COMMERCIAL SENSITIVE

GREEK REAL ESTATE MARKET

A snapshot of the pandemic’s economic impact

May 2020

Arbitrage
Real Estate Advisors

RICS

CONTENT

WARNING!

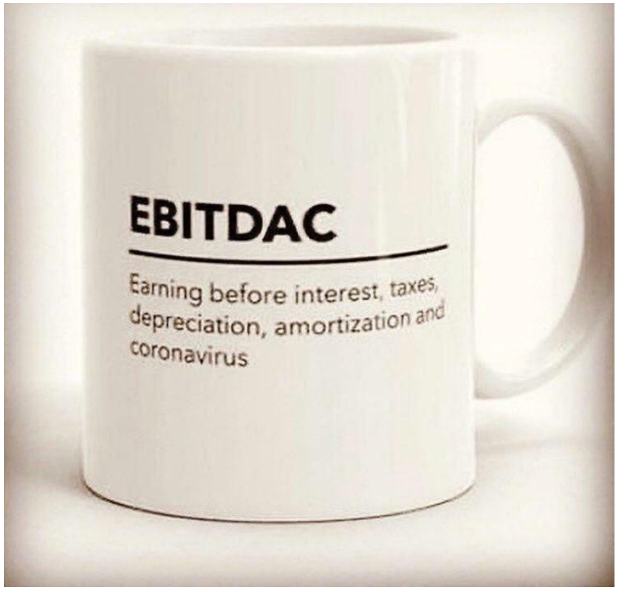
Take a deep breath.

We cannot figure
it all out today.

GLOBAL OUTLOOK

GLOBAL OUTLOOK
THE IMPACT ON REAL ESTATE

- **The government restrictions to social mobility have led to deserted retail centers, leisure and hotels**, which is unlikely to change until all restrictions are lifted. Collected quarterly rents have plummeted, with consequences for landlords and lenders alike. Retail administrations have risen.
- Q1/Q2 2020 likely to record the largest economic contraction in living memory. **Property, like most sectors, will not be immune.**
- In the near-term, the outlook has been transformed. After a quarterly high in the final quarter of 2019 of €70 billion, **capital flows are expected to now come to a standstill**, as movement is curbed and the economy spirals into a recession.
- U.S. and European imports from China and elsewhere are falling due to the supply chain disruption, which could weaken demand for warehouses tied to these imports. Distribution centers and modern logistics **facilities tied to e-commerce sales would continue to perform well**.
- **Office rental values are expected to come under pressure** and yields could increase across the board. Capital Economics predicts EU property values to fall in 2020, in an ever-changing picture, which is likely to see future revisions.
- **Higher declines in prime rental rates are expected** as proven to be more than double as sensitive to past GDP changes. This higher GDP sensitivity has been clearly amplified by the lockdown and the impact of continued e-commerce penetration as already reflected before the Covid-19 crisis.
- In contrast, **total return for prime logistics are more resilient**, as lower rental growth is offset by yield tightening, keeping capital value growth constant across the different scenarios.
- **For developments,** there is intensified uncertainty about the timing and costs of projects given the disruption to supply chains. For developments that do complete in the months ahead, leasing activity is likely to be subdued.



Source: Arbitrage RE, Nomisma

GLOBAL OUTLOOK

PANDEMIC IMPACT ON GLOBAL REAL ESTATE

Assessment of immediate commercial risks on specific property types.





Sectors at Risk
Full-service hotels dependent on conferences/business travelling
Offices with dense spaces and lack of health & wellness specifications
Seasonal hotels dependent on foreign tourism and Tour Operators
Serviced corporate apartments dependent on short-term stays with limited services
Tourism-oriented retail, especially luxury merchandise
Shopping centres with dense F&B facilities
Mixed-use retail, F&B and leisure spaces in dense and urban locations
Co-working office spaces focusing on density rather on services*
Airport linked retail spaces except warehouses

Incl. Reception secretariat and videoconferencing enabled meeting rooms

Best-Insulated Sectors
Modern logistics warehouses, especially with cold storage for food
Last-mile distribution centers serving e-commerce retailers
Medical & life sciences offices leased to private/non-govt providers
Quality long term rental residential with adequate home working spaces
Essential goods retail, especially for click & collect with home delivery
Flexible self-storage due to historically durable demand through recessions
Spacious residential with wellness & energy efficiency specifications
Data centers operated by third party service providers

