REAL ESTATE: LOGISTICS SECTOR RESISTS AND ADVANCES DESPITE COVID-19

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An analysis by experts from Freshfields Bruckhaus Deringer law firm and international

investment fund KKR on Private Equity Real Estate investments

Although it is well known that the pandemic has also affected Real Estate investments in the Iberian Peninsula, during these months large operations have not ceased to occur, especially within the logistics area. Iberian Lawyer spoke to experts from Freshfields Bruckhaus Deringer law firm and international investment fund KKR to find out how the COVID-19 has affected Private Equity in the Real Estate sector.

SECTOR DIAGNOSIS

"Needless to say, the COVID pandemic has had a huge impact in virtually all sectors of RE. Some of them have been badly hit: retail and hospitality, for example, have been significantly impacted, not only due to travel restrictions and government-mandated closures, but also due to consumers taking extra precautionary measures," answers **Fernando Soto (pictured left), Freshfields Bruckhaus Deringer**´s Real Estate head partner in Spain. "Logistics sector, on the other hand, whilst slightly affected by the pandemic's impact on non-essential products, has largely remained resilient. In fact, the pandemic has triggered the need for additional investment in logistic facilities. We have continued to close and complete acquisitions and leases of logistic warehouses during lockdown." For his part, **Guillaume Cassou (pictured right), KKR**´s Real Estate partner, notes that "Residential sector has also performed pretty well, highlighting the defensive nature of this asset class, which we expect to continue to attract a lot of capital." In this regard, **Silvia Paternain (pictured centre), Freshfields Bruckhaus Deringer**´s Tax head partner explains that "The 'build to rent' sector will attract a lot of interest due to the need to increase the rent offering and the search for yield that will continue due to lower interest rates. We have already seen capital raising to invest in Real Estate, attracting first-class international investors." Although the situation is of great uncertainty, Soto is optimistic: "Whilst hospitality sector seems to be recovering, at least enough to hopefully save the summer season, it remains to be seen how companies/assets that were already struggling or in weaker financial situations pre-COVID-19 will deal with the situation. We will probably see investment opportunities before the end of the year as liquidity pressures grow." "The office sector also faces a certain level of uncertainty -explains Cassou- as COVID-19 challenges how companies will utilize office space in the future. On the one hand, if remote/agile working consolidates after the worst of the pandemic, will companies need offices with fixed spaces or will they move to more flexible working? On the other hand, safety-wise, it may be preferable to have your own fixed spot (or, better, office) rather than share a table... so perhaps we will return to more traditional offices? It is probably too early to have a strong view on how this will evolve. Finally, it is pretty remarkable that, during this lockdown, a lot of critical activities have continued to operate very well (including internet or food supply chains), and that working-from-home policies have enabled corporates to maintain a good level of activity. We have been able to accomplish a lot more than if this crisis had hit 5 or 10 years ago." All agree that to date, there have been no significant changes in the players in the Real Estate sector. "We do not think there have been significant changes in players in the RE sector so far. We may see more movement post-summer, when restructuring and opportunistic investment could rise. Transactions, per se, have not changed. Several of them fell when COVID-19 hit, either because of their sector (e.g. hotels) or price and/or financing reductions due to uncertainty or given that some investors stopped their investment during the pandemic and focused on managing their existing portfolio. As mentioned above, logistics sector has been the most resilient of the RE sectors and has attracted even more interest, both from occupiers and from investors."

TIME TO INVEST?

"It is probably the right time to start looking for opportunities", states Soto. "not necessarily bargains, but reasonably priced assets, where prudent vendors may be willing to take a cut in pre-COVID-19 prices, acknowledging that, most likely, some of them were actually too high. As I have said above, probably, more opportunities might come after the summer, when the effects of the economic crisis start to crystalize in the day-to-day economy." "Yes," confirms Cassou. "RE is a good place to invest. As opposed to other sectors, price volatility is much lower. And while investments with good fundamentals may suffer due to an unexpected crisis such as this pandemic, if you are in a position where you can adapt your operations, and you are not under pressure to sell, you can weather the storm quite reasonably. Furthermore, as interest rates will be lower for longer, we expect the search for yield to continue, and therefore the RE sector will remain very attractive to investors, both institutional and individuals. We would anticipate that sectors with strong dynamics and cash-flow generation profile, such as logistics, residential or student housing, are likely to get stronger as more investors want to take exposure."

REAL ESTATE AND INNOVATION

"One of the immediate effects of the lockdown has been the acceleration of remote working, which, as previously mentioned, may impact the size and shape of offices in the near future", says Cassou. "Investments in IT, apps and software to allow for remote working, have grown with applications such as Zoom and Teams. Do you remember how complicated it used to be to set up a video conference pre-COVID-19? Now one-click does it! This will impact the configuration of office space, as well as industries linked to business travel, as executives will likely be in a position to reduce business travel, improving productivity, quality of life and reducing CO_2 footprints. "For Soto, there are many examples that innovation has become palpable in this time of pandemic. "Indeed, we have also seen significant efforts put into apps managing spaces and, even, access to offices so to avoid crowds in the lobbies or lifts of the buildings. Now you can book your parking space, your entry hour and the reservation of meeting rooms, etc. from your mobile device. This may also trigger a flow of data that can help manage the spaces needed more efficiently, which will trigger a better utilization of the space. As buildings get smarter, both landlords and tenants will be in a position to better use their resources. Trends such as PropTech (use of technology to help individuals and businesses in searching, buying, selling and managing Real Estate) will continue to progress, probably faster than expected as a result of these developments, and help bring more innovation to the RE sector." "Finally -says Cassou- let's not forget the importance of social interactions, especially in the workplace. So, while remote working will stay as a tool to improve quality of life especially in cities with long commute time, we expect traditional office presence to remain a critical component of any work organization.

A NON-CRISIS CRISIS

"Maybe the most significant differences so far, -mentions Silvia Paternain- are that this did not start as a financial crisis as the previous one and there is a very strong willingness from governments and central banks to do what it takes to avoid or at least mitigate a prolonged economic/financial crisis." "Banks are better capitalized and willing to support viable companies," adds Cassou. "they are under social and political pressure to be as supportive to businesses to mitigate the impacts of the pandemic. Also there has been a relaxation of rules limiting state-backed policies, with governments, the ECB and the European Union providing liquidity to support the market. No doubt, this will come with conditions, but it is welcome." Both Fernando and Silvia agree that "For those business that were struggling before COVID-19, it is likely that harsh decisions will be taken faster than in the previous crisis when, in too many occasions, the 'wait and see' approach prevailed for too long and only triggered harder outcomes. In this sense, we expect to see market opportunities in the second half of this year and during 2021, including restructurings, recapitalizations, and disposal programs."

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