

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INSOLVENCY AND COMPANIES LIST (ChD)

IN THE MATTER OF AGPS BONDCO PLC

– AND –

IN THE MATTER OF THE COMPANIES ACT 2006

WITNESS STATEMENT OF MICHAEL SCHLATTERER

I, **MICHAEL SCHLATTERER**, of Upper West, Kantstraße 164, 10623 Berlin, Germany **WILL SAY AS FOLLOWS:**

I INTRODUCTION

- 1 I am a Senior Director at CBRE GmbH (“**CBRE**”) and a Team Leader for Residential Valuation in CBRE’s Berlin Valuation Services team. With effect from 1 April 2023 I will be appointed as Managing Director at CBRE.
- 2 I make this witness statement on behalf of AGPS BondCo PLC (the “**Plan Company**”) in support of its proposed restructuring plan under Part 26A of the Companies Act 2006

(the “**Plan**” or the “**Restructuring Plan**”). I am duly authorised to make this statement by CBRE and the Plan Company.

- 3 I have been working at CBRE for approximately 18 years, since June 2005. Prior to joining CBRE I worked for seven years as Senior Consultant for Bulwiengesa AG - one of the leading property market analyst companies in Germany. I hold a degree in Economic Geography and Regional Planning (*Wirtschaftsgeographie und Regionalplanung*) from the University of Bayreuth. I also received a scholarship to study City and Regional Planning at the University of California at Berkeley, USA. In 2003, I was awarded a postgraduate qualification (*Immobilienökonom*) from the European Business School (ebs), Berlin, which is comparable to an Executive Master of Science in Real Estate. I am a Member of the Royal Institution of Chartered Surveyors (RICS). My professional experience is set out in full in my CV which is appended to this witness statement at **Appendix 1**.
- 4 CBRE is one of the leading valuation providers in Germany for residential and commercial properties. In 2022 alone, CBRE (acting as an independent appraiser) undertook valuations of around one million residential units in Germany worth c. €125 billion. CBRE is regularly instructed by institutional clients (both listed and non-listed), banks and other financing institutions to conduct valuations of residential and commercial properties in Germany. By way of example only, CBRE’s clients in Germany in the residential market include Vonovia (a listed Residential Property Company with 350,000 units), LEG (a listed Residential Property Company with 150,000 units), Heimstaden (a real estate company), Intreal (a Financial Investment Management Servicer) and Howoge (a public housing association with 75,000 units).
- 5 I confirm that this witness statement has been prepared with assistance from: (a) solicitors at White & Case, counsel for the Plan Company, *via* email, telephone and videoconference calls; (b) CBRE’s UK legal team and its solicitors, Clyde & Co LLP; and (c) members of my valuation team in CBRE, Berlin. In particular, my statement is informed by my discussions with Marcus Pesch, MRICS, HypZert(S). Mr Pesch is a Director in the Residential Valuation team in CBRE, Berlin and has been involved in the preparation of

the CBRE's valuation reports for the Adler Group since Q2 2020. For completeness, I have also included his CV at **Appendix 1** to my statement.

- 6 Insofar as the facts and matters set out in this statement are within my own knowledge, they are true. Insofar as they are not within my own knowledge, they are true to the best of my information and belief and I indicate, where appropriate, the source of that knowledge and belief. Unless expressly stated otherwise, nothing in this witness statement is intended to waive any privilege, including over legal advice.
- 7 There is produced to me and exhibited to this witness statement a bundle of documents marked as Exhibit "**MS1**", to which I refer in this witness statement. References in this witness statement to "**[MS1/X]**" are references to that exhibit where "**X**" is a reference to the page number.
- 8 I confirm that (other than from receipt of the valuation fee received for performing its regular valuation work for Adler Group), neither CBRE nor I have benefited from the fact of my giving evidence in these proceedings, nor are we entitled to receive any fee which is contingent upon my evidence or the outcome of the Plan Company's application to sanction the Restructuring Plan. For completeness, I note that CBRE's fees for the valuations carried out for the Adler Group do not correlate in any way to the result of the valuations.
- 9 As I explain in further detail in **Section II** below, CBRE has conducted numerous valuations of the German properties in the Adler Group's portfolio since 2015 for financial reporting purposes. I have variously participated in, led or co-led these valuations exercises in different capacities since 2015.
- 10 I am informed by White & Case that CBRE's valuations of the Yielding Assets (as defined in **Section III** below) in 2022 (the "**Q2 2022 Valuations**") have been used by the Boston Consulting Group ("**BCG**") on behalf of the Plan Company as the starting input for their "market model" as described in further detail in BCG's Comparator Report dated 20 February 2023 and the Updated Comparator Report dated 14 March 2023 (the "**BCG Comparator Report**"). I am also informed by White & Case that the Plan Company relies on the BCG Comparator Report in support of its application to sanction the Restructuring

Plan. For the avoidance of doubt, neither CBRE nor I were involved in or aware beforehand of the preparation of the BCG Comparator Report or the Restructuring Plan.

