Covid five years on

How the pandemic will drive relative performance into the 2030s

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CAPITAL ECONOMICS

Meet the Speakers

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Agenda

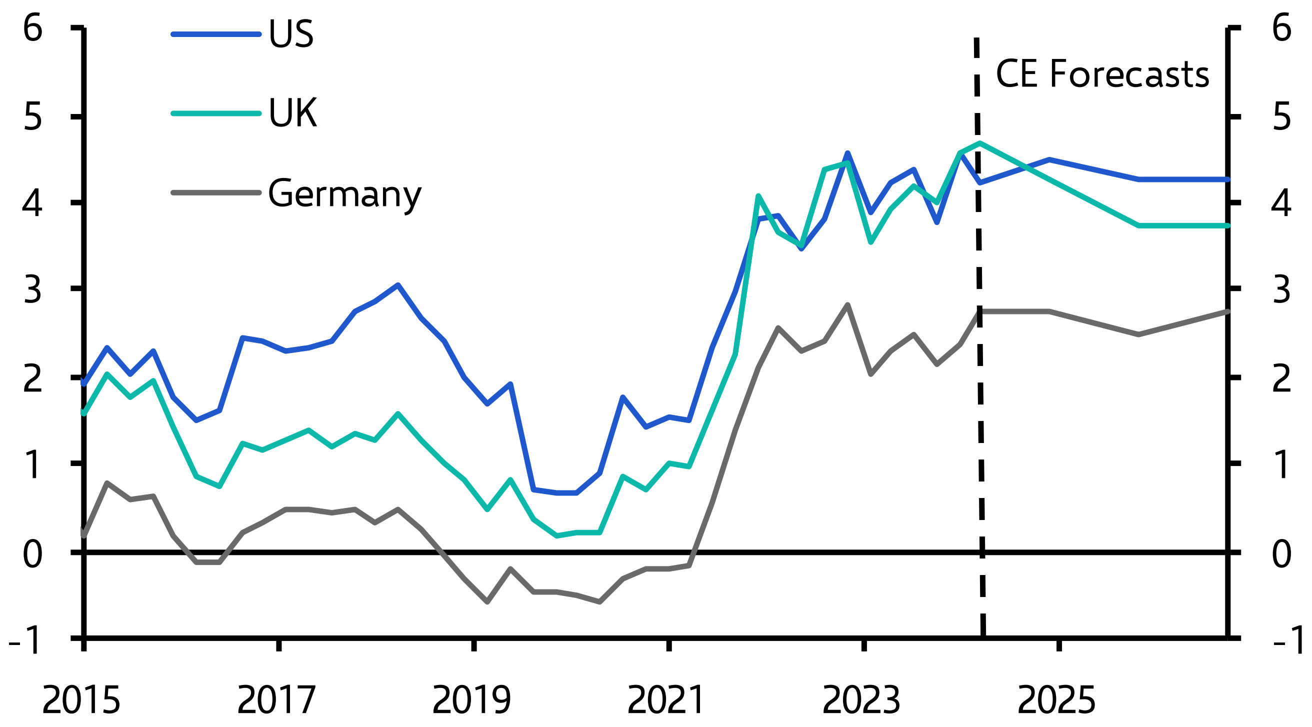
- How the pandemic has shaped the macroeconomic and financial environment.
- The outlook for remote work and its impact on where people will work and sleep.
- What’s next for online spending and what does it mean for commercial property?
- Q&A and Discussion.

The Macroeconomic impact

- The pandemic and lockdowns left some permanent scarring on economies.
- Perhaps the most significant is a permanent rise in government borrowing across developed economies.
- That will absorb more private savings and put upward pressure on equilibrium interest rates.
- Factors such as AI boosting productivity, an ageing population and higher inflation also suggest interest rates will now be higher.

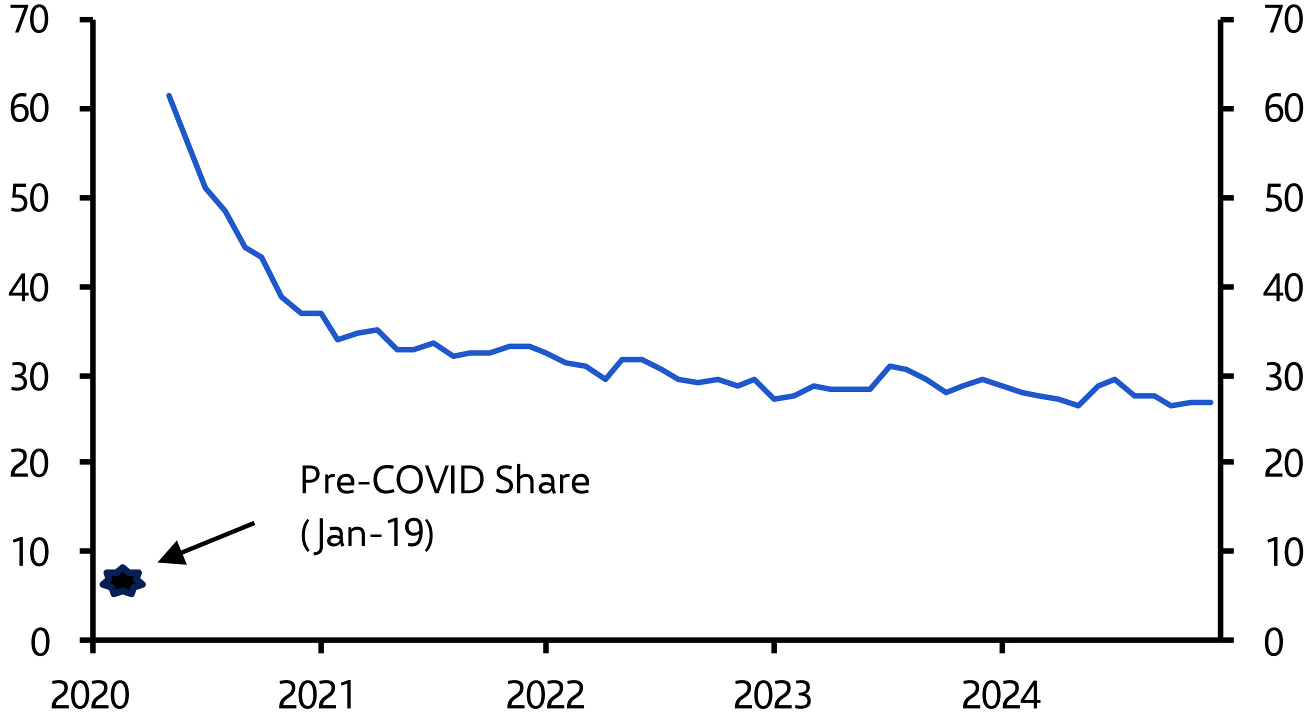
Sources: LSEG, Capital Economics

10-Year Government Bond Yields (%)



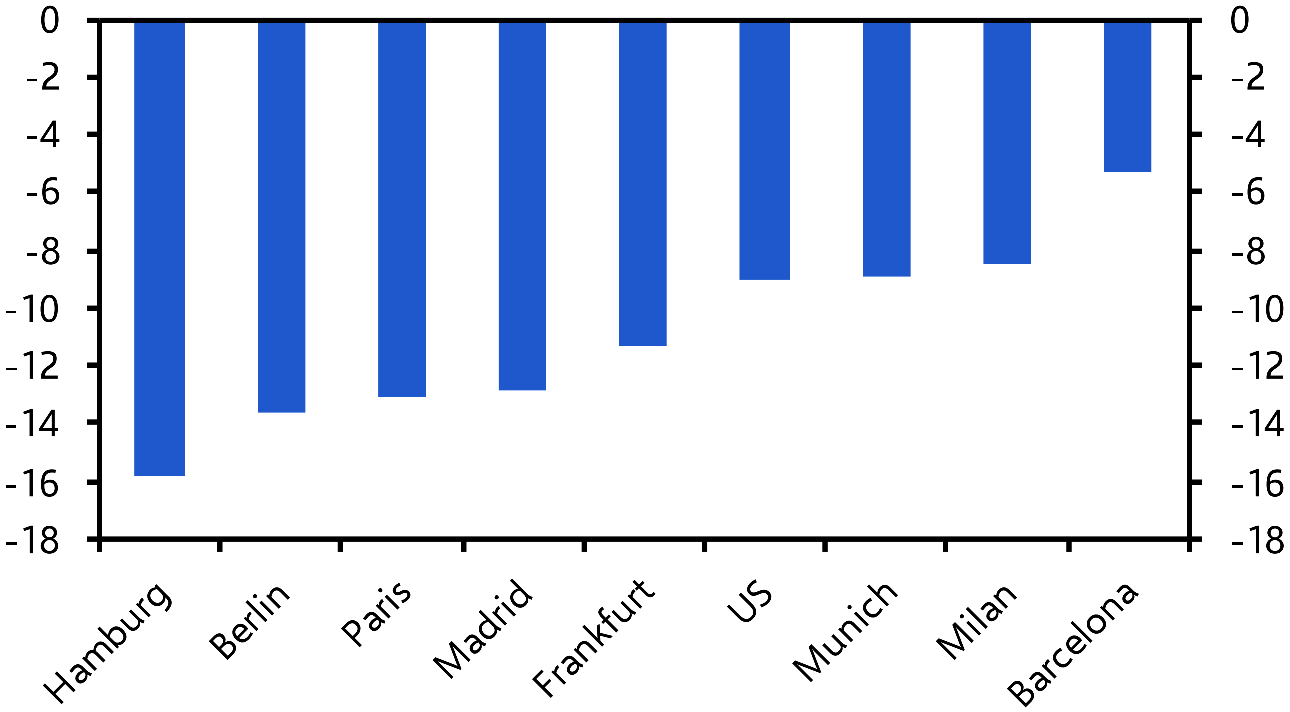
Sources: LSEG, Capital Economics

Share of Full Days Worked From Home (US, %)



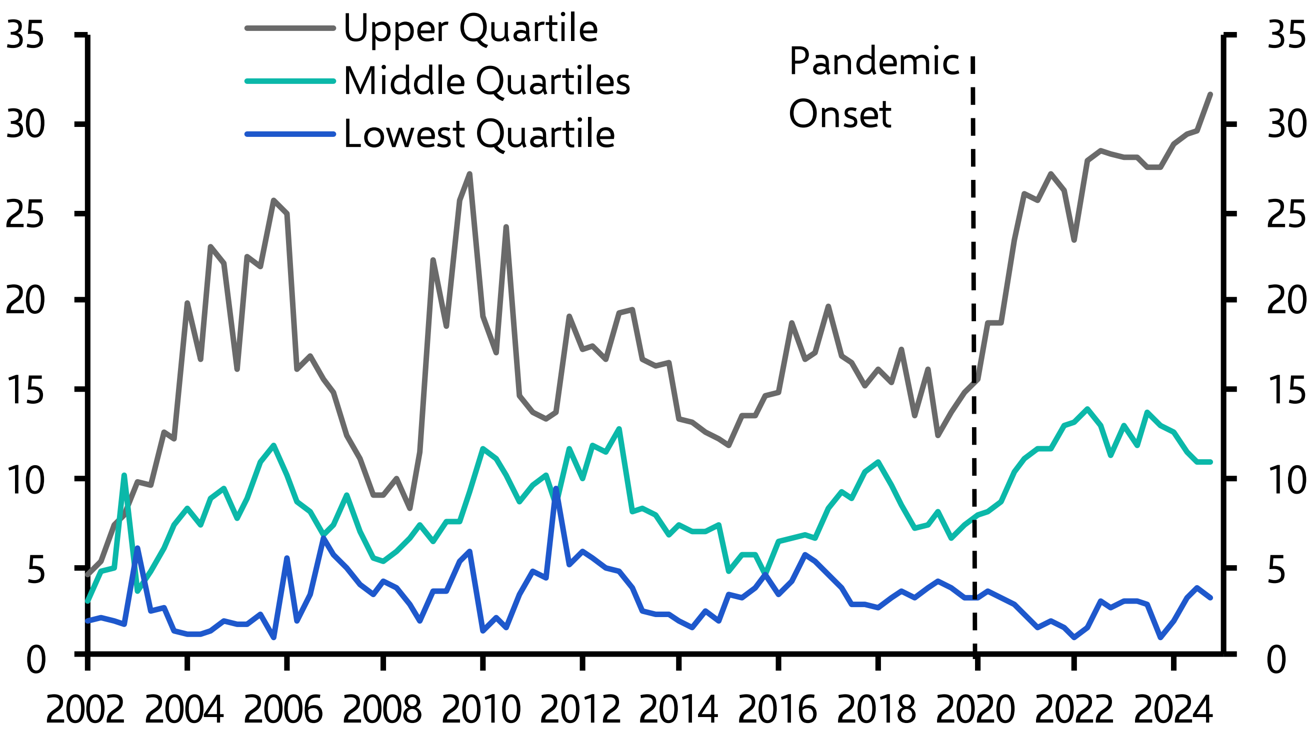
Sources: wfhresearch.com, Capital Economics

Difference in Space Required Vs. Pre-Pandemic Trend (19-30, %)



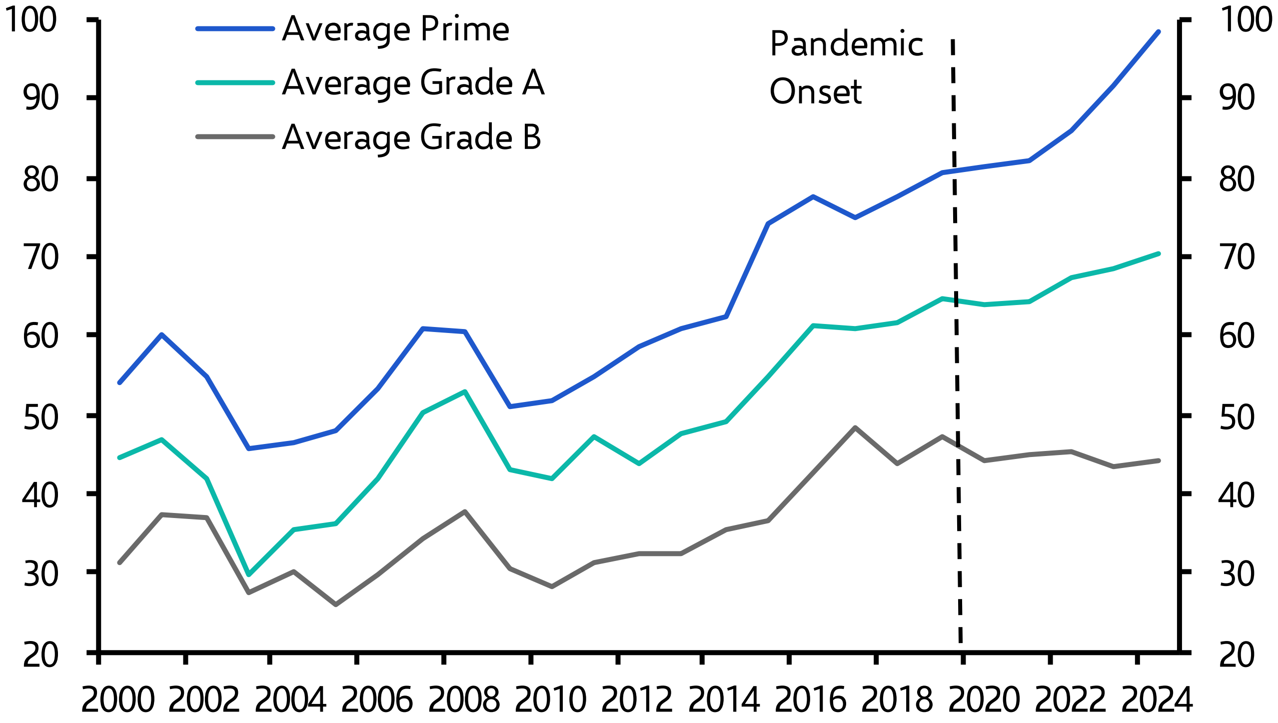
Sources: Capital Economics

Central London Office Vacancy Rates by Yield Quartile (%)



