creativeplaces

CEO's Blog, January 2012

The New Year hasn't brought much of a better economic climate and we must all assume that the Eurozone problems will continue to burden us – although it is good to see that some economic growth is returning to the US and we were heartened by a speech by Universities and Science Minister David Willetts at the Policy Exchange in January. He argued that our greatest national assets – our universities, our science facilities and researchers – are the best single hope for making our way in the high-tech world of the future, creating jobs and opportunities. We agree!!

For the commercial property sector in the UK, debt and rental income security will be the points of issue for the year ahead. With an estimated £100 bn of bank debt due to mature in the next 12 months and with lenders concerned about levels of occupancy, refinancing will be challenging. Further defaults in the commercial property sector look likely as borrowers struggle to meet their loan requirements - recent De Montfort University research shows that 25% of outstanding property debt has a loan to value ratio of more than 100%.

Property returns for 2011 fell by around half from the 2010 level of 15%. The figures are somewhat skewed by the strength (albeit waning) of central London offices in many indices. Performance out of London has been very different. In overall terms secondary properties are expected to see further value reductions in 2012. JLL are predicting a 10% fall in the first half of 2012, as investors focus on the stronger locations.

What does all this mean for property used for R&D and innovation? Undoubtedly the economic situation will have an impact on tenant businesses and for many locations maintaining occupancy levels will be a real challenge. Combined with the changes to business rates in 2011, which in England and Wales reduced the Rateable Value relief levels, net income is likely to suffer as a result for a number of science parks. Property values are likely to fall or at best remain flat in all but the best locations as the investor market continues to focus on well located properties with unrestricted use and let to good covenants on long leases. But don't think that we are completely negative! The UK continues to have a strong innovation sector, underpinned by its academic and research strength. R&D spend globally, in Europe and in the UK is all up, and many locations are continuing to do well as new innovations across a range of sectors find new markets across the world. We can see that this will continue into 2012 although we caution that it will be the stronger locations and the stronger business environments where growing demand will be experienced. South East office take-up jumped 42% in the second half of 2011, contributing to full-year take up of 2.62m sq ft for the region. Our projects in Glasgow, Edinburgh and Cambridge seem to be enjoying particularly strong occupational demand.

In terms of what has caught our eye of late, the French government has launched a £30bn(!) project to set up a series of "innovation clusters" - in which universities, major companies and research institutions are brought together to develop knowledge-based industries. Wow. We have to be grateful for smaller mercies. Here in the UK David Willetts says "We are asking universities to become more efficient – and we are helping them to do so. Just this week, I have written to Eric Thomas at Universities UK to give him the good

news about the Treasury's agreement to exempt shared services from VAT. The Treasury has confirmed that, under the principle of direct effect, universities can immediately benefit from this decision, and I know it will be welcomed by institutions."

In what appears to be an acknowledgement that we are on the back foot, David Willetts announce a review of philanthropy in the higher education sector: "As the matched funding scheme comes to a close, I can announce today that HEFCE is leading a review into voluntary giving to universities and colleges. This review will examine the evolution of HE-related philanthropy over recent years, and suggest ways for universities to make successful fundraising a mainstay of their institutional culture." Graft, graft, graft for us!

Within healthcare, a new government-owned property company is to be launched in the UK to manage and streamline the primary care trust estate. NHS Property Services will take over the running of the areas of the PCT estate that will not be transferring over to the National Health Service under the Health and Social Care Bill.

NHS Property Services is to be a wholly owned by the Department of Health and would have the following objectives:

• Hold property for use by community and primary care services, including for use by social enterprises.

• Deliver value for money property services.

• Cut costs of administering the estate by consolidating the management of over 150 estates.

• Deliver and develop cost-effective property solutions for community health services; and

• Dispose of property surplus to NHS requirements.

Properties to be transferred to the new company include some operational estate, estate with multiple occupiers, offices and estate to be occupied by social enterprises and surplus estate.

Here's to a busy 2012 .....