- 11 I have reviewed the Report of Mr. Christoph Gerlinger of Knight Frank Valuation & Advisory GmbH & Co KG (“**Knight Frank**”) dated 18 March 2023 (the “**Gerlinger Report**” or “**Gerlinger-1**”). I understand that the Gerlinger Report has been submitted on behalf of an ad-hoc Group of Plan Creditors in support of their challenge of the Plan Company’s Restructuring Plan. The Gerlinger Report sets out (among other things) Mr Gerlinger’s “Opinion of Value” of five sets of “Yielding Portfolios” (which taken together comprise the Yielding Assets) as at Q2 2022 and as at 15 March 2023. The Gerlinger Report concludes that the aggregate Q2 2022 Gross Asset Values (or “**GAV**”) of the five “Yielding Portfolios”, as set out in the BCG Comparator Report “*are overstated*” by 17% overall when compared to CBRE’s valuations of the Yielding Assets (Gerlinger-1, para 2.2).
- 12 The purpose of this witness statement is principally to explain the valuations of the Yielding Assets undertaken by CBRE as at 30 June (Q2) 2022. My witness statement is organised as follows:
 - (a) in **Section II**, I introduce CBRE’s valuations for the Adler Group;
 - (b) in **Section III**, I give an overview of CBRE’s Q2 2022 Valuation of the properties that comprise the Yielding Assets;
 - (c) in **Section IV**, I address the valuation of the five “Yielding Portfolios” as set out in the Gerlinger Report; and
 - (d) in **Section V**, I set out in detail CBRE’s methodology, key inputs and approach in valuing the Yielding Assets.
- 13 As I explain below, CBRE’s Q2 2022 Valuation of the Yielding Assets as well as its subsequent valuations of those assets have been conducted for use in the Adler Group’s financial reports for accounting purposes. The valuation reports were not prepared for the purposes of these legal proceedings. The Plan Company, as a wholly owned subsidiary of

Adler Group S.A., is an addressee of the CBRE's valuation reports of the Yielding Assets and is entitled to rely on them.

- 14 Given my involvement in the preparation of CBRE's valuation reports of the Yielding Assets and CBRE's engagement by the Adler Group, I have not formally submitted this statement as an independent expert. Nevertheless, White & Case have brought to my attention the role and responsibilities of an expert witness under CPR 35 and Practice Direction 35 and, in particular, the overriding duty of an expert to assist the Court on matters within their expertise. I confirm that in making this statement I have acted consistently with that duty and I will continue to comply with it. The facts and matters set out in this witness statement are within my expertise. I have not, without forming an independent view, included or excluded anything which has been suggested to me by others (in particular by White & Case).

II CBRE'S ENGAGEMENT WITH THE ADLER GROUP

- 15 CBRE has acted as independent valuer of the "ADO Portfolio" (described further below) since 2015. CBRE's valuation reports since Q2 2020 are prepared for financial reporting and accounting purposes. CBRE has also provided valuations for inclusion in Adler's prospectuses in 2020 and 2021. CBRE conducted a further Fair Value valuation in 2021 of properties in the Adler Group in connection with a bond issue.
- 16 In respect of the Yielding Assets in particular, CBRE has conducted Fair Value valuations of the Yielding Assets on a quarterly basis since 30 June 2020.
- (a) In Q2 and Q4 of each year since 2020, CBRE has produced a full valuation report for the Yielding Assets. As I describe further below, each valuation report for Q2 and Q4 includes individual reports for each and every valuation unit in the portfolio.
 - (b) In Q1 and Q3 of each year, CBRE provides an abridged report containing property details, valuation results and assumptions and cash flow at the individual property level. This could be described as a 'desktop valuation'.

17 For completeness, I note that CBRE has also undertaken a valuation exercise at the same intervals for properties in the Adler Group’s “BCP Portfolio”. CBRE’s Q2 2022 and Q3 2022 valuation reports for the BCP Portfolio are at MS1/5361-7373 and MS1/7432-9448, respectively. I have been informed by White & Case that it is not necessary for me to address the BCP Portfolio in detail save to confirm that CBRE’s methodology and approach to valuations is consistent across all the properties in the Adler Group’s portfolio.

III CBRE’S VALUATION OF THE YIELDING ASSETS

18 The “Yielding Assets” cover a huge and diverse range of properties across Germany. CBRE’s Q2 2022 Valuation of the Yielding Assets is covered in two valuation reports:

- (a) The Valuation Report dated 16 August 2022 in respect of the “ADO Portfolio” as at 30 June 2022 (the “**ADO Q2 2022 Valuation Report**”); and
- (b) The Valuation Report dated 16 August 2022 in respect of the “Portfolio Adler and Westgrund” as at 30 June 2022 (the “**A&W Q2 2022 Valuation Report**”).