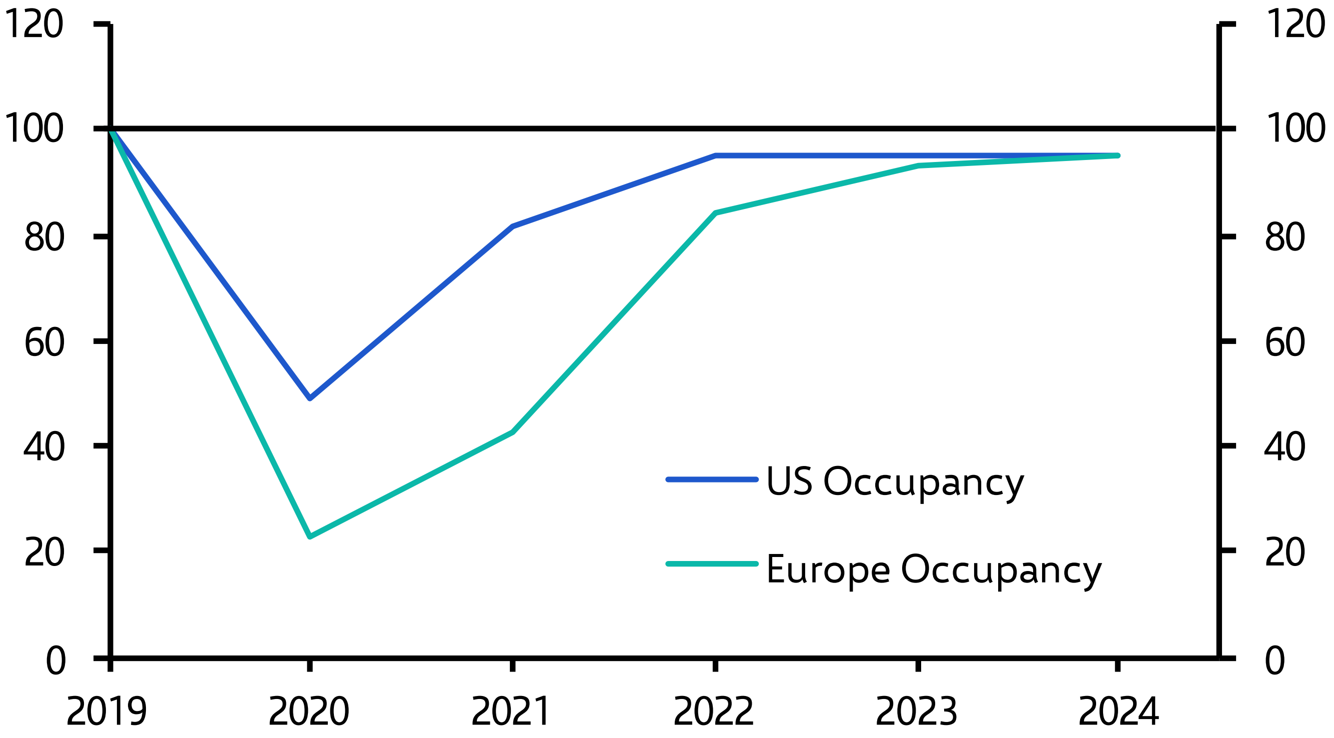
Sources: MSCI, Capital Economics

City Office Rents (£ per square foot)



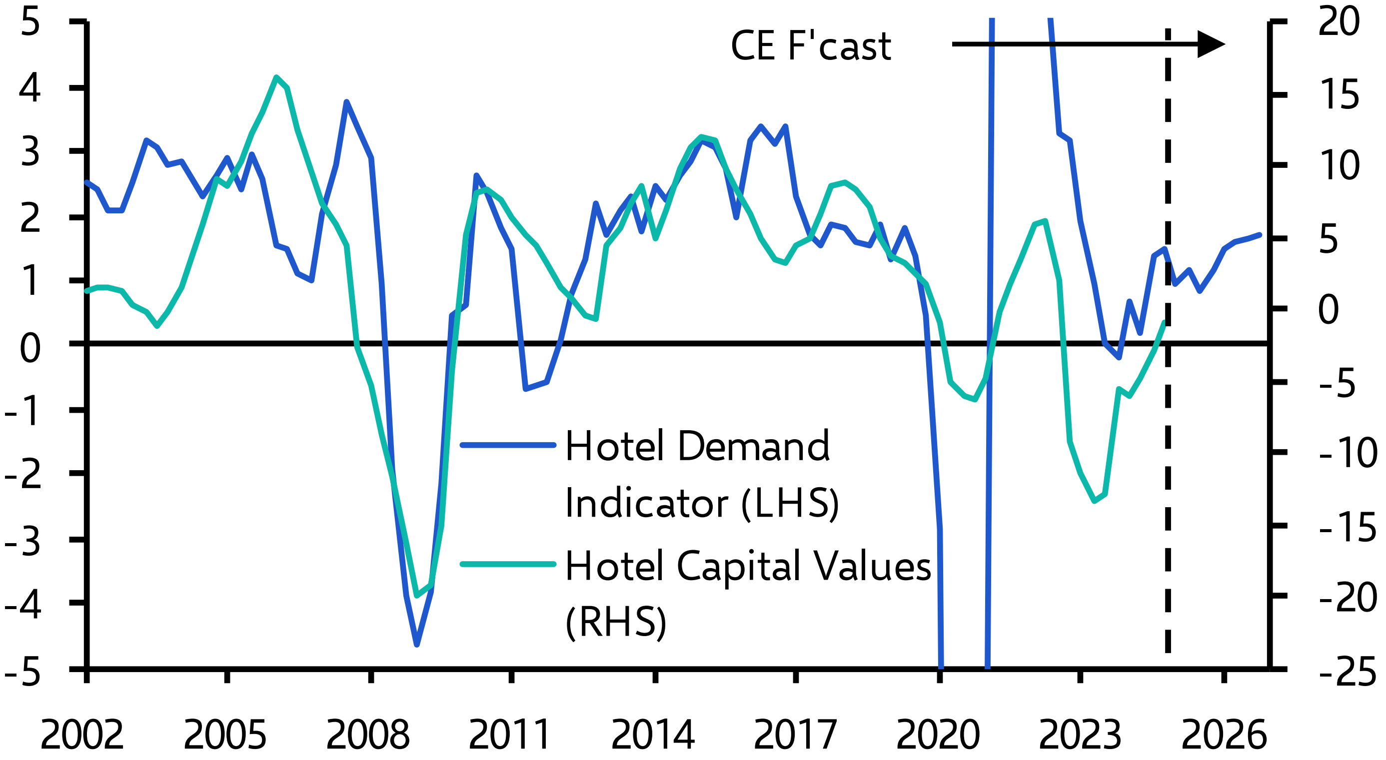
Sources: Savills Research, Capital Economics

US and European Hotel Occupancy (% of 2019)



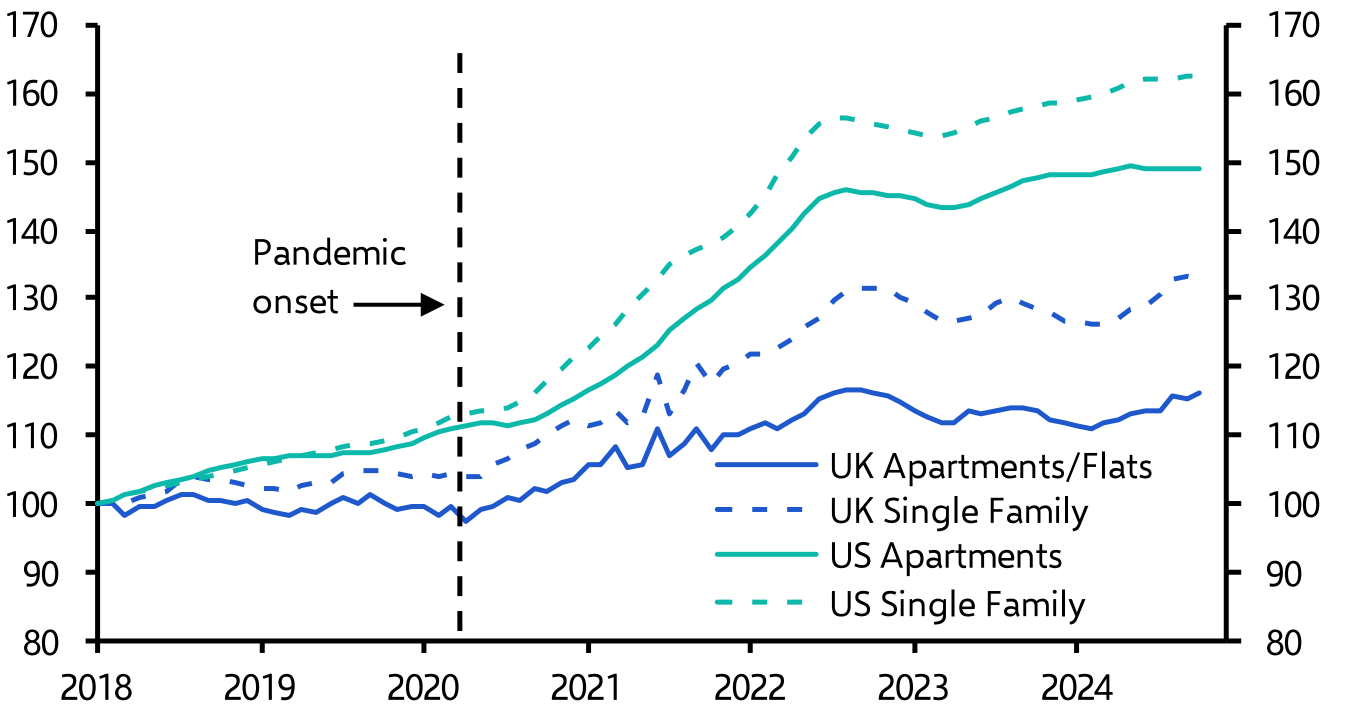
Sources: CBRE, Capital Economics

CE UK Hotel Demand Indicator and Capital Values (% y/y)



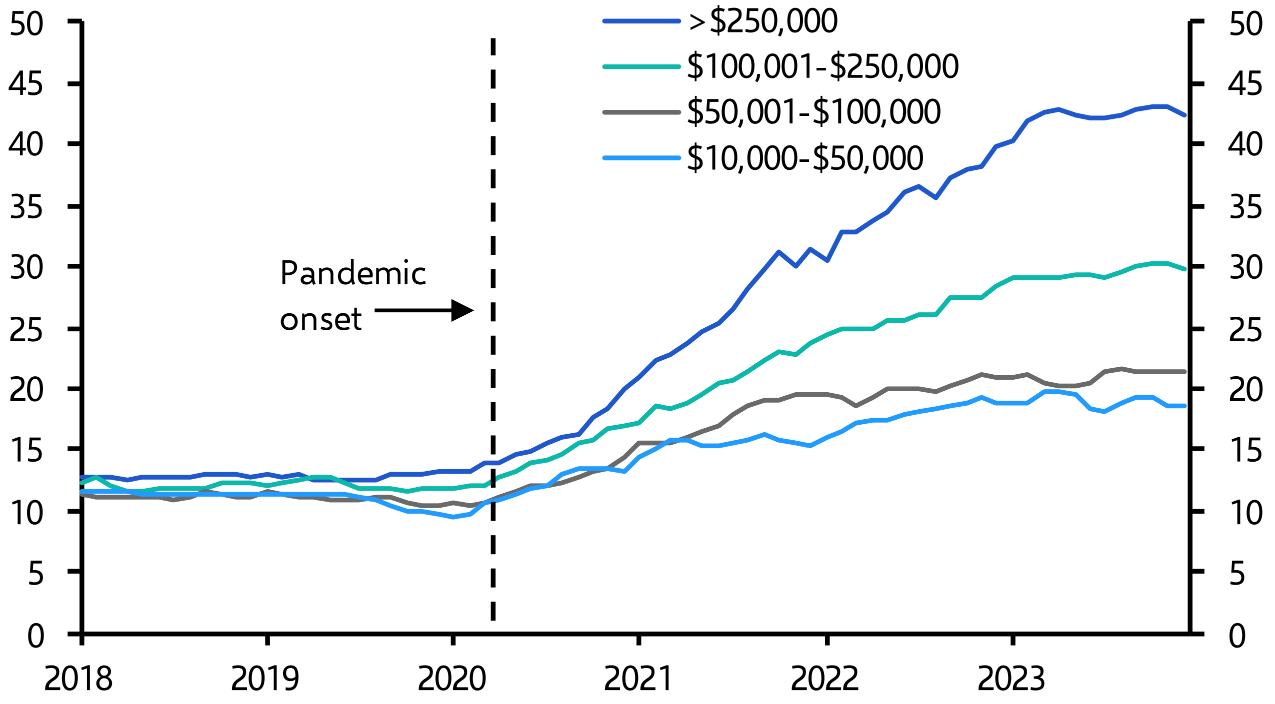
Sources: MSCI, LSEG, Capital Economics

House Price Index by Property Type (January 2018 = 100)



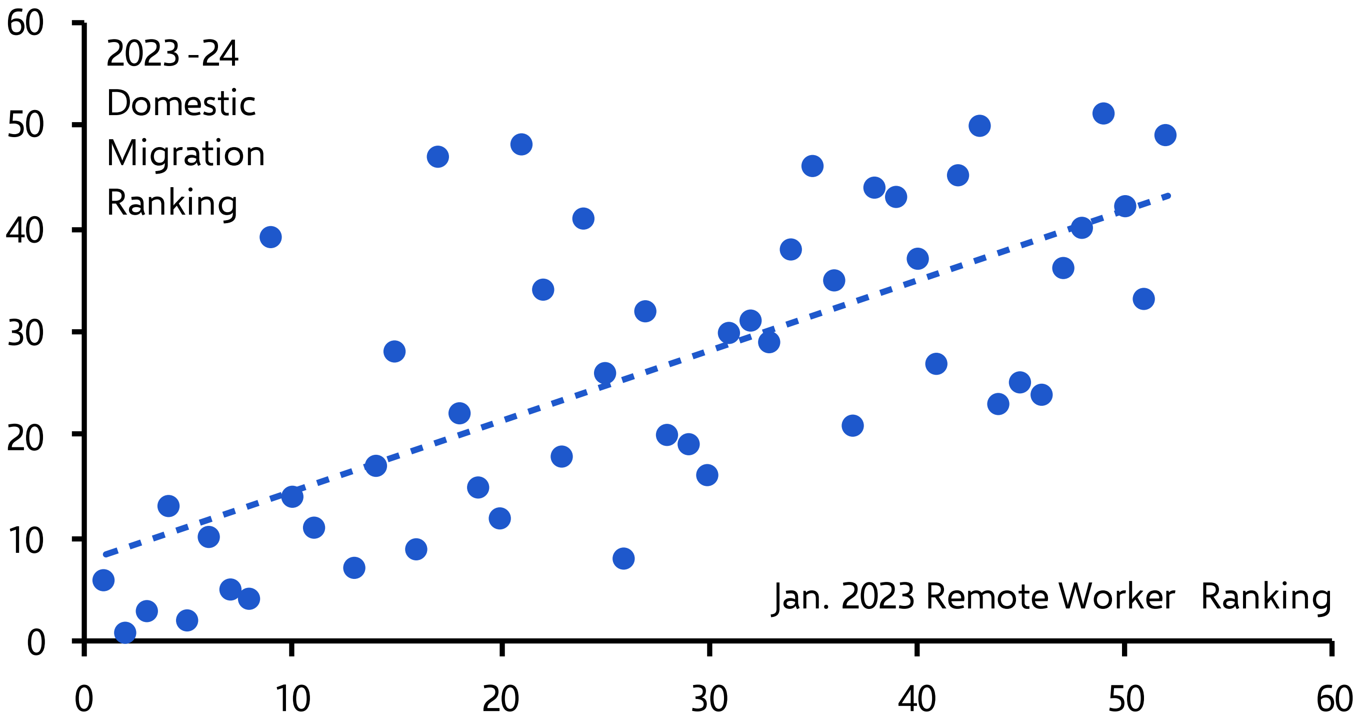
Sources: Land Registry, Zillow, Capital Economics

Mean Distance to Work in the US by Income (Miles)



