New Normal –
the future of the
real estate industry

WebCast 16. September 2020 10:00 – 11:00 am

Impact of ESG in Real Estate

E – ESG impact on capital markets:
• Property valuation and ESG strategy
• Deep Dive Energy – Update development of energy law!

S – Update People & Organisation – Labour law und New Normal!

G – ESG and taxes

Registration via LINK: www.pwc-events.com/Real-Estate-WebCast
Updates and information also on https://blogs.pwc.de/real-estate/
Negative impacts in all environmental dimensions....
...leads to numerous initiatives and changes in the mindset.

ESG Strategie as clamp function

- **Legislators and regulators** have recognized the need for action (e.g. EU Green Deal, energy and tax laws)
- **Own employees, tenants and investors** expect a strategy and a positive contribution
- **ESG Strategy** gives guidance to stakeholders (internal and external)
- Many aspects of ESG are already implicitly present
Real estate valuation on the capital market (RE-Monitor)

PwC Real Estate Index

- As the September issue of the Real Estate Monitor shows, **valuations of German residential property companies** are reaching a **new all-time high** despite COVID-19.

- In contrast, the **values of commercial property companies** have lost around a **quarter of their market value** since the beginning of 2020.

- In August, the PwC index for **residential real estate (+8.2% to 416 points)** more than **significantly outperformed the index for commercial real estate (+0.2% to 277 points).**

- The index chart shows that commercial real estate continues its **sideways movement** and remains in the L-shaped crisis scenario.

- Before the crisis, the values for **commercial and residential real estate companies** were almost the same.

https://www.pwc.de/en/real-estate/real-estate-monitor.html
Residential above pre-crisis level – Commercial still in a weakened state!

**Sector KPIs**

- Analysis of the sector-specific real estate KPIs FFO 1 and EPRA NAV from the financial years FY2018, FY2019 and TTM2020, i.e. Q3 2019 to Q2, of 18 key players in the German real estate market -> TTM: After 12 months

German and global WACC remain increased!

Weighted Average Costs of Capital

- The WACC is the return required by investors (both debt and equity) taking into account the systematic risk characteristics of the business.

- The derived WACC is an average value of a peer group of German or international listed property companies.

- Last month, the average WACC for German real estate companies rose slightly by +0.2 percentage points for the first time since March 2020.

- In the same period, the global average real estate WACC fell by -0.1% points - spread between the German and the global market narrowed slightly!

Real Estate Monitor
PwC's Real Estate Institute

Weighted Average Cost of Capital (WACC)

Source: PwC "Real Estate Monitor"
Assessment in the context of COVID-19-asset classes

Strongly differentiated influence in asset classes

• **Asset classes** are affected to varying degrees by COVID-19
• Residential and senior citizens' properties are much more resilient
• **Commercial real estate** is much more affected by the crisis – especially retail, hotel and entertainment, but also office
• **Logistics** seems to be the exception so far and continues to be in high demand

Consideration in the assessment

• **Disclaimer** in the expert opinions e.g. RICS depending on the *reason for the valuation* and background
• **Adjustment of valuations**, individual parameters such as interest rate, consideration of lease contract adjustments where necessary
Energy matters – the regulator knows that too!

Update on legal initiatives

- **Renewable energies in the building sector**: The amendment of the *Renewable Energy Sources Act* (*EEG 2021*) could give new impetus to tenant electricity

- **Requirements for buildings and measuring technology**: *Building Energy Act (GEG)* comes into force on 01.11.2020 - for the first time the *neighbourhood related energy management* is also regulated by law

- **Heat supply in change**: The introduction of a *national CO2 price system* on 01.01.2021 will make gas and district heating more expensive as a further cost component

“How can the real estate industry take advantage of opportunities from tenant electricity projects? Just listen to the podcast.”

Peter Mussaeus, Energierechtsanwalt und Partner bei PwC Legal in Düsseldorf, im AE Einfach Dezentral, der Green Future Podcast

Sophia Truong
Senior Associate, PwC Legal, Germany
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Decarbonization of the real estate industry – GEG and EEG offer good approaches

**Renewable energy in buildings**

- **Reduction of the EEG levy** for own consumption
- Tenant electricity subsidies for **locally generated electricity** and electricity supplied directly to tenants
- **Feed-in tariff for electricity not consumed by tenants or for own consumption**; market premium for directly marketed electricity
- The amendment of the EEG ("EEG 2021") could give a new boost to the flow of tenants and **increase the economic attractiveness**
  - Confirmation of the supply chain model
  - Limitation of the plant summary
  - Increase of the tenant electricity subsidy

**Requirements for buildings and measurement technology**

- **Building Energy Act (GEG)** comes into force on **01.11.2020** and contains in particular requirements for the energy quality of buildings - for the first time the neighbourhood approach is also regulated by law.
- **GEIG demands charging points or infrastructure for electric vehicles for parking spaces** in or on buildings. Federal support for the development of private LIS.
- **Amendment of the Heating Costs Ordinance (HKVO)** to implement comprehensive requirements for the remote readability of heat and hot water meters (submetering) in accordance with the specifications of EU Directive 2018/2002
- **As of 01.01.2021, the ANe has the right to choose within the framework** of the real estate model - inclusion of submetering services possible
Heat supply in change – increase in decentralized supply concepts

Focus on decentralized supply concepts

- **Operation bans for oil boilers and restrictions for conventional boilers** according to the GEG (Building Energy Act)

- **Increase in alternative and decentralized heat supply concepts** (building or neighbourhood-related): combined heat and power generation, connection to public district heating networks, contracting, heat pumps, electrolysis (hydrogen), ...

