REFIRE
Real Estate Finance Intelligence Report Europe

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Inside REFIRE

REFIRE is a specialised report focused on providing market intelligence and background analysis to finance professionals in German and continental European real estate investment.

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The areas we focus on are:

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European REITs
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Retail Property Funds
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CMBS/RMBS
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Refinancing
Euro-zone Property Financing

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Deutsche Annington - Gagfah merger to create new German "national champion"

It's barely a year since Deutsche Wohnen took over Berlin's GSW Immobilien to create a local powerhouse in rental accommodation in Berlin. This time, Germany's largest private landlord, the Bochum-based Deutsche Annington is planning to take over its Mulheim-based rival Gagfah for €3.9bn in a deal which would create a true German housing monolith. If the deal goes through – and Gagfah voters have until January 21st to ponder their rival's offer – the resulting housing company would be a colossus with 350,000 apartments valued at €21bn, housing more than a million tenants.

The top management at both companies have effectively agreed on the terms of the takeover – making it a friendly one, if the shareholders agree. Gagfah shareholders are being offered €122.52 for every 14 of their shares along with five new Deutsche Annington shares. This corresponds to €18.00 per Gagfah share, a 16% premium on the prevailing share price, and the stock shot up to close to that level from €15.50 on the announcement. With the two companies' joint market capitalisation at over €10.3bn, the new mega-company would be al likely candidate for inclusion in Germany's DAX Top-30 companies, which would give it even more visibility on trader's radars.

Statements from both companies highlight the promised cost reductions accruing to the new business of about €84m over the coming year, mainly in financing and in operational areas such as buying clout and local property management efficiencies. However, there will be one-off costs associated with the takeover of €310m, they agree. Nonetheless, with greater size the company should have better access to top conditions on the capital markets, both argue.

The takeover comes as no great surprise, ever since Deutsche Wohnen's takeover of **GSW Immobilien** last year. Since then nearly every German residential listed company has seen its shares moving steadily upwards as the large companies eye up their smaller rivals as

DeAWM, ECE clinch €800m deal for Frankfurt's Palais-Quartier

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Rapidly-growing German listed Patrizia Immobilien AG stepped up its commitment to the care home and assisted living segment this month when it bought a real estate portfolio of five care homes, for an undisclosed price from an unnamed Anglo-American investor. see page 14

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takeover candidates. Deutsche Wohnen itself, the Nr.2 in the market behind Annington, had been reported to have also been examining a takeover of Gagfah.

While all the big international private equity groups have now withdrawn from their leading role as dealmakers and privatisers in the German residential sector, the asset class is still riding high in investor favour and there is no shortage of capital to fuel further potential consolidation in the sector. Smaller housing companies, such as **Grand City Properties**, **Westgrund** and **Adler**, themselves furiously acquiring new portfolios have also seen their values soar in sympathy with the sector, and any number of them could themselves become takeover candidates as the asset class gains in international visibility.

"The asset class of German residential real estate is still riding high in investor favour, and there is no shortage of capital to fuel further potential consolidation in the sector. This is unlikely to be the last such merger"

Deutsche Annington CEO **Rolf Buch**, a dealmaker who arrived in the real estate industry at Annington from publisher **Bertelsmann** only 18 months ago, commented: "With this merger we want to create the leading German residential property company with truly European dimensions, a real national champion with its headquarters in North Rhine-Westphalia, making us even more profitable and competitive."

As the two companies envisage the merger, Rolf Buch of Annington will be the top man, with Gagfah's CEO **Thomas Zinnöcker** his deputy. Both men will be bringing their CFOs with them as board members of the new entity. Managing the 350,000 apartments nationwide will be six regional centres, each given equal weighting. The company will be given a new name, and not insignificantly, a new headquarters in a town somewhere between Bochum and Mülheim.

Annington plans to finance the deal in part (51%) by the issue of new Annington shares, and partly via bridge financing which is being arranged by bankers **JP Morgan.** Annington said that the improved capital structure of the new enterprise would strengthen the current credit profile of the group and lead to an improved overall rating from **Standard and Poor's**.

Annington currently owns 210,000 apartments throughout Germany, followed by Deutsche Wohnen with 147,000 and Gagfah with 144,000 units. Both Annington, which listed in summer 2013, and Gagfah (since 2006) are components of the **MDAX** for medium-sized German companies.

Both companies have a fairly similar path which brought them to their current sizes, with private equity groups buying up industrial housing holdings, financing them with debt and ultimately floating them on the stock market: in Gagfah's case under the wing of US private equity group **Fortress**, as it bought up successively the **BfA** insurance group's holdings, then municipal group Nileg in Hanover and subsequently the entire social housing stock (**Wobag**) of the city of **Dresden** in a controversial deal in 2006.

Annington's route to size came from UK private equity owner **Terra Firma** under **Guy Hands** merging old railway workers' housing with the huge housing portfolios of utilities **EON** and **RWE**. In both companies' cases, the shareholder structure is no longer dominated by any large private equity holding – on the contrary, both groups now have a very broad free float and granular shareholdings, making such a merger easier to implement. In this case, a quorum of 60% of the Gagfah shareholders will be required by January 21st to rubber-stamp what already looks like a done deal.

Germany/Acquisitions

DeAWM, ECE clinch €800m deal for Frankfurt's Palais-Quartier

Confirmation of the deal, when it came, was no great surprise, as it had been known for several months that the participants had been talking to each other. We also reported on the state of known negotiations back in November in the pages of REFIRE. Nonetheless it is a mega-deal, the biggest deal in years, involving a major shopping, office and hotel complex at the very heart of Frankfurt involving more than just an entire city block on one of Germany's busiest shopping stretches.

Deutsche Asset and Wealth Management (known in a previous existence as **Deutsche Bank's** property investing subsidiary **RREEF**), along with Hamburg-based shopping centre operator **ECE**, bought the *PalaisQuartier* from **Rabo Real Estate Investments**' subsidiary **KP Investments** for a sum thought to be about €800m. It will be allocated to three of DeAWM's special funds aimed at institutional investors. The asset was thought to have cost just shy of €1bn to build, and is so named because it was built on the site of an 18th century baroque palace.

ECE, which is part of the Hamburg-based **Otto Group**, is a 10% joint venture partner and will handle the management of the *MyZeil* shopping centre within the complex. DeAWM will handle the asset management and leasing of the still largely-vacant office building *Nextower*, the five-star *Jumeirah Frankfurt* hotel tower and the reconstructed *Thurn-und-Taxis-Palais*, which houses a café and restaurant. There is also an underground car park with 1,400 parking spots. The large adjoining plot of land, which used to be the headquarters of the *Frankfurter Rundschau* newspaper, has been sold to **Strabag Real Estate** for about €40m, who plan the imminent construction of a mixed-use building with shops, offices and residential apartments.

The MyZeil shopping centre with its more than 100 retail outlets had 15 muillion visitors in 2013, or 50,000 visitors a day, making it one of Germany's most frequented shopping temples. New owner ECE has five other major shopping centres in the Frankfurt area, which had partly led to the delay in the cartel office having to give its approval for ECE's involvement in the takeover on antitrust grounds. These have now obviously been resolved.

Clearance of the deal means that Frankfurt's real estate investment mar-

EDITORIAL

Mega-fusion shows there's plenty of life left in German residential

Thirty years ago, as the Cold War was showing tentative signs of the thaw that would lead to the collapse of the old Soviet empire within less than a decade, West Germany was the theatre where any future conflict was still likely to initially take place. This was where the troops were stationed, where the air-bases and missiles were, where the top brass was located.

The late General Sir John Hackett, himself a former commander of the British Army on the Rhine, describes in his gripping fictional novel The Third World War how the coming Russian invasion would play out. The Fulda Gap, about 90 minutes to the east of Frankfurt on the Hesse-Thuringia border, was one of the two obvious routes for a Soviet tank advance, while the other was across the North German Plain.

The Fulda Gap had enormous strategic significance for any possible Soviet advance, and defending it became the focal point for the US Army's Fifth and Seventh Corps, along with a myriad of auxiliary units, all stationed in the southern half of Germany. The British forces, much less in number, were in their own zone in the northern part of the country

Anybody with memories of the time (and that includes your editor, whose early career included a stint selling dictation and early word-processing hardware to numerous US battalions of the US Army's Third Armoured Division scattered across the region), can testify to the sheer visible presence of such a gathering of armed forces.

At their peak, the US Army had 950,000 troops and dependents living in army-managed housing between Würzburg and Wiesbaden, between Mainz and Munich, and between Giessen and Garmisch-Partenkirchen. It managed more than 200 separate barracks and military installations across southern Germany, all of which involved complex housing arrangements for its personnel.

Those days are over. Nearly all the troops have gone, and the remaining bases have been consolidated to provide a minimum skeleton force and landing and hospital arrangements for US adventures in further climes, like Iraq and Afghanistan. Most of the installations and their accompanying housing have been acquired by German municipal authorities and turned into affordable housing for local citizens.

The departure of the troops is seen as an inevitability of an altered geopolitical world, and there are few in Germany who would hanker after their departed allies. But for countless numbers of people who provided services to this vast community, their memories will take a little longer to fade away. Products and services of all sorts could be sold – from insurance to rent-a-video, from car-washing to childcare – an entire community was there, waiting to be serviced by people who understood their needs. Many thousands of us answered the call.

950,000 people is a lot of people – it would equate to a city with the fourth-largest population in Germany, after Berlin, Munich, and Hamburg – and ahead of Frankfurt, Düsseldorf and Cologne. What marketing organisation wouldn't be licking its chops at the prospect of having first dibs at providing such a large population with an array of services on which they can earn a cut, while using their clout to force down supplier prices?

We have listened carefully to the bosses of big German housing companies like LEG Immobilien and Deutsche Annington in the last couple of months, as they talk about their business models. Thomas Hegel of LEG has set an official expansion target of a further 5,000 housing units a year for the next while – but in truth, as he himself concedes, "the sky is the limit". The key ambition is to develop a suitable platform – standardised, IT-supported, geographically conform – which can accommodate add-ons of new housing portfolios and genuinely create the much-vaunted synergies that are supposed to come with size.

While the growth in rental income may be constrained by legislation and local competition, the big German housing companies are still finding ways to increase yield per square metre while (just about) staying on the right side of tenants' associations and local public opinion. True, their overhead is high and a certain level of maintenance and investment is critical to gaining and retaining half-satisfied tenants.

But the scope to increase income by providing ancillary services, such as Pay-TV packages, opens up whole new possibilities of boosting bottom-line performance – and this is part of the attraction for the biggest listed real estate companies to achieve even greater critical mass.

The new Deutsche Annington-Gagfah combine, which will have direct access to and intimate knowledge of the needs and interests of more than a million of its own tenants, is paving the way for a new wave of consolidation in the German residential listed sector. Despite looming threats of rental caps and restrictive social charters that will hamstring landlords, the segment of the market that has size and scalability is in rude good health, and looking to flex its muscles.

The dizzying rise of the share prices of German companies in the sector show no sign yet of levelling off; on the contrary, they are finding further support in the evident investor enthusiasm for supporting large-scale mergers and takeovers. We wouldn't be sounding the death-knell yet on a sector that, perhaps only now, is beginning to look across the Atlantic to learn from the leading commercial housing and apartment providers that there is more to securing an income stream than just trying to push up the rent.

Charles Kingston, Editor

ket has this year broken through the €5bn mark, the second-highest annual volume ever. The price paid for the PalaisQuartier complex is also being reckoned by many Frankfurt analyst to be excellent, given the fairly troubled history of the suite of buildings since its completion in 2010 by Rabobank subsidiary **MAB**.

The office tower has largely remained empty since its opening, apparently because of perceived structural flaws. However, recent office signings by law firm **Taylor Wessing** (3,800 sqm) and property advisers **Colliers** (1,075 sqm) have helped to get the property back on track.

