



ČESKÁ RADA PRO ŠETRNÉ BUDOVY
CZECH GREEN BUILDING COUNCIL

Valuation of Buildings

Joint webinar Czech Green Building Council
And Royal Institute of Chartered Surveyors





Programme and speakers

- Introduction to valuation – basic principles, regulation, purpose, benefits
- Impact of green certifications and real estate valuation
- Developer's view, tenant demands, valuation of industrial buildings

- Vendula Maršová MRICS, Colliers International
- Richard Hogg MRICS, Cushman Wakefield
- Bert Hesselink MRICS, CTP Invest

Moderated by Pavel Kliment, KPMG



Introduction to Valuation

Česká rada pro šetrné budovy

February 10, 2021

Prepared by: Vendula Maršová MRICS
Colliers International

Agenda

- 1 RICS, Basics of Valuation
- 2 Valuation Processes
- 3 Market Value Determination
- 4 Covid-19 & Vaccination & Economies
- 5 Real Estate Market in the Czech Republic
- 6 Current Trends

Royal Institution of Chartered Surveyors

RICS

Globally recognized professional body that promotes and enforces the highest professional standards in development and management of land, real estate, construction and infrastructure.

The Red Book

RICS Valuation – Global Standards 2020 („the Red Book“) contains mandatory rules, best practice guidance and related commentary for all members undertaking assets valuations.

About Valuation

1

What is it?

Assessment of property value, based on asset type, location, condition and other multiple factors.

It is the process of forming an opinion of value under certain assumptions.

2

What we value? What we provide?

All type of real estate assets – office, retail, industrial / logistics, development land, residential projects, mixed use properties etc.

Valuation Reports, Feasibility & Market Studies, Due Diligence Reports, Development Appraisals.

3

Who do we work with?

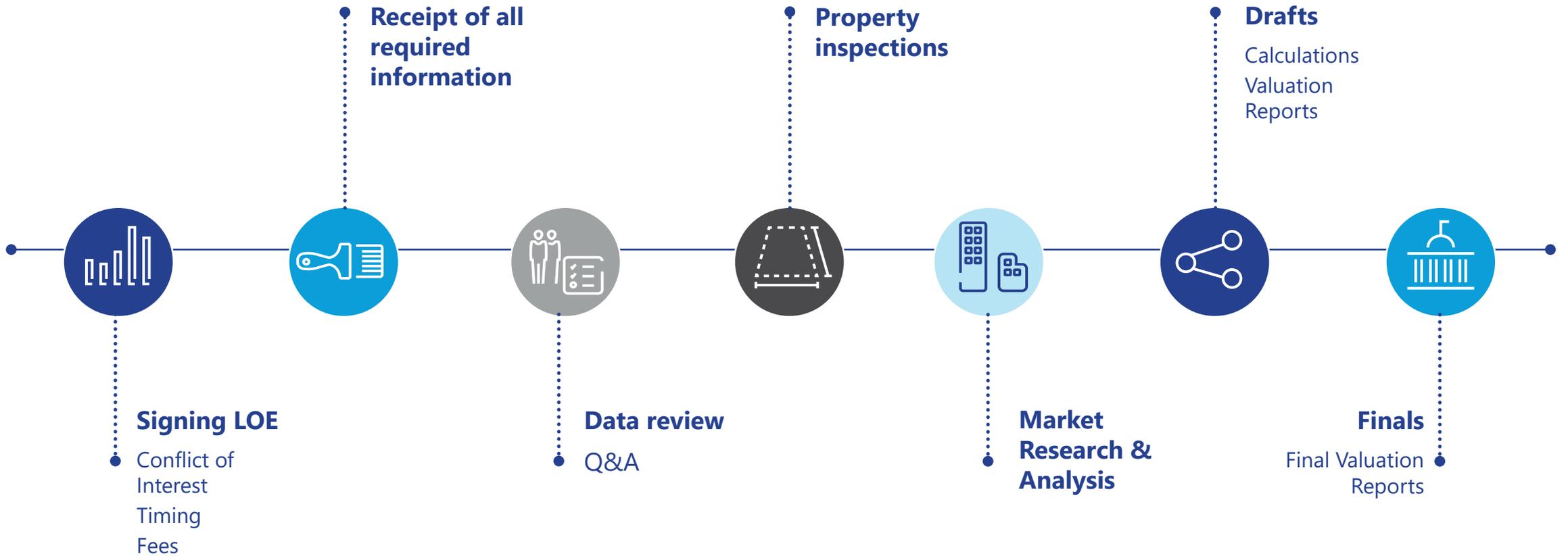
Banks (local and international);
Developers;
Investment Funds;
Private Investors;
Real Estate Owners;
Real Estate Owner Occupiers.

4

When? Why?

Corporate acquisitions / disposals / joint ventures;
Financial reporting / audits / accounting;
Internal decision making;
Security for lending.

Valuation Processes



Market Value Determination



Property

Type of asset, age, quality;
Location, accessibility, visibility;
Condition, capital expenditure.



Lease Contracts

Contracted rent;
Lease start, expiry, break options;
Rental abatements;
Service charge level, leakage;
Non-recoverable costs;
Quality of leases;
Covenant strength.



Market knowledge

Market Rent, Incentives;
Letability of space;
Comparable evidence;
Yields.



Other

Leasehold...



Global Headlines

What's impacting real estate?

