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

REFIRE has an extensive network of contacts in the field of continental European real-estate finance, which enables us to bring you the latest and most relevant news. However, we always want to know more about what's going on in this dynamic sector, so make sure your company is keeping us informed of your moves. Send your media communications to news@refire-online.com for our consideration.

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New report on German logistics market highlights key role of foreign investors

A major new report on the German logistics market by market researcher BulwienGesa throws up a number of surprises, including several names that might not have figured on our own speculative list as to who are Germany's most active investors in the sector. Ths study, based on a proprietary database of 1,205 new logistics buildings and 574 recorded transactions covering 19m sqm analyses the German logistics market for the five-year period 2010 to 2014.

This includes assets under 5,000 sqm (which are frequently ignored in other studies), to give effective overage of about 26% of the whole German market.

A key finding is the emergence of the big retailers as key investors in the group. In terms of sqm of logistics property built over the period, the leader is **Goodman** with 1.26m sqm, followed by three retailers – **Schwarz Gruppe** (**Lidl**, **Kaufland**) with 657,000 sqm, **Edeka** with 388,000 sqm, and **REWE** with 366,000 sqm. In fifth place is automaker **Volkswagen** with 353,000 sqm. Among Goodman's clients are retailers **Amazon** and **Zalando**.

BulwienGesa's **Tobias Kassner**, the report's principal author, says his research team was surprised at the extent of new building by retailers, now at 25%. Another factor making it attractive for own-users to build their own logistics properties is the continued low level of interest rates, he said.

At nearly 75% owner-occupiership, Germany is far ahead of the USA and other markets, where the owner-occupier rate is more like 30%.

BulwienGesa expects the figure for 2015 to be 3.6m sqm, or about 5.5% less than in the record year of 2014 (3.8m sqm). Retail saturation and the lack of building space in numerous regions is being felt in the industry, which will have to lead to space recycling and more brownfield developments. These currently represent 20% of all new construction (even higher in the classical logistics regions of the Rhine and the Ruhr, where they can

Radical new reform package heading for gov't ratification

Investors in German residential housing need to be aware of potentially very significant changes to the tenancy laws that are making their way through Berlin's Ministry of Justice and headed for ratification by Germany's Bundestag... see page 6

M7 boosts expansion with new Dutch, German acquisitions

The fast-growing UK-based M7, a specialist investor and asset manager of multi-let real estate across Europe, has had a busy couple of months, closing on fundraising on no less than three of its funds just in the month of October. page 8

Pramerica and QInvest buy 16-property German retail portfolio

Pramerica Real Estate Investors and QInvest, Qatar's leading investment bank, have bought a portfolio of 16 retail properties located across Germany through a newly formed joint venture. The seller is a joint venture of Hahn Group and Indigo Invest, but the terms of the deal were not disclosed. see page 11

Vonovia gets green light for full-on Deutsche Wohnen bid

Shareholders in Vonovia, Germany's largest residential property company, gave their company the green light this week to go ahead with its bid for Germany's number 2 player Deutsche Wohnen AG. Deutsche Wohnen is resisting the takeover, and last week...see page 12

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reach 80%), and are likely to increase.

The researchers point to another trend, that of smaller and more decentralised buildings of under 25,000 sqm. This sort of size is prime territory for project developers, making up about 40% of all new logistics construction, a percentage which is forecast to increase.

"About 40% of the market is now in the hands of the big developers Alpha Industrial, Goodman, IDI Gazeley, Panattoni Europe, Prologis and Segro. With new construction volume of 2.4m sqm these Big Six are well ahead of the nearest 14 German competitors at 2.0m sqm"

Another highlight is the proportion of foreigners investing in the segment, says BulwienGesa. About 40% of the market is now in the hands of the big developers **Alpha Industrial**, **Goodman**, **IDI Gazeley**, **Panattoni Europe**, **Prologis** and **Segro**. With new construction volume of 2.4m sqm these Big Six are well ahead of the nearest 14 German competitors at 2.0m sqm, and look as if they are going to extend their lead.

Including all foreign investors, the foreign share of the market rose to 68% in 2014 from 27% in 2010.

Part of the reason for this, according to Kassner, is "the stronger degree of professionalisation in their Anglo-Saxon domestic markets." As a result, these groups had recognised earlier than others the increasing significance of Germany as a logistics location – while German developers showed little international ambition and were content to live with their regional networks, with some few exceptions such as **Garbe Logistics**.

Another factor viewed as important by the international investors is the re-saleability of their assets, increasingly insisting on certificates of sustainability. Barely 20% of all buildings completed before 2014 had these, and only 14% of new building land were certified with any form of "Green Label".

Financing

While the average financing requirements were €9.8m per property, some needed over €100m, particularly for larger warehouses or portfolios. Overall financing since 2010 is expected to reach €11.6bn by year-end. Mortgage banks and Landesbanken are the most active lenders in the field, responsible for 37% and 30% respectively.

In project development financing, Landesbanks are ahead of the mortgage banks, with a 33% share compared to 28%. These are followed by savings banks (*Sparkassen*) at 11% and co-operative banks (*Volksbanken* and *Raiffeisenbanken*) at 7%, who traditionally have strong sector-specific local knowledge. Heading the overall list of lenders to the sector is the Frankfurt-based **Helaba**, followed by mortgage banks **Berlin Hyp** and **pbb Deutsche Pfandbriefbank**.

The BulwienGesa researchers note that the time it takes from the loan application to signing the contract normally ranges between six and eight weeks. The average loan-to-value is 65%, about 5%-15% below that of traditional office or retail assets due to the shorter life cycle of the asset. The maximum loan-to-value for ultra prime assets can go as high as 92%, the BulwienGesa team found.

Lettings

A new note issued this week by German group **Realogis**, which has carved out a 10% share of the German logistics letting market since its foundation in 2005, highlights how the lettings market has similarly more than doubled in the last 10 years.

According to **Umut Ertan**, the founder and main shareholder of the Munich-based group, "The total lettings market has more than doubled in the last 10 years, rising from 2.7 million sqm of logistics space in 2005 to an expected record take-up of 5.8 million sqm in 2015."

"At present, the market is registering unbroken demand for spacious logistics properties larger than 100,000 sqm and more in size, as well as for smaller delivery centres close to customers with expansion options such as pick-up points," said Ertan, commenting on the latest developments in the lettings markets.

Mezzanine areas also increasingly need to be available for small order processing and returns management. These are often not available in older warehouses or have to be built at considerable cost. Universal, flexible warehouses in central locations are therefore in demand. At the same time, site units that unite different types of warehouses such as fulfilment centres, cross-dock facilities, high-bay warehouses and temperature-controlled logistics spaces and cover all aspects of storage, commissioning and distribution will be of greater importance in the coming years.

"Warehouses in good locations are also becoming more significant again because online retail requires ever shorter distances to the end user. Fifteen years ago, central warehouse locations were still being torn down and converted into offices or housing. Today, there is a rapidly growing trend to preserve and modernise these sites, since rents have also risen significantly," said Ertan.

Germany/Logistics

Key logistics transactions in November – roundup

A number of significant logistics deals took place throughout November involving several key players in the sector and banks that have committed increasing resources to German logistics.

Dutch property group **Genaba Properties** paid €150m for two logistics buildings and a light-industrial property with a total of 195,000 sqm in Germany. The assets are in Mülheim (a business park with 122,000 gross lettable area), Ulm (24,500 sqm), and Gottmadingen near Lake Constance in the south of Germany (with 49,000 sqm). Tenants include **Sie-**

EDITORIAL

A good dose of Alpine air works wonders for gaining fresh perspectives

REFIRE attended the ReComm Real Estate Leaders Summit in Kitzbühel in the Austrian Alps recently. This was the fourth year the event has taken place but for your editor, it was his first visit. Most certainly not his last.

The charm and relative seclusion of Kitzbühel, with or without snow, is clearly a drawing factor in enticing the top brass of the collective Austrian real estate industry to down tools in Vienna and disappear off to the Tyrol for three days. Although it brings the heavy guns of the real estate industry together, the content of the gathering is about anything BUT real estate. Or at least, not directly.

It's about blue skies thinking, listening to top-class speakers talking about a variety of issues that affect us all in our business and private lives. Issues that shape our existences, but are not reducible to yields, benchmarks, internal rates of return, or any of the other key metrics of the professional real estate investment industry.

Instead, under the inspired leadership of Reinhard Einwaller and his highly competent team, the event has blossomed into a warm, hospitable gathering of mainly Austrian real estate people, with a handful of Germans making the trip across the Bavarian border. The guest speakers, on the other hand, came from all around the world, and many pleasingly stayed around for the few days to talk with participants and of course to attend other speaker sessions - in addition to enjoying the excellent Austrian Gastfreundschaft organised by our hosts.

Philosopher and economic scientist Nassim Nicholas Taleb talked to us about Antifragility, the subject of his most recent book and a progression on his earlier bestsellers Fooled by Randomness and The Black Swan. Antifragility deals with the attributes that companies and individuals possess that might help them profit from Black Swan events.

Taleb bemoaned the fact that many people took the wrong message from The Black Swan, thinking it was about trying to predict the unpredictable. It's really about knowing, in the event of such a random event, who is harmed and who benefits.

Invest in businesses that have had lots of small shocks, he advised, because then you know they're not hiding vulnerability. Companies become antifragile when they've shown evidence that they've been able to recover from serious problems without being damaged.

Many companies, countries and societies are hiding these vulnerabilities, without exposing them. You want to live in a society that thrives on volatility and stressers. Fragile systems don't like shocks, randomness, variability, but antifragile systems need and thrive on control stressers to profit from Black Swans.

