REFIRE
Real Estate Finance Intelligence Report Europe

Volume 8, Issue 141, February 6th, 2015

Inside REFIRE

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

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Refinancing
Euro-zone Property Financing

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Investors shift focus to cities and assets - Berlin, Hamburg top list of 2016 prospects

Among the many prognoses issue at this time of year about the prospects for the coming twelve months, one that always features prominently come January is the Emerging Trends in Real Estate Europe study, jointly published by consultants PricewaterhouseCoopers (PwC) and the Urban Land Institute. This year's 2016 study (the 13th in the series) highlights a number of key attitudinal changes among investors, none of which will damage Germany's prospects of attracting even more inward investment throughout 2016 and beyond.

The study was carried out among 550 European real estate professionals

PwC and **ULI** conclude that this year investors were being pointedly more influenced by disruptive factors such as technology, demographics, social change and rapid urbanisation. These have led to investors sharpening their focus on to cities and assets, rather than the somewhat blunter criterion of country allocation.

The combined survey also cites the five leading cities for investment prospects through 2016, which sees Berlin defending its position as the top investment location, followed this year by Hamburg, Dublin, Madrid and Copenhagen.

Having the two German powerhouses of Berlin and Hamburg heading the list sends out a strong signal about the transformation of industrial prospects in Germany's biggest cities. The report highlights the influx of firms in the creative industries and the technology sector has been a key driver behind the most robust office uptake Berlin has ever seen.

According to the authors, "A young, international and diverse employee base and a lower cost of living have also driven the city's progress. Berlin's status as a cultural centre and a trendy location has boosted housing and retail prospects as well."

They add that "Many interviewees expect the German capital to thrive well beyond 2016, based on its young population and its growing reputation as a technology and cultural centre, as well

Rockspring tops €850m year with major retail acquisitions

The London-headquartered Rockspring Property Investment Managers finished off a year of major acquisitions in Germany by buying a portfolio of nine Obi retail stores on behalf of two separate account mandates, for a total price of €150m. . page 2

WCM tops €500m in assets, DIC Asset takes 20% stake

Germany's SDAX-listed WCM Beteiligungs- und Grundbesitz-AG saw its gross asset value exceed €500m after a spate of acquisitions last year. It has since added a further two retail parks and a DIY store not included in its end-of-year valuation, worth a further €48m. see page 6

Law change sees shakeout in German broker industry

Germany's ruling coalition government in Berlin has brought in two significant changes to the domestic residential housing market in this legislation period. The first was the *Mietpreisbremse*, or rental cap, which limits the amount a landlord can increase the rent on a new lease to a prescribed percentage. see page 12

Industria Wohnen plans further €300m new deals in 2016

The Frankfurt-based residential investor and fund manager Industria Wohnen transacted €475m of deals in Germany throughtout 2015, a rise of 40% on the previous year. The group has set asid €300m for investment for 2016. page 15

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Real Estate Finance
Intelligence Report Europe

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Publisher:
REFIRE Ltd.,
49 Sandymount Avenue,
Ballsbridge
Dublin 4, Ireland

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as the land available for development," the report said.

Hamburg, which displaced Dublin from second spot in this year's ranking, also garners plaudits for its forward-looking approach. With low office vacancy, and a fresh pipeline of nearly 130,000 sqm of supply due to come on stream this year, the authors say, "Hamburg has proven a dynamic city that responds to the needs of future occupiers. With more than €5bn in investments over the year to 3Q15 – over half of which originated from foreign buyers—Hamburg is the sixth most active market in Europe."

"Some of the industry's biggest challenges right now are how to become less about bricks and mortar and more about service, and the implications this may have for the traditional business models of real estate operators "

The report, released ahead of this week's ULI Europe Annual Conference in Paris, examines why investors are now more inclined to avoid the strightforward country approach more typical of the past. "These…(disruptive factors)… have led to investors focusing on cities and assets rather than countries. This is also visible in investors demonstrating more interest in alternative, operational sectors that have benefited from rapid urbanisation and demographic shifts, such as healthcare, hotels, student accommodation and data centres."

This shift among investors to looking at alternative sectors for returns is another key finding of the study. This year 41% of respondents said they would consider investing in niche sectors such as healthcare, student accomodation, hotels and data centres – this is a marked increase on the figure of 28% looking at these sectors only a year ago

Behind the Top 5 in the PwC/ULI ranking come Birmingham, Lisbon, Milan, Amsterdam and Munich. London, while falling out of the Top 10 this year, remains the favourite for many investors intent on preserving their wealth, by virtue of its traditional transparency and liquidity, along with the strong performance of the UK, and particularly the London, economy.

More than 40% of the survey's respondents expect that competition for top assets in desirable European inner-city locations will further increase this year, with less and less pure 'core' properties available. However, such assets and locations are still seen as representing a safe haven for investment resources.

According to **Jochen Brücken** of PwC, "In the current ongoing phase of very low interest rates, real estate still offers better yield prospect than bonds. This trend will continue throughout 2016."

Commenting on the study's finding, ULI Europe's CEO **Lisette van Doorn** *(pictured, left)* said, "Investors are getting more creative in trying to access future prime assets at reasonable prices through more focus on alternatives and development. They are taking more risks in the short term to fulfil their long-term objectives for core assets.'

"Some of the industry's biggest challenges right now are how to become less about bricks and mortar and more about service, and the implications this may have for the traditional business models of real estate operators," said Van Doorn.

Among other sectors predicted to do well this year are high street retail and logistics, both of which are benefiting

DEALS ROUNDUP

from technological advances and rising economies. 78% of respondents also took a favourable view of development as a strategy to acquire assets.

PwC director **Gareth Lewis** added, "Low interest rates, and the weight of capital bearing down on European real estate, mean that most remain bullish about the industry's business prospects in 2016. But they acknowledge that the global field for real estate is increasingly competitive, and if the current wall of capital recedes, there will be an even stronger focus on underlying market fundamentals, active asset management and operational skills."

The study also points to an improving climate for real estate financing with liquidity remaining high, while most European economies are in a visible recovery phase. This, of course, is also attracting new financing competitors into the field. With prime property now reaching fresh record prices, the study sees prices in all other risk categories also heading upwards.

PwC also took advantage of the survey to produce a separate **"Real Estate Investor Survey Germany"**, which focuses on yields in Germany's larger cities. The survey claims that prime yields for first-class office properties are now lower in Berlin than in Frankfurt. They fell 30 basis points in Germany's capital during 2015 to 4.0%, while in Frankfurt, the fall was only 10 basis points to 4.1%. Among the top 7 cities, Munich (3.7%) offers the lowest prime yields on office space, and Cologne (4.5%) the highest.

Core properties in Germany's Big 7 cities also saw average yields slipping by 30 basis points, down to 4.8%, with high-risk office buildings providing smaller surcharges. Investors said they expect the highest annual growth for 2016 in rental income in Munich (2.2%), followed by Berlin (2.1%) and Frankfurt (1.9%). Prime yields on retail property also decreased in the Big 7 by around 40 basis points. Munich, again, is the most expensive (-30 basis points to 3.3%), and investors expect particularly high growth for rental income there (2.4%). These are followed by Stuttgart (2.2%) and Berlin (2.1%).

EDITORIAL

Don't miss out on the silver lining by over-shooting for gold

Over 300 of Germany's real estate fund managers at the recent BIIS Jahrestagung in Frankfurt heard from a number of prominent speakers that little could dampen the prospects of at least three more good years of rising commercial real estate prices.

Philip La Pierre, head of European investment at leading fund manager Union Investment, took a more tempered view. He gave a lively presentation entitled "Yields and risk premiums – are the markets slowly getting spooky?" He gallantly took it upon himself to share with his audience how one of the biggest real estate investors in Europe views current market pricing.

He cannot help being surprised, he admitted, that the market continues to lurch from one record deal to the next, that low yields are being trumped by ever lower yields, and the glossy market reports from the big broker groups are still sparing no expense in their drive to outdo their competitors in painting optimistic scenarios for their investor clients.

The standard arguments for the rosy vista are wheeled out in every discussion, he said. And indeed, they do have a certain validity. There's the wall of money that needs to be invested. That's not disappearing overnight. If anything, new sources are appearing daily.

Office rental income is rising, and will continue to rise because of the low level of construction. Vacancy rates across Germany have been falling. Investors with a more opportunistic approach than Union Investment tend to input more rapidly-rising rent levels to their Excel spreadsheets than may occur – and foreign investors are to the fore in anticipating more rental upside than conservative domestic investors. This much is true, granted La Pierre.

Nonetheless, such heady valuations as he's now seeing ARE somewhat 'spooky', he conceded, and more than a little reminiscent of the heady days before the markets went into a tailspin.

He gave a number of useful in-house examples. Leipzig, not exactly an international hotspot, where Union pulled out of bidding at a multiple of 19, to see it go for more than 21 times annual income. Ambitious pricing, as he sees it.

Or Berlin, the hottest German market at the moment. A good location on the Leipziger Strasse for €40m, 26 times income, 3 years remaining lease term. Again, it was not so much the multiple as the speed with which the rival successful bidder swooped in to grab the property that was the 'spooky' thing.

Logistics, the surprise hot sector of last year, threw up many examples of where Union regularly came up against more aggressive buyers, willing to go well north of 18-multiples to lock up the deal. As La Pierre said, to an outburst of nervous laughter, such toppy prices were being justified by the advising brokers as characteristic of a 'Paradigm Change" – rather than, in his view, just representing a 'very high price'.

Yes, we know that the internet and e-commerce are creating new logistics demand, but - Hmmm, just where did we hear all that paradigm change business before?

Naturally, Union Investment has access to the best advisers, sophisticated valuation experts, and its own extensive experience. This doesn't shield it from making mistakes, of course, or overlooking new realities. Union is still a major buyer across Europe, and a big investor in project developments. It is inevitable it will lose out to nimbler competitors on many deals. It has a duty to its savers to avoid risks that others might be comfortable taking.

But the risks ARE rising, said La Pierre, not just in the price levels but particularly in the deal structures and the small print in the contracts.

