

# COVID – 19

Monitoring the impact on the Economy  
*Focus on Real Estate Market*



**GLPVALUES**

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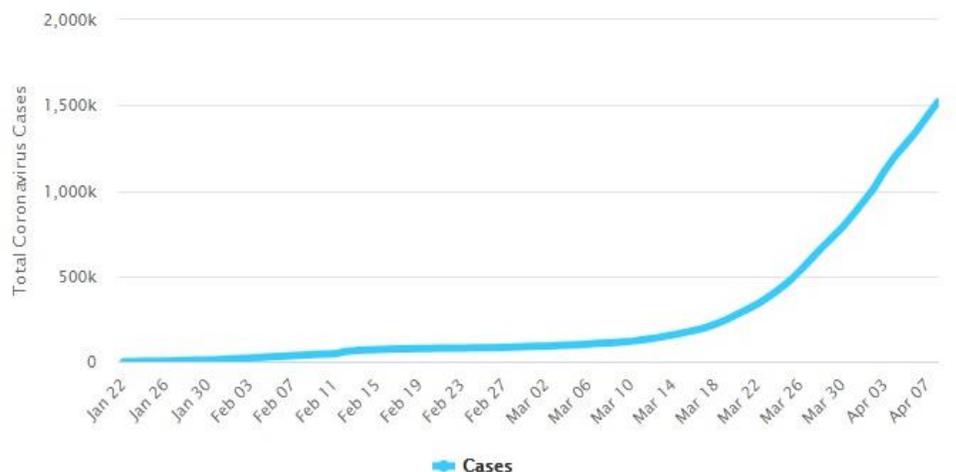
### Key Highlights

#### Background

- **The World Health Organization declared the novel Coronavirus a pandemic on March 11, 2020.** Aforementioned pandemic is considered to have a more severe economic impact compared to SARS and MERS, mainly due to its exponential growth
  - The spread of the virus started in China, within the Hubei province and currently continues its spread throughout the globe
  - Now numerous countries around the world are managing their outbreaks by increasingly stringent containment measures with markets reacting sharply due to the epidemiological shock
- **As a result, COVID-19 is considered to cause a worldwide crisis affecting healthcare safety and causing numerous financial implications to many countries**
  - A high level analysis on total cases across time and country follows below:

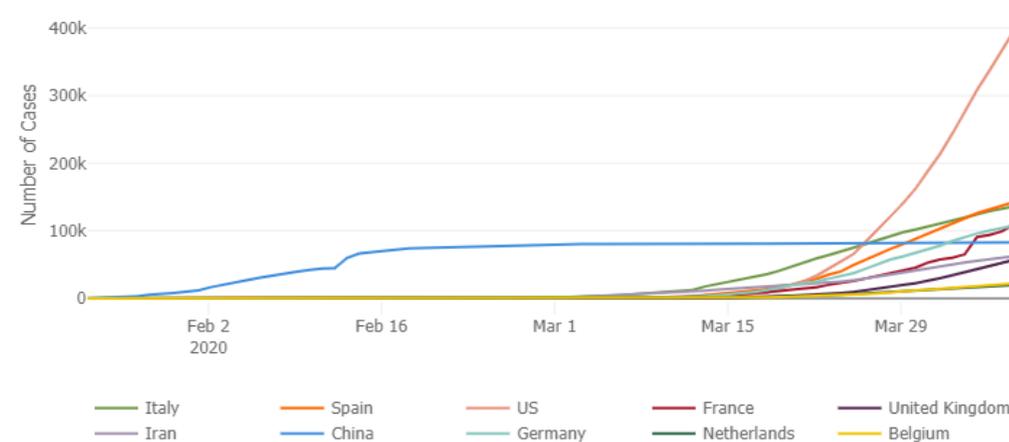
#### Evolution of COVID-19

#### Total Cases Worldwide



Source: Worldometer

#### Cumulative Cases by Date and Country



Source: Johns Hopkins University

## Overview of Measures Taken Worldwide

In the **USA** 29 states have issued stay at home orders, schools closed in 28 states on March 11, 2020 and all foreign nationals on flights from Europe, China and Iran are barred entry

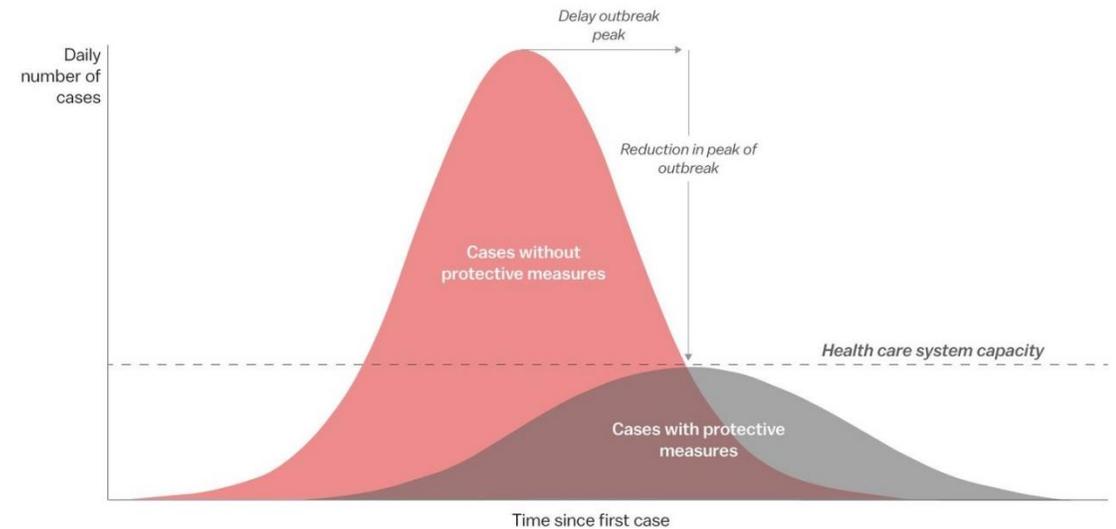
In **Europe** numerous countries (France, Italy, Spain, Greece etc.) have taken containment measures. Travel outside each country and between regions is prohibited and schools, universities, non-essential retail stores and restaurants all closed. On March 17 EU and Schengen borders closed for 30 days

