

Trends in real-estate markets and valuation challenges

in pre and post pandemic times

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WAVO
world association of valuation organisations

Agenda

1. Context

How we got here and what are the first effects

2. Targeted bucket

Almost everything was impacted, now we are looking at several real estate segments

3. Office and commercial market insights

Real estate assets that gathered people were suddenly emptied for a while

4. Hotel and restaurants market insights

Accommodation and leisure locations are the most impacted by the restrictions

5. Residential market insights

People changed their living preferences, and this will impact residential markets

6. Takeaways

Top three background outlines that a valuer keeps in mind in these times

A medical crisis changeing the world

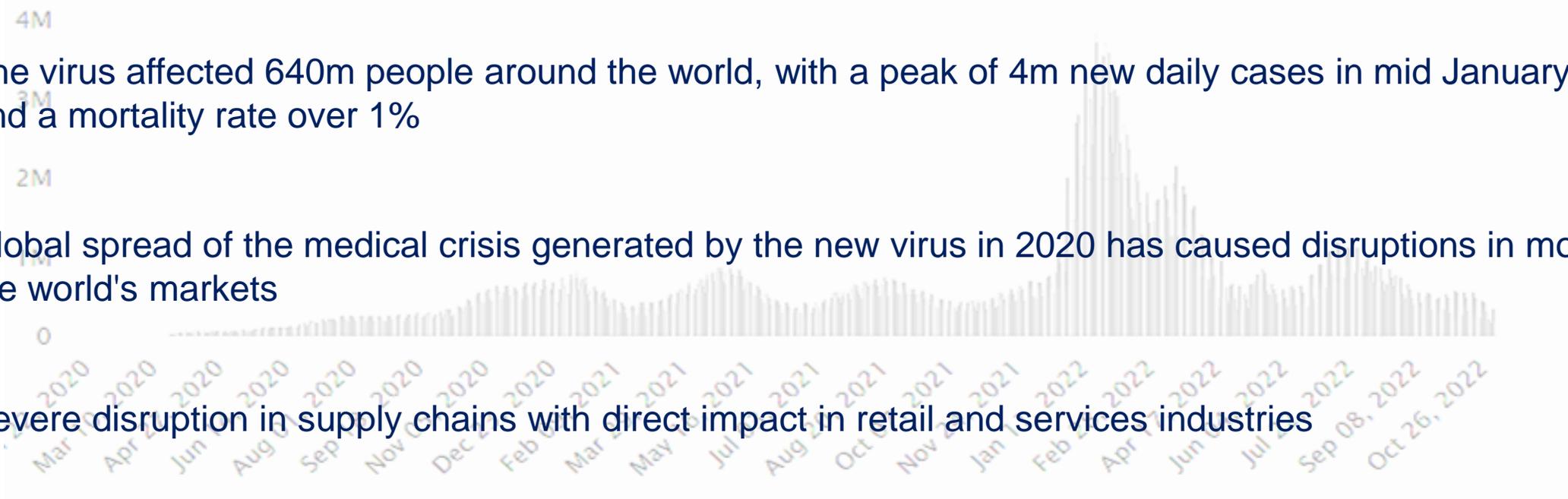
Spread of the new virus started in Q1 2020 and researchers expect the pandemic to last globally until 2024

The virus affected 640m people around the world, with a peak of 4m new daily cases in mid January 2022 and a mortality rate over 1%

Global spread of the medical crisis generated by the new virus in 2020 has caused disruptions in most of the world's markets

Severe disruption in supply chains with direct impact in retail and services industries

In order to prevent the spread of the virus, many countries have adopted stringent measures including isolation and social distancing.



