

## **Property Week's 1<sup>st</sup> Friday Club, CoreNet Global UK and NB Real Estate's**

### **"Occupier 2019 Essay Competition"**

#### **How will we work in 10 years' time?**

##### Introduction

The fallout from the credit crunch and the ensuing recession will be the most influential factors in determining how and where businesses occupy property in 10 years' time. The consensus amongst economists at the start of 2009 is that the UK faces its worst economic outlook since the early 1980s. It appears likely that the recession will be deeper and more prolonged than previously predicted and a recovery may not start in earnest until 2012. Therefore as we move towards 2019, it is unlikely that we will be at the peak of another steep property cycle but instead will find ourselves in the foothills of an improving economy with further height to scale. It is during this period that companies will expand activity; however, their property requirements will differ significantly to those of the boom years leading up to 2008.

##### Retail Occupiers in 2019

The current recession will have driven a significant number of retailers into administration, with only the strongest and most innovative, surviving the downturn. Consequently, during the first five years of the next decade, vacancy rates will increase which will drive down rents. In ten years, overall demand for retail space will reduce due to the growth in internet shopping and headline Zone A rents will not have surpassed 2007 levels. The recession will act as a catalyst for the growth in e-commerce and will spark the move from "bricks" to "clicks" at a faster rate as consumers seek greater value for money by carrying out online research. By 2019, the majority of purchases will be made via the internet with the exception of some specialist items.

The rise in e-tailing will transform shops as we know them and increasingly retailers will occupy less space in terms of both size and number of units. Those they retain will focus on displaying items for inspection and on customer care, with the bulk of stock remaining in warehouses for immediate distribution. This paradigm shift will be reinforced by a generation that grew up with the internet reaching adulthood and by an older population discovering the benefits of shopping online. Whilst this may paint a gloomy picture for retail landlords, by 2019 there will be an increase in the number of independent retailers who will utilise spare capacity. Retail centres will start to develop their own individual characteristics; however, owners will have to forego covenant strength in return for lower vacancies.

By 2019, the balance of power in negotiations will have shifted from landlords to tenants and any lease agreed over five years will be unusual, with upwards only rent reviews being consigned to the history books. Rent reviews to market rent will fade from predominance and, more frequently, rents will be assessed on an annual turnover basis.

In 2019, footfall in shopping centres and high streets will have reduced and managers of these centres will look for ways to entice bodies back. The large malls constructed in previous decades will be re-branded as public amenity spaces rather than purely shopping centres and will offer a much wider mix of occupiers. The number of purely retailing occupiers will decline and a more significant number of leisure and restaurant occupiers, together with other community services, will take their place.

## Office Occupiers in 2019

By 2019, some of the most fundamental changes in the property market will have occurred in the office sector. The recession will leave an excess of office space and rents will fall from their 2007 peak. Initially, demand for office space will be slow as the economy recovers. When office occupiers return to the market they will require energy efficient properties which will render large proportions of the office stock functionally obsolete. In previous cycles, developers could refurbish older offices to meet new technological requirements. However, by 2019, it will be costly and problematic to refurbish pre-2000 offices to the carbon neutral standards which occupiers will demand in line with their corporate social responsibility policies and environmental branding. These obsolescent buildings will be demolished and owners will increasingly form early partnerships with end occupiers rather than develop speculatively so that the new generation of "green" buildings are designed to the end occupier's be-spoke requirements.

By 2019, office occupiers will require not only a sustainable building, they will also require a sustainable location, well served by public transport and with good national and continental rail links as air travel will have become frowned upon in the corporate arena. It is also likely that by 2019, people will make fewer car journeys due to increased taxation, higher petrol costs and the rolling out of congestion charging in most cities. The office locations that will succeed in 2019 will be those which are not totally reliant on car users.

The office space required by occupiers in 2019 will need to be more adaptable in terms of both use and size in order to cater for a more flexible and mobile workforce. A further change will be the eroding of the polarised and often confrontational landlord and tenant relationship. By 2019, landlords will be viewed as partners of the office occupier and will offer space on flexible terms as part of a partnership arrangement, more akin to a serviced office rather than a traditional lease. Building owners will increasingly offer occupiers a cradle to grave service from initial construction right through to repair and maintenance. The clear line between landlord and tenant which exists today in the office market will have been significantly eroded.

## Conclusion

Whilst factors such as sustainability, e-commerce and occupier flexibility will play vital roles in determining corporate occupiers' strategies in 2019, a severe recession stemming from the credit crunch will have the most impact on occupiers during the next decade. Demand for both retail and office properties will be significantly reduced in the short to medium term, however when economic and market conditions do improve; the property industry will need to have anticipated the cultural, socio-economic and political changes that will have taken place during this period in order to provide for the future requirements of occupiers.

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Contact Details:     Mr. Mark Freer  
                             25 Ringstone  
                             Duxford  
                             Cambridge  
                             CB22 4GY

Email: markfreer24@hotmail.co.uk