ENGEL&VÖLKERS
COMMERCIAL

Investment Guide

REINVESTING THE PROCEEDS FROM THE SALE OF REAL ESTATE

Timing Is Key

Is right now a good time to sell my real estate (apartment, family home or commercial property investment) investment? Perhaps you, like many other property owners, are asking yourself this very question.

There can be many reasons for wanting to sell a property, including personal or strategic reasons such as increasing income or taking advantage of tax benefits. The real estate market is obviously influenced by the global economic and political situation as well, so these factors also need to be taken into consideration. So how do we determine the right moment to sell and turn our real estate either into liquid capital for our personal use, or to restructure our investments to better suit our needs? Selling real estate only makes sense if you, as an owner, can answer important questions including what to do with the proceeds from the sale, and how to reinvest it sensibly.

This brochure should help you with these considerations. An up-to-date, transparent and professional analysis of the market price estimate plays a key role in choosing the right real estate strategy. You may already have an estimate from a bank, insurance company or an expert. But in the final analysis, the property will be worth exactly what the buyer is willing to pay for it.

On the following pages, we have summarized various options for investing income from the sale of real estate or other capital.

Yours sincerely,

A. v. Schlik

Andreas von Schlik, Dipl., Ing. – CEO of the company

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59% of apartment building owners are not aware of the market value of their property. What about you? How deep is your knowledge?

Deciding to sell and reinvest should begin with a detailed assessment of your individual situation, with taking a kind of "inventory". What is the market value and potential of the property, individual buildings, or the entire portfolio? If you're not in a position to answer this question, you've come to the right place.

As we mentioned above, a survey by Engel & Völkers showed that 59% of apartment building owners do not know exactly what their property is worth. A property and/or portfolio analysis can be a huge help in the planning process. A comprehensive analysis begins with an examination of the condition of the building, thanks to which we can discover whether the property only requires continued maintenance or rather more demanding reconstruction or modernization; whether expansion is in order or new uses for the building found. The location, neighbourhood and current market situation also need to be taken into account, and a thorough analysis will show you both the potential and risks of your real estate, as well as provide an estimate of its market value through comparison with similar properties in similar locations. Issues regarding your property that you may not have even considered will often be discovered.

- Will extensive renovations be necessary in the foreseeable future? If elements of the property have not been repaired or modernized for a long time, perhaps they no longer meet current standards and legal regulations? What is the energy status of the building? Will an investment be necessary in order for the property to meet new legal requirement regarding housing, perhaps regarding the energy efficiency standards of buildings? Will it be necessary to completely modernize or expand the heating system?

- The financial efficiency of the property should be carefully analysed. How is your rental income developing? Is it in keeping with the current market value of similar properties? Is it possible to increase rent even more? Is the building rent regulated? It's good to have an overview of the numbers regarding the amount of rent coming in.

- How competitive is the property or portfolio? How has the market trends developed in the past and till now? What further development can be expected in the future?

- Are there plans in place for the future development of the portfolio, and are they meaningful? What structural optimizations of the portfolio can be made to better match your desired investment strategy?

- How much equity is tied up in the property? And first and foremost, can the equity be used differently yielding higher returns?

We recommend a real estate analysis to everyone who wants to know the true market value of their property, even in the case that they do not yet intend to sell it, or only considering selling it in the future. The analysis needs to be carried out by real estate experts and real estate brokers. Our experienced specialists at Engel & Völkers will be happy to put together a professional breakdown of your individual buildings or entire portfolio for you, allowing you to make an informed and strategically meaningful decision. We are always happy to advise you.

You are glade to provide an overview of the current state of your property, current and upcoming costs, income being generated, as well as future revenue potential and risks.

PORTFOLIO ANALYSIS

A comprehensive analysis of your real estate portfolio with regard to the condition of the property, their current economic profitability, marketability and our resulting recommendations.

PROPERTY ANALYSIS

A comprehensive analysis of the property and market value help determine the asking price in the event you decide to sell. Such an analysis also serves as the basis for decisions regading reconstruction, modernization, sale or demolition.

