Update
Outlook 2020–2022
Strategy & Research

COVID-19 | 19-05-2020

Introduction

Over the past two months, Syntrus Achmea's Strategy & Research department has prepared three COVID-19 updates. In the process, we have investigated the current events concerning COVID-19 and we have given an indication of the economic implications as well as the potential impact on the various real estate market segments.

This document takes it a step further and is a de facto update of the Outlook 2020-2022. It also gives an update of the economic context and the retail, residential and healthcare real estate market segments. It goes without saying that COVID-19 will feature strongly in this update. This will be most evident in the three economic scenarios for economic recovery, which we defined in our COVID-19 update at the end of March 2020, namely the V-, U- or L-shaped recoveries. In this document, we will discuss these three scenarios in greater detail as far as the anticipated economic development are concerned. We will also provide insight into the implications for rental growth, gross initial yields and changes in prices for each market segment and for each scenario. We start with an up-to-date overview of the developments and the policy concerning the virus.

Content

COVID-19 and policy measures

On 21 April, the cabinet announced that it would extend all the measures related to COVID-19 up to and including Tuesday 19 May. At the same time, it announced that primary schools will be allowed to open again in stages from 11 May onwards, and that young people up to the age of 18 will be able to play sports again. In the recent past, the number of officially confirmed cases of infection in the Netherlands has risen to 43,480 and 5,590 people in the Netherlands[1] have died as a consequence of the virus[2]. The decline in the number of hospital admissions, the number of deaths and the decline in the number of occupied IC beds has continued.

Calls have been heard in recent weeks to get the economy going again (in phases), so that people have prospects for the future once again. In its press conference on Wednesday 6 May, the cabinet responded to this call by announcing a relaxation of the measures so that the '*intelligent lockdown*' could be reversed one step at a time, while maintaining strict observance of general health and other guidelines and the one-and-a-half metres social distancing requirement. The relaxation of the measures is subject to an 'only if possible' rule and only if the virus stays under control. This means that relaxations may be reversed if the number of COVID-19 patients starts to increase again and the ICU departments cannot cope with the increase.

RELAXATION OF CENTRAL GOVERNMENT'S CORONA MEASURES (ADAPTED BY SYNTRUS ACHMEA)

Roadmap	Step by step: relaxation of corona measures
	• People will be allowed to do more in the coming months. • The 1.5-metre social distancing measure remains in force. • If people start to fall ill again, then the next phase will be delayed.
11 May: Step 1	• Primary schools, special education centres and childcare centres will open. But children will not go to primary school every day. • Hairdressers and beauticians are allowed to work again. People are also permitted to have pedicures and physiotherapy again. Making an appointment is mandatory. • Doing outdoor sports is allowed, but at a distance of 1.5 metres. • Libraries will open again.
1 June: Step 2	• Wearing a mask will be mandatory on the bus, tram, metro and train. Travel only when absolutely essential. • Secondary schools will open. • Pavement restaurants, cafés and terraces will open again. • Restaurants and cafés will be allowed to open, but only to serve a maximum of 30 people at a time. Visitors must first book a table. • Cinemas may open for up to 30 people. Visitors have to buy a ticket beforehand. • Theatres and concert halls may open for up to 30 people. Visitors must first buy a ticket. • Museums will open. Visitors have to buy a ticket beforehand.
1 July: Step 3	• Campsites will fully open again. The ablution blocks will also open again. • Cinemas, restaurants, cafés, theatres and concert halls will open for up to 100 people.
1 September: Step 4	• Health clubs and gyms will open again • Indoor sports and contact sports will be allowed. • Sporting events, including professional football, will be allowed again, but without spectators.

[1] Reference date 14 May 2020. The actual number of infections is higher because not all those who may be infected have been tested. The number of people who have died from COVID-19 is also higher, but these deaths have not been included in this figure because the deceased were not tested for the virus.
[2] Source: https://www.rivm.nl/coronavirus-covid-19/actueel

Economic developments

All over the world, the COVID-19 pandemic has disrupted social life, and with that the economy. The drastic measures that countries have taken to prevent the spread of the virus have had a major impact on large parts of the economy. Governments and central banks have taken rigorous measures to mitigate the negative impact on the economy and financial markets. Economic policy in the Netherlands is aimed at limiting the lasting economic damage resulting from lay-offs and insolvencies, but the government can only absorb part of the blow and the question is: for how long?