Source: Arbitrage RE, RICS, Praxi Valuations

GLOBAL OUTLOOK
EXPECTED OUTCOMES

- The amount of **fiscal stimulus across the U.S. and Europe exceeds that of the global financial crisis** of 2008. More fiscal stimulus is expected given that countries accounting more than half of the world's GDP are or were in lockdown.
- **Increased uncertainty regarding valuations** in real estate due to the uncertain future cashflows and increased volatility in financial markets (incl. risk free rates and spreads)
- Transactions and associated **market evidence will decline** leading to lack of transparency.
- Increased risk of reduced corporate liquidity and possibilities for refinancing and debt restructurings. **NPLs are expected to rise**.
- **Loss of demand in specific real estate markets** (e.g. retail, leisure), while gains in others (last mile logistics, spacious residential)
- Expected **acceleration of long-awaited structural reforms** in certain sectors (such as retail) and reinvention of other sectors (office space)
- **Impacts will vary by fund type,** property assets long leased to investment grade corporate tenants or backed by long-dated government or government-sponsored income streams are likely to be most resilient.
- Investors will be focusing **more on governance, reporting, management and liquidity**. ESG real estate funds are expected to maintain and increase commitment
- Greater diversification is expected across real estate investment allocation (a mix of sectors, assets, operators, tenants) to rebalance risk returns
- At the other end, riskier, **growth-focused real estate strategies look more vulnerable** in the near term.

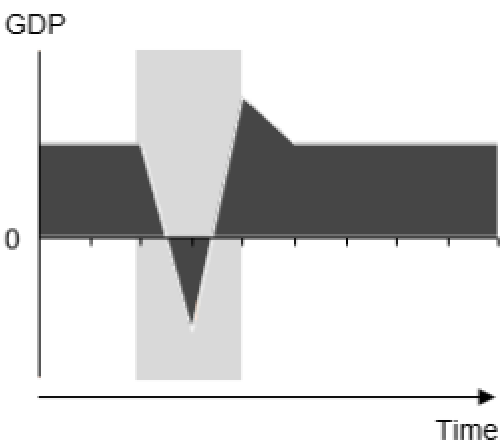
Source: Arbitrage RE, RICS

GLOBAL OUTLOOK

THE PREVAILING ECONOMIC ASSUMPTION IS THOUGH FOR A MILD V-SCENARIO

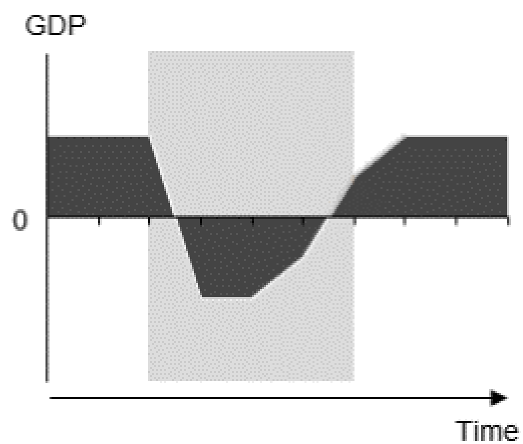
The pandemic have sent the US and European economies, including the Greek one, to the intensive care unit (ICU). The blow will be severe in 2020, but the economies are projected to partly recover in 2021. Although financial analysts estimates on the extent of this year's GDP contraction differ significantly, most agree that we shall expect V-shape economic impact (deep recession this year and high growth next year). This expectation assumes of course a clear end to the coronavirus pandemic crisis by early Q1 2021 at the latest. Even in the positive V-Shape scenario, the economic and financial wounds will take time to heal completely.

