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.

Whatever your particular area of specialisation, we think you'll find timely, incisive information within our pages, helping to inform you of the key deals, the numbers, the markets, the players and the people.

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
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# Study shows investors reconciled to expect lower real estate returns

**The latest investment climate study by German fund manager Union Investment shows that investors are increasingly reconciled to lower real estate return expectations, with less than half of those surveyed now believing they will achieve their yield targets over the next three years.**

With interest rates at such historically low levels, professional property investors are finding it increasingly difficult to achieve adequate, low-risk, investment returns. Hencing the lowering of return expectations – with respondents only marginally more optimistic when asked the same question about the next FIVE years.

The latest edition of the twice-yearly survey was carried out among 164 institutional property investors in Germany, France and the UK in November and December 2014 by market research institute **Ipsos**, on behalf of **Union Investment**. The index is based on four indicators: market structure, the general environment, location factors and expectations, each with a weighting of 25%.

According to **Olaf Janssen**, head of real estate research at the Hamburg-based Union Investment, "The latest **ECB** decision has further increased the pressure to revisit real estate investment strategies. Falling acquisition yields are having an increasingly adverse impact on investment outcomes. In order to ensure that their investments continue to perform, the more risk-averse investors are being forced to make a raft of adjustments."

The study highlights how European investors have nonetheless remained cautious in terms of strategy. There is still no sign of the anticipated shift towards investments that carry significantly higher risk in an effort to escape low returns. Only a relatively small group of investors are considering boosting their exposure to non-European investments; the same applies to a move into the hotel and logistics segments with their higher returns.

The proportion of professional inves-

## Rockspring cements retail partnerships with large deals

The cooperative Dutch pension fund service provider PGGM and AG Real Estate, part of Belgian insurance group AG, have teamed up to buy a €350m German retail portolio in a deal managed by UK group Rockspring, which will also be a partner in the tripartite deal on behalf of its German Retail Box Fund. see page 2

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2014 was the year to be in German real estate stocks, while the Spezialfonds vehicle also had a superb year seeing hefty capital inflows. However, the open-ended and closed-ended funds sector had a much tougher time of it, a new study by capital market specialists Akselrod/Barkow Consulting shows clearly. page 12

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tors who are prepared to take on greater risk due to price pressure in European investment markets remains at 37%, the same as in the last survey in summer 2014. At 52%, the majority of investors are not seeking to avoid this highly competitive environment or willing to invest in other risk classes.

"The core segment remains a safe harbour and despite the current high prices investors still expect it to deliver stable performance," continued Olaf Janssen. "The letting markets in most core European countries are in relatively good shape at the moment. Companies are doing well. As long as the investment conditions are right – in terms of the lease and the income potential of the location – investors see no reason to change their investment style or diversify into different regions or sectors."

Compared to last year's survey, professional investors are now more willing to accept shorter lease periods when acquiring properties and to seek slightly higher returns via development projects, while also accepting lower pre-letting rates in such cases. A good half of the surveyed investors are aiming to shore up their performance by increasing the proportion of secondary cities in their portfolio and focusing investment on European core markets.

High global demand for real estate has also resulted in portfolio holders taking a much closer interest in market opportunities for property disposals than was the case half a year ago. Interestingly, for 76%of German investors, 79% of British investors and 51% of French investors, the main priority over the next twelve months is to exploit market opportunities in order to streamline their portfolios or take profits.

"The turnover rate in European portfolios is set to increase because international capital is currently more willing to take significantly greater risks in Europe than local capital," commented Janssen.

***"The turnover rate in European portfolios is set to increase because international capital is currently more willing to take significantly greater risks in Europe than local capital"***

Compared with summer 2014, the real estate investment climate is now bleaker in all three of the regions surveyed. Due to a decline in the "expectation" indicator, the Investment Climate Index fell by 1.8 points in Germany and stands at 68.1 out of a possible 100 points. The mood among French investors deteriorated more significantly – the index for the country fell by 2.9 points to 66.4. The UK index, meanwhile, confirmed the optimistic sentiment seen in the British investment market. The index softened by just 0.3 points and thus recorded the highest level of all three European countries at 70.3 points.

Germany/Retail real estate

## Rockspring cements German retail partnerships with several large deals

The cooperative Dutch pension fund service provider **PGGM** and **AG Real Estate**, part of Belgian insurance group **AG**, have teamed up to buy a €350m German retail portolio in a deal managed by UK group **Rockspring**, which will also be a partner in the tripartite deal on behalf of its **German Retail Box Fund**. The seller was **Capital & Regional** and global wealth manager **Ares Management**. This is the largest deal of its type in Germany for the last five years.

The portfolio is located 92% in western Germany, and consists of 23 large, grocery-anchored big box retail parks with 275,000 sqm. total gross lettable area, generating an annual rent roll of €28m. **Metro Group**, the owner of the

EDITORIAL

# Come back, Free Democrats, all is (almost) forgiven

The recent elections in Hamburg brought joy to supporters of the Free Democrats, or Liberals, when their photogenic candidate Katja Suding rode a lucky combination of attention-grabbing stunts and her opposition's faux-pas to garner 7.4% of the vote for her party, and re-entry into the city's parliament.

This was unusual, as the party has been slaughtered nationwide since its disastrous partnership with the last Merkel government. It has largely disappeared from German national consciousness ever since, having failed to surmount the 5% threshold required for representation in the Bundestag, or Lower House.

Even for diehard supporters, who grew up in the postwar era when the Free Democrats were a critical coalition partner for both the big conservative CDU and social democratic SPD parties, the FDP had become somewhat of an embarrassment. No great tears were spilt when they were booted out of the Bundestag in 2013. Since then they've been engaged in a root-and-branch renewal process at *Länder* level, culminating in their recent Hamburg success – which has given a new - but elusive - breed of liberal, anti-dogmatic, immigration-tolerant voter hope that there might be life in the old dog yet.

That's because, since the last federal elections, large swaths of Germans seem to have succumbed to a warm embrace of all initiatives emanating from the 'Mutti' Merkel-led coalition, underpinned by her coalition partners' drive to wrap everyone up in a cocoon of safety and comfort, sheltered from the cold winds blowing around the labour, industrial and real estate markets in neighbouring Europe. The encroaching nanny state is being welcomed by seemingly ever-increasing numbers, content to shy away from conflict as a trade-off for the avoidance of any confrontation with risk. Here at REFIRE, we think it's a very worrying trend.

The introduction of the *Mietpreisbremse*, or rental freeze on residential housing, has been looming for months. It's now reality, with Berlin's governing coalition signing off on the necessary legislation with what now looks like undue haste, given the meandering preamble of the last two years. Not only is the law now likely to kick in as soon as May or June of this year, but it is being coupled with another whole Pandora's Box of potential nitroglycerin – the so-called *Mietspiegelrecht*, or the law determining the representative level of permissible rents in a locality.

This national can of worms will provide a bonanza for local lawyers, who'll be dragged in to arbitrate in a field where the lack of clear data will make most cases eminently disputable. The all-powerful tenants' associations are now jostling to have the average of the last 10 years rent levels used as the basis for permissible price rises in a given location, rather than the four years envisaged in the current law. Since the best current efforts even *now* fail to accurately reflect recent reality in local rent tables, throwing the data of a further six years into the mix is a recipe for total confusion.

As our journalistic colleague Dr. Rainer Zitelmann in Berlin points out, the inevitable absurd consequence of this would be an actual lowering of rents on new lease agreements, in localities where by definition the demand for affordable rents is highest (hence the introduction of the law). Knowing human nature, we can be sure of one thing, and that is that landlords will find a way to avoid being shoehorned into THAT outcome, if the queue of candidates to become the new tenant is stretching around the block.

With the main opposition parties in the Bundestag being Green and hard-core Left, there is little pro-business opposition to counter the moves being pushed through by the SPD and a compliant CDU, other than the efforts of Germany's real estate lobbying groups.

The amendments to the next phase of the law on rental freezing – when the real negotiations start at the municipal and neighbourhood level right across Germany – is where the rubber really meets the road. The lack of an FDP or similar pro-business grouping with pragmatic real-life experience at national level, which might have prevented this monolith from even leaving the Bundestag in such a raw and unthought-through state, is regrettable.

The construction industry so far has remained phlegmatic, largely because new buildings are exempt from the restrictions of the new law. Across Germany, property prices still rose faster than rents last year, up 5.5% in western Germany and 1.4% in the eastern states, with the relationship between prices and rents, or prices and household income, reverting to long-term tendencies.

The recent real estate report presented to government by the independent 'wise men' concluded that last year marked the end of general residential rental growth, although the most popular 'swarm cities' with strong demographic growth will continue to see rent rises. These are the cities that lead to the hysterical headlines of unaffordable housing and tenants being abused by unscrupulous landlords. These are the thriving metropolitan areas where people want to live – and are likely to want to do so for years to come.

What we need are fresh policies that can promote new construction in these great cities, as a counterweight to further unsustainable rental growth, and politicians who don't have to be greedy landlords nor anti-tenant to fight for a fairer market for us all. We'd almost say, Come back FDP – some (but by no means all) is forgiven!

Charles Kingston, Editor

**Real** hypermarket brand, **Rewe**, **Kaufland**, **Edeka** and **Globus** are the major tenants; portfolio occupancy is at 98%, with a weighted average unexpired lease term of 6.9 years. The transaction brings Rockspring's assets under management in German and Swiss retail warehousing to over €1.5bn, and to €7.2bn its total assets across Europe.

More significantly, however, together with existing ownerships, the transaction extends Rockspring's relationship with Real, Germany's biggest out-of-town food retailer which operates across seven of the 23 assets, and makes Rockspring one of its principal partners and store owners. The properties will be managed by **Prime Management**, which, together with Rockspring, has a successful track record in implementing redevelopment projects and lease re-gearing with Real.

According to Rockspring partner **Paul Hampton**, "This is a significant transaction for Rockspring, both in terms of its size and our success in bringing two of Europe's largest and most experienced investors in a club deal together alongside our own German Retail Box Fund."

The deal is also significant for the Dutch and Belgian investors as they establish a foothold in the German market, although PGGM has dones several deals with Rockspring in the past.. **Thijs van Gelder,** senior investment manager at PGGM commented: "This is an attractive, value add portfolio with longevity, a stable cash flow and, importantly, with defined actions to improve the portfolio's sustainability performance." PGGM is a cooperative Dutch pension fund service provider, offering asset management, pension fund management, policy advice and management support. It has 678,000 members and €180bn in assets under management.

**Serge Fautré**, CEO of the Belgian group AG Real Estate, added: "This, our first retail real estate investment in Germany, comes in addition to our current activities in car park management in Germany (**Interparking** via **Contipark**)

and is in line with our ambition to engage ourselves into new markets in a highly selective way." AG Real Estate has a staff of 200 and is active in asset and property management, development, construction management, PPP, real estate finance and car park management (where it employs a further 2,300 across Europe). It also manages an investment portfolio valued at €5.3bn

Meanwhile, Rockspring has been active on its own behalf as well after buying two prominent eastern German retail assets earlier this year for €64.5m.

