

Investments in the current market.

How to build up an investment portfolio including real-estate?
To invest both in the stock market and real-estate.



Agenda

18:30_ Welcome by Vincent Bechet and Benoît de Hults;

18:40_ *A successful investment is based on the generation of Cash Flow, a disciplined Risk Management and a coherently applied healthy Investment Strategy through all asset classes.*

Nathalie Hottua - Senior Wealth Manager at Capital at Work and **Alexis Hoferlin** - Financial Analyst at Capital at Work;

19:00_ *The Banker's approach in Real Estate financing* by **Astrid Schlessner** - Senior Relationship Manager - Real Estate at Banque de Luxembourg;

19:20_ *Real Estate Valuation – Brief Overview* by **Marc Baertz** - MRCIS Registered Valuer - Partner and Head of Valuation at INOWAI S.A.

- *Luxembourgish Residential Real Estate Market & Outlook* by **Robby Cluyssen** - Account Manager at JLL Residential.

19:40_ Quiz and Q&A

20:10_ Cocktail Reception



Capital at Work

A successful investment is based on the generation of Cash Flow, a disciplined Risk Management and a coherently applied healthy Investment Strategy through all asset classes.

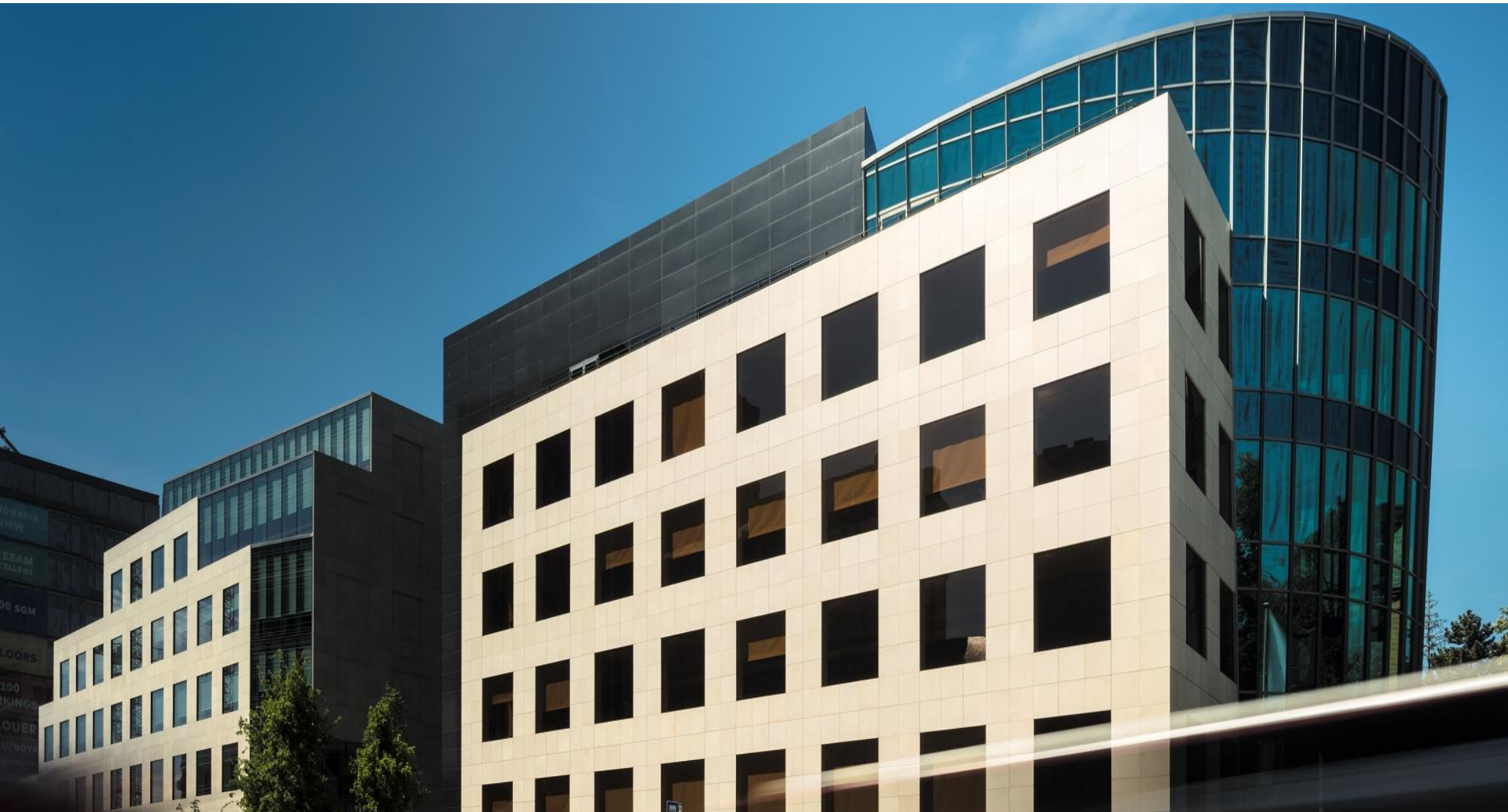
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Banque de Luxembourg – Astrid Schlessner