In **China** strict quarantines were imposed particularly in Wuhan and a total lockdown to numerous cities in Hubei, while in Japan and in Korea people are encouraged to practice social distancing and work from home. Traveling is prohibited or in some cases banned

**One of the key measures being taken to reduce the transmission rate is social distancing, which comes at great economical cost**

- The key ingredient for the functionality of global economy is human interaction
- As this is an epidemiological shock, there is no historical analogue to model the situation and figure where the equal agreement between supply and demand is

## Impact of Measures *Flattening the Curve*



Source: CDC

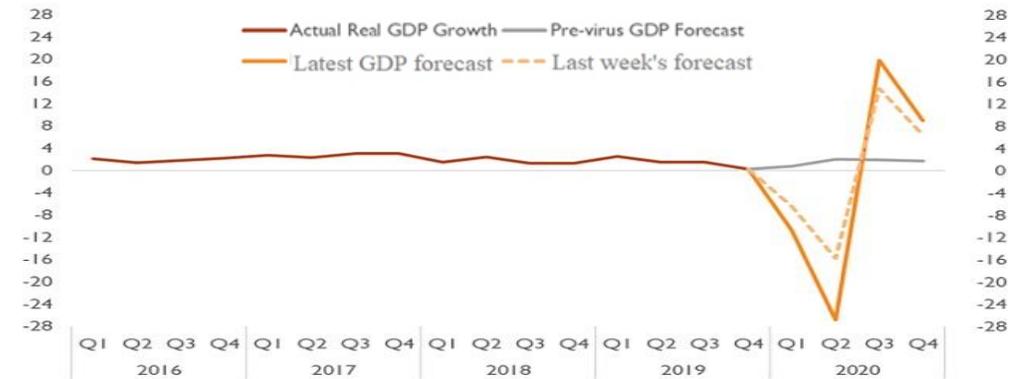
## Impact on GDP

### Key Highlights

- According to recent data, GDP's real growth in the advance economies dropped to -28% while just over a month ago it was about 2%
  - Risk of a recession is very high and many believe that we are already there
  - It is expected that this recession will be sharp and for most countries that went through a recession in the previous years will be between the ones in 2001 and 2009
  - It will be worst for the countries that didn't go through recession the last 15 years



### Actual Real GDP Growth (QoQ annualised, %)



Source: Financial Times/Fulcrum

## Impact on Stock Markets

- The stock markets plunged nearly 30% recently in just 4 weeks, while back in 2008 the market lost 45% of its value in 6 months
  - This reflects the uncertainty that investors feel right now
  - All investors at this early stages of the crisis are waiting, assessing and defending their assets
  - On the bright side, coming out of this situation, there will be new assets on the market and investors who will be willing to buy



### Markets Tumble into Bear Market in Record Time



Source: Yahoo! Finance

There are some sectors which are expected to realize the highest impact from COVID-19 crisis, as follows:

### Description



#### Tourism

- Companies operating in the tourism sector like hotels, etc. are expected to see a material decrease in their revenues due to overall limited activity in the sector. As a background, recent announcement of UNWTO forecasted at a global level a loss in revenues of \$ 30 – 40bn during 2020



#### Transportation through Air

- Airplanes' revenues are currently severely affected by the general lock-down. The sector is also expected to continue facing challenges given limited tourism activity



#### Shipping

- Passenger shipping companies are expected to be affected due to limited tourism activity. Also, bulk carriers might be negatively affected due to lower exports



#### Retail / Food Services

- Low consumer confidence is expected to affect retail sales. As a result, SMEs will face immediate decrease in their revenues triggered from the lock-down



#### Real Estate & Manufacturing

- Limited activity in real estate transactions and overall delays in manufacturing sector may be observed. Investors may not proceed in their planned investments (i.e., building hotels, etc.) due to the overall negative macroeconomic environment

*For more information on real estate implications please refer to next slides*

## REIT Performance YTD (31.03.2020)

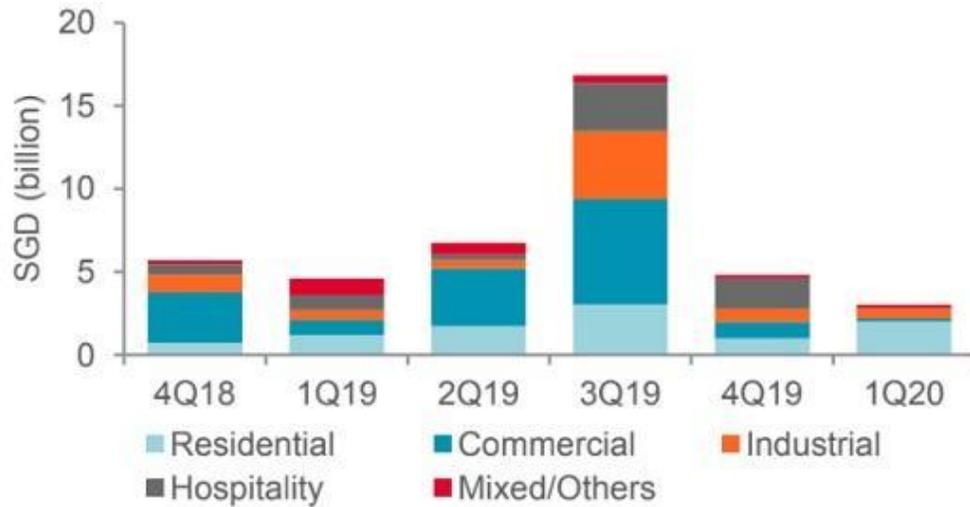
PROPERTY TYPE	AVERAGE RETURN	NUMBER OF REITS
Hotel	-58,65%	18
Mall	-56,66%	7
Shopping Center	-52,76%	19
Advertising	-45,32%	2
Student Housing	-40,39%	1
Triple Net	-37,37%	17
Diversified	-35,39%	18
Timber	-33,28%	4
Health Care	-32,41%	17
Multifamily	-30,86%	12
Casino	-30,11%	3
Corrections	-28,08%	2
Office	-28,07%	21
Manufactured Housing	-21,44%	3
Self-Storage	-15,65%	7
Industrial	-14,28%	12
Single Family Housing	-13,87%	3
Infrastructure	-9,60%	6
Data Center	1,40%	6
Land	13,51%	3
REIT AVERAGE	-33,39%	181

