Weekly PwC Expert Session via WebCast
13th May 2020, 10:00-11:00 am

Scenarios Real Estate – INTERNATIONAL OUTLOOK

- Markets Global & UK (English)
- Markets Asia (English)
- Markets China (English)
- Markets Europe
- Tax / Legal Europe
- Q&A Session

Questions to the PwC experts via e-mail to: de_covid19_pwc_real_estate@pwc.com
Updates and further informationen on https://blogs.pwc.de/real-estate/

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Impact of the World´s recovery – more downsize than expected?


- **World recovery** - If the global economy suffers, Germany is also affected, ranking third on exports with around 1,500 billion US dollars. Will the lack of demand also damage the real estate market?

- **International Real Estate** - Investments in Germany were at record levels prior COVID-19 crisis. Will Germany remain the "safe haven"?

- **Consumer mood is changing** - Declining demand and changed consumption flows can also affect the real estate industry. Will we see a change in behavior around the world?

- **New normal** - Do you remember: smart cities, exiting neighborhoods, inspiring offices, connectivity, mobility, … Will a new cycle start?

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Impact of the European recovery – more green than expected?

- **Regulation Europe** - With a view to the EU Green Deal, the first regulations are already taking effect on the financial market. The Sustainable Finance Action Plan changes a lot – Investor sentiment, Transparency, Financial disclosure on climate change – *How the world is responding?*

- **Investor behavior** - The question of all questions: Do you want to invest sustainably? As soon as the sales force is sworn to this question, the list of possible real estate investments is becoming short - *Will this restrict the inflow of liquidity into real estate funds?*

- **Opportunities and risks of ESG** - Banks and insurance companies are preparing, costs will rise if sustainability targets are not met. Demands on structures, processes, data and documentation will increase, Learning & Education will affect everyone – *How other countries are dealing with sustainability?*
What can we learn from other regions of the World?

**Solidarity** - Real Estate can now prove that it can provide added value for the common good!

**Ethic & social** - The crisis shows how seriously corporate social responsibility, corporate governance and ethical action are taken!

**Recovery** - COVID-19 becomes a catalyst for ESG and digitalization!

**Performance** - Investors are exerting pressure, especially with regard to systemic risks (climate, environment) and see that shares and bonds of companies with high ESG ratings have performed significantly better recently.

**Operations** - The real estate industry needs new standards, driven by values to get value.
Global Impact of COVID-19 on Real Estate markets


Global economy under pressure

- Economic outlook shows strong impact of the COVID-19 crisis on the GDP growth rates globally.
- First effects visible on global real estate markets through different levels of the pandemic.
- Global transaction market outlook affected by uncertainty.
- Navigate in the release of Lock-Down in UK and its impact on the Real Estate market.

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Latest World Economic Outlook growth projections

((percent change)

**World**

- **2019** Estimate: 2.9%
- **2020** Projections: -3.0%
- **2021** Projections: 5.8%

**United States**

- **2019**: 2.3%
- **2020**: -5.9%
- **2021**: 4.7%

**Euro Area**

- **2019**: 1.2%
- **2020**: -7.5%
- **2021**: 4.7%

**Middle East and Central Asia**

- **2019**: 1.2%
- **2020**: -2.8%
- **2021**: 4.0%

**Emerging and Developing Asia**

- **2019**: 5.5%
- **2020**: 1.0%
- **2021**: 8.5%

**Latin America and the Caribbean**

- **2019**: 0.1%
- **2020**: -5.2%
- **2021**: 3.4%

**Sub-Saharan Africa**

- **2019**: 3.1%
- **2020**: -1.6%
- **2021**: 4.1%

**Source:** IMF, World Economic Outlook, April 2020.

**Note:** Order of bars for each group indicates (left to right): 2019, 2020 projections, and 2021 projections.
New Sentiment: The current crisis affects a variety of issues and is intensifying the need for transformation.
Scenarios Real Estate Asia

