Real Estate
BEYOND COVID-19

Weekly PwC Expert Session via WebCast
17. Juni 2020, 10:00-11:00 Uhr

The Netherlands & Real Estate Digital

- Scenarios Real Estate Markets
- Market Insights: The Netherlands
- COVID-19 and PropTechs
- Digital Incubator
- Digital Ecosystem
- Update Real Estate Monitor
- Update Tax
- Q&A Session

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

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Repair. Rethink. Reconfigure.

- **Repair** – The economic stimulus package has been launched and initial complexities are being discussed. But the real estate industry will profit in the end, as we reported in the last webcast. So today we will focus on Rethink and Reconfigure.

- **Rethink** – Today we will focus on markets and asset classes in the Netherlands. A country, very innovative, open to new things and always worth taking a look at developments.

- **Reconfigure** – Digital has experienced a comprehensive push through COVID-19. Trends and future topics are derived from this. Digital Real Estate also benefits from the crisis catalyst. But it is not only technology that is making a quantum leap; upskilling of executives and teams also plays a role in crisis-induced development.
PwC & Digital - does it fit?

Sure! - here is an example

• CoronaManager as a supporter for the return to everyday business life also applies to football clubs - The Covid 19 pandemic continues to have serious consequences for ecosystems such as companies or sports clubs and their workforces. CoronaManager, the corona tracking app developed by PwC and partners, can ensure that operational processes and the cooperation of people in companies are maintained as smoothly as possible. The technical solution is fully functional and meets all DSGVO requirement.

• State-of-the-art professional football meets in-depth digitisation know-how - “The cooperation between our firms proves once again that the Bundesliga football club is once again living up to its pioneering role in the development of digital models in the Bundesliga,” says Ulrich Störrk, Chairman of the Board of Managing Directors of PwC Germany, about the cooperation.

• Eintracht Frankfurt’s digitisation strategy - PwC will support the traditional football club in selected other areas of its digitisation strategy. This includes, for example, the establishment of an eSports area from the beginning of 2019. Further components of the cooperation are as follows: PwC will enrich the series of events of the #EintrachtDigital football club and also provide significant support in the implementation of planned Eintracht Frankfurt digital campaigns.
PwC's CoronaManager - ready for upskilling

PwC’s Digital Solution for future health and security

- **Repair** – Corona Apps in Germany and other countries are currently focusing on the pandemic and the identification of infection chains. But actually, such an app can do more.

- **Rethink** – Health, Security and Wellbeing will continue to move into the foreground, because you want to be prepared in case the 2nd wave or new challenges come: Who has access to the building and who doesn’t? Is the air in the building good? What should users know? Are there aspects in terms of sustainability?

- **Reconfigure** – A lot is possible digitally. It is now a matter of making more of it. Recognizing the added value and bringing together business, experience and technology will have an impact on the real estate industry. Be part of it!
Skilling me softly!

New Work – New Skills

- **Assess** – Answer a few questions about your digital knowledge and behaviours to understand your strengths and weaknesses in the digital world and how you compare to your competitors.
- **Learn** – Choose a fitness plan that is right for you. Learn through short, bite-sized content. Explore content from trusted sources. Gain knowledge from over 60 topics and 300 artifacts.
- **Grow** – Watch your digital fitness score rise. Stay on track every week with a personalized plan and watch your digital skills improve.

TEST IT!
FOR FREE!
PwC invests in education! Together with DBU, we are now offering our clients digital education outside the box

**Study rethought!**

*New BSc programs geared to the digital business world*

- Data Science & Business Analytics
- Digital Business Management
- Digital Marketing & Communication Mgmt.
- Franchise Management

Further study programmes in planning

**Further education Next Level**

**The concept.**
Employees learn in flexible digital learning sprints, easily integrated on-the-job, learning anywhere & anytime

**Your company - your training.**
Each Learning Spirit can be individualized for each company and linked to individual learning journeys.

**The certificates.**
Every Lern Spirit ends with a badge. Several badges can be combined to academic certificates (ECTS credit points can be awarded).

