





PropTech Deep Dive 05|2020

# PROPTech & THE CORONA EFFECT:


Impact of COVID-19 on  
digitalization trends in  
the real estate industry


# EXECUTIVE SUMMARY

 Due to the Coronavirus, the real estate industry is facing unprecedented challenges. Failure to optimize IT structures is taking its toll. In many cases, quick digitalization can be a remedy, but not all PropTech segments will benefit equally. A differentiated view is looking taking.

 PropTech startups are confronted with different challenges but also opportunities, which requires a new weighing of evaluation criteria:

In addition to the familiar factors for an assessment from an investor's point of view, new criteria are 1) enabling customers to act in the short term, 2) a quick implementation of the PropTech's solution, and 3) the creation of a fast ROI for real estate companies.

 Just one month after the beginning of the lock-down phase, agile startups have developed new technical solutions for the rapidly changing requirements, for instance to reduce the risk of infection in office and retail spaces. In addition, former niche topics, such as decentralized care for the elderly, now seem more important than ever.

 The financing situation for startups is becoming more demanding and selective because strategic investors in particular are reducing funds at short notice. In this buyer market, conditions are tending to become more advantageous for the remaining professional investors. Experienced venture capital funds that are ready to act will benefit - as they did after previous economic crises.

## PROPTECH1 RESEARCH

PropTech1 Ventures, Germany's first venture capital fund focusing on European PropTech startups, employs a team of analysts who research and examine in detail the most important trends, key market developments, and most promising European real estate startups.

We publish the essence of our research at irregular intervals, discussing different sub-segments of the PropTech market and thus shine a light on new and interesting trends that often question the traditional processes and power distributions within the real estate industry as well as opportunities and risks for incumbents.

In order not to miss any future Deep Dives, please enter your contact details [here](#), and we will send you new editions as soon as they are released via e-mail.

## CURRENT PROPTECH1 PORTFOLIO



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# 1 Introduction

## FROM ECONOMIC DEPRESSION TO A DIGITALIZATION BOOM: THE CURRENT SENTIMENT

Ranging from overjoyed to deeply saddened: Depending on the expert and his or her underlying interest, the impact of the Corona crisis on the real estate industry and in particular on its digitalization progress is assessed in vastly different ways. A differentiated look is worth taking.

» We all have to realize that we are heading for a complete catastrophe, [...] that half of all startups are disappearing, that a quarter of the small companies are vanishing from the market, and that the big corporations are winning. «

Carsten Maschmeyer, Entrepreneur & investor

The pandemic triggered by SARS-CoV-2 and the accompanying economic slowdown have dominated the headlines in recent weeks and months like no other issue before.

Virologists these days have their podcasts, consultants their webcasts. Sentiment barometers are all over the news, economic forecasts of various V, U, O, L, X scenarios are made, and economic players draw apocalyptic projections of the future.

The above-mentioned quote from the ever-present German TV investor Carsten Maschmeyer, taken from an interview with the German tabloid newspaper Bild, is certainly one of the most extreme predictions.

Naturally, it is difficult to verify or factually refute predictions that are by their very nature forward-looking. The German Council of Economic Experts, referred to as the "Five Sages of Economy"), published a special

Corona report. In its base scenario they assume a decline in Germany's gross domestic product of 2.8% in 2020.

The German Hypo Real Estate Climate Index, which evaluates the assessments of 1,2000 real estate experts, plummeted and showed a clear slump for the German real estate sector. Something like this was not considered possible when the Corona pandemic began.

The overall sentiment of individual economic players - apart from the human suffering caused by increased death rates, which every player should always keep in mind - fluctuates strikingly between overjoyed and deeply saddened.

Without wanting to imply deceitfulness, but any opinion expressed, or any prediction not based on objective data, is naturally only made in the best interests of those who express it.

Experience shows that there are always winners in a crisis. Among the winners - if one may call them that considering the scale of the crisis - are many of the technology companies.

This can be seen in the steep performance of the NASDAQ, which is continuously rising after the initial stock market shock. More specialized indexes, which focus purely on "typical" online platforms, have more than offset the losses of the panic phase and are trading at all-time highs.

We would certainly not be publishing this whitepaper if we did not have an interest in highlighting the opportunities for digitization in the real estate industry ourselves, but some early statements appear more like marketing statements than realistic predictions.

Microsoft boss Satya Nadella, for example, made the following statement: "We've seen two years' worth of digital transformation in two months". In other words, he sees a twelvefold increase in digitalization progress as a result of the Corona crisis, which, realistically speaking, will only apply to the spread of video conferencing tools.

Moreover, according to the quote from JLL CEO Christian Ulbricht mentioned below,

» Digitalization will proceed with great strides. An intelligent infrastructure, from data availability and sensor technology to the automation of entire workflow processes, will become an integral part of how we live and work. This trend has already been visible for several years - Corona now acts as an accelerator - the steps of the next 20 years will be taken in five.. «

Christian Ulbricht, President and Global CEO Jones Lang LaSalle

we will see a quadrupling in speed of the digital transformation over the next 5 years.

Such a universally positive development would certainly be desirable. But when it comes to the digitalization of the real estate industry, any fundamental change process is not an agile procedure that happens over the course of a few weeks. Instead, it is usually a laborious and often deep-rooted undertaking and must be viewed in a differentiated manner.

The most enduring driver of the next few years is certainly the increasing pressure on the real estate industry, a sector that in recent decades has frankly been able to afford many inefficiencies and outdated systems.