The lowering of guarantees, co-exclusivity with others in the process rather than being the sole player, the disappearance of capital gains discounts in competititve deals – these all represent extra risk in the buying phase that have to be added to the market risk. Taken together, in La Pierre's view, the market is back where it was in 2007, if not already beyond that point.

Hence it's time again for investors to review their commitment to first principles, he says, and gave his audience some advice from Union's in-house investment manual.

In the current climate, don't be tempted to revalue your assets at every opportunity to sexy up the balance sheet. Buy very selectively, with the emphasis on yield, quality and location, rather than capital appreciation. There is value-added potential even in every core investment. Use the time now, where prices are strong, to improve assets in your holdings even if you plan to sell them, and reduce the long-term risk of holding assets with poor reversionary potential.

Sound words, in our view. Of course, all investors inevitably believe that they are prudent, cautious and alert to market tipping points. But the sheer weight of money, low interest rates and the 'spread above the risk-free return' argument are lulling many investors into a cosy sense of being unable to do anything wrong. There may indeed be few visible clouds on the German horizon, as other speakers at the same gathering suggested. But as George S. Patton liked to say, when everyone's thinking alike, then somebody isn't thinking.

Charles Kingston, Editor

Germany/Retail real estate

Rockspring tops €850m year with major retail acquisitions

The London-headquartered **Rockspring Property Investment Managers** finished off a year of major acquisitions in Germany by buying a portfolio of nine **Obi** retail stores on behalf of two separate account mandates, for a total price of €150m. The seller is an English investment group who bought the assets in a sale-and-leaseback in 2006/07 after Obi had built them.

It's one of the biggest deals in the German DIY market since the heady days of free-wheeling dealmaking in the years 2004-2007, when several portfolios were bought and sold in the sector, culminating in the collapse and closure of the **Praktiker/Max-Bahr** chain.

The deal involves sale-and-leaseback transactions with Obi, now the leading German DIY operator, who remain the tenant in the nine properties. The stores cover 120,000 sqm of lettable space including the 20,000 sqm Obi flagship sotre in Berlin-Zehlendorf. Along with another major store in Berlin, the properties are in Augsburg, Neuss, Siegen, Haiger, Schwelm, Vechta and Dresden. The stores have an average remaining weighted average lease term of seven years.

Rockspring veteran **Stuart Reid**, as the partner with responsibility for the German market, commented on the deal. "This is a highly desirable, well-located portfolio that we have monitored for a number of years. The units, which were originally built by Obi, are situated in strong retail warehouse municipalities and are dominant in their catchment areas. Rockspring's platform of retail warehousing in Germany and Switzerland now amounts to over €2 billion, which incorporates over 100 retail units, making Rockspring the largest long term foreign investor in this sector."

In a follow-up deal in January, Rockspring bought an 18,500 sqm retail unit in Rangsdorf, a commuter town south of Berlin on the Berliner Ring Autobahn, and well placed for the opening (*whenev-*

er that happens…!) of the new BER international airport.

The property, which is let to furniture retailer **Roller Möbel**, abuts the highly-frequented *Südring Center* retail warehouse park which Rockspring bought in September last year. Bought on behalf of the same separate account mandate for €15 million, the newly acquired asset increases the value of the combined holding to over €75 million.

Again, Stuart Reid *(pictured, right)* explained the rationale behind the deal. "This transaction marks our tenth major strategic investment into dominant retail warehouse investments in the region's strongest catchment areas."

"We are seeing a clear trend in the region of rising tenant demand for the best retail shopping centres and, alongside this, increasing institutional appetite for such stock. Rangsdorf is located in Berlin's improving southern commuter belt and we have a number of immediate and medium term plans for improving the tenant mix and profile of the centre."

Reid said that, all told, Rockspring completed €850m in transactions in Germany last year (€700m were acquisitions, while €150 were disposals), and this year will target the country's logistics and office property, as well as further retail warehouses.

Transactions last year continued to focus on the retail warehouse sector in Germany, totalling forty separate assets, with the acquisition of a €350m portfolio of 23 out-of-town assets from a JV between London-listed malls group **Capital & Regional** and a real estate fund managed by listed LA-based wealth manager **Ares**. It saw increases in both pricing and institutional demand. Rockspring is now the biggest long-term foreign investor in Germany in the retail warehouse sector.

Germany/Listed Companies

WCM tops €500m in assets, DIC Asset takes 20% stake

Germany's SDAX-listed **WCM Beteiligungs- und Grundbesitz-AG** saw its gross asset value exceed €500m after a spate of acquisitions last year. It has since added a further two retail parks and a DIY store not included in its end-of-year valuation, worth a further €48m.

The minnow was once one of Germany's more prominent listed companies before filing for insolvency in 2006, and then relaunching as a debt-free company in 2014. Since then it has been expanding rapidly, with CEO **Stavros Efremidis** aiming to build a €1bn portfolio by buying core-plus and value-add assets in Germany's A- and B-cities.

As REFIRE reported in these pages three months ago, WCM raised €155.8m in a rights issue last year to fund new acquisitions, including the €92m Main Triangle office in Frankfurt, and an office portfolio in the Rhine-Main region and Dresden for €116m. It also took a majority stake in a fund to be set up by Dublin-based **Greenman Investments** to hold a portfolio of German supermarkets worth €95m.

WCM's activity has attracted the attention of larger listed German companies. Last week the listed **DIC Asset** said it had acquired more than 20% of WCM, and did not rule out increasing its stake. At the then share price, this likely involved an investment of about €70m.

In a letter to shareholders, DIC explained its rationale: "Through its equity interest, DIC Asset will participate in the future growth of the company and in its attractive commercial real estate portfolio. One of our objectives in taking this approach is to expand DIC Asset's footprint in Germany's commercial real estate sector." There were strong overlaps with DIC's own investment footprint, it said.

DIC pointed out the attractions of WCM's swiftly-built portfolio. Average net yield of 6.3%, with an average WALT on lease contracts of 9.2 years, financed by average loans of 6.4 years duration at an average interest rate of 2.1%.

However, part of the attraction of WCM in battling its way out of insolvency, instead of just winding itself down, was its ability to write off up to €500m in deferred corporation and business taxes arising rom the insolvency. Were DIC to increase its stake to more than 25%, REFIRE understands that these write-offs would no longer apply.

CEO Efremidis took over the helm at WCM at its relaunch in September 2014, and kicked off its recovery with the €100m acquisition of four commercial properties in Frankfurt, Berlin, Bonn and Düsseldorf. Efremidis had come from listed **KWG Immobilien**, where he had boosted KWG's housing portfolio from about €3m to more than €400m, with more than 10,000 residential units and a gross lettable area of 600,000 sqm. With equity of €170m in the balance sheet, he subsequently sold 60% of the company to acquisitive Austrian residential investor **Conwert Immobilien**.

Now at WCM, Efremidis is trying to repeat the trick, and says the timing is perfect for the commercial office sector. "In contrast to residential, not much has happened the past few years. We're also finding very good lending terms out there", he says.

Thanks to the corporate and commercial tax loss carryovers, WCM can benefit from very favourable tax treatment of its profits, and in particular can make generous dividend payments to shareholders without the deduction of any withholding tax (capital gains tax). First dividend payouts are planned for 2017.

In November WCM placed shares with institutions at €2.20, raising €24m. The current share price is about €2.80 after a run-up with DIC buying its stake, but has held up firmly since then and throughout the current market sell-off, where nearly all of its peers have suffered. This definitely suggests robustness.

Germany/Conference Report

BIIS Conference hears bullish projections for Germany through 2018

With the demise of the traditional January CIMMIT conference a couple of years ago, the likewise in January recurring **BIIS Jahrestagung** event for Germany's real estate fund managers seems to have scooped up a lot of the overspill.

This year's gathering (the seventh) of the BIIS Jahrestagung at Frankfurt's *Steigenberger Airport Hotel* was filled to capacity with more than 300 delegates, anxious to take the pulse of the German real estate climate before the year gets fully underway. According to the organisers, this was 50% more than last year's attendance.

REFIRE joined the gathering to garner our own impressions of what can still only be described as a very optimistic industry sector, with little on the horizon causing too many of the delegates too lose much sleep at night.

If anything this led to a series of largely uninspiring presentations from the speakers, most of whom paid nodding reference to rising interest rates as the only possible danger to prevent the good times rolling on. While at the same time assuring the audience that this was unlikely to happen any time soon.

So prices have much further to rise, then? Several speakers cautioned their listeners against revaluing their holdings upwards in the light of current optimism, or indeed suggested that "now might a good time, while such partly absurd prices are being paid, to optimise their portfolios", i.e. sell.

The consensus among most delegates was that German real estate was continuing to benefit from external economic uncertainties, with a straw poll on the day showing 42% seeing positive effects for Germany and 38% seeing at least neutral effects. Less than 20% thought any external economic scenario would prove damaging for German real estate prospects. What they did envisage, however, was that the long arm of government would increasingly be looking to impose penalties on property owners, in the form of heavier taxes and other disincentives to ownership.

In one of the sprightlier presentations that we've witnessed from a bank chief economist, Helaba's **Gertrud Traud** told the audience "Sure there'll be another recession, but not in 2016, nor next year, nor the year after." The oil price will remain low for at least the next five years, she forecast. "And we'll benefit from that", she said

Likewise for **Barbara Knoflach**, long-time head of **SEB Asset Management** in Frankfurt and now global head of investment at **BNPPRE**, blue skies are still stretching out for the next three years in the industry, largely as a result of low levels of construction despite the low interest rate.

Leaving the Asian hype aside, she said, the real growth is coming from North America, along with increased demand for the asset class from higher earners and the real high net worth individuals, as well as further commitment from the myriad of sovereign funds and other pension funds seeking congruence of their long-term liabilities. As long as the spread between real estate yields and the risk-free rate of return remains at 300 to 400 basis points, new entrants will be drawn into the sector, she said, with many being drawn in from the capital markets.

With both Frau Knoflach and **Thomas Schmengler**, CEO of giant fund group **Deka Immobilien**, agreeing that the good times will continue, both addressed another emerging theme. For the bigger investors the European market is getting smaller, with the core European countries (UK, France, Germany) gaining in importance. (These countries received 56% of all investments last year.)