19 I address CBRE’s valuation process and methodology in further detail **Section V** below.

A ADO Q2 2022 Valuation Report

20 The “ADO Portfolio” comprises 366 “valuation units” which are made up of 14,783 residential units (of which 367 are under public rent control), 1,367 commercial units, 4,354 parking lots and 780 miscellaneous units. With the exception of two units, all units in the ADO Portfolio are located in Berlin, Germany. Berlin itself is divided into 12 boroughs and the 366 valuation units are spread across all 12 boroughs. Further, the properties in the ADO Portfolio have a wide range of construction dates from 1919 to 2002. 365 of the 366 valuation units are freehold-equivalent. 48 out of those 365 valuation units are separated into condominiums. A “valuation unit” can comprise a number of residential units (e.g. in a building), associated commercial units and parking lots.

21 As per CBRE’s ADO Q2 2022 Valuation Report which is at MS1/4-3773, as at 30 June 2022, the aggregate of the individual Fair Values of the respective freehold and leasehold interest in the properties comprising the ADO Portfolio, rounded on an asset-by-asset basis,

was assessed to have been **€3,934,468,000** i.e. approximately €3.93 billion. The Fair Value does not take into account any discount or premium that may be negotiated in the market if all or parts of the ADO Portfolio were to be marketed simultaneously, either in lots or as a whole.

- 22 In order to arrive at this valuation, CBRE individually valued each of the 366 valuation units in the ADO Portfolio. Appendix D “Property Reports & Calculations” of the ADO Q2 2022 Valuation Report sets out CBRE’s valuation reports for each valuation unit. Appendix D runs to approximately 3,660 pages. The ADO Q2 2022 Valuation Report runs to a total 3,770 pages. The property reports for each valuation unit (averaging 8 to 10 pages each) contain a summary of the unit, CBRE’s inspection results for the surroundings and physical inspection of the property itself, site /land register information, a cadastral map, area analysis, valuation assumptions, the 10-years detailed cash flow, rental and sales comparables (if available) and photos.
- 23 Taking into account local market conditions as well as the advantages and disadvantages of the individual location and the property characteristics, so far as they have an effect on the letting ability, CBRE adopted market rental values for each valuation unit on a unit by unit basis as set out in Appendix B “Valuation Overview” and Appendix C “Valuation Assumptions” of the ADO Q2 2022 Valuation Report.
- 24 A team of valuers at CBRE worked for over a period of around two months (in addition to the time taken to inspect the properties) in order to prepare and finalise the ADO Q2 2022 Valuation Report. This could be done within this timeline only because of CBRE’s work since 2020 in the ongoing valuation of the properties in the ADO Portfolio.

B A&W Q2 2022 Valuation Report

- 25 The “Adler and Westgrund” Portfolio comprises a total of 243 valuation units as at 30 June 2022. These valuation units are made up of 9,621 residential units (of which 281 are under public rent control), 492 commercial units, 1,994 parking lots and 313 miscellaneous units (e.g. antennas, advertisements, etc.). The valuation units are spread across the federal states Berlin, Brandenburg, North Rhine-Westphalia, Saxony, Saxony-Anhalt and Thuringia (see

map below). 242 of the 243 valuation units are freehold-equivalent and 6 of the 243 valuation units are separated into condominiums. The majority of the residential units are located in Berlin and Duisburg.

- 26 As per CBRE's A&W Q2 2022 Valuation Report which is at MS1/3774-5360, as at 30 June 2022, the aggregate of the individual Fair Values of the respective freehold and leasehold interest in the subject properties comprising the "Adler and Westgrund" Portfolio, rounded on an asset-by-asset basis, was assessed to have been **€1,450,432,000**. The Fair Value does not take into account any discount or premium that may be negotiated in the market if all or parts of the "Adler and Westgrund" Portfolio were to be marketed simultaneously, either in lots or as a whole.
- 27 CBRE individually valued each of the 243 valuation units in the "Adler and Westgrund" Portfolio. Appendix B "Valuation Overview" sets out the breakdown of the valuation parameters of each valuation unit. The specific valuation assumptions made for each valuation unit are set out in Appendix C "Valuation Assumptions".
- 28 Appendix D "Property Reports & Calculations" of the A&W Q2 2022 Valuation Report sets out CBRE's valuation reports for each valuation unit. Appendix D runs to approximately 1,470 pages. The A&W Q2 2022 Valuation Report runs to a total 1,587 pages. As is the case with the ADO Q2 2022 Valuation Report, property reports for each valuation unit (averaging 4 to 10 pages each, depending on the information provided by the client and the status of the inspections) contain a summary of the unit, CBRE's inspection results, site /land register information, a cadastral map, area analysis, valuation assumptions, the 10-years detailed cash flow, rental and sales comparables (if available) and photos.

C CBRE's Valuation of the Yielding Assets in Q3 2022

- 29 Following on from the ADO Q2 2022 Valuation Report and A&W Q2 2022 Valuation Report on the Yielding Assets, CBRE published its abridged valuations of the ADO Portfolio and the Adler & Westgrund Portfolio as at 30 September 2022 via reports dated 18 November 2022. These reports are exhibited at MS1/4-3773 and MS1/3774-5360

respectively. A summary table setting out CBRE's Fair Value of the Yielding Assets as at Q2 2022 and Q3 2022 is set out below.

