Company Name: Prime Office REIT-AG
Company Ticker: PMO GR
Date: 2013-08-08
Event Description: Q2 2013 Earnings Call

Market Cap: 161.02
Current PX: 3.10
YTD Change($): -.14
YTD Change(%): -4.321

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: -0.085
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 53.143

Q2 2013 Earnings Call

Company Participants

- Richard Berg, Director Investor Relations
- Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer
- Christof Okulla, Head of Finance
- Jurgen Overath, Chief Executive Officer

Other Participants

- Unidentified Participant
- Andre Remke, Analyst
- Thomas van der Meij, Analyst
- Manuel Martin, Analyst
- Kai Klose, Analyst
- Dirk Becker, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the conference call concerning the Interim Financial Q2 Report 2013 of Prime Office AG. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

May I now hand you over to Mr. Berg who will lead you through this conference. Please go ahead, sir.

Richard Berg, Director Investor Relations

Hello, good afternoon and a warm welcome here from Munich. We have announced the signing of the business combination agreement and the merger agreement with OCM German Real Estate Holding yesterday and have publicated the H1 results this morning.

I am in here with Alexander von Cramm, Member of the Board of Prime Office, and we have Mr. Overath, CEO of German Acorn and Christof Okulla, Head of Finance of German Acorn with us. So we will walk you through a presentation which may take some 40, 45 minutes and we will have enough time for your Q&A in the following.

So let me hand over to Alex.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Thank you very much, Richard. Yes, a warm welcome from me this Munich afternoon. Lot to talk about, so let me start and just mention the fact that next to the IPO, this is the most exciting and eventful day in the short history of Prime Office. We believe the merger announcement will document our strategy and conviction that Prime Office will become a key player in the German-listed real estate market.

Our risk profile improved dramatically and our growth and earnings potential as a combined company compares extremely favorable vis-a-vis a stand-alone path. So we therefore look forward with confidence to put this transaction before our shareholders at the AGM on September 24.

But let's take a step back and look at the past six months. You see a quick overview of the -- on page 2 of the presentation. As expected, revenues declined by about 28% to EUR26.5 million basically on the back of higher vacancy as reported already in the first quarter. The property in Frankfurt was completely empty as of the 1st of January, and as expected as well, unfortunately, beginning of April, Vodafone left us as a tenant in the Seestern property as they moved to a purposely built building basically half a mile down the street.

Realizing the fierce market environment, in particular, those two properties in Frankfurt and Dusseldorf, which is an area extremely competitive and Frankfurt is a city -- has the highest vacancy of all the large German cities. We basically took the decision to have a market adjustment on our portfolio valuations with a total amount of 61 million in the course of the second quarter of 2013 and I'll come to that in more detail.

Our FFO was more or less in line with expectations, coming out roughly at minus EUR100,000. Our NAV, obviously influenced by the portfolio devaluation, came out before swap adjustments of EUR406 million, meaning at share price of 7.83. Again, this is before the swap adjustments, which have a negative value of roughly 63 million and I'll come to that in a second as well.

After the disposal of the Hamburg property early this year, we had substantial debt repayments. So our total liabilities decreased to 579 million, meaning we have an LTV of 59.2%, which is still reasonably positive, particularly considering that we had the write-down of 60 million, we are still able to take our LTV down by roughly 1%.

The revenue guidance is the same as the beginning of the year, roughly 51 million to 53 million, but because of one-off developments on the cost side in relation to the due diligence process with this transaction and personnel costs in combination with the -- Mr. Hermuth leaving the company, and I'll come to that in a second, we'll have a FFO guidance of roughly minus 3 to 0 whereas we used to have a zero to roughly 2 million plus FFO expected by the year-end 2013. Again, creating a leading German office real estate company is something we'll present to you in more detail further on in the presentation.

Coming to page 4, when you look at the revaluation of the properties, in particular, Frankfurt, I've touched on already, we've come to the conclusion that we need to be much more aggressive from a pricing point of view to have a chance and competing in a very fierce market at that location. So we adjusted that object by roughly by 23%, and the same situation holds course in Dusseldorf although we have, as we reported in the previous call, roughly 7,000, 7,500 square meters rented to Vodafone subcontractors and we have one or two smaller interested parties looking to rent up some space there.

It is a fiercely competitive market. So we made the decision as well to take the valuation down in this property as well. And those two are really the key drivers of the overall 60 million that we had touched on earlier.

Essen is as well a pretty competitive market. Essen is head of although some larger companies, Hochtief, ThyssenKrupp and RWE, it is as well a market which is fiercely competitive with a relatively high vacancy and not a lot of strong rental growth. So we took a more aggressive approach on that property as well.

Darmstadt, for example, as a main reasoning there, is in the state of Essen. The transfer tax was increased from 3.5% to 5% as is in the case -- or has been in the case in a lot of the states all across Germany and benefiting from the real estate boom and thereby wanting to increase tax income. So we've had to -- made a slight adjustment on those properties as well.

The page 5 is a quick update on our marketing activities and sales processes. It's been a long time and we've talked about it for a long time. The Stuttgart property where we've been in an extensive negotiation with Daimler Benz, we were finally able to sign a lease agreement at the end of last week, which we announced yesterday and thereby making this building reaching an occupancy level from a floor space of roughly 85%.

The remaining space is exclusively storage space and that as well being currently looked at by an interested party, but I think this is a huge success after some tough negotiations, after a lot of patience, especially with the investor community, but we are nonetheless pleased that we were able to deliver on this property as we had anticipated more or less since the beginning of the year.

I don't want to dwell too much on the sales processes of the two buildings in Munich as we are -- particularly Munich. We are further down the road. You see on the revaluation of that property, it was originally listed around 24.4 million. We now have a price of valued at 21 million and that obviously gives you a reflection of where we expect the sales price to be on the Munich tower and we expect signing to happen in the third quarter of 2013. On the larger tower, we need to be a little bit more patient. We're still in early stages of the process, but there again, we expect this to be closed by the fourth quarter of 2013.

Quickly jumping to the financials on page 7, the rental and lease revenues, as described earlier, obviously was dramatically affected by the vacancies in the first half of this year. The Frankfurt property I mentioned, the Dusseldorf property I mentioned as well, and last but not least, the sale of Hamburg which occurred at the end of last year obviously does not compare favorable vis-a-vis the first quarter of -- or the first half of 2012 as obviously we don't have an income level for that coming in this year anymore.

The rental lease income fell as well, not quite as severely as the total rental income and this is because the one-off payment by rental guarantee in the Fellbach property in Stuttgart where the guarantor basically had the obligation to pay a monthly rental guarantee throughout -- until 2015. He decided to make us an offer to pay that off in a one-off sum, which he did so in the month of April of this year and that basically equates the amount of 1.8 million and that's why the differential between rental lease income business isn't the same as the rental lease revenue.

On the operating income EBIT, there are basically three factors involving or explaining this dramatic drop. One obviously is the lower rental income is the first. The second one are the due diligence costs that we incurred in the process of this transaction roughly of 2.4 million to date and the higher personnel costs in combination with Mr. Hermuth departing the company of roughly 1.1 million, which has not been paid, but it's under negotiations with the Board currently, but for accounting reasons obviously we have to set up that amount in the middle of this year.

The financial result has finally shown some improvement, and I say finally because of a relatively large repayment that we've undertaken. So here we see a positive development. When you break it down on a basically interest payable level, we saw that we paid interest payable this year of 14.6 million. We had one-off costs incurred which are reported on in the first quarter already on the disposal of Hamburg, of the swap retirement of 1.4 million in combination with the asset sale and 300,000 -- where we repaid 7.5 million on the Sueddeutscher Verlag, and in that combination, we had a swap release of 300,000.