However, investing in niche sectors within these markets is now more important than having a broad presence based across all Europe. Within these niche sectors, sustainability and environmental aspects were increasingly to the fore in attracting the top tenants.

Not everyone was so euphoric about the prospects for the next three years. **Philip La Pierre**, *(pictured, left)* head of investment management Europe at industry heavyweight **Union Investment** gave several examples of where Union had backed out deals that looked as if the price demanded was overly frothy, and very difficult to justify, (*see our editorial, Page 4*).

Daniel Tochtermann of Credit Suisse also expressed scepticism. Instead he asked his audience – "Where are we at the moment in the economic cycle? How dangerous is it when central banks with their low interest rate policy are driving people into investing in real estate? When will that go into reverse?" He also questioned Helaba's chief economist Traud's assertion that rock-bottom oil prices was an unmitigated blessing for Europe's consumers. What about the effect that such a low price will have on countries such as Russia and Saudi Arabia, he asked. What, indeed.

Germany/Financing

Access to German market for foreign loan funds still difficult

Much of the hype surrounding the rise of loan funds in Europe has only limited relevance for Germany, as nearly 90% of the freshly-minted pan-European vehicles are incompatible with the needs and demands of the German market, according to the Berlin-based independent

...see page 11

consultancy **Flatow Advisory Partners (FAP)**.

FAP is in a good position to know, as it specialises in procuring and structuring real estate financing deals throughout Germany. The mismatch, says FAP, is despite the German Financial Supervisory Authority **BaFin** easing regulatory conditions for loan funds last year, giving a big fillip to interest in the financing instrument.

Rating agency **Scope** says there are 53 loan (credit) funds currently set up and in issuance across Europe, with a target volume of €33.8bn. "The truth is, however, that 90% of pan-European credit funds have conditions which simply don't fit the German market," said FAP founder and CEO **Curth-C. Flatow** *(pictured, right)* in a recent note.

There are several reasons for this, says Flatow. Firstly, some credit funds focus only on senior tranches, but their terms will be too expensive to beat traditional bank or Pfandbrief financing, so that only 'unbankable' assets will come into consideration at all. For the junior tranches, many funds demand deals of at least €15m-€25m so that, with loan-to-value of 80%-85% maximum, financing volumes will have to be at least €100m in total. However, given that the bulk of single deals done are well less than this, deal flow will be quite limited.

Many international suppliers also price these junior tranches too high, given return expectations of at least 10%-12% IRR, while most junior capital in German offers only 6%-9%. "That is why we have hardly seen any deals by foreign credit funds in Germany," said Flatow. "They can succeed in countries like the Netherlands, UK and Spain as these financing markets have different degrees of maturity to that in Germany."

Another key factor, apart from the absolute size of the market, is the accessibility to the larger deals. "This is where we see the largest obstacle for credit funds to overcome when they initially enter the market", says Flatow. He says that while he's not expecting a boom in the sector, he does envisage more joint financing between alternative financing providers and banks than in the past. "Indeed, we have arranged several such deals in the past year – senior capital from the bank, along with a junior tranche via mezzanine finance", he says.

Flatow said he also sees more opportunities in the provision of whole-loan financing, with the credit fund providing a high LTV capital tranche, thus lending senior and junior tranches from a single source. This has the added advantage of keeping processing and documentation much simpler, he added.

Germany/Research

German listed property sector sees 17% rise in market capitalisation

Last year saw a further sizeable rise in the market value of German listed property holdings, with the market capitalisation of firms in the sector jumping fully 17.2% over the previous year to total €78.2bn, according to figures released by German Property Association **ZIA**.

The 'investible market capitalisation' of the sector has risen from a mere €1.5bn as recently as 2008 to fully €35.2bn in 2015, says the study, produced by ZIA together with specialist capital market research house **Barkow Consulting**. The study analysed 18 German listed property companies, who collectively represent 82% of the weighting of the **DIMAX** real estate share index.

The sector has become noticeably more visible in Germany, with the entry of **Vonovia** into the **DAX 30** last year representing a major breakthrough. A further four companies are components of the **MDAX**, for mid-sized companies, while a further six are in the **SDAX** for smaller companies. These companies together make up 3% of the market value of the value of the leading indices, with a rising trend. **Alexander Dexne**, the chairman of ZIA's listed property platform, points out that this share represents the same as the listed property sector in the USA before the start of the financial crisis.

Among individual sectors, the residential sector remains far larger than commercial property focused firms. Around 1 million housing units now held by listed firms, as against 2.7m by communal housing companies. **Peter Barkow** *(pictured, below)* of Barkow Consulting said, "The German residential property listed companies are becoming an ever more important part of the housing market, but in the commercial sector it's also becoming clear that a listing is an attractive model for real estate companies."

The capital markets as a financing instrument are becoming more prevalent, with listed property firms being responsible for 30% of total equity placements in the first half of 2015. Bonds are also playing an increasing role as a way to diversify financing, and meet high investor demand – here, Barkow counts 38 banks in Germany that have been active in placing equity capital in the real estate sector since 2009.

Barkow also highlights the change in the LTV ratios in the sector, which had fallen by 2016 to 53% from 66% in 2009. According to Dexne, "It is true that the level of debt is higher among German listed companies than the European average of 38%, but history and experience shows that listed property companies do value stable investments with high levels of their own equity, despite the extremely favourable interest rate environment at the moment."

Germany/Healthcare

Higher utilisation hinders volume of nursing homes on to market

As investors become more specialised and seek value in niche sectors, one sector which was tipped to soar last year in Germany was the managed healthcare sector, which has been drawing a lot of attention of late. It didn't quite match volume expectations last year, nor reach property advisor **CBRE's** forecast €1bn in transaction volume for the full year.

Still, CBRE points out in a recent report, offering attractive yields of up to 6.25% and a solid fundamental outlook, investment in nursing homes and senior residences in Germany did at least continue its seven-year growth trend last year, climbing 3% to €834m. This is the second-highest volume ever, trailing only the boom year of 2006 when €1.2bn of deals were transacted.

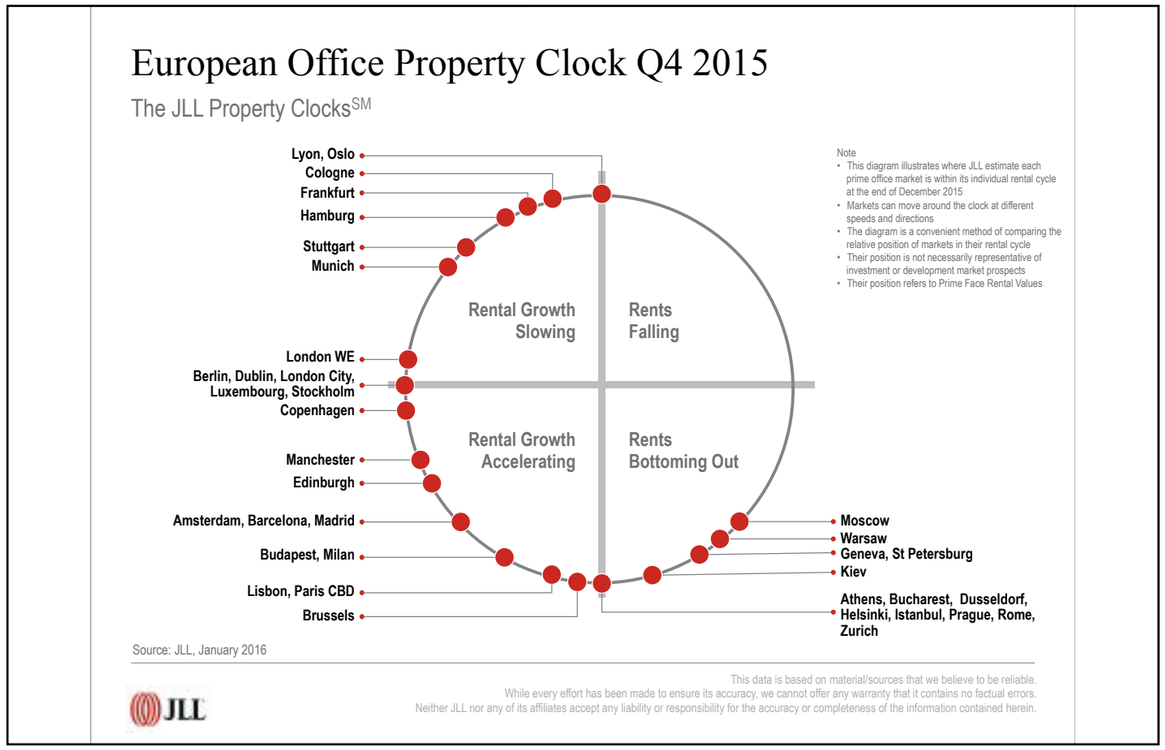
Interestingly, nearly half of all deals happened in the last quarter, and portfolio deals jumped strongly (nearly 65%) over the previous year.

According to CBRE's head of research **Jan Linsin**, "The nursing home asset class has established itself and the further rise in transaction volume shows the increasing interest from domestic as well as international investors in this alternative asset class." Last year, deals were driven by portfolio acquisitions by North American and Scandinavian investors.

Open-ended property and *Spezialfonds*, and asset and fund managers were responsible for over 70% of deal volume.

"Investors from Germany and abroad are increasingly looking at health and social property as an asset class independent of economic cycles," said CBRE's Head of Real Estate Finance **Dirk Richolt**. Specialised fund managers and listed firms in particular are counting on ageing demographics to produce rising demand for professional nursing services.

Operators are reporting rising utilisation rates and many have renewed leases on the back of strong performance. "This has removed some saleable product off the market again, as the general sales pressure lessened and owners are happy with their existing investment," said Richolt. Investor demand is outstripping supply so that transaction figures could have been higher with more available product, he said.



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Linsin also pointed to the sector's initial prime yields of 6.25%, which outstrip the risk-less reference interest rate by 5.6%, the more management-intensive hotel sector by 1.25% and prime offices by 2.13%. This is the same level as 2014, although down on the 7% avaiable in 2013. Linsin sees this falling again this year towards 6%, but says this yield compression is much less pronounced than in other top products such as downtown retail or office properties.

