Outlook for 2024

Partners and colleagues in Carter Jonas brave their predictions for the coming year

Matt Lee, Partner, Carter Jonas

Life sciences

The outlook for the UK life science sector in 2024 is optimistic, with strong employment and venture capital investment growth prospects. Real estate in this sector is set to become more dynamic, with increased demand for lab space and energy-efficient facilities. There remains a significant opportunity for UK institutional investors to engage more deeply with this sector to close the gap with the levels of investment seen in other markets.

We expect the life sciences sector to maintain its growth trajectory, with employment growing at a faster rate than in the broader economy. The 'Golden Triangle' (Cambridge, London, and Oxford) will continue to provide a significant draw, yet other cities are also gaining traction in attracting investment, including Manchester, Edinburgh, Bristol and Birmingham. The UK's ambition to be a 'Science Superpower' by 2030, underpinned by government R&D funding, the recent re-joining of the Horizon programme, and a possible regulatory review post-Brexit, will likely bolster the sector's growth further.

A near term shortage in new development coming forward in key markets means that demand for lab space continues to outstrip supply, particularly in established hubs, which will likely continue into 2024, driving laboratory rents up.

Labs are intensive energy users, and there is increasing demand for energy-efficient space, driven by rising energy costs and the push towards net-zero carbon goals. This may result in an amplified focus on developing energy-efficient real estate for life sciences.

Recent supply chain challenges have underscored the UK's over-reliance on overseas markets for drug manufacturing. With only 25 per cent of medicines produced domestically, there is potential for growth in onshoring, reshoring, and nearshoring operations. The UK's highly skilled workforce positions it to attract advanced therapies manufacturing.

The availability of risk capital in the UK for investment in life science companies reflects a mixed landscape as we look towards 2024. Despite a record-breaking year in 2021 for funding into life sciences, 2022 and 2023 saw a decrease in funding. This decline was attributed to economic uncertainties that affected costs, supply chains, and the ability to accurately forecast cash flows. However, this did not signify a withdrawal of interest but rather a strategic pause, with pent-up capital expected to re-enter the market.

The UK sector's growth, backed by government support and record levels of equity finance, indicates a promising future, yet it underlines the potential for UK institutional investors to increase their engagement to match the sector's growth and the global investment landscape.

While there is a notable pool of risk capital available, the uptake by UK institutions has been conservative compared to other markets. We view the recent slowdown in funding as a temporary recalibration rather than a withdrawal, setting the stage for renewed activity as market conditions stabilise.

David Alborough, Consultant, Carter Jonas

Biodiversity net gain

What will the introduction of mandatory biodiversity net gain in January 2024 mean for developers and landowners?

One of the key changes for the planning system in 2024 is the introduction of Biodiversity Net Gain. This requires most new developments in England to be able to demonstrate and deliver a mandatory 10 per cent net gain in biodiversity either on the development site or by purchasing BNG units offsite from third parties in this newly created market. It will ensure that developers leave the environment in a better state than they found it by creating or enhancing habitats for wildlife. It comes into effect from January 2024 (or April 2024 for small sites) having been delayed from Autumn 2023.

We expect BNG to have a significant impact on the development process in the UK, with increased focus on green infrastructure and more innovative design solutions. It will also transform the relationship between developers and landowners, who will enter BNG agreements for mutual benefit.

Meanwhile, Local Planning Authorities (LPAs) have been preparing their own policies and guiding framework on BNG. Many have introduced BNG requirements prior to the implementation date, and some are exploring higher percentages of net gain than the 10 per cent prescribed. We are increasingly seeing LPAs deviating from the national position, either in the percentage net gain required or in their guidance for delivery. We are also seeing more LPAs adopting measures to channel investment towards local sites to accelerate the local market. We expect that the year ahead will bring even more creative and resourceful local solutions.

Mark Hall-Digweed, Partner and Head of Infrastructure, Carter Jonas

Infrastructure investment

In our outlook for 2023, we anticipated a period of continuity, with the government having just committed to delivering key rail schemes including HS2 phase 2 to Manchester. The cancellation of the Manchester HS2 leg has been damaging for the UK's global image and for long-term strategic infrastructure delivery.

On the positive side, the funding has been reallocated to 'Network North', a vision to "deliver faster and more reliable journeys between, and within, the cities and towns of the North and Midlands". Improving transport connectivity between key economic centres outside of London and the South East is indeed a vital tool to 'level up' the UK. Whilst we welcome the 'Network North' vision, there is little confirmed detail on the specific schemes that will be delivered, or timescales. This will need to be a priority for 2024.

It is also very positive that proposals for Northern Powerhouse Rail (NPR) are continuing to be developed. The aim of this much-needed scheme is to transform connectivity between Liverpool, Manchester, Leeds, York, Newcastle, Sheffield and Hull, incorporating both new line and upgrades. The Transpennine Route Upgrade is now being delivered as phase one of NPR, electrifying and upgrading the line between Manchester and York. Carter Jonas is currently instructed on this major infrastructure scheme, delivering land assembly, consenting, and land referencing services.

The establishment of Great British Railways (a new public body to own, run and plan the rail network) was included in November's King's Speech, but the necessary legislation for reform is unlikely to be passed before the general election, effectively 'kicking the can down the road' again.

