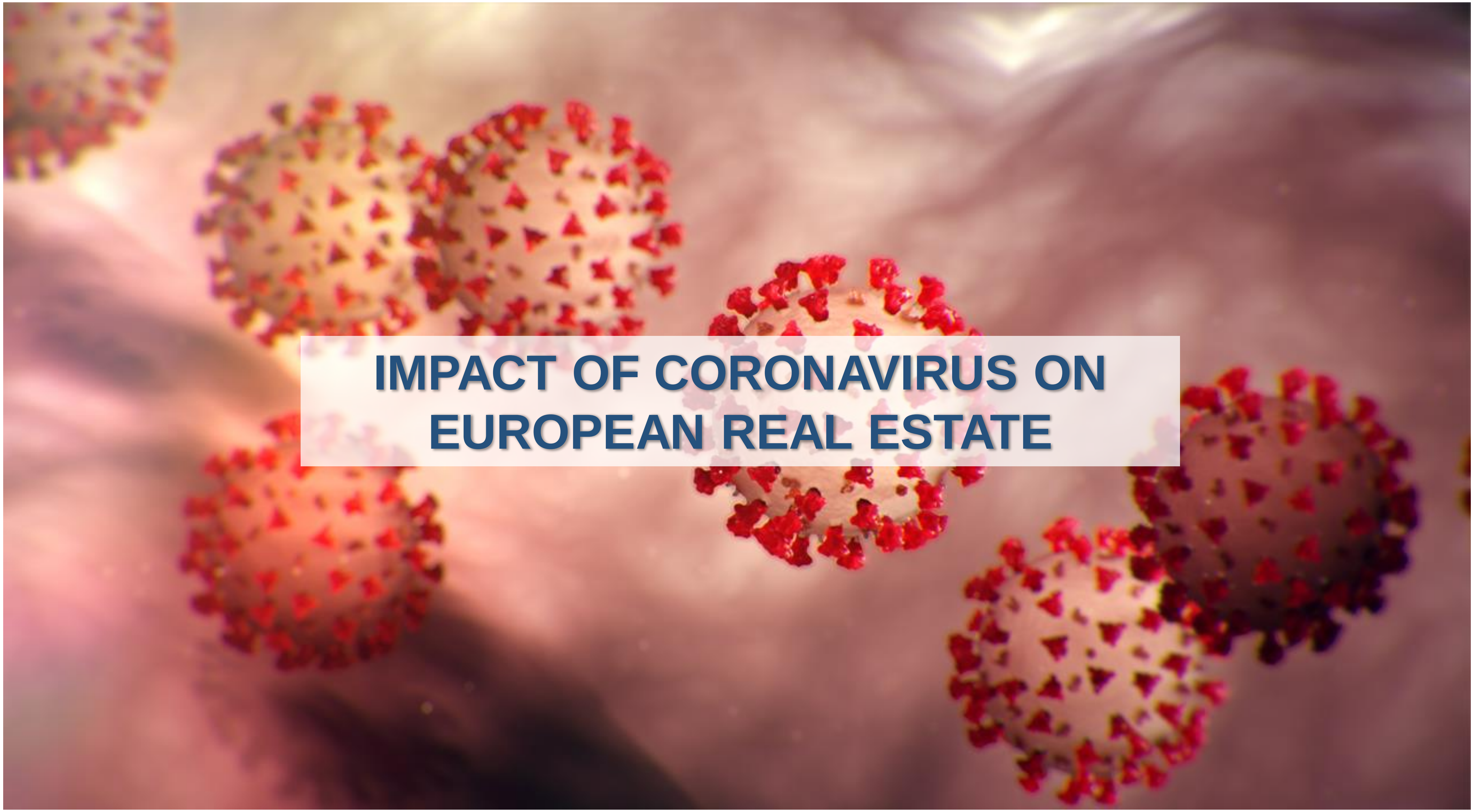
31 March 2020

Impact of Coronavirus (Covid 19) on European real estate



Economic Impact [slides 7-15]	Capital Markets Impact [slides 16-19]	Real Estate Impact [slides 20-44]
Coronavirus pandemic has hit Europe particularly hard. Expect recession in most countries during 2020, possibly with U-shaped recovery in Q4 2020/Q1 2021	Expect stock market volatility to continue until there is demonstrable containment and flattening of new cases curve	Pandemic hitting Italy and Spain particularly hard, and Italy's healthcare systems is overloaded. Both have large reliance on tourism. But whereas Spain was an economic hotspot, Italy was already beset with challenges
Approach to containment initially varied considerably between countries but most are now adopting similar messaging. The same is true for policy responses	Much lower equity prices will leave many investors overweight to real estate. This may curtail investment into real estate in short-term, and could lead to withdrawals from open-ended real estate funds that remain open	Sectors most at risk are Retail, Hotels and Leisure. Speed and magnitude of eventual recovery will depend largely on duration of pandemic
Coronavirus impact may trigger a number of macro risks. Despite additional liquidity measures being provided, solvency now a widespread issue	Economic shocks result in government bond yields falling in safe-haven countries. Germany bonds are now implied to be remain negative until 2022 and not even breach +0.5% within ten year horizon	Other sectors such as Logistics, Self-Storage and Offices (excluding co-working), will prove more resilient in short term but are not immune
Ability for UK and EU to progress trade agreement talks severely diminished. PM Johnson's willingness to walk away rather than extend the transition period suggests WTO relationship may ensue	In the short term, real estate could see valuation yields rise. Prime assets will remain relatively resilient and recover first, but secondary assets with no alternative use will be out-of-favour until after fundamentals have recovered	Real estate capital flows are slowing considerably. This exposes markets driven by cross-border capital, such as London. Liability-matching assets used as bond substitutes are still transacting
Recessions that trigger a credit collapse tend to generate illiquidity, forced sales, investor bifurcation, and tenant insolvencies. Severity of each depends on policy responses and duration of pandemic	Once the crisis has passed, price discovery will begin. Given the generous risk-premium of real estate over bonds, stabilised real estate will seem attractive. Lower interest rates will support pricing for real estate	Focus on preserving value through asset management. Leveraged investors need to manage liquidity, although debt levels are more manageable than during GFC. Opportunities will emerge but will depend on duration of the pandemic

Sharp global recession is underway

Major Economies in Simultaneous Shock

- Consumer and corporate spending plummet
- Transportation, leisure, construction, in steep fall
- Manufacturing and supply chains interrupted
- Hospitality and Retail Services hit especially hard
- Financial systems around the world are damaged

Unprecedented Policy Responses

- Containment policies create demand/supply shocks
- Bank rates lowered nearly as far as they can go
- Monetary policy: QE and reserve requirements
- Fiscal policy: Responses vary greatly by country
- Tax relief, transfer payments, rent abatements
- Credit markets tighten despite central bank policies

Impacts on Real Estate Markets

- Stabilised real estate will perform as a portfolio diversifier and low beta asset class
- Income will be at risk through rent relief, defaults and non-renewals
- Borrowing costs will be near record lows - Short WALE assets will find access to credit difficult
- Differences among property types/markets in terms of **risk, resilience** and **liquidity**

Pandemic and Economic Recovery Scenarios

AS THE HEALTH CRISIS UNFOLDS, ECONOMIC RECOVERY DEPENDS ON MANY FACTORS

What We Know

- Regional outbreaks can be slowed or halted through strict compliance with containment directives
- Timing of a shift from "stay at home" to a "return to work" policy in China was approximately 9 to 10 weeks
- A "flattening the peak curve" policy can reduce the stress on a country's health care system
- Public health ministries in many countries were not well-prepared for a global pandemic
- Singapore, Japan, Taiwan and S. Korea were well-prepared and have had success at containment
- The global economy is experiencing a triple threat of a simultaneous demand-supply-financial shock

What We Don't Know

- The ultimate peak infection rate in each country
- The timing of each country's "return to work"
- Whether there is a high or low "reinfection risk" from "return to work" policies
- When international travel and trade will resume
- How and when the financial system will recover
- When an effective vaccine will be available

Source: LaSalle (03/20)

Recovery scenarios to consider

SHAPE OF RECOVERY WILL ALSO DETERMINE REAL ESTATE RECOVERY

RECOMMENDED BASE CASE: The "U" Scenario steady progress to full recovery by 2022-23

- Global GDP slightly negative (-0.5%) in 2020. Returns to positive growth in 2021
- US, UK, EU contract (-2% to -3%) in 2020 after double digit drop in Q2. China grows 2-4% in 2020
- Lost GDP not replaced until 2022, slow return to normal by 2023
- An effective vaccine takes a year to make widely available

The "V" Scenario: A Full Recovery by year-end 2021

- Global GDP at +0.5% in 2020 (slowest since GFC), back to 2.5% to 3.0% by 2021
- US at -1%, EU at -1%, China at 5% for 2020
- A strong recovery takes hold in Q2 (in China) and then Q3 (the West)
- Recovery accelerates in Q4 and restores full-year GDP growth rates to positive territory in 2021
- An effective vaccine is widely available before the next flu season in early Q4 2020

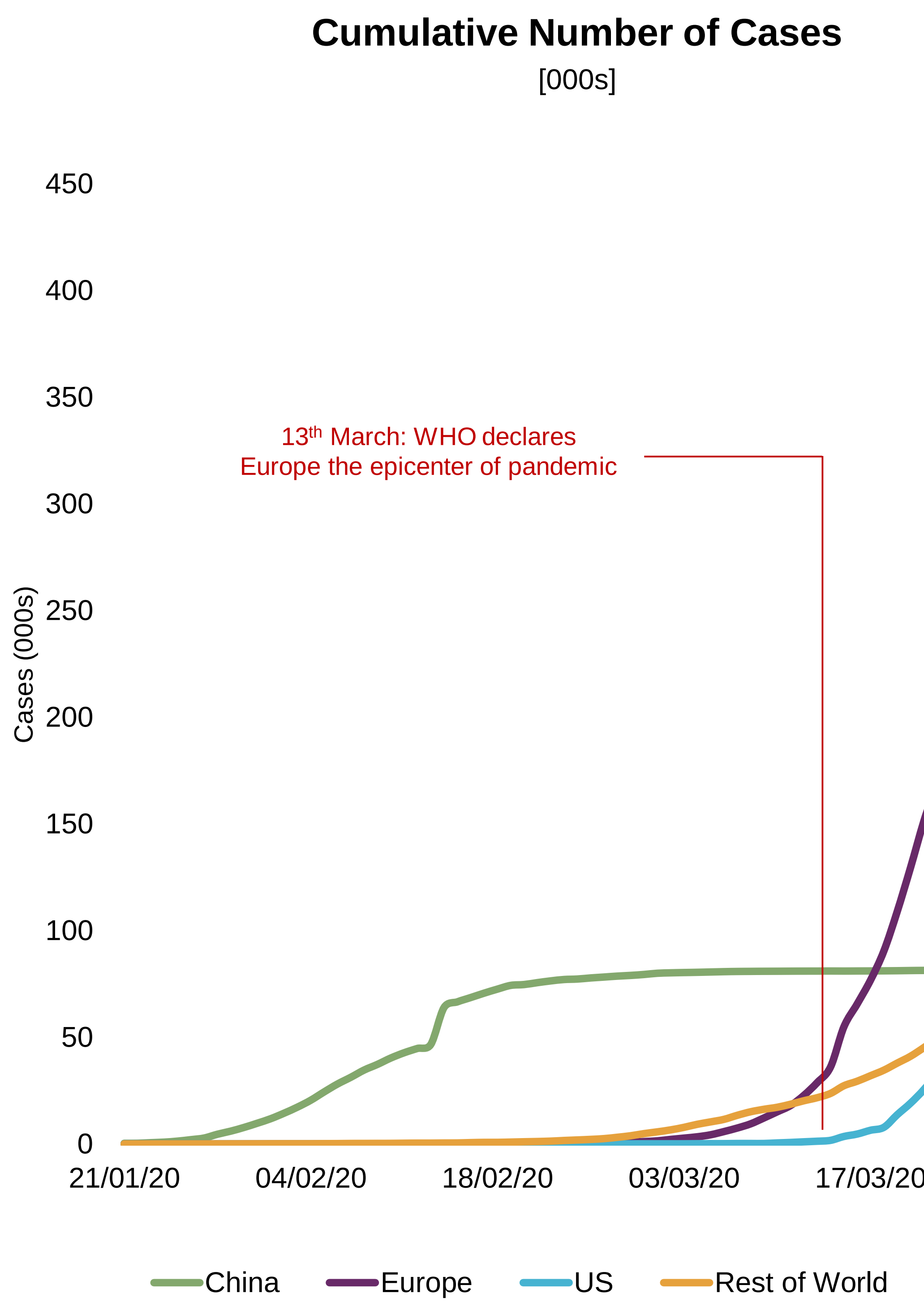
The "L or W" Scenarios: Full recovery is delayed until after 2023

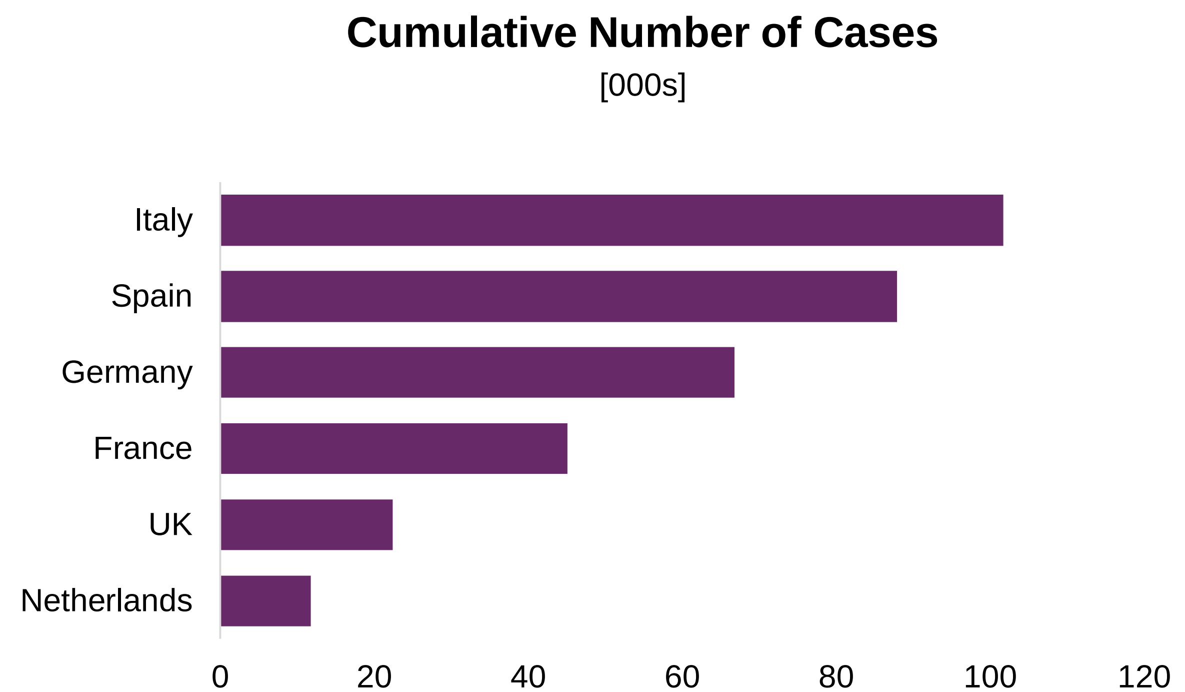
- Global GDP at -1.0% or lower in 2020, with slower recovery than base case across all developed countries
- Developed countries turn weakly positive in 2021, but lost GDP not restored until 2023
- COVID-19 outbreaks continue to beleaguer several countries throughout 2020
- A highly effective vaccine proves elusive until 2022

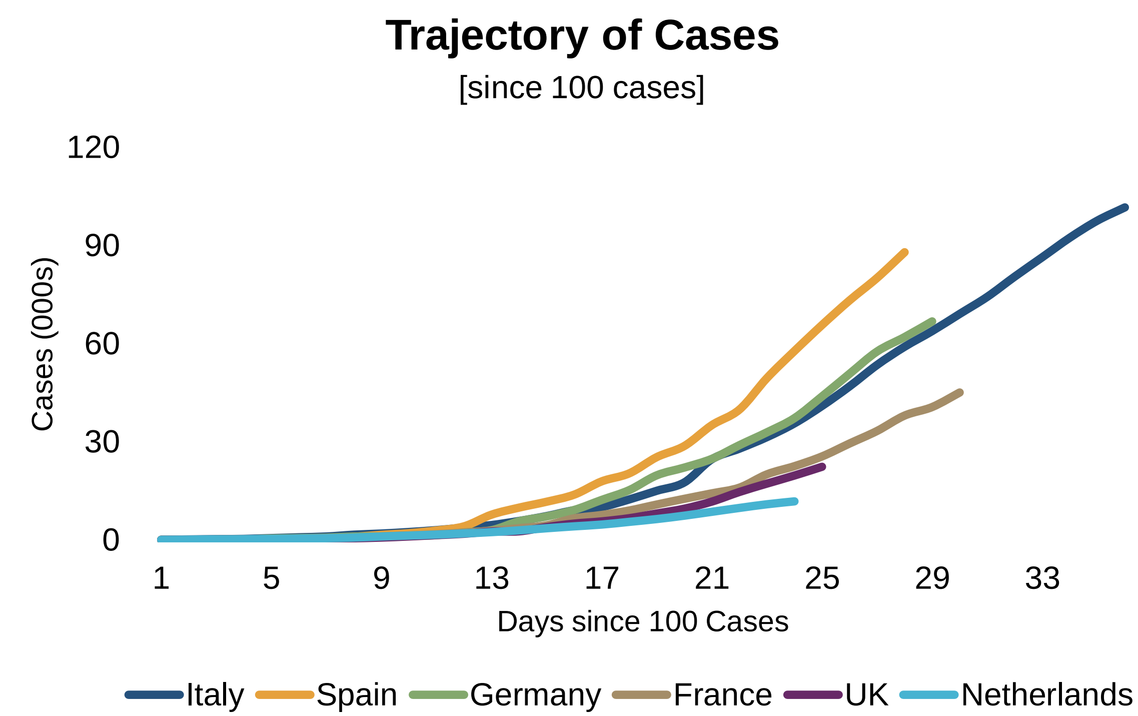
Sources: LaSalle (03/20) JPMorgan (V Scenario), MKM Partners (The U Scenario), EIU /Economist Magazine (L or W scenarios)

Coronavirus slowing rising exponentially in Europe

EUROPE DECLARED EPICENTRE BUT NUMBER OF CASES IN U.S. ALSO OVERTAKES CHINA







Source: LaSalle (03/20) World Health Organization (03/20) Bloomberg (03/20) John Hopkins University (30/03/20)

1.

Economic impact

Pandemic now declared and Europe seen as epicentre. We expect a recession in most countries during 2020, possibly with a U-shaped bounce-back in Q4 2020/Q1 2021. Risks are firmly on the downside

Approach to containment initially varied considerably between countries but most are now adopting similar messaging. The same is true for policy responses. Most strikingly in Europe, Germany has proposed all necessary support during the crisis. Traditionally it has wary of major policy reactions

The coronavirus impact may trigger a number of macro risks. Despite additional liquidity measures being provided, solvency is now a widespread issue

The ability for the UK and EU to progress trade agreement talks is severely diminished. It is difficult to know how governments will respond, but Boris Johnson’s willingness to walk away rather than extend the transition period – despite being offered a convenient excuse – suggests a WTO relationship may ensue in the first order

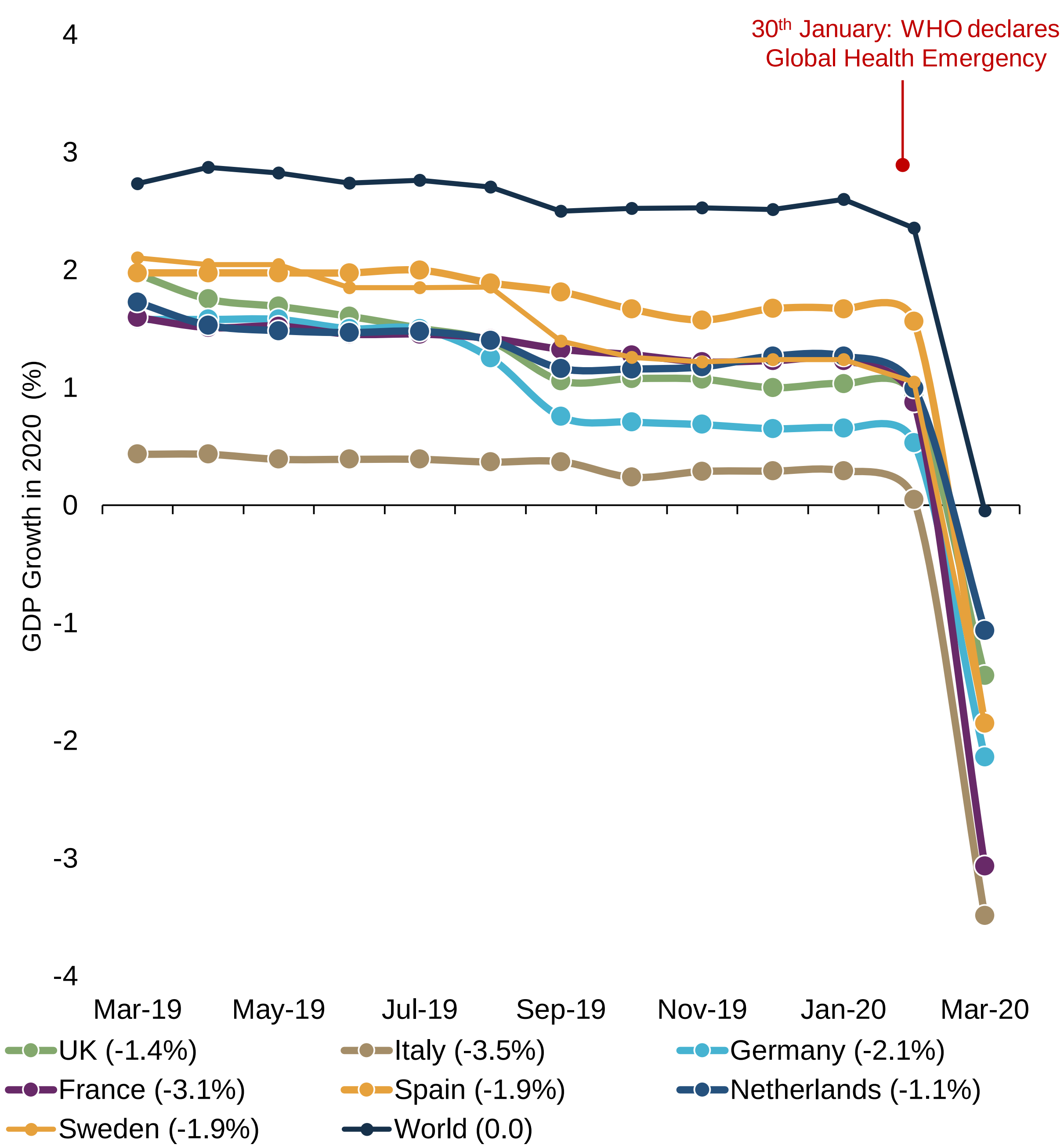
Recessions that trigger a credit collapse tend to generate illiquidity, forced sales, investor bifurcation, and tenant insolvencies. The severity of each of these depends somewhat on the policy responses of each country, and the duration of the pandemic

