

# MARKET VALUATION INDICATION

Market Value Indication of a portfolio of 33 properties (economic units) located in the federal states Hamburg, Schleswig-Holstein and Niedersachsen, Germany.



The pictures were taken during the object inspections (05.12. to 13.12.2017) for the last full Market Value assessment.

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## 2. General

### 2.1 Valuer

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### 2.2 Client

MC Property Fund Hamburg GmbH  
Am Fördeufer 4  
D-24944 Flensburg  
Germany

### 2.3 Purpose of Valuation

This Market Value Indication is prepared only for accounting purposes of the client.

### 2.4 Identification of the assets

Subject of this valuation are the properties of MC Property Fund Hamburg GmbH listed in the given rent roll, dated 15<sup>th</sup> November 2020. The 33 properties (economic units) are located in the federal states of Schleswig Holstein, Lower Saxony and the Free and Hanseatic city of Hamburg in Germany.

### 2.5 Basis of market value indication

FA/KT Valuation Chartered Surveyors (further mentioned as FA/KT) has been instructed by MC Property Fund Hamburg GmbH (further mentioned as MCPF Hamburg) to carry out the valuation of the market value of the investment properties as listed in the expert contract dated 25<sup>th</sup> and 28<sup>th</sup> September 2020.

### 2.6 Valuation date

Date of valuation is the 31<sup>st</sup> December 2020.

### 2.7 Use of the portfolio properties

The portfolio properties are commercial, residential and mixed-use properties.

## 2.8 Special note

With regard to the current developments concerning the coronavirus (COVID-19), reference should be made to the legal definition of the term "fair value" according to IVS 104, according to which fair values are to be determined in the context of an arm's length transaction". As of the reporting date, speculative and imaginary reductions in value are not currently reported. In the present fair value calculation, it is assumed that the market data used as a basis will market data can still be regarded as normal for the market.

With regard to the residential market, a stable market environment has been observed in the course of the pandemic to date. Detailed effects on the retail sector are not known, particularly in view of the current and possible further lockdowns.

In contrast to the previous value indication, the portfolio consists of 33 properties and no longer 44 properties. According to information provided by the asset manager, the three properties in Scheeßel, Schleswig and Winsen were sold in 2020 and are therefore no longer a valuation object. In addition, one property in Eutin and one property in Hohenlockstedt were sold in 2020 and are therefore also no longer included in the valuation. According to the client, the property in Mölln was sold at the beginning of 2021, so that it will no longer be part of the portfolio in the next valuation.

## 2.9 Extent of investigation

Basis for the present desktop valuation are the up-dated information provided by the client, the data, details and impressions obtained during on-site inspection in 2017 as they have been indicated in the Summary Valuation Report (date of valuation 31.12.2017) as well as the general economic factors influencing the value on the real estate market at the time the valuations relates to (valuation date).

Due to the fact that FA/KT has previously inspected the property (05.12. to 13.12.2017), and the client has confirmed that no material changes to the physical attributes of the property and the area in which it is situated have occurred, a revaluation without inspection was agreed.

## 3. Nature and sources of the information relied upon

### 3.1 Information provided by the client:

- Tenancy schedule, 12<sup>th</sup> November 2020
- rent roll, dated 15<sup>th</sup> November 2020
- Redevelopment and modernisation measurements (> 50 TEUR), dated 18.11.2020

We assume that the property information provided to us by the client is correct and complete as at the date of valuation. We assume that any documents not provided by the client have no impact on the market value indication.

### 3.2 Information provided by FA/KT Valuation:

- Market Reports regarding the commercial market in Germany
- Market Reports regarding the housing market in Northern Germany
- Market Reports regarding the purchasing power in Germany
- Market Reports regarding the demographic development in Germany
- Reports by the Chambers of Commerce and Industry in Schleswig-Holstein
- Statistical reports by the Statistical Office of Hamburg and Schleswig-Holstein
- Statistical reports by the Statistical Office of Lower Saxony
- Vonovia index development by [www.ariva.de](http://www.ariva.de)
- Vonovia intermediate report 3. Q. 2020
- Deutsche Wohnen intermediate report 3. Q. 2020
- TAG intermediate report 3. Q. 2020
- vdp property price index of 3. Q. 2020
- SWAP-Satz (EUR) 10 Jahre by [finanzen.handelsblatt.com](http://finanzen.handelsblatt.com)

## 4. Basis of the valuation

### 4.1 Valuation

The basis for the present market valuation indication are the data provided by the client as well as the general economic factors influencing the value on the real estate market at the time the valuations relates to (valuation date). The valuation has been carried out according to the Valuation Practice Statements (VPS 2) Inspections and investigations (12) Revaluation without inspection of the Red Book.