The impact on the economy is reflected in the fact that more than two million employees and self-employed people are now on government support.[3] Many companies have expressed their fears for their survival if the crisis continues. At the beginning of April, about 15% said their survival would be jeopardised if the crisis continued for two more months. In addition, more than 30% of companies said they feared that this would be the consequence if the crisis continued for three to six months.[4]
Most entrepreneurs in consumer-oriented industries expect to lose turnover and to engage fewer staff in the second quarter of 2020.[5] Moreover, the European Commission indicated in its spring forecast that it expects unemployment in the Netherlands to rise from 2.9% in March to 5.9% at the end of 2020, partly due to the high number of flex time employees. Although this is still well below forecasts for the entire Eurozone, the Netherlands is one of the countries where unemployment is rising fastest.[6] Unemployment will affect many household incomes.

The crisis has already severely compromised producer and consumer confidence.[7,8] Consumers' propensity to buy has also fallen sharply. The expectation is that many businesses and consumers will be more cautious when it comes to spending, either out of uncertainty or because their incomes and reserves have shrunk considerably due to the crisis. In addition, some activities, such as going on holiday to remote destinations and going out under the social distancing measures, are not really possible.

It is difficult to predict the depth and duration of the economic crisis and therefore also the implications for investments in real estate and mortgages. Economic development is relying heavily on how the virus outbreak evolves, and the development and availability of a vaccine. There is also uncertainty about the economic consequences of government measures to curb the spread of the virus. It is encouraging that the spread of the virus in the Netherlands and many other countries has fallen sharply, and governments are now starting to take the first steps towards relaxing the measures. That said, there is still no certainty about how quickly and to what extent trade and commerce can be fully resumed. This is unlikely to happen before a vaccine is available. Relaxing the measures and the prospect of the virus reappearing in the autumn may cause a second wave of infections.[9] The coronavirus is sparking a complex interaction between shocks in supply and demand. A tsunami of bankruptcies may see the supply side of the economy failing to return to its pre-corona crisis levels for a longer period of time, especially if certain activities remain constrained. Added to this, the crisis is causing geopolitical tensions, including within the Eurozone and between the United States and China, which are increasing the likelihood of a new euro crisis or trade war.

3 https://www.rijksoverheid.nl/ministeries/ministerie-van-sociale-zaken-en-werkgelegenheid/nieuws/2020/05/01/steunmaatregelen-kabinet-helpen-ruim-2-miljoen-mensen
4 https://www.cbs.nl/nl-nl/nieuws/2020/19/helft-bedrijven-vreest-voor-voortbestaan-door-coronacrisis
5 https://www.cbs.nl/nl-nl/nieuws/2020/18/op-consumenten-gerichte-branches-voorzien-minder-omzet-en-werkgelegenheid
6 https://fd.nl/economie-politiek/1344188/nederland-loopt-uit-de-pas-met-groei-werkloosheid
7 https://www.cbs.nl/nl-nl/nieuws/2020/18/sterkste-daling-producentenvertrouwen-ooit
8 https://www.cbs.nl/nl-nl/nieuws/2020/17/grootste-daling-consumentenvertrouwen-ooit
9 https://www.parool.nl/nederland/marion-koopmans-die-tweede-golf-komt-er-b57308d7/

Given the uncertainty, it is advisable to take various scenarios into account. For instance, the Netherlands Bureau for Economic Policy Analysis[10] has also drawn up several scenarios with a broad range of economic outcomes for 2020 and 2021, without commenting on the likelihood of them materialising. Based on the Bureau's analysis and those from other external sources, we have identified three scenarios in which the recovery will be V, U or L shaped. In the best-case scenario, there will be a very severe but short-lived recession and the economy will recover in the second half of 2020 and/or the first half of 2021. In the more pessimistic scenarios, longer-term social distancing restrictions and problems in the global economy and financial system will lead to a deeper and longer recession.

Although – given the uncertainty – it is advisable to be cautious in stating the likelihood of the various economic scenarios occurring, our basic assumption is a scenario in which there is a relatively quick economic recovery in the second half of 2020 or in the first half of 2021. This scenario is also the basic assumption of inter alia the IMF[11], the European Commission[12], ABN Amro[13], Rabobank[14], ING[15] and Oxford Economics[16]. Forecasts for economic growth in the Netherlands in 2020 range from -4.4% to -7.5%, while a recovery of between 3% and 5% is expected in 2021.

However, as noted above, there is still a great deal of uncertainty about the development of the crisis. The table below shows the main economic consequences for the three scenarios.

