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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German milestone as pension fund BVK lends €150m without banking partner

Germany's occupational pension funds have been stepping up ever more assertively to provide finance for real estate deals as part of their asset allocation strategies, which envision increased exposure to the real estaate sector over the long run. So far, however, they have always done so in partnership with banks or other financing institutions.

Now, for the first time, Bavaria's giant €62bn **Bayerische Versorgungskammer (BVK)** has made the step of issuing a loan directly to a real estate investor without the help of a consortium. The pension fund has made a loan of €150m to **Gewofag**, a housing association owned by the city of Munich. Gewofag is Munich's largest landlord, with 35,000 apartments under management.

A BVK spokesman said that the facility was granted as a general loan, and not specifically for any particular project. "Some of it will be used to refurbish properties in Gewofag's portfolio and to purchase new assets," he said.

According to **Andre Heimrich**, board member with responsibility for capital investments at BVK, "For us at BVK, investments offering good yields and our social responsibility for this sort of co-operation go hand in hand. We are glad to be able to contribute as a financing partner to help Gewofag create and maintain affordable housing in Munich." BVK itself owns and manages 6,500 apartments in Munich.

Despite strong yield compression in the sector, there appears to be no shortage of alternative financiers indicating their interest in increasing their exposure to financing arrangements similar to that of BVK.

An online survey carried out by **Engel & Volkers Investment Consulting** over the summer among 214 institutional investors in Germany underlines how market players are adjusting their strategies.

The survey showed that 53% of respondents plan to increase the residen-

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Aberdeen to add €1.2bn to German assets

Assets managed in Germany by Aberdeen Deutschland are set to rise significantly, as the group makes a renewed commitment to expanding both its funds business and its exposure to residential project development, according to a recent statement by the giant UK-based investor. see page 15

REFIRE
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Operating Office
REFIRE
Habsburgerallee 95
60385 Frankfurt am Main, GERMANY
Tel: +49-69-49085-785
Fax: +49-69-49085-804
Email: news@refire-online.com

Managing Editor:
Charles Kingston
Tel: +49-69-49085-785
Fax: +49-69-49085-804
Cell: +49-172-8572249
Email: editor@refire-online.com

Subscriptions:
Tel: +49-69-49085-785
Fax: +49-69-49085-804
Email: business@refire-online.com

Advertising:
Tel: +49-69-49085-785
Fax: +49-69-49085-804
Email: advertising@refire-online.com

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DEALS ROUNDUP

tial quota in their overall real estate portfolios over the next twelve to eighteen months. More than 60% plan to invest up to €100m. Preferred locations are A- and B-cities with 35% respectively, while 23% want to invest in C-cities (i.e. those with under 100,000 inhabitants).

When asked what type of residential accomodation they wanted to invest in, 14% said they preferred the lower-price segment, 31% favoured the mid-price segment, while 14% opted for the top end of the range. 11% said their preferred sector was student accomodation, while 8% chose the health care and nursing home category.

When asked about yield expectations, respondents were almost unanimous in saying they were looking for between 3.5% and 5% for their indirect investments, which for 57% of respondents was the same expectation as for direct investment. The main difference here was that for direct investments, 14% of respondents respective said they would be satisfied with a return of less than 3% on the one hand, or between 5.5% and 7% on the other hand.

According to **Kai Wolfram** (*pictured*), CEO of Engel & Volkers Investment Consulting in Frankfurt, "Compared with the so-called risk-free investment such as in government bonds, residential property still offers attractive yields despite partly very steep price increases. Comparing both investments still shows up a gap of more than 300 basis points – where the long-term average difference is more like 100 basis points. Hence we still expect prices to continue to rise, while the downside risk is fairly well protected."

The survey makes for interesting reading, particularly regarding investors' views on the future development of the residential market.

"It's clear that many investors haven't fully priced in their legally permitted rent increases. What seems to be frequently decisive is not the legally permitted situation, but local conditions prevailing on the relevant rental market."

Not surprisingly, investor expectations for rental rate increases are the highest in Germany biggest cities, the so-called A-cities. Investors expect renta increases of 3.4% a year, compared with 2.9% in B-cities and 1.6% in C-cities.

Purchase prices are expected to continue to rise in A-cities and B-cities (by 66% and 63% of respondents respectively) or remain stable (by 26% and 29% respectively). In C-cities only 24% believe prices will continue to rise, while 47% see prices remaining stable, and 19% expect prices to actually fall from current levels.

When asked about the *Mietpreisbremse*, or rental cap introduced this summer in Germany to impose limits of permissible rent increases, 70% or respondents said the measure would have no effect on their investment decisions. 13% said they planned to to invest less in residential property, while 11% said they would invest more.

According to Wolfram, "When you consider the expectations for rental increases in the A-, B-, and C-cities, then it's clear that many investors haven't fully priced in their permitted rental increases under the law. What seems to be frequently decisive is not the legally permitted situation, but local conditions prevailing on the relevant rental market."

More significant for investor decisions is the future movement of interest rates, as 32% of respondents answered, followed by the 'sustainability' of the properties and local demographic trends.

Germany/IPOs

Corestate cancels IPO due to 'difficult market environment'

The Luxembourg-headquartered **Corestate Capital** had planned to fix the issue price for its impending IPO on Tuesday 3rd November, but instead decided to cancel the flotation on the **Frankfurt Stock Exchange** at the last minute, citing " the currently difficult market environment for IPOs in the German and UK stock markets, which are of particular relevance to the company."

CEO **Sascha Wilhelm** said that, although the market environment for small and mid-cap IPOs had "deteriorated considerably" since the announcement of the IPO, the company would continue with its expansion plans and stick with its 2015 growth targets. "There is no reason on the part of shareholders and the company to deviate from our current expansion plans for 2016," he said in a statement.

Corestate had planned to raise €253m in the flotation, with about €100m flowing to the company. Founder **Ralph Winter** (*pictured*) with a 64.2% stake and co-founder **Thomas Landschreiber** with 6.7% had planned to reduce their holdings to a small minority stake, together with listed Swiss investor **Intershop Holding** with its 28% shareholding..

The IPO plan was announced in early-October and ten days later the share price spectrum was put at €23.50 to

€28.50. This would have generated €209m to €253m, and a net €100m for the company through the issue of 4.3m new shares, resulting in a free float of 52.5%. The offer was to have also included a customary greenshoe option of up to 15% of the volume of the offering, comprising existing shares from the holdings of the existing shareholders.

EDITORIAL

Speed of the essence in tackling Germany's affordable housing sector

No self-respecting German real estate conference of the past ten years has failed to address the 'problem' of German demographics. The argument has been well-rehearsed, to the point of tedium. A nation of 80 million inhabitants is simply not producing enough children to replace itself. Germany must plan for a lop-sided population, with a heavy social security burden on the few young to support the many old.

But current events in Germany simply serve to underline one thing, and that is - that all bets are now off. Whatever the outcome of Germany's internal strife and external deliberations, the unstoppable flood of refugees and asylum seekers determined to scramble into Germany by any means possible has radically altered the picture for the provision of affordable accomodation at the cheaper end of the market.

This will have momentous consequences for all those charged with handling a surge in demand for bricks-and-mortar housing across Germany. Right now, with the authorities buckling under the pressure of providing cots, field beds, blankets and other necessities for the temporary housing of 10,000 new arrivals daily, it might seem fanciful to speculate on the impact this new wave of arrivals will have on the German real estate and construction sector.

But behind the scenes, new and existing players are jostling for position to take advantage of an unexpected development that will leave few parts of Germany untouched.

Germany has been absorbing 100,000 to 200,000 new migrants a year for the past number of years, a figure which includes refugees, asylum seekers and other voluntary immigrants. This was already acting as a counterweight to the country's gloomy demographic imbalance, but was also adding notably to demand for affordable housing. Urban authorities across Germany had already been struggling to find humane solutions to housing difficulties at the lower end of the market. This year will likely see up to 1.5m new arrivals. The current crisis calls for a different response altogether.

So far, according to market research group Empirica, the wave of refugees has not yet noticeably impacted on residential demand. In the wider German economy, there is even evidence that the seven-year period of rapid residential rent hikes has actually slowed down, giving some solace to tenants. As most of the recent arrivals are still being quartered in tents, school gymnasiums, and hastily commandeered commercial buildings while their status is being evaluated, their presence has so far been negligible. This is about to change dramatically.

Normally, after about six months in shelters, the refugees are distributed to smaller state-owned homes. Once granted "refugee" status, they then go out onto the private market and compete with all the low-income Germans for available accomodation. We're a matter of months away from this particular new form of conflagration, of which we have been given several ominous foretastes in recent weeks.

A session at the recent EXPO REAL on refugee accomodation hosted by Düsseldorf-based broker Aengevelt was packed to capacity, reminding some old-timers of the last gold-rush in refugee accomodation in the 1990's. Then, migrants came flooding into Germany from the Yugoslav wars, while more than two million long-departed Volga Germans from the Soviet Union arrived and needed to be housed, exercising their right to resettle under Germany's law of return.

The head of Germany's association of architects spoke up at the EXPO REAL session, saying it reckons that 400,000 new apartments will have to be built to house the refugees and their families over the coming years. There can be no slipping of standards, they maintain. No cutting of corners, or lowering building specs to meet impossibly low budgets. We're strictly against cheap building, was the message.

Dr. Wulff Aengevelt of the broker firm suggests that by the end of 2017 we could be looking at 3.5m refugees or asylum seekers, of which a minimum of 2.5m are likely to stay here. At 15 sqm of living space per person, this works out at 37m sqm of accomodation, or about 470,000 apartments, he says.

No matter which estimate is closer to reality, there is clearly a huge and immediate demand for new building at the lower end of the market. Speed is of the essence in mounting what is a new, multi-billion euro undertaking across the country in the affordable housing sector.

Aengevelt and others are calling for a whole new initiative involving all relevant political, municipal and commercial interests to fast-track new building ordinances in the sector, and to lighten the existing onerous burden on builders to comply with excessive regulation.

Such measures could include freeing builders from the obligation to provide parking spots, less stringent energy-saving regulations, and less obstacles to converting commercial spaces to residential use, along with enticing tax incentives and the accelerated issuing of permits.

One thing is already clear - tensions will arise between the high-minded architects and regulation buffs on the one hand, and the housing pragmatists on the other. Let us just hope that Angela Merkel can prove to be as decisive in knocking heads together to rise to this challenge as she was in inviting the world's dispossessed to come and make their home in Germany.

