Contributor

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Building a resilient Kent property market

Coping with COVID-19 has accelerated the pace of change. How we shop, how we work and how we interact has changed more in the last few months than the last five years. So, how is this affecting the property market as we seek to recover? How do we think it will change the industry in the future? These are the big issues affecting all of us. Here I share a few observations from the last months in an attempt to predict what could lie ahead.

Where we are now
The pandemic has rocked the foundations of the property market. We are now in full mitigation mode and are rapidly learning to adapt.

Rent is a problem shared
The relationship between landlord and tenant has been turned on its head. Tenants have stopped paying rent either because they can't or they choose not to. The government-imposed moratoriums on lease terminations (extended to December 2020) and winding-up petitions (extended to 1 October) have taken away two of the few remedies landlords had. All landlords can do is issue proceedings for rent arrears which is of little concern to troubled tenants who have more pressing matters.

In practice, many landlords have been quick to offer assistance. Such supportive behaviour is being encouraged by the government-endorsed Code of Practice for the Commercial Property Sector which was issued in June.

Rental holidays and suspensions have become common place and never have insurance policies been pored over so forensically. There was some clarification in September with the FCA test case judgment being handed down in favour of policyholders. This is likely to be appealed by the insurers.

There has never been a greater need for dialogue between landlords and tenants. Many landlords now see space as the provision of a service, and their tenants as customers who they want to succeed. This collegial mind-set will need to continue for landlord and tenant businesses to survive.

Reality will come flooding in
Government support schemes and loans have propped up the property sector similar to the rest of the economy. This has clouded the actual state of the market and many owners and occupiers are simply hanging on.

In the June rent quarter 2020, it is understood that only 38% of rent on commercial properties was collected. Less than 20% of retail tenants paid their rent in June and of the office tenants (of whom 75% paid their rent in March) only 53% paid in June.

As I write, we are approaching the September quarter day but we may have to wait until December to see the true extent of the damage once the tide of government assistance schemes has receded. To support commercial property, government may need to keep measures in place for longer, particularly if further restrictive measures are put on industries like leisure, hospitality and retail.

Retail hardship and what's ahead
The already struggling retail industry has continued to suffer. Retail heavyweights such as John Lewis, Marks & Spencer, Boots, Harrods and Arcadia have all cut thousands of jobs while on-line retailers have seen significant increases.

Some businesses will survive but the hardship is real and businesses will disappear. With voids increasing and rental values falling, some shopping centres are being down-

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Proposal for Clifton Slipways, Gravesend.

valued by as much as 50%. This will not only result in banking covenants being breached but it won't be long before fire-sales become commonplace. It is likely shopping centres will come to market for redevelopment to be repurposed for residential or mixed-use schemes. The government's proposal to overhaul the planning system to facilitate change of planning use will help with this.

People still want a shopping experience and destination retail centres should survive. Ali Baba's 'new retail' stores could be a model of the future and Amazon are set to follow. These 'experiential' shops blur the boundaries between the physical bricks-and-mortar space and virtual e-commerce. Customers browse the shop, select what they want on the app and get their goods delivered home. The days of carrying bags back to the car may be over.

The value of office space
The market is seeing the first signs of an incoming tide of office premises. Some premises have been abandoned. Others, nearing fit-out, have no-one there to occupy them. Landlords are not ready to accept softer headline rents; but they will. Before the year ends, owners and occupiers will need to have stark conversations about the reality of their negotiating positions.

To attract people back, offices must now serve a new purpose by providing something different to what can be achieved from home. The office should be the space where lively team working is at its best. Areas will be adapted to encourage socialising and co-working. The quiet 'head down' working can be done at home and there will be far fewer fixed office desks.

Some businesses are thinking creatively about how to combine the use of office and home working. Many are talking about moving to smaller London 'hub' offices with a collection of regional and flexible co-working spaces. These businesses realise their teams, now used to working remotely, can be trusted to be productive.

Lease flexibility will be key and connectivity essential. Interactive audio and video tools will enable teams to co-locate across office and home. New spaces will need to provide video-conferencing that can be conducted without disturbing others. Tech stability will be everything. Employees will expect to be able to flip open a laptop and have complete functionality.

Confidence in residential development

Development is happening but it is understandably cautious. Most residential developers are continuing to work up sites for a point of sale in 2-3 years' time. In many areas, developers still have confidence that the market will return by the time the site is complete. However, many sites are being put on ice until confidence returns and most developers are seeking to postpone the day on which they have to incur a major financial outlay.

Some developers are expressing renewed optimism in the current exodus from London and people realise that they won't need to commute offices more than a couple of times a week.

Coupled with the stamp duty holiday, this renewed interest in regional living has prompted a burst of activity among the residential agents and conveyancing teams. It will be interesting to see how long this lasts.

So what does this all mean for Kent?

The exodus from London in terms of office and residential space is good for our county. People are looking to Kent for a new home with greater access to outdoor space and good schools. Businesses are looking to the regions to provide more cost effective and flexible office space. Regional co-working will also become increasingly attractive as businesses refuse to commit to long fixed-term leases.

Connectivity in its widest sense (i.e. tech and transport) is a big factor. People will still want to get into London for face-to-face meetings (or to visit their new collaborative hub) and they will need stable state-of-the-art technology in their offices.

The benefits we've always recognised in Kent, in its proximity to London and greater value in terms of costs and quality of life, will continue to be a huge advantage as we look to the future. There are other counties who will be offering the same.

Kent's businesses, local government and academics must come together. There are reasons to be positive but we must be brave and make this bright future happen – it won't simply come to us.

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