

Considerations for the real estate industry

March 2020

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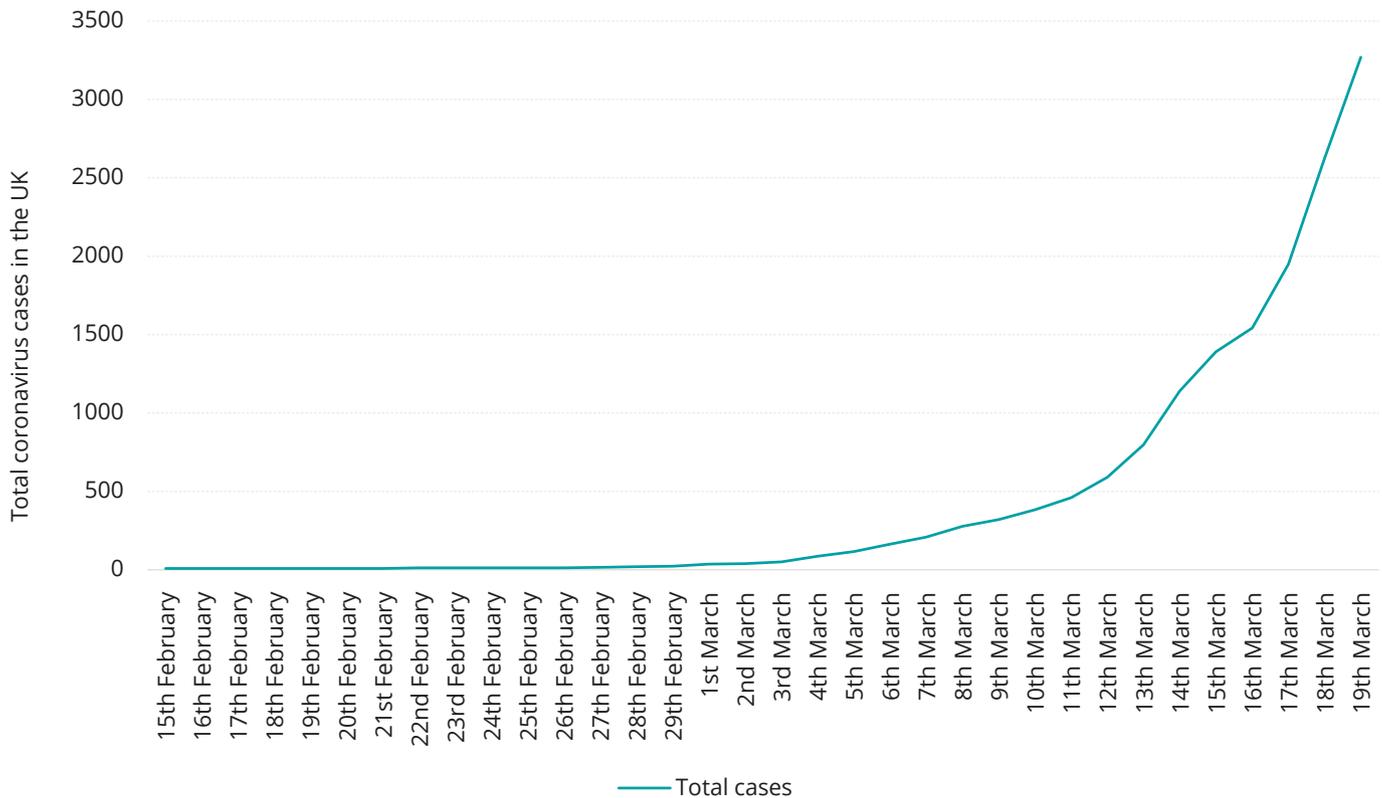
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Context



