Confidential

VIGA RE 2022 Newsletter II

July, 2022

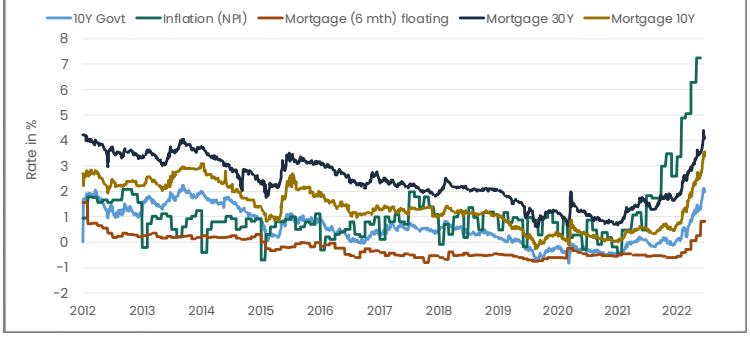
Dear Viga RE Investors

We have conducted an analysis as of 30 June 2022 of how inflation and increasing interest rates may affect the existing Viga portfolio and potential new investments.

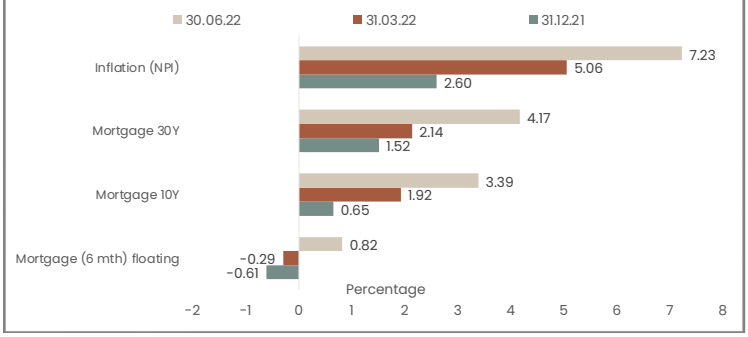
Inflation and Interest Rate Development in Denmark

- ✓ A surge in inflation has caused interest rates to rise (see graph below).
- ✓ 30-year mortgage bonds have increased from 1.5% to 4.2% since 31 December 2021. Short term floating rate bonds have increased from -0.6% to 0.8%. Overall the interest rate curve has shifted upwards and steepened.

Historic development inflation and interest rates in Denmark



9 months development inflation and interest rates in Denmark

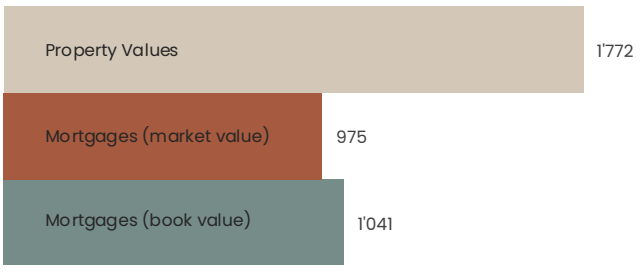


- ✓ Inflation (NPI index as of June 2022) in Denmark is at 7.2%.
- ✓ Leading banks and research houses in Denmark expect inflation to normalise around 2% during 2023 and 2024. Hence, interest rates are expected to decrease.
- ✓ As a general rule inflation (annual October NPI) can be passed on 100% to residential tenants in January.
- ✓ Mortgage bonds can be re-financed at a low cost. Assuming bonds are issued at 100 the following applies:
  - *Interest rates increase*: Value of fixed rate bonds decreases and can be repurchased in the market resulting in a realised gain. Re-financing at a higher coupon increases financing cost but equity will be higher.
  - *Interest rates decrease*: Bonds can be called at 100 and redeemed. Re-financing at a lower coupon will reduce financing cost and equity is unchanged.