Charles Kingston, Editor

Corestate had planned to use the additional proceeds to increase transactions and execute higher-volume deals above the €300m mark on a selective basis. Its targets are to expand the currently €1.4bn of assets under management to €5bn over the next three years. Its focus will remain on German, Austria and Spain. It entered the Spanish market this year through a joint venture with two local companies, including the **Villa Mir** group, with whom it is developing a €240m multi-use tower in Madrid.

Corestate co-founder and CIO Thomas Landschreiber (*pictured*) said recently that the company has already invested €700m so far this year and plans to invest another €300m before the year-end. In June, it bought a 170,000 sqm retail portfolio comprising 35 properties across Germany for €370m.

The existing pipeline is also full, said Landschreiber, with about €200m in German high street properties likely to be closed on before year end. It is also buying land on which to develop student apartments, and has long had experience of the sector through its majority ownership of listed student housing developer **YOUNIQ**.

Europe/Logistics

Blackstone the buyer of €500m Immofinanz logistics portfolio

We reported in these pages at the end of August that listed Austrian property group **Immofinanz AG** had announced that it planned to exit the logistics sector to concentrate on its office and retail investments, along with a renewed focus on its key markets, including Germany, Austria and Poland, while reducing its exposure to Russia.

This week Immofinanz confirmed that it has sold its 1 million sqm logistics portfolio to **Logicor**, the European logistics

arm of giant private equity group Blackstone. The deal is expected to officially close in next year's first quarter.

Logistics make up about 8% of Immofinanz's total assets. The company had said that its principal competitors are all nearly ten times as big, and it can no longer compete to be a market leader in its core markets. Its logistics division is made up of 36 standing investments, with 24 of the assets located in Germany, as well as a development project in Hamburg. The remaining assets are in Hungary (5), Romania (3), Poland (2), Slovakia (1) and Russia (1).

The assets are valued at €536m, less about €28m construction costs for the development projects (ther are a further two in Romania), which is likely to reflect the price paid by Logicor.

According to Immofinanz CEO **Oliver Schumy**, "The sale of the logistics portfolio represents an important step to further simplify and optimise our portfolio structure and strengthen the focus on our core expertise in the retail and office segments." The proceeds are to be re-invested in expanding Immofinanz's German portfolio, which is now targeting growth to nearly 200,000 sqm of rentable space over the next three years.

Immofinanz spun off its residential property business **BUWOG** two years ago, which holds about 52,000 residential apartments spread almost equally between Germany and Austria, and plans to sell off its reamining minority holding this business year.

Here in Germany Logicor has also been an active buyer, with purchase this year alone including ten Tengelmann warehouses with 425,000 sqm, and a portfolio of 19 assets from Goodman with 479,000 sqm of logistic space in Germany and France. With the latest acquisition from Immofinanz, Logicor now has 1.8m sqm of logistics space under management.

Logicor is at the forefront of large-scale logistics investment in Europe as the sector continues to consolidate. It recently bought a majority stake in the Finnish group **Certeum**, which owns and manages about €900m of logistics and industrial real estate throughout Finland.

Another making a big investment was **CBRE Global Investment Partners,** which paid clients of **TH Real Estate** about €350m for seven assets with 600,000 sqm across Germany, France, the Netherlands and Spain.

TH Real Estate will continue to manage the portfolio for CBRE. **Thorsten Kiel**, TH Real Estate's head of logistics for Europe and fund manager for the vehicle, commented that his company had identified European logistics as "one of the key asset classes which a diversified, income-focussed investment strategy should take advantage of."

"Good quality buildings in well-established logistics hubs are expected to deliver strong income returns, particularly in the Western and Southern European markets, where the spread between bonds and prime logistics yields are still more than 450 - 550 bps. This seed portfolio, spread across four attractive markets, exhibits a sound degree of risk diversification, and delivers high and stable income," he added.

Germany/Retail real estate

7th Deutscher Fachmarkt-Immobilienkongress 2015

REFIRE recently attended the 7th **Deutscher Fachmarkt-Immobilienkongress 2015** in Essen, a two-day event organised by **Heuer Dialog**.

The conference attracted over 200 delegates, a superb turnout for an analysis of developments in an asset class that has surged in popularity in the past two years, as profitable investment alternatives in German retail real estate become scarcer.

As REFIRE has come to expect from Heuer Dialog events, the planning and execution, the moderation and quality of the speakers and attendees, along with the overall organisation, were all excellent.

On both days the range and variety of the presentations and discussions were compact and relevant, and delegates were given ample opportunity to hear from representatives of new retail concepts fighting to expand in the crowded German marketplace in the Fachmarktzentrum space.

We heard from sports stores, variety stores, discount grocers, drinks stores, optical retailers, budget hotels and food court operators as to what works – and doesn't work – in Germany's Fachmarktzentrum. We learned a lot about planning and regulatory issues that affect the profitability or attractiveness of one centre versus another.

We learned how the lines are blurring between some *Fachmarkt* concepts and classical shopping centre retail, and how top retailers are looking for ways to strengthen their brand and their closeness to the consumer while being cognisant of the threat to some existing retail models by the appeal of online commerce.

Setting the tone for the day's discussions was **Jörg Ritter**, board member at **JLL Deutschland**, on the subject of "Sinking yields as a result of above average demand". Ritter highlighted how the *Fachmarktzentrum* as an asset class had attracted the attention of a new category of investor, and that well-established and modernised centres with high visitor numbers had now become accepted as

an alternative 'core' product to their hitherto select choice of top city-centre retail outlets or full-service shopping centres.

Ritter showed that, for the first three quarters of this year, the amount invested in such specialist centres, retail parks, supermarkets and discounters was €3.6bn – up 12% on the same period last year. The total for all of last year was nearly €4bn (out of a total of €14bn for ALL retail investment). The result is that top yields are likely to hit 5.0% by the first quarter of 2016, although they are still somewhat above that now.

With core retail products remaining scarce and demand for Fachmarktzentren so high, the expected new volumes of transaction in the sector will only be reached by investors being prepared to take on more risk – a phenomenon that JLL says it has been observing since 2010.

Jochen Friedrich, managing director of Frankfurt-based **GPEP** – a specialist in unearthing under-researched Fachmarktzentren – said the best opportunities for investors were to find and buy centres that the banks still have on their books since the financial crisis, and would be prepared to dispose of.

Previous criticism of the category – that alone the building quality was not on a par with a classical shopping centre, just for starters – was being obviated by the evidence of strong and measurable customer traffic, with consumers expressing their acceptance of the Fachmarktzentrum by voting with their feet.

And with their emphasis on providing products for consumers' daily lives, the *Fachmarktzentren* are proving more resistant to the attractions of online e-commerce, which is adding pressure to many traditional tenants of downtown shopping centres.

Outdated planning laws

The confusion and obstacles caused by Germany's partly outdated planning laws was highlighted by veteran lawyer **Johannes Grooterhorst** of **Grooterhorst & Partner**, who has been a regular speaker at this event over the past years. Mr. Grooterhorst stated baldly that much existing legislation is hostile to the development of *Fachmarktzentren*, based as it is on laws enacted in the 1980s and 1990s, where such centres are treated as out-of-town big box furniture or DIY-style warehouse outlets, such as **IKEA** or **Hornbach**.

The whole planning landscape has changed since then, he emphasised, and the laws need to reflect the reality of consumer demand for large retail outlets being integrated into accepted urban and community shopping centres.

At the hear of the problem is an outdated notion of what category of product or retailer is deemed 'Centre-relevant', said Grooterhorst. He urged investors with retail concepts that might run foul of local council planning committees to engage early with the local planning office, as generational change-overs which have not considered new categories of retail could prove impossible to alter at a later stage.

Additionally, tensions frequently arise when the law at federal state level stands in conflict with planning decisions taking at the municipal level, he warned.

A prime example of this was given by **Ludger Niemann**, the head of business development at French sporting goods retailer **Decathlon**, whose 24 stores in Germany have an average size of 4,000 square metres.

Decathlon has a history of planning trouble in Germany, because its retail concept – of offering a full range of sporting articles from heavy and bulky fitness equipment (requiring a car for transport) to a full range of sporting clothing and footwear. – effectively demand that it locate itself at edge-of-town Fachmarktzentren.

Niemann pointed out that only in Germany is the concept of "Centre-relevance" so all-important in determining the permissibility or otherwise of a store such as Decathlon openng up in a *Fachmarktzentrum*. He cited the absurd example of Decathlon stores being permitted to sell cloth textiles but not diving suits in *Fachmarktzentren* where the local council would accept the presence of a Decathlon, but not the federal state.

This sort of nonsense has seriously hindered Decathlon's expansion in Germany, said Niemann, since it first entered the market in 1986. (By contrast, in Spain, where Decathlon entered the market in 1992, it has 130 stores, he said).

Christoph Hölters, responsible for planning for the city of Neuss, near Düsseldorf, agreed that the German planning process was often sluggish and capricious, and he would welcome a more uniform approach to dealing with cases such as Decathlon. However, he warned, the French, Spanish and Italian authorities have often neglected their duties to protect the downtown retail stores, with the result that many towns have been hollowed out and are little more than museums, with all the retail action taking place far from the centre.

Neuss, for example, initiated a major revamp of its downtown core to make it more attractive to shoppers before giving approval to to big retail developments on the outskitrs of the town in 2011 and 2014, he said.

Dr. Gerd Hager, director for planning at the **Regionalverband Mittlerer Oberrhein** (the region adjoining the Rhine in Baden-Württemberg which includes Baden-Baden, Rastatt, Bruchsal and Karlsruhe), countered the Decathlon argument by saying companies' approach to planning was often slipshod and unprofessional.

He referred to the celebrated case of IKEA, which spent ten years trying to get planning permission for a greenfield site in Rastatt, before accepting a court decision just this year to allow them to build in nearby Karlsruhe.

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Dr. Angelus Bernreuther, head of locational research at Munich-based **BBE Handelsberatung**, agreed that retail and planning laws were often fundamentally opposed, and there has been a long history of disagreement between the two. Planning law invariably lags new developments in retail, he said.

He cited the example of his company's own home town of Munich, where the sale of lamps was deemed "Centre-relevant" to outlying *Fachmarktzentren*, but not to downtown. Result: 26 lamp and lighting shops on the outskirts, but none assessed as 'relevant' for a city-centre location. In short, frequently the list of "Centre-relevant" or "non-relevant" categories needed to be completely overhauled, he said.

Germany/Acquisitions

Sale of Deka's Stella portfolio said to be imminent

Deka Immobilien, the property fund subsidiary of the German **Sparkassen** (savings banks), is reported in Frankfurt to be readying its '**Stella**' property portfolio for sale. The portfolio could be expected to fetch around €800m with the sale thought likely to go through this month (November).