### 4.2 Assumptions and special assumptions

In this desktop valuation we assume, that the properties are in the same condition as they were at the last inspection in December 2017 and that there are no building defects and deficiencies or other circumstances who have got any impact on the market value.

### 4.3 Restrictions

#### 4.3.1 Copyright

The copyright to the expert opinion belongs to the surveyor without any limitations whatsoever. The client is exclusively entitled to make use of the expert opinion for the purposes agreed to in this contract. The expert opinion is exclusively intended for internal use by the client. The client is not entitled to make the expert opinion available to third parties in any form whatsoever, or to grant access to these documents. The client is not entitled to make alterations or amendments to the copyright-protected expert opinion.

#### 4.3.2 Intended Utilization

This market value indication compiled by FA/KT Valuation Chartered Surveyors on principle is only intended for the use indicated in the order. The data may only be passed on to third parties if FA/KT Valuation Chartered Surveyors has given written permission to do so.

### 4.4 Confirmation

In general, valuation is carried out according to the principles of the International Valuation Standards (IVS) setting by the International Valuation Standards Committee and the Appraisal and Valuation Standards setting by the Royal Institution of Chartered Surveyors. The approach is determined by the practices of the real estate market and the circumstances of the individual case. The basis for this is a market-oriented income capitalisation approach to valuation.

The valuation takes into account the respective market situation in the real estate segment according to the general economic factors influencing value, the local supply and demand situation, the fungibility of the valuation object etc. as well as other characteristics and conditions of the valuation subject, but always under consideration of the assumptions made in the report.

### 4.5 Market Value (indicative)

Our valuation has been carried out in accordance with the definition of Market Value relevant to international property valuations. The definition of Market Value is set by the International Valuation Standards Committee (International Valuation Standards IVS 2017) and adopted by the European Group of Valuers' Associations (European Valuation Standards, EVS 2016) as well as the Red Book of the Royal Institution of Chartered Surveyors (Appraisal and Valuation Standards 2017 edition). Therein the market value is defined as: "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

To specify that the present valuation is executed as revaluation without inspection and on desktop level only, the determined value is stated as market value indication.

#### 4.6 Valuation approach

As ordered, this assessment will determine the Market Value (indicative), using the Discounted-Cash-Flow procedure (DCF). We show the income less costs (cash-flow) for the first 10 years as per the key date of valuation, within the framework of calculations on the Discounted-Cash-Flow procedure. The cash flow of the last period is taken as basis for the division by the estimated cap rate. The cash-flows are discounted by the discount rate in arrear as per the key date of valuation and added. As a result of the DCF-method we will get the gross present value. After deduction of the transfer costs we will get to the net present value which corresponds to the Market Value (indicative).

#### 4.7 Liability

FA/KT Valuation Chartered Surveyors accepts liability in cases of malintent and of gross negligence on the part of FA/KT Valuation Chartered Surveyors or one of its representatives or vicarious agents, in accordance with the statutory regulations. Otherwise FA/KT Valuation Chartered Surveyors accepts liability only in accordance with the Product Liability Act "Produkthaftungsgesetz", due to injury to life and/or limb or to health, or due to culpable violation of essential contractual obligations. Claims for compensation for violation of essential contractual obligations is, however, limited to contract-typical, foreseeable damage. Liability on the part of FA/KT Valuation Chartered Surveyors is also limited of cases of negligence with respect to contract-typical, foreseeable damage. The liability of FA/KT Valuation Chartered Surveyors for cases of damage caused by negligence on our part or on the part of our vicarious agents, as well as for fault-unrelated claims in connection with this valuation-report commission is limited to 10% of the determined market value, though no more than a maximum total of € 2,500,000 (2 million, five hundred thousand Euros), for the properties cited in this valuation-report commission. The related commissioning of several valuation reports is regarded here as a single valuation-report commission. A single damage case also applies with respect to unified damage arising from several cases of breach of obligations, if the matters in question have a legal or commercial connection. The liability for slight negligence is excluded. The single valuation report of each property is part of a portfolio of 48 properties of MCPF in the federal states of Schleswig Holstein, Lower Saxony and the Free and Hanseatic city of Hamburg in Germany. Therefore the single valuation is related to the portfolio in joint liability.

#### 4.8 Principles of Valuation

The revaluation of the real estate is carried-out as desktop valuation based on information made available to the surveyor by the client. The client has confirmed that no material changes to the physical attributes of the property and the area in which it is situated have occurred.

The surveyor assumes that such information is complete and correct and that there are no unknown circumstances that exert an influence on the market value to be ascertained. In particular, the surveyor assumes that the figures indicated for lease area and for current rents, as shown on the rent rolls, are correct and that the methods employed for calculating the area correspond to those customarily employed for the type of real estate in question.

