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:

US Funds in Europe
European REITs
German Real Estate Finance
German Non-Performing Loans (NPLs)
Retail Property Funds
Mortgage Securitisation
CMBS/RMBS
Privatisations
Refinancing
Euro-zone Property Financing

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Deutsche Annington in search of further growth after 20,000-unit Südewo takeover

Rolf Buch, the CEO of listed Deutsche Annington, told German newspaper Welt am Sonntag recently that his company was looking at every residential portfolio that came on the market in Germany with more than 1,000 units, to see whether they might buy it. With the ink barely dry on Annington's acquisition of the 20,000-unit Süddeutsche Wohnen from fund manager Patrizia Immobilien, Annington is clearly still hell-bent on growing even bigger. Buch in his interview even rhetorically asks the question why his company could not go on to have a million tenants.

The Bochum-headquarterd Annington, as Germany's largest landlord, already owns and manages 370,000 apartments after swallowing rival **Gagfah**, and which it is still in the process of digesting. This makes it about twice as large as its nearest competitor **Deutsche Wohnen**. The group is en route to becoming Europe's second-largest real estate company after France's **Unibail Rodamco**, and will rename itself **Vonovia** once the €3.9bn merger with Gagfah is completed.

Annington hit the headlines again in June when it agreed to buy **Süddeutsche Wohnen (Südewo)** from Patrizia for €1.9bn, while launching a €2.25bn capital increase to fund the acquisition. The purchase price includes the assumption of €800m of debt on the portfolio. The capital increase is likely to be the biggest rights issue in German history.

The Südewo properties are nearly all in the southern state of Baden Württemberg. They were bought by a consortium led by Patrizia in 2012 from **Landesbank Baden Württemberg (LBBW)** for €1.4bn at the time, albeit with about 2,000 more units, after the bank was forced to dispose of non-essential holdings in the wake of the financial crisis. The Augsburg-based Patrizia has since invested €89m in capex in the portfolio.

According to Annington CEO **Rolf Buch**, "In the highly fragmented German market for rented housing we are availing of another opportunity to strategically expand our nationwide position." After a

Commerzbank's €2.9bn wind-down of unwanted assets

Commerzbank confirmed earlier this month that it is selling a further two real estate loan portfolios valued at €2.9bn from its erstwhile Eurohypo subsidiary's legacy loan book. The first portfolio, with €2.2bn of European loan . . see page 3

Greek uncertainty leads to IPO cancellations

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Among those bidding for the German autobahn service area chain Tank and Rast, which is jointly owned by British private equity group Terra Firma and Germany's RREEF Infrastructure Funds, is the giant China Investment Corporationsee page 12

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Traditional German brewery group Warsteiner, controlled by the Cramer family, is exploring strategic options for its Welcome Hotels subsidiary, including a potential sale of the unit which owns and manages 17 three- and four-star hotels across Germany. see page 20

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period of strengthening its presence in the metropolitan regions of Berlin, Hamburg and Dresden recently, "we are now further expanding our market position in the particularly attractive southern region. With the acquisition of the Südewo Group we are moving a step closer to our goal of having a balanced portfolio in all attractive regions of Germany," Buch said.

"The decisions taken in recent years to retain profits instead of distributing them have proven to be spot-on. This gives us the necessary flexibility to win even high-volume projects quickly."

The Südewo apartments are largely located around Stuttgart (where the company is headquartered), Ulm and Mannheim, with Südewo having an on-site presence in 140 locations across the state. Deutsche Annington already owns 15,000 apartments in the Baden Württemberg region.

The average rent on the Südewo properties is €6.68 per sqm, compared to the average €5.53 which Annington achieves on its existing holdings. Südewo generates annual rental income of €105m, with a much lower vacancy level of 2.4%

Patrizia said the decision to sell followed an unsolicited offer for the portfolio, which it put to its consortium members. These include the Swedish pension fund **AP3** (25%), an unnamed Swiss pension fund (5%), three German first-pillar pension funds (25%), five German insurers (40%), a savings bank (3%) and Patrizia itself (2%).

Patrizia's share price has risen strongly over the past few months gven recent transactions and topped off by this sale, which sees the company raising its earnings forecast for the year from an initial €50m to a now expected cumulative operating profit for this year and next of at least €200m.

Patrizia founder and chairman **Wolfgang Egger** (*pictured, below*) commented on the deal: "The decisions taken in recent years to retain profits instead of distributing them have proven to be spot-on. This gives us the necessary flexibility to win even high-volume projects quickly. The recent transactions once again demonstrate that we use our liquidity in a way that creates value without having to ask our shareholders for fresh funds. Our business model is taking effect. The investments we are making today form the basis for profitable growth tomorrow. As such, we are just at the start of our journey."

Local politicians and tenants associations have predictably raised alarm signals at the hast with which Patrizia sold off the portfolio despite giving assurances at the time about being a long-term investor, and agreeing to a very protective social charter to protect tenants. The social charter will be taken over in full by Deutsche Annington, the company insists. This includes clauses for the minimum level of maintenance expenditure, capping of rent increases at 3% annually plus inflation, tenancy protection for a further 17 years and a number of other 'social responsibility' restrictions.

After an initial glitch with investors unhappy about the forthcoming rights issue, which saw a sell-off in the stock market, earlier this month Deutsche Annington successfully carried off the rights issue to pay for the Südewo deal. The company issued 105m new shares, offering existing shareholders three new shares for every ten owned, at a price of €20.90, and saw a 98.1% takeup. The shares are currently trading at about €27.50.

Germany/NPLs

Commerzbank in further €2.9bn wind-down of unwanted assets

Commerzbank confirmed earlier this month that it is selling a further two real estate loan portfolios valued at €2.9bn from its erstwhile Eurohypo subsidiary's legacy loan book. The first portfolio, with €2.2bn of European loans, is going to a consortium of **JP Morgan** and **Lone Star**, while the second is a German portfolio with a face value of €0.7bn, being bought by **Oaktree**.

Commerzbank, Germany's second-largest lender, said the portfolios account for about 17% of the total of commercial real estate loans of €17.5bn still held in its Non-Core Assets (NCA) book as at the end of March 2015.

The bank said the packages are being sold for an overall discount of around 3%, adding that the transaction will generate a positive net capital effect of €105m in the third quarter of the year.

The sales follow similar transaction last year as the bank continues to reduce the number and complexity of its non-core assets and regain its own health, following an emergency investment of €18.2bn by the federal government during the financial crisis, in return for a 25% shareholding in the bank. The CRE loan book is now €14.6bn.

The €2.2bn of European loans being bought by JP Morgan and Lone Star is two-thirds performing and one-third a mix of sub- and non-performing loans. It comprises loans secured by commercial properties across Austria, Belgium, the Czech Republic, Cyprus, Denmark, Finland, Hungary, Luxembourg, Netherlands, Rumania, Sweden, Switzerland, Slovakia and Turkey.

Underbidders for the portfolio are thought to include **Colony Capital**, **Cerberus Capital Management** and **Oaktree Capital Management**. The JP Morgan/Lone Star consortium picked up an earlier Commerzbank €4.4bn Spanish portfolio in May last year, at about a 30% discount to face value.

That deal, known as **Project Octo-**

EDITORIAL

The unstoppable drive to grab some German retail real estate

German and foreign investors just cannot get enough of German retail. More retail properties have already been sold in the first six months of this year than in all of 2014. We're back at levels last seen in 2007.

A recent report by London-based Capital Economics takes a very bullish view of rental growth in prime retail properties across the eurozone over the next two years, with a regional aggregate rise of 5.2% for 2015 and further 2.8% next year. Foremost among those set to ride the rental wave is Germany.

Historically low development and keen competition for top retail sites have been keeping rents bubbly, and are likely to ensure that rises surpass those in the office and logistics sectors. Capital Economics says we haven't seen the full effect on consumer spending yet of the fall in oil prices, and the benefits of a weaker euro in lifting export income. That's on its way, say the researchers.

If all that is yet to come, it might explain why international investors have been piling into Germany at an unprecedented rate, said by BNP Paribas Real Estate to be, at €6bn, three times more than last year for the corresponding first half.

The figures are somewhat distorted by the Klépierre-Corio takeover and the snapping–up of Kaufhof by Canada's Hudson's Bay Company, but more than 35% of the deals are for individual properties, rather than portfolios. That speaks of hunger for the sector, right across the board.

Part of the attraction is the weak euro for US and UK investors, who find that prices in London have risen even more than in Germany. There's also the depth of the marketplace, with numerous B- and C-cities serving prosperous hinterlands, with a huge and ready mix of retailers. This has helped Germany displace Paris as Europe's second-favoured location – not least among French investors themselves, who are also scrambling to get into the German market.

It's not for either Germany's dodgy demographics or its rising consumer spending, as Germany remains one of a handful of European countries with falling sales in physical stores. Sliding numbers of shoppers and the rise of e-commerce as a threat to bricks and mortar sales is still being underplayed, given the overall returns available compared to the risk-free rate. But yields are still mostly north of 3.5%, compared to 2%-plus in the UK and less than 1% on government bonds.

The trend to shopping centres is helping to speed the demise of the great German department store, many of whose most famous post-war names have been consigned to the dustbin. It remains to be seen what fate awaits the last two big names, Kaufhof and Karstadt, as their respective new owners dream up new futures for their prized assets. But things are looking up.

Thailand's Central Retail Corporation is now a partner with Vienna's Signa in owning Karstadt Premium, including KaDeWe in Berlin, the Alsterhaus in Hamburg and Oberpollinger in Munich. The partnership plans a major injection of funds through Central Retail's Italian luxury chain La Rinascente, and plans to position the group as European market leader.

All eyes have also been on Hudson's Bay Company as it swooped to buy Kaufhof from listed parent Metro Group. The deal will certainly see a shake-up in Kaufhof's retail strategy, but the price paid of €2.4bn plus debt is less than the value of the company's property assets. The buyers are getting the retail business effectively for free.

Observers in Canada and the US, who know Hudson's Bay boss Richard Baker well, don't doubt his retail enthusiasm, but view him far more as a landlord, driven to turn his stores into exciting, happening shopping malls peopled by a broad mix of independent retail fashion brands.

He has a reputation for putting really top retail managers in place to run the retail side, and listening to what they want to do. Here in Frankfurt, close observers of the retail scene say he has strong faith in Kaufhof's existing management, in contrast to what he saw when his own company NRDC bought the 345-year old Hudson's Bay in 2008, and in other key acquisitions the combined group has made since then.

He's already bringing new ideas to the retail empire he plans to build in Germany, such as bringing Hudson's Bay and Saks Fifth Avenue branded products into the stores and collaborating with names such as Topshop to spice up his stores' offerings. Or malls within stores, as they're likely to become.

Fortunately he seems well aware of the pitfalls suffered by numerous predecessors who've stumbled into a watery grave in German retail, and is unfazed by the challenge. But it's his hands-on, close-up experience of the changing shape of department stores across North America over the past twenty years – when many hallowed names too seemed resistant to change – that gives this venture new perspectives.

If Baker's nose for a real-estate deal – with a huge retail business thrown in for free - proves misplaced this time, then there is little hope for any of the myriad investors piling into the sector. A lot is riding on his group's success, and that involves creating a new German platform for a raft of retail innovations - both in-store and in the online world. Exciting times ahead.

