UK REAL ESTATE PERSPECTIVES

PART 12

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CUSHMAN & WAKEFIELD

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Digby Flower
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This week the Prime Minister announced a three tier approach to lockdown as the Government continues the balancing act of trying to limit the spread of coronavirus and keeping the economy open.

In issue 12 of UK Real Estate Perspectives we look a range of topics from the housing deficit, how damaging this second wave might be from an economic perspective, the effect increased online shopping is having on last mile logistics, an overview of the retail market and the transformation of real estate as we increasingly occupy it in different ways.

Our guest writer is **Jackie Sadeq, Chief Operating Officer of UK Regeneration,** she shines a spotlight on the long running housing crisis with practical solutions for a way forward in **Britain's Housing Crisis – faults, factoids and fixes**.

Greg Mansell, Head of UK Research & Insight, uses key data to assess whether the surge in cases and new lockdown measures will halt economic progress in **Is the second wave a threat to our recovery?**

Tim Crighton, Retail & Logistics Partner, reviews the significant rise of e-commerce and what it takes for that parcel to arrive at your door in **Is your delivery driver a Key Worker?**

Paul Durkin, Head of UK & Ireland Retail, gives an update on the fast evolving world of retail real estate from omnichannel strategy to a review of investment activity, in **Retail House View**.

In **The end of shops and office; and the birth of something new?**, **Richard Pickering, Chief Strategy Officer, UK** observes that the functional and transactional elements of work and retail are being relocated away from their traditional homes of offices and shop, and conversely, the exciting, interactive, experiential bits are becoming the focus of the shop and now the office. He proposes a reclassification of real estate to recognise that it is defined by the activities that it houses, not by its form.

Jackie Sadek
Chief Operating Officer of UK Regeneration

BRITAIN'S HOUSING CRISIS – FAULTS, FACTOIDS AND FIXES

Like most of us I guess, I am suffering from existential crisis overload. And, like most market-facing people, I am trying hard to find positive ways out of all this. I am a natural optimist - you can't spend three decades in urban regeneration without a preternatural streak of optimism - but I can only pretend it's not looking bleak. Even before the pandemic hit, the UK economy was already beleaguered, what with Brexit and our rubbish productivity, all massively larded up by the challenges of the climate change emergency and the worldwide rise of populism. And now a decade of global recession ahead! It's enough to make anyone hit the gin.

And then… well we still have a perpetual - and exhausting - housing crisis. Made even more acute by the over reliance on home ownership in our economy; and made utterly exasperating by Her Majesty's Government waving its arms and loftily declaring more and more outlandish housing targets. As if that fixes the problem.

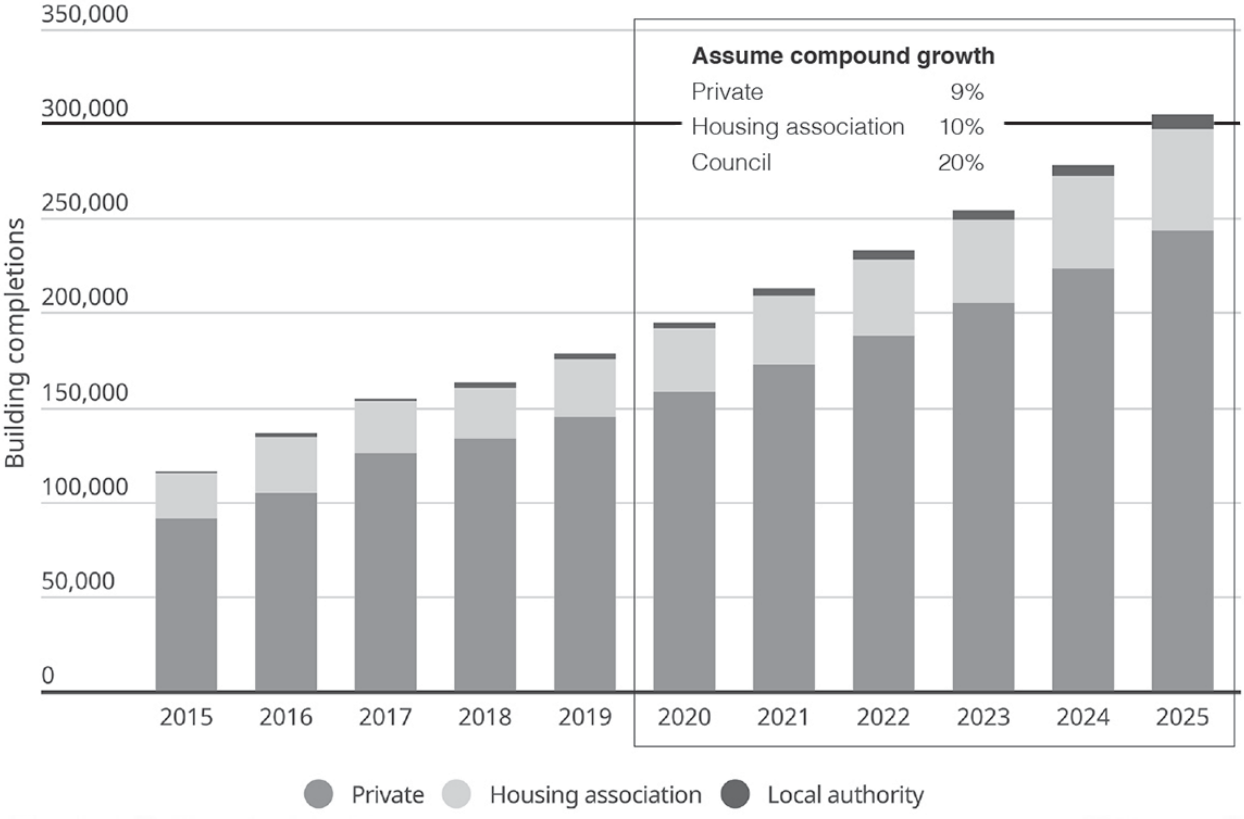
This housing crisis has been well over two decades in the making. I have spent the last 12 months with my co-author, Peter Bill (the venerable former Editor of EG) writing *Broken Homes: Britain's Housing Crisis; Faults, Factoids and Fixes*. We spoke with former Conservative and Labour housing ministers, housebuilders, built-to-rent firms and many in the social housing sector. We finished our opus just as lockdown started. And we concluded that there was zero prospect of reaching the 300,000 per annum (the current HMG housing target) even before private housebuilder sales were plagued by COVID-19.