The first asset, the *Elisen Retail Park* in Greifwald on the north-east Baltic coast, has 44,000 sqm of gross lettable area and is fully leased to the **Metro** group. Anchor tenants include grocer **Real**, electronics store **Media Markt** and home improvement store **OBI**. In Frankfurt an der Oder, on the Polish border, Rockspring will be adding the Real hypermarket to its **Trans European V Funds**, which now has €150m of assets. The price paid was €925 per sqm, representing a net initial yield of 12.6%.

According to Rockspring partner **Stuart Reid**, (*pictured, right*) "The relationship that we were able to form with the sellers of this off market portfolio in such a competitive market place combined with the quality of equity supporting our offer was instrumental in securing this acquisition. Both acquisitions are in excellent locations. Greifswald is the dominant centre in a major catchment area of 150,000 people and growing, while the Frankfurt property offers upside potential through improved asset management. These transactions mark another major strategic investment in dominant retail warehouses, supported by increasing institutional appetite for investing in the east of the country."

Germany/Listed Companies

## Adler clinches majority acceptances for Westgrund takeover

In what now looks like another done deal, the listed **Adler Real Estate AG** has secured commitments of more than 50% of the votes in Berlin-based **Westgrund AG** in its voluntary public takeover offer. The transaction is now expected to be completed by mid-2015, Adler said in a statement. The combined business will be the fifth-largest listed residential real estate company in Germany by units.

Adler is offering Westgrund shareholders €9 in cash and 0.565 new Adler shares for every three Westgrund shares, reflecting a 20% premium on the average price over the past three months. The new Adler shares will come from a capital increase, and Adler says financing for the transaction has already been secured.

According to **Axel Harloff**, Adler's CEO, "The takeover of Westgrund AG offers the opportunity to generate considerable potential for synergies amounting to around. €20 million over the next three years. Westgrund owns an outstanding portfolio which is not adequately reflected in the share price."

With both Adler and Westgrund having similar business models and strategies, Harloff said they shared the aim of building a considerable property portfolio in Germany targeting B-cities and suburban areas of German metropolitan regions. Adler currently owns and manages more than 31,000 units, while Westgrund owns and manages nearly 21,000 residential units.

The new combined portfolio of 52,000 units, mostly located in Lower Saxony, North Rhine-Westphalia, Berlin, Brandenburg and Saxony, will create the fifth largest listed housing company in Germany. The **EPRA** net asset value of the combined company will be at around €14.60 per share, and funds from operations will range at €67m-€70m, with a balance sheet at €2.7bn and a market capitalisation of €700m, said Adler.

**REFIRE**: *Adler's growth has been spectacular since it made a fresh start two years ago, and investors in the stock are looking at a twenty-bagger if they've been holding the stock since 2010. The last two years have really seen the company skyrocket, growing from 57 apartment to now owning 31,200 units. The company's strategy is simple – buying strong yielding residential assets in B-locations with low capex requirements, and then refinancing while interest rates are on the floor. According to Adler's CEO Harloff, "Lowering vacancies and raising rents is at the very heart of our activities."*

*When Adler buys a portfolio, it immediately revalues the assets to reflect current market prices, which has enabled the company to boost the EPRA net asset value last year from €5.27 to about €11.00 per sqm, an aggressive write-up strategy but one which Harloff has publicly said is justified and independently verified by outside valuers. Several disposals have confirmed these revised valuations, he says.*

*Harloff says the company profits by having the financing in place to move quickly when a portfolio comes on the market, and the seller – for whatever reason – favours avoiding a lengthy bidding process. Even this can lead to squeezing out a further discount on the price, he says. The medium term plan is to grow to 45,000 or 50,000 units, and Adler is preparing for this by increasing a bond issue from €30m to €130m.*

*REFIRE met recently with the head of Adler subsidiary Estavis, Jacopo Mingazzini, to talk about the company's speciality, privatization. Estavis, now known as Accentro Real Estate, plays a key role in determining which properties have a future within Adler's strategy, and which should be sold off. The division has its*

*roots in privatization, and sells assets for its parent and for third parties. Given the sizeable margins frequently available, the division is expected to be an increasing contributor to Adler's bottom line.*

*Since trees don't grow to the sky, and the stock price can't keep soaring for ever, Adler has been looking around to provide further perspectives to fuel its equity story, hence the merger with Westgrund. Both companies share the same major shareholder in Wecken & Cie, a Swiss family office headed by Klaus Wecken, which also holds a sizeable stake in Swiss Prime Site AG, one of the company's biggest real estate investors.*

Germany/IPOs

## Grove Int'l rumoured to be priming Aurelis for IPO

A report by *Bloomberg* suggested that **Grove International Partners**, owner of German developer **Aurelis Real Estate**, is considering floating Aurelis on the stock market, in a move which could take place as early as this year. Neither Grove nor Aurelis have confirmed the story so far.

Grove is a property investment firm backed by hedge fund manager **George Soros**, and founded by **Richard Georgi** in 2004 after its earlier incarnation as **Soros Real Estate**.

The Frankfurt-based Aurelis was valued at about €500m in November 2013 based on a valuationpublished by previous co-owner **Hochtief AG**. After a chequered history since its foundation in 2002 as a subsidiary of railway operator **Deutsche Bahn** in 2002, during which it was 50%-owned by **WestLB** and Hochtief AG at different times, Aurelis manages and develops offices and logistics properties in cities from Cologne to Frankfurt and Munich.

Grove is, not surprisingly, among companies looking to take advantage of demand for German real estate stocks as values increase and rents rise. Property share sales reached a record €4.8 billion last year, 29% more than in 2013, according to data compiled by Dusseldorf-based **Barkow Consulting** (*see elsewhere in this issue*). In 2014, the **FTSE/EPRA NAREIT** index of German real estate stocks gained fully 40%.

Another company reported by Bloomberg as lining up an IPO is the Berlin-based **Ado Properties**, a residential investor with a focus on the German capital. Ado, whose parent company is listed in Tel Aviv, may be planning to announce a secondary share sale by the end of the first half, insiders close to the deal were quoted as saying.

A flotation could raise €300-400m based on the company's ownership of about 235 properties with 9.000 apartment units in Berlin, with total market capitalisation of just below €800m, although the size of the potential placement is not known. Investment banks **UBS** and **Kempen** are said to be preparing the flotation, with **Freshfields** as the advising lawyers.

Germany/Funds

## INTERNOS enters German student housing market

The €3.6 billion owner-managed real estate fund management group **INTERNOS Global Investors** and the family office **Somerston Group** have jointly acquired a 27.5% stake in **Deutsche Real Estate Funds Advisor S.A.R.L. (DREF)** a real estate investment manager specialising in the German student accommodation market.

**Andrew Thornton**, chief executive of INTERNOS, said DREF had established a strong track record of financing, developing, modernising and managing student accommodation in Germany. "There is still a significant opportunity to increase institutional investment into student housing in Germany and we very much see this as a long-term strategic shift that we would like to exploit," he said. "This investment is in line with our strategy of investing in buildings where populations rest their heads, as this strategy should provide institutions with maximum comfort about future economic volatility."

Following the deal, **Bauer Group** will remain the majority shareholder in DREF. Bauer has already completed student residence projects in London, Munich, Bremen, Oldenburg, Osnabrück and Regensburg. Andrew Thornton, CEO of INTERNOS, will join DREF's advisory board and **Shaun Robinson**, CEO of Somerston Capital, the investment advisor and asset manager to the Somerston Group, will join DREF's management board. DREF's founder and CEO **Felix Bauer** said that DREF was working on an imminent bond issue to finance its further student housing projects.

Separately, INTERNOS also closed on the €53m acquisition of the *Triforum* complex in Cologne as part of its Hotel "Value Add" mandate via the Master-KVG* provided by institutional investment partners from **Hamburgische Immobilien Handlung (HIH)**. The 24,000sqm Triforum complex, near Cologne's citiy centre, comprises a *Park Inn Hotel* and about 15,000 sqm of office space. The hotel is operated on a long lease under the Park Inn brand and the office space is fully let to high quality tenants. This brings to 15 the number of hotels in INTERNOS's portfolio, valued at nearly €500m.

According to **Jochen Schaefer-Suren**, the portfolio manager for INTERNOS's hotel division, "This year we plan to deploy an additional €200 million plus into hotel real estate from the remaining capital of the INTERNOS "Core" Hotel Real Estate Fund and the Hotel "Value Add" mandate… We have also begun to explore resort hotel acquisitions and mezzanine funding of hotel developments for one of our institutional investors."

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Germany/Logistics

## Panattoni gears up for €500m German expansion

The logistics and storage property developer **Panattoni Europe** has been re-organising in anticipation of a big expansion in its German business, which it said recently should reach about €500m in Germany this year.

Last year the company, a subsidiary of the California-headquartered **Panattoni Development Company**, moved into its new corporate HQ in Hamburg's Hafen City district. Its German operations will be supported by further offices in Mannheim and Munich. It recently added two new managers, **Sönke Kewitz** and **Fred-Markus Bohne** (who joins from **Gateway Real Estate** in Frankfurt), as managing directors to its board, to beef up execution of the firm's business strategy in Germany. To date the group has been primarily active in Poland, the Czech Republic and Slovakia.

"As a market leader, Panattoni Europe has been quite successful in eastern Europe," said Kewitz in a press statement. "We want to follow that example and transfer our successful strategy here." Added Bohne: "An essential building block of our strategy is our proven knowledge of the market and our being close to our clients and their projects."

The two, with a German team of 13 staff, says they aim to invest €300m in real estate with land banking over the next few months, with an additional €200m earmarked for build-to-suit projects. At present, some 55,000 square meters of logistics space is being developed by Panattoni, all scheduled for the first quarter of 2015 in Bremen, Henstedt-Ulzburg, and Hassfurt.

A further two projects in southern Germany, with 20,000 sqm each, are in the pipeline and set for closing this quarter. One of these is a 5-hectare site on a disused military airbase in Hanau near Frankfurt bought for €4m from the local authority, on which Panattoni plans to build a 35,000 sqm warehouse for contract logistics.

Panattoni also plans to expand property management, with the division targeting a volume of "several hundred million" in the medium term.



Germany/Retail real estate

## Universal-Investment continues German retail buying spree

The Frankfurt-based fund manager **GPEP GmbH**, along with Universal-Investment (also of Frankfurt) concluded a deal to buy a portfolio of 12 special retail centres for a special fund managed by GPEP as the portfolio manager. The price was thought to have been around €20m.

The assets, with a total lettable space of 13,100 sqm, all have German discount grocer **Netto Marken-Discount** as their anchor tenant, with whom the owners have signed fresh 15-year contracts.

The seller in the deal was **Marktkauf Holding GmbH**, a subsidiary of the Hamburg-based **EDEKA-Zentrale**, which owns the Netto chain. Netto, the third largest discount grocer in Germany after **Lidl** and **Aldi**, itself has its headquarters in Maxhütte-Haidhof in Bavaria, and the 12 comprehensively renovated discount stores in the portfolio are mainly located throughout Bavaria.

