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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Investment in German commercial property sees surge in first quarter

Reports coming in to REFIRE from all the major broker groups confirm the surge in German commercial real estate investment over the first quarter, which hit €9.9 billion in the first quarter of this year, representing a 40% increase in turnover year-on-year and the second strongest first quarter ever recorded after the boom period of Q1 2006.

A new report published by broker **Savills** shows that the strong level of transactions seems to be progressing seamlessly from the significant market activity seen in the final quarter of 2013, traditionally the busiest period, when the market reported an investment volume of over €11.4 bn.

According to **Andreas Wende**, COO and head of investment at **Savills Germany**, "The ongoing favourable financial and economic parameters are increasingly joined by a rising risk-embracing attitude of investors so that the investment market in Germany is now definitely no longer limited to core. This broader market activity is reflected in another year-on-year increase of the transaction volume."

Every sector saw higher transaction volumes against the same period in 2013, with the most significant increase recorded in the warehouse and industrial segment (+154% year-on-year), followed by the office sector (+64% year-on-year). Nearly all sectors were boosted by portfolio deals, which accounted for over €4.3bn of turnover according to Savills, representing 44% of the total turnover.

These portfolio transactions were a key contributor to a significant rise in turnover recorded outside Germany's top six markets of Berlin, Hamburg, Frankfurt, Düsseldorf, Cologne and Munich. Outside these markets the Q1 2014 transaction volume doubled to €6.4bn, from €3.2bn in Q1 2013, of which almost €3bn was attributable to portfolio transactions.

By contrast turnover in Berlin, Düsseldorf and Frankfurt recorded a decrease of between 8% and 29% against Q1 2013 whilst Hamburg, Cologne and Munich re-

Trouble at Austria's conwert as board split on strategy

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corded a year-on-year increase in investment turnover of between 12% and 17%.

According to the research the majority of the property portfolios were purchased by international investors in this period, increasing their market share to 55% (€5.4bn), up from 38% in Q1 2013. Of these buyers, private equity funds represented the most active group investing almost €1.5bn into commercial real estate in Germany in the first three months of the year.

"While the market remains characterised by a supply bottleneck in the prime segment, investors' risk appetite should rise in view of the outstanding fundamental data"

The Savills figures are not too far away from those from rival property advisor CBRE, whose figures show first quarter German real estate investment rising by 47% to €10bn, helped strongly by significant portfolio sales. With Germany continuing to appeal as a safe haven for global investors, **CBRE** is adjusting its full-year forecast sharply upwards.

"Given the dynamic start, we see our prognosis for a full-year transaction volume of significantly more than €30bn confirmed," said CBRE Head of Research Germany **Jan Linsin**. "While the market remains characterised by a supply bottleneck in the prime segment, investors' risk appetite should rise in view of the outstanding fundamental data." Linsin sees more portfolio sales and investments into the so-called B-cities and prosperous regional cities in focus. In the first quarter, portfolio sales gained 86% to over €4.3bn, thus taking a 44% share, up from 35% in 1Q13. CBRE's researchers noted 16 deals exceeding €100m, the largest of which is **Patrizia's** acquisition of the *Leo I* portfolio with 18 offices in Hesse valued at around €1bn.

Added **Fabian Klein**, CBRE's head of investment: "Cross-border investments of over €5.2bn document the high confidence foreign investors have in the local property market." Strongest international investor group is the US with 19.9%, then the UK (10.9%) and France (7%). Office remains the most popular asset class, accounting for 52% of volume followed by retail (26%) and logistics, where investment doubled to €1.3bn. The share of the five largest cities contracted to 35% from 54%. The most lively market is Munich, with a volume of €1bn, followed by Frankfurt with €674m and Düsseldorf (€645m). Prime yields continued their decline - to between 4.45% for offices in Munich and 4.7% in both Düsseldorf and Frankfurt.

Austria/Listed Companies

Trouble at Austria's conwert as board split on strategy

There has been trouble brewing at listed Austrian property investor **conwert Immobilien** for some time – in REFIRE's view, this could almost be dated back to when experienced German residential privatisation specialist **Jürgen Kelber** left his board position to come back and refocus his energies on the German market in a new role as principal at **Dr. Lübke und Kelber** in Frankfurt.

Now it looks as if the turbulence at conwert's board level can be resolved only at what may prove a feisty shareholders meeting in Vienna on May 7th.

Rebel shareholder **Alexander Proschofsky**, who owns 1.5% of the company's shares and has been a prominent critic of the company's recent performance, has put himself up for election to the company's administrative board (effectively the executive board in a company formed under the 'SE' European company structure formation, as conwert is), along with fellow candidate **Peter Holbein**, a German real estate consultant and former board chairman of **BIH Berliner Immobilien**.

Conwert's management board under new CEO **Clemens Schneider** favours its own candidates insolvency lawyer **Alexander Schoeller** and venture capitalist **Martina Postl** – both of whom are accused by Proschofsky of lacking in relevant industry experience and being too close to 24% shareholder, the Austrian industrialist **Hans Peter Haselsteiner**.

In essence, Proschofsky seems to want to curb the influence of Schneider and Haselteiner, whose shareholding is sizeable in relation to the overall stake of institutional investors of 42%, with other private shareholders holding 21.6%. The previous administrative board chief **Johannes Meran** resigned in March, and was a close adviser to Haselsteiner, the former CEO of construction group **STRABAG**, and co-founder and major shareholder of private rail and bus operator **Westbahn**, which competes with **Austrian Railways** on the Vienna to Salzburg route.

Just before leaving, Meran made an offer for the conwert's German portfolio of residential property, fronting a consortium of investors grouped under an American insurance company. The offer was confirmed by conwert CEO Schneider, and is thought to have been worth about €750m to €800m, or about the same as the net asset value of the German holdings, less borrowings.

Shares in conwert, which develops, lets and sells residential property in Germany and Austria, have been trading at about a third below their stated NAV of €14.98, underperforming peer German operators – and part of the reason Proschofsky wants to exert more control over the company's strategy. He claims the company tried to sell its German portfolio last year, but the talks turned out to be inconclusive, with the company merely stating officially, "Conwert's strategy is positioned towards growth in Germany."

Conwert has been building up its German holdings consistently over the last several years, buying about 4,000 apartment units from **GE Real Estate** and buying the Hamburg-based residential operator **KWG**, as well as the Alt & Kelber asset management and privatisation business (which led to Jürgen Kelber joining the Austrian company's board). Its current German holdings are 27,500 units valued at about €1.7bn

In a recent interview with *Reuters*, Proschofsky said, "We have to create shareholder value by running this company properly. This whole company has been dominated for the past two years by the fact that Haselsteiner wants some smaller company."

Proschofsky himself is the owner of several apartment blocks in Vienna and has capital markets experience, so will be pitching to shareholders his relevant skills for the board. He has already gained the support of influential corporate governance advisory firm **ISS**, who have advised shareholders to reject the company nominees. In a report, ISS wrote: "Conwert has, even after a transformation pro-

EDITORIAL

German banks treading gingerly as the party gathers steam

If there was some doubt at the end of last year whether Germany could continue to hold investors' attention, given emerging opportunities in nascent neighbouring economies, those doubts have been dispelled – as hungry buyers are rating Germany an even better bet than they did last year.

The figures are astonishing. Despite the cloud hanging over the residential sector in the form of the looming *Mietpreisbremse*, or rental cap, investor thirst for German residential remains unslaked. The logistics sector has seen more turnover this past quarter than at any time in the past ten years, and is up nearly 70% on the same quarter last year, with the areas around Berlin, Düsseldorf, Frankfurt, Hamburg and Munich profiting disproportionally, with super-sized facilities ever more in demand.

If last year investors were mumbling about starting to look at Germany's secondary cities to meet their yield expectations, Germany's twenty or so B-cities are no longer exotic territory for yield-hungry investors. The recent €300m acquisition by US investor Apollo of TAG's non-residential assets included several office buildings in cities like Mannheim and Nüremberg. Many similar deals are currently being transacted.

