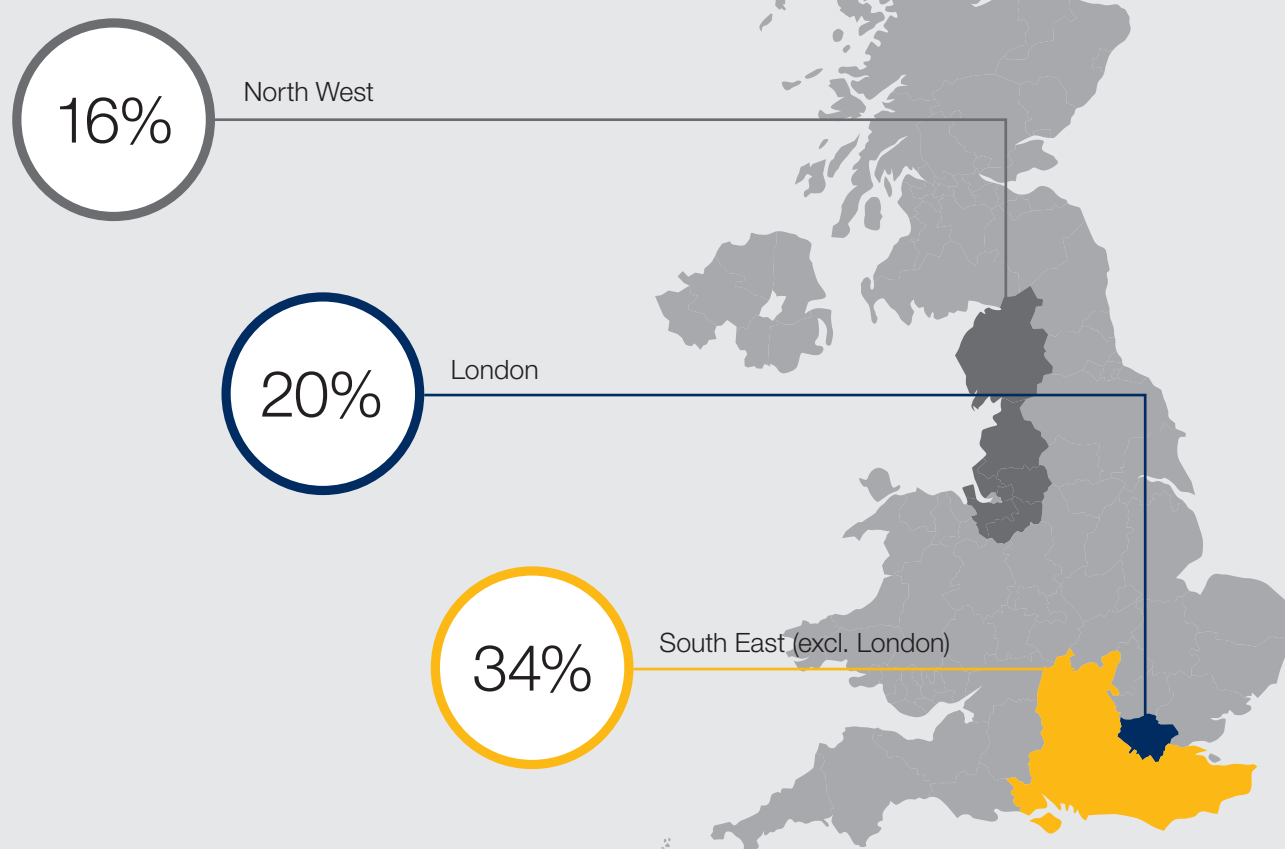
## National versus London

Despite the Office of National Statistics (ONS) *snapshot of the market* report showing house prices in London dropping at the fastest rate in 10 years (dropping by 4.4%), findings from our research suggest the London market, although still affected by low growth, is the second most attractive region for investment in the next 12 months (20%).

The South East is regarded, once again, by our respondents as having the highest potential for investment (34%). This is partly due to Crossrail and buyers seeking cheaper alternatives to London. It has been projected that the new line will support the delivery of over 57,000 new houses. Nearly half of planning applications within a kilometre of an Elizabeth line station have cited the new railway as a justification for the development proceeding, equating to around 5.3 million square feet of residential, commercial and retail space.