The targeted bucket

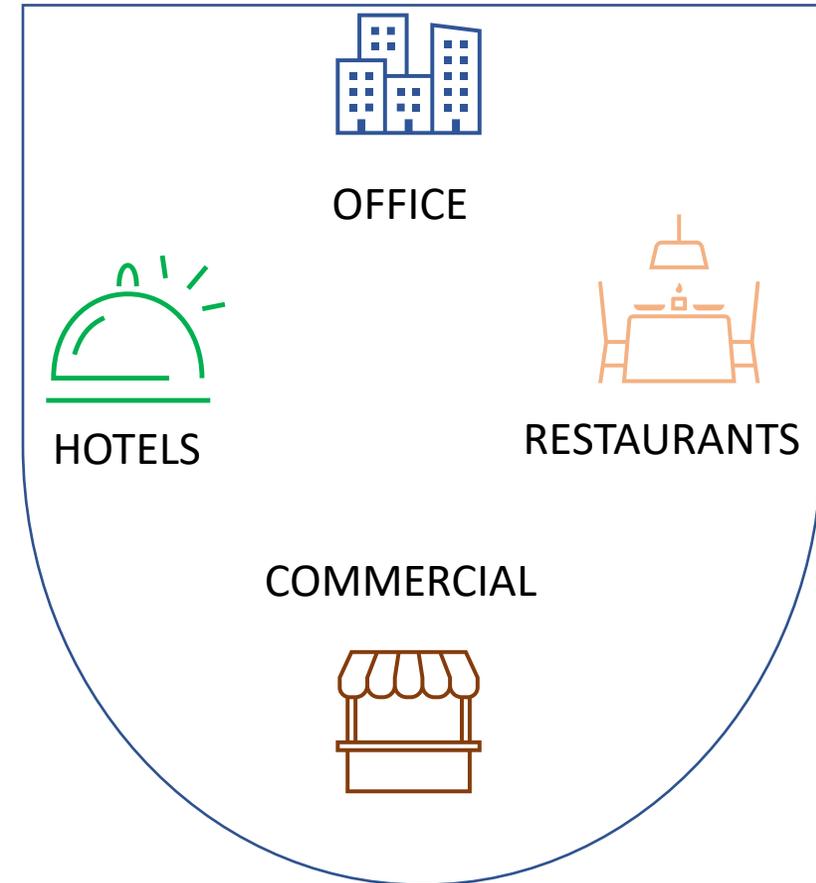
Real estate assets that have their value created by the economical benefits generated for the owner, as core assets for the cash flows.

Restrictions generated by the pandemic:

- Travel
- Distancing
- People gathering / Density in closed spaces
- Safety measures

Sectors affected:

- Office buildings
- Hotels - Restaurants
- Large commercial centers / Shopping malls / Shopping centers