For purposes of the valuation it is presumed that the business on the premises to be evaluated, as on the valuation date specified by contract, will continue to exist, both in terms of type and extent, for the period of the remaining useful life of the building facilities, or that some comparable business will be available as the user.

Account is taken of rights, encumbrances and limitations only to the extent that these exert a recognizable influence on the value of the property to be surveyed and must therefore be given special consideration.

#### 4.9 Conflict of Interest

We confirm that FA/KT Valuation Chartered Surveyors have acted as independent surveyors and that we have no conflict of interest in acting on behalf of MCPF in this matter. We confirm that FA/KT Valuation Chartered Surveyors has no other financial relationship, or have had, with the borrower, its directors or the property.

## 5. Location

### 5.1 Schleswig-Holstein

Schleswig-Holstein is the northernmost German federal state. It is located between the North Sea and the Baltic Sea. Kiel Canal, the busiest man-made waterway in the world connects these two seas. Schleswig-Holstein is bordered in the north by Denmark, and by Mecklenburg-Western Pomerania and the Baltic in the east. To the south there are Hamburg and Lower Saxony and to the west the North Sea.

Schleswig-Holstein lies on the base of Jutland Peninsula between the North Sea and the Baltic Sea. Strictly speaking, "Schleswig" refers to the German Southern Schleswig, whereas Northern Schleswig is in Denmark. The state of Schleswig-Holstein further consists of Holstein as well as Lauenburg, and the formerly independent city of Lübeck. German is the official language, Low German, Danish and North Frisian enjoy legal protection or state promotion. Schleswig-Holstein is divided into 11 administrative districts.

For the state of Schleswig-Holstein, a positive demographic development of around 1.4% is expected between 2014 und 2030.

#### Bad Oldesloe

Bad Oldesloe is the district town of Stormarn in the south-east of the state of Schleswig-Holstein. Kiel, the capital of Schleswig-Holstein, is located about 60 km (linear distance) to the north.

The city of Oldesloe has about 24,700 inhabitants. This represents a population density of about 469 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population increase of 6.4% for the district of Stormarn between 2014 und 2030.

The motorways A21 and A1 run within the boundaries of Bad Oldesloe. The A1 leads southwest to Hamburg.

The macro location is assessed as above average due to its affiliation with the Hamburg Metropolitan Region and a good interregional connectivity.

#### Bad Segeberg

Bad Segeberg, the district town of Segeberg is in the center of the state of Schleswig-Holstein. Kiel, the capital of Schleswig-Holstein, is located about 45 km (linear distance) to the north.

With about 17,400 inhabitants, the city of Bad Segeberg has a population density of about 921 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population increase of 3.6% for the district of Segeberg between 2014 und 2030.

The motorway A21 runs through Bad Segeberg and leads south to the A1. The A1 leads southeast to Hamburg.

The macro location is assessed as above average due to its affiliation with the Hamburg Metropolitan Region and a good interregional connectivity.

#### Eckernförde

The valuated object is located in Eckernförde, a town in the district of Flensburg-Eckernförde in the north of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 25 km (linear distance) south-eastern.

The city of Eckernförde has about 21,700 inhabitants which represents a population density of about 1,021 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population decrease of 3.5% for the district of Rendsburg-Eckenförde between 2014 und 2030.

The macro location is assessed as average due to the distance to the Hamburg Metropolitan Region.

#### Eutin

Eutin is the district town of Ostholstein in the east of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 40 km (linear distance) in a north-western direction.



The city of Eutin has about 17,000 inhabitants. This represents a population density of about 410 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a population decrease of 4.1% for the district of East Holstein between 2014 und 2030.

The macro location is assessed as average due to its affiliation with the Hamburg Metropolitan Region.

### **Glückstadt**

Glückstadt is a town in the district of Steinburg in the south-west of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 75 km (linear distance) north-eastern.

With about 11,000 inhabitants, the city of Glückstadt has a population density of about 480 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a population decrease of 4.2% for the district of Steinburg between 2014 und 2030.

The macro location is assessed as average due to its affiliation with the Hamburg Metropolitan Region.

### **Heide**

Heide is the district town of Dithmarschen in the west of the state of Schleswig-Holstein. Kiel, the capital of Schleswig-Holstein, is located about 70 km (linear distance) in an eastern direction.

The city of Heide has about 21,852 inhabitants (as of 31.12.2019) which represents a population density of about 684 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a population decrease of -5.6% for the district of Dithmarschen between 2014 und 2030.

The macro location is assessed as average due to its affiliation with the Hamburg Metropolitan Region.

### **Henstedt-Ulzburg**

Henstedt-Ulzburg is a municipality in the district of Segeberg in the south of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 60 km (linear distance) in a northern direction.

Henstedt-Ulzburg has about 28,100 inhabitants. This represents a population density of about 711 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a population increase of 3.6% for the district of Segeberg between 2014 und 2030.

