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Evaluating investments in an evolving economic environment

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RICS Valuation Forum - Macroeconomics & Real Estate in turmoil times | 7 December 2022



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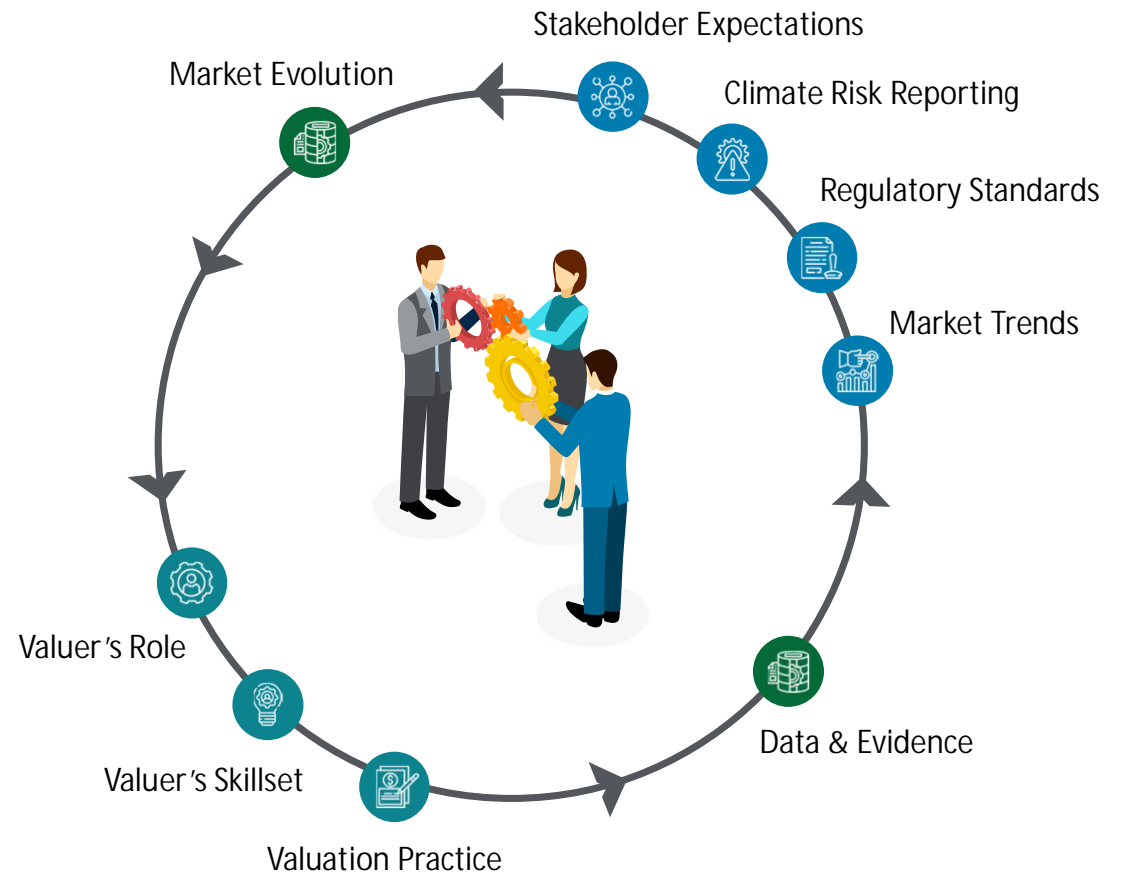
Due to the current fairly volatile macroeconomic and market conditions in Greece and in Europe, the results of this limited desktop analysis present a fair and representative estimation of value indications for an indicative period of up to six months, assuming that the financial markets (stock exchanges, money markets, etc.) continue to operate normally. It is also noted that while implementing any specific decision-making, the situation in Ukraine and the recent disruptions in the energy market and the general macro-economic environment (e.g. increasing inflation etc.) should be closely monitored. Hence, if the current market conditions change substantially, this Presentation may need to be updated accordingly.

