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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CONTENTS in this Issue:

German residential prices expected to continue upward trend through 2014

Residential prices in Germany are expected to continue their upward trend through 2014, with prices for newly-built apartments expected to rise by up to 5%, according to a new study from the University of Regensburg and commissioned by Deutsche Bank. Single-family house prices could rise by 3%, says the study, entitled "German Residential Real Estate as an Investment", which says the markets is showing many characteristics of a boom, but not an inflationar bubble.

The rise in prices is viewed by the study's researchers as a 'normalisation' of the market. According to **Jochen Möbert**, real estate analyst at Deutsche Bank, "The prices for German residential property in 2013 were still well below the level in real terms that they had reached in the mid'90s.

With rising incomes and falling interest rates since the, financing property for private households is still very affordable for Germany as a whole, although less so in the larger western German cities and Berlin. **Tobias Just** of the University of Regensburg sees a number of demographic, economic and financial causes for what he calculates is a 3% annual price rise for houses and apartments since 2008. Higher levels of employment, lower interest rates, inward immigration, and a more pronounced trend towards urbanisation have underpinned the price rises, along with general uncertainty on the financial markets which has increased the appetite for real estate.

Jochen Möbert at Deutsche Bank says the absence of looser credit issuance, overheating in the economy or a widening gap between rents and purchase prices – all typical characteristics of a property price bubble, provide further evidence of a still stable market. "the real rate of growth of credit in Germany is still very moderate, and we're a long way away from the sort of price dynamic we saw in southern Europe or the USA before the crisis."

Real estate industry lobbying group **ZIA** came to the same conclusion at the

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German prime office rents nudging dotcom era levels

The lack of supply of prime central office space has pushed the average prime rent in Germany's six largest cities to 27.70 per sqm., levels not seen since the peak of the dotcom boom in 2001, according to property advisor Savills. The rise in rents is set to slow this year see page 6

Credit Suisse planning big boost in German investment

German trade publication Immobilien Zeitung carried an interesting interview recently with the head of real estate investment at Swiss bank Credit Suisse, Daniel Tochtermann-Pedio. The bank had earlier made it clear that it planned considerable new investment for its Swiss see page 10

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presentation earlier in the month of their annual "*State of the real estate industry*" report to the government in Berlin. The ZIA (**Zentraler Immobilien Auschuss**) sees rents having risen 3% in 2013, purchase prices for apartments by 3.5% and for single-family houses by 4.3%. In ZIA's view, the price rises were based on higher demand and were contained to particular regions of the country. A major rise in actual new building completions – another likely symptom of a potential bubble – failed to materialise.

"Germany's Bundesbank claims in its February financial review that prices for residential property in German cities are 10-20% overvalued and up to 25% in the largest cities "

The study does concede that major regional differences are clearly discernible, however. While rents will rise by 3% in Germany as a whole, it will be much higher in the big cities. Munich is expected to rise by 6.9%, Berlin 6.6% and Cologne 4.5%.

That house prices experienced a surge in 2013 is not in doubt, and recent figures released by the **VdP Association of German Pfandbrief Banks** put the price rises last year as the highest in ten years, with low interest rates making it cheaper to buy, and investors prompted to switch from bond markets into the real estate sector.

The VdP figures put the price increase for houses, apartments and residential building at 4% for 2013, albeit with a slowing tendency in the final quarter. This makes it the biggest gain since 2003, when the VdP first started compiling its data. "Demand for residential properties remains high," said **Jens Tolckmitt**, VdP's general manager, in a statement. "Large cities and university towns continue to be at the centre of attention."

Owner-occupied condominiums gained 4.9% and apartment buildings rose 4.7% in 2013, driven in part by a 4.2% rise in rents paid on new leases, according to the VdP data. Single family-homes had the slowest gain, at 2.6%. VdP's office-price index rose 5.9%, less than the year-earlier increase of 6.1%. Office prices are being pushed higher by institutions seeking higher returns amid low yields in fixed-income markets.

The Pfandbrief bank association gathers its price data from mortgage contracts signed across Germany by its 38 member banks, all of whom can access the refinancing markets through the issuing of Pfandbriefe. This can lead to variations from other indices, which tend to focus on prices achieved only in Germany's largest urban conurbations.

Meanwhile, Germany's **Bundesbank**, which set the cat among the pigeons last October when it said that German house prices were 20% overvalued, only to later qualify their statement to calm the ensuing storm, issued a further statement in their February monthly financial review when it claimed that prices in German cities are 10-20% overvalued, and up to 25% overvalued in the largest cities. Looking at the overall market, however, it sees no deviation from long-term fundamental data or the build-up of macro-economic risk. "There is currently also no evidence for a destabilising interdependency between property price growth and lending on a macroeconomic level," it said soothingly.

The bank's report also refers to the supply of new housing helping to alleviate previous bottlenecks. While in 2012, about 177,000 new apartments reached the market, the figure for 2013 will come in higher as a lot more permits were issued - 235,000 compared with 210,000 in 2012 and 200,000 in 2011. While a step in the right direction, the new supply will not satisfy demand however, the Bundesbank warned, since 260,000 new apartments are needed annually to close the gap.

It sees regulatory intervention on the housing market – in the form of the new measure being introduced by the coalition

in Berlin to set a cap on rental increases (the *Mietpreisbremse*) – as counterproductive. Demand is also boosted by low interest rates, with the average effective annual interest rate for residential loans falling to 2.75% last year – albeit with banks slightly tightening lending conditions since then.

Germany/Listed Companies

TAG Immobilien buys 4,000 units, boosts bond issue

Listed German residential investor **TAG Immobilien AG** boosted its holdings to over 74,000 units earlier this month when it paid €120.5m to buy 3,985 residential and 26 commercial units in an asset deal.

The properties are located throughout eastern Germany, with a heavy concentration in the state of Thuringia, where about 3,000 of the units are close to the A4 autobahn and in the university towns of Weimar, Erfurt and Jena. The remaining units are mainly in Saxony and Saxony-Anhalt

The rentable area is about 236,000 sqm, generating a current rent roll of around €12.4 million per annum. The portfolio includes around 440 units that are targeted for resale in the medium term. With a vacancy rate of 10.7 % and because it was purchased from a complex ownership structure, TAG said the portfolio has "interesting potential for future development".

TAG's CEO **Rolf Elgeti** comments on the acquisition: "Like the acquisition of just under 3,000 units we announced in December 2013, this portfolio can be managed entirely using TAG's existing team. We expect the deal to close by mid-year 2014. The regional breakdown fits very nicely with our administrative structure, and the portfolio represents a very interesting extension of our existing inventory." TAG's portfolio is focused geographically on greater Hamburg, Berlin, North Rhine-Westphalia, the Salzgitter region, Thuringia, Saxon and Munich.

Separately, TAG's board said this month that it had increased the corporate bond issued in August 2013 by another €110 million through a private placement. The original volume of the bond, which matures in August 2018 and pays a coupon of 5.125% annually, was €200 million. The bond is traded in the Open Market, the Entry Standard of the Frankfurt Stock Exchange, with participation in the Prime Standard for corporate bonds.

The bond increase was issued at 103% of par value, which is about the current price of the bond. The issue was handled by **Close Brothers Seydler Bank**, as sole bookrunner for the placement.

TAG said that the proceeds from the bond increase will primarily be used to "further optimise the Company's capital and financing structure, and in particular to pay down higher interest-bearing bank loans without incurring prepayment penalties." TAG said it expects to save interest of more than €1m annually, starting from this year's second quarter.

EDITORIAL

In Germany, it's a brave new world of property ownership

We don't envy the Deutsche Bundesbank, whose every utterance is parsed and scrutinised for meaning and double-meaning. It can't be easy when, in trying to cut through the usual swathe of innuendo and sphinx-like obfuscation that central bankers have become famous for, you issue a clear opinion that is supposed to be heard loud and clear – only for your designated spokespersons to have to spend the next month or so "putting those views into context".

When the Bundesbank said last October in their monthly financial review that German residential prices were up to 20% overvalued, a storm erupted in the media, with mouthpieces for every conceivable real estate interest group being wheeled out to explain how there is no bubble, prices are based on fundamentals, market merely reacting to supply and demand, etc. Of course, responded the Bundesbank, mustn't generalise from isolated and regional overheating, some markets exhibiting signs of excess, keeping a close eye on credit issuance levels, function of the bank to admonish wayward practice, and so on, all in a series of conciliatory put-downs. A further week or so, and then the matter faded out of the headlines.

Well, darned if the Bundesbank isn't at it again. This time prices in the top cities could be up to 25% overvalued, with 15-20% almost a given at this stage, according to the Bundesbank's February missive. Still, no major worries, and talk of a bubble is grossly overdone, say the bank's economists, while the real estate industry seizes upon the debate to issue further fresh reports on the fundamental soundness of it all.

Across town in Frankfurt at the European Central Bank, the protectors of the eurozone's currency are wheeling out the heavy cannon to make sure that interest rates stay rock bottom, to give the hapless Spaniards, Italians, Portuguese, Irish and Greeks some perspective that they can clamber out of their holes.

But, hey presto! Such low interest rates are nominally a godsend to those investing in German property – money has never been so cheap. With the German penchant for borrowing at fixed rates – albeit at a slightly higher rate than before, but fixed for five or ten years – Europe would have to be on the verge of total collapse before the arguments against borrowing under these circumstances would be compelling. Why not go for it?

Asset price inflation all around the world is rampant – stocks, corporate bonds, commodities, art, wine – why, even gold is on the rebound. With such paltry returns on government bonds available, and a traditional German aversion to investing directly on the stock exchange, the property market is an obvious choice for many security-conscious investors. After all, in a week which saw shareholders in Germany's erstwhile largest quoted company IVG Immobilien being finally, irrevocably, wiped out, taking control or your own destiny with your own money is starting to make sense to a lot more Germans - which includes taking the fearful step of home ownership.

Sceptics and fear-mongers may bemoan the slipping of credit standards – and, anecdotally, we at REFIRE have witnessed some credit financing recently that elicited a deep intake of breath – but as we know, such periods of low interest rates can last longer than jealous critics can remain harping on the sidelines, to paraphrase Keynes.

Could German residential property prices fall? Throughout this whole debate it's easy to overlook the fact that in much of Germany, prices HAVE been falling steadily for twenty years. Properties in Germany's Eifel, Vogelsberg or Hunsrück regions and swaths of Rheinland-Palatinate in the western part of the country are ridiculously cheap by any other European standards, not to mention Germany's eastern states.

These are wonderful places to live, and healthy places to raise a family, if you're able to connect up to the centres of work and creativity by broadband and don't need the daily stimulus provided by the larger urban centres. There's no madness in these prices – although it certainly helps to be a DIY enthusiast with no aversion to carrying out all your own house improvements. And of course, there are very few jobs. Not surprisingly, young people are leaving these places in droves.

It's also largely true that, given the heady prices paid in places like Central London for property, it doesn't feel in Germany like property bubbles feel elsewhere. Even in battered Dublin, residential prices have risen by 16% over the past year and are turning upwards in other regions, in a country that still has 300,000 houses surplus to requirements. For those not being crushed by debt, money now is cheap and becoming plentiful. Normally this would – and should - lead to inflation, but apart from pushing up asset prices, this effect is not really kicking in in Germany, yet.