2020 prospects downgraded sharply but were fading prior to crisis

STRONG BOUNCE-BACK EXPECTED IN 2021

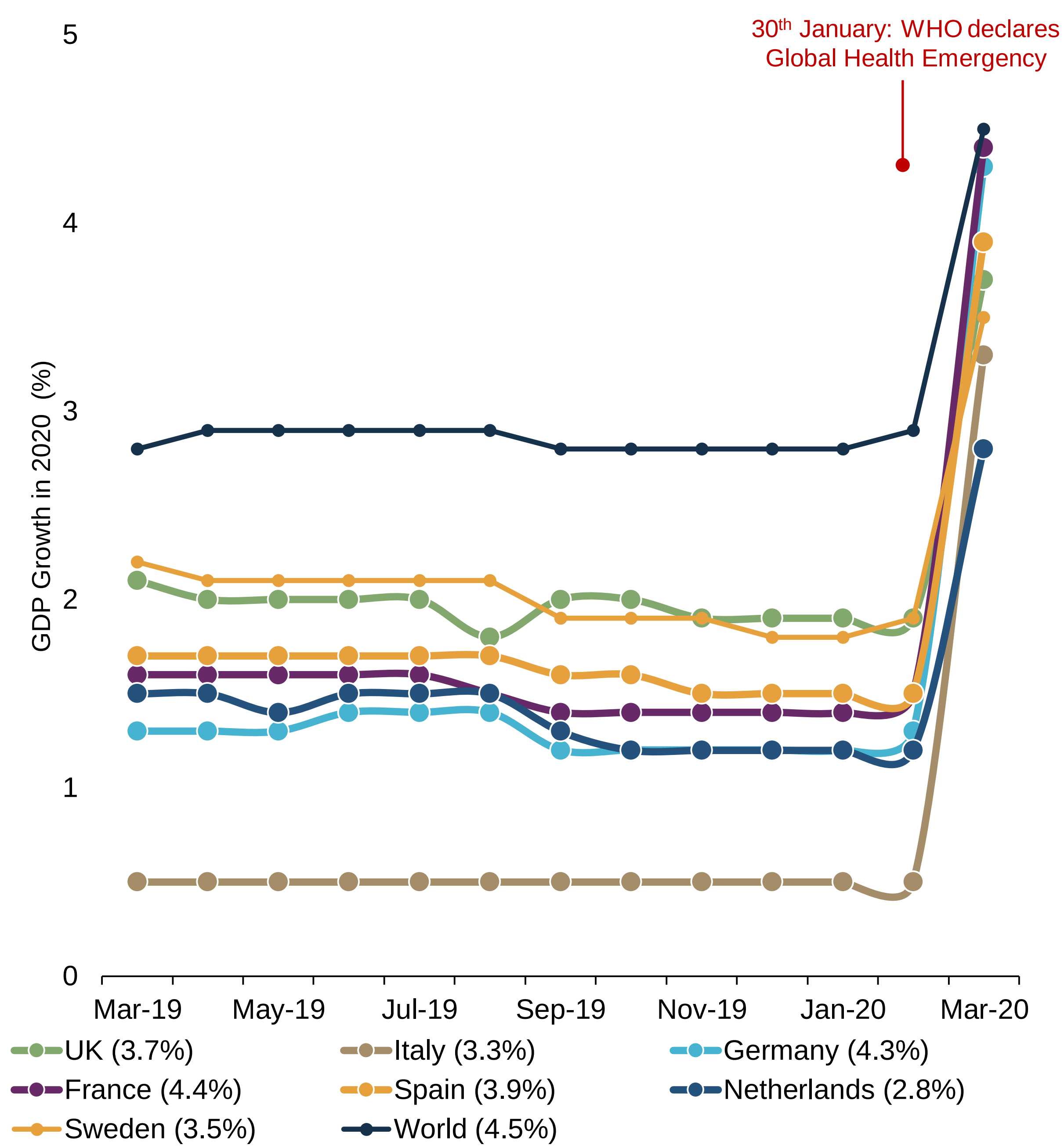
GDP Growth Forecast for 2020

[%]



GDP Growth Forecast for 2021

[%]



Latest forecast in parentheses
LaSalle (03/20) Oxford Economics (03/20)

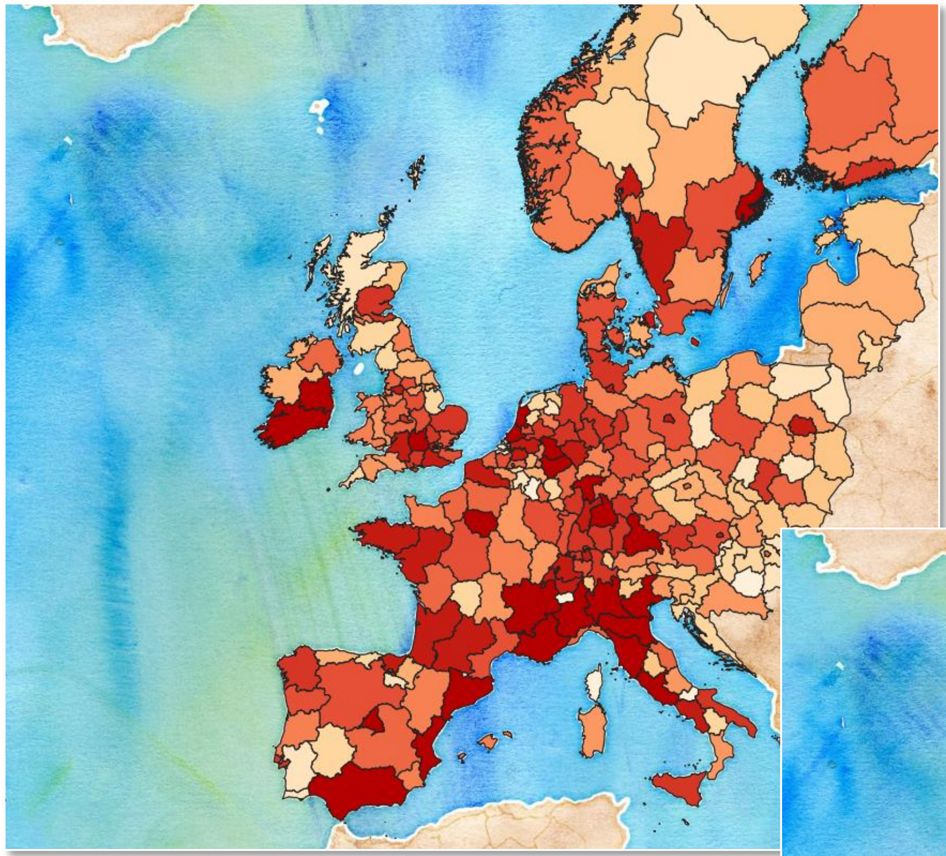
Regions vulnerable to previous recessions have high economic output

COUNTRIES & REGIONS WITH LARGE PUBLIC SECTOR MAY BE LESS NEGATIVELY IMPACTED

Sector	Fraction of Surviving Output
Human health and social work	120%
Public admin & defence	115%
Electricity, gas & water supply	100%
Transportation & storage	90%
Agriculture, forestry & fishing	80%
Financial & insurance	80%
Information & communication	80%
Prof, scientific & technical	80%
Administrative & support	50%
Manufacturing	50%
Mining & Quarrying	50%
Other services	50%
Real estate	50%
Construction	40%
Wholesale & retail trade	40%
Education	30%
Accommodation & food	10%
Arts, entertainment & recreation	10%

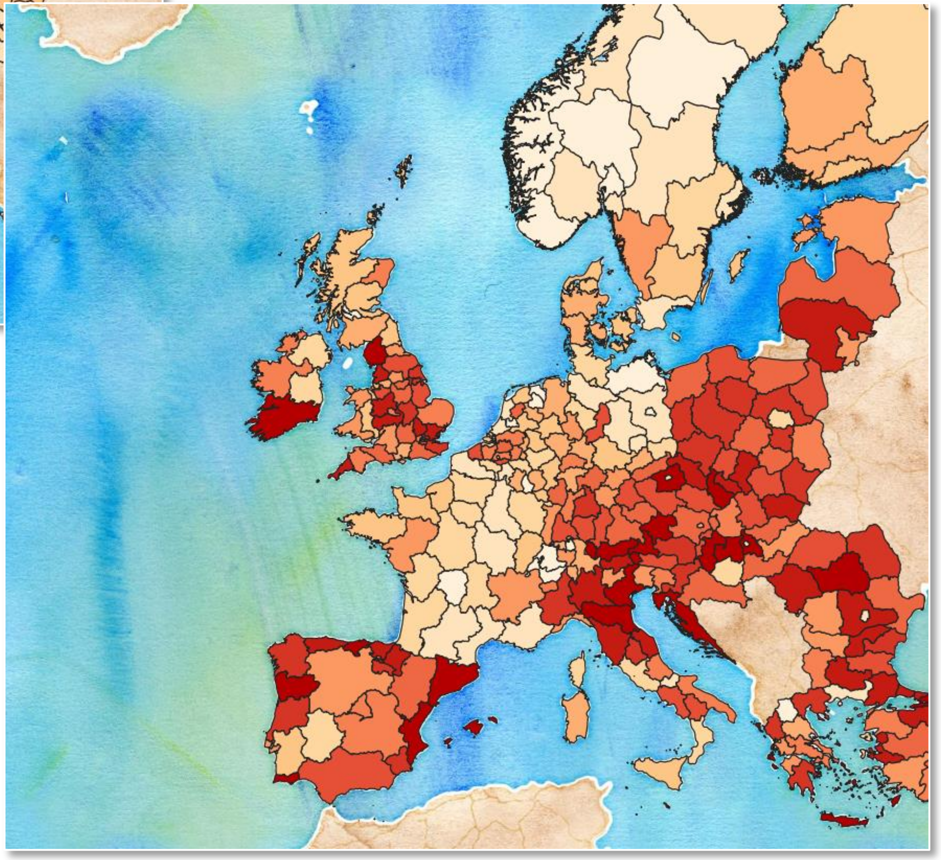
GVA at Risk based on Assumed Industry Impact

[€ millions]



GVA at Risk based on Assumed Industry Impact

[relative to size of local economy]

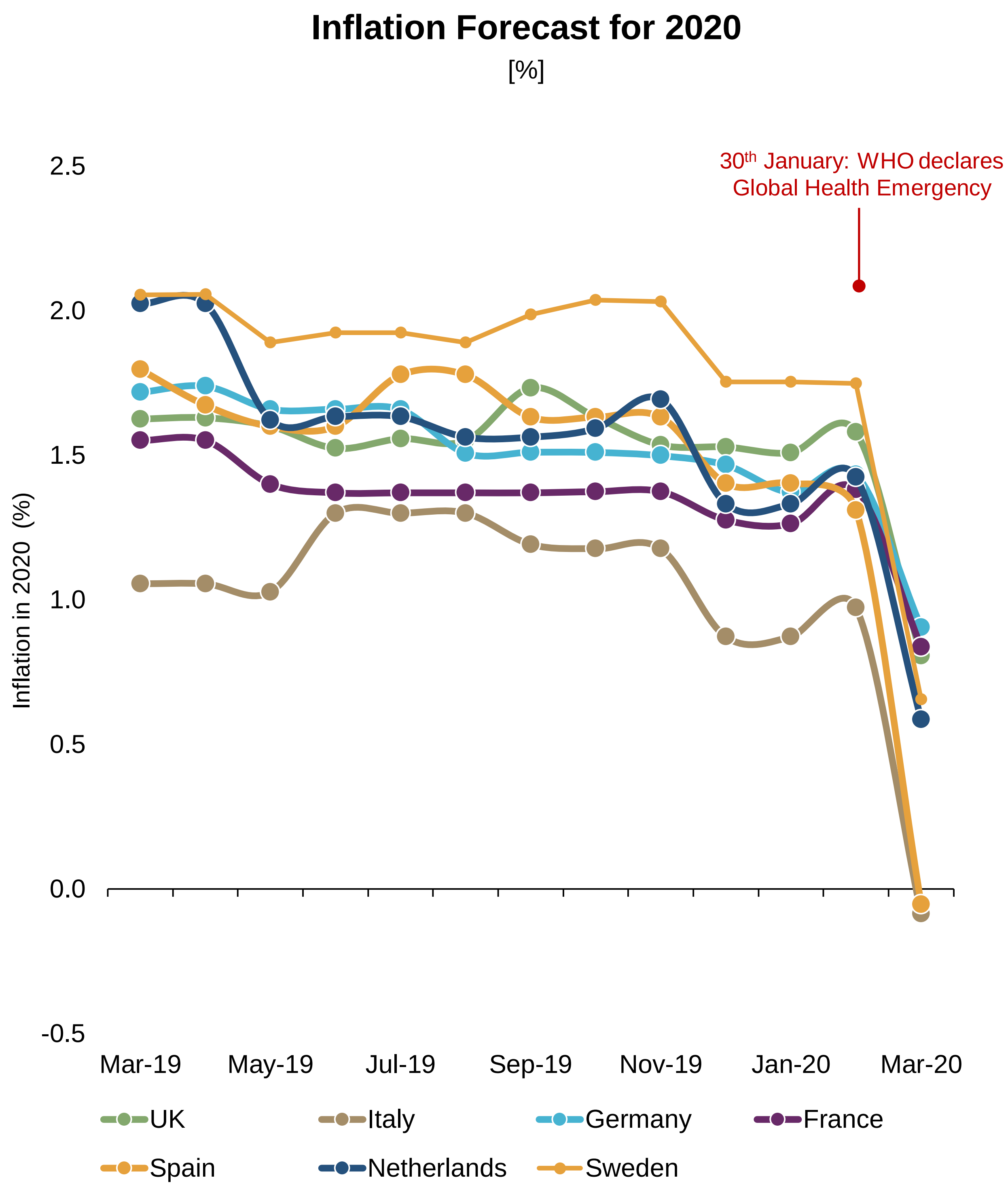


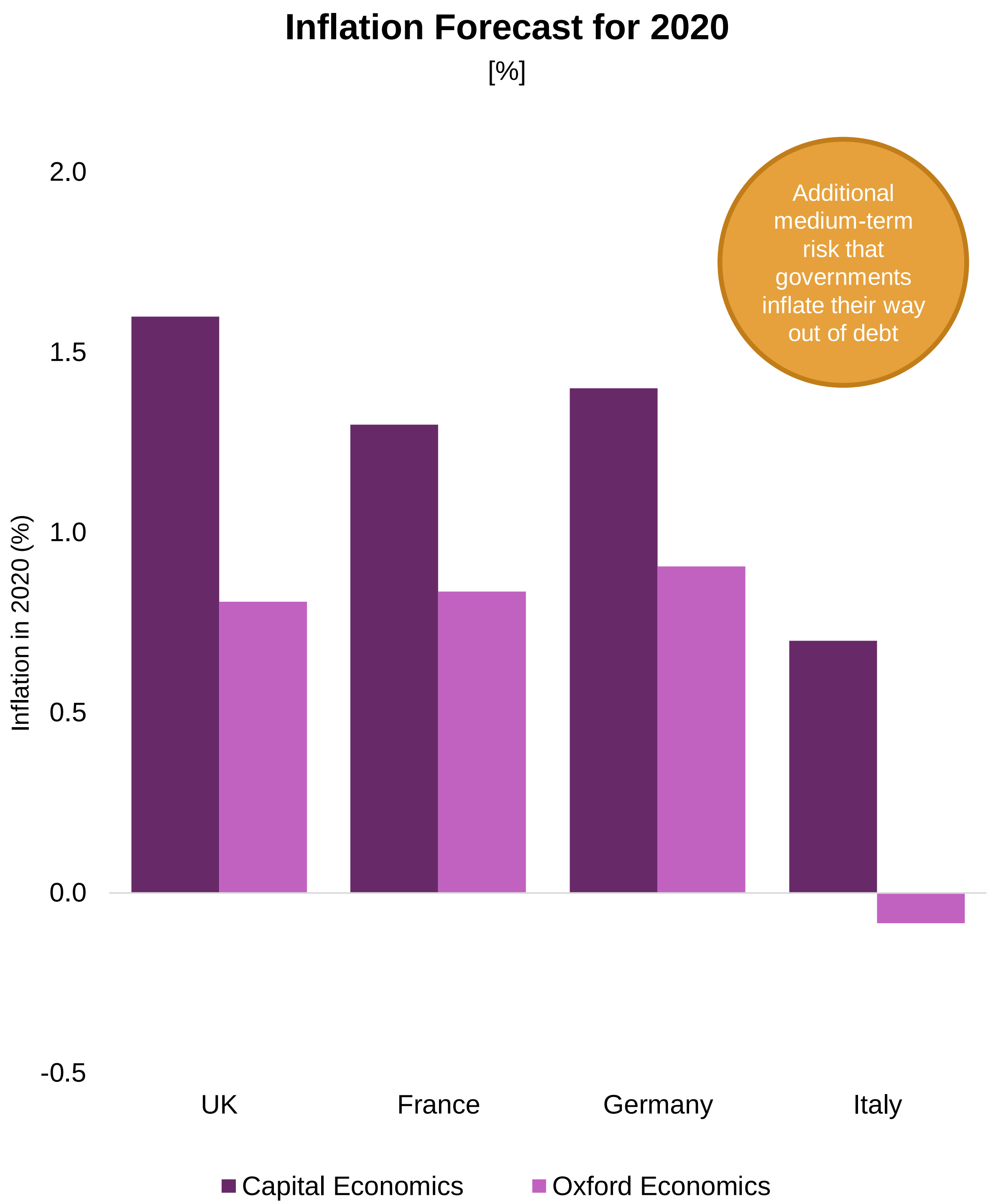
Darker reds reflect economic regions with higher exposure to industries which may lose more output (GVA) in the Coronavirus pandemic

Calculation= NUTS2 Regional GVA by Industry multiplied by assumed Survival Percentage from assumptions table above.
Colouration = Weighted sum of GVA at Risk, where weighting is region's total nominal GVA (i.e. coloration is 'dollar' GVA at Risk)
Source: LaSalle (03/20) Oxford Economics (2020)

Inflation forecasts for 2020 drop sharply in March

WEAKER DEMAND EXPECTATIONS OVERTAKE FALL IN POLICY RATES & SUPPLY CHAIN CONSTRAINTS





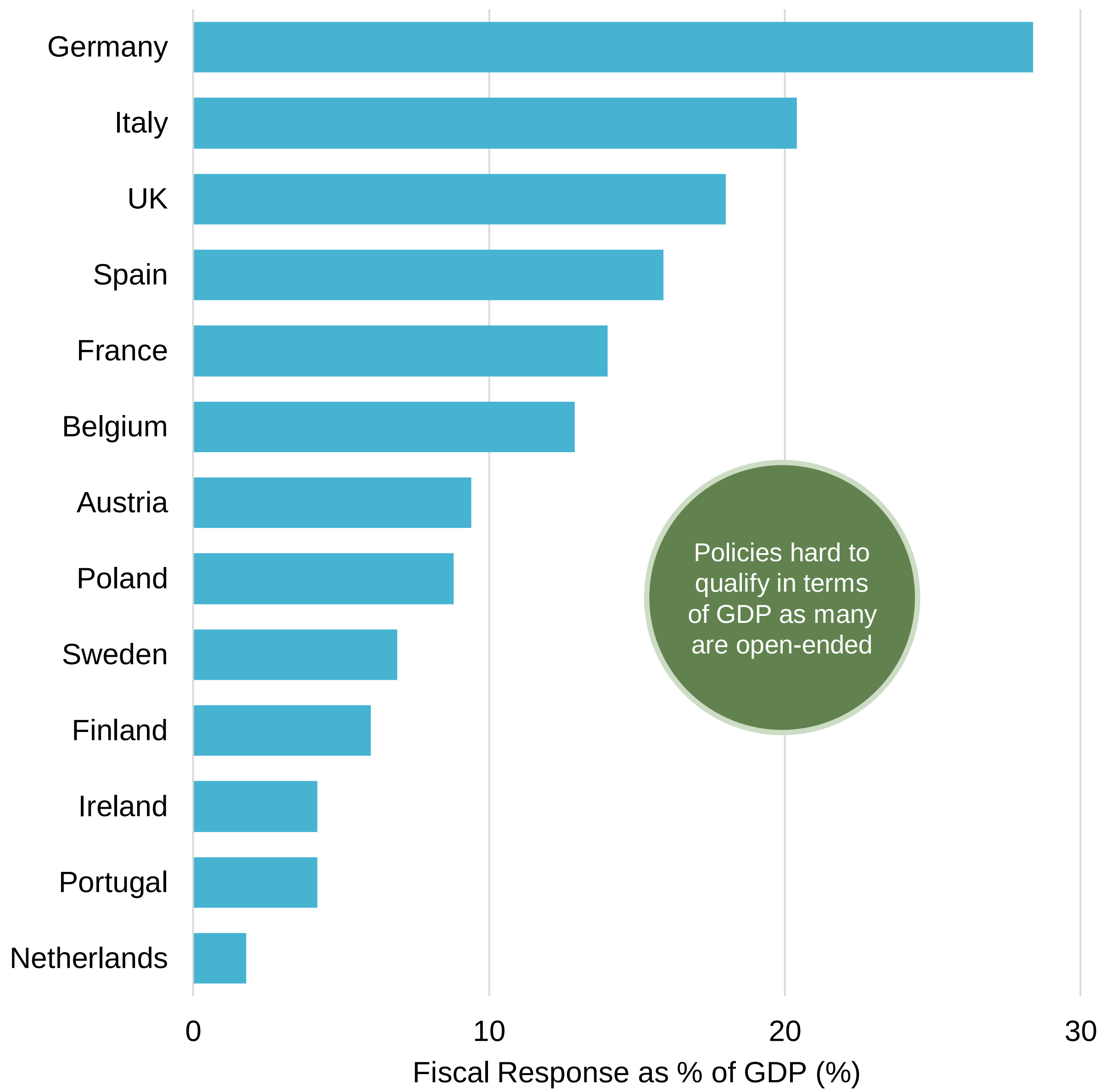
LaSalle (03/20) Oxford Economics (03/20) Capital Economics (03/20)

Germany outspending rest of Europe in terms of policy response

BUT GERMANY ALSO HAS GREATEST ABILITY TO MEET INCREASED DEBT OBLIGATIONS

Policy Responses as Proportion of GDP

[%]



Sovereign Credit Ratings

	Moody's	S&P	Fitch
Aaa or AAA	Germany Netherlands US	Germany Netherlands US	Germany Netherlands US
Aa1 or AA+			
Aa2 or AA	France UK	Belgium France UK	France
Aa3 or AA-	Belgium		Belgium UK
A1 or A+	China	China	China
A2 or A	Poland	Spain	
A3 or A-		Poland	Poland Spain
Baa1 or BBB+	Spain		
Baa2 or BBB		Italy	Italy
Baa3 or BBB-	Italy		

Source: LaSalle (03/20) Oxford Economics (03/20) WorldGovernmentBonds.com (03/20)

Coronavirus-induced second-order risks : Macroeconomic

More Likely

Global Recession
World GDP growth could fall to 1%-2% in 2020, leading to large-scale unemployment and social unrest

Corporate Debt
Zombie companies or exposed companies hit by weaker demand could fail due to cashflow problems

Negative Yields
Low or negative bond yields and policy rates set during the pandemic take a very low time to be unwound

ITexit
Although not a short-term problem, this crisis highlights the challenge of Italy remaining in the Eurozone over the longer term

Protectionism
Temporary measures imposed on movement of people & goods may not be reversed immediately. Deglobalisation continues

No Deal Brexit
With no capacity for UK/EU talks, risks heightened that future trade relationship is not agreed. UK goes to WTO rules at end-2020

Less Likely

Regulation
Regulation of financial institutions and government targets (eg borrowing) are less likely to become more stringent and may be even be relaxed in 2020

