UK Commercial, Residential and Rural – 2022

SPOTLIGHT
Savills Research

UK Cross Sector Outlook

Investment opportunities and trends for 2022 across the Commercial, Residential and Rural sectors

> "The green agenda and social factors remain major priorities"

In 2021, we asked: Is there a 'new normal' for real estate? As we continue to navigate the next phase of the pandemic, it's clear the situation is still in flux. Our ***UK Cross Sector Outlook*** for 2022 gives insight into the trends and opportunities for the UK real estate sector, as well as the issues that are shaping the commercial, residential and rural sectors individually.

To add to an already complex set of challenges, the green agenda and social factors remain major priorities. COP26 has only accelerated conversations around the environment, and investors need to keep abreast of the desired criteria and government regulations. Otherwise, potentially they face owning stranded assets. Many investors are getting ahead now to future-proof their assets by upgrading them, changing their use or selling.

We know that challenges will persist as plans and priorities shift across all sectors. Our selection of top alternative assets this year taps into the trend for more holistic returns and reveals what we believe are key investment opportunities for 2022.

Except for single family Build to Rent, which remains one of our top picks from 2021, we present five fresh top picks for this year. We hope that you enjoy reading our latest report.

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Courage beyond compliance

How will ambitious environmental targets and tougher compliance standards influence investment over the next five years? Emily Norton sets out three steps to consider while embracing the change

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The pandemic has fundamentally changed the way we think about many aspects of property. But environmental, social and governance (ESG) issues were rising up the agenda well before Covid-19, lockdown and social distancing entered our lexicon. One of the key questions for investors is what this means for the long-term financial sustainability of different types of property – something that could be brought sharply into focus if, as and when interest rates rise.

THE REAL GREEN MACHINE

Our research launched at COP26 demonstrated the scale of investment needed to decarbonise property. This includes an estimated £330 billion to implement recommendations within residential EPC certificates. But it's not just net zero that's the issue here.

For all property sectors, tougher environmental compliance standards will now be the norm. The arrival of the long-awaited Environment Act sets ambitious air, water and biodiversity targets in England. For development, it brings a formal requirement for environmental offset within a couple of years. In Scotland, an ambitious new offsetting framework aims to align planning policy with net zero and biodiversity targets.

The further possibility of financial penalties (or taxes) for net polluters may well ensure compliance from hard-to-reach private households and businesses. For those affected, the cost of meeting compliance

standards will often outweigh the returns, but the risk of holding stranded assets will become a bigger concern in many cases.

However, it's not just the operational yield that's under challenge because of costs of compliance. Disclosure concepts like those proposed by the Task Force on Climate-Related Financial Disclosure and the Glasgow Financial Alliance for Net Zero suggest that, sooner or later, finance is going to come with more ESG strings attached.

DELIVERING THE SOCIAL FACTOR

Critics point out that such disclosure often leads to divestment from high-impact sectors, and property undoubtedly has a problem, contributing nearly 40% of UK emissions. And yet, property will always deliver the S (social) from a triple bottom line perspective; whether it's jobs, homes or wellbeing. So clear, widely adopted metrics to prove this are essential to ensure that all property sectors remain investible long term.

Reflecting on this, the theme of this cross sector outlook for 2022 is 'courage beyond compliance'. Bemoaning that it is getting tougher than it used to be is not going to cut it in the net zero economy. As a sector, we need to embrace the rising environmental baseline and get on designing places that offer great and enriching lives and that see well beyond the short-term clamour. Multiple small wins will get us some of the way there; patience, perspective and making sensible long-term investments that go back to basics will do the rest.

THREE STRATEGIC STEPS

Getting back to basics will have three dimensions. First is understanding where we are in the cycle, particularly in the face of anticipated interest rate rises that will curtail prospects for capital appreciation in the absence of either rental growth (think logistics) or fundamental changes in demand for external reasons (think peat bogs).

Second will be recognising the impact of structural change, whether it be the reform of agricultural policy, the repositioning of retail or what we want from our homes post-pandemic.

Third is avoiding over-reaction and staying alive to the possibility that some assets will become mispriced when markets are in a state of flux. As Mat Oakley points out on page 7, a rise in agile working does not mean a one-for-one reduction in demand for office space – lumping all retail together risks failing to sort the wheat from the chaff from an investment perspective.

This becomes increasingly important as across all our property sectors we see increasing harmonisation of total returns. In turn, this will make stock selection less siloed. We expect further outflows from traditional commercial property into residential, rural and infrastructure. However, location, connectivity and new metrics in social and environmental impact will provide confidence to investment, rather than the sector alone.

To reflect this convergence and the growing demand for asset innovation, we have our top 'alternative assets' (see page 6) that tap into the trends for more holistic returns that are rapidly becoming the holy grail.

> "As a sector, we need to embrace the rising environmental baseline and get on designing places that offer great and enriching lives and that see well beyond the short-term clamour"

A shift in priorities

What are the prospects for residential developers? How will hybrid working impact commercial occupiers? We review the performance of asset classes and how it could influence investor behaviour

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1 RURAL REBOOT

Our chart on the comparative returns available from different asset classes has been revised somewhat from last year. In 2021, forestry was top of the pack. Commercial forestry has outperformed expectations for several years in succession, mainly due to the rise in values of existing forests. Values are, however, very full in this sector, and whilst it is not clear if we are at the top, high valuations means that short-term asset performance is subject to a degree of uncertainty, albeit against a backdrop of sound long-term investment fundamentals.

