

Amaranten: a flower worth picking?

*- a case study on NREP's SEK 1.5 billion acquisition of
Hotel Amaranten in the midst of a global pandemic*

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Abstract:

The thesis analyses the underlying rationales behind the decision of the Real Estate Private Equity firm NREP to acquire Amaranten from Nordic Choice Hotels and the market environment under which the acquisition took place. The Swedish hotel market has during the last decade experienced a record strong growth, and all-time high occupancy rates. However, following the Covid-19 pandemic the future market development remains uncertain. Through a single case study, we investigate the direct and indirect factors contributing to the decision before conducting a valuation of the property. We find largely contributing factors being the possibility for NREP to enter a new segment combined with the uniqueness of the asset. Moreover, the hotel asset can be converted to an office further mitigating the risk of the acquisition in the case of sustained market uncertainty. Lastly a valuation of the asset is conducted resulting in a purchase value of SEK 1.48 billion and an IRR of 18%, as such justifying the quoted purchase price of SEK 1.5 billion and the fund's target IRR of 17%.

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Keywords:

Covid-19, Hotel acquisition, Real estate asset, Transaction process, Valuation analysis

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1. Introduction

On the 22nd of July 2020, the real estate private equity firm Nordic Real Estate Partners (NREP) announced its purchase of Clarion Hotel Amaranten. NREP is a major Nordic PE-fund, mainly focusing on Real Estate investments within the Nordics. With more than 300 real estate investments and over EUR 7.1 bn in assets under management. NREP has since its inception been highly segment focused and has developed a series of customer-centric and innovative real estate concepts primarily within their core segments; *Logistics, Residentials and Care*. However, they have recently set up a brand-new Development and Incubation (D&I) team, opening for more opportunistic investments.

As the Covid-19 pandemic is still looming large and with hotels and tourism not belonging to NREP's core competence, questions regarding both the timing and strategy of the acquisition have naturally arisen. The quoted purchase price of SEK 1.5bn (EUR 145m) from the Norwegian businessman Petter Stordalens company Strawberry Forever makes this the largest single hotel transaction in Sweden since 2015. For NREP this transaction is one of the first in the D&I segment and in their newly raised fund NSF IV, the largest real estate fund raised in the Nordics to date, exceeding SEK 2 bn (EUR 1.9bn) in equity.

Previous literature on dynamics within commercial real estate and distressed financial markets is rather exhaustive. However, there is little research regarding broadening real estate portfolios and real estate investments during Covid-19. This thesis contributes to the scarce literature regarding commercial real estate investments in Sweden and investments during market turmoil by answering the following research questions.

- *What key factors influenced NREP's decision to acquire Clarion Hotel Amaranten?*
- *How did Covid-19 and the current market turmoil affect the deal proposal?*
- *Was the acquisition and the final purchase price legitimised from a financial perspective?*

1.1 Purpose

The purpose of the thesis can be divided into three primary focus areas. The first area aims to *Identify* the underlying dynamics of real estate investments and the commercial real estate market. The second objective is to *Understand* the fundamentals of the Amaranten transaction, considering an in-depth understanding of NREP's acquisition strategy. Lastly, the thesis will act as a *Framework* and source of information to the faculty of Finance at Stockholm School of Economics in the purpose of writing a case to be used in course 4333 - Real Estate Finance.

1.2 Contribution

There are extensive studies and academic output regarding the topic of underlying dynamics of the commercial real estate market regarding valuation and pricing methodologies. However, an interesting aspect emerging in the wake of the Covid-19 pandemic is how the market and property valuations are affected by a shock, both hitting the supply and demand side. Especially as the hotel segment is a sub-segment heavily affected by Covid-19 and subsequent restrictions have considerable implications for future stable cash flows. The thesis can thus bring new insights regarding Covid-19 and its impact on the Swedish real estate market, and an in-depth view of asset acquisitions in distressed markets.

Furthermore, the thesis will contribute to the academic research with transaction-specific knowledge and insights from both internal decision makers as well as external commercial investment advisors regarding the firms' respective business cases and inside views of the complete transaction process. Discussions concerning valuation discrepancies and Covid-19 ramifications will be accounted for in detail. Through interviews with the main stakeholders and advisors the thesis provides a real-life example that serves to increase the understanding of a commercial real estate purchase from different perspectives. Finally, the paper highlights Sweden's most prominent Real Estate focused Private Equity firm and focuses on its strategies and ownership.

1.3 Outline

In the first section, a brief introduction was presented, followed by the thesis' intended purpose and contribution. Section 2 introduces the existing academic output within the fields of commercial real estate market drivers, topics of valuation and risk exposure. Section 3 presents the methodology used and discussions regarding empiric and literature data sources. Section 4 is a case background, presenting a market analysis of the Stockholm hotel segment and. Section 5 briefly describes the background of the acquirer and dives into the actual case and presents the events from the first day of contact between the seller and buyer, to the final acquisition of the property. Section 6 discusses the case findings, including a valuation of the asset. Section 7 combines the case findings with the literature and market research discussing whether the case aligns to the academic output and presents concluding remarks of the thesis answering the research questions. Section 8 finally concludes the thesis and summarises the most important aspects considered.

2. Literature

In the following section, the literature used will be presented, topic by topic.

2.1 Valuation methodologies

There are three major valuation methodologies used, *Sales comparison approach*, *Income approach* and *Construction cost approach*. As the targeted property is a standing asset, the construction cost approach will be neglected in the final valuation, and thereby not discussed further in the following section.

2.1.1 Sales Comparison approach

Performing a sales comparison analysis means analysing recent sales of properties which are highly comparable to the property appraised. The recent sales have to be comparable over several metrics such as size, scale, location, age, and quality of construction. If not similar, adjustments must be made as to compensate for differences. An increasing number of differences makes the valuation unreliable. The sales comparison methodology is a market-based approach in other words meaning that the property in which you are appraising should be valued at the same terms as other properties in the market or alternatively put a rational investor will reasonably never pay more for a property than other investors recently have. A critical stage of the valuation methodology is finding relevant transaction data. The appraiser then summarises relevant metrics from recent transactions such as sales dates, price, size, age, location, or industry specific metrics such as rents or for a hotel property metrics such as Net leasable area (NLA) and Average daily rent (ADR). The metrics from the peers are applied to the property appraised by subsequently either adjusting for differences, taking median or applying the recent transactions averages (Bruggeman & Fisher).

2.1.2 Income approach

The valuation methodology is based on the principle that the value of a property is related to its abilities of producing cash flows. There are several methods within the income approach with the most common being the two market-based approaches Gross income multiplier and Direct capitalisation method but also the Discounted present value which is based on reaching the intrinsic value of the property by discounting the properties cash flows.

Gross income multiplier approach is similar to the sales comparison approach. The methodology examines relationships between the sales price for comparable properties with the gross income which is later applied to the subject property being appraised. The definition of the gross income multiplier is simply the sales price divided by the gross income. If similar properties are going for a certain multiple so should the subject property.

If there are substantial differences in operating expenses between the peer group net operating income (NOI) should be used in place of the gross income. By dividing the NOI by the transaction price the Capitalisation rate is obtained. Thus, an appraiser can reach an estimate of the capitalisation rate from the peer group and by dividing the properties NOI with that rate an estimate of the subject property will be concluded. There are limitations to the gross income multiplier and direct capitalisation method as the methods simply assures the buyer that they are paying a competitive market price, whether it is a good or bad investment depends on the future growth in rent, income and property values, which is not considered in the methods.

The discounted present value method is based on the principle that the maximum value an investor will pay for a property is present value of all future NOI's. There are four steps necessary to estimate the present value. The first step is forecasting the NOI's which can be done in several ways most commonly growth rates are applied to the current NOI. The second step is a selection of the relevant time period of analysis or the holding period of the investment. The third step is a selection of the discount rate or the required rate of return for the period selected in the second step. Conceptually the discount rate is the required return for a real estate investment based on its risk when compared to returns earned on competing investments and other capital market metrics. As such the discount rate should be greater than the interest rate of the country specific treasury bonds for the specific time period forecasted, the interest rate on commercial mortgage loans for the forecast period and the weighted average of corporate bond rates or borrowing rates for the tenants in the evaluated property. One should also add a risk premium for real estate ownership and its attendant risk related to operation and disposition to the discount rate. The fourth step is determining the present value of the expected NOIs beyond the first forecast period of the analysis, these cash flows are represented by a Reversion value (REV) or resale price. To do this a stabilised NOI is determined which is usually the NOI from the last period in the forecast combined with a certain growth rate often correlated to the long-term growth rate of the economy. There are three common techniques to then estimate the reversion rate. One can either estimate the reversion rate by developing a terminal capitalisation rate based on the required rate of return and expected growth in the long-term cash flows, by a terminal capitalisation rate from sales of recent comparable properties, or by estimating the resale price based on an expected change in property values. When the four steps are completed, the

appraiser has reached the sum of the discounted values of all future cash flows which should equal their view on what the property is worth (Bruggeman & Fisher).

2.2 Valuation accuracy

Crosby and Matysiak (2002) describe the term “*Valuation accuracy*” as one's ability to correctly identify a target and identify the subsequent sale price transacted in the market where the valuation is based on the asset's market value. By comparing transaction prices with sales prices, one can determine whether a valuation is accurate or inaccurate (Babawale and Ajayi, 2011). The consensus both in academia and the valuation profession is the inevitability of inaccuracies in real estate transactions. There will always be a degree of uncertainty attached to a valuation (RICS, 1994, p.26). Early studies on valuation inaccuracy were focused on determining whether valuation inaccuracy existed and the level of inaccuracy of valuers, more importantly, however, is a discussion of the causes for the inaccuracy (Babawale and Omirin, 2011). Gallimore and Wolverton (2000) argue that only a better understanding of the contributing factors causing the valuation inaccuracy would help in improving valuation practice and how feasible the supposed learnings are to implement. Previous research has identified several reasons for the inaccuracy within the real estate market, presented below:

Characteristics of the property market: The real estate market is in relation to the capital market largely imperfect. In capital markets, market values of securities can be readily imputed from prices of identical assets in turn traded in the secondary market and prices of the assets are thus openly traded and published. The market value for real estate assets however is largely harder to attain from available transaction prices. This is a result of the infrequency of the sales, secrecy of deals, the fragmented market and heterogeneity of products (Millington, 1985; Ratcliff, 1972).

Problem of relevant data: Asset pricing is largely based on comparison to identical assets and the quantity as well as quality of the available market data is highly relevant in delivering an accurate valuation. In an active market the availability of data points is much larger, and the data is therefore more comparable to the subject property as well as the transaction dates being closer to the valuation date, both factors increasing the probability of accuracy. In a sluggish or inactive market there are a fewer number of direct comparable sales and a proposed valuer will have to rely on secondary evidence much less comparable in terms of time, specification, and location (Havard 2001)

Definition of value: Real estate valuation is often based on numerous and extensive presumptions and limiting conditions resulting in it being almost fictitious (Millington 1985). The valuer thus no matter his or her competence level and cautiousness may never be expected to precisely produce exactly the value matching the market price. Getner (1983) goes so far as to say that the true market value is unobservable.

Standardisation: There are several conflicting, complex, and interrelated frameworks used in valuing a real estate asset. This in combination with the appraiser's individual characteristics greatly influence the valuation process and in turn the final valuation (Wyatt 2003).

Client pressure: Researchers have proven the existence of clients in many cases influencing the valuation intentionally or unintentionally (Levy and Schuck, 1999; Gallimore, 1998). Potential for biases from clients in valuation is a widely recognised practice. The more important a valuation is for the interest of a client the more likely it is for the client to apply pressure on the valuer.

Skill and experience of valuers: The higher the skill level, experience, and judgement the lower is the probability of a large value inaccuracy (Ajayi, 1997; Baum and Crosby 1998). The consistent level at which valuers apply valuation models and process information is critical to accuracy (Gallimore, 1998).

Familiarity with market: The level at which the valuer can source and analyse the required information depends to some extent on his or her familiarity with the relevant market. Familiarity is both related to *Geography* (Adegoke, 2008), *Valuation methodology* (Havard, 2001), *Regulatory framework* (IVSC, 2005) and *Type of property* (Rushmore, 1993; Bretten and Wyatt, 2002).

2.3 Valuation biases influencing real estate appraisers

There is a growing amount of literature within real estate regarding biases influencing appraisers. In 1994 Gallimore discovered a tendency in Britain where valuers give too much weight to the most recently considered information also called the Recency effect. His further studies also uncovered valuers' making premature judgements. Interestingly several researchers including Quan and Quigley (1991) and Geltner (1993) have concluded appraisers to rely more heavily on previous value estimates in times of high market uncertainty. At times it can go as far as to appraisers being influenced by unclosed comparable transaction prices and anonymous experts, with Diaz and Hansz running a series of experiments (Diaz 1997; Diaz and Hansz 1997, 2001). Furthermore, Diaz and Wolverton (1998) discovered that expert commercial appraisers are subject to making

insufficient adjustments when updating a prior value judgement. The tendency to rely to a large extent on one's own prior judgements and not consider surrounding circumstances and new information was further discovered in Clayton, Geltner and Hamilton (2001) database of appraisals.

2.4 Transaction price versus fundamental value

There is extensive literature regarding real estate appraisal, Fanning, Blazejack and Mann (2011) argue that an appraisal of a property requires two different economic concepts, the capital transaction market, and the fundamental value of the property use. These concepts can have differing value indications when either market is in great flux. According to the Appraisal Institute a fundamental analysis is defined as *"a study that focuses on the underlying factors that affect the property's actual use and the ability to economically support that use"*. The purchase price however may vary significantly from the fundamental value, depending on things such as; Supply and Demand, Real estate speculation, etc. Looking historically property prices have not been in line with the underlying fundamentals, resulting in a property being sold for a far higher value than its intrinsic value calculation would suggest. Nevertheless, market prices can rise due to good fundamentals. Market prices then rise further and spike artificially from other factors such as low interest rates and easy credit, as seen during the financial crisis in 2008. This bubble period then ends with a realisation that the property is inflated far higher than its fundamental value leaving the market prone to instability. Drivers of fundamental value include; *Employment, Population growth, and Increases in household income*. Graaskamp (1991) notes the existence of these two real estate markets stating.

"Not only is there a two-tiered market for real estate as a tool of production and as a commodity-money standard, but the market is further fragmented by financing terms offered, income tax considerations, and motivations for investment or arbitrage". Graaskamp (1991)

The market arises when the market price shifts on its own expected rate of change, these arbitrary self-fulfilling price change expectations can cause actual price changes independently to the actual market fundamentals (Flood and Garber, 1980). Clayton, Ling and Naranjo (2008) go further in stating that since relatively small frictions in stock market prices can result in long periods of overvaluation, it must be plausible that private real estate markets are more susceptible to such episodes. In markets with few transactions a fundamental approach to valuation is a necessity. Fanning, Blazejack and Mann (2011) pointed to the housing bubble of 2009 and at the point when it burst houses could no longer be valued by the capital market as there were no transactions. Likewise, with commercial properties the fundamental approach is the guiding approach with the most explicit method being the discounted cash flow method based on a Level C market study of future demand and absorption. Market analysis, overall feasibility, estimation of normal occupancy levels, demand, forecasting, projection periods and rates of capture become key assumptions. The authors continue by taking a concrete case study of the market downturn in 2009 and a commercial shopping centre. The property whilst receiving less rent from income loss of the retail customers the future occupancy prospects however was higher than in 2006 due to lack of new competition and an increasing customer base. The fundamental value was 10-15% lower in contrast to brokers and experts indicating a 40% discount.

3. Methodology

3.1 Empirical Methodology

As the thesis will in an in-depth manner examine why NREP acquired Clarion Amaranten, a single qualitative case study will be conducted. Case studies have previously been criticised as they provide little basis for scientific generalisation (Yin 1994) as they are too situation specific (Weick 1969, p.18). Today to an increasing extent, the case study approach has become a common method as an in-depth case study is the superior method to understand the interaction between a phenomenon and its context (Dubois, Gadde 2002). Nicolaj Siggelkow (2007) outlines three uses for case research, *Motivation*, *Inspiration*, and *Illustration*. A phenomenon grounded in a real-life situation is usually more appealing. Although NREP's acquisition of Amaranten is of a too individual nature to prove a theory, it is undoubtedly a persuasive way of demonstrating an important phenomenon. Cases give rise to new ideas and help sharpen existing theory by pointing to gaps and beginning to fill them (Siggelkow 2007).

The case study can either be conducted in a deductive or inductive manner. Deductive approaches develop propositions from current theory and make them testable in the real world whereas inductive approaches rely on grounded theory with theory generated from data (Dubois, Gadde, 2002). In simpler terms a deductive approach develops propositions from theory and tests them in the real world whereas an inductive approach takes observations from the real world and forms theories. A third option recommended by Dubois and Gadde for single case studies and applied in this thesis is abductive reasoning. For abductive reasoning you disregard a linear approach and instead apply an integrated approach systematically combining the deductive and inductive by matching theory and reality going back and forth between framework, data sources and analysis.

3.2 Data Collection

The primary source of data will be collected from in-person interviews, market research and relevant literature. The in-person interviews will act as a framework of the transaction. All the assumptions and forecasts in the valuation and analysis will be based on market research, as transactional data regarding *Letter of intent (LOI)*, *Share purchase agreement (SPA)*, *Non-disclosure agreement (NDA)* and *Rental agreement* is confidential.

Several stakeholders will be involved to receive the most holistic view of the transaction. Both dependent and independent participants were interviewed. The dependent participants were chosen in relation to their involvement and personal views of the transaction whereas the independent participants were chosen for their objectivity and expertise of the situation. Initially, all interviews were intended to be conducted face to face, but as the Covid-19 pandemic escalated, all but one interview had to be conducted digitally with questions provided in advance. Most interviews were conducted in a semi structured manner as to follow the topic at hand but allowing the discussion to diverge allowing the opportunity for new ways of seeing and understanding the thesis topic. In the case where the interviewee received the questions in advance, the interview followed to some degree a more structured approach. The interviews were transcribed word for word within 48 hours of the interview as to preserve and ensure the correct quotations as well as being able to highlight nuances and specific quotes of importance.

List of interviewees

Name	Company	Role	Dependence
Marianne Hoffman	NREP	Investment Manager	Dependent
Kristoffer Rask	NREP	Investment Associate	Dependent
Erik Fogelström	NREP	Investment Analyst	Dependent
Tanja Vucetic	NREP	Investment Relations	Dependent
Thomas Andersson	Pangea	Partner	Dependent
Alexander Reiman	Annordia	Senior Associate	Independent
Undisclosed #1	Undisclosed	Technical Advisor	Independent
Undisclosed #2	Undisclosed	Commercial Advisor	Independent

3.3 Reliability and validity

The reliability is affected in several ways by the methodology and approach chosen. The data collected from the interviews includes subjectivity in the way it is handled and interpreted in the final thesis version. Furthermore, the interviewees can have different and faulty recollections of the event, again affecting the reliability. This risk is minimised by inviting several interviews and different stakeholders. How the interviews are structured and the setting in which they take place will further influence the reliability, for example interviews where the interviewee received the questions in advance have longer time to prepare an answer and semi structured interviews can at points diverge from the subject.

Ensuring high validity revolves around the findings accurately resembling the situation and the findings being supported by substantial evidence. Conducting interviews with many stakeholders and including independent parties and experts helps to increase validity. Involving outside parties' points of divergence and inaccuracy as well the subjective collection of the events can be eliminated, in turn increasing validity. It is essential to note the fact that inconsistencies in some areas strengthen the validity by revealing the complexities of the subject as well as a more profound meaning of the data (Merriam, 1994).

4. Case Background

The following section introduces the Stockholm hotel market, its long-term outlook and how the current market condition is affected by the Covid-19 outbreak, before briefly describing the office market (alternative scenario).

4.1 Short-term outlook of hotel segment

Historical data is collected of the hotel segment in Stockholm, giving a long-term understanding of the market dynamics and interaction between supply, demand, and the fundamental underlying market drivers.