In a change from last year, respondents highlighted the North West as an area for investment over the next 12 months. The two major cities of Manchester and Liverpool, both with a population exceeding 500,000, will also benefit from the £55 million HS2 high-speed rail project, which will enable travel to London in 63 minutes and 94 minutes respectively.

**Top three UK region offering the best outlook for investment over the next 12 months**



## Beyond British border

Almost 80% of our respondents operate UK only businesses, 93% had no intention to expand overseas in the next 12 months. There were a variety of reasons cited for not investing in mainland Europe including access to finance, planning regulations and the uncertainty surrounding Brexit.



Tax burden and lack of knowledge of European markets were also cited as barriers to investing in Europe.

For a third consecutive year, Germany is once again the most popular choice when considering potential for property investment according to our respondents, with 44% favouring Germany – over double that of the next most popular choice, Spain (20%).

Germany's robust economy, comparatively stable politics and continuing inward migration give overseas investors plenty of reasons to feel positive about investing.

**In the next 12 months do you have plans to invest or expand overseas?**



**“Germany is once again the most popular choice when considering potential for property investment”**

Which countries in Europe have the best potential for property investment?



44%  
Germany



28%  
Other



19%  
Spain

What are the biggest barriers for investing in property in Europe?

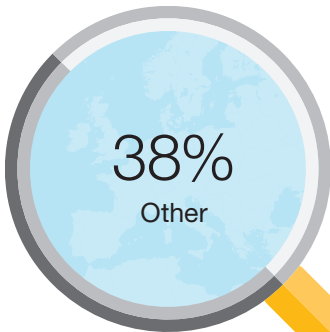


23%  
Access  
to finance



21%

Planning  
regulations



38%  
Other







## Diversity in the sector

Data from the ONS and industry surveys show that the number of women in construction has not increased significantly over the past four years despite attempts to increase female representation.

Currently, women make up around 14% of construction industry, only a 2% increase since 2016. Unsurprisingly then, almost 60% of respondents believe that diversity in the property and construction sector will increase.

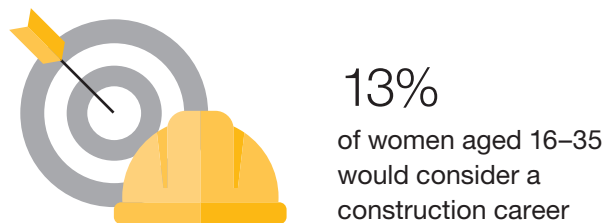
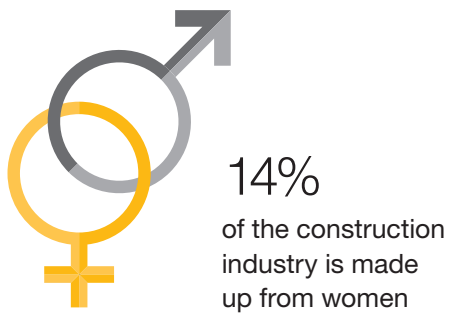
A sector survey revealed that only 13% of women aged 16–35 would consider a construction career, with many industry leaders unsurprised due to the ‘male builder’ stereotypes that still exist.

Our findings suggest that a better understanding of what the industry offers could go a long way to increase the number of women considering a career in the sector. This is something that has been underpinned by a Keepmoat survey, which showed that 56% of respondents were surprised to learn that a significant number of women were employed at executive, manager and director level in construction. After completing the survey, 45% of young women said they were more interested in a construction career compared with only 13% before the survey.





**Do you think diversity in the property  
and construction industry will increase?**









02

The  
results





## Business operations and growth

27% of respondents stated a General Election posed the biggest concern to their business in the next 12 months and 20% believe the same of Brexit. Despite obvious Brexit and political uncertainty, businesses are surprisingly confident that their growth plans will continue with 53% of participants stating they were positive about their business growth in the next 12 months.

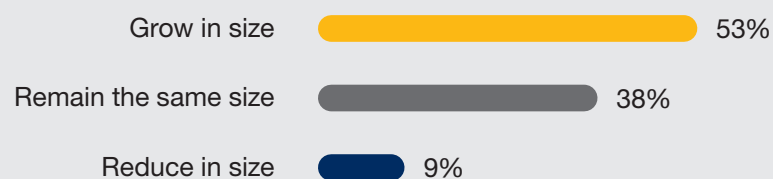
Over 50% of respondents believe that access to funding has stayed the same over the past 12 months, while 20% believe it has improved.

