

The Student Perspective



Welcome to the fifth edition of 'The Student Perspective', my name is Dan Sables. I am a Masters student of Real Estate at the Henley Business School, having studied Architecture at the University of Kent.

If, like me, you are beginning a career in Real Estate, I hope that this newsletter contains food for thought about the wider Real Estate context for interviews and conversations.

I want this to become a forum where we can learn and share insights with one another, so let me know your thoughts...

What I am following

The Green Winner's Curse

A common theme throughout these newsletters has been the exploration of future supply and demand dynamics within the UK's sustainable building sector. We've previously discussed how over 60% of the existing building stock is expected to become obsolete by 2030 and highlighted developments currently in limbo. Today, I wish to delve into the concept of the Green Winner's Curse, adding another layer to our understanding of the intricate world of sustainable real estate. In essence, this occurs when investors overvalue an asset during the bidding phase.

The notion of a "green premium" is widely acknowledged, predicated on the expectation that investments will yield returns over the building's lifespan through energy savings, higher rental values, lower depreciation rates, etc. It's also believed that high-quality building stock will be highly sought after in the future, potentially offering substantial returns through capital growth.

But what if these assumptions prove incorrect? What if, due to overly optimistic demand and sentiment, investors miscalculate and overpay for the returns through savings and rent?



Dangers of a "Green Bubble?"

Applying basic supply and demand principles, we recognize that real estate is inherently inelastic. However, as global focus intensifies, supply is likely to expand eventually. At this juncture, investors may not realize the long-term capital gains they anticipated. This scenario, combined with continuous technological advancements and evolving standards, means what is deemed "green" and exceptional today may not hold the same status in the future. This is the essence of the "Green Winner's Curse" – a penalty for what was initially perceived as a beneficial investment.

This aspect is yet another consideration for real estate investors, but it's crucial to remember that in the short term, factors like looming obsolescence play a significantly greater role in influencing the demand and supply of green real estate today and until at least 2030.



Trends to watch

House price rises Halifax and Nationwide record consecutive monthly rise in house prices in January. A contrast to the ONS data released the previous month.

Rising Demand RICS metrics show the first increase in in agreed house sales since October 2022. Attributed to lowering mortgage rates.

Big News

Ground Rent Reform

Michael Gove is facing backlash from Freehold Owners and Investors over his plans to cap ground rents to a peppercorn rate. The proposal seeks to be the answer to the ever increasing rental rates crisis and well as safeguarding leaseholders from unjust and unregulated ground rent hikes.

Opposition concerns are centred around devaluing current investments and interfering with agreed leases. Experts predict investors would become more cautious of the property market as a result.

Unforeseen Costs

Criticisms of Gove's proposals are predicated on the legal compensation that freeholders are to receive, estimated at £31Bn. A bill that will likely be picked up by the tax payer.

There are also suspicions that the timing points to vote winning policies, while not addressing the true concerns of leaseholders as ground rents did not feature in POS' top 10.