



Akselrod Consulting & Barkow Consulting  
German property ECM review & outlook

Listed sector could  
double by 2015

30 January 2013

# Executive Summary - I



## 2012 another year of records - placement window open

### **German property ECM 2012 review – Strong secondary placement activity. Return of Convertibles. No IPOs.**

2012 was another strong year for German equity capital markets, with cash equity placements totaling EUR1.5bn in the listed real estate space. While this was more than twice the long term average, 2012 still fell short of previous year's EUR2.0bn placement record. However, 2012 also saw a resurgence of German convertible bond placements after years of low or no issuance. Six convertible bond issues with a total volume of EUR0.5bn – a record in its own right– propelled 2012 to the best ever year for combined German real-estate ECM issuance. In addition, Deutsche Wohnen and TAG executed the two largest-ever rights issues in the German listed property sector. Though the placement window was open for most of the year - except for a short period in May/June - there was no IPO in 2012. Two listings (IVG Immobilien Management REIT and Grand City Properties), complemented the listed universe however.

### **Resi subsector continues to dominate**

While residential real-estate was already the main driver of 2011 equity placements, the subsector's dominance was redoubled in 2012. EUR1.2bn or 85% of total equity was placed by residential companies while the combined commercial sector remained on the sidelines throughout the year. A secular consolidation trend also appears to be taking shape as stock-listed German resi players acquired ca. 100,000 housing units from unlisted sellers.

### **TAG and Dt. Wohnen most active issuers**

TAG and Dt. Wohnen were the most active issuers of 2012, both raising almost EUR0.5bn. Surprisingly, the most active issuer in the commercial space was Canadian REIT, Dundee International, a relatively new entrant to German real estate.

### **Substantial sector growth, still low by comparison**

In a nutshell, 2012 saw another year of strong growth for German public real estate companies. Comparing listed-space ECM activity to unlisted property funds paints a different picture however: German open-end funds raised over EUR3bn of fresh capital in 2012, 50% more than the listed sector.

Looking to the US, equity offerings related to the Archstone acquisition by AvalonBay and Equity Residential alone surpassed the combined volume of capital raised by the listed German property sector by a wide margin. Positive ECM trends notwithstanding, German listed real-estate companies have a long way to go versus their private-fund counterparts and by international comparison.

# Executive Summary - II



## Sector could double by 2015 - LEG largest ever deal

### **Placement window remains open**

Despite significant ECM activity since the end of the financial crisis and strong share price performance over the last years, Germany's investible market cap was only EUR9bn at the end of 2012 (defined as the aggregate free float capitalisation of property companies with a free float above EUR150m). Crunching some crude numbers, there is good reason to believe that the German listed sector is poised for a quantum leap in terms of growth. Firstly, a several-times oversubscribed EUR 200m placement by Deutsche Wohnen this January reaffirms that the placement window is open. With market volatility at record lows and many German property companies at significant NAV premiums, the stage is set for further growth.

### **LEG is by far the largest real estate IPO in German history**

At the moment the owners of the 90k unit LEG portfolio are marketing a 56% share in the company while books were covered after only a few days according to Reuters. The offering volume of EUR1.2bn to EUR1.4bn represents by far the largest ever public equity offering by a German property company. All said, 2013 is off to a flying start with January equity placements alone surpassing the whole of 2012. We take this as another indication of strong demand for the German sector generally and Resi in particular.

