



The Real Life game of Monopoly

Presentation to SDBP

Café International

Wednesday 1 June 2011 - Kavačaj

Ana Filipov

- Partner of Filipov, Petrovič, Jeraj, Fabiani o.p. d.o.o.
- In cooperation with Schönherr, regional law firm with offices and desks in 18 CEE countries
- Ana focuses on real estate and dispute resolution
- Graduated 1996, member of Slovene bar since 2001, and with Schönherr since 2002

Clare Moger

- Director of tax, PricewaterhouseCoopers Slovenia
- Joined PwC in London in 1995, moved to Bratislava in 2001 and to Ljubljana in 2010
- Has advised large multinational clients in a broad range of business sectors
- Set up the PwC real estate tax advisory service in Bratislava



Jacqueline Stuart

- Director of Slovenia Invest
- Has lived and worked in the UK, Sweden, Spain and Slovenia
- Heads the only real estate company in Slovenia focused on commercial real estate
- Slovenia Invest is the local preferred partner of Cushman and Wakefield
- Wide range of services and asset classes including hospitality, office, retail, industrial and newbuild

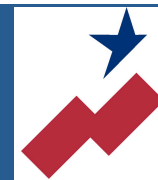


Žiga Vižintin

- Licensed broker at Slovenia Invest
- Works in office, retail, industrial and hospitality
- Experienced in valuations, research, tenant and landlord representation
- Previously worked in Vila Urbana, with responsibility for disposing of the commercial space

Tina Žejn

- Worked at Raiffeisen Leasing d.o.o., Slovenia from 2002-2006
- Joined Unicredit Banka Slovenija d.d. (previous Bank Austria Creditanstalt) in 2006.
- Tina is working in Corporate and Project Finance Unit
- Covering project finance, real estate financing, PPP financing and infrastructure financing.



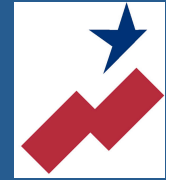
Opportunities and pitfalls in:

- Office
- Retail
- Hospitality
- Industrial
- Residential



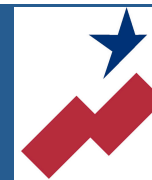
Office

- Rents in Ljubljana have dropped
- Real opportunities to save money and improve working conditions by moving to a new building
- Also possible to renegotiate rents with landlords
- Bad time to buy office premises, unlikely to be a good investment

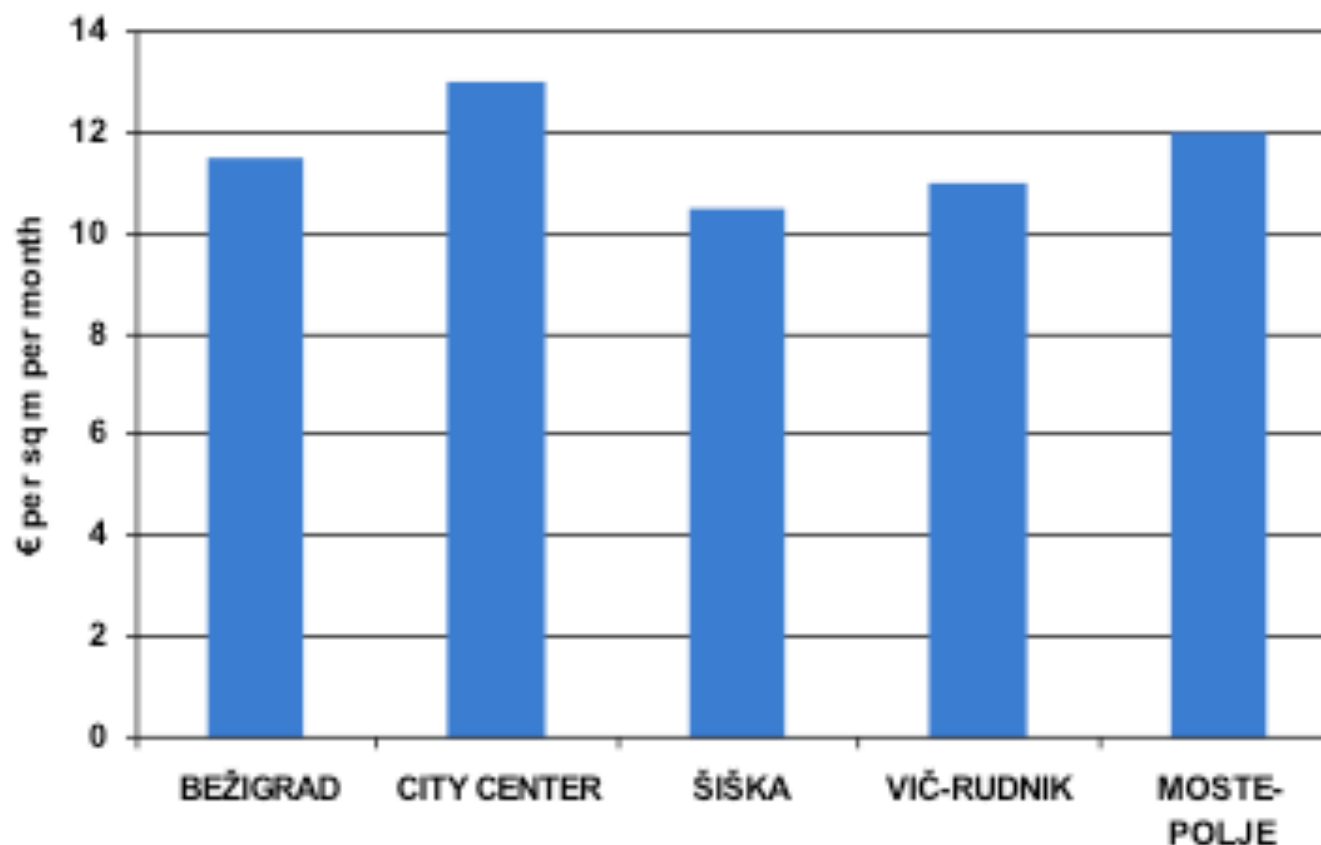


Office takeup

- Takeup is forecast using three factors:
- Lease expiries
- Employment growth
- Foreign direct investment
- Likely to be 40,000m² per annum in the next 5 years although currently underperforming that level



Office rents – asking price



Source: nepremicnine.net



Ljubljana office supply and demand

- Total office stock 828,000m²
- Currently occupied 660,000m²
- Vacant 180,350m²
- Total vacancy rate 18%
- Vacancy rate of better quality space 6.5%
- Asking prices between 10 and 12.5€/m²
- Annual takeup 40,000m² but currently underperforming this level

Office space - taxation

- Leasing costs are tax deductible
- Tenant must withhold 15% tax on rental payments to foreign entities
- Rental fees for office space are exempt from Slovene VAT...
 - ...but if lessor and lessee are both fully VAT-able, they can agree to charge VAT on the lease
- Renting of car parking spaces is subject to VAT of 20%

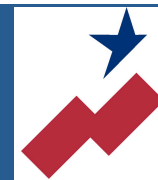
Tenancy as Classical Contractual Obligation

- Obligation Code versus Sector Specific Acts
- Registration of Lease re Office Buildings and Business Premises
- Optional versus Mandatory Provisions
- Foreclosure of Lease

Note: In an enforcement proceeding unless the lease has been concluded after the acquisition of the creditor's mortgage or land debt on the real estate let for lease, the lease shall not be terminated.