Correspondingly, we believe that some sub-segments of the PropTech sector will experience a boost in relevance and speed. Others, which for example tend to only deliver ROIs over the long-term, will be slowed down in the short term.

With this whitepaper, we want to discuss the impact on the PropTech ecosystem, which success factors need to be re-evaluated, and how the financing landscape for PropTech startups and the market opportunities for their investors are expected to develop.

## 2 Impact of the corona crisis on the PropTech sector

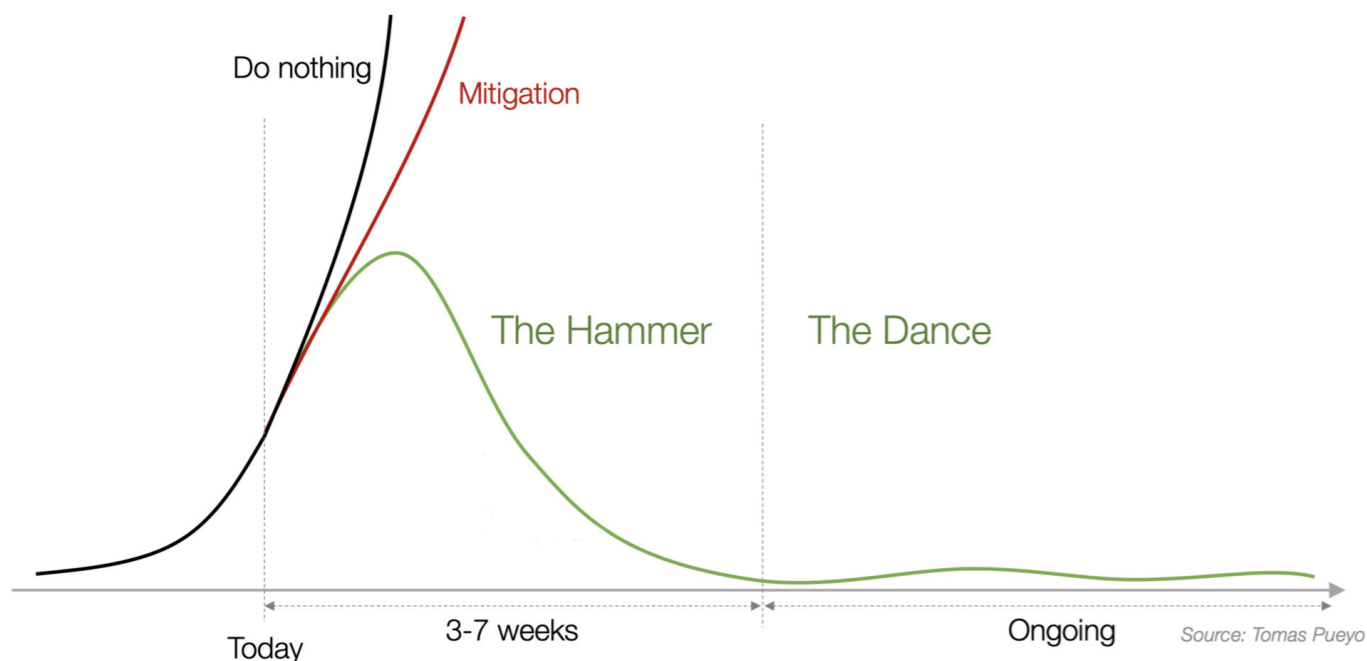
### 2.1 THE 4 PHASES OF THE PANDEMIC

At the start of our consideration, we need to provide a chronological classification because the influences on the economy, real estate, PropTechs, and VCs change throughout the course of time. And what does "post-Corona" actually mean? An attempt to structure the timeline.

#### 1 Panic phase - February to March 2020

Initially severely underestimated, the exponentially increasing number of cases outside of Wuhan, particularly in Europe and finally Germany, created an economic panic of the century. The spread of the virus led to a stock market crash with the second largest daily loss in DAX history (-12.2%). On March 22, a wide-ranging contact ban is implemented in Germany. Companies and especially young startups were forced - often for the very first time - to immediately deal with risk analyses, short-time work, cost-saving potentials, and possible bridge loans. Startup financing rounds threatened to burst on the very day of the notary meeting.

The model "The Hammer and the Dance", which is largely based on a scientific publication of the Imperial College, quickly became popular and is suitable for dividing the phases. It foresaw a fatal increase in the number of cases and thus also the number of deaths in states that decided against taking public measures. Temporary initial restrictions and contact bans were designed to contain the epidemic ("The Hammer"). Once a low number of new infections had been reached, public life was to be revived and a new wave of infection to be prevented by massive testing and tracing of individual infection chains ("The Dance").



#### 2 Lock-down phase ("The Hammer") - April to May 2020

Information on the spread of the virus was communicated and adopted by many people and companies at an early stage. Using contact bans, home office measures, cancellation of major events, and social distancing, the reproduction rate was brought below 1.

Where possible, home office is arranged and thus even traditionalists are forced to digitalize, as video conferencing now determines their everyday life for the first time. The first companies from the retail and gastronomy segments go bankrupt. Landlords all over the world are licking their wounds, still without knowledge about how deep the cuts will be. DHL delivers more packages than during Christmas season. The Internet is full of videos showing animals returning to the cities.