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Stefan Holtze
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BXT – PwC Digital Solutions

**Business. Experience. Technology.**

- **Reconfigure** – The most extraordinary floor of Frankfurt’s Tower 185 is on the 34th floor. This is where multidisciplinary PwC teams develop the digital solutions of tomorrow in the Experience Center. The team of creative people, software developers, software architects and engineers make creative and innovative solutions tangible for staff and clients.
- **Real Estate Solutions - today at Deep Dive**

**PropTech’s Digital Accelerator**
Get RE@di!
Covid-19 in the Netherlands

Current situation

• ‘Intelligent’ lockdown per 23 March 2020.

• Schools, sport accommodations, cinemas, restaurants and public amenities closed. Group gatherings in public were forbidden.

• The Dutch government directly started emergency funds for freelancers and companies who lost their revenues due the lockdown.

• June 1st, the restrictions on public life are reduced: schools are open, and terraces and retail allowed to open under conditions of maximum number of people

• July 1st, sport facilities will open and offices slowly open up

• General long term regulation: keeps 6 feet distance

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Economic impact

GDP is dropping dramatically

- Total GDP in 2020 is expected to be 6.4% lower than 2019. In 2021 the total GDP is expected to increase 3.3% again.
- The economy is most likely to recover within 2 years. Economic recovery will be more gradually than the rapid economic downturn.
- A potential second lockdown will impact the 2021 GDP to decrease -7% to -9% compared to 2019.
- Compared to a 1.7% budget surplus in 2019, the Dutch budget shortage in 2020 and 2021 will be resp. -7.6% and -4.7%.

Unemployment rates rapidly up

- March 2020: unemployment rate was 2.9%, the lowest rate in history.
- June 15th 2020: expectation are an increase to 5%-6% in 2020 and >7% in 2021.
  A potential second lockdown would impact unemployment rates up to 10%.
- Freelancers are impacted first, but salaried employees will be hit at the moment bankruptcies will occur as well.

Consumer confidence

- Decline to -31 in May 2020, far below the 20-years average. Projections aren’t positive.
Residential – still investments ongoing

Private sector about to turn

- **Supply of private resi's** is increasing since March 2020 by 15% - 25%.
- June 1st 2020 banking expectations: due to a strong start of 2020 individual sales prices slightly higher y-o-y. But 2021 sales prices decrease by -2% and in 2022 around -4%.
- Consumer confidence is highly impacted by expectations of unemployment and therefore impacting the sales prices of residential negatively.

Investment market standing strong

- **Property loans**: increase of interest rate of +20 to +40 basis points.
- January 2020 – May 1st 2020: € 2 billion investment volume in the residential market.
- The Dutch residential market is resilient due to the scarcity and the payment morale. New developments account for a big contribution in this investment volume.
- Residential investments are expected to continue equally in the second half of 2020.
- **300,000 residential shortage**! In 2020 expectations of 30,000 granted permits short.
- 1. COVID-19 as well as 2. the nitrogen file and 3. polyfluoroalkyl (PFAS) file impact buildings permits negatively.

Selection of investment transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Place</th>
<th>Address</th>
<th>Purchaser</th>
<th>Units</th>
<th>Acquisition price</th>
</tr>
</thead>
<tbody>
<tr>
<td>May ‘20</td>
<td>Zeist</td>
<td>Utrechtseweg</td>
<td>Catella</td>
<td>94</td>
<td>€18 mln</td>
</tr>
<tr>
<td>Apr ’20</td>
<td>The Hague</td>
<td>B. De Feithplein</td>
<td>Woonhave</td>
<td>73</td>
<td>€ 21.9 mln</td>
</tr>
<tr>
<td>April ’20</td>
<td>BoZ</td>
<td>Onder de Jefkes</td>
<td>Duinweide</td>
<td>14</td>
<td>€ 3.5 mln</td>
</tr>
<tr>
<td>March ‘20</td>
<td>Nationwide</td>
<td>Patrizia portfolio</td>
<td>Heimstaden</td>
<td>2,023</td>
<td>€ 375 mln</td>
</tr>
<tr>
<td>March ‘20</td>
<td>Rhoon</td>
<td>Hofnar</td>
<td>Aegon</td>
<td>84</td>
<td>€ 21.6 mln</td>
</tr>
</tbody>
</table>
Retail affected the most!

