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Pandemic shake-up provides opportunity to future-proof UK real estate sector

Avison Young's 2022 Forecast identifies key topics shaping real estate in the coming year

Strategic real estate advisor Avison Young today released its 2022 Forecast, providing an outlook for the real estate industry, spanning office, retail, leisure, industrial and residential sectors. This follows the launch of Avison Young's Ten Trends for a Zero Carbon World, released in October. The annual report series provides perspective on how global events, trends and indicators impact commercial real estate in a variety of sectors across the UK.

Daryl Perry, UK Head of Insight at Avison Young, said:

"We entered 2021 in a state of economic upheaval and uncertainty but exit the year with recovery very much the watchword. We have seen growth in the economy, and occupiers and investors alike are adapting to change and the new challenges we face. While omicron casts a shadow, the UK's commercial real estate sector continues to show resilience and potential in equal measure. The pandemic has reshaped our industry but there is an opportunity to re-examine how our buildings and places can be leveraged to positively impact our economies, communities and the environment."

The areas Avison Young has identified include:

- **Revolution** - The decarbonisation of real estate is an essential focus for 2022. Incoming increases to MEES present an opportunity to retrofit much of the built environment; forward-thinking investors are looking to improve environmentally underperforming assets; Proptech companies are likely to take centre-stage in the move to understand the real-time energy efficiency of buildings; and innovators offering the latest in sustainable building techniques will be in high demand as construction and development races to net zero.
- **Build back wiser** - 2022 will be a year of recovery, as the economy hopefully pulls clear of the pandemic and sees a further release of pent-up demand. Nevertheless, there will be headwinds, such as rising inflation and supply chain bottlenecks, although these may ease in the second half of the year. Cities will likely record strong growth, with their cultural and leisure scenes reviving, encouraging more visitors and workers to return to the heart of these economic powerhouses.
- **Inflation: The only way?** - While inflation is set to peak in the first half of 2022, the medium-term inflationary landscape has shifted. This may push more money in the direction of real estate, with a knock-on effect for capital values. Rising inflation might further encourage a flight to safety on the part of investors, shape the potential returns investors can expect, as well as alter the dynamics of pricing.
- **Making it work** - While hybrid working is here to stay, the office remains an integral part of business, and there has never been a greater focus on how to optimise it for employees. Providing varied working environments that can best facilitate all types of work is the fundamental challenge for office landlords. We expect that 2022 will bring the landlord-tenant

relationship even closer, to optimise the ways in which companies can not only get the best out of their workers, but also act as an 'attractor' on a regular basis.

- **Avoid a void 2.0** - The pandemic has driven an increase in demand for flexible solutions and minimisation of capital expenditure, subsequently sparking a rise in the number of short-term leases and management agreements. Many landlords have pivoted away from the traditional blank canvas shell and core and Cat A fit outs. The upside of this is a far more collaborative approach between landlord and tenant to ensure tailored, flexible solutions that work for both parties.
- **The cost of building** - The unique factors of Brexit and Covid-19 have led to a 'perfect storm' causing cost of both materials and labour to rise exponentially. Pricing pressures are likely to ease during 2022, at least partially, but the complexity of the supply chain issues and the cost inflation impacting the sector will continue to have a sizeable effect.
- **On the limit** - 2022 will continue to see very strong demand for industrial and logistics space as the sector benefits from the fundamental shift in the way we shop, and from constraints in global supply chains. The theme of the year will likely be around to what extent the limits that are imposed on the sector will impact on occupational and investor demand – whether that's the availability of good quality buildings, labour, goods, energy, or investment stock.
- **Retail revisited** - While the outlook for retail spending is positive, powered by an accumulation of household savings and an increase in consumer confidence, there is a raft of challenges present across the sector. One area where we are seeing particular strength is in the out-of-town markets, and this is likely to continue well into the new year. Successful retailers will further capitalise on their ability to digest customer data and profile consumer behaviour to deliver a more personalised shopping experience.
- **Social society** - Recovery within the leisure sector will continue as consumers look for enjoyment through experiences in physical locations. Uncertainty remains in some parts though and vacancy rates are forecast to continue to rise during the year. Recovery will still be driven by factors outside of the sector's control; the speed and size of the return of international tourism, and consumers' willingness to return to pre-pandemic behaviours.
- **Back to school** – Student surveys have painted an encouraging picture of demand for in person learning and we have once again seen an increase in demand for higher education during a time of economic uncertainty. We will continue to see investment demand next year especially in locations with higher tariff universities.
- **Health is wealth** - One of the most profound changes the pandemic has brought about is a sharpened focus on our health and wellbeing. This is encouraging us to rethink the spaces in which we spend our time, the health of our cities and the sustainability of the built environment. This shift has coincided with a renewed emphasis on how to grow the economy post-Brexit. The UK has a long tradition of investment in healthcare and clinical research, and the government's funding in the Life Sciences sector will contribute to growth.
- **Home sweet home** – On top of the Stamp Duty holiday boost, the impact of the reassessment of housing choices following the pandemic is increasingly apparent. There is still plenty of scope for additional households to take a view as longer-term work arrangements become clearer. Along with high household savings and low interest rates, this is one of the key

reasons transaction volumes and price growth are expected to be ahead of pre-pandemic levels next year.

- **Another level** - The government's flagship 'levelling up' policy will be further developed during 2022, after a series of announcements in 2021 geared towards restoring local pride, growing the private sector, and improving living standards. It is anticipated that the real estate industry overall could well be an active participant in driving change, as well as a spectator waiting for growth areas to emerge – particularly when it comes to facilitating the recalibration of the UK's most productive business sectors.
- **Recovery return reboot** - The strong uptick in the global economy, and the lessons learned in 'living with Covid' are driving money into real estate. The rebound in investment volumes in the UK has generally not been centred around value-seeking distress, as the level of government support has protected large swathes of the real estate markets. However, the removal of support in late-2021 and early 2022 will likely increase the supply of investment opportunities, and in turn, liquidity in the market. Industrial and residential will continue to be the focus of investor interest, with question marks hanging over the offices and retail sectors.

Perry concludes:

"Investors, developers and occupiers are faced with the decision to either adapt to this rapidly changing landscape, with its many opportunities and challenges, or risk being left behind. Data-based insight and sector specialist advice is essential to navigate this evolution."

Access the full 2022 Forecast [here](#) and the Ten Trends for a Zero Carbon World [here](#).

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About Avison Young

Avison Young creates real economic, social and environmental value as a global real estate advisor, powered by people. As a private company, our clients collaborate with an empowered partner who is invested in their success. Our integrated talent realizes the full potential of real estate by using global intelligence platforms that provide clients with insights and advantage. Together, we can create healthy, productive workplaces for employees, cities that are centers for prosperity for their citizens, and built spaces and places that create a net benefit to the economy, the environment and the community.

Avison Young is a 2021 winner of the Canada's Best Managed Companies Platinum Club designation, having retained its Best Managed designation for ten consecutive years.

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