Taleb commented that Germany, with its very decentralised industrial structure, showed many characteristics of antifragility. Its industrial behemoths, instead of being fragile entities likely to be swept away by the next wave of dotcom wizards, have often achieved market eminence by understanding trial and error.

The pharmaceutical business, which has produced a number of German champions, is what he called an error-loving business, in that many of the great drug breakthroughs have come about by accident while the scientists were working towards another result.

As each plane crash makes the next plane crash less likely, antifragile systems never let a mistake go to waste. The sinking of the Titanic taught us not to build larger ships, thus saving countless lives from the next shipping disaster. Italy's constant political manoevering and countless governments in the post war era have led in a perverse way to stability and furthered the country's antifragility. Two different countries committed to rigid dynasties and an abhorrence of volatility are fragile, and will crash. Syria has already done so and Saudi Arabia will crash probably within the next five years, predicted Taleb.

Since the early days of Fooled by Randomness, we have always found Taleb a most stimulating writer, and his early musings helped fuel our interest in gaming and probability theory – an interest which has proved enduring. He proved no less agreeable in person at our various gatherings in the Alpine air. When choosing a place to live that will be relatively free of crime, he confided, make sure you live in a place where the Mafia is in control of the local vice mobs. That way criminals can't run riot and cause mayhem among the citizenry. And it probably makes for very agreeable living in Larchmont, New York, where Taleb makes his home.

That other great gaming theorist, Yanis Varoufakis, reminded us that Greece is the canary in the mine, warning that the recent euro crisis will shortly raise its head again. Like other speakers, including London mayor Boris Johnson's adviser Gerard Lyons, he urged reform of European institutions now, before the British vote on Brexit, or else he fears they may really vote to leave the union.

Other talks from top experts covered topics as diverse as the New Jihadists, urban agriculture and food distribuion, climate capitalism, the future of Berlin, honesty in business, borderless economics, and the battle for God. Phew! All this out-of-the-box thinking helped us view our economic and real estate challenges in a fresh and invigorating light. At least for a few days.

Now, back down from the mountains, we can already feel the clammy hand of benchmarks, minimum yields and key performance indicators jostling for our attention. We're glad of the new energy that will help us to deal with them. But roll on ReComm in Kitzbühel next year!

Charles Kingston, Editor

mens, **Co-op** and aluminium processor **Constellium**. The weighted average lease term is ten years, and yield more than 10% IRR. Financing partners were **Deutsche Pfandbriefbank** in Mülheim, **HypoVereinsbank** in Ulm, and **Helaba** in Gottmadingen. The deals boost Genaba's German portfolio to €680m.

DekaBank financed a German portfolio of three core logistics assets on behalf of a joint venture between the UK REIT **Segro** and a Canadian pension fund. The loan volume totals €59.1m. The properties are all fully let on long leases to established logistics tenants and extend to a total area of 131,000 sqm. The properties are located in Krefeld, Oberhausen and Neuss.

Amar Latif, in charge of the German real estate lending activities at DekaBank commented: "This financing follows on the back of other successful deals already financed in Germany this year by DekaBank involving core assets and experienced sponsors."

An affiliate of Dubai-based multi-family office **Tilad** has bought a logistics centre project in northern Germany from giant Hamburg-based developer **ECE** in a forward deal, thought to be for about €90m.

The *Hermes Logistics Center* development, scheduled for completion next spring, is located in Löhne, between Hannover and Dortmund. ECE said it will remain responsible for completing the three connected buildings which offer 100,000 sqm of logistics and 7,000 sqm of office and social space. The firm aims to win the Silver German Sustainable Building Council (DGNB) certificate. The asset is fully leased to mail order firm **Otto**, owned by ECE's controlling Otto family, and will be used by the Hermes group.

Tilad is a Gulf-based multi-family office, which coordinates real estate investments in Europe and North America on behalf of its sponsors. Among recent acquisitions in Germany is the 48,000 sqm office complex in the Berlin district of Charlottenburg, and a 28,000 sqm retail store in Munich. Last year, the firm bought a logistics centre leased to car manufacturer **BMW** near Munich for €44m on behalf of a private consortium of Arab investors. ECE has been developing retail and industrial real estate and other buildings since 1965.

Meanwhile, the Hamburg-based **Garbe Logistic** bought 11 industrial assets from Munich developer **Doblinger** for its first corporate property *Spezialfonds*, which has €160m in equity commitments.

The portfolio generates annual rental income of €15m and has an average lease term of eight years. Assets are located in the Berlin, Munich, Cologne, Hamburg and Frankfurt regions. The fund **Garbe Unternehmensimmobilien Fonds 1 (GUNIF 1)** equity commitments of over €160m are nearly fully invested with the acquisition of the portfolio, Garbe said in a statement.

According to CEO **Christopher Garbe**, "The launch of this property investment product and the linked asset acquisition is the natural next step in the development of our property platform in the industrial and logistics sector,"

The firm plans further investment products for institutional investors in the sector. "Our property portfolio is growing steadily and is worth over €400m at the moment – and we have the option to place this over the next 12 months," said Garbe. The firm manages 60 assets in 52 locations in three countries.

Bank financing for the deal was provided by Stuttgart-based landesbank **LBBW**. The fund was launched together with servicer **KVG Institutional Investment Partners;** Frankfurt-based placement specialist **Selinus Capital** was responsible for capital raising.

And finally, the rapidly-growing **Patrizia Immobilien** from Augsburg, which has been expanding throughout Europe across all sectors to become a real fund powerhouse, also established a new subsidiary in the Netherlands, exclusively focused on logistics deals across Europe.

According to founder and CEO **Wolfgang Egger**, "The e-commerce market is expanding rapidly, making logistics properties all the more interesting for investors, which is why we've expanded our portfolio of services with this important building block." Patrizia's business model sees it acting as a co-investor and portfolio manager for insurance companies, pension funds, sovereign wealth funds, and savings and cooperative banks.

Germany/Legislation

Radical new reform package heads for government ratification

Investors in German residential housing need to be aware of potentially very significant changes to the tenancy laws that are making their way through Berlin's **Ministry of Justice** and headed for ratification by Germany's **Bundestag**.

After succesfully passing legislation to cap permitted rents on housing (the '*Mietpreisbremse*') and radically altering the traditional form of broker compensation (the '*Beststellerprinzip*'), the German government is preparing a second wave of reforms designed to counter profiteering in the housing market and to make housing more affordable for more people.

The initial reaction from the housing industry in Germany has been, not surprisingly, outrage as the consequences of the proposed measures begins to sink in.

The two key clauses in the new package of tougher measures are a) the reduction from 11% to 8% of the amount of renovation costs that landlords will be allowed to pass on to their tenants, and b) the period of time used as a reference to determine the 'fair rent' for a neighbourhood is being increased from the past four years to the past TEN years.

Furthermore, a new secondary cap on rents is being introduced. No rent will be permitted to rise by more than 50% over an eight-year period, and under no circumstances by more than €4.00 per square metre.

Tenants should be able to defend themselves better against anything that could be deemed more than "necessary" improvements to their rented dwellings. A benchmark is being set which would define 'hardship' as when a rent rise as a result of improvements pushes the tenant beyond the barrier of 40% of his/her net income for the 'cold' rent of the apartment i.e without ancillary charges.

The planned reforms are effectively introducing the principle that only those upgrading investments made by landlords are permissible for cost purposes that a reasonable landlord would pay for, "even if he had to bear the costs of them himself" – a tricky concept.

The Justice Ministry is justifying the new package of measures on the grounds that previous measures had not been sufficient to prevent tenants losing their apartments after rent rises due to improvements. The new laws are designed to bring the interests of tenants and landlords closer together even after the desired effects of modernisation.

Axel Gedaschko, head of the housing owners association **GdW**, said the industry was appalled at the new proposals. "This totally endangers the whole modernising of our housing stock in Germany and the whole planned energy revolution ("*Energiewende*"), if the possibility of raising rents after refurbishment is so hugely limited by these new planned measures," he said. Necessary investment in modernisations would frequently make no economic sense, he said, while the complete refurbishment of older obsolete properties would be futile.

Critical also for investors is the length of time deemed relevant for the purpose of defining a local 'fair rent'. Increasing this period to the last TEN years, instead of the current FOUR years, means many more rental contracts from the past can be brought into the analysis of a weighted average rent for a locality. These serve to determine the so-called '*Mietspiegel*' or 'rent index' for an area, which serves as a benchmark for other permissible rents in the area.

Gedaschko's organisation is highly critical of this extending of the relevant time period, as this would serve to freeze rents at a lower level, given that any improvements made to the property would be underweighted in the local rent index, and would actually hinder further improvements. "The rent index can't be used as a blunt instrument to dampen down rents," he says, "but instead it must be a tool to objectively reflect local market rent levels."

REFIRE: *The ramifications of this new proposed legislation can scarcely be overstated, particularly in those German cities where rents have risen strongly over the past few years. In other words, in the popular urban centres where there are jobs and where people want to live. The net effect will be a freezing of rents, or, in some cases, an actual reduction of the rent the landlord is permitted to charge on a new lease.*

Should the legislation go through, mortgage lending banks will immediately revise their lending policy, which heretofore has been based on steady but moderate rent increases. If this is no longer going to be the case, they will re-assess the value of the asset against which they are lending, and will revise the value downwards. They will inevitably adjust their loan-to-value lending downwards, and may even look for further equity from those to whom they have already lent money.

The critical step of extending the basis for determining average rents back to a period of ten years will likely kill off at one fell swoop any further rent increases. This is more radical than what the original Mietpreisbremse envisaged, namely a dampening-down effect on rising rents. It represents pretty much a full-on assault on the interests of residential landlords in Germany's most popular cities.

Landlords are likely to be rushing to their lawyers to determine the legitimacy of these planned measures before they're passed into law, but tenants' associations and the left-of-centre SPD party seem to have got the bit between their teeth in trying to push this one through.