Market insiders say the portfolio is made up of 34 office properties with 334,000 sqm of lettable space, mainly located in Germany's big cities of Frankfurt, Düsseldorf, Berlin, Hamburg and Cologne. The portfolio has an occupancey rate of 83% and is thought to generate an annual rent roll of €37m.

Among those being mentioned as possible buyers of the Stella portfolio is France's **Amundi Immobilie**, which hit the headlines a couple of months back when it emerged as the buyer of **Union Investment**'s €1bn '**Aqua**' pan-European office portfolio, in what is one of the biggest portfolio transactions of the year. Amundi is one of Europe's largest asset managers, with total assets under management of €850bn, around €11bn of which is invested in real estate.

Deka Immobilien has been a heavy seller so far this year, raising €800m over the first nine months from disposals. It

The largest Asset Management Provider by assets under management

position	AM-Provider	aum 2014 total in mill. €	aum 2014 non-captive in mill. €
1	ECE Projektmanagement G.m.b.H. & Co. KG	18.300	12.810
2	CORPUS SIREO Investment & Asset Management GmbH	16.000	15.520
3	Bilfinger Real Estate Asset Management GmbH	14.134	14.134
4	PATRIZIA Immobilien AG	10.700	214
5	IC Asset Management GmbH	8.800	k.A.
6	Acrest Property Group GmbH	5.442	5.442
7	HIH Real Estate GmbH	4.400	4.400
8	POLARES Real Estate Asset Management GmbH	3.800	3.800
9	CR Investment Management GmbH	3.510	3.510
10	HAHN Fonds und Asset Management GmbH	2.400	240
11	Jones Lang LaSalle GmbH	2.100	2.100
12	F&C REIT Asset Management GmbH & Co. KG	1.750	963
13	Estama Gesellschaft für Real Estate mbH	1.720	1.393
14	Art-Invest Real Estate Management GmbH & Co. KG	1.640	262
15	BLUE Asset Management GmbH	1.425	1.425
16	BECKEN Holding GmbH	1.350	945
17	VÖLKEL COMPANY Asset Management GmbH & Co. KG	1.340	1.340
18	HGA Real Estate GmbH	1.200	1.110
19	Garbe Logistic AG	1.100	495
20	Cordea Savills GmbH	1.061	605

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Bell

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has also been an active buyer, investing €1.8bn as part of its goal to reach €3bn in transactions for the year. Of new acquisitions, €700m was invested in a single transaction – a portfolio of 51 high street properties throughout Germany, bought from Dutch group **D&R Invest** in an unusual deal that waas part of a larger Dutch institutional transaction.

As we reported in REFIRE at the time, that deal was rather seen as a one-off because of the fragmented nature of the portfolio. 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, at the time. "We are reacting to the strong level of demand from institutional investors for real estate investments."

Germany/Healthcare

Corpus Sireo launches €300m third German healthcare fund

Corpus Sireo, the German asset management arm of **Swiss Life**, has launched its third *Spezialfonds* healthcare fund with a target investment volume of €300m. Leveraging is expected to be about 50%.

The company has already been active in healthcare property markets for several years, running two specialist funds with committed capital of €430m and €150m respectively.

Four German institutional investors have already committed to seed The **Corpus Sireo Health Care III Fund** with €110m. Announcing the new fund during the recent **Expo REAL** trade fair in Munich, Corpus Sireo said it expects to nail down further equity commitments of up to €80m over the next few months.

The fund has made its first investment, the *MediaPark Clinic* in Corpus Sireo's home town of Cologne. Fund manager **Sebastian Schlansky** said: "With the MediaPark Clinic in Cologne, we have already secured the first top property for the fund. Further properties are currently going through the due diligence process. We expect to have invested around €50m by the end of this year."

The fund strategy is to invest in healthcare assets - outpatient facilities, polyclinics, medical care centres and healthcare centres - in major urban centres in Germany with an individual volume of between €5m and €40m, less than 10 years old with a minimum occupancy rate of 70% and an average lease term of at least eight years.

Marc-Philipp Martins Kuenzel, senior advisor with Corpus Sireo, said: "Following the launch of this fund, we are now the biggest provider in the healthcare real estate sector for German institutional investors. In the medium term, we would like to offer investment opportunities in this asset class to a wider public outside Germany as well. To this end, we are also looking at other sub-classes of healthcare assets in Germany and other European countries."

Corpus Sireo's first two specialist healthcare funds are already fully invested. **CS Health Care Fund I** comprises 48 facilities with a total investment volume of around €450 mln, while **CS Health Care II** has received equity from six German institutional investors totaling €150 mln. The latter fund owns 15 properties throughout Germany, having recently acquired three nursing homes in Bremen, Rostock and Woltersdorf near Berlin.

As **Ingo Hartlief**, Corpus Sireo's CEO told a press briefing at the MIPIM in Cannes earlier this year, the new impetus given to his group by its ownership by, and close partnership with, parent company Swiss Life Asset Managers and its sister companies in Switzerland, France and Germany means that the company is actively on the acquisition trail. It said at the Expo REAL that it is currently performing due diligence on about €700m of property

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In Discussion with REFIRE

Is this the end of the real estate hype?

REFIRE sat down at the recent EXPO REAL in Munich to talk with Dr. Axel Froese (pictured, top) and Alexander Hoffmann (below) of IPH Transact GmbH, the investment arm of the BBE/IPH Group. The company advises institutionals and private individuals on German retail real estate, providing in-house market research and advising on buy and sell transaction, generally for a minimum of €10m per mandate upwards.

Real estate investments should be viewed from a capital markets perspective as investment in fixed assets.

Given the low level of interest rates prevailing for cash investments, but also for investment in bonds, the last few years have seen unprecedented amounts of capital being invested in (retail) investments. In Germany this year €14bn will be invested in retail property alone.

Because of the shortage of core or core-plus properties on offer, the prices in 2015 have already reached – and in fact surpassed – the price level of 2007.

Are we heading into a new property bubble? Is this likely to burst, just as in 2008?

In our view a property bubble IS already being formed. However, it won't burst like in 2008, since by contrast to 2008 a great deal more equity capital is being invested in property transactions - with still-moderate Loan-to-Value ratios of 70-75%.

But because of these high prices, IRR and dividend yield expectations based on targeted risk-return profiles of core and core-plus properties are going to be difficult to achieve. The property risks are no longer being adequately compensated by the returns, particularly in retail real estate.

Only when the location, the quality of the property and the long-term security of yield would stand up to the most rigorous testing could the current high prices for core/core-plus properties now be justified.

Property investments with obvious flaws will be marked down in relation to the assumed and recognised risks, or will simply fail to find a buyer. This might have a counter-balancing effect on the developing bubble.

The asset class of retail property is de facto operator-run property, since it is essentially defined by the tenant and the tenant's concept of usage of the asset.

As a result of historically low inflation rates – which were 0% in September – as well as the pressure on retail margins – caused in part by online e-commerce – retail rental growth is a thing of the past, apart from in the very top locations in the biggest cities.

In part as a result of the Volkswagen crisis, we are anticipating rising interest rates on corporate bonds, which have to a large extent supplanted the traditional bank financing of corporates in the past. This might also lead to a noticeable withdrawal of capital from proposed real estate transactions.

Initial reports reaching us from fund initiators confirm that commitment of further equity capital into investment vehicles is already being turned down on the grounds that the required IRR's and dividend payments simply can't be achieved, or that further investment into ongoing funds is being stopped where existing investors fear a dilution of their returns.

So, what does this mean for investments in retail real estate?

In our view, we think this is likely to lead to a shifting of the risk-return profile from core/core-plus investment over to a value-add/opportunistic profile.

The reasons are the limited availability of core/core-plus assets on the one hand, and, on the other, that adding riskier property investments to a portfolio should lead to an improved overall return. This is a typical strategy practiced by Anglo-Saxon institutional investments for decades.

Banks are being forced to react to these adjustments, or to turn off the flow of money. We don't expect the latter, since their entire business models are dependent on them issuing loans, and on the passive side of their balance sheets – funds represent bank obligations to their investors – the banks have seen significant outflows due to the low interest rate environment.

Examples of value-add or opportunistic investments are the plentiful shopping centre refurbishments or revitalisations you can see, with foreign investors here very much to the fore. The key drivers here are the weak euro, the polycentric structure of Germany with its many strong economic centres, as well as the legal security of German real estate investments.

However, sound investment judgement is required here, as about 50% of all shopping centre concepts are actually geared towards 'trading down', or have already reached the end of their property cycle. Without real local and centre-specific knowledge and expertise, these sort of investments will not prove successful – and their are countless examples of misguided investments from the 2005-2007 cycle to testify to this.

IPH Transact along with IPH Handelsimmobilien and BBE Handelsberatung are uniquely focused on this area, with broad expertise in the capital markets and retail real estate investment.

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Germany/Funds

Aberdeen to add €1.2bn to German assets

Assets managed in Germany by **Aberdeen Deutschland** are set to rise significantly, as the group makes a renewed commitment to expanding both its funds business and its exposure to residential project development, according to a recent statement by the giant UK-based investor.

Aberdeen currently manages €3.1bn in Germany for institutional investors, via seven property *Spezialfonds* and several other real estate mandates. It now plans on adding €1.2bn of assets over the next three year, boosting total assets under management to €5bn, according to Aberdeen Germany boss **Hartmut Leser**.

Aberdeen was a significant player in the German open-ended funds sector before the wave of funds closures blighted the sector during the financial crisis. Aberdeen was forced to unwind four funds, including the big public mutual funds **Degi Europa** and **Degi International**, whose remaining assets have been transferred to custodian keeping. Leser indicated there were no plans for setting up further open-ended funds as part of the new expansion.

Over the first half of this year, Aberdeen received new equity commitments of €260m, and over the past 12 months has drummed up nearly €700m, of which €500m are targeted for residential funds, including residential project development. "These commitments plus debt capital give us a current investment warchest of €1.2bn," said **Michaela Ruhl**, Aberdeen Germany manager for residential funds. "This is a huge advantage. Careful sifting through of potential assets based on our own proprietary research is one thing. But the right timing is equally important, and we're able to execute this optimally, because we can draw down the capital immediately."

In March, Aberdeen launched its first closed fund for a German institution with a target volume of €300m, with further funds in the pipeline. Work has also started on a new multi-investor housing fund, which may be diversified with mixed-use assets, especially retail, or project funding, Leser said. Aberdeen is also thinking about launching a European residential fund, which would invest in Germany, the UK, Scandinavia, the Netherlands and Denmark, he added.