German banks, reticent about backing any deals throughout the crisis years that weren't watertight, blue-chip 'core' assets in the safest CBD locations, are following their clients into the provinces – and are showing themselves increasingly flexible on the definition of 'core'. According to broker JLL, 'core' offices in the top seven cities were yielding 5.2% in 2011 – as against 4.5% today. With ever fewer such assets available, what's not to like about yields of 5.8% in Hanover, 5.9% in Essen, 6.0% in Wiesbaden, 6.2% in Mainz, and a host of other attractive cities such as Münster, Mannheim, Leipzig or Dresden?

The argument against investing in Germany's provincial cities has always run along the lines of the "uncertainty of exit" several years hence. The concern was always, who would be there to buy the asset when you need to move on and out? At least in the biggest cities, it was thought, there would always be another buyer coming along, persuaded by centrality and location. An exit was assured, the only issue was the timing.

Recent discussions with senior bankers have only emphasised to us at REFIRE how the issues of refurbishment and sustainability play an ever-larger role in the decision of their banks to finance an asset. Bank margins are again under pressure, with the return of several financing banks into the fray, not to mention competition from alternative providers. As many have recently found to their cost, 'core' assets can quickly become "broken-core" assets if, despite their location, the tenant moves to a property better-suited to his needs after ten years. The lucky investors, who've been enjoying stable returns for nine years, may just find themselves perched on the edge of a cliff.

A cursory walk around the business district of Frankfurt these days – to take just one German city as an example - will show how quickly many modern offices become obsolete. The entire city centre seems to be one big building site, with one 'core' property after another being carted away in dump trucks.

Conservative banks such as Deutsche Hypo and Helaba ARE actively financing. It's not as if they're curbing lending - but it's noticeable how circumspect they have become, both as to the assets or projects they will finance, and with whom they choose to do business. As the upswing continues, and interest rates remain – for Germans, at least – at such a low level, the demand for German real estate will scarcely abate. Last year Germany's Pfandbrief-issuing banks increased new lending on commercial property by 10% to €53bn, while lending on residential investment rose 8% to €48.2bn. This year's start suggests we're in for another bumper year.

An (unlikely) rise in interest rates might send some of the new debt capital providers running for the hills, but in the meantime, the larger banks are following their favoured clients into cities they may not have, eh, visited for some time. It's not outside their comfort zone, but the bankers are not considering these times 'normal', either. In other words, there's too much money about, determined to buy bricks and mortar. On the plus side, if the new deals involve refurbishments, or non-core assets in secondary cities, the banks can trouser margins of 150 to 200 basis points, and more than compensate for the shift away from 'core'.

Andreas Pohl, CEO at the Hanover-based Deutsche Hypo Bank, offered some useful insights into bank thinking at a small press briefing in Frankfurt last week. Lending will, of course, always remain his bank's core business, he stressed, although all the banks are conscious of the constraints they're up against in the coming years with the new equity capital requirements. However, real in-depth knowledge of local German real estate markets, and acute sensitivity to lucrative project development or refurbishment opportunities in those local markets, is what will differentiate the bank winners from the losers. As a cautious banker, he finds himself sniffing the air more frequently these days, like waiting for a shift in the wind, he said, while all around people are starting to party again like it's 2007…

As an interesting aside, he commented that he detected a higher quotient recently of flaky – not to say outright dubious - propositions being submitted to his bank for financing consideration. Again, doubtless a function of the pressures investors are under to shift their funds into something – anything – involving real assets, or incur the wrath of their masters. Should we be surprised, then, that Bob Dylan is touring around Germany this summer? We can already hear him crooning "When will they ever learn...?"

Charles Kingston, Editor

gramme, significantly underperformed its peers. Conflict of interest and lack of relevant sector experience have weighed on this performance". Also supporting Proschofsky's bid for a board seat is the **Austrian Shareholder Association**, representing the interests of the retail investors in the company, whose president commented, "There is an urgent need to enrich the administrative board with real estate and Germany experience."

Last week **Kerstin Gelbmann**, an associate of Haselsteiner, was appointed to the supervisory board of conwert and sister company Eco Business, replacing in both instances Johannes Meran.

Germany/Non-performing Loans

Nationwide close to completing €650m German NPL deal

British building society **Nationwide** is reported to be selling its complete German loan book with a nominal value of about €850m. This would not be the first time Nationwide have tried to find a buyer as they seek again to exit the German market, after trying to unload the portfolio in 2013.

The **Project Adelaide** portfolio includes about 200 widely diverse commercial property assets, and the most serious bidders still in contention for the loan book are private equity groups **Cerberus**, **Oaktree** and **Kildare**.

According to *CoStar Finance*, the assets include a broad mix of commercial properties all bought before 2008 at a time when Nationwide had ambitious plans for expansion in Germany. These include offices, business parks, logistics properties, discount grocers, supermarkets, several DIY stores of now-insolvent **Praktiker**, specialist stores and neighbourhood malls, including several large big-box stores in eastern Germany.

The individual loans range in size from €20m to €30m, with consultants **Deloitte**, mandated to handle the sale by Nationwide, putting a value on the underlying property assets at upwards of €650m. The three bidders are thought to have each bid at least €600m.

Among the largest assets by rental income is *Pösnapark* in Grosspösna near Leipzig, which produces a rent roll of €4.4m. The centre was built in 1993 and has retailer **Kaufland** as its anchor tenant. At one point the centre had 40% vacancy, but this has been reduced to 13% since the centre management was taken over in 2010 by **CEV**, a subsidiary of retailer **Edeka**.

The portfolio also includes a mishmash of one-off assets, such as a light industrial factory in Memmingen leased out until 2029 to a car parts manufacturer, a cinema complex in Marburg, and diverse logistics and office properties with remaining lease lengths of as low as three years.

Germany/Study

German residential portfolio sales in Q1 back at 2007 levels

A recent study by property advisory group **NAI Apollo** casts useful light on the makeup of the investment market for German residential portfolios over the first quarter. With a total turnover of €5.3bn in the quarter, it's further evidence of the surge in investment volume across nearly all asset categories in Germany, bringing levels back up to 2007 volumes. Year-on-year, this year's Q1 is up a whopping 152.4% on last year's €2.1bn in the first quarter, representing about 98,300 residential units across 78 portfolio sales (a portfolio consisting of more than 30 units).

According to **Dr. Konrad Kanzler**, NAI Apollo's head of research, "Three large transactions that each amounted to more than €500 million contributed to this quarterly result and accounted for 61.7 % of the transaction volume. These transactions concerned two purchases by **Deutsche Annington Immobilien** (the **Vitus**-Portfolio with 30,000 units for €1.4 billion and the **DeWAG**-Portfolio with 11,500 units for €970 million) and the acquisition of the **DGAG**-Portfolio with 18,000 units by the Immofinanz subsidiary **BUWOG** for €892 million.

In total, transactions larger than €100 million apiece accounted for 76.6 %, or around €4.1 billion. The remainder were distributed among the less than €100 million categories, with shares ranging from 7.8% (€25 million-€50 million category) to 2.6% for the less than €10 million category.

Buildings in economically strong cities and urban centres continued to be the most sought-after real estate in the first quarter of 2014. Among Germany's bigger cities, Berlin still had the highest share of assignable portfolio transactions at 14.4 % (Q1 2013: 20.5%). At the same time, secondary locations were of growing interest to investors. "In a comparison of the federal states, most purchases took place in North Rhine Westphalia with a 24.3 % share. However, Baden-Wuerttemberg recorded the highest growth of +4.3 percentage points compared to the previous year's quarter. As a result, this state accounted for 5.4 % of the transactions, with most purchases taking place in Stuttgart and Mannheim", said Kanzler.

