



Unlocking incremental growth

TAG to enter the residential-for-rent market in Poland

11 November 2019

GROWING CASHFLOWS

TAG
Immobilien AG

TAG executive summary

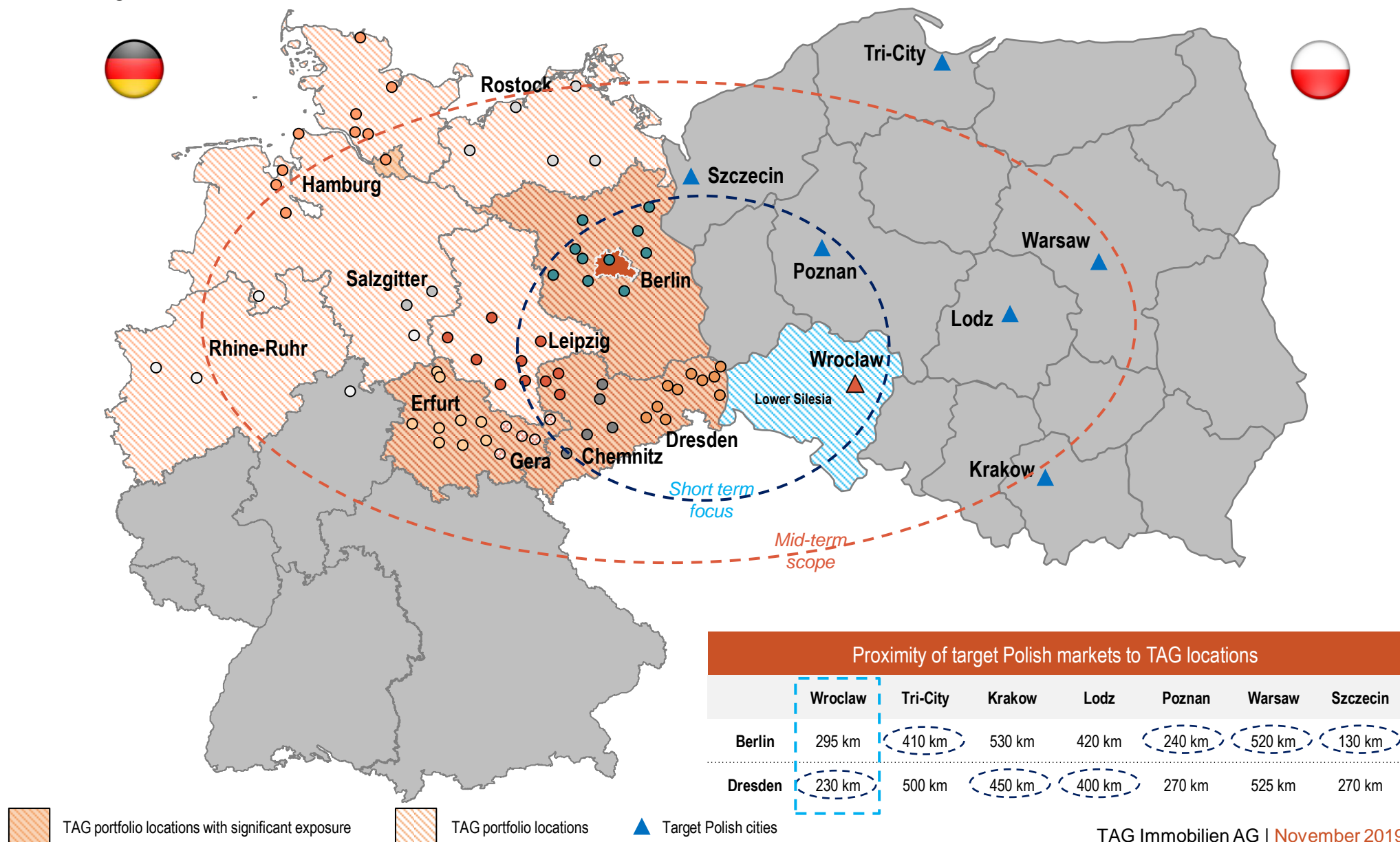
Acquisition of Vantage Development S.A. as nucleus for TAG in Polish residential-for-rent market

Strategic rationale	<ul style="list-style-type: none"> ▪ Capitalizing on emerging Polish residential-for-rent market, characterized by attractive macro-economic fundamentals, comparable regional structure of the real estate market, low rental regulation and proximity to TAG's existing portfolio regions ▪ Whilst German market to remain at the core of TAG, acquisition of Vantage Development as the beginning of TAG's growth strategy in Poland – mid-term growth target of 8,000-10,000 units in the next 3-5 years, corresponding to approximately 10% of TAG's total residential stock ▪ Focus on new constructions (due to fragmented and older rental stock) in larger cities with universities and positive macroeconomics ▪ Fully playing to the proven strength of TAG of successfully managing a diversified portfolio of regions in operational and financial terms
Why Poland? And why now?	<ul style="list-style-type: none"> ▪ Absolute size of Polish market (c. 38m inhabitants, 6th largest EU country by population), coupled with rising service sector and favorable demographic development (<i>"generation rent" – growing preference for rental housing</i>), is paving way for institutional rental market ▪ TAG's early market entry providing competitive advantage in terms of scale, market knowledge, penetration and position ▪ Attractive risk-return profile: completed developments featuring a yield level significantly higher than comparable product in Germany
Transaction scope	<ul style="list-style-type: none"> ▪ Tender offer for Vantage Development, a leading Polish developer focused on the fundamentally strong region of Wroclaw, with superior sourcing track record and development platform; 100% tender commitment secured from selling shareholders ▪ In-place residential development pipeline consisting of several residential projects representing a total c. 5,300 units, of which up to c. 3,400 units are available to hold for rental investment upon completion, whilst the remainder will be sold down against cash ▪ Business strategy of Vantage Development going forward primarily to address rising demand in Polish residential-for-rent market
Transaction overview	<div>Key transaction terms</div> <ul style="list-style-type: none"> ▪ All cash tender offer for 100% shares in Vantage Development for a total consideration of PLN 558.5m (EUR 130.7m), fully funded by existing cash on TAG's balance sheet ▪ All selling shareholders have entered into tender commitment; transaction structure provides for a simultaneous carve-out of the commercial property segment ("CRE") back-to-back to selling shareholders against payment of PLN 197.0m (EUR 46.1m) to Vantage Development ▪ TAG's net consideration amounts to PLN 361.5m (EUR 84.6m)
	<div>Financial terms and impact</div> <ul style="list-style-type: none"> ▪ Strong and stable cash flow generation with gross yield of c. 7-8% on rental portfolio upon completion and high EBITDA margin of >70% ▪ Net cash flows of nearly EUR 30m in the next 2-3 years from disposals of c. 1,900 units, capitalizing on historic net income margin of c. 15%
	<div>Timeline</div> <ul style="list-style-type: none"> ▪ Closing of transaction expected in Q1 2020