The truth is that Germany needs inflation of more than 2% annually, if the European Central Bank's goal of nearly 2% inflation for the eurozone as a whole has any chance of being met. With the Greeks, Spaniards, Portuguese and Irish forced to accept deflation to get back in the game, it's up to Germany to do the honourable thing. But last year German inflation was 1.5%, while wages rose by 1.3%, for a loss in real purchasing power of 0.2%. This time around, it's not the proverbial German fear of inflation that's causing money to pour into the property market. It's that, if there's any danger of the euro-ship going down, it still generally pays to have a ticket for first-class.

Charles Kingston, Editor

Germany/Listed Companies

Patrizia exceeds own targets for assets under management

We reported some months ago in REFIRE that the Augsburg-based listed property investor **Patrizia Immobilien AG** came up short of their projected full-year figures, as one of their major deals had yet to be inked. The group had to revise its profit forecast for 2013 downwards in December by €6-11m as a result of the delay.

The long-awaited '*Leo I*' portfolio of 18 buildings with 396,000 sqm leased out to federal state of Hesse institutions finally went ahead this month. The assets have a market value of about 1bn, and were sold by a subsidiary of **Commerz Real AG**, which is rapidly exiting from most of its real estate engagements. The properties include such buildings as the Hesse finance ministry in Wiesbaden and the police headquarters in Frankfurt am Main, the majority leased back to the state on long-term 20-year leases. The deal is expected to be concluded by the end of the first quarter.

A media report in the specialist trade journal *Debtwire* had suggested that the delay had been caused at the financing end. The report suggested that Stuttgart-based bank **LBBW**, which was providing the bulk of the 50% bank financing on the deal, had found a stumbling-block in the nature of the long-term leases to the state of Hesse which caused complications in refinancing the loan via the Pfandbriefmarket. It's not yet clear whether this was fully resolved by the bank.

Patrizia is creating a newly-established real estate *Spezialfonds* **to** house the assets. Investors in the fund are a group of Pensionskassen, insurers, occupational pension funds, savings bank, foundations and religious institutions.

The deal comes on top of last year's acquisition of the *Leo II* portfolio from listed Austrian group **CA Immo**, which included 36 buildings valued at about €800m. Here again, the buildings are mainly used as administration buildings by the state, such as ministries, courts, the police and fiscal authorities, and leased back long-term to the state.

Patrizia founder and CEO **Wolfgang Egger** *(pictured, left)* explained last year how his company's 2011-established division **Patrizia Alternative Investments** was now the group's preferred vehicle for restructuring large portfolios which had got into difficulties because of their capital structure. The division has now transacted five big deals in the office, retail and residential sec-

tors with a volume of more than €6bn, for which Patrizia had raised more than €2.8bn of institutional equity capital.

With the latest deal, Patrizia has now exceeded its own original goal of having €10bn of assets under management by end-2013, with now nearly €13bn under management.

Germany/Research

German prime office rents nudging dotcom era levels

The lack of supply of prime central office space has pushed the average prime rent in Germany's six largest cities to €27.70 per sqm., levels not seen since the peak of the dotcom boom in 2001, according to property advisor **Savills**. The rise in rents is set to slow this year however, due to a higher level of completions.

Since January 2013, prime office rents have risen in all of Germany's largest cities bar Hamburg, despite a fall in total take-up by 10% on 2012 to 2.78m sqm, according to a new report published by Savills. Berlin, Cologne, Dusseldorf and Frankfurt even recorded increases above 5%. The principal reason for the development was the continued low completion volume, reaching 860,000 sqm. last year, up on the 670,000 sqm recorded in 2012,. but still below the five-year average of 1 million sqm.

"As a result of the improving economic environment, including on the financing side, construction has started on a number of developments," said Savills head of research **Matthias Pink**."This will boost supply, with the result that we expect 2014 rental levels to rise moderately at best, while vacancy rates should reduce at a slower pace."

"Many potential occupiers are competing on the few available prime developments, which is placing upward pressure on the achievable rents for these properties," said **Marcus Mornhart**, managing director and head of office agency at Savills Germany. "The real message of 2013, however, is that the German office market took another step towards becoming a landlords' market. In spite of a decrease in take-up, the vacancy rate reduced by 1bp to 8% on average across the top six markets and, particularly in central locations, tenants are facing an acute shortage of space. This has resulted in occupiers favouring decisions to renew existing leases."

Savills expects take-up to rise this year, boosted by improved economic dynamics in Germany and Europe. "Particularly major occupiers, who have been reluctant to make relocation decisions in 2013, are set to play a more significant role again this year so that we believe an annual total take-up of at least 2.9m sqm. is realistic," said the report. – a figure which would be more closely aligned with the 10-year average.

Germany/Listed Companies

Competition for prime assets forces Allianz to review real estate strategy

German insurer **Allianz Real Estate** has had to radically review its strategy of reaching €30bn in property assets under management by the end of this year, and has put that target back by four years to 2018. According to CEO **Olivier Piani** (*pictured, right*), in a recent interview, the competition from equity-rich investors such as sovereign wealth funds and other insurers has driven up the level of prices in prime property to unattractive levels.

He also suggested that Allianz Real Estate would consider investing in property stocks for the first time, similarly to the strategy of the parent company, and would be seeking board approval to invest in listed stocks in the eurozone. "There are opportunities in some cases to invest in real estate not directly, not through loans, but through stocks," he said.

Piani joined Allianz in 2008 with a mandate to boost the insurer's real estate investments. While insurers have upped their spending on European commercial properties in 2013 by 21%, according to **Jones Lang LaSalle**, but Piani said in his comments that "It's difficult for us to find more than €2bn of investments year after year. There are a number of new players in the market, sovereign-wealth funds and the like, who pay more than we would be willing to pay."

Last year Allianz invested €2.3bn and sold €500m of property last year, bringing its total of property assets under management to €23.5bn. Overall, according to Jones Lang LaSalle, sovereign wealth funds boosted investment by 13% to €9bn. Norway's giant state Pension Fund - now holding assets worth €600bn - started buying real estate in 2011, and it too is nowhere near its target of 5% of holdings in real estate. The high demand has driven down yield in all prime locations, confirms JLL.

The majority of Allianz's commercial assets are located in Germany and France, while a first investment in Italy was made last June and another acquisition of 50% of a shopping mall in northern Italy is in final stages, said Piani - in line with the insurer's goal of increase the share of retail in the portfolio. Some €300m is earmarked for logistics assets this year, and Allianz is also looking to make its first direct real estate investments in Asia in 2015. Piani aims to double the percentage of the insurer's property assets outside the Eurozone, where 90% of its assets under management are allocated.

Significantly, Piani also confirmed that Allianz is also stepping on the brakes of its real estate property debt expansion plans. It now expects to reach €10bn by 2017, from €6.6bn now, a goal initially targeted to be reached by next year.

Most of the current sum is allocated in the US, where the insurer has been active since the 1980s. It started lending in Europe only in 2012, and is active in retail, logistics and offices.

But he said residential loans are also of interest now. "There's a need for financing when there are a lot of equity deals," he said. "Because deals are picking up again, we'll have a base big enough to grow our loan book." Allianz's most recent transaction was a €145m loan to **Evans Randall** as part of a €182.5m refinancing of the Stuttgart shopping centre **Königsbau Passagen** (*reported on in Feb. 1st 2014 issue of REFIRE*).

Germany/Residential

Ares Management teams up with Forte for German resi acquisition

Los Angeles-headquartered **Ares Management LLC** made its first foray into German real estate earlier this month, when it teamed up with Frankfurt-based **Forte Real Estate** to buy a residential portfolio located across several large cities in western and north-western Germany. The deal was a distressed opportunity originating from insolvency administrator **Pluta**, one of the biggest German insolvency law firms.

According to Ares Management, the portfolio consists of 1,692 residential units with 109,000 sqm of lettable space, in cities such as Hamburg, Bremen, Düsseldorf, Essen, Bielefeld and Duisburg. With opportunity investor Forte acting as co-investor and asset manager, the plan is to add value and reposition the portfolio, which currently has a 15% vacancy rate, prior to a subsequent sale.

According to **Bill Benjamin**, senior partner and European head of **Ares Real Estate**, "This transaction reflects Ares' continued interest in the German residential market, which we believe offers strong fundamental value and excellent liquidity. One fundamental that is driving this market is that the German residential housing sector continues to be highly affordable as the growth in rental rates has been outpaced by the growth in disposable income."

Ares has been looking to step up its investment in activity since acquiring fellow-American AREA Property Partners last year, which has an investment platform across the USA, Europe and India. As a group, it invests its more than €70bn of capital under management across the capital structure, from senior debt to common equity; this is its first German acquisition, but it looks like there will be more to follow.

Germany/Acquisitions

Canadian healthcare REIT expands, rebalances German portfolio

Interest from North American REITs in German healthcare properties seems to have reached new levels over the past few months, with several focused investors known to be rooting around in Germany for suitable acquisitions. The latest to announce expansion plans is Canada's **NorthWest International Healthcare Properties REIT,** which already owns a number of assets in the eastern region of Germany.

The Toronto-based NorthWest has now signed agreements to buy a further 16 German medical office buildings, to add to the six it already owns. The latest deal involves two separate transactions for assets in the cities of Berlin (4 assets), Ingolstadt (1) and Leipzig (11), and more than doubles the size of the REIT's German holdings.

The sixteen assets with 46,500 sqm are 96% occupied with a weighted average lease expiry of 7.0 years, while the purchase price of €65m represents an 8% stabilised cap rate.

According to NorthWest, the REIT's investment will be funded from existing resources and new mortgage facilities of about €43m. The financing has a weighted average interest rate of about 3.0%, a weighted average term of 10 years and a weighted average amortisation period of nearly 30 years. The deal is expected to close this quarter.

The company's existing assets are located in Berlin, with one in Marktredwitz in Bavaria near the Czech border and one in Fulda, on the Hesse-Thuringia border. NorthWest is selling its leasehold interest in the Marktredwitz property for about €5m to the local municipality, representing a 6.25% cap rate, as it was deemed non-core to the German portfolio.

Apart from Germany and its home turf of Canada, where NorthWest owns 78 healthcare properties, the group is also active in Australasia and Brazil.

Europe/Non-Perfoming Loans

DebtX selling €213m German NPL portfolio

The Boston-based **DebtX**, which claims to operate the world's most liquid marketplace for loans, is offering a €213m portfolio of non-performing residential and commercial real estate loans on behalf of a German institution. Indicative bids are due in on March 4th, with final bids being accepted on or before March 20th. The company said there was likely to be a steady stream of these new, smaller deals as banks and investors look to relieve pressure on their balance sheets.

According to Gifford West, (*pictured, left*), head of international sales at DebtX, "European financial institutions are realising that smaller sales, such as this €213m real estate portfolio, are a natural complement to the very large transactions. Tactical sales are more manageable, close faster, and maximise pro-

...see page 10

ceeds. Institutions should choose more than one loan sales strategy to achieve their objectives. DebtX expects European institutions to execute an increasing number of loan sales of all sizes in 2014."