Initiating and promoting the sale of the portfolio were EDEKA-subsidiary **CEV Handelsimmobilien GmbH** and veteran retail portfolio marketer **JenAcon GmbH**. The Universal-Investment *Spezialfonds*, as buyer for a pension fund, invests in inner-city office and retail property in Germany. Universal will handle the fund administration, while GPEP is responsible for portfolio, property and asset management.

In January, Universal-Investment bought the "*Tonic*"Portfolio for more than €230m from the Hamburg-based asset manager **A&M Captiva**. The properties were sold out of the **Captiva Capital Partners III ELP** property fund, and include 38 assets - 18 retail centres, nine supermarkets, nine discounters and two retail warehouses. The package has an occupancy rate of 98% after extensive asset man-agement and modernisations

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over the past years, Universal said. They are mostly located in smaller and mid-sized cities in western and southern Germany, with grocery supermarkets **REWE** and Edeka as anchor tenants. The portfolio will become part of a Universal-Investment *Spezialfonds*.

Universal Investment, which is owned jointly by **Berenberg Bank** and **Bankhaus Lampe**, manages more than €214bn in assets with its 550 staff, across more than 1,000 *Spezialfonds* and open-ended fund mandates.

Germany/Listed companies

## Germany's listed sector sees surge in inflows, mutual funds suffer

2014 was the year to be in German real estate stocks, while the *Spezialfonds* vehicle also had a superb year seeing hefty capital inflows. However, the open-ended and closed-ended funds sector had a much tougher time of it, a new study by capital market specialists **Akselrod/Barkow Consulting** shows clearly.

The study puts the volume of capital placed in Germany's listed real estate sector at €4.6bn, a rise of 29% over the previous year and marking a second consecutive year of growth. On top of this, a wave of convertible bond issues contributed a further €1.9bn, easily surpassing the previous best year of 2012, which saw barely 25% of this volume. Last year, the **FTSE/EPRA NAREIT** index of German real estate stocks gained 40%.

The study measures inflows of capital into listed real estate, institutional open-ended funds, public open-ended funds and closed-ended funds. A clear highlight for the year was the listing of Berlin-based **TLG Immobilien**, which invests in the hotel, office and retail sectors, but noting little activity otherwise in the listed commercial real estate sector.

NOT included in the study are **Immofinanz's** spin-off of **Buwog** or **Adler Real Estate**'s takeover of **Estavis**. **Deutsche Annington**'s bid for **GAGFAH** is also outside of the study, as is the merger of **Deutsche Wohnen** and **GSW**. All four transactions were neutral on a net-new-money basis and structured as share-for-share offerings or carve-outs.

Indirect real estate vehicles saw net capital inflows falling 20% to €13.8bn, with institutional open-ended funds remaining the most important contributor to indirect real estate investment for the sixth consecutive year, accounting for 49% of net inflows.

The study's author **Peter Barkow** said that the increase in investment in listed real estate in Germany could be viewed as evidence of a growing appetite for what is widely seen as the eurozone's safest market. "What's struck us most is how important listed real estate is to Germany's wider equity capital markets activity", he said. "The market is still waiting for large insurance funds and pensions to invest in German listed real estate".

He added that while domestic asset managers usually have a "home bias", the situation in Germany's listed real es-

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tate sector has been "quite the contrary".

The country's listed sector, which has tried to encourage more real estate investment trusts (REITs), is also largely the domain of residential-focused companies. "The (German listed) sector is dominated by residential investment companies," Barkow said. "That's unusual across Europe. The commercial side is still very small."

The study said that despite a lack of data on closed-ended funds, last year was likely to have seen around €600m flowing in from retail investors. "These numbers continue to reflect a difficult issuance environment in the face of increased regulatory requirements," the report said. On the other hand, institutional closed-end funds show more promise, with market estimates put at around €900m.

Barkow's report said last year was likely to have been the "worst year ever" for both retail and institutional closed-ended funds, with inflows down by over 60%. "There are still funds open for inflows, which are doing very well, but frozen funds have impacted overall figures," Barkow said. Net inflows into public open-ended funds were "very light", totalling €900m. The **Deutsche Bundesbank** is due to publish official closed-end fund numbers in May.

Germany/Financing

## Aareal Bank triples profit, clinches deal for WestImmo

The Wiesbaden-based **Aareal Bank's** press conferences are always tightly-managed; they have the added advantage that veteran CEO **Dr. Wolf Schumacher** invariably recaps the more extended analysis of the minutiae of the company's annual performance and boils the enormous amount of data into a handful of key take-home messages, representing his view of the most salient achievements.

This year was no exception. Those key points at the annual event held in Frankfurt last week were; a) the bank had its best ever year, with a tripling of its consolidated net profit; b) the full-year dividend is being raised to €1.20; c) the bank comfortably passed the recent ECB stress tests with flying colours and repaid the residual amount of the SoFFin silent participation granted during the financial crisis, while placing additional Tier 1 capital and integrating last year's acquisition of **Corealcredit** from **LoneStar**, and d) concluded the acquisition of Mainz-based **Westdeutsche Immobilien Bank (WestImmo)** from WestLB's 'bad bank' **Erste Abwicklungsanstalt (EAA)** after a long drawn-out sales process.

## Germany's regulatory excess

**By Jürgen F. Kelber, Managing Director of Dr. Lübke & Kelber GmbH**

Ever since the initial shockwaves of the financial crisis were felt around the world, there has been a tendency for governments to resort to a default position of stronger regulation. No other country has seen the strengthening of regula-tion on a scale comparable to Germany. And the real estate industry is particu-larly hard hit by this new regulation mania. Masses of new regulations have been formulated, often accompanied by buzzwords such as "ecological", "sus-tainable" and "socially equitable". Alongside the many new laws passed at na-tional level, such as the recently announced Mietpreisbremse rent cap legisla-tion, a raft of legislation has been passed at state, municipal and communal levels.

### Protection of the Urban Environment

More and more German cities - including Frankfurt, Berlin, Munich and Ham-burg - are designating certain districts as "protected urban environments". As permitted by § 172 of the German Building Code, municipalities can designate specific areas as "Milieuschutzgebiete", meaning that steps have to be taken to "preserve the composition of an area's residential character" and certain measures, including "the demolition, alteration and change in use of real estate" are subject to specific approval from regulators.

In a number of Berlin districts regulators have been known to withhold building permission for balconies because, in their opinion, they are "too large". In Frie-drichshain-Kreuzberg a building's owner was recently banned from fitting balco-nies to his apartment building. Plans for the 6.5m2 balconies were turned down because they would "inappropriately" increase the value of the building and thereby "drive lower income tenants out of the area".

Even the addition of guest washrooms and toilet facilities, under floor heating or a second wash basin in a washroom are being classified as "luxuries" and approval is therefore being denied. Such measures are even being denied in cases where tenants have expressly supported proposed improvements to the facilities in their apartments. The main justification offered by the planning authorities: "The social milieu of the area needs to be maintained and protected from an influx of wealthier tenants."

### Mietpreisbremse rent cap

At federal level the new Mietpreisbremse law, which will regulate increases in rents and introduce rent caps, is about to be passed. Once the new law is im-plemented, landlords will be restricted in the extent to which they can increase rents when one tenant moves out of an apartment and a new tenant moves in. The new rent can be the same as the old rent or no more than 10% higher than a "local comparative rent". In their legislation, or anywhere else, for that matter, lawmakers have unfortunately forgotten to clearly define what this "local com-parative rent" is - especially unfortunate given the fact that the whole law is con-structed around this central concept. The assumption is that local rent indexes, already published in many areas, will form the basis of the new "local compara-tive rent". In many cities though, such as in Bremen, there are no rent indexes. How should landlords in Bremen determine the future level of rent increases?

The draft legislation includes the following, "In areas lacking rent indexes, land-lords will face difficulties in determining permissible increases. Tenants will also face substantial problems in assessing the validity of rent increases. Figures collated and held in the comparative data banks of landlords and tenants' asso-ciations, together with comparable statistical surveys of local rents, may be of use in determining the "local comparative rent" in such cases." This means that landlords will have to provide prospective tenants with extensive documentation regarding previous tenancies before they are able to let an apartment. Land-lords will become less like landlords and more like real estate researchers and letting their apartments will become a scientific endeavor.

Uncertainty about the correct levels for rents will reign in future. Which is why experts fully expect a flood of litigation once the new law comes into force. Even the explanatory notes that accompany the new legislation include the following admission: "The Mietpreisbremse rent cap legislation

will potentially cause in-creased costs as a result of the need to engage legal representation for both landlords and tenants." In addition, as the notes put it, a "flood of civil litigation" is to be expected. "The extent of such disputes and their associated costs can not currently be predicted as there is insufficient data upon which to base any such estimate."

Real estate owners face a huge extra workload: The authors of the new legislation estimate that two hours of work will be added as a result of the new law to the time it takes to determine the appropriate level of an apartment's rent. This extra effort arises from the need to take the new assessment criteria, for exam-ple the local rent index, into account, as well as the need to collate relevant in-formation about the apartment and to properly classify it in the acceptable price structure. Officials estimate that calculations of this sort will be necessary in 424,000 cases, resulting in 848,000 extra hours of work for real estate owners, landlords and property managers.

Should tenants request information regarding the factors that have been taken into account in setting the level of their rent (e.g. a copy of the previous occu-pants tenancy agreement), as they are fully permitted to do by the new legisla-tion, "written confirmation of the calculations used to determine the rent will be required, which should realistically take no more than 45 minutes to produce". Officials estimate that such extra work will be required in approximately one third of cases. Based on the earlier calculations provided by officials, this would result in an additional 106,000 hours of work for owners, landlords and property managers.

Which means: In order to implement the nonsensical, ideologically motivated Mietpreisbremse rent cap legislation, real estate owners will have to lodge 954,000 hours of overtime every single year! Just imagine how many worth-while things could be done in these million hours! And not a single new apart-ment will be created as a result.

## Environmental regulation

In November 2014 in the state of Baden-Württemberg, a new law was passed that will strictly regulate construction in accordance with environmental and so-cial criteria. Amendments to the State Building Code require the construction of weatherproof, anti-theft bicycle storage facilities. For each new apartment con-structed in the state, storage space for two bicycles must be created. It is al-ready foreseeable that many of these spaces will go unused. At the same time there will be a shortage of car parking spaces as they will only be required in reduced numbers. Legislators are clearly attempting to force the population to relinquish their cars and get on their bikes.

Developers in Baden-Württemberg will also in future be obligated to construct green roofs and green walls. So owners will be forced to plant ivy around their buildings so that it can climb up their facades, or install a lawn on the buildings roof. The legislation does allow for the requirements to be waived, but only in very specific and justified cases.

