

WEEKLY REPORT COVID-19

GLOBAL PANDEMIC AND REAL ESTATE MARKETS

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The world is experiencing an unprecedented crisis. Information is evolving continually, and we therefore deemed it useful to provide a weekly update on our view of events and of their impact on the real estate markets. Such is the purpose of this report, which will be updated on a weekly basis. It is, of course, a non-binding document and it reflects Primonial REIM's market sentiment based on the information available at the time of writing. You may also visit www.primonialreim.com to find our report "Global pandemic: is real estate a safe haven?" published on 12 March 2020

Week 16 to 20 March 2020

Economic environment: an update

- **Level 3 measures introduced in France.** Lockdown measures have been introduced to slow the spread of the virus and thus avoid overwhelming our health system, so it looks like this health crisis is going to last several months.
- **Exceptional fiscal stimulus.** The French government announced various measures to offset the impact of the lockdown on the economy: payroll taxes are to be reduced, postponed or cancelled for a 1-month period (€32bn); water, gas and electricity bills are to be cancelled along with lease payments for small businesses that are struggling; state guarantees are to be provided for bank loans granted to businesses (€300bn).
- **Intervention by the central banks.** The Fed announced another interest rate cut on 15 March, specifying that it will keep rates within this new range until the crisis is over. Meanwhile, the ECB announced concerted action by the world's central banks in order to maintain liquidity levels, followed by news on 18 March that it would purchase government and corporate bonds totalling 750 billion euros. However, ECB has not yet lowered

its interest rates. The 10-year French Treasury yield is in almost negative territory.

- **The latest economic growth forecasts** issued by the European Commission for the euro zone and by the French government for France now point to recessions of respectively -2.5% and -1%, reflecting the scale this crisis has now taken on.
- **Upturn in economic activity and stimulus plan in China.** On 18 March, China announced that no new local cases of Covid-19 had been declared that day, for the first time since quarantine measures were imposed on 23 January 2020. Economic activity, transportation and consumer spending have resumed. The Chinese government announced a large-scale fiscal stimulus plan which will prove fully effective once Europe and the USA (the main recipients of Chinese exports) have recovered.

Real estate markets: our analysis

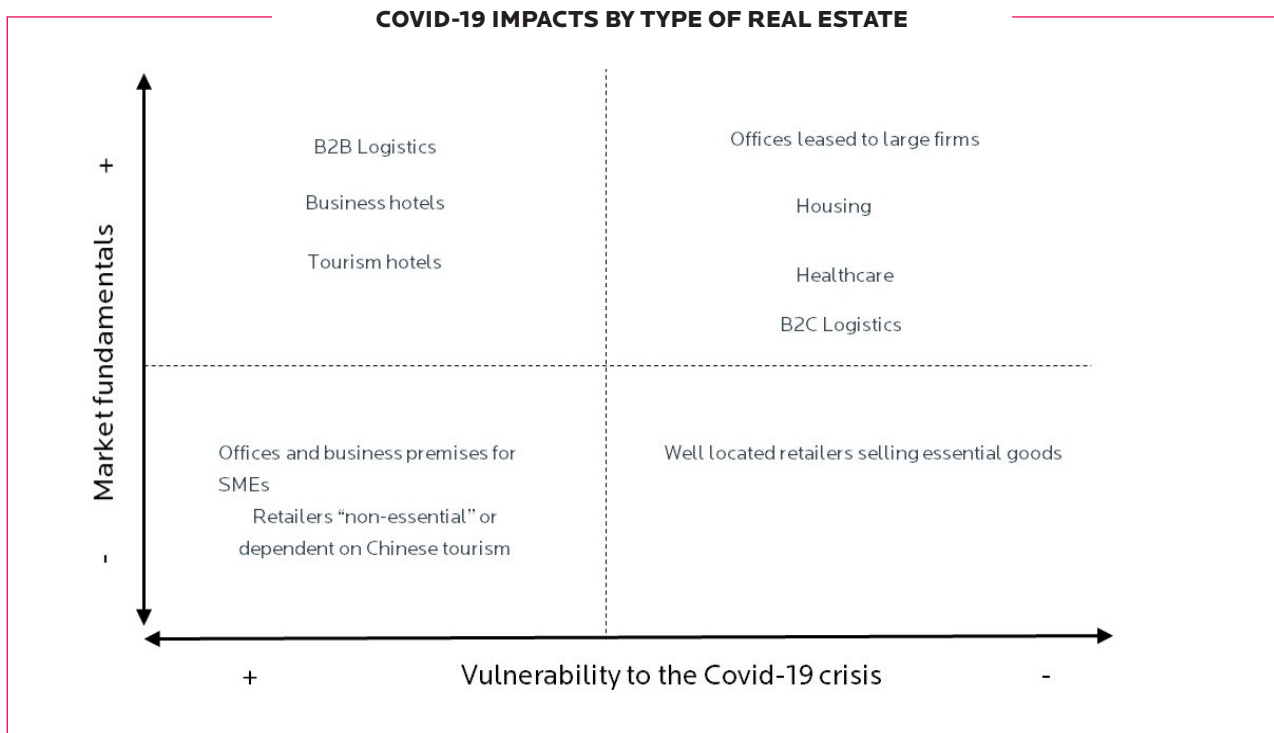
- **An unprecedented situation.** Besides the tragic repercussions for health and people, **our interpretation of this crisis is that it is a brutal external shock on supply and demand but a temporary one. It is taking a toll on companies' cash flows and operating income but not yet on their capacities.** The length of the lockdown will determine whether it is followed by a U-shaped recovery (with production, consumer spending and investment catching up) or an L-shaped one (with the recession lasting a long time, the budget deficit weighing on growth and debt exploding).
- **An asymmetrical blow to real estate income.** The French President announced on 16 March that, as far as businesses are concerned, the smallest among them and those that are struggling will not have anything to pay as long as this situation lasts, specifying that their water, gas and electricity bills and their lease payments will be suspended. This measure comes after retailers deemed "non-essential" to the economy were forced to