But, untroubled by the facts, and in the teeth of a health crisis, the Government blithely set out plans in August 2020 to build 300,000 homes a year in "*Planning for the Future*". Nobody who has been involved in UK planning in recent years would argue that the planning system doesn't need reforming. This however, is an ill thought out and half-hearted attempt, which has already disgruntled several backbench Tory MPs.

The White Paper proposes measures to force councils to zone enough land to actually overshoot the 300k target. "Let's take big, bold steps so that we can finally build the homes we all need" said the Prime Minister on the launch day, "steps that will encourage sustainable, beautiful, safe and useful development." To which I retort, with a howl of indignation, Boris, it's not you that has to walk the walk, it's those with the capital to risk on construction.

Forcing councils to zone land enough for 300,000 new homes will do nothing to solve Britain's housing crisis. Suggesting the state can control housing numbers by boosting the number of available acres is pure hokey. Housebuilders largely control the supply valve. They twist the wheel open or shut with an eye to the economy. It is sophistry to say "changing the planning system" will magic up homes. Output is yoked to the economic cycle, not to the number of acres zoned by councils.

ESTIMATE OF COMPLETIONS TO REACH TARGET OF 300,000 BY 2020



Source: *Broken Homes*

The private sector could, theoretically, reach 243,000 a year by 2025, given a 9% compound growth rate. But can councils go from 3,000 to 7,000 and Housing Associations from 33,000 to 50,000 by 2025? Unless we somehow turn the affordable housing valve from lukewarm to boiling, then no, of course not. Housing Associations are freighted with debt built up over a decade and are paralysed by the cost of “Grenfell repairs”. Their duty over the next half decade is to their existing tenants, and rightly so.

So, what is the answer? Sadly, Mr Bill and I did not come up with any magic bullets. But we do point to some partial solutions which then were rather magically populated by a statement from Homes England, straight after the early May Bank Holiday, declaring that it is to step up as “master developer” to create development opportunities and provide a pipeline of sites for housebuilders of all sizes. Homes England acquired 19 sites in the last financial year worth £180 million, with the land having the capacity for 5,000 new homes across the country. Never mind the chaos elsewhere in Whitehall, this sends a clear signal of how the Government’s housing agency intends to take a long-term view of housing demand in the context of the COVID-19 pandemic.

Homes England is leading the charge on the re-emergence of a “master developer” or even a “benevolent stewardship” type model. It is no accident that the agency is custodian of the new Garden Communities programme, the ethos of which only serves to build this narrative. But who will join in from the private sector? Let’s not look to the volume house builders. Not because they are the villains of the piece, but because they are further down the supply chain, with formulaic business models, which only really work for serviced plots for 200 homes at a time (and dependence on Help to Buy of course).

Instead we need to look to the models pursued by the likes of Urban & Civic, Harworth Estates and Grosvenor, and now unashamedly being emulated by my own company, UK Regeneration. UKR takes our inspiration from way before we had Council Housing; going back in history to seek good models of high quality, popular and locally affordable homes, many of which were provided by the private sector; "model villages" built to house workers in places like Port Sunlight, Bourneville, New Lanark and Saltaire. Another touchstone was the old estates built by the likes of Guinness and Peabody. There is nothing new under the sun. It has been done before.

There is, springing up, a band of newish, far less cynical, "strat-land" operators in the housing market. New partnerships are emerging on big sites, of any permutation or combination of: Homes England, private sector master developers, old land-owing families, or local authority land owners. And at every one of these strategic sites there will be a powerful boost provided to the local economy by people working together in partnership to rebuild. And there are signs that this market is expanding, with who want to buy land outright, keep it for the long term, put out serviced plots to the market, whilst retaining the overall control of the estate - a million miles away from the old "flipping land" brigade.

And - for those, like the inestimable George Clarke, who are calling for a return to council housing - it can be tended by either the public or the private sector. But a full-blown return to Council Housing is not on the horizon: sadly we have lost the Borough Surveyor, the Borough Architect and the Borough Engineer of old.

Long termism and resilience will be the order of the day. The message is clear: there is plenty of room in this market for people who wish to step up and play fair. It is a moment of reset.

Jackie Sadek is Chief Operating Officer of UK Regeneration, which is bringing forward a Garden Community in Bedfordshire, with consent for 1500 homes in the first instance. She is co-author of Broken Homes: Britain's Housing Crisis, Faults, Factoids and Fixes which is published in October by Troubador.
Further details here.

Greg Mansell
Head of UK Research & Insight

IS THE SECOND WAVE A THREAT TO OUR RECOVERY?

"Perhaps six months", he said. The Prime Minister told parliament pubs would close early, businesses that are not COVID secure would close, the use of face coverings would expand and the rule of six would be enforced with heavier fines. Given the sharp rise in people contracting COVID-19, we expected tighter restrictions. But the shock came when the Prime Minister stated that "unless we palpably make progress, we should assume that the restrictions I have announced will remain in place for perhaps six months"[1]

If true, restrictions would stay part of daily life until March, almost exactly a year since lockdown began. It is saddening to think we are only halfway through lockdown at best. But it is a reality. We knew in March there would be several waves of people contracting COVID-19 and alert levels would rise and fall.

