

## Commercial Real Estate and the Pandemic

The Covid-19 pandemic has left us all questioning how the situation will unfold and for how long. Property professionals should use this time to consider their technology strategy and identify opportunities for future business. Below are some predictions we've put together for commercial real estate and PropTech:



Initially, we expect to see a rise in demand for cloud-based technology enabling remote collaboration and agency applications that make data accessible and centralised so commercial teams can work as efficiently as possible from home. Commercial agency firms that are not equipped to work in this way (for example, those reliant on manual processes and spreadsheets) will struggle to stay competitive and risk missing the significant opportunities that are likely to arise post-pandemic.

Without question, the pandemic is going to hit asset values hard, but thereby also create historic generational investment opportunities due to low interest rates and highly attractive yields.

The overhang of surplus stock means commercial agents will need strong tools to market space, match to prospects and respond quickly. The days of "we can sell or lease anything that moves without trying" are over. Working smarter will become essential.

Cashed-up investors will focus laser-like on tenant mix, expiry profiles and sustainability of yields. The ability to quickly impart accurate information on occupancy will become critical, as will the ability to precisely target investors with off-market distressed opportunities needing early settlement.

As businesses consider their operational costs, we predict a short-term surge in subleasing and virtual office space.

Expect a significant surge in tenant rep demand as tenants seek to negotiate improved lease terms with landlords. Tenants with upcoming lease expiries will be in a strong position to either secure improved terms or receive highly attractive incentives to secure superior space at lower rents. Firms that can quickly identify and reach out to these tenants will be best positioned to secure these deals.

Marketing tools will need to be strengthened in order to help prospective buyers and tenants make decisions with less physical contact. Technology capable of storing and quickly disseminating salient information will become more widespread in an industry that has historically eschewed digital communication in favour of face-to-face contact.

Virtual tour technology will become more popular with property agents. These applications allow agents to conduct a virtual tour with their prospective tenants in real-time - all made possible with the internet and a headset.

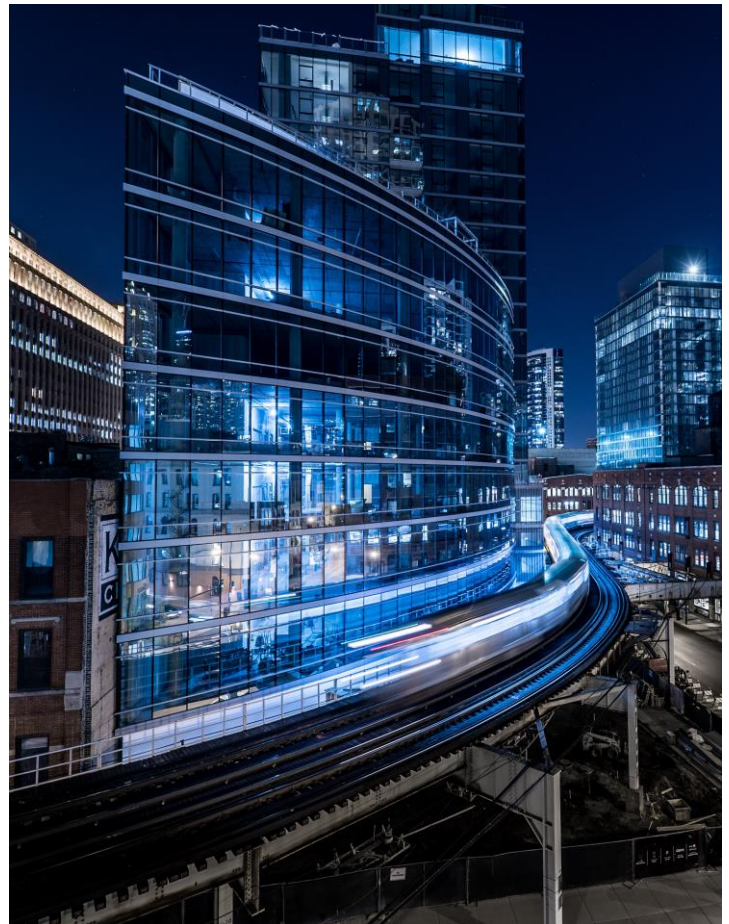
Expect a medium-term reassessment and reversal of historic trends promoting reliance on overseas supply chains, just-in-time processing and centralised distribution. The implication could be more demand for larger or mid-range industrial with the mix of industrial shifting from being dominated by centralised warehouse distribution to more local manufacturing coupled with regional/local distribution. Firms will also seek to maintain higher inventory levels to reduce the risk of supply chain catastrophes. This trend will further fuel demand for warehousing.

The already strong pre-pandemic trend favouring online retail will be reinforced as segments of the community previously shunning online shopping discover its attractions during periods of lockdown. Following easing of movement restrictions, we anticipate retail centres will need to devise creative means of overcoming safety concerns related to co-mingling. In the short-term, these may simply involve crude measures such as temperature sensors and, in the longer-term, sophisticated measures involving serological security.

Longer term, offices may be legislated to be lower density to reduce the risks associated with densely populated workspaces, such as those typically found in call centres.

We don't expect to see long-term changes in demand for leased office space. The novelty of working from home will wear off as challenges arise and staff welcome returning to a social, face-to-face work culture.

Co-working providers will need to carefully consider how they handle the risks of a high turnover environment. Until a vaccine is readily available, who will trust entering a co-working space when you don't have serological proof that everyone has SARS-CoV-2 immunity (and how long that immunity lasts)?





Serological-secured domestic and international flights is possible - you can only fly and cross borders if you can prove immunity (you've taken a blood test to prove it). This test becomes as important as a passport or even an integral part of a passport. Immunity comes from either recovery or an as-yet unavailable vaccination.

In the matter of vaccine development, we suspect at least one of the candidate vaccines will surprise the market with the ability to move into mass production by the fourth quarter of 2020 rather than mid-2021.

One of the most promising appears to be the team led by Professor Sarah Gilbert from Oxford University's Nuffield Department of Medicine (Jenner Institute) who announced the production of vaccine seed stock as early as the first week of February 2020 and whose vaccine is commencing clinical trials in both animals and humans. We suspect confirmation of success will mark the beginning of a strong recovery.