The New Normal: The property landscape after lockdown

Occupier Sentiment Report: H2 2021

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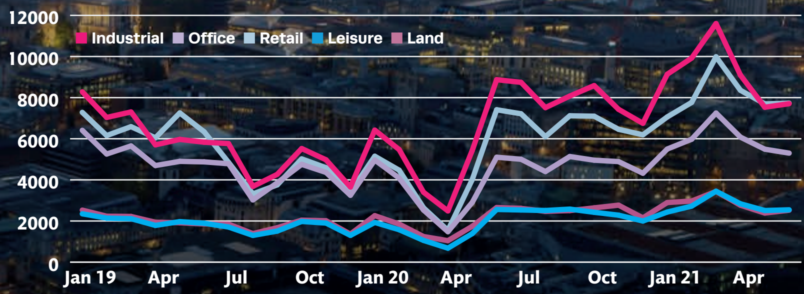
Coming out of lockdown, commercial real estate in the UK is ready to bounce back. Restrictions have eased and businesses have reopened, giving occupiers and investors a clearer view of the future and the confidence to make longer-term decisions.

But 18 months of restrictions will undoubtedly leave some lasting effects on the property landscape. Certain shifts in how we work, live or interact with others will not be undone even after the threat of the pandemic is truly over.

Using search and enquiry data from the UK's premier dedicated commercial marketplace, EG Propertylink can reveal shifts in what occupiers and investors are thinking as the UK looks to the future.

The latest EG Propertylink Occupier Sentiment Report explores the different sectors and regions that have undergone changes in the first half of 2021, focusing on demand for London offices, the dynamic swings in interest for retail and industrial space and the emerging locations that are catching the industry's attention.

Enquiries by Sector by Month



Source: EG Propertylink

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Offices

As the pandemic took hold, focus appeared to shift out of London offices. Would the capital retain its hold on where people did their jobs if remote working became the norm? There has been an abundance of anecdotal evidence of people moving out of the city over the last year and a half – but property still overwhelmingly backs London offices.

London stays on top

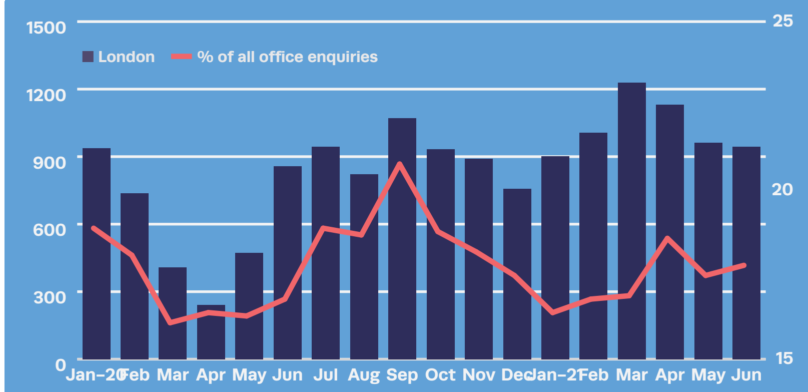
In the first half of 2020, London accounted for 17.3% of all office enquiries (Glasgow, the city with the second most office enquiries, totalled 2%), and it still retains the same level of interest. Throughout the pandemic, London's share of the sector did ebb and flow from month to month – from as low as 16.1% in March 2020 to as high as 20.8% in September 2020. However, in the first six months of 2021, the capital's office enquiry total once again came to 17.3%. When the industry looks for offices, it looks to London.

Office diversification

Outside the capital, office searches have spread out of the major office markets. The five most popular locations outside London accounted for 8.8% of office enquiries in H1 2020, but by H1 2021 that had fallen to 6.6%. Where Glasgow offices garnered 2% of enquiries in the first half of last year, Bristol – now the second most popular market – totalled just 1.4%. While that appears to be a relatively small difference, it does equate to hundreds of enquiries shifting out of large markets into smaller ones.

The end result is an office market that is both more and less centralised. London is now even more dominant relative to the next largest locations, but the number of locations with at least 100 office enquiries in six months has risen from 43 to 71.

London office enquiries



Source: EG Propertylink

This shows a sector in flux after 18 months of upheaval. In some sense, a central office still serves a purpose: businesses want a place where staff can gather and share ideas. At the same time, those same businesses are looking to complement those central spaces with smaller offices scattered across the country – the classic 'hub and spoke' model.