Germany/Acquisitions

Standard Life and Swiss Life pay €325m for German 'Lilli' portfolio

UK-based **Standard Life Investments** has bought a portfolio of seven prime offices across Germany for €325m, bringing in Zurich-based insurer **Swiss Life** as a co-investor.

The portfolio, known as the '**Lilli**' portfolio, was sold by two Luxembourg real estate funds created and managed by Frankfurt-based **Conren Land** and the Paris-based **N+1 REIM**. The seven office buildings, totalling 115,000 sqm, are located in Frankfurt, Hamburg, Munich, Nuremburg and Stuttgart and will be split between four separate Standard Life investment funds.

The assets are located in Frankfurt, Hamburg, Munich, Nuremburg and Stuttgart, and include: the *Hanse Carrée*, a seven-storey office building in the City-South district of Hamburg, the landmark Hamburg building *Deichtor*, the *Hanse Forum* in Hamburg's CBD, the *Helmholtz* listed office in Munich, the

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Coreal Tower in Frankfurt's Westend, the *Von-der-Tann* office in Nuremberg and the mixed office and retail asset *Büx* in Stuttgart's city centre.

According to *Daniel McHugh*, head of Continental European real estate at Standard Life Investments, "The portfolio has a range of risk profiles to match the varying risk profiles of different Standard Life Investments funds. The transaction demonstrates our ability and appetite to deliver large, complex deals in Europe and it also reinforces our confidence in the German market." The Edinburgh-based Standard Life Investments manages assets across all asset classes worth €250bn.

The properties will be managed by **Corpus Sireo**, a subsidiary of **Swiss Life.** The deal marks the first time that Swiss Life has been the co-investor in a deal since it bought asset manager Corpus Sireo last year.

Germany/Listed companies

Adler boosts bond issue by €50m to buy conwert stake

Shareholders in Frankfurt listed **Adler Real Estate** have approved a €175m convertible bond designed to finance the €285m purchase of a 25% stake in Austrian listed peer **conwert**.

"The investment has made co-operation with conwert possible on many levels," said CEO **Axel Harloff** following approval last Friday. Co-operation could strengthen the two firms' purchasing power for residential utility services such as heating, insurance payments or building services, cutting operating costs.

The extraordinary general meeting approved issuance of a €175m mandatory convertible bond to **MountainPeak Trading**, a holding company owned by British-Israeli billionaire **Teddy Sagi,** which previously held the 24.79% conwert stake – albeit for a period of only about three months.

The mandatory bond has a three-year term, an annual interest rate of 0.5% and a strike price of €16.50 per share, representing a premium to the current share price – which has risen sharply this month from €11.50 to nearly €14.50 - and its net asset value. A company presenta-

tion prepared for a roadshow in October shows the share traded then at around a 14% discount to NAV, compared to a median 26% premium for peers.

For Adler, the net purchase price per conwert share comes to €13.49. Though this is more than the market price (currently about €13.00), the board believes it is significantly lower than the net asset value. Conwert estimates its EPRA-NAV at €15.82 per share.

"Based on conversations with experts", however, the Adler board of directors deems €19.50 to €21.50 to be realistic. Their justification: the properties in Berlin, Vienna, Leipzig, Dresden and the state of North-Rhine Westphalia have an appreciation potential of €342mn, which corresponds to €4.00 per share.

Vienna-based conwert holds 30,000 units of residential and commercial real estate in Germany and Austria, but with 80% of its real estate portfolio held mainly in A-locations in Germany. Adler's general meeting also authorised a share buy-back program of up to 10% of its outstanding equity, and it said it aims to use repurchased shares as a transaction currency in investments.

Adler has expanded fast over the last few months. In May, it won support from fellow-listed **Westgrund AG** for a takeover offer that valued Westgrund at €350m - making Adler Germany's fifth-largest listed housing company holding 51,000 residential units.

Meanwhile, activist shareholder **Alexander Proschofsky** and his ally **Peter Hohlbein** are set to join conwert's administrative board as **Martina Postl**, **Alexander Schoeller** and **Phillip Burns** will resign by Nov. 17, conwert said recently.

It has been a turbulent year for conwert, whose CEO **Wolfgang Beck** replaced **Clemens Schneider** in July. Schneider had been ousted after fending off a hostile takeover bid by listed **Deutsche Wohnen AG**, against the will of conwert's biggest shareholder, the **Haselsteiner** family. This resulted in the sale of the family 24.8% stake to Teddy Sagi's MountainPeak Trading.

Germany/Open-ended funds

GOEFs to offload €9bn by 2017, seeing smaller discounts

German open-ended funds (GOEFs) sold €1.7bn of commercial property assets in the first half of 2015 at an average discount of -4% over book value, according to research released by **Cushman & Wakefield**. This follows a record volume of sales of €5.1bn in 2014.

The seventh biannual report on the liquidation of GOEFs shows the selling process continues to provide investment opportunities in a wide range of countries with funds forced to off-load a further €9bn of European assets before 2017.

GOEFs hold €82bn of property assets worldwide – of which less than €10bn (nearly 12%) are to be sold by 2017, as 18 different funds enter in their liquidation phase. European assets will account for the overwhelming majority of disposals with the €9bn of sales mainly concentrated in Germany (31%), the Benelux (26%) and France (18%).

The liquidation of GOEFs has already provided the market with €14bn of sales since 2012. After acceleration in the final two quarters of 2014, sales volume declined to €1.7bn in H1 2015, slightly below the half year volume of €2bn recorded on average since 2012.

The geographic focus of sales has continued to change, reflecting the proactivity of the GOEFs in their selling process management and the capacity to take advantage of current market conditions. As in the second half of 2014, assets traded in H1 this year were concentrated in Germany (€910m) and in the UK (€500m). By contrast, sales activity outside these core markets declined sharply, from €1.9bn recorded each year in 2013 and 2014 to a modest €250m.

While the volume of sales recorded in H1 2015 declined, pricing achieved by the liquidating funds improved significantly compared with the start of this process. A 13% discount on 2014 sales has reduced to a 4% discount for disposals over the last six months.

Magali Marton, Head of EMEA Research at Cushman & Wakefield, said: "German open-ended funds have clearly benefitted from the current booming investment market in Europe and therefore have managed more successfully their assets sales in 2015 so far. Depending on the country, the pricing achieved to book value has ranged from a -26% discount in the Benelux to a premium of 47% for assets traded in the UK, with German assets sales reflecting a 6% discount.

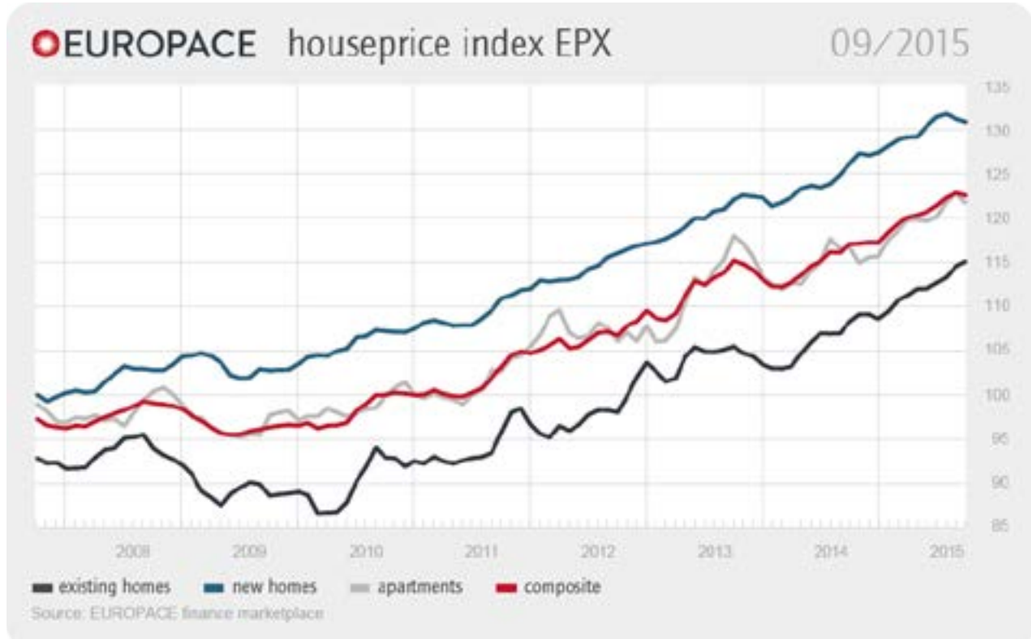
"We expect sales to grow in the rest of the year and in 2016 and GOEFs should continue to demonstrate some proactivity in their liquidation process in order to optimize their sales prices strategy. They still hold €9bn of assets across the region with a large part located in Germany, the Benelux and France."

Germany/Financing

Europace now transacting 20% of German mortgage finance

Europace, Germany's largest online housing and personal financing transaction platform, saw the total number of deals processed on its platform rise by 27% over the first nine months to €34.4bn, more than last year's total figure for the whole year.

According to **Thilo Wiegand**, Europace's CEO, the property financing market is in a growth phase, driven by new construction and price rises, and Europace is a prime benficiary of this. "We're seeing enormous growth. We brokered our first deal over the platform in the summer of 2000, and today, fifteen



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years later, nearly 20% of private building finance in Germany is being transacted over Europace.

Europace, which is a wholly-owned subsidiary of the listed Berlin-headquartered **Hypoport** group, links over 300 partners including banks, insurers and financial product intermediaries on a B2B platform with those seeking mortgage finance, and hosts more than 35,000 transactions monthly. It is a sister company of the nationwide property brokerage **Dr. Klein**.

The Hypoport share price, after largely moving sideways since its flotation in 2008 just before the financial crisis, has skyrocketed this year by nearly 500%.

Transaction volume in third quarter came to €11.5bn, almost repeating 2Q15's record €11.8bn, said Europace in a press statement. Last year, the firm registered €31.6bn deals. Mortgage finance registered the highest growth, by 31% to €27.2bn, followed by personal loans (+18% to €1.4bn) and building finance (+13% to €5.8bn). All three quarters so far this year have seen transaction volume of more than €11bn, barely a year after the €9bn mark for a quarter was first breached.

REFIRE tracks the **Europace EPX** price index for housing in Germany carefully, based as it is on actual prices achieved in the market place on the Europace platform and not on advertised or other prices based on – perhaps - wishful thinking.

