REFIRE
Real Estate Finance Intelligence Report Europe

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Inside REFIRE

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

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

The areas we focus on are:

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

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After hesitant start, real estate crowdfunding now gaining traction in Germany

Germany tends to lag behind when it comes to financial innovation, making a virtue of the apparent security and stability of its financial products. The rise of alternative financing sources, including the emergence of crowdfunding as a legitimate source of collective financing, has been no exception. However, in the German real estate industry, as elsewhere, plenty of new arrivals have appeared on the scene since the first project was launched over three years ago, and the market is now gaining traction.

The subject of crowdfinancing, along with equity bridge financing, was a big theme at the most recent **Real Estate Network Dialogue Hamburg**, a regular event organised by Berlin's **Flatow Advisory Partners (FAP)** in conjunction with **DGIM** and **Savills** which invariably deals with timely issues of alternative real estate financing.

According to **Michael Stephan**, the CEO of Berlin-based **iEstate GmbH**, crowdfunding is now increasingly competing for market share with traditional mezzanine capital in real estate financing. Althought the market is still in its early stages, German property developers are increasingly open to the new form of financing with an additional digital marketing effect, he said.

"In a few years, alternative online financing will be just as established as financing via banks or mezzanine capital providers. Real estate crowd financing has the potential to replace traditional mezzanine financing owing to the speed and simplicity of the transactions", said Stephan.

Alexander Schmitt, counsel at lawyers **CMS Hasche Sigle**, confirmed the rise in mezzanine forms of financing for real estate projects. "From a legal point of view, the objective is to regulate the interests of the primary banks and those of the mezzanine capital providers at an early stage in the structuring and via an inter-creditor agreement," he said. He cautioned mezzanine finance providers to be mindful of regulatory pitfalls so

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After a record take-up for German logistics in 2015, a new report from UK research firm Capital Economics suggests that occupier demand in German urban areas is likely to hold up well again this year. This is despite a fall in Q1 of the logistics sentiment indicator from the influential Kiel Institute. page 3

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Engel & Völkers Investment gains €30m NPL sales mandate

Engel & Völkers Investment Consulting (EVIC), set up for the network of more than 300 estate agents working across Germany for real estate broker group Engel & Völkers, has gained its first Non-Performing Loan sales mandate. ..see page 21

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

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

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

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

Publisher:
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49 Sandymount Avenue,
Ballsbridge
Dublin 4, Ireland

as to avoid excessive licensing requirements when lending.

Rahim Bavandi, a director at real estate investors **Empira AG** in Zug, Switzerland, said a key reason for the popularity of mezzanine and equity bridge financing is the opportunity to combine rapid decision-making processes with individual lending structures and short maturities. He considers this a genuine unique selling proposition in the real estate financing market. "The central components of bridge financing are track record, business plan and the exit strategy of the borrower," said Bavandi.

"The growth rates in real estate crowd financing over the last two years speak for themselves. We will be involving it as an additional component of potential financing structures, thus complementing what we can offer to our clients"

Jörg Scheidler, Head of Capital Partners at Flatow Advisory Partners, said that FAP were increasingly regarding crowdfunding as a growing and exciting element of future real estate financing. FAP has specialised in procuring and structuring capital for investors into German real estate for more than a decade.

"The growth rates in real estate crowd financing over the last two years speak for themselves", said Scheidler. "We will be involving it in appropriate deals as an additional component of potential financing structures, thus complementing what we can offer our clients."

A sign of how interest in the crowdfunding segment has grown is the recent establishment of the first nationwide association of crowdfunding members in Berlin – of whom 45% are in the real estate space. The **Bundesverband Crowdfunding e.V. (BVCF)** has just been set up in Berlin with an initial 22 members to realise common projects and set professional standards for the industry.

The members include Aescuvest, Bettervest, Brickgate, Companisto, Conda, Deutsche Bildung, Exporo, Flmstr, FunderNation, GeldzuGrün, Giromatch, Greenvesting, Immofunding, Investofolio, LeihDeinerUmweltGeld, Lightfin, and Zinsland. Associate members include Effecta, law companies KWAG, Ahrens und Gieschen, Schiedermair and Schenk Lechleitner Krösch, as well as payment platform Lemon Way.

Other names we're hearing about at REFIRE include Brickvest, crowd house, Home Rocket, REVAL, Renditefokus and Bergfürst, as well as Michael Ullman's Kapitalfreunde, on which we've reported a number of times.

Brickvest is a pan-Eropean platform that launched only 2 months ago, but has already raised over €1m and claims more than 1,300 members, including many family offices and high net worth individuals. It says it has two over-subscribed ofers for two German "institutional grade" offers, which is pushing them to scale rapidly.

CEO **Emanuel Lumineau** said, "We knew BrickVest could satisfy sophisticated investors, historically unable to access significant real estate investment opportunities, and the success in the first month is strong validation for the platform. With the first two deals in Germany already closed, our members have indicated their intention to increase their allocation to our investment offerings. We are now focused on investing in our technology and people to scale our services and on ensuring that we are reacting swiftly to this remarkable global demand for accessible real estate investment."

Separately, Flatow Advisory Partners (FAP) issued details this week of a mezzanine financing package which they put together for the Luxembourg-based **Corestate Capital Group**. Private equity investor Corestate refinanced a €150m high street retail portfolio, consisting of

68,000 sqm of lettable space at 13 separate inner-city locations across mid-sized German towns.

FAP carried out initial market screening for a structured refinancing, and settled on a €25m mezzanine finance solution in a subordinated structure spanning three legal jurisdictions. The mezzanine capital is being provided by Düsseldorf-based **Caerus Debt Investments**, which is backed by Swiss investors.

CEO Curth-C Flatow commented, "From our international network we were able to identify a suitable capital partner and work out a tailor-made solution for our cient. The big challenge here was to integrate the financing into an already highly complex capital structure."

NEWS ROUNDUP

Germany/Study

Further logistics rental growth forecast for Germany

After a record take-up for German logistics in 2015, a new report from UK research firm **Capital Economics** suggests that occupier demand in German urban areas is likely to hold up well again this year. This is despite a fall in Q1 of the logistics sentiment indicator from the influential **Kiel Institute**.

Around Frankfurt in the Rhine-Main area of Germany, logistics has recently surpassed finance as thelargest provider of jobs, while the growth rate in the sector in Frankfurt has far outperformed other German cities. Since 2008, logistics employment in Frankfurt has risen by 16%, compared to a 12% rise in Berlin, 10% in Munich and 6% in Hamburg.

The researchers DO point to a shift in sentiment in the sector, which is not entirely positive. The fall in the Kiel Institute's indicator, to its lowest level in three years, came from a drop in sentiment from logistics service providers. In contrast, industry and trade sentiment increased, point out the researchers.

Capital Economics argues in the report that the prospects for logistics occupier demand in the major cities is stronger than the headline indicators suggests, because demand depends to a greater extent on retail trade and final-mile delivery companies – both of

EDITORIAL

One person, one cup, one neighbourhood at a time...

It's barely 15 years since French activist José Bové was sentenced to three months imprisonment for the destruction of a McDonalds fast food restaurant in the small town of Millau, in the Midi-Pyrenees region in southern France.

The French sheep farmer and Roquefort cheese producer was protesting against what he called the "McDomination" of the world, a term he favoured to refer to the standardisation of foods that, as he and his followers contended, were transforming the fruits of the earth into just one more mass product.

It would be easy to say we've come a long way since then, but it's doubtful whether our tastebuds have changed all that much. Bové himself has progressed, though, becoming a folk hero, green activist, eco-warrior and even a presidential candidate in the 2007 elections.

Although for many purists in France, "MacDo" is the epitome of *malbouffe*, or bad food and bad eating, most of their countrymen evidently disagree. In fact – quelle surprise! – McDonalds in France is the Chicago-based burger chain's Number 2 market worldwide after the US.

Not that the French don't enjoy leisurely meals and two-hour lunchbreaks – of course they still do, frequently. But the reason why the world's largest food chain can prosper so well cheek by jowl with all those Michelin three-star restaurants is because it has taken pains to adapt to French eating habits and tastes.

Much of its food is locally-sourced, it offers all kinds of Frenchified dishes, its cattle are all grass-fed (as against corn-fed), and are free of growth hormones, which makes them tastier to the French palate. Their restaurants are often spacious and tastefully decorated, encouraging young French people to linger and enjoy their food and McCafés.

And that's just France. All across Europe the role of food and restaurants is becoming increasingly integrated with retail real estate and the bricks-and-mortar shopping experience. Sophisticated food chains are now wooed as hotly-desired tenants in shopping malls, train stations, and other places where people gather – for many, the food courts in shopping emporia are as much a draw as the goods on offer. (In the interest of full disclosure, your editor admits to having visited IKEA more than once purely for a plate of Köttbullar, those delicious Swedish meatballs with lingonberry jam, followed by a slice of almond cake. Or a hot dog. And then rapidly departing, buying nothing else.)

Now, cynics have suggested that IKEA offer their food cheaply as their way of apologising for making you assemble your own furniture. Naturally their reasons are much more refined than that. If you've eaten for €6.99 including limitless free soft drink refill, you'll KNOW you've had a good deal. So that fully-convertible double sofa at €899.00 is likely to be a good deal too, right? Right. Okay, since we don't buy sofas that often, it's harder to tell. But it certainly *sounds* like a good deal…

Food and shopping are becoming ever more intertwined. Investors in retail real estate traditionally preferred negotiating with sellers of shoes, fashion, electronics, and other physical goods for their store requirements, while food vendors had low margin items and complicated technical demands. With physical shopping morphing into a branch of entertainment, the gastronomic offerings – from artisan stands to spacious franchises of international system caterers, to diverse food courts integrated into the very heart of a retail paradise – now put their stamp on their surroundings like never before.

REFIRE is happy to be a sponsor of the 1st International Restaurant Real Estate Congress on June 6th/7th in Berlin, organised by Heuer Dialog and the magazine Food Service Europe & Middle East, German and international investors in retail, hotels and other forms of hospitality real estate will be meeting representatives of the top operators of system gastronomy to look at ways of improving footfall through the right 'mix' of classical shopping and the pleasures of the palate.

Companies sharing their experiences include L'Osteria, Backwerk, Hans im Glück, Vapiano, Sticks'n'Sushi and AmRest, among many others. Just last month the Polish group AmRest bought all 144 company-owned Starbucks coffee shops in Germany, giving AmRest the license to operate and develop the Starbucks brand further throughout the country, the largest market for Starbucks in continental Europe.

Starbucks' mission statement - one person, one cup, one neighbourhood at a time – is about to get a fresh charge of Polish energy, unlikely as that may have sounded until very recently.

The move will double the size of AmRest, the largest independent chain restaurant operator in central and eastern Europe. The group manages brands such as KFC, Pizza Hut, Starbucks and Burger King, and owns its own brands La Tagliatella and two Chinese gastro-concepts from Shanghai.