Startups have implemented cash flow-optimizing measures and are working hard to secure follow-up financing. Following the panic, it is becoming apparent that at least long-term investors are still open for business, but conditions are being adjusted significantly in some cases. The German government announces a historic liquidity support package of 2 billion euros purely for start-ups. Venture capital investors are entering a mode of crisis management and are focusing primarily on supporting their existing portfolio.

#### 3 Transition phase ("The Dance") - from May 2020

Once the reproduction number fell below 1, the economy immediately began to call for a rapid loosening of the restrictions, which were, in turn, increasingly eased by politicians. Until a vaccine is found, which will probably take about one or two years, there will be a delicate "dance" with the virus.

Many are only now realizing that Corona will redefine the long-term rules of the game. The first modern employers announce that "work from home" will remain a permanent possibility, even after Corona. Is the classic (open-plan) office outdated? Or will even more space be needed as a result of new distance regulations? How will mobility look like in the future? Real estate companies without proper digital processes suffer a severe loss of productivity. Decision-makers who have often already invested in digital processes pat themselves on the back in isolation.

Startups now have time to look at the opportunities the situation provides: Digital products are being developed and marketed at high speed, implementing the new requirements of the hastily imposed laws and regulations. Sales through online tools are becoming the norm. The young industry is getting organized, is beginning to communicate more confidently, and reminds us that many of the most successful Internet companies were founded following shortly after previous crises.

#### 4 "The New Normal" - from approx. mid/end 2021

An "end" will only be reached once a vaccine has been found, tested, and can be produced quickly. Cautious voices warn that "after Corona" can also be "before Corona". It is becoming increasingly clear that the "New Normal" will not be a return to the status quo ante. Requirements have changed across all asset classes and almost everything that can be digitalized is being digitalized. Real estate companies that act on this insight early will be the winners of the crisis. Others will vanish from the market. Darwinism in real time.

PropTech startups will also benefit from the economic recovery. Some will not make it through the crisis, but many others will prosper. The few professional VC investors are benefiting from attractive investment conditions in the adjusted market and are thus on course to buy-in very good years of returns, as was the case after previous crises.

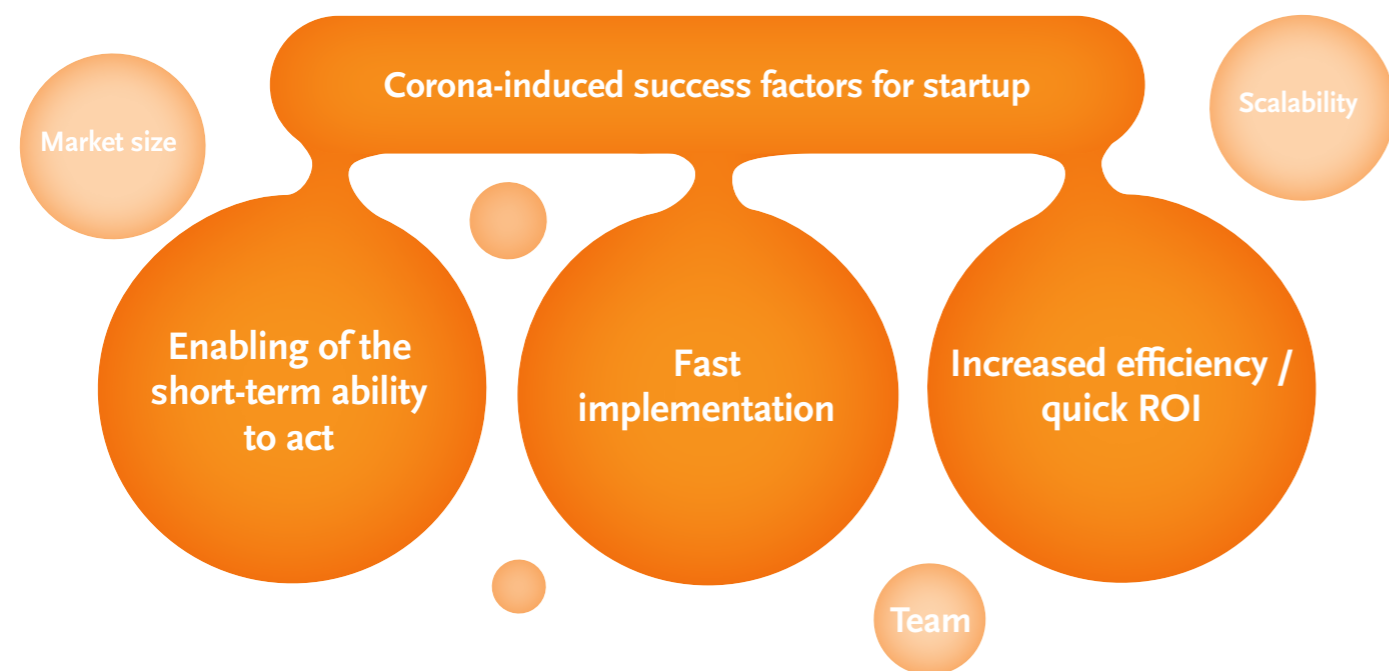
## 2.2 FACTORS FOR THE REASSESSMENT OF PROPTech TRENDS

As already touched upon in the previous chapter, Corona confronts the PropTech world with various challenges and opportunities. Investors and startups have to ask themselves which factors are particularly important for success both "during corona" and in the "new normal post corona". Based on this, they have to readjust their own strategy, product, and company planning. Venture capital providers have to do likewise.