Germany/Acquisitions

Corestate buys further €125m of retail, business as usual

Switzerland-based **Corestate Capital** has shrugged off its recent aborted stock market listing, cancelled due to "a difficult environment for IPOs in Germany's stock market", to carry on with business as usual in the buying and selling of real estate.

Its most recent foray was a €125m investment in Germany's retail property sector, buying a portfolio of regional assets in Germany's mid-sized cities.

The portfolio of 20 single assets is in prime locations in pedestrian zones of cities including Bremen, Düren and Flensburg. Tenants of the 56,000 sqm portfolio include well-known retailers **C&A**, **H&M**, **REWE** and **Saturn**.

Sascha Wilhelm, chief executive at Corestate, said the portfolio was a stable investment opportunity for the company's investors, who expect a regular, distributable cash-flow. "We are able to achieve attractive risk-adjusted returns, especially in comparison to similar investments within Germany's 'Big Seven' cities," he said. "We see high potential in this market and will continue to pursue this strategy."

At the beginning of November, Corestate cancelled the IPO of its Luxembourg holding, scheduled for within days, citing the market environment for small and mid-cap IPOs which had "deteriorated considerably". Since its establishmen in 2006 by ex-**Cerberus** boss **Ralph Winter**, the investment manager has transacted €5bn, almost all in Germany. Winter remains the largest shareholder with 62%, along with Swiss company **Intershop** which has a 28.1% share.

Europe/Acquisitions

UK's M7 bolsters expansion with major Dutch, German acquisitions

The fast-growing UK-based **M7**, a specialist investor and asset manager of multi-let real estate across Europe, has had a busy couple of months, closing on fundraising on no less than three of its funds in the month of October alone.

REFIRE caught up with **Hugh Fraser**, director and head of debt at M7, on the fringes of the recent **Real Estate Finance Day**, organised by the **Frankfurt School Verlag** and **Targa Communications**.

When we talked, M7 had just finished inking the deal on a purchase of a portfolio of eight German retail properties for €46m which, it said, corresponds to a gross initial yield of 8.7%. The seller was a private owner. The portfolio, to become part of the M7 **European Real Estate Investment Partners I Fund (EREIP I)**, has 38,350 sqm of gross lettable area and includes four supermarkets, in Alfeld, Bad Gandersheim, Exertal and Hildesheim, three retail warehouse centres in Braunschweig, Gelsenkirchen and Lehrte and a shopping centre in Hannover.

M7 is taking over the asset management of the portfolio through its on-the-ground German team, managd by **Alyssa Huse** out of Frankfurt. The firm now manages 32 properties in Germany with total floor area of 383,000 sqm and a volume of around €200m. It plans to expand the portfolio to nearly €290m by the end of this year, and has a further pipeline of €250-400m for 2016.

On financing, M7 secured €31m senior financing from **Berlin Hyp** for the fund and Fraser said the group was discussing with the bank further financing for about 20 additional retail assets, expected to close in early 2016. "This transaction underlines both the quality of the fund's portfolio and our ability to

...see page 11

leverage our local teams' relationships to access capital across Europe. The professionalism and expertise of the Berlin Hyp team allowed us to conclude this deal in a quick and efficient manner and we now look forward to building a very strong relationship with the bank over the coming years," said Fraser.

Earlier in November, M7 raised over €40m of equity and loan notes for its second mainland Europe fund, with investors include a US-based multi-strategy private equity firm along with a number of existing M7 investors.

The fund, M7 **European Real Estate Investment Partners II (M7 EREIP II)** bought a portfolio of 42 assets in three individual acquisitions, including the **Spring Portfolio** that originated from a non-performing loan. The purchases, from three different vendors, comprise a total of 136,000 sqm of space, and the combined purchase price was over €82m representing an initial yield of approximately 11%, with a vacancy rate of about 25%. The assets are located throughout the Netherlands and comprise a mixture of multi-let office, local retail and light industrial property.

A pan-European investor and asset manager specialised in multi-let real estate M7 Real Estate is a operates in UK, Denmark, the Netherlands, France, Germany, Portugal and Poland. Founded in 2009 and owned by senior managers, M7 manages around €1.5bn of assets and its joint venture partners include **Oaktree Capital Management**, **Starwood Capital**, **H.I.G. Capital**, **Goldman Sachs** and **M&G Investments**.

Germany/Retail real estate

Pramerica and QInvest buy 16-property German retail portfolio

Pramerica Real Estate Investors and **QInvest**, Qatar's leading investment bank, have bought a portfolio of 16 retail properties located across Germany through a newly formed joint venture. The seller is a joint venture of **Hahn Group** and **Indigo Invest**, but the terms of the deal were not disclosed.

The acquisition includes 16 multi-tenant retail assets anchored by major grocery and home improvement retail outlets, comprising more than 140,000 square meters across Germany. The shops, retail parks, home improvement stores, and supermarkets in the portfolio

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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Real Estate Asset Management Report
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are located across North Rhine-Westphalia (5), Lower Saxony (4), Bavaria (3), Saxony (2), Baden-Württemberg (1), and Brandenburg (1). Anchor tenants include **Rewe**, **Edeka**, **Kaufland**, and **Real**.

Hahn and Indigo had bought the package at the end of 2012 for around €140m. Since then, the properties have been modernized and newly rented within the framework of a "manage-to-core" strategy. Pramerica will act as the portfolio and asset manager for the properties.

"The acquisition provides investors with access to long-term income returns through strong underlying leases with major German retailers in proven, diversified, regional markets," said **Sebastiano Ferrante** (*pictured*), head of Germany for Pramerica (which itself is a unit of giant US insurer **Prudential**).

"The transaction provides us with higher yielding exposure with value add upside secured by defensive assets in one of the more robust EU economies," said **Craig Cowie**, head of real estate at QInvest. "We intend offering equity to our shareholders and clients as part of our ongoing initiative to offer value add returns to all stakeholders."

The Qatari group's strategy is to invest opportunistically and 'sector-agnostically' in junior financing and equity in the US and Europe in core, value-add and even greenfield developments.

Qinvest, whose shareholders include **Qatar Islamic Bank**, is an investment bank based in Qatar that describes itself as playing a "key role in the Emirate's international investment plans."

Pramerica now manages more than €700m in German retail property assets on behalf of investors. Worldwide it manages $61.5bn of assets across the whole risk spectrum. On this latest German deal, Pramerica said it was an extension of its strategy to capitalise on strong performance in the basic needs sector in Europe, including grocery and home-improvement anchored projects.

Germany/Mergers & Acquisitions

Vonovia gets green light for full-on Deutsche Wohnen bid

Shareholders in **Vonovia**, Germany's largest residential property company, gave their company the green light this week to go ahead with its bid for Germany's number 2 player **Deutsche Wohnen AG**. Deutsche Wohnen is resisting the takeover, and last week itself signed a deal to buy a €1.2bn property portfolio from fellow-listed **Patrizia Immobilien AG** in a bid to prevent itself being swallowed by its larger rival.

Vonovia CEO **Rolf Buch** said Vonovia would unveil a formal offer for its takeover bid over the coming days. The vote of confidence from his shareholders came when they approved a share issue needed to finance the bid, valued at €9.9bn on a fully-diluted basis and €14bn including debt. A 75% quorum was required, and holders of a more-than-sufficient 78.2% of Vonovia's capital voted in favour of the share issue.

Agreement from at least 50% of Deutsche Wohnen's shareholders is required for the offer to be accepted. Deutsche Wohnen CEO **Michael Zahn** still maintains that the Vonovia offer undervalues his company and that the 50% threshold will not be reached. He described the offer as "unattractive and inadequate" and urged his investors to vote to keep Deutsche Wohnen an independent company.

One of the key attractions to Vonovia of acquiring Deutsche Wohnen is the latter's strong foothold in the Berlin market, where the majority of its apartments are now located, following a series of acquisitions of strong local players over the years.

In January next year, Deutsche Wohnen investors will have to decide whether to accept the offer of seven Vonovia shares and €83.14 in cash for every eleven Deutsche Wohnen shares they hold. Vonovia said earlier this

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In Discussion with REFIRE

5 key pieces of advice for foreign investors in German real estate

REFIRE sat down recently with Dr. Esfendiar Khorrami, founder and partner of the Berlin law firm Bottermann Khorrami Rechtsanwälte, to dicuss ways in which foreign investors can improve their business performance in Germany. It proved to be an enlightening discussion.

REFIRE: *What, in your view, are among the key factors that determine the success of foreign investors in this German market?*

Dr. Khorrami: One key element, in today's market, is the TIMING of a transaction. Investors always underestimate the time it takes to get things done. It's always a lot longer than they expect. Those who succeed keep a very close eye on timing and monitor the work of their advisors or consultants much closer.

Maybe it's a German thing, but I think we often respond better after a face-to face meeting, rather than just correspondence with email. So don't just rely on the phone or mail. Be here.

Foreign investors, medium sized companies, family offices or high net worth individuals often have structures that they would like for investment purposes - offshore entities or trusts, etc. This can cause problems because such trusts are not recognised in Germany as a legal entity, in contrast to other jurisdictions such as the US or the UK.

This can set investors back a month or more, late in the process, while a way is found around the problem of ownership by an Isle of Man or Cayman Island trust, for example.

No German bank will give a loan to such a trust, because it doesn't exist as a legal entity and cannot be registered on the land registry. Either you bring the trustee here to sign the contract in his individual name - which is highly unlikely - or you take steps to set up a German or other entity which is funded by the trust. This can lead to lengthy delays, where investors could lose out to competitors.

This happens very frequently, including with UK investors, who, after all, are European and are not necessarily expecting any hitches like this. The American have had their own problems in recent years with their own IRS, and so are now somewhat sensitised to possible problems with offshore havens.