## AIFM

Investors are also having their lives made more difficult. As we have all heard, legislation is being passed at a European level to regulate the management of alternative investment funds. On top of this, a wealth of red tape and regulations are being introduced, all in the name of investor protection. The regulations are so extensive and complex that they have driven most of Germany's closed-end fund companies out of the market. The result? Billions of euros earmarked for large investment projects will now end up elsewhere.

No other country has implemented the EU requirements with the speed and to the same extent as Germany. German lawmakers have even gone so far as to create their own "Capital Investment Code", a code more far-reaching than any requirements issued by the EU. For example, open-ended real estate funds are restricted to a debt ratio of 30%.

These are merely a small selection of examples from the regulation mania in Germany, all of which seem expressly designed to make the lives of those in the real estate industry more difficult. Clearly, other countries are also introduc-ing new legislation and regulations. But it seems as though Germany wants to be the European regulation champion. One is reminded of the saying, " Deutsch sein heißt, eine Sache um ihrer selbst willen zu übertreiben." ("To be truly German means overdoing things for the sake of overdoing them.")

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The deal to buy WestImmo was only announced the week before the presentation of the full-year figures. Aareal is paying €350m in cash for commercial property lender WestImmo, its neighbour down the road in Mainz. This is about €100m less than WestImmo's equity capital of €452m, allowing Aareal to book a one-off profit of €150m for "negative goodwill" in its 2015 accounts.

Aareal had previously withdrawn from active bidding earlier in the lengthy sales process as EAA pursued efforts to wind down assets of the now-defunct landesbank WestLB. Now, as the successful suitor, Aareal says it expects to complete the deal, which is subject to regulatory approval, in the next four months, and to "integrate WestImmo into the group as swiftly as possible". Aareal said the integration "will provide a positive contribution to Aareal's consolidated operating profit, and is expected to generate a cumulative contribution to earnings per share (EPS) of more than € 3.00 over the next three years.

The acquisition, coming on top of last year's absorption of Corealcredit from turnaround specialist LoneStar, boosts Aareal's commercial property lending book by €4.3bn. Like Aareal, WestImmo has a diversified international portfolio, with only about a third of its book secured on property in Germany. The deal also includes private mortgage lending of €1.6bn along with public financing loans valued at €800m, which Aareal – as a pure commercial lender - is expected to dispose of.

The sale of WestImmo, which we have reported on exhaustively in these pages, came after a sales process lasting nearly five years and several false starts, from which it was subsequently withdrawn. The bank remained active, and profitable, although it was prevented from writing any new business, and as a consequence gradually reduced its balance sheet to its current €8.1bn. It still remains well-capitalised and refinanced as a Pfandbrief-issuer, with an experienced staff of 280 with broad international expertise.

*Guest Column:*
Dr. Gabriele Lüft, Managing Director of VALTEQ Gesellschaft mbH

## If you don't check, you pay: How does one deal with environmental liability risks?


**www.valteq.de**

Whoever causes the damage must foot the bill. This is almost always the case, not just morally, but also legally. Yes, unfortunately only almost always. There are two terms in German legislation you should be aware of as a landlord, especially if you own industrial or logistics real estate. These are 'disrupter by action' [Handlungsstörer] and 'disrupter by status' [Zustandsstörer]. Have you come across these before? Roughly speaking, the disrupter by action is the party whose action causes damage to the environment. On the other hand, the disrupter by status is usually the owner, where the damage "can be at least indirectly attributed to his intentions".

What does this wonderful German legal jargon mean? It means, whilst you as the owner are not directly responsible for ensuring that your tenants observe laws and statutes, you could nevertheless be held responsible for the consequences in the event that they don't. An example. Your logistics property is used by a chemicals company. To this end, certain precautions must be provided for in the buildings – for example for fire-fighting water, sealing of the floors, separator installations, and the like. In addition, there are the operator's obligations. In other words, your tenant may have to demonstrate BImSchG approval, that there is an officer responsible for hazardous materials, that separators are properly serviced, and other matters. The problem is that you, as the landlord, have hardly any means of checking these operator obligations. If your tenant should then violate these obligations and contaminate the subsoil or building fabric, it could lead to remediation costs running into the millions. In the first instance, the perpetrator – in this case, the tenant, would be held responsible; however – and it happens more often than one would think – they can't always be caught, either due to insolvency or simply because they have gone underground. Put simply: Environmental liability risks are caused by the tenant but borne by the landlord.

So how can we solve this problem? At VALTEQ, we always recommend three possibilities. Firstly, the inclusion of environmental liability clauses prior to completion of the rental agreement; secondly, the careful selection of tenants, particularly in sectors as sensitive as chemicals or logistics, and thirdly, the execution of regular external environmental audits. Within these audits, the examinations cover topics such as the observance of hazardous substance quantities, substance classes, the handling of classified water hazards or the flammability of fluids etc. These audits provide you with an insight into what is actually happening on your property, rather than leaving you to live with the damage once it's too late.

Posting its 'best ever' full-year results following a bumper last quarter, Aareal is raising its dividend from €0.75 to €1.20 for the year after seeing its consolidated operating profit jump to €282m, a reise of 40% on 2013. Consolidated net income more than tripled to €294m for the year as a whole (2013: €93m), of which €35m was generated in the fourth quarter (Q4 2013: €27m).

Germany/Retail

## Germany's cartel office blocks Edeka takeover of rival

We reported in REFIRE a number of months ago about the bid by Germany's largest grocery group **Edeka** to take over the 451 outlets belonging to rival **Kaiser's Tengelmann**. The outcome would have a significant effect on new retail property deals throughout Germany. Over the last few weeks Germany's federal antitrust authority has made its unwillingness to sign off on the deal clear, and, in a preliminary judgement, has given the two parties until March 6th to submit further proposals for a workable solution.

The antitrust authority said the proposal, as it stands, would "further solidify market structures which are already highly concentrated, in particular in Berlin, Munich and several large cities in North Rhine-Westphalia. It would leave Edeka and rival **Rewe**, including their discount chains **Netto** and **Penny**, as effectively the only two remaining local providers, and would significantly imped competition in several food product markets.

In a fresh twist to the ongoing saga, **Kaufland Group**, headquartered in Neckarsulm near Heilbronn in Baden-Wurttemberg and itself a subsidiary of **Schwarz Group** (as is discount group **Lidl**), announced that it too was now interested in buying a number of the Kaiser's Tengelmann stores. Rewe, too, said it was interested in buying Kaiser's Tengelmann stores.

It now looks clear that the Hamburg-based Edeka will have to trim back its plans for a complete takeover of the loss-making Kaiser's Tengelmann with its 16,000 employees. A report in business magazine *FOCUS* said the group had submitted a new proposal, in which it accepts that any bid would have to involve a lesser number of stores, with the remainder going to a competitor. An earlier attempt by Edeka in 2008 to take over the Tengelmann subsidiary **Plus** followed along similar lines.

Rewe's CEO **Alain Caparros** has been making hay while Edeka boss **Markus Mosa** has been struggling with the cartel office's deliberations. Caparros has been garnering headlines by claiming that Rewe would ensure all 16,000 jobs at Kaiser's Tengelmann were safe should his group take them over,

CORPUS SIREO
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# FROM SPECIALIST STORE TO SHOWROOM FOR ONLINE TRADING

**Author:**

**Georg Orlich,**
**Director, CORPUS SIREO**
**Asset Management Retail GmbH**

**Online must enter the High Street**

Stores do not have it easy nowadays. They try to present their products to customers in an attractive manner, provide extensive advice, only for the customers to go home and sit in front of the computer in order to by a product cheaper online, after previously clicking through various comparison sites. This could be the death knell for specialist retailers in the nearby shopping centre if they do not adapt to meet the challenges posed by the new customer behaviour.

At present it is assumed that only seven percent of all purchases are handled online, but the trend is rising. Because customers are becoming increasingly connected instore, mobile and online, stores will also have to become multi-channel. This is still a vision of the future, although a pilot project initiated by ebay has shown the direction which might be taken: In the Westfield San Francisco Centre, the visitors were confronted with „digital store fronts“ instead of conventional display windows; these fronts functioned as giant touch-screens on which visitors were able to tap and slide their way through a range of 100 products and the related product information. Without entering the store, they were able to place orders by means of text messages. The products were then delivered to their home. This is an idea with a promising future which extends the analogue process of purchasing in a shopping centre to include a digital and also diversified component.

**Buying or shopping?**

The buying process focuses on specific demand for a specific product. Most of us are under time pressure. On the other hand, shopping is a leisure pursuit which, if the wishes of retailers are met, ends in impulse buying. Also in purchases of products which shoppers probably originally did not even intend to consider. The trend of simply meandering for fun through shopping centres is not new; however, it is becoming more and more prevalent. Retailers will have to come to terms with this aspect by creating diversified purchasing worlds which communicate the idea of an event. This also includes glamorous presentation of the products. Some retailers have already started to present their store as a showroom or a gallery rather than a place in which the primary function is to sell something. In the store, the customer is able to inspect, touch and try on the product. This haptic experience cannot be provided by the internet, and is the major added value of analogue retailing. The profane remainder, namely paying for and transporting


the products home, is outsourced.

Not only a retailer, but also a service provider
In addition to the normal service, retailers nowadays have to consider various ideas in order to retain their customers. This is because customers are nowadays more informed and because internet searches mean that they now have knowledge which previously was the exclusive preserve of the retailer.

One opportunity for the retailer is to focus on the individual needs of each customer and to surprise the customer by the fact that his wishes and preferences are already known. Good hotels have already been working with this customer loyalty instrument for a long time. How does this work? The main criteria are still the discussion with the customer - as well as a good memory and increasingly in-store analysis. But be careful, data protection and privacy are extremely important, and negligence must be avoided at all cost.

One final word: Customising, i.e. the process of individually adapting a product from mass production to the specific needs of each individual customer, is constantly becoming easier as a result of new production methods. And this is where the retailer can become a service provider who is in demand, who provides advice and who can be engaged to provide products and services which precisely meet the customer‘s own needs.

A requiem for analogue trading is thus not appropriate. Shopping centres in particular have an excellent opportunity if they expand their strengths and skilfully integrate new purchasing habits.

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although close market observers believe he would run into the same problems as Edeka with the authorities. Rewe has a 15% market share, compared to Edeka's 25%.

Retail analysts believe the cartel office would prefer that any sale of Kaiser's Tengelmann not go to one of the big four groups in Germany (Edeka, Rewe, Aldi and Schwarz Gruppe), but instead go to a group like Switzerland's **Migros**. However, Migros is thought to be too busy digesting its German acquisition of the **Tegut** supermarket group in 2013.

Some analysts also believe that Aldi or Lidl are more interested in waiting for the Kaiser's Tengelmann stores to be freed up or do not renew their lease agreements, and then moving into the sites with their own range. That Kaiser's Tengelmann is now 'in play' seems to be becoming accepted, and with a market share of 0.6% nationwide it lacks the clout to compete with its bigger rivals.