Interestingly, the way in which funding is being accessed has shifted, with a decrease (9%) in funding via banks, but an increase through private investors (7%), personal wealth (3%) and even crowdfunding (2%).

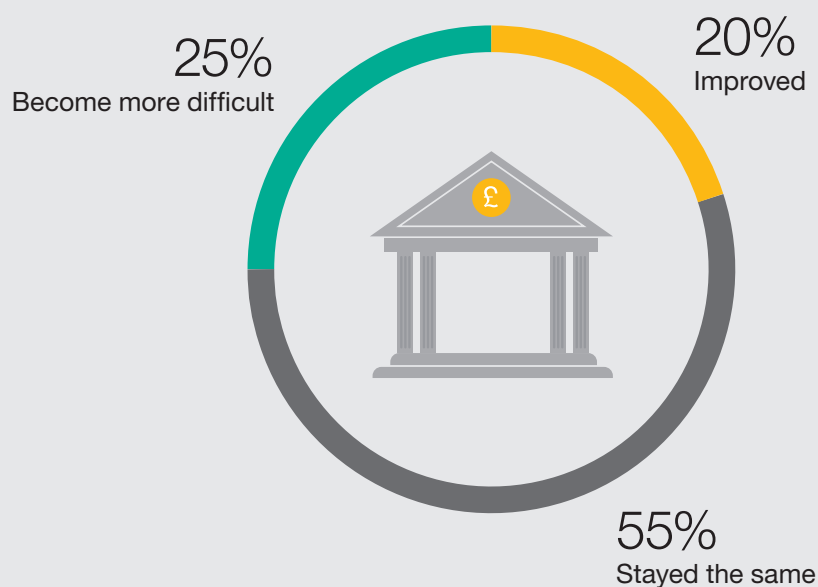




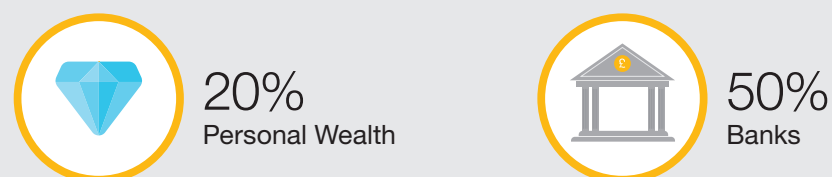
### In the next 12 months do you expect your business to...



### How has access to funding changed over the past 12 months?



### In the past 12 months, where has the majority of your financing come from?



## Valuations

Low growth continues to be experienced in parts of the property market. With a 14% increase on last year, our findings suggest for a second consecutive year that the greatest impact will be felt in the retail regional market (44%).

The residential regional market was second highest (22%). Brexit uncertainty, the rise of e-commerce, business rates, economy, regional challenges and national living wage could be attributed to this low growth.

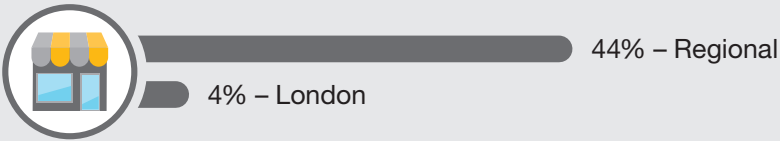
Business confidence data from the Institute of Chartered Accountants in England and Wales (ICAEW) suggests that sentiment in Q3 2019 is still negative at -10.3, though higher than in Q2 2019 when it was -16.6.

However in Q2 confidence saw an upwards trend, within Q3 it has trended downwards, impacted by events such as British Steel's insolvency and the announcement of the closure of Ford's Bridgend plant, as well as evidence of a global slowdown and UK economic uncertainty. The downward trend has reversed gains that were seen after the extension of Article 50 in April 2019, and confidence is now almost at the same level as it was in the quarter after the Brexit vote in 2016.

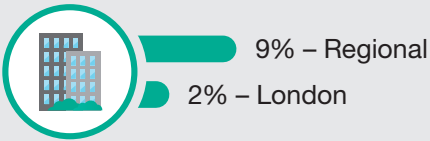


With the property market experiencing low growth, which types of property are most impacted by this trend?