So in total, apart from the ordinary interest payable 14.6, we had 1.75, meaning we had the interest payable of 16.4 million in the first half of 2013. In 2012, the comparable number on the pure interest payable would have been -- or was 14.9 million, so roughly EUR3,000 more. There as well we had a special one-off payment on the restructuring of the T-Systems refinancing. There we had a one-off of 300,000. So all in all, interest payable in the first half of 2012 of 15.2, but leaving the one-offs apart, you see a slow decline in our interest payable level.

Taking the three factors into consideration, the lower revenue, the higher cost associated with due diligence and personnel and the portfolio devaluation, you obviously come to the income for the reporting period, which falls off quite dramatically from 2.4 million to roughly 60 million, keeping in mind obviously that the portfolio devaluation is a non-liquidity event. Turning all the revaluations and devaluations from an EPRA point of view, you see our earnings nonetheless decreasing substantially from 9.9 million to about the EUR800,000.

The FFO bridge, just very quickly without going into every detail, we added FFO, the first half year of 2012, roughly -- sorry, 12.7 million. The main driver, again, the fact that the high vacancy, we lost revenue of roughly 8.3 million. Some of it is combined by this one-off payment by (inaudible) 1.7 million, a little up, a little down, and particularly the operating cost repayment, the reason they are lower obviously, we have less tenants that pay operating cost prepayment. So you see the negative 1.8 number.

The other large driver is the due diligence cost of roughly the change vis-a-vis the comparable figure for 2012 is the 1.9 million. The 1.1 million incurred through the personnel cost in combination of the departure of Mr. Hermuth. Then we have an adjustment for the 1.4 million that I touched on previously. This is the swap breakage cost on the Hamburg asset. We took that out of the FFO calculation since this is a non-recurring cost and shouldn't be put into comparable figures.

And then we had the one-off in the financials which was touched on already. The 2.9 include a cash payment for a swap restructuring that we undertook at the end of last year, the Darmstadt, T-Online property where the actual amount was in our books as of last year, but the cash outflow, the payment basically was in February of this year. So the total amount vis-a-vis the comparable figure for 2012 was negative 2.9 million in cash outflow, leaving us with an FFO of negative EUR100,000.

On page 10, the total liabilities were decreased by roughly 63 million. The largest driver here was the disposal of Hamburg, which was closed in January of this year. We've repaid the original loan there of 23.6 million. We had the special early repayment on the Suddeutscher of 7.5 million. We had the T-Online special repayment of 3.1 million and the regular repayment on our actual loan book of roughly 12 million, leaving us 46 million in total cash repayments and we had finally benefited slightly from swap -- better swap valuations due to increased interest rates in some of the restructuring that we undertook towards the end of last year, amounting to positive development of 17 million and that combination adds to the reduction in total liability of 63 million.

From a net debt point of view, it's a pretty simple calculation. The debt was decreased by 63 million. The current assets were decreased by 47 and that amount was largely the property in Hamburg, which was on the books in -- as at the end of 2012. As the payment occurred in January, obviously these current assets were down quite substantially. So the net effect was the 16 million as reported here in the comparable figure towards the year-end. So this is obviously not half-year figures for 2012, but this is a change vis-a-vis year-end 2012.

The LTV, as I had touched on already, was lowered as well. Keeping in mind that we did have the write-down of the portfolio of roughly 60 million, but due to the even stronger repayment of total liabilities, we were able to take the LTV down by 1 basis point as well.

That leaves us with an NAV obviously affected by particularly the losses that we incurred in the first half. So the net asset value comes down from 468 to 406 for the first half of 2013, leaving us per share NAV of 783 compared to 902 at year-end 2012, this keeping in mind our values -- where the negative swap values are not included. So if you do include the negative 63, which effectively you should, you come out at a net NAV per share of 344 for first half year of 2013 vis-a-vis 389 in the end of 2012.

And on an equity basis, the net NAV on page 12 shows you a net NAV of 344 for the first half of 2013 vis-a-vis 389 at the end of 2012. This leaves us with a REIT equity ratio of roughly 40.6. Obviously we will talk about the merger proposition and the transaction, but nonetheless we keep an eye on the stand-alone Prime Office REIT towards the year-end, and with the disposals that we have in mind, we are still confident that we could achieve the REIT ratio of 45% required from a stand-alone basis.

So on a quick run-through the numbers to focus on the transaction, just very quickly, where do we -- or why do we stand where we stand today. Management of Prime Office in the course of last year realized that we are effectively undercapitalized to confront the large vacancy particularly in Frankfurt and Dusseldorf and at that time Stuttgart obviously with the consequences of loss of income and high investment needs, and in particular, facing very competitive market environment, delaying our expected vacancy decreases.

So -- but the high discount on the share price made a capital increase basically largely impossible and thereby limiting our growth opportunities from a stand-alone point of view. We decided to screen the market quite aggressively from an M&A look in terms of what companies would be available for mergers or even acquisitions, but the merger opportunity obviously was the most idea as we didn't really have the shares, much less the cash to do an outright acquisition. And after we basically finished the screening process, we realized that German Acorn and OCM would be an ideal fit. So we initiated discussions in the first quarter of 2013, which have now been finalized obviously with the announcement

and that's where we stand today.

I would just quickly hand over to Jurgen Overath and Christof Okulla to introduce themselves and then we'll follow through the presentation on the transaction.

Jurgen Overath, Chief Executive Officer

Okay. Good afternoon. My name is Jurgen Overath. I am 50 years old. Since more than 22 years, I am in the real estate business. I started my career as a developer for shopping center and warehouses. In 1999, I joined the Corpus, later on the Corpus Sireo Group and there I was responsible for the commercial real estate portfolio and we did a lot of buying and selling processes.

In 2005, I joined the DIC and together with Ulrich Holler and Markus Koch, I did the first -- did the IPO and the first capital increase. In 2007, I set up together with Oaktree, the German Acorn platform, which is now responsible for the commercial real estate platform of Oaktree in Germany, and later on I'll go a little bit more in detail of the company.

Christof Okulla, Head of Finance

Christof Okulla, 49 years old. I've joined German Acorn in 2008 as Head of Finance. I am responsible especially for controlling Treasury. Before German Acorn, I was Head of Finance at Corpus Sireo Group, and before that, I worked as Project Manager at IKB Immobilienleasing, responsible for big ticket real estate leasing transactions and client leasing transactions.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Thank you very much. So turning to page 15, the opportunity that presents itself shows that we currently in combination of both portfolios, we roughly have 2 billion, slightly over EUR2 billion of assets. The Oaktree funds that basically own 100% of OCM, and as you may know, already own roughly 8% of our company, will become the largest shareholders in the combined entity.

One of the key motivations in doing this transaction is to strengthen the management team, in particular for one, we want to grow the business, but even on the existing portfolio as it's a multi-tenant portfolio and there is an extremely experienced team who -- they'll show you the figures further down in the presentation, done an exceptional work in especially last couple of years, which have been quite tough years in the German environment. So I think that it's a huge -- strong point for the combined company going forward.