Needless to say, the existing criteria that have been taken into account by venture capital investors when selecting startups will not be obsolete overnight. As was the case before, a subjectively perceived "bad team" or a company with a broken cap table will still have little chance of attracting venture capital.

However, the transition phase up to the "New Normal", and probably beyond, will result in additional perspectives and weightings when considering the opportunities and risks of PropTech companies.

During intensive discussions with founders, co-investors, and decision-makers from the real estate industry, we have identified the three most important aspects for a revaluation:



### 1 Enabling of the short-term ability to act

The measures imposed by the state to tackle the health consequences of the Corona crisis came suddenly. They have made many sectors of the economy unable to act or, at the very least, have created considerable obstacles. Employees were - as far as possible - sent to the "forced home office", retail outlets, restaurants, and hotels were initially almost completely closed and in phase 3 only opened with wide-ranging restrictions. Real estate agents complain about the cancellation of physical apartment inspections.

Furthermore, it is unclear whether Germany and Europe will be facing another lock-down, possibly due to a wave of new infections in the fall. The only certainty is uncertainty. In order to reduce the risk, companies have to become operational as quickly as possible.

IT solutions and digital platforms that enable work at any location are booming. These tools are essential to ensure that operations can continue in the short and medium term without any loss of productivity.

However, this also requires the digitization of all files, i.e. a universal capability for remote access in the administration department.

The same applies, for example, to the inspection, evaluation, sale, or even the "remote control" of a property, especially of technical installations such as heating, air conditioning, security, or lifts.

### 2 Fast implementation

What is the point of the most beautiful IT solution, if, analogous to the proverbial SAP introduction, it will not go live for 5 years? Installation times of >12 months will be in less demand than products that provide a remedy within weeks and, for example, also enable the (secure) use of private end devices. About 30 years after the emergence of the term "cloud computing", this paradigm is now also being adopted in the real estate industry.

Simultaneously, contractual commitments, e.g. contract durations, should be low, as customers only make compact investment decisions.

### 3 Increased efficiency / quick ROI

Due to the positive development of the real estate markets and prices over many years, the industry has neglected efficiency improvements in the core business due to the lack of necessity.

Many market participants will simply no longer be able to afford this sloppiness, as many asset classes are now under cost pressure. Under these circumstances, digital solutions, which will only bring diffuse added value in the distant future, will be in lower demand. PropTech products, which have a faster payback time and thus measurably help to secure the return on investment in the core business in the medium term, will be crucial.



# CASE STUDY

## THING-IT "VIRUS GUARD"

Thing Technologies with its digitalization platform Thing-it reacted textbook-like to the crisis by publishing its Virus Guard product feature not even one month after the start of the contact ban. Thing Technologies developed a digital solution that helps to reduce the risk of infection and was first to recognize a gap in the market that had arisen due to Corona. Namely, the need for IoT solutions for office and retail properties - essential buildings for the gradual resumption of public life - that were specifically tailored to the needs arising from the epidemic. From a long-term perspective, the startup offers products to the real estate industry for trends that have been accelerated by the crisis: Learnings from the forced digitalization in the home office makes flexible working increasingly the norm. Similarly, office properties will be set up more flexibly. The Thing-it platform serves a wide range of relevant applications with workstation booking, people and route finding, room control, smart cleaning, and capacity-based energy management.

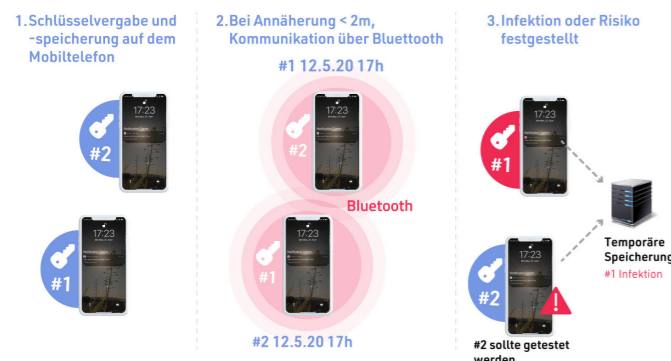
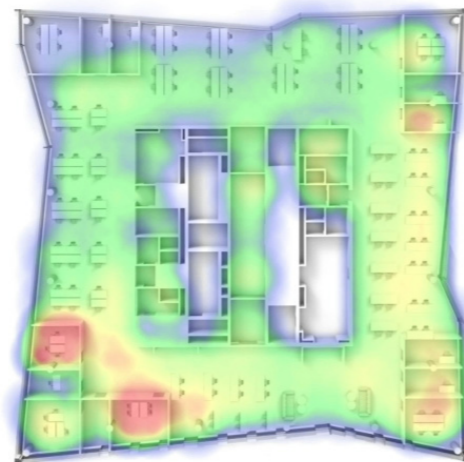


### Store and Building Admittance Control

- Incoming/outgoing people count for multiple doors of a building or space
- Digital signage for control of people flow
- Overflow alarm via push notification to the staff

### Indoor Risk Zone Management

- Heatmaps on people gatherings in the building
- Push notifications on capacity overflow to allow intervention by security staff
- Cleaning and disinfection tasks on exceeded cumulated use of spaces



### Secure, Anonymous Proximity Protection and Tracking

- Anonymous risk or infection status disclosure on app use
- Voluntary, anonymous position and proximity tracking via app
- Short-term moving trail storage to plan disinfection tasks



