Real Estate Insight

Alitheia
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The Alitheia Real Estate Insight Newsletter is a monthly publication of real estate information and smart data for industry practitioners and stakeholders.

REAL ESTATE REWIND 2020

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It's an Epidemic....no, a Pandemic!

"In many ways, the pandemic provides an opportunity to transform our cities in meaningful ways that engender resilience for future pandemics, climate crisis and other emergencies."

Mid Q1 2020, the news of a global health crisis with far reaching implications spread across the world. Nigeria was already dealing with the impact of falling crude prices, rising inflation, exchange rate and other fiscal policy challenges. Businesses across most sectors were reviewing and adjusting their annual forecasts, and by end Q2, the World Bank announced that Nigeria would enter into its worst recession in four decades.

This edition of Real Estate Insight examines some of the ways in which the Real Estate Industry has been impacted by COVID-19 and highlights the industry's responses. We also use the opportunity to put forward suggestions to deal with the realities of the industry's 'new normal'.

The Shutdown of the Global (and Local) Economy

2020 will forever be remembered as the year a place of residence took on a new definition, as governments across the continent implemented stringent lockdown regulations in a bid to reduce the spread of COVID-19. This occurrence challenged the built environment, particularly housing, in a manner that has not occurred since the plagues of the 19th and early 20th centuries. In a matter of a few weeks, housing became everything.

In response, the Federal Government of Nigeria initiated an Economic Sustainability Programme (ESP), aimed at stimulating and reviving economic activities that support growth outcomes. This followed many months of challenges posed by lowered oil prices, a weakened currency, subsidy removal, border closures and a ban on forex for several import items.

The nexus between the real estate sector and economic development was not lost on the promoters of the ESP with one of the cardinal programs being to enable improved funding to infrastructure and housing.

COVID-19 Impact on the Built Environment

To begin with, the COVID-19 pandemic teaches us that planning systems (across most of Africa) must be strengthened The UN-Habitat estimates show that Africa has the highest rate of slum population globally - 200 million people in sub-Saharan Africa lived in slums in 2010 (i.e. 61.7% of the region's urban population). Many slum residents in African cities lack access to basic essential services such as water, sanitation, housing, and health care. The lack of focus on the informal sector in the formal planning processes in most countries certainly aggravated the challenge of responding effectively to the COVID-19[1].

Cities generally have high concentrations of population and interdependent activities which increase the risks for the spread of diseases and make natural social distancing almost impossible. The city of Lagos has been the worst hit, accounting for more than 30% of the total cases in Nigeria. Studies show that aside intangibles such as socio economic and governance

1 www.unhabitat.org /covid-19/key facts and data 2020

issues, the quality (or lack of) of the built environment is the single most impactful contribution to achieve manageable or disastrous outcomes.

In many ways, the pandemic provides an opportunity to transform our cities in meaningful ways that engender resilience for future pandemics, climate crisis and other emergencies. The Sustainable Development Goals, in particular, Goal 11 'Make cities and human settlements inclusive, safe, resilient and sustainable' remains the guide for this process. Alitheia Real Estate commits to ensuring that the projects that it participates in promote sustainability in many ramifications and will continue to be an advocate in the community we operate in.

Fig 1 – COVID-19 impact on cities measured through 4 main themes – modified from Ayoob Sharifi. The COVID-19 Pandemic: Impact on cities and major lessons from urban planning, design and management

The Consequences of COVID-19 on the Real Estate Industry

Delivery of Stock - The sector has suffered a number of disruptions – construction sites were shut down for months, therefore cutting off the supply of stock. [2]Till date more than 30% of sites are shut or functioning sub-optimally, unable to resume due to a number of reasons including significant price hikes in most building materials including cement (63%) and steel (50%). Development companies have been impacted by interruptions in the value chain, consumer confidence and market uncertainties.

The impact of COVID-19 on the delivery of housing for middle/low income earners and people of modest economic means will be profound for a long time to come. The longer-term economic impacts of this pandemic will make it even harder to create and sustain affordable places to live[4].

