COVID-19 REPORT

OUTBREAK SITUATION
SANITARY MEASURES
& SUPPORT SCHEMES
ECONOMIC OUTLOOK
REAL ESTATE PERSPECTIVES

GLOBAL RESEARCH
17TH APRIL 2020

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

CONTENTS

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

EXECUTIVE SUMMARY

IN A NUTSHELL

KEY MESSAGES

PLANS TO GRADUALLY RESTART ACTIVITY

Some countries should relax their measures soon but it will be a gradual process. We assume that the measures will last for about eight weeks in most countries, at least in their most stringent form, with a slow subsequent recovery.

GROWTH OUTLOOK DARKENS FURTHER

A change for the worse in some of our assumptions on the Covid-19 shock has prompted us to revise our already low GDP growth forecasts. Even with the 2020 global growth revised to -2.5% from 0.5%, the risks remain skewed to the downside.

CONTROLLED INCREASE IN VACANCY

The increase in office vacancy is not expected to be substantial in most markets. Most central business districts should maintain high rental values. The average rents could moderately decrease in some districts where the structural vacancy remains high.

FALL IN INVESTMENT VOLUME

The investment market works slowly despite severe external difficulties. Financial conditions seem to be tightening so far and cash is increasingly king. Total investment volume is expected to significantly fall in 2020 across Europe.

LIMITED PRESSURE ON YIELDS

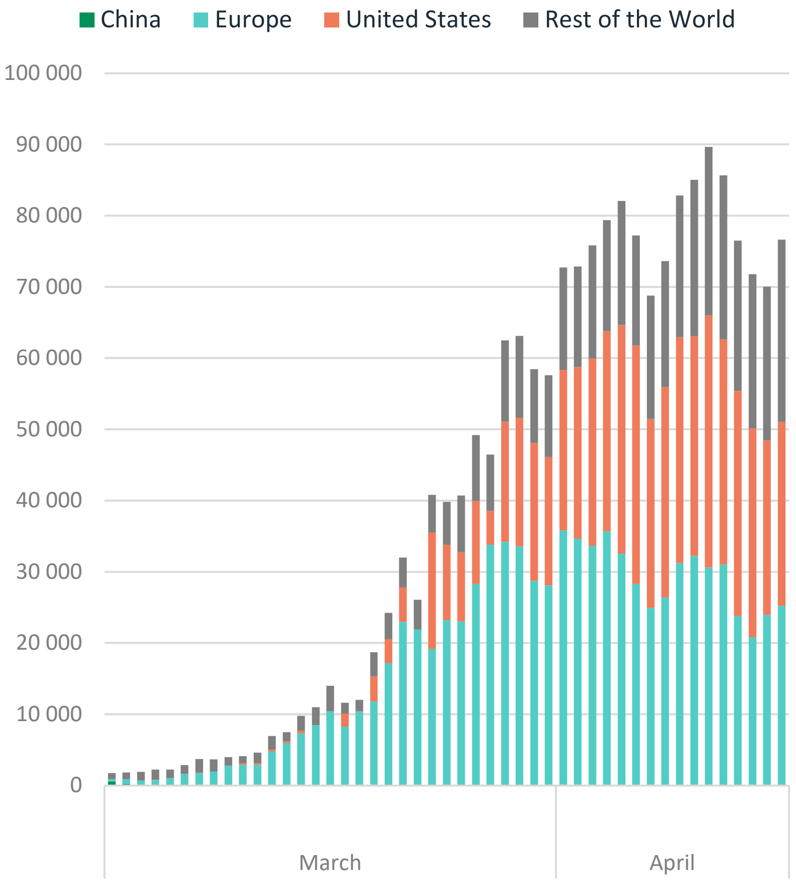
We expect very little upward pressure on prime yields in most markets, but there may be more general upward tensions on secondary segments. In general, the risk premium between core and non-core assets could come under pressure.

OUTBREAK SITUATION

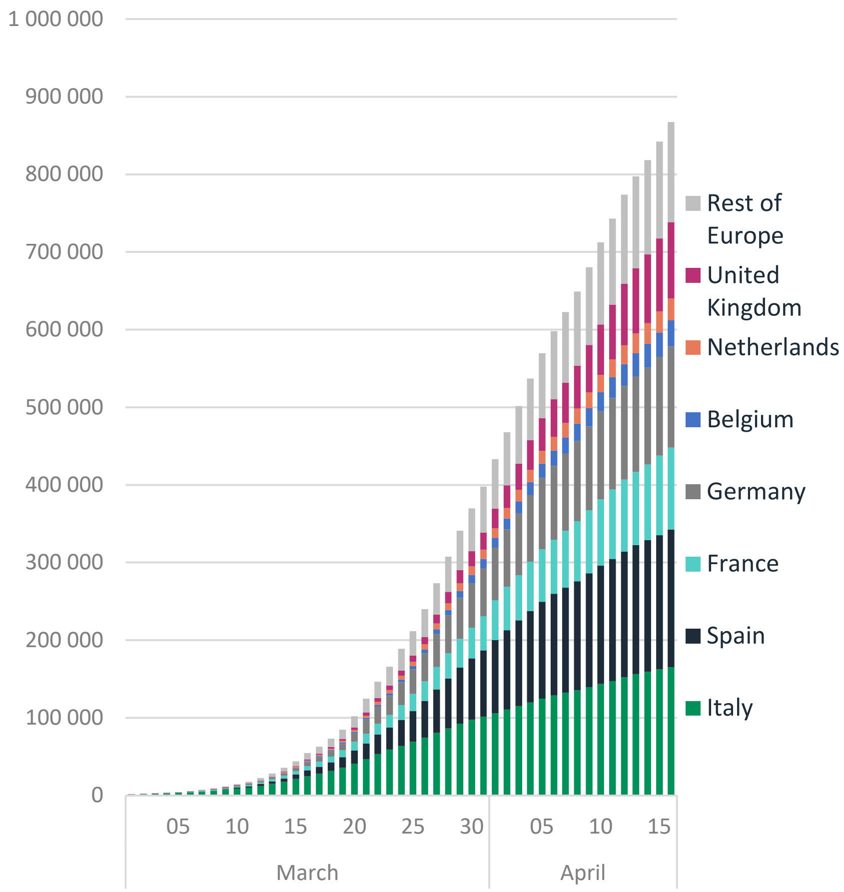
CONFIRMED CASE OF COVID-19

VIRUS WIDELY SPREAD OUTSIDE CHINA

CONFIRMED DAILY CASES IN THE WORLD



CUMULATIVE CONFIRMED CASES IN EUROPE

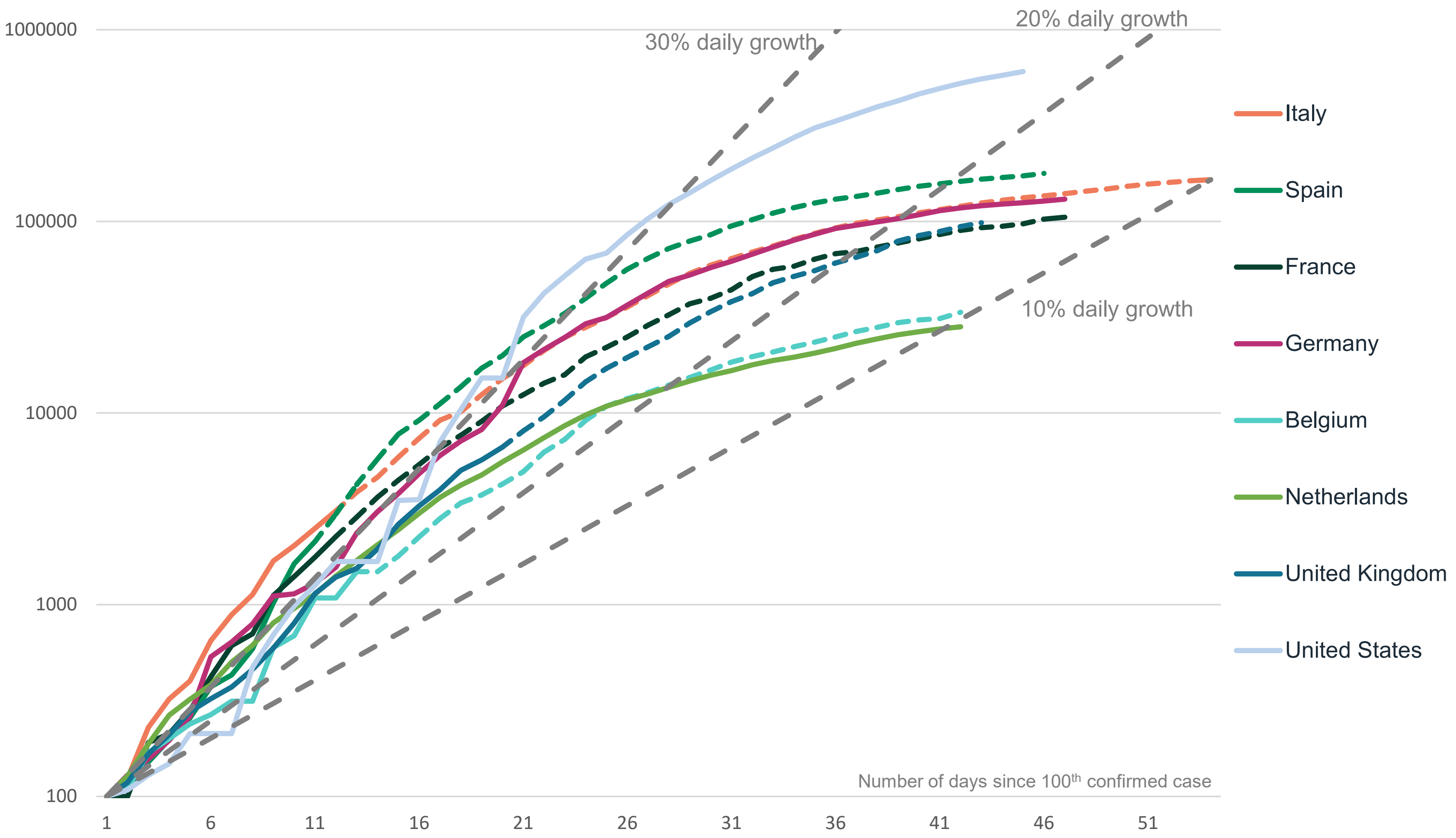


- **The Covid -19 emergency at the beginning of 2020 took the world by surprise** (delivering an economic shock), just as the global economy had begun to stabilise from trade wars in the preceding years. **Its implication for the global economy remains uncertain**, but it is clear that the effect is likely to come in at least two phases:
  - **disruption to the supply chain in China**, where most factories were shut during the peak of the crisis
  - **development into a pandemic spreading across Europe**
- We are now in the second phase, with **major economic implications for Europe and the US.**
- Currently, around **30,000 new cases** are being **reported each day in Europe.**
- **Italy and Spain are still the epicentre**, with around 342,000 confirmed cases in cumulative terms (**40% of the total in Europe**).
- **The number of cases in the UK is also growing fast and warrant close monitoring.**
- **Cases European countries are now decreasing, but the situation should continue to be monitored.**

Source: World Health Organisation.

INFECTION TRAJECTORIES

GROWTH OF OUTBREAKS



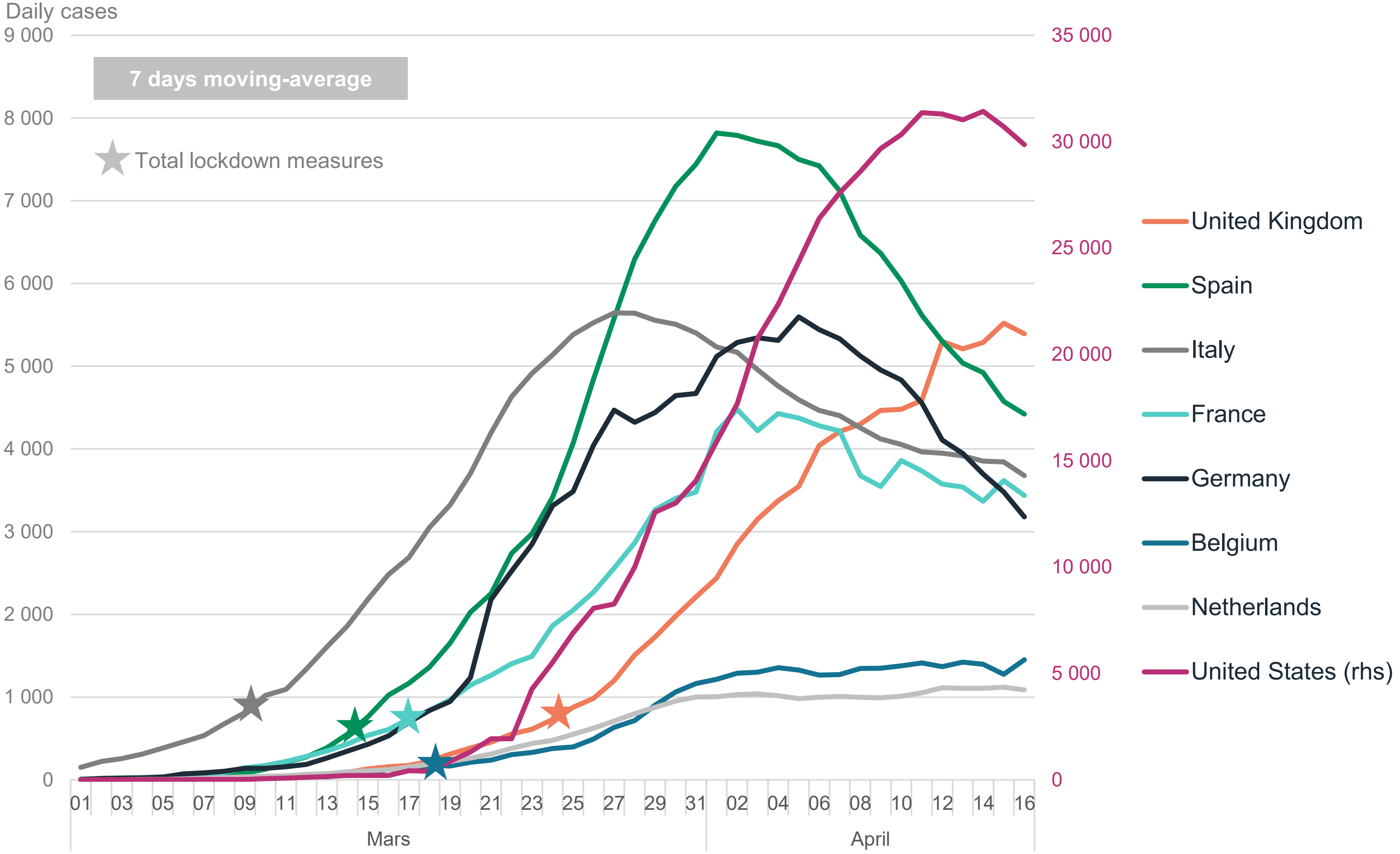
- **All the main economies in Europe currently have a growth rate for new cases of less than 20% per day.**
- **In the United States, about 95% of the population is now under some form of stay-at-home order**. We assume this will persist for around eight weeks, as in most other countries, before the measures are gradually relaxed.
- However, **a lot of cases are still undetected and figures could be higher.**
- At the moment, **Italy is near 10% daily growth, meaning that the government's containment measures are starting to have an effect. The latest figures showed are encouraging, but the exit strategy looks challenging.**
- In France and Germany the growth is still similar but **the curve is starting to ease off as quarantine measures are proving effective.**
- **In the UK, quarantine measures have been imposed by the government since the 23rd of March** and starts to show positive results.

* The dash line shows when the quarantine measures have been put in place by the government

Source: World Health Organisation.

NUMBER OF DAILY CONFIRMED CASES

IS EUROPE REACHING A PLATEAU?



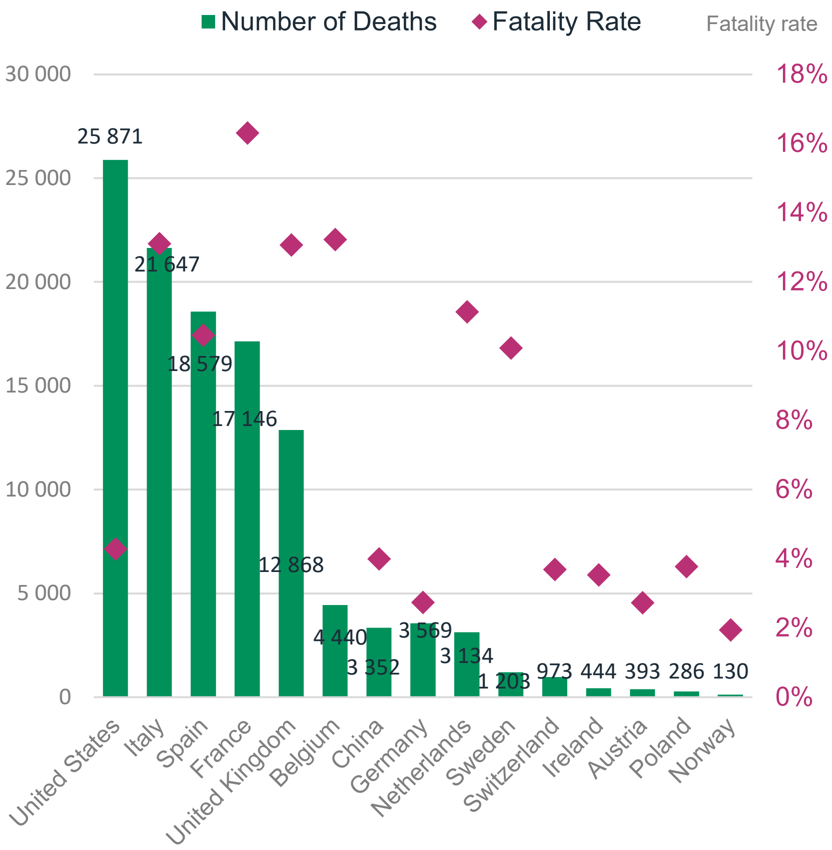
Source: World Health Organisation.

- **Most of the European countries now have a decreasing number of daily cases.**
- **The lockdown measures (either total or partial) are now showing positive results for each countries. It seems now essential to keep these measures to protect the population from the virus.**
- **Austria is now even thinking about** re-opening small shops (on the 14th of April) and higher risk businesses (by the 1st of May). Social distances measures may still last for a couple of weeks.
- Italy and Spain are now looking very good and are in a positive trend. France and Germany seems to be very close from the plateau too.
- **Now, the UK and the US are the most increasing countries.** The UK seems to be 10 days behind France or Germany, so we expect cases to grow until the end of the week ending Friday 17th of April, and deaths until the week after.
- Finally, the shape of the US is still a big concern as lockdowns measures and social distances start to be put in place by states.
- In France, the end of the lockdown was announced for the 11th of May. However, social distancing policies will still be in place as bars, restaurants will stay closed and mass gathering restricted.

