

Considerations for the real estate industry

March 2020

Contents

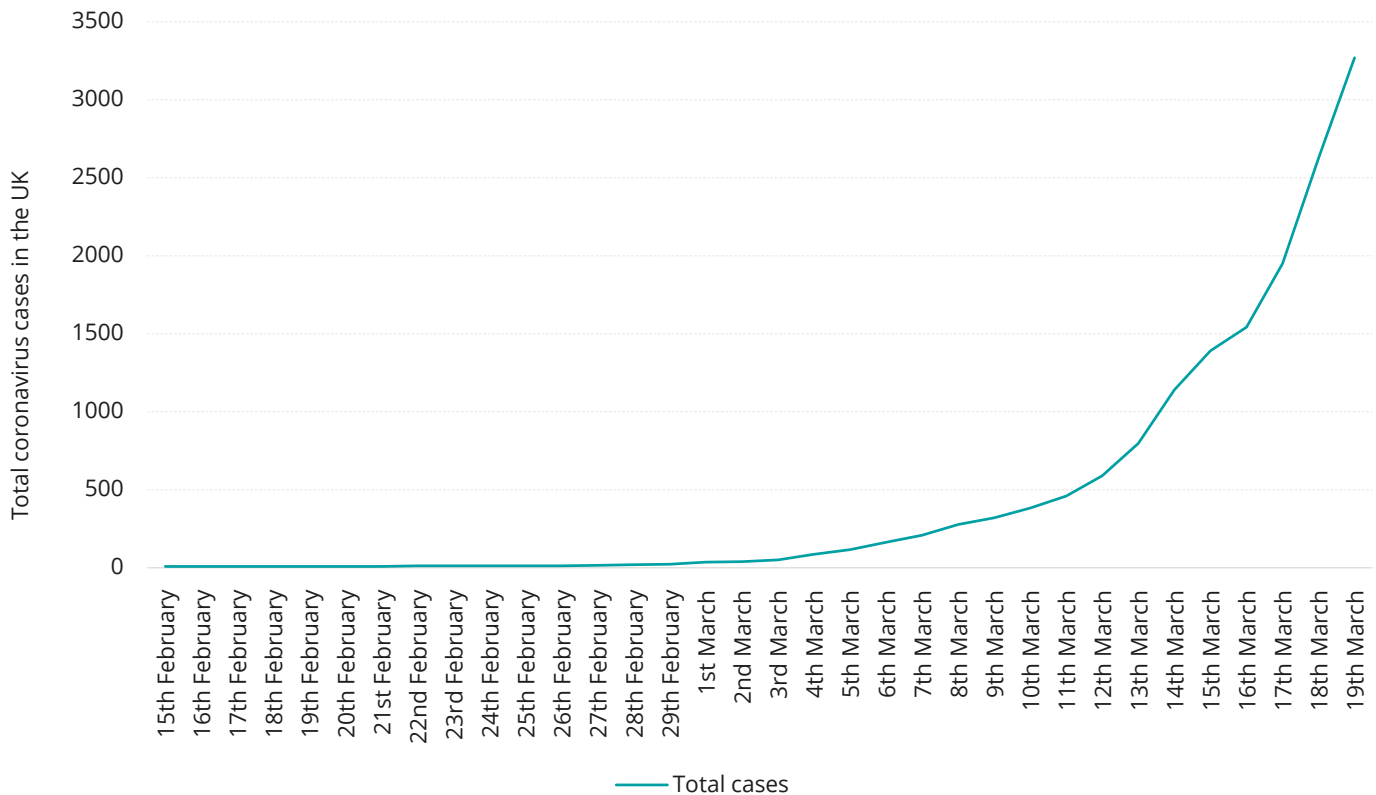
Context	4
Offices	10
Retail	12
Hospitality	16
Industrial & Logistics	20
How could the real estate industry change post Covid-19?	22

Context

A low-angle, blue-tinted photograph of a modern glass skyscraper. The building's facade is composed of a grid of dark metal frames and large glass panels. The perspective is looking up, creating a sense of height and scale. The sky is a pale, clear blue. In the upper left corner, the word "Context" is written in a clean, white, sans-serif font. There are some reflections and light patterns on the glass surfaces, including a small white light reflection on the right side of the building.

