UK REAL ESTATE IN THE 2020s
A CATALYST FOR RECOVERY

EC | Radius Data Exchange

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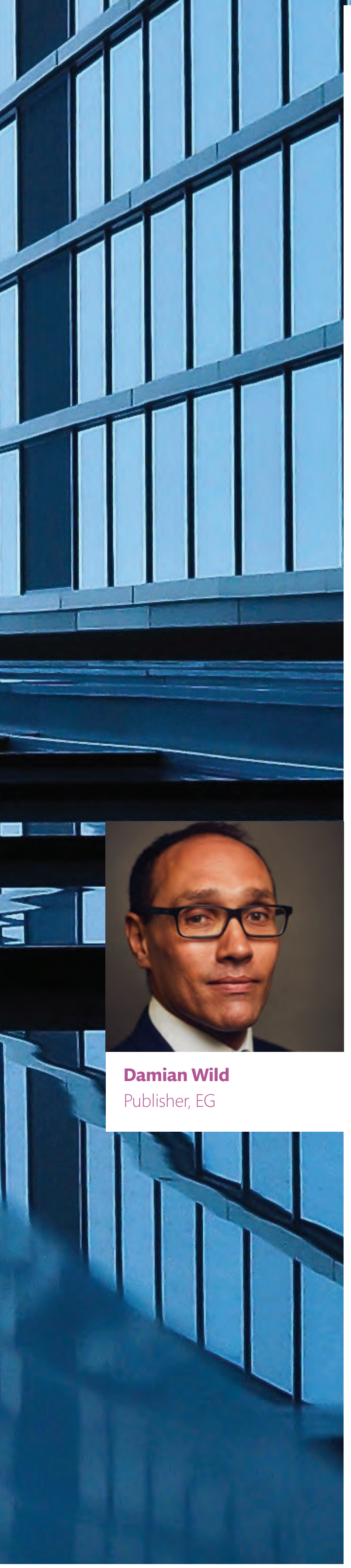


Like the UK itself, real estate is undergoing profound change.

Damian Wild
Publisher, EG

Like the UK itself, real estate is undergoing profound change.

Sustainability is necessarily on the agenda of every serious player, social impact too. Indeed it's hard to imagine how the headline challenges facing society will be solved without real estate's contribution – from the productivity improvements an effective workplace can bring, to the power of healthy (in every sense) placemaking.

It's the scale of the challenges ahead that persuaded the team at EG and Radius Data Exchange to produce this report.

We'll look at the future of town centres, of offices and at the implications of automation, logistics and digitisation. We'll touch on the post-Covid landscape too, though this report's focus is on the medium to long-term, less so on short-term recovery. And along the way we'll make the case for real estate too; how, as the UK enters an unprecedented upheaval, a successful, thriving sector will be crucial to determining UK plc's fortunes in the decade ahead.

UK Real Estate in the 2020s: A catalyst for Recovery

Commercial real estate stands as one of the most important pillars of the UK economy. The industry generates £101.2bn of economic output annually, equivalent to 7% of the total, and is fundamental in not only providing the necessary platforms for businesses to expand and thrive, but in shaping the wider environment in which we work, live and play.

As the sixth largest economy, the UK as a whole maintains its position as a leading light of the business world by creating a range of attractive conditions for both domestic and international enterprises and investors. It benefits from one of the most competitive tax systems in the G20, one of the most respected and robust legal systems in the world, and a globally renowned education system, making it one of the best places to start, finance and incubate businesses.

As a new decade begins with the UK embarking on a new pathway outside of the European Union, an array of new and evolving market conditions and corporate considerations are set to reshape the national economy, this report seeks to assess and highlight the opportunities offered by the commercial real estate market within that context, as well as highlighting the various challenges facing the nation, including the onset of the Covid-19 pandemic at the start of this year.

Many of the longer-term issues facing the nation prior to Covid-19 in terms of productivity, technological adaptability, provision of top-class workplaces, and broad realignment of town centres will re-emerge as critical problems to tackle once the virus is either contained or vaccinated – and will have importance in dictating what type of recovery that the country is able to make from this once-in-a-century event.

Throughout the report we will make references to specific impacts that the pandemic will have on the ability of the commercial real estate industry to empower the nation's growth.

With automation and digitisation expected to impact the workforce across a spectrum of regions and sectors during the next 10 years, both government and business should be expected to sharpen their focus on upskilling workers and increasing national productivity while simultaneously ensuring that considerations around sustainability and wellness are integrated into any and all long-term ambitions.

We will discuss how changes to the fundamental nature of retail and office space as an inevitable part of urban transformations will be critical to underpinning how the country moves forward during the next decade, as well as asking:

- What role does real estate play in the continued success of the UK in the 2020s and beyond?
- How does the real estate sector work to alleviate the UK's productivity gap?
- What role will property play in meeting our net zero carbon targets?
- What are the short and long-term effects on real estate's capacity to create a more productive UK post Covid-19?
- How do all of these elements fit together to make the UK an attractive prospect for investors?

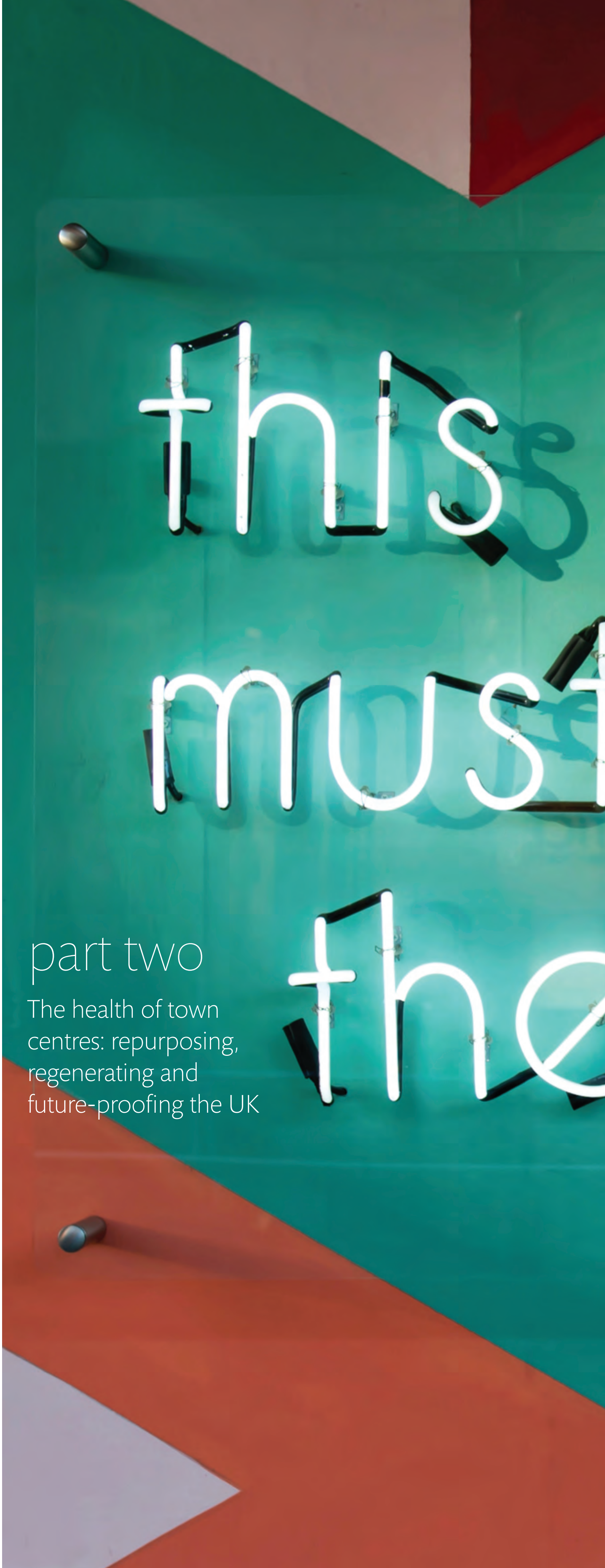
We will analyse and interpret these challenges and opportunities by drawing on data from Radius Data Exchange and other sources to examine in detail how the nexus of real estate, corporate strategies, consumer behaviour, and ever-changing population dynamics are at the heart of a thriving and productive national economy, and how by 2030 the UK will recover from the pandemic, supported by a thriving built environment.

James Child, head of retail and industrial research, EG

Graham Shone, head of offices and workspaces research, EG

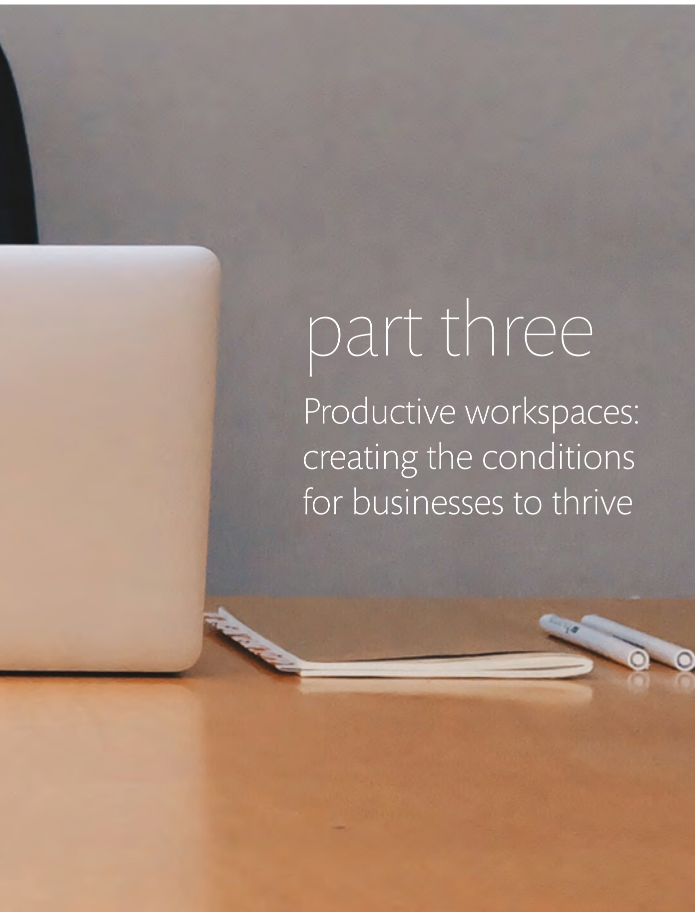
part one

The case for investing in UK plc: real estate's role in a productive economy



part two

The health of town centres: repurposing, regenerating and future-proofing the UK



part three

Productive workspaces: creating the conditions for businesses to thrive

A powerful proposition

Economic fundamentals underpin a strong case for investing in UK real estate

James Child, head of retail & industrial research, EG

The UK is well established as one of the world's major trading nations, with a gross domestic product of $2.74tn (£2.1tn).

While remaining an influential player on the European stage, the UK retains sovereignty over its currency. This allows businesses in the UK to react flexibly to changing market conditions – a huge advantage for inward investment.

With a population set to top 70m in the next decade, the UK is a major market in its own right, with an active workforce of 32m, making it one of the largest labour forces in Europe.

The UK is ranked as one of the easiest places in the world to start a business, coming in eighth position, according to the World Bank's *Doing Business 2020* report, and in second place out of the EU28, just behind Denmark.

The yearly report assigns each nation a ranking by scoring them on a variety of categories. These include how easy it is to start a business, employ a workforce, find a location to trade from, access finance, deal with day-to-day operations, such as paying taxes and trading across borders, and operate in a secure business environment.

The UK is renowned for providing international investors with the best combination of labour market attributes in Europe. This includes having one of Europe's largest workforces, flexible labour regulations, very high participation rates and a wide range of foreign language skills.

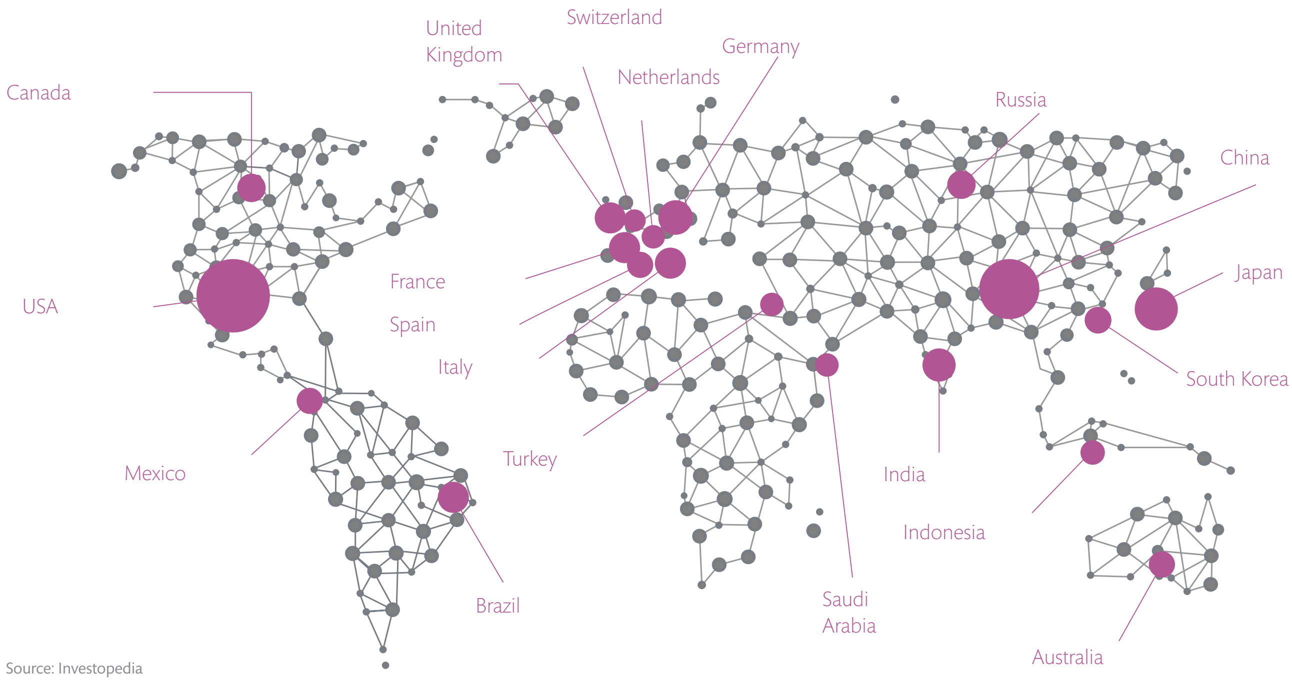
Top 10 countries for ease of doing business

	DBD score
New Zealand	86.8
Singapore	86.2
Hong Kong	85.3
Denmark	85.3
South Korea	84
United States	84
Georgia	83.7
United Kingdom	83.5
Norway	82.6
Sweden	82