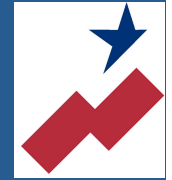
Financing Office property

<u>Construction loan</u>	<u>Investment loan</u>
<ul style="list-style-type: none">- Amount up to 70% of LTC/LTV- Loan term to be max. 24 months for construction and max. additional 6 months for the leased up period.- A pre-lease level of 40-50% to be achieved.	<ul style="list-style-type: none">- For purchasing office property or refinancing construction loan- Amount up to 70% of LTC/LTV- DSCR 1,25 – 1,3 based on signed lease agreements.- Loan term to be max. 5 - 12 years, 15 years in special cases (grace period: max. 2 years). Amortisation period to be max. 20 years.



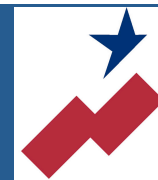
Ljubljana Retail

- Still little vacant retail space
- Quality generally poor in Ljubljana
- Rents holding up, no appreciable drop
- Opportunities for market entrants with new developments (Stožice, Emonika, Interspar Šiška)
- Opportunities for franchisees with market entry for new brands



Retail rental rates

- Market is not transparent and information sharing uncommon
- Anecdotal evidence suggests that retail rents vary from 8€/m² for very large out of town units, up to 45€/m² for small units in excellent locations
- Retail park rents between 12 and 20€/m²
- Town centre in the region of 20€/m²



Retail hubs in Ljubljana

- BTC – 20m visitors a year and 130,000m² of retail space
- Town centre – over 20,000m² of retail space
- Rudnik – 70,000m² of retail space
- Many brands represented in Slovenia in mono branded stores, multi branded stores and concessions
- Some market entry from new brands expected this year

Retail - taxation

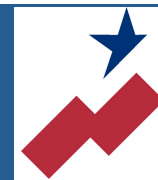
- For Lessee – as for Office
- If Lessor charges VAT on all rental fees, input VAT is fully deductible
- If some leases are VAT exempt, Lessor cannot recover all his input VAT
- Lessor cannot charge VAT to tenants who carry out VAT-exempt activities, eg banks

Access to Information

- Land Register (*zemljiška knjiga*)
https://evlozisce.sodisce.si/evlozisce/javni_izpisi/list.html
- Surveying and Mapping Authority (*Geodetska uprava RS*) <http://e-prostor.gov.si>
- **Agency of RS for Public Legal Records and Related Services (AJ PES)**
<http://www.ajpes.si/prs/Default.asp?>

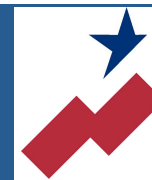
Finance for retail

<u>Construction loan</u>	<u>Investment loan</u>
<ul style="list-style-type: none">- Amount up to 70% of LTC/LTV- Loan term to be max. 24-36 months for construction and max. additional 6 months for the leased up period.- A pre-lease level of 60-70% to be achieved with anchor tenants.	<ul style="list-style-type: none">- For purchasing retail property or refinancing construction loan- Amount up to 70% of LTC/LTV- DSCR 1,25 – 1,3 based on signed lease agreements.- Loan term to be max. 5 - 12 years, 15 years in special cases (grace period: max. 2 years). Amortisation period to be max. 20 years.

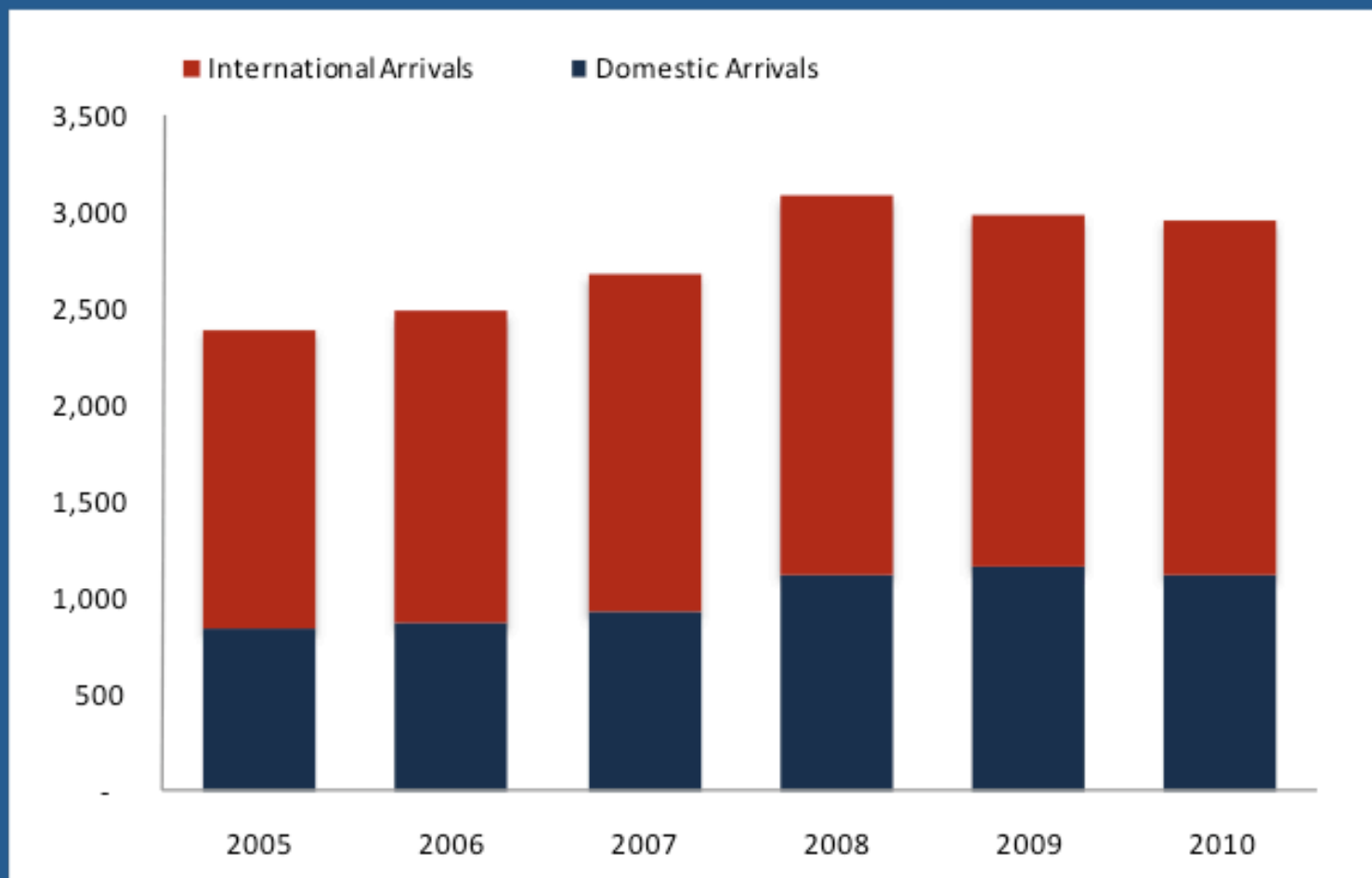


Hospitality

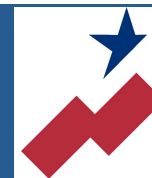
- Many hotels struggling
- Some Companies with other core business looking to exit the hospitality industry
- Many hotels for sale although most unofficially
- Most hotels financed over too short a period, many struggling to service their debt
- Valuation issues with hotels, many in negative equity
- Difficult to get bank finance for hotel acquisitions



