



# Prime Office REIT-AG

## EXCELLENCE IN GERMAN REAL ESTATE

Conference Call regarding the publication of H1/2012 results

Munich, 09 August 2012



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# Highlights H1/2012 (I)

- Stable business development: Strong funds from operations (FFO) in H1/2012; FFO increased substantially to 12.8 m Euro, compared to 9.9 m Euro in H1/2011
- Significant improvement of financial result due to debt repayments after the IPO (H1/2012: -16.2 m Euro; H1/2011: -21.2 m Euro)
- On-going financial crisis: Interest rate levels continue to cause non-cash losses from the valuation of the derivative interest rate hedges (swap market values) of about 8 m Euro. Slightly lower property portfolio valuation (-0.9%) caused mainly by lower remaining terms of lease in Frankfurt and Dusseldorf
- Net income of 2.4 m Euro in H1/2012 dominated by temporary vacancies and a lower property valuation
- “EPRA earnings“, i.e. the net income adjusted by valuation effects, of 9.9 m Euro in H1/2012, substantially in excess of the 4.7 m Euro achieved in H1/2011



# Highlights H1/2012 (II)

- Net debt increases slightly to 576.6 m Euro in spite of a loan repayment (6.9 m Euro) due to the valuation of interest rate hedges: leverage at 59.9%, loan-to-value at 65.4%
- REIT equity ratio at 41.4% due to swap valuation and dividend payment
- Net asset value per share at 8.86 Euro as of 30/06/2012
- Early long-term prolongation of the lease for the BMW-Designcenter
- Sustainable drag on the share price from selling pressure caused by pre-IPO shareholders did not materialise: lock-up periods expired on 01/07/2012. Secondary placement of about 5.7 m shares from the holdings of pre-IPO shareholders successfully completed. Shares booked into the private depository accounts of pre-IPO shareholders at the beginning of July 2012. Share price increases from 2.73 Euro to 3.50 Euro (31/07/2012)
- The board confirms the revenue, FFO and dividend targets for 2012



# Property report H1/2012



# Key property data

	30/06/2012	31/12/2011	in %	Comment
Number of properties	14	14	n.a.	<ul style="list-style-type: none"> <li>- Slight decline in the value of the property portfolio (-0.9%) to 963.1 m Euro               <ul style="list-style-type: none"> <li>- general development of the German property market</li> <li>- pro-rata decline of remaining terms of lease</li> <li>- temporary vacancies in individual properties and particularly the short remaining terms of lease of the properties in Frankfurt and Dusseldorf</li> </ul> </li> <li>- Aggregate occupancy (94.7%) in the portfolio is high since 5.3% or about 20,000 sqm are vacant in the properties in Stuttgart, Frankfurt and Heilbronn</li> <li>- WALT year-to-date at 6.5 years due to lease prolongations/ leases signed in Munich and Heilbronn (compared to 6.8 years as at 31/12/2011)</li> </ul>
Market value according to CBRE appraisal	963.1	971.6	-0.9%	
Lettable space	383,819	383,440	-0.1%	
Occupancy rate	94.7	96.1	-1.4 PP	
Vacancy level	5.3	3.9	+1.4 PP	
Annual rent exclusive of heating charges	64.5	65.4	-1.4%	
Gross initial yield	6.7	6.7	0.0%	
Net initial yield	6.0	6.0	0.0%	
Weighted average lease term (WALT) (in years)	6.5	6.8	-4.4%	
Average amount in Euro per sqm	2,509	2,534	-1.0%	
Average rent in Euro per sqm	14.00	14.21	-1.5%	

