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Informe Final ULI-Covid

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EXECUTIVE SUMMARY

The impact of C19 on the real estate sector is still uncertain, but it seems that the main long-term effects will be linked to increased adoption of remote working and will have a distinct impact on how homes and offices are used.

The pandemic has exacerbated perceived shortcomings in some homes. Factors like crowding, unhealthy environments and sub-par living conditions have played a role in the disease's spread. Given the poor, inefficient state of many residential units, many homes were not fit for a rushed implementation of remote working, or for that matter, for simply spending even more time at home.

The primary negative consequences that the healthcare crisis has had on the residential sector is related to the sale of homes in multi-family residential areas, particularly second-hand properties, in areas with higher population densities. New homes, as well as second-hand single-family units, have proven to be more resilient when selling and, in some cases have even seen a rebound in price. Interest in single-family homes is greater than multi-family residential buildings, despite the former's higher prices.

Household features seem to be more important to families than the home's location. At present, some of the more valued characteristics include greater floor space, private outdoor areas, good ventilation, a flexible and adaptive layout, with some multiuse interior areas and parking.

These new trends may lead to a rethink of home models. Many existing homes in city centres, which tend to have the greatest shortcomings, will suffer the most when competing with new-build homes. Renovation of existing homes will become both a necessity and an opportunity.

Economic access to homes will be further complicated after the pandemic, particularly for young people and low-income families. Thus, new models for rental homes – such as *built-to-rent*, shared homes in *co-living* and *co-housing* arrangements, and investment, such as so-called impact investment – represent new opportunities to reduce market tension. Nevertheless, these new models will require modifications to applicable legal and urban regulations.

Offices spaces that will be most successful will be those in good locations with convenient transport, that are efficient and environmentally sustainable, where employees will be more interested in working because the spaces contribute to a positive work experience.

The specific characteristics of Madrid and Barcelona, compared to other large cities, contribute to the conclusion that remote working will not have such a hefty impact on the office sector in those markets due to factors such as shorter commutes, higher office occupation density, working habits and other cultural and legal factors inherent to Spain, in addition to a considerably lower occupancy cost compared to other cities.

The trend of businesses providing their employees with greater personal benefits, like time flexibility and healthcare measures, indicates that the uptake in remote working will be left up to employee discretion, rather than being forced due to cost considerations.

Future offices will adopt hybrid models, combining on-site working with occasional remote working, at the employee's convenience. In the hybrid model, offices will become a "meeting place" offering added value, with flexible spaces designed as central locations for meetings, collaboration, creativity, inspiration and communication. These models may require additional and complementary spaces, in good locations, resulting in corporate *hubs* that foster company culture, collaboration and social capital.

The reduction of office space fuelled by an uptick in remote working will not be directly proportional to the number of employees working remotely, given that the occupancy ratio includes not just each person's physical workspace, but also the additional complementary spaces. In addition, it is also important to consider the opposite effect – of increased surface area – driven by a trend towards lower occupation density. This was already noticeable before the crisis and will now be compounded by social distancing requirements and changes to the office model.

UNSPLASP: CHARLES DELUVIO

The C19 crisis has accelerated the digital transformation of businesses and homes, in addition to heightening sensitivities towards sustainability issues. The real estate sector's figures show that a paradigm shift is required if it is to reduce its environmental impact and move towards decarbonisation as a part of the fight against climate change. A combination of sustainable and healthy spaces represents a clear trend in terms of demand. Against this backdrop, poorly-equipped or non-competitive buildings have the most to lose.

From a legislative standpoint, some of the impacts following in the wake of C19 include: the regulation of remote working; measures to prop up business solvency during lockdown; deadline extensions for legal measures adopted at the onset of the healthcare crisis; procedural improvements to facilitate approvals by regional governments; and measures to help numerous home and office tenants to cope with extreme hardship, measures that have been extended to commerce and hotels, in response to the economic difficulty caused by the pandemic.

With regard to urban areas, there does not appear to be a change in the current trend towards more compact cities. Instead, the ramifications of C19 will be related to a certain internal reorganisation and, while highly populated areas may see a slight shift of inhabitants in favour of less dense areas in the outskirts, it seems unlikely that there will be a mass exodus towards non-urban areas. With the potential greater importance of peripheral areas, it will be more necessary than ever to rethink urban planning, A possible increase in the specific importance of the periphery will make it even more necessary to review city models, most specifically in relation to sustainable mobility.

The likely increase of remote working may contribute to a blurring of the lines between working and living spaces, in an urban model that demands greater space hybridisation than at present, a model where residential, office, retail and service spaces coexist. This could represent a kind of crisis for large, exclusively financial centres, which in some cases were already facing uncertainty over the lack of both vibrancy during non-working hours and more general services. Nevertheless, large cities will continue to maintain their appeal and the advantages that come with the proximity of homes, businesses, services and transport options.