V-Scenario



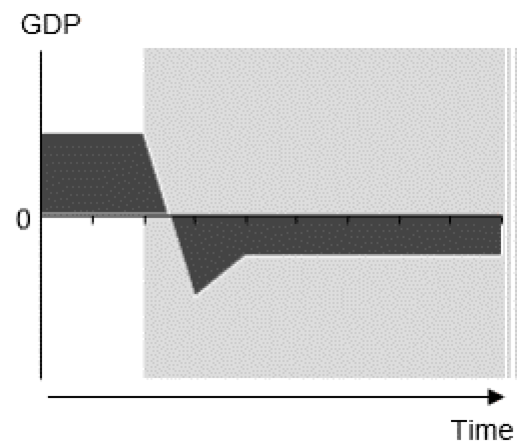
Mild

U-Scenario



Severe

L-Scenario

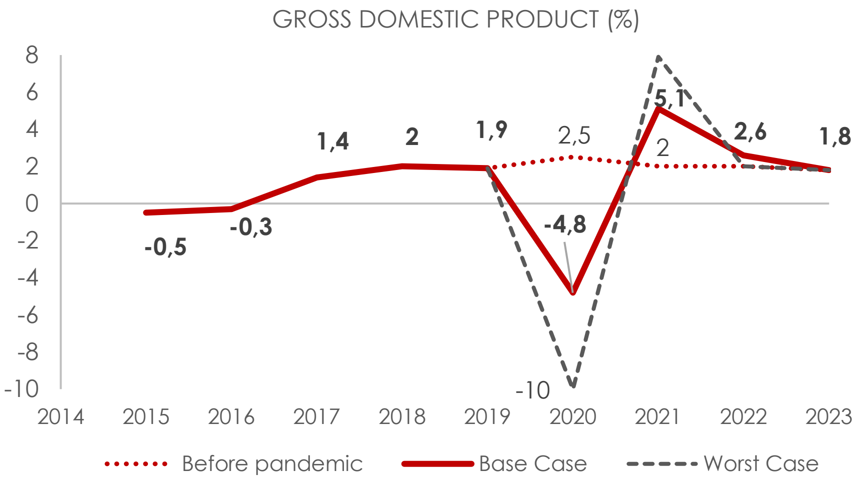


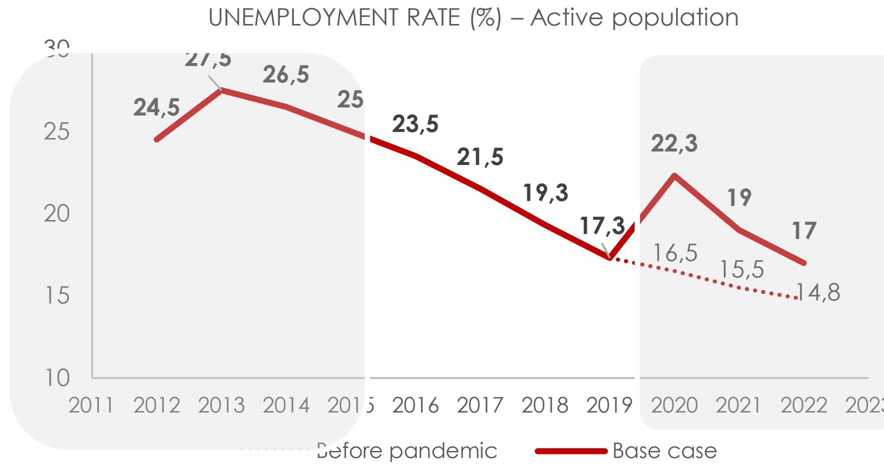
Fatal

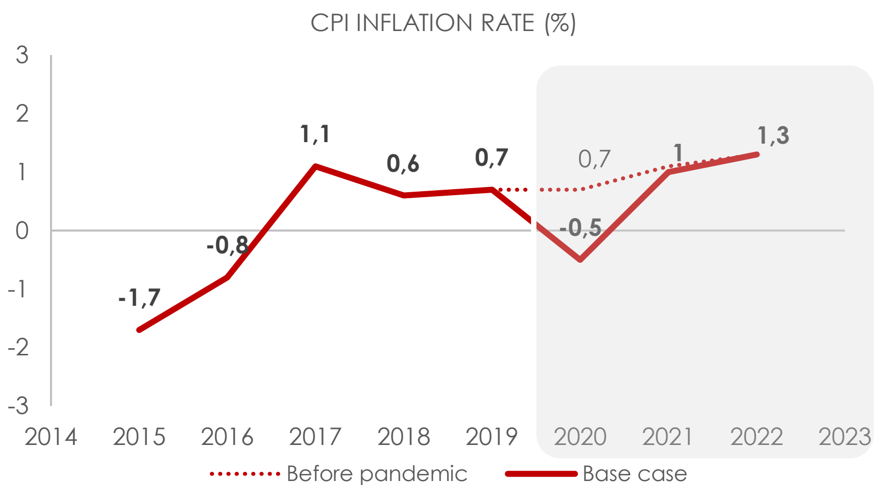
THE GREEK REAL ESTATE MARKET

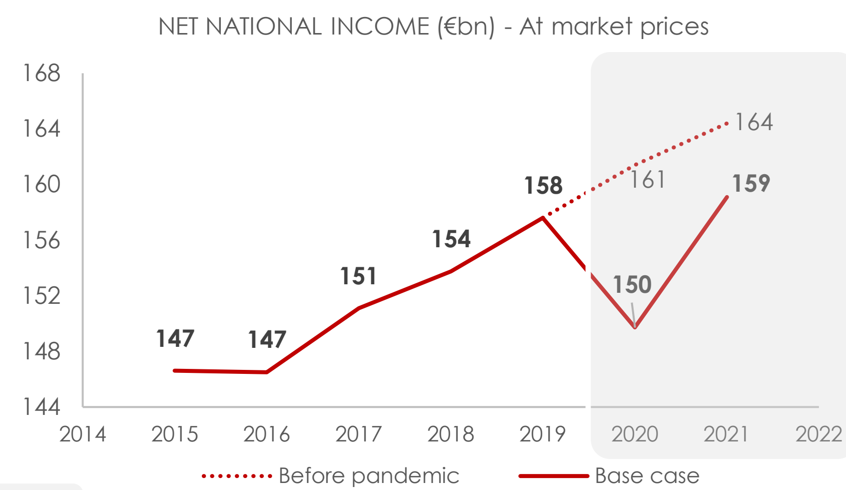
AFTER AN UNPARALLELED ECONOMIC CRISIS, A RECOVERY WAS UNDERWAY…
…BUT NOW A NEW SUSTAINABLE COMEBACK IS NEEDED

Before the pandemic and the physical containment measures, the macroeconomic outlook seemed positive. The challenge is now to support the real estate sector through a series of development and regeneration projects that will boost economic activity and business opportunities.









Forecast

Sources: HelStat, IMF, European Commission, Greek Government, Eurostat
Edit: Arbitrage RE

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WHICH ASSET CLASSES MIGHT SUFFER MOST?

IMPACT ON LOCAL REAL ESTATE DUE TO EXPECTED POST PANDEMIC PROTOCOLLS

With no adaptation and adjustments, certain assets classes are exposed to a sustained long-term commercial impact as a result of the pandemic crisis and the anticipated operational social distancing protocols that will be implemented. In general, impacts will vary, quality and spacious prime property assets with certified wellness specifications and digitally enhanced communication infrastructure are likely to be most resilient. Prime logistics and essential goods retail units could come out stronger. Quality housing has structural tailwinds, but there are potential implications for design, density, location and quality of life metrics. Hotel and leisure assets will suffer undoubtfully in the short term due to the imposed containment on non-essential travelling. Certain hospitality assets will also need to adjust their business models and spaces in the long run. Non-food retail and F&B spaces will have to adapt. Consolidation and restructuring in the sector is expected.

