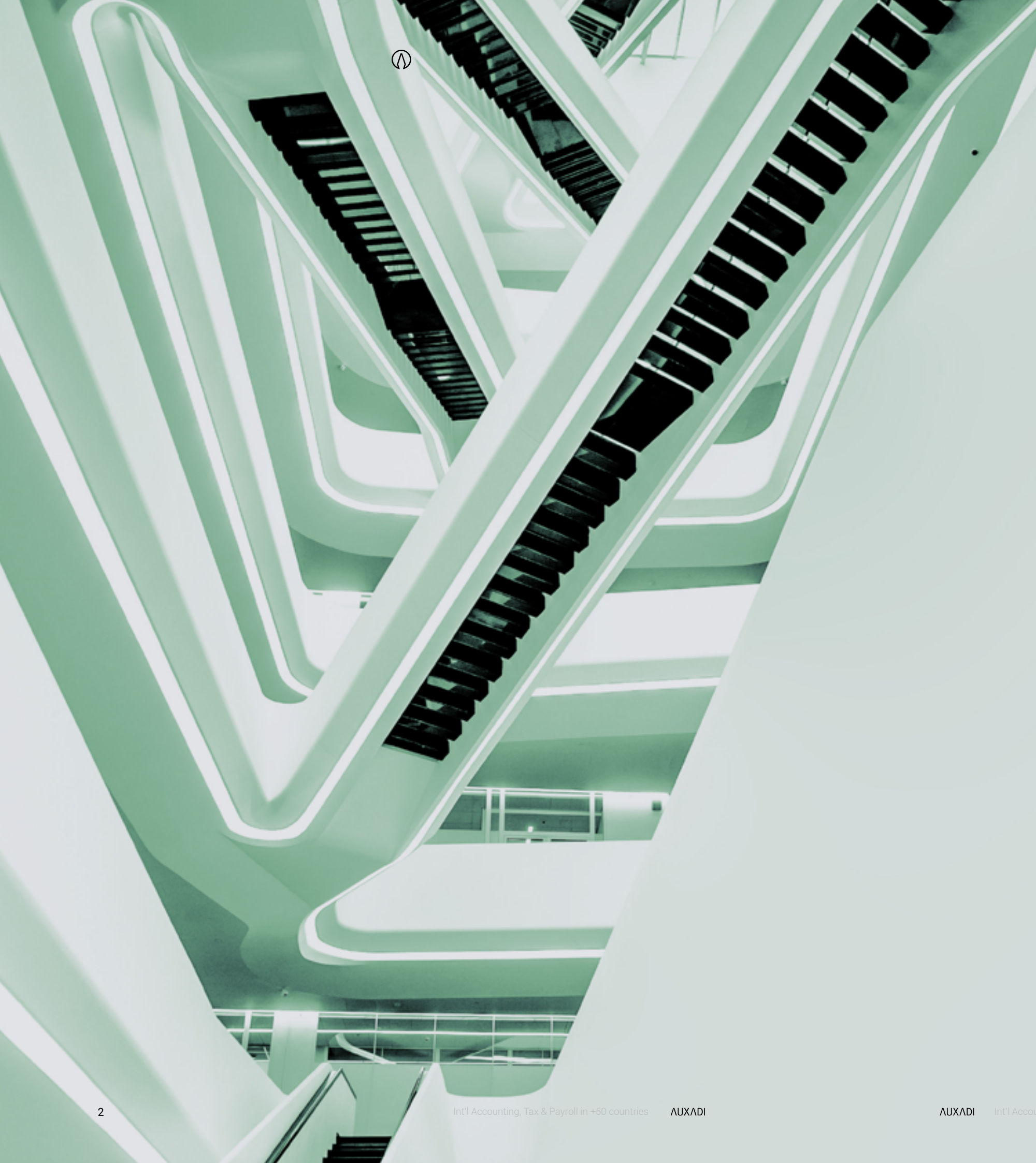


# AUXADI

WHITE PAPER

## Can we predict the future of the five key real estate markets?



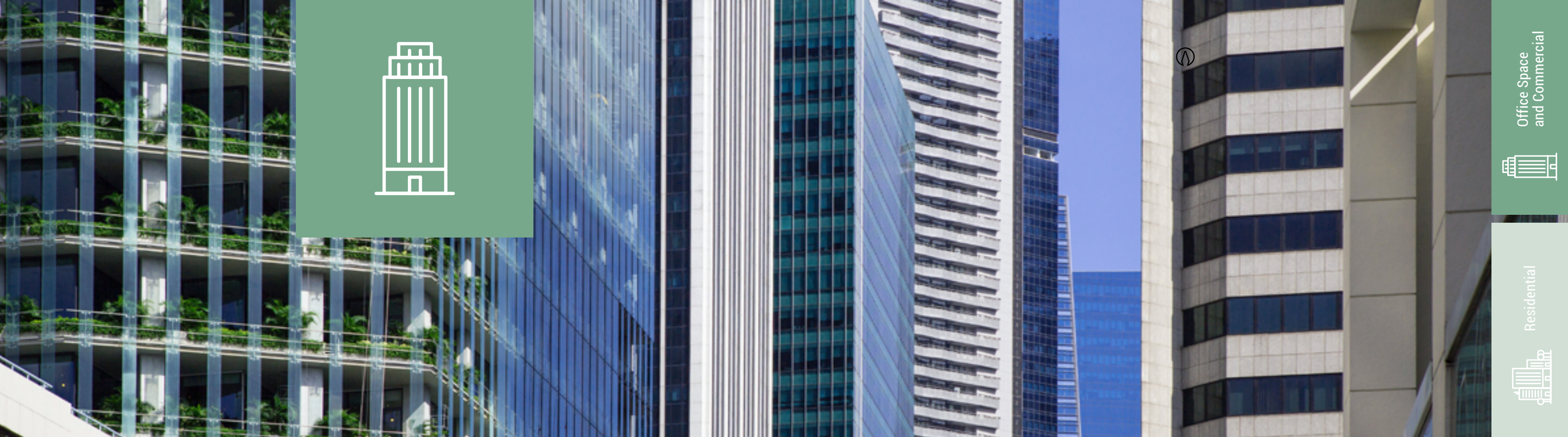


The global pandemic has changed the world and, in particular, the very way we work. This has led to consequences for all business sectors, including the real estate sector. Before COVID, the real estate investment industry experienced a long bull run and held some well-established views on what made for sound and risky investments. However, the past year has thrown all of that into doubt and investors are now having to take time to re-evaluate their positions.

In response to our recent report, Market Adaptations: Maximising New Growth Opportunities in the Real Estate Sector, we aim to look further at real estate and attempt to predict the sector's future.

In this paper we'll look at five distinct markets within real estate, and attempt to identify the causes and possible predictors of change and highlight some considerations in real estate markets that could affect your investments.





# Office Space and Commercial Real Estate

Our research highlighted that perhaps the biggest impact felt by COVID will be by those investing in office space, particularly those in once-prime central city locations, as working from home (WFH) became an essential measure for employees. We established new ways of working, and discovered there were effective and truly viable options thanks to technology.

A year on, these new ways of working are somewhat engrained. Now, many companies are re-evaluating their square-footage requirements as they adopt a more hybrid approach to their office space.

But it's not only the pandemic that has affected how we work; ESG has also had a contribution, the environmental and social aspects, in particular, have made us think about worker happiness and the work/life balance. These two factors together have substantially changed the way we look at the workplace and how we interact, leading to significant changes in the way we work.

In the first substantive change to working practices since Henry Ford popularised the 40-hour working week in 1926, some companies are now advocating WFH and flexible working.

