COVID-catalysed structural changes in global real estate?

Global Matters Weekly

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– David Lashbrook CA (SA), CFA

As a landlord and investor in real estate, I am closely watching how the world adapts to the global lock down. In our case at Momentum Global Investment Management, the transition from office to homebound working has been seamless. I wonder if this is going to cause a structural change in the demand for office space over the medium term as companies renew their current lease commitments and review their ongoing office accommodation requirements.

Several colleagues and many of my friends believe that they are actually more productive working from home because of the time saved in commuting and perhaps fewer distractions (unless you are locked down with a string of children under the age of five!) Vast improvements in video conferencing technology have enabled many meetings to be successfully held electronically; such meetings were exclusively held face to face only a couple of months ago. Some things, such as reviewing complicated spreadsheets (especially someone else's spreadsheet!) are still clearly easier to achieve when sat around a table, but COVID-19 has definitely demonstrated that it is possible for many office-bound jobs to be effectively conducted from home.

A big factor driving future demand is how will companies approach their office accommodation strategy going forward? The most efficient layout from a cost perspective is an open plan design with rows of desks on a square or rectangular floor plate. Individual offices, whilst undoubtedly more productive because of the reduced interruptions, are much more expensive. And large common areas, such as board rooms which are used infrequently are the most expensive. Many short term flexi-office providers incorporate this principle in their business model – they reduce the amount of boardroom per person and they make sure that board rooms are used productively. In this way, they aim to halve the generally accepted space requirement of 10 square metres per employee to five.

However, one of the key factors in our successful transition from office to home working is that we are part of a team who we know well, like and above all, trust. This is something that cannot be easily gained (or long term maintained) by video conference. Integrating new joiners successfully will be very difficult to achieve electronically because the new employee needs to be valued. We are inherently gregarious creatures and the need to feel part of the team is strong. This is better done face to face. As an additional point, some people may simply be more comfortable and productive working in an office environment.

As investors, we need to constantly innovate and adapt to change. We are watching this trend closely. I think there will be a decline in demand for office space over the long term because of the improved ability to work from home. But, I believe this trend will take years, if not decades, to play out because of the length of existing office lease commitments. We will be ready.

FINANCIAL PARTNERS

The **Marketplace**

- Weak earnings and oil market chaos hit equities
- April flash PMIs point to crippling impact of the pandemic
- Brent crude fell 23.6% ending the week at $21.4 a barrel
- Gold rose 2.8% ending the week at $1729.6 an ounce

Market **Focus**

US

- The Senate passed $484bn in pandemic relief funds last Tuesday. President Trump will also ask larger companies to return funds from the federal stimulus package that were designed to help smaller businesses
- President Trump clarified his ban on immigration. It will now last for 60 days and is targeted at individuals seeking permanent residency
- US equities fell 1.3% and treasuries strengthened, returning 0.4% last week
- US Composite PMI came in at 27.4 and weekly jobless claims fell to 4.4m, bringing the 5-week total to 26.5m.

Europe

- The index of European Banks is at its lowest level since its inception in the late 1980s
- Euro Area composite PMI reading was down to 13.5 vs 25 expected, which is a record low. Services read 11.7 vs 22.8 expected and manufacturing was at 33.6 vs 38 expected
- The European Council Summit took place last Thursday but failed to make much headway. A €480bn European Recovery Fund is still being proposed but no details of financing and structure have been decided
- Spain, France and Germany are expected to announce a relaxing of lockdown measures over the coming week
- European equities fell 1.1% last week

UK

- Brexit talks resumed last week with the EU's chief negotiator claiming that the UK has not produced substantive proposals on a range of issues including a level playing field for trade, fisheries and environmental standards. He commented 'our positions are too far apart to reach agreements.'
- PM Boris Johnson has now returned to work after a three-week absence. Foreign secretary Dominic Raab rejected calls for an early easing of the lockdown saying the outbreak was still at a "delicate and dangerous" stage
- UK equities ended the week slightly lower, falling -0.6%.

Asia/Rest of The World

- The oil market made history on Monday with the May futures contract (due to expire on the Tuesday) for WTI crude oil closing below -$37 per barrel, a negative price for the first time. Fears of a lack of storage capacity on the back of a collapse in global demand drove the move.
- Japan's services PMI for April hit a record low of 22.8 for April (March's figure was 33.8) whilst manufacturing fared slightly better at 43.7 (vs 44.8 for March)
- Australia's services PMI fell to 19.6 in April from 38.5 in March
- China's industrial sector made strong gains towards normalization with over 97% of larger companies operational during April. Over half are operating at above 80% of capacity.