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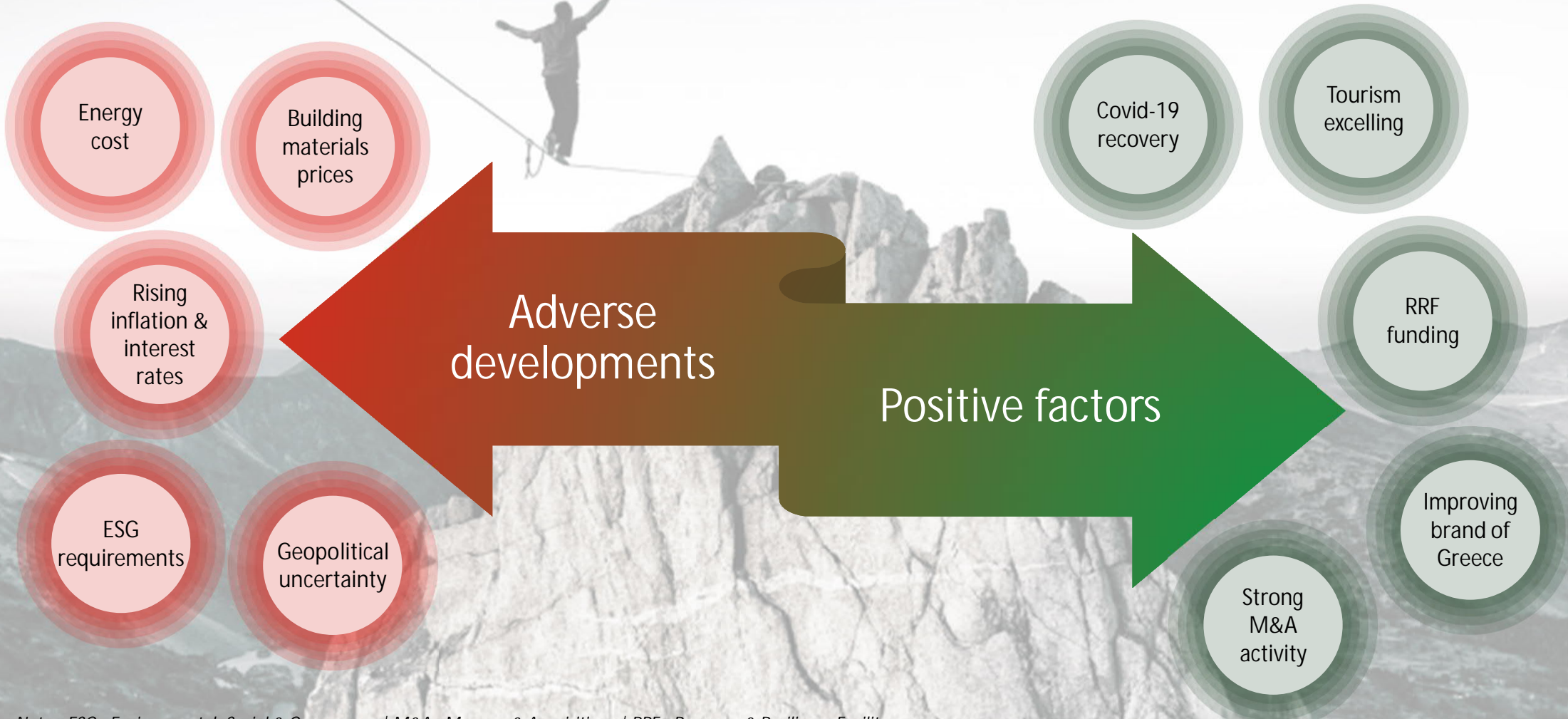
01

Recent changes in the general economic environment



1. Recent changes in the general economic environment

✓ *Contradicting forces currently at play in Greece*



Notes: ESG - Environmental, Social & Governance | M&A - Mergers & Acquisitions | RRF - Recovery & Resilience Facility

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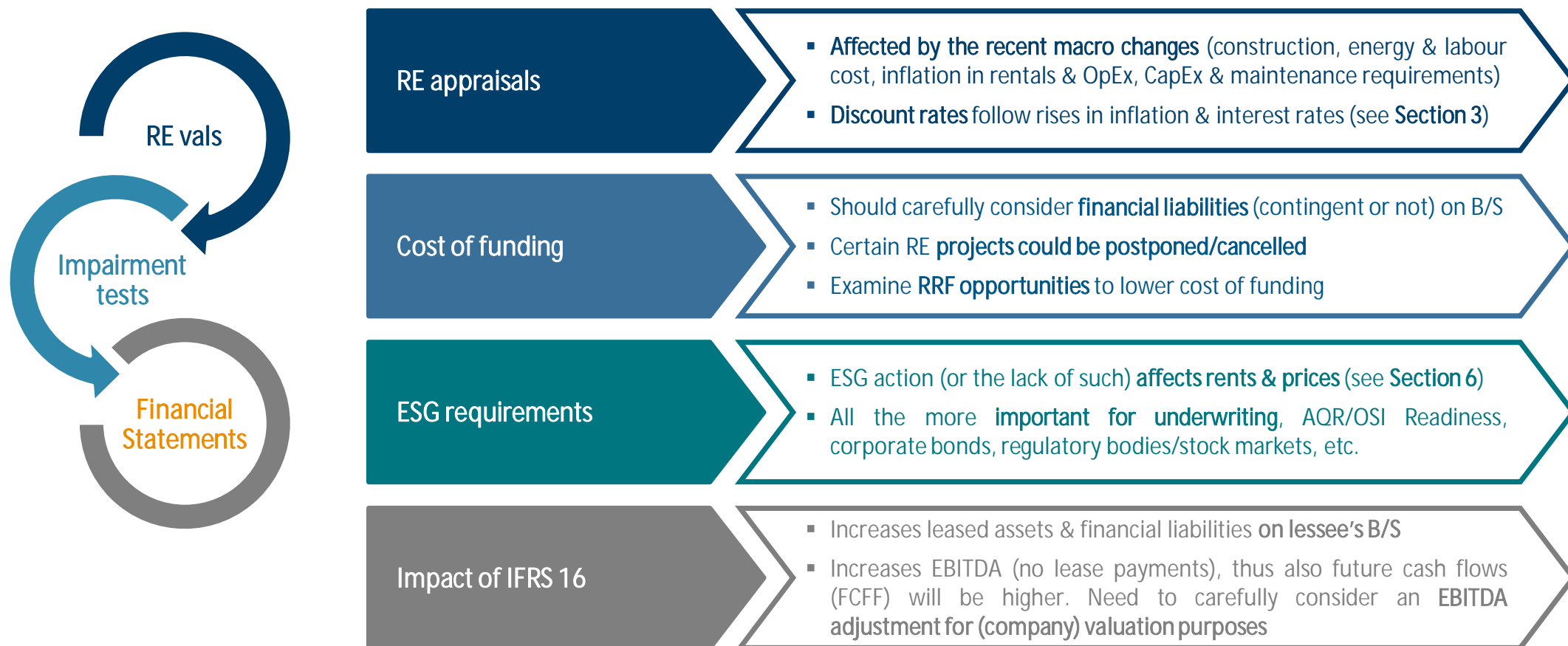
02

How Real Estate & business financials are affected



2. How Real Estate & business financials are affected

- ✓ Several items on a company's Balance Sheet (B/S) or when performing a valuation should be carefully considered
- ✓ Company valuations are commonly needed in the hospitality sector, REICs, RE HoldCos, RE with alternative uses, etc.