Date of Valuation	Residential Units	Total Area sq m	Fair Value Total		Difference	Multiplier on Current	Multiplier on Market
			EUR	EUR/sq m			
30 June 2022	24,404	1,805,701	5,384,900,000	2,982		34.1	28.4
30 September 2022	24,405	1,805,713	5,277,309,700	2,923	-2.0%	33.0	27.9

IV VALUATION OF THE “YIELDING PORTFOLIOS” IN THE GERLINGER REPORT

30 Although I am not acting as an independent expert witness, I have been asked by White & Case to comment on the Gerlinger Report. I do so in the following paragraphs.

A Valuation of “property clusters”

31 The Gerlinger Report does not opine on a Market Value of the any of the individual valuation units that comprise the Yielding Assets.

32 Instead, the Gerlinger Report considers the Yielding Assets as divided into five “Yielding Portfolios”. The Gerlinger Report does not expressly describe the methodology for categorising the properties in these portfolios. However, I am informed by White & Case that these correspond to the five “Yielding Portfolios” in the BCG Comparator Report. The Gerlinger Report then offers an “Opinion of Value” on a Market Value basis for each of these five Yielding Portfolios referring to them as “*property portfolios or property clusters*” (Gerlinger-1, paragraph 1.9). Mr Gerlinger acknowledges that the Market Values that he has identified for the “property clusters” are not property specific (Gerlinger-1, paragraph 1.14).

33 There is therefore a very material difference between the CBRE Valuations and the Gerlinger Report. CBRE has provided a Fair Value for each of the 609 valuation units that comprise the Yielding Assets. The Gerlinger Report does not do this. CBRE's total valuation of €5.384 billion is the sum total of each of its property valuations. The Gerlinger

Report's total valuation of €4.528 billion is the aggregate of Mr Gerlinger's opinion of overall value, on an aggregated basis, of 5 clusters of properties.

34 The broad range of properties that comprise the Yielding Assets and the fact that these properties are spread across Berlin and indeed all across Germany means that providing an opinion as to the value of an arbitrary "property cluster" does not meaningfully engage with the characteristics of the properties that are being valued. By way of example, the location map of the 75 apartment buildings that are said to comprise Portfolio 1 shows that the properties are spread across a large area from the state of North Rhine Westphalia to the west of Germany (Gerlinger-1, paragraph 3.10). Mr Gerlinger has only viewed the buildings *via* Google Street View. He then considers all the properties in each city as a cluster e.g. the "Düsseldorf cluster" and the "Duisburg cluster" in order to opine on their value. However, this approach does not take into account the fact that properties in the same city can (and very often do) have significantly different valuations depending on their specific location. Similarly, the properties in Portfolio 4 are spread across from North-West Germany to East Germany across four federal states. The Gerlinger Report acknowledges that the properties in this Portfolio have an "*overall heterogeneous location structure*" (Gerlinger-1, paragraph 3.77).

35 Based on my understanding of the nature and type of properties in the Yielding Assets, I do not consider that it is possible to provide a credible and robust valuation for a cluster of disparate residential properties in the German residential market by analysing them on an aggregated basis. As such I do not consider that the CBRE Valuations and the Gerlinger Report are comparable. The Gerlinger Report appears to give an *indication* of value rather than an Opinion of Value.

B Gerlinger Report methodology

36 The Gerlinger Report states that it is provided on a restricted basis within a very limited timeframe. It also confirms that Knight Frank has not undertaken the usual investigations for the purposes of the valuations (Gerlinger-1, paragraph 1.13).

- 37 It offers a valuation for each Yielding Portfolio but the method of the valuation, each of the inputs and assumptions that have been taken into account to value properties have not been clearly set out in the Gerlinger Report.
- 38 The Gerlinger Report relies on averages of various inputs in coming to a view of the Market Value of the different property clusters. However, in a very large and diverse portfolio such as the Yielding Assets, there are typically huge variances in value at either end of the valuation spectrum. Relying on averages can therefore distort the true valuation picture. Statistically referring to average numbers, e.g. the GIY, for a whole city or parts of a city would not, in my view, involve the use of appropriate parameters or inputs to arrive at a Fair Value or Market Value of individual properties.
- 39 Finally, I consider that looking only at the GIY on current rent can be misleading as it gives an incomplete picture of the value of the property. For example, GIY data on its own does not reflect the vacancy rate in rental market, the reasons for the vacancy and potential rent increase through re-letting. These considerations are factored into CBRE's valuations which adopts the Discounted Flow Method.

C Impact of interest rates on property values

- 40 The Gerlinger Report proceeds on the basis that the increase in refinancing costs (by reference to the ECB Main Refinancing Rate) already had an impact on property values in Q1 and Q2 2022 (Gerlinger-1, paragraph 3.19). However, based on my experience and CBRE data, I consider that the financial markets and real estate market do not move in tandem and there is inevitably a time lag following interest rate increases and any impact that has on property values and investment evidence.
- 41 This is supported by the latest data from the Berlin local land valuation boards exhibited at MS1/9453 (with an English translation at MS1/9459). This data shows that Gross Initial Yield for multi-family buildings in Berlin remained relatively constant in Q4 2021, Q2 2022 and Q3 in 2022 at 1.9%. It increased to 2.4% in Q4 2022. CBRE's GIYs for Q2 2022 for the Yielding Assets in Berlin is also consistent with Berlin local land valuation data.