Mr. West, who was a panel speaker at the recent REFIRE London Conference on the subject of distressed debt and the NPL markets, said that in addition to the sale in Germany, DebtX expects to be conducting more loan sales across Europe, including in Spain, the UK, Ireland, Italy, the Netherlands and France. Last year DebtX sold over $16bn of loans, while valuing loans amounting to more than $10 trillion (the company provides third-party loan valuation services for both public and private clients, along with analytics and all the data based on more than ten years of the company's own secondary market loan sales.)

Among the largest loans that DebtX is offering in March are a €21.9m NPL relationship secured by a 9,700-sqm three-storey office building in Germany, a €19.9m NPL secured by a 10,777-sqm, three-store retail/apartment property, a €17m NPL secured by an 8,200-sqm office property in a single 4-storey building, and a €16.3m NPL secured by a 17,900-sqm market consisting of a two-storey terminal building with four three-storey office annexes and a separate storage building.

Europe/Debt Funds

Cheyne Capital latest to launch new debt fund

London-based hedge fund **Cheyne Capital Management** is launching a new debt-focused property fund. The **Cheyne Real Estate Credit Holdings Fund III**, also known as *CRECH III*, aims to capitalise on the continuing dislocation of the European real estate debt markets and meet the growing demand for real estate finance.

Like its predecessors, *CRECH I* and *CRECH II*, the *CRECH III* fund will invest in mainly UK and German real estate opportunities across the debt spectrum and via a range of instruments. These include senior loans, mezzanine loans, equity and special situations workouts.

The three Cheyne funds focus on mid-market borrowers constrained by more stringent lending criteria of traditional real estate lenders, as well as by the bias among non-bank players for larger ticket loans.

According to **Stuart Fiertz**, co-founder

of Cheyne (along with **Jonathan Lourie**, in 2000), "As European banks continue to retreat from real estate lending due to increasing regulatory pressures, Cheyne is able to step into the void with a viable financing solution for mid-market borrowers, who are increasingly recognising the team's ability to understand complex real estate financing needs and execute creative solutions in a short timeframe."

Cheyne Capital's ten-person real estate debt team is headed by **Ravi Stickney** with **Graham Emmett** as his investment partner. Cheyne describes its investment approach as "combining a comprehensive valuation of the underlying residential or commercial property and a detailed analysis of the debt structure in order to identify investments offering attractive yields and robust downside protection."

Germany/Acquisitions

Credit Suisse planning big boost in German investment

German trade publication *Immobilien Zeitung* carried an interesting interview recently with the head of real estate investment at Swiss bank **Credit Suisse**, **Daniel Tochtermann-Pedio**. The bank had earlier made it clear that it planned considerable new investment into the German market for its Swiss investors, particularly into value-added commercial real estate, despite the fact that its **CS Euroreal** open-ended fund is one of those currently in liquidation.

Mr. Tochtermann-Pedio (*pictured, right*) said that Credit Suisse has €2.8bn of German real estate under management, after disposing of €150m last year and buying for €20m – but that this year his bank expects to be both a much bigger buyer and a seller.

"Germany is not cheap, not even for the Swiss. But it's also not overpriced, apart from certain core properties in top locations, where the prices are comparable to Switzerland. It also has the benefit of being highly diversified. This makes Germany extremely interesting for us, with its strong economy, comparatively stable yields, and a large real estate market that's not limited just to its Big Seven cities of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart. Among the numerous mid-sized cities that are very interesting are Augsburg, Wiesbaden, Mainz, Freiburg, Leipzig and Hanover, to name just a few."

"We've got a really good team in Frankfurt who are well anchored locally and have plenty of experience in more than 40 German cities. We're not obsessed with pure Core properties, we'll be competing for off-market deals, and we're quite prepared to take a few measured risks on lease contract durations and occupancy rates. Our experience in secondary locations will stand to us, albeit focusing in those cities only on the very best locations, and we'll get involved in project developments by both forward funding and forward purchasing." The bank will not be setting up debt financing funds, he confirmed.

European investors valuing security have little alternative to Germany at the moment, he believes, "apart from the Nordic countries but their markets are very small." In terms of yield expectations, Swiss investors expect a total return of 4%-6% p.a. for core and core plus assets, with an annual dividend between 3%-4%, he said. A value-add fund should offer a total yield of 8% and a dividend between 2%-4%.

While Tochtermann-Pedio is busy planning his acquisition campaign, his colleagues over at the bank's CS Euroreal open-ended fund are busy liquidating their erstwhile vehicle, with a deadline for full liquidation of April 2017. The fund recently sold off a package of six assets in Sweden, France, Germany and UK for a total of €315m – about 6.5% below their last assessed value. In liquidation since May 2012, the portfolio still contains around 90 assets across 46 locations in 11 countries, encompassing a total asset value of €4.5bn.

Austria/Listed Companies

Immofinanz's Buwog buys DGAG portfolio, IPO planned

It's been the biggest deal of the year so far in Germany, although at least two others are vying to take over that mantle – which we at REFIRE thought might even been concluded before the start of January this year, but no. First out of the starting gates was Austrian-listed **Immofinanz Group**, which has been pushing forcefully ahead on its plans to boost the housing stock of its subsidiary **Buwog** prior to a spin-off and a public stock market flotation, while investor sentiment still so strongly favours the German residential property market.

Wholly-owned subsidiary Buwog, is buying the former **DGAG** residential property portfolio with about 18,000 units and 1.09 million sqm of lettable space across northern Germany. The agreed purchase price for the portfolio amounts to about €892m (or €819,-/sqm). This equates to a gross yield of 7.6% based on a vacancy rate of only 2.3%. The portfolio has been generating annualised net 'cold' rent of about €68m, giving the portfolio a multiple of 13.6 times annual rent.

The transaction will be executed through several share deals and is subject to customary closing conditions (e.g. approval of the antitrust authorities). The closing is expected to take place in this year's second quarter.

The actual seller is **Solaia RE**, a joint venture between **Prelios** (the former **Pirelli Real Estate**) and an investment

fund managed by **Deutsche Asset & Wealth Management – Real Estate** (formerly **RREEF**). Buwog will also take over the residential asset and property management business of Prelios Deutschland with its 300 employees, in line with Prelios's stated objectives of withdrawing from the residential sector to concentrate on asset management and third party services for commercial property.

RREEF and Pirelli originally paid €1.7bn for the then-27,000 unit portfolio from private equity group **Cerberus**, including €1.37 bn of assumed debt. RREEF had 60%, with Pirelli holding 40%.

The deal will increase the Buwog portfolio to about. 54,000 residential units with 3.72 million sqm of usable space and give it a gross asset value of €3.49 billion (€939,-/sqm). The gross rental yield of the enlarged portfolio will equal 5.5% based on an overall vacancy rate of 4.5%. Over 80% of the portfolio's properties are in and around the region's largest cities, including Hamburg, Hannover, Kiel, Lübeck and Braunschweig.

Buwog said in a statement that with the acquisition, the company will reach its strategic goal of lining up a portfolio of standing investments equally between the core markets of Austria (51% of the residential units) and Germany (49%).

Immofinanz's executive and supervisory boards have approved a proposal that will be made to shareholders at an extraordinary general meeting on 14th March, calling for the spin-off of Buwog and the subsequent listing of Buwog on the stock exchange. Their proposal is that Immofinanz shareholders will receive one Buwog share for every 20 Immofinanz shares, such that 51% of Buwog will be owned by free float investors. The proposal includes admitting the Buwog share for trading on the stock exchanges in Frankfurt (main listing), Vienna and Warsaw (in each case, the regulated market). After the spin-off Immofinanz will hold a stake of 49% in Buwog AG, which it expects to reduce over the medium-term. The EGM has to vote by a 75% majority for the proposed changes.

Assuming the deal goes ahead, the €892m price tag is due on closing, probably end-Q2. According to Immofinanz, the financing for the deal is secured through a combination of roughly €402 million in already committed mortgage loans, about €213 million of subsidised

loans that will remain in the acquired property companies, and the proceeds from the planned issue of a convertible bond by Buwog. This market standard convertible bond is expected to have an issue size between €260m and €310m and a term of five years. Immofinanz CEO **Edouard Zehetner** had already ruled out (*as we reported in REFIRE in November 2013*) any further capital-raising to plumpen up Buwog, as the parent company had about €640m in liquidity.

Commenting later on the deal, **Daniel Riedl**, chief executive at Buwog, said that taking over Prelios's asset and property management business would allow the Austrian company to increase cost efficiency in its German operations. "In addition, all existing mandates for the property management of approximately 33,000 third-party-owned residential units will be transferred to Buwog," he said.

Riedl will continue to be the CEO of Buwog, but planned personnel changes now in the wake of the deal include bringing in **Roland Roos** as CFO from **Aurelis**, which itself is in the process of being sold by 50%-owner Hochtief, while Buwog's German holdings are being beefed up by the arrival of **Andreas Engelhardt** (from Prelios) and **Herwig Teufelsdorfer** from **IVG Austria**.

Europe/Funds

LFF Partnership with fresh muscle after CWI takeover

The recently-established strategic partnership between French group **La Francaise** and **Forum Partners**, in creating a European direct real estate investment joint venture, developed added muscle when the JV bought out **Cushman and Wakefield Investors (CWI)**, the investment management business of the global property advisers. The move seems certain to broaden the investment base of particularly the French partner thoughout Europe, with Germany likely to be a beneficiary of the new venture's strengthened mandate.

La Francaise owned 66.6% and London-based Forum Partners 33.3% in the new venture, **La Francaise Forum Real Estate Partners (LFF Real Estate Partners)**, and the absorption of CWI will now enable the new grouping "to offer a complete range of bespoke Pan European real estate investment solutions (direct real estate, listed and unlisted real estate investment funds, private and public equity and debt) to retail and institutional investors worldwide", according to the company.The new combined platform will have total assets under management amounting to close to $20 billion, of which $14 billion are direct core European real estate investments.

Marc Bertrand, CEO of La Francaise, said in a media interview that it proposed to seek a new mandate from its domestic fund investors to broaden its remit to investing in German cities, as its own institutional closed property funds are too narrowly focused on French cities, and they needed to diversify.

Bertrand said the acquisition of CWI also gives the JV further reach around Europe, and provides a good match with Forum's global experience, along with its global fundraising experience and capability. While the French firm has focused on France and the UK, adding Germany to complete a ‚golden triangle', Forum has global experience and fund-raising partners. Forum has reach into US, Asian, and Nordic institutions and other investors, while La Francaise is strong in France, elsewhere in Europe, and has clients also in the Middle East, notably Kuwait.

"La Francaise is moving towards finance in real estate and Forum is coming from private equity and financing toward direct real estate", he commented, adding "CWI looks like where we wanted to be within three years." Among likely first steps will be bringing Forum into real estate debt, for which the French firm launched its first fund just over a year ago. La Francaise has developed a speciality over the last ten years of taking strategic minority stakes in real estate companies.

