Refitted Real Estate

COVID-19 and its short- and long-term impact on the Real Assets sector

There can be little doubt that COVID-19 will have a profound impact on the way we live and work in the future. Even if a vaccine's found in the coming months, the impact on our lives and economy's already huge. The arrival of the virus simply accelerated a need to change that'd already existed for months, if not years, and brought it to our attention.

So what does COVID-19 mean for the Real Assets sector in Belgium?

Home working vs. office space needs

For the first time, since the Spanish flu pandemic at the beginning of the last century, the world has again stopped and confined people to their homes. At very short notice, most companies in the service sector managed to make sure their people could work from home. Digital tools played a major role in this. Likely already in place at most firms, they're now actually being used, and on a much larger scale.

Now that everyone's successfully working and serving customers from home, for the most part, should they return to 100% office life once it becomes safe to do so? Given the success with which people, in a role that allows it, have been able to work from home, it seems unlikely that they'll ever return to working 100% in an office. This'll probably be true for back-office staff at manufacturing plants too. Research supports this; emerging polls of CEOs and announcements from a number of national and international firms show that even if there were to be no more COVID-19, most people will remain working from home between 20% and 50% of the time, a minimum of two days a week, on average.

That means a real shift in the types of office space companies will need and look for. Given the huge importance of social interaction to human behaviour, companies will need to find ways to facilitate interaction and connectivity between people in a safe way within an office space when they're there, and assure co-creation and collaboration continue to be fostered, encouraged and supported. Strict sanity rules will have to be in place, including giving access to a sanitised office chair, santisied meeting rooms and more. These requirements will require capex investments in buildings (disinfection rooms, thermic cameras, tracking tools, etc.). Companies will also need to invest in employees' comfort in their home office with ergonomic solutions. Digital transformation will continue and more and more performant tools will emerge. Some companies are already deblocking capex budgets to help their people make required renovations at home for more permanent home working.

It seems inevitable that home working will now become much more the norm. Does that mean that the demand for office space will decrease in the coming years? No. Physical distancing rules mean that the square meter ratio per person in a building will need to be increased and the recent trend of more open office space will have to be reconsidered and reversed back to more closed offices, taking up more space. And, as employees will be less present at the office, there'll be more open meeting rooms where they can meet and work in a safe environment.

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Sustainable infrastructure as an Real Estate asset class

If going to an office, many experts say that in the first post-COVID-19 months people will prefer to use their own means of transport to avoid the risk of contamination. Our current public transport infrastructure certainly isn't up to the job of welcoming hundreds, if not thousands, more commuters in a safe way anyway, even if there are far more people working more often at home.

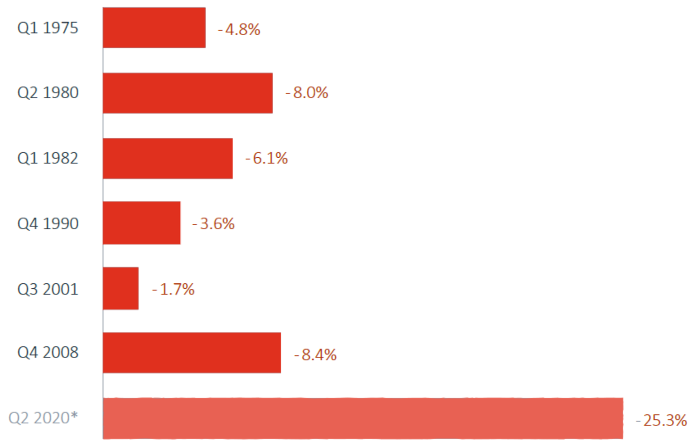
That means the congestion of our roadways will continue and will probably even increase as international and e-commerce industries progress and logistical transport lacks a greener alternative. Any such alternative - to transport goods by train, ship or barge - would require massive infrastructure as well as the construction of more multimodal and logistic platforms. As for the transportation of people, the sector's already been waiting for years for the necessary public investment. The EU Green deal, which is currently under discussion within the EU Member States, and international commitments made by Belgium and the EU for significant carbon reduction in the coming years, provide a clear impetus to launch a huge conversion towards a greener future.