Germany/Research

Prices still rising, 'bubble danger' in new-build sector

Figures just issued by the **German Association for Pfandbrief Banks vdp (Verband deutscher Pfandbriefbanken)** show that prices for German residential and commercial real estate continued their climb in the third quarter, with the prices for multi-family homes leading the growth at 7.2% in 12 months over 12 months. The vdp figures are often used in German banks and financial institutions for valuation and risk benchmarking.

In its latest index report the vdp found that owner-occupied home prices rose by 3.1%, while offices gained 3.7% and retail 3.9%. The overall German property index rose by 4.8%. "German residential and commercial assets remain in demand," said the association's managing director **Jens Tolckmitt**. "The very low interest rate level as well the associated search for attractive investment returns are supporting this trend."

The residential price index rose by 5.2%, higher than the overall growth rate in the second quarter, while commercial growth slowed to 3.7% from 4.8% in 2Q14, mainly due to a slowdown in the office sector. Rents for new residential leases rose by 4.6% on 3Q13, those for offices by 1.8% and those in retail by 1.1%.

Germany's prestigious **DIW Deutsche Institut für Wirtschaftsforschung** issued a report saying that there is increasing evidence of a property price bubble developing in newly-built apartments, and particularly in the more popular university towns across Germany. Of the 127 cities analysed by its researchers, the danger of overheating is not so much in the larger cities but in about 40 smaller towns – it singles out Detmold, Siegen, Moers, Paderborn, Ludwigshafen, Landshut and Coburg as towns whose new-built sector has been rising at more than 9.5% annually for the last four years, and far outstripping the rise in local rents In only nine cities do the researchers highlight a bubble danger in the existing homes sector.

In other words, DIW sees no real indication of a general price bubble using 'average' prices. At the recent **CIMMIT Conference** in Frankfurt, now taking place in November instead of its previous slot in January, **Deutsche Bank**'s **Jochen Möbert** noted that the trend away from the land and into the cities is a fairly new global phenomenon, and conventional bets are now off. Never before have so many people lived in cities, he said, and the urbanisation trend continues. This means high prices may actually be founded on sound future fundamentals. "We have to take into account that we are facing developments across the globe that we have never seen before, and thus have no models to predict what is going to happen," he told the CIMMIT conference.

At the same CIMMIT event, only **Stefan Kooths** of the **Kiel Institute for World Economics IfW** was taking a more sceptical view of where the German market stands. "A flight into property due to a lack of other alternatives is not a sound fundamental development," he said. "We should also be wary of hiding behind averages since there has never been a house price bubble across a whole country."

Meanwhile a further research institute, **F+B**, which produces and monitors a residential pricings index based on local acceptable rent tables or *Mietspiegel*, confirms that the average rent or Mietspiegel rose last year by 1.7%, higher than the previous year's 1.3%. Munich remains the most expensive large city, with an average of €10.32 per sqm per month for 'cold' rent, a full 64% above the average rent (Mietspiegel) of €6.28. Of the biggest cities, Munich is followed by Stuttgart (€8.24, 31% above the average), Cologne (€7.97, 27%), Frankfurt (€7.90, 27%), and Hamburg (€7.70, 23% more than the average).

In eastern Germany, the bigger cities of Erfurt, Rostock and Jena, which rank from 78 to 93 on F+B's 337-city list, reflect about the average rent of the surveyed cities with 'rent tables' or Mietspiegel, at €6.10 to €6.20. Other eastern German cities were Potsdam at €5.94, and Schwerin and Dresden at €5.62 and €5.48 per sqm.

Germany/Listed companies

LEG Immobilien bullish on expansion, growth prospects

We reported in the last issue of REFIRE about the major acquisition by Düsseldorf-based listed residential investor **LEG Immobilien AG** of a further 9,600 residential units in its heartland of North Rhine-Westphalia from fellow-listed **Deutsche Annington**. The deal brought to over 19,000 the amount of new units bought by LEG since the beginning of last year, well exceeding its own growth target of 10,000 units by the end of 2014.

A few weeks ago REFIRE went to Düsseldorf to talk with **Thomas Hegel**, LEG's CEO, (*pictured, right*) and we came away with the impression of a company sitting very firmly in the saddle of residential housing in Germany's most populous state, with a clear geographic focus and – since its IPO last year – a renewed

belief that it can exceed its own conservative growth targets. The company has shed many of its legacy holdings from its time as a state-owned enterprise, so that it can now achieve genuine economies of scale rather than managing a disparate assortment of housing-related but not always scalable or geographically suitable assets. The company has also phased out its planning and project development divisions.

LEG now has 110,000 rental properties and about 300,000 tenants. It has 10 branches, 17 customer service centres and about 100 tenant offices across its holdings in North Rhine-Westphalia, which generated rental income last year of about €232m. NRW is a classical 'renters' market', said Hegel, a factor which he stresses became ever more appealing to international investors last year when the company went on its road show prior to its stock market listing.

The company's third quarter results confirm how it is gaining traction with its housing yield as it achieves better benefits of scale. For the first nine months LEG increased its rental income by 6.5% year-on-year to €287m, with like-for-like rent per square metre increasing by 3.4%. The key indicator FFO 1 rose by 19.7% to €123.9m, EPRA-NAV rose 4.2% over the nine months to €48.85 (the share price is currently over €60.00, up 50% since the beginning of the year), while the loan to value (LTV) ratio remained at 48.7%. With the **Vitus** portfolio of 9,600 units along with a further 2,400 units bought in the third quarter, FFO yields remain at more than the company minimum of 8%.

Hegel confirmed the full-year outlook

for 2014 FFO I at €158m to €161m, rising to €188m-€193m in 2015, or €3.29-€3.39 per share. The stated goal for expansion is still "at least 5,000 units per year" over the coming years, with a focus on portfolios not currently owned by other listed companies. The creation of a coherent residential platform, fully-integrated by a powerful IT infrastructure, would enable the group to also include investments in neighbouring states in further building its portfolio, he said.

Germany/Acquisitions

Frankfurt office market attracts major new investors

The South Korean state pension fund **NPS, South Korea**'s largest investing institution, the National Pension Service, is planning to buy 95% of the *MainZero* office complex in Frankfurt, under development by **Tishman Speyer**, for around €250m. The property, which used to house **Allianz Global Investors**, offers a yield of 7%, according to the online edition of South Korean business newspaper *Maeil Business*.

Closing on the deal is said to be imminent, with the purchase price due for transfer on completion at the end of 2016, the report said. Local German landesbank **Helaba** provided €172m in development financing for the project ealier this year.

The main tenant of the 33,000 sqm asset, on the corner of Mainzer Landstrasse and Weserstrasse, which consists of an existing 6-storey building under refurbishment and a new development, will be **Deutsche Bank** and its funds subsidiary **DWS**, which took out a 20-year lease. The bank plans to invest €115m into the move and interior design of the new location, which is to be renamed *"Deutsche Bank Campus"* and which is to house a trading room and 2,000 employees in the investment banking and asset management business, said Maeil Business.

This is not NPS's first German engagement – the pension fund, which is South Korea's largest investing institution with about €300bn in assets under management, and the fourth-largest pession fund in the world, joined with US property giant **Hines** earlier this year to buy an office complex in Munich used by **Siemens** for €160m in a sale and leaseback transaction. It also bought the *Sony Center* on Berlin's Potsdamer Platz from open-ended fund **SEB Asset Management**.

Frankfurt's office investment market received another big vote of confidence last week when Germany's richest woman, **Susanne Klatten** of the **Quandt** family which owns a large chunk (47%) of automaker **BMW**, bought the *Winx* office building that's planned in Frankfurt's *MainTor* waterfront development from **DIC Asset AG**. Construction on the 29-story tower, (*above*) which will cost about €350m to build, will begin in early 2015, the listed Frankfurt-based DIC said in a statement. **Union Asset Management Holding AG** has agreed to rent more than half of the 42,000 sqm total space, DIC said.

Ms Klatten, with a 12.6% shareholding in BMW in her own right, is said to be making her first big real estate investment with her acquisition of the Winx property. Through investment firm **Skion**, she controls chemical company **Altana AG** and owns stakes in carbon producer **SGL Carbon**, where she holds the post of supervisory board chairman. Her net worth is put at about $16.2 billion, making her the world's 50th richest person.

Office acquisitions in Frankfurt have been resurgent as investors take advantage of declining vacancies. Buyers are turning to real estate in the hunt for yield as interest rates remain at record lows. Office property values rose 4% in the third quarter compared to a year earlier, to €9,032 per square meter, according to property adviser **JLL** (see article on **VICTOR** elsewhere in this issue). As any visitor to Frankfurt can testify, construction is also booming. Developers will build about 303,000 sqm of offices in Frankfurt this year, 49% more than in 2013 and the most since 2003, according to JLL

The Winx building is part of DIC's 108,000 sqm MainTor development zone, which is marketed as Frankfurt's new "Riverside Financial District," with 11 office, apartment and retail buildings that will cost €750m to build over six years. The entire MainTor project has now been sold. Parent company DIC, with **Morgan Stanley's Real Estate Fund VI** as senior investor, owns 60% of the project, with affiliate DIC Asset AG holding 40% on its balance sheet.

Somewhat unusually, the sale of the Winx tower now means that all 6 phases of the huge MainTor Quarter is now in the hands of German investors, before the project is completed. Union Investment bought the *MainTor Porta* skyscraper in December 2013; the *MainTor Panorama* and *MainTor Patio* complexes were sold to medical insurer **Westfalen-Lippe** in August 2012, while back in June 2011 the office building *MainTor Primus* was bought by Frankfurt investor **Carlo Giersch** to kick off the whole project. The residential complex, *MainTor Palazzi*, has also sold nearly all of its luxury condominiums.

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Germany/Acquisitions

ActivumSG exits three further repositioned German assets

Jersey-based real estate fund manager **ActivumSG Capital Management** has just completed two deals in Germany that are almost textbook examples of what it purports to do best – buying under-managed office assets in good German city locations and repositioning them to becoming core assets prior to lucrative exit.

The first deal involved the **Saul Goldstein**-led Activum's **Fund II** selling the 22,500 sqm *Accent Office Centre (AOC)* in Frankfurt's up-and-coming Hanauer Landstrasse to Munich-based **GLL's Pan-European Property Fund**, at a price thought to be around €60m. Activum bought the 2004-built office in 2011. For GLL, the asset with a cap rate of 6.95% is the fund's first acquisition. The planned €1bn fund targets institutional investors and aims for a dividend payout of 5%.

Richard Wartenberg, ActivumSG's head of sales and acquisitions, commented, "The asset boasts a good location in the growing east end of Frankfurt but needed better management. We identified the potential, took over and realised a dynamic leasing strategy. Today, the building is nearly fully occupied with a well-diversified tenant structure and long leases. The rental level is above expectations. AOC is a fine case study of how active management can create core assets."

Meanwhile, Activum SG's **Fund I** sold the *Main Michelangelo* 9,100 sqm building in Frankfurt and the 7,900 sqm *G1* in Munich to Vienna-based *FLE*, part of the French **LFPI Group**. Both buildings were constructed in 2002, and each is 90% occupied. Activum acquired the properties in 2009 and 2010 with vacancy rates of over 50%. "Both these assets have similar stories – office buildings in secondary locations in prime German cities where an active lease up/value add strategy meant that we took the occupancy from under 50% to over 90%," said Wartenberg. "We are thrilled to sell these assets on to FLE who will benefit from the attractive yields and stable tenant bases offered by these two high quality buildings."

The two new assets bring LFPI's port-

folio to 54 properties in Germany and Austria. FLE managing director **Alexander Klafsky** said Frankfurt and Munich are highly interesting locations. "The attractiveness of the new office assets stems from the continued prosperity of these two cities. The properties also fulfill our investment criteria, which include an attractive location with optimal accessibility, several strong tenants as well as flexibility in usage and high quality."

Germany/Listed companies

Westgrund AG digests Berlinovo buy, prepares for further growth

We reported recently in REFIRE on how the small listed Berlin-based residential housing investor **Westgrund AG** had practically tripled in size overnight when it acquired 13,300 apartments from **Berlinovo**, a legacy portfolio held by the state of Berlin.

