



"Hunt for YIELD"

University of Piraeus
Department of Banking & Financial Management
Real Estate Conference

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Agenda

□ HUNT FOR YIELD

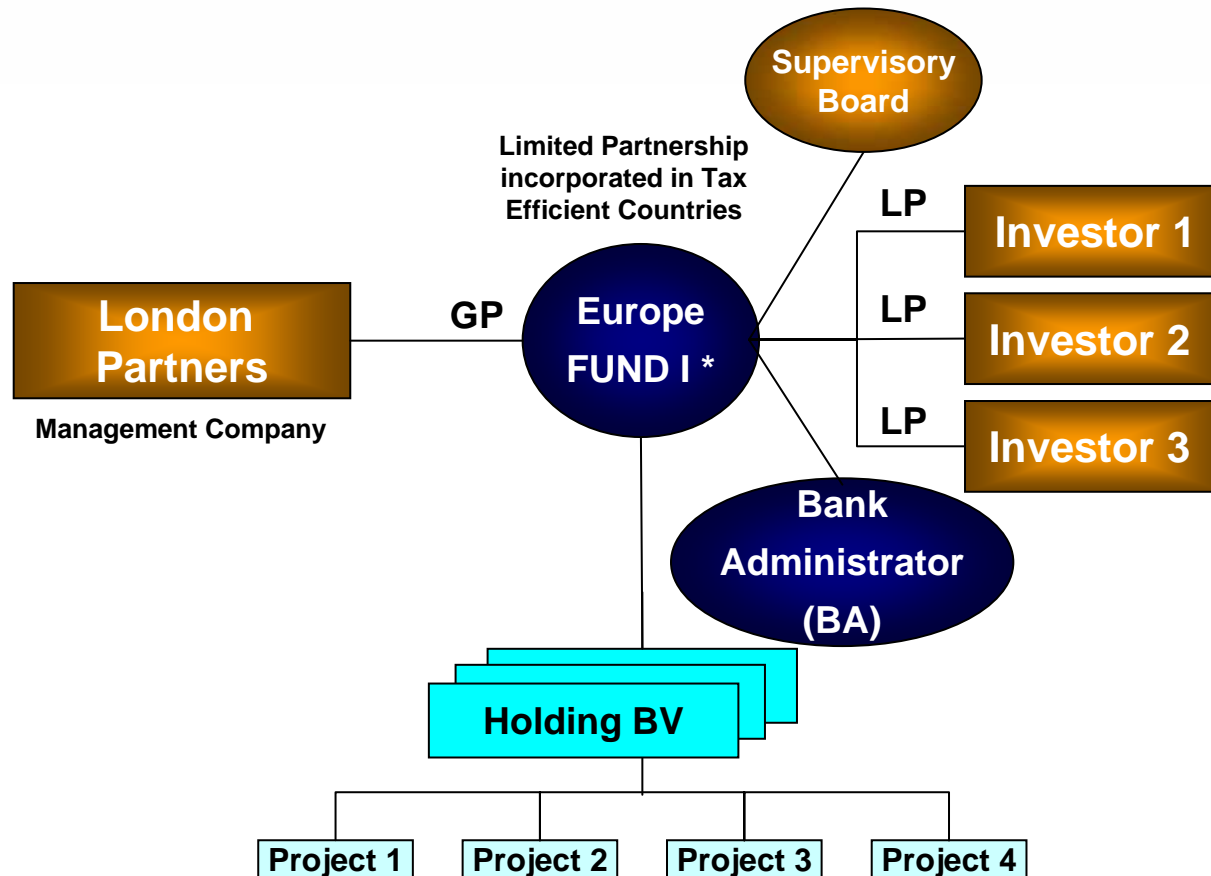
- **Real Estate Private Equity Funds – wrong incentives?**
- **Development Companies – why they lost direction?**
- **Greek REICs – why they were protected?**

□ HOW THE INDUSTRY SHOULD LOOK LIKE?