# Valuation update H1/2012

Property		Total space	Market value	Market value	Change
		in sqm	31/12/2011	30/06/2012	in %
Munich	BMW Design-Center	8,224	24.1	24.2	0.4%
Frankfurt	Westend-Ensemble	35,101	161.8	157.9	-2.4%
Darmstadt	T-Online headquarters	72,528	172.5	172.5	0.0%
Meerbusch	Medtronic headquarters	8,038	16.4	16.4	0.0%
Essen	Hochtief headquarters	24,531	38.6	38.5	-0.3%
Munich	SZ-Turm	62,237	186.6	186.6	0.0%
Stuttgart/ Fellbach	State Agency for Compensation and Retirement	19,854	39.7	39.4	-0.8%
Hamburg	Imtech headquarters	16,008	45.5	45.6	+0.2%
Essen	Hochtief (Gruga)	30,314	73.1	73.2	+0.1%
Darmstadt	T-Systems	24,686	53.2	53.2	0.0%
Stuttgart-M.	emporia	25,284	41.7	40.5	-2.9%
Nuremberg	Sigmund-Schuckert- Haus	6,445	13.0	13.0	0.0%
Heilbronn	Neckarturm	14,750	29.7	29.9	+0.7%
Dusseldorf	Xcite	35,819	75.7	72.2	-4.6%
		<b>383,819</b>	<b>971.6</b>	<b>963.1</b>	<b>-0.9%</b>

## Comment

- Slight devaluation of the properties in Essen/ Gruga and Stuttgart/ Fellbach (due to market development and terms of lease)
- Devaluations in Stuttgart/ Moehringen, Frankfurt and Dusseldorf result from temporary vacancies and the short remaining term of lease respectively
- Valuation gains in
  - Heilbronn - due to the letting situation
  - Munich (BMW) - due to early lease prolongation
  - Hamburg, Essen - due to the market environment

## Breitwiesenstraße 5-7, Stuttgart-Moehringen



### Property

Rentable area:	25,284 sqm
WALT:	8.4 years
Market value (30/06/2012):	40.5 m Euro
Value per sqm:	1,602 Euro
Annual rent:	1.3 m Euro
Average rent per sqm:	4.20 Euro (incl. vacancies)
Gross initial yield (GIY):	3.2% (total rent incl. vacancy)
Occupancy level:	38.9%

## Letting activities

- Occupancy level: about 9,800 sqm or 40% of the total lettable space:
  - Cenit AG (10 years) and Hochtief Solutions AG (5 years)
  - With 10.50 Euro/sqm, both rents are at the upper range of the market rent in Stuttgart's south
- While original LOI prospect remains generally interested, the exclusivity has expired due to delays in the decision-making process
- Prospective tenant from the automotive sector for the entire remaining space: due diligence initiated
- Two potential tenants for leases of up to 3 years (potential complete take-up each) in due diligence process
- Spaces of between 1,000 and 2,000 sqm are being reviewed by several prospective tenants



## Ludwig-Erhard-Anlage 2-8, Frankfurt / Main



### Property

Rentable area:	35,101 sqm
WALT:	0.5 years
Market value (30/06/2012):	157.9 m Euro
Value per sqm:	4,498 Euro
Annual rent:	9.7 m Euro
Average rent per sqm:	23.03 Euro (incl. vacancy)
Gross initial yield (GIY):	6.1%
Occupancy level:	89.6%

## Letting activities

- Frankfurt property market remains difficult due to the economic framework (particularly for the financial sector)
- While the Frankfurt market is currently being reviewed by several major tenants, they tend to hold back given the economic framework:
  - Major tenants that have been approached keep holding back for now
- The strategy of letting to major tenants has been continued since there is still a competitive advantage in this area
- Joint lead brokers: In addition to Knight Frank (which remains the market leader in Frankfurt by contracted volumes), Jones Lang LaSalle has been introduced as second lead broker

## Am Seestern 1, Dusseldorf



### Property

Rentable area:	35,819 sqm
WALT:	0.8 years
Market value (30/06/2012):	72.2 m Euro
Value per sqm:	2,016 Euro
Annual rent:	7.1 m Euro
Average rent per sqm:	16.63 Euro
Gross initial yield (GIY):	9.9%
Occupancy level:	100%