The Banker's approach in Real Estate financing.




LuxReal Forum: Investment in the current market



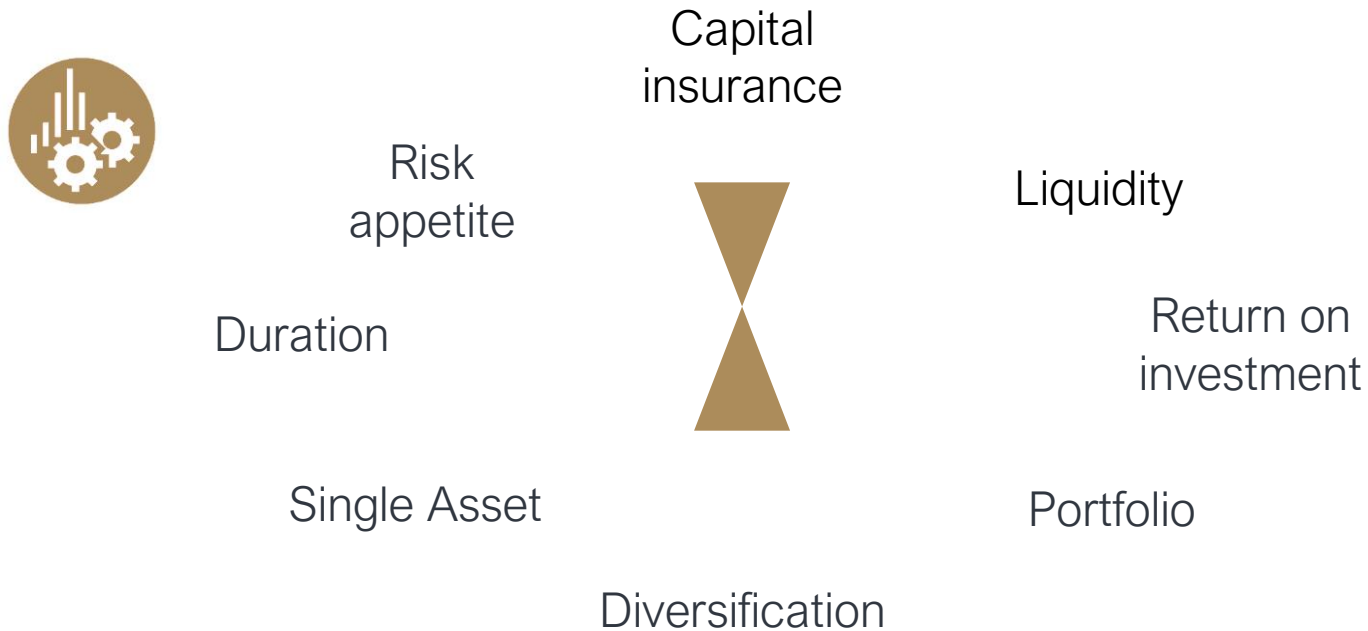
The **banker's** approach
in real estate financing



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1. Investment Strategy and Risk Profile
 2. Investment Plan
 3. Financing Plan
 4. Key points in structuring real estate financing

1. Investment Strategy and Risk Profile





Bond and Shares **versus** direct Real Estate Asset(s)

2. Investment Plan



Uses of funds:

- Single real estate asset
- Portfolio of RE assets
- Investment in real estate bonds/loans

Sources of funds:

- Equity
- Bank debt
- Deposits/bond and shares portfolio

- Strategy analysis of the investor:
 - One single transaction versus building up a portfolio
 - Invest and hold versus profit taker for reinvestment and value creation
 - Collective investment : investment in a club deal (loan/bond)