Germany/Listed Companies

Listed Berlin specialist Ado Properties poised for further growth

Listed Berlin residential property specialist **Ado Properties** has bought the *"Nordic Tower"* in Berlin-Hohenschönhausen. The high-rise property, which was refurbished in 2012, contains 136 residential units and six commercial units with a total floor area of 8,330 sqm und is completely leased. The seller is the Norwegian **AKG Invest AS,** with **Ziegert Bank**- und Immobilienconsulting brokering the deal.

REFIRE visited Ado Properties in Berlin recently to get an update since the company presented its nine-months figures for 2015. It now owns and manages more than 16,000 residential units exclusively in Berlin, mainly in central districts. Four months after its stock exchange listing last year, the 10-year-old company managed to double its FFO to €22m after a spate of acquisitions, with CEO **Rabin Savion** *(pictured, above)* confirming FFO guidance for the full year of €30m.

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. (Property advisor **CBRE** has since revalued the portfolio upwards, to €1.3bn, before subsequent acquisitions). The company's LTV ratio is 41.8%, and its net asset value is €20.54, while the share price is trading at about €26.50 (The company listed at €20.00 in July, generating€200m for the company). The Tel Aviv-listed **Ado Group** remains a 36% shareholder in the German group.

REFIRE: *The company is well positioned, in our view, as a pure play on Berlin residential. Given the political efforts in the capital to dampen down rent rise expectations by a variety of measures designed to promote affordability, this is not a given. Nonetheless, we were impressed by the company's commitment to micro-managing its assets and integrating IT and customer service systems designed to know everything about both market rents and maximum permissible rents across its holdings.*

This level of sophistication is among the highest we have seen among housing management companies, and helps explain why Ado managed to increase 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 customer-centric approach certainly helps here too, as does a company culture more akin to a software growth company than a classic residential property and facility manager. The market seems to like the company as well, offering strong support for the shares since last year's IPO.

Germany/Brokerage

Law change sees shakeout in German broker industry

Germany's ruling coalition government in Berlin has brought in two significant changes to the domestic residential housing market in this legislation period. The first was the *Mietpreisbremse*, or rental cap, which limits the amount a landlord can increase the rent on a new

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lease to a prescribed percentage.

The other new instrument is the so-called *Bestellerprinzip*, or "He who orders, pays" in respect of a broker's commission. This breaks with the almost universal tradition in Germany that the landlord commisions the agent to lease the property, but the tenant pays the brokers' commission – essentially a win-win situation for the landlord.

The previous status quo, where the tenant paid the commission in every case, even when the broker was offering a property into a market with high demand, such as in university cities, and offered no - or very little - added-value, has been in no small measure to blame for the miserable reputation that the broker 'profession' enjoys in Germany

Six months after the introduction of the new law, and in the absence of any in-depth research study, it's still too early to say definitively what effect the measures are having on the broker industry. The idea of course was to ensure a fairer market and ultimately lower the burden on tenants in finding new accomodation.

Jürgen Michael Schick of the Property Owners Association **IVD**, (*pictured, above*) whom we often meet and quote in these pages, takes the understandable view that the new law is hostile to landlords, and represents a further ideological blow against the real estate industry by the current government. Instead of being the 'honest broker' as before, he argues, brokers are now practically compelled to act unilaterally in the interest of their paymasters, the landlords.

Although there is anecdotal evidence that the amount of broker commission has fallen under the new regime to as low as one month or one-and-a-half month's rent (plus VAT), instead of the previous at least two months rent (plus VAT, i.e. 2.38 months rent), Schick argues that the apparent lowering of the commission is nonetheless a Pyrrhic victory in the battle to benefit the consumer i.e. the tenant.

One reason is that the landlord is now frequently tempted to let out the apartment himself, cutting out the middleman. This frequently means more new lettings being sorted out 'under the table', with the exiting tenant directly finding a substitute. Or the landlord simply decides to sell the unit, instead of re-renting it.

But perhaps the biggest drawback from the potential tenant's perspective is this: no broker can now offer a range of apartments from his stock – he has to organise, each time he's asked, an available apartment from a landlord that is not being offered by any other broker elsewhere. Schick says this has drastically reduced the amount of choice any broker can offer to his potential client. Germany's strict laws defining who has first offered a unit for rent, and the likely possibility of losing a commission on a deal because another broker has offered it first, has driven several reputable brokers to quit offering any apartments at all to tenants, instead concentrating on pure sales.

When the new law was introduced last year, critics warned that brokers would try to get around the restriction by invoicing the landlord a smaller amount for their services, but making up for it by demanding a higher amount for taking over existing furnishings, e.g. built-in kitchens, which are not normally included in a new lease. Germany's Tenants Association (**Mieterbund**) says it has not noticed any abnormal wave of new complaints about this dodgy practice since the change came into effect.

The amount of property brokers in Germany is not known exactly, since barriers to entry into the business are minimal (almost exceptional in Germany, known for its stiff requirement for examinations and certificates in almost every other line of activity). The official body IVD has more than 6,000 members, but there are certainly tens of thousands more who've sprung up since the onset of Germany's property boom and may be dealing with property on a part-time or inofficial basis. Most have no official training or relevant professional knowledge.

These are the people who will have been hardest hit by the change in the law since June 2015. A study carried out among 1100 brokers by industry trade journal *Immobilien Zeitung*, online portal **Immobilienscout24** and consultancy group **Immo Media Consult** confirmed that life since had changed for them dramatically; 84% of respondents confirmed that their turnover had fallen considerably, while 47% of respondents claimed their very existence was now in peril.

It does indeed look like the 'black sheep' and amateur, unqualified advisors are being driven out of the industry, in favour of those who are prepared to gain basic qualifications, which the government is in the process of establishing, as a minimum hurdle for those who wish to call themselves 'property brokers'.

Existing brokers will then have to sit for the local Chamber of Commerce exams and up their degree of professional competence and certifiable experience. All in the interests of higher standards across the board, says Schick of the IVD.

Germany/Residential real estate

Industria Wohnen plans further €300m new deals in 2016

The Frankfurt-based residential investor and fund manager **Industria Wohnen** transacted €475m of deals in Germany throughtout 2015, a rise of 40% on the previous year. The group has set asid €300m for investment on forward deals on developments for 2016.

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Of last year's figure, €424m of this was in new acquisitions. Assets under management increased by 45% from €925m to €1.35bn at the end of the year, with the number of apartments the group manages rising 20% to 15,000. Staff numbers at the group rose by 15 to a total of 80.

Industria, a subsidiary of **Degussa Bank** in association with Hamburg private bank **M.M. Warburg**, manages five property *Special AIF Funds*, mainly underwritten by pension schemes, with assets worth €1.16bn. The €700m in committed equity are 95% invested and further commitments are already agreed.

According to **Klaus Niewöhner-Pape**, Industria Wohnen's managing director, "We have greatly expanded the business with institutional and private investors in about equal proportions."

With an eye on the many competitors looking for exposure to German residential, Niewöhner-Pape said Industria plans to intensify its co-operation with developers – existing partners and new ones – to secure projects in forward deals. "With the acquisition of project developments at an early stage, including taking a minority share and helping to secure financing, we are offering an attractive partnership for developers," he said.

The key issue will be the ability to secure assets at sustainable pricing, he added, given that demand for good assets significantly outstrips supply.

In its privatisation business, Industria sold 588 units last year. It also launched an open-end property mutual fund, **Fokus Wohnen Deutschland**, which is open to private and semi-professional investors and collected over €26m equity since launch in August. It has already invested €36m towards its ultimate target of €500m.

Germany/Financing

Strong rise in 2015 new lending from Berlin Hyp

German real estate financier **Berlin Hyp** had another strong year in 2015, raising its volume of new business lending by 10% over 2014. New loans amounted to a total of €5.4bn (from 2014's €5.0bn), of which €1.0bn (previous year also €1.0 billion) was for long-term extensions. Around 75 % of the financing was for property deals within Germany., with the rest abroad.

The bank, which is owned by the **Sparkassen**, or savings banks network, specialises in large-volume property finance for professional investors and housing associations, and creates products for its members, the savings banks. It said that in addition to its classical syndicated business with the savings banks, Berlin Hyp placed seven *ImmoSchuldscheine,* a special form of participation developed by the property lender particularly for the savings banks. These represent a combination of a classic promissory note with a backing from mortgages on property, and are designed to give the Sparkassen a low risk diversification option for the risks in their own portfolios.

The bank has also been gaining attention for its *Green Pfandbriefe*, a fast-growing segment of the covered bonds market designed to mobilise bond markets for climate change solutions, by reducing the cost of capital and improving security for climate-related investments of pesnion and insurance funds.

Soon-to-be outgoing bank chairman **Jan Bettink** commented on the bank's strategy after a major restructuring over the last two years, which we covered frequently in these pages. "We consider it very important to communicate with our customers on an equal footing and at the same time demonstrate presence. In the light of this, we decentralised the Group business last autumn and have also integrated the savings banks advisers in our German branches."

Germany/Listed Companies

Publity triples portfolio size, quadruples profit

Another company which surged throughout 2015, both in terms of assets under management and profits, was the Leipzig-headquartered and Frankurt-listed **Publity**, which more than trebled its portfolio during 2015 from €500m to €1.6bn.

The rapid growth, Publity said, was due to its business model of acquiring high-yielding office and commercial properties in Germany through joint ventures with institutional investors, in what it describes as its "manage to core" strategy.

Publity acts as a co-investor alongside either German or international institutional capital and takes charge of the asset management, which gives it added incentive to profit from the eventual sale of assets. It describes this as its "manage to core" strategy.

In a statement Publity said that the portfolio increase of 220% over a 12-month period underlined the company's position as one of the fastest growing asset managers in the German commercial real estate market. The company said its goal is to have €5bn of AUM by the end of 2017.