THE SECOND WAVE

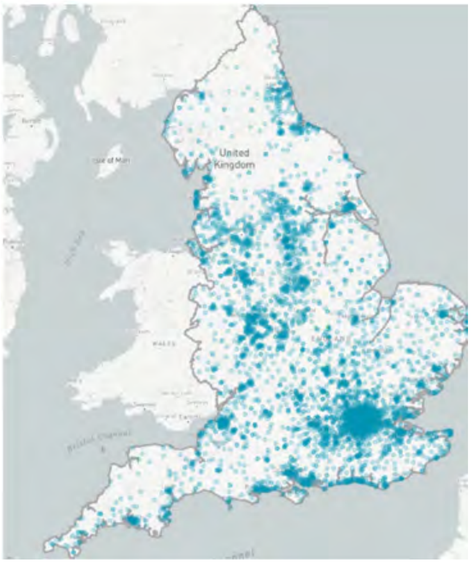
July and August offered brief respite for the UK while global cases rose steadily. But since, a series of local outbreaks have combined to form a large, domestic second wave. The UK's testing capacity is greater now than in the early months of the pandemic, but the second wave is clearly stronger than the first in many parts of the country.

London was the epicentre of the first wave – much like New York for the US or Bergamo and Milan for Italy – but many people across the UK were affected by the time the first wave got to its peak (England shown in Figure 1).

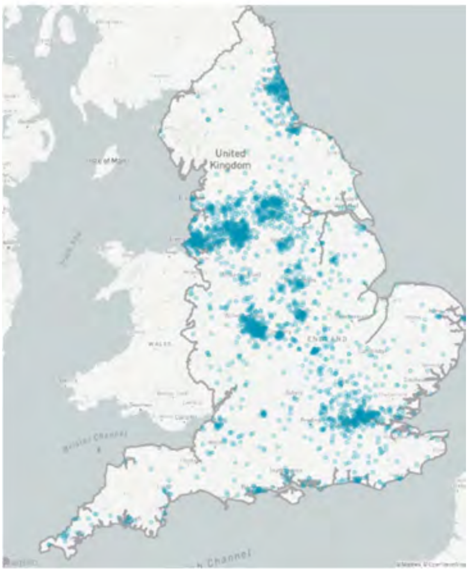
[1] www.gov.uk

WHEN DID THE PEAK IN COVID-19 CASES OCCUR: FIRST WAVE OR SECOND WAVE?

Figures 1: Peak week was in first wave (May-Mar)



Figures 1: Peak week was in second wave (Jun-Sep)

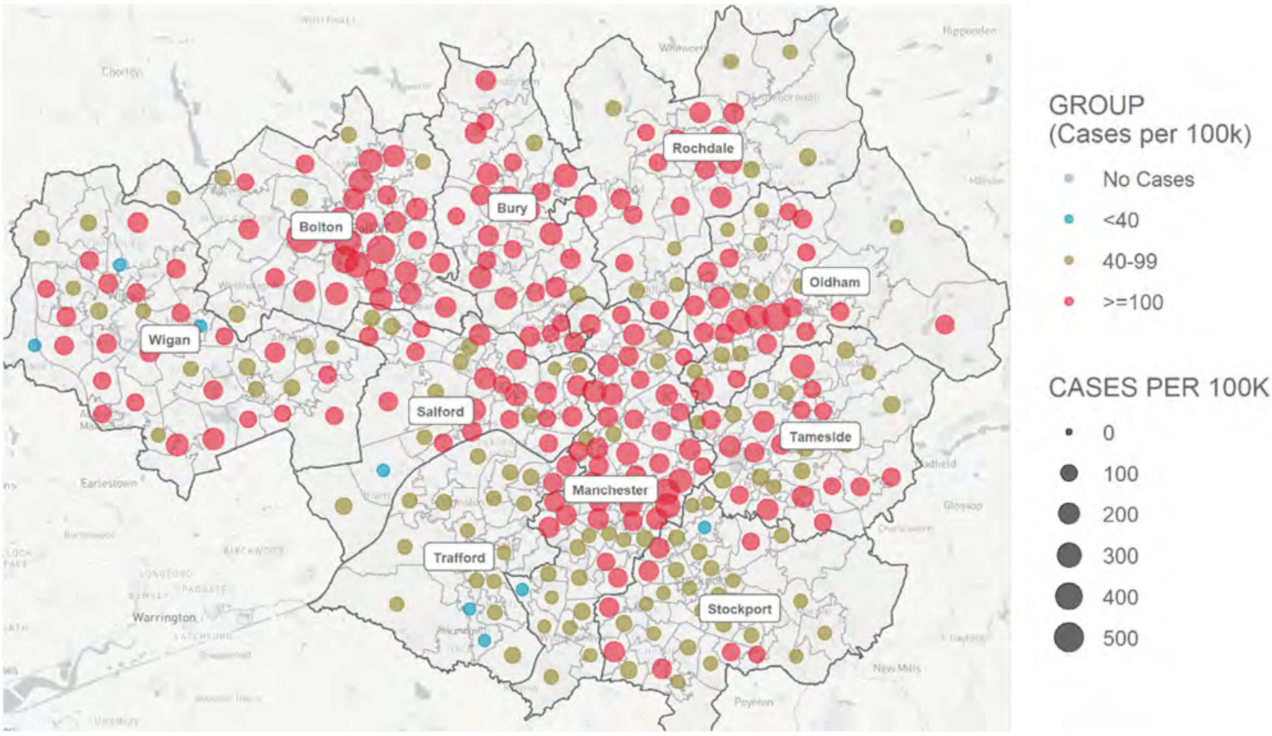


Source: *UK Government, ONS, C&W, Mapbox (as at 20 September 2020)*

The nature of the second wave is different. We now travel less, wear masks and stay socially distant. But our restrictions are currently weaker than the full lockdown that curbed the first wave even considering the new three-tier system of local alert levels. That combination of more liberal rules and voluntarily limiting our cross-country travel has led to local outbreaks becoming stronger but staying local.