The latest reading of the EPX index shows that overall residential property prices rose in Germany by 4.71% over the twelve months to end-September. Second-hand houses rose 6.3%, apartment prices rose by 4.3%, and new-build single-family and semi-detached or terraced houses rose by 3.74%.

Actually, the index registered its first fall over the past 18 months, by 0.24%, following a drop in the single-family and semi-detached sub-segment in August. According to Wiegand, "Admittedly, it's not often we've seen prices falling for two successive months, although we did see the total index fall for five months in a row around the turn of 2013/14 before picking up steam again. So we'd hesitate to describe what we're seeing as a trend reversal. The latest figures should assuage the fears of those who fear the emergence of a price bubble in the market."

Guest Column:
Dr. Thomas Herr, Managing Director of VALTEQ Gesellschaft mbH

Everything is different this time

www.valteq.de

Expo Real is over and, following the stress of the trade fair, everyone is returning to the frenzy of workaday life. What can we take with us from Munich? Where does the German real estate sector stand as 2015 draws to a close? A new transaction record is expected; forget about 2007 – everything is different this time. At its own opening event, the chief of a major bank was heard to say, "We don't have a bubble, we have an upward correction!" And the banks? To quote the CFO of a housing association on the matter: "The banks are throwing money at you!"

This mood, bordering on euphoria as it does, leads to questions regarding the soundness of the real estate market and the various opinions expressed about it during the course of the Expo. Some see the current market developments, where prices are increasing on practically all fronts, as a product of ECB-driven low-interest politics. This spurs on the fear of overheating. It's all too good to be true. Others feel that everything could be so much better, if the limited available supply wasn't primarily concentrated in metropolitan regions.

Irrespective of how one rates the sustainability of current developments, demand is high and supply is scarce; the market is booming. There is a focus on project developments; we could also observe this during the trade fair. The sellers have the whip hand. Transaction completion periods are becoming ever shorter. There is often no time left for detailed property checks. Added to this, the limited supply means that investors are increasingly turning to B and C-class locations or to the value-add segment. Acquiring complex properties at difficult locations in a short timeframe – it simply isn't possible without strong partners involved in the review. These developments, the new (housing) construction boom and the interest savings that are invested in repairs are good news for service providers like VALTEQ.

There also seems to be a perceivable quickening of the personnel carousel, as the good market position is evidently animating people towards a change of job. At the same time, the sector is seeing an acceleration of the concentration process. Firms are being taken over; major market players are emerging; small and medium-sized offices are disappearing. Is the M&A frequency an indication of the end phase of a market cycle? Or is everything really different this time? We will know by the next Expo Real at the latest.

Sponsored Statement

Germany/Funds

Peakside Capital secures investment for second European fund

Swiss-based private equity real estate company **Peakside Capital** has raised €140m for its second European value-add and opportunistic fund. The fund will focus on commercial real estate in Germany for the **Real Estate Fund II (PREFF II)** vehicle. The final close will give the fund €400m to invest in value-add and opportunistic assets, either directly or in co-investments.

According to **Stefan Aumann**, managing partner and head of asset management at Peakside, the fund's focus is on identifying investments that display a "clear opportunity to create value for investors" and produce attractive returns."

The Zug-based company has bought a 34,600 sqm mixed-use asset in Berlin's Prenzlauer Berg district, its third for the fund and first in the German capital. Located beside the S-Bahn and the bus station, and providing office, retail and leisure space to a variety of occupiers, the property is currently 93% let. Peakside said it will upgrade and reposition the retail element of the asset through active asset management, thus capitalising on its central location.

PREF II has also profitably sold two assets, in Mainzer Landstrasse in Frankfurt and the *Post-Palais* in Arnulfstrasse, Munich.

Last month Peakside created a German residential property 50-50 joint venture with **GRP Capital**. **Peakside GRP Capital** will concentrate on " targeting markets driven by a substantial qualitative or quantitative surplus of demand", according to the new firm's mission statement. It will advise national and international investors, as well as family offices, on investing in defensive, higher-yielding assets. German residential assets and portfolios are the partnership's first target, the firm said.

Peakside, which was set up in 2010, has €1.4bn of assets under management and is active in the UK, Germany, Italy, Poland, Hungary and the Czech Republic. GRP was set up only this summer by **Peter Willisch** and **Matthias Franke**, both previously responsible for fund management at German listed property group **Patrizia Immobilien AG**.

CORPUS SIREO
INTERNATIONAL

A BOOMING MARKET SEGMENT: 100 NEW MEDICAL SERVICE CENTRES CREATED ANNUALLY

Author:

Douglas Edwards
Managing Director

CORPUS SIREO
Asset Management Commercial GmbH

CORPUS SIREO expects rapid growth in this market segment of healthcare real estate, creating challenges for both project developers and asset managers alike.

Medical Office Buildings (MOBs), the properties housing the new medical centres, represent a growth driven segment in Germany's real estate market, assisted by the emergence of a new and dynamic tenant base – the "Medizinische Versorgungszentren" (MVZ). Between 2006 and 2012, the development and growth of MVZs, assisted by proactive legislation, tripled in number, climbing to around 2,000, whilst the number of physicians employed in these facilities doubled to an average of six per MVZ during the same period of time. CORPUS SIREO expects a long-term annual completion rate of circa 100 new MVZs, which will continue to drive demand for the development of new MOBs.

Recent publications by the German National Association of Statutory Health Insurance Physicians (KBV) substantiated the sustained growth of the MVZ segment. Totaling around 2,000 facilities by the end of 2012, their number increased several fold since the introduction of the 2004 legislation which allowed for their creation. This growth trend is expected to continue in the wake of the 2012 Supply Structure Act (VStG). There is also a defined upward trend in the scale and networking intensity within the existing MVZ segment, in particular when they are co-sponsored by a hospital organization.

MVZ: A growing tenant base

What sets MVZs apart from the traditional medical centers ("Ärztehäuser") and medical service centres ("Gesundheitszentren") is mainly their organizational and legal form. In the former two types, physicians rent out office space in their own right. Resident physicians operating within an MVZ, are by contrast, jointly organized in a private limited company (GmbH) or a private partnership (GbR). An MVZ is able to be a multi-disciplined organization having within its operating structure a variety of healthcare professionals, other than just physicians, all of whom seek are able to offer patients with their ambulatory care needs. MVZs are frequently operated by hospitals, the idea being to expand their service spectrum. These cooperative business models generate organizational and financial synergistic

benefits, whilst patients benefit from direct contact to an array of specialist physicians and healthcare professionals within a single entity.

MOBs: Continued rise in demand

The properties housing MVZs are referred to as "medical office buildings" (MOB). The current rise in demand for these assets is forecast to continue to expand:
– given Germany's demographic trend,
– the Governmental drive for enhanced cost efficiencies in the ambulatory healthcare sector,
– as well as the sector's medical professionals wishing to establish interdisciplinary practices to enhance service offerings.

The above changing dynamics represents a real challenge for project developers and asset managers alike, due to the specials requirements associated with purpose-built properties of this type.

An MOB typically accommodates 10 – 25 tenants on a net lettable area of 3,000 to 5,000 square meters. The investment volume for this type of property can range from €5 – €30mn, which creates a need to arrogate and manage the assets on a regional, sub regional basis, ensuring economies of scale and ability to attract institutional capital into the sector.

The current project developers constructing MOBs still tend to be regional or city focused, meaning an investor has to be able to reach across a number of markets to facilitate a wider investment strategy in the sector. The fact that the MVZs are rooted in their local communities, and the MOBs housing them tend to let space to them on leases as long as 15, or even 20 years, makes investment in this real estate segment highly interesting for safety-conscious, income driven, investors. The US market has seen the strongest development by far in this field of healthcare real estate, with numerous listed REITs and institutions operating within the MoB sector.

Having been active in the "healthcare real estate" segment for many years with its own institutional funds, CORPUS SIREO has recently established, with capital partners, its own managed MoB fund with a view to capture the value growth in this exciting healthcare sector.

Contact:

CORPUS SIREO
International S. à r. l.
4a rue Albert Borschette
Plateau de Kirchberg
1246 Luxembourg

Douglas Edwards
Managing Director
douglas.edwards@corpussireo.com

For further information go to www.corpussireo.com

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Germany/Acquisitions

Rebranded AXA in renewed German focus for French investors

AXA Investment Managers – Real Assets (previously known as **AXA Real Estate**) said recently that it has already transacted €756m of real estate deals in Germany in the first nine months of this year, underlying the attractions of Germany to the real estate manager's myriad French clients looking for core assets.

The investment arm of French insurer AXA has been involved in some of this year's biggest German deals across all asset categories – office, retail, logistics and hotels – along with or on behalf of many of Europe's biggest investors through funds, joint ventures or third-party mandates. The group made €233m worth of disposals in Germany over the period.

On the buying side, AXA Investment Managers – Real Assets completed deals totalling €533m over the period, including:

• A 35% stake in *Ruhr Park Shopping Centre*, as part of a joint venture with **Unibail-Rodamco**, on behalf of **AXA Selectiv' Immo**, a French regulated fund, and an AXA insurance company. The 35% stake was acquired from **Perella Weinberg Real Estate Fund I LP** for €231 million.

• The **Twenty 8** office building in Munich city centre, comprising 4,864 sqm of prime lettable space, approximately 12% of which holds retail, from **Deka Immobilien** .

• The Elisenhof office complex, a mixed-use, multi-tenant property in the city centre of Munich, acquired on behalf of AXA Insurance Companies from Tishman Speyer .

The group has also got permission for and has been working on a major redesign of the familiar office complex *Die Welle*, situated in the heart of Frankfurt behind the *Alte Oper*, which it bought in 2012.

Matthias Leube, managing director for real assets at AXA Investment Managers Deutschland said the firm would continue to build its profile in Germany with deals in alternative sectors including healthcare assets, data centre and hotels. taking its total transaction activity to €756m.

AXA IM - Real Assets controls close to €62bn in assets, including €49bn direct property and infrastructure and €11.5bn in real estate finance.

Germany/Indices

Finance providers show 'slight decline' in willingness to finance

The German financing trend barometer which is now managed by Stuttgart-based **BF.direkt AG** (previously known as the **FAP Barometer)** shows a slight decline in the willingness to finance real estate in its latest quarterly reading.

The **BF.Quartalsbarometer** for Q4 showed sentiment among real estate finance providers remained balanced, but for 20% of providers higher liquidity costs and further deterioration in margins led to a decline in sentiment. This is the second consecutive quarter that the gauge has dropped (from 1.23 in Q3 to -0.41 in Q4), and sees the reading enter slightly negative territory for the first time since 2013.