We will have, from a blended point of view, as you know, Prime Office, for historic reasons, have had pretty expensive interest rates due to these long-dated swaps that were initiated back then from the closed-end fund history of this portfolio of 5.5%, 5.6%. German Acorn is in the process of refinancing their loan portfolio in the current state and obviously are in a position to benefit from very attractive current interest rates. So the blended rate of both financings combined should be at below 4%, which obviously is a huge advantage when you look at the FFO opportunities and particularly the growth opportunities, which is the basis for the dividend payout that we plan to deliver in the future years.

The current LTV of German Acorn is roughly -- slightly below 70%. You saw ours at roughly 59. From a blended point, that's around 66%. We will be looking to do a capital increase, keep it as small as possible. Our main focus right now is on asset sales. We'd like to repay most of the debt with asset sales, but obviously there are some costs involved with the structuring of this transaction.

We will roughly have 18 million in transaction costs through the merger. We basically will have to pay transfer taxes in the vicinity of 20 to 25 million, obviously depending on the success of our disposal route and we look to restructure our swaps in the vicinity of 18 million, thereby supporting FFO -- decreasing -- sorry, increasing FFO, decreasing interest rates levels in the short term, benefiting obviously our payout ratio in the near term and on the sustainable level.

The transaction overview is basically on page 17 -- or sorry, 19 where you see in the left hand corner, obviously the pretty simple structure of Prime Office, owned by Prime Office shareholders and they directly hold their 13 properties. OCM is 100% owned by -- funded by Oaktree. It is managed effectively by German Acorn. German Acorn will merge into OCM as will Prime Office and the combined entity will be renamed Prime Office AG. Obviously you see the word REIT missing here and I'll come to that in a second.

The combined entity Prime Office will hold our Prime Office portfolio and obviously the two portfolios known as Homer and Herkules from OCM and the existing shareholders of Prime Office along with Oaktree, and following the capital increase, should shares not be taken up, this would be a rights issue, will be placed in the market and we expect some new shareholders to buy for this company as well. So that will be the structure going forward after the transaction is concluded.

We've done extensive due diligence. As you see, the cost that we've incurred with the support of KPMG, Freshfields and CBRE, which basically and month long discussions have come out to the exchange ratio of 61.22 vis-a-vis 38.78 for Prime Office. From a German point of view, if you propose a merger to a shareholders meeting, you basically have to do a valuation on the basis of IDW S-1. It's a pretty regulated way of doing it through public auditors.

In this case, we had to present to KPMG both our business cases, our business case being Prime Office, basically assume obviously some built-on in vacancies. We had assumed already that Stuttgart would be relet, but we assumed some further success in Frankfurt and Dusseldorf in particular next year, but nonetheless, we needed to plan a capital increase in the first quarter of next year and the asset disposals that are ongoing on the behalf of Prime Office, the equity generated out of that and the capital increase basically enabled us, from a planning point of view, to acquire three additional properties, thereby showing you growth scenario for the sake of this valuation as the valuation is not an NAV valuation, but effectively a DCF. So earnings power is quite important.

German Acorn, basically their business plan is a stand-alone in the sense that there is no capital increase plan. There are no disposals, no further additions, no acquisitions plan on their behalf. So basically just on the back of their own strong cash generation ability, they can grow the business on their own. So that's the exchange ratio base you can materialize out of those valuations.

You see in the fourth point here, the former valuation actually came out at 62.01 to 37.99. So you see a slight benefit on behalf of Prime Office shareholders. And although it's impossible to put a concrete number to it, the fact that we are already a listed company and have a listed platform obviously was worth something as well. And I think that's justified in this exchange ratio.

The merger is subject to Prime Office shareholders' approval. As I indicated, we need a qualified 75% majority at the AGM, which is proposed for September 24 here at Munich. And we're looking to obviously push the combined LTV of substantially below 60%. The ideal target is around 55%, keeping in mind that there is a strong correlation between LTV levels and the possible discounts to any share price trading. So the lower the LTV, the lower any discount on share prices when you particularly compare to the peer group.

I've indicated already that Prime Office will no longer include the name REIT in its name, and for simple reasons, we don't think it's helpful becoming a REIT or we will not be a REIT from day one obviously because of the LTV. We don't want to increase the shareholders -- the shareholder increase -- sorry, the capital increase to further put dilution on it. And as I said, originally selling assets is really the main focus currently whereas both companies are in the process of being in a sell mode for several assets on the portfolio, but nonetheless, trying to become a REIT would mean a higher capital increase, meaning that it would be more dilutive.

But more importantly, we feel being a REIT unfortunately in Germany, it's been a successful everywhere else. It's just too constraining in particular from a point of view that you are not allowed to have any type of residential properties.

Not that we are planning to buy residential portfolios, but even in the case of the OCM portfolio, there are some house master apartments within their office blocks and we will have to sell them individually. And when we look to grow the portfolio further, that would be almost a knockout criteria to buy any larger portfolios as they would as well have residential apartments and it's basically not feasible to sell them off. It's not feasible from a financial point of view, it's not feasible from a timing point of view. So I think being a REIT from a German point of view limits growth opportunities and that's why we've decided not to pursue that route.

We call ourselves effectively a synthetic REIT as we have substantially -- a substantial tax loss carry-forwards in the vicinity of 200 million, meaning that for the foreseeable future, there will be no tax linkage on any dividend payments. And on top of that, we almost have EUR900 million of distributable tax reserves from which we can effectively pay tax free dividends.

So concluding at this point, we will be a multi-tenant portfolio effectively with 64 buildings and 500 rental contracts. So a much more diversified and stronger from a risk point of view vis-a-vis Prime Office old and we'll have multi-tenant office buildings in all the German leading metropolitan areas, generating attractive yields and that's basically the growth story going forward.

The balance sheet, we've touched on, I think although it's important to note that there is maybe a misconception that the revaluation we've done on our portfolio is in combination with this transaction, we would have done this anyways. This isn't a pre-condition of the merger. We, I think, had to realize in particular, as I touched on earlier, particularly in Frankfurt and Dusseldorf, our valuations weren't realistic when we're facing the rental levels that we're looking at in the current environment.

So I think we have a good starting point going forward. There might be some further pressure in particularly on our Frankfurt property. We've discussed this on previous calls. At the Westend-Palais, we have the opportunity and we've initiated discussions with the city of Frankfurt to looking at this in a conversion possibility, converting this into a residential property. There we feel in order to move forward, which is not unlikely to happen in the second half of this year, we may have some further valuation pressure in the vicinity of roughly 40 million coming out of that property as well.

So nonetheless, we've taken the hit of 61 million with most likely a little bit more to come in the second half of this year, but I think we've found a solid footing to take the company combined further and the attractive interest rate level of 4% from a blended combined rate is obviously a strong supporter of FFO growth in the future.

The management, I've touched on as well, strong team is coming abroad with a strong asset management background and their track record speaks for itself. Corporate governance will be strengthened in the sense we will still have six nominees to the Board. Three will be representatives by Oaktree, have finance, merger integration, real estate and nomination committees basically showing that the Board will have a closer involvement on the operational level, which from an experience point of view, I think is extremely helpful driving this business forward, and we will propose to the AGM to effectively have the historic high supervisory board remuneration. And this, just on a side note, is something which will be proposed not just on the basis of the merger, but even from a stand-alone point of Prime Office.

We expect that the capital market over time as we basically deliver on our promises will rerate the stock as it becomes a larger, more liquid real estate player, offering the opportunities for the traditional large typical real estate investors being insurance companies, pension funds and sovereign wealth funds to invest in a more liquid leading company. We're looking to further broaden our international, particularly our international analyst coverage from an international point of view and obviously hoping that the market accepts this story, will rerate the stock and reduce the NAV discount over time.