UK Coronavirus Cases (Number)

Figure 1. Total coronavirus cases in the UK (Linear Scale)



Source: Worldometers/Deloitte Real Estate

The economic consequences of the coronavirus

Change in 2020 GDP Growth Forecasts

Figure 2: Change in 2020 GDP Growth Forecasts

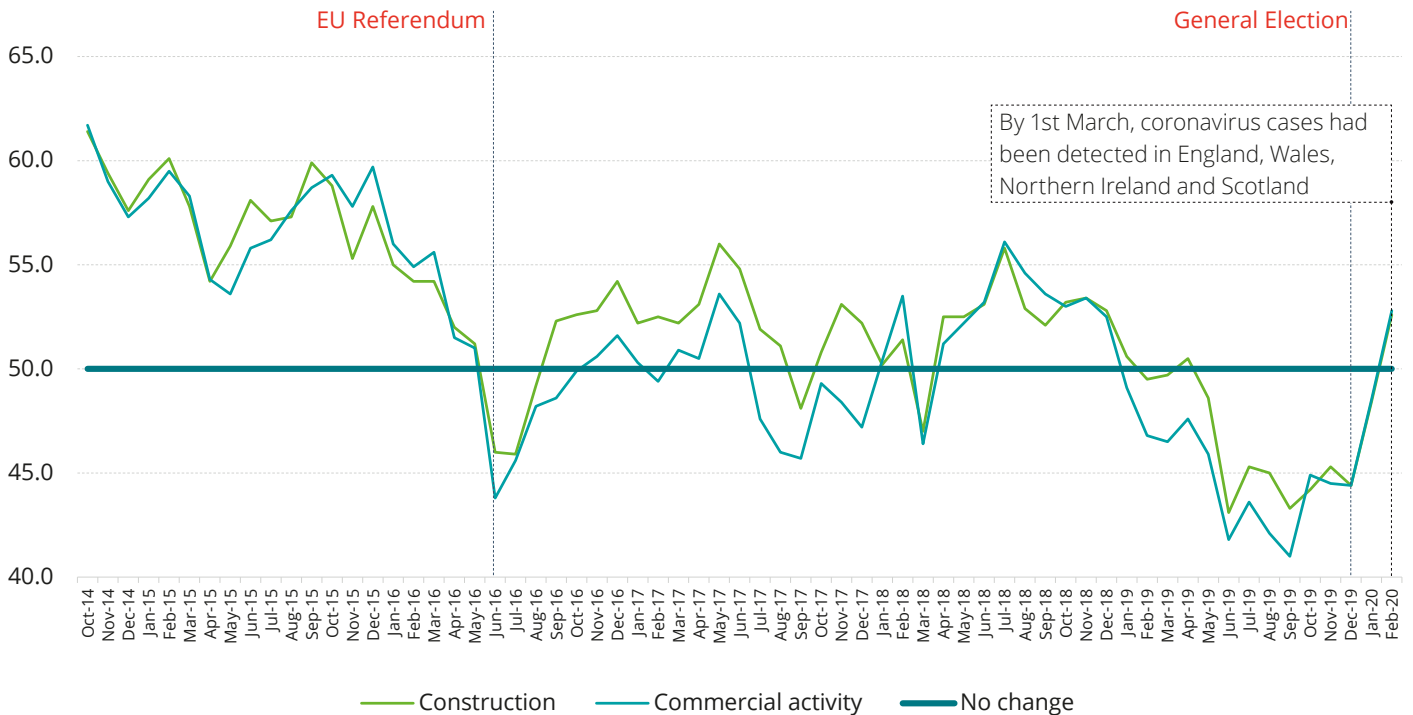
	Pre-virus	Latest	Change		Pre-virus	Latest	Change
Advanced	1.2	1.0	-0.2	Emerging	3.9	2.8	-1.1
US	2.0	1.8	-0.2	China	5.0	3.0	-2.0
Euro-zone	0.7	0.5	-0.2	India	5.7	5.3	-0.4
Japan	-0.2	-1.0	-0.8	S.Korea	2.5	1.0	-1.5
UK	1.0	0.7	-0.3	Brazil	1.5	1.3	-0.2
Australia	2.0	1.2	-0.8	Mexico	0.5	0.3	-0.2
Sweden	0.8	0.5	-0.3	Russia	1.8	1/5	-0.3
Global	2.9	2.0	-0.9	Turkey	4.3	3.8	-0.5

Sources: Refinitiv, Capital Economics

UK construction activity PMI index

- UK construction companies signalled a return to business activity growth **during February**, following a nine-month period of declining workloads
- However, concerns around the coronavirus are expected to weigh on sentiment in the coming months.