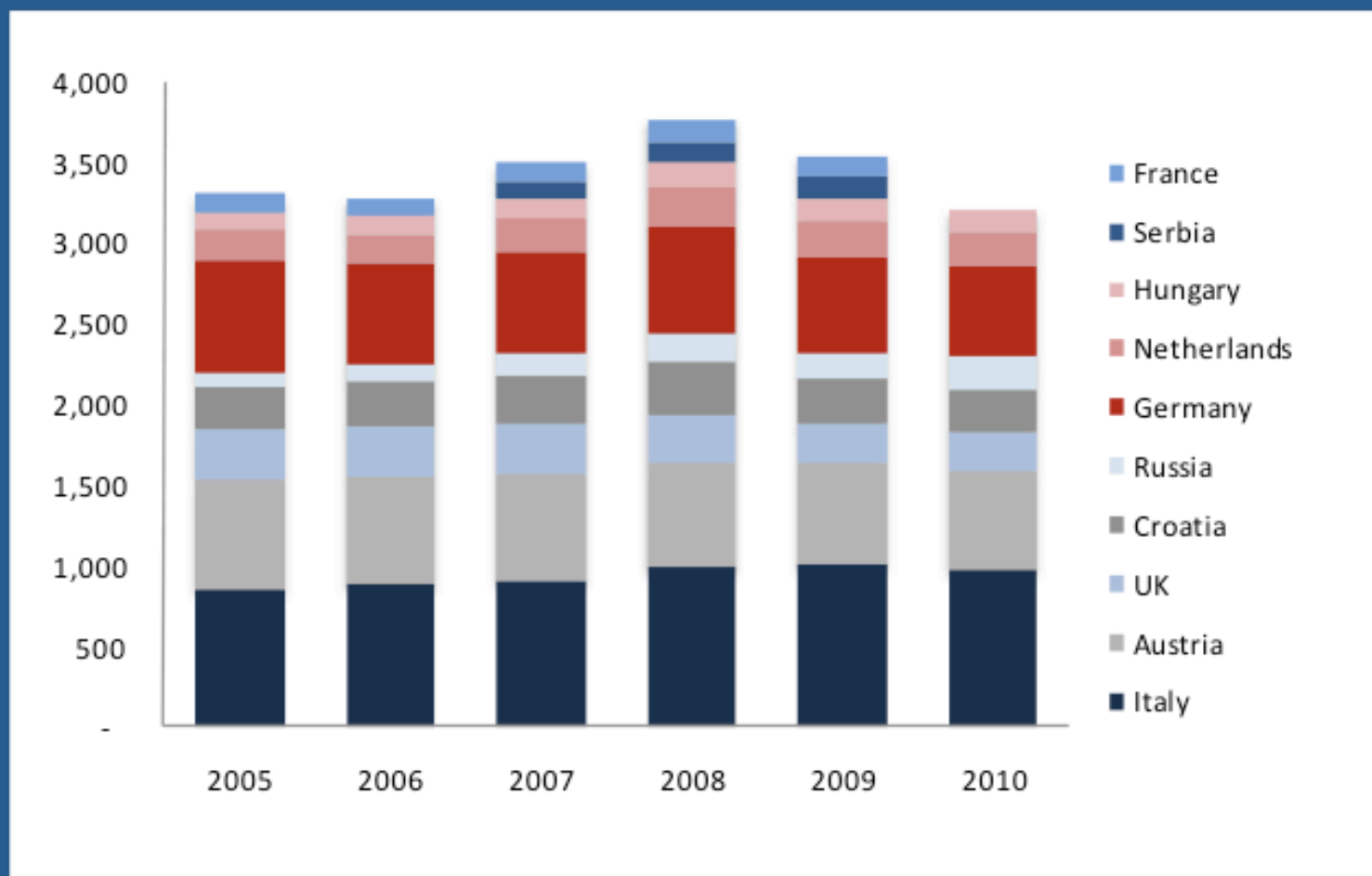
Tourist arrivals to Slovenia



Source: Statistical Yearbook Republic of Slovenia



Top 10 source markets

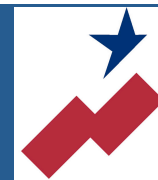


Source: Statistical Yearbook of Slovenia



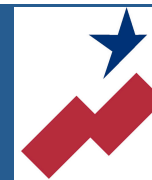
Tourism contribution to GDP

- Tourism contributes 13% to Slovenia's GDP and is therefore important for the economy
- At its peak, Slovenia attracted just over 3m arrivals of which 63% were international. Since 2008, arrivals have fallen and in 2010 totalled 2.9m
- Domestic tourism has risen during the global financial crisis thanks to 'staycationers'

