

Social well-being gaining in importance in real estate market

The Covid-19 pandemic has led to a reevaluation of well-being and social contact. Institutional investors can use their real estate strategies to respond with solutions that contribute to various social components of the real estate market.

By Marleen Bosma-Verhaegh

The world was turned upside down and inside out in 2020 and a good part of 2021. Last year, office workers were suddenly forced to work from home on a massive scale, while consumers flocked to buy their groceries and other articles online. For a while, it looked as if we had entered an era of enormous efficiency and freedom for workers. This translated into less travel, less time loss, more freedom for employees to plan their own work, and more time for the immediate living environment.

Eighteen months after the outbreak of the Covid-19 pandemic, this enormous shift has proven to have a less positive side. The deeply-rooted need for social contact was sorely tested during the dark days of the pandemic. Younger employees in particular found themselves suffering from loneliness, as their home offices proved to be too small and too noisy, plus they really missed the fun of shopping and recreation. It cannot be denied that the crisis led to structural changes and once again it became very clear just how useful digital communication channels can be. At the same time, society has become much more aware of the importance of well-being and social contact, especially in terms of the stimulus of regularly working at an office with colleagues, a pleasant living environment and the fun of physical shopping. This is creating opportunities for investors and other players in the real estate market. This will require more focus on social aspects, rather than complete focus on functional building. Real estate with a specific focus on social well-being will generate stable long-term returns. This new development was added to the enormous challenge of making real estate more sustainable and the ever-growing housing shortage. Offices will have to increasingly take on the role of meetings places with a focus on creativity, innovation and inspiration. Tenants need good home-working spaces and a green living environment. And shopping centres will need to focus on providing more experience for consumers.

Offices

Thanks in part to its high-grade IT infrastructure, the Netherlands was able to switch quickly to home working at the outbreak of the Covid-19 pandemic. In a survey conducted by the Dutch Institute for Transport Policy Analysis (KiM) in April 2021, more than 70% of the respondents said they saw had had positive experiences with home working, that they had good home offices and felt they were sufficiently productive. At the same time, almost 60% of the respondents said they missed their colleagues, while 10% suffered from stress and 20% experienced physical problems due to home working. We appeared to have reached a maximum: while in the spring of 2020 some 40% of the number of hours worked were worked from home, compared with 10% in September 2019, that figure fell in 2021, as soon as people were allowed to some extent to work from their offices again.

Despite the increase in home working, experts tend to agree that the decline in the square metres of office space will remain limited to between 3% and 8% in the long term. The main reasons for this are the need to maintain a certain basic capacity of office space to deal with peak moments. What is more, companies will want to do their best to make their offices as attractive as possible, to safeguard their corporate culture and to boost collaboration. This means that offices will have to be

better designed and laid out to facilitate meetings, and that will require space. They will also require sufficient space for people to work (alone) in a concentrated manner.

Residential

The Netherlands is facing the enormous challenge of building no less than 900,000 extra homes in the period to 2030. The housing shortage currently stands at 280,000 homes and is expected to peak at 316,000 in 2025. Although the construction of new homes carried on as normal during the pandemic, the Netherlands has failed to achieve its building volume targets for a number of years. And the outlook is not good. The construction sector is faced with a shortage of workers, now combined with rapidly rising costs of materials. On top of this, zoning and permit procedures are still too long and drawn out, a problem that has been exacerbated by the nitrogen emissions issue.

The housing market is completely out of balance. The shortage of affordable owner-occupier and rental homes is especially marked, as is the shortage of suitable care homes for seniors. We will certainly have to increase the number of senior homes if we want to boost mobility in the housing market. On this front, it is vital that local governments allocate locations with 'social zoning'. Institutional investors will play an indispensable role in meeting the overall housing challenge. They are already finding it difficult to quickly invest their available capital, partly due to the fact that building procedures are becoming more and more prolonged.

Apart from the enormous quantitative challenge, the experiences of the Covid-19 crisis are setting extra qualitative requirements for residential construction. Social problems, such as rising isolation and loneliness, are already on the rise. This is why it is important that all the parties involved in this sector devote more attention to the issue of liveability in neighbourhoods. Important aspects of this include good accessibility (also for disabled people), safety, diversity, inclusiveness and social amenities. In addition, the crisis has led to an upward revaluation of more sustainable lifestyles, with more outside space and sufficient nature in the immediate environment.

Retail

The rising trend of online shopping, which has been growing for some time, has made a huge spurt during the crisis, partly due to the fact that non-essential shops and cafes and restaurants were closed for periods of time. In 2020, webshops managed to increase their turnover by 43.6%, compared with an increase of 5.8% for the retail sector as a whole. All segments, except for clothing and shoe stores, recorded turnover growth. Online spending normalised again in 2021 and in the third quarter was actually lower than before the pandemic (10% year on year), and even showed the lowest growth percentage since 2014.

In the meantime, we appear to have turned a corner. Following the easing of Covid-19 restrictions in the summer of this year, shopping streets showed how resilient they are. In some cases, streets even had to be closed off temporarily because they were too busy. This marked the return of the popularity of a day of 'shopping in the city' and the positive experience and the social importance of physical shopping proved to be as valuable as ever. Following a slight rise in retail vacancy rates in 2020, vacancy rates actually declined in the first half of 2021. One positive effect of the shop closures is that retailers have fully integrated their online services in their corporate strategies and are now better equipped for the future.

Despite the fact that physical retail supply is expected to continue to decline in the coming years to be replaced by online shopping, bricks and mortar shops will remain an essential part of the retail market for brand experience and to meet the needs of consumers. It is no coincidence that the

market share of webshops that are affiliated with physical shops is relatively high. In short, the shops best equipped for the future are those that are also active online, are located in popular shopping centres and offer experience and convenience to consumers who are now working from home more frequently.

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This is creating opportunities for investors that focus on both functional building and social well-being to achieve stable long-term returns.

Office will have to function more as meeting places for employees, where creativity is stimulated. It will be important for homes to have home working spaces, along with green spaces in the immediate environment. On top of this, it will be possible to make full use of the social aspect of shopping and online opportunities.