Although transport schemes tend to grab the headlines, other infrastructure projects are also vital and are arguably increasing in importance. Upgrading the capacity of the National Grid is becoming a critical issue, given the sheer amount of additional power that will be needed over the next decade to electrify building heating systems and road transport, plus cope with population growth, housing development, rising data centre demand, and more.

The National Grid projects that demand for electricity will increase by 50 per cent in the period to 2035. At the same time, electricity generation will need to be decarbonised if the UK is to meet its ambitious climate targets. The National Grid and the Distribution Network Operators are planning significant investment and we should see this coming through from mid-2024.

Similarly, the water industry faces the challenges of catering for additional demand, planning for the impacts of climate change, and reducing water and sewage leaks. 2024 will see a further gearing up of investment to deal with these challenges.

The year ahead cannot be 'more of the same'. Significant investment will be required to deliver the infrastructure the UK needs, creating opportunities across the infrastructure spectrum. Indeed, residential and commercial development in certain key locations is already being held back by the challenges of obtaining sufficient power and water. But infrastructure investment is a long-term proposition, not suited to political cycles of five years (at most), and current initiatives will be either underpinned or undermined by the outcome of the General Election. We hope 2024 will be a year for bold decisions.

Andy Smith, Partner, Carter Jonas

Open storage

Occupier demand for open storage sites has risen exponentially in recent years. Our monitoring shows an increase in enquiries from just 300 acres in 2019 to more than 2,000 acres in 2022. This figure is likely to have exceeded 2,500 acres in 2023.

Demand will continue to be strong in 2024, focussed on high-quality class 1 sites, with features such as excellent vehicle access, concrete surfacing, and high security levels. This will be buoyed by corporates requiring more sites to charge their expanding electric van and car fleets, as well as ongoing demand from logistics and parcels operators.

With structural undersupply in urban areas and double-digit rental growth over the last two years, investor appetite to enter the open storage sector will remain strong in 2024. However, some who made significant purchases in 2023 may pause activity while they assess their portfolios and develop strategies to increase rental income. Open storage portfolios have been trading at a premium, and this trend is poised to continue in 2024.

We expect further rental growth in 2024, albeit at a slower pace than the last two years. Prime rental levels in the regional markets remain well below those in London and the South East, by typically 40 per cent across the locations we monitor, and therefore have the greatest potential for uplift.

Valuing open storage sites is challenging, as relatively few property professionals have sector-specific experience and there remains a lack of data, a situation we expect to improve over the next year. As the market grows in scale and increasingly forms part of institutional portfolios, it will become more important to value open storage as a use in its own right, taking into account the quality of sites.

With some commercial developments on hold in 2024, more consideration may be given to open storage as an interim use, although the capital expenditure required to create a high-quality site normally requires several years payback. Given the favourable shifts in open storage rents compared with other sectors, 2024 could see more investors re-evaluate how this use could work in higher-value locations over the longer term.

Colin Brown, Partner and Head of Planning & Development, Carter Jonas

Planning for housing delivery

With 2024 almost certain to be an election year, what policies for housing delivery are we likely to see discussed and implemented?

Delivery of new homes

The delivery of new housing has stalled. The government's target to build 300,000 homes per annum in England was downgraded to 'advisory' status in 2022, and whilst it is still the stated aim to achieve this figure, no timescale is attached. Meanwhile, fewer than 200,000 net additional homes per annum were actually delivered over the last decade, meaning that year on year the deficit in delivery is growing.

It is likely that both main political parties will maintain a focus on achieving the 300,000 per annum figure in their manifestos. Indeed, Labour >>>

>>> have confirmed they will reinstate this figure as a mandatory target, in addition to updating planning laws to give local authorities a greater say in delivery.

The big debate looks likely to be around land value capture (a mechanism by which a greater proportion of the uplift in land value arising from planning consent can be captured for public benefit such as infrastructure and affordable housing).

Labour leader Sir Kier Starmer has referenced an ambition to build 1.5 million homes through a new generation of new towns. This is a highly ambitious strategy, and the mere fact that is it being advocated acknowledges the radical step-change that will be required to raise housing delivery to a rate anywhere near the target.

Under the Labour proposals, the development of new towns would be achieved through development corporations with CPO powers to capture the land value, so that the infrastructure has a better chance of being funded. There is some logic to this approach. It is likely to prove divisive for landowners, but we foresee that there will end up being a degree of compromise involving some sharing of the uplift in value. Indeed, if we are going to develop at scale, then some form of land value capture is probably almost inevitable.

The green belt

The debate around building major new settlements also raises the question of the green belt. Although the previous target of building 60 per cent of all new homes on brownfield land has been removed, the ambition lives on in the NPPF (2023), and it has undoubtedly slowed the rate of housing delivery.

Brownfield housing development is not always viable and policy needs to reflect this reality. It is positive that Labour has recognised the potential of the low-quality, mostly brownfield, 'grey belt' that is unnecessarily protected through green belt allocation. In any case, there is nowhere near sufficient brownfield land to meet the 300,000 figure, certainly across multiple years, and meaningful greenfield development will be integral to increasing the rate of delivery.

House price affordability

Demand for homes will continue to be impacted by a fall in mortgage availability and affordability, exacerbated by the ending of the Help To Buy scheme for first-time buyers, with housebuilders also feeling the ongoing effects of labour shortages and elevated build cost inflation. Accelerating the rate of housebuilding will not be easy for whoever wins the election, and 2024 looks set to be a challenging year for housebuilders against the continuing subdued economic outlook.

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