So I'll pass it on to Jurgen to talk about his achievements and about German Acorn.

Jurgen Overath, Chief Executive Officer

Okay. Coming to the portfolio on page 33, you can see an overview about the locations of our portfolio. We bought this portfolio, as I mentioned before, in 2006 and 2007. After the acquisition of the portfolio, I found it together with Oaktree, the German Acorn. At the beginning, we started the research by the asset manager and we realized after a couple of months that we can get a better quality if we do it by ourselves.

The company is now staffed with 29 people, very well educated employees. They are assets, technical and letting manager, controller, accountants or treasury guys and they are all responsible just for this portfolio. We do more or less a pure play in the office market. We do a pure play in the German market and we are only, at the moment, responsible for the properties of Oaktree.

And coming back to the properties, you see that we are more invested in the west part of Germany. It is -- the hotspot there is Dusseldorf and Frankfurt and coming to the combined portfolio at the end of the day, we will have a big hotspot in Frankfurt because of the Westend-Palais and the Kastor, we have opposite of the street there, and so we have to find a solution for the Kastor, but this is more or less a usual letting work we have to do there.

And on the other side, we have the Westend-Palais, and as Alex mentioned before, I think that we had a good idea to do a redevelopment of this property and so we can see at the end of the year that we will find a solution to get rid of this 35,000 square meters vacant space.

More or less the buildings we bought, from some of the buildings, we had the knowledge that the main tenant moves out, but we have achieved now the experience with vacant buildings to convert these vacant buildings to multi-tenant buildings, and coming to some figures, we are managing now 51 buildings with 730,000 square meters, eight single tenant buildings and 43 multi-tenant buildings with more than 550 lease contracts.

We started the business in 2007, and for this time, we reduced the vacant space from 32% down to 13% vacancy. We sold 10 buildings for EUR185 million. All the sales were an average 5% above the market value. (inaudible) in this portfolio is since day one higher than 70%, which means that the tenants are quite happy with the buildings, that they like to stay in the buildings, which is for us the cheapest way to let the buildings. The WALT is now five years and so we relet every year 20% of the portfolio, means in the last six years, we entered every lease contract once. The average new leases in the quarter is around 10,000 square meters. So we are more or less a production machine for new lease contracts and maybe this is the experience we achieved in the last six years.

Coming to page 24, I'll give you some more metrics for the portfolio. So as I said before, the tenant base is very mixed. We have 550 lease contracts. The biggest portion is 27% with insurance companies, business and services is 14%, banking and finance, 12%. There is also a small portion which is less than 10% with healthcare properties, which is divided into three buildings in Cologne (inaudible). We have a good experience business segment of buildings. It is not typical healthcare building. This is more or less like a hotel, boarding house and residential for older people and so we will -- at the moment we feel comfortable with this.

The space type is divided by around 80% office. So as I said before, more or less a pure play in the office market and the nursing homes is also less than 10%, just a small portion retail. Sometimes the buildings have just a small unit in the ground floor, which is retail unit.

The tenant structure, as said before, eight single-tenant buildings and 43 multi-tenant buildings. And split by city, the most buildings are in the Dusseldorf region, Frankfurt region. Berlin, there is just one building in Berlin, which is around 80,000 square meters letted to Allianz till 2019. There also we will have the challenge in the next couple of years going in touch with these tenants asking what is his idea for the next years. Can we forward extension of the contract or something like this, and on the other hand, if the tenants, for example, in a building decided to leave the building, we have also to do the work again converting from the single-tenant to the multi-tenant building. The WALT, I said it also before, is five years.

And Christof?

Christof Okulla, Head of Finance

Yes, turning for page 25 where you see the charts underlining our excellent letting performance the time since we were responsible for the portfolio. First one is like-for-like rental growth. We achieved rental growth since 2009, significantly mainly by vacancy decrease, and brought the vacancy down from 22% to 30%. Of course, we had to invest a couple of portfolios along this way, so we have invested roughly 100 million, including CapEx.

And time on time of course we reduced the incentives more or less as aligned with the market, but also given the close contact we have to our tenant base, which makes us able to negotiate better terms.

The WALT, as underlined before, was increased and stabilized about five years. It's currently down to five years due to the fact that we want to work against the big contract of Allianz mainly. Nevertheless, we were able to sign new leases with an average WALT of 5.5 years. So of course, above market level especially in the difficult years 2008, 2009 following.

On page 26, you see the chart for the combined portfolio on a pro forma basis. I'll start on the right hand side with the tenant structure. Of course, we have higher portion of single-tenant assets in the combined portfolio, adding the single-tenant properties added here from Prime Office, multi-tenant, and still a high portion -- so there is still a good diversification given the multi-tenant structure. Space types were increased slightly above 80% of office space, and tenant base, there will be a shift towards more telecommunication and services as telecom and T-Mobile and Vodafone will add to our tenant base here. Insurance will then be the second biggest portion. Business services is a mix of everything, banking and finance. This includes the Commerzbank where we will see a reduction further down in 2013.

Split by cities, as mentioned before, Dusseldorf and Frankfurt are dominating the portfolio. Darmstadt is the third largest portion, portfolio reflecting the telecom T-Mobile properties.

The lease expiry profile we increased by roughly one year and the results show that after the expiry of Commerzbank in 2013, which is driving nearly 50% in 2013, we have no higher upcoming vacancy further down the next four years.

On page 27, you see combined financials as of June 2013. I would like to highlight the EBITDA where you see that we -- from German Acorn side, at roughly EUR35 million. On the FFO side, 13.2 million, which leads to a combined 30 million given the slightly negative FFO from what is at the moment.

Gross asset value will increase above 2.2 billion, but that's before disposals of course. NAV, as mentioned before, the relationship we have roughly above 400 million right now. WALT will increase as outlined before and the vacancy grade unfortunately will increase as well, but I mean, that's our day-to-day business to bring this vacancy now further down in the direction of below 10% of course.

The geographical overview, I think we touched on this, and so I think we can move on.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yes, thank you, Christof. Just very quickly jumping to management page basically, I've touched on that already, the combination of first and second level management is the combination obviously Prime Office and German Acorn employees, basically picking relevant experience from a capital market point, from a real estate and a financing point of view.

And on page 30, you see the overview, that's sort of the engine room, the heart of the company is the in-house asset management team. And the difference to us is Prime Office as old is the fact that the whole finance functions are in-house as well, which I think is a tremendous benefit in terms of efficiency and cost savings as well. The total company, as you see here, will employ roughly 30, 40 million people. Corporate governance -- sorry, 40 people, not 40 million, sorry. 40 people. Corporate governance, I've touched on as well, remain six members, three of which will -- Oaktree will be entitled to appoint three seats. Professor Berger will remain the Chairman of the company and all the other points on this page I've spoken about previously.

The company strategy, we want to become a, if not the leading German commercial real estate company. We invest in quality multi-tenant offices across Germany, but only in Germany. So from that point of view, it's a similar story to Prime Office.

The portfolio breakdown basically, we look to hold assets of roughly 60% to 65% of the total portfolio. These hold assets will generate the attractive stable income flows, supporting obviously the dividend payments.

We have active management assets in the vicinity of 20% to 25% of the total portfolio and here most likely we'll be a bit more aggressive than we would have been from the point of view of Prime Office in the past, buying some buildings that -- or part buildings and portfolios, which are more and more higher vacant and with the exceptional team from German Acorn, deliver some value growth there by driving vacancies down and achieve some yield compression. And then we'll have some, as we call them capital redeployment assets in the vicinity of 10% to 15% of the portfolio. These are assets that will be sold on a regular basis to obviously generate earnings, liquidity for dividends and loan repayments.

