New Normal – the future of the real estate industry

WebCast 09. December 2020 10:00 – 11:00 Uhr

Spotlight Data Center Survey & Updates ESG & RE Monitor & Tax

• Data Center Survey 2020 – Presentation of surveys’ content
• Update Real Estate Monitor – Deep Dives into vacancy rates, index developments and multiples
• Update ESG – current developments in terms of the Taxonomie
• Update Tax – current tax developments in Real Estate

Registration via LINK: www.pwc-events.com/Real-Estate-WebCast
Updates and Informationen: https://blogs.pwc.de/real-estate/
Germany confirms its reputation as a safe harbor!

**Investors love Germany!**

- Investors are looking for **security** and **opportunities for sustainable growth**!
- Germany has both to offer - **Berlin** as an investment location is the undisputed **winner in the city ranking**!
- Covid-19 crisis and the trend towards working remotely puts **data centers** as **hidden champions** in the focus of investors!
- **Protects** with solutions around Smart- & Big-Data Management are also **profiting from the crisis**!
- **ESG is here to stay** - meanwhile measurable impact on the value of the property!

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**Thomas Veith**  
Partner, PwC Real Estate Leader, Germany  
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The emerging trends in real estate have already shown an increased interest of investors in data centers in recent years.

Covid-19 has continued to focus on the asset class

Joint study by PwC and the German Datacenter Association (GDA)

Results of a company survey of property investors and data center operators

Online based structured expert interviews (primarily in Q2 - Q4 2020)

Target group: Real estate decision-makers from the top companies in the industry as well as data center operators

Does the value of the data grow with the value of the data center?

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Prof. Dr. Florian Hackelberg
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Previous niche product data center moves into focus of real estate investors

**Real Estate Investors**

- **Every third real estate investor** wants to **invest in data centers** within the next two years (60% of which plan direct investments)
- **Yield expectations** of half of the property investors surveyed are **around 4-6%**
- **The most important locations** in the DACH region are **Frankfurt, Munich and Berlin**, followed by Vienna, Zurich and Hamburg (proximity to the relevant internet hubs is crucial)
- **The level of knowledge** about the young asset class is **rather low** (41% have poor to very poor knowledge)
Gold digger sentiment meets highly regulated markets

Assetclass with special requirements

• Data centers **differ in many respects** from classic real estate uses. **Special requirements on the building structure**

• Data center so far mainly owned by the **operating companies**

• DACH region still **very granular market** (majority of suppliers with only one or two locations)

• **General conditions** for the operation of data centers in Germany still in need of improvement (e.g. regulations and rising costs)

• 88% of providers **expect stable or rising prices for data center services**

• **ESG criteria** are only slowly coming into focus

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Link for downloading the survey: https://www.pwc.de/de/real-estate/pwcs-real-estate-institute/data-center-outlook.html
PwC Real Estate Monitor
+20% for Commercial Real Estate in November

The PwC Real Estate Index for German commercial property portfolio holders recovered strongly last month after a long dry spell (+20.8% in November), but is still well below pre-crisis levels (-14.6% YTD).

"U-scenario" in the commercial sector is taking shape with an 8-month low between March and October.

"Kick-off" for positive development of the "U-scenario" was the announcement of a vaccine breakthrough on 9th of November.

The PwC Real Estate Index for German residential property portfolio holders moved only slightly upwards in November (+2.6%), but stopped the negative trend of the previous two months.

The above-mentioned "kick-off" for commercial real estate has had a counteracting effect on residential real estate portfolio holders (partly -10% in the context of the vaccine breakthrough).

Dr. Patrick Lehmann
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https://www.pwc.de/en/real-estate/real-estate-monitor.html
Global and German WACC are drifting apart

**Development of WACC**

- The **global real estate WACC rose significantly** by 47 basis points to 5.2% in November.
- This was mainly due to **higher equity costs**.
- In contrast, the **German real estate WACC moved slightly down** by 12 basis points to 2.9%.
- This is mainly due to **falling borrowing costs** (which are back to pre-crisis levels), but also to **slightly falling beta factors**.
- The **spread** between the German and global real estate WACC, which has narrowed somewhat since the beginning of the Covid-19 crisis, is thus **widening again significantly** and is following the trend before the COVID 19 crisis.

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**Real Estate Monitor**

**Weighted Average Cost of Capital (WACC)**

- Global average
- Germany average
- Global bandwidth
- Germany bandwidth

Sources: PwC “Real Estate Monitor”

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Multipliers develop similarly to indices

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

- There was little movement in the multipliers of German residential property portfolio holders, with values here remaining at the previous month's level and thus also at the end of 2018.
- The residential real estate sector is thus around 10% above pre-crisis levels.
- November saw a strong upward trend in the commercial real estate sector, with multipliers approaching the level at the end of 2018.
- In line with the PwC Real Estate Index, the multiples of German commercial property portfolio holders also rose by approx. 20% in November (see PwC RE Monitor from November 2020).
- However, the sector is still about 15% away from the pre-crisis level.
Vacancy rates for commercial property visibly rising

EPRA Vacancy rates (%)

• The table/graph on the right shows the development of the EPRA vacancy rates as reported in the quarterly and annual reports of the German property portfolio managers. If the EPRA vacancy rate is not mentioned in a report, the value from the previous quarter is updated. Market capitalization (TEV) is used for the weighted average.