Turnover doubled over 2014 to €23m, profit grew to €13.0bn from €2.8bn in the previous year, while EBIT quadrupled from €4.7m to €20.7m

'We not only predicted a significant increase in our assets under management in 2015, we also delivered on this commitment. We will continue to grow rapidly and strongly in 2016 and 2017 due to our unique market position and strong investment partners,' CEO T**homas Olek** said.

The company's equity capital also quadrupled in 2015 from €8.3m to €32.6m. CEO Olek owns 70% of the shares, with the rest in free float. Publity is paying out a total of €11m of the annual profit (nearly €13m) to shareholders, or €2.00 per share. The current share price is about €40.00.

Publity also earns from a series of Non-Performing Loan funds which it set up between 2009 and 2013 to invest in problem loan portfolios. Its NPL Funds 1-5 have already paid out 75%, or €83.5m, on loan portfolios with a nominal value of €110.8m. Publity was a pioneer in setting up public mutual funds to invest in the NPL sector, with its **"Task Force NPL Fonds Nr. 1 GmbH"** in 2009, with the other four funds following at annual intervals.

Germany/Residential Real Estate

Conwert renews focus on residential, plans more commercial RE sales

The Vienna-listed residential and commercial property investor **Conwert Immobilien Invest** said it surpassed its sales target for non-core assets during 2015, and expects a further €300-350m of disposals this year. In a statement the company said it sold €234m of non-core properties last year, well above its initial target of €150-200m of disposals.

According to **Wolfgang Beck**, *(pictured, right)* Conwert's CEO, "Disposals in the commercial sector and portfolio streamlining in the residential sector are an important part of our strategy. We are focusing on the residential market in Germany and Austria, which has proven to hold the greatest growth potential for us and we want to continue to invest here."

Disposals include the entire portfolio in the Czech Republic for around €40m, and the sale of other non-core properties for more than €190m, at what the firm calls "a slightly postive sales margin". The management team is planning further reductions in the non-core holdings in 2016, which is expected to generate sales proceeds of €300m to €350m.

Beck said this will be re-invested in new residential holding, where and if good opportunities arise – otherwise it will be used to pay down debt. "Of course paying down debt brings with it savings of 2.5% in interest charges – but an investment in new apartments brings us a yield of 5% to 6%", he said.

Despite several false alarms, no major acquisitions were actually carried out last year, although the company had

originally planned to buy German residential landlord **BGP** and its 16,500-unit portfolio. But Conwert's board decided on 6 August 2015 that the proposed transaction was not in the 'best interests' of Conwert and its shareholders.

Conwert was itself, however, uwittingly at the centre of the ongoing consolidation wave that swept the listed residential property sector in Germany last year. In April 2015 Conwert's shareholders rejected a €1.2b takeover offer from **Deutsche Wohnen**, Germany's second larges residential investor, itself currently fighting off a bid from industry heavyweight Vonovia.

On 20 August, two weeks after the decision to drop the acquisition of BGP, **Adler Real Estate**, another German listed residential landlord, bought a shareholding of almost 25% in Conwert from British-Israeli businessman **Teddy Sagi**, a share which has since fallen to 23.5%.

Germany/Residential

Heitman sets up European residential fund, absorbs last Grainger assets

We reported in REFIRE back in November that UK-listed residential property investor **Grainger plc** and its partner **Heitman** from the US had sold their joint venture German housing portfolio **(MH Grainger JV Sarl)** to an unnamed German investor for a price of €136m. The sale of the portfolio of 2,500 units represented a further step towards Grainger's exit from the German market, after it put its own solely-owned assets on the market in September.

Now the Chicago-based Heitman has bought 1,595 remaining residential units (in 110 separate buildings) from Grainger for its own close-end co-mingled fund, located mainly in Frankfurt and Mannheim. It says it plans further German residential expansion, and will absorb the Grainger investment team based in Frankfurt, along with the final remaining 1,137 German units pending their sell-off. To structure the deal, Heitman announced the first close of its **Heitman European Residential Investment Fund** which is targeting €250m in equity commitments from core and core-plus investors.

The fund will invest in small- to medium-sized rented residential properties, along with some larger single assets, starting with Germany and the Netherlands, where it already has a strong history and a strong pipeline of suitable assets. Heitman is one of the largest private residential housing owners in Amsterdam, following a recent acquisition.

Gordon Black, senior managing director for Heitman, commented: "Today's announced seed investment and the launch of Heitman European Residential Investment Partners along with onboarding of a highly talented residential specialist team is indicative of Heitman's conviction in the merits of this strategy, specifically, the *'Living Sectors'* – rented residential, as well as student and senior housing – where we see good relative values."

The deal comes a week after Grainger's new CEO **Helen Gordon** announced a renewed focus on the "compelling" private rented sector market in the UK, where the Newcastle-headquartered company plans fresh investment of more than Stg 850m pounds.

Germany/Retail Real Estate

German's Hahn Gruppe plans €250m new retail funds

The listed **Hahn Group**, one of Germany's leading retail property asset managers, has ambitious plans for 2016, including at least three new funds vehicles targeting at least €250m.

The group, based in Bergisch Gladbach near Cologne, invested €155m last year in its institutional fund business, while selling assets worth €205m, including a big joint venture portfolio in the third quarter. Overall the group signed new lease agreements of 150,000 sqm.

Chairman **Michael Hahn** commented, "In 2016, we are planning to launch at least one institutional and two further mutual AIF funds. New investments in the funds business are to reach up to €250m." He sees especially good prospects for large-scale retail across all risk categories.

Just before Christmas Hahn bought a 13,400 sqm retail park in Landshut in Bavaria for its **HAHN FCP-FIS German Retail Fund**. The centre has been occupied on long-term leases by DIY store **Bauhaus** and discounter **Penny Markt** since the park opened in 2005. The seller was asset manager **Estama Investment Management** on behalf of its principal, the London-based **Edinburgh House**. This brings the HAHN FCP fund up to €600m of assets with 30 large-scale retail properties, on which it is offering investors a target IRR of 8%.

Founded in 1982, Hahn manages around €2.4bn in mainly third-party assets through funds and projects. It has issued over 170 real estate funds.

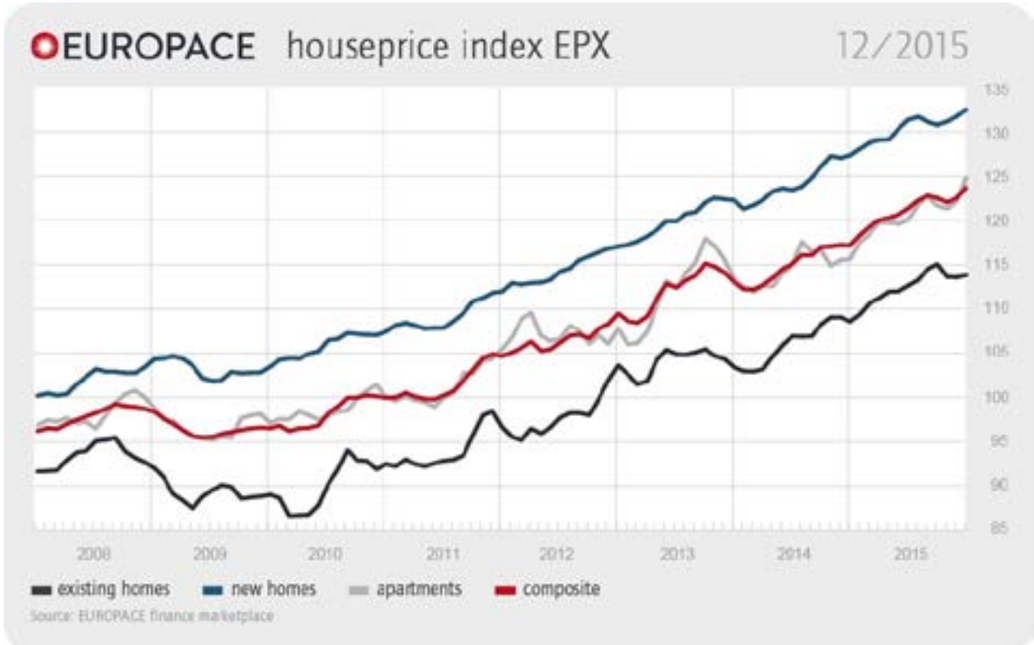
Germany/NPLs

New German NPL and loan mandates for Silverton Group

The Frankfurt NPL workout and special services group **Silverton** said this week that it has won new mandates to handle two new NPL portfolios secured on German commercial properties, as well as further instructions for a €400m performing loan portfolio. The new mandates bring Silverton's assets under management to about €2bn.

According to **Stefan Dölker**, director and co-founder of the Silverton Group, "In the past year, only a handful of large NPL portfolios came on to the market and we received the investors' mandates for two of them. Last year was also very successful for the consultancy side."

In 2015, Silverton advised international investment banks and opportunistic funds on four transactions, with a total volume of €1.9bn. The vendors were German credit institutions and clearing banks, as well as international NPL investors. The company further boosted staff numbers last year to 21, and now



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has offices in Munich, New York and Madrid, where yields are expected to be higher this year, as well as its head office in Frankfurt.

Germany/Acquisitions

Benson Elliott commits €300m to Berlin site from CA Immo

UK private equity group **Benson Elliot** has acquired a 2.5 hectare mixed-use site in central Berlin, fronting the Spandauer Schifffahrtskanal, from listed Austrian property company **CA Immo**. The off-market acquisition in *Europacity* – Berlin's largest urban renewal project – allows for the development of 70,000 sqm of residential, retail, restaurant and office space. Benson Elliot plans a €300m development on the site.

The deal consisted of eight separate plots, which CA Immo had earmarked for divestment as part of its ongoing disposal programme. The company has been actively selling assets over the past few months, including plot sales in Berlin, Regensburg and Düsseldorf, a mixed-use building at *Mainz Zollhafen* for €66m to **Aberdeen Asset Management** and a 50% share in *Poleczki Business Park* in Warsaw to its Vienna-based joint venture partner **UBM** for over €80m.

The Europacity project has transformed about 40 hectares to the north of Berlin's main railway station – an area which lay derelict for decades – into a new, mixed-use city quarter. The area lies a short walk from the **Bundestag**, various federal ministries, the **Charité** (Europe's biggest university hospital) and **Humboldt University**.