Note: Euro amounts based on PLN/EUR exchange rate of 0.234

TAG portfolio map

The transaction will add a new region neighbouring to TAG's existing portfolio, broader exposure to major Polish cities targeted in the mid-term



TAG strategic rationale

Unlocking superior shareholder return potential by taking an initial step into the Polish residential-for-rent market

Evolution of TAG's acquisition strategy

- Current cycle in German residential market suggests to capture innovative acquisition opportunities
 - Focused geographic **expansion into a neighbouring region** of TAG's existing portfolio **rather than broad internationalization**
 - Approach to project development exposure: mid- to long-term **creation of rental properties for TAG's investment portfolio**
 - Investment focus on **major Polish cities with favorable fundamentals, university exposure and high level of infrastructure**

Unlocking incremental growth potential

- **Mid-term growth target (next 3-5 years) of 8,000-10,000 units** via developments and newly built stock, corresponding to c. 10% of TAG's total current residential portfolio
- Consequently, TAG will further pursue an internal and external **residential-for-rent growth and acquisition strategy** to **secure sufficient scale** in the presently highly-fragmented rental housing market in Poland

High-quality platform

- **Vantage Development** will enable TAG to benefit from its **superior sourcing expertise and strong development track record**
- Alongside its sourcing and development know-how, Vantage Development will be enhanced **to become TAG's nucleus in Poland** for residential asset and property management activities

Early mover advantage

- Increasing service sector economy and demographic factors ("generation rent" – preference for rental housing) paving **increasing demand for institutional letting market**
- **Early market entry leads to advantages over competitors** in terms of scale, market knowledge, penetration and position

Attractive risk-return profile

- Against the backdrop of large market size and current structural change, the Polish residential real estate market offers **high (accretive) growth potential for TAG through economies of scale**
- **Strong cash returns** from high yielding investments and positive letting market dynamics in light of structural demand overhang

TAG why Poland? And why now?

Attractive macro and demographic fundamentals paving way for institutional letting market

Macro-economic and demographic landscape

- Absolute market size (c. 38m inhabitants) coupled with **attractive macro-economics and favorable demographic development** (reduction in household size, increasing demand for rental housing)
- **Poly-centric structure** with several major cities, allowing for geographical diversification and better balance of investment risks

Polish residential rental market

- **Fragmented residential market** characterized by **supply shortfall** in **rental housing** due to affordable rents and high ownership rate
- **One of the least saturated residential markets in Europe** with an increasing housing gap of over 3.5m apartments¹⁾
- **Early-mover window** for TAG to participate in shaping the **upcoming residential-for-rent market segment**

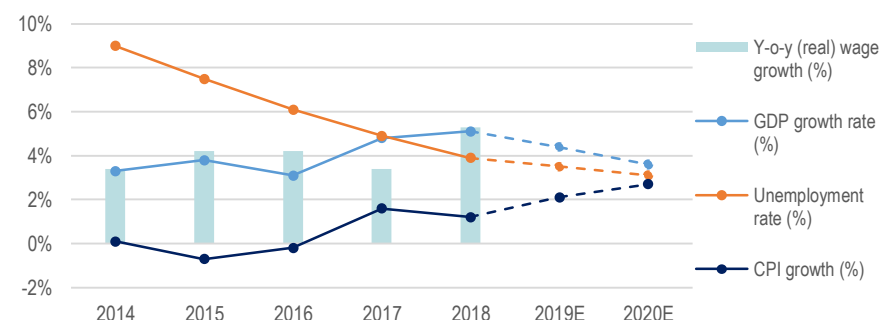
Regulatory environment for rental housing

- **Regulatory rental market regime** in Poland is **rather investor/landlord-friendly**, characterized by stable political environment and **non-restrictive tenancy laws**
- Liberal rent regime with **no comparable rent control measures** like “Mietspiegel”, “rental cap” or mandatory “social housing rate”

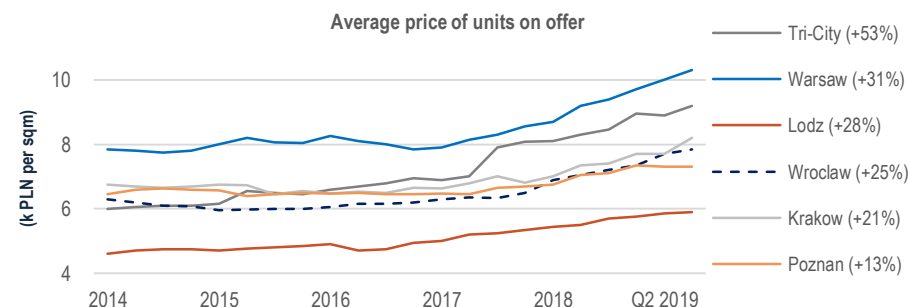
Risk-return dynamics

- **Compelling risk-return profile**: qualitatively high rental product with yield levels significantly higher than in Germany
- **GRI yields** in Polish top locations in line with TAG's established yields **between 7-8%** combined with high **EBITDA margin of more than 70%** due to moderate operating cost

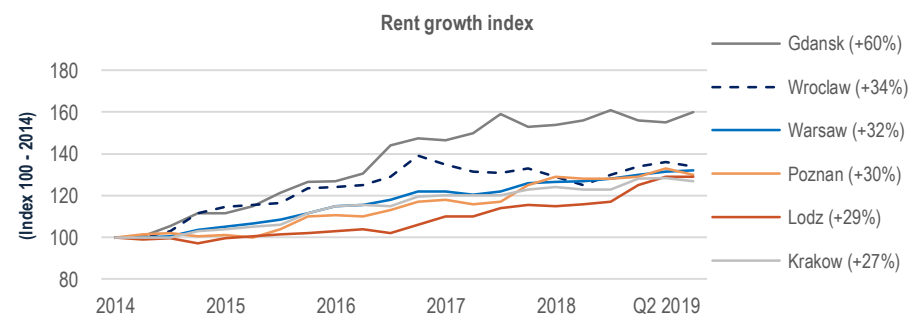
Robust macro-economic environment in Poland ...



