

Analysis of the investment in Kaiserstrasse in Mainz

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Introduction

How should you make the decision to renovate or gut your buildings inventory, or whether or not you should tear down the building and start from scratch with a new construction?

Good contractors can perform a renovation just as good, if not better, than a new construction. The price of completely renovating versus new construction will be about the same, as well. To decide whether or not to tear down or renovate, you need to think about what kind of benefits you will get from both options, e.g. size or amenities,.

Main Section

Preamble

Kaiserstrasse 27 in Mainz was bought in December 2007, consisting of 2 buildings. The front building consists of 13 apartments and 1 commercial unit. The rear building consists of 4 commercial units. The property is in an A-location, close to the center of Mainz.

The commercial units in the rear building are in a bad shape with a current vacancy ratio of 50% since beginning of 2010. To re-rent the vacant commercial units and reach an appropriate rent level it would be necessary to undertake a major investment.

The ingoing average residential rent level for 2011 in the front building is 8.48 € per square meter. For 2011 we are

planning a new lease level of 9.90 €per square meter, hence we have 17 % potential in this property.

The new lease level of the new building is assumed to be at 11.10€per square meter.

Investment Key Facts

Type of Investment:.....	New Building Project
New sqm:.....	627
- Maintenance Costs:.....	0T€
- Investment Costs:.....	1.201T€
Total Project Costs:.....	1.201T€
Yield, year 1 (on Total Investment Costs):.....	6.1%
Required Yield:.....	4.75%
Internal Rate of Return (on Total Project Costs.....	9.8%

Project Description

We are planning to knock down the rear building and construct a new building of 627 square meters consisting of 11 apartments and 7 parking lots. We are currently optimizing the floor plans to get the best mix of 2 and 3 room-apartments. Some apartments will get a balcony. The property will be 3 storey.

Project Economics

We expect an average rent level of 11.10 €per square meter, due to a better standard than in the existing apartments. We will include a graduated rent into the lease contracts, so that we will achieve a yearly rent increase of approximately 2 percent. The costs for maintenance are assumed to be 5 €per square meter per year, administration is assumed to be 5 €per square meter per year. With these assumptions, we are reaching an initial yield of 6.1 percent. The IRR will be 9.8%. By taking condominium potential into the prognosis the total return is about 9.1 percent.

Time Plan

We will start the project at the beginning of 2011 and expect completion by 1st of December 2011.

Risks

We see no major risk in the assumed rent level, and only a low risk from a technical point of view. The reason for the low risk is that the ground has not yet been inspected; therefore, there is a small risk of finding old war material which could cause higher costs.

Summary

The decision whether or not to invest in a new construction instead of a complete renovation should always be based on a wide variety of basic parameters which should be properly analysed. At Akelius we assure an investment by using several investment calculations. In case of new constructions we use almost the same technique for calculation and analysis that we use when we intend to buy new properties, this is because we want to make sure that we fulfil all the internal requirements.

After doing all the calculations for this particular case of Kaiserstrasse in Mainz, the Managing Director was given the assignment to conduct the proposed investment, amounting to 1.201 T€ and yielding initially at 6.1 percent with an IRR of 9.8 percent and a total return including condominium potential of 9.1 percent.

The investment application was granted and the project is running.

- Appendix 1: Project Calculations
- Appendix 2: Market Valuation
- Appendix 3: Cost Allocation
- Appendix 4: Maps
- Appendix 5: Pictures
- Appendix 6: Architectural Planning

Appendix 1: Project Calculations

Region:	South	Residential sqm:	627
City:	Mainz	Commercial sqm:	0
Property:	New building Kaiserstrasse 27	Total sqm:	627
Date:	07.01.2011		

1-YEAR CALCULATION

	Initial Situation		
	T€	€/sqm	€/sqm/M
Gross Rental Income:	90	143,2	11,9
Cash Flow disadvantage:	-8	-13,4	-1,1
Vacancy:	0	-0,7	-0,1
Vacancy Ratio:	-0,5%	-0,5%	-0,5%
Net Rental Income:	81	129,2	10,8
Maintenance:	-1	-2,2	-0,2
Costs for Unrented Areas:	0	-0,1	0,0
Management:	-3	-5,2	-0,4
Other Costs:	-1	-1,0	-0,1
Administration:	-2	-3,0	-0,3
Costs:	-7	-11,5	-1,0
Net Operating Income:	74	117,7	9,8
Price:	1.201	1.915	
Transaction Costs:	0	0	
Akelius Standard Measurements, 5 years:	0	0	
Initial Vacancy Costs:	0	0	
Initial Yield / Total Investment:	6,1%	1.201	1.915

