UK REAL ESTATE PERSPECTIVES

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CUSHMAN & WAKEFIELD

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INTRODUCTION

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As we move into the final months of the most abnormal year in modern history, many are tentatively predicting a return to some semblance of normality in 2021.

Much of this is predicated on the assumption that a vaccine will arrive during the course of the year, together with better therapeutics and better social adaption to the disease. ***Is this optimistic?*** It feels likely to get darker before the dawn. As the nights draw in, a second viral wave is developing, together with job losses and economic damage. The focus on COVID-19 also masks other major world events, including the small matters of Brexit and the US election. If things do ***'get back to normal'*** in 2021, one wonders whether this will be the old one, or instead the ***'new normal'*** that we keep hearing about.

Our experts offer their view of the year ahead, and how much change we might expect to see over the next 14 months.

Greg Mansell, Head of UK Research & Insight highlights that in 2021 we'll be in a margins game, in **Outlook for 2021: Small Prizes and Big Penalties**. Also impacting the risk landscape next year will be Brexit. We asked **Warwick Smith, Senior Managing Partner of Instinctif Partners**' global Public Policy practice to update us on the situation for businesses in **Deal or No Deal – What you need to know about Brexit**.

As we enter another lockdown we'll all be relying on some of the new models retailers have had to set up to continue to survive; in **Retail & Supply Chain**, **Paul Durkin, Head of UK & Ireland Retail** looks at how retailers have had to adapt and in turn what that means for investment models.

It's not just retailers having to adapt, we all are. In **Locked Down and Locked In**, **Richard Pickering, Chief Strategy Officer, UK** asks 'How might the next year rewire behaviours forever?'

One sector benefiting from us having to adapt is technology. In **An Acceleration of Innovation** our technology experts, **Chris Hancocks, Head of Futures Digital** and **Ross Hodges, Global Innovation Hub – Head of EMEA**, look at the impact of technology on real estate.

Finally, **Head of UK & Ireland, George Roberts** takes a positive look at **How 2021 Will Reshape Real Estate Industry**.

Greg Mansell
Head of UK Research & Insight

UPS AND DOWNS – THE PROSPECT AND RISK TO THE ECONOMY

Who knows what will happen next year? The pandemic has limited our predictive horizons to weeks and months at best – or perhaps that's always been the case! At least, now, we can look to 2021 with humility and an open mind.

In a collective moment of introspection, occupiers are reviewing their existing portfolios to understand what space they need, and, in turn, investors will decide what assets they want to own. As a result, the difference in investment performance between sectors, and assets within each sector, will be highly polarised. Some buildings will be in high demand, while others will struggle.

Although the economy will continue its recovery next year, it will still feel like a downturn. And, as always with downturns, the prizes for those that make the right decisions will be small, while those that make a mistake could suffer big losses.

HOW WILL THE ECONOMY PERFORM IN 2021?

Fast growth doesn't mean the economy is strong. The economy should grow by 4.4% in 2021, according to our base case. There are two things to keep in mind. First, annual growth could briefly hit double-digits by next summer, but this overshoot is just volatility in growth rates created by the sharp drop in output in April 2020. As a result, the impact of Brexit on the economy will be almost impossible to determine. Second, economic output will not be back to pre-covid levels by the end of 2021. The economy still would be eating into slack capacity.

Hours worked will slowly increase, despite job losses. Two million people were still on furlough when the Government extended the scheme into November 2020. The successor, the revised Job Support Scheme, gives workers less protection but does give employers the "option of keeping their employees in a job on shorter hours rather than making them redundant." Total hours worked should increase throughout 2021 keeping the economic recovery on track, as furloughed staff return to work. However, mass job losses are inevitable, and unemployment should peak at close to three million people in the second half of 2021.

The Treasury will try to inspire more private spending. Fiscal policies introduced since March 2020 have cushioned the drop in private demand. New schemes, in the same mould as Eat Out to Help Out, will struggle to stimulate a meaningful and sustained increase in private spending while consumer sentiment is weak. Nonetheless, we expect another year of heavy fiscal stimulus. Tax hikes and other measures to consolidate the government debt pile – already over £2tn – is likely to come in later years.

Central banks plug the gap in demand with more cash. The Bank of England can still buy another £80bn of gilts before hitting its £745bn limit. It has recently slowed the pace of its buying to keep some powder dry but will undoubtably expand its asset purchasing programme again if needed. Interest rates will stay low and negative interest rates on short-term debt are likely. UK 10-year gilt yields will be close to zero next year, perhaps rising above 0.5% if the economic recovery stays on track.

Inflation will be volatile, but deflationary pressures will be strongest. Inflation will stay below the 2% target throughout 2021. Volatility will come as energy prices fluctuate and fiscal policies change – for example, the end of the Eat Out to Help Out scheme boosted inflation by over 20bps in September. But given weak demand from businesses and households, disinflation and short periods of deflation are more likely next year than high inflation. Major central banks have put over £5tn into their economies since March, but inflationary pressure is unlikely considering the economic slack.