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

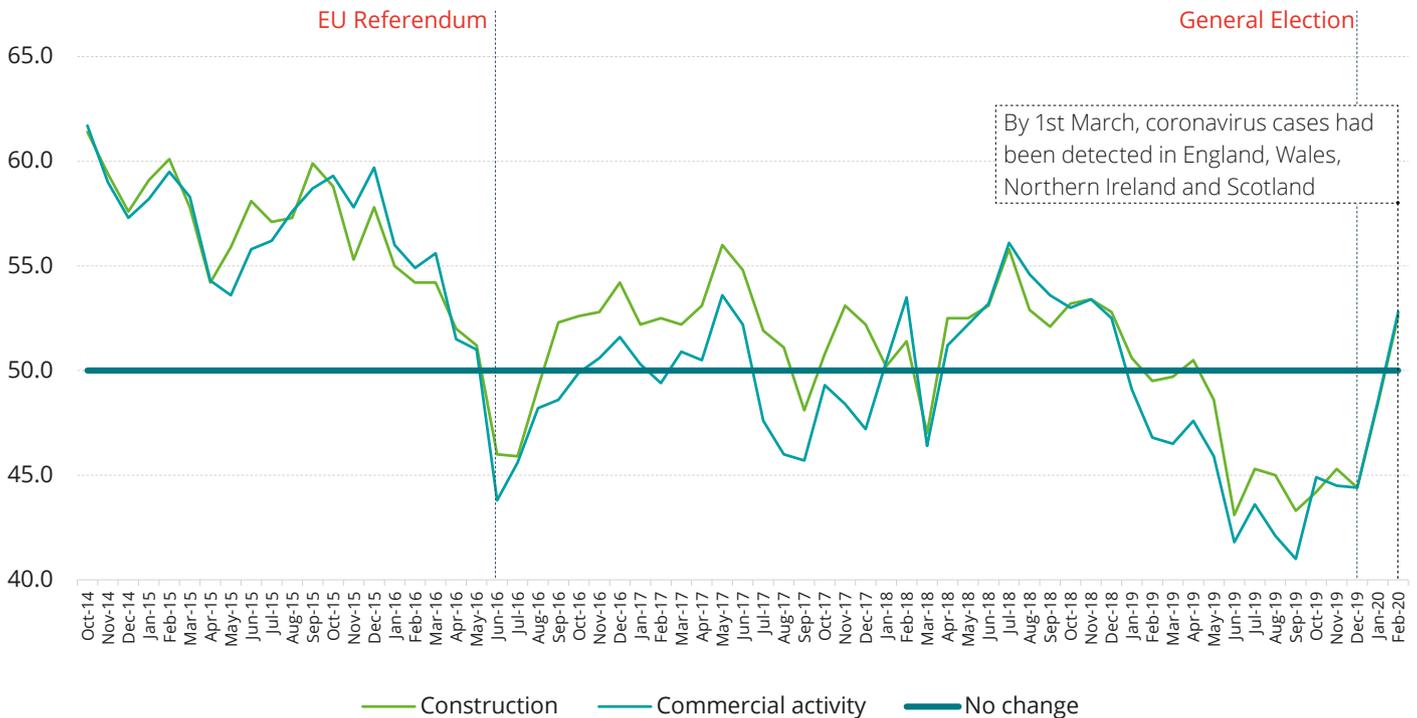
	Pre-virus	Latest	Change		Pre-virus	Latest	Change
Advanced	1.2	1.0	-0.2	Emerging	3.9	2.8	-1.1
US	2.0	1.8	-0.2	China	5.0	3.0	-2.0
Euro-zone	0.7	0.5	-0.2	India	5.7	5.3	-0.4
Japan	-0.2	-1.0	-0.8	S.Korea	2.5	1.0	-1.5
UK	1.0	0.7	-0.3	Brazil	1.5	1.3	-0.2
Australia	2.0	1.2	-0.8	Mexico	0.5	0.3	-0.2
Sweden	0.8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