The strive for net zero solutions and desire to plant new woodlands for carbon sequestration means we have replaced commercial forestry in the forecast with low productivity livestock land as this is where most investment is likely to be targeted over the short to medium term. More generally, greater certainty around future agricultural support means expectations of capital growth have returned for arable land where values will continue to be more closely linked to its productive capacity.

2 INDUSTRIAL REVOLUTION

London industrial now sits at the head of our list, with distribution warehouses not far behind. This reflects continued demand for last mile delivery and the rise and rise of internet retailing that appears to have become more entrenched as a result of the pandemic. With finite stock available to meet this need in the capital, prospects for continued rental growth underpin an expectation of double-digit annual returns. That comes at a time when the fundamental drivers of demand for other commercial asset classes are in a state of flux.

3 GREENER FUTURE FOR OFFICES

The prospect of the demise of the office has, in our opinion, been substantially overstated, but the shift to hybrid working patterns is likely to temper returns available from both regional and London offices. Here, we expect the ESG credentials of those offices to become increasingly important over the next five years, but any differentiation in rental and capital values is only expected to occur over the longer term.

> “London industrial sits at the head of our list, with distribution warehouses not far behind. This reflects continued demand for last mile delivery and the rise and rise of internet retailing”

4 RETAIL DIVERGENCE

From a retail perspective, we expect to see a divergence in the performance of shopping centres – which now sit at the foot of the table – and retail warehouses, where strong income yields underpin competitive returns despite modest capital growth prospects. Across the sector as a whole, we believe there will be opportunities for investors to pick up mispriced assets, the emphasis on stock selection being more important than ever.

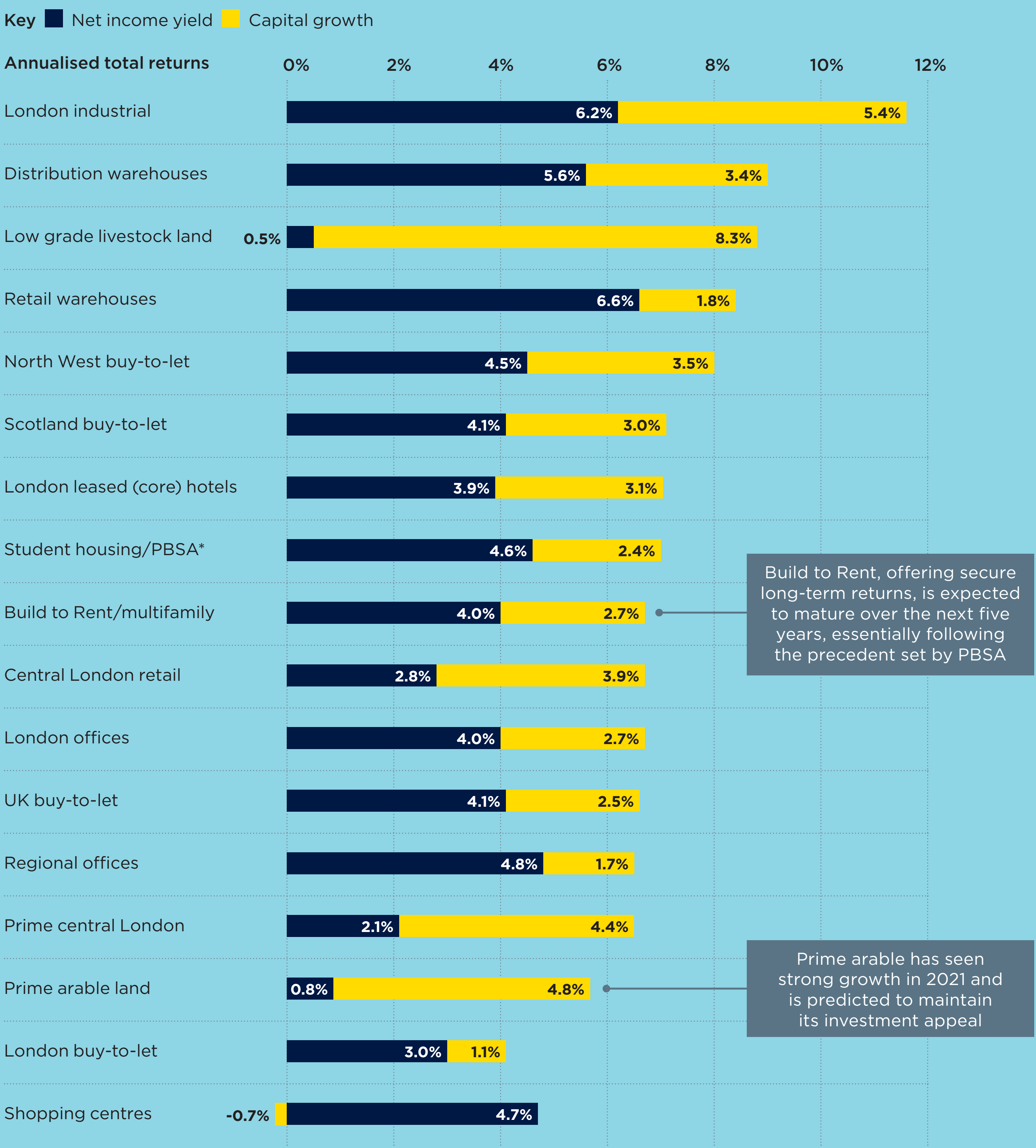
5 RESIDENTIAL REVIEW

In terms of residential property, the surge in house prices in the wake of successive lockdowns has tempered price growth prospects, especially in an environment where we expect to see interest rates gradually rise. But, again, this market is anything but one-size-fits-all.