close down. We do not yet know how exactly these measures will be applied or whether the costs will be covered by the government and/or insurance companies. Pending such details, it will be crucial for fund managers to carry out a clear-sighted flexible analysis of the issue of leases and the solidity of the government's measures. In this respect, a distinction needs to be made between:

- o "Cyclical" activities whose revenues vary considerably: **retailers** deemed "non-essential", **tourist hotels** and **business hotels**. These activities are feeling the full force of this crisis. We would also include in this category offices and business premises leased to SMEs.
- o Less cyclical activities whose revenues are more recurring in nature and which will take more of an operational hit than a financial one: **core office space**, **assisted living**. Such properties are leased to large firms or major operators, and their performances (i.e. their capacity to continue delivering recurring revenue) are unlikely to be compromised.
- o Acyclical activities, first and foremost **residential**

real estate, which is not yet concerned by the lease suspension measures and whose driving forces (i.e. urbanisation, scarcity of supply, reducing size of households) remain intact... provided financing conditions remain unchanged.

- **Property transactions frozen but no liquidity crisis.** It is crucial that this economic crisis does not transform into a financial one; we therefore expect interest rates, and therefore sovereign bond yields, to remain low for some time. Central banks have reiterated their commitment to maintain liquidity in the financial system. There have been no major outflows from real estate funds yet, nor any massive cash withdrawals by the population, as was the case back in September 2008. So it would appear that the markets are assuming this crisis will be limited in time.



Our real estate strategies facing the pandemic

Primonial REIM is a fund manager working on behalf of 70,000 individual clients whose **savings must be protected** as this will give them crucial support during this difficult period; our objectives are therefore two-fold:

- maintain recurring income flows over the long run for its investors;
- support the country's efforts to fight the pandemic **by working even more closely** with its tenants that are most exposed and thus helping them survive economically.

Following our analysis of the situation, we are taking **distinctive approaches** towards supporting our tenants during this period. They involve the following:

- for businesses that have been forced to shut down, we are introducing **monthly lease payments and adjusting payment schedules**
- for micro-enterprises that are struggling, we are **providing assistance by suspending rents** on a case by case basis
- for individual cases of assets affected by government requisition orders in the drive to tackle the pandemic (clinics, hotels), we will of course act on the basis of solidarity.

Primonial REIM's investment policies in recent years, as set out in our investment cases, have been targeting the following real estate segments:

- offices (54% of our portfolio), with priority being given to core assets leased to large firms.
- healthcare real estate (29%), primarily nursing homes but also clinics, with priority being given to large private pan-European operators.
- retail shops (10%), with priority being given to city-centre premises.
- residential (4%) in France's main metropolitan cities and the Paris region.
- hotels (3%), especially via a partnership with one of the most solid operators in the budget hotels segment.

This defensive allocation strategy combined with broad diversification (1,131 properties, 7,000 tenants, 6 countries) should give resilience to our portfolio and hence that of our investors.

Coming up next: Tuesday 24, March

Our 1st weekly podcast:
Discussions between Daniel While and
Antoine Depigny on how Covid-19 is
impacting real estate markets.

Ask your questions by email at:

communicationpreim@primonial.fr



Primonial Real Estate Investment Management (PREIM) is a portfolio management company authorised by the Autorité des Marchés Financiers (AMF - French Financial Markets Authority) on 16 December 2011.

It received AIFM authorisation on 10 June 2014. Its business consists of creating, structuring and managing long-term real estate investments for individual and institutional investors.

Primonial REIM has a comprehensive range of expertise:

- multi-product: SCPI, OPCI and SCI funds,
- multi-sector: offices, retail outlets, residential assets, hotels, and healthcare and education facility real estate,
- multi-national: France, Germany, Spain, Italy, Belgium, Ireland, Netherlands.

At 31 December 2019, Primonial REIM had:

- More than €21 billion of assets under management,
- 67,841 associates,
- 46 independent real estate advisors,
- Assets worth 4,251,623 sq. m. and 7,000 tenants, including a large share of major corporate tenants (e.g. Samsung, Korian, Crédit Agricole and SNCF).

www.primonialreim.com

PRIMONIAL REAL ESTATE INVESTMENT MANAGEMENT

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The Research & Strategy Department's role is to formalise Primonial REIM's real estate investment strategies, based on continuous monitoring of the French and European markets. Although collective real estate accounts for a growing share of institutional portfolios and household savings, it is at the crossroads of financial (hierarchy of rates), economic (tenants' business models), demographic (the metropolisation phenomenon) and societal (changes in usage) factors. This is why a cross-cutting analysis is needed, which is also long term and therefore in keeping with the horizon of most real estate investors.