- An essential aspect of the conversion of the heat supply is to ensure that the costs of the heat supply can be passed on to the tenants

- The introduction of a national CO2 pricing system on 01.01.2021 will make gas and district heating more expensive as a further cost component

- **BAFA (Federal Office of Economics and Export Control)** funding opportunities, e.g. for heating with renewable energies (e.g. solar thermal energy)
Labour law in New Normal

Update People & Organization

• **State support measure** – short-time working allowance – Extension until 31.12.2021 planned

• The amount of the subsidy to the short-time allowance as well as requirements for the quote of short-time allowance are **subject to constant legal changes**

• **Activity in the Home Office/ Flex Work** has become established in many companies


[https://www.pwc-events.com/coronavirus](https://www.pwc-events.com/coronavirus)

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Catalogue of measures for employers: support in case of financial bottlenecks and to make work more flexible

<table>
<thead>
<tr>
<th>Measures</th>
<th>Now</th>
<th>Short-term</th>
<th>Mid-term</th>
<th>Long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarantine</td>
<td>Reduction of overtime and holiday</td>
<td>Short-time work*</td>
<td>Staff reductions</td>
<td></td>
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<tr>
<td>Home office</td>
<td>Reduction of salary components, bonuses</td>
<td>Reconciliation of interests, social plan transfer company</td>
<td>Dismissals</td>
<td></td>
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<tr>
<td>Deferred compensation / Salary against holiday</td>
<td>Exemptions</td>
<td>Dismissals for operational reasons</td>
<td>(Partial) plant shutdown</td>
<td></td>
</tr>
<tr>
<td>Continued payment of remuneration (in case of illness)</td>
<td>Termination of fixed-term employment contract / temporary work</td>
<td>Termination agreements</td>
<td>Calculation of HR costs</td>
<td></td>
</tr>
<tr>
<td>Child health benefit</td>
<td>short-time work*</td>
<td>Partial retirement contracts</td>
<td>Use of insolvency law</td>
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<tr>
<td>Sickness benefit (from 6th week)</td>
<td></td>
<td></td>
<td>Insolvency money</td>
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</tbody>
</table>

| Financial grants | | Transfer short-time work allowance | Liquidity/ financing audit |
| Reimbursement of continued remuneration | Short-time allowance* | Unemployment benefit | Bridge financing |
| | | Insolvency money | Subsidies/ guarantees/ insolvency compensation/ respite |

|--------|----------------|-----------------------------|-----------------------------------------------|--------------------------------------------------|

*New draft law on employment protection
Increasing importance of tax as part of ESG

Overview of actions related to ESG

- Paris Convention on Climate Change 2015
- 2030 UN targets for sustainable development
- In the field of tax law, there are numerous measures with tax implications
- GRI 207 – Tax 2019 is of particular importance for ESG – more transparency in the design and combating tax avoidance

I. BEPS Action Plan
   - 13 Country-by-Country Reporting (CbCR)

II. BEPS Action Plan 12 and DAC-6
    - no extension of deadlines in GER due to Corona crisis

III. ATAD and ATAD2
     - ATADUmsGE – 10.09.2020

IV. CSR-Guideline (2014/95/EU)
    - Global Reporting Initiative standards [GRI standards] as a framework
    - CSR Directive Implementation Act

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Many building blocks already pay for ESG!

Objectives of the measures

- **Developing Germany** into a **leading sustainable finance location**
- **Implementation of the BaFin announcement** - Increased demand for sustainability in risk management
- **(Re)gain the necessary confidence** in a functioning tax system
- **The aim is: "sustainability taxation" and adaptation of internal processes in companies**

### Global Reporting Initiative

**GRI 207: Tax 2019**

<table>
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<tr>
<th>Disclosure 207-1</th>
<th>Disclosure 207-2</th>
<th>Disclosure 207-3</th>
<th>Disclosure 207-4</th>
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<tbody>
<tr>
<td>Approach to tax</td>
<td>Tax governance, control and risk management</td>
<td>Stakeholder engagement &amp; management of concerns related to tax</td>
<td>Country-by-country reporting</td>
</tr>
<tr>
<td>Management approach disclosures (Core option)</td>
<td></td>
<td></td>
<td>Topic-specific disclosure (Comprehensive option)</td>
</tr>
</tbody>
</table>

Schnitger, Holle, Kockrow, DStR 2020, 1524

Direction → New obligations
The components of tax compliance have an impact on the entire organization.

**Monitoring & Improvement**
- Effectiveness test
- Continuous improvement

**Communication**
- Reporting
  - (Dimensions: structure, content, depth, representation etc.)

**Program**
- Appropriate preventive measures
  - (e.g. risk control matrix)

**Process**
- Optimization of process organization

**Culture**
- Tax Code of Conduct

**Objectives**
- Consistency
- Comprehensibility
- Measurability

**Organization**
- Accountability
- Availability

**Risiks**
- Identification
  - Transparency of the preliminary processes

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PwC Real Estate | WebCast
16. September 2020

PwC
Your questions to the PwC experts

- Capital markets
- Real Estate Monitor
- Deep Dive Energy
- Update People & Organisation
- ESG & Tax

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PwC information about the New Normal and its impact on the real estate industry can be found here:

News on the subject of real estate also in the context of New Normal
https://blogs.pwc.de/real-estate/
www.pwc.de/de/real-estate/pwcs-real-estate-institute.html
https://www.pwc.de/de/real-estate.html

Email address for questions to PwC experts on the subject of New Normal
de_covid19_pwc_real_estate@pwc.com

PwC Plus – Information about real assets with push message function
https://pwcplus.de/

Fortnightly expert session via WebCast on current topics
Wednesday 10:00 to 11:00
The new normal – the future of the real estate industry

Next session on 30th September from 10:00 am

Topic: “Doing Real Estate in Nordics”

Registration via Link:
www.pwc-events.com/Real-Estate-WebCast