UK property predictions: 2021

April 2021

Offices

The future will be a 'hybrid' mix of home working and office working, but the conclusion from 2020 is that there is still a strong case for the physical office.

The full impact on the physical office will not become clear until Q3 2021 when the full return to work is expected.

Leasing is expected to increase by 25% year on year but will still be 20% below 2019 levels.

Personalisation of office space will become more important. There will be far more emphasis on how employees 'engage' with the building.

Vacant space sitting within existing operational portfolios will be re-absorbed as occupiers realise that there will be pushback from staff to get back into the office.

Suburban locations will be revitalised as some companies move away from large urban centres. In turn, this should have a positive knock-on effect from a food and beverage/amenity perspective.

There will be a 'flight to quality'. The best buildings in terms of amenity and transport provision, particularly in business parks, will significantly outperform the rest.

Secondary assets in terms of specification and location will be at risk as occupiers seek to rationalise their portfolios, reducing their overall footprint to focus on better-quality buildings.

The repurposing of retail to office is likely to continue, with department stores an obvious target.

There will be greater focus on whether to refurbish or demolish as the property industry grapples with 'embodied carbon' and wider environmental considerations.

The imposition of a 'green agenda' will be more difficult in the regions due to greater rental sensitivity and consequential viability concerns.

Life sciences will be a rapidly evolving and increasingly important part of the office market. Investors are already shifting focus towards it, but a current lack of supply is frustrating activity at the moment. We expect the development sector to respond to this during 2021.

Source: JLL

Retail

At last, there seems to be signs of positive news on the horizon in this sector. Consumer demand held up remarkably well in 2020 and the expectation is that further pent-up demand will boost retail sales in 2021.

UK online sales are forecast to fall next year. This is due to the prospect of the vaccine allowing more people to return to work, reducing home working, and increasing consumers' ability and confidence to visit physical retail places.

Other factors such as 'e-commerce fatigue' and frustrations around fulfilment of deliveries will be an additional tailwind to bricks-and-mortar sales.

It is anticipated that there will be a growth in second-hand sales, bypassing retail altogether on platforms such as eBay and Depop.

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Younger groups will drive consumer recovery – socialising remains a crucial aspect of their lives and during the pandemic no new sustainable alternatives for socialising and entertainment emerged (with many people now suffering from 'Zoom fatigue'!).

This pent-up consumer demand will benefit prime retail destinations in particular (although the definition of prime is being redefined).

Retailer distress will continue in H1 2021. There will be more casualties as government measures recede, but there is hope that Debenhams/ Arcadia mark the bottom of the market.

Ultimately, COVID-19 has simply accelerated the required supply-side adjustment. It is estimated that there will be 80,000 obsolete shops by 2030 (or 20% of the market).

20,000 units have closed already during 2020 and we will reach a balanced equilibrium of supply and demand much sooner than on the pre-COVID-19 trajectory.

Flexible leases and formats are increasingly important for retailer and investor real estate strategies in an increasingly dynamic market. There is a structural shift towards 'omni-channel fulfilment', increasing the importance of urban logistics and last-mile fulfilment strategies.

Until a degree of certainty around the occupier market and operational income is achieved, investor demand will remain subdued, and yields are expected to see further decompression (driven in part by distressed asset sales).

Into H2 2021, a combination of economic recovery, vaccine-led pent-up consumer demand and a bottoming out of the occupier market will lead to a stabilisation of retail assets.

As we move through 2021, the retail investment market is forecast to offer some of the most interesting and accretive opportunities of any sector – physical retail may have its day once again!

Demand will be polarised to certain locations and sectors. London, the south east and the main university towns and cities will continue to offer a strong investment case, with the primary rationale being that the underlying alternative land use potential is accretive. REITS in particular will focus on London and mixed-use opportunities.

Smaller supermarket-anchored shopping centres, standalone food stores and factory outlet centres will continue to be resilient and attract interest.

Private equity and developers in particular will focus on acquiring strategic land (currently shopping centres and retail parks) in the most accretive locations.

Source: JLL

Industrial and logistics

The rise of urban logistics will continue. Smart urban logistics will become increasingly important to ensure that cities and urban areas optimise overall logistics performance. There will be increasing scrutiny on the associated adverse impact of congestion, noise and carbon emissions. Consequently, strategically located urban distribution that provides journey efficiencies to consumers will continue to be a focus for investor demand.

Into H2 2021, a combination of economic recovery, vaccine-led pent-up consumer demand and a bottoming out of the occupier market will lead to a stabilisation of retail assets.

The digitisation (e-commerce) of retail has been a hugely positive driver of logistics occupier demand. In 2020, some 42% of floor space taken up in Grade A 'big box' units (100,000+ sq ft) was directly attributable to e-commerce.

Rental growth in this sector is forecast to improve significantly during 2021. The greatest rental growth will be in the best locations with the best buildings. Occupier demand will continue unabated and specification requirements within the control of property investors have now reached a plateau. It is likely that greater automation and the advent of robotics will have a significant impact on this sector, but that is largely within the gift of the occupier and will not directly affect rental levels.

In many cities, including London, the supply of logistics land is extremely constrained. The re-purposing of retail may be one way to meet the growing demand for urban logistics buildings, including 'micro fulfilment facilities', where the final transport leg is typically undertaken by electric vehicles or cargo bikes. In some cases, the re-purposing to logistics may provide landlords with short-term income while they consider longer-term opportunities.