VARIOUS SCENARIOS FOR ECONOMIC DEVELOPMENT (ADAPTED BY SYNTRUS ACHMEA)

Economic developments	Scenario: V-shaped 'stumble and recovery'	Scenario: U-shaped 'recovery postponed'	Scenario: L-shaped 'late and slow'
	• This is the best-case scenario in which the economy recovers relatively quickly in the second half of 2020 or the first half of 2021. • In this scenario, the virus is brought under control and kept under control in large parts of the world within a relatively short period of time. Social distancing measures taken previously will be relaxed as summer begins. • The virus does not flair up again or re-emerge, so that new measures leading to serious economic disruptions will not be necessary. • Governments and central banks are managing to largely mitigate the negative impacts on the economy and financial markets by implementing support measures.	• This is the scenario in which a longer recession and economic recovery that will begin in 2021. • The slower economic recovery may be prompted by having to maintain the one-and-a-half metre economy for a longer period of time. • The longer crisis could lead to further shocks in supply and demand, accompanied by layoffs, bankruptcies and disruptions to international trade. • An extended period of uncertain economic prospects may lead to companies and consumers being cautious in their behaviour.	• Measures will be required to bring or keep the virus under control for a relatively long period. These measures will inflict significant damage on the economy through layoffs and bankruptcies. • The economy will no longer recover to pre-crisis levels in a period marked by political tensions, protectionism, weak international trade, risk-averse behaviour on the part of businesses and consumers, and the long-term unemployed who no longer return to the job market

10 https://www.cpb.nl/sites/default/files/omnidownload/CPB-Scenarios-maart-2020-Scenarios-economische-gevolgen-coronacrisis.pdf
11 https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020
12 https://ec.europa.eu/info/publications/european-economic-forecast-spring-2020_en
13 https://insights.abnamro.nl/2020/04/recessie-toch-nog-iets-dieper-maar-slechtere-en-betere-uitkomst-denkbaar/
14 https://economie.rabobank.com/publicaties/2020/april/nederlandse-economie-krimpt-dit-jaar-harder-dan-in-2009/
15 https://www.ing.nl/zakelijk/kennis-over-de-economie/onze-economie/de-nederlandse-economie/publicaties/ing-scenarios-coronavirus-en-de-nederlandse-economie.html
16 https://www.oxfordeconomics.com/country-economic-forecasts

Residential properties

Current issue

The *intelligent lockdown* has affected the Dutch residential property market. As far as users are concerned, for instance, we saw the number of viewings for both owner-occupied and rental properties fall sharply, partly due to practical problems arising from social distancing measures. On the investment side, there are concerns about the extent to which tenants' incomes are being affected and how unemployment levels will evolve in the wake of the economic recession. As a result, the housing market appears to be temporarily 'on hold'. We discuss the anticipated consequences for rental trends and shifts in prices below.

User market and rental trends

The user market is still robust as it stands now. The number of mortgages being taken out is quite high: we will report on a record number of remortgagings. The Netherlands Association of Real Estate Brokers and Real Estate Experts reports that, against expectations, more homes are being put up on the market and more are being sold compared to the weeks before the crisis. The majority of institutional investors and housing associations have been implementing the rent increases in the rental market, which are planned for mid-2020. If there are payment issues, lessors and home mortgage providers are often addressing the issues on a case-by-case basis. What is, however, evident is that uncertainty is increasing; the 'Eigen Huis Marktindicator' (an organisation that measures trends in the housing market) saw indicators fall from 106 to 102 points. This means that confidence in the housing market on balance is holding up better than general consumer confidence, which fell sharply over the same period. The slowing down of price increases has not affected average house values thus far, but the significant growth in recent years is unlikely to continue in the coming years. ABN Amro predicts that house prices will still rise in 2020, but decline in 2021.

Rabobank's forecasts for house prices are more positive. Rabobank is predicting a decline in value during the second half of 2020 up until the end of the first half of 2021. That said, values will still rise over the period (2020 and 2021 together) as a whole. The housing shortage, in terms not only of numbers but of quality, explains this. The fundamentals for the users market remain sound.