WHAT FACTORS WILL DRIVE PRICING IN 2021?

Income quality will be a stronger driver of pricing than asset quality. In the 2007-09 downturn, the most resilient properties were those with the longest leases. Whether an asset was "prime," or its location "core," was temporarily irrelevant – if the asset's lease was so short that re-letting in the ongoing recession was inevitable, its value fell. Long-term investors should focus on location and asset quality, as those factors drive performance over a cycle. But, right or wrong, risk aversion to income risk tends to trump other factors in downturns and will dictate pricing trends in 2021.

Will people want to be in this building in future? The accelerated pace of shopping online and working from home has proven milestones once slated for the distant future can pass in a matter of weeks. The pandemic and the ongoing recession have occupiers of all property types reconsidering where they want to be and how much space they need. Investors must review each asset and honestly answer: will people want to be in this building in future? Buyers' attitudes to obsolescence will have a greater effect on asset pricing in 2021 than in previous cycles.

WHAT ARE THE BIGGEST RISKS IN 2021?

A lack of real estate debt could limit buyers' options. Lenders need to refinance loans worth over £43bn in 2020/21 according to the CASS UK Commercial Real Estate Lending Report. To put that into context, new loan origination in 2019 was £44bn. There is a wider range of bank and non-bank lenders today than in 2007-2009, but those lenders will struggle to keep their pace of lending. A financing gap is likely, given the weaker economy, material uncertainty on valuations and large drawdowns on existing facilities. These factors curb the appeal of new lending and, ultimately, will limit investment activity in 2021.

Insolvencies will rise, but by how much? Reported company and individual insolvencies have been far below normal since lockdown. New government measures, reduced HMRC activity and reduced operational running of the courts combined to keep insolvencies artificially low. Government support will reduce and measures, such as the Corporate Insolvency and Governance Act 2020 (CIGA), will wind down. Only then will the fallout from the pandemic be clear. With millions of people on furlough and many tenants failing to pay rent on time, default rates in 2021 could be higher than in the Global Financial Crisis.

OUR OUTLOOK

Logistics are the top performing sector…again. We forecast 28 sector and geography combinations. Total returns for these markets will spread across 14 percentage points in 2021 – half should deliver positive returns and half will likely register losses. Seven of our top 10 markets are in the logistics sector, with prime logistics in the Midlands topping the list with returns over 10%.

Prime retail returns bottom out in 2021. Prime retail recorded heavy losses in 2019 and the same is true this year, with most markets down around 20%. Next year will see losses stabilise and limited to single figures. Some markets will see low, positive returns in 2022. Long-run returns will trend around 7% a year thanks to high income returns and moderate growth from rebased rents.

The office recovery won't hit full speed until 2022. While logistics returns will still be strong in 2022, most office markets will have started their recovery. Prime offices in Bristol should be the top performer in 2022, thanks to the extremely low availability of prime space.

Data and Pharma pique long-term investors' interest. Beyond the forecasted markets and looking longer term, data centres and life sciences will emerge as the top picks within the specialist sectors. Both benefit from heavy institutional and private equity investment, and strong technological and demographic trends, respectively.

Warwick Smith
Senior Managing Partner of Instinctif Partners' global Public Policy practice

DEAL OR NO DEAL – WHAT YOU NEED TO KNOW ABOUT BREXIT

With a second wave of COVID-19 gripping much of Europe, many businesses can be forgiven for not paying attention to the Brexit melodrama of recent weeks. With the negotiations being on then off then on again in the space of a week, it's not a surprise that to most people the shifting sands of the Brexit negotiations have been harder to keep up with than the ever changing Covid restrictions. However, like COVID-19, Brexit has major implications for businesses across the country whatever the outcome of the negotiations.

Positively, the trade negotiations have made good progress on many issues since they began in March, including rules for trade in goods and services, transport, energy, social security and UK participation in EU programmes. Though other issues are raised from time to time, the main areas of contention are fishing rights (the EU wants to maintain a high level of access to the UK's waters), level-playing field commitments (basic alignment on environmental, labour, competition and state aid laws), and the governance and enforcement mechanism of any deal agreed.

Less positively, while there are only a few major outstanding issues to resolve, as is always the case in trade negotiations, it is the difficult ones that are left to the end. And time is running out: the transition period ends on 31 December 2020 and the UK has ruled out an extension. Bearing in mind the need for European Parliament ratification the two sides must look to reach an agreement by mid-November.