Charles Kingston
Editor

pus, was one of the biggest loan sales in Europe last year, with JP Morgan subsequently taking control of the performing loans, while co-investor Lone Star took over the sub- and non-performing loans. It also contained some of the best-quality assets to come to the market in recent years, including about 200 loans backed by about 40 shopping centres owned by many top European companies, plus high quality office and hotel portfolios.

The second portfolio in this latest disposal, bought by Oaktree, is made up of German NPLs with 257 loan tranches involving 114 different borrower group with total liabilities, unpaid interest, amortisation and other costs amounting to €752.15m. The portfolio generates annual rent of €51.2m (of which 10 assets account for €26.2m of the amount).

The underlying property portfolio consists of 177 separate buildings, including 42 offices (among which are 5 mixed-use assets) 35 multi-family housing units, 14 mixed residential and commercial buildings, 8 warehouses, 7 shopping centres, 10 hotels, five factory buildings, three logistics properties, five retail parks, or "*Fachmarktzentren*", plus an assortment of unusual one-off assets such as a medical centre, a car park, a petrol station, some small farms, etc.

According to **Sascha Klaus**, Commerzbank's divisional board member for non-core real estate assets, "Both transactions show that we are continuing to press ahead with our value-preserving run-down, and that we are significantly reducing both risk and complexity. In this respect we are taking advantage of market opportunities, in order to achieve best possible results through competitive bidding procedures."

As part of its planned return to a dividend after eight years, Commerzbank completed a €1.4bn capital raising in April, which pushed its closely watched core tier one capital ratio above the 10% level demanded by investors

Germany/IPOs

Greek uncertainty leads to IPO cancellations

The uncertainty and renewed volatility on **Frankfurt's Stock Exchange** in the run-up to the Greek referendum led to the cancellation of the planned IPO of Israeli-led group **Ado Properties**, while the proposed flotation of Munich-based **pbb Deutsche Pfandbriefbank** in mid-July was originally reported by Reuters as also being delayed., but now does seem to be going ahead in July.

A number of other non-real estate related IPOs scheduled for launch in Frankfurt have also pulled their proposed listings.

The Berlin-focused residential investor, itself part of the Tel Aviv-listed **Ado Group,** had planned to raise €400m by issuing 21m shares at €20 per share, of which 11m shares were coming from the parent group and a further 10m would be newly issued from a capital increase of €200m. The parent was also offering up to 2.1m additional shares in an over-allotment option designed to retain an ongoing stake in the business, while the free float was targeted at 50% after the flotation.

In Berlin, Ado had been growing rapidly in advance of the proposed flotation, recently buying a further 5,750 residential units for €375m from the listed **Deutsche Wohnen AG**, and a further 1,300 apartments from another unidetnified fund.

The company's strategy is likely to remain unaltered, assuming it finds an alternative window of opportunity to tap in to still undiminished demand for German real estate exposure among international investors. According to CEO **Rabin Savion**: "Ado Properties has the clear strategy to create value through targeted investments in its portfolio, privatisations and accretive acquisitions. We aim to approximately doublethe number of units over the next few years to generate value for our shareholders, capitalise on our existing platform and further enhance the efficiency of our operations."

A report by Reuters also suggested that pbb Deutsche Pfandbriefbank, the 'good bank' hived off out of the nationalised **Hypo Real Estate**, had also delayed its listing plans while closely monitoring the financial climate for a listing.

However, the listing does seem to be going ahead and barring further obstacles, the company's shares should start trading on July 16th. Investors are being offered shares at between €10.75 and €12.75, a range set by Hypo Real Estate along with its syndicate banks and the **Federal Agency for Financial Market Stabilisation**. The final issue price will be determined by the bookbuilding process, and the shares are being offered in a public offer in Germany and Luxembourg, and through private placements in other markets.

Pbb Deutsche Pfandbriefbank had caused a surprise earlier last month when it opted to abandon its 'dual-track' disposal process in favour of an IPO. It announced it would float a minimun stake of 75.1% of the share capital, with the German state retaining at least 20% for a two year lock-up commitment. It had previously been looking at a trade sale of the business, a more usual exit option for bank sales in Germany, which tends to undervalue listed bank stocks.

There was widespread speculation in Frankfurt banking circles that the parent bank in Munich, **Hypo Real Estate Holding (HRE)**, was anxious for a quick sale at any reasonable price. HRE is facing a deadline imposed by the EU to sell pbb by the end of this year.

Pbb wrote €9.0bn in new real estate business last year, a new all-time high for the bank, making it one of the most active lenders in Germany. For this year it intends to slightly exceed that figure, the bank said recently.

Reports in the *Wall Street Journal* two months ago cited sources as saying that Chinese insurance group **Anbang** and US private equity firm **Blackstone** had been holding talks with HRE about a possible takeover of the lender.

Germany/REITs

German REIT Alstria gets green light to swallow €800m peer

German investor **Alstria Office REIT** has already effectively got the green light to taking control of a competitor, **Deutsche Office (DO)**, in an all-share deal that values its target at €800m.

Alstria, which became Germany's first REIT when the REIT was introduced in 2007, is offering 0.38 of a new bearer share for each Deutsche Office share, which is equal to €4.41 per share, (with the share price currently oscillating around €4.30 since the takeover announcement) representing a premium of 16% over Deutsche Office's recent share price. New York-listed investor **Oaktree Capital Group**, which owns 60.54% of Deutsche Office, has already agreed to commit its entire stake to the deal.

In a statement, Alstria said it intends to make a public exchange offer for all outstanding shares. The exchange offer is dependent upon a minimum acceptance rate of 69.6%. If successful, the takeover will result in the creation of Germany's largest listed office real estate company. Ex-German heavyweight **IVG Immobilien** has a similarly-sized portfolio of holdings, but it lost its stock exchange listing last year.

The combined portfolio comprising 125 office buildings with 1.7 million sqm of lettable space will be valued at €3.5bn. The combined net loan-to-value will amount to roughly 50%, which Alstria will seek to bring down to 40% in the mid-term.

"Through the combination of both portfolios, Alstria expects to reinforce its presence in Hamburg and the Rhine-Ruhr area and to achieve a critical size in Berlin, Stuttgart and Frankfurt, giving it a critical mass in 6 of the top 7 German office markets," Alstria said in a statement.

The combination will also provide Alstria's shareholders "with access to a sizeable, profitable and well balanced

office portfolio in Germany's most dynamic growth regions while improving the group's capital market profile", it added.

Alstria expects the merger will generate cost synergies of €2.5m per annum through efficiency gains in the management and administration of properties as well as savings on the overhead functions. The cost synergies are expected to lead to an accretion of Alstria's FFO per share of more than 20%. On a pro-forma basis, this is forecast to increase from €0.62 to €0.75 per share.

According to Alstria's CEO **Olivier Elamine**, 'Over the past years we have prepared Alstria to take a significant step in order to become the benchmark in the listed office sector in Germany. There are numerous reasons why this transaction makes sense, however our main driver is that we are building up a stronger and better company for the benefit of all our stakeholders."

Also on a recent conference call, Alstria's CFO **Alexandre Dexne** confirmed that Alstria would go ahead with its plan to pay out a dividend of €0.50 this year, and offered prospects of this rising in the near term after the acquisition. The company with €1.7bn market cap would then be the fifth-biggest pure office company in continental Europe, giving it higher visibility among investors and greater liquidity

Alstria has invited shareholders to an extraordinary general meeting on 23rd July to vote on approving a capital increase and the deal itself, which would then be expected to close over the following months with the new shares listed by November.

Germany/Research

German 'attractiveness for investment' rises – Berlin Hyp

Berlin property lender **Berlin Hyp**'s second comprehensive real estate survey **"Trend Indicator"** has recently appeared, and its principal finding is that Germany is actually increasing as an attractive location for commercial real estate investment. This year 87% of 140 German and foreign survey participants gave Germany a positive rating, up from 82% last year, say the bank's researchers.

43% of respondents rated Germany as 'much more attractive' compared with 28% last year, with the key factors this year being the current low interest rate environment, the economic framework conditions and the increasing scarcity of supply on the market. The big ities of Berlin, Munich and Hamburg remain the most attractive regional real estate markets.

Around 84% thought worldwide conflicts would reinforce Germany's status as a safe haven while a third of respondents thought demographic changes, more people moving from rural to urban areas, would have an impact on property over the next 10 years and half expected the trend to have clear repercussions by 2030.

Nearly 75% expect the pressure on margins will increasingly drive banks into accepting higher risks. "However, it is extremely important to maintain appropriate risk discipline in the current market situation with sinking margins," said **Gero Bergmann**, board member of Berlin Hyp, commenting on the results.

Meanwhile, the **Quarterly Financial Barometer** that we have been tracking since 2012 here in the pages of REFIRE will no longer be appearing under the auspices of Berlin-based **Flatow Advisory Partners.** The index, which tracks lending practices in German commercial real estate financing and banks' willingness to finance investment, will henceforth be know as the **BF.Quartalsbarometer** and will fulfill the same function as in the past, but with a new sponsor responsible for its issuance. REFIRE will continue to publish any interesting findings the quarterly study throws up, as in the past.

Market research group **BulwienGesa** will remain in charge of carrying out the survey and publishing the feedback from respondents. The surveying covers about 90% of German commercial real estate financing, recording actual and intended financing from a panel of more than 140 financing institutions. The Stuttgart-based **BF.direkt AG** is an independent specialist for commercial real estate financing, and along with BulwienGesa is already a sponsor of the **German Debt Project** managed by the **IREBS Real Estate Academy** at the **Univeristy of Regensburg**.

Meanwhile the **DIF Index (DIFI)**, another index managed by property adviser **JLL** and the **ZEW (Zentrum für Europäische Wirtschaftsforschung)** which also measures the temperature of the property financing climate, registered a score of 29.7 points for Q2, 9.4 points lower than the record-breaking previous quarter. It was nonetheless the second-highest ever score since the index was introduced in 2011.

Although only a few of those polled said the financing climate had worsened, said JLL, the aggregate of positive and negative assessments for all four real estate categories- office, retail, logistics and residential, fell. Retail real estate, down 18.8 points, saw the greatest decline, followed by reductions for residential, logistics, and office real estate. In terms of financial expectations for the coming six months, the value for the office segment, in contrast, was up 2.5 points to 18.8, while all the other segments fell, sometimes significantly.

Respondents were also asked for their views on typical margins and loan-to-value ratios for financing core and value-add commercial properties. Typical margins for financing office, retail and residential (i.e. portfolios) in the core to value-add segments are seen as under 150 bps, with the lowest in both risk categories being for residential (at under 100 bps). Margins of 200 bps or more are no longer being got by banks. The longer-term trend to even

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In discussion with REFIRE:

Einar Skjerven, CEO Skjerven Group, Berlin

Einar Skjerven is the founder and CEO of the **Skjerven Group**, the Berlin-headquartered residential privatisation specialist. The company is engaged in real estate transactions, asset management, financing and fund management, as well as providing consultancy services to international instituional investors and high net workth individuals. The group comprises three subsidiary companies – Skjerven Invest GmbH, Skjerven Asset Management GmbH and Part-B Immobilien GmbH.

REFIRE caught up with Einar Skjerven in the company's offices on Berlin's Kurfürstendamm recently to learn more about the company's ambitions and what it offers institutional investment partners. Somer excerpts:

REFIRE: *Your main business is the privatisation of Berlin apartments. How did you get involved in this business?*

Skjerven: My background is as an investment and asset manager in Norway, where in the early days I learnt all about markets, asset allocation, risk-adjusted return, how investors are thinking, and what sort of products meet these risk-adjusted expectations. At that time I had nothing to do with real estate, that came later.