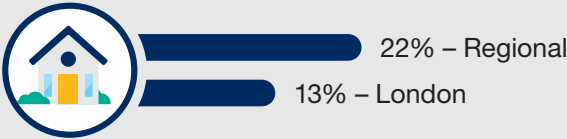
**Retail**



**Office**



**Residential**



**Industrial**

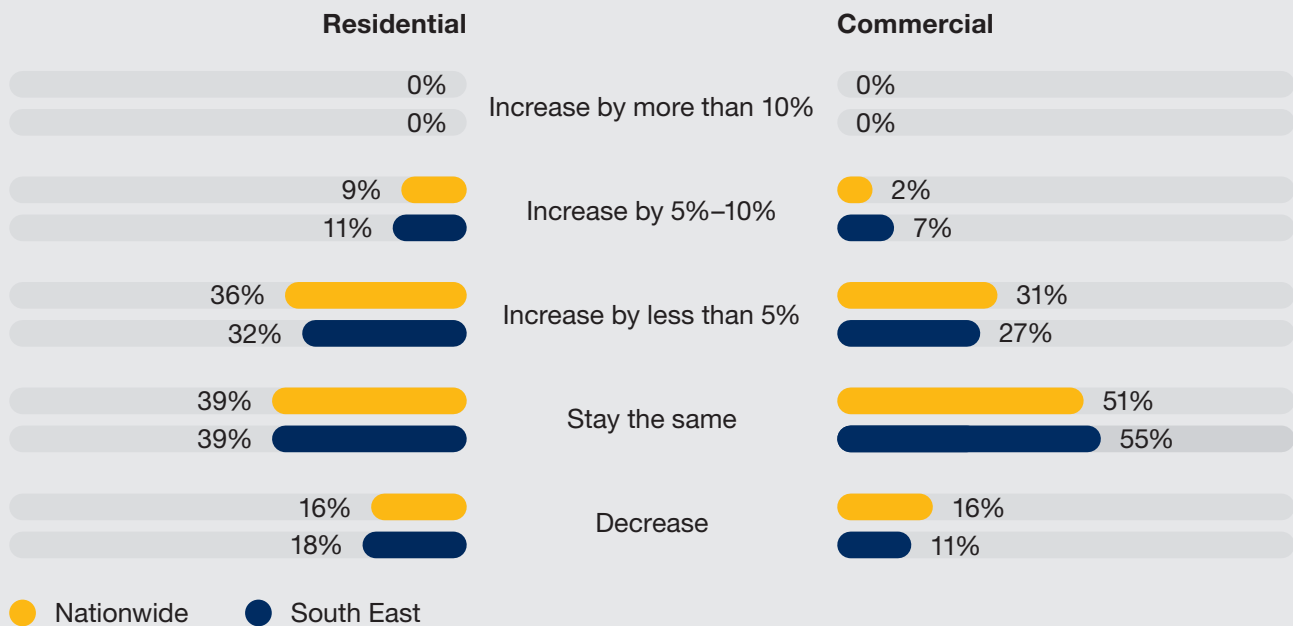




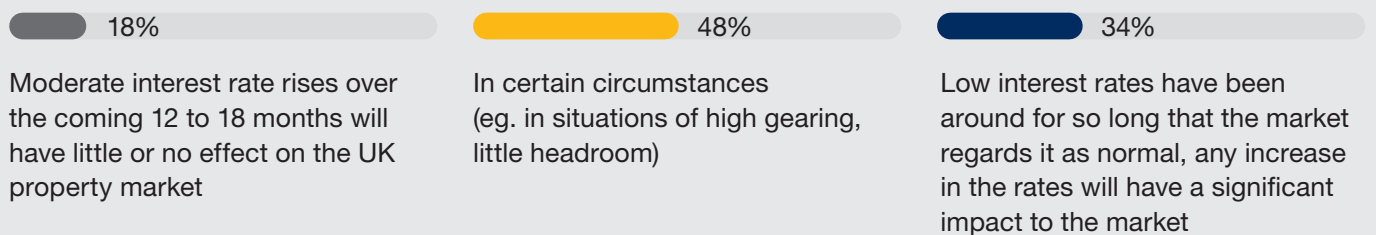
The Bank of England predicts GDP growth of 1.3% for both 2019 and 2020 before accelerating to 2.3% in 2021, while Capital Economics forecast growth of 1.3%, 1.5% and 2.0% respectively. Of course, much will depend on Brexit and these forecasts could move significantly in either direction. Overall, the UK economy is holding up relatively well in a period of intense uncertainty, but the growth trajectory has clearly weakened and will remain below potential in the short term.

