fladgate

REAL ESTATE

ON THE MOVE AGAIN

Real estate:
On the move again

A range of new certainties is emerging following the unprecedented impact of the pandemic on real estate and many are positive. Evidence shows that investors, developers and owners in the real estate sector with the flexibility and ambition to move fast can capitalise on a range of new opportunities.

Real estate is on the move again. These opportunities have been driven over the past two years of national lockdowns and restrictions by the extensive questioning of assumptions and traditional practices around the way we live, how we work as well as how and where we choose to spend our leisure time.

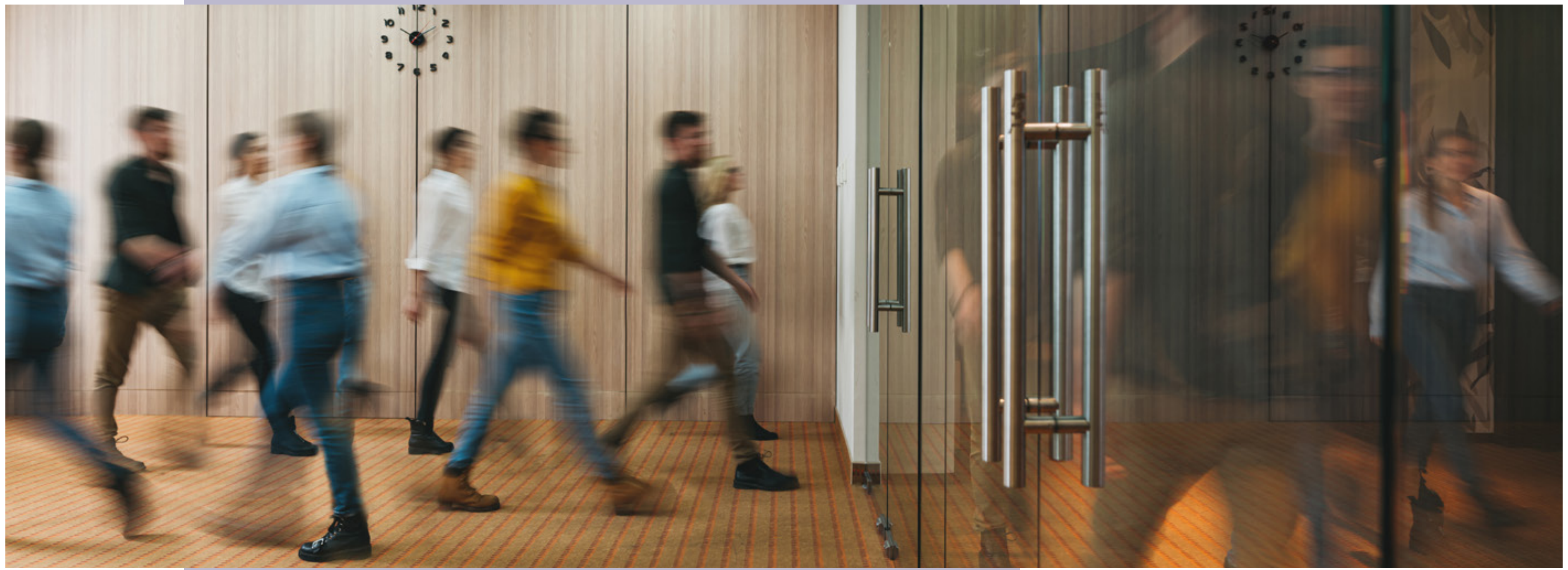
"No doubt the business environment is going to continue to change in 2022 under pressure from elements such as the ongoing pandemic, Brexit and the rising cost of living," **Stephen Lewis**, Partner at Fladgate, said. *"However, the immediate turbulence that followed the arrival of the pandemic has calmed. Today, real estate is on the move again with a new, clear direction. It's possible to see how we need to adapt our built environment to reflect the way people want to live and work in the future."*

To fully understand the new context for real estate decisions, Fladgate carried out a comprehensive survey of 5,000 people across the UK. The survey asked how and where respondents live and work, how this has changed and what impact the pandemic has had on their future decisions. What has emerged are a number of insights, some counter-intuitive, that can be used to inform the real estate strategies of investors, developers and property owners. This includes:

- The move to working from home for many is spurring businesses to rethink, rather than reduce, their office space;
- Our towns and cities need to be re-energised to satisfy shifting demographics, as older generations move out of cities and the young move in;
- How people shop has changed forever, but there are new opportunities for retail space for those who embrace change.