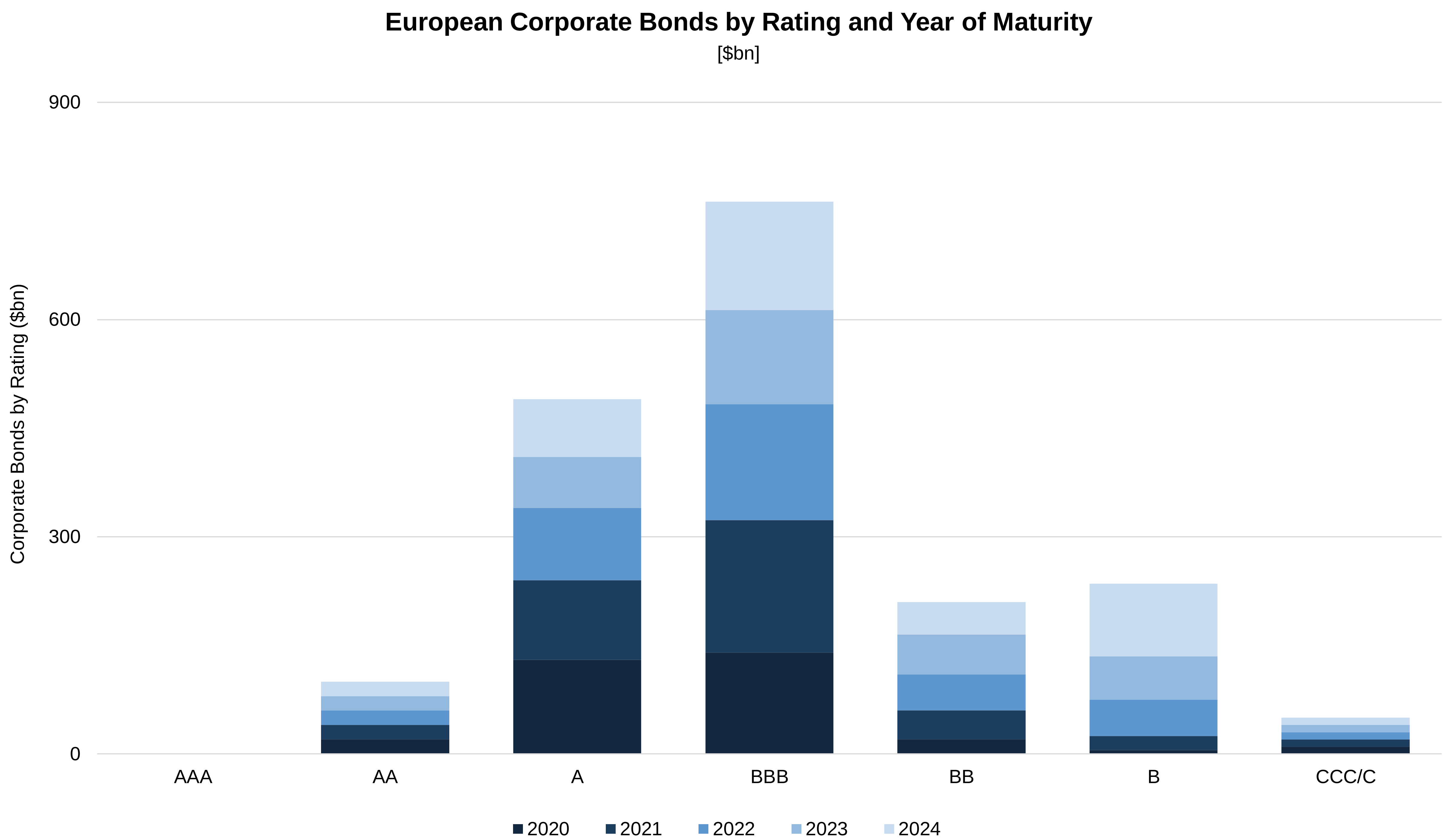
Geopolitics
With the exception of the unfolding oil crisis, geopolitical hotpots will calm in 2020 as countries such as Iran and North Korea focus on Covid-19

Trade Wars
Less likely that US/China trade war escalates due to fragility of global demand

Source: LaSalle (03/20)

Sub-investment grade corporate debt a risk if cash flows are impacted

POLICY RESPONSE IS KEY TO REDUCING THIS RISK



Source: LaSalle (03/20) S&P Global Ratings (01/20)

Coronavirus-induced second-order risks : Real estate

More Likely

Illiquidity

Uncertainty leads to fewer sales and lower market liquidity. Fewer comparables makes valuations challenging

Forced Sales

Sales may come from highly-leveraged borrowers, withdrawing investors, or those re-upweighting to equities (the denominator effect)

Bifurcation

An uncertainty period could result in increased focus on prime properties/ markets. The gap between these and secondary properties/ markets may widen

Retailers

A period of much lower sales may prove too much for those weaker retailers that were already struggling narrow margins

Retail Contagion

Negative investor sentiment towards currently-stronger retail tenants and locations may intensify during a prolonged Risk-Off period

CVAs

A downturn may not generate more failures but will likely result in more CVAs in the UK, possibly accelerating their use in sectors other than retail

Operational Assets

Landlords' direct exposure to tenant turnover rather than secure leases will prove a weakness during this crisis, particularly in hospitality and retail

Aberdeen

The collapse in oil prices will benefit most of Europe's economies. However, there will be specific setbacks for Aberdeen

3D Printing

Unlikely to dramatically change in 2020, but Covid-19 has highlighted the fragility of the global supply chain. This may accelerate 3D printing & nearshoring

Less Likely

Business Rates

Business rate relief in the UK will help many smaller retailers. However, the long-term issues with business rates remain

ESG

Longer-term issues, such as ESG, tend to be temporarily set aside during times of crisis. However, this time may be different given the origin of the crisis

Source: LaSalle (03/20)

2.

Capital markets impact

Sharp declines in stock markets around the world demonstrate the concern in the financial community over this pandemic. Expect volatility to continue until there is demonstrable containment and flattening of the new cases curve

Much lower equity prices will leave many investors overweight to real estate – the denominator effect. This may curtail their investment into real estate in the short-term, and could even lead to withdrawals from open-ended real estate funds that remain open

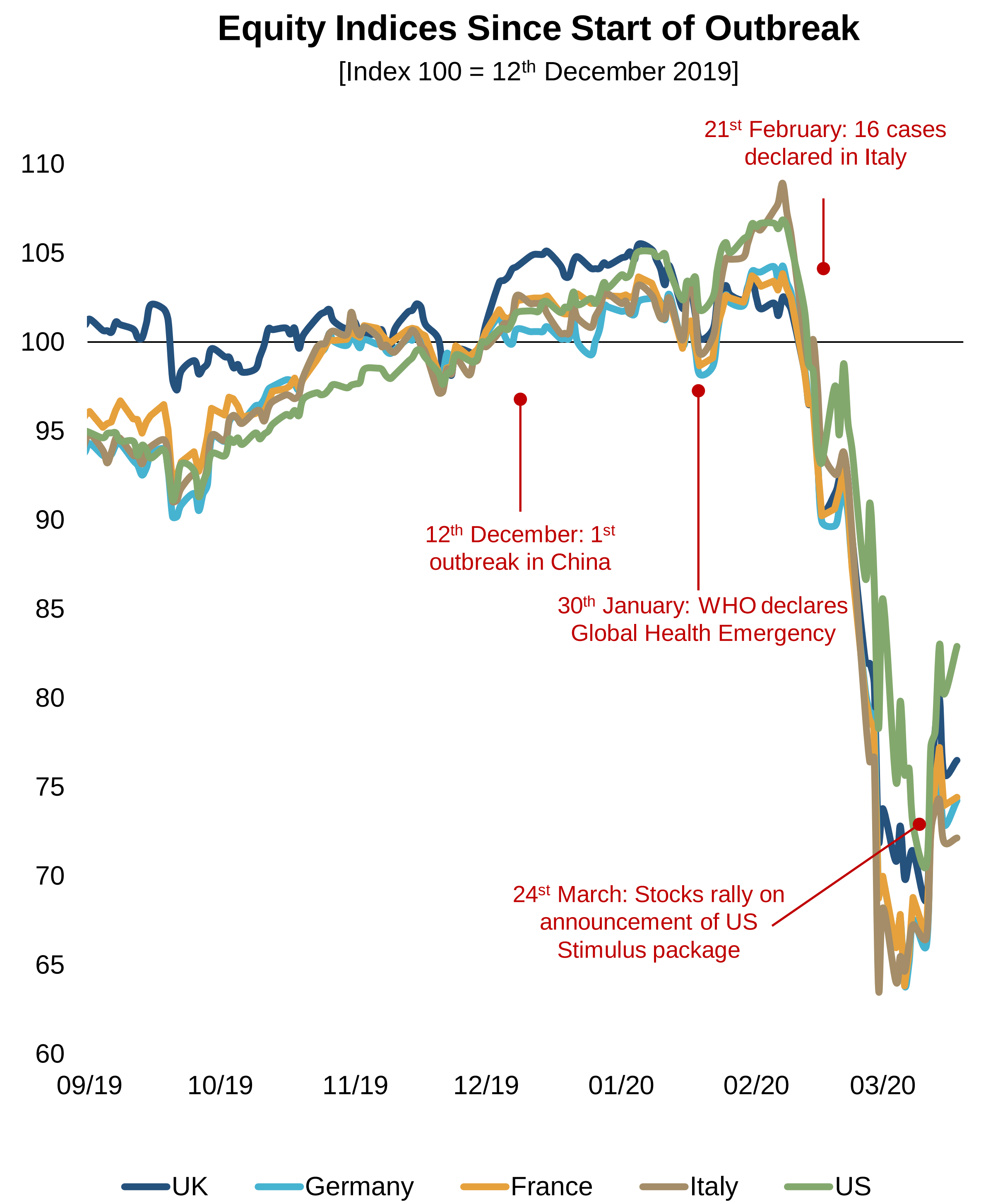
Economic shocks result in government bond yields falling in safe-haven countries. Germany bonds are now implied to be remain negative until 2022 and not even breach +0.5% within ten year horizon.

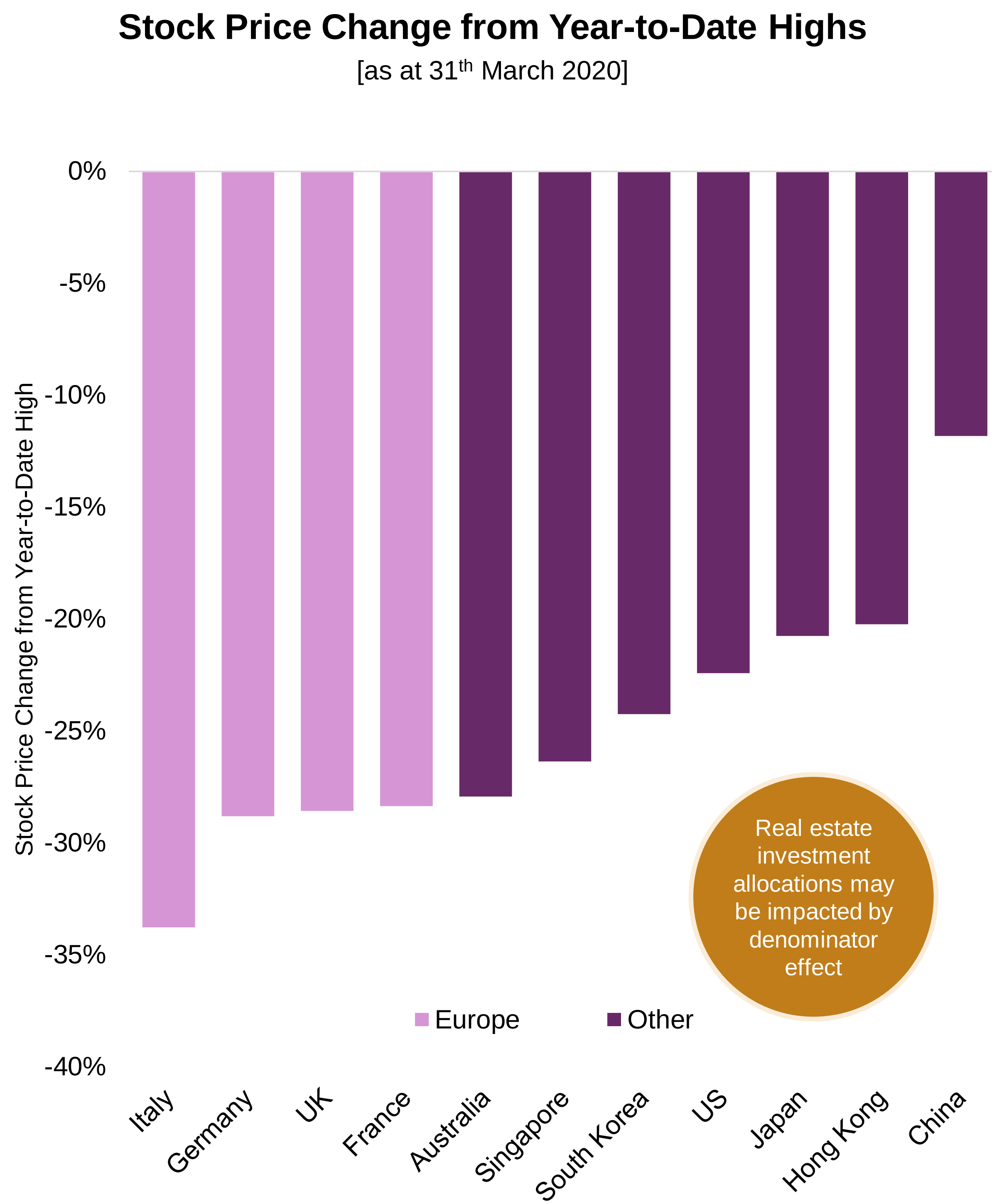
In the short term, real estate will be perceived as an illiquid asset class and could see valuation yields rise – particularly as the real economy suffers. Prime assets will remain relatively resilient and recover first, but unless there is alternative use value then secondary assets will be firmly out-of-favour until well after the fundamentals have recovered

Once the immediate crisis has passed the process of price discovery will begin. Given the generous risk-premium of real estate over bonds, we expect stabilised real estate to seem attractive on a relative basis. Lower interest rates will support pricing for real estate. Whether a low cost of borrowing can or will be taken advantage of by investors and corporates remains to be seen

European equity indices now the hardest hit

STEEP DECLINES FROM PEAK IN ITALY AS CHINA SHOWS SIGNS OF RECOVERY

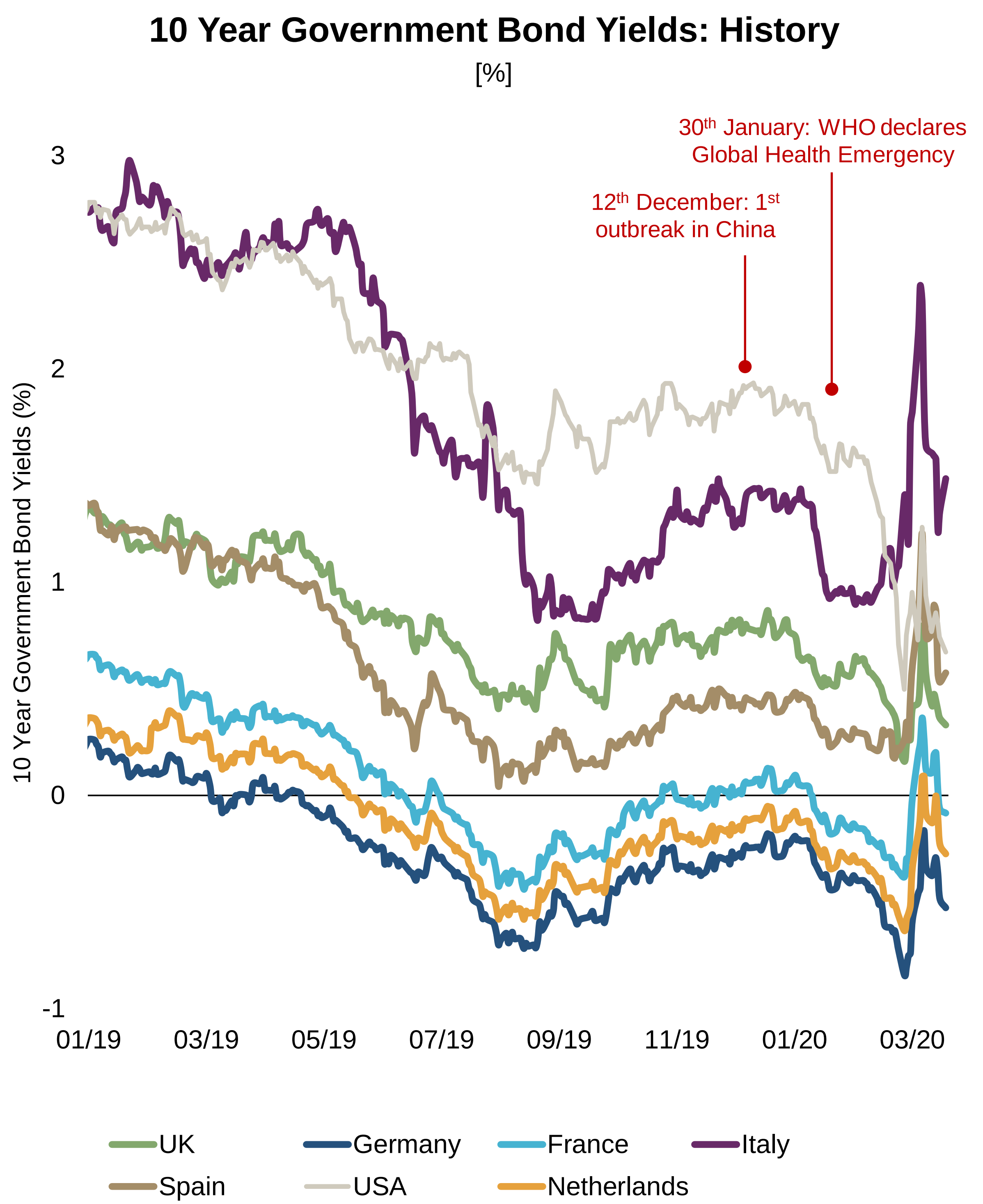


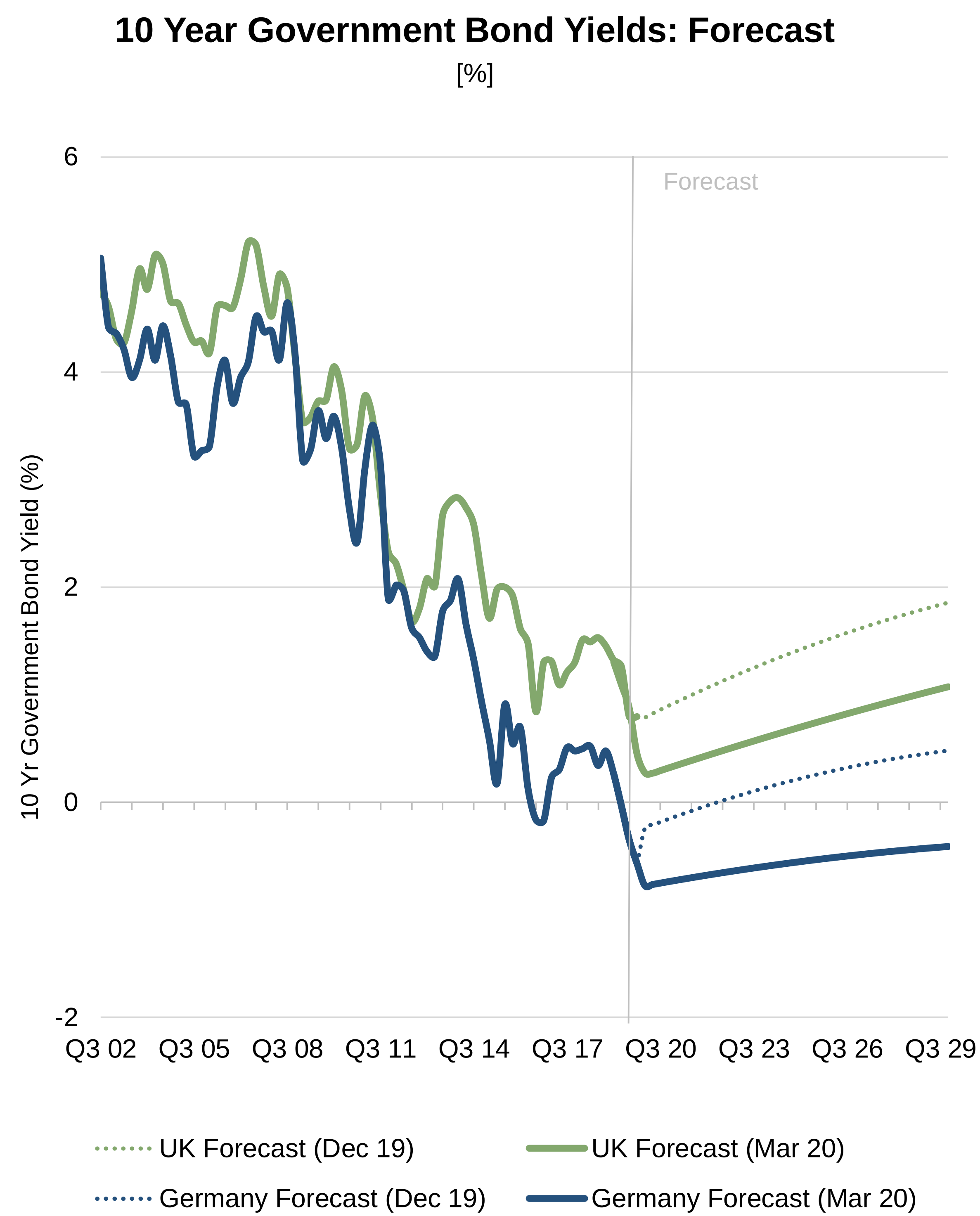


Source: LaSalle (03/20) Thomson Reuters (03/20)

Bond yields move out as investors prefer to hold cash during crisis

OUTLOOK FOR BOND YIELDS MUCH LOWER & FLATTER THAN JUST A FEW MONTHS AGO

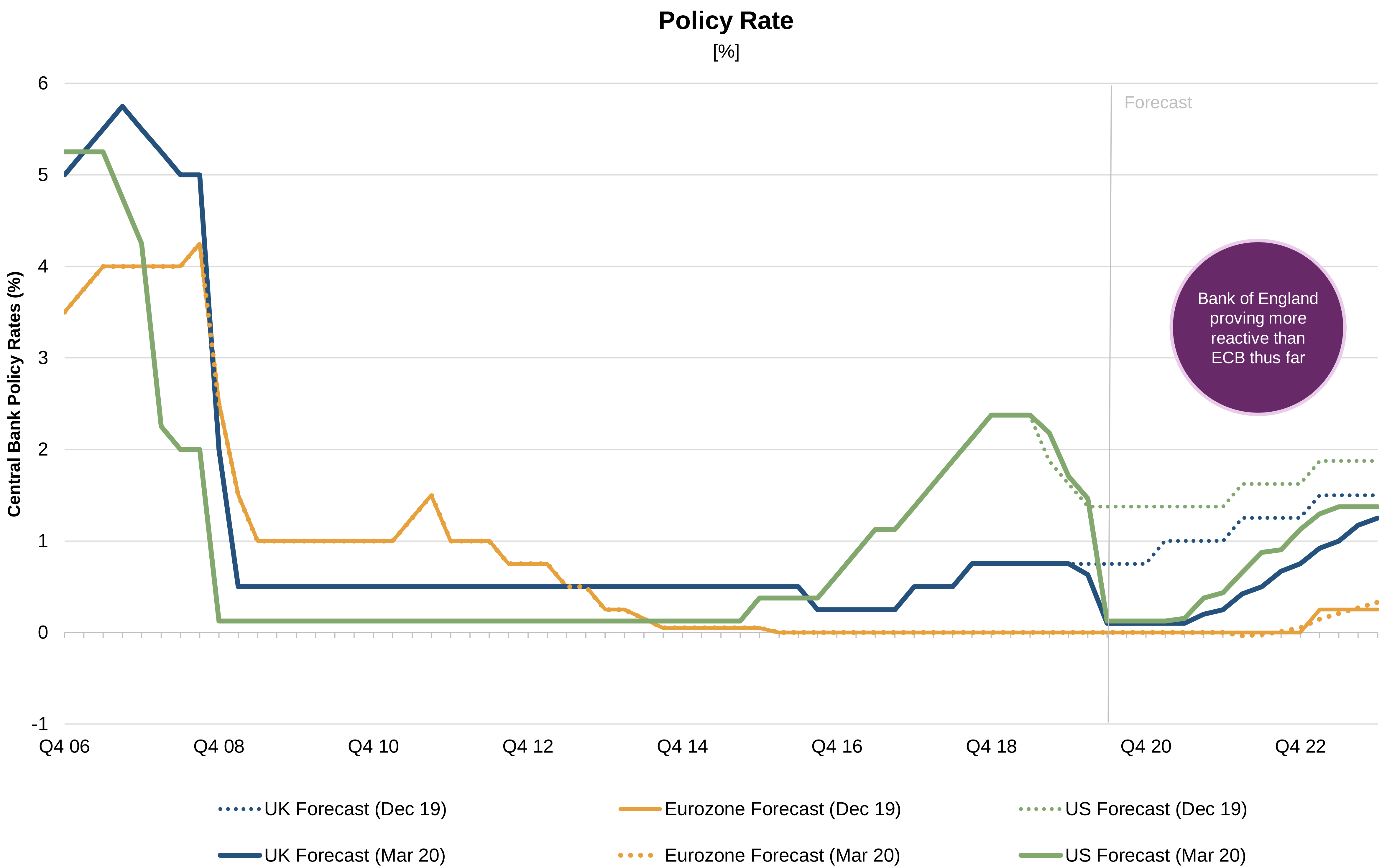




Source: LaSalle (03/20) Thomson Reuters (03/20)

Central banks are cutting interest rates to support local economies

BUT HAVE LITTLE SCOPE TO COUNTER RECESSION THROUGH INTEREST RATE CUTS



Source: LaSalle (03/20) Oxford Economics (03/20)

3.