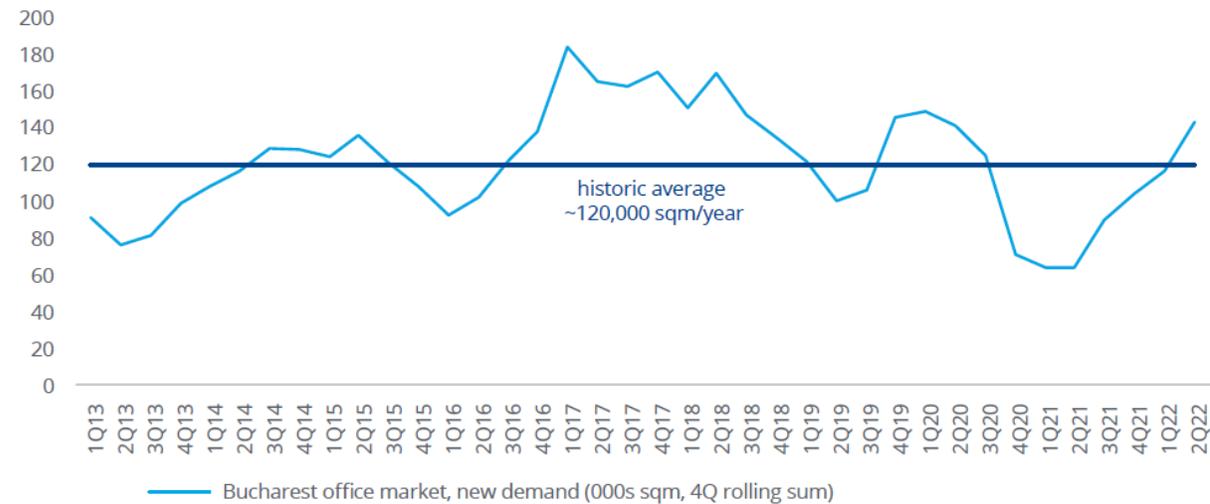


Office market – Bucharest, Romania

Demand for modern office spaces continued to recover in the first half of the year. The second quarter of 2022 was the best one we saw after Q4 2019.

In 2022 less than 30% of the office buildings owners reported occupancy rates below 70%.

Bucharest office market, new demand



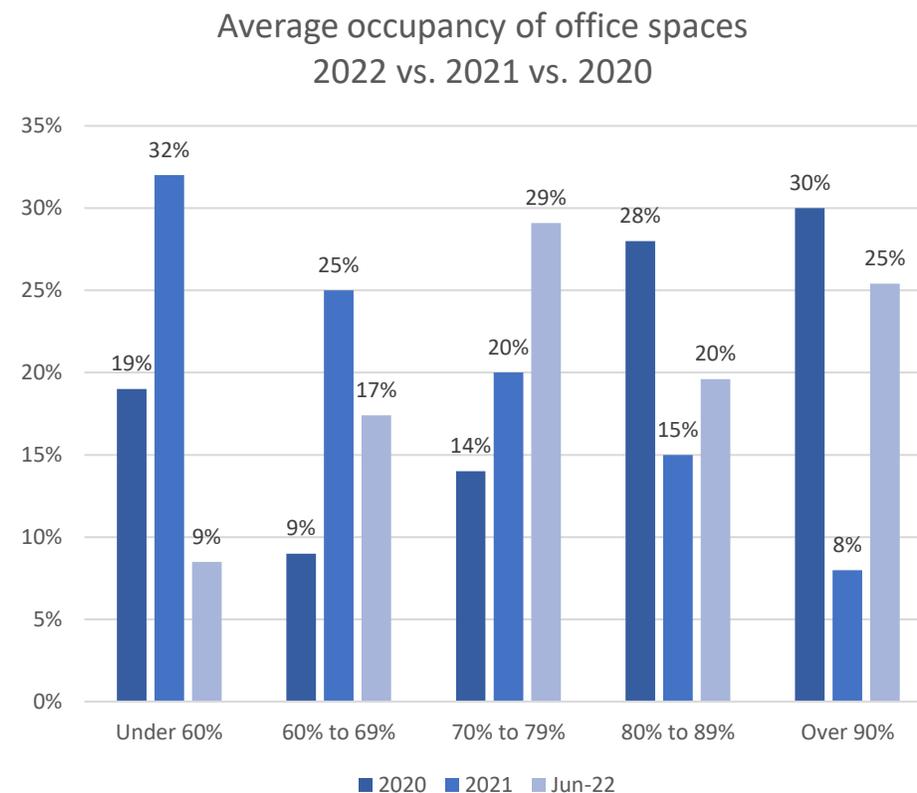
Source: Colliers, Bucharest Research Forum

Office buildings occupancy - EUROPE

Across Europe, while in 2021 more than 50% of the office spaces reported an occupancy rate below 70%, a double figure comparing to 2020 reports.

In 2022 less than 30% of the office buildings owners reported occupancy rates below 70%.

At the other end 25% of the owners reported occupancy rates over 90% in 2022, compared with only 8% in 2021 and 30% in 2020.