The highest yields and strongest price growth prospects continue to be found in the North, Scotland and Wales. In London, we expect to see a substantial difference between the domestic mainstream market and that of prime central London, where travel restrictions have put on hold a long-overdue recovery.

But while we anticipate ongoing pressure on private landlords from regulation, we expect to see institutional investment into Build to Rent and purpose-built student accommodation (PBSA) to continue to flourish. This will deliver secure long-term income, in what we expect to be a much more diverse sector as it continues to mature quite rapidly.

Projected annualised returns (2022 to 2026 inclusive)

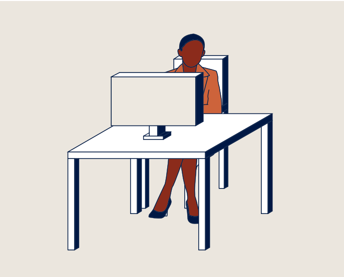


Note *Purpose-built student accommodation **Source** Savills Research

In a world of data, it is surprisingly difficult to arrive at comparative income returns for different asset classes. For residential buy-to-let investments, our model uses a combination of data from the valuation office, the Land Registry and Rightmove. We have then had to take into account that while commercial property income streams will often be underpinned by full repairing and insuring leases, in the residential markets these are the responsibility of the landlord. Agricultural tenancy obligations sit somewhere in the middle. For consistency, we provide figures net of all irrecoverable costs in line with IPD industry standards. No account has been taken of the restricted tax relief available to private buy-to-let investors using mortgage finance (which would reduce effective income returns for some investors).

Top alternative assets

This year, our selection taps into the trend for more holistic returns



COMMERCIAL

EDUCATION
The UK needs to reskill large parts of its workforce, yet has huge public spending challenges. What could be better for fulfilling the S in your ESG strategy than providing space for people to learn in? Expect to see growth in standalone education assets and university campuses.

DATACENTRES
Global demand is forecast to grow at more than 13% per annum over the period 2020-2027. Heightened interest in data security and environmental impacts will also drive rapid change in this sector.

RESIDENTIAL

AFFORDABLE HOUSING
Driven by the ability to deliver inflation-linked, long-term income that plays well to the S in ESG, we believe that annuity investors could increase their lending to housing associations from £87bn to £130bn by 2026. In addition, we believe for-profit registered providers could commit £23bn to the delivery of 130,000 new homes across a variety of tenures by the same date.

SINGLE FAMILY BUILD TO RENT (AGAIN)
Last year, we picked Single Family Build to Rent as one of our top picks. And in 2021 we saw significantly increased investment in this sector. But such is the scale of the opportunity, we believe it remains fundamentally undersupplied. Buy-to-let investors, who have been the primary source of this rental stock, face continued regulatory pressures. These include prospective costs of getting to a minimum EPC C rating and the (delayed) abolition of s21 ‘no fault evictions’, both matters which institutional investors are better placed to accommodate.

RURAL

COMMUNITY ENERGY
These are schemes that decarbonise rural energy sources that are particularly dependent on oil and off-grid gas. Getting the right mix of locally generated renewables to provide long-term secure heating and energy to rural homes – where profits could be reinvested in subsidised rents – is crucial.

GRADE 3 ARABLE
This is the lump in the middle of the land grades, and showing the least growth of all the land asset classes. However, it is versatile for a range of future star crops, such as biomass for energy and manufacturing materials like hemp.

Commercial pressures

Mat Oakley examines prospects of a sector recovery set against the race to carbon neutrality, the policy environment created by Covid-19 and the only partially completed Brexit process

