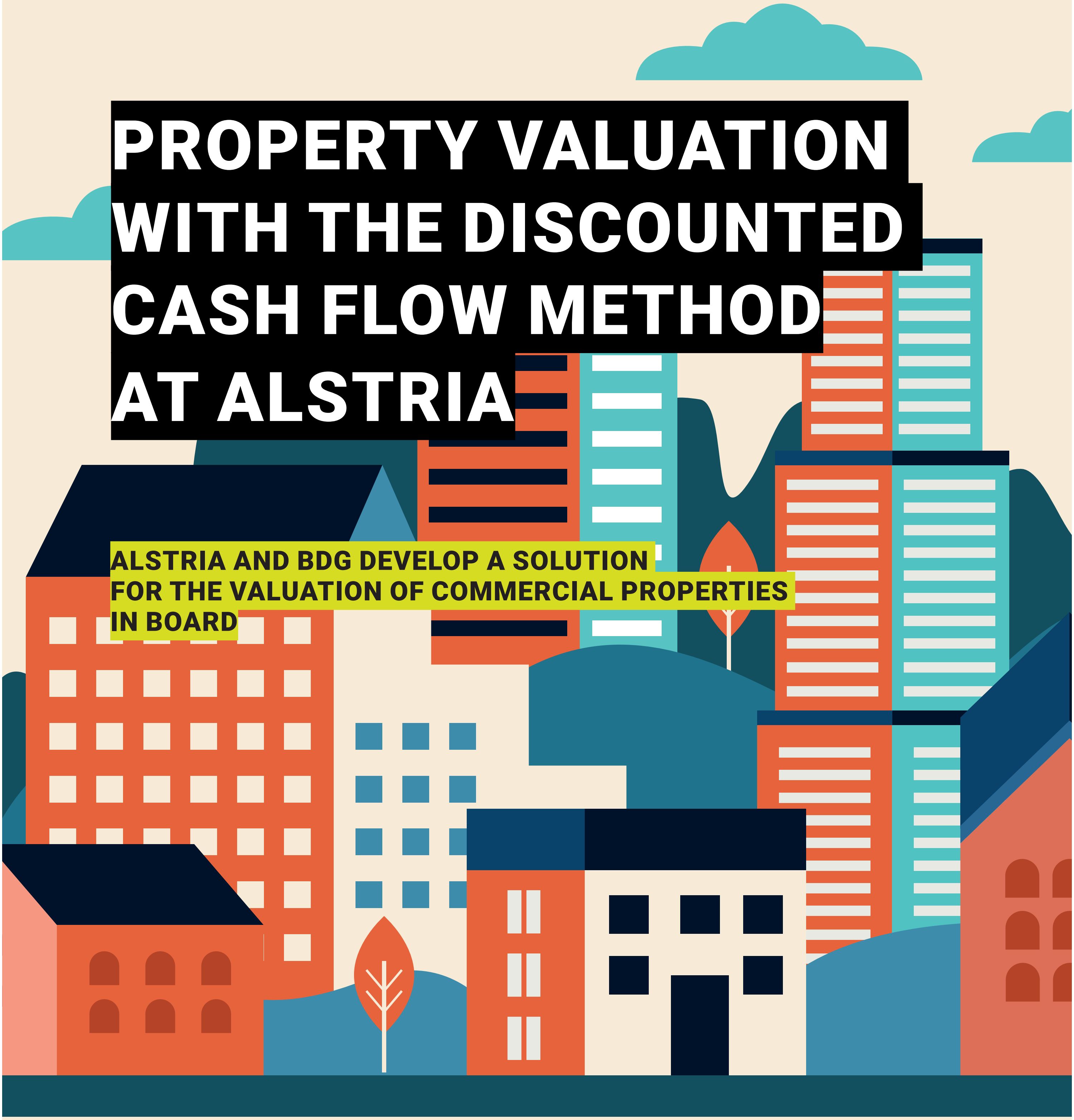
Success Story | alstria

PROPERTY VALUATION WITH THE DISCOUNTED CASH FLOW METHOD AT ALSTRIA



ALSTRIA AND BDG DEVELOP A SOLUTION FOR THE VALUATION OF COMMERCIAL PROPERTIES IN BOARD

STARTING POINT

In order to continuously optimise their corporate planning, alstria have been working with bdg for several years on various business intelligence (BI) and enterprise performance management (EPM) projects. The aim of this co-operation is the gradual implementation of a fully integrated corporate planning system that includes financial, HR and operations planning.