"All this points to a real, growing opportunity for the real estate sector," Stephen said. *"The trends highlighted in this survey are not temporary; they are the result of deep, structural change as people have re-evaluated their priorities. Those who own and create the built environment need to respond by adapting what already exists, creating the properties that facilitate today's working practices and lifestyles. We can see enormous opportunity for our entrepreneurial clients to inject new life into towns for those who have moved there and deliver to the quality of life that city-dwellers are seeking."*

The survey results support the views of Fladgate's Partners on the real estate trends that will emerge as 2022 progresses. For example, as well as a collective redesign of office space, the residential sector will respond to young people's desire for flexibility and retail could be adapted to further complement the digital world we live in. While this report will detail trends relevant to specific sectors, certain common themes run throughout. Now is the time to repurpose, reconfigure, and re-energise our towns and cities, generating upsides for investors, developers, owners and occupiers.



> *"In two-or three-years' time there might be more occupiers looking to reduce space as leases come up"*
>
> **Alan Karsberg**
> **Partner at Fladgate**

Offices:
A rethink rather than a reduction

Given that one immediate impact of the pandemic was that people started to work from home, and stayed working from home, it might be logical to assume this would lead to a reduction in office space for many businesses. Since the beginning of the pandemic, almost half (49%) of large companies and 30% of SMEs have seen an increase in employees working remotely.

Counterintuitively, the survey results suggest that an alternative to reducing workspace is proving more popular. Only 13% of office space has shrunk during the pandemic. Instead, occupiers are seeking to use their office space in more effective ways; 22% of large companies and 17% of SMEs believe they will increase the size of their repurposed space over the next 12 months.

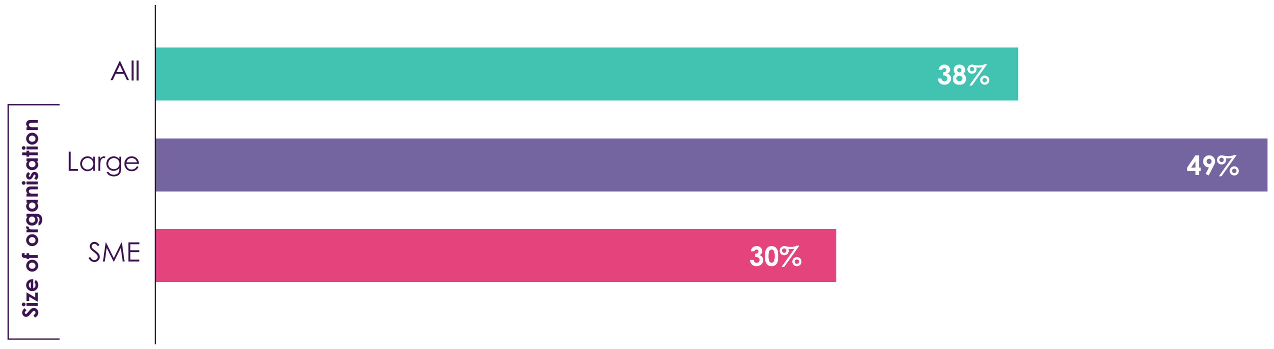
These results indicate a real desire from employees to work differently from now on. The so-called 'hybrid' way of working is growing in popularity, where employees mix working from home with time spent in offices, to collaborate and meet with colleagues. While 47% of respondents agree they will not return to pre-pandemic working practices, 45% indicated they intend to use centralised offices more for team building and training, which would require space to be repurposed accordingly. Occupiers are looking to introduce more flexible and breakout spaces.