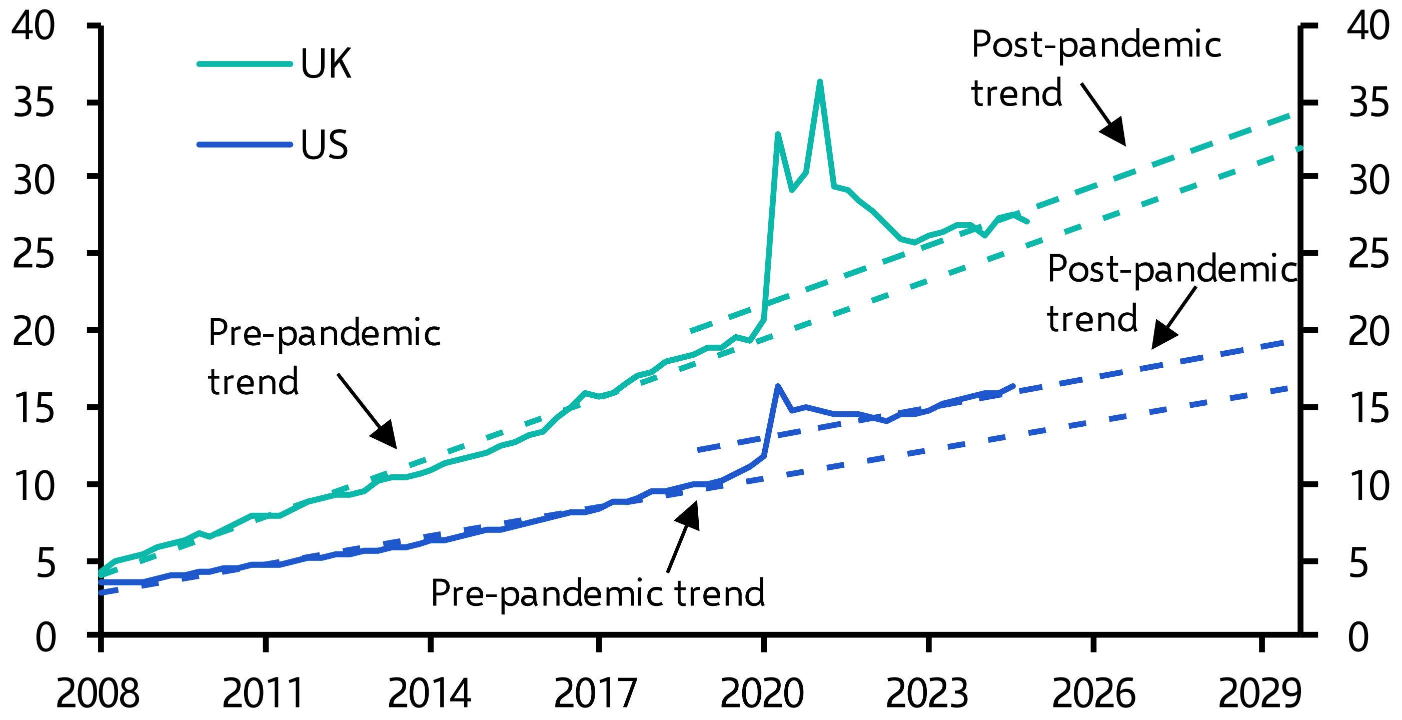
Sources: Gusto, Stanford University, Capital Economics

Remote Worker and Domestic Migration Rankings in 52 Largest US Metros



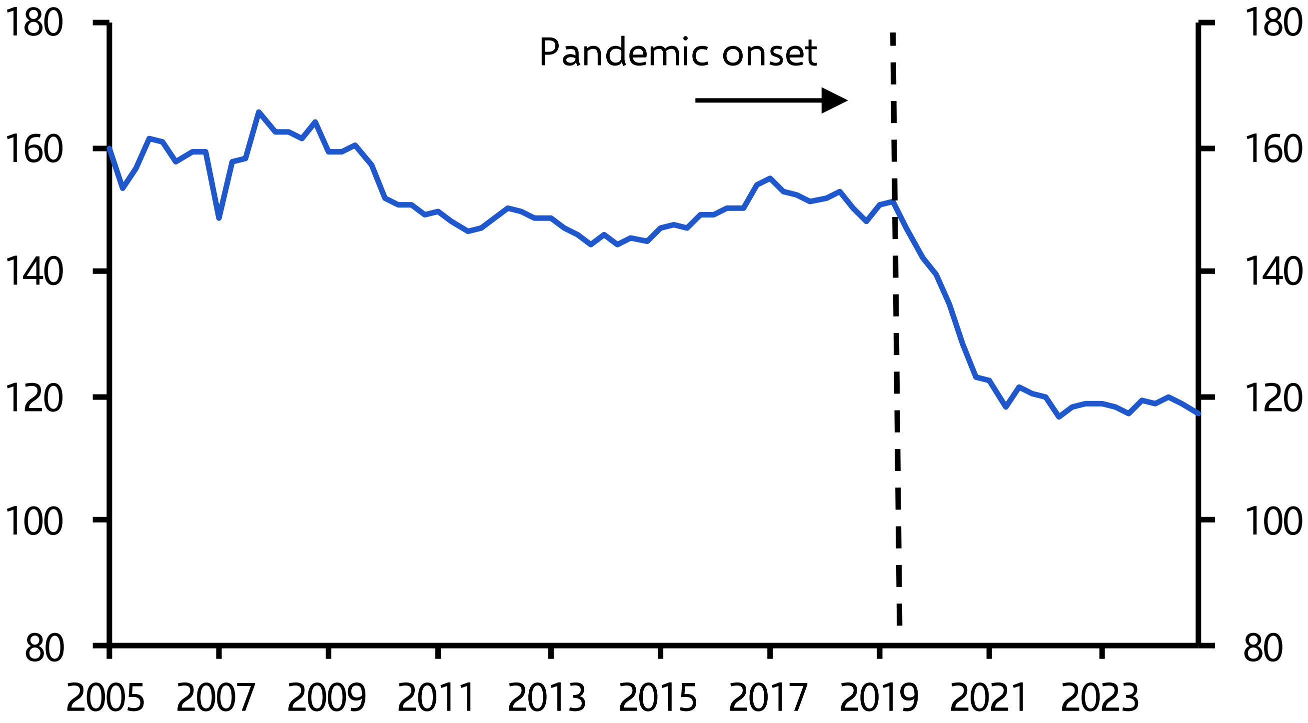
Sources: US Census Bureau, Capital Economics

Online Retail Sales (% of Total Sales)



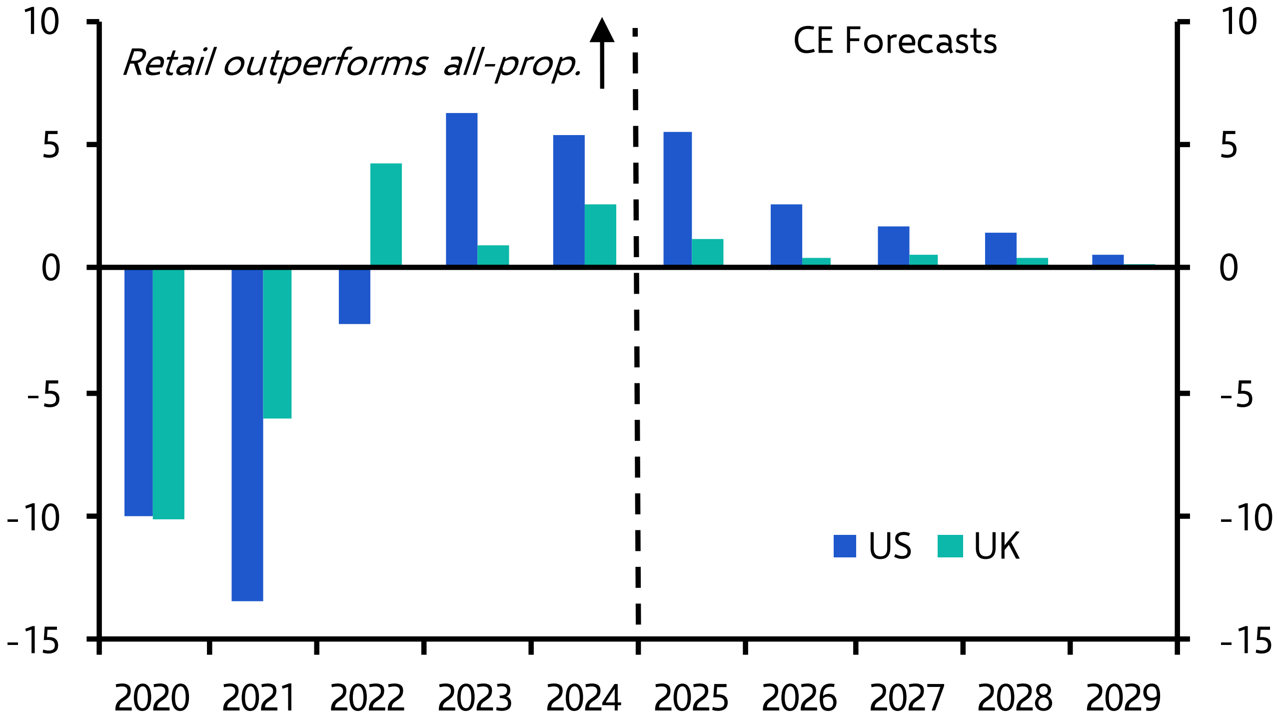
Sources: LSEG, Capital Economics

Retail Less Distribution Warehouse Rents (£ Per Sq.M.)



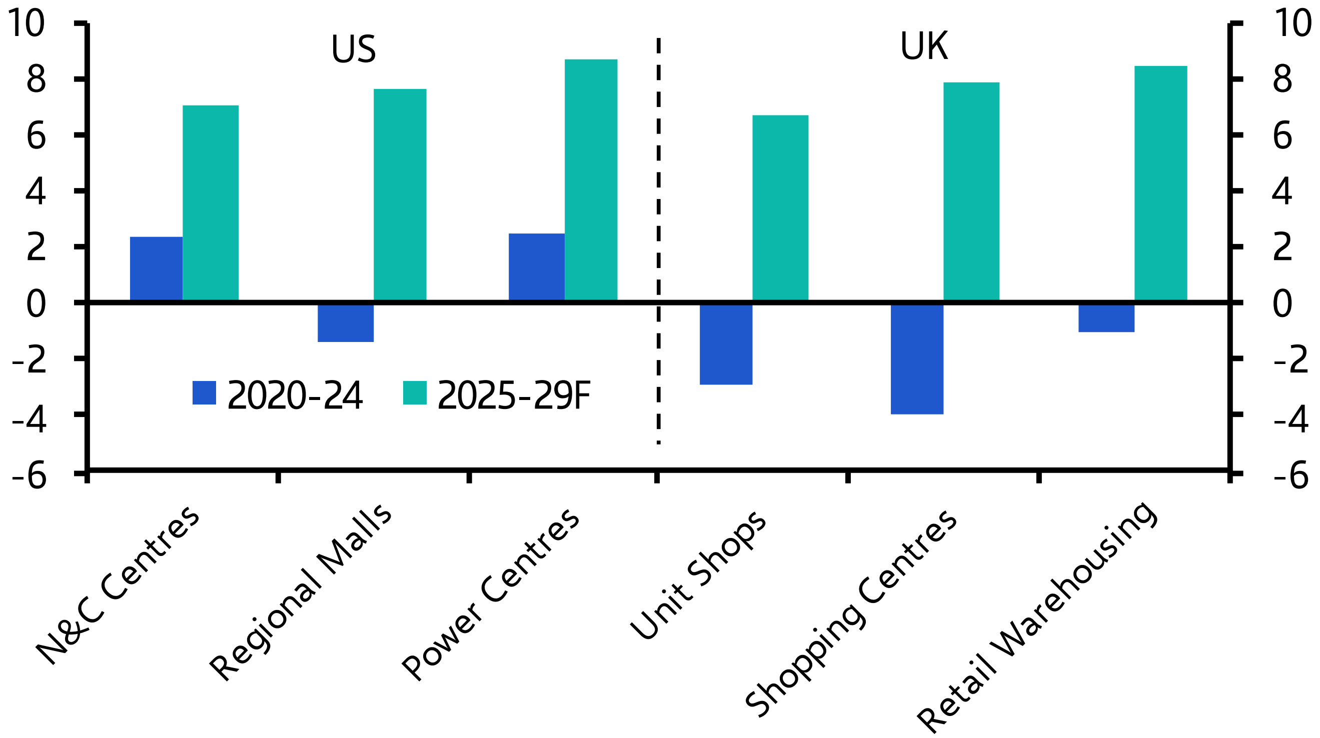
Sources: MSCI, Capital Economics

Retail Less All-Property Returns (%)



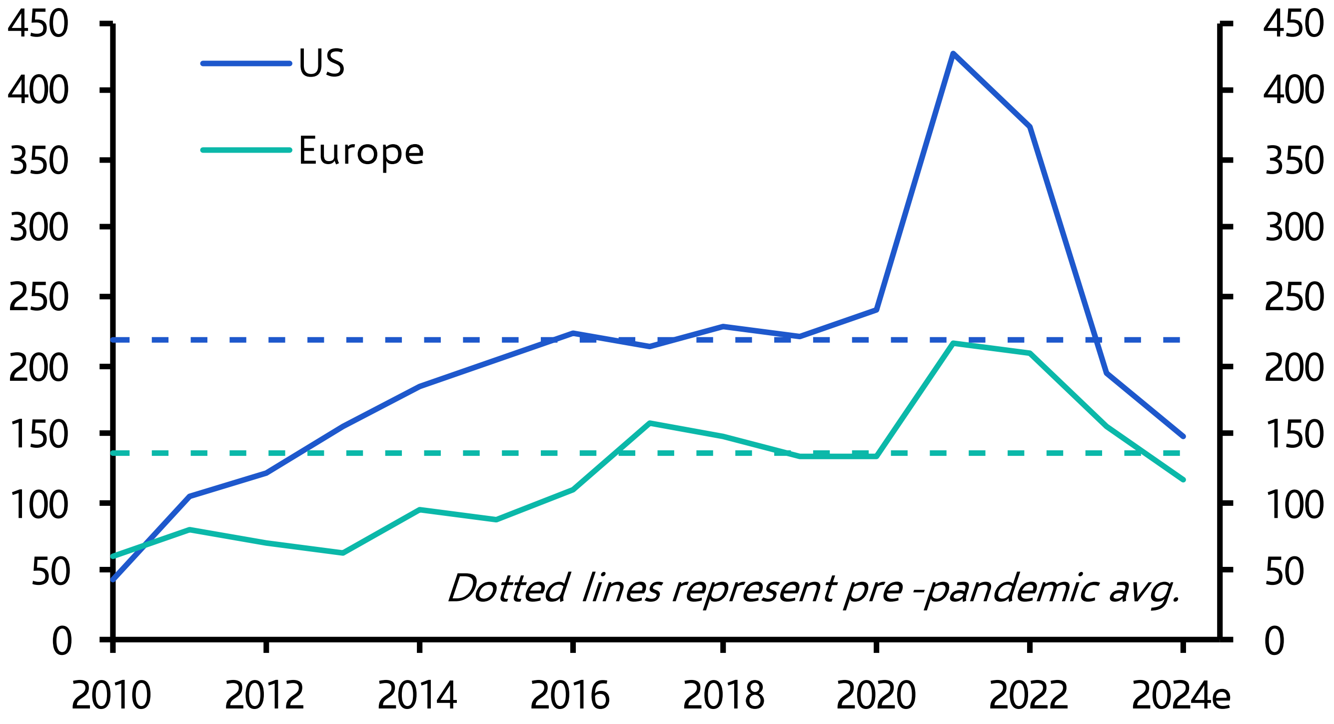
Sources: MSCI, Capital Economics

Retail Total Returns (% p.a.)



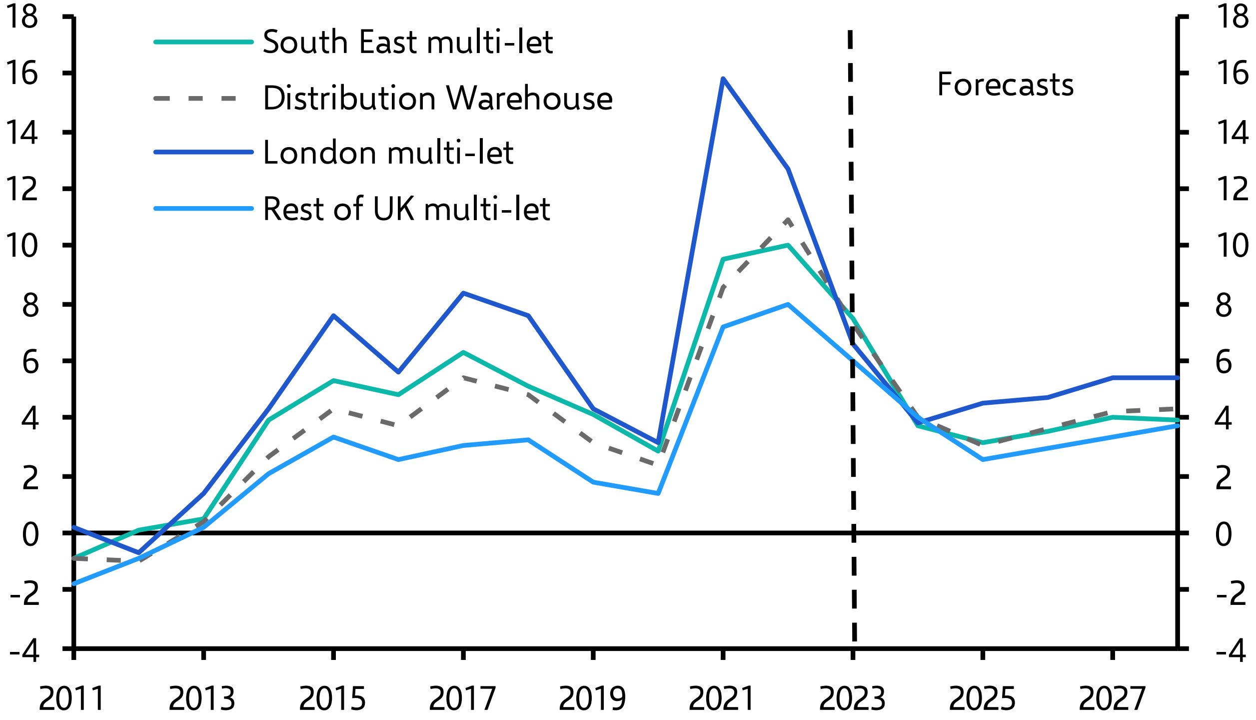
Sources: MSCI, Capital Economics

Industrial Net Absorption (M. Sq. Ft.)



