

April 2021

PPF Real Estate

Last 12 months – Lessons Learned: Retail and Hotel sectors have been the most impacted ones, while office and industrial markets are expected to undergo some structural changes

	Office	Retail	Industrial & Warehousing	Hotels
Short Term	<ul style="list-style-type: none"> Most workers on home office Significant revenues drop for co-working and event space operators Companies to delay expansion plans => lower office demand Requests for rental deferral or discounts 	<ul style="list-style-type: none"> Majority of retail stores still at risk of being frequently open/closed Most of the tenants asked for the rent deferrals or rent suspension with bankruptcies expected High street stores dependent on tourists and shopping centers are the most affected 	<ul style="list-style-type: none"> Some manufacturing companies pausing production due to decrease of retail operations or shortage of supplies Companies to delay expansion or even terminate current operations, thus decreasing demand for industrial space 	<ul style="list-style-type: none"> Sharp drop in demand with many hotels effectively closed Particularly hotels in city centers dependent on foreign tourists struggle the most The extent of the impact will depend on the duration of imposed measures and concerns about traveling
Long Term	<ul style="list-style-type: none"> Increase in acceptance of remote working can lead to structural pressure on office market (lower total office area demanded) <ul style="list-style-type: none"> If that case, secondary locations likely to be the most impacted 	<ul style="list-style-type: none"> Further e-commerce shift fastening the negative structural impact on shopping centers in secondary locations Secondary schemes in cities with high retail stock are likely to be demolished / converted to other uses 	<ul style="list-style-type: none"> Consumers become more accustomed to shopping online Fastened e-commerce shift increasing demand form ecommerce operators for first and last mile logistics assets A clear segment winner 	<ul style="list-style-type: none"> Concerns about traveling abroad might preserve in the long term => increase in vacancies, postponement of new hotel projects / conversion to other uses

The importance of 'Landlord Tenant Relationship'

The landlord is only as good as its tenants

Impacts

- **Retail and Hotel sectors heavily impacted**
 - It appears that the impact will be more severe than expected with the 'second wave' and threatening lockdowns
- **Rental discounts/deferrals/incentives** requested by tenants
- **Slowdown in letting process**
- **Increase in subletting**
- Some retailers and hotels closed for the period of Covid 19 pandemic

Threats

- **Weaker negotiation** position for the expiring leases
- Pressure on rent discounts will continue
- Requirement on flexibility
- **Government restrictions** for landlords
- **Increase in interest rates**
- **Structural pressure in some markets** (remote working, shift to e-commerce)
- **Postponed construction and fit-out works**
- Banks are adopting a **more conservative approach** which results into **tightened requirements for the financing**

Mitigation Actions

- **Monitoring of governmental measures** across all markets
- **Stress test scenarios** constantly up-dated to test the flexibility
- **Open dialogue with all tenants**
 - Mutually beneficial agreements reached
 - Rent free proposals in exchange for contract prolongation
 - Case by case rescheduling of rent
 - Very exceptionally rental discounts/additional rent free or payment holiday
 - Pushing tenants to utilize financial support from the state and bank sectors
- Potential **to acquire distressed assets**
- **Further diversification** e.g. our intention to look at properties in US

Real Estate as an Opportunity in times of COVID-19

Areas of Focus

Office

- In the short term (Q2 2021 – Q3 2021), opportunities to acquire **distressed assets** (large share of various co-working schemes, marketing or travel anchor tenants, etc.)
- Need for **more cautious outlook in underwriting assets** in markets with higher vacancy or a strong development pipeline

Retail

- Even dominant shopping centers impacted
- Expected yield increase across all retail assets – potential **opportunity to acquire prime retail assets in regional cities**
- **Strong impact on High Street retail** (restrictions and significant drop in tourism) – **potential for distress sales**, mainly in strong tourist destinations

Industrial & Logistics

- Industrial and logistics only partially hit by economic **slow down due to pandemic situation**
- **Positive impact on e-commerce sector** accelerating business online transition causing tenant demand mainly for last mile logistic assets
- **Opportunity to build a portfolio of last mile and prime first mile assets focused on e-commerce** tenants support

Residential & Hotel

- **Focus on cities with a limited residential pipeline**
- Consider **opportunities to participate in rental housing & co-living projects** as an income generating assets

- **Main focus will still be on office assets** as a core of our business (including deals which came back on the market and we have looked at them previously)
- **Investigate stress invoked opportunities in other sectors**, mainly retail (high street and prime regional SC) and industrial (e-commerce support) assets