- Class of asset:
 - Residential – office - retail
 - Single tenant – multiple tenant

- Management of the asset

3. Financing Plan



| Time horizon of investment

| Short to medium term availability of cash in portfolio
in line with personal wealth planning and capex plans

Max leverage: Loan to Value / Loan to Cost

Security package: mortgage/ asset pledge/ third party support

Recourse/ non Recourse

SPV vehicle / personal loan

Duration – repayment capacity – other sources of income

4. Key Points in structuring real estate financing



Correlation between
security package,
pricing of the financing
and leverage
(debt/equity ratio)

Correlation between
leverage and cash
generation capacity of
the asset:
> debt capacity of the
asset and of the
investor (recourse on
other income sources to
secure repayment of the
loan)

Correlation between
financing amount and
value of the asset:
Definition of VALUE?

Location of the asset (s) (town, connectivity, service level of location, density of population, local residential demand and offer)

Quality of the asset: construction, state of the art materials, civil level of service offered

Rent capacity of the asset

Use of the asset: flexibility renting capacity

Covenants:

Loan to value/loan to cost :
valuations; exit loan to value

Debt service cover:

- rental income versus debt charge
- recourse to other sources of income?

✓ Exit options and risks

Thank you for your attention



INOWAI – Marc Baertz

Real Estate Valuation – Brief Overview.



INOWAI

PROPERTY PARTNERS

Real Estate Valuation

- Brief Overview

Possible reasons for valuations

- **Valuation for inclusion in financial statements**
- **Valuation of interests for secured lending**
- Valuation of businesses and business interests
- Valuation of individual trade related properties
- Valuation of plant and equipment
- Valuation of personal property,...
- Valuation of real property interests
- ...

Various Valuation Basis

- Cost approach
- Depreciated Replacement Cost
- Equitable Value
- Fair Value
- Income Approach
- Investment Value (or Worth)
- **Market Value**
- Special Value
- ...

Market Value “Definition”

- 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

Valuation Methods mainly used for Real Estate

- Capitalization of Market Rent
- Discounted Cash-Flow Analysis
- Comparable Asset Analysis
- Developers balance sheet method
- ...

Pros and contras of the various methods

Capitalization of Market Rent

- Straight forward method initially
- Issue when Asset largely under / over-rented
- Asset with a limited life expectation

Comparable Asset Analysis

- Is rather an indication than a true valuation method
- Very hard to find the same property with all the same characteristics in order to have an identical asset (location / quality / size / etc.)

Discounted Cash-Flow Analysis

- Looks “scientific” at first sight
- What if too many parameters
- Assumption on indexation & WACC play a major role

Developers Balance Sheet Method

- Applicable for land price calculation
- Depending highly on following assumptions:
 - Exit price of the development
 - Construction cost
 - Required Margin by the developer
- What if between purchase and exit there are too many years? -> uncertainty growths on parameters

Impact of Full ownership vs. Long lease

- In Luxembourg this issue is quite recent
- Very few long lease have come to their initial term
 - No / few comparatives
 - Very often the text within the long lease is not 100% clear on how to value the RE at the term
- DCF could be an appropriated method
 - But what if the lease term is too long >30 years?
 - Modelling starts to get complex with too many “unpredictable factors”
- Method of splitting the value into land / construction
 - Pragmatic approach to say full ownership = 100 years
 - Easy to calculate on this basis but not always “scientifically proved”

Long Lease – Residential Apartment (example)

- Let's suppose full ownership sells at 10.000€ / sqm
- Land Value is 40% / Construction value is 60%
- Long Lease Term = 99 years
- Calculation long lease 99y:
 - Land -> $10.000 \times 40\% \times 99\% = 3.960\text{€}$
 - Construction -> $10.000 \times 60\% = 6.000\text{€}$
 - Total selling price: 9.960€ / sqm (99,6% of the value of full ownership)
- Calculation long lease 75y:
 - Land -> $10.000 \times 40\% \times 75\% = 3.000\text{€}$
 - Construction -> $10.000 \times 60\% = 6.000\text{€}$
 - Total selling price: 9.000€ / sqm (90% of the value of full ownership)
- The lower the land value (in %) the lower the impact on price

Thank you for your attention



JLL – Robby Cluyssen

Luxembourgish Residential Real Estate Market & Outlook.