Real estate impact

The pandemic is hitting Italy and Spain particularly hard, and Italy's healthcare systems is overloaded. Both have a large reliance on tourism and leisure for economic growth and social cohesion. But whereas Spain was a recent hotspot for economic growth, Italy was already beset with economic and political challenges

Sectors most at risk are those which would suffer under strict social distancing; Retail, Hotels and Leisure. The speed and magnitude of their eventual recovery will depend largely on the duration of the pandemic

Other sectors such as Logistics, Self-Storage and Offices (excluding co-working), will prove more resilient in the short term but are not immune from the wider impact of a recession (eg job cuts, uncertainty, lower investment) or a longer duration of the pandemic (supply chain disruption)

Real estate capital flows are slowing considerably. This exposes those markets driven by cross-border capital in particular, such as London. Liability-matching assets which are being used as bond substitutes, however, are still transacting at this time

Investors immediate focus should be on defense, preserving value as far as possible through active asset management. Leveraged investors need to manage their liquidity, although debt levels are more manageable than during the GFC. Opportunities will emerge in due course but will depend on the severity and duration of the pandemic

Global ranking of property sectors at risk

1. **Full Service Hotels** *dependent on conferences and corporate travel*
2. **Senior Care** *will require extra vigilance and health precautions*
3. **Limited Service Hotels** *dependent on tourism*
4. **Tourism-oriented Retail** *especially leisure-oriented and luxury*
5. **Regional Malls** *especially leisure-oriented and entertainment*
6. **Student Housing** *pre-paid rents help insulate some properties*
7. **Serviced Apartments** *especially extended-stay corporate apartments*
8. **Co-working Offices** *especially with individual memberships*
9. **Airport/Transit-linked Retail & Hotels** *temporary, but crippling disruption*
10. **Mixed-Use Retail** *especially in dense, urban locations*

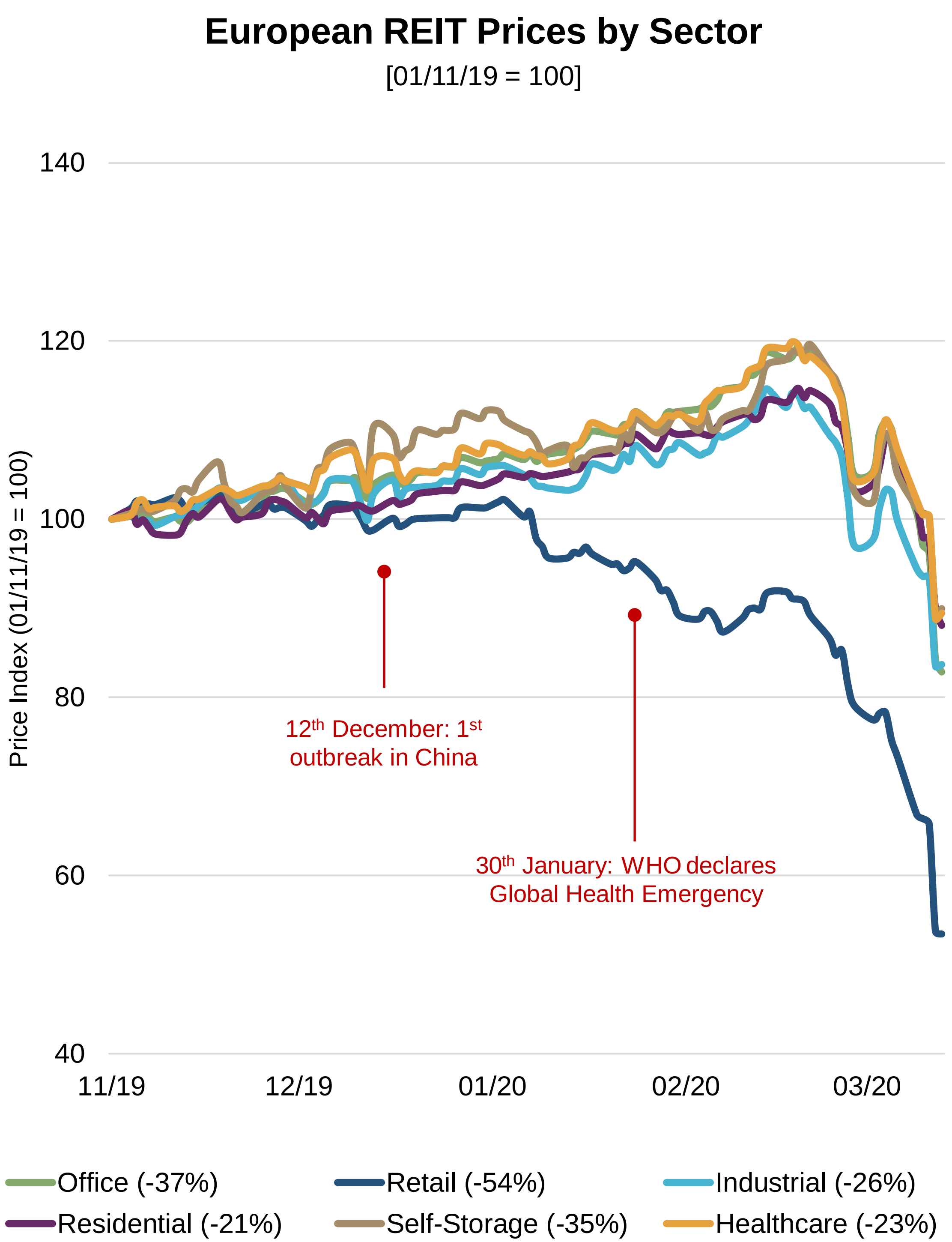
Ranking of best-insulated sectors

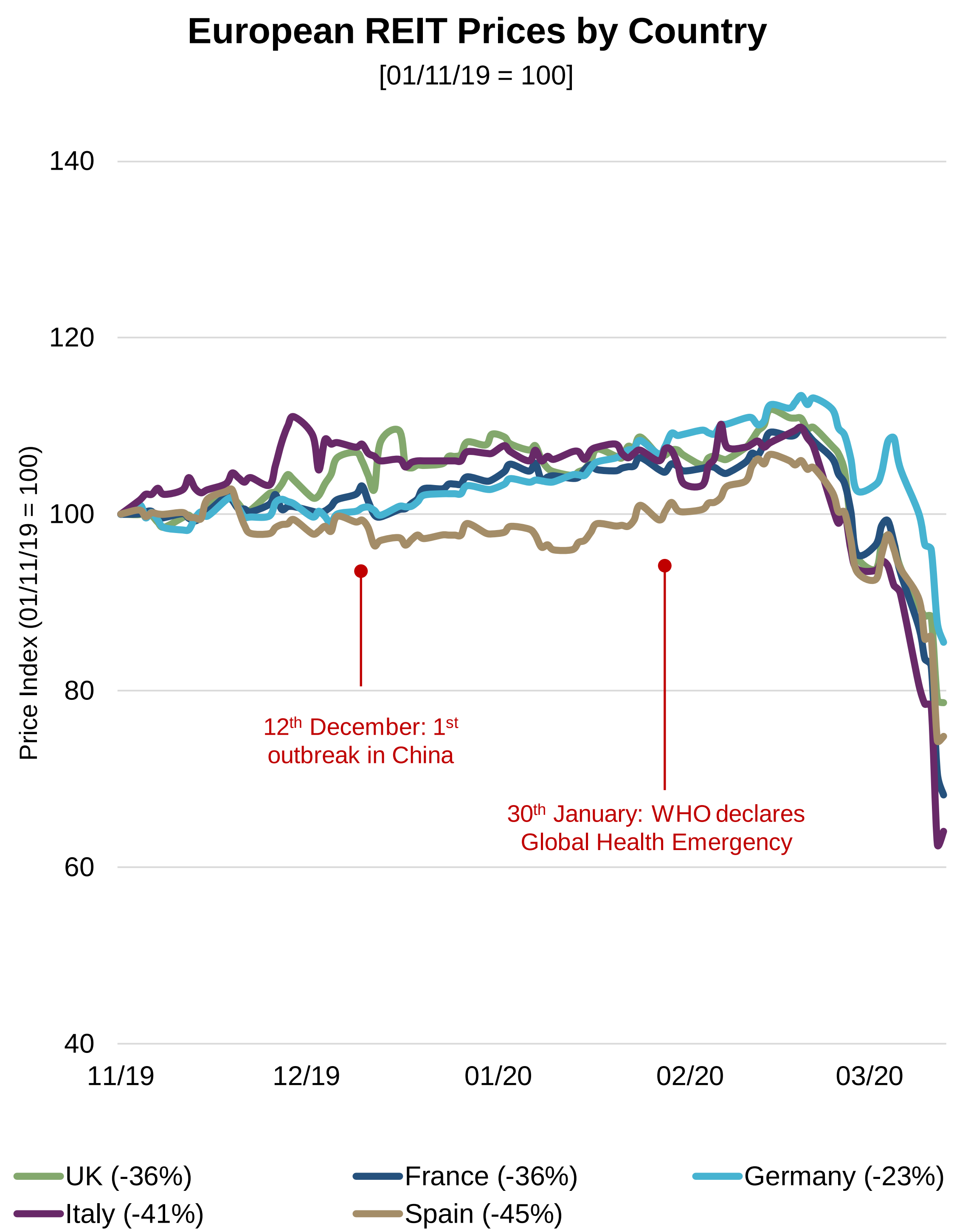
1. **Self Storage** *resilient in prior recessions*
2. **Medical Offices** *especially leased to private/non-govt providers*
3. **Logistics buildings** *especially with temperature-control/cold storage*
4. **Residential** *especially where managers react quickly to health concerns of tenants*
5. **Grocery-anchored Retail** *with strong anchors set up to handle home delivery*
   However, small-shop space and mini-anchors (fitness centres) at high risk

Source: LaSalle (03/20) Based on quantitative and qualitative analysis

European REIT prices show Retail hit harder than other sectors

ITALY MOST IMPACTED COUNTRY

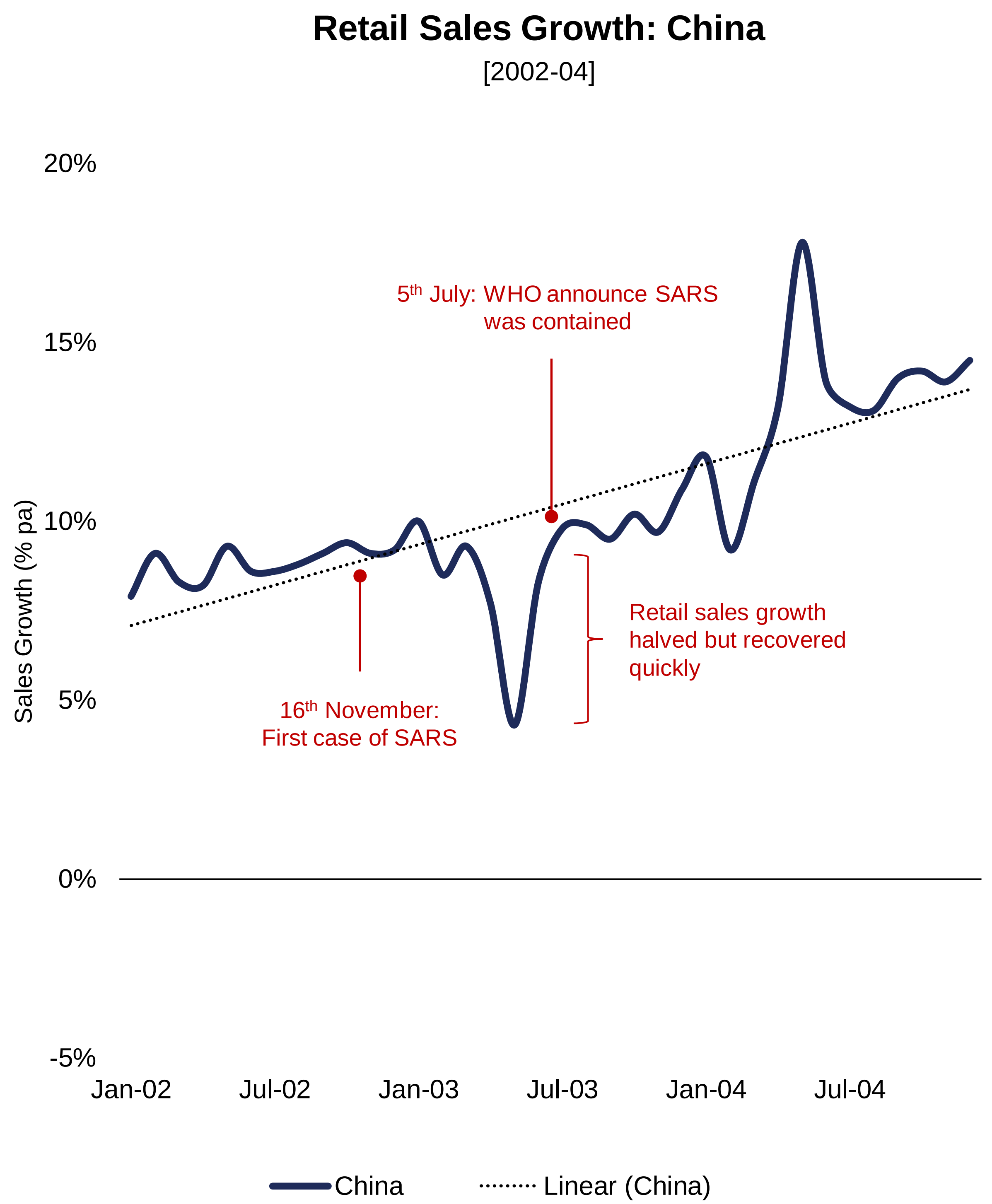


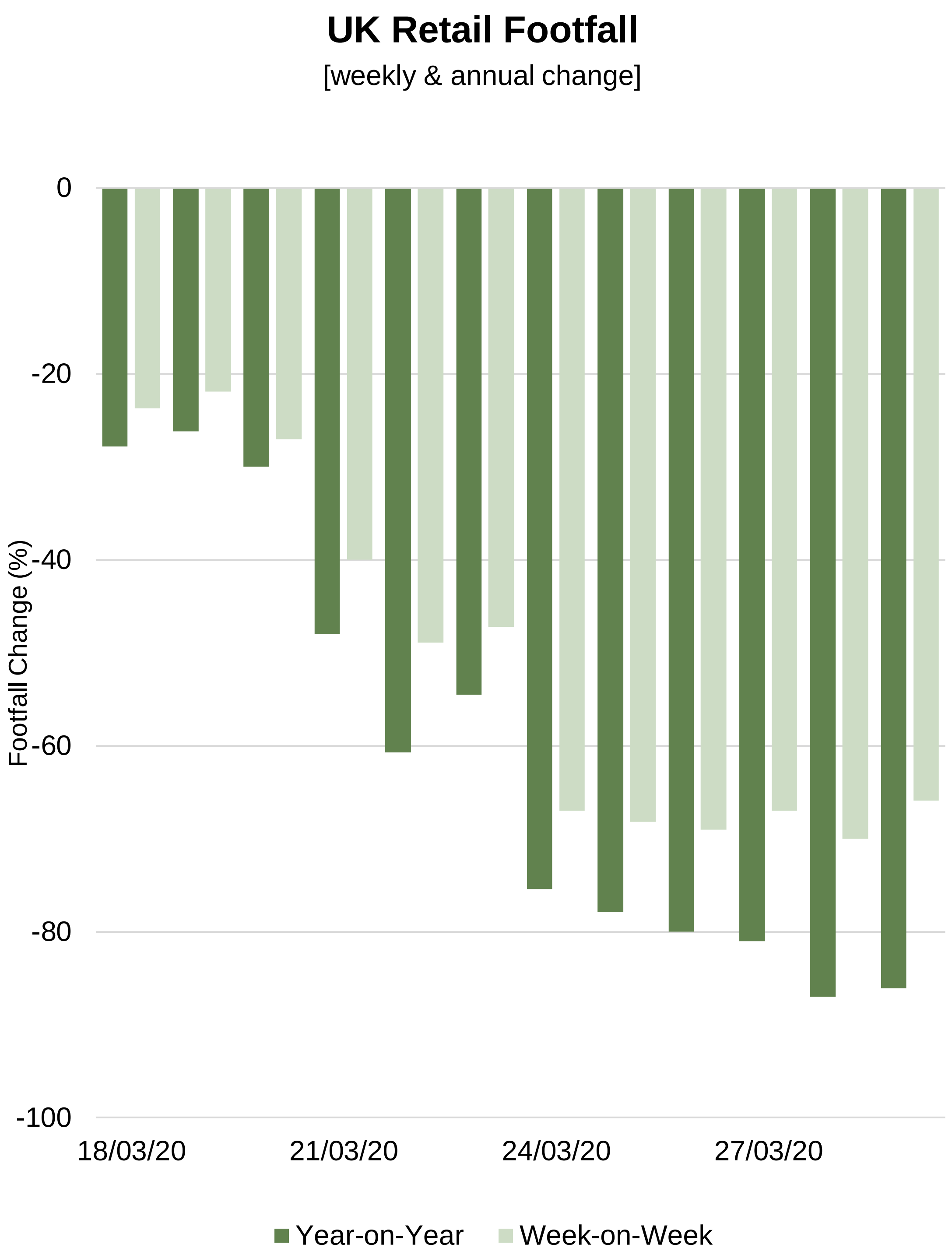


Parentheses = Change from 2020 peak to latest
Source: LaSalle (03/20) EPRA (03/20)

Retail: Sales rate could halve in Europe as it did during SARS in China

RECENT UK DAILY RETAIL FOOTFALL DOWN 80% YEAR ON YEAR DUE TO SOCIAL DISTANCING





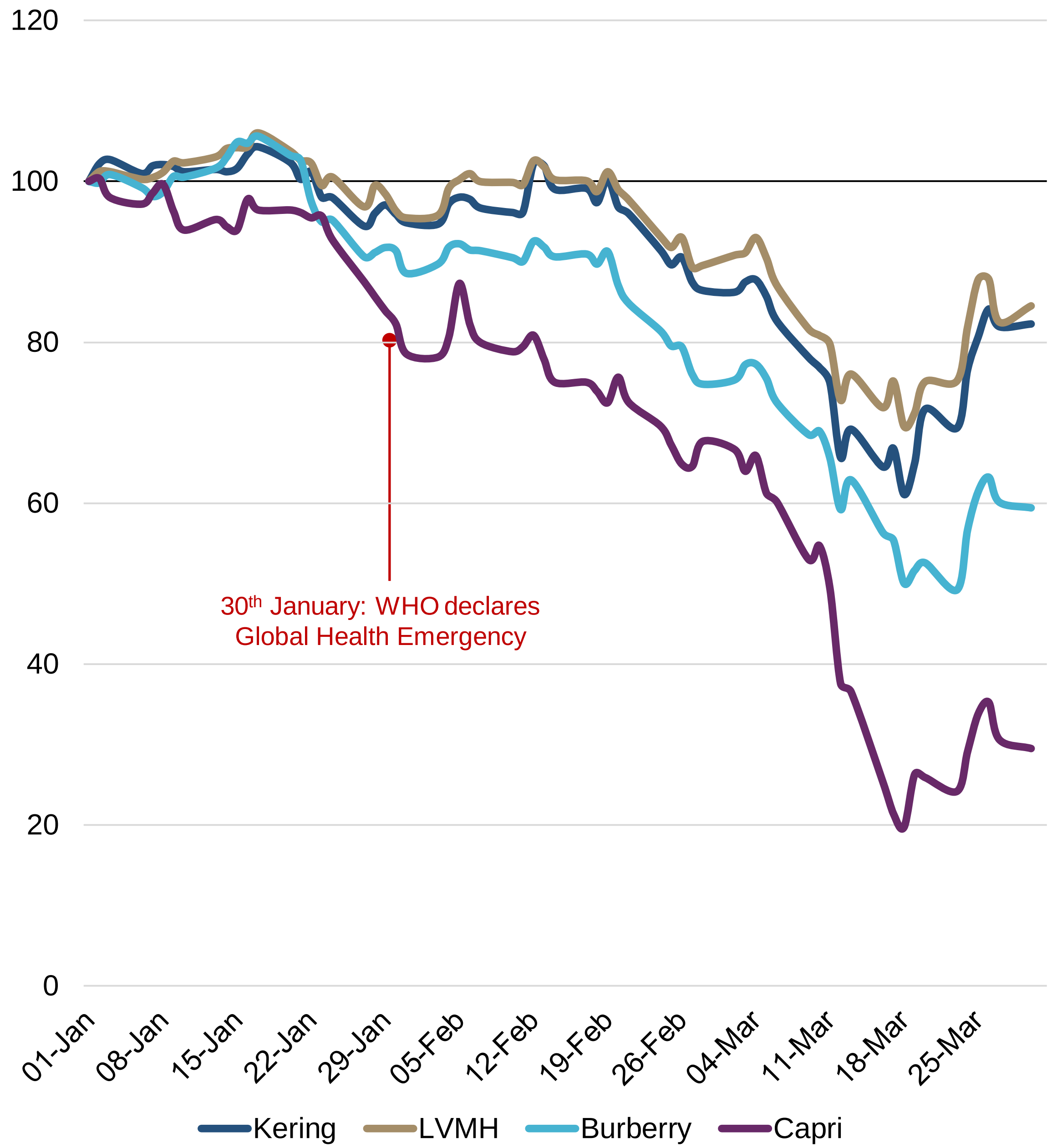
Source: LaSalle (03/20) Bloomberg (12/04) Springboard (03/20)