## Letting activities

- Marketing activities continue with good momentum and positive feedback from prospective tenants
- Several prospective tenants
  - Sub-contractors: A new condensed building occupation scheme is being adopted after the board change
    - List of potential tenants for larger spaces (direct leasing) or for smaller spaces (office providers) is being worked through
  - Major prospective tenant for approximately 15,000 sqm over 10 years:
    - Selection process is far advanced: Xcite is competing with one other property only
    - Decision expected in the summer / late summer
- On-going due diligence of two potential tenants from the financial services sector (8,000 – 15,000 sqm):
  - Xcite has been shortlisted together with other competing properties

## BMW Design-Center, Munich



- Early lease prolongation with BMW until Sep 2023 (original term of lease: September 2016)
- Anchor tenant BMW is using 56% of the total space
- Semcon Group is the second major tenant (lease expires by June 2017)

## Neckarturm, Heilbronn



- About 5,000 sqm rented in H1/2012 increase occupancy level in Heilbronn to about 93%
  - Leases extended for about 3,100 sqm overall (Aachen Mecklenburgische Versicherungen, Santander Bank and Lidl)
  - New leases with various medical doctors and the Lidl Foundation for an overall 1,830 sqm

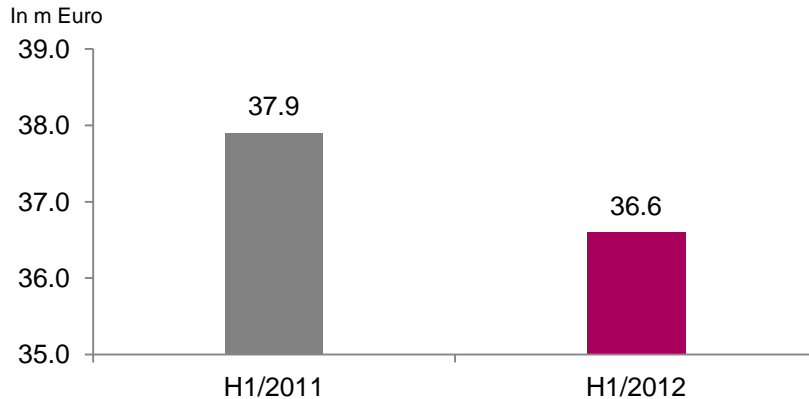
> Additional negotiations for early lease extensions in process

