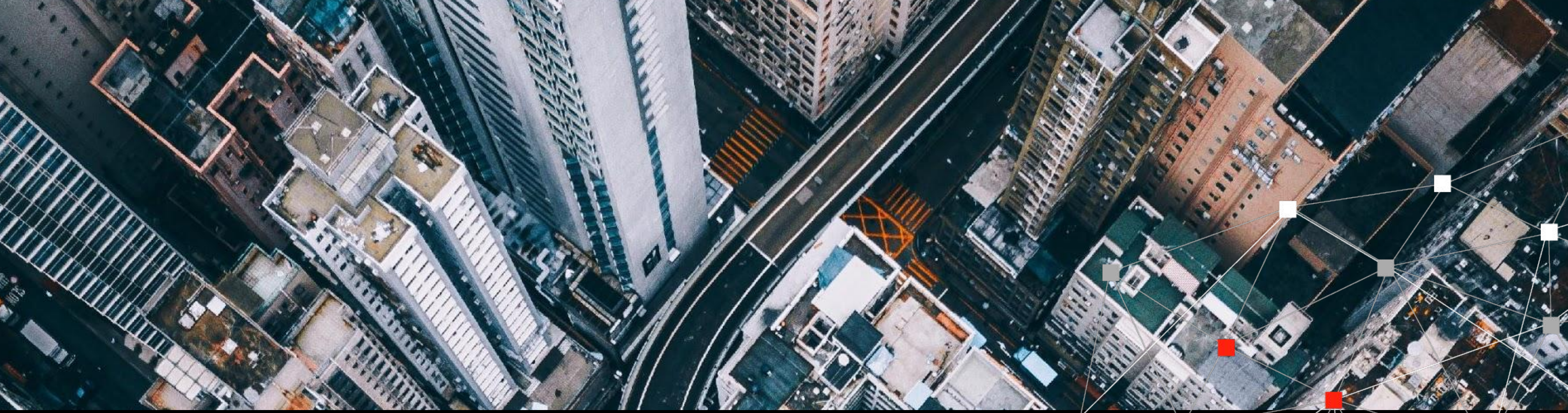

Real Estate in a post-COVID world

The short- and long-term impact of the crisis on commercial Real Estate (RE)

Recent discussions with CEOs and board members from more than 90 local and international RE Investors in Europe (including Belgium), Middle East, Asia and North America indicate that there are a number of specific challenges and opportunities in a post-COVID world for the RE sector.

80% of CSuite assume that the impact of COVID-19 on the Real Estate market will vary between sectors and depend heavily on how quickly the virus is contained, company financial fundamentals and how quickly business and consumer sentiment recovers.

50% of investors agree that a wait-and-see attitude prevails. Human restrictions and uncertainty make it more challenging to execute transactions.

75% of investors consider that occupier demand will be negatively affected, mainly in retail, leisure and hotel, as consumer confidence/behaviours are disrupted in the short and probably medium term.

80% of CSuite warns that real estate owners will need to be reactive over the short and medium term. This means engaging and supporting tenants/customers more with their day-to-day activities, ensuring assets maintain their function and cash flows.

65% of investors still have a strong appetite to invest in certain Real Estate segments, focusing on the long-term fundamentals of good property. Although investment into Real Estate has fluctuated over the years through various crises, the overall trend for higher allocations to real estate.

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Disruption and or Opportunities in the Commercial Real Estate sector

Core offices will certainly be less affected than value-added assets, as investment fundamentals such as tenant risk profile need potentially to be reviewed in 'real time'. The yield spread between core and value-add assets hardly exists in many office markets. Unless there's a major downturn, yield levels for core assets should remain steady due to very low vacancy and a limited pipeline.

In the **flexible office sector**, the home office's certainly one of the clear winners of the crisis. In just two months, most firms in the service sector managed to organise home working for all employees, with relative operational success. Given this success, it's likely that service sector employees will never go back to working 100% at the office. This will probably be true for back-office staff at manufacturing plants too.

A shift in needs

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 within an office space when they're there, and assure co-creation and collaboration continue to be fostered, encouraged and supported.

Coworking centres will be properly tested for the first time, as their flexibility enables corporates to quickly vacate properties they no longer need, forcing significant consolidation across the coworking industry.

Retail will probably underperform in the short and medium term as the virus may act as an accelerator for the structural challenges the retail sector was already facing. Key for the short term is preserving cash; distressed situations are possible if income levels fall while assets are relatively highly leveraged.

Logistics remains a very attractive asset class even if the industry faces supply chain disruption in the short term. The crisis has highlighted the importance of logistics and distribution, especially last-mile properties focused on essential goods, such as fresh food and medical supplies, and the delivery of online purchases. This is particularly true for cold chain logistics, one of the most in-demand segments of logistics real estate

The **hotel sector** will be exposed in the short term to a period of low demand: the OECD (Organisation for Economic Cooperation and Development) forecasts a two percent reduction in global GDP (gross domestic product) for every month a country's locked down, which would further delay the revival of the hotel and leisure market. We'll probably see a point of recovery for the sector in Q2 2021, as most hotel companies have an overall strong business and fundamentals, and governments can help by introducing measures that encourage the renewal of tourism initiatives. Also, domestic locations may increase in importance.

The **care home sector**, including senior housing (independent living, assisted living and nursing homes) also remains very attractive, even if its reputation is currently facing scrutiny. In the medium term, the industry will need to increase capex and protective equipment and reassess protocols to mitigate health risks, potentially also having to respond to stronger regulations. However, while there's likely to be a new normal, as with so many aspects of our lives, the long-term fundamentals for senior housing remain positive. And as demographic trends point to an increasing elderly population, this will continue to drive the need for all types of senior housing long after this crisis has ended.

Adapt for the long run

With the COVID-19 crisis, the world, for the first time, was confined at home and all activity stopped. With the exception of the suffering of those who lost loved ones and the immense tiredness of the hospital workforce, this crisis has triggered or sped up changes that've been expected for many years.

As a result of COVID-19, we can expect to see accelerated moves towards greater reliance on regional hubs and “reverse urbanisation”. This could lead to uncertainty about the current availability of suitable real estate assets and the required local infrastructure to satisfy increased and diversified demand.

The climate crisis will continue to heap stakeholder pressure on Real Estate companies to commit to sustainability goals. Businesses mustn’t lose sight of environmental, social and governance (ESG) issues, even as they grapple with their financial survival.

This crisis is likely to permanently change the use of commercial real estate and we need to be prepared for new trends, such as reverse reduced office working, the growing popularity of online and local community shopping, growth in digital transformation and a long-term decline in business travel. Health and wellbeing are also likely to become a greater driver of value across all forms of real estate.

The upside of where we find ourselves today is that individuals and corporations will be more resilient and flexible in a post-COVID-19 world – that’s forcing us to innovate and change the way we work and live.

Belgium Real Estate team