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20.8%

London's share of the office market in September 2020

If remote work continues, those central offices will have to be near good transport infrastructure – something London can provide better than any other city in the UK – while the smaller satellite offices will have to reflect the diversity of where people want to live.

New entrants

Peterborough and Sheffield replaced Glasgow and Nottingham in the Top 5 in H1 2021. While enquiries for Nottingham offices fell 8%, year-on-year, interest in Glasgow was stable. What propelled Peterborough and Sheffield to the top was a sharp rise in enquiries, with both cities recording more than double the number of searches in H1 2021 than in H1 2020.

Indeed, few large office markets had a fall in enquiries; the shifts among the most popular locations came largely as a result of some places growing at a much faster rate than others.

Top 10 office markets

Location	Enquiries (H1 2021)	% change, y-o-y	Share of total office enquiries
London	6023	65%	17.40%
Bristol	490	17%	1.40%
Peterborough	469	131%	1.40%
Sheffield	464	132%	1.30%
Birmingham	444	24%	1.30%
Edinburgh	435	74%	1.30%
Glasgow	421	0%	1.20%
Leicester	388	26%	1.10%
Norwich	388	127%	1.10%
Milton Keynes	385	78%	1.10%

Source: EG Propertylink

When the industry looks for offices, it looks to London.

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Industrial & retail

The industry's search for industrial space accelerated almost overnight when the UK first went into lockdown. The sector accounted for 34.3% of all enquiries in Q2 2020 – up from 27.8% the year before – when most physical shopping stopped. Since then, industrial has continued to outperform every other sector, but that might be changing. Pent up demand for bricks and mortar shopping has unleashed a retail revival.

Industrial peaks

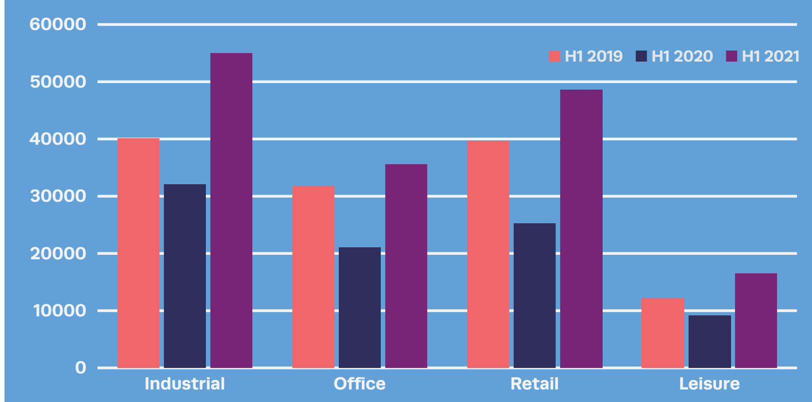
As we have seen, enquiries have risen in every sector in the last year by between 57–93%. But this is partly because there was a significant fall in March and April last year. What if we go back further and compare these sectors in 2021 to the first half of 2019 – the closest period we have to 'normality'?

What we find is that industrial in H1 2021 outperformed every other sector with an increase of 37% on H1 2019. Sheds have come out of lockdown as the undisputed winners. London, Glasgow and Birmingham continue to be the biggest markets with more than one in nine enquiries targeting one of those areas.

But, once again, small markets led the increase in enquiries. There were 120 locations with at least 100 industrial searches in H1 2021. Of these, just 10 of the 50 areas that saw the sharpest increase also had more than 100 enquiries last year.

While the numbers do suggest that people are looking for space in places that they might not have a year or two ago, the biggest difference is that enquiries are getting more specific. Half of the top 50 risers are specific areas within 50 miles of Central London – places like Park Royal and Acton in West London; Barking in East London; and Rickmansworth, Watford and West Thurrock near the M25.

Enquiries by sector



Source: EG Propertylink

In the Northwest, enquiries for Trafford Park rose by hundreds. It's a location people would have looked to before – its importance to the sector in the region has been clear for years – but now they are specifically searching for that location, rather than the wider area, in droves.