## Financial data H1/2012 (IFRS)

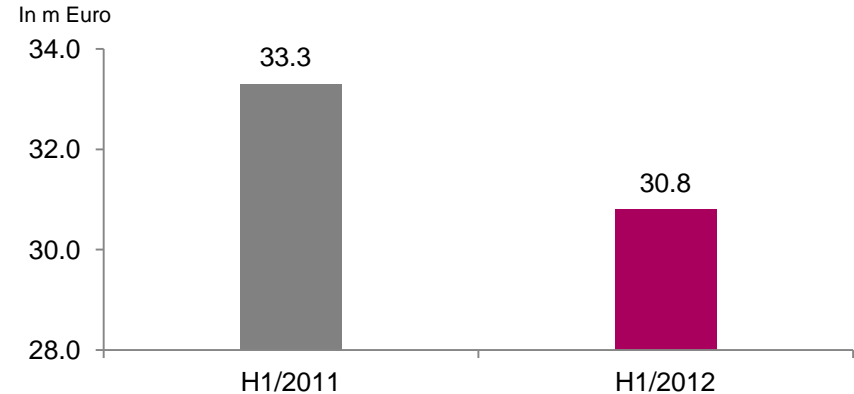


# Key financial data in H1/2012 (I)

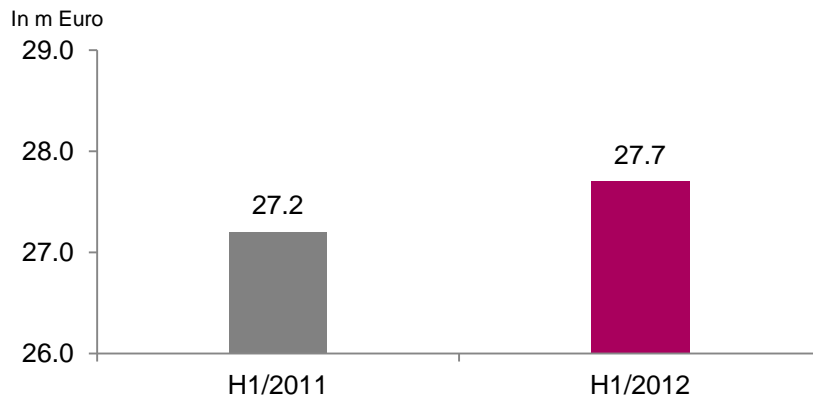
## Gross rental income



## Net rental income



## Operating earnings (EBIT) before valuation effects

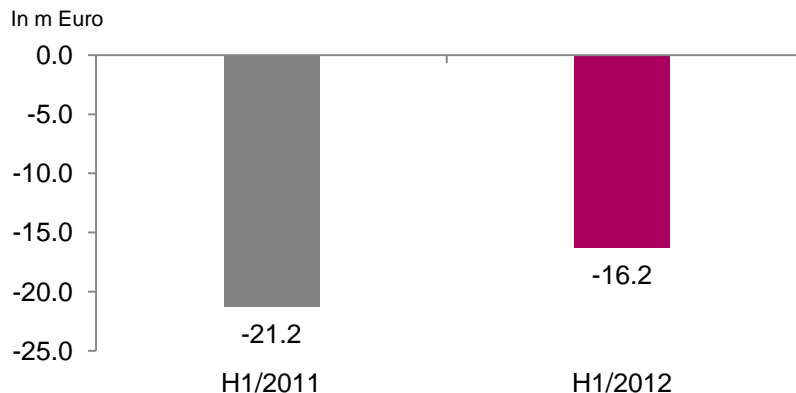


## Comments

- Gross rental income of 36.6 m Euro in H1/2012 slightly down compared to H1/2011 due to temporary vacancies
- Net rental income with 30.8 m Euro below H1/2011 as expected
- Slight increase of operating earnings before valuation effects to 27.7 m Euro compared to H1/2011