But then…

In 1994, more than 20 years ago, I got into real estate investment, firstly in Scandinavia and the Baltic markets, and then for the last ten years in Germany. Our company got into Berlin residential in 2006, building up portfolios for high net worth individuals and institutions. The strategy was to buy long-hold leases, gain a certain yield compression, and then sell the assets.

This strategy worked well for a while, but for the last 4-5 years we've now been seeing more return for investors in privatisation. Our approach is essentially financial, buying wholesale and selling at retail. We buy houses, divide them up and sell them as individual flats to private investors or the tenants themselves. We buy for a 5% or 5.5% yield, and look for yield compression to sell at 3%, which is possible if you do it properly over a time frame of, say, 12-24 months.

Aren't there a lot of competitors trying to do this in Berlin?

Yes, there are many trying to do this on a smaller or individual basis, and the market has traditionally been dominated by private buyers or small funds. But we take an institutional approach, building on my original financial roots. Ten years ago we bought properties all over Berlin, from Charlottenburg to Treptow, from Zehlendorf to Marzahn, Kreuzberg, Friedrichshain, Neukölln to Spandau. We're happy we did that, but our expertise today is that we know that many of these markets are not good markets for privatisation.

Now we know what to buy, what not to buy, we can be more aggressive as a buyer for the right objects, because we know exactly how to exit. Last year we sold over €60m in apartments wholesale to retail, more than 500 units. This puts us among the top 10 brokers in Berlin, and maybe among the top 5 in privatisation.

Just explain the mathematics of this to us again…?

We just bought 300 units, for €2,200 per sqm, which is a high enough price for Berlin. We will upgrade these properties and look to exit at €3,800 to €4,000 per unit, in a good scenario. Here we'll invest €10m in equity and take out €25m in four years. Where can you get this sort of return, without any real downside? In our view you shouldn't really be able to lose money in this market, as long as you buy in at the right level.

What are the other key factors, other than entry price?

Buying the RIGHT object is key, apart from just the entry price. We don't buy new-built properties, that's another business. And we only buy the complete house, which gives us control over all the units and means we know we can execute our plan. Detailed knowledge is critical – of the street, the location, the project's size, capex, facility management, the cleaning ladies, marketing, online activities… You need to know the caretakers, the standard of refurbishment, the tenants and what might incentivise them – in short, there are 100 things you have to know for each housing unit. If you miss out on understanding 10 of these things, you won't be successful. That's what we've learned.

Sounds like you can scale up with all this experience…?

One of the advantages is that we've sometimes been able to team up in auctions with other potential buyers to buy portfolios that possess many different qualities, including lower grade housing or properties fit for privatisation. We've joined with Berlin housing associations to successfully bid on lots, and then we'll take the most suitable parts of them for privatisation, which a housing association's charter would prevent them from doing.

Now that we are known, we receive unsolicited offers of 20-

50 residential properties per week. As an example, one of our investors is looking to invest €10-15m in Berlin residential – so we can put together a portfolio of €30m for him, whereby we could realistically buy €20m of the €30m. Where you have the equity in place, you have much wider options to buy.

Couldn't investors buy shares in Deutsche Wohnen or other listed companies with big Berlin exposure?

Certainly they could, if they wanted to buy the broad index, reflecting the overall real estate market. These big companies' strengths lie in economies of scale, lowering administrative charges per unit over a huge volume of units.

Investing with us, on the other hand, means investing with a stock-picking, active investor. Alpha plus Beta, if you wish. We are essentially an arbitrage trader from wholesale to retail. Right now what are investors getting on their cash accounts –maybe 50 basis points, maybe zero. We are arbitraging in the same market – the housing market – by combining two kinds of funding sources. We buy for 5% and yield compression brings it to 3%, which we offer to our clients through arbitrage, and by helping them move into another risk class than cash. We've never seen yield compressions like this in our years in the business.

Could you put together a plan for us to invest €50m in Berlin over say, 18 months?

We're starting to get mandates coming in from investors looking for this kind of scale. We have just bought for €40m in the first quarter, so it's certainly possible. We'd need a bit longer than 18 months, since only about 20% of the apartments we sell are empty.

Selling empty apartments is the easy part, and any broker can do that. but mostly the business is selling to tenants, or investors who will be buying with a sitting tenant. This enables us to take decisions on the capex for the whole house, for the next five to ten years if necessary for the benefit of all, even if some tenants aren't interested. It IS the tricky part of our business, and which represents our expertise.

In marketing, your company has been a real pioneer from the early days. Where does this come from?

We've always been willing to experiment with what works and we're strong believers in the digital future of communication in the real estate industry., although Germany still lags other markets in adapting digital tools. We've collectively sold over €100m of individual Berlin apartments, at an average price of probably €200,000, and we've done this without using any traditional advertising.

Three years ago we started advertising with Facebook, and now we're getting 40% of our sales via Facebook. We have a Facebook advertising budget, then we lead visitors to our landing page on our website. We have dedicated personnel tracking all visitors to see where they are coming from, what do they do when they are there, and measuring return on our digital spend.

What about the usual property search portals in Gemany?

Through Facebook, newsgroups and our blog we have more than 25,000 people now actively looking to know more about our offers in our Part-B privatisation division. We still use the digital portals like ImmoScout24, but increasing less as our own digital community becomes more important and effective. People are more likely to be positively interested by others in their community, rather than just a seller trying to sell. But it's taken us three years to build this up, which gives us an edge on our competitors, who often don't see the point or lack the ongoing commitment to continuously engage with their community.

Where is the next growth coming from for Skjerven Group?

We would prefer to grow organically, manage our way forward rather than merge in an M&A way. Likewise, equity for us is not so much a needed resource as we can easily scale up, hire more brokers and more workers. But we've proven now that our main business is a solid, robust earner and that our real value-add is in knowing the right assets to buy. So we're positioning the company as a partner for other investors where we could buy single assets for €5m, or up to €15m-20m for institutional investors. We would be a junior co-investor, with our incentive being not the fees but the high profit split at the end.

Do investors understand the expertise that you and the Skjerven Group bring to the party?

Yes, they are certainly starting to understand, in particular the detail that we go into in monitoring everything, and in seeing how tailor-made our monitoring is for every asset. In a way, it's a simple kind of business but it's not easy to execute it. Coming at it from a financial standpoint and implementing that into our day-to-day business has been fundamental to developing our model.

There's another soft factor at play here too. I think it's important that I'm a foreigner and that we have a very international as well as German team working for us in this city. It helps to think a little differently to local players on the market and to dare to try different things without waiting for them to be proven over years on the market. We don't strive to be an overly-traditional German company here - we have to and want to be an international investment company. It means we always try to take a slightly different approach.

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lower margins is still evident. Across both categories, the asset class with the highest margins is, not surprisingly, logistics.

Germany/Acquisitions

Chinese fund enters bidding for Autobahn group Tank & Rast

Among those bidding for the German autobahn service area chain **Tank and Rast**, which is jointly owned by British private equity group **Terra Firma** and Germany's **RREEF Infrastructure Funds**, is the giant **China Investment Corporation**.

The Chinese sovereign wealth fund has known ambitions to boost its direct investments in long-term overseas assets. If it succeeds in buying Tank & Rast, which could be valued at up to €3bn, it would mark the largest Chinese acquisition in Germany to date. Terra Firma has asked serious bidders to submit binding bids by the end of July.

The Tank & Rast chain has 390 autobahn service areas, 350 petrol stations and 50 hotels, making it the largest service provider of its type in Germany. The group employs 600 directly, including 300 in its Bonn headquarters, and over 12,000 through its numerous franchise partners, in generating more than €3bn in annual revenues.

The **Guy Hands**-led Terra Firma bought Tank & Rast in 2004 for €1.1bn from **Lufthansa** and two funds belonging to **Apax** and **Allianz**, six years after being privatised by the German government. In 2007 the private equity group attempted to sell the chain, and ended up selling just below 50% to **Deutsche Bank**'s alternative investments subsidiary RREEF.

The group was forced to take on hefty debt during the financial crisis, and ended up issuing very high-priced bonds to service its €2.1bn debt, including some which are committed to paying interest of up to 6.75%. The sticky nature of these commitments have made the consortium's financial prospects much more difficult, so much so that an earlier-mooted IPO is no longer feasible, according to **JP Morgan** and Deutsche Bank, who are advising on the deal.

China Investment Corp. was formed in 2007 as a way for China to diversify its huge and burgeoning foreign-exchange holdings, and currently has about $220 billion in overseas assets. CIC's chairman **Ding Xuedong** told media in an interview in March that the fund wants to take a more direct role in managing its overseas assets as its foreign holdings rise. CIC is thought to view Tank & Rast as a well-run and stable franchise in Europe's largest economy.

German companies are becoming increasing targets for Chinese looking to invest overseas. Investment fund Fosun has stakes in several German companies, ranging from banks to apparel retailers, while Chinese insurer **Anbang** was in talks to buy real estate lender **Deutsche Pfandbriefbank** this year. The key attraction for big Chinese investors such as insurance companies or pension funds in infrastructure projects is the possibility of diversifying away from their dependency on government bonds. CIC, for example, has only about 17% of fixed-income certificates in its holdings.

Thought to be still in the bidding process along with the Chinese sovereign fund are four different bidding groups - a consortium of insurer **Allianz**, Canadian infrastructure group **Borealis**, the **Abu Dhabi Investment Authority**, and **MEAG**, an investment subsidiary of **Munich Re**. Also in the frame are two groups assembled by Australian banking group **Macquarie**, along with the Singapore wealth fund **GIC**, and the **Ontario Teachers Pension Fund**.

Germany/Industrial Property

Sirius raising fresh €50m for further acquisitions

The AIM-listed **Sirius Real Estate**, which focuses on business parks throughout Germany, is pushing ahead with its second equity raise in less than six months, issuing up to 106 million shares in a

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private placement and looking to raise about €50m in fresh funds.

The company plans to use the funds to buy five mixed-use business parks in Stuttgart and North Rhine-Westphalia for €58.2m, while also availing of a new €18m bank facility which is currently being negotiated at an expected fixed rate of 2.5%.

The five assets offer a net initial yield of 8.1%, have a 16.4% vacancy rate and an average remaining lease of 3.6 years. The acquisition will bring to 40 the business parks that Sirius now owns.

The company also has a listing on the **Johannesburg Stock Exchange,** so its placement was being managed by **PSG Capital** in South Africa as well as **Peel Hunt** in the UK.

According to CEO **Andrew Coombs**, the new assets will deliver immediate bottom-line returns for Sirius, with the acquired portfolio having an annualized rental income of about €5.4m, net operating income of €4.7m and a net initial yield of 8.1%. The total lettable area amounts to 103,610 sqm with a collective vacancy of 16.4% and is located in markets where Sirius wants to grow its exposure. "On completion, these will generate immediate return for shareholders as we exploit the yield gap between the new portfolio's cash generation and our low cost of borrowings", Coombs said.

On its overall financing situation, Sirius also plans to reduce its leverage by repaying the two most expensive loans in its debt portfolio. The two credit lines from **Macquarie Bank** have a combined volume of €56m. They will be refinanced via a new ten-year €56m credit facility from an unnamed lender, with a margin of 135 basis points over Euribor. With the refinancing complete, the company expects to save about €2.4m in annual interest payments. Together with the capital raise and the acquisition, the company's loan-to-value ratio will drop to 46.8%.