"This change is to stay," **Matthew Williams**, Partner, said. *"The novelty period has gone but the normal has genuinely changed. The IT and systems are in place. People recognise that there is a reason to go back to the office and to be with colleagues as good comes from that, but they no longer want to be a slave to the commute."*

Looking ahead, it's worth noting that we are yet to see what the impact of increased remote working will be on office spaces and design in the long term. Many larger companies are tied into long leases, so don't have the option to reduce their space. Once they have had time to assess their and their employees' working preferences, they may alter their strategy.

"In two-or three-years' time there might be more occupiers looking to reduce space as leases come up," **Alan Karsberg**, Partner, said. *"By that time, businesses will have had a think about whether the space they're now using creatively is worth it. They could save money by having suburban space, for example, rather than a central office. For the moment, there's a sense that businesses are looking to make the space they currently have work right now."*

Employees working remotely
NET Increase on numbers of employees working remotely



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Older generations move out, **while the young move in**

A new generation is moving in

Moving home | Rural | City

Lockdowns might have stopped people moving on a daily basis, but almost a fifth (18%) of respondents moved house during the pandemic. Moving house was most common among Generation Z (age 18-24) – a significant 39% of this age group reported moving, compared to 30% of Millennials (age 25-39), 15% of Generation X (age 40-54) and 6% of Baby Boomers (age 55+).

Where these people decide to head is one of the most profound results of the survey; we are becoming a nation where older generations head to towns and rural areas, while young people are moving into cities. Of those who have moved, 50% of Generation X and 70% of Baby Boomers now live in either a town, village or rural area. In contrast, 63% of Generation Z now lives in a city centre or city suburbia.

"The pandemic has empowered people on a national scale to make their own lifestyle choices work," **Jenny Sargeant**, Partner, said. *"This is having a real impact on where people end up living. People can now choose to live further from the office, which appears to be what older generations are electing. Young people want to live in cities, surrounded by leisure as they have income to spend. These changes are here to stay and will stimulate a response in the real estate sector to support it."*

There are real opportunities for real estate to respond to the changing demographics of towns and cities. Take the private rented sector **(PRS)**. In cities, where the sector has been growing amid considerable investor interest in the last five years, PRS can deliver the flexibility that young people today are seeking. 29% of Generation Z and 24% of Millennials plan to move again in 12 months' time, a lifestyle that suits the world of PRS where offers include flexible lease lengths, bundled amenity and service charges and often even social events.

For those older generations who are moving out of cities, infrastructure will be a key consideration. While people may be commuting less, they will still be visiting offices regularly and perhaps visiting cities for leisure. Property owners may consider transitioning the offering in transport hubs away from targeting daily commuters to more casual visitors.

Moving home

Generation Z	**39%**
Millennials	**30%**
Generation X	**15%**
Baby Boomers	**6%**

Where have they moved to

Rural

Generation X	**50%**
Baby Boomers	**70%**

City

Generation Z	**63%**

"The pandemic has empowered people on a national scale to make their own lifestyle choices work"

Jenny Sargeant
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The reasons
behind the move