REFIRE sat down recently with **Arndt Krienen**, the veteran CEO of Westgrund, to learn more about the company's strengths and strategy. The company has just tripled its nine-month net profits to €28.5m, spurred on by valuation improvements in its fast-growing residential portfolio. It has also just pushed through a €140m capital increase, and upgraded its listing to the more demanding Prime Standard on the **Frankfurt Stock Exchange** at the end of September.

The Berlinovo acquisition was covered by short-term bridge financing provided by Barclays, but this is now about to be replaced by long-term financing from **LBBW**, likely at about 2.5% for a 7-year loan. This will lower Westgrund's overall average interest burden to under 3%.

Over the first three quarters Westgrund boosted revenues year-on-year by 53.8% from last year's €10.6m to €16.3m, at the same time pushing pre-tax profits up to €34.1m from €11.2m. This came not only from valuation improvements of €42.5m (last year €9.5m) but also one-off financing costs for the big recent acquisition and non-cash mark-to-market movements of interest rate swaps

The company's NAV of €293m is comfortably ahead of the share price, and Krienen said he expects further NAV and net rental growth in the last quarter and through 2015. In the short term reducing vacancies in the new portfolio will be a priority, as well as targeting a further spate of acquisitions to bring the group up to 30,000 or 40,000 units. It currently owns about half that amount, mainly now concentrated in Berlin, Lower Saxony, Dresden, Halle and Leipzig.

Founded in 1990 and listed since 1998, Westgrund's philosophy is to invest only in assets with a positive cash-flow on purchase. Swiss family office **Wecken** is the major-

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Residential Property in - Vienna

Austrian property developer Soravia Group has just opened up an office in Munich to service the German market. The family-owned business was established in Vienna 25 years ago and has plans to develop several major projects in Vienna in the coming years with a total of more than 160,000 m2 in floor space, including one of the tallest residential towers in in either Germany or Austria at over 150m high.

In addition to its core property development business, the Soravia Group also holds ownership interests in numerous companies, from the world-famous Dorotheum auction house to outdoor advertising specialists Megaboard as well as ifa AG, an Austrian real estate investment consulting company, along with a stake in the Ruby Hotel chain. Mark Thiel is the managing director of the new Soravia Capital Gmbh in Munich, and not surprisingly, bullish on the prospects for Viennese residential real estate.

Thiel believes that Vienna's market will continue to grow at an above-average rate through 2015. "Residential real estate prices in Vienna were already up by 8.1 percent year-on-year across all price and quality segments in the first quarter of 2014. The subsequent three quarters have also been strong. We see no reversal to this trend in 2015. Continuing demand for prime location properties might even push prices per square meter above the €10,000 level."

Forecasts from most of the big broker groups indicate that 2014 will mark a record year on the Austrian real estate market. Third-quarter investment volumes of €770 million reflect around 48% year-on-year growth, according to CBRE Austria. Between January and September, approximately €2.1 billion were invested, with a cumulative total of around €2.9 billion of real estate investments being forecast by the end of 2014.

"Austria's real estate market has enjoyed an exciting autumn season. Vienna is no exception in this context," comments Thiel. Demand for real estate in the Austrian capital has continued unabated, as investors continue to regard stock markets with a critical eye. Foreign investors, scrambling increasingly to find value in London, Paris and the larger German cities, are starting to eye up the Vienna market for investment opportunities at more attractive buying prices and better returns.

Given comparatively moderate average prices for newly-built real estate, at around €3,873 per sqm according to the latest 2014 real estate survey published by the Austrian Chamber of Commerce, residential properties in Vienna are sought-after investment assets – especially compared with those in major German cities such as Munich. Relatively low buying prices offer attractive rental yields averaging around 3% At the same time, rising demand for residential real estate is continuing to drive Vienna's property prices up, ensuring sustained value appreciation for super-secure bricks-and-mortar assets. Average per sqm prices for newly-built owner-occupier apartments have increased by 45% during the past five years alone.

"Rising prices for owner-occupied apartments primarily reflect the fact that living space is in ever shorter supply in Vienna," says Thiel. The population in Vienna is growing by 20,000 to 25,000 inhabitants annually. Between 8,500 and 10,000 new residential units need to be created every year in order to keep pace with this growth. Thiel says new residential construction is stagnating against a background of rising demand, leading to higher prices in both new-build and existing stock, which he believes will go on for a while yet.

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ity shareholder, with 36%, Cyprus-based **Quartenal Investments** holds 9.7%, **Allianz Global Investors** 3.6%, **Swanepoel** 3.9% and 49.3% is now free float.

Germany/Listed Companies

TAG Immobilien adds further 3,000 residential units

Listed Hamburg-based residential investor **TAG Immobilien A**G spent most of November signing on the dotted line to buy three portfolios in northern and eastern Germany totalling 3,150 residential units for €125m.

The deals were partly financed by its recent sale of 2600 apartments in Berlin Marzahn for €70m. The group had said early-November that, after years of aggressive buying, it was now starting to sell off specific blocks of its assets, as part of its renewed focus on shareholder returns ("Total return per share"). This will involve more intense efforts to lower vacancies and raise rents, as well as a share buyback programme of up to 10% of the share capital.

The first deal, for 2,300 apartments, was bought in a €103m share deal from **Obligo Investment Managemen**t. The deal represented about 10.5 times the current annual net rent. The geographic focus of the portfolio is in Kiel and Itzehoe in the north (1,064 units) and Nordhausen and Stadtilm near Erfurt in Thuringia (626 units). The gross rentable area of the apartments is 147,000 sqm, while the current rent is €9.8m annually. The vacancy rate is 3.7%.

The MDAX-listed TAG also bought a portfolio in Görlitz in Saxony with 550 units and a rentable area of 34,000 for €12.9m. The properties are described as renovated and well-maintained, with a vacancy rate of 9.5%. The purchase price factor was 9.1 times the annual rent roll of €1.42m.

The third deal was for 300 residential units in Schwerin for €8.6m, or 9.8 times current annual net rental income of €0.87m. Here the rentable area is 16,500 sqm, and the vacancy rate is 3%.

According to **Martin Thiel**, TAG Immobilien's CFO, "The acquisitions of the past few weeks have borne out our strategy of systematically reinvesting the capital freed up by disposals into fast-developing regions and highly profitable portfolios, so that we can continue

Pinpoint Investment in Class-B Cities

How to enter the German market beyond the Big Seven as an international investor

- by Ulrich Jacke -

International investors are quite right in considering the German housing market as one of the most attractive worldwide. So far, however, many of these institutional investors have almost exclusively focused on the country's so-called Big Seven cities. Why was that?

For one thing, the Big Seven did not seem to pose a liquidity risk and were rated as permanently stable. Adequate market data for them permitted qualified investment decisions. They were assumed to have balanced risk-return ratios, obviating the need to ponder future exit strategies. Moreover, they permitted very large-scale investments suitable for geographically concentrated asset management.

So investors used to be well served with their commitments in Germany's metropolises. You could barely go wrong investing in residential property here in recent years. Rental growth combined with rising multipliers almost anywhere you looked.

But it is always risky business to simply carry past performance forward into the future, and yield rates in these locations have noticeably declined lately. Once you factor in the location risk, the rates of return on such investments have ceased to be sensible for many market players. Indeed, they have often declined to the point where a risk-adequate yield rate is no longer in the cards.

This is the upshot of the Risk-Return Ranking developed by Dr. Lübke & Kelber, which matches the achievable yield with the corresponding exposure for 50 German cities. Many secondary or "Class B" cities in Germany, such as e.g. Wolfsburg, Lüneburg, and Mannheim rank well ahead of Munich, Stuttgart and Hamburg. Investors are therefore well advised to take a close look at Class B cities.

What often stands in the way of such a reorientation is the lack of local market expertise. Many of the Class B cities are simply uncharted territory for international investors or else are deemed negligible. This means that existing earning potential, appreciation tendencies and exit strategy options have been, and continue to be, overlooked. Or else investors see no way to act upon their insights because they lack the market access and the necessary acquisition and/or asset management resources. As a result, profitable investment opportunities are missed.

In order not to lose out on such chances to invest you need a partner on the ground in Germany with a nationwide footprint and both knowledge of, and access to, local real estate markets. Ideally, your partners know-how will be rooted in first-hand asset management and transaction experience. Better yet, your partners detailed market expertise should be complemented by a successful network built up over decades in the business, as it might open up lucrative off-market deals to the investor.

Our company, for instance, facilitated more than 750 million euros worth of off-market transactions involving a total of 7,800 residential units during the past twelve months, and audited more than 5,000 units within the framework of due diligence mandates.

Our extensive long-term experience in the residential investment business enabled us to build up portfolios with a total investment volume of up to 240 million euros for international investors within the framework of acquisition / asset management mandates, and to support their asset management for many years.

But how will Germany's contemplated rent control legislation commonly called "rent freeze" ("Mietpreisbremse") affect investment decisions?

In a way, investors are affected by the rent freeze. But it is important to know: For the areas to be declared "strained housing markets" in order to qualify them for the application of the rent freeze will mainly be the metropolitan districts in the Big Seven most coveted by tenants and investors. Conversely, many Class B cities are likely to be spared the introduction of the rent freeze even if they are prospering towns with positive or at least stable economic and demographic growth.

So it will make Germany's Class B locations all the more interesting for investors.

Author Ulrich Jacke is Managing Partner of Dr. Lübke & Kelber GmbH in Frankfurt am Main

to grow with them. The regional distribution of the purchased properties fit in perfectly with our existing management structure.

"The necessary funds will initially come from our own equity and will quickly be refinanced on attractive terms and with long maturities. All the acquisitions show that despite the opportunities for selling off properties we identified in the market - in Berlin, for example - there is also still growth potential. So targeted capital allocations will further increase our results and cash flows per share."

Germany/Listed Companies

Patrizia adds further 5 assets to first care home fund

Rapidly-growing German listed **Patrizia Immobilien AG** stepped up its commitment to the care home and assisted living segment this month when it bought a real estate portfolio of five care homes, for an undisclosed price from an unnamed Anglo-American investor. The assets are destined for the firm's **Patrizia Pflege-Invest Deutschland I Fund,** which has a target investment of €500m.

According to **Jan-Hendrik Jessen**, Head of Fund Management Operated Properties at the Augsburg-headquartered Patrizia, "With this acquisition, we are expanding our commitment to the care home real estate segment and leveraging investment opportunities in selected regions with a rising need for care capacity."

The five homes are in Göttingen, Wetzlar and Erfurt in central Germany as well as Eisenhüttenstadt and Schwedt in the northeast. They have 632 care places and 29 units in the assisted living area. All the facilities, built between 2001 and 2003, and with between 89 and 175 care places eache, are let on long-term leases and have an average capacity utilisation of more than 95%.

Patrizia said Pflege-Invest Deutschland I now owns more than 30 properties and it expects growing demand for care home facilities given an ageing population in Germany, as in many other developed countries. Today there are around 2.5 million people in Germany who require care services, around 30% of whom live in care homes. Around two-thirds of care recipients living at home are looked after by relatives, the others by outpatient services.The proportion of Germans requiring care is expected to rise from 5% to 9% by 2030.

Patrizia's growth over the past six years since struggling to secure refinancing at the outbreak of the financial crisis has been extraordinary. It now has €13.5bn of assets under management, mainly now for third parties. According to CEO **Wolfgang Egger**, the focus this year has been on accelerating European expansion, particularly in France, the Netherlands and Finland. The company now manages more than €4bn of property assets outside Germany.

"By the end of the year, we will with great certainty have exceeded our goal of increasing real estate assets under management by €2 billion over the year as a whole," said Egger. In addition to the European expansion, he added, "We have also expanded our foundation for further growth in Germany. By founding **PATRIZIA GrundInvest GmbH**, we have set a course for an expansion of the business model. From 2015, PATRIZIA will also offer real estate funds for private investors."