But there are positive noises coming from both sides. Last week, EU chief negotiator Michel Barnier signalled that the EU and UK were getting close to agreement on the "level playing field". Barnier indicated that, rather than the UK submitting to the EU's standards, both sides should create a mechanism to allow two different sets of rules to interact and work with each other. Similarly, on governance, the UK chief negotiator, Lord Frost, has said that UK could benefit from a strong dispute settlement mechanism with the EU. While both sides are still digging in over fishing and a "cross-retaliation" aspect of enforcement – allowing, e.g., a fishing dispute to be escalated into wider trade measures such as tariffs on industrial goods – these positive noises probably mean that a deal is marginally more likely than not.

However, while a deal might create a zero-tariff and zero-quota arrangement, the UK will still be outside the Single Market and the Customs Union, meaning potential divergence of standards and customs procedures at the Channel ports. The Northern Ireland protocol will maintain EU standards in Northern Ireland, presenting different challenges for business.

Cabinet Office Minister Michael Gove has warned that up to 7,000 lorries carrying goods from the UK to the EU might face two-day delays in Dover due to customs checks. Lord Frost has warned UK car manufacturers that they will likely still face tariffs because a large proportion of UK cars are made from components from outside the UK which will fall foul of the new 'Rules of Origin' rules expected to come into effect under a trade deal.

So a trade agreement will help, but it will not remove challenges for business. The conclusion or break down of EU-UK negotiations will not mark the end point of the UK's evolving relationship with the EU: it just marks a new beginning. Regardless of the outcome, the UK will find itself in a new and ever changing political and regulatory landscape come by the end of 2021. Either way, it will be a landscape where the UK's trade with Europe will be defined by new customs procedures, potentially diverging regulatory standards, the NI protocol and (if there is no deal) new tariffs and quotas. However, it will also likely be a landscape of new trade deals with the likes of the US and the Trans-Pacific Partnership (a bloc of 11 nations which includes Japan, Australia, Canada, Mexico etc.) Whatever the landscape may be by the end of 2021, it will be one in which businesses must learn to navigate.

Paul Durkin
Head of UK & Ireland Retail

RETAIL & SUPPLY CHAIN – HOW THE MODEL MIGHT CHANGE

2021 will continue to see growth in e-commerce and logistics demand and new retail supply chain models will be required to capitalise on the structural shifts in the sector.

RETAILER ADAPTATIONS / NEW RETAIL MODELS

Another national lockdown has muted the jingle bells of this year's festive shopping season, and it's clear the upheaval to retail and leisure industries will continue through what is normally the 'Golden Quarter'. For many businesses, the next few months will be very tough. Operators who managed to successfully – or at least, sufficiently – pivot to a relevant and accessible offer during COVID-19 will cope, and e-commerce giants will inevitably emerge as winners in this environment. Amazon in particular finds itself in a fortunate and exclusive collection of retailers for whom the pandemic has been a 2020 revenue boon. So, as we trudge through a disrupted Christmas and look to 2021, we ask ourselves: how will we be Christmas shopping in 2021, and where?

Much of this depends on the course of the pandemic over those next 12 months, the resulting policies and their impact on the both the economy and consumer spending. Given that the UK economy is driven by the services sector and subsequent consumer spending, I hope that next year we will move to a more mature management of the COVID-19 risks, where retail, leisure and supply-chain businesses are free to transition to a sustainable business model and there is equal responsibility on the consumer as to the level of risk they are prepared to take.

It's clear to me and my colleagues in the logistics sector that 2021 will continue to see growth in e-commerce and logistics demand. During the lockdowns of 2020, the uptake of shopping on digital channels more than doubled in many categories, and thousands of brands hurriedly cobbled together new plans to distribute stock to their home-bound customers, from using stores for ad-hoc fulfilment and click-and-collect, to setting up traditional warehouses. Into 2021, these reactive innovations will mature into proper fulfilment channel strategies with investment and infrastructure (both digital and physical), becoming an acknowledged part of all retailers' core operations. Some growth will come from rebasing and rebalancing logistics networks to adapt to the accelerated channel shift from physical stores to e-commerce. Meanwhile, those already dominating that sphere, will continue scaling their portfolios. Alongside this, we expect to see further growth in F&B fulfilment operations, such as Deliveroo and Just Eat, which are expanding their delivery capacity to release the constrained supply (and demand) of F&B operators.

For physical retail and leisure, the picture is harder to discern. Blanket national lockdowns, will become less politically acceptable. While fewer lockdowns mean fewer forced closures, I expect unemployment and individuals' anxiety over their personal finances will suppress consumer spending. Furthermore, spend on big-ticket items like holidays, will be significantly down in 2021 so some positive substitution, particularly into the domestic leisure sector, would be most welcome.

These consumer behaviours will lead to a variable patchwork of winners and losers in the retail sector. 'Close-to-home' categories will thrive, including essentials such as grocery, home and DIY, electronics, jewellery and sports/leisure equipment, but it should be noted there can still be profitable retailers even in categories that have suffered! Next has done an outstanding job in the last year. Building upon its already-strong channel offering, the brand has updated its product mix to be relevant to lockdown living, and has performed well in a category which has suffered overall. Similarly, Watches of Switzerland, a purveyor of high-end products synonymous with 'trying-on before purchasing', has had a relatively strong recent set of results, combined with a strong e-commerce offer.