With the latest assets, plus the €70.9m it invested over the last six months to buy a further four assets, the Sirius portfolio is now valued at more than €600m, with more than €1m sqm of lettable space. CEO Coombs commented to South African website **Moneyweb** recently that Sirius could strive for and manage more than €1bn of German properties, supported by

growing demand for light industrial assets across Germany.

He said that the combination of capital increase, the latest acquisitions and the benefits of new financing would be about 16% accretive to annual dividend per share. Sirius is paying a final dividend for the 2014 full year to 31st March of 1.6 cents per share, at a current share price of €0.46.

REFIRE: *Sirius initially floated in 2007 at the height of the credit boom, and subsequently saw their share price collapse as asset prices were written down and heavy borrowings were refinanced. The company has been stabilised under Coombs with selective disposals and improved operating income, and the renewed focus on genuine operational issues rather than just balance sheet engineering has seen the company's fortunes slowly getting back on track. The outlook is definitely improving.*

Germany/Acquisitions

Summit Germany signs on two further deals for €95m

Another Germany-focused AIM-listed company is **Summit Germany**, which invests exclusively in commercial properties in the country's largest cities. It has been busy these past weeks, signing on a couple of interesting deals.

It has just signed an agreement to buy a loan facility on a portfolio of six office properties for about €40m plus expenses, having previously owned the portfolio which is leased to **Deutsche Telekom**. The loan facility has a face value of €78m, and by buying the loan, Summit Germany regains full control of the asset.

The six properties are described as 'in good locations', including Heidelberg, Düsseldorf and Potsdam, with an aggregate net lettable area of 63,000 sqm and are 72% occupied. They currently generated net annual rent of about €5.5m, reflecting a yield of 13.8% on costs.

The company, which is majority-controlled by Israeli investor **Zohar Levy**, had earlier in June bought an office complex in the southwest German city of Stuttgart at an average net yield of 7.5% p.a. The total price of €55m included an agreement to buy an adjacent smaller property at a later time. The property is thought to be part of the *Xcel Business Campus* area in the Zuffenhausen district, whose previous owner was developer **Freo**.

The 135,000 sq.m. site has lettable area of 63,000 sq.m. and rights to further development of another 55,000 sq.m. The properties are multi-let with 95% occupancy and nine years average lease life. Current net rent is around €4.5m at a 7.5% yield, and net operating income is €4.1m.

The deals bring to over €800m the amount the company has invested in Germany. The company has offices in Frankfurt and Berlin with 50 staff managing its portfolio of storage, office, retail and logistics properties spread throughout Germany.

Like light-industrial specialist Sirius Real Estate (*see elsewhere in this issue*), Summit Germany is another pure play on German commercial real estate. It earned €73.98m last year on turnover of €43.36m, and currently has a market cap of €421m. Its assets are yielding about 10% on operating cash flow.

The company announced a dividend of 0.77 cents per share for the first quarter of 2015. Its quarterly dividend payments amounted to 2.85 cents in 2014, equivalent to an annualised yield of 5.42% on the 63 cents pricing of its initial public offering. The company is targeting a yield of 7% on IPO price.

Summit raised €35 million when it listed on AIM in February 2014 and a further €120m million in February this year.

Germany/Acquisitions

Frankfurt's Trianon building goes to NorthStar for €540m

The US REIT **NorthStar Realty Finance Corp**. is expanding its European portfolio with the acquisition of landmark Frankfurt skyscraper *Trianon*, in the heart of the banking capital's business district, for €540m.

The acquisition comes on top of the American group's recent takeover of a €1.1bn pan-European office portfolio from **SEB Asset Management**, followed by buying a 15% stake in private European group **Aerium**, and then the 37-unit **Trias** commercial property portfolio from regional German insurer **Provinzial NordWest** for €450m. NorthStar is developing the European unit to hive it off as a stand-alone REIT on the New York exchange later this year. With the addition of the Trianon, the unit will have an aggregate $2.6bn portfolio.

The 186m-tall Trianon's most recent owners have been **Madison International** and a **Morgan Stanley Fund**, with the pair known to have been looking for a buyer for the 69,000 sqm property since last year, after Madison bought a 56.95% stake from Morgan Stanley's ill-fated **P2 Value Fund** in 2012. At the time the 47-storey office tower was thought to have a book value of €471m. Morgan Stanley itself had paid €620 for Trianon in 2007, at a net initial yield then of 4.2%.

The property has since undergone a significant capex programme, and is 98.5% occupied, with a WALT of eight years for its two prinicpal tenants, the **Deka Bank** and law firm **Linklaters**.

NorthStar is investing €250m of equity into the acquisition, saying it expects to achieve an initial yield of 8%. According to chairman and CEO **David Hamamoto**, "We believe this prominent office tower will be a great addition to NRE given its strong fundamentals, including being one of a very limited number of buildings in Frankfurt with greater than 40 floors, which demand premium rents in the market."

Germany/Listed Companies

Grand City in further surge with €330m of new deals

Frankfurt-listed residential property investor **Grand City Properties** has bought 10,500 German residential units in several transactions totalling €330m.

The Luxembourg-registered property turnaround specialist said the latest acquisitions generate total net rent of €28.5m and have a (high) vacancy rate of 17%. The assets are mainly located in Leipzig, one of Grand City's core markets.

The company has also begun the sales process for 4,500 non-core assets (without specifying their locations) and the net additions from the latest transaction will expand Grand City's overall holdings to 66,000 German homes and €335m in rental income. Its assets are located in Berlin, North Rhine Westphalia, Dresden, Leipzig, Halle, Nuremberg, Munich, Mannheim, Frankfurt, Bremen and Hamburg. The company also manages a further 22,000 residential units for third parties.

Last year Grand City doubled its FFO to €76m and posted profits of €244m, while boosting its portfolio holdings to 43,000 from 26,000 in the course of 2014, before this year's surge in units held.

Germany/Retail Real Estate

Hudson's Bay packs Kaufhof assets into JV, plans German expansion

The takeover last month of listed group **Metro's Galeria Kaufhof** retail chain by Canada's **Hudson's Bay Company** had obviously been the subject of considerable forward planning, to judge by the buyer's subsequent plans to deal with the individual stores in it's newly-acquired portfolio.

Hudson's Bay Company (HBC) bought Galeria Kaufhof's 103 department stores, 16 **SportsArena** stores and 16 **Galeria Inno** locations across Belgium for an enterprise value of €2.42bn. It plans to sell a minimum of 40 stores of 59 Kaufhof-owned properties into a new joint venture with giant US REIT **Simon Property Corp**. for at least €2.4bn, which itself will largely finance the entire acquisition. HBC will own 65% to 85% of the new venture.

Among those stores destined for allocation to the new JV are the Kaufhof stores at Frankfurt Hauptwache, Berlin Alexanderplatz, Cologne Höhe Strasse, Düsseldorf Königsallee and Düsseldorf Carsch-Haus

"These are exciting transactions that demonstrate our proven growth formula in action: improving solid retail operations, unlocking the value of real estate and growing through acquisitions," said **Richard Baker**, HBC's governor and executive chairman, in a statement. "We have been carefully surveying the European retail landscape for many years for a potential expansion opportunity and have watched Kaufhof build on its exceptional real estate to become the No. 1 department store in Germany."

HBC — **Saks Fifth Avenue** and **Lord & Taylor's** parent company — will now operate 464 stores, with about 44% of

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sales generated in the U.S., 31% in Germany, 23% in its home country of Canada and 2% in Belgium, the firm said.

"This acquisition is a significant step forward in our plans to become a premier international retailer," said **Jerry Storch,** CEO of HBC, in a release. "With Kaufhof, we will operate eight leading banners in Canada, the United States, Germany and Belgium. Expanding our footprint into Europe with Kaufhof also provides us with a strong foundation to explore additional opportunities for growth throughout the Continent."

Shareholders of HBC in Canada have cheered the German acquisition, which boosts the value of its real estate by 20% to C$11bn ($8.9bn), and sees HBC having to issue neither shares no debt to finance the deal. The JV with Simon Property will be primed in such a way as to allow it list as a separate vehicle as an IPO at a later point.

In the meantime it will serve as a platform for future retail expansion throughout Europe, similar to how HBC chairman Richard Baker has created a property empire in North America out of retail underpinned by leading retail names such as Saks Fifth Avenue and Lord & Taylor.

"This acquisition provides a strong European base for future retail expansion," said CEO Storch on a conference call the day after the Kaufhof deal closed. "There are additional growth opportunities in Europe for the Simon-HBC real estate joint venture."

The Kaufhof stores, which are the No. 1 department stores in Germany and Belgium, make up 1.5 million square meters, of which Hudson's Bay is selling 12 million to the Simon joint venture. The retailer will work on the remaining Kaufhof 400,000 sqm and may sell the properties to the partnership at a later date, chairman Baker said, also on the conference call.

Baker added that he had been looking for buying opportunities in Germany since 2006. "These are really fantastic, landmark, marquee properties and (the deal) will create value both in our real

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

A turning point for the image of women?

www.valteq.de

At the Real Estate Industry Day hosted by our industry association, ZIA, something happened that I found remarkable. Following an address by a "strategy consultant", whose presentation included a number of pictures of scantily-dressed women, the president of ZIA, Dr. Andreas Mattner, apologised to those gathered in the auditorium on behalf of the entire management board. The ZIA distanced itself from the image of women as portrayed in the presentation. Even if this action was primarily of symbolic value, I felt it was a courageous and strong show of support. As someone who already has many years of leadership experience in the real estate industry and, in doing so, has largely worked in a male-dominated environment, I am well aware that we still have some distance to go before we will see anything that passes for general equality. This is also why I found the Immobilien Zeitung's plea so heartening. Here, the editor, Bernhard Bomke, commended the actions of Dr. Andreas Mattner and coupled his praise with a call for stronger support of the advancement of women in the real estate industry.

It is a matter I have also been observing in our company. At VALTEQ, around half of all employees are female, whilst I am alone among the executives. There are structural and individual reasons for this. For example, during the staff reviews that I have conducted during the last 15 years, I often notice that women are frequently uncertain of their competencies and don't make a clear stand for their abilities and aspirations. Compared with their male colleagues, they tend to need encouragement and prompting. At the same time, it is incumbent upon us an attractive employer to offer programmes on diversity and to set structures in such a way that both women and men can forge equal careers – so far as they desire it themselves. I say this also with reference to the demographic shift, which will bring about an increasingly intense struggle for talented junior managers. We can simply no longer afford to eschew a body of workers if we want to ensure long-term success.

As I have mentioned, we still have quite some way to go. An indicator for this are the conferences for women in the real estate industry, which are constantly increasing in numbers and serve to provide for targeted networking among their participants. With these, a path is being cleared for the following generations to tread. The image of women in the real estate industry is changing; and, thanks also to the remarks made by the ZIA president, the image I have of men in the real estate industry is slowly changing too.

estate company and our public operating company," Baker said, adding the pact will immediately add $200 million to the company annually in operating earnings. "This is a very, very accretive deal for the Hudson's Bay Co."

Real estate aside, the key attraction in HBC's eyes are the many Kaufhof similarities with HBC's own stores in Canada and the US, such as a dominant local market share, prime urban real estate locations, a solid network of suburban stores and a roughly similar competitive environment, including growing their digital commerce interests. Improving Kaufhof's flat sales of the past four to five years through HBC's successful merchandising techniques can generate immediate improvements, said Baker.

