

DIOK REALESTATE AG

# PORTFOLIO REPORT HY 2019

[www.diok-realestate.de](http://www.diok-realestate.de)



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# INTRODUCTION

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FY 2018  
**GAV EUR**

**63.7m**

10 Assets

**41.306 sqm**



HY 2019  
**GAV EUR**

**113.9m**

13 Assets

**70.218 sqm**



Acquisition of  
Ducato Portfolio  
in Q1/Q2 2019  
**+EUR 50.2m GAV**  
**+ 3 Assets**  
**+ 28.912 sqm**



Rent at EUR 6.8mn  
**WALT 5.9 years**  
1.622 EUR/m<sup>2</sup> GAV  
**Yield (GAV) 5.9%**



## MISSION STATEMENT.



DIOK RealEstate acquires **commercial real estate** in Germany with **cash flow positive** generating assets, while maintaining a **lean organizational structure**.

The company is building a portfolio, focused on the **sizable and liquid EUR 25bn p.a. market** for **secondary office locations** in Germany.

As an **active property portfolio manager** and with a **highly experienced Management Team** the goal is it to combine a **manage-to-core strategy** with a **steady growth** of value and income.

DIOK RealEstate stands out with **superior sourcing capabilities**, leveraging on its extended network from management, shareholders and supervisory board members.

The **medium-term goal of DIOK RealEstate**, as defined by management and founders, is to acquire and to manage a real estate **portfolio of more than EUR 2bn GAV**.

With its **extensive deal pipeline and knowledge**, DIOK RealEstate is best positioned for **profitable growth** in its targeted **niche market** within the German commercial real estate segment.



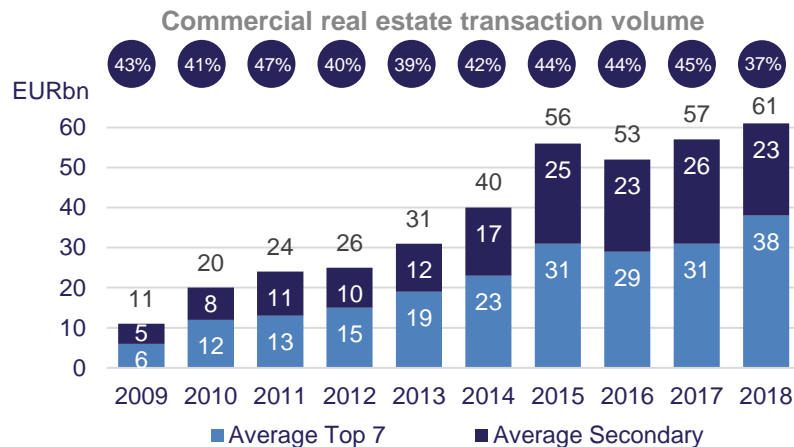
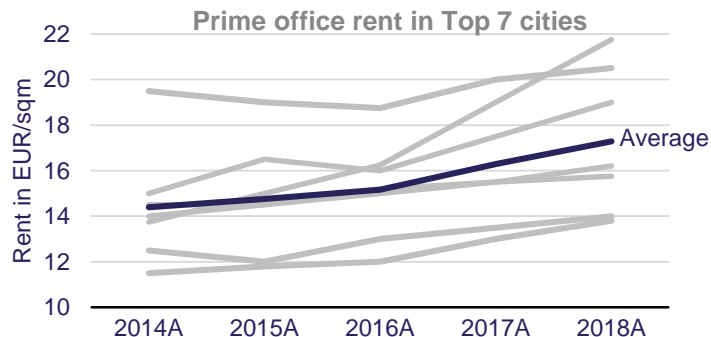
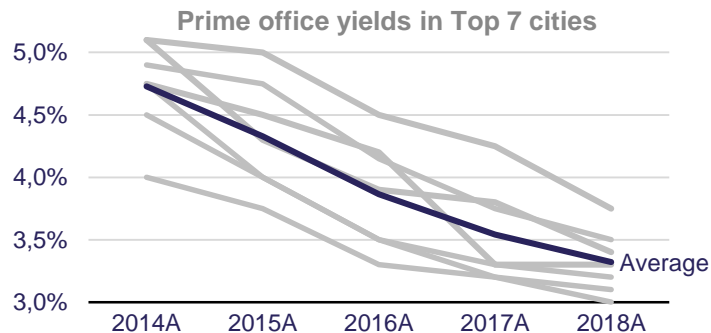
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# MARKET OVERVIEW – GERMAN OFFICES IN SECONDARY LOCATIONS



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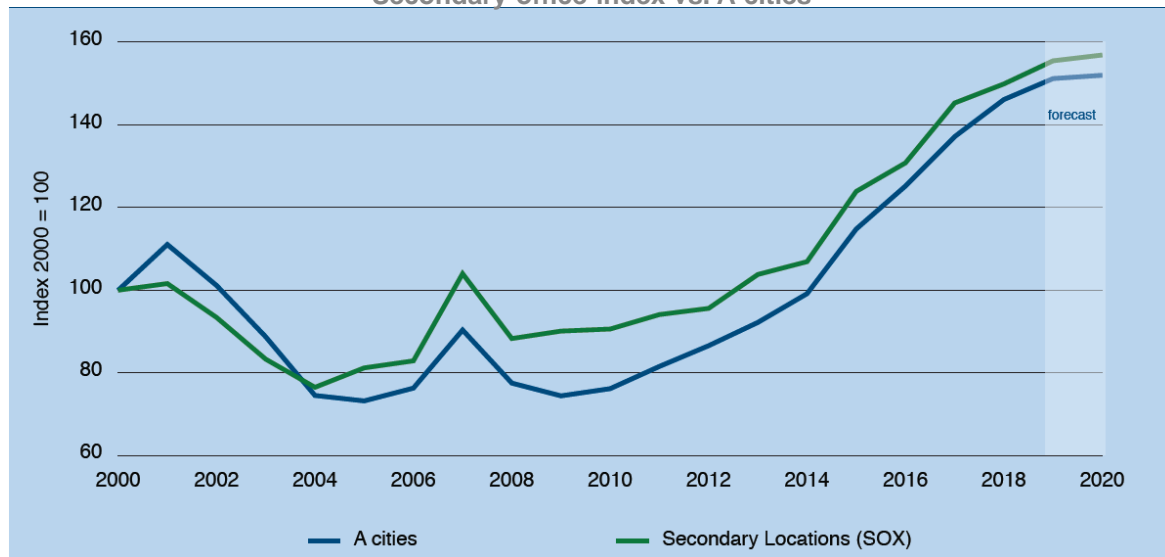
## OFFICE MARKET OVERVIEW. Strong fundamentals



- The ECB's low interest rate policy in the last years has put downward pressure on prime office yields with the average going down from around 4.8% to 3.3% since 2014
- Strong demand for office space has led to an 20% increase in prime rents over the last four years
- Transaction volumes showed continuous increase in secondary cities, stabilizing at around EUR 25bn
- Office property segment is consistently the most active across asset types

## SECONDARIES. The better choice

Secondary-office-index vs. A cities



## SOX – Indicators

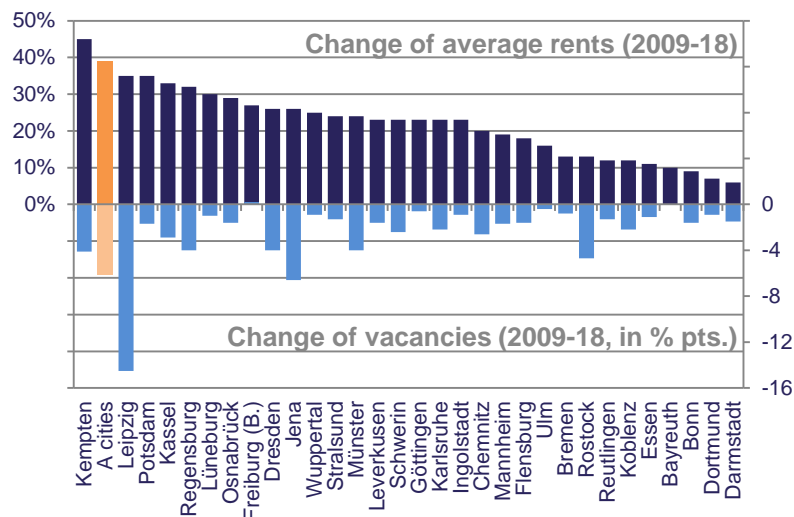
- Economy:** DAX – German Stock Index, DIMAX – German Real Estate Stock Index, ESI – Economic Sentiment Indicator (seasonally adjusted, in points), Real gross domestic product (regional) in million Euros (change compared to previous year).
- Public finances:** Basic interest rate according to §247 HGB \*, 10-year government bonds (in%), after Maastricht criteria \*\*
- Labor market:** SVP employment (change from Previous year), Office employment (change compared to Previous year), Quote: Office workers at SVP employees, SVP commuter (place of work), Migration balance, Number of students at universities
- Office market:** Approval of office and administrative buildings (in sqm NF), new office space access (in sqm MFG), office space per office worker (in sqm), Vacancy rate Office MFG (in%), office space turnover (in sqm MFG), average rent Office City (in EUR / sqm MFG)
- Office investment market:** Investment volume (in million Euros), net initial yield office (in%), Capital Growth (year-on-year change in%)

Secondary locations outperformed primary locations over the last two decades



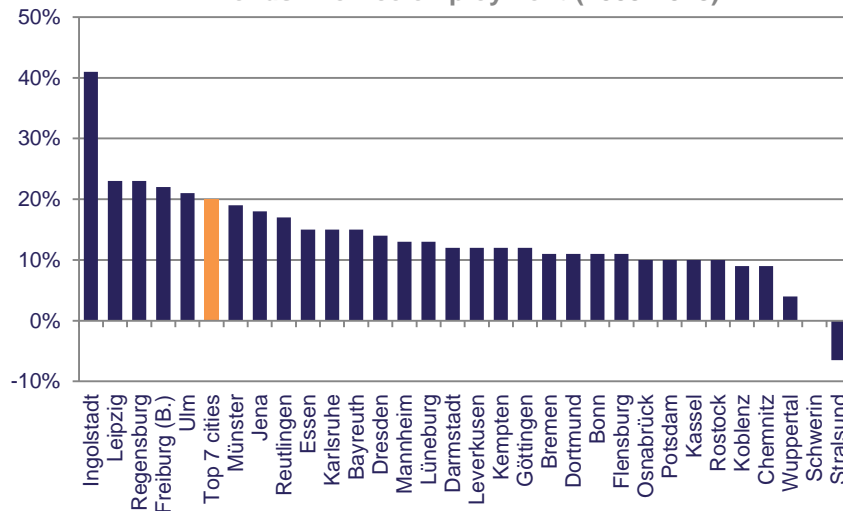
## SECONDARY LOCATIONS.

Solid absolute & relative performance



- Average office rents have increased in all secondary locations since 2009, with a growth of up to 45% during that period
- Over the same time period, office vacancies in all secondary cities except for Freiburg went down

Trends in office employment (2009-2018)



- The economic growth of the past few years has fueled the creation of white-collar jobs in Germany
- All secondary (and primary) cities in Germany except for Stralsund registered an upward trend in the number of office jobs since 2009 putting market pressure on vacancy rates and rents

Note: <sup>1</sup> SOX based on five indicators: Economy, Public finances, Labor market, Office market and office investment market.

## MARKET OPPORTUNITIES.

### Low Vacancies

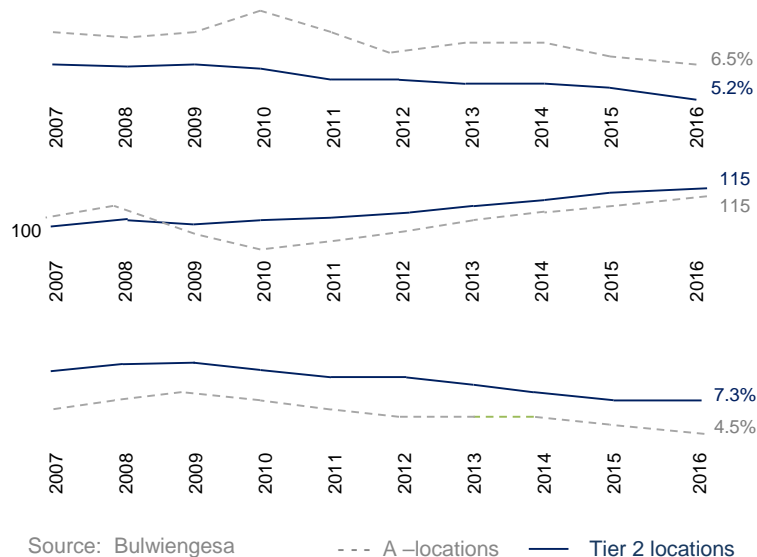
Office Space  
Vacancy Tendencies

### Steady Growth

Office Space  
Market Rent Development

### Higher Yields

Office Space  
Yield



### Highlights

- ➔ Positive tenant markets and sustainable high demand for office space are reducing the average vacancy rate
- ➔ Secondary locations have lower volatility in vacancies and higher rental yields compared to the TOP 7 locations (caused by a less speculative building activity)
- ➔ Secondary locations generate better risk reward ratios and higher yields compared to prime locations
- ➔ Higher manage to core ratio, generated by lower purchase prices and better yield

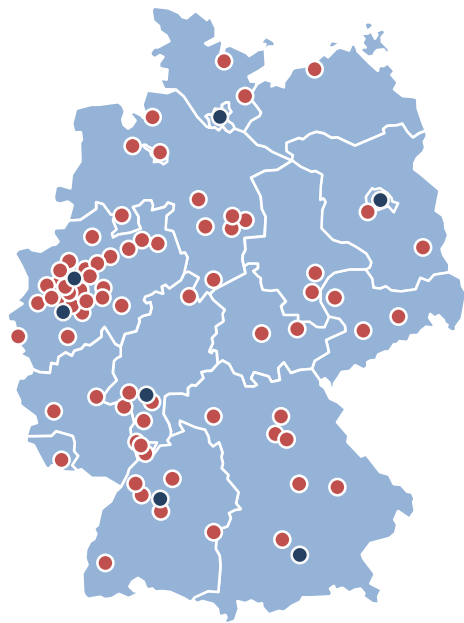
Historically low vacancies – Significantly less volatility in occupancy and rent – Similar market rent growth to primary locations  
**Market inefficiencies are driving higher yields**

## COMPANY AND STRATEGY

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## DIOK BUSINESS MODEL.



● Top 7 cities

● Cities &gt;100k inhabitants



### OFFICE PURE PLAY

DIOK focusses exclusively on office buildings with reputable tenants, while outsourcing property management



### FOCUS ON SECONDARY LOCATIONS IN GERMANY

Secondary cities with appealing fundamentals are DIOK's sweet spot in terms of rent levels and target tenant base



### EXPLOITING NICHE MARKETS

DIOK's target deal size is in the range of EUR 5-25m with a focus on off-market transactions



### CASH FLOW POSITIVE FROM DAY ONE

Strict focus on commercial real estate with cash flow positive producing assets



### DIVERSIFIED RISK PROFILE

Risk management via geographic and tenant diversification as well as through overhead minimization and outsourcing activities



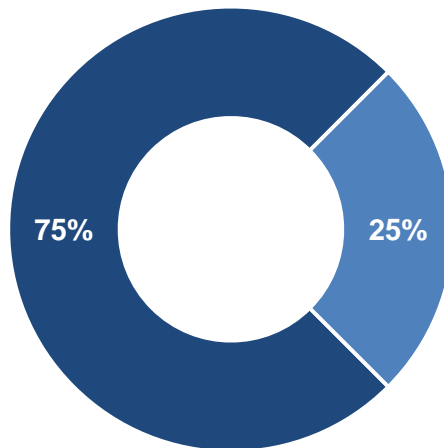
## INVESTMENT STRATEGY. Manage-to-core



### Core Portfolio

#### WALT >5 years

- Strong tenant base
- Highly diversified
- Sustainable profitability



### Value Add

#### WALT <5 years

- Potential for successor tenants
- Above average yields






#### High yield properties in secondary locations

- no flagship assets in tier one locations

#### Strict focus on existing properties

- no development, no projects involving high risk capex

## HIGH QUALITY. Selected tenants

	DIOK Location	Industry	Gross Rental Income (in %)	Sales 2018 (EURbn)	Employees (k)	S&P Global Rating
<b>NOKIA</b>	Ulm	Networks	10%	23	103	BB+
 innogy	Essen	Power	9%	37	43	BBB
<b>amadeus</b>	Aachen	Travel Software	6%	5	17	BBB
	Freiberg a.N.	Software	6%	25	96	A
<b>PHILIPS</b>	Ulm	Conglomerate	4%	18	77	BBB+
<b>SIEMENS</b>	Ulm	Conglomerate	2%	83	380	A+
<b>jobcenter</b> 	Hattingen	Federal authority	2%	(budget) 35	96	AAA <sup>1</sup>



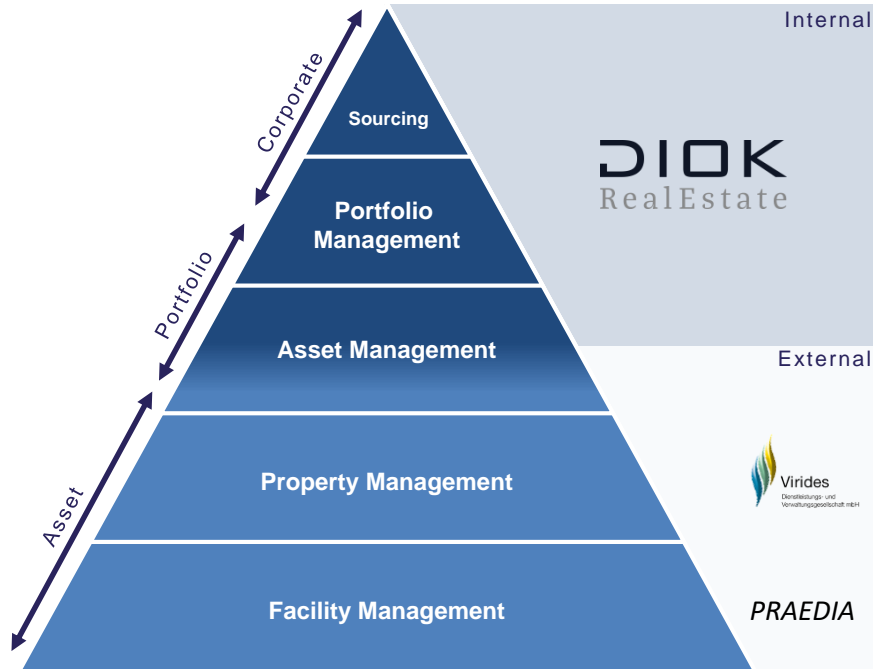
Diversified, blue chip tenant base with long standing rental contracts as a key of pillar of DIOK's de-risked business model



Limited dependency on single tenants due to large tenant base

Note: Tenant data based on public annual reports. <sup>1</sup> Germany sovereign rating.

## EXTERNAL EXPERTS. Outsourcing PM/FM



**DIOK**  
RealEstate



**PRAEDIA**

- **DIOK RealEstate** has an exclusive contract with **VIRIDES Asset and Property Management**, Berlin
- **VIRIDES** is an **Asset and Property Manager** for real estate
  - Over 20 years of experience
  - In the top, **VIRIDES** managed a portfolio with a valuation of more than EUR 10bn with 650 employees
- **Specialised in**
  - **Reducing property running costs** and
  - **Technical and accounting controlling competence**
  - **Reducing vacancies**
- By partnering with **VIRIDES**, **DIOK** is able to participate in **VIRIDES' highly efficient IT and reporting system**
- Given they are **DIOK's** exclusive partner, we have **access to one single set of reporting data** for the entire portfolio
- The fee structure of the asset management contract incentivizes **VIRIDES** to maximize apportionable service charges

# PORTFOLIO OVERVIEW



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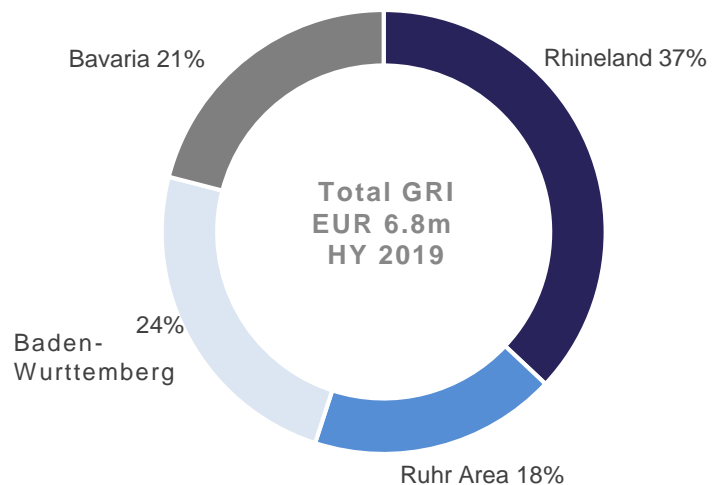


BOCHUM



## PORTFOLIO. Diversified locations

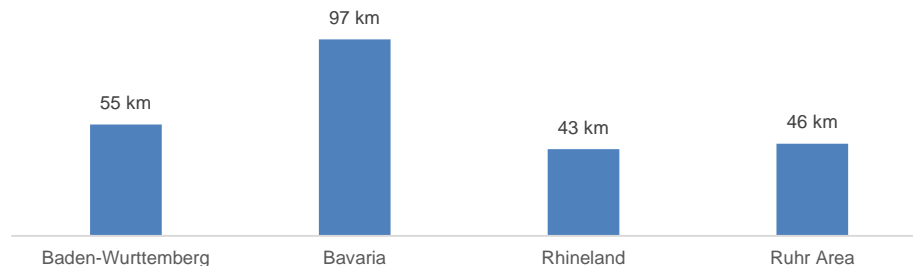
### Geographic distribution



### Strong Underlying Portfolio Locations

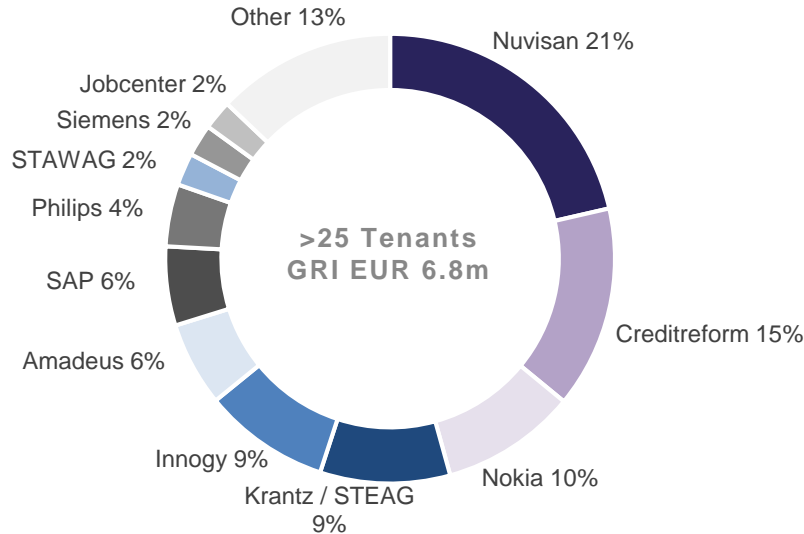
- Focus on secondary cities with positive fundamentals and economic growth while at the same time providing a resilient rent and yield profile
- Portfolio locations are centered around densely populated areas with the key portfolio locations in large cities outside the Top 7
- The majority of the portfolio is located in metropolitan areas and the commuter belts of larger German cities with strong macroeconomic fundamentals

### Average minimum distance to next Top 7 city



## HIGH QUALITY. Tenant base

### Tenant mix

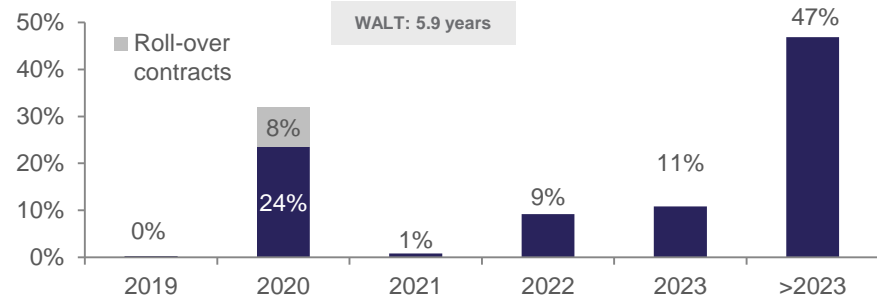


### ... with income predictability

- More than 25 high-quality tenants across our existing portfolio
- Our tenant base is composed of blue chip (65%), German Mittelstand (30%) and small enterprise (5%) tenants
- Bluechips include SAP, Siemens, STEAG, Nokia, Philips, Creditreform, Jobcenter, Innogy and Amadeus
- 5.9 years WALT provides high visibility of future cash flows
- Typical contract is a double net lease and indexed
- Growing tenant base diversification with growing asset base

### Low level of upcoming lease maturity

Lease Expiry Schedule (based on GRI)



# DIOK PORTFOLIO HY 2019.

Asset	Cluster	Occupancy rate (%)	GAV (EURm)	GRI p.a. (EURk)	GAV/m <sup>2</sup> (EUR/m <sup>2</sup> )	GAV yield (%)	WALT
Neu-Ulm	Core+	100%	24	1,472	1,980	6.3%	9.9
Aachen	Core+	100%	21	1,101	1,911	5.3%	5.0
Ulm	Core+	94%	21	1,146	2,109	5.8%	9.4 / 4.9 <sup>1</sup>
Essen	Core+	100%	11	620	1,526	5.7%	5.8
Freiberg	Core+	100%	7	384	1,713	5.6%	1.2
Bochum	Core+	92%	6	412	1,513	7.4%	2.9
Würselen	Core+	100%	6	416	966	6.9%	3.0
<b>Core+</b>			<b>96</b>	<b>5,551</b>	<b>1,761</b>	<b>6.1%</b>	<b>6.4</b>
Neuss	Value-Add	100%	15	982	2,016	6.4%	1.5
Hattingen	Value-Add	28%	4	225	468	5.4%	4.5
<b>Value-add</b>			<b>19</b>	<b>1,207</b>	<b>1,556</b>	<b>5.6%</b>	<b>2.0</b>
<b>TOTAL</b>		<b>90%</b>	<b>114</b>	<b>6,758</b>	<b>1,622</b>	<b>5.9%</b>	<b>5.9</b>

Note: <sup>1</sup> Two assets.



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## PORTFOLIO OUTLOOK



BOCHUM



## NEAR TERM GROWTH. Acquisitions Outlook

### Phoenix Portfolio

Asset	Occupancy rate (%)	GAV (EURm)	GRI p.a. (EURk)	GAV/m <sup>2</sup> (EUR/m <sup>2</sup> )	GAV yield (%)	WALT
Cologne	100%	25	1,299	2,470	5.2%	4.1
Gelsenkirchen	100%	7	542	1,774	5.6%	5.3
Magdeburg	78%	4	237	913	7.5%	3.1
<b>TOTAL</b>	<b>97%</b>	<b>36</b>	<b>2,078</b>	<b>1,938</b>	<b>5.7%</b>	<b>4.3</b>

### Pro forma DIOK portfolio overview

Asset	Occupancy rate (%)	GAV (EURm)	GRI p.a. (EURk)	GAV/m <sup>2</sup> (EUR/m <sup>2</sup> )	GAV yield (%)	WALT
Current Portfolio	90%	114	6,758	1,622	5.9%	5.9
Phoenix Portfolio	97%	36	2,078	1,938	5.7%	4.3
<b>TOTAL</b>	<b>91%</b>	<b>150</b>	<b>8,836</b>	<b>1,689</b>	<b>5.9%</b>	<b>5.0</b>



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# APPENDIX



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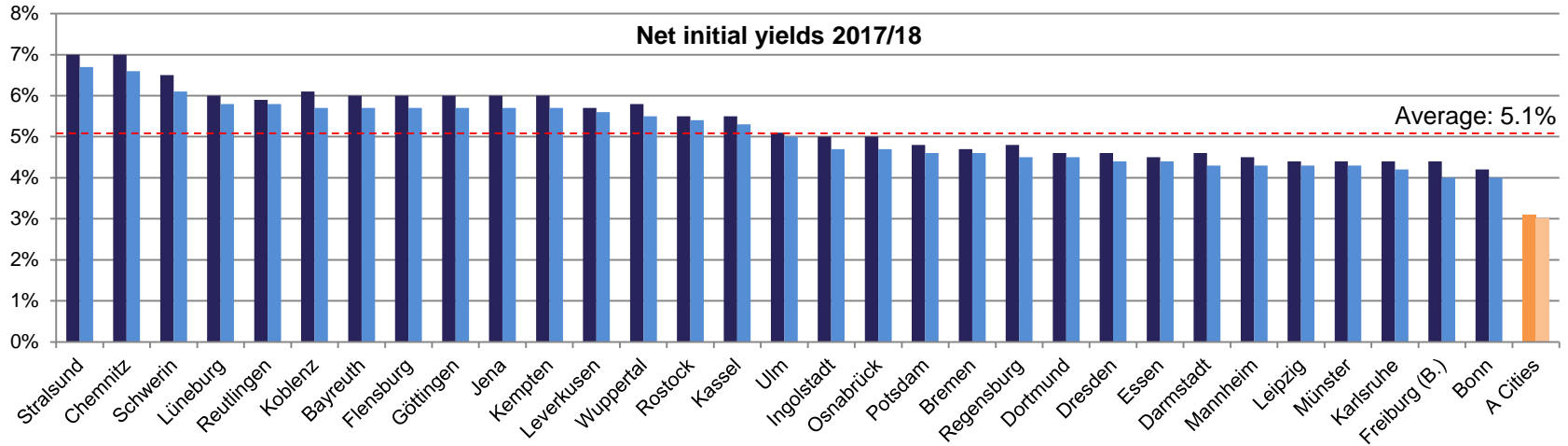
## OVERVIEW OF TERMS. DIOK BOND 2018/2023

<b>Issuer</b>	Diok RealEstate AG
<b>ISIN</b>	DE000A2NBY22
<b>Type</b>	Senior notes, unsecured
<b>Coupon</b>	6.00% p.a.
<b>Volume</b>	Up to EUR 250m
<b>Maturity</b>	2023 (5 yrs)
<b>Call protection</b>	NC2 (104%, 102%, 100%)

<b>Change of control</b>	Redemption at 104% (until 09/21), 102% (until 09/22), 100% (until 09/23) incl. potential call premium in case of CoC
<b>Dividend policy</b>	No dividends allowed until LTV <75%, 50% dividend allowed at LTV 65%-75%, 100% dividend allowed at LTV <65%
<b>Use of proceeds</b>	Asset acquisitions, business development and general company use
<b>LTV covenant</b>	Max. 85% Net LTV
<b>Reporting</b>	Semi-annual reporting
<b>Unencumbered assets</b>	Min. 10%
<b>Call premium</b>	2% if LTV > 75% at redemption

Note: All terms and conditions as per corresponding Private Placement Memorandum.

## SECONDARY LOCATIONS.



- Net initial yields declined in all cities from 2017 to 2018 due to increased pressure from the market environment, with an average net initial yield of 5.1% across all secondary cities
- The lowest net initial yield of all secondary cities is one percentage point above the average yield of all A cities



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