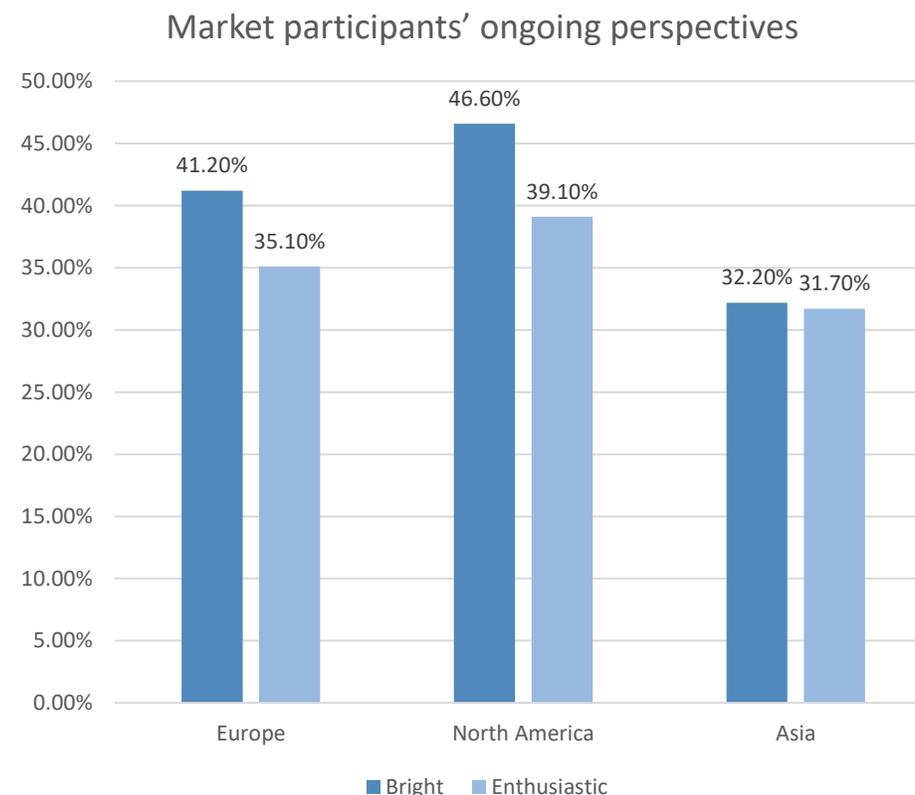
Source: MatchOffice Industry surveys

Conclusion: office sector occupancy rates in Europe show an unexpected comeback, close to pre-pandemic figures.

Positive feedback for office market in North America and Asia in 2022

Market participants have an optimistic perspective for the future, with bright expectation for over 40% North American office providers, even if only 19.4% of the offices reported an occupancy rate over 90% (vs. close to 0% in 2021).

In Asian area more than 30% of office providers have bright future expectations, while of almost 22% of office spaces reported and occupancy over 90% (vs. 3.7% in 2021)



Source: MatchOffice Industry surveys

Conclusion: Market participants have an optimistic feedback for the office sector across the continents.

Market reactions

After 2 years of corrections triggered by pandemic effects, the global real estate markets reacts with a transformation of how the buildings are used and valued on mid and long-term perspective.

On global overview, more than half of the commercial real estate owners and investors expect improvements or stable conditions for the next year when it comes to main indicators that contribute to a property's value, such as: rental rates, vacancy, prices, transaction volumes, cost of capital.

Employee expectations have shifted and grown since the pandemic, with more and more people taking work from home as normal course. Therefore, office buildings face lower occupation levels but not necessarily lower vacancy rates and the space per capita needed rises.

Landlords and tenants focus on employee's safety and cost cutting from non-core expenses.