• After the vacancy rates in the commercial sector have been declining continuously in recent years (Q1 2018: 6.9% to Q1 2020: 5.9%), an opposite trend has been observed since Q2 2020 with rising vacancy rates (Q3 2020: 6.3%).

• Since many companies only report the EPRA vacancy rate on a half-yearly or end-yearly basis, a further upward trend can be expected here when the annual reports are evaluated.

• The EPRA vacancy rate in the residential real estate sector, on the other hand, has been fluctuating slightly around 4.0% for years without any discernible upward or downward trend.

Further information in the current Real Estate Monitor
https://www.pwc.de/en/real-estate/real-estate-monitor.html
Changed investor preferences and regulator put pressure on fund companies to act

**ESG is here to stay!**

- Implementation of the **regulatory requirements** has implications for the **reporting obligation** at **object and product level**!
- Taxonomy regulation affects everyone - not only the financial industry, but also all companies subject to **CSR reporting obligations**
- Obligation to publish the following information:
  1. **Product portfolio** - disclosure of the share of turnover generated by products or services related to environmentally sustainable activities
  2. **Investments** - showing the share of investment and/or operating expenditure for equipment or processes associated with environmentally sustainable activities

Early preparation for **uniform application** of the Taxonomy and adaptation of reporting according to the application specifications and technical standards!
The implementation of the EU taxonomy components is extensive!

**Measures for mitigation and adaptation to climate change are defined**

- The EU taxonomy defines technical requirements for building-related economic activities, which
  
  1. contribute positively to climate protection (mitigation)
  2. represent necessary adjustments for energy-efficient use of buildings (adaptation)

- The technical requirements for mitigation and adaptation are defined for each phase of the building life cycle (see diagram):
  
  1. New buildings
  2. Renovation of existing buildings
  3. Extension of technical building components
  4. Purchase of real estate

### 1. New buildings

The primary energy demand is 20% below the requirements for low-energy houses according to national standards. Evaluated by the calculated energy performance of the building.

For buildings larger than 5,000 m², additional tests regarding thermography, air density and global warming potential (GWP) must be published.

**Compliance and conformity of:**

- applicable building regulations for the implementation of EPBD energy performance standards
  OR
- min. 30% energy saving of the building

### 2. Renovation of existing buildings

Based on national regulation and EPBD (Energy Performance of Buildings Directive - Class A) per member state

- Installation of various renewable energy systems (photovoltaic, heating pumps, etc.)
  OR
- Various renovation measures (additional insulation, replacement of components, etc.)

### 3. Extension technical components

Consideration of buildings (constructed before 31.12.2020), in case of an EPC rating of classification 'A'

For all buildings constructed after 31.12.2020, the criteria for new buildings must be applied.

For large non-residential buildings (more than 290 kW heating, ventilation, air conditioning, etc.), an automatic building control system is required.
Update Tax – Change in sales tax rate 2021

End of the temporary reduction in sales tax rates at 31.12.2020/1.1.2021

- End of 6 months with tax rates 16%/5% instead of 19%/7
- Two BMF letters for application (30.6.2020 and 4.11.2020)
- In principle tax rate according to the time of delivery/other provision
- Exception for partial services
- No full deduction of input tax in case of excessive tax reporting (exception: no objection rule for July 2020)
- Risk of back taxes if the tax is too low
- Down or advance payments: Principle - tax rate according to time of payment, correction at time of performance
- Clarified: advance or advance payment in 2020 for 2021 - already 19%/7% possible
- Clarified: no premature correction of down payment or advance invoices possible (only when service is rendered!)
- To Do: Changeover in ERP systems as per 31.12.2020
Update Tax – Change in sales tax rate 2021

End of the temporary reduction in sales tax rates at 31.12.2020/1.1.2021

Design options

• Timely agreement, execution (and, if applicable, acceptance!) of partial services before 1.1.2021

• Single-purpose voucher before 1.1.2021 for redemption after 31.12.2020 (but: please note the BMF letter!)

New risk field according to BMF of 4.11.2020

• Differentiation between "continuous service" (tax rate applicable at the time of completion) and "recurring service" (tax rate applicable at the time of performance)

• Definition: "Time-related services provided at regular intervals once or more than once a year".

• Example: Maintenance contract with annual inspection service
Questions to the PwC experts

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Data Center Survey
Update RE Monitor
Update ESG
Update Tax
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 27th of January from 10:00 am

Merry Christmas & a happy new year!

Registration via Link:
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