

# FUTURE CITIES SERIES: REAL ESTATE IN A POST-COVID WORLD

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Real estate in modern cities will see lasting change from the pandemic. The property industry should prepare now.

There is no doubt that Covid-19 will have a significant and long lasting effect on the real estate sector. The sector will not return to the way it was and we will see the impact of the pandemic permeate all parts of the industry for years to come. It is important for real estate players to pre-empt some of these predicted future trends so that they can be ahead of the game in both taking defensive positions on risk areas and pursuing new opportunities. One thing Covid-19 has shown the world is how quickly things can change and imagination can create possibility for things which were never considered possible before now.

This article is part of our Future Cities Series where our experts explore the pressures facing our cities in the post-Covid era and map out the key issues and industry themes in re-thinking urban life.

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## LEASES AND DEVELOPMENT AGREEMENTS

The pandemic has placed great pressure on tenants to pay their rent when it becomes due and many have not been able to do so at all or entered into a variety of arrangements with their landlords. In our experience, it is uncommon (but not unprecedented) for leases to define a Force Majeure to include a pandemic or outbreak of deadly disease, which could excuse one or both parties from performance or seek delay of their contractual obligations. The same sentiment applies to development agreements.

Future legal agreements for real estate transactions may see pandemics specifically captured by Force Majeure clauses. Alternatively, agreed arrangements to delay or provide some other flexibility to a transaction might be addressed in bespoke clauses in agreements, much in the same way as bespoke 'Brexit' clauses were included in real estate contracts leading up to the UK referendum.

## **RESIDENTIAL DEVELOPMENTS**

The home has certainly played a significant role in moving through the pandemic, with government restrictions on leaving the home and virtual working from home widespread on a global basis. The downturn in tourism, travel and foreign students has also resulted in a sharp decline in demand for new temporary accommodation, exacerbated by a return of short stay accommodations (eg Airbnb) to the longer term rental supply.

Working from home will certainly be one of the lasting effects of the pandemic as people have seen that it can be done with productivity maintained or significantly increased. Assuming that is right, the role of building managers, concierges and owners corporations in residential buildings will be enhanced. Innovative efforts to foster community resilience and provide additional assistance within buildings (eg through phone apps) will continue, with a greater sense of community evolving than has been the case for many years. Residential communities in high rises will be bolstered and the use of common spaces will change, with potentially more co-op style sharing of resources and services (eg child minding).

Design for new residential developments will likely come under greater scrutiny, with spaces to work becoming a key area of focus and likely replacing some more discretionary offerings like home theatres. Developers will look even more to suburban areas with the enhancement of a poli-centric city model, with more people choosing (and able) to work where they live.

## **COMMERCIAL DEVELOPMENTS**

With very little warning and time to plan, many organisations have quickly adapted to the new working environment and seen its advantages. More organisations with agile working practices will become prevalent after the pandemic subsides due to cost savings from reduced space requirements, proven productivity increases and improved well-being for staff with less travel, better family/work balance and probably less time lost with colds and other diseases. This entails challenges to make offices and workspaces safe and adaptable in their design, operations and staff arrangements to ensure such flexibility.

With a proportion of staff at a number of large organisations working from home on any given day, the demand for office space will reduce. While we won't see the end of big cities and commercial hubs, we may see a 'new normal' in less worker densities in these areas which has a flow-on impact to other supporting services like hospitality and retail.

## **RETAIL DEVELOPMENTS**

Reduced immigration and tourism for a number of countries in 2020, together with the strain already caused by online retailing, will generally see a reduction in retail demand from the traditional shop.

The importance of 'other' services which support traditional retail, such as entertainment, food and beverage offerings and community services (eg gyms, childcare) will be the main reason why people visit shopping centres and malls and keep foot traffic up along the high street. The activation of common areas and gathering spaces to become usable, innovative areas which foster community connection will play a role. More space within centres to accommodate an increase in services such as 'click and collect' and home delivery will be a future design consideration.

## **INDUSTRIAL DEVELOPMENTS**

The industrial sector, including fulfilment centres, logistic accommodation, third party logistics and IT/data centres, is likely to benefit from a surge in demand, increased rentals and lower yields.

Property investors, in particular domestic institutional investors, are likely to favour this sector in preference to the more general commercial and retail sectors, given the significant changes to those sectors as a result of the pandemic and the relative stability that industrial developments may provide in the short and medium term. The industrial sector may also be favoured by a culture to return to local manufacturing and market-chain self-sufficiency in certain jurisdictions.

## **ADAPTIVE USE**

A number of spaces were called upon to swiftly adapt to assist with the pandemic, such as hotels being used as quarantine areas for returning travellers and public gathering recreation areas (eg convention centres) supporting overcapacity in hospitals.

In the absence of government intervention, a review of permitted uses in leases and under planning laws may be warranted to deal with another emergency situation, should such industries wish to provide a temporary alternative use where possible, to reduce business impacts.

Vacant buildings in our cities will increase in the short term due to the unfortunate collapse of small businesses or their future relocation to smaller premises or suburban areas. Flexibility in regulation will need to be afforded to these spaces so that they can swiftly adapt, and this will also be relevant to planning and leasing laws. Some thinking of what a flexible zoning provision might look like is considered in our series' [planning article](#).

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If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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