4.1.1 Introduction of the Stockholm hotel segment

The hotel market in Stockholm City has historically indicated a strong demand, with occupancy levels of hotel rooms continually increasing during the past ten years. Simultaneously to the increasing demand, the hotel segment of Stockholm City has experienced a substantial expansion in hotel room capacity, with a large capacity increase during 2017. The recent increase in supply has been met by a considerable increase in demand, which has resulted in record-level occupancy rates in Stockholm County. Observing the main customer base, most hotel nights have historically been booked by domestic leisure guests, accounting for 70% of the increase in hotel nights in recent years. The segment has several larger players, dominating the operational segment of the hotel business, with Scandic and Nordic Choice Hotels accounting for most of the supply. Revenue per Available Room (RevPAR) in Stockholm City has increased, but at a slower pace, compared to the rest of the country, which can be explained by the substantial output and additional supply entering the Stockholm market in recent years. The future pipeline of new hotels in Stockholm is limited as a result of the increased attraction of the office market. The pipeline in the rest of the county outside the city centre is more substantial, following less attraction from office due to lower rents. The limited pipeline in Stockholm City, in combination with increasing occupancy levels, is expected to imply a growth of average pricing, followed by an increasing RevPAR over the coming years until 2024.

The increased demand for hotel rooms is mainly accredited to the macro-trend of increased travelling patterns, both regarding domestic and international travels. The increasing number of travellers are linked to the number of hotel nights needed. In the EU, the total number of hotel nights exceeded two billion in 2019, which was 500 million more in comparison to 2009. The two main drivers behind the macro trend are a substantial increase in both *International trade* and *Leisure travelling*. The former mostly affects business-related travels, as hotel nights are needed to support the increased need for international business meetings following increased trade between countries. The effect is identified by the increasing number of foreign business arrivals to Swedish airports, which in 2018 exceeded 2.4 million. The latter mostly affects leisure travels, mainly due to international tourism, which implies an increased demand for Swedish hotel rooms. The relationship between GDP and personal travelling in the EU is significant, and the effect is noticeable with the growth of the middle class, with a more considerable disposable income supporting an increased level of leisure activities. The effect is identified by the increasing number of foreign tourist arrivals to Swedish airports, which in 2018 exceeded 4.9 million, an increase of 135% compared to 2008.

4.1.2 Supply

As of 2020, there are currently 177 hotels in Stockholm City with a total capacity of 23,189 rooms, corresponding to 51% of the total number of hotels and 61% of the total number of rooms within Stockholm County. Since 2010, the total number of new hotel rooms increased by more than 7,000, implying a CAGR of 4.2%. Compared to the previous decade (2000-2010), the number of new rooms increased by 4,700, implying a CAGR of 3.54%. The constant growth rates over a sustained period indicate the robustness and stability of the Stockholm market.

Source: Tillväxtverket & SCB

Disposable rooms 2010-2019

Year	Stockholm City	County excl. City
2010	16 047	10 077
2011	17 306	10 389
2012	18 470	10 742
2013	18 429	11 526
2014	18 856	12 021
2015	19 130	12 039
2016	19 691	12 402
2017	21 191	12 720
2018	22 486	13 257
2019	23 189	14 092
CAGR	4,18%	3,80%

Looking at Stockholm City, accounting for more than 60% of the total county's hotel rooms, the geographic distribution within the city is unevenly distributed, with certain districts accounting for a much larger share of the hotels. Norrmalm area accounts for the largest amounts, with 47% of the total number of rooms, followed by

Södermalm (15%) and Östermalm (9%). Outside the Central Business District (CBD), the main attractions are located around Kista (7%) and Bromma (6%), mainly driven by the IT-cluster around Kista and the centrally located Bromma airport.

Source: Tillväxtverket & SCB

Geographical distribution, number of hotels and rooms per district

City district	Hotels	Rooms	% of rooms
Norrmalm	67	11 193	47,30%
Södermalm	40	3 606	15,20%
Östermalm	19	2 131	9,00%
Kista-Rinkeby	11	1 600	6,80%
Bromma	13	1 472	6,20%
Kungsholmen	5	1 243	5,30%
Enskede-Årsta-Vantör	6	869	3,70%
Älvsjö	6	754	3,20%
Hägersten-Liljeholmen	4	388	1,60%
Skärholmen	2	226	1,00%
Hässelby-Vällingby	2	92	0,40%
Spånga-Tensta	1	52	0,20%
Farsta	1	42	0,20%
Skarpnäck	0	0	0,00%
Total	177	23 668	100%

Focusing on the quality of the hotels, Stockholm City is characterized by a high standard. Out of the 177 hotels, c. 60% of the rooms are classified as 4-stars or above (compared to 40% in the County excl. City). In addition, it is notable that less than 4% of the total number of rooms are classified as 2-stars, and no hotel is labelled as a 1-star hotel.

Source: Tillväxtverket & SCB

Hotels by star rating, Stockholm City, County excl. City and Stockholm County

Star rating	Stockholm City			County excl. City			Stockholm county		
	Hotels	Rooms	% of rooms	Hotels	Rooms	% of rooms	Hotels	Rooms	% of rooms
5 stars	8	1 590	6,80%	1	26	0,20%	9	1 616	4,20%
4 stars	67	12 435	52,60%	50	6 008	40%	117	18 443	47,60%
3 stars	79	8 703	36,90%	95	8 242	54,90%	174	16 946	43,70%
2 stars	23	939	3,70%	23	805	4,90%	46	1 744	4,50%
1 star	-	-	-	-	-	-	-	-	-
Total	177	23 667	100%	169	15 081	100%	346	38 749	100%

A commonly used metric when looking at the cost of hotels, is Average Daily Rent (ADR). In Stockholm, the ADR ranges from below SEK 799 to above 1,600. In Stockholm City, a clear majority (64%) of hotel rooms range between SEK 800-1400, in line with Stockholm County (67%), but with a tail-heavy distribution towards the lower end of the range. The discrepancy is further intensified looking at the number of rooms with an ADR exceeding 1,400 which accounts for almost 25% of the City's hotel rooms, in comparison to 10% of the County excl. City.

Source: Tillväxtverket & SCB

Hotels by average daily rate during 2019, city of Stockholm and the county excl. Stockholm

ADR, SEK	Stockholm City			County excl. City		
	Hotels	Rooms	% of rooms	Hotels	Rooms	% of rooms
0 - 799	32	2 853	12%	38	3 418	23%
800 - 999	39	4 935	21%	47	4 286	28%
1,000 - 1,199	45	5 323	23%	45	4 083	27%
1,200 - 1,399	30	4 745	20%	19	1 775	12%
1,400 - 1,599	15	3 125	13%	14	1 274	8%
1,600 -	16	2 701	11%	7	314	2%
Total	177	23 682	100%	170	15 150	100%

The table below illustrates the correlation between star-rating and ADR-level of hotels located in Stockholm City. As expected, a clear majority (70%) of the hotel rooms with the highest ADR-levels are 5-star hotels. Interestingly 10% of the 3-star hotels are categorized in the most expensive category. This can be explained by the fact star-classification not being the only factor affecting the price level of a hotel property, as star-classification system often takes in account for the hotels locations, e.g., a luxurious hotel with good service located far outside the city may not be classified a 5-star hotel, but still charge high ADR.

Source: Tillväxtverket & SCB

Share of hotels by star rating and ADR, Stockholm City

ADR, SEK	0 - 799	800 - 999	1,000 - 1,199	1,200 - 1,399	1,400 - 1,599	1,600 - 1,799	1,800 -
1 star	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
2 stars	26,7%	21,6%	13,3%	3,3%	0,0%	0,0%	0,0%
3 stars	73,3%	62,2%	53,4%	16,7%	0,0%	0,0%	10,0%
4 stars	0,0%	16,2%	33,3%	80,0%	100,0%	83,3%	20,0%
5 stars	0,0%	0,0%	0,0%	0,0%	0,0%	16,7%	70,0%
Total	100%	100%	100%	100%	100%	100%	100%

In the recent two years, 19 new hotels with a total capacity of 1,823 rooms have been introduced to the market. Of which 11 are located in Stockholm City, offering +1,000 additional hotel rooms. The limited new supply accredited to Stockholm City can be derived from the record-level high office rents, which in the inner-city has been observed reaching above 10,000 SEK/sqm in recent years. Following increasingly high office rents, hotel operators find it challenging to compete with the office market when acquiring vacant premises.

Source: Tillväxtverket & SCB

Hotels that have opened in Stockholm County during 2018-2019

Hotel	Month	Rooms	Segment	Municipality
Stockholm hotel apartments Bromma	Feb-18	53	Long stay	Stockholm
Hotel point	Jul-18	40	Select service	Stockholm
Bank hotel	Aug-18	115	Full service	Stockholm
Apartdirect Gröndal	Oct-18	24	Long stay	Stockholm
Comfort hotel Kista	Nov-18	194	Select service	Stockholm
Best western plus grow hotel	Nov-18	176	Full service	Solna
Stockholm hotel apartments Sollentuna	Dec-18	60	Long stay	Sollentuna
The studio hotel	Dec-18	160	Long stay	Stockholm
Zleep hotel Upplands-Väsby	Jan-19	152	Limited service	Upplands-Väsby
Hoom home & hotel Veddesta	Jan-19	153	Long stay	Järfälla
The sparrow hotel (ex. Drottning Kristina)	Feb-19	88	Full service	Stockholm
Hotel Gamla stan	Apr-19	81	Select service	Stockholm
Blique by Nobis	May-19	249	Full service	Stockholm
Ramilton apartments hotel Danderyd	May-19	70	Long stay	Danderyd
Arkaden longstay hotel	Jun-19	47	Long stay	Sigtuna
Apartdirect Sundbyberg	Jun-19	36	Long stay	Sundbyberg
Ekebyhov hotell	Jul-19	60	Long stay	Ekerö
Hotel Frantz (ex. Hotell anno 1647)	Oct-19	48	Full service	Stockholm
Zzz dreamscape hotel	Oct-19	17	Limited service	Stockholm
Total		1 823		

During recent years, a new customer pattern has been identified in the hotel segment, a trend shift has resulted in a larger ratio of hotel nights being occupied by the leisure segment instead of business-related travel which historically has accounted for the majority of demand. This structural change has implied greater importance from the operator to adjust their product to suit the demand of the leisure segment as it is growing and accounting for a larger share of revenues. The shift has resulted in the emergence of a new sub-segment, lifestyle hotels. The movement has primarily expanded within Stockholm City, where operators have been observed to invest in new concepts to distinguish themselves further to attract new customer groups.

Source: Tillväxtverket & SCB

Hotel and room distribution of hotels that have opened in Stockholm County during 2018-2019

Municipality	Hotels	Rooms
Stockholm	11	1 069
Solna	1	176
Sollentuna	1	60
Upplands-Väsby	1	152
Järfälla	1	153
Danderyd	1	70
Sigtuna	1	47
Sundbyberg	1	36
Ekerö	1	60
Total	19	1 823

4.1.3 Demand

Stockholm County accounts for above 40% of the nation's hotel revenues. Important to note is that the substantial significance of Stockholm County is relatively high, both looking at population (23% of Sweden) and economy (33% of Sweden), implying the activity in Stockholm county is driven by outside attraction rather than its relative population and economic size. The underlying driver explaining the over-representation is Stockholm being both a political, tourism and business hub. The presence of certain sectors with a historical high demand of business-related travelling such as IT, Banking and Insurance are mainly located in the capital region. In addition, international companies often have their headquarters located in the capital, which further attracts a target group

signified by its higher tendency to demand business related travelling and thereby accommodation. Furthermore, tourism from leisure travelling is concentrated in Stockholm due to its offering of events and attractions being a capital city, attracting foreign travellers. This argument can be further solidified, by the fact that 70% of the Swedish air travellers arrive in Arlanda. In 2019 there were close to 9 million occupied hotel rooms, of which 6.1 million in Stockholm City, compared to 5.9 (total) and 4.1 (City) in 2010. Implying a growth of almost 3 million over a 10-year period, amounting to a 55% increase, out of which Stockholm City accounted for almost 65%.

Source: Tillväxtverket & SCB
Occupied rooms 2010-2019

Year	Stockholm City	County excl. City
2010	4 062 505	1 769 134
2011	4 314 092	1 860 694
2012	4 463 677	1 844 527
2013	4 530 811	1 952 801
2014	4 723 060	2 153 829
2015	5 029 558	2 393 698
2016	5 262 836	2 496 572
2017	5 514 527	2 564 346
2018	5 842 962	2 709 648
2019	6 072 055	2 866 392
CAGR	4,57%	5,51%

A structural trend shift has resulted in a changed customer pattern within the Stockholm hotel segment, with a clear increase of leisure related travelling from 37% to 51% at the expense of business-related traveling, experiencing a decrease from 57% to 44% between 2010-2019 in Stockholm City. Two observations identified are an increase in number of guests per occupied room from 1.45 to 1.55 and a growth in rooms occupied over the weekend from 38% to 41%. Underlying drivers behind the relative increase of leisure travelling, both domestically and internationally, is explained by the macro-trend of a strong increase of wealth in the EU-region. The second explanation is the Swedish currency and its relative weak position towards foreign economies in recent years, implying a positive foreign exchange rate effect for international travellers in Sweden, favouring Swedish hospitality sector. In addition, the low interest rate of the Swedish economy has increased the domestic households' financial assets and contributed to a strong growth of the Swedish households' disposable income, which has further increased demand for domestic leisure traveling.

Source: Tillväxtverket & SCB
Share of type of guests

Type of guest	Stockholm City			County excl. City		
	2010	2019	Change	2010	2019	Change
Business guests	57%	44%	-13%	37%	40%	3%
Conference guests	7%	4%	-3%	33%	20%	-13%
Leisure guests	37%	51%	14%	30%	39%	9%

The growing demand of hotel rooms during the recent decade has in turn driven up both occupancy levels and thereby the ADR-rates charged. In 2019 the average occupancy rate of Stockholm City was above 70%, in comparison to 56% for the County. The occupancy level in Stockholm City has exceeded 70% every year between 2015-2019, compared to only exceeding 70% six times between 1980-2014, indicating a remarkably stable and robust occupancy level over the recent 5 years.

Source: Tillväxtverket & SCB
Occupancy 2010-2019

Year	Stockholm City	County excl. City
2010	69,4	48,2
2011	68,3	49,1
2012	66,2	47,1
2013	67,4	46,4
2014	68,6	49
2015	72	54,4
2016	73,2	55,1
2017	71,3	55,3
2018	71,2	56,1
2019	71,7	55,7
CAGR	0,36%	1,62%

Following the increased occupancy rates, average ADR has increased significantly in both the City and County. The average ADR in the City has increased from around 1,100 to almost 1,250 between 2010-2019. In contrast, the average ADR for the County has remained at the same level, leading to a further increased discrepancy over time of the average ADR between the City and County, today amounting to almost SEK 250 in comparison to 100 in 2010. The explanation behind the increased discrepancy in pricing between City and County is the shift from business travellers to leisure guests, which has implied a favourable effect on centrally located hotel rooms, contrary to the hotels located outside the city often being dependent on its conference clients.

Source: Tillväxtverket & SCB

ADR 2010-2019

Year	Stockholm City	County excl. City
2010	1117	1009
2011	1144	1029
2012	1116	1012
2013	1125	990
2014	1127	946
2015	1153	958
2016	1215	991
2017	1233	986
2018	1227	1023
2019	1236	995
CAGR	1,13%	-0,16%

In 2019 the RevPAR in the City was almost SEK 350, 64% higher than in the County. The RevPAR metric is derived from both the occupancy rate and ADR, and the difference between the City and the County is to 54% explained by the higher occupancy and 46% by the higher ADR in the City. As of ADR and occupancy rate, the discrepancy can be seen to increase over time comparing the City and the County between 2010-2019 (from 59% to 60% higher). The weaker RevPAR development looking at the county can be explained by the increased competitive environment between the operators following the high output of new hotels and increased capacity.

Source: Tillväxtverket & SCB

RevPar 2010-2019

Year	Stockholm City	County excl. City
2010	775	486
2011	782	505
2012	739	477
2013	757	460
2014	774	464
2015	831	521
2016	890	546
2017	879	545
2018	874	574
2019	887	554
CAGR	1,51%	1,47%

Another aspect to consider when examining occupancy levels, is the seasonality and distribution throughout the week. Looking at seasonality, the Stockholm market is usually the most attractive between May to November, amounting to around two thirds of occupied rooms. However, across years there are no change in customer patterns at distribution between the months, with similar patterns for both 2010 and 2019.

Looking at distribution over the days of the week, the historical high degree of business-related travel has implied a tail-heavy distribution toward weekdays, but with increased leisure travels, mostly affecting weekend bookings, the distribution has been more evenly split across the week. However, Sundays are still notably lower compared to the other days of the week, with an average occupancy level below 50% compared to all other days between 70-80% in Stockholm City. As most operators apply flexible pricing, the ADR and RevPAR follows the occupancy rates to a high degree, with the same patterns and distribution over both the year and days of the week.

Source: Tillväxtverket & SCB

Occupied rooms per month, Stockholm City

Year	2010	2019
Jan	237 681	388 989
Feb	270 965	397 106
Mar	305 135	480 977
Apr	282 947	451 601
May	379 843	587 306
Jun	370 630	560 207
Jul	378 352	533 820
Aug	429 925	614 589
Sep	410 785	561 757
Oct	382 353	556 103
Nov	346 272	528 684
Dec	267 617	410 916

The number of foreign hotel nights have increased rapidly looking at absolute numbers, from around 3.4 to 5.3 million between 2010-2019, implying a 57% growth and CAGR of 5.2%. However, as the domestic guest nights have increased at a similar pace, going from 6.7 to 9.9 million between 2010-2019, amounting to a 49% increase or 4.5% CAGR, the dependency on foreign traveling has not increased significantly over the period. In fact, the relationship between domestic and foreign traveling has over time proven to be steady and robust, remaining at a constant level of total hotel nights going back as far as 1980 around 40% compared to 33% in 2010 and 35% in 2019. However, although the total dependency of foreign travelling has remained stable over time, the growth

within each of the nationalities has changed over time. Most remarkably, India (500%), China (203%) and USA (132%) over the period 2010-2019.

Source: Tillväxtverket & SCB

Guest nights by nationality, all types of accommodation, Stockholm county

Nationality	2010	2019	Growth, %	CAGR, %
Domestic	6 685 526	9 930 645	49%	4,50%
Foreign	3 362 596	5 293 916	57%	5,20%
Total	10 048 122	15 224 561	52%	4,70%

10 largest visitor countries to Stockholm county (all types of accommodation)

Nationality	2010	2019	Growth, %	CAGR, %
Germany	468 672	637 347	36%	3,50%
USA	248 691	577 063	132%	9,80%
UK	308 390	433 411	41%	3,90%
Norway	229 785	251 472	9%	1,00%
Finland	188 119	237 427	26%	2,60%
France	159 450	212 199	33%	3,20%
India	28 257	169 440	500%	22,00%
Denmark	164 442	167 458	2%	0,20%
China	54 459	164 898	203%	13,10%
The Netherlands	119 112	163 038	37%	3,50%

4.1.4 Largest operators

The current stock of hotels and hotel rooms in Stockholm is tail-heavy towards the largest operators, representing a substantial share of the total market and can as such be described as consolidated. The 10 largest operators currently represent a fourth of the total number of hotels and cover almost 50% of the total numbers of rooms. However, the recent output of new hotel rooms by the 10 largest operators has been limited, with only four new openings the last two years. In general, the largest hotel operators are Nordic-based, Radisson is the only non-Nordic operator qualifying on the top-10 list.

Source: Tillväxtverket & SCB

10 largest brands by most rooms in Stockholm County

No.	Brand	Hotels	Rooms
1	Scandic	28	6 945
2	Clarion hotel	4	1 981
3	Radisson Blu	5	1 668
4	Quality hotel	6	1 602
5	Elite hotels	7	1 251
6	Best western	10	1 195
7	First hotels	8	1 007
8	Best western plus	4	646
9	Forenom	4	637
10	BW premier collection	4	484

4.2 Long-term outlook of hotel segment

4.2.1 Future supply

Looking at Stockholm County, the pipeline suggests a continued high pace of future output of new hotel rooms. However, Stockholm City and especially within CBD locations, current project indications suggest a limited pipeline and expected weak growth over the period 2020-2025. As of today, there are around 4,300 confirmed new hotel rooms in the 5-year forward looking pipeline within the Stockholm County region, and out of these, only 1,200 are located within the city region, out of which half are in the inner city. The limited pipeline of the inner city is due to severe competition and high valuations following the attractiveness of the office-market. The main districts of new hotel development within Stockholm are expected to be Kista, Hässelby and Bromma. In addition to the confirmed pipeline, there are up to 2,800 new rooms in unconfirmed project plans within the county, out of which 1,450 are in Stockholm City. (With confirmed case implying a lease agreement has been signed between the operator and property owner)

Source: Annorida

Confirmed and unconfirmed changes to supply 2020-2024, Stockholm City

Opening	Confirmed rooms	Unconfirmed rooms
2020	281	0
2021	281	7
2022	239	150
2023	387	809
2024	0	0
2025	0	486
Total	1 188	1 452

Following the continues growth, several new actors are expected to enter the market. However, one of the major hotel operators, Nordic Choice Hotels, are expected to solely account for roughly 40% of the future pipeline and addition to the Stockholm market, implying almost 1,600 new hotel rooms spread out over their brands.