### **Investible market cap could double by 2015**

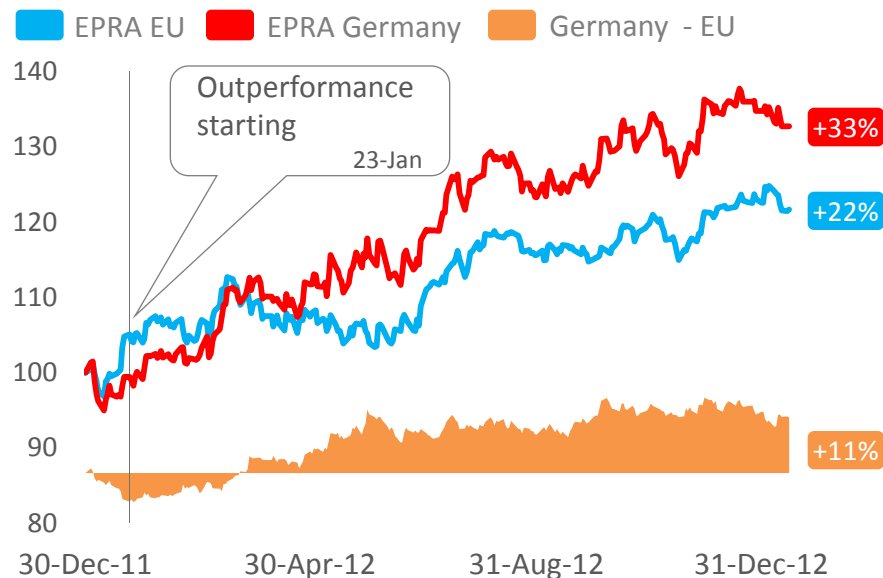
Medium to long term additional equity might come from Deutsche Annington, Conwert and Immofinanz to name just a few who have voiced intentions to tap the market. On top of that, current players should be expected to continue taking advantage of NAV premiums through further placements. Finally, the wildcard could come from the numerous shuttered open end funds currently liquidating. While tough to quantify, we do not count it out that some of these assets find their way into public markets as these funds wind down. All factors considered, investible market cap could double by 2015.

# German property stocks vs. EPRA



## Substantial outperformance driven by residential sector

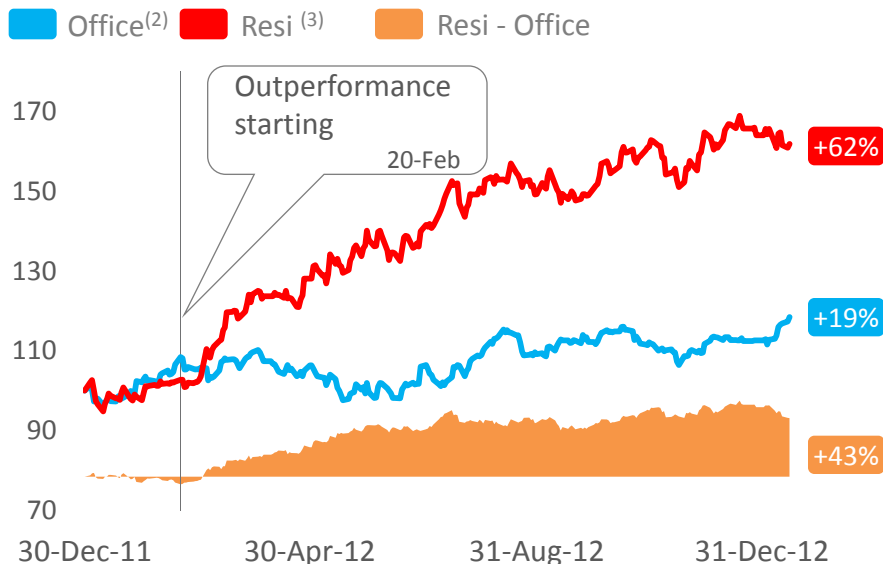
### EPRA Germany vs. EPRA EU



Indexed to 100

Source: EPRA, Akselrod Consulting, Barkow Consulting

### German resi<sup>(2)</sup> vs. German office<sup>(3)</sup> stocks



(2) Simple average of Alstria, DIC Asset, IVG and Prime Office indexed to 31.12.2011 (3) Simple average of Dt Wohnen, GAGFAH, GSW and TAG

Source: EPRA, Akselrod Consulting, Barkow Consulting

- German property sector with substantial outperformance vs. EPRA since 01-2012
- Outperformance starting in 01-2012 and peaking in 12-2012