Source: S&P Global/SeekingAlpha

## Key Remarks

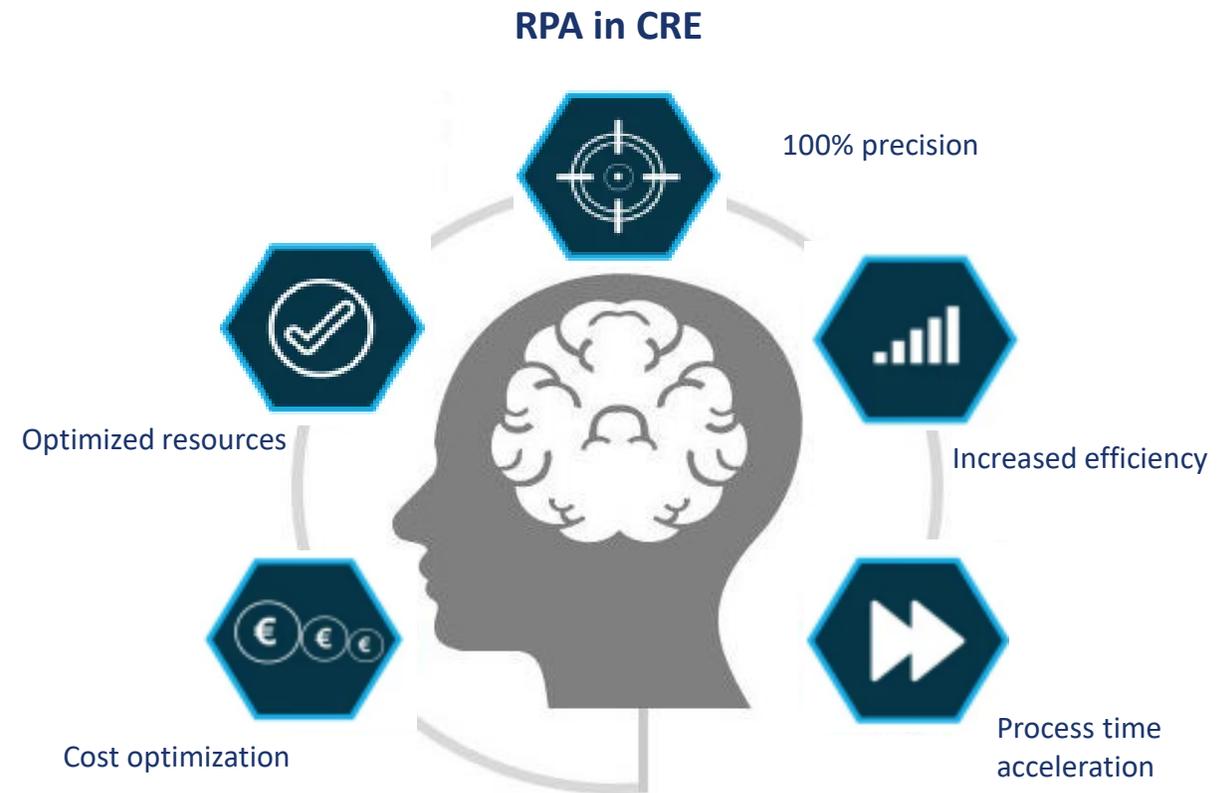
- 1 In an ever-changing market, what we now fully understand is that the types of **Real Estate** that depend on a daily human interaction are affected the most. On the other hand data center is one of the two sectors with positive performance mainly because of the necessity of working from home
- 2 It is apparent that some trends that were already in motion (de-globalisation, extended use of RPA - Robotic Process Automation-, flexible office centers, etc.) will expedite because of the crisis
- 3 On a positive note, Real Estate sector had a great momentum going into this crisis as most of the global markets had a significant leasing activity growth which lead us to believe that the return to normality will be smoother and quicker
- 4 In a period of one month we observe that the demand for office space has dropped significantly but because of the nature of most office leases, commonly are leased for more than three years, we might not yet see the sharp decline in office space demand

**As the timeline has not been set, there are no parameters to try and model the impact the Coronavirus will have on the property market and the economy in general**

**Investment Volume by Sector**


Source: Singapore Business Review

Trends already in motion will accelerate because of the crisis. Use of RPA, De-Globalization, Flexible Office Centers, etc.

