



COVID-19 REAL ESTATE INVESTMENT GUIDE

CBRE | **WOLF THEISS**

INITIAL STATEMENTS



The Covid-19 pandemic continues to have an unprecedented impact across the globe. This resource provides up-to-date insight on how the various real estate sectors are progressing after the markets have started to reopen. A basic assessment of the structural risks for key markets in Europe can be easily applied to real estate portfolios and even to a single building. Our aim has been to assess key market trends and expected long-term changes to provide a solid basis for your upcoming real estate investment decisions. We are readily available to advise you on any real estate inquiries in these challenging times.

Andreas Ridder

Managing Director CBRE Austria & CEE



The Covid-19 crisis has led to considerable changes in the real estate industry. These changes are also affecting legal aspects of transactions and contracts.

We believe that some of these changes are here to stay, notwithstanding when exactly things will be getting back to some “normal” again. Or, to put it slightly different: There will be a “new normal”, also in the legal world of real estate, in the post-Covid-era. The present paper investigates what these new legal realities, that are currently taking form, will precisely be.

Peter Oberlechner, Birgit Kraml

Partners, WOLF THEISS Attorneys at Law

CURRENT TRENDS IN REAL ESTATE INVESTMENT MARKETS

→ Covid-19 has strongly impacted the European real estate investment market. As a reaction, investors will move down the risk spectrum and seek an upside during the economic down-turn.

→ Latest investment data for the first half-year of 2020 suggest widespread uncertainty in the market, which leads to decreased investment activity in 2020.

However, the uptrend in investment that began in June indicates that a recovery is picking up momentum.

→ There is plenty of capital ready to be invested assuming a quick economic recovery after Covid-19 and we have seen very little movement in the pricing of prime assets, especially in the major gateway cities.



CURRENT TRENDS IN REAL ESTATE INVESTMENT MARKETS

3 key trends

→ Prime assets sought after by investors: Well-located and fully occupied properties are currently in greater demand than ever. On the back-end of Covid-19, single tenant properties and sale-leaseback transactions are increasing as they offer the potential to minimize the risk for landlord and tenants.

→ Focus on asset classes which are attributed as more resilient: At the sector level, multi-family, office and logistics as investors were looking for stable income streams in the face of increasing economic uncertainty.

→ Stability becomes increasingly popular again: In response to Covid-19, investors are actively seeking investment opportunities in more stable markets. Markets such as Germany, Austria and the Netherlands recorded the lowest declines in investment activity and the most stable yield levels across Europe during the first half of 2020.

Beating the crisis together: Strategy for Landlords and Occupiers

→ To minimize the impact of Covid-19 restrictions, over 50% of occupiers have held discussions with landlords about aspects of their existing lease agreements, but only about a third have been offered relief measures by landlords and the majority of these are unsatisfied with the concessions offered.

→ Occupiers highlight the longer-term shift in strategy towards an increased adoption of home working and the subsequent review of their locational footprint. Consequently, and in view of the still rather uncertain recovery forecasts, it is in the landlords' own interest to closely analyze the tenant structure and actively approach tenants to find a balanced solution for both sides.

In May 2020 CBRE conducted the [European Occupier Flash Survey](#) to improve the understanding of occupier needs caused by Covid-19 restrictions.

CURRENT LEGAL TRENDS IN REAL ESTATE DEVELOPMENT AND TRANSACTIONS

→ Several legal processes that commenced prior to the start of the crisis in March are still ongoing; however, legal processes as a whole – due diligence, negotiation, and transactions – have slowed down as a result of the crisis.

→ Travel restrictions have a huge impact on real estate transactions as a “people’s business”, especially regarding restrictions to physically inspect assets.

→ Difficulties with valuation make pricing formulae more complicated.

In several instances, lending conditions have changed, resulting in the need for deal re-negotiation.

→ Concerns about a “Second Wave” and about similar future catastrophic events lead to implementation of complex force majeure/material adverse change/rescission and similar clauses.

→ The digitalisation of transactions (use of transaction platforms) is rapidly progressing – LegalTech and PropTech are the necessities of the hour.



RISK ASSESSMENT IMPACT OF COVID-19 ON KEY EUROPEAN MARKETS

To anticipate the potential impact on the key real estate markets in Europe, we have identified three categories of industries that could dramatically influence the trajectory of real estate markets as a result of this pandemic:

FIRST-WAVE INDUSTRIES

Arts, entertainment, recreation, wholesale, retail trade, transportation, storage, accommodation, food services

Industries immediately affected due to the pandemic.