Sources: Prologis, Capital Economics

UK Multi-let & Distribution Warehouse Rent Growth (% y/y)



Sources: Gerald Eve, MSCI, Capital Economics

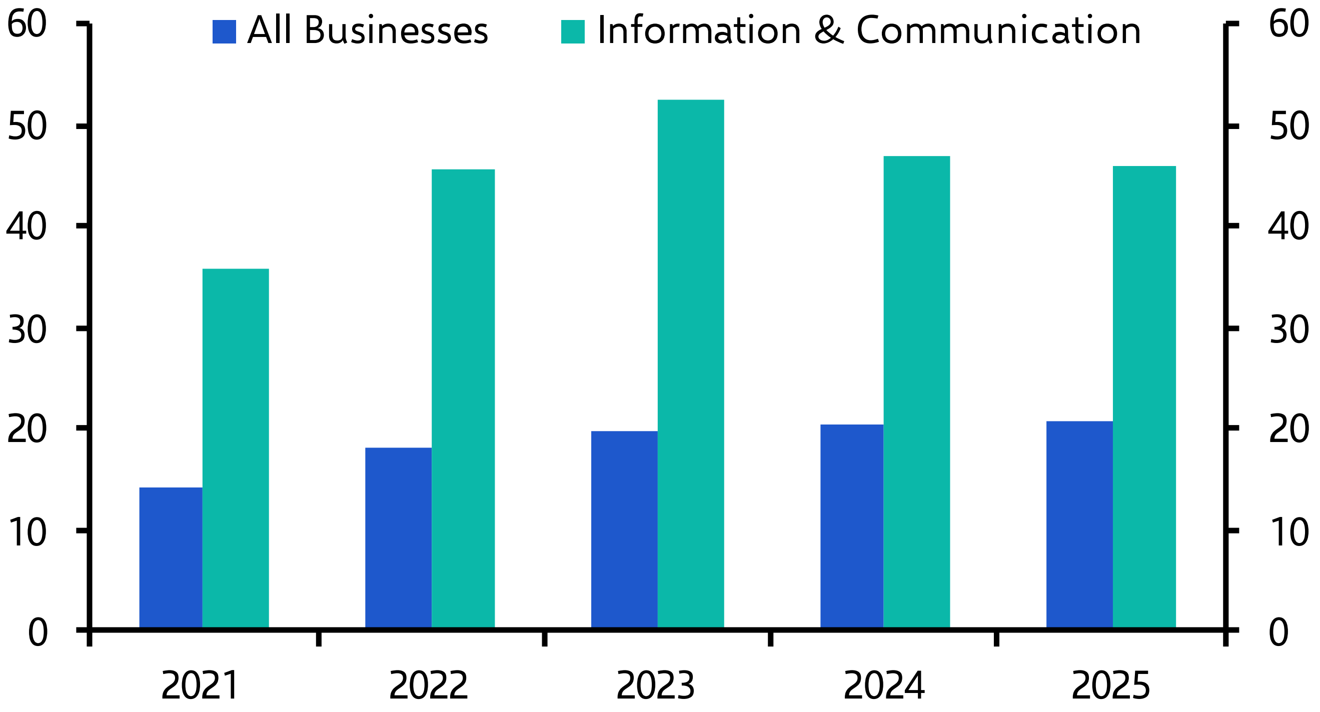
Conclusions

- The economic and financial backdrop will not be especially supportive of strong CRE performance.
- Hybrid work is here to stay, and at close to current levels.
- Best-in-class offices will perform well, but as the decade progresses this will broaden to Grade A in markets with low prime vacancy.
- Retail isn’t without challenges, but we expect outperformance from assets better able to complete with online.
- Aside from pandemic-related factors, other structural drivers, such as AI and ageing populations, will underpin winning sectors.

Additional Material

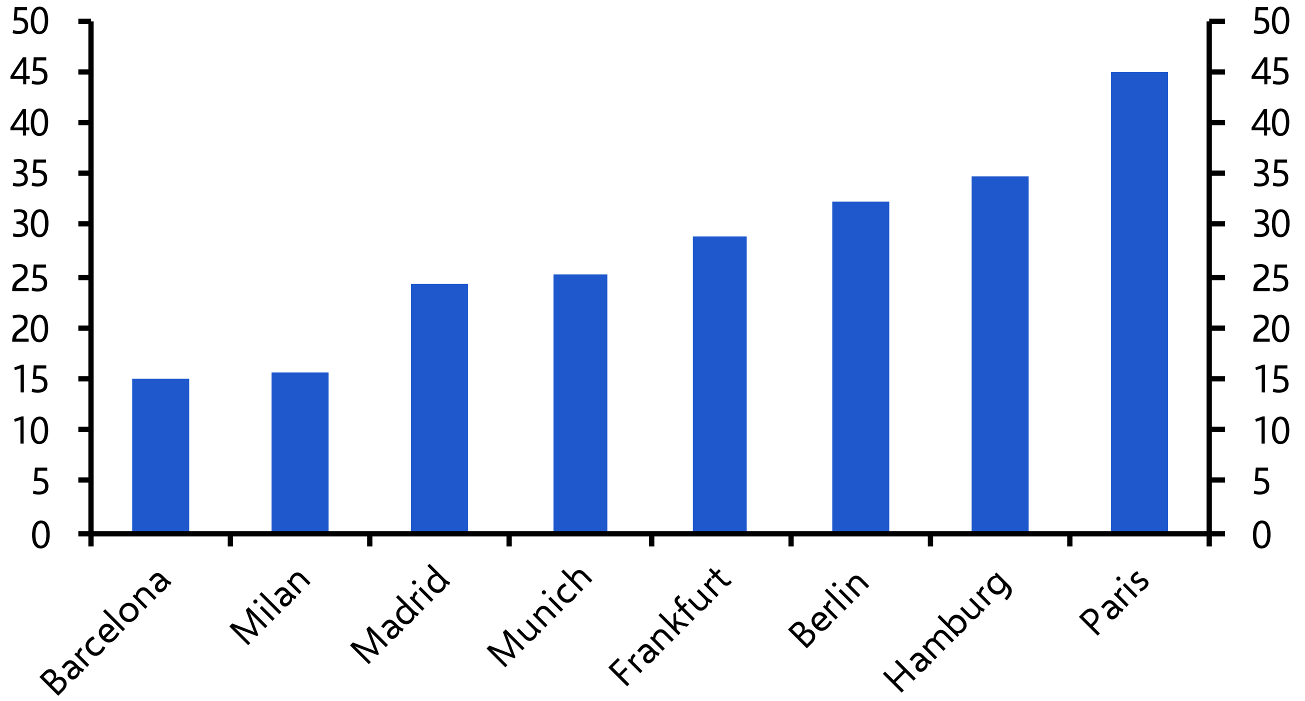
Remote work

Share of Businesses Using Remote Work Permanently (Mar, %)



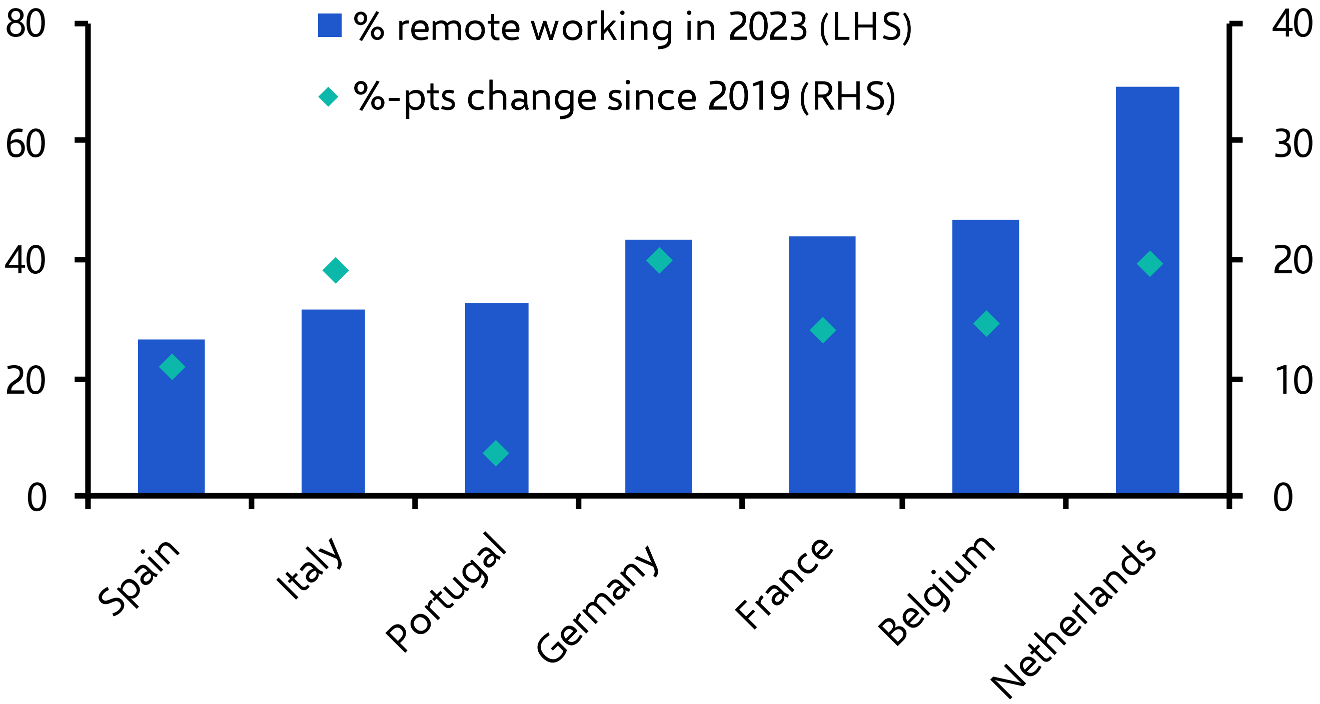
Source: ONS

Share of Remote Work (%)



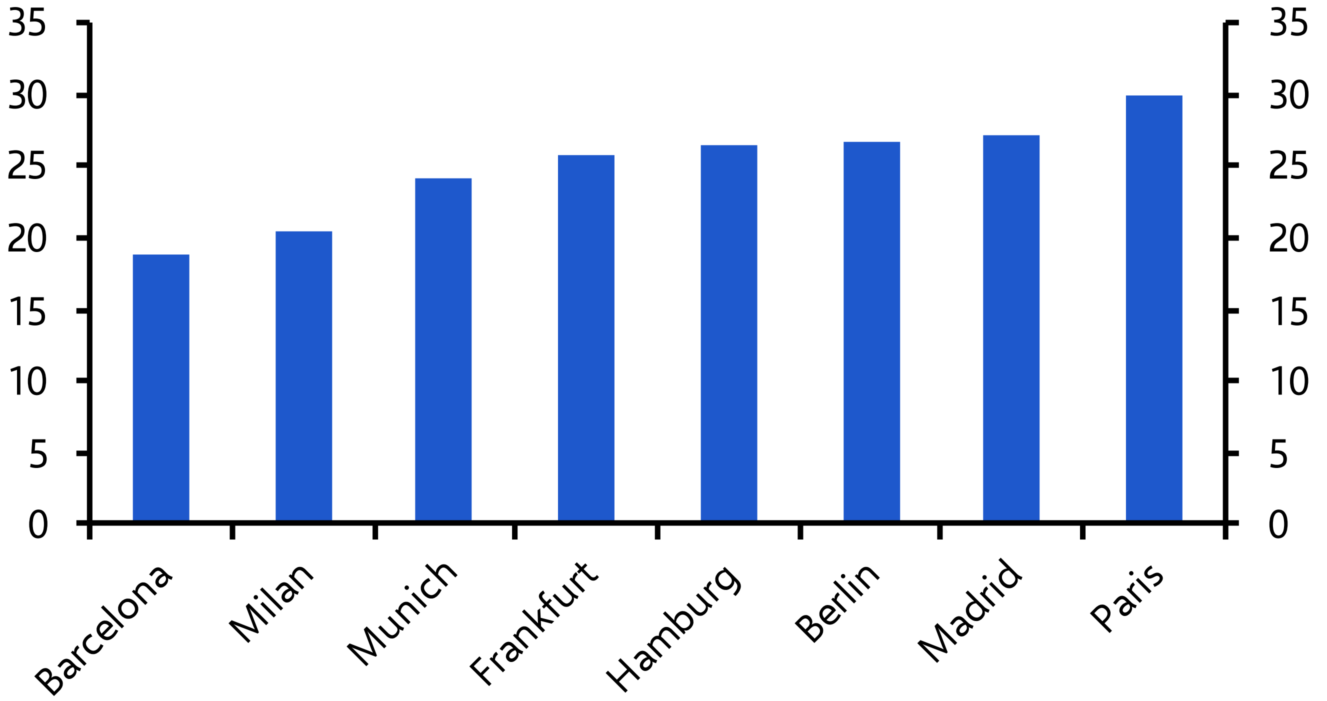
Sources: Eurostat, National Statistical Agencies, Capital Economics

Estimated Share of WFH in Office Based Sectors (%)



Sources: Eurostat, Capital Economics

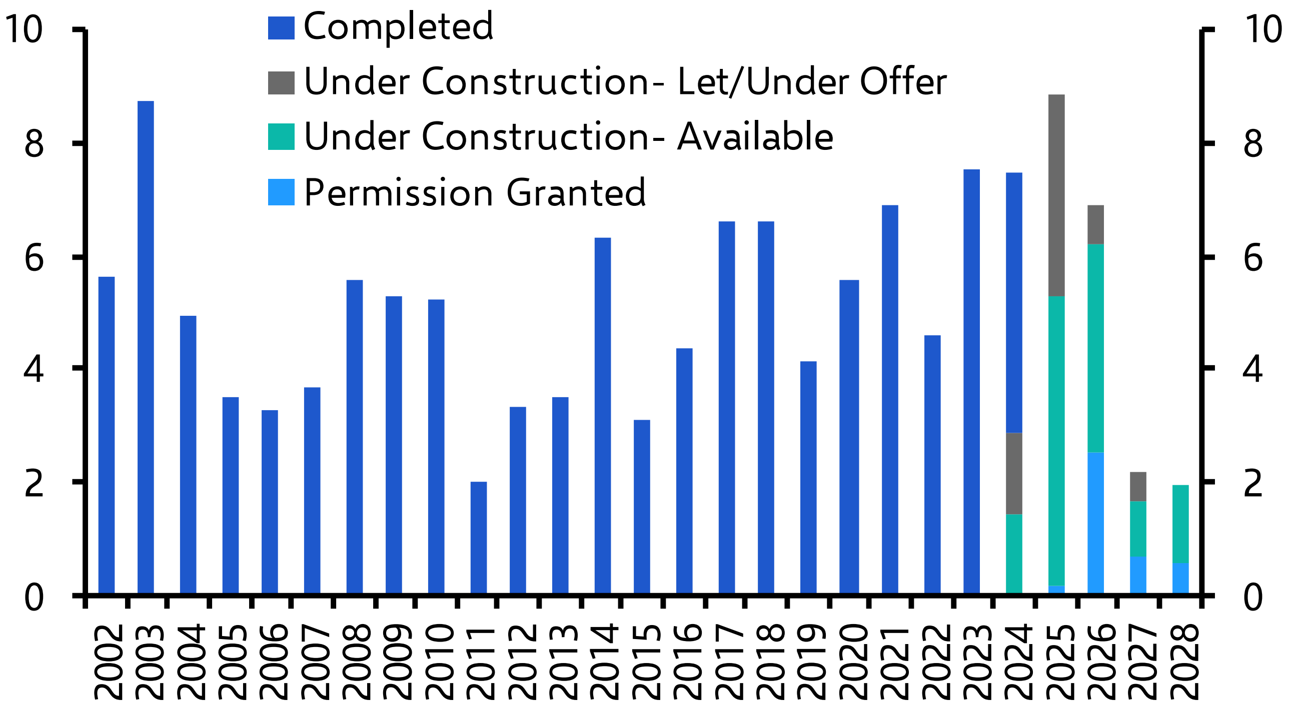
Office-Based Employment (% of Total Employment)