Luxembourg Residential Market

*LUXREAL
20 September 2018*



EXECUTIVE SUMMARY

Price
+ 4.9 %

Luxembourg
residential market

Price of existing apartments
+ 4.7 %

Price of new apartments
+ 6.1 %

Price of existing houses
+ 4.1 %

WHY INVEST IN LUXEMBOURG ?

- The demand for housing is constantly increasing but the offer doesn't increase quickly enough.
- The residential market is made of high quality properties with a diverse range of opportunities.
- Public transports are improving together with public infrastructures.
- Flexible investment options.
- GDP growth and more businesses coming or expanding their offices in Luxembourg are accelerating jobs creation and migration.



WHAT IS DRIVING LUXEMBOURG DEMAND ?

Increasing population
Economic growth
Financial center
Tax efficiency
Quality of living
European institutions
Crossroad between France, Belgium & Germany
Stable government & legal system
Long term capital growth
Strong capital growth prospects
Strong and expanding rental market
Reliable rental returns
Growing number of global wealthy individual investors
Wealth preservation benefits



51%

live in single-family homes

49%

live in buildings

80%

of Luxembourg City residents live in buildings.

1/5

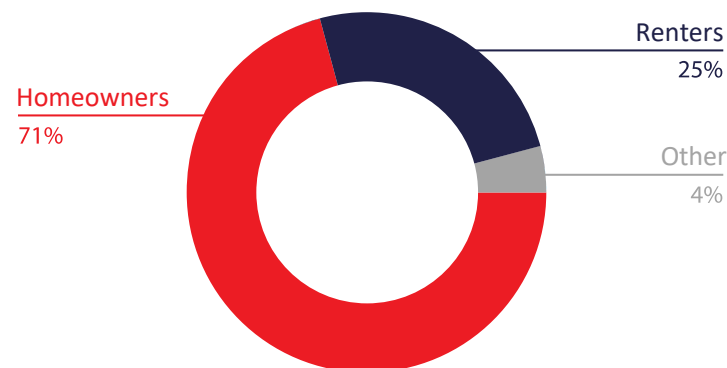
Dwellings built in the 21st century, mainly in Luxembourg city, Differdange, Hesperange, Esch-sur-Alzette.

7.5/10

General satisfaction of residents in Luxembourg with regard to the quality of their lives

