

KEY CONSIDERATIONS FOR REAL ESTATE INVESTORS

COVID-19 EDITION



INTRODUCTION

Real estate investors worldwide are grappling with the challenges presented by the Covid-19 crisis. These challenges are unique due to the unprecedented nature of worldwide lockdowns and the subsequent extraordinary fallout. They range from sharp short-term shocks, microeconomies and specific industries to more comprehensive global macroeconomic effects on entire nations. This will have long term implications on the way we live and do business in the future.

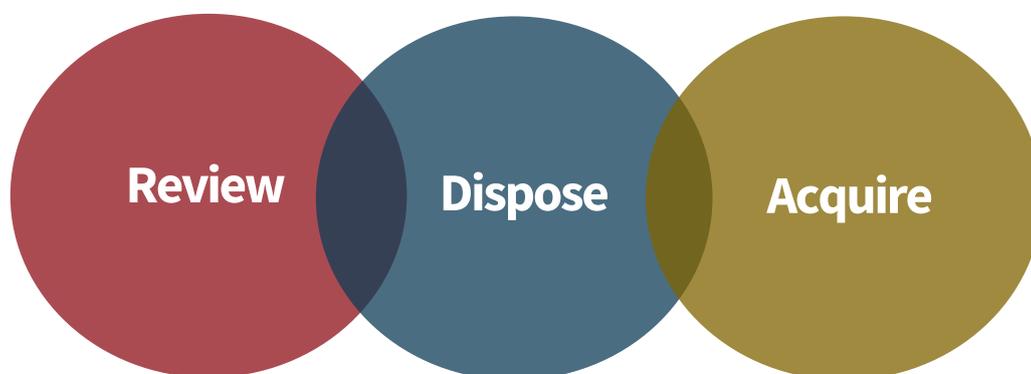
Recent studies show that real estate assets are displaying resilience as more cash continues to flow to these more traditional asset classes. However, real estate investors need to navigate these difficult times using intelligent, data driven decision making in order to ensure the best possible performance from their portfolios and assets.

Complex problem solving always starts by looking at fundamentals; COVID-19 has challenged some of these fundamentals. Utilising a simple approach that assesses the core underpinnings presents a clearer outlook in the face of complex challenges. This in turn assists decision makers with being able to breakdown these composite issues into actionable tasks that can then be implemented.

This guide offers fundamental considerations to investors providing actionable steps towards successful decision making in these uncertain times. This includes a blueprint of the more important questions and considerations that Investors should keep in mind when assessing their current portfolios or when considering new assets and opportunities.

At Colliers we offer world class market insights utilising the latest, most up to date data. This in turn provides our clients with the tools they need to work through these challenging times. Our global platform coupled with our in-depth expertise in all aspects of the real estate industry allows us to work with our clients as a strategic partner providing creative solutions for the challenges they face. Our aim is to assist our clients and partners to navigate the unique challenges that are specific to their portfolios rather than presenting generalised market overviews that may or may not cater to the client's current situation.

THE THREE-STEPS APPROACH



Whether you're a successful individual real estate investor with a multiple-unit residential portfolio or a large institutional investor with thousands of properties encompassing a plethora of real estate asset types. Working with our experts through this guide can help you utilise a strategic three-pronged approach consisting of the following steps

- **Review:** Completing a review of your entire portfolio is always a good place to start when compiling a strategy. From reviewing the performance of individual assets, to completing a **SWOT** analysis for your entire portfolio as well as measuring how your portfolio is equipped to deal with the challenges presented by the current market conditions.
- **Dispose:** Determining which assets are underperforming or no longer complimentary to an investor's overall strategy. Utilising our global Capital Markets capabilities, we find the right investor for your asset improving liquidity and cash flow realignment.
- **Acquire:** Crises will inevitably present some golden opportunities for investors. Using detailed market insights to underline key real estate trends to zero in on undervalued assets as well as assets that will provide greater stability and/or flexibility in the future. Whether for income returns and/or long-term capital appreciation, the key is ensuring all the existing and post COVID new considerations are considered when valuing and assessing a potential acquisition.

KEY CONSIDERATIONS

Short Term and Immediate considerations on existing portfolios:

Cash flow implications:

- How will your tenants' ability to meet their obligations be impacted by the crisis.
- What strategies can be put in place to mitigate this risk for the short term? (Rent deferrals, rent reductions, operational expenditure). Analysing percentages of rent defaults before and after the crisis is integral to risk mitigation plans.
- What impact and what strategies to adopt on reduced revenue and its impact on financial and shareholder obligations. Re-gearing options on finance to release equity or cut costs of finance.

Supply and demand / Location:

- Track the market's response to the crisis in terms of supply and demand.
- Study trends of potential tenant and investor interest through portal demand and compare YOY to see underlying and post COVID impact.

Occupancy levels

- Maximising efforts to retain tenants and maintain occupancy levels will be key in the next second half of 2020.
- Identify competitors in the market and analyse their response to the pandemic.
- Maintain open lines of communication with tenants offering transparency and an understanding of their needs.
- Flexibility on reinstatement as exiting tenants could leave fit out in place attracting incoming tenants looking to reduce their capex exposure.
- Recycle current vacant space and offer **"open free space"** to existing tenants to allow them to fulfil social distancing and keep them engaged as tenants.

Government regulations and their effects

- Monitor new regulations, both financial and operational, that could potentially impact your strategic decisions.



Long-term
Short-term

LONG-TERM CONSIDERATIONS

Population and demographics:

The long-term impact of the crisis on the location and asset type in terms of population and demographics; Monitoring population movement within the local market. I.e. moving to more affordable housing, re-urbanisation or suburbanisation.

Capital Movement

Monitoring capital movement on a global scale and how that affects your local market. Will US and Europe continue to spend capital in MENA/AIPAC? Will capital movement outside of China continue or will they focus on their domestic market?

Types of assets and how they will be affected

Reviewing the broader industries as opposed to just the strength of the company - yield performance may not only be linked to former covenant status of firms, but also the sector these firms operate in.

When thinking of future investments, investors must take into consideration which asset classes will be heavily impacted by the crisis versus those that will be least impacted or even experience growth post-crisis.

Heavily impacted assets:

Properties that cater to higher population densities such as retail and its sub sectors, are the most visibly affected by the crisis. Investors should consider heavily distressed properties which still carry essential activities that will inevitably get a resurgence.

Lesser impacted:

For investors with greater risk appetite and who are aware of the management intensity, residential real estate (multi-family units) may offer good opportunities especially in the affordable housing sector. This is supported by the lower interest rates and the availability of distressed assets.

Least impacted:

Modern logistics, smart warehousing and assets that cater to technology driven businesses have been the least impacted and should continue to experience growth as more capital is directed to this sector.

LIFE AFTER COVID-19 – KEY TAKEAWAYS

As we settle into the changing landscape around us that comes as a result of this global pandemic, new questions must be asked in order to prepare ourselves to not only adapt but to also be ahead of the curve when it comes to some of the new regulations, habits and fundamentals that are likely to become the norm in the near future.

- New health regulations impact real estate fundamentals in the immediate and potentially the long term.
- The way we conduct business is continually changing and how this impacts occupants and the concurrent real estate investment decisions.
- Review the effects of the pandemic on contracts, including force majeure stipulations.
- Due diligence for both existing and new assets on a micro, tenant and space utilisation, to the macro environment; government regulations, industry performance, demographic movement and future industries.



FOR MORE INFORMATION

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About Colliers International

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