The second key area of misunderstanding relates to the LOI or Letter of Intent. In effect, these mean very little in Germany – frequently a lot less than the buyer might understand from his own previous experience or his home market. In fact, such an agreement is barely worth the paper it's written on.

For Anglo-Saxons, the LOI is a much firmer concept. But with the German notarial system, an exclusivity agreement doesn't mean anything. You cannot force anyone to sell their property, and the German system on claiming damages is extremely restrictive, with the burden of proof being heavily on the claimant to demonstrate his actual losses. This would likely involve a long court battle, nine months to a year from today, with an uncertain outcome.

We need to frequently warn our clients that the LOI he's clutching in his hand is no guarantee that he's got a full four weeks or whatever with no danger of the vendor talking to anybody else.The potential buyer needs to really understand that time is of the essence, and so assumed expectations of being able to extend the LOI for an extra week or two are frequently misplaced. The consequences of breaching this LOI are just totally different in other jurisdictions, much more punitive.

Other buyers, such as the French, are more familiar with our system because of their own Napoleonic legal tradition, and they're familiar with the need for notaries. But countries such as Ireland, the UK and the US are more used to just exchanging contracts among lawyers, lawyer to lawyer – you don't need a notary, except for very specific functions. You CAN claim damages here, but it's cumbersome and mostly doesn't work

The third barrier to success here is frequently language. The best investors from abroad are not lured into a false comfort zone by the fact that practically everybody speaks English in Germany. For many Germans who speak otherwise very good English, the ability to express very nuanced aspects may be beyond them, and they may omit to explain or express some element that might prove to be material for the buyer.

So, get mother-tongue professional assistance from the very beginning of any transaction, and you'll get a more profound understanding of what might turn out to be issues in a deal.

These days, nearly ten years on from the boom years, even newer entrants to the German market ar pretty well aware of the mechanics of the actual real estate deal in Germany, in terms of the asset category, the asset itself, due diligence, and the financing. In my view, and in our day-to-day experience, much the trickier area is the approach to the transaction itself, which requires a specialised knowledge and well-tuned listening skills to get from the starting point to completion.

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Are you seeing many new buyer groups now?

Yes, we're seeing a steady stream of new buyers from new markets. Asian buyers are now very strong, originally expats from Hong Kong and Singapore, but now it's mainland Chinese buyers. Also active are Israeli buyers, many of whom will look to team up with other Israelis experienced in the German market. And of course, many UK buyers, bolstered by a strong currency which now goes a long way here.

The fourth key challenge is the area of construction. Many foregin investors are now moving away from the straightforward core investment process of just buying a core asset and holding. They're now looking at core plus, they're looking to enhance the asset. These are things they know well from home. This means dealing with architects and local building contractors here in Germany, which can be tricky.

Here in Germany the architectural legal environment is more complex than in other countries. Despite submitting a fee proposal, an architect's fees can explode if unforeseen elements arise in the proposed conversion or refurbishment. If materials increase in price during a job, or rotten beams are discovered which weren't spotted on the first examination, then the architect's fees can easily move up in tandem. It's difficult for an investor to complete his financial due diligence if he doesn't know what his final costs are going to be. Addressing these issues early is vital to avoid being caught out afterwards.

Some of our experienced clients are therefore hiring their own local architects and keeping them on the payroll to look after all their German interests. They'll work 40 hours a week troubleshooting all sorts of areas and nipping problems in the bud. That way the investor stays on top of thing and avoids nasty surprises.

The fifth challenge is finance. Finance is widely available in the German market at the moment. Banks are still eager to lend, as long as the deal is not over-geared. The timing to get to a binding term-sheet is, however, still very long. As always, investors have better chances if they have the financing capacity to sign the deals in advance of having specific financing for the asset, and can afford to resolve the financing issue later.

So, get either lawyers or financing advisors involved from an early stage to bring in a number of offers, which can keep investors' options open. Don't assume that because you've talked with their branch office elsewhere that you're going to get the financing from that bank for that specific asset in Germany. It might not fit with the bank's local structure, risk strategy or lending profile when you come to talk to them here.

The foreign banks have pretty much all withdrawn from local lending in Germany. Many are still registered here but are not active. We recently got a loan offer for €10m at 1.45% over seven years on a 52% gearing– there's no way a foreign bank could come into this market right now with all their additional costs, and be competitive with that. So start talking financing with local sources very early.

month that this is its final offer. It has also said that it may not go ahead with the deal if Deutsche Wohnen were to buy 'material assets' in the meantime, which the €1.2bn of Patrizia apartments clearly is. Vonovia CEO Buch said his company was happy to continue with its bid as offered, irrespective of the new holdings, which it described as "simply an attempt at a defensive measure".

For the Patrizia deal, Deutsche Wohnen said that half the financing would come from its existing liquidity, with the other half coming from bank loans. It said the deal would close "in the coming months."

Underlying the latest takeover bid, after nearly two years of frenetic deal-making, capital-raising, and mergers and acquisitions in the residential sector, are rising property values, rising rents and ongoing domestic and international investor appetite for exposure to the sector.

Vonovia owns and manages 370,000 residential units across Germany, following its takeover of its erstwhile largest rival **Gagfah** in January this year. Deutsche Wohnen owns 147,000 apartments, the majority of which are in Berlin. Together a merged entity of the two would generate more than €2bn a year in rent-roll, and would have a market capitalisation of more than €20bn, placing it just behind the Franco-Dutch group **Unibail-Rodamco** among the largest European property companies.

REFIRE: *A number of commentators have suggested that the deal between Deutsche Wohnen and Patrizia for about 13,500 apartments, mainly located in Berlin and Kiel, might nonetheless force Vonovia to go back and revise the premise of its offer, and might even kill off the takeover bid if it ultimately refused to increase its offer terms to Deutsche Wohnen shareholders. As many of these shareholders hold stakes in both firms, their interests may be divided and they may switch loyalties if the numbers really don't add up.*

Germany/Residential

Grainger accelerates German exit with sale of JV with Heitman

The UK-listed residential property investor **Grainger plc** and its partner **Heitman** from the US have sold their joint venture German housing portfolio (**MH Grainger JV Sarl**) to the giant housing group **Vonovia** (ex-**Deutsche Annington**) for €136m.

The sale of the portfolio of 2,500 units represents a further step towards Grainger's exit from the German market, after it put its own solely-owned assets on the market in September.

According to outgoing CEO **Andrew Cunningham**,

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the timing is opportune for Grainger. "Having taken advantage of the strong investor appetite forGerman residential assets, this transaction is evidence of further progress in our objective to simplify the business, enabling Grainger to focus resources on its core competencies and recycle capital into growing our UK private rented sector portfolio."

For the Newcastle-headquartered Grainger, which is the UK's largest private landlord, the sale of its 25% stake in the JV will result in about €48m gross including performance-related compensation, and the group estimates the expected pre-tax earnings to be €16mn. Grainger has been the asset manager of the portfolio for the JV. They also state that the IRR for the four-year joint venture is 42%. The sale is expected to be final by year's end.

In 2012 Grainger sold the Chicago-based Heitman 75% of its then 3,000-unit German portfolio valued at €232m, including outstanding debt. The properties are nealy all based in western Germany.

In March the company reported it had 2,814 managed, market-rent units, valued at €197m, in Germany. These are up for sale, along now with the units in the JV with Heitman.

Recent reports from the UK suggested that activist investor **Crystal Amber**, a Guernsey-based fund with a record of targeting small-cap companies and which holds a 3.2% stake in Grainger, has been pressurising the group to refinance its debt and seek a takeover by an institutional investor. Grainger's shares have long traded at a discount to their net asset value, in contrast to most of their listed peers in London, which trade at a premium.

Crystal Amber was quoted as saying it believes there is hidden value on Grainger's balance sheet because of its ownership of properties valued at below their open market sale price. Grainger owns £1.5bn of rent-controlled homes in the UK, and a further £1.1bn of homes rented at market rates, many of which are in London and the southeast, where property prices have risen strongly.

In its full year results to end-September, Grainger reported recurring profit of sterling £41.2m , down from £47.1m a year ago. Gross net asset value per share rose 9.7% to £3.19.

Grainger was in the headlines in the UK recently for becoming the first FTSE company to appoint women to its three most important board positions, with new CEO **Helen Gordon** succeeding Cunningham next month, **Vanessa Simms** taking on the role of finance director, under the supervision of the company's chairman **Baroness Ford**.

Germany/Listed Companies

ADO Properties sees doubling of FFO after acquisition spree

Four months after its stock exchange public listing, the Berlin-based housing investor **ADO Properties** presented its figures for the first nine months showing a doubling of funds from operations FFO to €22m after its recent acquisitions, and indicated that it had signed deals on a further €150m which would be concluded before year end.

The company, which invests exclusively in Berlin housing, has increased its average in-place rent per month to €5.75/sqm, reflecting an average annual rental growth of 6.5% on a like-for-like basis. The vacancy rate dropped 3%, like-for-like, and currently stands at 4%. The bottom line shows pre-tax earnings of €15.3m (Q1-3, 2014: €9.9mn).

According to CEO **Rabin Savion** (*pictured, right*), "We can confirm our FFO guidance of €30m for the financial year 2015. Including the new acquisitions we are expecting to close in 2015, we expect an annualised FFO run-rate of €39m… After our IPO we promised further growth of our portfolio and since then we have signed five acquisitions adding more than 1,200 units to our portfolio which will positively influence our results from next year."

At the end of September, ADO Properties owned 14,600 apartments in the capital valued at €1.2bn, up from 6,600 at the end of 2014. The company's LTV

ratio is 41.8%, and its net asset value is €20.54, while the share price is trading at about €24.70. (The company listed at €20.00 in July, generating€200m for the company). The Tel Aviv-listed **Ado Group** remains a 40.7% shareholder in the German group.

