



REfocus: KPMG Real Estate Insights

8 October 2024



01

Introduction



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Partner
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With you today



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Director
Deal Advisory Tax
UK



Martyn Munford
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Central London
Valuations for Colliers



Phil Morris
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Agenda

02 UK REITs

03 UK commercial property market update

04 VAT and indirect tax update

05 ESG Reporting: Issues for the Real Estate Sector

06 Panel Q&A

02

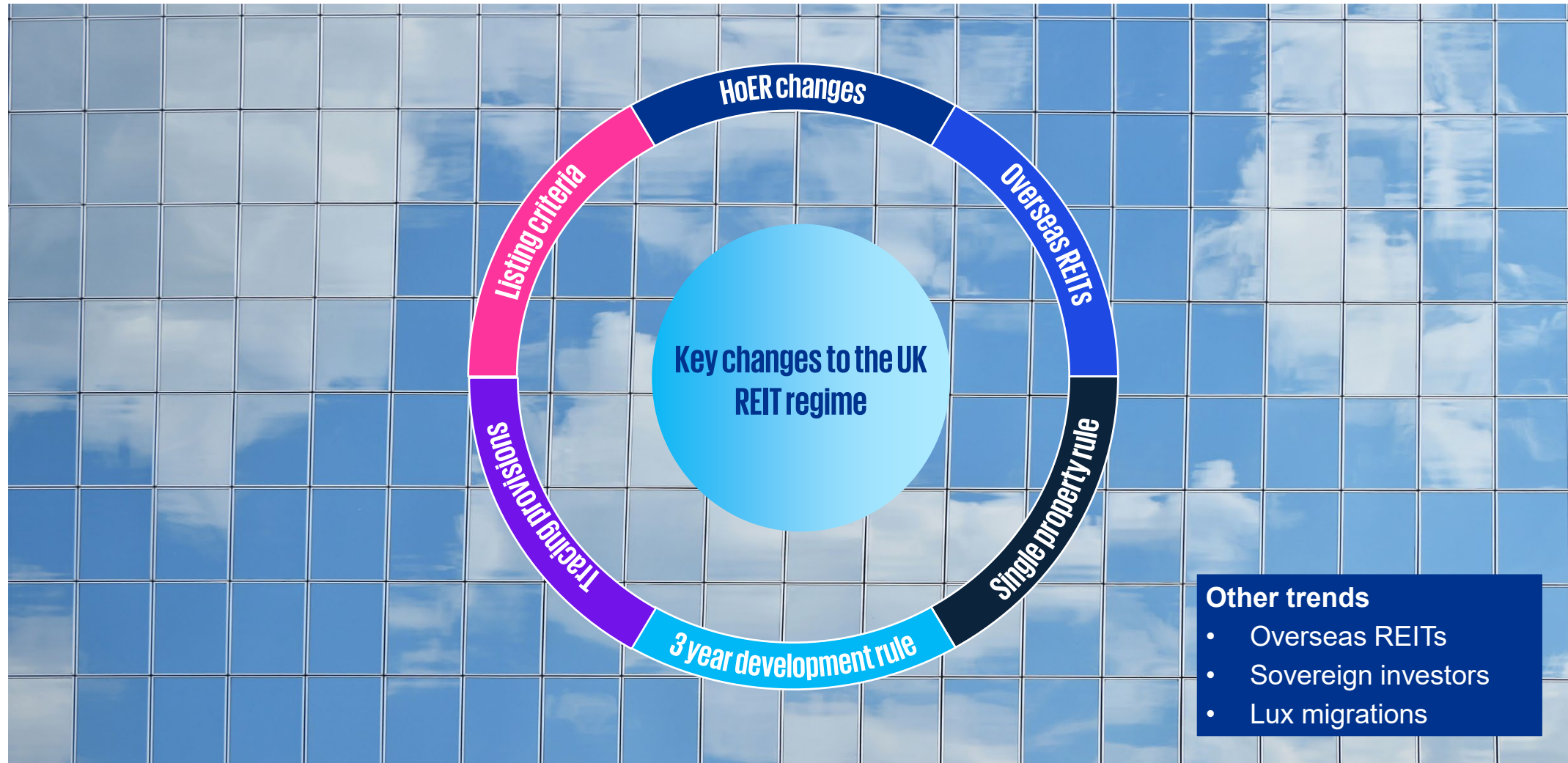
UK REITs



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Director
Deal Advisory Tax
UK

Recent changes to the REIT rules





The road ahead...

03

UK commercial property market update



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Valuations for Colliers

Colliers Market Update

8 October 2024



REfocus

Accelerating success.



KPMG REfocus

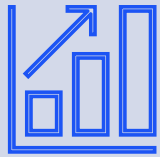
Colliers Global

Colliers (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company.



Number of countries includes affiliates

Introduction



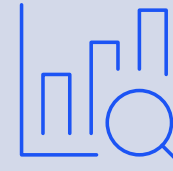
General Economy



Office Market



Investment Market



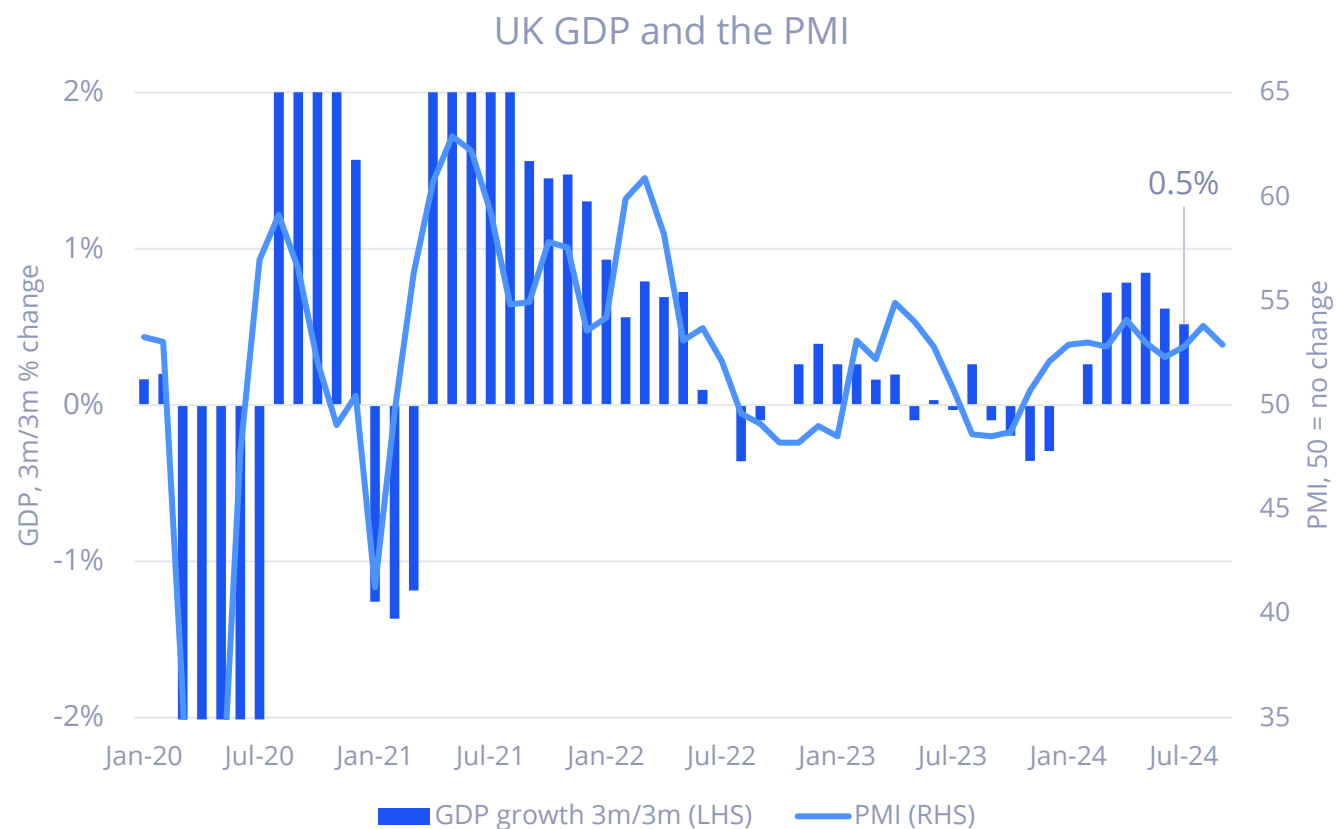
**High level Retail,
Industrial Market
Forecast**



