
Editorial: Uncertainty – friend or foe?

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Introduction

If you lived in the UK for the last 10 years or so, you will be aware of all the uncertainty that impacted property markets during the years preceding (and some following) the actualisation of Brexit. Evidently, according to some soothsayers, Brexit would be the end of UK civilisation, and the economy would go into irrevocable decline. And even if there were some sane voices in the discussion, the doom merchants, even if they did not win the day, definitely influenced the decision-making of investors and operational companies. It created such uncertainty and everyone was wishing for it to be over so at least we could deal with the reality of the exit rather than the constant speculation with the resulting lack of certainty.

And then, as soon as that happened on the 30th January 2020, there was probably less than two months of watching and waiting to see what would happen before the World Health Organisation (WHO) announced the coronavirus disease 2019 (COVID-19) pandemic on March 11, 2020 and pretty much on that day, even though the creeping effect of COVID had been observed for a couple of months in the UK, all decision-making stopped. The horrible uncertainty of Brexit had been usurped in spades by the new global uncertainty of a pandemic! And that uncertainty made the one of Brexit look like a walk in the park.

And, then to add to the backdrop of uncertainties, at the beginning of 2022, we began to see the effects of COVID lessening and some degree of normality returning with the various travel and socialising and testing regimes and restrictions slowly being removed when, almost out of the blue, Russia invades Ukraine. War returns to mainland Europe.

Which exacerbated the already difficult post-COVID inflationary pressures to the point where we are now seeing inflation rates and employee unrest at levels not experienced since the mid-1970s. Uncertainty seems to have become the new normal.

The property markets through a period of uncertainty

So what does that all mean for property markets both in the UK and globally? Well it depends upon who you are the assets where you invest. It would be fair to say that uncertainty should lead to lower prices as investors seek higher returns as a contingency to possible losses that previously would not have been considered. Greater uncertainty leads to greater risk. It is also difficult to capture the recent drivers that have produced so much rapid change in the property markets.

We all know that COVID acted as a catalyst to the way in which people lived, worked and shopped. Residential space inside and out has become more appreciated, and non-urban properties with gardens and access to the countryside have all increased in price. But then again, apart from the smallest of apartments, so has the price of urban accommodation particularly those properties with more space and flexible layouts that allow people to work remotely from home. And just as home working has increased, so has the use of traditional office space declined. We are yet to find the new base level, but many commentators have suggested that we will need less than 50% of the office space that we used pre-pandemic.

And this is not the last of all the recent changes, but it is one that is significant to retail investors, and we have all changed the way that we shop.

Again changes in the UK are often more accentuated than other countries. We are a small, highly populated country, and one that has always has a strong consumer economy (figures



show that in pre-COVID only the Portuguese spent more of their disposable income in shops than the British). We might be a nation of shopkeepers but that is only because we are a nation of shoppers. It is not accidental that Amazon UK is the strongest performing part of the global operation. We are a geographical nirvana for online shopping. Large conurbations with relatively high internet usage with a (now) well-established logistics network that can deliver items efficiently and effectively (most of the time) over relatively short distances and normally overnight or even same day delivery. So when the pandemic came, the UK was able to quickly move toward over 50% of our shopping being online. And that has had a significant impact upon our high streets and shopping centres with rents and capital values falling significantly.

These have been challenging times for all property investors and yet in the UK in 2021 inward investment figures into commercial property are not dissimilar to those of 2018 pre-Brexit, pre-COVID levels with yields at similar levels in all sectors except offices. Retail values were down but relative to lower market rents, the yield was not as high as many expected. What does that mean? Well a full analysis is outwith what I can say in a short editorial, but in very simple terms, it shows that markets adjust and adapt even in the most uncertain of times. Albeit, when looking at aggregated numbers, the harsh reality is that there are many “losers” and many “winners” all linked to when assets were bought and sold and the type of assets in question.

The property markets – uncertainty going forward

I may be out on a limb with my next comment, but I like uncertainty. Not that “not knowing” is a good thing, but the doubt of “not knowing” makes investors question their decisions more and, generally, purchase analysis is deeper and pricing is keener. And that, in turn, makes the purchases more resilient to change. Returning to the doomsayers in my opening paragraph, there is a lovely irony that the Brexit uncertainty exacerbated by all the negative views mentioned actually led to a subdued investment market in 2019 and 2020 so, relative to Europe, the challenges and falls in value experienced in the 2021 economy hit the UK less because the pre-Brexit prices were not as high as they may have been otherwise.

I think what I am saying is that whilst we may all wish for a greater degree of certainty, the existence and greater prevalence of the same can actually dampen volatility and that might be a good thing for all markets going forward.

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December 2022