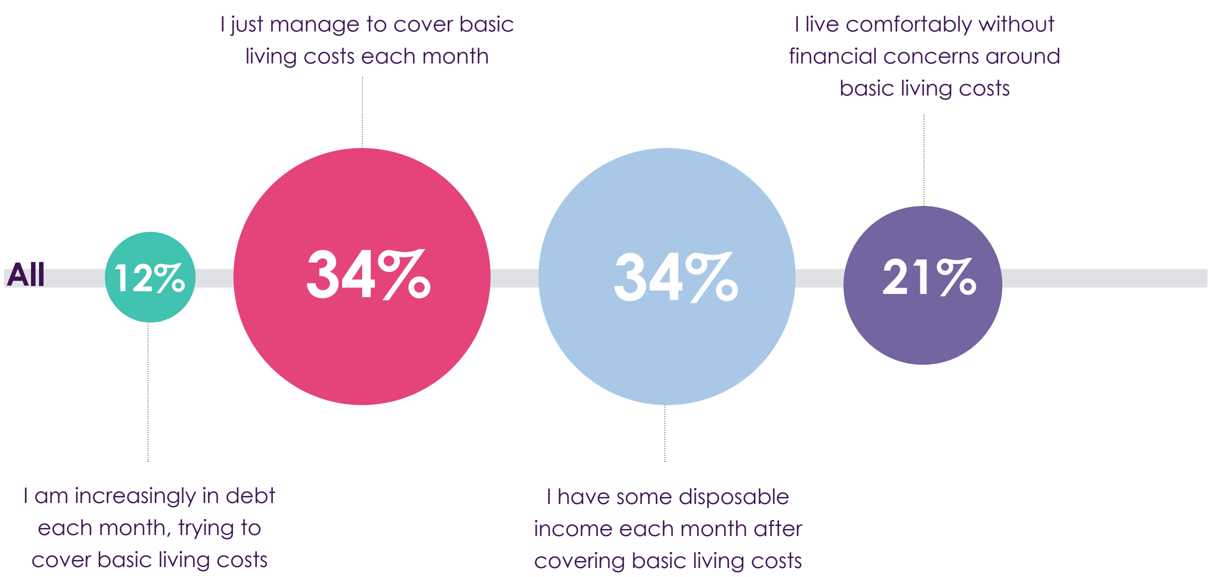
The ability to choose is not the only reason people are choosing to move house. The survey highlighted the cost of living as another key reason. Almost half of the population (46%) is struggling financially and is in increasing debt, while current headlines warn that household costs are set to increase in 2022. The survey suggests that the cost of living is a primary motivation for many to move house, as 66% expect the cost of living to increase and are concerned about this.

As a result, a suitable choice for many people could increasingly be to rent rather than own a house. The housing ladder continues to become harder to climb and rental products are emerging that are not targeting younger generations, but families and older generations who either can't afford to buy a home or are attracted to the flexibility and lifestyle that renting offers. Single-family rental, already popular in the US, is gaining traction in the UK where portfolios comprise purpose-built housing estates in suburban areas, again with flexible leases and optional amenities. No doubt both towns and cities will include a greater proportion of rental properties in the coming years and institutional investors are taking note.

Costs aside, another driver to move amid a series of lockdowns has been a desire for more space, including more green space. 19% of those who moved were seeking access to more parks, while 18% were driven by the overall size of accommodation available. More than half (53%) indicated they need more space in case of another lockdown, while 72% said quality of life is now more important than standard of living. Younger generations in particular are valuing quality of life more highly and real estate businesses that can deliver a high level of quality and service are in a strong position.

"There's a need for young people to prioritise their real estate, as it now is a home office as well as living space," Jenny said. *"People will be less willing to live in flatshares with people they don't know. This is what we've been seeing for some time, as the Millennial generation has grown up living in beautiful purpose-built student accommodation. Their expectations are very different to older generations, and this is a shift that's here to stay."*

Financial situation
How would you describe the typical monthly financial situation for you personally?



What are they looking for?

The opportunity **to repurpose retail**

For years, there has been a steady move from 'bricks to clicks' and the pandemic has served to accelerate this trend. More than half of Generation Z (51%) and Millennials (50%) say they will visit retail shops less often and 30% of the UK population has increased the amount they spend online. This move is creating a large amount of redundant or underused retail space that is crying out to be repurposed to serve people's lifestyles today. In short, the owner of a retail asset has two options: to change the use entirely or re-energise what is on offer.

Starting with change of use, this could be an option for many retail units or shopping centres. Whilst those who hold large supermarket portfolios remain in a strong position, the pandemic saw several high-profile closures of shopping centres and many landlords are facing high void rates. In this case, there is a chance to look at a property through a new lens and see its potential to fill the needs of the generation that is moving in. Fladgate is working with a number of investors who are taking advantage of the opportunities acquiring a shopping centre might present.