The motorway A7 runs through Henstedt-Ulzburg and leads south to Hamburg.

The macro location is assessed as above average due to its affiliation with the Hamburg Metropolitan Region and a good interregional connectivity.

### **Itzehoe**

Itzehoe is the district town of Steinburg in the center of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 60 km (linear distance) in a northern-eastern direction.

Itzehoe has about 31.800 inhabitants. This represents a population density of about 1,135 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a population decrease of 4.2% for the district of Steinburg between 2014 und 2030.

The macro location is assessed as average due to its affiliation with the Hamburg Metropolitan Region.

### **Lauenburg/Elbe**

Lauenburg/Elbe is a town in the district Herzogtum Lauenburg in the south-east of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 110 km (linear distance) in a northern direction.

With about 11,400 inhabitants, the city of Lauenburg/Elbe has a population density of about 1,195 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a population increase of 2.3% for the district of Herzogtum Lauenburg between 2014 und 2030.

The macro location is assessed as average due to its affiliation with the Hamburg Metropolitan Region.

### **Leck**

Leck is a municipality in the district of Nordfriesland in the north-west of the state of Schleswig-Holstein. Kiel, the capital of Schleswig-Holstein, is located about 90 km (linear distance) in a south-eastern direction.

The municipality of Leck has about 7,600 inhabitants which represents a population density of about 256 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population decrease of 2.1% for the district of Nordfriesland between 2014 und 2030.

The macro location is assessed as below average due to the distance to the Hamburg Metropolitan Region.

### **Mölln**

Mölln is a town in the district of Herzogtum-Lauenburg in the south-east of the state of Schleswig-Holstein. Kiel, the capital of Schleswig-Holstein, is located about 85 km (linear distance) in a northern direction.

The city of Mölln has about 19,100 inhabitants. This represents a population density of about 764 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population increase of 2.3% for the district of Herzogtum Lauenburg between 2014 und 2030.

The motorway A24 runs south of Mölln and leads to Hamburg in a western direction.

The macro location is assessed as above average due to its affiliation with the Hamburg Metropolitan Region and a good interregional connectivity.

### **Neumünster**

Neumünster is an independent city in the center of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 30 km (linear distance) in a northern direction.

Neumünster has about 80,200 inhabitants which represents a population density of about 1,120 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population increase of 1.7% for the city of Neumünster between 2014 und 2030.

The motorway A7 runs through Neumünster and leads south to Hamburg.

The macro location is assessed as above average due to its affiliation with the Hamburg Metropolitan Region and a good interregional connectivity.

### **Pinneberg**

Pinneberg is the district town of Pinneberg in the south-west of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 75 km (linear distance) in a northern direction.

With about 43,700 inhabitants, the city of Pinneberg has a population density of about 2,027 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population increase of 5.9% for the district of Pinneberg between 2014 und 2030.

The macro location is assessed as good due to the short distance to the city of Hamburg.

### **Reinbek**

Reinbek is a town of Stormarn in the south-east of the state of Schleswig-Holstein. The center of Kiel, the capital of Schleswig-Holstein, is located about 90 km (linear distance) in a northern direction.

The city of Reinbek has about 28,000 inhabitants. This represents a population density of about 895 inhabitants per km<sup>2</sup>. The latest demographic report of Schleswig-Holstein anticipates a a population increase of 6.4% for the district of Stormarn between 2014 und 2030.

The motorway A24 runs through Reinbek and leads south to Hamburg.

The macro location is assessed as good due to the short distance to the city of Hamburg and a good interregional connectivity.

## 6. Documentation for relevant registrations

### 6.1 Land registry

All 44 surveyed properties are in freehold of the owner.

#### **Section II – Assessment of noticed encumbrances and restrictions**

13 properties of the portfolio are burden with a way leave, 10 properties are burden with a pipeline leave, 4 properties are burden with a electric wires and network stations leave, 4 properties are burden with a development regulation leave, 7 properties are burden with other rights of use. The rights are not associated with rent controls. MC Property Fund Hamburg GmbH is the leaseholder of one property, 76 residential heritable building rights have been granted in this property. From our knowledge is no loss of benefit due to the rights of use assumed.

#### **Section III - Mortgages, land charges and annuity charges**

Obligations that may be listed in the charges register “Abteilung III” of the land register are not taken into consideration in all reports. It is assumed that any such obligations were erased at the time of sale, or taken into account.

### 6.2 Contamination Issues

The extract from the register of previously-polluted areas “Altlastenkataster” has been requested at the authorities in charge. The authorities in Eutin (Lübecker landstr. 3/5) and Hohenlockstedt (Kieler Str. 44) are listed as suspicious due to former commercial use by contamination-relevant sectors. All entries are younger than the age of the targeted properties. No sign of any such contamination of the soil has been identified during the site inspection. Due to the use of the property contamination is hardly possible. In keeping with our commission, we have undertaken no farther-reaching examination or investigation.

