

2008

# THIRD QUARTER 2008

INTERIM REPORT

HAMBURG, NOVEMBER 19<sup>th</sup>, 2008



**alstria**  
First German REIT

## **Cautionary Note Regarding Forward-Looking Statements**

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, general economic conditions, including in particular economic conditions in the alstria's core business and core markets, general competitive factors, the impact of acquisitions, including related integration issues, and reorganization measures. Furthermore, the development of financial markets, interest rate levels, currency exchange rates, as well as national and international changes in laws and regulations, in particular regarding tax matters, can have a corresponding impact. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

## **No duty to update**

The company assumes no obligation to update any information contained herein.

# 9 months highlights

- Strong operating performance
- Signing new 13,000 sqm lease agreement with Hamburger Hochbahn
- Closing of EUR 95 m non recourse loan
- Guidance 2008 confirmed
- Dividend policy reviewed



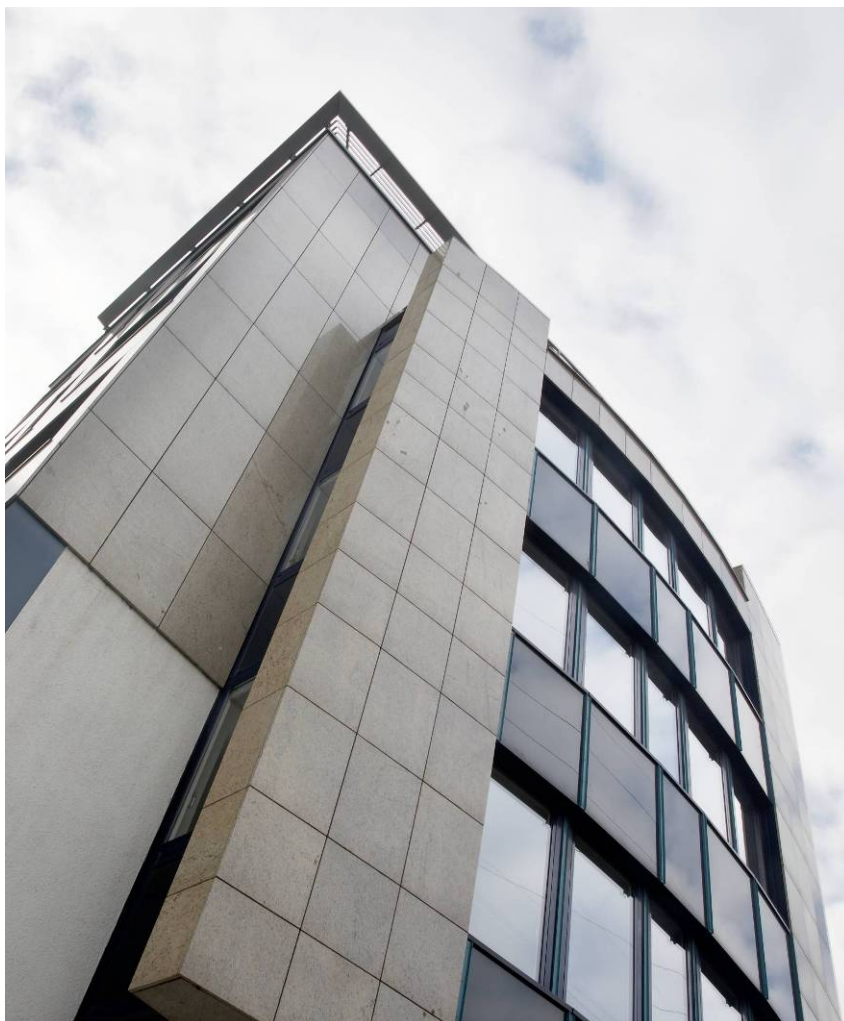
- Operating performance - market performance

- Financials

- Financing strategy

- Disposals

- Outlook



## ALSTRIA PORTFOLIO

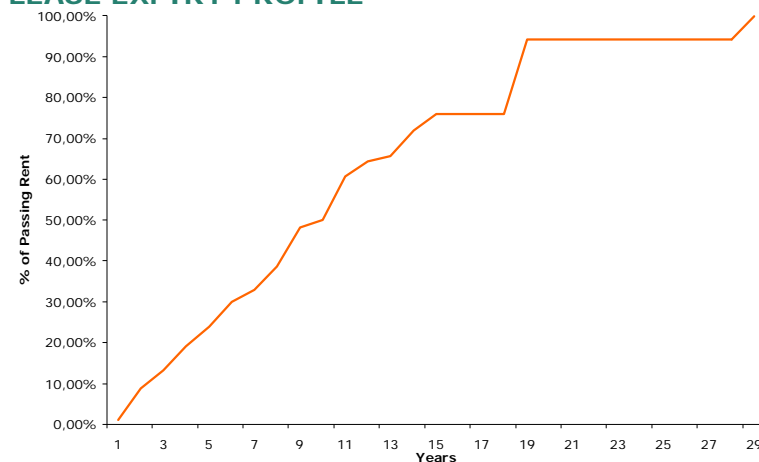
Metric	30.09.2008	19.11.2008
Number of properties	92	89
OMV (EUR m)	1,875 <sup>1</sup>	1,859
Contractual Rent (EUR m/p.a.) <sup>2</sup>	105.8	106.6
Valuation yield <sup>3</sup>	5.6%	5.7%
Approximate lettable area (sqm)	953,000	944,000
Vacancy (% of lettable area)	7.7%	6.5%
WAULT (years)	9.9	10.1

<sup>1</sup> Incl. three assets classified as held for sale as of 30.09.08

<sup>2</sup> Monthly gross rental income as of the specific date multiplied by 12