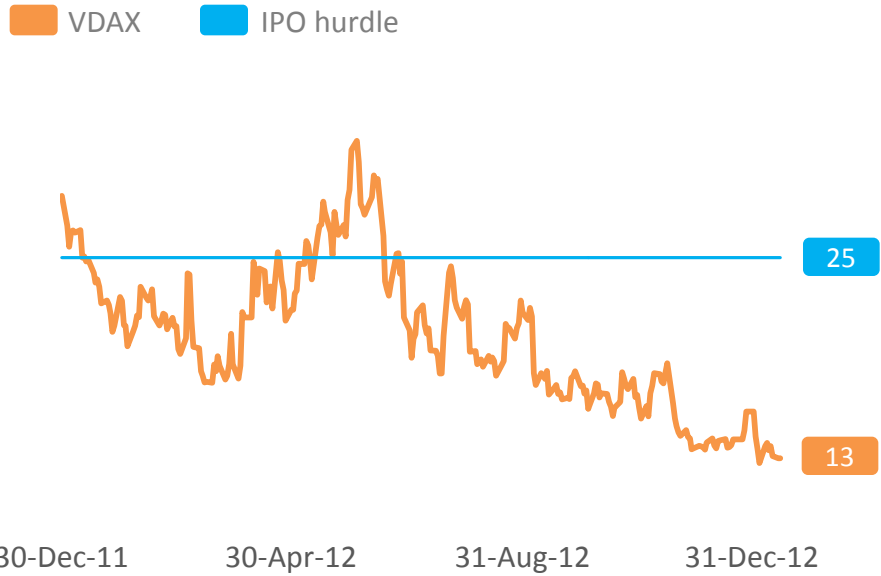
- German outperformance driven by residential sector with office underperforming strongly
- Resi outperformance peaked in 12-2012
- Office sector with recent outperformance



# IPO/Equity window wide open

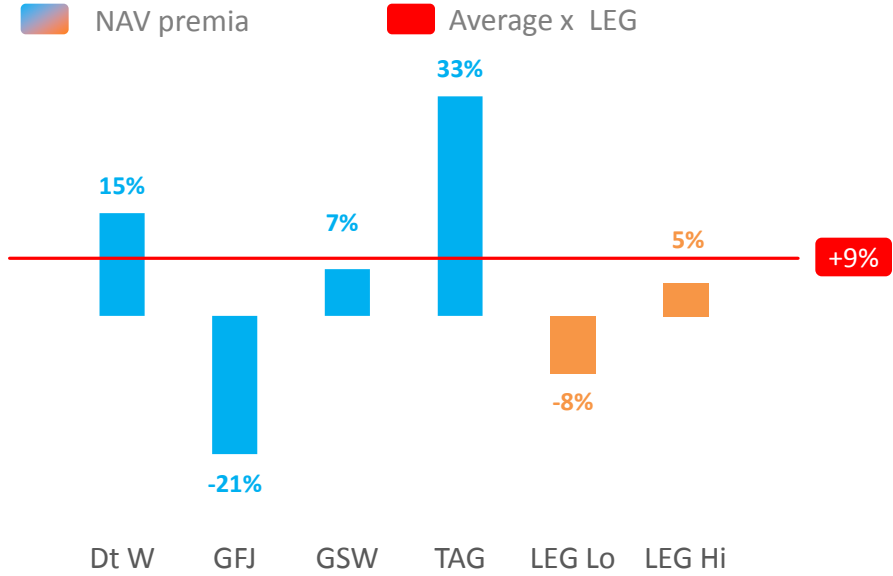
## Property stocks with NAV premium, VDAX at record low

### Implied volatility at record low



Source: Deutsche Börse, Akseprod Consulting, Barkow Consulting

### German resi stocks NAV premium (NAVPS 2012)



Source: Consensus data, 9m 2012 reported NAV for LEG, Akseprod Consulting, Barkow Consulting

- Implied market volatility substantially reduced, reaching record lows since financial crisis
- Implied market volatility significantly below IPO hurdle

=> Equity window is wide open at present

- Most German resi stocks trading at premium to NAV
- GAGFAH the only stock with discount to NAV

