OUT OF THE ORDINARY

Landscape after lockdown: what might a post-pandemic property market look like?

The latest data and expert opinion suggests the decline in city living may have been overstated, but all generations are craving change.

Despite the recent extension of coronavirus lockdown restrictions, the phenomenal success of the UK vaccine rollout means that people can start to think about a return to 'normal'. However, while some elements of the way we live, work and play will revert back to how they used to be, consensus is firmly that the pandemic has delivered permanent and profound change in many other aspects of daily life.

The social shift to working from home

It's often said that the pandemic accelerated pre-existing trends, but for the vast majority of the 22.3 million employees in the UK who had never experienced working from home, the shift has been an eye-opening experience.

Overall, home working has been welcomed by both employers, whether it be for cutting overheads or attracting higher quality talent, and by employees, for the flexibility it offers and the positive impact on their health and wellbeing. However, in recent times, there has been a noticeable shift in sentiment.

A YouGov poll in March revealed that 74% of young people want their work life to return largely or exactly to the way it was before the first lockdown last year. And in June 2021, the think tank Centre for Cities told the BBC that the five-day office week could become the norm again within two years.

Estella Shardlow, Acting Senior Editor, Consumer Attitudes & Technology at trend intelligence agency Stylus, acknowledges that the shine has come off working from home. She explains: "There is no substitute for real life experience, which I think people suspected, but after 15 months of lockdowns it's been confirmed. There is now a universal desire for a hybrid formula, tailored for different job types and working styles".

What is happening to office space?

Demand for city centre office space does now appear to be rising, albeit from a very low point. Figures from Savills estate agency show office take-up by square footage in the UK's six biggest regional cities has gone up significantly since the second quarter of 2020, the start of the pandemic.

Many business leaders have signalled that this office space will be used flexibly. As Kevin Ellis, Chairman of accounting firm PwC has commented: "The future of work is changing at such a pace we have to evolve continually how we do things to meet the needs of our people and our clients."

The scale and pace at which people return – as well as how often – will define how quickly urban centres including London, regain their allure as places to live.

PwC's UK Economic Outlook argues that "Covid-19 has fundamentally changed the way we view cities", adding that "increased working from home could mean that living in London may no longer be seen as a necessity for finding high-skilled, high-paid jobs."

Will we see an urban exodus?

An August 2020 survey by the London Assembly governmental body found 4.5% of the 450 Londoners it polled – the equivalent of 416,000 city dwellers against the capital's total population – said they would definitely move out of the city within the next 12 months. Before the pandemic, the U.K.'s Office for National Statistics had predicted that London's population would grow by 56,000 between 2020 and 2021.

Will Chipperfield, an Investec Private Banker, says that clients are re-evaluating what they want from their homes and this is driving renewed demand for primary residences in locations historically reserved for second homes. "We have seen significant demand for properties in places like Somerset and Cornwall, as clients shift their mindset from seeing their homes simply as a place to sleep, to places where they are going to live, work and play, and they are prepared to invest accordingly."

Interior designer Katharine Pooley – who is a member of the Investec network – observes: "The last year has shown everyone the universal importance of having generous and spacious homes with large exterior spaces. There is also a real trend towards grown-up but playful and fun entertaining spaces." →

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In March, Rightmove revealed that Cornwall had overtaken London as the most searched-for place to live in the UK, with Devon coming in third and Dorset rising 10 places to 10th.

This shift has seen Investec's team draw on a different skillset, says Chipperfield. "Underwriting the purchase of a West London townhouse is completely different to a farm in Somerset, where you might be dealing with public footpaths crossing your land and other rural covenants for example."

What has also become apparent as the pandemic has worn on, Chipperfield explains, is that lender efficiency is critical: "When it comes to property transactions, speed is still a key factor in times of high demand. This is where working with a bank that knows your circumstances and has an integrated credit team can help."

While prime central London values continue to compare unfavourably to both outer London and the rest of the UK, and remain 20.5% below their 2014 peak, the picture is improving. Q1 2021 was the first quarter to see price growth since the early 2020 according to Savills, while Knight Frank put the growth in prime Central London property prices at just under half a percent in May. In England overall, average prices increased by 6.4 per cent in the same period, according to Nationwide.

Chipperfield believes that long-term, "London is still appealing." Knight Frank's 2021 Wealth Report supports this view, with London retaining its top spot, alongside New York, in the City Wealth Index, which factors in wealth, investment and lifestyle offerings. "We were expecting to see bargains, but this hasn't happened. Rather, values in other markets are rising," he adds.