SECOND-WAVE INDUSTRIES

Financial & insurance activities, manufacturing, construction, real estate activities

Industries likely to be affected due to the longer-term economic disruption as a result of the pandemic.

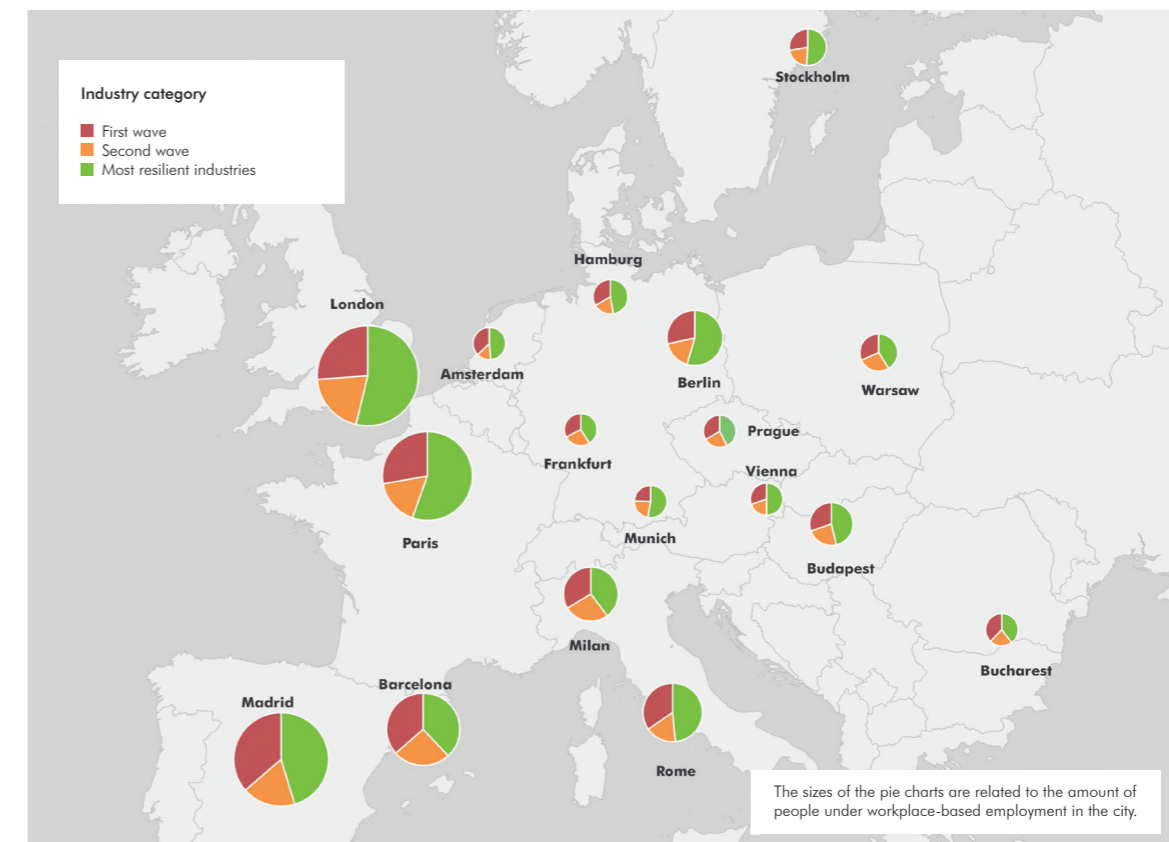
RESILIENT INDUSTRIES

Agriculture, forestry, fishing, electricity, gas & water supply, information, communication, human health, social work, education, professional-, scientific & technical activities, public administration, defence

Industries that are not immune to economic effects of the pandemic, but have a higher likelihood of stability and possibly growth.

To analyze the impact of Covid-19 on the above formulated key markets in various European cities, the size of each key market is equivalent to the total amount of people working in the relevant sectors in each city. The sectors administrative & support activities, mining & quarrying as well as other services were not classified.