4.2.2 Future demand

An underlying macro-trend of increased travelling will imply a constant and strong growth of the Stockholm hotel market, within both domestic and foreign travelling segments. Looking back as far as the 1980s, the annual growth of the market has been around 3.7%. However, the pace has ramped up in recent years, with a CAGR of 4.8% during the last decade. As a result of a weak local currency in Sweden in recent years, the growth is mainly attributed to an increase of the leisure segment, which has accounted for 80% of the total growth of occupied hotel rooms, as it is both more favourable for foreign tourists to travel in Sweden, in addition to domestic travelling increasing as it becomes more expensive for Swedes to travel outside Sweden. Although the Swedish local currency is not expected to further weaken the coming years, the future growth of the hotel segment is expected to continue.

Looking at historical correlations between the growth of the Swedish economy (GDP) and the hotel segment of Stockholm, data suggests a positive beta, as a one percentage point growth of the economy, on average yields almost a 2 percentage-point increase of the hotel segment. As indications from the Swedish central bank (sw. Riksbanken) suggested an average annual GDP-growth of 1.6% until 2024, the hotel segment is expected to reach above 3% CAGR between 2020 and 2024.

Accounting for the local currency development and expected GDP growth, the Swedish hotel segment is expected to increase by 3% annually in occupied hotel rooms between 2020 and 2024, implying an absolute growth of almost 200,000 rooms. As presented in the demand chapter, the annual occupancy rates have stabilised at levels exceeding 70%, mostly dueto the increase of the leisure segment accounting for a larger occupancy throughout the week. Following the continued increase in occupancy rates, the revenue in terms of both ADR and RevPAR is expected to follow, with roughly an annual increase of 3%.

Source: Tillväxtverket & SCB

Forecast for the hotel market in the city of Stockholm 2019-2024, pre-Covid

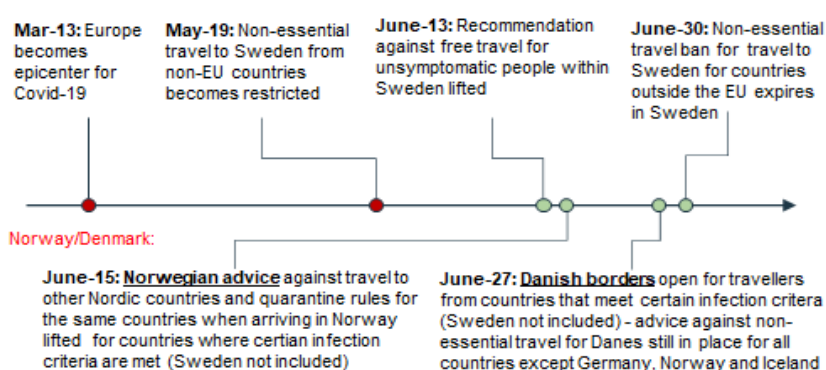
Metric	2019	2024	%-change	CAGR (%)
Available rooms, millions	8,5	9,2	8,6	1,7
Occupied rooms, millions	6,1	6,7	10,5	2,0
Occupancy rate, %	71,8	73	1,7	0,3
ADR, SEK	1237	1434	15,9	3,0
RevPAR, SEK	888	1047	17,9	3,3

4.3 Covid-19 outbreak and its impact on the hotel segment

4.3.1 Covid-19 situation at EU-level

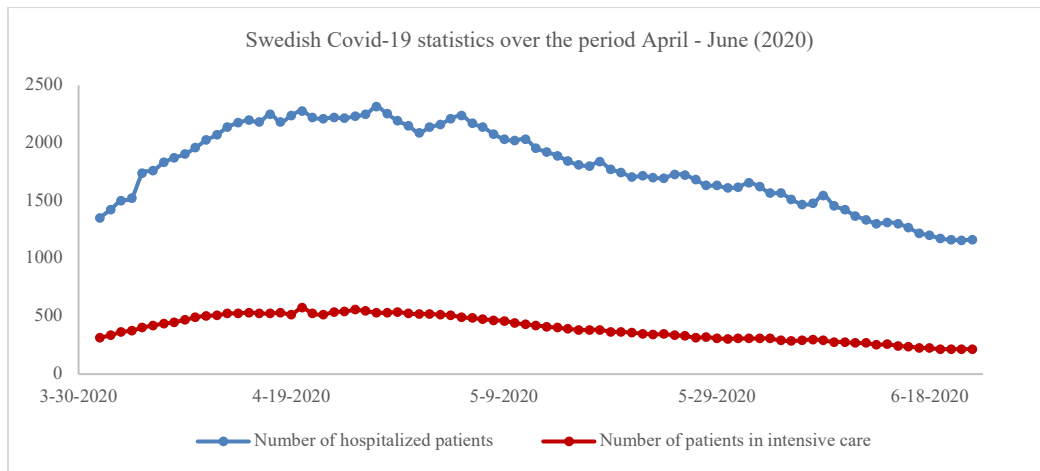
As of the date of the transaction, in early June 2020, the majority of EU member states had agreed to lift border controls by June 15th, with others set due to follow. Any remaining restrictions were expected to be based on objective health-related criteria. On the 5th of June home ministers of the EU agreed on taking a unified approach to the gradual lifting of the restrictions on non-essential travel to the EU from non-member states which is expected to take place after July 1st 2020 (Source: European Council).

Sweden:



Timeline of Covid-19 development in the Nordics, up until time of transaction (source: krisinformation.se)

In the figure below, the number of hospitalized patients and number of patients in intensive care in Sweden are presented over the period from March to the mid of June.



Swedish Covid-19 patients hospitalized and in intensive care. (Source: Platz.se)

4.3.2 Potential impact of Covid-19 on the hotel segment:

4.3.2.1 Observed effect

The negative consequences following the Covid-19 pandemic have been substantial in several sectors, especially in the travel and hospitality industry. The Swedish hotel sector experienced an immediate demand chock, which resulted in an 80-90% decline in occupancy between March and April. The effect was consistent along all larger cities of Sweden, with an average occupancy of 8% in Stockholm, 11% in Gothenburg and 13% in Malmö. The decline in demand is explained by fear of infection in combination with stricter restrictions applied by the Swedish government intended to limit the rate of infection. In addition, stricter restrictions taken by several other countries have a negative effect as it limits the inflow of foreign tourists and thereby their demand for guest nights. (Annordia, Covid effect)

4.3.2.2 Future outlook and mitigation

Large share of domestic hotel nights

Domestic guest nights amount to 75% of the total number of hotel nights in Sweden, which is third highest in Europe, slightly behind Germany and Romania. Looking at the remaining countries of the EU, 18 out of 28 countries have a domestic share below 50%. The discrepancy between countries is significant, with several of the tourism destinations e.g., Spain & Greece in lower spectrum and Nordic countries in the upper.

Quota of foreign to domestic hotel nights

In 2018, Sweden had more than twice the number of foreign hotel nights compared to domestic hotel nights, which was the second highest in the EU with a quota of 0.43. Compared to the rest of the EU, 14 out of 28 countries have more foreign guest nights than its citizens have guest nights in other countries, implying a larger dependency on international travels and less of a buffer from its own citizens with a demand of guest nights to instead spend domestically.

Source: Eurostat

Quota of foreign to domestic hotel nights per country, 2018

Country	Quota of foreign to domestic hotel nights per country
Greece	19,5
Cyprus	12,0
Croatia	9,7
Malta	9,1
Spain	8,0
Bulgaria	5,4
Portugal	5,0
Italy	3,6
Austria	3,1
Estonia	1,9
Slovenia	1,8
Czech	1,8
Latvia	1,6
France	1,4
Lithuania	0,9
UK	0,8
Slovakia	0,8
Switzerland	0,7
Hungary	0,7
Netherlands	0,7
Poland	0,6
Finland	0,6
Denmark	0,4
Norway	0,4
Belgium	0,4
Romania	0,4
Sweden	0,4
Germany	0,4

4.3.2.3 Hotel P&L robustness

According to Nordic Hotel Consulting (NHC) the average hotel operations have a fixed cost base of 30-40%, as the remaining 65% are flexible costs which can be reduced and mitigated in case of a sudden demand-chock, resulting in a negative effect on revenues. This implies that the average hotel operations can mitigate the effects to a point of a c. 60-65% decrease in revenues and keep operations ongoing.

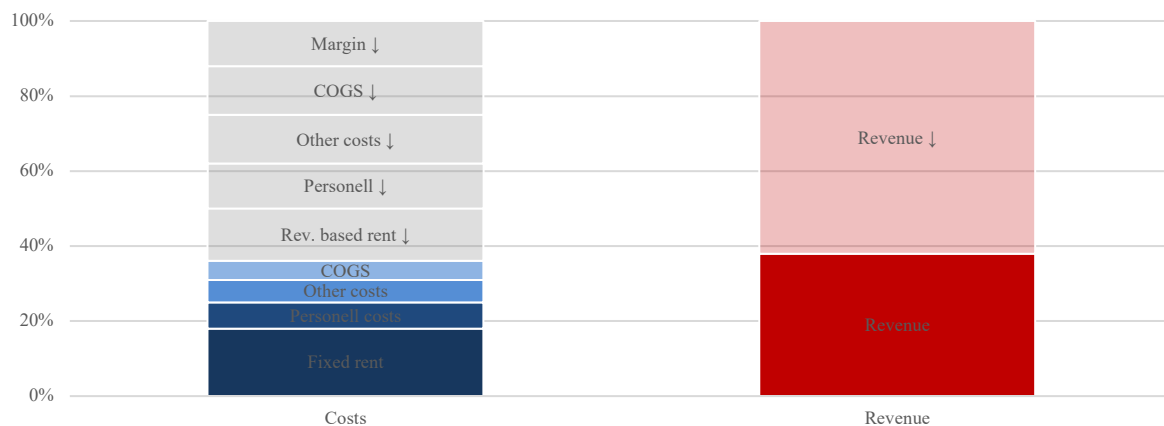


Figure illustrating revenue loss in relation to cost base of generic hotel in Sweden. (Source: NHC)

4.4 Fall-back case: Office market outlook

The Stockholm office market pre-covid-19 witnessed prime rents flattening out, however the bulk of market is still under-rented. The pre-covid-19 outlook on Stockholm office market forecasted significant rental growth in central Stockholm, fuelled by the expansion among co-working companies. There is a large rent differentiation between prime and secondary locations, but it is expected to gradually normalise. Suburbs adjacent to the inner city, such as; Arenastaden, Solna strand and Globen, have exhibited accelerated rental growth following new developments coming live. There is a strong investor market pushing downward pressure on yields, with deals confirmed in the 3.0-3.3% range. In short, the Stockholm office market can be described as having robust market fundamentals driven by high demand, limited supply strong rental growth.

Source: Pangea Property Outlook 2020*Prime office yields 2008-2020F*

Year	Stockholm	Gothenburg	Malmö
2008	4,30%	5,00%	5,25%
2009	4,75%	5,25%	5,75%
2010	5,20%	5,90%	5,90%
2011	4,90%	5,50%	5,60%
2012	4,60%	5,00%	5,25%
2013	4,50%	5,00%	5,25%
2014	5,25%	5,00%	5,25%
2015	4,30%	4,80%	5,25%
2016	3,90%	4,60%	5,10%
2017	3,60%	4,30%	4,50%
2018	3,50%	4,00%	4,25%
2019	3,25%	3,80%	4,00%
2020F	3,20%	3,80%	4,00%

Source: Pangea Property Outlook 2020*Prime office rents 2008-2020F*

Year	Stockholm	Gothenburg	Malmö
2008	4 250	2 100	2 000
2009	4 150	2 100	2 000
2010	3 950	2 100	2 000
2011	4 500	2 200	2 200
2012	4 600	2 200	2 200
2013	4 800	2 400	2 300
2014	4 900	2 500	2 300
2015	5 000	2 750	2 500
2016	5 050	2 800	2 500
2017	6 500	2 900	2 600
2018	7 250	3 000	2 600
2019	7 700	3 200	2 800
2020F	7 800	3 300	2 950

5. The Amaranten opportunity

5.1 NREP overview

5.1.1 Introduction

Foundation

Like many start-ups, NREP began its journey in a basement 15 years ago, where two of the danish founders; Mikkel Bulow-Lehnsby and Rasmus Nørgaard, decided to follow their entrepreneurial dream. The idea was simply the belief that the real estate industry was ready for a change. The two were quickly joined by Rickard Dahlberg from Sweden, and together they founded *Nordic Real Estate Partners (NREP)*, with the ambition of becoming a values-driven, purposeful investor.

Since its inception in 2005, NREP has raised 14 funds and executed above 300 property transactions and developments in the Nordic region. The main strategy is to take a multi-stakeholder approach and utilise a wide range of disciplines to develop real estate and services that create long-term value for tenants, investors and the wider communities. Today, NREP has more than 350 team members across six countries and currently manages more than 2.5 million square meters of real estate. The initial founders; Mikkel, Rasmus and Rickard, are all still highly active within the NREP group. In 2020 NREP closed their most recent value add fund (NSF IV), exceeding SEK 2 bn (EUR 1.9bn) in equity and thus being the largest real estate fund in the Nordics to date.

Geographies

NREP are currently present at offices in six different countries; Denmark, Finland, Sweden, Norway, United Kingdom and Luxembourg. Since the first value-add fund, NREP have had the possibility of placing minor allocations outside the Nordics, however, as of today investments have solely been executed in the four Nordic countries.

Segments

NREP has since its inception been highly segment focused and has developed a series of customer-centric and innovative real estate concepts, primarily within their core segments; *Logistics*, *Residentials* and *Care*.

Logistics strategy: Together with municipalities and logistics operators, NREP's ambition is to provide goods owners and logistics companies with modern distribution centres and cross-docking terminals in prime locations across the Nordic region, to support their growth and enable their processes to become more efficient.

The main drivers behind the Logistics segment are: Growing cities, changing consumer patterns, and the focus on supply chains' climate impact have increased the demand for flexible, efficient, and sustainable logistics real estate.

Residential strategy: NREP focus on developing high quality, sustainable, and cost-efficient rental housing in the capitals and larger cities in the Nordics primarily for middle income households. Often working in partnerships, they explore and take advantage of the latest technology and digital developments to create long-term solutions for housing that provides the best value for customers, communities, and cities.

The main drivers behind the Residential segment are: The lack of appropriate housing offerings in the fast-growing Nordic capitals. At the same time, many Nordic cities have set targets to become carbon neutral. Demand for sustainable buildings, both in construction and operation, is therefore higher than ever.

Care strategy: NREP support municipalities and private operators in bridging the gap by developing care homes, created to cater for the specific needs of the user group. With this user-centric mindset, they design environments to promote well-being, and integrate a high degree of digitalisation and welfare technology as the foundation for our care homes.

The main drivers behind the Care segment are: The growing population increases the need for community service facilities in the Nordics. In particular, the group of citizens over 80 years is expected to grow rapidly for years to come. Combined with the generally old and outdated existing care homes, there is an evident need for more and modern assisted living solutions for elderly across the Nordics.

Other strategies: Although the core segments compose a majority of the focus and investments performed by NREP, there are several other segments and opportunities which are continuously analysed and evaluated. Examples are; Offices, Local community centres, Hotels, Retail and Other opportunistic investments. The team responsible for these investment opportunities is the recently set up *Development and Incubation (D&I)* team.

5.1.2 Fund Structure

NREP's NSF funds have historically had varying investment horizons but in general the investment horizons of the funds are around seven years. For NSF IV, the fund in which Amaranten belongs to, has an investment horizon of a 10-year fund term plus an extension provision (1+1+1 years). Common practice within Private Equity are partial exits and exits being realised ongoingly, NREP is no different with exits occurring between year 3 and 7. This has resulted in NREP most often exiting funds earlier than initially stated.

"My guess is that an institutional investor will purchase the hotel asset within a timeframe of five to seven years as they are prone to purchasing this asset type" - Marianne Hoffman

The fund's asset composition guidelines state that no individual business line can be larger than 50% of the fund's value and that the assets are to be allocated across the four Nordic markets. Assets can thus belong to any of the three business lines as well being more opportunistic assets identified by the D&I team. There are no mandatory requirements regarding the split between business lines but in general a quarter of the funds value is allocated to each business line with the remaining part belonging to D&I investments.

"Institutional investors want the lion share of the investments to belong to the regular business lines" - Marianne Hoffman

The acquisition of Amaranten is the third D&I investment in NSF IV. The first investment was the purchase of a portfolio called *Project Oakland*. In combination with the acquisition of *Project Oakland*, a Joint-Venture (JV) was set up under the name of *Stadsdelscentrum*. The initial portfolio consisted of four suburban city centres, Viksjö Centrum, Ekerö Centrum, Näsby Park Centrum and Upplands Väsby Rondellen. The second investment of the D&I team was the acquisition of an additional city centre, Saltsjöbaden Centrum, which was implemented into the Oakland portfolio. The combined purchase price of the portfolio investment amounted to SEK 1.3 bn, which is slightly below that of Amaranten. Both Amaranten and *Project Oakland* are investments of significant size, in line with NREP's preferred ticket size of around SEK 500 m.

5.1.3 Investors

NREP receives their capital from institutional and private investors across the globe, apart from Africa. The investors provide NREP with discretionary capital, in other words they are committed to invest a certain amount of capital during a certain length of time with NREP acting as the portfolio manager making the buy and sell decisions. As long as NREP follows the terms of agreement regarding investment criteria the investors are bound to provide the capital. Other funds apply a model where the investors are asked prior to each investment and some raise funds specifically prior to each investment.

"Our discretionary capital model allows us to act quicker than other funds and if we make bad decisions or break any of our terms, we will have issues raising future capital" - Marianne Hoffman

NREP have implemented something they call co-investments in their funds, after being specifically requested for by investors, meaning that investors can make direct investments beside their original stake in specific transactions. It functions almost as a joint venture where investors buy a certain percentage of the investment allocating capital directly beyond their initial commitment. Although a co-investor will receive some influence NREP has the mandate and total control over the investment and decision-making process.

"For some investors it is almost a requirement to have the opportunity of making direct investments. Investors tell us they will only invest in NSF IV on the condition that direct investments are possible" - Marianne Hoffman

NREP are thus not required to find co-investments, but need to actively find some investments where they can facilitate the possibility to co-invest. The investor relations department handles inquiries regarding co-investment and in some cases several investors will want to co-invest and ultimately NREP can decide which investor is most suitable. In some cases, two or more parties can act as co-investors, but this is rare.

5.1.4 Risk profile

The NSF value-add funds have a higher risk profile than the core-fund NIP and therefore naturally have a higher leverage target. NSF IV has a gross IRR target of 17% and a leverage target of 60% compared to NIP's 8-10% and 40% leverage target.

"NSF is a value-add fund meaning that more things are allowed to happen in this space regarding opportunities and risk but also entails a heavier and more active workload" - Marianne Hoffman

Investments in the NSF funds are usually of a project-based characteristic compared to NIP where the assets purchased are standing assets with already established continuous cash flows. In general, *Limited Partners (LP)* investing in real estate are more risk averse than investors in other asset types as they invest in safer and withstanding assets. Furthermore, a large share of investors is institutional who generally have a lower risk profile.

5.1.5 Investment decision making

NREP as most other private equity firms have an internal *Investment Committee (IC)* which must approve of all investments. The larger the investment, the greater number of members of the investment committee are present. Amaranten was given the highest IC membership requirement. Each member receives the material one week prior to the meeting and prepares questions for the deal team. During the meeting, the deal team presents the case and answers each member's questions subsequently voting on whether to proceed with the transaction.

In addition to the IC committee members, certain members of the NREP staff with expert knowledge in certain segments will participate in the meeting to provide their take on the investment, however they have no voting mandate. For instance, a member with hotel experience was present during the investor committee meeting for Amaranten. A summary of the investment committee meeting is sent to Luxembourg where the board finalises the decision. At NREP all IC members must approve of an investment for it to happen.

As NREP is a private company, they do not have the same market concerns as a public company. They do not have to consider the market's expectations and are not constrained by the market's somewhat short-term vision focusing on the latest quarterly reports etc.