Some of the world's biggest companies have changed the way

they work, including Amazon, Facebook, Dell, Siemens, Apple, Hitachi, Nielsen, the Ford Motor Company... the list goes on and on. CBRE's June 2021 report stated that 40% of small, 66% of medium and a massive 80% of large companies in the US will be adopting hybrid/flexible working policies going forward.

The movement isn't restricted to a specific sector, either – even the work done by the US Patent Office is now mainly remote. In August 2020, US outdoor retailer REI announced that it's selling its brand new and unused 8-acre corporate campus. CEO Eric Artz said the company will “lean into remote working as an engrained, supported, and normalised model” for employees.

No longer will we see tightly packed commuter trains leading suited workers to 'trader-style' desking, or desks crammed into every space available in the office. Instead, we believe offices will be more flexible with lots of meeting rooms and hot desks, able to be used by any worker when they come to the office.

The other side of the coin is city-centre retail. Avison Young reported that UK city-centre retail has been “... hit by a quadruple whammy (at least) of people's reluctance to use public transport, the desire to avoid congested places, a lack of tourism and workers staying at home”. As companies review their office requirements, for either ESG, COVID or cash-flow reasons, the potential is that city-centre retail and eateries, which rely on a midweek trade, will greatly suffer.

In a previous article we published, CFOs: What should we expect from a post-COVID reality?, we addressed a reduction in the need for office space – and now, just a few months later, we're seeing those predictions come true.







## Residential

The commute to the office is no longer a daily occurrence. Work lives have changed and in today's hyperconnected world, we can very easily meld work and lifestyle..

Lockdowns and WFH restrictions gave us the opportunity to evaluate our lives, including where and how we live versus how we want to live. Now restrictions are easing, residential property is booming. Since there's no longer a requirement to be within daily-commute distance to the workplace, and there's little or no 'outdoor fun' to be had in urban environments, people have decided it's time to live and work how they want, where they want.

In the UK, a [survey by the London Assembly Housing Committee](#) reported that one in seven Londoners want to leave the city; there are predictions that London's population would decline for the first time in the 21st century. Across the pond, [Bloomberg wrote that US populations are moving, but aren't moving far](#) – "Dense core counties of major U.S. metro areas saw a net decrease in flow into the city, while other suburbs and some smaller cities saw net



gains. ...There is no urban exodus; perhaps it's more of an urban shuffle". One example we've seen in the US is New Yorkers and Californians moving from these previously considered 'prime city locations' to areas like South Florida where cost of living is cheaper and their work-life can remain without any impact. Large financial organisations are moving their divisions to smaller regions as well, again for cost and operational benefits.

Residential markets are surging thanks to COVID-induced low interest rates and our collective change in mindset. While this surge may be slowed by an interest rate rise in the near future, given our new ways of working, we believe residential markets will remain bullish until the global COVID vaccination rate peaks and interest rates rise.

Our survey respondents also note a positive outlook for the sector. North American managers rate residential recovery at 67% and, while both the UK and European respondents rated it lesser (57% and 54%), this does indicate that current conditions will remain – at least for the short term.

Another consideration for the residential market is to adopt modern methods of construction. The construction industry was hit hard by lockdown – a large majority of sites being closed and then resuming with less staff at a slower pace to adhere to distancing and safety guidelines.

Modern methods see houses built off-site in a factory, then delivered and assembled onsite – using far less labour with little-to-no impact on efficiency. And, with construction emissions accounting for between 10-20% of total emissions and waste, the increased energy-efficiency profile of modern methods and their sustainable construction techniques should appeal to large-scale investors.



Residential markets are surging thanks to COVID-induced low interest rates and our collective change in mindset







## Retail

Our report highlighted that the retail sector, a previously safe real estate sector, experienced a precipitous fall in 2020, leading to larger retail businesses scaling back their physical operations and many smaller businesses suffering insolvency as a result of their inability to maintain a steady cash-flow.



Lockdown and stay at home orders forced us to fully utilise the technology available – and we did. As a consequence, e-commerce has boomed like never before, so much that the [EU has recently modified its e-commerce VAT regulations](#).