Germany/Banking

Aareal Bank has best-ever year, resumes dividend

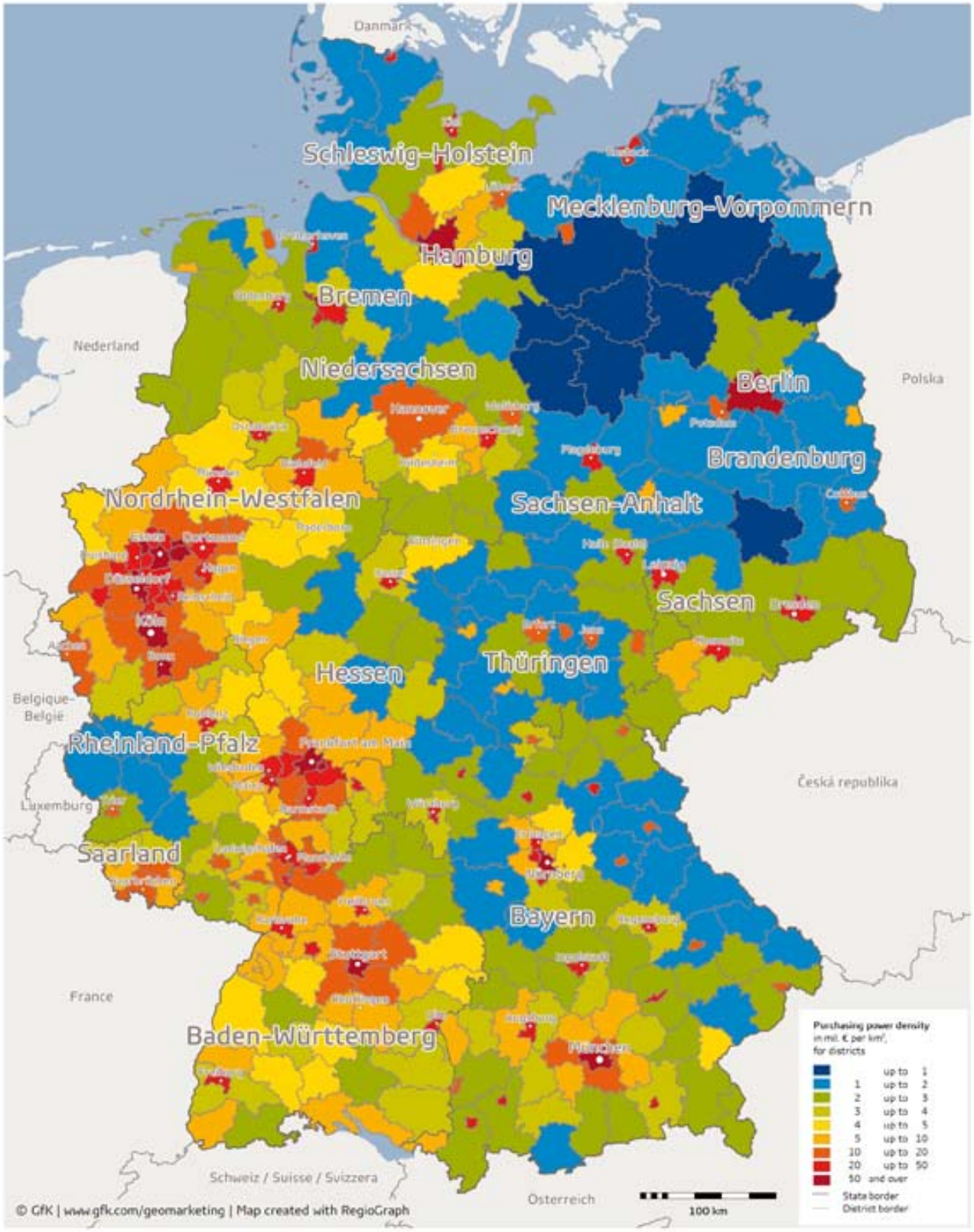
A very buoyant **Dr. Wolf Schumacher**, (*pictured, below*) the long-time CEO of Wiesbaden-based property financier **Aareal Bank**, took pains at the recent analyst press conference to drive home three key messages about his bank, which he described as emerging from a challenging period, but which was facing the future from a healthy equity base which more than exceeds the bank's current needs.

The first was that the bank celebrated its 90th birthday last year with its best ever results. The second was that the bank is returning to "an active policy of dividend payouts" after an absence of five years. Thirdly, the bank is well on its way to achieving its stated goal of 12% return on equity by 2015/16.

In fairness, Aareal Bank has come through the financial crisis in better shape than many of its rivals, largely due to its extremely conservative approach to risk and property lending. The bank posted a profit of €93m in 2013, up from the previous year's €85m, and helped by a significant rise in its lending profits from €486m to €527m. Margins improved, as did refinancing costs, while repayments were higher than expected.

The bank wrote new business of €10.5bn, up from €6.3bn in 2012, which

GfK purchasing power density 2014



...see page 13

was the highest lending of any year since 2007. It had expected to lend €8bn, and for this year expects to lend €9bn. Last year's pure new lending was €6.5bn, while extensions amounted to €4bn.

A dividend of €0.75 will be paid out to investors for 2013, while Dr. Schumacher announced that, "in addition a dividend policy, by which around 50% of group net profit calculated on the basis of IFRS should be paid out from now on, so long as such payouts are in line with a long-term oriented and sustainable business development." Aareal is targeting a return on equity of 12% by 2015/16, up from 8% in 2013 and well above the 7.2% earned in 2012.

The bank raised €4.1bn in fresh capital last year, and was an active issuer in the Pfandbrief markets, which Dr Schumacher said helped the bank raise even more equity and Tier 1 capital than strictly needed under the new banking regulations. These now give Aareal about 15% more capital than its loan book, while it has a Tier 1 capital ratio of 15%, including the remaining bailout funds it is still repaying to the German government.

The acquisition of Frankfurt-based commercial mortgage bank **Corealcredit Bank** from US private equity investor Lone Star is expected to close at the end of the first quarter, with its results expected to be accretive immediately after that, Dr. Schumacher said.

Germany/Acquisitions

Valad to invest up to €350m this year in Germany

After a year (2013) in which **Valad Germany** was far more active on the selling side than as a buyer, 2014 is shaping up to be a year in which the tables are reversed, with the fund investor announcing plans to invest up to €350m for its **Valad European Diversified Fund**, which it launched last year, as well as for other of its fund mandates.

Last year Valad invested only €50m in German property, while selling off assets valued at €170m. Overall the group's assets under management in Germany are currently about €600m, down from €700m less than a year ago. New lease agreements were signed for over 400,000 sqm, generating annual rental income of €23m from a total of 376 separate transactions. The company bought a small commercial portfolio in Hamburg's *Billbrook* district, and was also appointed on two CMBS mandates with 28 retail properties in Berlin and Düsseldorf.

The Valad European Diversified Fund is targeting core-plus and value-added assets aggressively this year. According to Valad's German boss **Andreas Hardt**, "We're looking to invest around €350m this year in Germany. We currently have more than €100m of acquisitions either under offer or exchanged for the Valad European Diversified Fund, and are targeting further acquisitions of offices in the top and second tier cities and nationwide distribution and logistic warehouses."

The company is also targeting light industrial assets in the biggest cities of Hamburg, Berlin and Munich for its new separate account mandate. "These are likely to be portfolio transactions of greater than €50m, ideally in the €100m to €300m range for selected institutional clients," added Hardt.

Valad Europe has assets under management of €4bn for its own and third party funds. In Germany its 37-strong team manages €600m of assets with 1.3m sqm and 720 tenants, from its offices in Berlin, Düsseldorf, Frankurt, Hamburg and Munich.

Germany/Acquisitions

Back to opportunistic roots for Corestate Capital, exits 'core' segment

The Zug, Switzerland-based specialist for German opportunistic real estate investment, **Corestate Capital,** has been muttering about the difficulties of finding new value-add opportunities for some time. It had traditionally left the field of 'core' investing to others, preferring to focus on maximising its grass roots network to locate and identify underperforming residential portfolios which it could buy at a good price and upgrade.

So it was somewhat of a surprise last year when the group adopted an "If you can't beat 'em, join 'em" approach to core property by setting up its own core investor division, to tap into the steady stream of funds looking to invest in 'core' German properties, which as CEO **Ralph Winter** (*pictured, below*) commented last year, "is just getting more and more expensive". The reasoning was simple – given the steady demand, and with such assets being essentially simpler to manage than the complicated hotchpotch of individual assets in the portfolios the company normally buys, it made sense for Corestate to extend its product offering.

Barely six months later Corestate has reversed that strategy and dissolved the new 'core' division. Two top managers from **IVG Institutional Funds**, **Steffen Ricken** and **Oliver Zimper**, have returned to IVG to continue to invest in the sector from there. CEO Winter commented on the change of tack, "We've been looking carefully at them market for the last six months, and have now come to the conclusion that prices are overheating. Demand isn't actually falling, because new money keeps driving into the market. Yields are too low, and there are simply too many mediocre fund managers out there trying to invest."

With yields after costs of a typical 3%, Winter views the business as essentially not worth it. "The high degree of liquidity in the market is pushing conserva-

tive investors into apparently safe investment assets, which is leading to very high prices in the Core segment. The expected safe cash flow should not detract from the fact, however, that in many cases the yields are very low compared to other available returns in Germany. With ever more bidding processes for top assets, deals are being concluded at ever-higher price levels."

Corestate will, however, invest up to €500m in Germany this year based on its preferred strengths, actively managing assets and taking up to 25% equity stakes in investment. For Winter, it's back to the value-added and opportunistic sectors, in particular individual undervalued assets, project financing, and commercial properties with expiring lease agreements, he says.

In line with its trading philosophy, Corestate earlier this month sold a residential portfolio with 2,400 units to the rapidly-expanding listed **Adler Real Estate AG**, for an undisclosed price. The assets are located in Helmstedt near Braunschweig and Wolfsburg in northern Germany, and were acquired as recently as September 2012 from former **E.ON** subsidiary **WBG** in an off-market transaction, since when they've been upgraded.

According to **Thomas Landschreiber**, Corestate's chief operating officer, "We were able to implement our capital investment programme and eliminate the maintenance backlog due to our local asset and property management teams while improving the overall quality of the portfolio in only 14 months. The repositioned portfolio was now acquired by the listed Adler Real Estate company as part of its expansion strategy.

"This transaction compliments the existing portfolio of Adler since they are focussing on B-location residential properties with a positive cash flow. This deal underpins the existing strong demand for stable residential portfolios. Especially long-term oriented portfolio managers who expect strong single-digit returns show an increased interest. Corestate Group will continue to focus on management-intensive real estate portfolios that show a potential for value increase."

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

Asbestos for dessert?
On the correct handling of asbestos contamination

www.valteq.de

During the wild real estate years of 2005 and 2006, we were the advisors to a large portfolio owner, who held a large number of apartments built during the 60s and 70s. The apartment floors were surfaced with vinyl-asbestos tiles and these, in turn, were affixed with an asbestos-based adhesive. During the course of tenant changes, these floor finishes were ripped up and machines were used to grind away any leftover adhesive residues below. Leap forward in time. Not very long ago, we were providing advisory services on a transaction in which a number of properties were to be sold to an American investor. These were in good condition and the sale was just about to be completed when the investor noticed that there were bicycle shelters at the properties. The roofs were made of corrugated sheeting that contained asbestos. The deal almost collapsed, as the Americans – based on their understanding of the law – were particularly fearful of compensation claims for horrendous sums. Asbestos is an often heard buzzword in connection with Anglo-American transactions.