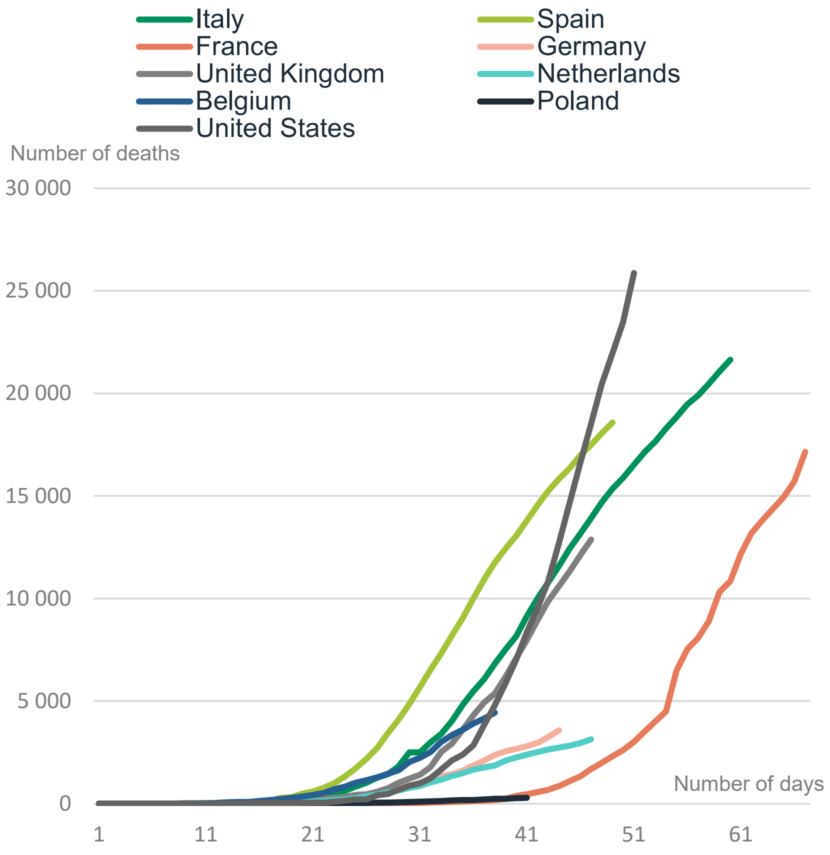
THE FATALITY RATE OF COVID-19

FATALITY RATE DEPENDS ON QUALITY OF HEALTHCARE AND POPULATION AGE

FATALITY RATE IN THE WORLD



EVOLUTION OF DEATHS (SINCE FIRST DEATH)



- **The fatality rate differs greatly from country to country. In China**, the fatality rate stands at 4.0% since the beginning of the outbreak. **For countries with more strongly resourced healthcare systems (Germany, Switzerland, etc.), the fatality rate could even be lower.**
- **The fatality rate is the highest in France as the virus is widely spreading in retirement home.**
- **However, Italy still has the highest number of dead.** Indeed, **23% of the population is older than 65 years old**, and nearly 60% of the population is aged 40 or over. **The median age is also the highest in Europe.**
- **Living arrangements are also an important factor** as several generations may live in the same place. This means that older people are not properly isolated and have a greater chance of catching the virus.
- **The fatality rate is also increasing as the number of tests is decreasing. Now, only patients with severe symptoms are tested for the virus.**

Source: World Health Organisation.

SANITARY MEASURES & SUPPORT SCHEMES

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POPULATION LOCKDOWN ACROSS EUROPE

EUROPEAN COUNTRIES SLOWLY EASE LOCKDOWN MEASURES

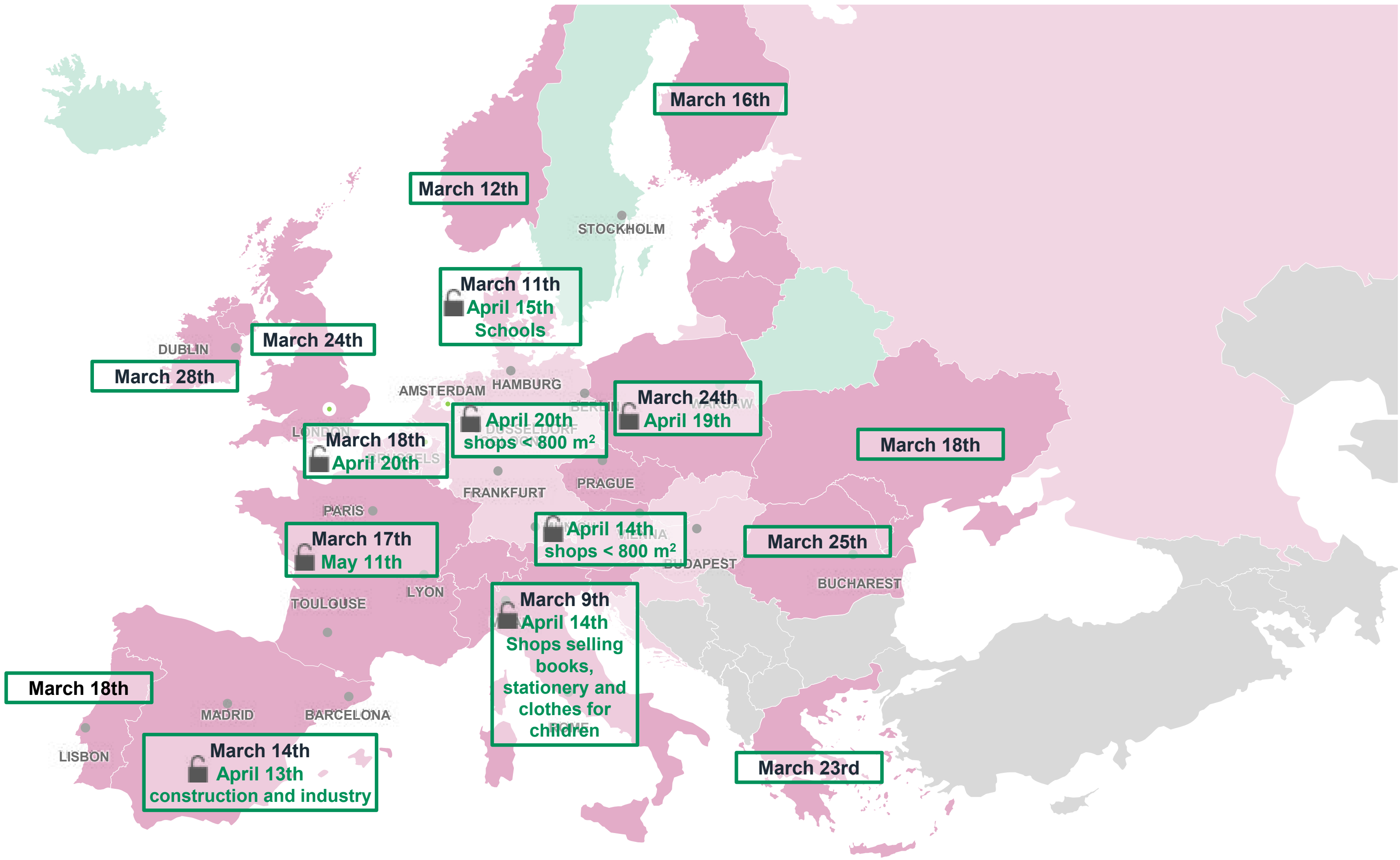
Total lockdown

Partial lockdown

No lockdown

March 18th
April 13th

Starting date
Easing lockdown



Source: Government announcements.

STATE & FEDERAL BANKS MOBILISATION

INCREASING MEASURES TO MITIGATE THE IMPACT OF COVID-19

UNITED STATES

$300bn
Tax delay

$100bn
Short-term working & sick leave financing

$2,200bn plan
$900bn to bail out distressed businesses
$600bn in direct payments to families

$100bn
Other social assistance voted by Congress

Federal Reserve
$2,500bn
Injection of liquidities

CANADA

CA$92bn
Support to workers and businesses in need, flexibility for taxpayers

UNITED KINGDOM

£330bn
State guarantee

£50bn
Incl. tax cut & business subsidy

EUROPEAN CENTRAL BANK

€750bn
Public and private debt buyback
€500bn plan
to support to member states

€100bn
1st liquidity injection

JAPAN

¥1,600bn
Interest-free loans to SME

¥108,000bn
Incl. tax delay, support to SME and households in need

The Bank of Japan furthermore boosted its asset repurchasing policy

SPAIN

€100bn
State guarantee

€100bn
Set of measures incl. short-time working, support to most vulnerable households

FRANCE

€50bn
Incl. tax delay or cancellation, short-time working, support to very small businesses and self-employed

€300bn
State guarantee. Intervention in major groups capital is not excluded.

GERMANY

€550bn
“unlimited” loans to companies

ITALY

€25bn
Incl. support to borrowers via suspension of payment for mortgage and banking loans

Financial help

Loan or State guarantee on loan to businesses in need

Central Bank

For more information on economic and financial measures click here

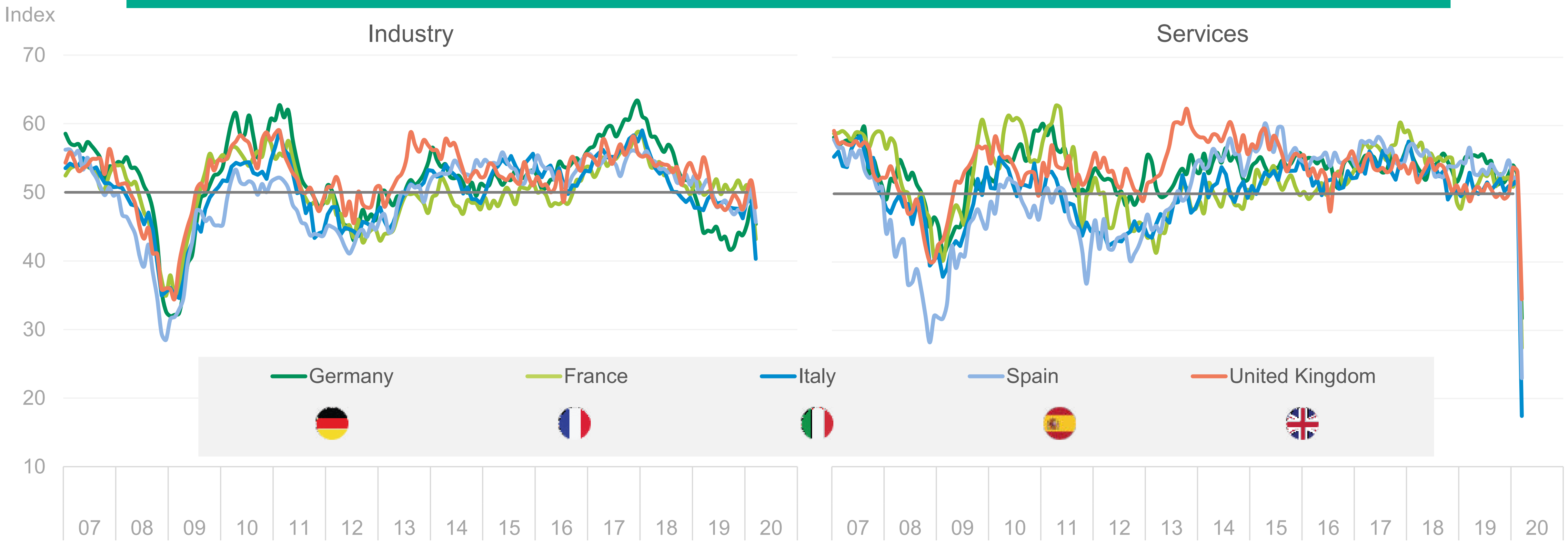
Source: Government announcements.

ECONOMIC OUTLOOK

PURCHASING MANAGERS INDEX SURVEYS

BUSINESS CONFIDENCE IN FREE FALL SINCE MARCH

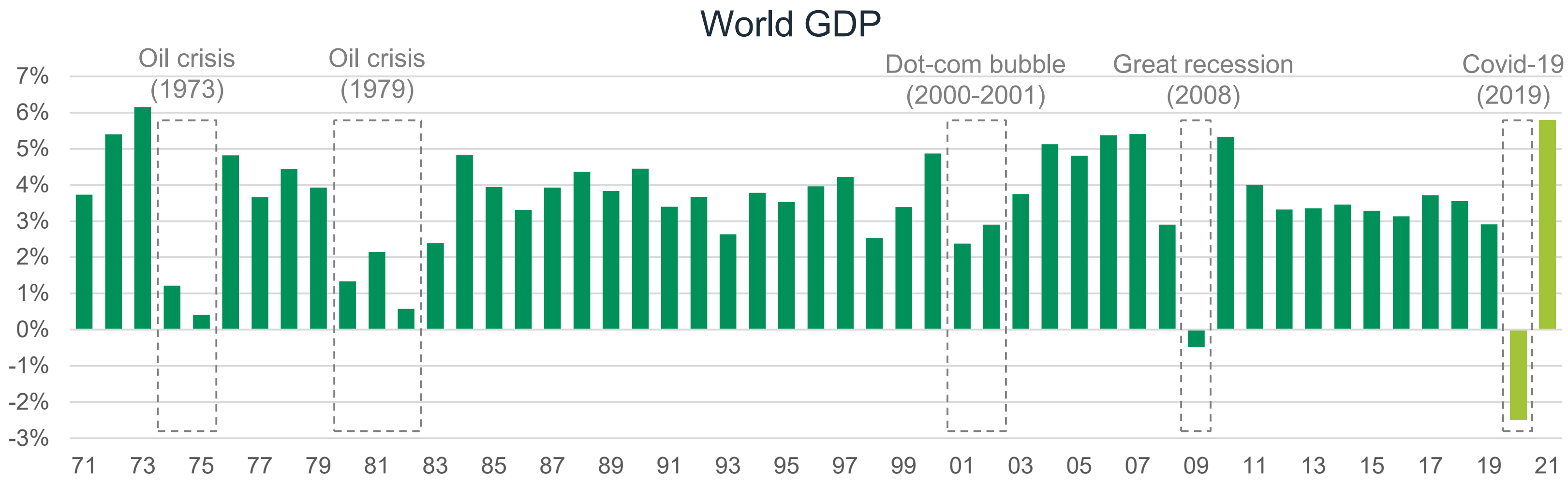
- The latest economic data gathered since lockdowns were introduced are starting to show the extent of the hit. The flash purchasing managers' indices for March show big declines, particularly in services and in export orders. In Germany, the IFO business climate had the biggest monthly decline on record and the same holds true for its French equivalent produced by INSEE. The lifting of the lockdowns will, mechanistically, trigger a rebound in activity but additional stimulus will probably be needed to maintain the momentum.

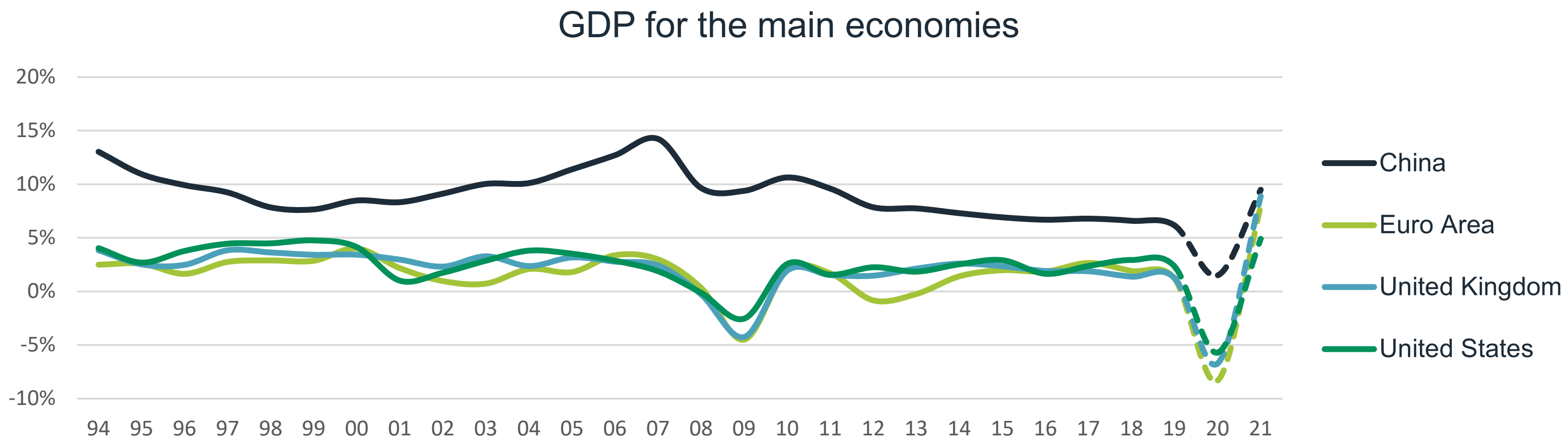


Sources: Markit, BNP Paribas Economic Research.

ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?



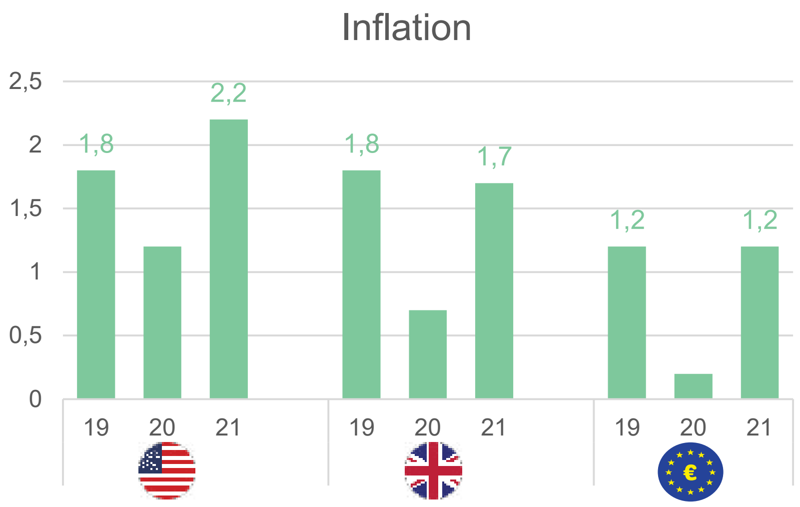


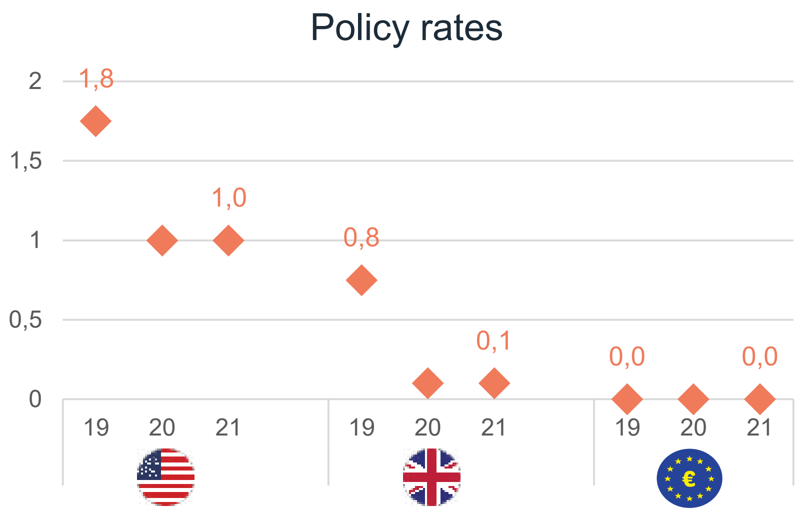
- The shock from Covid-19 represents an unprecedented hit to both supply and demand. The confinement measures adopted in many countries disrupt global value chains and reduce the supply of labour. Households also retrench their travel and recreational spending.
- We have revised down our global growth forecasts further to reflect likely longer imposition of 'social distancing' measures and slower recovery in economic activity thereafter than we had initially assumed. We also see greater chances of long-lasting effects as the economy's supply capacity is permanently impaired.
- We now expect global GDP to contract by 2.5% this year before rebounding in 2021, with sharp contractions in activity across the board in both developed and emerging markets.
- Risks to our central case remain titled to the downside, including the possibility that economies will remain shut down for even longer than we assume or that a temporary relaxation might be followed by redeployment of social distancing measures to counter further waves of the virus.
- The fiscal measures announced so far will have to be scaled up further, which might raise concern over debt sustainability in some countries.