... providing strong support to the residential investment market ...



... and to the residential letting market



¹⁾ Based on 2.6 people per household in Poland vs. 2.1 EU (ex Poland) average, total housing stock of c. 14.6m apartments and population in Poland of c. 38m inhabitants

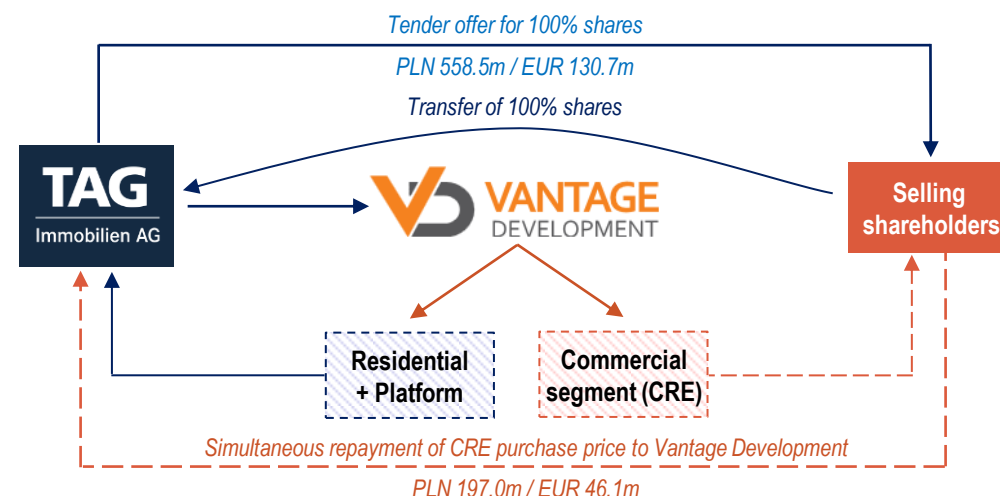
TAG transaction scope

Vantage Development: a leading residential development platform with strong track record

Company Description

- **Development platform** with current secured pipeline of c. 5,300 units in the Wrocław region
 - c. 1,900 units (in various stages) under construction which are already pre-sold or earmarked for **individual sales for cash**
 - up to of 3,400 units under preparation and available for renting business, which will be held as yielding assets on balance sheet to form the **nucleus of TAG's portfolio in Poland**
- Residential exposure mainly in **apartments and independent houses**, with recreation zones, parking, service points and roads
- **Experienced management team**, alongside c. 100 employees, with **proven track record**
 - Covering the **full value range** from **sourcing and acquisition** of land plots, **land development, planning and construction** to **marketing and sales**
 - **over 10 years** in the successful realization of c. 30 development projects
 - **more than 4,000 units** completed and delivered to date

Transaction structuring overview



- **Tender offer for 100% shares in Vantage Development** for a total consideration of PLN 558.5m (EUR 130.7m) / PLN 11.50 per share
- **Simultaneous repayment of CRE purchase price** of PLN 197.0m (EUR 46.1m)
- **Consequently, net consideration for TAG amounts to PLN 361.5m (EUR 84.6m)**

Property snapshots

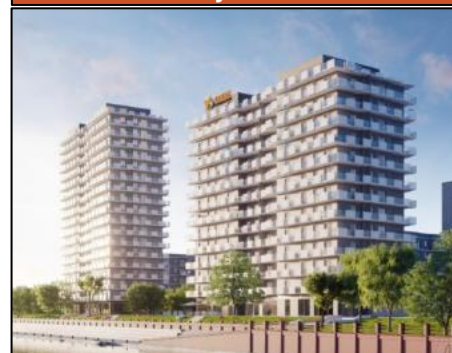
Port Popowice



Dorzecze Legnickiej



Promenady Wrocławskie



Kameralna Klecina



Note: Euro amounts based on PLN/EUR exchange rate of 0.234

TAG residential development platform in Poland

Business strategy to address growing demand and rising significance of the residential-for-rent market

Overview of residential development platform

- Vantage Development's residential platform currently consists of a **secured pipeline of up to 3,400 build-to-hold units** available for TAG's letting business forming the basis for the mid-term target of 8,000-10,000 units in Poland
- Focus on larger cities with **larger universities and favorable macroeconomic and demographic backdrop**
- Completions from build-to-hold pipeline should pave way for **strong cash flow generation and accretive FFO I growth** – supported by high **EBITDA margin of over 70%**
- While first **build-to-hold completions** coming in **from FY 2021** onwards, transaction accretive to TAG shareholders in the first year of consolidation on cash flows from sales/FFO II basis – impacted by **ongoing unit sales**
- Build-to-sell pipeline, with planned **sales of c. 1,900 units** between 2019 and 2021, should provide strong support for **FFO II as well as EPRA NAV growth**
- Against the backdrop of high demand and historical margins on sales delivered by Vantage Development of c. 20% (EBIT) and c. 15% (net income), we expect **net cash flows/ FFO II contribution** (before effects from IFRS purchase price effects) of **nearly EUR 30m** in aggregate in **FY 2019-2021**

Key figures long term renting business FY 2021 onwards

Mid term target (# units)	8,000-10,000
Thereof already available (# units) ¹⁾	up to 3,400

Estimated gross yield on cost	c. 7-8%
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Estimated EBITDA margin	>70%
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Estimated total rent (based on 8,000-10,000 units)	c. EUR 60-75m p.a.
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Thereof already available (based on 3,400 units) ¹⁾	c. EUR 25m
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Key figures short term build-to-sell FY 2019-2021

Total number of units ¹⁾	c. 1,900
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Estimated EBIT margin	c. 20%
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Estimated net income margin	c. 15%
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Estimated net cash flow	c. EUR 30m
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TAG accretive acquisition