KEY FACTS

	Rental Level				Vacancy		Fluctuation Key Facts		
	Current, €/sqm	Market, €/sqm	Potential, €/sqm	Share of Income	Current	Market	Fluctuation Per Year	Average Cost Per Apartment	Yield
Residential:	11,10	11,10	0%	93,0%	0,0%	0,5%	5%	200	0%
Commercial:	-	-	-	0,0%	0,0%	0,0%		-	-
Parking:	75,00	75,00	0,0%	7,0%	0,0%	0,5%		-	-

PROJECTED CASH FLOW

	€/sqm	Y1	Y2	Y3	Y4	Y5	Average Growth Rate
Gross Rental Income:	143,2	90	91	93	95	97	1,9%
Cash Flow disadvantage:	-13,4	-8	-9	-9	-9	-9	
Vacancy:	-0,7	0	0	0	0	0	
Vacancy Ratio:	-0,5%	-0,5%	-0,5%	-0,5%	-0,5%	-0,5%	
Net Rental Income:	129,2	81	82	84	86	87	1,9%
Maintenance:	-2,2	-1	-2	-2	-2	-2	
Costs for Unrented Areas:	-0,1	0	0	0	0	0	
Management:	-5,2	-3	-3	-3	-3	-4	
Other Costs:	-1,0	-1	-1	-1	-1	-1	
Administration:	-3,0	-2	-2	-2	-2	-2	
Costs:	-11,5	-7	-7	-8	-8	-8	3,0%
Net Operating Income:	117,7	74	75	76	78	79	1,8%
Yield:		6,1%	6,2%	6,4%	6,5%	6,6%	
Akelius Standard Refurbishments:	0,0	0	0	0	0	0	
Refurbishment Apartments:	0,0	0	0	0	0	0	
Cash Flow before Financing:	117,7	74	75	76	78	79	1,8%

Required Yield

Residential:	4,75%
Commercial:	0,00%
Required Yield:	4,75%

Appendix 2: Market Valuation

Market and Book Value, Before and After Project

	Current Value, 30.09.2010		Project	Value after Project	
	T€	€/sqm		T€	T€
Gross Rental Income:	125	90,8	81	206	103,0
Vacancy:	-8	-5,5	0	-8	-4,0
Vacancy Ratio:	-6,0%	-6,0%	-0,5%	-3,9%	-3,9%
Net Rental Income:	117	85,3	81	198	99,1
Maintenance:	-14	-10,0	-3	-17	-8,4
Administration:	-8	-6,0	-3	-11	-5,7
Total Costs:	-22	-16,0	-6	-28	-14,1
Net Operating Income:	95	69,3	75	170	84,9
Market Value:	2.122	1.547	1.574	3.695	1.849
Yield:	4,48%		4,75%	4,59%	
Book Value:	1.576		1.201	2.776	
Difference Book Value vs Market Value, T€:				919	
Difference Book Value vs Market Value, %:				33%	

Appendix 3: Cost Allocation

Costs allocation

Measurement	costs	allocation	€ per sqm
Architect and planning costs	140.000 €	12%	223,3 €
Parkings	47.250 €	4%	75,4 €
Construction costs	965.000 €	80%	1.539,1 €
others	48.250 €	4%	77,0 €
Summe	1.200.500 €	100%	1.914,7 €