Many retailers will use 2021 to re-evaluate the long-term role of their stores. The focus will shift to fulfilling *all* transactions, be they in person, or digitally, and the implications that has on inventory management, labour patterns and the required physical and digital infrastructure to optimise profitability. Progressive multi-channel retailers, such as John Lewis, have already declared that they expect online share in many categories to stay at, or exceed, current levels and are targeting c.70% online penetration. Traditionally, this transition suggests moving most of the stock (and costs) to a central fulfilment centre and reduced number of stores, however, the speed and quantum of the shift catalysed by the pandemic has also shown that in-store fulfilment can work. Leading retailers such as Target teach us that overcoming challenges in inventory management can make store-based fulfilment the most economic and flexible solution, particularly in catchments where a dedicated online fulfilment centre is not cost-effective. Kingfisher has recently announced it will support its online growth via in-store fulfilment, for all the reasons above and because in-store can provide very quick fulfilment times (i.e., same day or less) - almost impossible for a warehouse-fulfilled approach, unless an operator has the scale and coverage of Amazon. This is a significant advantage, even at higher fulfilment costs, because if customers are willing to pay more to receive product more quickly this can shift the economics and relative competitive advantage of the channels.

The Central London market will remain strained until tourism and City occupiers return in full, at which time we still expect London to be a global leader for retail. In the meantime, trade will remain depressed. Whilst this might slow the market for Central London retail property, the requirement and role of Central London stores has a strong future. Whether showrooming, providing exclusive experiences, or simply holding the most premium stock profile from the brand inventory, a flagship store (or stores!) in Central London will continue to be a mainstay of the retailer portfolio. In the shorter term, this highlights the argument for continued support to the London retail sector by delaying or abandoning the government's decision to restrict tax-free shopping for international tourists. Clearly the retail, leisure and tourist sectors all need as much support as possible and the idea of potentially redirecting demand to other global capitals seems counterintuitive when so much of the economy depends on it.

INVESTOR RESPONSE / NEW LEASE MODELS

One added benefit of the shocks of 2020 is that retailers and landlords are being forced to understand each other's businesses in much greater detail than ever before. This means not just inserting 'pandemic clauses' to mitigate for forced closure, but more fundamentally, to understand how to split both the risk and reward of successful physical retail assets. Turnover-only leases have been around for some time, albeit intermittent. By the end of next year, I expect a significant proportion, if not majority, of newly agreed leases or lease renewals will have performance criteria within them. Effectively negotiating these terms will require explicit agreements about the role of the store in the online channel, and how the performance of the online channel is accounted for. To be successful, this demands a much greater level of transparency and analysis of performance data. Shrinking lease lengths and early breaks will shift the retailer-landlord relationship to a new model resembling the joint-business-planning process between a retailer and its product suppliers: sharing the value created in-store through collective business goals and contractual scorecards with graduated incentives for both parties.

This is a massive undertaking, but one that needs to happen for the long-term health of the sector. Larger institutions with the scale and incentive to make this transition such as Hammerson, British Land and L&G have already declared their intent to do this in 2021, but smaller landlords with less corporate scale and resource will probably make the transition on a longer timeline when both occupiers and the landlords have a better understanding of how to make it successful.

While many landlords had a long-term plan to rebalance retail-dominant assets into varied mixed use, the pandemic has created urgency and we will see the outcomes of this in 2021. Adapting retail to alternative sectors such as housing or offices takes a long time, but I believe that the environment and economics are now supportive of introducing sectors such as healthcare, logistics and education into these assets with little change to configuration. The planning system's new "Class E" classification should also boost landlords' ability to quickly pivot the use of space so it is most relevant to customer needs within the catchment, without undertaking significant bureaucracy that would then create a permanent constraint if that use fails. Increasing the diversity of consumer missions and overall footfall into retail centres will be a welcome benefit and the industry will learn a lot about the shape of future development priorities by taking some smaller but more agile steps in the coming months. This would be even better supported if business rates were abolished. Whilst we all recognise the importance of collecting government income to support our economy, business rates were already criticised for being out of date and throttling innovation on our high streets. Securing appropriate planning, policy and taxation structures to reflect the new role of urban or local centres will need support and engagement from the public sector.

Ownership of retail assets remains a hot topic and will likely continue into 2021 and beyond. We've seen intu Properties dismantled, Hammerson continuing to dispose of assets, and British Land and Landsec have both announced some rationalisation of their retail portfolio. Investment in out-of-town retail parks and outlets has remained reasonably resilient during the pandemic and we expect this to continue, particularly where there is a clear alternative use case. Shopping centres, however, presents little activity beyond distressed sales unless new buyers can be found and acceptable pricing identified. Given the shifts already discussed above, I believe that new capital and ownership entering the UK will be a real positive. New ownership, likely international in nature, will bring new thinking and perspectives to the market, and will likely support and catalyse the changes already underway.