Patrizia is targeting having only about 1000 residential units left in its own portfolio by the end of this month, which are destined to be sold next year, a remarkable turnaround for a company that for most of its 30-year existence was a developer, improver and trader of small residential portfolios, mainly in its heartland of Bavaria. Patrizia's current total debt is now only €100m.

Germany/Hotels

Germany scrambling to catch up in lucrative budget hotel sector

Germany has already seen more hotel investment transactions in the first nine months at €1.96bn than in the entire 2013, according to figures from **JLL**. 2014 is already shaping up to be a record year for tourism in Germany, with more than 331m overnight stays in the period, up 3%, while the number of tourists from abroad is up 5%. All of this is changing the landscape for the fastest-growing sector of the hotel industry, the budget segment.

A new survey published by hotel B2B research and database group T**ophotelprojects** documents the extent to which Germany is catching up with global trends. Currently 330 new hotels are coming on stream in Germany, of which 47 are economy/budget hotels.

Six new **Motel One** and ten projects from **IHG** hotel brand **Holiday Inn Express** are in the pipeline. The German Motel One concept with its mixture of "Lean Luxury" and reasonable prices has been attracting international investors with returns approaching those of four- and five-star hotels. The standard rooms (thick mattress, good TV screen, and a elegant marble bathroom) are available at guaranteed prices - one of the secrets of success of the German hotel chain, Motel One claims.

InterContinental Hotels Group (IHG) has already singled out the German hotel market as an priority expansion market

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for its budget brand Holiday Inn Express, with more investors and stable franchise partners being signed up. Similarly, French hotel export hit **Accor** is currently developing 20 projects under its **Ibis** brand, while in the same category competitor **B&B** is preparing the launch of ten new properties.

Other hotel groups in Germany are also betting on the low budget sector. The **Wyndham Hotel Group** is developing three properties of its **Super 8** brand in Munich and Freiburg/Breisgau in the popular Black Forest. **Marriott and Ikea** are building three new hotels under its recntly launched smart-hotels brand **Moxy** in Munich, Frankfurt/Main and in Berlin. And the **Louvre Hotels Group**, which now belongs to the Chinese hotel group **Jin Jiang**, plans to open its first low-budget hotel as the new **Tulip Inn Alp Style** in Dachau near Munich in January 2015.

New project developers entering the market include **Prizeotel** (its third hotel is being built in Hannover), **Travel 24** (readying a project in Leipzig), **McDreams** (projects in Cologne and Düsseldorf) and **Premier Inn** (the British group **Whitbread** with its well-known UK brand kicking off in Frankfurt/Main). Other independent budget hotel concepts such as **Say Cheese** (second project in Berlin) or **Invite** (fourth hotel project in Freiburg/Breisgau) are on the lookout for investor partners ready to offer discount hotel rooms in so-called B-locations.

Germany/Privatisation

German state property manager BImA under pressure to sell assets at book value

It seems like there is a renewed resolve at government level in Berlin for the state to finally dispose of its remaining housing holdings, and to refocus the efforts of the state property manager **BImA** on the ongoing management and administration of core government-owned properties.

Guest Column:

Prof. Dr. Alexander von Erdély, Managing Director, VALTEQ Gesellschaft mbH

Advisory services from a single source: The future model for real estate service providers?

The season of good intentions is beginning. I, personally, have already set myself one professional goal: The public mainstreaming of the four steps of integrated real estate development. These include the discovery of real estate, the evaluation of real estate, the economic implementation of any expansion or alterations measures and the positive arrangement of any potential exit. These four aspects go hand in hand and require the interplay of various sub-disciplines in the real estate sector, ranging from finance to technology. This incidentally applies completely independently of the asset class, whether it be retail, office or residential.

The fact that this trend, the coherent and integrated regard for real estate, has been affecting the market for some time was perceived by the industry, at the very latest, with the merger of VALTEQ, PREUSS and CBRE. With this, we are now set on a broad base and can provide our clients with equally-measured advisory services in commercial, transaction-related or technical questions. A service, which is also greatly valued by overseas investors.

In my eyes, this holistic approach is also the blueprint for the future for real estate service providers. Let us look, for example, at the current market phase. This is characterised by the availability of liquidity but a lack of investment products. As top real estate in prime locations can hardly ever be acquired at economically sensible prices, attention is frequently redirected to secondary locations or project developments. Here, in particular, one needs specialist knowledge of the local market situation and with regard to the technical-commercial potential that a property harbours. On the other hand, this hidden potential can only unfold to its fullest effect, if the real estate can be made marketable for a reasonable price. Imagine for example that you are modernising your office property in Frankfurt-Niederrad to match your property in Frankfurt's west end.

www.valteq.de

Even though they are relatively close to each other, completely different concepts are required in order to secure tenants or find buyers. What counts is the right combination of local market needs and technical feasibility – and a partner that can bring market and feasibility together in equal measure to produce the optimum solution. An example of such a project is the former headquarters of an international telecommunications concern in Düsseldorf, which we, as CBRE, are positioning with precisely this kind of holistic approach.

I am convinced that this is the path into the future and, for this reason, I firmly believe that I can keep my new year's resolution for 2015.

The plan is to sell off the 38,600 apartments still owned and managed by the state across the country. A government spokesperson confirmed in a statement last week the Federal government "plans to successively sell off these holdings in the medium term".

In the last number of years the state has been selling off between 1,000 and 3,000 units annually. There is a natural limit to what is attractive to the market, as 90% of the housing was built before 1970 and as such represents a major liability in terms of energy conversion and modernisation for potential buyers.

The city of Berlin is lining up to buy 4,660 of the 5,022 units owned by the government in the capital city, and negotiations over the price are being watched carefully by city and municipal managers across the country. For political reasons state and city governments have been more active as buyers rather than sellers over the last few years as residential prices have risen and pressure to provide affordable housing has risen. Berlin's housing minister **Michael Müller** – the mayor-designate to succeed **Klaus Wowereit** to the city's top job next year has been having meetings with BImA's CEO **Axel Kunze** to determine the appropriate price level.

Müller was quoted in the Berlin press last week saying that Berlin housing association **Gesobau**, owned by the city of Berlin, had bought 84 rental apartments in the neighbourhood of Wedding from the BImA at book value, rather than at the highest price BImA could have achieved. This is a first. Müller said, "This deal was a clear signal for all those who had foreseen that the BImA mandate of having to sell at the highest price was putting further pressure on the Berlin rental housing market." Not having to go through the usual bidding process can only improve the situation on the housing market, he added.

The recent 126th annual gathering of all Germany's Länder Ministers of Housing and Construction concluded by urging the federal government to formalise its policy of selling its housing stock by preference to municipalities and public authorities at book value, rather than at whatever the market could bear.

Separately, the city of Munich is looking to buy back and effectively re-nationalise potentially up to 8,000 of the **GBW** apartments bought by **Patrizia Immobilien AG** in a mega-deal last year from state landesbank **BayernLB**. The bank was obliged by a diktat from the EU to shed its non-banking businesses in return for state aid received during the financial crisis. Munich has put aside €400m and would have first option on any sale of part of the 32,000-strong GBW portfolio, albeit at a price 5% above the next highest bidder, according to the original sales charter.

Munich has, in fact, actually bought back 446 units for €80m and is looking on closing on several hundred more imminently. It had itself been a unsuccessful bidder along with a consortium in the auction won by Patrizia last year.

Germany/Financing

German bank real estate lending – roundup

News from around the big German financing banks confirm that nearly all the big players have had a good nine months and anticipate a strong full year 2014of new lending, albeit with margins coming under pressure as competition intensifies and investors find a broadening choice of financing options.

Down in Munich, **pbb Deutsche Pfandbriefbank** has raised new lending over the first nine months this year by 26% to €7bn. As a result of more and higher-margin business, it said, pretax profits rose by 4% to €127m. Results are in line with its full-year forecast of €140m in pre-tax profit, pbb said in a statement. New lending in the third quartercame to €2.7bn, up from €2.1bn in 3Q13. "Our strong new business again demonstrates our European, client-focused approach and our origination strength," said Co-CEO and CFO **Andreas Arndt**. Key markets remain the UK, France, the Nordics and central and eastern Europe.

The bank recently lent CHF298m (€248m) to finance a Swiss retail portfolio belonging to **Great Swiss Stores**, and covering 53 retail properties comprising 113,000 sqm lettable area throughout Switzerland. Contracts for the facility were signed as far back as August, pbb said. The facility includes a CHF11m refurbishment loan for various properties, while the refinanced portfolio consists of 53 properties located in all major regions of Switzerland. The anchor tenant is **Coop** - the second largest retail group in country, **with Blue Asset Management** serving as asset manager for the portfolio.

Also in Munich, **HypoVereinsbank (HVB)** reported that it has issued mortgage lending of €2.5bn over the nine months (excluding extensions), up 10% on the same period last year. Of new business, 59% is residential real estate, 24% to offices, 12% to retail, and 5% to hotels and logistics. Strong growth was seen in the area of subsidized loans: available **KfW** funding has more than doubled since the previous year. However, bank net profit halved from €1.08bn to €448m, largely due to its investment banking business and that last year's results were overly-influenced by one-off effects.

HVB, which is part of **UniCredit**, has just granted a €150m 4-year facility for the *AlterWall* retail project in central Hamburg, under construction by Cologne-based developer and investor **Art-Invest Real Estate**. The 30,200 sqm Alter Wall project on Hamburg's central square Rathausmarkt, a conversion of the existing building complex on the site, encompasses a 150m-long retail boulevard, some office space and a bridge over the Alsterfleet canal.

In Frankfurt, **Helaba** remains highly active, having written €6.8bn of commercial real estate loans over the first three quarters, 60% of which (about €4bn) was in the domestic market. About €600m was loan extensions. The bank is now targeting just above €8bn in loans for the full year, somewhat more than the figure projected for the year (*which we reported on in REFIRE in the first quarter*), and closer to last year's total of €8.7bn.

Margins remain under pressure, said the bank, down about 30bps since the beginning of the year, a situation likely to continue through 2015 with increasing competition. As CEO **Jürgen Fenk** has frequently said, the quality and the profitability of the bank's lending is now paramount and on that basis the bank is on the right track – pre-tax profit for the nine months was €507m, up from €442m last year, topping last year's full-year figure and heading for a new record.

In Berlin, local matador **Berlin Hyp** raised new lending over the first nine months to €2.7bn including loan extensions, but the pre-tax result slid to €47m from €75m due to higher operating expenses linked to restructuring to bring it closer into the savings bank network.

The new lending compared to €2.25bn in the same period last year and included €528m of extensions. Interest income rose to €151m from €145m and the bank benefited from stable margins and lower refinancing costs. The result before tax and profit transfer fell to €47m from €75m, impacted by higher operating expenditures linked to a restructuring in which it aims to expand its product range and become a close partner of the German savings bank network. Regulatory measures, low interest rates and – as with the other banks - growing competition also played a role.

Germany/Listed Companies

TLG Immobilien offers enhanced dividend on improved prospects post-IPO

Recently-floated eastern German commercial property specialist **TLG Immobilien** has dangled the enticing prospect of up to 6% dividend yield for next year, based upon sharply higher FFO for the first nine months, up 28% to €40.4m. The company's management announced last week that it expects this to rise to €50m next year, and had instigated a rigorous programme of new acquisitions to deliver the necessary growth.

In the last few weeks TLG bought an office complex in Leipzig, as well as another office building and a neighbourhood shopping centre in Berlin. Focused on eastern Germany, TLG owns offices and hotels, while grocery retail property now makes up fully a third of its business, with chains such as **Edeka**, **Rewe** and discounters **Aldi** and **Lidl** being major tenants. Its recent flotation and capital increase – executed at the low-

er end of its possible price spectrum – raised €375m, of which €100m went to TLG "to be committed for expanding its core portfolio", said the company. Previous owner **Lone Star** still retains a 43% holding following the IPO.