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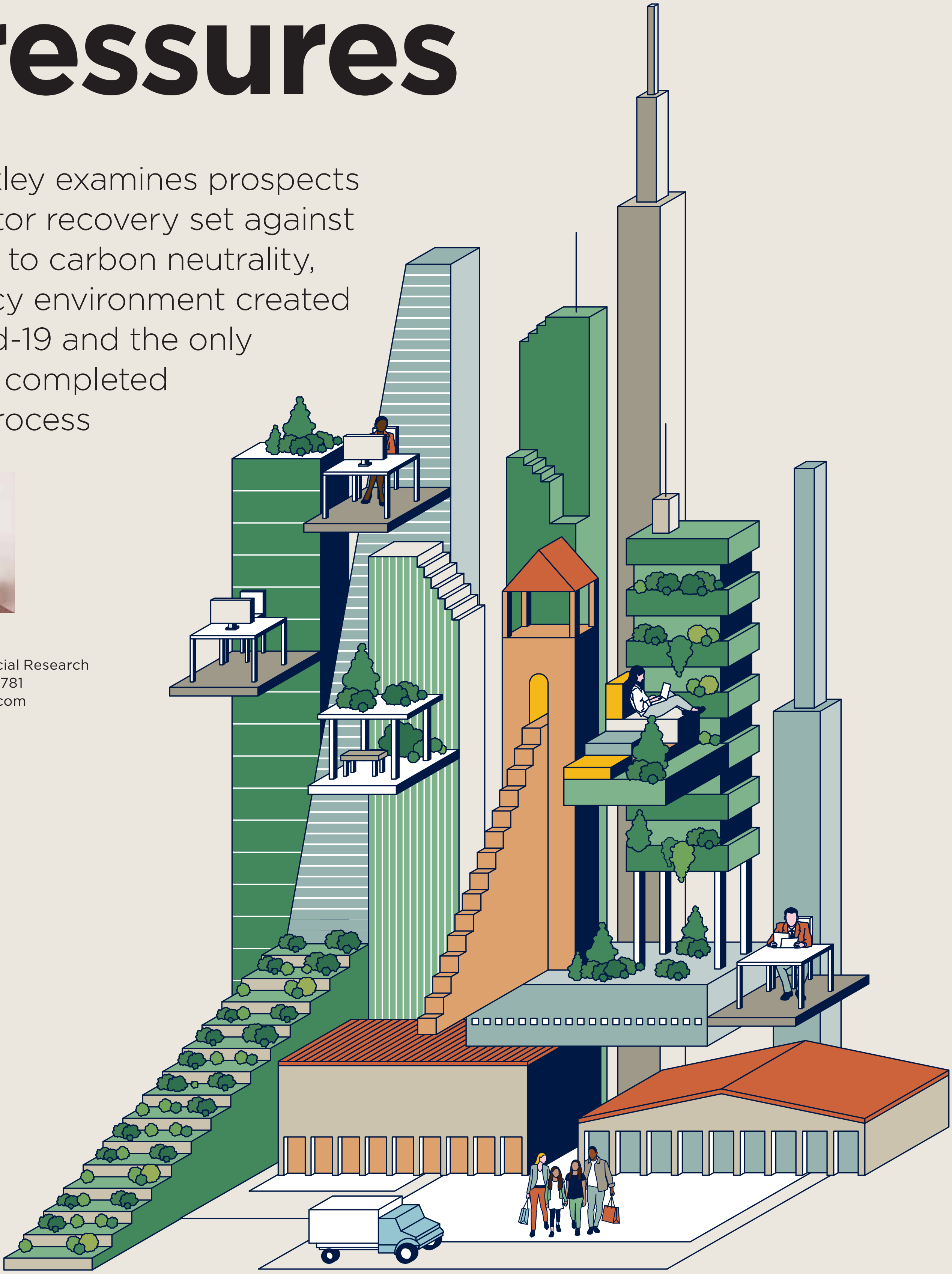


> “The next five years will see an increasing convergence between the main sectors as capital values start to rise in some parts of the retail market, and their rate of growth slows in the industrial sector”

1

THE RETURN OF LONG-HAUL CAPITAL

The past two years have seen a marked change in the make-up of the buyers of commercial property investments in the UK. While the proportion of the capital invested in the UK remained at around its long-term average (51% in 2021), the point of origin of this money has changed.

In the decade prior to the Covid-19 crisis, inbound investment from the Far East averaged 25% of the total non-domestic investment, while the Middle East averaged 13%. However, in 2021 these proportions fell to 11% and 7% respectively. The fall in this very long-haul capital was compensated for by a slight rise in investment from Europe, and a huge increase in the proportion coming from the USA (from an average of 26% pre-crisis to 44% in 2020 and 2021).

Looking ahead to 2022, we expect that the gradual removal of travel restrictions will lead to a return to normal levels in inward investment from the Middle East and Far East, and this will return UK investment volumes to pre-crisis levels.

2

UPWARD PRESSURE ON PRICING OF BOTH RISK-OFF AND VALUE-ADD ASSETS

The additional capital that we expect to enter the market in 2022 will further intensify some of the trends we saw in the market last year. Middle and Far Eastern investors in particular have previously demonstrated a heavy bias towards risk-off investments, and we expect this will continue to support the low prime yields that are being seen in both London offices and UK logistics.

Value-add opportunities, particularly in London and some regional office markets, and once again in logistics, have also seen upward pressure on pricing in 2021. We expect this to continue into 2022 and beyond. Some regional office markets are now looking exceptionally undersupplied with Grade A offices, and the opportunity this presents to risk-loving investors will be considerable.

3

THE RACE TO CARBON NEUTRALITY

One all-pervading theme for 2022 and beyond will be the challenge and opportunity that is related to decarbonising the built environment. This charge is being led by developers and investors, but lenders and large occupiers are close behind. As we explored in our *Real Estate and the Carbon Challenge* report, the challenges are considerable. Nearly 2.5 billion square feet of retail and office space needs upgrading over the next decade, and we cannot just rely on the market to drive change in sectors and locations.

Policy will have to be brought to bear to drive change where the end returns are not high enough to support the capital expenditure. However, in much of the office and industrial markets in and around the UK’s major cities, we believe that the desire from investors and occupiers to do better will be enough to drive change.

We need to get better at monitoring, reporting and sharing best practice in this area. We also perhaps need to stop asking the wrong questions, such as “will a tenant pay more rent for greener space?”.

4

THE OFFICE POST-COVID-19

Offices are the single largest segment of the commercial property investment market, typically accounting for nearly 40% of all investment activity. However, the fact that the Brexit negotiations around services are yet to be finalised, and that there has been a less than dramatic pace of return to the office by UK workers, does start to raise questions about whether this sector will retain its dominant position in the future.