# Key financial data in H1/2012 (II)

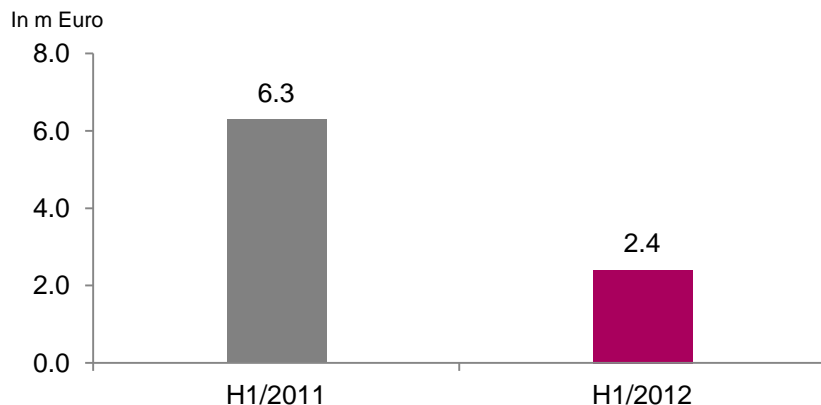
## Financial result



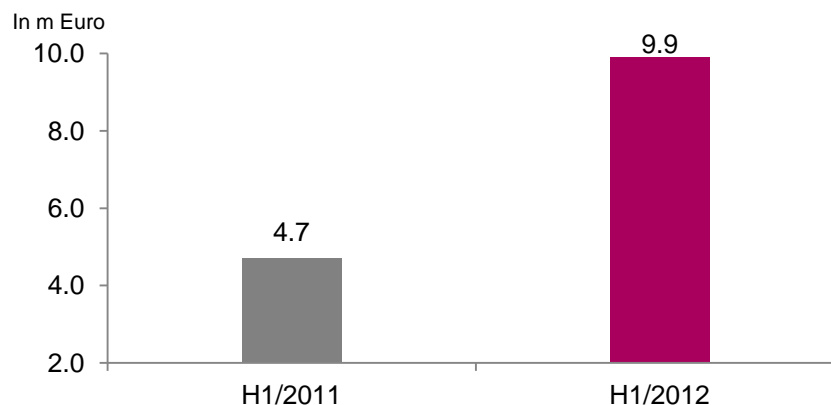
## Comments

- Interest expenses with 14.7 m Euro in H1/2012 substantially below H1/2011 (-18.8 m Euro)
- Financial result in H1/2012 significantly improved compared to H1/2011
- Net income in H1/2012: 2.4 m Euro
- Substantial increase of EPRA earnings (net income adjusted by valuation effects) compared to H1/2011

