

# THE DYNAMIC METHOD



In the current residential real estate market, the usual static valuation methodologies are simply not sufficient to avoid potential misallocations of investments. Their greatest weakness arises in the fact that the valuation of a certain asset is based on an effective date. The entire investment cycle is not considered in detail, especially future assumptions. Thus, the predicted property values deviate substantially from the mark.

Real estate valuation needs a holistic approach to detect the exact value of a property. This is ensured by analysing the potential value improvements (so called dynamics) and its implementation within the entire investment cycle.

Our unique "Dynamic Method" captures and quantifies investment value in three steps.:

1. Analysis of macro and micro cycle as well as their
2. Adaption into an overall investment period.
3. At last the change in process which implies that managing real estate like an alternative investment - such as gold - is no longer focussed. Instead tenants as income-producing value drivers – with a clear understanding of the macro and micro cycle developments – are considered carefully.

Thus, the Dynamic Method is able to provide reliable, sustainable, cycle-based analyses of residential properties, creating a more profitable and realistic basis for investment decisions.

# REAL ESTATE VALUE IS DRIVEN BY 8 DYNAMICS

While managing properties to maximise investors' value, it must be conscious that there are, in principle, eight basic mechanisms that increase property valuations.

## 01 DECREASE OF VACANCY RATES

In general, the decrease of vacancies is the fastest and most effective dynamic to boost net rents. Not occupied units show an impressive negative impact on investment returns; they cause management costs and in addition operating costs shift up which can not be allocated to the tenant due to no occupancy. Thus, operating expenses increase, while net rental income decrease in case of low occupancy rates.



## 02 RENT INCREASE IN STOCK

Rental increases for current residential tenants are permitted by German law, particularly sections 557 to 561 of the Civil Code (BGB) and have to be considered carefully during a rent increase process. Thus, rent levels (in stock) may be adjusted to the level of the local market index (rental table), but only up to a maximum of 20 per cent over a three-year period (or 15 per cent in housing markets with a scarcity of lettable area).



## 03 RENT INCREASE DUE TO RE-LETTING

Within the course of common fluctuation rates (change of tenants) the rent level for new tenants can be adjusted to market rents or rental tables (depending on legal restrictions in the local market, such as rent level caps etc.) Thus, an ongoing improvement of the overall income produced by the asset can be implemented. In housing markets with a scarcity of residential area the rent level cap has to be considered (sec. 556(d) of the Civil Code (BGB): no rent increase of more than 10% above rental table).



## 04 EXTENSION OF LETTABLE AREA IN STOCK

This value focusses on the optimization of the current lettable area which causes additional rental income, through low structural changes, e.g. floor plan redesigning to eliminate inefficient corridors or connecting rooms. Targeting more efficient floor plans with modern tenant needs also occur in form of roof developments and the construction of balconies, which generate additional lettable area.



## 05 EXTENSION OF LETTABLE AREA DUE TO NEW CONSTRUCTION

Buildings may be significantly improved and even expanded through more comprehensive measures compared to Dynamic 4. The new construction of an additional asset in the backyard is the most common example for such a value driver which generates further rental income.



## 06 CONVERSIONS

The conversion of an existing property requires a comprehensive refurbishment. A fundamental redefining and repositioning of the property to meet an entire different set of needs is required. In the current market, obsolete office or hotel concepts are repositioned as modern residential housing areas or high-quality apartments/micro-living units.



## 07 PRIVATISATIONS

In outstanding locations with strong demand residential units will be split in condominiums. Afterwards a single unit sale process starts to generate higher sales prices by condo-sales compared to a global sales strategy.



## 08 HUMING

"Huming" is about increasing the value of a residential property through attention to the human factor – by offering attractive, high-quality features such as required tenant services. Whenever these features and services offer value which tenants are willing to pay for that property income increases accordingly.