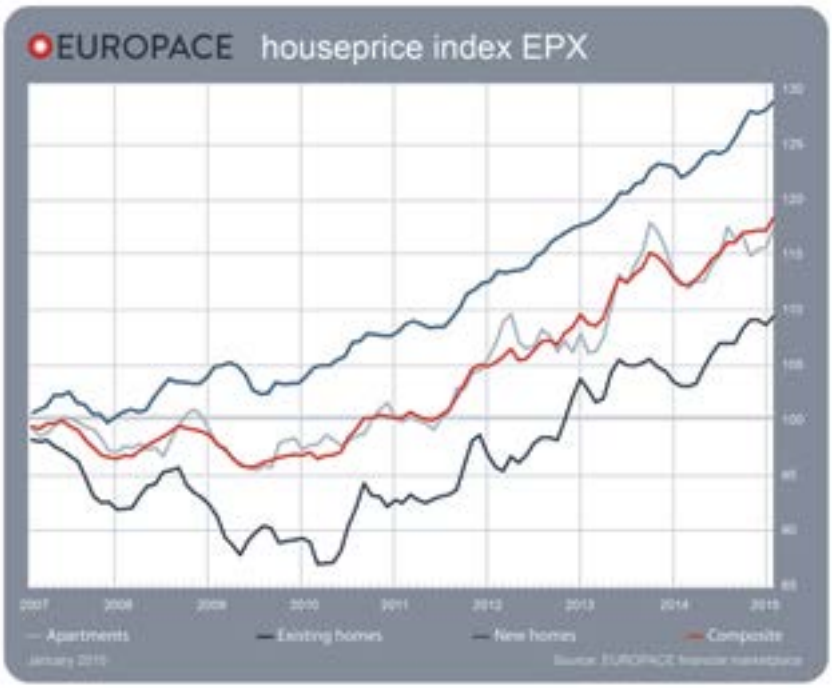
Edeka has also been wooing politicians with its co-operative credentials, in the hope, some analysts believe, that it may have to play its political card and appeal to the economics minister **Sigmar Gabriel** to overrule the cartel office, if necessary.

Germany/Listed Companies

## Annington with more than 94% of Gagfah shares

German listed housing company **Deutsche Annington** has now secured 94% of shares tendered by investors in its public takeover bid of Essen-based **Gagfah**. Having secured the go-ahead from the **Federal Cartel Office** at the end of January, the transaction is now expected to close this quarter, paving the way for the creation of a new firm with 350,000 residential units valued at about €21bn. The merger will create the second-largest listed property company in mainland Europe, after **Unibail-Rodamco**.

The Bochum-headquartered Annington is offering five Annington shares and €12.52 in cash for every 14 Gagfah shares, corresponding to €18.00 per share of Gagfah and valuing Gagfah at €3.9bn. The boss of the new combined business will be Annington's CEO **Rolf Buch**, while Gagfah CEO **Thomas Zinnöcker** will be the deputy CEO.




Germany house price development

Germany/Listed Companies

## VIB Vermögen tops 100-property mark in steady expansion

**VIB Vermögen AG**, a specialist in developing and managing commercial real estate for mid-sized companies in southern Germany, has been chugging along steadily for the last number of years, enjoying a somewhat lower profile than many of its German listed peers.

But, like many of them, it too has seen a quintupling in its share price in the big run-up of the past three years as it steadily builds up its portfolio and deepens its relationships with its tenants in the prosperous state of Bavaria, with a scattering of other regional holdings.

The company now has 100 properties with nearly 950,000 sqm of lettable space, a vacancy rate of only 2.9%, and annualised rental revenue of €61.3m.

Last December the company issued a €33.2m two-year mandatory convertible bond which was placed with institutional investors, paying a 4% coupon. At the time, **Ludwig Schlosser**, VIB Vermögen's CEO, said the company was in negotiations on some promising properties for which it intended using the bond proceeds.

The company, headquartered in Neuburg an der Donau, has now indeed further expanded its portfolio with the purchase of a retail park in Neu-Ulm on the Baden-Württemberg/Bavarian border, and the transfer to its portfolio of a **MAN** service station that it had developed itself.

In the Neu-Ulm retail park, much of the

property has been completely modernised and remodelled, with new contracts for a 15-year period in place for two-thirds of the rental area. The total lettable space is 18,740 sqm and the asset will generate a 7.6% rental return on an investment of €14.8m. Main tenants include pet food store Fressnapf, Sparda Bank, artists supply store Bösner and agro-energy business BayWa.generate a 7.6% rental return on an investment of €14.8m. Main tenants include pet food store **Fressnapf**, **Sparda Bank**, artists supply store **Bösner** and agro-energy business **BayWa**.

Board member **Martin Pfanzelter** commented, "This location is very well established on the market and has a very good visibility in the strong economic region of Southern Germany. Given the long-term rental contracts, this retail park fits ideally into our portfolio."

VIB Vermögen also transferred its fourth MAN service station, a property which the company had developed itself in Freiburg-Umkirch, to its portfolio in early February. The service station has been generating rental income since February 1, 2015, yielding a7.4 %. The total investment was € 7.5m, with the rental contract agreed for a duration of 20 years.

Germany/Hotels

## France's Foncière des Regions makes big push into German budget hotel sector


One group making a big push into the German hotel sector is French REIT/SIIC **Foncière des Régions (FdR)**, which is taking a very bullish view on particularly the budget segment, where chains have so far failed to gain major traction.

The group has forged a partnership with the German **Motel One** chain, which currently operates 48 hotels with nearly 13,000 rooms. The bulk of its hotels are in Germany, but it also operates in Belgium, Austria and the UK, and plans a stronger European presence. FdR's first deal was a recent €34m sale-and-lease-back transaction with Motel One for two hotels – one in Berlin Mitte and the other at Frankfurt Airport. The two properties have a total of 450 rooms and are covered by 20-year leases.

Along with its partner **FDM Management**, it has since bought a further nine Motel One properties. In a strategic partnership deal signed earlier this year, FdR and Motel One plan to team up to drive the group's German and European expansion, with FdR developing hotel projects for Motel One to operate. FdR manages real estate assets of €16bn, of which more than €1bn or 8% is now in hotels.

According to **Gael Le Lay**, FdR's deputy CEO for the hotels and services sector, "Foncière des Régions intends, with this initial transaction, to support Motel One in its development, as we have done with our other hotel partners over the past ten years, such as **Accor**, **Louvre Hotels Group**, **B&B Hôtels**, and more recently, **Meininger**." The partnership with Meininger, signed last year, is expected to lead to €400m of new hotel investments.

Just this week, FdR's subsidiary **Foncière des Murs** bought a portfolio of 22 B&B hotels in Germany from the hotel group's majority owner **Carlyle Group** for €128m. The hotels, numbering 2,271 rooms are located throughout Germany, but mainly in the west, in large cities including Düsseldorf, Stuttgart and Berlin, but also in secondary cities of Würzburg, Nürnberg, Lübeck, Kiel, Mönchengladbach and Braunschweig. Nearly all the hotels are less than two years old, and as such have lengthy operative lease agreements of 17-18 years, according to **Ursula Krigl**, the head of Hotels & Hospitality at **JLL Germany**, who advised Carlyle.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FdR, through its German subsidiary **Immeo**, also has a major commitment to the German residential market as an attractive counterweight to its focus on French office property in its €10bn holdings. It recently paid €221m for a portfolio of Berlin residential property, at an entry yield of 5.2%.

The latest assets were acquired by FdR's German residential subsidiary Immeo, and include a €184m portfolio of homes in prime locations in the Charlottenburg, Mitte and Friedrichshain districts of Berlin generating average monthly rents of €9.10 per sqm, and a €37m portfolio in Dresden and Leipzig.

"These operations have the potential to create value by increasing rental income and forward sales margins," FdR said in a release. The acquisitions were made at an average price of around €1,710 per sq.m. and offer an immediate yield of 5.2% and average potential reversion of 25%. "Foncière des Régions is thus continuing its strategy by bolstering its position in these three flourishing and attractive cities," it said.

Germany/Acquisitions

## Patrizia buys €286m Eurocastle German retail portfolio

The Augsburg-based full-spectrum investor **Patrizia Immobilien** has acquired a supermarket portfolio with 107 retail properties, consisting of supermarkets, discounters and retail centres throughout Germany, most of which are leased to well-known food retailers. The seller was Guernsey-based, Amsterdam-listed closed-end fund **Eurocastle Investment Ltd**, part of US private equity group **Fortress**, while the purchase price was €286m.

The deal is a now-typical co-investment for Patrizia, along with several of its institutional investors. In this case, the portfolio was made up of three of Eurocastle's five retail portfolios – the *Superstella*, the *Tanneberg* and the *Turret* – and are expected to net €24.4m in proceeds, said Eurocastle.

Eurocastle has been re-focusing its business onto real estate in Italy, while actively managing its exits from German commercial real estate and pan-European real estate-related debt. Meanwhile Patrizia has been rapidly expanding its third-party business and now has €15bn in assets under management, mainly for third parties.

The retail properties in the portfolio

are located in regions with strong economies throughout Germany, with a focus on western German states, and comprise total rental space of around 229,000 sqm. The occupancy rate is 95%. Patrizia said it plans to upgrade, modernise and expand a large number of locations.

"Right from the purchase phase on, we had a very positive contact with many of the key chain operators, so we're happy to have once again succeeded in turning a complex portfolio into a stable investment product for our institutional co-investors," said **Wolfgang Egger**, CEO of Patrizia Immobilien AG. "This acquisition increases the value of the real estate assets managed by Patrizia in the retail sector to around €1.6 billion, making us one of the biggest landlords in this segment in Germany", he said.

Only around 18 months ago, Patrizia acquired the "*DEIKON*" portfolio with 85 retail properties for institutional investors for €178 million. As with DEIKON, this latest purchase was managed by **Patrizia Alternative Investments GmbH** in close collaboration with Patrizia's Berlin-based Portfolio Management division, which specialises in retail investment.

Separately, Patrizia closed on a financing deal for its recent acquisition of 5,500 Dutch housing units in 137 buildings across central and southern Netherlands, in a €578m deal from Dutch housing association **Vestia** announced earlier this year – the biggest Dutch residential transaction of the last year.

Three banks – **Deutsche Hypo** and **pbb Deutsche Pfandbriefbank**, along with Amsterdam-based **ING Real Estate Finance** – are providing €331m in loans on the deal. Each of the three is taking a third of the full loan volume each, said lead arranger Deutsche Hypo.

According to Deutsche Hypo board member **Andreas Pohl**, "The Dutch residential property market has been presenting itself as very stable over the past years," said Deutsche Hypo board member Andreas Pohl. "Thanks to a surplus from births and immigration, demographic prognoses are positive against those of other EU states. That is why we expect further high demand for residential space in the Netherlands."

In a separate, earlier deal, the rapidly growing Patrizia also beefed up its involvement in the Danish property market, buying a commercial portfolio along with several residential properties and projects

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in the capital Copenhagen for a combined €270m. This brings to over €600m the company's assets in Denmark.