"Kaufhof has been owned by a German mass merchandising company and managed very much like a box (retailer)," he added. "They didn't take a lot of risks in the department store space. We are buying a business that has very little downside and has a lot of opportunity for growth and expansion."

Germany/Funds

Corestate bullish on German retail ahead of Asian inflows

The Swiss-based private equity group **Corestate Capital** has been both a big buyer and a seller in recent weeks, as it realigns its strategy towards higher, risk adjusted returns on capital in second-tier cities. Corestate's original primary market was undervalued residential across Germany for renovation and subsequent re-sale.

Last week Corestate sold a portfolio of six office properties, which are let out long-term to **Deutsche Telekom AG**, which it had originally bought in May 2013. The properties are located in the cities of Ansbach, Bonn, Flensburg, Freiburg, Regensburg and Stahnsdorf near Berlin. The portfolio has a combined lettable area of 144,000 sqm plus 1,170 underground and surface parking spots. The net annual rent, excluding utilities and based on the properties' current full occupancy, amounts to roughly €14.8 mln.

According to **Sascha Wilhelm**, Corestate's COO, "Using sound timing, appropriate asset management measures and securitised debt, we managed to ensure sustainable rent revenues and to optimise the cost-income ratio. We will continue to handle the asset management for the portfolio, and facilitate the strategic alignment of the new owner."

Earlier the Zug-based Corestate paid €370m for 35 retail assets located throughout pedestrian zones in German mid-sized cities. The portfolio comprises more than 170,000 sqm and is let to a range of tenants including **C&A**, **Deutsche Bank**, **H&M**, **Peek & Cloppenburg**, opticians **Fielmann**, gro-

cer **Rewe** and electronics retailer **Saturn**. Corestate said it build up the retail ensemble asset by asset

Tobias Gollnest, director for commercial real estate of Corestate Capital, said: 'Our local knowledge is the key factor for successfully finding these opportunities. This type of approach needs a lot of detailed work on the ground and Corestate benefits from its 16 subsidiaries across Germany, which makes this possible.

"The appetite for higher risk adjusted returns in secondary cities is definitely growing. We notice that large players are currently looking into this segment. Higher returns based on top covenants are very rare in today's market environment. We see high potential in this market and will continue to pursue this strategy."

Speaking last week at the **ULI Urban Leader Summit** in Frankfurt, Corestate's founder and chairman **Ralph Winter** outlined his rationale for the group's recent retail commitment. Despite the rise of internet commerce, he said, there is still a lot of pedestrian traffic in attractive downtown shopping areas.

After opening an office in Singapore to present opportunities to Asian capital some years ago, Winter is more bullish than ever on Germany and sees a huge wave of capital coming into Europe from Asia, for which Corestate can play a real leadership role in Germany. The attraction of Germany, with its industrial Mittelstand, is its myriad of interesting secondary markets and sub-markets reflecting the diversity of its industrial structure, he said.

The wave of liquidity flooding markets means "it is not easy to lose money right now", commented Winter. Although also looking at investments in Spain, "where, with banks coming back into the business, you could now now buy at 200-300bps better cap rate than in Germany", Winter stressed that Corestate would be "continuing to focus on the market we really understand – Germany".

"Eight out of ten of the wealthiest Asians made their fortunes in real estate, but now with rising Asian volatility, what they're increasingly looking for are the mature markets of Europe", said Winter.

Germany/Acquisitions

US giant Colony Capital lays foundation for German platform

Giant US REIT **Colony Capital** has been eyeing up a foothold in Germany for some time and we reported some months ago in these pages from the company's **Milan Visic**'s enthusiasm for, particularly, office properties in the eastern part of Berlin.

The Los Angeles-based Colony has now formalised its presence in Germany by buying a 50% stake in fund and asset manager **Hamburg Trust**. The new partnership will allow the group to expand into instituional asset management and to invest in new residential projects. The buy-in to Hamburg Trust, which was previously owned fully by **HTH Hamburg Trust Holding**, came following a capital and reserves increase.

Hamburg Trust, which manages €1.2bn in prperty assets, only recently launched it first *Spezialfonds* for non-profit foundation and plans a further two vehicles with an investment volume of €500m. The first is **Shopping Invest**, targeting inner city shopping malls in larger cities, and the second is **Domicilium Invest**, which will look to invest in new project developments in the seven biggest German cities.

According to Hamburg Trust's CEO **Dirk Hasselbring**, "We are glad to have won such an internationally renowned partner with Colony Capital which wants to support Hamburg Trust's expansion in the long-term. Especially the strengthening of our capital base is a very good basis for further investments into new property portfolios to expand the institutional business and support opportunities in project developments."

Germany/Hotels

German brewer Warsteiner mulls sale of Welcome hotel unit

Traditional German brewery group **Warsteiner** is exploring strategic optionsfor its **Welcome Hotels** subsidiary, including a potential sale of the unit which owns and manages 17 three- and four-star hotels across Germany. The hotels ares strongly focused on business travel and conference management.

Warsteiner, which is based in the picturesque Sauerland region in central Germany and is owned and run by the ninth generation of the **Cramer** family, said it aims to capitalise on opportunities from current high demand for German hotels.

The company has now mandated the Frankfurt-based investment advisory **von Rothschild** with evaluating the potential for the hotel division, and at the end of June sent out an exposé to domestic and international investors. While selling is an option, it said, the firm is also reviewing other strategies, including a significant expansion of the unit.

According to CFO **Stephan Fahrig,** "The sale of the Welcome Hotels group is only one of several options and will only be carried out if the strategic opportunity,the potential buyer, the structure of the transaction and the priceoutstrips the other perspectives."

A report in the *Westfalenpost* suggested that among those expressing keen interest in the Welcome hotels is the Düsseldorf-based **Lindner Hotel Group**. Lindner already operates 34 hotels in the three- to five-star category across Germany and would be ranked in the Top Ten hotel groups nationwide, with a reputation for originality and innovation. The group was founded in 1973 and had a turnover in 2013 of €172m with 2,000 employees.

Welcome Hotels, which was founded by Warsteiner in 1998, last year generated €62m revenues, 3% up on 2013, while

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CORPUS SIREO
ASSET MANAGEMENT COMMERCIAL

THE HIDDEN CHAMPION: GERMAN CORPORATE REAL ESTATE

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The German commercial real estate market is still booming - sales of commercial real estate amounted to approximately 40 billion euros in 2014, a level not seen since 2007. However, the resurgence in the willingness of national and international investors to purchase real estate has simultaneously been accompanied by a huge decline in the availability of investment properties in traditional market segments. As a result of the investment pressure, investors are increasingly focusing on alternative asset classes, including corporate real estate. This is defined as commercial property used for business purposes, which generally comprise several types of use and are suitable for multi-tenant occupation and can also be used for other purposes.

Despite the considerable value of corporate real estate holdings, which at ten percent constitute a major item of fixed assets, and also despite the extremely strong investor demand for this asset class, German companies are somewhat reluctant to sell real estate holdings used for business purposes. According to estimates, 70 percent of real estate used by companies are owned by the companies themselves.

The sale of these properties would provide a range of advantages for the companies: The current market climate offers numerous opportunities specifically for streamlining and optimising portfolios. Aging real estate portfolios in particular require investments in the existing properties; this situation is exacerbated further by increasing user requirements for greater flexibility. Flexible tenancy agreements may have a positive impact on strategic decisions, particularly as companies which operate profitably are interested in unlocking tied-up capital and gaining access to the associated increase in liquidity. By means of external rental arrangements, companies are also able to reduce costs, professionally manage holdings and unlock administrative resources. Property sales also provide capital for a company‘s core business and companies are able to unlock additional value-add potential with the sale and subsequent lease-back of real estate holdings.

Particularly in the field of company pension schemes, the contribution to corporate real estate can permanently resolve significant financing shortages in the current climate of low interest rates, thus ensuring that existing resources can be used more efficiently. Cash flows can be adjusted to the obligations by way of individual structuring of indexing agreements, graduated rents and the tenancy agreements in the company pension scheme. Additional resources can thus be avoided, and the property value can be significantly enhanced by means of professional asset management. In conjunction with Swiss Life Asset Managers and Schweizer Leben Pensionsmanagement, Corpus Sireo, as a unique selling point, has established a comprehensive position in Germany for institutional clients for structuring company pension scheme properties.

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For further information go to www.corpussireo.com/amc

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the company says the hotel division IS profitable. A decision on future strategy will be taken before year-end.

Separately, a new study published by research group **MKG Hospitality** for business publication *Manager Magazine* shows that the number of hotel rooms run by chains in Germany has risen from 160,500 in the year 2,000 to now 253,000. About 40% of these belong to the ten biggest brands. Heading the list is **Best Western** with 19,000 rooms, followed by **Mercury** (15,364 rooms) and **IBIS** (11,500). Then comes **Maritim** (10,505), **NH Hoteles** (10,438), **Motel One** (10,180), **IBIS Budget** (7,671), **Leonardo** (7,588), **B&B** (7,087) and **Steigenberger** (6,490).

Germany/REITs

Hamborner REIT to raise further €142m in rights issue

German listed property firm **Hamborner REIT** is to raise around €142m through a cash capital increase of 16.6 million new shares at a price of €8.50 a share. Shareholders can subscribe at the ratio of three to one for existing shares held. The price represents a discount of 9% on the €9.34 share price prevailing on June 23rd. Trading in the new shares will start on 13th July.

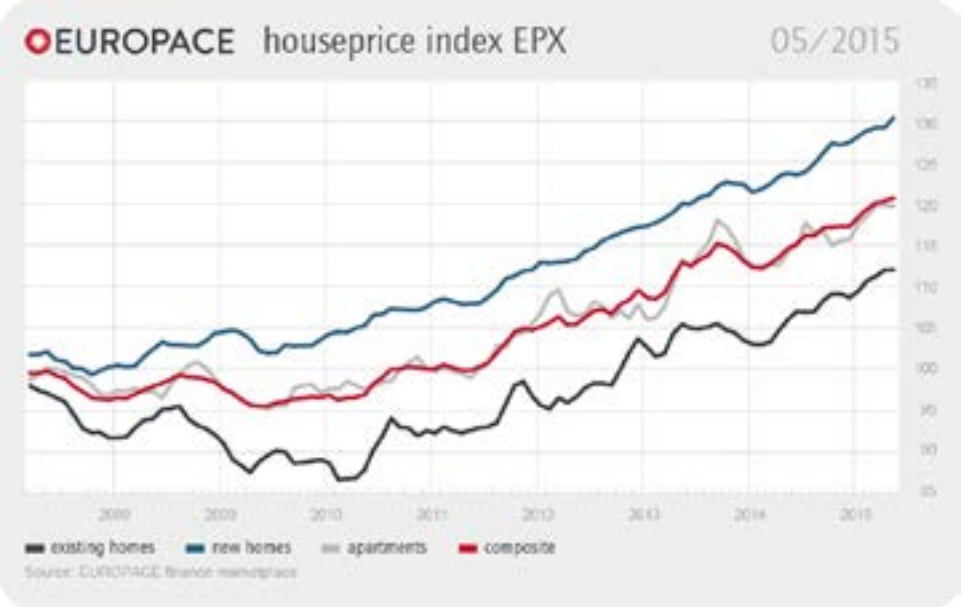
It is the second capital increase to be carried out by the Duisburg-based company this year. In February, Hamborner increased its capital by 10% through the issue of 4.5 million new shares worth a total €40.9 mln.