FORECASTS FOR RENTAL GROWTH IN THE RESIDENTIAL PROPERTIES IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)

Rental growth	Scenario: V-shaped 'stumble and recovery'	Scenario: U-shaped 'recovery postponed'	Scenario: L-shaped 'late and slow'
	• Rental growth will fall in 2020 compared to 2019. This is in the wake of strongly falling inflation compared to 2019. • Average rental growth is still above inflation. • Good *Kansenkaart* categories (1 and 2) will benefit the most. • Stable prospects for *Kansenkaart* categories 3, 4 and 5.	• The market will stagnate for a longer period; projects will be cancelled and it will be more difficult to rent new projects. • Limited rental growth for monthly rentals > €1,500. *Kansenkaart* categories 1 and 2 will have a more limited rental growth margin than previously. • Affordability will be under pressure. Mid-market rental housing will become more attractive due to the favourable risk-return ratio.	• There will be a severe recession, decline in rental growth, market changes structurally. Unemployment will rise, affordability and mortgage-to-gross-income ratio will be under pressure, accounts receivables will rise. • Rental prices for new projects will be adjusted and it will be difficult to keep rental growth above inflation.

Lower inflation relative to 2019 will have an effect on absolute rental growth in all scenarios in the short term. Given that inflation is seen as a ‘building block’ for rental growth, it is an important indicator for predicting this growth. Inflation was relatively high in 2019, largely due to an increase in the VAT rate, and projected inflation (2020-2022) is relatively low because the corona crisis is putting pressure on prices for a range of products. The longer these effects last, the lower inflation will be. The impact on rental growth until 2022 is still relatively limited in the V-shaped scenario. Real rental growth is most likely to occur in good *Kansenkaart* categories (1 and 2). *Kansenkaart* categories 3, 4 and 5 are expected to see limited margins above inflation. In the U-shaped scenario, *Kansenkaart* category 1 will see less rental growth, relatively speaking. This is due to the higher monthly rents of more than €1,500 (per month), which are mainly found in this category.
We see that the rental prospects for this price bracket are already under pressure and we expect this to worsen if the economic setbacks are more severe. The difference in average market rental growth between *Kansenkaart* category 1 and the other categories will therefore shrink. As far as rents of around €1,200 per month are concerned, we are not anticipating an immediate increase in vacancy risk and the outlook is reasonably stable. In the shorter and longer term, the projected demand for more affordable rental properties is high and, because it concerns a wide target group, it is virtually structural in nature. All in all, this means that vacancy risk is limited. In the L-shaped scenario, the expectation is that rental prices for new projects will be adjusted and this will make it difficult to achieve real rental growth in all *Kansenkaart* categories.

The investment market and trends in returns

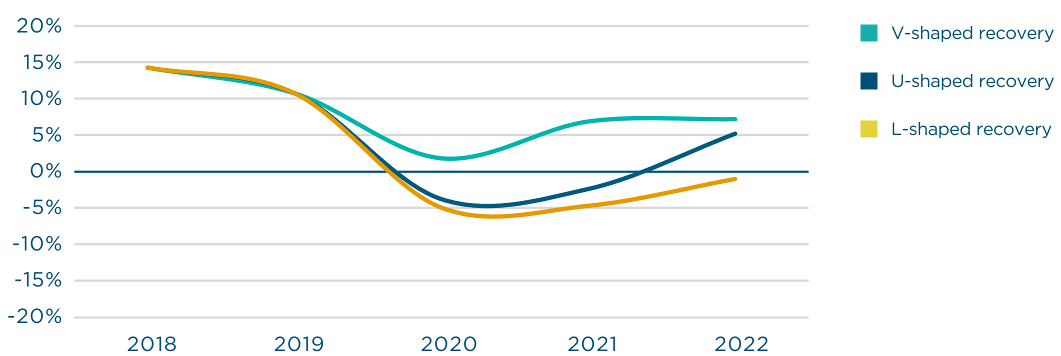
Rental properties that are more affordable will suffer less from the crisis in the short term, because prices these properties are well-priced and the investment pressure for them is high. Affordable rental homes are also an interesting investment product in times of economic difficulties due to the good risk-return ratio thanks to the broad target group that exists for this type of homes. Properties with a high proportion of expensive rentals (> €1,500 per month) will suffer more. The rental prospects for these types of properties were already under pressure, and the trend is expected to worsen on the back of the COVID-19 crisis.

Looking at the income return, corona crisis could have ramifications in the shape of an increasing turnover rate, rising vacancy levels, longer re-letting times and higher marketing costs. Here, too, the more expensive rental segment will probably suffer more from this than affordable rental properties will. Scenario analyses show that these consequences taken separately do not have much effect and even when combined it is possible to get a clear picture of the consequences. Therefore, in general, we believe that income return for the coming years will be stable.

In the investment market, more major housing transactions have gone down a gear, but have certainly not come to a halt. Valuers may see rising initial returns as a result of the heightened uncertainty and the cautious approach from foreign and domestic investors alike. This is expected to be a short-lived effect, and recovery is expected by 2021. The consequences for short-term valuations are expected to be limited for the time being. Valuers are taking a view that is similar to the U-shaped scenario.