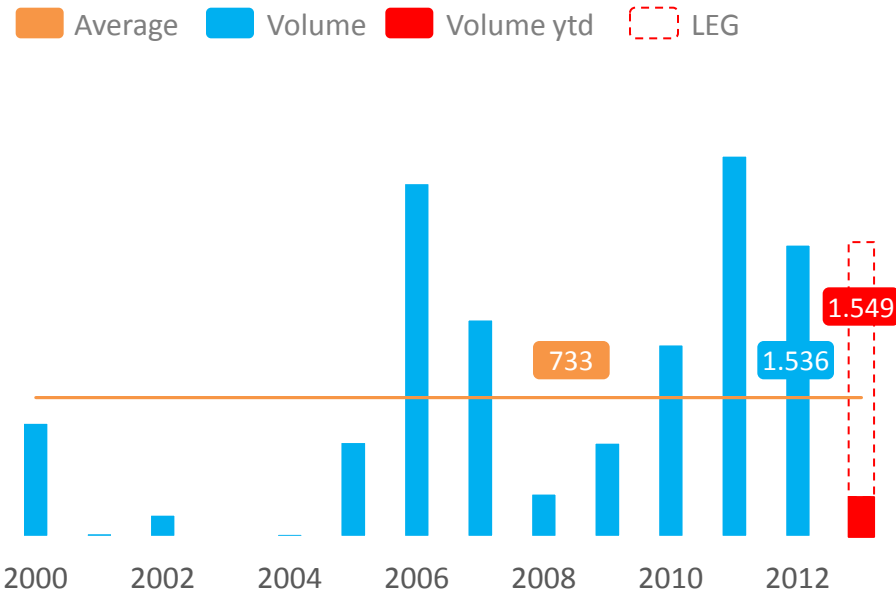
=> Issuing equity attractive

# German property placements

## 2012 issuance 2x the historical average

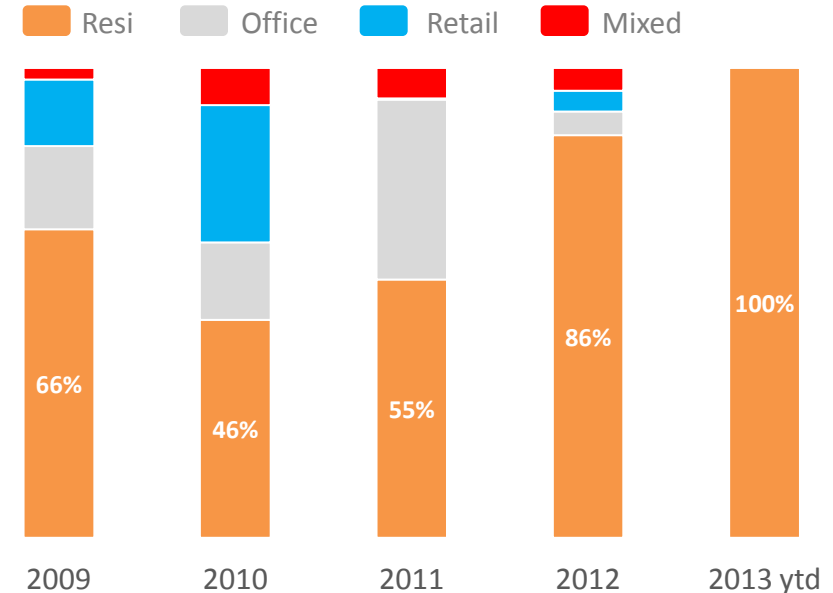


German RE equity placement volume (in EURm)



Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

German RE equity placements by sector (in %)



Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

- A combined EUR1.5bn of equity placed in 2012 despite absence of IPOs
- 2012 volume declined by 23% yoy, but is still 2x the long term average
- 2013 issuance is off to a flying start with Dt. Wohnen acc. book build, some smaller Estavis issues and LEG IPO; Jan alone exceeds FY2012!