Brexit remains a risk to many parts of the UK commercial property market, but London offices in particular remain heavily exposed to any reduction in the UK’s attractiveness as a financial hub or European headquarters destination.

Agile working is also definitely here to stay, but we cannot deny that it will have a dampening effect on the growth in demand for office space. While we expect that current typical 25% occupancy of offices will rise in 2022, we do not expect that it will return to pre-Covid-19 levels. To a degree, this fall in need will be compensated for by rising headcount and space per capita, but we do believe that less desirable offices in less accessible locations will become even harder to let.

5

THE RE-EMERGENCE OF RETAIL AND REBALANCING OF TOTAL RETURNS

Stock selection based on total returns has been straightforward in recent years, with retail averaging -8% in 2019 and industrial averaging +7%. However, the next five years will see an increasing convergence between the main sectors as capital values start to rise in some parts of the retail market, and their rate of growth slows in the industrial sector.

These trends, combined with the generally higher income return that is present in retail, will mean that by the end of our five-year forecast period there will be less than 100bps spread between the average total return on retail and that on industrials, with offices sitting between the two. So, what should you buy? The key word earlier in this paragraph is ‘average’, and we expect to see a much wider spread between the best and worst in offices and retail than in industrials.

In retail, we continue to favour retail warehousing, though across all retail there will be a shortage of high-rated ESG-compliant assets, and these will be increasingly hotly sought-after by global retailers. Logistics will generally remain the safest sector, albeit with its own environmental challenges. For offices, location and ESG criteria will remain the key to outperforming the average.

Sector statistics

26%

Percentage of inbound investment coming from the USA, pre-Covid-19 crisis

44%

Percentage of inbound investment coming from the USA in 2021

25%

Typical current occupancy of offices. We expect this to rise in 2022

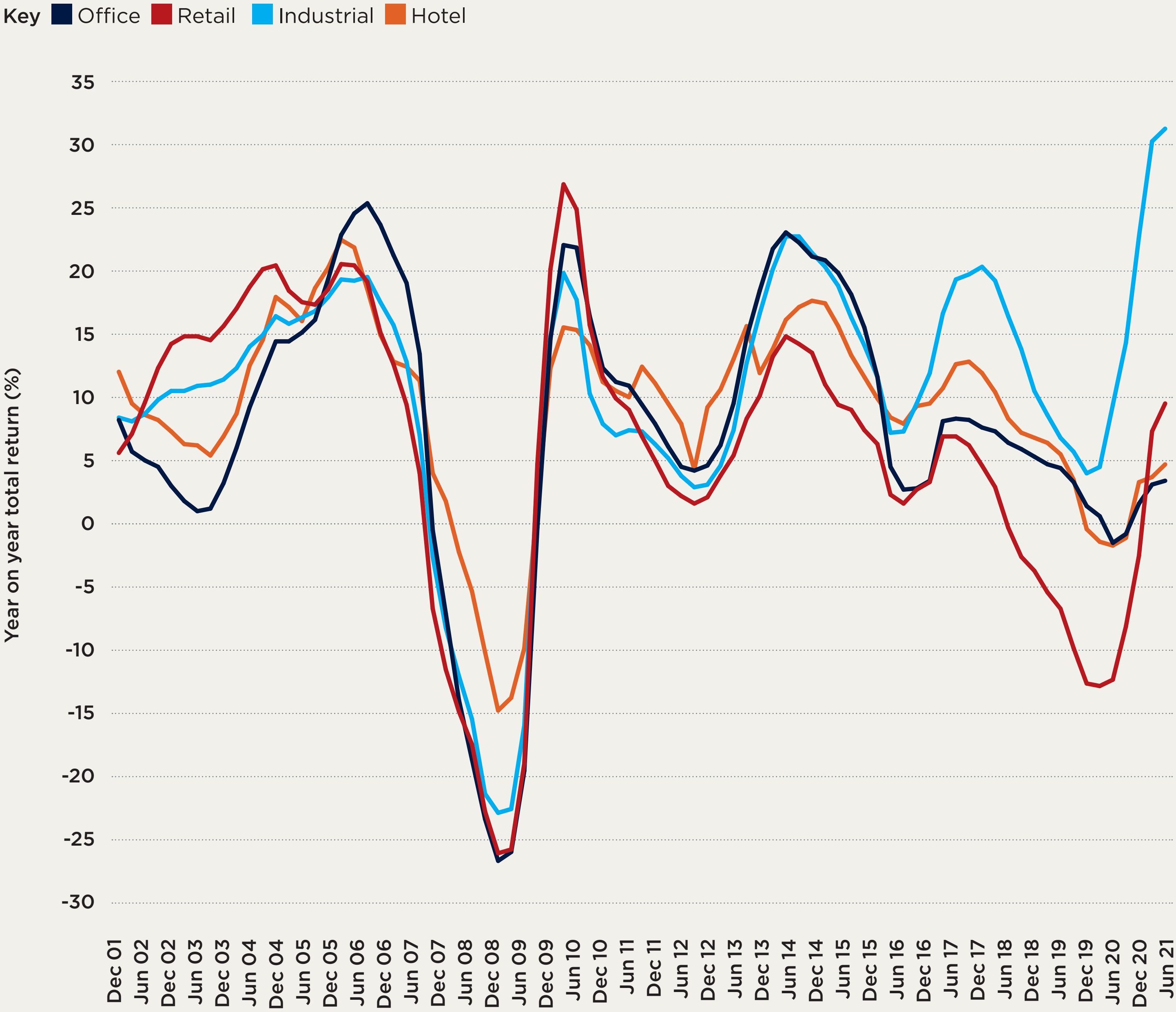
2.5bn

The amount (sq ft) of retail and office space that needs upgrading over the next decade