As in previous quarters, listed housing companies were the most dominant investor type in the first quarter of 2014. They accounted for around €3.1 billion or more than half of the total transaction volume (58.3 %; 24.8 % of the purchases). Next in line were real estate companies, which accounted for € 1.4 billion or 27.1 % of the transaction volume (18.6 % of the purchases). "This represents huge growth compared to the first quarter of 2013. The listed companies increased their transaction volume more than sixfold, primarily due to the large purchases by Deutsche Annington. The real estate companies increased their volume more than 15-fold, due in a large measure to the BUWOG purchase", said **Stefan Mergen**, managing partner at NAI Apollo valuation & research.

Where are the investors coming from? Not surprisingly, Germans dominated the market, accounting for about €4.1 billion or 77.0 % of the transaction volume (81.0 % of the transactions). Although the domestic share declined compared to 2013 as a whole (81.8 %), it still increased by 6.3 percentage points compared to the previous year's quarter.

The average purchase price for portfolios fell by just over €50/sqm to €895/sqm compared to 2013. In contrast, project developments recorded a higher average price of €3,180 /sqm (+5.3 %).

What is the outlook for the future? NAI Apollo sees interest in portfolios remaining unabated. "The low rate of interest is one reason for this, as is the search for safe investments by both international and national buyers. Listed property companies will again dominate the buyers' market, particularly with regard to large transactions. Competition, which saw domestic investors emerging more frequently as winners than international investors in recent months, remains fierce", said Mergen.

"Of particular note is the recent increased interest in investments in secondary locations. The established cities still experience the strongest demand, but factors such as rising rental potential, higher yields and a less competitive landscape enhance the attractiveness of regional and middle-order centres outside the large metropolitan centres. The increased risk appetite of banks has turned locations such as these into a real alternative", said Kanzler.

Germany/Research

New "Lease Pendulum" report on relative fairness of German contracts

Law firm **Hogan Lovells** have teamed up with property advisor **JLL** to produce what seems to REFIRE to be a useful new analysis tool for scrutinising the relative 'fairness' of commercial office lease agreements in Germany's largest cities – to determine whether they tend in favour of the landlord or the tenant.

The Lease Pendulum, or "*Mietvertrags-Pendel*" is planned as an annual report which will analyse and evaluate shifting patterns in German commercial contracts, in light of the relative advantage they confer on one party or the other. The partners have developed a benchmark tool which will enable landlords and tenants alike to figure out where they stand in a negotiation against a series of market standards.

The first such report has just been published, and analyses more than 250 major office leases covering 300,000 sqm concluded over the time period

2007-2013. The study concludes that, over this period, given all the effective risk and cost distributions, the contracts can be deemed – on balance - to have been "landlord-friendly".

The study examines a host of factors, including: rights of withdrawal and penalties due, tenant option rights, notice periods, maintenance and repair of communal areas and facilities, flexibility of duration and special termination rights, rental security, competitive protection, maintenance of the rental object itself, indexation and rental hand-back.

In the study, all the above factors showed wide discrepancies as to which party was more favoured. For example, in the case of non-punctual handover, the tenant benefitted disproportionately – whereas the landlord had much stronger cards in the eventuality of the tenant breaching conditions of the hand-back of the property on lease expiry.

According to **Philipp Ueberschaer**, associate director for tenant representation at JLL, "Leaving aside the influence on individual contractual clauses, the contracts we studied showed only marginal tendencies in either direction in respect of rental price, location, or lettable area. In other words, a tenant leasing a small space in a top location is not necessarily discriminated against."

"On the other hand, a landlord renting a large amount of space in perhaps a secondary location, has plenty of leeway to skilfully negotiate a lease agreement that is decidedly advantageous to himself", he added.

Dr. Dirk Debald, a partner in the Hamburg office of Hogan Lovells, commented on the purpose of the new benchmarking tool: "The negotiating of what may turn out to have been quantifiable lease conditions has a large bearing on the cost and risk distribution in the subsequent tenancy, and is thus an open field on which each party to the contract – regardless of location, market phase, leasable area and rent level – can employ skilful tools of negotiation, which will subsequently either give him an advantage or render him at a disadvantage."

Germany/Financing

Helaba holding back on new lending as margins come under pressure

Of the big real estate financing institutions in Germany, perhaps the bank expressing the most caution about the current lending environment is the traditionally conservative **Helaba**, which naturally wants to avoid being squeezed by increasing competition from banks and new sources of alternative finance pressing on to the market.

At a recent press briefing in the bank's Frankfurt headquarters, attended by REFIRE, the bank's board member with responsibility for real estate, **Jürgen Fenk**, (*pictured, right*) found himself stoutly defending his bank's intention to slightly row back on new business for 2014, rather than issuing grandiose new targets to match the mood of market enthusiasm. This year he projects €8bn of new lending, down on last year's €8.7bn (itself higher than originally planned), but with the same level of returns.

Although Helaba posted good figures for the full-year 2013, the first quarter had been strong, and prospects for the economy and for real estate are all positive, Fenk said that competition between the banks and new alternative finance providers meant that margins were coming under increased pressure. Additionally, he pointed to the number of large deals done recently for core property assets where the buyers are equity-rich – such as sovereign funds and big insurance companies flush with cash – so banks' lending books are not necessarily growing while such buyers predominate.

He also questioned how sustainable the commitment of new alternative lenders would be to the financing markets once interest rates rise again, although that could be some time away, he conceded.

Helaba's lending book is now up a further €1bn over the last year at €33.5bn, of which Germany makes up €16.7bn, followed by North America with €6.5bn. Property lending made up half (€261m) of last year's overall parent company bank profits of €510m.

The bank's core lending markets remain Germany (60% last year), France, UK, Poland, Sweden, Finland and the Czech Republic – and is not actively pursuing any new business in southern Europe including Spain, unless an exceptional opportunity arose with an existing client. Within Germany the bank is actively financing top-quality assets in secondary cities, where it knows the market and the participants. About 44% of its loans are for office properties, 24% for retail, 16% for the residential sector, and 16% to others such as logistics.

Head of German real estate finance **Michael Berger** also pointed to the new role in financing now being played by debt funds, pension funds and insurers. He sees increasing interest in A-locations in B-cities such as Wiesbaden or Nüremberg, and further collaboration between the banks and the new finance providers.

Germany/Listed Companies

LEG places €300m in first bond issue since last year's IPO

Listed German residential property company **LEG Immobilien** has placed €300m in convertible bonds with institutional investors to diversify its financing sources and support its growth strategy. The bond issue is the company's first

...see page 10

since it was listed on the stock exchange a year ago.

LEG said the senior, unsecured bonds will mature in 2021 (7.2 years) and be convertible into around 4.8 million shares, representing 9.1% of the company's outstanding share capital. The semi-annual coupon was set at 0.50% per annum and the initial conversion premium was fixed at 30% above the reference share price of €47.99, corresponding to an initial conversion price of €62.39

The Düsseldorf-based LEG Immobilien is one of Germany's largest housing companies with more than 95,000 rental properties and more than 260,000 tenants. In its latest report the group said it was targeting acquisitions of more than 10,000 further units by the end of 2014, of which it has now bought 6,700.

Germany/Study

German growth pointing to looming office shortage - study

New research published by London-based pan-European real estate investment manager **Tristan Capital Partners** suggests that a sharp tightening in supply in the German office market is just around the corner. With Germany's rate of economic growth expected to almost double in the near term, the traditional lag between growth prospects and office take-up could start to shrink rapidly, leading to clear supply shortages.

According to **Ric Lewis**, CEO of Tristan Capital, "With unemployment in Germany the lowest since the early 1990s and real wage growth at a five-year high, Tristan forecasts that emerging strong pentup demand will squeeze real estate supply, particularly for offices, over the next year or so."

The last few months have seen a remarkable increase in leasing activity, not just in the prime retail and office locations of bigger cities, but also in smaller markets all across the country, the company said. "This is reflected in the 33 leases that we have either regeared or signed for over 11% of the G3P fund's total rental roll in just the past eight months," added **Ralf Nöcker**, managing director of Tristan's **German Properties Performance Partners Fund (G3P)**.