Nationwide commercial and residential property prices were predicted by our respondents to stay the same over the next six months, which highlights the uncertainty in the market.

## In the next six months, do you expect property prices to...



## How will rising interest rates impact the property sector?





## Government activity and priorities

In order to support business and the sector as a whole, our findings suggest that the government should be prioritising Brexit, as well as planning and tax regulations over the next 12 months.

65% of respondents agreed that the UK tax system is unfavourable to the property and construction industry, with 22% stating that they were unsure. 48% attributed SDLT as the main fiscal barrier to business growth and 36% believe the increased complexity of the tax system is a barrier to their business growth.

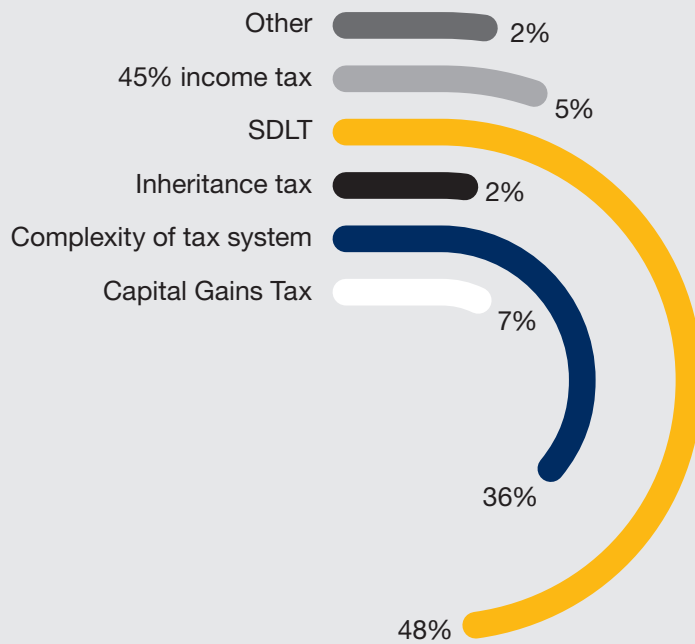
Furthermore, 63% of respondents highlighted that the current Green Belt policy is not conducive to solving the housing crisis. Although high, this is a decrease from last year, suggesting people are working around the barrier by utilising more brownfield sites.

The government has set a bold target to build 300,000 homes a year by the mid 2020s and would require the current restrictions on Green Belt land to be relaxed to develop new homes.

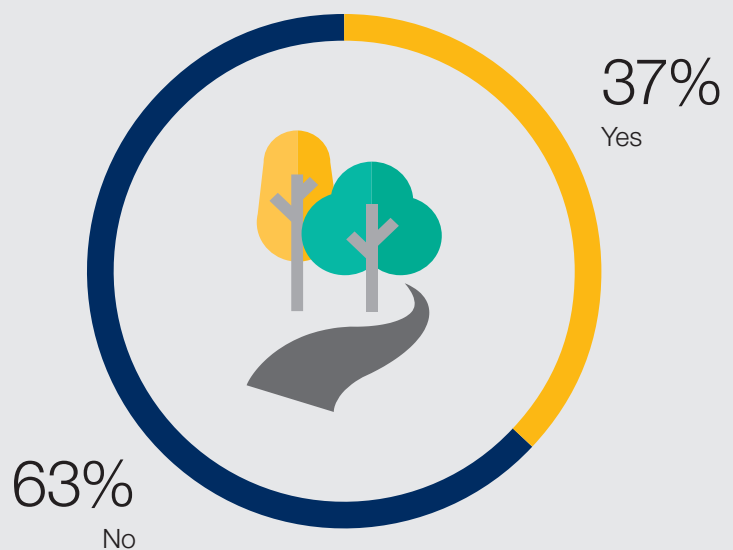
The National Planning Policy Framework 2019 reiterates government policy and encourages the use of brownfield land. On protecting the Green Belt, it urges Local Planning Authorities to maximise the use of suitable brownfield sites before considering changes to Green Belt boundaries.