COVID support measures

Vaccines

Economies & cycles

Sovereign risk / Security

Political noise / Trade wars

Corporate covenants

Labour markets

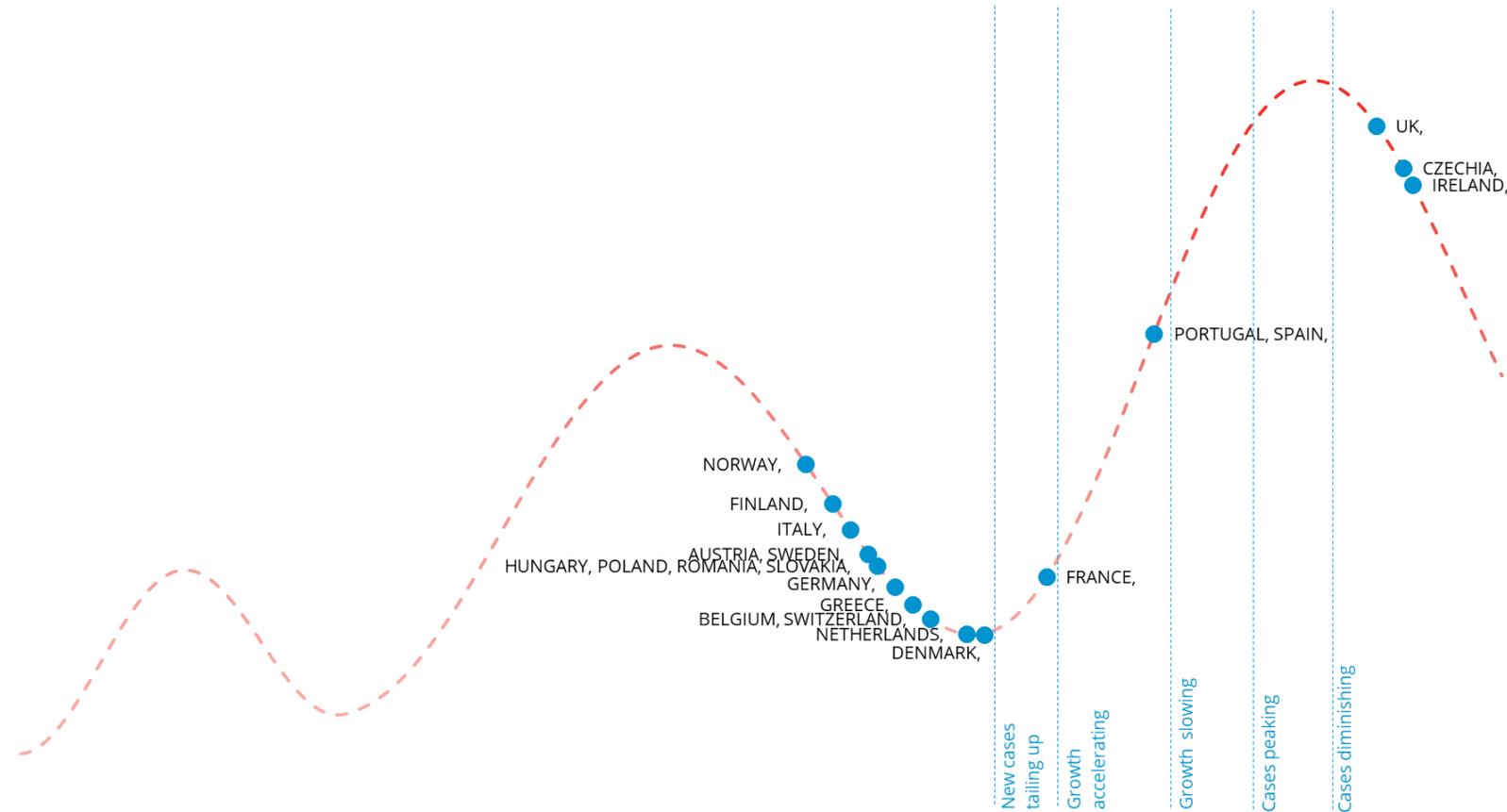
ESG / Energy

Innovation & PropTech

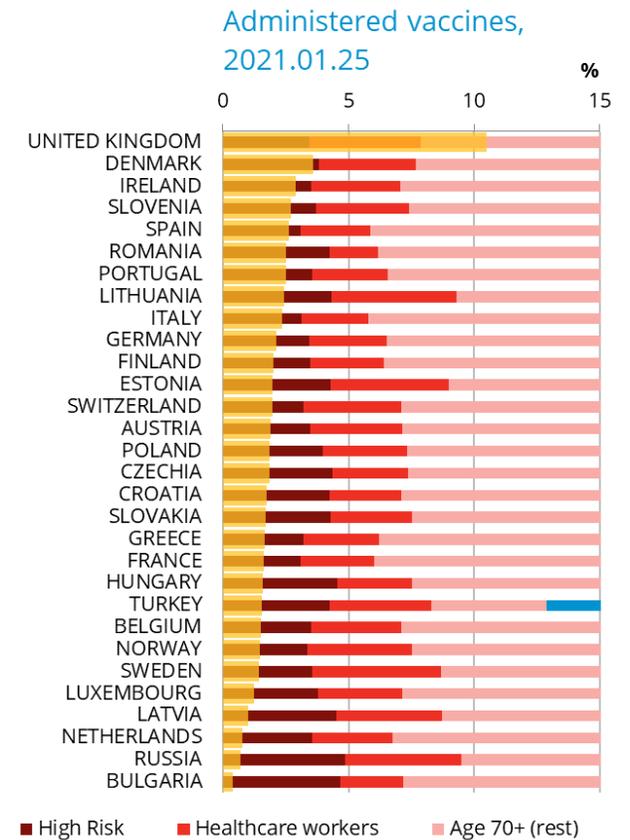
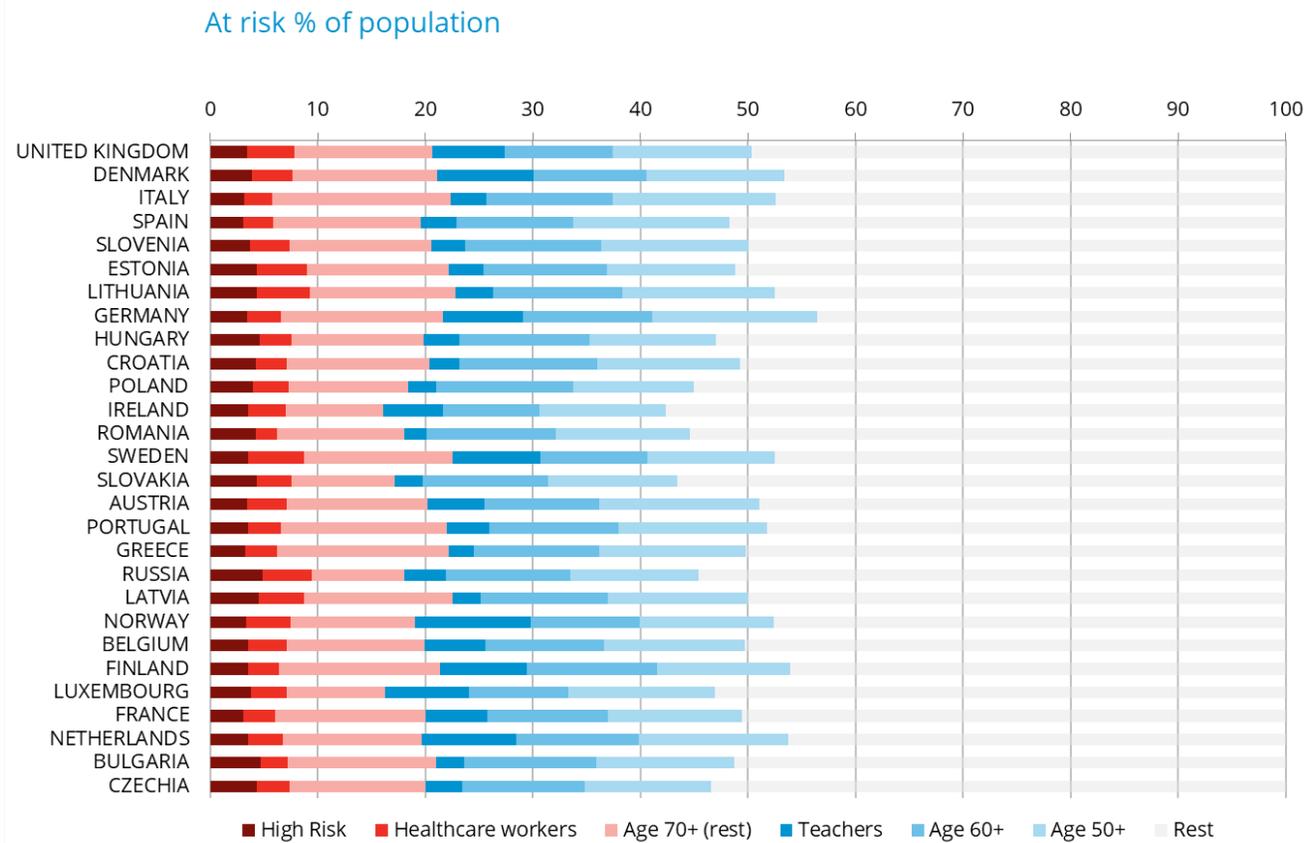
Business & Private travel