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Property goes shopping

29.5%

enquiries for retail in Q2 2020

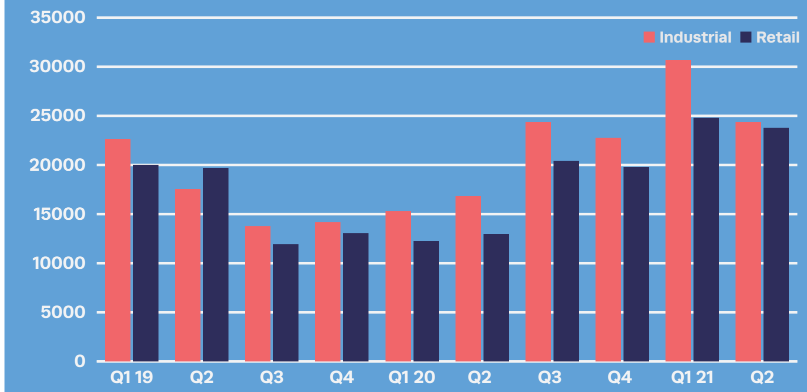
If industrial is the undisputed winner coming out of lockdown, retail is the former champion eyeing a comeback.

Between Q2 2019 and Q2 2020, retail fell from 31% of total enquiries to 26% (eight percentage points lower than industrial). But since then, the sector has steadily rebounded, closing the gap with sheds along the way.

Even at the peaks of several lockdowns, the industry continued to see the long-term importance of physical shops (notably, office and retail enquiries were neck and neck in the two quarters prior to lockdown, but retail has attracted considerably more interest in every quarter since March 2020). This has culminated with retail reaching 29.5% of enquiries in Q2 2020. Meanwhile, industrial enquiries had peaked and dropped back down 30.2% that same quarter.

What we are seeing is a newfound balance between retail and industrial. With restrictions now a thing of the past, the two sectors have complementary roles to play. E-commerce is not going away, but neither are (the right) physical shops. We can expect the industry to explore the right balance of these spaces in the months and years to come.

Retail and industrial by quarter



Source: EG Propertylink

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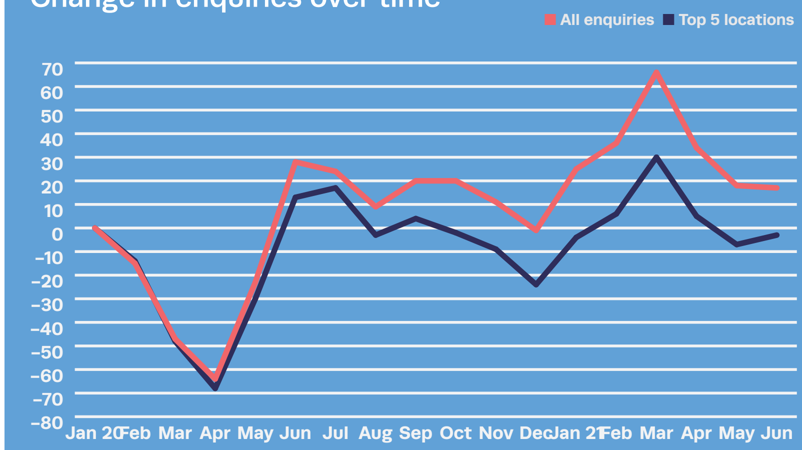
Regional focus

The unifying theme among every sector is the industry's focus on regional locations. While most of the largest markets pre-pandemic – London, Glasgow, Bristol – continue to attract the most interest (with some variation), they dominate enquiries less than they did a year or two ago.

There has been a steady decrease in the percentage of enquiries that target space in the top five locations in a given month. At the start of 2020, that figure was about 23%. Since then, it has steadily fallen, averaging 18.4% over the last half year and showing little variation despite fluctuations in total enquiries from month to month. This looks to be something of a new normal.

This trend becomes even clearer when we consider the overall monthly change in enquiries since January 2020. As the chart on this page illustrates, once enquiries recovered in June 2020, we started to see an ever-widening gap between total enquiry levels and enquiries for the top five locations. While the top five repeatedly dipped below where they were at the start of 2020, total enquiries only once fell below that level.

Change in enquiries over time



Source: EG Propertylink

Where are these rising locations?

Bletchley and Trafford Park

In recent months, occupiers and investors have started to home in on very specific locations near larger markets. The starkest examples are Bletchley, home of the World War 2 Enigma machine, and Trafford Park.

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87.6%

Trafford Park enquiries

Both Bletchley in Milton Keynes and Trafford Park next to Manchester had zero enquiries in H1 2020. That quickly changed: Bletchley was among the 50 most popular locations in H1 2021 with the industry looking for opportunities in every sector in the area – but especially industrial and retail. These were sectors that otherwise saw relatively little growth in Milton Keynes, suggesting that occupiers and investors were refining where they were scoping out space.

