The Bulletin

Are REITs Coronavirus-Immune?

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As at January 29th, according to the World Health Organization (WHO), there were 6,065 confirmed cases of the Coronavirus cases[1]. The economic impacts have yet to be confirmed but are expected to be meaningful. The Chinese government has implemented a full or partial lockdown on 17 cities which encompass more than of 50 million people[2]. In addition, several other countries and global corporates have also recommended against all non-essential travel to China. This is bad news for global growth as the virus has struck during the Chinese New Year, known for high levels of Chinese consumerism (travel, shopping). As was the case 17 years ago during the SARS episode, the global economy will likely be most impacted if already weakening. In our last quarterly market update we argued that the environment for REITs still looks relatively attractive as global growth improves, but not enough to stop supportive monetary policies. If history is to repeat itself, it is our opinion that global REITs might indeed be the place to invest.

The SARS virus was identified in the Guangdong province in November 2002. It ultimately spread to 26 countries and resulted in more than 8,000 cases in 2003 (with 800 deaths).

A COMPARISON BETWEEN SARS AND THE CORONAVIRUS IS FILLED WITH CAVEATS,

but we thought it might still be helpful to see what happened in the markets some 17 years ago.

Performance during the SARS period and the following recovery

Region/Asset Class	Local Currency Total Return (%)	
	SARS Period (11/01/2002 - 07/31/2003)	Post SARS/Recovery (7/31/2003 - 12/31/2003)
Hong Kong REITs	-12.91	26.12
Japan REITs	-5.36	20.36
Global REITs	21.06	20.42
Hong Kong Equities	11.06	26.32
Japan Equities	-5.36	20.36
US Equities	11.43	13.14
Global Equities	12.66	17.42

Notes: From top to bottom, indices are FTSE EPRA NAREIT Hong Kong Index, FTSE EPRA NAREIT Japan Index, FTSE EPRA NAREIT Developed Total Return Index, Hong Kong Hang Seng Index, Nikkei 225, S&P 500 Index and FTSE EPRA NAREIT Developed Total Return Index.
Source: Bloomberg.

Performances during the SARS period and the following recovery

US REIT Sectors	Local Currency Total Return (%)	
	SARS Period (11/01/2002 - 07/31/2003)	Post SARS/Recovery (7/31/2003 - 12/31/2003)
Hotels	8.43	26.27
Industrial	16.85	17.67
Healthcare	18.51	22.18
Apartments	23.50	8.15
Office	25.97	13.94
Self Storage	26.53	19.70
Shopping	30.94	10.42
Man. Housing	33.68	1.83
Regional Malls	36.18	17.90

Notes: From top to bottom, indices are Bloomberg REIT Hotel Index, Bloomberg REIT Industrial/Warehouse Index, Bloomberg REIT Healthcare Index, Bloomberg REIT Apartment Index, Bloomberg REIT Office Property Index, Bloomberg REIT Public/Self Storage Index, Bloomberg REIT Shopping Center Index, Bloomberg REIT Manufactured Home Index and Bloomberg REIT Regional Mall Index.
Source: Bloomberg.

The end of the global epidemic was announced in July 2003 (9 months later)[3]. SARS hit the world at a very vulnerable economic time as it was already recovering from a recession and very heightened political risks following the 9/11 attacks in 2001. From mid 2000 to mid 2002, the US equity market had corrected by approximately 50%. SARS didn't help an already shaky economy as the estimated global costs amounted to between 40 and 53 billion[4]. In 2003 the US federal reserve overnight rate was lowered to its lowest level, at the time, of 1.0% which was a significant drop from the Fed Fund rate of 6.5% in late 2000.

Below is a look at how financial assets faired during SARS. We looked at two periods to see the impact of the SARS lockdown period and an extended period which includes the SARS period plus a recovery in equities once SARS had been contained. Not surprisingly, we can see Asian REITs and Asian equities were the most impacted during the SARS episode, but they recovered strongly once the epidemic was under control. Global REITs were one of the best performing asset classes given their "risk off" nature and they also did very well in the recovery period following SARS. Within US REITs, the hotel sector was most impacted but recovered strongly in late 2003. Unlike today, US retail REITs performed quite well, which we are not expecting to see now given the sector's current structural headwinds.

We believe that, severely beaten down sectors, such as hotels and Asian REITs, can rebound strongly once the most immediate crisis passes.

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