Tom Bill, Head of UK Residential Research at Knight Frank agrees: "People reassessed their homes during successive lockdowns. We expect this search for more space to continue in the short-term but is unlikely to lead to meaningful structural shifts in demand in the longer term."

Looking ahead to the performance of the property market over time, he concludes: "Once lockdowns become a thing of the past, the UK property market should return to some degree of normality, with patterns of activity shaped by seasonality rather than social distancing guidelines or stamp duty holiday deadlines. In the medium term, ultra-low interest rates will continue to support demand and explain why we believe the UK prices will grow at single digit percentages for the next five years." →

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The buy-to-let big picture

Our recent market update 'what's next for buy-to-let' explored the mixed fortunes of buy-to-let landlords in London, who experienced a fall in corporate, student and young professional occupiers as travel restrictions increased and UK citizens moved in with family during 2020.

Prime inner London rental values declined 13.3% over the 12-month period to April, with prime outer London values declining 9.4%. Estella Shardlow explains: "The boomerang generation has been driven by the outward migration from prime, urban centres during the pandemic, with a lot of younger adults moving home during lockdowns."

However, data would suggest that the market will improve. Chestertons reported a 21% increase in tenants registering with their London lettings department in March.

Outside of London, Hamptons data reveals rents have risen by 5.9% in April 2021, the fastest rate of growth it has recorded since January 2015.

In a low interest rate environment, confidence in yields seems to be returning, despite Government tax changes in recent years hitting profits. A recent survey by The Deposit Protection Service revealed that 34% of landlords had recently purchased another buy-to-let property or intended to buy one within the next nine months.

The private rented sector now accounts for the highest allocation in Ultra High Net Worth real estate investment portfolios*.

Changing consumer attitudes to buying a home could boost buy-to-let prospects further still. Estella Shardlow points to a renewed desire among younger generations to live for the moment in a post-COVID world. "The well-trodden path of getting a job, buying a house, getting married and then having kids is becoming less and less aspirational. Many younger people would rather be debt-free than buy a house. It's about empowerment."

Tom Bill agrees. "There has been a movement away from London due to affordability pressures and blue-chip companies are increasingly setting up offices in secondary locations to tap into demand. The same affordability pressures mean renting will keep maturing as a tenure model, particularly among the young."

While a quarter of 18- to 24-year-olds still want to live in homes in larger cities and towns, an equal number are heading to villages to settle in more rural.

Institutional investors are eyeing up regional locations accordingly. Future Living II: The Golden Age for beds for rent, a recent Investec poll of over 50 institutional investors managing over €500bn of real estate assets, revealed that more than 8 in 10 respondents believe the outlook in the regions is more attractive than in London.

Shardlow insists that "the urban vs suburban debate predates the pandemic." Only now, however, as a result of working from home, do "people believe they can have it all – career, proximity to nature and a more self-sufficient lifestyle."

Of course, the renewed focus on wellbeing is likely to extend far beyond the property market. A greater awareness of Environmental, Social and Governance issues has been stoked by the pandemic as people were forced to evaluate the health of their communities. According to the Knight Frank Wealth Report, more than 40% of UHNWIs are more interested in ESG focused investments than 12 months ago and 22% are excited by opportunities arising from the ESG agenda, with those in the UK, Australasia and North America the keenest. →

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What can we learn?

What is clear is that for many people, the pandemic has forced a rethink of how they view their home, with demand for outdoor space and home offices likely to be a key factor in the short term. This is especially true for professionals who are unlikely to want or need to return to the office five days a week.

At the other end of the spectrum, the pandemic may be a catalyst for Generation Z to find a better balance between affordability and aspiration and this could shape the opportunities for property investors. According to Shardlow this cohort "still wants the benefits that come with living in urban locations, but not at the expense of their own wellbeing and only if they believe that it offers good value."

Going forward, the uncertain macroeconomic picture is likely to influence the UK residential market in the short term. If inflation defies predictions to be more than 'transitory', the Bank of England could consider an interest rate increase which would affect mortgage rates. Coinciding with two great unknowns, the end of furlough, and to a lesser extent, the ban of residential evictions, this is a climate which could reduce demand for sales and lettings.

For now, this prospect doesn't seem to be putting off investors. A quarter of UHNWIs plan to invest this year, with residential investments a leading requirement. As Will Chipperfield surmises, "The one consensus is that there will be significant opportunities arising out of the pandemic, and clients are remaining positive."

Contact our Private Banking team to see how we could help you

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