Sources: Eurostat, Capital Economics

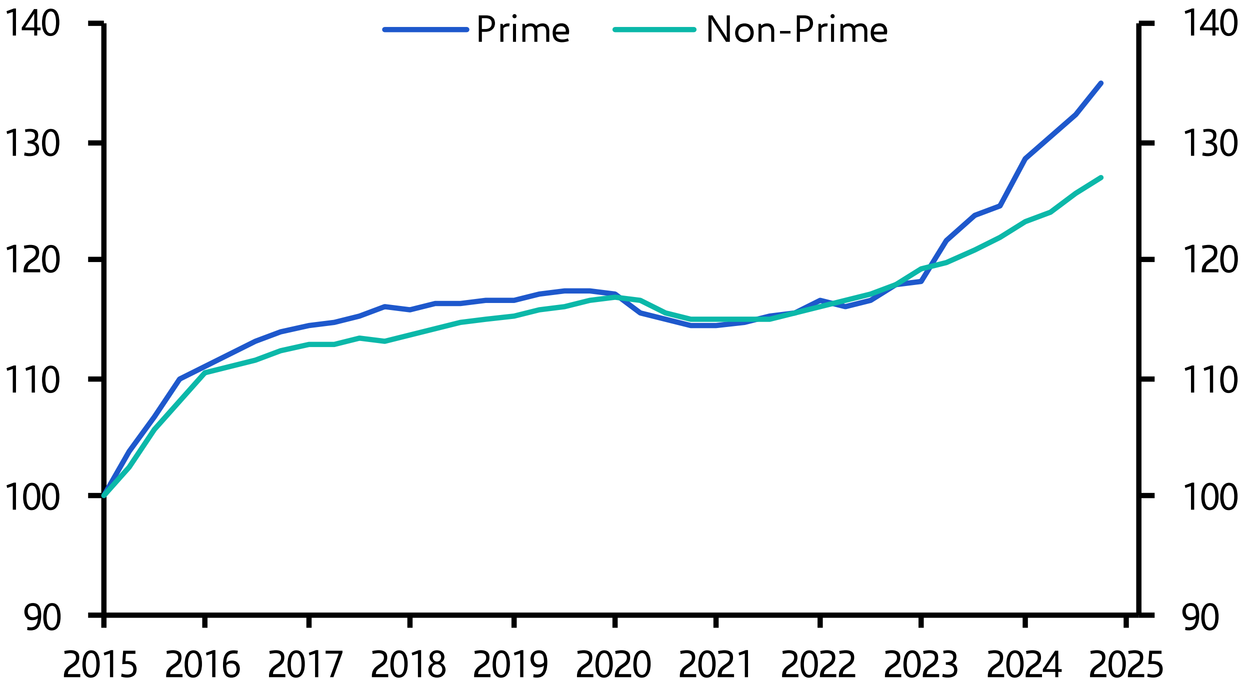
Offices

Central London Development Pipeline (M. Sq. Ft.)



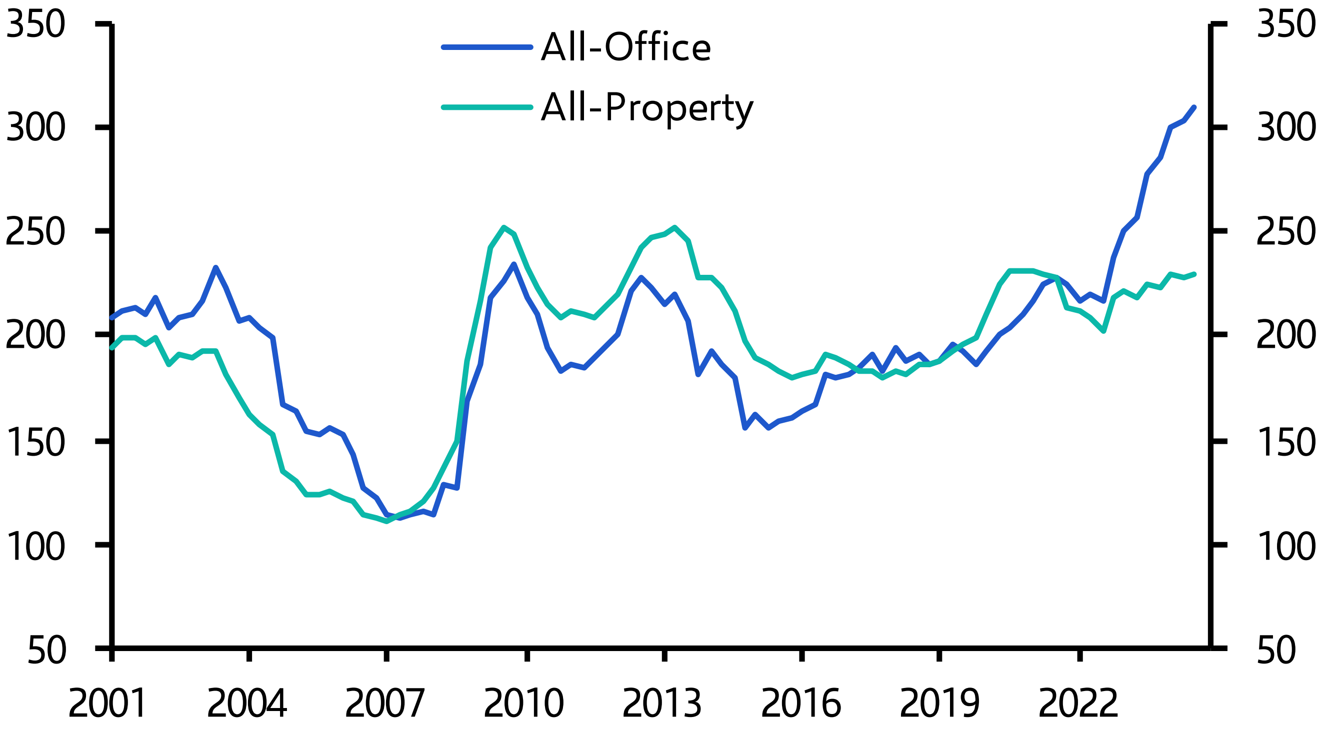
Source: Deloitte

Central London Office Rents (Index, Q1 2015 = 100)



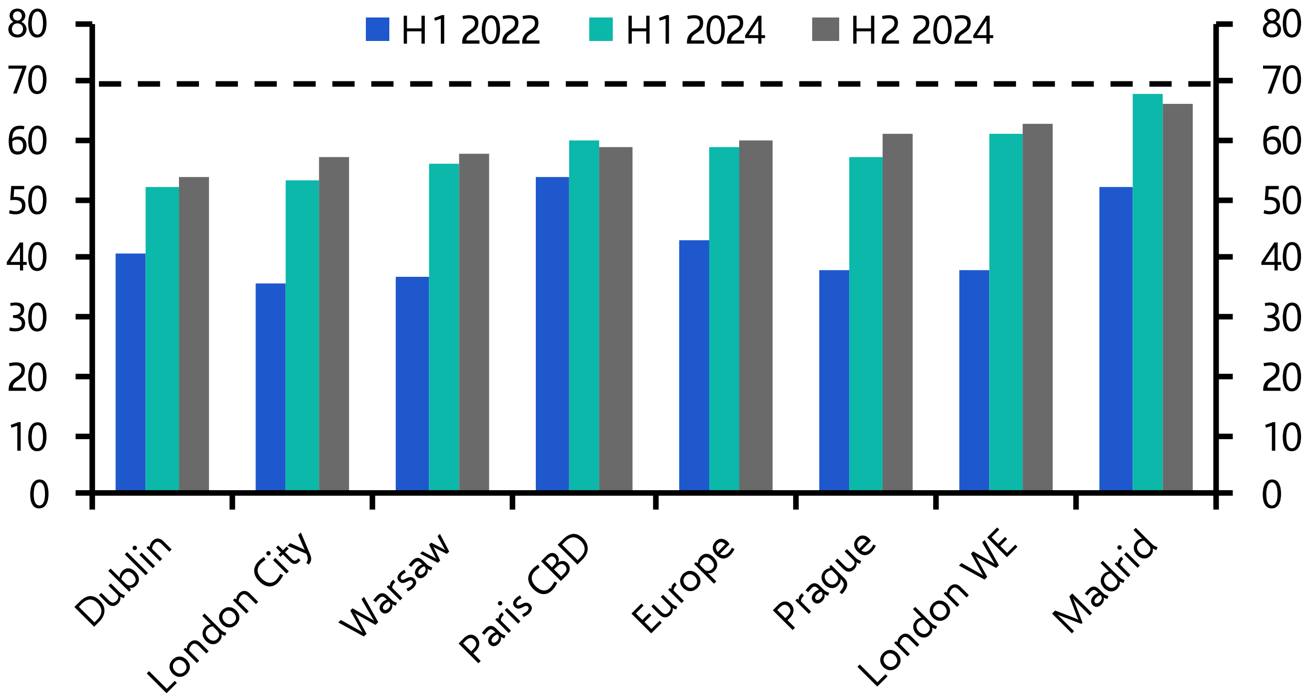
Sources: MSCI, Capital Economics

UK Prime/Non-Prime Equivalent Yield Spread (bps)



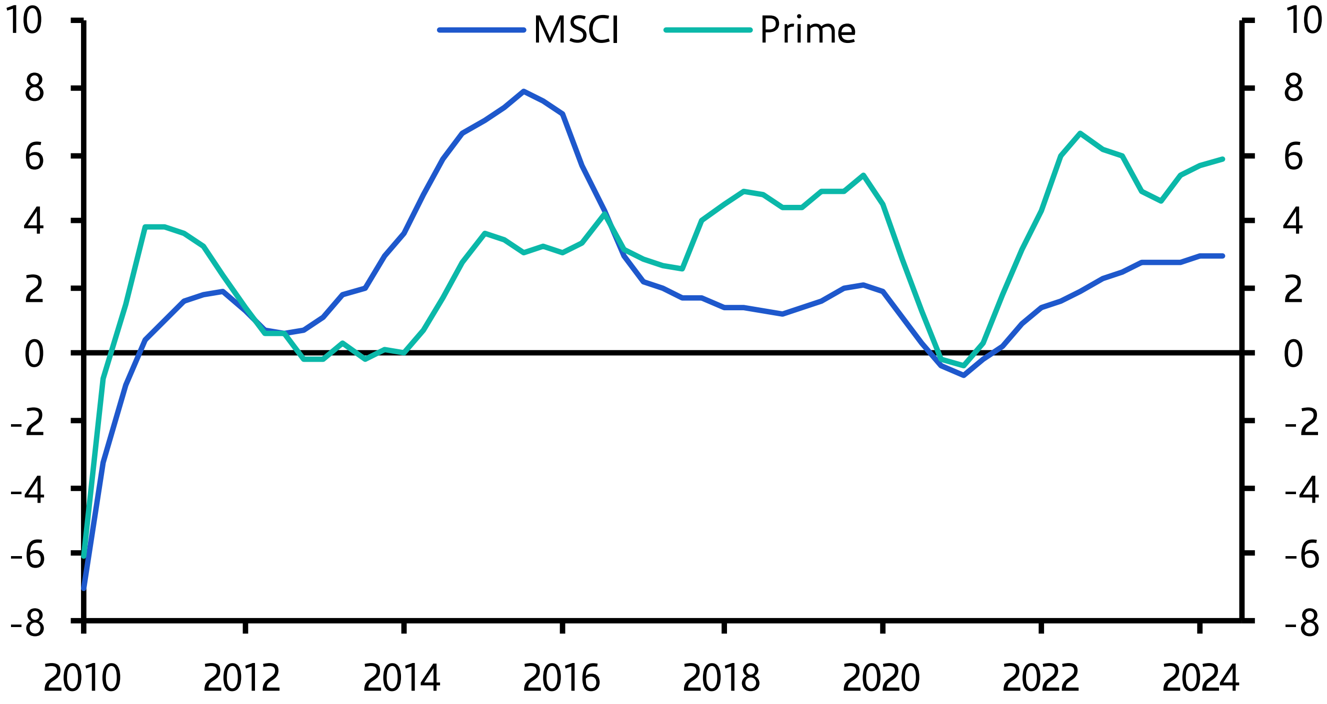
Sources: MSCI, Capital Economics

Europe Office Occupancy Rates (%)



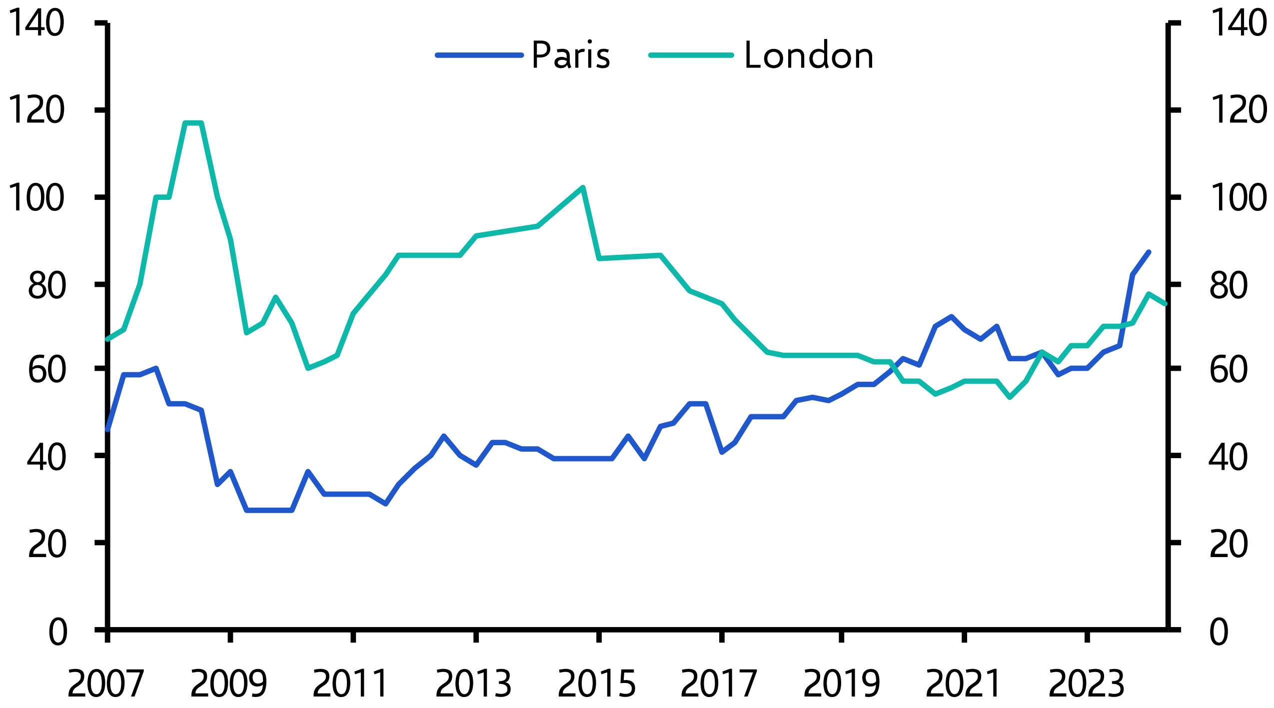
Sources: Savills, Capital Economics

Europe Prime vs Average Office Rental Value Growth (% y/y)



Sources: MSCI, Capital Economics

CBD Rent Premium* (Average %)