Covid-19 cases & 3rd wave



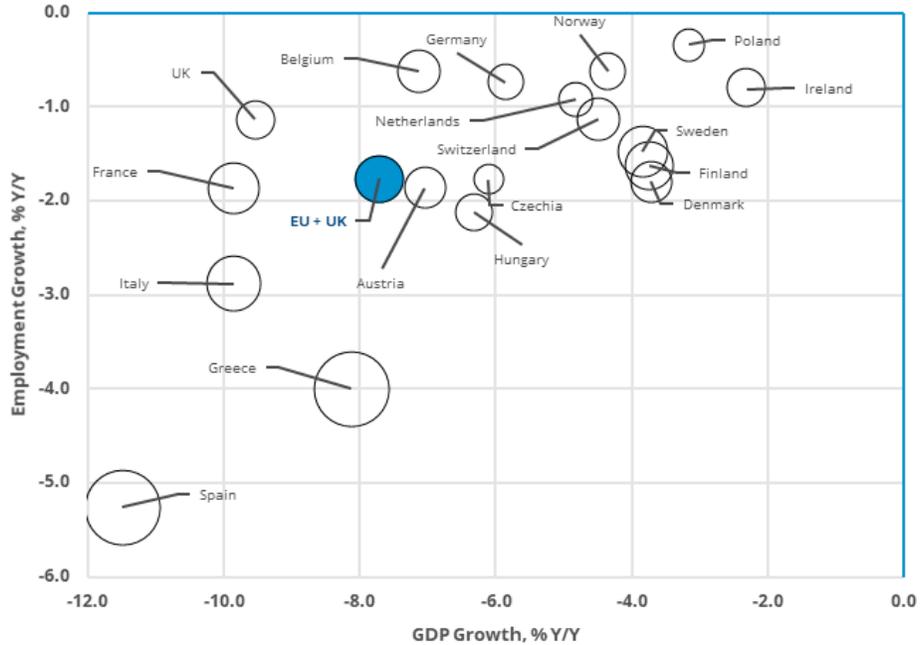
Population at risk vs. vaccination rates



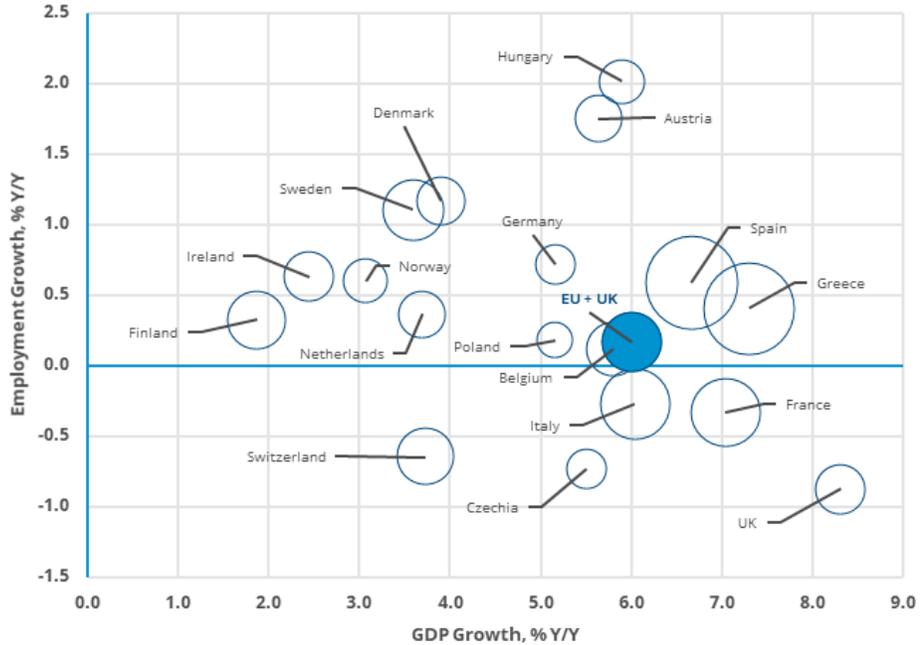
Outlook 2021

Economies & Labor Markets

2020: GDP vs Employment
 [Bubble size represents Unemployment Rate]



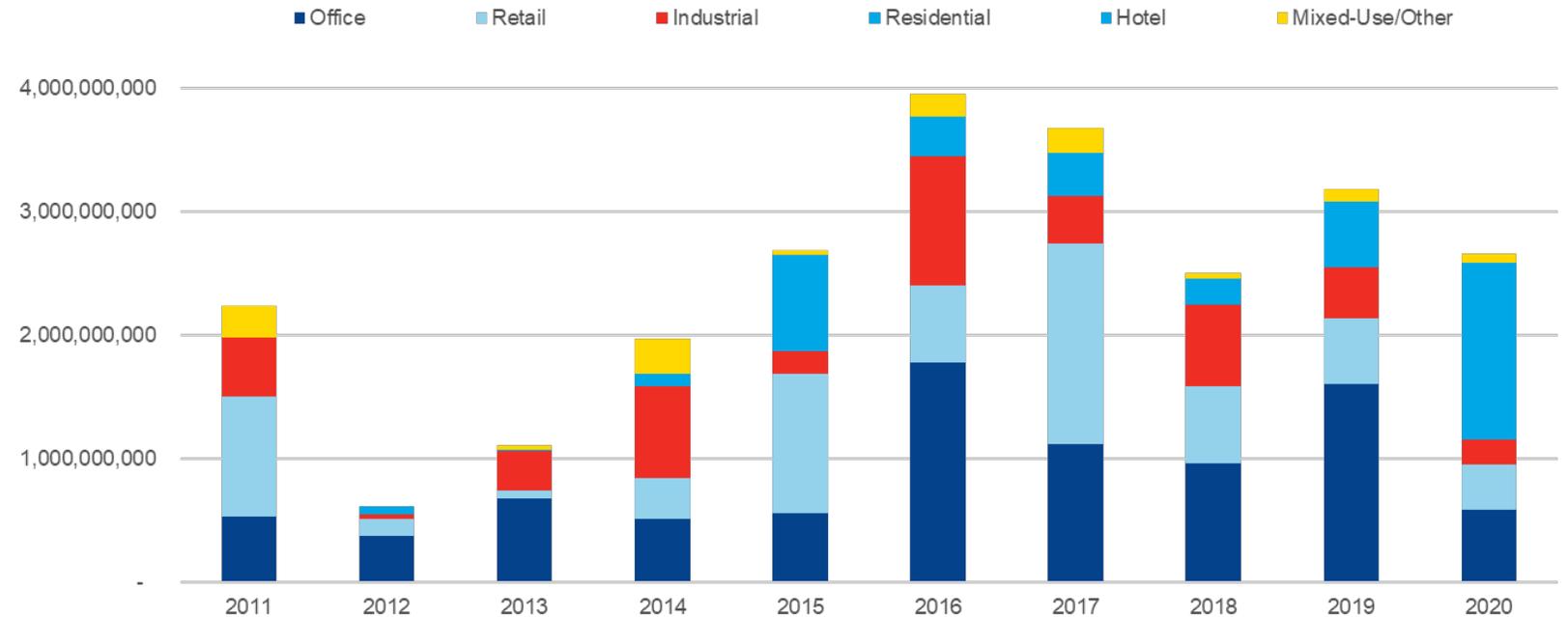
2021: GDP vs Employment Forecast: 25th January
 [Bubble size represents Unemployment Rate]