Notes: B/S - Balance Sheet | REIC - Real Estate Investment Company | CapEx/OpEx - Capital/Operational Expenditure | ESG - Environmental, Social & Governance | EBITDA - Earnings before Interest, Tax, Depreciation & Amortisation | FCFF - Free Cash Flows to the Firm

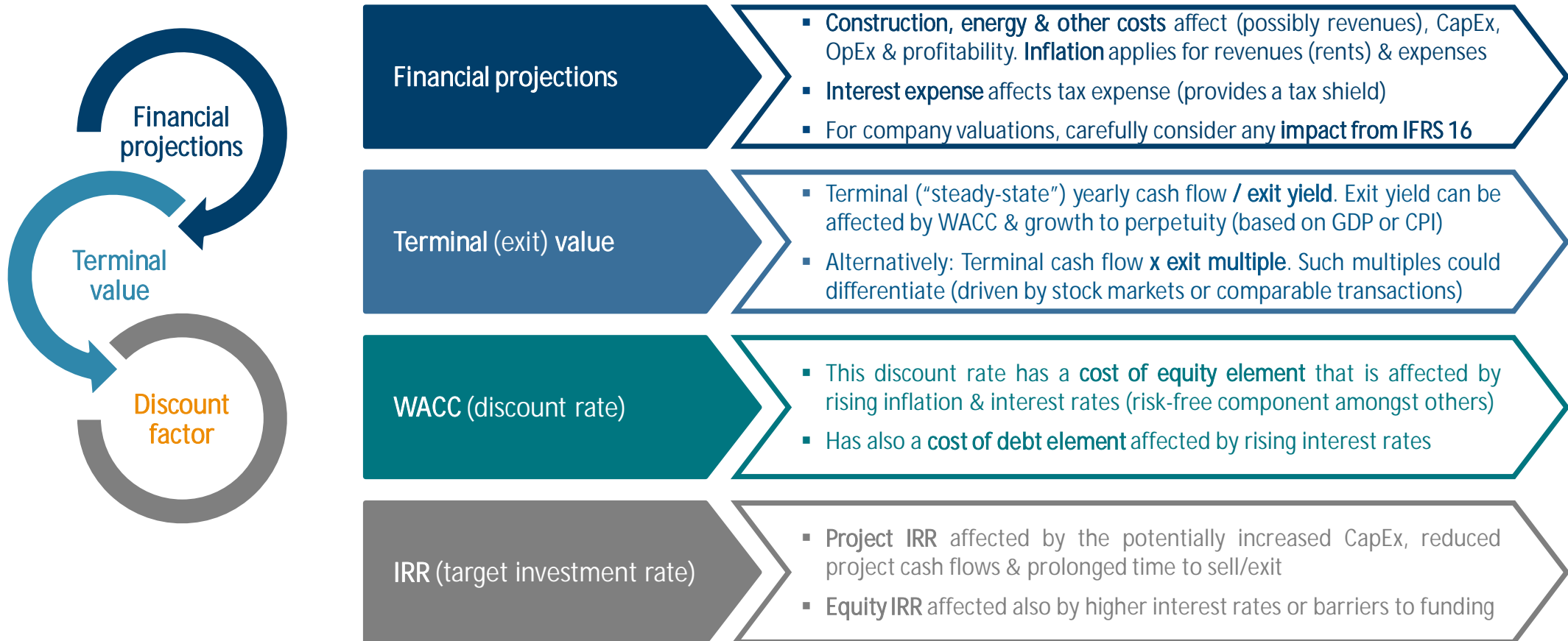
03

Impact on important valuation components



3. Impact on important valuation components

✓ *The impact of such economic elements on a valuation exercise is material & multi-faceted*



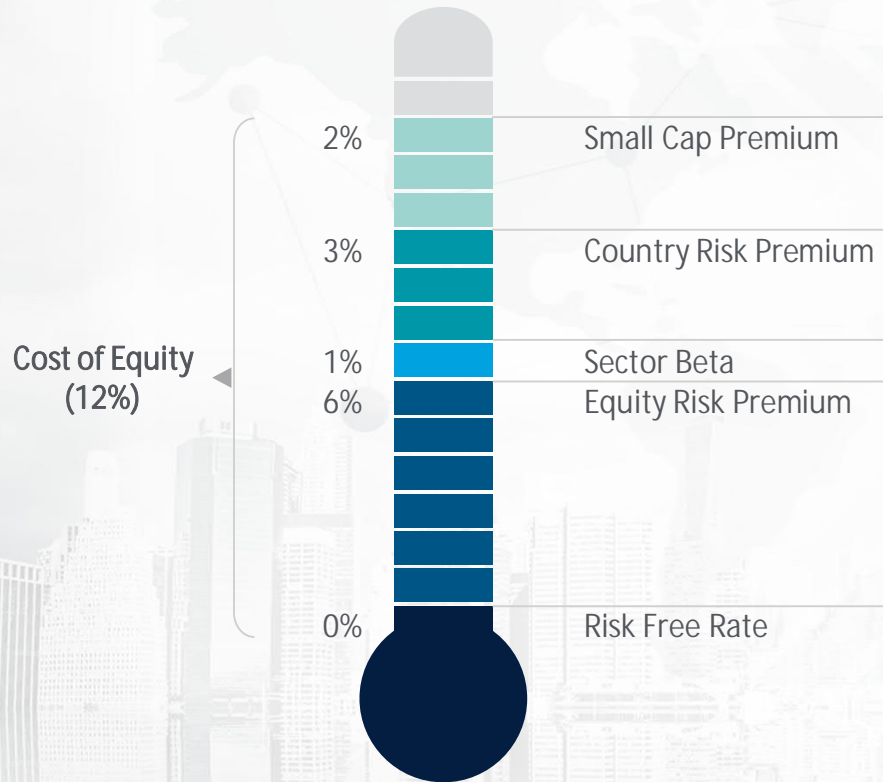
Notes: CapEx/OpEx - Capital/Operational Expenditure | GDP - Gross Domestic Product | CPI - Consumer Price Inflation | WACC – Weighted Average Cost of Capital | IRR - Internal Rate of Return