- **Back to Proper Investment Approach – Back to Fundamentals**
- **Back to Norm – Back to Reality**

1. Typical RE Private Equity Structure

ILLUSTRATIVE FUND STRUCTURE



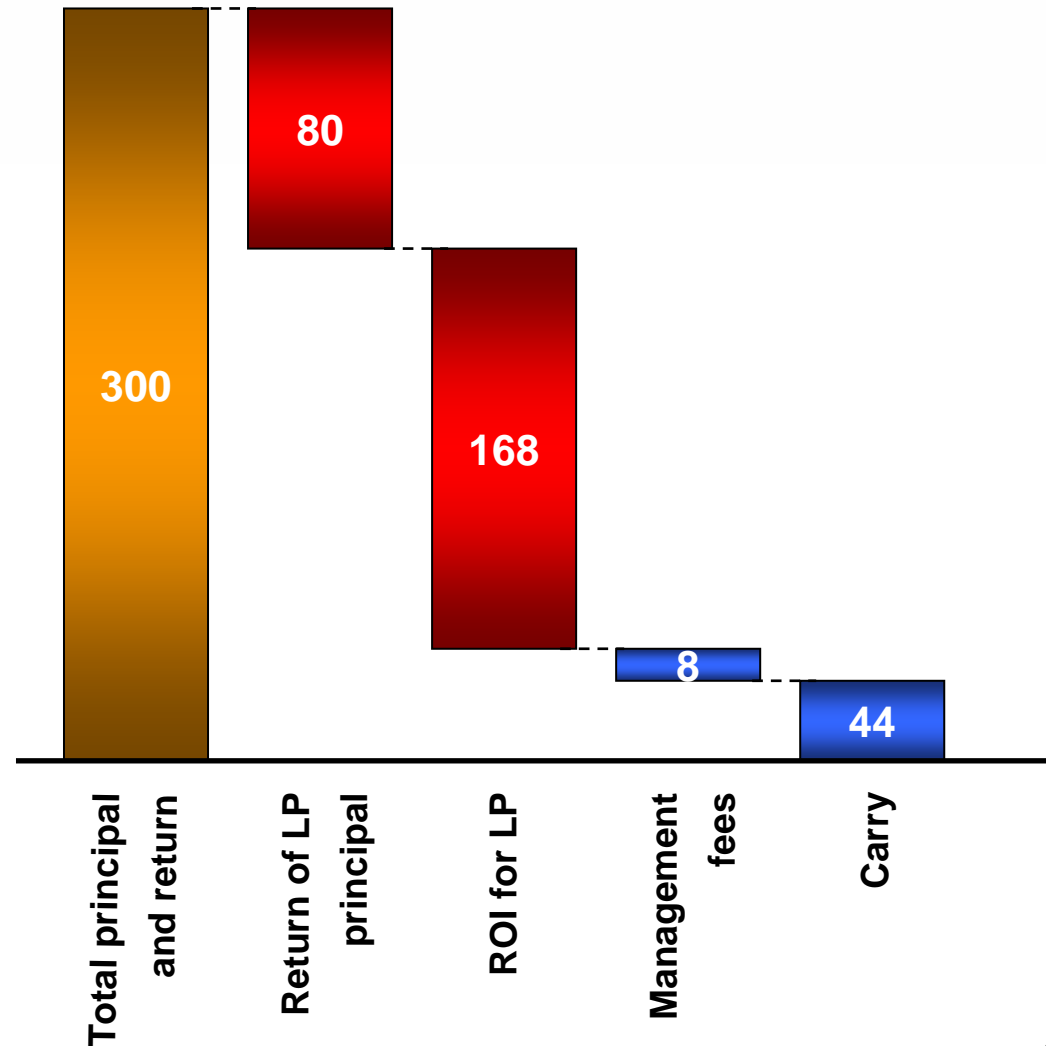
Typical Fee Structure

- Annual Management Fee: 2% on Funds Under Management (FUM) Net of Investment Expenses
- Performance Fee (carry): 20% on Realized Gains

(*) Typical life duration of 10 years (5 years investment duration and 5 years for exiting)

2. Illustrative Cash Flows for an €80 million Fund (5 year horizon – 30% IRR)

€million



3. 30% IRR – 2 easy 2 catch ...