"The market lends itself to entrepreneurial investors and owners with the imagination to do something a bit different, something that people really need and want," **Gavin Whitney**, Partner, said. *"Some developers are looking to redevelop part of a retail centre into residential. Young age groups want to be in city centres, creating an opportunity to build a residential-led community on the doorsteps of retail and leisure, even flexible workspace. It could be an exciting reinvigoration of town centres."*

There is a growing swathe of retail asset owners looking to transform units to support the digital world. A trend Fladgate has observed is the emergence of dark stores, retail units that only fulfil online orders, as well as dark kitchens, restaurants that welcome no guests but deliver to people's homes. Urban areas are generally lacking last mile logistics facilities, a shortage that well-placed retail units could fill.

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"Some retailers are also looking to boost cities' digital infrastructure by using space for data centres," **Sarah Rock**, Senior Associate, said. *"One major retailer we've worked with in the centre of London is looking to convert half its store for this use. Cities need the digital infrastructure to support the growth of the digital world, but lots of data centres are located on the edge of towns where people want to live. It could make sense to bring those data centres in."*

The survey suggests that a retail unit doesn't have to dim its lights, however, if it's in the right place. More than a quarter (27%) of people who have moved to towns and rural areas indicate there is an undersupply of retail shops in their area, representing the existence of opportunities for people who want to create the retail and leisure that today's consumers are looking for. Today, this involves offering an experience that makes it worth visiting.

"For investors this is a massive challenge, but it's about flexibility and a shift to different uses," Gavin said. *"Shopping is a social event, so if you have a unit in the right location then people will come, but to get the customer in the door you need to do something different. If you have a salon, you could offer evening classes, for example. You need to be creative. The pandemic has accelerated this. People won't be ready yet and it's a bit daunting, but it can be exciting."*

Brands that can adapt their business to deliver the right experience will emerge stronger. One such example is Fladgate's client Yo! Sushi. The pandemic spurred the dynamic brand to evolve its famous conveyor belt system into a secure way to deliver food, while enabling their delivery or collection service. They reacted quickly to regear and renegotiate leases – at one point 60 licences in a week – which included dealing with licences.

30%
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What it means
Reading societal change

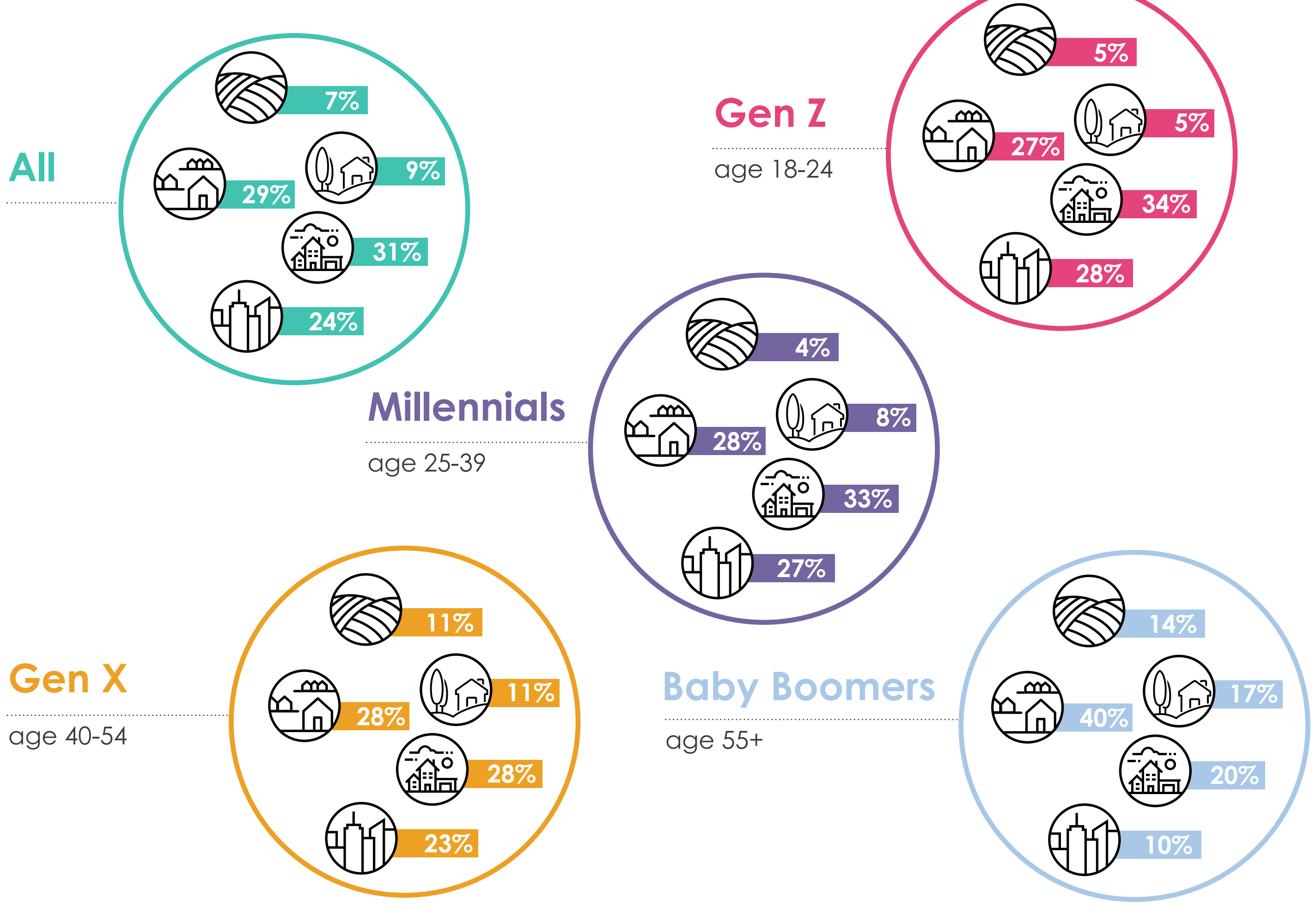
It is clear from the survey that emerging societal trends have been rapidly accelerated by the pandemic. In the residential sector, lockdowns have ingrained a desire for space and a quality place to live, while offices and retail, following a period of enforced closure, will be used in a very different way. The main takeaway for developers is the opportunity to respond flexibly to people's new expectations of real estate.