Transaction accretive to TAG shareholders in the first year of consolidation

Strong cash flow profile

FFO per share accretion

Financing cost synergies

NAV per share accretion

LTV target range

- Initial **focus on cash flow from sales/FFO II** due to current focus on ongoing develop-to-sell activities
- Transaction accretive to TAG shareholders on **FFO II per share** (FFO I including sales result and before effects from IFRS purchase price allocation) and **NAV per share** in the first year of consolidation
- **Develop-to-hold completions commencing from 2021 onwards**, which will effectively be held on balance sheet and operated in line with TAG's long term portfolio and asset management strategy
- Transaction triggers **early repayment of bonds** (CoC clause) issued by Vantage Development (c. PLN 170m/c. EUR 40m at an average interest rate of c. 6%), which will be covered from cash received from sale of CRE segment. Subsequent refinancing is expected to enable TAG to realize significant **financial cost synergies**
- Ongoing results and development gains from Vantage Development's business model to pave way **for strong NAV per share growth**
- Following the all cash settlement, **LTV to remain well below the current target of less than 50%**

TAG transaction overview

Tender offer for Vantage Development with simultaneous carve-out of commercial business to selling shareholders

Transaction structuring and key financial terms

- Tender offer for **100% of Vantage Development** holding shares (including CRE segment). Agreed transaction structure provides for carve-out of CRE segment back-to-back to selling shareholders, enabling simultaneous payment of CRE purchase price back to Vantage Development
- Based on tender offer price of PLN 11.50/share, **total transaction consideration amounts to PLN 558.5m** (EUR 130.7m), of which PLN 197.0m (EUR 46.1m) relates to CRE business (including intra-group loans)
- Consequently, **total net consideration for TAG amounts to PLN 361.5m** (EUR 84.6m) for the residential part (including platform)
- Offer is subject to **antimonopoly clearance** from authorities
- Total transaction consideration will be **fully funded by TAG's existing cash on the balance sheet**
- After completion of the transaction, **de-listing of Vantage Development's shares**, currently listed on the Warsaw Stock Exchange, is intended

Anticipated transaction timeline Tender Offer

Date	Milestone
08 November 2019	Investment Agreement Signing
14 November 2019	Announcement of Tender Offer
28 November 2019	Antimonopoly clearance filing
04 December 2019	Subscription period starts
January 2020	Antimonopoly clearance (expected)
January/February 2020	Subscription period ends (expected)
January/February 2020	Payment and settlement (expected)

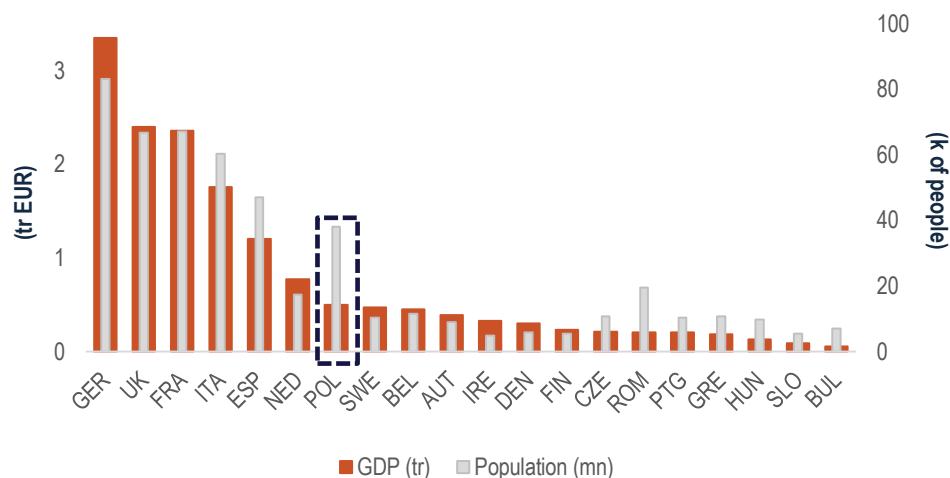
TAG 2019

APPENDIX

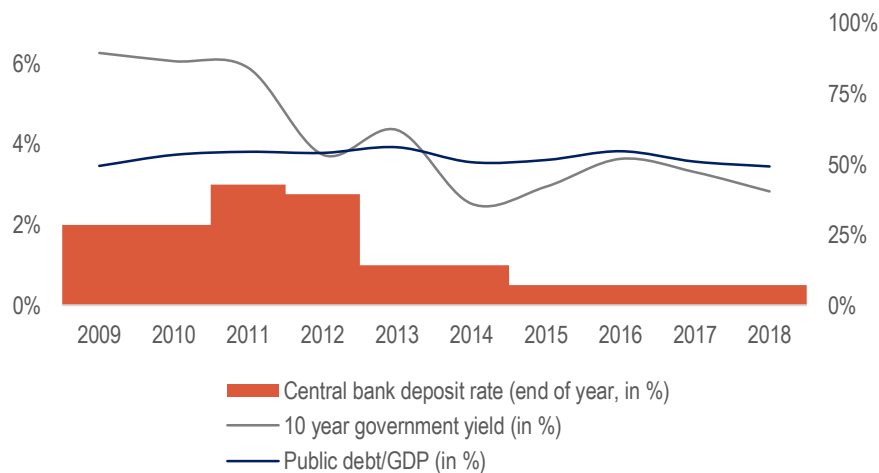
Poland macroeconomic fundamentals

Poland at a glance

A medium-sized EU country



Stable political environment



Relevant characteristics

- Poland is the EU's 6th largest country in terms of population and its 7th largest economy
- During the 2008-2009 slowdown Poland was the only EU country to avoid a recession; over the past 20 years Polish economy grew y-o-y by an average of nearly 3.9% (EU average: 1.7%)
- Fiscal policy is conservative, with general government gross debt at 49.2% of GDP and long term bond yields stable, now close to 2%