The shares were fully subscribed in an off-market deal by **RAG-Stiftung**, a foundation set up to ensure that the RAG corporation can discontinue subsidised coal mining in a socially acceptable manner in the Ruhr Valley.

The company said it intends to use the proceeds from the new offering mainly to finance the acquisitions of additional properties, particularly commercial buildings in prime locations, and retail parks. Existing shareholders will be offered subscription rights for the new shares and the company's largest shareholder, RAG-Stiftung, has already agreed to exercise all its subscription rights.

Any new shares not taken up by existing shareholders may, following expiry of the subscription period, be offered to qualified investors via a private placement, Hamborner said. **Joh. Berenberg, Gossler & Co. KG** is acting as sole global coordinator and together with **Kempen & Co** and **Bankhaus Lampe KG** acting as joint bookrunners.

Hamborner put the fair value of its real estate portfolio at €717m with an overall LTV of 43.3%. Rental income last year amounted to €46.82m, while the company earned FFO last year of €24.55m, and booked a net profit of of €17m.



Germany house price development

Germany/Funds

Bouwfonds buys €182m of residential in Germany, Denmark

The Dutch-owned **Bouwfonds Investment Management** made two big portfolio acquisitions in Germany and Denmark for both one of its *Spezialfonds* and for its open-ended property fund, for a total of €182m.

It bought three residential buildings for its **European Residential Fund,** whose volume has now exceeded the €900m-mark. One of the properties, in the North Rhine-Westphalian city of Münster, was bought for €22m from **TMW Pramerica Property Investment,** and has 19,000 sqm across 239 units.

The second Germany property, with 5,100 sqm in 146 units, is in the university city of Göttingen, and was bought for €11m from a developer. The Danish property is located near the Copenhagen airport and cost €20m.

Earlier in June Bouwfonds had also bought a number of residential buildings and developments in Germany and Denmark to be managed by **KVG Institutional Investment-Partners** on behalf of a southern German pension fund for €130 mln.

The **Wohnen** (residential property) portfolio includes an existing building and a project of 12,000 sqm each in Hamburg-Wandsbek, a 7,000 sqm proj-

ect in Frankfurt and an 8,000 sqm building in Copenhagen.

The company plans to invest €53 mln and €31 mln respectively for the Hamburg and Frankfurt project. Both developments are expected to be delivered by end-2016. The company described the assets as "good, centrally-located residential properties, nearly all of them fully occupied, and either in perfect condition or structurally renovated or to be completed in the next two years." Bouwfonds IM will be responsible for portfolio and asset management of the properties.

Germany/Acquisitions

Pre-IPO Aurelis buys four further business parks

German developer **Aurelis Real Estate**, controlled by private equity group **Grove International**, has bought four German business parks from fund manager **Union Investment**, for an undisclosed price.

The properties are located in Düsseldorf, Cologne, Liederbach (Frankfurt/Main) and Wiesbaden. Together they comprise 104,000 sqm of space developed between 1988 and 2001. The assets were held in the portfolios of open-ended real estate funds **Unilmmo: Deutschland** and **Unilmmo: Europa**.

This sale is in line with Union Investment's ongoing strategy of reducing the average age of its portfolio. In 2014, the Hamburg-based real estate investor sold older properties worth a total of €1bn while at the same time buying more recent properties for €2.4bn.

The sale is the second transaction between Union and Aurelis. In April, Aurelis bought a business park in Kirchheim near Munich from the fund manager, comprising 28,700 sqm of rental space. The portfolio generates rents of €9.4 mln a year and includes properties for office, warehouse and service uses. There are currently 90 tenants across the four locations, representing a letting ratio of around 80%.

'Reducing the average age of our portfolio is an active precaution against risk in our funds, and we constantly strive to improve the age profile of our properties,' said **Frank Billand**, a member of the management team at Union Investment Real Estate.

The Eschborn-based Aurelis is reported to be preparing for a stock market flotation after the summer. The group recently posted full-year 2014 figures, showing it tripled net income last year to €74m. It also took advantage of the favourable interest rate and financing climate to pre-empt a refinancing of debt obligations due in December 2016, by securing a new syndicated loan of €530 with **pbb Deutsche Pfandbriefbank** and an additional unnamed lender, of which €430m came from pbb Deutsche Pfandbriefbank.

The group, formerly part of **Deutsche Bahn** and holding large urban landbanks as part of its railway legacy, earned €371 from the sale of new developments in 2014, while generating rental income of

€60m through its portfolio of commercial properties, which amounted to a combined 11m sqm across Germany's larges cities. Acquisitions included business parks in Böblingen and Ratingen, a mixed-use commercial property in Hanover, and warehouse and office space in Hilden.

If the IPO goes ahead it should be worth about €500m, valuing the group at over €1bn and providing a part-exit for Grove, which last year bought out the 50% stake in the company owned by construction group **Hochtief**. The two had paid €1.6bn in 2007 for Aurelis from legacy owner Deutsche Bahn, but have since shrunk the company's portfolio significantly.

Europe/Funds

Catalyst Capital raises first €150m for value-add fund

London-based **Catalyst Capital** has raised €150m of equity commitments in a first closing for its **Catalyst European Property Fund II (CEPF II)**, a €1.25 billion real estate fund.

The investors are a mix of US and European pension funds, US endowments, funds of funds, family offices and wealth management firms, including investors from Catalyst's first European real estate fund, **Catalyst European Property Fund I (CEPF I)**.

Nearly €75m of the initial commitments have already been deployed in three separate transactions in the UK and Europe.

According to **Julian Newiss**, founding partner at Catalyst, the current environment is providing a prime opportunity to generate strong returns. "The volume of European distressed property loan sales coming onto the market has never been higher and is set to continue as a result of the **European Central Bank**'s Asset Quality Review," he said.

CEPF II is targeting the office and retail sectors and, geographically, the UK, France, Belgium, Germany and Poland, where Catalyst said it believes there is the potential to source attractive value-creation opportunities and capitalise on the market dislocation between prime and secondary assets. It will target both development and refurbishment.

The predecessor fund CEPF I, which was fully invested in 2012 has over the past year sold off more than 50% of its portfolio after upgrading and repositioning the assets. Disposals include the *Les Atelier du Parc* office building in Paris to Germany's **Deka Immobilien** for €155 million, and the office block at 30-38 New Bridge Street in the City of London to the **Corporation of London** for €32.45 million.

Germany/Financing

DREF issues €44m first German student housing bond

Student housing manager **Deutsche Real Estate Funds (DREF)** has raised €44m through Germany's first student housing bond issue, The five-year **'Deutsche Studenten Wohn Bond I'** carries a coupon of 4.675% annually, and was subscribed to by exclusively German investors.

The bond is senior secured mortgage-backed and has an investment grade rating (BBB) from **Creditreform**.

DREF had originally planned to pay 4.375% on the bond and issue a volume of up to €100m back in April, and didn't offer an explanation for the somewhat smaller issue. Nonetheless, DREF said there was "immense interest" from investors for the student housing sector, and it was planning a further private placement over the coming months.

The firm, in which institutional fund manager **Internos Global Investors** and family office **The Somerston Group** hold a joint 27.5% stake, has also taken a €50m loan from an international bank for its development pipeline.

According to **Felix Bauer,** the CEO of DREF and head of DREF's majority shareholder the **Bauer Group**, "The German student housing market needs private investments. The supply gap and refurbishment bottleneck of student accommodation cannot be resolved with public funding alone. We have now shown that these investments can also be funded via the capital market in Germany, if only in the institutional segment."

Proceeds from the issue will be used to buy and refurbish five student residences in Berlin, Bremen, Kiel and Stuttgart. DREF said around 1,000 students will prospectively be able to move into the refurbished units by the start of the 2015 winter semester.

Meanwhile, one other bond issuer fell foul of the unstable climate caused by the Greek crisis talks. Frankfurt-listed **Adler Real Estate** pulled its plans for a convertible bond issue to fund its recent takover of Berlin peer **Westgrund**, saying in a statement that "it is in the best interest of the company not to pursue a capital markets transaction in the current market environment."

Adler completed its takeover of the residential invest in June by buying 95% of Westgrund's shares for €790m in cash and shares. It says the cancellation of the bond issue has not affected the takeover.

Germany/Debt Finance

€400m in fresh mandates for debt specialist CAERUS

Düsseldorf-based **CAERUS Debt Investments AG** has garnered new mandates over the last few months worth almost €400 million, bringing to over €800m of debt funding CAERUS now has available for real estate lending.

Insurance group **Volkswohl Bund** has increased its mandate to CAERUS by €300 million, to a new total of €500 million. CAERUS advises the company on investments in senior loans secured on real

see page 26

...from page 24

estate with higher loan-to-value ratios, so-called whole loan financing.

Additionally, the credit fund advised by CAERUS , the Caerus Real Estate Debt Lux. S. C. A., SICAV-SIF-Fund I (**"Caerus Real Estate Debt Fund I"**) has received a further €50 million equity facility from another German insurance group.

The credit fund, which is set up under Luxembourg law, has a target volume of €300 million. It concentrates on real estate financing and bridging loans with loan-to-value ratios of up to 85%. The primary focus is on Germany, Austria and Switzerland. Subscriptions to the fund are subject to a minimum investment of €10 million, while the target distribution yield is 6% to 7% p.a.

CAERUS is headed up by **Michael Morgenroth** and **Patrick Züchner**, with Swiss private bank **Reichmuth & Co** and Berlin-based **Dupuis Asset Management Capital** as principal shareholders.

Germany/Retail real estate

Deka Immobilien buys €700m retail portfolio from Dutch group

German fund manager **Deka Immobilien** has bought a diversified portfolio of 51 city-centre retail assets in 37 German cities for €700m. The seller was **D&R Invest**, which represents a group of Dutch private investors.

Deka said that the assets will be divided between various special funds for institutional investors. Some 44 properties, valued at €480m, will form the seed portfolio for a new German-focused vehicle called **Domus-Retail-Germany**, investing on behalf of Germany's savings banks, or **Sparkassen**.

The 51 assets were managed by D&R Investments, a Dutch company that specialises in A-1 retail real estate investments in Germany and leisure real estate investments in the greater Amsterdam area. The portfolio, known internally as the *Julia Portfolio*, had been assembled over several years, including the acquisition of a big portfolio bought from the Düsseldorf-based **Centrum-Gruppe** in 2012 for about €150m. The Julia Portfolio represented practically all the German assets held by D&R.

According to Dutch trade publication *Vastgoedmarkt*, the Deka deal is part of a larger transaction, in which Dutch inves-

tor **RJB Group** and D&R Investment are disposing of nearly €2bn of property assets. The Dutch assets, numbering nearly 300, are being sold to **Syntrus Achmea**, an investment vehicle for pension funds.

The 51 inner-city retail properties are located in 37 mainly A and B cities and are almost fully let. The buildings are located in prime locations within pedestrian areas in cities such as Cologne, Hannover, Regensburg, Kiel or Lüneburg. The total lettable area is137,000 sqm. The main tenants are well-known fashion chains.

"The deal provides us with a rare market opportunity and enables us to further expand our institutional business," said **Torsten Knapmeyer**, managing director of Deka Immobilien. "We are reacting to the strong level of demand from institutional investors for real estate investments."

Deka Immobilien has investments in 23 countries and had about €27 billion of real estate assets of the end of 2014, while Deka Group had roughly €220 billion in assets as of the end of 2014. Deka Group is the investment arm of Germany's Sparkassen.