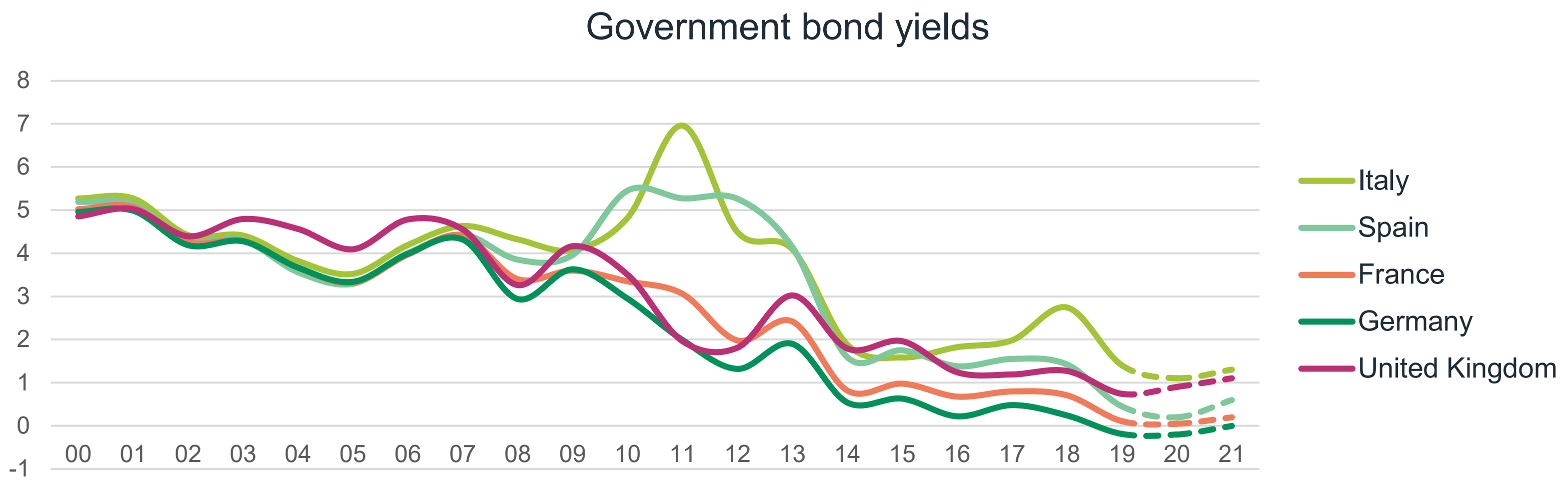
Sources: BNP Paribas, Oxford Economics, OECD.

ECONOMIC OUTLOOK

WHAT OUTLOOK FOR THE MAIN ECONOMIES?







Sources: BNP Paribas Economic Research, Oxford Economics, OECD.

- Under our baseline scenario, the recovery in demand will be limited by the disruption of supply chain in all the main countries. In the short term, the drag on demand will likely more than offset the impact from supply disruptions. Together, with lower energy prices, lower demand should drag down inflation considerably, with outright price falls possible in some countries.
- **The volatility is still high in financial markets,** remaining as choppy as that experienced during the 1987 crash.
- **The response of the main central banks to this economic crisis has been strong**. China's monetary policy has largely focused on injecting liquidity into the system. The ECB has also increased its liquidity in the market, up to €750bn (but potentially unlimited). The Fed has cut its rates and announced at least $750bn in balance sheet expansion.
- **In our view, the response of central banks is positive for the market and now the onus lies on governments to do their part**.
- The high level of uncertainty in financial markets, and in the global economy, have encouraged **investors flight toward safe assets. Government bonds are reaching new historic lows.** That will be temporary as fiscal policies with their expansion of debt, suggests yields may increase to pay for the crisis.

ECONOMIC SCENARIO

A RECESSION COMING AHEAD FOLLOWED BY A REBOUND

GDP Growth & Inflation	GDP Growth			Inflation		
	2019	2020 e	2021 e	2019	2020 e	2021 e
United States	2.3	-5.7	4.9	1.6	1.2	1.2
Japan	0.7	-4.2	0.4	0.5	-0.2	-0.2
United Kingdom	1.4	-6.7	8.9	1.8	0.7	1.7
Euro Area	1.2	-8.3	8.0	1.2	0.2	1.2
Germany	0.6	-6.4	6.7	1.4	*	*
France	1.2	-7.1	7.0	1.3	*	*
Italy	0.2	-12.1	10.2	0.6	*	*
Spain	2.0	-10.1	9.5			
China	6.1	1.5	9.5	2.9	3.1	2.0
India	6.1	2.7	5.2	3.0	4.6	3.5
Brazil	1.1	-4.0	4.0	3.7	3.6	3.5
Russia	1.3	-2.5	3.2	4.3	3.3	3.5

Sources: BNP Paribas Economic Research.

- In the United States, about 95% of the population is now under some form of stay-at-home order. We assume this will persist for around eight weeks, as in most other countries, before the measures are gradually relaxed. Even when they are lifted, consumers will likely remain cautious for potentially a prolonged period.
- Since mid-March, government across emerging markets have also put in place social distancing measures, although to varying degrees of stringency.
- Encouragingly containment measures implemented appear to be slowing down the epidemic and the mortality curve; but the exit strategy looks challenging. Easing restrictions too quickly and/or in an uncoordinated fashion would raise the risk of a second wave.
- Uncertainty is thus likely to persist, and containment measures generally set to last longer than we had assumed. This is likely not only to make the immediate drag on activity deeper but also to increase the risks of second-round effects, as the shock to supply translates into an even greater shock to demand.
- In the Eurozone, the impact of the coronavirus epidemic is becoming increasingly visible in activity and demand data following lockdowns. Mostly it is expressed data wise in confidence and business expectations. The first semester will be significantly affected ,with the extent depending on when the epidemic will be brought under control. The second semester should see improvement in activity, which should be helped by the huge support measures that are being taken.

ECONOMIC OUTLOOK

FOCUS ON
THE UNITED STATES

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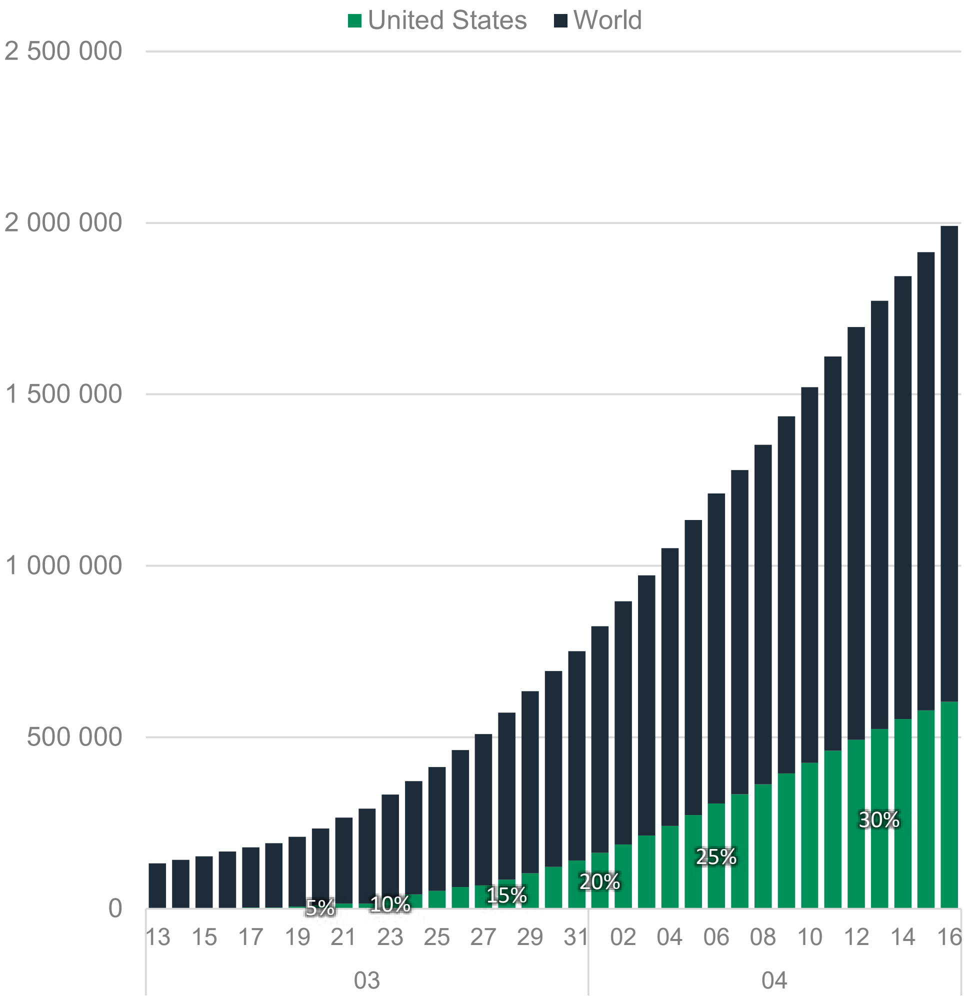
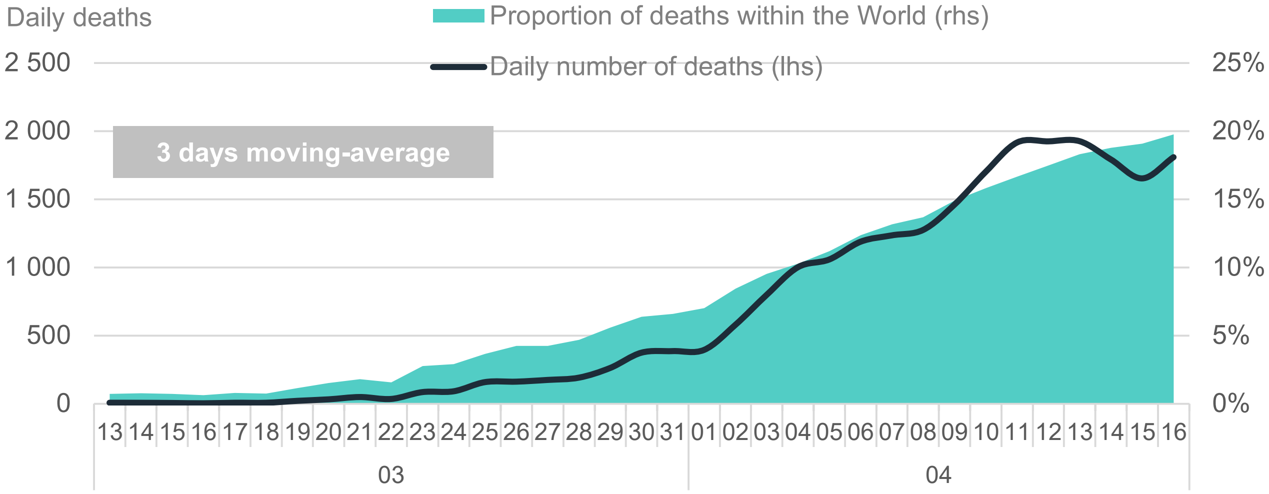
UNITED STATES: NEW EPICENTRE OF THE PANDEMIC?

Cumulative Confirmed Cases



Deaths in the United States

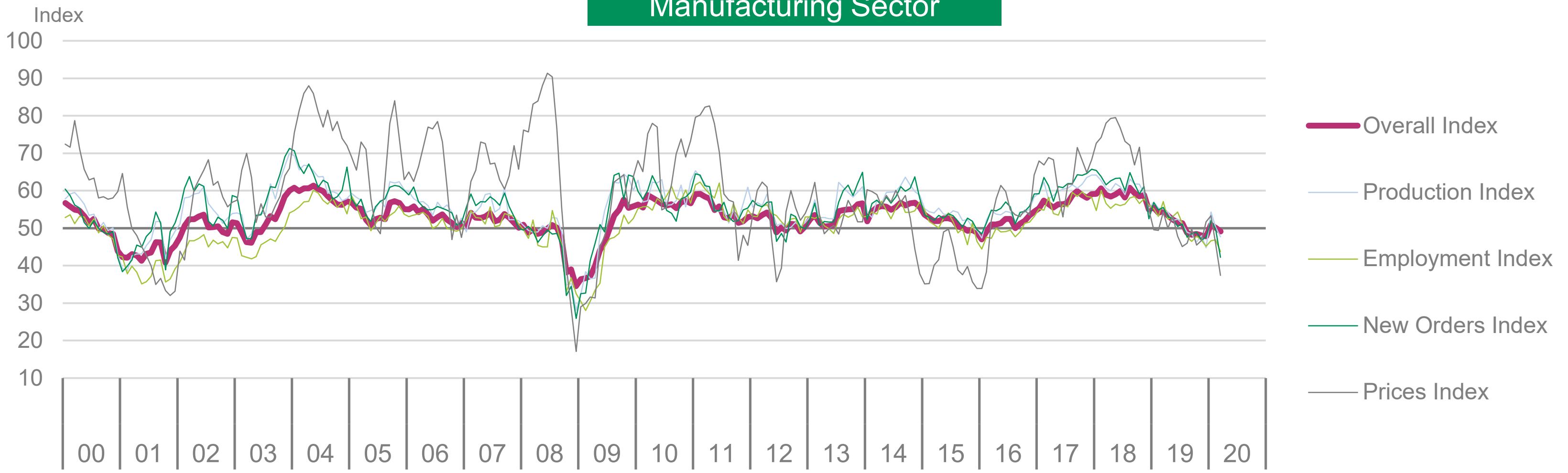


- Covid-19 has been spreading in the United States since the 23rd of January. The exponential increase started to become really worrying from around the 15th of March.
- The United States is now the new epicentre of the global pandemic.
- With around 30,000 new confirmed cases per day, the US represents almost half of new cases worldwide.
- In cumulative terms, 30% of global cases are now in the US and this figure is expected to rise in the coming weeks.
- The number of deaths is also growing very quickly. With 25,871 deaths in the country to date at the time of writing, the US accounts for 20% of the global total.
- However, the fatality rate is still one of the lowest in the world, at 4%.

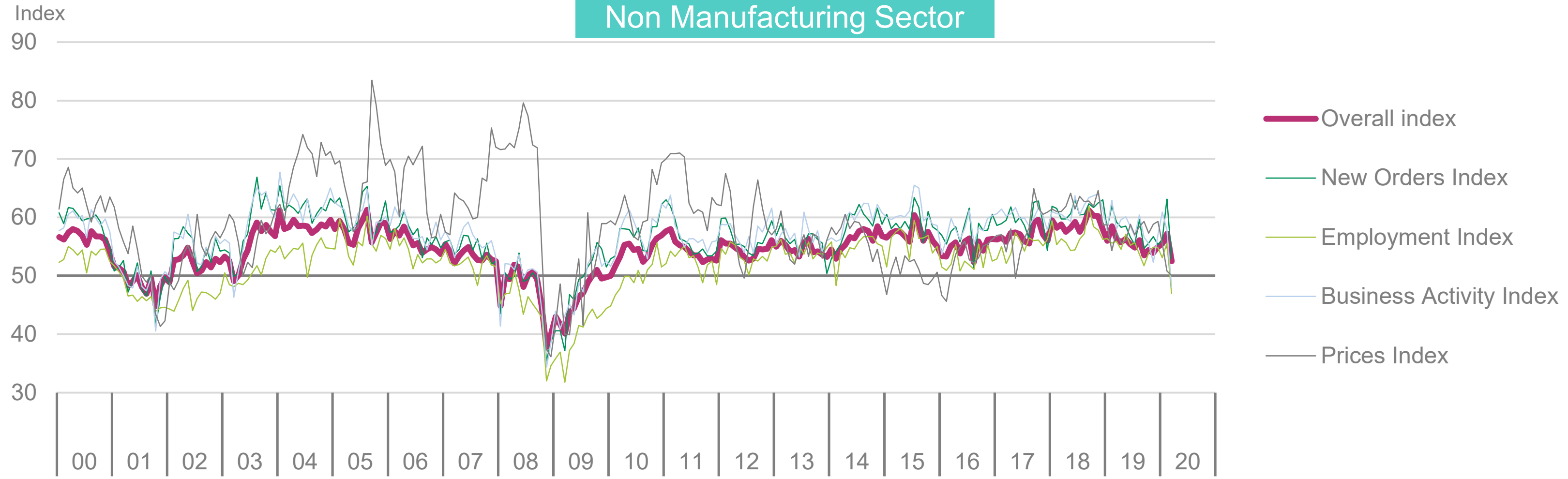
Sources: World Health Organisation.

RECENT BUSINESS SURVEYS HAVE HELD UP

PMI Indices
Manufacturing Sector



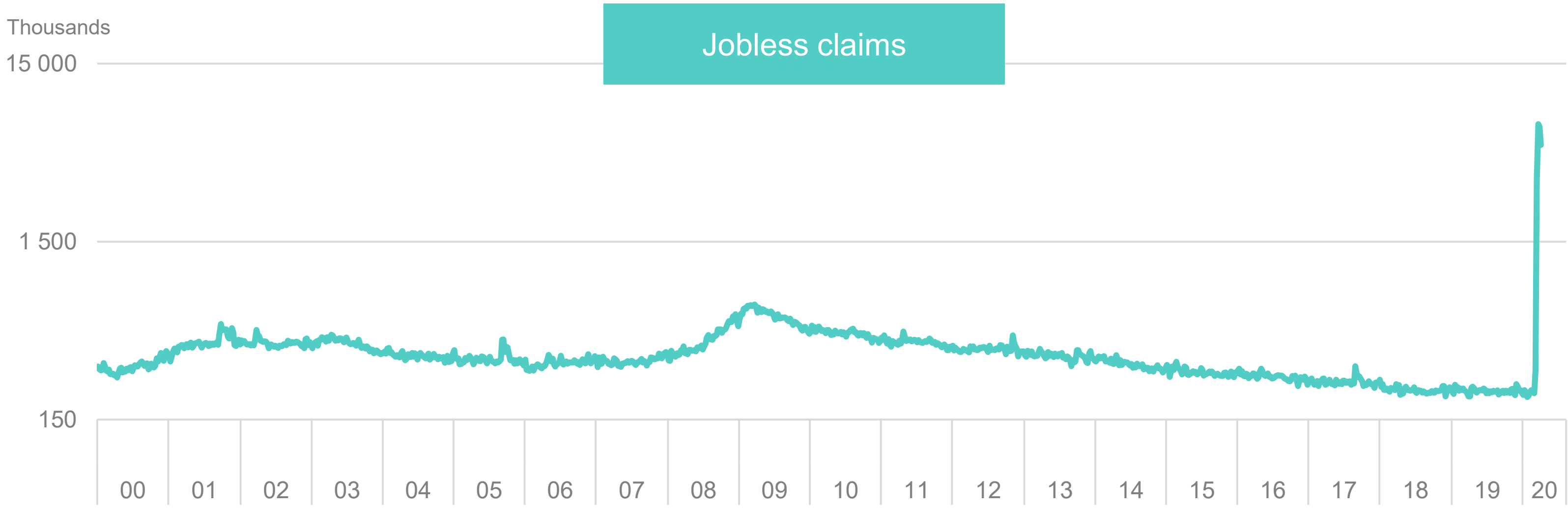
PMI Indices
Non Manufacturing Sector



- The impact of the Covid-19 virus on the economy is still difficult to measure. However, certain weekly and monthly indicators allow us to monitor some changes.
- PMI indices started to decline in March. Yet as the spread of the virus has only really been a concern since the 15th of March, it is still too soon to see the real impact on the various business sectors.
- The manufacturing sector is already below the 50 threshold, indicating a contraction of the sector. The sub-indices show some contractions in terms of production, employment, new orders and prices.
- During the last economic crises, prices and new orders were the most impacted, but also recovered quickly. Employment recovered with a small lag.
- The non-manufacturing sector was still in expansion (greater than 50) in March. However, non-manufacturing prices and business activity were showing the first signs of a slowdown.
- A contraction in activity would be an early indication that the United States is expected to slow. Its implications for the global economy are still unclear.

Sources: Institute for Supply Management, BNP Paribas Real Estate.

