

Analysis of the investment in Vereinsstrasse in Hamburg

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Analysis the investment

Investment application

City: Hamburg
Property: Vereinsstraße 40a, 40b
Object Number: 7148

Investment key facts

Type of Investment: Attic Extension
New sqm: 178
- Maintenance Costs: 120 T€
- Investment Costs: 405 T€
Total Project Costs: 525 T€
Yield [on Total Project Costs]: 7,3%
Net Present Value (40 years) [on Total Project Costs]: - 8 T€
Discount Rate: 7,5 %
Internal Rate of Return (40 years) [on Total Project Costs]: 7,4 %

Preamble

Vereinsstraße in Hamburg was bought in July 2008, consisting of 33 apartments. The property is located in an A-location. Hamburg-Eimsbüttel is, especially for younger people, one of the most requested districts of Hamburg, providing a wide variety of bars, galleries and small shops. There is a public park close to the object. A bus station and a metro station are reachable within short walking distance. The expected ingoing average residential rent level 2010 is 9,1 € per square meter. During 2009 we have reached a new lease level of 11,5 € for 2010 we are planning for 11,3 € per square meter. The current potential is consequently 24 percent.

Project description

We are planning an attic extension and to add balconies to existing apartments in the property, creating 3 apartments and in total 178 square meters new living space. The assumed costs for the attic extension are 245 T€ and for the balconies are 160 T€

Finally, we additionally renew the windows due to the new balconies, a required measurement within the next years irrespective of this project. The costs amounts to 120 T€

Project economics

For the attic extension apartments we expect an average rent of 12,0 € per square meter, which means that the attic extension will generate a gross rental income of 18 T€ p.a.. Part of the costs for the window renewal and the new balconies will be possible to pass on to the tenants; a yearly gross rental income effect of 22 T€ We are also assuming a higher new lease level due to the higher standard of the apartments after the measurement, which generates 2 T€ yearly. Summarized the measurements raise the yearly gross rental income by 42 T€ The maintenance costs assumed are to be 10,0 € per square meter and year, administration costs are assumed to be 8,4 € Based on these assumptions, we are reaching a yield of 7,3 percent. Furthermore we have a net present value of - 8 T€ when discounting with 7,5 percent and assuming a 40 year life expectancy. This is acceptable, when considering that the included maintenance costs amounts to 23 per cent of the total project costs.

Budget

This measurement is part of the budget for 2010 and there are no significant deviations to the budget.

Timetable

We will start the project immediately, and expected completion is at the end of 2010.

Risks

We expect no risk in the assumed rent level and only a low risk from a technical point of view.

Decision proposal

The managing director will be given the assignment to conduct the proposed investment, amounting to 525 T€ and yielding 7,3 percent. The total project costs will be capitalized.

Appendix - Calculation

Project Calculation

	T€	€/sqm
Gross Rental Income:	42	235,3
Vacancy:	-0,3	-1,9
Vacancy Ratio:	0,8%	0,8%
Net Rental Income:	42	233,5
Maintenance:	-2	-10,0
Administration:	-1	-8,4
Total Costs:	-3	-18,4
Net Operating Income:	38	215,1
Maintenance Costs:	120	674
Investment Costs:	405	2.275
Total Project Costs:	525	2.949
Yield:	7,3%	

Market and Book Value, Before and After Project

	Current Value,		Project	Value after Project	
	T€	€/sqm		T€	€/sqm
Gross Rental Income:	111	108,6	42	153	127,4
Vacancy:	-1	-0,9	0	-1	-1,0
Vacancy Ratio:	-0,8%	-0,8%	-0,8%	-0,8%	-0,8%
Net Rental Income:	110	107,7	42	151	126,4
Maintenance:	-10	-10,0	-2	-12	-10,0
Administration:	-12	-11,7	-1	-13	-11,2
Total Costs:	-22	-21,7	-3	-25	-21,2
Net Operating Income:	88	86,1	38	126	105,2
Market Value:	1.825	1.789	766	2.591	2.162
Yield:	4,81%		5,00%	4,87%	
Book Value:	1.712		525	2.237	
Difference Book Value vs Market Value, T€:				353	
Difference Book Value vs Market Value, %:				16%	

Project Costs

	T€	Comments
Maintenance:	120	windows exchange
Investment: Balconies	160	added to current apartments
Attic Extension	245	3 new apartments
Total Project Costs:	525	

Gross rental income increase from attic extension

We are assuming an average rent level of 12,0 €per square meter, this will yield a yearly gross rental income of 18 T€ The calculation is shown in the table.

