New Normal – the future of the real estate industry

WebCast 30. September 2020 10:00 – 11:00 Uhr

Doing Real Estate in the Nordics

- **Capital flows** – origin of the capital invested in Nordics
- **Insights from the Nordics Real Estate markets**:
  - Nordic economical view
  - Selected topics – business environment, capital markets, ESG & outlook
- **Investing in the Nordics** – a German and Nordics tax perspective

Registration via LINK: www.pwc-events.com/Real-Estate-WebCast
Updates and Informationen here: https://blogs.pwc.de/real-estate/
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<thead>
<tr>
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<th>Position</th>
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PwC Real Estate WebCast

30. September 2020
Capital invested in the Nordics originates in GER, US & UK

Nordics seems to be a safe investment harbor

- **Direct German investments constantly rose** during the last years – **2020** pretends to reach **new peak** (€ 4,5 bn. YTD)
- **British** and **American investors historically always** strongly represented
- **Stability first** – macroeconomically fundament far ahead compared to other European countries – this attracts many investors groups (mostly institutional characterized but also listed and private prevailing)
- **Sweden as most attractive** investment location for **German** investor groups
- **Allianz Real Estate** and **DWS** with large **Nordic real estate stakes** in their portfolios
- **Ongoing trend of investing local** – increasing figure of Nordic institutionals investing domestic (e.g. Cavendo, Sagax, Nordika)
The Nordic economy proved resilient during Covid-19

Economic situation in the Nordic’s countries

- **The Nordics have coped relatively well** with the Covid-19 crisis:
  - **Country shutdowns** (economic activity decreased in most sectors) but with **extensive public financial support** being provided for the business and employees
  - **Higher productivity** compared to rest of the Europe
  - **Consumption** has been maintained

- **Employment** level has (so far) been maintained
- **GDP growth 2021 expectations** indicate going back to the situation in 2019
- **Public debt increased** but kept at overall low levels

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**Comparison of unemployment rate 2019/2020 (in %)**

- Sweden: 6.9% (2019), 4.8% (2020), 5.0% (2021)
- Finland: 9.0% (2019), 7.0% (2020), 6.0% (2021)
- Denmark: 4.9% (2019), 4.9% (2020), 5.8% (2021)
- Norway: 6.0% (2019), 5.0% (2020), 6.4% (2021)

**GDP volume growth rate (in %) forecasts for 2020 and 2021**

- Sweden: 2.3% (2020), 5.0% (2021)
- Finland: 4.2% (2020), 3.6% (2021)
- Denmark: 5.0% (2020), 3.7% (2021)
- Norway: 3.0% (2020), 5.8% (2021)

**Current government debt (€ billions / % of GDP)**

- Sweden: 112 (35%)
- Finland: 57 (40%)
- Denmark: 124 (59%)
- Norway: 108 (33%)

Source: DIW, Statista, EU, PwC Research
Recent trends in property markets

- **Investment volume decreased** in Y/Y comparison by 23% in H1 20 with sector differences
- Safe Haven, focused on lower risk
- Share of international investors was high in F17 (44%) due to some major deals and less in H1 20 (29%)
- There were major deals in industrial/logistics
- European investors with a local office were soon active again – investors outside Europe are more reluctant
- **Internationals include**: Blackrock, Blackstone, Morgan Stanley, Patrizia, Roundhill Capital, Tristan, Starwood, Union Investment, BVK, Commerz Real, Vonovia, Family Offices etc.
- Investment market remains overall strong with large levels of equity that is to be invested
- Sell Side potential is waiting for more open borders/markets
Covid-19 related trends apply also in the Nordics with differences between sectors

**Nordics transaction temperature**

- **Residential, logistics/industrial** and public sector is considered **safe havens** by investors
- **Outlook for office is relatively positive** – concerns for the sector include the **development in unemployment** and the increasing **acceptance of home office**
- **Tourism and hotel** sector need **time to recover**
- **Transaction focus has returned to capital areas** after a period of regional attractiveness. Affordability still remains important!
- **Financing available. Follow´s investment trends.**
- **Banks are still providing funding** for known clients with but differences between the sectors
- **International investors maintain their local offices**
## Doing Real Estate Transactions in the Nordics – a legal perspective