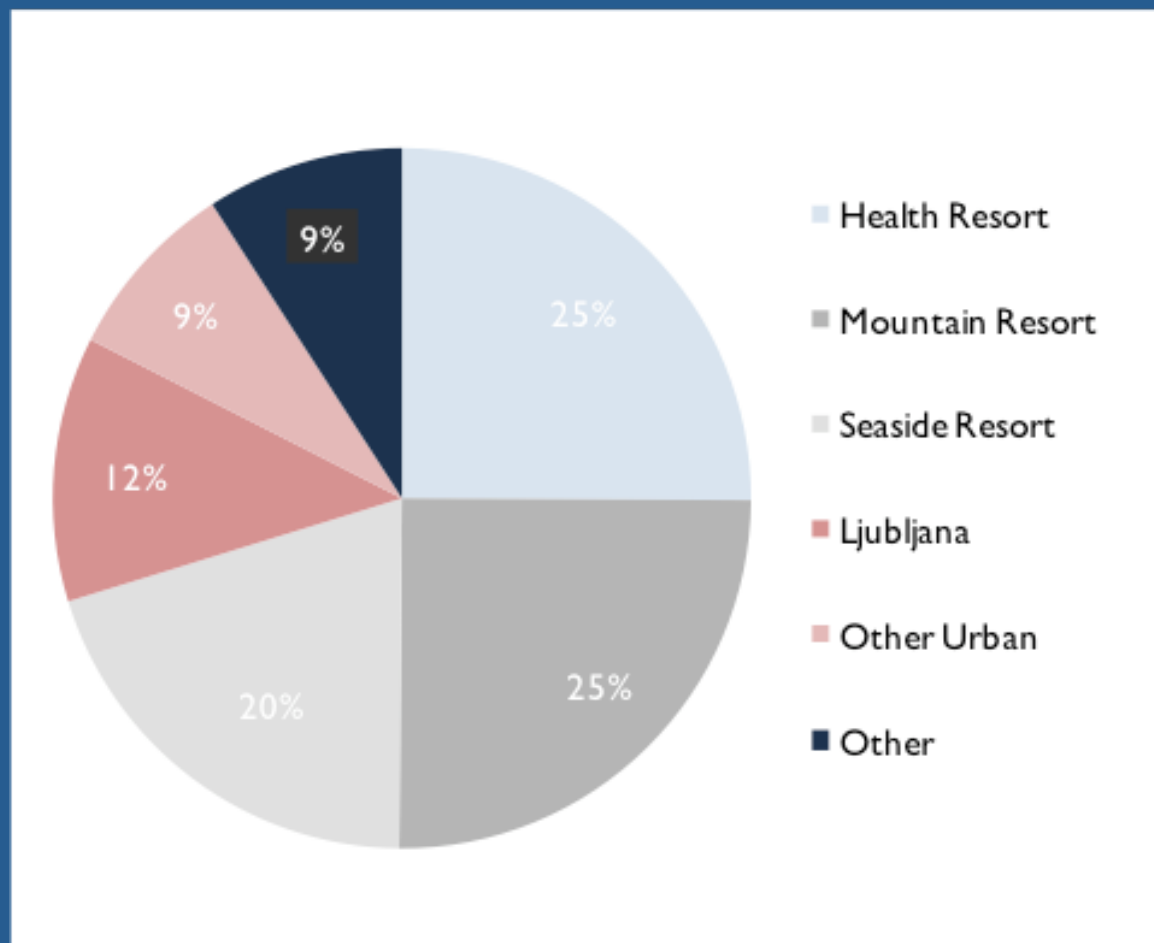


Tourism mix

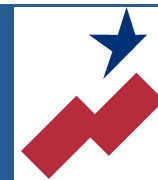
- Slovenia's tourism assets are diverse and attract different tourists, facilitating a long tourist season
- Mountain and health are the most popular, followed by coastal resorts



Destination mix



Source: Statistical Yearbook of Slovenia



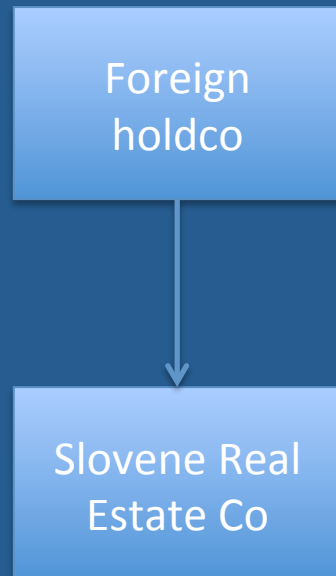
Length of stay

- Average length of stay is three nights reflecting Slovenia's popularity with neighbouring countries, and majority of arrivals by car
- Average length of stay in spa resorts is four nights

Tax structuring for real estate projects

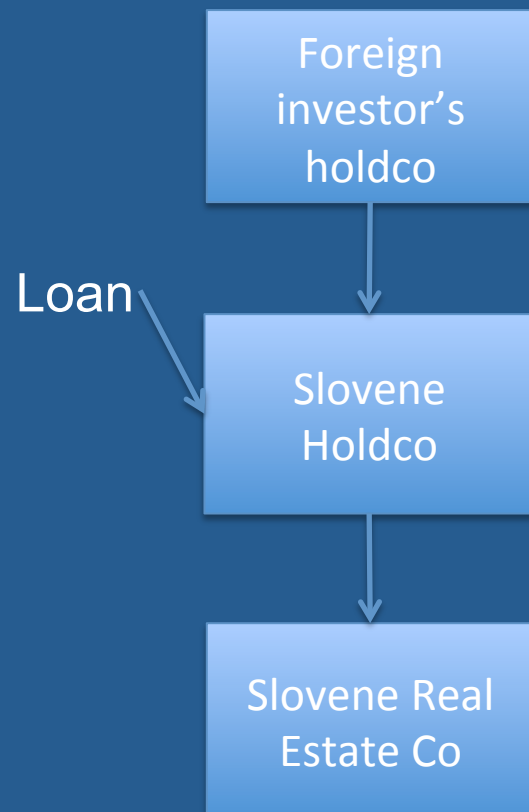
- Gain on direct sale of real estate assets - always taxable in Slovenia
- VAT on sale of new buildings
- Gain on sale of shares in a company owning real estate - not taxable if properly structured

Tax structuring for real estate developments – typical structure



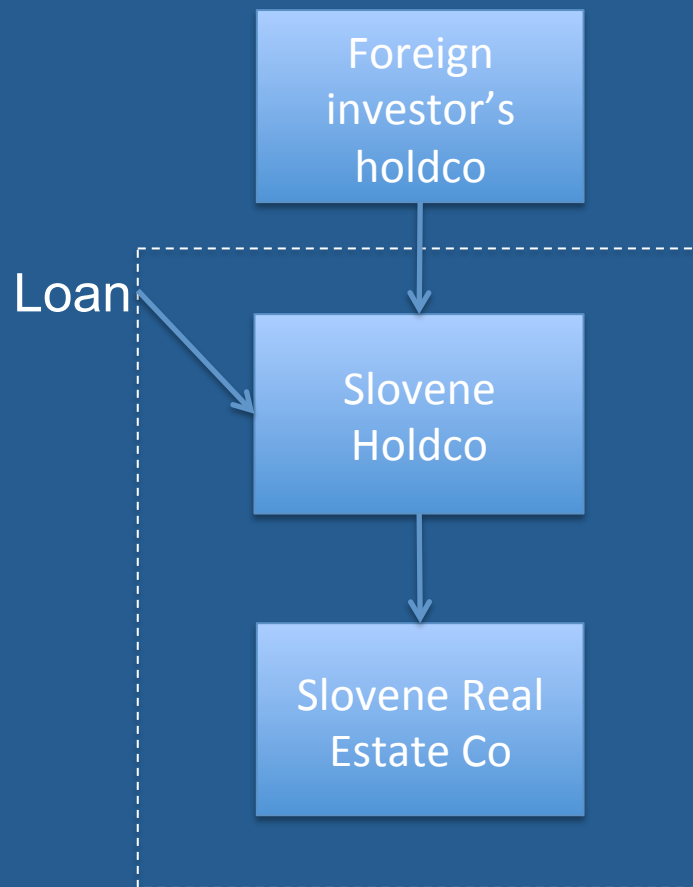
- Minimise tax on exit
- Make it easy for investor to acquire project
- Foreign holdco is in tax advantaged country, eg Luxembourg, Cyprus
- One Real Estate Co for each project
- If Real Estate Co has more than one project, consider demerger

Tax structuring for real estate investments – typical structure



- Foreign investor's holdco is in tax advantaged country, eg Luxembourg, Cyprus
- Investor sets up Slovene Holdco to buy Slovene Real Estate Co

Tax structuring for real estate investments – typical structure



- Merger of Slovene Holdco and Real Estate Co puts loan and asset into same company
- Foreign investor should be able to sell Slovene Merged Co with no, or minimal, tax on gain

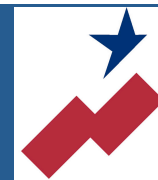
Statutory Pre-Emptive Rights

- Rights in Rem Act (*SPZ*)
- Spatial Planning Act (*ZUreP*)
- Sector Specific Acts
- Exercising Pre-Emptive Right
- Conflict among Pre-Emptive Rights

Note: Breach of a specific pre-emptive right may result in voidance of a legal transaction.

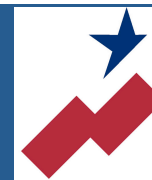
Finance for hospitality

General:	Financing based only on acceptable feasibility study, comprising market analysis, marketing policy, etc., with experienced Investors/Sponsors and hotel must be managed by international hotel chain.
Amount:	Some 35-40% of own equity must be invested up-front.
Tenor:	15-18 years, with 2 years for construction, 1-2 years of grace period and than 12-14 years of redemption.
Other:	Business case to assume realistic construction costs, EBITDA performance, maintenance capex, feasible occupancy rate, etc.