### 6.3 Local infrastructure charge

At the site inspection of all properties no street development measures could be determined. Due to the age of the properties it is assumed that there are no costs for local infrastructure charges burden with the estate.

### 6.4 Set-off payment for redevelopment measurements

In section II of the land registries of all 38 properties (economic units), no note has been made relating to redevelopment measures. We assume according to the order that all properties are currently not part of a redevelopment area.

### 6.5 Register of Public Land Charges

We have not been supplied with extract from the public land charges register. The state of infrastructure provision is assumed as free.

## 7. Market

### 7.1 Residential market Germany

The current market situation is characterized by uncertainties regarding the withdrawal of the United Kingdom from the EU, the progress of European integration and international free trade. The effects of the COVID-19-pandemic on the global economy in general and on the German economy in particular cannot be estimated conclusively at present. Germany is one of the structurally well-established economies of the European Monetary Union. The OECD forecasts that GDP in Germany will fall by 5.5% in 2020 and grow by 2.8% in 2021. Unemployment in Germany is at a low level by international comparison and, at around 5.0% in 2019, was at its lowest level since reunification. The German economy grew by approx. 0,6% in 2019. Main driver of this development remains mainly domestic consumption, which among other things contributes to population and employment growth. Inflation has fallen to about 1.4%. However, productivity growth has slowed and investment activity is considered cautious. The aging population and internal migration, especially to urban centres, present high challenges.

The general interest rate environment has changed little compared to the previous year. The asset price or credit growth is predominantly classified as still harmless. However, housing prices in some of the largest cities with the highest population density have risen significantly faster than rents, with some observers warning of blistering.

According to the vdp (Verband Deutscher Pfandbriefbanken) price index for real estate, residential property prices continued to rise. Compared to the fourth quarter of 2019, the capital value index rose by 69 basis points (as of third quarter 2020). Multi-family houses are the dominant object type in metropolises and cities, which have experienced strong population growth in recent years. This leads to a still high demand for housing. As a result, new lease rentals continued to rise by 3.4%. The high demand for housing also makes apartment blocks attractive to investors, with the result that cap rates have continued to fall. The corresponding index fell by 15 basis points. Cap rate compression over the past few years was fuelled by high demand and a decrease in interest rates.



(Date: 16.12.2020)

According to the annual intermediate report of Vonovia, one of the largest housing companies in Germany, their housing stock in the regional market of Kiel consists of 23,219 units as of 30.09.20120. The report shows vacancies are recorded at 2.2% and the average rent at 6.53 €/m<sup>2</sup>. The regional market of Hamburg consists of 19,744 units as of 30.09.2020. The report shows vacancies are recorded at 1.5% and the average rent at 7.35 €/m<sup>2</sup>.

The Deutsche Wohnen SE records a net rent of 6.63 €/m<sup>2</sup> and a vacancy rate of 2.0% for their german market with 158,665 residential units in total (as of 30.09.2020). In comparison to the previous year a 0.9% increase in rent is recorded.

As of 30.09.2020, the regional portfolio of the TAG Immobilien AG in the Hamburg region includes 7,032 residential units with an area of 432,435 m<sup>2</sup>. The net rent is given as 5,82 €/m<sup>2</sup>, the vacancy is 4.2%. The Hamburg region extends via Bremen to Wilhelmshaven and north to Schleswig-Holstein. The economic and cultural center of this region is the Hanseatic city of Hamburg.



### **Sociodemographic and development of housing demand**

The comprehensive residential property market report 'Germany up to 2040 - long-term trends and their significance for the property market' compiled by the consultancy firm empirica AG establish that, up to 2040, the annual additional demand in the residential market will remain relatively stable, despite the declining population. In the future, only a few spatial planning regions, e.g. the Alpine foothills in Bavaria, Baden-Württemberg and the conurbation around Hamburg, can expect increases in residential demand of more than 15 %. In contrast, the demand in large areas of Eastern Germany will decline by up to 15%.

Overall, empirica estimates that, by 2040, an increase in demand from the current 17.1 million residential units to 19.6 million can be expected in the market. In the next ten years, the demand for apartment buildings will dominate initially. Up to 2040, the estimated annual requirement for apartments in apartment buildings is 45,000. In contrast, annual demand for individual and two-family houses is around 130,000 residential units, due to a shift in preference towards individual and two-family houses. According to empirica, the demand for apartment buildings is already decreasing in 15 of the 97 spatial planning regions. Declining demand is particularly evident in Western Germany: in the Saarland, the Western Palatinate and the Eastern part of Oberfranken. By 2040, the demand for apartment buildings will decline by more than 5% in more than half of the West German regions. In contrast, the demand for residential accommodation will increase in 15 of the 97 spatial planning regions. According to empirica, these include the Hamburg region, the Southern regions of Bavaria and Baden-Württemberg and the area around Cologne-Bonn.