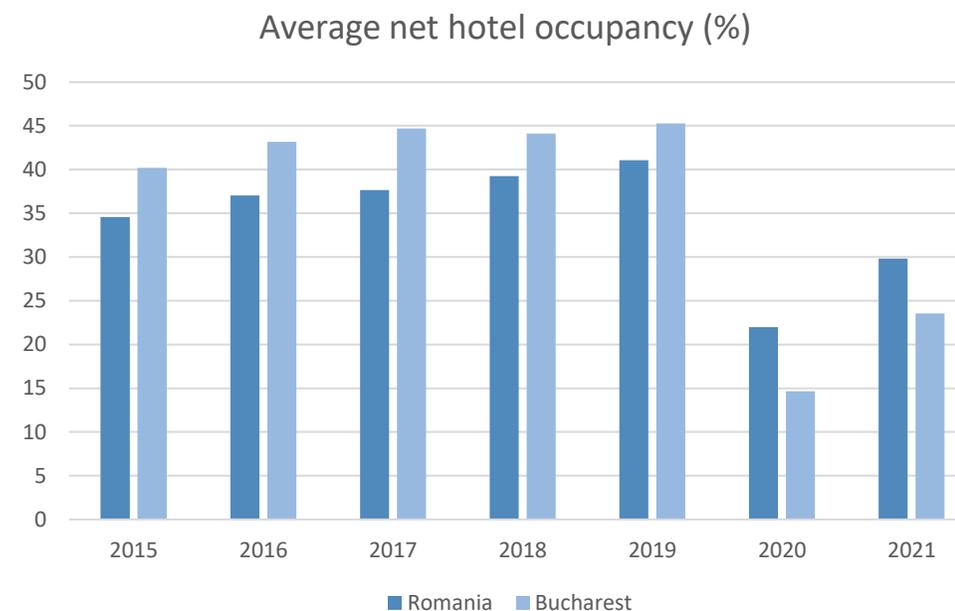
Hotel market - Romania

Recovery and results seen throughout 2021 have been uneven, as frequent changes with regards to travel requirements, vaccine-related restrictions for international travel and COVID-19 waves impacting overall sentiment have made judging the overall picture quite difficult.

Hotels in most developed markets have become more certain over their occupancy level.

Leisure travel is still not comparable to 2018-2019, with impact in occupancy rates.

At the beginning of 2022 average net occupancy rate of hotels in Romania was close to 30% comparing to over 40% in 2019.



Source: Colliers Market Report

Hotel market

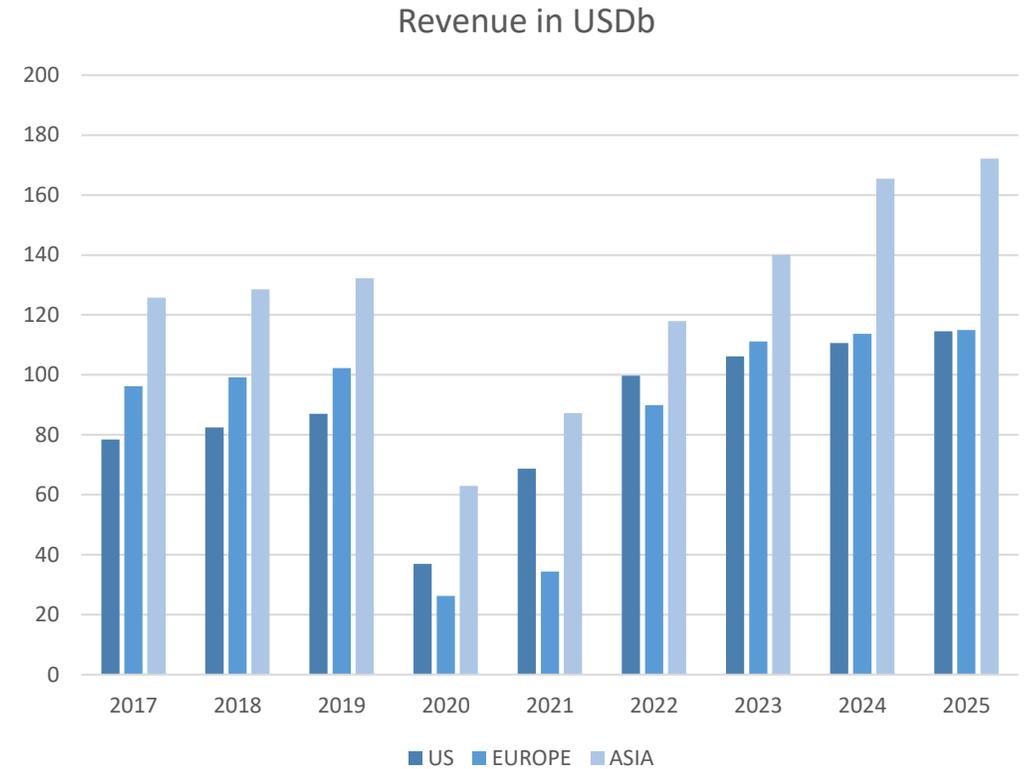
From a valuer's perspective, one of the most important input in the valuation of a hotel is revenue.