Europe/Funds

Swiss Life, Corpus Sireo expand with new hybrid funds

The Zurich-headquartered insurance and pension group **Swiss Life Asset Managers** is launching two new real estate funds bundling several of its existing high-end real estate portfolios. The idea is to provide institutional investors with their first-ever opportunity to invest in a fund made up of both German and residential property. The funds are scheduled to launch in this year's fourth quarter.

Corpus Sireo, the German asset manager which was bought by Swiss Life last year, will be establishing the first fund, which will have a targeted initial volume of up to CHF 400m, rising over time to CHF 1bn. Launch date is scheduled for December 1st.

The second fund, to be launched on November 1st, will be set up under Swiss law with an existing real estate portfolio of CHF 500m. With the proceeds from the issue, the fund plans to buy a broadly diversified portfolio of Swiss residential and commercial property combined, from Swiss Life property holdings.

Corpus Sireo staff have been waxing lyrical about the positive climate prevailing since their takeover last year by the Swiss insurer, in a move which initially surprised the market when it was announced last year. Corpus Sireo had put itself up for sale but not many had figured that a Swiss insurance group would be so interested. However, Swiss Life are making a big commitment to their three core markets of Switzerland, Germany and France, and Corpus Sireo CEO **Ingo Hartlief** assured members of the press at a briefing recently that the planned

synergies were really beginning to come through for the enlarged group.

First concrete steps include the expansion of Corpus Sireo's Luxembourg-based funds business for institutions, beefing up its management team and launching a new retail-focused fund with a target volume of €400m by 2016.

The **RetailCenter Fonds** has already raised €85m in equity from two German institutions, and has bought its first asset in eastern Germany. This is the *Weisseritz Park* shopping centre in Freital near Dresden. The centre was opened in 1994, and has 22,000 sqm of lettable space across 65 stores and parking for 750 vehicles. **Metro-ECE** is the centre's commercial, technical and leasings manager.

The fund is targeting eight to ten existing core properties with individual volumes starting at €30m. The new *Spezialfonds* offers the market for the first time access to a new investment category of hybrid mall/retail centres.

Two experienced Corpus Sireo managers have also been promoted to Corpus Sireo' investment management subsidiary in Luxembourg, which currently has €2.3bn under management. **Hans Stuckart** has been fund manager with the company since 2011 and will become head of portfolio and asset management. **Tim Brückner** has been client group leader for financial institutions, and now takes over responsibility for sales and new product development. The two succeed **Christian Schütz**, who is leaving the company.

Europe/Non-listed Funds

Europe sees surge of 54% in fund inflows - INREV

Total global capital raised for non-listed real estate investment is back to pre-crisis levels, according to European non-listed property fund association **INREV**. Its study showed a 27.5% rise in capital raised last year.

Europe was a major recipient, with more than half of the €122.7bn raised last year committed to vehicles with a European strategy, INREV found, with 45% of total capital coming from pension funds.

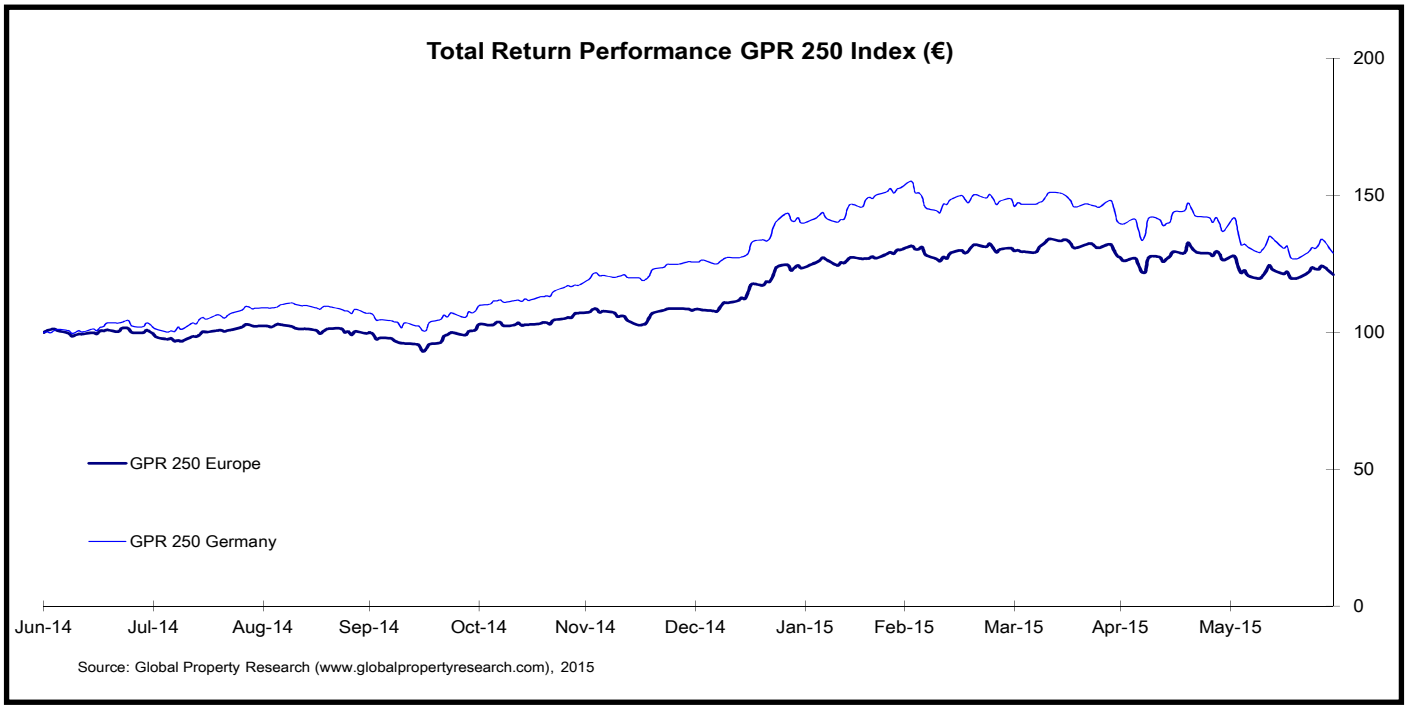
The €28.1bn raised specifically for European non-listed real estate funds was 54.1% higher than in 2013 – just shy of the record of €29.6bn achieved in 2007.

Nearly nine out of 10 (88.6%) fund managers that participated in INREV's survey expected capital raising to continue over the next two years, further underlining investor confidence in the asset class but also raising questions about whether the market would reach a new peak.

Henri Vuong, INREV's director of research and market information, said: "These figures point to investor confidence in the European real estate sector in general and a clear interest in non-listed real estate vehicles in particular."

The majority of capital raised in 2014 was, Vuong said, for core strategies and funds with low leverage.

Only 5.2% of funds applied leverage of more than 60%, while opportunity funds



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

Charts courtesy of GPR Global Property Research

attracted 13.7% of capital. Of total capital inflows last year, 45% came in from pension funds, and 13.7% from opportunity funds. The UK attracted the largest share for single country strategies at 61.6%.

"Investors and fund managers are conscious of where we are in the cycle and that interest rates will rise," Vuong said. "There is an increased emphasis on long-term investing in this sector, with less focus on riding the cycle, which will ultimately stabilise the markets."

Non-listed real estate funds and separate accounts made up 79.8% of total equity raised, while non-listed debt products continued to attract more capital, accounting for 11.9% of the total raised – up from 9% the previous year.

Germany/Listed Companies

LEG raises fresh capital to fund new €225m portfolio

Still expanding and still looking for new portfolios to bolt on to its huge North Rhine-Westphalian stock of residential housing is Düsseldorf-based **LEG Immobilien AG**.

LEG has just issued a further 1.196 million shares which it placed with international institutional investors at a price of €61.54 per share (the current share price is about €64.60). The placement brought in total gross proceeds of €73.6m for the company.

The placement, managed by **Commerzbank** and **Kempen**, represented a 2% dilution for existing shareholders. New shareholders will be entitled to a dividend from full-year 2015, but not for the year 2014, which amount to €1.96 per share

The proceeds will be partially used to pay for the company's latest acquisition, of about 3,500 residential units for €225m from an unidentified seller.

The portfolio is located about 60% in Düsseldorf and Cologne, the two largest cities in LEG's North Rhine Westphalian heartland. The average rental income on the properties is €5.22 per sqm/month, generating an annual income of €14.2m. The vacancy rate is 3.6%.

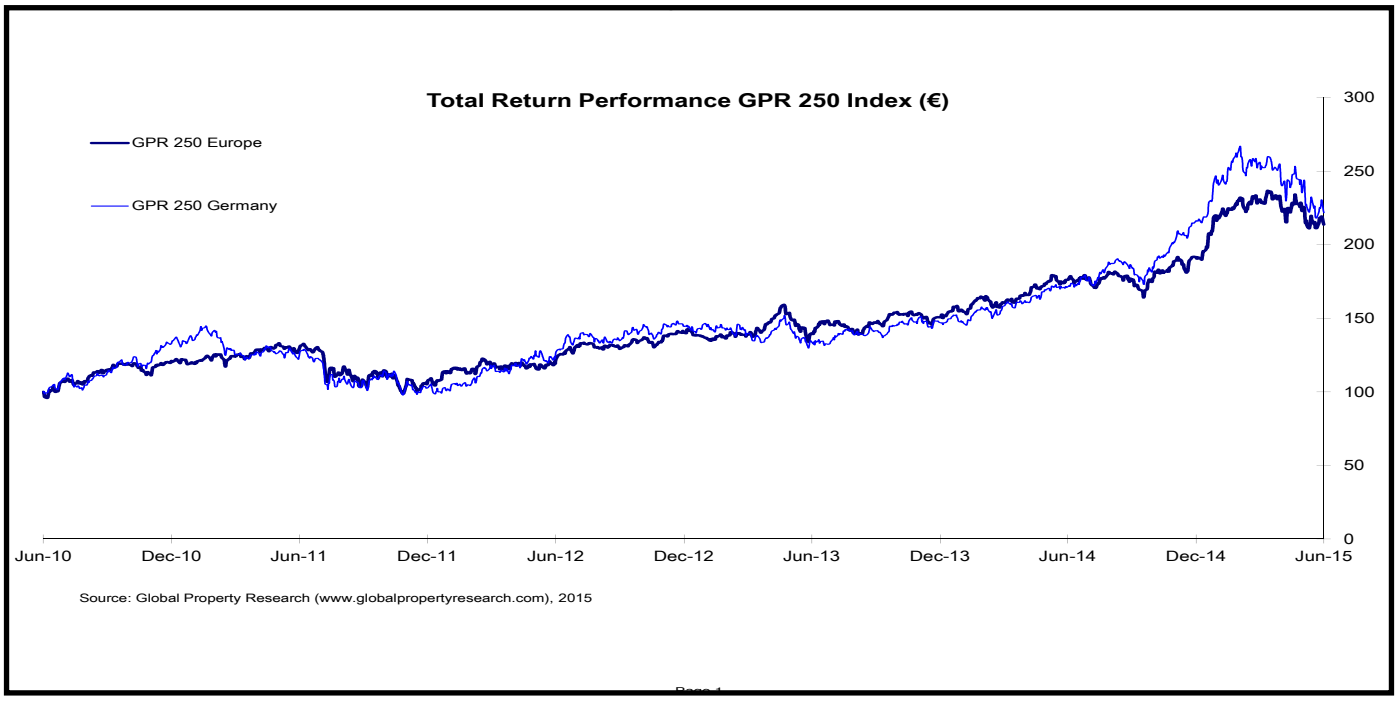
LEG's CEO **Thomas Hegel** (*pictured, left*) commented, "Looking at our current pipeline, I think we can safely say that we will again exceed our stated target of at least 5,000 units for 2015." LEG currently owns and manages about 110,000 housing units.