EUR/PLN exchange rate trend



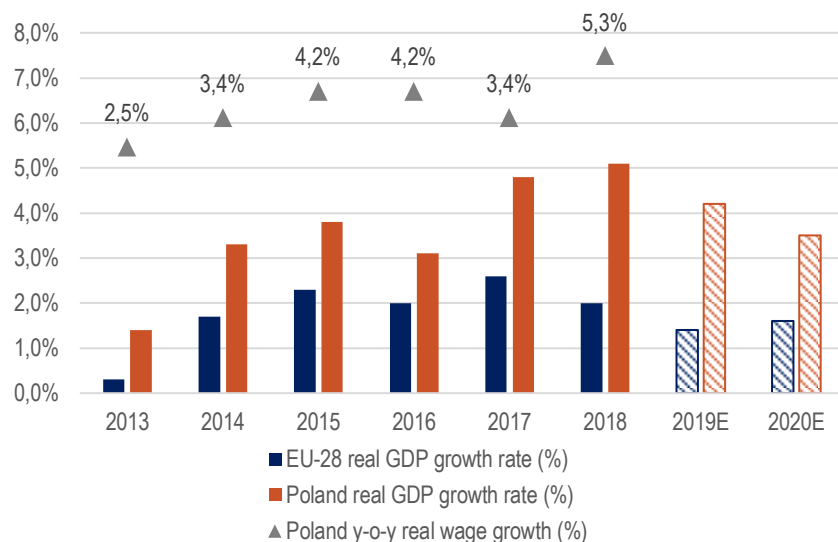
General information

Population	c. 38m
GDP	c. EUR 525bn
GDP growth 2019E	4.2%
Inflation 2019E	2.1%
Unemployment rate 2019E	3.5%

Poland macroeconomic fundamentals

A booming economy

Strong real GDP and real wage growth



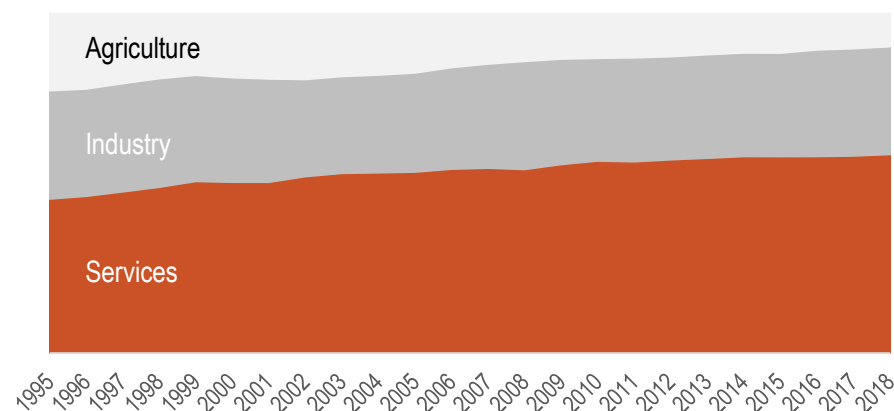
Unemployment rate since 2008



Summary

- Poland has constantly outpaced its European peers in terms of GDP growth and has delivered an impressive real wage growth nearly 3.8% p.a. on average in the last years
- Record low unemployment caused a very high labour participation rate among younger generations
- Average disposable income is further expected to rise due to new tax cuts and fiscal transfers
- The Polish economic distribution thus approaches the Western European level with more people working in the growing service sector and the main cities being popular tourist destinations

An increasingly service-based economy



Poland's six largest cities

Largest six polish residential real estate markets

1

Tri-City

Population	749 k
Population growth since 2010	0.9%
Unemployment rate	2.3%
Average monthly wage (PLN)	5,028 ¹
Average wage growth y-o-y	n/a
Dwelling stock	347 k ²
Household size	2.16
Number of students	115 k ³

2

Poznan

Population	536 k
Population growth since 2010	-3.5%
Unemployment rate	1.2%
Average monthly wage (PLN)	5,757
Average wage growth y-o-y	6.1%
Dwelling stock	264 k
Household size	2.03
Number of students	145 k

3

Wroclaw

Population	641 k
Population growth since 2010	1.6%
Unemployment rate	1.7%
Average monthly wage (PLN)	5,397
Average wage growth y-o-y	6.4% ⁴
Dwelling stock	334 k
Household size	1.92
Number of students	152 k



4

Warsaw

Population	1,778 k
Population growth since 2010	4.6%
Unemployment rate	1.4%
Average monthly wage (PLN)	6,470
Average wage growth y-o-y	5.7%
Dwelling stock	986 k
Household size	1.80
Number of students	298 k

5

Lodz

Population	685 k
Population growth since 2010	-5.5%
Unemployment rate	5.2%
Average monthly wage (PLN)	4,705
Average wage growth y-o-y	5.6%
Dwelling stock	361 k
Household size	1.90
Number of students	91 k

6

Krakow

Population	771 k
Population growth since 2010	2.0%
Unemployment rate	2.3%
Average monthly wage (PLN)	5,689
Average wage growth y-o-y	8.6%
Dwelling stock	397 k
Household size	1.94
Number of students	193 k