## INTERVIEW WITH DR. MARC GILLE, CEO OF THING-IT

### How did you deal with the crisis in the short term and what lessons did you learn from it?

In its scope, the crisis has certainly shaken everyone. However, these developments were very soon foreseeable after the beginning of the crisis. We have reacted early and sustainably. For example, we moved our employees into home office - even before the daycare centers were closed. But this is naturally easier for a modern software company that is used to working in virtual, international teams than for other companies. One of the greatest lessons we have learned is how we have dealt with the crisis as a team. The team has encouraged, strengthened, and motivated each other when faced with the necessity of working from home, caring for the children, and dealing with uncertainties and fears. I believe that the team also appreciated the intensive involvement of our management in the topic, our crisis management and our transparency. It may be a subjective perception, but

I have rather registered an increase than a decrease in productivity.

### What does the crisis mean for the digitalization of the real estate industry, and how will it change the work life?

The crisis has shown: Those who have digitalized can react better. This applies to people and companies, but can also be applied to real estate. Today, it is often still the tenant's initiative to digitalize the work life - be it the corporate real estate manager or the small and medium-sized company. In a few years, however, the expectation for real estate developers in both the commercial and private sectors will be that digitalization modules will be available just as much as running water and central heating.

### How can digitized buildings help to break chains of infection?

The support must be very comprehensive. The much-debated tracing approach is a first step. We are the first to deliver an implementation of the federal requirements in a product. However, in buildings it is possible to do a lot more with these tracing approaches. If I know where an infected person or risk candidate has been in my building, I can have the area disinfected immediately with on-demand cleaning. I can also navigate users around this area. Alternatively, if I know that certain areas are highly frequented, which I can measure anonymously with infrared sensors, then I can advise users to choose another exit, for example, to have less contact. Furthermore, I can control user flows with digital signage. We are already doing all this with our digitalization platform Thing-it, and I expect we add practical functionality every week. This is a very good way to counteract a renewed wave of Corona.

able just as much as running water and central heating.

## CASE STUDY

# SENOIOVO SOLVES INCREASED DEMAND FOR DECENTRALIZED CARE

The PropTech startup Seniovo has taken a special position due to the Corona crisis. Seniovo enables people in need of care to stay at home by offering age-appropriate and barrier-free renovations - in many cases without additional private payments. Seniovo acts as a one-stop shop, offers advice tailored to the target group and completely digitalizes the application and implementation process, right through to the on-site installation with its own craftsmen or certified partners.

In the short term, Seniovo, as a digital platform that naturally relies on the local deployment of craftsmen to those in need of care, found itself confronted with various operational challenges. These involved safety precautions, which must be guaranteed, especially when working with risk groups, as well as the reasonable caution of the target group against human contact. A short-term decline in sales at Seniovo - although not to the extent initially expected by the management - was the logical consequence.

In the long term, however, the craftsman startup has a contrasting perspective. It can be assumed that decentralized care, Seniovo's core business,

will become even more relevant to society. Even before the Corona pandemic, the much-discussed elderly care health crisis was one of the central social issues in Germany. Due to the frighteningly high risk of infection in nursing homes, more and more people will prefer to stay in their own apartments and houses as long as possible. The risk of infection caused by care given by individual family members with appropriate precautions or ambulant nursing staff will be minimized considerably. In the future, it can even be assumed that the already existing state subsidies for barrier-free reconstruction within one's home will be further expanded.



seniovo 

## INTERVIEW WITH JONATHAN KOHL, CEO OF SENIOVO



**How did you deal with the crisis in the short term? Did you send employees to the home office, and what measures did you take for the craftsmen working at your customers' homes, who by definition belong to the risk group?**

First of all, it was important for us to inform our own employees comprehensively and to show them the health risks of Corona based on the latest scientific knowledge. We were informed by PropTech1 and other investors at a very early stage that certain measures would be unavoidable. The relocation of our office team to home office took place within a few days, as we were able to work remotely anyway. With regard to our craftsmen, who still had to go to the homes of our customers, we first informed ourselves in detail: What precautions do we have to take? Does it have to be FFP2/3 masks for everyone? To what extent can we keep a distance and achieve effective disinfection measures? In other words, we were completely focused on Corona for about 2 weeks on the management side and took all the necessary protective measures.

**Let's take a look at the business side: Did you have a drop in orders due to the crisis? Have talks with new customers stopped?**

First of all, it has to be said that we have, of course, only continued to carry out renovation work where everyone in the care household agreed to it. In terms of sales, March was relatively normal for us. However, we had planned for a slight drop in sales in April and May, which we were ultimately able to outperform. During the acute phase, we also managed to onboard one of the largest German property portfolio managers as a partner. Major cooperation partners in the area of manufacturing and wholesale continue to talk

to us. In the construction sector, there were no major legal restrictions anyways.