<sup>3</sup> Calculated as Passing Rent divided by OMV

## LEASE EXPIRY PROFILE

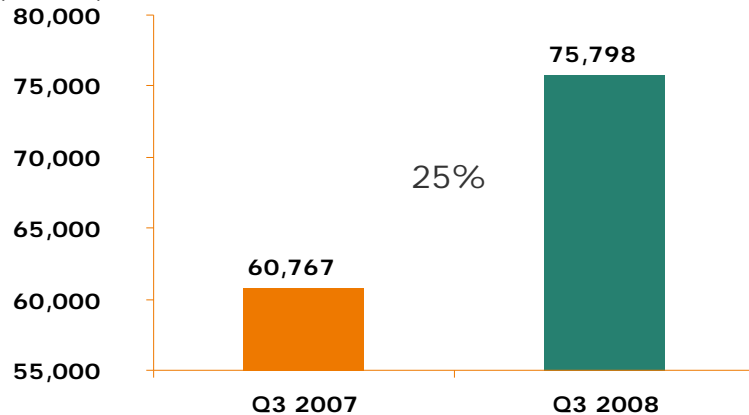




# FFO increased by 35%

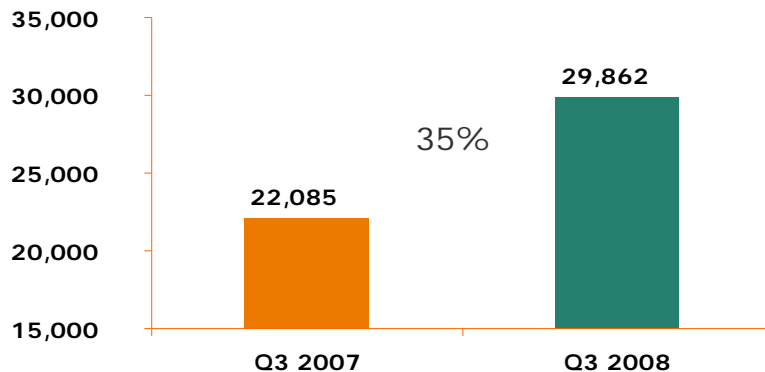
## REVENUES

(in EUR k)



## FUNDS FROM OPERATIONS

(in EUR k)



## ■ Investment market

- ✓ Major slowdown of investment market following LEH/HRX
- ✓ Limited financing available on the market (limited but not dry)
- ✓ Limited numbers of sellers in the market
- ✓ All major transaction withdrawn
- ✓ Limited to no forced seller in sight

## ■ Leasing market

- ✓ Limited impact so far on leasing markets but just a question of time
- ✓ Need to differentiate between top-market (above average) and mid-market (at or below average) rent level
- ✓ Top market rents are set to suffer the most as tenant looking to reduce occupancy costs
- ✓ Mid market rents are expected to remain stable as they usually allow tenant to realize efficiency gain/cost reduction

# New lease agreement underlines asset management performance

- Tenant: Hamburger Hochbahn AG
- Area: around 13,000 sqm
- Term: 20 years plus 5
- Lease start: approx. 01.04.2010
- Indexation: 80% CPI yearly as of signature date
- Annual net rent: EUR 2,145 k (office rent EUR/sqm/month 14.50)

