

An uncertain catalyst for change

Wildcards - There are certain events, sudden and shocking in their occurrence, that have a low probability of happening, but a potentially very high impact if they do. This includes as major health scare such as the onset of a global pandemic

John Ratcliffe (2011) [1]

It is fair to say that none of us expected 2020 to turn out as it did. That is not the same as saying that a pandemic was not expected. As the quote above highlights, pandemics have been on the radar of governments and corporates for decades. It was never a question of “if”; it was a question of “when”. The truth is that most people do not want to contemplate the worse. We all are hoping and praying that 2021 will be better, that the virus will abate either naturally, through natural herd immunity or, more likely, with the aid of a vaccine, but that illustrates that we tend to only focus on things getting better not things getting worse. None of us were contemplating this wildcard back in 2019. We chose not to entertain bad news.

In 2000, I was working with the Royal Institution of Chartered Surveyors (RICS) on a project to look at the impact on property values post a terrorist attack (in London). I spoke with nearly all of the big property consultants in the hope that we could run a seminar on the topic to try to decant out some understanding of the possible scenarios of various types of attack. I was also working with decision theorists from the Ministry of Defence. We were keen to use scenario planning to get handle on the possible long-term outcomes of any such attacks. This was to be an objective exercise detached from the personal suffering and loss. But the project never happened, as the universal feedback was that the possible participants did not want to consider such a situation. And I have no censure for that decision, but it does highlight our unwillingness to consider bad outcomes. Sadly, since that date, we have had real-life examples of such atrocities, and we have had to deal with short- and long-term market changes that came with those shocks and the introduction of uncertainty in our decision-making.

It has been the same with this pandemic; we now find ourselves in a world of uncertainty. Back in March 2020 when the pandemic was declared, all markets stopped. It may have looked like a crash or a recession, but the truth is that markets just paused. Property sales stopped, lettings were postponed and developments were put on hold. And everyone paused too. We all waited. Most of us turned to online suppliers, after a couple of weeks, these companies started adjusting and fulfilling the new demand. Initially it was slow and quiet and then the demand changed to a flood, and Amazon and many others started expanding. At the same time, as commentators were mourning the death of the high street, a quiet revolution was happening. This fed into the property world and deals started happening (at record levels) for logistics properties. Rents rose and yields fell. Likewise, as more people worked at home, the desire for open space and the realisation that commuting was not necessary, but it led to a boom in the demand for family properties with gardens in provincial towns. In other words, the world adjusted.

And it will continue to adjust. There will be winners and losers, but the human race has a history of adapting and changing. COVID-19 was simply a catalyst for change. A horrible and blunt agent that nobody wanted, but it brought about changes that would have happened anyway. Retail was changing, the need for offices was changing and the expansion of logistics was happening. It was all going to happen anyway just not in six months. And that is the crux of the COVID-19 economies. It was a sudden shock to the system, but one that has



reset economic drivers and expectations. Hopefully, next year, a vaccine will have made the world revert to a society based on social interaction, but some of the changes of this year will not be reversed.

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Editor's Note

One of the consequences of lockdown was that many of us used the “pause” to think about things differently or with a degree of introspection that the pace of modern life previously did not allow. To tap into this phenomenon, I asked my editorial board members to write something on any property topic that they wished. Short reflective thought pieces gave some insights into what may happen in the future. The result of this request is this themed issue of “Real Estate Insights”. I hope that you enjoy the issue.

Note

1. Ratcliffe, J. (2011), RICS Strategic Foresight 2030 Report, Royal Institution of Chartered Surveyors, London.