Introduction

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PricewaterhouseCoopers

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Have we reached the bottom?

A number of commentators on real estate markets over the last month have speculated that we might be close to reaching the bottom. Unfortunately, like the ocean, the bottom appears to be a very murky place, and there is not much clarity as to what is lurking down there or what lies ahead.

In this edition of UK real estate insights, we look at various aspects of the bottom of the market. Firstly, in the article, “UK real estate – have we reached the bottom yet?”, we look at where values were, are and might be heading.

Secondly we look at the deteriorating business fundamentals. In the January edition of UK Real Estate Insights, we commented on the changing nature of the real estate crisis. Up until now then this had largely been a capital markets crisis. With the deteriorating economic situation, tenants are struggling and we are now witnessing signs of a developing occupier crisis. This was also a major theme of the Emerging Trends in Real Estate Europe report that we published with Urban Land Institute in February and Barry Gilbertson from our Business Recovery practice has been regularly quoted in the press on the subject in recent months.

To help understand the unfolding occupier crisis, in this edition we look at the general state of the economy and also at which parts of it will be most impacted by recession. Of these, two will be of particular concern to the real estate industry – financial services and hotels. We highlight research by PricewaterhouseCoopers[1] on both of these sectors.

Although there is uncertainty as to how close we are to the bottom of valuation and we have certainly not reached the bottom of the occupier crisis, there are some signs that we may have reached the bottom of activity. There is certainly increased interest, and even in some cases activity, from overseas investors. In another article in this issue, we look at the recent activity in the quoted sector as companies sell assets and issue shares in order to bolster their equity. We are also seeing some signs of a hardening of the attitude of the banks. Mark Batten, who leads our real estate work-outs team, has also been attracting the interest of the property press following his appointment with Matthew Hammond as joint administrator of a number of subsidiaries of Castlemoor Group.

The first quarter of the year is always a very busy one for PricewaterhouseCoopers, particularly for our colleagues in Assurance and Compliance. With the significant fall in real estate values in 2008, particularly in the final quarter, the year end was an exceptionally challenging one for many of our clients in the real estate industry. PricewaterhouseCoopers were also involved in one capacity or another in the majority of the rights issues that took place since the start of the year.

As mentioned above, we also published our Emerging Trends in Real Estate Europe report with Urban Land Institute in February. I would like to thank all those who contributed to the report by being interviewed or by completing electronic questionnaires. Particular thanks are due to the excellent panelists for the UK launch of the report, Mike Slade from Helical Bar, Fredrik Elwing from Credit Suisse, Robert Houston from ING and Simon Hersom from RBS. I think that everyone who attended was impressed by their ability to educate and entertain at the same time. They have set a very high standard for our next panel, at our annual UK real estate client conference on 21st May...

John Forbes leads the PricewaterhouseCoopers real estate practice in Europe, the Middle-East and Africa.

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1 “PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom).

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