An important building block on this path was the development of a property valuation tool that enables the fair market valuation of properties based on the discounted cash flow (DCF) method.

THE PROJECT

The property valuation tool was developed as a follow-up or sub-project within alstria's BI/EPM roadmap. The focus was on implementing a standardised valuation approach for the entire property portfolio. The solution should:

- **Calculate property values precisely:** Based on the recognised discounted cash flow (DCF) method, which combines a long-term cash flow forecast with a discount factor to determine the market value of a property.
- **Simplify regular valuations:** In order to fulfil the requirements of the parent company, which is subject to US stock corporation regulations (SOX), alstria carries out eight valuations per year for each property. Previously, property valuations were carried out externally. The internal tool should simplify the process and make it more efficient, so that only one valuation per year is carried out externally and the other seven valuations can be carried out internally.

ABOUT ALSTRIA

alstria office REIT-AG is a leading German real estate investment trust (REIT) based in Hamburg. Since its foundation in 2007, alstria has specialised in the ownership, management and sustainable modernisation of high-quality office properties in the most important German economic centres. As a long-term oriented company, alstria manages the properties over their entire life cycle: from acquisition to leasing, ongoing management, modernisation and possible sale.

BRIEF PROFILE

Client	alstria office REIT-AG
Headquarters	Hamburg, Deutschland
Industry	Real Estate
Users	90
Department	Finance & Controlling / Operations
Software	Board
System environment	Board Azure Cloud
Interfaces	Microsoft Dynamics NAV, Pareos

The introduction of this solution was not only intended to reduce dependence on external service providers, but also to enable alstria to value its property portfolios more efficiently, quickly and cost-effectively overall – the volume of data could simply no longer be managed in Excel and the processes were extremely time-consuming.

THE DISCOUNTED CASHFLOW METHOD

*The Valuation Tool of alstria office REIT AG uses the **discounted cash flow (DCF) method** for the valuation of real estate. It is used for the internal preparation of fair value valuations as part of the IFRS financial statements and for reporting to shareholders. The valuation is based on a comprehensive database obtained from **Navision** (alstria's ERP system), **Pareos** (asset management tool) and Excel files. This data includes space, lease and property information as well as historical market values and forecasts.*

Data foundation and calculations

Actual values, planning assumptions and indexing information form the basis of the valuation. This data is loaded into upload cubes in nightly processes and integrated manually or automatically into the valuation models. The valuation assumptions include renewal options, rental price forecasts, CAPEX (investment costs), management costs and discount rates. These parameters can be adjusted depending on the property and influence the cash flow as well as the exit and market value.

Calculations according to the discounted cash flow method (DCF)

The DCF method is used to calculate the property value by discounting future cash flows from rental agreements and the exit value (sales price). The main steps are:

1. ***Cash flow calculation:** future income (e.g. rents) is forecast on a monthly basis and reduced by costs (e.g. maintenance, administration, vacancy costs).*

2. ***Discounting:** The calculated cash flows are discounted to the valuation date using a fixed discount rate.*

3. ***Exit value calculation:** The exit value is calculated on the basis of future market rents and a fixed exit yield and is also discounted.*

4. ***Market value calculation:** The market value is the sum of the discounted cash flows and the discounted exit value.*

Process with the DCF method

- ***Initialisation:** The valuation begins with the definition of valuation parameters (assumptions) and the determination of actual data.*

- ***Calculation of the cash flow:** The rental agreements are analysed and future income is calculated based on assumptions and market forecasts.*

- ***Discounting:** The future cash flows and the exit value are discounted at the specified discount rate to determine the net present value (NPV).*

- ***Exit value:** The exit value is calculated based on the forecast market rents and an exit yield and is also discounted.*

PROJECT APPROACH

The project was realised in **close cooperation** between bdg and alstria. The advantages of a long-standing partnership paid off here: A well-established project team on both sides enabled **efficient implementation** and rapid iterations.