**Market rents are suffering heavily**

- Retail market rents already **downward pressure in 2019**.
- Generally expected to **continue to decrease in 2020**.
- Secondary and tertiary locations market rents will **significantly drop** (probably up to -50%).

**Supply and demand misbalance**

- Multiple fashion **bankruptcies** in 2020: Sneakers (40 stores), Baboos (60 stores) and Didi Fashion (81 stores). Many mainly **new food- and leisure companies will leave** in 2020/2021. Sales of **luxury goods** are affected heavily.
- Nationwide vacancy rose by 1% in 2019. **Vacancy will rise further in 2020**.

**Supply and demand misbalance**

- Loans for new investments and revisions are almost **impossible**.
- Significant upward yield shifts: it is estimated that **market values** will decrease in 2020 by **-20% to -40%** due to COVID-19.
- Neighbourhood shopping centres and supermarkets continue to be rather resilient.
Logistics – not really impacted yet!

Development of market rents

- Market rents prime logistics **stable in 2020**. Pressure on non-prime locations.

Demand for prime locations

- Demand for **prime logistics** and **new developments** still applicable.
- **E-commerce, same-day-delivery** and **last mile delivery** drive growth.
- B2B logistics, automotive and airfreight significantly decreased.
- **Take up in 2020** is expected to be **-15% to -30% lower** compared to the record breaking 2019.

Investment market

- Only the larger international investors continue activities in a declining market.
- **Market values** are expected to **decrease by 0% to -20%** due to COVID-19.
- **Prime logistics**: minor changes in yields.
- **Non-prime logistics**: upward yield pressure of **+20 base points in H1 2020**.

<table>
<thead>
<tr>
<th>Date</th>
<th>Place</th>
<th>Address</th>
<th>Purchaser</th>
<th>Acquisition price</th>
</tr>
</thead>
<tbody>
<tr>
<td>June ’20</td>
<td>Nationwide</td>
<td>Next Level port.</td>
<td>AXA</td>
<td>€ 72 mln</td>
</tr>
<tr>
<td>June ’20</td>
<td>Den Bosch</td>
<td>Rietveldenweg</td>
<td>Intervest</td>
<td>€ 12.1 mln</td>
</tr>
<tr>
<td>May ’20</td>
<td>Roosendaal</td>
<td>Tussenriemer</td>
<td>Verdion</td>
<td>€ 15.2 mln</td>
</tr>
<tr>
<td>May ’20</td>
<td>Nationwide</td>
<td>M7 port.</td>
<td>DREAM</td>
<td>€ 140 mln</td>
</tr>
</tbody>
</table>
Office – no big transactions taken place so far!

**Market rents no longer rise**
- The continuous rise in office market rents has stopped to a stable market rent as from March 2020.

**Uncertainty on future demand**
- Before Covid-19 vacancy was historically low due to high take up and transformations into residential.
- WALTs are often long term (>5 years), only long term impact on vacancy if the unemployment rates continue to rise + working from home is to stay.
- Office users are currently rethinking their corporate housing strategies.
- Faster implementation of combination of Activity Based Working and the 6 Feet Work
- Implementation of smart solutions like reservation apps and live tracking
- A future loss of demand is yet to be seen.

**Investment market almost non-existing**
- Investment volume since March 2020 decreased >-50%.
- Take up decreased -30% in the same period.
- Covid-19 isn't the only reason, a mismatch in supply and demand impacts too.
Win PropTechs with focus on Health & Security, Space & Collaboration

**COVID-19 as accelerator of digitization**

PropTech market benefits strongly from changing requirements and increasing digitalization pressure in 3 clusters

1. **Health & Security**
   - Air Sensor Technology
   - Health monitoring
   - Innovative hygiene technology

2. **Space und Property Management**
   - Workplace & Facility Management
   - Real estate digitization
   - Civil engineering (ConTech)
   - Logistics and planning

3. **New ways of working**
   - Contactless working
   - Workflow und Zusammenarbeit
   - Communication platforms

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Investors continue to trust PropTechs - high willingness to invest exists

**Financing. Competition. Market consolidation.**

- Investor confidence remains strong, but volatility and uncertainty in the market has slightly reduced financing optimism and slowed the growth of portfolio customers.
- Financing rounds are delayed or take place at a discount of up to 20%. Nevertheless, every second investor would like to invest more in 2020 than in the previous year.
- 80% of PropTechs believe that financing will be easier after the crisis than before.
- Startups are experiencing increased competition.
- Market consolidation is expected.