"Developers want buildings to be future-proofed and they are trying to hit a moving target," Matthew said. *"Take a BTR scheme; in the two years since a scheme started, the generation living there might have changed as families have grown or got older. The assumption that BTR is for a certain generation – young professionals – has changed permanently. But the confidence is there and the opportunities for development remain. We need developers to be entrepreneurial and agile as the need for housing and the right workspaces, retail and leisure remain."*

A developer looking outside traditional asset classes could find opportunities created by the lasting impact of lockdowns on people's lifestyles. While indoor activities were unavailable, many people took up outdoor pursuits, a trend that could remain.

"There's a lot of investment coming into sporting infrastructure, not only creating new facilities but adapting and expanding what is there," Sarah said. *"Football teams are investing in bigger stands with more safe standing, as well as more training grounds. People have seen the benefit of being outside post-lockdown as a way to get on with their lives. Moving forward, we expect there to be less investment in indoor activities such as cinemas."*

Which of the following best describes where you live now?



Changing plans
to meet people's needs

"There's a huge opportunity for those involved in real estate to start predicting how infrastructure might need to change to meet the evolution evident in the survey results," Jenny said. *"All these trends could be the first part of a longer change. Land values will evolve as different areas are opened, bringing new opportunities. People will need services in suburban areas outside cities, so there's an opportunity for real estate to facilitate that. Investors and property owners need to be alert to who is now living where, and what they need."*

For investors and property owners who have acquired assets or land for development in the last few years, now is the time to rethink the plans they might have had. For example, an investor who has acquired a site for city centre housing might have determined to build a new school as part of the scheme but today that might serve communities better as a park. In contrast, a suburban or rural investor might need to build more schools, as families move out of cities.

Property owners would also do well to rethink the use of the assets they currently hold. Repurposing an asset, rather than knocking it down to start again, could benefit a company's ESG profile, as reuse can reduce the embodied carbon an asset generates. However, this will not be feasible for all schemes. There are developers looking to transform redundant office or retail space into BTR schemes, acquiring assets for bargain prices, but the cost of repurposing will have to be weighed up against the costs and impact of new construction.