Source Savills Research

Total returns for the commercial sector

UK average total returns are starting to converge to a more normal spread



Source Savills Research using MSCI

Four to the fore

From anticipated rises in interest rates to a more diverse Build to Rent sector, Lucian Cook looks at four significant trends that are likely to shape UK housing over the next five years

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1
INTEREST RATES AND MORTGAGE REGULATION

The mini housing boom of the past 18 months has curbed the capacity for future price growth across large parts of the housing market, especially in an environment when interest rates are expected to gradually increase.

The scale and pace of anticipated interest rate rises are unlikely to put households' finances under undue stress. This points to a soft landing in the mainstream market.

The extent to which increased rates act as a drag on the amount people are able to borrow – and therefore future house price growth – will depend on how existing mortgage regulation is applied and amended over the next five years. While the Bank of England has proposed relaxing current affordability stress tests for borrowers (which may provide a little upside on our outlook for house prices), this will be subject to consultation over the course of 2022. Furthermore, banks will still be bound by the requirement that no more than 15% of their lending can be at a loan to income ratio of 4.5 or more. This, together with our expectation the Bank of England takes a cautious approach to reform, caps prospects for further price growth.

This will put even more emphasis on the income returns for residential investors, tempering demand from mortgaged buy-to-let landlords. The effect will be greatest in the markets of London and the South, where yields and future capital growth prospects are lower. The exception is prime central London, which continues to look good value – having missed out on the price growth seen in other markets primarily given the constraints on international travel.

For institutional investors, the impact of rising rates and the end of Help to Buy has the potential to increase tenant demand underpinning rental growth projections, even if current mortgage regulation is softened.

2
POST-PANDEMIC LIFESTYLES AND REALITIES

Though less intense than we have seen in the past 18 months, we expect that the pandemic will have a lasting impact in terms of where people want to live and what they want from a home (especially given uncertainty around the impact that new variants of Covid will have on the need to work from home more regularly in the future).

The desire for a dedicated space to work and better outside space have the potential to change what we build, both for owner occupiers and, as the Build to Rent sector matures, private renters. However, this will be a case of evolution rather than revolution, as the precise impact on occupier demand and the features that add value in a post-pandemic world become clear over time.

From a location perspective, we expect demand for family housing to be more focused on the commuter zone and, to a greater degree, its fringes as hybrid working patterns become more established.

However, even if people commute further but less often, the quality of that commute will remain important. Not only will it concentrate the demand for family houses to areas with good transport infrastructure, but it also looks set to create a spin-off market for city centre boltholes. We also expect to see increased demand for purpose-built senior living, as older households think more carefully about their future housing and care needs.

We do not believe this spells the end of demand for city centre living. But we do expect demand to become even more weighted to those at the two ends of the housing ladder – the younger and older households for whom the amenities of urban locations remain or have become increasingly important.

Sector statistics

£330bn

The cost of implementing EPC recommendations across the UK's housing stock

13%

The five-year forecast for UK mainstream house price growth (2022-2026 inclusive)

24%

The forecast house price growth in the prime housing markets of central London over the same period

205,000

The number of Build to Rent homes either completed or under construction across the UK at the end of September 2021

339,347

The number of Help to Buy equity loans issued to the end of June 2021 since the scheme was launched in England

Source Savills Research, BPF, DLUHC

3
THE ROAD TO ZERO CARBON HOMES

If one thing is for sure, there will be no shortage of opportunities for investment in improving the energy efficiency of our homes and decarbonising heating sources in the next five years. Not only is the scale of the challenge vast, but there appears to be more political urgency to effect change thanks to COP26. Importantly, the policies to deliver that change are far more advanced, not least through proposals to set specific EPC targets for lenders.

The prospect of tighter regulations for private landlords will present a cost challenge that is likely to impinge on net returns. Some will reconsider their investment in homes that are less energy efficient, pushing demand towards more modern homes.

This further plays to the hands of institutions, for whom it will be easier to achieve minimum EPC requirements on purpose-built stock, but who also have economies of scale to deal with legacy issues on large portfolios.

The road to zero carbon has also become a major financial consideration for affordable housing providers, many of which have a significant latent liability in their existing portfolios. We expect this to further open up opportunities for private investment to help those providers meet other objectives, including the delivery of new affordable homes. Already we have seen a significant increase in the funds pointed at this sector, reflecting both the security of the income streams and the ESG credentials of such investment.

4
A CHANGING POLICY LANDSCAPE FOR DEVELOPERS

The mini housing boom has left housebuilders with healthy balance sheets and capital to deploy, resulting in short-term upwards pressure on land values. But with reduced price growth expectations and high build cost inflation, the outlook is less clear.