Source: World Bank, Doing Business Database

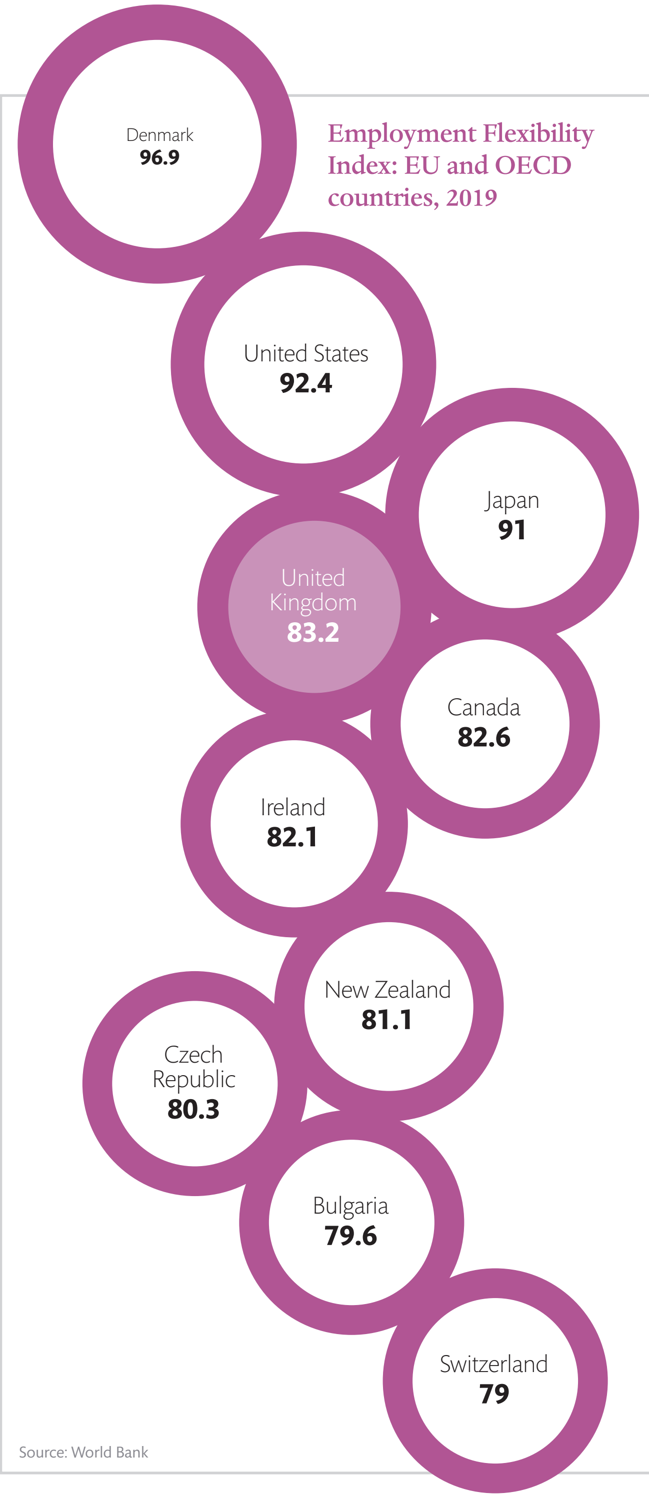
£2.1tn UK GDP – the sixth highest in the world

Nominal gross domestic product at the end of 2019



Source: Investopedia


Come in WE'RE
OPEN



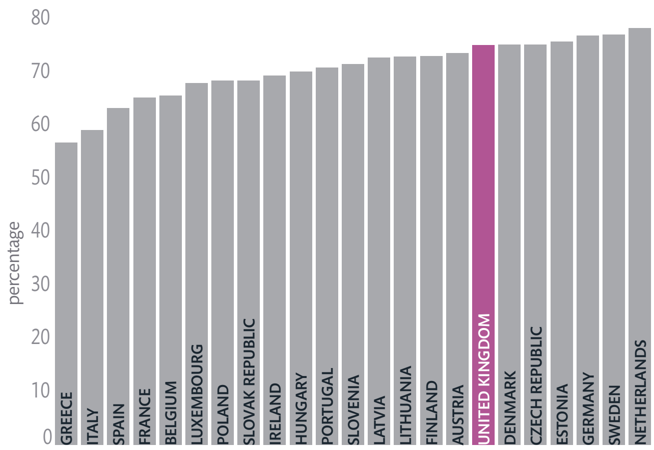
According to the World Bank, the workforce in the UK also is one of the most flexible in the world.

The Employment Flexibility Index is a quantitative comparison of regulatory policies on employment regulation in EU and OECD countries. The index is based on World Bank data reflecting a particular case assumption, collected by way of a questionnaire. Higher values on the Employment Flexibility Index reflect more flexible labour regulations. The UK ranks in fourth position, behind Japan, the United States and Denmark.

The UK tax environment for businesses remains one of the most competitive in Europe, with corporation tax currently sitting at 19% – one of the lowest when compared with other nations across the continent.

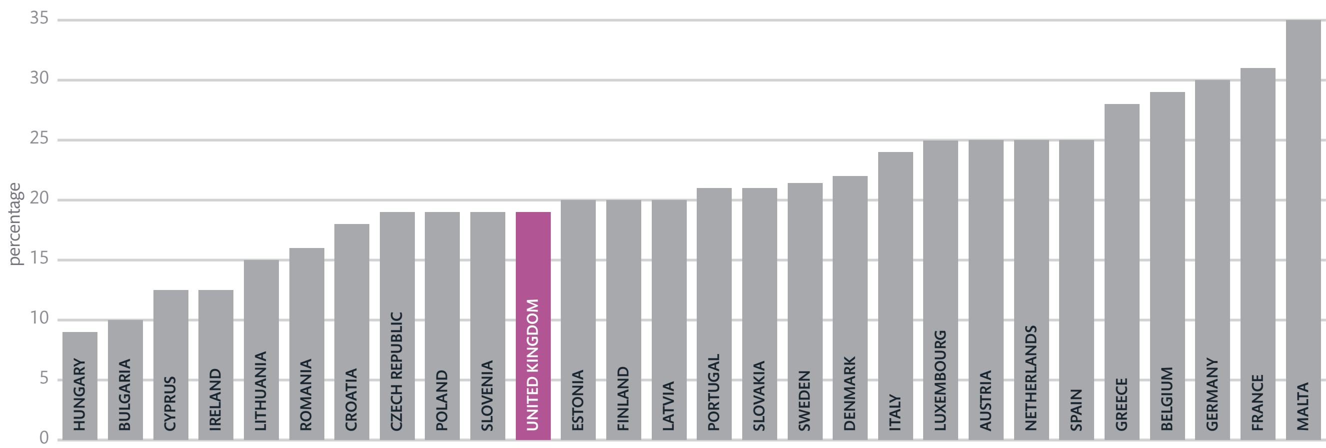
According to EuroStat research, the UK benefits from being one of the cheaper major European countries in terms of finding a talented workforce. Its 2018 data shows that the UK is less expensive in terms of estimated hourly labour costs than other major European economies, such as Germany, Italy, and France.

All EU countries employment rate, including the UK (% of working age population at the end of 2019)



Source: OECD

How rates of corporation tax compare across the EU (2019)

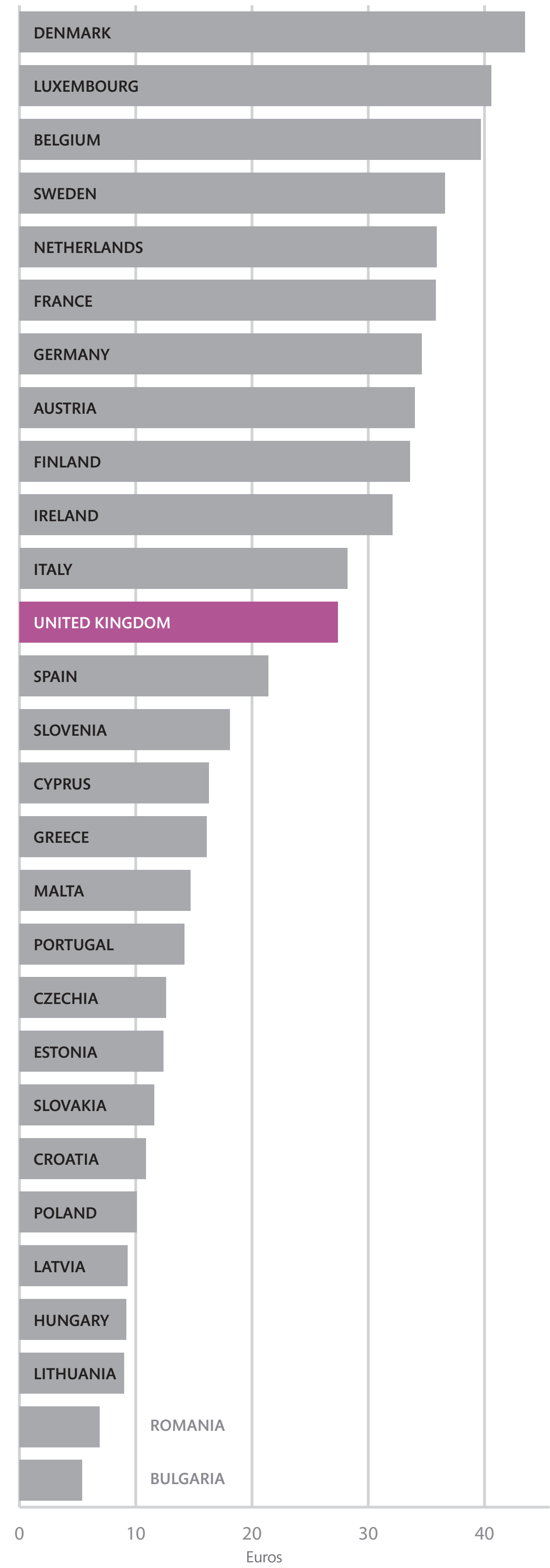


Source: KPMG

19%

The UK's rate of corporation tax is one of the lowest in Europe

Estimated hourly labour costs (€) (data to end of 2018)



Source: Eurostat

The UK is already a global leader in reducing CO_2 emissions

The UK has seen the most significant reduction in its carbon dioxide emissions out of any of the top five European economic powerhouses. Despite the UK being the second largest emitter of the five, it has reduced its CO_2 output by 36% since 1990, ahead of the largest economy in Europe, Germany, which has achieved a reduction of 21%.

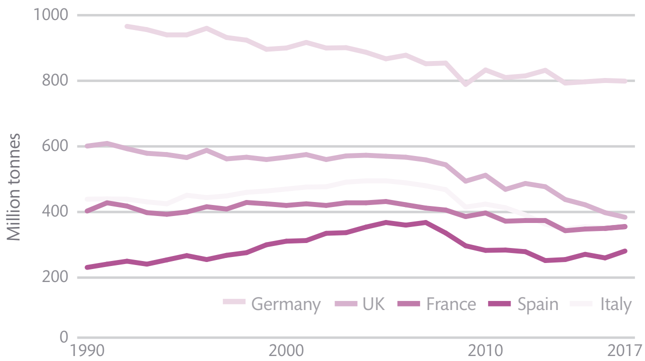
The UK is one of the top five investors into renewable energy sources per capita in the world, spending more than $100 per head, focusing on offshore and onshore wind, solar, hydro and biomass energy production, according to UN Environment.

As a result, the UK is also now the seventh most attractive destination in the world for investment in renewable energy, according to the latest EY Renewable Energy Country Attractiveness Index.

The report ranks 40 countries on the attractiveness of their renewable energy investment and deployment opportunities – it notes that despite investment into certain parts of the UK economy having stalled as a result of Brexit uncertainty, investor support for renewables is still increasing.

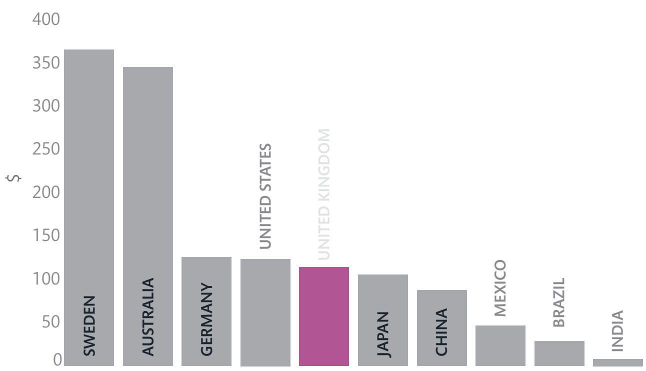
In fact, renewable energy sources provided more electricity to UK homes and businesses than fossil fuels for the first time in Q3 2019, according to research by Carbon Brief, after the renewables electricity mix in the UK rose to 40%. It is the first time that electricity from British wind farms, solar panels and renewable biomass plants has surpassed fossil fuels since the UK's first power plant fired up in 1882.

Annual carbon dioxide emissions of the top five European economies



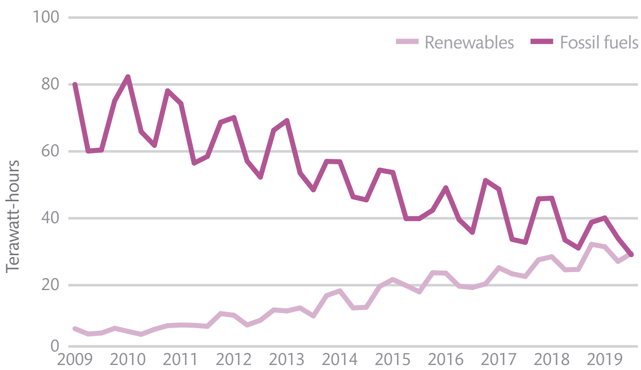
Source: Our World in Data

New investment in renewable energy, per capita ($)



Source: UN Environment

UK energy consumption: fossil fuels versus renewables



Source: Carbon Brief analysis of BEIS Energy Trends and BM Reports

Renewable Energy Country Attractiveness Index 2019

Source: EY

Productivity and wages challenge

Productivity is the key driver of economic growth and determines the long-term economic health of a nation. Growth is important because more "output per hour" increases salaries and profits, and improves standards of living. It also enables tax revenue to grow, in turn allowing government to fund improvements to public services.

Since the Global Financial Crisis, national productivity in terms of output per hour has slowed dramatically, despite statistics on employment rates and employment flexibility being, at face value, extremely encouraging.

In the 10 years to the third quarter of 2008, average year-on-year productivity growth was 2.2%, but since the recession productivity increases have slowed drastically to annual average rises of around 0.5%.

This is happening in spite of the fact that people are working more, with the overall volume of hours worked increasing by 15% since the start of the last decade.

The productivity shortfall is therefore not happening as a result of lack of jobs, opportunities or work ethic, but instead the restricted ability of the employee base to generate sufficient output with the tools, technologies and platforms available to them. It begs the question: is the modern workplace fit for purpose when it comes to enabling workers to be as productive as possible?

As a result, this has been labelled the "productivity puzzle" or "productivity gap" and has been cited by some economists as the defining economic question of our age.

As with lots of national phenomena, this takes on vastly different guises depending on where in the country you happen to look.

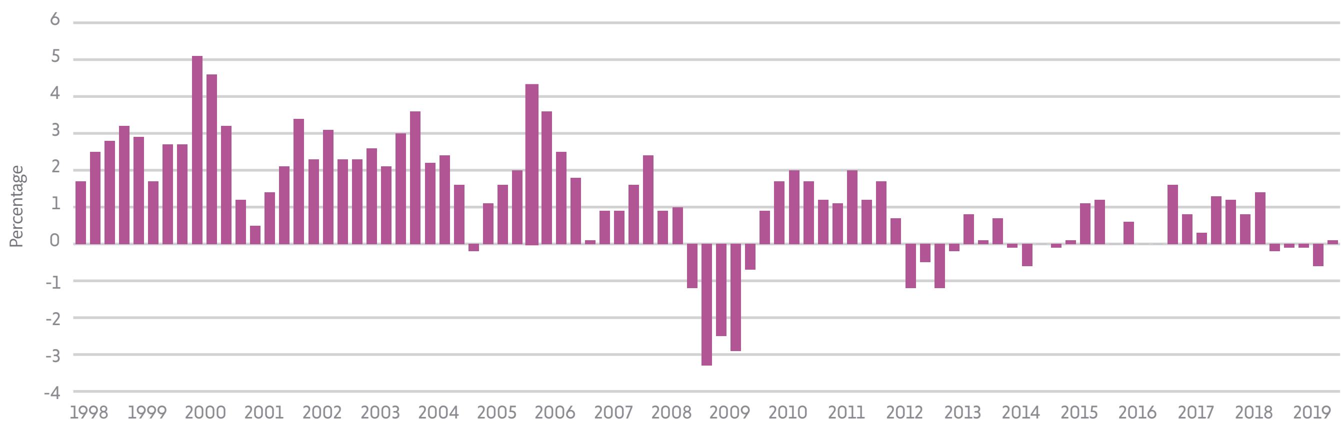
Office for National Statistics data shows London and the South East as being head and shoulders above the rest of the UK regions in terms of overall productivity, with the gap widening in recent years. Enhanced distribution of central governmental spend on infrastructure, in particular, should encourage growth in the other parts of the UK, in time helping to create greater opportunities for new business, and therefore enhancing the possibility of real estate returns in locations which may not have otherwise been considered viable.