Patrizia bought 22,000 sqm of office and retail space in mainly the very heart of Copenhagen from a private seller for €170m. The assets are destined for the recently-launched **Patrizia Nordic Cities** fund, which groups two German institutions.

According to **Rikke Lykke**, managing director of Patrizia Nordics, "Our investors have a long-term outlook and pursue a buy-and-hold strategy. However, to improve cash-flow we plan to convert smaller offices into apartments as we are seeing high demand in this sub-market. In total, the share of residential space in the portfolio will be raised to 20%."

Additionally, Patrizia also concluded several residential deals in a co-investment with German institutions, with a total volume of €100m, including construction projects and existing buildings near the Royal Palace. "While for the new apartments we are focusing on long-term portfolio maintenance and rental, when it comes to the existing apartments we are pursuing a gradual divestment strategy by way of resale of the individual apartments," said Lykke.

Germany/Acquisitions

## Mount Kellett, Pamera Cornerstone co-invest in Frankfurt

**Mount Kellett Capital Management**, the New York-based private equity group, has bought the *Astropark* office complex in Frankfurt in a co-investment with asset manager **Pamera Cornerstone**, for an undisclosed price.

The prominent Astropark in Frankfurt's Niederrad neighbourhood – an 'office city' popular in the 80's and 90's and now undergoing somewhat of a transformation with the conversion of several office properties into residential space – represents Mount Kellett's first direct invest¬ment into a value-add project in Germany. The previous owner was **Goldman Sachs**' real estate unit **Whitehall Funds**.

Built in 1992, the complex encompasses 39,200 sqm of gross lettable area, 80% of which is occupied. Pamera Cornerstone will also take over the asset management of the property. German property financier **pbb Deutsche Pfandbriefbank** financed the deal.

"The purchase of the Astropark, which is located in an increasingly desirable Frankfurt location, is a very interesting investment oppor¬tunity for Mount Kellett," said the firm's Head of Europe **Nick Weber**. Added Pamera's **Holger Hosang**: "The Astropark has significant development potential. It is probably one of the most versatile and efficient multi-

tenant properties in Niederrad."

New York-based Mount Kellett, founded in 2008 by former Goldman Sachs executives **Mark McGoldrick** and **Jason Maynard**, manages around $7bn with a focus on global distressed, special situations and opportunistic investing. The Hartford, Connecticut-based **Cornerstone Real Estate Advisers**, a unit of the US-based **Massachusetts Mutual Life Insurance** group, acquired Pamera last year in its strategy to expand its real estate platform throughout Europe. Cornerstone's parent company manages €42bn of real estate, and transacted €5bn of deals in 2014.

Since then it's been non-stop for the combined group, which last year handled 15 transactions totalling €332m, up from €310m in 2013. Of these, €232m were acquisitions. In addition to Cornerstone's American investors, Pamera clients also include private equity groups and the Stuttgart *Spezialfonds* **SIS**. In addition Pamera signed 127 new or extended lease contracts for more than 120,000 sqm of residential and commercial space, and now has assets under management of about €1.1bn. The goal for this year is to introduce more Asian investors to the German market, and to set up managed funds for institutional investors.

Germany/Debt Funds

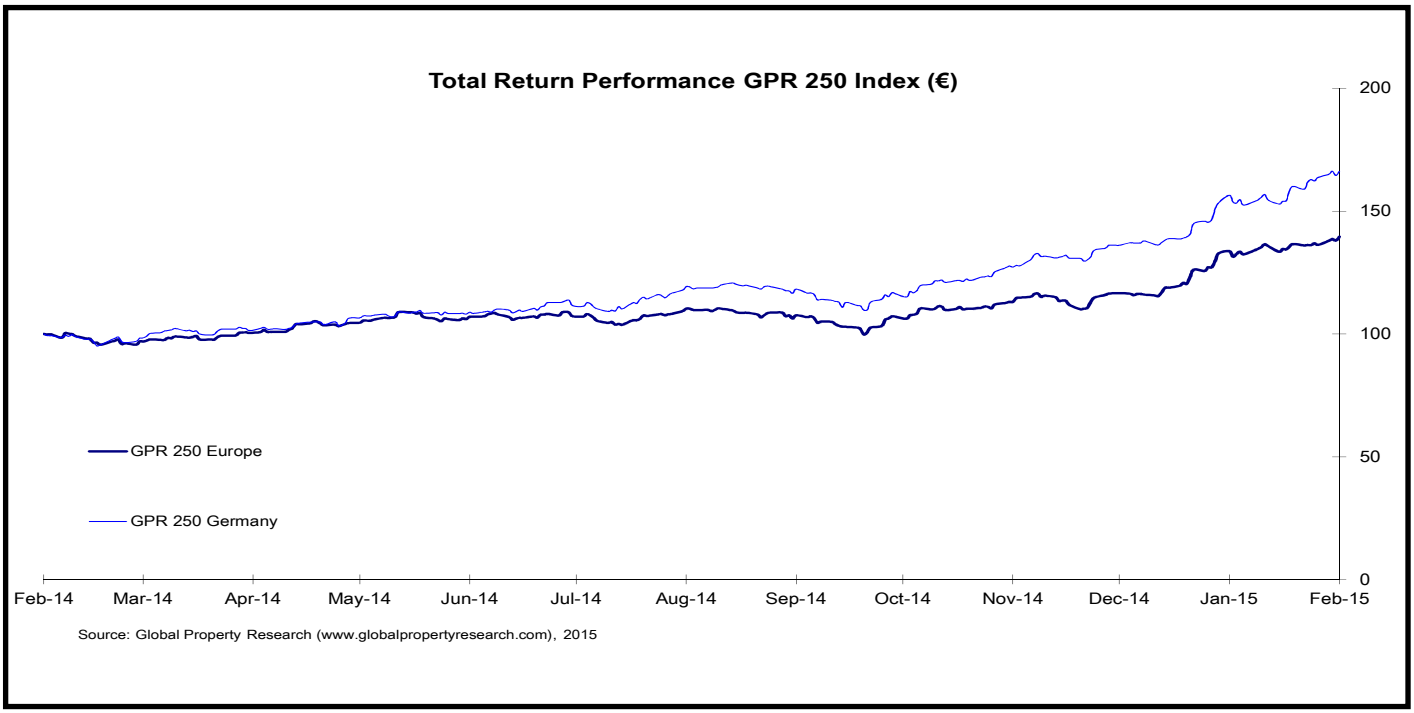
## Deka debt fund buys loan for Telekom office portfolio

Germany's first debt fund under German investment law, the **"Deka Realkredit Klassik"**, said that it had acquired a senior tranche of a commercial real estate loan with a volume of around €30 million from **DekaBank**. The tranche is part of the total financing of around €100 million provided by DekaBank as the sole arranger for the purchase of four office buildings in Germany, all four of which are leased to **Deutsche Telekom** as the principal tenant.

The buildings were completed in 2008 and are located in Munich, Münster, Darmstadt and Bonn. They have a total leasable area of around 123,000m². The office building in Munich was extensively renovated again in 2011.

The loan provides an attractive margin compared to the current market environment and allows the Fund to further diversify its loan holdings in euros. The Fund currently has five German loans in its portfolio.

"Deka Realkredit Klassik" was launched in 2009 as the first debt fund under German investment law. The agreement here is interesting - the investment fund exclusively buys senior debt relating to existing commercial property. Then, in respect of each prior-ranking tranche which "Deka Realkredit Klassik" acquires, DekaBank undertakes to hold a junior tranche equating to a minimum of 50% of the investment fund's share until repayment of the loan. "Deka Realkredit Klassik" has fund assets amounting to approximately €470 million (as at 31 December 2014). The fund's management has secured a rating




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

Charts courtesy of GPR Global Property Research

of AA+ or 'very good'.from independent rating agency **Scope**.

Separately, Deka Investment said recently it was increasing its commitment to the hotel sector, and underlined this with two new acquisitions – a hotel in Vienna and a project development in Frankfurt.

In Vienna, Deka bought the *Hotel Zwei* in the **Viertel Zwei** office and residential complex in Vienna's 2nd district from the listed **S Immo** group for €35m. The four star hotel was built in 2008 and has 252 rooms and suites, being run as a *Courtyard by Marriott* under a franchise agreement.

In Frankfurt, Deka bought the *Adina Apartment Hotel* in the city's burgeoning *Europaviertel* district, between the main station and the trade fair, in a forward deal from developer **GBI**, for €39m. Again a four-star hotel, it is scheduled for completion in autumn 2016 with 181 apartments and 11,000 sqm. Deka will allocate the property to its in-house *Spezialfonds* **Domus-Deutschland-Fonds**, which currently holds six properties.

Europe/Non-listed funds

## INREV index shows funds gaining momentum in Q4

The latest **INREV** Quarterly Index for Q4 2014 shows how European non-listed real estate funds continued to perform positively through 2014, with the index returning 2.44% in the quarter, a slight increase on the 2.31% in Q3

On an annualised four quarters rolling return basis, performance for European non-listed real estate funds was 8.90% - the highest in the history of the INREV Quarterly Index, which dates back to Q1 2010.

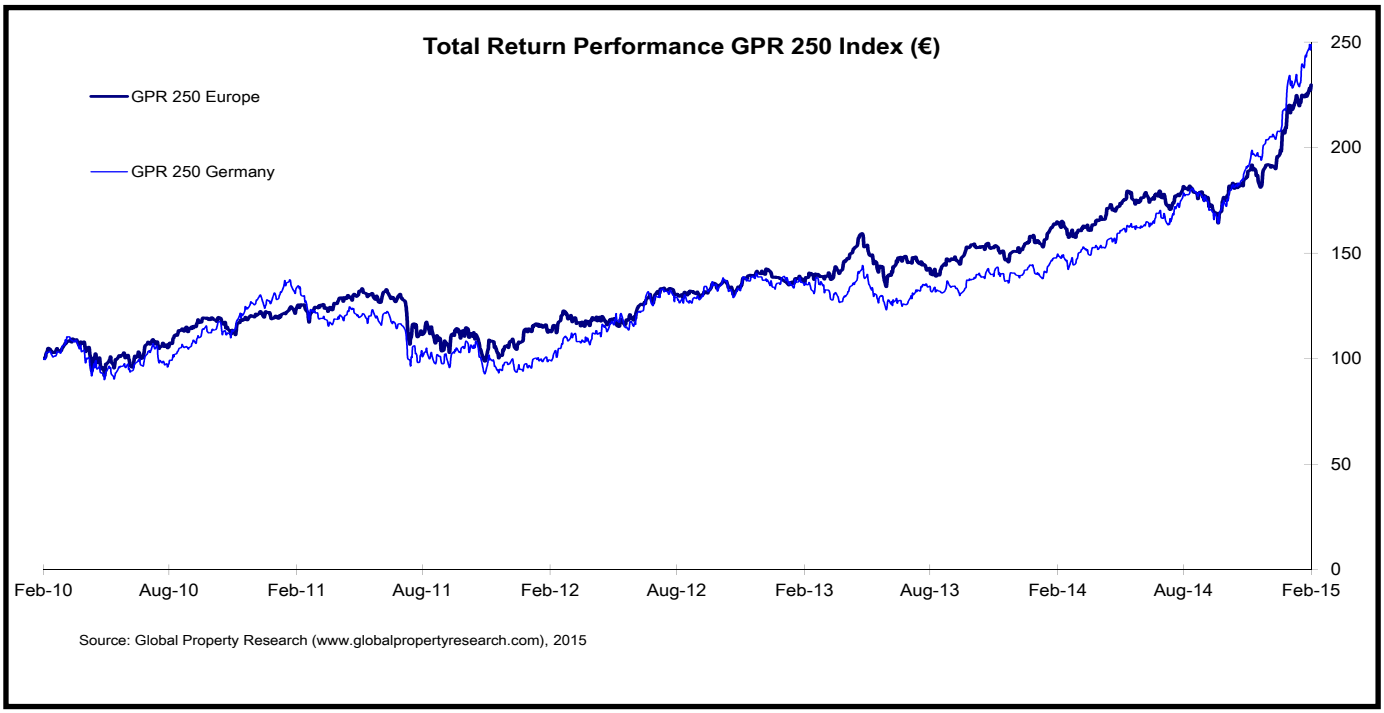
The main driver of performance in Q4 2014 is the income component, which was 1.29%. However, this is a seasonal trend, showing that more funds participating in the INREV Quarterly Index distribute capital in Q4 rather than any other quarter during the calendar year.