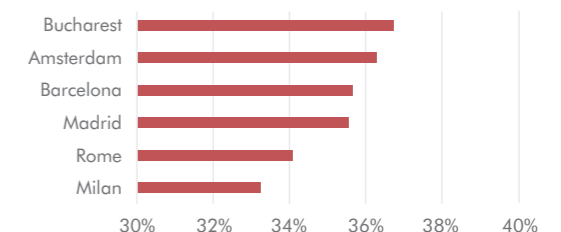
INDUSTRIES AFFECTED BY COVID-19



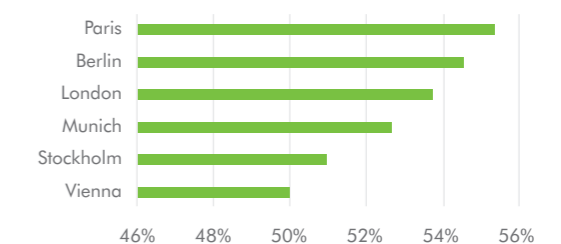
→ The analysis of the distribution of industries shows that even in this crisis, the traditional core markets Paris and London are the most resistant, even though Berlin and Vienna are among the top real estate markets with an advantageous economic structure to cope with the Covid-19 crisis.

→ At the other end of the spectrum, Bucharest and Amsterdam suffer from high shares of wholesale & retail trade and transportation industries.

TOP MARKETS BY SHARE OF FIRST WAVE INDUSTRIES



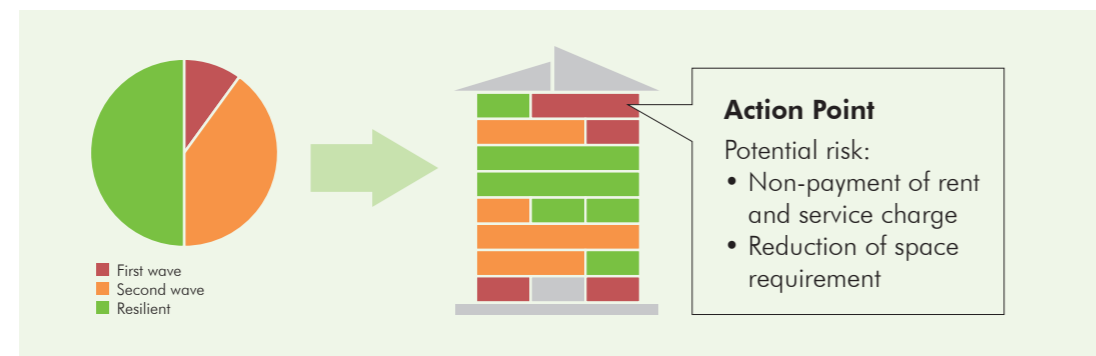
TOP MARKETS BY SHARE OF MOST RESILIENT INDUSTRIES



RISK ASSESSMENT IMPACT OF COVID-19 ON REAL ESTATE PORTFOLIOS

The risk assessment model for key real estate markets can also serve as a simple model to evaluate potential risks and action-points within your portfolio in advance.

Real estate portfolio



LEGAL RISK ASSESSMENT POST-COVID-19

General risk points

→ Continued travel restrictions, concerns of new restrictions and general safety concerns regarding future business travel make physical real estate due diligence and personal meetings/negotiations more difficult.

→ The occurrence of truly global risk events has for the first time in recent history shown to be a reality.

→ All real estate related contracts will become more complex: both in construction and development agreements, in sale and purchase agreements (particularly in forward purchase agreements), in credit and loan agreements, and also in lease contracts, epidemics clauses and other force majeure related provisions will be given much more room.

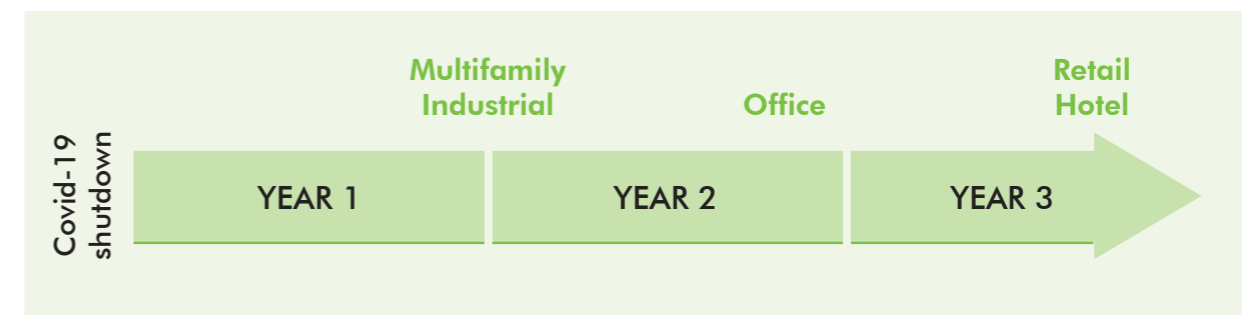
REAL ESTATE RECOVERY TIMELINE



→ There is a great bit of uncertainty regarding the “shape” of the expected economic recovery. Driven by the current situation in Asia and Europe and assuming that a second economic decline in fall can be prevented, the expectations for commercial real estate are slightly more optimistic.