Retail: European high-end retail may be hit if outbreak persists

IMPACT HARDEST ON CERTAIN LUXURY SHOPPING DESTINATIONS

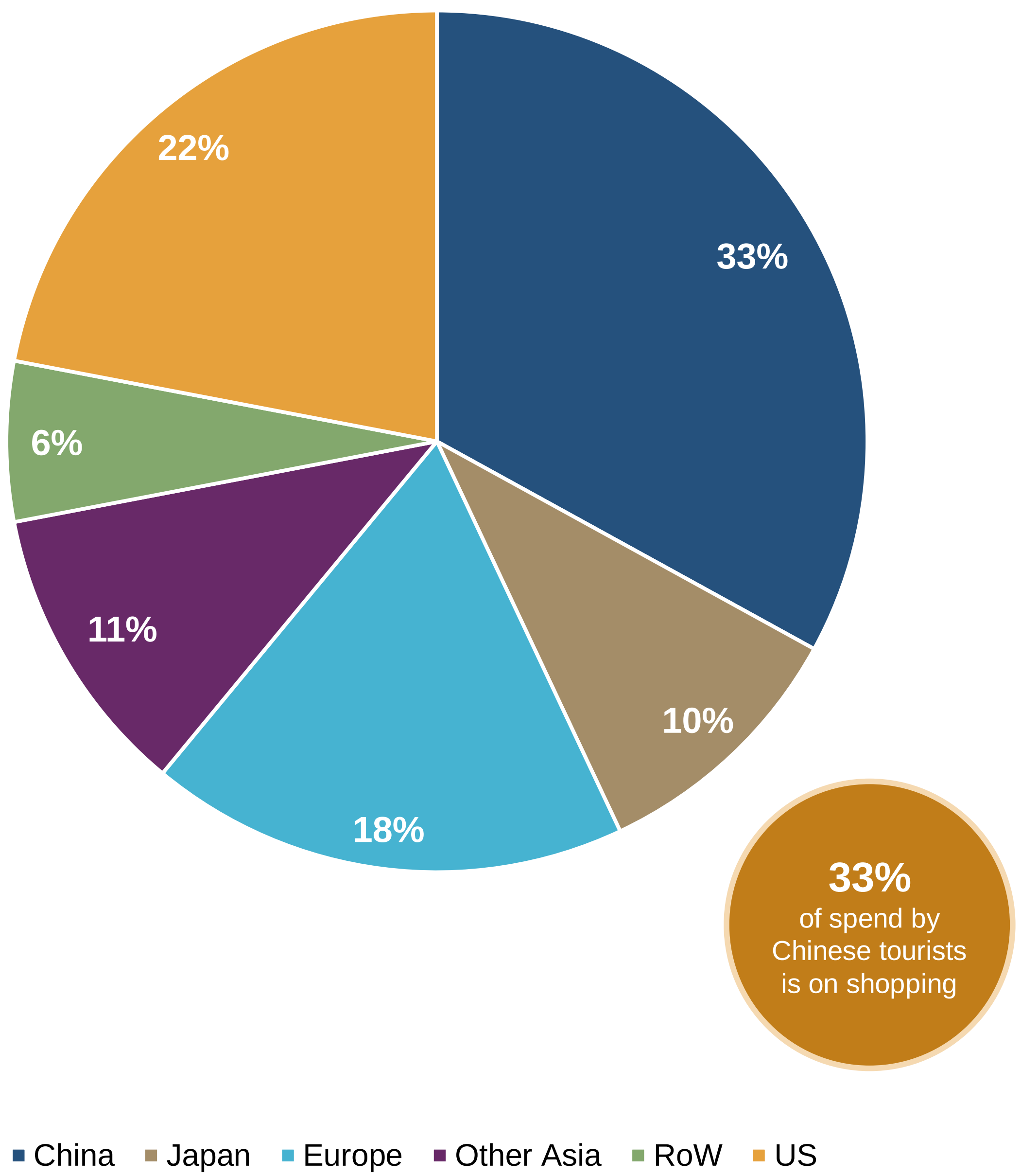
Price Index for Selected Luxury Retailers

[Index 100 = 1st January 2020]



Worldwide Luxury Goods Sales by Country of Origin

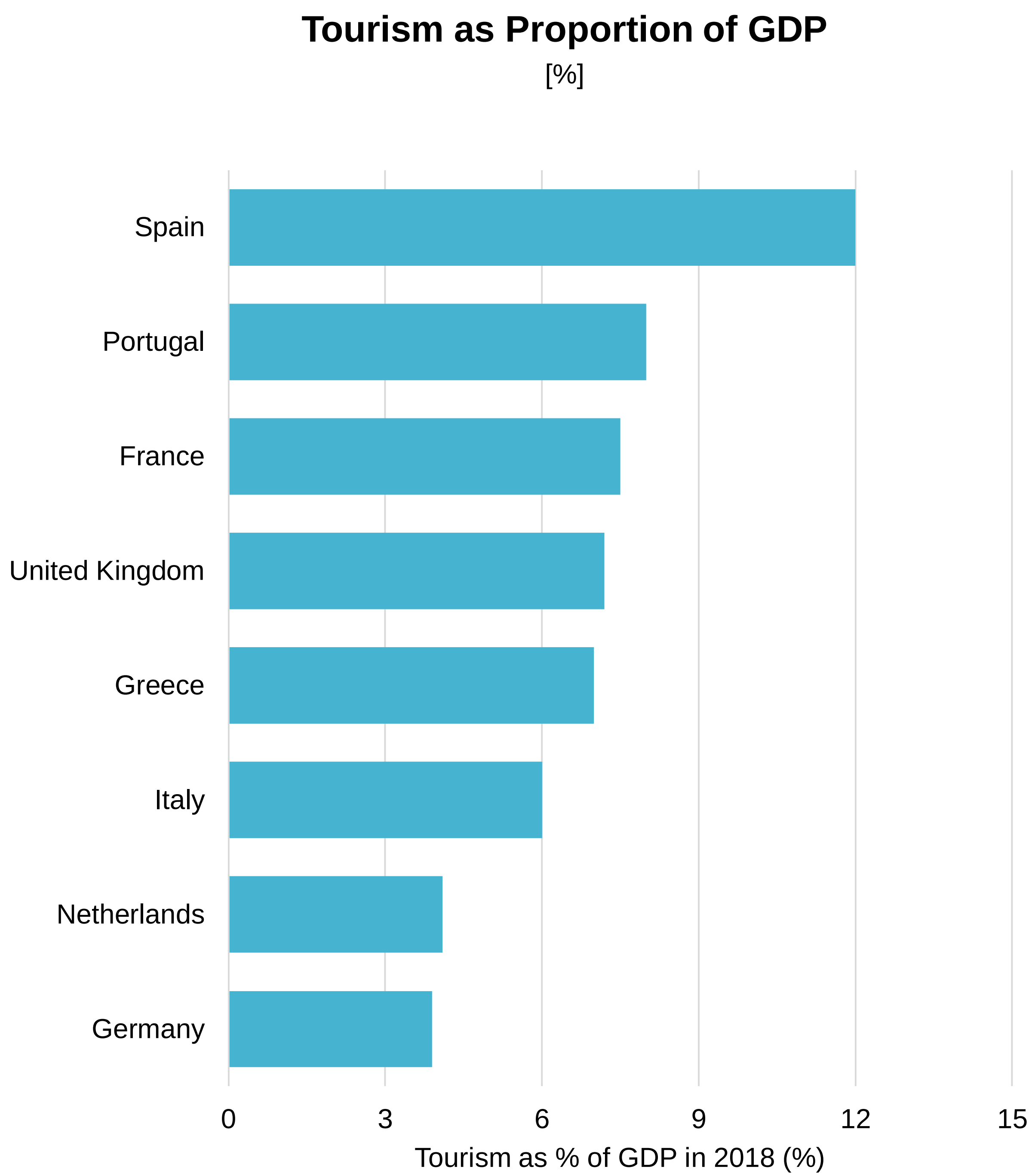
[2018]

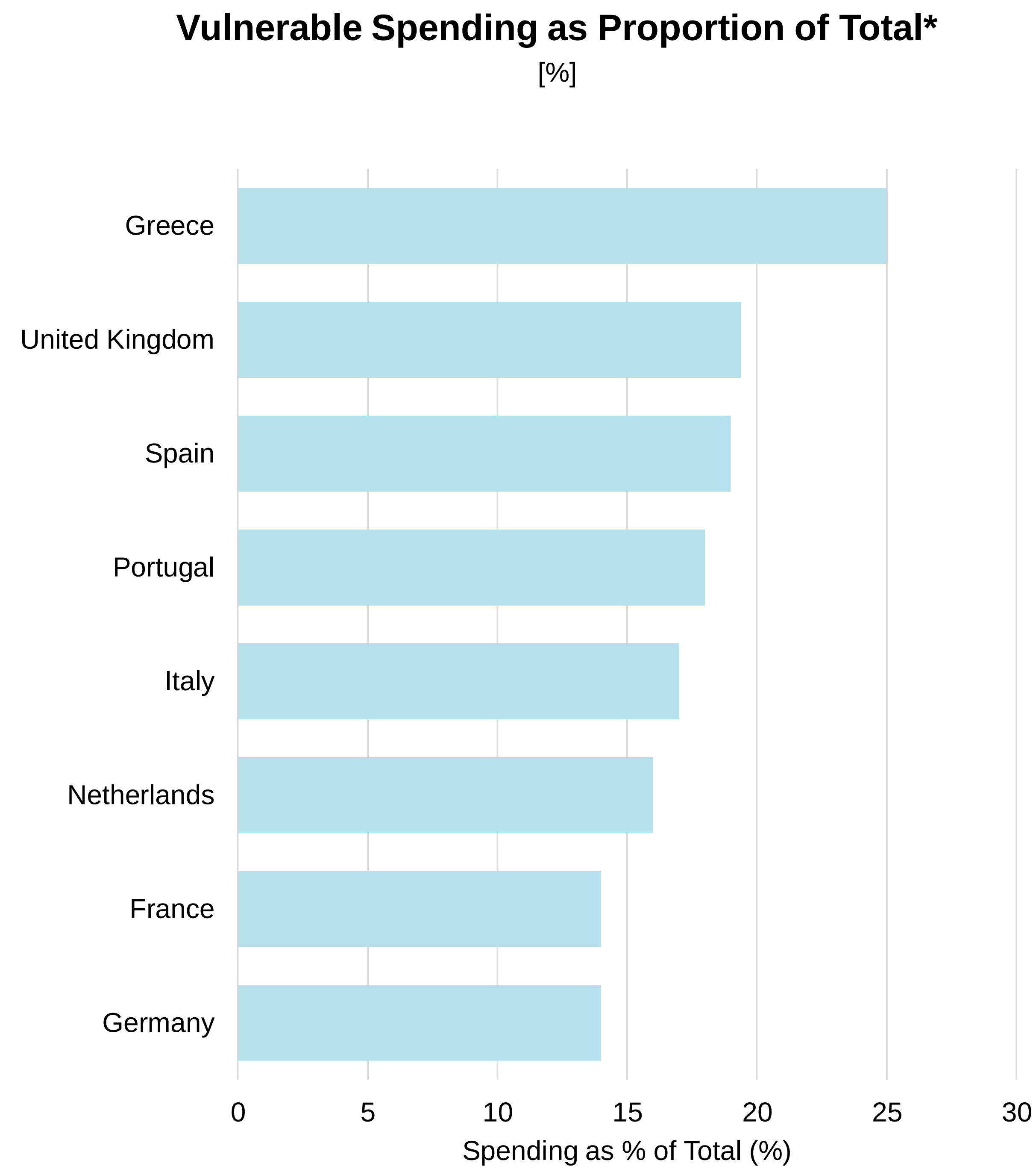


Source: LaSalle (03/20) Thomson Reuters (03/20) Oxford Economics (02/20) VogueBusiness (2018) China Tourism Academy (2018)

Hotels: Mediterranean countries most at risk

BUT FRANCE ALSO EXPOSED TO SLOWDOWN IN TOURISM





* Vulnerable spending = Passenger Transport, Entertainment & Leisure, Holidays & Accommodation
Source: LaSalle (03/20) Capital Economics (03/20) ONS (03/20)

Hotels: Expect prolonged period of 20-30% occupancy rates

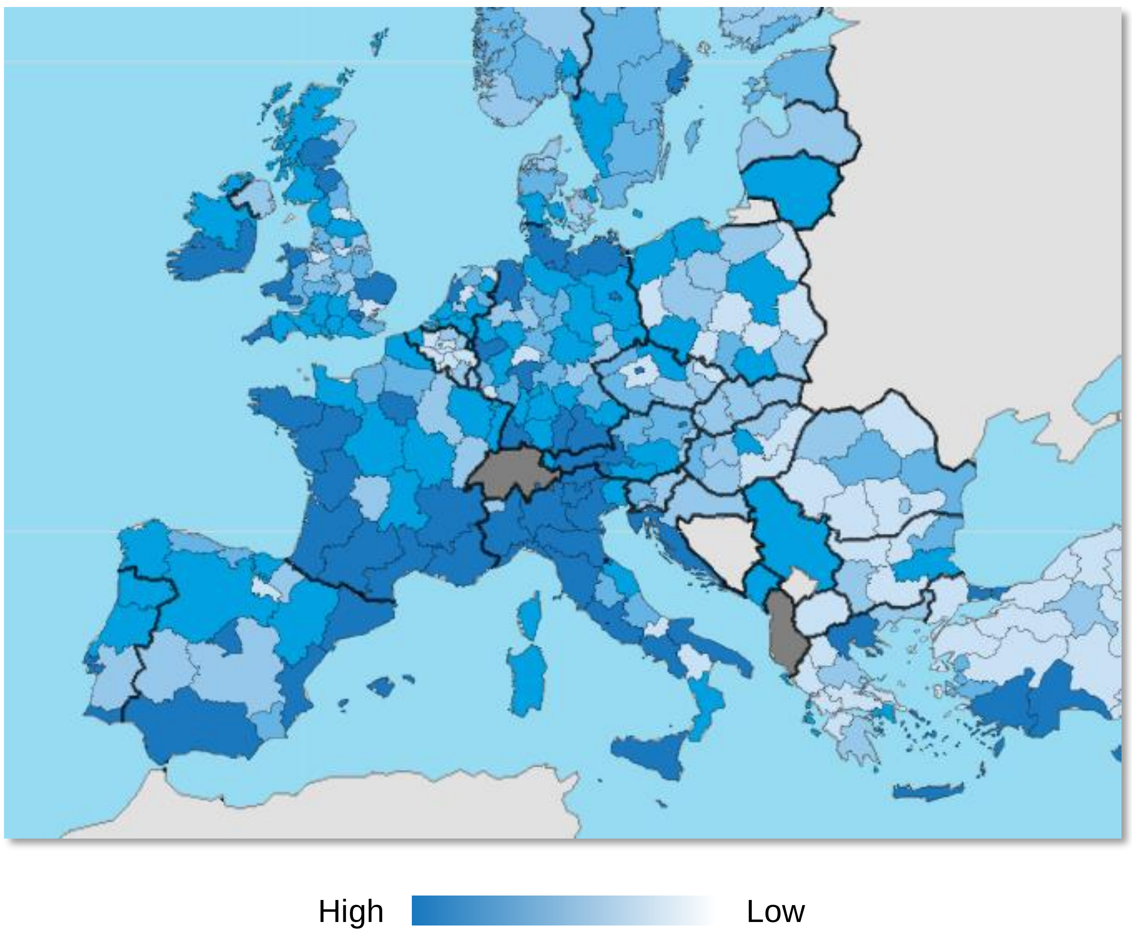
RECOVERY IN HOTEL OCCUPANCY MAY FOLLOW QUICKLY FOLLOWING CONTAINMENT OF CORONAVIRUS

Hotel Occupancy in Asia Pacific during SARS

[%]

Nights Spent in Tourist Accommodation

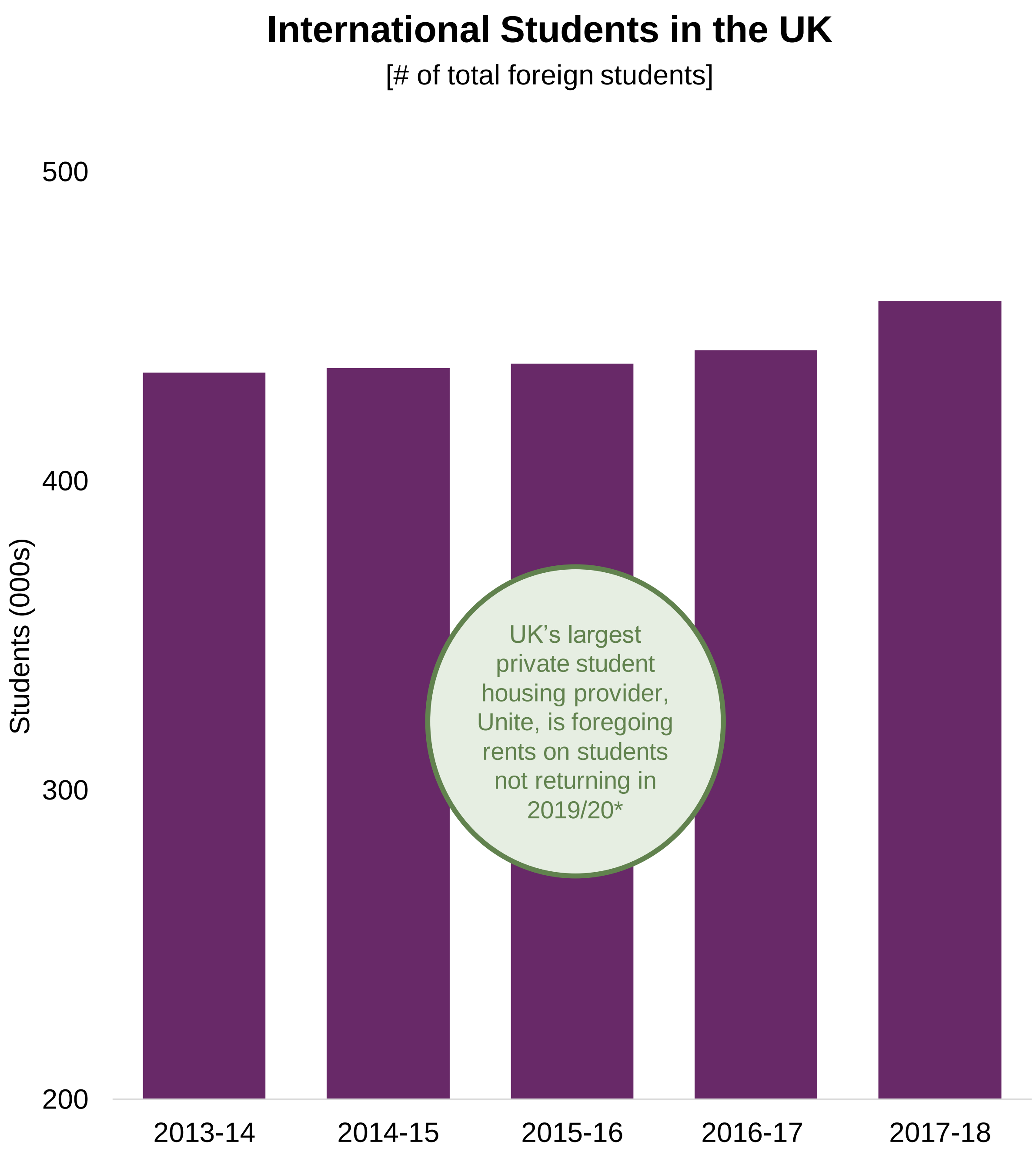
[2017]



Source: LaSalle (03/20) CEIC (12/04) Eurostat (02/20)

Student Housing: International students in UK now c.20% of total

INTERNATIONAL SHARE OF STUDENTS MUCH LOWER IN C.EU

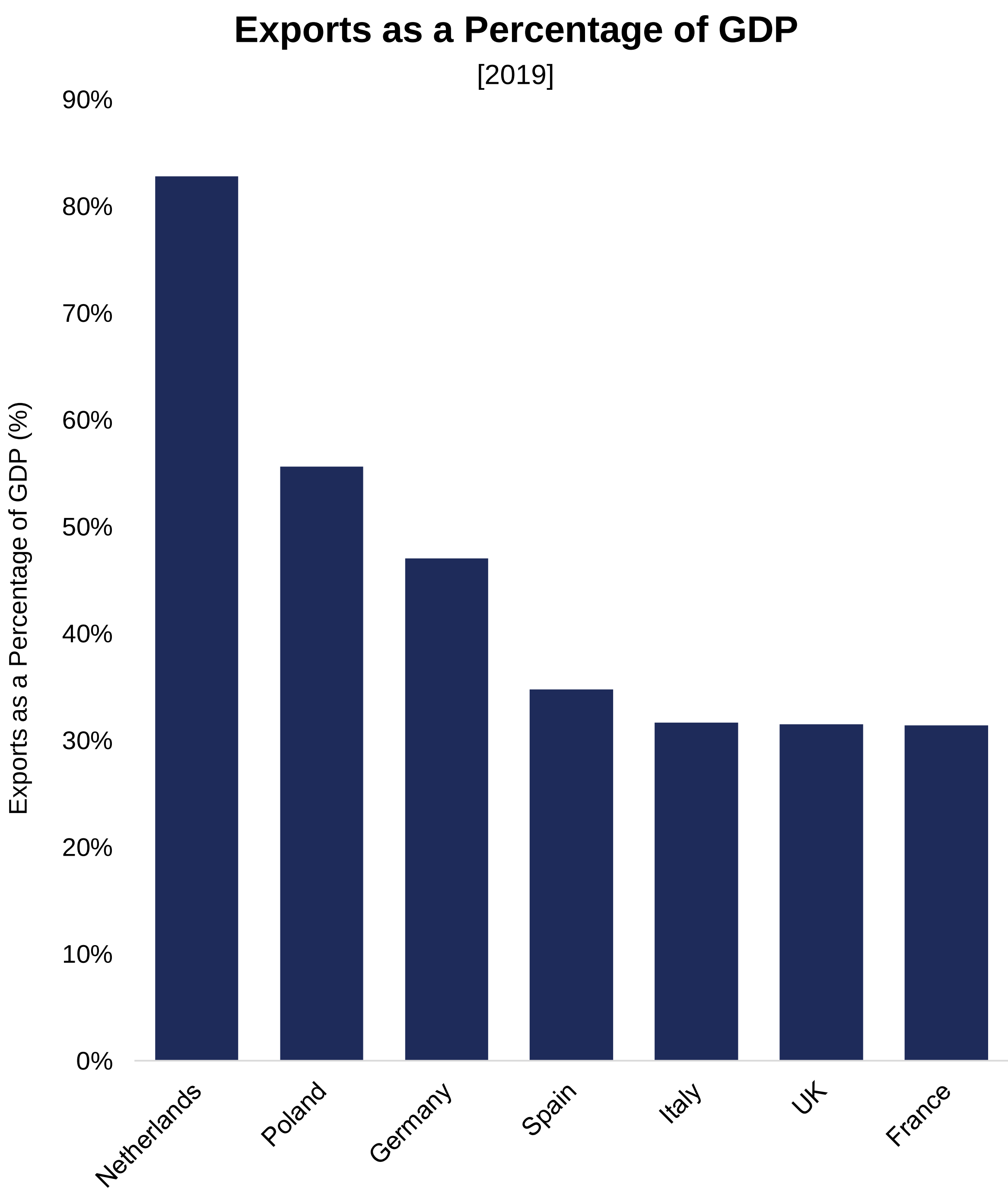


Source: LaSalle (03/20) HESA (2019) UKCISA (12/19) Ministere De L'Education Nationale (02/20) Destatis (02/20) *Estate Gazette (25/03/20)

Industrial & Logistics: Short-term winner due to online & stockpiling

HOWEVER, AT RISK FROM SUPPLY CHAIN DISRUPTION IN A DRAWN-OUT PANDEMIC SCENARIO

- The Logistics sector is likely to be less severely impacted than other real estate sectors initially. As experienced in Asia Pacific, e-commerce could see a spike in demand as consumers are encouraged to self-isolate or prohibited from shopping by containment measures. This may lead to increased demand for warehousing and distribution space amongst logistics operators and online retailers in the short-term – especially whilst long as supply-chains remain relatively intact
- Cold storage is also likely to be a relative winner as online grocery shopping demand increases
- However, there are notable downside risks to Logistics should the coronavirus persist well into H2 2020 or beyond if inventories run low and supply chains are disrupted
- Traditional Industrial space is likely to be adversely affected due to supply-chain disruptions and reduced global demand for consumer goods. The impacts of a dip in global GDP growth will be felt most acutely in European countries that rely heavily on export markets (Germany and Netherlands).
- Looking more long-term, the outbreak may accelerate the structural shift towards online retailing, particularly online grocery shopping. This acceleration may be more notable in countries where the overall online spend is relatively low such as Italy and Spain as many consumers will need to shop online for the first time



Source: LaSalle (03/20), Oxford Economics (03/20)

Office: Remote working helps keep corporates solvent in short term

FIRMS THAT FUNCTION WELL THROUGH LOCKDOWN WILL LIKELY RETURN TO THEIR PREMISES EVENTUALLY

To date, the impact on office markets has been limited. However, the sector is not expected to be immune with implications dependent on how long this global pandemic continues.