Lack of footfall business and lack of online methods leading to little or no sales (while overheads remain) has pushed many smaller 'boutique' stores into insolvency, and the retail market as a whole is going through an upheaval. After all, it's much cheaper and easier to launch online, and the immediate market reach is far larger than that achievable for a local shop. Weighing the pros and cons, physical stores are the second choice for small retail businesses.

Shipping and logistics firm UPS reported that, in the US for Q4 2020, volume from small and medium businesses grew 28.5%.

Of course, there'll still be a need for local shopping and a marked resurgence in footfall is expected to malls and shopping districts as COVID restrictions ease.

[According to our report](#), respondents viewed food anchored retail parks as one of the major growth areas for the next two years (57%), followed by industrial/logistics at 54% and high street/main street retail at 50%. Further, they estimate the sector as having good fundraising potential – 71% of respondents believe the 'large retail' climate is ripe.

When we look at the results in more detail, there are definite regional differences in the thinking of our respondents. Europe and the UK are eyeing large retail (60% and 63% respectively), while North American managers are looking at industrial/logistics (67%) before retail (63%) and office space (60%).

While local retail will always be needed, COVID has highlighted both the necessity and convenience of high street/main street shopping, and there has been a resurgence of 'buy local' thanks to a general community understanding of ESG and carbon footprints. However, these results also point to out-of-town retail parks increasing their services and attractions, and turning shopping into much more of a destination and event.

Retail parks and out-of-town malls always include restaurants, usually brand-name franchises looking to tap into the (almost) guaranteed footfall that retail parks can claim. We can also predict that these will grow further to include cinemas and other entertainment venues (for those parks that don't already have them), which also contribute to making the retail park a destination for both day and night. And, with these evening attractions, retail tenants often have the option of lengthening their opening hours to service evening visitors.

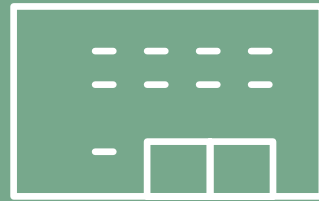
One final interesting point, for the UK retail market, [Avison Young](#) predicts landlords will look to repurpose their retail spaces, "bringing together services, retail, leisure as well as components of residential and co-working spaces." Reflectively, this could well be a viable option for high street/main street retail, keeping local districts as active parts of our communities.

# 60-67%

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## Warehousing and logistics

Another booming market is warehousing and logistics. The same things negatively affecting retail markets are driving increased demand for warehousing and logistics facilities.

As previously stated, respondents of our report viewed food anchored retail parks as one of the major growth areas, followed by industrial/logistics. For US managers, they're looking at industrial/logistics before retail, which makes sense given the very size of the US.

One additional consequence of the e-commerce boom is that small e-commerce businesses are growing – and need stock storage and better delivery options to grow further.

But one additional consequence of the e-commerce boom is that small e-commerce businesses are growing – and need stock storage and better delivery options to grow further.

It's hardly surprising, thanks to lockdowns and the rise in e-commerce, that mail and delivery services have literally been run off their feet. In February 2021, US-based freight transportation and logistics provider [UPS](#) released results showing over the 2020 full-year, revenue rose 14.2% to \$84.6 billion, and operating profit was up 7% to \$8.71 billion. As stated above, 28% of this increase was from small to medium businesses (SMBs).

As these SMBs grow further, thanks to canny marketing delivering healthy sales, their warehousing and logistics requirements also grow.

Industrial and warehouse parks have long been a fixture in the property landscape, but there could be further growth opportunities on the horizon for real estate firms.