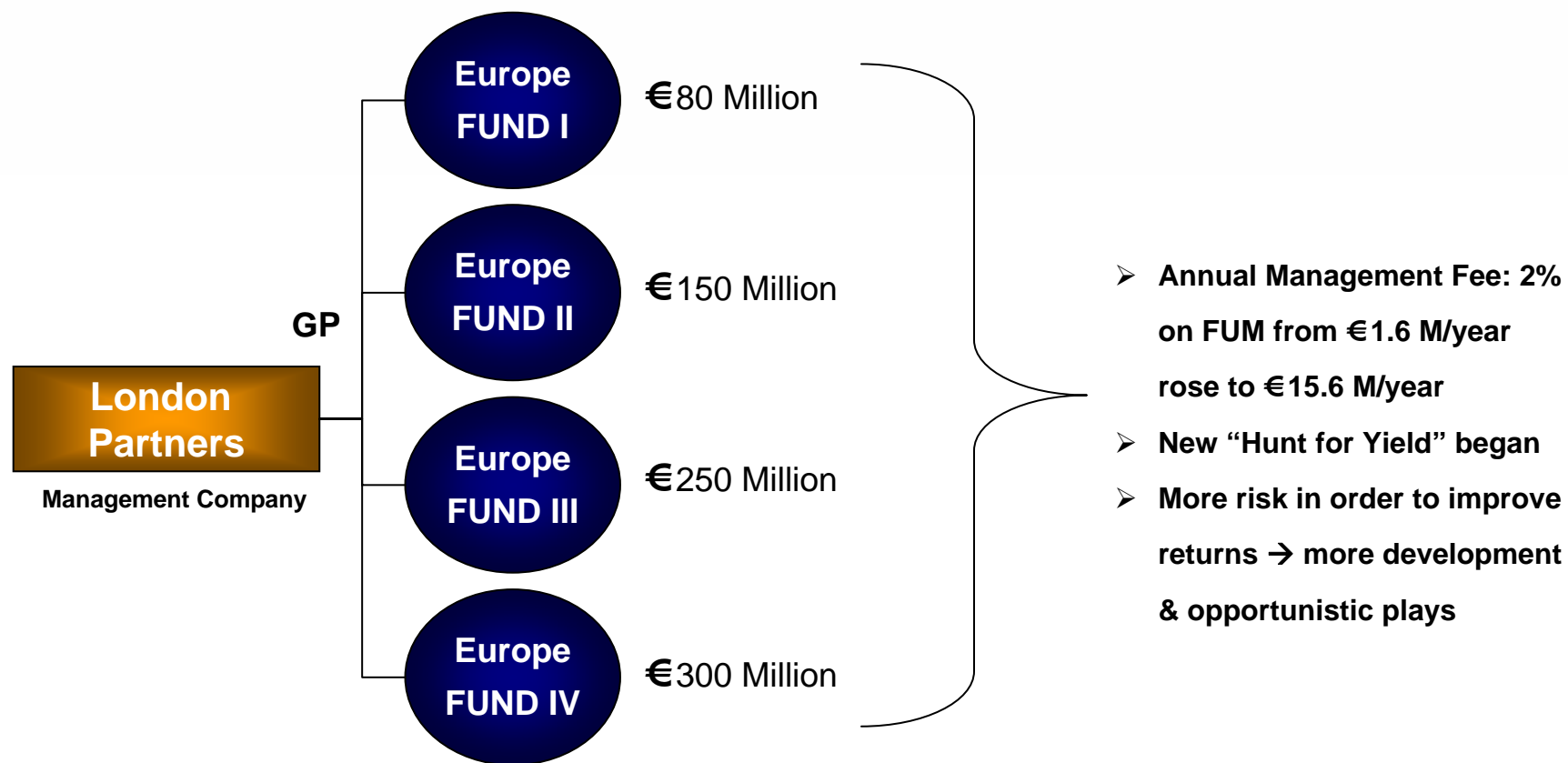
Acquisition Price	100 €	Million					
Debt (ballon payment)	80 €	Million					
Equity	20 €	Million					
Entry Yield	8%						
Annual Indexation	4%						
Exit Yield	7,5%						
All Expenses Cost	4%	Rental Income					
Cost of Debt	6%						
Tax	25%						
Depreciation	2,5%						
			Year 1	Year 2	Year 3	Year 4	Year 5
Income			8,00	8,32	8,65	9,00	9,36
All Expenses			0,32	0,33	0,35	0,36	0,37
Depreciation			2,5	2,5	2,5	2,5	2,5
Interest Cost			4,8	4,8	4,8	4,8	4,8
Profit Before Tax			0,38	0,69	1,01	1,34	1,68
Profit After Tax			0,29	0,52	0,76	1,00	1,26
Cash Flow			2,79	3,02	3,26	3,50	3,76
Exit Price							124,78
Debt Repayment							80,00
Free Cash Flow	-20,00		2,79	3,02	3,26	3,50	48,55
IRR	30%						



4. Limited barriers to entry started “Hunt For Yield”

- ❑ **More & More Funds were created! Even historic PE funds started raising equity for RE investments**
- ❑ **Western European Yields dropped to lowest levels!**
- ❑ **More LTV needed to retain IRRs – Banks failure to identify RISK**
- ❑ **Different layers of leverage and currency exposure became the norm**
- ❑ **Heavy focus to un-developed economies in the “Hunt For Yield”**
- ❑ **Lower levels of carry...**