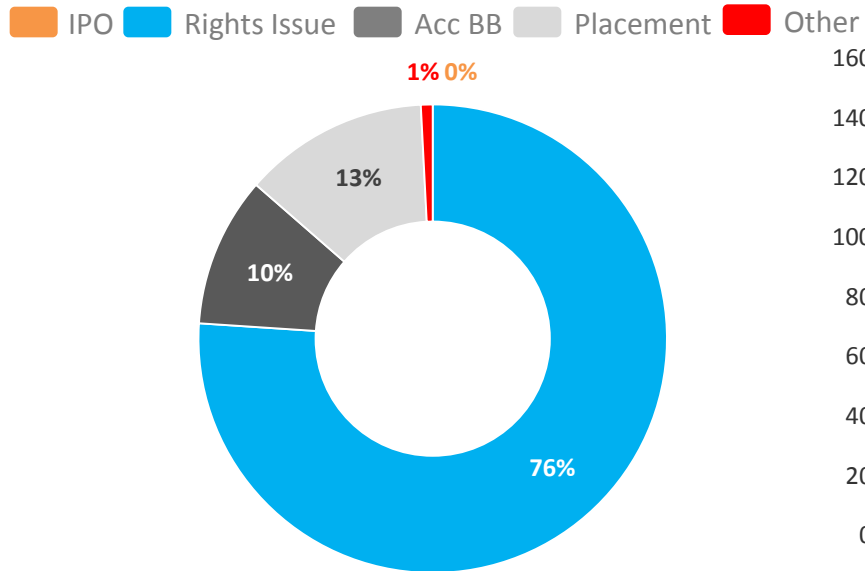
- Residential subsector dominates German equity placements
- 2013 a Resi 'pure play' vintage so far

# Substantial increase in deal size



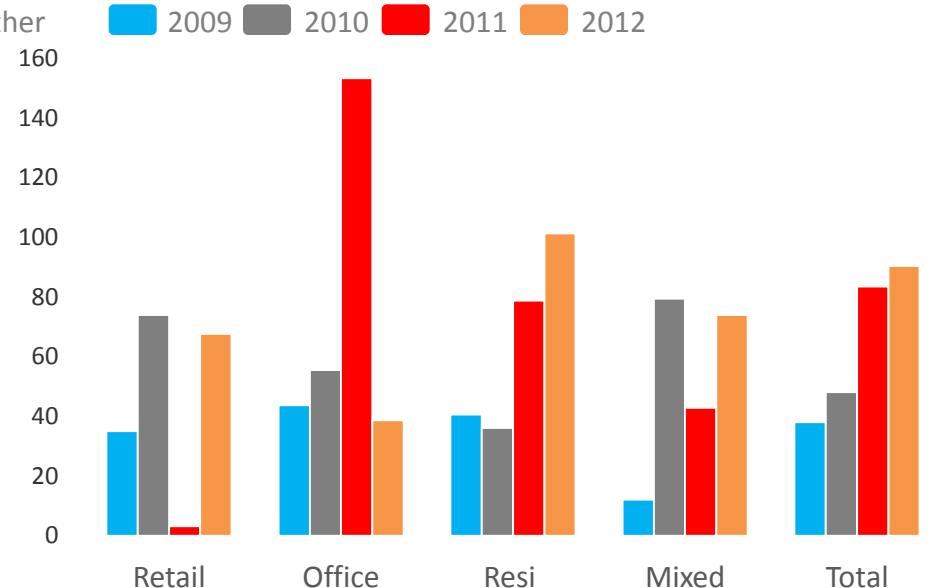
2012 the year of the rights issue, deal volume increasing

German RE equity placements 2012 by instrument



Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

German RE equity placements avg. deal size (in EURm)



Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

- Despite two additions to the listed universe (IVG REIT, Grand City) there was no IPO in 2012
- 2012 dominated by rights issues as listed Resi platform funded the acquisition of ca 100k housing units from unlisted sellers