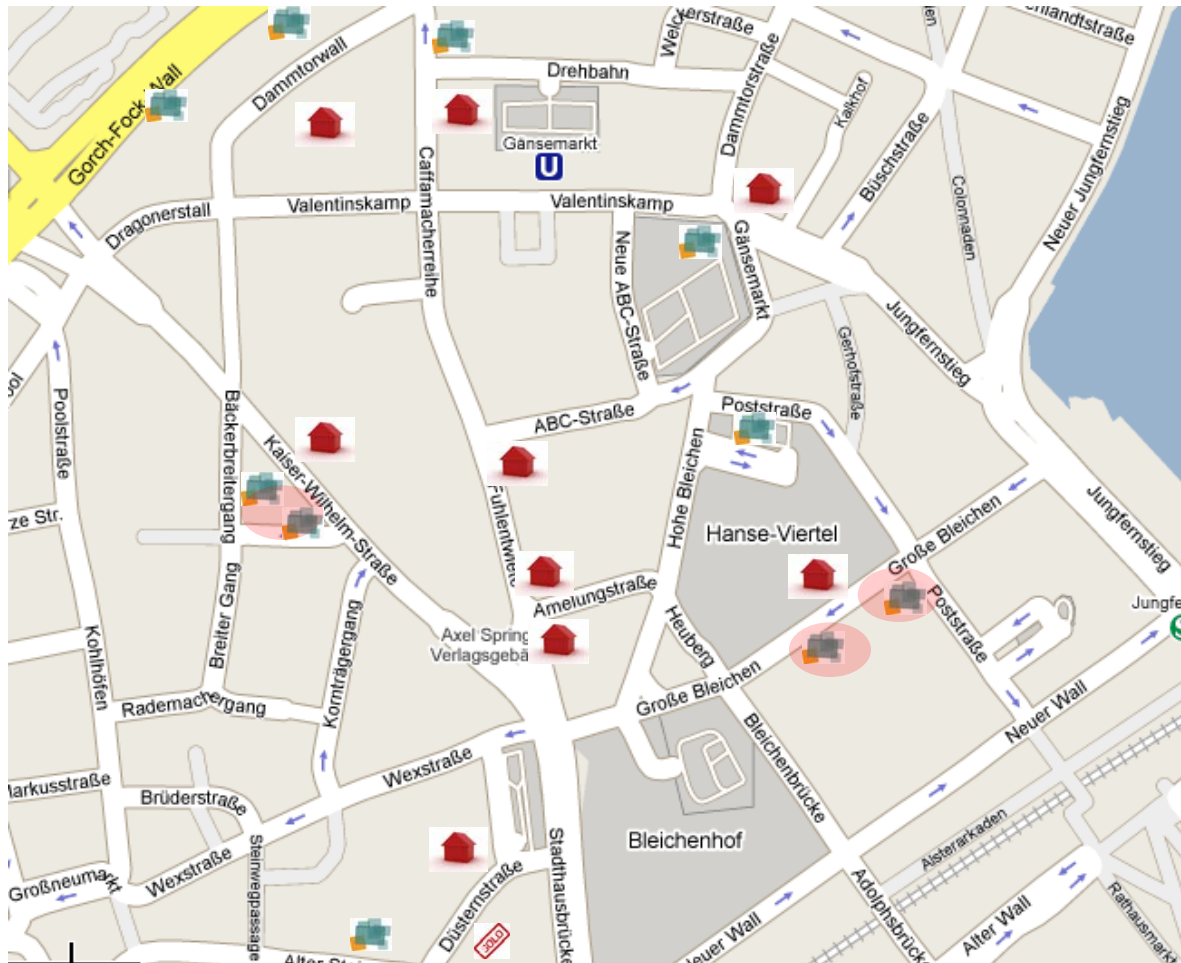
## LOCATION OVERVIEW









# Illustration of the German market opportunity

## ACTIVITIES IN DOWNTOWN HAMBURG



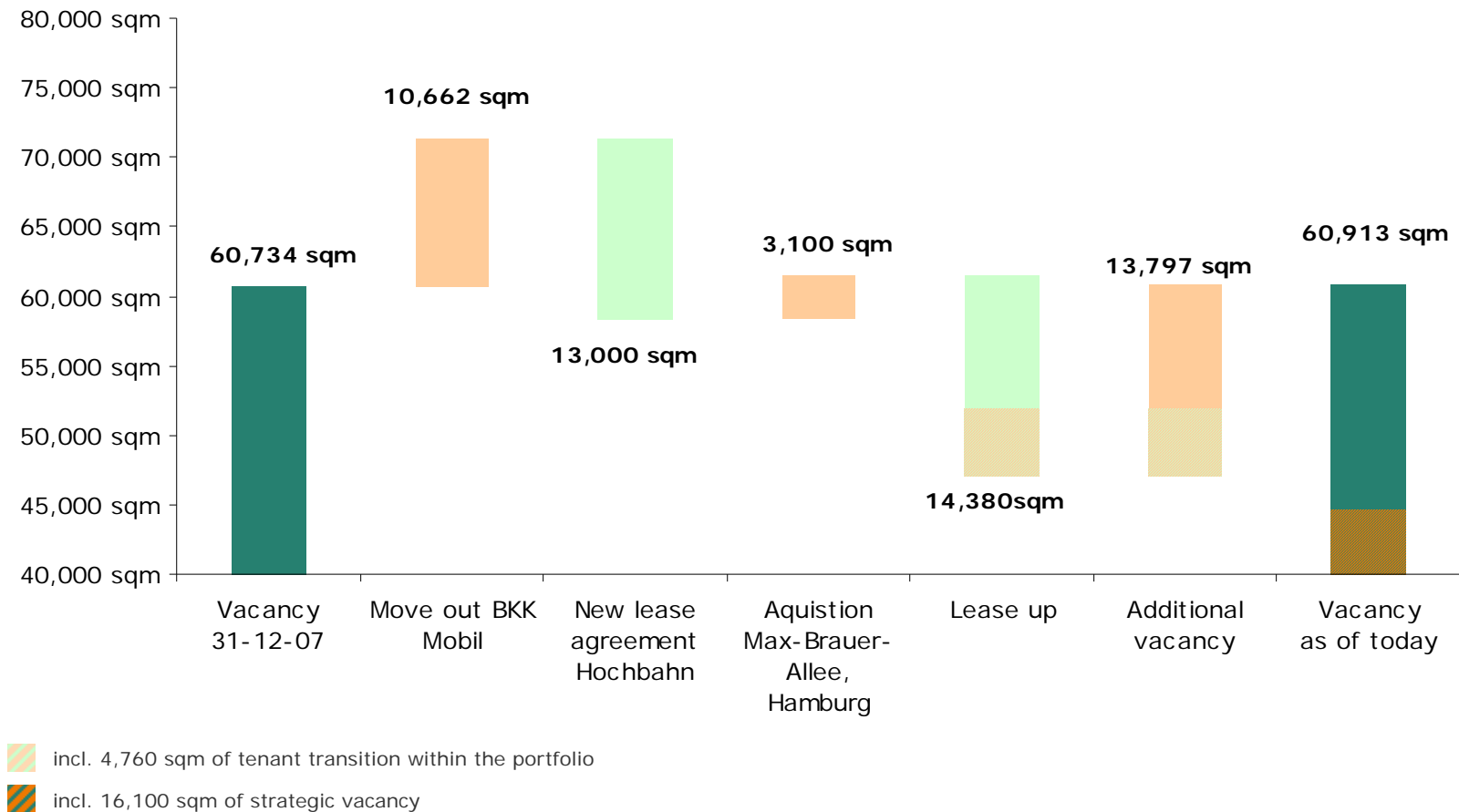
### Market data (IPD Rental database, 2008)

Top 25%	EUR 21.6
Average	EUR 17.6
Bottom 25%	EUR 13.2

-  Future/ongoing development – average office rent 18 to 23 EUR/sqm
-  alstria's building average rent 10.9 EUR/sqm; 18% of portfolio by value
-  Asset sold. Profit to IFRS book value around 25%
-  alstria's active refurbishment projects

