

UK Real Estate in 2020

No room for inertia

At the start of 2020 Dentons held its annual UK real estate predictions event in which a panel of industry experts debated what was in store for commercial property in 2020 (to view, [click here](#)). At the time, the words on everyone's lips were Brexit and the Boris Bounce with hopes for a real estate revival as the political scene settled down following the 2019 general election. Now, a new word has entered into the everyday dictionary – COVID-19 and the question is whether COVID-19 undermines or confirms our pre-lockdown prediction that this would be a year characterised by the themes of:

- changing demographics;
- political uncertainty;
- increased competition;
- taking responsibility; and
- adapting to change

with the ultimate conclusion being that 2020 would be a year of cautious optimism and a time to take action.

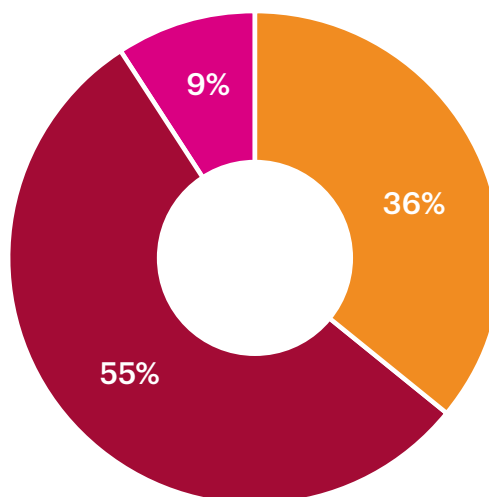
Dentons COVID-19 webinars

To help understand the impact of COVID-19 on UK real estate Dentons ran a series of webinars over the course of the summer looking at the impact of the pandemic on different sectors.

The first webinar considered the office and BTR markets. At first sight they may seem unnatural bedfellows but, as became clear during the

discussion, there is an inevitable relationship between the home and office, one which is now under intense scrutiny as the benefits of working from home vie with the opportunities presented by office working. This tension was confirmed by our audience members of whom 64% felt that the office market would be strongly or very strongly adversely affected by the rise of working from home. However, during our panellist discussion it became clear that it is not necessarily a binary choice and that the future probably lies in a blended working pattern with some time spent working from home, and some time spent in the office. So, contrary to popular belief, the office is far from dead.

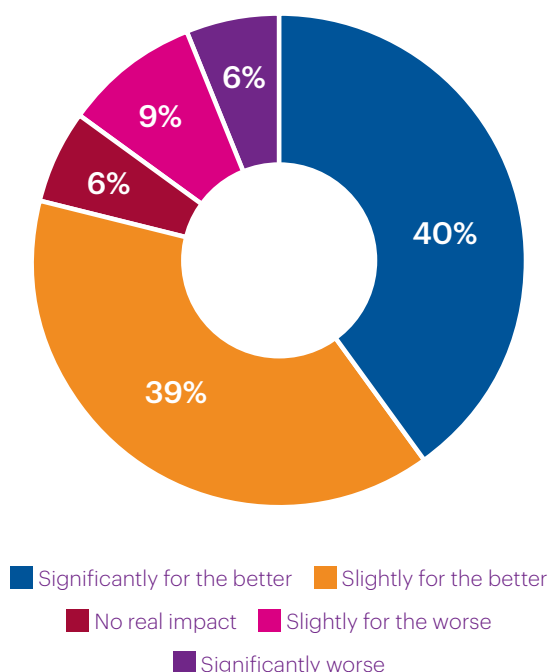
“How strongly do you think that the demand for office space will be adversely affected by the rise in working from home?”



■ Not at all ■ Mildly ■ Strongly ■ Very Strongly

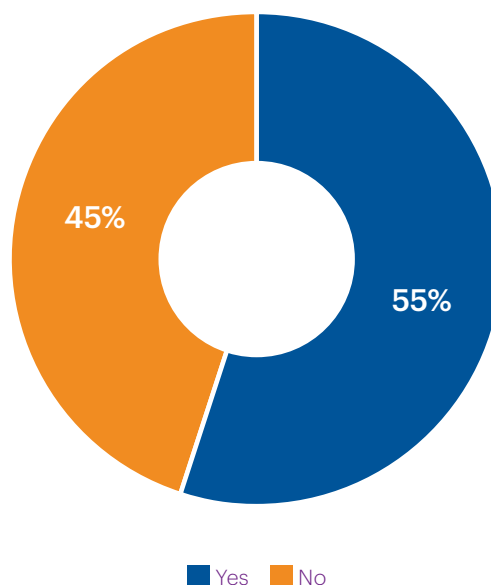
Our second webinar considered the industrial and logistics sector which has, for some time now, been seen as one of the hottest asset classes. We asked our pan-European panel whether it was strong enough to be COVID-19 proof. Overall the feeling was positive, a sentiment backed up by our audience poll which showed that 79% felt that the impact of COVID-19 on the sector had been for the better. But, our panellists noted that there are still challenges ahead around the adoption of technology and the competition for urban space.