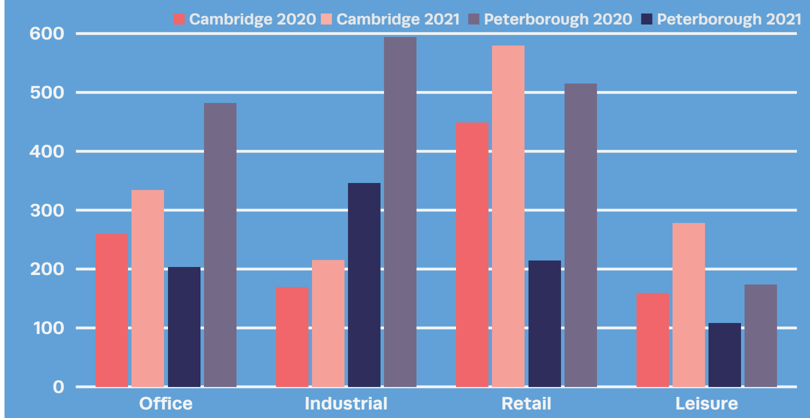
Trafford Park's emergence in the numbers was almost entirely due to the growth in industrial. The sector accounted for 87.6% of enquiries in the area in H1 2021, and as industrial surged, people had ever more reason to look to what was the world's first purpose built industrial park.

Peterborough v Cambridge

The trend of considering smaller locations also extends to medium-sized markets that were previously overshadowed by a larger market. Close to Cambridge, Peterborough is a subtle but clear example of this.

Both cities were reasonably large markets at the start of 2020: Cambridge had the 10th most enquiries and Peterborough had the 14th most. There was more interest in offices, shops and leisure in Cambridge, while Peterborough was the clear favourite for industrial. By the first half of this year, however, their positions had virtually flipped: Peterborough ranked 10th and Cambridge 16th.

Cambridge v Peterborough by sector



Source: EG Propertylink

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137%

increase in office enquiries

In every sector besides leisure, Peterborough saw significantly more growth than Cambridge. Office enquiries rose 137% (Cambridge: +29%), industrial – despite already being a far larger sector – was up 72% (Cambridge: +27%) and retail grew by 141% (Cambridge: +29%).

One reason this is interesting is because, unlike examples of small markets competing with large ones, Peterborough and Cambridge started at similar levels. Peterborough did not have the advantage of starting from a small base where any increase would have yielded outsize growth in percentage terms.

However, the question is whether this will continue. After all, Peterborough benefited significantly from a surge in interest for industrial space. When it comes to retail and leisure, Cambridge is still ahead. With retail on the up and industrial stabilising, Cambridge is in a prime position to once again attract more of the industry. At the same time, a need for offices in secondary locations will likely continue to bolster interest in Peterborough.

Looking ahead after local lockdowns

Last year, despite long periods of national lockdown, enquiries for every sector shot up after two slow months. But while national lockdowns failed to stifle the search for physical space, prolonged local lockdowns in some areas –for example, Leicester and Manchester – did make a difference.

Leicester's slump was short and sharp. Offering a mix of opportunities, Leicester was the fifth most searched for location at the start of 2020 and in the first half of the year ranked within the top 10 for every sector. Once former health secretary Matt Hancock announced the city would go into local lockdown at the end of June enquiries tumbled, and by November Leicester ranked 41st in the country.

When the rest of the country went into lockdown once again and, later, re-emerged as restrictions eased, Leicester bounced back, landing once again in the top 10 by spring 2021.

The reason this matters is because Leicester's trajectory could give us a clue to the level of interest Manchester will garner in coming months. Like Leicester, Manchester's enquiries slumped immediately after the local lockdown was announced, falling from 7th to 19th in August. Unlike Leicester, however, Manchester has yet to recover, falling to as low as 29th in February 2021. Since then it has steadily made some strides back to the top 10, but it has yet to get there.

Manchester, having suffered through one of the longest periods of lockdown in the country, is looking for a comeback. On the ground, there is genuine optimism that the city will see a resurgence in coming months; the pandemic did not erase plans as much as put them temporarily on hold. But, as we're starting to see elsewhere, that resurgence will not necessarily happen uniformly across every sector or lead Manchester back to where it was before Covid-19.

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*Adobe Analytics: June 2020 – June 2021

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