Germany/Listed Properties

Listed Grand City Properties boosts profit, FFO

Fast-growing German listed housing firm **Grand City Properties** posted a nine month increase of 65% in both net profit, to €286m, and funds from operations FFO, to €88m, boosted by strong portfolio growth and lower financing costs.

The company recently bought several new residential portfolios totalling about 5,000 units throughout North Rhine-Westphalia. The transactions came to €170m, with the portfolios generating annual rents of €15m. The portfolios have a 15% vacancy rate, which suggests sizeable upside potential for Grand City, which specialises on such turnaround opportunities.

The Luxembourg-headquartered company has grown its portfolio to 76,000 residential units valued at €3.77bn, up from 43,000 units at end-2014. "The newly acquired properties make a large contribution to the diversification and quality of the portfolio while maintaining high upside potential in terms of rent, occupancy and efficiency improvements," said Grand City in a press statement.

At end September portfolio vacancy was at 12.5%, and average rents at €5.30per sqm per month. Grand City also reported equity doubling to €2bn, taking the equity ratio to 44% from 40% at year-end 2014. The firm raised €1.2bn through several bond, equity and perpetual hybrid note issues over the first three quarters, and had €609m of liquidity available for investment. EPRA net asset value rose to €1.94bn from €1.44bn at the end of last year.

"We have exceeded our internal targets," commented CEO **Christian Windfuhr**. "With abundant firepower and a strong operational platform, we enter into the final quarter of the year from a good standing point and with the expectation for a successful year."

Germany/Retail real estate

Ireland's Greenman adds €26m centre to retail fund

Ireland's **Greenman Investments** has bought the StadtGalerie in Datteln, North Rhine-Westphalia, for its **"Greenman Retail+"** fund, in a share deal. The deal is the third this year for the aquisitive Dublin-based fund manager, which is specialised on the German *Fachmarktzentren*, retail parks and hybrid centre market.

The investment volume for the 10,000 sqm of rental space in the hybrid shopping center amounts to €26.4m. The center has 20 tenants - anchored by grocer **Rewe** with 24% of the floor space, followed by **C&A** with 15%. The property was sold by a joint venture of **Concepta Projectentwicklung** and **Black Horse Development** (both from Düsseldorf).

Hybrid centres range in size between specialist retail parks ("*Fachmarktzentren*") and larger retail centres. They are typically anchored by a large food retailer, and cover the entire range of food, near food, and non-food needs. Centrally located in small and medium-sized towns they cater for demand from the surrounding areas not served by large shopping centres.

Datteln has about 34,000 inhabitants and is near to the city of Dortmund. The *Stadgalerie Datteln* is in the heart of the town on its busy Neumarkt Square, which Greenman CEO and co-founder **John Wilkinson** describes as a major benefit of the property.

In a separate joint venture deal earlier in April this year, Greenman bought 29 **EDEKA** stores with a volume of €95m for one of its funds. In that transaction, as in this latest deal, Greenman was advised for the sale by Berlin law firm **Bottermann Khorrami**.

Greenman, which was set up in 2005, structures funds under its Luxembourg SICAV platform for Irish private wealth investors and European institutional investors. The company currently manages a portfolio of around €279 million comprising of 50 assets with a total rental space of some 181,000 sqm throughout Germany.

Germany/Financing

LMA launches German single currency document for transactions

The **Loan Market Association (LMA)** gathered for the second year in a row in Munich on 24th November for its **Munich Real Estate Finance Conference**, attended by over 180 finance professionals.

Among the LMA's key objectives is the promotion of syndicated loan products in the EMEA region, and its Munich event real estate event focuses on the opportunities and challenges facing the German real estate finance market.

Apart from a wide-ranging programme of presentations and panel discussions, the LMA launched its new German law real estate finance document – a new recommended form of euro currency term facility agreement under German law, intended for use in real estate finance multi-property investment transactions to be documented under German law.

The documentation project was begun in response to demand from German participants for a German law governed form of real estate investment facility agreement for the German real estate finance market (including the German Pfandbrief market), in much the same way as the LMA provided facility agreements for the real estate finance markets in England and Wales and Scotland.

The German document uses the same basic structure and "boilerplate" as the LMA recommended form of facility agreement for the German law investment grade market or, where relevant, the English law real estate finance documentation. It was put together and agreed by an experienced working party, consisting of representatives from major German and international banks (including Pfandbrief banks) and German law firms. The document also sets out drafting options to determine suitability of the facility for registration in a Pfandbrief bank's cover register (*Deckungsregister*).

Commenting on the document, **Clare Dawson**, LMA chief executive, said: "Real estate finance forms a significant part of the syndicated loan market and is a key contributor to economic growth. The LMA remains committed both to fostering REF liquidity and assisting its members who are active in the market. We hope that the addition of a German law real estate finance facility agreement to our existing suite of REF documents will lead to more efficient and productive negotiation of documentation."

"The new German REF Document demonstrates our commitment to expanding our documentation library in the real estate sector and is representative of the LMA's increased activity in this area of the market. Following a significant rise in both overseas and non-bank investment in the German commercial real estate market, we hope that the document will contribute to attracting new entrants to the market."

Germany/Financing

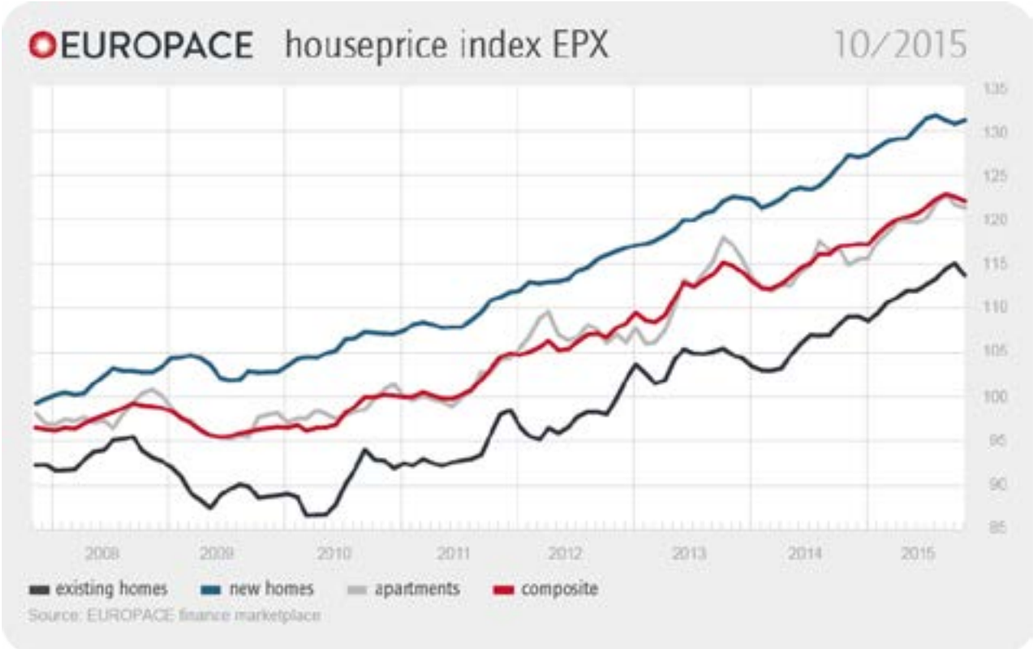
More debt funds expected in the 60-80% LTV space

The loosening of the regulatory framework since May of this year by Germany's financial watchdog **BaFin** has led to a growing interest among investors in both setting up and availing of debt funds as an alternative source of real estate financing, according to the Hamburg-based consultancy group **TPW**, a division of **Baker Tilly Roelfs**. The most potential is seen for funds concentrating on the tranches between 60% and 100% of the LTV ratio.

The TPW study concludes that tranches below 60% of LTV, the senior tranches, are only of marginal interest for debt fund providers, as the interest rates at this level are simply too low; the yield perspective for investors buying in at that level are unattractive.

At 60% to 80% there is less lending available, with many of the traditional lending banks much more reticent to lend due to their **Basel III** commitments. However, here is where there is a lot of demand, and because of the higher risk at this level, yields are also higher than with senior tranches.

According to **Martina Hertwig**, a partner at TPW in Hamburg, "We estimate that fund investors – depending on their risk tolerance – can achieve IRRs of between 8% and 15%. Debt funds here in Germany are not really competing directly with the banks, but rather are a complimentary vehicle to bank financing, and help to fill in the gaps that have emerged



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on the financing landscape since Basel III. We're expecting to see more debt funds and banks working together, with maybe the bank taking on the senior tranche and the debt fund taking the tranche at 60% to 80% of the LTV.

There are a number of arguments in favour of institutional investors getting into debt funds, says TPW. Among them are the huge number of investors looking for acceptable yields. For insurers, there are benefits of investing in debt funds rather than holding real estate directly, as a result of the Solvency II legislation. While investments in real estate held directly require 25% equity capital, they can invest in debt funds for about half that.

Previous BaFin regulations had made it complicated for investors to access the market for debt funds, but these have been considerably loosened since May. Debt funds can now make fresh loans, restructure, or prolong existing loans far more easily.

Aykut Bussian, head of fund solutions at TPW, says "Because of these changes we can now really expect that debt funds are likely to play a more significant role in future. We've already seen how in other countries – particularly in the USA – this has already happened. Numerous new funds have come to Europe since 2013 – according to Scope there were already 53 funds set up here in June 2015, of which nine were set up in the first half of this year alone. These 53 funds are targeting total capital investment of €33.8bn."