Not only are we working longer hours, but we are also working for less. Comparing the relationship between average weekly earnings and actual hours worked, it is clear that since 2008 the symmetry between the two has changed. Individuals therefore have less disposable income to pump back into the economy through day-to-day spending.

The inability to increase the value of goods and services produced per hour of work limits what companies can afford to pay their workers too, perpetuating the cycle.

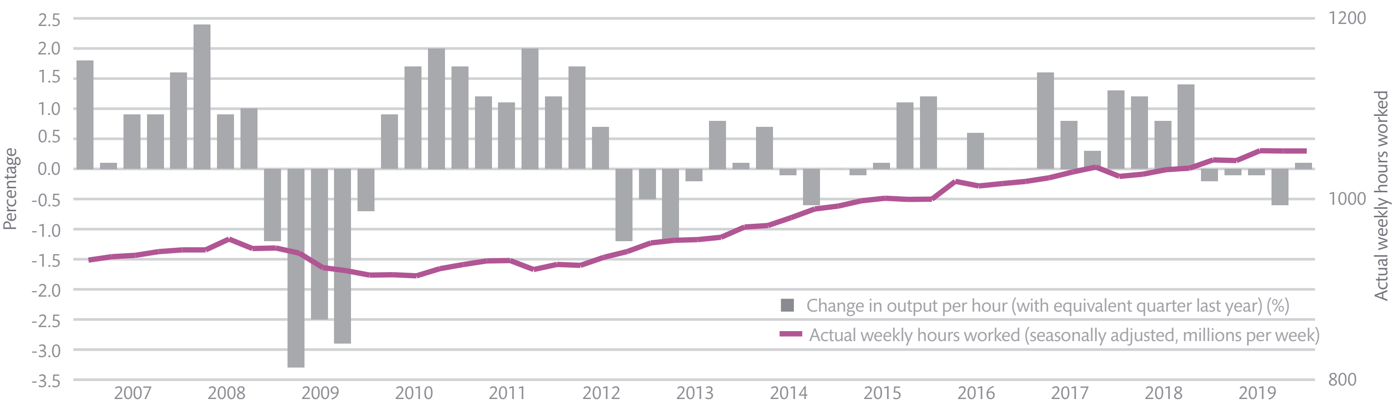
15% Increase in overall volume of hours worked over the past decade

UK economy's annual variation in output per hour



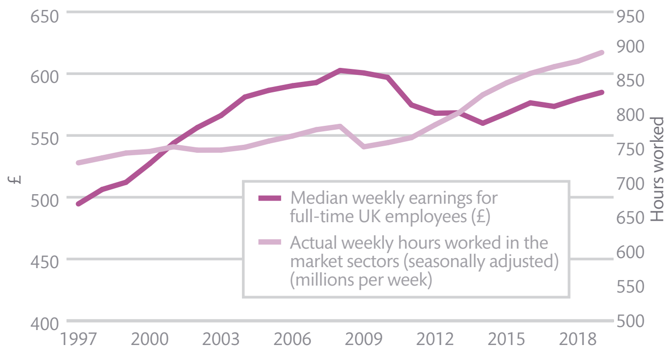
Source: Office for National Statistics

Relationship between total hours worked and productivity



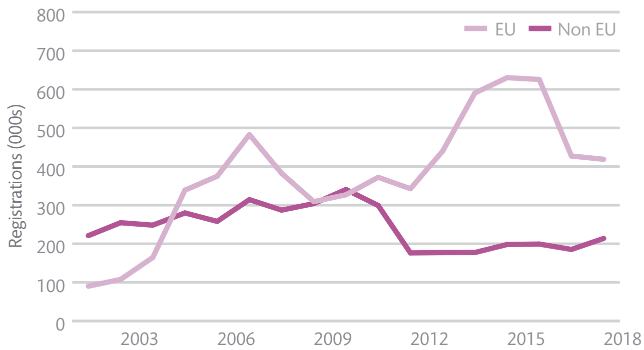
Source: Office for National Statistics

Relationship between median weekly earnings for full-time UK employees and actual weekly hours worked



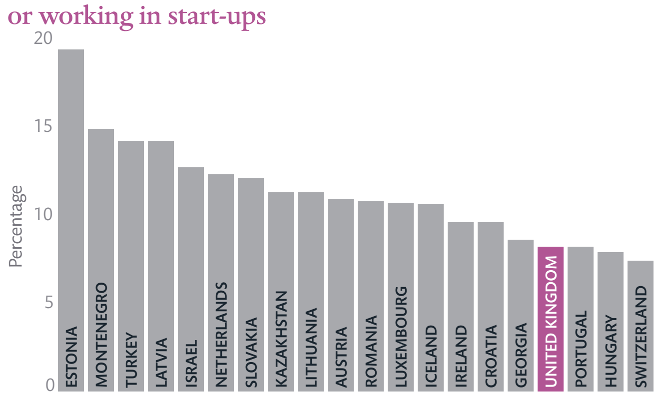
Source: Office for National Statistics

National insurance number allocations to non-UK nationals 2002-2018



Source: Migration Observatory

Percentage of working population who are entrepreneurs or working in start-ups



Source: RS Components

42%

UK workers qualified to degree level – one of the most skilled workforces in the world

Despite the above-inflation increase in the national living wage in April 2018, which contributed to a 2.9% jump in average weekly earnings, workers are still clawing back ground lost from when pay was cut and frozen during the recession of 2008-2009. A general rise in the population, increase in state pension age, and a reduction in the percentage of school leavers going to university, has meant that there has been little direct pressure in terms of supply and demand to force a material increase in wages.

As the population becomes increasingly keen to supply their labour, UK businesses have favoured the more risk-averse approach of taking on more employees in order to navigate through expansion requirements or fluctuations in overall demand, as opposed to capital investment in technological or mechanical improvements, which would carry more risk.

While wage stagnation and an increase in working hours has led to a shortfall in economic productivity, there is evidence to suggest that the UK's workforce is not being utilised as effectively as it should be.

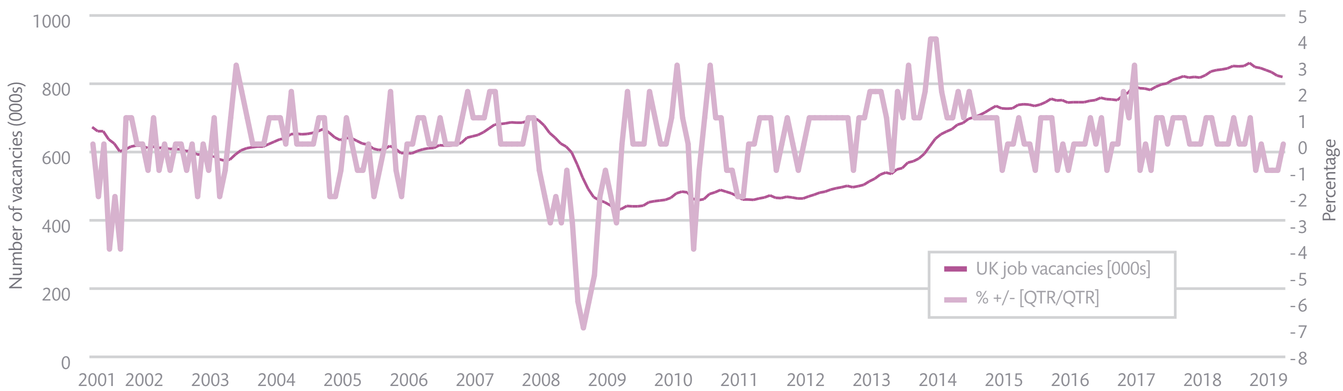
In 2018, the Chartered Institute of Personnel and Development conducted research showing that almost half of UK workers feel that they are in jobs that they are either under- or over-skilled for. The UK has one of the most skilled workforces in the world, with 42% of workers qualified to degree level, yet conversely it also has the highest proportion of jobs within the OECD that require no qualifications at all.

Furthermore, a recent report by tech supplier RS Components found that the UK has one of the lowest levels of aspiring entrepreneurs in Europe, ranking 17th, with only 8.2% of the working population in the country working in a start-up.

The increasing skills gap has also been exacerbated by the recent political instability surrounding the UK's exit from the European Union, with fears that a reduction in migration levels may have an effect on both skilled and low-skilled roles.

The Migration Observatory shows that there has been a steep decline in the number of national insurance number allocations to non-UK nationals since the referendum in 2016. Any continued reduction in immigration comes with the risk for particular industries of being unable to meet staffing requirements. The Department of Education has highlighted hotels and restaurants, information and communications and construction as the three sectors facing the biggest challenge in filling vacancies if current trends of worker migration continue.

Number of job vacancies in the UK and the percentage change quarter on quarter



Source: Office for National Statistics

Real estate's role in the UK economy

According to data from the British Property Federation, 2.2m jobs are directly and indirectly supported by commercial real estate – equivalent to one in every 14 jobs in the UK. The sector is, therefore, a critical enabler of economic activity, not only in providing the platforms from which all business types conduct and expand their enterprise, but in its own right providing a range of employment for a plethora of different job types.

High-quality, fit-for-purpose and increasingly innovative buildings contribute to the UK's reputation as one of the leading places to do business and trade in the world. The next decade will undoubtedly bring disruption to the nature of enterprise, but requirements from office occupiers, logistics firms, manufacturing enterprises and retail operators for some semblance of bricks and mortar will continue to underpin the sector's importance to the national economy.

Real estate is an essential part of life. We live, work, learn and spend our leisure time in buildings. As such, the relationship between infrastructure and real estate must not be underestimated. Infrastructure creates the conditions for commercial and residential opportunities, but at the same time, infrastructure projects like new schools, hospitals or railway stations can be highly dependent on the associated real estate development that comes with it.

Real estate will always present itself as a lucrative asset class for institutional investors, such as pension funds, insurance companies and sovereign wealth funds. This global pull makes large-scale regeneration projects possible. Investment into real estate projects is vital to the health of our towns and cities. Investing in real estate is the catalyst for urban regeneration and renewal. It generates social capital and creates happier, healthier and more sustainable places in response to our changing work cycles and changing lifestyles.

Potential to grow

The combination of competitive corporation tax, ease of doing business, and strong education system with a flexible, capable, and relatively cheap workforce will ensure that the UK remains a very attractive proposition for inward investment.

There are areas that we can improve, and real estate will be at the heart of this change during the next 10 years. Building out new workspaces may not alleviate the critical gap in workers being in the wrong roles (see page 24), but it can help in providing best-in-class platforms for companies to energise their labour force, and utilise increasingly sophisticated technological advances to optimise efficiency.

While there is also a pledge to increase the National Living Wage again in this parliament, a deep-dive into how to get the best out of employees is needed. After all, financial incentives are not the only motivator in getting the best out of the UK workforce. Real estate offers the bedrock for all workplaces in the UK, and so by creating best-in-class places to work that enable employees to flourish, the built environment can incubate and support business growth, propelling productivity and profitability levels, which in turn create superior returns for those invested in the sector.

Regional development of new infrastructure and destinations will give businesses the opportunity to invest in places outside of London and the South East, which have had an outsize focus from investors and government over the past decade. Without the conditions that enable investment in real estate nationwide, the government's "levelling up" agenda will struggle to deliver on its ambitions.

Enabling these communities to better themselves will create a stronger link of retention, and by retaining talent in a broader spectrum of locations, we will begin to see the evolution of stronger localised economies. This will prove beneficial for those who don't want to commute away from where they live, simultaneously upskilling residents as well. Increasing visibility to opportunity will work to increase the number of entrepreneurial workers in the UK too.

The UK has massive potential; real estate can be at the heart of unleashing that and creating a more productive economy for all.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Mind the gap

Consumer behaviour continues to evolve, bringing new opportunities for savvy investors – but we must understand the trends and adapt to the new reality

James Child, head of retail & industrial research, EG

The socio-economic plight of many of the UK's town centres and high streets has been well documented throughout the past decade.

During that period, several independent and government-led investigations have attempted to tackle the symptoms that have stifled productivity, with rather limited success.

The death of the high street, as much as it is a misnomer, is a theme that has been close to the front pages for the past few years – and with good reason. The loss of household retail names, concerns about jobs and fears around the future of communities after years of austerity, has pushed the conversation to the forefront of the public psyche.

The government-imposed lockdown to slow the spread of coronavirus is likely to have far reaching effects on the UK's town centres. In the short-term the majority of high street enterprise has been forcibly closed, with trading and footfall coming to a virtual standstill. In the aftermath of the pandemic there are fears that this could inflict long-lasting damage as a result of extensive business failures and mass unemployment.

The high street has been the cornerstone of local communities for generations. The role of real estate in protecting this enduring truism has never been more important. The built environment is the foundation upon which the community is formed.

Reinforcing these fundamentals will be the first step to addressing the myriad of headwinds faced by physical retail real estate and local town centres. Repurposing and reinvesting in the built environment is mandatory if we are to sustain the changes needed in a productive central urban destination in the next decade, going beyond traditional retail or store modes, to incorporate and incubate other mixed-use development and fit-for-purpose infrastructure.

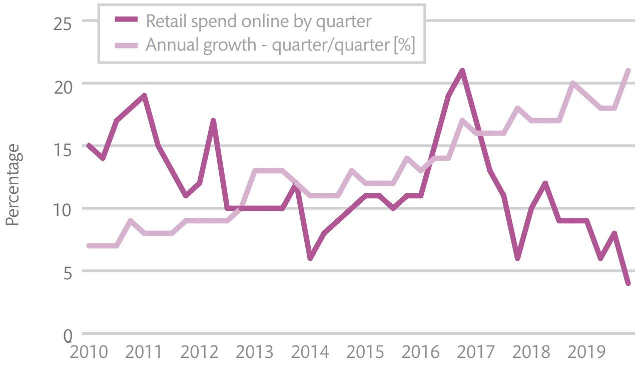
The health of our town centres is paramount to increasing the productivity of UK plc. To nurture this, a new holistic approach will have to be taken from national and local governments, one which relinquishes reliance on identikit retail parades and places productive, inclusive working urban environments and communities at the top of the agenda.

The lifeblood of the town centre is the people it supports. Our actions as consumers contribute to the overall health of any micro or macro economy. In this instance, our reticence over the past decade to get out and "go shopping" on the high street has had a damaging effect on the bricks and mortar built to sustain such activities.