- **Occupational Demand:** Businesses may adopt a more cautious approach to expansion in the short term, most likely delaying decisions. We are even likely to see job losses. Weaker business confidence would subdue rental growth over this period
- **Development / Refurbishment:** Disruption of supply chains, logistic networks and notably the construction sector could delay the completion and increase the cost of development. Higher-than-expected costs or longer delivery times could impact the expected returns on investment of these assets, as could longer void periods for those schemes being delivered in 2020
- **Remote Working:** As the outbreak intensifies, it is likely that social distancing including home working will be enforced on workers on a mass scale. The ability for many Office sector tenants to work remotely will help keep them solvent, as they are less reliant on physical interaction for revenues. This could also accelerate the permanent adoption of flexible working practices and new technology, particularly where businesses realise that they can operate effectively outside of the construct of a centralised office. As such we could see a proportion of businesses and workers continuing to work more flexibly on a permanent basis. Longer term, this could reduce demand for physical space by occupiers
- **Co-working:** In the near term, weaker co-working operators are at risk of failure should they be unable to withstand several months of minimal occupancy. Depending on the success of the home working experiment and any lasting impacts from Covid-19 (particularly to our behaviour preferences) beyond this crisis we could see a shift back from co-working to home working, as individuals realise the benefits of physically being with collaborators is minimal (given the costs of renting space). This could curtail future growth by operators in this sector, ultimately leading them to demand less space.

Source: LaSalle (03/20)

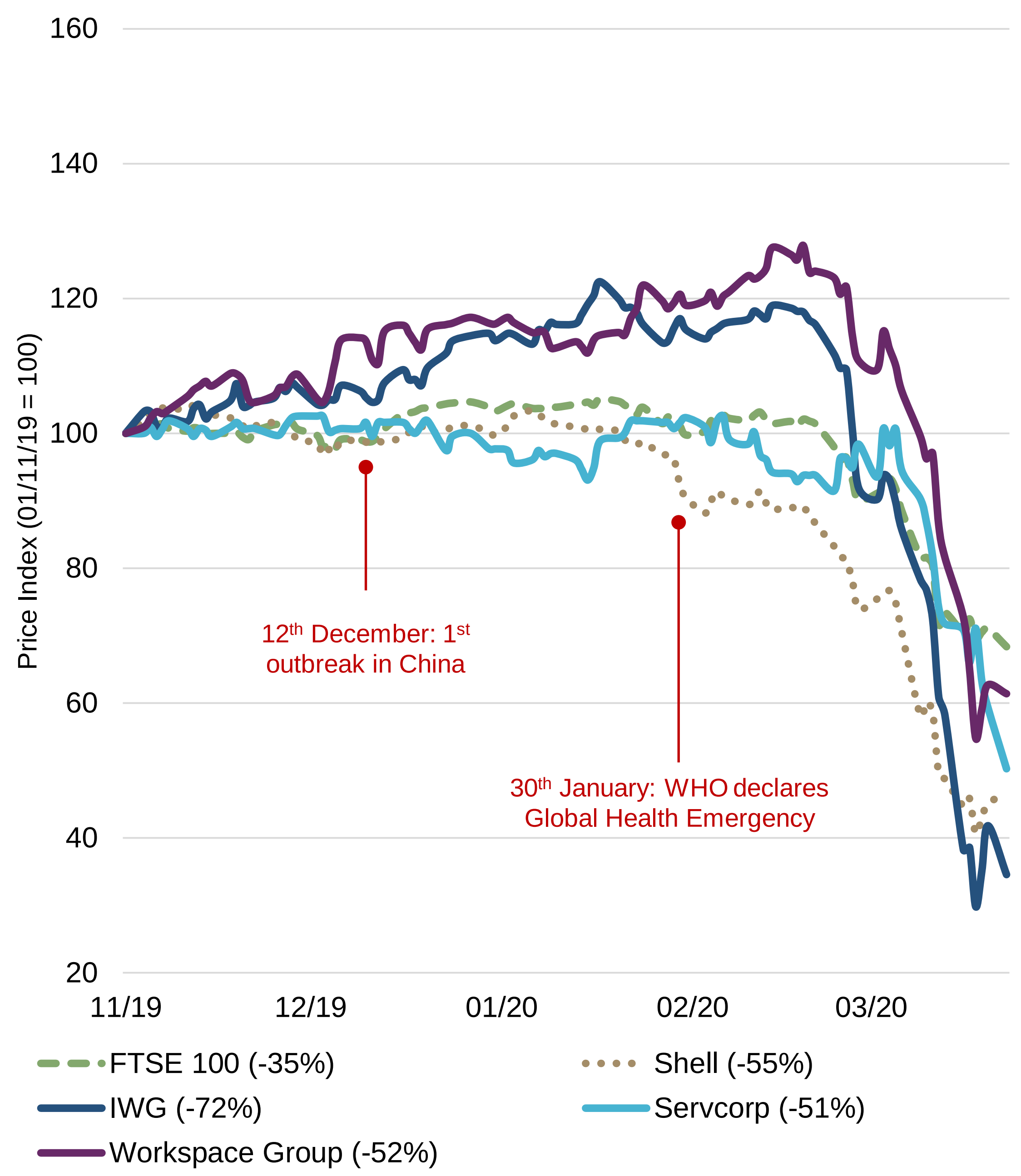
Office: Market caution around co-working elevated

BRANDS WITH GLOBAL FOOTPRINT APPEAR MOST AT RISK

- Concerns around the impacts from Covid-19 have had a material impact on stock markets, with the FTSE 100 for example seeing falls of 35%
- Whilst the oil sector has been one of the biggest losers over this period (related to supply-side issues), listed **Office Co-working** has also seen a significant impact as concerns over the resilience of cashflows related to reduced occupancy levels and structural shifts in demand back to working-from-home increase. We are also seeing Softbank question their commitment to *WeWork*
- IWG whose brands include *Regus* and *Spaces*, has seen a 72% fall in its share price, significantly ahead of wider market indices and Oil & Gas companies such as *Shell*. IWG's global exposure is seen as the driver behind this heightened weakness
- Other listed co-working operators such as *Workspace Group* (London focused) and *Servcorp* (Asia & Europe) have not escaped unharmed, but declines have been limited in comparison at c.50% in part due to their limited locations in comparison to IWG

Flexible Office Providers Share Prices

[01/11/19 = 100]



Source: LaSalle (03/20) EIKON (03/20)

Residential: Rental demand expected to be relatively insulated

BUT RISING UNEMPLOYMENT WITHOUT GOVERNMENT SUPPORT FOR RENTERS MAY IMPACT DEMAND

The residential sector offers defensive investment characteristics, benefitting from stable cash flows and the ability to actively manage rents in order to maintain occupancy and limit void potential. Historically, the residential sector has shown lower volatility and relatively less correlation with economic cycles compared to other property sectors, especially in France and Germany. However, in this particular crisis there are specific issues to consider:

- **Short-Term Resilience:** Private Rented Sector/Build-to-Rent is expected to be one of the more insulated market segments, as demand will be more resilient (people still need somewhere to live). Schemes where managers react quickly to health concerns of tenants should be able to retain tenants. Viewings will be extremely challenging in a practical sense, and so expect tenants to extend existing leases rather than relocate.

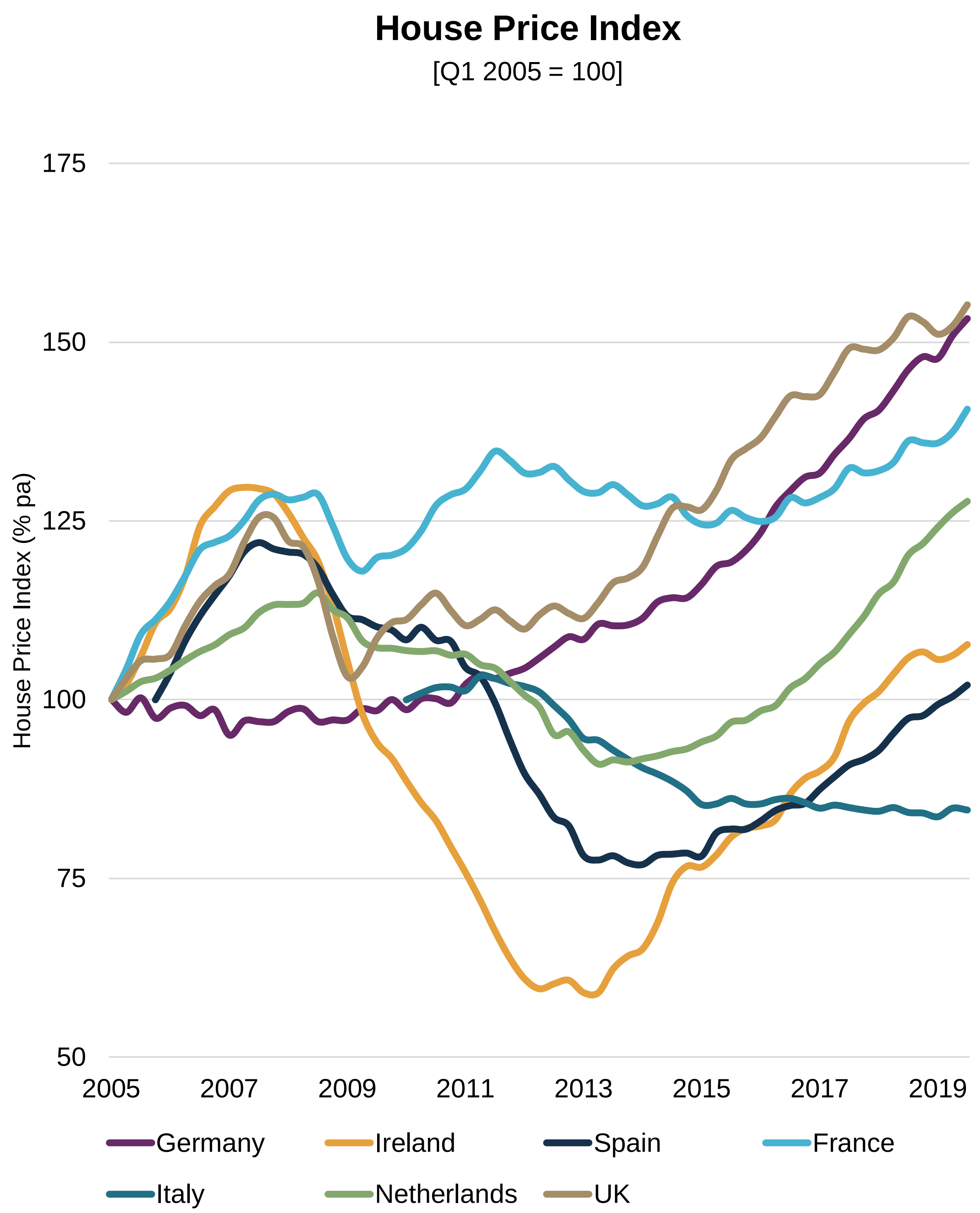
- **Threats:** New demand and therefore pricing will be impacted in the short term due to reduced mobility, diminishing consumer confidence and the shock to the economy in this period of uncertainty. Those who have lost jobs choose to move to cheaper accommodation. Assets that rely more on short-term contracts, and shared areas and services (eg co-living) may be more negatively impacted in the short term. Managers will need to closely follow new regulations on rent relief and rent subsidies to households. The rules will be complex and will evolve across Europe, so managers need to stay on top of all the changes

- **Long-Term Drivers:** Positive demographics (growing population and number of households), urbanisation, unaffordability of home ownership and increased interest in more flexible-living solutions will continue to support long-term residential demand

Source: LaSalle (03/20)

Residential: For Sale may see price fall in short term due to sentiment

HOWEVER, RESIDENTIAL PRICES TEND TO REBOUND MORE QUICKLY THAN COMMERCIAL PRICES



Source: LaSalle (03/20) Eurostat (09/19)

- **Short-Term Resilience:** The housing-for-sale market will likely be one of the more insulated markets from the current downturn. With limited ability for estate agents to show houses and many other related services also curtailed, transaction volumes will slow
- **Threats:** Several governments have provided mortgage payment support, but borrowers who lose their jobs may still struggle. In many countries, house prices are highly-sensitive to broader nationwide sentiment, and so could fall in the short term. Sharp falls during the GFC in small, volatile or overbuilt markets such as Dublin and Spain will be cause for concern should history repeat itself. Nonetheless, values tend to fall less far and rebound more quickly than commercial real estate values
- **Long-Term Drivers:** Many countries are undersupplied for housing-for-sale, and so a lack of affordability will continue to characterise these markets even if there is some easing in this situation. In rare instances there may be buying opportunities from struggling housebuilders, such as in London. The trend towards urbanization and, for the majority, a desire towards eventual home-ownership, will remain and drive values upwards

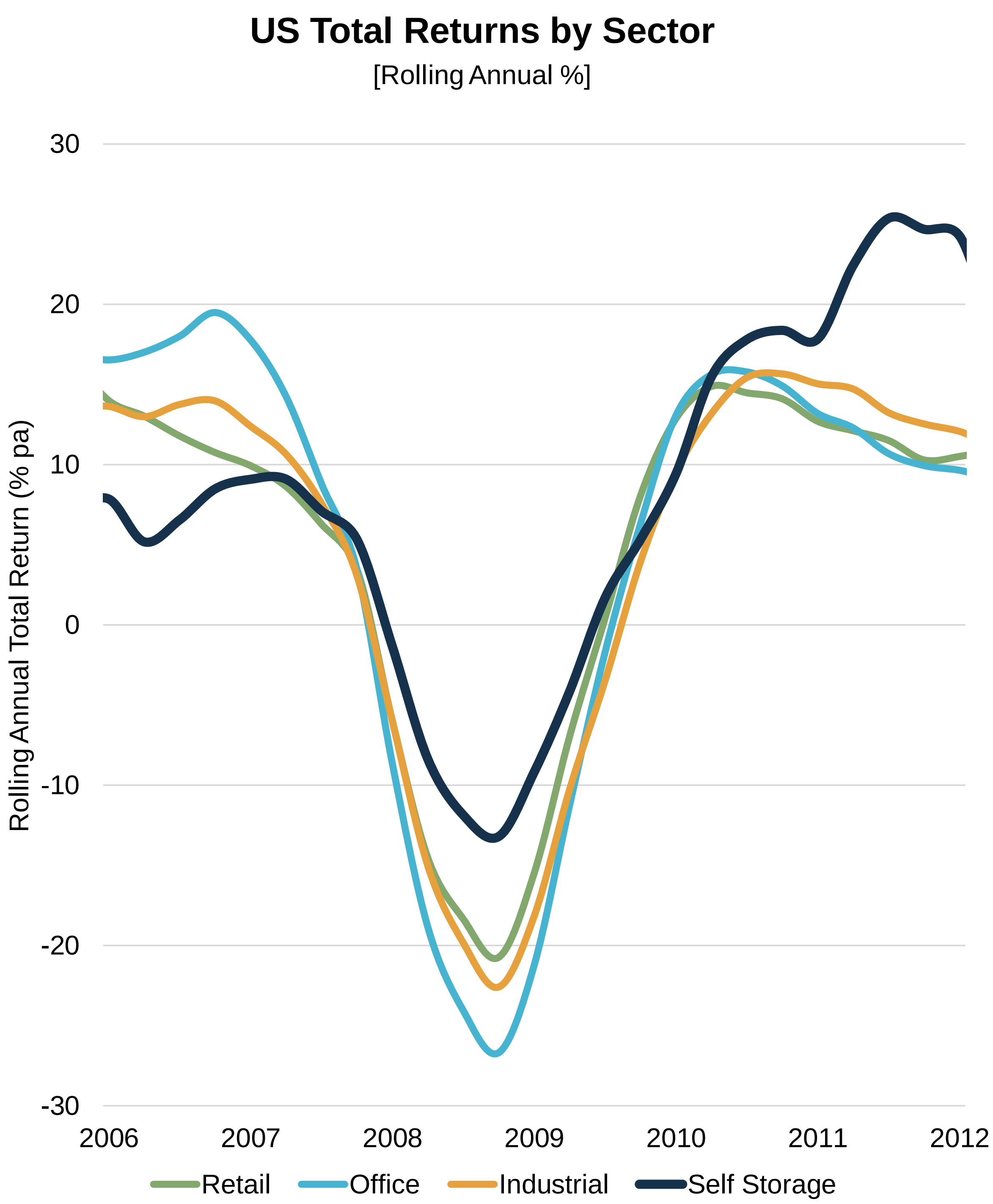
Healthcare: A complex outlook for a multi-faceted sector

The Healthcare sector is a niche but rapidly-growing sector. It is also a complex and multifaceted one. It includes subsectors such medical offices/doctor’s surgeries, hospitals, and care homes. Some would also consider Life Sciences and other Pharma/Laboratories to fall within this category. In previous recessions this sector has proved extremely resilient, given its drivers are long-term and non-financial trends. However, an important distinction needs to be made between countries, as each has its own unique healthcare system

- **Short-Term Resilience:** On the one hand, the Healthcare system has never been in such huge demand. Hospitals and doctors have more patients than they can cope with. And importantly, European governments are putting in unprecedented resources into supporting healthcare workers to try to avert the Coronavirus crisis
- **Threats:** Today’s stresses in the Healthcare systems could take their toll; on the public system and on the already-stretched staff. The private sector is often made up of small, independent healthcare providers with poor covenants. Care homes are high-risk areas and may see a backlash of demand in future. For these reasons, Healthcare REITs in the US have seen very strong declines in the early weeks of the crisis.
- **Long-Term Drivers:** The world’s very positive demographics (ageing population) are not going to deviate from their trajectory. And without other solutions that keep people either healthier or supported outside of Healthcare facilities (either more staff or better technology) then we still need hospitals, residential and outpatient care. For these reasons, the Coronavirus shock should prove to be a finite one for this sector

Source: LaSalle (03/20)

Self-storage: less impacted than main property sectors during GFC



- Self Storage is generally seen as a subsector insulated from the full negative effects of recessionary periods.
- Demand for self storage holds up in times of economic distress due to the changes in living situations many people experience, such has having to sell homes or close businesses.
- Data is limited in Europe as the sector remains relatively niche. However, using evidence from the US shows that returns on Self Storage properties were considerably less negative than other sectors during the GFC.

Source: LaSalle (03/20) MSCI (12/19)

Correlations imply that UK real estate may see more rental volatility

YIELD CORRELATIONS ARE STRONG AND SO FISCAL STIMULUS WILL BE INFLUENTIAL FOR REAL ESTATE

Country	Rental Growth		Net Initial Yield	
	Correlation with GDP	Correlation with CPI	Correlation with Policy Rates	Correlation with 10-year Government Bonds
UK	**0.79**	**-0.34**	**0.63**	**0.82**
Netherlands	**0.54**	**0.59**	**0.74**	**0.81**
Spain	**0.39**	**0.03**	**0.03**	**0.50**
Italy	**0.36**	**0.45**	**0.47**	**0.81**
France	**0.14**	**0.39**	**0.56**	**0.77**
Germany	**0.05**	**0.14**	**0.53**	**0.65**

With the caveat that correlation does not imply causation, studying past tendencies can give information about possible future movements in rents and real estate pricing. While UK rental levels are closely correlated with GDP and thus may be exposed to large adjustments during the current GDP volatility (both down and up), the structure of leases on the Continent means that European rent levels are more tightly tied to inflation. With the exception of Spain, net initial yields share a close relationship with government debt pricing. As such, movements in government bond markets resulting from almost unprecedented fiscal stimulus may prove highly consequential for real estate valuations

Correlation of MSCI National All Property ERV growth to GDP & CPI; NIY to policy rate & government bonds. Time period 1995-2018 (2019 where available)
Source: LaSalle (03/20) MSCI (12/19)

Opportunities will emerge over the course of the pandemic

EUROPEAN OPPORTUNITIES LIKELY TO BE FOCUSSED AROUND HOTEL AND RESIDENTIAL MARKETS

Office

Coronavirus is the first real test of the emerging trend in flexible working, and has shown it to be highly exposed. Many fledgling businesses could fail, and some would have been owners or tenants in **highly-desirable Office buildings in sought-after locations**. What will likely emerge will be a more streamlined market with fewer, more robust co-working operators.

Retail

The pandemic may yet prove to be the trigger for a more enduring re-evaluation of the Retail sector in countries which have hitherto withstood the decimation undergone by the US and UK. Nonetheless, **winning retailers and formats will emerge**, and social distancing has shown how important physical retail is to the consumer

Industrial & Logistics

As one of the relative winners of this pandemic, there may be fewer opportunities in the Industrial & Logistics than in other sectors. However, as businesses **re-evaluate their global supply chains and technological solutions** such as 3D printing, domestic Logistics and Industrial markets may benefit in the medium to longer term

Residential

Most Residential sectors will be relative winners during the Coronavirus pandemic. Housing for sale prices in gateway cities are highly-sensitive to global sentiment and currency. **Prices may come under pressure and listed housebuilders may seek to de-risk** their portfolios, which could be sold or converted to housing for rent

Hotels

One of the most affected property types has been the Hotel sector. Should the Coronavirus prove to have a finite lifecycle, we would expect occupancy rates to pick up in time. With Hotels possibly being repriced in the interim, this could prove to be a good time to invest – particularly in **long leases and strong covenants.**

Healthcare

This sector is under considerable operating pressure during the current pandemic. We may see businesses fail, despite government support. However, a **re-evaluation of healthcare services/funding** will certainly take place in due course. And with long-term demographic drivers still positive, there may be investment opportunities here.