Germany/Industrial Real Estate

Sirius Real Estate profit up on strong workspace demand

We've been keeping a watchful eye on the improving AIM-listed **Sirius Real Estate**, which owns and operates self-storage facilities, business parks, industrial complexes and offices across Germany. The company said its pretax profit rose in the first half of 2015 thanks to property revaluation gains, but its like-for-like profit also improved amid good demand for its workspace.

Pretax profit for the company, including gains made on the revaluation of the property in its portfolio, rose to €28.3 million in the six months to the end of September from €15.3 million a year earlier. Like-for-like recurring profit for the group, however, also rise, up to €6.9 million from €5.1 million amid good demand for its properties.

Sirius said its like-for-like gross annual rent roll rose to €50.1 million in the half from €50.0 million, as strong demand for its workspace helped offset a higher-than-usual number of tenant moves in the period.

The total valuation of the company's portfolio rose to €615.2 million from €550.0 million in the half, while the company's net asset value per share increased 5.5% to €50.13 as of Sept. 30, compared to €47.51 at the end of March. Sept. 30 marks the first six months of its 2016 fiscal year. The company is paying an interim dividend of 0.92 cents per share.

In its recent statement, Sirius said it is rolling out a capital-expenditure program to increase the amount of leasable storage space across its real estate portfolio. The company's **Smartspace** offering includes self-storage and office space targeted primarily at small businesses.

"The most significant element of our capex investment initiatives is the transformation of difficult space into our Smartspace products," CEO **Andrew Coombs** told analysts during a conference call. Rentable space under the Smartspace service begins at 4 sqm.

As of Sept. 30, the company had converted 74,235 square meters, or 6.7% of leasable space, across the company's holdings into rentable Smartspace. "We would expect this to increase to closer to 8% after the completion of the capex investment initiatives," Coombs said.

Demand for office space by small businesses and self-storage from commercial and residential tenants is rising across Germany. Coombs indicated facilities converted to Smartspace office and storage has exceeded €9 per square meter in its core markets. "The demand for both these offerings is very pleasing, and generally, 12 months after the space becomes ready to let, we are consistently seeing these become more than 90% occupied in our core locations," he said.

Sirius Real Estate operates a diversified property portfolio across Germany with more than 1 million sqm of leasable space. The company specializes in business parks but also offers portable-storage containers, flex office and warehouse-storage space as well as more traditional office and self-storage services through **Sirius Facilities GmbH**. Sirius Facilities operates 38 commercial locations, along with its primary self-storage product Smartspace.

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

Untapped potential

www.valteq.de

In times of low interest rates and continual high demand in the metropolitan regions, it is becoming ever more difficult for investors to find investment opportunities that offer a good balance of security and yield. When supply becomes scarce and yields are falling, there are not many options available. However, investors should not forget that many investment opportunities remain untapped.

A study conducted by CBRE, VALTEQ's parent company, revealed that substantial savings potential exists just in the real estate managed by German DAX 30 companies alone. How substantial? Almost 30 billion Euro, if one also includes the operative costs that buildings give rise to. In this regard, the 30 billion Euro accounted for by DAX companies are by no means the end of the story. Germany is a country shaped by its medium-sized enterprises, which account for the lion's share of the domestic net product. The savings potential available here is likely to be yet another enormous amount, as many medium-sized enterprises also own the real estate the companies use. The upkeep of their own real estate does not pay off for many over the long term – in the worst case, a loss is generated. This is primarily down to a lack of expertise with respect to the optimisation of operating costs in the wider sense. There is often a need for optimisation over the entire life-cycle of a property; from energy-savings potential, through spatial optimisation, and right up to ongoing operation.

So, why am I telling you all this? Because the potential that lurks behind these matters is one which is of great interest for companies, investors and service providers, such as VALTEQ. Investors can attempt to make targeted approaches to companies and to invest in their real estate assets. In the ideal scenario, both parties benefit from investments of this kind. The investor can take satisfaction from the secure cash flow brought about by a solvent tenant, while the company enjoys the benefit of reduced costs for its business space. Furthermore, investors have the huge advantage of not being restricted to just prime locations when searching for profitable real estate opportunities. In terms of how its companies are distributed, Germany is a very heterogeneous nation. Many of the global market leaders are not based in major centres, such as Berlin or Frankfurt, but rather in small and medium-sized centres with good infrastructure. It is this which also makes investment in regional space interesting. So be courageous and bank on the German mid-sized sector.

Sponsored Statement

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:

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Germany/Research

Cash flow into German funds, listed companies at record levels

The flow of money into German listed and non-listed indirect real estate investments over the first nine months was €13.9bn, an increase of 42% year on year, according to a new report from capital markets advisory **Barkow Consulting**. This is the highest amount since the onset of the financial crisis.

According to CEO **Peter Barkow,** "Indirect capital flows are up for a post-crisis record year compensating for the weak closed-end funds market. The previous post-crisis record was in 2013 with inflows of €17.3bn.

The third quarter saw inflows into German listed companies of €1.1bn in equity placements. Barkow says Q3 is usually heavily depressed by the holiday season. The previous strongest Q3 was in 2013 with only €0.6bn.

Over the first three quarters of this year, equity placements – including IPOs and capital raisings of all kinds - came to €5.8bn, already exceeding by 25% the full-year 2014.

Although €310m of equity has already been placed in Q4, Barkow said he expects much less activity than in the previous three quarters because of a more challenging IPO environment.

In the open-ended funds sector, nine-month net inflows amounted to €2.6bn, a rise of 49% year on year, despite the large number of German open-ended funds currently being wound up. "Public OEFs continue their turnaround with inflows for the first nine months slightly exceeding average post-crisis inflows of €2.4bn. Nonetheless, reaching pre-crisis levels of up to €22bn annually still seems an unlikely scenario at present," said Barkow.

Germany/Study

Insurers need to raise real estate quota to over 10% - study

It makes sense for most insurance companies to take on a greater degree of exposure to real estate despite the introduction of the **Solvency II** regulations concerning equity capital, concludes a recent study jointly carried out by **IREBS** and private group **Corestate Capital**.

The study looked at property allocation among European insurers and found that yields are attractive and risk is relatively low for both direct and indirect real estate investment. The stable, long-term rental yield and value growth potential, in particular, make the asset class attractive, concludes the study.

The introduction of the Solvency II regulation was designed to improve investment risks. But the regulation, combined with the low interest rate environment, has changed investment strategies among insurers, which previously focused on buying government bonds. Even though high equity provisions are required for alternative assets such as property, investments in the sector are indispensable, the study says.

According to **Professor Tobias Just**, the head of the IREBS which is part of the **University of Regensburg**, "Our study analysed yield opportunities and risk assessment across the different asset classes for the entire European property market, with a view to portfolio optimisation for insurers."

An efficient portfolio needs a property quota of over 10%, he said, while the current sector average ranges only between 4%-6% at the moment. In Germany, several insurers with very large capital bases have investment exposure to real estate of often as low as 0% and 2%, the study shows.

Corestate Capital's CEO **Sascha Wilhelm** commented, "Solvency II is distorting risks. Investments into property are assessed as too high-risk compared to other asset classes such as stocks or bonds. One reason for that is the base data used for Solvency II, which only looks at the UK market; another is the fact that the low correlation between property and other asset classes has not been sufficiently considered."

Europe/Study

Performance in European non-listed funds slows in Q3 - INREV

European non-listed real estate funds continue to deliver positive performance in the third quarter of 2015 albeit at a slower pace than the previous quarter, according to the results of the **INREV Quarterly Index** for Q3 2015.

The index returned 2.27% in Q3 2015 compared with 2.60% in Q2 2015. On an annualised four quarters rolling return basis performance for non-listed funds was 9.37%, which is among the highest in the history of the INREV Quarterly Index since its inception in Q1 2010. The main driver of performance in Q3 2015 was the capital growth component, which was 1.45% compared with a modest 0.82% for income return.

The slowdown in Q3 performance was seen across both core and value added funds. Performance of core funds decreased slightly to 2.16% for the quarter compared with 2.35% previously, while value added funds returned 3.12% for Q3 2015, down from 4.50% previously.

Conversely positive performance can be explained in part by the performance of Dutch funds, which achieved returns of 3.24% for Q3 compared to 1.51% for Q2 2015. This is largely attributable to strong positive performance from funds investing in the residential sector. The positive momentum was echoed in Germany, where funds returned 1.93% up from 1.07% in Q2. Meanwhile the UK market delivered a return of 2.74% for Q3 2015, compared with 3.38% previously.

Southern European funds delivered 6.60% in Q3 2015, a big pick up compared to the 2.74% seen in Q2 2015.

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Western European funds performed 2.53% for this quarter, compared to 2.68% previously. With a total return of 3.57%, industrial / logistics was the best performing sector for Q3 2015, followed by residential at 3.48%, office at 2.58% and retail at 1.94%.

Commenting on the key take-home message of the third-quarter figures, INREV's director of research **Henri Vuong** said, "Despite a slight slowdown in performance in comparison to Q2, the Q3 results show that the non-listed real estate sector continues to perform strongly. Southern Europe is an interesting story. There has been growing investor appetite for this region, especially from the US, and these performance figures support the prospect of further investment in this region."

Germany/Study

German office yields sinking faster than expected

Market expectations for peak yields in German office property are being progressively corrected downwards, and are set to breach record lows next year, according to a new study by the **German Society of Property Research (gif)** and the **Center for Real Estate Studies CRES** of the **Steinbeis** private university in Berlin, based on a survey of professional researchers.

Office yields in Germany's top five cities are set for record lows next year at 4%-4.4%, and even below the 4%-mark in Munich. The new figures are even lower than the gif/CRES survey results from May 2015.

The forecasts for vacancy reduction are also more favorable, especially for Munich and Frankfurt. In Munich, a fall of 100 bps is expected from a gross 6% vacancy rate, so that the city could then effectively proclaim "full occupancy."