People in Birmingham and the north of England have been affected more than those in London this time. Figure 2 and Figure 3 show the stark comparison between Greater Manchester and Greater London in the week ending 20 September using cases adjusted for population and shown on consistent scales.

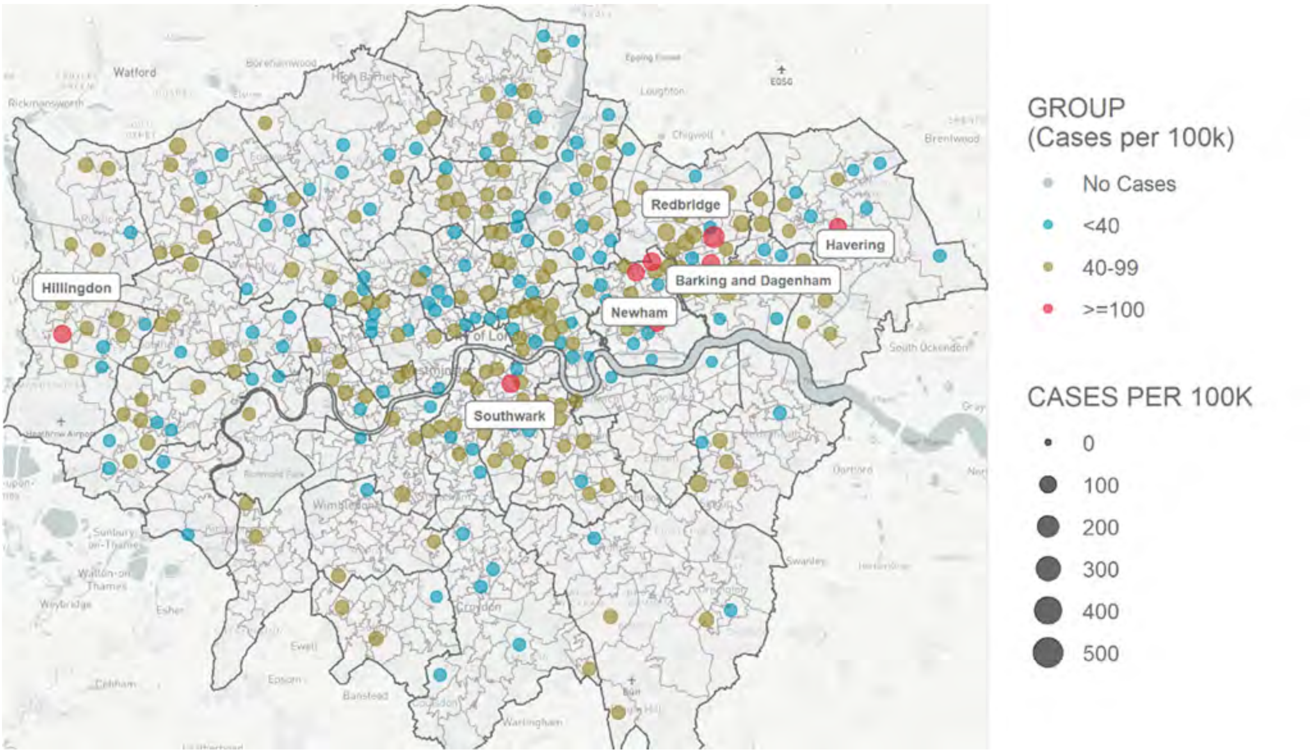
Figure 2: Local Outbreaks in Greater Manchester
Greater Manchester COVID-19 cases in week ending 20 September 2020 by MSOA



Local outbreaks have been met with local restrictions. People in Greater Manchester have contracted COVID-19 in high numbers and local authorities have put extra restrictions in place. And, at the time of writing, Greater Manchester is one of many "High" risk areas. And Liverpool City Region is one of the few areas in the "Very High" risk tier that has to close its leisure businesses.

Meanwhile, the second wave has been mild in London so far. A few London boroughs have stronger outbreaks (as labelled in Figure 3), but the wave seems largely under control.

Figure 3: Local Outbreaks in Greater London
Greater London COVID-19 cases in week ending 20 September 2020 by MSOA



A SETBACK?