Responding to the Crisis

- **Approach** across most Asian countries **differ** from the one in "the West"
- **Experience** from SARS 2003 let to early awareness and immediate containment measures since early February 2020 e.g. HK, Taiwan
- The case of **HK vs. NYC**
- Situation in certain **frontier markets** in **south Asia** currently **less clear** (e.g. Indonesia, Philippines)

General Trends

- **Global investors** likely to **shift capital flows** to those regions which manage the crisis most successful
- Thus far, **diverse impact** on **different countries** and real estate asset classes
- **Decline** in **commercial** real estate transactions, since investors are in a “wait and see” mode

Florian Hackelberg
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Investors remain positive on China’s long-term growth despite COVID 19. Situation in most cities starting back to “normal”

- **Office** - low impact so far with minor decline in rents and capital values, limited vacancy increase

- **Residential** - low impact, especially on owner occupied market, portion of rental market comparatively small in China

- **Hospitality & Leisure / Serviced Apartments** - high impact due to travel restrictions and potential adjustments in consumer behavior. Serviced apartment likely to follow in a later stage

- **Retail** - high impact but China already has a strong e-commerce consumer behavior

- **Logistics** - slight positive impact due to e-commerce growth

Scenarios Real Estate Greater China and Singapore
Scenarios Real Estate  
Greater China and Singapore

**Hong Kong SAR**

- Hong Kong’s economy had been shaken by **social activities** already prior to COVID 19 crises which let declining transaction volumes
- **Commercial Real Estate investments volume** fell by about **25 %** (y-o-y) in Q1/2020
- **Residential market dropped** in luxury high end sector but **stable** so far for **general housing**

**Singapore**

- **Hold and see** for many **investors**, hence limited commercial transaction that give evidence to decreasing prices (e.g. Alibaba acquired AXA Tower)
- **Residential** is **highly regulated** by **government** about 80% public housing scheme
- **Hotel** and **luxury retail** expected to **suffer most** among real estate sub sectors

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Source: Oxford Economics

*Asia Pacific: Impact of COVID-19 on 2020 Real GDP Growth Forecast*
Asymmetric shock on European economies

Economic impact on Europe

• Different downside of economy between main European economies
• Economies of France, Italy and Spain hit by enormous downturn. German economy with downturn but more stable
• Potential rebound of economies in 2021

Investors

• Investors with high equity ratios focusing on attractive properties
• Inflow of international capital expected?

Source: EC, European Economic Forecast. Spring 2020
Navigating through uncertain times

Uncertainty as driver of the transaction business

- **Lock-down measures** still in effect in a few countries
- **Watch out** for the 2nd wave by a few European states
- **Rebound** of economies expected – be prepared

Trends for investments

- **Change of supply chain/on-shoring** → increase in logistic space / last mile logistic
- **Living** → new ways of living and affordable housing
- **Food-retail** → large scale retailer
- **Highstreet retail** → reuse of upper floors
Update Tax - Europe

1. DAC6 - Postponement of the relevant initial notification deadlines of (at least) 3 months (proposal)

2. No State aid COVID-19 for companies using tax havens (proposal)

3. Overview of COVID-19 control measures in Europe

4. Material COVID-19 tax measures for real assets in selected EU countries

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Update Tax – Europa
No COVID aids for tax avoiders

**Polen, Denmark, France**

- Deny companies registered in offshore tax havens access to financial assistance from COVID-19 rescue packages
- Growing pressure on EU companies receiving bailout funds to spend taxpayers' money ethically (carbon reduction, no tax avoidance)
- ESG - principles also in the tax area

**European Commission**

- Confirms that individual EU countries are allowed to prevent COVID-19 aid to companies based in tax havens (EU blacklist)
**Update Tax - Europe - Overview of COVID-19 tax measures**