Capital Markets

Czech Investment flows / € Billions

- 2020 volumes down ca. 16% YoY / EMEA down ca. 27% YoY.
- Number of transactions down ca. 45% but average transaction size up by ca. 53% YoY.
- 2020 volumes supported by €1.3 billion Residomo portfolio acquisition by Heimstaden.





Volumes € 2.66 billion

... is the total commercial real estate investment volume in the Czech Republic for 2020. Volume for Q4 2020 amounted to approx. **€ 535 million**.



Splits by Sector 22% Offices Retail 14% 8% Industrial Other 56%

... is the percentage of share of the total volumes in 2020 by sector.

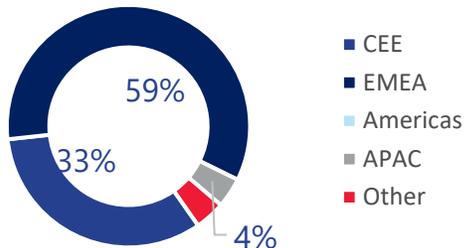


Transactions 47

... is the number of recorded transactions in 2020, resulting in an average ticket size of approx. € 57 million. **19 transactions** recorded in Q4 2020.



Sources of Capital



% Yields 4.25% Office 5.25% Retail 5.00% Industrial

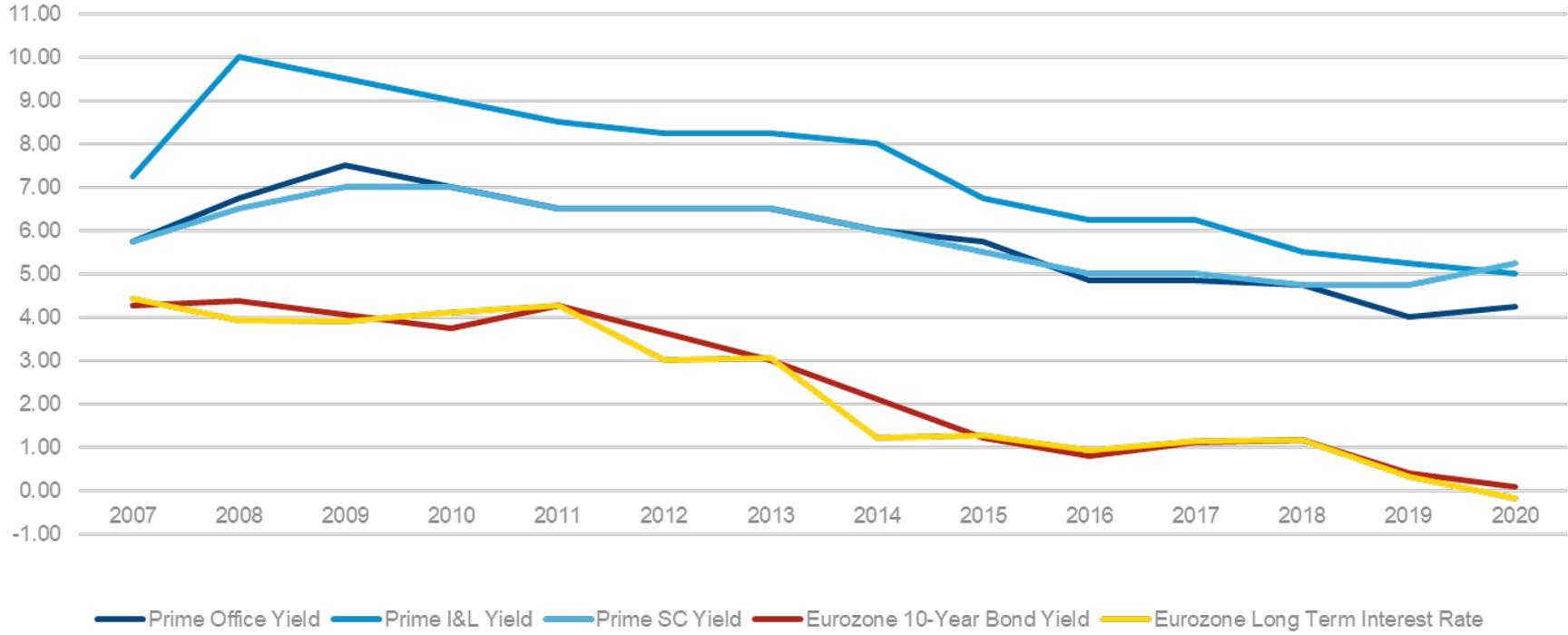
... are the prime yields as of Q4 2020.



Outlook

- Investor's caution could ease the pressure on **yield compression**.
- Newer transactions are progressing more slowly with some bid dates or launch dates being moved out to accommodate the situation, which **will take longer** than previously anticipated.
- **Industrial and residential** sectors are worth interest.
- Retail (except retail parks) and hotel deals are still expected to be **most challenging**.

Czech Republic Prime Yields (%)



Prime Yields as of Q4 2020

- 4.25% Offices
- 5.25% Retail
- 5.00% Industrial



Stock
3.75 million m2

... is the total stock at the end of Q4 2020. A growth by 2.30% year-on-year.



Supply
19,700 m2

... is the current volume of space completed in Q4 2020. Approximately 150,500 m2 of office was completed by the end of 2020. About 98,100 m2 is expected to be completed in 2021 (37% pre-leased).



Vacancy
6.98%

... is the current vacancy rate and represents approximately 261,500 m2 of available space for let.



Demand
332,800 m2

... is the total stock at the end of Q4 2020. Decrease YoY by 24%. Market heavily oriented on renegotiations as they accounted for 46% of annual gross take-up. Gross/Net take-up for Q4 2020 reached 98,700/43,700 m2.



Rents
€ 22.00 – 22.50

... is the current prime headline rent per m2 per month. Net effective rents typically range between 10-20% below headline.



Outlook

- Expected supply for 2021 below average can support stabilization of market.
- Amount of space immediately available to sublease will keep increasing.
- Developers will focus more on pre-leases.
- Generous contribution and rent-free offers can attract tenants to considering a move.