3. Impact on important valuation components (cont'd)

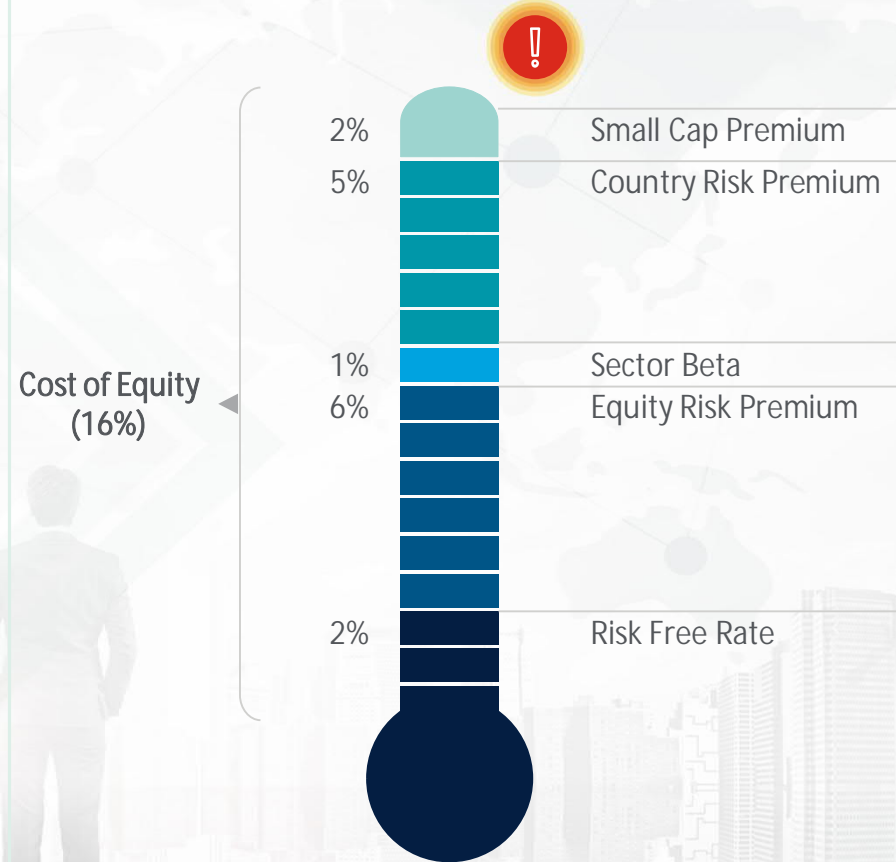
✓ *Rising inflation & correspondingly interest rates affect important components of discount factors*

Post Covid-19 era

Illustrative Discount Rate (Cost of Equity) Structure



The energy crisis era



Notes: Indicative figures | WACC – Weighted Average Cost of Capital | CIT - Corporate Income Tax

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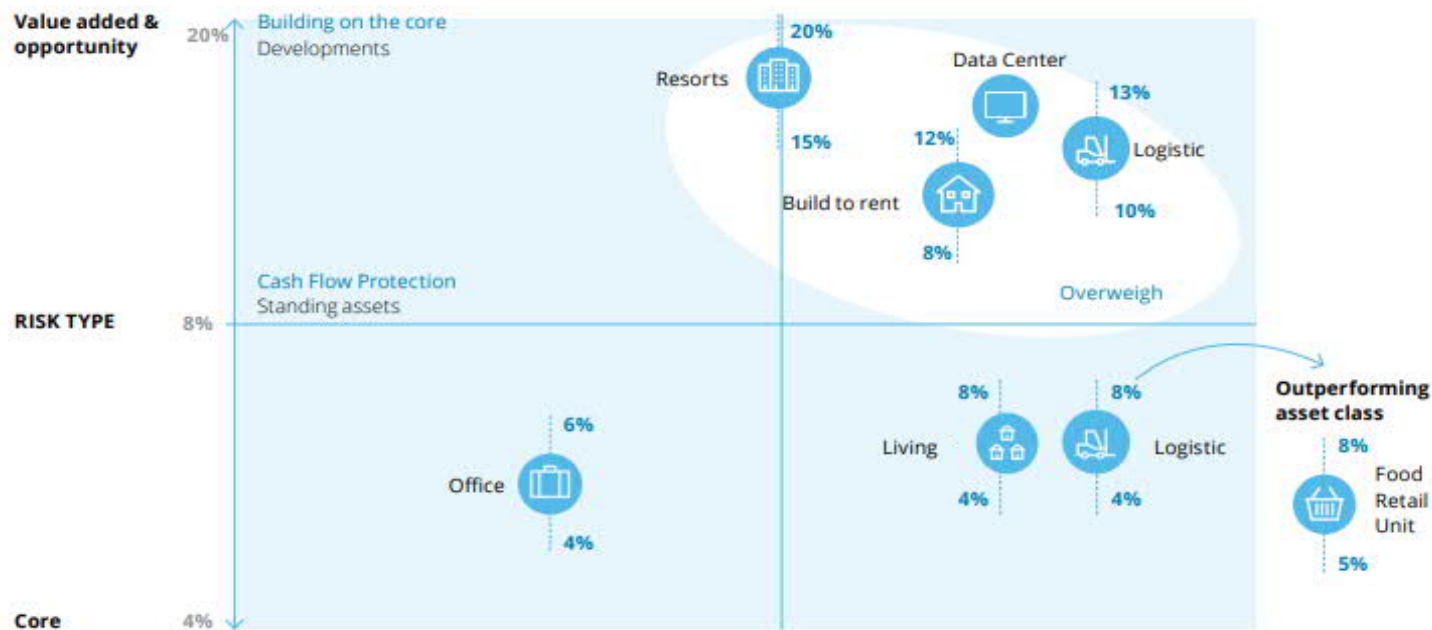
04