The quarterly research for the Trend Barometer, which is carried out for BF.direkt by independent market research group **BulwienGesa,** shows that 75% of market participants are experiencing flat liquidity (refinancing) costs. At the same time there is a continuation in the trend for "newly rising liquidity costs". This value, which has increased from 5.6% to 18.9%, is at a new record high. Only 2.7% of respondents experience declining liquidity costs.

The latest reading confirms that the average margin for portfolio financing in Q4 2015 has declined, along with margins for project financing (down 2bps).

Interestingly, the latest survey included the question "Can investors in Germany still buy real estate at risk-adequate prices?" To this question, 51.5% answered "NO", saying that yields no longer merit the assumed risk. The excessive prices being paid can only be justified by current low interest rates, they respond. 48.5% consider the current prices to be risk-adequate.

Professor Dr. Steffen Sebastian (*pictured, above*) of the **IREBS** school of **Regensburg University** and an economic advisor to the BR.Quartalsbarometer, commented on the latest readings: "What is interesting in this context is the change in decision-making processes within bank organisations. The credit approval process at these institutions is increasingly being transferred to risk departments, by some 15 percentage points. In this environment, market participants who put more emphasis on quality than risk with their investments can hope for a warm reception from financiers".

Whereas in Q3, nearly 38% of those interviewed expected strong demand for additional types of financing, in Q4 that figure rose to 40%.

Francesco Fedele, BF.direkt's CEO, commented on this increasing importance of alternative finance providers: "Currently we can detect a certain trend in demand particularly for the most important type of alternative financing – mezzanine and equity-like financing. We expect this trend to be continued in the upcoming quarters".

Germany/Pfandbriefe

Cheap refinancing for Pfandbrief banks, but growing competition

German real estate lender **Berlin Hyp** has been tapping the markets heavily this year to refinance its lending, and in October issued its third €500m mortgage Pfandbrief since April – which, like its predecessors, was heavily (2.4 times) oversubscibed.

The offering follows Berlin Hyp's first Green Pfandbrief in April with a volume of €500m and a term of seven years, and a three-year Pfandbrief issued in July for a further €500m. The bank also issued an unsecured bank debenture in mid-January of this year for €750m.

Lead-managed by **Commerzbank**, **Deka**, **HSBC** and **UniCredit**, with **Bankhaus Lampe** and **WGZ Bank** as co-leads, the latest issue reached over €1.2bn from more than 40 different investors and was closed within an hour. The five-year bond was priced at 10 basis points below mid-swap and pays an interest coupon of 0.125%.

Those buying the bond were 88% German investors, Scandinavian (5%) and Switzerland (4%), with banks and saving banks making up the largest investor group at 51% of the total.

According to **Gero Bergmann**, board member at Berlin Hyp with responsibility for capital markets, "Although the issue volumes on the covered bond market in 2015 were higher than they have been for years, we once again generated strong demand with this latest issue and attracted numerous investors for our bond in the present climate of sustained low interest rates."

Separately, the bank also placed a €122m real estate debenture issued by **LEG Wohnungsbau Rheinland**, a subsidiary of listed Düsseldorf-based **LEG Immobilien**. The debenture is secured on 70 individual buildings with 4,100 residential and 20 commercial units in North Rhine-Westphalia, mainly in an area just south of Duisburg.

23 local **Sparkassen** (savings banks) are participating in the debenture, taking up €59m of the loan over a 12-year period. The property debenture (*"Immoshculdschein"*) is an instrument which combines elements of classical consortium financing and loan debentures. The instrument gives Sparkassen the opportunity to partake in property lending from €1m upwards, with Berlin Hyp holding a majority of more than 50% of the loan and handling all the servicing.

Minimal interest, but growing competition

The minimal interest payable on the jumbo Pfandbrief of 0.125% shows just how cheaply German bank can refinance themselves to meet the enormous demand for real estate lending in the current climate.

Earlier in the month **Münchner Hyp** likewise placed its fourth mortgage Pfandbrief this year, a €500m bond with a 6-year duration and an annual interest coupon of 0.375%. A seven-year Pfandbrief issued earlier this year by Deutsche Hypo paying a coupon of 0.125% was FOUR times over-subscribed.

It would be easy to assume that, under these conditions, the banks have the playing field all too themselves. But the market has seen the rise of a lot of fresh competition since the onset of the financial crisis. With pension funds and insurance companies muscling in on the market, real estate investors have a wider choice of financing partner. **AXA REIM**, for example, the property investment subsidiary of the giant French insurer, has built up a platform of €11.3bn for commercial property lending over the last three years.

Occupational pension funds, smaller insurance companies, and even non-profit foundations are increasingly looking to allocate part of their assets to debt funds, while Germany's investment companies or KAG's are very active in lending. **Dekabank**, the funds subsidiary of the **Sparkassen-Finanzgruppe**, has a platform which is now issuing new lending of more than €2.5bn a year.

All this extra competition has led to a halving of margins on bank lending over

see page 28

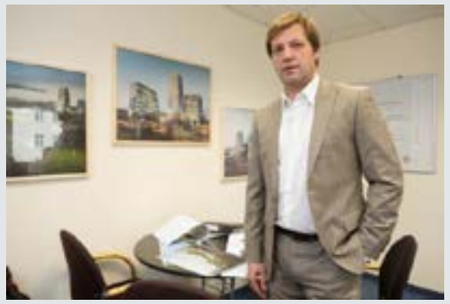
GUEST COLUMN: Dirk Moritz, Moritz Gruppe, Berlin

Everybody is moving to Berlin: This city will become more crowded and stretched

"We are developing real estate projects at locations whose potential other developers have either not realised or deemed possible."

Dirk Moritz, Managing Director of Moritz Gruppe GmbH, Berlin (www.moritzgruppe.com)

Almost every day this city generates news – about dynamic growth, or the real estate boom – and it seems there is no end in sight.



Berlin is growing: This is no longer just reported news, but now also something one can see and experience first-hand on every corner of the city. In late 2014, Berlin had grown by 44.700 citizens in comparison with the year before; there are currently more than 3.5 Million people living in the city, and the influx is unrelenting.

According to a survey of the Urban Land Institute, among investors, the German capital is also one of Europe's future-oriented locations, a „Standort", promising interesting and sustained revenues – leading the way ahead of Dublin, Madrid, and Hamburg.

The city's economy – tourism, the start-up scene etc. - is developing positively. The Berlin Senate can also make good use of the money, in investments, and reducing the existing public debt of €60 billion. We hope that it will also translate into benefits for individual citizens.

After years of refusing to develop an economic perspective, hopefully one can come to the conclusion that the Berlin Senate has realised that „poor but sexy," - a quip by former Mayor Klaus Wowereit - has long become outmoded – and that a visible economic strength is needed as a platform for growth.

A particular challenge, however, is to remain competitive among all the others international "hot spots" on a long lasting basis.

But what do all of these developments really mean for citizens, policy-makers, investors, town planners and architects?

Well, for real estate investors, this means there is a need to remain alert to new opportunities and to accept higher risks – as today, any grandmother knows the value of her property.

For all of us this means we have to think faster and beyond the usual parameters of real estate, to develop new visions and concepts for the real estate project for tomorrow or the day after.

For Berlin policy-makers, however, this still seems to be a painful task: The unilateral focus and quite politically-driven view on housing construction does not do justice to the new urban thinking and is not benefitting the city's development...

Among speculators, construction permits thus evolve into a popular game point for their own profits – a total of 22,000 permits in 2014 and the construction of only 9,000 housing units are sending out a clear signal.

If you want to buy or rent an apartment in one of the popular city districts, you now require 2 top earners or a large reserve of personal funds.

As wages here are still lower than in other big German cities, families with a moderate income face a real problem when looking for an apartment.

But this is also a great opportunity for other districts such as Berlin-Lichtenberg, Spandau and Neukölln to be able to shine.

On the other hand, the financing of housing property is yet another problem – with high prices and the attempt of cities and communities to participate in this boom by eagerly escalating property purchase taxes.

Political representatives have to be aware that private buyers cannot simply compensate these costs by means of their income.

Why don't we have an honest discussion about a possible classification system based on who is an owner-occupier and who is an investor?

Similarly, I believe that, in the long run, a solution will not be found simply by following a strategy targeted at voters through political interventions such as decreed lease price limits and other measures.

If we are to develop a shared understanding about subjects such as the changing city, urbanism, "my city – your city", we could enlighten people quite early, in school, for example, by educating pupils about urban development, accommodation for different life phases and about how space follows function so that we do not necessarily have to think purely in square metres when it comes to living and working.

Urban planning has to shape infrastructure in parallel. Therefore, it is necessary to recognise projections and developments early on. And finally, this also necessitates a new and internationally competitive airport.

Another delay is not only doing harm to this city, but also to Germany's image as a place to do business: The world looks to this city – and internationally it used to be faced with a smile, now a lot of observes don't understand the city anymore.

Architecture as such - to combine the past with the best of the present to create something unique and truly new, is a wonderful and desirable philosophy.

But to this end we have to find solutions for the city of tomorrow, encompassing living, working, leisure time, education and sports, in a society that jointly embraces this new thinking.

We have to engage and enthuse people about this approach of renewal and change. This, in turn, offers the opportunity for the successful and sustained development of this city; new means of communicating can foster cooperation – incalculable direct popular votes will not be a solution.

The city can only be successful if everybody accepts responsibility – for the real estate sector this clearly means to look beyond the limits of economic matters.

Quite often, one gets the impression that many investors are just capitalising on the city's advantages, just like anybody passing through, but for their own gain.

When it comes to issues like "smart cites" and "blue buildings", our sector really has to face the challenges of our time.

A city like Berlin exists on to its ethos never be "complete" – but that is precisely why it is in need of a new vision, a new urban identity for the future and definitely a set of binding rules.

The citizen, the planner, architects and the investor, too, have to know reliably what this city really wants – mono-functional apartment constructions, uniform eaves' heights – or answers to the question "how do you want to live?"

It would be nice if each generation, but at least each century, would get the chance to present its vision of the city by developing an individual form of architectural expression.

Historic landmarks are a part of Berlin just as much as audacious new buildings, conversions of old buildings, or modern high-rise developments.

This will intensify the ambience of old and new city quarters alike, but the city has to grow in a comprehensive way transcending individual districts, which requires responsibility as well as breaking down perceived, or psychological barriers.