Stock
9.10 million m2

... is the total stock at the end of Q4 2020. An increase by 8.36% year-on-year.



Supply
111,300 m2

... is the current volume of space delivered in Q4 2020. A total of 344,600 m2 are currently under construction.



Vacancy
4.20%

... is the current vacancy rate and represents approximately 381,500 m2 of available space for let.



Demand
540,200 m2

... is the gross take-up for the period Q4 2020. This is 24% increase year-on-year.



Rents
€ 4.70

... is the current prime headline rent per m2 per month. Net effective rents typically range between 9.1-5.8% below headline.



Outlook

- E-commerce and distribution will strengthen its position as a main driver in the market.
- Industrial properties asset class now has officially lower yield than retail.



Stock
2.65 million m2

... is the total modern shopping centre stock in the country at the end of Q4 2020.



Supply
63,100 m2

... is the current volume of modern shopping centre space currently under construction or refurbishment.



Retail Sales
-0.90%

... is the forecast growth rate for retail sales in 2020. Forecast for 2021 is Y-o-Y growth of 6.20%.



E-commerce
16%

... is the estimated share of on-line sales from total retail sales in 2020. Further growth is anticipated.



Rents
€ 130.00 Shopping Centres
€ 220.00 High Street
€ 8.00 Retail Parks

... is the prime headline rent er m2 per month.



Outlook

- Retail segment is going through turbulent changes brought by rise of e-commerce in terms of volume of sales.
- Relationship of retail and e-commerce in Czechia follows international trends.
- Expected increase of vacancy in shopping centres due COVID-related bankruptcies.

Thank You

Vendula Marsova

Head of Valuation & Advisory Services

Czech Republic

M: +420 778 728 068

vendula.marsova@colliers.com

“GREEN” REAL ESTATE PROPERTY VALUATION

10TH FEBRUARY 2021

PRESENTER INFORMATION



RICHARD HOGG

PARTNER AT CUSHMAN & WAKEFIELD

HEAD OF VALUATION & ADVISORY SERVICES

Head of Valuation & Advisory Services for Czech Republic

- RICS and HypZert MLV qualified
- 20 plus careers in valuation
- Experience across the CEE region and the UK
- Working in Valuation and Advisory fields with a focus on the Czech Market



THE WORLD IS GOING GREEN....



TRANSPORT



POWER



MATERIALS



FOOD

THERE ARE MANY MOTIVATIONS...



ENVIRONMENTAL



MORAL



SOCIETAL

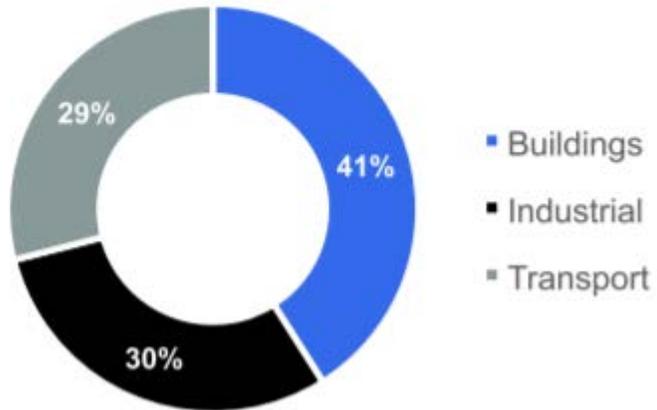


POLITICAL

REAL ESTATE & THE ENVIRONMENT

PROPERTY HAS A MAJOR IMPACT ON THE ENVIRONMENT...

Global energy use by sector

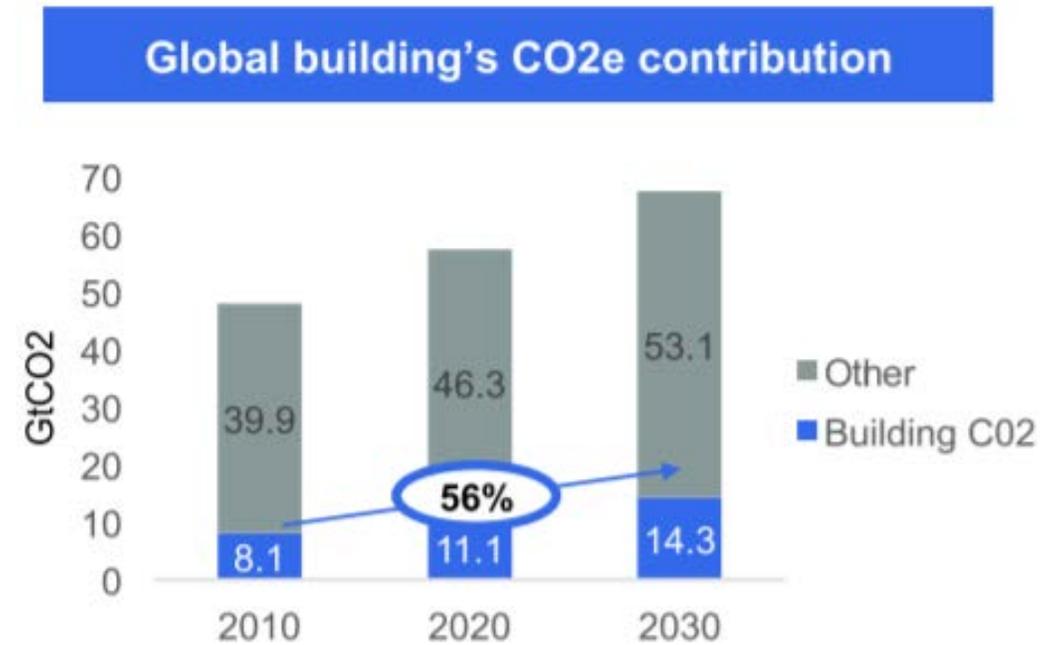


Environmental impact	Share of buildings in total output/use
Raw material consumption ²	30%
Solid waste generation ^{3,4}	25-40%
Potable water consumption ⁵	12%
Water effluents ⁶	20%

World Economic Forum: Environmental Sustainability Principles for the Real Estate Industry

REAL ESTATE & THE ENVIRONMENT

PROPERTY WILL CONTINUE TO HAVE A GROWING ENVIRONMENTAL IMPACT...THERE IS WORK TO DO...



World Economic Forum: Environmental Sustainability Principles for the Real Estate Industry



HOW WILL THESE ISSUES AFFECT PROPERTY VALUATION?

WE HAVE ESTABLISHED ITS AN ISSUE!!!

BUT THERE ARE REALLY TWO QUESTIONS WE NEED TO ASK AROUND THIS TOPIC AND “VALUATION”....

1. DO THESE ISSUES AFFECT **PROPERTY VALUES**?
2. DO THESE ISSUES AFFECT **PROPERTY VALUATION** AS A PROCESS?

WHAT IS MARKET VALUE?

A QUICK RECAP ON THE DEFINITION

4 Market value

Market value is defined in IVS 104 paragraph 30.1 as:

'the estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

THE SIMPLE ANSWER TO BOTH QUESTION IS...

