Which sectors will be the winners and losers in 2021?

21 Dec 2020 | by Daniel Austin, chief executive, ASK Partners

A year of chaos will bring about opportunity

Despite unprecedented times, real estate has fared pretty well this year. UK house prices have seen the strongest five-monthly gain since 2004, with values up 6.5% since June, according to the Halifax.

Commercial real estate has also performed well, with significant global investment and strong investor appetite across a variety of asset classes.

Office markets suffered first but have held far stronger than expected

Some predicted the death of the office as we know it. However, I think there will more likely be a change in requirements than a fall in demand. This quarter we have seen a surge in demand for prime London space and big-ticket sales to boost the market. In fact, investor appetite has helped office prices and yields hold firm. Inevitably there have been vacancies too, yet this has created strong opportunities for office to residential conversions. We have lent against two such sites this year in Chiswick and Solihull.

Looking ahead, I think the office market will see significant movement. I expect European investment in this market to continue as UK yields remain comparatively robust and as many European finance firms plan to open UK offices post-Brexit.

BTR boom

The BTR market has seen record volumes in 2020

Build to rent is a new sector continuing to grow despite the pandemic

This nascent sector has taken off this year, on the back of huge growth in the private rental sector. More people are settling outside of London and high quality, maintenance and debt free accommodation with communal and leisure facilities remains very appealing. As a result, investment in BTR has grown significantly, especially outside of

London, most notably with Goldman Sachs' high profile move to acquire a regional 900-unit BTR portfolio, its first BTR acquisition. ASK has also lent against regional BTR schemes this year. I would predict sustained growth for 2021, particularly in the regions.

Student living has become a mainstream asset

The student housing sector has held great investor appeal given its counter-cyclical nature, underpinned by a reliably attractive demographic and undersupply in many locations. We've seen some large transactions, including Unite Students' purchase of a site at Paddington, that will be developed into an 800 bed £150m scheme.

This is perhaps unsurprising given the predicted growth in this sector backed by a population bulge in the current 16-20 age bracket and data from UCAS indicating a 12% growth in applicants for some courses in 2021. With a vaccine now in circulation we can expect students to be studying on site and joined by the growing numbers of overseas students who very much favour purpose-built schemes.

ASK jointly funded a 112-bed PBSA in Falmouth, Cornwall this year. I think we will see many more transactions in the student living sector and a strong pipeline of schemes in readiness for the 2021 and 2022 academic years.

Opportunities amongst retail woes

Much of the retail sector is in desperate need of repurposing

Retail was hit hard but it is opening up new opportunities for change of use. The retail sector has seen some high-profile casualties but, in many cases, these were already struggling businesses. Pre-COVID, the retail environment was already challenged by the trend towards online shopping.

Vacant shops have presented an opportunity to provide much-needed affordable homes, well-located for key workers in hospitals, schools and shops; this transition has been aided by new planning rules. Retailer John Lewis announced in October that it will be entering the build to rent market with 20 sites located above its retail stores. It also has permission to convert 45% of its Oxford Street store into office space.

The grocery sector remained unscathed and food and beverage will likely recover quickly with the vaccine. Likewise, I'd expect leisure and fitness to continue to thrive next year.

Warehouse and logistics benefit from decline of bricks and mortar retail

The boom in online shopping, aided by lockdowns, has clearly driven demand in this space. We predicted micro-depots and shared urban hubs to address the undersupply of logistics land close to urban locations and this has come to fruition. Amazon is looking to secure 40 new parcel hubs to support its two-day delivery commitment.

Brexit will have a big impact on the supply chain in 2021, regardless of "deal or no deal". An increase in tariffs is likely to make international trading less attractive, leading to increased manufacturing and stockpiling in the UK. I think this sector will therefore see significant UK growth and technological advances to meet consumer demand, both of which will increase investor appeal.

Hotels will bounce back in wake of vaccine

As humans we have an innate desire to travel. Having been so restricted this year, I believe the vaccine will drive a significant uplift in the hotel sector. Pre-COVID this market had seen a 2% growth year on year for the last 20 years. It was not even affected by the disruptive business model of Airbnb. Many hotel businesses have not survived 2020, however, as the market picks up in 2021, this will drive competition for the best-located hotels or sites. London will remain a major tourist destination and I strongly expect the hotel market to bounce back in the wake of the vaccine.

As ever, we continue to face uncertainties, such as the prospect of a no-deal Brexit and the success of the vaccine. However, a weak pound as a result of a no-deal, will continue to favour foreign investment, tourism and UK manufacturing. I feel positive that 2021 will present many interesting real estate opportunities across a range of asset classes.