Sources: Various Agents, CE *over next most expensive submarket

Hotels

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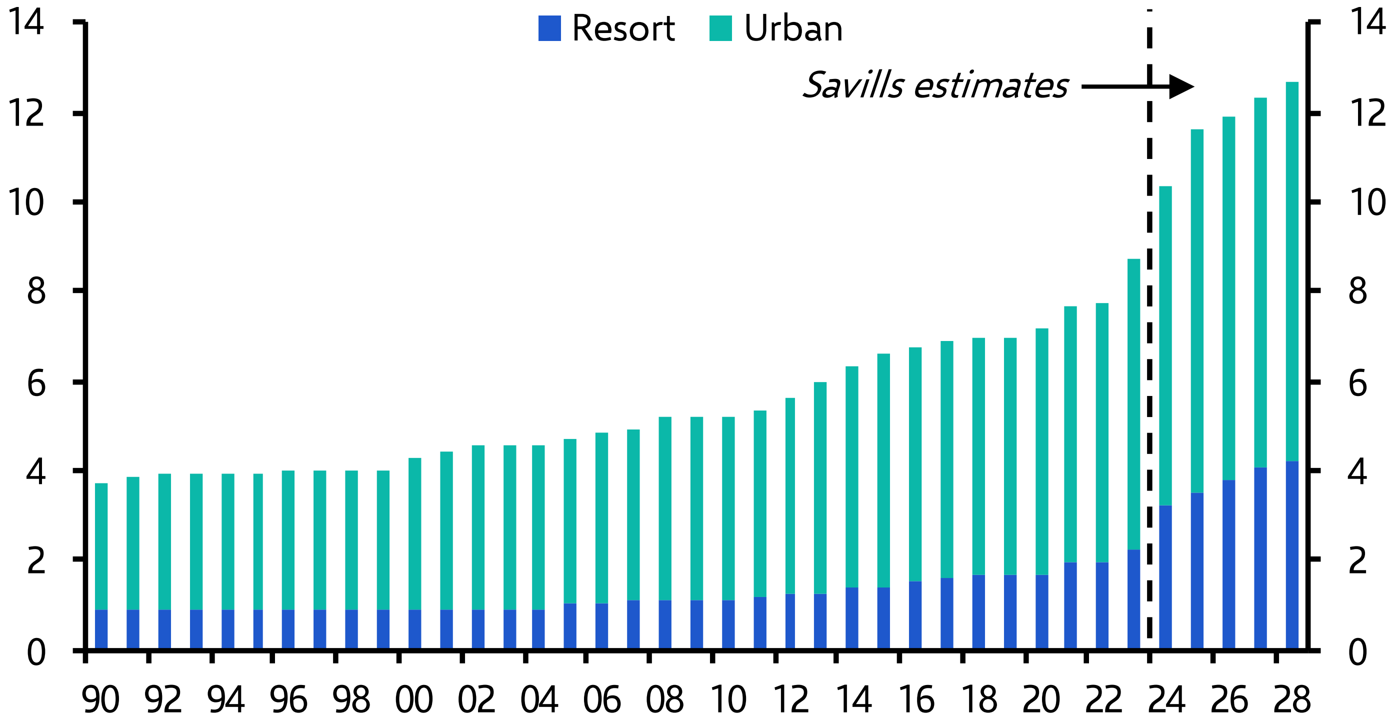
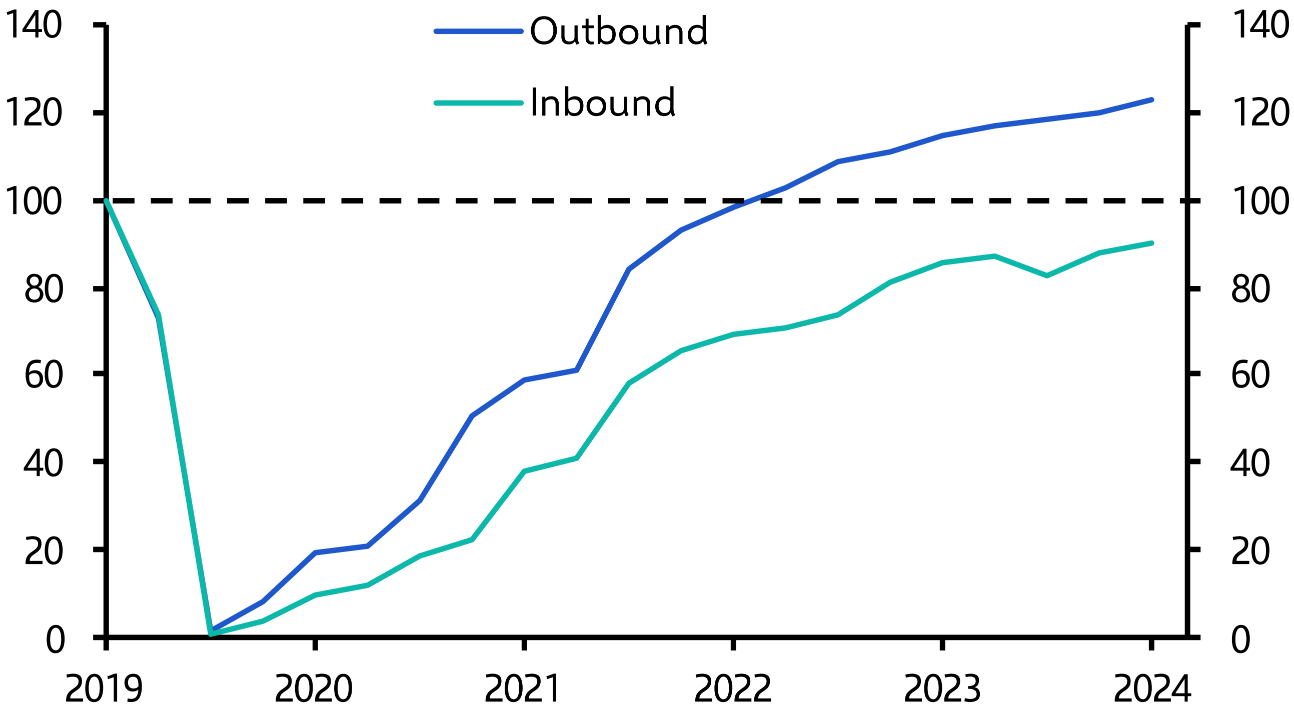
European Luxury Hotel Supply (Rooms, 000s)



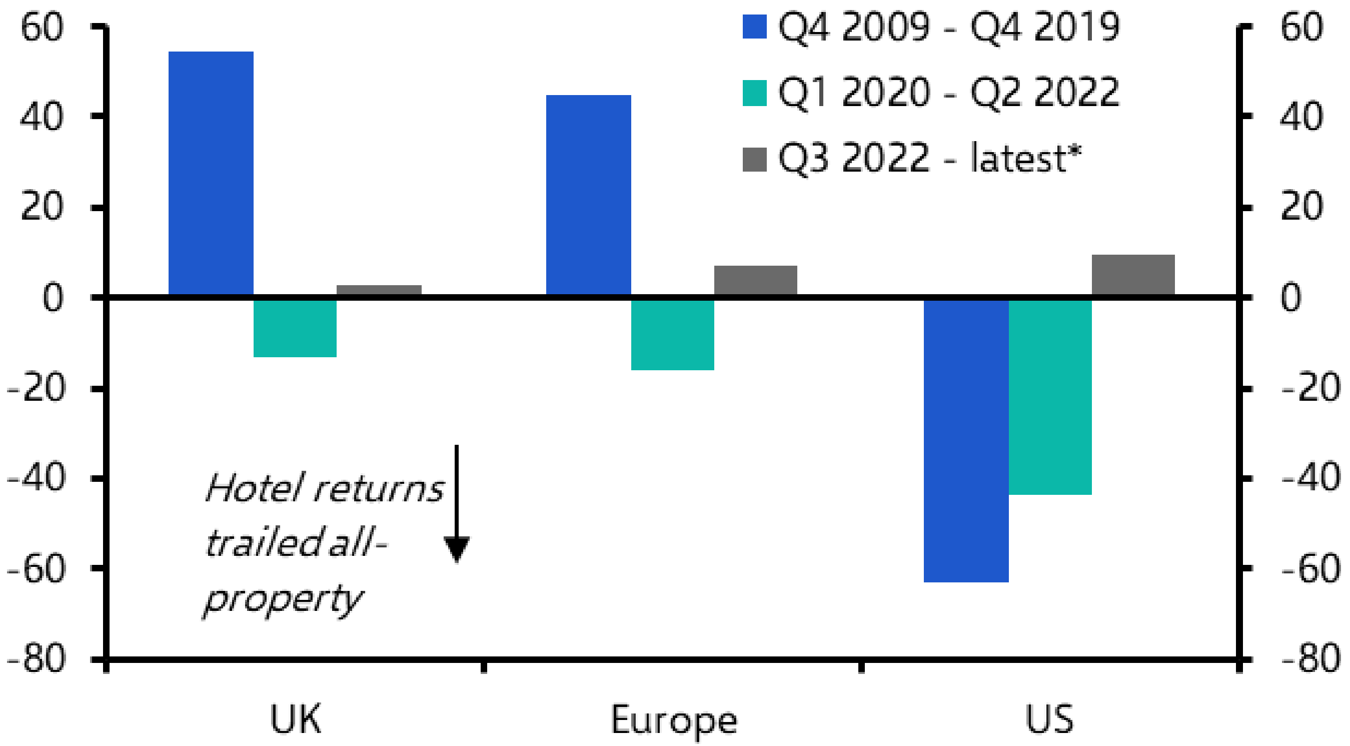
Source: Savills

US Inbound and Outbound International Travellers (2019 Q4 = 100)



Sources: ITA, CBRE, Capital Economics

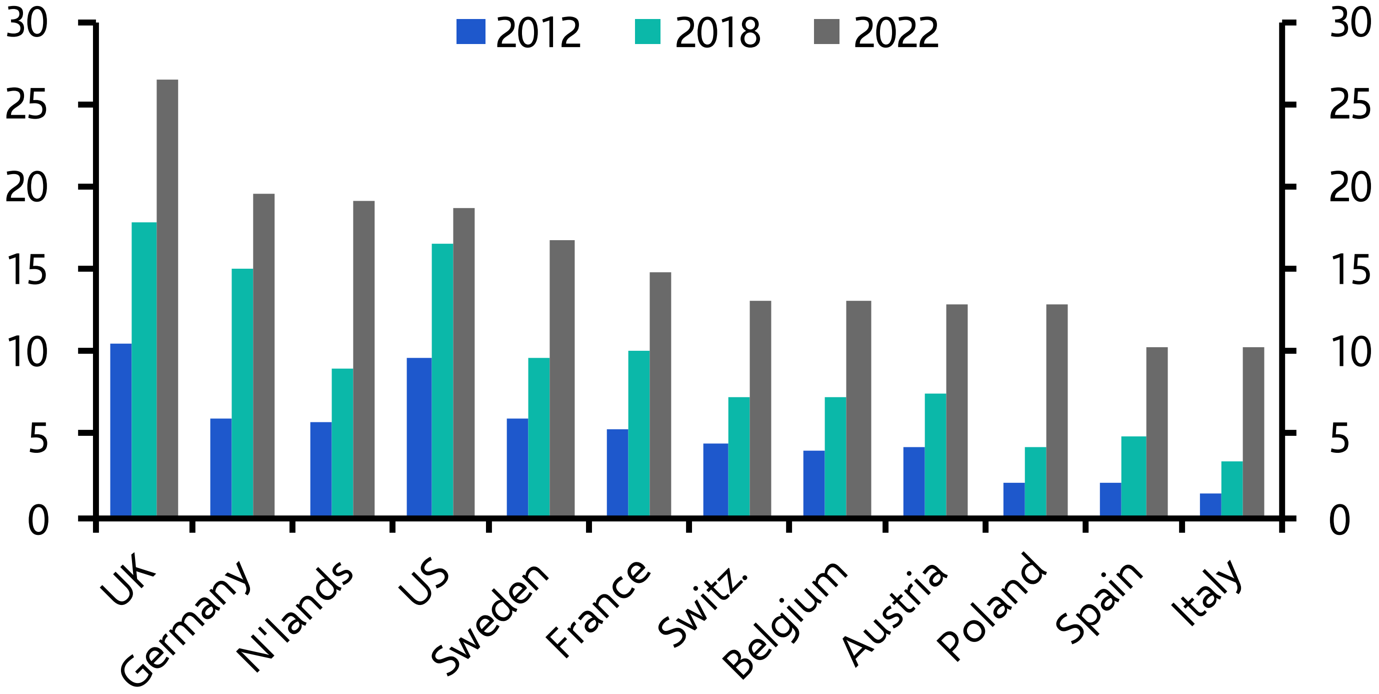
Hotel minus All-Property Cumulative Total Returns (%-pts)



Sources: MSCI, Capital Economics

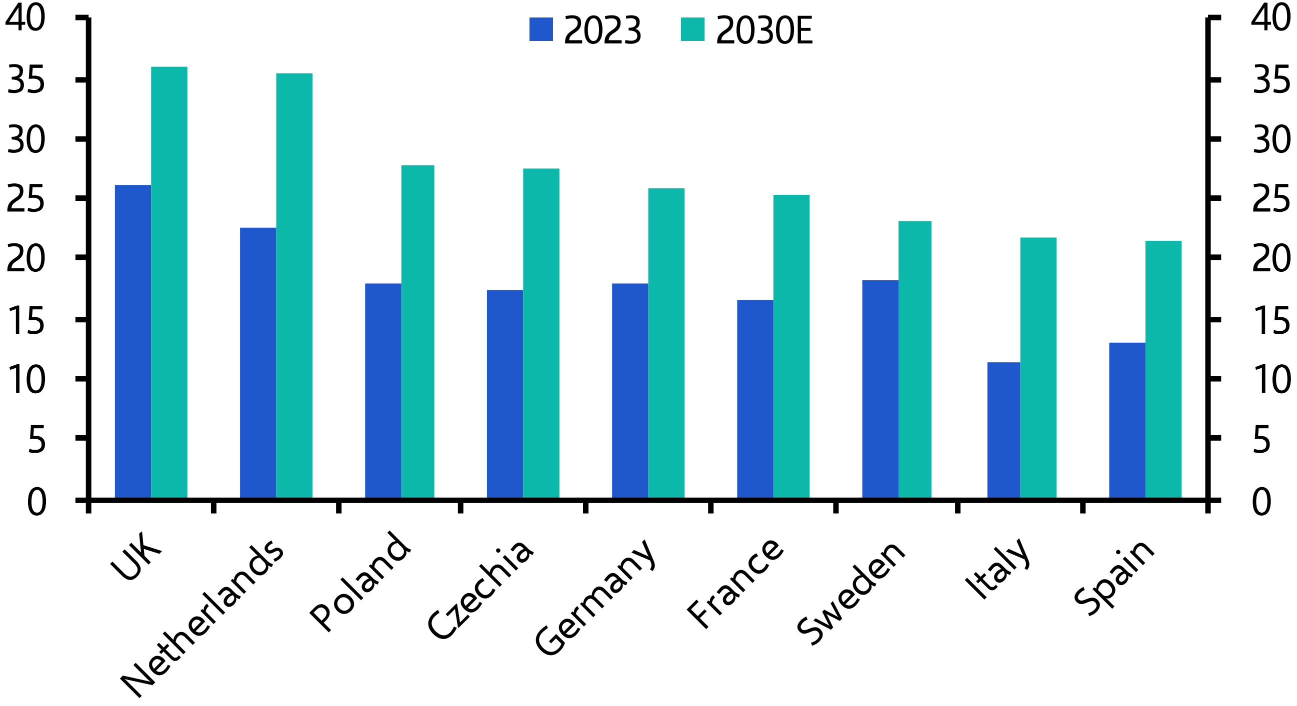
Retail

Online Retail Shares (% of Total Sales)