2022 looks set to be the last hurrah for Help to Buy, a scheme that has underpinned private housebuilding since its inception in 2013. The economics of the delivery of First Homes and shared ownership are very different, while we wait to see what traction private initiatives such as Deposit Unlock have on grassroots demand for new homes.

In part, we expect the gap to be filled by a larger and more diverse Build to Rent sector, which looks set to provide the next best oven-ready, secure market for developers. Given the challenges facing parts of the commercial property market, demand across a spectrum of opportunities in the residential sector seems set to move it – in all its forms – from the alternative to the mainstream investment category.

In other respects, the continued merry-go-round of housing ministers means the future direction of housing policy has become more opaque over the past 12 months. Planning reforms put forward in the Queen's Speech, so unpopular on the back benches, look set to be watered down to reduce the pressure for housing delivery in the wider South East.

Meanwhile, we wait to see what the levelling up agenda will do to local housing targets. That all points to more short-term planning risk; though we will have to wait and see what it means for the demand for strategic land in different parts of the country over the longer term.

The impact of impatience

The rural sector is in a state of significant transition. Against a backdrop of a net zero target by 2050, Emily Norton outlines the key trends influencing land values over the next five years

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Land use in the UK stands on the cusp of change on a scale not seen since the 18th-century land clearances. Then, a change in property rights ushered in the industrial and agricultural revolution, freeing people from unpaid land work to move to growing cities and employment. Now, the unseen hand guiding land use is the UK's declaration of net zero by 2050. On its own, this declaration simply means that agriculture needs to decarbonise, like every other sector, although the Climate Change Committee accepts that food production will always be a sector that is carbon emitting.

However, land is the only asset class that can be both a source of, and a solution to, climate change. It is this need to provide a solution to the broader economy that will drive a change in use of a quarter of the UK's land over the next 30 years. Against this long-term backdrop, we see the following key trends influencing land values over the next five years.

Sector statistics

60%

Increase in commercial forestry values for investment grade assets since 2020

22%

Agricultural input inflation in 2021

5.2%

The increase in GB average farmland values in the 12 months to September 2021

£1.25bn

Potential annual value of carbon sequestered on farms and in woodlands in 2050

Source Green Alliance, WWF/Tesco 2022

1
AN OWNERSHIP BIAS

A lack of investible nature-based offset models is driving new entrants to buy rather than collaborate with existing land managers, although some notable branded partnerships are emerging.

New research suggests that carbon sequestration on farms, in soils, trees and hedges, and in woodlands could be worth as much as £1.25 billion a year in 2050 (based on a carbon price of £50/tCO2e), but the market for formal nature-based offsets from agriculture remains in its infancy. It is also subject to multiple risks for sellers and offsetters, especially the need for governance, and whether the requirements for additionality and permanence can be met.

Land use change (such as from arable to woodland) generates around five times more carbon sequestration than farming can on its own, and with question marks remaining over how a UK Soil Carbon Code would work in practice within farmed soils, de-risking the process through ownership feels sensible for investors.

A 5.2% rise in GB average farmland values in the 12 months to September 2021 shows the impact of this, and most of this growth was in poorer livestock grades – a key target for tree planting. We predict that this demand will continue over the next five years as pressure to decarbonise continues and growing numbers of natural capital buyers enter the farmland market.

2
CONSOLIDATION OF BUSINESS STRUCTURES

Agricultural policy in England at least is signalling a major devolution of responsibility for business viability from central government to farm level. The Common Agricultural Policy was explicitly designed to support farmer incomes, based upon land being used in an environmentally sensitive way. This conditionality is going as the Basic Payment Scheme fades away, with a corresponding need for farmers to work out how to make their businesses viable based on markets, diversifications and a plethora of emerging environmental schemes, or to exit the industry.

We predict that more English land will come to the market as a result, and that further consolidation is likely, especially given the famous reticence of farmers to collaborate with each other.

Farmers in Scotland and Wales may be protected by emerging policy that has stronger social imperatives, but the shift to leverage private investment into natural capital markets is a goal in each. Changes in market demand for the key outputs of upland farms, a general shift of livestock back into lowland arable rotations, and the weight of capital chasing land suitable for afforestation may offer an attractive route out of the industry for some.

Net zero-fuelled land use change is potentially disruptive for rural communities, but having fewer but better-resourced businesses may well improve the bargaining position of agriculture and enable investment in the further professionalisation of farming.

3
FARMING AS A SERVICE

The shift from area-based payments will also change the risk profile of agriculture. At the moment, a lump sum amount received every December will underwrite the financing of next year's crop. Considering an agricultural input inflation figure of 22% in 2021 (AF AgInflation Index), and the prospect of further climate-disrupted growing seasons, the loss of liquidity could mean many farmers cannot afford to finance the next harvest.

Supply chains cannot ignore this. Furthermore, these corporates and listed businesses will be under increasing pressure to disclose their environmental footprints to their shareholders and financiers, and so they are starting to take a more active interest in how farms are run.

The eternal screw-down on food prices has already shifted this year as a result of the numerous transport and Covid-19-related factors, contributing to 2.1% grocery price inflation in 2021. But further food price rises (as implied in Scotland's Good Food Nation policy and England's National Food Strategy, and tacitly approved by the government's levelling up agenda) feel inevitable.

Over the next five years, farmers will need to be paid for the services they are providing to their supply chains, and supply chains and consumers need to accept the higher cost of securing products that meet overdue environmental and social impact expectations.