Is Eating really the new Shopping? It's looking like it. Investors in retail have witnessed the rise in space from 7% to 15% of their lettable space over the past ten years. This is forecast to rise to 20% over the coming ten years, encompassing city and neighbourhood centres, retail parks, railway stations, airports and other mixed-use developments. The smartest investors are alert to these new changes, and are taking heed.

We're keen to learn more about this fast-growing and particular segment of the real estate industry, and encourage investors to join us in Berlin . For those who can't make it, we'll keep you informed with our special conference report.

Charles Kingston, Editor

which, in the Kiel Institute update, reported good levels of business activity and excellent prospects.

This increased need to be even closer to customers suggest to Capital Economics that rental growth will be sustained across Berlin, Frankfurt, Hamburg and Munich over the coming years. Their forecasts envisage average rental growth across the four cities being higher than the historical relationship between GDP growth and industrial rental growth might suggest. This however is partly due to the heavy weighting given to Berlin, which is seeing strong growth and where rents are now on the low side.

Concluding, the Capital Economics researchers forecast average annual rental growth for 2016-2020 of 2.3% in Berlin, while Frankfurt, Hamburg and Munich will see growth rates of between 1.1% and 1.6%.

Austria/Mergers & Acquisitions

Obstacles in the way of CA Immo/ Immofinanz merger

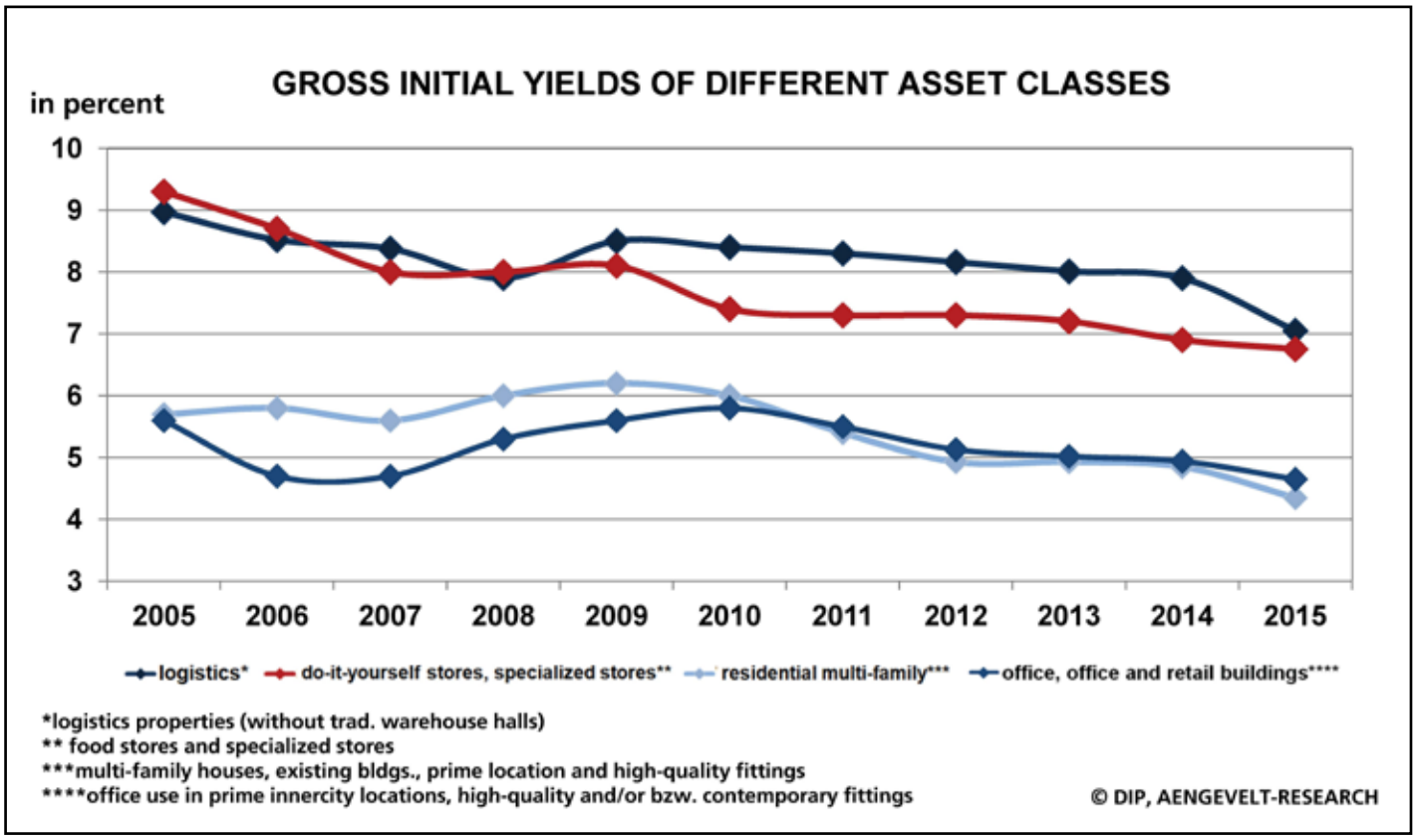
A year after the last, acrimonious, and ultimately unsuccessful attempt to merge their two companies, the two Austrian listed heavyweights **CA Immo** and **Immofinanz** have now agreed in principle to work towards a merger. If all goes according to plan, the two managements said they believed the merger could be consummated by 2017. There are still plenty of obstacles in the way of the merger, both parties concede.

The Russian owned **01 Group**, which is pivotal to the potential merger, has now gained nine out of twelve seats on CA Immo's supervisory board following CA Immo's annual shareholder meeting last week. The Russian group, controlled by billionaire **Boris Mints** and its Cyprus-based subsidiary **Terim Ltd**, which owns 26% of CA Immo, has already agreed to sell it stake to Immofinanz.

After having secured four seats on CA Immo's board for its candidates, O1 made use of three golden shares to choose three new board members in addition to winning investor support for two more of its candidates.

CA Immo's new CEO **Frank Nickel,** who took over from long-term boss **Bruno Ettenauer** earlier this year, said 2017 was the right timing for the merger between the two companies, to make sure the final share exchange ratio would be right for CA Immo shareholders. Both companies would then vote on the respective valuations next year, and will need to gain 75% approval from their shareholders to conclude the merger.

Between now and then, however, Nickel said that he and CFO **Florian Nowotny** see plenty of potential hurdles to overcome – not least that Immofinanz



has said that all is dependent on Immofinanz selling off it Russian retail interests, consisting of five shopping malls with a net asset value of about €500m (versus a book value of €1.2bn). These have been hurt by Russia's weak economy and the collapsing ruble, leading to Immofinanz taking a €400m writedown on the business in February.

O1 Group's agreement with Immofinanz sees it selling its 26% in CA Immo for €604 million, or 23.50 euros a share to Immofinanz, who plan to finance half the investment with a convertible bond, put up €200m in cash, and finance the rest with a bridge loan. It might also consider raise funds by selling shares in its former residential unit **BUWOG AG**, in which it still holds a 29% stake, valued at €540m.

CA Immo's shares spiked briefly above €20.00 before finishing the week at 16.60 euros a share valuing the company at €1.6 billion. Immofinanz 's market capitalisation is about €2 billion, but trades at a deeper discount to its net asset value, at around 50%, than CA Immo, which is viewed as having a more robust cash-flow profile.

A merger between the two companies would create an entity comprising around 75%of its portfolio in office space and 21% retail, with a total space of 3.2 million sqm and assets under management of about €6bn, with a project development pipeline of a further €2bn. According to Immofinanz CEO **Oliver Schumy**, the proposed merger would create "substantial synergies" and lead to annual cost savings of about €33m.

Germany/Financing

Lively launch of new Financing Conference for Real Estate Industry

The **1st Annual Congress on Financing for the Real Estate Industry** kicked off in the *Villa Kennedy* in Frankfurt at the end of April, presented by financial structuring adviser Berlin-based **BF.direkt AG** and the **IREBS International Real Estate Business School** of the **University of Regensburg**, under the overall direction of conference organiser **Heuer Dialog.**

The well-attended gathering, incuding your editorial team here at REFIRE, participated enthusiastically in a lively day of discussions and presentations under the competent and engaging stewardship of **Professor Dr. Steffen Sebastian** of the IREBS (*pictured, right*).

The overall tenor of the day reflected the prevailing view that market participants are becoming more uncertain about the future direction of the market given the record number of new players now active in the sector, and the ongoing low level of interest rates. With liquidity costs rising, alternative sources of credit are becoming increasingly popular.

Prof. Sebastian summed up his view of the market: "Even in the event of a change of direction in interest rates, substantial rate increases over the coming years are highly unlikely. The biggest risk for the industry is likely to come from changes in regulation. Those who are not dependent solely on banks for their financing have got a clear competitive advantage." His view was strongly supported by **Frank Jeschke** of Stuttgart landesbank **LBBW**, who also sees regulatory changes as the main triggers for change in the financing environment in the coming years.

The opening talk was given by ex-Bundespresident **Christian Wulff,** whose statesmanlike presentation of Germany as a solid and desirable destination for real estate capital would have been at home in summit meetings with heads of state around the world. The ex-head of state and CDU prime minister of Lower Saxony is also on the payroll of real estate investor **Corestate Capital** since his deposing as Germany's president in 2012 when facing the prospect of prosecution on corruption charges – of which he was acquitted in 2014.

On real estate Wulff highlighted Germany's strength as a decentralised nation, with its numerous cities, towns and rural districts as having inherently stabilising characteristics, all helping to boost Germany's standing as an attractive investment location.

However, much of the earlier sessions were take up with discussion of the rising level of regulatory demands on finance providers, including higher minimum equity levels, all of which is making lending from classical sources more difficult, in the face of rising demand from borrowers.

Francesco Fedele, the CEO of conference sponsor BF.direkt AG, told delegates that alternative sources of financing would play an ever bigger role in the coming years. In fact, he said, these are being viewed as welcome and complementary tools from finance partners with an equally valid role to play in real estate financing, not least from the perspective of risk spreading.

The role the banks will play will be less a pure lender and more that of a service provider, deploying alternative financing as complementary structural elements of a sustainable financing package for clients, Fedele and a group of panellists concluded.

Ulrich Zick of **Corpus Sireo** among the panellists pleaded for banks to act as watchmen on client credit standings to more adequately price in risk in periods (like now) of effectively zero interest. Fellow-panellist **Gerald Klinck**, the CEO of residential housing giant **Vonovia SE**, put a convincing argument for greater issuing of bonds as a financing instrument on the capital markets thanks to their lower one-off and ongoing costs.

Hans-Günther Nordhues, of **Nordhues & Cie LLP** and bond issuer

K-Bonds, highlighted the attractions of Schuldscheindarlehen, or promissory notes, an instrument only now beginning to gain wideer acceptance in the real estate sector (*see article in this issue on Alstria Office REIT AG's latest refinancing*).

Germany/Financing

Deutsche Hypo boss warns on yield obsession versus quality

The **Deutsche Hypo Index**, which reflects sentiment in the German real estate industry, has fallen back of late – most recently by 3.7% in April – due to lack of availability of suitable investment objects and nervousness among participants about the future direction of the market.