So another key factor, and I've touched on that at several occasions, is the strong management team. We want to have an LTV near-term of the vicinity of 55% and we want to basically participate in the consolidation of the German real estate sector. It's not an easy sector currently to be in, but we do see a great growth opportunities in the near future, especially with the combination that we envisage to present to our shareholders meeting on the 24th of September and we want to grow the business to -- near term to roughly 3 billion of gross asset value in the near term.

The -- jumping over to page 35, the key drivers of the combined business plan, we don't anticipate, from a planning point of view, a general market rent recovery. So basically the growth from a rental level is assumed to come from indexation. There is no growth plan as part of the business plan as presented to us here. So it's fairly conservative, reasonable assumptions regarding CapEx and tenant improvement over the next couple of years as we feel that both portfolios are in pretty good shape, facing the vacancy situations here and there.

Obviously main focus will be on the vacancy buildings both in Dusseldorf and in Frankfurt. We've touched on Kastor basically almost across the street from Westend-Ensemble. Kastor is a relatively new high-rise building, but effectively it is only an office building whereas Westend-Ensemble, our property in Frankfurt, has the opportunity to possibly become a conversion for residential real estate and that, as I've touched on already, we will be quite aggressive in pursuing and come to a decision as this building, we're still convinced by the location, but this building, effectively from a vacant level, burns roughly 6 million in cash per year. So this is not a situation that we want to look at in the near future. So we'll be more aggressive in terms of making decision here.

We want to decrease vacancy to below 7% in the next three years. We started off with the message coming out of Stuttgart, which alone for us will lower vacancy from around 22% to roughly 19%, so an improvement of roughly 3 percentage points and obviously disposing of Frankfurt in the near term would be a huge drive achieving this number.

We have the property sales ongoing, and in our case, that's Sueddeutscher and Hufelandstasse, both properties based here in Munich. And German Acorn as well has one or two properties in the process of being sold. So that's an important focus obviously generating liquidity for the near term and that's something we will focus on going forward as well. The adjustment of interest costs will basically be an important drive for FFO. So that's something we will do as soon as the liquidity is available, even coming out of the disposals of those assets that I just spoke about.

And I'll pass it on to Christof to touch on the leasing cost structure which we see as a competitive advantage as well.

Christof Okulla, Head of Finance

Yes, slide 37 shows you that we, German Acorn are currently -- clearly the market leader regarding asset management costs. That's due to the larger portfolio. Of course, we have a larger average size of building and we have mainly every function insourced. So that gives us a couple of synergies here. The average cost in the combined entity then will be roughly around 8%, and to maintain the market leader position here, giving us of course competitive advantage in our core business.

On page 38, you'll find the pro forma debt maturity profile post transaction. So that's after the capital increase and it reflects LTV slightly below 60%. And of course, assuming that the refinancings we are currently converting are in place and then the next really high upcoming maturity will be in 2018, giving us comfort and room to concentrate on the core business, on the asset management and bring down the vacancy in 2014 and the following years.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Thank you. Just in conclusion, we touched on several points already, the near-term LTV target is around 55%, which I think is quite attractive for a multi-tenant and adequate for a multi-tenant type of portfolio in a relatively conservative country, in Germany.

Our FFO guidance for year-end 2013 is roughly 35 million, which shouldn't surprise you, basically comes from the portfolio of German Acorn, but as we are very limited in terms of talking about forward-looking statements, I think it doesn't come as a surprise that Prime Office does have some achievement on its vacancy situation, including the possible divestiture of Frankfurt down the road. We will contribute quite aggressively to the FFO development as well. So that number will obviously look substantially higher in future years.

And on the basis of the higher FFO, we'll pay out a dividend payment of roughly 40% to 45% on a sustainable level. The 3 billion of portfolio size, I spoke about on several occasion as well, and this is most likely will obviously be share increases and paid by cash, but actually units with the share transactions and we see a tremendous opportunity in the German market for that in the near term as well.

So this leads us to the present this transaction to our shareholders meeting on the 24th of September. We already have a commitment from leading shareholders to support this transaction in terms of voting, in terms of the capital increase as well. So that gives us confidence that the strategic sensibility that we started off with will be realized with the conclusion, hopefully, by year-end 2013 of the transaction.

Richard Berg, Director Investor Relations

Okay. Thank you, Alexander, Jurgen and Christof. I think we are done here. So we are ready for your questions and please go ahead.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin our question-and-answer session. (Operator Instructions) The first question comes from Mr. Remke, Baader Bank. Please go ahead.

Andre Remke, Analyst

Yeah, good afternoon, sir. Sir, a couple of questions, maybe starting with the building in Stuttgart, there is a new lease contract. What is the average rent for the building now in total? And when will the rents become effective? And so i.e., when will be cash flow to be expected, or are there any rent free period? Then following the reletting in Stuttgart, what do you believe could be a potential valuation effect due to this? This is the first question.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yes. Thank you. Although we agreed non-disclosure with Daimler on these numbers, just a quick guideline. The existing other tenants in the building, basically part of this construction, are paying 1050. Daimler is not below this, so -- and not substantially higher. So I think that pretty much gives you a range where -- what we're talking about. It's a five-year contract with two three-year extensions. They have three months rent free and basically they should start paying rent in March of 2012 -- sorry, 2014.

We do expect a slight uptick in valuation. Obviously this negotiation has been ongoing and our valuator has been aware of the negotiations and the numbers haven't changed dramatically, but by the fact that this actually now has been signed obviously reduces the vacancy risk factor. So it should be a slight uptick in the next round of valuations.

Andre Remke, Analyst

Thank you. Maybe a question on the merger. On page 37, you mentioned the overhead costs. Does this only include personnel and admin cost or what can we expect -- how can we read this? And to mention 7 to 8 as the target for the combined entity, is it possible to lower this as the two numbers -- or the number of 8% is only the average of both companies, probably weighted -- on a weighted basis, but why do you not expect to lower this to a level German Acorn already achieved?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, for one, I mean, German Acorn obviously has huge economies of scale. Yes, they are a low-cost producer, tightly run ship by Jurgen, but they are not a listed company either. So there are certain administrative costs associated with being a listed company. So I think it would be almost impossible from a listing point alone to hold on to that number. We will have recurrent synergy cost of roughly 2.2 million out of the combination and that exclusively or basically comes out of our cost base, for one, we have a relatively expensive, as you know, property management contract, which expired at the end of 2014 where a lot of that slack, so to speak, can be picked up by German Acorn. We have through the outsourcing of finance functions and controlling functions, German Acorn from day one has that in-house capacity. So I think there are additional cost savings to be achieved there. And the Board remuneration which is proposed to be have -- as well, has a slight impact on this number.

So I think a rate of 8% is quite attractive. I think it would be unreasonable to assume that this could be pushed all the way down to 5%. And the overhead basically does include personnel costs, but it does as well, as I mentioned already, include these property management costs and that's one of the reasons that our numbers are so high and even above industry benchmark.

Andre Remke, Analyst

Okay, thanks. That's clear. And very last question, you gave a number for the NAV per share of 560 for the combined entity. Does this say the IFRS [ph] book value. So what would be the net NAV, i.e., including derivatives and potential deferred taxes if there are any? Do you have a number for that?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, the derivatives won't be such a high. I mean, if we assume -- we currently have 60 million with us. We'd like to get rid of the additional 20 in the near term coming possibly out of asset sales. German Acorn doesn't have a lot because they are refinancing their portfolio at current market rates. So they don't have a big issue with swaps as we do for historic reasons. So that number shouldn't be dilutive substantially with additional swap numbers.