![Chart showing Startup CEO & Investors Confidence Index](chart.png)

*Source: MetaProp Confidence Index & PwC Research*
PwC Digital Incubator - Implementing innovations quickly and agile


Example Assets/Tools:

- Citizen check-in (self-service portal for digital re-registration when changing residence)
- Grant Navigator (Automated process for supporting companies affected by the Corona crisis when applying for government grants)

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Onboarding in the PwC Real Estate Ecosystem possible at any time

Make the world your digital office & meeting room.

• In times of increasing decentralisation of the office, digitalisation becomes even more important

• Market observations:
  – Granular market with monolithic systems
  – Increased willingness to cooperate with PropTechs, ConTechs and other providers (keyword: API cooperations)

• User Journey:
  – Different solutions on board an integrated platform
  – Without media breaks in the one-stop shop (Ecosystem)
  – Modular design of an own system (cloud based)
  – Reduced costs when implementing new applications and increased flexibility
  – PwC Analyzer - from Big Data to Smart Data

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Data matters!

**Data transparency is key - not least for ESG**

**Requirements**
- Ensuring data availability and consistency
- Growing demand for data due to extensive reporting requirements (including for ESG) - at object and company level

**Targets**
- Bundling of the relevant part of AuM in Germany in the think tank Get RE@di!
- Engagement in working groups like gif, ZIA or RICS
- Development of solutions to overcome obstacles to digital transformation
- AI-readiness of the existing data basis
- Digital Twin - on the way to a uniform data standard
PwC’s Real Estate Institute
PwC Real Estate Monitor

PwC Real Estate Index

- The PwC Real Estate Index for German residential property companies recovered to pre-COVID-19 level on its highest value since mid 2019 (+2.4% YTD / +6.0% last month) and showing a “V-shape”.
- The Commercial Index slightly fell (-2.0%) in the last month and seems to develop more like a “L-shape” COVID-19 scenario or at least the start of an “U-shape”.

Real Estate Monitor, download your free copy here:
https://www.pwc.de/en/real-estate/real-estate-monitor.html
Global WACC fell strong

WACC

- The average Real Estate WACC for German property companies is starting to fall again (-0.1% points; due to rounding only visible in bandwidth of the graphic), which it continuously did before the COVID-19 crisis.
- The global average Real Estate WACC again fell strong by 0.4% points to 4.8%.
- The gap between German and global WACC, which widened last year, is now getting significantly smaller again.
Explored multiples heading to contrary directions

**FFO 1 multiples and Price/EPRA NAV ratios**

- The ratios relate to financial years 2018 and 2019 and their year-end closing prices. In addition, the current share prices (as of 31 May 2020) were put in relation with TTM2020 (Trailing Twelve Months) key figures.

- The FFO 1 multiple decreased for commercial real estate companies (-23.3%), but slightly rose for residential real estate companies (+0.4%).

- The Price/EPRA NAV ratio also decreased for commercial real estate companies (-21.7%) and stayed constant for residential real estate companies (-0.1%).
Companies are affected individually by the crisis

**FFO 1 multiples and Price/EPRA NAV ratios**

- The table on the right shows the individual FFO 1 multiples and Price/EPRA NAV ratios of our peer group by company.
- The groups of residential and commercial real estate companies are comparable within their groups but still show individual effects due to the COVID-19 crisis.

