TWM

COVID-19

Property Impact
TWM Tracker

COVID-19 TRACKER UPDATE

ECONOMIC

Issue/Variable	Current Status	Change	Sectors Impacted	Nature of Impact	Impact +/-
COVID-19 wage supports	Pandemic Unemployment Payment (PUP) Employment Wage Subsidy Scheme (EWSS) – until March 2021	Extended to April 2021 Replacing Temporary Wage Subsidy Scheme	All sectors	Sustains demand at some level	Positive from demand side but negative implications for public finances
Training and Skills Development Support	€100m package of measures		Workers in all affected sectors	Supports employment	Positive
VAT reduction		Rate reducing from 23% to 21%	All sectors previously to 23% VAT	VAT reduction may boost demand but may be minimal	Positive
Commercial interest rates	0% interest for first year of SME loans		SME firms in any sector		Positive from cash-flow perspective
Commercial rates	Waiver on commercial rates extended until end September 2020		All sectors	Cost reduction for business	Positive for occupiers but negative for local authority ability to deliver services

SECTORAL

Issue/Variable	Current Status	Change	Sectors Impacted	Nature of Impact	Impact +/-
Accelerated re-opening in many sectors from 29 June	Many businesses now permitted to open (with some restrictions). Pubs not serving food closed until at least end August. Closing time of 11 pm in all pubs Introduction of Stay and Spend incentive for winter/spring	Re-opening has been accelerated but recent slowdown Accommodation and food sectors will benefit	All remaining sectors, e.g. hospitality, personal services etc.	Will support recovery in economy, especially employment	Will support demand for property and associated services

POLICY

Issue/Variable	Current Status	Change	Sectors Impacted	Nature of Impact	Impact +/-
Roadmap to return to normality responding to evolution of pandemic	Phase 3 of Roadmap commenced on 29 June, but Government adopting a 'steady-as-she-goes' approach	Roadmap was shortened by one phase but recent slowdown	All personal services sectors benefitting, e.g. retail, hospitality, hairdressing etc. but bars, nightclubs and travel industry still negatively impacted	More timely return to normality but may be a 'new normal'	Re-opening is positive for speed of economic recovery but subject to change if circumstances dictate

EU/GLOBAL

Issue/Variable	Current Status	Change	Sectors Impacted	Nature of Impact	Impact +/-
EC is coordinating a common European response, including €750bn recovery fund	Plan agreed despite some opposition to scale of fund from some countries Broadly 50/50 mix of grants and repayable loans	Re-opening has started in many countries but some proceeding with caution	Macro-economic	Recovery Fund is positive on both supply and demand side but longer term debt implications	Positive in short/ medium term Essential step in the reboot of the European economy
Multi-annual budget also agreed	Includes €5 billion Brexit Adjustment Fund	EU-UK trade talks to resume on 17 August	Brexit-vulnerable sectors	Provide protection for worst hit countries	Beneficial to Ireland
US economy - re-opening of individual states has started	Mixed success	Many states are reversing re-opening plans	Macro-economic	Stop-start re-opening creating uncertainty	Uncertainty could have negative economic impact

MACROECONOMIC

DEMAND ISSUES

POSITIVES

Government support schemes helping to sustain demand

Wage support scheme

Pandemic unemployment payment

-

GDP growth expected to recover in 2021

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Unemployment expected to revert to <10% in 2021

NEGATIVES

Unemployment at 22.5% in June (5.3% excluding impact of COVID-19). However, these rates are both down from May indicating that we may have passed the peak of the impact

-

GDP expected to fall by up to 17% in 2020

-

Recovery in 2021 will be less than 2020 fall

-

Domestic demand forecast to fall by 15% in 2020

SUPPLY ISSUES

POSITIVES

Government support schemes e.g.

Working Capital Scheme

Pandemic Stabilisation and Recovery Fund

Credit Guarantee Scheme

Restart Grant

Trading Online Vouchers

-

Banks' lending policies supportive

-

Accelerated re-opening of some businesses

NEGATIVES

Social distancing regulations will impact on viability of some sectors e.g. hospitality

-

Cost of complying with regulations (especially social distancing) will be substantial in some sectors

-

Slowdown in planned reopening of some business e.g. bars, nightclubs etc.