2024 outlook

Strong start to 2024

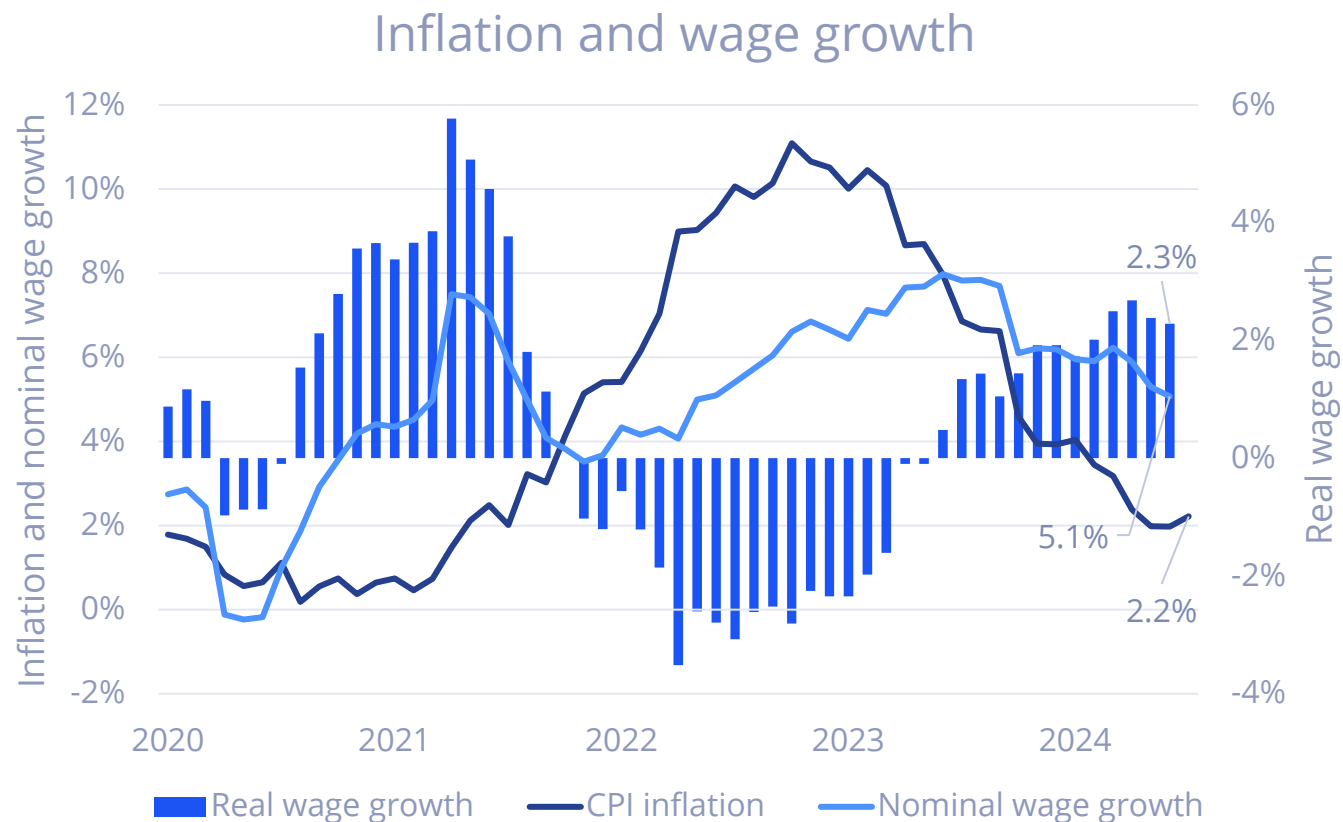
But slowdown anticipated



- The UK economy was in a technical recession in the second half of 2023.
- However, the economy grew strongly in H1 2024.
- The UK PMI has posted above the neutral 50.0 mark for 11 consecutive months, suggesting that economic activity continues to improve.
- GDP expected to increase by 1.1% in 2024 and by 1.3% in 2025.

Inflation eases, wage growth still elevated

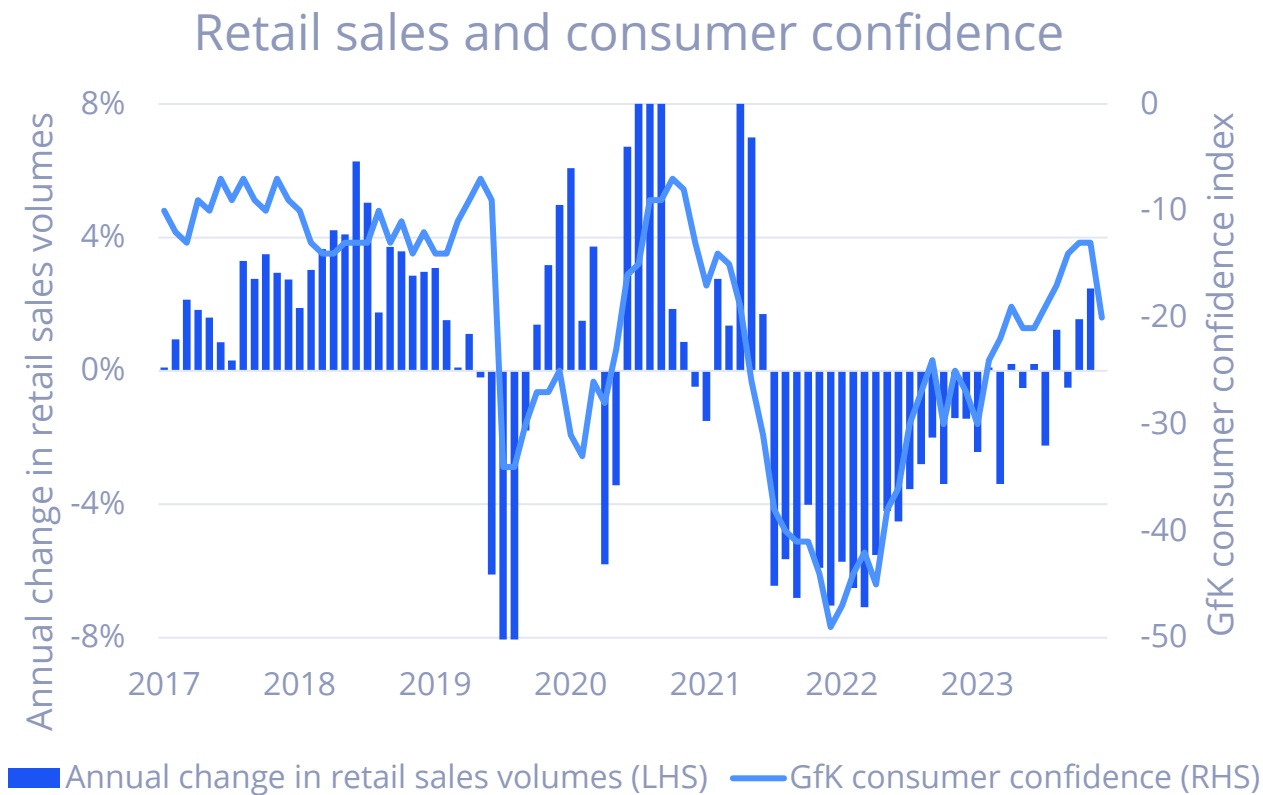
Will real wage growth translate into higher spending?



- Inflation has eased from its 40-year high and is heading towards the Bank of England's 2% target.
- Wage growth remains elevated but has started to slow slightly in recent months.
- Nonetheless, real wages have now increased for over a year.