By its nature, the housing market is slow to respond to economic shock waves. Having a home is a basic necessity of life, one that people will only compromise as a last resort. The Dutch generally speaking have good payment ethics when it comes to paying their rent, even in times of economic hardship. What is more, there is still a housing shortage and a low mortgage interest rate. A substantial write-down of vacant possession value is therefore not in the cards in the short term. The figure below shows the trends in prices in the various scenarios.

FORECASTS FOR SHIFTS IN VALUE IN RESIDENTIAL PROPERTIES IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)



FORECASTS FOR GROSS INITIAL YIELD IN RESIDENTIAL PROPERTIES IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)

GROSS INITIAL YIELD	Scenario: V-shaped 'stumble and recovery'	Scenario: U-shaped 'recovery postponed'	Scenario: L-shaped 'late and slow'
	• Housing market will be on hold but too short to affect initial yields; transactions will be put on hold temporarily but not cancelled altogether. Investors may view the housing market as a safe haven compared to other assets.	• There is a great deal of uncertainty in the marketplace at the moment. GIY will rise slowly in 2020 and 2021, because the risk premium is set to rise. • Unemployment will rise slowly, which will affect vacant possession values negatively.	• GIY will rise in the wake of an increase in risk premium. Rental levels will then be under pressure and investing in real estate is less attractive. There is a great deal of uncertainty in the marketplace, which will lead to depreciations of around 5% for 2021 and another 5% in 2022.

Retail

Current issues

Consumer confidence has fallen sharply due to increased economic uncertainty. Efforts are underway to restart the economy by creating the one-and-a-half metre economy. This means that high streets and shopping centres can operate again, provided they observe the guidelines issued by the National Institute for Public Health and the Environment (RIVM). As long as consumers have no complaints, wash their hands often and stick to the social distancing rules, they are welcome to go shopping. From Monday 11 May, contact-intensive occupations (including hairdressers) may be practised again, giving consumers even more reason to visit retail areas. Modified shopping concepts have been rolled out very quickly so that the way we shop promotes the safety of customers and staff alike. A prime example is the Kerkelanden Shopping Centre in Hilversum, where the so-called '6 Feet Retail' concept is currently being implemented in collaboration with Cushman & Wakefield. Initial reactions have been positive because visitor numbers are rising again after having fallen recently.

Goudappel Coffeng, a research bureau, has worked out that high streets can use 15% to 20% of their capacity thanks to the relaxed corona measures. Data agency Locatus has elaborated on this and combined the analysis with passing traffic counts, albeit from the pre-corona era. This showed that most shopping areas, or parts of them, have enough space to shop safely, even if they can only use 15 to 20% of their capacity. Obviously there are challenges, but the message is that shopping in the one-and-a-half metre economy is definitely not beyond the realms of possibility. Keeping one's distance is key here, as is the case in other activities of society (working at the office, travelling by public transport and ultimately also in cafés and restaurants).
It is clear that social distancing measures will remain in force in the Dutch shopping areas for the foreseeable future. Consumers and retailers seem to be open to this and they are adapting to the new normal.
The 'stay at home' advice has been replaced by the 'avoid crowds' advice; there are apps with so-called 'busyness radars' that tell people when the best times to shop are.
The retail outlets are suffering: their turnover is still not back to normal levels, but there is no shortage of creativity and innovation. Examples are catering businesses who are coming up with two levels of pavement terraces or retailers who have introduced one-way traffic into their shops. Incidentally, local business owners seems to be particularly appreciated through various campaigns that are calling for consumers to buy mainly local produce.

User market and rental trends

Reality has not yet hit many companies because a major part of the economy is currently being kept going based on government support measures. In the coming months it will become clear which retailers will survive and what the impact will be on retail areas and possibly also on the real estate market.

The Dutch retail market is slowly but surely starting to get going again, but the polarisation has never been as tangible as it is now. So-called comparative shopping in the city centres has been most affected by the *intelligent lockdown*, which has resulted in a sharp decline in turnover. This is in contrast to convenience shopping, where shops focusing mainly on daily groceries saw a sharp rise in turnover. Retailers with a demonstrable fall in turnover are being supported by customised agreements.