The challenge for the real estate sector will be how to best utilise the UK's town and city centres to solve the productivity puzzle. In most instances the high street is no longer fit for purpose in its current guise. With an increasing number of retailers consolidating physical space and many going bust, it's clear that the reams of vacant premises that are blighting town centres are not going to be reinstated as retail stores.

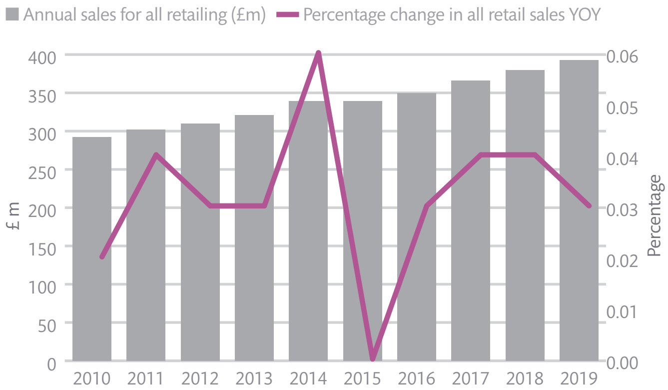
Clarity of what has happened on the ground will go some way to dissecting how this productivity gap has widened in recent years, highlighting the areas that local-led investors need to address to kick-start the high street's recovery in the face of obsolescence.

Online retail spend and annual growth by quarter



Source: Office for National Statistics

Total annual sales for all retailing (excluding automotive fuel)



Source: Office for National Statistics

We are slowly becoming a "post-stuff" generation, choosing to rent products rather than own them

Consumers consume differently

The past decade has changed our expectations of the shopping experience. In 2010, some 7% of retail spend came through the internet. That figure has since trebled to reach 21% last December, although analysis of annual growth by quarter shows it is slowing.

This indicates two phenomena. Firstly, that we are buying less and secondly, that we now buy experiences other than things.

Our evolving consumer habits have shown that we are slowly becoming a "post-stuff" generation, entering an age of impermanence wherein more and more elements of life become rented rather than owned – music, films, cars and now even furniture and clothes come under this umbrella.

Millennial consumers have been at the sharp end of this changing trend. Fiscally, many come into the workforce with less disposable income and a greater burden of debt from student loans. Because of these life-long fiscal realities, only one in three millennials carries a credit card. Rented living is now more common, again meaning less spend on household and white goods.

According to research compiled by Harris Group, 72% of millennials prefer to spend more on experiences than on material things, and equally, look for higher quality, but at the best price.

As a result of the coronavirus it is expected that leisure and experience-led activities, and in this case spend, will be dictated by rigorous government guidance on what is deemed appropriate. Running congruent to this, consumer habits could alter as potential fears over health and safety take precedent over socialising with others or being exposed to large groups of people.

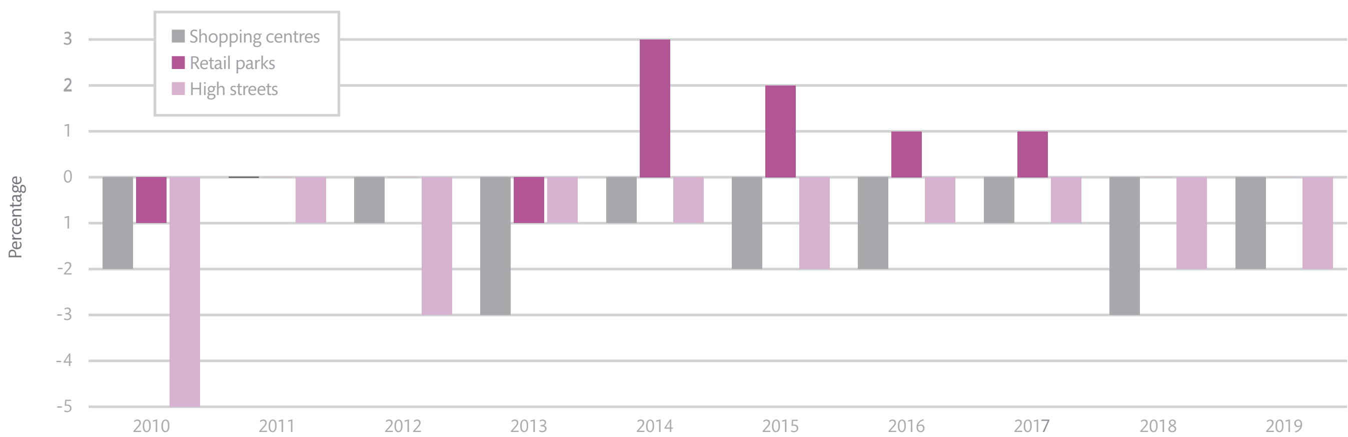
Therefore the interim period between the ongoing pandemic and an expected return to social norms, could see reduced interest in this type of spend in the short-term. However as we eventually move past the virus we should expect to see retail sales dictated by experience in the long-term.

While the overall trajectory of retail sales continues to move upward in terms of pounds spent, ONS data shows us that the year-on-year percentage growth is slowing, mirroring online spend.

It is important to understand consumers' relative cultural changes. Without this insight real estate will be hamstrung by outdated perceptions and be unable to provide the correct stimuli to engineer growth. The built environment must adapt to a new age of super-connected urban environments.

The sprawling urban environments of cities support large and diverse communities. Their superior infrastructure and relative abundance of jobs mean that retail is easier to incubate. Securing the future of a shopping environment in a town centre will always be more difficult – with smaller populations and less footfall generated by tourism, the size, affluence and engagement of the local population is key.

Percentage change in retail footfall by location type 2010-2019



Source: Springboard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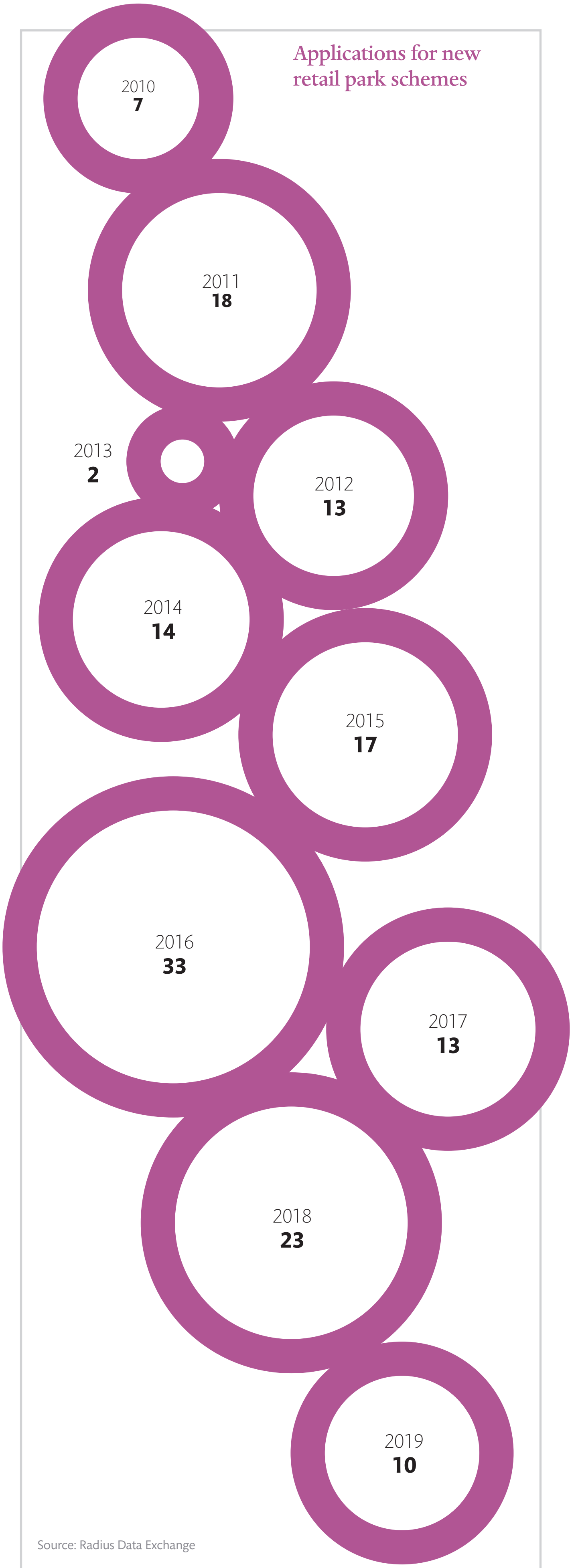
Applications for new retail park schemes



Source: Radius Data Exchange

Repurposing real estate remains immediate challenge

Footfall is often offered up as the litmus test of a successful place. Data from Springboard shows that shopper numbers have reduced by approximately 20% since the start of the 2010s, with out-of-town retail parks showing the only positive growth during that period. It will be vital that efforts are made to propel footfall back to pre-Covid-19 levels as the UK transitions out of lockdown. Clear government guidance will serve to ease consumer trepidation surrounding health and wellbeing, high street workers will have to be protected and stores temporarily retrofitted to be "Covid-secure".

The scars of the digitisation of shopping are clear to see, with vacancy rates on the high street remaining over 10% since 2013.

These changes have had an effect on retailers themselves – which now require increased flexibility in their agreements with landlords in respect of rental levels and lease lengths to react quickly to market conditions.

In the later stages of the past decade a valuation gap has opened up between the values placed on units by property owners and occupiers. The relative worth of bricks and mortar retail space has changed, dictated by shifts in consumer footfall and spend.

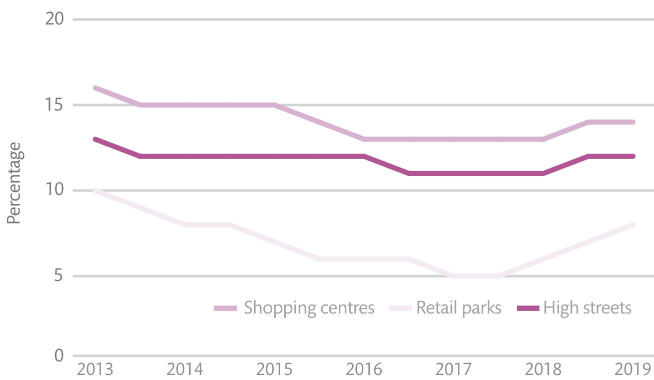
The productivity of a town centre should no longer be measured by how many high street brands it houses, but by what it offers holistically to the whole community. The community that a town centre serves will ultimately dictate the success of a place. The responsibility of those invested in real estate is to offer the platform for local leaders to enact necessary change that is required to breathe new life into decaying local economies.

Additionally, out-of-town shopping has worked to reduce overall dwell time in central destinations. Despite efforts to reduce urban sprawl by the National Planning Policy Framework with the introduction of the town-centre-first policy in 2012, plans for new out-of-town shopping destinations sky-rocketed during the 2010s.

According to Radius Data Exchange, applications for new schemes have almost doubled over the past five years. Out-of-town retail has become attractive for several reasons: cheaper land for developers and investors, cheaper rents and bigger premises for occupiers; and easy and cheap accessibility for consumers.

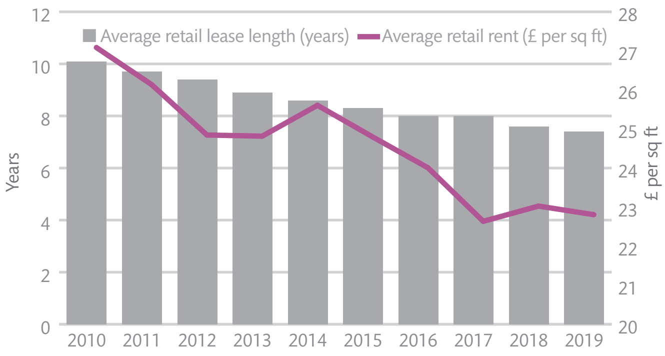
These continued and sustained pressures on our central shopping areas have worked to further damage once healthy retail environments.

Retail vacancy rates by location



Source: Local Data Company (LDC)

Average retail lease lengths and rents



Source: Radius Data Exchange

How to revitalise town centres: what can real estate do to create productive urban environments?

Providing the necessary infrastructure in the regions is essential to negate further productivity stagnation. During the past decade regular and affordable modes of public transport, and amenities such as community centres, doctors' surgeries and libraries have been lost. These individual aspects combine to create a productive, vibrant and productive town centre.

Sustained political turbulence and the valuation gap between vendors and purchasers has worked to create a period of investor inertia. Radius Data Exchange analysis shows that investment into UK shopping centres and retail parks has dropped by approximately 30% between the first half of the decade and the second.

A fresh hope for regeneration has emerged in the shape of more active local authorities.

Despite having their funding slashed by 49% since 2011, according to the National Audit Office, local authorities have drawn on capital reserves and debt to start buying commercial real estate assets within and outside their own jurisdictions to kick-start regeneration plans and breathe life into the built environment where private enterprise has not met the requisite levels. They have also provided a source of income at a time of serious budgetary constraints.

Approximately £7.5bn has been spent on commercial real estate by local authorities since the trend started in 2013, according to Radius Data Exchange.

This interventionist approach has gifted those authorities the chance to become place-makers.

Those with boots on the ground can decide what to do with assets, dependent on the need of the community.

With a local hat on, perhaps more so than a traditional REIT, local authorities can identify how to increase the productivity of a scheme, high street or destination through their own lens.

Local regeneration has often faced stumbling blocks when it comes to creating and implementing a congruent long-term vision. One of the biggest factors is the nature of the fragmented ownership in UK real estate.

The disparate ownership of the high street, as highlighted by EG's research, goes some way towards explaining why so many of the country's town centres are suffering. Disjointed ownership makes it difficult to create streamlined and accountable town centre plans, with the patchwork of proprietorship enabling landlords to focus their concerns on return on their individual investments rather than the wider community landscape.

To facilitate much needed regeneration, which would in turn enable a spike in productivity, we need to approach things differently. Compulsory purchase orders could work to alleviate

the raft of empty shops that currently scar the high street. Putting them back in the hands of communities and giving local people a voice will help tackle specific local issues.

Not all high streets are the same, some require more surgery than others. Productivity can only be addressed in many communities if they are given the tools with which to create and sustain growth. Council intervention, or the rolling out of development concepts to community, will incubate this. The public sector is the third-largest owner of the UK's high streets, according to Radius Data Exchange research, with a 16.6% share.

Repurposing redundant retail stock is the major challenge in the years ahead, and such a task will need collaboration between public and private sectors. Local councils must ensure they take advantage of the breadth of expertise from the real estate sector.

High streets are no longer just about shops. If the anticipated calculations regarding a loss of retail space equating to 30% of the UK's current A1 stock are accurate, then the opportunities to repurpose shops will be the starting point for a more productive high street offering in the future. The structural changes required on the high street present themselves as an opportunity to roll out a serious overhaul of our town centres and communities.

These changes will not be without obstacles. Simply repurposing redundant stores into other uses will work to further fragment the tapestry of the high street. Replacing a shop with a residential offering, for example, which is bookended on one side by a pub and on the other by a restaurant, doesn't create the right offer for either the retail and leisure element, or a residential-hub either.

In an ideal world you would build up clusters of use types, affixing residential premises on the fringes of a centralised community domain. Thereby bringing residents into closer proximity to their local economy without disrupting it.