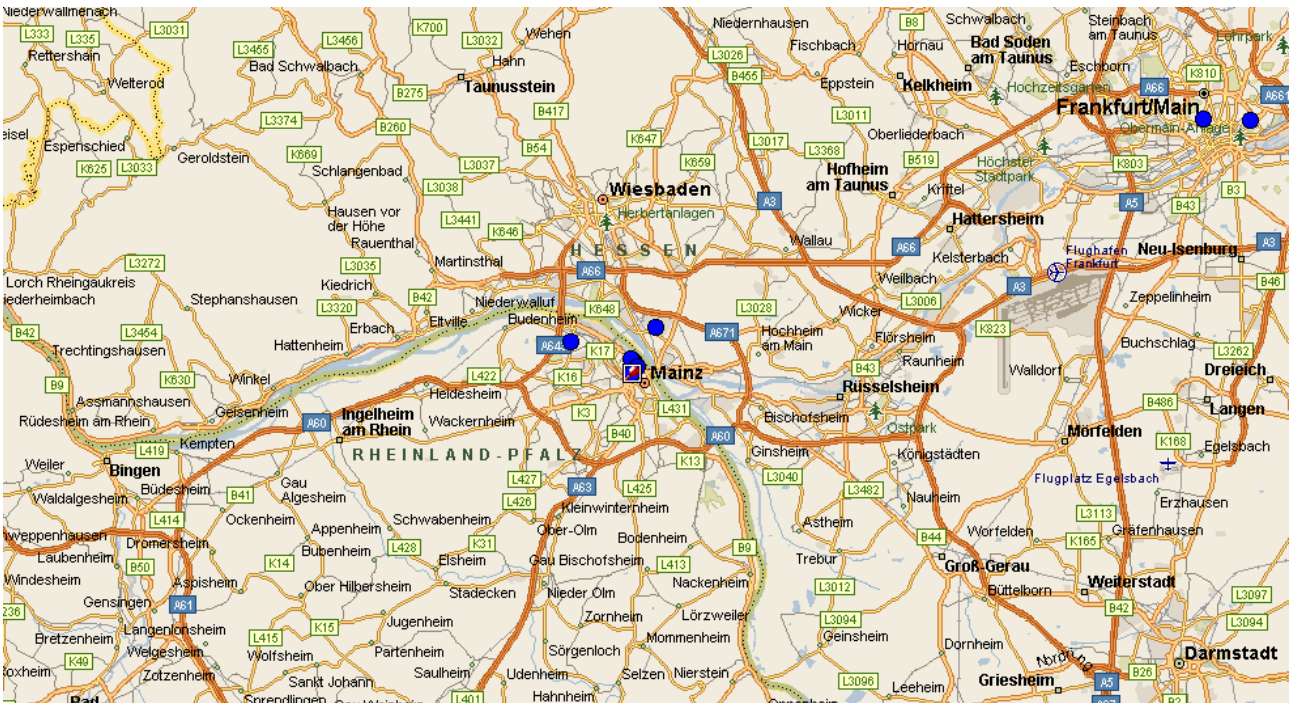
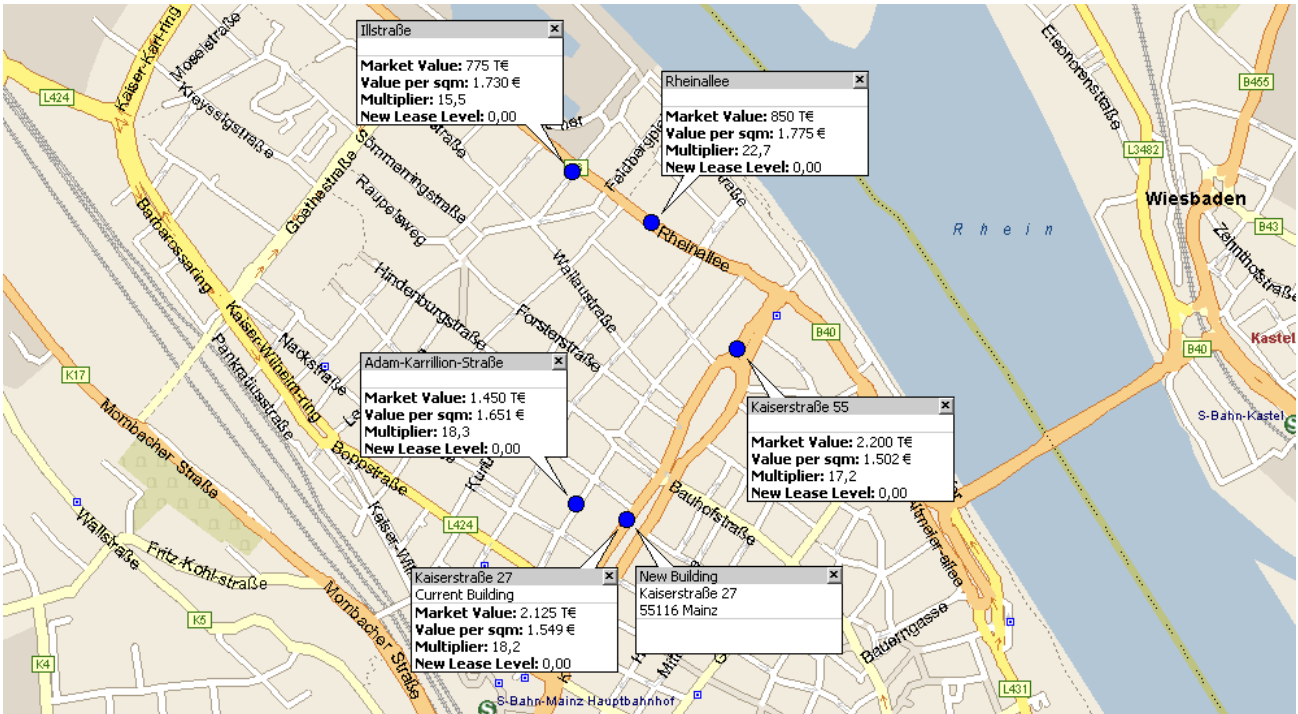
Green marked buildings: already existing and owned by Akelius