1. Do these issues affect **property values**?
2. Do these issues affect **property valuation** as a process?

YES, BUT....

A VALUATION REFLECTS THE MARKET

DO THESE ISSUES AFFECT PROPERTY VALUES?

In order to address the issue of how these issues affect real estate valuation, we first need to ascertain if they impact property values:

- If green features have no impact upon the Market Value of an asset they are irrelevant
- In this respect, it is always important to remember that a Valuation is ultimately defined by the market

So lets consider some of the drivers in the market...



Green = Green \$\$\$

TRIGGORS DRIVING GREEN ACTIVITY

KEY DRIVERS FOR GREEN BUILDING ACTIVITY

- Lower Operating Costs
- Environmental Regulation (i.e. external drivers)
- Social Responsibility (i.e. internal drivers)
- Branding and PR
- Competitive Drivers

- **Ultimately these are all commercial motivation (which is a good thing)**



ENVIRONMENTAL REGULATION

ENVIRONMENTAL REGULATION WILL INCREASE

- Closer attention is paid to environmental regulation by developers and investors
- Because, governments are paying more attention to the environment
- Bu ultimately, this is being driven by big scale societal change...

The best way for buildings to keep up to speed with long term regulatory change is to meet not only the standards of today, but to anticipate and lead in the change for tomorrow...not only will this lead to advantages with the regulators, but there are commercial advantages as well...



SOCIAL RESPONSIBILITY, BRANDING AND PR

ONCE AGAIN, THE RESPONSIBLE THING MAKES SENSE COMMERCIALY

- We live in a commercial world, but commercial success depends on a nuanced balance of factors going beyond simply being the “cheapest” or “best”....
 - Green is a hugely marketable aspect in 2021
 - Being associated with environmental care is good for business
 - Environmental achievements are routinely used for PR purposes
 - Its positive in the eyes of investors, tenants and the public at large
 - And there is nothing to be cynical about...

BEING GREENER IS GOOD FOR BUSINESS....



SOCIAL RESPONSIBILITY, BRANDING AND PR

RECENT PR ACTIVITIES



100% BREEAM: CTP certifies 292 properties, becoming the first industrial real estate developer to certify all buildings according to highest environmental...

A graphic featuring the Prologis Research logo at the top left. Below it, the word "Research" is written. The main content consists of two statistics: "36% Fewer emissions online vs instore shopping" and "E-commerce has a sustainability advantage"; and "10% Fewer emissions per package from built-out logistics networks" and "Urban fulfillment centers are essential for a sustainable future". To the right is a vertical image of a report cover titled "Logistics Real Estate and E-Commerce Lower the Carbon Footprint of Retail" with a background image of a warehouse interior. At the bottom of the infographic, there is a blue-tinted image of a person's hands typing on a laptop keyboard.

LOWER OPERATING COSTS

TENANTS CONSIDER TOTAL COST OF OCCUPATION

- Whilst the market is very much focussed on rental levels, tenants (end users) have two costs making up their total cost of occupation;

Rent

Service Charge

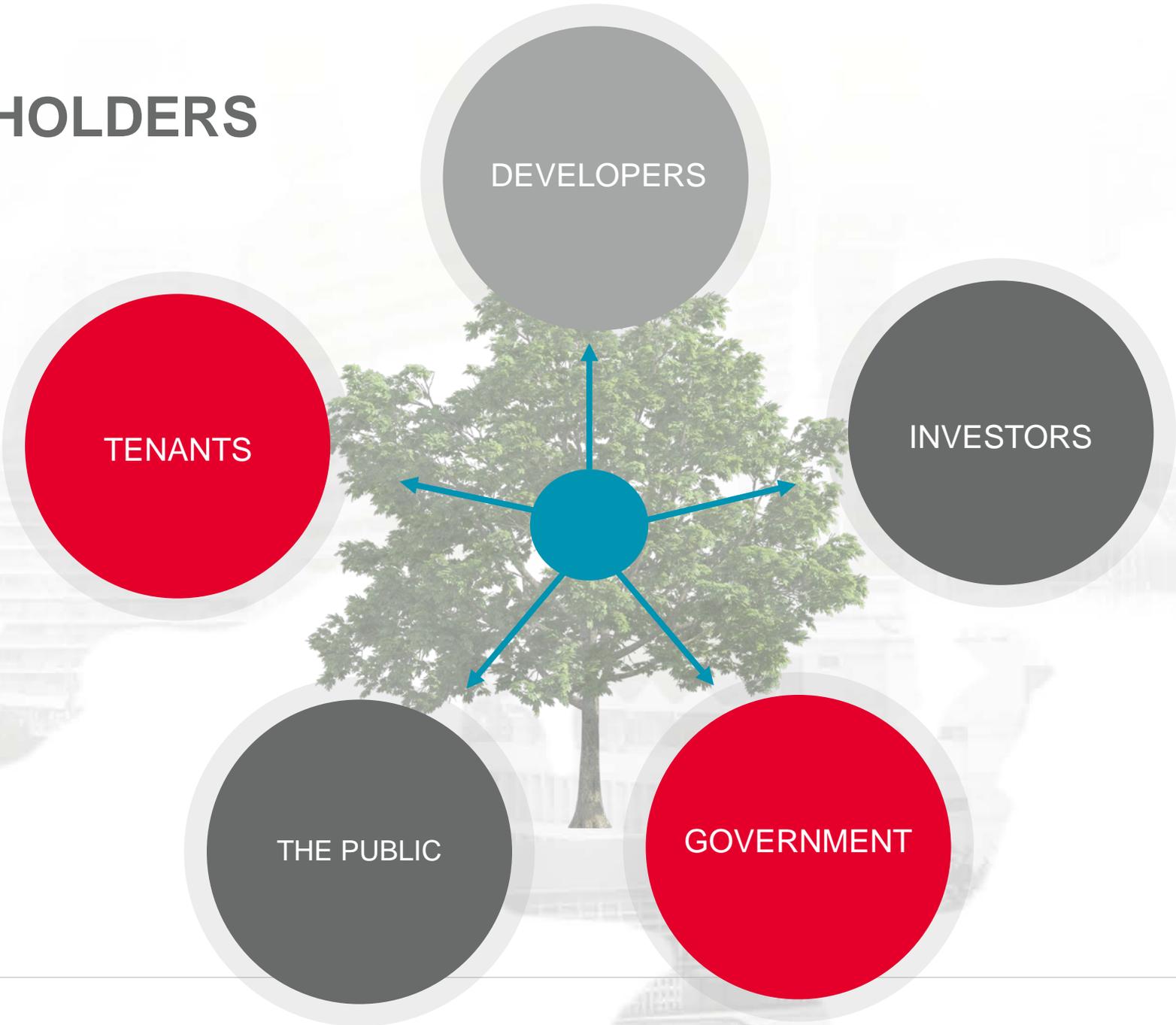
- Greener buildings are more efficient, utilising superior technologies which can create operating cost savings which creates room for net rental growth benefitting landlords and owners



PROPERTY STAKEHOLDERS

ARE INTERESTS ALIGNED?