OVERALL MACROECONOMIC SUMMARY

While Roadmap to Recovery has been shortened recent slowdown in reopening of some businesses

Experience elsewhere suggests that re-opening must be carefully planned, managed and not rushed

GLOBAL RECESSION DEPTH UNCERTAIN

Irish economic growth will fall significantly in 2020 but expected to recover somewhat in 2021

Irish unemployment rate may have turned the corner → speed of recovery uncertain but expected to be substantial in 2021

Some unemployment may be structural in that sectors may never fully recover and won't be amenable to a demand boost

PUBLIC FINANCES WILL COME UNDER SEVERE STRAIN

Reduced tax revenue

-

Increased transfer payments

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Need for capital investment (e.g. healthcare sector)

Deficit of 7.4% of GDP forecast for 2020

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Debt/GDP ratio could rise to close to 70%

FLOW OF FDI MAY REDUCE

POSSIBLE PROTECTIONIST POLICIES

INTERNATIONAL TRADE MAY BE IMPACTED

Manufactured goods

-

Travel/Tourism

Irish economy was in 'rude health' before pandemic struck and this will stand us in good stead

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However, economic recovery still dependent on progress of pandemic – remains first and foremost a health issue

PROPERTY MARKET

TRENDS

- **Rent deferrals and lease re-gears** have been agreed with landlords in some instances. These deferrals will end shortly and as the economy recovers rental payments will be expected to return to normal. Some sectors may not recover e.g. some retail, hospitality etc
- **Receiverships allowed again** now for those in arrears before COVID
- **As working from home continues** retail and service business in city centres are seeing limited footfall and as a result much reduced turnover
- **Regional centres** may see growth
- **Surge in online shopping** – May not sustain at current levels so some fall back but some gain from pre-Covid level
- **Logistics the big winner**- In the UK the first half of 2020 has seen the highest level of take up of logistics ever
- **Hub and Spoke models** for both logistics and potentially offices
- **More people working from home** means that everything is more localised to home setting in terms of Urban Logistics / Last Mile Logistics and more local services
- **Grocery operators** investing in their in-store logistics

PROPERTY INVESTMENT

- **The Q2 2020** Commercial Real Estate Investment Market turnover shows a figure of just over €430m
- **This compares to €674m for Q1** bringing the total half year figure to €1.1bn. This is a 36% fall off in activity over the quarter
- **Over the same period in 2019** transactions amounted to some €1.84bn, a decrease this year of 40%
- **Q2 2020 initial figures** show the total number of transactions decreased to 20 from 38 in Q1
- **At the end of Q2** there was approximately €947m of assets classified as being on market but not yet sold. Of this figure some €545m is noted as being under offer or sale agreed

NOTABLE INVESTMENT DEALS

- **The sale of Bishops Square** by Hines for €183m
- **Acquisition of the Clayton Hotel** at Charlemont by Deka on a sale and leaseback basis for €65m
- Since the end of Q2 some deals that were under offer have been completed. **Most notably** The Prestige Portfolio for in excess of €150m, 2 Burlington Road acquired by KGAL for €94m, whilst another German investor, KanAm Grund, acquired 30-33 Molesworth Street for a price in the region of €60m, 368 apartments at Cualanor, Dun Laoghaire acquired by DWS for €200m

TWM COMMENT

With the Covid 19 pandemic being carefully managed and economic activity returning TWM are seeing a significant increase in enquiries from both domestic and overseas investors. Irish yields are still higher than in other major EU countries and viewed internationally as offering good value in a (relatively) low risk environment. There is a certainly a willingness to invest in Ireland however issue for overseas investors will the ability to travel. Many investors are cash buyers however for those reliant on debt the market has changed and this is impacting returns and therefore pricing. Given this uncertainty it will be interesting over the next few months to see where Vendors pricing expectations will land. Some will wait until market activity improves before putting properties back on the market and others will most likely test pricing through off market sales processes over the next few months. Core and resilient investments will still be much in demand.

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