Sources: CRR, Capital Economics

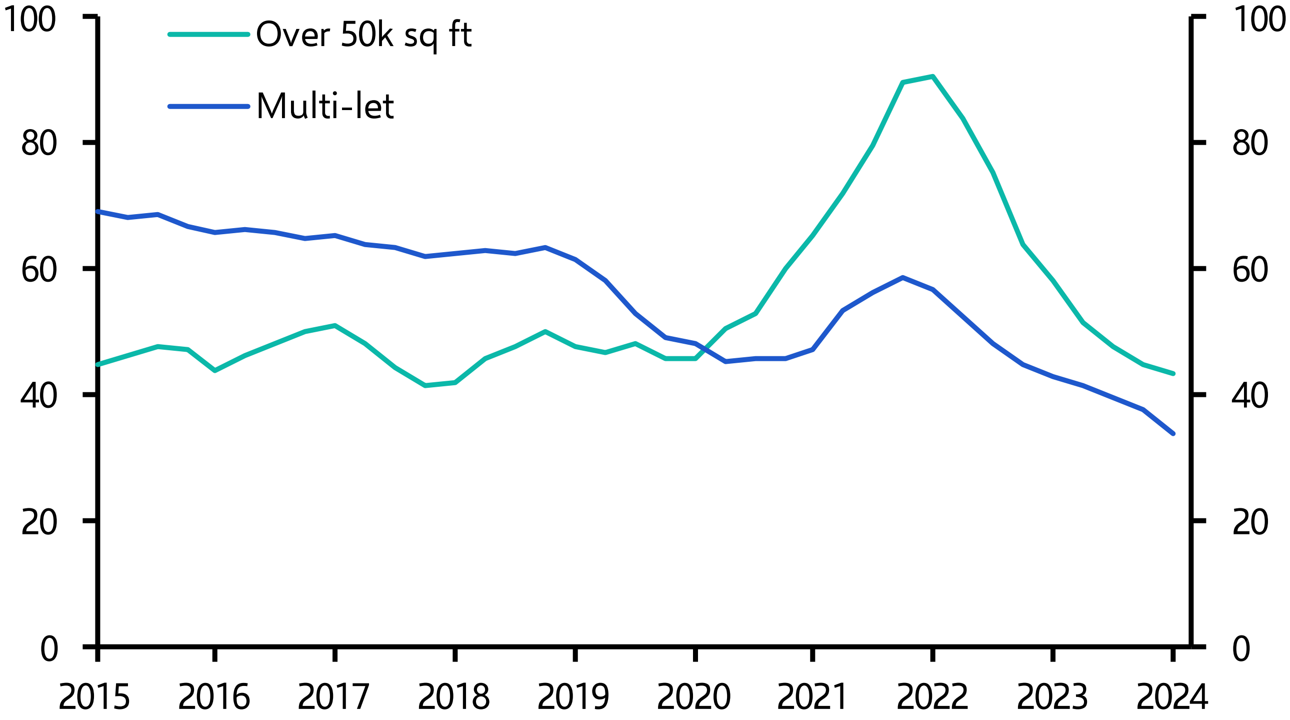
Online Retail Shares (% of Total Sales)



Sources: Garbe, Capital Economics

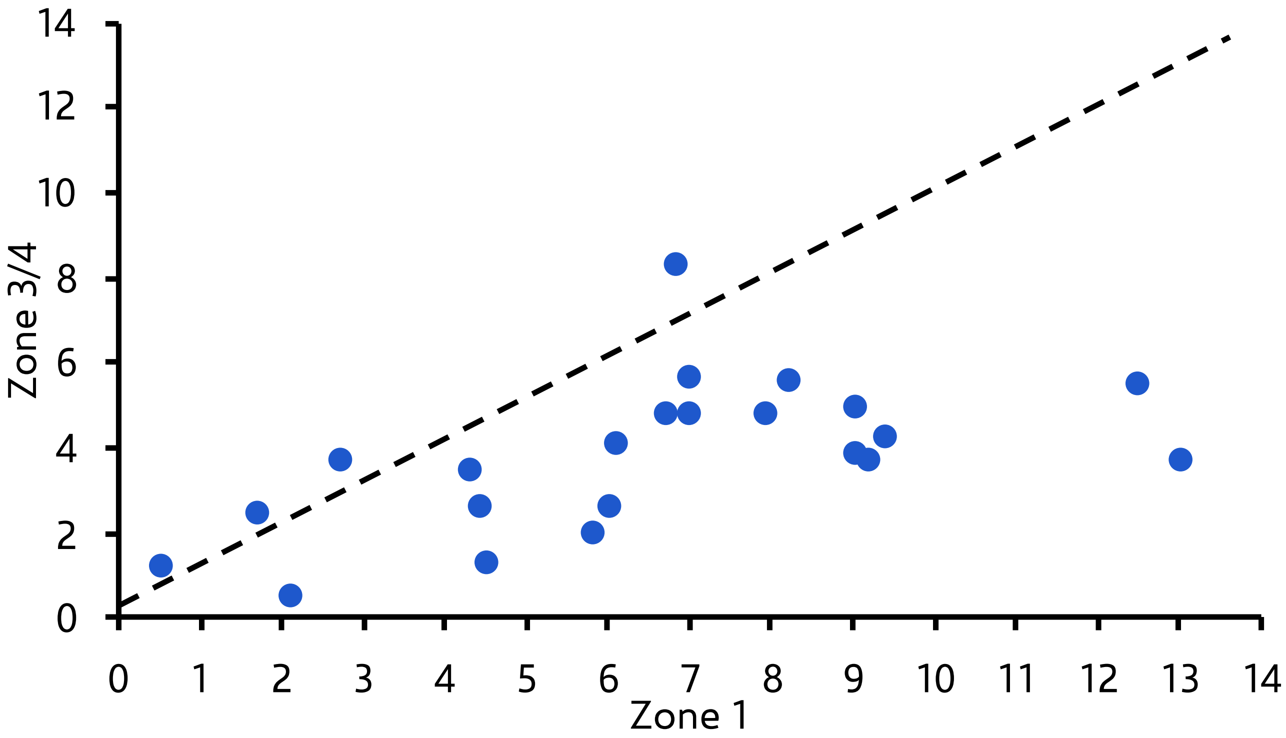
Industrial

UK Industrial Take-Up (12m Rolling Total, Mn. Sq. Ft.)



Sources: Gerald Eve, Capital Economics

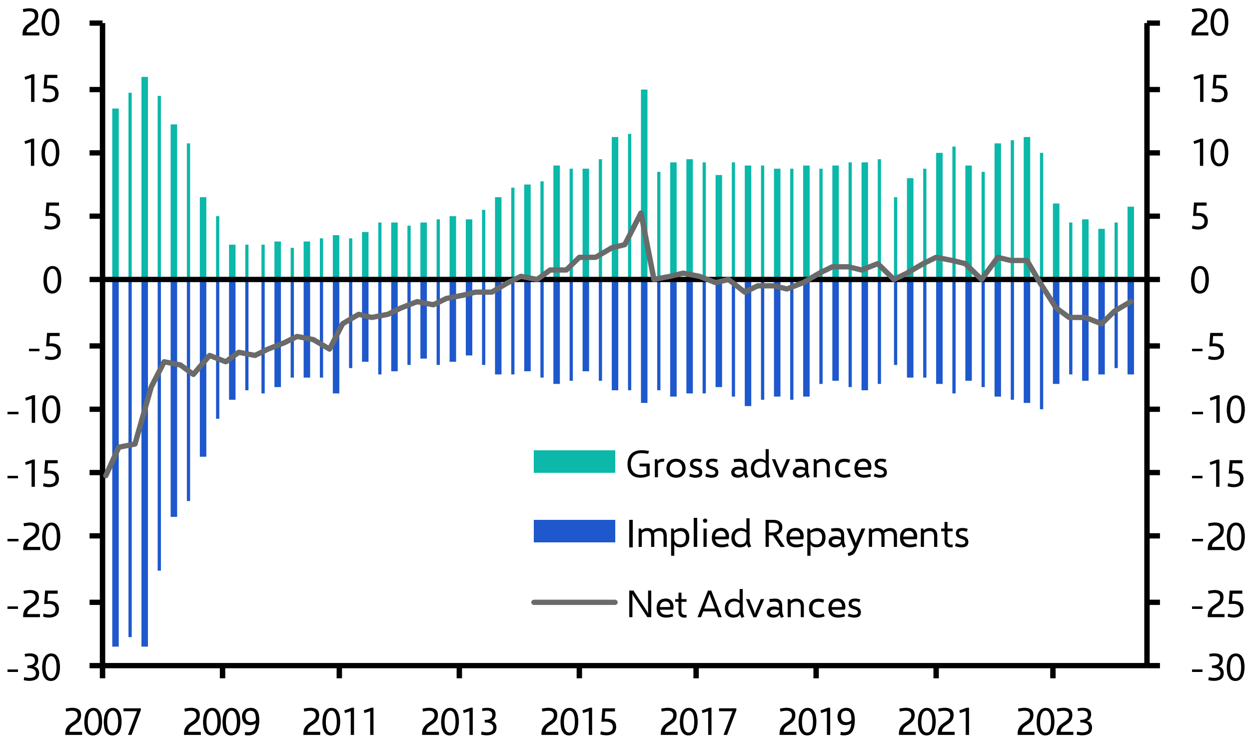
US Industrial Rental Growth by Location (%, 10-yr CAGR)



Sources: CBRE, Capital Economics

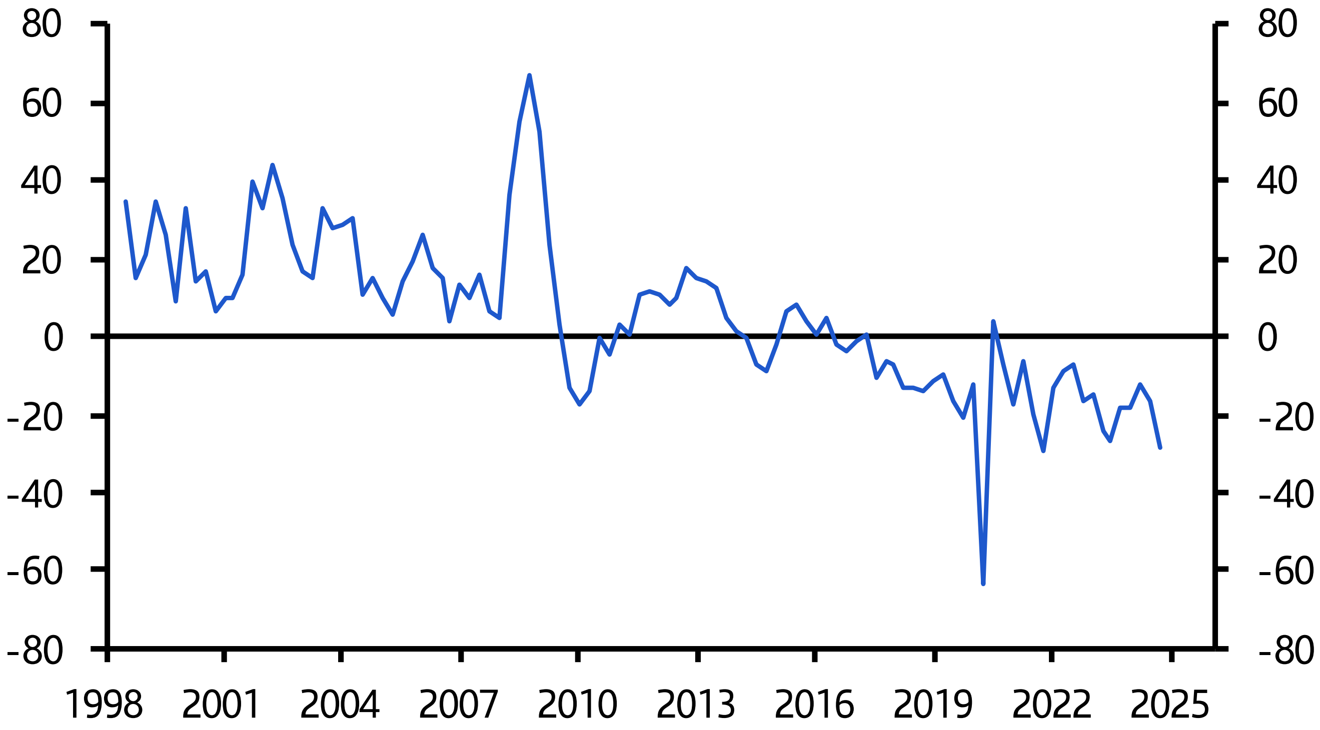
Residential

Unregulated (i.e. BTL) Mortgage Lending (£bn)



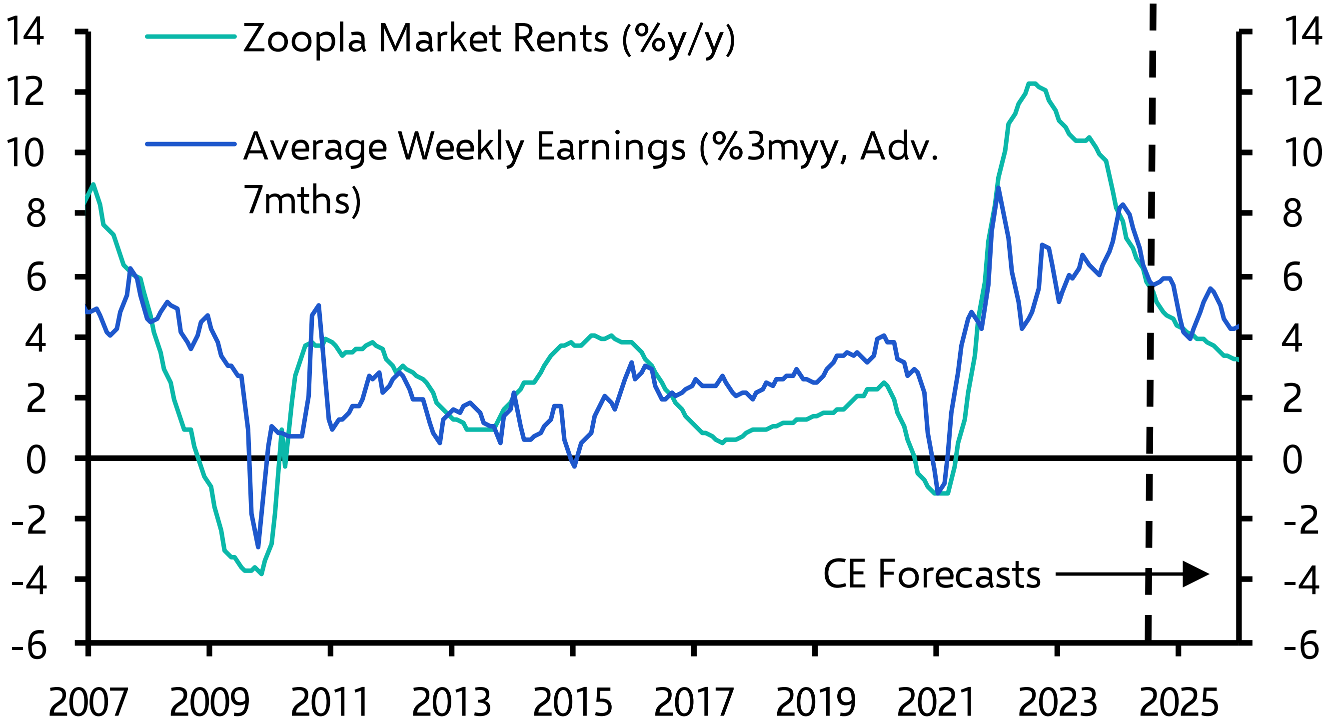
Sources: Bank of England, Capital Economics

RICS Landlord Instructions (% Bal.)



