Industry Top Trends Update

Real Estate (REITs)

Paving the way for renewed growth

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What's changed?

Shopping center reopenings are spuring rent recovery, after several waves of store closures and rent deferals. Following a 16% drop in rental income on average in 2020, the European REIT market is gradually improving, supported by the lifting of COVID-19-related restrictions, and surprisingly resilient rent uplifts on new leases in most countries.

Office rents and valuations are proving resilient. Office REITs' performance was broadly stable in 2020, despite low utilization rates and subdued leasing markets. Tenants and investors' preferences are becoming more visible, with grade-A, centrally located assets that have green credentials receiving the most interest.

The residential rental market remains robust. The pandemic had little effect on the German and Nordic residential markets, which exhibit high rent collection rates and low tenant defaults. The sector continues to attract investors, although rising environmental standards and cost of construction require higher capital expenditure.

Industrial and logistics enjoy strong demand from tenants and investors. With booming e-commerce, corporates' needs for logistic space largely outpaces supply.

How is recovery taking shape?

Retail REITs' revenue is likely to rebound only modestly (0%-5%) this year, with more pronounced recovery (5%-10%) in 2022. The lifting of COVID-19-related restrictions has been very gradual in 2021, and losses from deferred rent and additional vacancies will also weigh on performance this year.

Office rental growth should remain mostly flat until 2022, with declines in the low-single digits. Tenant demand should remain weak despite economic recovery as companies reevaluate their needs. That said, REITs' share of revenue at risk of vacancy or negative reversion remains modest at about 11% per year.

Most credit metrics should recover by 2022. While interest coverage has remained relatively strong, debt to EBITDA should recover to 2019 levels by 2022, thanks to lower investments and rising revenue. Debt to debt and equity should take slightly longer to recover, given limited revaluation prospects, but remain satisfactory.

What are the key risks around the baseline?

Strong resurgence of COVID-19 cases and new restrictions on shopping centers. More social distancing measures would likely harm tenants' capacity to pay rent.

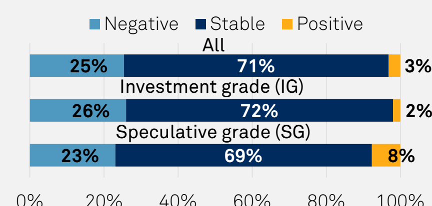
Debt-funded mergers and acquisitions. Given that REITs' shares trade at discount to their net asset value and funding conditions remain good, the consolidation trend is likely to continue, especially in the residential sector.

A harsher valuation correction than we currently expect. Most of our ratings can absorb a 5% value decline in 2021, but over 10% would likely trigger downgrades.

Latest Related Research

- European Office REITs Should Prove Resilient To A Gradual Decline In Tenant Demand, April 29, 2021
- Can European Retail Property Owners' Belt-Tightening Save Ratings From COVID And E-Commerce Headwinds?, March 31, 2021

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	47	12	59
Downgrades	2	0	2
Upgrades	2	0	2

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Real Estate (REITs)	
Estimated recovery to 2019 credit metrics	2022
Potential negative long-term industry disruption	Yes

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
5%-10%	0%-10%	<5%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
0%-10%	0%-10%

This report does not constitute a rating action.