Andre Remke, Analyst

Okay. So it means that's a similar number?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

As I said, we have a net effect of 60 currently.

Andre Remke, Analyst

Yeah, okay, understood.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

So minus 20, we're talking 40 and the market currently is moving towards that. So I think 30 is a conservative number going forward in the near term.

Andre Remke, Analyst

And in terms of deferred taxes, there is nothing to be expected.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Expected, well, we have no deferred taxes. We have tax the loss carry-forwards, but I'm not sure what you mean with deferred taxes.

Andre Remke, Analyst

Yeah, exactly that. So it means that we have that for the combined entity. Okay. Understood.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yes, we at Prime Office, obviously being a REIT, tax wasn't a big issue in the past, but nonetheless even we have tax losses carry-forwards from the history. We lose those completely as we basically merge into OCM and OCM has a figure in the vicinity of roughly total of close to 200 million.

Andre Remke, Analyst

Okay. That's clear. Thank you.

Operator

Thank you. The next question comes from Mr. Thomas van der Meij, Kempen. Please go ahead.

Thomas van der Meij, Analyst

Good afternoon, gentlemen. It's Thomas. First of all, are you going to publish the merger documents at any stage or at least the --

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Just very quickly, basically by law, next week when we send out the invitations in the middle of next week for our shareholders meeting on the 24th, you'll receive a lot of pages to read, as all the investors, not just the analysts, but basically all the investors of Prime Office. And if that has a pretty thorough explaining -- explanation of the deal of the auditors calculation, all the assumptions. It's a big package.

Thomas van der Meij, Analyst

Okay. Then maybe already a question before we really going to read through them. What -- if I understand correctly, the loan documents of Oaktree are not yet signed for German Acorn, right, on the two syndicated loans?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, we have touched it in place here, but we are currently in the process of credit approval so we expect this further down the end of this year.

Thomas van der Meij, Analyst

Okay. And then how are these taken into account in the exchange ratio? Did you really like -- given this DCF, so it will clearly help you if you have the lower cost of debt in the company? Did you already assume that it would come through?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yes, of course, we assumed market rate with a buffer there and that's in the DCF model of course. But that's an important point in the sense of the Prime Office. As I've always been speaking about, our high cost of interest of 5.5% and the DCF, we basically going forward in particular, as we plan to acquire additional properties in the years 2014 and '15, we assumed basically much lower interest rates. And once you see the documentation, you will see our interest

rates on the basis of Prime Office being reduced to in the vicinity of 4% as well and that basically that's the number that goes into the terminal value. So we are not handicapped from a valuation point of view at this point from our high interest rates. That has been taken into effect from a planning point of view.

Thomas van der Meij, Analyst

Okay. Then on your own valuation of Prime Office, you already stated that you took some hits on the short-term leases and I also was more surprised to see also like quite some big hits on assets, which have a relatively long lease term, I mean, referring to Munich as well as Essen. I heard you make the comment like saying the market is competitive there and there is lot of vacancies. However, given like 10 years to -- or almost 10 years on the rental, it seems aggressive especially given that you -- or at least the valuators, I mean, I assume this is also done externally now, have not adjusted the values back down in six months.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, Munich, well, starting with Essen, Essen is basically just the realization that it's an extremely competitive market. I mean there is no -- yes, it's a long lease term with Hochtief. Hochtief, as you may know, was taken over by a Spanish company. They have a quite aggressive asset sale process ongoing. So we need to be realistic whether they are going to stay in that property even till the end of the lease term.

So we've taken a more aggressive term in terms of even if the rental contract runs to another, I think, six or eight years, the current understanding that basically I have and we have regarding Essen is that it would be very difficult to relet that property at current market levels. So we felt it was more than conservative to make an adjustment accordingly.

The Munich buildings, in particular BMW, we were somewhat surprised when we extended the lease that two years ago, there was an appreciation on the valuation. And once we tested the market which we've done the last couple of months, to be quite honest, this is where the result is. So there is no better proof of the valuation once you have a pretty broad market approach and this is what the market is willing to pay.

It is an office building with two tenants. The largest tenant is BMW, but it is a special situation as BMW has invested a tremendous amount of money in the research center or development center for the Rolls-Royce, the Mini. So it's a special building. It's not of interest to everyone and that obviously influences the price and that's why we are where we are.

On the Sueddeutscher, it's an early process. This is a general discussion and this is basically what we've seen in Dusseldorf and in Frankfurt. The single-tenants, large buildings and everyone who has a look at this basically assumes at one point that you have to basically relet as multi-tenant. And most people take a more conservative approach that once you take these big buildings and relet them into multi-tenant, you won't have 100% basically fill up. You'll always have a running level vacancy around 5% or 10% and it's obviously quite expensive to refit them accordingly. So this is part of the situation there we have with the big buildings for historic reasons and that's why we want to be aggressive moving into the multi-tenant type of buildings and that's exactly the reflection of why the valuations have come out where they currently stand.

Thomas van der Meij, Analyst

Okay. Then maybe just for a record, I mean you're referring the whole time to we take a more aggressive approach. Who is we?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, effectively on behalf of Prime Office, it's the current Board and in conjunction with CBRE who does the valuations.

Thomas van der Meij, Analyst

I mean do I understand it correctly that CBRE is an independent valuator and that they should come up with the values. I mean what's your role in that?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

They do come up with valuations, but basically no, there is a discussion and we feel that our -- I don't have to be tied to the CBRE valuation. I mean, we as a board can have our independent view and we feel if we need to be more aggressive on, let's say. reletting scenarios from a rental level. then we can have those discussions. At the end of the day, I can let CBRE run and come up with a number and as we as a board feel we don't need to attach those numbers, we can come up with separate numbers completely, but I think this process makes more sense.

Thomas van der Meij, Analyst

So is it -- do I understand it correctly that this at the end day are your valuations, which are more conservative than the numbers CBRE originally come up with?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

No. This is an ongoing discussion. It's a back and forth discussion, but ultimately they are deeper involved in market, they have more competitive situations. I mean, Munich is the best example. Effectively, this valuation you see in Munich on the smaller building is the LOI that we have under contract. So regardless of where the DCF would come out on, from an accounting point of view, I have to put the valuation basically down where I feel the building will be sold at.

Thomas van der Meij, Analyst

Okay. Point taken there, however, I mean -- but you also commented on Essen that the market is competitive. I mean, I mean, takeover speculations were already there like two, three years ago. They took the stake, I mean, if I remember correctly somewhere in '10, '11. I do not see like different or massive changes in the market the last four or five months or is something going on there?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, I mean, I must say, we've been more active testing the market here and there in disposals and this is the reflection of our experience. It's just as simple as that.

Thomas van der Meij, Analyst

Okay. And how will --

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

And even for that matter, taking Hamburg into consideration, we had a similar situation in Hamburg and effectively we've had a pretty broad approach to the disposal of interested parties. It wasn't just one or two people, but a pretty broad market approach and even there with a long rental contract in a very stable city in Hamburg, we've had to take a hit on the disposals. And that's basically the reflection where we stand.