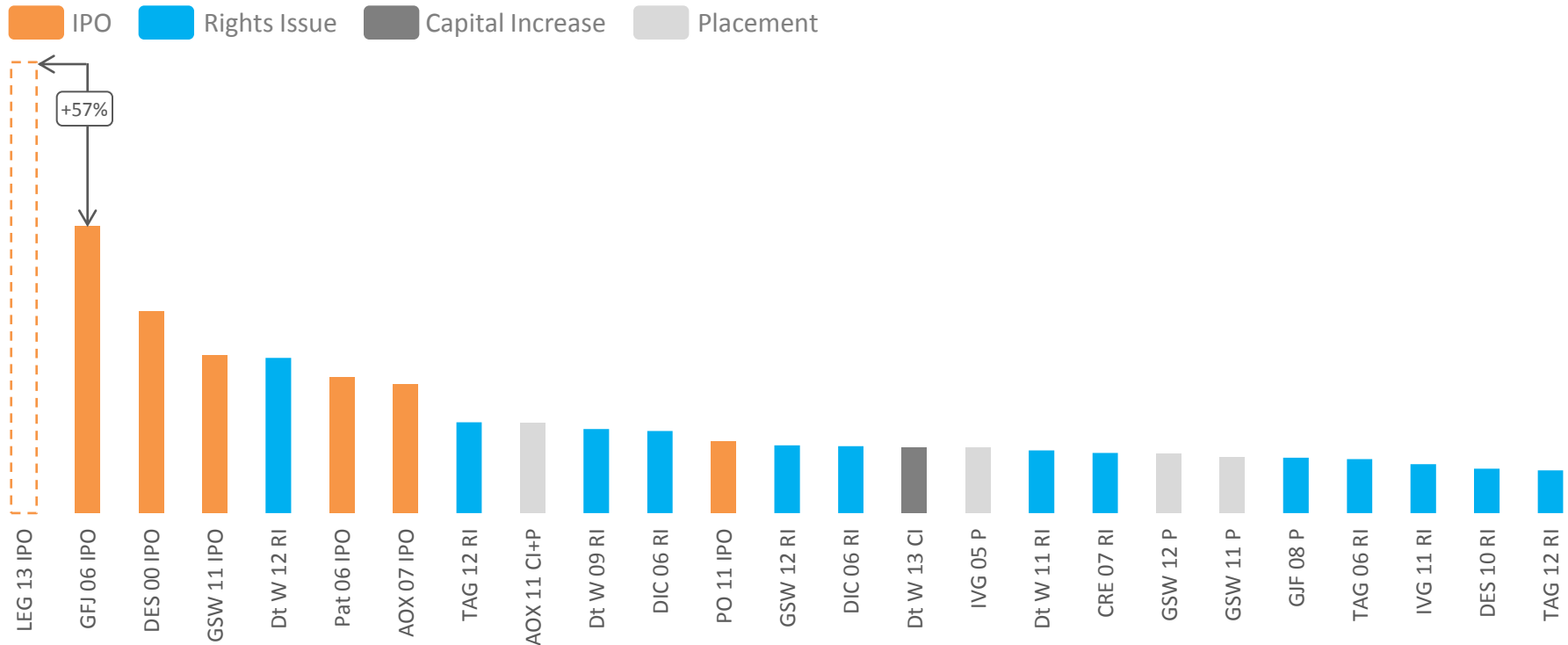
- 2012 saw another increase in deal size despite the absence of large size IPOs
- Average deal size increased by 8% yoy to EUR90m

# Substantial increase in deal volume



## Largest ever German RE equity deal currently marketed

### Top 25 German RE equity transactions



Note: LEG mid of range, Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

- 2011 brought the two largest capital raises (Dt Wohnen, TAG) ever by a German RE company
- LEG is currently marketing the largest public equity offering of a real estate company in German history