Industrial

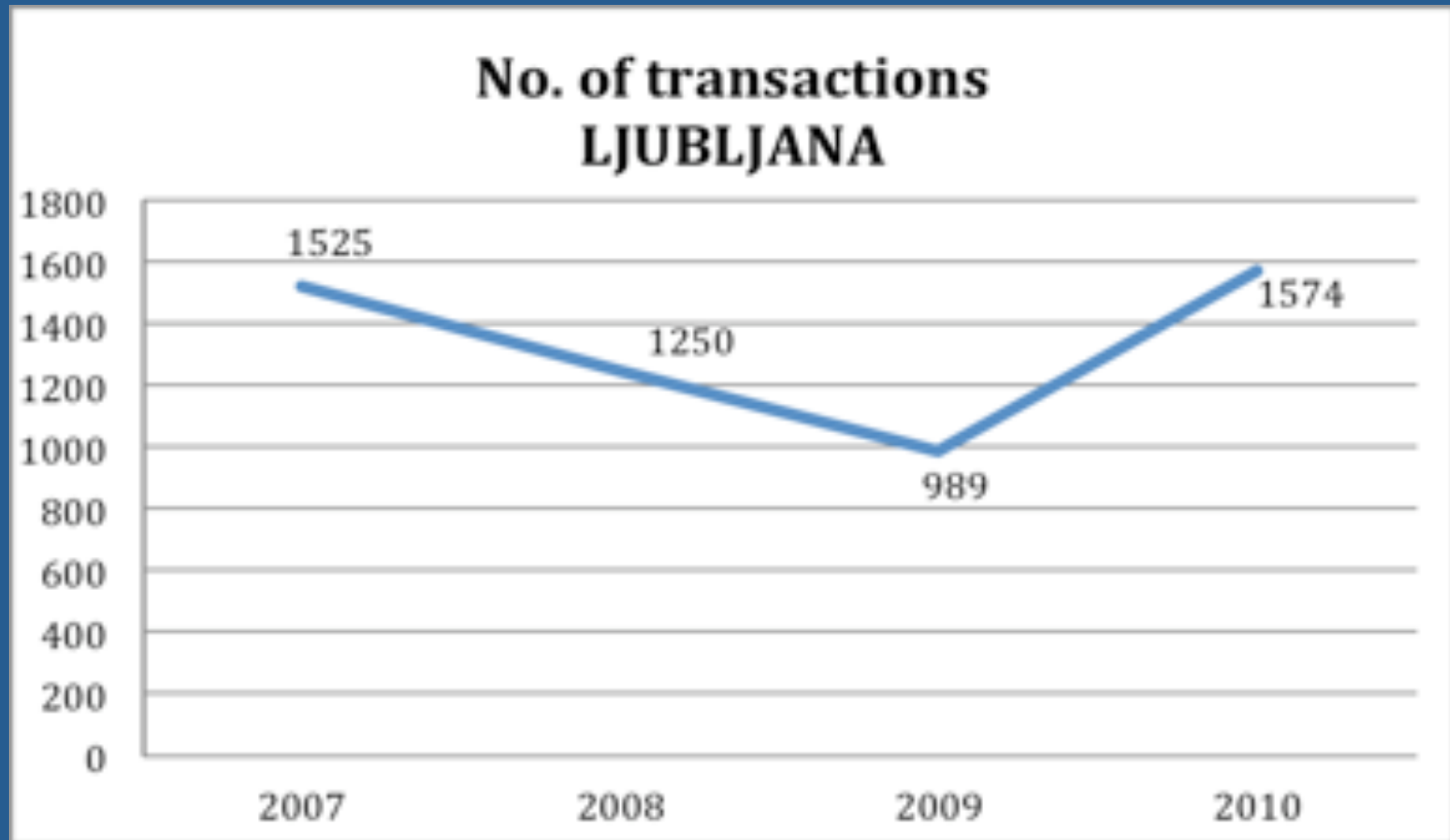
- Approximately 70% of industrial properties in Slovenia owner-occupied
- A rental market is yet to develop, currently very early stage
- Most warehouses outdated, and do not meet the height requirements (10m) of modern occupiers
- No developers currently developing speculatively



Residential

- Prices and transactions levels stable
- Rental yields very low
- Rents are dropping
- 32,000 vacant properties in Ljubljana
- Šmartinska regeneration zone will provide land for many more homes
- Buy to let inadvisable at present

