The Impact of COVID-19 on Real Estate Investment

Friday, April 24, 2020

This webinar focused on the implications of COVID-19 on real estate investment in light of global lockdowns and real estate closures, as well as the potential for recovery. Moderated by Peggy Sito, deputy business editor at the *South China Morning Post*, a panel of four leaders in the real estate industry speak about how different regions and asset classes are being impacted by the current crisis and shared their optimism for the future.

Webinar panelists included:

- **Peggy Sito (Moderator)**, Deputy Business Editor, *South China Morning Post*
- **Stuart Crow**, Chief Executive Officer, Capital Markets, Asia Pacific, JLL
- **Hugh Andrew**, Managing Director and Head of Asset Management Real Estate - Asia Pacific, BlackRock
- **Kenneth Gaw**, President & Managing Partner, Gaw Capital
- **Abhinav Reddy,** Executive Director, GAR Corporation

The panelists touched on the following:

- Crow stated that the primary concern for large investors is asset management. Whereas public markets have witnessed a lot of stress selling, this has largely not been the case in private markets. Uncertainty surrounding cash flow and economic growth has momentarily put investment on hold, but COVID-19 will not hamper long-term investment. Trading activity will experience a sharp rebound as markets open up even if value and price recovery lags behind due to decreased cash flow. Health-care real estate and data centers have already witnessed higher trading volume.
- Andrew agreed that asset management is his main focus right now because BlackRock has assets across several countries and classes, each of which has been impacted differently by the virus. He emphasized the need for communication with stakeholders and forecast adjustments. Asian markets are largely mature and robust enough to survive this stress test of debt management, and the lending environment will react accordingly. He believes investors will come out of this crisis with a better understanding of how robust different asset classes are in times of stress, leading to a re-evaluation of operations and value among investors.
- Gaw explained that asset classes in the real estate market are performing differently. While hospitality has performed poorly, office buildings are less affected, and data centers have performed strongly. In retail, supermarkets have witnessed between 20 and 40 percent growth during this crisis, but the food & beverage sector has suffered. He believes, however, that the crisis will not have adverse effects in the long run because there will continue to be strategic benefits to investment in Asia. Already, he sees an increase in leasing activity since China lifted its lockdown. Chengdu's trading numbers are 20 percent higher than people predicted before the virus struck, and China has witnessed a phenomenon he refers to as "revenge spending" since the lockdown was lifted.
- Reddy discussed how GAR Corporation's development of office parks in India has been challenged by the lockdown. They estimate that for every day of lockdown, it takes three days of normality to fully recover due to disruptions in the supply chain and migrant labor force. He foresees office assets being quickest to recover, particularly in the technology sector. For example, Amazon is already looking for another one million square feet

of office space because they have benefited significantly from the crisis in the short-term. Based on the last two economic downturns, Abhinav argues that it will make more sense for European and American corporations to set up operations in India to relieve cost pressures, which will increase demand for office space in the long run.

- All four panelists agree that markets with strong domestic liquidity that do not rely on large inflows of foreign capital will prove to be most resilient and recover the most quickly, but there will continue to be opportunities in the real estate market across the board, albeit with some new analysis of distress. Asia will continue to attract investment for both cyclical and structural reasons, and investors will continue to be attracted to value creation and opportunities in Asia outside of these cycles.

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