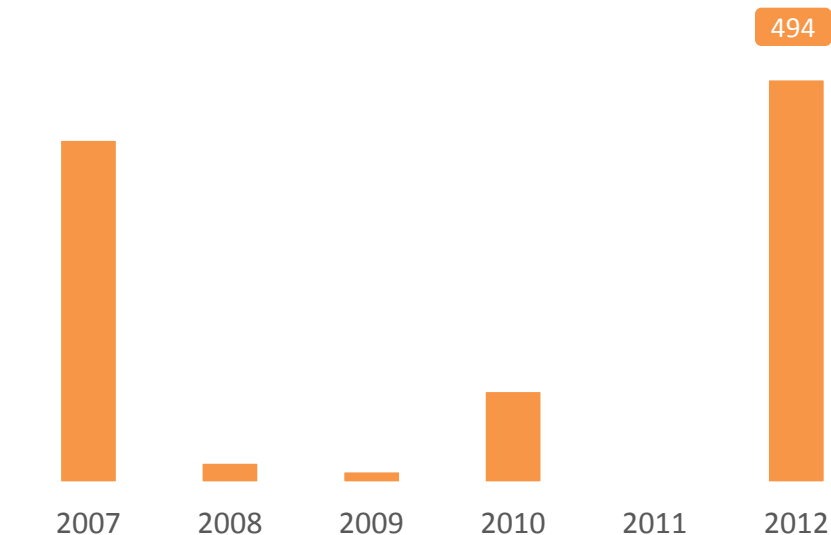


# Return of converts - most active ECM players

## EUR0.5bn converts placed - TAG issued most capital

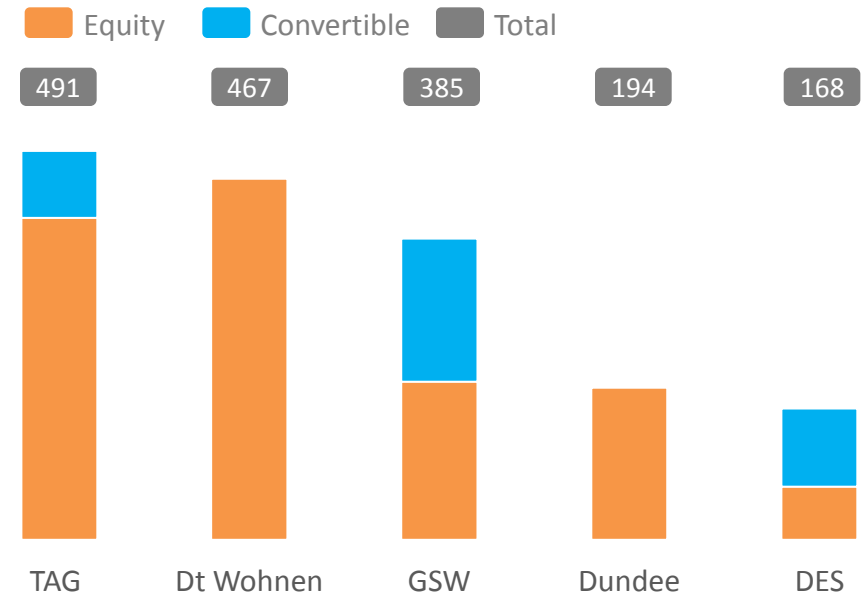


German RE convertible placements (in EURm)



Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

Most active issuers (in EURm)



Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

- 2012 has also seen the full force return of the German property convertible
- With a placement volume of EUR0.5bn 2012 was the best ever year for convertibles

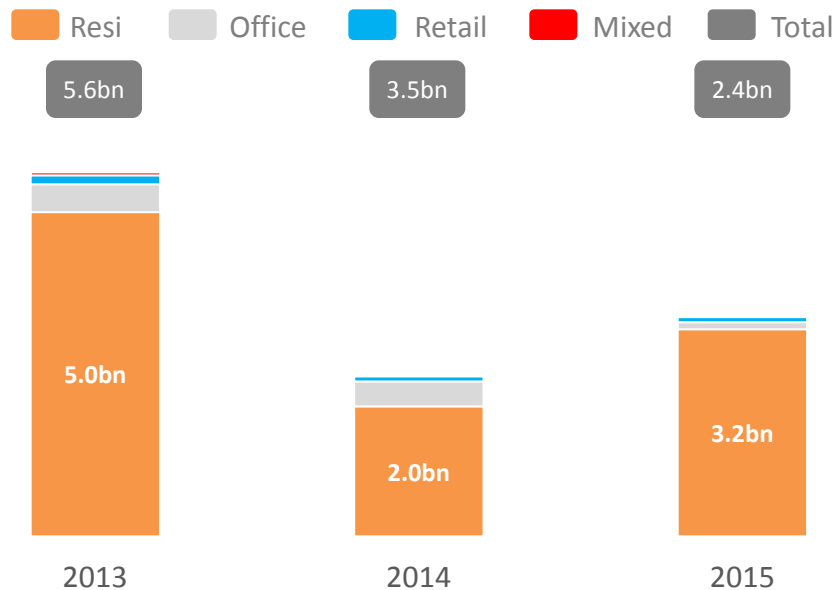
- TAG issued most capital via four transactions, followed by Dt Wohnen (two transactions)
- In the commercial sector Dundee, strictly speaking a Canadian REIT, issued most capital in three transactions