Suburban centres that mainly sell daily groceries have had good turnover for several weeks and have now found logistics solutions to ensure that consumer flows are safe and run smoothly. 'Come on your own and don't turn a shopping trip into an outing' seems to be the motto. The role of the security guards has been

scaled up from preventing unrest and theft to monitoring social distancing. This seems to be working well, partly because consumers are prepared to adapt.
The table below shows the implications that the situation may have on rental growth in each scenario.

FORECASTS FOR RENTAL GROWTH IN RETAIL REAL ESTATE IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)

Rental growth	Scenario: V-shaped 'stumble and recovery'	Scenario: U-shaped 'recovery postponed'	Scenario: L-shaped 'late and slow'
	• In this scenario, *social distancing* measures, temporary closures and uncertainty hit the sector hard but for a short period. The catering sector and fashion and shoes shops are hit hardest. • Measures will be phased out gradually, allowing for a normalisation of turnover, but in the long term. • Rental payments will be suspended. There is a *catch-up effect* after a hectic period.	• Measures are kept in place for longer, triggering a long-term drop in sales, causing sales to remain at a low level for longer, or even to stop altogether. • Recovery will begin in 2021 because it will take a long time to phase out measures. • Rental payment arrears will continue to grow, accompanied by increased default risk. • Bankruptcies lead to structurally high vacancy levels. • There are widespread rent adjustments and the *catch-up effect* fails to materialise because consumer confidence is very low and people keep a tight grip on the purse strings.	• The recovery period lasts even longer, triggering more bankruptcies, rising vacancy levels and causing large gaps in the retail landscape. • A substantial section of rents will no longer be paid. • Recovery will not take place before 2023.

The investment market and trends in returns

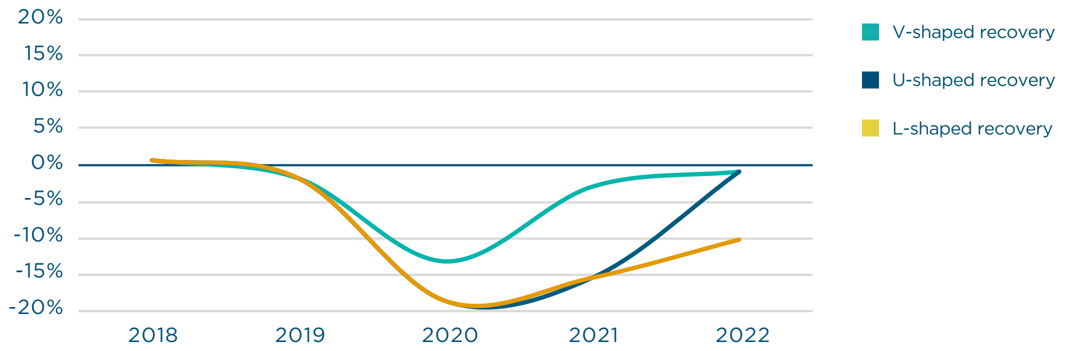
2020 actually got off to a good start in the first quarter; transaction volumes were a lot higher than in the same quarter a year earlier. However, this came to an abrupt end when it became clear that the retail sector was going to be hit hard by COVID-19 and the government's instructions imposing an *intelligent lockdown*. Investment volumes fell sharply and investors along with financiers postponed transactions. As a result, initial returns remained stable according to JLL, and there are signs that they will slowly rise in the near future. That said, it is unlikely that there will be many transactions in the foreseeable future, and because of this there will be few relevant points of reference. For the time being, investors seem to be focussing on protecting their rental flows by reaching the best-possible agreements with the tenants and enabling exploitation. The table below shows the implications that the situation may have on gross initial yields in each scenario.

FORECASTS FOR RENTAL GROWTH IN RETAIL REAL ESTATE IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)

GROSS INITIAL YIELD	Scenario: V-shaped 'stumble and recovery'	Scenario: U-shaped 'recovery postponed'	Scenario: L-shaped 'late and slow'
	• Investment volumes fall • Financing remains problematic • Transactions are postponed but not cancelled • Transaction volumes will stabilise later this year, but initial yields levels will not change substantially	• No transactions or very few over a long period of time. • There will be practically no funding available • Risk premiums increase, leading to initial yields rising.	• Major uncertainties surrounding retail real estate prompts a rise in risk, forestalling the recover. • Investors are reluctant to invest in retail property. • Initial yields continue to rise.

Finally, the graph below shows the forecasts for shifts in the prices of retail real estate. The graph shows the three scenarios of the Dutch retail market as a whole. This is the average effect of various retail segments. There are significant differences between these segments. For instance, the impact is quite limited in suburban centres that focus on convenience shopping, whereas the impact on shops for comparative shopping in inner cities is considerable.