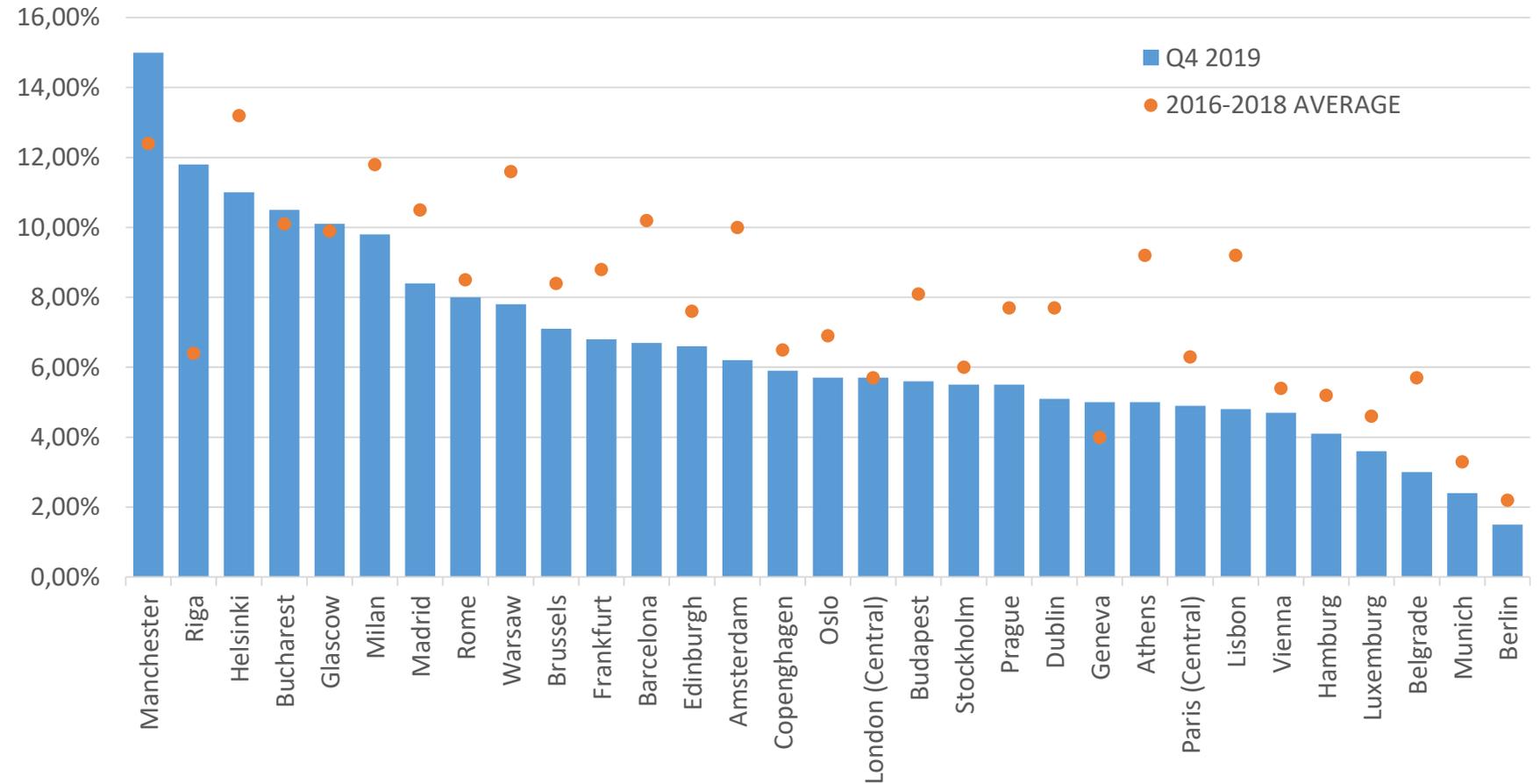


In Q1 of 2020 we observe a significant drop in property investment with the sectors that depend on human interaction being affected the most. Investors in CRE are waiting to see if the market decline will continue, allowing them to buy in lower prices, while the sellers refuse to lower them hoping that the economic decline will be temporary.

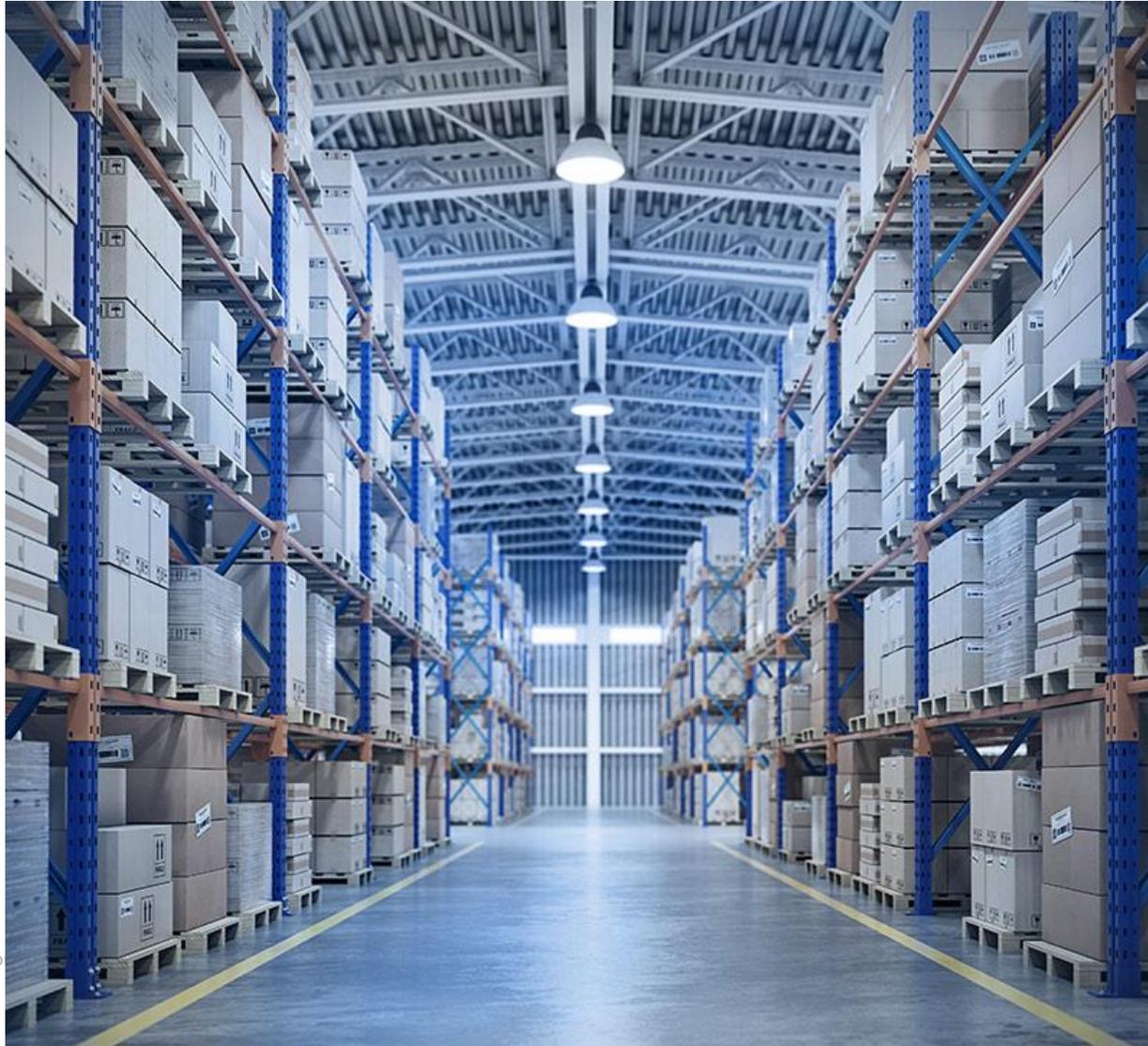
**Prime Office Vacancy Rate in Major EU Cities**