### **Portfolio transactions**

Continuing uncertainties in the financial markets and weakened global economic performance have caused a crisis of confidence for many investors, including banks and institutional investors. The returns on alternative investments have either fallen sharply or, under present market conditions, have a too high investment risk. The significantly increased sensitivity to risk was reflected in the collapse of the investment volumes flowing into commercial property in 2008 and 2009. Although it is now more than a decade since institutional investors established residential property as an asset class, residential portfolios have moved even more strongly into the focus of investors since the start of the financial crisis. Residential investments are viewed as a comparatively low-risk asset class because of their low volatility in values and secure, reliable cash flows. Under current restrictive lending conditions, banks are more likely to be prepared to finance a residential portfolio transaction. With its relatively secure and steady income flow, a residential portfolio presents a lower risk of credit default than the acquisition of commercial property using borrowed capital.

In the last few years, the German housing sector has emerged as a predominantly stable investment market. It therefore differs from countries such as the USA, the UK and Spain, where the housing sector was considered to be the cause of the persistent financial and economic crisis. A positive factor is that, in Germany, there was less speculative spin and no real estate bubble. One of the main reasons for this is the importance of low-risk fixed-rate mortgages and building society savings contracts in private real estate finance. Another one is the absence of a subprime market (a market in private mortgages mainly involving borrowers of doubtful creditworthiness).

However, if there are any real estate investments that have benefitted from the last crisis, in Germany it would have been investments in residential property. The residential property investment sector is regarded as having particularly high potential, not least because of its assumed high level of inflation proofing and comparatively constant rental income. In addition, there is currently a shortage of possibilities for alternative investments, due to difficult financing conditions with high risk surcharges, a shortage of supply or unattractive trends of return.

According to the latest NAI apollo report, the volume on the market for residential portfolio transactions in Germany totalled 15.9 bn € in the first three quarters 2020. This is an increase of 14% compared the result of the same period of the previous year (2019: 13.9 bn €).

Regarding the residential units, the first three quarters of the year reached a higher level than in the previous year at around 126-000 (2019: 94,700 residential units). 227 portfolios were dealt. Despite the Covid-19 pandemic, the housing market has proved very robust so far this year with rents and prices continuing to rise and residential investments still in demand. Only the transaction processes have slowed down due to the circumstances of the pandemic. NAI apollo does not expect a decline in market activities in the last quarter of the year and expects a transaction volume in the amount of the previous year's result of about 19 bn. €.

### 7.1.1 Residential market Schleswig-Holstein

According to Statistical Office of Hamburg and Schleswig-Holstein, the number of apartments in the state of Schleswig-Holstein within the period 2012-2018 raised from 1,424,535 to 1,454,905. This represents an increase of 2,1%. The existing 1,454,905 apartments in 2019 are distributed to 826,121 residential buildings.

A total of 13,668 apartments with a floor space of 1,289,100 m<sup>2</sup> were completed in Schleswig-Holstein in 2019. This corresponds to an increase in ready-to-move apartments by 13.7% and a 11.2% increase in new living space compared to the previous year.

In parallel with the increase in housing completions in 2019, the number of building permits in 2019 also increased by 4.0% year-on-year to 15,435 units.

### 7.1.2 Residential market Lower Saxony

According to Statistical Office of Lower Saxony, the number of apartments in the state within the period 2013-2018 rises from 3,726,268 to 3,888,405. This represents an increase of 4.4%. The existing amount of 3,888,405 apartments in 2019 was distributed to 2,264,496 residential buildings.

A total of 25,986 new apartments were completed in Lower Saxony in 2019. This corresponds to an increase in ready-to-move apartments by 3.4% compared to the previous year.

In parallel with the increase in housing completions in 2019, the number of building permits in 2019 also increased by 9.0% year-on-year to 31,216 units.

### 7.1.3 Residential market Hamburg

According to Statistical Office of Hamburg and Schleswig-Holstein, the number of apartments in the state of Hamburg within the period 2010-2019 rose from 904,901 to 966,164. This represents an increase of 6.8%. The existing 966,164 apartments in 2019 were distributed to 252,751 residential buildings.

A total of 9,805 apartments with a floor space of 818,700 m<sup>2</sup> were completed in Hamburg in 2019. This corresponds to a decrease in ready-to-move apartments by 8.1% and a 3.6% decrease in new living space compared to the previous year.