<table>
<thead>
<tr>
<th>Are there any restrictions on foreign investments in real estate?</th>
<th>Are there any special legal characteristics regarding real estate market / transactions?</th>
<th>Are there any formal requirements when buying real estate?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>• No</strong></td>
<td>• <strong>Share transactions are preferred</strong> due to more favourable tax treatment.</td>
<td>• <strong>Direct transfers of real property</strong> must be made in <em>writing</em> with two <em>witnesses</em> being present at signing, and <em>registered</em> with the land register.</td>
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<tr>
<td><strong>• No restrictions for EU/EEA investors.</strong> Non-EU/EEA investors need a permission from the Finnish Ministry of Defence to buy real property (no permission needed for buying shares in companies owning real property/real estate).</td>
<td>• <strong>Share transactions are preferred</strong> due to more favourable tax treatment. Different target company forms impact tax treatment.</td>
<td>• <strong>Direct transfers of real property</strong> must be <em>registered</em> with the land register to obtain legal protection.</td>
</tr>
<tr>
<td><strong>• No restrictions for non-Danish investors</strong> who invest in real estate through their subsidiary domiciled in Denmark. Otherwise, a permission from the Danish Ministry of Justice is as a rule required.</td>
<td>• Depending on the number of residential apartments on the property, tenants may have a right of first refusal in certain real estate transactions.</td>
<td>• <strong>Direct transfers of real property</strong> must be made in <em>writing</em>, <em>attested</em> by a notary and <em>registered</em> with the land register.</td>
</tr>
</tbody>
</table>

**General:** One may buy either real property directly (asset deal) or shares/other securities in entities owning real property/real estate (share deal).  

**General:** Freedom of contract in all countries. No formalities in share deals. Asset deals require a.o. registration.
Doing Real Estate Transactions in the Nordics – a legal perspective

### Acquisition process

- **Acquisition process is very similar** in all four countries.
- Deals are structured either as **auctions** or **proprietary transactions**.
- Investors conduct customary **financial, tax, legal, technical** and **environmental due diligence** reviews, especially in larger transactions.
- **Legal documentation** consists of relatively **short and simple documents** governed by local law.

### Impact of Covid-19

- **No legal measures have been applied** specifically to the real estate sector. Individual landlords have voluntarily applied some rent relief measures.
- **Landlords who reduced rents** for tenants operating in certain vulnerable industries between 1 April and 30 June were entitled to aid to compensate a part of the reduction.
- **If authorities restrict the use of leased property/space due** to health reasons, the rent may be decreased partly or entirely for the restricted period (at lessor’s risk).
# The Nordic tax environment – at a glance

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<td>Denmark</td>
<td>Finland</td>
<td>Norway</td>
<td>Sweden</td>
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<tr>
<td>22%</td>
<td>Yes</td>
<td>Yes</td>
<td>21.4% (2020), 20.6% (2021 ff))</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>increased WHT exposure. Exposure should be assessed at investors level</td>
<td>Dividends are subject to WHT, but often reduced to zero.</td>
<td>WHT on dividend (25%) but often reduced to zero or 0%.</td>
<td>Proposal for WHT on interest to related parties in low tax jurisdictions (2021).</td>
<td>Yes</td>
<td>Yes - 0.6% on asset deal</td>
<td>Yes - 2.5% on asset deal. No stamp duty on share deals.</td>
<td>Common practice in Sweden is a discount of 25% of the DTL in an share deal. Although deviations based on negotiations and special circumstances in case.</td>
</tr>
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<td>Mark-to-market taxation may be introduced as of 2023 – Although not draft bill yet.</td>
<td>Analysing - i) WHT on dividend distributions ii) “Reasonable” tax on RE investments.</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<td>Yes - 0.6% on asset deal No Stamp duty on share deals.</td>
<td>Yes - 4% on asset deals. 2% transfer on share deals.</td>
<td>Yes - 2.5% on asset deal. No stamp duty on share deals.</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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<td>Both share deal and asset deals are common. Over the last years – a tendency towards more asset deals</td>
<td>Share deal</td>
<td>Share deals – Tax exempt and no stamp duty</td>
<td>No</td>
<td>Yes</td>
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<td>Common to split DTL 50/50. Although deviations based on negotiations and special circumstances in the specific case.</td>
<td>DTL discount very rare (although an indirect impact on price)</td>
<td>Common on agree on a &quot;lost tax depreciation discount&quot; of 10% of the lost base.</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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Panel discussion on selected questions

Moderator

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Discussion field 1

1. What has been the main impact of Covid-19 on the local real estate markets?

2. What role did any local lockdown or other government intervention have on the real estate markets?
1. How has the perception of your market as an immediate investment location changed based on the impact of the crisis? Do you think any change will be short or long term?

2. How have capital flows been affected in the city/region? What do you think the longer-term prospects are for the city from investors?
1. How do you see the real estate markets in your city/region changing in terms of favored sectors in the next 3-5 years following the Covid-19 pandemic?
1. What role does ESG play in investing in Nordics real estate now and in the next years? Are there difference between the countries?
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 14th October 10:00 am

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