"Since we are not IPO:d it is in some sense easier for us to work more medium and long term, this may be an advantage" - Marianne Hoffman

Marianne Hoffman goes on to explain that by not being a public company NREP can have a different structure where the Investment Committee is in house and can therefore discuss matters internally in different layers along the process. For a public company there is always the risk of being penalized by the market if a certain decision is not welcomed by the shareholders. The whole decision process then becomes more sensitive and slower for a public company. In addition, board members are often involved in other firms and the decision-making process may not be as direct and efficient as if being in-house.

5.2 The case: NREP acquires a SEK 1.5 bn hotel property from Nordic Choice Hotels

5.2.1 NREP's deal rationale

NREP's core investments have historically been *Logistics, Residential* and *Care* however in early 2020 the *D&I* team performed a mapping of interesting hotel assets in central Stockholm. Criteria for this mapping was finding smaller hotels with thirty to a hundred rooms which were run inefficiently by a smaller or unheard-of operator. The idea was to then consolidate these assets and have one operator running several locations, achieving synergies in personnel, procurement, food & beverage, amongst other things. As Covid-19 worsened around the world, the screening evolved to include Covid-19 and a strategy emerged to acquire a hotel asset at a discount and potentially convert the operations to an office or residential building. This pre-work was solely for NREP's own interest and was not pushed forward by outside stakeholders. Three conditions had to be met for NREP to acquire a hotel asset. One being the *Discount* due to Covid-19, the second being ensuring sufficient comfort in rental payments from the operator and lastly to acquire an asset with a clear *Alternative use* in case of the hotel market not recovering. Ultimately NREP would only proceed with such an acquisition if a good deal emerged, and in the end of August such an opportunity arose.

"We realized hotels are going to take a hit, could we potentially acquire an asset and change operations from a hotel to an office, residential or something else?" - Kristoffer Rask

"I believe the rationale was yield expansion due to Covid-19, strong location for a big property, the rarity of hotels or offices for sale with the last hotel being bought 2015 and lastly the property has a strong fall-back case with ok returns" - Marianne Hoffman

Analysts have also in recent years seen an increased interest for hotels from players with no previous experience of the sector. Alexander Reiman from Annordia believes this trend can be explained by several factors with the largest being a strong underlying growth within the market.

"Other factors are long lease agreements, low vacancies historically, advantageous demarcation lists and less need for renovations, in comparison with offices" - Alexander Reiman

There are very few new hotels being built within the city centre of Stockholm, much due to high exploitation and development costs combined with the intense competition with high office rents. According to analysts this low supply culminates in hotels being relatively safe investments. Furthermore, this in combination with hotel owners being long term investors make hotel transactions very rare.

"If not for the pandemic, NREP would not have been able to get their hands on an asset such as Amaranten" - Alexander Reiman

“Hotels in Stockholm City are very expensive and have an intense competition of bidders historically, however with Covid-19 the valuation of hotel assets has moved” - Thomas Andersson

5.2.2 Initial Discussion

In early April 2020 Jens Petter Hagen, a Norwegian partner, and Rickard Svensson-Dahlberg, a Swedish partner from NREP were invited to partake in a discussion with Pangea Property Partners regarding a hotel asset in the Nordics which potentially was up for sale. Pangea is a renowned Nordic advisory and experienced within hotel transactions. They have an existing relationship with Nordic Choice Hotels from working extensively previously and as such were naturally chosen as the brokerage in the Amaranten transaction. Usually in a real estate transaction the seller is involved to a certain degree. In this case however Pangea acted as the representative and were responsible for 90% of the discussions from the seller’s side.

NREP had at this point recently raised their to-date largest fund, this in combination with a strong relationship with Pangea resulted in NREP being approached in an off-market deal. The timing of the transaction should not be understated, as both the market participants and the banks understood NREP had capital at hand and could therefore to an easier degree secure funding.

“We received somewhat weaker terms than we should have gotten but this is hardly surprising due to market circumstances and banks being so conservative” - Marianne Hoffman

With the discussions revolving around centrally located assets and NREP being guaranteed exclusively on a proposed transaction they immediately decided to proceed with signing a *Non-Disclosure-Agreement (NDA)* to receive further information regarding the transaction. After signing the NDA, it was revealed that Amaranten was the asset up for sale.

5.2.3 Asset and Location

Hotel Amaranten is located on Kungsholmen, central Stockholm, walking distance to the central station and the *Central Business District (CBD)*. The location is therefore highly attractive for both business and leisure guests. The micro area is predominantly commercial and residential, with excellent access by bus, metro, train, highway, and airport. The closest metro station is in the same building with an entrance adjacent to the hotel. The asset was refurbished by Nordic Choice Hotel in 2015-2016, including a fully refurbished lobby area, restaurant, and conference rooms.

There are currently some ongoing work-streams, and during the due diligence process, NREP decided to investigate improving the *Heating Ventilation Air-Condition system (HVAC)*. This is an overall strategy often applied by NREP for all assets under management, as it both increases operational efficiency of the asset and helps achieve their ambitious sustainability targets. The preliminary energy strategy indicates a potential of an annual energy consumption savings of approx. 2 600 MWh and CO2 emissions savings approx. 80 tonnes per year. The total consumption will be reduced by approx. 50 % by implementation of the *Building Management System (BMS)* and the *HVAC* renovation.

The hotel is currently operated by Nordic Choice through their premium brand “*Clarion Hotels*”. Other tenants in the property include the Hamburger chain “*Brödernas*” and a garage operator “*Piperska Garaget*”. The property was constructed in 1968 and consists of 16,919 sqm *Net Leasable Area (NLA)* divided upon 461 rooms.

Source: NREP

Property summary

Metric	Data
Property name	Piperska muren 2
Property type	Hotel
Address / City	Kungsholmsgatan 25, Stockholm
Transaction type	Standing asset
Construction completion	1968, major refurbishment 2015-2018
NLA (sqm)	16,919
Rooms (#)	461
Tenants	Nordic Choice Hotels (Clarion Hotels), Brödernas and Piperska Garaget
Expected signing	Early Q3 2020
Expected closing	Q3 2020
Cashflow starts	Q3 2020

There are 7 different categories of rooms, the smallest ranging from 11-15 and the largest being a suite at 49 sqm.

Source: Nordic Choice Hotels
Floor layout and room composition

Type of room	# of rooms (assumption)	Room size sqm	Accumulated size
Standard – Single	100	11-15	1 300
Standard – Double	100	18-20	1 900
Superior – Double	100	20-22	2 100
Deluxe – Double	100	25	2 500
Family	30	20-25	675
Family - Balcony	30	20-25	675
Suite – 784	1	49	49
Total	461	20 (avg.)	9 199

5.2.4 Initial Analysis

With its central location at Kungsholmen, the asset could be converted from a hotel to an office or residential building. Pangea put forth their valuation of the property and at this point NREP proceeded to apply their own assumptions and model the assets cash flows. NREP also had access to a previous market analysis supporting the valuation. The previous valuation was used as a basis, however it had to be tweaked to include Covid-19's effect on the operations and the value of the asset.

“We had to take all aspects of Covid-19 into consideration when valuing the asset and due to the uncertainty in the hotel segment a more attractive return was required, otherwise we wouldn't do this kind of deal” - Kristoffer Rask

After taking all these aspects into consideration NREP communicated a valuation to Pangea. Since there were several risk factors in the transaction, an above average return was necessary and NREP decided to place an indicative bid reflecting these risk factors.

“Imagine a hotel operator in the middle of Covid-19 you can quite quickly figure out that they can't pay the rent since they have no income themselves” - Kristoffer Rask

NREP needed to feel comfortable with, among other things, the certainty in rent payments. Because of the tenant being Nordic Choice, one of the largest and most experienced hotel operators in the Nordics, the tenant risk was somewhat mitigated, which was necessary in entering an uncertain hotel market.

“If the operator wouldn't have been Nordic Choice, in my opinion the most well-known hotel operator in the Nordics, we couldn't be sufficiently satisfied with their ability to pay the rent” – Kristoffer Rask

The process in contrast to other real estate transactions had to be completed very rapidly much due to Covid-19 and the summer only a couple of months away. The findings and analysis was converted into a bid which was then tweaked for a week before being submitted as an official indicative bid mid May 2020.

“The process was quicker than expected due to Covid-19 and the parties wanting to conclude the deal prior to summer vacation” – Kristoffer Rask

“We were told by Pangea that we can look at this [asset] if we can comply to an efficient DD process and negotiate the contracts before the summer. As such we had to agree on the commercial terms very early on” - Kristoffer Rask

5.2.5 Letter of Intent

After submitting the indicative bid, NREP received a suggested *Letter of Intent (LOI)* including several terms that were discussed prior to signing.

“In addition to discussing the LOI we had to be certain that we had sufficient bank financing but also at a strong Loan-to-Value (LTV) ratio and at the right interest rate, amortisation rate and so on. So, in parallel with discussing the LOI we had to talk with the banks to understand how financeable the asset was” - Kristoffer Rask

For every new investment NREP needs approvals to sign the purchase agreement and for this transaction NREP promised to provide additional comfort by having a “pre-IC” meeting in the beginning of June to confirm that up until this point in time, they had approval to proceed with a transaction. The LOI therefore also consisted of a proposed timeline and a date of signing. The LOI was signed in the end of May and at this point NREP conducted the main due diligence process.

5.2.6 The Due Diligence Process

5.2.6.1 Financial Due Diligence

Usually, a full transaction process takes several months, however, in this case there were six weeks from signing the indicative bid in mid-May until the proposed signing by the end of June. Within this timeframe NREP had to conduct a full due diligence and understand the hotel market, including other workstreams such as holding internal

investment committee meetings, completing valuations, and securing the correct financing. As this was NREP's first hotel transaction there was more information to comprehend and therefore NREP utilised external consultants to a higher degree than in other processes. Regarding the financial due diligence and how to account for the Covid-19 discount NREP both conducted a substantial in-house analysis, scrutinised the movement of other markets and their variance during Covid-19, as well as using hotel advisors (e.g., Annordia and NHC) with vast experience within the market and financial advisors (e.g., Cushman & Wakefield).

In general terms, the hotel's income decreases with a lower demand, causing short-term contraction of rental income for the property owner, especially with a revenue-based rent. The increased uncertainty then results in property owners demanding higher returns. It was very challenging however for the financial advisors to value the asset as they knew prices have moved somewhat but with so few transactions within the segment it was difficult quantifying the precise movements. Another conclusion incorporated by NREP from the financial due diligence was occupancy gradually recovering to the point of fully recovered in a couple of years. NREP expected the market to slowly recover during the summer and 2021 and then continue up steadily. Pangea shares the same view as NREP with Thomas Andersson believing the forecasted market in 2023 will reach the level of 2019. Annordia are somewhat more conservative in believing it might take until 2024 before RevPAR recoils to 2024 the levels of 2019, largely due to the fact that the international segments will take a longer time to bounce back.

"In Stockholm we house mostly Nordic hotel guests, the Nordic segment will return quicker and was an important aspect of the acquisition" - **Marianne Hoffman**

"Pre-Covid-19 occupancy in Stockholm was very high at 80%, if we reach 70% by 2023 both us and the tenant will be very pleased" - **Marianne Hoffman**

"Just look at the price movements of the market, take Pandox for instance, dived to SEK 50 as the pandemic hit, recovered to SEK 100 before bouncing up to SEK 150 with news of the vaccine. These price movements are very difficult to incorporate" - **Thomas Andersson**

5.2.6.2 Technical Due Diligence

Technical due diligence is a key part of any transaction. The buyer and seller use external technical due diligence advisors to determine whether the standard of the asset is in line with what is stated in the process documentation. The use of external advisors was also a necessity in this transaction due to the large size of the hotel. Large parts of the property were refurbished in 2015-2018 to allow for a larger lobby, two new restaurants and conference facilities on the ground floor.

"With 460 rooms in a property it would take quite some time to go through and check the standard of each room." - **Kristoffer Rask**

A core criterion of NREP's general asset management strategy is enhancing the sustainability standard of the asset. To increase the sustainability of the asset and to improve the guest experience NREP investigated the possibility to refurbish parts of the hotel as well as installing a new ventilation and cooling system to increase operational efficiency. Even though no major findings occurred during the technical due diligence, NREP and Nordic Choice decided to work with the hotel to improve the guest experience.

"With more DD you need to involve more consultants to address questions and we need to conduct meetings with the counterparties and get answers to those questions" - **Kristoffer Rask**

With lower occupancy due to Covid-19, NREP had the perfect opportunity to refurbish parts of the hotel as well as install a new ventilation and cooling without causing major disturbance affecting guests and indirectly diminishing income whilst renovating.

Due to the size of the asset the technical due diligence took longer than expected. The deal timeline was thus extended by a couple of weeks. During these weeks, the discussions with Pangea and Strawberry Properties revolved around the due diligence reports and the size of the capital expenditure to improve the guest experience.

"The implementation of changing a ventilation system can be achievable without damaging the guest experience because of the low occupancy at the moment" - **Kristoffer Rask**

In a real estate transaction, the counterparty is almost always the property-owner, and the tenant are seldom involved. In this transaction however, Nordic Choice as an operator was partly involved in the discussions to make the transition to NREP smoother. Typically, the tenant and property owner are entirely different companies, and a property owner cannot negotiate on behalf of its tenant as they belong to different legal entities, but here, both Strawberry and Nordic Choice had connections via Petter Stordalen and thus belong to the same corporate structure, as such Nordic Choice were partly involved in negotiations.

Simultaneously to the negotiations with Strawberry Properties, NREP performed internal due diligence with the focus point being an increased understanding of the hotel market. More specifically key investment criterias revolved finding comparables on rent levels and analysing a potential fall-back case to the acquisition. The fall-back case for this specific asset was the conversion to an office, thus in depth analysing the office market in Stockholm was of high priority.

“If things turn south, what can we do with the property? And how much will that cost and to what rent? These questions needed answers” - Kristoffer Rask

5.2.7 Deal Execution

NREP acquired 100% of the shares in the company owning the property through a Swedish holding company owned by its NSF IV fund. According to the public press-release, the NSF IV fund purchased the property for a final purchase price of SEK 1,500 million. The lease terms with Nordic Choice Hotels were undisclosed due to confidentiality but assumed to be similar to industry praxis. Regarding rental agreements Nordic Choice Hotels is assumed to pay an industry standard base rent and a revenue-based rent on actual excess revenue. NREP will therefore receive a constant base rent, and an upside scenario of a variable rent on excess revenue if the hotel performs better than a certain level.

5.2.8 Signing, closing and post transaction events.

There are two separate workstreams remaining after acquiring a business, *Signing* and *Closing*. *Signing* a deal is a confirmation that both parties are committed to fill their duties of the transaction and if not, the counterparty is able to make a lawsuit. At the *Closing* period the deal is completed and access to the property is granted. The time in between closing and signing in general varies between two and four weeks. In this timeframe the acquirer must receive financing from the bank and send it to the seller. The investors need a certain number of days to send the capital. NREP and Strawberry Properties closed the deal in mid-August 2020, at that date the capital was sent, and the legal responsibilities fell to NREP.

The material produced in connection to the Investor Committee meetings was the only material which the investors had access to. Thoroughly presenting the hotel market, the uniqueness of the asset as well as the alternative use and fallback case scenario was therefore of the utmost importance. Furthermore, one of NREP's investors made a co-investment. After sending 100% of the purchase price to Strawberry Properties, NREP syndicated part of the ownership to one specific investor resulting in NREP's fund NSF IV owning a majority of the asset but less than 100% of the property and the additional investor the remaining minority. Side deals by certain investors are common.

“After discussing with the IC, we reached out to the investors and asked if anyone was interested in making a direct investment. One investor was, and IC was happy to approve the additional contribution to reduce the fund's risk exposure in this segment” - Marianne Hoffman

As the occupancy during the current Covid-19 situation is expected to be far lower than during normal times, NREP will utilize this to make the agreed refurbishments and upgrades without the need to defer guests whilst at the same time conforming to the agreed upon time frame. The market was surprised by the transaction as it was the largest hotel transaction since 2015 and sales of centrally located assets in Stockholm are rare.

“It is not that no one wants to buy them [the hotel assets] but more that no one wants to sell these assets. People are surprised the transaction actually happened because it was 5 years since anything like this happened, people were also surprised someone was buying a hotel in the middle of Covid-19.” - Kristoffer Rask

As the investment was rare both from an asset type standpoint, location wise and overlying macro conditions it was increasingly important to give investors a convincing deal rationale.

“During the process there were constant questions arising as to why we wanted to proceed with the transaction and to why Strawberry Properties were selling the asset.” - Kristoffer Rask

“Historically hotel transactions are only 5% of all transactions, with hotel transactions being so rare and the segment being so damaged due to Covid-19 the market was curious in regard to the transaction” - Thomas Andersson

The discussions mainly revolved around why NREP was diverting from its core *Logistics, Residential* and *Care*. One positive benefit of this transaction was the attractive risk-return profile, and it is therefore assumed to positively impact the overall fund performance. Another aspect was that in general half of NREP's investments are within development and as such rental income will first be collected after several years. The Amaranten transaction in contrast, is a standing asset receiving constant cash flows from day one.

“That we were paying a price above SEK 1bn was never the main discussion point but rather the uncertainty of the hotel segment” - Marianne Hoffman

5.2.9 Transaction timeline

Source: NREP

Transaction timeline

Objectives	Timing
Indicative bid	Mid-May
Letter of intent signed	End of May
Due Diligence Process	End of May – End of June
Bank meeting	End of May
Pre-Investor Committee meeting	Early June
Investor Committee decision	End of June
Secured bank financing	Early July
Share Purchase Agreement Signed	Early July
Closing	Mid-August
Holding period	2020 – 2025 (TBD)

6 Valuation

The following chapter is a like for like valuation of the Amaranten asset. As process documentation (NDA, LOI, SPA, rental agreements) is confidential, the valuation presented below is based on assumptions and data from market research. The valuation analysis aims to replicate the actual valuation process of a Real Estate Private Equity firm, ultimately concluding in whether the publicly available purchase price was legitimised under current market conditions.

6.1 Valuation Analysis - Hotel

The base case according to the investment strategy of NREP, was to acquire and operate the Amaranten property as a hotel, which is the scenario analysed and presented in the sub-chapters below.

6.1.1 Location Analysis

To perform a comparable analysis, a set of peers must be determined. The criteria for evaluating peers are primarily their proximity to Amaranten and their size. The competitive set is therefore composed of large comparable hotels in the city centre of Stockholm, within the area close to the Central train station, Norrmalm and Kungsholmen. Several of these hotels are branded within large hotel networks, similar to Amaranten.

Micro Location – Kungsholmen: The first step in the screening process was looking strictly in the Kungsholmen area. Six hotels have been identified if you consider Hotel Aldoria, which is significantly smaller, consisting of only 25 rooms and therefore an outlier. The *Average Daily Rate (ADR)* for the six hotels ranged between SEK 800 and 1400, with Amaranten exhibiting a larger ADR most likely due to the short distance to CBD and Norrmalm. Therefore, Amaranten is not strictly comparable to Kungsholmen, and a broader screening is necessary. The hotels bearing most resemblance to Amaranten and thus most comparable are in CBD/Norrmalm.

Kungsholmen competitive analysis

#	Hotel	Area	# of rooms	ADR
1	Clarion Amaranten	Eastern Kungsholmen	461	1,200 – 1,399
2	Courtyard Stockholm Kungsholmen	Central Kungsholmen	279	1,000 – 1,199
3	First Hotel Fridhemsplan	Central Kungsholmen	222	800 – 999
4	Sky Hotel Apartments	Central Kungsholmen	143	800 – 999
5	Connect Hotel City	Central Kungsholmen	135	800 – 999
6	Hotel Aldoria	Central Kungsholmen	25	800 – 999

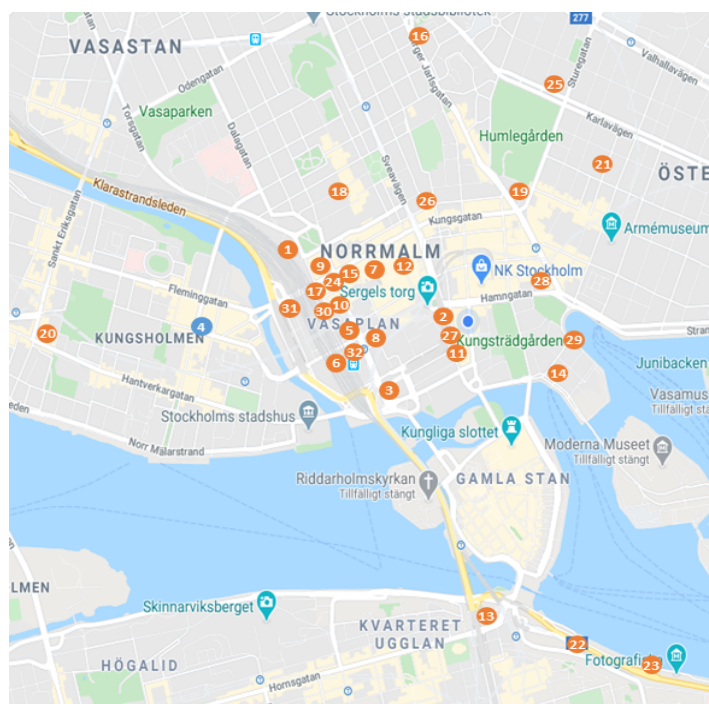


Micro Location – Stockholm CBD: To account for this, a second screening has been performed consisting of competing hotels, with above 150 rooms, in close proximity to Stockholm CBD from Amaranten. Thirty-two hotels have been identified, with a pre-Covid-19 average ADR of SEK ~1,400, ranging from SEK 800-1,800. The discrepancies between different micro-locations within Stockholm can be witnessed in this screening.

Interestingly, Kungsholmen has the 4th highest *Revenue per Available Room (RevPAR)* but the least number of existing hotels.

Stockholm city competitive analysis

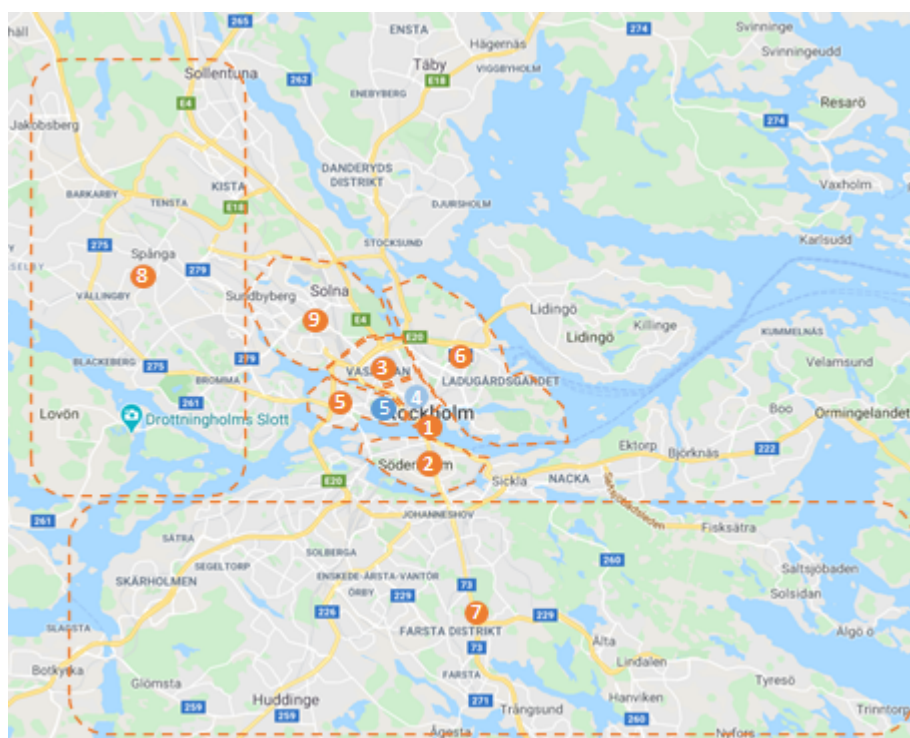
#	Hotel	Area	# apts	Avg rent/day
1	Clarion Hotel Sign	Norrmalm	558	1 200-1 399
2	Downtown Camper by Scandic	Norrmalm	494	1 400-1 599
3	Sheraton Stockholm	Norrmalm	465	1 600-1 799
4	Clarion Hotel Amaranten	Kungsholmen	461	1 200-1 399
5	Radisson Blue Royal Viking	Norrmalm	459	1 400-1 599
6	Radisson Blue Waterfront	Norrmalm	414	1 600-1 799
7	Haymarket by Scandic	Norrmalm	401	1 400-1 599
8	Scandic Continental	Norrmalm	392	1 400-1 599
9	Grand Central by Scandic	Norrmalm	391	1 400-1 599
10	Hotel C Stockholm	Norrmalm	367	1 200-1 399
11	Hotel at six	Norrmalm	343	1 800-
12	Scandic Klara	Norrmalm	292	1 200-1 399
13	Hilton Stockholm Slussen	Södermalm	289	1 400-1 599
14	Grand Hôtel Stockholm	Norrmalm	278	1 800-
15	Scandic no. 53	Norrmalm	273	1 000-1 199
16	Hotel Birger Jarl	Vasastan	271	1 000-1 199
17	Comfort Hotel Xpress	Norrmalm	257	800-999
18	Scandic Norra Bantorget	Norrmalm	237	1 000-1 199
19	Scandic Anglais	Östermalm	226	1 200-1 399
20	First Hotel Fridhemsplan	Kungsholmen	222	800-999
21	Mornington Hotel Stockholm	Östermalm	221	1 200-1 399
22	Scandic Sjöfartshotellet	Södermalm	212	800-999
23	M/S Birger Jarl	Södermalm	203	800-999
24	Elite Hotel Adlon	Norrmalm	203	1 200-1 399
25	Scandic Hotel Park	Östermalm	203	1 200-1 399
26	Best Western Stockholm	Norrmalm	201	800-999
27	Hobo Hotel	Norrmalm	201	1 200-1 399
28	Nobis Hotel Stockholm	Norrmalm	201	1 800-
29	Radisson Strand Hotel	Norrmalm	170	1 800-
30	Nordic Light Hotel	Norrmalm	169	1 600-1 799
31	First Hotel Kungsbron	Norrmalm	155	800-999
32	Hotel Terminus	Norrmalm	155	1 200-1 399
Average		-	293	1344



Macro Location – Stockholm City: Broadening the screening further and investigating the entire City, renders an interesting output. For instance, Kungsholmen has a similar occupancy to Östermalm and a higher occupancy than Södermalm, Gamla Stan and Vasastan. Again, the relatively small number of hotels within Kungsholmen in comparison to other micro locations is apparent, which may skew the observations to some extent. However, in general it can be concluded that a further distance from CBD implies lower occupancy levels and average prices.

Stockholm county competitive analysis

#	Area	# of hotels	# of rooms	Occupancy (%)	Avg price (SEK/day)	RevPar (SEK)	Comment
1	Gamla stan	13	616	70.8	1309	927	
2	Södermalm	31	3294	69.6	1068	743	
3	Vasastan	16	1753	73.0	1083	791	
4	Normalm	44	8783	78.4	1507	1181	Most comparable area
5	Kungsholmen	6	1265	75.3	1087	819	Area of subject
6	Östermalm	21	2476	75.5	1264	954	
7	Söderort	18	2249	63.6	823	523	
8	Västerort	28	3259	56.6	884	500	
9	Solna	15	2128	67.5	982	662	
-	Conference*	19	7355	78.5	1457	1144	



Conclusions of Location Analysis: In conclusion, the most comparable competitive assets are larger hotels located in Stockholm CBD and Normalm area. Suggesting pre-Covid-19 KPI's in the upper end of the following pre-Covid-19 spans; ADR of SEK 1,100-1,500, *Occupancy* of 75-80% and *RevPAR* of 800-1,200 SEK.

6.1.2 Asset analysis

6.1.2.1 Technical and product

NREP outlined several potential technical improvements of the asset. Firstly, improvements regarding HVAC and the basement are assumed likely to be conducted. The HVAC system is presumed to need refurbishment due to the age of the building and the fact that both NREP and Nordic Choice were intending to take advantage of the low occupancy in order to improve the guest experience further. The investments in HVAC and the basement would also increase the sustainability aspects as the building becomes more energy efficient. Improving energy conservation is as a general strategy applied by NREP in their active asset management approach.

According to technical advisors, basement and HVAC refurbishment costs can vary greatly from anywhere between SEK 2,000 to 4,000 per square meter, depending on the quality and magnitude of the refurbishment. To be conservative, as no insight into the current quality of the basement could be shared, an estimated cost of SEK 4,000 per square meter on the total basement area assumed to be 2,115 sqm (1/8 floors) has been applied in the valuation analysis. For the HVAC system a restoration cost of 2,000 per square meter has been estimated, to be conservative this cost has been applied to the total NLA of 16,919 sqm. Since the occupancy is currently low, the basement and HVAC alterations have been estimated to occur already in 2020, in accordance with the intentions outlined previously by Kristoffer Rask.

As two new floors were added to the property around ten years ago, they are assumed to not have been part of the 2015-2018 renovation. Thus, it is reasonable to assume that NREP would refurbish the top floors in conjunction with the HVAC and basement investments in order to obtain positive synergy effects in construction companies.

In addition, as explained previously, the low occupancy during the pandemic enables a good opportunity to perform larger renovations without affecting the customer experience.

Technical advisors estimate a cost of a common room refurbishments at around SEK 8,000 per sqm. The estimated room area of the two top floors 6 and 7 is 4,230 sqm (2/8 floors), resulting in a total investment of SEK 34 m. To take advantage of the low current occupancy rate due to the pandemic the refurbishment of the rooms is assumed to take place in 2020, as such no operating income loss has been estimated in the model.

Lastly, floors 1 to 5 have been recently refurbished and as such need no investment in the time-period projected for. The common areas in the facility such as the conference facility, restaurant and gym are additionally assumed to be in no need of further investments. However, to cover for running maintenance, a tenant improvement cost of SEK 50 per sqm has been applied annually over the total leasable area, implying an annual cost of SEK 846,000.

The CAPEX assumptions are summarised below:

Area hotel case	sqm						
Total property area, total	16 919						
Basemen (est. 12% of total)	2 115						
Floor 1-5 (est. 63% of total)	10 574						
Floor 6-7 (est. 25% of total)	4 230						
CAPEX hotel case	cost/sqm	2020E	2021E	2022E	2023E	2024E	2025E
CAPEX, basement	4 000	-8 459 500	0	0	0	0	0
CAPEX, refurbishment floor 6-7	8 000	-33 838 000	0	0	0	0	0
HVAC renovation (all area)	2 000	-33 838 000	0	0	0	0	0
Tenant improvements (TI)	50	-845 950	-845 950	-845 950	-845 950	-845 950	-845 950
Total CAPEX & TI		-68 521 950	-845 950	-845 950	-845 950	-845 950	-845 950

6.1.3 Covid 19 effect and future market performance

Guidance pre-Covid-19: Estimations suggest a 3.3% average annual increase in RevPar from 2019 to 2024. The largest underlying driver is the limited new production pipeline and a strong demand. Historical growth in RevPar over the past 10 years had averaged ~1.5% in the inner city. The development of new hotels with own attractions, design and experiences was expected to gain ground compared to traditional hotels this change in development was supposed to benefit the ADR growth.

Source: Tillväxtverket & SCB

Forecast for the hotel market in the city of Stockholm 2019-2024, pre-Covid

	2019	2024	%-change	CAGR (%)
Available rooms, millions	8,5	9,2	8,6	1,7
Occupied rooms, millions	6,1	6,7	10,5	2
Occupancy rate, %	71,8	73	1,7	0,3
ADR, SEK	1237	1434	15,9	3
RevPAR, SEK	888	1047	17,9	3,3

Guidance post-Covid-19: The immediate effect of the Covid-outbreak implied a demand-shock to the hotel segment, resulting in a drastic drop of more than 70% in occupancy rates in Stockholm during the peak of the outbreak between March and May 2020. The year to date (at the point of the transaction May 2020) (YTD) gives a clearer indication of the long-term effect to consider for the full year 2020, suggesting a negative effect on occupancy of more than 40%. The same goes for ADR, with a drop of 12% during the peak and a YTD drop of 4.5%.

Source: NHC

Occupancy and ADR after Covid

Future demand, post-Covid	Stockholm	Copenhagen	Oslo	Helsinki	Reykjavik
Occupancy					
1 Mar- 8 May 2020	-73,40%	-83,30%	-76,70%	-81,00%	-75,30%
YTD	-43,40%	-49,50%	-42,70%	-45,70%	-42,00%
12 months rolling	-13,30%	-16,70%	-14,30%	-13,60%	-16,20%
ADR					
1 Mar- 8 May 2020	-11,90%	-4,50%	-3,10%	6,50%	-5,00%
YTD	-4,50%	-8,00%	-4,00%	2,30%	-7,80%
12 months rolling	1,20%	0,00%	-0,10%	6,80%	-5,60%

At the time of the acquisition, the information regarding future development of the pandemic outbreak was limited. There were two main scenarios, one where the number of cases was expected to gradually decrease by the summer with a potential a herd-immunity reached preventing another outbreak and the alternative scenario predicted a second wave with a new outbreak in the autumn/winter of 2020. The analysis is based on the actual numbers of hospitalised patients and patients in intensive care between April and June 2020, a slightly lower rate is assumed for the second wave based on the average growth rate since May 1st for the downturn and then a growth rate of 0.6% for both groups during a second wave (compared to 1.5% resp. 1.8% during the first wave).

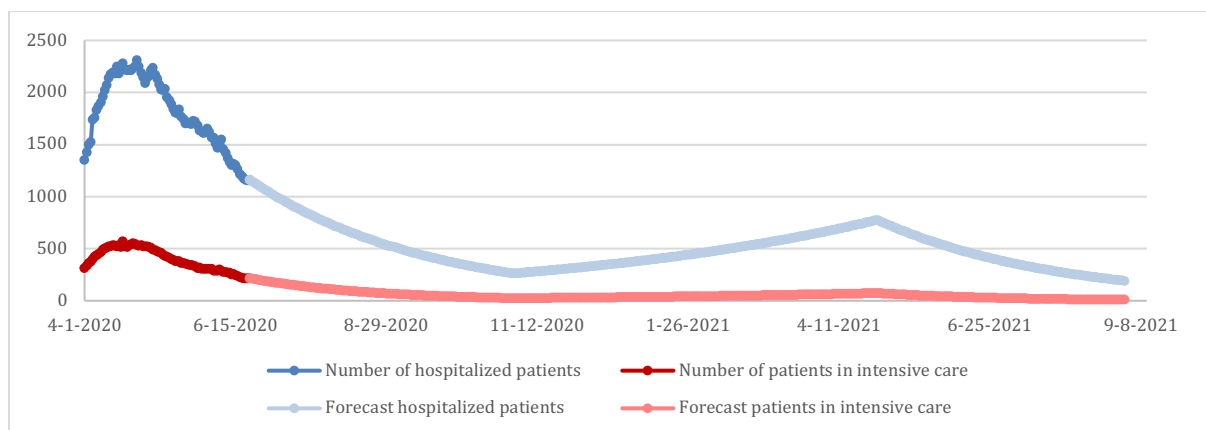


Figure illustrating the estimated second wave and number of patients hospitalized and in need of intensive care.

Future Market Performance

Of the 7,213 hotel rooms planned in Stockholm county over the next five years, 2,640 will be located in Stockholm and of these rooms, only 1,118 are confirmed. In addition, as shown in the competitive analysis, Amaranten is to be considered a CBD located hotel, which further lowers the letting-risk of competition from new development.

2017 experienced the historically highest number of new hotel rooms, but mainly due to an increase in Solna and Sigtuna. Occupancy rate of hotel rooms in Stockholm continues to be above 65% which indicates a shortage of available rooms during the coming years. For Stockholm City to maintain an occupancy rate of 70%, given the estimated increase in demand of 3% CAGR, the City's supply would have to increase by 4,000 rooms. In 2022 the occupancy rate was expected to be 72% (pre-Covid-19) and 54% of the expected future increase of hotel rooms was forecasted to take place in Sigtuna (Arlanda) and Solna (Arenastaden). The slower pace in new establishments is mainly due to the high office rent levels in Stockholm City. According to the pipeline presented in the market research, there are currently around 2,000 new rooms planned until 2024, out of which only 1,200 rooms are confirmed. The offset between future supply and expected increase in demand, implies the future occupancy rates would increase to roughly 73% over the period 2020-2024. A second wave of Covid-19 and prolonged restrictions certainly implies an increased letting-risk, however, is mitigated by a limited short-term pipeline of new rooms centrally located offsetting the decreased demand by a decreased supply.

6.1.4 Operational lease agreement and hotel revenues

6.1.4.1 Hotel revenue streams

The Covid-19 forecasts in combination with the market analysis from *Chapter 4* have been implemented in order to build the financial model. A significant market downturn has been exhibited with notable reductions in both ADR and RevPAR, which will affect expected revenues for the hotel significantly short-term.

A standard lease agreement with a hotel operator consists of two levers; a fixed rent component and a variable rent component. The fixed component is a recurring constant sum whereas the variable component is based on the monthly revenues. If the total revenues exceed a certain ceiling, the operator receives a percentage of the exceeding sum.

A fixed rent of SEK 4,000 per sqm has been estimated by triangulating input from commercial real estate advisors combined with operational benchmarking of the most comparable hotels. The robustness of the assumed rent level has been thoroughly tested towards the post Covid-19 estimated effect on occupancy rates, ADR and RevPAR. The income statement suggests the fixed rent would be around 60% of gross revenue in the severest year of the market downturn, and later stabilise to around 35% in 2025, as the hotel market is expected to return to pre-covid levels.

The variable rent is assumed to be in line with industry praxis and enabled when the fixed rent is below 40% which according to commercial advisors and can be viewed as an industry benchmark. Furthermore, this is confirmed by the operational comparables with all 23 comparable Nordic hotels exhibiting between 29-43% in variable rent. When the fixed rent is below 40%, we assume that the operator receives 20% of the exceeding amount, which is in line with the industry standard of variable rents ranging between 10-20% of the exceeding amount. According to the valuation analysis, variable rent would not be achieved until 2024 and 2025, as a consequence of the hotel market bouncing back and stabilising around pre-covid levels.

Furthermore, NREP received reassurance that Nordic Choice / Strawberry Properties are liquid enough to cover for rental expenses even in a severe downturn market. Furthermore, with Nordic Choice Hotels being the second

largest Nordic operator in terms of rooms the default risk is considered to be minor and as such NREP have assumed to constantly receive the fixed component of the rent even in severe market circumstances.

6.1.4.2 Other revenue streams

Food & Beverage: The main restaurant is located on the first floor. The restaurant is a chain restaurant “*Kitchen and Table*” and is a collaboration with the restaurateur and Swedish chef Marcus Samuelsson. The chain has ten locations in Sweden and several in Norway, Finland, and Denmark. With a strong backing and number of locations, the tenant will generate steady incomes even in a post Covid-19 setting. Adjacent to the restaurant is the cocktail bar “*Tap Room*” belonging to the “*Kitchen and Table*” franchise. In the event of the restaurant industry collapsing with “*Kitchen and Table*” and other tenants not being to pay their rent, a possible option is to convert the restaurant to a large conference room. As such, NREP will not be exposed to the uncertainties of the current restaurant business to the same extent. For the valuation analysis, F&B income is assumed to be 20% of room revenue.

Conference facility: Smaller conference rooms are available on the first floor to allow for smaller conferences and external meetings including two larger conference rooms and eight smaller rooms. For the valuation analysis, conference facility income is assumed to be 5.0% of room revenue.

Gym, spa and other tenants: Amaranten has a gym and sauna accessible for the hotel guests. For the valuation analysis, gym, spa, and other tenant’s income is assumed to be 5.0% of room revenue.

6.1.4.3 Estimated income statement:

The market analysis naturally indicates a severe Covid-19 impact in 2020 resulting in Amaranten receiving a significant drop in income during 2020, before gradually recoiling and later stabilising on levels close to 2019 within 3-4 years. Nordic Choice revenues are affected by occupancy rate and ADR. Occupancy rate will recover to 2019 levels in 2023 whereas ADR reaches similar levels to 2019 in 2025. The underlying argument is the fact that most hotels will be competing on price in the early stage of the bounce-back. As such, the operations of Nordic Choice are strongly affected up until 2023 before reaching sustainable levels, and therefore variable rent will not be expected to trigger prior to 2024.

Valuation analysis	Main assumptions	2020E	2021F	2022F	2023F	2024F	2025F
<i>Hotel operations</i>							
# Rooms	461	461	461	461	461	461	461
Increase in rooms		0	0	0	0	0	0
# Days		366	365	365	365	366	365
Available rooms		168 726	168 265	168 265	168 265	168 726	168 265
OCC %		50,0%	50,0%	55,0%	60,0%	65,0%	70,0%
Occupied rooms		84 363	84 133	92 546	100 959	109 672	117 786
ADR		989	1088	1175	1245	1295	1321
ADR growth		-20,0%	10,0%	8,0%	6,0%	4,0%	2,0%
RevPAR		494	544	646	747	842	925
RevPar growth		-44,3%	10,0%	18,8%	15,6%	12,7%	9,8%
<i>Revenue (SEKm)</i>							
Room Rev		83 418 134	91 509 238	108 712 974	125 711 730	142 023 258	155 580 837
% of total Rev		76,9%	76,9%	76,9%	76,9%	76,9%	76,9%
M&E Rev		4 170 907	4 575 462	5 435 649	6 285 587	7 101 163	7 779 042
% of room Rev	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
F&B Rev		16 683 627	18 301 848	21 742 595	25 142 346	28 404 652	31 116 167
% of room Rev	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
Other Rev		4 170 907	4 575 462	5 435 649	6 285 587	7 101 163	7 779 042
% of room Rev	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Gross Rev		108 443 575	118 962 009	141 326 867	163 425 249	184 630 235	202 255 089
Rev adj. (commissions)		-5 422 179	-5 948 100	-7 066 343	-8 171 262	-9 231 512	-10 112 754
% of gross Rev	-5,0%	-5,0%	-5,0%	-5,0%	-5,0%	-5,0%	-5,0%
Net Rev		103 021 396	113 013 908	134 260 523	155 253 987	175 398 723	192 142 334
% Growth		-44,1%	9,7%	18,8%	15,6%	13,0%	9,5%
Rental income							
Minimum rent (assumed lease agreement), per sqm	4 000	4 000	4 080	4 162	4 245	4 330	4 416
Rent indexation	2,0%		2,0%	2,0%	2,0%	2,0%	2,0%
Minimum rent (assumed lease agreement), total		67 676 000	69 029 520	70 410 110	71 818 313	73 254 679	74 719 772
Variable rent, per sqm		0	0	0	0	1 505	1 723
Variable rent (if gross revenue above 40%)	40%	0	0	0	0	22 275 111	25 507 063
% of gross Rev	20%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
Other rent		3 383 800	3 451 476	3 520 506	3 590 916	3 662 734	3 735 989
% of minimum rent	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Rental income		71 059 800	72 480 996	73 930 616	75 409 228	99 192 524	103 962 824
Total rent per NLA		4 200	4 284	4 370	4 457	5 863	6 145

6.1.5 Operational comparables

Looking at comparable lease structures in the Nordic hotel segment, there is a significant discrepancy and a wide range in rent per room and rent per sqm. The overall average of the comparable leases suggests a total fixed rent of 5,624 kEUR (16.0 kEUR/room) and total variable rent of 5,906 kEUR (18.4 kEUR/room). Furthermore, looking at the 3 hotels estimated as the most comparable to Amaranten, the numbers converge to around 7,000 kEUR (15.9 kEUR/room) in Total fixed rent and 8,000 kEUR (18.8 kEUR/room) in total variable rent.

The conclusion to draw from these insights is that the narrowed down range of the 3 most comparable hotels is in line with the overall average of the dataset, which indicates a rather conservative estimation for Amaranten could be within this range. Thereby, the underwritten Total rent per room of Amaranten (est. 14.98 kEUR at entry) is roughly in line with the most comparable hotels in central Stockholm (16 kEUR). Furthermore, the assumed variable rent component of 20% is in line with the most comparable hotels in Stockholm.

Source: Undisclosed as censored

Hotel lease comps Nordics

City/Region	Property / Portfolio	Rooms	Size (sqm)	Sqm / room	Total fixed rent**	Total variable rent**	Rent / room (Fixed / Variable)**	Rent / sqm (Fixed / Variable)**	Variable rent %	Type of contract
Stockholm	Hotel A*	459	26 354	57	6 849	7 423	14.92 / 16.17	0.26 / 0.28	32%/50%	Triple-net
Stockholm	Hotel B*	414	32 244	78	7 011	8 477	16.94 / 20.48	0.22 / 0.26	34%/15%	Double-net
Stockholm	Hotel C	Ca. 170	6 700	39	-	-	18.00 / 21.17	0.45 / 0.54	35%/12%	Double-net
Stockholm	Hotel D	527	29 064	55	6 145	5 077	11.65 / 9.63	0.21 / 0.17	35%/10%	Double-net
Stockholm	Hotel E	175	6 512	37	2 443	3 352	13.95 / 19.16	0.38 / 0.51	37%/8%	Double-net
Stockholm	Hotel F	367	14 018	38	4 598	5 747	12.52 / 15.66	0.32 / 0.41	37%/8%	Double-net
Stockholm	Hotel G	Ca. 290	-	-	-	4 789	16.51 / -	-	36%/10%	Double-net
Stockholm	Hotel H	414	21 886	53	5 785	5 939	13.97 / 14.34	0.26 / 0.27	36%/10%	Double-net
Stockholm	Hotel I	Ca. 150	8 000	53	-	-	22.06 / 23.27	0.42 / 0.44	36% / 12%	Double-net
Stockholm	Hotel J*	282	16 000	57	3 879	-	13.76 / -	0.24 / -	29%	Double-net
Oslo	Hotel K	532	35 000	66	7 407	7 787	13.92 / 14.64	0.21 / 0.22	43% / 12%	Double-net
Oslo	Hotel L	Ca. 125	6 500	53	-	-	15.57 / 23.36	0.29 / 0.44	36% / 12%	Double-net
Oslo	Hotel M	Ca. 115	8 000	70	-	-	18.71 / 27.45	0.27 / 0.39	38% / 10%	Double-net
Copenhagen	Hotel N	Ca. 300	18 000	60	-	-	17.32 / 23.76	0.28 / 0.39	35% / 12%	Double-net
Copenhagen	Hotel O	334	28 750	86	4 027	5 101	12.06 / 15.27	0.14 / 0.18	35% / 10%	Double-net
Copenhagen	Hotel P	357	17 000	48	4 430	5 369	12.40 / 15.04	0.26 / 0.32	35% / 10%	Double-net
Copenhagen	Hotel Q	812	41 834	52	10 336	-	12.73 / -	0.25 / -	-	Triple-net
Copenhagen	Hotel R	161	11 437	71	3 289	-	20.42 / -	0.29 / -	-	Double-net
Copenhagen	Hotel S	Ca. 350	30 000	85	-	-	21.48 / 24.97	0.26 / 0.35	36% / 10%	Double-net
Copenhagen	Hotel T	Ca. 250	17 500	71	-	-	31.54	0.44	-	Double-net
Copenhagen	Hotel U	Ca. 400	24 000	58	-	-	17.18	0.30	-	Triple-net
Copenhagen	Hotel V	493	25 099	51	5 369	-	10.89	0.21	-	Double-net
Copenhagen	Hotel W	Ca. 600	18 500	30	-	-	10.20 / 12.08	0.34 / 0.40	36% / 10%	Double-net
Stockholm	Amaranten	461	16 228	36	6 768	n.m.	14.98 / n.m.	0.4 / n.m.	20%	Double-net
Average		356	19 960	57	5 624	5 906	15.98 / 18.41	0.29 / 0.34	36% / 13%	

*) Most comparable hotels in the set. **) Figures in kEUR

Implications for Amaranten

The best rent level metric to look at is rent/room given the high efficiency of the hotel compared to other centrally located hotels. However, rent/sqm is a good metric to examine when comparing with alternative use rent levels (e.g., office). In accordance with the operational comps disclosed in the figure above, the following assumptions have been made for the underwritten valuation model at the forecasted exit date in 2025:

- Total fixed rent of: 74.7 mSEK corresponding to 4,416 SEK per sqm or 162.1 kSEK per room
- Total variable rent of: 25.5 mSEK corresponding to 1,723 SEK per sqm or 55.3 kSEK per room

6.1.6 Transactional comparables

The hotel market in the Nordics and especially Stockholm has been characterised by a rather low transaction volume, which can be explained by several factors. Key assets are rarely in the market, as owners tend to be long term investors but also limited space in Stockholm CBD and high office rents increasing barriers to entry and price expectations. A set of screenings of past transactions have been assessed. It is of the utmost importance to find relevant and comparable transactions and the transactions have been filtered on three criteria, *Geography*, *Total area*, and *Date* of the transaction.

Stockholm City is obviously the most relevant geography and in this set of transactions hotels above 100 rooms and 5,000 sqm have been considered. Moreover, the date of the transactions is limited to 2013 to 2020 as market conditions have altered since. Eight transactions fill these conditions with a price per square meter between SEK 4,500 – 6,500 and a price per room of SEK 200,000 – 400,000. The average sales price is just above EUR 100m whilst interestingly the average size was 3 000 sqm larger than Amaranten. Applying the average price per square meter on Amaranten yields a sales price of EUR 95m, and the price per room yields a sales price of EUR 134m.

Source: Undisclosed as censored

Hotel transaction comps Stockholm city

Year	City / Region	Property / Portfolio	Rooms	Total Area	Sales price (EUR)	Price per room (EUR)	Price per sqm (EUR)	Yield Estimated	Contract
2019	Stockholm	Hotel A	113	10 025	44 866 103	397 045	4 475	Norm. 4.00%	n/a
2017	Stockholm	Hotel B	140	5 600	34 385 387	245 610	7 683	4.60%	n/a
2017	Stockholm	Hotel C	503	24 489	131 000 000	260 000	5 000	4.75 %	Lease
2016	Stockholm	Hotel D	527	29 064	125 000 000	237 000	4 000	5.00%	Lease
2015	Stockholm	Hotel E	414	32 244	187 000 000	452 000	6 000	3.80%	Lease
2014	Stockholm	Hotel F	414	21 886	120 900 000	292 000	6 000	5.00%	Lease
2013	Stockholm	Hotel G	461	16 680	108 000 000	234 000	6 000	7.00%	VP
2013	Stockholm	Hotel H	454	n/a	93 000 000	205 000	n/a	7.5-8.5%	Mgt.
2020	Stockholm	Amaranten	461	16 919	148 464 225	322 048	8 775	4.5	Lease
Average*			378	19 998	105 518 936	290 332	5 594	5.27%	n.m.
Average (excl. pre-2014 transactions) *			352	20 551	107 191 915	313 942	5 526	4.53%	n.m.

**) Averages excl. this transaction, **) assumed purchase price*

As the sample size is small it is interesting to expand the set of comparables. The next most relevant geography apart from Stockholm City is the second largest Swedish city Gothenburg. Merely four transactions satisfy these requirements and that includes lowering the size of the hotels to include hotels with 50 rooms or more, however only two of them have disclosed sales price making the set less reliable. Furthermore, the size of the hotels are also smaller than the Stockholm peer group with an average total area of c. 12,700 sqm. The average price per square meter is EUR c. 5,250 and price per room EUR c. 220,000. Applying this data on Amaranten yields a sales price of EUR 89m and EUR 103m.

Source: Undisclosed as censored

Hotel transaction comps Gothenburg

Year	City / Region	Property / Portfolio	Rooms	Total Area	Sales price (EUR)	Price per room (EUR)	Price per sqm (EUR)	Est. Yield	Contract
2019	Gothenburg	Hotel A	179	7 419	29 859 317	166 812	4 025	n/a	n/a
2019	Gothenburg	Hotel B	289	12 450	80 443 777	278 352	6 461	3.50%	n/a
2019	Gothenburg	Hotel C	50	1 000	n/a	n/a	n/a	n/a	n/a
2017	Gothenburg	Hotel D	259	29 965	n/a	n/a	n/a	5.00%	n/a
Average			194	12 709	55 151 547	222 582	5 243	4.25%	

Broadening the screening further and considering the corresponding transactions in other Nordic capitals results in further twenty transactions. Naturally, there is higher variance regarding price per square meter and price per room ranging from EUR 2,000 – 11,000 and EUR 120,000 – 550,000. This set of transactions also includes larger hotels bringing the average total up to c. 25,500 sqm with the average transaction price of the hotels being EUR 108m. The average price per square meter and room is EUR c. 5,000 and EUR c. 250,000, respectively. Applying this data on Amaranten yields a sale price of EUR 83m and EUR 115m.

Source: Undisclosed as censored

Hotel transaction comps Nordics

Year	City / Region	Property / Portfolio	Rooms	Total Area	Sales price (EUR)	Price per room (EUR)	Price per sqm (EUR)	Yield Estimated	Contract
2020	Oslo	Hotel A	450	18 000	n/a	n/a	6 000	4.50%	Lease
2019	Copenhagen	Hotel B	366	17 673	200 900 000	549 000	11 000	4.75 -5.00%	Mgt.
2019	Copenhagen	Hotel C	357	17 000	89 700 000	251 000	5 000	5.00%	Lease
2019	Copenhagen	Hotel D	366	29 089	73 700 000	201 000	3 000	5.50%	Lease
2017	Oslo	Hotel E	181	n/a	n/a	n/a	n/a	4.00%	Lease
2017	Copenhagen	Hotel F	375	n/a	n/a	n/a	n/a	4.00-4.50%	VP
2017	Copenhagen	Hotel G	812	41 834	203 700 000	251 000	5 000	5.00%	Lease
2017	Copenhagen	Hotel H	493	25 099	100 200 000	203 000	4 000	4.75%	Lease
2017	Helsinki	Hotel I	430	n/a	88 000 000	204 651	n/a	n/a	n/a
2016	Copenhagen	Hotel J	406	23 686	134 300 000	331 000	6 000	4.50%	Lease
2016	Oslo	Hotel K	334	24 800	n/a	n/a	n/a	5.00%	Lease
2015	Copenhagen	Hotel L	370	22 958	82 000 000	222 000	4 000	5.25%	Lease
2015	Copenhagen	Hotel M	402	23 686	80 000 000	199 000	3 000	6.50%	VP/Mgt
2015	Oslo	Hotel N	301	n/a	59 000 000	196 013	n/a	5.50%	Lease
2015	Oslo	Hotel O	500	28 000	165 000 000	330 000	6 000	4.75%	Lease
2015	Oslo	Hotel P	532	35 000	200 000 000	375 940	6 000	4.00-4.25%	Lease
2014	Oslo	Hotel Q	301	n/a	55 000 000	182 724	n/a	6.30%	Lease
2014	Helsinki	Hotel R	153	n/a	n/a	n/a	n/a	4.00-4.25%	Lease
2013	Copenhagen	Hotel S	400	24 994	54 000 000	135 000	2 000	7.00%	VP
2013	Oslo	Hotel T	309	n/a	38 000 000	122 977	n/a	6.00%	Lease
2020	Stockholm	Amaranten	461	16 919	148 464 225	322 048	8 775	4.5	Lease
Average*			392	25 525	108 233 333	250 287	5 083	5.13%	
Avg. (excl. pre-2014 transactions) *			396	25 568	117 807 692	268 948	5 363	4.97%	

**) Averages excl. this transaction*

Implied Amaranten valuation ranges from sales comparison by average of each region:

Year / Region	Price per sqm (EUR)	Price per room (EUR)
Stockholm	94 644 886	133 843 052
Gothenburg	88 706 317	102 610 302
Nordics	83 712 248	115 384 056

Past transactions are sold for a price severely below that which NREP paid Strawberry Properties, especially looking at a price per square meter metric. Considering that the market is in distress just adds to the fact. However, the price per sqm is a metric of less relevance for NREP due to the high room efficiency (37 sqm vs. 57 sqm). Regarding the somewhat lower price per room of Stockholm it is important to note that Hotel E in Stockholm most resembles Amaranten and sold for EUR 452 000 using this metric and applying it to Amaranten yields a sales price of EUR 208m. Moreover, it is worth noting that the comparable set includes whole city's and not only CBD and as such a lower valuation is warranted.

- Entry yield: 4.50 %
 - Significant entry yield discount compared to transactions in Stockholm post 2013.
 - Prior to Covid-19 investors were prepared to pay yields as low as 3.80-4.00% for core hotel assets in Stockholm

6.1.7 Exit assumptions and valuation

The following assumptions have been made in accordance with the conclusions outlined above throughout the valuation chapter which in turn is based on the market analysis and NREP's investment framework, rationale, and expected strategy.

Key assumptions	
CAPEX	• 8,000 SEK/sqm for floor 6-7, total 33.8 mSEK • 4,000 SEK/sqm for basement, total 8.4 mSEK • 2,000 SEK/sqm for HVAC, total 33.8 mSEK • 50 SEK/sqm/p.a. for tenant improvements, total 0.7 mSEK
Downtime	• 0 months from acquisition in 2020, instant cashflow
<u>Entry</u> rent level	• 4,000 SEK/sqm base rent • 200 SEK/sqm additional rent (variable + other)
<u>Exit</u> rent level	• 4,416 SEK/sqm base rent • 1,728 SEK/sqm additional rent (variable + other)
Entry and exit timing	• Entry 2020 and exit 2025 (5 year holding period)
<u>Entry</u> yield / value	• 4.50% yield • 1,523 MSEK acquisition value
<u>Exit</u> yield / value	• 4.50% yield (no assumed yield compression) • 2,248 MSEK divestment value

Based on the prior mentioned assumptions the valuation for the hotel base case amounts to an entry valuation of 1,523 mSEK. As explained in case background the investment opportunity entails an attractive opportunity. The significant appreciation of the asset to the exit valuation of 2,248 mSEK in 2025 is the consequence of the projected increase in rent enabled by the variable rent triggered as the hotel market rebounds and stabilises according to the projections for 2024. The appreciation corresponds to a CAGR of circa 8%, largely due to NREP acquiring the asset during market turmoil with significant upside derived from the increased rental value achieved by the variable rent component. The strong recovering market is further reflected in the returns as the investment implies a 13.10% unlevered IRR over the holding period of five years. Taking account for NREP's leverage profile of around 60% the levered pre-tax IRR amounts to 24.07%, applying the Swedish flat corporate tax rate of 20.6% the post-tax IRR becomes 18.95%, slightly above the NSF IV IRR target of 17-18%. This is however to be expected as the hotel market is riskier than NREP's other segments and as such should be compensated.

Exit valuation according to assumptions made	
Applied acquisition year	2020
Downtime, years	0
Construction completed	2020
Holding time, years	5
Applied Exit year	2 025
Entry value	1 522 710 000
CAPEX need	-76 135 500
Share of CAPEX by buyer	50,00% (assumed to be equally split as actual value is undisclosed)
Purchase value	1 484 642 250
Exit value	2 248 018 507
IRR, unlevered	13,10%
IRR, levered pre-tax	24,07%
IRR, levered post-tax	18,95%

The complete annual cash flow estimations, including annual assumed amortization, interest payments, loan payments etc. is disclosed in the tables below.

UNLEVERED	2020E	2021F	2022F	2023F	2024F	2025F
Annual NOI	68 521 950	69 892 389	71 290 237	72 716 042	96 445 474	101 160 833
Tenant Improvements (TI)	-845 950	-845 950	-845 950	-845 950	-845 950	-845 950
CAPEX	-76 135 500	0	0	0	0	0
Net Cash Flow after CAPEX & TI	-8 459 500	69 046 439	70 444 287	71 870 092	95 599 524	100 314 883
Acquisition of asset	-1 484 642 250	0	0	0	0	0
Sale of asset	0	0	0	0	0	2 248 018 507
Unlevered CF	-1 493 101 750	69 046 439	70 444 287	71 870 092	95 599 524	2 348 333 390

The leverage assumptions are presented in the Appendix, and when applied, returns the levered cash flow presented below.

LEVERED		2020E	2021F	2022F	2023F	2024F	2025F
TOTAL							
(+) Debt issuance, stable	890 785 350	890 785 350	0	0	0	0	0
(-) Amortization, stable	-71 262 828	0	-17 815 707	-17 815 707	-17 815 707	-17 815 707	0
(+) Debt issuance, constr.	45 681 300	45 681 300	0	0	0	0	0
(-) Amortization, constr.	-3 654 504	0	-913 626	-913 626	-913 626	-913 626	0
(-) Paydown	-861 549 318	0	0	0	0	0	-861 549 318
(-) Interest expense	-134 851 198	-14 047 000	-27 813 060	-27 251 180	-26 689 300	-26 127 420	-12 923 240
Pre-tax CF	1 027 340 783	-570 682 100	22 504 046	24 463 774	26 451 459	50 742 771	1 473 860 832
(-) Property tax	-18 558 028	0	-3 711 606	-3 711 606	-3 711 606	-3 711 606	-3 711 606
(-) Corporate tax paid during year	-239 411 548	0	-12 480 909	-14 511 523	-14 805 239	-19 693 502	-177 920 375
Post-tax CF	769 371 207	-570 682 100	6 311 531	6 240 646	7 934 615	27 337 664	1 292 228 852

GAV Build-up	2020E	2021F	2022F	2023F	2024F	2025F
NOI	68 521 950	69 892 389	71 290 237	72 716 042	96 445 474	101 160 833
Exit cap rate	4,50%	4,50%	4,50%	4,50%	4,50%	4,50%
GAV, Hotel Growth	1 522 710 000	1 553 164 200	1 584 227 484	1 615 912 034	2 143 232 747	2 248 018 507
		2,00%	2,00%	2,00%	32,63%	4,89%
Add. hotel calculations	2020E	2021F	2022F	2023F	2024F	2025F
Total Rent:	71 059 800	72 480 996	73 930 616	75 409 228	99 192 524	103 962 824
Rent per sqm	4 200	4 284	4 370	4 457	5 863	6 145
Total OPEX:	-2 537 850	-2 588 607	-2 640 379	-2 693 187	-2 747 050	-2 801 991
OPEX per sqm	-150	-153	-156	-159	-162	-166
Total NOI:	68 521 950	69 892 389	71 290 237	72 716 042	96 445 474	101 160 833
NOI per sqm	4 050	4 131	4 214	4 298	5 700	5 979
Estimated Exit yield	4,50%	4,50%	4,50%	4,50%	4,50%	4,50%
Assumed yield compression	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
GAV	1 522 710 000	1 553 164 200	1 584 227 484	1 615 912 034	2 143 232 747	2 248 018 507
GAV per NLA	90 000	91 800	93 636	95 509	126 676	132 869

6.1.8 Risks and mitigations

There are several risks and mitigations in accordance with the transaction. It is therefore interesting to fully explore the possibility of the office fall back case. The risks and their severity are summarised in the table below.

Risk	Severity	Mitigation
Zoning / City plan	Low	Current zoning plan allows for both hotel and office use
Exit	High	Current market uncertainty and unclear future hotel demand. The assumed exit yield of 4.50% after the five-year holding period is in line with pre-covid-19 levels
Letting	Limited	Asset assumed to be let in line with industry praxis with a fixed base rent and potential upside in variable rent component if asset performs better post-covid.
Counterparty	Limited	One of the largest and most experienced operators in the Nordics, mitigating the counterparty risk.
Tenant default	Limited	Nordic Choice is a stable and well-known hotel operator in the Nordics with a strong balance sheet and operating model.
Timing	Limited	Exposed to timing risk due to limited life span of fund. However, mitigated to some extent due to flexible investment horizon.
Financing	Low	Acquisition is assumed to be conditioned on secured financing
Market	High	Hotel market is experiencing all-time low occupancy levels and the recovery could take several years. However, according to the market analysis, it is expected the Swedish and Nordic market to recover quicker vs rest of Europe thanks to the high % of domestic hotel nights
Tenant improvement	High	Hotel was majority refurbished 2015-2018, however, we have assumed that NREP are likely to perform minor refurbishment to both HVAC and the two more recent floors and take advantage of the lower occupancy during Covid-19

6.2 Fall-back case analysis - Office conversion

In accordance with the investment strategy presented by NREP, a long-term downturn in the hotel segment could be mitigated by an alternative fall-back case through a conversion to office. As such, the fall-back case is a fundamental aspect of the analysis and the office conversion valuation is presented in the sub-chapters below.

6.2.1 Fall-back scenario rationale

The building was originally designed as an office building and it is assumed that it would be possible to convert the building into an office again. The cost for such refurbishment is in accordance with technical advisors estimated be around SEK 20,000 per sqm. The exit yield would be lowered by 1.25 percentage points (from ~4.50% to ~3.25%), as the office segment is characterised by higher security cashflows and signified by an increased investor appetite. However, it is to be stated that the efficiency (NLA/GLA) would be lowered to around 90% to the leasable area from the base case. The stabilised exit rent is estimated to be above 7,000 SEK per sqm, in line with pre-covid levels. In summary, if Nordic Choice would go bankrupt and/or unfavourable market development, NREP would have an opportunity to re-develop the building and still deliver cash flow and to a lower exit yield implying a higher divestment value, justifying the significant CAPEX conversion cost.

	Hotel	Office
Pros	- Strategic location for hotel. - Diversification entering new segment. - Likely high interest from other hotel operators, e.g., decreasing tenant risk. - Other hotel operators likely to sign similar lease agreement but will require compensation for FF&E. - Possibility to develop unique hotel product in a strong location close to CBD.	- The property was initially used as office. - Attractive office location with excellent commuting access. - Expected stabilized rent levels at >7,000 SEK/sqm at exit. - Indications of office assets expected to continue to trade at premium vs hotels. - Potential to use some of the existing hotel features (gym, restaurant, conference facilities) as value-add office services.
Cons	- To avoid expensive refurbishment, the operator needs to have similar FF&E requirements. - Uncertain exit market	- Expensive refurbishment cost for conversion to hotel, 20,000 SEK/sqm, implying total cost of SEK 285 million. - No cashflow generation for a minimum of 12 months due to reconstruction. - Loss of area efficiency to 90% from base case (NLA/GLA)

6.2.2 Competitive analysis – Location and rental comparables

There is a strong discrepancy between the prime (CBD) office yields and rents and the remaining inner city. As such, for valuation purposes it must be determined whether the subject property of Amaranten is located in what is considered as Stockholm CBD.

Source: Pangea property outlook

Pre-covid-19 outlook on Stockholm office market

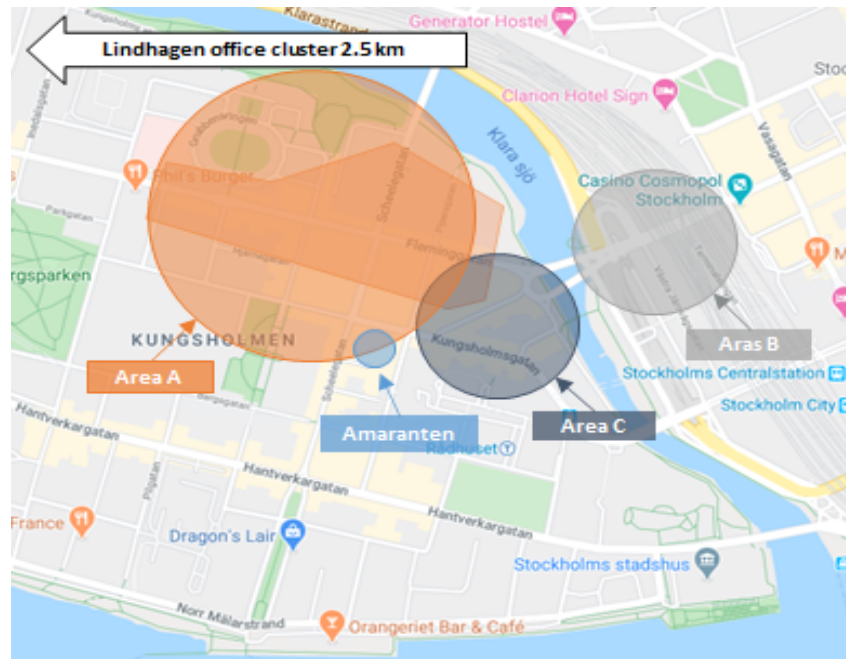
Metric	CBD	Trend pre covid-19	Rest of Inner city	Trend pre covid-19
Vacancy rate	2,30%	Stable	2,60%	Stabel
Prime rent	8 000	Increasing	5 300	Increasing
Prime yield	3,25%	Stable	3,75%	Decreasing

Looking at recent rental market comps, indications suggest rents between 5,000 and 7,000 in the direct adjacent area. The lower end of the comparable interval would be a rather conservative assumption, as the subject property is considered a high-quality asset and as concluded in market analysis there is a high correlation between quality of an asset and underlying rental potential. The average of the comparables suggests 6,000 SEK/sqm, but considering the oldest comparables are from 2016-2018, a reasonable assumption of rental value for Amaranten in pre-covid market conditions would be 7,000 SEK/sqm reflecting the strong increase of office rents (from 5,000 in 2016 to 8,000 in 2019) presented in the market analysis.

Source: Undisclosed as censored

Rental office comps Stockholm city

Location	Area (sqm)	Date of signing	Rent (SEK/sqm)
Area A	4120	Feb-20	5000
Area B	450	Jan-20	6800
Area A	1790	Dec-19	7000
Area C	7200	Sep-19	6100
Area B	760	Jun-19	7100
Area A	620	Dec-18	6600
Area C	840	Oct-18	5000
Area A	850	Oct-18	4900
Area A	300	Oct-18	4600
Area C	1230	Jun-18	7800
Area C	610	Sep-18	5600
Area A	2900	Feb-18	6000
Area B	900	Feb-16	6500
Average	1736	-	6077

**Implications for Amaranten**

The exit assumption calculated in the model of 3.25% is in line with as the market yield for offices in Stockholm city 2019. In addition, the pre-Covid-19 market projection for the next coming year was estimated to 3.2% suggesting that the market assumed a continued compression of the yield levels. Considering that the exit valuation is in 2025 the pre Covid-19 yield estimations would be even lower but due to the market turmoil and uncertainty in future office operations the valuation applies a rather conservative assumption that the 2025 exit value rebounds and stabilises at 2019 levels.

The exit rent level of above 7,000 follows the same rationale as the pre-covid estimations indicates rent levels of 7,700 SEK/Sqm for Stockholm prime rent levels in 2019. As for the exit yield the pre-Covid-19 rent projections indicated a continued growth and rent level of 7,800 for 2020. As the rent level is more sensitive to vacancy a

more conservative approach has to be considered as rebates and other incentives may be used to increase the occupancy. As such an exit rent of around 7,000 has been assumed for 2025.

6.2.4 Office assumptions and valuation

The following assumptions have been made in accordance with the conclusions from the market analysis and NREP's investment framework, rationale and underlying strategi. As explained above, the overall assumptions are based on NREP acquiring the property during a market downturn due to the Covid-19 outbreak which has resulted in a short-term demand shock which is assumed to affect both rental levels and occupancy rates negatively. In addition, the conversion case will imply a significant CAPEX expenditure as well as a loss of leasable area and an operational downtime which further affects cash flow generation and thereby returns negatively. A differentiating aspect which affects the office case negatively is the fact that the conversion would imply negotiating a new rental agreement during a downturn office market environment, this in turn implies an increased market risk, and supports the somewhat lower rental level. The overall reasoning regarding the exit assumptions is that the office market will gradually recover from 2021 up until 2024 and stabilise around the same levels as pre Covid estimates for 2020, a rather conservative estimate as this excludes market growth and inflation effect during the holding period.

Key assumptions	
CAPEX (100% carried by buyer)	• 20,000 SEK/sqm for office areas, total 268.5 mSEK • 8,000 SEK/sqm for lobby areas, total 16.0 mSEK • 50 SEK/sqm/p.a for tenant improvements, total 0.7 mSEK
Downtime	• 12 months from acquisition
Loss of lettable area	• 1,492 sqm (10% of previous lettable area excl. lobby)
<u>Entry</u> rent level post conversion	• 2,000 SEK/sqm for lobby • 5,775 SEK/sqm office spaces
<u>Exit</u> rent level post conversion	• 2,208 SEK/sqm for lobby • 7,094 SEK/sqm office spaces
Entry and exit timing	• Entry 2020 and exit 2025 (5 year holding period)
<u>Entry</u> yield / value	• 3.25% yield • 1,722 MSEK acquisition value
<u>Exit</u> yield / value	• 3.25% yield • 2,695 MSEK divestment value

Based on the assumptions stated above, the valuation for the office conversion case amounts to an entry valuation of 1,722 mSEK. However due to the CAPEX required to realise the future cash flow the actual purchase value is estimated at 1,437 mSEK as the total refurbishment cost 285 mSEK is carried by the acquirer (NREP). For the calculated timeframe, the market analysis suggests a recovering office market which is reflected in the appreciation of the asset which according to the valuation below is estimated to 2,695 mSEK in 2025. The significant increase is derived from the substantial rental recoil, a consequence of both a stabilised exit market and a conservative entry rental assumption as the rental agreement will have to negotiated in a market uncertainty. The appreciation corresponds to a CAGR of circa 9%, which is reasonable considering NREP acquiring the asset during a downturn and divesting the asset in a stabilised market. The appreciation also includes other value levers e.g. occupancy and OPEX efficiency. The strong recovering market is further reflected in the returns as the investment implies a 12.83% unlevered IRR over the holding period of five years. Taking account for NREP's leverage profile of around 60% the levered pre-tax IRR amounts to 22.27%, applying the Swedish flat corporate tax rate of 20.6% the post-tax IRR becomes 18.21%, perfectly in line with the NSF IV IRR target of 17-18%.

Final valuation – Office case

Applied acquisition year	2020
Downtime, years	1
Construction completed	2021
Holding time, years	5
Applied Exit year	2025
Entry value	1 721 999 592
CAPEX need	-284 542 000
Share of CAPEX by buyer	100,00%
Purchase value	1 437 457 592
Exit value	2 694 917 122
IRR, unlevered	12,83%
IRR, levered pre-tax	22,27%
IRR, levered post-tax	18,21%

The complete annual cash flow estimations, including annual assumed amortization, interest payments, loan payments etc. is disclosed in the tables below.

UNLEVERED	2020E	2021F	2022F	2023F	2024F	2025F
Annual NOI	0	58 712 658	65 260 537	72 238 995	79 672 013	87 584 806
Tenant Improvements (TI)	0	-771 355	-771 355	-771 355	-771 355	-771 355
CAPEX	-284 542 000	0	0	0	0	0
Net Cash Flow after Capex & TI	-284 542 000	57 941 303	64 489 182	71 467 640	78 900 658	86 813 451
Acquisition of asset	-1 437 457 592	0	0	0	0	0
Sale of asset	0	0	0	0	0	2 694 917 122
Unlevered CF	-1 721 999 592	57 941 303	64 489 182	71 467 640	78 900 658	2 781 730 573

The leverage assumptions are presented in the Appendix, and when applied, returns the levered cash flow presented below.

LEVERED		2020E	2021F	2022F	2023F	2024F	2025F
	TOTAL						
(+) Debt issuance, stable	862 474 555	862 474 555	0	0	0	0	0
(-) Amortization, stable	-68 997 964	0	-17 249 491	-17 249 491	-17 249 491	-17 249 491	0
(+) Debt issuance, constr.	170 725 200	170 725 200	0	0	0	0	0
(-) Amortization, constr.	-13 658 016	0	-3 414 504	-3 414 504	-3 414 504	-3 414 504	0
(-) Paydown	-950 543 775	0	0	0	0	0	-950 543 775
(-) Interest expense	-148 780 765	-15 497 996	-30 686 033	-30 066 113	-29 446 193	-28 826 273	-14 258 157
Pre-Tax CF	1 183 748 999	-704 297 833	6 591 275	13 759 074	21 357 451	29 410 390	1 816 928 641
(-) Property tax	-21 524 995	0	-4 304 999	-4 304 999	-4 304 999	-4 304 999	-4 304 999
(-) Corporate tax paid during year	-260 538 068	0	0	0	0	0	-260 538 068
Post Tax CF	901 685 936	-704 297 833	2 286 276	9 454 075	17 052 452	25 105 391	1 552 085 575

GAV Build-up	2020E	2021F	2022F	2023F	2024F	2025F
NOI	55 964 987	58 712 658	65 260 537	72 238 995	79 672 013	87 584 806
Exit cap rate	3,25%	3,25%	3,25%	3,25%	3,25%	3,25%
GAV, Hotel	1 721 999 592	1 806 543 324	2 008 016 533	2 222 738 294	2 451 446 558	2 694 917 122
Growth		4,91%	11,15%	10,69%	10,29%	9,93%

6.3 Final purchase price - Amaranten property

6.3.1 Sensitivity analysis:

Hotel case returns:

The returns state a final purchase price of 1,485 million SEK. However, the entry valuation is estimated to 1,523 million SEK, but a CAPEX reduction is estimated of 50%, reducing the entry valuation by 38 million. The total CAPEX amount of 76 million SEK is an estimation of the investments and as the final additional purchase price agreements could not be disclosed for the actual transaction, it estimated to be equally split by both parts. The unlevered returns of the investment case amount to 13.10% and including both construction and stable financing, the pre-tax levered returns amount to 24.07%.

IRR sensitivity – Hotel case:

As expected, the strongest drivers of the IRR are the yield, leverage, and the occupancy. In the scenarios, returns are heavily impacted subject to the actual outcome. An exit yield of 5.0% instead of assumed 4.5% would alter the IRR return by 3.4 percentage points. Other drivers, such as OPEX, ADR and CAPEX assumptions are still within the acceptable range of fund returns of 17-18%.

ADR, entry	ADR, exit					
		1221	1271	1321	1371	1421
	889	17,5%	18,1%	18,6%	19,1%	19,6%
	939	17,5%	18,1%	18,8%	19,1%	19,6%
	989	17,9%	18,4%	19,0%	19,4%	19,9%
	1039	18,0%	18,5%	19,2%	19,5%	20,0%
	1089	18,4%	18,9%	19,4%	19,9%	20,4%

OPEX, entry	OPEX, exit					
		-216	-191	-166	-141	-116
	-100	18,3%	18,4%	18,5%	18,7%	18,8%
	-125	18,5%	18,6%	18,7%	18,9%	19,0%
	-150	18,7%	18,8%	19,0%	19,1%	19,2%
	-175	18,9%	19,0%	19,2%	19,3%	19,4%
	-200	19,1%	19,2%	19,4%	19,5%	19,6%

Entry yield	Exit yield					
		5,00%	4,75%	4,50%	4,25%	4,00%
	4,00%	10,6%	12,3%	14,1%	15,9%	17,9%
	4,25%	13,2%	14,8%	16,6%	18,4%	20,4%
	4,50%	15,6%	17,2%	19,0%	20,8%	22,7%
	4,75%	17,9%	19,5%	21,2%	23,0%	24,9%
	5,00%	20,0%	21,7%	23,4%	25,2%	27,1%

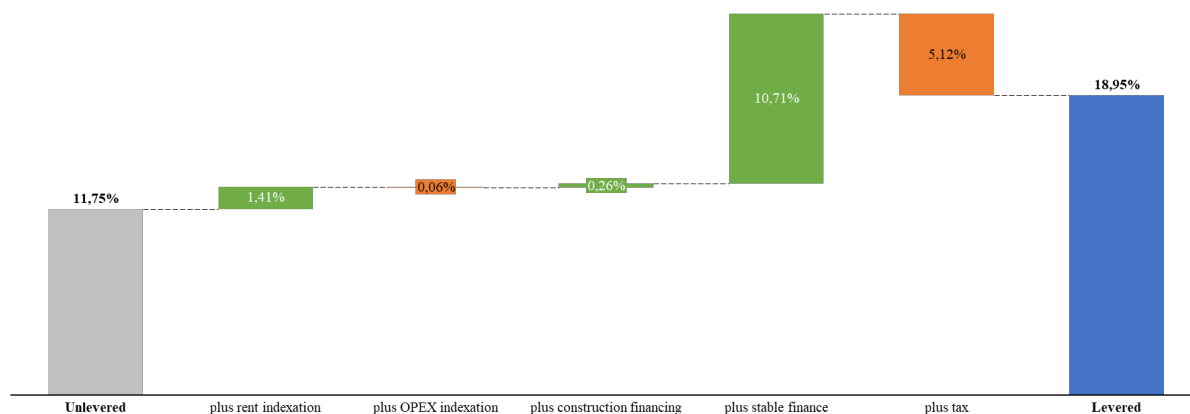
Occupancy, entry	Occupancy, exit					
		50%	60%	70%	80%	90%
	30%	9,0%	9,0%	19,0%	20,8%	22,5%
	40%	9,0%	9,0%	19,0%	20,8%	22,5%
	50%	9,0%	9,0%	19,0%	20,8%	22,5%
	60%	9,0%	9,0%	19,0%	20,8%	22,5%
	70%	9,0%	9,0%	19,0%	20,8%	22,5%

CAPEX, HVAC	CAPEX, Floor 6-7					
		8000	8500	8000	7500	7000
	3000	18,8%	18,8%	18,8%	18,8%	18,8%
	2500	18,9%	18,8%	18,9%	18,9%	18,9%
	2000	19,0%	18,9%	19,0%	19,0%	19,0%
	1500	19,0%	19,0%	19,0%	19,1%	19,1%
	1000	19,1%	19,1%	19,1%	19,1%	19,1%

LTC	LTV					
		50%	55%	60%	65%	70%
	50%	16,4%	17,5%	18,8%	20,4%	22,4%
	55%	16,4%	17,6%	18,9%	20,5%	22,5%
	60%	16,5%	17,6%	19,0%	20,6%	22,6%
	65%	16,5%	17,7%	19,0%	20,7%	22,7%
	70%	16,6%	17,7%	19,1%	20,8%	22,8%

IRR build up – Hotel case:

The value bridge visualises what drives the IRR. The unlevered return is 11.75%, and as expected, a significant part (10.71%) of the returns is contributed by the leverage of 60%.



Office case returns:

The returns state a final purchase price of 1,437 million SEK. However, the entry valuation is estimated to 1,722 million SEK. The CAPEX of the conversion case is substantial, estimated to amount to a total of 285 million SEK, fully carried by the acquirer in contrast to the hotel case. As such the total CAPEX amount is deducted from the proposed purchase price to be comparable to the hotel scenario. The unlevered returns of the investment case amount to 12.83%, including both construction and stable financing, the pre-tax levered returns amount to 22.27%.

IRR sensitivity – Office case:

As expected, the strongest driver of the IRR is the yield, leverage, and the occupancy. In contrast to the hotel base case, the rent imposes a significant driver and impact on the IRR returns as the rent does not include a base rent in the same extent as for the hotel. An exit yield of 2.75% instead of the assumed 3.25% would alter the IRR return by 4.6 percentage points.

Office rent per sqm, entry	Office rent per sqm, exit					
		6694	6894	7094	7294	7494
	5375	14,2%	15,2%	16,1%	17,0%	17,9%
	5575	15,3%	16,2%	17,2%	18,0%	18,9%
	5775	16,3%	17,3%	18,2%	19,1%	20,0%
	5975	17,4%	18,4%	19,3%	20,2%	21,1%
	6175	18,6%	19,5%	20,4%	21,3%	22,2%

Entry yield	Exit yield					
		2,75%	3,00%	3,25%	3,50%	3,75%
	2,75%	7,0%	9,3%	11,8%	14,4%	17,2%
	3,00%	10,5%	12,8%	15,1%	17,7%	20,5%
	3,25%	13,6%	15,9%	18,2%	20,7%	23,5%
	3,50%	16,5%	18,7%	21,0%	23,5%	26,3%
	3,75%	19,2%	21,4%	23,7%	26,1%	28,8%

Occupancy, entry	Occupancy, exit					
		80%	85%	90%	95%	100%
	60%	20,2%	22,1%	23,9%	25,6%	27,2%
	65%	17,2%	19,1%	20,9%	22,7%	24,3%
	70%	14,4%	16,4%	18,2%	19,9%	21,6%
	75%	11,8%	13,8%	15,6%	17,4%	19,1%
	80%	9,3%	11,3%	13,2%	15,0%	16,7%

OPEX, entry	OPEX, exit					
		-116	-141	-166	-191	-216
	-100	17,5%	17,6%	17,8%	17,9%	18,0%
	-125	17,7%	17,8%	18,0%	18,1%	18,3%
	-150	17,9%	18,1%	18,2%	18,4%	18,5%
	-175	18,1%	18,3%	18,4%	18,6%	18,7%
	-200	18,4%	18,5%	18,7%	18,8%	19,0%

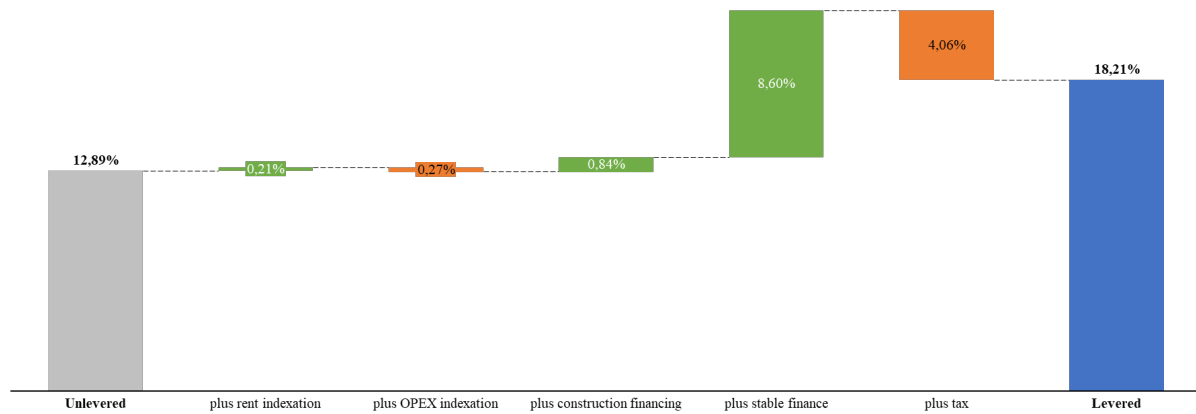
Entry yield	Office rent per sqm, entry					
		5375	5575	5775	5975	6175
	2,75%	17,1%	17,2%	17,2%	17,2%	17,3%
	3,00%	17,6%	17,7%	17,7%	17,7%	17,8%
	3,25%	18,1%	18,2%	18,2%	18,2%	18,3%
	3,50%	18,6%	18,7%	18,7%	18,8%	18,8%
	3,75%	19,1%	19,2%	19,2%	19,3%	19,3%

Exit yield	Office rent per sqm, exit					
		6694	6894	7094	7294	7494
	2,75%	11,7%	12,7%	13,6%	14,6%	15,4%
	3,00%	14,0%	14,9%	15,9%	16,8%	17,6%
	3,25%	16,3%	17,3%	18,2%	19,1%	20,0%
	3,50%	18,9%	19,8%	20,7%	21,6%	22,5%
	3,75%	21,6%	22,6%	23,5%	24,4%	25,2%

LTC	LTV					
		50%	55%	60%	65%	70%
	50%	16,0%	16,8%	17,8%	18,9%	20,2%
	55%	16,1%	17,0%	18,0%	19,2%	20,5%
	60%	16,3%	17,2%	18,2%	19,4%	20,8%
	65%	16,5%	17,4%	18,4%	19,7%	21,1%
	70%	16,6%	17,6%	18,7%	19,9%	21,4%

IRR build up – Office case:

The value bridge visualises what drivers are mostly building up the IRR returns. As seen, the unlevered return is 12.89%, and as expected, a significant part (8.60%) of the returns is contributed by the high leverage of 60%.



7 Discussion

7.1 Valuation bias and inaccuracy implications

The difficulty of real estate transactions, but even more so hotel transactions, is apparent by simply looking at comparable transactions and operations. Millington and Ratcliff discuss the issues the characteristics of the property market entail. These issues are in fact even greater in the hotel market as sales of hotels are more infrequent, operations often undisclosed and the heterogeneity of hotels themselves result in the set of comparables largely differing regarding sales price, rent levels, occupancy and more. This in turn makes hotel valuations more insecure in terms of reliability as small adjustments but also subjective decisions regarding which data to include affects the result to an extreme degree. Havard goes as far as stating that in a sluggish or inactive market a valuer must rely on secondary evidence which in a sense is true for the Amaranten transaction, e.g. using an unique approach of valuating the property both according to the base case strategy of a hotel, but also as an office conversion case in the event of a long-term negative effect on the hotel operations due to the Covid-19 outbreak.

Wyatt discussed standardisation in regard to how conflicting and interrelated frameworks used to value an asset combined with appraisers' individual characteristics influence the valuation. In this case however standardisation becomes an even greater issue as the market uncertainty revolving the transaction is unprecedented. Not only is there insufficient data regarding the transaction but there are few frameworks on how to adjust for such a specific event as Covid-19. Moreover, individuals' own characteristics will certainly be even more volatile in such a situation, which could be witnessed in the Amaranten transaction, e.g. trusting external stakeholders and unique views from advisors and government officials regarding the Covid-19 expected bounce back and vaccine development. In short Wyatt's theories revolving valuation bias due to standardisation is even more apparent in the Amaranten transaction, both due to unique asset and unique market circumstance.

Levy, Schuck and Gallimore discuss client pressure and its influence on valuation. For NREP one can argue that what Levy, Schuck and Gallimore define as clients can be applied as the investors in the NSF IV fund. As such there is constant client pressure in every fund and transaction. As discussed in the case, NREP in comparison to other investment companies mitigate the client pressure in several ways, both through their discretionary mandate model and by being a private company resulting in more lenient reporting and communication regarding decisions they make. Some pressure however can be witnessed in the Amaranten transaction both internally as NREP involved every IC member throughout the process and also by the co-investment of which was largely occurring as a result of the investors/clients limiting the exposure to the hotel transaction and in a way pressuring NREP to not expose themselves fully to the hotel market. This correlates somewhat to NREP's familiarity to the market which according to Rushmore, Bretten and Wyatt can cause valuation inaccuracies. The authors discuss the "type of property" as a basis for inaccuracy and this is very much the case for NREP as it is their first transaction in the hotel market. To mitigate the effect of less prior experience NREP hired more consultants and involved more senior staff than in a regular transaction, as such NREP were likely not set back by this to a large extent as they can very much source and analyse the required information.

Not only are there strong forces affecting valuation inaccuracy but also forces affecting valuation bias. One such force is recency bias where Gallimore discovered a tendency to rely too much on recent data. Quan, Quigley and Geltner later built upon this stating that in times of high market uncertainty valuers can rely too heavily on previous value estimates. This statement is especially true for NREP as they based their initial bid on a previous estimate. It is therefore likely that the firm was somewhat biased from the previous valuation throughout the transaction process and heavily influenced by it. Diaz and Wolverton go further in stating that commercial appraisers are typically the ones prone to make insufficient adjustments to prior valuations whether NREP made insufficient adjustments or that the situation with Covid-19 was unprecedented remains unclear.

Ultimately though valuation accuracy presumes a possible exact price. However, until there is a transaction there is no market price. When the market price is discovered through a transaction, the transaction process in itself is a continuous process adding new information and inputs. In other words, valuation of illiquid assets can never precisely predict market prices.

7.2 Implications of the Covid-19 outbreak and market characteristics

There are two main factors that may be beneficial to the Swedish hospitality industry and favour a quicker recoil to pre-Covid-19 levels relative to other countries. The first factor is that historically, the Swedish hotel industry has been one of the countries with highest dependence on domestic traveling. Around 75% of all booked hotel nights in Sweden are contributed to domestic travelling – in comparison to <50% in the rest of Europe, putting the Swedish hotel segment less dependent on international traveling, which in the wake of the Covid-19 outbreak forecasts the Swedish hotel segment to a quicker recovery and stabilization of revenues. If domestic travelling is recovered earlier than international travels, countries with a larger share of domestic guest nights will be favoured.

The second factor considers the quota of foreign to domestic hotel nights per country. Sweden is in a favourable position with one of the lowest quotas in the EU. If international tourism recovers at a slow pace, it will take a long time for international tourism to revert to pre-Covid-19 levels. A situation like this would imply a larger demand of domestic guests' nights as foreign travelling is replaced by domestic. In 2018, the share of hotel nights Swedes spent in other European countries was more than double the amount to foreign hotel nights in Sweden, which was the second highest in the EU with a quota of 0.43. The over representation of foreign hotel nights creates a situation where travel restrictions may result in a positive effect for domestic travelling, benefitting the domestic hotel operators.

Ultimately, Sweden are relatively self-sufficient in number of hotel nights and the travel restrictions will result in Swedes not being able to travel outside Sweden, which will potentially further increase domestic travel within Sweden and mitigate the effect of Covid-19.

How the total implications on the hotel sector plays out is dependent on how long-lasting the outbreak is and how countries react regarding lockdowns and travel restrictions. Furthermore, the risk of a second wave late 2020 may imply a further threat as travel restrictions may be taken into action once again. To mitigate the short-term negative demand shock, the Swedish government has directed economic stimulus packages to synthetically stimulate the domestic economy, and specifically the industries mostly affected, e.g., rental easements towards property owners with tenants heavily affected by the pandemic which in this case most likely includes the operations of Amaranten.

Nevertheless, the pre Covid-19 hotel market characteristics were well suited to the offering Amaranten proposes. Very apt to lifestyle guests, almost unrivalled regarding communications, spa offering in-house, very close to almost all tourist attractions and at a feasible price point. Prior to Covid-19 the Swedish hotel market was extremely robust exceeding 70% occupancy every year between 2015-2019, compared to only exceeding 70% six times between 1980-2014. This stable trend and the increasing shift toward lifestyle guests cannot be neglected despite the current market circumstance.

7.3 Evaluation of NREP's final purchase price

The model is based on two separate cases, one valuation model for the base case, hotel scenario, and one valuation model for the alternative case, office conversion scenario. In accordance with the information emerging from the interviews with the NREP investment team, the acquisition of Amaranten property is based on a final valuation triangulated based on both these scenarios, to make the investment satisfy the return requirements set by the acquiring NSF IV fund, independently whether a conversion towards office would be necessary in case of a downturn in the hotel segment. The rationale behind this is to mitigate both the market risk, exposed due to the Covid-19 outbreak as well as the fact NREP has no previous experience of hotel properties, in contrast to their vast experience of the office segment. Based on the valuation model, the hotel case valuation amounts to a final purchase value of 1,485 million SEK and the office case valuation amounts to a final purchase value of 1,437 million SEK.

Evaluation between scenarios:

An important note to bring forward is the fact the office valuation both at point of entry and exit, yields a higher property value compared to the hotel case. This is in accordance with the market information acquired and presented in the early stage of the thesis and is a direct consequence of the overall high market value of office buildings due to a long-term high rent level and occupancy rates experienced during recent years in Stockholm CBD. Furthermore, this is explained to be one of the underlying factors resulting in the low degree of hotel properties in Stockholm CBD, as the high valuation of office buildings has led to conversions and new supply to favour office properties. However, in this case, Amaranten is currently a fully operating hotel building, and the alternative investment, to convert to an office building, implied a significant CAPEX investment need which had to be deducted from the actual purchase value, which in the end resulted in a larger purchasing value for the hotel case.

Another interesting aspect in the final valuation is the larger NPV for the office case (1,329 million) in comparison to the hotel case (1,159 million), which would suggest the office case to be a more attractive investment. However, as NSF IV is a fund highly focused on IRR-based returns, the timing factor of the cashflows are of great importance to the attractiveness of the investment, and the early and significant CAPEX investment in the conversion case impacts the IRR returns significantly, and the less CAPEX intense investment case of the hotel acquisition is more favourable in this aspect. In addition, the conversion case requires a downtime, implying an increased risk profile (construction and letting risk) and limits the early cash flows further due to a period without rental income for the property.

Hotel case		Office case	
Present value NOI	479 681 837	Present value NOI	363 165 588
Present value TI	-5 072 388	Present value TI	-3 853 755
Present value CAPEX	-76 135 500	Present value CAPEX	-284 542 000
Present value Acquisition	-1 484 642 250	Present value Acquisition	-1 437 457 592
Present value Divestment	2 245 085 367	Present value Divestment	2 691 400 883
NPV	1 158 917 066	NPV	1 328 713 123

7.4 Final Discussion

Considering the market environment and special circumstances of the transaction, one could argue that NREP did not receive the hotel at a discount. In fact, they paid a fair market price with certain advisors even suggesting a steep price, which was also witnessed in the valuation section and especially in the transactional and operational comparables. On the other hand, although Covid-19 did not diminish the price it was however the reason the transaction was possible at all. Through Covid-19 a very seldom traded asset was up for sale and NREP acquired the opportunity to enter a new segment. The location of the hotel is unique both through its proximity to the central station and the central business district. Although conditions regarding the purchase price might not have been extremely favourable, mitigations of the current market circumstances most certainly were. With Nordic Choice being the second largest operator in Sweden and exhibiting a strong balance sheet, NREP mitigates the tenant risk to some extent in an otherwise uncertain market. With a fixed rent component being stable, the upside of the transaction lies within the variable rental component. Challenging hotel market conditions, suffering from a severe decline in occupancy and revenue is still a risk, however, it is a calculated risk where even semi-bear case ADR scenarios yields sufficient IRR returns. NREP are fully aware of potential medium- and long-term effects following the Covid-19 outbreak both regarding second and third waves but also long-term demand for hotels and travel in the future, as tourism patterns may change permanently and has a calculated fall-back option through the office scenario.

8 Conclusion

By acquiring Clarion Hotel Amaranten NREP diversified their portfolio holding and received access to a unique asset with a solid tenant which would generate instant cash flows. The market turmoil had a significant effect on the transaction both regarding deal structure and process. The process was executed quickly and in unprecedented fashion. The asset would not have been for sale if it weren't for Covid-19. Furthermore, the possibility of an office conversion was a vital component of the deal structure to hedge against Covid-19 implications. Although the purchase price was high especially in comparison to comparable assets and pre Covid-19 prices, the final purchase price can be considered legitimised from a returns standpoint as the transaction yields a somewhat higher IRR than the funds target. The conversion case legitimises NREPs decision further by acting as a natural hedge in case of a stagnant hotel market with the returns of the bear case remaining near the same level as calculated in the base case scenario.

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10 Appendix

10.1 Glossary

Concept	Definition
4 th Nordic Strategy Fund (NSF IV)	Buyer of Amaranten property.
Average Daily Rate (ADR)	The average fee charged per room in a hotel.
Building Management System (BMS)	Computer-based control system installed in buildings.
Capital Expenditures (CAPEX)	Funds used to upgrade or maintain quality of physical assets.
Central business area (CBD)	Most attractive area in city for commercial real estate.
Development and Incubation (D&I)	Team responsible for acquisition of Amaranten.
Furnitures, fixtures and equipment (FF&E)	A cost component regarding fixed assets in hotel operations.
Heating Ventilation Air-Condition (HVAC)	System for indoor environmental comfort.
Investment Committee (IC)	Board responsible of approving NREP's investments.
Letter of Intent (LOI)	Document declaring the preliminary commitment between parties.
Limited Partners (LP)	Investors of fund, in this case NSF IV.
Loan-to-Value (LTV)	Ratio of a loan to the value of an asset purchased. (Standing)
Loan-to-Construction (LTC)	Ratio of a loan to the value of CAPEX needed. (Construction)
Net Leasable Area (NLA)	The floor space that may be rented to tenants in a building.
Non-Disclosure-Agreement (NDA)	Legal contract outlining confidential material.
Nordic Real Estate Partners (NREP)	Management company and owner of NSF IV fund.
Revenue per available room (RevPAR)	The combined average revenue for all rooms in a hotel.
Strawberry Properties	Previous owner and seller of Amaranten property.
Weighted Average Unexpired Lease Term (WAULT)	Weighted average unexpired lease term.

10.2 Valuation assumptions

Leverage assumptions – Hotel case

Leverage assumptions – Hotel case

Taxation value	742 321 125	Note: Assumes taxation value of 50% of acquisition value
Property tax 426	0,5%	Note: Assumes Office property tax
Corporate Tax	20,6%	
Loan to value	60,0%	Note: LTV on purchase price
Loan to construction	60,0%	Note: LTV on purchase price
Debt issued, stable	890 785 350	Note: Assumed LTV x purchase value
Amortization rate, stable	2,0%	Note: Assuming flat amortization rate
Debt issued, constr.	45 681 300	Note: Assumed debt financing of expansion
Amortization rate, constr.	2,0%	Note: Assuming flat amortization rate
Repo rate	1,0%	Note: Assumed 0% repo rate coming years
Spread/margin	2,0%	Note: Assumed 2% spread/margin

Leverage assumptions – Office case

Leverage assumptions – Office case

Taxation value	860 999 796	Note: Assumes taxation value of 50% of acquisition value
Property tax 426	0,5%	Note: Assumes Office property tax
Corporate Tax	20,6%	
Loan to value	60,0%	Note: LTV on purchase price
Loan to construction	60,0%	Note: LTV on purchase price
Debt issued, stable	862 474 555	Note: Assumed LTV x purchase value
Amortization rate, stable	2,0%	Note: Assuming flat amortization rate
Debt issued, constr.	170 725 200	Note: Assumed debt financing of expansion
Amortization rate, constr.	2,0%	Note: Assuming flat amortization rate
Repo rate	1,0%	Note: Assumed 0% repo rate coming years
Spread/margin	2,0%	Note: Assumed 2% spread/margin