Europacity has become a magnet for large office users, hotels, retailers and cultural facilities (including the iconic **Hamburger Bahnhof – Museum für Gegenwart**). With over two hectares of Europacity devoted to parks, and a kilometre of waterfront along the Spandauer Schifffahrtskanal, Europacity has also seen the development of some of Berlin's most desirable housing.

CA Immo has already developed a number of projects in the quarter, including the *Tour Total*, *John F. Kennedy House* and the *Intercity Hotel*. "We plan on continuing this strategy with other initiatives including the development of the new **KPMG** building," said CA Immo director **Guido Schütte**. Despite its recent sell-offs to lower its heavy debt burden, the Austrian group still controlled assets valued at €3.6bn in Germany, Austria and eastern Europe at end-September last year.

Benson Elliot and its joint venture partner **Kauri CAB Development** intend to create a lively and attractive urban residential quarter, fully integrated into Europacity's working, living, cultural and recreational network. Current plans are for the construction of around 500 multi-family rental apartment units, on top of ground floor restaurants and cafes. The project will also incorporate 10,000 sqm of commercial and mixed-use space, together with a day-care centre. First occupancy is expected in early 2018.

Benson Elliot partner **Philipp Braschel** said: "The Europacity site provides Benson Elliot with a unique opportunity to create high-quality rental housing right in the heart of Berlin, whilst making a significant contribution to the city's sustainable development. Berlin is going from strength to strength; together with our acquisition last year of **Berliner Volksbank's** *City-West* headquarters, our Europacity purchase demonstrates our ongoing commitment to Berlin as an investment destination."

Earlier in January Benson Elliot took advantage of an unsolicited offer to sell an office building in Berlin's prime City West district, at Kurfürstenstrasse and Budapester Strasse. It had only bought the eight-storey building, along with an adjoining property, in March last year in a joint venture with **Klingsöhr Projektentwicklung** and **Rockstone Real Estate**. The two assets were acquired in a sale-and-leaseback transaction from **Berliner Volksbank eG**, with the aim of renovating both buildings and consolidating them into a single headquarters. The total value of the deal was estimated to be €100m.

Now Benson Elliot is selling the 6,200 sqm Kürfürstenstrasse property at a 4% rental yield to a fund backed by a German professional pension scheme advised by **Cornerstone Real Estate Advisors**. The Benson Elliot fund, **BEREP IV**, will reap an opportunistic 2.4 multiple on its investment.

Industry veteran Marc Mogull (*pictured, above*), Benson Elliot's managing partner, commented: "We stock-pick our investments for growth, but we need to be nimble enough to shift strategy when opportunity comes knocking. At the end of the day we're performance driven, not AUM driven. This disposal will enable us to make an early distribution to investors, and to recycle the profits into other opportunities."

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

Energy-related building refurbishment: Potential with obstacles

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The federal government's climate goals are certainly ambitious. By 2030, greenhouse gas emissions are to be reduced by 55% compared with 1990 levels. In achieving this goal, the powers that be see real estate owners as bearing part of the responsibility, irrespective of whether they hold large portfolios or are simple home-owners. In this respect, the buzzword is energy-related building refurbishment.

The federal government is aiming for a refurbishment rate equal to two percent of the residential building stock per year. At present, however, energy-efficiency upgrades are only carried out in around one percent of these properties. This is not just a problem for the federal government but, at first glance, is also very strange; the conditions for refurbishments have seldom appeared so favourable. The current low-interest phase facilitates affordable financing and, at the same time, state subsidies are available.

So why have extensive energy-related refurbishments failed to materialise? On the one hand, the current low energy costs give rise to a situation in which it is more economical to continue running inefficient buildings as they are – at least by short-term thinking. On the other, energy-related remediation measures often only pay off over a period of many years, whilst the costs themselves are incurred immediately. For older owners, in particular, these investments will no longer be redeemed. Furthermore, there are often additional costs for repair measures that must be executed during the course of the energy-related improvements.

A further factor is the fear of errors and potential consequential costs. When correctly executed, the profitability of a building can indeed be boosted. The risk of incorrect execution is high, though, given the often highly complex requirements. There is a need for technical planning, beginning with the definition of economically expedient measures, through selection of the correct materials and right up to the achievement of a functioning overall concept. Omit this step and costly corrections may be the result – a thought that neither private owners nor investors are likely to find attractive.

You should therefore seek the assistance of a competent partner for the optimisation of your property. VALTEQ has many years of experience in the field of energy-related building refurbishment and can help you achieve the best-possible results for your real estate.

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ASSET MANAGEMENT COMMERCIAL

WE BELIEVE THE TRADITIONAL INVESTMENT CRITERIA TO REMAIN AS RELEVANT AS EVER

Author:

Ingo Hartlief,
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London well and truly dominated commercial property investment volumes in 2015. Do you see this continuing or will other European cities feature more prominently in 2016?

London will remain the primary investment destination. It is a gateway for international investors coming into Europe due to market size, liquidity and transparency. Despite some investors showing uncertainty with respect to the "Brexit", we don't expect this to change in 2016. While London has reached top prices levels, this could motivate some of the potential investors to wait for some cooling-down. Others who have entered the market will increasingly start selling assets. However, we don't expect this to slow down the market overall.

Furthermore, London is without serious competition in Europe. The city's major European competitor, the Greater Paris area, suffers from the weak economy in France. Its commercial transaction volume increased only slightly to roughly € 19bn in 2015. This underlines the relative weakness of the market. The strong German economy on the other hand promotes the commercial investment market, but the total volume of circa € 55bn only breaks down to a number of locations. Berlin has seen investments of roughly € 8bn in 2015 – a doubling compared to previous year. The German capital is also growing in economic power and population, but it holds no monocentric position in the country as London or Paris do therefore posing no serious challenge to London either.

Liveability, sustainability and technological progress have been key considerations in European investment strategies in 2015. What factors do you see dominating the scene in 2016?

"Softer aspects" such as these are becoming increasingly important especially for long-term investors – as new engagements in the current high-peak market situation need validation by state-of-the-art, sustainable properties. However, the high transaction volumes in Europe indicate that only few investors were able to buy "Grade A" properties fulfilling these requirements in 2015. Therefore we believe the traditional investment criteria to remain as relevant as ever.

Looking more closely at distinct sectors (office, retail, industrial/logistics and hotel) are there specific markets you see as having significant potential for 2016? Where would you be investing?!

All of these sectors have reached top-end price levels. This makes hunting for extra yields and "hidden pearls" very challenging. Against this background it's our strategy to choose selected investments which meet our client's as well as our own standards for long-term, sustainable investments. These are not only core/core+ assets but also assets in need of active asset management and repositioning. In this context Germany remains our focal market where we can benefit from our local expertise. However, there are some markets in the periphery of Europe such as Marseille, Helsinki or Budapest, which are "laggers" in the investment cycle offering more return at higher risks. These may the ones to look out for.

Outside investment has played a significant role in the European real estate market's recovery in the last few years. How do you see this trend evolving in 2016? Who will be investing?

European and international investor will still play a significant role in Europe in 2016. They are substantially important not only on the "buy" but also on the "sales side" with respect to market liquidity. There are an increasing number of foreign investors appearing as sellers. They are the ones who entered the market at an early stage of the cycle to retain their profits. In addition, as key interest rates and returns on government bonds have started to rise in the U.S., some investors may switch to bonds. Furthermore some sovereign wealth funds, especially from countries which are heavily affected by the fall in commodity prices, have less purchasing power available.
Despite these potential restrictions, there remains a strong positive yield gap for real estate compared to government bonds and weakening stock markets resulting in ongoing demand for European real estate by international investors. However, the major inflow of money can be expected intraregional from European sources of capital.

If you had one prediction for the European commercial property market in 2016 what would that be?

The European property market profits from a number of overall positive conditions such as positive economic growth, low interest rates and excessive supply of money. These stable conditions support real estate's reputation as "safe hafen" against the backdrop of uncertainties in other assets classes. We do however see turbulences in the global economy and capital markets clouding the sky. This will most likely have an impact on the letting and subsequent on the investment markets.

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Germany/Acquisitions

M7 buys German offices, completes €130m in fresh deals

In four transactions totaling €130mn, pan-European investor and asset manager **M7 Real Estate** has bought 21 office and retail properties in Germany and the Netherlands for its new European **Real Estate Investment Partners III** fund (EREIP III). The portfolio, with a 21% vacancy rate, currently generates a rental income of €13.2mn.

The company bought three portfolios and a single asset, housing 143 different tenants. The properties have a vacancy rate of 21% that will allow M7 to increase income through lettings at a very modest level of capex. The German assets comprise the **Riva Portfolio** from listed **Eurocastle**, which is currently exiting from nearly all its European engagements apart from Italy.

The assets include six multi-let offices – with 21,300 sq.m. of rentable space – in secondary German cities and 11 offices and four Dutch retail properties. The German assets have 21,300 sqm in Bonn, Dortmund, Duisburg, Hanover, Kassel and Koblenz, and are 70% let to German insurer **HUK-Coburg**.

David Ebbrell, head of transactions at M7, said: "These properties present plenty of opportunities to add value through straight-forward asset management initiatives and selected capital expenditure against a background of improving occupier sentiment, a pick-up in demand from occupiers and a shortage of good quality space in prime locations."

M7 said it has already raised €80m in capital commitments for the EREIP III fund, its largest fund close to date, and plans to have the fund fully invested by the end of this year's first half. "We are intending to have a second close during the first half of this year and are targeting a gross investment capability of some €330m for the fund," M7's CEO **Richard Croft** (*pictured, above*) said. "We have already identified and/or are under offer on a number of other transactions and we intend to be fully invested by end 2Q16."