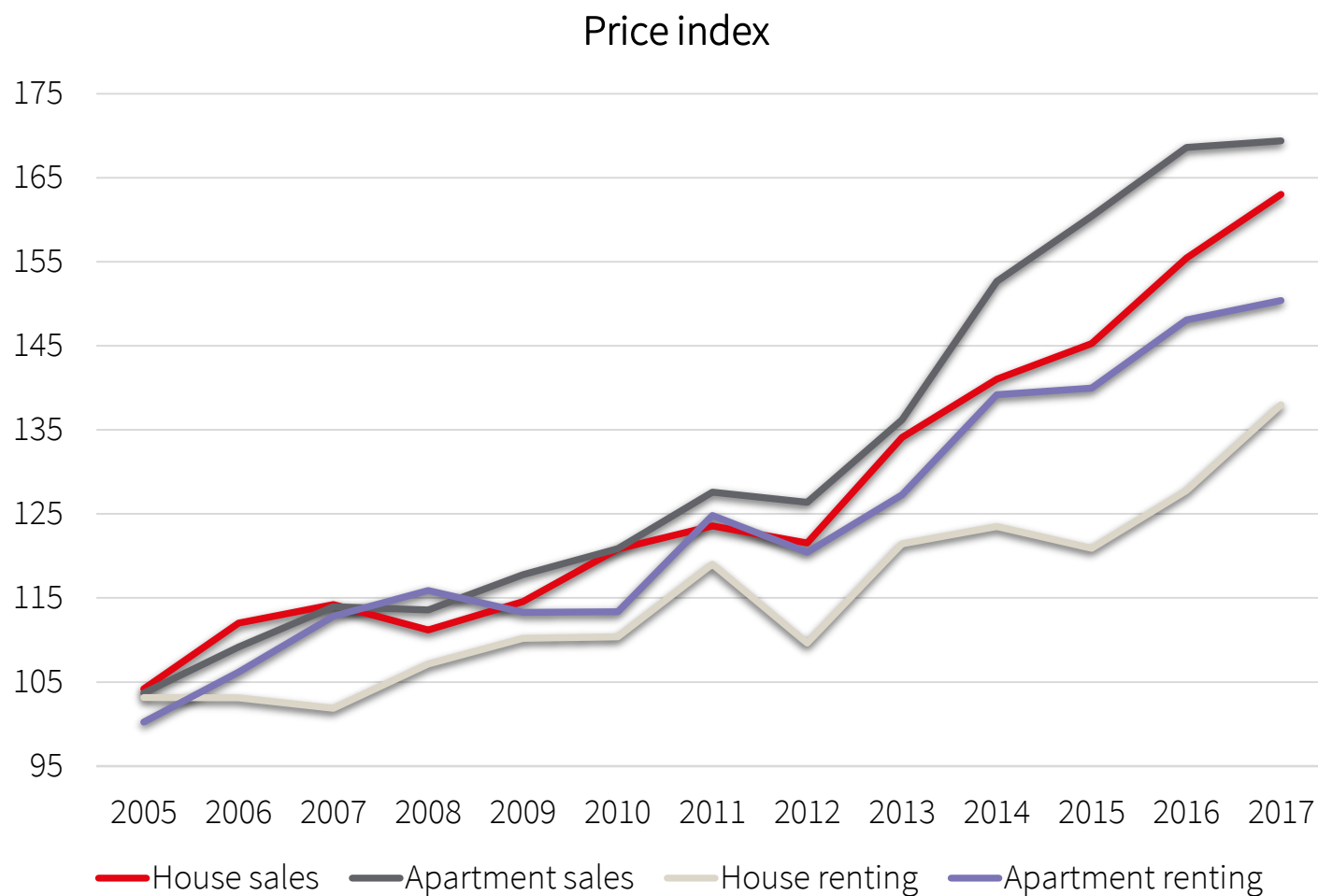
QUALITY AND STANDARD OF LIVING

Typology of residents



- 71% of residents in Luxembourg own their main home.
- This rate is close to the European average (70%) but in strong contrast with neighboring countries where this rate is 64% in France and 53% in Germany.
- These differences are even more pronounced within the country itself:
 - 85% of Luxembourgish residents own their main home.
 - 50% of foreign residents are renting it.