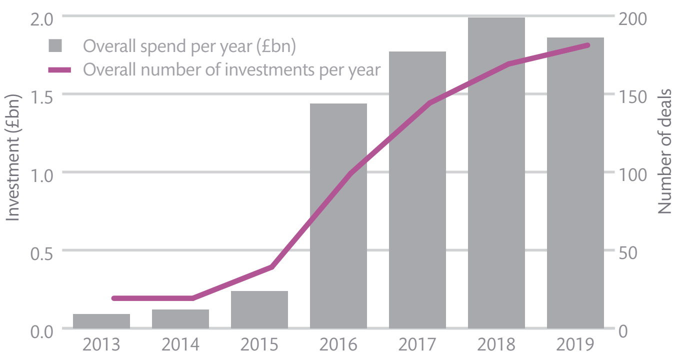
The task for regeneration experts will be how to create new templates which manage to extract 20-30% of traditional retail stores from the equation, replacing it with something of higher worth in societal value. This is where a deep understanding of demographics and local idiosyncrasies will be essential.

In the latter stages of the past decade food and beverage offered a stop-gap solution to a loss of shops, with A1 to A3 being the preferred resolution to increased high street vacancy. The F&B bubble looks to have burst with the success of delivery services like Deliveroo and Just Eat eating into the margins of restaurant spaces, and the new short-term shift towards social distancing could lead to a deviation in "experience spend" markets like eating out.

In the future we can expect greater visibility of logistics space within town centres. Not in the form of tin-can warehouses, but in softer last-mile pick-up points. While the demand for urban logistics space is hotting-up against increased consumer demand, these sites will also encourage residents to move through their town centres as the culture of online spend continues to embed itself.

There is no one-size-fits-all approach to reanimating redundant space. The challenge moving through this next decade will be how to utilise this space to create a greater good. Councils must lead on this, curating and rolling-out plans for responsible regeneration, which incubates the ethos of their individual town centre plan. Allowing rampant development of high street assets without such procedure could work against the creation of a more productive community.

Local authority investment into commercial real estate assets



Source: Radius Data Exchange

Homes on the high street?

As the number of retail vacancies increase on the high street, swathes of real estate are being freed up for residential use. The number of applications for change of use from shops to homes has doubled over the past five years, according to Radius Data Exchange.

The figures show that 27.7% of all change-of-use applications to residential in 2019 were for high street retail space, up from 13.9% in 2014. With the future of our town centres under the microscope, and the traditional retail offer failing to attract footfall as it used to, conversions away from retail are becoming more common.

The shortage of land in urban areas has seen residential developers come into direct competition with other real estate sectors, most commonly locking horns with those in the industrial and logistics space seeking plots for last-mile distribution hubs.

But it is not just on the high street where this transformation is occurring. Many of the big retail REITs are now looking at repositioning their retail destinations by supplementing shopping centre schemes with additional housing elements while simultaneously reducing the retail offer.

However, repurposing old shops into new homes is not necessarily the silver bullet for urban renewal. In fact, some believe that dwellings should be kept off the high street entirely.

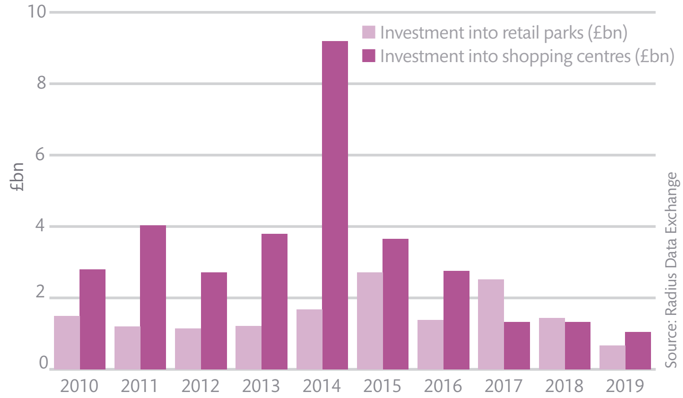
The Housing, Communities and Local Government committee called for "curtailed" development rights on high streets and in town centres in its report in February last year, specifically when turning shops into new homes.

At the time, HCLG outlined concerns that permitted development rights "risk undermining the strategic vision that a community has developed for its high street or town centre".

Despite the increasing scarcity of land – and competition with other property sectors – the number of new residential units coming through the planning system remains strong.

Moving into the next decade, we can expect higher levels of activity recalibration on high streets and in town centres across the UK. The voices in opposition to permitted development rights will get louder, as requirements for minimum standards continue to come under scrutiny. Regardless, the continued evolution of real estate will create opportunities, as well as laser in on inadequacies, in current conversion methods.

Investment into UK shopping centres and retail parks



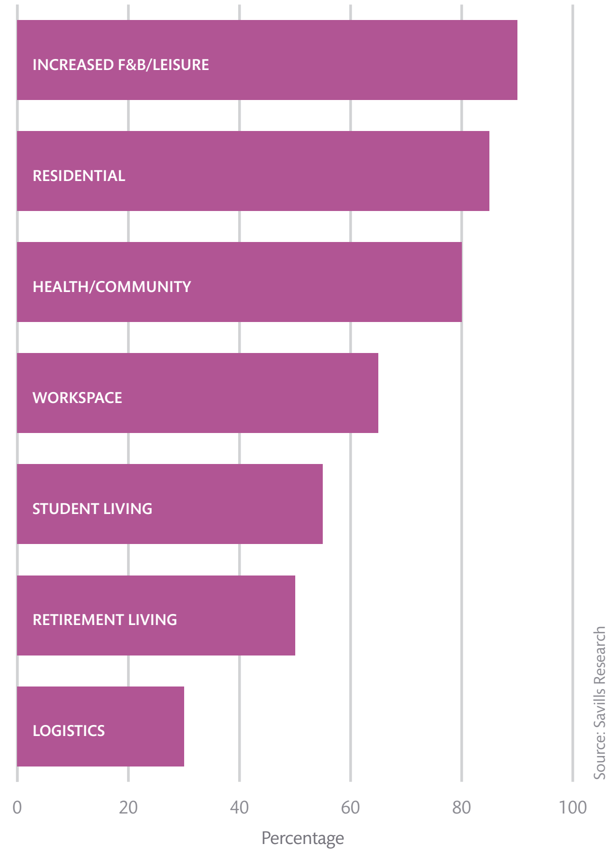
£7.5bn

Councils' investment in CRE since 2013

Ownership of top UK high streets by investor type

Source: Radius Data Exchange

"What alternative uses are you currently considering or do you think could be viable in your retail assets?"



Change of use

Repurposing redundant retail stock will be a major challenge in the years ahead, and such a task will need collaboration between the public and private sectors. Local councils must ensure they take advantage of the breadth of expertise from the real estate sector.

As we know, high streets are no longer just about shops. If the anticipated calculations regarding a loss of retail space equating to 30% of the UK's current A1 stock are accurate, then the opportunities to repurpose stores will be the starting point for a more productive high street offering in the future.

The structural changes required on the high street present themselves as an opportunity to roll out a serious overhaul of town centres and communities.

In a Savills report published in 2019, the agent undertook a study of its retail landlords – which between them control more than 1,000 UK schemes – to explore their views of how significant the retail repurposing proposition was.

The top three repurposing offers being considered were provision for food and beverage, inclusion of homes and the adaptation to community spaces. It is clear to see by the high percentages that change is on the horizon for those assets. It is perhaps surprising not to see a higher propensity for inclusion of logistics space given the increase in demand for click and collect locations, but more than 60% of respondents suggested that workspace is being thought of as a potential solution to the need to reinvent retail space.

Future-proofing a productive town centre offer

In recent years the High Streets Task Force, Future High Street Fund and Towns Fund have been established, giving communities a chance to pitch their future visions of place to government to achieve funding.

Financial incentives aside, there is more that can be done. Retention of a highly educated talent pool can help power up local economies, and political devolution and deregulation of planning could empower local leaders to spark regeneration that could help stem the current "brain-drain" of skilled workers endemic in satellite towns.

Government should also consider offering tax relief or breaks to growing businesses, encouraging them to adopt central locations.

As we have seen from the data, the future of our town centres will be about what we cannot do online, and many are fast becoming a services and entertainment-based destination offer.

That is not to say that retail does not have its part to play. Contrary to mainstream narrative, many operators, both independent and multiples, are performing well. Physical locations still complement sales performance, according to research published by CACI Property Consulting Group last year. Its report, *The Online Halo*, shows that 90% of all UK retail spend is influenced by a physical shop and that online sales double within a store's catchment area.

With flexi and co-working becoming more common, we can expect to see less daily employee migration to neighbouring cities, and more people being able to work in their home towns. This increasing trend has been sped-up given that homeworking has become more "normalised" during the pandemic. Satellite communities will become less porous, and retention will increase daily footfall. This can then incubate further micro-markets, such as increasing high street spend and developing a night-time economy. Real estate can be the enabler for these new landscapes to flourish.

90% Proportion of online retail spend that is influenced by a physical shop

RETENTION INTENTION

The student population makes up the largest demographic of domestic migrators in the UK. It has been revealed that a record-breaking 39% of all 18-year-olds in the UK applied to start studying at a domestic university in September 2019, according to research by Knight Frank and UCAS.

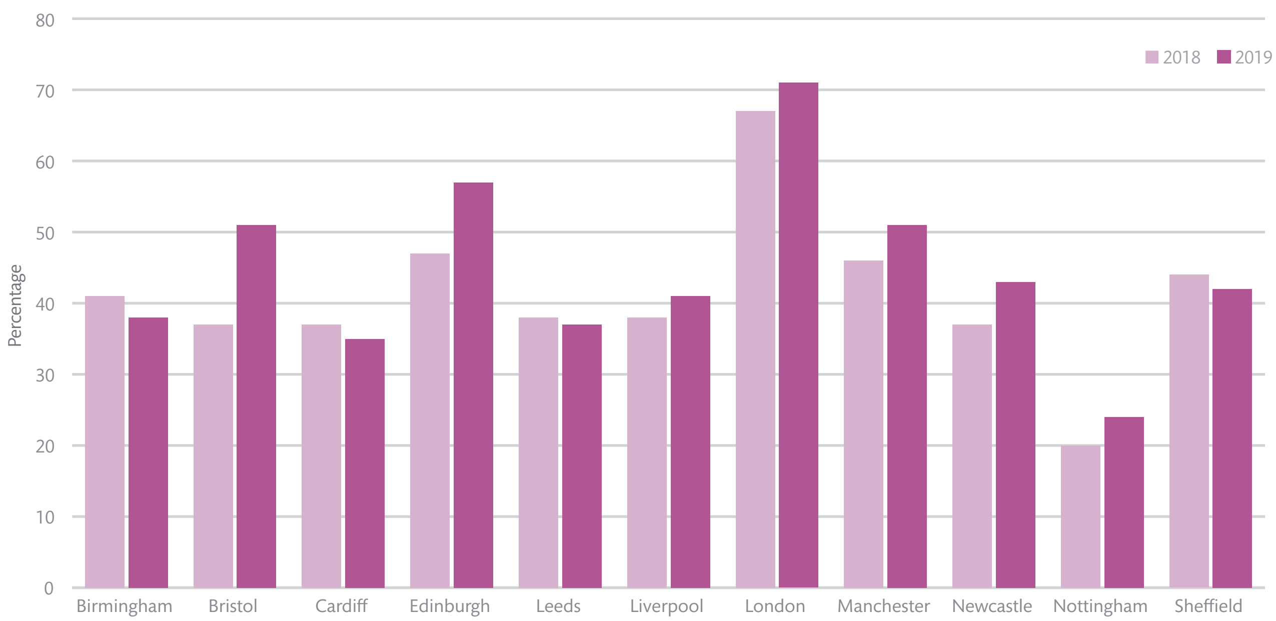
The Student Accommodation Survey highlighted the key retention trends in some of the largest cities in the country. London has historically been a net exporter of students, while large regional cities such as Manchester, Leeds and Birmingham are net importers. This trend typically reverses on graduation, with London acting as a magnet for recent university leavers looking for jobs or joining graduate schemes in the capital.

However, the retention of students in key cities is increasing. The intention of graduates to stay in Bristol, for example, has increased from 37% in last year's survey to 51% this year, while in Edinburgh the same measure has increased from 48% to 56%.

Further analysis of the year-on-year data shows that, on average, the retention rate for postgraduates across the 11 cities jumped from 41% to 45% between 2018 and 2019, with overall increases in seven of those cities.

Distributing the UK's young highly skilled knowledge base will benefit local economies throughout the country. The ability for a city to retain these assets can attract businesses and investment to regional areas, increasing productivity.

Postgraduate retention rates (% of final-year students intending to remain in their study city after graduation)



Source: Knight Frank/UCAS Student Accommodation Survey

The future

Every high street and town centre is different, but the roll-out of clone retail offers across the UK has undermined the ability to capitalise on a location's rich heritage, culture and history. A unique identity should be celebrated, used to both nurture pride in one's place while also drawing in new residents.

Retrofitting redundant retail into fit-for-purpose space will be the first challenge. Investing in destinations through a collaboration between public and private sectors will help to unlock the potential of these spaces.

Technology and data will have a leading role in a successful place. A recent report compiled by CBRE, *The Future of Retail 2030*, suggests that the use of virtual and augmented reality, along with holographic interfaces will become the norm. A hyper-digitalised experience will replace pure-play retailers, creating new upskilled jobs for retail workers. It is important to remember that humans remain social creatures and crave community hubs to meet, create and explore. While these habitual tendencies are on pause during the phase of social distancing, these are long-term cultural shifts which will continue to entrench themselves in society in the months and years post Covid.

In the future, shopping centres will simply become "centres". They will encapsulate the population around them to include educational facilities, leisure activities, co-working office spaces, wellness and fitness establishments, and designated areas to support logistics and distribution of products as well as an addition of homes to create polycentric living.

On a wider scale, chrono-urbanist values should be incorporated to create locations with hyper-proximity to all necessary amenities in order to reduce a reliance on driving, enabling localised infrastructure to be rolled out, and reducing bias to out-of-town development.

A thriving and productive high street must be supported by a strong local economy, one which engages and understands the needs of its resident population and embraces the underlying changes in retail and consumption to bring to life a new age in localism.

By 2030 we can expect successful town centres to have adopted a different approach to that of the past. Economic success and the productivity of a place must be measured in terms of the supporting growth in local enterprise. Many will be hit hard by the fallout of Covid-19, especially those in more remote, deprived areas. The outpouring of community spirit and goodwill from the public that independent traders have received in the opening stages of the pandemic have proven that localism is alive and well. It's from these embers of community spirit that a renaissance of high streets will spark.

Industrial strength

Increased logistics efficiency offers apparatus for more productive UK

James Child, head of retail & industrial research, EG

Changing consumer habits may have reversed the fortunes for physical retail, but there has been one big winner. The logistics sector has benefited as retailers move their operations from the shop to the shed.

Savills data shows that investment has been above the 10-year average for the past three years, and leasing for the past two. Advantageous market conditions created by the growth in online spend has coincided with apprehension that a no-deal Brexit could cause stockpiling of goods. There hasn't been a better time be in the sheds game.

The logistics sector remains the in-vogue choice for investor capital. Yet unlike its office or retail counterparts, industrial real estate has never been able to forge an identity as a potential spark for cultural or economic regeneration. While logistics space will remain an important component in the UK's ability to become more productive, it has its limitations when it comes to incubating environments in which people want to live, work and play. Instead, its merits lie in its capacity to enable speed, precision and efficiency to the networks it serves.

There is an expectation that the current growth of online spend will begin to decelerate in the coming decade, but there is no expectation that the demand for logistics space will reduce. At the time of writing, it is estimated that approximately one-quarter of the entire global population is under lockdown due to the coronavirus pandemic. With revenues from bricks-and-mortar stores drying up, it has never been more important for traditional retailers to have an omnichannel strategy – to continue to meet consumer demand by means other than physical stores. Covid-19 has accelerated the uptake of e-commerce, especially in the supermarket sector, where previously non-compliant online food shoppers are now exploring the channel for the first time.