The "think small" approach is passé. Instead of safeguarding old vested interests, we need vision and planning based on expertise and common sense: To think spontaneously and out of the box in order to break down traditional behavioural patterns. Urban planning should not be constrained by political wrangling or act within the limits of political election periods.

Our conclusion: For investments in infrastructure projects, commerce, modern office building concepts, boutique hotels and for tong-term real estate apartments we believe there will be a good to excellent increase in value. In terms of real estate, Berlin is absolutely and quite clearly "in".

But as always, location, attractiveness and the quality of offers on a city's market will determine whether people and investors are here to stay or if all of this has just been a bubble. This is a responsibility for all of us – 'Awareness shapes our actions' is a maxim that still holds true.

All of this, though, will remain utopia if we just continue in our old ways: With current regulations, outdated administrative structures and development processes, with a modern architecture literally poured into concrete and last century thinking we will not be able to create added value for society. The future is happening right now, in the next instant.

Berlin is competing with other big cities around the world, a fact we should not underestimate, as people have become much more flexible and mobile.

We should not take for granted what we have achieved. Instead, just like athletes, we should strive for more so that we can truly say: "Everybody wants to live in Berlin".

It is in this spirit that I wish all REFIRE readers success in your projects!

Warm regards,
Dirk Moritz
MORITZ Gruppe
Berlin

...from page 26

the last three years. Several big lending banks, such as **Deutsche Hypo**, have actually decreased their new business lending in the past year, because of the lack of quality of many of the new business proposals.

With the market for 'core' office and retail properties in Germany largely saturated, investors are moving ever further afield to look for value – out into the provinces and the smaller towns where the big Pfandbrief-issuing banks have less lending experience and local knowledge. This is more frequently the turf that the local Sparkassen can claim as their regions of competence.

Hence the big German banks are looking overseas for their expansion and for the still-achievable higher margins. The volume of such lending rose between 2013 and 2014 by 16.2% to €22.97bn, headed by **Aareal Bank** and **Helaba Bank**.

Aareal Bank has always been more overseas-oriented than its peers, and fully 80% of its €33.1bn loan book is for non-German property. Helaba has 48% or €17.5bn of its total loan book of €36.5bn lent on foreign property. The average for most of the other Pfandbrief-issuing banks is between 20% and 33% - with a rising tendency, according to a recent study by the **IREBS** institute.

Germany/REITs

Alstria Office REIT completes DO Deutsche Office takeover

Germany's first-ever REIT, the Hamburg-based **Alstria Office REIT-AG** has now officially taken over fellow-listed **DO Deutsche Office AG** following its voluntary takeover offer. The new company will be Germany's largest commercial property company, with gross real estate assets of €3.5bn.

By the cut-off date of 21st October, Alstria had received commitments for 165m Deutsche Office shares, representing 90.60% of the total share capital and voting rights of Deutsche Office.

The Alstria-Deutsche Office merger is taking the form of an €800m all-share takeover, with Alstria offering one new Alstria share for 2.625 Deutsche Office stock, a 16.2% premium to Alstria's share price when the deal was announced in summer.

DO Deutsche Office morphed out of the old listed REIT **Prime Office AG**, before it merged with funds managed by US private equity firm **Oaktree**. The American company owns 60.54% of Deutsche Office shares, and had already accepted the Alstria offer.

The deal is expected to be about 20% accretive to alstria's FFO per share, boosting it to €0.75 this year, and the takeover will create cost savings of €2.5m annually, and up to €15m in financing benefits, the firms say.

The takeover of DO Deutsche Office will lead to a short-term loss for Alstria, after it writes down the value of Deutsche Office's assets by €80m by end-2015, along with a goodwill write-down and other associated takeover costs. Alstria say it will push its overall 2015 P&L account into loss for the year. However, it is guiding revenues up from €98m to €116m and FFO of €59m, up from 2014's €49m.

Germany/Listed Companies

Sirius Real Estate looking for fresh South African investment

The AIM-listed **Sirius Real Estate**, which owns and manages light industrial and flexible workspace in the form of business parks across Germany, seems to be building on its recovery under its new management and issued a buoyant recent trading statement.

As we reported back in June, the group raised €50m in a private equity placement to fund the investment of a further five German business parks for €57.24m and the early refinancing of two debt facilities. Four of the five have now been bought, and the fifth, in Aachen, was due to close at end-October.

In aggregate the five business parks will contribute €5.33 million of annual rental income (€4.7m net operating income), with a net initial yield of 8.1%. The company says that with the new banking terms negotiated, the portfolio will have an initial cash on cash yield of 14.6%, with more expected as vacancies are reduced.

Sirius also completed a new new 7-year €59m debt facility with **SEB AG** to refinance the two existing and expensive **Macquarie** debt facilities. The interest on the SEB AG debt facility has been fixed at an all-in interest rate of 1.84% for the full term, which is lower than previously anticipated, said Sirius. This debt facility will reduce Sirius's annualised interest cost by about €2.6m.

After the Aachen acquisition, Sirius will own 37 business parks with over 360 individual buildings comprising more than 1.2 million sqm of lettable space. It also manages two other properties on behalf of third parties.

CEO **Andrew Coombs** commented, "We are achieving our ambitions to increase the size and profitability of the business through both organic and acquisition led activities, thereby improving shareholder returns. In the last 12 months we have completed two equity Placings and raised €90 million which we have deployed by acquiring 9 new business parks adding over 200,000 sqm to the Sirius portfolio. The new sites have all been immediately earnings accretive and have significant potential for further contribution to net asset growth and FFO."

Although about half of Sirius's income from its business parks is

secured by long-term leases with large groups such as **Siemens**, **Daimler** and **GKN Aerospace**, the company is increasing its focus on mixed-use flexible workspaces with its popular packages including "*Smartspace*" and "*FlexiLager*" aimed at startup and early-stage businesses.

According to Coombs, Sirius's CEO, this segment is showing the most rapid growth. "There's high demand for flexible commercial and industrial spaces that can be refurbished for the specific needs of smaller tenants that typically require less than 500 sqm. Yet few German landlords are interested in renting out spaces smaller than 1,000 sqm.

Last year Sirius took up a secondary listing on the **Johannesburg Stock Exchange**, while retaining the primary lising on the AIM. The company was meeting South African investors during October, apparently with the goal of attracting a large institutional investment. South African boutique investors have injected funds into the company in the past, interested in broad exposure to light German manufacturing and exporting industries.

Germany/Funds

Omega Immobilien launches first German fund, focus on NRW

The Cologne-based integrated property manager **Omega Immobilien** has founded its own asset management company, **Omega Immobilien KVG**,and launching its first alternative real estate fund. The fund is targeting both professional and semi-professional investors, and aims for a volume of €200m and a dividend payout of 4.5-5%.

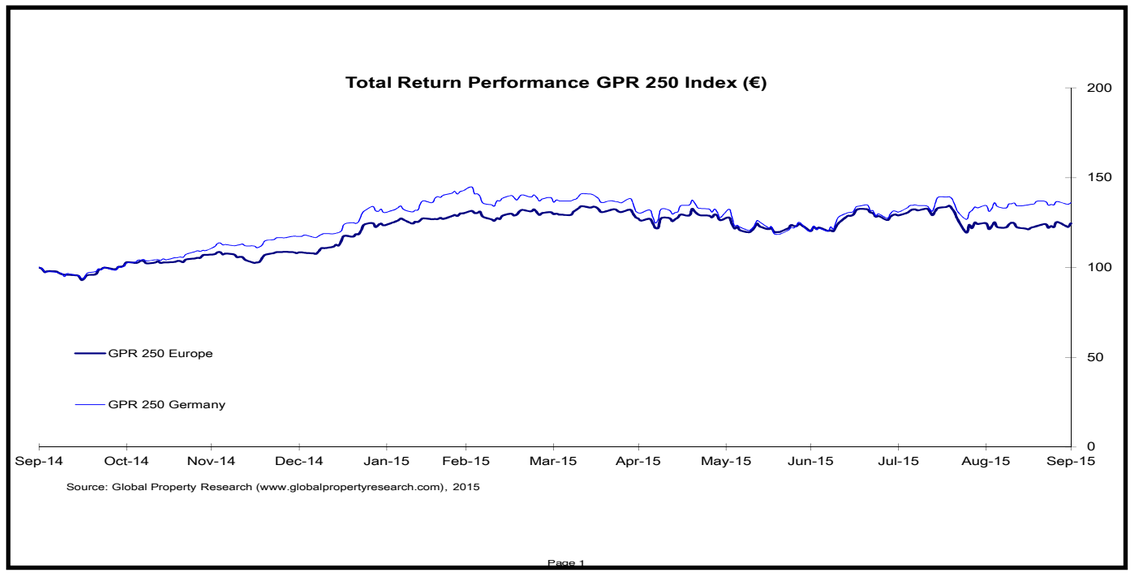
Leverage will be 50% and the fund period is ten years. The minimum subscription per investor is €10m.

The independent owner-operated Omega currently manages assets worth €2.7bn on behalf of its investors, including facility managment for mainly technically and commercially complex properties in office, retail and residential. It has a staff of 130 at eleven locations across Germany.

REFIRE talked with **Martin Herkenrath**, Omega's executive director, on the fringes of the recent EXPO REAL in Munich. "Having our own KVG to take care of our investment management projects is a logical step forward for our business strategy", he said, adding that the funds already had €50m worth of assets in the immediate pipeline.

The geographic focus of the **"OMEGA Immobilienfonds Rheinland I"** fund will be Cologne, Düsseldorf and Bonn, as well as selected towns surrounding these cities. "We want to invest primarily in mixed-use residential, office and retail properties, but also strictly retail assets, (for example shopping centers) and strictly residential buildings," said Herkenrath. The fund will promote a niche strategy, buying assets too large for most private investors and too small for most international ones, in the range of €3m-€12m.

Herkenrath indicated that Omega views this fund as the first of many, with the focus of future funds on high demographic growth regions across Germany, as well as single-asset and single-portfolio funds, along with tailor-made funds for individual clients.



Graph of Total Return Performance of Europe and Germany in Euro currency over the past twelve months
Charts courtesy of GPR Global Property Research

Europe/Non-listed real estate

Real estate funds of funds at highest level since 2007

Real estate multi-manager or funds of funds posted total returns of 8% worldwide last year, the highest since 2007 and a massive rise on 2013 when performance was just 0.2%, says European non-listed property fund association **INREV.**

The associations' joint **Fund of Funds Study 2015** suggests a strong recovery of the sub-sector, moving it back to prominence as a key area of interest for institutional investors, following much poorer performances over the previous eight years.