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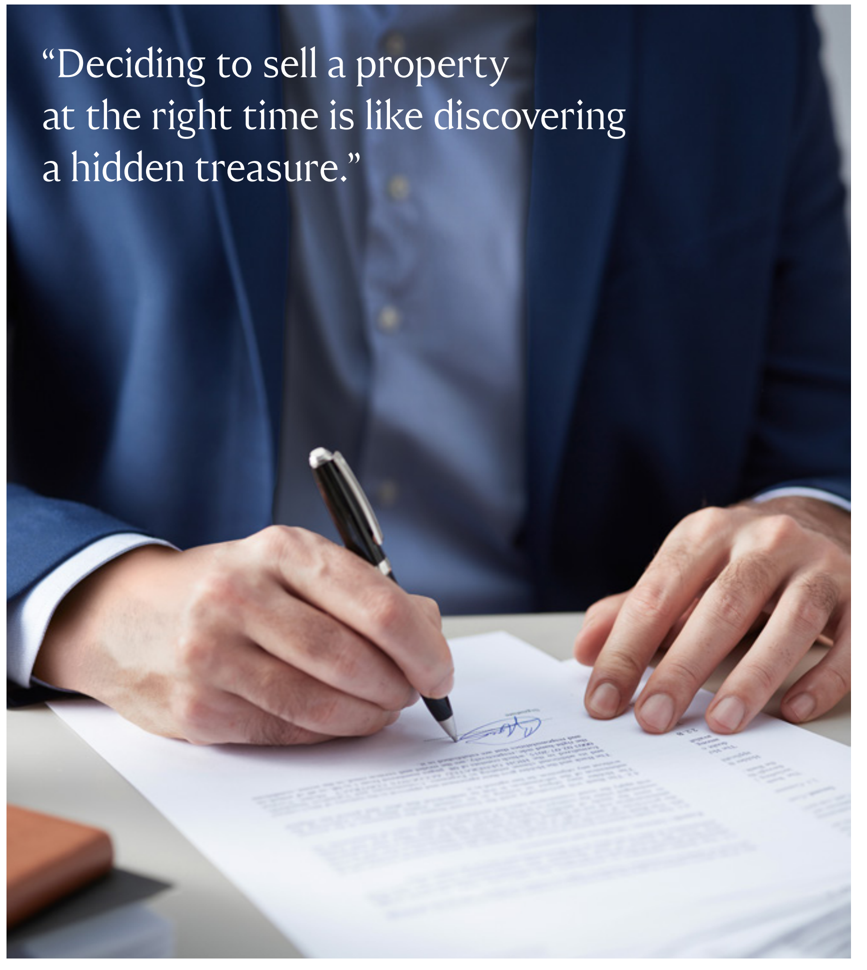

TAX CONDITIONS

Before selling a property, an owner should always monitor the tax criteria in addition to the market conditions.

SPECULATION PERIOD

refers to a way to determine how much tax is to be payed on the sale of properties that are not occupied by the owners themselves. Gains from the sale of real estate may be subject to income tax, depending on how long you've owned it. To determine your exact situation, we recommend a consultation with a tax advisor.

Reasons to Sell

People often ask themselves: should I keep the property, sell it now, or continue waiting and sell later? Making a decision must always depend on the individual's personal circumstances, investment strategy and the overall state of the market. All these criteria are important in deciding what defines the right moment to sell.

Personal reasons often determine when people want to sell: they might want/need to have liquid funds available, for example for their retirement. Another reason may be to make it easier to de-facto divide an inheritance when there are more than one heirs and thus co-owners on a property. Similarly, divorce often leads to the parties deciding to sell their property to make assets easier to divide.

Another possible reason to want to sell is that managing the property suddenly feels like an unwelcome time or administrative burden, perhaps due to disagreements with tenants or real estate management, or due to the complex implementation of new legal property regulations and the related obligations.

When to Sell: Choice of Investment Strategy is a Decisive Factor

Apart from personal reasons, current conditions on the real estate market can determine the right moment to sell a property. Some types of financial investments can lose appeal when interest rates are low or in an uncertain economic environment. During these times, investing in "permanent values" such as real estate or precious metals may become more appealing. In these times, it is necessary to act with deliberation, which requires very good knowledge of the market.

After all, market prices and development opportunities vary widely from place to place, especially for residential and commercial properties. You can learn basic information on past, present, and future trends and developments on the real estate market from our materials.

When deciding on the sale of real estate, strategic investment reasons are another important factor. For example, legal obligations

derived from new proposals/directives on the energy performance of buildings, or an uncertain political or legal situation, play an important role in making wise decisions.