In the short term, Savills' research notes that in times of low economic confidence, customers have historically turned to online shopping, as consumers become more driven by cost-effective spending. This will magnify in the coming years if the fiscal fallout of the government's coronavirus bailout begins to reduce disposable income. Once again the logistics real estate sector could be poised to take advantage of otherwise unfavourable economic conditions.

Logistics space is no longer cast to the extremities of our urbanised environments. As the space race intensifies, logistics operators will begin to invest in different types of assets, potentially looking for high street hubs from which to operate last-mile operations, or vacant retail park premises, which are larger, better-connected sites. Online giant Amazon has begun to pick up sites in London for its last-mile distribution operations. One site in Mill Hill had previously been earmarked for more than 800 homes, another was the former Toys R Us store in Croydon.

The hotly contested search for suitable and affordable land in central urban locations could lead to the creation of multi-purpose logistics facilities. Beds and sheds had been thought a solution to this shortage of space, though combining other use types could prove more attractive, given the reticence from residents to live in or near industrialised workspaces for a variety of health and wellbeing reasons. Looking to the future, logistics space will become increasingly important to the health of the UK economy.

According to research and advisory firm Gartner, approximately 30-40% of goods we purchase are classed as replenishable, in other words items that we have to buy out of necessity. By 2030, with continued technological advancement, it is more than likely expected that these goods will be automatically purchased on your behalf and shipped to your home address. They will come directly from the manufacturer as and when you need them, cutting out the present layers of distribution from manufacturer to distributor to retailer and finally to consumer, reducing waste, emissions and increasing efficiency.

This is critical as the country seeks to achieve its net zero carbon goals by 2050. Research by the UK government shows that while the growth of individual car journeys is beginning to decelerate, the number of journeys by delivery vehicles is increasing – causing an overall uptick in the volume of traffic on the roads. Moving into the 2020s, there will be more pressure put on logistics companies to streamline their operations to reduce their overall emissions, which may have an impact of consumer patterns in the long-run in terms of speed and efficiency.

The logistics boom in the 2010s looks set to continue into this decade. Consumer habits and expectations will continue to drive shorter delivery times and easier collection for goods bought online. As an asset class it will remain attractive to investors as it looks a safe bet for solid returns. Yet as the UK looks to increase its productivity and bounce back from the coronavirus, there is little to suggest that industrial space can be a real driver in this recovery.

Logistics assets are well-oiled machines that serve to either create goods or move them from A to B. This market has grown exponentially in an age of express deliveries, creating employment in the regions and enabling the UK to keep up the pace of its digital evolution. In terms of fulfilling a purpose, these spaces fit the bill perfectly. Outside of these remits, they don't add to the cultural fabric of a place or incubate the multi-faceted social dynamics we come to expect from retail or office-led regeneration. The productivity they create therefore becomes confined to their own domains.

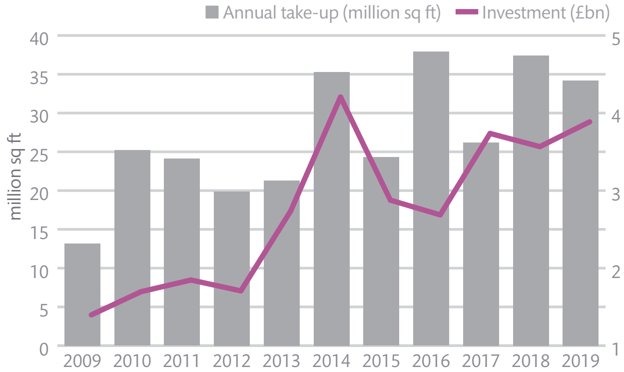
One of the reasons for his has been their traditional space requirements. Due to their size, warehouses are located away from urban centres, they are often isolated, tucked away on arterial motorways, and don't generate growth for other industries – unlike town centres, where enterprises feed off of one another to grow.

The increasing distribution network in the UK has created ample employment opportunities in recent years, yet many of these new roles that have been created will fall into the "low-skilled" category, most employees therefore earning lower than average salaries and offering less stimulus to local economies due to suppressed disposable income. There are also concerns about working conditions. In an age of health and safety, concerns around physical and mental health, and zero-hour contracts, warehouses have been under the employment spotlight. There has long been an expectation that many roles or tasks in warehouses will be the first to benefit from automation, which may affect the number or human roles needed in the future. Huge strides have already been made to automate driverless vehicles and drone delivery systems.

The trade-off between physical retail and logistics space will continue, though it is not expected that the last-mile surge will move to reanimate all those vacant high street shops we expect to appear. Research compiled by PwC and ULI indicates that logistics space is one of the least favourable asset classes to repurpose existing real estate space into, behind only retail. It is also the least desirable asset class to repurpose. The infrastructure and technology that is required to set up logistics premises makes it more difficult to create those spaces without starting from scratch, which is one reason obsolescence in industrial units is happening increasingly quickly.

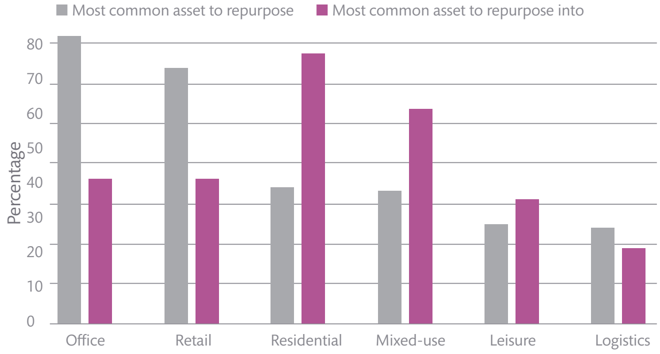
There is still a requirement for big-box sheds. Indeed, post-Brexit and post-Covid-19 there may be a mini-renaissance for domestic manufacturing. These events could mean that international trade slows or becomes more difficult, potentially creating opportunities for home-grown enterprise. Consequently, the demand for smaller urban-centric sites will continue to grow. Last-mile hubs do have the potential to increase town centre footfall and contribute to localised growth. The sector does not have the ability to transform the UK's productivity stagnation, nor to lift the country to a post-coronavirus recovery, but it does offer the apparatus to do it more quickly.

Take-up of industrial warehouse space and investment volumes in the UK



Source: Savills

Most common real estate assets to repurpose and repurposed into



Source: PwC / ULI Trends In Real Estate 2020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Generation desk

The balance of employment types in the UK continues to shift in favour of office work

Graham Shone, head of offices and workspace research, EG

Ask a UK native what the most famous quotes about Britain are, and there is a reasonable chance they will include Napoleon's possibly ahistorical utterance about us being a "nation of shopkeepers". It is alleged that what he actually meant by this (if he said it) was that the country was a nation of merchants, and that all its great riches and grand resources arose from commerce – as opposed to, for example, gold and silver mines.

Whatever the historiography or intention of the quote might be, one thing which is certain is that, in a purely literal sense, it is no longer the case.

The evolution of the UK's economy over a number of decades into being one which relies more heavily on knowledge and service sectors has meant that we are now more of a nation of office workers.

Employment shift

Figures from the Office of National Statistics tell us that since 2007 there has been a 986,000 increase nationwide in those working in professional, scientific and technical activities, and a jump of 558,000 workers in administrative and support services – both industries in which the bulk of activity takes place in offices. That is against a comparable drop in the overall number of people working in the broadly defined retail and manufacturing industries within the same dataset.

Those two sectors have seen their respective shares of the UK employment base drop by 1.8 and 1.7 percentage points respectively during this period; while other "office-centric" business types such as real estate, and information & communication services have seen their share of the labour force tick upwards.

There is no singular explanatory factor for this realignment of the nation's economic backbone; but contributing elements include accelerated change in both domestic and international manufacturing and trading apparatus, and a "perfect storm" of issues over the past decade in particular leading to the downturn in health of the UK's high streets. Put rather simplistically, because of the lived experience of de-industrialisation, the nascent (but growing) automation of tasks and professions, as well as recessions of various magnitude hitting certain sections of employment harder than others, there has been a gradually developing subconscious shift within the mentality of the UK workforce in favour of office-based employment as a more secure path to retaining or expanding household income and insulating oneself against the turbulent winds of economic change.

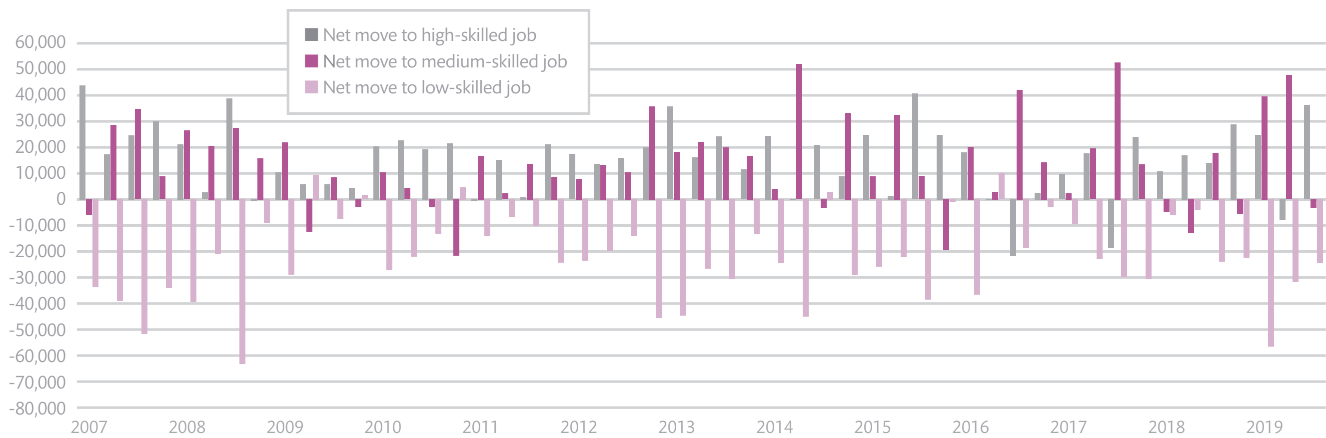
As we move deeper into the age of automation and begin to experience the developing impacts on certain industries, that mentality is likely to strengthen – meaning that the volume of jobs nominally housed within office buildings, and the UK's reliance on those sectors underpinning that employment, will continue to grow.

Allied to this shift is an upward movement in job skill level across British workers. Since the final quarter of 2009, net flows away from "low-skilled jobs" totalled almost 823,000, while net movement to "medium" or "high-skilled" employment topped one million over the same time period.

To put that in context, UK jobs as whole increased by 4.3m during that 10-year-period to an overall total of 35.7m; so net "upskilling" movements affecting around 1.8m jobs is not a gargantuan proportion of the overall workforce. But it is indicative of the wider shift we have seen over a number of decades pointing to the UK improving its overall capability level and shifting towards a greater quantum of office-based employment across a variety of business sectors.

> There has been a 986,000 increase in those working in professional, scientific and technical activities

Job movement by skill grade

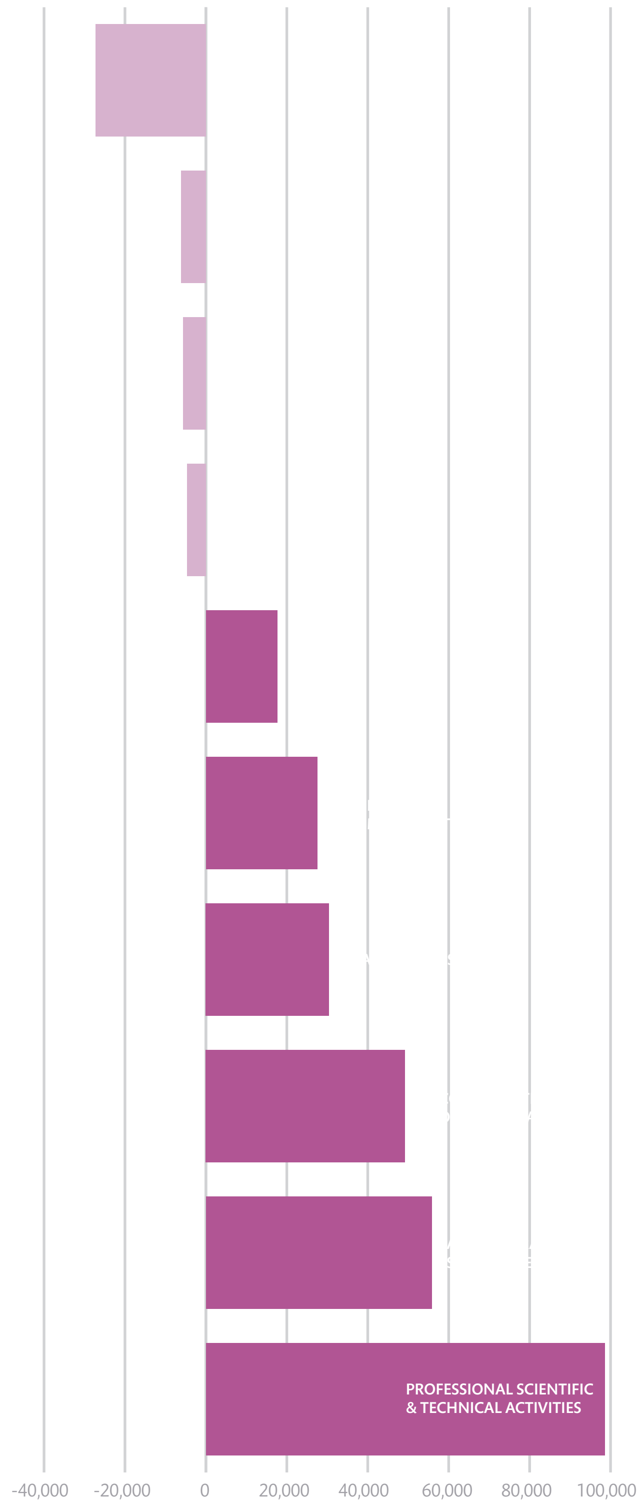


Source: Office for National Statistics Labour Force Survey flows estimates

4.3m

Increase in the number of UK jobs over the past 10 years

Change in volume of jobs by sector



Source: Office for National Statistics – Employment and Labour Market

1.8m

Net "upskilling" in the UK jobs market over the past 10 years

Challenges and connections

Robust challenges exist outside real estate's direct sphere of influence in terms of bolstering the country's faltering productivity. Not least of these is the task for businesses to ensure that skillsets are both deployed and improved correctly. Almost half of workers currently feel that they are either overqualified or underqualified for their current job and a quarter of UK employees have not undertaken any training whatsoever over the past year.

In addition, pressure will come on the government over the next decade to adequately provide both in-work and out-of-work training and education programmes to help workers across a range of industries keep pace with expected progress of digitisation.

The current "productivity puzzle" – with increased working hours and record employment but stuttering output volumes – is characteristic of an economy wherein businesses across the sectoral spectrum are choosing to hire relatively cheaply supplied labour as opposed to making less "reversible" capital investments on, for example, machinery or digital technologies which would help increase efficiency but which come with a greater inherent financial risk.

Depending on the exact shape of the post-Covid economic recovery, and if widespread attitudes in the UK towards automation and digitisation either improve or remain relatively clement, then this particular dynamic could reverse during the course of the next decade. This will underline the need for both governmental investment in upskilling and broadening the adaptability of its workforce; and for the physical spaces in which those businesses operate to provide the best-in-class platforms to pursue the goal of increased productivity and efficiency.