Germany/Study

German insurers to again raise property allocations in 2015

German insurance companies threatened last year to increase their allocation to real estate – and did indeed carry through on their plans, boosting their investment in the sector from 7.3% to 7.6%, according to a new study published by **EY Real Estate**.

The eighth annual edition of EY's **Trend Barometer Real Estate Investments of Insurance Companies** shows



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

that the German insurance industry plans to up their allocation to as high as 8.2%, despite rising prices and heightened competition for the core properties that meet their risk profiles.

Last year's asset value rose by an average per insurer of €360m to €2.83bn among the biggest 30 German insurers – effectively the same group surveyed the previous year. This figure represents additional investment as well as upward valuations. Of this an average of €2bn was held directly, with €800m held indirectly.

The allocation to real estate within insurers' portfolios should increase from the current 7.6% to 8.2 % by the end of 2015, measured at fair value, the survey suggested, with the split 5.8% for directly held properties and 2.4% for indirect investments.

According to **Dietmar Fischer**, a partner at EY Real Estate in Frankfurt, "German insurers clearly wish to expand their real estate portfolios, in particular in the European core real estate markets. For many insurers, real estate represents the premium asset class now, given the paucity of investment alternatives and the spreads above the no-risk return on government bonds. They want out of bonds, and into real estate, to be able to meet their long-term obligations."

With sovereign funds and big family offices now being practically charged to deposit their money with banks, Fischer said that EY was now seeing several clients happy to get a yield of 2.5%, which is closer to a real 3% when bank penalties are included.

Fischer commented that one thing that surprised him in this year's survey was that, in contrast to earlier years, insurers were not reacting to the increased competition with starkly lower yield expectations. They still expect a 4.3% yield on directly-held investment, barely 0.1% less than last year, whereby for indirect investment their yield expectations have actually risen by 0.1% to 5.1%.

They also seem to be holding the line in terms of risk categories, with Core (86%) and Core-Plus (71%) the most in demand, while interest in Value-Add has slid from 42% to 33%. Geographically Germany remains the most sought-after market, with only the most stable neighbouring European markets viewed as alternatives.

Among asset types, the retail sector comes out tops in 2015, with 80% of the insurers surveyed planning to invest this year retail. But but shifting changes across the sector means investors are being more selective, and 87% of respondents indicate that the selection of tenants is more important than ever.

Office property, long the leading asset type, has been overshadowed slightly for insurers by the inherent risk of lumpen risk and loss of tenants. Meanwhile, about 90% of survey participants expect speculative commercial development projects to increase.

"Property still enjoys very strong popularity among respondents," said Fischer. "Insurers want to secure long-term investments and generate stable earnings. For them, capital preservation and hedging their guaranteed products are paramount. "

Germany/Listed companies

IVG to split off core portfolio into separate company

Bonn-based **IVG Immobilien AG**, the erstwhile heavyweight of the German listed real estate sector, offered proposals to shareholders at last week's AGM as to how to rehabilitate the company's capital market viability. The key element of the plan is to spin off a portfolio of €3bn core assets into a new and separate company.

The company's latest CEO **Dietmar Binkowska** told shareholders the group's core office properties in Germany were at the heart of the plan. "Within our overall portfolio, we have identified a core portfolio with a value of around €3 bn with significant upside potential. We intend to move this prime cut of IVG Immobilien into a separate company." The move would replicate the structure IVG uses for its **IVG Institutional Funds** and its **Caverns** business, which Binkowska said "would allow the group to improve comparability with other market participants".

The company said it had been laying the groundwork for the plan for some time. In essence, it seems to mean that IVG will prime the core office portfolio as a classic pure play on the German office market. While still at the early stages, said IVG's head of communications **Jürgen Herres**, "this could lead to a situation where new investors might be welcome – whatever a potential transaction looks like."

IVG emerged from insolvency in 2014 after a turbulent time which saw a major debt restructuring after shareholders in the listed company got wiped out. The restructuring saw creditors of a syndicated loan ending up owning 80% of the company, while holders of a €400m convertible bond gained control of the other 20%

Previous CEO Ralf Jung left IVG earlier this year due to irreconcilable "differences of opinion" over IVG's future strategic direction.

IVG Immobilien still owns prominent assets such as the *Gherkin* tower in London and *The Squaire* at Frankfurt Airport, the European headquarters of consultancy group **KPMG**, and a major project development at the time for IVG whose cost overruns ultimately helped contribute to the company's downfall.

Guest Column: George Salden (8)

SERIES: The German Property Market: Realising Value is the Key to Rate of Return

In this column we will turn our attention to the purchasers of our real estate, who are just as important for our returns as tenants. In this regard we will restrict ourselves to the German real estate market and those involved in it. The closing is of great importance, because it can give rise to up to 70 per cent of the returns. Because real estate gives rise to high acquisition costs, it is of the utmost importance that, at the end of the investment cycle, you place your investment property with an investor who has developed a demand for the real estate.

While it may sound like a platitude, it is nonetheless true that the greatest hindrance in concluding a transaction is differing views concerning the sales price. On the other hand, the chance of having negotiations fail can be minimised if the investor is offered real estate that is suitable for his portfolio. A potential buyer will be more likely to pay a high price for such real estate than for property that requires development through management activities in order to be brought into the proper investment category.

The German real estate market is a significant part of the entire economy, because in the Federal Republic of Germany 82 per cent of the net investment assets are tied up in real estate. Rental units - with over 49 per cent - make up the largest portion thereof. The real estate investment market is correspondingly vigorous. The 2008 crisis has continued to have a negative effect on the transaction market for real estate: between 2007 and 2009 the transaction volume was reduced by almost 80 per cent - from 65.3 billion to 13.4 billion Euros.

After this massive cut the German real estate market is continuing to improve its prospects: in 2014 the transaction volume was once again already 52.7 billion Euros, 13.7 billion of which constituted residential portfolios. In 2015 a total volume of between 50 and 54 billion Euro is expected.

Moreover, developments in the capital market have improved the general conditions for real estate investment: the uncertainty of the financial market, the low level of interest, as well as increased uncertainty as to currency considerations are all reasons why investors are more and more inclined to put their money in real estate. Its quick recovery has strengthened the reputation of the German market as a safe harbour offering a high level of price stability; this view of the German real estate investment market is held both domestically as well as internationally.

Above all, the German real estate market is extremely attractive in regard to investments in residential property. There is a high demand for products from the core segment as well as generally for real estate in 1a and 1b locations. Such property will in all likelihood continue to increase in value in the coming years, while similar growth is not anticipated for real estate on the periphery of B-class cities. In this regard a detailed analysis of the details of the regional submarket must be undertaken. The general outlook merely offers an overview of investor interests and does not take submarkets into account.

Another factor contributing to the differentiated development of regional submarkets is that the interest of the individual investors is extremely diverse. It is therefore essential for an investment that one be acquainted with the types of investors and their requirement profile - above all, in regard to institutional investors, open-ended mutual property funds, closed-end special real estate funds, real estate companies, as well as direct investments/ private placements.

In addition to these players there are still other investors such as project development companies, REITs, housing associations, real estate holding funds, foreign real estate investors, banks, investment companies, pension funds, leasing companies, mixed funds, foundations and the public sector. You should develop both your investment strategies as well as their form with an eye to the major types of investors.

Here we will take insurance companies as a typical representative of the category “institutional investor.” Although certain types of real estate fulfil the investment criteria of insurance companies, the participation of direct insurers in the real estate market is low, with a capital investment value that moves between one and three per cent.

Yet in the meantime insurance companies have come to understand that certain types of real estate fit perfectly into their investment strategy, because both the earnings as well as the duration cover their benefits. Here the focus is on real estate belonging to the investment categories of super core, core or core plus. Property belonging to one of these investment categories meets their guidelines, because it is characterised by low but constant

returns that are in the area of about five per cent. The current situation in the German real estate market that is strongly characterised by an excessive demand for precisely this type of property is further raising the prices for core real estate. In order to make your optimal profits at the time of exit, if you are selling to an institutional investor, then the value of the property should have been fully increased to the extent possible.

Real estate stock corporations and real estate investment trusts are stock corporations. Both serve as intermediaries in linking the capital market to the real estate market. In Germany real estate stock corporations merely play a subordinate role. Their capital is at about 45 billion Euros for a market capitalization of 1.5 per cent. The banking firm Ellwanger & Geiger maps the value development of real estate stock corporations in the so-called German Real Estate Stock Index (DIMAX = Deutscher Immobilienaktienindex), which shows a high correlation to the German Stock Index (DAX = Deutscher Aktienindex). Shareholders who take part in a real estate stock corporation invest indirectly in real estate and benefit from the high level of transparency and the liquidity that characterises them.

A special form of the real estate stock corporation is the Real Estate Investment Trust (REIT), which is characterised by tax advantages but also by stricter restrictions. The concept of the REIT comes from the USA and was introduced into Germany with retroactive effect to 2007. While REITs are closely related to real estate stock corporations, they also have the tax transparency of open-ended property funds. REITs as companies are therefore exempt from corporate income tax and trade tax. Only the profits of investors are subject to taxation.

In order to provide REIT investors with a certain amount of security, the real estate must be covered by an equity capital share of at least 45 per cent. Real estate stock corporations enjoy a great deal of freedom in developing their investment strategies, because they are hardly subject to statutory regulation. Statutory provisions also allow REITs to invest in various investment categories.

As a result there are companies that concentrate on developing the value of and maintaining real estate holdings, or developers, who specialise in project development activities. REITs primarily invest in intermediate project development in the core plus und value added investment categories. In this way some companies are able to significantly improve their rate of return even if their investments are subject to a higher level of risk. Increase in value is a highly pertinent factor in the investment strategy of real estate stock corporations. Because they often have both know-how and experience in the area of active real estate management, they buy underdeveloped property and then reintroduce it into the market.

Open-ended real estate funds are characterised as open-ended because neither the number of investors nor the amount of assets under management is limited. Therefore the investors do not take part in the company but rather in their real estate assets. Open-ended real estate funds primarily invest in office real estate, commercial areas, and shopping centres. Residential property constitutes only the small amount of about 5 per cent of the assets under management. Open-ended real estate funds concentrate on property with an intermediate to long-term holding period in good locations and selected cities. Diversification takes place through the acquisition of various investment categories in various regional submarkets. In general, they manifest an investment strategy that avoids risk.

Only occasionally is it augmented by investment categories having a high-risk profile. The individual real estate funds differ markedly in part through their participation in risky investments. In contrast to institutional investors, open-ended real estate funds also purchase value-added property because a high return can only be generated from open-ended real estate funds if a trade component is integrated into their portfolio. Investments that focus on property in the value-added category can earn a good return and it is therefore to be assumed that open-ended property funds can also serve as an exit portal for real estate in the intermediate area of risk. In order for a fund to be able to purchase real estate it must have reached a level where it has disposition over about 15 million Euros. For smaller types of property a special fund is available in part.

Did we cover all the players who are important to us? No, because there are also closed-ended real estate funds, private placement and other types of investors. In addition to an analysis of these market participants, in the following column we will primarily deal with the conclusions to be drawn for participants in the German real estate market.
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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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