

Real Estate Market Update

March 2020

We believe the risk of coronavirus to U.S. real estate performance remains relatively small. The SARS virus of the early 2000's is likely the best parallel; it is estimated that SARS reduced China's 2003 GDP growth by about 200 basis points,¹ but had very little measurable economic impact on countries outside of China. We believe there remains downside risk to the U.S. and the rest of the global economy due to [1] China playing a bigger role in the global economy today than it did in 2003; and [2] the possibility of coronavirus becoming worse than SARS was. As of this writing, MetLife Investment Management's Global Economic Market Strategy view is that the virus may have a moderate impact on economic output this year in the range of 50 basis points; however, they believe the impact will be relatively short-lived and do not expect the virus to carry the U.S. directly into a recession. We recognize this is a very fluid situation and will continue to closely monitor the impacts of the virus and update the below analysis accordingly.

Real Estate Outlook

- **Coronavirus could hinder a rebound in manufacturing activity:** In our view, the manufacturing sector is already in a fragile state given the multi-front trade war and the halting of Boeing's 737 MAX production. As such, we expect any additional global demand slowdown caused by coronavirus could further impact manufacturing. U.S. markets with the largest concentrations of manufacturing employment include San Jose, Portland, Minneapolis, Charlotte and Chicago, but as mentioned above, we would expect any impact to be limited.
- **Coronavirus will likely impact the hotel real estate sector in the U.S.:** The U.S. is a primary destination for Chinese and global travelers, and hotel properties in markets with a high dependency on tourism from China (or tourism generally) are currently at risk in our view. These markets include London, Los Angeles, Chicago, Orlando, New York City, Seattle, San Francisco, Riverside/San Bernardino, and Boston. The spread of the virus will likely continue to curtail business travel—both in terms of group meetings and transient travel—in the coming months as companies have placed restrictions on employees. This may soften hotel revenues across the nation, but we would not expect a material impact on values.
- **We do not expect a material or long-term impact:** In the past, the effects of similar economic events have been notable but short lived. We expect the most significant impacts could be in developing countries that are less well-equipped to combat infectious diseases as well as countries who rely more on tourism than the United States. Nonetheless, this is a risk that we will monitor in the coming months.

¹ Wen Hai, Zhong Zhao, Jian Wang, and Zhen-Gang Hou, MIT Press Journals, 2004.

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