LUXEMBOURG COUNTRY- PRICE GROWTH



Sale
Apartments
+4,3%

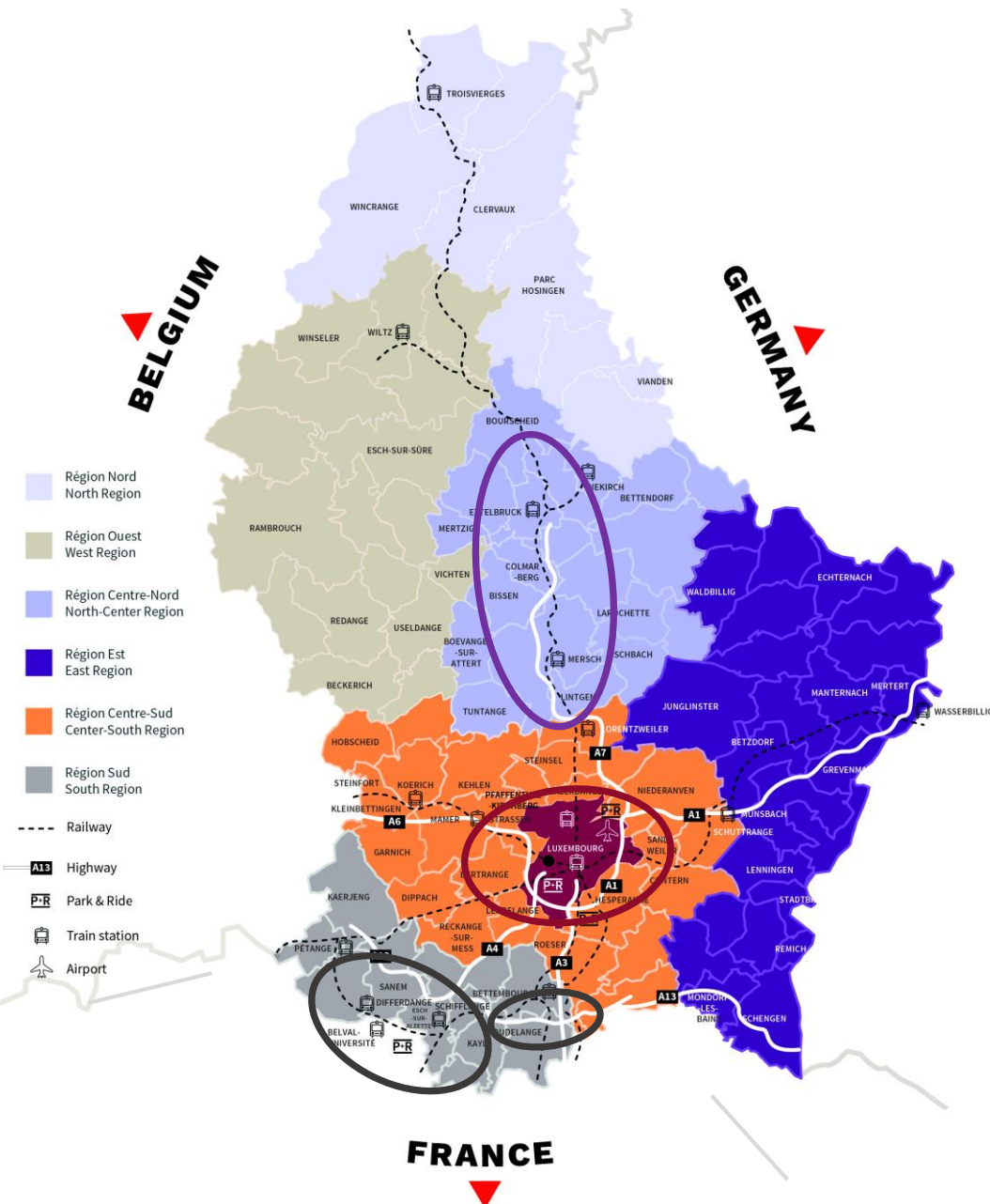
Sale
Houses
+8%

Rent
Apartments
+2,3%

Rent
Houses
+1,6%

Prices kept rising in 2017 together with sales and rental transactions.

LUXEMBOURG - AREAS AND PRICING



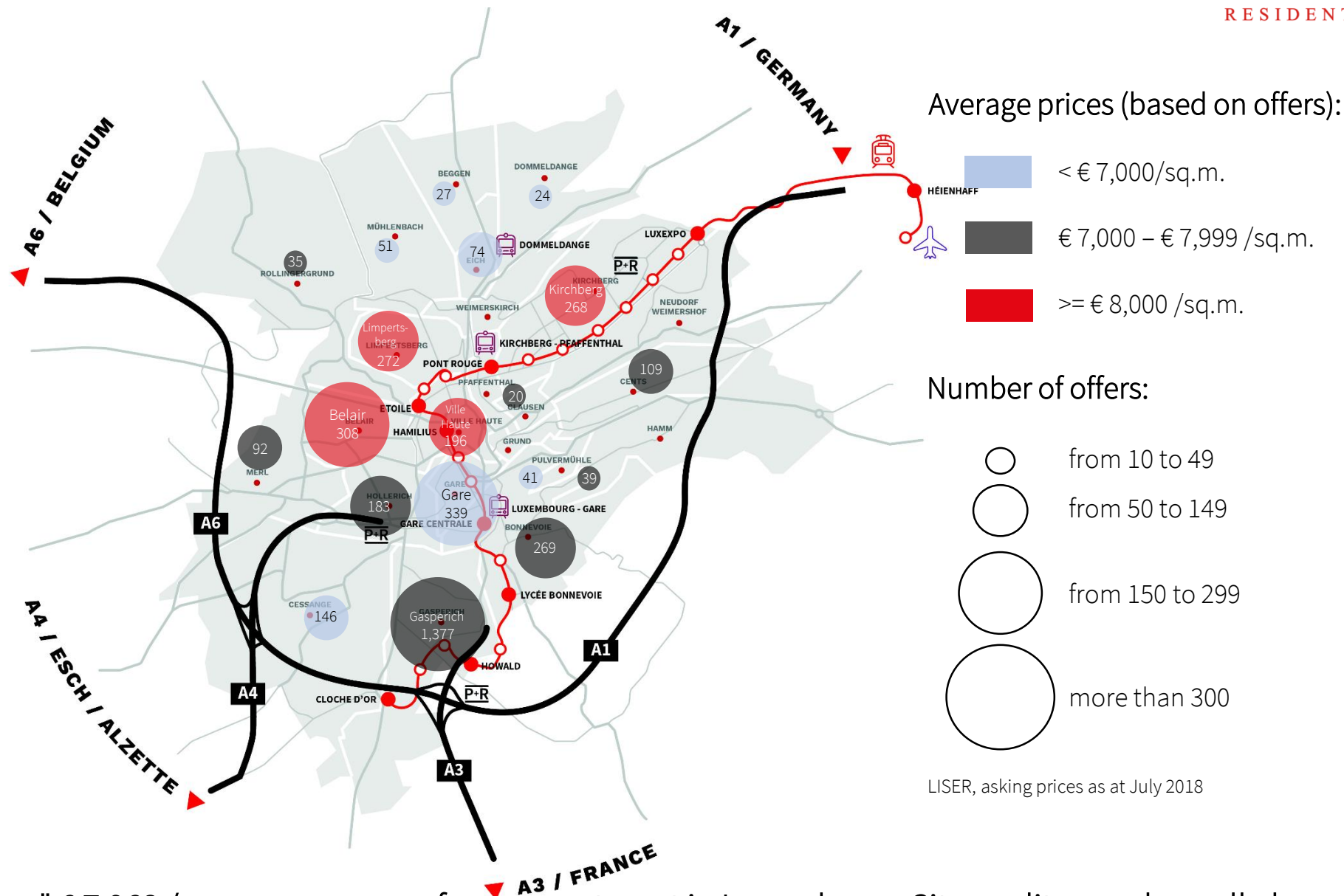
Hot spot VEFA (sales on plans):