→ However, commercial real estate in a broader view will fall behind in the overall economy with no expected new rent growth in even the most bullish market segments through mid 2021.

1-2-3 tiered real estate recovery scenario until new rental growth after possible Covid-19 downturn or stagnation



The timeline refers to new rental growth in the majority of markets in Europe and assumes a significant economic rebound in 2021 (V-shaped recovery).

IMPACT ON OFFICE PROPERTIES

→ In the short run, the spotlight falls on rethinking and reshaping workplaces, redesigning spaces to ensure physical distancing.

→ There is a strong pressure on home office approach creating financial savings vs. growing counter voice promoting operational and social advantages of working together in the office.

→ Despite the new focus employees are placing on flexibility, they also value time in the office and expect to have an even more supportive office to connect with colleagues and clients effectively.



Companies are changing the way they think about remote working, and starting to consider what this means in terms of the type and amount of space they may need in the future.

Doing the work now to figure out your workplace requirements for the future will mean an optimised property footprint, while providing the flexibility needed to win the war for talent, and realising property savings across your portfolio.

Three stage spacesizing process to navigate the changes to find your new way of working and rightsize your space




STAGE 1: STRATEGY

-  Define your aspiration and appetite for change
-  Conduct an impact analysis based on scenarios
-  Develop your high level business case
-  Confirm overall strategy including saving targets

Outcome: Strategy paper with estimated footprint and savings





STAGE 2: DETAILED PLANNING

Ways of working

-  Analyse your working patterns based on roles/functions
-  Use work mode modelling to build scenarios
-  Determine what needs to change: cultural, technology, space and portfolio

Outcome: Detailed new 'Way of Working' mode

Space and portfolio

-  Plan and prototype your space requirements
-  Visualise your new workplace
-  Assess the impact on your portfolio
-  Develop detailed business case

Outcome: Blueprint for your new workplace and portfolio plan

STAGE 3: IMPLEMENTATION

-  Design your program of cultural change
-  Determine cost of implementation
-  Assess and mitigate your risks
-  Confirm overall strategy including saving targets

Outcome: Structured program of change and engagement

IMPACT ON OFFICE PROPERTIES

Legal trends

→ Legal standards and requirements regarding clean air/air filtration, “touchless” office buildings, separate entrance/exit solutions for office and workplace safety, digitalisation etc. are increasing.

→ New building certifications are emerging on the horizon, namely “Epidemic-certified buildings”.

→ Tenants will require clauses for rent reduction in case of forced lockdown/quarantine measures, and other instances of limited usability of/access to office premises on grounds of epidemics and other force majeure events.

→ In the future, office lease terms will be shorter, and, also due to an increased shift to home office, leases will be more flexible.



IMPACT ON RETAIL PROPERTIES

The continued disruption caused by the lockdown and prolonged social distancing measures will further accentuate the already existing pressure on brick-and-mortar retail caused by the rapid growth of e-commerce. As a consequence, completely new omnichannel concepts such as the cooperation of major shopping center operators with an e-commerce market leader were implemented.

Legal trends

→ Tenants will seek clauses providing for rent holiday in case of access restrictions/customer lockout/shop and/or center closure in all jurisdictions that do not already provide for this.

→ Several retail contracts in the future will be purely turnover rent based contracts – minimum rent contracts will lose significance.

→ More tenants will be going multi-/omnichannel, which means a challenge to find a fair balance for reflecting online orders/sales with some nexus to the retail premises in lease agreements.

→ Contract terms will be shorter.

→ Break options for tenants will have more significance.

→ Space requirements will be decreasing – “drop-off packages”/partial break options will be sought after particularly by anchor tenants.