Thomas van der Meij, Analyst

Okay. Then maybe on the general outlook for your portfolio, I mean there are still some assets like single-tenants in there. How will you position yourselves towards the assets? I mean, I am referring to the Darmstadt assets as well as like the Allianz in Berlin? What's your longer-term view and plan there?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, Berlin, I can't speak. I mean, Jurgen can mention Berlin. I think that's a special -- in that sense, a very special beneficial point, but Darmstadt, there is no point today that T-Online has any -- it's a huge building for them obviously, has any indication that they will be move out. Their rental contract is still quite long, six years to ago. I think that discussion we've had -- wanted to have early negotiations with them. They said it's a couple of years too early.

There is no indication today that there is any type of development that should basically mean that we need to be more aggressive on valuations at that point. So currently, Darmstadt is largely a reflection of the fact that the transfer taxes were increased. No other developments. If that changes in obviously the next year or two, then we'll act accordingly.

Thomas van der Meij, Analyst

Okay. And then a question on -- actually I saw some comments on Bloomberg that one of your largest shareholders, Ironsides, wants to have like a board seat in the Supervisory Board, if I understood the message correctly. What's the current status there? And will they also get -- I mean, will they get a board seat before or post merger?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Post merger, I'm not aware of that discussion and I didn't see the comment on Bloomberg, to be honest. So I think we'll just have to wait for shareholders meeting to see what's in the invitation.

Thomas van der Meij, Analyst

Okay. And then last question, I mean, you have like a target of 3 billion company, you want to do some asset sales. What timing do you want to reach the 3 billion?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

I think integrating the company is the first step, getting sort of the asset disposals on its way. It should be concluded by year-end, the first quarter of next year. I assume this is a time horizon of roughly 18 months to 24 months. I think we -- before we get too aggressive, we want to deliver the market and show the market that what we're talking about today is achievable and then we can be a little bit more aggressive on the growth opportunity, but growth is a part of the story. I think we have the platform to use that. And that's why we talk about it, but it's not something that we're going to turn the lever on tomorrow.

Thomas van der Meij, Analyst

Okay. Then maybe -- I'm not sure you've seen it, but -- now reading the Bloomberg article, I mean there is a letter dated the 3rd of July to the Chairman of the Supervisory Board of Prime Office from Ironsides. You are not aware of this letter?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

I don't -- to be honest, I don't have Bloomberg. It's too expensive for me. So I don't read it. I am sorry. I am not trying to be cynical, but I have no idea what's on Bloomberg.

Thomas van der Meij, Analyst

Okay. No -- I mean, it's just a letter sent to your Chairman of the Supervisory Board, but then it's fine. Thanks.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

I am not the Chairman of the Supervisory Board, so I am not sure what's in this letter, but I'll go look and find out.

Thomas van der Meij, Analyst

Yeah. Thanks very much.

Operator

Thank you. The next question comes from Mr. Howard Golden [ph] Taylor Partners. Please go ahead.

Unidentified Participant

Good afternoon. Altera Partners by the way. I'd like to go back to page 27, if we could, for a minute and ask a question about the subsequent NAV. What I'm trying to get my head around is that you spent millions on the various due diligence that we have clearly a benefit from the exchange ratio of over 1% and yet the NAV afterwards is going to be a 16% decline for Prime Office shareholders. We start out today, it's 662 and according to this, the pro forma, after the merger, it's going to be 16% less from what it is today. How that happen and why is this a good thing for the Prime Office shareholders?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

I think the most important discussion that one needs to realize in terms of valuation. This isn't earnings. This is a cash. This is a earnings power valuation, a DCF model. It's not an NAV discussion at the end of the day. This is for legal reasons. As I indicated, in Germany when you propose a merger, you have these accountants basically do DCF according to law and this is basically the driver of this exchange issue.

Unidentified Participant

Okay. But what I am concerned about as a shareholder is where is the price going to flow to after the merger and we see that REITs in Germany go from a 15% to a 50% discount to NAV, whatever NAV you're going to use, and the NAV we just discussed earlier in the program was the NAV you pointed out to in your discussion, which was 783 and now we are at 662 and we are going to 557, and if we take even a lower discount afterwards, I am just a little concerned that the price might be where it is today or not substantially increase and that's where my concern is coming from.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

There are two points. First of all, to take the most realistic NAV, you have to take the 660 as we report today, including the negative swaps of roughly 60 million because you have to take those into effect. We see whenever we have an early repayment or we dispose of an asset and repay the loan, we actually take that hit. So I think it's quite realistic to look at the NAV at a net-net level, meaning we are currently at 360. And if you include the 40 million that I've spoken about in Frankfurt, you are actually down at 330 -- sorry, 630, I'm sorry. Yes, 660 and 630. That's the reported NAV including the negative swap rates and that's really the fair number that you need to focus on.

Keeping in mind as well, when we talk about these numbers, we should and we will look and focus on the 24th of September, the day this merger hopefully will be possibly voted on, but you look at the business case that we have assumed here and you need to look at two or three years down the road where the company will stand.

And with all the issues that I talked about, delivering on the business case, driving down vacancies, some growth opportunities that I talked about but which are effectively part of the business plan today, so we should actually outperform that business plan, we feel that at a share price substantially higher than the numbers that we talked about today, and when you see the market today, are achievable from a multiple point of view. So this is not a deal. This is -- sorry, this is not a deal that you conclude from a valuation point of view from today or September, but you really need to have the patience to look at it 24 months down the road.

Unidentified Participant

Hello?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yes.

Unidentified Participant

Okay. Yes, I appreciate your explanation and my patience may be different than the market's. That's the only problem here, but thank you very much for the explanation.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Okay.

Operator

Thank you. The next question comes from Mr. Manuel Martin, Close Brothers. Please go ahead.

Manuel Martin, Analyst

Yes. One question, if I may please, on REIT status. You will be no REIT anymore in the future, if I understand, is that right? And if I understood right, you will lose your tax loss carry-forwards. What could be -- or what will be the tax implications of losing the REIT status for the combined company?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Currently yes, we will lose our REIT status on the day that we merge, on the date that this merger is confirmed. On today's understanding basis and all legal advice that we have, there are no tax consequences out of that situation. We don't get penalized for the history of being a REIT and no longer being a REIT. Going forward, obviously we will have to pay taxes, although as I indicated, we have tax loss carry-forward on behalf of German Acorn or OCM, the current OCM. Those will be upheld in the merger and obviously we'll use that to shield any dividend payout in the future.

Manuel Martin, Analyst

Okay. So do you have the figure of the tax loss carry-forward of FY14?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

200 million.

Manuel Martin, Analyst

All right. I remember. Thanks. Okay. Thanks a lot.

Operator

Thank you. The next question comes from Kai Klose, Berenberg. Please go ahead.

Kai Klose, Analyst

Good afternoon, gentlemen. I ask a couple of questions from my side. The first one, on Westend-Ensemble. You indicated that another 40 million of write-downs can happen. Just to understand why didn't you take the hit now or what needs to happen to see that 40 million or not? Second question, the Acorn portfolio was valued by which appraisal company? Was it also CBRE? And last question on your guidance for the FFO or the indication for the FFO. Is it before or after amortization?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

The valuation -- valuators for German Acorn are I think P&T.

Jurgen Overath, Chief Executive Officer

Yes, it was P&T in the last year. So the value is in the presentation. You see these are based on CBRE, which carried out due diligence valuation and we took the figure here in the presentation.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yeah, the fact that we haven't relet the 40 million is because the -- we've just started -- initiated basically last month discussions with the City of Frankfurt and we want to speed up the process, but we don't -- at this point, don't have a clear figure. It could be slightly less. If there's a huge demand for a residential, we may do it in a joint-venture with the developer. So there are various options available to us.