## Income for the reporting period

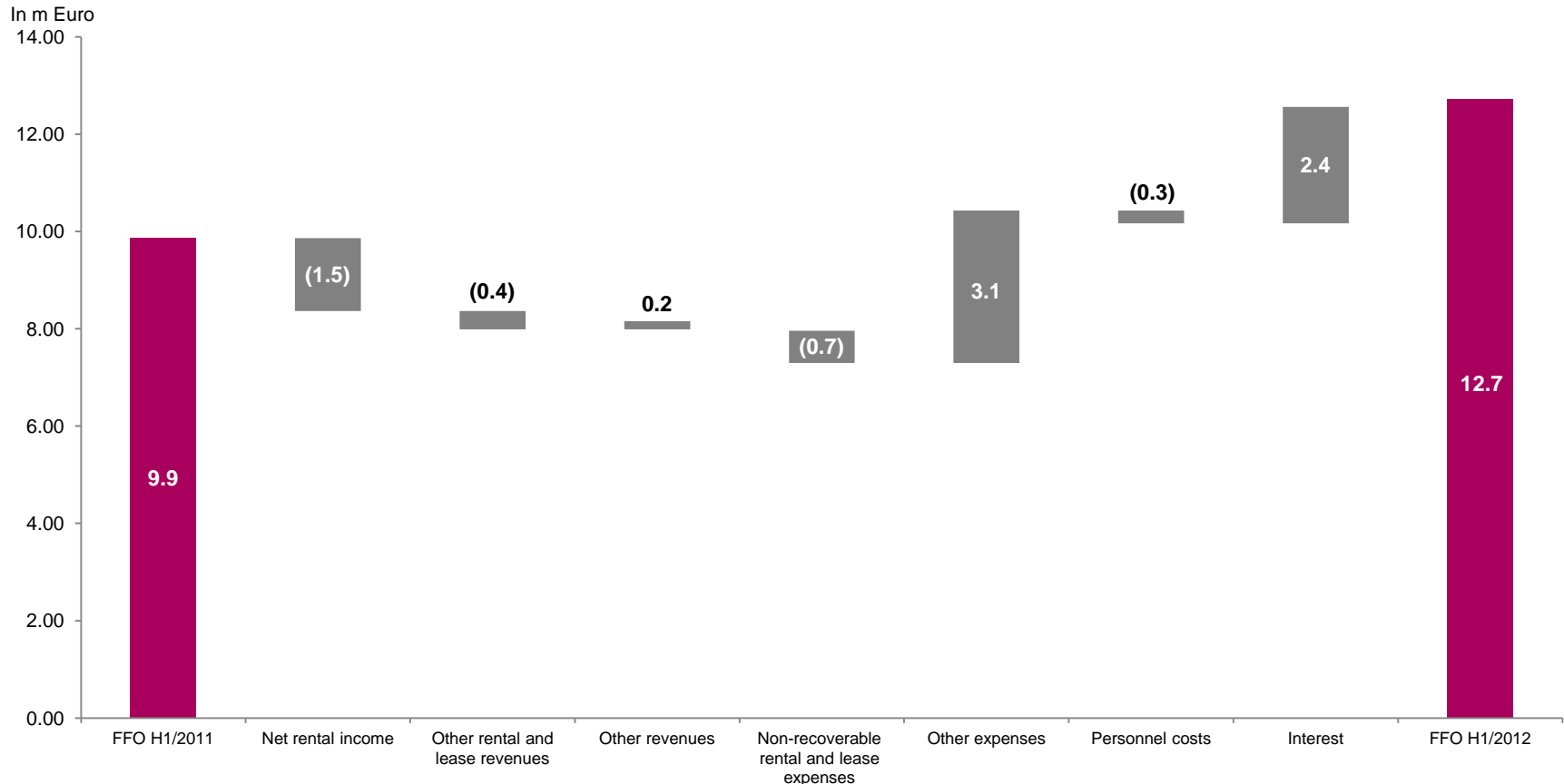


## EPRA earnings



# Key financial data in H1/2012 (III)

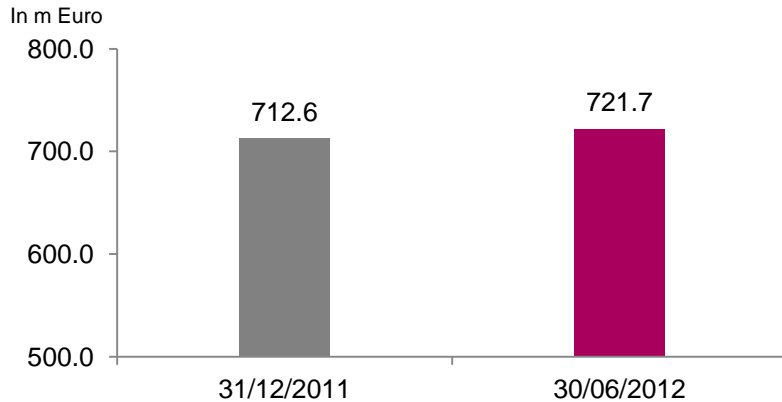
## FFO bridge



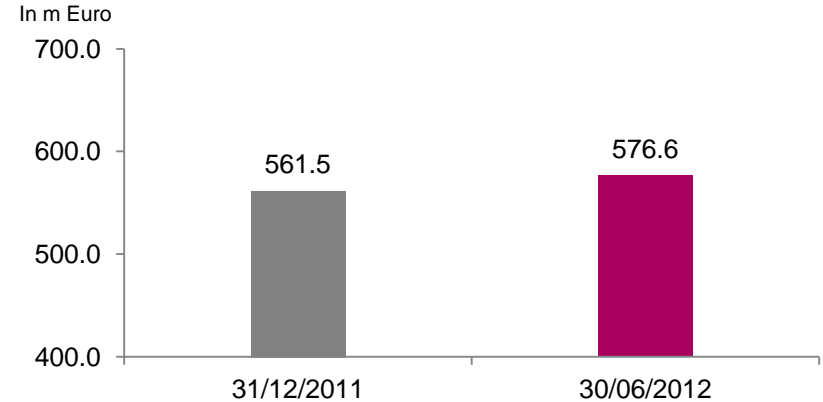
- FFO of 12.7 m Euro in H1/2012 substantially exceeds H1/2011 and the guidance for fiscal year 2012
- FFO guidance for 2012 remains unchanged at 17 - 19 m Euro due to expected business development in H2/2012