TLG's chief financial office Peter Finkbeiner has made his influence felt since coming to join CEO **Niklas Karoff** at the helm of TLG. REFIRE sat down with Finkbeiner, a Lone Star veteran, in TLG's headquarters recently to discuss the company's financial strategy (before the announcement of and subsequent listing of the company on the stock market). Interest costs have been reduced due to more favourable refinancing. Staff numbers have been reduced from 241 to 155, a savings in personnel costs of €7.4m. The company's holding are being streamlined, by geography and asset category. About 44% of TLG's 489 different assets (valued at €1.5bn) are now in Berlin, 15% in Dresden and 9% in Leipzig.

We carried a brief interview in REFIRE recently with **Milan Cvisic** of **Colony Asset Management** in Berlin, where Cvisic was very bullish on office property in East Berlin. TLG Immobilien has now produced its own comprehensive report, "Property markets in Berlin and eastern Germany 2014", a report which the group has produced religiously since 1993, documenting statistics, analysis and development trends. The 2014 Report provides the most up-to-date information on economic and demographic trends, office and retail rents, investment volumes and all the key statistics on office, retail and hotel markets, as well as price ranges in the hospitality industry.

CEO Niklas Karoff confirms that investor interest in, particularly, Berlin shows no sign of abating, leading to further price rises. All the major broker groups confirm this – **BNP Paribas Real Estate**, for example, says that in the first three quarters of this year, investors bought €2.7bn of offices, shopping centres, hotels and other commercial property in the city, a rise of 18% over last year.

Yields in Berlin have fallen commensurately, with quality office properties in top locations now at about 4.6%. Support for the rising investor demand is underpinned by a healthy rise in the number of workers employed, which has seen office vacancy rates fall to 5.5%, while office rents have risen ba 1.8% over the past year.

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The TLG report pays particular attention to the hotel market in the city, with mixed results for investors. Although the hotel industry enjoyed a record number of guest nights in 2013, at 27m nights, the key indicator RevPAR, or revenue per room was a comparatively lowly €64.00 per room – lower even, as the report point out, than up in Rostock on the Baltic coast. For eastern Germany as a whole, key performance indicators in the hotel sector in all the largest eight cities have been rising steadily since 2008, particularly in Leipzig, Dresden and Rostock. Leipzig in particular has been as stellar performer, with the RevPAR rate jumping 30% since 2008.

In retail real estate, rents have remained very stable. Grocery store properties have held up remarkably strongly, partly due to the lack of any inroad into the market yet by online sales. Rents for food discounter stores have risen by 7.4% in 2010-2014 compared with the period 2005-2009, a factor which has probably played a big role in TLG Immobilien's own increased involvement in the sector.

Germany/Financing

Bundesbank prepared to intervene to dampen property lending

It is, of course, the job of the ever-vigilant **Bundesbank** to warn continually of any slackening in Germany's discipline in managing the money supply to control inflation, and also to stamp out any sign of what it sees as Anglo-Saxon sloth in fuelling real estate price inflation. Hence the rise in residential prices over the past three years ensures a steady stream of statements from the central bank as to how far German standards are being maintained.

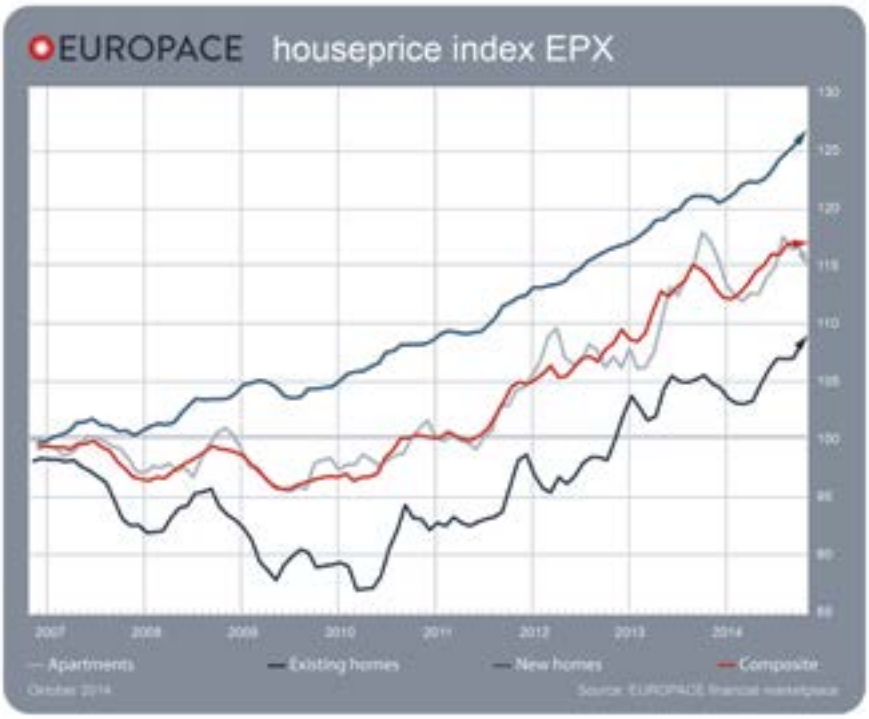
In particular, it has stressed how close an eye it is keeping on the country's housing markets to guard against any creeping sloppiness on bank financing provisions. **Claudia Buch**, the Bundesbank's recently-appointed vice president warned recently that banks' willingness to fully finance house purchases in the country's big cities could ultimately hit their profits significantly, should urban real estate prices start to slide. Ms. Buch also said, however, that at the moment rising house prices in Germany don't "harbour excessive risks to financial stability."

Her comments came as the Bundesbank presented its annual financial stability report. In prepared remarks, Ms. Buch said that despite German real-estate prices being less volatile than the eurozone over the last two decades, prices in big cities "really have climbed quite sharply," in recent years. She added that there are "signs of structural vulnerability within the German banking system." Surveys showed, she said, that full financing arrangements (i.e. 100% financing) of property "are certainly no longer out of the ordinary in the surveyed towns and cities."

Therefore, "if a decline in urban real estate prices were to coincide with climbing default rates, this would have a considerable impact on banks' profits." While such a scenario could be manageable if it took place in isolation, she said, "experience has taught us that real estate crises normally go hand in hand with a downturn in the broader economy. If this occurred simultaneously, it could prove to be very trying indeed for banks."

According to Bundebank figures, based on market research provided by real estate consultants BulwienGesa, the third quarter showed price rises year-on-year running at a more moderate 6%, after a rate of 7% in the first 6 months, and 9% all told for the full-year 2013.

Ms. Buch also said that the longer the current period of low interest rates continues "the greater the risk of exaggerations in certain market segments," adding that "signs of an excessive search for yield are particularly evident in the corporate bond and syndicated loan markets."



Germany house price development

Germany/Funds

Institutional real estate investors embrace Master -KVG structure

German institutional real estate investors are increasingly embracing the Master-KVG structure, which is based on the principle of separate asset management and administration, according to the Frankfurt-based **Universal-Investment's** second annual survey of German institutional investor behaviour.

Respondents cited two key advantages of the Master-KVG structure: greater transparency compared with all-in-one solutions and greater flexibility in the choice of provider. On a sector level, real estate investments remain focused on office properties, but investments in residential and retail assets are expected to increase. Institutional investors with total assets under management of more than €50 billion, including pension funds and insurance companies, participated in the survey, which was completed in Sept-October 2014. The survey respondents manage a total of about € 6.1 billion in real estate assets.

40% of surveyed institutional investors plan to use a Master-KVG or Service-KVG as a platform for their real estate investments in future. As a result, the Master-KVG approach, which Universal-Investment launched in 2011 to include the real estate sector, looks set to gain prominence in this sector.

The way it works is this: Master-KVG structures enable investors to pool all of their investments into one administration platform. This platform handles all aspects of administration including structuring, launch and fund accounting, and also links up the asset managers which institutional investors have appointed to manage their investments in different market segments and strategies.

Certainly this approach does seem to have established itself as the leading form of investment in the German securities world. More than €800 billion, or about 70% of assets held in institutional special securities funds, are now administered through Master-KVG structures.

The survey also asked investors about their asset allocation. While the main focus is still on office properties, currently accounting for 60% of respondents' portfolios, this is expected to decline to 54% in future. Retail properties (currently 10.8%) and residential properties (19%) are projected to rise to 14% and 21% respectively. Hotel assets, at 6%,

will remain stable, while logistics assets are expected to rise from 5% to 6%.

While current income, i.e. cash flow return, remains the key concern for 60% of surveyed investors, 40% already focus on total returns (IRR) through a profitable sale of real estate assets, and their share continues to grow. From a cash flow perspective, survey respondents expect a relatively moderate hurdle rate of 4.3%.

Germany/Acquisitions

RFR buys Frankfurt IBC Tower for €300m

US-based **RFR Holding**, founded by German-born **Aby Rosen** and **Michael Fuchs**, has bought the *IBC office* tower complex in Frankfurt's City West area for about €300m from Quebec's **Ivanhoé Cambridge Europe**. The acquisition, financed by **pbb Deutsche Pfandbriefbank**, brings RFR's holdings up to $10bn of real estate under management.

The 112m-high IBC tower, completed for **Deutsche Bank** in 2003, and two adjacent buildings are located close to Frankfurt Fair and offer 85,000 sqm of gross lettable area and are fully leased, generating about €21m in annual rent. Tenants include **KfW**, **Deutsche Bank**, **Universal Investment Group** and **Degussa Bank**, RFR said. After selling the property to **Blackstone Group** in 2004, Deutsche Bank housed more than 2,000 of its staff in the building from 2006 when it was renovating its own twin towers headquarters several years ago.

RFR already holds two Frankfurt towers, the *Eurotower*, headquarters of the **European Banking Authority**, and the *WestendGate* opposite the Frankfurt Fair, as well as the *Upper West* tower in Berlin. Based in New York, RFR's holdings include New York's *Seagram Building* and *Lever House*. Ivanhoé Cambridge is the real estate manager of the Montreal-based state pension fund of Quebec (**Caisse de Dépôt et Placement du Québec)**.

Austria/Listed Companies

CA Immo stresses earnings quality after wave of disposals

Listed Austrian commercial property manager developer **CA Immo** reaffirmed its commitment to further focusing its investment on Germany, despite its recent spate of disposals which saw 9-month rental income figures fall by nearly 30%. The company stressed that the quality of its earnings had now improved substantially, and it was considering issuing a new corporate bond to more favourably refinance expensive loans in its other markets in eastern Europe.

The company's third quarter was highlighted by increased FFO I to €54.0m (+14% year on year), but also by several major logistics disposals in eastern Europe. The group has been struggling to lower debt, and has improved its equity ratio from 44% at end-2013 to 49.1%. The LTV ratio now stands at 40%, while diluted EPRA NAV is €19.95 per share (the current share price is about €16.00). CA Immo also plans to invest at least €20m in a share buyback programme for up to 2.8% of the current share capital, starting in December this year.

CA Immo is also having to deal with a takeover attempt by the Cyprus-based **O1 Group**, a vehicle controlled by Russian oligarch Boris Mints. O1 has now tabled an official offer to raise its stake from its current 16.15% to 26%, offering the same €18,50 per share that previous shareholder **Bank Austria (UniCredit)** received upon its recent exit and sale to O1.. The offer, for 9.7m shares, lasts until 6th February, and would cost O1 about €180 if fully exercised.

Mints and his family interests own several large office buildings in Moscow, and their interest in CA Immo stems from their desire to enter other foreign markets, according to Dimitri Mints, son of the founder. The CEO of CA Immo and its supervisory board have so far only said that the partial takeover had potentially both pluses and minuses. Further statements are expected at an EGM on 19th December in Vienna.

On the nine-month results, CEO **Bruno Ettenauer** commented: "Thanks to the partial sale of the CEE logistics portfolio, the key milestones in the strategic programme for 2012-2015 have been reached ahead of time. We have improved our risk profile, increased the efficiency of our corporate platform and sharpened the focus on our core business of office properties. We aim to further cut back the proportion of strategically irrelevant real estate while raising the profitability of our asset portfolio. At the same time, the operational focus can switch back to quality-based expansion of the real estate portfolio."