As part of the investment strategy, it is also possible to consider the reallocation of investments to other property or assets; it might make sense to take advantage of the appreciation of an increase in value of one property and to reinvest in another property having a more favorable tax depreciation advantage. The so-called speculation period can also influence a decision on the right moment to sell your real estate; properties that are not occupied by the owners themselves are subject to various percentage of income tax from the sale depending on whether the owner lives in the property and on how long they've owned it. Rules are different for individuals or corporations. We recommend that you always consult an experienced tax advisor for advice in individual cases.

Revenue Optimization

Perhaps you are simply interested in optimizing your income, which can indeed be a very good reason to sell property. Reasonably reinvested proceeds from the sale can open up other possibilities for you. Exchanging a poorly-performing, low-yield property for a functional, renovated, higher-yield one is one good way to do it. In some cases, it can resolve a complicated situation where there are several co-owners that would like to divide their asset. You can optimize the diversification of your real estate portfolio and invest in various locations and different segments, and/or focus on maximalizing the amount of tax depreciation. If you sell a property from your portfolio and invest the proceeds in a new property with a higher purchase price, the higher purchase price will then lead to a higher depreciation margin, reducing your tax base and tax burden, and ultimately increasing your income.

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THE MAGIC TRIANGLE
Real Estate Investment.
Risk, Return and Liquidity

VARIOUS INVESTMENT OPTIONS
Capital investments, investment in shares/funds, investment in precious metals and real estate reinvestment.

	Return on Investment	Security of Asset	Liquidity
Shares	◆ High	◆ Low	◆ High
ETF	◆ High	◆ Medium	◆ High
Government bonds	◆ Low	◆ High	◆ High
Gold	◆ Medium	◆ Medium	◆ High
Real Estate	◆ Medium	◆ High	◆ Medium
Money Markets	◆ Low	◆ High	◆ High
Commodities	◆ Medium	◆ Low	◆ Medium

Legend: ◆ High ◆ Medium ◆ Low

Source: Engel & Völkers, Ratgeber Anlagealternativen - Verkaufserlös reinvestieren brochure
The information pictured here is based on long-term investment periods of between at least 10-15 years, and may differ from current market conditions.

Everyone who sells real estate asks themselves the same question: what am I going to do with the money from the sale? Do I need it for a specific purpose? To fulfill a dream? Do I want to increase my standard of living, travel, take a pause from work, invest in my own education or that of my children? There are many possibilities. In addition to pursuing purely personal goals, various types of investment instruments are available if your aim is to work towards investing into the right vehicle for you; choices range from classic capital investments, shares and funds, investments in commodities, through real estate reinvestments. In the case of real estate reinvestments, there are again several sub-options on offer that we will talk about.

Investment of Sales Proceeds

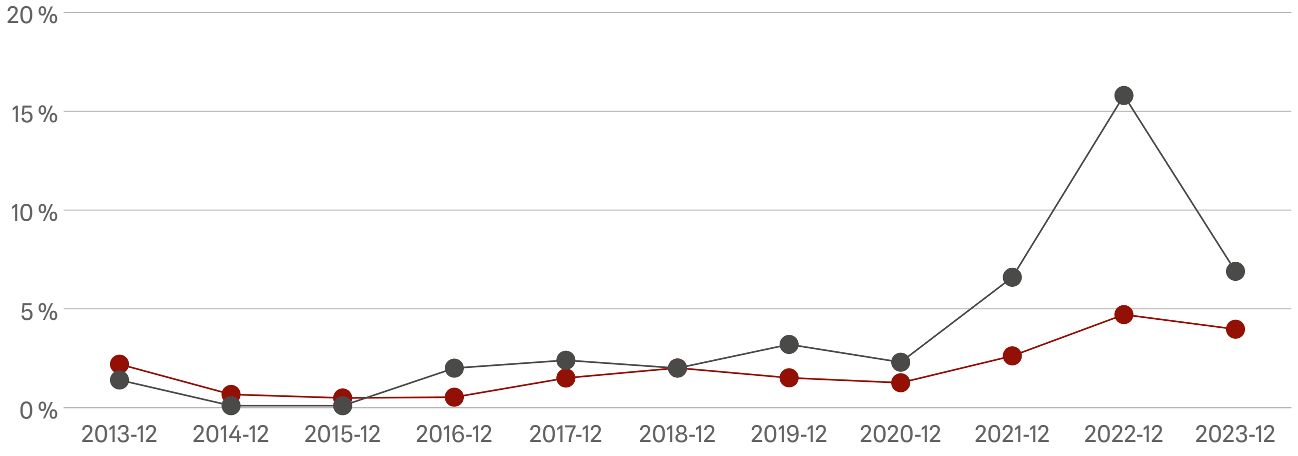
To get the most out of the money you make from your sale, you will need to answer three specific questions:

- What is your goal?
- Do you want to invest the entire proceeds from the sale, or just a part of it?
- How long you want to invest the money for: in other words, when do you want to have your asset liquid and available?

After you have decided what your priorities are, you should thoroughly familiarize yourself with the different types of investments available to you. What is important to keep in mind is that not all three factors (sides) of the investment triangle – risk, return and liquidity – can be optimized simultaneously.

Which of the many available investment instruments do you find interesting that also suit your needs? We recommend that you contact an independent advisor who will help you identify and evaluate the opportunities and risks associated with the various investment instruments. Having this important information will help you make the best decision.

Czech Republic Inflation (Yearly Basis) and Czech Republic 10-Year Bond Yield - (end of moth/year, in %)



Source: ČNB, Kurzy.cz

Classic Investment Instruments: Savings Accounts, Term Deposits and Government Bonds

Classic investment tools include savings accounts and term deposits, both of which are considered low-risk options offered by financial institutions. However, the amount of interest is variable, depending on the current market conditions. It is therefore advisable to obtain more detailed information before making any decisions.

Bonds are issued by governments or commercial companies. In addition, there exist bond ETFs (Exchange Traded Funds). Bonds are also sometimes referred to as fixed income securities or debentures. If they are issued by the state - in the case of the Czech Republic by the Ministry of Finance - they are called government bonds. When the investor buys a bond, they in essence become the “lender” of money to the issuer of the bond (hereinafter referred to as the "issuer") at a fixed interest rate for a fixed period of time. During this time, the bonds can be traded on the stock exchange. Their exchange value depends on current market interest rates and related factors of supply and demand. If interest rates go up, demand usually goes down and so does the value of the bond, and vice versa. With investments, low risk usually means relatively low returns, sometimes even lower than the rate of inflation (see figure above). This general rule also applies to bonds.

Alternative Cash Investments and Other Investments: Shares, funds, ETFs

If an investor is willing to assume a higher degree of risk and invest in stocks, ETFs (Exchange Traded Funds) and funds, and at the same time hopes to be able to select profitable choices (that don’t exceed the amount of risk the investor is willing to take) he will need to spend time understanding them, and ideally have gathered experience as an investor. The available offer of investment choices is extremely broad, including highly specialized products such as ecological or sustainable cash investments.

The returns on these instruments, however, can be very attractive, especially over a longer investment period. For example, the German stock index DAX has grown, over the past 30 years, from 1,578 DAX points in 1991 to around 15,900 points in 2021. This corresponds to a return of around eight percent per year. At the end of December 2023, the index rose to 16,751 points. However, investments in the stock market are usually associated with significant risks and can lead to the loss of the entire capital invested in shares.

Investing in Commodities

Alternative cash investments in precious metals such as gold, platinum or palladium are not always crisis-proof. Even if you can safely store gold bars in a safety deposit box, this does not guarantee you an increase in the value of your investment capital. Let's look at two examples. The value of platinum has been declining in recent years, while palladium, on the other hand, experienced temporary dynamic growth. In addition, safety deposit boxes and so-called "spreads", i.e. the difference between the selling and buying price, represent high expenses to the investor; transactions can quickly reach costs of up to ten percent or more of the invested capital. Investments in commodities such as oil, or so-called agricultural commodities such as grain, coffee and meat are considered highly speculative. Investors should be aware of their risks. The following chart shows the evolution of the prices of gold, corporate stocks (MSCI) and rental buildings/apartments; the advantage of this kind of real estate is relatively high stability in value and permanent rental income. In times of low interest rates, many property owners consider reinvesting sales proceeds back into the real estate sector. The list of the different types of real estate investments is long. Developments in the real estate market bring new trends. In the following chapter, you will learn what these trends look like and what peculiarities are associated with each type of investment.