At the beginning of the project, the requirements for the valuation tool were defined in detail. This included, for example, identifying the specific valuation methods and liaising closely with alstria's finance and controlling teams.

The next step was the actual development of the solution. In addition to the automation of data entry and calculations, it was also ensured that the tool is **seamlessly linked to the existing corporate planning processes**.

At alstria's request, **the tool was audited** by a renowned auditor to ensure conformity with common valuation methods.

After the initial implementation, the valuation tool was continuously further developed in order to adapt it to changing market conditions and company requirements. This iterative approach made it possible to gradually optimise the valuation models and continuously improve the solution.

The **close cooperation** with alstria's specialist departments deserves special mention. The controlling team played a pivotal role in the design of the valuation tool, while the iterative development enabled new insights to be incorporated directly into the solution.

THE RESULT

The implementation of the property valuation tool has brought alstria numerous advantages:

- **Cost savings through internal valuation:** Before the introduction of the valuation tool, external service providers had to be commissioned to analyse the market value for all eight valuation cycles. With the new tool, only one valuation per year needs to be carried out externally.
- **Increased efficiency and process reliability:** While the processes were previously very time-consuming and tedious simply due to the processing of the enormous amounts of data in Excel, the new solution enables the necessary valuations to be carried out efficiently for each property. The team can use the time gained profitably to analyse and, thanks to the integrated calculation methodology and the direct connection to the BI/EPM system, react more quickly and transparently to changes in the market.
- **Audit by a renowned auditor as a seal of quality:** The audit by the auditor confirms the high quality and market conformity of the valuation methodology. This strengthens stakeholder confidence, facilitates communication with investors and has also put alstria in a position to critically scrutinise the external valuation if necessary.
- **Standardisation and scalability:** The introduction of a uniform valuation methodology has increased the comparability of property values. This not only makes internal controlling easier, while also facilitating reporting to shareholders and investors.

CONCLUSION

With the successful realisation of this project, alstria has taken another important step towards a fully integrated corporate planning system that can give the company a decisive competitive advantage. The close cooperation with bdg, the iterative development and the testing underline the high quality standards with which alstria is strategically optimising its portfolio.

The partnership between alstria and bdg thus sets a new standard for digital financial planning and property valuation – a blueprint for other companies in the real estate industry.

Board

Board's Enterprise Planning Platform delivers a solution that enables over 2,000 customers worldwide to plan smarter. This allows them to gain better insights and achieve better results. In this way, Board helps companies to make the right business decisions. Data from strategy, finance and operations is brought together thanks to integrated and intelligent planning, giving management full transparency of the company's performance. Global organisations such as H&M, BASF, Burberry, Toyota, Coca-Cola, KPMG and HSBC have digitally transformed their planning processes with Board.

bdg has been an authorised Board partner for many years and can therefore draw on an immense wealth of experience.

The better decisions group

bdg is an international management consultancy for Enterprise Performance Management (EPM) and Business Intelligence (BI) solutions. We are a long-standing partner of various EPM and BI software providers and implement flexible solutions for planning, reporting and analysis. Among our satisfied customers are medium-sized companies as well as large corporations and public organisations. It is our mission to create a solid data and information basis for our customers as a foundation for better decisions and thus enable them to achieve greater corporate success. To achieve this we design and implement customised BI & EPM solutions in the areas of Finance & Controlling, Marketing & Sales, Procurement and Human Resources.

Our focus is on the retail, energy, financial services and manufacturing sectors. We support our customers both professionally and technically, from the selection of suitable BI technology and joint strategy development to the definition of company-relevant KPIs and complete implementation. Our range of services is rounded off by practice-orientated training and customer-oriented service.

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