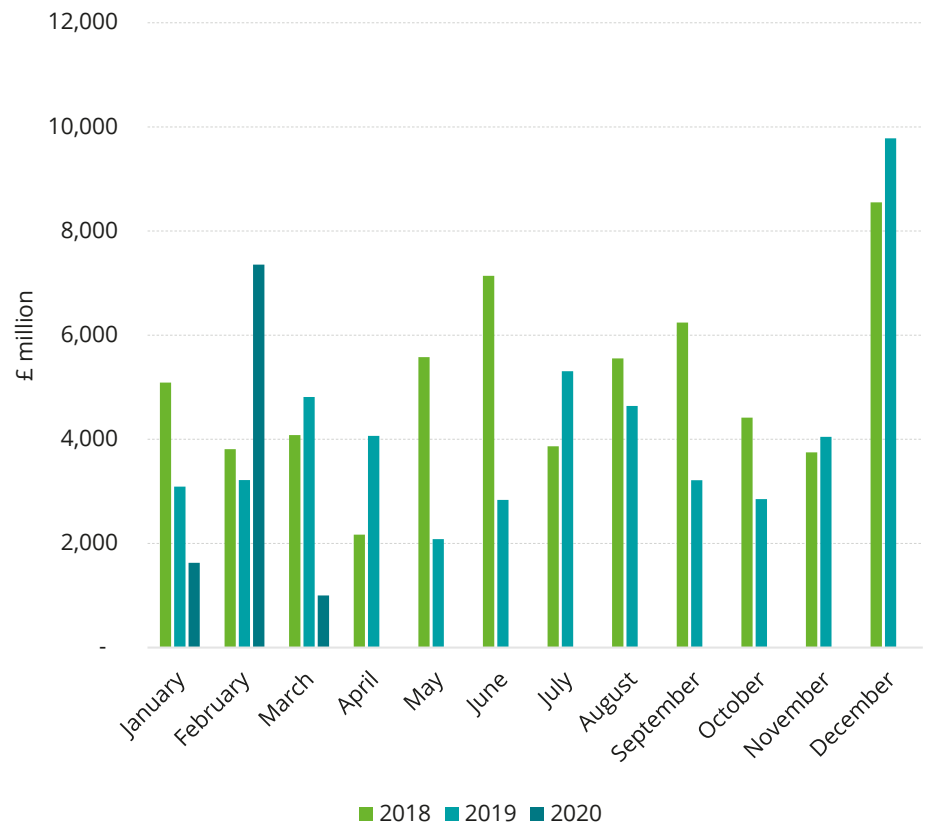
Figure 3: UK construction activity PMI index



Real estate investment market

- The rapid spread of coronavirus is expected to hit global **real estate investment** in the short-term as travel and face to face meetings are restricted
- The speed of the **market rebound** will depend on the period of the pandemic and the pace at which functionality returns coupled with investor confidence
- **Opportunistic purchasers** are expected to seek to take advantage of the period of inevitably reduced liquidity
- Equity fundraising likely to be impacted by **reduced investor confidence** in cash flow resilience - although debt markets may prove more accessible as policy makers seek to provide support
- **Funding issues** due to falling values (covenant breaches) and the loss of income (covenant issues) as leading UK property funds have halted trading.

Figure 4: UK commercial property investment volumes (£millions)



Source: Property Data/Deloitte Real Estate

*Figures as of 20th March 2020



Offices



Office market

Short-term impact:

- Businesses unable to operate remotely, with lower **IT resilience** and reliant on static office models will be most affected by Covid-19
- Demand for short term office space to fall as workers stay away, impacting the **co-working market**. This will be mitigated by businesses which need to relocate temporarily as a result of the outbreak
- Occupiers to demand **Covid-19 clauses** in lease agreements.