"Our clients are entrepreneurial, will see the opportunities and take a bet," Gavin said. *"They might find an asset at a bargain price and see the opportunity that it holds. Many of our clients have been extremely busy over the last two years, despite the pandemic, and we expect that to continue."*

A new relationship **for occupiers and landlords**

Just as it is a time for developers and investors to rethink their strategies, occupiers will also be considering how they use their real estate. Many large companies with longer-term leases are creating more meeting and break out spaces and will be assessing the viability and need for spaces in both city and suburban locations. SMEs might take a closer look at flexible space, which could allow them to use space only when employees need to meet.

"The pandemic has highlighted how people want to work in a different way," Alan said. *"Businesses are now talking about creating more dynamic work environments because they need to do more to encourage people to come back into the office. Cellular offices create psychological barriers to creating communities. People want to go into an environment where they're interacting, working together, with no barriers between different levels of seniority or occupations."*

Turning to retail, while repurposing space into other uses might be high on the agenda, there is still clearly a demand in towns and more rural areas. However, a retailer will need a strategy to attract people who are now well versed in making online purchases.

"Retailers need to offer more, which means property owners need to be more flexible," Gavin said. *"Tenants have been constrained in the past about what they are allowed to do, but perhaps landlords could allow longer opening hours to accommodate events, for example. There will be more choice of locations for retailers as there will inevitably be vacant space, so this will force change on landlords that take a stern line."*

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Key takeaways
Reading societal change

Overall, Fladgate's survey results point to a swathe of opportunities for real estate investors, developers and owners to get it right. People's views on how and where they live have changed irrevocably. To respond:

- Working from home is here to stay; there is a significant opportunity for real estate owners to create the facilities and services people need closer to home.
- People are on the move; the retail and leisure offering in towns and cities needs to reflect those who live there now and in the future.
- The retail of today has gone forever; retail asset owners face a choice, to identify a new use that fulfils a local need or create an experience that draws people through the doors.
- Now is the time to be an entrepreneur; those investors and developers who remain open-minded can find excellent opportunities that fulfil a new need.

It will take years for the built environment to transition and no doubt the continued evolution of the business landscape will continue to have an impact. The government and local authorities have a significant part to play to ensure the infrastructure of towns, including transport networks and schools, satisfy today's requirements.

In the meantime, there is a landscape of opportunity for real estate investors, developers and owners who can be agile, entrepreneurial and enthusiastic about embracing change. Real estate is on the move again and clear paths to take are emerging.