The composite index, which includes a sentiment component based on the perceived climate as well as a component based on hard facts, such as the **DI-MAX**, the **DAX**, and a variety of other current data, is telling its own story at the moment, said **Andreas Pohl**, board member at **Deutsche Hypo** and the senior decision maker at the bank for real estate financing approvals.

He was talking to a small group of journalists recently in Frankfurt, including REFIRE, to celebrate the 100th monthly reading of the index his bank sponsors (known in its early days as the **King Sturge Index**, when it was originally launched in 2008, and which we have continued to report on since its inception).

The index is based on a survey of an expert panel of over 1,000 market participants. It includes investors, project developers, service providers, advisors, banks and associations, 40% at CEO level. The research is carried out monthly by real estate research group **BulwienGesa**, whose CEO **Andreas Schulten** was also at the briefing (*see separate article on project development in this issue*).

Pohl said, "On the one side there are the hard facts, and on the other, gut instinct – and for many industry participants the situation is not normal at the moment. At the bank we are also viewing yields very skeptically. In our view, they are not sustainable."

He added that the current preoccupation with yields, rather than quality, was masking potential weakness in the market further down the line. Just by investing more into B, C or even D-cities will not be the answer for all institutional investors, as many of those cities will be the first to bear the brunt in a future downturn, he said.

Pohl drew parallels with the gold-rush mentality that prevailed before the financial crisis, driven by an excess of liquidity forcing investors to be in the market at all costs. The difference, he acknowledged, is that the banks are much more cautious this time around.

A closer look at the different asset categories in the April reading shows the office sentiment reading fell most steeply, by 5.6%, followed by retail (-4.7%) and residential (-2.6%). Logistics and hotels gained 0.5% and 0.2%, respectively.

"Here's where we see the positive sentiment for the two asset classes being driven by demand from investors seeking higher yield on the one side, and by rising performance figures such as more overnight stays on the other," said Pohl. He warned, however, that his bank was now seeing investors engaging in niche segments without necessarily having the appropriate sector expertise.

Germany/Study

Building land too expensive to solve housing problem – BulwienGesa

Planning permission was granted in January and February for 54,000 residential units in Germany, a rise of 33% on the previous year and probably a new record on a monthly basis, according to the country's **Federal Office of Statistics**.

This is obviously good news, given the widely-acknowledged shortage of affordable housing especially in Germany's bigger cities. And if the big residential project developers see sufficient incentive to continue to build housing, then the country may be on its way to meeting its ambitious housing targets of at least 350,000 new units annually to come close to meeting demand.

However, **Andreas Schulten**, the CEO of leading German real estate research group **BulwienGesa**, is sceptical that the big developers such as **Zech Group**, **Bonava** or **Formart** will continue to see the sense in building for too much longer. The reasons are political regulation, increased construction costs and much-too-high land prices, he says.

Construction costs are so high that only new properties in the higher-price segments are justified, while the number of potential sites in the big cities is very restricted. The issuing of permits takes too long, and the new technical and energy-saving requirements are over-complicated, goes Schulten's reasoning.

BulwienGesa has just published a study of 3,400 real estate project developments in the top German cities of Berlin, Düsseldorf, Frankfurt am Main,hamburg, Cologne, Munich and Stuttgart (the Big 7). These include all current, planned or completed projects between 2013 and 2020, across the asset categories Office Residential, Hotels and Retail.

All the big developers have full order books for residential projects, with more than 17.1m sqm of new residential, a rise

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of 1.1m sqm since last year. However, this is lower than the average 1.3m to 1.7m sqm annually on the books since 2010. In other words, growth is slowing, at a time when it needs to be rising fast, and is running well below the 300,000 to 400,000 units now required annually. The big cities are increasingly attracting inward migration, whether migrants from more rural areas or recently-arrived refugees.

Germany's **Bundesverband Freier Immobilien- und Wohnungsunternehmen (BFW)**, a lobby group for German housing associations and private property owners, recently surveyed its 1600 members for their views on the market's direction. Over 80% expect prices for new-build and second-hand housing to continue to rise.

The big problem is that the building firms can only build at prices that make their properties unaffordable for too many people. According to BFW president **Andreas Ibel**, speaking at a housing conference in Berlin last week, "In the lower and mid-price segment it's become almost impossible to build. Rising costs and expenses, not enough building land, unilateral amendments to the tenancy laws in favour of the tenant, and continual fresh regulations for energy-efficient building mean that the authorities will have to come up with something drastic to encourage the necessary investment."

The last round of new energy-saving regulations since the beginning of the year alone have been rsponsible for an increase of 7% in building cost, claim the BFW. And this to save 0.02% on the nation's energy bill, they say. This partly explains the surge in planning permissions granted in January and February, says BFW chief executive **Christian Bruch**, as they resulted from applications made in 2015 in advance of the new regulations, which were only now being approved.

The BFW and other pressure groups are now lobbying for the reintroduction of tax relief to encourage construction, with subsidies for building in the (numerous) areas in German cities that are experiencing housign shortages. A condition would be that the buildings are priced at €3,000 per sqm or below, or in the

'affordable' category. The government coalition of CDU/CSU and SPD initially showed enthusiasm for the proposals, but are now dragging their feet. Plans to discuss the proposals, initially scheduled for mid-May, have now been put on ice.

Germany/Legislation

Clampdown on Airbnb-style holiday rental market in Berlin

A new law, enacted two years ago but which only came into force on May 1st, aims to restrict private rentals through **Airbnb** and similar sites such as **Wimdu** and **9Flats**, in a move which is designed to keep housing affordable for local Berlin residents and put a halt to rapidly-rising rent levels.

The law, known as *Zweckentfremdungsverbot*, or "prohibition of improper use", is designed to prevent Berliners renting out their apartments to tourists and thus limiting the supply of apartments coming to the market in the normal way.

Berlin has become one of Europe's major tourist magnets, with overnight stays last year numbering 31 million, according to official statistics. Research firm **GBI** estimates that private online bookings through sites such as Airbnb represented "a parallel market of an additional 6.1 million overnight stays" last year. This is significant enough to impact on the local hotel industry, say the GBI researchers, who put the figure of apartments being rented out to holidaymakers and other visitors at 24,000.

Other estimates put the figure even higher. But all agree that Berlin is by far the biggest market in Germany for private rentals, more than three times as many as the second most popular city – Hamburg – with just under 2 million privately rented overnight stays.

The new law seeks to limit the renting of accomodation via Airbnb and similar portals to rooms only, and not entire flats or houses. Fines of up to €100,000 are threatened to landlords not in possession of a special permit to rent their apartments out to tourists. The renting out of single rooms is still allowed, but only when the landlord also lives and is present in the apartment.

The main target of the new law is mainly smaller one-room (plus kitchen and bathroom) apartments, many of which have disappeared from official rental markets. Berlin has 75,000 such apartments, much too few for the actual demand for small-sized accomodation. (*Given Germany's underdeveloped market for hostels and other inexpensive accomodation, this also partly explains the rapid growth in building of serviced and micro-apartments in the bigger cities, alongside student accomodation*.)

The **City of Berlin** has already courted controversy by encouraging civic-minded citizens to anonymously 'denounce' their neighbours if they see the law being flouted, a measure which has drawn nasty parallels in the media with the practices prevailing under the *Stasi* in the days of East Berlin.

The numerous opponents of the new law argue that the city authorities are making scapegoats out of those who avail of Airbnb and the others, favouring the hotel industry and making Berliners pay for the city's own municipal failings in providing sufficient affordable housing.

Airbnb argues that the law won't have the effect of lowering rents, but will simply drain money from the city. In a statement from Airbnb Germany, spokesman **Julian Trautwein** said, "Berliners just want clear and simple rules for home sharing, so they can continue to share their own home with guests." He said the practice is not directly comparable with staying in a hotel, and that visitors were looking for a different kind of cultural experience.

"We will continue to encourage Berlin policy-makers to listen to their citizens and to follow the example of other big cities such as Paris, London, Amsterdam or Hamburg and create new, clear rules for normal people who are sharing their own homes," he said.

A new movement seems to be growing, with property owners forming the *"Apartments Allianz"* to look after their own interests and refute the charge of being greedy capitalists exploiting their access to property at the expense of fellow Berliners. They're arguing that they are net contributors to the overall positive image that Berlin enjoys worldwide.

Germany/Research

German building societies see further 4% price rises this year

Despite the higher level of construction activity across the country (see article elsewher in this issue), German property prices are still expected to rise this year by 3% to 4%, according to a recent survey of **Landesbausparkassen (LBS)** building societies.

Cheap financing costs, rising wages and low unemployment are fuelling rising

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demand for property, according to the survey, as well as high immigration.

The survey was carried out among 600 representatives of LBS and **Sparkassen** across Germany – traditionally the strongest lenders to the residential sector.

"The good news is that construction activity is reacting and promises some relief in the future," said LBS director **Axel Guthmann**, adding that building permits hit a 15-year-high in 2015. "However, German citizens will have to adjust to a further increase in prices for the time being," he said.

Property is most expensive in Bavaria, with a detached family house in Munich costing about ten times the price (about €1m) of a similar property in several mid-sized towns in eastern Germany. After Munich comes Regensburg (€790,000), Stuttgart (€780,000), Wiesbaden (€750,000) and Freiburg im Breisgau (€700,000).

The study shows how certain suburbs are even more expensive than the cities to which they are attached. Grünwald in Munich has an average house price of €1.55m, while Starnberg outside the Bavarian capital is at €1.2m. Meerbusch property at €725,000 is about €275,000 more expensive than in neighbouring Düsseldorf, while Frankfurt's suburb of Hofheim is €150,000 more expensive than Frankfurt at €800,000. Other scenic cities such as Constance and Lindau are also high-priced exceptions.

The study also features cities with about 500,000 in population, such as Leipzig, Hanover, Bremen, Dortmund and Dresden, where there are plenty of properties between €250,000 and €320,000.

The LBS study point to noticeably higher price increases over the last few years in new residential buildings, particularly in cities that are attractive to tourist, university cities and larger conurbations. Second-hand property has been rising too, but less strongly, with property on higher floors of apartment building up to 40% less expensive than new-build in mid- to larger towns in the north and eastern part of Germany. (This generally does not hold true for the prosperous states of Baden-Württemberg and Bavaria).

The critical factor leasding to higher prices is the bottleneck in the price of building land. This now costs more than €400 per sqm in southern German urban areas, more than three times higher than in the north (€130 per sqm) and more than five times higher than in the east (€80). However, in cities like Munich the price is as high as €1,550, while in Stuttgart and Wiesbaden €900 per sqm is more usual.

At the opposite end of the market, for less than €100 per sqm, land can be bought in Bremerhaven, Chemnitz, Cottbus and Salzgitter.

Germany/Asset Management

Warburg-HIH signs co-operation deal with Cording

German investment manager **Warburg-HIH Invest Real Estate** has signed a deal with rapidly-evolving **Cording Group**, which will see Cording taking over the asset management of Warburg-HIH's property portfolio in the Benelux countries.