Germany/Retail real estate

Ireland's Greenman targeting €350m for German funds by next year

Irish real estate investment company **Greenman Investments** has been steadily building up its portfolio of German retail assets since the beginning of the year. Its latest deal was buying the *Rhein-Wied-Center* in Neuwied, near Koblenz, which it bought for about €20.12m in a share deal for its **Greenman Retail Fund**.

The Rhein-Wied-Center only reopened this summer after major renovation work, initiated in part as a result of the demise of DIY chain **Praktiker** last year. Along with a whole new building added to the complex, the centre now offers a total of 8,800 sqm of retail space, of which 6,610 sqm is already taken up by the latest state-of-the art **EDEKA E-Center** as anchor grocery tenant.

The indefatigable **John Wilkinson**, who spearheads Greenman's German acquisition drive as CEO, said this was the sixth acquisition for the **Greenman Retail Investment Fund**. "Together with the sol-

...see page 23

id tenant structure, this acquisition hinged on the fact that the Rhein-Wied-Center is already a well-established shopping centre. The deal increases the investment fund volume to some €67m, and by the end of 2014, we intend to acquire two further retail properties with a total volume of roughly €39m."

The Greenman Retail fund has a target volume of over €90m and is aimed at Irish pension funds and professional private investors, from which Greenman aims to raise a total of €50m. Two further retail investment funds are in the pipeline at the moment. Funds will continue to be managed via a Luxembourg-based SICAV investment vehicle. By December 2015, the Greenman Investments portfolio targets a total volume of over €350m.

Europe/Standards

New global standard for offices launched by RICS in Frankfurt

RICS members from around the world met the weekend before Thanksgiving in Frankfurt to help launch the new **International Property Measurement Standard (IPMS)**, a new measurement standard for office property which will replace dozens of existing standards across the world, and is designed to finally bring transparency and consistency to the real estate industry.

55 international standard-setting bodies, including associations such as RICS (as a founding member of the new initiative), **INREV**, **CoreNet Global**, **ANREV** and the **IMF**, have agreed to implement a uniting standard to avoid inconsistencies in measurements, which can vary by up 24% for an equivalent building. Examples given at the presentation in Frankfurt, attended by REFIRE, were the inclusion of car park space in India, outdoor leisure facilities in Spain or hypothetical floors in the Middle East. In too many markets investors, landlords and tenants had to develop their own processes for measuring and benchmarking assets.

Moderating the accompanying panel discussion at the Frankfurt launch was **Martin Brühl**, (*right*) president-elect of the RICS governing council worldwide and in his day-job the head of international investment management at Hamburg-based **Union Investment Real Estate**. Brühl commented that "The usable space within a building is a vital metric in understanding the valuation and thus investment potential of a property. Investors currently suffer from having to make decisions based on information which is inconsistent from one market to the next. IPMS will address this problem; removing risk and ensuring property investors arearmed with reliable and transparent information."

Panel member **Marc Grief**, Professor at the **University of Applied Sciences in Mainz**, said that the Americans are the most generous in their measurement of square meterage, likely to produce 3-5% more measured area than by using German standards, for example. Comparisons with the UK, India, Japan or Hong Kong would produce double-digit variations. Supporting pillars in high-rise buildings in the US, are considered part of the area of office space, although the space cannot be used, gave Grief as an example. "In the UK and many Asian countries, by contrast, toilets, kitchen niches and storage areas are not included as a rule in office space, because no office worker has desk space there", he added.

Tanja Severin, head of property management at Siemens with responsibility for 15m sqm of office and industrial space worldwide, cited several examples of the confusion her team faces when dealing with the myriad standards pertaining worldwide, particularly in comparing claims for space needs from different subsidiaries. She welcomed the new standard, but warned that it would lead to confusion in the short term as all existing records would need to be amended. She also called for the creation of a new industrial standard, not just for offices, so that companies such as Siemens can evaluate all their property holdings.

As investors and corporates increasingly operate across international borders, the IPMS will provide a consistent and transparent measurement for business decisions, said RICS. Over 100 global businesses have already signalled their intention to request or use the standard by signing up as partners. "The work of the coalition will not stop here," said RICS Global CEO **Sean Tompkins**. "Over the coming months and years IPMS will bring measurement consistency to residential, industrial and retail sectors." The residential standard is expected to be published in 2015.

Germany/Industrial

Light industrial specialist Sirius raises fresh funds, new listing

The AIM-listed **Sirius Real Estate**, which operates branded business parks for light industrial and mixed commercial use throughout Germany, has seen a strong recovery in its share price over the past year. That might be set to continue as the company has just completed a further €40m private placement, and gets set for a fast-track secondary listing this week on J**ohannesburg's Stock Exchange' AltX** market. The company already has a large (40%) South African shareholder base.

CORPUS SIREO
REAL ESTATE

GERMAN B CITIES: COMMERCIAL RENTS INCREASE BY 1.7 PERCENT

The stronger investor interest in second-tier cities of the commercial real estate market in Germany is accompanied with rising rents. In conjunction with empirica, CORPUS SIREO has analysed the offered rents at 14 German potential locations for the seventh time. In the second quarter of 2014, the average offered rents were approximately 8 euros per square metre. This is equivalent to an increase of 1.7 percent compared with the fourth quarter of 2013.

With its study „GERMANY 21 – Regionaler Büromarktindex“ (Germany 21 - Regional Office Market Index), CORPUS SIREO is analysing the German top-7 cities (Frankfurt, Hamburg, Munich, Cologne, Berlin, Düsseldorf, Stuttgart) as well as 14 regional cities (Aachen, Bonn, Bremen, Dortmund, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mainz, Mannheim, Münster, Nuremberg, Wiesbaden). The current issue focuses on Wiesbaden.

The average offered rents at the second-tier locations are between 6.55 euros per square metres in Leipzig and 9.84 euros in Bonn. On average, they amount to 7.99 euros, which is equivalent to an increase of 1.7 percent compared with the fourth quarter of 2013 (7.86 euros).

At the top-7 locations, the average rents range between 10.59 euros in Cologne and 15.22 euros in Munich. With an average figure of 12.78 euros, they are thus at the level of the fourth quarter of 2013 (12.80 euros). As expected, in terms of the age categories of the buildings in B cities, the leading positions are occupied by old buildings (built before 1945) as well as modern new buildings (less than three years old). The average rents for new buildings amounted to 12.20 euros per square metre in the second quarter of 2014. At present, there are not many old buildings in prime locations on the market; this is the reason why there are hardly any changes in this segment. Office premises built in the 1970‘s and 1980‘s have to a large extent not benefited from the positive market development. In general, properties during this period are to be found in the low-price market segment, and are therefore hardly able to benefit from rising rent levels.

City in focus: Wiesbaden

The office market in Wiesbaden is of an average size, with 2.8 million square metres. In terms of prices, the regional capital of Hesse belongs to the leading group, with average quoted rents of 9.70 euros and top rents of 13.80 euros per square metre. The vacancy rate in Wiesbaden is currently approximately 6.0 percent. The office market is mainly characterised by administration and insurance groups, and is stable and not very dynamic. In addition to the small-scale


Wiesbaden

city centre, the Mainzer Landstraße and the Abraham-Lincoln-Straße are the main areas of the office market in Wiesbaden. For instance, four new properties are currently being built in the Mainzer Landstraße, the corridor between the city centre and the motorway link. Further project development has been initiated in the Abraham-Lincoln-Straße, the location which is dominated by insurance groups. The completion of these projects is likely to be accompanied by a further increase in the top rents in Wiesbaden and also increasing vacancy levels in older properties. In future, it is expected that Wiesbaden will also see a process whereby office buildings from the 1970‘s and 1980‘s will be revitalised or increasingly converted into residential properties.

The complete report „Germany 21: Regionaler Büromarktindex“ (Germany 21: Regional Office Market Index“) can be downloaded free of charge from:
www.corpussireo.com/downloads

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The €40m raised in the private placement, along with a further €36m facility being provided by the company's existing bankers, will be used to pay €76m for five mixed-use business parks in Berlin (3 parks), Bonn and Aachen. The new portfolio, with an 8.1% initial yield, will boost the company's German property holdings to €463m. Sirius is paying 2.5% over Euribor for the €36m bank loan over 5 years.

The new portfolio, which has 112,000 sqm of lettable space, has a vacancy rate of 17.1%, a cash on cash yield of 12.9% and a weighed average lease length remaining of 3.9 years. It generates current rental income of €6.8m and net operating income of €6.1m.

Sirius CEO **Andrew Coombs** commented last week that the market had taken note of the lowering of the discount to NAV from 70% last year to now only 20%, and the fact that the company was re-instating its half-yearly dividend policy representing 65% of its after.-tax profit. This follows several years of debt restructuring in the aftermath of shareholder revolt and the collapse of its share price, which saw occupancy rates tumble in 2010, leading to consolidation and the sell-off of several properties. He said occupancy rates are back up to 70%, the company's debt expiry profile is 5.3 years and the LTV rate has come down from 65% to 48%.

Overall Sirius now has 38 business parks offering flexible office space across Germany, generating an annual rental income of €43m. Among blue-chip tenants are **GKN Aerospace** and **Siemens**, who on average lease out 36,000 sqm on ten-year long leases. However, Coombs said the emphasis now is on mixed-use commercial space for small-to-medium companies (SMEs), since the larger tenants are showing less tendency to increase employment. "The expansion of German activity is high in the SME space, but the supply of suitable space (up to about 1,000 sqm) is low", he said.

Germany/Listed Companies

Upgrade for Grand City as it posts FFO up 138%

The listed Luxembourg-based **Grand City Properties**, which invests in German residential real estate with turnaround potential, continued to post strong figures in the third quarter, boosting nine months FFO by 138% to €53m after 'strong internal and external growth'. The share price continues to surge upwards, doubling over the past year on a string of good quarterly figures.

According to real estate veteran and CEO **Christian Windfuhr**, "Favourable market conditions and a strong balance sheet allow us to further extend and diversify our portfolio, placing us in a strong position to achieve high returns to our shareholders with a low risk profile.

FFO per share rose by 44% to €0.46, the firm reported. Net profit rose 27% to €174m, buoyed by rental and operational income, increasing by 135% to €151m after the addition of 17,000 units this year. The firm now owns 43,000 residential units across Germany , reflecting an increase of 65% since the end of last year. It also manages a further 21,000 units for third parties.

Earlier this month the company placed a €500m, 7-year secured bond with a 2% coupon with investors, with the placement being well oversubscribed. The proceeds are to be used to buy back an earlier €350m bond paying 6.25%.

The stream of positive news coming from the company has earned it a rating upgrade from **Standard & Poor's**, from 'BB+' to investment grade rating 'BBB-' on its long-term credit rating and on Grand City's convertible and straight bonds. S&P said the upgrade reflected Grand City's improved business profile, with a increased focus on managing a stabilised portfolio of income-producing properties, a larger portfolio size of €2.2bn and its greater geographical spread across Germany. S&P said GCP mainly operates in favourable regions with good rental growth prospects and where demand outpaces supply from new developments.

Germany/Funds

Corpus Sireo launches new medical properties fund

The Cologne-based investor and asset manager **Corpus Sire**o, currently adapting to its new life as part of Swiss insurance giant **Swiss Life**, has long had expertise in the German nursing home and healthcare sector. Now it's turning its attention to medical practice properties, where it is seeking equity for its first German fund invested solely in the sector.

According to Corpus Sireo fund manager **Marc-Philipp Martins Kuenzel**, the actual category is not just buildings housing private doctors and other medical professionals, but properties focused on healthcare and on-site physical treatment, including existing properties and not just purpose-built new assets. Kuenzel said he expect the fund to start up in the first half of 2015, as soon as he has €75m in equity commitments raised. The fund expects to raise double that, to give it firepower of €300m with leverage. This compares to Corpus Sireo's earlier 2006 **Healthcare Fund Nr. 1**, a Luxembourg-registered vehicle which had a €440m volume at its peak.