5. Raising of FUM became the new play...





6. And now they are facing multiple issues

- Limited Partners are asking the uncommitted equity back**
- Pressure in rents & increased vacancies**
- Projects acquired at aggressive yields with aggressive LTVs have covenant issues**
- Debt with currency exposure escalates covenant issues (UK problem)**
- Additional equity injection is asked from lenders**
- Exit timing is coming and prices have not recovered**
- However, cash rich funds are in a strong position for new acquisitions**



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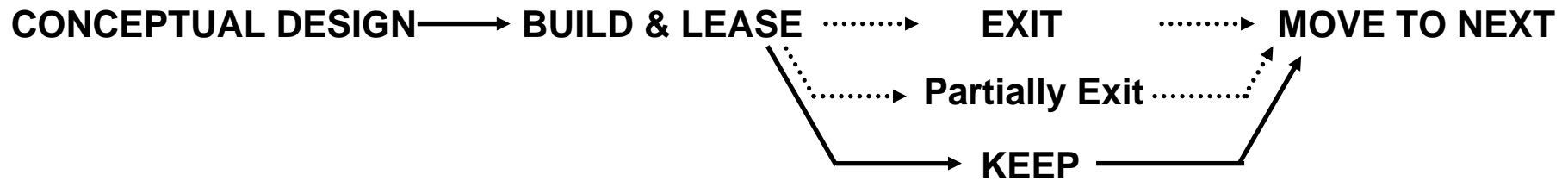
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1. Many developers changed direction...



- “Hunt for Yield” → Developers waited for more aggressive yields → Implemented “keep” strategy
- In order to finance their next project they turned into collateral debt, leasing, etc. → Increased levels of debt
- New project consequently had additional yield requirements → more complicated projects, new countries & more LTV without setting the proper processes and without having the proper tangible & intangible recourses
- Cost of land increased due to higher demand → Acquisition of land with limited equity commitment → **MORE RISK** to all parties involved



2. And they also facing issues

- Financing is difficult → committed projects cannot start or abandoned at middle of construction**
- More own equity commitment is needed**
- Pressure in existing rents → financial leasing is becoming painful**
- Pre-leased projects are cancelled due to tenant issues**
- However, competition is decreasing & healthy developers have now the “luxury” to select projects**



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1. Greek REICs were protected...

- ❑ Majority of REITs have lower appetite for RISK → Invest in Income Producing Real Estate
- ❑ REITs are dividend driven funds rather than IRR driven → Lower levels of debt compared to Private Equity Funds & Developers
- ❑ Even in the pick of the investment cycle REITs European Average LTV at 40%
- ❑ Greek REICs do not develop (only forward purchase agreements with strong covenants)
- ❑ Greek REICs do not invest in residential market
- ❑ Max debt levels 50%
- ❑ Max Non-EU investments 10%
- ❑ Right Management Decisions at the Right Time:
 - Eurobank Properties decided to go for Share Capital Increase for new investments rather than gear up its balance sheet
 - Eurobank Properties decided to slow down its investment paste early in 2008



2. Affected... but in strong position

- ❑ **Heavy Discounts to Net Asset Value (NAV) – Eurobank Properties 40%, Trastor 30%**
- ❑ **Pressure in rents for maturing assets but with strong lease contracts**
- ❑ **Pressure from Banks in renegotiation of existing or future debts but REICs at a very strong position due to very healthy balance sheets, low LTV levels → “Ideal” clients for Banks**
- ❑ **Strong Cash position with very low debt in place**
- ❑ **Less competition from private equity funds that now are targeting US & Western Europe**
- ❑ **FROM SELLERS MARKET → BUYERS MARKET**



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1. Key Investment Challenges

Challenges

Never miss
a good
opportunity

Don't invest
in bad deals

Have the right
Capital
Structure

Requirements

- Be aware of all opportunities in the market and competitors actions
- Ensure good deals are identified as such
- Be able to close deals in a timely fashion
- Proactively create new opportunities
- Ensure bad deals are identified as such as fast as possible
- Credit Lines
- Good relations with Banks
- Availability for cross-collateralization
- Risk Assessment

Processes Needed

- Close interaction with RE Developers & experts
- Communication channels with the market
- Deal-flow generation
- In-depth investigation, due diligence
- Deal structuring, closing
- New deal creation
- In-depth investigation, due diligence
- Tenant interviews
- Communication channels with Banks
- Balance sheet monitoring
- Risk analysis
- Financial modeling under several scenarios

2. Core Investment Criteria

Property

- Type
- Location
- Quality
- Age
- Legalities

Lease Structure

- Maturity
- Termination clauses
- Stamp duty, maintenance, insurance, & other costs (triple net vs. single net)