“To what extent do you think industrial and logistics have been impacted by COVID-19?”



Finally, our third webinar looked at the senior living sector in the UK and compared it to the more advanced market that has been established in Australia. All agreed that the recent pandemic has increased understanding of what it is like to be isolated and vulnerable. Carrying over that empathy into the design of senior living schemes it was clear that even though 55% of our audience felt that the senior living sector in the UK offered attractive lifestyle choices, there is still room for greater diversity.

“Putting yourself in the shoes of a potential resident, does the senior living sector in the UK offer attractive lifestyle choices for the older generation?”



Recordings of these webinars can be found on our webpages.

- [How do the BTR and office markets need to adapt in response to COVID-19?](#)
- [Industrial and logistics: Covid-19 proof?](#)
- [How will COVID-19 change the senior living sector in the UK and internationally?](#)

So going back to our 2020 predictions what, if anything, has COVID-19 changed?

Political uncertainty

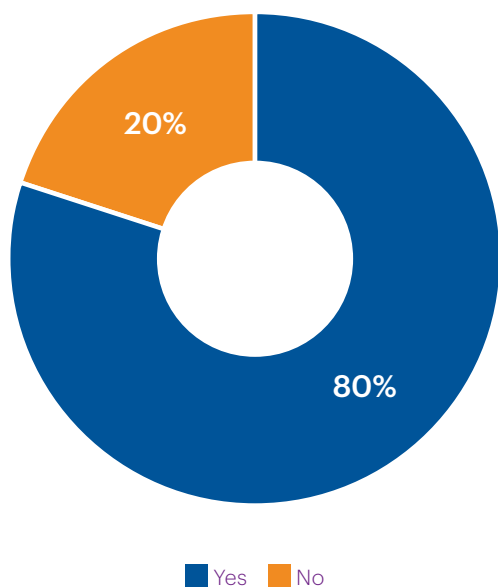
COVID-19 has certainly diverted attention away from Brexit but as lockdown eases and we approach the end of the transition period, attention is likely to be drawn back to the UK’s departure from the EU. Calls for a second independence referendum in Scotland may have faded but have certainly not gone away. What is new, and is likely to continue for some time, is scrutiny of the government’s handling of the economic impact of COVID-19 – a dimension that was not foreseeable back in January.

Changing demographics

Our Scottish predictions report rightly noted that changes in demographics mean that there is an aging population. Also, the demands we have of our living and working spaces are changing. COVID-19 has reinforced all of these points.

Our senior living webinar highlighted the growth opportunities this sector presents. Interestingly 80% of our audience voted that investment into this sector is something to get excited about. Our panellists outlined the different operating, funding and occupational models that could be brought forward, including multi-generational models. Both this webinar and our office/BTR webinar highlighted how COVID-19 has caused parties to reconsider design, location and the provision of communal space. Despite short term issues with the management of communal space during the pandemic, longer term it is still seen as an asset within these sectors.

“Is senior living in the UK something to get excited about as an investment opportunity?”



Increased competition

Increased competition was a theme highlighted in our English predictions report. COVID-19 has not detracted from it. Instead, we heard during our industrial/logistics webinar just how hard competition for urban space can be as these uses come up against residential and office demand. What came through though was that COVID-19's impact on the high street might present some opportunities for repurposing and re-growth. Another aspect of that opportunity is the creation of more mixed space with residential working alongside other uses such as logistics. Senior living is also interested in this, as it seeks more central locations and looks to embed itself right in the fabric of vibrant communities.

Taking responsibility

Even as we look to create new vibrant spaces in the post-COVID world it is clear that ESG (environmental, social and governance) issues remain high on the agenda. Sustainability is increasingly becoming embedded in investment decisions and good ESG policies were described by one of our panellists as “not a choice”. While the panellists at our office/BTR webinar noted ESG is not always filtering through to value and cannot override viability issues, there is a wide consensus that it is an issue that is only going to grow in importance.

Adapting to change

There is no doubt this prediction has proven true throughout 2020. Every business, every premises and every person has had to adapt to the changes brought about by COVID-19. What is perhaps the more interesting question is the extent to which the fundamental changes we are seeing have been caused by COVID-19. The overwhelming response from our webinars has been that, aside from some short term impacts, COVID-19 has not been a dictator of change, rather it has been an accelerator of existing trends in the market.