Long-term impact:

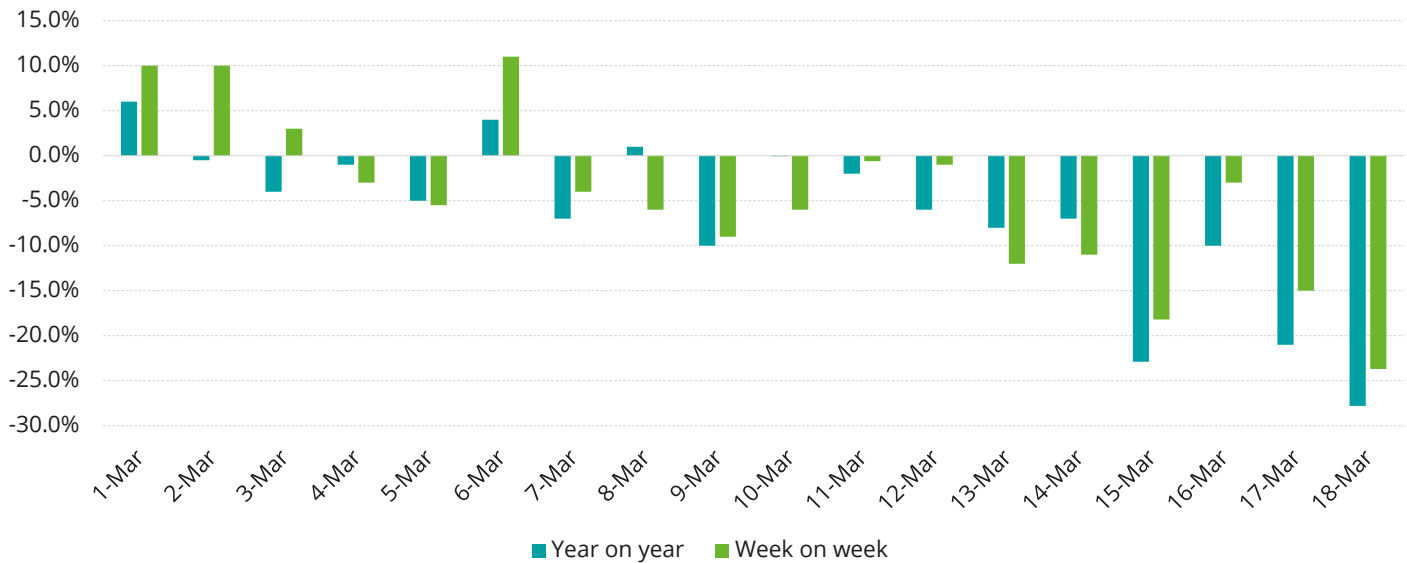
- Enforced experience of agile working is likely to accelerate trend towards **more flexible and remote working**
- Businesses seeking new office accommodation are likely to require **less desk-space per head**, with office function shifting to a greater proportion of accommodation devoted to collaboration/meeting room space
- Occupiers to build provisions for **community hygiene** into their leasing agreement
- Greater adoption of **proptech solutions** such as robotics that can detect, sanitise and clean buildings
- Greater **investment in IT** resilience to promote alternative remote working arrangements
- Potential requirements for “multi-centre” **disaster recovery accommodation** as businesses seek to divide teams delivering essential/critical services.

Retail



UK retail footfall has plummeted by more than a fifth compared with 2019

Figure 5. UK footfall % change by day



Wednesday 18th
March (YoY)
-27.8%



Wednesday 18th
March (WoW)
-23.7%

Source: Springboard

Retail

- Increased risk of **store closures**, in an already challenging UK retail market, impacting landlords' rents
- March 2020 Barclaycard survey - more than a quarter of shoppers said they were **avoiding high streets** and other busy places because of virus
- **Food deliveries** and **e-commerce** are thriving but will be dependent upon resilient supply chain
- Rise in sales at supermarkets as shoppers are **stocking up** on essentials such as toilet rolls, hand sanitiser, dried pasta and tinned tomatoes
- Challenges to global supply chains as borders close with potential **move to more onshored models** on recovery.