42 Further, while an increase in interest rates does impact property values, it cannot be looked at in isolation. As I explain in **Section V** below, there are a range of key inputs that are relevant to the assessment of value. Alongside considering the impact of interest rate increases on the value of a specific property, it is relevant to consider fundamentals such as supply and demand in that locality (as it can be affected by factors other than interest rates), the applicable legal regime on rent brakes, local regulations etc. Whether the relevant housing market is dominated by private individuals (partly owner occupied) rather than institutional investors can also have a significant impact on how interest rate increases impact property values.

V CBRE'S VALUATION PROCESS

43 In this Section I explain CBRE's valuation methodology.

A Compliance with valuation standards

44 The Q2 and Q4 valuations of the Yielding Assets carried out by CBRE since June 2020 are prepared in accordance with the latest version of the RICS Valuation – Global Standards which incorporates the International Valuation Standards and the relevant RICS national or jurisdictional supplement (the “**Red Book**”).

45 CBRE's valuation follows the Fair Value standard in accordance with IFRS 13 to ensure that it is a true and fair representation of the Market Value. I confirm that the “Fair Value” reported in CBRE's valuation reports, for the purpose of financial reporting under IFRS 13, is effectively the same as “Market Value” under the Red Book. The guidelines of the International Valuation Standards Council (IVSC) correspond to the guidelines of the Red Book with respect to the definition and interpretation of Market Value.

46 As required by the Red Book, CBRE's valuation reports confirm that CBRE does not have any conflict of interest in providing the valuation report, either with the Adler Group or with the properties; and that CBRE has sufficient current local and national knowledge of the particular property market involved and has the skills and understanding to undertake the valuation competently.

B Overview of CBRE's Valuation Process: Inspections

47 Due to restrictions imposed during the COVID-19 pandemic, CBRE's physical inspections of almost all the properties in the Yielding Assets were undertaken in the first half of 2021. CBRE inspects the properties both internally and externally. Since then, and in the context of the several further valuation reports prepared by CBRE, it has inspected a number of the properties several times over the past two years.

Indeed, in respect of the ADO Portfolio, it is part of CBRE's mandate to conduct an external inspection of all the properties in the portfolio such that every property will be re-inspected once during the assignment period (ADO Q2 2022 Valuation Report at MS1/22) and in respect of the Adler and Westgrund Portfolio, CBRE is required to inspect at least 1/3rd of the properties per annum. CBRE can conduct internal and external inspections (A&W Q2 2022 Valuation Report at MS1/3794. An overview of CBRE inspections is set out in the following table:

Subportfolio	Type of inspection	No. of valuation units	Share of valuation units	Share of Fair Value	Share of current rent	Share of area
Adler & Westgrund	Drive-by	122	50%	13%	17%	20%
Adler & Westgrund	Full	107	44%	86%	80%	74%
Adler & Westgrund	Desktop	14	6%	1%	3%	6%
ADO	Full	365	100%	100%	100%	100%
Total	Drive-by	122	20%	4%	6%	8%
Total	Full	473	78%	96%	93%	90%
Total	Desktop	14	2%	0%	1%	2%

48 Given the importance of physical inspection of residential properties, CBRE's A&W Q2 2022 Valuation Report expressly notes that MS1/3794:

We would like to expressly draw your attention to the fact that, in the case of valuations where CBRE does not carry out an inspection, individual property and location characteristics are generally not assessed to the same degree as in the case of a full inspection. The assumptions concerning the factors which affect value - specifically the location, the site and the building quality i.e. the general condition - may, therefore, deviate from the actual characteristics and consequently result in a deviational Value.

C Overview of CBRE's Valuation Process: Methodology

- 49 Notwithstanding the large number of properties in consideration, as explained above, CBRE values each property individually. As there are variances between each and every property, we do not consider it appropriate or accurate to group properties together for the purposes of CBRE's valuations.
- 50 CBRE's valuation reports are based upon the information supplied by the Adler Group, CBRE's own inspections of the properties and market data compiled by and available to CBRE. The most important information and documents (where available) provided by the client that CBRE relied on for the Q2 2022 Valuations are: a list of the properties subject to valuation; rent roll; information from the land registers / extracts from the land registers; and information concerning the plot of land, public land charges, contaminated sites, heritable building rights, listed buildings, public subsidies, the German Condominium Act, deferred maintenance costs, potential for additional floor space and disused properties.
- 51 As a result, all conclusions drawn by CBRE as regards the condition and the actual characteristics of the properties in the Yielding Assets were based on its inspection of the properties and on the documents and information listed above.
- 52 CBRE's valuation approach relies on a key set of methodologies and considers a range of inputs, including but not limited to: Discounted Cash Flow, recent comparable transactions, property condition, rent levels and rental growth, floor area and maintenance.
- 53 In very broad terms, the process involves a detailed examination of the client's rent roll and identifying the relevant valuation units based on types of use and other features. We consider the data from the inspections to score the properties' individual characteristics and conditions for our valuation assumptions on maintenance costs, administration costs, other non-recurring costs, fluctuation rate and market rent increase.
- 54 We also assess the correct market rent, taking into account (among other things) the applicable rental regimes in Germany and the properties' individual characteristics, e.g. immediate location, average size of apartment. We then apply the Discounted Cash Flow model to generate values.