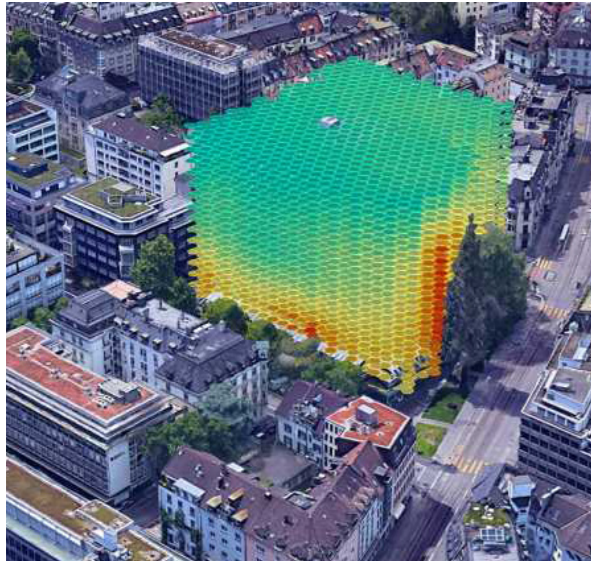
**What long-term impact do you see on your business? How will Seniovo be able to contribute to society?**

We think that in the long term, starting in summer, we will see increased demand. Seniovo will be part of the solution to the problems as we ensure the hygiene of our customers in old age. We assume that our operating business will be boosted disproportionately. There have already been admissions stops in nursing homes, partly because the infection rates there are very high. Home care will therefore be a central social issue now. Even before the crisis, 96% of all people preferred to grow old at home rather than in a nursing facility. Large residential property owners must now consider whether their property portfolios meet the requirements of an ageing society. Alternately, they may want to make a certain percentage of their portfolios barrier-free.



# CASE STUDY

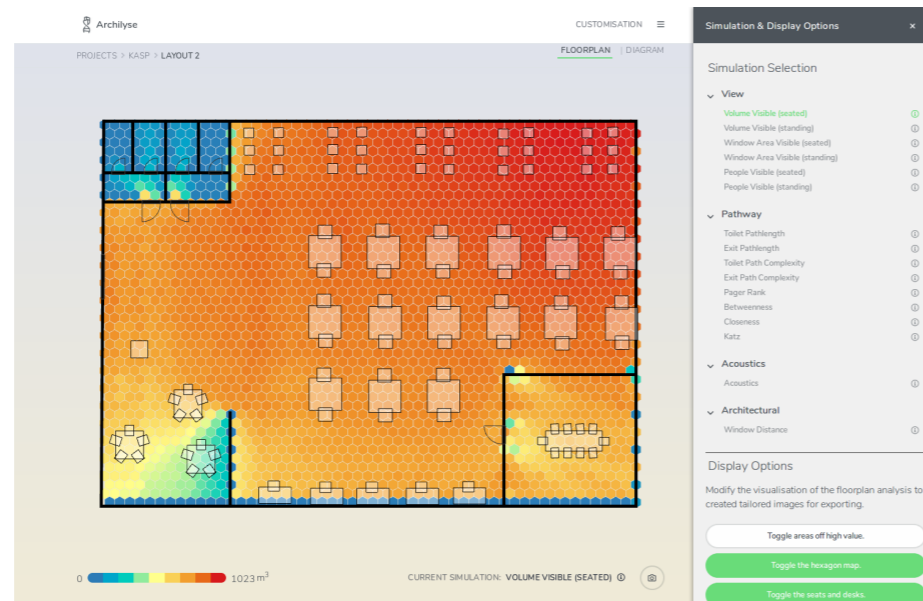
## ARCHILYSE MAXIMIZES PORTFOLIO RETURN AND MINIMIZES VACANCIES



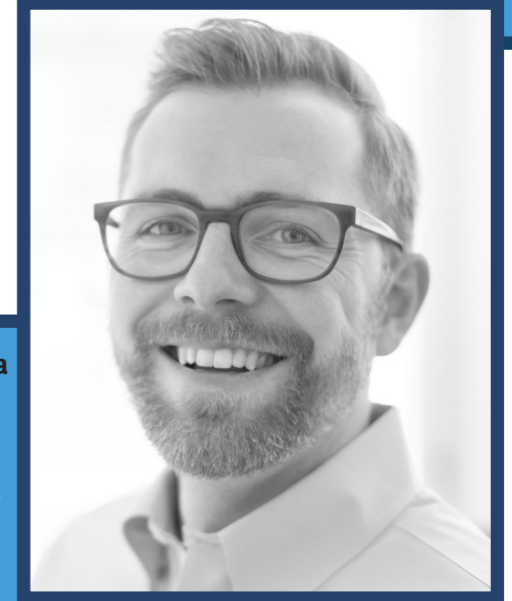
Archilyse applies the lever of efficiency increase directly to a fundamental aspect of the real estate industry that has so far received little attention: the floor plan. This is partly because we have been in a housing market favourable for landlords over many years, partly because the technological possibilities to measure the quality of the floor plans were not available. In times of a slowing real estate market, it will not be possible to avoid an increase in vacancy rates - especially for office properties. A qualitative analysis of the floor plans can enable a more accurate calculation of the rental prices. This leads not only to a reduction in vacancies, but also to lower fluctuation and thus ultimately to an increased return.

With Archilyse's method, floor plans are analyzed objectively and consistently - even across large portfolios. In this way, the quality of a floor plan can be quantitatively measured, compared, and the properties can be ranked. Hundreds of data points are considered in the analysis. View, lighting conditions, noise exposure, and the geometric conditions of the floor plans are quantified. This data is then used to determine the rental or sales price more precisely. Especially for new buildings, where no historical transaction data are available, the analysis provides a valuable decision guidance.

Archilyse offers its customers the possibility to digitize their plans remotely and enables them to act directly in times of crisis. Archilyse can be implemented immediately and has proven in the past that the solutions pay for themselves in less than a year, thus offering a short-term return on investment.