The portfolio currently comprises five office properties, in prime locations in Amsterdam, with a total volume of around €300 million. Warburg-HIH had bought the properties on behalf of German institutional investors.

In Germany, the Hamburg-based Warburg-HIH is one of the leading managers of *Spezialfonds* for real estate, with real estate assets of €5.7bn under management, and has just opened up new offices in Paris and Madrid.

The partnership arrangement with Cording is designed to go further, and will see Cording taking on a hands-on role in sourcing and buying further office properties in the Benelux countries, for which a war-chest of an initial €150m is available. Cording says that the assets targeted will be core properties with multiple tenants, in the A-locations of larger cities and in established CBD's, both

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existing properties and developments. Individual asset prices are likely to be between €20m and €100m.

Cording is also flexing its muscles as it expands its range of activities, and recently reshuffled its management team . The moves included promoting **Rodney Bysh** (*pictured, below*) to CEO of its group business, and **Will Amies** to deputy CEO. Bysh had been looking after the German and the Dutch subsidiaries, and he told REFIRE recently that Cording plans to further intensify its business with segregated accounts and club deals for third party investors. Cording currently manages assets of €2.7bn in its key markets of the UK, Germany, Scandinavia and Benelux, with 100 staff operating from four offices.

The restructuring also involves the further integration of **Feldberg Capital** in Frankfurt, where Bysh was previously CEO, into the Cording organisation, and re-unites Bysh with **John Partridge**, for whom he earlier worked for seven years at **Henderson Global Investors**.

Back in Germany, Warburg-HIH has just launched two local retail funds for its German institutional investors. The target volume for each fund is €400m to €450m, with the equity volume for each at €250m.

The two open-ended real estate *Spezialfonds*, called **Warburg-HIH Perspektive Einzelhandel Deutschland**, will invest in retail properties in fast-growing locations in Germany, including cities outside the Big Seven, according to the company. Both will have a planned lifetime of 15 years. One fund will focus on high-street commercial properties and is expected to generate a 4% yield, while the other one will invest in retail warehouses and local convenience centres and is targeting 5% returns.

Germany/Research

Capital Economics bullish on German high street retail rents

A separate study produced by UK research group **Capital Economics** also takes a bullish view on the direction of German prime high street retail rents. The researchers see further growth in rent levels as growing populations in Germany's biggest cities will offset a slowdown in consumption.

According to the researchers in their latest report, demographic factors will improve prospects for retail sales in the largest cities more than for Germany as a whole. Despite the surge in immigration over the past year, the report notes that, "Forecasts from the UN and Germany's Office for Building and Planning suggest that Berlin, Frankfurt, Hamburg and Munich will all experience population growth over the next five years, whereas Germany's total population is set to fall."

"Combined with the importance of well-located stores for multi-channel retail strategies, that suggests the outlook for prime high street rents is positive," Capital Economics said in a new report. It expects rents to rise by 2.9% p.a. on average between 2016 and 2020 in the four biggest cities.

Although German consumer confidence rose in April, retail confidence fell back, according to the latest European Commission sentiment indicators. Capital Economics said it believes that the retail indicator is behind the curve, while the consumer confidence indicator is more forward-looking. "Even if consumers are being unduly pessimistic, we would be wary about overstating the retail outlook", the report said.

German retail sales growth has already slowed to 1.6% y/y in February from 3.7% six months ago. The decline did not come as a surprise as falling energy prices led to inflation of just 0.1% last year, which provided a boost to consumer spending power. "Yet as the effect of low energy prices fades, inflation will pick up and real wage growth will weaken," said Capital Economics. It forecasts consumer spending growth slowing to an average of 0.8% this year and in 2017, down from 1.9% in 2015.

Germany/REITs

Alstria REIT issues €150m promissory note, GIC takes stake

Germany's first and original REIT, the Hamburg-based alstria Office REIT AG, has placed its first *'Schuldscheindarlehen'*, or unsecured promissory note with a total volume of €150m. This is the first time that a listed German real estate company has raised finance with this particular instrument, and it may open the door to other companies also tapping the refinancing markets in this way.

The *Schuldscheindarlehen* is an instrument widely used by German corporates, thanks to the liquidity of its debt market. Recent issuers in Germany include **Lufthansa**, **Porsche**, **Salzgitter**, **Stada**, **freenet** and **Nordex**. Last year the German market was estimated at a total issuance size of €20bn, with investors being mainly savings and loans banks (Sparkassen), insurers, pension funds and international banks.

Reuters puts the volume of German issuance in this year's first quarter at €7.75bn, just below last year's Q4/2015 at €7.83bn – albeit with only 25 transactions, compared to the previous quarter's 41 transactions. The trend is towards ever-bigger deals, including jumbo deals of more than €500m

The alstria €150m note has a maturi-

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ty of between 4 and 10 years (average maturity 7.1 years), with the average coupon of the notes amounting to 2.07% p.a. The offer was substantially oversubscribed and was placed with 47 German and international financial institutions. The proceeds from the new debt instrument will be used to refinance existing secured bank debt, said alstria.

According to long-term alstria CEO **Olivier Elamine** "The achievement of an investment grade rating by S&P in November 2015 opens us a range of new options in the refinancing. It was important for alstria to be able to establish its name not only in the Debt Capital Market, but also in the Schuldschein-Market, in order to further diversify the sources of capital".

Joint lead managers on the issue were **BNP Paribas** and **Helaba**.

Meanwhile, alstria recently bought an additional 1.4% of **Deutsche Office AG** by issuing new shares, bringing its holding in Deutsche Office up to 90.9%. It also announced that Singapore's sovereign wealth fund **GIC** had bought a 12.7% stake in the company from US private equity group **Oaktree**, valuing the stake at just under €250m at the current share price of about €12.30.

With GIC joining the shareholder roster, Oaktree's stake dropped from 25.4% to 13.4%. The Oaktree shareholding came about when alstria took over DO Deutsche Office in October 2015. Alstria now owns and manages 120 offices across Germany, valued at about €3.3bn.

Germany/Acquisitions

BVK buys first German outlet centre, Finnish residential

The Munich-based **Bayerische Versorgungskammer (BVK)**, Germany's largest pension scheme group, has been powering ahead with its 'high street retail' strategy over the past year, and has now bought its first German outlet centre, through its mandate with **Invesco Real Estate**.

Invesco bought the **Designer Outlet Centre (DOW)** in Wolfsburg from **Europa Capital** for an unnamed sum, (talk within the industry suggests it might be around €150m) and plans to redevelop the asset for BVK, adding around 4,500 sqm and

bringing the number of retail brands in the centre up to 100 units. Munich-based landesbank **BayernLB** is providing financing for the deal.

Europa Capital's **Europa Fund III** has been the owner of the centre since 2012 with local partner **Hans Dobke** of **Outlet Centres International**, who originally opened the centre in 2007 and will continue to manage the 17,500 sqm centre for Invesco, while retaining a minority interest.

Europa Capital bought out the original equity backer **Lehman Brothers Europe RE** and itself funded the development of a second phase in 2013, which enlarged the centre by a further 19 units to over 80 shops currently. The centre is unusual for both its conspicuous modern archtiecture, and in that it is located in the town centre of the **Volkswagen** city of Wolfsburg, in Lower Saxony, rather than on the outskirts, as would be more typical.

It is one of only 12 outlet centres in Germany, a market which lags much of the rest of Europe in development of the factory outlet retail segment. With 2.6 million annual visitors, the centre is the third-biggest by trade volume of Germany's outlet centres.

Europa Capital's **Nic Fox**, partner and head of Middle Europe for the London-based group, said the sale to Invesco highlights emerging instituional investor interest in the niche retail segment. "The successful purchaser led a group of other leading institutions in the bidding process, alongside specialist funds, fund managers and established retail operators. I anticipate the new owners will see further significant growth in turnover in the long term, not least following completion of the next phase", he said.

Fabian Manegold, senior transactions director in Germany at Invesco, said outlet centres were "key distribution channels for today's brands".

"Coupled with robust consumer spending in Germany and the unique location of this particular centre, this proven concept and sub-sector of the German retail market will provide strong income growth and total returns for our client's portfolio," Manegold said.

Separately, BVK also bought an €80m residential portfolio in Helsinki, comprising of 356 apartments and a total aral of 18,800 sqm at seven different locations in the Finnish capital's metropolitan area. The seller was local property fund **Tapiola.**

Local Finnish-based partner **CapMan Real Estate**, which acted for BVK as part of its investment mandate, will also act as asset manager.

As part of its strategy to increase its weighting to real estate, the €75bn BVK has global mandates with **LaSalle Investment Management**, **UBS Global Asset Management, CapMan Real Estate** and others, and plans to add a number more this year, according to **Norman Fackelmann**, BVK's head of real estate investment management, at the recent **MIPIM** in Cannes.

At a current 14%, BVK is targeting an increase to 15% or 16% this year, but is keeping a close eye on market allocations. Speaking at **INREV's** seminar at the MIPIM, **Rainer Komenda**, responsible for real estate funds at BVK, commented: "We think that markets are peaking at the moment, and we're not sure future performance will be as good as it has been." Despite that, BVK intends to raise its allocation to real estate from its current 14% to up to 16% this year, he said.

With overall assets under management of €75bn, this would suggest extra investment of up to €1.5bn by BVK. "We are cautious in the short term, but for the long term we see a continued low interest rate environment. We are heavily invested in alternatives and real estate is a big part of that", said Komenda.

BVK manages the portfolios of 12 occupational pension funds in southern Germany, covering pensions for more than 2 million doctors, pharmacists, engineers, lawyers, musicians, civil servants, and other white-collar workers.

Germany/Listed Companies

TLG buys prominent healthcare property in Berlin for €51m

The Berlin-based **TLG Immobilien AG** has bought an office property in the Reinickendorf district of Berlin for a total investment of €50.6m.

The *Erlenhöfe* building on Aroser Allee is primarily let to companies in the healthcare sector, as are several other properties in the vicinity. TLG new tenants will include **Vivantes**, the largest public group of local medical clinics in Germany, and **Vitanas**, one of the country's largest operators of elderly care facilities.

The property has an occupancy rate of 88.5%, and generates a net rent of €2.9m a year, reflecting an initial yield of 5.7%, with a weighted average lease term of 4.7 years.

The property comprises 36,700 m2 of lettable space divided into an older section, which was fully renovated in 1993, and an extension completed in 1997, on a campus-style layout. The complex includes a hotel and the former R&D facilities of now-defunct electrical company **AEG**.

Niclas Karoff, TLG Immobilien's CEO, said: "It's not easy to find high-quality office properties at reasonable prices in Berlin right now. This is why we're especially pleased to have been able to land this acquisition in our core market of Berlin."

TLG specialises in investment in the former eastern German states, including many assets in the biggest cities of Berlin, Dresden and Leipzig – in which latter two it has already this year bought a hotel and office complex in Dresden for €28m and an office building in central Leipzig for €57m. At end-December 2015, TLG owned and managed properties valued at €1.77bn, with the **EPRA** Net Asset Value per share at €17.37.