Global Real Estate outlook & trends



4. Global Real Estate outlook & trends

- ✓ The unexpected shock caused by Covid-19 has boosted both incipient & established megatrends
- ✓ Post-Covid, investors are following 2 different main strategies:
 - (a) cash flow protection, seeking secure cash flows to hedge inflation, mainly in living, logistics, food retail & prime offices
 - (b) building on the core, by developing & repositioning assets to benefit from the supply & demand imbalance
- ✓ The value-add strategies look more challenging & will probably be in more of a stand-by mode until economic recovery



Economic boosters:

- ☞ RE development remains one of the levers for economic recovery & certain short-term increases can be expected despite inflation

Facing challenges head-on:

- ☞ Above all trends & challenges, we will find sustainability. The need to create a better world means that **ESG is already one of the key investment drivers in all underwritings**
- ☞ Affordable housing is an issue that must be tackled, combining market trends, investment appetite & requirements and public policies. **The shortage of affordable housing may boost build-to-rent activity**

Source: Deloitte's REflexions, Issue 12 (global), 2021 | ESG - Environmental, Social & Governance

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4. Global Real Estate outlook & trends (cont'd)

✓ Things to have an eye for - main Real Estate trends globally

1.

Hybrid working models



2.

Sustainability



3.

Smart buildings & Proptech



4.

Smart cities



5.

New trends in the post-Covid era



Sources: Deloitte U.K. - Considerations for the Real Estate Industry 3/2020, Deloitte U.S. – 2021 & 2022 Commercial Real Estate Outlook, Deloitte Netherlands - Real Estate Predictions 2021

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Investors' current focus & requirements



5. Investors' current focus & requirements

✓ *Deloitte's consensus on current investors' focus & requirements in Europe is as follows:*



Interest rates & energy prices:

- Debt more difficult to secure, limiting market participants. **Many transactions put on hold**, prices being chipped
- Potential to affect bottom line on trading properties. Also **some industries are energy-intensive** and occupiers' margins will be squeezed



Inflation / indexation:

- Economic outlook is denting business confidence. There is a **shift of the investors' appetite from certain asset classes** (e.g. retail)
- Whether rents are capped or not, **tenant ability to pay indexed rents could be a risk**. Focus on viable alternative uses in the event of tenant default



Bond prices:

- Current stress in the bond markets with repercussions for property still unfolding. Certain **asset managers deferring withdrawals** from prop. funds

Asset types sought:



- Whilst many office deals have been cancelled in the UK, 2022 investment volumes to date on a par with 2021. **Increase of funding cost may lead to a fall in expected supply** (which will act as a corrective force)
- **Retail is affected by geopolitical and economic uncertainty** takes its toll on both consumer & occupier markets; a fall in disposable income for consumers, whilst occupiers face rising cost pressures and supply constraints
- Energy prices and cost/wage inflation have direct impact on bottom line of trading properties. Covenant strength and **alternative uses (e.g. hotels, student accommodation, leisure/pubs, healthcare, build-to-rent (BTR), etc.) have been favoured** as a defensive play in a downturn => since 2015, more than 1/3 on average of all commercial property sale volumes

Market uncertainty:



- **Ukraine conflict** has different impact per country. Mostly supply chain issues/cost of materials. Lack of Russian investors in many European countries
- No need for any market uncertainty clauses at present as **there is still liquidity in the market**. However, there is a heightened focus on market conditions clauses in reports. Importance of the valuation date!

Sources: Deloitte EMEA Market Update, Oct 2022 | Deloitte Insights, 2023 Commercial Real Estate Outlook

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5. Investors' current focus & requirements (cont'd)

✓ *And our local view:*

Asset types

- Owners & investors are targeting **prime offices, digital economy, logistics properties & residential**
- They **shy away from** decentralised retail, greenfield projects or REOs with industrial or immature assets
- Seek **local RE teams** or SLAs in place. **REIC vehicles are attractive**, but nowadays cautious about taxation



Time to sell

- Expected to be **prolonged for ~6-12 months** based on the global adverse market conditions
- Such increase in the time to sell could lead to an **additional discounts** in expected considerations
- **Realistic valuations & underwriting** will aid in this field; local advisors becoming more sophisticated



Value indications

- **Greece remains an opportunistic target** for foreign (especially institutional) players, who seek high IRRs
- Actively seeking opportunities linked to either **RRF or Strategic Investments**
- Recent deals for **prime hotel resorts** at (normalised) at higher EBITDA multiples



Permits / Red tape

- **Greenfield/brownfield projects** rarely examined by foreign investors due to greater delays in materialising
- **Tax efficiencies** is a priority (taking advantage of SPVs, double-tax treaties, etc.)
- **Ease of access to traditional or modern sources of funding** is an important driver for investments



Notes: REO - Real Estate Owned | SLA - Services Line Agreement (e.g. for Asset Management) | REIC - Real Estate Investment Company