55 Finally, CBRE will conduct a plausibility check of all valuation key inputs, such as EUR/sq
m, Gross Initial Yield (**GIY**) and Net Initial Yield (**NIY**) on current rents and market rents,
and by comparing our results with investment evidence.

56 I address each of the above parameters in further detail below.

D Discounted Cash Flow (“DCF”) Model

57 CBRE’s determination of the Fair Value of the individual valuation units has been carried
out using the internationally recognised DCF method. This method, which is based on
dynamic investment calculations, allows valuation parameters to be reflected explicitly
and, therefore, provides a transparent arithmetical determination of Fair Value. In the DCF
method, the future income and expenditure flows associated with the property are explicitly
forecasted over a 10-year period of detailed consideration, assuming a letting scenario
(which does not take into account any potential privatisations of individual apartments).
The cash flows calculated for the period of detailed consideration are discounted, monthly
in advance, to the date of valuation, allowing the effect on the current Fair Value of the
receipts and payments at varying dates during the 10-year period to be properly reflected.

58 The discount rate chosen reflects not only the market situation, location, condition and
letting situation of the asset and the yield expectations of a potential investor but also the
level of security of the forecast future cash flows. As the discounting process means that
the effect of future cash flows reduces in importance while at the same time the uncertainty
of forecasting tends to increase over time, the sustainable net rental income after a ten-year
time horizon (the period of detailed consideration) was capitalised, using a growth-implicit
yield, and then discounted to the date of valuation.

59 The assumptions adopted in the valuation model reflect the average estimates that would
be made at the respective date of valuation by investors active in the market. The result of
the DCF method is, therefore, the price that CBRE considered a relevant investor in the
market would be prepared to pay for the asset at the relevant date of valuation, in order to
achieve a return from the proposed investment that is in line with the then present asset
market expectations.

60 Existing residential portfolios of all of CBRE's clients are valued with our semi-automated DCF model to ensure a consistent approach across assets.

E Market rent and market rental growth

61 The market rents adopted in our valuations of the Yielding Assets for properties which are not covered by the 'rent brake' applicable to certain new leases since 2015 ("*Mietpreisbremse*") (see below) are assessed as per the results of the recent lease agreements (12 months), the internal CBRE rental data base, the internet data base from Value AG (which supplies data on asking rents) and the local rental tables (*Mietspiegel*) for residential rents, if available.

62 Our valuations took account of the fact that since 1 June 2015, the capping of rents of new leases is in force in Germany, which enables the federal states to establish individual decrees. The relevant legislation limits rent increases upon re-letting of existing residential units in regions with low supply. Only an increase of rent up to local rental table level plus 10% is allowed. This law originally applied for five years but its application has been extended until the end of 2025. There are, however, exceptions: residential units completed after 1 October 2014 are not affected by the legislation as well as rent increases reflecting modernisation works (pursuant to §559 section 1 to 3 BGB (German civil code)). In such cases, 11% of the total CapEx may still be recouped from the tenant each year. This new law also does not apply for the small market segment of furnished apartments.

63 The city states Berlin, Bremen and Hamburg were joined by more than 300 local authorities in the federal states of Baden-Württemberg, Bavaria, Brandenburg, Hesse, Lower Saxony, Mecklenburg-Western Pomerania, North Rhine-Westphalia, Rhineland-Palatinate, Schleswig-Holstein and Thuringia in introducing *Mietpreisbremse*. However, according to CBRE research, neither Bremen nor approx. 200 of these local authorities have either a simple or qualified rent index.

64 In our valuation of the Yielding Assets, for the determination of the market rent of properties located in Berlin, where *Mietpreisbremse* has already been implemented, CBRE adopted the following approach:

- (a) The upper end of market rents (rents upon re-letting) was no longer determined on rental unit level, rather than on a property level but an auxiliary calculation provided an overview of market rents on property level based on the weighted floor areas of the individual residential units.
- (b) In cases where the client's rent upon re-letting was not aligned with the Local Rental Table (*Mietspiegel*), CBRE calculated the maximum rents upon re-letting, which can be adopted, as follows: $(\text{Local Rental Table Average} + \text{Local Rental Table Maximum}) / 2 + 10\%$.
- (c) If the last rent of an apartment was higher than the calculated rent upon re-letting, then the last was taken into consideration.
- (d) If the upper end of the market rent exceeded the rent achieved by documented recent leases, CBRE did not adopt the higher rent by default but in fact used the achievable market rent.