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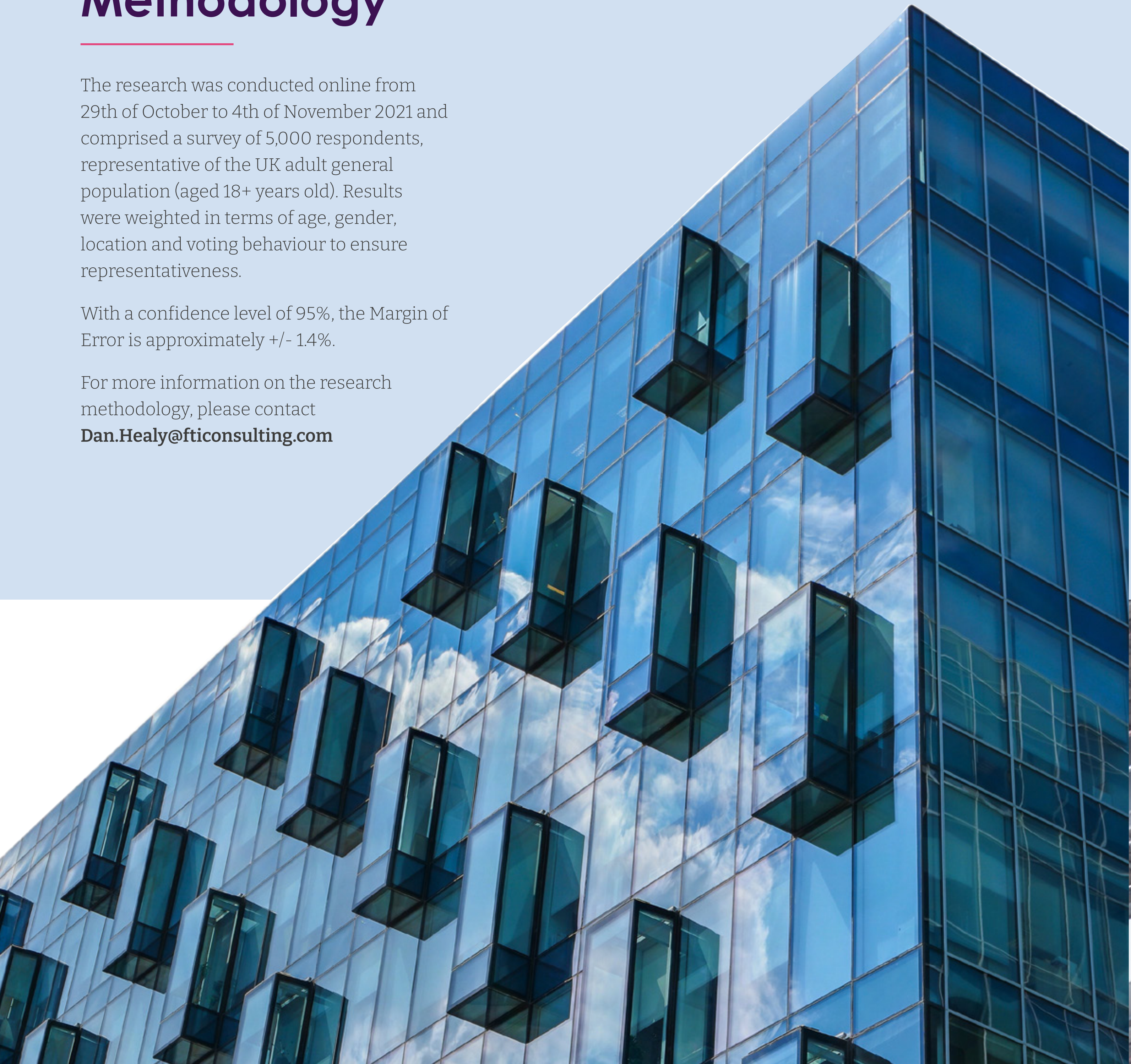
Methodology

The research was conducted online from 29th of October to 4th of November 2021 and comprised a survey of 5,000 respondents, representative of the UK adult general population (aged 18+ years old). Results were weighted in terms of age, gender, location and voting behaviour to ensure representativeness.

With a confidence level of 95%, the Margin of Error is approximately +/- 1.4%.

For more information on the research methodology, please contact **Dan.Healy@fticonsulting.com**



Fladgate

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As an agile and enterprising team operating from one office we are able to offer a nimble and integrated service across: Banking and Finance law; Commercial law; Construction and Engineering law; Corporate law; Dispute Resolution; Employment law; Funds, Finance and Regulatory; Immigration; Intellectual Property and Technology; Private Client; Restructuring and Insolvency; Real Estate and Tax.

As a result, we work with some of the leading and fastest growing businesses and 'trend initiator' brands along with HNWI's or their advisors from around the world. Businesses that we work closely with include: Twentieth Century Fox; Ocado; Yo! Sushi; Red Tiger Gaming; Random House Group; Credit Suisse; Blockchain Worldwide; Close Brothers; Monster energy; Major League Baseball.

We are specialists in sectors including: Betting & Gaming; Energy & Renewables; Financial Institutions from challenger banks to Venture Capital funds; Fintech; Hotels; International; Leisure; Life Sciences; Media & Technology; Real Estate; Retail; Sports (especially e-sports) and Ed-tech. Our Private Wealth team work for over 100 UHNWI's including influential global families, international entrepreneurs, media celebrities and sportspeople - clients from six continents. They also work for 80+ family offices.

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