Source: LaSalle (03/20)

Implications for Real Estate Investors and Managers

ADAPT THE PLAYBOOK FROM PAST CYCLES *TO NEW CIRCUMSTANCES*

- Urgent and Immediate Focus on **Defense***: Even faster this time*
- **Asset Management s**kills are essential for preserving and creating value: *New technology skills will be deployed: to communicate with tenants and property managers and to gather/organise data; building screening will become necessary*
- **Portfolio Construction m**atters: *Sectors at risk are very different this time. Hospitality and retail will be at risk whilst self-storage, logistics and some residential will be defensive*
- High **pricing** can lead investors to take on more risk: *Debt levels are more manageable than the GFC; more specialty sectors in core and non-core portfolios*
- ***Liquidity Management*** *is essential: Manage lender and equity relationships closely*
- **Debt and equity** capital markets tend to move together: *Dry powder will quickly get more scarce, more valuable, and will target higher returns*
- **Vintage Year** is the biggest factor in performance
  - When capital is/was abundant*: Keep income in place, adhere to new regulations*
  - Strong vintage years ahead, when capital is scarce*: Likely ahead in 2020-22*
- Importance of **Transparency** with investors: *Make use of new communication tools*

Source: LaSalle (03/20)

Contacts

Jacques Gordon
Global Strategist
Chicago
+1 312 897 4200
jacques.gordon@lasalle.com

Simon Marx
Investment Strategist - UK
London
+44 207 852 4492
simon.marx@lasalle.com

Petra Blazkova
Senior Strategist – Continental Europe
London
+44 20 7399 5568
petra.blazkova@lasalle.com

Zuhaib Butt
Associate Strategist - UK
London
+44 207 852 4066
zuhaib.butt@lasalle.com

Chris Psaras
Associate Strategist – Continental Europe
London
+44 207 852 4016
chris.psaras@lasalle.com

Dominic Silman
Data Strategist
London
+44 207 852 4119
dominic.silman@lasalle.com

Katie Taylor
Associate Strategist - UK
London
+44 20 7399 5117
katie.taylor@lasalle.com

Sabrina Zimmermann
Associate Analyst - Continental Europe
London
+44 207 087 5414
sabrina.zimmermann@lasalle.com

Tobias Lindqvist
Research Associate
London
+44 207 852 4027
tobias.lindqvist@lasalle.com

Ryan Daily
Associate Analyst - UK
London
+44 207 852 4107
ryan.daily@lasalle.com

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Appendix

Policy responses by country

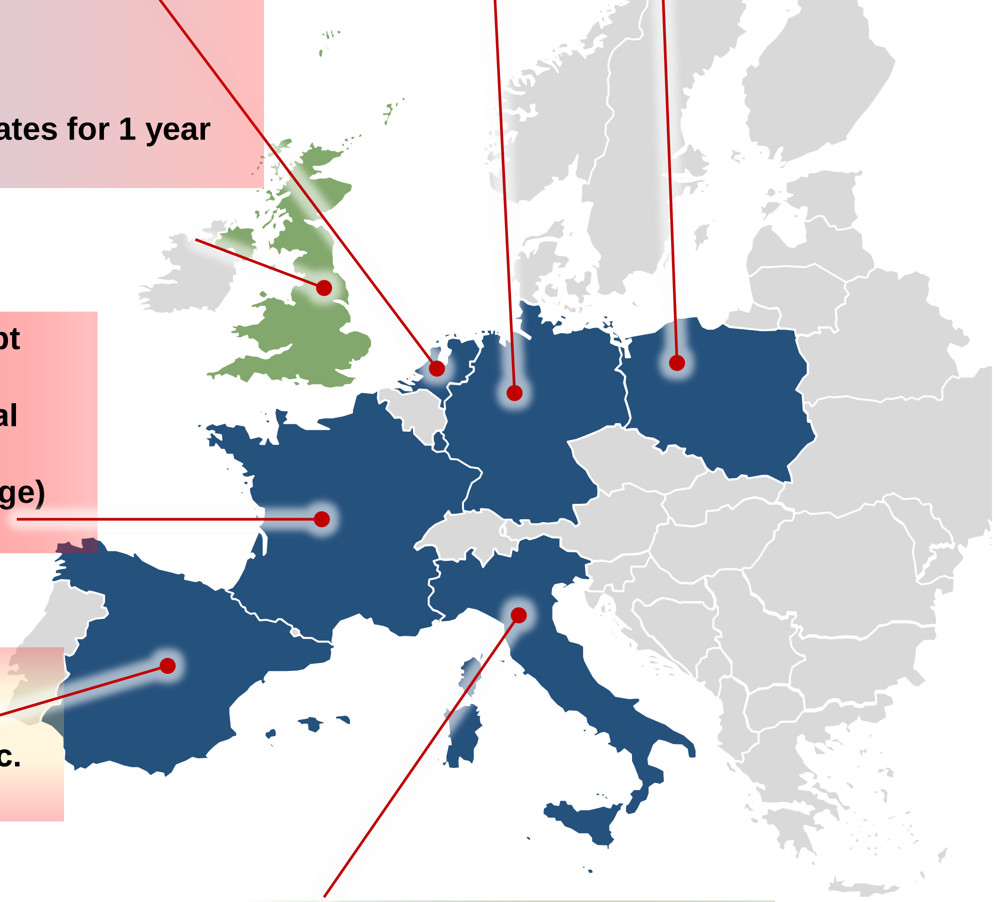
Deposit rate left unchanged . Increase in QE volume by €750bn until year-end (+40% of original QE) (over 9% of Eurozone GDP). Temporary TLTRO with -0.75% rates.

- Unlimited state guarantees to all firms, immediately available volume €1.2tn (€820bn for SMEs and €400bn at larger firms)
- State insurance covers 60% of wages
- Tax and social security deferrals available

- State guarantees of €2.5bn
- Government covers up to 90% of wages
- Tax deferrals & other fiscal spending ~ €10-20bn

- Interest rate cut by 50bps to 1%
- State guarantees amounting to €15bn
- Tax & social security deferrals & actual spending of ~€31bn
- Workers will receive up to 40% of salary. Self-employed may receive a salary of up to 80% of minimum wage

- Interest rate cut by 65 bps to 0.1% & QE of £200bn
- Fiscal budget: £12bn for spending & tax cuts
- State guarantees of £350bn
- Retail, hospitality & leisure sector exempt from business rates for 1 year
- UK government will pay up to 80% of wages



- Deferral of tax & social contributions, tax rebates & debt repayment holiday
- €45bn aid package for small businesses (reduced social contributions)
- Financial support for workers (pay up to 84% of net wage)
- State guarantees of €300bn and €1tn from EU

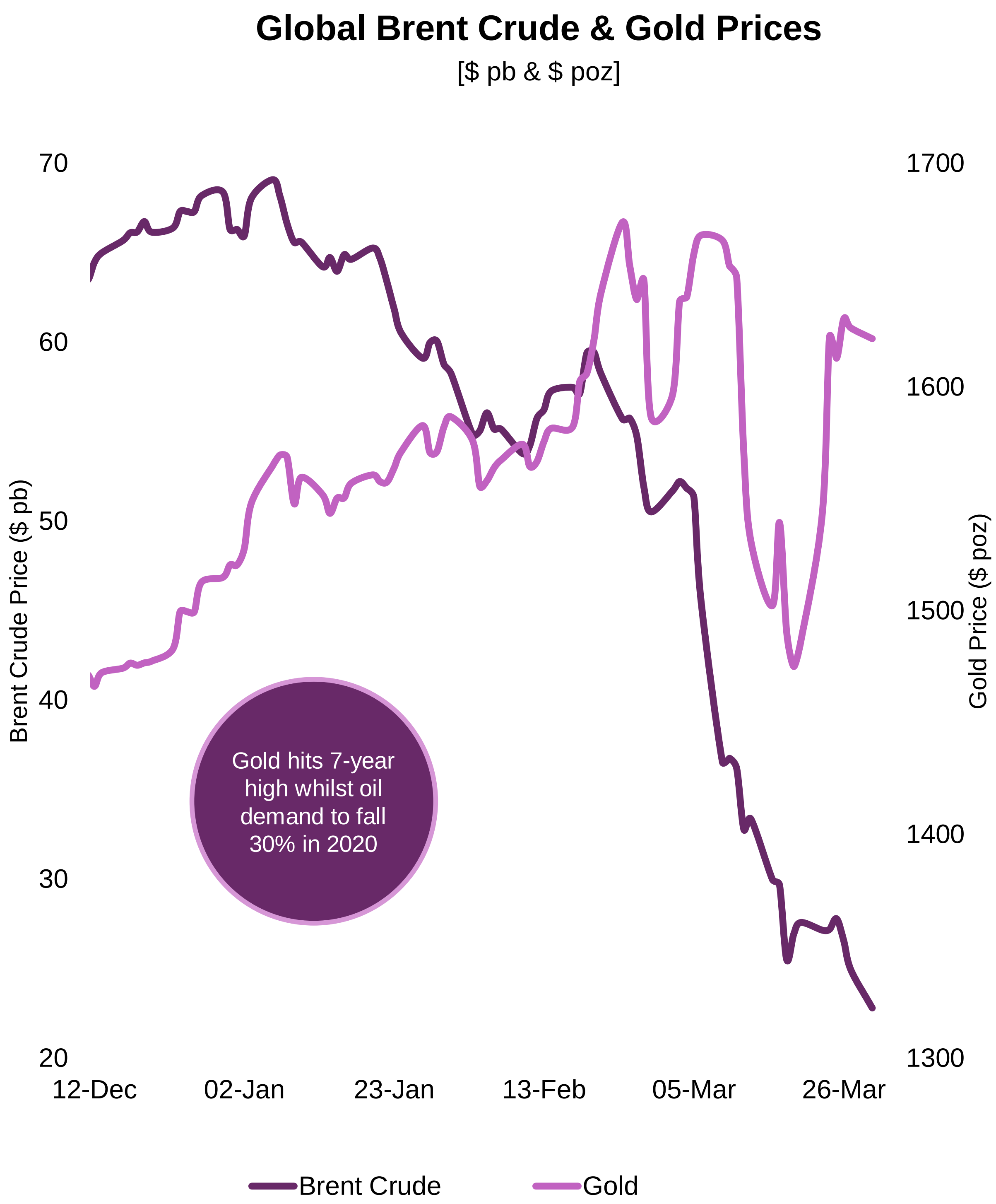
- €100bn state guarantees
- €400m credit line fore tourism sector
- €17bn spending for tax relieves, healthcare system etc.
- €83bn of private sector contribution

- Fiscal measures of up to €25bn to cover suspension of bill payments, taxes & mortgages
- One-off payments for workers and freeze on any worker lay-offs
- c.€3bn for healthcare system and civil protection agencies
- State guarantees amounting to €340bn

Source: Oxford Economics / LaSalle (03/20)

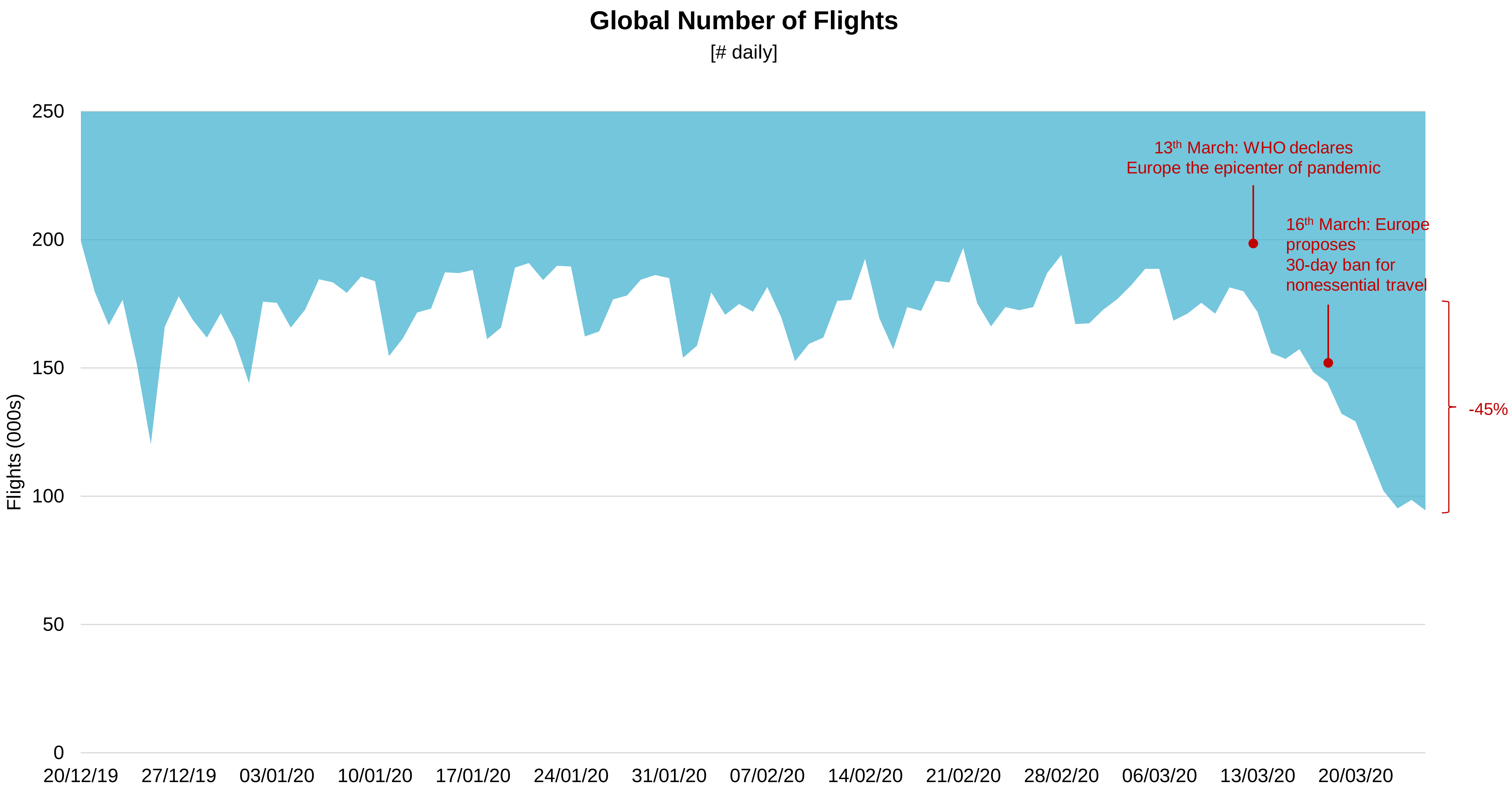
Weaker demand hits oil prices but gold prices rise due to uncertainty

INVESTOR CONFIDENCE IN EUROPE HOLDING UP DESPITE HIGHER NUMBER OF COVID 19 CASES



Source: LaSalle (03/20) Thomson Reuters (03/20) IEA (03/20) Investing.com (02/20) Markit (02/20)

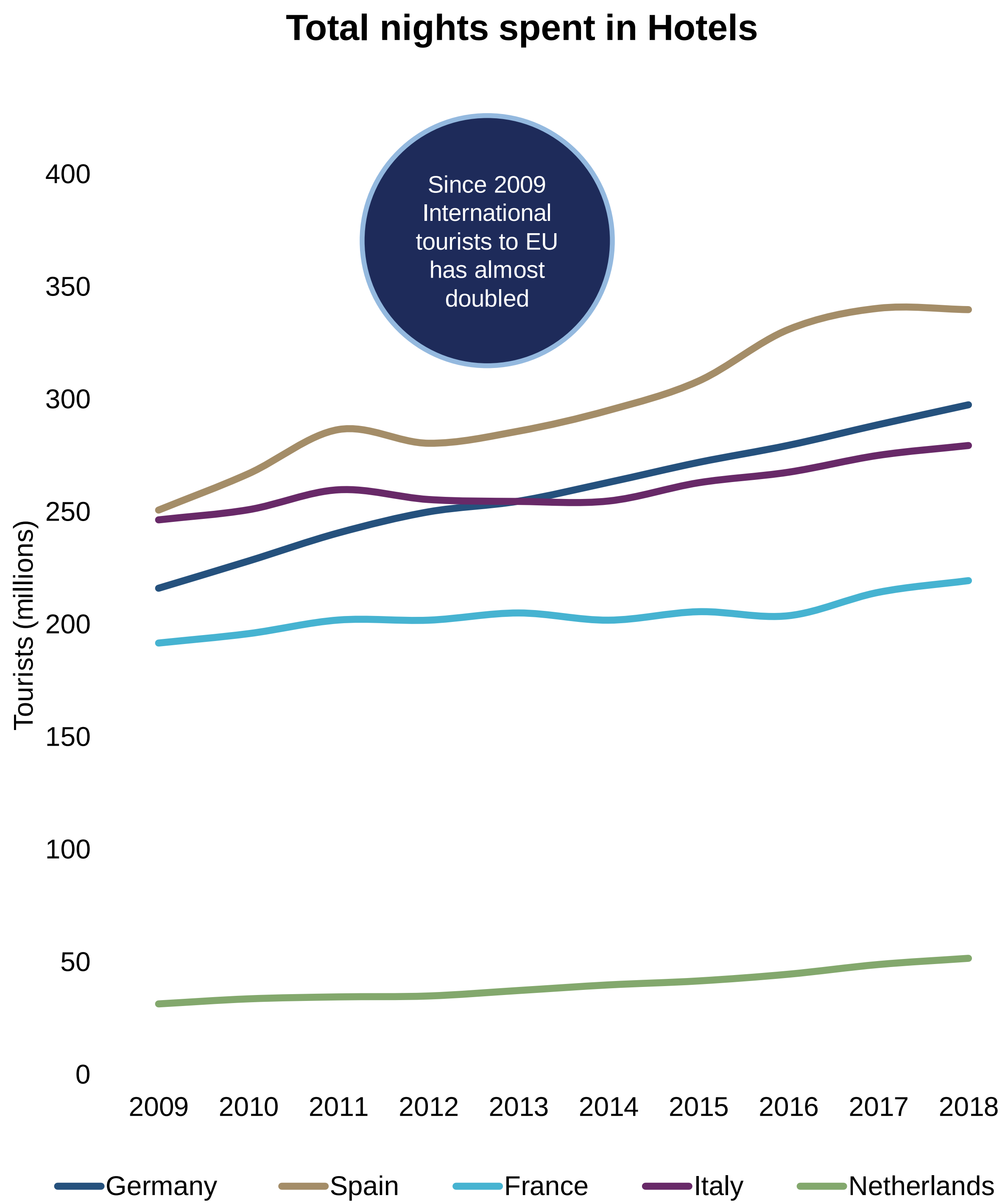
Hotels: Flights drop 45% after Europe declared epicentre of pandemic

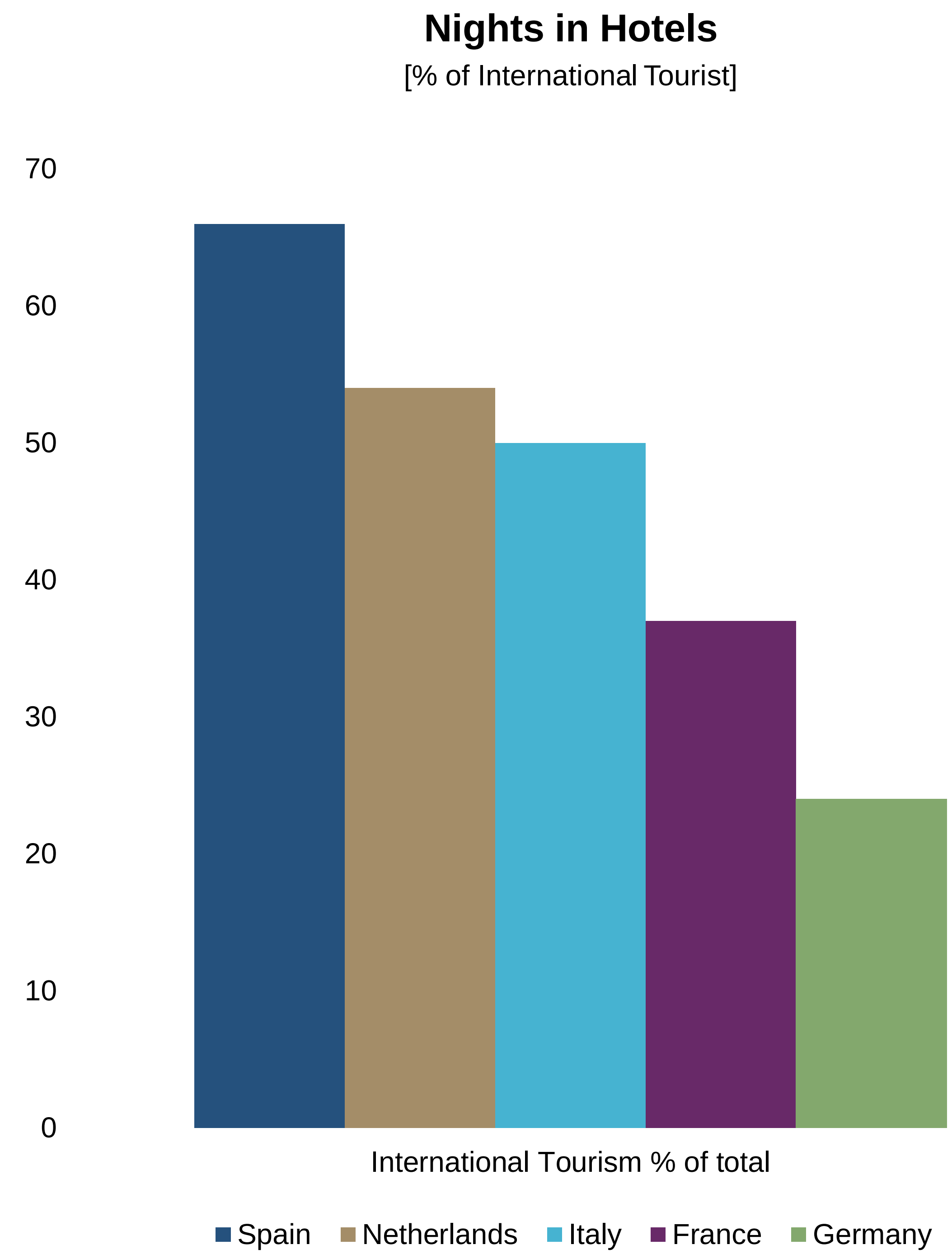


Source: LaSalle (03/20) Flightradar24 Global Flights Tracked (03/20)

Hotels: Share of international tourists has grown substantially

MAJOR EUROPEAN CITIES MOST LIKELY TO SUFFER FROM PROLONGED DROP IN TOURISM





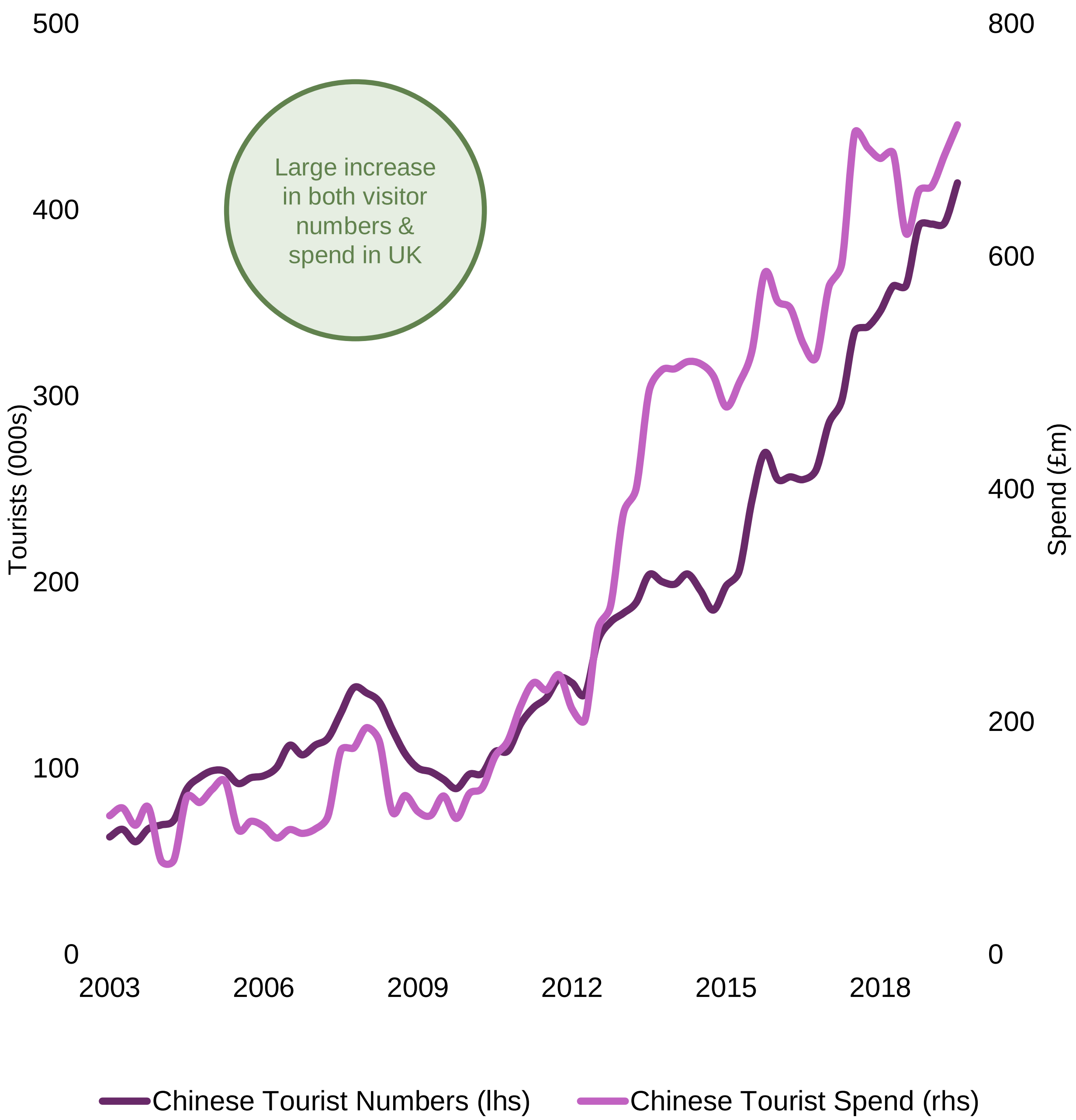
Source: LaSalle (03/20) Eurostat (02/20)