The property market is comprised of several stakeholders all of whom have different needs and requirements from real estate. However, it is clear that environmental aspects are relevant to all, and in this regard the need to reach greater standards is now a common theme, albeit the motivations to do will differ...



HOW DO THESE ISSUES AFFECT PROPERTY VALUATIONS...

Hard Points...

- An increasing number of tenants, end users, consumers will and are demanding greener buildings as part their own drives to be more environmentally aware, as a marketing aspect therefore, there is a clear commercial advantage to create greener buildings
 - Green marketing presently still allows a property or developer to “stand out”, but eventually as take up increases (i.e. in terms of certification), it will get to the point where failure to advertise green features will represent a negative...being green makes the product more marketable, but soon not being green will have real world downsides
 - Real operational savings can be realised through the use of green technologies, these savings not only add to the attractiveness of one building versus another, but they can materially lead to higher rents
 - An increasing number of investors (and their investors) are demanding buildings are greener, not just for the operational cost upsides or long term regulatory risks, but simply to have a product which is marketable to the general public whose decisions are increasingly affected by positions on issues such as the environment
-

HOW DO THESE ISSUES AFFECT PROPERTY VALUATIONS...

Some challenges in the valuation process...

Ultimately, the market decides values, not valuers...and the reality is that by the time we are valuing a building, many of the advantages are already factored in,...i.e. there isn't much for us to do!!!

A greener building may already be...

- ❖ Better occupied (i.e. lower vacancy)
- ❖ Realising a higher rent (either through quality, tenant preference or operational cost advantages)
- ❖ Be in greater demand in the market
- ❖ Have a positive public profile
- ❖ Be the subject of a positive offer

The point is that the market does the work for the valuer...

HOW DO THESE ISSUES AFFECT THE PROCESS OF PROPERTY VALUATIONS...

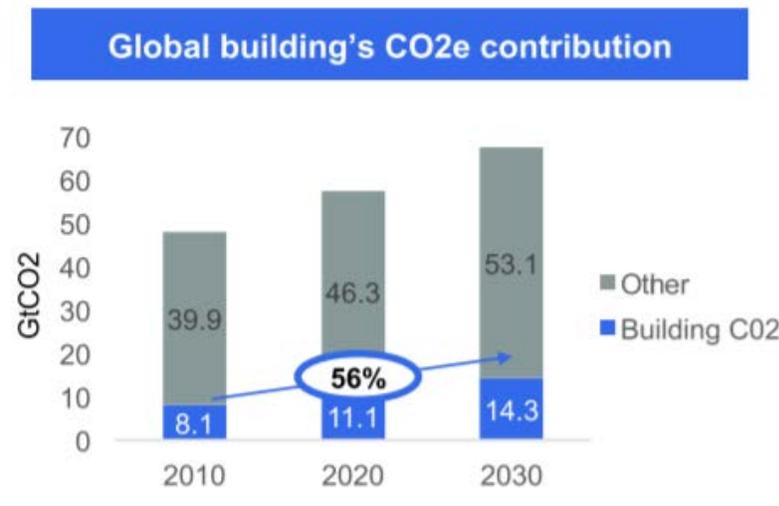
Despite the fact most of the problem is resolved by the market, there are some process aspects...

1. **Reporting** – most valuation reports will now contain some feedback on green aspects, whether these are detailing specific building features, or reporting on certifications a property has been awarded
2. **Choosing Comparable Evidence** – this is the fundamental of property valuation, we compare things that are comparable, there is a natural clustering effects, quality compares with quality
3. **Provide Market Context** – provide advice to our clients and the market, promote positive building features and highlight shortfalls in relation to the market place. A valuation is an opportunity to provide advice to a client.

FINAL THOUGHTS...



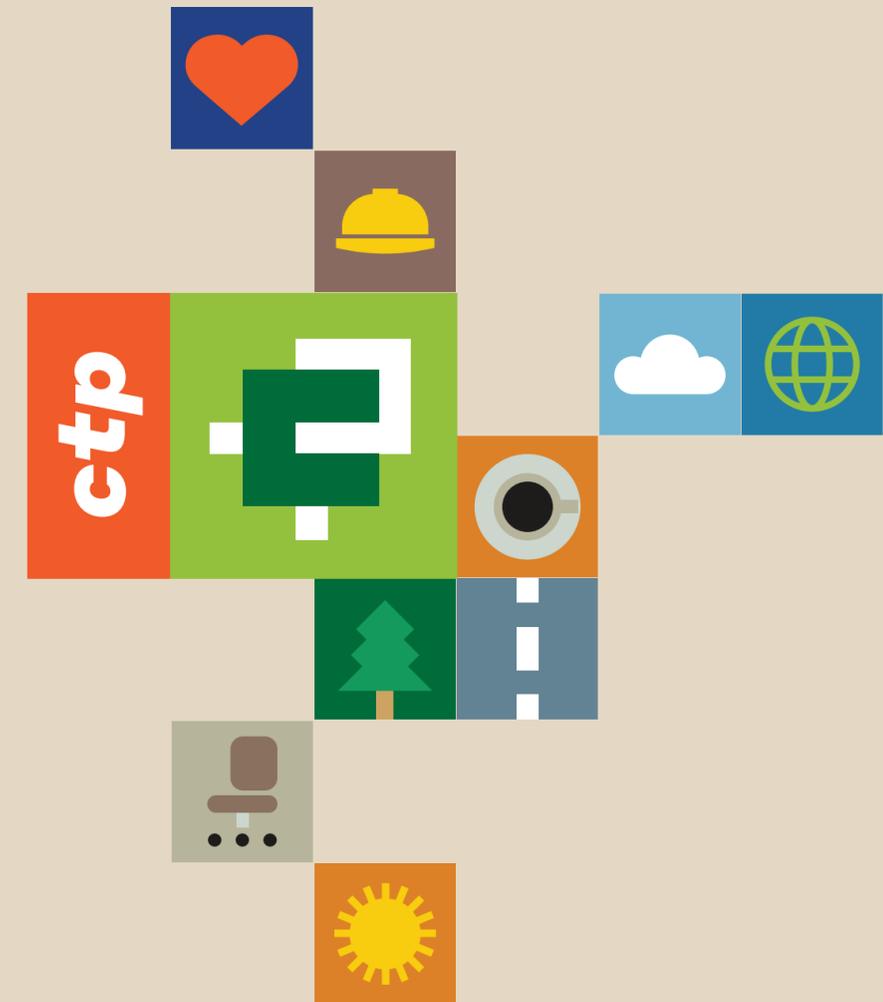
- In valuation terms the market is what fundamentally drives values (not valuers), but if the market demands greener buildings, then delivering on this increasingly fundamental requirement (remember every stakeholder is aligned) will have a value upside...this will be revealed in property performance
- Green building features are increasingly integrated to the concept of building quality, green features are part of being a quality property asset, and a quality property is now more environmentally friendly
- There is still a long way to go but the valuation industry will continue to reflect green building advancements, because this is what the market is going to demand...

