

# Real Estate House View

## Flash Comment on Coronavirus impact on European Real Estate



SwissLife  
Asset Managers

April 2020 – Issue 2

### Real estate: U-shape recovery with a lag

#### Impact on economy

- In our base case, we expect a recession in developed markets in the first half of 2020, followed by a U-shaped recovery
- Based on the China blueprint, we assume that output in Europe and the US drops by around 10% to 20% in the first half 2020. Output is set to return to end 2019 levels by end 2020 at the earliest.
- Fiscal and monetary policy measures help to partially prevent a longer-lasting demand shock.
- Last week, Switzerland started its 20 billion CHF state-funded lending program to small businesses. 30'000 companies have already applied for loans.
- In the US, where short-time working schemes are unknown, a record number of 3.3 million people applied for unemployment benefits in calendar week 12.

#### Impact on real estate

- We expect property markets to follow the economic U-recovery, yet with a significant lag. Investment activity is expected to rebound accordingly.
- One of the main real estate risks is tenants not being able to pay their rent. In most markets this should be cushioned by rescue packages from central banks and governments. Yet we do not expect an all-encompassing rescue.
- The structural changes in the sectors are currently accelerating: online shopping in retail, eCommerce fulfilment in logistics and an increasing share of home office in office. Investors need to adapt accordingly.
- For the European markets we expect market values to soften across all sectors in 2020 before rebounding. In the Swiss market we expect similar patterns as during the financial crises.

#### Hotel Sector

- The most immediately impacted sector. Currently, a lot of events and travels are cancelled or postponed. A compensation is unlikely.
- It's estimated that Europe faces 72 mn fewer visitors in 2020.<sup>1</sup>
- Overall, we expect travel activity to be subdued the longest.

#### Office Sector

- The impact on the office sector depends on the duration of the various lockdowns, the effectiveness of the rescue packages and if existing rents are above, at, or below market. The long-term effect will be felt first by companies already operating at their financial limit.

#### Retail Sector

- Currently, physical shopping activities are at standstill except for food retailers. Some retailers have already announced that they will not pay their rent for the time being.
- We expect the non-food retail sectors to see the biggest corrections in values and rent expectations overall.
- The previous retail solution of “experience shopping” and restaurants is temporarily suspended.

#### Industrial Sector

- Disruption to global supply chains is the main effect on the industrial and logistics sectors. We might observe a partial “de-globalisation”, meaning that industries are increasing their own stock of supply to resist possible shocks in the supply chain. This would lead to a higher demand for warehouses yet could harm the international logistics.

#### Residential Sector

- No direct impact expected. Demand for residential may temporarily decrease considering the economic downturn and uncertainty.
- In Germany private tenants do not need to fear a cancellation of their contract given a law passed end of March.

#### Health Care Sector

- No direct impact expected except for medical office buildings. Particularly during crisis, operators will need to safeguard own reputation by keeping their patients and residents safe and healthy.

<sup>1</sup>Source: CB RE

### *Swiss Life Asset Managers Real Estate business view*

- Real estate has proven robust in a low interest rate environment with debt ratios still well below pre-GFC levels.
- Swiss Life Asset Managers maintains close and regular relationships with its tenants, as such it has a good understanding of their business models and can anticipate their needs. The asset manager keeps monitoring economic and financial impacts very closely including prudent risk assessments across countries, sectors and its services. While it's still early for long term conclusions the following can be assumed:
  - The longer the duration of lockdown measures in Europe the more likely that especially commercial tenants might be impacted.
  - Some business models are likely to change and/or need to adapt for future purposes.
  - Meanwhile some of the hardest hit sectors (e.g. fashion, restaurant chains) require even closer monitoring and increased tenant engagement.

In this regard Swiss Life Asset Managers is closely monitoring any regulatory revisions across its jurisdictions. Therefore, we are well prepared and positioned to continue working out the best possible long-term solutions for our managed assets.

- Additionally, Swiss Life Asset Managers continues to be fully operational with the majority of staff working from home offices seamlessly. Swiss Life Asset Managers Real Estate employees cope well with the increased but efficient use of email, calls and video conferencing while also benefitting from Swiss Life Asset Managers' digital workplace architecture introduced in 2019.

## Swiss Life Asset Managers



**Francesca Boucard**  
**Economist Real Estate**  
francesca.boucard@swisslife.ch  
🐦 @f\_boucard



**Florian Bauer**  
**Head RE Business & Product Management**  
florian.bauer@swisslife.ch

### **Do you have any questions or would you like to subscribe to this publication?**

Please send an email to: [info@swisslife-am.com](mailto:info@swisslife-am.com).

For more information visit our website at: [www.swisslife-am.com/research](http://www.swisslife-am.com/research)



#### **Released and approved by the Economics Department, Swiss Life Asset Management Ltd, Zurich**

Swiss Life Asset Managers may have acted upon or used research recommendations before they were published. The contents of this document are based upon sources of information believed to be reliable but no guarantee is given as to their accuracy or completeness. This document includes forward-looking statements, which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

**France:** This publication is distributed in France by Swiss Life Asset Managers France, 153 rue Saint Honoré, F-75001 Paris to its clients and prospects. **Germany:** This publication is distributed in Germany by Corpus Sireo Real Estate GmbH, Aachenerstrasse 186, D-50931 Köln; Swiss Life Asset Managers Luxemburg, Niederlassung Deutschland, Hochstrasse 53, D-60313 Frankfurt am Main and Zeppelinstrasse 1, D-85748 Garching b. München and BEOS AG, Kurfürstendamm 188, D-10707 Berlin.

**UK:** This publication is distributed by Mayfair Capital Investment Management Ltd., 2 Cavendish Square, London W1G 0PU. **Switzerland:** This publication is distributed by Swiss Life Asset Management Ltd., General Guisan Quai 40, CH-8022 Zurich.