The M7 EREIP III fund has a Value-Add strategy and targets assets that offer both sustainable income streams and asset management opportunities in the retail, office and the multi-let industrial sectors in both Germany and the Netherlands. The London-based group, founded in 2009 and wholly-owned by its senior managers, operates in the UK, Denmark, the Netherlands, France, Germany, Poland and the Czech Republic

Germany/Asset Management

IC Immobilien raising German profile for asset, property management

German fund and asset manager **IC Immobilien** has taken over the property management division of real estate advisor **Colliers** in Germany in a share deal, as part of its repositioning in the market. The deal came into effect at the beginning of the year. Colliers staff number and locations including Munich and Düsseldorf are expected to remain unchanged, although the Colliers branding will be subsumed into IC Immobilien.

The Colliers deal will immediately bring clients such as **Art-Invest**, **AEW Europe** and **UniCredit** into the IC Immobilien fold. **Achim Degen**, the managing partner of Colliers in Munich and head of the German Colliers group commented on the sale: :"Our existing network of offices meant that we were not really in a position to offer a seamless service across the whole of Germany. With the IC Immobilien Group we have found not only the perfect partner, but a partner we can trust to take over our property management business."

REFIRE met recently with new IC Immobilien boss **Markus Reinert**, whom we've known going back a number of years. He's clearly intent on expanding the group's competence in asset and property management, including gaining new large mandates from international investors.

IC Immobilien will remain rooted in its core competencies of property and asset management, he says, but, "Over the next three to five years we want to double our turnover in our core business of full-service property and asset management, which makes up half of our overall business", (beside fund management). The company operates from seven locations across Germany with 250 staff, and manages more than 800 properties valued at more than €10bn.

The company is clearly aiming to position itself as a partner for the biggest institutional investors in Germany, international or domestic, and Reinert says he sees growth coming from 70%-80% existing clients, with the rest from new mandates and bolt-on acquisitions such as the Colliers Property Management deal. Competent accounting know-how is increasingly demanded by the biggest investors, and Reinert cites this as a major in-house strength, with some 40 people in Berlin in the group's IT and accounting division.

Germany/Acquisitions

Frankfurt's FBC Tower sold to Berlin group PBM

The imminent sale of the **Frankfurter Büro Centre (FBC)** skyscraper, in the middle of Frankfurt's central business district, had long been flagged but several bidders were known to have still actively been involved in the auction process pretty much all the way. The seller of the 142m tall tower with 52,000 sqm of lettable space is a **Whitehall Fund** from the **Goldman Sachs** stable.

The successful bidder in the end was the Berlin-based construction company **PBM Germany**, who was thought to have paid more than €100m. Information is sparse on the company's website, but it describes itself as " one of the leading companies in the field of entrepreneurship, construction and development in Europe, Germany, the Netherlands, Belgium, Sweden and Eastern Europe, engaging in the entire spectrum of engineering works". The company was established in 1989.

Market observers in Frankfurt estimated the price at about €2,000 per sqm. The building has a long history in Frankfurt, and does loook in need of a major overhaul. Law firm **Clifford Chance** is the main tenant with about 20,000 sqm and a lease that runs until 2019, but much of the rest of the building is thought to be empty – so a major repositioning is inevitably on the cards.

The Goldman Sachs Whitehall Fund bought the property in 2007 from the then **Degi** open-ended **Grundwert** fund as part of a portfolio acquisition (the **"Spring Portfolio"**), which put a valuation then on the FBC tower of €327m.

Germany/REITs

Ex-TAG Immobilien boss Elgeti returns with new retail REIT

German property company *Wunderkind* **Rolf Elgeti** (*pictured, right*) seems to be making a comeback in a variety of entrepreneurial guises since departing from listed residential property company **TAG Immobilien** a year ago. He's popped up as the new owner of third division footbal team **Hansa Rostock**, as an investor in fintech startup **Creditshelf**, which provides loans to mid-sized companies – and now, as the chairman and main shareholder in a new arrival on the German REIT scene, **Deutsche Konsum Reit-AG**.

The new company, headquartered in Potsdam, has already invested in 30 retail outlets as part of its development strategy. Elgeti describes the plan as" buying local retail properties for everyday needs across the country in sustainable micro-locations including in B- and C-cities, with at least two main anchor tenants."

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The company's existing portfolio has 146,000 sqm and a valuation of €125m, with a annual rental income of €13.6m.

The assets, so far all located in eastern Germany, were bought for an average multiple of 7.8 times annual rent, which Elgeti says is because he's looking for assets with short remaining lease terms, or even high vacancy rates, or those requiring high initial capex or whose loans are non-performing. The goal is to get existing tenants to extend their leases because of new investment in the asset, and so to attract new high-paying tenants to join them.

Individual investment size has been between €500,000 and €37m, with €20m the most paid for any single asset. Most fall below the €10m mark.

Setting the company up as a REIT was not an obvious move, given the miniscule size of the REIT sector in Germany and its somewhat 'stillborn' history. Elgeti commented, "Establishing the company as a REIT has to do with more than just tax efficiency. The structure is particularly suitable for granular and cashflow-strong commercial property portfolios like ours, while at the same time the strictly-defined REIT regulations send out a signal about the kind of quality we're offering to our investors."

Deutsche Konsum REIT-AG has been listed on Berlin's stock exchange since last December. Elgeti as CEO has 45.7% of the shares through various companies he owns, with other shareholders named as the New Zealand-based **Next Generation Trust** and **Lotus Aktiengesellschaft.**

Germany/Pension Funds

Germany's BVK mandates Hines with €1.3bn retail investment

Germany's largest pension fund **BVK Bayerische Versorgungskammer** has mandated the US-based **Hines** to execute a €1.3bn separate account programme, focusing on investment in high street retail assets across 20 European countries. Hines has already bought the first asset, a landmark building on Oslo's premier shopping and pedestrian street.

Under the terms of the mandate, Hines will identify, acquire and manage core-plus, value-add deals for the €62bn pension plan, as well as development and redevelopment opportunities. BVK, with €62bn of assets under manage-

ment, said it intends to hold the majority of the investments for the long term.

The Hines mandate is to encompass a range of value-added measures, including rental reviews, repositioning and re-leasing of units, store reconfiguration and light refurbishments. It will also include major redevelopments, including conversions and ground-up developments

The agreement is the latest in a line of mandates and investments on behalf of German pension funds worth €1.5bn to Hines over the last two years, the firm said. Among its deals was the 2014 acquisition of **Amazon's** London headquarters for £245m for a German pension fund. Hines also set up the **HV Trophy Mandate** in February 2014 for a German institutional investor with €250m of initial equity to buy trophy properties in select European and US cities.

Lars Huber, co-chief executive at Hines Europe, said: "This is a significant mandate for our European business from one of the world's leading investors in real estate. It enables us to capitalise on our integrated business model and leverage our pan-European platform to focus on value creation through active asset management, refurbishments and redevelopment."

BVK is gearing up its investment in property as a proportion of total assets – with a particular emphasis on high street retail. According to BVK's **Norman Fackelmann**, head of real estate investment management, the sector offers attractive fundamentals, and good opportunities to source value-add assets in strategic locations for long-term investing. "Hines represents the perfect fit for executing this strategy given the strong track record in asset level value creation across a broad range of markets," he added.

The first deal under the mandate was a 5,100 sqm acquisition on Karl Johans gate, Oslo's leading shopping street, bought in a sale-leaseback with **Landkreditt Bank** for €52m. "The building in Oslo is typical of the kind we are targeting; a well located, retail anchored asset offering both income and importantly, the opportunity to use our real estate expertise to deliver enhanced capital value to the investor," said Hines Europe managing director **James Robson**.

US group Hines has $87bn of assets under management and is already well-established in Europe, with investments in France, Germany, Ireland, Italy, Poland, Spain and UK, as well as Russia.

Germany/Listed companies

Further stable growth at AIM-listed Summit Germany

The AIM-listed **Summit Germany**, which focuses on commercial properties in Germany's larger commercial centres, added an office building in Munich and another in Duisburg to its Germany holdings for a total of €15m.

The properties consist of 12,000 sqm of lettable area and are fully let to several strong tenants with a Weighted Average Lease length (WALL) of 6.5 years. The aggregate net rent is about €1.2 million per annum, reflecting a rental yield of 8.1% on the acquisition cost. Since the last trading update in December 2015, the company has also sold 3 small retail properties for a total consideration of € 2.4 million, in line with their book value.

Zohar Levy, Summit's managing director commented, "The acquired properties in Munich and Duisburg fit our strategy as they are well located, with low capital value and a very stable income. Together with long-term financing they will improve our cash flow. We continue to strengthen our portfolio by disposing of small and non-strategic properties while acquiring properties in strong locations and we expect to acquire more properties in the next few months."

At the end of 2015, Summit Germany owned 103 assets with 860,000 sqm and net rent of €57m p.a., at an occupancy rate of 87%. At mid-2015 the company's assets were valued at €582.4m, reflecting a rental yield of 8%. Subsequent revaluations brought the portfolio value to €718m.

The company has borrowings of €330m, reflecting an LTV of 46% at an average loan duration of 5.8 years and an average interest rate of 2.8%.