The share price has nearly doubled to about €18.50 since its flotation in October 2014, and it has been a member of the **SDAX** for smaller listed companies since February last year. Larger shareholders include Singapore's sovereign wealth fund **GIC** with 13.3% and **Allianz Global Investors** with 5.61%. The free float is 81.06%.

Germany/Acquisitions

Gramercy targeting €800m in Europe, swallows Goodman portfolio

Gramercy Europe, a wholly-owned subsidiary of the US REIT **Gramercy Property Trust**, is taking full control of a real estate portfolio it held in a joint venture with **Goodman**. The deal is part of Gramercy's programme to invest up to €800m in Europe this year.

The investment manager, an investment fund that targets single tenant net leased assets and sale-leaseback transactions across Europe, said its **Gramercy Property Europe** fund was taking the 20% stake it did not already hold in the nine-asset portfolio. The remaining 80% of the portfolio is currently owned by parent Gramercy Property Trust in New York.

Goodman, which held the stake in its **Goodman Europe Development Trust,** will continue to manage the portfolio for Gramercy, with completion of the deal expected later this month. The 499,000sqm portfolio includes eight warehouses in Germany and one warehouse in France.

Gramercy said all buildings were developed within the last eight years and were fully let to strong single-tenant occupiers. The portfolio, which has an average lease term of six years, is occupied by tenants including **Amazon**, **Lear Corporation**, **Geodis Logistics** and **Deutsche Post**.

Gramercy Europe has also just acquired a 280,000 sqm mixed commercial portfolio in the Netherlands, Germany and Poland, consisting of 12 single-tenant buildings, of which six are in the Netherland, four in Germany and two in Poland. **Berlin Hyp** is providing financing of €125m for the portfolio, which is leased long-term to tenants including **Hornbach** and **Cofely**.

Last year the company bought three logistics assets in Poland and the Netherlands for around €60m. The company bought 99,364sqm of logistics centres

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Etienne Dupuy
Head of Asset Management Europe, Invesco Ltd., France

Andreas Karlsson
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in Strykow and Piaseczno in Poland and the 26,379sqm *Van den Heuvel Logistiek* centre in Uden in the Netherlands, as part of nearly €220m of acquisitions in the second half of the year.

REFIRE met with **Alistair Calvert** recently, managing director and head of investment at Gramercy Europe, who said the deals were part of the company's plan to build a pan-European portfolio of industrial, office, retail and special-purpose assets with medium or long-term leases to "highly durable or investment-grade tenants".

Calvert previously worked for **ThreadGreen Europe**, and subsequently sale-and-leaseback specialist **WP Carey** when it bought out ThreadGreen, is spearheading Gramercy's European drive which has initial private equity commitments of €350m from groups such as the New York-based **Fir Tree**, **Senator Investment Group** and Washington-based **EJF Capital**, as well as its own parent company.

Calvert said the company's German pipeline was filling up rapidly with deals, mostly sized between €10m and €30m. All are single-asset sales and are mostly logistics properties. Two deals are under exclusivity in eastern Germany and other smaller deals will soon be closed in cities such as Hannover.

Gramercy Property Europe's fund, set up a year ago, has since built up a portfolio of more than €300m, with logistics making up 63.5%, retail 24%, special purpose assets (i.e. premises including offices and production facilities) at 8% and offices at 4.4%. The fund is targeting cash-on-cash yields of more than 10%, Calvert told REFIRE.

Germany will remain the key market at about 50% investment weighting, with 30% targeted at the Netherlands, and 20% on a discriminatory basis between markets such as France and Poland. Gramercy's close relationship with its tenants means it would, if necessary, follow them into other markets such as Spain or the Czech Republic if that made

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

Yesterday's solutions for the housing of tomorrow?

www.valteq.de

The current housing shortage in metropolitan areas is one of the most talked-about subjects in the real estate sector. Politicians, town planners and indeed the whole general public are looking for solutions to alleviate the pressure on housing markets as quickly as possible. The causes of the problem are easily identified: The trend back towards cities that has been observed now for years, the low levels of new housing development and their concentration on expensive condominium apartments, the neglect of social housing development and the privatisation of former communal housing stocks, as well as immigration to Central and Western Europe, which has only recently intensified with the influx of refugees. The solutions are presented just as quickly as the problem is analysed. And all we can do is shake our heads, for they are comparable with the housing development programme of the former GDR, with which the SED leadership wanted to "solve the housing problem as a social issue by the year 1990": new large-scale settlements on the city outskirts and, as a terminological highlight of the discussion, the construction of "MARs", Modular Accommodation for Refugees; the prefab buildings of the 21st century, so to speak.

Similar developments also emerged in the 1960s and 70s in West Germany and in other Western European countries, such as France. The results can be seen today in the suburbs of Paris and Marseille where ghettos have formed and, albeit in a somewhat milder form, also in the settlements of the former "Neue Heimat". In these suburbs, and much more so in France than in Germany, a form of parallel society has since emerged which has become isolated from general societal development.

To ensure that we do not repeat this mistake, we should be looking around us for alternatives. Sustainable, high-quality and diversified housing concepts are perhaps not the swiftest or most affordable solution. Yet the common good demands that we look beyond the edge of our plates and not just up to the end of the current parliamentary term.

As part of the process, we must find answers to a great number of questions. What housing forms and concepts can contribute to the prevention of social segregation in development areas and high-rise buildings? Would it not make more sense to build real estate with a future, instead of ploughing huge investments into the construction of temporary container apartments? And what does Plan B look like; what will happen with all the real estate if fewer refugees come than were expected, or if they indeed leave the country again and the demography effect makes an impact in Germany?

The answer to this is neither simply nor quickly induced. What we need is a more robust debate on the long-term impacts of the actions we take today. Maybe we will manage to arrive at promising solutions in the mid to long term. As VALTEQ, we are happy to bring our expertise to the table.

sense, said Calvert. Falling yields in the logistics sector in Germany (by up to 75 bps last year, to an average of 5.27%) means that Gramercy's geographical strategy would remain flexible, depending on opportunities, said Calvert.

Germany/Acquisitions

France's ERAFP enters German market with Munich office buy

France's €26bn civil service pension fund **ERAFP**, has made its first venture into German real estate by buying a 12,500 sqm office property and adjoining 400-space parking house in Munich.

LaSalle Investment Management, which has a 10-year European mandate to invest in core-plus assets for **L'Etablissement de Retraite Additionnelle de La Fonction Publique (ERAFP)**, bought the office asset in the Landshuter Allee in Munich's Neuhausen district for a sum "in the two-digit million euro range".

It is the third property investment for ERAFP, which has been steadily increasing its allocation to real estate since last year, when it bought a student housing asset in Kingston in the UK and a freehold retail property in Birmingham.

Beverley Shadbolt, a fund manager at LaSalle, commented, "The Munich-based asset has strong fundamentals, diversified income and a potential for long-term improvement in performance and value, which are all important factors when identifying high-quality core assets across Europe for ERAFP's growing portfolio."

Germany/NPLs

Engel & Völkers Investment gains €30m NPL sales mandate

Engel & Völkers Investment Consulting (EVIC), an umbrella organisation set up for the network of more than 300 estate agents working across Germany for Hamburg-based real estate broker group Engel & Völkers, has gained its first Non-Perfoming Loan sales mandate.

Only at the start of this year did EVIC expand its business model to include NPLs, and its first mandate includes the sale of 17 properties valued at around €30 million via Engel & Völkers' Germany-wide estate agent network. The properties are mainly in B and C locations in western Germany, and consist of retail parks, individual retail properties, and mixed-use properties.

According to **Thorsten Brogt**, head of Distressed Debt/Opportunity Real Estate Funds at EVIC, "We're mainly looking at opportunistic investors and regional developers as potential buyers, and here Engel & Völkers' comprehensive network is definitely an advantage for us in the search for buyers." Brogt recently arrived from NPL workout specialists **Hudson Advisers**, part of the **Lone Star Group**. The E&V Group has over 50 commercial offices throughout Germany.

Kai Wolfram, managing partner at EVIC, said, "Within a few weeks, we

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CORPUS SIREO RESEARCH: OFFICE RENTS IN GERMAN SECOND TIER CITIES ON THE MOVE

– Aachen currently reporting strongest growth
– In Essen, rents see strong growth since 2008

Contact person

Andri Eglitis
Director
CORPUS SIREO Holding GmbH

andri.eglitis@corpussireo.com

Office rents in 14 German second tier cities increased on average by 1.8 percent to 8.24 euros per square metre in the second half of 2015. In the same period, the German "Top 7" cities reported 1.2 percent growth to an average of 13.25 euros. These are the results of the study „Germany 21: Regional office market index". This survey is now available in its tenth edition. For the past five years, it has been carried out by CORPUS SIREO, the German real estate subsidiary of Swiss Life Asset Managers, and the Bonn-based research institute empirica. The current report focuses on the Ruhr region metropolis of Essen.

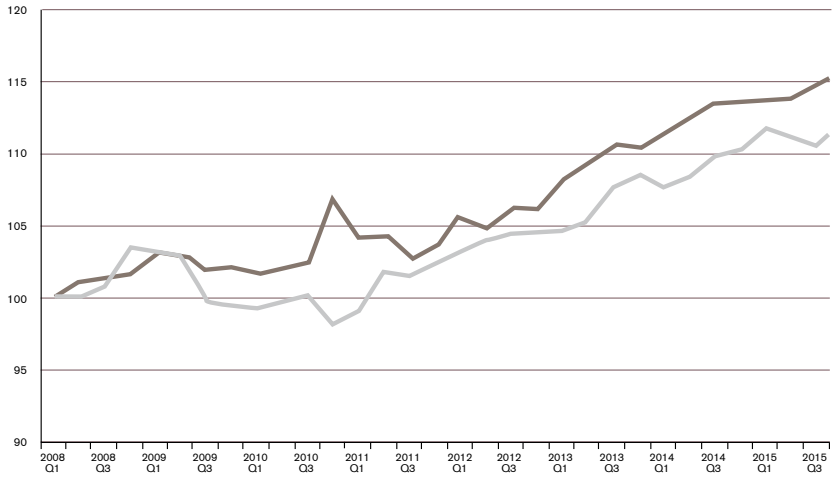
Over a 12-month period, the secondary cities have achieved growth of 1.9 percent in asking rents, and have thus outperformed the prime cities (+1.8 percent). In particular, the volatility in the regional centres was lower than that seen in the top metropolitan areas. Over the whole of 2015, rents reported constant growth on average in the surveyed 14 cities, whereas they fluctuated at the prime cities.

At the end of 2015, the average asking rents at the secondary cities ranged between 6.86 euros per square metre in Leipzig and 9.86 euros in Wiesbaden. The differences between the cities are considerable: The scale ranges from a decline of -1.6 percent in asking rents in Mannheim to an increase of 7.6 percent in Aachen compared with 2014/2015.