Two very different poles can be seen here: On the one hand, an overly careless and, on the other, an overly apprehensive approach to handing asbestos. Viewed in their extremes, neither stance is comprehensible. After all, what is asbestos in reality? Asbestos is a naturally-occurring mineral, which – at least theoretically – one could even eat! Once known as the "miracle fibre", it is characterised by its solidity, its resistance to heat and acid, and its outstanding insulating properties. It is only the fine fibres that make asbestos dangerous, as these hair-like filaments are respirable and can cause serious damage to the lungs. Among others, these fibres enormously increase the risk of lung cancer. Asbestos therefore only becomes a hazardous building substance if the fibres are released as a result of abrasion, weathering etc.
What does this mean for the handling of asbestos-contaminated buildings? The best thing to do is to seek competent advice. The experts will determine exactly what type, form and condition of asbestos has been used in the property. In its non-friable form, for example, as asbestos-cement in which the fibres account for a maximum of 15 percent of the mass, it is largely considered to be harmless based on current knowledge. At the same time, consideration must be given to how renovations are dealt with where asbestos is involved. In this regard, strict and cost-intensive safety precautions are to be observed.

So, whilst there is no need for you to panic, you cannot be too carefree about it either. Your best bet is to enlist the aid of a competent partner, who can save you a lot of money and spare your frayed nerves.

Separately, Corestate said that over the course of 2013, the company bought portfolios for €460m, while disposing of assets for €481m. Returns for investors in these club deals was an average equity multiple of 1.6 times and an average Internal Rate of Return of 32% per annum. Again, COO Landschreiber credited the returns to the company's deal-by-deal approach and exit-driven business model. For 2014, the group is taking a closer look at anti-cyclical investments across the continent. "Stressed markets such as Spain or the Netherlands show an increasing number of investment opportunities at measureable risk. Still, with interest rates at an all-time low, Germany continues to offer an extremely good environment rarely found elsewhere in Europe", he said.

Europe/Study

Investors accepting greater risk for "adequate returns"

Clearer evidence is emerging of how European investors, with British groups to the fore, are accepting more risk in a low interest rate environment, against a background of relentless demand for secure real estate investments, according to German fund heavyweight **Union Investment**.

The Hamburg-based Union Investment, in its latest investment climate study, said the current low-interest rate environment was "more and more strongly influencing investment decisions by European institutions". As demand for core assets increases, they grow more expensive and difficult to find, which forces investors to look for alternatives.

The survey covered the investment plans of 168 decision-makers in Germany, France and the UK. The top line response was that only 6% of companies responding saw their overall situation as being worse than this time last year. Asked about their prospects for 2014, about 95% of the UK and German respondents saw a clear upward trend ahead; only 78% of the French respondents agreed.

Overall, the study shows that nearly 66% of UK decision-makers now accept greater risk to generate "adequate returns". The French are also moving in the same direction, with 44% regarding returns as the most important investment factor, as opposed to only 20% six months ago. In Germany, although competition for investment properties in the core segment is bringing attention to riskier higher yielding investments, the country's investors continue to regard returns and safety as equally important.

Interestingly, both German and UK investors expressed a wish for shorter lease agreements as part of the higher risk trade-off, although their French counterparts said they equally valued shorter leases and project developments when it

came to finding alternatives to core properties.

German investors showed a disinclination to go into project development, and currently prefer to put less weight on sustainability criteria in investments, or would even accept a lower quality of building substance. A clear preference was also expressed for multi-tenant buildings rather than assets with just one tenant, as a step to minimise cluster risk, respondents indicated.

The survey respondents also expect sovereign wealth funds from Asia and the Middle East to play a major role in European commercial property markets. "If investors from Asia and the Middle East were to significantly boost their positions in European real estate markets, competition will become even more intense," said **Reinhard Kutscher**, chairman of Union Investment Real Estate. "European investors will be under even more pressure to adopt alternative investment strategies."

Germany/Listed Companies

Adler Real Estate in friendly takeover bid for Estavis

One small real estate company that has been flexing its muscles of late is erstwhile minnow, the Frankfurt-based **Adler Real Estate AG**. The listed company has been selectively buying up residential portfolios across Germany (*see article on Corestate Capital elsewhere in this issue*), and has now made a full offer to take over Berlin-listed fellow residential specialist **Estavis AG**.

Adler currently owns about 10,000 residential units in Germany with a gross value of €530m. located mainly (about 60%) in North Rhine-Westphalia, with about 1,600 units in Saxony. Estavis holds about 2,200 units and a small number of commercial properties, mainly in Berlin, Leipzig and Chemnitz in the eastern part of Germany, while its second main pillar, **Accentro**, specialises in residential privatisation.

Estavis' recent half-year figures show an EBIT of €3.8m (up from €0.02m last year), a doubling of rental income from €2.4m to €5.0m, and turnover from privatisation in its Accentro unit of €9.1m. Overall net profit for the period was €0.1m, after a loss of €2.7m in the corresponding period last year. Group turnover was €16.1m (€18.0m last year).

According to Estavis board member **Jacopo Mingazzini**, "Fuelled by the persistently high demand for housing, we exploited our far-reaching sales channels and once more achieved an excellent result. The interest that foreign buyers have been showing - specifically for the Berlin market - remains sky high." He said that the company will step up its efforts in apartment retailing this year, as well as its housing privatisation services.

The deal proposed by Adler involves a stock swap at an as-yet-undetermined exchange ratio for Adler shares from authorised capital. Adler and Estavis have a common shareholder in **Wecken & Cie**, which holds about 10% of both companies. Both companies have strong minority shareholders - **Mezzanine IX** Investors with 48.5% of Adler, and **Thomas Bergander** with 26.95% of Estavis AG. Adler board member **Axel Harloff** commented, "Our goal is the full consolidation of Estavis, where we see considerable potential for adding real value." The bid is awaiting the approval of German financial regulator **BaFin**.

Germany/Financing

Pbb refinances €139m Grand City hotel portfolio

Munich-based **pbb Deutsche Pfandbriefbank** has provided a €139m portfolio refinancing to **Grand City Hotels**, one of the largest hotel operators in Germany. The portfolio consists of eight business hotels across Germany and in Amsterdam.

The portfolio includes business hotels in Germany - two each in Berlin, Mannheim, Stuttgart and Hanover - and two assets in Amsterdam. The loan

from page 18

agreement was signed in December, and funds disbursed in January, said pbb in a release.

According to **Gerhard Meitinger**, head of real estate finance Germany at the bank, "pbb Deutsche Pfandbriefbank actively provides hotel financings on a selective basis, and at specific locations. Our newly-positioned team of experts gives us the ability to structure complex financings." He added that the bank's focus is on the German market but that it has financed hotels in London and Paris before.

WYNDHAM HOTELS AND RESORTS

Grand City Hotels operates over 120 hotels in Germany, the Netherlands, Belgium, Austria, Italy, the UK, Spain, Hungary and Cyprus. Its brands include Wyndham, Tryp, Radisson Blu, Best Western, Mercure and Holiday Inn.

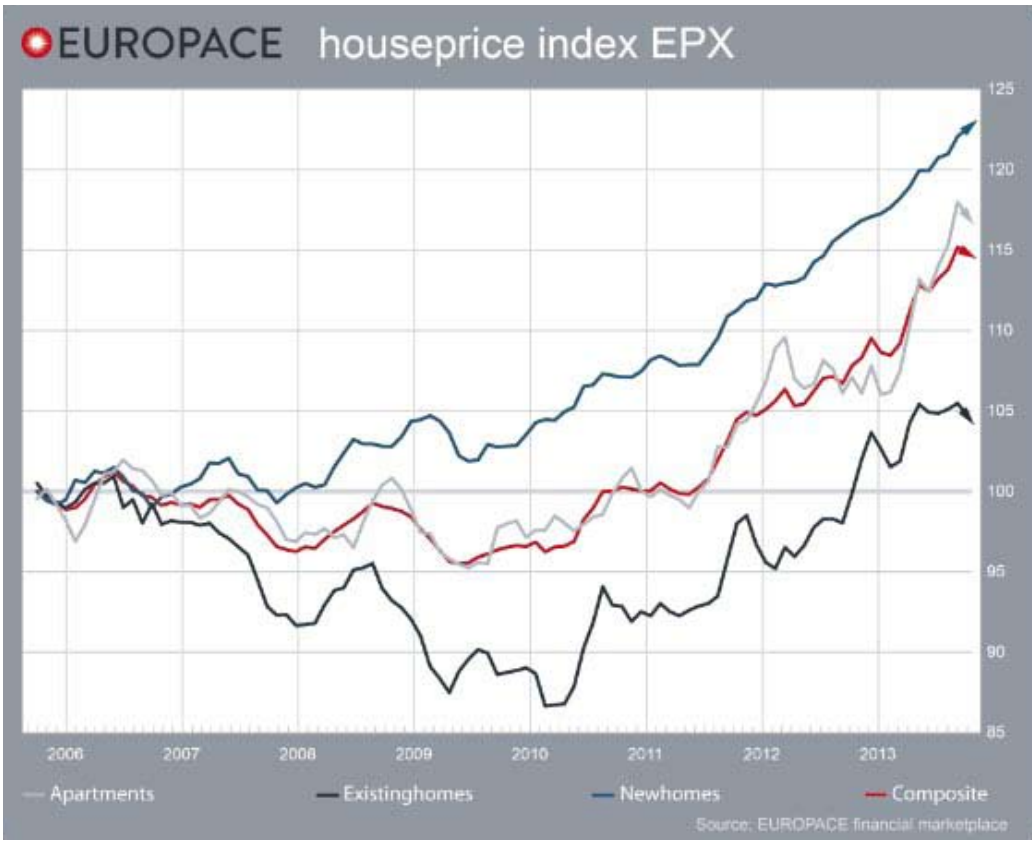
Germany/Listed Companies

All-new Prime Office AG starts life with refinancing, fresh capital

The newly-created **Prime Office AG** started life in February by an immediate raising of €130m in a cash capital increase designed to strengthen its capital position and to reduce leverage. The new office property platform, focused on the larger German cities, sold about 46.6m new shares in a private placement at €2.80 per share, enabling it to start its new life on a strong footing. The company immediately set about refinancing two of its biggest holdings, the *Homer* and the *Hercules* portfolios.

Prime Office AG is the newly-merged entity between Munich-based **Prime Office REIT AG** and **OCM German Real Estate Holding AG**, the German unit of US private equity firm **Oaktree Capital Management**, which took effect in January this year. The new firm has 60 office properties located throughout western Germany, valued at over €2bn. While a listed company, now without its REIT status, Oaktree has a 60% majority stake.

Prime Office AG originally listed in 2011 as a REIT at a price of €6.20 per share. Persistent problems with cluster risk and large vacancies in key property assets saw the share price slump by half before the merger with Oaktree. Meanwhile Oaktree itself had acquired 61 assets at peak prices for €1.7bn at the height of the recent boom six years ago from both the now-defunct **Dresdner Bank** (the *Homer* portfolio) and from the **Sparkassen** (savings bank) network (the *Herkules* portfolio). Overall borrowings on the two portfolios were north of €1.2bn – of which €1bn now needed to be refinanced as it was in breach of bank LTV covenants.