German GDP expanded three times faster than the Eurozone average last year and this has helped to strongly boost consumer sentiment and underpin retail sales. However, the economic growth has not yet translated into higher office take-up volumes, reflecting the normal lag between firms becoming more confident in the outlook and them executing strategic real estate decisions.

Tristan claims pent-up demand for office space is building, and once positive business sentiment has reached a critical level, could be released. With vacancy rates at multi-year lows, supply-shortages are probable in the next year or two.

The G3P Fund manages a diversified portfolio of 44 properties, of which roughly half are offices and 40% retail, based on income contribution, with a total floor area of 168,912 sqm located in Germany's 'Big-5' cities and a range of regional centres. Tristan Capital took over the fund's management in September 2013 at the request of the existing investors, and has since stabilised and restructured the portfolio.

The increase in German leasing activity has not been confined to prime locations in major cities. Secondary markets that were, until recently, seen as peripheral and less attractive have also been picking up speed, the company said. Noteworthy deals closed recently by G3P include a 10-year 1,700 sqm office lease extension in suburban Cologne, Danish household goods retailer **Tiger DK**'s signing a retail lease in Kiel, and a new office tenant signing in Bochum despite the adverse economic impact on the city caused by the closure of a local **Opel** car plant.

At a wider European level, the renewed strength of office markets is already being reflected in the well-known *European Office Property Clock* (see page 32 of this issue) from broker **JLL**, which shows for Q1 that, for the first time in two years peak office rents have risen not just on a quarterly basis, but on an annual basis. Peak rents in Dublin rose in Q1 by 20% and in Lyon by 15%, although in most other large cities rents have been fairly stable (Paris +3.5%, Moscow -4.3%). JLL expects to start reporting on rising rents soon, though – London will lead the pack, Paris is recovering, and most German cities are about to show "moderate growth". Lease activity in London, Oslo, Moscow and Madrid showed no great deviation from the quarterly average of the last five years, nor from last year's figure.

Germany/IPOs

Buwog IPO sees Immofinanz subsidiary valued at €1.3bn

This last week saw the long-awaited IPO on the Frankfurt, Vienna and Warsaw Stock Exchanges of **Buwog**, the residential housing subsidiary of Austrian-listed **Immofinanz**. The initial placing was at €13.00 in Frankfurt and Vienna, where after initial oscillations the share is more or less still trading.

The shares were actually placed in a depot for Immofinanz shareholders, in a ratio of 1 Buwog share for every 20 held in Immofinanz, with the number of Immofinanz shares held by individual investors remaining unchanged. The Buwog shares were, in effect, paid out in lieu of dividend, (absent this year, but €0.15 last year) and as expected, the Immofinanz share price has been falling for some time in compensation, although it has since started recovering. The listing of 51% of Buwog gives the new debutant a market cap of €1.3bn, with Immofinanz planning to gradually wind down its remaining holding of 49%.

Immofinanz plans to refocus its efforts on commercial real estate in eastern Europe, while Buwog will concentrate on developing the German residential business. As CEO **Eduard Zehetner** described it, investors now have the choice of "more risk, and more return (with Immofinanz)" and "none, or very little, risk and therefore somewhat less return (with Buwog)" – while at the same time assuring investors in Buwog that the parent company planned a very "hands-off" approach to managing the residential company.

According to **Daniel Riedl**, Buwog CEO and Immofinanz board member, "We plan to buy 3,000 to 4,000 apartments annually, preferably without having to raise fresh capital, although we have plenty of access to the capital markets if we need it." Germany is the only market where real growth is possible, he added, as "in Austria there is just too little movement, and it's very expensive." Buwog is currently buying 18,000 units in northwest Germany from RREEF and Prelios, bringing its total holdings up to 53,000 units – shared about equally between Germany and Austria. The goal is to bring the German share up to 75% in three to five years.

As well as buying new residential in Germany, Buwog plans to do project development in Berlin and Vienna – a factor which Riedl said would differentiate Buwog in the minds of Anglo-Saxon investors, in particular from its new German peers, such as **Deutsche Annington**, **Gagfah**, and **Deutsche Wohnen**.

Germany/Listed Companies

Annington Q1 figures benefit from rising rents, refurbishment

It's been a good start in 2014 for Germany's largest landlord **Deutsche Annington**. The Bochum-based company boosted FFO in Q1 by a quarter to €61.9m, with CEO **Rolf Buch** forecasting a full-year figure of between €250m and €265m – well up on last year's €224m. About 70% of this is destined for a dividend payout to shareholders.

The stock price has been on a steady upward trend since the beginning of the year, when Annington announced the acquisition of 41,500 residential units for €2.4bn from rivals **Vitus** and **DeWAG**. The new buys were paid for through a capital increase and the issue of a hybrid bond. The recently-issued hybrid bond was for a volume of €700m and runs until 2074, paying a

4.625% coupon for the first five years, and was lead-managed by **Barclays**, **JP Morgan** and **Morgan Stanley**.

The priority for the next few months, said Buch, would be to integrate the new holdings into the business, along with implementing a €300m refurbishment programme for existing stock, starting with 2,500 units this year, all of which will improve rental income. An €800m programme has been planned for up to 2018.

UniCredit subsidiary **HypoVereinsbank** is providing €70m in loans for the Annington refurbishment and elderly-friendly housing programme, sponsored by bank **KfW Kreditanstalt für Wiederaufbau** for promoting energy-efficient housing. For refurbishment and maintenance, Annington is investing about €29.00 per square metre of its holdings this year. Annington now owns 215,000 residential properties, and manages about another 40,000 for third parties.

Europe/Study

Germany second cheapest country for tax on commercial rent - Taxand study

A report produced by global tax advisory organisation **Taxand** says that Germany is the second cheapest country in the world for investors involved in developing and renting commercial property in terms of the total tax take. Only Switzerland ranks behind Germany in this category, says the report.

The Taxand report concludes that the total tax rate on development of commercial property for rent in Switzerland is the cheapest in the world at 14.01%, followed by Germany with 14.57%. According to **Ulrich Siegemund**, head of real estate at Taxand Germany, "Germany is not a high tax country for real estate investors and is particularly favourable for corporate investors. One reason is that municipal trade tax can be avoided, which reduces tax to 15.825 % on the net income from rent."

These rates contrast with those countries at the other end of the table, such as the USA, which has a total tax take of 40.99% on commercial rent. Germany's rate in this sector has increased marginally since the last Taxand T3 ("Total Tax Take") research in 2011 when it stood at 14.53%.

The Taxand report covers four categories of asset type in 20 countries around the world: Residential for sale, Residential for rent, Commercial sale, and Commercial rent.

In the other categories, Germany generally features around the average rate, although is amongst the cheaper countries for the rental of residential properties, where the total tax rate is 26.00%, still more attractive for investment compared to Argentina, which has the highest rate in this category of 44.00%.

In a number of cases, European countries appear as the most attractive locations for real estate investment, with the UK, Luxembourg and Switzerland amongst the cheapest in terms of tax take across the four segments analysed in the research. Given the ability to recover VAT on construction in Poland and Romania, along with their low prevailing income tax rates, meant that these two countries top the list as the most attractive for commercial development and sales.

Germany/Listed Companies

German merger companies sharing mixed fates

Germany's financial regulator **BaFin** gave its approval for the voluntary public takeover by small listed German property investor **Adler Real Estate AG** of the likewise-small, listed Berlin-based **Estavis AG**. There is now an exchange period, which lasts until 23rd May, during which Estavis shareholders can accept Adler's exchange offer to convert each 26 Estavis shares they own into 14 Adler shares. Adler shareholders had already approved a capital increase against contributions in kind in the form of Estavis shares.

