UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

# UNDERGRADUATE THESIS
# REAL ESTATE FUNDS

Ljubljana, June 2009 MATEJ SODIN

I, MATEJ SODIN, hereby declare that I am the author of this undergraduate thesis written under the mentorship of Igor Masten, PhD. I permit the publication of this thesis on the Faculty's website.

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# INTRODUCTION

For the past 18 months I have been obtaining work experience with a relatively newly founded real estate asset management firm. During the time spent at the real estate firm thus far I have gained valuable knowledge in asset and portfolio management as well as the basics in financing and investments in real estate projects (financing residential properties, financing income properties, financing proposed projects and alternative real estate investment vehicles).

After having had a conversation with my superior regarding residential projects I came up with what I thought to be an interesting concept for my thesis. As the real estate market in Slovenia is mainly owner occupied, there is only a very minor tenant occupancy rate. Why then, considering relatively high real estate purchasing prices, does the current Slovenian model not move towards a more capitalistic conscious concept, whereby let property plays an ever more significant role?[1] Are rents overvalued? How high would let profit margins for income-producing real estate subsequently have to be for a real estate private equity fund to invest its financial assets on a long-term basis? These are only some of the questions that will be answered in this paper. Attempting to prove the main hypothesis that renting property is always the better choice however, will perhaps be most demanding. I shall try to stick solely to the residential sector of real estate as wandering into other sectors (office, retail, leisure, industrial, mixed) for this paper would be too extensive.

Before beginning with various practical simulations and special characteristics of the Slovenian property market, the theoretical part of the assignment shall be presented first. I intend to split the theory into four main chapters; About Real Estate Funds, Asset Management, The Feasibility Study and Income-Producing Real Estate. The aim of the first chapter will in essence be to get acquainted with core principles and general functioning of the funds themselves. Thus far, very little has been written on the evolvement of real estate funds overtime and I will be keen to find out more. The sub-chapter entitled Setting up a Fund will include the basics on getting started on a closed-ended fund (see Private Equity Funds (Closed Funds)). The second chapter will draw the guidelines on maintaining and managing a portfolio of property investments. Chapter three is a foundational part of asset management and working with basic empiric data is a crucial part of the feasibility analysis process. In chapter four a significant amount of information and data will relate mainly to residential income-producing real estate, as the simulations in our case study will also be associated with a residential property investment project. I realise that these chapter titles may seem a bit much for an undergraduate research paper to handle, however, laying the fundamentals is critical in order to progress towards the end goal, namely, operating with empirical data and attempting to find the conclusions of the questions and hypotheses we have set in the disposition.

[1] This would surely make sense both in times of flourishing economic activity as well as in deep recession. In the first case a rational occupier would have more disposable financial assets to invest elsewhere and thus could have a more dispersed investment portfolio whereas in the latter instance people have less disposable income anyway so due to the reduced likelihood of them obtaining a mortgage renting would seem the better choice. Aside from this there is some correlation between real estate purchasing prices and letting prices, meaning that in times of real estate market downfall the cost of renting will be more affordable.

Last but not least the practical case study will hopefully give us a clearer picture of the current state of Ljubljana's residential market and whether it would make sense to implement either the German or Dutch model of a more significant let property market role. I will try to find out to what extent, if any, would this type of conversion make sense.

# I REAL ESTATE FUNDS

## 1 About

### 1.1 History and Evolvement

Medieval renting property was very different to renting real estate in the twenty-first century. The landlord, who was nearly always a nobleman managed land in the manner that yielded a continuing income. This income, otherwise known as the rent, was not realised in money but rather in products or services. Land was thought of as a place on which the tenant could dwell and from which the landlord could draw an income. As medieval estates were distributed according to a hierarchical rank in society they could not be sold outright. In certain cases, annual rent was mortgaged by selling a rent charge upon it. Therefore, forest, mill and even market rights were all subject to trade, sale and contract for a definite period. Nowadays rent charges are considered 'a thing of the past', as loans today are made differently; in most cases the property is pledged as security for the repayment (Fetter, 2009).

There are profound differences between renting real estate »once-upon-a-time« and renting in today's day and age. Firstly and most importantly, property nowadays is traded in a way that it is bought and sold by any individual of any social class with the ability to do so, which was not always the case. As established above, medieval property was always traded amongst nobility, meaning that if the landlord was severely indebted, then he would have to pay their debt by pledging property to someone of equal hierarchical rank or higher. Secondly, a contemporary lease contract with promised future payments cannot be used for trading with third parties. In this sense, medieval renting contracts were even more complex than today. Today however, derivative instruments are traded between banks and amongst multi-corporations on the stock market. As these derivative promissory bills on the sub-prime market subsequently led to the credit crunch, which has infested financial systems around the world, people will be very weary of entering any risky future investments.

In the early 1880s the United States (hereinafter US) real estate trust concept popped up. These trusts were very popular schemes as they represented a legal way of avoiding any kind of inheritance tax, whether it be of financial form or property. However in the 1930s a decision made by the US Supreme Court abolished the idea of special treatment by taxing all firms that were centrally organised and managed like corporations and trusts (Brueggeman & Fisher, 2005, p. 580). Whilst the bond and stock market, which was organised impeccably in the years after the great depression in 1929 (Fabozzi, 2009, p. 332) managed to promptly secure legislation that exempted regulated investment companies from federal taxation, the trusts failed to do so. The

reason for this was that property trusts were not organised to the extent of other corporations and consequently could not press for equal consideration.

World War II had left devastation not only in terms of human casualties but also in terms of buildings and real estate in general. The mid 1940s period was, therefore, dedicated to finding solutions for »rebuilding«, mainly Europe but other parts of the world too. Thus the concept of tax havens in the form of real estate trusts was yet again revived, this time under the real estate private equity fund and Real Estate Investment Trust (hereinafter REIT) terminology[2].

It was not until the late 1950's that the first open-ended stock funds appeared in Germany. In total, there were fourteen funds present with over €1 billion under management. In 1959, the BVI – the National Association for Investment and Asset Management, reported the existence of a single open-ended real estate fund with €7 million of assets (Focke, 2006, p. 40).

## 1.2 Global Capital Flows

Within the past year the world's seemingly blossoming macroeconomic state has shattered. As a result of the collapse of the US sub-prime market banks have now become risk averse. Due to limited liquidity they are also fearful of lending to the general public. Bank to bank lending is weak since no one knows what types of securities banks had bought for their own investment portfolios.[3]

So what impact will the present economic situation have on the property market itself? First of all, the purchasing prices of property and rents are likely to somewhat stagnate. So will activity in the real estate market transactions in general. As a result of limited bank lending there will be fewer newly built properties on the market, in the short-term at least (Capital flows to emerging economies weak in 2009, 2009). Whether a lack in the supply of residential units will cause housing prices to increase overtime will depend not only on the higher demand but also on factors such as the employment rate and the state of the financial markets at that time.

We have established that the current situation, not only in the real estate sector, but on global financial markets is substantially different to what it was a year ago. In 2008 global investment market volumes were down over 30% in comparison to 2007 (Global Direct Real Estate Investment Hit Record in '07 but Expected to be Down at Least 30% in '08 , 2008). Yes, 2007 was a record breaking year, but then a 10 year long period of persistent growth (see example below) had caused a bubble that was just waiting to burst. Although the credit crunch has had an impact on all world economies, countries like the US and Ireland have been hit the hardest with forecasts of property prices falling by as much as 80% from the peak of 2007 (Slattery, 2009) (Housing Prices in 20 U.S. Cities Fall a Record 18,5% (Update2), 2009). The reduced availability of debt, tougher lending conditions and increased debt costs are only a few profound

[2] It is otherwise pronounced as "reet" and more information about REITs will be described under the chapter entitled Real Estate Investment Trusts.

[3] Different types of mortgage securitites first appeared at the beginning of the 1980s (Lewis, 1989, p. 131). The employees of American Wall Street trader group The Salomon Brothers were the masterminds behind the plentiful new and sought after types of securities. Since then shares and bonds alike have been spread across the world highly leveraged.

reasons for which global real estate markets are suffering so much. Moreover, other causes are; weakened investor confidence, buyers and sellers adopting »wait and see« strategies and investors conveying a more exact due diligence which leads to longer transaction processes.

*Figure 1: Market Capitalisation vs. Average Daily Trading Volume of REITs*

*Source: NAREIT, 2009.*

Regardless of reduced activity a complete withdrawal of capital from real estate in 2009 is not probable. In the long run, forecast trends in real estate remain positive and factors like the growing credibility of real estate as an investment asset class, improving transparency, urbanisation and restricted supply all remain positive drivers (Hedge Fund Monthly, 2007).

Keeping track of global real estate capital flows isn't as simple as one may think. Very seldom can we encounter the same quality of information or the same standards of reporting transactions across countries. Nevertheless, various private and public real estate information sources help us to provide a reasonable estimate of capital inflows from one world region to another. Let's take a look at some of the figures. In the first half of 2006 direct global real estate investments accounted for €218 billion[4] (Global Direct Real Estate Investment Reached a Record USD 290 Billion in First Half of 2006, 2006), which represents a 30% increase from the same period in 2005. By 2007, this number already amounted to €572 billion, a significant rise by any standard. Before numerically segmenting investments into various categories (domestic and cross border) it is interesting to observe that cross border real estate capital flows coming into Europe were always substantially greater than those going out of Europe (see Figure 2) (Laposa, Alford, & Trifilo, 2007).

[4] Herein, the United States dollar (hereinafter USD)/euro (hereinafter EUR) exchange rate from 29/04/2009 of 0,753807 has been used.

*Figure 2: Interregional Investment – Purchases and Sales, 2005*

*Global Source of Funds in Billions of USD*

*Source: Laposa, Alford, & Trifilo, 2007.*

The main difference in global real estate investments were in cross border investments. Whilst domestic investments in 2006 and 2007 totalled €302 billion, cross border investments increased by €44 billion to €269 billion in 2007 and of this figure, interregional investment accounted for €182 billion. Percentage wise cross border transactions now represent 47% of all transactions and interregional account for 32% of total transactions (Laposa, Alford, & Trifilo, 2007).

In terms of global direct commercial real estate investments, Europe marginally outpaced the US with €251 billion in 2007 (Global Direct Real Estate Investment Hit Record in '07 but Expected to be Down at Least 30% in '08 , 2008). This represented a 3,5% rise on 2006. Meanwhile, the US accounted for €229 billion in 2007, up 8% from the previous year. Last but not least, Asia Pacific saw remarkable growth in 2007. Despite a downturn in the second half of the year and a crippling effect due to the weakening USD, capital flows continued to pour into the region. Direct commercial real estate investments actually reached a record of €91 billion in 2007 in the Asia Pacific region and were up by a whopping 27% on 2006. The entire Asia Pacific now represent 16% of the global property investments, Japan accounting for 50% of the latter share (Laposa, Alford, & Trifilo, 2007).

As we'll be assessing an example of a European investment fund it is important to beforehand examine the activeness of the European Union (hereinafter EU) real estate market (EPRA News, Issue 29, 2009). Investments into the UK (hereinafter UK), Germany and France completely dominated with these three countries alone accounting for 63% of total volumes in 2007. The exact same share (63%) also represented cross border transaction volumes in Europe in the same

year. Germany had by far the highest percentage of cross-border investment (70%), whilst the UK had just over 50%. France, Spain and Sweden are also among countries with high cross border proportion investment rates. Contrastingly however, Ireland and Norway had by far the highest levels of domestic investments, 97% and 95% respectively. Inter-regional investment in Europe was down by 4% in 2007 from the previous year. The latter representing 35% of total activity.

## 1.3 Types of Real Estate Funds

Real estate funds, as we know them today, first appeared in the late 1940s when the need for large sums of real estate equity and mortgage funding was necessary, however, they really left a stamp to their name in the last decade (beginning of the 21st century) when various types of funds started appearing as serious alternatives to other financial investment securities.

The up side of all types of real estate funds is that they provide a structure which is similar to that of mutual funds for common stock investors. They also allow individuals to invest in a portfolio of properties that may be geographically diversified and professionally managed.

Although common practice uses the REIT terminology for all types of real estate funds, this is profoundly wrong. Yes, there are about as many classifications of real estate funds as there are authors of various kinds of real estate fund literature (Brueggeman & Fisher, 2005, pp. 583-588) (Description of Lipper Classifications, 2009) but differences between REITs and real estate investment funds are more than apparent. Let us now not only briefly describe each of the 3 main real estate fund types but also note the differences and similarities of the types of funds themselves (Walton, 2006). The latter 3 fund types, namely being open-ended funds, private equity funds and REITs.

### 1.3.1 Open-Ended Funds

An open-ended real estate fund is an indirect real estate investment vehicle. The funds are categorised as »open« because there are no limits set to the number of properties in which the fund can invest, the number of investors and the duration of investments. The shares of such a fund are directly backed by the properties and liquid assets held by the fund itself. In contrast to a real estate private equity fund (a closed fund), an open-ended fund continuously creates new shares upon demand. Investors may purchase shares at a net asset value from the fund and can redeem them on a daily basis at the prevailing net asset value. This value may be either above or below the initial price at which the shares were bought. Unlike investing in a closed fund, investments in open-ended funds are a highly liquid investment. Share prices of open-ended funds are quoted once per day on the basis of regular valuations of properties and liquid assets at that specific time. As regular valuations are normally performed once a year on a rolling basis for each property separately, the redemption value of a fund's share adjusts slowly in the market price (Bannier, Fecht, & Marcel, 2007, p. 1).

Ever since their emergence in the 1950's, open-ended real estate investment funds were most prevalent in Germany. Moreover, in 2003 they were ranked first among publicly owned funds in relation to net cash inflows (Open-Ended Real Estate Investment Funds). The main benefit of these open-ended funds is that they represent an opportunity in terms of time and money spent for investors to participate in the multitude of investment opportunities offered on the world's property markets (An EU Market for Open Ended Real Estate Funds, 2008). Open-ended funds are always managed by a trustee and are subject to state supervision.

### 1.3.2 Private Equity Funds (Closed Funds)

Private equity real estate funds, or otherwise known as closed funds, pull capital from institutional investors or high net worth individuals. These can afford to have their capital tied up for longer periods of time (typically ten years or longer) and are able to risk losing significant amounts of money. However, this is balanced by the potential benefits of annual returns, which can easily exceed an Internal Rate of Return (hereinafter IRR) of 20% for successful opportunistic funds.

The fact that private equity funds have very high investment entry requirements (usually above €1.000.000) makes them less appealing to a large segment of private investors. A further reason for the inaccessibility also lies in the absence of shares being traded on the secondary market and the fact that they do not have a risk diversifying portfolio (Focke, 2006, p. 39). A typical private equity real estate fund is; managed externally, has a fixed life span, is structured in a way which substantially mitigates tax and usually contains significant co-investment. Such funds invest in asset classes that consist of both equity and debt investments. A typical fund has a 2-3 year investment period during which the real estate has acquired and a further holding period, during which active asset management will be undertaken and during which the properties can be sold. A specialist in charge of a closed fund is known as a real estate (asset) manager.[5]

An example of a closed fund will be described in the chapter »Setting up a Fund«.

### 1.3.3 Real Estate Investment Trusts

A REIT is a real estate corporation or trust that qualifies, under certain tax provisions, as a pass-through legal entity which distributes all of the earnings and any capital gains generated from the sale of disposition of its properties to its shareholders (Brueggeman & Fisher, 2005, p. 580). REITs are; managed internally, have a fixed life span and are structured in a way that substantially mitigates tax. Besides the above listed characteristics that considerably differentiate REITs to private equity funds, individual REITs focus strongly on one location or sector. Another distinction between the two latter mentioned fund types is that REITs have little, if any, co-investment, whilst private equity real estate funds account for significant co-investment.

[5] More on asset management under the chapter Asset Management.

REITs are tax transparent, meaning that they are tax free in terms of paying taxes on earnings. Nevertheless, they are still taxed accordingly when distributing dividend income to its shareholders. The shareholder's applicable tax rates are those taxes designated to dividend distribution of capital gains. Amortization and depreciation, as well as its resultant effects on net income may allow part of the tax on REIT dividends to be deferred (Brueggeman & Fisher, 2005, pp. 580-583). REITs are, namely, normally listed as units or shares.

REITs fall into three principal categories. The main category is a real estate equity trust. This group accounts for the largest share of all REIT types representing over 96% of all REIT types. Equity REITs invest in and own property, thus making them responsible for the value of the acquired real estate assets. Revenue from equity trusts principally comes from the properties' rents. The second category is the mortgage REIT. Mortgage REITs deal in investment and ownership of property mortgages. These trusts lend financial assets for mortgages to owners of property, or purchase existing mortgages or mortgage backed securities. Their revenues are generated primarily by the interest that they earn on the mortgage loans. The third group of trusts are the so-called hybrid trusts. These are basically comprised of a combination of both equity and mortgage REITs (Real Estate Investment Trust - REIT, 2009).

## 1.4 Setting up a Fund

Prior to getting started with the legal framework a real estate fund must have a clear mission, realistic objectives and adequate resources for setting up a fund. A typical fund's mission is to identify and invest private equity in real estate projects in a specific region, with the aim of achieving superior risk-adjusted returns for investors. If the real estate asset management fund team decide to set their objectives ambitiously they may wish to become, for example, the premiere private equity real estate fund in a certain country or geographical area. Perhaps the most important pre-set asset, however, are the fund's resources. Here the management team's regional experience, know-how of property investment, experience in private equity fund management and the sponsor's local presence and business network all play a vital role in the fund's final success rate.

The following sections of this chapter will be dedicated to depicting a hypothetical example of which elements need to be considered in order for a real estate private equity fund to start up its initial activities.

### 1.4.1 Initial Assumptions

Establishing a closed opportunistic real estate investment vehicle means targeting investment opportunities in countries of a certain region. We will assume that our fund, Balkan Global Real Estate Fund, will be active in the countries of South Eastern Europe, i.e. the countries of the Balkans. The sponsor is seeking to raise €250 million of capital commitments for the fund and

intends to offer interests to qualified investors with a minimum capital commitment of €1 million. The sponsor has committed to invest €25 million to the fund, i.e. 10% of all capital commitments (Nevitt & Fabozzi, 1995, pp. 225-232). Furthermore, assuming that the sponsor is regionally present and possesses local know-how, will give our fund a competitive edge.

During the investment period, the fund will be the exclusive vehicle to which the sponsor will direct all known investment opportunities and investment opportunities which fall within the fund's investment strategy.

*Table 1: Preset Conditions of a Closed Real Estate Private Equity Fund*

| | |
|---|---|
| The Fund | Balkan Global Real Estate Fund, a private limited liability company. |
| Targeted Size of Fund | €250 million of total committed capital from investors. |
| Investment Objective | 20% net IRR to investors, after all fund level fees and expenses. |
| Duration | Ten years following the final closing date, with a possible extension of up to five years, in increments of one year. |
| Investment Period | Five years following the final closing date, with a possible extension of two years. |
| Leverage | Maximum 80% of the gross market value of the fund's investments, excluding borrowings drawn on any liquidity facilities. |
| Minimum Investment | €1 million, which may be waived by the sponsor. |
| Sponsor's Commitment | The sponsor will commit to invest a minimum of €25 million to the fund. |
| Carried Interest | 20% of profits until investors have achieved a 20% annual internal rate of return on their investment in the fund (subject to an 8% hurdle rate).<br>25% of profits afterwards |
| Management Fees | An annual fee of €100.000 payable to the fund manager.<br>An annual fee payable to the co-manager as follows:<br>during the investment period: 1,5% of the total committed capital.<br>after expiration of the investment period: 1,5% of all unreturned capital contributions plus the aggregate amount of investments not yet completed but already approved by the investment committee prior to the expiration of the investment period. |
| Organisational Expenses | Organisational expenses incurred by the sponsor in relation to the organisation and the offering of interests in the fund will be reimbursed by the fund up to a total amount of €800.000. |
| Reporting and Appraisals | The fund manager will provide the investors with audited financial reports of the fund on an annual basis and interim financial reports of the fund on a quarterly basis. |

### 1.4.2 Investment Opportunity

The fund is specifically being established to capitalise the current real estate market conditions and the ability of the sponsor and the management team to add value in all stages of the investment process.

The countries that comprise the fund's investment region are undertaking a thorough transition process which has consequently increased economic activity and political stability. This may seem like a slightly ironic statement in times of severe global recession but one must consider

the distorted climate that the countries of South East Europe have come out of (Mrak, Rojec, & Silva-Jauregui, 2004, pp. 4-30). The gradual EU integration of these countries adds investor confidence and a number of foreign companies are seeking new facilities to accommodate their business. At the same time, increases in domestic Gross Domestic Product (hereinafter GDP) of local citizens is pushing the demand for quality housing. Within the framework of a general structural undersupply of all types of real estate asset classes, these market forces create attractive real estate investment opportunities which offer to generate superior risk-adjusted returns for investors.

The fund's investment strategy is underlined by the following market observations which, in the view of the sponsor, are expected to generate the most attractive real estate investment opportunities (Bosak, Voegel, & Mayer, 2007, pp. 19-22) (Brueggeman & Fisher, 2005, pp. 292-298):

Strong macroeconomic environment. Political confidence has improved in South East Europe as the countries continue to integrate into the European economic and political structures. Steady or moderately increasing productivity, foreign direct investments, employment and consumer disposable income create a favourable macroeconomic environment and a demand for both commercial and residential real estate.

Strong occupier demand. There is an increasing occupier demand for all types of real estate. Domestic and foreign companies are seeking facilities to accommodate their business whilst the growth in consumer disposable income has created a market for modern retail shopping and has pushed the demand for upper-end housing.

Shortage of quality stock. A large part of the existing commercial and residential stock is outdated and obsolete with only a limited supply of investment-class products. There is an opportunity to finance development projects to meet the high market demand for rental real estate assets.

Developing investment market. There is a limited number of institutional property investors in the investment region. While Slovenia, Croatia, Bulgaria and Romania have seen some investor activity in recent years, other countries in the investment region remain outside the focus of institutional property investors. Limited investor presence combined with a favourable macroeconomic and real estate environment has led the sponsor to conclude that there is a misconception of risk regarding property investments in the investment region. Therefore there is a potential mispricing of the market opportunity. Although the sponsors expect an increase in competitive international property investors, they believe that the fund's early market entrance will enable them to deliver the desired returns. Additionally, as the property investment market in South East Europe matures, this will provide increasing liquidity and additional exit opportunities for the fund's investments.

Corporate outsourcing. A large portion of commercial property in the investment region is held by owner-occupiers for whom real estate is not a principal business. As property ownership is often ancillary to the primary interests of these owner-occupiers, such property is frequently under-managed. Due to an increasingly competitive environment, many of these passive property holders are under pressure to divest of their real estate assets and focus on their core businesses. The sponsor expects that a trend towards divestment of real estate assets will result in opportunities to acquire well-located properties suitable for redevelopment. Attractive sale-and-lease-back opportunities are also likely to present themselves.

Increasing availability of debt financing. With the advent of foreign banks (most notably from Austria, France, Germany and Italy), debt capital markets in the investment region have become more developed and debt financing has been increasingly accessible in the past few years. In light of the current financial crisis banks are hesitant to lend. However, this will most probably change, as the government pressure on commercial banks for hogging disposable cash assets is greater as the crisis deepens. Nonetheless, short run-effects are still likely to be negative.

### 1.4.3 Investment Strategy

The fund's primary objective will be to realise significant long-term capital appreciation for investors by investing into a diversified portfolio of real estate assets in the investment region. The fund's investment strategy will be opportunistic and proactive (Bosak, Voegel, & Mayer, 2007, p. 20). A structured investment process will be applied to all investment opportunities and possible exit strategies will be identified prior to the acquisition of investments. In pursuit of the investment objectives, the fund will consider three main types of investment projects:

Income-producing properties. The fund will invest in well-located income producing properties with the potential for sustainable cash flow growth and capital appreciation. Typically these would be modern office buildings, retail centres, warehouses and other assets in prime locations leased to high-quality tenants. This strategy may also include forward purchase of projects under development, conditional upon completion and agreed pre-letting requirements, as well as sell and lease back transactions.

New developments. The fund will seek to capture opportunities in markets where supply and demand imbalances offer the possibility to create value through development projects. Such new developments will either be sold on completion or kept in the fund's portfolio as an income generating asset. Development projects will include both green field investments and major redevelopments of existing properties and will represent a key investment strategy for the fund.

Value added assets. In cases of questionable existing properties in good locations, the fund will consider refurbishment and/or repositioning to create additional value. Repositioning will include the use of cost-effective management and active marketing in order to enhance the profile of tenants and increase the net operating income generated by the properties.

The fund will geographically focus its investments in major urban areas of the primary investment region consisting of Slovenia, Croatia and Bosnia & Herzegovina. In addition, the fund will also invest up to 40% of its total committed capital in projects located in the secondary investment region comprising of Serbia, Montenegro, Macedonia, Bulgaria and Romania.

The fund will generally invest in each property with an expectation of a five to seven year investment period. The fund manager may, however, sell a property at any time if it determines that the exit valuation at a specific time makes sense.

The fund will utilise financial leverage as appropriate, subject to a minimum 80% of the gross market value of its investments. The fund will generally seek to take advantage of refinancing opportunities to return capital to investors and enhance overall returns.

### 1.4.4 Fund Structure and Management

#### 1.4.4.1 General

The fund will be organised as a private limited-liability company and will be managed by the fund manager, itself a private limited-liability company. A co-manager will assist the fund manager in managing the fund's assets and an advisory company incorporated in the investment region will provide the fund manager and co-manager with investment advice.

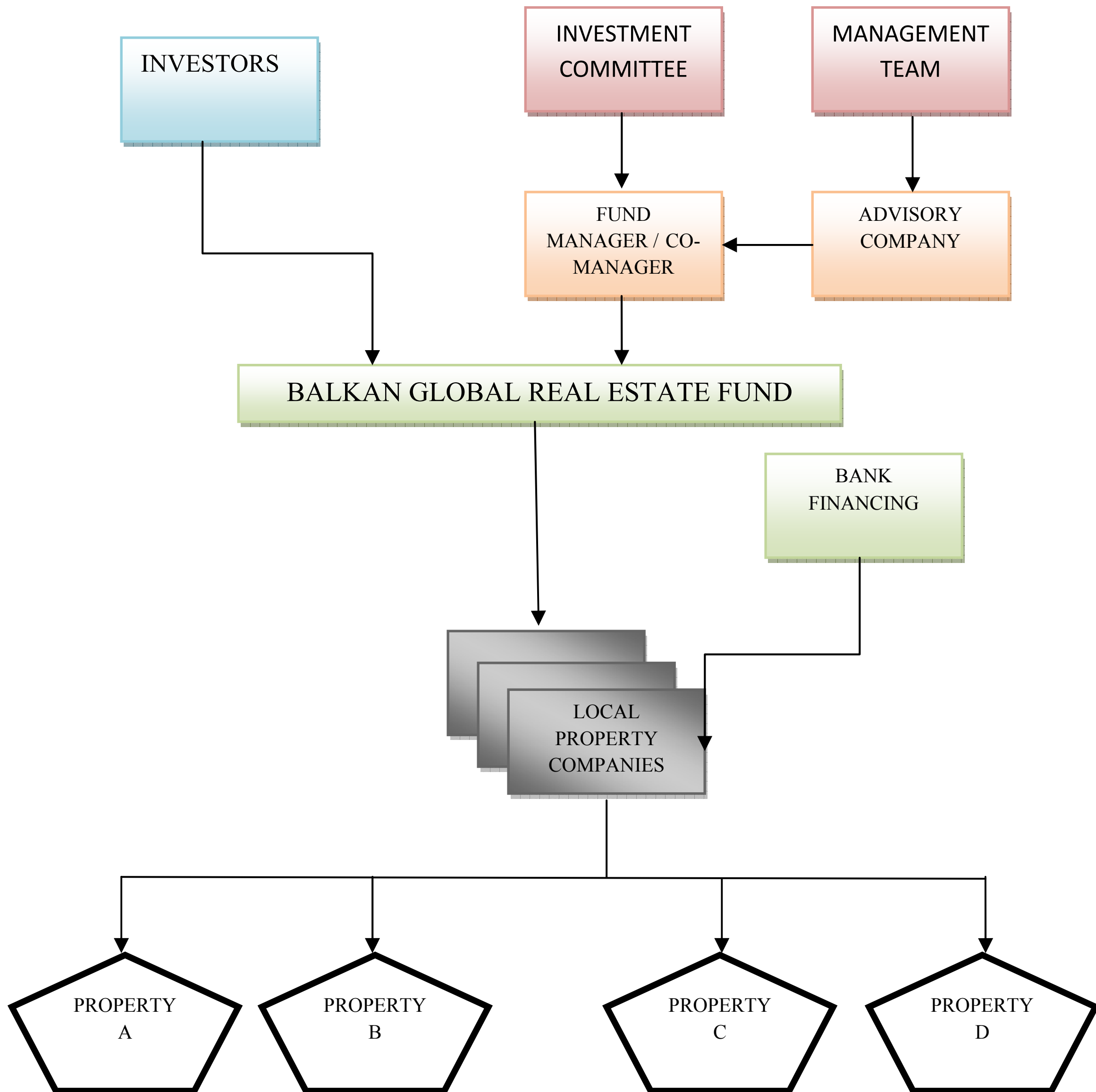
The fund will make its investments during the period from the initial closing date to the fifth anniversary of the final closing date, with a possible extension of two years. The fund will hold its investments through equity, quasi-equity and debt interest in local property companies, who in turn will own the real estate assets.

The fund will have a term of ten years following the final closing date with a possible extension of up to five years, in increments of one year. Upon the end of the term, the fund will liquidate its investments and distribute all proceeds after fees and expenses according to the »Preset Conditions« (see Table 1).

All extensions of the fund's term and investment period will be subject to approval of the general meeting of shareholders by way of a qualified majority resolution. Possible shortenings of the fund's term and investment period will require approval of the fund manager.

The fund structure overview is shown below.

*Figure 3: Fund Structure Overview*




*Source: Fund Structure.*

### 1.4.4.2 Fund Manager and Co-Manager

The fund manager will act as managing director of the fund and will be authorised to represent the fund by entering into binding contracts on the fund's behalf. With the assistance of the co-manager, he will be responsible for the implementation of the fund's investment strategy. The management fees for the fund manager and co-manager have already been mentioned in the Preset Conditions (see Table 1).

#### 1.4.4.3 Investment Committee

The fund manager will establish an investment committee responsible for supervising investment matters of the fund. The fund manager will require prior approval from the investment committee for performing certain actions.

The investment committee will be comprised of a maximum of five members – one representative of the management team, one senior representative of the sponsor and up to three representatives from the significant investors. The investment committee will overview a potential transaction several times, at various stages of its evolution. The management team will consult with the investment committee about its proposed structure and pricing for a transaction and will receive guidance on specific terms to be negotiated. When the management team is ready to finalise its investment proposal the investment committee will once again be consulted. All resolutions of the investment committee will be decided by a unanimous vote.

#### 1.4.4.4 Advisory Company

An advisory company will operate in the investment region for the purpose of advising and assisting the fund manager and co-manager with local know-how and operations: generating investment opportunities, organising due diligence, recommending such investments that fall within the investment strategy and selection criteria of the fund, monitoring of investments and providing such other assistance necessary to realise investments and high return. A dedicated management team will be designated by the advisory company, for the provision of these services. The advisory company will operate at the expense of the fund manager and co-manager thus avoiding the fund any extra direct cost.

#### 1.4.4.5 Management Team

The selected management team members will possess a broad range of skills and experience in sourcing, underwriting, and structuring of real estate investments, asset management, finance, law and investor relations. The team will also benefit from the support of the sponsor's own investment professionals and extensive business connections established in the investment.

Realising the importance of a structured investment approach, the management team will apply and maintain a rigorous investment process covering all aspects of value creation from deal sourcing, preliminary scanning, due diligence, underwriting and financial structuring to active monitoring of standing investments and identification of exit strategies.

All management team members will be strongly success-motivated. Economic interests of management team members have been aligned with those of the investors, by tying a large portion of their compensation package to the fund performance.

### 1.4.5 Risk Factors

Potential investors should be aware that investment in the fund involves a high degree of risk and that there is no assurance that the investment objective of the fund will be achieved. Investment in the fund requires long term commitment with limited possibilities for premature withdrawal from the fund. The following sections will briefly describe the different types of risks a real estate private equity fund can be exposed to (McDonald & McMillen, 2007, pp. 291-292).

#### 1.4.5.1 General Risks

The fund's investments will be subject to the risks inherent in the ownership and operation of real estate and real estate related assets. These risks are associated with the general economic climate, local real estate conditions, changes in supply of or demand for competing properties in an area, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, government regulations, charges in real property taxes, interest rates and other factors which are beyond the control of the fund manager.

The returns on real estate investments depend largely on the volume of rental income generated by the real estate, the expenses incurred in managing the real estate and the changes in the market value of the real estate. The market values are in turn affected by the rental income and operating expenses associated with the real estate. Rental income received by the fund and the market value of its properties may be negatively affected by several factors including; international, national, regional and local economic climate, changes in interest rates, the absence of acceptable sources of finance, the local market situation for real estate, including changes in rental prices and occupancy rates, general trends in the sector, bankruptcy or insolvency on the part of the tenants, increases in operating costs, the periodic need to renovate, and changes to applicable laws and regulations, including taxation legislature.

#### 1.4.5.2 Regional Risks

Investments in the fund will be subject to risks associated with the ownership and management of the real estate in the investment region. Investors should recognise that the real estate activities in the investment region involve special considerations, including those set forth below, not typically associated with investing in real estate in more highly regulated environments.

The fund's revenues and the value of its real estate will be affected by economic and regulatory environment in the investment region, including interest rate levels, inflation, the availability of financing in the local real estate markets, as well as changes of the legal environment, notably changes in legislation on the environment, zoning, taxation and historic preservation of real estate. In certain countries of the investment region, land ownership rights may not be

appropriately registered with the respective land registry authorities and may give rise to ownership disputes. In addition, the fund's investments will be subject to (i) currency exchange matters, including costs associated with the conversion of investment principal and income from one currency into another; (ii) the standards, practices and disclosure requirements and differences in government supervision and regulation; (iii) certain economic and political risks, including exchange control regulations, potential restrictions on repatriation of capital, risks associated with political, economic or social instability and the possibility of expropriation or confiscatory taxation. In addition, certain significant expenditures, such as management costs or insurance costs and related charges, must be made throughout the period of ownership of local property regardless of whether the property is producing any income.

#### 1.4.5.3 Development Risks

Alone or in a partnership with individual investors or third parties, the fund may acquire direct or indirect interest in undeveloped land or underdeveloped real property, which may not be income-producing. Such activities require a longer commitment and carry higher risks with no certainty of return. In addition, these developments and projects require substantial capital resources and will be completed over a substantial period of time during which no revenue is likely to be generated. To the extent the fund invests in such assets, it will be subject to the risks related to such development activities, including; risks related to the availability and timely receipt of zoning and other regulatory approvals, risks relating to completion, the cost and timely completion of construction (including risks beyond the control of the fund, such as weather or labour conditions or material shortages), and the availability of financing and other risks relating to financing of the development. Any of these could increase the cost or delay or even prevent the completion of a project and could result in a loss of revenue or investment value. Contingencies in development activities beyond the control of the fund could occur. Furthermore, there can be no assurance that the fund will succeed in finding tenants or purchasers for the properties after the development or renovation is complete. In addition, market conditions may change during the course of development to make such development less attractive than at the time it was commenced. Properties under development or properties acquired to be developed may receive little or no cash flow from the date of acquisition through to the date of completion of the development and may experience operating deficits after the date of completion.

#### 1.4.5.4 Debt Financing

The fund expects to employ leverage in connection with its investments. The use of leverage to finance investments involves a certain degree of financial risk and can amplify the effect of any increase or decrease in value of an investment. The fund will be subject to the risks normally associated with debt financing, including the risk where the fund's cash flow will be insufficient to meet required payments of principal and interest, the risk where the indebtedness of the investments will not be able to be refinanced or the risk where the terms of such refinancing will

not be as favourable as the terms of the existing indebtedness. In addition, the fund may incur indebtedness that may bear interest at variable rates. A variable rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect the fund (Mortgages in Transition Economies: the legal framework for mortgages and mortgage securities, 2007).

The fund may, in the future, engage in transactions to limit its exposure to rising interest rates as it deems appropriate and cost effective, which transactions could expose the fund to the risk that counterparties to such transactions may not perform and cause the fund to lose the anticipated benefits there from, which would have the adverse effects associated with increases in market interest rates.

#### 1.4.5.5 Other Risks

The fund may invest in investments which may not be advantageously disposed of prior to the date on which the fund will be dissolved, either by expiration of the fund's term or otherwise. Although the fund manager expects that investments will be disposed of prior to the expiration of the fund's term, the fund may have to sell or dispose of investment at a disadvantageous time, as a result of its liquidation. This latter example may best be described as illiquid investments.

Some countries do not use the euro as their domestic currency and the assets of these countries may be denominated in local currencies. Thus, the fund's investments may be subject to currency and inflation risks which might adversely affect the value of the fund's investments calculated in euro. As a measure to manage currency and inflation risk, the fund will attempt to use euro denominated structures when making its investments. Due to the absence of forward and future markets in the relevant currencies, the fund does not have any intention to circumvent currency risk partially or fully.

Investments will be made based on estimates or projections of IRRs and current returns, which in turn are based on assumptions regarding the performance of the fund's assets, the amount and terms of available debt financing and the manner and timing of dispositions, all of which are subject to significant uncertainty. In addition, events or conditions which have not been anticipated may occur and may have a significant effect on the actual rate of return received from the fund's investments. The fund may make investments which may have different degrees of risk. Prospective investors should bear in mind that past, targeted or projected performance is not necessarily indicative of future results, and that there can be no assurance that; targeted or projected returns will be achieved, that the fund will achieve comparable results, that the fund will be able to implement its investment strategy or achieve its investment objectives (Doroghazi, 2005).

### 1.4.6 Conflict of Interest

Investors should be aware that the sponsor, the fund manager, the co-manager, the advisory company and their respective affiliates, including their directors and employees might be subject to various conflicts of interest in their relationship with the fund. This section will be dedicated towards emphasising some of the conflicts that may occur.

The fund will conduct all business dealings on arm's length basis. The sponsor, the advisory company and their respective affiliates together with any other entity having a representative on the investment committee, will inform the fund manager of any business activities in which they or their affiliates are involved, which are not related to the fund and could create an opportunity for conflicts of interest to arise in relation to the fund.

#### 1.4.6.1 Conflicts with Respect to Potential Investments

From time to time, the sponsor and its affiliates may have business dealings with companies that invest in properties that may compete with the fund for investment opportunities. In general, from the initial closing date until the end of the investment period, or such earlier time as the total committed capital of the fund will have been invested, the sponsor and its affiliates will be obliged to direct to the fund all investment opportunities that fall within the fund's investment strategy and of which they become aware of.

In the event, that the fund manager is presented with an investment proposal involving a property or company owned, advised or otherwise associated by the sponsor, the advisory company or any other entity having a representative in the investment committee, such entity will fully disclose such conflict of interest to the investment committee and its representative will be excluded from exercising his vote in relation to such investment proposals.

#### 1.4.6.2 Professional Services

From time to time the sponsor, fund manager, co-manager, advisory company and any of their affiliates (including companies affiliated to any member of the management team) may provide property development, property management, financial, due diligence and other professional services to the fund or its portfolio companies. Any such services shall be negotiated at arms length and will be subject to the approval of the investment committee. To ensure that all services, provided under such arrangements, are provided at prevailing market rates, any member of the investment committee shall have full authority to invite bids for like services (i.e. comparable in quality and kind) from third party service providers. In such an event, the entities listed above shall have the right to match the lowest bid.

#### 1.4.6.3 Other Areas of Conflict

Where other conflicts of interest arise between the sponsor, the fund manager, the co-manager and the advisory company and where the sponsor is in a position to influence the events leading to such conflict, the conflict must be considered by the investment committee. The fund manager shall endeavour to resolve conflicts of interest in a manner which deems equitable to all of the parties, to the extent possible under the prevailing facts and circumstances.

### 1.4.7 Tax Considerations

Herein the general taxation matters for the fund will be summarised (International Tax Treatment of REITS, 2003).

#### 1.4.7.1 General

The fund will be established as a private limited liability company. The fund will make its investments by providing equity, quasi-equity and subordinated debt financing to entities established in the investment region, that will in turn own and manage the real estate (each such entity a »local property company«). These local property companies will be formed for business, legal and tax purposes and serve to increase the operating efficiency and profitability of the fund. It is contemplated, that the disposition of an investment will typically be accomplished by the fund selling the shares of the local property company and distributing the proceeds to investors. Notwithstanding the expected holding structure of investments, the fund may establish special purpose vehicles in other jurisdictions (or may use more than one level of holding companies) in order to maintain flexibility for the future exit, to adopt to changes in legislation, to avoid local transfer restrictions or local transfer taxes, to enter into shareholders agreements, etc.

It is assumed, that the fund or any parallel investment vehicle established by the fund will not be deemed to have a permanent establishment, dependent agent of fixed place of business in any of the countries in which investments are to be made or held, and that the central management and control of the fund will be outside such countries. Further, many of the tax benefits afforded by the double taxation treaties described below are available only upon receipt of advanced clearance from the relevant taxation authorities. The fund manager will use its reasonable efforts to obtain such advance clearance where such is deemed needed by the fund manager.

#### 1.4.7.2 Taxation of Local Property Companies

Generally, local property companies will be subject to tax on any income earned from the real estate each company owns. This may include net rental income, interest income and gains from the sale of real property. Generally, depreciation expense, interest expense, fees and other

general and administrative expenses will reduce the amount of income subject to tax. Moreover, the rate of tax will vary by jurisdiction.
Dividend and interest payments made by the local property companies to the fund will generally trigger a low withholding tax in the jurisdiction of the local property company. The rate of the withholding tax will vary by jurisdiction and will depend on a series of factors such as the; local legislation, relevant double taxation treaties and the applicability of EU council directives, provided the fund will be set up in another EU member state.

#### 1.4.7.3 Taxation of the Fund

The fund's investments will be structured in such a way that income received by the fund should qualify for participation exemption of the country where we have set up the fund and as such should be exempt from corporate income tax of the already mentioned country.

Dividend payments made by the fund to a feeder vehicle should not trigger any withholding tax by virtue of the participation exemption of the country involved, provided that such feeder vehicle holds at least 5% of the fund's issued share capital. Dividend payments made by the fund directly to other direct investors will generally trigger a withholding tax of the already mentioned EU member state, the rate of which will depend on the amount and share of such direct investor's equity holding in the fund, the jurisdiction of such direct investor, applicable double taxation treaties and applicability of EU council directives.

#### 1.4.7.4 Taxation of Feeder Vehicles

Insofar as a feeder vehicle holds at least 5% of the issued share capital of the fund, dividend income received by such feeder vehicle from the fund should fall under the participation exemption regime where the fund is initially registered and should be exempt from corporate income tax of the country involved.

Dividend payments made by the feeder vehicle to an indirect investor will generally trigger a withholding tax of the EU member state, the rate of which will depend on the amount and share of the indirect investor's equity holding in the feeder vehicle, the jurisdiction of the indirect investor, applicable double taxation treaties and applicability of the EU council directives.

## 1.5 The Market Outlook and Future Trends

In the inevitable process of globalisation, the once economically immature countries have, due to a number of financial and socio-economic factors in the past decade, been turned into leading world economies. But were/are some of the factors responsible for such profound changes? In order to answer this question the financial factors must be overviewed first. The factors we have in mind are not necessarily real estate related for a blooming real estate market is normally the

result of prudent and successful performance on the financial markets. Surely exchange rates must play a role. Indeed, exchange rates are important as they give citizens of a particular country buying power, which can be greater or weaker in relation to citizens in other areas of the globe.[6] Are lending interest rates also a factor which has influenced change? Correct, local bank lending rates are the ones that determine the extent to which citizens can and will invest. Investments are, therefore, interest rate determined. What about the gold prices?[7] Although what may seem like a slightly bizarre determinant, raw commodity prices are actually a major factor in the globalisation change process. Whilst central banks in Asia are accumulating large amounts of gold, central banks of the West are selling their gold supplies (A Look at Central Bank Gold Reserves, 2005) (China's Gold Reserves Double in Value, 2006). With the huge leap in prices of this raw commodity countries such as India and China have profited enormously (The Real Price of Gold. In dollars and suffering, it's never been higher, 2009). Therefore, raw commodities will continue to be sought after dearly. Last but not least socio-economic reasons should also be mentioned. People will continue to migrate to countries with better education perspectives, more job opportunities and, as mentioned above, places with abundant natural resources. The latter is, after commodity, evermore sought. Moreover, serious efforts are being undertaken to alter the world's financial system (Nujno je spremeniti svetovni finančni sistem, 2009). This too could reposition the worlds most developed countries in the years ahead.

The impact of multinational enterprises that locate goods-producing and service-producing activities throughout the world (such that a host of international real estate service providers and foreign real estate investors are deemed to follow) moves cities towards maturity. Places in Brazil, Russia, India and China (BRICs), Central and Eastern Europe and even the Middle East are undergoing a real estate market growth transformation. This means that property investments in Sao Paolo, Moscow, Mumbai, Beijing, Prague and Dubai are now spoken of in conjunction with London, New York, Tokyo and Monaco as prudent strategies of diversification (Laposa, Alford, & Trifilo, 2007, p. 1).

So what impact will real estate backed securities have in the future? Bearing in mind the near collapse of the current property market in the US (Poole, 2007) (Yoon, 2005), it is fair to assume that investors will be more cautious, as far as the invested amount and the allocation of financial assets are concerned. With many individuals not having enough to purchase significant amounts of property for income producing real estate, investment tools such as those described in chapter 1.3. are and will remain the best alternatives for profit making on real estate markets around the globe.

# 2 Asset Management

[6] Within the last year we have witnessed a drastic fall of the pound sterling (Falling Value of Pound Sterling, 2008). Individuals that earn their living in the United Kingdom (hereinafter UK) for instance can get less for their money compared to what they were able to afford only a year ago.

[7] In light of the current financial crisis with securitised investment papers having lost so much of their value, many of the richest men in the world have turned to investing in raw gold, either by buying it directly or by purchasing gold mines. The sudden demand of gold has triggered prices to match the very limited supply of gold withstanding. Therefore it is not surprising that gold is a safe investment and a hedge against inflation.

The term asset management derives from the field of financial services. In order to emphasise that the term associates only to real estate and not to all investment types as initially used, the terminology was extended to real estate asset management. In general, real estate asset management is all about operating with income-producing real estate.

»Real estate asset management is the discipline of systematically optimising the returns of entrusted real estate assets by strategically managing them in their total life cycle and value chain«. (Bosak, Voegel, & Mayer, 2007, p. 13).

In order for the real estate asset management firm to successfully indulge in its principal activities it should be involved in all processes of the real estate – from acquisition to de-investment. The firm must pick the right products which meet the needs of relevant tenants and investors. This means negotiating on the final price, keeping transaction costs at a bare minimum and choosing the most tax-efficient structure (usually includes setting up a special purpose vehicle (hereinafter SPV)). However, the main task of an asset manager is keeping an eye on the market and following any alterations.

## 2.1 Strategies

Strategies are most commonly divided into two types; those for mature and others for immature markets.

Mature market strategies are structured by the asset classes which have regional and local submarkets and are highly transparent. The market has been researched thoroughly, making strategy implementation easy. However, gaining profitable returns is a greater challenge than in immature markets as the competition is harsher. Even more so, specialisation in mature market conditions is simpler as expertise is more abundant and the market can tolerate a bigger workforce quota.

Quite the opposite is the depiction of the immature market. Here the presence of institutional players is significantly weaker than with mature markets. This means that the market has been researched poorly. Transparency in immature markets is certainly not a competitive advantage and although returns can be much higher than in mature markets the risk is all that greater. Too many investors have based their strategy on outdated and obsolete data which results is a false and misleading representation of the market. Numerous funds announced large investments in Central and Eastern Europe (hereinafter CEE) in the first few years of the new millennium, but the actual number of investments has been relatively small (Bosak, Voegel, & Mayer, 2007, pp. 19-20). The main reason was that the targeted returns were unrealistically high. A successful investment strategy for immature markets must be opportunistic and should be based around only a few central ideas.

In regard to fund-raising there are two main methods which will be considered below.

The first is the so-called private placement (Nevitt & Fabozzi, 1995, pp. 83-85) or direct contact with investors. Here equity is granted to a particular fund but not paid in. Money is drawn only when an investment opportunity arises. Returns are usually higher in this instance as money flows into the fund exactly when it is used to produce a return.

The second, however, is through an Initial Public Offering (hereinafter IPO) and, at a later stage, through the capital increase of a listed fund. With IPO's the equity is drawn into the fund's account from the first day on. Pressure on the fund manager to invest into assets immediately is great. Listed funds are otherwise also known as blind funds as the asset manager can practically invest in anything as long as it is in line with the pre-determined policy.

When it comes to risk there are basically two schools of thought. Both are of equal importance when meeting the rates of return objectives for investors. Successfully implementing either of these requires selective skills and resources (Bosak, Voegel, & Mayer, 2007, p. 22). One claims that the tighter the control, the more rational the decisions are. On the other hand the second school claims that having less control is better since many layers of bureaucracy are automatically eliminated. Which theoretical approach should be followed really depends on the beliefs of the individual investor, however, provided the investor manages to find an asset manager with a respectable track record then there can be no logical reason to invest anywhere besides their fund.

At this stage the two different investment styles are also worth mentioning; core and non-core. A core investment strategy is expected to generate lower returns for investors; however, the risk is mitigated. A non-core investment strategy on the other hand tends to produce more respectable returns but at a much higher risk. A non-core investment strategy consists of two sub-types, value-added and opportunistic. Value-added is the less risky investment type with opportunistic being the more aggressive investment approach. Also important to note is that core investment strategies have a much higher rate of income distribution than property value appreciation. The opposite, however, applies for non-core investment strategies.

*Table 2: Projected Returns on Non-leveraged Investment Strategies*

| **Investment Strategy** | **Total Return** | **Distribution Income + Appreciation** |
|---|---|---|
| **Core** | 8.5% - 10% gross | 90% + 10% |
| **Non-Core** | | |
| Value-Added | 10.5% - 12.5% gross | 60% + 40% |
| Opportunistic | 13% + gross | 30% + 70% |

*Source: Defining and Determining Core and Non-Core Real Estate Investment Strategies, 2005.*

*Table 3: Projected Returns on Leveraged Investment Strategies*

| Investment Strategy | Total Return | Distribution Income + Appreciation |
|---|---|---|
| **Core** | 10% - 12% + 40% leverage | 80% + 20% |
| **Core Plus** | 12% - 14.5% + 60% leverage | 70% + 30% |
| **Non-Core** | | |
| Value-Added | 14% - 18% + 65% leverage | 40% + 60% |
| Opportunistic | 20% - 30% + 75% leverage | 15% + 85% |

*Source: Defining and Determining Core and Non-Core Real Estate Investment Strategies, 2005.*

## 2.2 Acquisitions

Obtaining the right assets for the fund is the most delicate step of the business process. If the wrong product is purchased in the wrong location at the wrong price, the mistake is often irredeemable. Getting the price right is crucial to the success of an acquisition.

Matching the product with the market criteria is a relatively easy task. This can be seen through the occupancy rate and in the quality of tenants.

### 2.2.1 Phases of the Acquisition Process

In total there are 12 phases (Bosak, Voegel, & Mayer, 2007, pp. 26-42).

1. Identification of the target
2. Contact with decision-maker
3. Meeting
4. Issuing a Letter of Intent (hereinafter LoI)
5. Getting the financing ready
6. Signing the LoI after discussions and proposed modifications
7. Due diligence
8. Start of drafting a contract
9. Sorting out the due diligence findings or cancelling the process
10. Signing
11. Work on the conditions precedent
12. Finalising the payment
13. Implementing the purchase contract and follow-up on warranties in due course.

All of the above listed points are equally important. However the due diligence process is the turning point where the decision to go forth with the investment has more or less been made. The due diligence process has two main goals; the first is to check what the fund is buying and to find

out whether there is a catch in the deal itself. The other, however, is to secure the buyer's position in case of legal procedures regarding warranties, and so on and so forth. For the asset management firm investing, it is vital to be secured by the exclusivity clause, as it now has to invest a lot of money in the due diligence process.

## 2.3 Core Asset Management

Core estate asset management is otherwise known as real estate management and is about checking whether there are any suitable products on the market and if there are none making the decision to develop. The main question the asset manager is concerned with is whether there are tenants who are willing - now and at some specific time in the future - to rent a space at a price that will help to make the investment profitable.

Practically all tasks associated to fulfilling an investment goal can be summarised as core asset management. This can mean optimising tax solutions, financing models, reporting to investors, so-called engineering of facility management services, if outsourced to a third party, marketing and leasing, as well as the timely recommendation for sale.

## 2.4 Exiting

Exiting is the final stage of the investment process. It is only at this stage that the assessment of whether the property yielded in the desired returns and what the IRR really turned out to be like can be made. The shorter the timeframe in which an asset is held, the more significant the influence of the figure.

The length of time an asset is chosen to remain in the investment portfolio depends on the portfolio strategy. Solely funds with a predetermined exit strategy will sell-off the investment after a predefined period of time. Other investors, for instance integrated real estate companies do not necessarily have an exit strategy. Their decision, to prematurely leave an investment is based purely on market opportunities and pressure on the capital side. It is very important that the potential exit of the investment is part of the strategy right from the start. Different types of potential buyers and the exit instruments should both be considered. This is likely to influence the size and usage of the assets in the portfolio.

In order to achieve the highest possible returns the asset manager should abide by the principle of flexibility. To speed up the exit process, documentation on the assets involved should be well structured and filed accordingly so that they can be reached instantly if and when the buyer decides to undertake the due diligence.

# 3 The Feasibility Study

“ Financing of a particular economic unit in which a lender is satisfied to look initially, to the cash flows and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan.” (Nevitt & Fabozzi, 1995, p. 3).

The above quotation is associated with the term project financing of any kind and type of project which means we can, use it when taking the financing of our real estate investments into account. Without having financial assets at ones disposal there is not much point for an asset manager or analyst to undertake the feasibility study process. In order to work with our claim it is essential to assume, that the capital commitments for a fund have been raised and that the team solely needs to focus on the investment process.

Therefore a real estate feasibility study is, an analytical tool used to support the decision-making process based on a cost benefit analysis of the project viability. It is conducted during the deliberation phase of the business development cycle prior to proceeding with the proposed project. The study is an effective way to safeguard against wastage of further investment and resources. Provided the feasibility study shows that a project is worth investing into, then the next logical step is to proceed with the full business plan. The analytical information uncovered in the study will support the investment planning stage and reduce the research time. Hence, the business investment plan costs will also be reduced. A thorough viability analysis can provide an abundance of information which is also crucial for an investment plan. For example, a good market analysis is critical in order to determine the investment concept’s feasibility (more on the market analysis will be explained in the chapter entitled Market Study).

Last but not least, a property feasibility study should include clear supporting evidence for its recommendations. The extent of these recommendations can be weighed against the study ability to show the continuity between the research analysis and the suggested investment model. Recommendations will depend on a pallet of numerical data with qualitative documentation. The feasibility study is heavily dependent on the market research and analysis.

This chapter focuses on finding out whether a property investment may bring beneficial returns to the real estate fund.

## 3.1 Key Indicators and Principal Methods of Calculation

Before planning permission can be obtained for a random property in a random area the local municipality should already have certain common restrictions in place, dependant on the type of land asset class (forest, farmland, plot for residential development, plot for office premises, etc.).[8] One such restriction/indicator is the **floor space index** (hereinafter **FSI**) which, basically denotes the amount of construction that can be done on a given piece of land. Generally, the higher the FSI the more densely populated a certain area is. Mumbai, for example, has in

[8] The milestone for such legislation having been commonly established within the UK was the Town and Country Planning Act of 1947. Since then, any new development requires planning permission.

comparison to other highly populated cities a very low FSI of only 1.33. On the other hand Manhattan in New York has the highest FSI of 30 (Outlook Business, 2008).

The equation for calculating the FSI goes as follows (McDonald & McMillen, 2007, pp. 146-149):
**FSI = Total gross covered area on all floors of all buildings on a certain plot / Area of the plot**

This means that an FSI of 1,5 indicates that the total gross area of a building is one and a half times the area of the plot on which it is constructed. Therefore the building in question is a multiple-story building.

Besides restrictions regarding the FSI, planning permission is often granted upon restrictions of how far the object in question must be from the neighbouring plot.[9] In residential areas there are also usually strict limitations to how high the object in question can be.

Two important measures in income producing properties are the **net operating income** (hereinafter **NOI**) (McDonald & McMillen, 2007, p. 289) and the **capitalisation rate** (hereinafter **cap rate**) (McDonald & McMillen, 2007, pp. 327-328). Both are briefly described below.

The NOI is defined as a property's yearly gross income without operating expenses. Gross income is all income associated with a property whilst operating expenses include costs incurred during the operation and maintenance of a property. The latter, namely, represent insurance, repairs, maintenance, management fees, supplies, property taxes, etc.

The NOI is almost always associated with the cap rate, which is used to estimate the value of income-producing properties.

- **Example**

Assuming a one-bed apartment is worth €150.000 on the market. Providing the NOI is €7.500, we are able to work out the cap rate;

**Cap rate = Net operating income / Estimate value** = 7.500 / 150.000 = 0,05 or 5%

From the above equation we can see that the cap rate represents 5% of the apartment value per annum.

[9] In Slovenia, for instance, there has recently been a newly accepted legislative act regarding the minimum distance of a residential building to the neighbouring plot. It is based on the formula $\sqrt[3]{V}/2$, whereby V represents the volume (in m³) of the building in question. Provided the allowed building distance from the neighbouring plot comes to less than 4 metres, a minimum 4 metre rule must be imposed unless the developer (or rather owner) can get written consent from the owner of the neighbouring plot.

Yet another significant ratio used to evaluate income producing properties is the **debt coverage ratio** (hereinafter **DCR**). This ratio is used to measure a property's ability to pay its operating expenses and mortgage payments.

- **Example**

Let us assume that the NOI remains at €7.500 as in the previous example. If our debt service is €5.000, then our DCR is;

**Debt Coverage Ratio = Net Operating Income / Debt Service** = 7.500 / 5.000 = 1.5

As a result, this shows that the chances of being able to get a commercial loan from a bank are pretty high. A DCR of 1 is breakeven. The majority of lenders need at least a ratio of 1.1 to be eligible for a loan from a commercial bank. Just to clarify the meaning of the debt service it represents all interest and principal paid on the loan in a given year. It equals the mortgage payment times twelve.

Any real estate asset manager must be familiar with the principal methods of calculating or valuating income-producing property. The key indicators for assessing the feasibility of an investment can basically be divided into two main categories: static and dynamic methods of calculation. Although the above listed indicators should be classified as static indicators we shall, due to the purpose of easier emphasis on the more important indicators, leave them separate for the time being. Static methods are used for very brief calculations as they, unlike dynamic methods, do not take into account the time aspect of cash flows. Therefore the dynamic project overview is more important as far as investing into income producing real estate is concerned. The main equations for each of the two methods must be evaluated.

### 3.1.1 The Static Project Overview

The two main equations used in the calculation of static project overview models are the **payback period** and the **discounted payback period**. Both are briefly described below.

The payback period is calculated as the length of time required to recover the cost of an investment. Taking into consideration the ceteris paribus hypothesis, the better investment is the one with the shorter payback period. There are, however, two downsides to the payback period method. The first is that it ignores all cash flows beyond the payback period and the second is the fact that it ignores the time value of money. Contrastingly it also contains the upsides of quick and easy calculation methods and the fact that it gives a measure of the liquidity of the investment.

- **Example**

If a real estate investment costs €200.000 and is expected to yield €10.000 per annum, the payback period will be 200.000 / 10.000, or 20 years.

For the equation for the payback period goes as follows:

**Payback Period = Cost of Project / Annual Cash Inflows**

The discounted payback period, on the other hand, takes into account the time value of money which is a more appropriate way of measuring the payback period. The discounted payback period is always longer than the regular payback period. The main disadvantage of the discounted payback period is the fact that it still ignores the cash flows beyond the payback period. Therefore, the asset manager may reject projects that have large cash flows in the outlying years that make it very profitable. In other words, any measure of payback can lead to short-run profits at the expense of larger long-term profits.

Yet another important indicator of the static project overview is the **accounting profit**. The accounting profit tells us a company's total earnings[10] and includes the explicit costs of doing business, such as depreciation, interest and taxes. In general, accounting profits tend to be higher than economic profits as they fail to include various implicit costs, such as opportunity costs.

- **Example**

Someone invests €200.000 to start a business and earned €240.000 in profit, their accounting profit would amount to €40.000. Economic profit would add implicit costs, such as the opportunity cost of €100.000 should they have been employed instead during that period. As such, their economic loss would amount to €60.000 (€240.000 – €200.000 – €100.000).

### 3.1.2 The Dynamic Project Overview

**The net present value** (hereinafter **NPV**) and the **internal rate of return** (hereinafter **IRR**) are the two most important equations of the dynamic project overview. The reasons for this as well the comparison between the two most useful equations of the feasibility study process are all described below.

The net present value is connected to business decisions which are associated with uncertainty and longer periods of time in the future. It can be best described as the present value of an investment's cash flow (benefits) minus the present value of its cash outflows (costs) (Fabozzi, 2009). The net present value can be calculated by discounting future net income (net cash flow)

[10] The company's total earnings are measured in accordance with the Generally Accepted Accounting Principles (GAAP).

with the discount rate. The latter is, namely, used as yield expectancy were we to invest our equity for a different purpose with a comparable risk involved. Let's take a glimpse at the equation for the net present value.

**NPV = Present Value of the Cash Flows – Initial Cost of Investment**

An alternative formula:

$$NPV = \sum_{t=1}^{n} \frac{R_t}{(1+r)^t} - I_0$$

$R_t$ – The net cash flow at time t
t – The time of the cash flow
r – The discount rate
n – The number of periods
$I_0$ – Initial cost of investment

- **Example**

A real estate investment of €100.000 today at 10% will yield €110.000 at the end of the year. Therefore, the present value of €110.000 at the desired rate of return (10%) is €100.000. The amount of investment (€100.000) is deducted from this figure to amount to the NPV which is null (€100.000– €100.000).

An investor will proceed with the investment provided the NPV is greater or equal to 0. A rational investor will always go for the investment proposal with the higher NPV. Should the NPV be lower than 0, deciding to take on the investment will lower the company's net worth.

Another concept that considers the cash flow time horizon is the IRR. It is defined as the discount rate which equalises the present value of all net income with the initial investment value. In other words this means that the NPV of the calculated IRR is 0.

$$I_0 = \sum_{t=1}^{n} \frac{R_t}{(1+IRR)^t}$$

$R_t$ – The net cash flow at time t
t – The time of the cash flow
IRR – The internal rate of return
n – The number of periods
$I_0$ – Initial cost of investment

The IRR represents a certain share of the invested equity. Depending on how high this share turns out to be can the asset manager decide on whether the investment is pursued further.

Although the IRR indicator is more commonly used in practice the NPV is a more reliable indicator for evaluation. Here are three advantages of the NPV indicator compared to the IRR (Mušič, 2007, p. 5):

The NPV assumes that financial assets are reinvested under costs of capital whilst the IRR indicator assumes reinvestment of positive cash flows during the project at the same calculated IRR. Thus, when positive cash flows cannot be reinvested back into the project, IRR overstates returns.[11]

In case the capital costs throughout the investment period change we can use solely the NPV concept. The IRR plays no role in such a case.

Several IRRs can be calculated for a single investment if cash flows are unevenly distributed throughout the investment period.

A calculated IRR should not be used to rate mutually exclusive projects, but to decide whether an individual project is worth investing in. In cases where one project has a higher initial investment than a second mutually exclusive project, the first project may have a lower IRR, but a higher NPV and should therefore be accepted over the second project.

Although there is a strong academic preference for the NPV, analysis indicates that fund managers prefer IRR over NPV. Apparently, managers find it easier to compare investments of different sizes in terms of percentage rates of return than by EUR of NPV. However, the NPV remains the more precise reflection of value to the business. The IRR, as a measure of investment efficiency may give better insights in capital constrained situations. Nonetheless, when comparing mutually exclusive projects, the NPV is the more appropriate measure.

## 3.2 The Market Study

"Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer." (Smith, 1776)

The above statement still holds true today. Without nearly fully let buildings, which happen to be the result of professional marketing efforts, the asset returns would be insufficient. The aim of the market study in real estate asset management is not only to mitigate risk but also, to find out the needs of potential investors and the extent as to how the supply side of the market is able to meet these needs (Cirman, Čok, Lavrač, & Zakrajšek, 1999, pp. 75-78). An asset manager has, namely, two groups of target: the investors and tenants. To satisfy both, the right product and services for the latter must be offered in order to achieve the desired returns.

[11] Since the IRR does not consider the cost of capital, it should not be used to compare projects of different duration. The Modified Internal Rate of Return (MIRR) does consider the cost of capital and provides a better indication of a project's efficiency in contributing to the company's discounted cash flow.

In general, three main environments are to be addressed within a market study (Bosak, Voegel, & Mayer, 2007, pp. 86-88): the macro environment, the industry environment, and the competitors for the relevant products. It is important to remember that real estate markets are local markets. Therefore, a real estate asset manager should get a clear picture of the future trends of the respective economy. A country's macroeconomic state can easily be organised, even in cases of emerging markets. The data can be very beneficial if interpreted correctly. Nonetheless, a characteristic of emerging real estate markets is their lack of transparency. Therefore, options vary whether it makes sense to invest in terms of market potential and risk. Asset managers should rely more on the facts of expected economic developments than on the many opinions regarding developing the relevant real estate markets (McDonald & McMillen, 2007, pp. 284-286).

The more detailed the information the analyst can get, the better. In a case where information regarding offices needs to be collected, it would be clever to obtain data regarding the development of the service sector. In cases of shopping centres, information regarding the purchase power of the relevant region needs to be collected.

Despite the fact that detailed research reports are available for each usage type in each country separately, it is crucial to be on location to be able to make the right decisions. Subsequently, it is wise to gather all the data from each relevant market. This is critical for the forecasts of new supply in the correlating real estate segment, where the opinions of different agents can occasionally vary widely, as there are various assumptions about the construction start and the status of the permits. Yet another source of misjudgement is that some potentially significant deals are transferred from one report to the next, which can distort the depiction of the demand side. This can also be called negligence. The rental levels can also be distorted, as mainly headline rents are reported and the net effective rents are not fully disclosed.

## 3.3 Strategy Implementation

A successful real estate investment execution is the result of a thorough market research study. Herein are 10 main points of a systematic marketing approach (Bosak, Voegel, & Mayer, 2007, pp. 88-98);

- All knowledge sources of creating a unique and differentiated product should be used
- A clear depiction of the environment should be obtained
- The project should be compared to competitors' projects
- A SWOT analysis should be undertaken
- The product should be well positioned
- The marketing and leasing goals should be defined
- The appropriate strategy pyramid of achieving the goals should be defined
- The marketing mix should be fine-tuned (the four P's)

- The marketing plan should be executed
- There needs to be a reality check and adoption

Provided the asset manager takes this systematic approach, the likelihood of achieving desired results is very high.

## 4 Income-Producing Real Estate

After having looked at the brief introduction of »once-upon-a-time« renting in the first chapter entitled History and Evolvement of Real Estate Funds we now turn our attention to more contemporary methods of selling the use of wealth of various kinds under the form of renting. Modern day renting is an arrangement of a lessee to the lessor to pay a specified price for the use of a property and, at the end of a pre-set period, to restore it in good condition or to pay for its repair. In order to prevent any kind of disputes between the two mentioned parties a renting contract is necessary. Not only is a renting contract crucial for specifying the duration of the lease, rent, whether cash or a share of the produce, insurance policy determinants, repairs, but also outlines the tax rate for the government as well as other details which must be specified accordingly. Leasing real estate without a renting contract is the most common way of avoiding taxation, but there is also risk involved. Nonetheless, the renting contract is and will remain of fundamental significance for income-producing real estate, either for individual leases or agreements between large-scale investment companies and their tenants.

This chapter includes any type of income-generating investment asset, whether it is an office, retail, residential, warehousing, light industrial, mixed use or opportunistic building. The main focus will, nonetheless, be on residential property, as we will be taking an insight into the feasibility analyses of the letting side of residential properties in the market in chapter II, entitled Case Simulations in Ljubljana, Slovenia.

Investments in income-producing real estate are made for three main reasons (Mcnamara). The first is due to cash flow, which is defined as the positive income stream generated from rent paid by the tenants. Of course one must deduct any operating expenses incurred and debt service of the property, provided there is any. In general, a positive cash flow is desired. Yet witnessing a negative cash flow whilst investors see opportunities is a possible outcome. In such a case they are not looking at the asset itself but at an investment with a potential value added opportunity. The second reason is appreciation. This is a simple increase in value of the property during the ownership period. Tax benefits represent the third reason for investing into income-producing real estate. The two most common ones are property depreciation and mortgage interest deduction. The avid investor should be very cautious at this stage and seek the assistance of a qualified expert prior to making decisions of any kind.

### 4.1 Residential

Residential properties provide a place for people to dwell in. Although hotels can be thought of as providing residences for individuals, they are considered to be only temporary residences and are therefore not categorised as "residential" property. All we need is the general definition, meaning that residential property is any property that is zoned for single-family homes, multi-family homes, apartments, townhouses and/or condominiums.

### 4.2 Other

With the exception of mixed-use developments (which represent a combination of residential and non-residential properties) all other property types fall into the category of non-residential real estate. Non-residential properties can be broken down into six major subcategories: office, retail, industrial, hotel/motel, recreational and institutional property.

# II CASE SIMULATIONS IN LJUBLJANA, SLOVENIA

## 5 General Information on Slovenia

Slovenia borders three other European countries (Italy to the west, Austria to the north and Hungary to the east) as well as the candidate country Croatia to the south.  It has 42 km of coastline, meaning prompt access for uploading and unloading cargo. Koper is the name of the main port. As far as railroads are concerned there is room for improvement, however, this seems not far away bearing in mind Slovenia's rapid attempt at modernising the Pan-European transport routes of the V. and X. automobile corridors.

Historically, Slovenia has to a great extent benefited from its historical ties to Western Europe. Today, its small and free market economy is the most prosperous among the new EU member countries. Slovenia is the first of the new member states to overtake a former, well-situated EU country (Portugal), merely taking into account the GDP per capita assessment[12]. Prudent monetary and fiscal policy and the gradual dismantling of capital controls have enabled the Slovenian economy to develop healthily without external pressures. The Euro was adopted in 2007. The country with only 2 million citizens carries considerable diplomatic and economic weight and has the confidence of governments of transitional countries, especially the countries of former Yugoslavia.

The capital of Slovenia is Ljubljana and the population in the largest Slovenian cities is as follows.

[12] The current GDP per capita estimate for 2008 was €20.465 and the PPP GDP per capita estimate for the same period stood at €22.216 (SURS - Statistični Urad Republike Slovenije, 2009).

*Table 4: Population of Largest 4 Cities in Slovenia*

| City | Population |
|---|---|
| Ljubljana | 267.369 |
| Maribor | 110.904 |
| Kranj | 53.183 |
| Koper | 49.827 |

*Source: SURS - Statistični Urad Republike Slovenije, 2009.*

## 6 Slovenia's Economy

Some important facts on Slovenia (SURS - Statistični Urad Republike Slovenije, 2009):

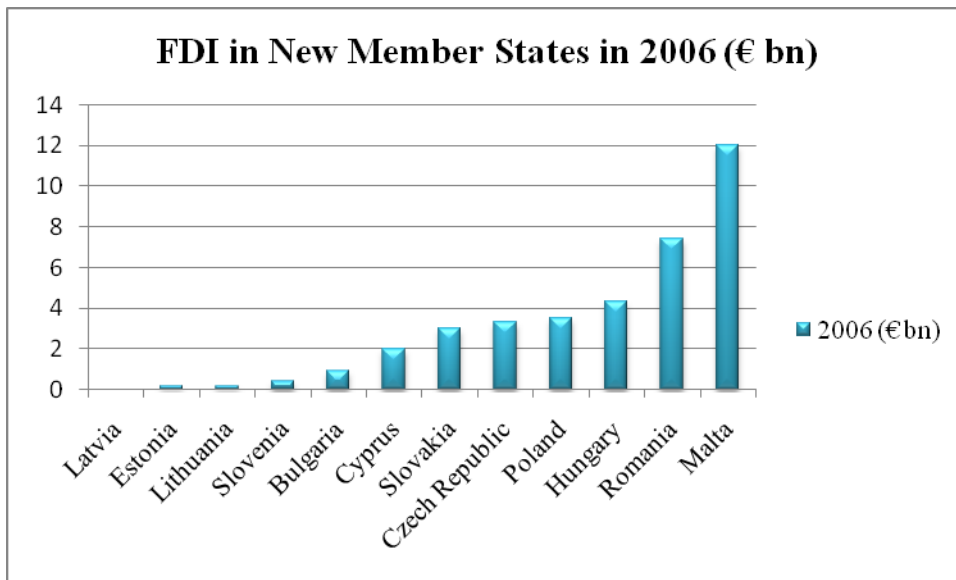
- Population (June 2008): 2.039.399
- GDP (PPP) Total (2008 estimate): €44.712 billion
- GDP (PPP) Per capita (2008 estimate): €22.216
- GDP (nominal) Total (2008 estimate): €41.187 billion
- GDP (nominal) Per capita (2008 estimate): €20.465
- GDP growth rate[13] (2007): 6,1%
- Inflation (2008): 3,6%
- FDI per capita[14]: €240

Nominal interest rates for household mortgage loans are still higher in Slovenia than in the Eurozone[15]. Despite still reasonable terms for taking out loans the prediction is that with realestate prices stabilising there will also be a downturn in the number of loans demanded.

Despite its historic economic success, Slovenia faces many challenges ahead. A lot of blue chip companies still remain in state hands and FDI in the country remains one of the lowest in the EU per capita.

[13] Stood at 5,7% in 2006 and 3,8% in 2008.
[14] Average annual FDI over 2004 – 2006.
[15] Nominal interest rates currently stand at 5-6% in most commercial banks in Slovenia.

*Figure 4: FDI in New Member States in 2006 (€ bn)*




*Source: Eurostat, 2007.*

Restrictions on foreign investment (especially tax and legislative issues) are most likely to be dismantled over the next few years but in light of the current situation on global financial markets FDI is no longer as easy to predict. Nonetheless, the country is perceived to be at the economic forefront of the countries that joined the European Union in 2004.

## 7 Short History of Slovenia's Residential Market

The property market in Slovenia is somewhat case specific. After the independence of the country from the Yugoslav republic in 1991 the local government needed a quick way to transit from the socialistic ideas into the regime of the West, capitalism. One of the first measures they underwent was in the real estate market. The so-called Jazbinšek Act enabled individuals to purchase the housing they had been renting from the state for a symbolic price. Since then Slovenia has ranked as having one of the highest property ownership rates in Europe and a letting market which ranks amongst the sheer tail of the EU-27. The next significant change in the Slovenian real estate market occurred in May 2004 when the Slovenian constitution was changed in order for European Union nationals to be able to buy property (Nakup, 2008). Last but not least pressure from the EU regarding brisk implementation of a more up-to-date real estate tax policy has been fierce (Davek na nepremičnine v EU in Sloveniji, 2004). This new planned government's legislative act will bring many positive effects on the real estate market as its primary goal will be to make better use of vacant housing.

## 8 Ljubljana's Residential Market

### 8.1 Current Status

Ljubljana's residential market is predominately owner occupied. Only about 12% of residential units are known to be of rental nature. The vast majority of purchases are for domestic residents with few non-domestic purchasers. The buy-to-let sector is very underdeveloped. Important to note, however, is that in light of the current financial crisis property sellers have turned to letting instead. Evidence shows that the supply of housing to let has more than doubled since March 2008 (Najemnine stanovanj v Ljubljani, 2009). Prices of rents have, therefore, decreased accordingly.

In the past five years, supply levels of newly built residential housing has come to roughly 1.000 units per year (see example below). In general, this supply level is considered low and does not exceed demand. Residential developments that have been completed but are having difficulties being sold are the result of a credit crunch and not due to a lack of demand (Ljubljana Property Market, 2008). Within the last five years the residential market has witnessed an average 100% growth in sales prices. Growth resulted from a limited supply of new units coupled with a high demand of households due to growth in disposable income and increasingly competitive terms of mortgage financing. EU accession also contributed favourably to the growth. On average the prices of new built apartments are in the region of €3.00/m² to €3.500/m² excluding value added tax (hereinafter VAT). These prices are now expected to somewhat fall due to the reasons mentioned in the introduction of this paper. It is anticipated that some 3.500 new residential units will be brought to the market by the end of 2010 covering a net saleable area totalling 227.000 m². The average size per unit will therefore be 65 m².

*Figure 5: Newly Constructed Housing in Ljubljana*

| | Net Residential Take-Up | No. of Apartments | Average Take-Up per Apartment |
|---|---|---|---|
| 2008 | 68.263 | 942 | 72 |
| 2006 | 50.269 | 465 | 108 |
| 2005 | 116.154 | 1.312 | 88 |
| 2004 | 74.849 | 901 | 83 |
| 2003 | 106.880 | 1.235 | 86 |

*Source: SURS - Statistični Urad Republike Slovenije, 2009.*

Price levels for newly built residential units can be divided into three categories. The upper end accounts for 10% of all new constructed volume and prices in this category are in the region of €3.500/m² to €5.000/m² excluding VAT. The middle range accounts for roughly 50% of the

supply. Prices here amount from €3.000/m² to €3.500/m² excluding VAT. The lower end accounts for the remaining 40% of all supply with prices in the region of €2.000/m² to €3.000/m² excluding VAT.

Despite expectations of a price drop in the next few years due to a number of planned new residential schemes in Ljubljana, demand will still remain high do to the migration trends and the remedied conditions in the banking sector. Border municipalities and accommodating areas around Ljubljana have not seen major increases in price levels and seem moderately priced compared to the city. Metropolitan areas are expected to increase more in price than suburb areas. Providing the residential market will weaken, prices in Ljubljana are expected to fall less than housing prices in other parts of the country (Ljubljana Property Market, 2008).

### 8.2 New Projects

Up to 3.500 residential units are expected to be delivered by the end of 2010. The general urban plan (GUP), which governs permissible developments and their location is currently under revision. When implemented, it is expected that many parts of Ljubljana will be designated as areas where residential development will be encouraged. These areas are likely to include major areas of the southern and north-eastern parts of the city suburbs, with particular emphasis on regenerating former industrial areas.

## 9 Example of Income-Producing Real Estate Investment Project

Let's assume a large foreign private equity real estate fund is willing to invest in a major residential project near the city centre of Ljubljana. The fund's long-term investment strategy is unique for Ljubljana, as it generates returns by letting the property units in question for longer periods of time. Such a product enables tenants to live in the landlord's (the fund's) property without having to worry about moving around and finding alternative accommodation elsewhere every few years. Another up side of this product for the tenant is that they can invest their financial assets on other markets, where higher returns than in real estate could perhaps be generated, instead of purchasing the property outright. The exiting strategy will be to sell the apartments upon the end of the leasing period.

### 9.1 Benchmark

In order to make the assumptions less abstract the implications of purchasing solely the residential part of an already existing property investment project will be used. The project in question is called Parmova and will shortly be developed by a large Slovenian developer called Energoplan. Some parameters such as the number of completed apartments, the expected number of parking lots, the total plot size, the total net size of apartment spaces and so on and so forth have been used in the feasibility study (Projekti v razvoju, 2008). These parameters are identical

to the ones that will be used in the actual Parmova mixed-use investment project. Other parameters such as the purchasing price of the acquired plot, the price of rent per m² and the final selling prices (the exiting prices) are all estimated figures and will represent different variables. The aim of including the merely speculated figures will be to make the feasibility analysis as close to reality as possible. To assess the discrepancies between questionable parameters a robustness check will also be conducted in the following chapter.

The Parmova feasibility study will be comprised of two parts. The first part shall be a static project overview and will attempt to depict the investment costs of the entire project (including the commercial part) and the IRR of Energoplan, working under the assumption that the entire residential part will be purchased by the fund. The second part of the feasibility study, the dynamic project overview, will attempt to show realistic returns on our long-term income-producing property investment (McDonald & McMillen, 2007, pp. 297-302).

Let us now briefly turn our attention to the fixed parameters included in the static project overview of our feasibility. The land plot size amounts to 17.083m² and the gross developed area 44.038m². Thus the gross floor space index is 2,58. The total net residential area is calculated as the total gross developed area without any commercial areas and above ground common areas bearing in mind that 0,87 is the estimate used for the transformation of gross to net space. The number of predicted apartment units is 280. As the total net residential living area equals 24.670m² we can work out the average size per apartment, namely 88m². Total net commercial areas are calculated in much the same way as the total net residential area only that here the residential living area and of course the above ground common areas are subtracted from the total gross developed area. Net average balcony size comes to 6m² per apartment. Underground net storage area totals 2.420m² and the number of parking spaces amount to 1.191.

Communal fees and expenses are associated to an area of 29.985m² as there was a 10.000m² reduction due to already existing infrastructure. Taking a glimpse into the structure of the soft costs of the development 3% of all construction, finishing and installation works (hereinafter CFI works) will go into the management of the project. 0,3% of CFI works will be deducted towards the revision of the design. Construction supervision will cost 2,25% of all CFI works and the largest percentage, namely 4% of CFI works will be put aside for project designs.

The developer will partially rely on bank financing. The loan amount is set for €50.000.000. The predicted interest rate is 5,5% per year (which is marginally higher than the interest rate in the dynamic feasibility overview due to higher risk) and the project will supposedly take 3 years until completion. The loan arrangement fee and bank supervision fee together will amount to 1% of the entire loan amount. Regarding marketing and sales, 1,25% of the market value of the project will be reserved for marketing, whilst the sales commission will amount to 1% of the market value.

The static feasibility study, i.e. the feasibility study of the developer has been divided into two parts. The first part shows the investment itself, or in other words the costs the developer has

incurred, whilst the second part depicts the revenues obtained by selling the investment. We have worked with the assumption that underground common areas can be constructed for €350/m², underground parking areas, underground storage areas and balconies can be built for €400/m², above ground common areas and commercial areas for €600/m² and residential living areas for €675/m². Considering its prime location the developer will pay €500/m² for the land on which it can develop. The revenues are considerably higher. Underground storage areas and balconies can be priced at €1.100/m², commercial areas at €1.900/m², residential living areas at €2.200/m² and underground parking spaces (28m²) can be sold outright for €14.000.

€250.000 has been put aside for building permits and consents. Besides this expense the communal fee of €146/m² will be charged. Site preparation works come out at just under €1.500.000 and total soft costs at just under €4.000.000. In total, marketing and sales costs along with other costs (unforeseen works and legal services) will amount to approximately €4.500.000.

To summarise the static project overview feasibility the developer will incur €68.554.569 worth of costs and will obtain €95.148.890 worth of revenues once the entire investment (the residential and commercial part) has been sold. Gross profit equals €26.594.321 and net profit €21.275.457. The net margin on the investment for the developer is therefore 31,03%.

Appendix 1: Static Project Overview – Energoplan (€2.200/ m²)

At this point we will take a glimpse at the dynamic feasibility study of fund's investment. The fund has acquired the investment for €68.554.569. 60% of this figure was financed with the assistance of a commercial bank. We will first be looking at a loan amortisation of 20 years with an annual interest rate of 5%. The exit strategy shall be implemented in the last year of the investment and the exit yield will be 7%.

Appendix 2: Dynamic Project Overview - Letting at €8/m², 20 year loan amortisation

According to our feasibility 24.670m² of residential areas can be leased. The fund will charge €8/m² with an annual increase of 2%. Each apartment will have to rent 2 parking spaces at a monthly cost of €100 per lot. We will assume that 90% of the fund's apartments are occupied at all times. Running expenses have been calculated as €2,5/m² of net leasable space. Amortisation costs (depreciation) equal 3% per annum. Corporate tax is listed at 10% and can only be implemented in year 16 as there are negative earnings after tax in the first 15 years of the fund's investment. The cash flow from investments is positive in the 20th year upon the implementation of the exiting strategy, namely, selling of the property in question. The net cash flow to equity is also negative throughout the entire investment period until the exiting year. As mentioned in Chapter 3 of this thesis a negative cash flow is not crucial for turning down an investment proposal, however a positive cash flow is one that is always prefered.

To summon up the dynamic feasibility study we can conclude that an IRR of only 0,2% is not something we would consider investing into. Absolute total earnings come out at under

€2.000.000 bearing in mind that the variables we used in our calculations were not even all that conservative.

## 9.2 Robustness Check

The robustness check or otherwise known as the stress analysis is in place to show the extent as to how much our calculations can vary from real life. Let us begin from the static project overview side.

Reducing the purchasing price of each m² of residential living area to €1.800/m² (and with that the price of balconies and underground storage space to €900/m²) would mean improving the profit of the fund and lowering IRR and net profit of Energoplan. This reduction would mean an IRR of 18,91% and a net profit of €12.917.456. This IRR is still reasonable and it is fair to assume that the developer would be willing to comply with construction under these prices. We will also proceed with the assumption that the developer is not willing to reduce the sales price of the development any further.

Appendix 3: Static Project Overview - Energoplan (€1.800/m²)

Now let us take a look at the dynamic project overview for these newly set prices.

Appendi**x** 4: Dynamic Project Overview - Letting at €8/m², 20 year loan amortisation

This increases the fund's IRR by such a marginal extent (0,1% point) that it is hardly worth mentioning. From here on we basically have a few other variables that could be changed in order to make the fund's end net profit slightly more appealing. We are unable to increase the letting price per m² any further as the price is high enough. Likewise, reducing the occupancy rate would also contribute to a lower IRR and subsequently a lower net profit. Decreasing the exit yield (hereinafter EBITDA) to 5% would marginally improve the fund's end indicators (IRR equals 2,2%).

Appendix 5: Dynamic Project Overview - Letting at €8/m², 20 year loan amortisation, EBITDA 5%

Extending the loan amortisation and exit year to 25 years would give the investment fund the first acceptable profit margins. Just by prolonging the investment period by an additional 5 years acceptable returns on the fund's investment are suddenly apparent. Absolute total earnings amount to nearly €66.000.000 and an IRR of 18,5% is respectable.

Appendix 6: Dynamic Project Overview - Letting at €8/m², 25 year loan amortisation, EBITDA 5%

An important part of information to note is that predicting the price of property in the long-term (i.e. 20-25 years from now) is a very difficult task as the housing market is subject to all sorts of

risks (otherwise mentioned in Chapter 1.4.5). The feasibility studies that have been presented in this chapter are, therefore, very hypothetical.

# CONCLUSION

Property markets around the globe vary considerably. Not only do they vary between countries with different political and cultural regimes, but also between countries which are competing towards similar end goals, namely, achieving higher economic growth with the help of an open and international trading environment. Slovenia's residential real estate market is for example profoundly different to the residential property market in the UK or Germany. As property markets around the world are expanding at a faster and more significant pace so are the types of securitised instruments (types of real estate investment funds) for investing. Bearing in mind the current situation on global financial markets, however, it looks as though the income-producing real estate market sector will not escape without being bruised (Kinnel, 2007) .

Taking a glimpse at the simulations of our income-producing real estate investment project we are able to conclude that implementing a large residential site solely for the purpose of generating income-producing returns is not as easy as one may think. Even if a fund is able to minimise the profit of the developer it is still left with a negative cash flow to equity. This is not problematic as the royalties will be all the more dear upon the exit year, however a negative cash flow is certainly not preferred. In our best case scenario we come out with an IRR of 18,5% on our investment which is acceptable according to common practice, however, we should bear in mind that the variables used in our feasibility studies were not all that conservative. Using €8/m² as a relatively high letting price in Ljubljana leaves us with little maneuverability for improving our profits. The lesson learned from our simulations is that the fund's profit can considerably improve by increasing the loan amortisation and with that the exit year. The problem that occurs in real life though is that funds are reluctant to invest for such long periods of time (25 years or more), thus they decide not to invest at all. It is fair to say that large scale income-producing property projects in Slovenia cannot gain the desired returns and are unlikely to be introduced in the short run at least. Provided prices of land plots were to fall considerably then a re-simulation of such a case study might be a wise option.

In a weak market, property sellers should turn to letting. In a time when sales activity slows and inventory rises, owners can cover costs by finding tenants (Strauss, 2008, p. 39). Letting represents an alternative to selling, provided home owners are displeased with the sales price they can achieve or the time anticipated to sell. Of course, in a down market, even letting property can be tough. However, the general idea is that by letting, in a time when buyers are unable to get loans, home owners are waiting for the market and economy to turn around.

Whether large Slovenian property developers with a high inventory will opt for the option of letting will probably depend on their time constraint of returning bank loans. As many such companies still remain in state hands their preference of being bailed out by the government as oppose to letting will most likely prevail. Nonetheless, common practice and myself suggest letting as the option of last resort.

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# GLOSSARY OF DEFINED TERMS AND ABBREVIATIONS

Advisory Company: A limited liability company established in a specific country providing investment advice to the fund manager and co-manager.
Affiliate: In relation to any person, any person directly or indirectly controlled by it, or any person directly or indirectly controlling it or any person directly or indirectly controlled by such a person, including employees and managers.
Appraisal: Professional valuation services.
Capital Contribution: The amount of committed capital which has been paid to the fund by an investor pursuant to a call notice.
Carried Interest: Distributions made by the fund to the holders of class B shares.
Co-Manager: A limited liability company established usually in a tax efficient country assisting the fund manager in managing the fund's assets.
Committed Capital or Capital Commitment: The capital commitment of an investor to the fund.
Development: Improving land for use by adding or replacing buildings.
Development project: A property that is either planned or under construction and which the fund will tender to acquire before completion.
Direct Investor: Owner of class A shares in the fund.
EU: European Union.
FDI: Foreign Direct Investment.
Final Closing Date: The final date on which Investors will be admitted to the fund.
Fund Manager: A private limited liability company established in a specific country responsible for managing the fund's assets.
Fund: A private limited liability company established in a specific country.
GUP: General Urbanistic Plan.
Indirect Investor: An investor holding an indirect interest in the fund, through ownership of a direct investor.
Initial Closing Date: The date on which investors will first be admitted to the fund, which is to be held as soon as practicable with a specific target date.
Investment period: The period in which the fund will make its investments.
Investment Strategy: Means the investment strategy of the fund. The investment strategy is usually chosen once appropriate assets have been carefully selected.
Investment: Means any direct or indirect investment in real estate and real estate related assets made by the fund, including shares, debentures or other securities and loans acquired or extended by the fund.
Investor: An entity holding an interest in the fund, either as a direct or indirect investor.
IPO: Initial Public Offering.
IRR: Internal Rate of Return.
Lease: The rental agreement for real estate.
Lessee: The party paying to use the good or property which is being rented.
Lessor: The owner of the good or property which is being rented.

Management Fees: The fees payable by the fund to the fund manager and co-manager pursuant to the fund manager agreement.
Memorandum: A private placement memorandum.
NAREIT: The National Association of Real Estate Investment Trusts.
NPV: Net Present Value.
PPP: Purchasing Power Parity.
Property management: Managing a property for its owner(s).
Qualified Majority Resolution: In relation to a decision of any body, means a resolution of such body passed by a two-thirds majority at which the holders of at least 50% of issued and outstanding votes of such body are present or represented.
Real estate marketing: Managing the sales side of the property business.
Real estate investing: Managing the investment of real estate.
Rent-charge: an annual sum payable (in perpetuity or until redeemed) out of the yield of an estate.
Renter: Same as lessee.
Renting: An agreement where a payment is made for the temporary use of a good or property owned by another person or company.
SPV: Special Purpose Vehicle.
Tenant: The person or party who lives in or occupies the real estate whilst it is rented.
Total Committed Capital: The aggregate amount of investors' committed capital to the fund.
UK: United Kingdom.
US: United States.
VAT: Value Added Tax.

# APPENDICES

## Appendix 1: Static Project Overview – Energoplan (€2.2000/m²)

**RESIDENTIAL DEVELOPMENT - PARMOVA, LJUBLJANA**

| | |
|---|---|
| Land plot size | 17.083 |
| Gross FSI | 2,58 |
| Total gross developed area (m2) | 44.038 |
| Total net residential area | 24.670 |
| Average residential unit size (m2) | 88 |
| Number of residential units | 280 |
| Total net commercial areas | 10.570 |
| Total net balconies | 1.680 |
| Total net storage area | 2.420 |
| Total number of parking spaces | 1.191 |
| Number of net m2 per parking space (including communications) | 28 |

| ITEM | INVESTMENT / UNIT | REVENUES / UNIT |
|---|---|---|
| Residential living areas | 675 € | 2.200 € |
| Commercial areas | 600 € | 1.900 € |
| Above ground common areas | 600 € | - € |
| Balconies | 400 € | 1.100 € |
| Underground areas - common areas | 350 € | - € |
| Underground areas - storage | 400 € | 1.100 € |
| Underground areas - parking | 400 € | 14.000 € |
| Multiplier factor | 1,00 | 1,00 |

| | | | | INVESTMENT | | REVENUES | |
|---|---|---|---|---|---|---|---|
| | | | | COST EUR / unit | TOTAL COST EUR | PRICE EUR / unit | TOTAL REVENUES EUR |
| **1** | **LAND COSTS** | **m2** | | | | | |
| 1.1 | Land plot | 17.083 | | 500 € | 8.541.500 € | | |
| **1** | **TOTAL LAND COSTS** | **17.083** | | **500 €** | **8.541.500 €** | | |
| | | | | | | | |
| **2** | **CONSTRUCTION, FINISHING AND INSTALLATION WORKS** | | | | | | |
| | **TOTAL GROSS DEVELOPED AREAS** | **44.038** | | | | | |
| | | | | | | | |
| 2.1 | Residential living areas | 28.359 | 24.670 | 675 € | 16.652.250 € | 2.200 € | 54.274.000 € |
| 2.2 | Commercial areas | 12.154 | 10.570 | 600 € | 6.342.000 € | 1.900 € | 20.083.000 € |
| 2.3 | Above ground common areas | 3.525 | 3.065 | 600 € | 1.839.000 € | - € | |
| 2.4 | Balconies | | 1.680 | 400 € | 672.000 € | 1.100 € | 1.848.000 € |
| 2.5 | Underground areas - common areas | | 850 | 350 € | 297.500 € | - € | - € |
| 2.6 | Underground areas - storage | | 2.420 | 400 € | 967.960 € | 1.100 € | 2.661.890 € |
| 2.7 | Underground areas - parking | | 33.348 | 400 € | 13.339.200 € | 14.000 € | 16.282.000 € |
| | | | | | | | |
| | Number of apartments | 280 | | | | | |
| | Number of required parking spaces | 1.191 | | | | | |
| **2** | **TOTAL CFI WORKS** | | | | **40.109.910 €** | | **95.148.890 €** |
| | | | | | | | |
| **3** | **COMUNAL FEES AND EXPENSES** | | **Nett** | | | | |
| 3.1 | Communal fee | estimate | 39.985 | 146 € | 5.837.810 € | | |
| 3.5 | Communal fee deduction for existing buildings | estimate | -10.000 | 146 € | - 1.460.000 € | | |
| 3.6 | Building permits and consents | estimate | | | 250.000 € | | |
| 3.7 | Additional municipal infrastructure cost | estimate | | | - € | | |
| **3** | **TOTAL COMMUNAL FEES AND EXPENSES** | | | | **4.627.810 €** | | |
| | | | | | | | |
| **4** | **SITE PREPARATION WORKS** | | | | | | |
| 4.1 | Demolition of existing buildings | estimate | | | 500.000 € | | |
| 4.2 | Geomechanic and geotechnical works | estimate | | | 40.000 € | | |
| 4.3 | Geodetic works | estimate | | | 40.000 € | | |
| 4.4 | Construction of utility connections | estimate | | | 125.000 € | | |
| 4.5 | Utility connection fees | estimate | | | 200.000 € | | |
| 4.6 | Access roads & communications | estimate | | | 250.000 € | | |
| 4.7 | Horticulture | estimate | | | 300.000 € | | |
| **4** | **TOTAL SITE PREPARATION WORKS** | | | | **1.455.000 €** | | |
| | | | | | | | |
| **5** | **SOFT COSTS** | | | | | | |
| 5.1 | Architectural design contest | estimate | | | 75.000 € | | |
| 5.2 | Urban planning | estimate | | | - € | | |
| 5.3 | Project designs | 4,00% | of total CFI works | | 1.604.396 € | | |
| 5.4 | Design revision | 0,30% | of total CFI works | | 120.330 € | | |
| 5.5 | Construction supervision | 2,25% | of total CFI works | | 902.473 € | | |
| 5.6 | Project management | 3,00% | of total CFI works | | 1.203.297 € | | |
| **5** | **TOTAL SOFT COSTS** | | | | **3.905.496 €** | | |
| | | | | | | | |
| **6** | **OTHER COSTS** | | | | | | |
| 6.1 | Legal services | estimate | | | 210.000 € | | |
| 6.2 | Unforeseen works | 5,0% | of total CFI works | | 2.005.496 € | | |
| **6** | **TOTAL OTHER COSTS** | | | | **2.215.496 €** | | |
| | | | | | | | |
| **7** | **FINANCING** | | | | | | |
| | Loan amount | 50.000.000 € | | | | | |
| | Interest rate | 5,50% | per annum | | | | |
| | Project duration | 36 | months | | | | |
| 7.1 | Interest costs | for 60% of period | | | 5.058.507 € | | |
| 7.2 | Loan arrangement fee | 0,50% | | | 250.000 € | | |
| 7.3 | Bank supervision fee | 0,50% | | | 250.000 € | | |
| **7** | **TOTAL FINANCING** | | | | **5.558.507 €** | | |
| | | | | | | | |
| **8** | **MARKETING & SALES** | | | | | | |
| 8.1 | Marketing | 1,25% | of market value | | 1.189.361 € | | |
| 8.2 | Sales commission | 1,00% | of market value | | 951.489 € | | |
| **8** | **TOTAL MARKETING & SALES** | | | | **2.140.850 €** | | |
| | | | | | | | |
| | **TOTAL INVESTMENT** | | | | **68.554.569 €** | | |
| | | | | | | | |
| | **TOTAL REVENUES** | | | | | | **95.148.890 €** |

| | |
|---|---|
| **GROSS PROFIT** | **26.594.321 €** |
| **TAX AT 20%** | **5.318.864 €** |
| **NET PROFIT** | **21.275.457 €** |
| **NET MARGIN** | **31,03%** |

# Appendix 2: Dynamic Project Overview - Letting at €8/$m^2$, 20 year loan amortisation

| PARMOVA, LJUBLJANA | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition price | 68.554.569 € | | | | | | | | | | | | | |
| Financing - LTV | 60% | | | | | | | | | | | | | |
| Senior loan amount | 41.132.741 € | | | | | | | | | | | | | |
| Loan amortization (years) | 20 | | | | | | | | | | | | | |
| Interest rate (p.a.) | 5,00% | | | | | | | | | | | | | |
| Exit year | 20 | | | | | | | | | | | | | |
| Exit yield (EBITDA cap rate) | 7,00% | | | | | | | | | | | | | |
| **CASH FLOWS FROM OPERATIONS** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| **Revenues** | | | | | | | | | | | | | | |
| Net leasable residential areas | m2 | | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 |
| Average rent residential areas | € / month / m2 | | 8,0 € | 8,2 € | 8,3 € | 8,5 € | 8,7 € | 8,8 € | 9,0 € | 9,2 € | 9,4 € | 9,6 € | 10,6 € | 11,7 € |
| Net leasable balconies & storage areas | m2 | | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 |
| Average rent balconies & storage areas | € / month / m2 | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Number of parking lots | lots | | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 |
| Average rent parking lots | € / month / lot | | 100,0 € | 102,0 € | 104,0 € | 106,1 € | 108,2 € | 110,4 € | 112,6 € | 114,9 € | 117,2 € | 119,5 € | 131,9 € | 145,7 € |
| Annual rent increase | % p.a. | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Potential annual rental income | | | 2.368.320 € | 2.415.686 € | 2.464.000 € | 2.513.280 € | 2.563.546 € | 2.614.817 € | 2.667.113 € | 2.720.455 € | 2.774.864 € | 2.830.362 € | 3.124.948 € | 3.450.195 € |
| Occupancy | % | | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| Annual rental income | | | 2.131.488 € | 2.174.118 € | 2.217.600 € | 2.261.952 € | 2.307.191 € | 2.353.335 € | 2.400.402 € | 2.448.410 € | 2.497.378 € | 2.547.325 € | 2.812.453 € | 3.105.176 € |
| Income for reimbursable costs | | | 666.090 € | 679.412 € | 693.000 € | 706.860 € | 720.997 € | 735.417 € | 750.126 € | 765.128 € | 780.431 € | 796.039 € | 878.892 € | 970.367 € |
| **Total annual revenue** | | | **2.797.578 €** | **2.853.530 €** | **2.910.600 €** | **2.968.812 €** | **3.028.188 €** | **3.088.752 €** | **3.150.527 €** | **3.213.538 €** | **3.277.809 €** | **3.343.365 €** | **3.691.345 €** | **4.075.543 €** |
| **Expenses** | | | | | | | | | | | | | | |
| Reimbursable costs | € / month / m2 | | 2,50 € | 2,55 € | 2,60 € | 2,65 € | 2,71 € | 2,76 € | 2,82 € | 2,87 € | 2,93 € | 2,99 € | 3,30 € | 3,64 € |
| Annual cost increase | % | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Annual reimbursable costs | | | - 666.090 € | - 679.412 € | - 693.000 € | - 706.860 € | - 720.997 € | - 735.417 € | - 750.126 € | - 765.128 € | - 780.431 € | - 796.039 € | - 878.892 € | - 970.367 € |
| Property tax expense | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| **Total annual expenses** | | | **- 666.090 €** | **- 679.412 €** | **- 693.000 €** | **- 706.860 €** | **- 720.997 €** | **- 735.417 €** | **- 750.126 €** | **- 765.128 €** | **- 780.431 €** | **- 796.039 €** | **- 878.892 €** | **- 970.367 €** |
| **Net operating income (EBITDA)** | | | **2.131.488 €** | **2.174.118 €** | **2.217.600 €** | **2.261.952 €** | **2.307.191 €** | **2.353.335 €** | **2.400.402 €** | **2.448.410 €** | **2.497.378 €** | **2.547.325 €** | **2.812.453 €** | **3.105.176 €** |
| Depreciation allowance | 3% | | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € | - 2.056.637 € |
| Senior debt interest cost | | | - 2.056.637 € | - 1.994.439 € | - 1.929.131 € | - 1.860.558 € | - 1.788.556 € | - 1.712.954 € | - 1.633.572 € | - 1.550.220 € | - 1.462.701 € | - 1.370.807 € | - 837.641 € | - 157.171 € |
| **Earnings before tax** | | | **- 1.981.786 €** | **- 1.876.958 €** | **- 1.768.168 €** | **- 1.655.243 €** | **- 1.538.002 €** | **- 1.416.256 €** | **- 1.289.807 €** | **- 1.158.448 €** | **- 1.021.961 €** | **- 880.118 €** | **- 81.825 €** | **891.367 €** |
| Corporate tax | 10% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 89.137 € |
| **Earnings after tax** | | | **- 1.981.786 €** | **- 1.876.958 €** | **- 1.768.168 €** | **- 1.655.243 €** | **- 1.538.002 €** | **- 1.416.256 €** | **- 1.289.807 €** | **- 1.158.448 €** | **- 1.021.961 €** | **- 880.118 €** | **- 81.825 €** | **802.230 €** |
| **Net cash flows from operations** | | | **74.851 €** | **179.679 €** | **288.469 €** | **401.394 €** | **518.635 €** | **640.381 €** | **766.830 €** | **898.189 €** | **1.034.677 €** | **1.176.519 €** | **1.974.812 €** | **2.858.868 €** |
| **CASH FLOWS FROM INVESTMENT** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| Acquisition price | | - 68.554.569 € | | | | | | | | | | | | |
| Loan arrangement fee | 0,50% | - 205.664 € | | | | | | | | | | | | |
| Stamp duty | 0,00% | - € | | | | | | | | | | | | |
| Capital expenditure | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Sale proceeds | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 44.359.650 € |
| Sale costs | 1% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 443.597 € |
| **Net cash flows from investment** | | **- 68.760.233 €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **43.916.054 €** |
| **CASH FLOWS FROM FINANCING** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| Senior loan drawdown | | 41.132.741 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Principal repayment -annuity | | | - 1.243.961 € | - 1.306.159 € | - 1.371.466 € | - 1.440.040 € | - 1.512.042 € | - 1.587.644 € | - 1.667.026 € | - 1.750.377 € | - 1.837.896 € | - 1.929.791 € | - 2.462.957 € | - 3.143.426 € |
| Principal repayment - bullet | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 0 € |
| **Net cash flows from financing** | | **41.132.741 €** | **- 1.243.961 €** | **- 1.306.159 €** | **- 1.371.466 €** | **- 1.440.040 €** | **- 1.512.042 €** | **- 1.587.644 €** | **- 1.667.026 €** | **- 1.750.377 €** | **- 1.837.896 €** | **- 1.929.791 €** | **- 2.462.957 €** | **- 3.143.426 €** |
| | | | | | | | | | | | | | | |
| **NET CASH FLOW TO EQUITY** | | **- 27.627.491 €** | **- 1.169.110 €** | **- 1.126.480 €** | **- 1.082.997 €** | **- 1.038.645 €** | **- 993.406 €** | **- 947.263 €** | **- 900.196 €** | **- 852.188 €** | **- 803.220 €** | **- 753.272 €** | **- 488.144 €** | **43.631.495 €** |
| | | | | | | | | | | | | | | |
| **NPV (AT INDICATED DISCOUNT FACTOR)** | **8,00%** | **- 26.469.307 €** | | | | | | | | | | | | |
| **IRR** | | **0,2%** | | | | | | | | | | | | |
| **ABSOLUTE TOTAL EARNINGS** | | **1.822.910 €** | | | | | | | | | | | | |
| **EQUITY MULTIPLIER** | | **1,08** | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| **SENIOR DEBT AMORTIZATION SCHEDULE** | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 |
| Start of period balance | | | 41.132.741 € | 39.888.781 € | 38.582.622 € | 37.211.156 € | 35.771.116 € | 34.259.074 € | 32.671.430 € | 31.004.404 € | 29.254.027 € | 27.416.131 € | 16.752.817 € | 3.143.426 € |
| Annuity - interest | | | - 2.056.637 € | - 1.994.439 € | - 1.929.131 € | - 1.860.558 € | - 1.788.556 € | - 1.712.954 € | - 1.633.572 € | - 1.550.220 € | - 1.462.701 € | - 1.370.807 € | - 837.641 € | - 157.171 € |
| Annuity - principal | | | - 1.243.961 € | - 1.306.159 € | - 1.371.466 € | - 1.440.040 € | - 1.512.042 € | - 1.587.644 € | - 1.667.026 € | - 1.750.377 € | - 1.837.896 € | - 1.929.791 € | - 2.462.957 € | - 3.143.426 € |
| Bullet principal payment | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 0 € |
| Loan drawdown | | 41.132.741 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| End of period balance | | 41.132.741 € | 39.888.781 € | 38.582.622 € | 37.211.156 € | 35.771.116 € | 34.259.074 € | 32.671.430 € | 31.004.404 € | 29.254.027 € | 27.416.131 € | 25.486.340 € | 14.289.860 € | - € |
| **FINANCIAL INDICATORS** | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 |
| Debt service coverage ratio | | | 0,65 | 0,66 | 0,67 | 0,69 | 0,70 | 0,71 | 0,73 | 0,74 | 0,76 | 0,77 | 0,85 | 0,94 |
| Property valuation (potenitial income cap rate) | 7,00% | | 33.833.143 € | 34.509.806 € | 35.200.002 € | 35.904.002 € | 36.622.082 € | 33.619.071 € | 34.291.453 € | 34.977.282 € | 35.676.827 € | 36.390.364 € | 40.177.902 € | 44.359.650 € |
| Loan-to-value | | | 1,18 | 1,12 | 1,06 | 1,00 | 0,94 | 0,97 | 0,90 | 0,84 | 0,77 | 0,70 | 0,36 | 0,00 |
| Running yield | | | 3,11% | 3,17% | 3,23% | 3,30% | 3,37% | 3,43% | 3,50% | 3,57% | 3,64% | 3,72% | 4,10% | 4,53% |
| Dividend (cash-on-cash) yield | | | -4,23% | -4,08% | -3,92% | -3,76% | -3,60% | | | | | | | |

# Appendix 3: Static Project Overview - Energoplan (€1.800/m²)

**RESIDENTIAL DEVELOPMENT - PARMOVA, LJUBLJANA**

| | |
|---|---|
| Land plot size | 17.083 |
| Gross FSI | 2,58 |
| Total gross developed area (m2) | 44.038 |
| Total net residential area | 24.670 |
| Average residential unit size (m2) | 88 |
| Number of residential units | 280 |
| Total net commercial areas | 10.570 |
| Total net balconies | 1.680 |
| Total net storage area | 2.420 |
| Total number of parking spaces | 1.191 |
| Number of net m2 per parking space (including communications) | 28 |

| ITEM | INVESTMENT / UNIT | REVENUES / UNIT |
|---|---|---|
| Residential living areas | 675 € | 1.800 € |
| Commercial areas | 600 € | 1.900 € |
| Above ground common areas | 600 € | - € |
| Balconies | 400 € | 900 € |
| Underground areas - common areas | 350 € | - € |
| Underground areas - storage | 400 € | 900 € |
| Underground areas - parking | 400 € | 14.000 € |
| Multiplier factor | 1,00 | 1,00 |

| | | | | INVESTMENT | | REVENUES | |
|---|---|---|---|---|---|---|---|
| | | | | COST | TOTAL COST | PRICE | TOTAL REVENUES |
| | | | | EUR / unit | EUR | EUR / unit | EUR |
| **1** | **LAND COSTS** | **m2** | | | | | |
| 1.1 | Land plot | 17.083 | | 500 € | 8.541.500 € | | |
| **1** | **TOTAL LAND COSTS** | **17.083** | | **500 €** | **8.541.500 €** | | |
| | | | | | | | |
| **2** | **CONSTRUCTION, FINISHING AND INSTALLATION WORKS** | | | | | | |
| | **TOTAL GROSS DEVELOPED AREAS** | **44.038** | | | | | |
| | | | | | | | |
| 2.1 | Residential living areas | 28.359 | 24.670 | 675 € | 16.652.250 € | 1.800 € | 44.406.000 € |
| 2.2 | Commercial areas | 12.154 | 10.570 | 600 € | 6.342.000 € | 1.900 € | 20.083.000 € |
| 2.3 | Above ground common areas | 3.525 | 3.065 | 600 € | 1.839.000 € | - € | |
| 2.4 | Balconies | | 1.680 | 400 € | 672.000 € | 900 € | 1.512.000 € |
| 2.5 | Underground areas - common areas | | 850 | 350 € | 297.500 € | - € | - € |
| 2.6 | Underground areas - storage | | 2.420 | 400 € | 967.960 € | 900 € | 2.177.910 € |
| 2.7 | Underground areas - parking | | 33.348 | 400 € | 13.339.200 € | 14.000 € | 16.282.000 € |
| | | | | | | | |
| | Number of apartments | 280 | | | | | |
| | Number of required parking spaces | 1.191 | | | | | |
| **2** | **TOTAL CFI WORKS** | | | | **40.109.910 €** | | **84.460.910 €** |
| | | | | | | | |
| **3** | **COMUNAL FEES AND EXPENSES** | | **Nett** | | | | |
| 3.1 | Communal fee | estimate | 39.985 | 146 € | 5.837.810 € | | |
| 3.5 | Communal fee deduction for existing buildings | estimate | -10.000 | 146 € | - 1.460.000 € | | |
| 3.6 | Building permits and consents | estimate | | | 250.000 € | | |
| 3.7 | Additional municipal infrastructure cost | estimate | | | - € | | |
| **3** | **TOTAL COMMUNAL FEES AND EXPENSES** | | | | **4.627.810 €** | | |
| | | | | | | | |
| **4** | **SITE PREPARATION WORKS** | | | | | | |
| 4.1 | Demolition of existing buildings | estimate | | | 500.000 € | | |
| 4.2 | Geomechanic and geotechnical works | estimate | | | 40.000 € | | |
| 4.3 | Geodetic works | estimate | | | 40.000 € | | |
| 4.4 | Construction of utility connections | estimate | | | 125.000 € | | |
| 4.5 | Utility connection fees | estimate | | | 200.000 € | | |
| 4.6 | Access roads & communications | estimate | | | 250.000 € | | |
| 4.7 | Horticulture | estimate | | | 300.000 € | | |
| **4** | **TOTAL SITE PREPARATION WORKS** | | | | **1.455.000 €** | | |
| | | | | | | | |
| **5** | **SOFT COSTS** | | | | | | |
| 5.1 | Architectural design contest | estimate | | | 75.000 € | | |
| 5.2 | Urban planning | estimate | | | - € | | |
| 5.3 | Project designs | 4,00% | of total CFI works | | 1.604.396 € | | |
| 5.4 | Design revision | 0,30% | of total CFI works | | 120.330 € | | |
| 5.5 | Construction supervision | 2,25% | of total CFI works | | 902.473 € | | |
| 5.6 | Project management | 3,00% | of total CFI works | | 1.203.297 € | | |
| **5** | **TOTAL SOFT COSTS** | | | | **3.905.496 €** | | |
| | | | | | | | |
| **6** | **OTHER COSTS** | | | | | | |
| 6.1 | Legal services | estimate | | | 210.000 € | | |
| 6.2 | Unforeseen works | 5,0% | of total CFI works | | 2.005.496 € | | |
| **6** | **TOTAL OTHER COSTS** | | | | **2.215.496 €** | | |
| | | | | | | | |
| **7** | **FINANCING** | | | | | | |
| | Loan amount | 50.000.000 € | | | | | |
| | Interest rate | 5,50% | per annum | | | | |
| | Project duration | 36 | months | | | | |
| 7.1 | Interest costs | for 60% of period | | | 5.058.507 € | | |
| 7.2 | Loan arrangement fee | 0,50% | | | 250.000 € | | |
| 7.3 | Bank supervision fee | 0,50% | | | 250.000 € | | |
| **7** | **TOTAL FINANCING** | | | | **5.558.507 €** | | |
| | | | | | | | |
| **8** | **MARKETING & SALES** | | | | | | |
| 8.1 | Marketing | 1,25% | of market value | | 1.055.761 € | | |
| 8.2 | Sales commission | 1,00% | of market value | | 844.609 € | | |
| **8** | **TOTAL MARKETING & SALES** | | | | **1.900.370 €** | | |
| | | | | | | | |
| | **TOTAL INVESTMENT** | | | | **68.314.090 €** | | |
| | | | | | | | |
| | **TOTAL REVENUES** | | | | | | **84.460.910 €** |

| | |
|---|---|
| **GROSS PROFIT** | **16.146.820 €** |
| **TAX AT 20%** | **3.229.364 €** |
| **NET PROFIT** | **12.917.456 €** |
| **NET MARGIN** | **18,91%** |

## Appendix 4: Dynamic Project Overview - Letting at €8/m², 20 year loan amortisation

| PARMOVA, LJUBLJANA | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition price | 68.314.090 € | | | | | | | | | | | | | |
| Financing - LTV | 60% | | | | | | | | | | | | | |
| Senior loan amount | 40.988.454 € | | | | | | | | | | | | | |
| Loan amortization (years) | 20 | | | | | | | | | | | | | |
| Interest rate (p.a.) | 5,00% | | | | | | | | | | | | | |
| Exit year | 20 | | | | | | | | | | | | | |
| Exit yield (EBITDA cap rate) | 7,00% | | | | | | | | | | | | | |
| **CASH FLOWS FROM OPERATIONS** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| **Revenues** | | | | | | | | | | | | | | |
| Net leasable residential areas | m2 | | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 |
| Average rent residential areas | € / month / m2 | | 8,0 € | 8,2 € | 8,3 € | 8,5 € | 8,7 € | 8,8 € | 9,0 € | 9,2 € | 9,4 € | 9,6 € | 10,6 € | 11,7 € |
| Net leasable balconies & storage areas | m2 | | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 |
| Average rent balconies & storage areas | € / month / m2 | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Number of parking lots | lots | | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 |
| Average rent parking lots | € / month / lot | | 100,0 € | 102,0 € | 104,0 € | 106,1 € | 108,2 € | 110,4 € | 112,6 € | 114,9 € | 117,2 € | 119,5 € | 131,9 € | 145,7 € |
| Annual rent increase | % p.a. | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Potential annual rental income | | | 2.368.320 € | 2.415.686 € | 2.464.000 € | 2.513.280 € | 2.563.546 € | 2.614.817 € | 2.667.113 € | 2.720.455 € | 2.774.864 € | 2.830.362 € | 3.124.948 € | 3.450.195 € |
| Occupancy | % | | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| Annual rental income | | | 2.131.488 € | 2.174.118 € | 2.217.600 € | 2.261.952 € | 2.307.191 € | 2.353.335 € | 2.400.402 € | 2.448.410 € | 2.497.378 € | 2.547.325 € | 2.812.453 € | 3.105.176 € |
| Income for reimbursable costs | | | 666.090 € | 679.412 € | 693.000 € | 706.860 € | 720.997 € | 735.417 € | 750.126 € | 765.128 € | 780.431 € | 796.039 € | 878.892 € | 970.367 € |
| **Total annual revenue** | | | **2.797.578 €** | **2.853.530 €** | **2.910.600 €** | **2.968.812 €** | **3.028.188 €** | **3.088.752 €** | **3.150.527 €** | **3.213.538 €** | **3.277.809 €** | **3.343.365 €** | **3.691.345 €** | **4.075.543 €** |
| **Expenses** | | | | | | | | | | | | | | |
| Reimbursable costs | € / month / m2 | | 2,50 € | 2,55 € | 2,60 € | 2,65 € | 2,71 € | 2,76 € | 2,82 € | 2,87 € | 2,93 € | 2,99 € | 3,30 € | 3,64 € |
| Annual cost increase | % | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Annual reimbursable costs | | | - 666.090 € | - 679.412 € | - 693.000 € | - 706.860 € | - 720.997 € | - 735.417 € | - 750.126 € | - 765.128 € | - 780.431 € | - 796.039 € | - 878.892 € | - 970.367 € |
| Property tax expense | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| **Total annual expenses** | | | **- 666.090 €** | **- 679.412 €** | **- 693.000 €** | **- 706.860 €** | **- 720.997 €** | **- 735.417 €** | **- 750.126 €** | **- 765.128 €** | **- 780.431 €** | **- 796.039 €** | **- 878.892 €** | **- 970.367 €** |
| **Net operating income (EBITDA)** | | | **2.131.488 €** | **2.174.118 €** | **2.217.600 €** | **2.261.952 €** | **2.307.191 €** | **2.353.335 €** | **2.400.402 €** | **2.448.410 €** | **2.497.378 €** | **2.547.325 €** | **2.812.453 €** | **3.105.176 €** |
| Depreciation allowance | 3% | | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € |
| Senior debt interest cost | | | - 2.049.423 € | - 1.987.443 € | - 1.922.364 € | - 1.854.031 € | - 1.782.282 € | - 1.706.945 € | - 1.627.841 € | - 1.544.782 € | - 1.457.570 € | - 1.365.998 € | - 834.703 € | - 156.620 € |
| **Earnings before tax** | | | **- 1.967.357 €** | **- 1.862.748 €** | **- 1.754.187 €** | **- 1.641.502 €** | **- 1.524.513 €** | **- 1.403.033 €** | **- 1.276.862 €** | **- 1.145.795 €** | **- 1.009.615 €** | **- 868.095 €** | **- 71.672 €** | **899.133 €** |
| Corporate tax | 10% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 89.913 € |
| **Earnings after tax** | | | **- 1.967.357 €** | **- 1.862.748 €** | **- 1.754.187 €** | **- 1.641.502 €** | **- 1.524.513 €** | **- 1.403.033 €** | **- 1.276.862 €** | **- 1.145.795 €** | **- 1.009.615 €** | **- 868.095 €** | **- 71.672 €** | **809.220 €** |
| **Net cash flows from operations** | | | **82.065 €** | **186.675 €** | **295.236 €** | **407.921 €** | **524.909 €** | **646.390 €** | **772.560 €** | **903.627 €** | **1.039.808 €** | **1.181.328 €** | **1.977.751 €** | **2.858.642 €** |
| **CASH FLOWS FROM INVESTMENT** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| Acquisition price | | - 68.314.090 € | | | | | | | | | | | | |
| Loan arrangement fee | 0,50% | - 204.942 € | | | | | | | | | | | | |
| Stamp duty | 0,00% | - € | | | | | | | | | | | | |
| Capital expenditure | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Sale proceeds | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 44.359.650 € |
| Sale costs | 1% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 443.597 € |
| **Net cash flows from investment** | | **- 68.519.032 €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **43.916.054 €** |
| **CASH FLOWS FROM FINANCING** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| Senior loan drawdown | | 40.988.454 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Principal repayment -annuity | | | - 1.239.597 € | - 1.301.577 € | - 1.366.656 € | - 1.434.988 € | - 1.506.738 € | - 1.582.075 € | - 1.661.178 € | - 1.744.237 € | - 1.831.449 € | - 1.923.022 € | - 2.454.317 € | - 3.132.400 € |
| Principal repayment - bullet | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 0 € |
| **Net cash flows from financing** | | **40.988.454 €** | **- 1.239.597 €** | **- 1.301.577 €** | **- 1.366.656 €** | **- 1.434.988 €** | **- 1.506.738 €** | **- 1.582.075 €** | **- 1.661.178 €** | **- 1.744.237 €** | **- 1.831.449 €** | **- 1.923.022 €** | **- 2.454.317 €** | **- 3.132.400 €** |
| | | | | | | | | | | | | | | |
| **NET CASH FLOW TO EQUITY** | | **- 27.530.578 €** | **- 1.157.532 €** | **- 1.114.902 €** | **- 1.071.419 €** | **- 1.027.067 €** | **- 981.828 €** | **- 935.685 €** | **- 888.618 €** | **- 840.610 €** | **- 791.642 €** | **- 741.694 €** | **- 476.566 €** | **43.642.297 €** |
| | | | | | | | | | | | | | | |
| **NPV (AT INDICATED DISCOUNT FACTOR)** | **8,00%** | **- 26.259.832 €** | | | | | | | | | | | | |
| **IRR** | | **0,3%** | | | | | | | | | | | | |
| **ABSOLUTE TOTAL EARNINGS** | | **2.147.000 €** | | | | | | | | | | | | |
| **EQUITY MULTIPLIER** | | **1,09** | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| **SENIOR DEBT AMORTIZATION SCHEDULE** | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 |
| Start of period balance | | | 40.988.454 € | 39.748.857 € | 38.447.280 € | 37.080.625 € | 35.645.636 € | 34.138.898 € | 32.556.824 € | 30.895.645 € | 29.151.408 € | 27.319.959 € | 16.694.051 € | 3.132.400 € |
| Annuity - interest | | | - 2.049.423 € | - 1.987.443 € | - 1.922.364 € | - 1.854.031 € | - 1.782.282 € | - 1.706.945 € | - 1.627.841 € | - 1.544.782 € | - 1.457.570 € | - 1.365.998 € | - 834.703 € | - 156.620 € |
| Annuity - principal | | | - 1.239.597 € | - 1.301.577 € | - 1.366.656 € | - 1.434.988 € | - 1.506.738 € | - 1.582.075 € | - 1.661.178 € | - 1.744.237 € | - 1.831.449 € | - 1.923.022 € | - 2.454.317 € | - 3.132.400 € |
| Bullet principal payment | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 0 € |
| Loan drawdown | | 40.988.454 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| End of period balance | | 40.988.454 € | 39.748.857 € | 38.447.280 € | 37.080.625 € | 35.645.636 € | 34.138.898 € | 32.556.824 € | 30.895.645 € | 29.151.408 € | 27.319.959 € | 25.396.937 € | 14.239.733 € | - € |
| **FINANCIAL INDICATORS** | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 |
| Debt service coverage ratio | | | 0,65 | 0,66 | 0,67 | 0,69 | 0,70 | 0,72 | 0,73 | 0,74 | 0,76 | 0,77 | 0,86 | 0,94 |
| Property valuation (potenitial income cap rate) | 7,00% | | 33.833.143 € | 34.509.806 € | 35.200.002 € | 35.904.002 € | 36.622.082 € | 33.619.071 € | 34.291.453 € | 34.977.282 € | 35.676.827 € | 36.390.364 € | 40.177.902 € | 44.359.650 € |
| Loan-to-value | | | 1,17 | 1,11 | 1,05 | 0,99 | 0,93 | 0,97 | 0,90 | 0,83 | 0,77 | 0,70 | 0,35 | 0,00 |
| Running yield | | | 3,12% | 3,18% | 3,25% | 3,31% | 3,38% | 3,44% | 3,51% | 3,58% | 3,66% | 3,73% | 4,12% | 4,55% |
| Dividend (cash-on-cash) yield | | | -4,20% | -4,05% | -3,89% | -3,73% | -3,57% | | | | | | | |

# Appendix 5: Dynamic Project Overview – Letting at €8/m$^2$, 20 year loan amortisation, EBITDA 5%

| PARMOVA, LJUBLJANA | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition price | 68.314.090 € | | | | | | | | | | | | | |
| Financing - LTV | 60% | | | | | | | | | | | | | |
| Senior loan amount | 40.988.454 € | | | | | | | | | | | | | |
| Loan amortization (years) | 20 | | | | | | | | | | | | | |
| Interest rate (p.a.) | 5,00% | | | | | | | | | | | | | |
| Exit year | 20 | | | | | | | | | | | | | |
| Exit yield (EBITDA cap rate) | 5,00% | | | | | | | | | | | | | |
| **CASH FLOWS FROM OPERATIONS** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| **Revenues** | | | | | | | | | | | | | | |
| Net leasable residential areas | m2 | | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 |
| Average rent residential areas | € / month / m2 | | 8,0 € | 8,2 € | 8,3 € | 8,5 € | 8,7 € | 8,8 € | 9,0 € | 9,2 € | 9,4 € | 9,6 € | 10,6 € | 11,7 € |
| Net leasable balconies & storage areas | m2 | | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 |
| Average rent balconies & storage areas | € / month / m2 | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Number of parking lots | lots | | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 |
| Average rent parking lots | € / month / lot | | 100,0 € | 102,0 € | 104,0 € | 106,1 € | 108,2 € | 110,4 € | 112,6 € | 114,9 € | 117,2 € | 119,5 € | 131,9 € | 145,7 € |
| Annual rent increase | % p.a. | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Potential annual rental income | | | 2.368.320 € | 2.415.686 € | 2.464.000 € | 2.513.280 € | 2.563.546 € | 2.614.817 € | 2.667.113 € | 2.720.455 € | 2.774.864 € | 2.830.362 € | 3.124.948 € | 3.450.195 € |
| Occupancy | % | | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| Annual rental income | | | 2.131.488 € | 2.174.118 € | 2.217.600 € | 2.261.952 € | 2.307.191 € | 2.353.335 € | 2.400.402 € | 2.448.410 € | 2.497.378 € | 2.547.325 € | 2.812.453 € | 3.105.176 € |
| Income for reimbursable costs | | | 666.090 € | 679.412 € | 693.000 € | 706.860 € | 720.997 € | 735.417 € | 750.126 € | 765.128 € | 780.431 € | 796.039 € | 878.892 € | 970.367 € |
| **Total annual revenue** | | | **2.797.578 €** | **2.853.530 €** | **2.910.600 €** | **2.968.812 €** | **3.028.188 €** | **3.088.752 €** | **3.150.527 €** | **3.213.538 €** | **3.277.809 €** | **3.343.365 €** | **3.691.345 €** | **4.075.543 €** |
| **Expenses** | | | | | | | | | | | | | | |
| Reimbursable costs | € / month / m2 | | 2,50 € | 2,55 € | 2,60 € | 2,65 € | 2,71 € | 2,76 € | 2,82 € | 2,87 € | 2,93 € | 2,99 € | 3,30 € | 3,64 € |
| Annual cost increase | % | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Annual reimbursable costs | | | -666.090 € | -679.412 € | -693.000 € | -706.860 € | -720.997 € | -735.417 € | -750.126 € | -765.128 € | -780.431 € | -796.039 € | -878.892 € | -970.367 € |
| Property tax expense | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| **Total annual expenses** | | | **-666.090 €** | **-679.412 €** | **-693.000 €** | **-706.860 €** | **-720.997 €** | **-735.417 €** | **-750.126 €** | **-765.128 €** | **-780.431 €** | **-796.039 €** | **-878.892 €** | **-970.367 €** |
| **Net operating income (EBITDA)** | | | **2.131.488 €** | **2.174.118 €** | **2.217.600 €** | **2.261.952 €** | **2.307.191 €** | **2.353.335 €** | **2.400.402 €** | **2.448.410 €** | **2.497.378 €** | **2.547.325 €** | **2.812.453 €** | **3.105.176 €** |
| Depreciation allowance | 3% | | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € | -2.049.423 € |
| Senior debt interest cost | | | -2.049.423 € | -1.987.443 € | -1.922.364 € | -1.854.031 € | -1.782.282 € | -1.706.945 € | -1.627.841 € | -1.544.782 € | -1.457.570 € | -1.365.998 € | -834.703 € | -156.620 € |
| **Earnings before tax** | | | **-1.967.357 €** | **-1.862.748 €** | **-1.754.187 €** | **-1.641.502 €** | **-1.524.513 €** | **-1.403.033 €** | **-1.276.862 €** | **-1.145.795 €** | **-1.009.615 €** | **-868.095 €** | **-71.672 €** | **899.133 €** |
| Corporate tax | 10% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 89.913 € |
| **Earnings after tax** | | | **-1.967.357 €** | **-1.862.748 €** | **-1.754.187 €** | **-1.641.502 €** | **-1.524.513 €** | **-1.403.033 €** | **-1.276.862 €** | **-1.145.795 €** | **-1.009.615 €** | **-868.095 €** | **-71.672 €** | **809.220 €** |
| **Net cash flows from operations** | | | **82.065 €** | **186.675 €** | **295.236 €** | **407.921 €** | **524.909 €** | **646.390 €** | **772.560 €** | **903.627 €** | **1.039.808 €** | **1.181.328 €** | **1.977.751 €** | **2.858.642 €** |
| **CASH FLOWS FROM INVESTMENT** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| Acquisition price | | -68.314.090 € | | | | | | | | | | | | |
| Loan arrangement fee | 0,50% | -204.942 € | | | | | | | | | | | | |
| Stamp duty | 0,00% | - € | | | | | | | | | | | | |
| Capital expenditure | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Sale proceeds | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 62.103.511 € |
| Sale costs | 1% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | -621.035 € |
| **Net cash flows from investment** | | **-68.519.032 €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **61.482.476 €** |
| **CASH FLOWS FROM FINANCING** | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** |
| Senior loan drawdown | | 40.988.454 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Principal repayment -annuity | | | -1.239.597 € | -1.301.577 € | -1.366.656 € | -1.434.988 € | -1.506.738 € | -1.582.075 € | -1.661.178 € | -1.744.237 € | -1.831.449 € | -1.923.022 € | -2.454.317 € | -3.132.400 € |
| Principal repayment - bullet | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | -0 € |
| **Net cash flows from financing** | | **40.988.454 €** | **-1.239.597 €** | **-1.301.577 €** | **-1.366.656 €** | **-1.434.988 €** | **-1.506.738 €** | **-1.582.075 €** | **-1.661.178 €** | **-1.744.237 €** | **-1.831.449 €** | **-1.923.022 €** | **-2.454.317 €** | **-3.132.400 €** |
| | | | | | | | | | | | | | | |
| **NET CASH FLOW TO EQUITY** | | **-27.530.578 €** | **-1.157.532 €** | **-1.114.902 €** | **-1.071.419 €** | **-1.027.067 €** | **-981.828 €** | **-935.685 €** | **-888.618 €** | **-840.610 €** | **-791.642 €** | **-741.694 €** | **-476.566 €** | **61.208.718 €** |
| | | | | | | | | | | | | | | |
| **NPV (AT INDICATED DISCOUNT FACTOR)** | **8,00%** | **-22.490.987 €** | | | | | | | | | | | | |
| **IRR** | | **2,2%** | | | | | | | | | | | | |
| **ABSOLUTE TOTAL EARNINGS** | | **19.713.422 €** | | | | | | | | | | | | |
| **EQUITY MULTIPLIER** | | **1,53** | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| **SENIOR DEBT AMORTIZATION SCHEDULE** | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 |
| Start of period balance | | | 40.988.454 € | 39.748.857 € | 38.447.280 € | 37.080.625 € | 35.645.636 € | 34.138.898 € | 32.556.824 € | 30.895.645 € | 29.151.408 € | 27.319.959 € | 16.694.051 € | 3.132.400 € |
| Annuity - interest | | | -2.049.423 € | -1.987.443 € | -1.922.364 € | -1.854.031 € | -1.782.282 € | -1.706.945 € | -1.627.841 € | -1.544.782 € | -1.457.570 € | -1.365.998 € | -834.703 € | -156.620 € |
| Annuity - principal | | | -1.239.597 € | -1.301.577 € | -1.366.656 € | -1.434.988 € | -1.506.738 € | -1.582.075 € | -1.661.178 € | -1.744.237 € | -1.831.449 € | -1.923.022 € | -2.454.317 € | -3.132.400 € |
| Bullet principal payment | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | -0 € |
| Loan drawdown | | 40.988.454 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| End of period balance | | 40.988.454 € | 39.748.857 € | 38.447.280 € | 37.080.625 € | 35.645.636 € | 34.138.898 € | 32.556.824 € | 30.895.645 € | 29.151.408 € | 27.319.959 € | 25.396.937 € | 14.239.733 € | - € |
| **FINANCIAL INDICATORS** | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 |
| Debt service coverage ratio | | | 0,65 | 0,66 | 0,67 | 0,69 | 0,70 | 0,72 | 0,73 | 0,74 | 0,76 | 0,77 | 0,86 | 0,94 |
| Property valuation (potenitial income cap rate) | 5,00% | | 47.366.400 € | 48.313.728 € | 49.280.003 € | 50.265.603 € | 51.270.915 € | 47.066.700 € | 48.008.034 € | 48.968.194 € | 49.947.558 € | 50.946.509 € | 56.249.063 € | 62.103.511 € |
| Loan-to-value | | | 0,84 | 0,80 | 0,75 | 0,71 | 0,67 | 0,69 | 0,64 | 0,60 | 0,55 | 0,50 | 0,25 | 0,00 |
| Running yield | | | 3,12% | 3,18% | 3,25% | 3,31% | 3,38% | 3,44% | 3,51% | 3,58% | 3,66% | 3,73% | 4,12% | 4,55% |
| Dividend (cash-on-cash) yield | | | -4,20% | -4,05% | -3,89% | -3,73% | -3,57% | | | | | | | |

## Appendix 6: Dynamic Project Overview – Letting at €8/m², 25 year loan amortisation, EBITDA 5%

| PARMOVA, LJUBLJANA | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition price | 68.314.090 € | | | | | | | | | | | | | | |
| Financing - LTV | 60% | | | | | | | | | | | | | | |
| Senior loan amount | 40.988.454 € | | | | | | | | | | | | | | |
| Loan amortization (years) | 25 | | | | | | | | | | | | | | |
| Interest rate (p.a.) | 5,00% | | | | | | | | | | | | | | |
| Exit year | 25 | | | | | | | | | | | | | | |
| Exit yield (EBITDA cap rate) | 5,00% | | | | | | | | | | | | | | |
| **CASH FLOWS FROM OPERATIONS** | | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** | **25** |
| **Revenues** | | | | | | | | | | | | | | | |
| Net leasable residential areas | m2 | | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 | 24.670 |
| Average rent residential areas | € / month / m2 | | 8,0 € | 8,2 € | 8,3 € | 8,5 € | 8,7 € | 8,8 € | 9,0 € | 9,2 € | 9,4 € | 9,6 € | 10,6 € | 11,7 € | 12,9 € |
| Net leasable balconies & storage areas | m2 | | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 | 4.100 |
| Average rent balconies & storage areas | € / month / m2 | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Number of parking lots | lots | | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 | 560 |
| Average rent parking lots | € / month / lot | | 100,0 € | 102,0 € | 104,0 € | 106,1 € | 108,2 € | 110,4 € | 112,6 € | 114,9 € | 117,2 € | 119,5 € | 131,9 € | 145,7 € | 160,8 € |
| Annual rent increase | % p.a. | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Potential annual rental income | | | 2.368.320 € | 2.415.686 € | 2.464.000 € | 2.513.280 € | 2.563.546 € | 2.614.817 € | 2.667.113 € | 2.720.455 € | 2.774.864 € | 2.830.362 € | 3.124.948 € | 3.450.195 € | 3.809.294 € |
| Occupancy | % | | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| Annual rental income | | | 2.131.488 € | 2.174.118 € | 2.217.600 € | 2.261.952 € | 2.307.191 € | 2.353.335 € | 2.400.402 € | 2.448.410 € | 2.497.378 € | 2.547.325 € | 2.812.453 € | 3.105.176 € | 3.428.365 € |
| Income for reimbursable costs | | | 666.090 € | 679.412 € | 693.000 € | 706.860 € | 720.997 € | 735.417 € | 750.126 € | 765.128 € | 780.431 € | 796.039 € | 878.892 € | 970.367 € | 1.071.364 € |
| **Total annual revenue** | | | **2.797.578 €** | **2.853.530 €** | **2.910.600 €** | **2.968.812 €** | **3.028.188 €** | **3.088.752 €** | **3.150.527 €** | **3.213.538 €** | **3.277.809 €** | **3.343.365 €** | **3.691.345 €** | **4.075.543 €** | **4.499.729 €** |
| **Expenses** | | | | | | | | | | | | | | | |
| Reimbursable costs | € / month / m2 | | 2,50 € | 2,55 € | 2,60 € | 2,65 € | 2,71 € | 2,76 € | 2,82 € | 2,87 € | 2,93 € | 2,99 € | 3,30 € | 3,64 € | 4,02 € |
| Annual cost increase | % | | 0,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% | 2,0% |
| Annual reimbursable costs | | | - 666.090 € | - 679.412 € | - 693.000 € | - 706.860 € | - 720.997 € | - 735.417 € | - 750.126 € | - 765.128 € | - 780.431 € | - 796.039 € | - 878.892 € | - 970.367 € | - 1.071.364 € |
| Property tax expense | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| **Total annual expenses** | | | **- 666.090 €** | **- 679.412 €** | **- 693.000 €** | **- 706.860 €** | **- 720.997 €** | **- 735.417 €** | **- 750.126 €** | **- 765.128 €** | **- 780.431 €** | **- 796.039 €** | **- 878.892 €** | **- 970.367 €** | **- 1.071.364 €** |
| **Net operating income (EBITDA)** | | | **2.131.488 €** | **2.174.118 €** | **2.217.600 €** | **2.261.952 €** | **2.307.191 €** | **2.353.335 €** | **2.400.402 €** | **2.448.410 €** | **2.497.378 €** | **2.547.325 €** | **2.812.453 €** | **3.105.176 €** | **3.428.365 €** |
| Depreciation allowance | 3% | | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € | - 2.049.423 € |
| Senior debt interest cost | | | - 2.049.423 € | - 2.006.482 € | - 1.961.395 € | - 1.914.053 € | - 1.864.344 € | - 1.812.150 € | - 1.757.346 € | - 1.699.801 € | - 1.639.380 € | - 1.575.937 € | - 1.207.849 € | - 738.064 € | - 138.487 € |
| **Earnings before tax** | | | **- 1.967.357 €** | **- 1.881.787 €** | **- 1.793.217 €** | **- 1.701.524 €** | **- 1.606.576 €** | **- 1.508.237 €** | **- 1.406.367 €** | **- 1.300.814 €** | **- 1.191.425 €** | **- 1.078.034 €** | **- 444.818 €** | **317.688 €** | **1.240.455 €** |
| Corporate tax | 10% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 31.769 € | 124.045 € |
| **Earnings after tax** | | | **- 1.967.357 €** | **- 1.881.787 €** | **- 1.793.217 €** | **- 1.701.524 €** | **- 1.606.576 €** | **- 1.508.237 €** | **- 1.406.367 €** | **- 1.300.814 €** | **- 1.191.425 €** | **- 1.078.034 €** | **- 444.818 €** | **285.920 €** | **1.116.409 €** |
| **Net cash flows from operations** | | | **82.065 €** | **167.636 €** | **256.205 €** | **347.899 €** | **442.847 €** | **541.185 €** | **643.056 €** | **748.608 €** | **857.998 €** | **971.388 €** | **1.604.604 €** | **2.335.342 €** | **3.165.832 €** |
| **CASH FLOWS FROM INVESTMENT** | | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** | **25** |
| Acquisition price | | - 68.314.090 € | | | | | | | | | | | | | |
| Loan arrangement fee | 0,50% | - 204.942 € | | | | | | | | | | | | | |
| Stamp duty | 0,00% | - € | | | | | | | | | | | | | |
| Capital expenditure | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Sale proceeds | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | 68.567.294 € |
| Sale costs | 1% | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 685.673 € |
| **Net cash flows from investment** | | **- 68.519.032 €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **- €** | **67.881.621 €** |
| **CASH FLOWS FROM FINANCING** | | | | | | | | | | | | | | | |
| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **15** | **20** | **25** |
| Senior loan drawdown | | 40.988.454 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| Principal repayment -annuity | | | - 858.809 € | - 901.749 € | - 946.837 € | - 994.179 € | - 1.043.887 € | - 1.096.082 € | - 1.150.886 € | - 1.208.430 € | - 1.268.852 € | - 1.332.294 € | - 1.700.383 € | - 2.170.167 € | - 2.769.744 € |
| Principal repayment - bullet | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 0 € |
| **Net cash flows from financing** | | **40.988.454 €** | **- 858.809 €** | **- 901.749 €** | **- 946.837 €** | **- 994.179 €** | **- 1.043.887 €** | **- 1.096.082 €** | **- 1.150.886 €** | **- 1.208.430 €** | **- 1.268.852 €** | **- 1.332.294 €** | **- 1.700.383 €** | **- 2.170.167 €** | **- 2.769.744 €** |
| | | | | | | | | | | | | | | | |
| **NET CASH FLOW TO EQUITY** | | **- 27.530.578 €** | **- 776.744 €** | **- 734.114 €** | **- 690.631 €** | **- 646.279 €** | **- 601.040 €** | **- 554.897 €** | **- 507.830 €** | **- 459.822 €** | **- 410.854 €** | **- 360.906 €** | **- 95.778 €** | **165.175 €** | **68.277.709 €** |
| | | | | | | | | | | | | | | | |
| **NPV (AT INDICATED DISCOUNT FACTOR)** | **8,00%** | **- 31.895.163 €** | | | | | | | | | | | | | |
| **IRR** | | **18,5%** | | | | | | | | | | | | | |
| **ABSOLUTE TOTAL EARNINGS** | | **65.820.136 €** | | | | | | | | | | | | | |
| **EQUITY MULTIPLIER** | | **2,03** | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| **SENIOR DEBT AMORTIZATION SCHEDULE** | | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 | 25 |
| Start of period balance | | | 40.988.454 € | 40.129.645 € | 39.227.896 € | 38.281.059 € | 37.286.880 € | 36.242.993 € | 35.146.911 € | 33.996.025 € | 32.787.595 € | 31.518.743 € | 24.156.976 € | 14.761.288 € | 2.769.744 € |
| Annuity - interest | | | - 2.049.423 € | - 2.006.482 € | - 1.961.395 € | - 1.914.053 € | - 1.864.344 € | - 1.812.150 € | - 1.757.346 € | - 1.699.801 € | - 1.639.380 € | - 1.575.937 € | - 1.207.849 € | - 738.064 € | - 138.487 € |
| Annuity - principal | | | - 858.809 € | - 901.749 € | - 946.837 € | - 994.179 € | - 1.043.887 € | - 1.096.082 € | - 1.150.886 € | - 1.208.430 € | - 1.268.852 € | - 1.332.294 € | - 1.700.383 € | - 2.170.167 € | - 2.769.744 € |
| Bullet principal payment | | | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - 0 € |
| Loan drawdown | | 40.988.454 € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € | - € |
| End of period balance | | 40.988.454 € | 40.129.645 € | 39.227.896 € | 38.281.059 € | 37.286.880 € | 36.242.993 € | 35.146.911 € | 33.996.025 € | 32.787.595 € | 31.518.743 € | 30.186.449 € | 22.456.593 € | 12.591.120 € | - € |
| **FINANCIAL INDICATORS** | | | | | | | | | | | | | | | |
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 15 | 20 | 25 |
| Debt service coverage ratio | | | 0,73 | 0,75 | 0,76 | 0,78 | 0,79 | 0,81 | 0,83 | 0,84 | 0,86 | 0,88 | 0,97 | 1,07 | 1,18 |
| Property valuation (potenitial income cap rate) | 5,00% | | 47.366.400 € | 48.313.728 € | 49.280.003 € | 50.265.603 € | 51.270.915 € | 47.066.700 € | 48.008.034 € | 48.968.194 € | 49.947.558 € | 50.946.509 € | 56.249.063 € | 62.103.511 € | 68.567.294 € |
| Loan-to-value | | | 0,85 | 0,81 | 0,78 | 0,74 | 0,71 | 0,75 | 0,71 | 0,67 | 0,63 | 0,59 | 0,40 | 0,20 | 0,00 |
| Running yield | | | 3,12% | 3,18% | 3,25% | 3,31% | 3,38% | 3,44% | 3,51% | 3,58% | 3,66% | 3,73% | 4,12% | 4,55% | 5,02% |
| Dividend (cash-on-cash) yield | | | -2,82% | -2,67% | -2,51% | -2,35% | -2,18% | | | | | | | | |