With regard to the age categories of the premises at B-cities, old buildings (built before 1945) as well as modern new buildings (built less than three years ago) continued to occupy the leading positions. At the end of 2015, new-build rents on average amounted to 11.95 euros per square metre. Particular mention has to be made of the development of rents for old buildings, which increased in the second half of 2015 by 5.3 percent to an average 7.96 euros per square metre compared with the first half. Depending on the particular city, the rents for old buildings ranged between

REGIONAL OFFICE MARKET INDEX

Development of asking rents in the regional centres compared with the top 7



Asking Rent Indices

14 Key Regional Cities Regional Office Index

"Top 7" Cities Average Asking Rents "Top 7" Cities

Source: empirica Preisdatenbank 2016 (IDN Immodaten GmbH, empirica systeme GmbH)

4.80 and 11.80 euros. Office rents of up to 15 euros per square metre are possible at the top end.

Ruhr metropolis of Essen „high performer" among secondary cities

Of the 14 growth cities, Essen is the fourth largest office market with four million square metres of total rental area. Since 2008, average rents have increased by 17 percent, which means that Essen is one of the cities with the highest increase in rents in the office segment. In 2015, there was a take-up of 140,000 square metres of office space, which is considerably higher than the long-standing average of 100,000 square metres annual take-up of office space.

The average asking rents were approximately 8.55 euros per square metre. The top rent is 14 euros, and the vacancy rate of 5.3 percent is moderate.

This year and next year, a total of 120,000 square metres of new office space will be completed in Essen - 90 percent of this new office space has been prelet. The economy in Essen is one of the reasons for these good figures: Five of the 50 strongest turnover companies in Germany, including three DAX groups, have their headquarters in the city with approximately 575,000 inhabitants.

The complete report „Germany 21: Regional office market index" can be downloaded free-of-charge from: **www.corpussireo.com/downloads**

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were able to acquire our first mandate in our new NPL business sector, and we're confident that further mandates will follow. The German NPL market has a lot of potential, as many banks have to dispose of their distressed real estate loans. We expect about €6bn in transactions in the current year."

Germany/Listed Companies

AIM-listed Sirius refinances, buys two further assets

The AIM-listed **Sirius Real Estate**, which owns and operates self-storage facilities, business parks, industrial complexes and offices across Germany, said this week that it has agreed a new debt facility of €137.0 million on "more favourable terms" than its previous facility, which will be used to complete the acquisition of two business parks in Germany which it bought for €22.0m.

Sirius said its existing facility of €110.4 million has been refinanced with the new debt facility, provided by the same consortium of **BerlinHyp** and **Deutsche Pfandbriefbank AG** (*REFIRE reported on this likely refinancing in our March issue*).

The new facility has been negotiated on more favourable terms, with €94.5 million at an interest rate of 1.66%, fixed for the full seven-year term, and €42.5 million on a floating rate of 1.25 percentage points over three-month Euribor. This will bring the group's weighted average cost of debt to around 2.3%, down from 3.3% as at September 30.

Sirius plans to use the €26.6 million surplus from the new facility to complete its acquisition of two business parks, one in Markgroeningen near Stuttgart and the other in Krefeld, near Düsseldorf.

The property in Markgroeningen is being acquired on a 15.2% EPRA index net initial yield, a vacancy of 32% and a weighted average lease length remaining of 4.9 years. The Krefeld park is being bought at an 8.4% EPRA net initial yield,

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a vacancy of 6.4% and a weighted average lease length remaining of 3.4 years. The total consideration for the two is €22.2 million.

Sirius CEO **Andrew Coombs** said that, once completed, the two assets are anticipated to add a further €2.5 million to annualised rental income. "The new facility, which was agreed on more favourable terms, reflects well on the business. The fact that we have also been able to fund two new acquisitions with this long-term low-cost facility means that these transactions are significantly earnings enhancing", he said.

Germany/Acquisitions

Schroder REIT invests €60m in mixed German assets

Listed UK fund manager **Schroder European Real Estate Investment Trust PLC (SEREIT**) made a number of acquisitions in April, bringing to five the number of deals it has closed since its launch in December 2015.

Firstly it completed the purchase of two office investments located in Stuttgart and Hamburg at a total price of €28.9m, reflecting a blended net initial yield of 6.0%. The assets are fully let, with an average unexpired lease term of over 8 years.

It then signed contracts for the purchase for €11.05m of a 4,500 sqm convenience retail property located in Rödelheim, a growing inner urban neighbourhoud of Frankfurt am Main, at an intitial yield of 5.6%. The asset is a Lidl-anchored, multi-let convenience retail centre.

The asset was built in 2004 and modernised in 2015 and comprises 4,525 sqm of lettable area. The 1,600 sqm **Lidl** supermarket has an initial lease term of more than 10 years. The combined weighted average unexpired lease term of all leases is about 8 years.

According to non-executive chairman **Julian Berney**, "Acquiring good retail assets in prime German cities is challenging and competitive, hence being able to secure this long let investment within a growing urban area of Germany's financial capital is a credit to our local sourcing capabilities."

SEREIT has now invested over €60m in four deals this year, including a 17,000 sqm asset in Berlin-Marienfelde, which is leased to DIY store **Hornbach**.

The REIT is listed in London and Johannesburg and backed by British and South African capital. Its strategy is to invest in core and core-plus assets in continental Europe, and is targeting €240m of acquisitions.

Germany/Listed Companies

Adler sees mixed results after year of consolidation, but boosts FFO

The listed Frankfurt-based **Adler Real Estate**, much in the news and in these pages recently for its unwelcome flirtation with Austria's **conwert Immobilien**, reported mixed results for the full-year 2015. It saw net profit fall 30% to €78m but improved its FFO 1 figure to €16m from a loss of €1m last year.

The company owns and manages nearly 50,000 residential units across Germany, making it one of the five largest listed housing companies in the market. Most of its units are in so-called B-locations of Germany's largest cities. It also holds a 23.5% stake in Austrian-listed conwert Immobilien, which holds 82% of its residential housing units in Germany, mostly also in Germany's largest cities. It also owns Berlin privatisation specialist **Accentro Real Estate AG**.

New CEO **Arndt Krienen**, who recently replaced 13-year veteran **Axel Harloff** at the helm of Adler, commented: "Adler's development in recent years has been driven by substantial acquisition-based growth. In 2016, we will reap the first full benefits of income growth from our operating business and exploit initial synergy benefits by integrating our various organisations. The underlying framework in property markets is still very strong. There is growing demand for living space, and that not only in conurbations but also in the peripheral locations where most of Adler's housing portfolios are located."

His comments refer largely to the acquisitions of **Westgrund** last year, which saw Adler doubling its number of owned and managed residential units, as well as the 24.8% stake in conwert Immobilien from British-Israeli businessman **Teddy Sagi**. The acquisitions led to consolidated net profit falling from €111.6m in 2014, but FFO 1, which excludes sales revenues, rose to over €16m, turning round a €1m loss in the prior year. EPRA net asset value jumped to €880m from €351m in 2014.

Adler said, "As a result of ongoing operational improvements, in-place rent, vacancy reduction and synergies, FFO I is expected to significantly increase by 55% to about €25m next year."

Further operation improvements expected by the company by December 2016 include: growing gross rental income by 20% to €260m; Boosting occupancy from 88.8% to 90.8%; lowering LTV to 65%: lowering WACD by 0-25% to 3.75%; and growing EPRA NAV by more than 10% to €1bn.

Germany/Funds

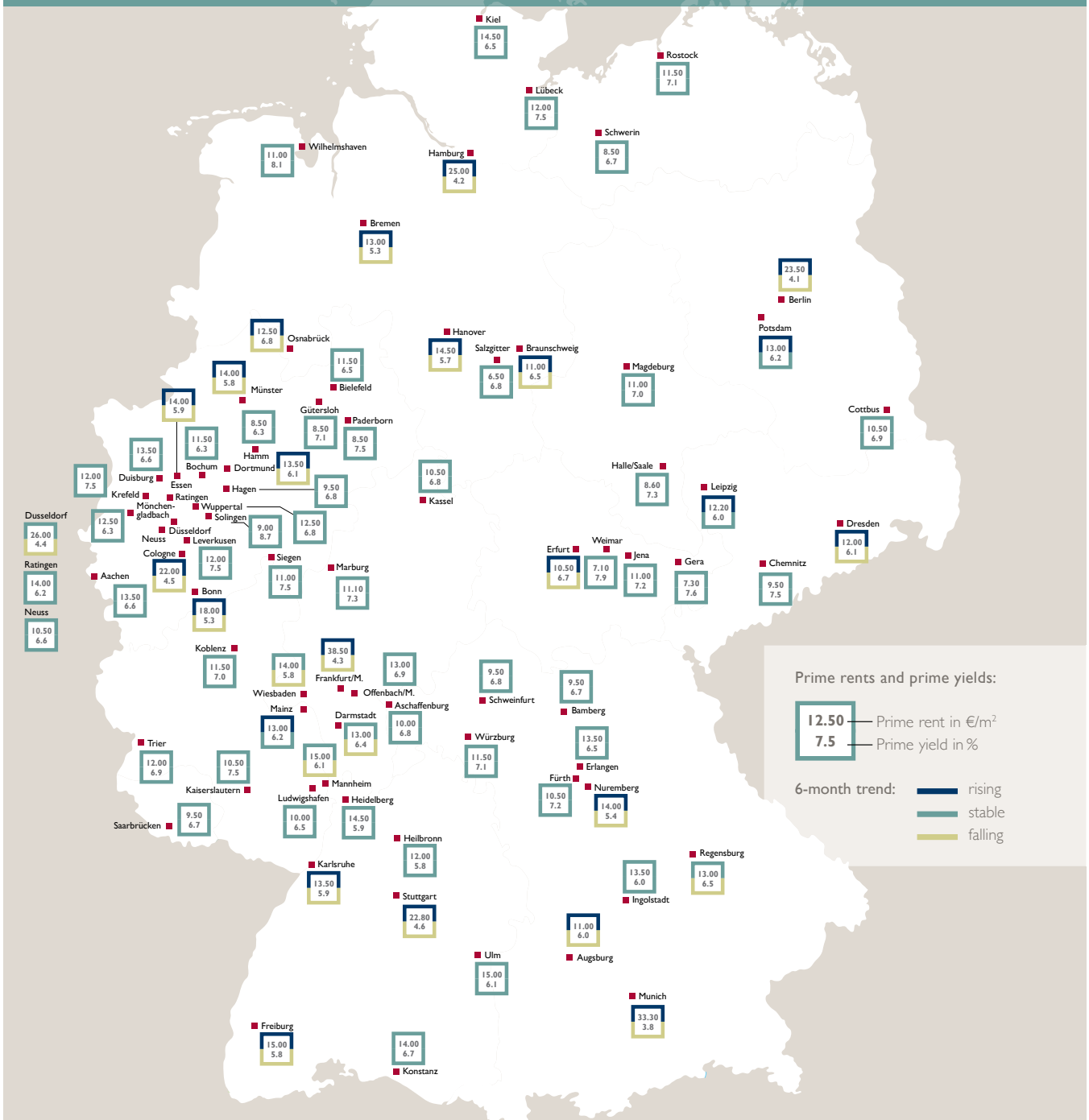
Prelios preparing first German retail fund

Listed Italian real estate firm **Prelios** is preparing to launch its first German fund, a closed end Luxembourg vehicle focused on core-plus retail investments. It is looking to raise €280m from German and international institutional investors, while it will also offer a separate-account arm with a German focus to investors.