In a somewhat ambiguous-sounding statement, **Axel Harloff**, Adler Real Estate's CEO, said: "We assume that it will be possible to achieve our objective of receiving more than 50% of Estavis in the course of the exchange, so that we can fully consolidate Estavis in the Adler Group." The conversion ratio at share prices of €2.19 per Estavis share and €3.91 per Adler share is based on revenue-weighted share prices over the three months prior to the decision for the takeover on 9th February 2014 and offers Estavis shareholders a premium of 8.41%. When the deal goes through, Adler will hold more than 16,500 residential units right across Germany.

Meanwhile, another German company that has recently gone through its own metamorphosis, **Prime Office**, published its first results since merging with **Oaktree** subsidiary **OCM Germany** in January this year. The listed company, which will change its name to **DO Deutsche Office AG** in May, posted pro-forma rental income down from €159.9m to €135.1m in 2013, due to high vacancies and disposals, using a hybrid accounting system made up of OCM's and Prime Office AG's separate accounts. The pro-forma net loss for the year was €124m.

Prime Office ended 2013 with a balance sheet of €2.12bn, down from €2.57bn at the close of 2012, and equity of €712m, giving a loan to value ratio of just over 60%, down from 65%. At end-March, the group portfolio consisted of 57 properties with a market value of about €1.9bn, with vacancies at just under 20%.

Looking ahead to the full year, the firm said it expects to increase FFO this year to between €44m and €46m. The refinancing of its key **Homer** and **Herkules** portfolios and the cash capital increase implemented in February has brought a sustainable improvement of leverage and equity ratios since the pro-forma results statement, it added. Financial year 2013 was largely dominated by one-off valuation items, plus due diligence and other costs related to the coming merger. The firm, which no longer has the REIT status enjoyed by predecessor **Prime Office REIT AG**, made portfolio write-downs of €116m for 2013, after €52m write-downs the year before.

Germany/Financing

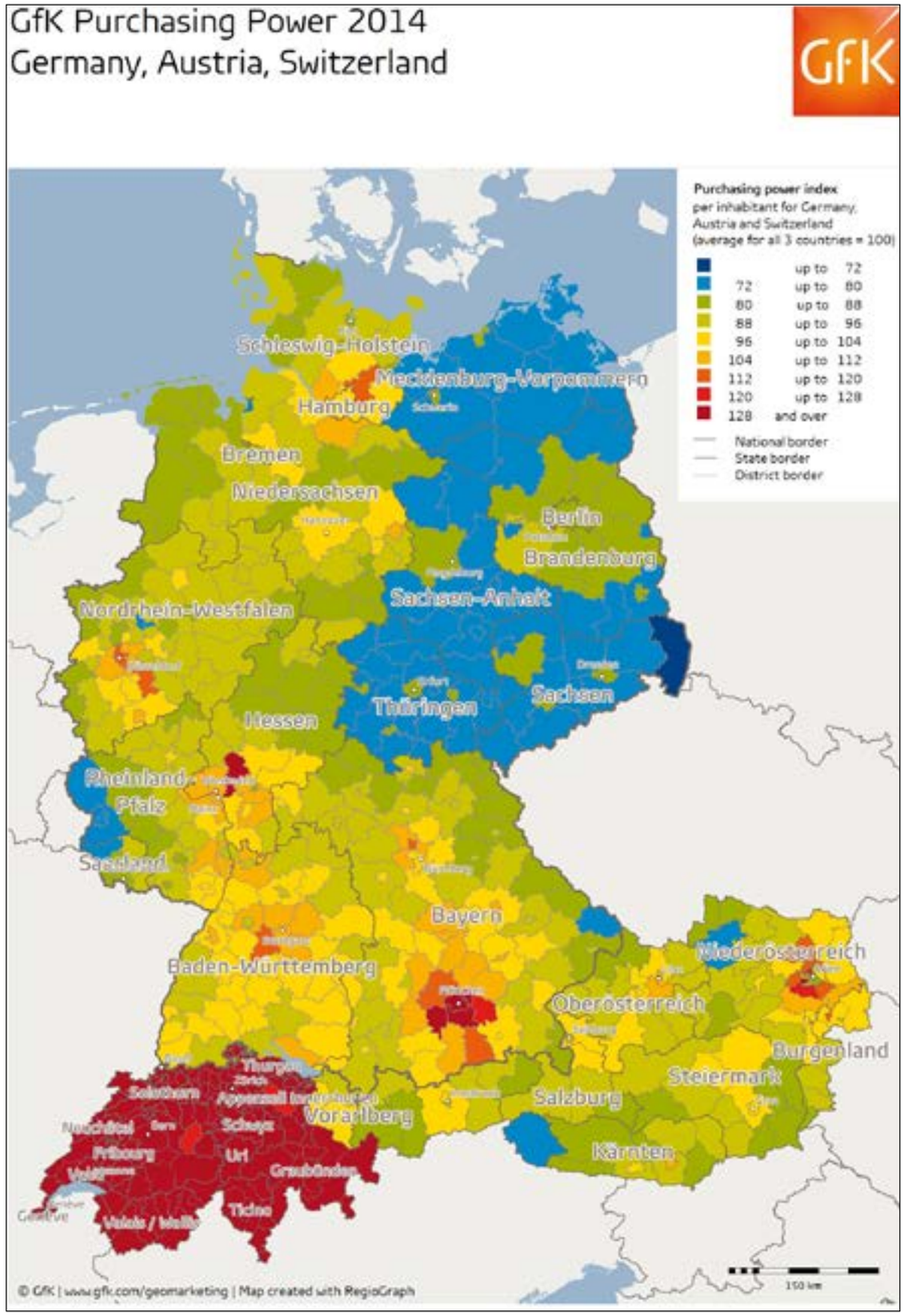
HSH Nordbank in new loans to Brack, Gagfah

We reported in a recent issue of REFIRE on our meeting with **Michael Windoffer,** director at Hamburg and Kiel-based landesbank **HSH Nordbank**, which had a clear take-home message that the bank is back in business for real estate lending – after having to severely rein in its horns during the crisis years.

For foreign investors in Germany, the bank has been markedly raising its profile and level of access, helped by the opening of a new office in Frankfurt. This has already seen the €95m refinancing of two office complexes in Frankfurt for an American investment group last month – a 27,000 sqm refurbished property in the business district of Mertonviertel in the north of the city which is long-term leased to **Lurgi GmbH**, a subsidiary of **Air Liquide** group. The second asset is the 31,000 sqm *Campus Carre* in Niederrad with eight diverse tenants on long leases. Both properties are asset-managed by **Round Hill Asset Management**.

HSH has also just refinanced €125m of loans for 13 retail neighbourhood shopping centres for international investor **Brack Capital Group**. Nine of the centres are in Bavaria, Baden-Württemberg and North Rhine-Westphalia, with a further four in the eastern German states, with a total of 150,000 sqm of space let out long-term to well-known German retail names such as **OBI**, **Kaufland** and **KiK**. Brack has been active in Germany since 2004 in both commercial and residential investing, and has 120 people on the ground managing its more than 1.1m sqm of property.

Listed residential owner and manager **Gagfah** has also recently signed a fresh loan deal with HSH. The Luxembourg-based Gagfah, which owns 144,000 apartment units and managers a further 35,000 for third parties



across Germany, confirmed the new loan facility for €176m to refinance a 4,400 unit portfolio in southern Germany. The 280,000 sqm GBH portfolio, which also includes 20 commercial properties, is largely located in Heidenheim, between Stuttgart and Munich.

The loan is divided into two tranches - The first tranche of €134m for the core portfolio has a maturity of seven years, while the second of €42m, with a three-year maturity, is secured by a portfolio which Gagfah plans to sell off. The weighted average interest rate of the new loan is 3.05%, putting it at 130bp lower than the previous loan. Gagfah also saves about 1% one-off refinancing fees it would have incurred had it exercised its two-year extension option with its previous lender.

Gagfah's chief financial officer **Gerald Klinck** commented, "Securing stable and long-term financing for the **GBH** portfolio is another important step for us in our continuous efforts to improve our capital structure and maturity profile."