Ljubljana transactions

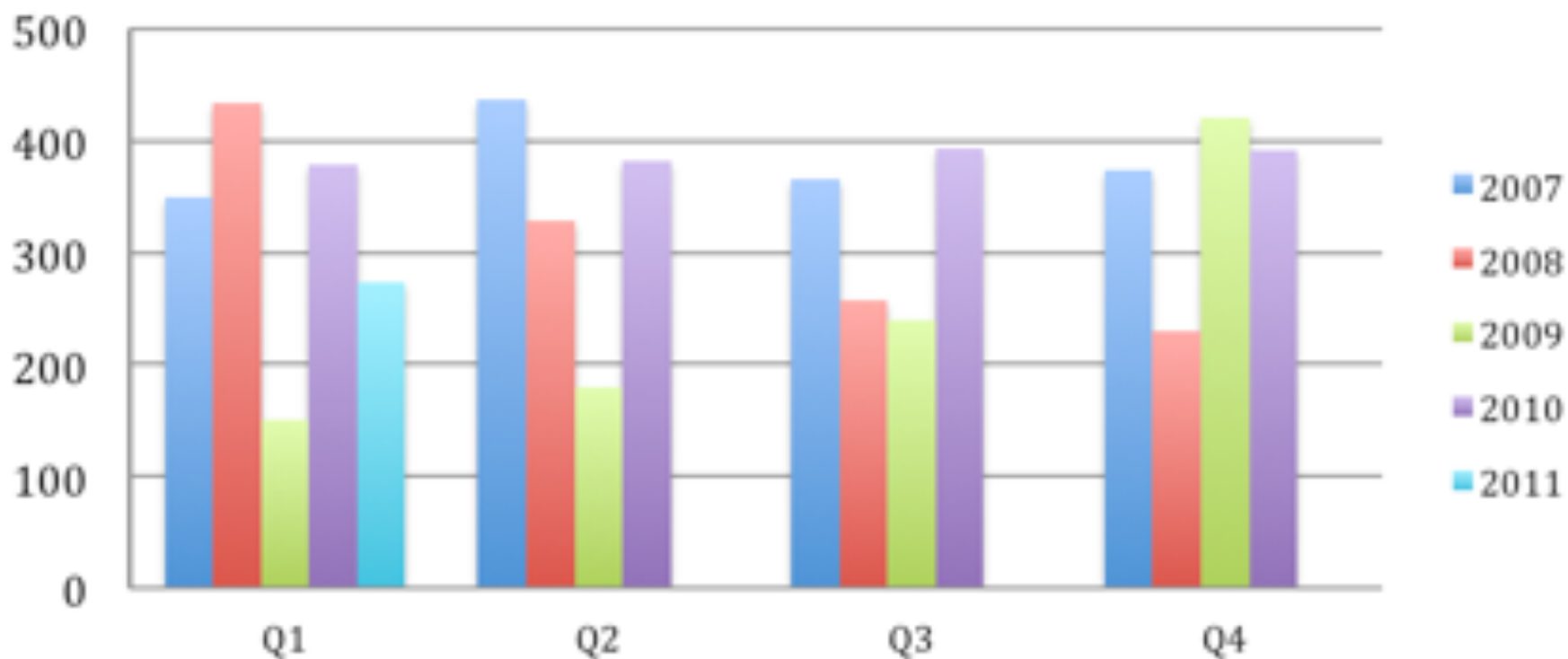


Source: GURS

Transactions by quarter

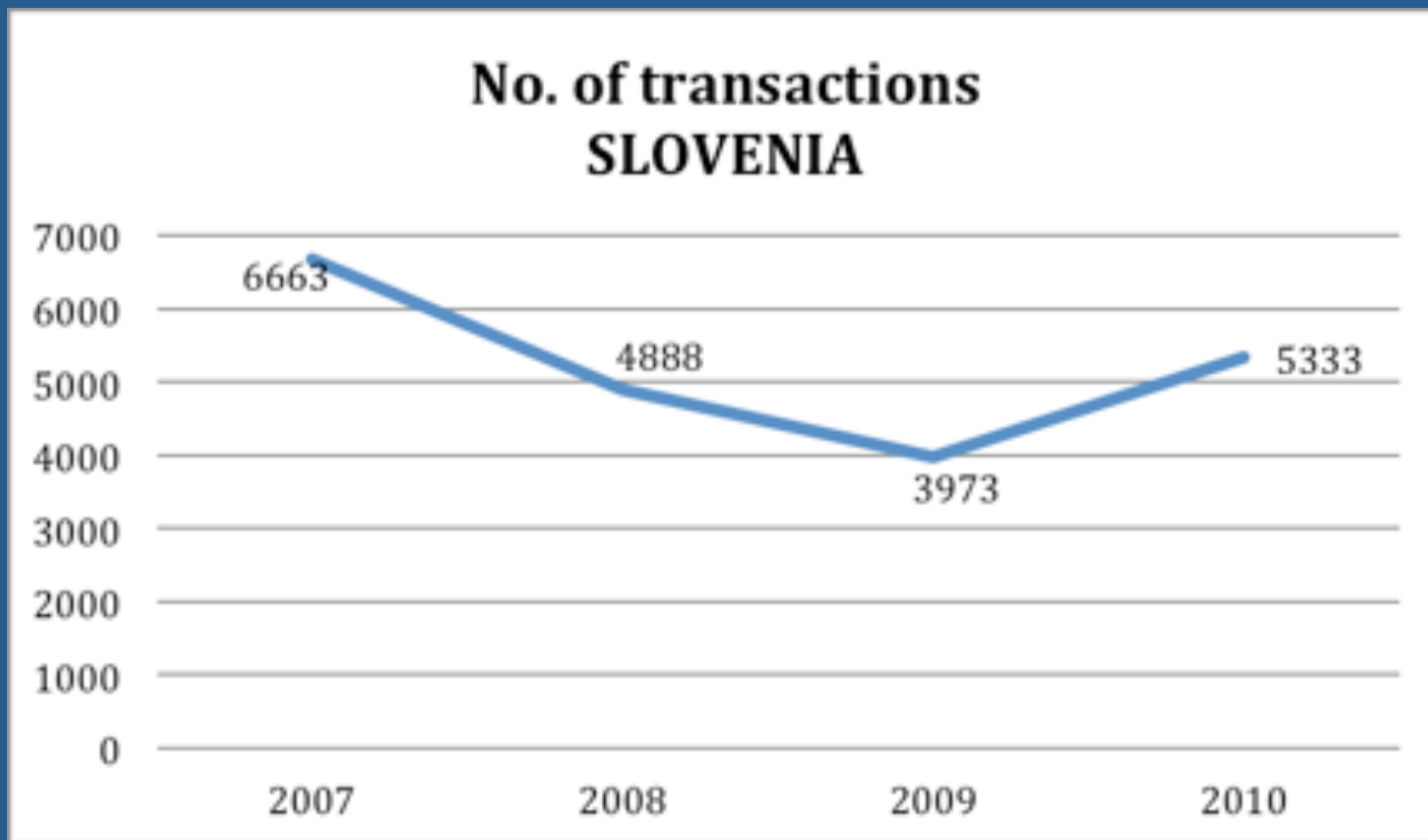


No. of transactions LJUBLJANA



Source: GURS

Slovenia transactions

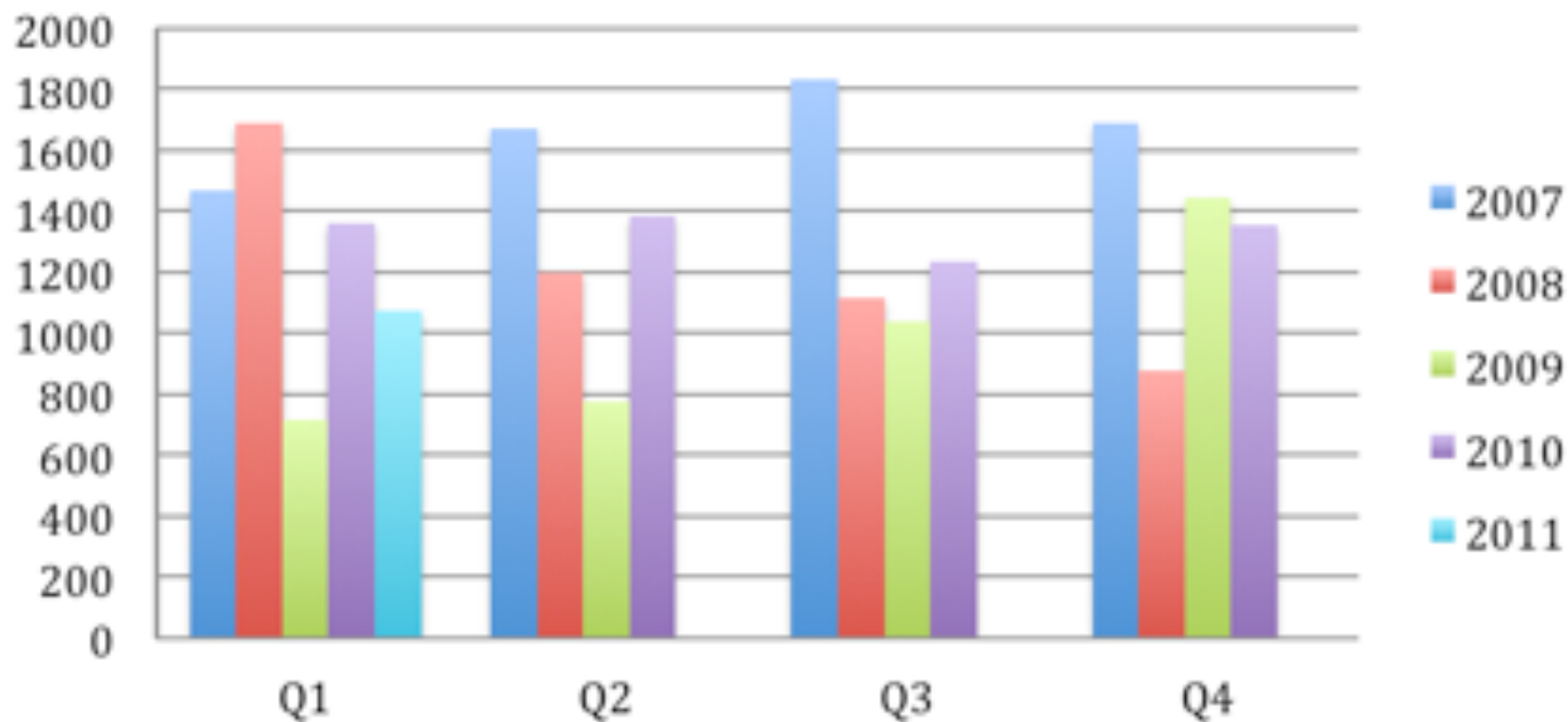