-  $< € 4,500 - € 5,699$ /sq.m.
-  $€ 5,700 - € 7,500$ /sq.m.
-  $\geq € 7,500$ /sq.m.

Average price Country
€ 5,678 / sq.m.

Average price City
€ 7,963 / sq.m.

LUXEMBOURG CITY - AREAS AND PRICING



" € 7,963 / sq.m. on average for an apartment in Luxembourg City, reality may be well above. "

NO BUBBLE – GROWING POPULATION

Rising prices results from various factors, not likely to change overnight

- Economic growth in Luxembourg outperforms European average:
 - GDP growth EU 2017-2018 = 1.8% annually
 - GDP growth Luxembourg 2017-2018 = **4.8%**
- The robust economy supports labour demand with migration of skilled workers
- The case of cross border workers:
 - Increasing traffic congestion on the highways between France, Germany, Belgium and Luxembourg.
 - Inefficient rail infrastructure: train is not the preferred mobility solution.
 - Moving to Luxembourg is more and more considered.
- The population of Luxembourg has increased by more than 40% in the last 25 years and should more than double in less than 50 years.
 - On the first of January 2018, there were **602,005** residents in Luxembourg.
 - There should be more than **760,000** residents in Luxembourg by 2030.

NO BUBBLE – HOUSING SHORTAGE & LOW INTEREST RATES

Rising prices results from various factors, not likely to change overnight

- Higher production of new dwellings from 2016, but below the needs of the forecasted population growth.
 - Need for on average **6,000** new dwellings per year since 2000.
 - Production of on average **2,600** new dwellings per year since 2000.
- 76 % of the land potential is held by private investors / families which have a patrimonial view and limited incentives to sell.
- High complexity and time to obtain building permits.
- Prices are not likely to decline in the short term, and may even rise further for new projects in central locations. However, the fact that towers are now possible in Luxembourg, and can offer more units than usual, we see new developments which could have an effect on prices.
- Low mortgage rates support financing acquisition of own housing. However, the global low interest rate environment also supports the rise of institutional ownership diversifying their assets to residential, potentially lifting prices higher.

OUTLOOK

- 3 major factors; population growth, economic growth & low interest rates; are unlikely to change.
- Increase of demand, hence of prices, are expected in all regions of the country due to the limited offer of new dwellings.
- A wave of new developments with residential towers providing more units on a reduced space are changing the Luxembourg skyline.
- Regions like the south and the north are offering new developments with more units due to a higher demand.
- Luxembourg City keeps its attractiveness and prices should keep rising in the city in 2018.
- There should be a growing number of foreign investors interested in Luxembourg's residential market

Thank you

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Jllr.lu



Closing Speech

Vincent Bechet and Sibrand van Roijen

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Special Thanks to our Supporting Members



ALLEN & OVERY

alterDomus*



Baker McKenzie.



BROWN BROTHERS HARRIMAN





Cocktail Reception

Thank you very much for coming.
Let's go to the Cocktail Reception!