The consumer sector

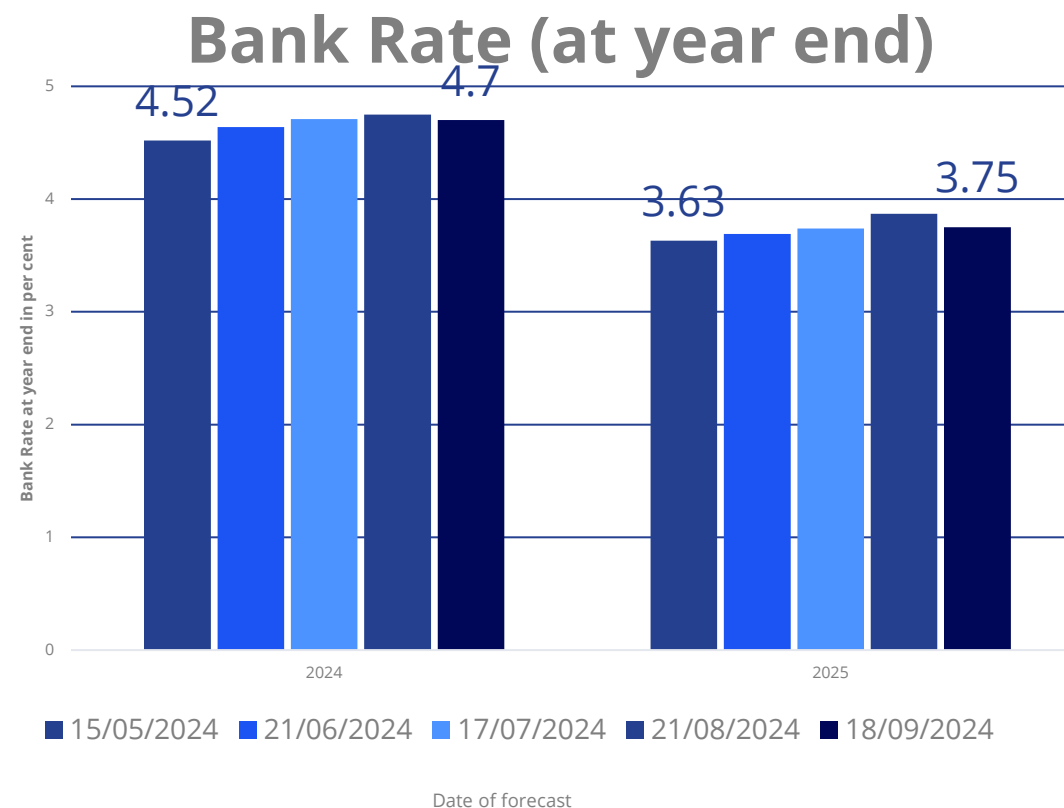
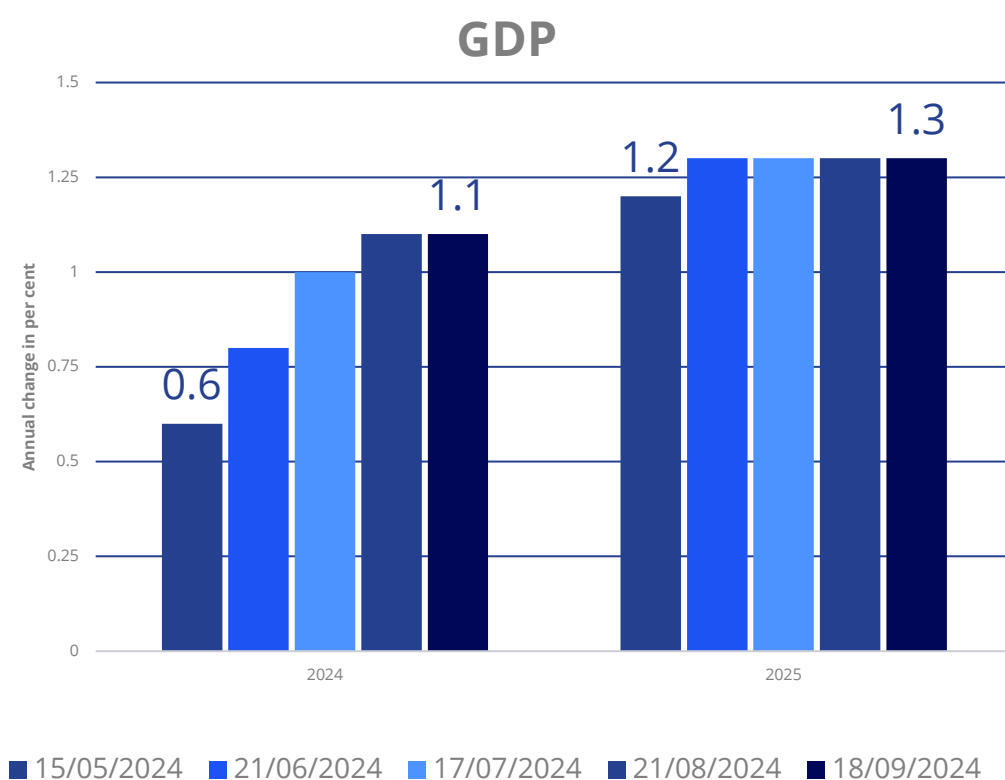
Confidence on the up but took a hit in Sep



- Retail sales volumes remain somewhat volatile but are on an upward trajectory.
- Retail sales volumes rose by 2.5% in August but remain slightly below pre-pandemic levels.
- Slowing inflation and sustained elevated wage growth mean that real incomes are increasing.
- Consumer confidence has been improving recently but took a hit in September ahead of the Budget.

GDP and Interest Rate Forecasts

Interest rates falling to 3.75% by the end of 2025.



Office Market

London Occupational Market

Energy Performance Targets - Offices

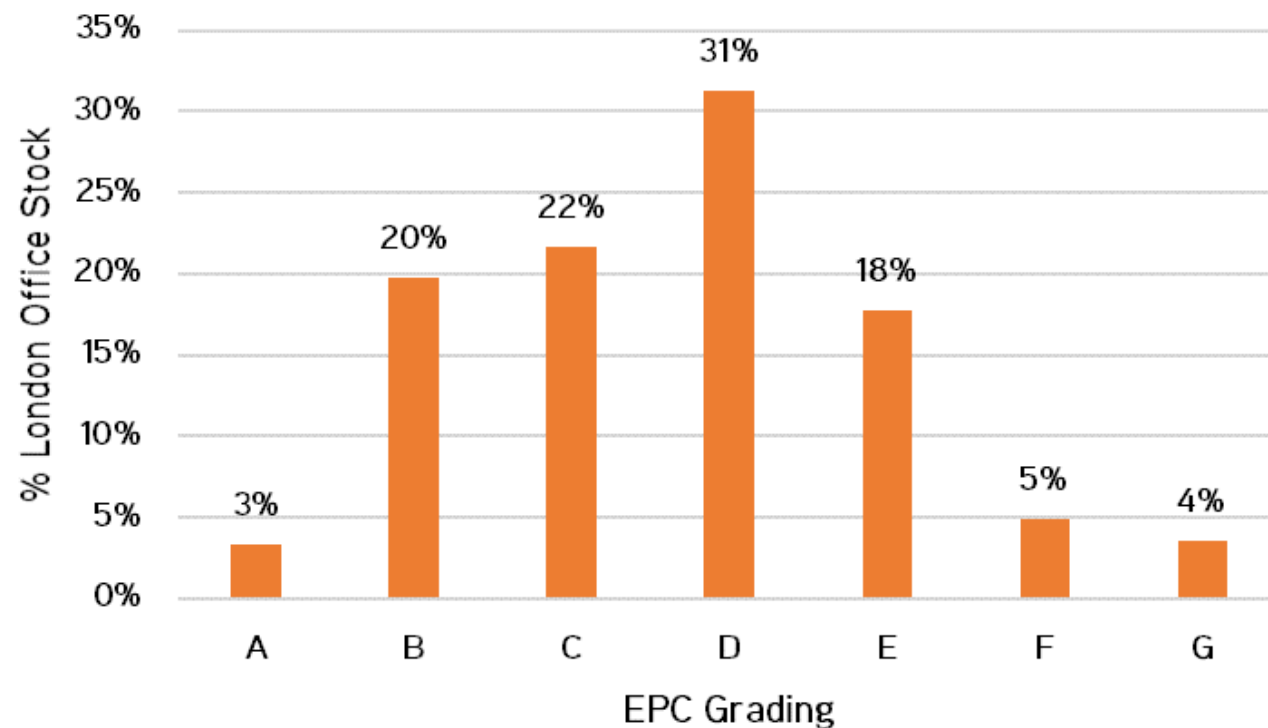
Market Focus – “B” Minimum

Below “B”, asking for Business Plan – Capex

Focus for all Landlords – not just institutional

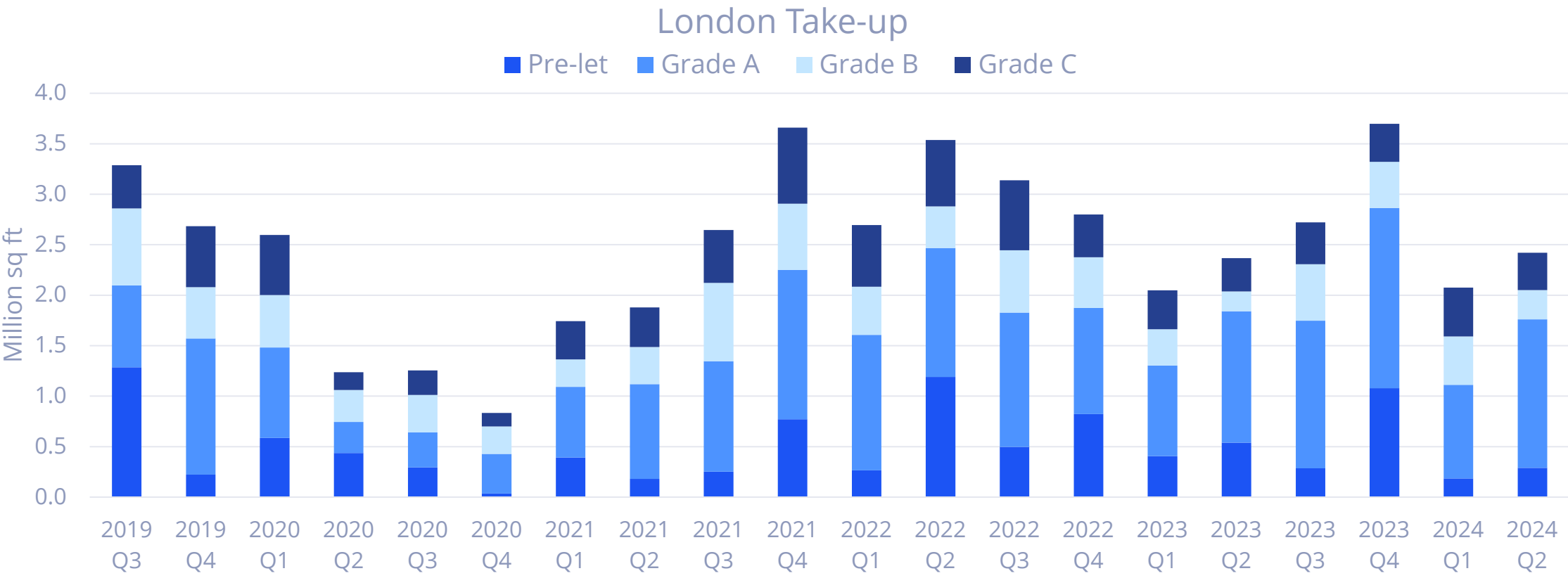
Green Leases – promoting data sharing and performance tracking (historically not easy)