Poland's six largest cities

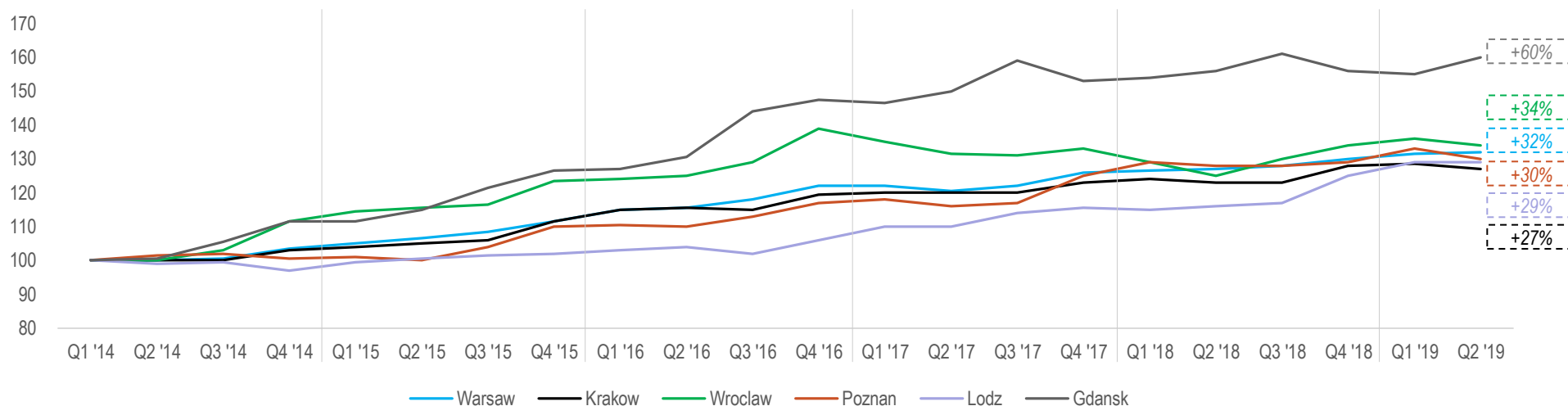
Key facts

	Warsaw	Krakow	Wroclaw	Tri-City	Poznan	Lodz
Population	1,777,972	771,069	640,648	748,986	536,438	685,285
City size (sq km)	517	327	293	414	262	293
Unemployment rate	1.4%	2.3%	1.7%	2.3%	1.2%	5.2%
Average monthly salary	6,470	5,689	5,397	5,028	5,757	4,705
Dwelling stock	985,526	396,724	333,628	347,305	264,285	361,162
Residential developments on primary market (no of phases 2018)	530	287	262	276	141	137
Market offer on primary market (units Q4 2018)	19,081	6,515	8,625	6,891	5,232	4,475
Annual volume of sales on primary market (units 2018)	24,246	12,397	10,465	8,578	4,931	4,235
Average gross asking price – primary market (PLN/sqm Q4 2018)	9,682	7,718	7,299	8,979	7,316	5,788
Average gross rents – total stock (PLN/sqm Q4 2018)	60	51	53	53	44	40
Average gross rents – new housing after 2004 (PLN/sqm Q4 2018)	64	55	57	60	51	50
Yield proxy (avg. gross price vs. avg. gross rent of new housing Q4 2018)	8.0%	8.5%	9.4%	8.1%	8.4%	10.3%

Poland's six largest cities

Key facts

Rent growth index (Q1 2014 – 100)



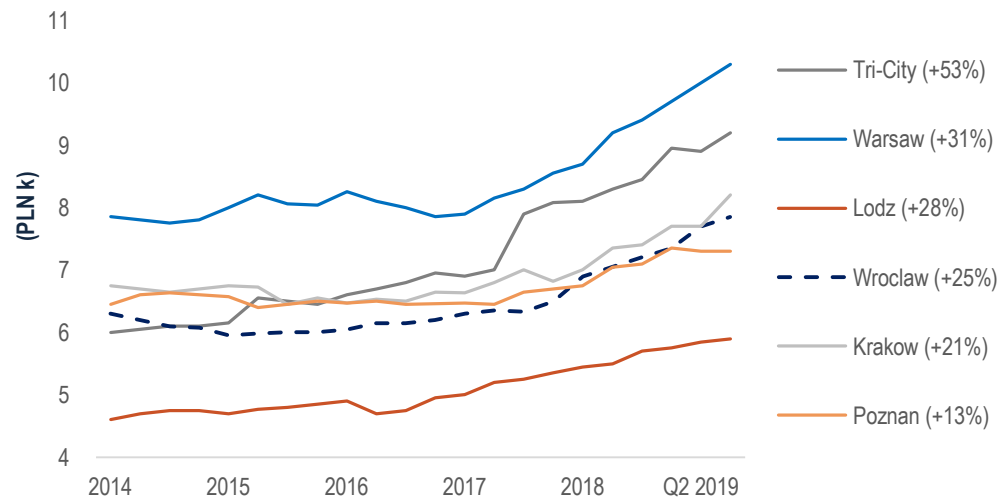
Rent growth index (Q1 2014 – 100)

- Supported by rising demand of rental housing against the backdrop of booming service sector and favorable demographic factors, average asking rents across all six major cities in Poland demonstrate an upward trend over the last years
- Amongst Polish Top-6 markets, Gdansk recorded the highest growth in rents of over 60% since the beginning of 2014 (CAGR +8.2%), followed by Wroclaw, representing a solid increase of +34% since 2014 (CAGR +5.0%)
- Warsaw rental market recorded an increase of 32% since 2014 (CAGR +4.7%), followed by Poznan +30% (CAGR+4.5%), Lodz +29% (CAGR +4.3%) and Krakow +27% (CAGR +4.1%)

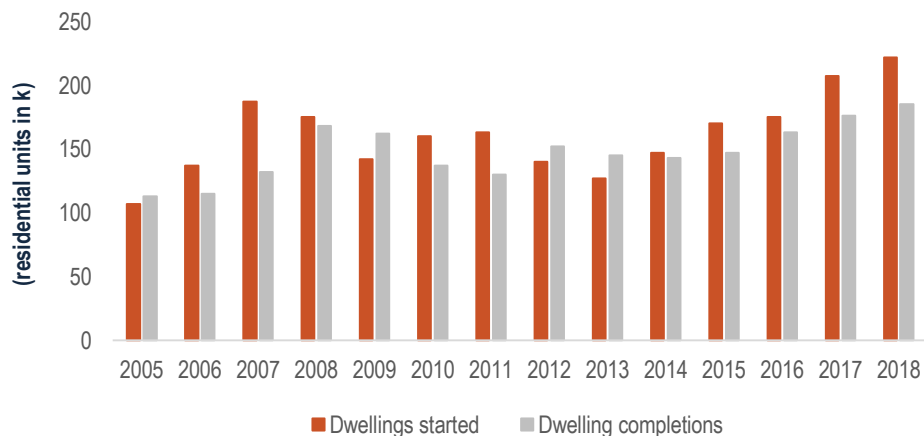
Poland's residential market

Key facts on the local primary market (1/2)