Investment locations Germany 2016
Office – rents and yields

CATELLA

Strong demand for office properties – particularly from international investors in the top locations – means a further increase in purchase prices. "B" and "C" locations are also seeing this trend, in some cases with a delay. Returns are continuing to fall. But: the gap between the change in rents and purchase prices is becoming measurably bigger.



2016	Ø prime rent	Δ 2015/2016	Ø prime yield	Δ 2015/2016
A cities	27.30 €/m²	+2.2%	4.20%	-45 Bp*
B cities	13.85 €/m²	+5.7%	5.82%	-21 Bp*
C cities	12.35 €/m²	+2.2%	6.53%	-14 Bp*
D cities	9.98 €/m²	+2.6%	7.16%	0 Bp*

* Bp = basis point

As of 1st quarter 2016
Contact: research@catella.de
Source: Catella Research 2016

...from page 24

REFIRE met with Prelios Germany head **Martin Mörl** and head of investment **Nico Tates** (*pictured, right*) recently to learn more about the company's ramping-up of its Germany operations, including the opening of a new Frankfurt office earlier this year. The group is beefing up its German team to provide fund management and separate account management services for third-party investors who are seeking exposure to the German market, but don't have their own platform.

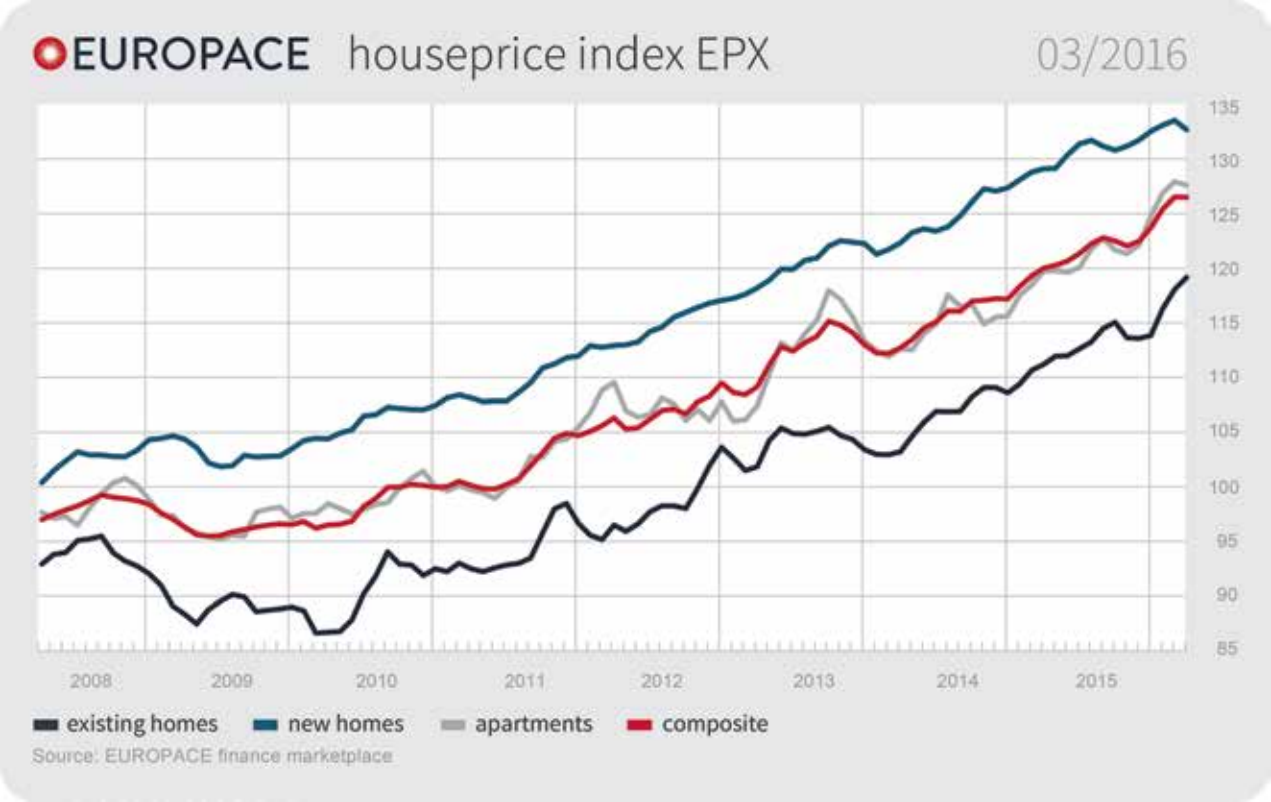
Tates, working out of Frankfurt, said that Prelios has also just appointed **Gregor Böhme** as head of acquisitions from the Frankfurt office. Böhme is a lawyer and has previously worked for **Morgan Stanley Real Estate Funds**, **DIC Asset** and **Immofinanz**.

The new fund, the **Prelios German Retail Property Fund Germany**, will pursue a core-plus strategy with a maximum loan-to-value of 40%, focusing on inner-city and out-of-town retail assets including shopping centres, *Fachmarktzentren*, department stores and high-street retail units with a value of €20m per unit upwards. Target locations will be Berlin and western German cities with a catchment area of at least 100,000 people. The fund will have leveraging of 35-40%.

On the fund's strategy, Tates said, "Prelios will pursue a core-plus investment strategy for the fund. That means we will exclusively invest in underperforming properties with upside potential. We plan to invest whenever we identify significant value-add potential through optimisation and repositioning."

Prelios, which emerged out of the old **Pirelli Real Estate**, has strong form in German retail after nearly a decade of experience in Germany, including concluding transactions of about €3.6bn between 2009 and 2015 alone. Its parent company in Milan runds 29 funds in Italy with more than €3.5bn of assets under management. In Germany, **Prelios Immobilien Management** handles nearly €2bn of retail assets across the country.

Prelios completed a strategic restructuring and re-focusing of its investment objectives last year. In December **Andrea Boeri**, the Italy-based co-head of the German operations with Mörl, said: "Prelios's goal is to offer investors attractive value-added opportunities and yields, particularly in retail real estate, where we have acknowledged expertise in re-positioning and turning around inner-city shopping centres. We also want to increasingly offer our management services for commercial properties to third partes in areas such as the centre and the south of Germany.



Germany/Listed Companies

Summit Germany cautions on future yield compression

The AIM-listed **Summit Germany**, which focuses on commercial properties in Germany's larger commercial centres, presented its full-year figures last week, which it said was in line with its expansion plans in the market for the year, but warned that expected future yield compression would mean it would have to tighten discipline when buying new assets.

The company reported higher profits of €82.6m for the full year, up from €60.5m a year earlier. This was due to higher rental income of €49.5m, up from the previous year's €43.3m, along with an 8.5% increase in the value of its portfolio.

Summit Germany raised €120m in February 2015 through a share issue, helping it to invest a further €95m in new properties through 2015, at a net initial yield of 10.5%. The assets included six commercial properties and a multi-let complex of office buildings in Stuttgart. After the year-end, the company also purchased an additional €40.5 million of offices.

Shareholders are being rewarded with a dividend of 3.39 cents per share for the year, up from the 2.85 cents paid out in 2014. The share price is currently trading at about €1.00, after a steady recovery over the past two years.

The company's mainly office, retail and logistics properties in Germany are managed by **DRESTATE Services GmbH** from offices in Berlin and Frankfurt. Preferred assets are those close to financial centres, with low capital value and stable incomes.

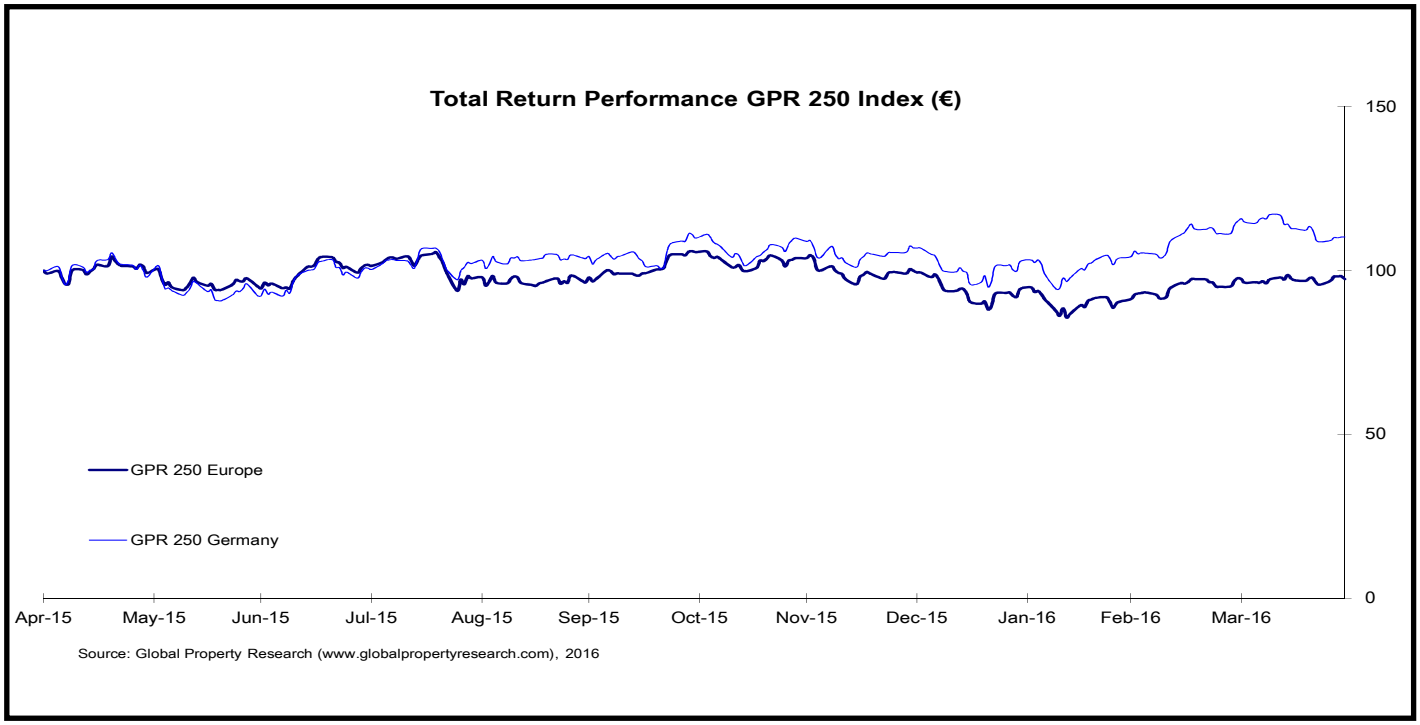
At the end of 2015, Summit Germany owned 103 assets with 860,000 sqm and net rent of €57m p.a., at an occupancy rate of 87%. At mid-2015 the company's assets were valued at €582.4m, reflecting a rental yield of 8%. Subsequent revaluations brought the portfolio value up to €718m.