# Lease up of more than 27,000 sqm

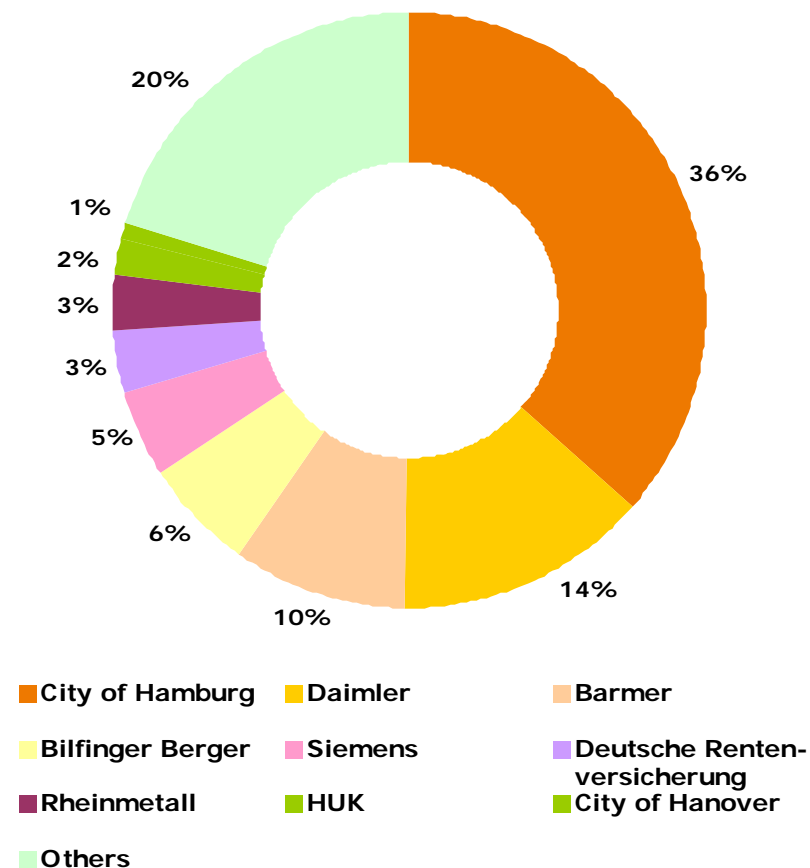
## VACANCY DEVELOPMENT FROM JANUARY 1, 2008 TO NOVEMBER 19, 2008



# Stable revenues by long-term investments and high-quality tenants

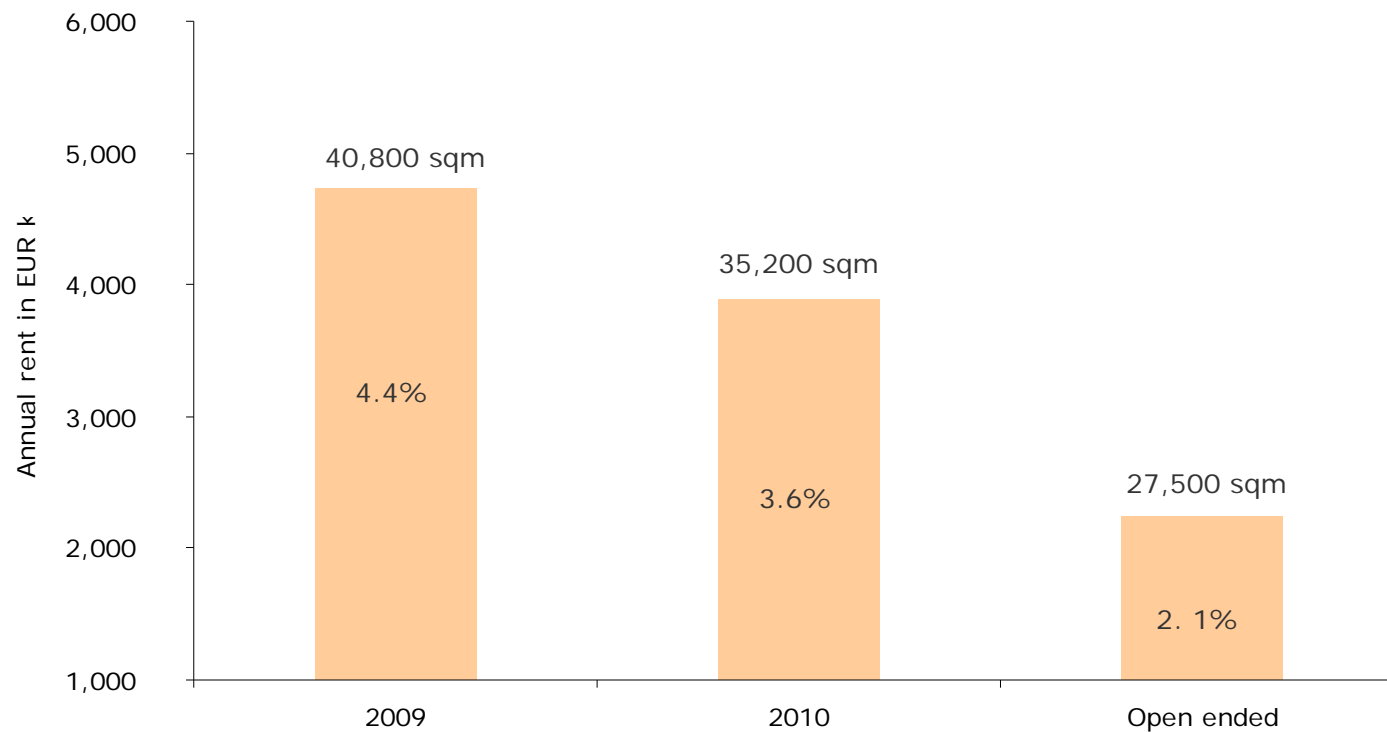
- Key tenants generate 80% of our revenues
- More than 50% of rental income public entities or public agencies
- 30% of German Blue Chip corporations
- Revenues secured for approx. 10 years