Investment Developments 2017-2023 (end of month/year, percentage point change)

Source: Engel & Völkers, Investing.com, Kurzy.cz

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Types of Investments and Investment Strategies

INVESTMENT OPPORTUNITIES

One classic real estate investment is the segment of long-term rental apartment buildings, but other interesting choices include short-term rental properties (airbnb, booking.com, etc.), commercial properties including office buildings, retail spaces, hotels, industrial/logistics properties, or land.

FINANCIAL LEVERAGE

Increase Your Return on Equity by Making Smart Use of Borrowed Capital.

In general, we distinguish between two methods of reinvesting in real estate.

- Direct investment in real estate – the purchase of specific real estate.
- Indirect investments in real estate – the purchase of real estate shares and real estate bonds, real estate funds, or, for example, crowdinvesting in order to obtain a stake in a specific company.

Investing Directly into Real Estate

Direct Investing in real estate is defined as the decision to buy a specific piece property, i.e. a capital investment that can be touched with your own two hands. In addition to multi-family houses and apartment buildings, this can include short-term rental properties, commercial properties (office buildings, retail spaces, hotels, industrial/logistics properties) and land.

During times when interest rates are low, for example, a higher proportion of rental income from an apartment building or a commercial space can be used to repay the debt used in purchasing it; using borrowed capital can thus be quickly transformed into an asset. For such real estate investments, the ratio between the achievable capital return and the associated risk is extremely favorable. Assuming low interest rates, real estate investments have practically the best risk-reward profile. It is necessary to monitor the risks of leveraged investments and be ready to sell the property at the right moment. If the investor holds on to the property under the wrong market conditions, the leverage can backfire on the investor. When investing in real estate, it is always important to evaluate the ratio of one's own resources to the amount of funds borrowed.

How can we increase the return on equity invested? Return on equity is calculated by taking into consideration the profit generated (i.e. in the case of rental properties, annual net income) and the amount of one's own invested equity. In this context, we can talk of the so-called financial leverage effect, simply meaning that you can increase the return/profitibility of your personal equity by strengthening it through the smart use of borrowed capital.

Improve the Diversification of Your Real Estate Portfolio and Invest in Different Locations and Segments.

There are, however, circumstances in which this strategy may not work in your favour: if your profits from your property have gone down - whether due to the loss of rental income, additional costs (for example for carrying out a reconstruction), or rising interest rates on loans - having leveraged the property will certainly have a negative impact on profitability. In such cases, financial leverage can unfortunately work to your detriment rather than to your advantage.

Deciding to optimize the portfolio, however, might produce opportunities to increase the return on your invested capital: buying property in another segment or different location, for example. Market changes have increased demand for other types of real estate - such as logistics and corporate real estate – as a result of the general investment pressure on the real estate markets, recent demographic changes, and the changes in consumer behavior reflecting a preference to online shopping over retail stores.

The real estate market is constantly changing; whether we look at residential or commercial real estate, demand patterns never stay the same. Property owners must therefore remain very flexible, as it is the only way they can react to current trends on the market, and open up the potential to increase the return on their investment. The purpose of a property when purchased will, with time, change, it's just a question of sooner or later.

Indirect Real Estate Investments

Unlike direct investments in real estate, indirect investments do not involve the purchase of a specific piece of property. Even with this form of investment instrument, investment capital is nonetheless being invested into the real estate market, just by different means; for example, by buying real estate stocks and bonds, real estate funds or joining a crowdinvesting (group investing) project. These various types of investments can differ significantly.

Real estate stocks, which also include tax-advantaged, exchange-traded Real Estate Investment Trusts (REITs), are shares in companies that generate profits in the real estate sector by renting, leasing or selling real estate and land.

Real Estate Bonds — there is no legally binding definition for the term real estate bonds, which are also called mortgage bonds. We can thus describe them as corporate bonds in the area of real estate. Bonds themselves are securities that guarantee the investor a fixed interest rate return and repayment of the invested capital on a certain date. But their low risk also means they yield low returns. The most famous of such bonds are mortgage deeds. Real estate bonds are secured by a so-called lien on real estate. This means that the property itself serves as collateral for the investor.

Real Estate Funds

Real estate funds also invest in buildings and/or land, in so-called open-end or closed-end funds.