## INTERVIEW WITH MATTHIAS STANDFEST, CEO OF ARCHILYSE



### What short-term measures have you taken because of the Corona crisis - home office, short-time work, etc.?

As tech startups, we are by nature prepared for home office and have freelancers scattered all over Europe anyway. Our processes basically continued as before. We even saw a slight peak in the productivity of our employees. However, since we were unable to estimate at the beginning how the real estate industry would react, we imposed a hiring stop as a precaution. But that was the most massive step we took. We considered short-time work for a moment, but decided against it because it simply would not have made sense. All our employees are working at full capacity, we have a very long backlog of orders, so we were still working at full capacity.

### What do you think the crisis will do to the real estate industry in the longer term?

What we are now seeing in the industry: We are currently facing a major cultural change. Since the real estate industry has never really felt cost pressure, many decision-makers have adopted the attitude of "never touch a running system". In the meantime, however, the point has been reached where even these traditionalists have realized that video conferencing, for example, is not all that bad, and they are even increasingly becoming fans of this technology. And this is only the first impulse. If there was a certain amount of digitalization in the process of a company before the crisis, then remote work also likely worked for them.

### And this is where you come in because not everyone in the real estate industry is ready yet.

Yes, what you see with some of our customers and leads is that they are not sufficiently digitized to work productively in the home office. So if there are still analogue plan archives where you have to be on site to pick out plans, that's obviously a problem. This is now also understood by the conservative players.

### What concrete Corona-related measures are you taking to further help companies with digitalization?

As a first step, we offer real estate companies, whether asset managers or property managers, the simplest possible way to digitize plans from a distance and without them having to lift a finger and make them available to the entire team. We also offer a web front-end that allows teams to share more easily, through a cloud solution, the information that is our core business, namely to make the quality of architecture and real estate digitally and objectively measurable, comparable, and understandable for everyone. We do this using address and floor plan as well as comprehensive simulations and objective performance indicators such as floor plan, view, and sunlight. Last but not least, together with the PropTech startup Price-Hubble, we have developed the Rent Calibrator, which aims to help evaluate properties in a tenant market that requires as little physical contact as possible.



## 2.3 EUROPEAN PROPTECH TRENDS 2020 REVISITED: EFFECTS ON EXEMPLARY MEGATRENDS

In our study "European PropTech Trends 2020", published only a few weeks ago in February 2020, we predicted the most relevant trends in the PropTech sector for the next few years from our point of view. The study was publicized just before the point in time when a rapid spread of the Coronavirus in Europe was foreseeable. Accordingly, we would like to take this opportunity to reassess the forecast trends and the impact of the crisis on them in the short, medium, and long term.

### 1 "GretaTech"

Under the term "GretaTech", we summarize all PropTech technologies that make the real estate industry more climate-friendly. In the short term, the Corona crisis will attract less attention to this topic and physical interventions in properties will be made more difficult in some cases by lock-down effects. At the same time, however, voices are growing louder that economic stimulation cannot serve purely as a short-term economic stimulus, but must at the same time contribute to the transformation towards a more sustainable economy. Corona has furthermore proved that laws, regulations, and measures can be enacted "overnight" worldwide on an unprecedented scale.

### 2 Prefab Next Gen

In times of dwindling resources and increasing social pressure on construction costs and efficient land use in conurbations, standardized, industrialized and modular construction is emerging to solve many of these problems. In the short term, this area (like all more physical issues) still has to struggle somewhat with restrictions and after-effects of the lock-down phase, e.g. on supply chains. In the medium to long term, Corona will further strengthen the existing trend towards cost reduction as well as the digitalization of all processes and, last but not least, the shift of work steps away from the construction site to centralized production.

### 3 IT Spring Cleaning

As already described several times in this white paper, the digitalization of processes within the real estate industry is already strongly fueled by the crisis in the short term. Depending on the phase of the value chain and the severity of the need for digitalization, business models will benefit in different ways, starting with all systems that allow working from home office along the entire value chain, remote management of physical real estate, or enabling real estate valuation and marketing without physical inspection.

### 4 Get Big or Get Out

In recent years, the PropTech segment has increasingly faced the problem of granularity. Although many useful products have found their way onto the market, the implementation of many isolated applications is at least felt to be inefficient, especially for corporates. In our February study, we therefore already anticipated an increasing importance of mergers of competitors to aggregate market shares and the emergence of cluster companies and platforms through APIs or M&A activities. This trend suffers in the short term, as internal crisis management is preferred by potential acquirers, but accelerates in the medium and long term.

### 5 Flexibilization of the Housing Market

As early as 2019, we dealt with the flexibilization of rental markets in a white paper. In the short term, we see a sharp slump in many business models, especially the Airbnb-style holiday home brokerage, as global mobility has come to a sudden stop. However, brokers of medium-term housing such as Wunderflats in particular, can benefit from this, as landlords of holiday homes switch to medium-term platforms. In the long term, the trend towards flexible living and working will revive, with a new awareness of hygiene leading to new requirements, e.g. for the division and weighting between individual rooms and shared space.

	previous assessment pre-Corona	updated assessment
short-term	○	-
medium-term	+	+
long-term	++	+++
short-term	○	-
medium-term	+	+
long-term	++	+++
short-term	+	++
medium-term	+	++
long-term	+	++
short-term	○	-
medium-term	+	++
long-term	+	++
short-term	++	--
medium-term	++	○
long-term	++	++

## 2.4 EFFECTS ON THE STARTUP FINANCING SITUATION

Capital for startup funding is being pulled out of the market, which will slow down valuation jumps and generally make it more difficult to attract new investors for young growth companies. PropTechs, however, which react appropriately to the crisis will continue to be able to find capital.