## HIGH-QUALITY TENANTS



# Lease expiry schedule

## LEASE EXPIRY SCHEDULE 2009, 2010 AND OPEN ENDED



Average rent/sqm:	9.67	9.19	6.79
Total rent (in EUR k):	4,735	3,887	2,244

- Operating performance - market performance

## ■ Financials

- Financing strategy
- Disposals
- Outlook



# Q3 profit underlines successful operational performance

## INCOME STATEMENT ITEMS QUARTERLY BASIS

in EUR k	Q3 2008	Q2 2008	Q1 2008	Q1 - Q3 2008
<b>Revenues</b>	<b>26,166</b>	<b>26,084</b>	<b>23,548</b>	<b>75,798</b>
Income less expenses from passed on	171	-5	-157	9
Real estate operating costs	-2,075	-3,494	-1,036	-6,604
<b>Net Rental Income</b>	<b>24,262</b>	<b>22,585</b>	<b>22,355</b>	<b>69,203</b>
Administrative and personnel expenses	-2,574	-3,212	-3,456	-9,242
Other operating income	202	915	1,553	2,669
Other operating expenses	-22	75	-279	-226
<b>Net Operating Result</b>	<b>21,868</b>	<b>20,362</b>	<b>20,173</b>	<b>62,404</b>
Net gain from fair value adjustments on investment property	0	-29,249	-567	-29,816
Net gain from fair value adjustments on financial derivatives	-731	3,628	-1,682	1,215
<b>EBITDA</b>	<b>21,137</b>	<b>-5,259</b>	<b>17,924</b>	<b>33,802</b>
Financial result	-16,398	-11,383	-11,600	-39,381
<b>Pre-tax income (EBT)</b>	<b>4,739</b>	<b>-16,642</b>	<b>6,324</b>	<b>-5,579</b>
Income tax expenses	0	0	-75	-75
<b>Consolidated result for the period</b>	<b>4,739</b>	<b>-16,642</b>	<b>6,250</b>	<b>-5,653</b>

# Net profit impacted by valuation results

## INCOME STATEMENT ITEMS

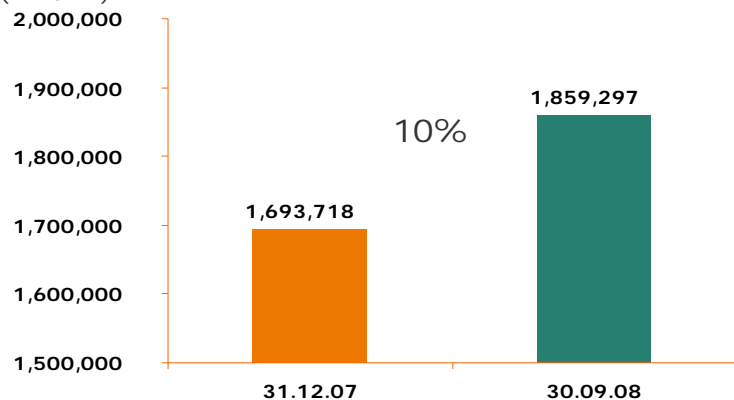
(in EUR k)

	1. Jan - 30. Sep 2008	1. Jan - 30. Sep 2007	Change
<b>Revenues and earnings</b>			
<b>Gross rental income</b>	<b>75,798</b>	<b>60,767</b>	<b>24.7%</b>
Net rental income	69,203	57,252	20.9%
Net corporate operating expenses	-9,242	-9,921	-6.8%
Net corporate operating expenses in % of rev.	-12.2%	-16.3%	4.1 pp
<b>Fair value adjustments on investment properties</b>	<b>-29,816</b>	<b>25,419</b>	<b>-217.3%</b>
Fair value adjustments on financial derivatives	1,215	9,289	-86.9%
Financial result	-39,381	-26,841	46.7%
<b>Net consolidated result</b>	<b>-5,653</b>	<b>55,510</b>	<b>-110.2%</b>

# Key components of the balance sheet

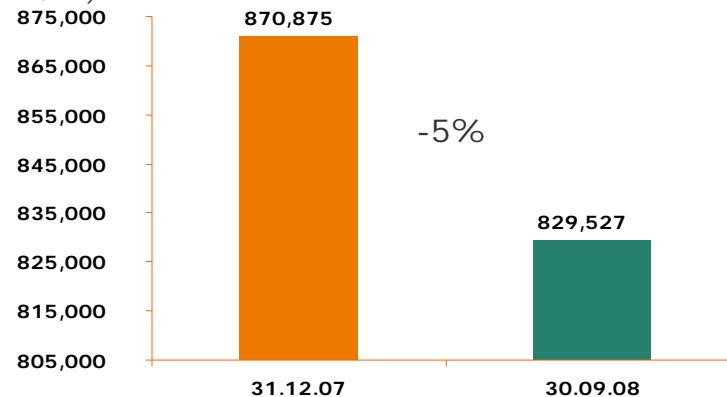
## INVESTMENT PROPERTIES

(in EUR k)



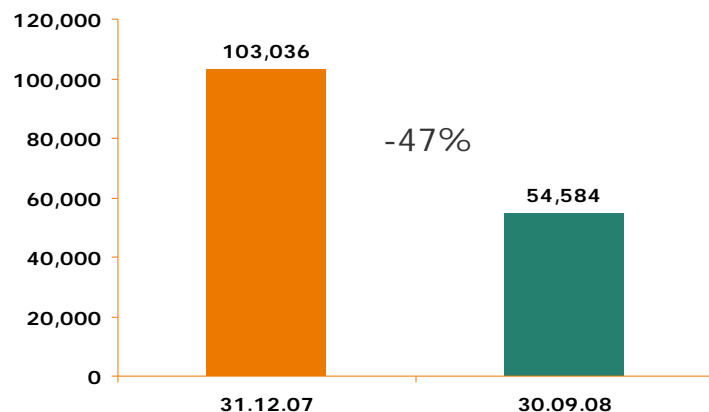
## EQUITY

(in EUR k)