The company has now raised a credit line of €845m for both portfolios, with a repayment schedule of 2018 and 2020, which gives the company some breathing space. The €130m raised in the cash capital increase is designed to top up the difference.

The large-scale refinancing seems to have been highly complicated, from what REFIRE understands, given the granular nature of the part-portfolios which were acquired in 2006 and 2007. The deal required extending the original financing terms of €400m and €500m to synchronise their repayment schedules with a preference share capital increase at corporate level, and then co-ordinating two loans of €370m and €425m with two different syndicates.

For the "*Homer*" portfolio, **pbb Deutsche Pfandbriefbank** and **Helaba** are providing the €370m loans, both banks taking

a 50% share. Both banks have a long-standing relationship with Oaktree and OCM, and know the portfolio well. The "Homer" portfolio comprises ten properties consisting predominantly of offices and totalling around 255,000 sqm. Rented by companies such as **Allianz**, **Zurich Insurance**, **Daimler** and **Deutsche Telekom**, the properties are located in major German cities including Berlin, Düsseldorf and Frankfurt/Main.

The "*Herkules*" portfolio was refinanced by a newly-arranged consortium consisting of pbb Deutsche Pfandbriefbank, **Societe Generale Deutschland**, **Natixis Pfandbriefbank** and **AXA Group**.

With both sides having resolved pressing problems by merging and disposing of non-core assets prior to the merger, the refinancing and parallel capital increase should position Prime Office AG as an attractive office property play for international investors looking for German exposure.

Germany/Debt Finance

German insurer VPV joins ranks of new debt providers

The Stuttgart-based life insurer **VPV** is the latest to enter the German real estate debt markets when it, along with a fellow unnamed insurer, stepped up to refinance the well-known *Linden Shopping Centre* in Berlin. VPV said this is likely to be the first of several deals on its way to a 'several hundred million euro' loan portfolio.

VPV's first deal involved the long-term refinancing of the shopping centre, which is owned by the **ECE European Prime Shopping Centre Fund**, and managed by the Hamburg-based ECE, Germany's leading shopping centre operator. Along with its 50% joint partner, VPV is financing an €80m loan over a 15-year period in a series of tranches payable by end-2015.

In the coming years, and with the support of adviser **Deloitte's Debt Advisory Team**, the insurer said it aimed to build a credit portfolio worth "several hundred million euros" but not much more than €500m. It said it was also open to co-operation with banks and other insurers, but added that it did not really see itself in the role of leading a consortium.

According to **Dr. Oliver Lang**, board member of VPV, "We have taken sufficient time to build a reliable and professional investment process, which we can now see is paying off in terms of this re-

UPCOMING EVENTS AND CONFERENCES

EVENTS/ CONFERENCES Feb-March 2014

February 4th-5th, Tues-Wednesday
ULI Europe Annual Conference 2014, Westin Hotel, Paris, France
The 18th ULI Europe Annual Conference will be themed 'Rethinking, Reinvention and Recovery', reflecting the continued improvement in sentiment towards Europe's real estate markets. The conference is being chaired by Giancarlo Scotti, CEO of Generali Real Estate.i
More at www.parisconference.uli.org

February 11th-12th, Tues-Wednesday
24th Quo Vadis, Adlon Kempinski Hotel, Berlin
The 24th edition of the Heuer-Dialog managed early-year conference for the Gemran real estate industry, the German-language event normally attracts about 300 visitors from the top ranks of German real estate. Will Germany remain the focus for leading institutional investors?.
More at www.heuer-dialog.de

March 11th-14th, Tues-Friday
MIPIM, Cannes
The 25th staging of the annual world's commercial property fair. Last year with 19,000 sqm of exhibitors on 40,000 sqm of space, 2,000 exhibinting companies from 80 countries, 20,000 individual participants, 3,000 CEOs and chairmen, 4,300 investors, 460 journalists, and more. Firmly established as one of the key events of the real estate calendar.
.More at www.heuer-dialog.de

May 7th-8th, Tuesday-Wednesday
10th annual Deutsche GRI, Frankfurt
The leading international players and national decision-makers driving the real estate business in Germany today. In keeping with the GRI formula, no speakers, no panelists, just informal discussions in small groups, where everyone participates
More at www.globalrealestate.org

cently-concluded refinancing."

VPV's primary loan targets will be office and retail properties, and possibly housing portfolios, in established locations in Germany, and in exceptional cases in Austria. Projects and operator-managed real estate are not of interest. Individual loans will range from €10mn to €60mn, with a maximum LTV ratio of 70% of market value, or a maximum of 80% of lending value. For loans lasting from 5 to 15 years, VPV said it would be looking for interest of at least 3.00%.

German insurance companies, along with pension funds and Versorgungswerke (defined benefits plans), have been increasingly looking to provide alternative sources of real estate funding and project development financing as traditional banking lenders retreat from the market to comply with new regulatory capital requirements.

Another typical approach of the occupational pension funds and Versorgungswerke would be that recently made by the €10.5bn defined pension plan for doctors in the Westfalen-Lippe region of North Rhine-Westphalia, the **ÄVWL ÄrzteVersorgung Westfalen-Lippe** with its more than 50,000 members or dependents.

The ÄVWL has been steadily increasing its investments into infrastructure and real estate over recent years, both via direct investments and in providing development loans. The group recently said it is about to close a deal on a €200m investment in a real estate project development in an inner-city location of a German city, which is being sold by US investors for whom the required refurbishment and capital expenditure is too complicated and too much trouble, and who were looking for German buyers.

Andreas Kretschmer, the ÄVWL managing director, gave an useful insight into the pension fund's thinking in a recent interview with pension trade publication IPE. He said that for 2013, the pension plan had reported a net return on its investments of 4.4%, and has so far not even used half of its risk budget, or nearly 16% of its overall €16.5bn assets under management.

"Our main aim is not to achieve the highest return possible per year but to achieve stable returns over the long run," he said. "This way we can ensure that, even if the interest rate environment remains low, we will be able to achieve our discount rate annually until 2018."

As for bonds and equities, the ÄVWL will maintain a "low two-digit allocation" to equities and "certainly not 30%", making "tactical but not strategic adjustments".

"There is too much volatility in equities, and this means it will crash at one point or another, and the equity market is very politically driven, as well as highly leveraged, which all means downturns can happen quickly and strain the ongoing return," Kretschmer said. This year the ÄVWL will also cut back on covered bonds and stock up on emerging government bonds after recent downturns.

Last year, the slight interest rate increase, as well as the sell-off in emerging markets, hurt the overall performance of the Versorgungswerk, while alternatives and real estate generated "above-average returns".

Kretschmer said that the ÄVWL was being increasingly approached for debt investments, which it will certainly look at if they meet his conservative risk profile.

Germany/Research

German-focused funds again outshine European peers

German-focused funds have again outshone funds with a broader European weighting in total performance, while retail proved the strongest sector to be in through 2013, according to the latest quarterly report produced by **IPD Germany.**

German institutional property funds produced a total return of 1.2% at the

...see page 25

CORPUS SIREO
REAL ESTATE

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

Guest essay by:

Douglas Edwards, Managing Director, CORPUS SIREO Investment Management S. à r.l.

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

Medical Office Buildings (MOBs), the properties housing the new medical centres, represent a growth driven segment in Germany's real estate market, assisted by the emergence of a new and dynamic tenant base – the "Medizinische Versorgungszentren" (MVZ). Between 2006 and 2011, the development and growth of MVZs, assisted by proactive legislation, tripled in number, climbing to around 1,800, whilst the number of physicians employed in these facilities doubled to an average of six per MVZ during the same period of time. CORPUS SIREO expects a long-term annual completion rate of circa 100 new MVZs, which will continue to drive demand for the development of new MOBs.

Recent publications by the German National Association of Statutory Health Insurance Physicians (KBV) substantiated the sustained growth of the MVZ segment. Totaling around 1,800 facilities by the end of 2011, their number increased several fold since the introduction of the 2004 legislation which allowed for their creation. This growth trend is expected to continue in the wake of the 2012 Supply Structure Act (VStG). There is also a defined upward trend in the scale and networking intensity within the existing MVZ segment, in particular when they are co-sponsored by a hospital organization.

MVZ: A growing tenant base

What sets MVZs apart from the traditional medical centers ("Ärztehäuser") and medical service centres ("Gesundheitszentren") is mainly their organizational and legal form. In the former two types, physicians rent out office space in their own right. Resident physicians operating within an MVZ, are by contrast, jointly organized in a private limited company (GmbH) or a private partnership (GbR). An MVZ is able to be a multi-disciplined organization having

within its operating structure a variety of healthcare professionals, other than just physicians, all of whom seek are able to offer patients with their ambulatory care needs. MVZs are frequently operated by hospitals, the idea being to expand their service spectrum. These cooperative business models generate organizational and financial synergistic benefits, whilst patients benefit from direct contact to an array of specialist physicians and healthcare professionals within a single entity.

MOBs: Continued rise in demand

The properties housing MVZs are referred to as "medical office buildings" (MOB). The current rise in demand for these assets, which is forecast to continue to expand given Germany's demographic trend, represents a real challenge for project developers and asset managers alike, due to the specials requirements associated with purpose-built properties of this type.

An MOB typically accommodates 10 – 25 tenants on a net lettable area of 3,000 to 5,000 square meters. The investment volume for this type of property can range from €5 – €30mn, which creates a need to aggregate and manage the assets on a regional, sub regional basis, ensuring economies of scale and ability to attract institutional capital into the sector. The current project developers constructing MOBs still tend to be regional or city focused, meaning an investor has to be able to reach across a number of markets to facilitate a wider investment strategy in the sector. The fact that the MVZs are rooted in their local communities, and the MOBs housing them tend to let space to them on leases as long as 15, or even 20 years, makes investment in this real estate segment highly interesting for safety-conscious, income driven, investors. The US market has seen the strongest development by far in this field of healthcare real estate, with numerous listed REITs and institutions operating within the MoB sector.

Having been active in the "healthcare real estate" segment for many years with its own institutional funds, CORPUS SIREO now intends to step up its commitment in this market.

For more informations, please go to: www.corpussireo.com
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...from page 22

fund level (NAV) in 2013, as measured by the **IPD/BVI German Quarterly Spezialfonds Index (SFIX)**. Those funds with an investment focus on Germany returned 3.7% over the year, substantially outperforming funds with a European focus, which returned -0.5%.

In the last three months of 2013, the quarterly performance of all SFIX funds was 0.6%, up from 0.1% in the third quarter. The sub-index for funds mainly invested in Germany stood at 1.0%, substantially higher than for funds focused on European markets, which registered 0.2%.

According to **Daniel Piazolo** (*pictured, above*), head of IPD in Germany, "Over the whole of 2013, funds with a specialization in retail property outperformed funds focused on offices, while German-focused funds consistently outperformed those focused on the rest of Europe."

In the last quarter of 2013, ten funds joined the index for the first time, boosting the number of SFIX funds to 150, with a value of €34.5bn in net asset value. Market coverage remained at 66%, as the market for Spezialfonds as a whole experienced strong growth. SFIX market volume reached €52.4bn in NAV, an increase of €4.5bn compared to the previous year.

In comparison with other asset classes, the SFIX performance in 2013 stood between German equities at 2.7% (as measured by the **MSCI DE**) and German bonds (as measured by the **JP Morgan GBI Global, DE** 7-10 years), which returned -0.9%.

