

## Profimex Market Research Update – June 11, 2020

### COVID-19 to accelerate restructure of retail property sector

Urban Land Institute (ULI) recently published its Reshaping Retail report which explains that COVID-19 will likely accelerate the restructuring of the retail property sector in the European market. The reason is primarily due to store closures, a negative economic outlook, and lower valuations based on a lower projected rental income. The closure of many businesses and stores has created additional challenges to already disrupted sector.



“It has been a very uncertain time for the retail real estate market,” said Lisette van Doorn, CEO of ULI Europe. “Prior to COVID-19, the sector was already facing structural challenges due to the growth of e-commerce and other shifts in consumer behavior, but the benign economic environment kept the sense of urgency to act relatively low. However, at the same time, the general uncertainty over how sustainable income was for the future had resulted in an investment market characterized by a lack of liquidity. The lockdowns have already resulted in a rapid decline in operating income for many retail real estate owners. This, coupled with the concerning economic outlook, will have a major effect on longer-term sustainable rents and vacancy levels and subsequent valuations. Looking ahead, social distancing and the investment required to meet safety expectations and make assets fit for purpose again, strongly calls for all stakeholders to come together to collaborate on how the sector can succeed in the longer-term.”

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### Medical Office Rents Weather the Storm

While the medical office sector has been impacted by the recent crisis from COVID-19, many investors are still bullish on the medical office sector. Kyle O'Connor, the president and founder of MLL Capital, explain: “The medical health care sector and the science sector seems to be holding up a bit better than some other property types. Certainly, hotels or retail are having a different experience. For us, it’s one of the reasons why we liked the sector and continue to like it a lot. We viewed the asset class as having a number of supportive features associated with it.”



While in the short run people may be worried about visiting doctors' offices, there are multiple tail winds that will benefit the medical office sector in the long run. Aging demographics in the US and financial sound businesses are examples of tailwinds to help the sector grow.

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## Small Investors Are Crowdfunding Property Deals While Stuck at Home

With many small investors in their home during the COVID-19, some have taken the opportunity to invest in commercial real estate opportunities. A number of them are buying small slices of apartment buildings, hotels and other properties through crowdfunding, the practice of pooling small amounts of capital collected from many people to fund a business venture or property acquisitions.

Though volume on many crowdfunding websites has dropped following the crisis, active deals are still occurring since investors can take advantage of price discounts as high as 20% off pre-COVID-19 levels. Most of these latest distressed opportunities are revolving around multifamily rental and development projects.



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