Despite the new-found enthusiasm for real estate lending, HSH Nordbank is emerging from a difficult year, with results still weighed down by ever-higher provisions for bad debts in its shipping division. The bank posted an overall loss last year of €814m, fully €700m worse than in the previous year and the worst since 2008 when losses totalled €3bn. The bank was forced to rely on state guarantees of €10bn, which have cost €1.7bn in fees and charges so far, and are likely to be still needed for several years yet. In fact, the state guarantees were topped up to €10bn again in 2013 from €7bn, helping the bank to boost its core capital ratio from 9.9% to 11.7%. Since 2008 HSH has halved its balance sheet to about €109bn, while shedding a third of its staff in Hamburg and Kiel.

HSH Nordbank chairman **Constantin von Oesterreich** issued an optimistic statement at the bank's press conference recently, with a return to profit foreseen for the current full year after a €200m first-quarter pre-tax profit. He said there was renewed commitment to the bank's model of being "The Bank for Business Owners", and that new business lending in the first quarter had doubled over last year to €2.1bn. For the full year, he forecast a rise in overall new business lending from €7.6bn to €9.4bn.

Europe/CMBS

Valad Europe clinch deal to wind down Eurocastle Bridge portfolio

Real estate investment manager **Valad Europe** won an important workout mandate earlier this month, when it was appointed to manage and sell off six German office property assets, in the so-called *Bridge* portfolio. The portfolio is part

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of the **Windermere X** CMBS originally structured by **Lehman Brothers** investment bank before its collapse in 2008, and has been managed since by the **Fortress Investment**-controlled **Eurocastle**.

Valad Europe said it was mandated to implement a focused asset management strategy to maximise sustainable value, all within a swift time horizon. "We have been appointed with a clear remit to increase the weighted average lease term, reposition existing tenants and introduce new tenants, as well as maximise value through the disposal of either individual or portfolios of assets," said Valad's Head of Germany **Andreas Hardt**.

The Bridge portfolio has had a chequered history since Lehman Brothers originally provided €372.1m whole loan finance for Eurocastle's €482m purchase of the portfolio in 2006, which included an interest-only €30m junior loan. The seller at the time was **Deutsche Bank**'s open-ended property fund **Grundbesitz-Invest**. Lehman Brothers subsequently hived off the €342.1m senior loan into its Windermere X CMBS transaction.

Special servicer **Hatfield Philips International** replaced the Eurocastle-controlled asset manager, when Eurocastle's attempts to negotiate a three-year loan extension to January 17 failed after it showed unwillingness to pump in new equity. The Bridge portfolio had a September 2013 valuation of €325m, while its burdened with the €370.1m loans.

The six assets consist of: the 44,000 sqm *Galluspark* office in Frankfurt; the 17,300 sqm *AmUnisys-Park 1* in Sulzbach by Frankfurt; the 48,000 sqm *Alt Moabit 91* office in Berlin; the12,000 sqm *Kaiserswerther Str. 117 – 119* office in Düsseldorf; the 40,000 sqm *Alfred-Herrenhausen-Allee 1* office in Eschborn by Frankfurt; and the 30,000 sqm *Abraham-Lincoln-Park 1* office in Wiesbaden.

The Galluspark in Frankfurt (let to **Deutsche Bahn** for about €4.98m per annum) and the Sulzbach asset, let to **Clariant GmbH** for €1.65m annually, are likely to be a priority for Valad to sell off, probably by the end of this year. The Berlin and Düsseldorf assets are both multi-let with a weighted average lease term of 3.1 years and 3.5 years respectively, with Texas Instruments being the largest of a variety of tenants. The two assets have 8.8% and 10.9% vacancy rates, and with some tenant upgrading and fresh lease agreements could also be sold by this year, all going well.

The Eschborn property, just outside Frankfurt's city limits (to benefit from more favourable local taxes), is let to **Vodafone** for its German headquarters on an annual lease of €7.2m. Vodafone plan to leave at the end of their lease in 2017, but has sublet much of its current space to multiple tenants. Valad will need to renegotiate these leases, along with its major tenant in Wiesbaden, cyber-security company **CSC Ploenzke**, whose lease also expires in 2017.

Valad Europe's chief operating officer **Christian Bearman** commented on Valad Europe's track record in managing complex workouts for banks, noteholders and receivers across Europe: "Over recent years we have been appointed on over €1.5bn of bank workout and CMBS mandates with highlights including two German retail CMBS mandates, the *Landmark* and *Dutch Offices I & II* portfolios in the Netherlands, the *Gemini* CMBS mandate in the UK, the *Kefren Properties* portfolio in Sweden and the *ECREL* portfolio across Germany, the Netherlands and the Nordics."

Valad Europe has offices in Berlin, Düsseldorf, Frankfurt, Hamburg and Munich, and with 37 staff manages 1.4m sqm of property assets worth €900m, including 730 different tenants.

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

Has the internationalisation of Germany's real estate industry led to a professionalisation of the handling of transactions?

www.valteq.de

International investors have played a major role on the German commercial property market since the turn of the millennium. Whilst, according to BulwienGesa, overseas real estate investors active on the German real estate market accounted for between one and three percent from 1994 to 1998, they accounted for 65 to 70 percent of the market between 2005 and 2007. An incredible increase. And the presence of overseas investors is still strongly felt today in transactions for portfolios and large-scale single properties. According to a current study from PWC, the proportion accounted for in the 2013-housing market stood at around 25 percent; in the retail market, it was around 45 percent and, in the office market, at 30 to 35 percent. Has this internationalisation brought about professionalisation of the industry in Germany?

The trend began with major transactions on the housing market. One such milestone deal goes back to 2001, when eighteen railway workers' housing associations with a combined total of 65,000 apartments were sold from the holdings of Bundeseisenbahnvermögen. It is back to this period, too, that one can trace the roots of today's VALTEQ, which, as a provider of Technical and Environmental Due Diligence (TEDD) services, focused closely on the needs of the German market's new international players, right from the beginning. Since then, TEDDs have become the norm for major real estate transactions and, these days, are generally prepared by the vendors and demanded by the banks. To date, however, this area has been spared the typical German obsession with standardisation that seems to permeate all other areas of life. And so we are content to live with international directives from the RICS and ASTM.

Following the dramatic decline in transaction volumes during the financial crisis of 2008/2009, the market has recovered considerably in the last few years, reaching an above-average level of 35 billion Euro p.a. International investors are active again and come from an ever more diverse range of countries. Today, the German market is also of interest to Asian and Arab investors. At present, it is not possible to say to what extent and in which direction these new influences will further progress TEDD practice in Germany. Looking back, however, it can certainly be said that the professionalisation of transaction processes also increased sharply with the presence of overseas investors and the internationalisation of the German real estate economy. A development that we at VALTEQ welcome and support.

Germany/Legislation

Further rises ahead for Grunderwerbsteuer, or property transfer tax

The applicable rate of property transfer tax, or *Grunderwerbsteuer*, a sort of stamp duty payable on the purchase of property in Germany, has been rising steadily in Germany over the past six years, a subject on which we have often reported in REFIRE.

The beginning of January saw further rises in the tax rate payable in the states of Berlin, Bremen, Lower Saxony and Schleswig-Holstein. The state of Hessen, which includes Frankfurt and Wiesbaden, is also planning to increase its rate from 5% to 6% on January 1st, 2015. This puts Hessen among the top three federal states in terms of property tax, and increases the transfer tax element on a €400,000 apartment from €20,000 to €24,000.

The current level of property transfer tax is Germany's federal states is:

wBaden-Württemberg: 5%
Bavaria: 3,5%
Berlin: 6%
Bremen: 5%
Brandenburg: 5%
Hamburg: 4,5%
Hessen: 5% (6% from 01.01.2015)
Mecklenburg-Vorpommern: 5%
Lower Saxony: 5%
North Rhine-Westphalia: 5%
Rhineland-Palatinate: 5%
Saarland: 5,5%
Saxony: 3,5%
Saxony-Anhalt: 5%
Schleswig-Holstein: 6,5%
Thuringia: 5%

Up until some years ago the rate of property transfer tax was a uniform 3.5% across the country. However, as part of the federal reform programme, it is now up to the federal states themselves to determine how much they charge property buyers. Not surprisingly, since then it has risen in nearly every state, albeit at different rates. It is invariably seen as a 'soft option' when state governments and politicians are looking for new sources of tax revenue.

