

Impact of Covid-19 on the real estate sector

By [Sherry Rexroad](#)

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The challenge for investors today is identifying those real estate sectors that are thriving in the current market environment and those that have been badly affected by the Covid-19 pandemic. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested. BlackRock believes that today's market is about selecting the potential winners and losers.



Sherry Rexroad, managing director and senior product strategist for global real asset securities, BlackRock

Data centres/towers: Data centres and towers are the infrastructure that store and carry the data we see on our various screens. Due to our reliance on telecommunications and work-from-home initiatives during Covid-19-related lockdowns, demand for such infrastructure has increased.

Industrial: E-commerce is growing at an unprecedented rate across the globe, driving investment in distribution facilities, e.g., large warehouses run by e-commerce companies.

Retail: Social distancing has reduced visits to bricks-and-mortar retailers, damaging a sector that was already losing customers to e-commerce companies.

Lodging: Reduced business and personal travel have led to a sharp decrease in hotel-occupancy rates.

The great acceleration

A number of trends in the real estate market have accelerated as a result of the Covid-19 pandemic. This is widening the gap between those sectors that are benefitting from change and those that are being left behind. While sectors such as communications (data centres/towers) are benefitting from long-term changes, we are also starting to invest more in sectors that are facing a more volatile future, such as bricks-and-mortar retail and hotels. Such properties could see significant returns if we receive positive news about a Covid-19 vaccine.



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Sector overviews and dislocation opportunities

We believe volatile financial markets and an uneven economic recovery have created an opportunity to buy attractive properties at prices that do not reflect their true value. We refer to this as a 'dislocation' in the price of a property.

***Dislocation opportunities:** Where under-pressure financial markets are unable to price securities correctly.*

High dislocation – properties in poorly performing sectors with recovery potential

Retail: If bricks-and-mortar retail is to survive in the post-pandemic world, it must look towards new models, which include social experience, groceries and luxury.

Lodging: As regional/ domestic travel is expected to be the main source of travel, hotels that could benefit from more domestic travel may be a source of return. Travel further afield may be permanently impaired as there will be a higher bar to justify both the expense and necessity.

Moderate dislocation – strong companies in sectors that have seen varying levels of disruption

Office: Office environments with ample space that provide flexibility are likely to benefit as well as those in key hubs as a more distributed workforce (working from home) will need convenient, centralised meeting points.

Residential: The pendulum has swung back towards the suburbs and we think household income may be spent on homes as opposed to travel in the near term.

Healthcare: Telemedicine – video-call appointments – is experiencing strong growth. Medicine has been one of the last industries to hold out against a digital delivery method and the effect on medical office space could be profound.

Low dislocation – there is still attractively valued real estate in sectors that have performed well during the pandemic

Data centres: We have seen a large increase in demand for data centres as people increasingly work remotely, and companies' data is held in the cloud.

Industrial (manufacturing facilities and warehouses): The pandemic has demonstrated the importance of e-commerce and many companies have needed to build up their regional supply chains. This should increase the need for warehouse space and facilities that process goods for e-commerce.

Today's real estate market offers investors the chance to invest in attractively priced properties that aim to provide a regular income with the potential for capital growth. Real estate may provide:

- A stable income in uncertain times and the potential for capital growth.

- A different pattern of returns from stocks and bonds – adding much-needed diversity to investment portfolios.
- Dislocation opportunities due to Covid-19, where under-pressure financial markets have not reflected the quality of a number of properties in their price.

ABOUT THE AUTHOR

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