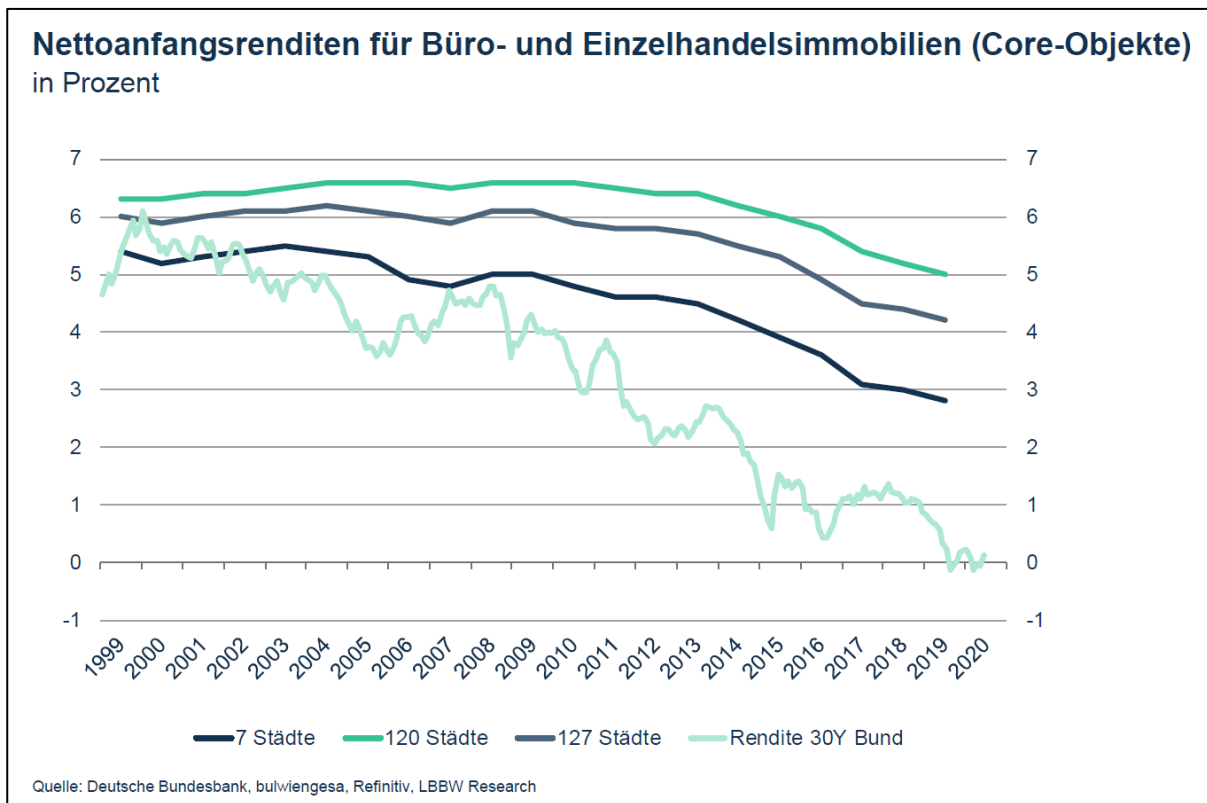
In contrast to the housing completions, which decreased in 2020, the number of building permits in 2019 increased by 4.9% year-on-year to 11,632 units.

## 7.2 Commercial market Germany

In the first three quarters of 2020 a volume of 40.1 bn. € was registered for the commercial investment market in Germany, according to the report of NAI apollo. Compared to the same period in 2019 this is an increase of 4.7%. The highest demand remains in the category of offices with a percentage of sale of 45.7% respectively 18.3 bn. €. Retail buildings recorded a percentage of 23.2 and a volume of 9.3 bn. €.

Individual transactions, which are responsible for around 23.3 bn. €, continue to be the main pillar of the solid transaction volume but their market share has fallen from 74.1% in the same period of the previous year to 58.2%. The nine-month result is strongly based on portfolio deals, which generated a total of 16.8 bn. €. This is an increase of almost 70% over the previous year. Company takeovers are worthy of mention here. TLG was taken over by Aroundtown and the Godewind office portfolio (86% share) by Covivio. In addition, classic portfolio deals are also recorded, including the Medicus portfolio, which was acquired by Union Investment in the range of approx. 400 mn. €.

As shown in the chart below by CBRE Research, the value for the 30-year Federal Bond has fallen in recent years. The net initial yields for office and retail investments have fallen also. The net initial yields for office and retail investments (core objects) in the big 7 cities are currently slightly below 3,0% and therefore still more interesting than the Federal Bond.



### 7.2.1 Commercial market Schleswig-Holstein

The commercial market in Schleswig-Holstein focuses mainly on the cities of Kiel and Lübeck as well as on the surrounding area of Hamburg. According to data from DZ HYP, Kiel, as the state capital as well as the administrative and commercial center, has the largest office market with around 1.4 mn m<sup>2</sup> of office space. Lübeck comes to about 850,000 m<sup>2</sup> of office space. Smaller cities and communities serve primarily to supply the surrounding demand and do not have pronounced real estate markets.