**We observe that the office vacancy rate dropped significantly during the Q4 2019**

- Going into a crisis we expect the demand to fall dramatically but we might avoid seeing a sharp growth in vacancy if we consider that almost all office leases set a three year period minimum
- With occupants already reaching landlords seeking rental relief and many people engaging in remote work it is too soon to model any decision



Source: data: Eurostat /chart: GLP Values

**LOGISTICS - WAREHOUSES**

The demand of warehouses is expected to surge due to the disruption of the supply chain caused by the COVID-19 pandemic. Because of the imposed lockdown in most major cities worldwide, e-commerce section has seen an immense growth which benefits the logistics sector by heightening the demand for warehouses and logistics spaces.

Following the outbreak, we have seen most of the vacant warehouse space reoccupied, as a result of the growth in e-commerce. Even when the measures implemented by the local authorities start to lift we expect people to go back to a new normal where the consumer behavior will have changed with many still shopping for their supplies on-line.



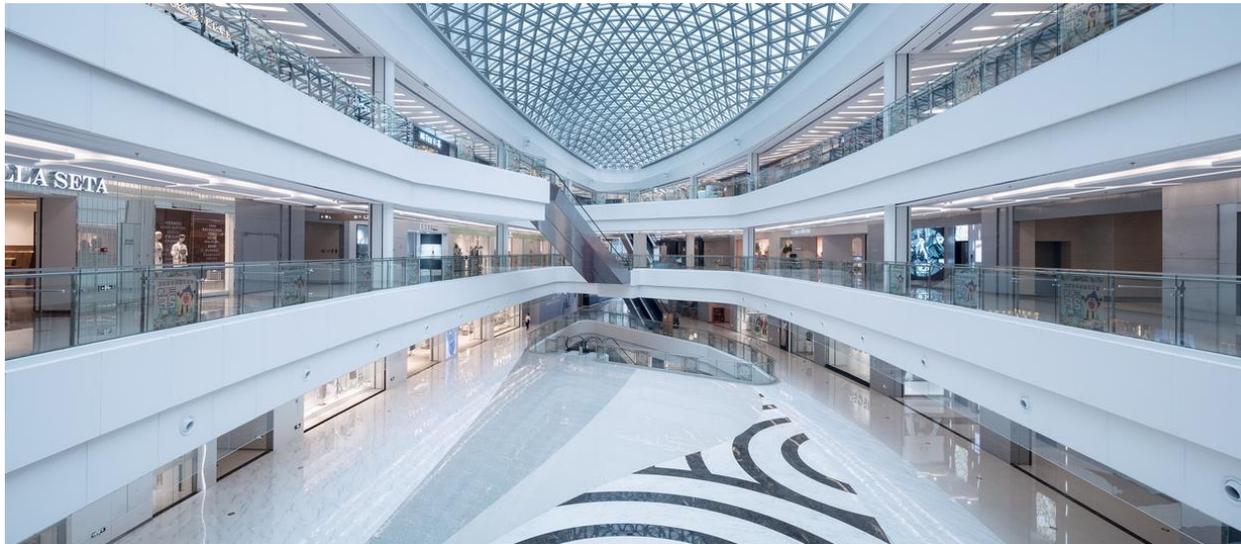
## PROJECT MANAGEMENT

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The impact that the social distancing measures imposed by health and government authorities will have on supply chain in the long term is not yet predictable. What we can predict for the short term is that the production has halted and in some cases stopped, but certain products are still in demand.

Where construction is still allowed there are plenty of obstacles that occur daily such as material insufficiency because of the supply chain disruptions due to coronavirus, compliance with the standards set by World Health Organization meaning social distancing, use of masks and gloves, restriction of number of people working in a small place, disinfection of site if a worker is Covid-19 positive and mandatory 14-day quarantine for those affected while the project resumes after disinfection with less workers and in some cases it completely stops.

The majority of projects has been delayed and the contractors are filling delay claims, without knowing when the projects will resume. Even upon return we expect to come across construction material shortage, delayed deliveries, a market that smaller manufacturers will not be able to catch up and eventually file for bankruptcy.