UK Net Zero Target 2050 – will require “A” ratings



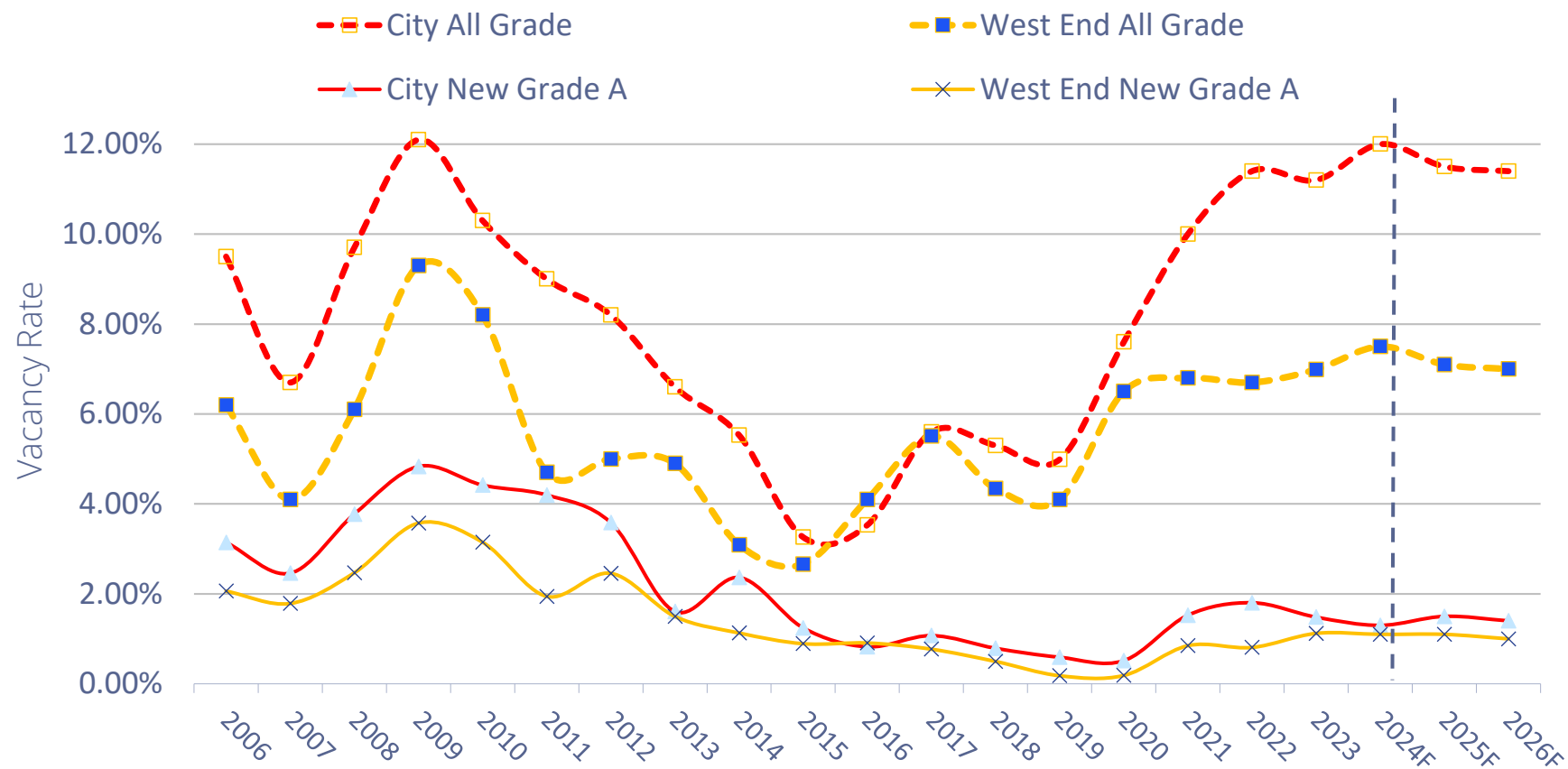
London Occupational Market

London All Office Take-up



Divergence between West End and City Markets

Vacancy 2006-2026F

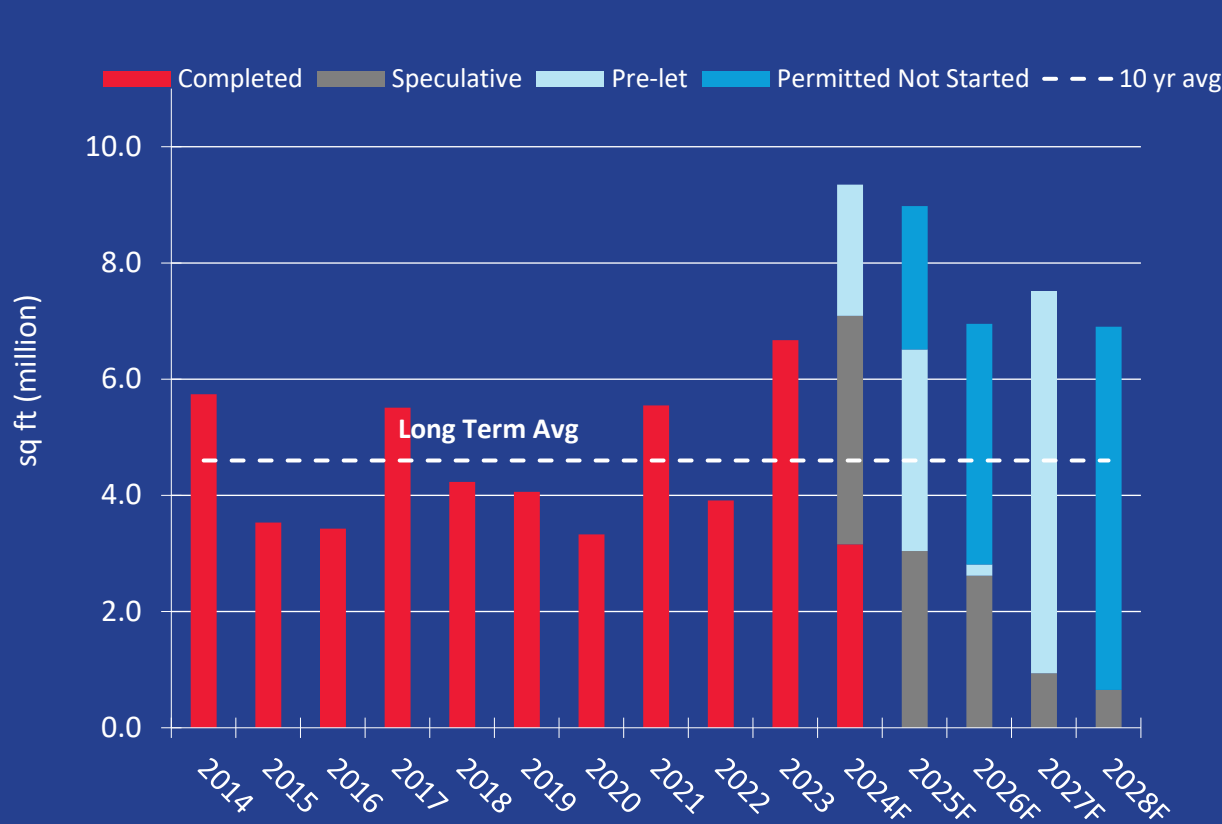


City vacancy does not include Canary Wharf

London Occupational Market

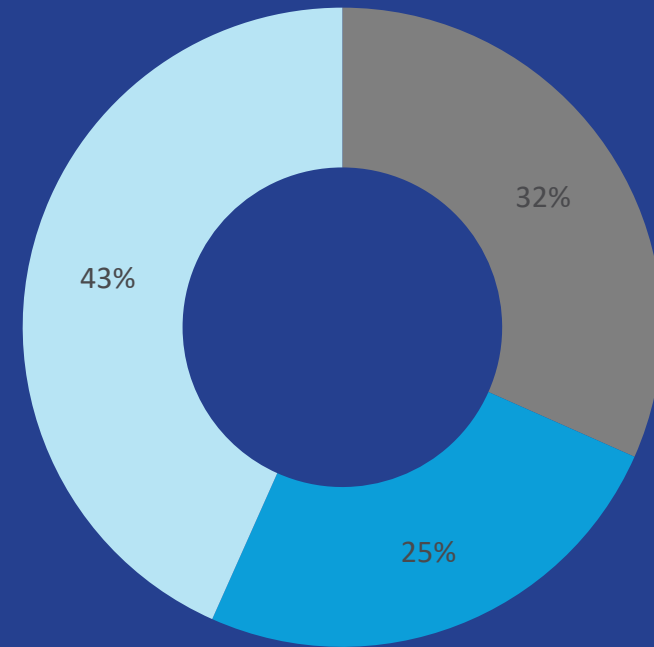
London Office Pipeline

Greater delivery of speculative product in 2024-2025 but demand for pipeline space still strong