Source: GURS

Transactions by quarter

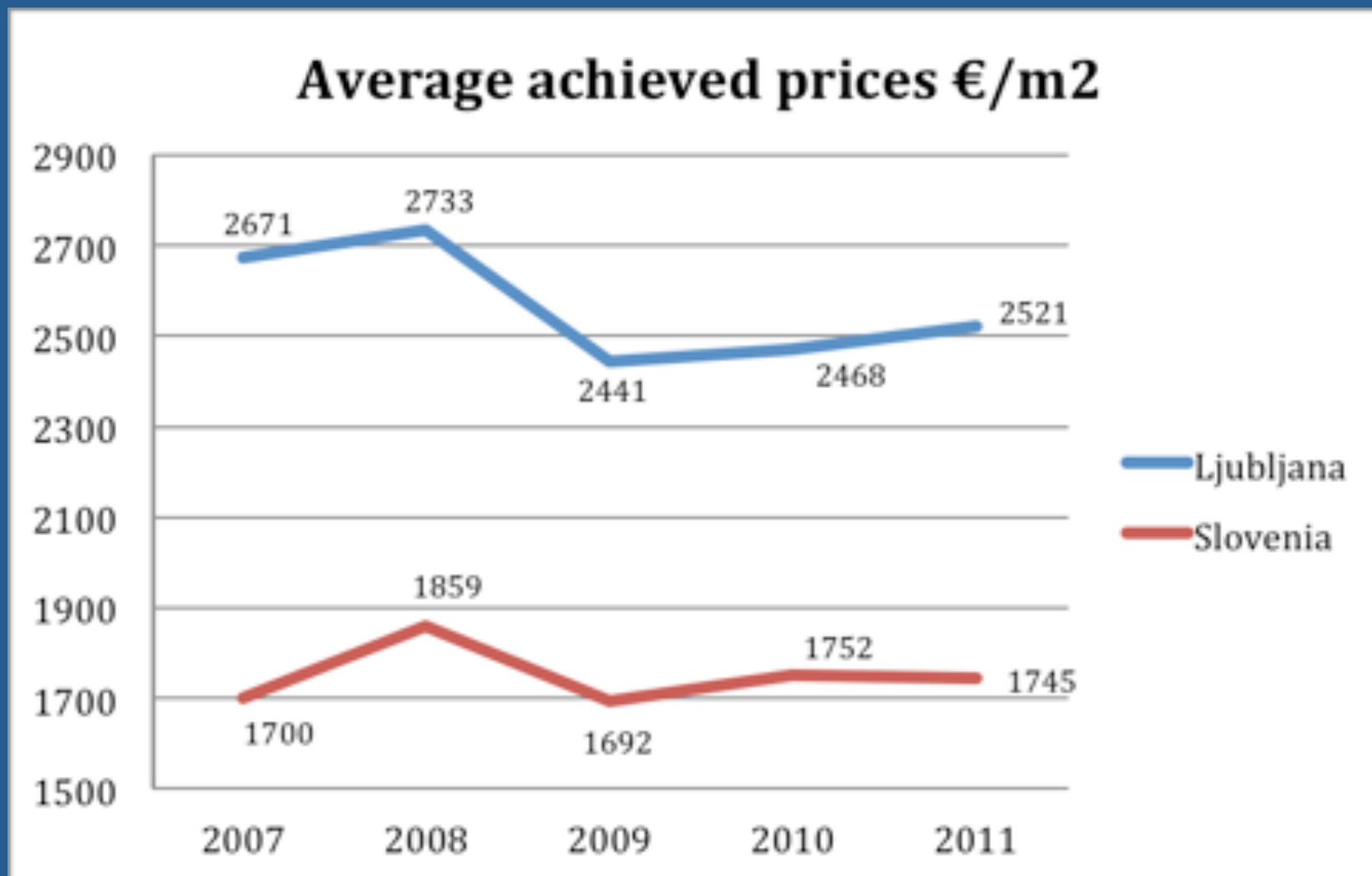
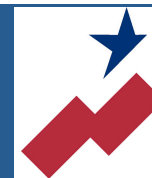


No. of transactions SLOVENIA



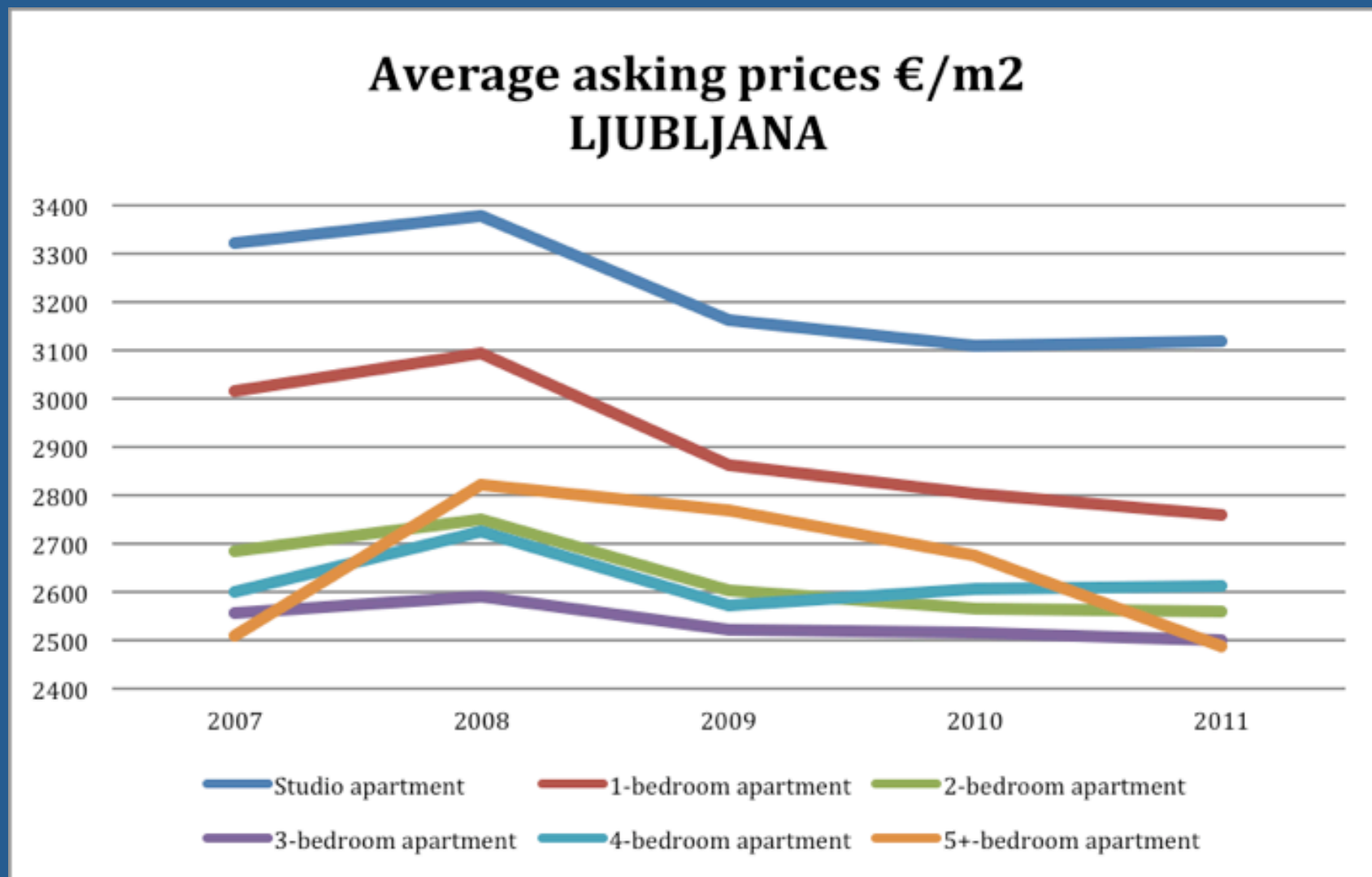
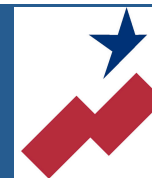
Source: GURS