Prime rents remain stable in 2015, apart from Berlin, where experts forecast a 3% increase and another 1.2% gain next year. Frankfurt tops growth expectations for 2016 at +2%, followed by Munich and Düsseldorf with +1.5%. Only Hamburg is not expected to show rental gains. "With growth rates between 1% and 2%, rental markets show no signs of overheating yet," commented **Felix Schindler**, professor at CRES.

Speaking recently at a gathering of industry professionals, JLL Deutschland's international director **Timo Tschammler** said yields are being driven lower by huge capital inflows – both from European direct investors and foreign buyers working with managers. JLL is forecasting €55bn of deals in Germany this year, which would surpass the prior level of 2007, after volume reached €38.2bn by the end of the third quarter.

Tschammler expects prime office yields to fall under 4% in other German cities in 2016, averaging 25-35bp across the top seven urban centres in Germany. But he also expects more contraction in assets such as logistics where yields for prime have fallen sharply to 5.25%. "I would not be surprised to see sub-5% yields in logistics – perhaps not by the end of the year but certainly in the first quarter of 2016," he said.

Separately, the JLL quarterly **Victor Index**, which tracks the performance of prime offices in Germany's major business cities, showed prime office prices rising by 2.5% in the third quarter, boosted mainly by a strong performance in Berlin.

According to **Ralf Kemper** (*pictured, above*) JLL Deutschland's head of valuation and transaction advisory, "Germany as a secure location, underpinned by positive fundamental data for property as well as the general economy, is furthering the strong engagement of German and international investors. Among institutional investors, the property share has risen significantly over the past years from below 5% to up to 10% now, a mark we expect will be surpassed in the medium term."

Berlin is proving particularly attractive for investors, with a buoyant rental market and investors' belief in further growth potential. "The Berlin market is especially attractive for technology and start-up firms due to its innovative environment," said Kemper, adding that this was having its effect on yields.

Of the other large German cities, Düsseldorf gained 2.7%, Hamburg 2.5%, Munich 2.3% and Frankfurt only 1%. There may yet be higher growth in the other cities over the last quarter, however, said Kemper, due to the still-low financing costs, which could bring prices and yields close to the peak year of 2007. Total return across the cities rose 12.1% from 9.4% in 2Q15. Here, performance was driven by Munich which posted 16.3%, followed by Berlin (+14.4%), Frankfurt (+11.8%), Düsseldorf (+8.6%) and Hamburg (+8.1%).

Germany/Acquisitions

Curzon buys Frankfurt's Garden Tower, Cornerstone co-investor

Curzon Capital Partners IV (CCP IV), a core-plus fund advised by pan-European real estate investment manager Tristan Capital Partners, has bought the *Garden Tower*, (*pictured*) a prominent 27,500 sqm multi-tenant office tower in Frankfurt's banking district for €175 million. The German management team at **Cornerstone Advisors** is co-investing in the deal with Cornerstone handling asset management.

The Garden Tower is 126 metres tall and consists of 27 floors above and five below ground, built on a site of around 2,141 sq.m. The building was constructed between 1973 and 1976 as the headquarters of Landesbank Hessen-Thüringen (Helaba) before the bank moved to the nearby *Main-Tower* in 1999, and was one of the first high-rise buildings in Frankfurt's financial district.

During 2003-2005 under the planning of **KSP Architects**, the tower was stripped back to its concrete skeleton and contemporary building services were fitted, a new glass façade and interior fittings were installed. When it reopened in 2006, Garden Tower qualified for a "Very Good" BREEAM green building certificate.

The building serves as **Société Générale's** headquarters in Germany and the bank occupies the 11th to 16th floors, while investment advisory group Deutsche Vermögensberatung AG is the second largest tenant. Other tenants include **Cerberus Capital Management**, **Huxley Associates**, **The Bank of New York Mellon** and **Frankfurter Sparkasse 1822 Private Banking**.

As in the past, the management team of asset management and repositioning specialist Cornerstone Real Estate Advisers has co-invested alongside CCP IV, similarly to several other previous deals in Germany by other funds advised by Tristan.

Germany/Student Housing

Rising German student numbers adding to housing pressure

House prices in Germany's leading university cities are coming under pressure not least from the rising numbers of students in the country's centres of learning, according to a new report by Berlin-based property developer **BGI AG**.

For the coming winter 2015/16, a total of 2.7 million students are registered, a rise of 2.2% on 2014/15, based on figures from the German **Federal Office of Statistics**. This is helping to push up prices, with cities such as Freiburg, Tübingen,

Aachen, Giessen and Marburg particularly affected.

The number of markets defined as "tight" for housing has risen from last year's 32 to 39 this year, with 19 cities having "acute difficulties" in finding adequate accomodation for their student population, a rise from the 13 such cities recorded in previous years.

According to **Stefan Brauckmann**, the head of research and analysis at GBI AG, "The figures from the Statistics Office show that young people have not been scared off by the scarcity of housing in choosing their university for the 2015/16 winter semester." This is evidenced by the higher-priced university cities such as Hamburg, where a student room in a communal house costs €420 per month, the highest in the country (behind Munich) and €10.00 higher than last year. Nonetheless the number of students registered for the new semester is 2.8% higher than last year.

In Bavaria the price for a room is €405, with Munich costing €510 per month, although the Statistics Office confirms that the number of students in the state is up 2.6% on last year.

In Germany's eastern states, where rents average €260 in the larger states, student numbers fell, especially in Thuringia. Potsdam at €310 is an exception, due to its proximity to Berlin. "The gap between the popularity of universities is widening," said Brauckmann. Over the past 10 years, North Rhine-Westphalia registered the strongest growth in student numbers, up by 58%, ahead of Saarland (55%) and Hesse (49%).

At present a framework for more student housing development is lacking in most university cities, he said. "Due to building restraints it is cheaper to construct large flats rather than student apartments."

The GBI study analysed all 87 cities in Germany with universities with more than 5,000 students enrolled, and found that supply for students is especially tight in Munich, Frankfurt, Hamburg, Stuttgart and Cologne. New cities entering the ranks of "difficult" this year are Aachen, Bonn and Düsseldorf.

GBI is a 50/50 joint venture between the **Moses Mendelssohn Foundation** and the Düsseldorf–based **Frankonia Verrmögensverwaltung GmbH**. Previous and planned developments include 48 hotels, serviced apartments and student residences with 9,426 rooms and apartments, as well as 246 housing units. The group has invested nearly €1bn, and has 400,000 sqm of gross lettable space under management. Its hotels include economy, budget, design and long-stay projects in cities such as Frankfurt, Berlin, Hamburg and Nuremberg, while its **SMARTments** brand builds and operates student apartments, serviced apartment and city apartments.

Meanwhile, the Manchester-based student accomodation specialist **Crosslane** said it plans to boost its German holdings to 10,000 units over the next five years after identifying real potential in the asset class in Germany. It currently has only 500 units in the German market.

With the shortage of small affordable flats in German cities, allied to increasing numbers of foreign students drawn to German universities by very low fees, new Crosslane CEO **Matthew Ryall** said, "The offer-demand gap makes a strong case for investment into Germany. Investments in student housing assets can achieve attractive, stable yields and reduce portfolio volatility," he said. "Compared to micro-apartments, student properties are far less susceptible to economic developments."

Another company beefing up its involvement in the sector is Dutch group **Bouwfonds**, the real estate subsidiary of Dutch cooperative bank **Rabobank**. The group's **European Student Housing Fund** had a final closing this year and is fully syndicated with equity of €240m, of which around €140m has been drawn down. A second student housing fund is planned and Bouwfonds already holds 24 developments worth around €430m, with 6,000 residential units in Germany, France, the Netherlands and the UK.

Germany/Retail real estate

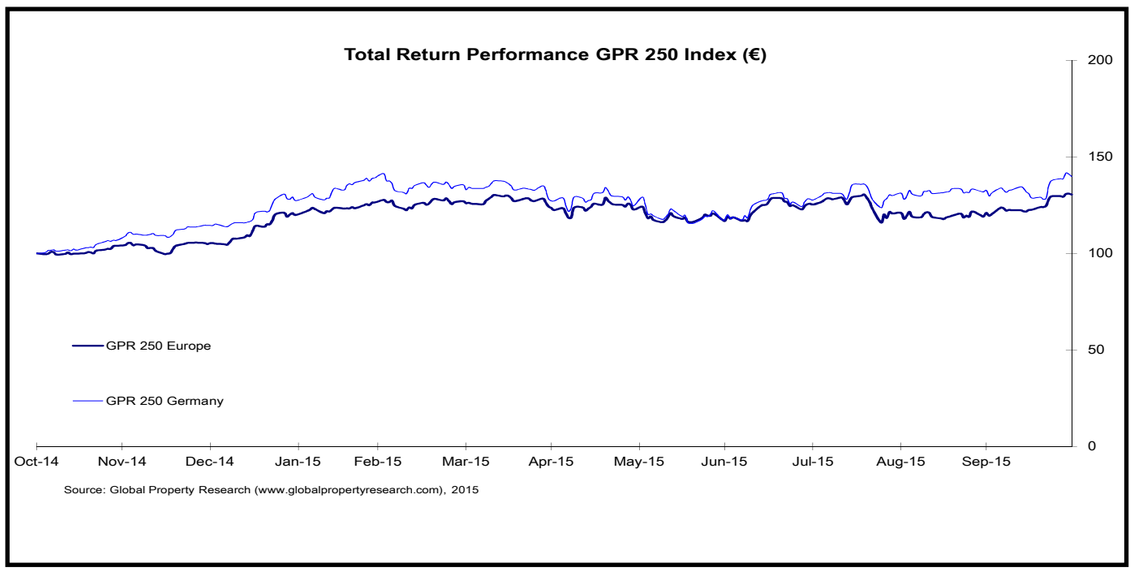
GPEP expands Netto portfolio with €30m, 17-store deal

The Frankfurt-based opportunistic asset manager **GPEP** and its partner **Universal-Investment** have added to the portfolio of twelve **Netto** discount supermarkets which they originally bought in March for a Universal *Spezialfonds*. They have bought a further 17 Netto stores and an Edeka store for a price thought to be around €30m.