Hospitality

GATE #

STATUS

DESTINATION

A20

DELAYED

C72

DELAYED

B24

DELAYED

A14

DELAYED

C88

DELAYED

G12

DELAYED

C5

DELAYED

D18

DELAYED

A4

DELAYED

B22

DELAYED

B22

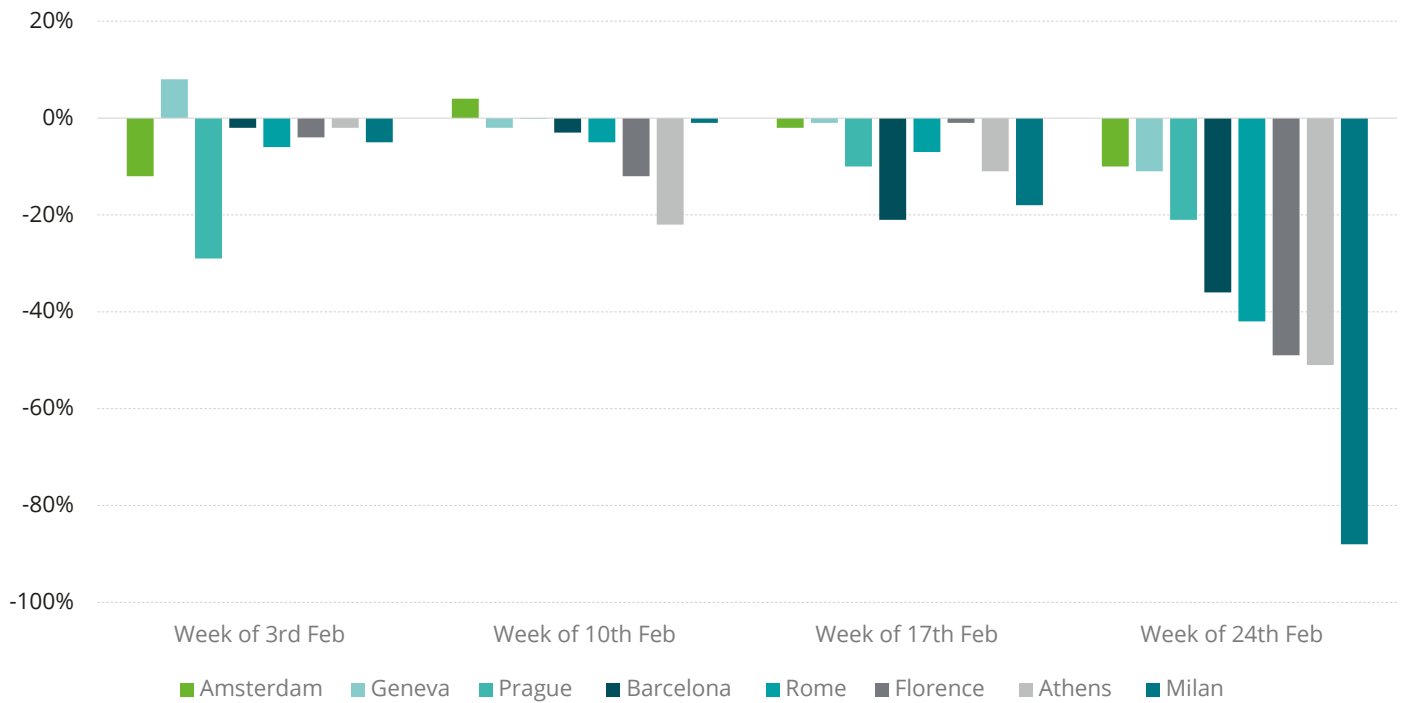
DELAYED

B22

DELAYED

Impact on hospitality in Europe

Figure 6. Impact on hospitality in Europe, occupancy % change



Source: STR, Costar Realty Information

Hospitality

- A **significant reduction in demand**, with major conferences and high profile events around the world being cancelled or postponed
- Risks to **staff availability** may put a further strain on operators' capacity to provide a service
- The magnitude of the impact will depend on the duration of the outbreak and counteracting measures
- A potential for a rapid rebound in the second half of 2020 as activity returns to normal level but the **return to normalcy could be protracted**
- We are waiting to see if Covid-19 triggers structural change in the industry.



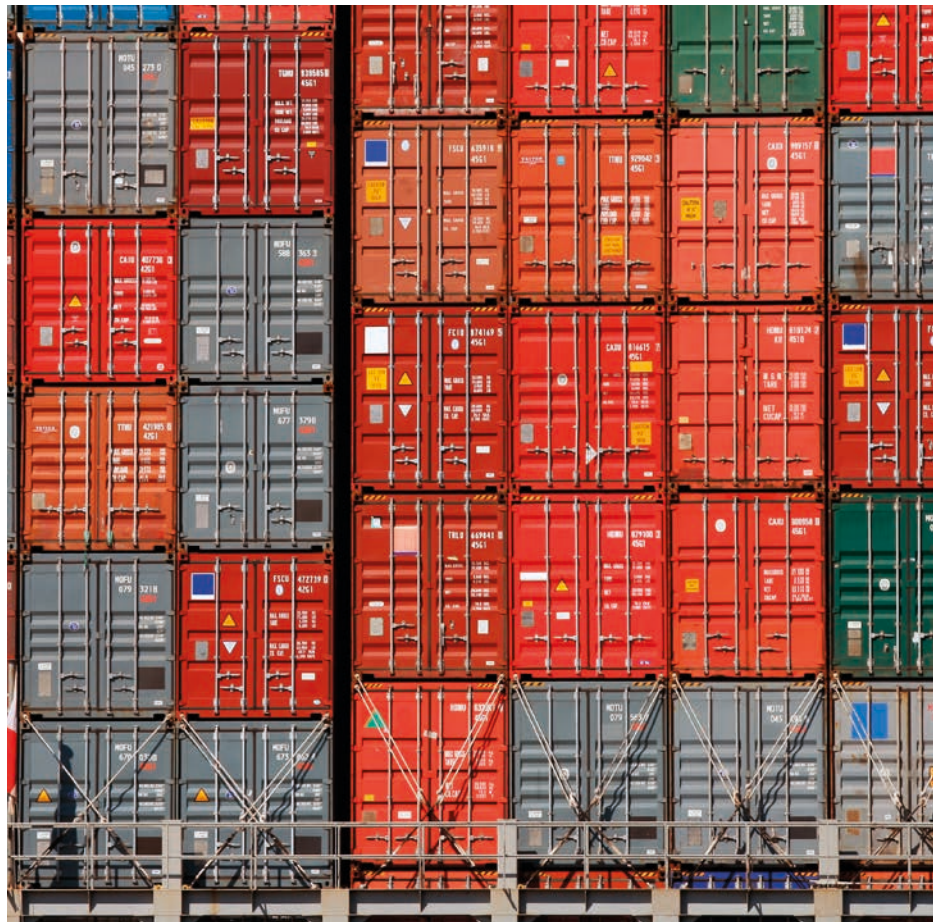


Industrial & Logistics

An aerial photograph of a large, complex railway yard. The image shows a dense network of steel tracks, many of which are curved or crossed at various angles, creating a complex pattern. The tracks are laid on a bed of gravel. In the lower-left quadrant, a signal post with two red lights is visible. The overall scene is one of industrial infrastructure, typical of a major freight or passenger rail hub.

Industrial & logistics

- **Disruption to global supply chains** causing supply shortages
- A shift towards **re-shoring or near sourcing of manufacturing**
- Warehousing firms specialising in providing short-term excess space is likely to see a drop in demand
- Increased use of **automation and robots** in warehousing
- Power to become a more important location factor than labour
- A surge in online grocery shopping during the outbreak could be more permanent, which will further **increase demand for logistics space**.





How could the real estate industry change post Covid-19?

How could the real estate industry change post Covid-19?

- **Remote working** to become a more permanent feature of our lives
- With high levels of working from home, **technology** across life and business is likely to be **more integrated**
- With **more online grocery shopping**, it will impact how retailers operate, with a higher demand for warehousing space
- With disruption of supply chains, businesses will **shift towards re-shoring or near-shoring**
- With travel restrictions and reduced air pollution, we are likely to see less demand for travel and **more emphasis on sustainability**.



Authors



Siobhan Godley
Partner
sgodley@deloitte.co.uk



Bo Glowacz
Insight Manager
bglowacz@deloitte.co.uk

Contacts



Nigel Shilton
Managing Partner
nshilton@deloitte.co.uk



Philip Parnell
Partner
pparnell@deloitte.co.uk



Philip Doherty
Partner
philipdoherty@deloitte.co.uk



Russell McMillan
Partner
rmcmillan@deloitte.co.uk



David Brown
Partner
debrown@deloitte.co.uk

Deloitte. Real Estate

Important notice

This document has been prepared by Deloitte LLP for the sole purpose of enabling the parties to whom it is addressed to evaluate the capabilities of Deloitte LLP to supply the proposed services.

Other than as stated below, this document and its contents are confidential and prepared solely for your information, and may not be reproduced, redistributed or passed on to any other person in whole or in part. If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities). No other party is entitled to rely on this document for any purpose whatsoever and we accept no liability to any other party who is shown or obtains access to this document.

This document is not an offer and is not intended to be contractually binding. Should this proposal be acceptable to you, and following the conclusion of our internal acceptance procedures, we would be pleased to discuss terms and conditions with you prior to our appointment.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2020 Deloitte LLP. All rights reserved.

Designed and produced by CoRe Creative Services, Poland, RITM0426856