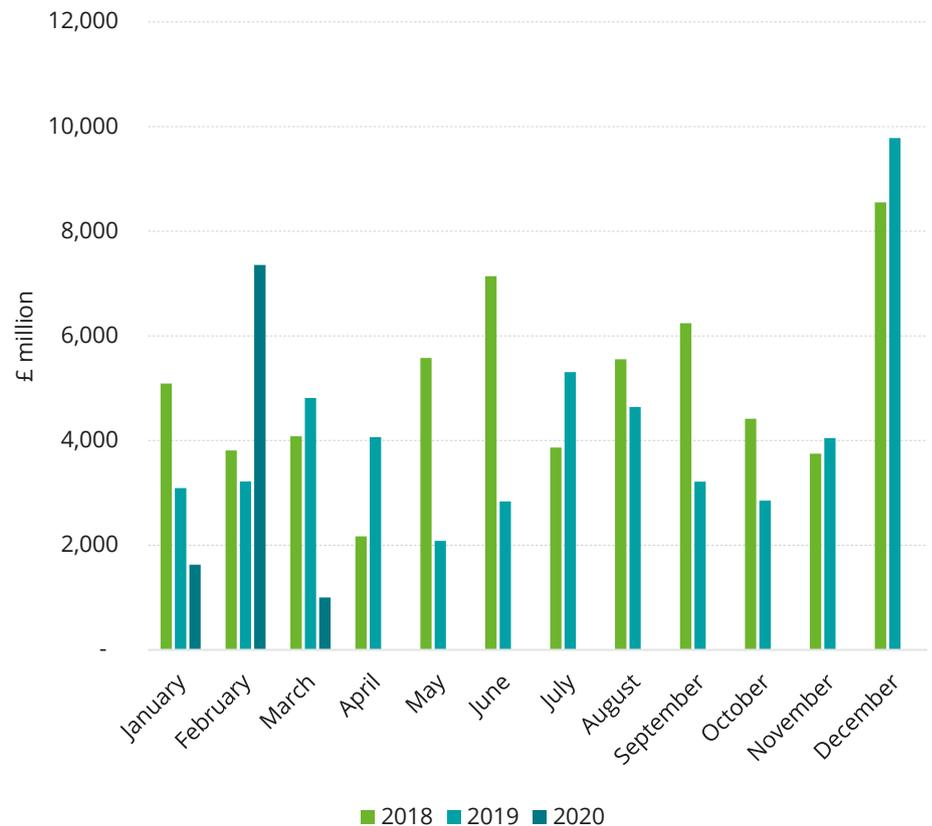
Figure 3: UK construction activity PMI index



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:

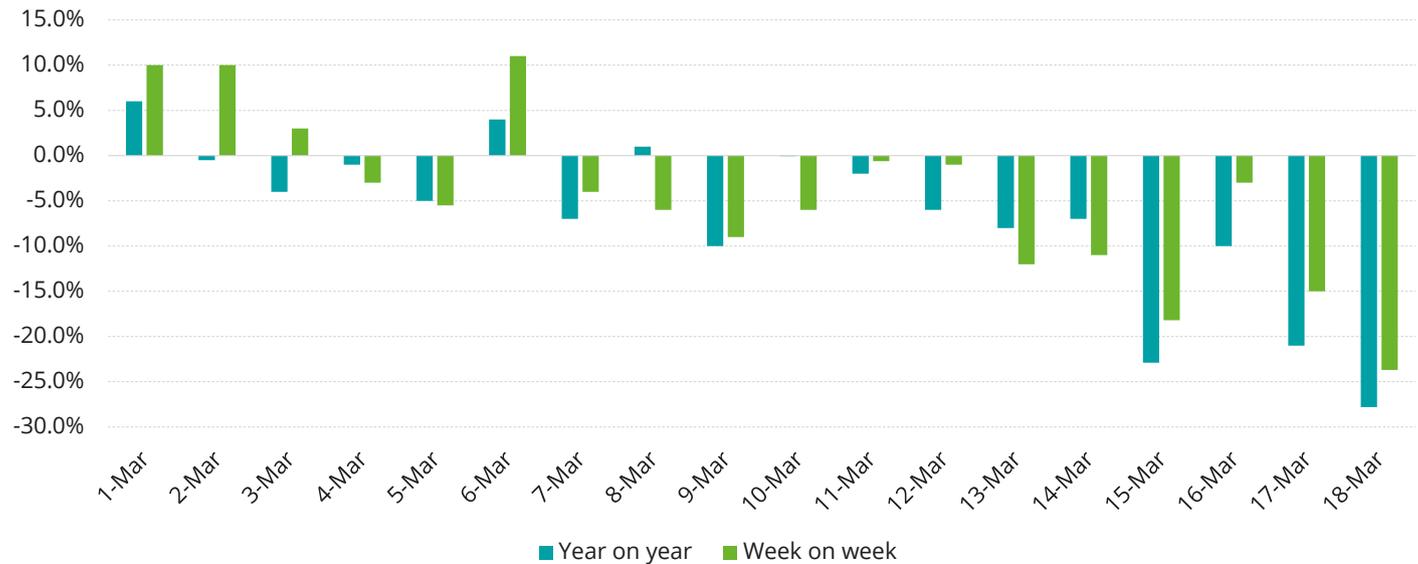
- Enforced experience of agile working is likely to accelerate trend towards **more flexible and remote working**
- Businesses seeking new office accommodation are likely to require **less desk-space per head**, with office function shifting to a greater proportion of accommodation devoted to collaboration/meeting 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