<table>
<thead>
<tr>
<th>Company</th>
<th>FFO 1 multiple</th>
<th>Price/EPRA NAV ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADLER Real Estate AG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADO Properties SA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deutsche Wohnen SE</td>
<td></td>
<td></td>
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<tr>
<td>Grand City Properties SA</td>
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<tr>
<td>GSW Immobilien AG</td>
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<td>LEG Immobilien AG</td>
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<tr>
<td>TAG Immobilien AG</td>
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<tr>
<td>Vonoř SE</td>
<td></td>
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</tr>
<tr>
<td><strong>25 % -Percentile</strong></td>
<td>17.5x</td>
<td>0.61x</td>
</tr>
<tr>
<td><strong>50 % -Percentile</strong></td>
<td>19.9x</td>
<td>0.84x</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>22.9x</td>
<td>0.98x</td>
</tr>
<tr>
<td><strong>75 % -Percentile</strong></td>
<td>29.6x</td>
<td>0.94x</td>
</tr>
<tr>
<td><strong>Residential</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock price as of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.12.2016 FY2019</td>
<td>13.9x</td>
<td>0.63x</td>
</tr>
<tr>
<td>31.12.2019 FY2019</td>
<td>12.8x</td>
<td>0.48x</td>
</tr>
<tr>
<td>31.05.2020 TTM2020</td>
<td>11.4x</td>
<td>0.50x</td>
</tr>
<tr>
<td>31.12.2016 FY2019</td>
<td>0.83x</td>
<td>0.41x</td>
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<tr>
<td>31.12.2019 FY2019</td>
<td>0.83x</td>
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<td>0.83x</td>
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<td>31.12.2016 FY2019</td>
<td>0.87x</td>
<td>0.53x</td>
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<td>0.87x</td>
<td>0.53x</td>
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</tbody>
</table>
**Tax Update on DAC-6 reporting requirements**

**Existing EU - Directive**

- **Two categories of reporting deadlines**
- Not relevant cases - no notification
- Old cases - notification by 31 August 2020
- New cases - 30 days after implementation

**EU Commission - Proposal of 8 May 2020**

- ECOFIN decides at short notice (details known thanks to states like Cyprus, Luxembourg or Belgium, changes compared to the proposal of the EU Commission)
- Possibly three categories of reporting deadlines
- Not relevant cases - no notification
- Old cases - Notification until 28 February 2021 (extended by 6 months)
- Incidents - notification by 30 January 2021 (extension up to 6 months)
- New cases - 30 days after implementation

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**Existing directive**

Cases not relevant | Old cases | New cases
---|---|---

**New proposal**

Cases not relevant | Old cases | Incidents | New cases
---|---|---|---

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DAC-6 Reporting deadline in the EU context

**European Union**

- No obligation for states to extend the deadlines (only one option)
- EU Commission proposal may deviate from the final regulation
- **ECOFIN decides unanimously = negotiations, concessions**
- The final version is not yet known. Update necessary!
- The European Parliament only gives its opinion. The opinion is not binding.

**Effects on Germany**

- **Corona Tax Assistance Act** (of 28 May 2020; authorisation for the Federal Ministry of Finance to **extend the deadlines** by a letter from the Federal Ministry of Finance, insofar as EU law makes this possible):
  - Extension until 1 October 2020 ("new cases")
  - Extension until 30 October 2020 ("old cases")
- "Interim extension" is generally possible.

**Deadlines to be extended**

- Sweden
- Luxembourg
- Belgium
- Cyprus
- Hungary

**Deadlines not to be extended**

- Countries that have already implemented DAC6 (e.g. Poland, "Over-Implementation")
- States which do not want the extension (Austria?)

**Already announced:**

- Sweden
- Luxembourg
- Belgium
- Cyprus
- Hungary
Real Estate
BEYOND COVID-19

We go into the summer break and invite you to join us again from August 2020!

Registration via Link:
Good bye!  
Thank you!  
Take care!  
See you!

Susanne Eickermann-Riepe  
Chairman of the Board RICS Deutschland
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/](https://blogs.pwc.de/real-estate/)

- Central email address for questions to PwC experts on [de_covid19_pwc_real_estate@pwc.com](mailto:de_covid19_pwc_real_estate@pwc.com)

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

PwC E-Mail
COVID-19 Expert Contact:
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