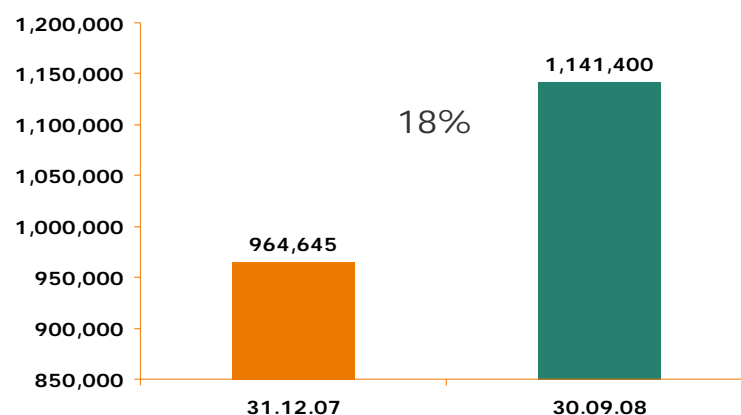
## CASH AND CASH EQUIVALENTS

(in EUR k)



## LIABILITIES

(in EUR k)



# Key numbers reflect sound financial position of alstria

## KEY FINANCIAL METRICS

	Q1-Q3 2008	Q1-Q3 2007	change
FFO/share (in EUR)	0.53	0.39	36.7%
NNNAV/share (in EUR)	14.8	15.8	-6.3%
<b>G-REIT equity ratio</b>	<b>44.2%</b>	<b>54.0%</b>	<b>-9.8 pp</b>
Equity ratio	42.1%	48.3%	-6.2 pp
<b>LTV ratio - syndicated Loan</b>	<b>57.5%</b>	<b>57.4%*</b>	<b>0.1 pp</b>
LTV ratio - non recourse Loan	72.7%	n/a	n/a
<b>Valuation yield</b>	<b>5.73%</b>	<b>5.40%</b>	<b>0.33 pp</b>
Avg. cost of debt	4.5%	4.2%	0.3 pp
Net debt (in EUR k)	1,035.8	931.4*	11.2%
Investment Properties (in EUR k)	1,597.6**	1,639.0	-2.5%
New properties in 2008 (in EUR k)	281.8	n/a	n/a
Total Investment Properties (in EUR k)	1,879.4	1,639.0	14.7%

\* incl. Aurora-portfolio debt financing

\*\* incl. assets held for sale and development properties

- Operating performance - market performance

- Financials

- **Financing strategy**

- Disposals

- Outlook



# Refinancing increases LTV flexibility

## SYNDICATED LOAN LTV-RATIO DEVELOPMENT

in EUR k	30.09.2008	Non recourse loan	Disposals	19.11.2008
Investment Properties	1,876	-130	-17	1,729
Syndicated loan	1,102	-95	-12	995
<b>Synd. loan LTV ratio</b>	<b>58.7%</b>			<b>57.5%</b>

- Non recourse financing of EUR 95 m
- Disposal proceeds used to reduce LTV

# The balance sheet could support further yield expansion

## YIELD SHIFT ABSORPTION POTENTIAL

in EUR k	30.11.2008	19.11.2008	Improvement
Syndicated Loan	1,102.9	995.0	(107.9)
Non recourse Loan	-	95.0	95.0
Investment property	1,875.7	1,859.2	(16.5)
of which syndicate portfolio	100%	93%	-7 pp
of which non recourse	0%	7%	7 pp
Minimum value before covenant	1,838	1,788	-50
<b>Max. value decline</b>	<b>-37.6</b>	<b>-70.9</b>	<b>-33.3</b>
Contractual Rent	105.8	106.6	0.8
Contractual Yield	5.6%	5.7%	9 bp
Covenant Yield	5.8%	6.0%	20 bp
<b>Yield Expansion</b>	<b>12 bp</b>	<b>23 bp</b>	<b>11 bp</b>

- Operating performance - market performance
- Financials
- Financing strategy
- **Disposals**
- Outlook

- Three properties and a plot of land have been sold\*
- For all transactions, alstria achieved higher sales prices than the fair values

## OVERVIEW DISPOSALS

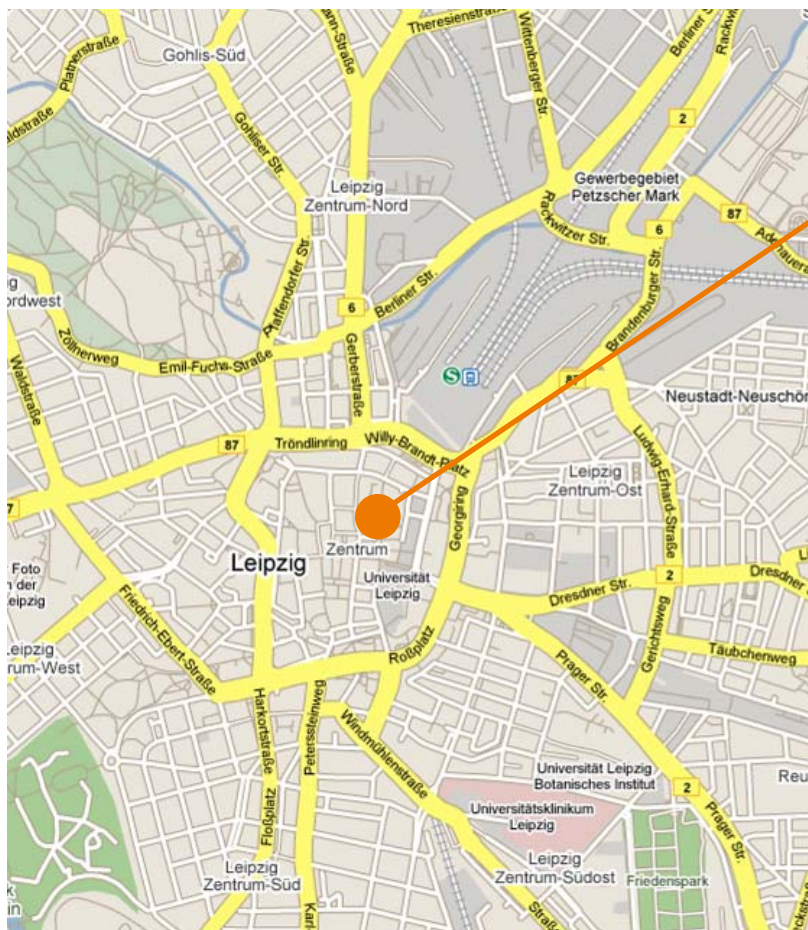
Properties	Fair Values	Sales Price	Surplus	Surplus Change
Hamburg, Duesternstr. 10	4,000,000	4,950,000	950,000	23.8%
Hamburg, Osterbekstr. 96	10,575,000	11,000,000	425,000	4.0%
Hanover, Vahrenwalder Str.	-	1,250,000	1,250,000	n/a
Leipzig, Nikolaistr.	1,925,000	2,000,000	75,000	3.9%
<b>Total</b>	<b>16,500,000</b>	<b>19,200,000</b>	<b>2,700,000</b>	<b>16.4%</b>