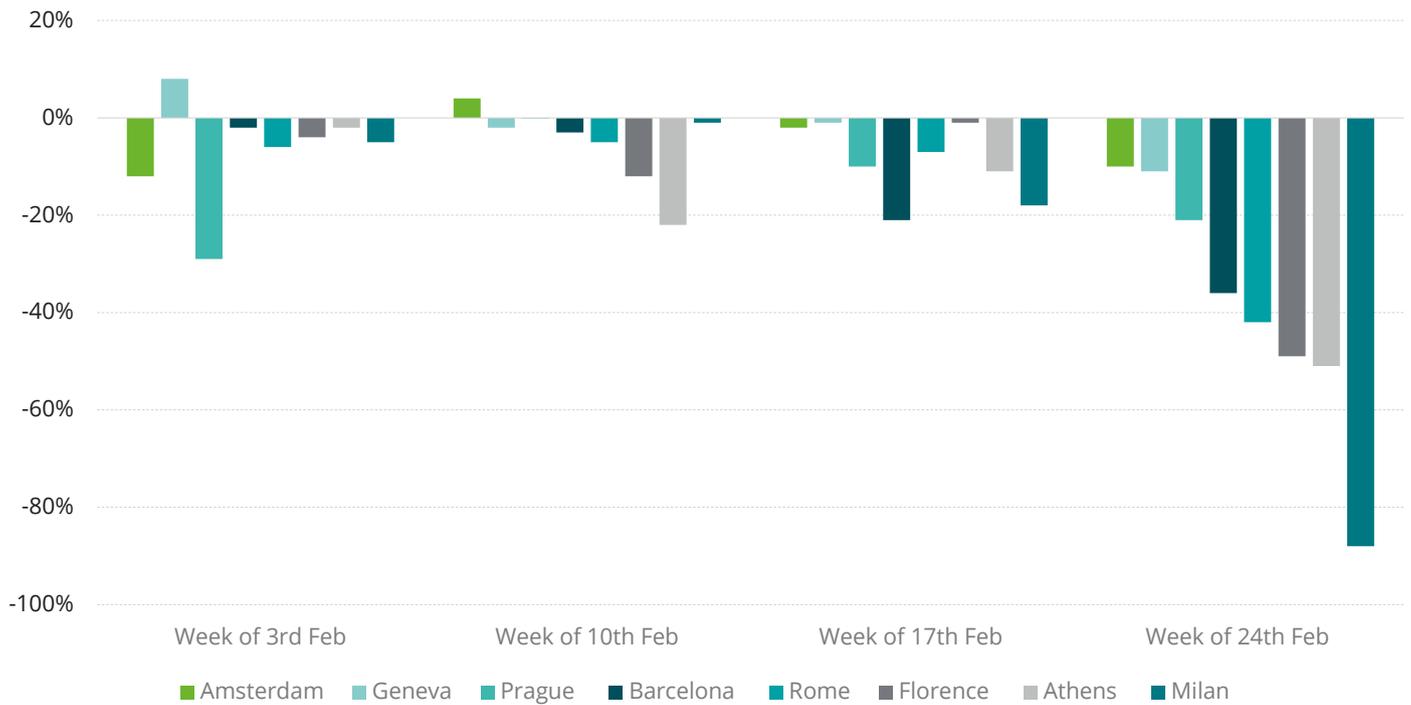
DELAYED

B25

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.



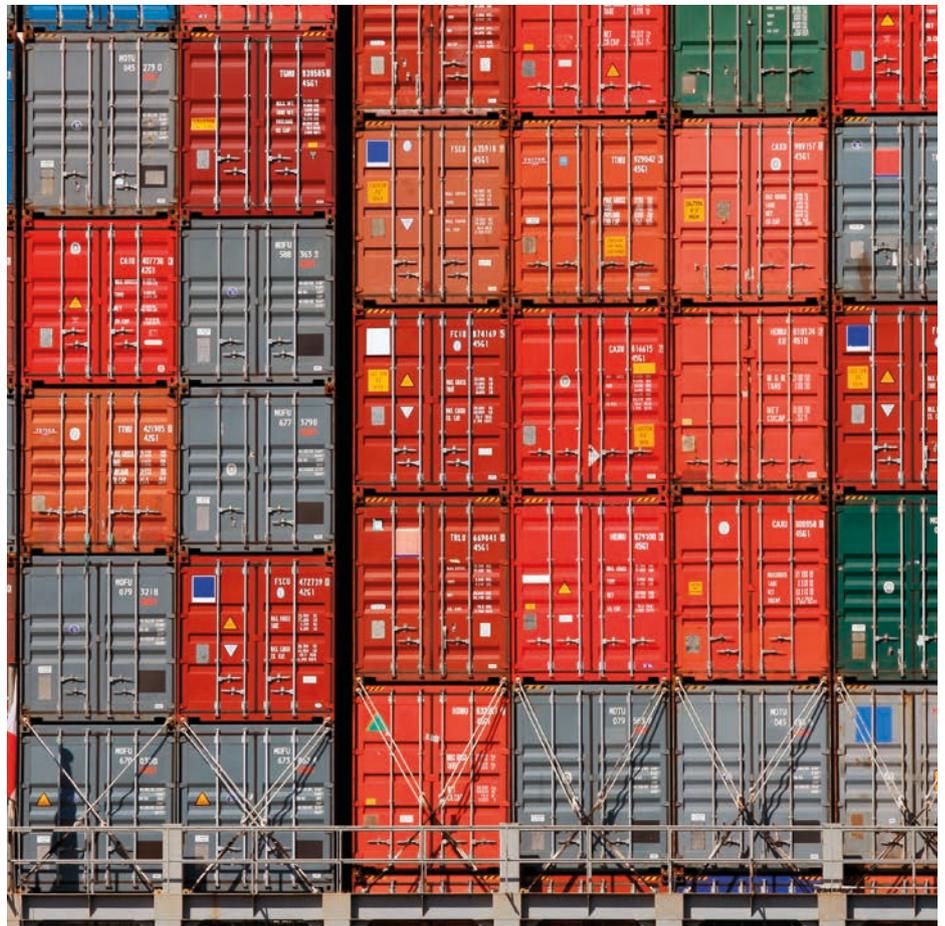


Industrial & Logistics



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**.



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