

ALSTRIA OFFICE REIT-AG

REITionalisation of a business model

KARL DIENST, ANALYST, VISCARDI SECURITIES Being the first German REIT, alstria is an asset manager, which expands its real estate portfolio through sale and lease-back transactions. alstria has specialised in acquisition, ownership and management of office buildings and focuses on office property in central locations of large German A- and B-cities. Currently, the portfolio comprises 91 properties with a gross asset value of approx. EUR 1.9bn.

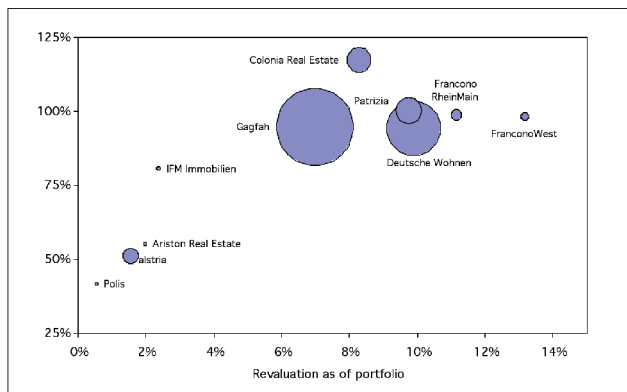
Low risk profile

Regionally the company focuses on the Hamburg market. This focus, however, is increasingly diversified by properties in other large German cities like Munich, Stuttgart and Hanover. Pursuing a single tenant strategy, local authorities and major German corporations ensure a strong creditworthiness of the tenant base; this results in a very low risk profile. By specialising in sale and lease-back transactions alstria's lease terms are usually rather long in comparison to the sector average, enabling stable and predictable cash flows. In addition, established prime office locations guarantee ease of letting the properties at any time over the entire business cycle, thus precluding lengthy vacancies.

Conservative valuation policy

alstria pursues a conservative valuation policy: whilst alstria with a portfolio value of around EUR 1.9bn (FY 2007) appreciated their portfolio by only EUR 11.2m, other property companies clearly made higher write-ups:

Revaluation results FY 2007



Source: VISCARDI

Benefitting from a market recovery

alstria's size makes the company the potential "main consolidator" in the office real estate market and lets alstria benefit the most from a potential market recovery. Future portfolio acquisitions can come from four different sources: the public sector, the corporate sector, institutional or private investors and corporate acquisitions:

- Many municipal authorities and other administrative units want to sell their portfolio of real estate. Realistically there is a potential market of EUR 5bn estimated up to 2010.



- 73% of all German companies own their real estate. In order to sell this with favourable tax terms and therefore be able to focus more on their core competencies, more and more companies are looking for a real estate partner to carry out a sale and lease-back transaction. We estimate this market over the next three years to be EUR 7bn.
- There are real estate funds which restructure their portfolios. We estimate the acquisition targets arising to be EUR 3.5bn up to 2010. An example of this is the acquisition of the Aurora portfolio by alstria.
- As part of the consolidation in the real estate market alstria could take over commercial real estate asset manager.

Advantage of being a REIT

During the purchase process of properties alstria holds a decisive competitive advantage compared to counter-bidders. Holders of real estate who sell their portfolio to a REIT only have to pay tax on half of their book profit. If the tax relief is shared between the buyer and the vendor, it is possible for alstria to acquire properties 3-10% below the market value, although the vendor still achieves a higher price than selling to a non-REIT. In respect to companies with a pre-REIT status alstria also holds a competitive advantage: if there is no IPO within three years, the tax advantages become tax liabilities. Thus for municipal authorities and companies the sale only to a listed REIT is absolutely risk-free. This last point is decisive for alstria, as several companies which have a pre-REIT status have postponed their IPO because of the situation on the capital markets.

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