BREXIT IMPACT

As for Brexit, the other 'should have been' talking point of 2020, I think much of the previous analysis on the topic still stands, but is dwarfed by the potential impact of COVID-19, a blessing in disguise for the government as we move to an ever 'harder' arrangement. Brexit outcomes will likely see some disruption to retail supply chains in 2021, and this will provide further support to logistics and industrial demand but, depending on what the final trade arrangements are, we won't understand the full impact on retail and leisure for some time.

So, where will you be shopping in Christmas 2021? I think probably the same as you are now: staring at a screen or making focused trips to retailers and leisure operators who stand out to you. The bigger difference will be behind the scenes, as 2021 proves to be the year not of just reacting, but capitalising on the structural shifts accelerated by the pandemic. Retail, leisure and other supply-chain assets will need to be fit (and flexible) for the future.

Richard Pickering
Chief Strategy Officer, UK

LOCKED DOWN AND LOCKED IN – REWIRE BEHAVIOURS FOREVER?

The present abnormal use (or lack of use) of commercial real estate will blow out with the same wind as coronavirus. Hopefully that will be during the course of 2021. However, in the next 14 months, new behaviours are being forged in the crucible of intermittent lockdowns that might have much more enduring impact. They say it takes 21 days to form a habit. We've had more than 230 days of living abnormally, with the strong prospect of at least that to come. Will the length of this period be the biggest determinant of whether normality returns or something new takes its place?

I see a lot of people conflating the short-term position on 'returning to the office' (sometimes described with Freudian slip as 'returning to work') with the longer-term position of 'the future of the office'. That's a mistake. The two are based on completely different drivers. In the short term, the reasons that people aren't returning to the office are, firstly, due to enforced conditions (government or corporate), and secondly due to health concerns (both real and imagined). Whilst the virus continues to circulate, and whilst as a consequence being in an office or a shop remains for many a stressful or unpleasant experience, people will continue to vote with their virtual feet.

In the medium term, both of these reasons will disappear, and hence, without cause for an alternative, things will go back to exactly how they were in 2019. You don't think so? The manifestation of an alternative relies on two things: (1) the desire for an alternative, and (2) the efficacy of the alternative solution. These factors, rather than health concerns or social restrictions, inform the future of the office. Without wishing to fuel what has become a divisive discussion, modern communications technology has created an efficacious solution to both working and shopping remotely. Anyone saying otherwise is being disingenuous or promoting an agenda. The more salient question is whether people and businesses prefer this solution. Again, division is the order of the day. It turns out that the world is split on whether they prefer the old or the perhaps temporary new. Some are desperate to get back to how things were. Others have tasted a new normal that they don't want to relinquish. What is likely to change by the end of 2021 is that the latter will inherit a driving seat in which they never believed they would sit.

The default assumption prior to coronavirus was that if you perform clerical work, you do so in an office. The pendulum is mid-swing. If people sit at home for most of next year, the default assumption will be that this is where they work. The inertia will shift to home working, and the burden of effort will be on employers (if so minded) to encourage people back to the office rather than vice versa.

Many say that coronavirus has accelerated change that would have happened anyway. I'm not so sure. There is huge inertia to the status quo, and those most motivated to maintain it tend to be the powerful alphas that dominate corporate decision making. I have significant doubts whether we would ever have crossed the Rubicon; there were too many systemic barriers. The freak circumstances of the past year pushed us past a natural line. Managers didn't need to learn to trust their staff to work remotely; they were forced to do so. Silver shoppers didn't need want to shop online; it was the only risk-free way to get food.

NEVERTHELESS, WITH THE LINE NOW CROSSED, THE QUESTIONS THAT WE SHOULD BE ASKING OURSELVES ARE: (A) HAVING TASTED IT, DO A MATERIAL NUMBER OF PEOPLE WANT THIS CHANGE?, AND (B) BY THE END OF 2021 WILL THE CHANGE BE LOCKED IN, SUCH THAT THE INERTIA SHIFTS TO THE NEW NORMAL RATHER THAN THE OLD ONE?

The answer to the first question appears to be yes, at least so far as the office is concerned. Various recent surveys suggest that 70-80% of people want to work from home more often in the future. Let's be clear – 'more often than in 2019' - not 'permanently' (which is <20%). Flipping the lens, of those currently working entirely from home due to the short-term conditions listed above, the large majority therefore want to work more in the office going forward than they are at the moment.

…which leads us to the second question. Will current behaviours be locked in by the end of 2021? **The answer lies in the extent to which switching costs have been incurred in areas of: (1) capital adaption, (2) financial adaption, and (3) behavioural adaption.**

By '**capital adaption'**, I mean that extent to which capital projects create a vesting in the new normal. These could be investments (e.g. committing to new low-density office accommodation), disinvestments (e.g. a sandwich chain exiting multiple premises) or reallocative (e.g. a pension fund moving its focus away from types of commercial property).