Open-end real estate funds buy a broad portfolio of properties, typically made up of many different properties in various regions and countries. Such funds can include commercial properties such as office buildings or shopping malls, and/or residential properties. Shares can be resold subject to a minimum holding period, redemption period or notice period. Thanks to this, investment in real estate is characterized by higher liquidity and attractiveness for investors. Among the category of investments called "registered open-end investment companies" it is possible to find low-cost real-estate ETFs, which are especially liquid and that can be easily divided among various portfolios.

Closed-end real estate funds, on the other hand, invest in one or only a few properties. By purchasing shares, the investor acquires a stake in the respective real estate company, which means the investor has a stake in the company's success, but also fully in any possible failure. Closed-end funds typically have long-term goals and investors cannot sell-out early. If it becomes necessary to sell the shares prematurely, this can under certain circumstances also lead to heavy losses on the the investment.

Crowdinvesting

Crowdinvesting is an investment tool in which a large number of investors invest together. This is done in a cost-effective way through an online platform. In this way, even private investorswith relatively small amounts of available funds can profit from investing in large projects which otherwise usually demand a minimal investment amount. Unlike crowdfunding, which is financing through money donations, crowdinvesting promises an attractive return which usually exceeds the interest rates offered by other capital investments.

Crowdinvesting applies short terms and fixed interest rates of four to seven percent per year. This makes crowdinvesting an interesting option, but not a risk-free supplement to other types of investing. The general recommendation is to spread capital across different projects and types of assets to balance out risk.

First Gather Information, Then Invest

The goal of every investment is to yield a positive return after deducting costs, taxes and inflation. And this is where the trouble starts. Term deposits, savings accounts and bonds cannot compensate for inflation. While these investment products produce large emotions among investors, they nonetheless can't provide large returns. Even gold has experienced long periods in the past where it didn't yield a positive return, let alone compensate for inflation. Real estate and equity funds, on the other hand, can work as a hedge against inflation, because they focus on long-term investments which have real value. It is in this sector that purchasing power is increasing significantly, despite costs, taxes and inflation.

Investing in real estate is generally considered one of the safest and most lucrative types of investment. However, not all real estate investments are created equal; there are significant differences between individual real estate segments: apartment buildings, holiday properties, commercial premises and mixed-use properties offer different levels of possible returns and different tax benefits.

The question becomes: should you invest indirectly into a real estate fund or directly into property? In what segment? Which specific property should you invest in? Or is crowd investing a suitable alternative? In the end, after gathering all the important information, what you decide to choose depends only on you.

We hope that this guide has given you a basic idea of the different options for investing the proceeds from the sale of real estate or other assets.

Take your time and clarify what your goals are and what information you need.

Regardless of whether you prefer capital markets, real estate, or a combination, always be sure to find out about current developments in different types of investment markets; it is always a good idea to get advice from experts.

Checklist of Questions to Ask Yourself

HAVE YOU ASSURED YOURSELF THAT YOU HAVE SUFFICIENT INFORMATION REGARDING:

- Current market developments, and the risks and returns of your property/properties or your capital investments?
- Possible ways of increasing income from your property?
- The right time to sell your property?
- The weaknesses, strengths and the current value of your property?

It doesn't matter what kind of questions you need answered, we want to help — do not hesitate to contact us.

We will be happy to provide you with a detailed and individual consultation, even, of course, if you are not momentarily thinking about buying or selling a specific property.

We are here to help you make the best decision for you.

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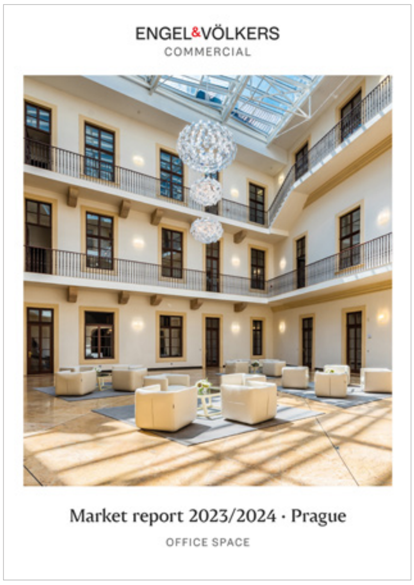

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