Office Space  
and Commercial



Residential



Retail



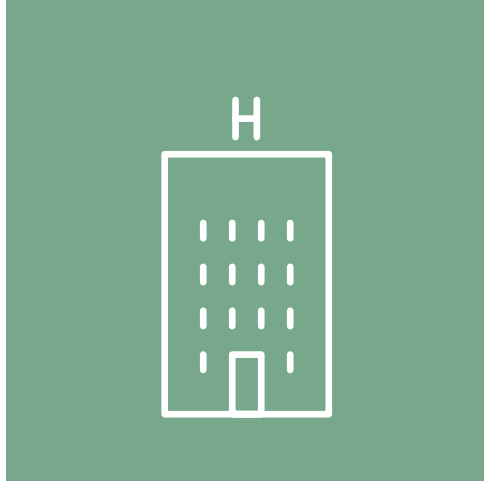
Warehousing  
and logistics



Tourism





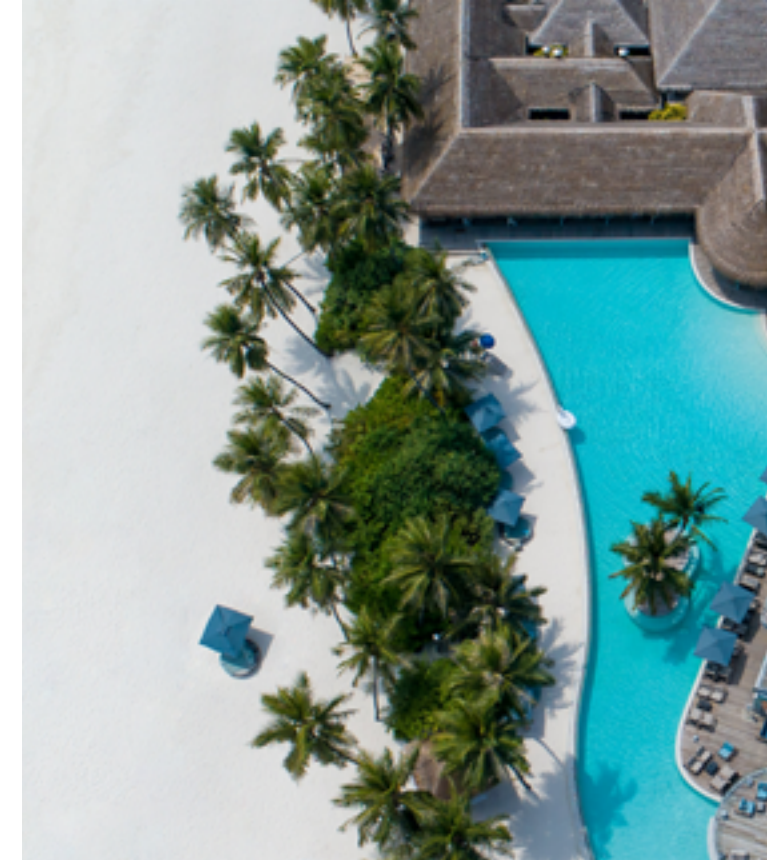


## Tourism

COVID-19 knocked the tourism industry flat on its back and restrictions, particularly travel restrictions, have affected the sector to a staggering degree. When we can safely travel for pleasure again, some of our favourite bars and restaurants, even our favourite resorts, may simply not be there.

The World Travel & Tourism Council (WTTC) reports some fairly negative figures:

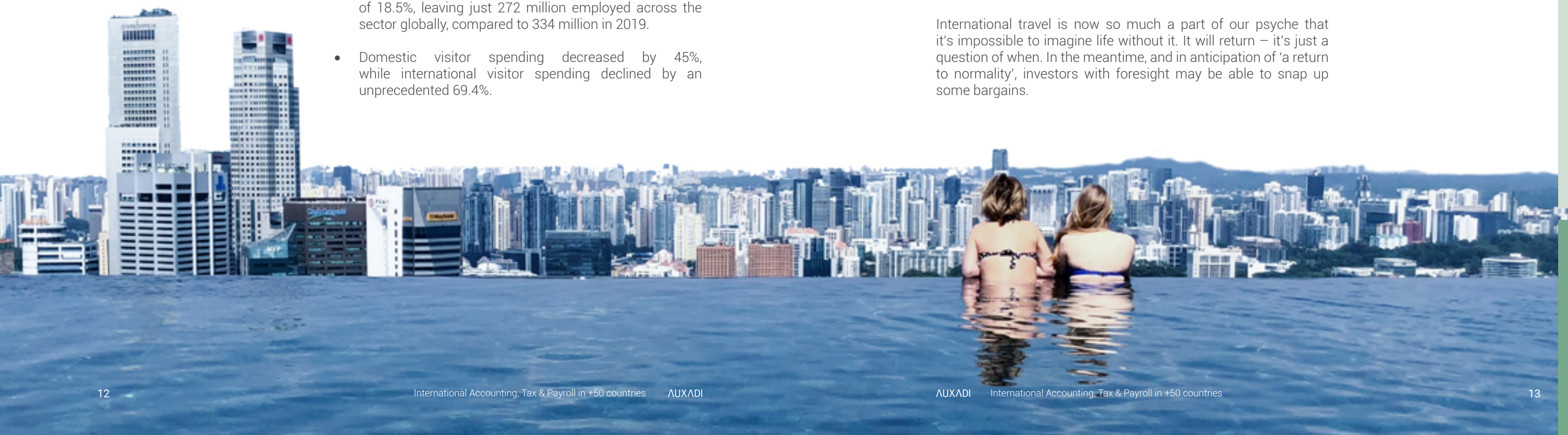
- In 2019, the travel and tourism sector contributed 10.4% to global GDP; a share which decreased to 5.5% in 2020 due to ongoing restrictions to mobility.
- The travel and tourism sector suffered a loss of almost US\$4.5 trillion with the contribution to GDP dropping by a staggering 49.1% compared to 2019; reaching just US\$4.7 trillion in 2020, relative to a 3.7% GDP decline of the global economy in 2020.
- In 2020, 62 million jobs were lost, representing a drop of 18.5%, leaving just 272 million employed across the sector globally, compared to 334 million in 2019.
- Domestic visitor spending decreased by 45%, while international visitor spending declined by an unprecedented 69.4%.



Further, the WTTC confirms that the threat of job losses continues, as many jobs are currently supported by government retention schemes and reduced hours. These programmes are reducing in number and amount as vaccination rollouts continue and nations open for business again. But opening for business doesn't always include travel. More often than not, travel restrictions remain – but international travel is constantly under review allowing more people to travel, be it for work or leisure.

It's impossible to predict what will happen but we can take comfort in the hope that, with the roll-out of national vaccination programmes and international travel restrictions starting to ease up across the globe, the hospitality and tourism industries will start to rise as people look to get back to 'normal'.

International travel is now so much a part of our psyche that it's impossible to imagine life without it. It will return – it's just a question of when. In the meantime, and in anticipation of 'a return to normality', investors with foresight may be able to snap up some bargains.







## Conclusions

Flux in the real estate markets spoils predictions, but investors are confident in their ability to emerge from the pandemic, with widespread optimism for recovery across all sectors in the coming years. We also expect to see a rise in ESG criteria throughout the sector. Residents, tenants, and investors all want it.

We expect office footprints to change and residential markets to remain of interest. We're hopeful that tourism will recover, and warehousing and logistics will continue to boom alongside the increased demand for e-commerce. The future of retail is less clear. Though both high street and retail park sectors have opportunities, both require more post-COVID normalisation than currently seen.

And, to complement the community ESG and carbon footprint awareness, we expect modern construction methods to become more prevalent, affecting all of the real estate sectors in some way.

The real estate market is expected to bounce back in full force in the coming years and investors are looking at the sector in the hunt to capitalise on every opportunity presented in the post-COVID landscape.



### RESEARCH REPORT

## Market Adaptations: Maximising New Growth Opportunities in the Real Estate Sector

Are you also interested in what real estate investment opportunities are on the horizon in a post-pandemic climate and how you can take advantage for long-term growth?



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