IPD point out in their report that the moderate returns from *Spezialfonds* have been accompanied by low volatility during the recent economic crises.

...from page 25

While the annualized return volatility of the SFIX between 2007 and 2013 was 1.3%, equity and bond returns fluctuated much more strongly, with volatilities of 23.2% and 6.6% respectively.

Germany/Construction

Hochtief nears complete exit from Aurelis shareholding

German construction company **Hochtief** earlier this month agreed to sell a 43% share of real estate firm **Aurelis** to an investor consortium led by the US-owned Grove International Partners LLP, the private equity group spun out of **George Soros's** investment fund. Grove already controls the other 50% of Aurelis. Hochtief's remaining 7% stake in Aurelis will be sold to an independent investor.

The venerable Essen-headquartered German builder Hochtief is now controlled by Spanish group **ACS**, and **Marcelino Fernández Verdes**, CEO of Hochtief, said the transaction marked another significant step in the firm's strategy of divestment. In a statement, Mr. Fernández Verdes indicated that the sales price for its Aurelis stake was close to the book value at end-November. At end of September, according to the group's financial statements, the book value was put at about €250m.

Hochtief plans to use the capital released from divestments for several purposes including strengthening its balance sheet, investing in the group's core businesses of infrastructure development, and remunerating shareholders. Hochtief said it was continuing to study options for its remaining real estate businesses, **HTP** and **Formart**, which are valued at €800m and €315m respectively. **BNP Paribas** and **Macquarie** managed the Aurelis sale and have a mandate to review the options for the HTP and Formart businesses.

The Aurelis sale is subject to approval by German antitrust authorities, and is expected to close in the first half of 2014.

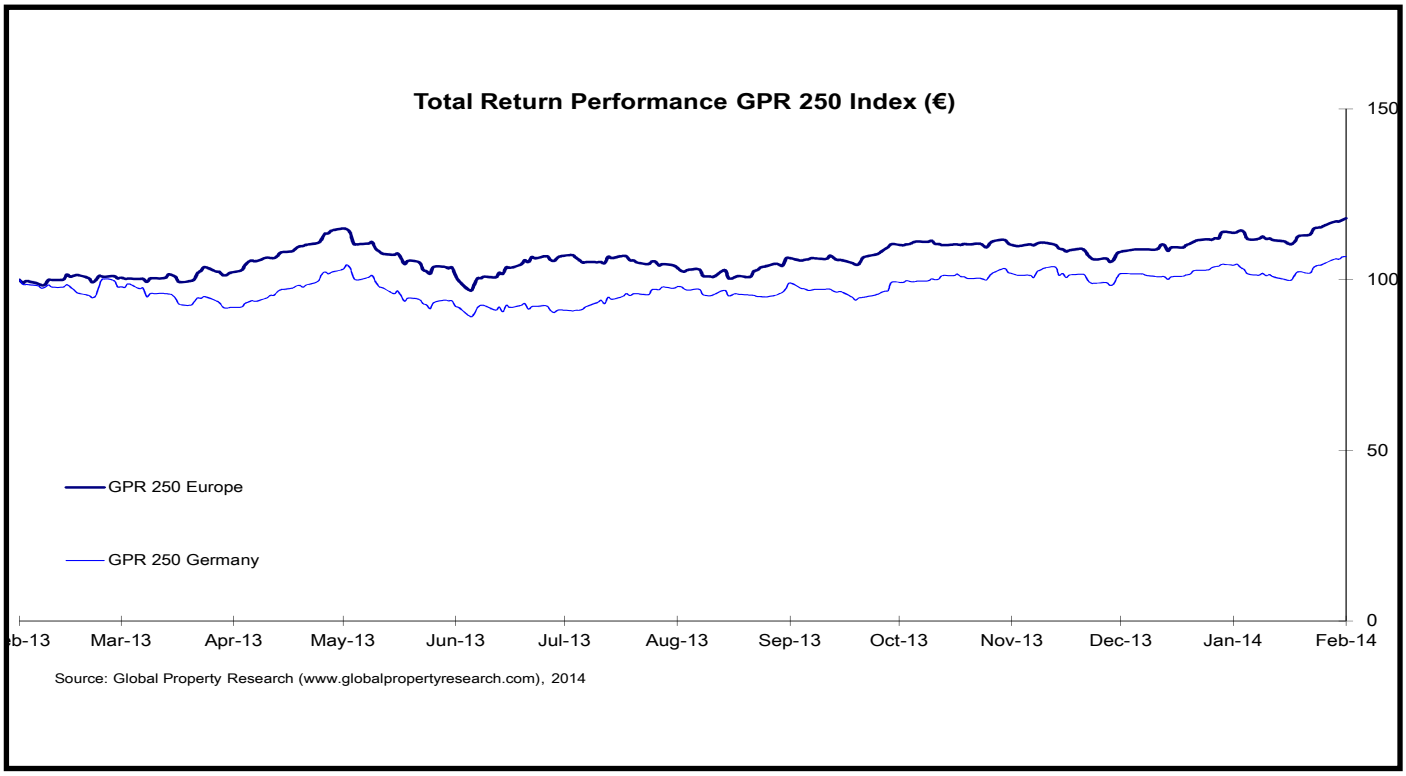
Europe/Mergers & Acquisitions

CBRE, Savills in key moves to boost German technical competence

Great minds are always said to think alike – and so it would seem for two of the larger international broker groups in Germany, **CBRE** and **Savills**, both of whom took big strides to enhance their technical, project management and facilities management competencies over the past six weeks.

CBRE bought the Berlin-headquartered **VALTEQ**, a specialist consultancy focused on technical and environmental property due diligence, as well as technical asset management, and project and facilities management. VALTEQ has grown organically over the last few year, and now has clients including leading real estate investors and major office tenants, particularly in the financial industry.

Its team of about 60 professionals includes civil engineers, architects, econo-



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

Charts courtesy of GPR Global Property Research

mists, geologists and service technicians operate out of five offices in Berlin, Stuttgart, Frankfurt, Munich and Nuremberg. Its three principals **Dr. Thomas Herr**, **Dr. Gabriele Luft** and **Jürgen Scheins** blended their three individual businesses to create VALTEQ two years.ago. Group turnover in 2012 was more than €10m.

CBRE Germany chief executive **Peter Schreppel** (*pictured, right*) commented that CBRE has worked with Valteq on numerous projects over the last few years, and said that CBRE would be looking to integrate VALTEQ's services within CBRE's Building Consultancy division to all the group's clients across Europe. "They are similar to us both culturally and operationally; their clients come first, and they are passionate about providing high quality, bespoke and best-value solutions."

Valteq CEO Thomas Herr said "We can better achieve our ambitious growth targets by having a strong partner. Our team is now positioned to deliver integrated services to clients across the region and also address a requirement that is not yet fulfilled in the German market."

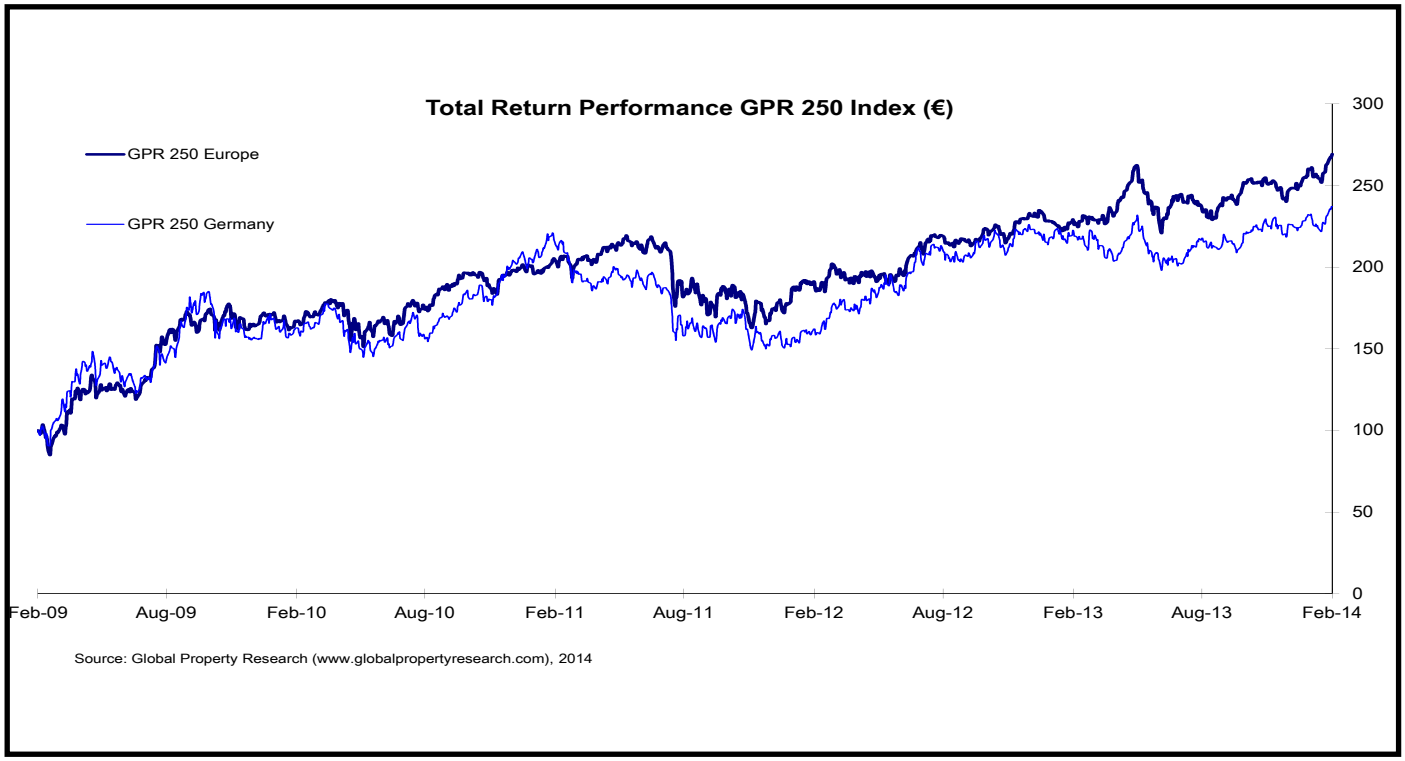
Rival property advisory group Savills, with 160 staff of its own in Germany; is also looking to make sure it can offer its clients a full range of property management services, although its move does not encompass the same range of engineering, environmental and technical due diligence expertise.. It signed a strategic partnership with the Hamburg-based **HIH Property Management (HPM)**, whereby Savills will recommend HPM as preferred partner for property management services in Germany. The agreement is not an acquisition – in fact, as far as REFIRE is aware, HPM is still closely entwined with **Warburg** interests, and is located in the same Hamburg building as other Warburg partners, such as **Warburg-Henderson**.