COMMERCIAL RISK ASSESMENT BASED ON AS-IS SPECIFICATIONS

	HIGH RISK ←		MEDIUM RISK	→	LOW RISK
Sustained long term impact	**Entertainment/Leisure** *F&B, restaurants*	**Conventional Office** *Dense and inefficient*			
	Residential *Old and dense*	**Residential** Short term rentals	**Warehouses** *Conventional*		
	Co-Working Office *Focused on density*	**Retail** *Shopping centres*	**City Hotel** *Full services, conferences*		
Notable short term impact	**Entertainment/Leisure** *Theme parks and sports*	**Retail** *Non-Food*	**Boutique City Hotel** *Limited services*		
	Resort Hotel *Full services*	**Seasonal Hotel** *Limited services*	**Retail** *Big-box*	**Warehouses** Distribution centers	
	Co-Working Office *Focused on services*	**Industrial** *Non-designated Zones*	**Industrial** *Designated Zones*	**Residential** *Long term rentals*	
Minor short term impact			**Prime Office** *Green and wellness*	**Retail** *Essential goods*	**Warehouses** *Modern and advanced*
				Residential Modern and spacious	**Warehouses** *Last mile logistics*

Source: Arbitrage RE

THE GREEK REAL ESTATE MARKET
MAIN DEMAND TRENDS BEFORE AND AFTER THE PANDEMIC

Before the pandemic outbreak, demand was rising on all prime real estate market segments. Currently, demand will remain for logistics in strategic locations, quality residential properties and large hotels in important destinations that need to be upgraded. In the medium term, the demand is expected to grow for core prime assets due to lack of quality supply but also for commercial upgrades, retrofits and/or new developments due to the lack of available modern building stock. The retail segment will be the last to recover.