A SHARP INCREASE IN JOBLESS CLAIMS

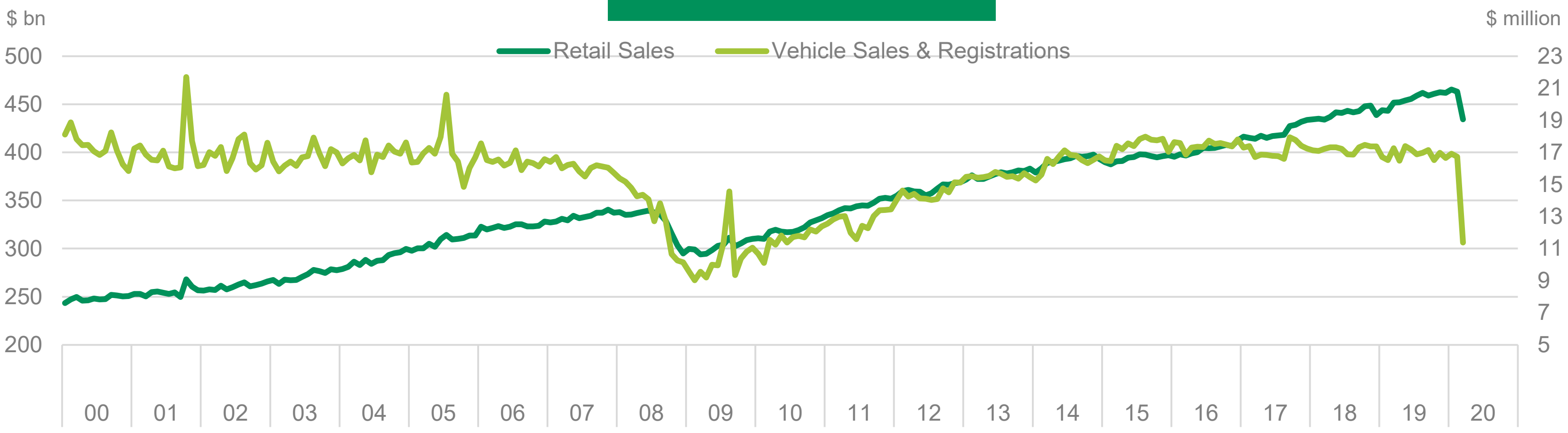


Sources: U.S Bureau of Labor Statistics, U.S Department of Labor, BNP Paribas Real Estate.

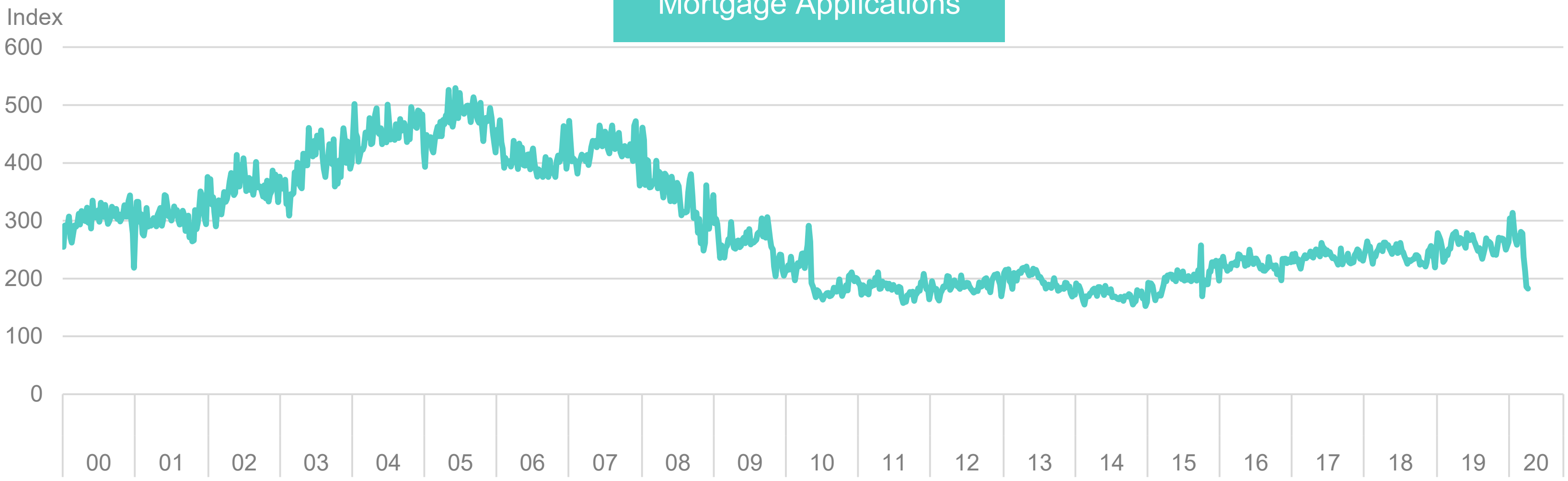
- Employment growth has been positive since the 2008 economic crisis for all sectors. Although on a positive trend, the manufacturing sector has never recovered from the slowdown and its level is still way below 2008.
- During the 2008 crisis, around 9 million people lost their jobs. 50% of the job cuts were in services. However, the rebound was fast in this sector.
- The construction and manufacturing sectors suffered the most with employment falling by respectively -30% and -20% between 2006 and 2008.
- Jobless claims have been rocketing for the past four weeks as more than 22 million people filed claims over the period. This is a record high and shows what is currently happening in the country.
- As social distancing measures and partial lockdowns get underway in a number of states, workers in tourism, food services or retail are being hit hard. As in Europe, some states have ordered non-essential businesses to close. More states are expected to introduce these types of measures.
- One reason for the high jobless claims is that the US has not implemented policies to help firms keep their staff on the payroll. This means that when the economy starts to recover, the unemployment rate should also decrease sharply.

CONSUMPTION AND MAJOR PURCHASES ARE DECLINING

Retail and Vehicle Sales



Mortgage Applications

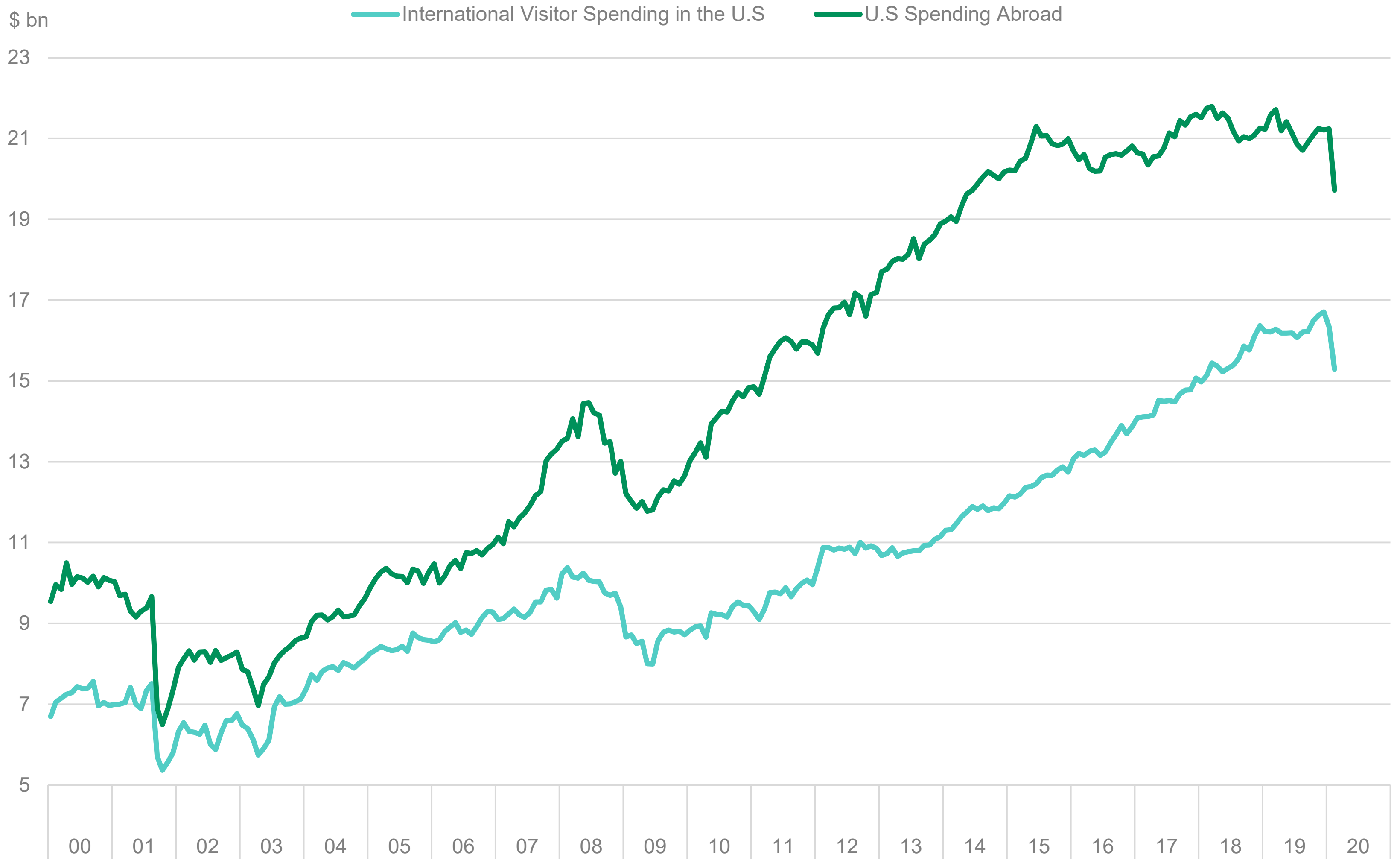


Sources: U.S Census Bureau, U.S. Bureau of Economic Analysis, Mortgage Bankers Association, BNP Paribas Real Estate.

- The economic impact of Covid-19 remains uncertain, but it is clear that the effects are likely to be significant for both the supply and demand components of the economy.
- At the moment, households are stockpiling and retails sales are holding up. But with the closure of non-essential businesses, retail sales are expected to drop in the coming weeks.
- Car sales and registrations are also useful economic indicators as they provide an early indication of big ticket consumer purchases. The automotive sector is also a key component of the US economy, employing millions and accounting for a large part of consumer spending.
- Moreover, the US also imports cars (mostly from China or Germany), and the decreases in sales should have a strong impact on these economies.
- Mortgage applications can also provide an indication on major purchases. The figure decreased after the subprime crisis in 2007 and we have also seen demand fall in recent weeks.
- This suggests that households are now more concerned about the future and are not considering any major purchases. This will have an impact on the global economy, as the US is a major trading partner for most countries.

FALL IN TOURISM REVENUES AND EXPENDITURE

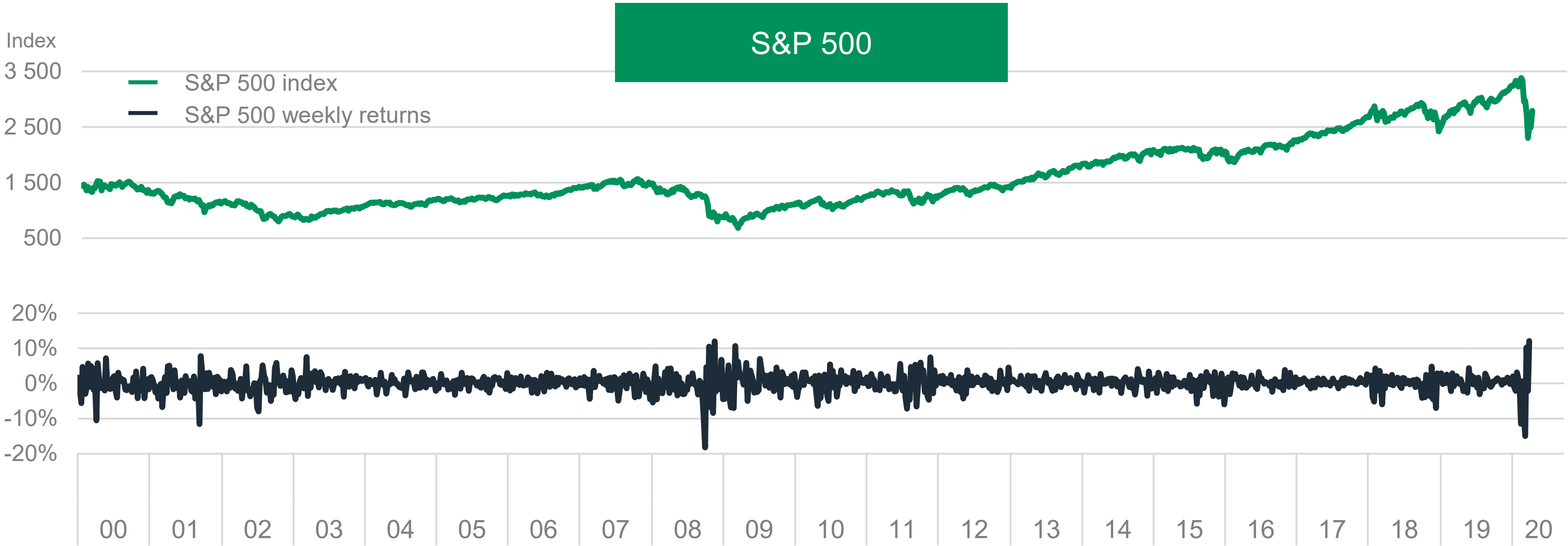
Total spending on travel from and to the United States (on a monthly basis)

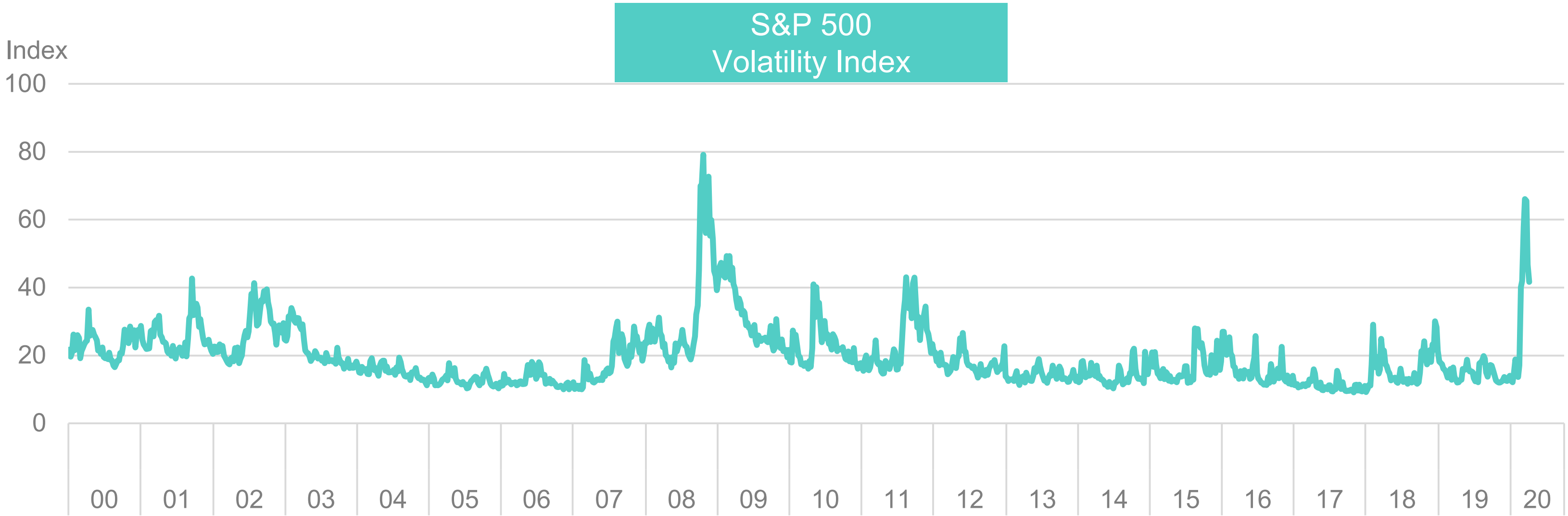


Sources: National Travel & Tourism Office, BNP Paribas Real Estate.

- The restrictive measures put in place (border closures, lockdowns) will severely reduce tourism-generated revenues for a lengthy period.
- The US will see both domestic and international tourism fall. Total US travel revenue stabilised in 2019 as international visitors spent $254bn.
- Other countries will also see their revenues greatly impacted as the crisis lasts in the US. American tourists spent around $195bn abroad in 2019.
- Again, as the restrictions are lifted, tourism may not soar. The psychological effects and protective measures should dominate in the early stages of a recovery and we should see an increase in domestic holidays.
- International tourism will resume but later in the year, and only gradually. For low-income households, lockdowns should drain savings for the purchase of necessities and we can expect big-ticket spending (such as holidays) to be shelved. Moreover, economic losses resulting from the fall in overnight stays cannot be fully recovered, as most of holidays or business trips have been cancelled.

FINANCIAL MARKETS ARE STILL VOLATILE



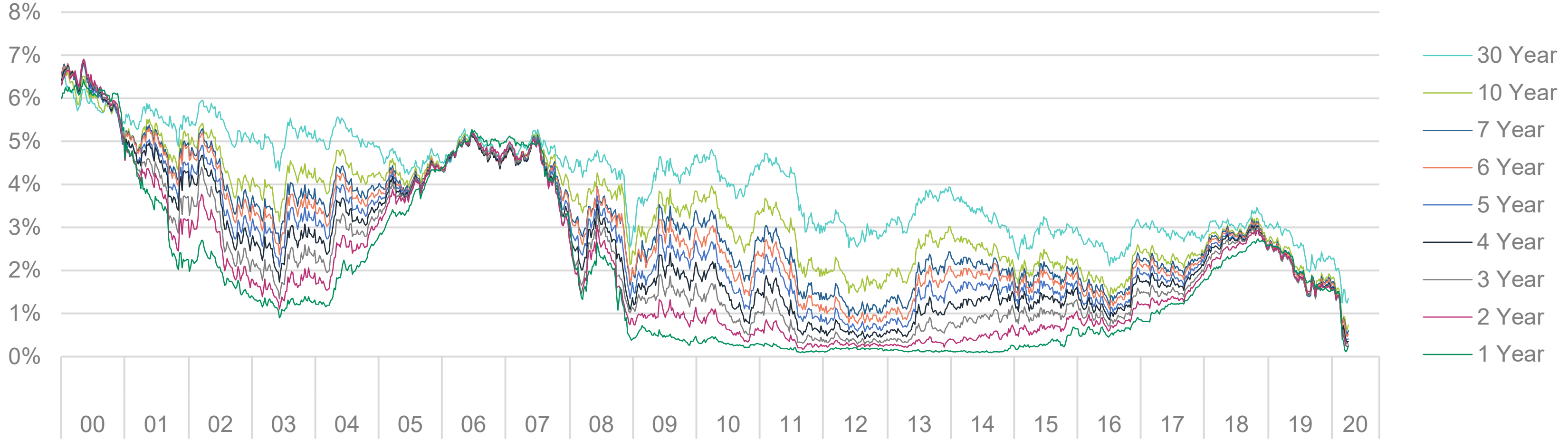


Sources: S&P Dow Jones Indices, Macrobond, BNP Paribas Real Estate.

- Following the outbreak, it seems that investors are being more cautious, as they measure the direct impact of country lockdowns on companies' profits. A first crash occurred in the final week of February and a second one in the week ending on Friday 20 March, when the main stock markets experienced their worst week since 2008.
- The coronavirus crash appears less severe than other shocks. As a benchmark, the fall of the Great Depression (July 1933) and the financial crisis (October 2008) were much more significant in terms of magnitude. Both crises registered a peak of -18% in a week, compared to -15% for Covid-19.
- The financial crisis in 2008 lasted 25 weeks and the market lost 45% of its value. Currently, the shock has lasted 4 weeks with a loss of 30%. There should not be much further to fall for now as most repricing has been driven by assumptions about companies' cash flows. The uncertainty may recur in April and July, when companies publish their quarterly results.
- The VIX (a measure of the stock market's expectation of 30-day forward-looking volatility) provides an estimation of investor risk sentiment. The Volatility Index reached its second highest point in history, near to the level of the 2008 financial crisis. Volatility in the financial market seems now to decrease slightly.