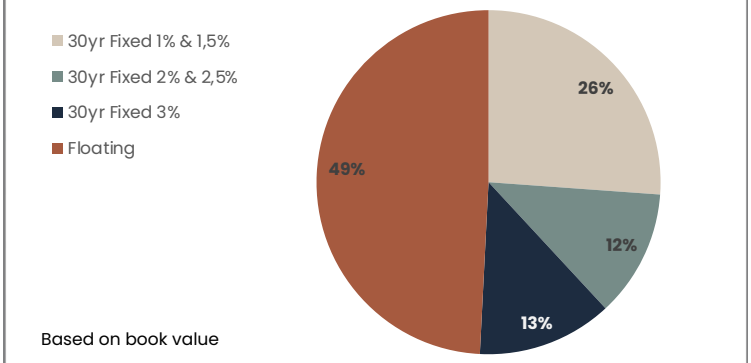
Impact on Viga's Current Portfolio as of 30 June 2022

- ✓ Viga's financing consists of 51% 30-year fixed rate bonds and 49% floating rate bonds. Book value debt in Viga is DKK 1,041mn (€140mm) and current market value of the debt (bonds) is DKK 975mn (€131mm).
- ✓ Viga's loan to value (LTV*) based on book value debt is 58%. LTV based on market value of debt is 55%

Mortgages and property values as of 30 June 2022



Mortgages interest/maturity split as of 30 June 2022



Impact on Viga's Current Portfolio (continued)

- ✓ A 1% increase in all interest rates will decrease Viga's debt value with 5% and increase the debt servicing obligation with 5% until maturity.
- ✓ The market value of Viga's fixed rate bonds is down 6.3% versus book value resulting in an unrealised gain of around DKK 66mn (€9mn).**
- ✓ Increased inflation benefits the net operating income (NOI) as inflation can be passed on to tenants in January. In January 2022 a 2.6% inflation was was passed on in full to tenants.
- ✓ Viga's properties are in strong locations in Copenhagen with low vacancy rates and low churn. Average NPI rent indexation over the last 5 years has been below 1.5% in the portfolio.
- ✓ We remain cautiously confident that we can increase rent with the full October inflation for a majority of the tenants. Property yields will then increase and our ability to service debt and other cost will improve.
- ✓ See various indicative net IRR scenarios on the Viga portfolio in the table below - assuming a net initial yield (NIY) of 3.3% and portfolio exit premium of 10%.

Viga Current Portfolio	Inflation Yr 1, 2, 3, 4	Interest Floating Rate	30yr Refinancing Rate (yr 3)	Estimated IRR
Scenario 1	3 , 2.5 , 2.25 , 2	1.25%	2.50%	12.65%
Scenario 2	4 , 2.5 , 2.25 , 2	1.25%	2.50%	13.24%
Scenario 3	5 , 2.5 , 2.25 , 2	1.25%	2.50%	13.81%
Scenario 4 (base case)	6 , 2.5 , 2.25 , 2	1.25%	2.50%	14.39%

Impact on New Viga Acquisitions

- ✓ The increased market uncertainty has created interesting opportunities for opportunistic acquisitions that fit into Viga's overall strategy. We are beginning to see NIYs of 3.5-4% from certain sellers.
- ✓ Applying the base case refinancing, obtainable LTV and inflation scenarios we see estimated net IRR of 10.9-12.2% assuming 10% portfolio premium at exit.

Acquisition Scenarios	Inflation Yr 1, 2, 3, 4	30yr Refinancing Rate (yr 3)	Estimated IRR
Scenario 1 (3.50% NIY)	6 , 2.5 , 2.25 , 2	2.50%	10.88%
Scenario 2 (3.75% NIY)	6 , 2.5 , 2.25 , 2	2.50%	11.51%
Scenario 3 (4.00% NIY)	6 , 2.5 , 2.25 , 2	2.50%	12.19%

Please don't hesitate to contact us should you have any questions and remember to check out our website for more information: vigarealestate.com and follow us on LinkedIn

Kind regards

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** LTV is not a debt covenant.*
*** Unrealised gains/losses on mortgage bonds are not included in VIGA's NAV as mortgage loans are valued at par according to accounting principles.*

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