INREV says the strong performance of non-listed real estate funds can be explained in part by robust performance in the UK market, as well as improved conditions in continental Europe. While UK funds consistently outperform other countries with total return performance in Q4 2014 of 3.98% compared with 3.94% in Q3 2014, continental European funds achieved 1.37% in Q4 2014 which was a second positive quarter in 2014.

Large differences across continental Europe prevail. For example, southern European funds showed record high performance on an annualised four quarters rolling return basis in Q4 2014 of 12,68%, while central and eastern European funds continue to perform negatively. One year rolling annualised performance of value added funds returned 11.28% against core funds which returned 8.52%. This trend will also be seen in the INREV Annual Index 2014 that will be published in April 2015.

With a total return of 5.40%, industrial/logistics were the best performing sector over Q4 2014, followed by office at 3.68%, retail at 1.89% and residential at 1.67%.

As INREV also points out, large differences in historical performance values




**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

can be seen in some sub-indices due to small sample sizes. Additionally, an important aspect when looking at the performance of the INREV Quarterly Index in 2014 is the effect on performance of the newly launched INREV Guidelines on NAV calculations and the subsequent updated INREV NAV calculation methodology. These effects, which can be either negative or positive, can be seen in the funds that have applied INREV NAV calculation.

Germany/Light industrial

## Sirius buys two further German business parks for €22m

The AIM-listed **Sirius Real Estate**, which focuses on German light industrial property and flexible workspaces, has concluded the purchase of two further business parks (out of the five it announced it was targeting in November of last year). A fifth asset it was planning to buy is now not going ahead, with the company looking at alternative sites.

The two new business parks are in Aachen and Bonn, with Sirius paying €21.8m for both, inclusive of costs. The Aachen park, just next to the Dutch and Belgian borders, has a total lettable area of 27,000 sqm and is currently 73% let to a mix of office and light industrial tenants. The Bonn park has 9,800 sqm and is likewise 76% let to a mix of office, service and retail businesses. The sites generate annual rental income of €2.2m and net operating income of €1.9m, giving a combined (EPRA) net initial yield of 9.02%.

The acquisitions were paid for by the proceeds from Sirius's recent €40 million private placement announced last November and a drawdown of the remaining €9.9 million from its new €36 million, 5-year debt facility. The monies drawn down have a 2.85% fixed annual interest charge and an initial amortisation rate of 2.00% per annum. Taking account of the financing, the initial cash on cash return is 14.53%.

Sirius has now finished buying four of the key sites of the five targeted last November, paying a total of €71m (including all costs) , or nearly all of the €76 million acquisition portfolio discussed at the time. The remaining potential €4.5 million acquisition of a business park in Mahlow is now not going ahead, and Sirius said in a statement it is currently reviewing alternative options.

According to Sirius CEO **Andrew Coombs**, "As with our other two recently completed acquisitions, we were again able to take advantage of a significant yield gap making these transactions immediately earnings-enhancing. In addition, we are confident we can enhance the vacant space and attract new tenants to further increase returns to shareholders."

Germany/Listed Companies

## Hamborner REIT raises €41m, Deka underwrites new issue

The Duisburg-based **Hamborner REIT** has increased its capital by 10%, raising €41m in an issue underwritten specifically by **Deka Investment**. The German savings bank fund manager is taking up all the new shares on account of **RAGS-FundMaster,** a special asset fund held by Essen-based **RAG-Stiftung**.

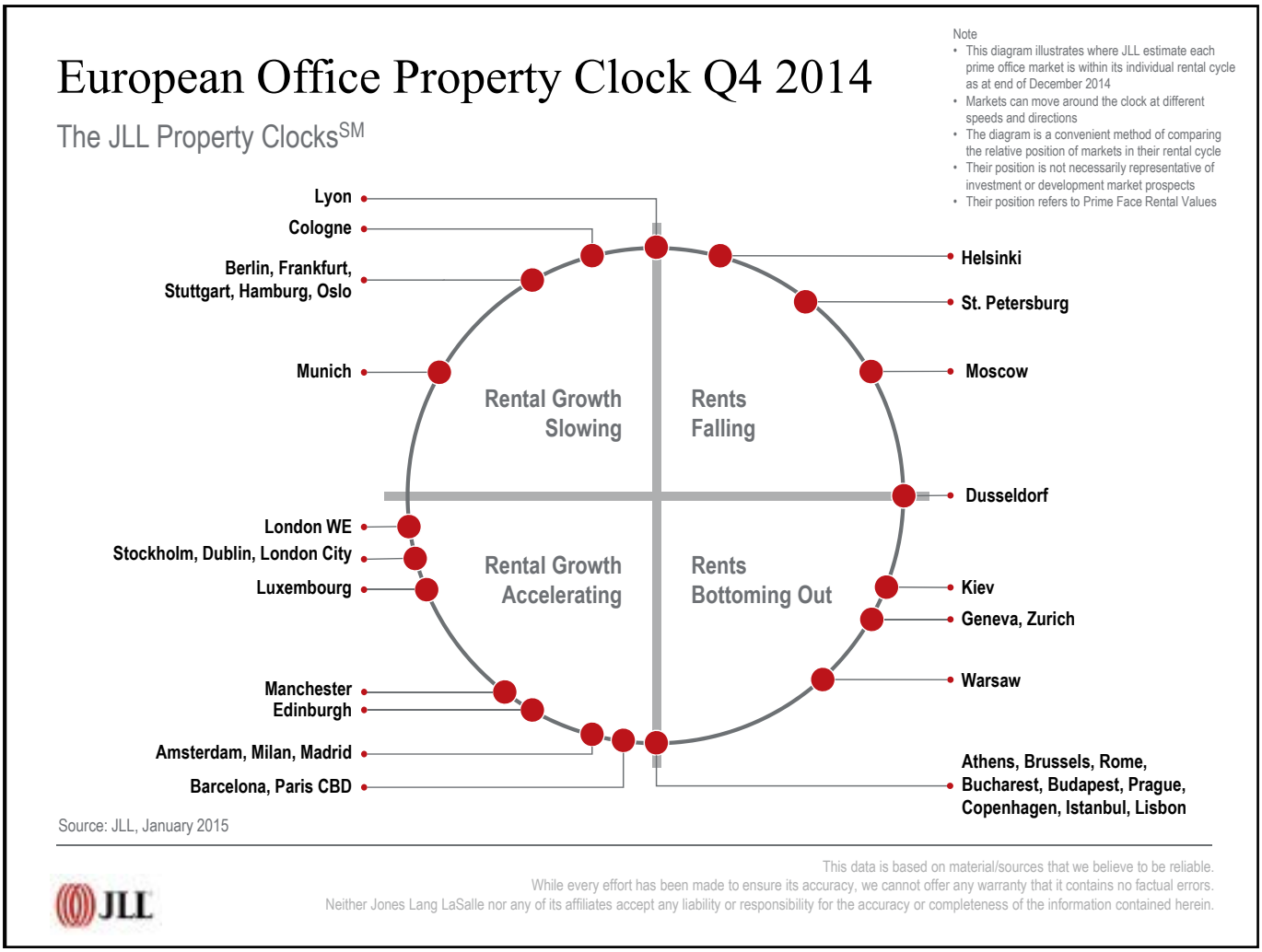
Hamborner issued 4.5m new shares at €8.993 per share, with the net proceeds destined for strengthening the company's equity base and for further property investments. The shares were listed on February 27th, with **Bankhaus Lampe** advising on the transaction. The RAGS-FundMaster Special Fund is part of the RAG-Stiftung (foundation), which will now become the largest shareholder in Hamborner.

The RAG-Stiftung was established in 2007 as a foundation to ensure that the RAG Corporation can ease its way out of subsidised coal mining in a socially acceptable manner by 2018. It also promotes the Ruhr and Saar regions by supporting educational, scientific and cultural measures related to coal mining. The foundation holds €717m of property assets to meet its obligations from 2019 onwards. Shareholders before the capital increase included **Prof. Siegert** from Düsseldorf with 6.68% of Hamborner, Brussels-based **SFPI/FPIM** 5.51%, New York's **BlackRock** 3.2%, Paris-based **BNP Paribas** 3.13%, with 81.45% in free float.

Germany/Study

## VDP confirms residential rise of 5%, warns on commercial investment

Prices for German residential property rose by their highest amount in at least ten years, driven by intense pressure



from investors, according to the latest quarterly reading from the **German Association for Pfandbrief Banks vdp**.

Prices rose 5% last year and those for commercial by an average 3.8%, says the organisation, the most since the vdp started tracking the market in 2003. In that period residential prices have risen by about 25% on average, it said. (The vdp uses data based on actual transaction prices achieved in the preceding quarter, as provided by its member financing institutions.)

Housing price growth thus accelerated further from 4% in 2013, while commercial growth slowed from 4.7%, vdp found. According to managing director **Jens Tolckmitt**, "Demand for residential and commercial real estate remains unbroken. With this combination of low interest rates, high international capital mobility and a relatively stable economic development in the country, German real estate is still sought after by national and international investors."

But the risks inherent in the pressure to invest, especially in commercial real estate, need to be monitored. "If demand continues unabated, prices will rise further and may lead to corrections in particular markets", he cautioned.

Looking at sub-segments, vdp found residential price growth was mainly driven by multi-family homes, which gained 7.2% last year, while prices for owner-occupied housing rose by 4.3%. Since 2003, prices in the residential sector have increased by 24.3%.

Growth in office prices slowed a bit towards the end of the year, and at 2.4% in the last quarter was running at only half the rate of the first quarter, largely due to much lower take-up of new office leases. With office rents rising in 3.3% and 2.7% in 2012 and 2013 respectively, last year they rose by only 1.4% as plenty of fresh supply came on the market in the bigger cities.

