

Global Market Insight: London and Toronto

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The following brief highlights current real estate market conditions by asset class.

LONDON

Early in 2020, the UK real estate sector was enjoying a cautious recovery. UK's first quarter's investment stats were a record high: the average transaction property value was £46m.

Residential / Multi-family

- Multi-family is considered by many to be the most resilient sector, but this could be challenged if growing unemployment begins to soften rental demand.
- Knight Frank believes that market inactivity due to COVID-19 will lead to a short-term decrease in property values of 3%. This is a more optimistic outlook than Savills, who has placed the decline between 5-10%. Both groups have indicated that prime central London property is set for a new level of growth post-pandemic.

Retail

- In the short term, the focus has been to preserve cash. A rising number of operators are assessing options to offset the loss of revenue from their physical store portfolios.
- Diversification (of customer, of route to market, of range) and flexibility (to react, adapt and reinvent) are key. Businesses need to right-size to improve long-term success.
- Existing store networks and infrastructure will be assessed, increased collaboration will be expected and having the right infrastructure in place for online fulfilment essential.

Industrial

- According to Cushman & Wakefield, take up of industrial space was 32% below average in Q1, despite many occupiers needing to fulfil more online orders and store more goods. These needs have triggered new enquiries for space on short-term leases.
- We expect to see additional demand regionally for manufacturing facilities and logistics sites as companies look to focus on their domestic supply chain.

Office

- Leasing volumes were 20% below average for office space in London at the end of Q1, but the amount of space under offer was 28% above average.
- In the short term, the flexible workspace sector has seen a downturn, although not as harshly as expected. This previously high growth market accounted for 28% of leasehold take up in London in Q3 2019.

- Clients have raised the probability of reducing footprint requirements in head office locations and giving teams more flexibility of workplace. Over the longer term, there may be greater reliance on regional hubs, a move away from central London locations.

TORONTO

Toronto had a very positive economic outlook in early 2020 fueled by job growth from the technology and financial sectors. We ended Q1 2020 with market vacancy rates at historic lows: Class A office had only 2.0% vacancy, industrial 1.6% and multi-residential 1.5%.

The biggest change revolves around the collection of rents. By applying for the Canada Emergency Commercial Rent Assistance program, landlords are asking the Federal government for a forgivable loan for 50% of a tenant's gross rent, while the tenant agrees to pay a further 25%. In return, the landlord reduces the tenant's rent by 75% and absorbs the last 25%.

Residential / Multi-family

- There will be some short-term uptick in vacancy, but long-term demand will remain stable and in time will grow, especially in affordable options and as immigration re-emerges.
- Long-term care and student housing are looking to restructure and de-densify. This incremental demand factor is placing demand on anything that can be repurposed.

Retail

- Integrated Office and High Street retail will recover before malls.
- Adaptive Reuse: weaker retail will transition to other uses such as entertainment, industrial, office, co-working, etc.

Industrial

- In-shoring: an increase in domestic production, distribution and storage of items deemed essential (post-pandemic) will accelerate demand for industrial space.
- Ecommerce will consume more industrial space as distribution and last mile needs accelerate.

Office

- De-densification: look to tenants to plan more square feet per person in the short term.

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