**What do you perceive to be the biggest tax barrier to business growth?**



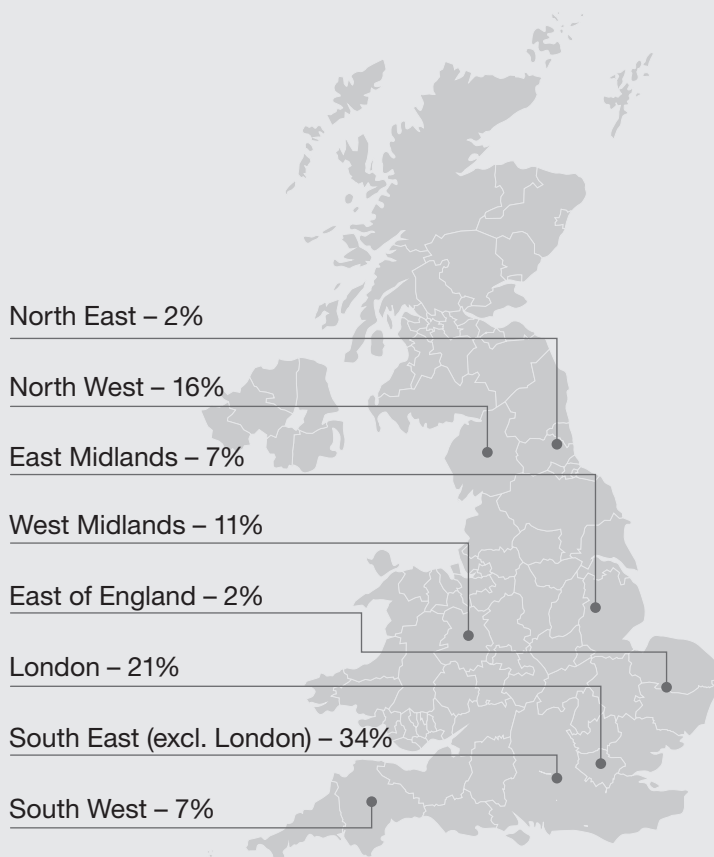
**Is current policy around Green Belt protections conducive to solving the housing crisis?**



## UK outlook

It is no surprise that Brexit and the outcome of the General Election on 12 December is the greatest concern to those in the property and construction industry for second year. This is followed by the UK economy and access to finance.

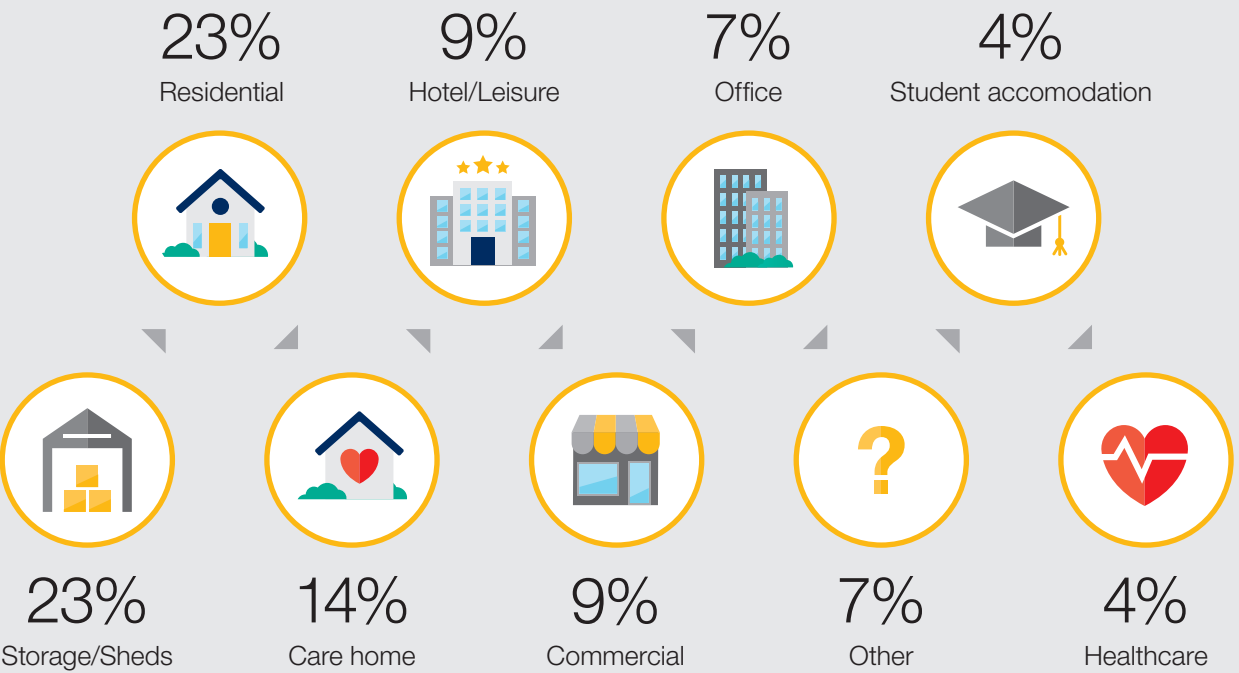
### Which UK region offers the best outlook for investment over the next 12 months?