Another index which relies on actual prices achieved is the **Europace** house price index **EPX**, from Berlin-based **Hypoport**, an index which we track closely here at REFIRE, with about 10% of German mortgage financing being transacted on the platform.

The latest EPX reading shows that, after a slight dip in December, German residential property prices in January returned to growth, gaining almost 1% on the month and 5.43% over 12 months. Despite this, says Europace chairman **Thilo Wiegand**, home affordability is higher than ever before.

"We forecast previously that the slight dip at the end of the year would not last," commented Wiegand. "Property will remain highly interesting in 2015." Despite prices rising by 21% over the past five years, German homes are more affordable than ever due to the favourable financing conditions, the firm said. Borrowers today play 39% less for interest rate and redemption than five years ago. "That more than compensates for the rising property prices, even without taking into account wage growth," said Wiegand. Affordability is naturally higher outside the largest cities, he added.

In the monthly EPX comparison, apartment prices rose by 1.65%, those for new single and two-family homes by 0.58% and those for existing homes by 0.75%, Europace found. Compared with last year, average costs of German apartments gained 4.53%, new homes 5.6% and existing homes 6.22%

Germany/Lending

## Commerzbank shrinks loan book, Commerz Real focus outside Europe

Commerzbank, Germany's second largest bank, is continuing to slash its commercial property loan book, selling off €16bn of loan exposure last year to stand at a current €20bn. The bank plans to reduce this further to €11bn through 2016.

The bank is still working through the loan book previously managed by now-defunct unit Eurohypo, previously one of Europe's most active lenders until being brought down in the financial crisis. Last year Commerzban sold off €5.1bn of these legacy loans, while the rest matured or were redeemed early.

Among the loan books being sold wholesale were the bank's Japanese and Spanish exposure, along with a Portuguese NPL portfolio. About half of the remaining €20bn loan book is secured against assets in Germany, while of its loan book, €12.3bn were classified as low-risk, €3.8bn as medium risk, and €600m as high risk.

Meanwhile, Commerzbank's fully-owned fund subsidiary Commerz Real, headquartered down the road from Frankfurt in Wiesbaden, also took advantage of high investor demand for core asset to lighten up on its own assets under management. These fell last year from €34bn in 2013 to €32bn in 2014 following a number of large disposals. The division offers funds in the sectors of real estate, aircraft, regenerative energy and ships.

Last year's transaction volume was €2.5bn, which included the mega-sale of the Leo I portfolio of Hessen municipal and government offices to a fund managed by Augsburg-based Patrizia Immobilien. The bank has also been scrupulously differentiating its products into 'investment' and 'financing' products in line with new German regulations governing open-ended funds, and now categorises its portfolio among €20bn in investment products and €12bn that would be attributable to financing products.

According to CEO Andreas Muschter in the fund manager's recent statement, "We are confident that we will continue the successes of the past year seamlessly into 2015. With our investment products we purposefully have gone through the re-regulation process. At the same time, we increased our net funds inflow for our open-ended real estate fund hausInvest."

At €9.6bn, the flagship hausInvest open-ended fund registered net cash inflow of €304m last year, up from €204m in 2013 - generating an annual return of 2.5%. A key investment for the fund was the €128m Neue Direktion Köln project in Cologne, due for completion in 2016 and which will be the headquarters of EASA, the European Aviation Safety Agency, for the next 20 years a t least.

Commerz Real has intensified sourcing activities for properties and projects, but said the main focus of expansion will be outside Europe. The firm established a subsidiary in Hong Kong last year to scout for investment opportunities in Asia, and re-entered the US market with the hausInvest fund, which it described as a key strategic step.

Europe/Disposals

## Wave of asset selling coming from Italy's UniCredit

Italian bank **UniCredit** plans a wave of disposals of its real estate assets over the coming two years, in a move to rationalise its holdings and drive through new cost savings. The bank plans to sell up to €2.5bn of real estate assets in Italy, Germany and Austria, including a number of high profile properties among its office, bank headquarters, retail outlets and residential holdings.

Speaking to Italian news agency **ANSA**, UniCredit's head of real estate **Paolo Gencarelli** was quoted as saying, "Interest from international investors is already very high. We expect to be able to make savings of at least €220m by 2018 through rationalising our diverse properties."

UniCredit owns about 10,000 separate properties with 6.6 million sqm of lettable space. Its Austrian subsidiary **Bank Austria** has since announced a major disposal programme, including the 252-metre high *Donauturm* in Vienna.

Amsterdam-listed **Eurocastle Investment**, a division of **Fortress**, has just bought **UniCredit Credit Management Bank (UCCMB)** for about €200m. The deal includes a portfolio of NPLs with a GBV of about €2.4bn and an NPL servicing business. UCCMB is the largest captive servicer in Italy with about €34.1bn in assets under management. The deal includes a 10-year servicing contract on all existing and certain future NPLs for 10 years.

## Guest Column: George Salden

### The German Property Market: An Eye for Detail is Essential for a Good Return

In the last article we came to the conclusion that, while all known methods of real estate evaluation may have their individual strengths, on the whole it is their weaknesses that show when they are applied to the task of estimating future return. In today's column, we will use the dynamic method for ascertaining future return opportunities. The first step is always microanalysis and therefore, above all, the list of tenants. An accurate compilation of the individual areas makes it possible to examine real estate in regard to its rent structure. In order to work accurately, it is absolutely necessary to maintain a clear distinction between net rent exclusive of heating and utilities, net rent including heating and utilities, gross rent exclusive of heating and utilities, partial rent including operating costs and gross rent including heating and utilities.

The list of tenants is to be viewed from five different perspectives. The first focuses on the span of the rent, i.e. the allocation of square meter rent within the property. Here it must be established how widely distributed the individual rental fees are from one another and what the reasons are for any differences.

The second perspective views the current rental fees of the property in relation to the statutory rent index. This viewpoint provides information about the possibility of increasing rent and makes possible a first insight into the dynamic of the micro market.

Next comes a classification based on market rent. This viewpoint aligns the rents of the investment property to the market rents of the immediate environment.

Fourth is an analysis of the types of rental units that generate rental fees differing in terms of amount. Generally the rent per square meter in a small apartment is greater than that of a larger apartment. The aforementioned four perspectives look at the actual status of the rental units of the property.

Tenant dynamics is directed toward the future, more specifically toward the possible prognosis. In order to enable this, the current rental fees must be simultaneously regarded from five different perspectives.

• The square meter rent indicates how widely distributed the rental fees of real estate are and thereby presents a general potential for increase or adjustment.

• The rent index gives an estimated description of the rent level of the micro market and moreover indicates the legal framework for increasing value.

• Finally, the market rent allows one to view the current rent as part of a cycle of tenants.

Viewed as a whole, this information discloses the dynamics that can be brought forth in the investment property and how the tenant cycle will develop.

Next comes the investment classification that describes the position of the property in its cycle. In this regard one can draw upon the known means of representation in the real estate industry but, in my opinion, they must be given an entirely new emphasis. The goal is to establish a rating for the investment and a possible return - therefore to ascertain an internal rate of return that is dependent on the micro cycle. The concept of investment category is synonymous with investment strategy or investment style. It originated in securities trading and primarily gives information about the relationship of risk and return on an investment. In the real estate industry the separation into investment classes focuses on various features of the investment property. These features include – among many others – the type of use and the condition of the building as well as its position in the life cycle or the vacancy rate.

In regard to life cycle: the differentiation between a technical, an actual and an economic lifespan is decisive for the usability of the property. Because usability by a tenant constitutes a decisive factor for the property, the lifespan is always viewed in its relationship to usability. The piece of real estate is not useful up to the time it is torn down, ruins do not generate revenue. As a result, the life span of every piece of real estate is to be evaluated from various perspectives.

Every piece of real estate passes through various stages during the course of its life. These place diverse demands on administration and management: from the planning of construction up to demolition or total renovation. Every piece of real estate begins its life cycle at the time of project development. Then comes the phase of first use and therefore the time when the real estate generates cash flows. The stage of first use of the real estate comes to an end when rental units of the property become vacant. The reasons for vacancy are diverse and can be found in the negative development of the market as well as in insufficient management of the property. The reason for increasing vacancies is often neglect of repair work or an insufficient effort at tenant acquisition. There are two possibilities for ending the vacancy phase. On the one hand, the property can be torn down or it can be restructured and given a new use. This second use is followed by a new vacancy phase that once again presents the decision between demolition and restoration. This cycle can be repeated until the technical lifespan of the property ends and further restructuring is no longer possible.

Back to investment categories: in the real estate industry the division into the investment categories core, core plus, value added, opportunistic and development has established itself. In the context of the "dynamic method", the super core and workout categories have been added. Super core rental units are prime properties in prime locations in prime markets that are in prime condition. They consist of the best possible building fabric; their life cycle is at the beginning of a first usage phase and/or a usage phase after total restoration. They are characterised by prominent and desirable locations in prime markets and have exceptional infrastructure connections as well as an outstanding market environment. Super core properties are rented on a long term basis to tenants with a high level of creditworthiness and in this manner guarantee low vacancy risk and minimal fluctuation.

Therefore super core properties generate revenues primarily on the basis of their high annual rental income. Since a large proportion of return on investment is in their sale, super core properties merely bring a maximum return of two to four per cent. On the other hand, an investment in property of this nature is associated with very few risks. An example of super core rental real estate is a totally restored building designated for residential and business use in the best location on Kurfürstendamm in Berlin-Charlottenburg. On the other hand, development properties are associated with greater chances and greater risks. In most cases the rental units have lost their designated use and may be in a dilapidated condition. Project developments in high risk markets also fall into the category of development property.

The concept of the workout investment is less well known in the real estate industry. It originated in the banking sector, where property located in structures subject to company law is generally acquired indirectly through the purchase of non-performing loans. This occurs due to economic dislocations. In the case of a holding period of one half to two years, the expected revenue lies above the fifteen per cent mark. It is important to bear in mind that the actual workout does not describe the condition of the property, but rather a specific situation to which a piece of real estate is subject. A real estate portfolio that suffers from liquidity problems would be categorised under workout. The individual properties making up the portfolio would be assigned to the aforementioned categories as usual.

Without going further into the aforementioned investment categories, super core, core, core plus, value added, opportunistic, development and workout, they not only describe the boundaries of a possible rate of return on equity of between 2 and 15 per cent but also a risk level that can vary from slight to very high.

In conclusion, the real estate is assigned to an investment category on the basis of its life cycle status, its location, its actual characteristics, as well as the structure of its tenants. Moreover, the tenant cycle and the tenant dynamics play a decisive role. However, an analysis of the micro cycle in and of itself is insufficient to create reliable investment ratings. In addition, the big picture must also be taken into account, i.e. the macro cycle must be analysed. This involves issues concerning the rent index: in what direction is market rental moving? What factors and forces influence this development? The next column will deal with these questions in detail...

**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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