This year so far, revenues from the property transfer tax have been rising strongly, due to higher transaction volumes and the higher rates themselves. According to Berlin's **federal finance ministry**, the individual länder took in €845m in March alone, up 23.2% year-on-year. For the first quarter, revenues rose 11.3% to €2.4bn, well ahead so far of full-year projections of an increase of 4.5% for the period, with most states putting in increases. Saxony (up 64%), Bremen (up 46%) and Saxony-Anhalt (up 45.5%) led the way, while in absolute terms - not surprisingly - Germany's most populous state of North Rhine-Westphalia was up 17.1% with a total intake of €511.9m, ahead of Bavaria (up 11.6% to €392m) and Baden-Württemberg, up 1.7% to €345.1m).

Industry associations always respond to increases in the tax rate with a volley of criticism, decrying its skewing effect and the disincentive it offers to property purchases. **Dr. Wulff Aengevelt** of the Düsseldorf-based property advisors Aengevelt Immobilien commented on the upward trend to REFIRE recently: "To fill gaps in state coffers, every federal state except Bavaria and Saxony have raised the original uniform federal rate of 3.5% in the shortest period of time by between 40% and 80% without any concrete reason, with Berlin and Schleswig-Holstein

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at the top end with 6% and 6.5% respectively.

"The logical effect of this is to divert particularly investment deals into so-called "share deals", where the assets are traded without the tax imposition by acquiring the company that owns the asset. This has seen volume of these "share deals" rising in Berlin in 2013 by 41% to €4bn, the number doubling in Frankfurt to over €2bn, and a five-fold increase in Düsseldorf to €840m. This is a huge loss of exchequer income, but also a lowering of market transparency, as such deals are not included in the data gathered by the urban valuation experts.

"What's even worse is that the rise in the transfer tax disproportionally hits the smaller buyers, such as young families trying to buy their own homes for the first time. With their tight budgets, increases of even a few thousand euros can delay or even scupper their plans to buy property," said Dr. Aengevelt (*pictured, above*).

"As with the other government measure, the *Mietpreisbremse* or cap on rental price increases, the increase in property transfer tax will not create a single new residential unit. If anything it acts to discourage owner-occupiership, and encourages tax avoidance, which is both unfair and anti-social."

Germany/Study

US investors line up €2.5bn for German commercial property

A number of recent reports have suggested that the level of real estate finance available for the commercial property market has now reached pre-crisis levels, with Germany remaining a key market for deployment.

A new study by Berlin-based **Flatow Advisory Partners (FAP)** sees about €4.1bn in foreign capital being readied for debt finance in Germany this year, with the bulk (€2.5bn) coming from US-based investors, mainly insurance companies and funds. US lenders are followed by UK lenders (€1.95bn), French (€350m) and Swiss (€125bn).

According to the Flatow study, the volume of investment-seeking capital is nearing a magnitude not seen since the years 2005/2006. "What is not clear is whetzher there are a sufficient number of target assets available to match the return-on-equity requirements of lenders. And, while US investors are interested in Germany for the same reasons as other lenders – security, stability, and a robust economy – they have only recently rediscovered the lending market as an asset class in its own right.

Looking at where this capital is actually coming from, the predominance of foreign insurance companies is evident, as a group accounting for about €1.65bn of debt capital. These are followed by investment funds with €1.3bn, and then corporates fielding about €1bn.

FAP managing partner **Curth Flatow** commented on the purported rise in Chinese interest in entering the German debt markets, particularly insurance companies recently freed up from their traditional obligation of only investing domestically. "This is only true in so far as they have only recently been allowed to invest abroad, so they're starting from a zero base. We obviously watching the market there carefully, but at least for Germany it's fair to say that Chinese have not yet shown up in Germany as capital providers."

Flatow said that his firm has responded to these new trends in debt lending and has expanded its services to include, in addition to identifying equity and debt financing for clients, advisory to domestic and international lenders. The company's new business line "Lender Advisory – Creditor and Lender Consulting" marks the expansion of the activity to include the lending side. "Where required, FAP identifies target customers, and supports the acquisition of the envisaged deal on behalf of the creditor/lender," he said.

"We have started to increasingly focus on advising domestic and international capital providers in developing their business strategy, in particular their access to the German market," he said.

Meanwhile, here at REFIRE we keep a beady eye on the **FAP Barometer**, (*see page 20*) a quarterly reading of market sentiment relating to the financing environment, ie. whether funding conditions are becoming more or less restrictive. The barometer measurements are supervised by **BulwienGesa**, a leading German property research consultancy.

The latest quarterly reading shows sentiment among German commercial real estate lenders improving again, which at 1.84 points on on the FAP scale is now 31 basis points ahead of the year's first quarter. Nearly 60% of respondents believed that conditions had improved between Q1 and Q2 of this year, with 40% rating the situation as unchanged. Not one respondent viewed conditions as more restrictive. Nonetheless, the actual pace of lenders new business seems to be lagging behind the optimistic sentiment, possibly due to increased competition and pressure on margins.

There is also a shift in the willingness to finance different property types. For example, in real estate portfolio financing, the LTV bandwidth extends from 55 to 90%, with the FAP benchmark at 71%. The spreads extend from 70 to 600 basis points, the median equalling 181 bps, down from 203 bps the previous quarter.

In project development financing, the LTV bandwidth extends from 50 to 100%, with the benchmark at 73%. Spreads have gone as high as 325 bps during Q2. The benchmark in the bottom range has remained stable at 123 bps, while the one in the medium range equals 198, another slight drop over the previous quarter.

Putting all this into perspective, CEO Curth Flatow commented, "The fact that spreads continue to soften reflects the currently relaxed funding environment and the intensifying competition. The situation puts particular strain on loan funds with a senior-loan-financing strategy because they depend on higher margins for structural reasons." In an indication of a clear trend, Flatow added that demand for alternative lenders had leapt to 38.1%, up from 28.9% the previous quarter and up from 33% during the same quarter last year. The Q2 2014 Quarterly Report can be accessed here: *www.fap-finance.com/en/barometer.aspx*

Source: Q2: FAP Barometer

Germany/Listed Companies

Investors hungry for expanded Grand City bond issue

There has been growing investor interest in Frankfurt-listed residential turnaround specialists **Grand City Properties** since it went public last year and has seen

UPCOMING EVENTS AND CONFERENCES

EVENTS/ CONFERENCES May - June 2014

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

May 21st, Wednesday
Frankfurt School of Finance & Management, Real Estate Finance Day
The inaugural event from Targa Communications and the Frankfurt School of Finance & Management offers a platform for direct dialogue between the real estate industry and the German finance industries, with the emphasis on Germany's commercial property markets.
More at www.frankfurt-school-verlag.de

May 15th, Thursday
IPE Real Estate Global Awards 2014, Hotel Kempinksi, Munich
The seminar program of the Awards Ceremony is based on the them of "Building global exposure" - exploring the paradox of the local business versus real estate as a global asset class, while drilling down into specific regions and markets.
More at realestate.ipe.com

July 3rd, Thursday
ULI Urban Leader Summit 2014, Main-Tower, Frankfurt
The annual gathering of ULI Germany and CEE countries , always well-attended by the German real estate industry. This year featuring the ULI Building Healthy Places Initiative, with keynote speeches from Prof. Andrea Boltho of University of Oxford, Guy Perry of IN-VI INvestment Vision AG, and Frankfurt Mayor Peter Feldmann
more at: germany.uli.org

its stock go in only one direction so far. This month the company increased its seven-year 6.25% bond tap issue for the second time due to strong investor demand, and raised total issuance by a further €50m to €350m after raising the original €200m issue by €100m.