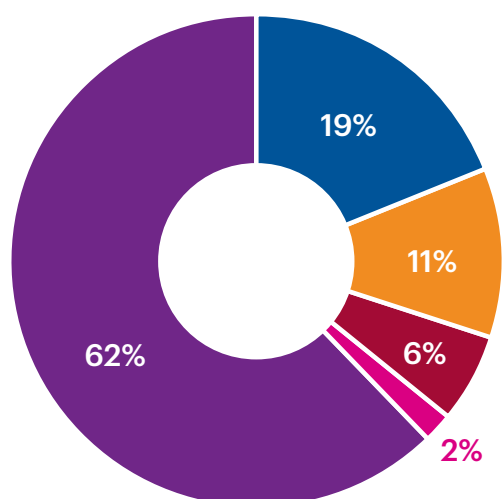
Working from home is not a new concept. What COVID-19 has done is demonstrate just how effective it can be and pushed this revolution forward by years in the matter of only a few months. Lockdown has, however, also shown why office space should be valued – the opportunities for collaboration, growth and collective experience that cannot be replicated by virtual meetings.

Industrial and logistics were already riding high on the growth of e-commerce. Again, lockdown has only accelerated that trend fuelling the drive for last mile logistics space. However, COVID-19 has also revealed the need for this part of the market to adapt to technology, sustainability issues and demand.

The opportunities for BTR and senior living investment were already there at the start of this year. What COVID-19 has done is increase our awareness of the potential in these sectors.

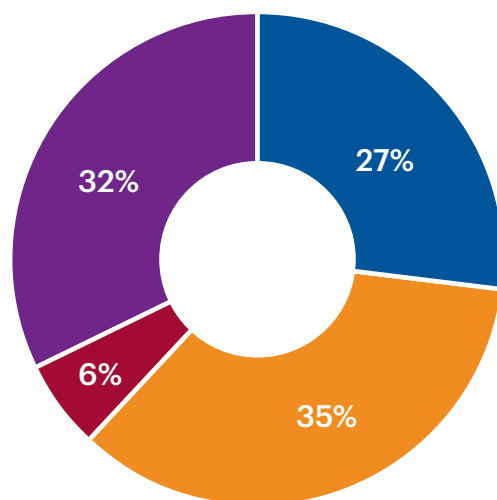
This was confirmed by our audience polls. At the end of each webinar we asked our audience what was the biggest driver for change in the relevant sector. COVID-19 only came out on top in our industrial/logistics poll and that was probably because it had further highlighted the importance of this sector in an e-commerce role. Instead, socio-economic trends tended to poll the highest – showing that it is people rather than pandemics that drive change.

“Which of the following do you think is the biggest driver for change for both offices and BTR?”



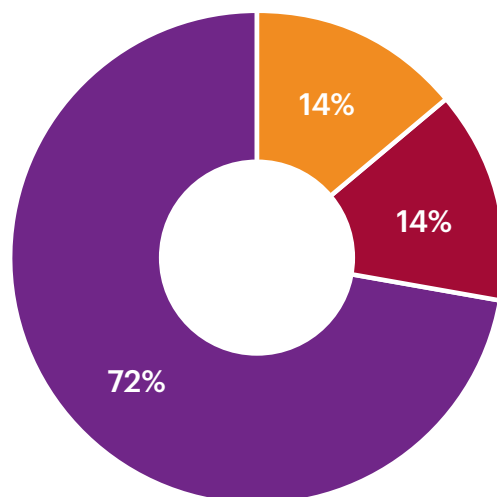
Technology COVID-19 Sustainability
Political uncertainty Socio-economic trends

“Which of the following do you think is the biggest driver for change for industrial and logistics?”



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“Which of the following do you think is the biggest driver for change for the senior living sector in the UK?”



Technology COVID-19 Sustainability
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Cautious optimism / time to act

Overall, our predictions report concluded that there was cautious optimism in the market and that 2020 would be the time to act. While it seems counter-intuitive to think that there could be optimism on the back of a pandemic lockdown, both our webinar panellists and audiences felt that there was still opportunity out there. That opportunity might not look the same as it did 18 months ago and it might not be so easy to realise, but it does exist.

So, 2020 remains the year to act because change is inevitable and there is no room for inertia. It is time to take responsibility and to embrace the evolution of real estate, however painful that may be. Further, in spite of predictions of the deepest recession in recent British history, we can be cautiously optimistic about the growth we are seeing in specific sectors as well as the long term resilience of real estate as an investment asset class.