### » 65% of all startups have a cash runway of less than 6 months.



Global survey by Startup Genome

Even though the case studies have shown that various PropTechs can experience increased demand due to Corona, the overall financing situation for all startups, whether PropTech or e-commerce, whether in the US or Europe, will be more challenging in the near future.

The need for (equity) financing for startups that are typically growth-oriented and therefore over several years cash-flow negative will not decrease in the future. And initial surveys, for example by Deutsche Börse Venture Network, predict a 46% drop in the number of financing rounds in the second quarter.

Independent venture capital investors, like us, have at first reflexively switched to a mode of risk management when economic constraints became apparent. In a nutshell, this means that for a few months the primary focus will be on their existing portfolio, if only because board work in turbulent phases requires substantially more time, even though we remain open to new investments.

Strategic investors from the real estate industry, often referred to as "tourists" by our

American VC colleagues, however, are withdrawing their money from the market in the short to medium term. Analogous to the above picture, tourists come in droves in phases of (economically) good weather, but leave again quickly when the sun begins to set. And this is understandable, since it is difficult for a person responsible for innovation in a company to argue in times of cost-cutting, short-time work or even layoffs that a digital investment, which is occult anyway in the eyes of a conservative observer, is more important than, for example, the short-term preservation of jobs. The fact that precisely this view often leads directly to disaster in the medium term will only be mentioned here in passing.

As a result, it becomes more challenging for (PropTech) startups to raise new capital, especially when it comes to financing rounds based on lofty valuations with correspondingly high future risk.

All in all, the entire market becomes a bit more selective, sober, conservative. Some will not even classify this as a problem, but rather as a healthy correction. But as always: good startups/founders will find funding.

## 2.5 EFFECTS ON THE INVESTOR LANDSCAPE

Ironically, a more difficult financing situation for startups is an advantage for the few dedicated venture capital investors who continue to actively invest. A buyer's market is emerging.

Where startup valuations are lower or less overheated due to competition from "touristic" investors, shares can be bought relatively cheaply compared to "pre-Corona" times.

The same applies to the fine print of financing conditions such as liquidation preferences or vesting terms. Here, too, we are not talking about landslide changes, but initial transactions do show that the pendulum is swinging in the direction of optimizing the investor position.

With the long-term investment horizon of usually 5-10 years that VCs typically have, further investment can be made with a clear conscience, provided the various aspects mentioned are taken into account, especially if the plausible thesis is true that the crisis will turn the digitalization of the real estate from optional to mandatory in the medium and long term. Analogous to the experience from previous (financial) crises, it can

even be assumed that venture capital fund vintages are emerging at this very moment, which, thanks to attractive prices, should even outperform other vintages.

Just as new dimensions are added to the previously known factors when considering the prospects of success of a startup in crisis situations, new additional criteria determine the chances of an investor:

1. sufficient capital reserves, not subject to the individual approval of a strategic investor, to invest when prices are falling,
2. experience in the team from previous risk situations such as the financial crisis, and
3. the ability for increased selection through a qualitatively and quantitatively sufficient deal flow.

**Both the, in the Darwinian sense, strongest and most adaptable startups as well as investors will thus find a thinned-out field of competitors and profit from this in the digitalized "New Normal".**

» **If history is any guide, the best performing vintages are being raised now or soon. Investments made at the bottom of any downturn and into the early stages of recovery are generally outperformers - when entry multiples are lower, competition subsides and portfolio companies benefit from macro tailwinds.** «

Pitchbook, „How COVID-19 is shaping up to be a major test for PE“



# 3 ABOUT PROPTECH1

The first dedicated venture capital fund focusing on the untapped innovation potential of the real estate industry in Europe

## 1 Utilize the digitalization potential of the real estate industry

PropTech1 Ventures has brought together Europe's largest group of real estate companies, serial entrepreneurs from the digital sector, and venture capital experts within a VC fund. The fund's focus is on the untapped innovation potential of the real estate industry in Europe.

## 2 Balanced portfolio of European PropTech startups

As an independent venture capital investor, we aggregate a qualitative and proprietary deal flow of PropTech startups in Europe. We create a portfolio with a balanced risk profile of minority stakes in what we consider to be the best companies after thorough analysis.

## 3 Added value for investors beyond a pure financial return

PropTech1 offers access to highly focused deal flow, detailed market research, and proven venture capital methodology expertise to its growing number of fund investors. PropTech1 also enables economic participation both through the fund and through direct co-investment opportunities.

## 4 Heightened smart money value for startups

In addition to independent capital, PropTech1 offers startups an extensive network in the traditional real estate industry, access to existing client bases and real estate portfolios as well as support in structuring future financing rounds, M&A activities, and exits.

[contact@proptech1.ventures](mailto:contact@proptech1.ventures)

### SELECTION OF CURRENT LP INVESTORS

**Aareal**

**Berlin Hyp**  
Finanzgruppe

**COVIVIO**



**PANDION**

**ACCENTRO**  
REAL ESTATE AG

**evoreal**

**GIEAG**

**EMPIRA**

**Otto Wulff**  
Bauunternehmung GmbH & Co. KG