Markets / Geography	Residential		Office		Retail		Hospitality		Industrial	
Athens - Prime	↑	↗	↑	→	↗	↘	↑	↗	↗	↗
Athens - Secondary	↗	→	→	↘	↘	↓	↗	↘	→	→
Thessaloniki - Main	↗	↗	↗	→	→	↘	↗	→	↗	→
Other cities	→	→			↘	↓	↗	↘	→	→
Major islands	↗	→			↗	↘	↑	↗		

↑ (grey) Before the pandemic outbreak (Feb 2020)

↑ (red) Post pandemic containment (Forecast Q4 2020 - Q1 2021)

Source: Arbitrage RE

THE GREEK REAL ESTATE MARKET
STRATEGIC ASSESMENT AFTER THE END OF THE PANDEMIC

Prices remain affordable and the market is now experienced in crisis management. After years of stagnation or low growth, it is important to continue with the planning of new developments and the completion of existing commercial projects that meet existing and long-standing needs of Athens and other local markets. The big bet is to continue attracting international institutional investors and foreign buyers either through the purchase of NPLs or due to the opportunities in the hospitality sector, holiday housing and "Golden Visa".

Strengths

- Relative political stability *(Stable government, Eurozone, ECB etc.)*
- Experience and resilience of the industry due to the difficulties of previous crisis years (2009-16)
- Affordable pricing, still 20% -25% below 2008 peak as result of the prolonged economic crisis
- Good returns compared to competing Mediterranean and secondary markets
- Privatization and infrastructure upgrades *(airports, ports, public estates)*
- Golden visa and summer housing
- Tourism and hospitality assets *(in normalcy)*

Weaknesses

- Deep recession in 2020 due to the pandemic, rising unemployment and uncertainty about the extent of economic recovery in 2021
- New surge in NPLs, higher interest rates and further restrictions on bank credit.
- Less public investment due to the need for increased fiscal discipline
- New decline in the already reduced household income due to the previous economic crisis
- Demographics and previous migration of skilled workforce ("brain drain")

Opportunities

- Economic recovery and asset price appreciation
- Alternative providers of real estate debt or development funding
- Attractive NPL real estate collaterals and REOs (Marketable)
- Repositioning upgrades with mixing commercial, office and residential uses (incl. student housing)
- New developments in offices and residential buildings with emphasis on health and wellness standards
- New urban infrastructure and regeneration projects such as Elliniko or Faliro Delta

Threats

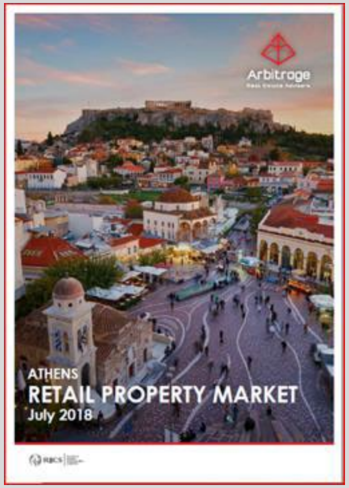
- Anemic economic recovery after the end of the pandemic, low growth rates and rising of the already high unemployment thereafter
- Geopolitical and political instability
- Lack of local investors and available financing
- Competition for prime assets
- Lack of modern institutional framework for land use and national cadastral completion delay
- Non-tradable properties collaterals and REOs (Long Tail) for banks' "red loan" portfolios
- Technological obsolescence and commercial devaluation of old properties in specific areas