\* The plot of Vahrenwalder Str. does not influence the fair value of the property

# Asset overview

## Nikolaistrasse 16

### LOCATION OF NIKOLAISTRASSE 16



### KEY FACTS – NIKOLAISTRASSE 16



Lettable area:	1,191 sqm
Vacancy:	28 %
Passing rent:	EUR 143,073
Tenant:	mixed
Lease lengths:	1.4 years
Yield on sale:	7.0%
Estim. Buyer Yield on Cost:	6.6%
Estim. NOI Yield on Cost:	6.1%



- Operating performance - market performance
- Financials
- Financing strategy
- Disposals
- **Outlook**

# Strong underlying business model

- We have not
  - ✓ relied on yield compression
  - ✓ nor ever considered trading as a viable strategy
  - ✓ nor looked at too many short term leases and high vacancy
  - ✓ nor relied on strong rental top rental growth assumption
  - ✓ nor relied on high gearing in order to boost our balance sheet

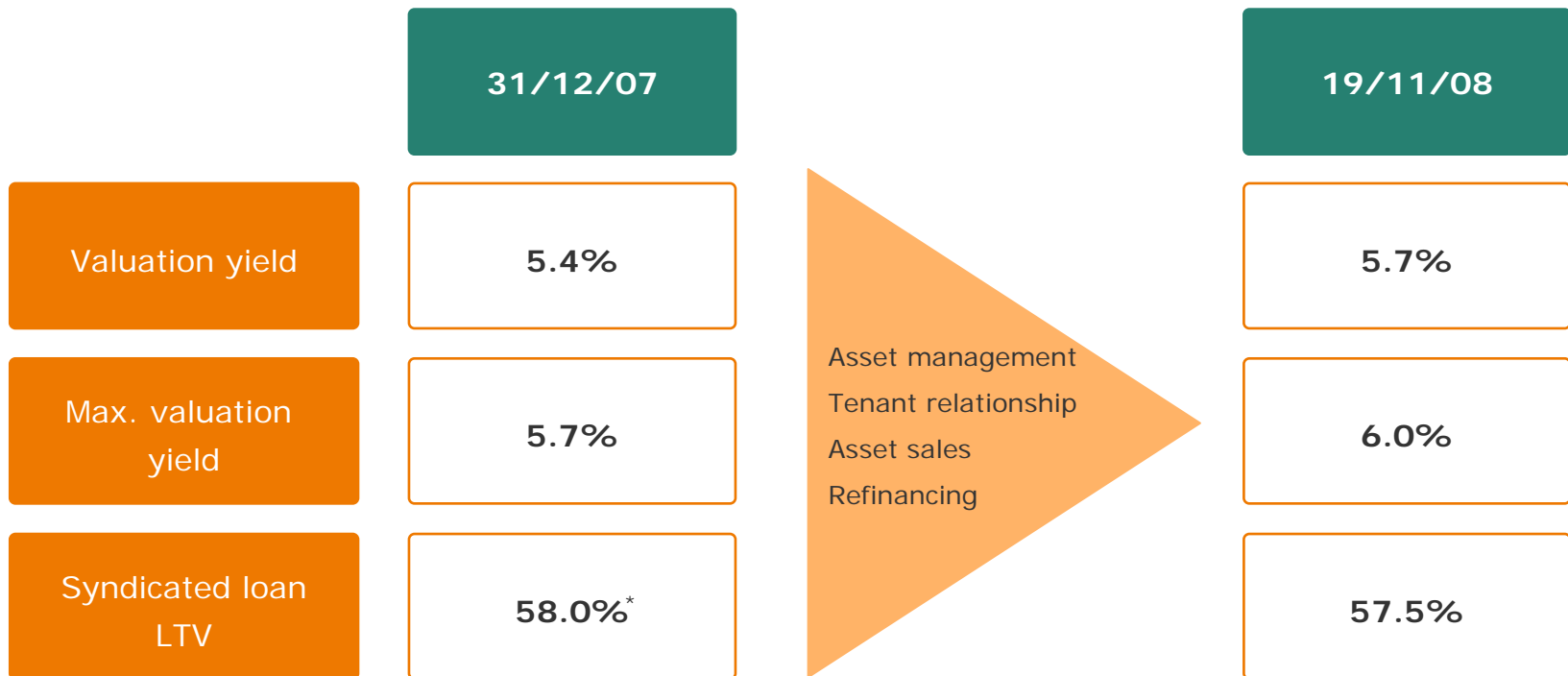
## ■ But we have

- ✓ Secured long term income backed by high quality assets
- ✓ Covered our cost and dividend with our revenues
- ✓ Limited the amount of risky assets
- ✓ Chosen what at that time was conservative gearing
- ✓ Relied on long term value added
- ✓ Focus our asset management on improving efficiency of buildings and reducing overall cost for tenant in what we called from inception win-win transaction
- ✓ Selectively disposed of assets where we did not see any additional value, or where alstria was not the best positioned to extract this value