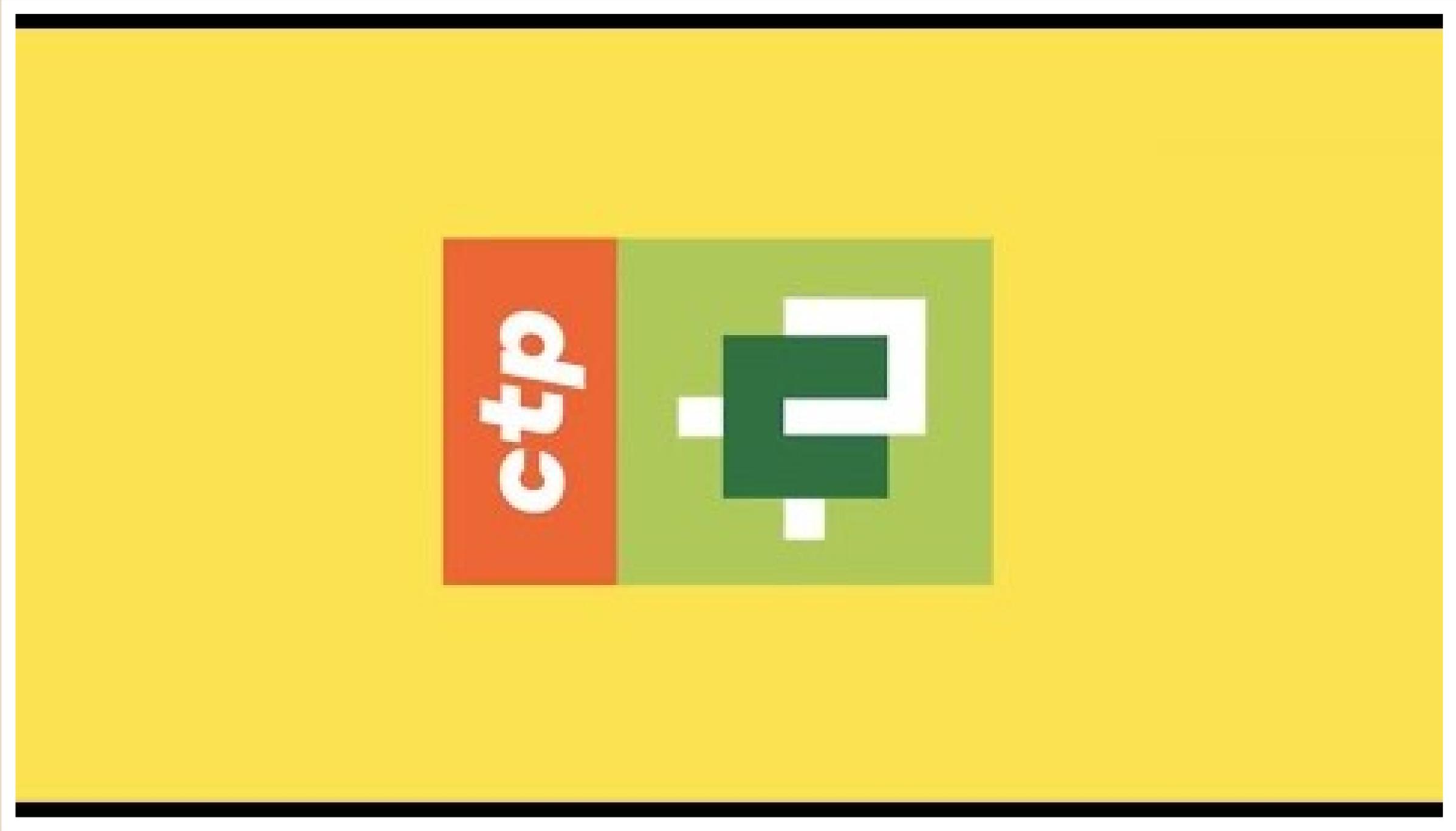


THANK YOU

Sustainability at CTP

It's what we do

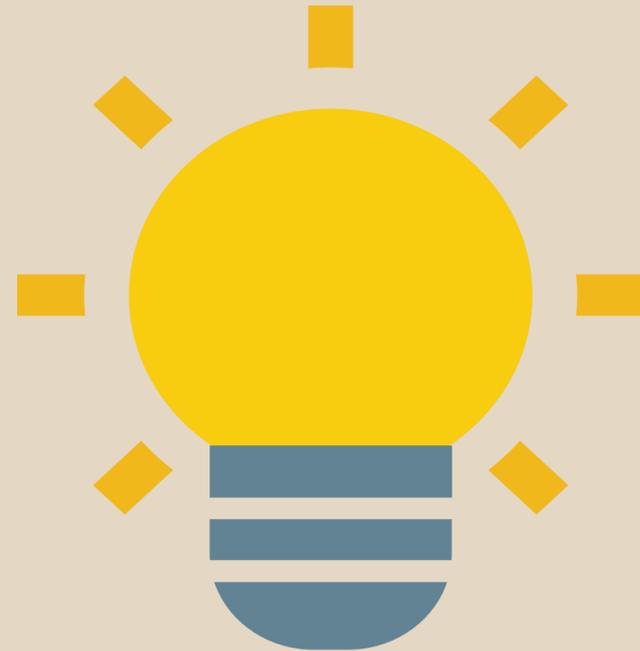




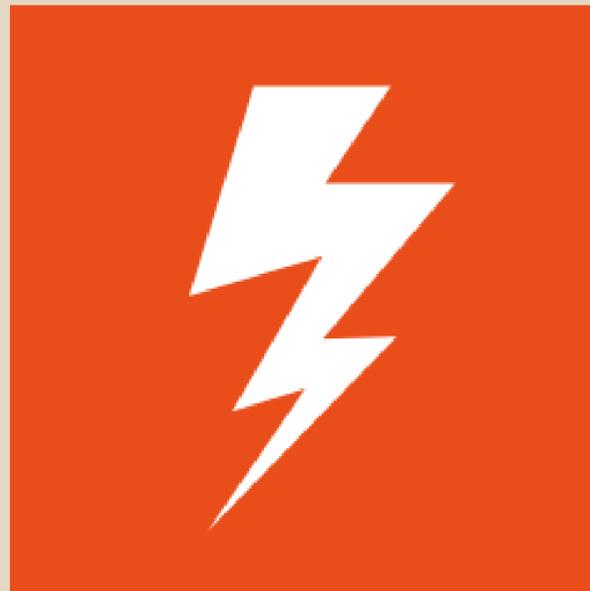
Sustainability



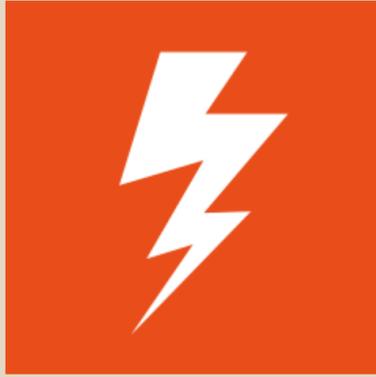
Sustainability



Sustainability



Sustainability





Parkmakers