Germany/REITs

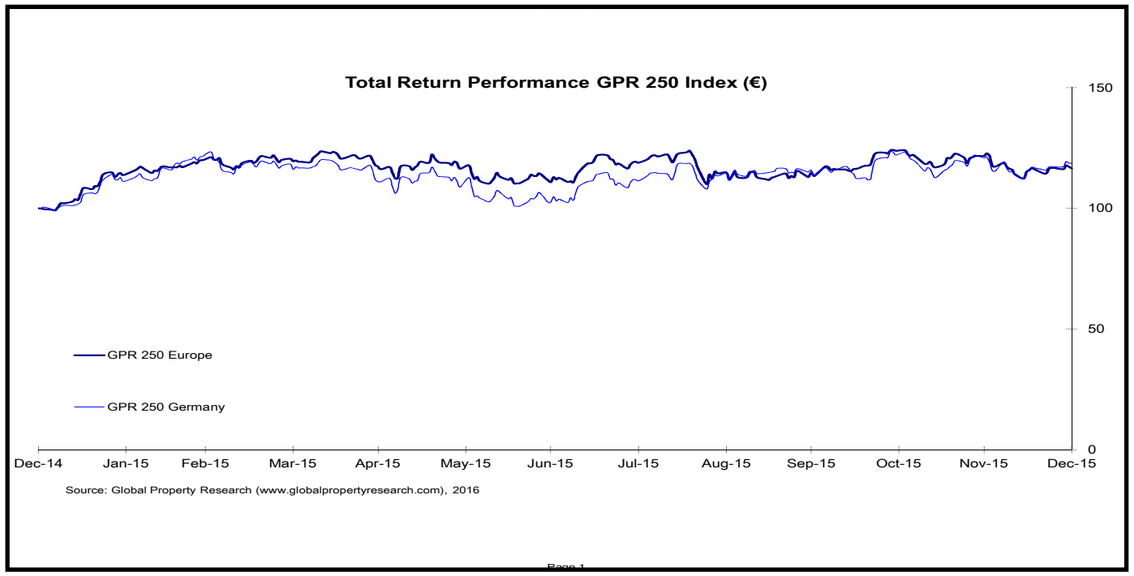
Dream Global REIT buys Vienna property in Asian JV

The Toronto-based **Dream Global REIT,** which is a pure play on German commercial real estate for Canadian investors, has dipped its toe for the first time outside of Germany. It has teamed up with an Asian sovereign wealth fund to buy a 50% interest in the high-profile *Rivergate* office complex (*pictured, right*) in the Austrian capital Vienna, for a price of €189m.

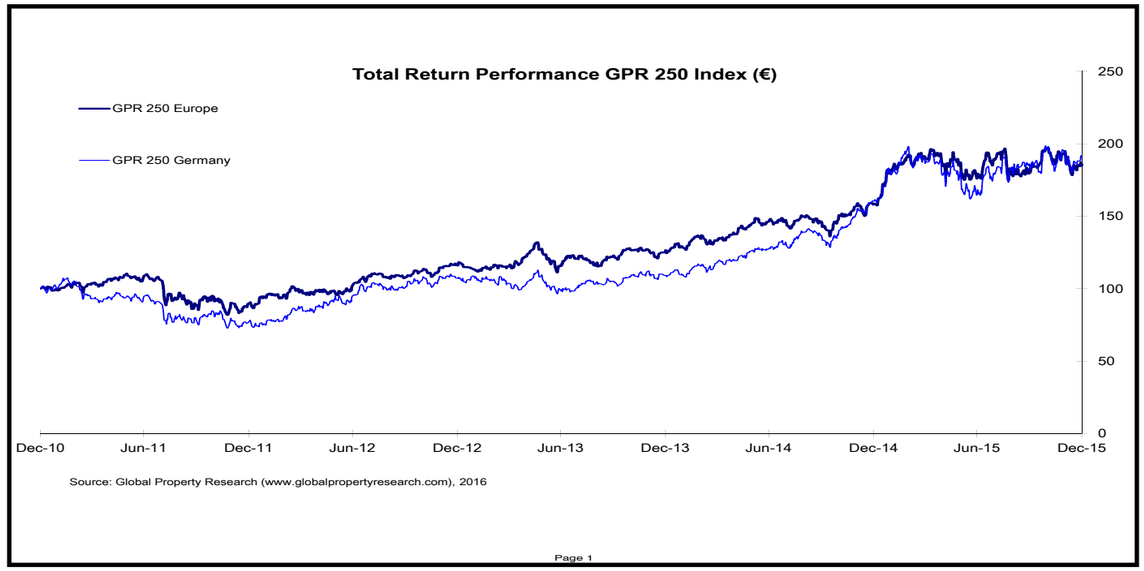
Dream said the Asian partner, (not named, although the REIT has prior history of selling a 50% share of eight properties two years ago to the **South Korean Public Officials Benefit Association**), would be its 50% joint venture partner in the investment. The cap rate is 5.2%, with upside potential through leasing and annual indexations, while Dream will also earn asset management fees from the JV. Dream finance the deal with a 5-year interest-only mortgage at a 55% loan-to-value rate, and at an interest rate of 1.6%.

Located on the Danube waterfront, and adjacent to *Handelskai* station, a key transit hub, Rivergate comprises 54,000 sqm and comprises two towers connected by an enclosed atrium. The property is 95% occupied or committed with a weighted average lease term of 7.3 years. Major tenants include the **City of Vienna**, **Thales**, **Global Blue**, **Grant Thornton**, **Sky** and **Mars**. Built in 2010, it was the first property in Austria to receive LEED Platinum sustainability certification.

Dream has also been refinancing its initial German portfolio, which it says will save it annual debt service costs of more than €11m. It refinanced a €244m, five-year facility with Bank of America Merrill Lynch, that bears a variable interest rate equal to three-month EURIBOR capped at a weight-



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

ed average 1.03%, and margin of 225bp.

In a significant deal last November, Dream signed a 20-year lease with the **City of Hamburg** for the entire 16,000 sqm of space at Hammer Strasse in the city, currently occupied by **Imtech Deutschland**, which filed for insolvency last August. The City of Hamburg will move in in November 2016, while Dream repositions the property after Imtech move out in April this year.

According to **Michael Schwöbel**, head of real estate Europe for the Canadian group, "Signing this lease has helped us turn the insolvency of a tenant into a value-enhancing opportunitiy for the property. The long lease combined with a triple-A covenant will enhance the attractiveness of the property and improve the quality and stability of the cash flow."

Not counting the Vienna acquisition, Dream Global REIT owns and operates German assets worth Can$2.6bn, with its investment focused on Germany's seven biggest cities. At the end of September its occupancy rate was 86.8%, up on the 85.3% rate of 2014. In Canadian terms, the stock at Can$8.05 has been trading downwards for much of the past year and is now about 25% below its book value.

Germany/Research

Empirica sees construction dampening 'overheating' fears

The independent Berlin-based research company **empirica** has just published a report looking at the risk of regional house price bubbles across Germany. While sounding a note of caution for certain cities, the report concludes that the level of new construction is helping to dampen the risk of irrational house price rises, while reflecting people's wishes to live in popular urban centres and pay a premium for doing so.

Empirica's latest index report concludes that, in 124 of the 402 German municipalities surveyed, the threat of a house price bubble is indeed high, rising from 110 in 3Q15 and from only 33 three years ago. In 199 municipalities, rents and purchase prices rose in 4Q15, up from 189 the previous quarter and 99 in 2012. It registered excessive new construction volumes only in 14 municipalities.

Despite the rapid rise of house and apartment prices in Germany's Big Seven cities, empirica says there is still little danger of price overheating. Although traditional measures of annual multiples and price/household income ratios have shown big leaps, these are countered by rising construction activity, while such cities can generally command a premium on general attractiveness and job-market grounds.

Empirica does raise its red flag for a number of named cities, such as Bayreuth, Landshut, Regensburg, Trier, Weiden/Oberpfalz and Coburg. Although swollen by growing numbers of enrolled students, they are unlikely to sustainably be able to hold on to all their graduates, and may not be able to justify their high multiples, price-earnings ratios, and level of completions, say the researchers.

Separately, a new market analysis published by **Commerzbank**, Germany's second biggest bank, is more critical of the level of house price rises particularly in Germany's biggest cities, where it identifies signs of overheating. However, it sees the trend of rising prices continuing through 2016, despite warning signs.

The Commerzbank study says that house prices rose in Germany last year by nearly 5%. In Hamburg, Cologne and Munich apartment and house prices rose by 10%, while Frankfurt and Berlin saw rises of 13% over the previous year.

Housing prices over the last five years have now risen noticeably faster than rents and incomes – in the case of incomes, house prices have risen nearly a third faster than household income, which **Marco Wagner**, the author of the Commerzbank study says is, "without question, even without a historical comparison, a property market that's showing clear signs of overstepping itself in the major cities." An example is Munich, where last year households were paying 7.6 times their annual average income for a normal 80 sqm apartment.

Commerzbank points to data from the **Bundesbank** showing that provision of mortgage credit has risen 4% over the past year, outstripping private household income, which rose 3%.

Europe/Study

Europe to see largest share of €48bn global investment in 2016

Investors will commit at least €48bn to global non-listed real estate in 2016, up 13% from last year with the lion's share flowing into Europe, a new survey from the three regional groups **INREV**, **ANREV** and **PREA** shows. (INREV, which had been carrying out the survey since 2007, teamed up with its sister organisations in 2014 to provide a more global perspective.)

More than half of all investors expect to increase property allocations over the next two years, the associations' latest *Investment Intentions Survey* found – due to an enduring appetite for property in the quest for long-term income, diversification and inflation hedging. The average global investor is targeting an overall real estate allocation of 10.3% over the next two years, 90bp ahead of the current 9.4%, with European investors above average at 11.4%.

The survey of 345 investors and fund managers with almost €2tr of assets found an enduring appetite for property in the quest for long-term income, diversification and inflation hedging. Europe and North America are expected to contribute around 40% each of the total real estate capital in 2016, with Europe forecast to take 41.9% and the US 35.5%. Fund of funds managers significantly favour Europe where they intend to deploy 59.3% of their capital.

Henri Vuong, INREV's Director of Research and Market Information, commented: "Appetite for real estate seems as strong as ever regardless of investor domicile and this year's Survey highlights some interesting themes. For example, the appeal of the big European cities remains undiminished. Despite pricing issues in places such as London, investors clearly feel the benefit of these mature and relatively liquid markets where it is easier to invest and therefore easier to avoid cash drag."

Germany remains top destination for investors – with 73.5% intending to invest there. France is second at 61.8% and the UK third with 58.8%. The Netherlands was the target for 39.7%, Belgium 36.8%, Finland 33.8%, Sweden 32.4% and Denmark 32.4%. However fund of funds managers all put the UK top with Germany, France and the Netherlands sharing second while fund managers rated Germany top at 65.6%, the UK 64.8% and France 48.4%.

Offices are set to attract 88.2% of investors, retail 77.9%, industrial/logistics 58.8% and residential 54.4% and the survey found investors continue to move up the risk curve with value added now preferred to core. Vuong added: "We could be forgiven for identifying patterns that resemble the situation in 2007. However, market composition is very different today and the focus seems much more tilted toward long-term income with the stability that that implies."

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

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