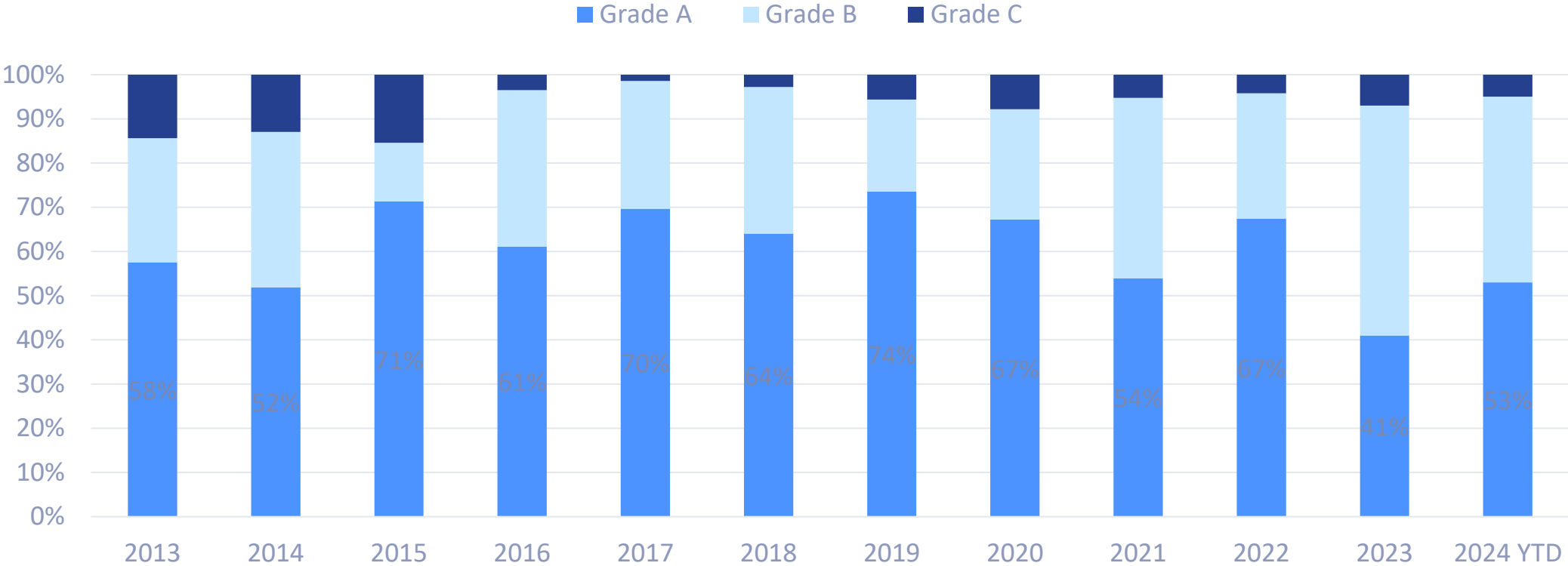
Under Construction (Brown) Pre-let (Dark Blue) Permitted not started (Light Blue)

2024-2027



Flight to Quality and Future-proofed product is now on occupier's priority list

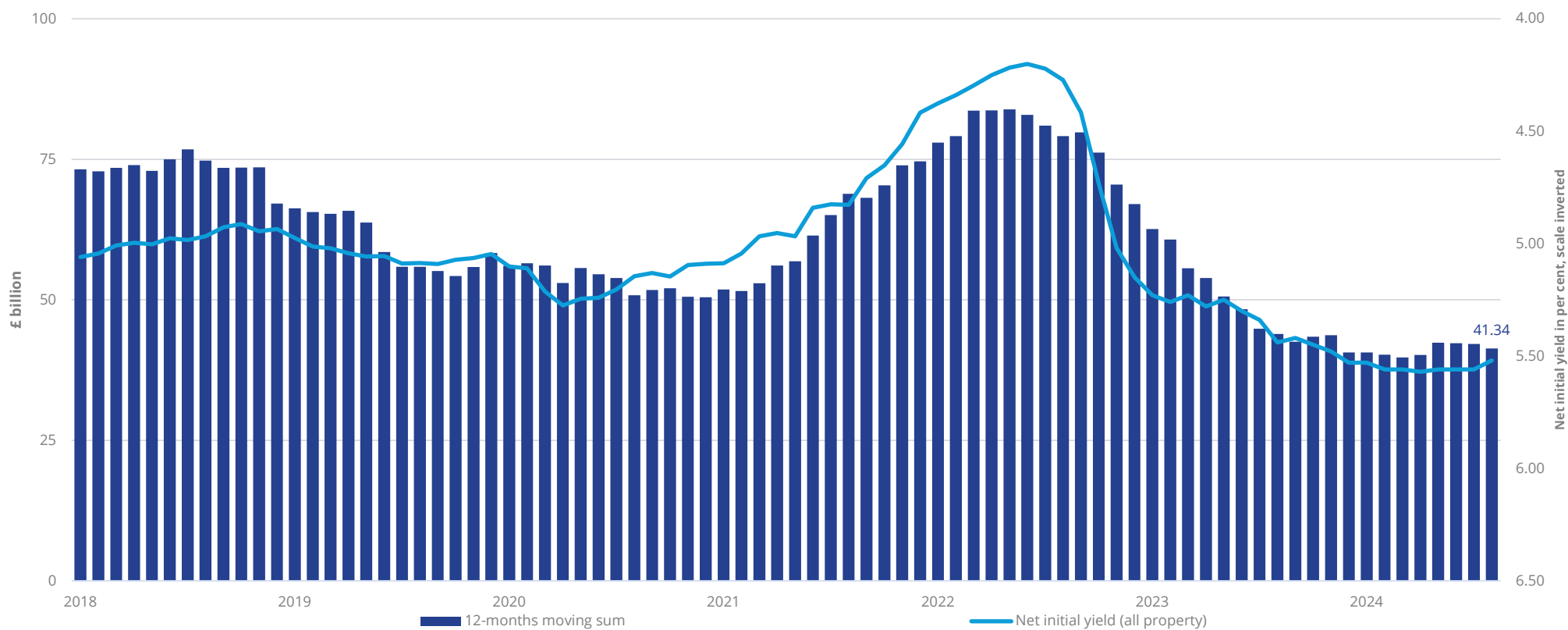
Take Up by Grade



Investment Market

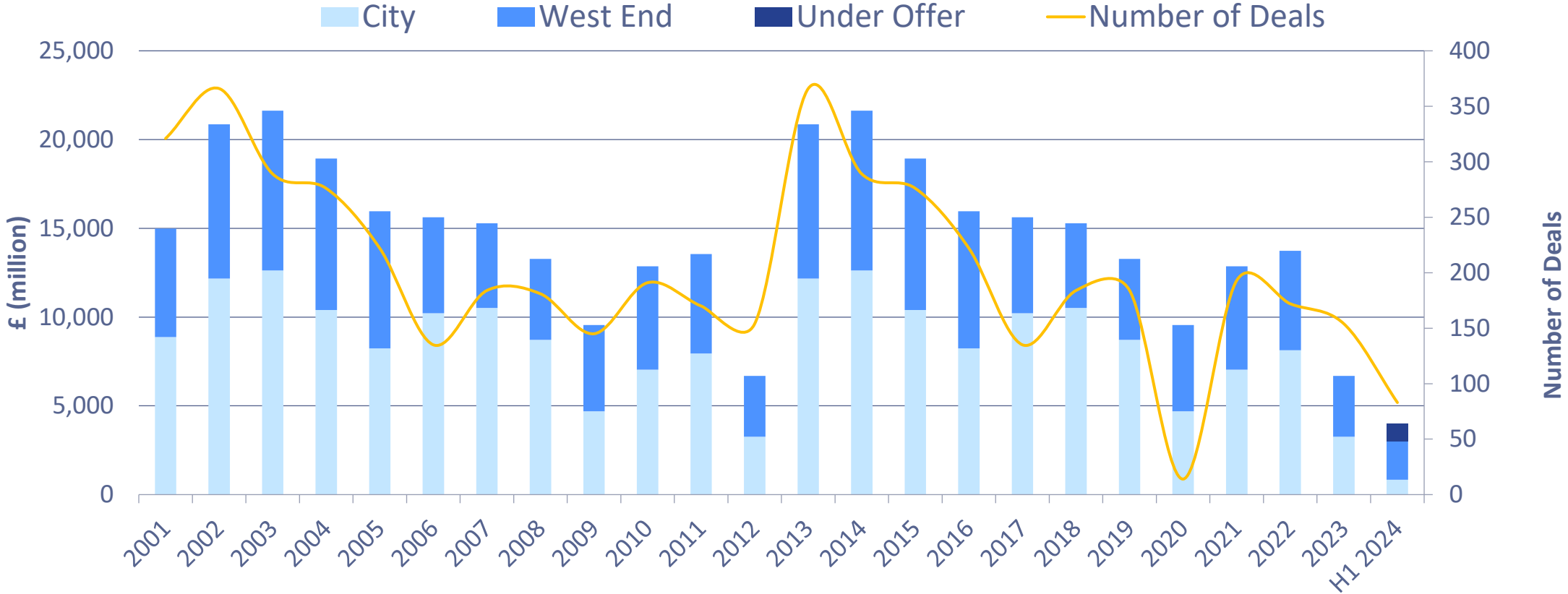
UK Investment Markets

Investment Volumes (12 month rolling)