Perhaps the most critical part of providing those platforms will

22% Of over-skilled workers say they are likely to quit their job imminently

The UK skills puzzle

One of the primary challenges facing UK plc is understanding the range and extent of abilities currently present across the national labour force, and to not only make the most efficient use of them, but also build on the existing supply to facilitate future productivity gains.

According to figures from the ONS, 42% of the British population aged between 21 and 64 are graduates – making the UK one of the most advanced economies in terms of education level of the workforce; but this does not seem to translate into appropriate matching up between labour force skill level and employment.

A CIPD Survey of 3,700 UK workers conducted in October 2018 found that 37% of respondents feel that they are "over-skilled" for the job that they currently have, and that 27% believe that they are "overqualified' relative to the tasks they were expected to perform within their current position.

This misalignment of skillsets across the workforce translates into demonstrably lower job satisfaction – with 22% of those over-skilled workers saying they are likely imminently to quit their jobs, against a comparable figure of 12% for those who are well-matched to their role. In addition, those who feel overqualified are also much less likely to feel that their job offers good progression prospects, and are also less likely to agree that a "climate of trust" exists between management and employees.

The upshot of this is that deployment of an educated and able workforce into jobs which give them drive and motivation is a developing problem across the national economy, and acts as a decelerator to unlocking the productive potential of the UK.

In some instances, companies will simply need to better empower workers to unlock their own capabilities by placing greater trust in them to carry out more complex tasks and motivate them to solve problems outside of direct management instruction. In others, job design may need to be rethought in order to better calibrate employee expectation and capability with the composition of the job role.

On the flip side of this, however, is a specific shortage of skills within the UK workforce relating to digital and technical

abilities – something which will need to be drastically examined and rectified over the coming decade.

The UK government’s own inquiry into the “Digital Skills Crisis” in 2016 showed that an eye-watering 12.6m people nationwide lack even basic digital skills, with 93% of tech companies indicating that the skills gap is impacting their commercial operations – contributing to an estimated £63bn in lost GDP.

The inquiry compelled businesses to stimulate innovation and boost productivity by investing in digital training – emphatically underlining the importance of these skills in facilitating a competitive 21st century economy (and that, without sufficient development of technological aptitude, companies may struggle to survive).

So the skills puzzle facing the country is twofold. First, that which currently faces businesses in better engineering roles which energise and motivate a highly educated labour force; and second, that which centres on educating and training a substantial segment of the populace to cope with the increasingly rapid evolution of the nature of work.

5% London occupiers have been willing to pay, on average, 5% more rent for offices with high connectivity standards over the past five years

be in ensuring that office-based businesses can rely on their buildings to be as digitally sound as possible to enable smooth transitions of working practices and processes as digitisation accelerates.

Connectivity has been a developing buzzword for office investors and occupiers over the past decade, with ever-increasing reliance on the internet for everything from synchronising calendars to holding international cross-department meetings.

If we want to pursue the goal of output optimisation across business sectors, we cannot solely rely on the government ensuring that investment in digital infrastructure remains a priority – we also should recognise the vital role played by office landlords and developers in harnessing the power of increased connectivity to help their occupiers maximise their potential.

Looking over the medium to long term, that is going to require two things from real estate owners: investment and increased collaboration with occupiers.

On investment, improvements made to a building's digital capabilities really should fall under the bracket of future-proofing assets. With a maturing sentiment among occupiers on connectivity – which is only likely to become stronger over the next 10 years – the office sector should be under no illusion as to the importance placed on this by tenants. This is underlined by analysis conducted by Radius Data Exchange on the value of digital performance.

What we have found is that a guarantee of high connectivity standards within office buildings in London means that occupiers have been willing to pay, on average, 5% more in rent over the past five years (as against otherwise comparable premises for location, size and age but which critically do not have a guarantee of robust and reliable digital performance through a WiredScore certification).

Therefore, although upgrades to existing premises may require varying types and scales of capital outlay across the next decade, it should serve as a conduit not only for helping existing office-based businesses better realise their business objectives, but also for attracting a broader spectrum of occupiers targeting optimal digital performance across their physical footprint – and, with them, incremental income gains.

With collaboration, the discussion around connectivity and digital requirements for occupiers feeds into the wider context of landlords shifting from a disconnected or invisible rent collector to an active participant in their customers' (occupiers') improved experience and enhanced business capabilities within all forms of commercial real estate.

Improvements made to a building's digital capabilities really should fall under the bracket of future-proofing assets

UK attitudes towards digitisation and automation

In a survey published by the European Commission in 2017 entitled "Attitudes towards the impact of digitisation and automation on daily life", respondents from the UK appear to be among the most benevolent on the continent when it comes to the adoption of and proliferation of new technologies to help with both work and recreational life – albeit with some distinct reservations over the societal impacts of artificial intelligence and robotics.

Among European counterparts, the UK was second only to the Republic of Ireland in responding positively to a question over whether their use of digital technologies would be increased if internet connectivity was more reliable and faster.

This betrays a hugely positive attitude towards technology in general – pointing at infrastructure inadequacy specifically as a decelerating factor in the incorporation of further technological advances into daily life – and underlines the importance of investment in digital improvements as a facilitator to bolstering productivity.

Additionally, the UK was among the most confident in responding to the question "Are you sufficiently skilled in the use of digital technologies to do your job" with 79% of respondents answering with a version of the affirmative - ahead of the average of 70%.

As we move further into the age of automation and digitisation, one concern which will be pervasive over the next decade across the bulk of developed economies is how increasing output and productivity through automation marries up with the wider societal need to retain high levels of human employment.

Following the confidence of British respondents' to the question over skill levels as related to using technology in their current job, the country is also among the least concerned regarding net job losses as a result of robots and artificial intelligence, with 67% agreeing that more jobs will disappear – as against a survey-wide average of 75%.

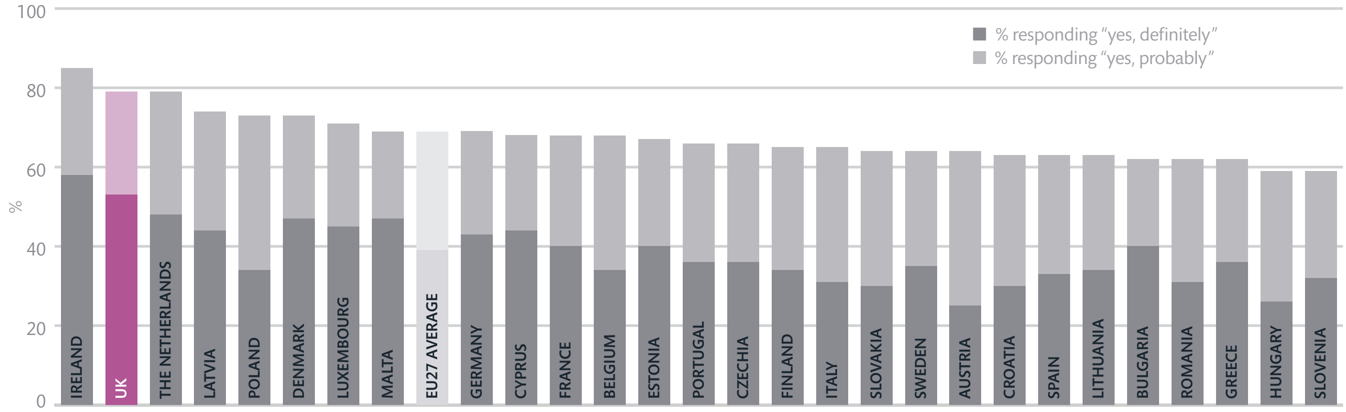
When given a more pointed statement of "robots and AI steal people's jobs" the statistical pattern was broadly similar, with the UK again among those nations that disagreed most with the statement.

However, many UK respondents ticked the "don't know" option when confronted with these two statements, which tells us that although there is a pervading idea that technologies in a broad sense have been embraced and understood nationwide, a need for fuller understanding and familiarity with AI and utilisation of robots specifically is also present.

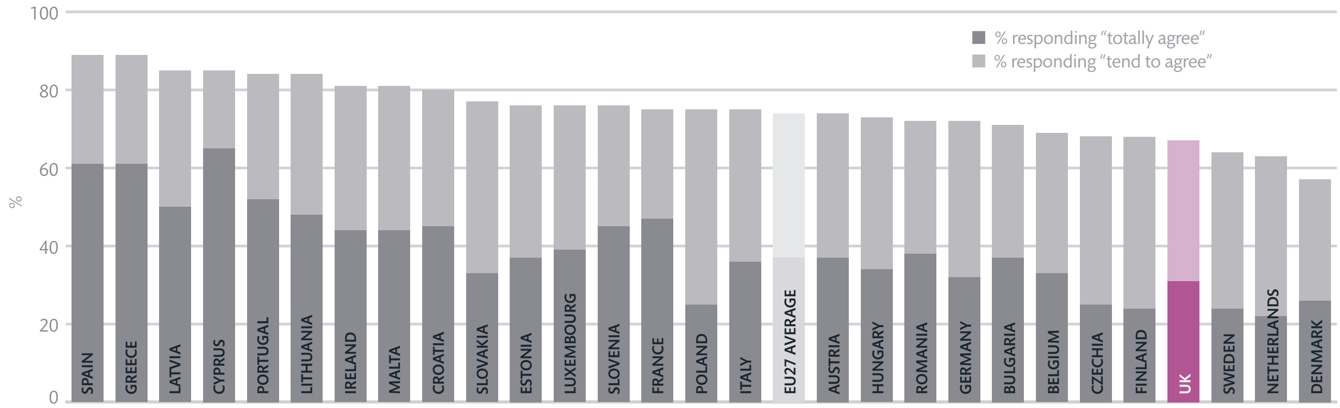
That unfamiliarity betrays the UK's general attitude to the view of robots and artificial intelligence – with the nation responding marginally less positively (60%) than the wider average (61%). For a nation with such confidence in understanding and applying existing digital technologies across the work environment – and which generally feels less threatened than European counterparts when it comes to job losses – we would probably respond more positively overall with an increased understanding of how these advancements can improve our lives both inside and outside of work.

In-job training and education should be a fundamental priority for both businesses and government in order to ensure that the UK maintains its healthy outlook on both existing and burgeoning technologies – and remains able

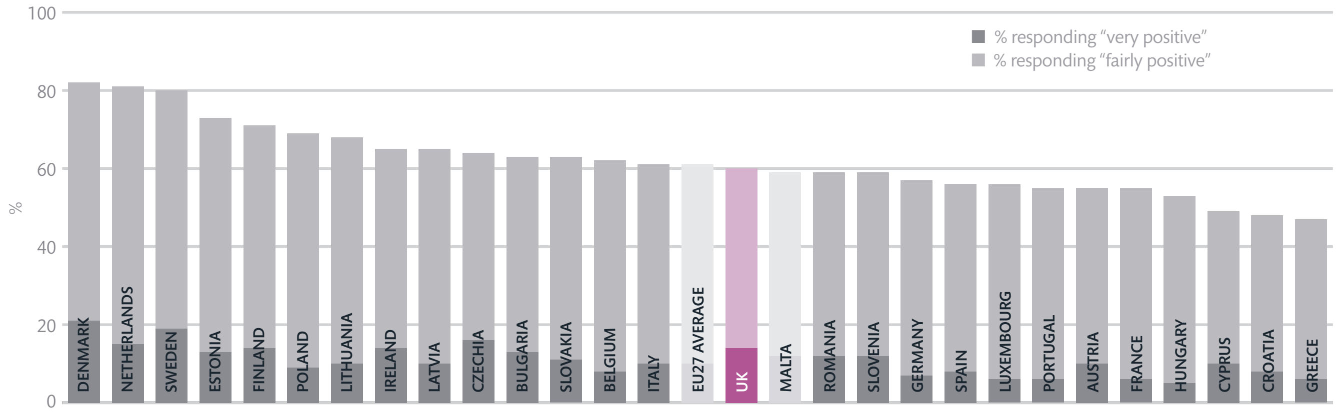
Would faster and more reliable internet connection encourage you to make more use of recent digital technologies?



Due to the use of robots and artificial intelligence, more jobs will disappear than new jobs will be created:



Generally speaking, what is your view of robots and artificial intelligence?



to adapt to new innovations that can assist in delivering improved output.

For real estate investors across the country, there should be no specific qualms about retrofitting or developing spaces to maximise the utilisation of new technology. Companies should take from this data that the UK is a nation which appears primed to look favourably on new and efficient working processes once availed of the necessary knowledge and familiarity to more fully adopt them.

Ultimately, the best available current evidence shows us that the majority of current jobs will still exist in 10 years' time, but in a slightly different guise. The likelihood is that individual tasks (rather than entire job roles) will become fully automated; which should in turn allow employers to use technological advances to enhance employee skills to bolster productivity without needing swathing cuts to the workforce.

Crucial to engendering this complementary relationship between those two elements to future productivity will be finding the adequate physical platform that enables workers and businesses to thrive as automation of tasks becomes more prevalent across the decade. Real estate, therefore, has a big part to play in ensuring that the UK remains among the best-in-class for innovative workplaces across all sectors and does not haemorrhage employees and skillsets overseas in the automation age by virtue of failing to adapt physical premises to evolving employee and business requirements.

Churn, opportunity, flexibility: the current realities of the office sector

The days of handing over space for 25-plus years and simply watching the money roll in have largely disappeared for operators of commercial premises – partly as a consequence of occupiers demanding increased flexibility within their leases to better react to shifts in both customer demand and economic fluctuations.

This has certainly been the case across the UK office sector, with major city markets all seeing a sharp reduction in average lease lengths over the past 10 years as well as a shortening of "time to first break", despite reasonably robust performance on other statistical indicators such as availability rate, rental movement and overall take-up volumes.

As a result, owners have had to become much more alive to increased tenant "churn" across their portfolios, as well as the increase in sophistication of occupier requirements. And although average lease lengths in key markets may well be approaching the "floor" in terms of how far they can be reasonably expected to fall, the skills that landlords have had to develop in terms of reacting to those dynamics will continue to be critical in enabling satisfactorily productive occupation of core office premises across the 2020s.

Reduced lease lengths have naturally led to a drastically increased volume in occupier breaks and expiries to come across the next decade. Real estate teams across business sectors will have a much more active (and more regular) role to play in ascertaining what the best value options are for conducting their enterprise across the country.

The dissipation of dogmatism regarding location on both a micro and macro level from all business sectors will continue to influence decisions in this regard, as technological advances and metropolitan infrastructure improvements render geographical proximity to clients or adjacent businesses increasingly immaterial against the actual quality of the space on offer, and how attractive the location is to employees.

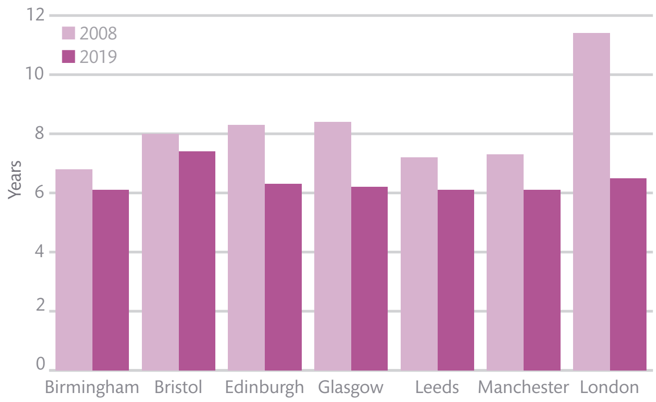
Allied to geographical flexibility, companies will also look to empower their employees to work where they feel most productive.

