

# Real Estate House View

## Flash Comment on Coronavirus impact on European Real Estate



SwissLife  
Asset Managers

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### Coronavirus: Limited impact on European real estate in the short-term

#### Impact on economy

- The coronavirus epidemic brought the Chinese economy to a virtual standstill in the first quarter, with negative effects for the global economy in terms of tourism, export demand and interruptions to supply chains.
- We have reduced the full year GDP growth forecasts for Switzerland, the Eurozone and the UK by 0.1 to 0.2 percentage points. Whilst a v-shaped recovery in cyclical manufacturing sectors in the second half of the year forms our base case, the risks for these forecasts are pointing downward for the time being.

#### Impact on real estate

- It is yet too early to forecast long term effects, as this heavily depends on the duration and severity of the spread of the covid-19 pandemic. Especially in real estate, effects will be only seen in the long term.
- Real estate investment activity is expected – if at all – only to be postponed. Yet the economic downturn is expected to weigh on performance via income return effects in the medium term.
- The main risk for the real estate sector is considered via the negative economic, financial and political impact on tenants, which increases any risk of maintaining sustainable and stable rental income.

#### Hotel Sector

- The most impacted sector as dependent on travel activity from Asia but also within Europe. Currently, a lot of events are cancelled or postponed, which impacts local hotel markets as well as business, and private travels are being postponed or cancelled too.
- Epidemic hotspots (e.g. Northern Italy) feel an immediate impact of the decreased travel activity.
- Overall, the negative sentiment on the sector could become more long term if the speed of the spreading persists and where compensation of negative effects seems unlikely.

#### Office Sector

- Generally, no immediate impact on investors or demand side expected. Long term effect will be felt from companies already operating at their financial limit now and those being negatively impacted, that might temporarily close their spaces and stop providing their services. The effect on operating income for provider of flexible spaces is to be analysed.

#### Retail Sector

- Retailers depend on both tourism and goods sourced from Asia. Overall, people are likely to decrease their physical shopping activity due to fear of infection. Same holds true for food and beverage businesses.
- The luxury sector is likely to suffer. At the same time, eCommerce could profit from people staying at home in the short term, assumed logistic channels can manage the increased demand. Ultimately these effects may lead to an accelerated move from “bricks to clicks” in retail markets.

#### Industrial Sector

- Overall, slower economic activity may moderate investors demand since the sector is heavily dependent on economic well-being.
- Companies importing and exporting to and from China are feeling the crunch the most, yet the same holds true for European companies.
- European car makers are feeling the impact of closures of auto parts factories in China throughout their value chains incl. their suppliers. Depending on the duration of the pandemic, these businesses might have troubles sustaining their rents.

#### Residential Sector

- No direct impact expected. A sharper than expected economic downturn could weigh on affordability issues already discussed on a European level (rent regulations).

### Health Care Sector

- No direct impact expected. A sharper than expected economic downturn could weigh on affordability issues already discussed on a European level (rent regulations).

### 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. Even under the “Corona” threat, this will hold true for the time being.
- As an active Asset Manager with a good understanding of the business models of its tenants by maintaining close relationships with them, Swiss Life Asset Managers closely monitors economic developments and current developments at real estate markets and of its tenant base. This enables a forward-looking management in turbulent markets.
- Additionally, Swiss Life Asset Managers has taken precautionary steps internally to ensure seamless business operations in case of an increasing threat and resulting measures being taken by governments and local authorities.

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