Source: Arbitrage RE

THE BROADER REAL ESTATE MARKET
OUR PUBLIC REPORTS IN EN AND GR

TO BE UPDATED FOR RECIRCULATION
UNTIL THE END OF THE YEAR

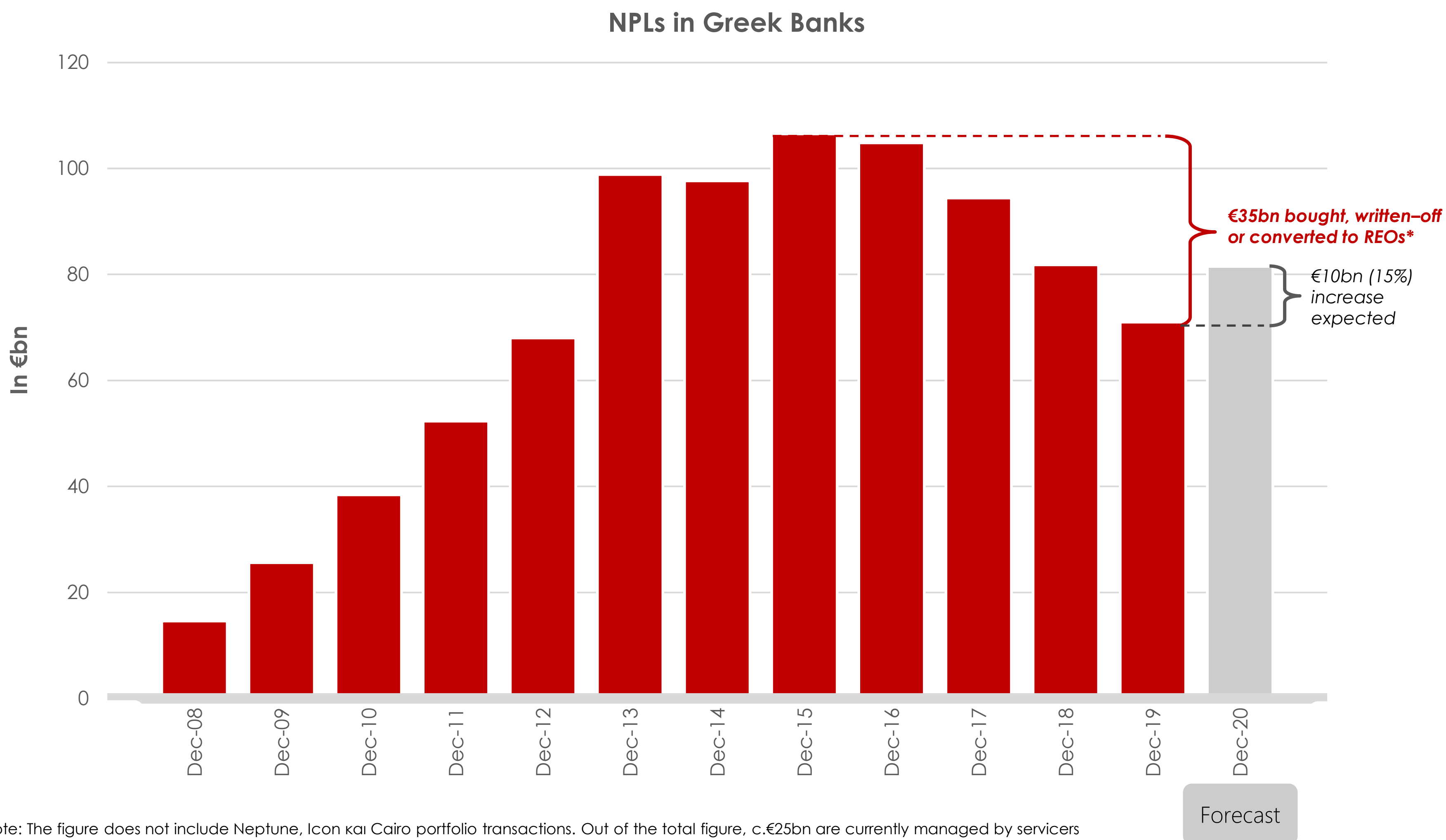
NEW PUBLICATIONS
IN THE 1ST HALF OF 2021



THE NPL OPPORTUNITY

THE NPL OPPORTUNITY
THE EVOLUTION OF NON PERFORMING LOANS IN GREECE

There is risk that a considerable number of business loans could turn non-performing, especially from those recently restructured. In the current state of uncertainty, the banks are working in constant cooperation with the borrowers to avoid a big wave of new NPLs and a new generation of NPLs to be created. In any case, a 10-15% increase in 2020 is expected in the existing NPL stock.

