

COVID - 19: Impact on Global Real Estate Market

 CUSHMAN &
WAKEFIELD

APRIL

The Covid-19 situation is evolving quickly. Over the last several weeks, the virus has affected over 1.5 million people globally (as of 10/04/20) and it continues to spread exponentially. The world is living through a public healthcare crisis, the likes of which have not been experienced in the modern era. Individually, countries are introducing measures aimed at flattening the infection curve, to spread the load on national health services.

Key measures are being taken globally:

- *Governments, businesses and communities taking action;*
- *Travel restrictions;*
- *Social-distancing: home-based live-work structure, virtual interaction;*
- *Scientific/medical community response: testing, vaccination, exploring ways of treatment.*

The full impact Covid-19 restrictions will have on countries' economies is yet to be determined. Great uncertainty remains regarding how broadly the virus will spread and what the ultimate impact will be on public health, economic growth and financial and real estate markets.

Impact On Economy

Human interaction is a vital element of the global economy. The economic effects of social-distancing and other measures that are being taken by governments and communities around the world, along with plummeting consumer and business confidence, have resulted in a sharp decline in near-term growth prospects and distressed financial markets. S&P Global Market Intelligence have marked down global growth this year to 0.4%, the level the world has not seen since the financial downturn of 1982. Before the pandemic outbreak, S&P's forecast for 2020 was estimated at 3.3%.

Central banks and governments across the world have acted quickly. The size of the stimulus is unprecedented. For example, the U.S. federal government solely passed over US\$2.3 trillion (or 11% of 2019 Nominal GDP) in emergency funding, double the size of intervention after financial crisis in 2008. In other parts of the world, the response has been equally timely and aggressive. Fiscal and monetary policy actions are aimed to provide liquidity to businesses, households and financial markets. This is critically important for CRE because it mitigates the number of bankruptcies, credit stress and a prolonged period of reduced economic activity.

Although rapid stimulus this size will help cushion the economic impact from this unique shock, experts believe it will not be enough to prevent a global recession. Most economists forecast that economic activity in Q2 will be alarmingly low, however, will accelerate by the end of the year, although with a more tempered rebound than previously considered. A stronger trajectory for 2021 is assumed as the virus fades and pent-up demand is released.



COVID - 19: Impact on Global Real Estate Market

 CUSHMAN &
WAKEFIELD

APRIL

What it means for the Property Market

- The commercial real estate market is more resilient than the stock market.
- There is limited official data to accurately measure the impact of Covid-19 on CRE markets, but it is apparent that the impact is significant.
- Certain property types have been more exposed than others in the face of the pandemic.
- As governments around the world impose strict social distancing measures to help contain the spread of the virus, CRE sectors are being affected to a different degree. The retail, leisure and hospitality sectors have been extremely hard hit by immediate drop-off in travel and enforced business closures, effectively putting the sectors into a standstill. Other types, such as industrial and office sectors are less affected due to longer lease structures. The pandemic outbreak impact on Internet activity rate may drive new demand for data centres and network infrastructure.
- Investors are waiting for markets to stabilise. In the short-term, given some owners and developers may struggle financially, there may be some properties offered for sale at discounts as well as distressed assets for sale. Limited to no bids are expected for hospitality, leisure, retail and co-working assets. Investors will want a risk premium for real estate exposure towards the most affected industries.
- Construction deals are hard to execute, pipeline will slow in the near-term. However, the CRE sector is not expected to overbuild late in the cycle. Since the 2008 recession, developers and lenders have been far more disciplined with construction projects. Therefore, in the likely event Covid-19 pandemic will trigger an economic recession, the property markets are anticipated to rebound much quicker.
- More occupiers/operators will qualify for some financial relief. This will help stem a growing wave of layoffs and bankruptcies and limit the impact on vacancy rates across most CRE sectors.
- It is also time for communication and active dialog between various stakeholders, including owners, occupiers, and banks, to find compromise solutions, like deferrals, reduced rent payments or rent-free periods, as well as loan payment suspensions and new credit lines. For owners it means balancing between building relationships with tenants over the long-term and ensuring that rental incomes do not become unsustainably affected.

COVID - 19: Impact on Global Real Estate Market

 CUSHMAN &
WAKEFIELD

APRIL

Office Sector

The office sector has been among those less affected. Office vacancies in most countries (EMEA, Americas, APAC) are lower than their historical averages. In Europe and US most of the leases are minimum 2-year term. Developers are also more disciplined in this cycle, which will likely make for a speedier recovery as the virus begins to subside.