And we do have a dual track. It's still in offering as a office building in the market right now with more aggressive lease terms, no longer EUR20 plus, but below EUR20. So that's why till we have a clear picture, what role well effectively travel down and particularly what valuation levels, we don't -- didn't feel it justified to take that write-down currently, but as you see, we're trying to address it quite openly to make the math more helpful and understanding where this company from a stand-alone point of view stands by year-end.

Kai Klose, Analyst

So to be precise, so at the end or until the end, we know if there will be another 40 million more or less or whatnot?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yes, the planning right now is to have a continuous discussion with the City of Frankfurt. By late fall, we'll move into more serious discussion with possibly interested parties, and to see where the market is, we still have to do some basic preparatory work, but I assume by early fourth quarter we'll know whether that's a development or process that is viable and then obviously we'll report to the market accordingly. And the FFO, you ask about amortization, I am not sure what you mean in terms of debt pay down or possible portfolio write downs, I am not sure what you mean by your question.

Kai Klose, Analyst

No, debt amortization. So is it including debt repayments, so the annual amortization (inaudible)

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

That's not included in that figure.

Kai Klose, Analyst

Okay. And you mentioned that regarding property sales, you have the two properties in Munich up for sale. And also Acorn wants to sell some assets. So how many of disposals we should expect for the next coming months?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Well, from our point, it's the two assets that I've spoken about and I think German Acorn is -- I'll leave it up to Jurgen.

Jurgen Overath, Chief Executive Officer

See, at the moment, we are exclusivity for two buildings and we will see how the market is running through the end of the year.

Kai Klose, Analyst

All right. Thanks very much indeed.

Operator

Thank you. The next question comes from Mr. Adam Church [ph]. Please go ahead.

Unidentified Participant

Hi, good afternoon. My questions related to the gross asset value of Acorn prior to this deal. When you guys announced this deal in May, it doesn't look like you -- did you revalue that portfolio and pre this deal, any of these were roughly

equal, now there is significant dilution at Prime. Why is German Acorn performing so much better? They seem to have a lower weighted average lease term than Prime?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

I think, I mean, just let me touch on it from Prime Office point of view. Then obviously German Acorn will give their answer. What we see, and I touched on this from the valuation point of view, it makes a huge difference whether you have single-tenant buildings or multi-tenant buildings. The market has moved away from the cycle of having single large tenants with long contracts. They rather have buildings with multi-tenant buildings. So that is basically the key differential from a pretty macro level.

Once you get on a more micro discussion, and I'll leave it up to German Acorn, they invested quite heavily into their portfolio and they've done or had a more aggressive write-down policy in the past vis-a-vis what we've had from a Prime Office point of view. So I agree it does look like in terms of this transaction Prime Office went ahead to take this hit, I can just reiterate, we would have done this even without the transaction on the table under this management. We would have basically valued this portfolio to the level that I explained earlier.

Christof Okulla, Head of Finance

For the next question, I mean there was no change more or less from December 2012 to the figure you see in the presentation. So that was your question. And on the NAV side, I mean, our swaps are running out till the end. So there was a massive effect of course regarding the negative values of the swaps, one point. And the other point, of course, is that we paid back huge amount debt at the beginning of the year as we had some asset sales closed at the year-end and the beginning of this year. And we took the amount rising from these asset sales completely to repay the debt.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Okay.

Unidentified Participant

Thank you.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Welcome. Any more questions?

Operator

Yes. We have one more question from Mr. Dirk Becker, Kepler Cheuvreux. Please go ahead.

Dirk Becker, Analyst

Yeah, good afternoon. Two short questions, please. First on Munich. I was actually expecting that you could make a profit on the sale of the SZ-Tower because the rental yields in Munich are probably at a record low. So I was assuming that this would be reflected in your transaction price and you could make a profit, but now you are writing down the value of those buildings and I was just wondering, yeah, if you could give a bit more color on that.

And then secondly, on the Westend-Ensemble, if this is converted into residential space, will you do it yourself or will you sell the building to a developer and then it will be -- it will disappear from the portfolio?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Starting with the second question, yes, Frankfurt, we are not a developer and we're not in the business of doing residential development. So effectively either it's a trade -- a simple trade sale or to conserve value and basically remain and benefit from some of the upside, we may remain in the development as a minority investor and then basically sell out in the course of time, depending on what the economics are, but we will not do it on our own. We're not a development company and we're not about to take that risk. So the ideal situation would be to sell out completely to a developer as long as the price is obviously bearable.

Sueddeutscher, yes, we took a slight discount to the previous book value year-end 2012. Again, it's unfortunately the same discussion single-tenant. It's -- from a location point of view, it's not in downtown Munich. It's slightly outside and there we had the discussions, as I touched on earlier, people look at the ten-year lease, they basically do the math, what is this building going to look like in ten years, what if we have to go multi-tenant, what are the investment needs, what are the interest -- sorry, the rental levels at that time, and it just shows you that the market isn't as strong as one would thing across Germany. Especially these bigger buildings take much longer and when people are willing to invest triple size millions, they take a lot of time and do a very thorough analysis. So that's the process we're in. Nonetheless we expect to close that transaction in the fourth quarter.

Dirk Becker, Analyst

Okay. Thank you very much.

Operator

Thank you. We have a final question from (inaudible). Please go ahead.

Unidentified Participant

Hi, look, I understand that one of the main reasons that shareholders are being invited to support this merger is the potential for growth after the merger is over. Unfortunately looking at the course of the NAV valuation over time, obviously Prime Office hasn't delivered either any of your price share growth. And given the fact that we're now being asked to accept what I consider to be a pretty substantial dilution, especially given the fact that I believe and still believe that these are Prime properties and we're diluting them by 20%. Even if you claim it on the DCF basis by the way, because that's the anchor valuation we have, seems to be very, very aggressive.

The question is did the Board ever actually examine the possibility of liquidation, which I think would get a higher price for the shareholders than the price of the combined -- the NAV after the merger? And if it did look into the possibility of liquidation, why did you reject this in favor of a highly dilutive offer?

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Yes. We've had extensive discussions and obviously modeling on that, taking it even a step further back. Even last year, when our share price was even under much more pressure, we didn't have a single takeover approach from any company out there willing to have a serious look. At least nothing was obviously announced. Otherwise we would have had to notify the market. So even at pricing levels of 290, which we saw last year or 270, that was not something that anyone took really serious. So that maybe is part of the answer.

The second answer, the liquidation, the breakout -- breakdown or breakup valuation, when you look at our numbers, we still assume a going concern valuation. If you look at the individual assets on our books, I think without being too aggressive, it will take a long time. You wouldn't be able to sell off this portfolio in one and that's why I gave you the explanation that no one made an approach for us.

So when you do it piece-by-piece, you basically tell the market, okay, this company is in liquidation. They are effectively forced to sell, so everyone's going to wait and drive down the prices even further, so -- and when you do the math and you take obviously discounts to the going concern on those respective properties, I think the prices you come up with will be much less attractive in terms of what we have on the table as a proposal. And that's why the Board and we had that discussion and those were pretty extensive discussions, we've decided to basically put this forward for a shareholder approval on September 24th.

Unidentified Participant

I see. Thank you.

Operator

Thank you. We have no further questions.

Alexander von Cramm, Interim Chief Executive Officer, Chief Financial Officer

Okay. Then ladies and gentlemen, thank you very, very much for your attention. We are around here for any further questions, just let us know. And so again, thank you very much and have a good day. Bye-bye.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may now disconnect.