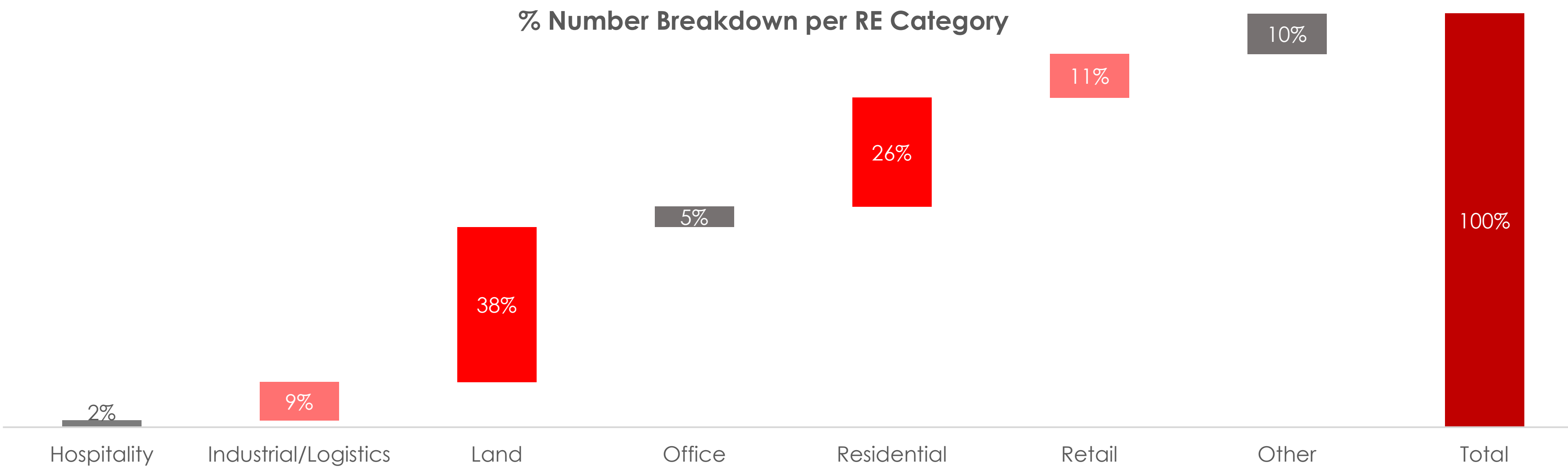


Note: The figure does not include Neptune, Icon και Cairo portfolio transactions. Out of the total figure, c.€25bn are currently managed by servicers
Source: European Central Bank, Bank of Greece

THE NPL OPPORTUNITY

BREAKDOWN OF # REAL ESTATE COLLATERALS IN SOLD CORPORATE NPLs

Despite the corporate nature of the sold and/or recently marketed NPL portfolios, most of the collateralized assets were land plots or residential (>60%). Given the SME and family business dominated nature of GR corporate sector, these assets were probably provided as guarantees from their owners/major shareholders. In asset count, there are also quite a few industrial and retail assets.



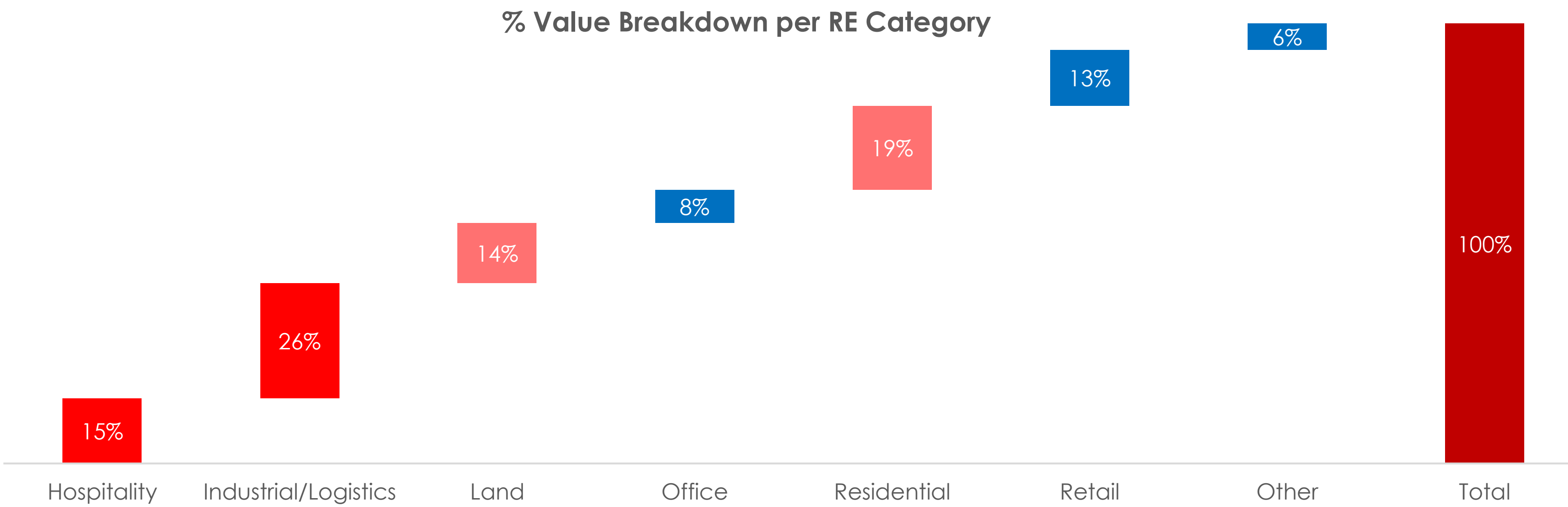
GREEK CORPORATE NPLS | RE COLLATERAL AND REOs							
RE Category	**Asset Count (#) Per Portfolio & RE Category**						
	Amoeba	**Jupiter (NPL)**	**Jupiter (REO)**	**Kairos**	**Symbol**	**Neptune**	**Icon**
Hospitality	33	87	4	24	141	26	66
Industrial/Logistics	48	35	8	54	1,023	434	526
Land	341	556	-	288	4,251	1,395	1,784
Office	186	99	7	91	317	175	249
Other	234	187	8	259	315	232	1,005
Residential	304	653	21	541	1,478	1,391	1,656
Retail	106	144	28	163	1,025	444	526
Total	**1,252**	**1,761**	**76**	**1,420**	**8,550**	**4,097**	**5,812**