Respondents are still open to investment with 23% believing that residential and storage/sheds will be equally the most attractive asset class for investment in the next 12 months.



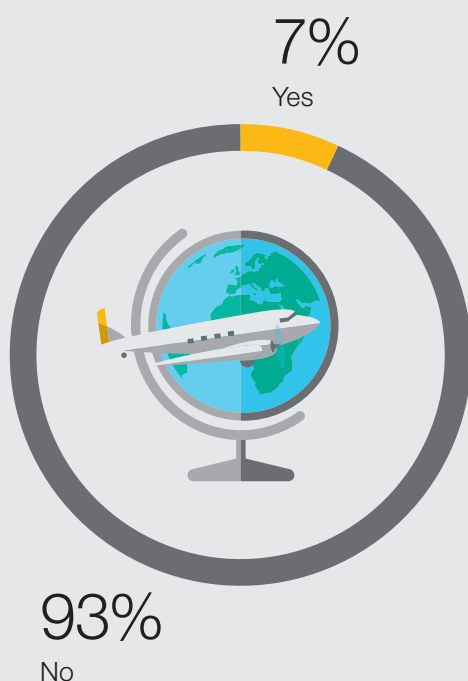
**In the next 12 months, what do you consider to be the most attractive asset class for investment?**



## International activity

Almost 80% of our respondents operate UK only businesses and 93% had no intention to expand overseas in the next 12 months.

**In the next 12 months do you have plans to invest or expand overseas?**



The majority of respondents (44%) named Germany as the best potential for property investment. Germany's robust economy, comparatively stable politics and continuing inward migration give overseas investors plenty of reasons to feel positive about investing.

Access to finance, tax burden and lack of knowledge of European markets were cited as some of the biggest barriers when it came to them investing in property in Europe. Others highlighted Brexit and skilled worker shortages as barriers.