The study also noted a significant narrowing of the gap between the upper and the lower quartiles performance, to 11.9% from 21.5% in 2008, which indicates lower volatility in the market.

Henri Vuong, INREV director of research and information, said: "These results are impressive, particularly in the context of earlier anaemic performances. They are a clear indication funds of funds have regained their mojo.

"As with other products in the non-listed space, there is change afoot, with some funds of funds reaching maturity within the next decade."

Vuong, however, said the statistics should "go a long way" to restoring investor confidence in the diversification benefits of funds of funds and "renew enthusiasm" for these vehicles as part of a balanced allocation to non-listed real estate.

Global funds of funds delivered highest returns last year, at +11.9%. Those with a European strategy posted the highest jump in performance, to +5.2% from -5.1% in 2013. Non-European funds of funds delivered +9.8% while those focused on Asia Pacific lagged the other regions at -3.3%.

According to **Catriona Allen**, fund manager of **Aviva Investors Global Real Estate Fund of Funds**: "Global funds of funds have a wider universe of potential funds to invest in, giving greater opportunities to select managers they perceive to be the best in their class, and so able to deliver superior returns.

"They are also able to access sectors and regions at different points of the investment cycle, avoiding potential downturns in one region in favour of other preferred opportunities."

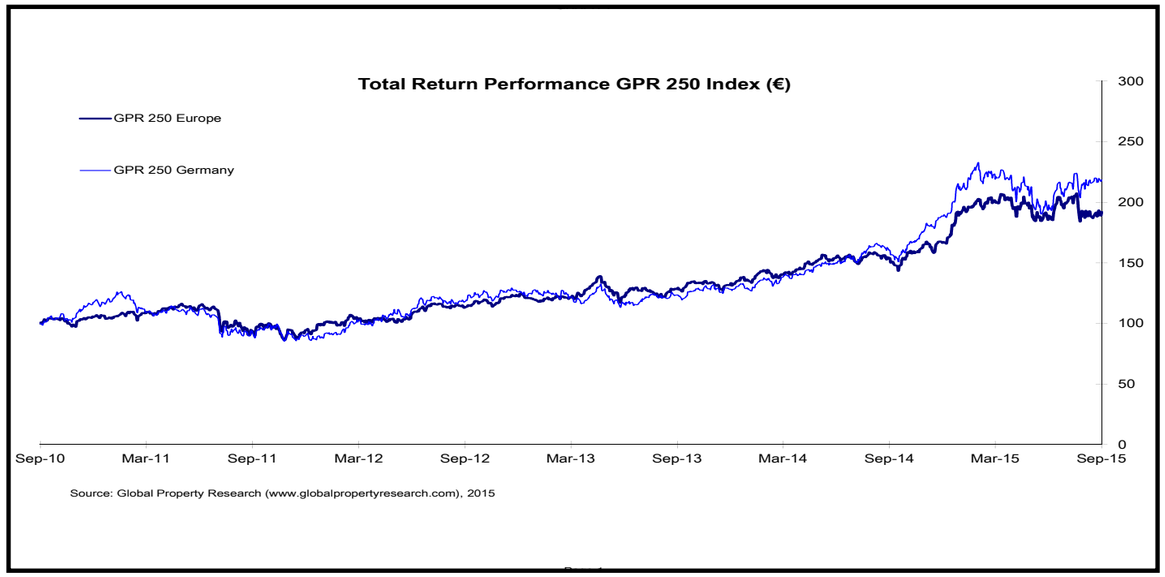
Closed-end funds of funds outperformed their open-ended counterparts, with total returns of 8.9% and 7.8%, respectively, continuing a trend that has been consistent since 2009.

The study also reveals a clear distinction in performance and return expectations of different fund-of-fund styles.

Core funds of funds last year returned 8.8%, compared with 5.4% for non-core.

The study also found that the funds of funds industry is set for large-scale transformation over the next 10 years, when 39 vehicles are set to terminate, representing €2.7bn or nearly 10% of total net asset value in the sector – which will potentially seek redeployment. INREV expects a peak of 11 terminations in 2019 equating to €1.1bn.

The INREV study included data from 64 funds of funds managed by 25 managers and representing €9.5bn of net asset value.



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

Guest Column: George Salden (11)

SERIES: The German Real Estate Market: Analysing Balance Sheets is the Key to Rate of Return

In Germany, when working in the dynamic framework, external accounting is extremely helpful for investigating possible return if you are dealing with investments in real estate or companies that are active on the real estate market. In the previous article we therefore acquainted ourselves with how balance sheets, profit and loss accounts with associated notes, and the cash flow statement are prepared. In this article we will direct our attention to the tools available for analysing a balance sheet in order to help ascertain investment strategies as well as the risk and opportunities profile.

Balance sheets analysis summarizes financial information. This makes it possible to analyse the key performance indicators for the economic situation of a real estate company and to predict its development. There are a number of different theories concerning just how to analyse a balance sheet. The difference generally lies in the treatment of certain items and how success is defined in terms of a given period of time.

In Germany discussion generally centres on the third book of the Commercial Code. A schematic method consisting of six steps for analysing balance sheets has prevailed in the literature on this topic:

1. Data collection for the economic aspects of the legal framework
2. Preparation of the annual financial statement and the material associated with it
3. Creative formulation of indicators and hypotheses in regard to key figures
4. The selection and weighting of key figures
5. Comparison of key figures and target-setting
6. Interpretation of the results of analysis and overall assessment

The key performance indicators of a balance sheet thereby provide information about the success of investments on various levels. This is crucial, because the absolute figures of a company or an investment are only of limited informational value in regard to the actual revenue and earnings situation. It is only when the decisive factors have been put in relation to one another that the dynamic of the investment can be arrived at. The special feature of an analysis of key performance indicators is not just that they provide information on business matters. It also makes clear the "financial engineering" that is at the root of every real estate investment and highlights the various strategies that can be chosen in terms of an investment cycle.

The analysis of financial reporting therefore indicates precisely what return you will get when buying property at a certain time at a certain price, after its price increases and you realize it upon exit. Three approaches should be explained, each of which uses different key performance indicators: the return on investment, the internal rate of return, and the cash on cash return.

The first option for investigating an investment based on balance sheet analysis is offered by the return on investment (RoI) approach. This factor views the return on investment as the ratio of the annual earnings to the capital employed. The RoI can be broken down into several key figures and offers the opportunity to determine the strategic alignment of an investment between "money earned" and "secure source of income." Mathematically, the RoI can be equated with the product of the return on equity and the equity ratio. Each of these key figures provides information on strategic direction.

Return on Equity (RoE) constitutes an important indicator in determining whether a company primarily serves the investment objective of "earning money." It shows the return on the equity provided and thereby the profitability of a company. The equity ratio is an important indicator of the stability of a company. When investing a high equity ratio is required in order to increase the safety of risky investment projects. The greater the risk classification of an investment, the higher the required equity ratio of the financing bank will be.

Moreover, the equity ratio is an important indicator of the independence of a company. The lower the proportion of outside capital, the less influence those providing such funding will have on investment decisions. However, a high equity ratio does not only have a positive side, because it also plays an important role in optimizing the rate of return. In this context, an increase in the equity ratio generally takes place at the expense of the rate of return on equity. The equity ratio should therefore always be assessed in terms of the corporate investment strategy. Financing with equity capital has the advantage of strengthening an enterprise's security. But focusing on a high equity ratio has other downsides. In Germany, in some cases wholly-owned self-financing has tax disadvantages. If you solely take return on investment into consideration, then you would not be in a position to determine what strategy should be employed as part of an investment and what should be the proper balance between rate of return and security. Yet a detailed investigation based on the RoI system can grant profound insights into the strategic direction of an investment and profile the profitability of a company in detail.

In addition to its role in the key figure system for analysing the rate of return on investments, the annual financial statement can be viewed from the perspective of other key performance indicators. Such an opportunity is presented by the quite complicated analysis method of the internal rate of return (IRR). This ascertains the effective interest rate and therefore the actual rate of return on an investment, thereby providing support in advance of investment, primarily in regard to the decision as to whether or not the real estate should be acquired, because it summarizes the success of the property during the entire period during which it will be held.

However, one must also bear in mind the difficulties associated with the IRR viewpoint. On the one hand, the reinvestment premise of the internal rate of return viewpoint must be called into question. It maintains that all of the proceeds on an investment can be re-invested on the same terms again, something that is but rarely realistic in the case of real estate. Moreover, the formula for determining IRR can lead to more than one result if the individual cash flows have different signs. Moreover, a negative cash flow generates several results, the correct one having to be determined manually. The internal rate of return method is nonetheless necessary—quite simply because it is the only means available.

Cash on cash (CoC) offers yet another perspective that can be taken in regard to financial information. An investor will primarily be interested in the cash on cash analysis if he/she is pursuing a long-term holding strategy. For long-term strategies, for example, the acquisition of super core real estate that will be held for 25 years, perspectives such as those of return on equity or IRR are unsuitable. In particular, the IRR will fall increasingly with the duration of the investment. Long-term investments are primarily for a stable and secure rate of return that is subject to a minimal risk. As a result, there should always be annual cash on cash analysis of long-term investments indicating the annual interest on the cash flows. The cash on cash return shows the annual return after all taxes have been paid. Tax burdens are excluded from this. The cash on cash return is thereby calculated based on the following formula: cash flow before taxes divided by invested capital. The cash on cash return analysis is primarily suited for real estate investments that derive their revenue from rental income without a trade component. A factor related to this key figure is funds from operation (FFO), which plays a significant role primarily in the cash of REITs and AGs. It is used for calculations as the net cash flow from rental income is increased by depreciation. Here, too, one must make sure that all expenses have been adjusted and do not receive income from cash flow collection.

FFOs often provide more transparent information over the performance of REITs and AGs than do those of the official annual financial statements. Especially in the analysis of companies that generate income from long-term, safe investments, it may be advisable to neglect sales proceeds, as they actually run counter to the strategy of long-term investments. Depreciation is added to the FFOs. Therefore real estate can be written down when its market value significantly increases due to macro-cyclic developments. As a sustainable indicator of the performance of long-term real estate investments that generate returns through rental income, the CoC return as well as the funds from operation are much more suitable than the return on equity or IRR. In the last article of this column, we will look at real estate rating in the context of the dynamic method and show how such a rating is designed.

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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Our readers are global investors in real estate, asset managers, REITs and other real estate investing vehicles, lawyers, private investors, public sector authorities – in short, anybody who is interested in staying up-to-date with and learning more about real estate finance in continental Europe.

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