LOOKING AHEAD

Against a loosening market where supply may just increase back to average, where more consolidated, more profitable businesses will rise to the fore, and where impatient capital is returning to the land market with a time-constrained net zero ambition, asset value inflation feels inevitable and our five-year outlook highlights this.

These market factors have changed dramatically from 2020, when Covid-19 disruption was rife, the UK-EU trade deal was still an uncertainty, and little detail of emerging schemes across any of the home nations had been provided. Rural assets have never correlated very clearly with agricultural productivity due to the plethora of other ownership motivations, but it's the relative affordability of rural assets for newly environmentally active investors, and the brand and reputational value created through the management of 'authentic carbon', that is driving competition for scarce assets.

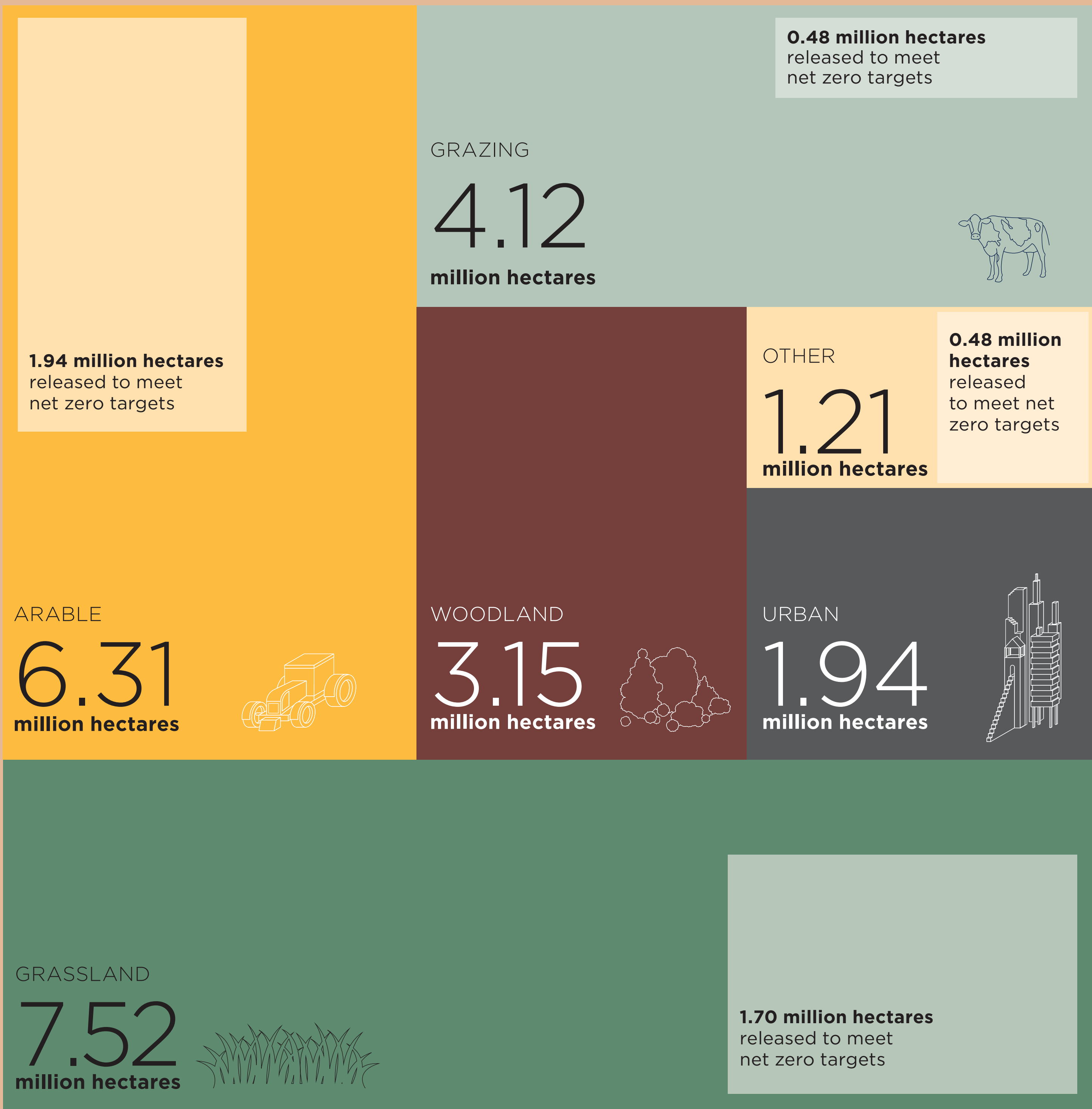
How high values could go is unclear, particularly given the scale of structural change that the sector needs to go through following the agricultural transition. We're not expecting the recent spectacular performance of commercial forestry to be repeated in all land classes, but evidence is mounting for a sustained period of growth.

Land use change to meet net zero

An overhaul of the UK's land and agricultural sector will be essential to meet the government's net zero target. The Climate Change Committee recommends the following land use changes, releasing 4.61 million hectares (c25%) to meet new net zero objectives, including woodland, energy, agroforestry and rewetted peatlands

4.61 Million hectares. Recommended release to meet net zero targets

25% Proportion of UK land changed from its current use should recommendations be followed



Source www.theccc.org.uk/publication/land-use-policies-for-a-net-zero-uk/

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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