- Opportunities will come following the downturn, but there will be some balance sheet challenges to overcome first
- LTV covenant monitoring is important, but not vital as the market seems to consider it
- Breach of LTV covenant would in our view result in higher cost, and mark to market of loan
- Main challenges will come at the time of refinancing as we expect that debt availability and terms will be different from what they were in the past
- Medium to long term trend for (most) real estate companies will be to deleverage and we expect acceptable LTV to be between 40 and 50% (vs. 50 to 60%)
- Structured approach to deleveraging is necessary in order to safeguard the interest of the existing stakeholders of the company
- Available and executable options to deleverage are not static and are considered by alstria in a dynamic environment

# It's a dynamic process

## YIELD DEVELOPMENT WITHIN 9M 2008

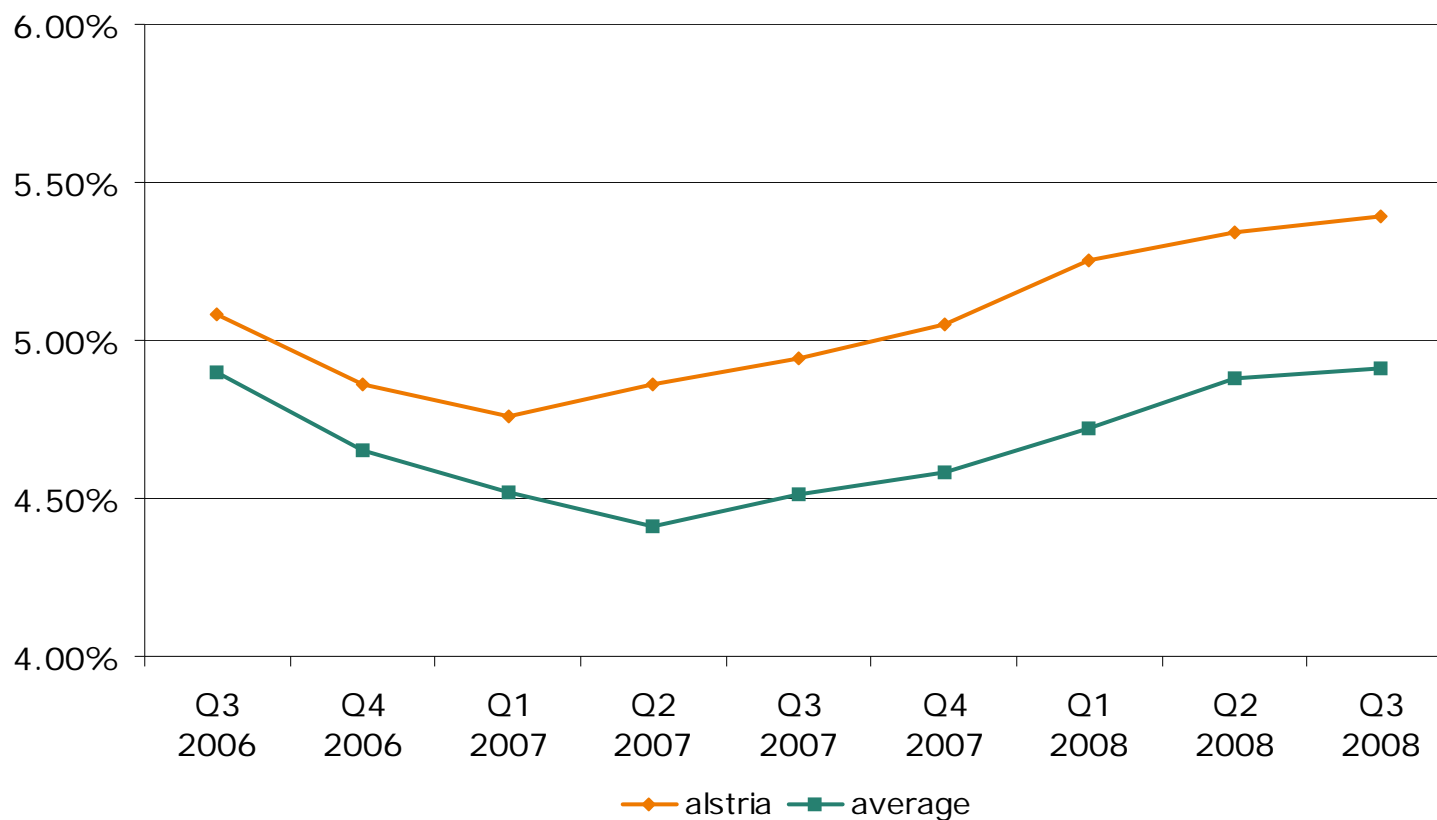


\* Assumes all assets and all debt committed on 31/12/07 on balance sheet



# No valuation backlog

AVERAGE OF PRIME YIELDS IN GERMAN CITIES<sup>1</sup> (PASSING RENT / AIC)



<sup>1</sup> Source: Jones Lang LaSalle, Key Market Indicators

# No correlation between markets

## OFFICE CAP RATE MOVEMENTS DURING PREVIOUS MARKET SLOWDOWNS<sup>1</sup>

	UK	Germany	France	Spain	Sweden
1985					
1986					
1987					
1988					
1989					
1990	28%				
1991					
1992			63%	38%	148%
1993					
1994					
1995					
1996		3%	19%		
1997					
1998					
1999					
2000	11%		10%	20%	12%
2001					
2002		9%			
2003					
2004					
2005					
2006					
2007	23%			4%	

<sup>1</sup> RREFF Research, April 2008, Global Real Estate Investment and Performance 2007 and 2008

- FFO target of EUR 40 m and revenues of EUR 101 m confirmed
- Due to market conditions, dividend guidance to be sustained at the same level as FY07
- Allows alstria to retain additional cash to support organic growth projects for next year, or react to unexpected value falls

## Clear and focused strategy



**Long-term investment approach to capitalise on intrinsic real estate value**

**Focus on a single asset class leveraging on in-house expertise**

**Focus on long-term tenant relationships to create win-win partnerships**

**Sustainable growth via targeted acquisitions and active management**

**G-REIT status to provide a clear value proposition to investors**