Average price of units per sqm



Residential construction volume



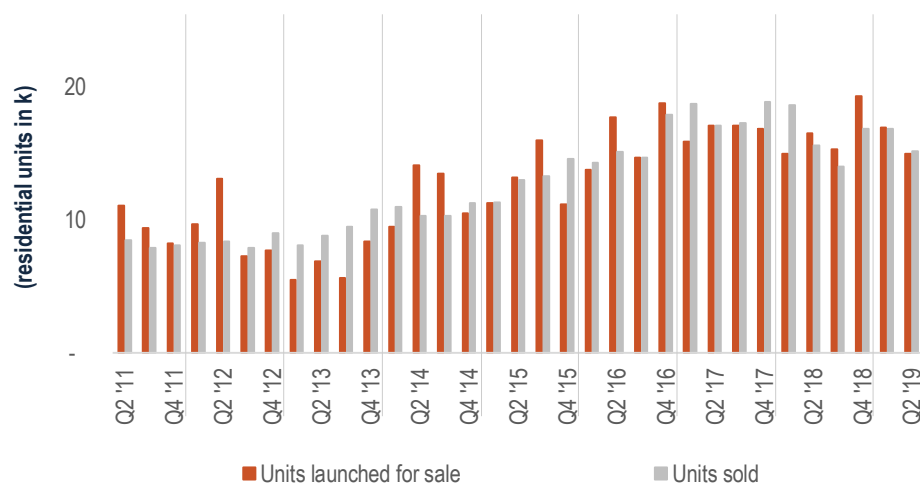
Key takeaways

- Supported by positive macroeconomic fundamentals and structural demand overhang, average price per sqm for new residential housing has risen strongly across Polish Top-6 markets and the trend is expected to continue in the coming years
- Since 2014, Tri-city has recorded the strongest price growth (+53%), followed by Warsaw (+31%), Lodz (+28%), Wroclaw (+25%), Krakow (+21%) and Poznan (+13%)
- In 2018, asking price per sqm increased by c. 12% on average in the Top-6 markets, reaching PLN 9,682/sqm in Warsaw (+13% y-o-y), PLN 8,979/sqm in Tri-City (+17%), PLN 7,718/sqm in Krakow (+13%), PLN 7,316/sqm in Poznan (+9%), PLN 7,299 in Wroclaw (+13%), and PLN 5,788/sqm in Lodz (+8%)
- Polish residential market has been characterised by increasing residential construction activity. In 2018, the number of dwelling permits granted rose by 3.3% y-o-y to c. 251,000 units. Likewise, the useful floor of new residential buildings permits granted also increased 4.6% to 23.4m sqm from the year before
- Rising demand for housing amidst existing supply shortfall is also reflected in growing residential construction activity since 2013. In 2018, nearly 222,000 dwelling started (+7.7% y-o-y), while completions reached a record high of c. 185,000 units, representing an increase of +3.8% y-o-y

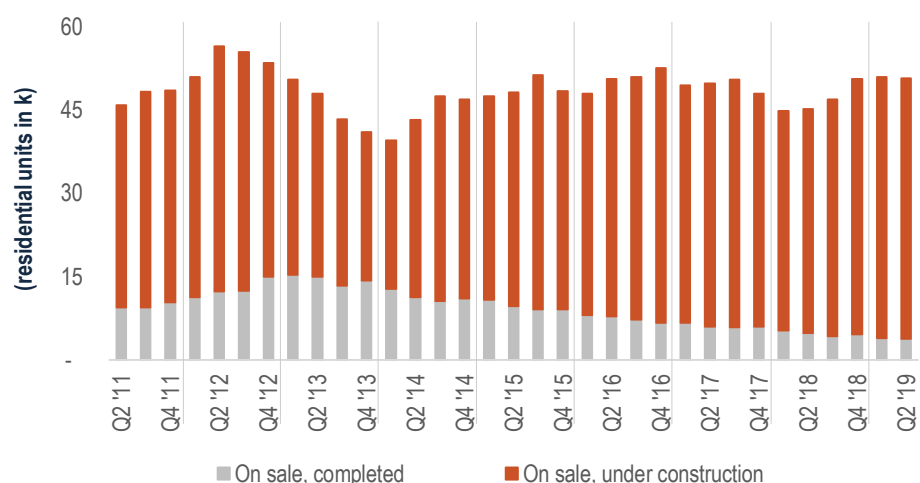
Poland's residential market

Key facts on the local primary market (2/2)

Units launched for sale and sold



Residential units on offer



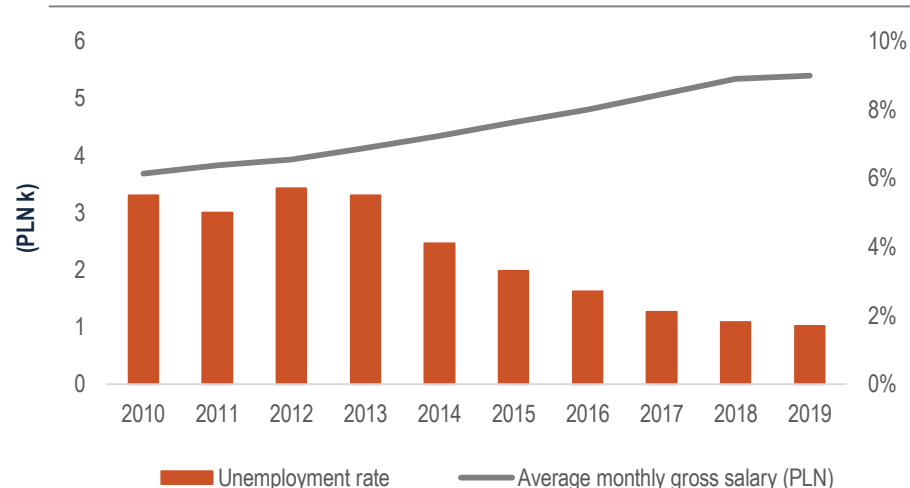
Key takeaways

- In response to the rising demand for residential housing, number of units sold in the Polish Top-6 markets has grown significantly over the last years, with on average 16,500 units being sold per quarter
- Between Q2 2018 and Q2 2019, 66,600 new units were released on the Polish Top-6 markets, which represents an increase of c. 4,200 units sold year-on-year
- The total number of units available in the Polish Top-6 markets went up by 0.3% over the previous quarter and by 13% over the second quarter of 2018. At the end of Q2 2019, there were nearly 51,300 units being offered for sale
- Driven by supply shortfall and increasing competition amongst buyers, proportion of total units (pre) sold during construction phase has also increased significantly over the last years, with only less than 10% of the total units being on offer post completion in Q2 2019

