

Shareholders letter July 2022

The second quarter of 2022 has shown clear tendencies that the real estate market is moving towards more challenging times. The recovery from the pandemic was just beginning to show in the Spanish market when Russia's horrific invasion of Ukraine began. Increased energy prices, reduced production capacity and delivery problems have during the pandemic years led to cost increases in most areas, not least the construction sector. The war has further diluted these price increases for energy and building materials such as steel, concrete and wood, which hit extremely hard. In addition, we see high inflation both in Europe and in the US, which has led to inevitable interest rate increases, which of course have a major impact on the real estate market. The effect of more expensive financing combined with high production costs is already visible in several markets in Europe, such as the Swedish one, which have slowed down significantly and prices have fallen for new production. No direct price drop is yet to be seen in Malaga or the Costa del Sol, and the tourist season is predicted to be the strongest ever, partly of course an effect of a pent-up need to travel after years of Covid restrictions. However, the transaction market based in Madrid is seeing a decline in demand, or perhaps better described a more restrictive buyer. Although today we cannot see the powerful decline as we see in Sweden or northern Europe, Malaga and the sunny coast will reasonably be affected to some extent, presumably with fewer projects being started and fewer transactions being completed. However, this also means opportunities for companies that have access to capital.

In stormy times, for a property company, it is usually about a couple of fundamental things to stand firm until the wind dies down: a property portfolio in good locations, a good financing structure and reasonable fixed costs. Classic Living as a small housing developer without its own cash flow is of course very sensitive to all the market conditions mentioned above, and even though we have had challenges with very high financial costs so far, we are convinced that we have a reasonable risk profile with projects in the "right" locations and that we going forward we are in a market to grow in. During the spring, several companies, many with a Tech orientation, presented plans to establish themselves or expand their operations in Malaga. In July, Ernst & Young announced that they intend to hire an additional 1,500 people in addition to the 500 who have worked at the Techparken since their establishment there in 2019. Earlier in the year, Vodafone also announced that they intend to hire 600 new people for a new research and development hub and Google is to complete its cyber security center in the middle of the city. All cite reasons such as access to trained staff, logistics and quality of life as some of the main reasons. The tendency is that young, educated people can forgo salary if they can instead get a better quality of life, and this is what these companies see that Malaga can offer. If we in Classic Living succeed in building a healthy company with projects and properties in good locations, we are convinced that Malaga is the right place to be.

During the spring, our goal has been to use added capital to transform expensive financing, complete the six apartments in the Huerto del Conde project, and start the projects that have building permits. We are currently evaluating construction and financing offers for three of our projects, Las Mercedes, Álamos and Mosquera. It has taken longer than we had hoped for, but has been affected by what has happened in the market where both banks and construction companies have had difficulty calculating and offering fixed quotes. Given that nothing further happens in the market, we will start construction of these projects during the summer or early fall. During the spring, we also decided to keep the Huerto del Conde property until further notice and rent it out on the short-term market via, for example, Airbnb. The assessment is that prices for these central properties inside Malaga have not peaked, and we believe that in the meantime we can get a reasonable cash flow through short-term lettings. We have also started winding down Classic Living Estates, our small brokerage unit. It has not been a priority issue, but then our only employed broker

chose to change employers, it has been natural to wind down this branch. Classic Living's core business is real estate development and we look positively on refining it.

During the spring, we also evaluated a number of other projects and transactions and have now made an offer for a slightly larger area of land in a good location in Malaga. We will return if this becomes relevant in the future. In order for Classic Living to be able to grow and at the same time optimize our projects, we need to expand the organization with project competence, which is why we are looking at hiring two people during the autumn.

Despite unpleasant political fluctuations in the world and darker clouds in the real estate sky, the sun is shining in Malaga today. I am convinced that there are many of us who follow what is happening in the world, with some despair over the abuse that is taking place in Ukraine and the human and economic consequences it has had as a result, but also some hope that the world seems to be recovering itself after the Covid years. So far, no one can predict what will happen either in the real estate market or in the European, let alone the global economy, nor despotic political agendas that can quickly change conditions. We can hope for a more tangible and stabilized situation in the autumn. Until then, I wish you a relaxing and nice summer with your loved ones!

Happy summer!

Pernilla Claesson
VD

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Classic Living

Classic Living is a Swedish public limited company, which develops attractive accommodation on the Spanish sunny coast, with a focus on Malaga. The company is based in Stockholm and the head office of the operation's Spanish parent company, Classic Living & Development SL, is in Malaga.