# Key financial data in H1/2012 (IV)

## Total liabilities<sup>1)</sup>



## Net debt<sup>2)</sup>



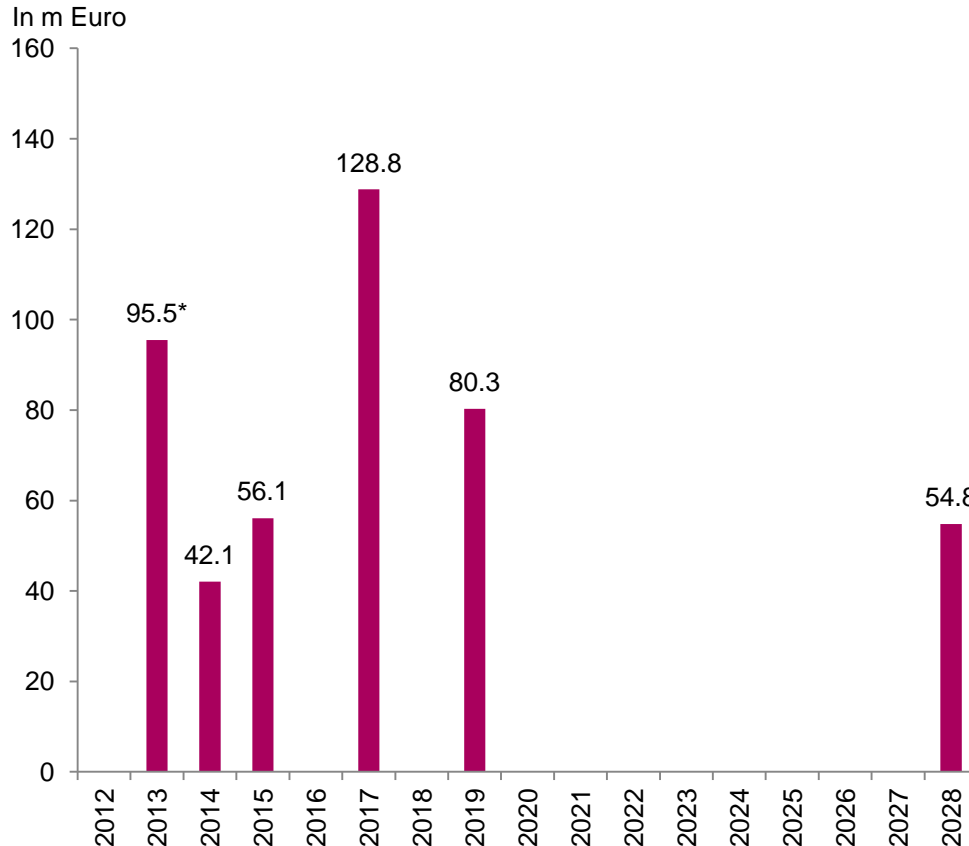
## Comments

- Total liabilities slightly higher than on 31 December 2011 mainly due to the valuation of the derivative financial instruments at market rates
- Net debt of 576.6 m Euro (IFRS) slightly up compared to 31 December 2011 (2.7%) due to the swap valuation
- Leverage at 59.9%; LTV at 65.4%
- REIT equity ratio at 41.4% due to swap valuation and dividend payment (31 December 2011: 43.1%)



# Key financial data in H1/2012 (V)

## Maturity profile



\* Of these about 45 m Euro from the IPO proceeds are held against financings

## Comments

- Grand total of the loans to be prolonged until 2028: 457.6 m Euro
- In addition: CHF loan the nominal amount of which is being provided for in CHF (59.6 m Euro). Repayment planned for September 2013

# Guidance

- The board continues to expect the economic environment and the office property market in Germany to progress steadily
- The board anticipates in fiscal year 2012 revenues of 72 - 74 m Euro and FFO of 17 - 19 m Euro
- In spite of the negative effects from the reconstruction and temporary vacancies, the board also expects to achieve a dividend of 9 to 12 m Euro in fiscal year 2012



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Many thanks for your attention!

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