By '**financial adaption'**, I mean both consumers and businesses budgeting on the basis of a newer lower cost solution. For workers, this might mean banking the savings that arise from commuting less frequently, perhaps to recoup a fall in salary. For businesses this might mean developing an operating model that uses less real estate and therefore incurs less rent.

By '**behavioural adaption'**, I mean a change in the way that people do things – the forming of new habits. This is a much more complex subject, that is influenced by several factors. These include self-efficacy (e.g. my mum's proven success in ordering her groceries online means she is more likely to do so in the future), and societal pressures (e.g. the push-pull of wanting to be visible in the office to preserve your job vs your partner asking you to spend more time at home with your family).

In the context of health issues (e.g. stopping smoking), research finds that these changes are most likely to be embedded if there is: a disruption to normal behaviour (e.g. lockdown), a sense of reduction in choice (a need to do things a certain way), and a self-identity shift (e.g. 'I value a work-life balance'). In the context of economic downturns, a study by the University of California found that those aged 18-25 when recession hit were more likely to carry certain beliefs for life than other age groups (e.g. luck over hard work drives success, high taxation required, lack of faith in government).

For behavioural adaptions to become societal shifts, there needs to be wide-scale adoption. This tends to rely on visibility. Studies show that if people see evidence of norms altering in others, they are more willing to make the shift themselves. We live in the most visible society in history, which might mean that shifts happen more quickly than in previous generations. We see this in other recent major societal shifts, for instance The Arab Spring, which was fuelled by social media and collectivism and spread rapidly. Right now, workers across the world will be looking at the kind of policies offered by competitor firms and seeing how theirs shape up, in a way that simply was not possible 20 years ago.

Over history we observe both failed and successful societal change; usually in response to a perceived injustice or a fight for rights. The Bolshevik revolution is one of the most notable societal changes in the past 100 years. The liberal shift in the 1960s has been similarly generation defining. More recently, the Occupy movement born out of the financial crisis started with fanfare but ultimately fizzled out to nothing. The jury is out on whether the present Black Lives Matters and Extinction Rebellion movements deliver any lasting societal change.

Common to all of these causes was a rallying cry and an organised pressure group. Whereas the right to work flexibly would undoubtable be a win for workers, it is difficult to conceive what group would champion this – the trade unions don't speak for the majority of professional employees. It therefore feels that for change to materialise it would have to be supported by a significant number of employers as part of their talent agenda. This remains to be seen. I'm reminded of Marissa Mayer's 2013 edict for Yahoo workers to return to the office after years working remotely. Ultimately, a desire to keep one's job is likely to be persuasive in breaking a habit, no matter how long it has been formed.

What will happen in 2021? Perhaps there will be a vaccine, perhaps there won't. Perhaps people will return to the office, perhaps they won't. The smarter questions focus on what adaptions business and people will make over the coming year that set them on a new path for the future. The longer that lockdown conditions persist, they more likely it feels both that adaptions will be made, and that these adaptions will become permanent. Watch out for irreversible allocations of capital and budgeting changes, but also keep a weather eye on the invisible undercurrent of behavioural change. Business cannot put their fingers in the dam of major societal changes and expect that approach to work; even autocratic governments succumb to people power in the end. However, a few lines still need to be crossed if our interim normal is to bed in.

Chris Hancocks
Head of Futures Digital

Ross Hodges
Global Innovation Hub – Head of EMEA

AN ACCELERATION OF INNOVATION – PROGRESS OF NEW TECHNOLOGIES IN 2021

Much is said about how technology has created huge changes to our markets and industry in 2020. We asked Chris Hancocks from our Futures team, and Ross Hodges from our Global Innovation Hub what they see as the ones to watch in 2021.

CLOUD COMPUTING INVESTMENT COMING INTO PLAY FOR SMART CRE COMPANIES

In 2019, the question 'have you migrated to the cloud?' would likely have caused confusion for many non-tech professionals and enthusiasts. Cloud Computing provides the ability to leverage on-demand computing and storage capability without the user needing to manage the infrastructure. It allows companies to reduce or eliminate on-premises (owned and managed) databases to a more scalable, flexible solution.

Back in November 19, Gartner predicted a 17% rise in Cloud revenue, driven by the mainstream adoption of this expanding technology. Well, they were wrong…

Fast forward to March 2020 and that 17% has likely doubled. Following lockdown companies everywhere scrambled to enable working from home. Many an hour has been spent on the phone to IT support since trying to get the VPN to work. Suddenly the Cloud is no longer just a cost-efficient alternative to on-premises data storage… it solves a strategic problem and has become a C-suite topic. It solves the problem so well in fact that Microsoft Azure ran out of data-centre space!

