

# Real estate industry and the Covid-19 crisis

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The Covid-19 pandemic is a human tragedy that is unprecedented in modern times. Beyond claiming the lives of hundreds of thousands of people around the world, it has severely disrupted the daily lives of citizens and the functioning of the economy in Europe and across the globe. All countries and economic sectors have been affected.

While protecting health and security is paramount, it is also essential to keep vitally important economic sectors functioning during the crisis, making it easier to restart the economy as people are able to return to work. The commercial real estate sector in Europe is a major contributor to these efforts. As a partner to municipalities, local and national governments all across the continent, we have done our utmost to support our communities, tenants, public authorities and health services during the Covid-19 crisis and we stand ready to live up to our significant social and economic responsibility as society re-opens.

## About real estate investment

Real estate, which generally describes the built environment in which we all live and work, plays a vital role in every aspect of the economy, society and environment. Businesses and society are critically dependent on the availability of offices, shops, factories, housing, logistics facilities and many other forms of real estate. The commercial real estate sector delivers and manages the infrastructure needed for entrepreneurship to thrive and places to work. It is therefore a fundamental source of employment and economic growth, and a major contributor in addressing two critical challenges of our time: providing liveable and functioning cities for a growing urban population, including offering work and office space for businesses of all sizes, and reducing the environmental footprint of the built environment.

Aside from transforming the physical environment in which we lead our daily lives, the real estate sector also directly benefits European citizens, serving as an important catalyst for job creation and feeding so many distinct parts of the economy. The most recent available figures show the commercial real estate industry directly employs 4.0 million people and contributes EUR 385 billion to the European economy annually. Annual investment in new commercial buildings and the refurbishment and development of existing buildings in Europe typically averages around EUR 250-300 billion and represents 10% of total investment in the economy.

Investment in housing, other buildings and infrastructure is also substantial, and together with commercial real estate, totals approximately EUR 1.3 trillion annually, which is almost two-thirds of capital investment in the European economy. The capital and expertise that real estate firms can deploy is especially important when society is undergoing rapid change and buildings need to change to remain fit for purpose. The challenges following the pandemic will undoubtedly accelerate the need for such investment over the coming years.

Real estate involves the construction, refurbishment and, importantly as technology and society change, repurposing of buildings for different uses. The upkeep, management and care of buildings is also a critical function, undertaken to ensure that buildings are safe and fit for purpose. It is carried out either directly by property owners or on their behalf by a growing number of specialist contractors, many of which are SMEs. These activities are an essential part of maintaining and improving the quality of the accommodation provided to businesses and have not been put on hold during the current crisis even though some tenants are not able to keep up with their lease obligations.

Real estate investment also enables the provision of suitable office space, which is especially important for businesses. When new and growing businesses can rent space rather than buy, they gain flexibility and agility in location and employment dynamics required to maximise new opportunities. Renting also frees up available capital, increasing SME's potential to invest in business expansion and R&D, thereby

supporting the European economy, which is a particularly important point as we recover from the current crisis. The effective operation of a rental market for workspace matters enormously in times of flux and heightened uncertainty.

Real estate also plays a key role when technological and cultural developments affect the way that our society works. Over the last decade, as shopping has increasingly moved online and away from high streets and shopping centres, owners of commercial real estate have developed the large warehouses that are replacing shops, and started the huge task of repurposing of parts of the high street. The Covid-19 crisis has accelerated these profound changes in the high street, the centre of our towns, and the commercial real estate industry will play an important part in post-crisis recovery and town centre regeneration, so important to societal morale.

Real estate is a long-term business that is capital intensive. Much of that capital investment comes from insurers and pension funds that use it to match their long-term liabilities to provide reliable income and dividends, contributing to the retirement of millions of pensioners and policy holders, while making a major contribution to the development and renewal of the built environment. Private investors also save for their retirement by investing directly in real estate through retail funds or by investing in listed property companies. Another significant part of the capital takes the form of debt provided by Europe's banks and other lenders, reducing the overall cost of real estate and making the allocation of risk and returns more efficient.

Refurbishment and re-development of existing buildings, along with construction of new buildings, also enable our industry to make an important contribution to the sustainability agenda and energy efficiency, supporting Europe's green goals. In many cases, this can be done in conjunction with the repurposing of buildings as society's needs and preferences change, as they no doubt will after the pandemic emergency, and as technology evolves.

## **Real estate industry's support to the recovery**

The European real estate investment industry fully supports and appreciates the measures taken thus far by national governments and the European institutions to soften the financial impact of the crisis on the economy in Europe. Our industry is committed to work with policy makers to explore ways that we can most effectively contribute to support businesses, employees and customers as we take steps together to emerge from the crisis and re-start the economy in Europe. We also believe real estate owners should work together with those who use the space they provide, their lenders and investors, and the many specialist firms that supply them with services, labour and materials to ensure that the costs of this crisis do not fall too heavily on any one set of economic actors.

National governments and the European institutions are already working to develop measures designed to support economic stability and recovery. The real estate investment industry would like to recommend five key principles that we believe policy makers should keep in mind to develop measures that will successfully achieve our common goals.

- Measures should recognise that the real estate that makes up the heart of our towns and cities is inextricably interconnected through its owners to insurance companies, pension funds and the banking system and therefore, ultimately, investments of the greater public and they should support the integrity of that interconnectedness;
- Measures should create incentives for landlords, lenders, investors and tenants to work together so none is forced to bear the full impact of the current crisis and so all will be in a position to contribute to both economic recovery and European financial and social stability more generally;

- Measures should be time-limited although recognising that many businesses will likely take some time to recover;
- Measures should be implemented quickly, particularly those targeting businesses that have little financial resilience and mounting liabilities; and
- New measures should complement the measures policy makers have already introduced to support businesses and could be strengthened through improved cross-border investment possibilities in real estate stabilising national economies across Europe and to facilitate a resilient and sustainable economic recovery.