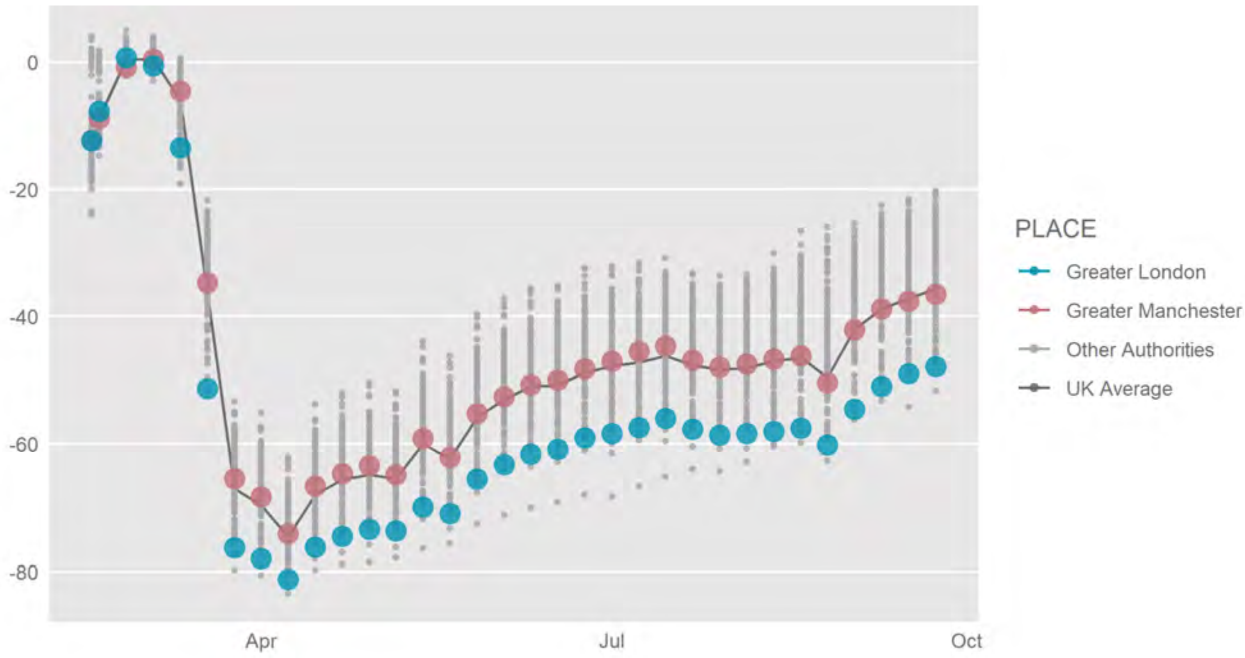
The monthly UK GDP index shows the economy lost a quarter of its output by April, but it improved from that low in each of the following three months. Has the second wave pushed back our economic recovery by six months? Perhaps not. Most new rules limit social gatherings and enforce more stringent rules on businesses, not impede people from working nor spending money. Bolton's restrictions show that the government will put business restrictions in place if outbreaks spiral, but local authorities have rarely had to take that action.

Further, London – the source of around 20% of the UK's economic output – has avoided extra restrictions so far. The government's workplace guidance shouldn't derail output. Surveys confirm productivity isn't lost by working from home, although it is sobering to think our isolation from colleagues could continue into next year.

RETURN TO WORK

Regardless of the Government changing its guidance several times since March, it seems people have been making up their own minds about where they work. Figure 4 shows Google's Community Mobility data for weekday workplace mobility. People have been traveling to work in greater numbers since April. The only dips have occurred in weeks with public holidays and throughout August when many people took annual leave.

Figure 4: Workplace mobility improving since April
Weekday workplace mobility index by weekly average (zero = pre-lockdown level of mobility)



Source: *Google community Mobility Reports, C&W (as at 23 September 2020)*

All authorities display a similar recovery in workplace visits. Greater Manchester has largely tracked the national average, while London's mobility has consistently been below average. Much has been said about Londoners' reluctance to use public transport or return to the office compared to other cities. And although it might appear that London's low workplace mobility might have spared it from a repeat of the first wave, it is important to note there isn't a discernible link between workplace mobility and infection rates.

In fact, it is hard to determine what is driving national mobility trends and the lack of variation from city to city. The steady increase in workplace visits might relate to the second wave's current low fatality rate or people's belief that the high share of 20-29-year olds that have contracted COVID-19 will not put undue strain on health services. People might just be bored and want to work in a more stimulating environment than their kitchen. For some, the pressure of job security and presenteeism could trump queasiness over public transport. For others, pride in keeping their office's local sandwich shop in the black could be the driver.

Nonetheless, the improvement in workplace visits is extremely encouraging for the office market. Many offices have strict capacity limits to help with social distancing, and so the current UK average index being 40% down on pre-covid levels is natural. The increase in weekday workplace visits have yet to level out, so further gains are possible, even while social distancing rules remain.

As for the second wave, the UK should make progress. Local restrictions should curb our local outbreaks. And if people continue to live, work and shop safely, then the economic recovery can stay on track too.

Tim Crighton
Retail & Logistics Partner

DO YOU CONSIDER YOUR DELIVERY DRIVER A KEY WORKER? IF YOU DON'T, YOU SHOULD.

When you turn to the internet for a purchase, something most of us do weekly, if not more frequently, it is easy to disconnect with the process that brings the parcel to your front door.

But we are needy. We have high expectations, and a low tolerance for a service that falls short of what was promised. Much has been written about the growing customer demand for next day, same day and even next hour delivery. That's a great aspiration, but how to do you create the architecture to provide that?

There was a time in history where we existed in a local world: Living in small to medium size communities, we worked locally, we socialised locally, we ate local produce, we shopped locally, our consumption was predominantly of local produce.

During the twenty-first century we've experienced globalisation and the internet. Our expectations of being able to access a wider range of products from a wider range of specialists have accordingly grown. It follows that this wider range requires increased delivery times but we are not prepared to wait. "We want it all, and we want it NOW!".

For anyone that has read the industry updates on the UK Logistics and Industrial Market for 2020 you'd have seen record levels of take up. Never has more logistics space been let in one year than in 2020. That feels even more remarkable given we were 'locked down' for over 3 months. But COVID-19 and the impact it has had on customer habits and psychology have seen many retailers pivot to e-commerce. The result is a rapid acceleration of the trending growth we'd seen in e-commerce penetration rates before COVID-19.

But how does that tie into logistics space take up? Well, much of that take up is specifically to support e-commerce. Prologis, the world's largest developer and investor of logistics facilities states that e-commerce needs three times more logistics space per unit transacted as that of a physical retailer.

I've written previously about the differences between 'picking' strategies in retail logistics and how these impact retailer margins. This has certainly been a challenge for physical retailers looking to pivot to digital. Often, we see this done from sub optimal locations and with networks which were built to support a network of shops, not to deliver products to the front doors of millions of consumers.