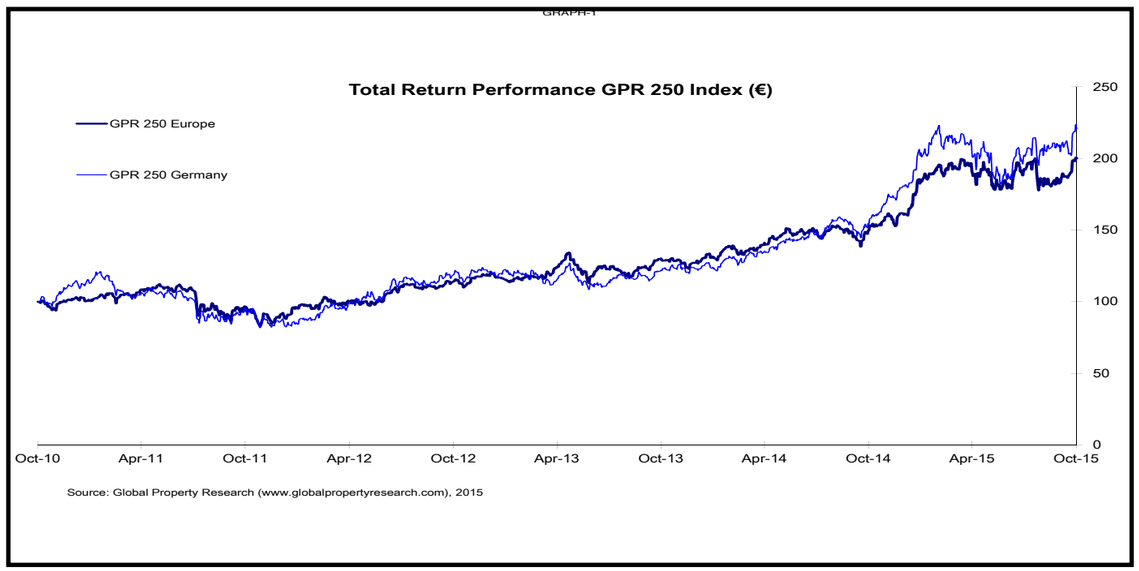
14 of the Netto stores and the Edeka store were sold by Edeka marketing subsidiary **Marktkauf**, each with a 15-year lease duration, and which had been renovated and refurbished by Edeka's **CEV** division, including adding such improvements as a bakery store-in-a-store and additional parking. The total lettable space is 20,360 sqm. Most of the stores are located in Bavaria, Lower Saxony and Saxony. The selling agent acting for the Edeka group was **JenAcon GmbH**, as in the earlier March transaction.

GPEP also bought three further Netto stores in Berlin, Halle and Arnstorf, with a total of 3,200 sqm, and of which the Berlin and Halle stores were sold by developer **Hoepfner BauInvest Plus**, a subsidiary of the Karlsruhe-based brewer **Hoepfner**. The Netto store in Arnstorf was sold by **Morris Immobilien**.

The *Spezialfonds* is set up and managed by Universal for an occupational pension fund, and focuses on downtown office and retail properties. Univeral handle the funds structure and administration, while GPEP look after the portfolio, property and asset management.



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



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 (12)

SERIES: The German Real Estate Market: Compiling a Rating is the Key to Rate of Return

Welcome to the finale! This column brings us to the end of our overview of the characteristics of the German real estate market. We are now well acquainted with the dynamic method for calculating rate of return. However, there is one last matter to consider: real estate ratings.

In the last two columns that appeared we demonstrated that the external financial reporting that is common in Germany provides important figures that are used in the dynamic method to determine the return possibilities of a real estate investment. At first glance it would seem that all information necessary for a real estate investment has been compiled and analysed: the value of the real estate is known and the investment is presented on the balance sheet level.
The classic methodology of property valuation concludes its work at this point. The discounted cash flow method is most certainly an effective way of presenting a real estate investment as a business case, however, its area of application ends there. As we have already determined, all procedures ascertain the actual value of real estate. Yet they do not provide any help in regard to a potential decision to buy. Two essential questions remain open:

1. How long should real estate be held before being resold?
2. Is the purchase advantageous if one takes into account the complete investment cycle, including purchase, management and resale?

In determining the optimal investment period all projected cash flows and other values that are used in compiling profit and loss accounts, balance sheets and cash flow statements must be taken into consideration and a business case must thereby be prepared. Yet when one is speaking of a specific business case, this is not correct.

This is because the calculation of an optimal investment period requires that each holding period be treated as a unique case. Only thus is it possible to adequately take into account the various cash flows for the period of management and the time and amount of the projected resale values. In this second stage the results provided by each business case must be compared. We have chosen the internal rate of return (IRR) as our method. This enables one to arrive at a different internal rate of return for any resale time. Using this decision-making criterion, one can also determine when the property is to be resold so that the invested capital is being used efficiently. Once this point is determined the investment has been fully defined. In the final step it is only necessary to rate the investment. Stated differently: what risk is associated with the return to be realised?

In practice there are various approaches to rating real estate. None of them have as yet firmly established themselves as the leader. The main reason for uncertainty in regard to rating real estate is the non-transparent procedure involved. More specifically, there is no agreement as to how real estate ratings must be structured and what information they are to provide. The dynamic rating that is presented here is therefore not a rating in the sense of a credit assessment, but rather the classification of property on the basis of the chances and risks of an investment, which thereby assesses its quality. The goal of a rating is to determine if it is advantageous to purchase a certain piece of property. The first criterion in this regard is the opportunity offered by an investment. This is determined, as described above, by ascertaining the optimal resale point by taking into consideration all payment flows over the entire investment cycle and the internal return therefrom.

Such a decision can generally not be made solely on the basis of the internal interest rate. The reason therefor is that estimations and assumptions must be made concerning the future development of income and expenditures. It is at this point that one encounters difficulties. They may take the form of lack of experience, insufficient knowledge of the market or even attempts at manipulation, all with the result that the projected development differs from that which actually takes place. The result remains the same: the calculated internal interest rate does not correspond with the internal return that is finally realised through the investment.

The starting point of dynamic rating is to design a standard that is largely resistant to unrealistic assumptions. This is achieved by taking a second factor into account in addition to the internal rate of return: risk.

Risk is a concept that is frequently used. The various meanings subsumed thereunder are as various as its use. It is therefore important to initially define what we understand as risk both generally and specifically. The lowest common denominator thereby is the following definition: “Description of an event with the possibility of a negative outcome.” In concrete terms, what constitutes negative outcome is determined from context, on the basis of perspective, as well as from personal preference. In dynamic rating, risk is the possibility that cash flows that have been projected based on individual assumptions may deviate from the income and payment that one would assume based on knowledge and application of the marketplace. Similar to the insurance industry these negative effects are multiplied by likelihood to quantify the realised risk. The result is a monetary amount. In order to normalise this measure of risk, the amount must be viewed in relation to the initial price paid at the start of the investment. Only thus can the measure of risk for real estate be compared in relation to different prices.

A limitation should be briefly mentioned at this point: a critical component of forecasted cash flows are the on-going costs for managing the real estate. Here certain levels of expense must be assumed based on the nature of the property. Whether or not these assumptions are realistic can only be verified based on a comparison with historical market data. These costs can also enter into the risk calculation. The case is similar with other costs that must be taken into consideration, e.g. reconstruction costs, loss of rent, or asset management expenses. In contrast thereto, in regard to forecasting the future interest rate that must be paid for follow-up financing, no figure that represents an exact expectancy value can be established. As a result this variable must be excluded from risk assessment for systematic reasons.

The probability values used to determine the measure of risk are derived from the market place. Such probabilities are usually not represented by a single value but instead spread over a recurring pattern. Dynamic rating relies on how this data is distributed in the investment market. In this regard it should be noted that almost all cost parameters relevant to a real estate investment business case are normally distributed approximately in their appearance and can be displayed in terms of a Gaussian distribution curve. This enables a presentation of the probability with which certain risk scenarios may occur.

Finally, the expectation of return and the measure of risk make allocation of a rating code possible. The classification system of the dynamic method is hereby closely related to that used by credit rating agencies. It is divided from Aaa, minimal credit risk, to Ccc, very high credit risk. It must then be decided which rating code is to be assigned when a certain risk X and a certain internal interest rate Y are ascertained. The dynamic method then proceeds in evaluating the collected information concerning the chance/risk profile of an investment, rates it, and in this way makes comparison possible. The classification is based on investment grade. Each class has its own investment/risk profile, because as mentioned in previous sections one anticipates different returns according to different investment classes. For super core real estate one already anticipates a significantly lower return from a good investment than in the case of development real estate.

Through dynamic rating based on market data, the dynamic method opens up completely new opportunities for assessment. This is because both the rate of return on a real estate investment and the inherent risk are assessed. The dynamic method thereby makes possible a holistic evaluation of all aspects of an investment. A special aspect of the dynamic rating method is that unrealistic accounting methods are no longer possible. If a cost item is changed, then both the rate of return and the risk increase. An investment is not thereby rendered “better” and placed in a higher classification category.

If at the end you say or rather ask: “That’s all well and good, but does it work?”, then I can answer you with the utmost conviction: “Yes it does, because my colleagues and I have long worked according to this method - day by day and transaction by transaction.”

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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