POLIS

POLIS Immobilien AG

Commercial property asset manager with convincing strategy

PETER THILO HASLER, DIRECTOR RESEARCH, VISCARDI SECURITIES **POLIS invests only in Germany. The company buys office and commercial properties in prime central, downtown locations of large German A and B cities (200,000+ inhabitants). Established office locations in prospering metropolitan or urban areas ensure that properties can be leased at all times, eliminating the risk of permanent vacancies. The office properties acquired may include retail space as well as residential units, but these elements should not be the property's distinguishing feature. Focusing on properties worth EUR 5-20m, POLIS mainly invests in underdeveloped multitenant buildings in need of refurbishing. Property refurbishing, extensions and the design of new utilization approaches enable POLIS to realize significant long-term value appreciation in its portfolio.**

Active portfolio management

The core of POLIS' real estate strategy is active portfolio management. The key objective is to increase management revenues from investment properties by continuously enhancing their quality. The development potential of the properties usually derives from structural shortcomings like those caused by a lack of tenancy management leading to high vacancy rates or from a refurbishing backlog fuelling a strong need for renovation measures. To overcome these shortcomings, POLIS implements an extensive catalogue of measures usually involving the following steps:

- property refurbishing, i.e. adjustment to state-of-the-art quality standards, maximum utilization of available extension reserves by building annexes or adding floors, revamping of office space or even full revitalization, i.e. gutting the building to a shell and subsequently installing new building technologies, elevators, floor partitioning and façade elements,
- improvement in tenant credit quality, broadening of the tenant structure, or extension of leases, and
- a change in rent structure or - in individual cases - reallocation of low-quality space to different uses or creation of additional parking spaces.

Real estate assets worth EUR 282m

POLIS´s portfolio is comprised of 35 properties. They are located in German A cities like Berlin, Cologne, Frankfurt, Hamburg or Munich and in German B cities like Dortmund, Hanover or Stuttgart. Total rental space amounts to 135,000 sqm. The spaced-based vacancy rate is just below 16% and expected to decline to 11% by the end of 2008. The portfolio's fair market value comes to EUR 282m. Since the properties are spread among a number of class A and B locations, a variety of tenants and various lease durations, we think that POLIS is well-diversified in all respects.

Buy-improve-reposition-hold & sell strategy

POLIS acquires its properties for medium-to-long-term holding periods, without defining an investment horizon at the outset. The company thus does not define itself as a portfolio holder keeping properties forever, but ultimately aims at reselling its properties, too, when it thinks that the growth potential of the investment

property has been exhausted. Instead of the buy & hold strategy pursued by pure portfolio holders, the company thus pursues what might be called a "buy-improve-reposition-hold & sell strategy".

Conclusion:

POLIS is expected to have a NAV 2008 of EUR 158.7m or EUR 14.40 per share. At the current share price of EUR 9.00, POLIS is trading with a discount of 37% to its NAV, whereas German commercial property asset managers are trading at an average NAV discount of 20%.

Disclaimer: This article is no directed selling effort.

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