But for the online pure plays this period has simply accelerated their progress. They not only have the benefit of being unencumbered by a costly legacy retail estate, but they have a network designed for the movement of product direct to consumers' homes, not to shops.

We saw exceptional growth in logistics take up back in 2016, driven by a number of very large transactions by Amazon (I will not comment on whether the market data should or shouldn't reflect the mezzanine floors that Amazon took in these numbers). I described this to a large landlord investor fund at the time as being one of the 'waves' of the Amazon roll out and predicted we would see further 'waves' of activity rather than a consistent flow. When you are growing a business into a market you need to lay core infrastructure which allows you to roll out your proposition and compete. You know that initially that might be on sub-optimal margins, but your drive will be to reduce the 'cost to serve' over time. That 'wave' for Amazon in 2019 and 2020, was principally to resolve holes within its FC (Fulfilment Centre) network and bolster its last mile estate. In 2020 Amazon alone has accounted for some 33% of market take up in the UK, and just in September added 100 buildings globally.

Last mile logistics has been the subject of much focus from investors over the past 24 months. They are aware of the important role this real estate plays in the supply chain and are dedicating capital and resources to growing their investment allocation to last mile sites.

In urban areas your upside is that customers are densely located and so you have a high 'drop density' to deliveries and can drive efficiencies with each vehicle movement. However, there are significant problems: high levels of congestion, complex final metre delivery e.g. often into blocks of flats, and limited parking. Rural networks on the other hand afford less drop density, the number of vehicles and routings are often higher and more complex but they ease issues around congestion and final metre.

When you review the UK population by socio economic profile you also notice that not all social profiles engage with e-commerce in an equal way. We find some population categories have a greater propensity to shop online and to engage with a variety of brands. Once we map these profiles across the UK the strategy for last mile becomes clearer and we often find these over indexes in strong numbers, but with lower densities in areas like Wiltshire, Gloucestershire, Worcestershire – not classic locations to consider for 'urban logistics'. This really supports the logic that you need to understand the customer and the role the site within the supply chain before you can identify target locations for last mile investments.

We now use a variety of customer insight data to appraise locations suited to last mile and where the complexity of the supply chain is high using a variety of data sources.

We are perhaps fortunate that in the UK we've been at the forefront of e-commerce adoption and now have one of the most mature offers globally. We have been benefitted from being a relatively small country with a strong transport infrastructure and good data connectivity, both for customers and retailers. These combined have allowed us to operate a next day proposition to customers from fairly well anywhere within the country. Yes, of course there are impacting factors, like proximity to core parcel hubs etc, but generally it is possible. Possible but sub optimal. Often involving more mileage than needed. At a time when we are seeing greater focus and awareness of ESG and environmental constraints, the environmental reasons to look at last mile (and store based fulfilment) will also become a leading factor in the next few years as well as the speed of delivery.

Perhaps they've not received the recognition NHS workers have during lockdown but there is no doubt that delivery drivers have kept cupboards stocked with food and wardrobes full of clothes. Perhaps they deserve a thank you next time they are dropping off your parcel.

Paul Durkin
Head of UK & Ireland Retail

RETAIL HOUSE VIEW

For decades, investment in UK retail property has been a highly profitable way to capitalise on the nation's booming shopper economy. But as we flocked to shopping centres, out-of-town retail parks and high streets, a revolution was underway.

Online shopping, the apparent antithesis to physical stores, started irreversible structural shifts in the retail market. In a society seeking convenience, comfort and relaxation, physical shopping suddenly needed to prove itself; it needed to be *worth the trip*. Like spectators at a finish line, we could see clear winners emerging in this new world: prime destinations with place-making at their heart; value retailers with no online offer; and functional, convenience retailing.

So how have our landlords and retailers handled this change? In much the same way as global governments reacting to the outbreak of COVID-19. Some took brave and ruthless measures to adapt, while others teetered in denial and indecision, learning tough lessons along the way.

For the hesitators, for those in denial, COVID-19 has been the final blow. Retailers already struggling have gone into administration. Lockdowns have converted new customers to the online market.

The strategic reaction from most occupiers has been to bring forward the reshaping and resizing of their portfolios, and the more progressive management teams already had plans under way before the pandemic struck. Their primary focus is not always less space, but *better* space, in locations with the highest volume of loyal shoppers; or replacing a catchment that has three stores in it, with a single, better store. Online sales become a welcome friend to the property portfolio, providing rich data to help brands find their customers and bring the shop to them. Similarly, there is more competition to have a strong online presence, and we are seeing the start of retailers reframing how they view their channels – not as physical and online – but as one. From across the pond, American retailer, Target, has for a long time been leading this kind of inspiring change. The brand has put the store at the centre of its delivery function and encapsulates its supply chain journey in two words "one inventory ". Fulfilling most of its ecommerce orders from its stores (75% of digital sales in Q2), the retailer is saving money and time, and maximising the reach of its inventory.

Government measures have reduced footfall and, to a lesser extent, consumer spending in physical stores, swinging the economic balance between contracted base rents with landlords and the occupier's actual turnover. This has brought focus to the 'turnover lease' conversation. Occupiers are seeking more links between the performance of their property and their leases. Tense negotiations are fuelled by a shift of power and underpinned by the excess supply of physical retail stores. To make turnover lease models work, occupiers will need to be transparent with their sales data and come to a fair agreement on which online sales are accounted for as part of the economics of serving that catchment. Landlords will need to take a more active role – for their own benefit – working with occupiers to see how they can help to drive footfall, conversions and identifying other advantages, where the economies of scale support landlords being more proactive in driving and delivering sales.