After a big downturn in revenues in 2021:

- US 58% drop
- EUROPE 74% drop
- ASIA 52% drop

hotel industry revenue manage to reach pre-pandemic level, even with the perspective to surpass 2019 figures in 2022 for some regions:

- US 15% 2022 vs. 2019
- EUROPE -12% 2022 vs. 2019
- ASIA -11% 2022 vs. 2019



CAGR 2022 – 2026

- US 4.28%
- EUROPE 6.92%
- ASIA 10.83%

Restaurant market

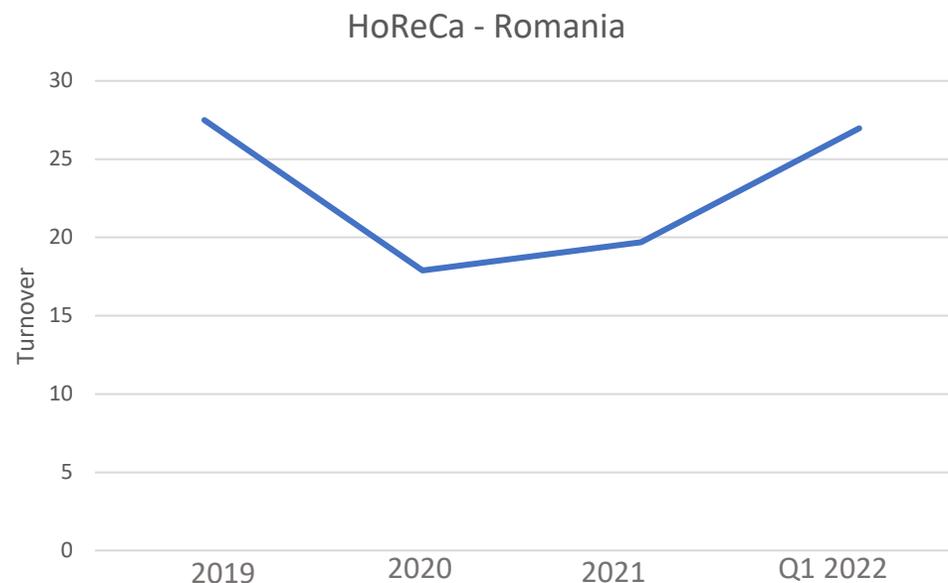
One of the most competitive markets as a running business, the restaurant industry was highly damaged in 2020

Global market exhibited a decline of -31.5% in 2020 compared to 2019

Highly impacted by legal restrictions for capacity limits ranging from 30% to 80%

The shift to delivery services will put more pressure on the real estate assets

Multiples like Revenue/Seat or Value/Capacity will become less significant when valuing a restaurant as a CGU (Cash Generating Unit)