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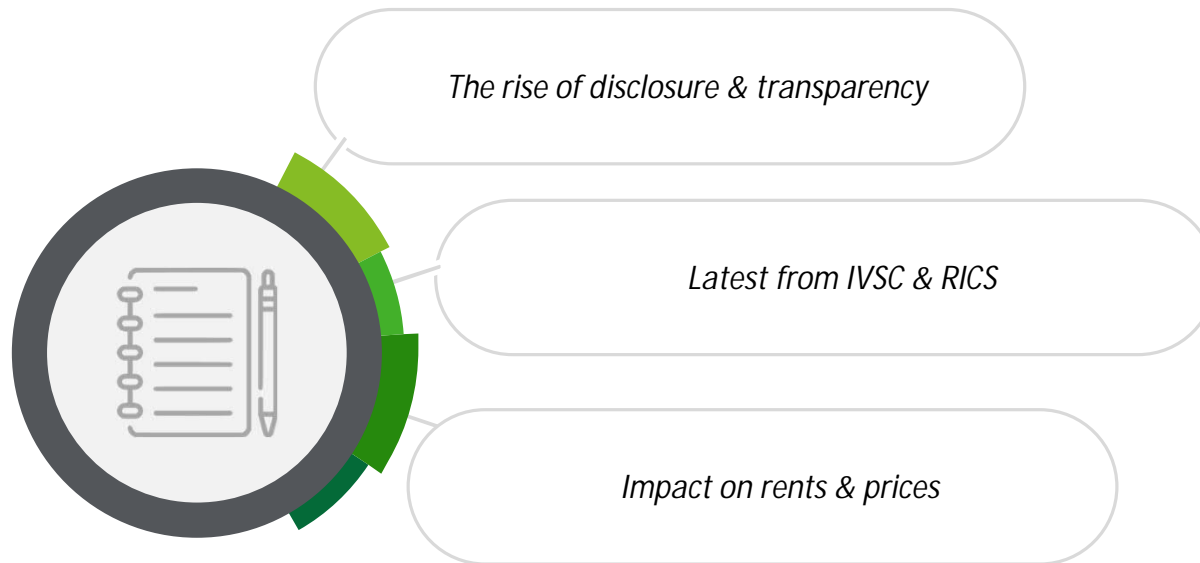
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ESG & Valuation



6. ESG & Valuation - Introduction

✓ *Spotlight increasingly on valuers & valuation*



Investors and businesses must have the information they need to understand the full range of environmental risks they face and create. That information should be a key component of every investment decision and the strategy of every business. Climate and environmental considerations should be central to the decision-making process of every board and every investor's risk and return calculations.

- Rt Hon Rishi Sunak MP (UK Prime Minister)




6. ESG & Valuation - Taskforce on Climate-related Financial Disclosures ("TCFD") & new IFRS

✓ *Rapid adoption & key drivers for the evolution of Regulatory & Reporting Standards*

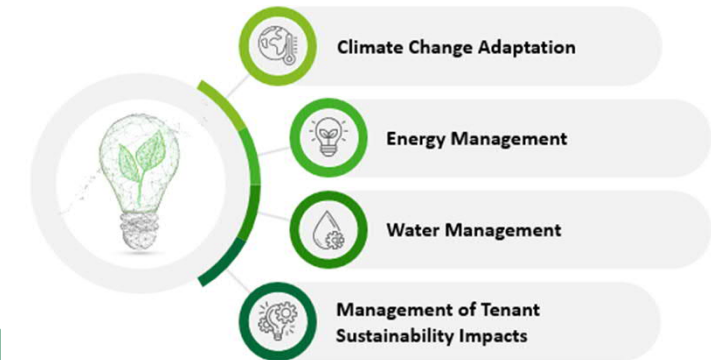


 **3,400** signatory organisations

 Market Capitalisation over **\$27 trillion**

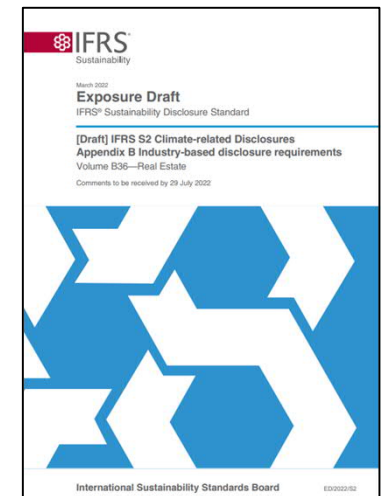
 Financial institutions responsible for assets of more than **\$200 trillion**

International Sustainability Standards Board



Will require a blend of "Quantitative" and "Discussion & Analysis" reporting/disclosure

- S1 - General Sustainability-Related Disclosures
- S2 - Climate-related Disclosures (Real Estate specific content within Vol. B36)