A FLIGHT TO SAFETY BY INVESTORS?

Government Bond Yields at Different Maturity



U.S Yield curve

- During major events, investors tend to increase their allocations to government bonds.
- In recent history, this happened during the dot-com bubble, the 9/11 attacks and the subprime crisis. Since then, with global uncertainty and the purchasing program launched by the Fed in 2009, bond yields have been pushed down.
- As with previous events, the Coronavirus outbreak (and more specifically population lockdowns and the sudden halt of economic activity) is no exception to the rule. With the fall of the stock market, investors are focusing on low-risk assets.
- In order to contain the economic impact of the outbreak, the central government announced a stimulus package of $2 trillion. These extreme measures should, in the long run, increase the debt and the deficit of the country. The risks could then be much higher for investors and yields may see upward pressure.
- The yield curve is still positive, and the difference between short-term and long-term bonds is even increasing. This is still a normal situation as investors are better compensated for a greater risk.

Sources: Macrobond, BNP Paribas Real Estate.

REAL ESTATE PERSPECTIVES

BNP PARIBAS REAL ESTATE

REAL ESTATE PERSPECTIVES

COMMERCIAL REAL ESTATE
INVESTMENT MARKETS

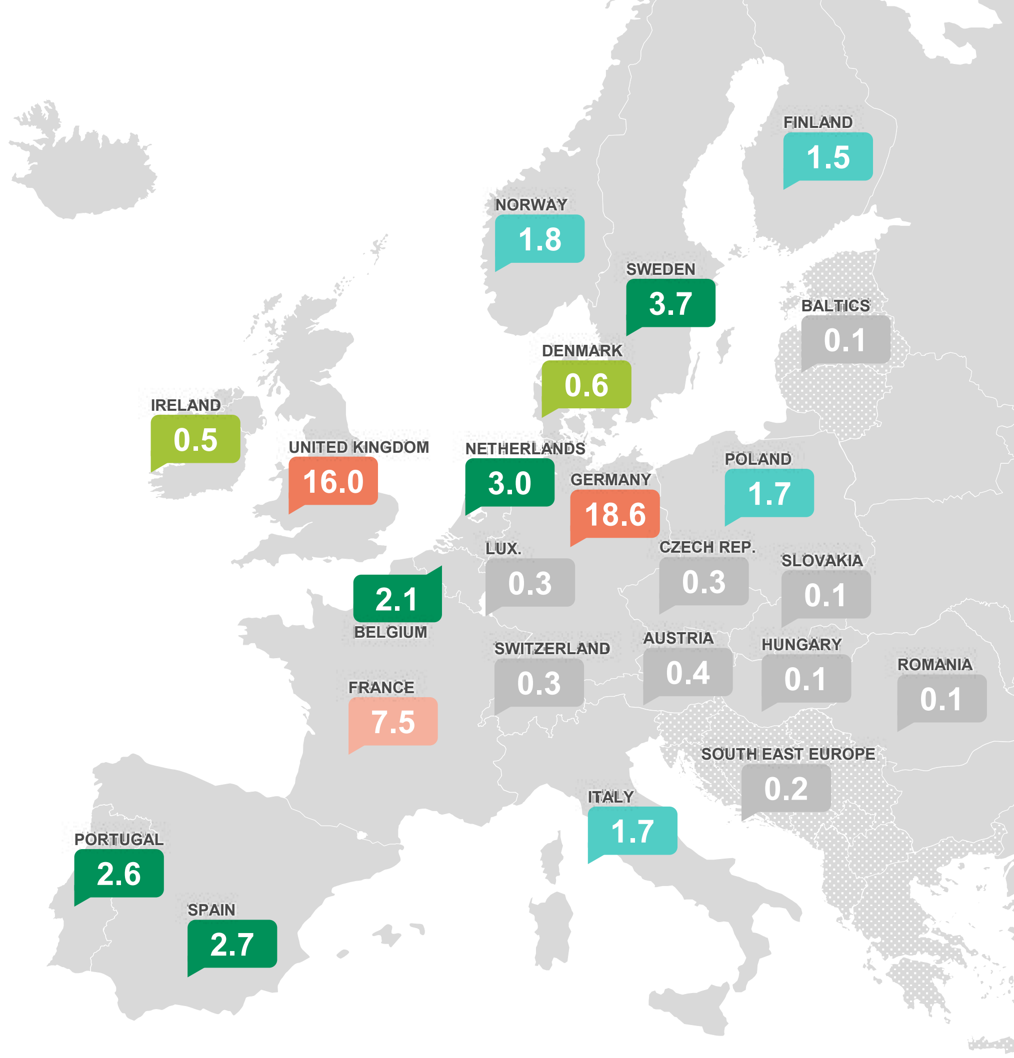
BNP PARIBAS
REAL ESTATE

COMMERCIAL REAL ESTATE INVESTMENT

A GOOD START BEFORE LOCKDOWN

Q1 2020 vs Q1 2019

GERMANY	+68%
UNITED KINGDOM	+19%
FRANCE	+46%
NETHERLANDS	+69%
ITALY	=
SPAIN	+21%
POLAND	+138%
IRELAND	-9%
BELGIUM	+106%
CZECH REPUBLIC	-60%
LUXEMBOURG	+419%
ROMANIA	-4%



- ≥ €10bn
- €5-10bn
- €2-5bn
- €1-2bn
- €0.5-1bn
- < €0.5bn

*excludes residential investment

Source: BNP Paribas Real Estate.

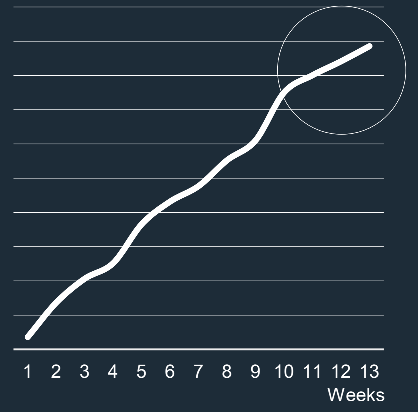
EUROPE – Q1 2020

€67bn

+40% vs 2019

- After record year 2019, investment was still buoyant in early 2020. Q1 2020 set a new all-time high for commercial real estate investment in Europe for a first quarter. €67bn was invested, which represents a 40% increase vs Q1 2019, 25% higher than the 5-year-average.
- With the Covid-19 pandemic hitting Europe from mid-March, most European investment markets have experienced a slowdown in their activity.

Cumulative CRE investment in Europe in 2020



CAPITAL MARKET OUTLOOK

CRE INVESTMENT MARKET

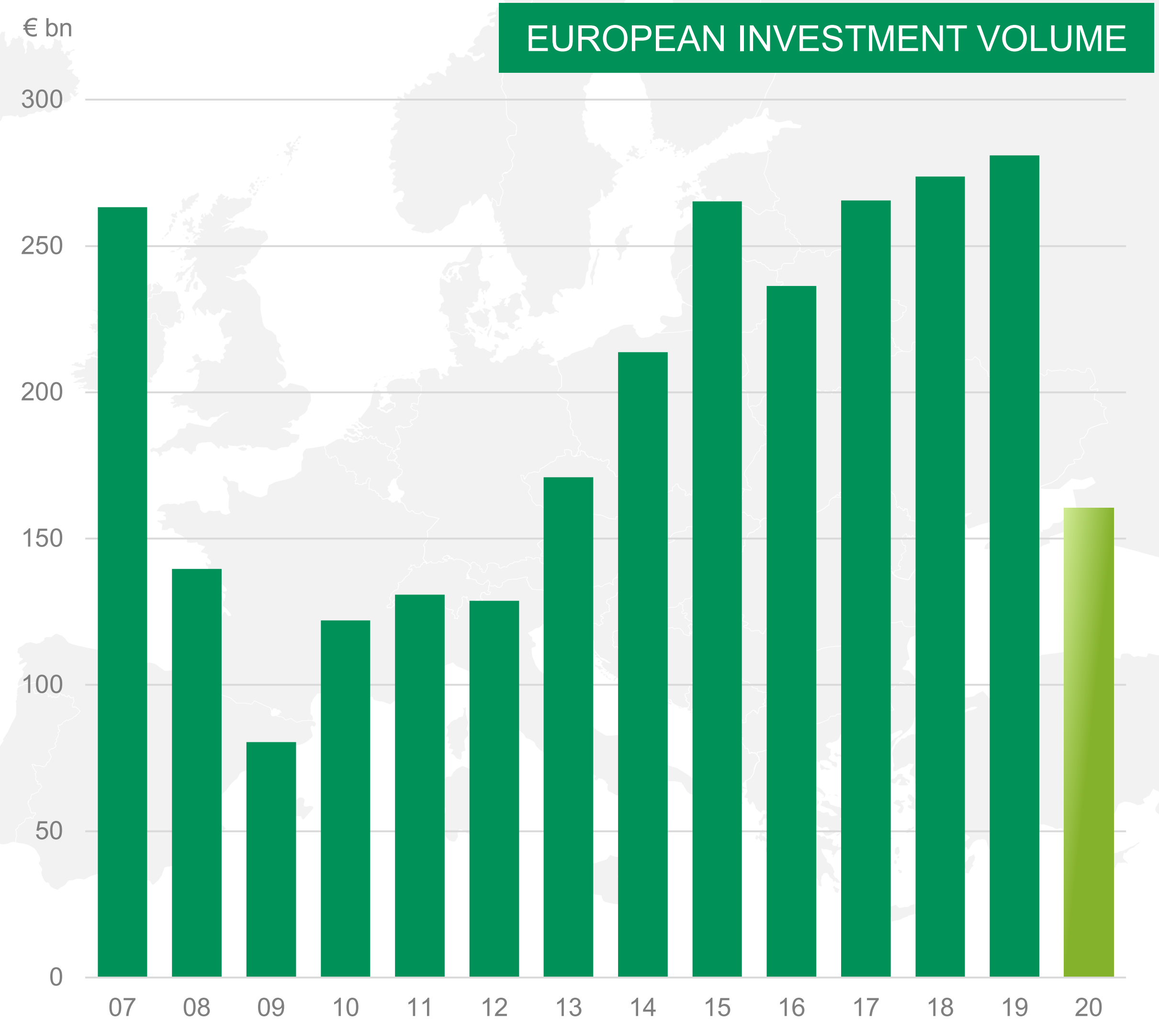
Investment to slow dramatically in 2020

- **The Covid-19 outbreak begun to take a gradual toll on European investment volume from mid - March 2020**, as most countries begun to shut down parts of their economy. At the early stage of the outbreak, measures such as travel restrictions and cancellation of large events were swiftly taken by companies resulting in a dramatic reduction in face-to-face meetings, site visits, etc. **The subsequent implementation of population lockdowns in many European countries made trading even more difficult, in the last few weeks of the first quarter.**
- Recently released data shows that most **European markets saw a decent level of investment activity in Q1 2020, with investment volumes in some countries even exceeding that achieved during the same period in 2019.** That said we think Q2 and Q3 will certainly see significant falls in transaction volumes as the aftereffect of lockdown begins to bite. While Q4 might see investors return to the market, it will not be sufficient to reverse the decline. **Therefore we see overall investment volume in 2020 falling, significantly, by about 45% across Europe.** This is similar to the fall seen in the first year post GFC; although the market went on to fall further in the following year, we think this time round will see a swift bounce back in 2021, as the pandemic recedes towards the end of the year.

The investment market is still working despite severe external difficulties, but finance is hard to get and cash is increasingly king

- Both buyers and sellers have adopted a wait and see attitude, until the market has more visibility on when the current situation is likely to end. We are seeing **sellers holding on to their assets**, but **buyers are also cancelling or postponing some deals**. Nonetheless, some negotiations and deals are advancing, especially for good quality assets in core segments of the markets where buyers may not other wise have the opportunity to acquire.
- But increasingly these are deals which involves good level of equity, and less debt, on the part of the buyer as banks tighten credit conditions. Banks are growing cautious in financing deals and are doing so with increased cost and LTVs. As such, cash investors are likely to predominate as opportunities appear.

EUROPEAN INVESTMENT VOLUME



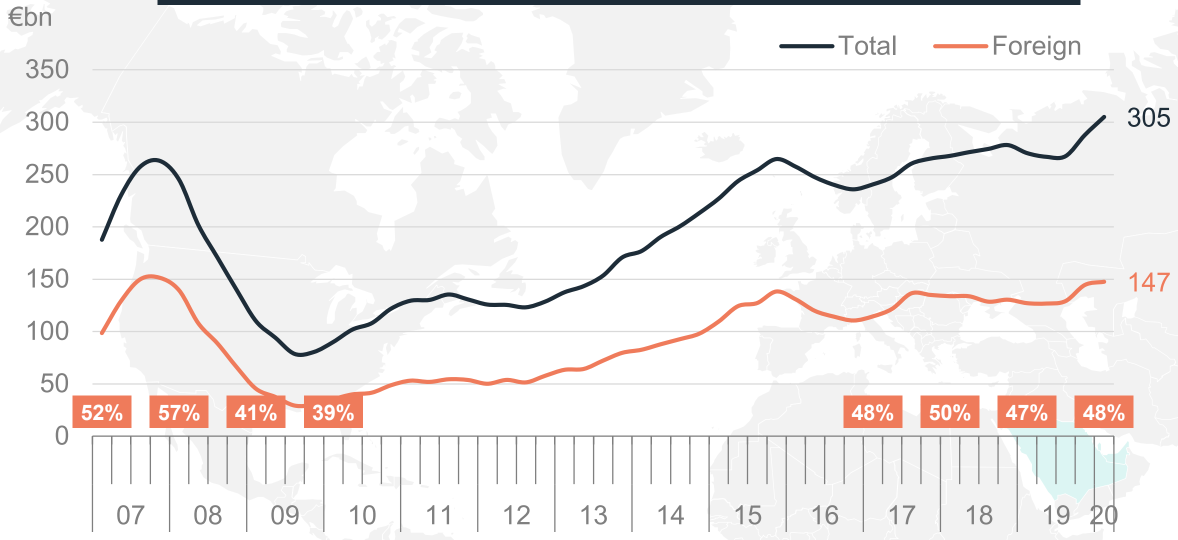
CAPITAL MARKET OUTLOOK

CROSS-BORDER INVESTMENT MARKET

Cross-border investors likely to reduce activity more than domestic players

- **Foreign investment** is being affected by the spread of the outbreak through Europe. **Most foreign investors are delaying their ongoing deals** until Europe is open again.
- **In 2019, foreign investors represented half the commercial real estate investment in Europe.** Foreign investment in Europe gathered pace in 2019 (+10%) compared to 2018. Foreign inflows accounted for half of investment over the year, i.e. €141bn out of a total €281bn.
- As observed in 2009, the withdrawal of foreign investors from European markets **could benefit domestic investment**. This trend could be amplified as local investors are physically closer to the markets. Therefore we might see an **increase in the share of domestic investment in 2020**. When market recovery starts, the share of foreign investors should gradually increase but it could take time to reach pre-crisis levels.
- For domestic investors, this situation could be seen as an opportunity to make deals in a less competitive environment.

COMMERCIAL REAL ESTATE INVESTMENT IN EUROPE
TOTAL AND FOREIGN INVESTMENT - VOLUME AND SHARE



In the **Middle East**, most Gulf countries have been locked down with curfews for more than four weeks now. The most restrictive measures are taken in **Kuwait** and **Saudi Arabia**, followed by **Bahrain**, **the United Arab Emirates** and **Qatar**. The number of infections is on the rise but not to the alarming levels seen in Europe and the United States.

Nonetheless, the impact is being felt across all economic sectors and the fiscal position of Gulf countries is likely to worsen over the next 12 to 18 months. Demand for new property acquisitions is on the back burner as liquidity shrinks. Most family offices have adopted a 'wait--and-see' attitude. However, a few private investors remain on the lookout for new investments.

In **Asia**, despite the recent improvements in controlling the covid-19 outbreak, the situation remains very restrictive. A majority of Asian investors have adopted a 'wait-and-see' approach and are focusing on the impact on the rental, occupancy and financing aspects of their investments. There is an increasing interest from Asian investors in distressed assets, especially in the UK, and in real estate listed equities of some European real estate companies for value investments.

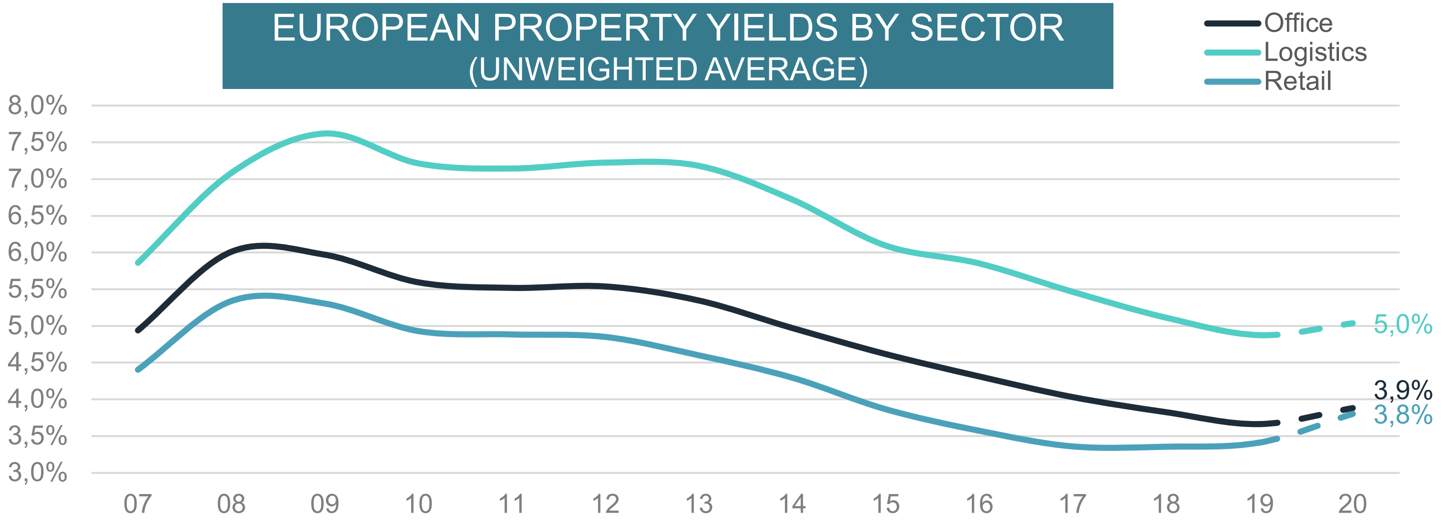
South Korea has shut schools and issued social-distancing guidelines for the public, but has not enforced lockdowns or broad business closures.