FORECASTS FOR SHIFTS IN THE VALUE OF RETAIL REAL ESTATE IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)



Healthcare real estate

Current issues

Now that the coronavirus outbreak seems to be slowly but surely entering a manageable phase, and the occupancy rate of the ICs treating corona patients is falling, hospitals have more scope for slowly resuming other treatments. The gradual lifting of government's restrictive measures also presents opportunities for first-line contact-intensive occupations to slowly return to their practices. The workload in curative care is likely to remain high for the rest of the year while the sector catches up on work postponed due to the corona virus. Visitor access to inpatient nursing homes will remain limited because the number of infections in these homes is still relatively high. Nursing homes and institutions are faced with higher vacancy levels because spaces that have become available are not being filled quickly at the moment. Risk of vacancies is mainly affecting nursing homes. As far as healthcare is concerned, the government and care administration offices have contributed in various ways to ensure continuity and to safeguard the liquidity of healthcare providers. Despite this, the financial effects will be noticeable and the 2020 financial year will not be rosy thanks to additional costs combined with less income.
The financial effects for investors are still limited. In contrast to other real estate investment markets, the number of applications for deferment or a discount for rent payment is lower, Not least because of the wide range of schemes available to healthcare providers. This reduces investors' exposure to bankruptcy risk. As a result of a collective 'breathing space', there are relatively few transactions in the investor market. So valuers see no reason to review valuations across the market in the second quarter.

Gebruikersmarkt en huurontwikkeling

The fundamentals for the user market remain sound. Having to deal with the current corona crisis has emphasised the importance of having a good curative care system.
The specialisation of elective care and the physical separation of hospitals dealing with unplanned care and complex care, such as ICUs, is likely to accelerate. The importance of basing related healthcare real estate, such as laboratories, in the Netherlands and having good Municipal Health Services will also boost the prospects of the healthcare real estate market. In addition, the need to have primary care services as close to home as possible remains high.

The consequences of having an ageing population are still present and the demand for suitable housing remains high. Having the right type of healthcare real estate may address the needs of those facing forced self-reliance and social isolation. These needs are not sensitive to cyclical fluctuations like unemployment, because those with these needs have a stable income thanks to state pensions, supplementary pensions and assets. The necessity of having a good policy on housing for the elderly seems to be dawning on municipalities. As far as inpatient housing for heavy care is concerned, the prospects are good thanks to the demand for expansion and replacement. Waiting lists for admission to nursing homes were growing in length until shortly before the corona crisis. While the occupancy rate of nursing homes is currently low, we expect it will increase again in the long term because it is simply not possible for people with more severe care needs to live on their own.

The impact on rental growth until 2022 is relatively limited in the V-shaped scenario. After a slight dip in 2020, rental growth will soon return to levels in line with inflation. In a U-shaped scenario, higher costs and declining revenues for a longer period will result in more requests for rental discounts and there may be more payment defaults in 2021. The slowdown in rental growth will therefore last longer.
The cure sector is expected to be more sensitive to this than the care sector. In a more extreme L-shaped

scenario, the 3-year rental price movements are slightly negative. The impact will be harder in this scenario because the government's willingness to provide long-term and major payment support is expected to wane.

FORECASTS FOR RENTAL GROWTH IN HEALTHCARE REAL ESTATE IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)

Rental growth	Scenario: V-shaped 'stumble and recovery'	Scenario: U-shaped 'recovery postponed'	Scenario: L-shaped 'late and slow'
	• Rental growth will be reasonably stable because rental trends in healthcare are usually in line with inflation. • Healthcare providers will be able to claim under continuity schemes offered by the government and health insurers. • There will be relatively few tenants who want to claim under rent schemes. • There will be not much difference in the impact on cure and care.	• Healthcare providers will be faced with higher costs and revenue will be under pressure for a longer period of time. • Continuity schemes are expected to continue, but will be less comprehensive. • More tenants will claim under rent schemes. • Market rent levels will fall, particularly in the cure segment. The care sector will not be affected as much.	• Market rental growth will be negative until the end of 2021. • Tenants providing healthcare will want to agree on different conditions for new leases. That said, contracts are generally long term. • Curative care that is not covered by insurance and more expensive private nursing homes will come under pressure. • Because the crisis lasts longer, governments and health insurers will become more critical regarding healthcare reimbursements.