London Investment Markets

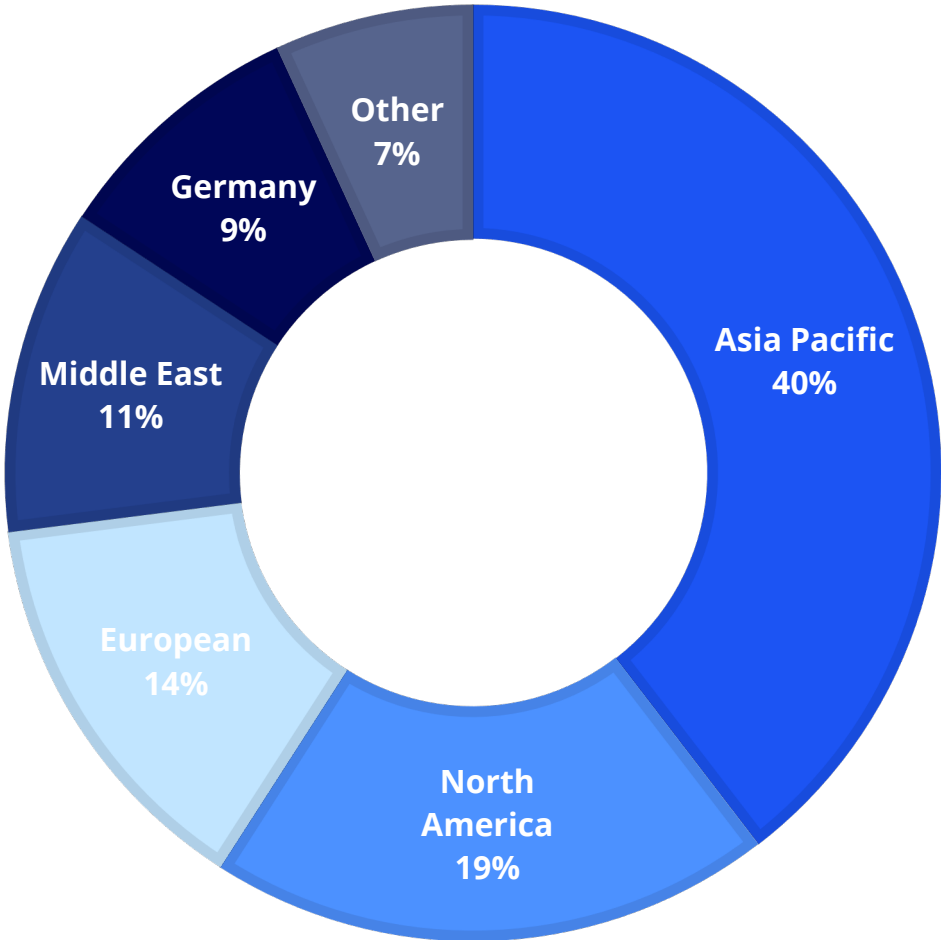
Investment Volumes



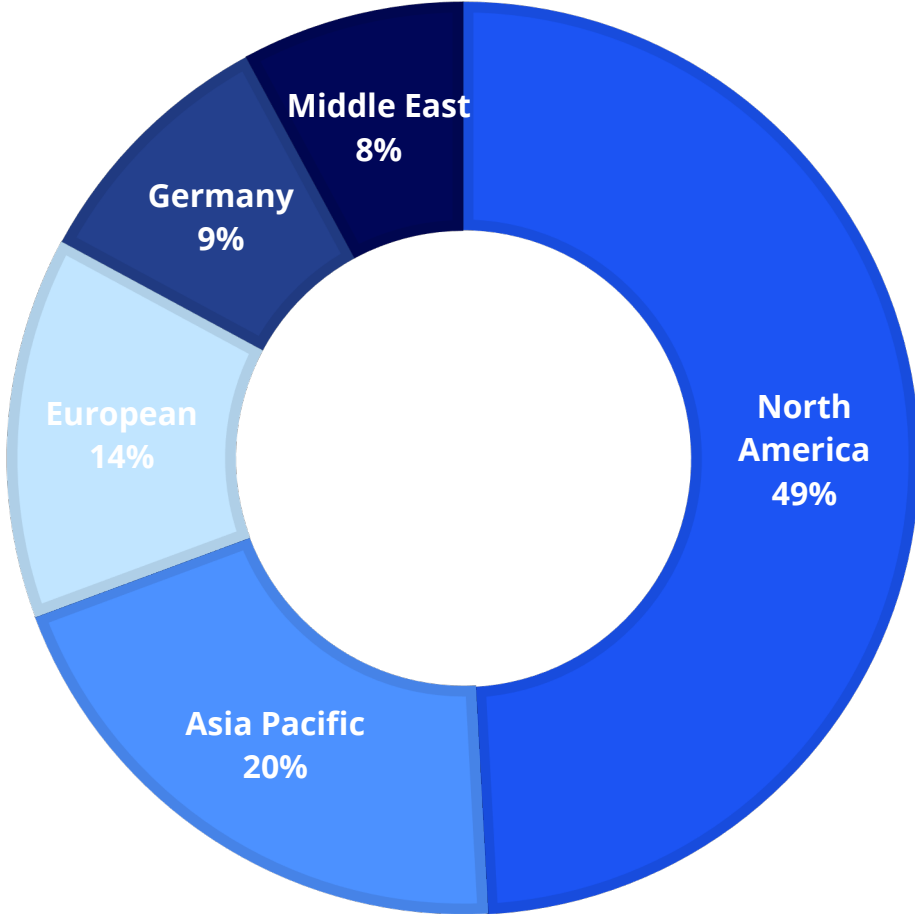
London Investment Volumes by Origin

(£50m+)

2009-2023



2024
OVERSEAS BREAKDOWN



London Investment Markets

Prime Yields

Freehold, sub **£100M** lot size, in a prime location, **rack rented** & single let to an **institutional grade covenant** with an unexpired term of **10 years**.



FORECASTS

Retail



The pricing adjustment of the sector due to long term structural changes experienced over the past few years looks to have come to an end.



Retail pricing remains attractive compared to other sectors in 2024 and we therefore predict an uptick in activity and mild yield compression.



Opportunistic investors will continue to be drawn to parts of the retail market by high yields, a stable income return, value add opportunities, and the scope for capital growth.



Supermarkets and Retail Warehouses expected to be the star performers in the sector.

FORECASTS

Industrial



Key drivers that made Industrial & Logistics the star sector have not gone away.



Lack of supply and reduced development pipeline will continue to drive rents.



ESG agenda for occupiers will drive demand for modern warehouses.



Rental growth rates will slow further from exceptionally strong rates recorded during 2021 and 2022 to more sustainable levels of between 3.5-4.5% per annum.



A significant amount of investment capital is sitting on the fence and increased commercial tension has the potential to drive values higher in H2 2024.

2024 Forecasts



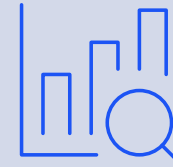
Anticipated interest rate cuts will bode well for property yields.



Investment activity will return as investor confidence resumes on the back of falling inflation.



However, it will take some time for investment activity to resume to levels seen before the market downturn began and we may struggle to reach annual volumes of £50bn.



We predict overall capital values to increase by 5.2% in 2024, followed by an acceleration to 7.0% in 2025.



Overall trends mask large disparities between the different property sectors.

Appendix – About Colliers

KPMG REfocus

Colliers Valuation & Advisory Services

The Team Structure

Colliers valuation team has been operating for over 60 years. The majority of staff are in London, and we have a strong regional presence with dedicated valuation teams in Manchester, Bristol, Birmingham, Edinburgh, Glasgow, Leeds and London.

The team undertakes valuations on behalf of a wide range of clients, including banks and funding institutions, REITS, private equity and institutional investors, high net worth individuals, public sector and government organisations.