Value occupiers continue to be resilient, and if the country plunges into a recession, consumer preferences will shift even further towards value retail. Meanwhile, the gloss of luxury has waned. This market, highly dependent on not just the nation's overall economy but the entire global economy and the international tourism it supports, is in flux until our borders are welcoming big and willing spenders from the Middle East, China and America once more. Even so, this robust market, has another looming threat. Tax-free shopping for international visitors is being abolished in December 2020, and could incentivise travellers in the £3.5bn industry to choose Paris or Milan over London.

Grocery, a COVID-categorised 'essential retail', has seen relative growth bolstered, especially in early lockdown, by panic-buying. Online grocery doubled, but in-store still had a huge share of the market (approx. 80%). Retail parks have also especially benefitted from the 'essential retail' guidance, with grocery and DIY accounting for 66% of their offer. Post-lockdown, the out-of-town market is also recovering faster, with August footfall only 10.6% lower than the same time last year *(Springboard)*. This bounce-back is in part due to customer confidence, with the characteristic open-air walkways and larger stores perceived as 'safer' in a socially-distanced world.

Shopping centres suffered significantly. The growing trend for prime retail destinations was no match for outright forced closure of 'non-essential' retail, and in turn, a seismic growth swell to the online shopper community. Even on reopening, shopping centres have been slower to regain customers, but it seems shoppers still want a day out and to spend willingly, with an initial rise in conversion rates, and continually (until very recently) improving footfall. While prime sites still have the scope for recovery and have fared relatively better in this sector, secondary and tertiary are reaching breaking point, and will be unable to recover unless they opt for an entirely value retail mix, more F&B, or find alternative uses for the vanishing department stores. The new Class E Use Classes Order should facilitate some flexibility in this, although it does not bridge the gap to other valuable uses such as logistics, hospitality or healthcare – Westfield London's bid to carryout COVID-19 tests on shoppers is an interesting segue into the latter. Prime retail destinations may shift to 'prime services' in due course.

Super prime retail in central London is also in shock. Starved of two fundamental customer groups: international visitors and office workers, the lifeblood of the luxury market and coffee shops respectively, the over-supply of space has been exacerbated. Driving footfall back to these locations rests heavily on the shoulders of our tourism industry, and until then landlords and occupiers must tread water. On the other hand, London's local village locations are thriving, think Sloane Square, Kings Road, Brompton Cross and Marylebone High Street.

All these trends lead to one: an almost complete immobilisation of retail investment activity. With fewer comparable sales to demonstrate market pricing, valuers and investors are forced to use subjective judgement, which is a game of trust. Once again, out-of-town retail leads the fore, either through foodstore sales, where there is more transparency of performance; or retail park sales with robust sales performance or highly-viable repositioning options. Investor confidence will only come when there are better performance measures vs. value, or the forced sales of assets to kick-start activity.

We still believe, more than ever, in the long-term value of retail property. The measure of that value is simply evolving and becoming about the role of the store in the broader multichannel flow of goods used by almost all retailers to service their customers. This period of shock has a silver lining: it has been a well-needed motivator for many landlords and operators to innovate, and I, personally, am intrigued to find out what's next.

Richard Pickering
Chief Strategy Officer, UK

THE END OF SHOPS AND OFFICES; AND THE BIRTH OF SOMETHING NEW?

In the previous edition of this blog, I talked to how the 'virtualisation' that materialised some time ago in retail, has now arrived for offices. Whereas there are several contextual differences, there is a similarity to the solution, which starts to raise more fundamental questions.
What is an office? What is a shop?
In the future, how different might these two concepts actually be, and what does this mean for investors?

At its most fundamental, real estate comprises a physical environment that protects users from the elements whilst carrying out activities. It is also a bundle of legal rights that keeps a location private from the wider world and allows the owner to charge a rent for its use. Within this broader definition, a shop is somewhere to carry out retail activity, an office is somewhere to carry out clerical work, and so on.

This begs the questions, what is retail? At its simplest, it is the act of selling products. I've heard it described as the change of ownership of an asset from a commercial enterprise to a consumer; the shop being a place for that transfer to take place. And what is clerical work? It could be described as the execution of knowledge-based tasks; the office being where you sit to do this. The challenge is that these definitions are oversimplifications and the emphasis has already changed away from transactions and tasks towards a much broader spectrum of activity.

Firstly, the combination of automation and artificial intelligence is changing the nature of work. Basic tasks are being stripped, and work is skewing towards the things that tech can't do as well: creativity, persuasion, empathy, and complex problem solving. Thinking, often in combination with others, rather than just executing processes is now the essence of work. If you think back to the percentage of administration that has already been removed from our jobs over the past 20 years, the shift in focus is clear. Various studies on the future of work all point to the acceleration of this trend in the decade to come. A refrain of the past 6 months has been that the future of office work will focus on these narrower criteria, whilst the execution of tasks will remove to the home office.

Secondly, the nature of retail has changed. Perhaps the key competitive factor in retail historically was the footprint of your distribution network. 50 years ago, most people would buy a product by taking a walk down their local high street, browsing the stock and comparing it with the stock in other shops, then paying at the till. If you weren't on the high street, you weren't in business. **But it was never just about the transaction**; it was a complex series of interactions mainly aimed at **persuading you** to buy the product. All of these interactions were bundled in one venue; the shop. Now, even if you buy online, chances are that elements of the retail process (creating a customer, product awareness, intention to purchase) may have been completed before you open your browser. This may still include a trip to the high street – many people prefer the focus that the high street places on choice, compared with the vast expanses of the internet. They also may just go for enjoyment. Equally, younger buyers in particular will have been bombarded by tailored brand and product messages on social media months before they actually buy a product. The point is that decisions on brand, product, fit, customisation etc no longer necessarily coincide with the transaction - retail has become unbundled.