U shape recovery for HoReCa industry in Romania

Local residential market - Romania

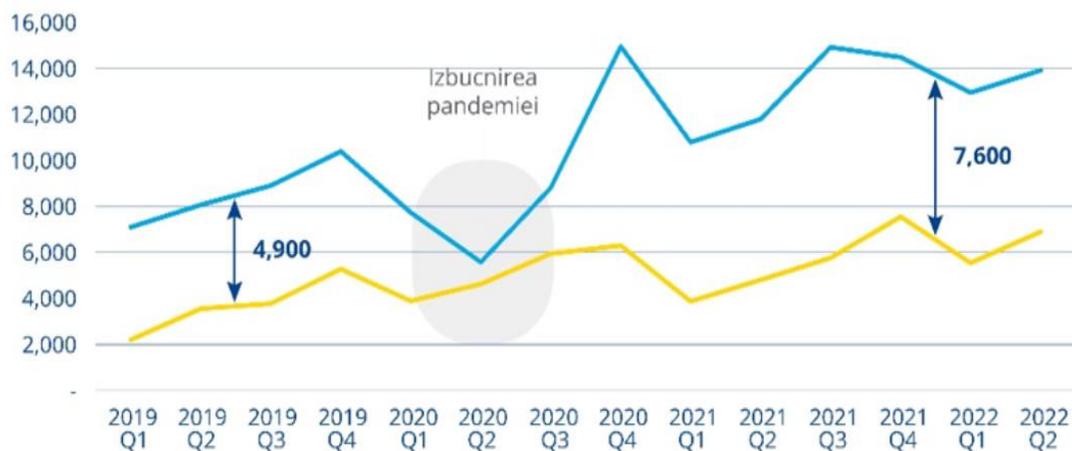
Move from the city to the countryside, supported also by the effects of the pandemic that impose social distance and support remote working.

Movements were mainly in rural areas within a reasonable commute time from the main cities

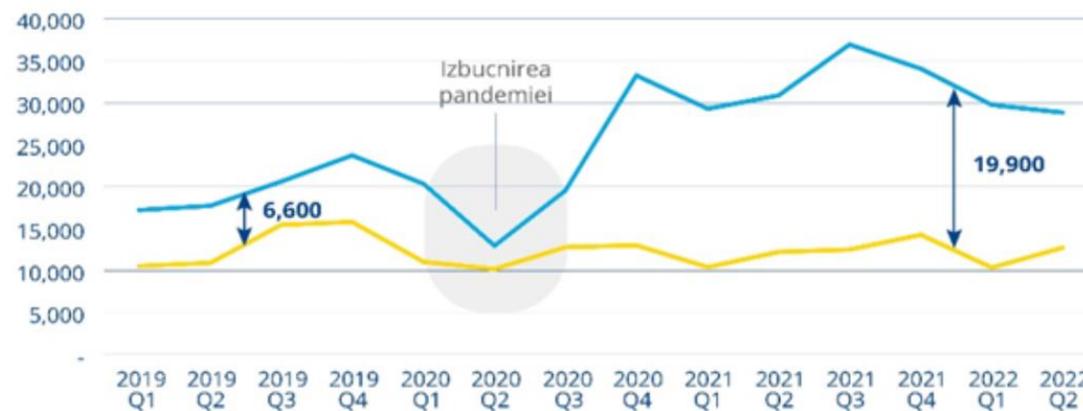
Transactions and deliveries trends are similar in Bucharest, but converge country-wide

Transactions versus Deliveries

Bucharest



Romania



Source: Colliers Romania

Takeaways

- Single and straight forward use of a property will probably be valid only for residential units. Office and leisure spaces retinking space use and giving more area per person for physical distancing, hotels looking more into safety and quality of their services, restaurant rethinking their business model, mixed-use real estate projects significantly contribute to enhancing and revitalizing city centers
- Medium and long-term perspectives are more important than a market snapshot as at valuation date when valuing a business generating real estate asset
- Although this crisis means a lot of burdens, it also brings opportunities for something positive and new that will last longer than just one season.

Thank you!

- It will be a pleasure to keep in touch:

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