

February 2020 - Spring ahead, summer, sun and fun.....if there was not the Corona virus

So, back again. This time there is no doubt we will have to deal with two different aspects of life: the fantastic real estate opportunities on the marvellous Costa del Sol, now that spring is around the corner, but we can not omit the problem caused by the viral infection of the new Corona virus COVID19 spreading all around the globe.

Lets start with the latter and see what impact this may have on the upcoming glory days of spring and summer 2020 in respect of the real estate opportunities on the Marbella shore.

The COVID 19 virus is in itself an animal origin virus that seems to have crossed over in a food market in central Chinese town of Wuhan. The corona virus type in itself is known to all of us - it is that type that causes a flew, but this time with the sometimes unhappy ending of developing a really bad pneumonia. That's the reason why governments and health organisations are worried. Pneumonia is in itself not a fatal disease but given the high number of elderly and those sensitive to lung diseases raises the question of how bad this really is. Scientists believe the fatality rate is around 2% but as seen in China amongst those over 75 it shoots up to 15% - almost as high as MERS, the Middle East virus emerged in 2012 in Saudi Arabia.

Why are governments acting as they do and cut-off hotels, villages und up to whole cities? It's all about the reproduction rate of contagion. If one infected person can pass the virus on to more than one person then the virus is getting epidemic. In the case of the COVID 19 it is assumed to be 2.5 person per person infected, if no measures were taken. Just as a comparison the normal influenza is around 1.5. In mathematical terms the $R(o)$ is 2.5 and in order to stop the spreading of the virus it has to be $R(o) < 1$ - each infected passes the virus on to less than one person. The less interaction between people, the lesser will $R(o)$ get. Just to be clear, in this case growth is not a linear function and will depend on stages.

The other problem is the real economy. During the last 20 years production was relocated to China - especially in those sectors with high cost sensitivity and less innovation pressure like for example in the chemical and pharmaceutical industry. The global production chains are currently disrupted as even satellite pictures show in respect of pollution in some Chinese areas. Even if production could be resumed soon, it would still be weeks before the value chains were fully intact again.

All of this is made even more dramatic by the fact that China is the world's workbench. Many products or intermediate products are manufactured there - if they fail, this also

affects the local economy. This will as many of those directly involved believe only be fully felt in March and April. For weeks, there have hardly been any ships leaving ports in China that normally transport goods from the global value chain continuously. As a result, bottlenecks could soon arise in many areas, including and especially with pharmaceutical products.

Against the background of the epidemic, more and more people demand a general reversal. The industry managers would have to rethink and shorten the value chains again to make them more robust, production would have to be relocated back to Europe. The corona virus shows the vulnerabilities of a global economy, and could lead to companies bringing their production back "home" in the future, at least partially, and again producing more locally. Against this background, the virus could prove to be a 'game changer' in the long run.

All this said before could easily lead to stagflation. This combination of stagnation and inflation describes an economic situation in which, on the one hand, the economy no longer grows or hardly grows, but on the other hand, prices rise significantly more. This would be the inevitable result if production were again started in Europe - here the manufacturing costs are far higher than in China, for example.

The biggest losers would be export-dependent economies that were closely integrated in the international supply chains, i.e. primarily the Southeast Asian countries, but also Europe. By contrast, the US economy would suffer the least.

Travel and tourism

Tourist spending contributes more than 15% of GDP in Spain, 13% in Italy and 17.3% in Portugal. Interesting enough, even in the case of an industrialized country such as France tourism accounts for over 9.5% of GDP. Normally and that was the case of SARS and MERS virus diseases, the tourist numbers rebounded after a couple of weeks. It will be of great importance to stop the threat of infection before May in order to not run into the risk of high losses in the tourism industry during summer.

Lets be optimistic, and the odds are quite positive, given the measures taken around the globe and turn to buying a property on Costa del Sol. Given the virus has wiped out a substantial part of the gains in capital markets having an investment that is able to give you some pleasure is not wrong at all.

During the last years the real estate related coastal investments have done very well in price and the upcoming retirement wave of the baby boomers will undoubtedly lead to higher demand for vocational properties especially on the Spanish coast and there of course the Costa del Sol. Why? Many reasons: international airport in Malaga, great microclimate, lots of golf.....etc.

We will keep you posted and hopefully we all can enjoy summer, sun and fun on the Costa del Sol shores