However, **Andreas Wende**, head of investment at Savills Germany, commented that, "This partnership allows us to offer our clients a complete and comprehensive package of services." HPM has 85 employees in Germany's six biggest cities and manages about 290 properties with a value of €4.15bn and a total volume of 1.92 million sqm

Germany/Retail Real Estate

Understanding planning law key to retail in eastern Germany

REFIRE had a long discussion recently with **Dr. Angelus Bernreuther** of retail property consultancy **BBE Handelsberatung** to catch up on market trends. BBE provides research and consultancy services for retail investors, including a growing number of international inves-



Graph of the total return performance of Europe and Germany in Euro currency over the past five years

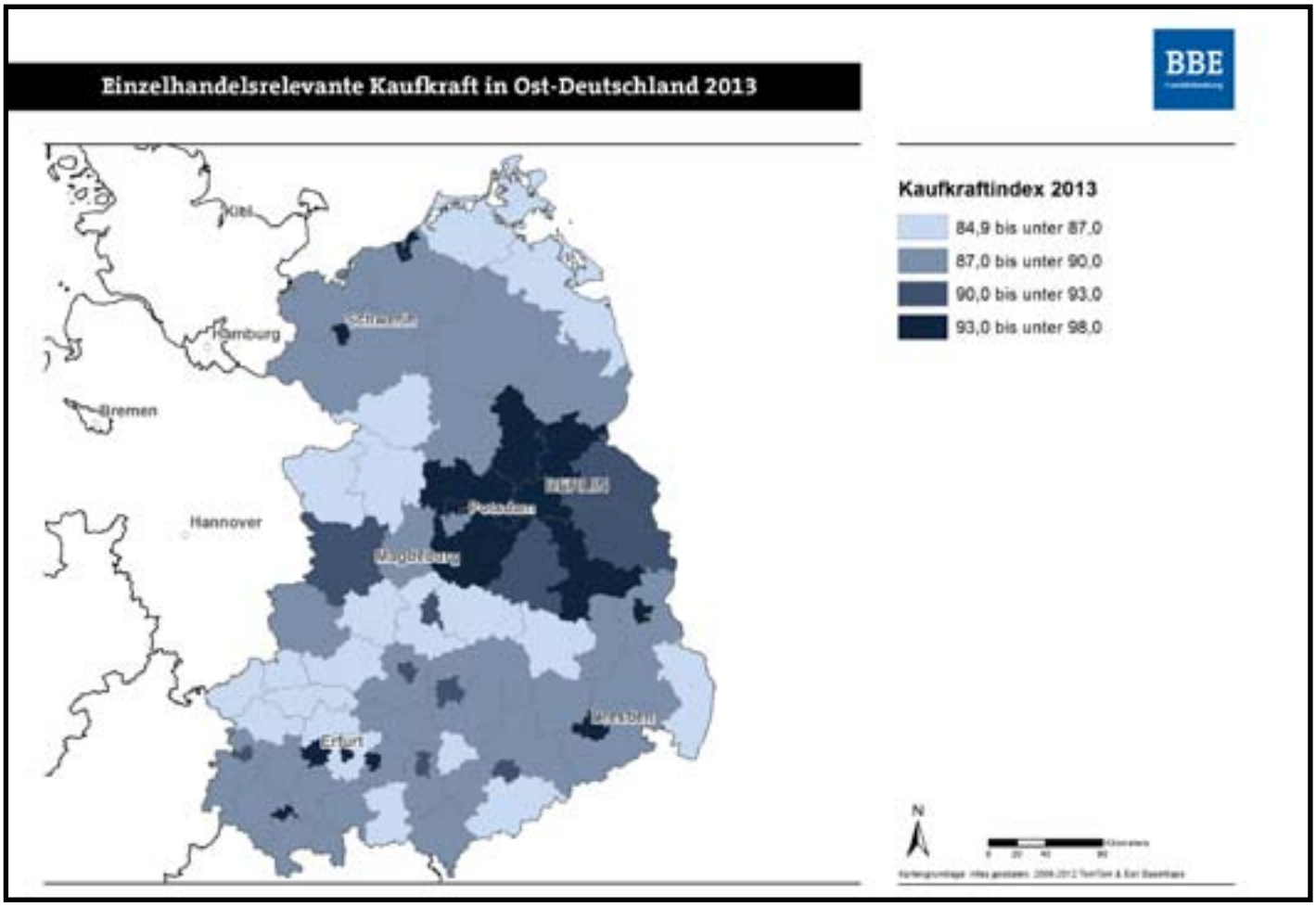
REFIRE charts courtesy of GPR, Global Property Research

tors feeling their way through the complexities of Germany's regional markets. It also has an investing subsidiary **IPH Handelsimmobilien**, a joint venture - **Elaboratum** - which develops multi-channels sales systems and e-commerce activities, and has close associations with the **HBE Handelsverband Bayern**, the Bavarian retail trade association.

Bernreuther believes that selective investments in eastern German retail can now provide interesting alternatives, as investors find yields in most prime locations in the western German cities increasingly under pressure. Importantly, however, the key is to understand something of German planning law, as municipalities across the region are taking a much more decisive role in determining their local retail mix, against a background of demographic shrinkage and shifting industrial structures. Knowing what permits may be granted three years down the line can make all the difference to the profitability of a retail venture, says Bernreuther (*pictured, left*). The normal assumption that stable rents can be counted on is often simply too optimistic, he says.

A key aspect is that many long lease contracts in retail centres built 15-20 years ago are now running out, and local authorities may not be committed to granting changes in planning permission for assets located in peripheral or rural areas. The eastern states have too much retail space already, and a sharp movement is underway to give renewed preference to inner-city shopping precincts, often at the expense of weaker suburban centres. However, with most of the 8bn invested in the region last year going into core assets in A-locations in the bigger cities, Bernreuther say investors now need to be looking beyond that to core-plus and value-add to be able to create new opportunities.

Despite the ongoing population shrinkage in the region, the so-called 'Oberzentren', or cities with a high centrality index due to their strong mix of culture, university, industry and government have become clear winners, such as Dresden,



...from page 25

Leipzig, Erfurt and Jena – which have stable or growing populations, and strong employment. Even a city like Frankfurt an der Oder on the Polish border has seen a certain amount of 'intelligent' shrinking, but with a growing quality of life, which has raised the attractiveness of its city centre shopping locations, and thus rents.

In such cities there are opportunities both downtown and on the peripheries, says Bernreuther, particularly where assets such as big box warehouse stores like DIY centres may be closing, and the prices may now be much cheaper than for similar properties in the west.

Understanding German planning law and current practice in the eastern states can give investors a big advantage. "Knowing what kind of retailers local politicians are favouring for which shopping district is important, and requires a lot of local leg-work, discussions with local planning authorities and an understanding of each municipalities' current planning priorities and local building laws", he says.

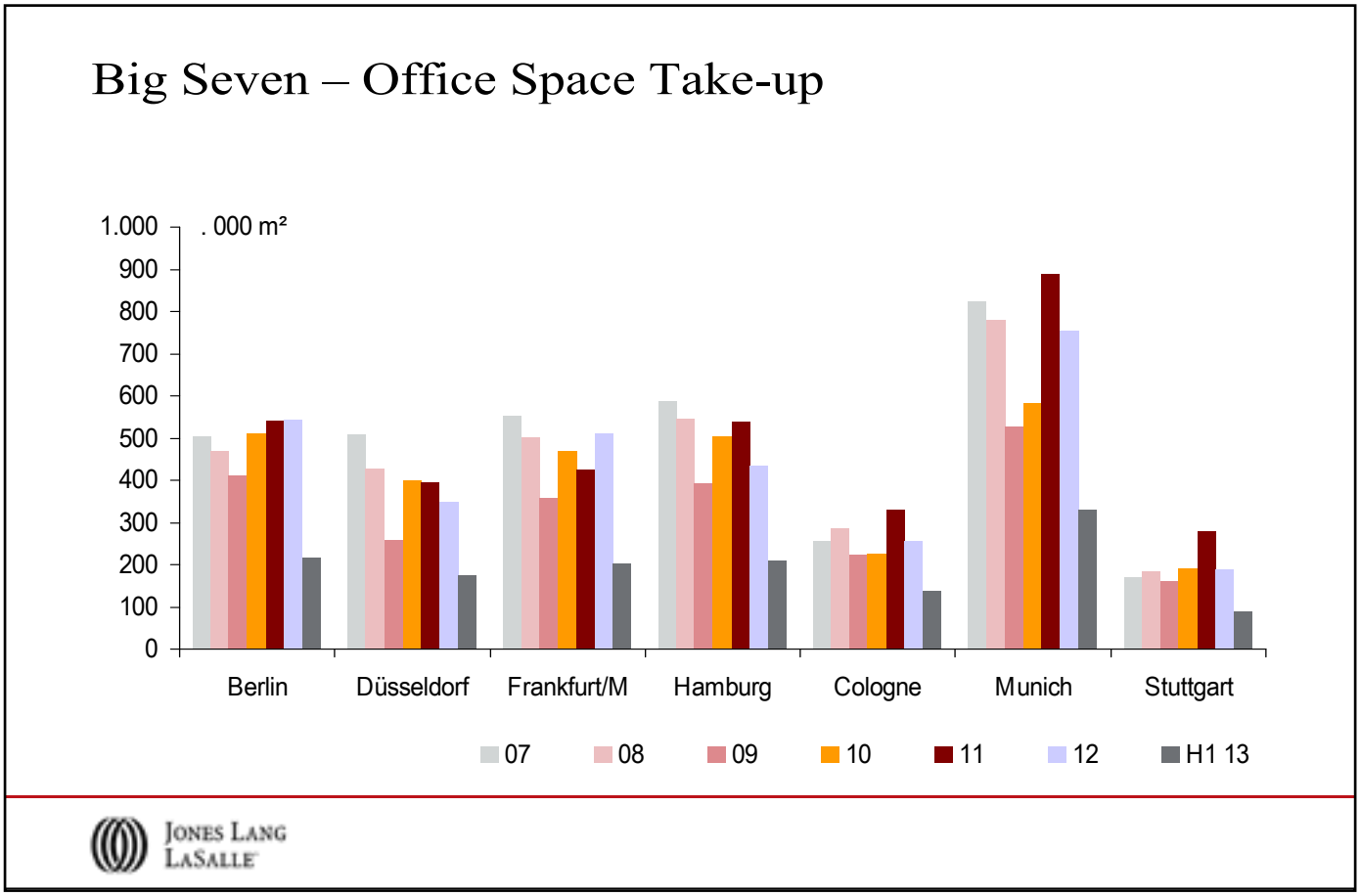
The preponderance of discounters such as Aldi, Lidl, Penny and Norma in the grocery trade may be leading to a rethink, believes Bernreuther, with many municipalities now positively favouring the attraction of a new REWE or EDEKA to upgrade the shopper mix. Investors who think they'll have automatic rights to get the permits to make changes in usage of existing assets may get an unpleasant surprise, he cautions.

NOTICE !

ARGUS Software Breakfast Seminar – 25 March 2014 08:30 – 11:30

ARGUS Software are hosting a Seminar in Munich to present information on real estate trends in Europe and globally and to discuss the merits of using ARGUS. We will provide high level overviews of ARGUS' leading valuation, development appraisal and asset management solutions used widely throughout Europe and globally. ARGUS are also offering an exciting opportunity to have a "taster" training session for ARGUS Enterprise – 12:00 - 16:30, 25 March 2014.

For more information and to register, click here: http://info.argus-software.com/munich2014



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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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