- ➔ Down side: Kaiserstrasse 27 (WE 7101)
- ➔ Top side: Adam-Karillon-Str. 16a (WE 7153)

Red marked building:

- ➔ existing building with commercial units and potential location for new building in the backyard

Appendix 4: Maps



Appendix 5: Pictures



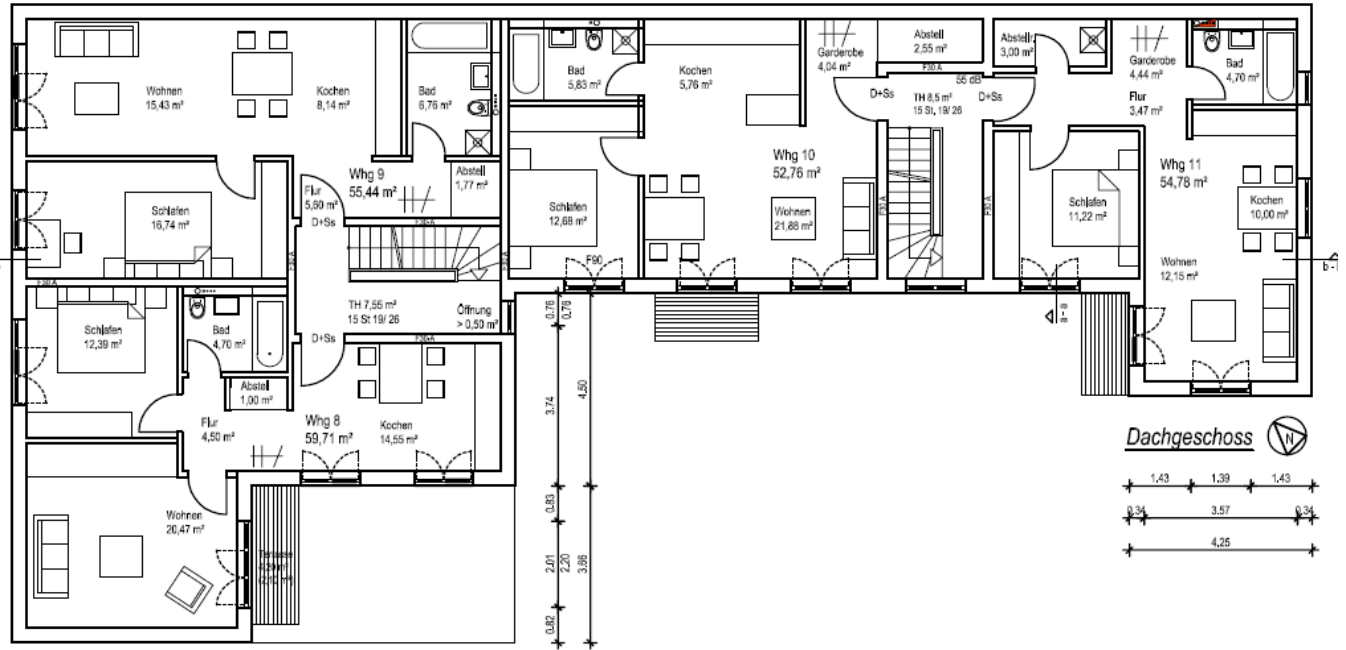
Appendix 6: Architectural Planning



1: View south – planned outer appearance



Abbildung 2: View north – planned outer appearance



3: Example of planned floor plan - Top Floor