Recovery of footfall and turnover looks very different depending on retail scheme:

STAND-ALONE	RETAIL PARKS	SHOPPING CENTRES	HIGH STREETS
DIY, furniture and household appliances recorded high sales volumes and even outperform last years turnovers in some countries.	Picking up faster after lockdown based on high grocery share and other calming factors like outdoor access, individual transport friendliness and local customer base.	Have to deal with customers’ reluctance toward extensive leisure shopping. On the upside, shopping is more likely to be targeted than window shopping. This means fewer shoppers, but with higher spends.	Reveal their dependence on international city tourism and, especially in the luxury segment, will not reach former turnover levels until the return of oversea visitors.

IMPACT ON RESIDENTIAL PROPERTIES

→ The fundamentals of the multifamily sector remain very promising as long-term secular trends are still firmly in place. Given the strongest increase by far in deal activity during 2020, multifamily is now the largest asset class on the European real estate investment market proving that investors are increasingly seeing multifamily as one of the safer bets.

→ Leasing markets have remained relatively stable thus far, but some jurisdictions may start seeing some downward pressure on short to medium term rental growth as new leasing activity may level off and apartments formerly used for tourists offer additional supply to the market.

RESIDENTIAL
INVESTMENT VOLUME
EUROPE (ROLING 12 MONTH)



→ Covid-19 imposed new requirements for Multifamily real estate and urban development.

- Demand for the integration of workspace in already highly efficient layouts
- Private or semi-private outdoor areas
- Transport-free accessibility of green space
- Focus on placemaking to provide high quality micro-locations

Legal trends

→ Developers will be required to procure for "crisis-safe" construction standards for residential buildings (clean air, touchless, standard of digitalisation, etc.).

→ Lease agreements/condominium agreements will be required to have provisions explicitly allowing for home office.

→ Ancillary effects for employment contracts: the employment contracts will have to increasingly deal with home office provisions (including employer contribution to the employee's cost of home office; insurance issues etc.).

→ Tax effects of home office, and tax provisions relating to home office will be carefully evaluated.

IMPACT ON HOTELS



→ The view on hotel investments, which first changed only a couple of years ago away from alternatives and towards a fully established asset class, has been severely damaged by current developments.

→ While national leisure travel picked up during the early summer months, hotel occupancies in cities will remain much lower than normal until corporate-, convention-, and international travel resumes.

→ Less available working capital will result in the permanent repurposing of some hotel properties and drive an increase of forced sales and operator searches in the second half of the year.

→ For prime assets, we are observing keen investor interest, albeit currently at heady discounts and with consideration of adjusted lease levels.

→ The hotel operator landscape will change fundamentally over the next few years. Those who survive the change will emerge from the crisis as winners.

Legal trends

→ Future hotel development contracts will be geared towards epidemic-safe buildings.

→ Lease terms will be shorter in the future.

→ Break rights for hotel lessees will be sought after.

→ Lessees will require clauses providing for rent holiday/rent reduction in case of mandatory closures/access restrictions and similar occurrences on grounds of epidemics and other catastrophic events.

KEY TAKE AWAYS

1 Recovery of real estate investment markets has picked up momentum since June, with retail and hotel sectors facing a protracted recovery curve. However: Analyse your portfolio closely to identify risks from particularly affected occupier sectors and markets. Adapt your portfolio to likely long-lasting changed circumstances and realities.

2 Commercial real estate will lag in the wider economy, as no new rental growth is expected until mid 2021 even in the most resilient market segments.

3 For offices, new trends are emerging. Despite the new value employees are placing on flexibility, occupiers should not overlook the operational benefits of working together in the office.

4 More retail contracts may be purely turnover rent based in the future, while the consideration of omnichannel sales is still an unresolved challenge.

5 Multifamily is now the largest asset class on the European real estate investment market, proving that investors are increasingly seeing multifamily as one of the safer bets.

6 Less available working capital will result in the permanent repurposing of some hotel properties and drive an increase of forced sales and operator searches in the second half of the year.

7 A balanced allocation of risks from epidemics and other far-reaching catastrophic events will be an Archimedean point of all real estate related contracts.



CONTACT

CBRE

CBRE GmbH
Tegetthoffstraße 7
1010 Vienna, Austria

+43 1 533 40 80
cbrevienna@cbre.com

www.cbre.at

WOLF THEISS

Attorneys-at-Law
Schubertring 6
1010 Vienna, Austria

+43 1 515 10 5170
vienna@wolftheiss.com

www.wolftheiss.com

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