And so, as the internet strips the more functional elements of work and retail away from the office and the shop, and typically towards the home, the nature of what is left to execute in these environments' changes. The less exciting, functional and transactional elements of work and retail are being relocated away from their traditional homes of offices and shops, and conversely, the exciting, interactive, experiential bits are becoming the focus of the shop and now the office.

The future of office-based work, we are told, is about persuading (leadership, sales), empathy (customer relationships, management), creativity (innovation and new value) and experiences designed to stimulate staff. The future of shop-based retail, we are told, is about persuading (marketing, sales), empathy (customer loyalty, repeat sales), creativity (enhancing the brand), and experiences designed to stimulate the customer. Not so different?

THE SYNTHESIS OF THIS IS THAT SOON THERE WILL BE MORE IN COMMON BETWEEN THE RETAIL, LEISURE AND WORK ACTIVITIES THAT TAKE PLACE IN OUR CITY CENTRES, THAN THERE WILL BE FOR INSTANCE BETWEEN WORK CARRIED OUT AT HOME AND WORK CARRIED OUT IN CITY CENTRE OFFICES.

Coming into the city centre is no longer about executing sales or carrying out tasks. It is about interaction with others, sharing information, persuading others, and engaging the senses. The same is true regardless of whether you are in a shop, office or restaurant. The nature of these activities is blurring. The persuasion process underpinning sales is a core activity in any business. Are sales better executed in offices, or in more experiential environments like shops or restaurants? When businesses want to drive innovation and creativity they often decide to take their teams on an offsite. Why? Because people are thought to be more creative outside of stale and distracting office environments. If this is central to the concept of work going forward, then why not make offices more like hotels?

This also drives a need to re-categorise what we mean by shops, offices and leisure. If the home is now the place that you do some of your work, is that really the office? If you go to a shop to browse, but with no intention of buying anything, is it no longer a shop? If you order something on Amazon whilst in the office chatting to your colleagues, is your office a shop?

WE NEED TO STOP CATEGORISING OUR REAL ESTATE ASSETS BASED ON ACTIVITIES WHICH NO LONGER EXIST IN THE FORM THAT THEY WERE CONCEIVED. I PROPOSE A NEW SIMPLER CLASSIFICATION: INTERACTIVE ZONES AND FOCUS ZONES.

Focus Zones are housing led areas. They are places where you rest, spend time with your family, shop online, work on tasks from home, and enjoy nature. The emphasis is on go slow, focus, privacy, and wellbeing. You go there to recharge. Meanwhile, **Interactive Zones** are a reincarnation of the CBD as a forum for interchange of ideas and experiences. The emphasis is on interaction, a fast pace, excitement, experience and stimulus.

DOESN'T THIS JUST DESCRIBE THE CURRENT STATE OF OUR CBDS AND SUBURBS?

No; it really doesn't. Most of the activities carried out in our central zones are still passive ones, which you don't need to waste finite central space to achieve. Most offices for instance are still organised as rows of desks, or cellular layouts, designed to achieve privacy. And as I mentioned in the last blog; most shopping trips are still carried out alone. Meanwhile most of our suburbs promote neither wellness nor focus.

WHAT ARE THE IMPLICATIONS OF THIS CHANGE WASHING THROUGH?

Firstly, the recent change to the Uses Classes legislation in effect envisages this change, through combination of the former A (retail focussed) and B (work focussed) elements. Use-regulation is designed to promote a cohesive mix of compatible activities, and as these activities blur, it is right that the planning regime adapts around them.

The distinction between active ground floor uses is already changing, as some offices start to include interactive reception areas, as shops incorporate cafes, and as new product types emerges that mix of all these activities under a single roof.

From a product perspective, we need to get much more used to flexibility. Not just from the perspective of lease commitment, but also from the perspective of use. The best spaces need to be adaptable to change uses quickly. This might be a greater focus on pop-up operations, but where pop-up includes not just retail, but also work-related elements, including conferencing. It might also include recycling uses within the same building within a single day – work in the morning, shop in the early evening, leisure by night. The practicality of this comes down to the physical adaptability of the space, including the M&E. Generally, I'd envisage a convergence of the physical nature of an office and a shop, both in terms of the base build, but also the furniture. Imagine that desks are a thing of the past, and people are happy to sit on a sofa to shop. If you're looking for inspiration on this, check on Sidewalk Labs 'Stoa space' proposals, or look back to the Roman Forum.

This also raises questions of privacy. Generally, it should be assumed that the future ground floor space will be open to the public, and not privately demised. The ground floor becomes the 'shop front of the office'. The bigger challenges lie on the upper floors. In the West we have been reluctant to adopt vertical public zones or vertical retail; however, these concepts are much more readily accepted in Asia.

From an investment perspective, we need to think through how this change might affect value drivers. For investors seeking sector diversification or looking to correlate future performance with historic demand drivers, a new approach will be needed. Demand for and performance of any type of space in the Interactive Zone for instance is likely to move in step, rather than align to historic retail and office sector drivers. To provide an example, the elements of work that have been relocated to the home office tend to be the linear and focussed private tasks at which modern technology takes aim. I therefore suggest that automation will disproportionately impact commercial activities (and space needs) in the Focus Zone, rather than commercial activities in the Interactive Zone. This may cause a rethink of portfolio weightings and measurement.

Finally, let's not forget the Focus Zones. The quality of public realm, amenity and vehicles to help us regain focus need to be significantly improved over the status quo of our suburbs. ''Focus' should be differentiated from 'Interactive', but that does not mean bland, nor is it any less important to get right. Greening must be a key ambition, as should the provision of quiet space to congregate as families and in small groups.

At the end of the day, real estate is defined most, not by its form, but by the activities that it houses. The office and shop are more recent constructs than most presume, and maybe now is the time for them to be replaced by something new.

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