Of great importance to this is the fact that home-based working has now been much more normalised through the immediate adaptation of the workforce to the circumstances caused by the pandemic. The necessity to conduct operations remotely has, in turn, removed two significant barriers to enabling employees to optimise their own tailored working patterns for productivity:

Firstly, an organic increase in trust level from business leadership that working at home can be effective and productive across all departments; and secondly the more widespread provision of technological infrastructure to enable said efficacy and productivity for a greater cohort of workers in a relatively condensed time frame.

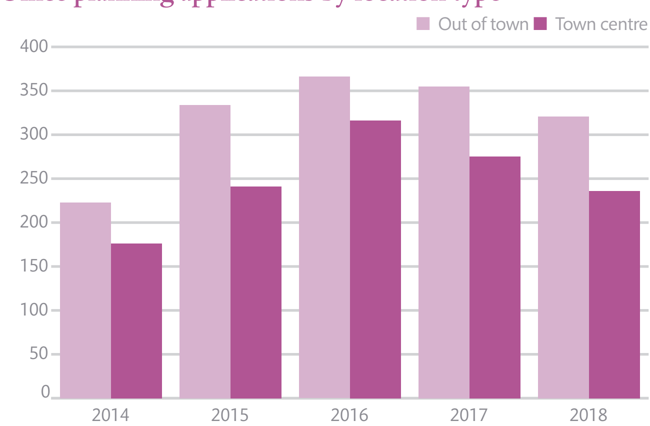
In addition, serviced offices will continue to offer solutions for businesses seeking appropriately flexible expansions of specific divisions, or the facilitation of employees to select areas of towns or cities where they feel most productive (if using a subscription model with multi-location serviced office platforms).

Office lease lengths on new transactions



Source: Radius Data Exchange

Office planning applications by location type



Source: Radius Data Exchange

What next?

What we can predict with confidence is that once the country is on the road to economic recovery, the ecosystem of office working will be distinctly altered from that which went before. Companies of all shapes and sizes will seek to review their physical footprint requirements off the back of increased remote working – potentially accelerating the consolidatory approach to office footprint that we have seen over recent years.

As such, there remains a significant opportunity within the UK to take advantage of the global appetite for high calibre core office space which will continue to play a significant role in how businesses operate, alongside both remote working and piecemeal flexible expansion.

As we have explored here, this appetite is borne out of businesses' wider operational strategies, which can be distilled into two main elements: a drive to increase efficiency of output; and a conscious effort to enhance the ability to both attract and retain talent.

For the UK office sector, the acceleration towards creating quality office space within key city locations over recent years has helped to tap into this demand, and consequently drive both headline and average rents upwards over the past decade. Alongside specific Radius Data Exchange analysis of rental patterns relating to connectivity and sustainability, this crystallises some of the qualitative occupier sentiment we have touched upon into measurable, market-based reality.

Critical to ensuring the country continues to provide the office space that companies are craving will be to keep focused on not just the sentiment indicators from real estate teams within existing and potential occupiers, but also on more granular employee demands.

Workers' preferences could prove more instructive to occupational strategies moving forward as companies attempt to become more inclusive in their overall decision making, and accelerate the importance of wellbeing within broader company culture.

One element that may need some form of improvement over the coming years is in office provision outside the more established office markets in the UK – and specifically whether there is a distinct dichotomy between where new-build offices are being proposed against what employees are indicating a preference for.

Savills' "What Workers Want" survey from September 2019 showed that UK office workers retain a clear preference to have their job situated a city or town centre – as opposed to, for example, a business park or suburban location – with 58% of respondents indicating that they wanted to spend the majority of their working time in more built-up areas.

However, Radius Data Exchange analysis indicates that there has not been an urban centre focus outside London for recently proposed new-build office development.

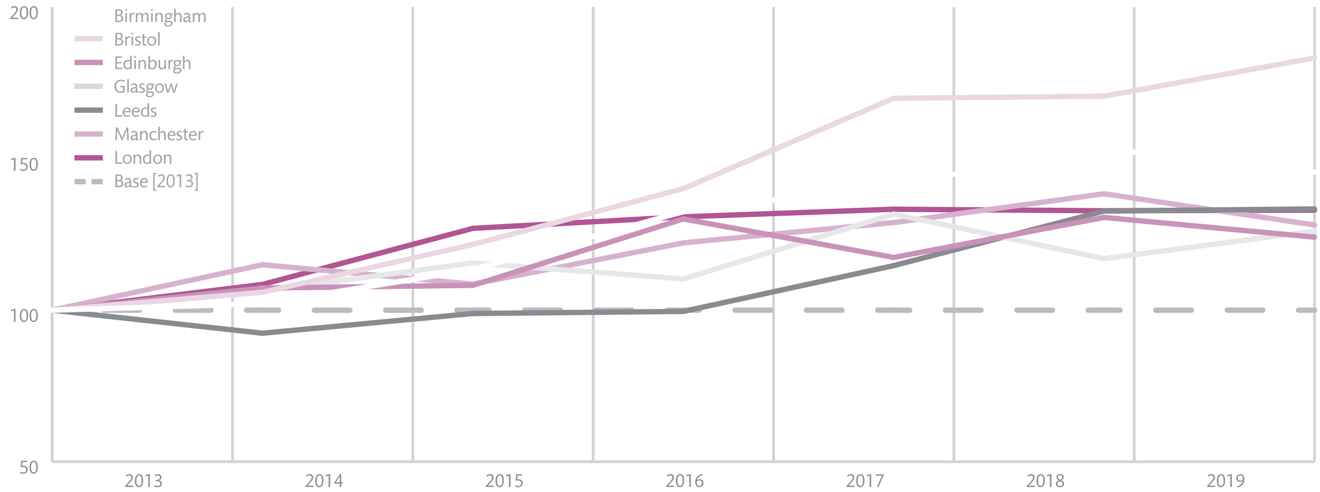
Taking a sample of 2,843 planning applications across UK regions for office projects between 2014 and 2018, 1,599 (56%) were outside town centre boundaries, accounting for 52% of the total office floorspace that went in for planning during that time.

Removing the top 14 regional cities from this makes the results even more weighted towards out-of-centre locations, with 64% of the applications coming in areas beyond the urban perimeter – comprising a total of 42.5m sq ft (almost 75% of the total) which was submitted to planning authorities across that five-year period.

If the UK is to effectively scale up productivity levels nationwide, then marrying up office supply as closely as possible with the available data from the labour force on preferential locations will be important – even in what might be deemed secondary or tertiary urban areas.

Given occupiers' reducing dogmatism over location and their keenness to explore cost-efficiencies across their physical footprint without compromising on the key pillars discussed hitherto, there is an opportunity for some less-established office markets to appeal to the qualitative occupier sentiment factors we have already mentioned. They have a chance to position themselves as places with strong growth potential off the back of being able to supply new, centrally located business space that can fulfil occupiers' evolving requirements – and exploit local skillsets which may currently be drastically misaligned.

Office rental index



Source: Radius Data Exchange

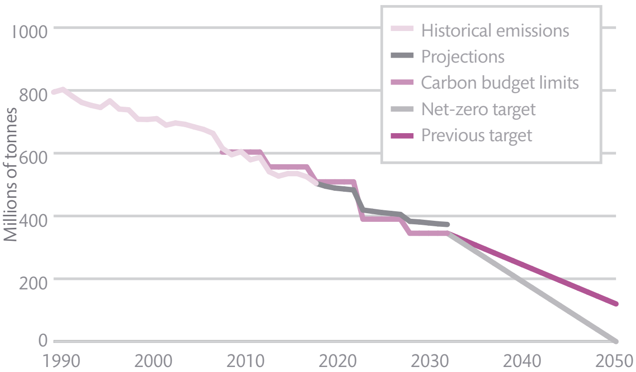
NET-ZERO CARBON AND REAL ESTATE

The data below from CarbonBrief shows the challenge that the UK faces in the search for a net-zero carbon economy. In order to achieve these targets, an acute acceleration of progress is needed.

The scale of the challenge is palpable. Going forward, successive governments will have to proactively ensure they are maintaining progress on the road to net-zero carbon by 2050. More direct support for the real estate sector is likely to be introduced throughout the next few years.

Plans to deliver clean energy and a carbon-neutral future means creating new employment and industry, reducing plastic waste, securing the future of green spaces, and introducing legislation to decarbonise real estate in such a way that allows for successful retrofitting and clean construction methods.

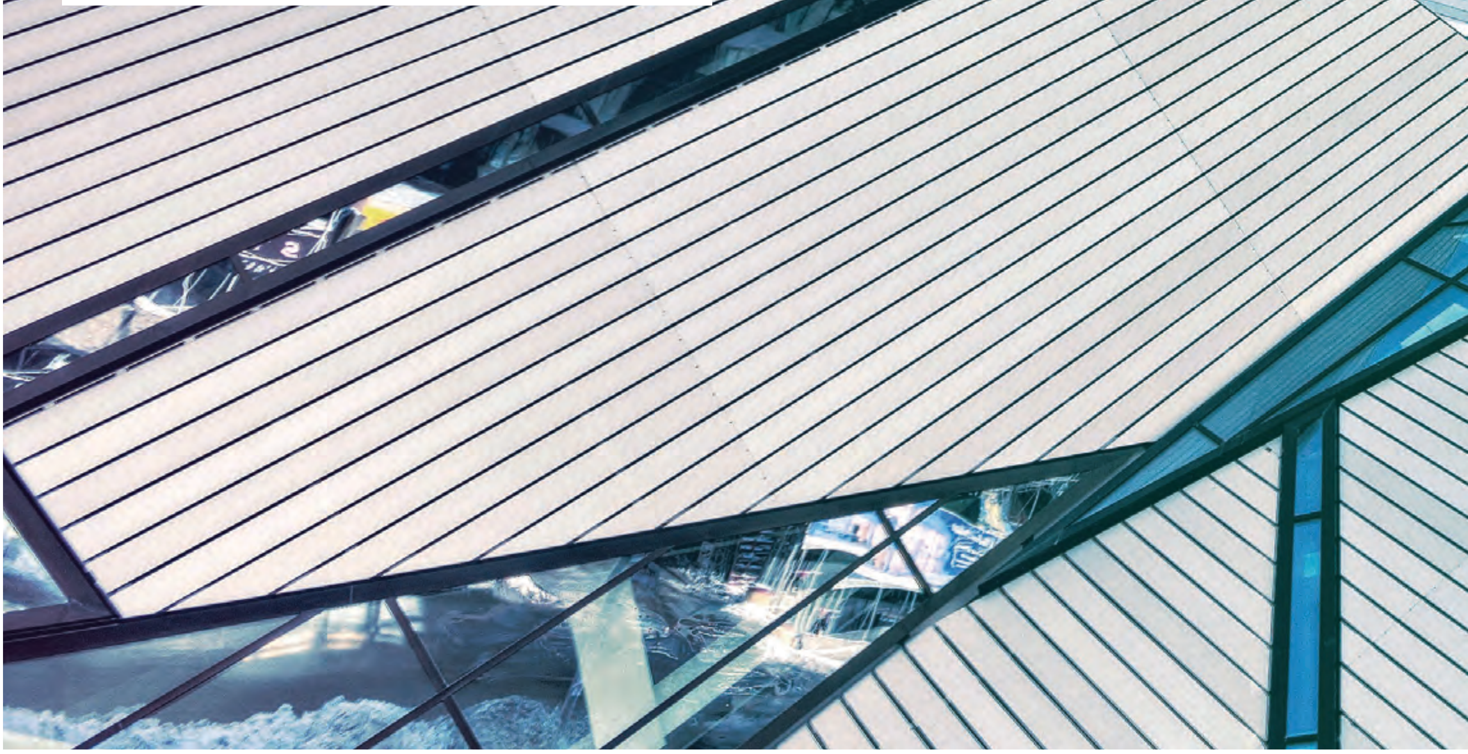
Historical and projected UK greenhouse gas emissions; with net-zero carbon target



Source: CarbonBrief

£286bn

The cost of overhauling the UK's transport and energy infrastructure to hit 2050 emissions targets could reach £286bn, according to a new study by Capital Economics



97%

About 35% of buildings in the EU and the UK are at least 50 years old, and 97% of the building stock is not efficient enough to comply with future carbon reduction targets (WorldGBC)

50%

The total global floor area of buildings will double by 2060, with more than 50% of this expected within the next 20 years. The growth in new buildings will be particularly rapid in Asia and Africa (WorldGBC)

80%

It is estimated that 80% of UK buildings that will be needed in 2050 have already been built

28%

The built environment contributes to around 40% of the UK's carbon footprint. Operational emissions account for 28% of those emissions, according to the UK Green Building Council

60-70%

In the UK occupiers account for between 60% and 70% of all emissions of a building's life cycle

Summary: Drawing on all of the elements discussed in this report, it is clear that while the UK continues to be a global leader in providing the requisite platforms and suitably clement business environment to support enterprise, it still has the headroom to engender superior growth by tackling the variety of challenges it currently faces.

The UK should seek to maintain its position as a global leader in providing the requisite physical platforms and suitably clement business environment to support enterprise. It must also now grasp the unique opportunity to accelerate improvements in productivity which will better equip the economy to recover.

The evolution of UK commercial real estate over the coming decade will be defined by how it helps the country to overcome not only the numerous challenges present before the spread of Covid-19, but also the unique obstacles thrown up by the pandemic.

Our key themes, conclusions and viewpoints are set out below:

Town and city centres

The biggest productivity gains can be made in existing urban centres – but there is a requirement for more robust policies to prevent cannibalisation of commercial activity by developments that take place outside the locally-defined urban perimeter. Long-term improvements to urban centres have frequently been sacrificed in following short-term convenience models which do not optimise growth potential – this should be avoided over the next decade.

A long-term view to protect central areas from activity and investment "leakage" should give modernised towns and cities the necessary apparatus to thrive.

Connectivity

Government must put significant weight behind improvements to digital infrastructure. Operators of commercial premises must also continue to ensure that the physical platforms from which enterprise is conducted are best-in-class when it comes to digital performance – particularly in office spaces. They should seek to take advantage of all connectivity improvements on a national level to tap into growing occupier demand for well-connected spaces that better enable their workforce to increase productivity.

Sustainability

Adequate environmental performance will be non-negotiable for businesses across all sectors before too long – and so the consideration for real estate investors should be that capital commitments to this aspect of owning assets should fall under the umbrella of future-proofing to ensure the security of future income.

Government should explore whether incentivisation around sustainable practices is viable in the short-term to nullify any trepidation over costs – and enable the real estate industry to help set the country on a road to genuinely sustainable economic recovery.

Education

Enabling the growing proportion of the working age population that is now in employment to adapt to new working practices across all sectors of the economy will be critical – especially as tasks within roles become more automated in order to drive efficiency, and the requirement for enhanced digital skills intensifies.

Therefore, on top of improving both the physical and digital infrastructure to support existing working practices, there must also be broader governmental programmes for both in-work and out-of-work education to support either upskilling or re-training for those who may find themselves displaced by the drive for enhanced output.

Regional focus

A wider geographical focus will be a critical journey for the government to embark on over the next 10 years in trying to better harness the entire potential of the country, and generate a much more geographically balanced economy than that which has evolved since the global financial crisis which, in turn, will become more robust at absorbing future shocks..

For real estate players, the key contribution will be in identifying key regional locations that could boast improving infrastructure, broader educational programmes or a 'stickier' graduate pool, and to help accelerate the output potential of those geographies through targeted investment.

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