Note; For Neptune and Icon NPL portfolios, there are preferred bidders in exclusive talks with the Banks
Source: Arbitrage RE

THE NPL OPPORTUNITY

VALUE BREAKDOWN OF REAL ESTATE COLLATERALS IN SOLD CORPORATE NPLs

However, despite their overall limited number, most of the value lies in industrial and hospitality collateralized assets (>40%) in combination with the residential assets albeit mostly due to their larger volumes. There are also opportunities in certain urban land plots with commercial and residential development potential given the lack of quality and prime building stock.



GREEK NPLS | RE COLLATERALS				
RE Category	**Asset Count (#)**	**% of Assets per RE Category**	**Value (€)**	**% of Value per RE Category**
Hospitality	381	2%	676,000,000	15%
Industrial/Logistics	2,128	9%	1,198,700,000	26%
Land	8,615	38%	624,500,000	14%
Office	1,124	5%	345,000,000	8%
Residential	6,044	26%	870,700,000	19%
Retail	2,436	11%	582,650,000	13%
Other	2,240	10%	272,850,000	6%
Total	**22,968**	**100%**	**4,570,400,000**	**100%**

Note; For Neptune and Icon NPL portfolios, there are preferred bidders in exclusive talks with the Banks

Source: Arbitrage RE

THE NPL OPPORTUNITY
THE MAJORITY OF CORPORATE NPLS ARE, IN ESSENCE, A REAL ESTATE PLAY

NPLs and supply	▪ Non-performing loans (NPLs) remain a huge headache for the systemic banks with a projected c.€80bn clogging their books by the end of 2020. More than 60% collateralised by real estate. ▪ The active management of the transacted or to be transferred corporate NPL portfolios (e.g. Amoeba, Jupiter, Symbol, Neptune, Icon etc.) will generate extra real estate supply (>€10 bn). ▪ On top of this, growing supply is coming from the systemic banks' REOs (>€5.0bn), which will keep on increasing due to the continuation of the auction repossessions.
The opportunity	▪ Attractive prices in the majority of the real estate asset classes, including well located industrial, attractive hotel and prime residential assets as well as land with potential for commercial, hospitality or residential development ▪ Unique opportunity for investors to buy significantly underinvested real estate assets with upside potential. ▪ Potential to capture asset price appreciations over the next 2-3 years in a recovery scenario.
Need for proficient asset management	▪ Value-add upside will come from upgrading, retrofitting, developing and/or holding the "star assets" for a period rather than exiting within a very short timeframe ▪ Professional REO management will play a significant role to upgrade, reposition, develop and sell assets. ▪ A tax efficient asset management structure (like Industrial or Hotel or Residential REITs) as a complimentary strategy to maximise net capital gains.

As a pan-European investor very recently told us :

"Despite the new NPL opportunities expected to emerge in Continental and South Europe, acquiring well-priced collateralised NPLs and REOs in Greece will remain a main investment strategy."

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DISCLAIMER

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