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<th>European Countries</th>
<th>Extension of the deadline for submitting tax returns</th>
<th>Deferral of CIT (advance) payments</th>
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**Special Measures for Real Estate Market**
Update Tax – Europe
Examples of material COVID-19 tax measures

Spain
Specific arrangements at regional level

- e.g.
- 25% reduction of property tax in Madrid tax under certain conditions

Italy
Tax credit

- 60% of the rent to be paid by tax payers who carry out business activity and are directly affected by the lockdown.
- However, with many restrictions (e.g. exclusion of supermarkets)
Lockdown measures: Trend to less restrictions

- As of May 11 many European countries including Italy and Spain are loosening their measures;
- Step plans in accordance with rates of new infections;
- Regional differences even within a country;
- Strict hygiene and distance regulations.

“Back to work” provisions and guidelines

- Introduction of specific provisions and guidelines to facilitate people returning to work;
- Details vary between jurisdictions and industries
  - Offices: e.g. separation of workspaces, predefined pathways;
  - Restaurants: e.g. name registration of customers; increased food hygiene requirements;
  - Retail: e.g. temperature measurement at the entrance; restriction of numbers of persons per m².

COVID-19 related court proceedings

- Shortened processes and focus on urgent fundamental proceedings (e.g. criminal proceedings);
- German administrative courts and Federal Constitutional Court with a huge number of court decisions against measures;
- Principle that hearings should be open to public via digital transmissions.
Tenant relief measures

- Several European countries have introduced specific rent relief measures;
- The applicable law of most of European countries does not in general provide for any rent relief in situations similar to the COVID-19 pandemic;
- Force majeure or similar regulations;
- Implementation of statutory provisions on the exclusion of termination of leases for payment default for residential and commercial leases where the non-payment is due to the COVID-19 pandemic;
- Financial support.

Our recommendations for lease negotiations

- Balanced and specific regulations in amendments to rental and FM contracts that offer sufficient flexibility;
- Legally compliant regulations/concepts on operator responsibility (Betreiberverantwortung) including documentation (increased need for regulation and action by landlords, tenants and FM);
- ESG and digitalisation;
- Awareness for potential future shutdowns in case of a second or third wave;
- Focus on ancillary costs (reductions due to partial closures; increases due to more health and safety measures);
- Compliance with health and safety regulations (e.g. changing laws need to be monitored).
Your questions to the PwC experts

- **Global Real Estate Markets**
- **Markets Asia**
- **Markets China**
- **Markets Europe**
- **Tax Update**
- **Legal Update**

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PwC information on COVID-19 and its impact on the real estate industry can be found here:

Current information about Real Estate and also COVID-19
https://blogs.pwc.de/real-estate/

Central email address for questions to PwC experts on de_covid19_pwc_real_estate@pwc.com

PwC Plus - All the information about real assets with push message function
https://pwcplus.de/

Weekly expert session via WebCast on current topics always Wednesday 10:00 to 11:00
PwC COVID-19 Services

**Operations**
- Management of the tenant and service portfolio
- Support in daily business
- Crisis Management

**Liquidity/Financing**
- Monitoring the liquidity status
- Review of the loan portfolio
- Support review grants and loan options
- Dealing with tax deferrals

**Scenario Analysis**
- Development of scenarios for dealing with the COVID-19 crisis
- Changes in the business model to ensure sustainable cash flows

**Strategic Impact**
- Expansion of IT systems & digitization
- Further development of the value chain, business model & assets
- ESG implementation

**PwC COVID-19 Real Estate Taskforce**
- Experienced, interdisciplinary team (Legal, Tax, Operations, Financials)
- Pragmatic and efficient project approach
- Possibility of short-term support and ‘Ready-to-Go’ support with a proven IT communication platform

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PwC Real Estate | WebCast COVID-19
COVID-19 Impact on Real Estate

Weekly PwC Expert Session via WebCast

20th May 2020 from 10:00-11:00 am

Registration via Link or via E-Mail: