



Financial due diligence in Real Estate

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The new environment

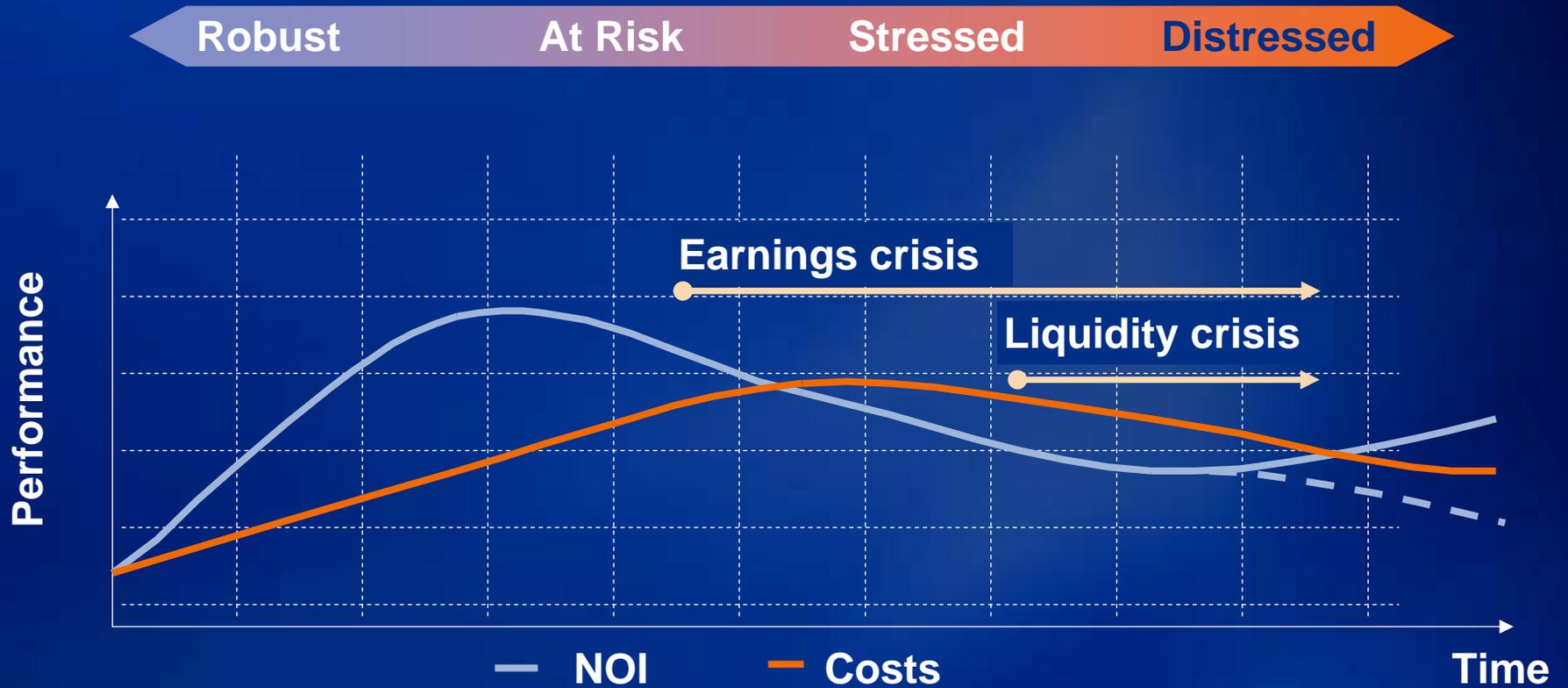
Key features

- **Uncertainty, low forward visibility**
- **Falling rent rates**
- **Vacancies**
- **Yields and cap rates rise**
- **Buyers' market**
- **Distressed sales (not yet?)**
- **Debt defaults**

Impact on M&A, DD

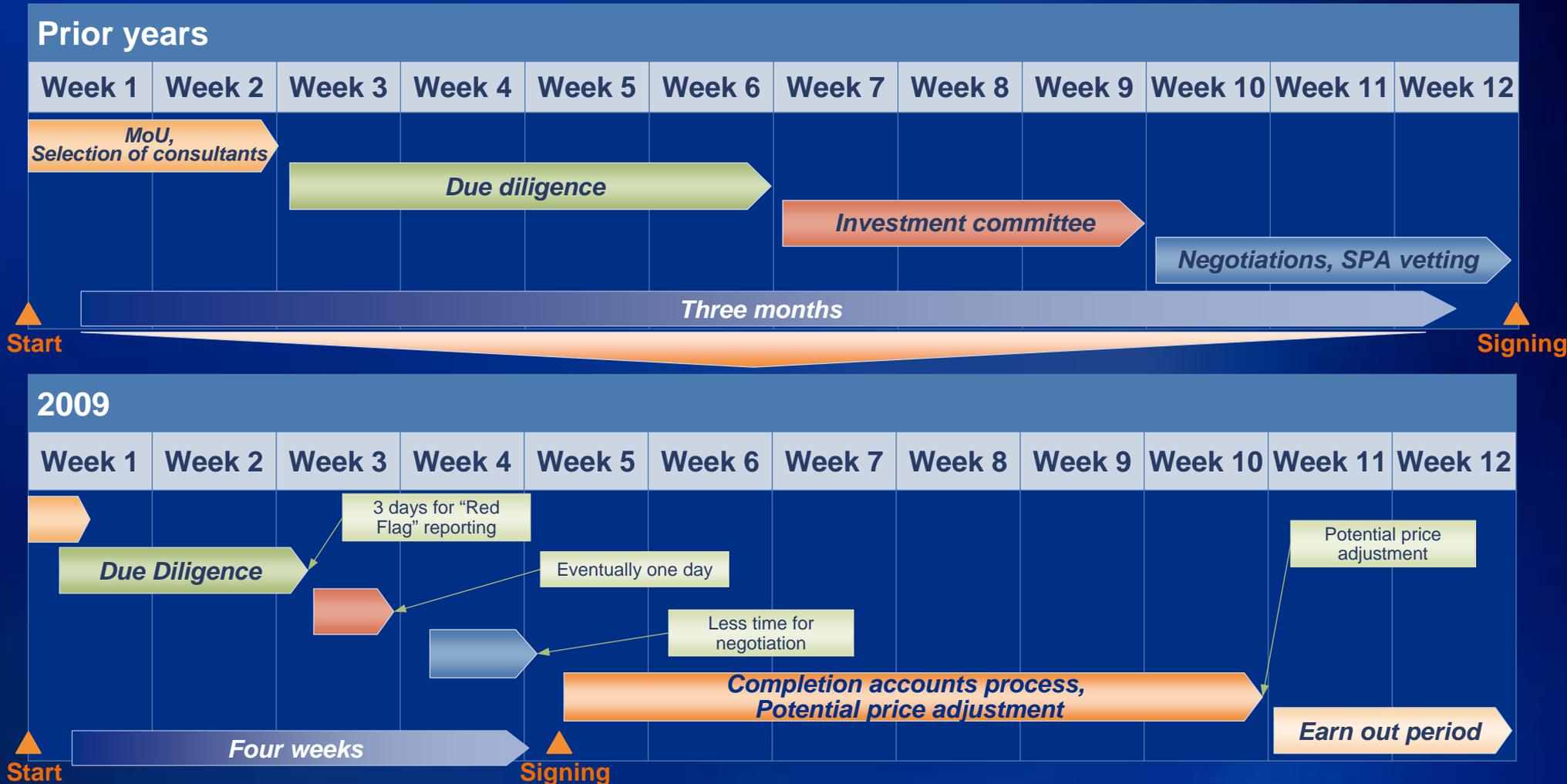
- **Falling valuations**
- **M&A volume drop-off (buyers waiting)**
- **Accelerated deal processes**
- **Changes in deal structuring**
- **Focus on fundamentals**
- **Short-term position, controls**
- **Less reliance on projections**
- **Counterparty risks**
- **Market, commercial DD**
- **Seller to pay for transaction costs**

Timing



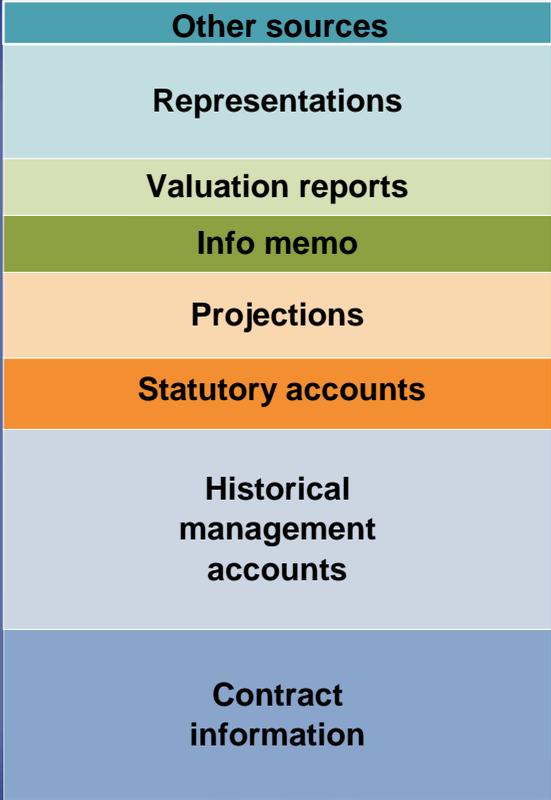
Where is management's perception...

Due diligence timeline

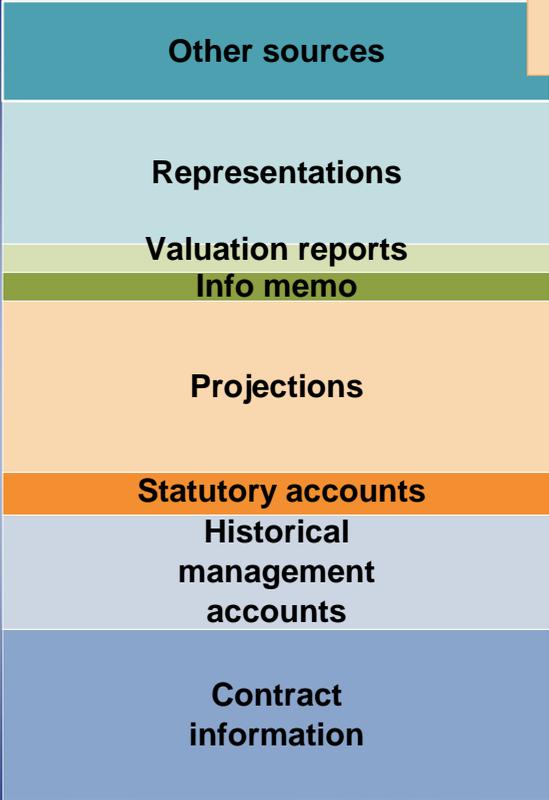


Sources of information

Prior years

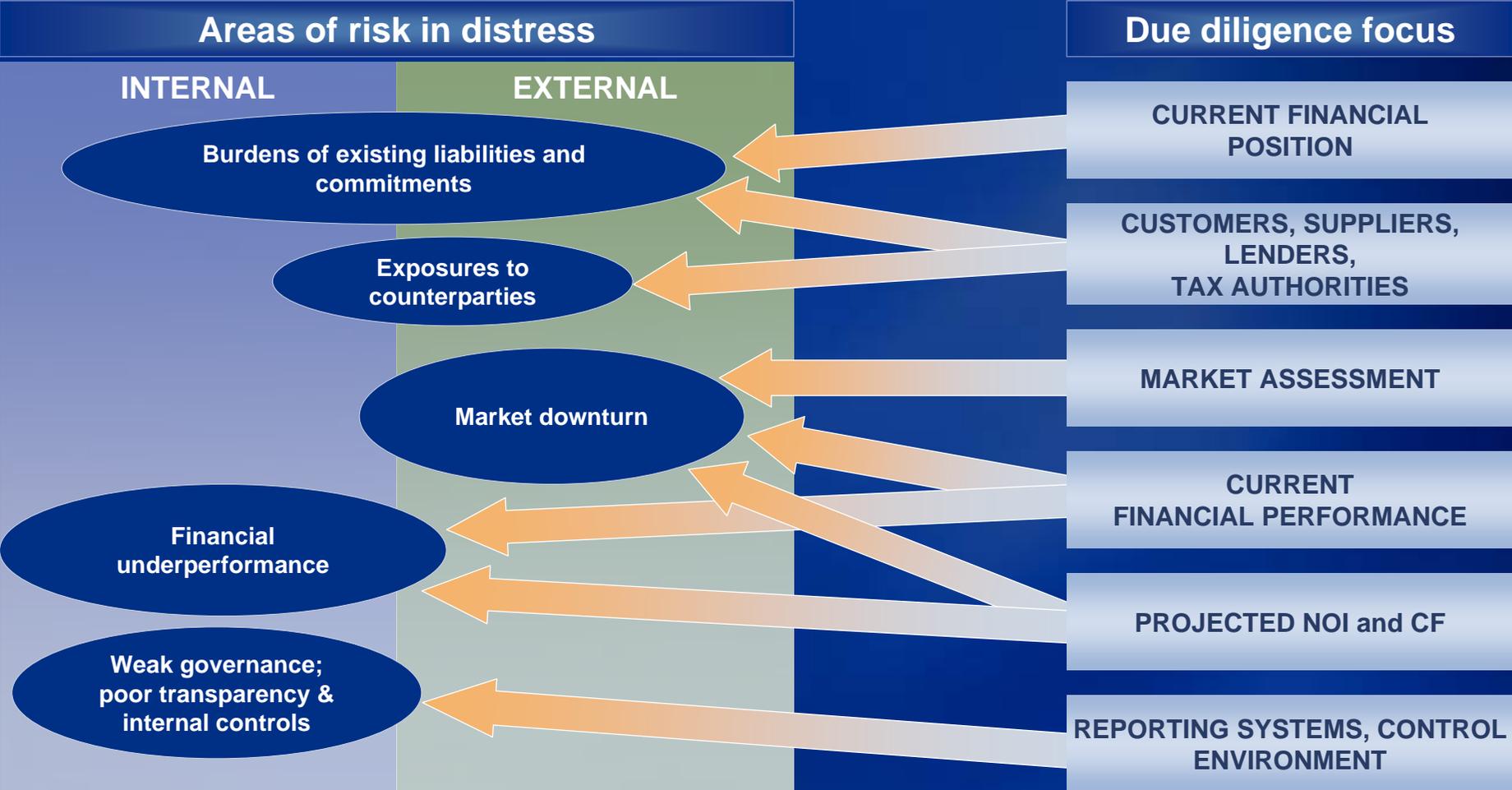


2009



Increased focus on projected NOI and other sources (e.g. expert opinions)

Areas of focus in distress

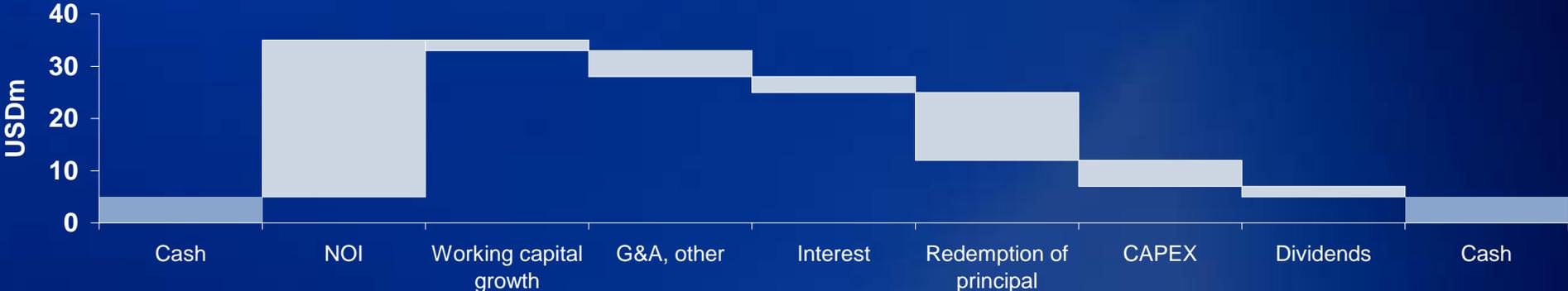


Issues to address

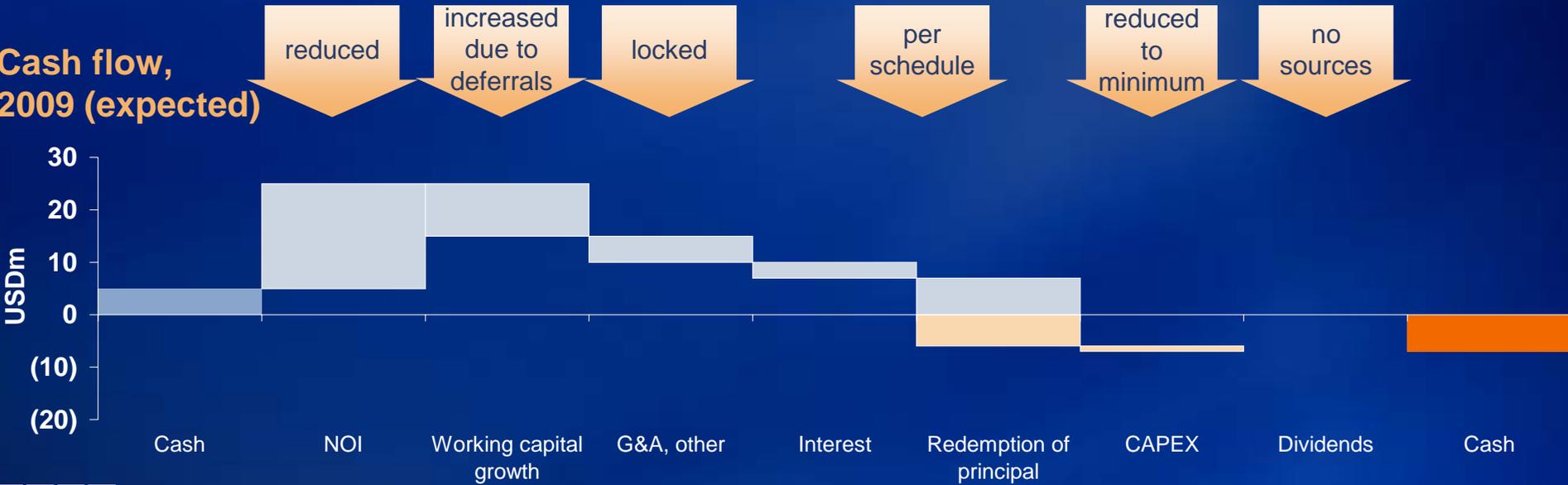
Issue	Observation	Focus
Falling NOI	<ul style="list-style-type: none">● Vacancies● Renegotiated rents● Rouble rates, no indexation	<ul style="list-style-type: none">● Quality of asset● Long term quality tenants● Proper payment terms
Working Capital & Cash management	<ul style="list-style-type: none">● Liquidity problems● Delays in payments	<ul style="list-style-type: none">● Review payment terms and pattern● Cash and working capital optimization
Financing	<ul style="list-style-type: none">● Falling pledge values● Delays and defaults● Compliance with covenants	<ul style="list-style-type: none">● Payment schedule vs. cash flow forecast● Plan B for refinancing

Changes in cash flow

Illustrative cash flow prior years



Cash flow, 2009 (expected)



Outlook

- **2009 could see:**
 - many defaults and restructurings
 - valuations falling further – and bottoming out?
 - banks and creditors becoming active in promoting workout solutions
 - non-core asset disposals
 - private equity and cash-rich investors to move in
 - more asset (instead of share) deals
 - sale and lease back
 - share swaps with funds
 - transaction disputes

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