## RETAIL SECTOR

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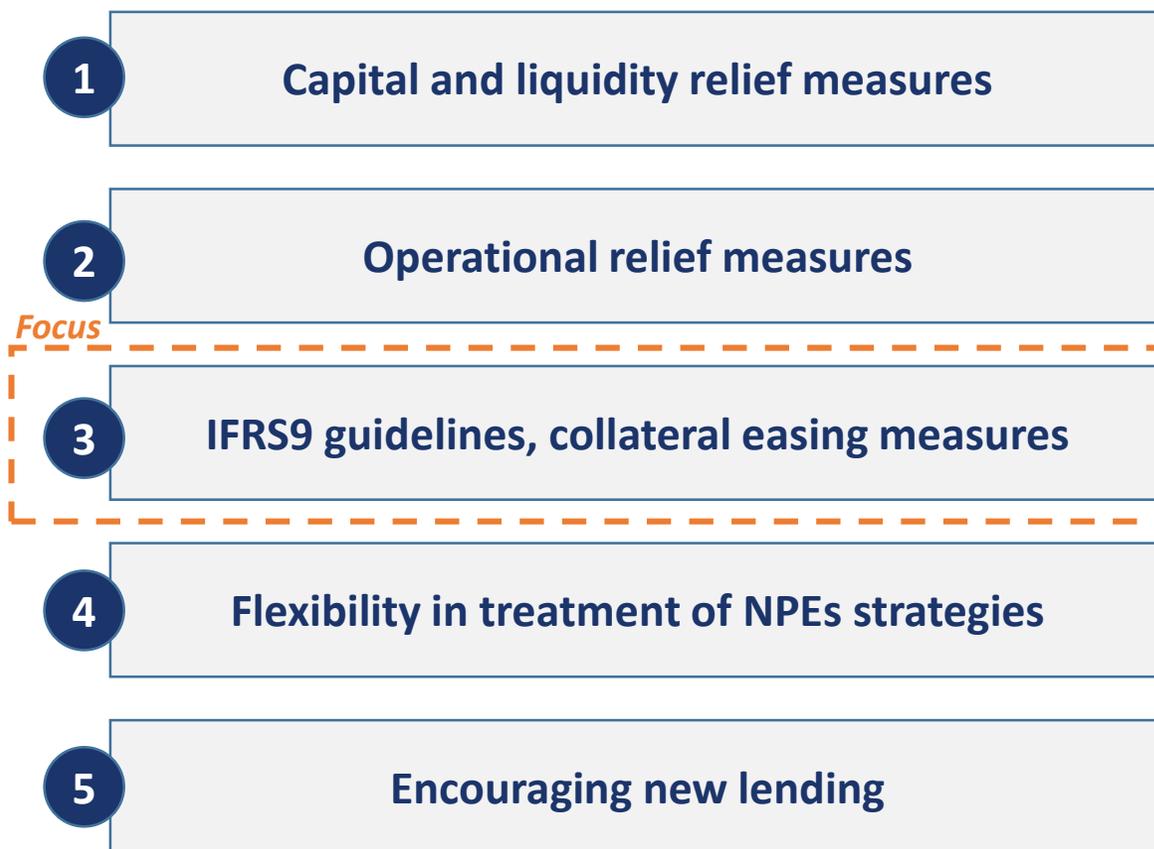
The impact on the retail sector comes not from the pandemic itself but from the measures implemented by the local authorities and governments.

All non-food related retailers saw a sharp drop in demand which led many of them to turn to e-commerce. Still, the uncertainty leads people to refrain from buying anything beyond the necessary products.

Many governments have taken measures to try and protect the retail sector, but what is critical is the negotiations between landlords and tenants, as the possibility of bankruptcies has increased and they rely on each other to survive.

When the non-food related retail section opens, we expect the number of visitors to be growing gradually. We do not expect a sharp growth especially concerning the independent stores.

Various regulatory authorities such as ECB, EBA, EC, etc. have announced a number of relief measures to face the challenges associated with the COVID-19 crisis. Key goals of the announced relief measures were to (i) limit credit risk and narrow down provisions and (ii) allow for flexibility in the implementation of the NPE plans



Source: Various announcements in websites of ECB, EC, EBA, etc.



As of 7<sup>th</sup> April 2020, ECB announced collateral easing measures

*ECB (a) adopts a general reduction of collateral valuation haircuts<sup>(1)</sup>, (b) sets waiver to accept Greek sovereign debt instruments as collateral in Eurosystem credit operations, (c) eases the conditions for the use of credit claims as collateral*

Source: ECB announcement - <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200407~2472a8ccda.en.html>

## G20 COVID-19 FISCAL RESPONSE

by percentage of total GDP



### NORTH AMERICA



**TOTAL**  
\$2,255 billion (10.5%)  
**CREDIT ENHANCEMENT**  
\$500 billion (2.3%)  
**GOVERNMENT SPENDING**  
\$1,434 billion (6.7%)  
**TAX RELIEF**  
\$322 billion (1.5%)

**TOTAL**  
\$9 billion (0.7%)  
**GOVERNMENT SPENDING**  
\$9 billion (0.7%)



**TOTAL**  
\$134 billion (7.8%)  
**CREDIT ENHANCEMENT**  
\$53 billion (3.1%)  
**GOVERNMENT SPENDING**  
\$81 billion (4.7%)

### AFRICA



**TOTAL**  
\$1 billion (0.3%)  
**NOT ITEMIZED**  
\$1 billion (0.3%)

### EUROPE



**TOTAL**  
\$485 billion (17.7%)  
**CREDIT ENHANCEMENT**  
\$422 billion (15.4%)  
**GOVERNMENT SPENDING**  
\$33 billion (1.2%)  
**TAX RELIEF**  
\$4 billion (0.1%)  
**NOT ITEMIZED**  
\$26 billion (0.9%)

**TOTAL**  
\$412 billion (15.2%)  
**CREDIT ENHANCEMENT**  
\$336 billion (12.4%)  
**GOVERNMENT SPENDING**  
\$37 billion (1.4%)  
**TAX RELIEF**  
\$39 billion (1.4%)



**TOTAL**  
\$3.5 trillion



**TOTAL**  
\$550 billion (14.2%)  
**CREDIT ENHANCEMENT**  
\$468 billion (12.1%)  
**GOVERNMENT SPENDING**  
\$82 billion (2.1%)