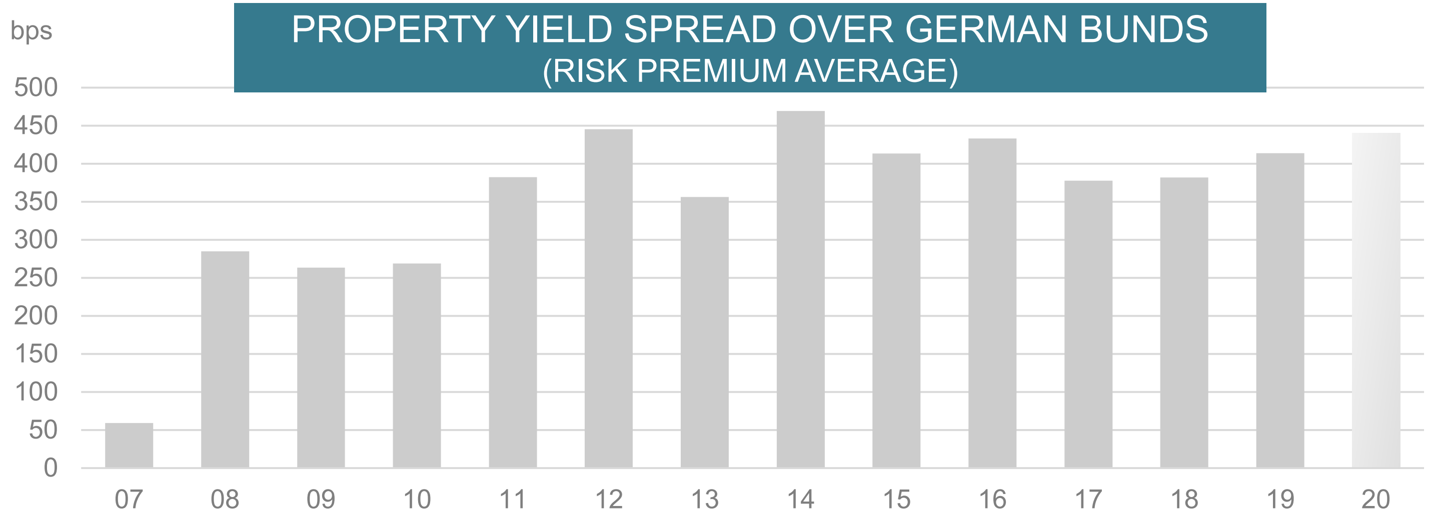
Singapore is facing a third wave of infections and the Government has taken new restrictive measures including individual movements restrictions.

Hong Kong has extended the closure of venues and restrictions on public gatherings for another two weeks.

EUROPEAN PROPERTY YIELDS

RISK PREMIUM TO REMAIN ELEVATED





Limited upward pressure on prime yields, but there may be general upward tensions on secondary segments

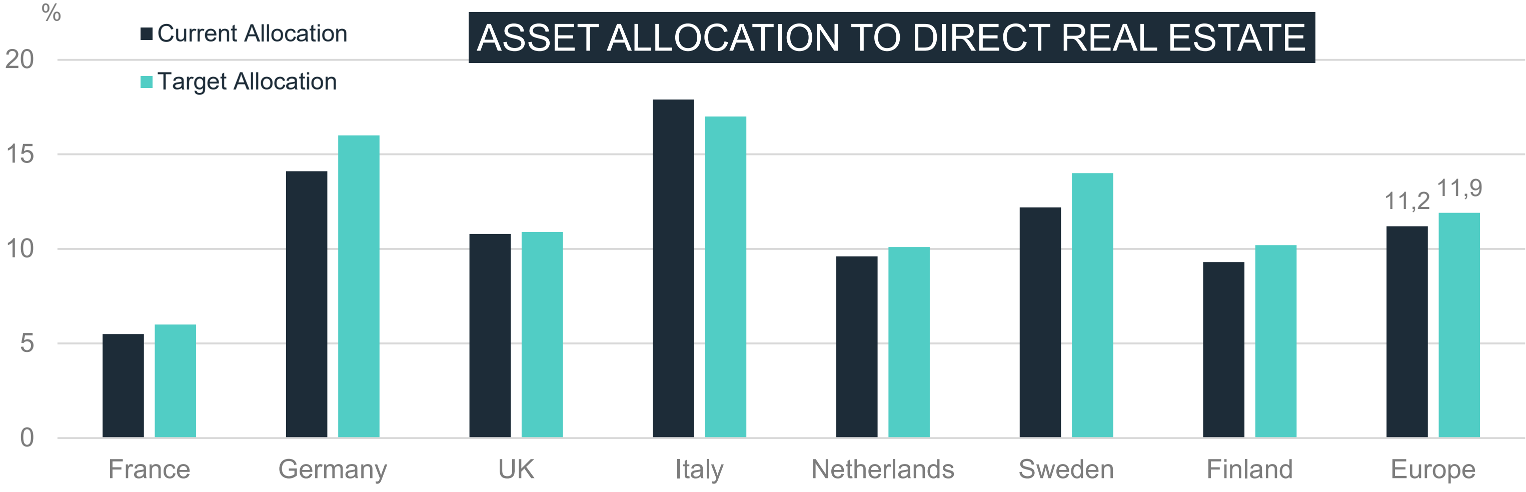
- Prime yields have now reached their lowest level on record across Europe and **before the crisis we were still expecting a further decrease in Prime yields in the core markets.**
- After the outbreak, the deteriorating outlook for the occupational markets and restrictive financing conditions means that investors are likely to demand higher yields. As such we see broad based increases in prime property yields across the sectors and in Europe.
- **We expected the increase in yields ranging between 10bps in logistics and 40bps in retail.** For offices we are likely to see yields increase by 20bps.
- In our latest forecast, the risk premium between property and risk free rate was expected to shrink. Now, **we are expecting the premium to increase as uncertainties are high, pushing bond yields lower and property yields higher.**

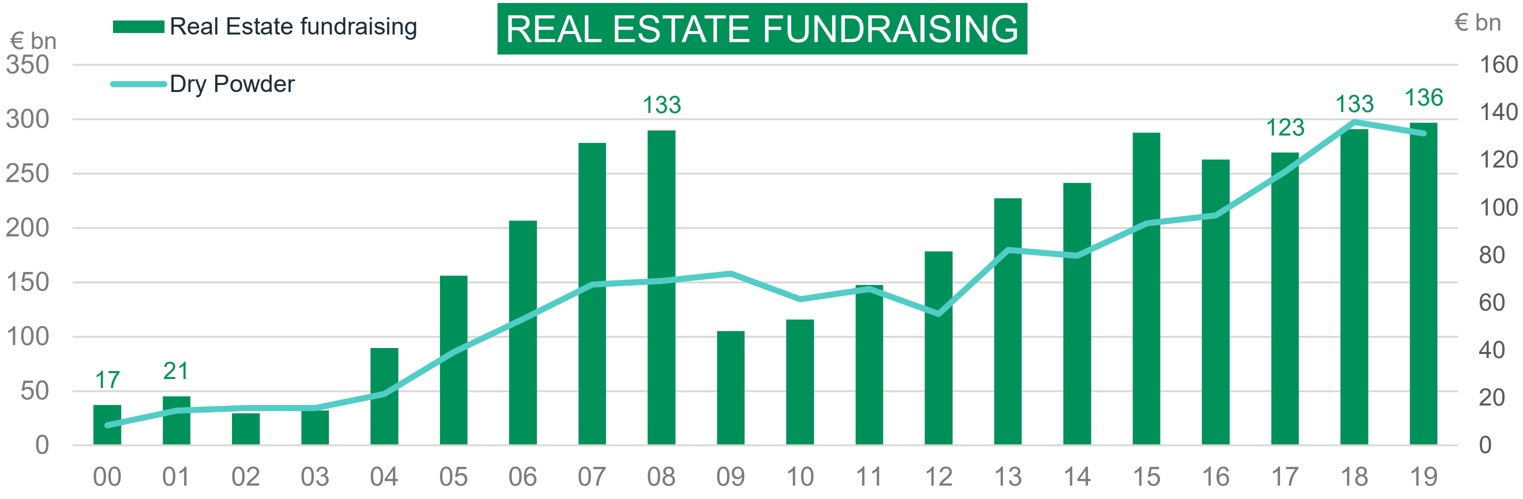
Strong occupier fundamentals to support capital markets

- By comparing the situation before the 2008 crisis and before the Covid-19 outbreak, we can draw two conclusions.
- **The first is that the risk premium is still high compared to 2007 (22 bps vs 440 bps today).**
- **The second is the good fundamentals of the market**. In 2008, the crisis occurred in an oversupplied market, where the risk premium was non existent and the vacancy rate was quite high (around 7%). Today, the vacancy rate is lower (5.8% across Europe), and we are only expecting a few completions to swell the market.

CAPITAL MARKET INSIGHT

TWO OPPOSITE EFFECTS AT PLAY





Sources: Preqin, BNP Paribas Real Estate.

A huge amount of liquidity coming into the market

- Around €1.3bn of bonds are going to mature in the next three years for the three main countries in Europe (France, UK and Germany).
- **Given current uncertainties** and the **flight-to-safety** in the market**, the majority of bonds are now in negative territory**. We can then assume that a part of the liquidity available may be redirected toward real estate.
- **Moreover, total real estate fundraising exceeded €136bn in 2019 which was an all-time high**. The level of deals did not exceed the 2018 record but activity was still highly positive. **As a result, dry powder decreased in 2019.**
- Dry powder is the amount of money raised that has not been invested by real estate funds. We can expect that a certain amount will be invested in 2020.

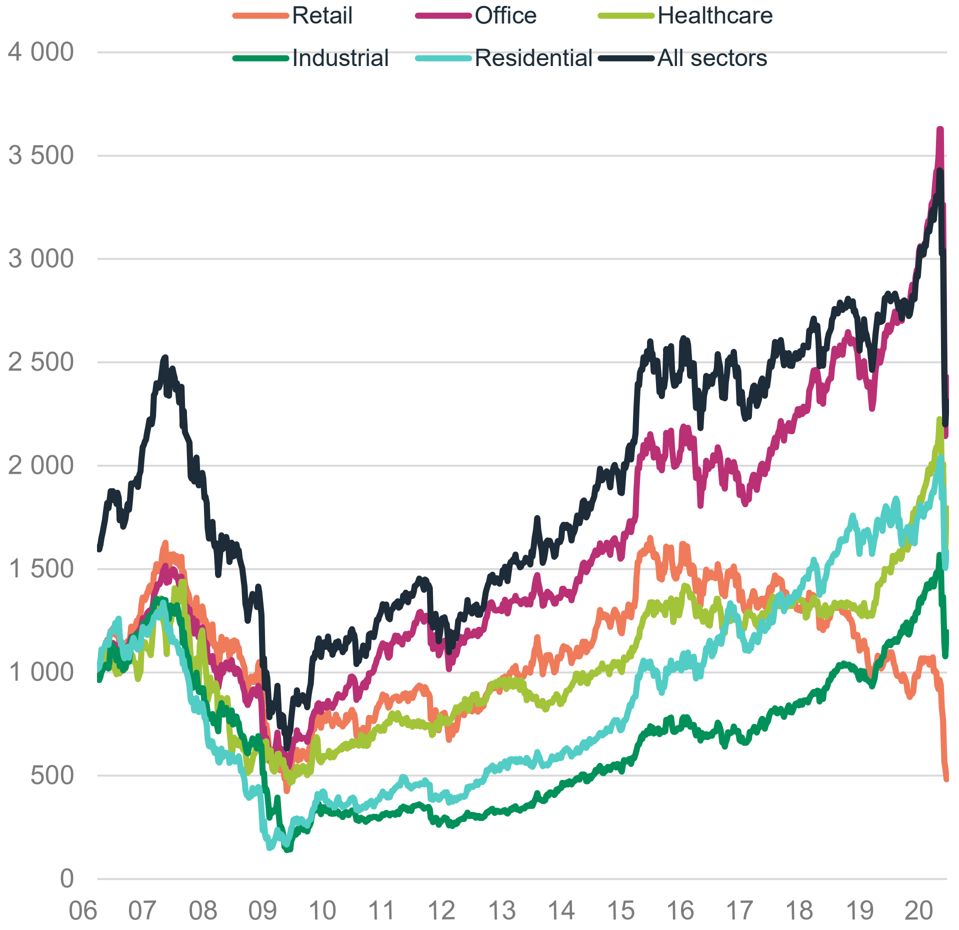
The denominator effect may disrupt the investment market

- As stock prices are falling the value of investors' portfolios is decreasing. As a result, **the percentage actually invested in real estate (11.2% in Europe) is rising.**
- **As a result, a number of institutional investors or funds will have to re-evaluate their real estate strategies** in the coming months as they will become over-allocated to the other asset classes (stocks, bonds, etc.). **Currently, the wait-and-see attitude seems to be prevailing over panic selling.**

CAPITAL MARKET INSIGHT

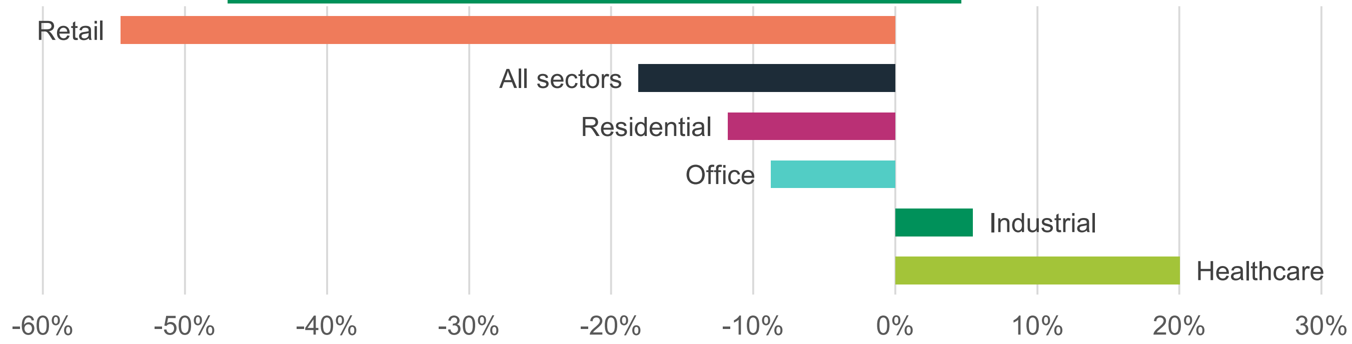
REITS TOTAL RETURNS AS AN INDICATOR

EUROPEAN REITS
TOTAL RETURNS INDEX



Sources: FTSE EPRA NAREIT Europe, BNP Paribas Real Estate.

EUROPEAN REITS
YEAR-TO-DATE TOTAL RETURNS



REITS have not been immune to the widespread market sell-off

- **Covid-19 has already shattered real estate investment trusts in Europe**, as some of them have had to shut down hotels, shopping centres, retail units and other properties to stop the spread of the virus. As a result, European indices have been falling since the beginning of 2020, mostly from the third week of February.

- **The retail sector has been struggling since 2015 and is** the sector **hardest hit** by the spread of the virus. A significant share of retailers have already asked for rental holidays. Some have simply refused to pay altogether. This is having a negative impact on rent collection and on performance.

- **Industrial and logistics REITs still display positive annual total returns.** The current situation is also demonstrating the importance of the supply chain and a need for space is expected to increase local production and the level of inventories for strategic goods. The sector is the main beneficiary of the accelerated shift towards ecommerce and last-mile logistics.

- **The renegotiation of leases and the long-term strategies of** companies to repair their balance sheets (freezing new hires at best, or cutting their workforces) **are the main risks at the moment for Office REITs**.

- **The healthcare sector is the best performer.** This reflects the sector's crucial role in fighting the pandemic, and occupancy levels in care homes are holding up.

REAL ESTATE PERSPECTIVES

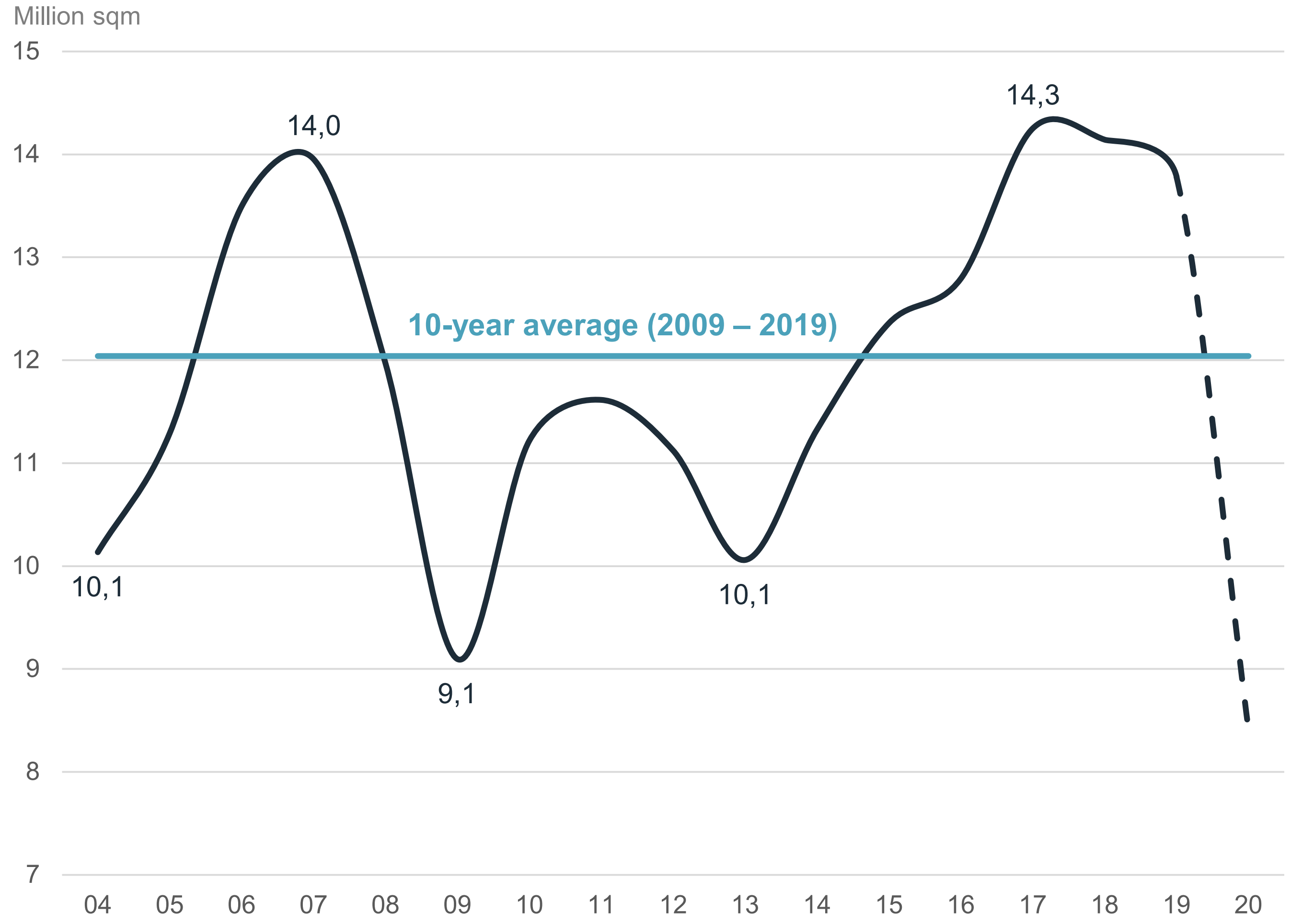
OFFICE
MARKETS

BNP PARIBAS
REAL ESTATE

OFFICE OCCUPIER MARKETS

WE SEE SIGNIFICANT FALL IN DEMAND FOR 2020

OFFICE TAKE-UP
(25 cities in Europe)



Speeding-up of take-up decrease

- **We are likely to witness a significant decrease in take-up for 2020, particularly during Q2 and Q3.** Most deals that were due to be signed in Q1 managed to be concluded as they were too far in the process to be stopped; however deals due to conclude in Q2 and Q3 are either suspended or cancelled. This is true across most European markets **and will have a significant impact on the overall take-up in the European markets in 2020, where it could fall by as much as 41%.**

- **The fall in take-up is likely to be more severe than the peak to trough during the 2007 – 2009 crisis, because corporate balance sheets will be the epicentre of the current economic downturn.** This will weigh on employment growth and occupier activity. We see unemployment rate rising sharply in most European markets. However some markets may be less impacted than others depending on the economic measures put in place to support job retentions. For example in Germany the "kurzarbeit" scheme has been a long term and a generous programme that could more limit the rise in unemployment, than the less generous schemes in the southern European markets.

- As such the timing and how long the occupier downturn prevails will also differ among markets. In Italy, one of the earliest hard hit country in Europe, the effect might be seen earlier than in the rest of the continent. In Central London, the first provisional figures for Q1 2020 show a -22% dip in office demand y.o.y. while the main German cities might see a decrease in take-up ranging from -5 to -15% in 2020.