Investing in the future

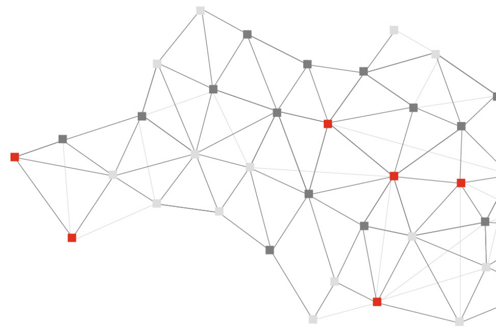
The economic recession's expected to be at a level comparable to that of 1929 (the so-called "great recession"), or even worse. Restarting the machine will cost so many billions of euros that it's our common responsibility toward the generations to come that we invest in sustainable sectors. We're at a moment where our choices will be irrevocable and will definitively determine the future. Relaunching the machine, without taking into account the issue of climate change, the bankruptcy of our health sector, the high degree of poverty of part of the population an the unstoppable digitalisation of our economy would be a disaster.

Furthermore, with thousands of people whose jobs are jobs at risk in the coming months, there's a clear push to launch plans comparable to the Marshall Plan (officially the European Recovery Programme, ERP) after World War II and to use resources to invest in the infrastructure of tomorrow. Those still alive in 30 years time will be glad to read in the history ebooks that the economy was safe thanks to ambitious infrastructure plans for a more sustainable economy.

Worst quarter of GDP growth in recent recessions (annualized)



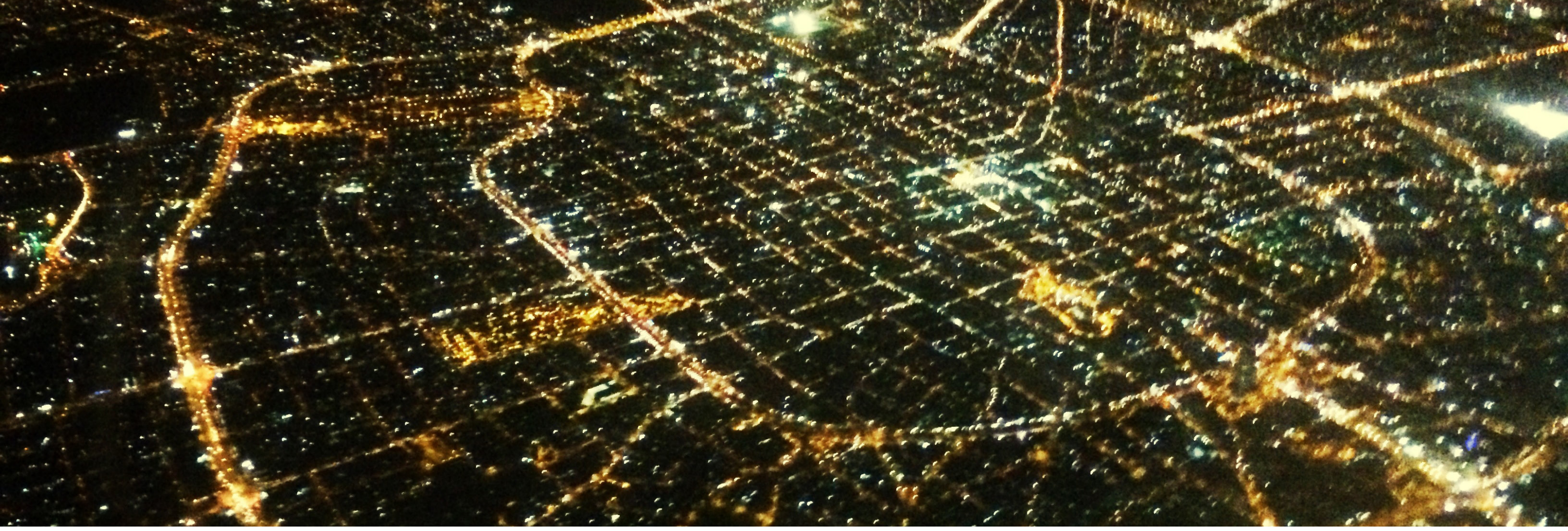
Source: BEA for 1975-2008 figures, WSJ Economic Forecasting Survey for Q2 2020 estimate | Geography: US
* Forecast



Reducing dependence on other regions

Another lesson we've learned from the COVID-19 crisis is our hyper dependence on some emerging economies. Most industrial countries have been obliged to admit to their population that they can no longer produce strategic items such as protective masks and clothing or are obliged to stop the production of some pharmaceuticals, vehicles, phones, etc. because some of the key components of these items are produced in China or India.