65 For other locations in Germany where *Mietpreisbremse* applies without any existing local rental table, CBRE determined the market rent as before the introduction of the capping. Generally speaking, the key sources for rental evidence were:

- (a) Recent lease agreements out of the client's rentroll on property level.
- (b) Rental data from CBRE's external data supplier (Value AG) for all of Germany on a quarterly basis. CBRE routinely aggregates numbers at a postcode and city level and we use the individual data sets for comparison. In this way, CBRE has access to and can use recent rental data across Germany.
- (c) CBRE's own extensive database which includes data from the clients' rentrolls (on an anonymised basis). This database includes several million data sets.
- (d) The local rental tables of the municipalities in Germany.

66 In assessing market rent of the properties, CBRE also relied on transaction data that is exclusively available to us from our Capital Markets team. The fact that CBRE undertakes

a large volume of valuation work and research work in the German residential market combined with the fact that the CBRE Capital Markets team has been the number 1 broker in the German Residential Market, with an average market share of 31% for the last five years between 2018 and 2022 and 38% in 2022, means that CBRE has a unique and unparalleled extensive data base of transactions and other data points which informs our assessment of market rent and investment evidence in the German market. CBRE's market leading position is apparent from the following extract from the website of Real Capital Analytics, which maintains a proprietary data base of Real Estate Broker Rankings in Germany.

Real Capital Analytics - Broker Rankings Germany 2018-2022

All figures in \$m

Residential

#	Broker	2018	2019	2020	2021	2022	18-'22	18-'22 (Market Share)
1	CBRE	\$ 1,604	\$ 3,618	\$ 665	\$ 9,258	\$ 3,149	\$ 18,293	31%
2	JLL	\$ 1,547	\$ 1,028	\$ 1,130	\$ 7,957	\$ 660	\$ 12,323	21%
3	BNP Paribas	\$ 2,185	\$ 2,782	\$ 1,847	\$ 1,476	\$ 861	\$ 9,152	15%
4	Pangea Property Partners				\$ 6,749		\$ 6,749	11%
5	Colliers International	\$ 106	\$ 300	\$ 767	\$ 870	\$ 702	\$ 2,745	5%
6	Engel & Volkers	\$ 324	\$ 617	\$ 98	\$ 348	\$ 729	\$ 2,117	4%
7	NAI Apollo Group	\$ 228	\$ 210	\$ 281	\$ 433	\$ 330	\$ 1,482	2%
8	Savills	\$ 159	\$ 70	\$ 177	\$ 92	\$ 394	\$ 892	1%
9	Cushman & Wakefield		\$ 66	\$ 173	\$ 106	\$ 269	\$ 614	1%
10	BGA Invest		\$ 46	\$ 249	\$ 87		\$ 382	1%
...								
22	Knight Frank		\$ 28	\$ 105			\$ 133	0%

F Selection of Discount Rate and Capitalisation Rate

67 The Capitalisation Rates used in our valuation of the Yielding Assets were derived from the average Net Initial Yield (“NIY”) achieved in comparable transactions involving residential properties that were observed by CBRE and reflected the market situation as well as the yield expectations of a potential investor. They implicitly included rental growth assumptions. The Discount Rates, which explicitly reflected rental growth in the cash flows, were derived from the Capitalisation Rate plus the average rental growth.

68 The Discount Rate and Capitalisation Rate were adjusted individually for each local market to be valued, in accordance with the following criteria:

- (a) quality of the location;

- (b) demand and levels of value in the relevant local real estate market;
 - (c) the prospects for the local market; and
 - (d) development of rents and prices (yield compression).
- 69 The assessment of the Discount Rate and Capitalisation Rate for the individual property involved several components. Starting from a basic rate for each location, additions and deductions were made according to various criteria specific to the buildings concerned.
- 70 Additionally, the Discount Rate and Capitalisation Rate were, where appropriate, adjusted individually in accordance with the following criteria:
- (a) The current letting situation in the property as regards vacancy, over-rented or under-rented status, the quality of the tenancy structure, the remaining lease term and (for commercial leases) the indexation provisions and extension options.
 - (b) The nature of the property, its age, size and condition.
 - (c) Additional risk adjustments to take into account uncertainties in the forecasting of future cash flows.
- 71 The Capitalisation Rate was used to capitalise the net rental income after the cashflow period (“**Exit Value**”). This net rental income comprised the assumed rental income at that time less the non-recoverable operating costs. The cash flows and the Exit Value were discounted using the selected Discount Rate, monthly in advance.
- 72 The resulting net present values were checked against our analysis of comparable transactions (where available) from the sale price data collected by the relevant local valuation committees (*Gutachterausschuss*) and an analysis of the internal lease and sale database of the CBRE Valuation Department. If necessary, in the absence of transaction data, asking prices for comparable assets on offer at Value AG were also considered. If, in particular instances, results of our DCF calculations were found not to reflect the Fair Value of an individual building, the calculation was adjusted by means of a change in the Discount Rate and Capitalisation Rate using expert and experienced judgement.