Prices achieved Slovenia + Ljubljana



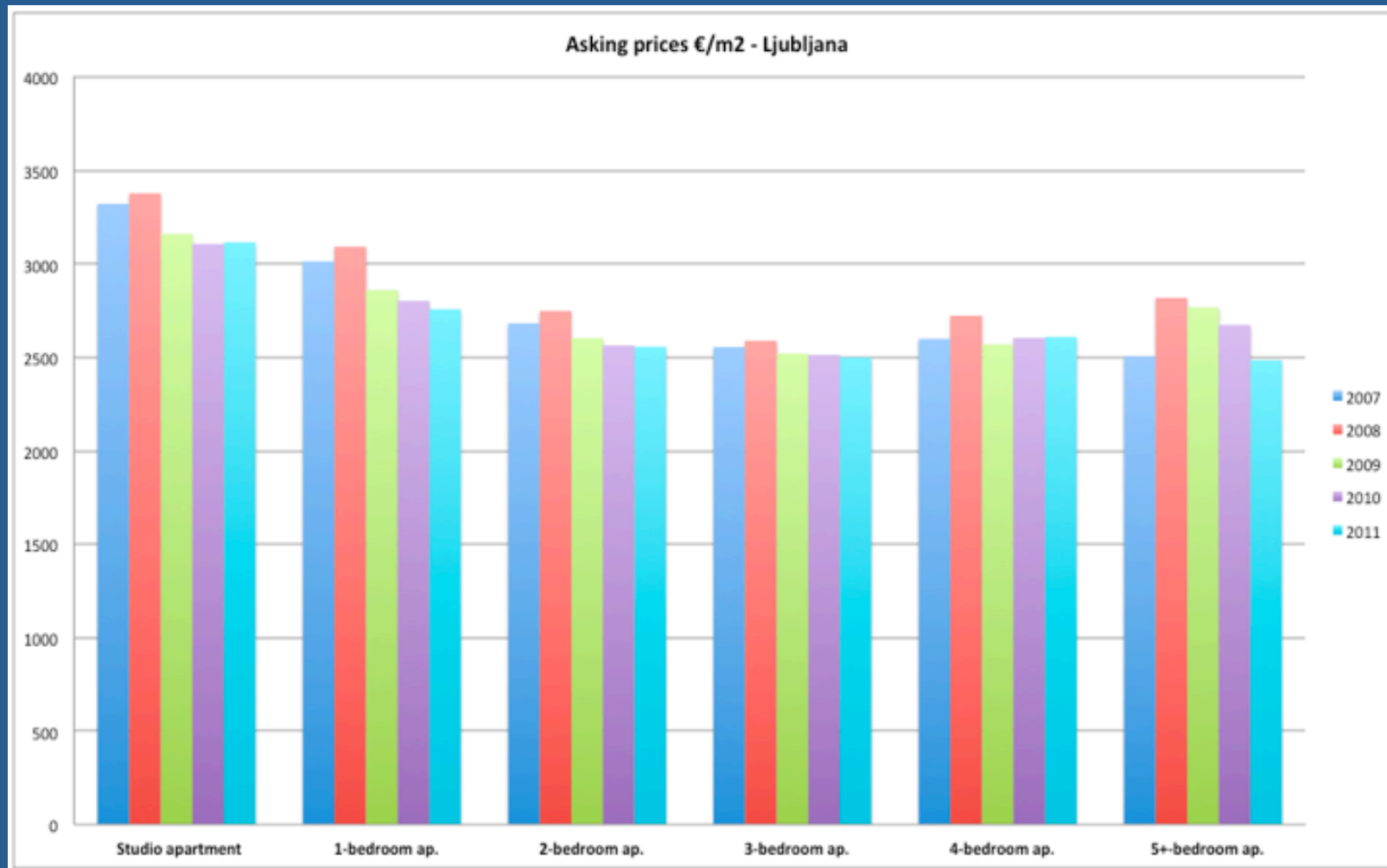
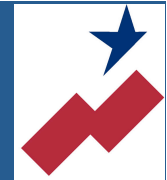
Source: GURS

Asking prices Ljubljana



Source: SLONEP

Asking prices Ljubljana by size



Source: SLONEP

Residential – tax on sale

- Gain on sale of permanent residence not taxable if owner lived there for 3 years
- Otherwise, gain on sale of house or apartment taxable at 20 % for individuals, less 5% for every 5 years of ownership
- Sale of new houses and apartments – 8.5% VAT (20% for large properties)

Residential – tax on rent

- Rental income taxable for individual Lessor at progressive personal tax rates
- Taxable amount = gross rent less 40%, or gross rent less allowable expenses
- Rental fees VAT exempt, but Lessor and Lessee can agree to charge VAT if both fully VAT-able

Residential Lease

- Housing Act as Sector Specific Act
- Four Types of Rented Flats
- Compulsory Items of Lease Agreements
- Rights and Obligations of Contracting Parties
- Rent and Costs
- Termination

Note: Every lease agreement has to be concluded in a written form. To be directly enforceable, it has to be in a form of a notarial deed.

Residential project finance

- No land financing (only projects with valid construction permits)
- Amount: Min. LTC/LTV of 70% (including cost reserve)
- Tenor: 2-4 years (construction and sale period)
- Other: Cash sweep mechanism, turn-key GC contracts, pre-sale (depends on the project)

Residential mortgage finance

- Purpose of construction, purchase, renovation, refinancing,...
- Loan amount up to 80% of Loan-To-Value
- Loan tenor up to 30 years
- 100% cash in case of construction or renovation
- Possibility of several co-borrowers
- Individual approach for residents and non-resident loantakers
- Flexible loan drawdown possibilities
- Early repayment possibility

Contacts

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Presentation download

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