Fast forward to this summer and #Cloud2020 is a thing… The drive to adoption is continuing, and it doesn't take a genius to conclude that data-centre demand will increase.

Looking forward to 2021 the benefit of the investment that companies have made in the Cloud during the COVID crisis will become apparent. On-premises databases are often not cost efficient for connectivity. Smart companies will build on their recent investments and springboard to digitisation in 2021, integrating and connecting data across the corporate digital estate to enable better strategic decisions. CRE companies stand to gain significantly. Historically, a resistant bunch, slow to adopt new technologies, the industry has suffered from poor data to resolve decision making. 2021 is the year to use the cloud to connect up your data and to start asking the question, what can machine learning do for me?

"We can't collaborate at home…." - Tech is proving that you can!

The tech-based collaboration space spans far beyond Teams and Slack. There is a plethora of platforms available and this list is growing. Working from home hasn't stopped people collaborating and innovating, it has just changed the mechanics and some aspects are arguably better in digital.

Just as we in real estate have carried on through this pandemic, the design industry hasn't stopped. Built on a history of collaborative workshops and whiteboards, the design industry has adapted using new digital tools. Tech has seen this new requirement and are responding with rapidly developing new products.

Miro is a good example. Miro secured a series b funding in April bringing their total raised funding to $75m and are leading the way for collaboration features. Providing video conferencing and simultaneous multi-user content creation, miro allows you to see everyone's mouse in real-time as they edit the digital whiteboard.

Gone are the days of fighting for the whiteboard markers and taking photos when you have run out of space! The product offers integrations to many other platforms like MS teams and Slack and boasts impressive take up from the likes of Netflix, Cisco and Spotify.

2021 is going to have many more users on collaboration platforms finding new ways of working. On the one hand, tools like this ameliorate the difference between the office and work experience, but they can also play a key role in integrating the two. The Google Jamboard and the Samsung Flip 2 are not quite there now but the next generation of this technology could be the interface between the digital world of Miro etc and the physical world of office based meetings.

ROSS HODGES

Digital (Smart) Buildings has been a PropTech theme for several years, but in 2021 we will see an acceleration of the adoption of new technology in this space

Key influences include the growth of 5G which will enable improved connectivity and range, the continued adoption and growth of cloud computing enabling large volumes of data to be processed and analysed, Edge Computing which will improve the speed and intelligence of decisions made in real-time and the on-going impact of COVID-19 which means property owners and occupiers needing to make their spaces safer and more alluring to existing and prospective tenants and employees.

There is also a growth in understanding of what elements comprise a 'Digital building', with an extension beyond the functional operations of a building, into an experience-based, mobile-orientated platform, offering multiple capabilities including access controls, local services (food ordering, dry cleaning, etc.), visitor management and community engagement. This is being driven by the occupants of office space demanding more to ensure their environment is (1) enabling corporate performance, and (2) driving employee satisfaction and the talent agenda.

The biggest blocker to the adoption of this technology in the past has always been cost. But over the past 12 months we have seen new companies enter the market, offering bespoke services at an attractive price point, allowing for greater adoption of the technology across a portfolio, rather than prescriptively pushing the technology towards "trophy assets".

To understand more about the Cushman & Wakefield expertise in this area, I would recommend reading the Digital Buildings advisory groups introduction document.

BLOCKCHAIN RISES (AGAIN)

It has been a few years since the rise of Blockchain technology beyond the realms of cryptocurrency. Whilst the promises of a new era in security, transparency and capabilities brought a host of new vendors and interest to the market, there was limited impact on the CRE landscape. However, we are seeing its re-emergence in late 2020 and expect it to continue its expansion in 2021, primarily through the adoption of Smart Contract platforms.

In a volatile market, Smart Contracts can bring (1) transparency, as all parties can see the status and authenticity of the transaction/document; (2) trust, as all parties are bought into the process; and (3) efficiency, to the exchange process, whilst reducing the costs and frictions which exist in the existing processes.

The two main pain points for the promotion of blockchain technology in the CRE industry have been (1) processing power requirements, which the mainstreaming of cloud computing is now resolving; and (2) legal challenges from a traditional process. However, this is also an industry being revolutionised by new technology / data first organisations, which will enable all connected industries to be transformed.

We have seen many different applications of the Blockchain / Smart Contract applications in 2020, ranging from collection and distribution of payment, securing the terms and transferring of title deeds between owners and project management, allowing for all parties to stay informed about the status of the works underway. This flexibility in the application of the technology will allow it to thrive in the commercial real estate environment, as we all begin to think more digitally, and more clients begin to demand ownership and transparency of the process.

As demonstrated by the rise and significant growth of platforms like VTS and CoStar's acquisition of Ten-X, we believe 2021 will be a year for Digitalizing the Transactions process across all investor service business lines. This ranges from the prospecting and securing of the opportunity to negotiation and executing of the final terms of the deal. Linked with the Smart Contract capabilities, there has been many variations in the approach to bringing the transaction process online, including some solutions offering a complete end-to-end lifecycle for the capital markets marketing and transactions process.