This hyperdependence isn't new and was already known by many. Climate defenders have raised the issue time and time again over recent years, pleading for a return to an economy with shorter production cycles. Oak's a great example: Oak trees grow in Belgian forests and are felled by Belgian lumberjacks, but are then sent to China by boat to be converted into wood flooring panels, for example, which are then sent back to Europe. This is just one example amongst thousands. Now, we see an incredible momentum to redevelop forgotten industries in Belgium and Europe. COVID-19 won't stop the globalisation of the economy, but Belgium's a country of entrepreneurs and some strategic domains are worthy of redevelopment. However, the lack of available industrial land, especially in Flanders and Brussels will be an obstacle. Wallonia still has space, but can only accommodate heavy industry if we accelerate the depollution of old brownfields and restart new activities there by developing the necessary infrastructure.

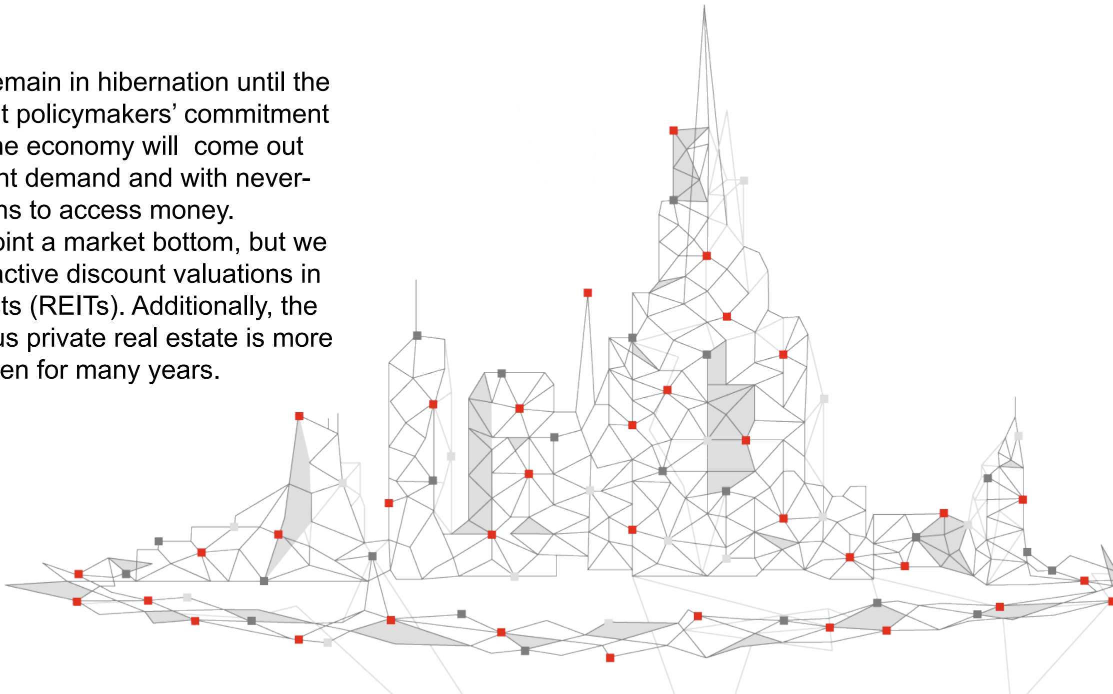


Seeking societal support

To be fair to the European State, and Belgium in particular, with a debt rate above 100% before the COVID-19 crisis, governments won't be able to do this on their own. The private sector, including the population, has the financial means to inject a part of their bank savings into the economy and new assets. To achieve this, the Belgian and regional governments need to develop, and as soon as possible, efficient and transparent mechanisms to enable people to invest in their future. On 30 January 2020, Belgium's people and businesses had a collective 281 billion euros deposited in their savings accounts, meaning they've the financial means to help their country get through the COVID-19 crisis and to invest in a greener future. One of the most important conditions for achieving this will be first to rebuild trust between all stakeholders and stop the polarisation between population classes, origins and native languages.

Looking forward

The global economy will remain in hibernation until the second half of the year, but policymakers' commitment gives us confidence that the economy will come out of this shock with significant demand and with never-before-seen easy conditions to access money.
No one can perfectly pinpoint a market bottom, but we believe there are now attractive discount valuations in real estate investment trusts (REITs). Additionally, the arbitrage opportunity versus private real estate is more pronounced than we've seen for many years.



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