Kuenzel said there were two reasons why the time was ripe for such a fund. The first was a clear signal from the government health authorities that out-patient care was being prioritised over hospital stays, and secondly, while the asset category was still relatively new in Germany, it has long been an accepted asset class in the US and the UK, subject to considerably less regulation than the nursing home and managed care sector.

The new fund (whether as Luxembourger SICAV or German *Spezialfonds* is targeting an annual dividend payout of

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5.5% to 6%, somewhere between the returns of its first two healthcare funds. The typical asset size will be between €5m and €20m, and in contrast to the earlier funds which bought assets in many rural locations, the new fund is focusing on cities with 100,000 inhabitants upwards.

Germany/Indices

Prime German office returns stagnate in Q3, possible trend reversal

Property adviser **JLL's** quarterly **VICTOR** Index, which measures the investment performance of prime office properties in Germany's top five commercial cities, confirms that the market stagnated in the third quarter, primarily due to dampened occupier demand. Year on year the index is 4.4% higher, although the index points to a 1.1% fall in the relevant prime office prices in the third quarter – its first minus in nearly two years.

According to JLL's head of valuation **Andrew Groom** in Frankfurt, it is difficult to say which way the trend will go from here. "There are several reasons to expect performance growth will also stagnate in the fourth quarter. In the third quarter we saw a somewhat lower rental volume due to a slowdown in economic development, leading to falling rents in some top locations."

Hamburg led the group as top performer over the past 12 months, rising 7.5% in the quarter year-on-year. All the big cities actually rose, by 6.2% for Munich, 5% for Berlin, 3.2% for Düsseldorf and 2.1% for Frankfurt. Total 12-month return (rental plus price appreciation) fell to 9.1% from 10.2% in the second quarter, led by Hamburg at 12.2%, Munich at 10.6%, Berlin at 9.8%, 7.9% in Düsseldorf and 6.9% in Frankfurt.

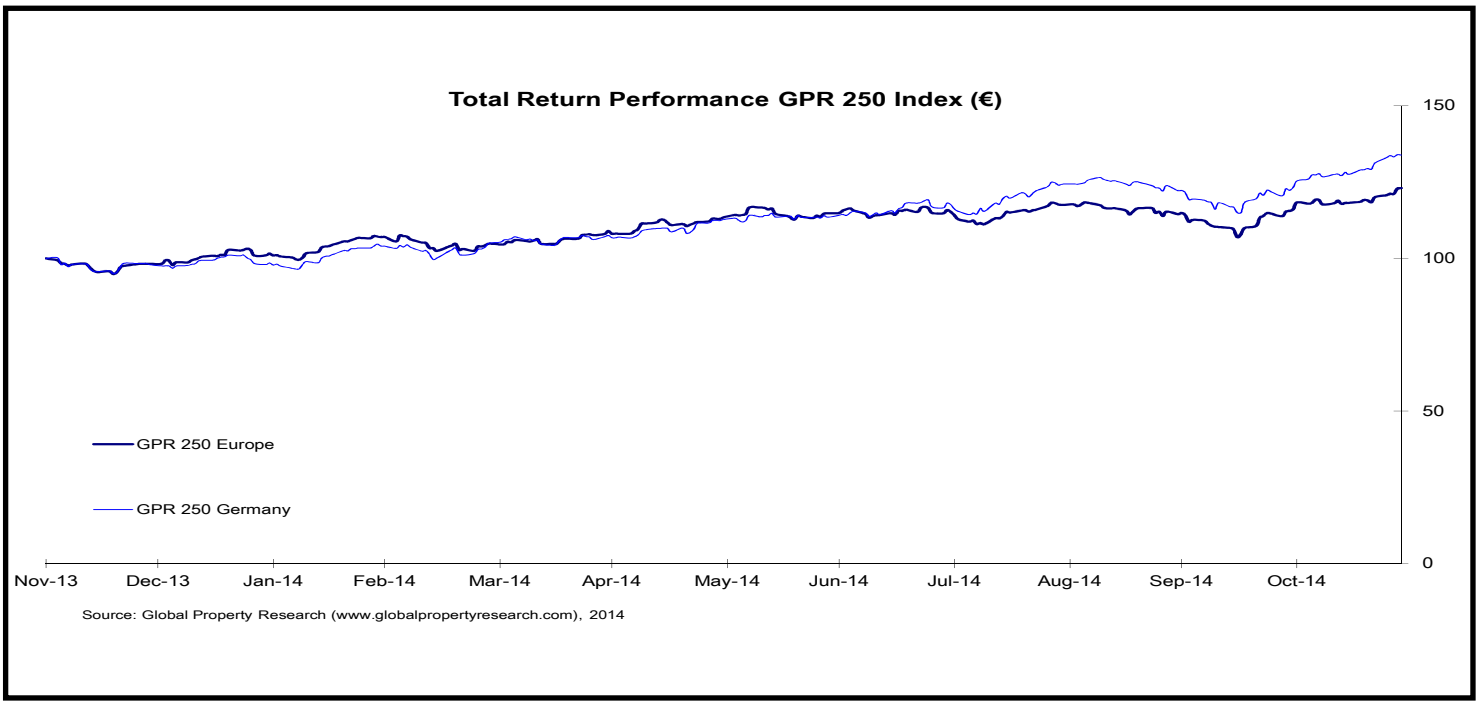
Groom added, "Taking into account the expected return, investments into core property still remain lucrative at a lower cash-flow yield. The low interest rates are bringing more competition among banks, which means that cheap loans are available, especially for core assets." As a result, transaction volumes in particularly Hamburg and Berlin core-plus and value-added investment has been rising. The quarterly reading also highlighted the gap between 10-year government bond yields and office property investment (the "JLL Prime Risk Premium"), now standing at 491 basis points.

Germany/Funds

BVK pension fund buys €60m wind park loan from Deka

Germany's largest public pension fund, the Munich-based **Bayerische Versorgungskammer (BVK)**, has bought a €60m infrastructure loan from **Deka-Bank**, secured by a German wind farm portfolio. The loan is part of a bigger €125m infrastructure loan provided by German savings bank fund manager DekaBank to energy operator **Swisspower Renewables** for the purchase of wind parks throughout Germany.

The portfolio includes 18 independent wind parks in Germany with 85 wind tur-



Graph of Total Return Performance of Europe and Germany in Euro currency over the past twelve months

bines, representing a total installed capacity of 150 MW. They produce around 280 kWh per year, enough to supply 56,000 households. The wind power systems were installed between 2002-2009. **Swisspower Renewables**, jointly owned by eleven Swiss utilities, invested in the portfolio through its **Swisspower Renewables Wind 1** wholly-owned subsidiary.

BVK said DekaBank is one of two banks it is now working with on strategic infrastructure financings. **Constantin Echter**, head of fixed income investments at BVK, said the fund would like to expand infrastructure debt investments in the coming years to make the asset class a significant component of its fixed income portfolio.

"Placing part of our infrastructure financing loans is an important part of our business strategy, said Echter. "DekaBank is a trusted partner and we aim to work together over the long-term. We are already working on joint financing for other projects." The Deka Infrastrukturkredit loan fund purchased a €20m first-ranking tranche of the loan in May.

BVK invests on behalf of municipal and public employees and manages about €55bn in assets. Deka has €214bn of assets under management, of which €26bn is in real estate.

Germany/Statistics

5.2% more housing permits issued in Germany

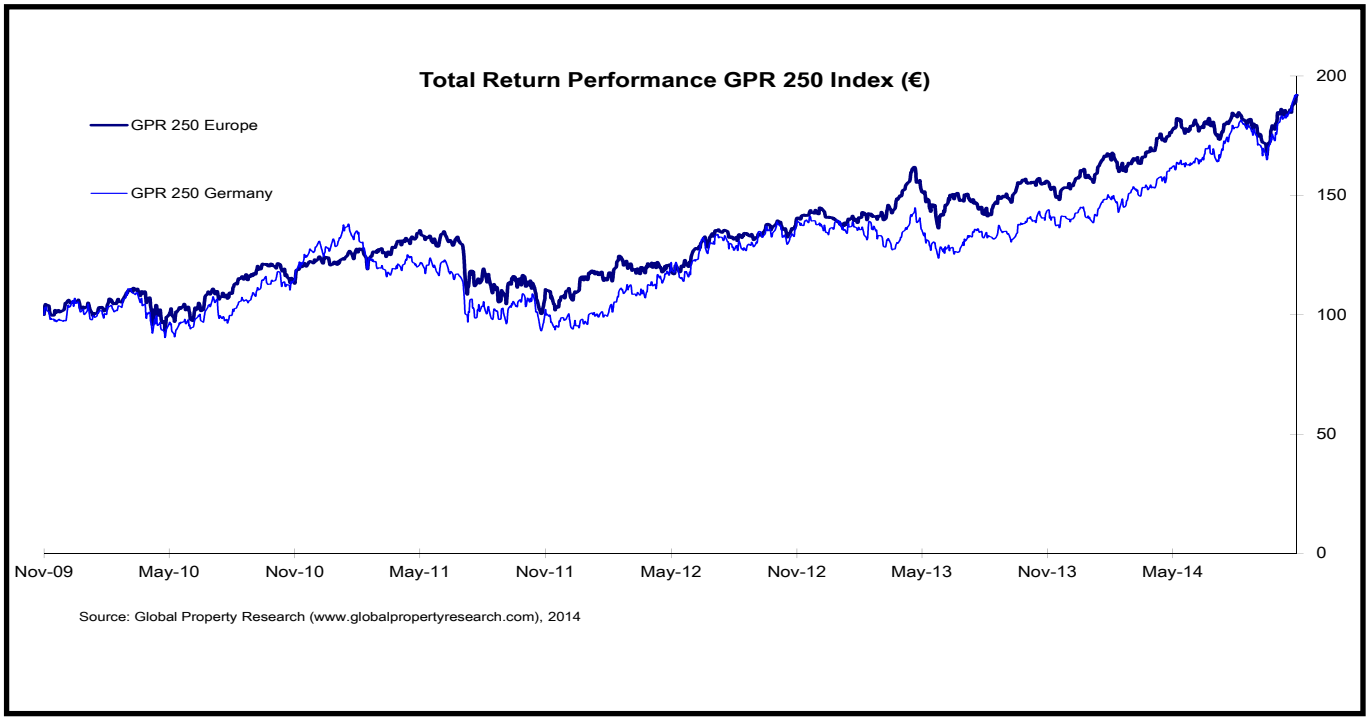
Germany's **Federal Statistics Office (Destatis)** issued figures showing that it issued 212,600 home building permits over the first three quarters of this year, a rise of 5.2% or 10,400 units, although the rate of increase is nonetheless slowing down compared to the same period last year.

The rise in building permits was solely driven by multi-family home, up 9.8% higher year-on-year at the nine-month state, compared to a fall in permits for single-family homes of 3.2% and for semi-detached homes of 5.1%.

Non-residential real estate permits for new development fell by 7.4% to 141 cubic metres, driven by a fall in public sector demand of 22.6%. Private building permits also fell by 5.8%, after a 1.5% increase in 2H14. Most activity was registered for factory and workshop permits, which gained 5%, and hotels and restaurants (+2.6%). Institutional building permits, for municipal or public administrative purposes were the steepest fallers, by 32.5% on 3Q14, followed by agricultural ones at -23.9%.

Meanwhile, separate figures released by the Statistics Office showed that German construction orders in September fell by 2.4% compared to the same period last year. Before adjusting for price inflation, turnover at building companies employing more than 20 workers rose by 1.3% to €6.3bn, while the number of hours worked rose by 5.2%. According to the **German Construction Industry Federation** in Berlin, "The industry had expected better figures, particularly since companies have fairly full order books and they even had an extra day of work this year compared to last."