Source: RICS

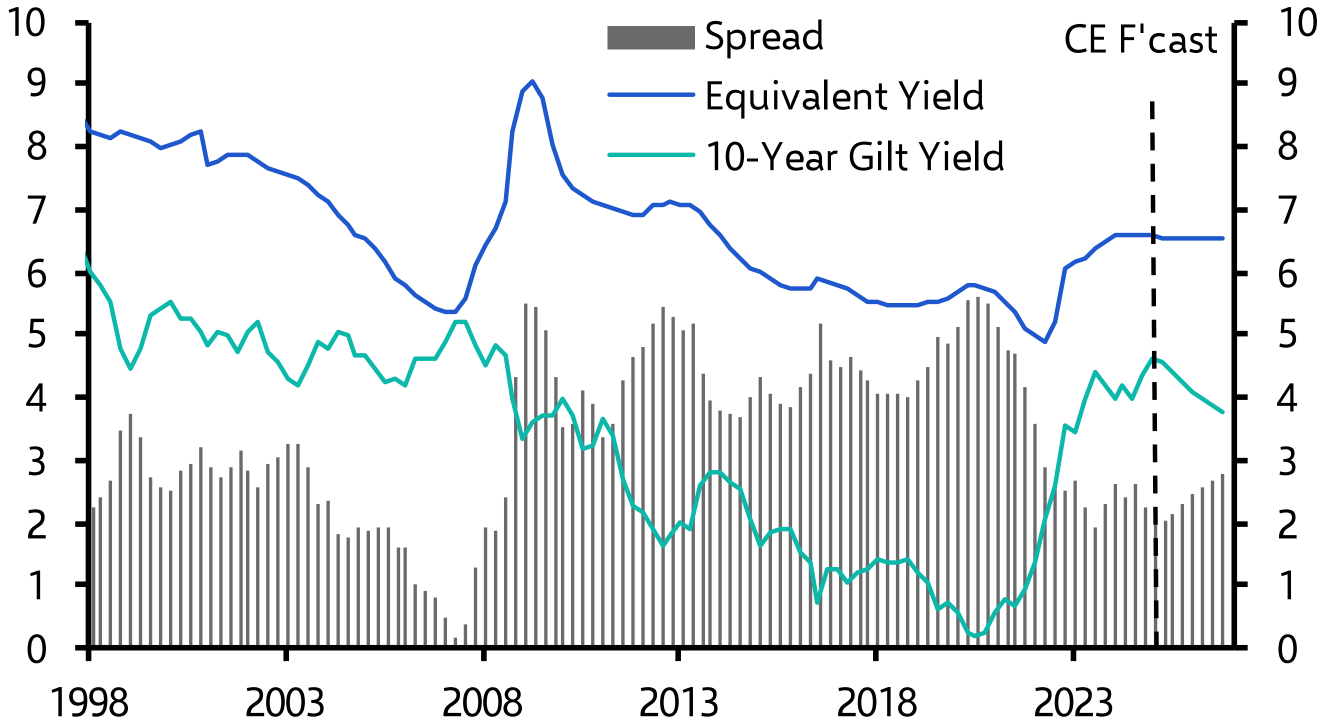
Average Weekly Earnings & Private Market Rent



Sources: LSEG Data, Zoopla, Capital Economics

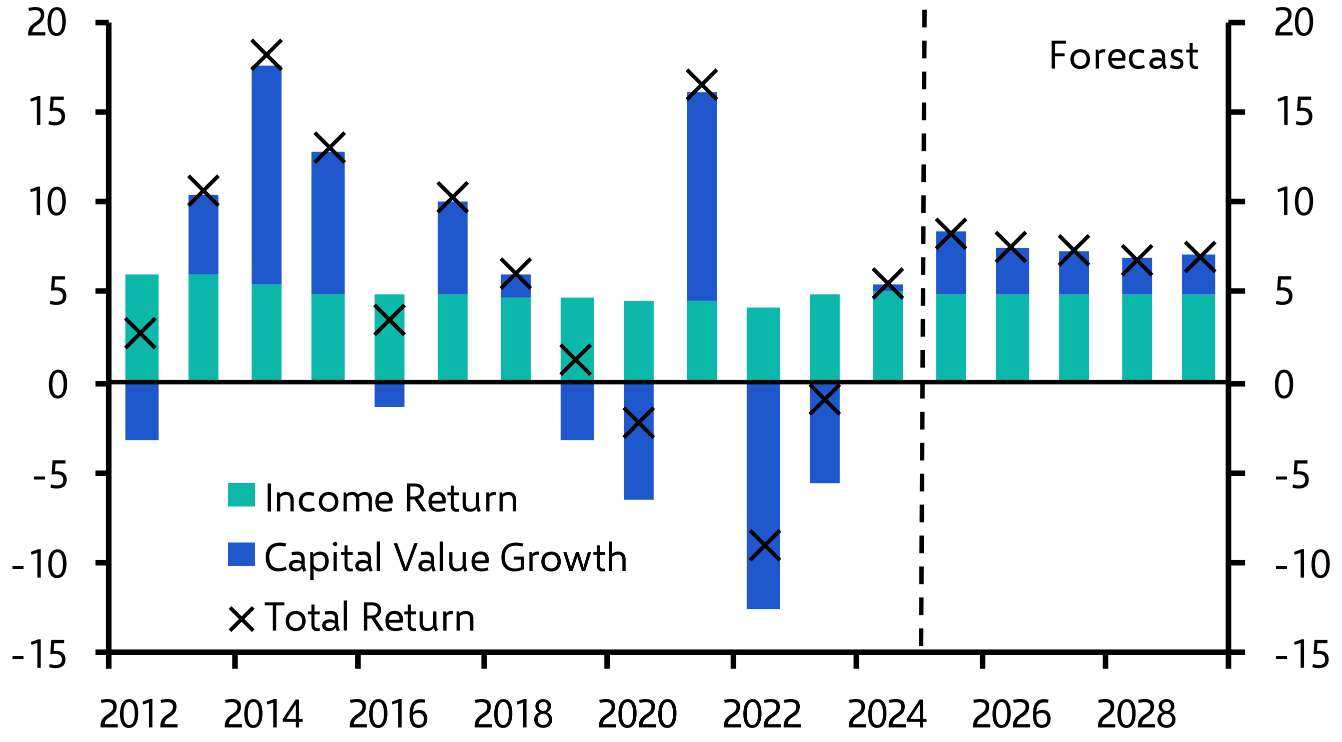
Forecasts

All-Property Equivalent Yield & 10-Year Gilt Yield (%)



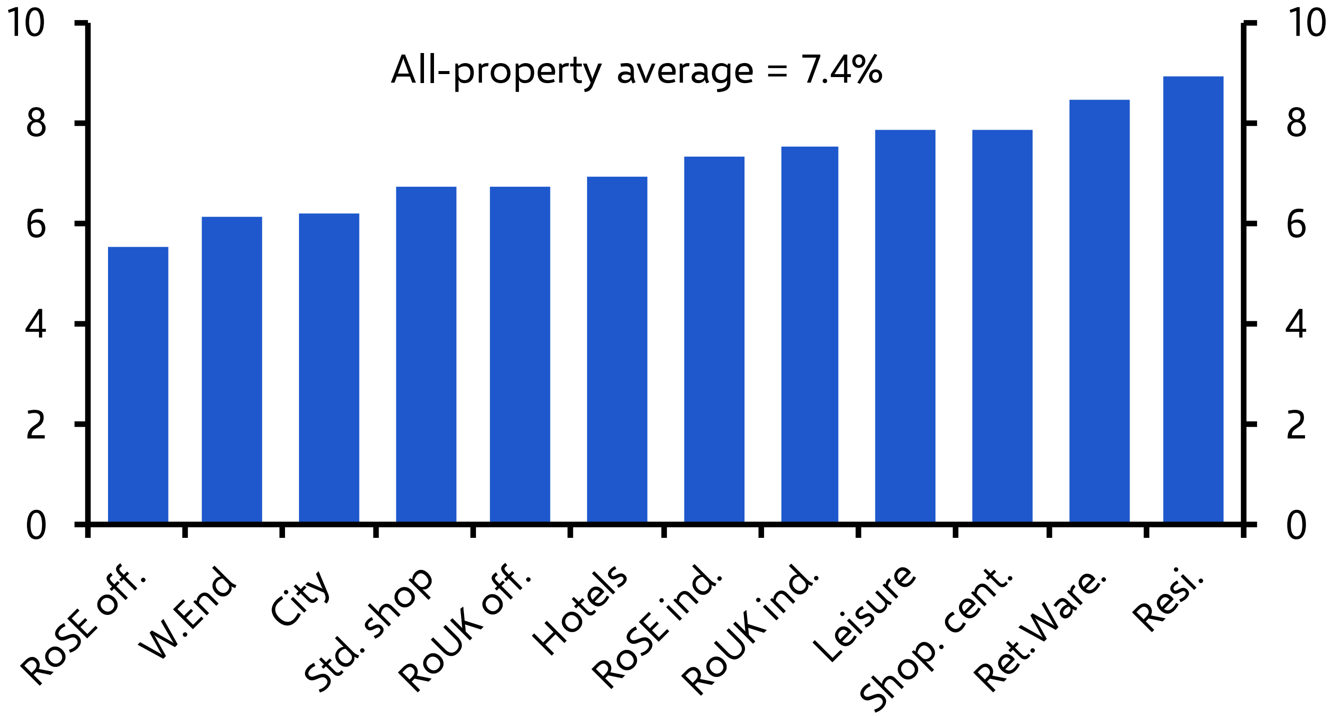
Sources: LSEG D & A, MSCI, Capital Economics

UK All-Property Total Returns Breakdown (% y/y)



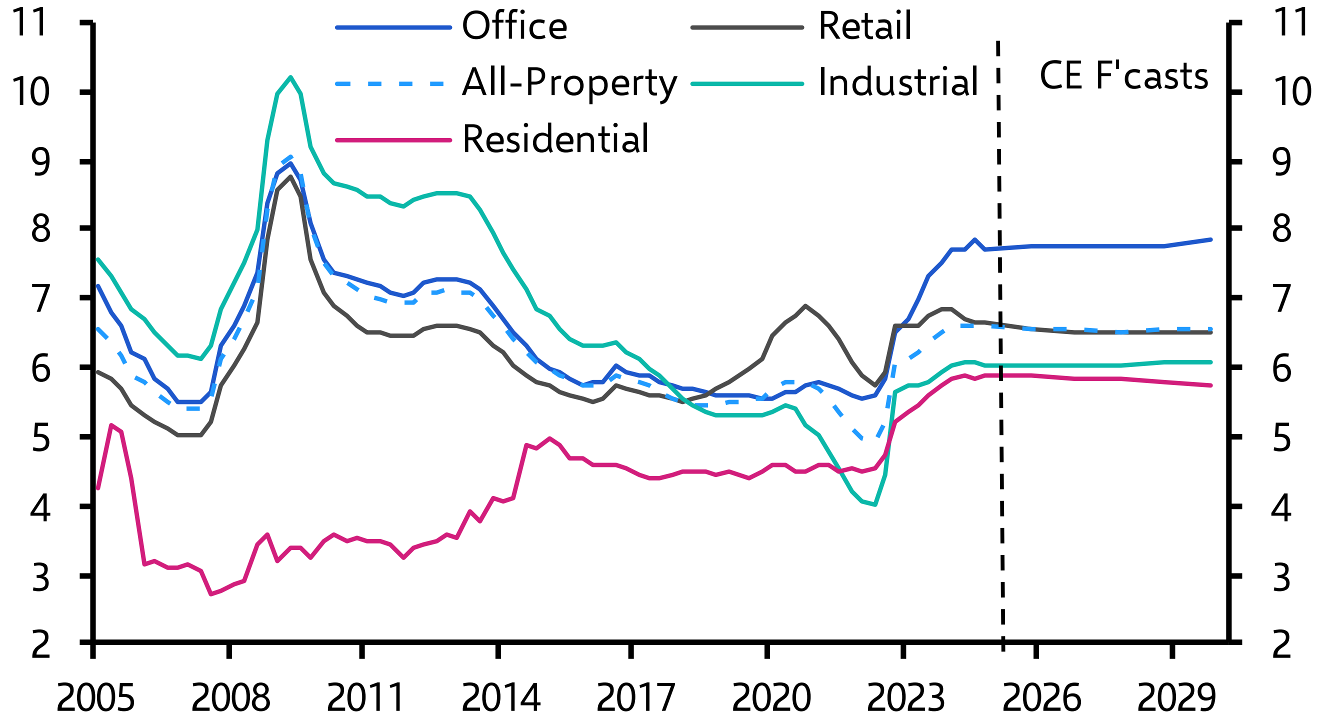
Sources: MSCI, Capital Economics

UK Total Return Forecasts 2025-29 (% p.a.)



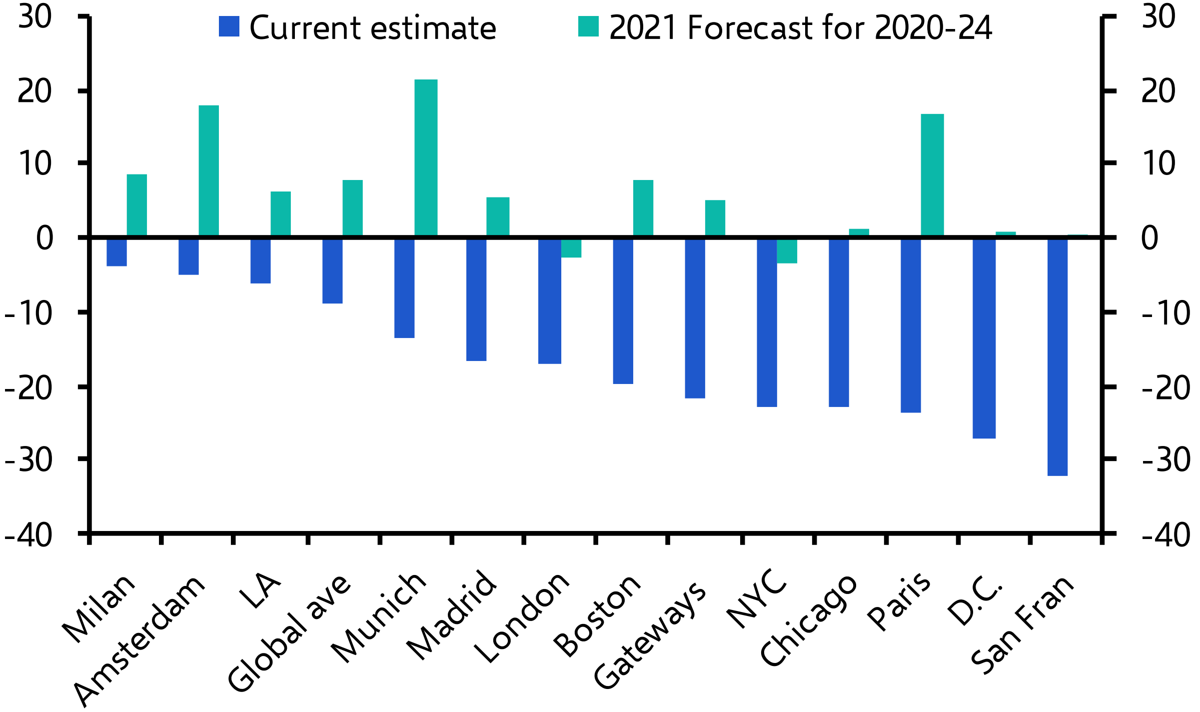
Sources: MSCI, Capital Economics

UK Equivalent Yields by Sector (%)



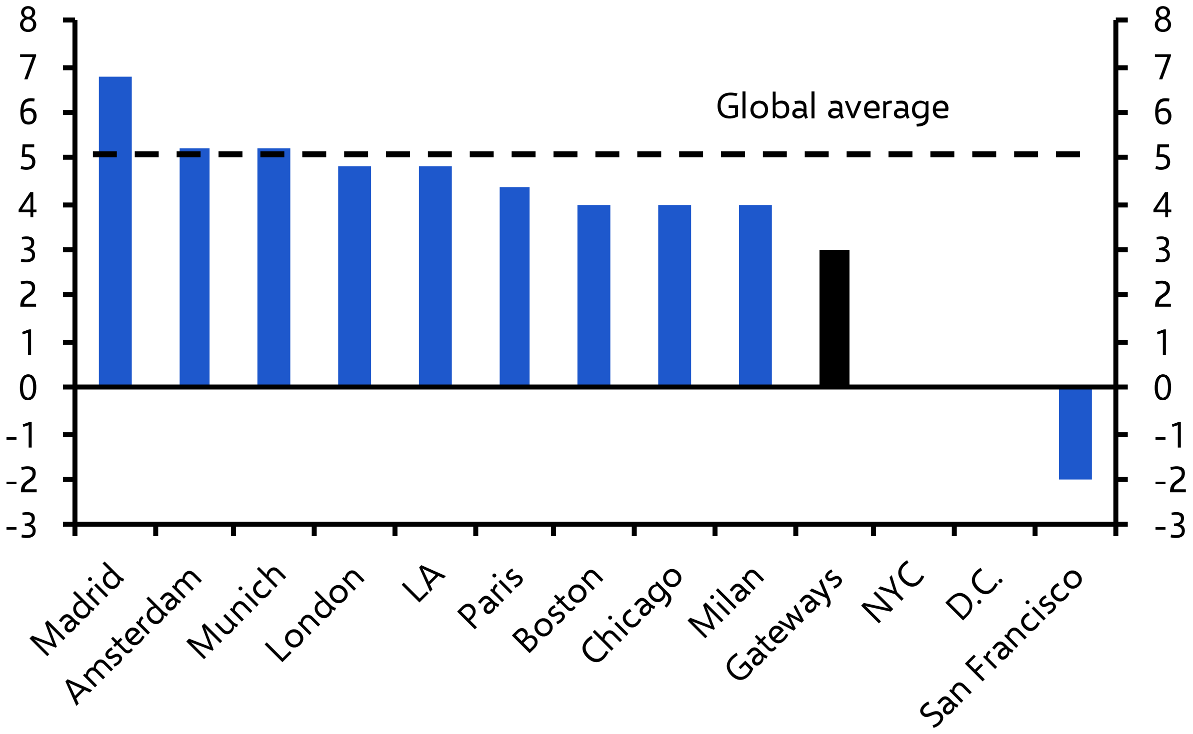
Sources: MSCI, Capital Economics

All-Property Capital Values* (Cumulative %, 2020-24)



Sources: MSCI, Capital Economics *Q4 2024 estimated

All-Property Capital Values (Cumulative %, 2025-29)



Source: Capital Economics

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