Trade is an important economic sector in the state of Schleswig-Holstein. In addition to the supply function of cities and communities, trade plays an important role in connection with tourism. This importance is shown, for example, by the above-average retail centralities of tourist locations such as Husum with 217.8 or Schleswig with 187.4 (source: IHK Schleswig-Holstein).

### 7.2.2 Commercial market Lower Saxony

The largest real estate markets in Lower Saxony are located in the four regional centers of Hannover, Braunschweig, Oldenburg and Osnabrück. According to DZ HYP, these four cities have a total of approx. 7.6 mn m<sup>2</sup> of office space, of which the majority (4.5 mn m<sup>2</sup>) is accounted for by the City of Hannover. Furthermore, they have a combined total of almost 2,8 mn m<sup>2</sup> of retail space. In the period from 2008 to 2018, the sales areas average approx. increased around 11.71%. Smaller cities and communities serve primarily to supply the surrounding demand and do not have pronounced real estate markets.

### 7.2.3 Commercial market Hamburg

The commercial transaction volume in the Hamburg amounted to 5.4 bn € in 2020. The previous year's result was exceeded by 24% (2019: 4.4 bn €) and the second-best result was achieved since records began after 2018 (6.0 bn €). In the 3rd and 4th quarter, market activity picked up extremely strongly after the spring lockdown and compensated very well for the wait-and-see attitude in the 2nd quarter.

The current crisis is leading some investors to adjust their investment strategies. The focus is on well-let properties in attractive locations. In 2020 investors increasingly turned their attention to the safety of office core properties and avoided hotel and retail investments, which are currently riskier due to the effects of the pandemic. This trend is likely to continue until the end of the crisis but a repeat of the good result achieved in 2020 seems unlikely.

## 8. Market Value

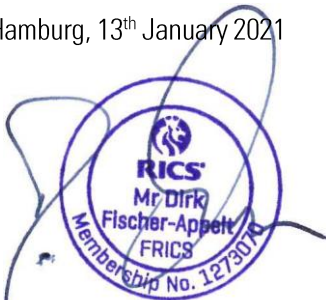
The Market Value for the subject property is derived from the income value, in accordance with standard property market practice in normal business transactions. The valuation was ascertained in line with value levels conformant with the property market on the date of valuation. For this reason, no specific adjustment for the property market situation needed to be made.

Based on the provided data, our opinion of the indicated Market Value "As Is" of the freehold interest on the date of valuation mentioned in the property valuation reports, is assessed as

**111,170,000 €**

(in words: one hundred and eleven million one hundred and seventy thousand Euros)

Hamburg, 13<sup>th</sup> January 2021



Dirk Fischer-Appelt FRICS  
Partner



## 9. Glossary

### CapEx

CapEx are investments for refurbishment, maintenance backlog and tenant improvements.

### Gross Multiplier on Current Rent (GMoCR)

The Gross Multiplier on Current Rent (GMoCR) is comparable to the German "Maklerfaktor" and is calculated with market value divided by the current gross rental income.

### Gross Rental Income (GRI)

The Gross Rental Income (GRI) is comparable to the German „Nettokaltmiete“ and is another name for the current rent.

### Market Rent (MR)

The Market Rent (MR) reflects the long-term rent attainable for a property and accordingly the assessed market rent for new lettings and reletting. The market rent results from the research and the analysis of the current rent, recent lease agreements (last 2 years), market reports, actual offerings and the qualified table of rental.

### Net Initial Yield (NIY)

The Net Initial Yield (NIY) is calculated with the net rental income divided by the sum of market value and transaction costs.

### Net Operating Income (NOI)

The Net Operating Income (NOI) is based on the net rental income minus agent fees and tenant improvements (CapEx).

### Net Rental Income (NRI)

The Net Rental Income is calculated from the gross rental income minus the operating costs.

### Non-Recoverable Costs (non recs)

The Non-Recoverable Costs (non recs) are well-defined at the „Zweiten Berechnungsverordnung (II. BV)“ (second calculation regulation) as management costs (Verwaltungskosten), maintenance costs (Instandhaltungskosten), vacancy and collection loss (Mietausfallwagnis) and other operating costs (Betriebskosten). The non-recoverable costs are increased with the inflation rate per year.

### Potential Gross Rental Income (PRI)

The Potential Gross Rental Income (PRI) is calculated as the sum of the rental income for rented area multiplied with the current rent per sq m and the vacant area multiplied with the market rent per sq m.

### Transaction Costs (TC)

The Transaction Costs (TC) are defined in German as „Erwerbsnebenkosten“ and are the costs for land purchase tax, costs for legal and notary and costs for the broker.