- **The recovery is expected to begin at the end of 2020. The impact on the office market will depend on how fast market activity can recommence once the virus has come under control.**

OFFICE OCCUPIER MARKETS

FUNDAMENTALS REMAIN STABLE GOING INTO THE PANDEMIC

Controlled increase of the vacancy in most markets

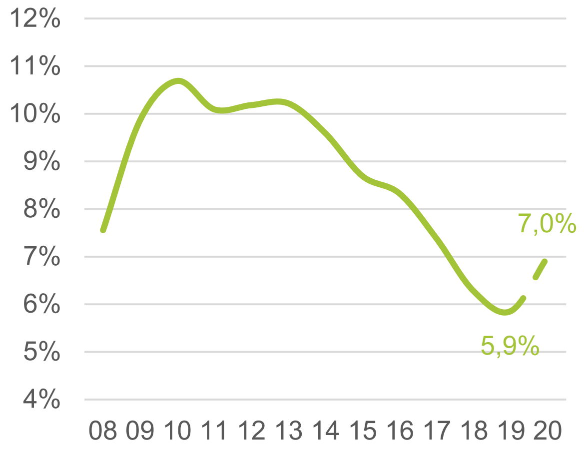
- **The vacancy rate** has been falling continuously since the last financial crises in 2009 and **had probably reached its floor at the end of 2019**. In almost all markets, **the vacancy rate at the end of 2019 was well below its 5-year average**. As a result, most of the European markets saw a rise in the volume of space under construction. Before the covid-19 crisis, we expected a slight increase in vacancy as a result of this new supply and the release of second-hand buildings as the demand for new offices was stronger than ever. We now expect this increase in vacancy to be more than what had been anticipated.

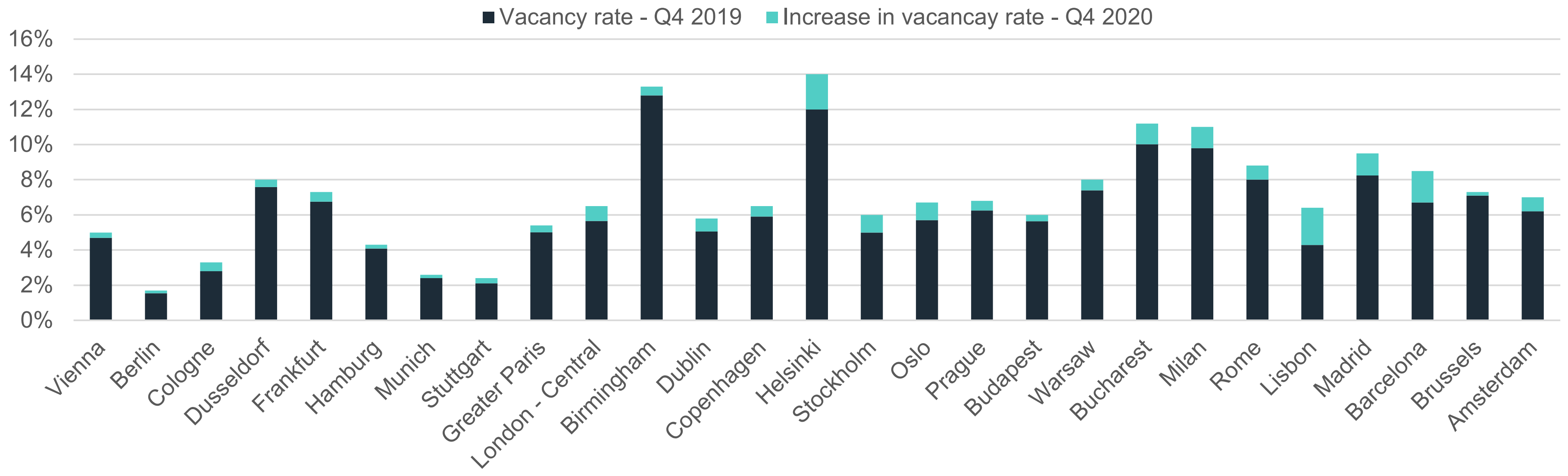
- **By the end of 2020 we are likely to see overall vacancy rate rise by 110bps, from 5.0% at the end of 2019 to 7.0% by the end of 2020.** This is likely to continue through to 2021, as large corporates continue to repair their balance sheets and therefore either stop hiring, at best, or cut workforce.

- However, **some markets, where vacancy rates have been at historic lows, will be better place to absorb the increases in vacancy**. Such markets include the German cities (Berlin, Munich and Hamburg), Vienna and Paris inner-city. In these markets the vacancy rate will remain below 5% by the end of 2020. Moreover we do not expect any significant increase in most CBDs of key European cities, where supply remains extremely limited.

- Additionally, due to the current situation, **a series of speculative schemes might be postponed, even cancelled,** until the market gets back to normal. Consequently the rise in vacancy should remain limited for years to come although the situation will vary a lot throughout Europe.

OFFICE VACANCY
(25 cities in Europe)





OFFICE OCCUPIER MARKETS

EXPECTED IMPACT ON RENTS

EUROPEAN PRIME OFFICE RENTAL INDEX
(unweighted, 36 Cities)

Solid fundamentals in support of values

- It is note worthy that the **European markets entered the crisis with very strong occupier fundamentals**, low development and low vacancy rate in numerous markets. This means that the implication of vacancy increases on rental growth will be limited on the whole, but varied across markets.

- The vacancy rate in the European CBDs was extremely low at the end of 2019 due to a very high demand from occupiers for prime assets located in the best business districts. **Availability in the largest European CBDs was extremely low compared to the pace of take-up**. As a result, prime rental values have been experiencing a continuous and important growth over the last years everywhere in Europe. **Overall prime rent across Europe has risen by +34% since reaching the trough in 2009.** We anticipate that the limited increase in vacancy will result in a more than 2.0% decrease in prime rents across Europe in 2020.

Very few changes in rents expected especially in CBDs

- Even though the CBDs should maintain high rental values, **the slowdown in take-up expected in the wake of the epidemic is likely to drive the average rents downward in the districts where the structural vacancy remains high**.

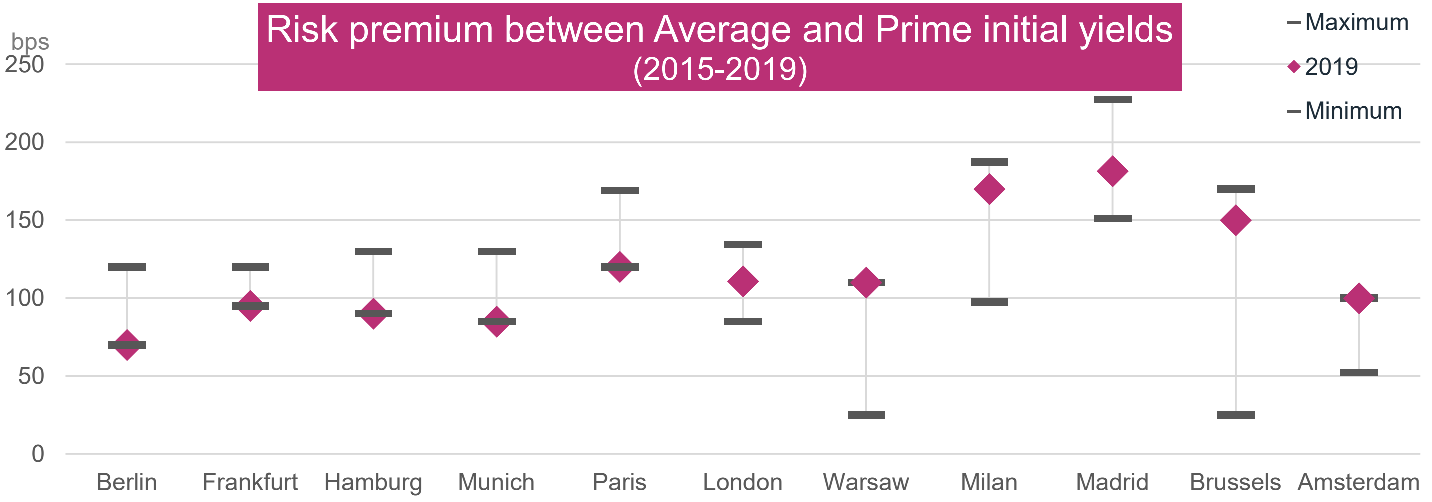
- For instance in the periphery of some markets such as Milan and Madrid, or in submarkets where supply under construction is currently at a high level, for instance La Défense, rents could be adjusted. On the other hand, markets experiencing a structural lack of supply are more likely to resist and to avoid seeing a decrease in rents. For example in Berlin where we had previously anticipated a strong rental growth in 2020, this is now likely to remain pretty flat. Other markets like Paris and Munich should experience very few adjustments in headline values for months to come.

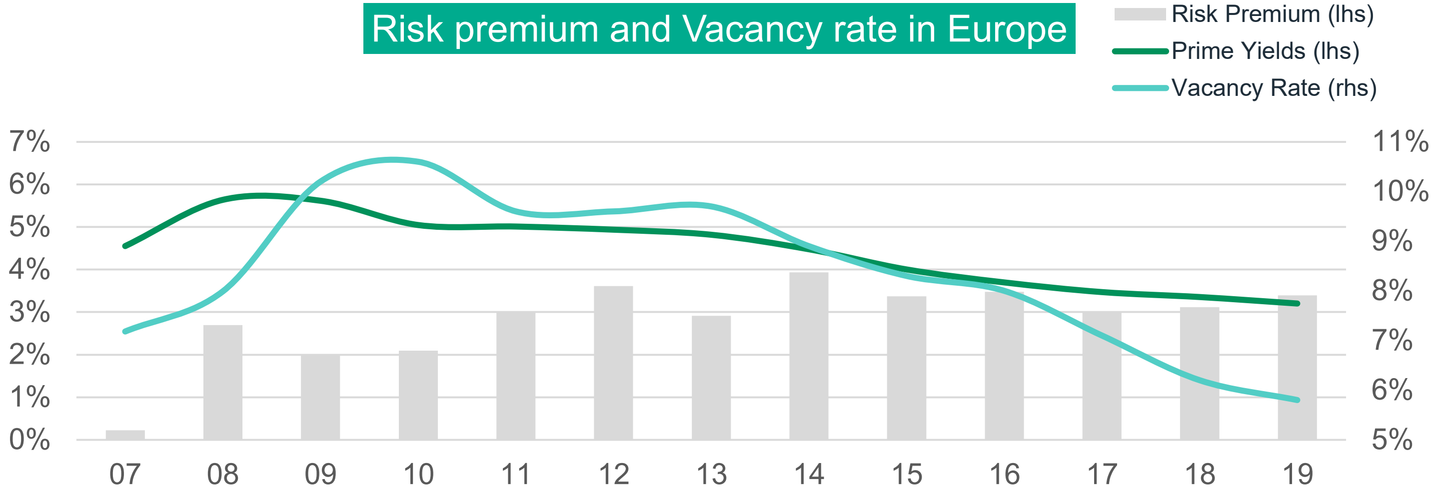
Likely upward pressures on incentives

- Another effect could be seen on the net effective rents. Landlords might **offer (and occupiers will demand) increased rent-free periods to get deals through**. This is likely to become an increasing theme across Europe, throughout H2 2020 when companies recover. Hence the gap between net effective and headline rents is likely to increase.

OFFICE INVESTMENT MARKETS

A HIGH RISK PREMIUM TO ABSORB SHOCK





Source: BNP Paribas Real Estate.

Few changes in prime yields but there may be general upward tensions on secondary segments

- **Investors should be focused more than ever on Prime** locations and the pressure on Prime yields may still be strong after the crisis.
- For average yields, although we were expecting a compression before the Covid-19 outbreak, our forecast may change **and we should see a wait-and-see attitude from investors until restrictions are lifted.**
- In our latest forecast, the risk premium between core and non core assets was expected to shrink. Now, **we are anticipating the premium to increase as uncertainties are high and relocation strategies are likely.**

REAL ESTATE PERSPECTIVES

RETAIL
MARKETS

BNP PARIBAS
REAL ESTATE

RETAIL OCCUPIER MARKETS

EXPECTED IMPACT ON PHYSICAL STORES

Unprecedented challenges for all retailers

- Most retailers are operating stores generating no revenues and hence creating cash-flows issues: retailers with the **strongest balance sheets and least debt** stand out as the best armed ones to handle the situation.
- **Non-food retailers** are facing **drops in demand** and even **no demand** for many because of the lockdown, **whereas grocery retailers** are managing significant supply challenges. In addition, retailer share prices have dropped significantly with falls of 30% on average for the large ready-to-wear retailers (Inditex, H&M, Nike, Adidas, Ralph Lauren, Abercrombie) since end January 2020.
- In contrast, **food stores and supermarkets** are generally still open, and experiencing **sustained but lower activity**. In such a context, food retailers (like Carrefour, Tesco, Casino) have experienced only a slight decrease in share price (approx. -5%*), outperforming the whole stock market (-23% for Euro Stoxx 50*). Moreover, shops like supermarkets can also benefit from their non-food good offer while specialized stores are closed.

*From the close of 31.01.2020 to the close of 15.04.2020

Rental levels in prime locations likely to see least change

- Prime rents are the ones likely to see the least important changes in the immediate future for most European main cities. **Downward adjustments could be recorded in some secondary locations**. All in all, **gaps will certainly be reinforced between prime and secondary locations in terms of rents and vacancy**, as this pattern has already been observed in the past five years. Furthermore, rental levels will depend on the level of bankruptcies: the more bankruptcies that occur, the fewer replacement tenants are available, creating yet more pressure on rental levels and vacancies.

Recovery in retail may be gradual and subject to careful planning

- **With the current decline in turnovers and footfalls** in Europe, the retail industry is working on possible scenarios for resuming activity. However, recovery may be gradual, depending on domestic household confidence about their health safety following the pandemic and their own income situation. Further growth factors include the reopening of international tourism, although that is subject to a large delay effect (through travel planning) and caveated by possible weakened purchasing power.
- In China, **recovery appears to be gradual and slow**, restrained by health protection measures. In the first week with all stores open in China (ie the last week of March), H&M scored a 23% drop in sales compared to the prior year. **Retailers are expecting more a U-shaped recovery** than a V-shaped recovery. Furthermore, due to economic uncertainty and a decrease in purchasing power for those who lost their jobs, the recovery in consumption will go first to essential and functional goods. Once again, fashion may not be a priority.
- With high streets shut down and a large proportion of the population working from home as a result of COVID-19, there may be a greater appreciation for **local communities** and **the vital role that retail plays** in everyday life when normality eventually resumes.

RETAIL OCCUPIER MARKETS

A NECESSARY PARTNERSHIP BETWEEN RETAILERS AND LANDLORDS

Difficulties are greatest for the most fragile sectors

- Many retail businesses that have entered administration in recent weeks were already struggling prior to the pandemic. Further retail casualties may follow, with fashion, department stores and F&B* especially at risk. In what was already a **fragile retail market**, we expect to see **a number of administrations and bankruptcies over the coming months**, while some occupiers are likely to be forced to close units as a mean to streamline their store network. They will re-open with fewer stores once restrictions are lifted, having closed those where there is a break or lease expiry within 12 months. This will leave landlords with rental voids and rates / service charge shortfalls.

Occupiers are seeking for support measures from landlords

- Main support measures can range from:
  - Monthly rather than quarterly rental payments: Wereldhave France, Carmila (France, Spain, Italy) and Eurocommercial Italy have currently adopted this solution.
  - Rent deferral, until the June quarter is due, or repayable over 18-24 months once stores reopen.
  - Rent deferral until the end of the lease – i.e. lease is extended by the deferred amount.
  - Rent holiday, but with a lease term extension from tenants in return.
  - Rent holiday and then a possible lower rent going forward, in some cases turnover related. We see this becoming more prevalent for fashion occupiers, particularly in shopping centres.

- Other easing measures can be observed: Value Retail, which manages nine luxury outlets centres across Europe, has waived all charges in the second quarter in an effort to help its retail brand partners through the coronavirus crisis.

RETAIL OCCUPIER MARKETS

A NECESSARY PARTNERSHIP BETWEEN RETAILERS AND LANDLORDS

Information, dialogue and cooperation between landlords and tenants

- At the end of March, UK shopping centre giant Intu said it had received just 29 per cent of rents due this month while Hammerson received 37 per cent of the UK rent billed for the second quarter.
- A **case-by-case approach** may be adopted by many landlords (Hammerson, URW) taking into account the business model and risk profile of the occupier, alongside the aid made available by the relevant governments.
- The **need for communication and close collaboration between landlords and tenants appears more than ever essential**.

A Code of Conduct for the retail industry is a first in German history

- After Australia has regulated relations between retail landlord and occupiers under the Covid-19 situation by a code of ethics, Germany is the second country to follow and adopt a similar protocol. Under the guidance of the **German Council of Shopping Places** (GCSP), renowned representatives of the retail industry formulated a Code of Conduct as **a common guideline for defining the rules of conduct between landlords and tenants** in the commercial property industry for the period of the Covid-19 crisis. This aims to **establish fair and cooperative dealings, on an equal footing, to ensure balanced burden sharing**. The Code of Conduct covers the entirety of the German retail, service, gastronomy and retail real estate industries and proposes a framework for negotiations during the crisis, especially for small and medium-sized tenants.

RETAIL INVESTMENT MARKETS

EXPECTED ACCELERATION OF THE GAP OF VALUES BETWEEN TOP PRIME AND SECONDARY ASSETS.

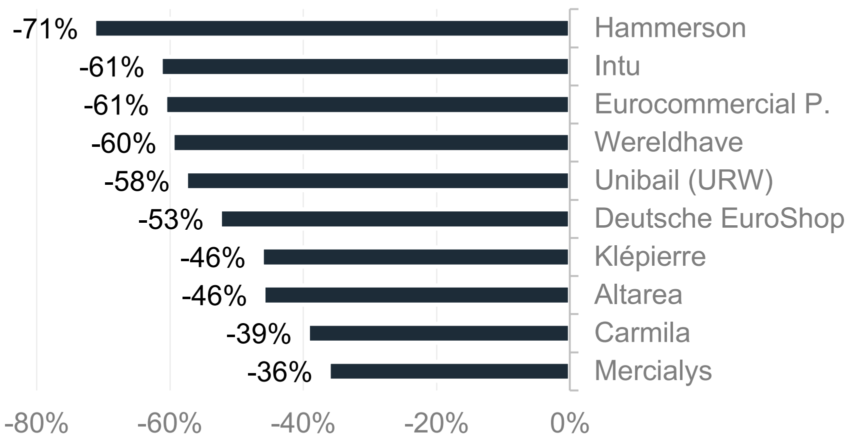
Prime high-streets will endure

- **Prime locations are expected to suffer less** from the Covid-19 impact than the secondary locations. **Liquidity for prime assets should remain stable** and only a **slight adjustment in prices** is expected in main high-street locations.

- For **secondary locations**, a **more notable decrease in values is expected** to reflect demand levels. Some investors may take the opportunity to (re)enter retail markets if decompression of prime yields occurs in some locations.

- **Prime locations** having already faced other serious events in the past (sovereign debt crises, terrorist attacks, strikes) are likely to **demonstrate their strong resilience** in theses circumstances again.

Main European Retail REITS share-price has dropped since the end of January (%)



Data of April 15
Represents change in share-prices from the close of 31.01.2020 to the close of 15.04.2020

On the listed sector, all retail REITs have been hit over the last few weeks, losing generally between 40 % and 60% of their value. Dividend payments might be scaled down by some REITS.

Shopping centres and retail parks

- Measures from landlords for **suspension or cancellation of rent payments** plus **government assistance** will be vital for the vast majority of retailers. Some of main European retail landlords have already announced **rent free periods** during the lockdown (like Ceetrus and Ingka). Others are dealing with this on **a case-by-case basis**.