After the first nine months of 2015, total turnover at €46.1bn is still up by 6.6%



Graph of the total return performance of Europe and Germany in Euro currency over the past five years

REFIRE charts courtesy of GPR, Global Property Research

over the same period last year, largely because of a strong first six months. Given the weakening order book pipeline, however, the industry association warned of more difficult times ahead.

Germany/Industrial

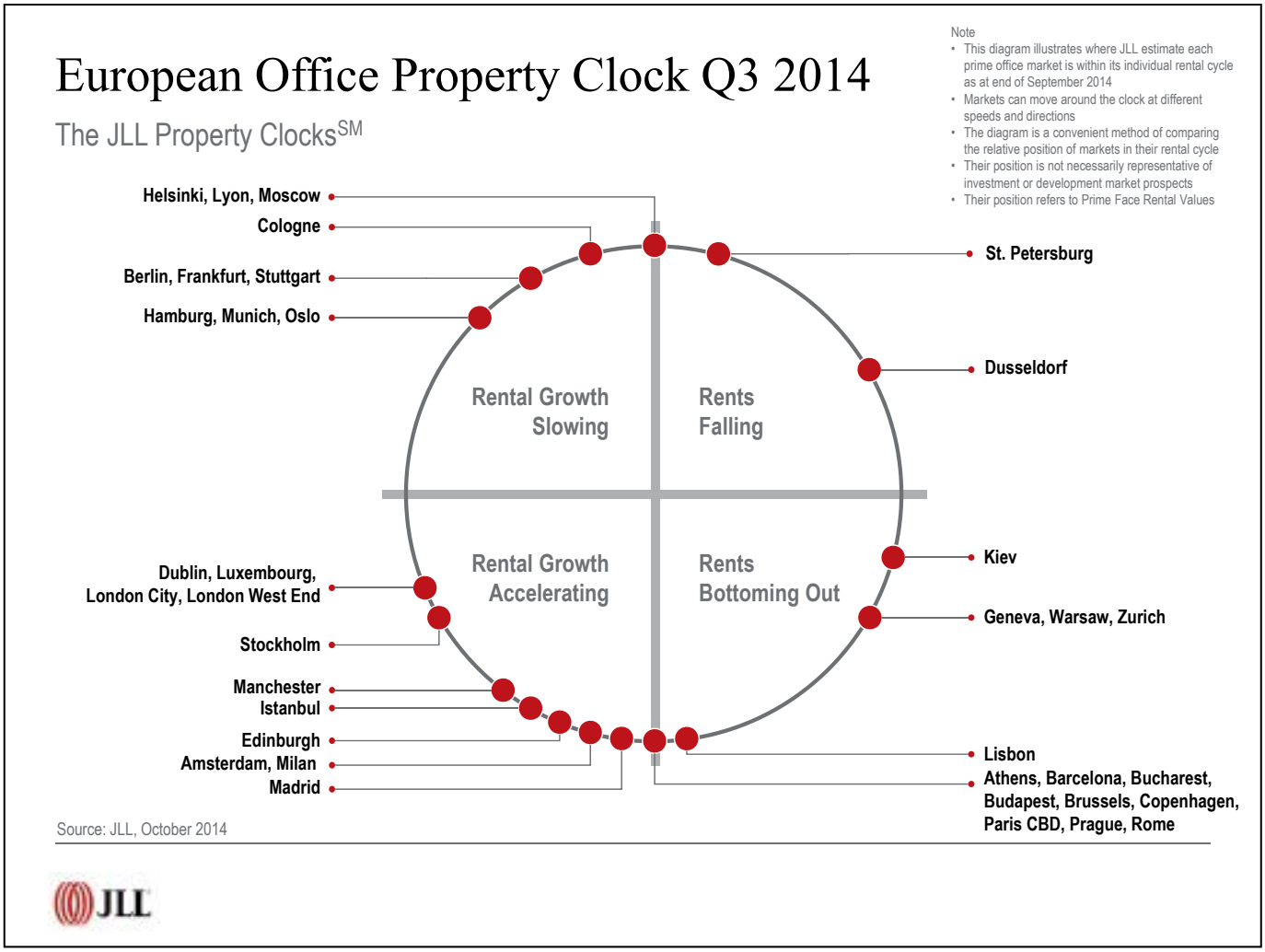
UK's Hansteen buys further nine German assets for €57m

The UK's **Hansteen Holdings** has been on a shopping spree in Germany, paying €56.6m for nine multi-let and single-let properties in established commercial zones across Germany. Seven of the assets were bought from fellow UK group **SEGRO** and the other two from Swedish companies **Tetra Pak** and **Kunglseden AB**.

The assets from SEGRO have 106,000 sqm, of which 8,500 sm is vacant, and are located in Aachen, Hanover, Darmstadt and Willich. The Tetra Pak property is a vacant 18,000 sqm property in the north-west of Berlin near the A111 motorway to Hamburg and Poland. The asset from Kungsleden has 15,500 sqm used as a head office, manufacturing and distribution for an automotive supplier.

All in all, the purchased assets provide a total lettable area of 140,000 sqm, of which 26,500 sqm (19.06%) is currently vacant. The properties produce a combined passing rent roll of €5.27 million per annum from 22 tenants, reflecting an initial yield of 9.3%, with an unexpired weighted average lease term of 4.76 years. When fully let, the portfolio is expected to produce a rent roll in excess of €6.69 million per annum. The acquisitions were funded from existing cash resources along with a new five-year loan facility from HSBC.

Hansteen's joint-CEO **Ian Watson** commented, "We have assembled these high-yielding assets at their current vacancy levels and relatively low rents as we believe they offer significant reversionary potential. Occupier demand in Germany for this type of property remains strong and we are now beginning to see significant capital interest in the sector too."



Guest Column: George Salden

German property market: if you want to make profits, you need to take action

Do you know what an idiot is? An idiot keeps taking the wrong decisions without ever asking why. Like me, for example. In the years between 2005 and 2013, I helped invest over two billion euros in the German property market. During the first couple of years, I applied the standard market valuation methods. For some investments, these methods proved correct, but for many others they were wrong. I did not want to believe that the methods used in the entire industry did not always achieve the desired success and so I stuck with them.

But even idiots can learn. For me, it took over five years and more than 400 individual transactions. But at the end of the day, the structural errors were clear and I was able to develop a new method. I have applied this method many times and thus dramatically reduced bad investments. Why? Because I am now able to identify actual opportunities and risks. I can accurately estimate and calculate revenue to be achieved on a long-term basis.

To do this, I had to move away from a few findings which had taken on almost commandment-like status. For example, the premise that the three most important factors for a property are “location, location and location”. This statement is still seen as a God-given truth in the economics pages of major daily newspapers. Another example is the myth that investing in bricks and mortar will always pay off. These days, is it really enough to buy a property in a good location in order to make a good investment? Is property really the safest type of investment? Is there a single valid answer to all these questions? Yes. And this answer is very simple and succinct: no.

This is because all myths and simple traditional wisdoms are based on emotional components, which then form an important factor in the decision to buy a residential property as a private dwelling. However, an investment decision needs to be based on a holistic, sustainable and dynamic analysis of the property. This means:

1. Thinking in tenant cycles, i.e. switching from a bricks and mortar investment to rental revenue.
2. Considering rental dynamics, i.e. a switch from the static to the dynamic.
3. Overall, switching from a specific to a holistic evaluation.

When purchasing property, the myth of money to be made from bricks and mortar is an antiquated way of thinking which stands in the way of a robust analysis of property investment. But where does this belief come from? For a long time, this view of property investment was justified. In uncertain times where confidence in banks is on the decline, it can become an increasingly attractive prospect.

While consumers associate investments into shares, fixed-interest securities and commodities with an awareness of the risk of loss of equity capital, this seems inconceivable when investing in property. This perception is currently reinforced by low interest rates. As only low interest returns are offered on monetary investments, investors are moving their cash into property, which is currently seen as more secure even than fixed deposits. This effect is reinforced by the fact that financing loans for property purchases and new builds are at an all-time low in Germany. Even the financial crisis has not had an impact, instead it has added extra fire to the market for residential property in Germany.

As if this all were not convincing enough, property has also always been considered inflation-proof. Broad swathes of the population are still convinced that investment in property can never result in a loss of capital. Quite the opposite: Property is not only associated with low risk, it still seems to be able to produce considerable returns.

The revenue to be achieved from property has grown constantly, especially in the years from 1949 to 1974. Since this time, residential property has been considered a conservative, low-risk financial investment, and the crisis in 2008 only had a short-term impact on this. Today, property makes up 87 percent of net investment volumes. But the real meaning

of understanding a property as an economic asset is not widespread throughout the industry. Use must be recorded as a decisive parameter. It is not the bricks and mortar which generate the cash-flow, it is the tenants who create revenue through rental payments. Revenue is only achieved if the property is used. It is crucial to understand that the tenant has a decisive impact on the value of the relevant property - i.e. on the micro-cycle.

Only when this is understood can demographic developments be analysed with respect to their full impact on the property market. The change in the population structure goes hand in hand with a change in the tenant structure; demographic change will bring about a change in rental revenue. Only an analysis of tenant development can explain how to react to these changing patterns. This records the tenant as the central unit of the property economy. Tenants generate revenue and determine demand. They cause fluctuations in tenant cycles and determine the major value of a property.

Let's move on to the next point, a shift from a static to a dynamic system. A dynamic analysis of investment properties needs to do away with the "first commandment" of the property industry and no longer consider location as the single most important factor determining the location of a property. Of course, the location of a property has an impact on its value as property is static and linked to a fixed location. However, the location itself is influenced by a higher-level factor - timing.

A property can fluctuate in value even though its location does not change over time. So timing is important when buying a property. If you are not following me at this point, I would ask you to consider the development of individual prime locations on the Kurfürstendamm and its side streets since the Berlin Wall came down 25 years ago. Another example: Today, large numbers of investors who put money into East Germany in the 1990s are suffering the fallout of these bad investments. Even massive development projects have not been able to stem the flow of migration to the west. While there was a real shortage of accommodation in the former West Germany until the mid-nineties, masses of properties were left standing empty in what was East Germany.

Only if the correlation between the tenant cycle and the rent cycle is correct when the property is bought can optimum revenue be achieved and risks minimised. A dynamic investment analysis needs to anticipate fluctuations in the property market in order to be able to predict how the value of a property will develop.

I say that three things should count when buying a property in the future: "Timing, timing and timing!" OK, you could object that investors now know about the development of value in the property market. But this is barely used to draw direct conclusions for investment. These days, more than an analysis of the individual markets is required, as price rises and falls can develop differently in different areas and times.

An investment begins with the purchase, extending throughout the value increase or decrease phase until the sale. Only when the whole value creation chain is anticipated before the beginning of the investment, allowing an accurate prediction, can the overall value of an investment be determined. In all probability, a newly renovated apartment building on Hackescher Markt in the centre of Berlin will have a high specific value on the valuation date. However, the market development potential in the centre of Berlin is pretty much exhausted and there is real probability that the current square metre rental price of €18.00/m2 would no longer be achieved and certainly could not be exceeded in the short term for a new tenancy.

This means a property of this type has little potential for increase and can only return low revenues because it is associated with the risk of finding new tenants. The overall value of a property of this kind is therefore not as high as the specific value might lead you to believe. But things looked very different in the same place a few years ago ...

In order to move from a specific to an overall assessment, in the next issue of refire I will be taking a brief but highly critical look at the individual methods that are traditionally considered suitable for determining the value of property in Germany.

George Salden is the author of the book "Die Dynamische Methode" [The Dynamic Method] based on his 19 years of experience as an expert and manager in property and transaction management which highlights the way towards a whole new method of determining the profitability of properties. He was previously a director at alt+kelber Immobilienmanagement, a subsidiary of conwert Immobilien Invest SE, where he was responsible for major international transactions. He then took over as International Head of M&A at AK Holding GmbH & Co. KG. He is now Head of Transaction/Executive Board Member at Dr. Lübke & Kelber / Arbireo.

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