### Which countries in Europe have the best potential for property investment?



44%  
Germany



3%  
Netherlands



28%  
Other



3%  
Greece

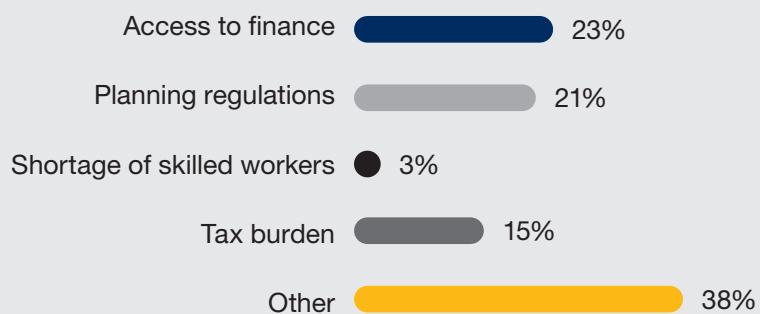


19%  
Spain



3%  
France

### What are the biggest barriers for investing in property in Europe?





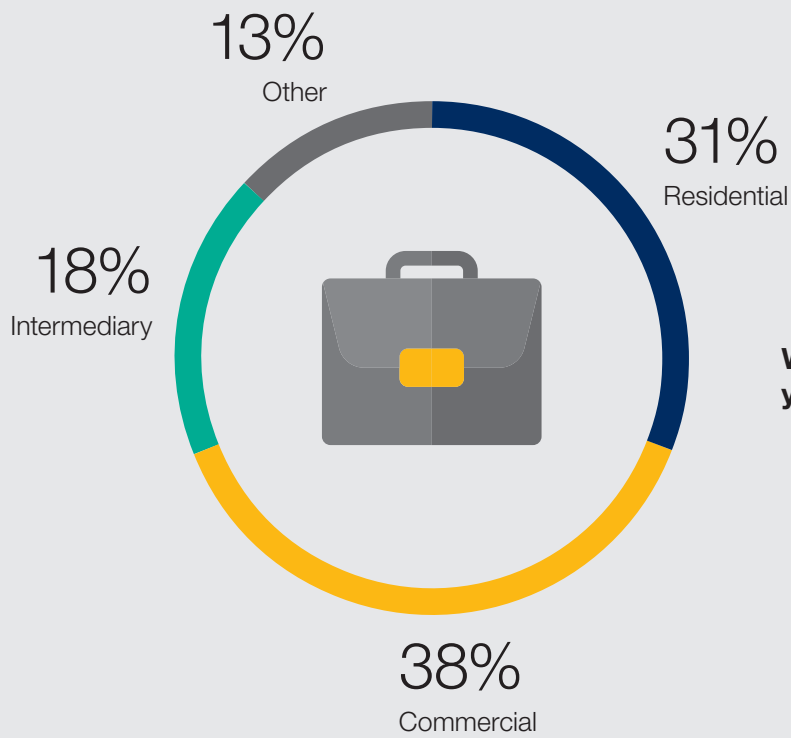
## A snapshot of the participants

38% of participants work in commercial property businesses with the next biggest sector (31%) being residential businesses. The remaining respondents work in organisations such as banks, legal firms or intermediary organisations such as brokers.

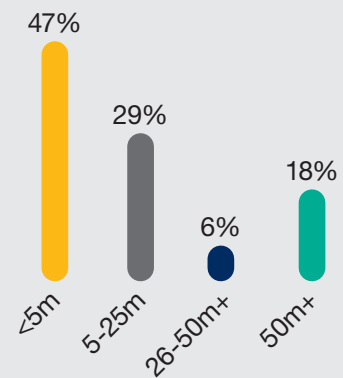


Out of all our respondents, the value of their property assets were varied, ranging from under £5 million, while others have assets valued over £50 million.

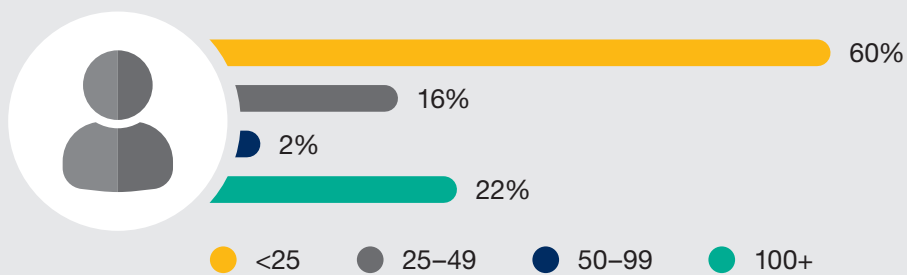
Which description best fits your company's activity?



What is the value of your property assets?



How many people do you currently employ?



## Our Property and Construction team

The property and construction industry has long been an indicator of the health of the UK economy. Our specialists are passionate about the industry and focused on your future and experience. By making smart decisions today we can create lasting value tomorrow.

### **Your interests, our priority**

While the UK remains an attractive area for investment, the industry is changing. Businesses face new challenges including financing, imbalance in the market, and fallout from Brexit. Over recent years, the pressure from rising complexity and levels of taxes has become an added burden.

Our specialists can draw on many years' experience to help you navigate the changing landscape, mitigate risk and achieve your objectives.





### We help...

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- Privately owned companies.
- Limited partnerships.
- Sole traders.
- Funds.
- Surveyors.
- Architects.
- Housing associations.
- International groups.

### Who are engaged in...

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- Property trading.
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- Student accommodation.

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- Financing.
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- Regulatory compliance.
- A wide range of other financial services.

For more information on  
how we can help you please  
start the conversation.













## Start the conversation

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