Hotels: Chinese visitors to UK has increased rapidly in recent years

COVID-19 IMPACT WOULD BE FELT IN LONDON & OTHER KEY TOURIST ATTRACTIONS MORE THAN REST OF UK

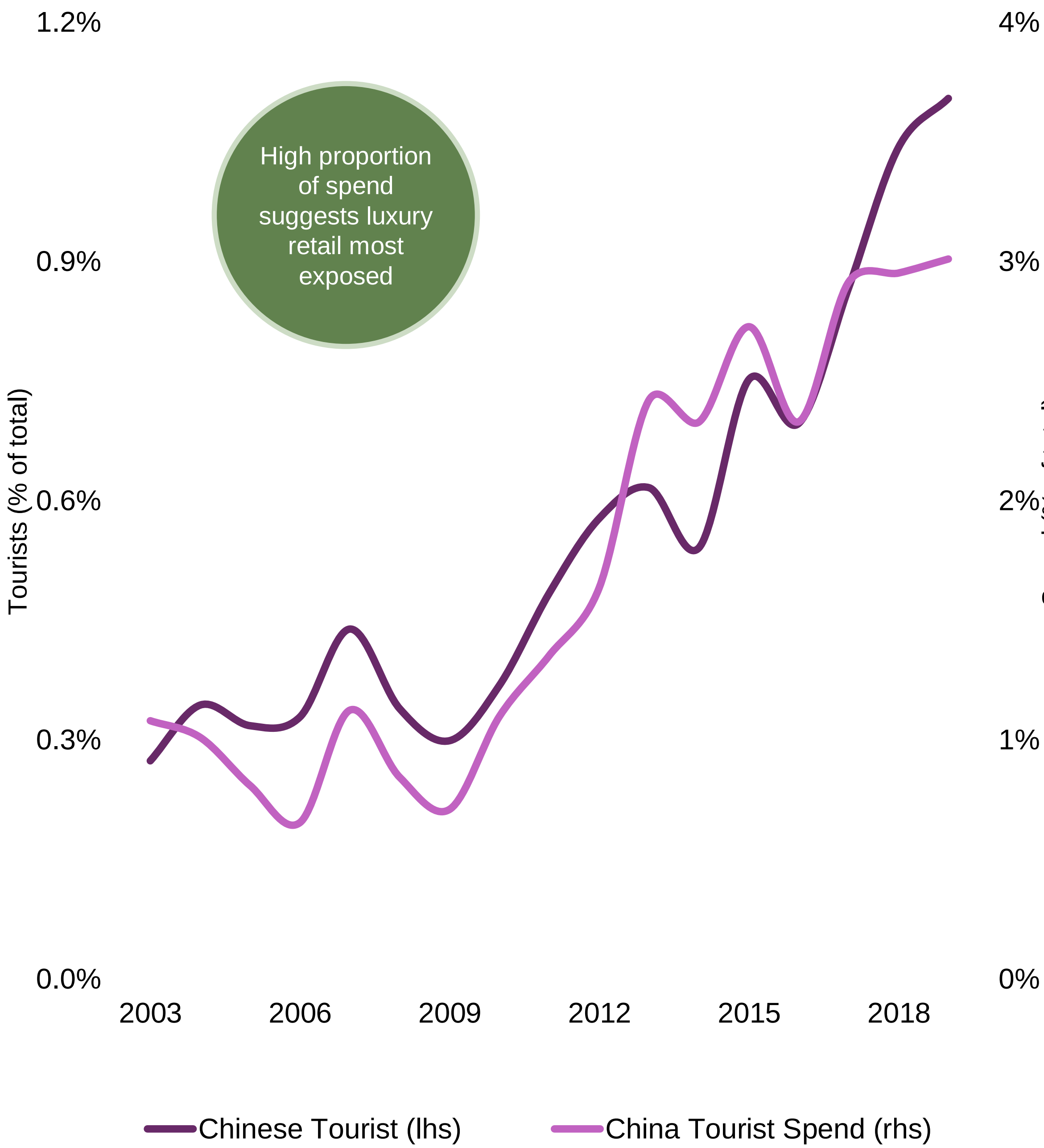
Tourists/Spend in UK by Chinese Tourists

[rolling annual]



Share of Tourists/Spend in UK by Chinese Tourists

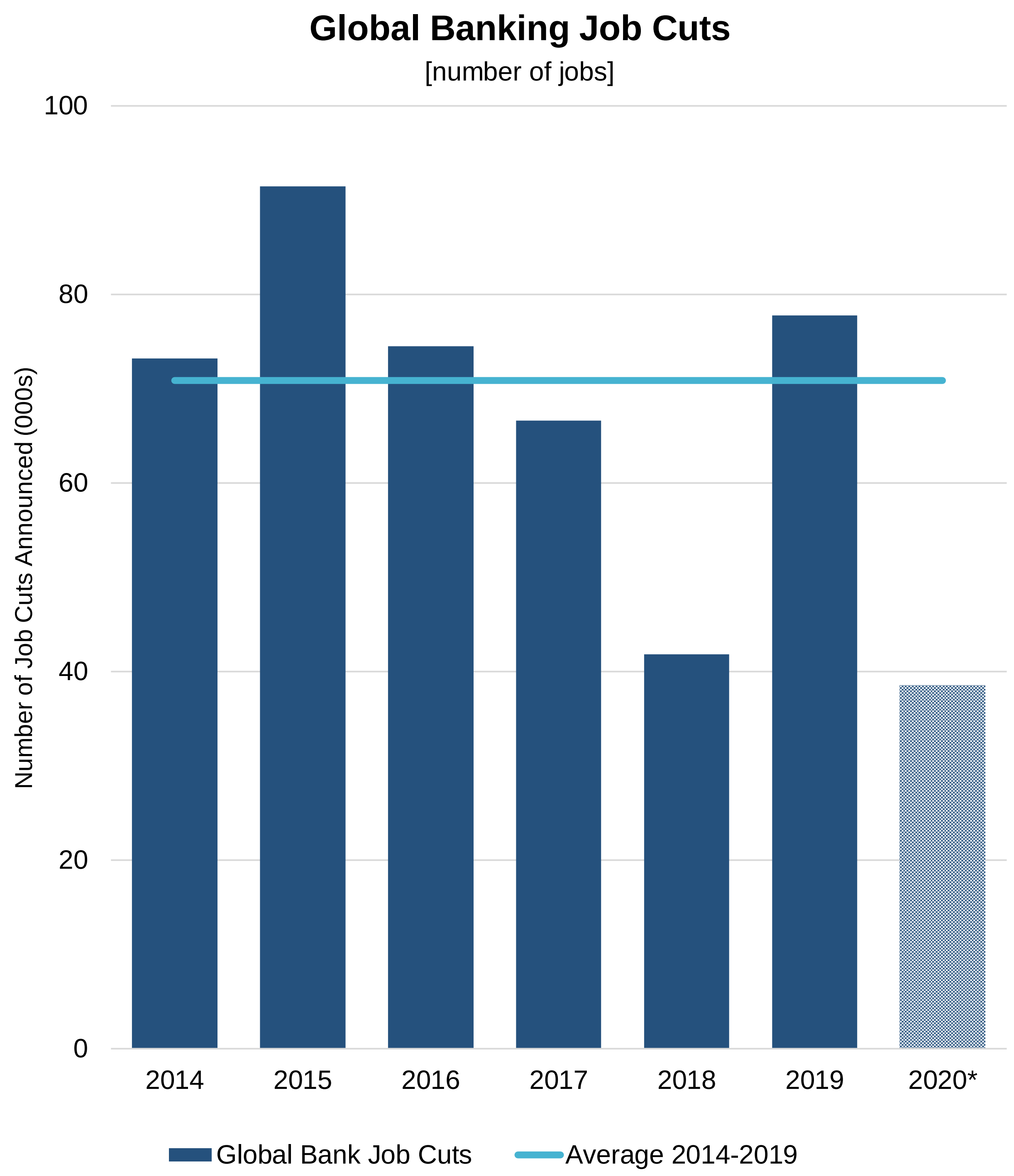
[% of total]

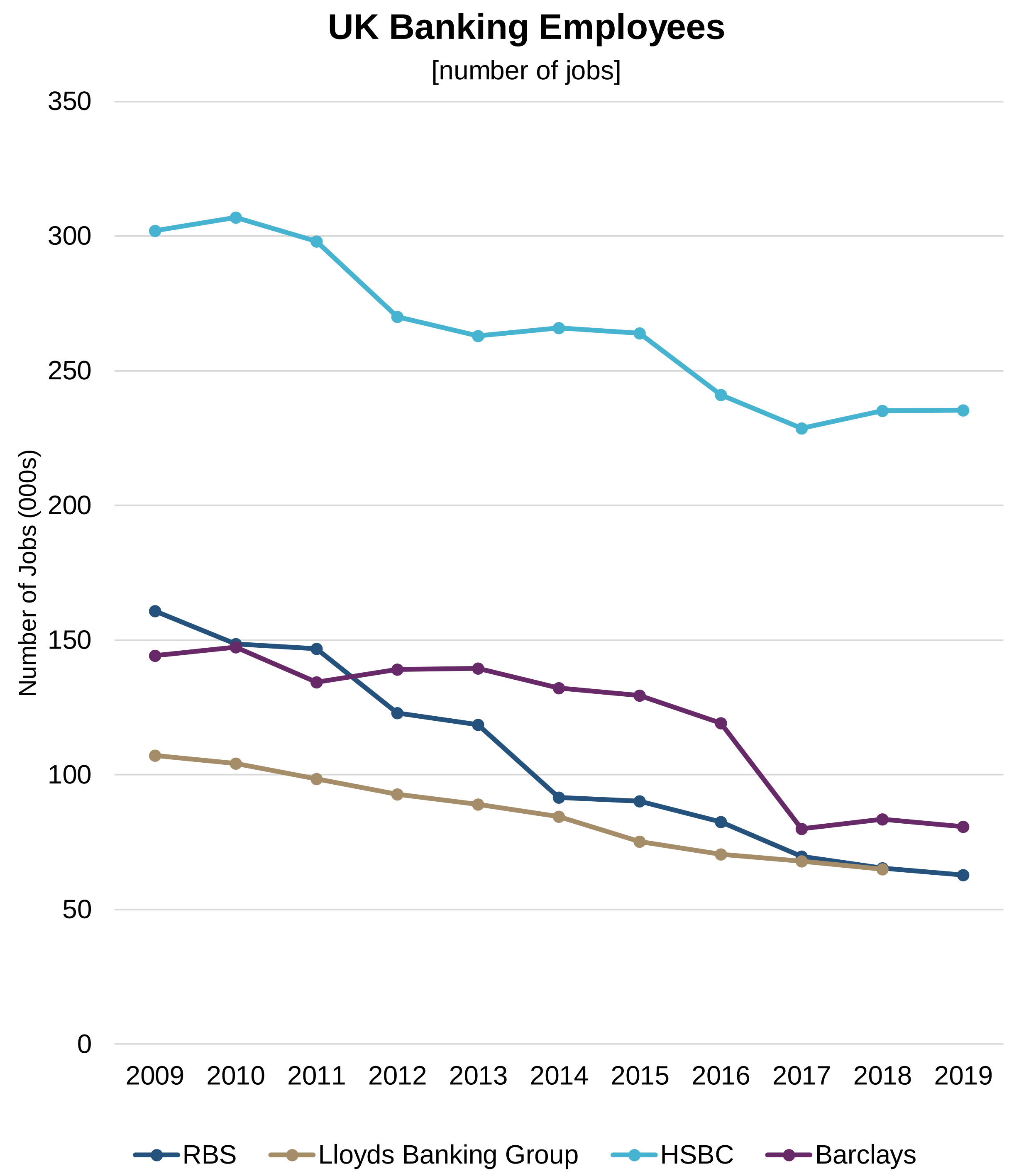


Source: LaSalle (03/20) VisitBritain (09/19)

Office: Global banking sector has recorded sustained job cuts

UK BANKING SECTOR HAS STEADILY CONTRACTED IN RECENT YEARS

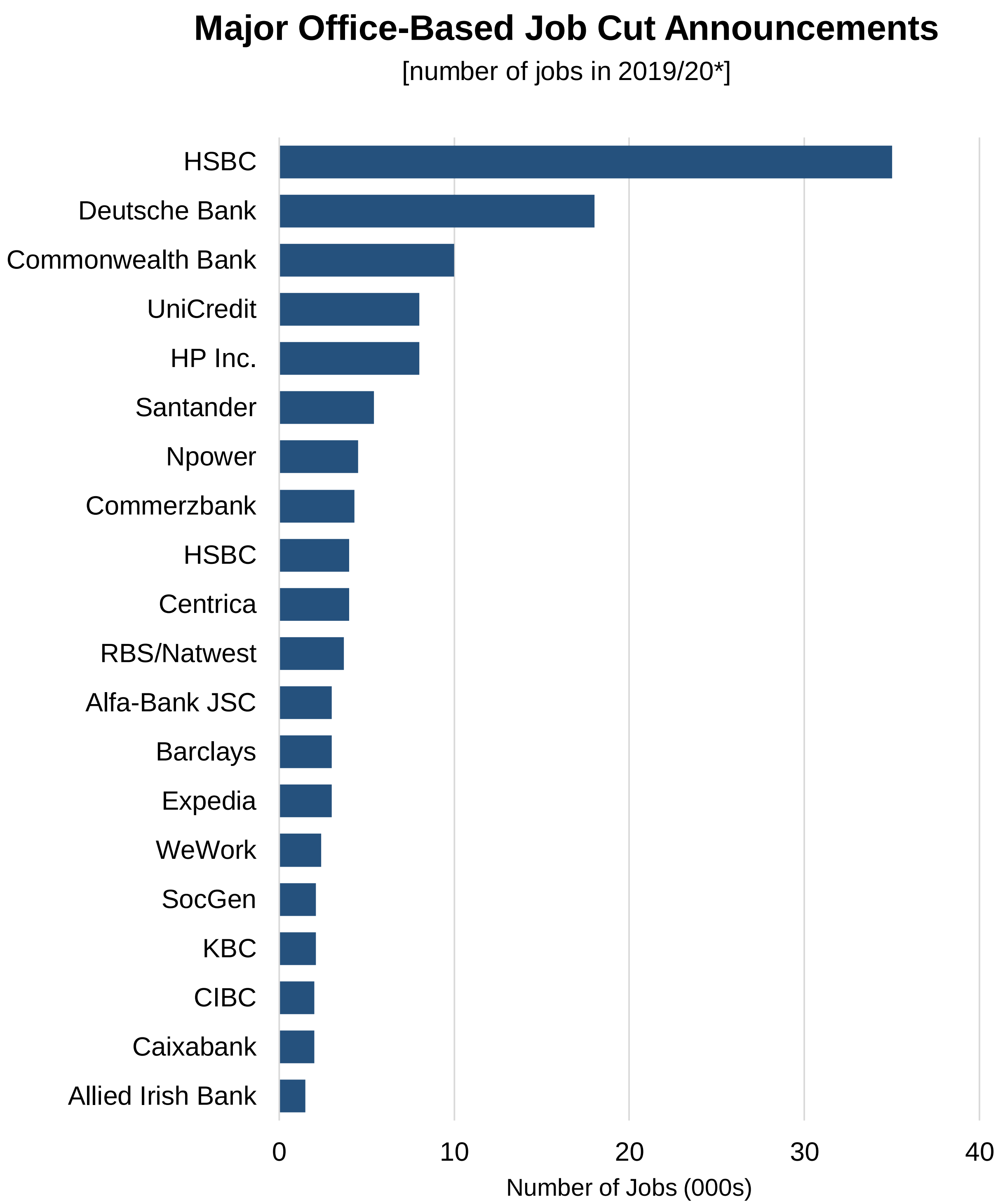


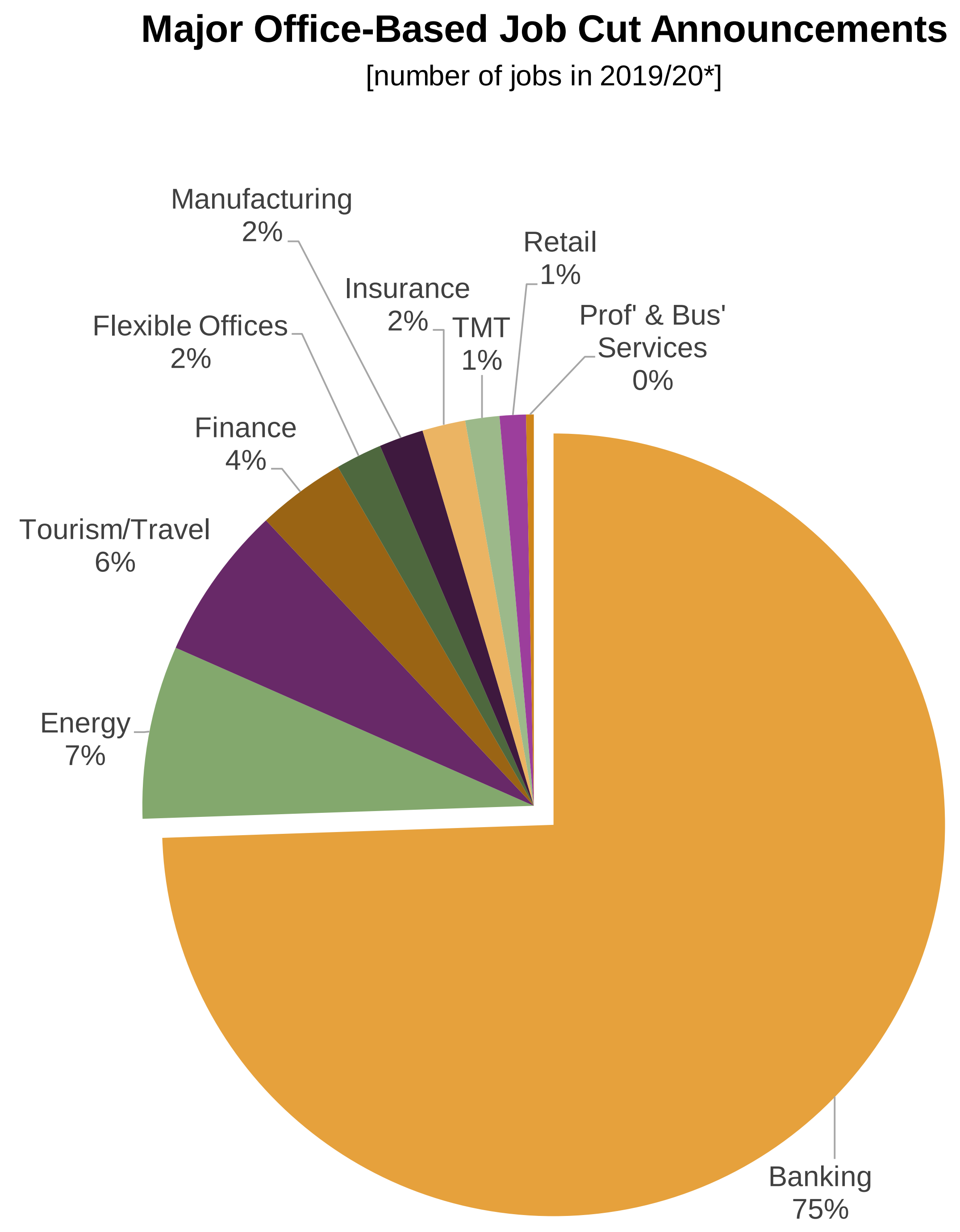


*Data as at 18.02.20
Source: LaSalle (03/20) Bloomberg (02/20) MacroTrends (03/20)

Office: Recent job cuts primarily focussed on banking sector

COVID-19 PANDEMIC COULD SEE WAVE OF FURTHER ANNOUNCEMENTS AS PROFITS COME UNDER PRESSURE

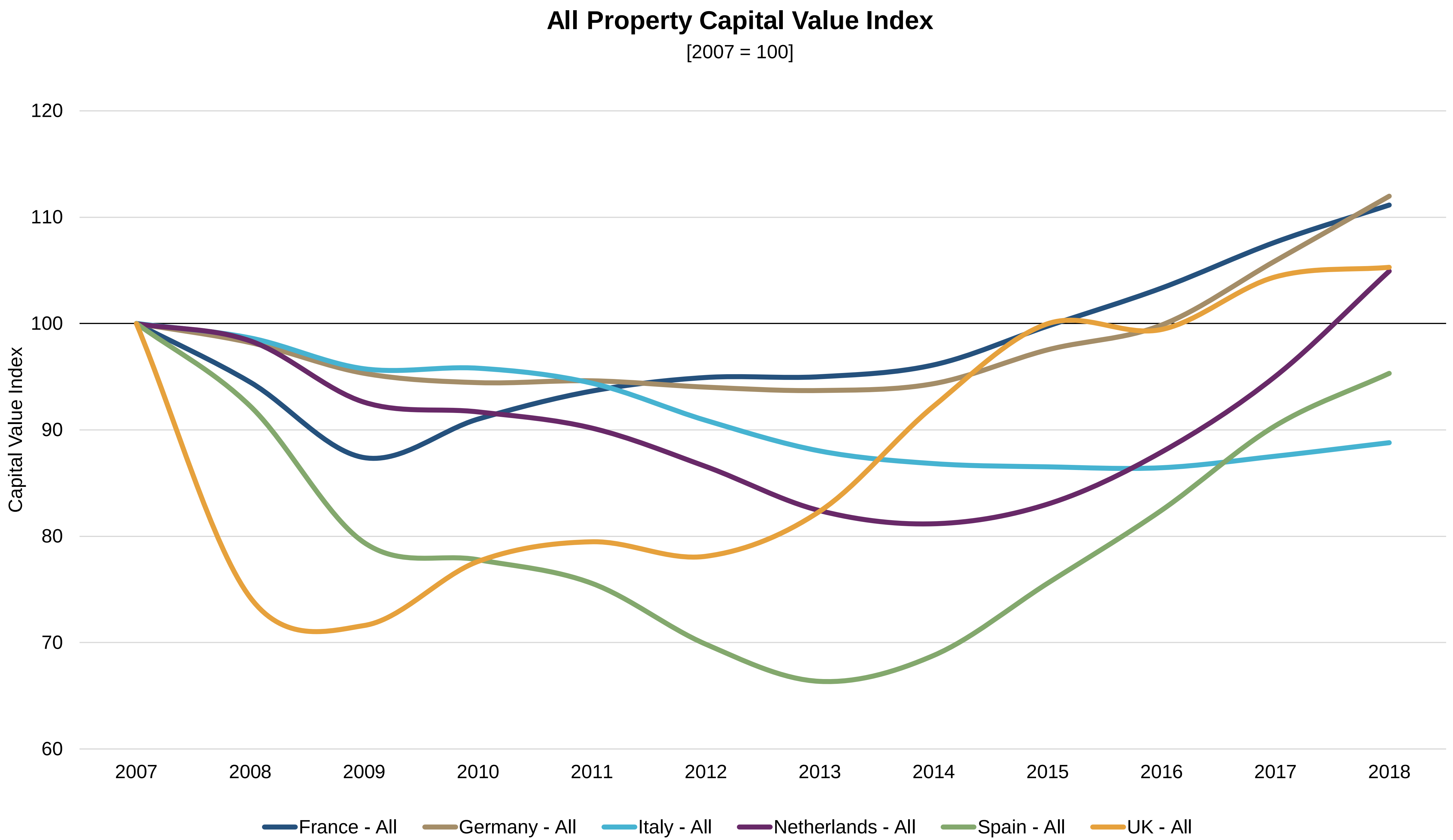




*Data as at 16.03.20
Source: LaSalle (03/20), MacroTrends (03/20)

Capital value recovery from the GFC took many years in nominal terms

ITALY & SPAIN YET TO REGAIN PREVIOUS PEAK



Source: LaSalle (03/20) MSCI (12/19)