- In terms of how investors are reacting, most buyers '**wait and see**' with deals processes slowing down, put on hold or at worse, cancelled.

- In the shopping centres sub-segment, **opportunistic transactions** might be registered after the crisis recedes. Depending on how long and deep the crisis is, **a higher risk premium could be offered** on the market.

- **Repricing for shopping centres and retail warehouses** should accelerate, especially for non-core assets, providing opportunities for investors. This trend will depend on the **leverage financing facility** which is key for all value-added and opportunistic investors. Investors shall be more attracted by assets with financing facilities in place.

- All in all, **liquidity and likely repricing** will strongly depend on the **asset quality** (location, turnover, vacancy and footfall).

E-COMMERCE

EXPECTED IMPACT ON ONLINE SALES

Low consumption confidence and supply chains issues

- **E-commerce channel** has also been hit, although to a lesser extent than physical stores of course, **as consumers have shown increasing caution** with their disposable income and low consumption confidence.
- **Pure players** and **food e-retailers** are focusing on delivering essential products. Overall, delivery delays are now much longer than usual due to a surge in demand and supply chain disruptions.
- Delivery's issues, like closure of collection points, and safety of employees and customers, **forced some e-retailers to suspend their activity**.
- In physical stores, half of European e-retailers are currently dealing with or are soon expecting **oversupply issues** due to the Covid-19 crisis, according to Ecommerce Europe[1]. Fashion industry, luxury goods, cosmetics and travel related products are particularly impacted.

Mixed impact depending on category of goods

- Whereas online sales are still allowed in all European countries, **only three countries (Spain, Belgium, Austria) indicated that the crisis had a positive effect on online sales** according to a survey conducted in 13 countries by the European online sales confederation, Ecommerce Europe[2].
- Increasing online sales have been of more benefit to **mass-market** than **premium and luxury brands** which are typically associated with physical stores (providing personalized shopping experience to customers).
- Certain categories such as **electrical, gym and garden equipment have increased online sales** as households find new ways of spending time home, but online sales of fashion and big-ticket items like furniture are benefitting less as consumers cut back on non-essential spending overall at a time of economic uncertainty.

1. Survey conducted by Ecommerce Europe between 31 March and 2 April.
2. Survey conducted by Ecommerce Europe between 24 March and 27 March.

E-COMMERCE

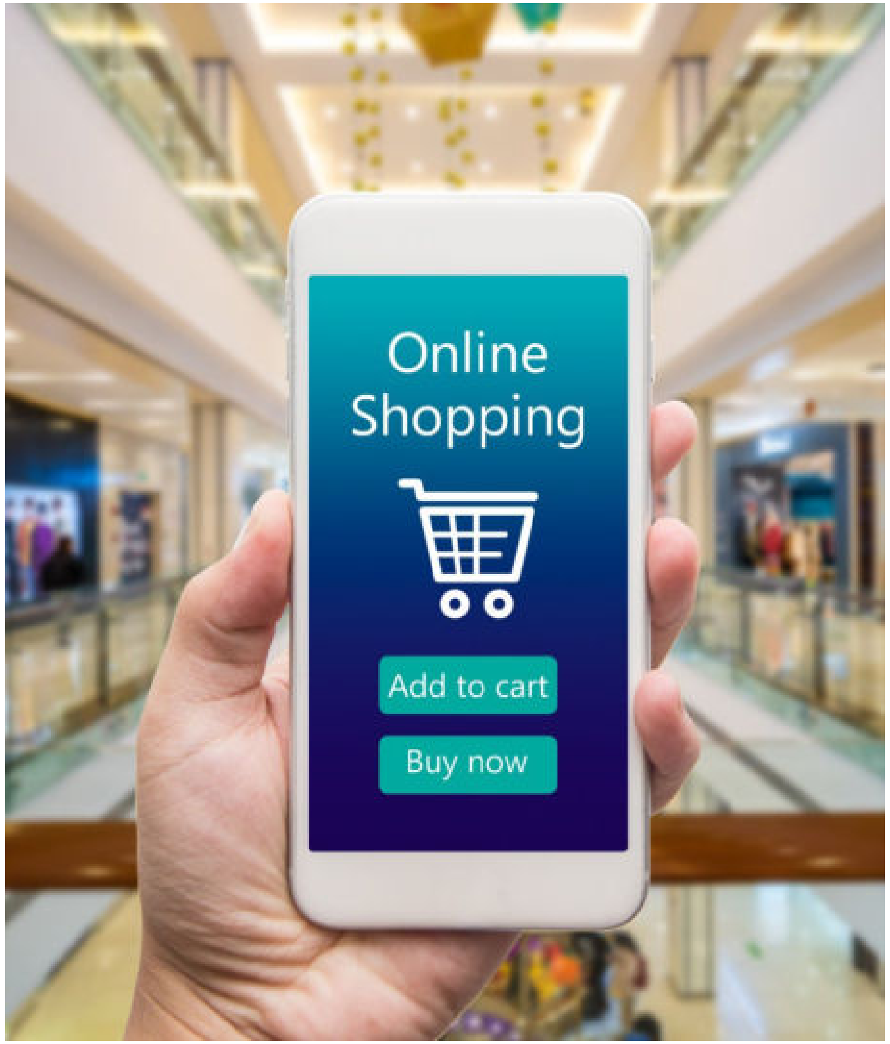
EXPECTED IMPACT ON ONLINE SALES

Gain appears relatively limited for online retailers

- **Online services** (travelling, leisure) are severely impacted. However, **streaming services** (like Netflix, Amazon Prime Video, Disney Plus) currently benefit from the social distancing that's being encouraged or imposed by governments around the world. Streaming-app downloads are surging in most European countries.
- **Population consumption patterns** could change (but no one knows in what extent at this stage) in terms of physical/online purchasing once lockdown measures will be over. For example, the possibility remains that a part of the population, especially the elderly, will have discovered the internet by ordering food delivery services or cultural e-services (delivery of books), that may benefit some retailers. **Online is also a support mechanism channel** as long as fear of social contact persists.
- The e-commerce channel lacks the structural capacity to take advantage of the situation and it is unlikely to see revision upwards to the E-Commerce Foundation's forecast annual growth of 14.0% in Europe. On the other hand, some people speculate the channel will gain strength under the transition / recovery period to come.

A multichannel model more appropriate than ever

- It is therefore a mixed picture for online retail, and **if anything, COVID-19 reinforces the importance of having a multichannel model where online and bricks-and-mortar seamlessly interact** and where the whole is greater than the sum of its parts.
- Furthermore, the Covid-19 crisis has not changed **the loss-making character of the online business** underlining that the multichannel model is the only one economically worse at long-term.
- Showing this close connection between physical and online retail, **Unibail-Rodamco-Westfield Germany has been entered into strategic cooperation with Zalando** in the Connected Retail programme. This partnership enables to reach new customers through Zalando and improve inventory turnover among participating brands. The cooperation has been launched early in order to cope with the considerable challenges faced by the retail sector due to the COVID-19 crisis. As a result, **stationary retailers in the shopping centres** operated by URW in Germany are now provided with an **additional sales channel** for their products.



RETAIL OPENINGS / CLOSURES ACROSS EUROPE

As of April 16th

ONLY FOOD STORES ARE ALLOWED TO OPEN IN MOST EUROPEAN COUNTRIES BUT THE FIRST RE-OPENINGS ARE ANNOUNCED

	Food stores / essential goods[1]	Non-food stores / non-essential goods	Shopping centres[2]	Restaurants and bars	Re-openings
France		(since 15.03)	(since 15.03)	(since 15.03)	Possibly from 11.05 for some activities To be clarified later by Government
UK		(since 24.03)	(since 24.03)	(since 20.03)	
Germany		(since 16.03)	(since 16.03)	(since 16.03)	From 20.04: stores smaller than 800 square meters From 04.05: hair salons
Italy		(since 11.03)	(since 11.03)	(since 11.03)	Since 14.04: Small stores for children / babies clothing Libraries and Stationary shops
Spain		(since 15.03)	(since 15.03)	(since 15.03)	
Portugal		(since 18.03)	(since 18.03)		
Ireland		(since 24.03)			
Belgium		(since 17.03)	(since 17.03)	(since 14.03)	From 20.04: DIY and gardening stores
Netherlands				(since 15.03)	

Retail activities allowed to open — Retail activities allowed to open with restrictions — Retail activities not allowed to open

(1) Including tobacco shops, newspaper agents, pharmacies, and pet shops.
(2) Even if shopping centres are closed, food and essential stores inside them can open most of the time.

RETAIL OPENINGS / CLOSURES ACROSS EUROPE

As of April 16th

IN THE NORDICS, MOST RETAIL STORES ARE STILL ALLOWED TO OPEN

	Food stores / essential goods(1)	Non-food stores / non-essential goods	Shopping centres(2)	Restaurants and bars	Re-openings
Poland	Retail activities allowed to open	Retail activities allowed to open with restrictions	Retail activities allowed to open with restrictions	Retail activities not allowed to open (since 14.03)	
Czech Rep.	Retail activities allowed to open	Retail activities not allowed to open (since 14.03)	Retail activities not allowed to open (since 14.03)	Retail activities allowed to open with restrictions	Since 9.04: DIY stores, bicycle shops, household goods stores From 27.04: shops under 200 square meters
Sweden	Retail activities allowed to open	Retail activities allowed to open	Retail activities allowed to open	Retail activities allowed to open (bars partially closed)	
Norway	Retail activities allowed to open with restrictions	Retail activities allowed to open with restrictions	Retail activities allowed to open with restrictions	Retail activities allowed to open with restrictions (bars closed, restaurants take-away only)	
Denmark	Retail activities allowed to open	Retail activities allowed to open	Retail activities not allowed to open (since 18.03)	Retail activities not allowed to open (since 18.03)	
Finland	Retail activities allowed to open	Retail activities allowed to open	Retail activities allowed to open	Retail activities allowed to open with restrictions	
Latvia	Retail activities allowed to open	Retail activities allowed to open with restrictions	Retail activities allowed to open with restrictions	Retail activities allowed to open with restrictions	
Lithuania	Retail activities allowed to open	Retail activities not allowed to open (since 16.03)	Retail activities not allowed to open (since 16.03)	Retail activities allowed to open with restrictions	
Estonia	Retail activities allowed to open	Retail activities allowed to open with restrictions	Retail activities not allowed to open (since 27.03)	Retail activities allowed to open with restrictions	

Retail activities allowed to open | Retail activities allowed to open with restrictions | Retail activities not allowed to open

(1) Including tobacco shops, newspaper agents, pharmacies, and pet shops.
(2) Even if shopping centres are closed, food and essential stores inside them can open most of the time.

REAL ESTATE PERSPECTIVES

LOGISTICS
MARKETS

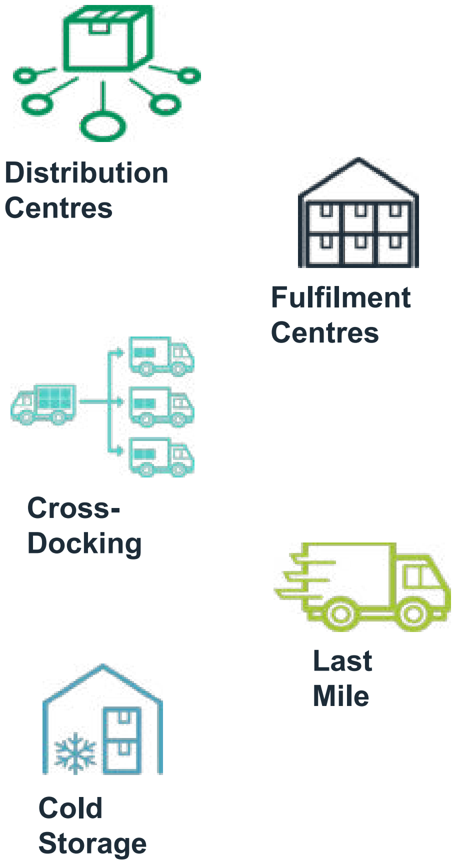
BNP PARIBAS
REAL ESTATE

LOGISTICS WAREHOUSING MARKET IN EUROPE

THE COVID CRISIS IS RESHAPING THE LOGISTICS MARKET

The logistics property market is disrupted by the Covid crisis

- Take-up is going to plummet in the next few months since most of lease signatures are delayed, even though not necessarily cancelled.
- Vacant space is expected to increase generating a downward pressure on rents.
- Yet, logistics has become clearly crucial and visible to everyone as key to provide basic needs by maintaining essential supplies, food, medical equipment and pharmaceuticals.
- Most markets are now at a standstill due to containment, but investors and occupiers are actively preparing the exit from the crisis.



Logistics organisation could see transformation in the longer term

- As an alternative to holding more inventory in response to supply chain disruptions, companies could establish a compressed logistics network that minimize distribution costs and move goods faster. Thus the need to optimize the supply chain will remain a strong driver for future take-up of logistics space, particularly at the local and regional levels.
- In recent years a large part of demand for space in the sector has been driven by warehouses for the storage and distribution of finished goods manufactured much further away. The current situation could lead companies to on-shore part of their manufacturing processes. As such we see increased long term demand for industrial space as a base for manufacturing, altering the nature of some of the space required.

The outbreak may promote the penetration of e-commerce

- A key segment of the logistics market that is benefiting from increased demand is the e-commerce sector, on the back of restrictions on movement now in place in most countries. Moreover, we think that in the medium to long term changes in consumer behaviour could normalise on-line shopping. It will help increase the penetration of e-commerce in markets where this has been limited so far, further boosting demand for logistics space.

LOGISTICS EUROPEAN OCCUPIER MARKET

MOST MARKETS ARE AT A STANDSTILL

Occupiers are putting commitments on hold in the immediate term

- Inspections on site are not possible in most countries due to containment and the lack of staff in administrational positions is slowing down every process associated with property development and acquisition.
- Stocks are significant in shops, in warehouses and in ports; ships are even kept at sea. This crisis has created an unprecedented phenomenon where some users have had to rent some space with very short-term leases to collect goods accumulated in ports. Yet, this remains marginal in the overall logistics activity.

Most markets are at a standstill

- Until Covid lockdowns occurred, the European market reached outstanding volumes of transactions boosted by a strong demand for owner-occupier developments.
- Currently, negotiations are disrupted thus creating delays in developments.
- This is further exacerbated by the difficulties getting new construction to proceed in most countries due to the lack of available workers and the complications of obtaining raw materials.
- One clear outcome for 2020 is that the outstanding letting records of the past 3 years are behind us for a while.

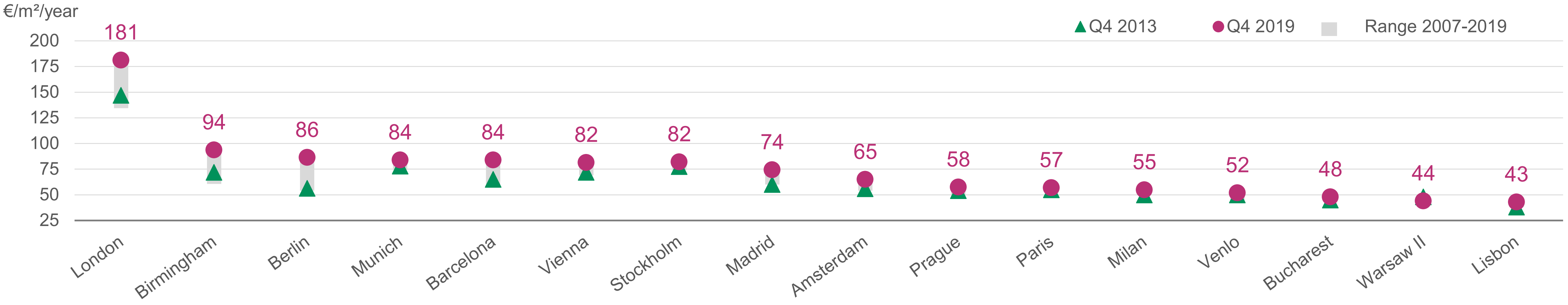
Supply will increase despite slowdown in the construction of new warehouses

- A slowdown in new developments is occurring from the disruptions created by containment in most European countries.
- Financing new projects is expected to be more difficult since banks are tightening their lending criteria. This will strongly impact new speculative developments in a context of increased risk aversion.
- Supply will increase as second hand space is released.
- The crisis is affecting all businesses and some will be downsizing or shut down: their warehouses will be released and put back on the market.

Rents are expected to drop with anticipation of increased vacant space

- Currently the impact on rents from Covid disruption is negligible, but with release of space into the market, we expect an overall downward pressure on rents to appear.

LOGISTICS HEADLINE PRIME RENTS



LOGISTICS EUROPEAN INVESTMENT MARKET

A BRIGHT SPOT

Logistics property remains attractive for investors

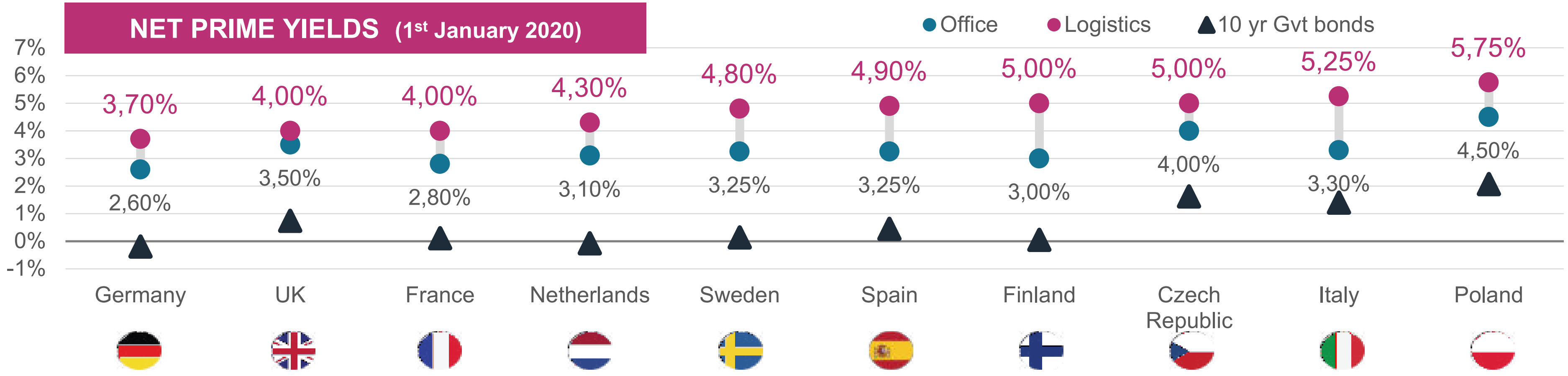
- From an investment point of view the logistics and Industrial sector remains a bright spot as demand for space remains solid from sectors that are beneficiaries of the COVID crisis. Even so, we can anticipate lower investment volumes in the industrial sector due to the obstructions to deal negotiations.
- Because of more secure income generation, logistics investment is expected to remain quite resilient: the fall in volumes will probably be less than seen for other asset types.

Hubs with global exposure are more vulnerable

- In the short term, reduced global trade flows arising from the pandemic, will impact demand for logistics property at the ports (both sea and air) through reduced utilization. Investment interest is unlikely to abate as in the medium to long term we see little waning in occupier demand for logistics space in these locations .
- E-commerce could emerge from the situation stronger with increased penetration in more countries globally. This could provide further boost to demand for space at ports, especially airports, as they allow faster delivery from long distance.

Prime yields are likely to stay stable

- Going forward we will see increased divergence in the performance of different logistics segments.
- Depending on the risk profile of the investor, the yield gap will widen.
- Prime yields are likely to be stable across Europe. Average yields though, are expected to increase given a context of tightened financing conditions and growing risk aversion.
- Repricing will depend more on how marginal the fundamentals are: location, state of the building and prevailing rental conditions.



6 BUSINESS LINES in Europe

A 360° vision

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* March 2019
** Coverage in Transaction, Valuation & Consulting

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