# German equity pipeline



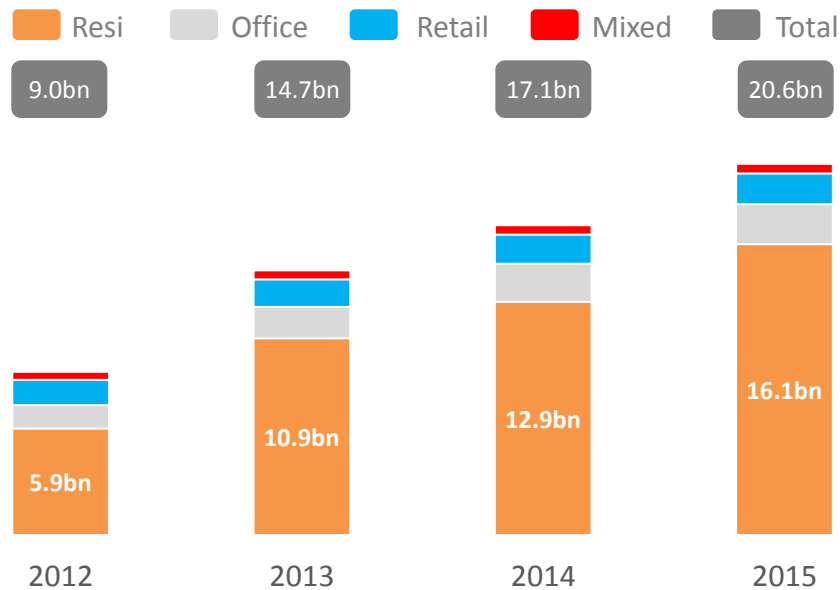
## Strong issuance ahead, sector could double by 2015

German RE equity pipeline (in EURm)



Source: German RE ECM data base, Akselrod Consulting, Barkow Consulting

German RE investible market cap<sup>(1)</sup> (in EURm)



(1) Aggregate free float capitalisation of stocks with >EUR 150m free float  
Source: EPRA, Akselrod Consulting, Barkow Consulting

- The three year equity pipeline totals more than EUR10bn, this is the largest ever equity pipeline to our knowledge
- Largest share of issuance expected for 2013
- Residential equity continues to dominate, less visibility on commercial sector

- Investible market cap totaled EUR9bn at the end of 2012
- Investible market cap could double by 2015

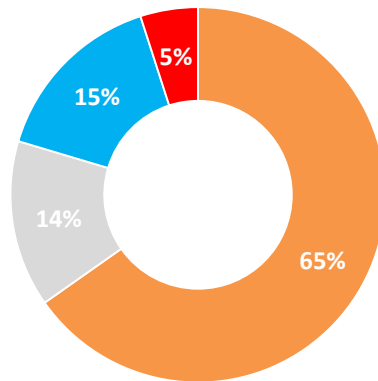
# German sector split



## Domination of resi sector to increase further

German RE investible market cap by sector (2012)

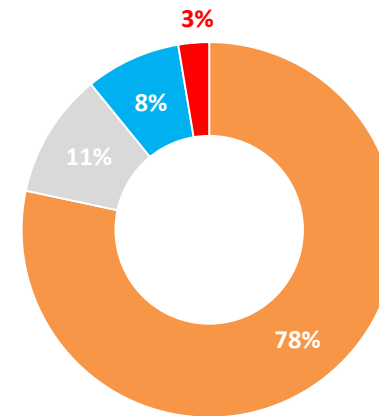
Resi Office Retail Mixed



Source: EPRA, German RE ECM data base, Akselrod Consulting, Barkow Consulting

German RE investible market cap by sector (2015)

Resi Office Retail Mixed



Source: EPRA, German RE ECM data base, Akselrod Consulting, Barkow Consulting

- Resi stocks represented ca 2/3 of German investible market cap by end 2012

- Resi share set to increase to ca 80% by 2015



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