Forced "Change of Use" and the Shrinking Need for Physical Space - Working from Home (WfH) has fundamentally changed the way consumer behavior responds both to housing, and to commercial office space. Players are reviewing their use of office space and many are reducing or completely eliminating the need for offices. In effect, the need for physical space is shrinking and more than ever before, space is considered a service, a 'tenant' is a 'customer' and in the near future, will become a 'guest'.

We opine that this will have an impact on how the built environment is planned, designed, constructed, operated and managed. Flexibility and adaptability will become important concepts, responding to market needs and to this end, we see a move to more mixed-use buildings and communities. The sector will reinvent itself from a product to a consumer driven one with technology playing an ever-increasing role in construction and management, artificial intelligence and smart technologies.

In addition, sustainability – green build, eco-cities, zero waste and zero carbon emissions will also come to focus on the back of delivering 'healthy' communities.

Housing is no longer viewed as a place to live, but as a place to live and work/grow an enterprise. Many working-class households have had to make significant physical alterations in order to be effectively productive, working from home. The implications of this in the medium term include the liberalization of location. This means, buyers and renters will consider a broader range of locations when looking to buy or rent, relying less on accessibility and more on information technology.

A Re-think of Corporate and Investment Real Estate - For entities with real assets on their balance sheet, especially in leisure, retail, hospitality and to a slightly less extent office, the loss of income generated through these assets will highly impact the bottom line and financial performance. For corporates, this presents an opportunity for portfolio rationalization. Many corporate organisations have carried poor yielding assets on their balance sheet over time, and an opportunity for unbundling and value extraction should not be overlooked. Investors financing operations with debt obviously face the possibility of default as they juggle with a suppressed buyer appetite, escalating contracts, delays attributed to 'acts of God' amongst other challenges.

Still, real estate is resilient, and over the long term, it remains an attractive asset class and will continue to offer good risk-adjusted returns that are less correlated to other asset classes. To demonstrate this, despite the pandemic, Indian real estate is expected to close the year with total investments of $4.8 billion, only 8 percent lower than investments in 2019[5]. Investor appetite in certain segments of the market will rise, with sustainability playing a huge role in decision making. Companies and investors with a strong record on sustainability issues and have combined traditional investing with environmental, social and governance-related (ESG) insights to improve long-term outcomes have the potential to outperform others without.

Technology - The real estate industry has been relatively slow to uptake technology. However, technology adaptation is inevitable and has been forced on the industry by the lock-down and the post lock down conditions set by governments across the world. We expect that technology will become more prominent in the structure of facility-real estate and asset management with Prop-tech, IoT, blockchain, BIM, amongst others. Automated tools will help to plan, track, and complete transactions. People and real estate businesses should be ready for future disruptions through innovative technology including an increase in smart buildings and technologies that provide less contact in buildings. In the retail space, the pandemic has led to an exponential growth in on-line retail platforms. It is reported that Amazon grew its revenue by a record-breaking 37% in the 3rd quarter of 2020. The decrease of office demand and increase in home office or flexible working arrangements is hinged on technology utilization. Digitalization is inexorable in business and home.

A Few Last Words.

The nature of the pandemic and the measures employed to mitigate its impact have inadvertently placed real estate at the center of the crisis. It has disrupted cash flows across most property types and is also challenging long-held ideas about the future demand for and use of different types of real estate as well as location preferences. If there is any lesson for the real estate industry from the past ten months, it is that connectivity and the virtual world facilitated by technology can act as a substitute 'host' for many of the activities that previously could only take place in physical space[6]. Although many of the actions and behavioral responses to adapt to life in a pandemic may fade away once the threat is contained, other changes will be durable and have a long-term impact on real estate demand and use.

2 Alitheia in-house research

3 www.ofn.org Addressing Affordable Housing Challenges in the Midst of Covid-19

4 Dr. O. Olanrele. Covid-19 and the New Normal: Implications for the Real Estate Sector. Centre for Housing and Sustainability Development. Unilag. May 2020

5 www.moneycontrol.com Nov 2020

6 www.barings.com How the Pandemic Changes Real Estate. July 2020