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REAL ESTATE

Real estate trends do not spell the end of cities after lockdowns: Knight Frank

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Hong Kong leads global markets in super- and ultra-prime real estate sales. Image credit: Knight Frank

By SARAH RAMIREZ

NEW YORK The death of city centers has been greatly exaggerated, though urbanities will have to adapt after the coronavirus pandemic has upended lifestyles.

In a conversation at the Future of Luxury eConference on Sept. 23, a researcher from real estate brokerage Knight Frank explained what trends have emerged from the pandemic. Lockdowns have impacted both residential and commercial real estate, with much of the focus on how cities will survive months of quarantines.

"Cities will remain at the center of our economy," said Flora Harley, head of global wealth research at Knight Frank. "They will continue to house a majority of the world's population and host their employment, and still attract many will attract wealthy visitors, as well as homeowners and second homeowners.

"People will still want to visit and spend time in cities," she said. "There is such a large opportunity for developers, investors and city authorities to reshape how their cities are used by residents and workers alike.

"The cities that get that right, those that are more dynamic, and respond in the best way, will win big and attracting talent and wealth."

Future of Luxury eConference was produced by Luxury Daily

Lifestyle changes

At the start of the pandemic, many cities and urban centers were badly hit and many of those with means looked to escape to more spacious areas. As the situation evolves, however, cities and, by extension, real estate brokerages have adapted.

"There will and has been changes in behavior more remote working, more flexible hours and this will change the daytime population of cities," Ms. Harley said. "These changes won't equate to the abandonment of cities."

Ms. Harley also argued that office culture will change without disappearing entirely, noting that some social interactions are better face-to-face despite improvements in technology.

In the short-term, some companies may be looking for more office space in order to accommodate social distancing. However, demand may shrink if more employees opt for remote or hybrid working and companies can seat more workers in an office space.

Working from home has its own set of challenges for managers of teams. Image credit: Knight Frank

"Employers are now exploring how they can provide options for people to work closer to home as an alternative," Ms. Harley said. "And this goes hand in hand with the city.

"We may see the start of the hub-and-spoke model and more regional offices and outposts," she said. "This all together creates a huge opportunities for investors and developers to provide the right office environment."

With more people using their homes as their work or learning spaces, consumers are interested in moving away from cities and looking for more space. This may not be a long-term solution, particularly among those concerned about sustainability.

One in four people believe they are more likely to move in the next 12 months as a result of the coronavirus pandemic and continued fallout, according to a recent survey from Knight Frank.

A desire to upgrade their current primary residence is the leading reason for respondents to consider a home purchase. Coronavirus has also influenced what features home buyers are more interested in, such as more outdoor space and a home office (see story).

Commercial real estate, including retail and office space, also faces challenges. Image courtesy of Knight Frank

"In the near term, the wealthy will be more likely to choose space and maybe more seclusion," Ms. Harley said. "But in the longer term, this response isn't sustainable for a wider group of people.

"In London and Hong Kong, a lack of physical space around the city means you can't just abandon it," she said. "In the U.S., you have to face but allowing everyone to have a Hamptons lifestyle will be unspeakably destructive, environmentally."

Luxury retail
COVID-related challenges in luxury retail are also impacting commercial real estate, according to Ms. Harley.

"Prior to the pandemic, Chinese consumers previously preferred buying luxury goods in-store while abroad," Ms.

Harley said. "COVID has led to trend for the repatriation of luxury goods to mainland China, and this is likely to continue in the medium term."

In Hong Kong, retail properties remain one of the hardest hit, with tourism and business travel being brought to a standstill and retail collapsing against the backdrop of protests and COVID-19. It is a situation that has become increasingly challenging for commercial property developers (see story).

Elsewhere, luxury brands are continuing full-speed ahead with investments in bricks-and-mortar.

In recent weeks, French luxury groups LVMH and Kering have reopened newly renovated and relocated stores across the globe. Luxury label Herms has also unveiled new and revamped boutiques in recent weeks (see story).

"Increasingly, developers are thinking about in the fabric of the residential developments is having more mixed use," Ms. Harley said. "Figuring out what that uses, whether that is some more convenience, retail or luxury, high end retail, depends on the type of development, because at the end of the day, it's what people like having in the area, at their doorsteps and within walking distance."