We cover all core asset classes and a range of specialist sectors:

- Office
- Retail
- Industrial & Logistics
- Residential
- Hotels
- Healthcare
- Self Storage
- Data Centres
- Life Sciences
- Licensed & Leisure
- Infrastructure & Energy
- Automotive & Roadside
- Parks, Sports & Marinas
- Student Accommodation

Colliers Global



66 Countries
18,000 professionals

Colliers UK



14 Offices
1,250+ Experts

Valuations



UK: **100** Valuers
EMEA: **250** Valuers

04

VAT and indirect tax update



Phil Morris
Director
Tax
Crown Dependencies

VAT liability on supplies of land – sale and leases

Often exempt from VAT, but not always the case:

**Zero and
Standard rate**

**Freehold or
lease**

**TOGC and
Option to tax**

**Residential or
commercial**

**Long or short
lease**

Topical VAT issues

- VAT recovery: evidence of taxable supplies or intention to make taxable supplies
- Partial exemption methodology applied correctly: mix of taxable (e.g. OTT commercial) and exempt (e.g. residential) supplies
- HMRC ‘pre-cred’ checks carried out where entity submits a significant / irregular VAT repayment return
- TOGC – to VAT or not to VAT
- VAT Deregistration and assets on hand – is there a sting in the tail



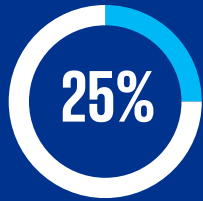
05

ESG Reporting: Issues for the Real Estate Sector



David Postlethwaite
Associate Director
ESG
Crown Dependencies

Why Sustainability is increasingly Key for Real Estate



25% of UK Greenhouse Gas emissions are directly attributable to the built environment, including **construction and operational emissions**



The public, investors and politicians are calling for changes in the business models companies in order to drive forward decarbonization in line with the Paris Agreement. **There is no route to net-zero without decarbonization of buildings.**

Building to Net-Zero:



5 Tn€ Investment required for **decarbonisation of buildings** in Germany alone.



90k social homes per year need to be built in the UK for 15 year to help tackle a “chronic housing shortage” = opportunities to deliver **social impact**.

Green Buildings Premia



Research conducted by Knightfrank showed significant uplift for both rental and sales value for top-rated BREEAM assets, reaching **12.3% premiums** for the highest rated buildings. Uplift was highest for prime **Central London office rents**. Equally there is a growing “**Brown Discount**” according CBRE research in the UK.

Flows of investments into Sustainable Funds



60% of all EU-domiciled funds are **impact funds (Art.9)** or **promote sustainability (Art.8)**

In the EU, capital is increasingly focused on ESG-aligned investment strategies. Large capital market-oriented companies are required to report on economic exposure to environmentally sustainable economic activities as defined by the EU Taxonomy.

A growing range of **Stakeholders** with advanced ESG expectations:

-  Investors and Lenders
-  Corporates and Supply Chain Players
-  Regulators
-  Employees
-  Consumers

The CSRD transforms ESG reporting

Scope of application

- All companies (incl. non-capital market oriented) with 250 employees, €50 Mio. in revenues or €25 Mio. in total assets [2 out of 3 criteria]
- Listed companies report in FY24, other large companies report in FY25
- 3-year phase-in for SMEs
- **Will catch non-EU parents from FY28**

Reporting

- Mandatory inclusion in the **management report**
- Digital reporting of sustainability information in line with the European Single Electronic Format (**ESEF**)
- Application of the **mandatory standard** on non-financial reporting (**ESRS**) developed by the EFRAG Commission

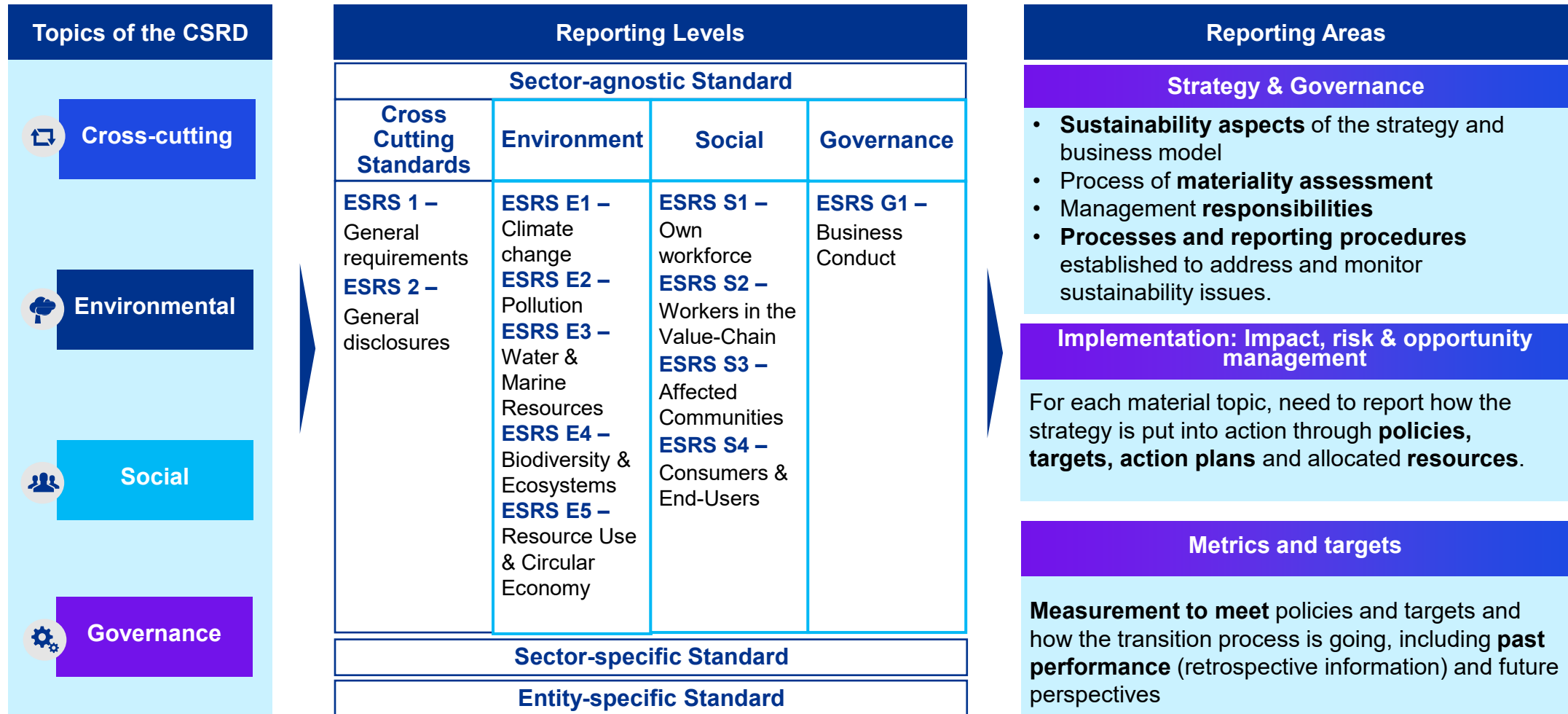
Mandatory Audit

- **Limited Assurance** according to ISAE 3000 or a comparable standard will be mandatory
- **Reasonable Assurance** possibly the next step in the process of aligning the depth of review with that of the annual report



Architecture of the ESRS

The reporting standards for CSRD (ESRS) include a range of topics that are relevant to the Real Estate sector

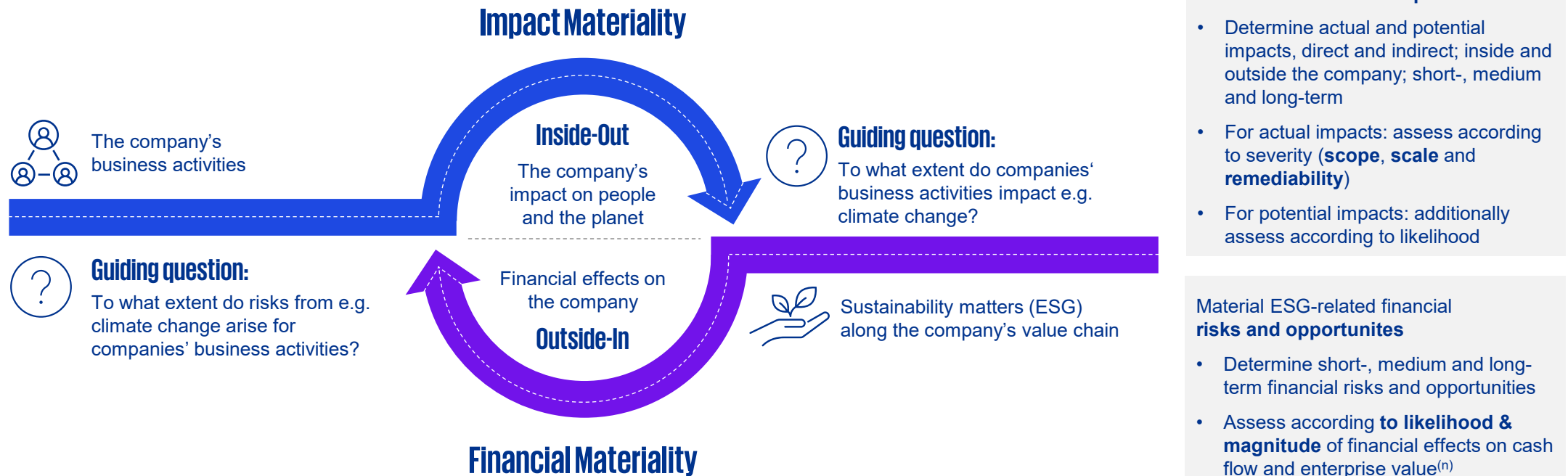


Double Materiality Assessment – first step towards CSRD Reporting journey

The Principle of Double Materiality

CSRD requires to report on ESG topics based on the double materiality concept: **impact** and **financial** materiality.