The company had 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%.

In a joint statement issued by chairman **Harry Hyman** and managing director and controlling shareholder **Zohar Levy**, the two top men said, "Within just a few months after the successful fund raising in February 2015, we brought our expansion plan to realisation and deployed most of the proceeds by acquiring great accretive properties in attractive locations. Following the additional acquisitions after the end of the reporting period, we are now fully invested."

"We are encouraged by the German market, which has been strongly driven by the 'interest free' environment, turning Germany into an ever-appealing investment market. Demand for the group's properties continue to be strong and we believe that an increase in rent levels in Germany could have a future boost effect on the value of our portfolio when yields may be tightening," Hyman and Zohar Levy said.

"Though the increasing demand for German real estate offers interesting acquisition opportunities, the expected future yield compression will force us to maintain a disciplined approach towards new acquisitions in an ever demanding market," Hyman and Levy said.



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

Charts courtesy of GPR Global Property Research

Germany/Acquisitions

Asterion and Velero close first two German resi deals

It's been a busy couple of months for Berlin-based **Velero Partners**, which was established last year by a trio of residential real estate specialists. In two separate transactions in March and April, the company closed on a portfoio of 455 units in Bad Dürrenberg in eastern Germany, and followed that up with a porfolio of 1,000 apartment units in North Rhine Westphalia.

The second deal is still a bit uner wraps, with neither price nor seller identity given yet, but Velero said that it bought the 64,700 sqm portfolio with a 6.8% vacancy rate from a housing association, and that it generates a 'cold' rentroll of €3.5m annually.

Velero is acting as the exclusive asset manager for partner firm **Asterion Wohnen**, a Luxembourg-registered company with Anglo-Saxon backers. Velero said further deals were in the imminent pipeline, en route to an initial holding stock of 4,000 to 5,000 units.

Velero raised its first equity tranche of €50m from institutional investors for the new platform Asterion Wohnen in March, and co-founder **Sascha Giest** (*pictured, right*) says that more capital can be raised as required, with a view to an initial €200m of total investment.

The investors are targeting portfolios of from 100 units in size up to 1000 units, particularly in smaller towns and communities of 10,000 inhabitants upwards, but not in the Big 7 cities. Assets will be held for the longer term, not just for short-term capital gain, says Giest, although in isolated cases it may make sense to offer some stock for privatisation.

Giest was formerly co-CEO of listed residential group **Westgrund**, which was taken over last year by **Adler Real Estate**. During his time at Westgrund, the firm's portfolio rose to 20,000 from 5,000 flats and entered the **SDAX** German small-cap stock exchange index.

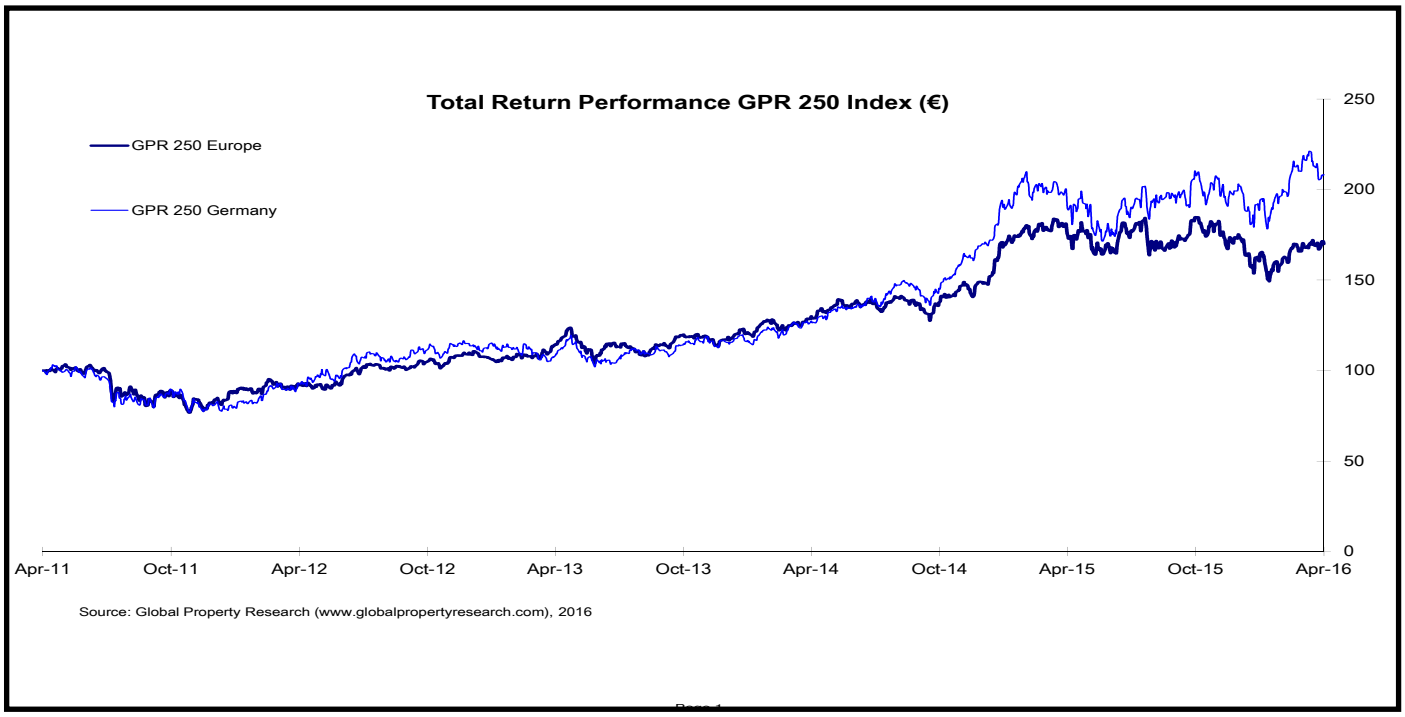
Thomas Lange was a colleague of Giest's at Westgrund, as head of transactions, and at Velero he is handling acquisitions and asset management. **Frank Wildhirt**, who will handle privatisations, did a similar job on behalf of numerous clients over the last ten years, and has sold more than 7,500 apartments in that time.

Germany/Listed Companies

German residential specialist Phoenix Spree sees leap in NAV

Another AIM-listed German property specialist, **Phoenix Spree Deutschland**, also posted a sizeable rise in pretax profit for the full year 2015 after growth in both rents and property values, which saw the company increase its overall net asset value.

The group is primarily focused on residential property in Berlin and other secondary Germany cities. Its portfolio consists of 115 separate properties con-



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

taining 2,365 separate rental units. Berlin represents about 66% of its total value.

Pretax profit was €13.0m for the year ended December 31, up from €8.5m a year earlier, despite incurring costs relating to its stock market listing in June. Annualised rental income rose to €14.1m at end-year, up 3.2% from a year earlier.

The company said its portfolio valuation increased 15% to €282.8m at year-end from €254.3m the previous year, and said its property values rose by 11% on a year-on-year basis. As a result the company is paying a maiden full year dividend of 4.2 pence per share. The current stock price is about Stg£1.80.

In March Phoenix Spree raised a further Stg£36.6m in a share placing, which PMM Partners in Germany, which manages the Phoenix Spree assets, said would now enable it to fund "an attractive pipeline of opportunities", to be invested over the next 12 to 18 months.

According to board chairman **Robert Hingley**, "Since listing in June 2015 we have delivered against our strategic objectives of delivering value to shareholders by growing our German residential portfolio, particularly in Berlin where there is still a significant supply/demand imbalance. We have also grown rental incomes throughout the year due to the active asset management of the portfolio and unlocked further value by reselling apartment blocks as condominiums at a premium to rental property values."

"The outlook for the German residential market remains positive and there is significant opportunity for us to continue to grow the portfolio", he added.

Germany/Pfandbriefe

Pfandbrief sales bounce back, vdp warns on regulation

The president of the **Verband deutscher Pfandbriefbanken (vdp)**, **Jan Bettink** of **Berlin Hyp**, highlighted a number of anomalies recently in Germany's thriving Pfandbriefmarket.

One of the highlights was Bettink's own bank, the Berlin Hyp, which recently issued a €500m three year benchmark Pfandbrief that actually paid a zero coupon and an issue yield of -0.162%. It was three times over-subscribed.

Last year new property lending from Germany's Pfandbrief-issuing banks rose by 18.3% to €128bn, following on from a 6.3% rise the year before. Residential lending rose most steeply, by

22.2% to €66.4bn, while commercial property loans climbed 14.3% to €61.6bn.

However, the total outstanding loans to residential borrowers rose only slightly by 2.6%, while outstanding loans to commercial property borrowers saw a rise of only 1.6%.

One of the reasons, said Bettink, is that most big property lenders experienced substantial early capital repayments from clients, keen to profit from the extremely low interest rate environment. Additionally, several long-term investors were choosing the moment to sell and avail of high prices; while a third reason is the shifting around of loans by borrowers to alternative sources of finance, leaving some lenders with lower balance sheets despite writing increased new business.

After seeing hefty falls in new issue volumes during the financial crisis, Pfandbrief sales in Germany bounced back last year, totaling around €58 billion - the highest level since 2011 and 27.5% ahead of 2014 by 27.5%. Of the Pfandbrief sales generated in 2015, Mortgage Pfandbriefe accounted for €40bn (2014: €29bn), or more than two-thirds. Sales of Public Pfandbriefe, following the collapse of public-sector lending, stabilized at €16bn, up €1bn on the previous year. Shipping and aircraft Pfandbriefe now play only a negligible role.

In a bullish statement on the prospects for 2016, Bettink (*pictured, left*) said, "The fundamental factors such as the low-interest-rate environment, the positive economic situation in Germany and the high demand for real estate finance are likely to persist in the current year as well. We are therefore expecting for 2016 as a whole a continuation of the positive development and, again, vibrant lending activity. However, although competition is tough, we currently see no signs that the Pfandbrief banks are changing their conservative, risk-conscious lending practices."

Bettink warned that the biggest impact on the organisation's members is the heavy burden of new regulation, with stricter capital adequacy requirements and higher costs of implementing the directives, together with what the banks view as unfair regulatory treatment in favour of alternative providers in a competitive market, including the new fintechs, who are not subject to the same regulation. The vdp is calling for "a level playing field" to safeguard the status of the Pfandbrief in the market.

The vdp is also fighting the threat from Brussels to establish a common covered bond regime, known as the *"29th regime"*, which it fears would undermine German high standards for its coveted national instrument.

SUBSCRIPTION & REGISTRATION FORM

Real Estate Finance Intelligence Report Europe (REFIRE) is a twice-monthly English-language report providing detailed information and analysis on continental European real estate finance. Each issue contains vital information about the latest deals done in the major European markets, and delivers insights into the significant developments in this hugely dynamic field.

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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