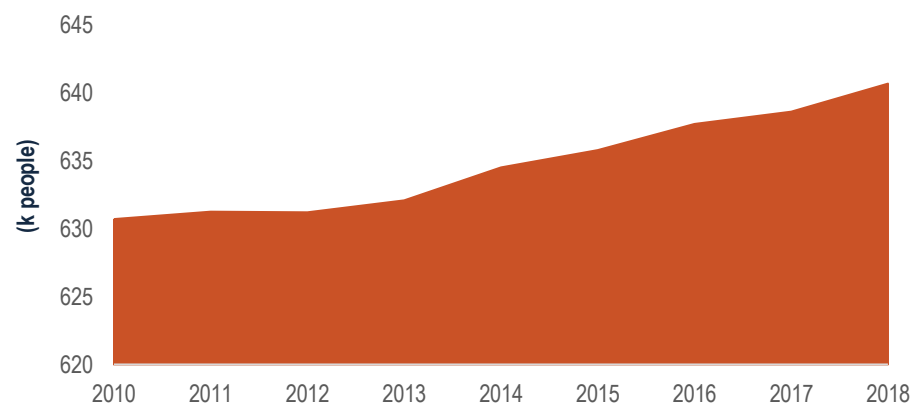
Wroclaw macro fundamentals

One of the fastest growing cities in Poland

Unemployment rate and average monthly gross salary



Wroclaw population growth



Key takeaways

- Over last years, Wroclaw has registered a considerable growth in the number of residents partially owing to domestic and international migration and positive birth rate. Since 2010, the population has increased by nearly 2% to c. 641,000 people
- Wroclaw, being regional capital, is an important economic centre with a strong position in the Poland's financial services and IT industry
- Strong labour market fundamentals are reflected in the rising average wages which grew by over 6% y-o-y to PLN 5,397 in Q1 2019. Unemployment rate has also decreased considerably in the last 10 years, dropping from 5.5% in 2010 to 1.7% in the first half of 2019
- Wroclaw is also one of the leading academic centres in Poland, accounting for thirteen major educational institutions and student population amounting to nearly 152,000 people

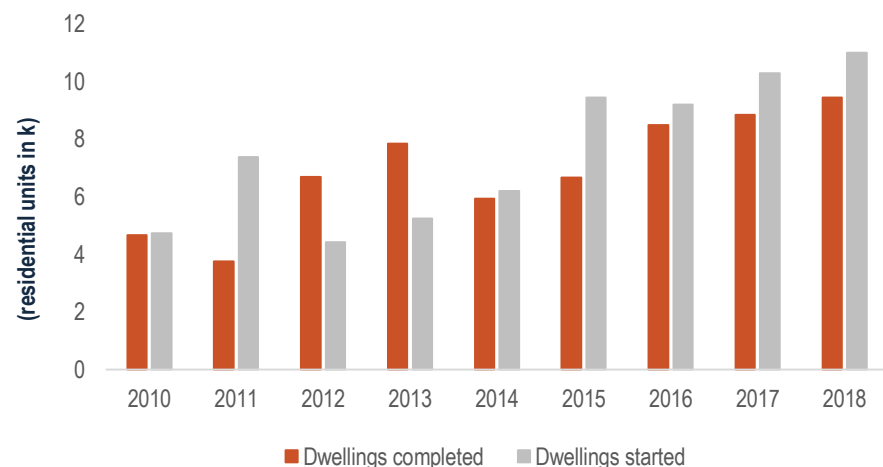
Current Wroclaw key indicators

Population	641 k
Population growth since 2010	1.6%
Unemployment rate	1.7%
Average monthly wage (PLN)	5,397
Average wage growth y-o-y	6.4%
Number of students	152 k

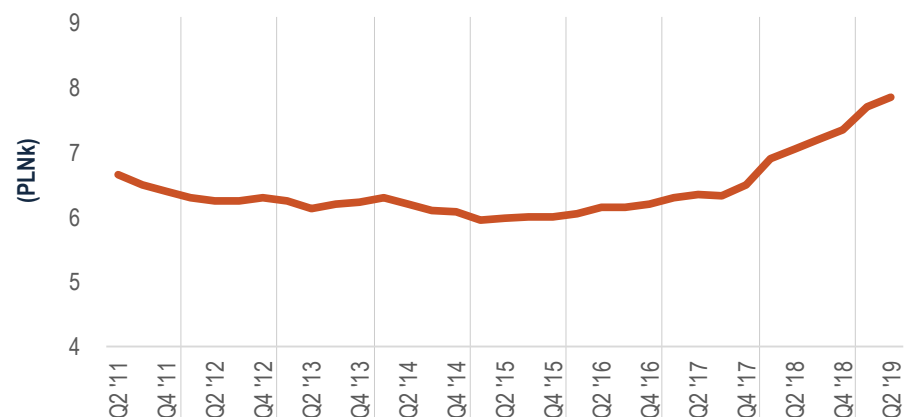
Wroclaw residential market

Overview and key indicators of the local housing market

Wroclaw dwellings started and completed since 2010



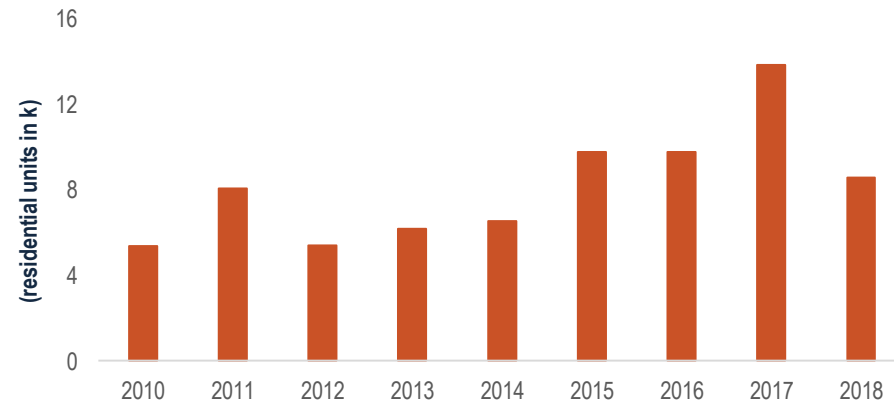
Average sqm price of units offer



Key takeaways

- Wroclaw's economic success, coupled with increasing inhabitants and strong labour market, has translated into booming residential market. Since 2010, the number of residential units have increased by more than 22% to over 333,000 units
- Between 2010 and 2018, the total number of dwellings started and completed per annum have nearly doubled, reflecting the rising housing demand. During the same period, average price per sqm for new housing has also increased by almost 20%
- In Q2 2019, the city registered an increase in flats sold and flats launched for sales of +19.7% and +35.5% respectively over the preceding quarter. This compares to +7.8% and +25.8% over the same period in 2018

Dwellings with permits granted / registered for a construction project



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