Through stakeholders consultation, the company will identify the 1. positive/negative **impacts** and 2. financial **opportunities and risks** related to the ESG topics that must be assessed.



Note.: (n) ESRS I, par. 53: "Sustainability matter is material (...) when it generates or may generate risks or opportunities that have a material influence (or are likely to have a material influence) on the undertaking's cash flows, development, performance, position, cost of capital or access to finance"

CSRD is just one piece of the (growing) puzzle

EU SFDR

Mandatory reporting for asset managers, funds and market participants

UK SDRs

A new regime for UK managers with ESG disclosures, labels and anti-greenwashing rule

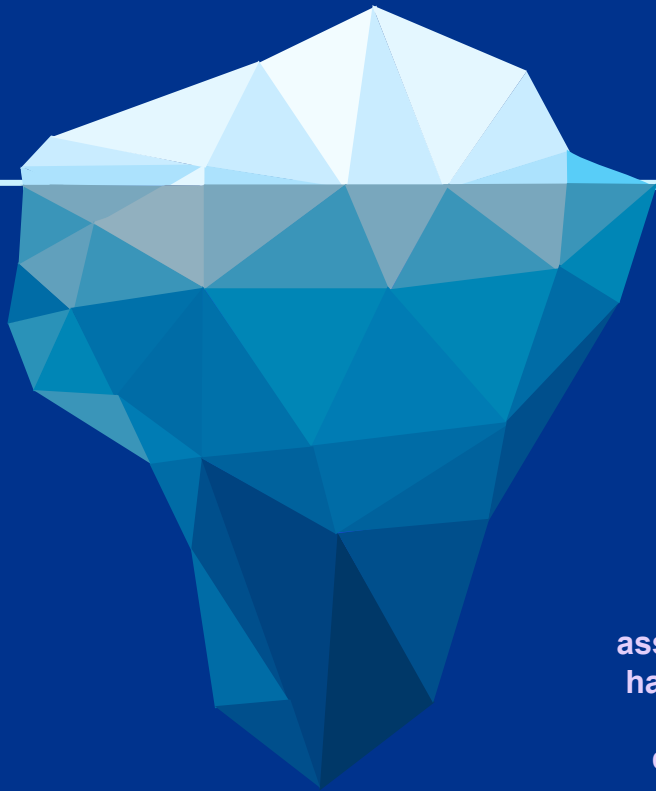
EU CSDDD

Large corporates and financial institutions to assess human right and environmental risks

ISSB

Countries are now moving to adopt the IFRS' global baseline for sustainability reporting

ESG Reporting is much more than BI Tools: We need Data Ecosystems



Obtaining, quality-assuring and harmonizing the data is driving the effort!



Disclosure

“Last mile” of reporting: Assembling single KPIs from data warehouse to integrate into a glossy, printed year-end report for investors and stakeholders. Usually highly specialized tools for this purpose only.



Planning, Reporting & Analysis

Many BI tools from countless suppliers allow to build dashboards, analytic reports or planning applications. Basic KPI calculations can be included; tools are targeted to be used/configured by functional departments.



Processes, Collaboration, Governance

For data collection, reconciliation and handling of unstructured information, flexible applications have to be provided. Low code platforms are ideal for quick solutions in case of new functional requirements.



(Financial) Consolidation

Financial consolidation systems and processes are usually well-established in large organizations. These can be leveraged also for data collection of ESG data.



KPI Harmonization & Calculation

ESG data is rarely well-structured and the raw source data is of poor quality. Data has to be organized, structured, harmonized and quality-assured in a suitable environment.



Data Storage

Similar to financial data warehouses, ESG KPIs have to be stored and provided to the stakeholders in designated data marts. Corresponding governance structures and features have to support the data provision.



Data Integration / Data Collection

Unlike for financial data, 95% of ESG information comes from heterogenous data sources, most likely not SAP. These sources have to be connected and automatic/auditable interfaces established.



Data Sources & External Data

ESG Reporting asks for various external data such as ESG ratings or statical emissions data which has to be integrated into the internal data sources for KPI calculations or risk metrics.

What are the next steps you should be thinking about?

Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance.
- Rectify issues ahead of the formal assurance process..

Assess maturity

- Assess the maturity of processes, the control environment, data model and policies.
- Understand the current distribution of roles and available knowledge and capacity.

Understand the impact

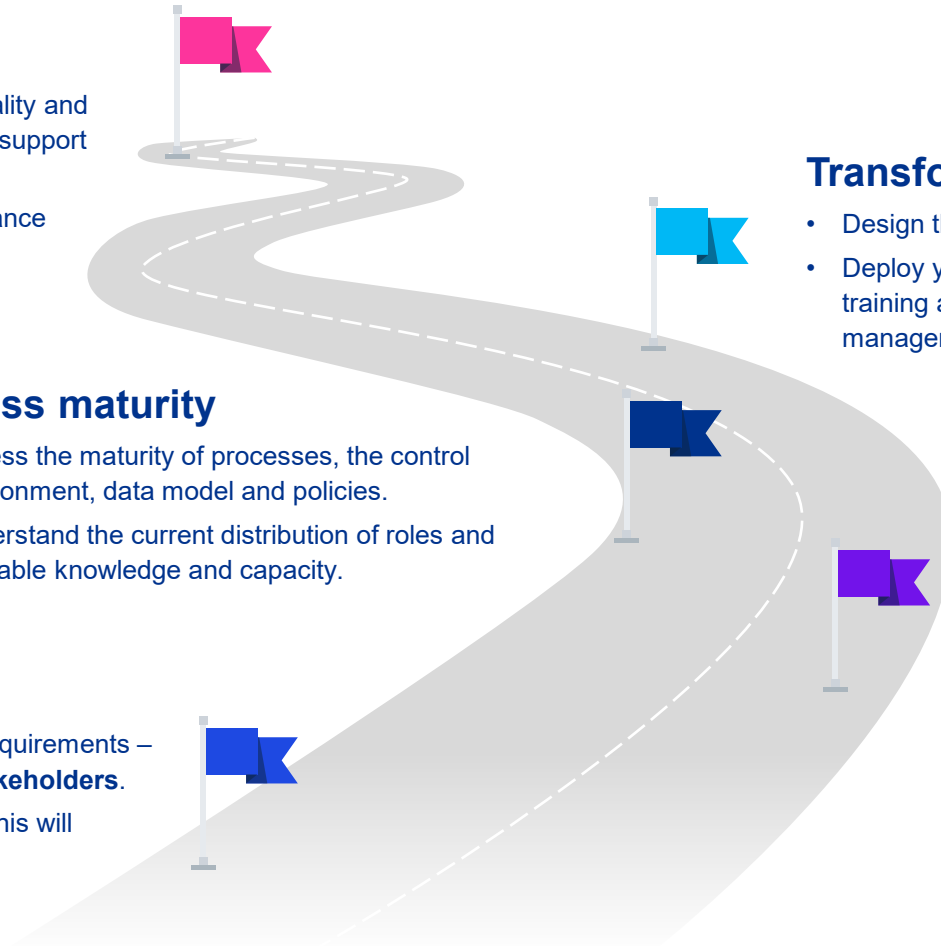
- Understand current and emerging requirements – **for you and your value chain / stakeholders.**
- Understand when, where, and how this will impact your business.

Transform reporting

- Design the future state of your reporting.
- Deploy your target operating model, including training as well as support for change management.

Determine what is material

- Determine which topics are relevant to report on.
- Decide what information is material about these topics.



Our ESG Services

1

Strategy & Transformation

Advice on ESG strategy and in specialist areas like climate change and human rights.

2

Reporting

Helping clients to assess their ESG readiness and prepare for ESG reporting.

3

Assurance

Providing external assurance on the ESG reporting by a business



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06

Panel Q&A

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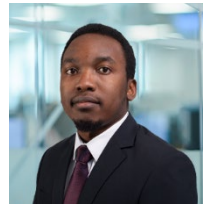
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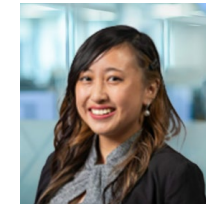
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Thank you



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