**TOTAL**  
\$252 billion (12.7%)  
**CREDIT ENHANCEMENT**  
\$230 billion (11.5%)  
**GOVERNMENT SPENDING**  
\$15 billion (0.8%)  
**TAX RELIEF**  
\$7 billion (0.4%)

## G20 COVID-19 FISCAL RESPONSE

by percentage of total GDP

### ASIA



**TOTAL**  
\$181 billion (1.3%)  
**GOVERNMENT SPENDING**  
\$18 billion (0.1%)  
**TAX RELIEF**  
\$163 billion (1.2%)



**TOTAL**  
\$570 billion (11.1%)  
**CREDIT ENHANCEMENT**  
\$413 billion (8.0%)  
**GOVERNMENT SPENDING**  
\$157 billion (3.1%)



**TOTAL**  
\$70 billion (4.3%)  
**CREDIT ENHANCEMENT**  
\$32 billion (1.9%)  
**GOVERNMENT SPENDING**  
\$21 billion (1.3%)  
**TAX RELIEF**  
\$17 billion (1.1%)



**TOTAL**  
\$31 billion (2.8%)  
**CREDIT ENHANCEMENT**  
\$11 billion (1.0%)  
**GOVERNMENT SPENDING**  
\$15 billion (1.4%)  
**TAX RELIEF**  
\$5 billion (0.5%)

**TOTAL**  
\$23 billion (2.9%)  
**CREDIT ENHANCEMENT**  
\$2 billion (0.2%)  
**GOVERNMENT SPENDING**  
\$2 billion (0.3%)  
**TAX RELIEF**  
\$19 billion (2.4%)



**TOTAL**  
\$26 billion (0.9%)  
**GOVERNMENT SPENDING**  
\$26 billion (0.9%)

### ASIA-EUROPE



**TOTAL**  
\$22 billion (1.3%)  
**NOT ITEMIZED**  
\$22 billion (1.3%)



**TOTAL**  
\$18 billion (2.4%)  
**CREDIT ENHANCEMENT**  
\$4 billion (0.6%)  
**NOT ITEMIZED**  
\$13 billion (1.8%)

### NORTH AMERICA



**TOTAL**  
\$72 billion (3.9%)  
**CREDIT ENHANCEMENT**  
\$9 billion (0.5%)  
**GOVERNMENT SPENDING**  
\$26 billion (1.4%)  
**TAX RELIEF**  
\$2 billion (0.1%)  
**NOT ITEMIZED**  
\$36 billion (2.0%)



**TOTAL**  
\$17 billion (3.7%)  
**CREDIT ENHANCEMENT**  
\$7 billion (1.6%)  
**GOVERNMENT SPENDING**  
\$9 billion (2.1%)

### OCEANIA



**TOTAL**  
\$162 billion (11.8%)  
**CREDIT ENHANCEMENT**  
\$24 billion (1.8%)  
**GOVERNMENT SPENDING**  
\$133 billion (9.7%)  
**TAX RELIEF**  
\$5 billion (0.3%)

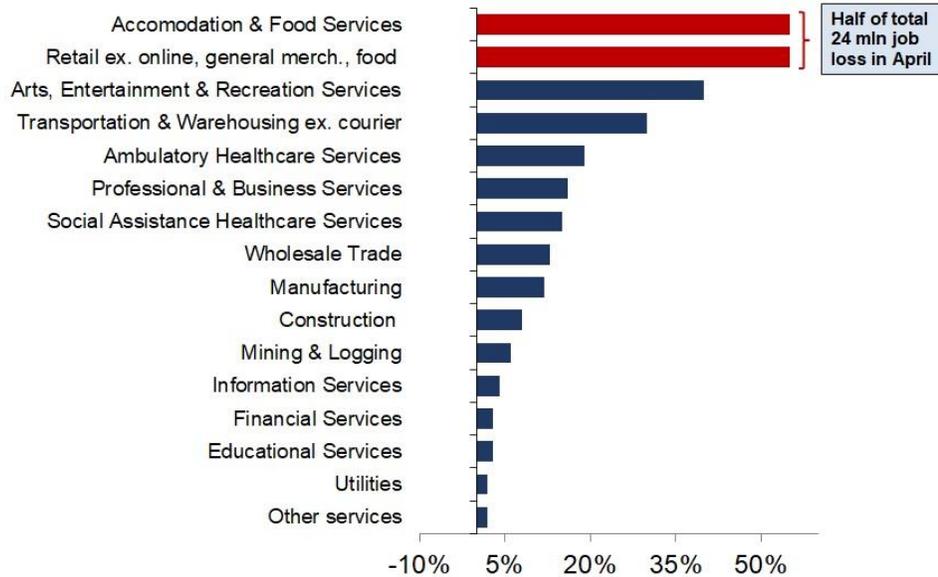




- The estimation for job losses in the US for April, even though it is surrounded by high uncertainty, is that in the industries of Accommodation, food services and retail, will have a 24 million decline, with jobless claims spiking in the US and globally leading to the assumption that we are already into recession since March 2020
  - We anticipate that real GDP in US economy will experience a peak-to-trough contraction of over 9% with no section escaping the shock and nearly 30 million workers losing their jobs. It is expected that real GDP will fall around 4% in 2020
  - With the unemployment rate surging to 14% in April and 16% in May the economy could see an unprecedented loss of jobs in three months period that will be thrice the number of the jobs lost in a period of two years during the great financial crisis