Tenant Mix

- Type
- Creditworthiness
- Commitment
- Strategy

Rental Levels

- Under-rented
- Market
- Over-rented

Determination of Risk Profile Of Real Estate Asset (entry yields)

Strategic Fit with Portfolio

- Sector Diversification
- Geographical Diversification
- Tenant Diversification



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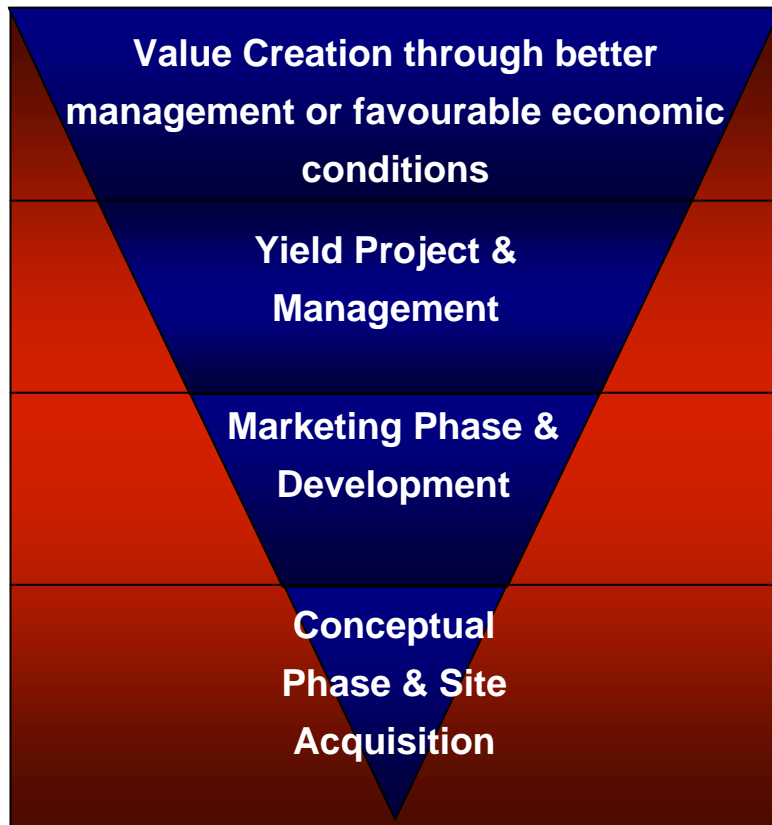
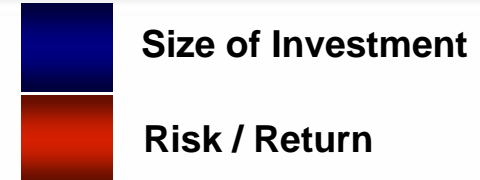
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1. Back to Norm...

FUNDAMENTAL STAGES FOR ENTRY



Investor – Allocation

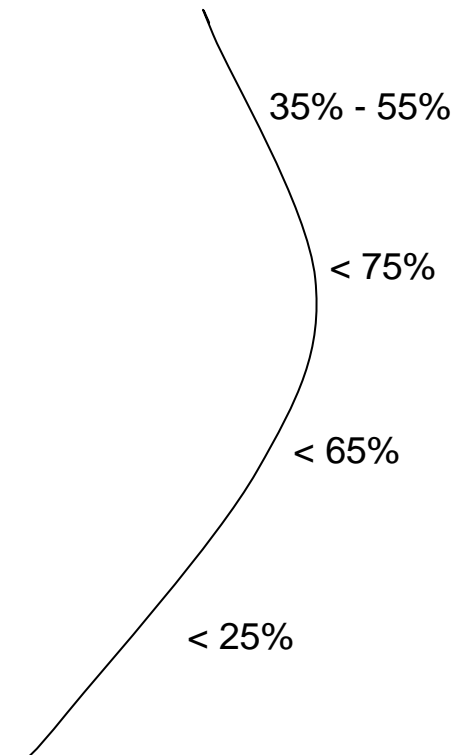
- REIC – 40%
- Private Equity Fund – 20%

- REIC – 60%
- Private Equity Fund – 70%
- Developers – 5%

- Private Equity Fund – 10%
- Developers – 25%

- Developers – 70%

Loan to Terminal Value





2. Back to Reality...

- Back to Risk Discipline by all parties involved (fund managers, banks, sellers, etc.)**
- Back to Hedging Strategies**
- Back to Diversification Strategies**
- Back to Reasonable Levels of Debt**
- Back to Incentives Alignment**
- Back to Core Markets**