As more clients have their ability to travel and services limited due to the impact of COVID-19, we are expecting higher adoption from property owners and prospective buyers / tenants, who wish to continue progressing with transactions, in a digital-first environment. This is a progression we have been expecting to arrive for several years, given the trend set by residential exchanges, but given the circumstances in 2020, there will be a significant acceleration in the commercial environment.

The elements of the process where we are expecting the most change will be in how we market properties, with the continued adoption of virtual touring tools like Matterport, but with the added adoption of new digital platforms offering the ability to replicate their tour experience across multiple spaces in an online environment, which will allow for the agent to gain customer feedback at the end of each viewing to amplify our ability to better understand our clients.

George Roberts
Head of UK & Ireland

HOW 2021 MIGHT RESHAPE THE REAL ESTATE INDUSTRY

We will look back at 2020 as the year in which COVID-19 accelerated forces of change that have been evident in our sector for a number of years. These forces will shape the industry for many years to come and for those that are able to interpret and take advantage of them, the opportunities are enormous.

KEY INFLUENCES

So, what have we seen in 2020 that will influence our sector in the years to come? For me it is the following:-

- The growth of on-line, impacting retail and benefiting logistics
- Acceleration of flexible working calling into question the purpose of the office
- A combination of CVAs and moratoria on forfeiture calling into question the solidity of traditional leases.
- Increasing focus on residential and related uses and the importance of wellness and social and environmental purpose

SO HOW SHOULD LANDLORDS RESPOND?

Whilst the challenges are clear, so is the opportunity for outperformance. Those real estate owners that stand to benefit will:-

- Have a razor focus on “Productivity” - specifically recognition that real estate providers are in the productivity game. Put simply, irrespective of sector, the provision of space must be an enabler to making the customers more productive. This requires a deep understanding of customer needs and heightened engagement between owner and customer. Landlords should challenge their current processes for customer engagement. Where a landlord is a provider of multiple sites to the same occupier, engagement will increasingly be at the portfolio rather than individual unit level.
- Develop a closer understanding of the underlying strength of real estate assets. The pandemic has shown up the weaknesses of the covenants of some occupiers. Furthermore, pressure in the retail and serviced office sector for turnover based leasing approaches continues. Landlords have had the luxury of being able to rest on the covenant of their occupiers. Whilst the underlying characteristics of real estate have always been important, landlords will increasingly require a higher level of data and analytics that informs and benchmarks the underlying real estate
- Diversification of uses and the replacement of income streams will becoming increasingly important. This will come in the form of permanent replacement through repositioning; notably but not exclusively within the retail sector. Temporary replacement of income will come in the form of trialling new uses. Whether permanent or temporary, there is little doubt landlords will require to take a more hands-on operational role in managing, maintaining or replacing income streams.

THE OPPORTUNITY FOR ADVISERS?

There has been no better time for advisers, especially those with a global scale, to show value add. Those that succeed will do so by:

- Providing deep customer insight - specifically helping owners of real estate understand changing needs, influences on decision making and translating how owners of real estate can most effectively position their offer. This requires advisers to have extensive and deep relationships with occupiers and especially key decision makers.
- Placing a spotlight of what is meant by “global best in class” - being in a position to inform and to link to case examples of what “global best” means whether that be in building design, place making, technology, sustainability, customer experience.
- Utilising data - drawing together sources of data that are collected every day in our interactions with clients. The opportunity being to provide analytics that provide more informed decision making.

WHERE WILL WE BE BY THE END OF 2021

The trends I have outlined will be clear for all to see by the end of 2021 and will manifest themselves as:

- Landlords and occupiers will increasingly partner together to deliver office, retail and logistics space that is very tailored to the needs of occupiers. In the office sector, expect a rapid transition from delivery of just “the physical box” to a step change in the services the landlord provides. Landlords will utilise technology and the best in class customer service to raise substantially the offer to occupiers.
- Engagement with occupiers especially in retail will change with portfolio deals becoming the norm. Space surrendered in one shopping centre for a poor performing store being offset through lease extension in another centre.
- We will see increasing examples of both temporary and permanent new uses replacing income streams. Residential and Logistics uses in their varied forms being the predominant permanent alternative uses.
- Expectations on advisers will shift in 2021. Whilst intuition will always be a source of value, the ability to back up intuition with high quality analytics drawn from valuable proprietary data will be a prerequisite for an increasing number of clients.

IN SUMMARY…

For me there has never been a more exciting time to be involved in the real estate sector. Change presents opportunity whether as an owner, a user or an adviser in real estate. Our first class knowledge and understanding of changing needs, supported by the data we hold and the ability to draw on global comparisons provides the opportunity for us to lead our clients and help them take advantage of undoubted opportunities that change presents!

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