With temporary labour movement restrictions, some businesses, especially small and medium sized enterprises (SMEs), are facing business continuity issues on many levels. Both governments and landlords are acting to support. While authorities are enacting policies to safeguard businesses, office landlords have stepped up to offer their tenants rental and management fee concessions in order to secure tenant's trust, and in turn, long-term rental income.

Short-term leasing and the co-working sector will likely be affected the hardest in the near term. This is due to a fading effect of enforced social distancing, and the fact that such leasing arrangements make it easier for occupiers to revise or cancel their space commitments.

After the experience of home/remote working during the outbreak period, real estate experts anticipate landlords and occupiers to both reconsider this mode of working and to factor in its impact on office floor plans and future workplace strategy.

Landlords and tenants are also expected to place greater emphasis on wellbeing and smarter workplaces, with factors, such as intelligent building management, wellness and safety management, key to enhanced office property competitiveness.

Retail Sector

The industry is experiencing distinct highs and lows, with some sectors struggling to meet demand, while others are struggling to survive.

Social distancing created massive disruption and has left many stores and restaurants closed indefinitely or with reduced services. Brands have shuttered distribution centres as demand for non-essential goods declines. Industry forecasts predict that even more brands will permanently close this year. In contrast, grocery stores, pharmacies, e-commerce and food takeaways are struggling to keep pace with demand.

In the short-term, the drop in footfall traffic will depress the retail sales across the markets. More retailers will enter into negotiations with landlords about possible solutions. Governments are also offering help to affected businesses in the form of benefits, loans, tax deferrals etc. In the medium to long-term, real estate experts forecast retail sales volume growth rates to return to pre-outbreak levels, once the pent-up demand is unleashed.

In perspective, given the impact of the outbreak, the recognised importance of omnichannel platforms will accelerate and further integrate offline/online retail services.

COVID - 19: Impact on Global Real Estate Market

 CUSHMAN &
WAKEFIELD

APRIL

Hospitality Sector

The hospitality industry has been one of the sectors most badly impacted by the virus outbreak. Imposed travel and business operation restrictions have presented complex and difficult challenges for the hotel industry. It is believed that occupancy and RevPAR has fallen globally by approximately 70% and 60% respectively. Most hotels across Europe are either closed or experiencing single-digit occupancy levels.

In many countries, larger hotels are being converted into hospitals, quarantine facilities, shelters, or temporary logistic spaces. Also, hotel restaurants are being used to produce food for delivery and staff are being re-deployed with delivery companies. The focus is on temporary solutions with a hope for a recovery in the second half of the year.

Industrial Sector

Industrial sector has proved itself to be more resilient than other types of property market. The sector has witnessed supply chain disruptions on one hand with even stronger shift to e-commerce on the other hand. Greater e-commerce business activity will create further demand for quality warehouse space in the near term.

References:

1. "Policy Response to COVID-19." *International Monetary Fund*, April 02, 2020.
2. "Covid-19 Impacts For EMEA Real Estate." *Cushman & Wakefield Research*, April 02, 2020.
3. "Economic Research: The Escalating Coronavirus Shock Is Pushing 2020 Global Growth Toward Zero." *S&P Global Ratings*, March 30, 2020.
4. "Coronavirus Update: Time To Reassess." *Cushman & Wakefield Research*, March 16, 2020.
5. "Retail Responds to COVID-19." *Cushman & Wakefield Research*, March 25, 2020.
6. "Lessons From Landlords In China's Post Covid-19 Recovery Phase." *Cushman & Wakefield Research*, March 25, 2020.
7. "Occupier Response to Coronavirus." *Cushman & Wakefield Research*, March 17, 2020.
8. "Post Covid-19 Real Estate Changes In China: The Ones To Watch In 2020." *Cushman & Wakefield Research*, March 16, 2020.
9. "Coronavirus Update — A Few Positives." *Cushman & Wakefield Research*, March 13, 2020.
10. "Coronavirus Update As of March 10, 2020." *Cushman & Wakefield Research*, March 10, 2020.
11. "Looking Forward To A Post-Covid-19 Recovery In China." *Cushman & Wakefield Research*, March 2, 2020.

Madina Kerimbayeva Associate | Consultancy Services

CDC 2 Business Centre, 240V Nazarbayev Avenue,
Almaty, A26F8D3, Kazakhstan
Tel: +7 727 334 40 00

Madina.kerimbayeva@cushwake.kz
cushmanwakefield.kz



This report has been produced by Cushman & Wakefield Kazakhstan for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield Kazakhstan believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield Kazakhstan shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part. ©2020 Cushman & Wakefield Kazakhstan. All rights reserved.