	No. of sqm		Lease Level €/sqm/Month		No. Of Months in a Year		Gross Rental Income p.a., T€
Attic Extension:	125	x	12,00	x	12,00	=	18
Balconies	53	x	-	x	-	=	-

Gross rental income increase derived by balconies and windows

About 200 T€out of 280 T€total costs are possible to pass on the tenants. All tenants are affected by the windows exchange. The only difference for tenants on the ground level is that they will have lower costs passed on, due to the fact that they do not get a balcony. The pass on rate is 11 percent, which means that the derived gross rental income increase is 22 T€

	Costs possible to Pass On, T€		Share of Tenants		Pass on Rate		Gross Rental Income p.a., T€
Balconies:	160	x	100%	x	11%	=	18
Windows	40	x	100%	x	11%	=	4
Total:	200	x	100%	x	11%	=	22

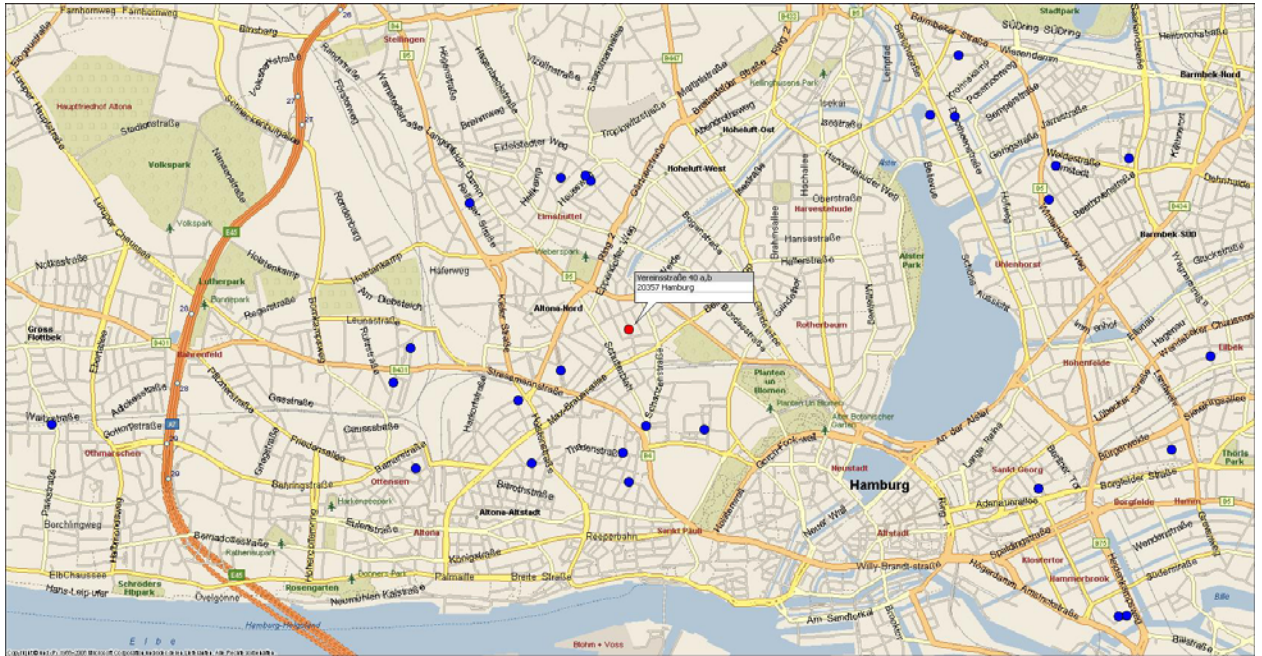
We are also assuming that we will reach 0,7 €per square meter in higher new lease level for already existing apartments, with an assumed fluctuation rate of 20 percent this means a yearly gross rental income effect of 2 T€

Total gross rental income increase from project

As the table below displays is the total gross rental income increase from the project 42 T€

	Gross Rental Income p.a., T€
Attic Extension:	18
Pass of modernization costs:	22
Higher rentals:	2
Total	42

Appendix



Appendix