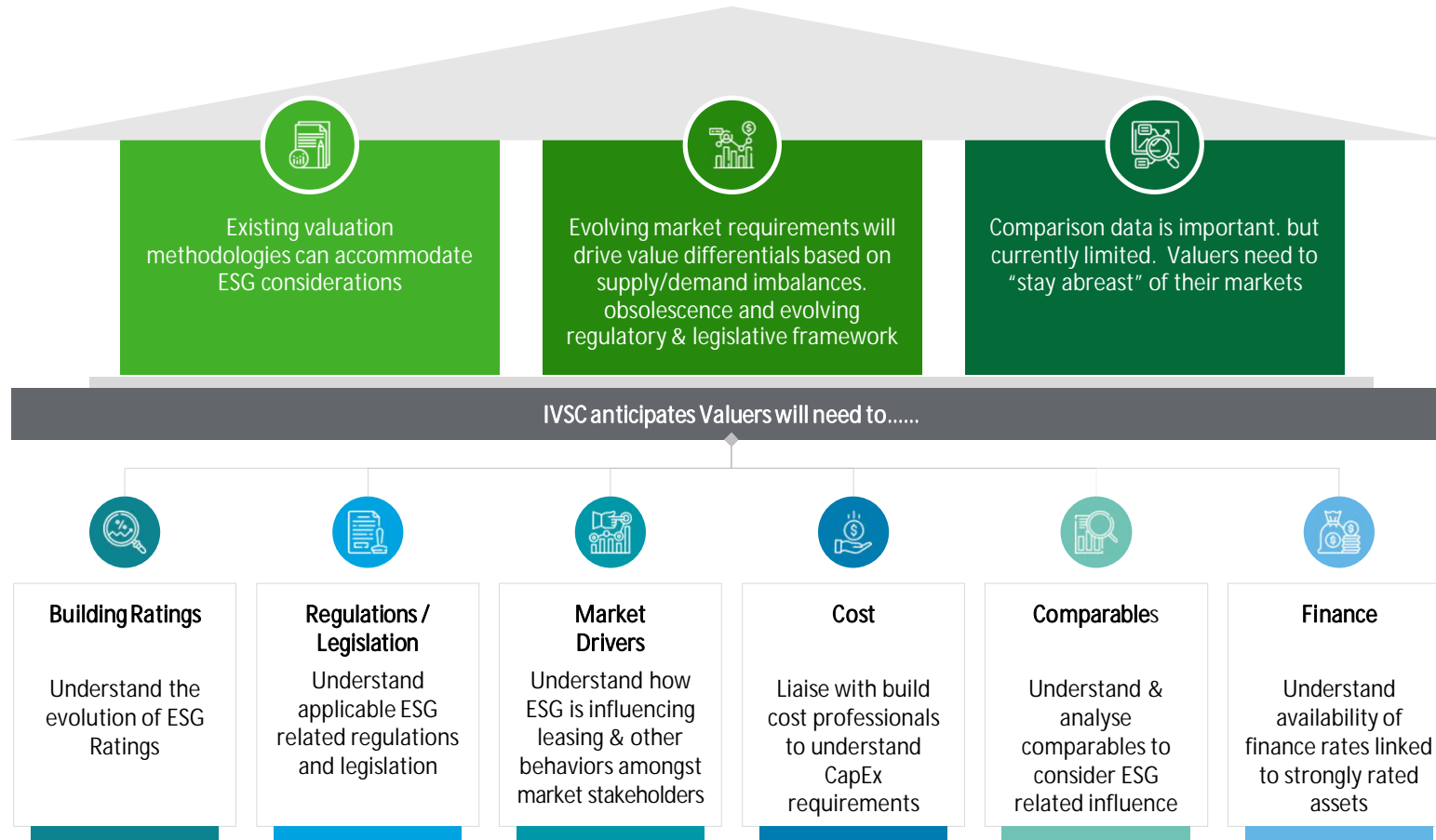


Sources: Deloitte EMEA Market Update, Oct 2022

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6. ESG & Valuation - IVSC; expectations moving forwards

- ✓ *IVSC's Perspectives Paper identifies key valuation drivers*
- ✓ *The consideration of such drivers which will require valuers to continue to build knowledge*



Sources: Deloitte EMEA Market Update, Oct 2022

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6. ESG & Valuation - The RICS Red Book; valuation process & reporting is evolving

- ✓ *Subtle but important updates were made in the January update with a strengthening of language & more explicit reference across the breadth of ESG*

VPS 2 Inspections, investigations & records

"... 'sustainability and ESG matters'. Such factors are commonly important in terms of market and societal perception and influence, and valuers should have proper regard to their relevance and significance in relation to individual valuation assignments."

VPS 3: Valuation Approach & Reasoning

"...wherever appropriate, the relevance and significance of sustainability and ESG matters should form an integral part of the valuation approach and reasoning supporting the reported figure."

VPGA 8: Valuation of real property interests Sustainability – assessing the implications for value

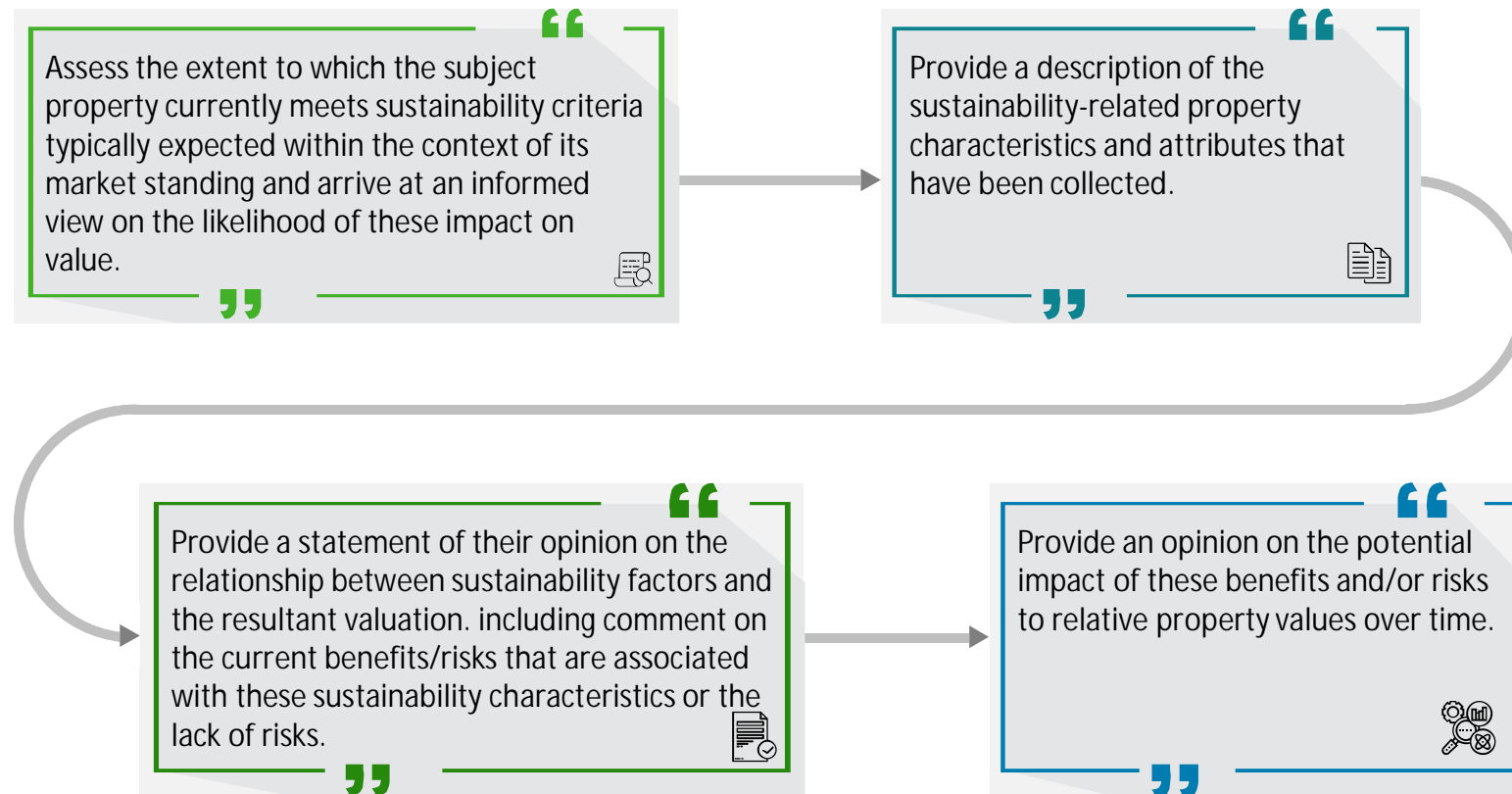
"Where appropriate, in order to comply with best practice in reporting, valuers are recommended to:

- *Assess the extent to which the subject property currently meets sustainability criteria typically expected within the context of its market...*
- *Provide a **description** of the sustainability-related property characteristics...*
- *Provide a statement of their opinion on the **relationship** between sustainability factors and the resultant valuation...*
- *Provide an opinion on the **potential impact** of these benefits and/or risks to relative property values over time...."*



6. ESG & Valuation - RICS "ESG & Valuation" Guidance Note; Transparency & Disclosure

- ✓ *Adopted in January 2022 the Guidance Note's primary aim is support valuers in being explicit in their identification & articulation of Sustainability & ESG issues, how they have influenced their thinking & to support the reporting process*

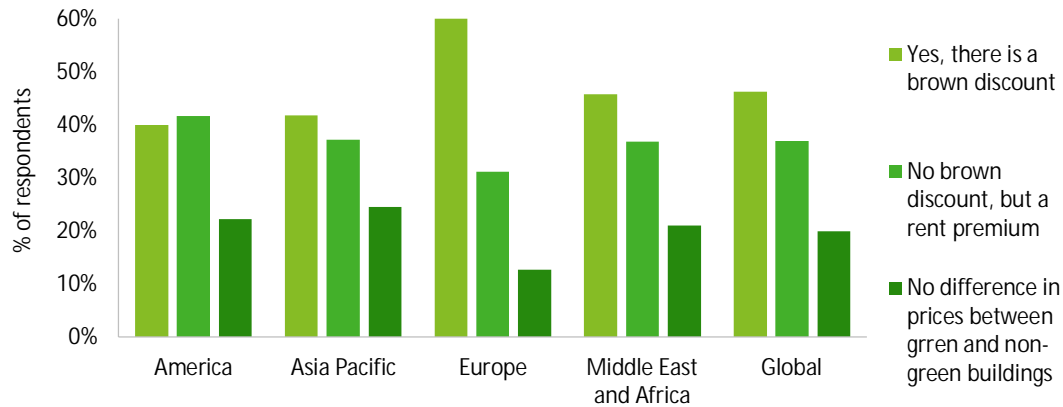


Source/Link to Guidance Note: https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/regulation/valuation/sustainability-and-esg-guidance-note_december-2021_v1.pdf

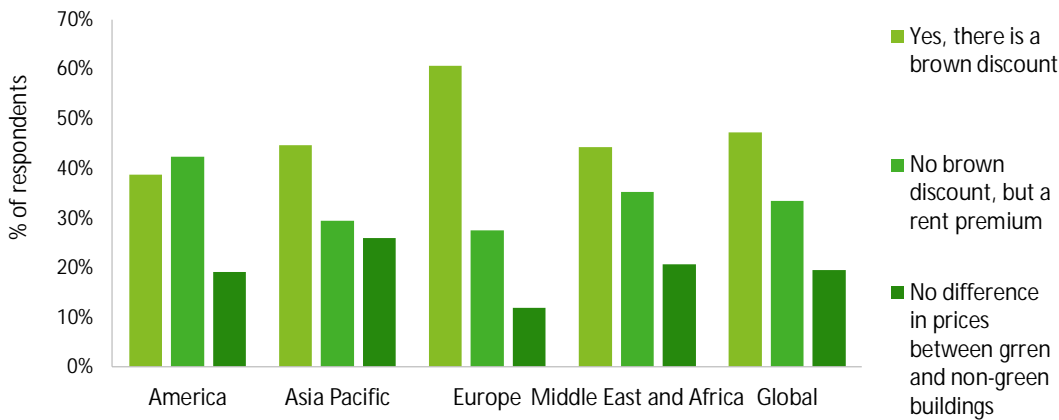
6. ESG & Valuation - Sustainability is believed to be influencing rents & prices

✓ *Growing recognition/acceptance of the concept of “Brown Discount”*

Rental levels



Risk pricing





c. 90% in Europe

...believe there to be a rental differential

...believe there to be a “risk pricing” differential

Source: RICS Sustainability Report 2022

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