G Investment evidence

73 In the valuation of the Yielding Assets, CBRE relied on several different sources of investment evidence:

- (a) Real transaction evidence from the local land valuation boards. I have identified the advantages and disadvantages of this data source earlier in my statement.
- (b) Asking prices from an external data source (Value AG). CBRE has a statistical routine, wherein it provides exactly the same output every quarter for Condominiums, detached and multi-family housing. The advantage of this data source is that it is based on recent data for all over Germany. The disadvantage is that it is not based on real transactions.
- (c) Our own CBRE database, containing data from our Capital Market Team, Research and Valuation Serves.

74 With the benefit of recent transaction data (set out below), it is apparent that CBRE's Fair Values of the Yielding Assets have been close to the actual price for the properties achieved in the market. For example, the average variance in the valuation averages for the properties listed below is 6%.

Signing Date	Adler Properties	Buyer	Buyer Description	Date of GAV	Premium / Discount to GAV (%)
Jan 22	Residential & Commercial Units in Eastern Germany	KKR / Velero	KKR & Co. Inc. is a private equity and real estate investment firm specializing in	Q3 2021	6%
Nov 21	Residential & Commercial Units in Northern Regions	LEG	LEG Immobilien AG operates as an integrated property company in Germany.	Q3 2021	15%
Jun 22	Residential and Commercial Properties in Berlin (Waypoint Portfolio)	Undisclosed	Leading pension fund from overseas with Berlin based asset manager	Q4 2021	-3%

H Plausibility check of key inputs

75 In our plausibility check of the valuation results, instead of looking at just any one key input, such as the Gross Initial Yield (GIY), CBRE compared the Fair Value per sqm, the GIY and NIY on current rent and, most importantly, on market rent level to assess the potential of the individual property and its appropriate Fair Value / Market Value.

76 Each Q2 and Q4 valuation prepared by CBRE was cross-checked by independent auditors. In order to enable auditors to conduct their checks, CBRE provided them (on demand) with the available investment evidence, both individual transaction (anonymised) and statistical and consistent surveys on asking prices etc.

VI CONCLUSION

77 I believe that CBRE's valuations as at 30 June 2022 of the Yielding Assets, as set out in the ADO Q2 2022 Valuation Report and the A&W Q2 2022 Valuation Report are accurate valuations of the relevant properties.

Statement of Truth

I believe the facts stated in this witness statement are true. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Signed:

A handwritten signature in blue ink, appearing to read "Schlatterer Michael".

Michael Schlatterer

24 March 2023

APPENDIX 1 TO THE WITNESS STATEMENT OF MICHAEL SCHLATTERER

CURRICULUM VITAE

Michael Schlatterer



Personal information

Address:	Hertzstraße 44
Date of birth:	28.11.1970
Place of birth:	Nabburg
Civil Status:	married, three children
Nationality:	German

Qualification

06/2006	RICS Germany
	Degree Member of the Royal Institution of Chartered Surveyor (MRICS)

08/2003	European Business School, Berlin Studies on economy, specialised in real estate Degree Immobilienökonom (ebs)
07/1998	University of Bayreuth Degree Dipl. Geograph (Wirtschaftsgeographie und Regionalplanung)
05/1995	University of California Berkeley, USA Scholarship (City and Regional Planning)

Professional experience

Since 04/2023	CBRE GmbH, Berlin Managing Director, Team Leader Residential Valuation
04/2019-03/2023	Senior Director Residential Valuation, Team Leader
01/2012-03/2019	Director Residential Valuation, Team Leader
01/2008-12/2011	Associate Director Residential Valuation
07/2006-12/2007	Senior Consultant Valuation

06/2005-06/2006

Consultant Valuation

09/1998-05/2005

BulwienGesa AG, München/Berlin

Senior Consultant Market Research / Bewertung

Languages

German

Native speaker

English

Fluent in spoken and written

French

Basic knowledge

Spanish

Basic knowledge

CURRICULUM VITAE

Marcus Pesch



Personal information

Address: Wotanstr. 29, 10365 Berlin

Date of birth: 22.05.1980

Place of birth: Berlin

Civil Status: unmarried

Nationality: German

Qualification

02/2015 **Royal Institution of Chartered Surveyors (RICS)**

Degree: Professional Member of the Royal Institution of Chartered Surveyors (MRICS)

07/2011 **HypZert GmbH, Berlin**

Examination for bank appraisers

Degree: Immobiliengutachter HypZert für Standardobjekte

CIS HypZert (S)

09/2005

IHK, Berlin

IHK-Certification course for appraisers

Qualifizierung von Sachverständigen für die Bewertung von bebauten und unbebauten Grundstücken und Beleihungswertermittlung

09/2000-08/2003

**Dual Studies at the Berufsakademie Berlin
Ausbildungsbetrieb L.I.S.T. GmbH / Habitat eG, Berlin**

Studies on economy, specialised in real estate

Degree: Diplom-Betriebswirt (Berufsakademie)

Professional experience

CBRE GmbH, Berlin

Since 04/2020

Director Residential Valuation, Team Leader Residential Valuation