Logistics covers two of the biggest sources of carbon emissions, namely buildings, which contribute around 40% of global carbon emissions, and transport, which is responsible for a further 20%. The focus of occupiers and developers/investors will shift from optimising the energy efficiency of buildings to reducing whole life carbon emissions, including the application of a 'net zero carbon' standard.

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In the ‘big box’ market where occupiers are typically large-scale corporate bodies, the additional rental level that this will prompt may be absorbed. However, there is likely to be significant resistance to rental level inflation as a consequence of the green agenda from smaller and medium-sized enterprises occupying buildings of less than 100,000 sq ft.

The COVID-19 pandemic has highlighted the critical importance of supply chains, the equally crucial role of logistics buildings within these supply chains and the fact that these cannot be substituted in the same way as some other buildings. Both COVID-19 and Brexit have elevated the asset class in the minds of investors. Last year saw the highest level of take up of Grade A ‘big box’ logistics buildings across the UK, and the second highest level of investment into the UK industrial and logistics sector. It is expected that occupancy and investor demand will remain extremely strong through 2021 and beyond.

Source: JLL and Colliers

Past performance and forecasts are not a reliable indicator of future results.

Residential

Housing transactions will remain down on pre-COVID-19 levels until around the end of 2021 in the face of significant economic scarring. A strong economy usually equates to a strong housing market. However, some locations and types of property may not see falls in sale volumes as buyer behaviour shifts, particularly in big cities. Some less well-connected areas may see an increase in demand as people have sacrificed commuting convenience over getting extra space.

It is anticipated that working remotely and from home will remain a feature of our lives going forward – albeit not on a five-day-per-week basis and, of course, not in some professions. Homes that offer areas to work, access to private outdoor space and fast broadband will prove the most attractive to new buyers and renters.

COVID-19 has accelerated the trend that is making our homes the centre of our lives once again. Technology is the great enabler and therefore the quality of the technology and, in particular, the availability and quality of broadband is fundamental in the continuation of this trend. Developers are starting to offer in-built technology to appeal to increasing expectations for features, such as voice-operated lighting, heating, security and even vacuum cleaners!

Investments in build to rent (BTR) will continue to grow following the record levels invested in the UK in 2020. It is likely that the BTR market will evolve from being predominantly an urban high-density product for young professionals to rental homes for all life stages, with investor activity in 2021 shifting towards suburban single-family rental housing.

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BTR will continue to show market-leading resilience and the professional managed nature of the sector means it will continue to see rental value outperformance by comparison to other residential market sub-sectors.

The sheer scale of the later living undersupply will spark an investor rush. While reform to social care remains an urgent priority, the scale of supply and demand imbalance for care homes and later living options will remain the main reason for attracting interest from investors, whether new entrants or for consolidation. There will be clear emphasis on development both for later living and elderly care, with the focus on modern facilities built at a scale to drive greater operational efficiencies. Multi-generational sites also offer investors in other ‘living’ markets the chance to diversify.

Source: JLL

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Hospitality

In November 2020, UK GDP fell 2.6%, with hospitality (which was effectively closed) accounting for just over one third of the decline, highlighting the importance of the sector.

Current international travel restrictions will mean that people are more likely to avoid the hassle of international travel during 2021, which is likely to boost the UK ‘staycation’ market this year.

Pitchup.com reported a 500% increase in summer 2021 bookings in September and Haven reported strong bookings for May half term, July, August and October half term. For investors, this provides new opportunities to tap into the growing open-air hospitality segments of the market.

Regional markets across the UK benefited from strong staycation demand during 2020 while key cities lagged due to lack of international travel. Key UK cities such as London and Edinburgh, which rely heavily on international travel, will continue to feel the brunt of the pandemic impact on business activity until travel restrictions are eased.

Business hotels are likely to lag behind the general recovery because the demand for meeting facilities and conferencing facilities is likely to be significantly down on 2019 levels.

The UK wholesale sector is effectively closed as national lockdowns continue to be enforced, with only business travel currently permitted. With more than 650,000 jobs already lost and some businesses permanently closed, future 'pipeline' projects remain uncertain. At the end of 2020, around 125,000 hotel rooms were in the final planning stages across the UK. These are rooms in hotels yet to be constructed, but for which planning consent has been secured. Many of these will be reassessed for viability. Re-purposing them for alternative use may prove more profitable as investors diversify their portfolios. There is a danger that this may lead to oversupply in some cities as the re-purposing will be targeted directly at the residential market, where existing residential schemes are already underway.

Source: JLL

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Brussels
Avenue Louise 166
1050 Brussels
Belgium
+32 2 627 77 30

Frankfurt
Börsenstraße 2 – 4
60313 Frankfurt am Main
Germany
+49 69 40 80 260

Geneva
Rue de la Corraterie 6
1204 Geneva
Switzerland
+41 22 818 59 00

Guernsey
St. Julian's Court
St Julian's Avenue
St. Peter Port
Guernsey GY1 3BP
Channel Islands
+44 1481 705194

Hong Kong
16/F Alexandra House
18 Chater Road
Central Hong Kong SAR
People's Republic of China
+852 2525 5333

London
New Court
St Swithin's Lane
London EC4N 8AL
United Kingdom
+44 20 7280 5000

Manchester
82 King Street
Manchester M2 4WQ
United Kingdom
+44 161 827 3800

Milan
Via Agnello 5
20121 Milan
Italy
+39 02 7244 31

Paris
29 Avenue de Messine
75008 Paris
France
+33 1 40 74 40 74

Singapore
One Raffles Quay
North Tower
Singapore 048583
+65 6535 8311

Zurich
Zollikerstrasse 181
8034 Zurich
Switzerland
+41 44 384 7111