## US: Expected Job Losses By Industry in April

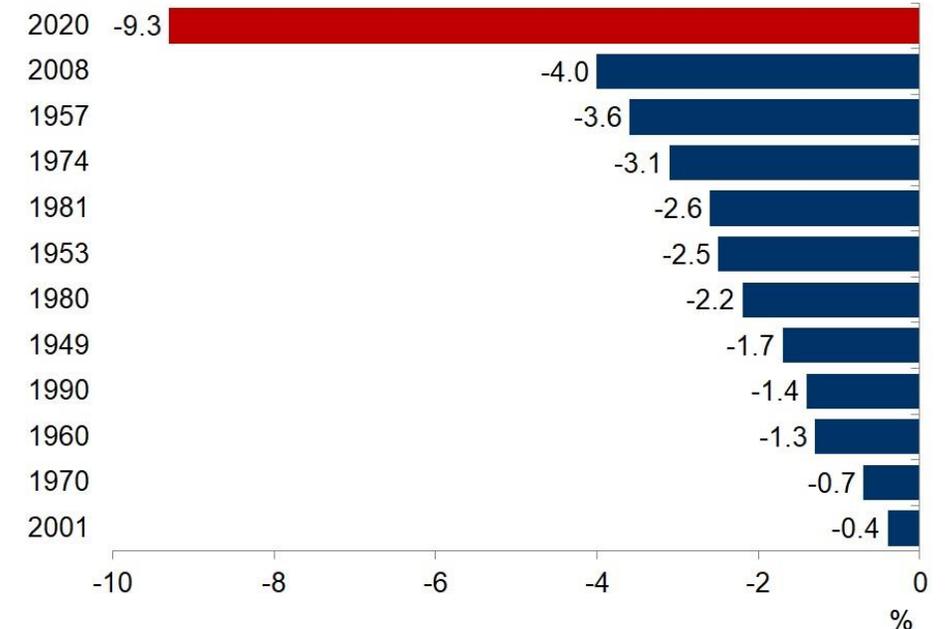
Job losses as a share of total industry employment



Key  
Figures  
at a  
Glance

Source: Oxford Economics

## US: Cumulative GDP Decline During Recessions

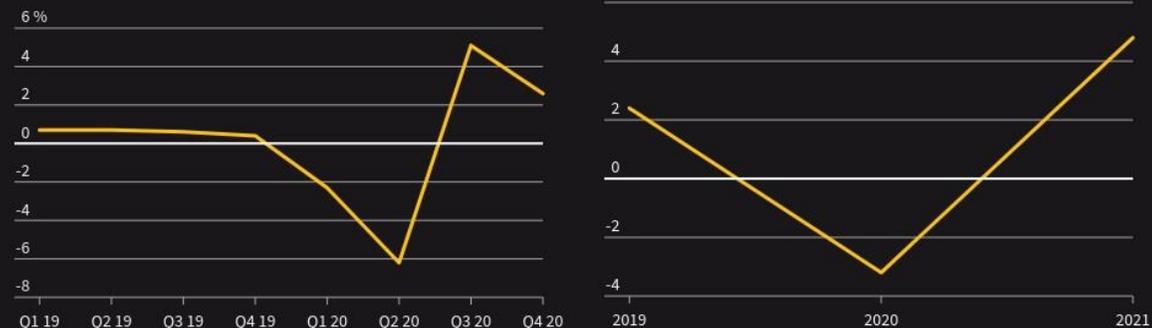


Source: Oxford Economics

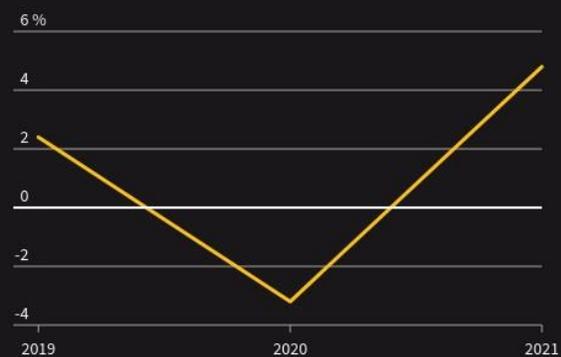
## V-SHAPED RECOVERY

### QUARTER ON QUARTER

Non-annualized



### FULL YEAR



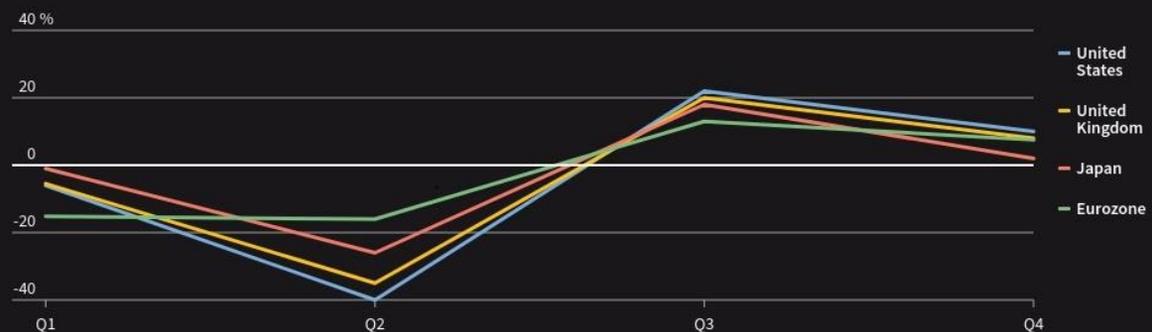
Source: NatWest Markets/Reuters Graphics

The best case scenario is a V-shaped recovery where a sharp decline is followed by a sharp rise.

In this scenario, we expect the q2 to have great declines in real GDP but it is expected to grow tremendously in q4. We are facing an unprecedented situation, there is no analogue to sort of model an economic rebound, but what we know from former recessions is that we need to act fast in order to try and succeed a V-shaped recovery. This scenario provides that the scientific community will come up with a therapy or a vaccine to prevent the spread for the new infections to have a sharp decrease. As this is the best case outcome, a lot has to go right for this forecast to come true.

## U-SHAPED RECOVERY

2020 real GDP growth forecasts for a "base case" scenario by ING, QoQ% annualised



Source: ING/Reuters Graphics

According to a tremendous amount of data gathered daily, the likeliest outcome is a U-shaped recovery with the rebound period taking 12 to 18 months. The return to normality is expected to be gradual and social distancing to continue with the uneven resumption of some essential activities but the global economy most likely will not be able to recoup its q1-q2 losses until the end of 2021.