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 24 April 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	-1.3%	9.8%	-11.8%	-1.7%
United Kingdom	GBP	-0.6%	0.8%	-23.4%	-20.7%
Continental Europe	EUR	-1.1%	3.2%	-18.5%	-11.3%
Japan	JPY	-1.5%	1.3%	-16.4%	-9.5%
Asia Pacific (ex Japan)	USD	-2.6%	4.6%	-17.1%	-13.4%
Australia	AUD	-4.5%	3.3%	-20.6%	-14.4%
Global	USD	-1.5%	7.4%	-15.2%	-6.6%
Emerging markets equities					
Emerging Europe	USD	-0.4%	5.6%	-32.9%	-20.8%
Emerging Asia	USD	-2.2%	4.3%	-14.6%	-10.5%
Emerging Latin America	USD	-8.8%	-4.5%	-48.1%	-43.3%
BRICs	USD	-2.3%	3.2%	-18.4%	-13.8%
China	USD	-1.6%	3.4%	-7.2%	-5.5%
MENA countries	USD	-0.6%	1.8%	-23.4%	-26.5%
South Africa	USD	2.5%	7.7%	-35.8%	-37.2%
India	USD	-1.0%	5.1%	-29.6%	-27.5%
Global emerging markets	USD	-2.4%	3.8%	-20.7%	-16.7%
Bonds					
US Treasuries	USD	0.4%	0.8%	9.8%	15.7%
US Treasuries (inflation protected)	USD	1.5%	3.4%	5.4%	10.8%
US Corporate (investment grade)	USD	0.2%	5.3%	1.5%	10.1%
US High Yield	USD	-2.1%	3.6%	-9.5%	-4.8%
UK Gilts	GBP	0.8%	2.7%	9.9%	15.9%
UK Corporate (investment grade)	GBP	0.3%	5.3%	-0.2%	6.0%
Euro Government Bonds	EUR	-0.2%	-0.5%	-0.3%	4.0%
Euro Corporate (investment grade)	EUR	0.4%	2.7%	-3.6%	-1.4%
Euro High Yield	EUR	-0.3%	5.4%	-10.3%	-6.6%
Japanese Government	JPY	0.6%	0.3%	-0.1%	0.7%
Australian Government	AUD	-0.1%	-0.4%	3.8%	7.7%
Global Government Bonds	USD	0.1%	0.2%	3.3%	8.4%
Global Bonds	USD	0.0%	0.8%	1.1%	6.1%
Global Convertible Bonds	USD	0.8%	4.6%	-5.0%	-0.6%
Emerging Market Bonds	USD	-1.9%	-0.6%	-9.3%	-2.8%

Source: Bloomberg. Past performance is not indicative of future returns

Asset Class/Region	Currency	Currency returns			
		Week ending 24 April 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	-4.8%	1.7%	-26.0%	-20.0%
Australian Property Securities	AUD	-7.7%	5.9%	-31.0%	-30.4%
Asia Property Securities	USD	-3.2%	0.3%	-21.6%	-19.3%
Global Property Securities	USD	-3.9%	1.3%	-26.5%	-20.1%
Currencies					
Euro	USD	-0.7%	-1.7%	-3.9%	-3.3%
UK Pound Sterling	USD	-1.3%	-0.5%	-7.0%	-4.6%
Japanese Yen	USD	0.1%	0.3%	1.1%	4.2%
Australian Dollar	USD	0.3%	4.5%	-9.3%	-9.1%
South African Rand	USD	-0.8%	-6.4%	-26.5%	-23.9%
Swiss Franc	USD	-0.9%	-1.0%	-1.0%	4.6%
Chinese Yuan	USD	-0.1%	0.0%	-1.7%	-5.1%
Commodities & Alternatives					
Commodities	USD	-10.8%	-8.8%	-38.1%	-37.7%
Agricultural Commodities	USD	-0.6%	-3.0%	-15.4%	-11.6%
Oil	USD	-23.6%	-5.7%	-67.5%	-71.2%
Gold	USD	2.8%	8.2%	13.6%	35.6%
Hedge funds	USD	-0.2%	2.2%	-4.9%	0.3%

Source: Bloomberg. Past performance is not indicative of future returns

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