The investment market and trends in returns

During the corona crisis, healthcare real estate is a favourable prospect for investors as far as user-market risks are concerned because the government and care administration offices are covering these risks to some extent. The political risk is apparently far less negative than generally assumed. In our view, growth in investor interest, which has been evident in recent years, will accelerate in the coming years. The share of investors who can fund their investments for 100% using equity capital will grow, particularly if major banks remain cautious when it comes to financing healthcare real estate. The current 'on hold' attitude in the investment markets will only trigger a temporary dip in investment volume.

The rise in interest in the healthcare real estate asset class not only increases competition between investors, the resale prospects for healthcare real estate as an asset class also increases, which is positive for sales in investment portfolios.

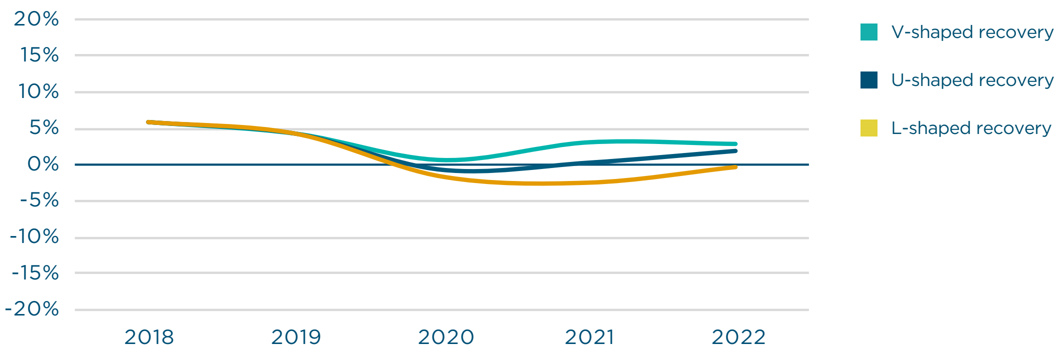
In a V-shaped scenario, initial yields for healthcare real estate at the end of 2020 are expected to be at a similar level as at the beginning of 2020, and there may be a slight increase during the year. From 2021 onwards and 2022, a slight drop in initial returns is anticipated. In the wake of the corona crisis, the yield shift that has been visible in the various healthcare real estate segments in recent years will slow down slightly. In a U-shaped scenario, we expect initial yields to rise slightly given the cautious attitude taken by investors.
Of all investment markets, the impact on initial returns in healthcare real estate is expected to be the least severe in this scenario. In the worst-case L-shaped scenario, we expect initial returns to rise more in the curative sector of the healthcare real estate market in particular. But here, too, we expect the impact on initial yields of negative scenarios for healthcare real estate will be the least severe in this sector.

FORECASTS FOR GROSS INITIAL YIELD IN HEALTHCARE REAL ESTATE IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)

GROSS INITIAL YIELD	Scenario: V-shaped 'stumble and recovery'	Scenario: U-shaped 'recovery postponed'	Scenario: L-shaped 'late and slow'
	• There will be a limited drop in investment volumes. • There will be a postponement of transactions, but not a cancellation. • The banks will fund less; this presents opportunities for investors with their own equity. • There will be consistent initial yields at the end of 2020, possibly a slight, temporary rise.	• Investment volumes will be lower than in previous years. • Uncertainty in the investment market and in tenants' financial position will lead to additional risk premiums. • Initial yields will rise slightly in 2020 and 2021. Stabilisation is expected towards the end of 2021.	• The effects on investments and the investment market are more severe than in the U-shaped scenario, especially in the more commercially oriented cure sector. • Initial yields are not expected to decline until 2023. • Healthcare real estate appears to be one of the most crisis-resistant asset classes, and this will attract more investors.

On balance, a decline in value growth is expected to be around zero before the end of 2020.

FORECASTS FOR SHIFTS IN VALUE IN HEALTHCARE REAL ESTATE IN THE VARIOUS SCENARIOS (SOURCE: SYNTRUS ACHMEA)



Conclusion

We are keeping a close eye on the latest developments. We will continue to monitor the impact on the economy, and the user and investment markets for the various asset classes in which we invest on behalf of our clients. We will issue the *2021-2023 Outlook* in September. In this Outlook edition we will present detailed analyses of market trends for all the relevant market segments and how these translate into investment opportunities. We will develop a vision that serves as a framework for investment strategies for our institutional clients;
it will be based on long-term trends, on our role as an urban partner and on our ESG strategy.

Should you have any questions about this update, please do not hesitate to contact us. We will be pleased to assist you with any queries you may have.

Kind regards,

Jos Sentel
Manager Strategy & Research