The new funding will give the rapidly-expanding group about €400m in additional firepower while keeping it within its 50% LTV target. The Luxembourg-registered Grand City specialises in buying and turning around residential properties in Germany's larger cities. Last year's earnings (EBITDA) rose 150% to €306.2m, while net profit rose 186% to €266m, while EPRA net asset value was put at €860m. Last year the company added 14,000 residential units, and currently holds 30,000 units, so much of the rapid growth has come in the last year.

REFIRE discussed the company's business strategy last year with CEO **Christian Windfuhr** in Berlin, and reported on it in these pages. Grand City buys undervalued, under-let and under-maintained residential properties and repositions them with investment, higher rents and higher occupancy levels. The company avails of all its own in-house property management skills and its own proprietary IT management systems, helped by the bolt-on acquisition of an integrated property management company. It claims that all the in-house expertise gives it major cost advantages versus competitors.

We must admit we haven't fully figured out how a company that competes against a lot of highly sophisticated competitors can continue to identify, acquire, upgrade and reposition so many properties in such a short time, but the goals as described by Grand City and Windfuhr sound admirable, right down to the level of providing garden landscaping and playgrounds for children, even enticing several ex-tenants to return to their new, improved abodes.

The group's holdings are also geographically diverse, with 45% of the properties in North-Rhine Westphalia, 22% in Berlin and 9% in Bavaria, along with assets in cities as dispersed as Leipzig, Dresden, Mannheim and Bremen – normally a disadvantage in this industry, and certainly requiring very comprehensive management systems to compensate for the extra work and distances involved.

Potential vendors are private and institutional owners who for one reason or another no longer wish to operate the properties, said Windfuhr. The company has no specific growth rate planned in terms of housing transaction volume, but will buy opportunistically as undervalued situations present themselves, he said.

The key to the company's growth is its turnaround capabilities which provide high and growing cashflows, said Windfuhr. Fresh deals already signed and an extensive pipeline of at least €200m will ensure further growth this year, he says, a prospect underpinning investor appetite for the group's growing bond issuance – which he says is only done on a need-to-issue, just-in-time basis when a deal needs to be concluded.

A recent roadshow in London did seem to underline the company's credentials as a niche player specialising in turnaround opportunities. The shareholder base has also been broadened, which often comforts investors.

There may have been some profit-taking recently after the share price's stellar rise over the past nine months, but some analysts (e.g. **Close Brothers Seydler**) are issuing a *buy* recommendation for the stock with a target of €13,00. The stock is currently trading at just under €8.00. For 2014 EPS is forecast to be €1.49 (up from €1.22), while for 2015 it is estimated to be €1.62 to €1.94 per share, and as high as €2.50 per share in 2016. The dividend is expected to be €0.35 for 2015, for a dividend yield of 4.3%. Not unreasonable, if recent growth rates can be maintained and investors continue to show such enthusiasm for the company's bonds.

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CORPUS SIREO
ASSET MANAGEMENT COMMERCIAL

CORPORATES: LONG-TERM REAL ESTATE STRATEGY IS CRUCIAL

Guest column by:

Sandra Tewes,
Client Group Manager Corporates,
CORPUS SIREO Asset Management Commercial GmbH

Corporate real estate asset management is becoming increasingly complex

Companies and in particular major corporations are facing a huge increase in the level of complexity regarding the management of their real estate assets. In many cases, the company's internal Corporate Real Estate Management (CREM) departments are subject to major challenges, particularly for providing suitable office, logistics and production space. This is because the specialist departments nowadays have to carefully weigh the needs of users on the one hand against the economically best solutions on the other - and the requirements will continue to increase in future.

Significance of sustainable real estate strategies is frequently underestimated

The significant rate of change is having a huge influence on location decisions. For instance, network reliability and telecommunication line rights are particularly important for telecom companies, whereas the innovation capability of a specific region is one of the main criteria for the pharmaceutical sector.

Sandra Tewes, Client Group Leader Corporates at CORPUS SIREO Asset Management Commercial GmbH: „The importance of a long-term real estate strategy with a consistent focus must not be underestimated."

A glance behind the scenes identifies acute need for action: Discussions with representatives from companies with internal CREM departments show that there continues to be a decline in the quality of the fundamental database for decisions, the availability of information as well as access to the local responsibility of real estate management. This means that effective management of real estate tasks by CREM, particularly in an international context, is a complex issue.

A look ahead: What is the future for successful asset management?

In future, the requirements facing the CREM departments will become much more demanding: Markets are becoming more volatile, new lease contracts have shorter durations, owner-occupied premises are being reduced. Moreover, the boundaries between the various asset classes are increasingly disappearing: Production facilities in future will comprise a greater mix of administration, industrial and logistics space.

There is also a significant change in the quality of jobs; older employees, technical innovations (3D printers, etc.) and the change process from a service society to an information society will have an impact on the future workplace. Public and private space will increasingly be used as a workplace, and this trend is also establishing further challenges for CREM.

Sandra Tewes: „For CREM, this means that they operate as a mediator between various interest groups. On the one hand, there is the corporate strategy; on the other hand, there are the users with different space requirements as well as the investors who make these premises available. This means that the role of CREM is increasingly moving in the direction of strategy management and service provider management. This requires extensive expert knowledge which, due to the complex nature of the tasks involved, can frequently only be provided by external servicers."

What benefits are provided by external servicers?

All companies require properties as places for the operation of their core business. Whether they use their own premises or rent space from other parties - the profitability of a company also significantly depends on the efficient provision of production and work space. However, in addition to optimizing the use of existing premises, there are further opportunities for optimizing costs by way of selling space which is no longer required or by renegotiating existing lease contracts. Companies are able to generate liquidity from their own real estate assets by means of numerous solutions, and the capital which is tied up in real estate can be used in an optimum manner for the company's core business. External real estate specialists can be successfully involved in the search for these solutions.

In recent years, companies have increasingly focused on identifying potential for cutting costs in their corporate real estate portfolio. In addition to the approaches described above, further potential can frequently be unlocked by means of relocating and merging existing locations and also by way of procuring properties subject to market conditions. Some of these decisions are not without problems; they can be justified and communicated internally and externally much better by external expertise.

Identifying and unlocking value-add potential at the right time can also boost the enterprise value. Additional value can be generated by project developments, obtaining planning permission or by means of maintenance measures which may be associated with the above aspects. Independent external experts in such cases are also able to offer companies the opportunity of profitably using their independent expert knowledge and specialist network as well as their tried-and-tested expertise.

Since 2001, CORPUS SIREO Asset Management Commercial GmbH has been responsible for the exclusive asset management mandate for the 14,000 properties and rental space of Deutsche Telekom AG, Bonn. The focus is on ensuring that space is provided in line with specific demand, enhancing the value of the portfolio as well as the marketing and sale of properties which are no longer essential for the company's operations.

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Germany/Banking

Focus returns to sale of WestImmo after strong results

For **Westdeutsche Immobilienbank (WestImmo)**, not so long ago one of the foremost German property financiers but - since the break-up of parent company **WestLB** in 2012 – now 100% part of WestLB's bad bank **Ersten Abwicklungsanstalt AÖR (EAA)**, looks like its sale may be imminent.

The Mainz-based bank may be a beneficiary of the rapid speed at which the bad bank EAA has been shrinking its distressed loan book and dumping junk or near-junk bond, according to EAA chairman **Matthias Wargers** recently. He said the bad bank had managed to shrink its book by a third (€46bn) to €97.6bn in 2013, and down from over €200bn at its peak, with the reduction taking place more or less equally across all the key asset categories. The bank even posted a profit of €59m, he said, as demand for property assets continued buoyant.

The search for a suitable buyer for WestImmo has been going on for long time, and the bank is certainly attractive for a range of potential buyers. It is focused on commercial property, but has been forbidden since July 2012 under the EU diktat from writing any new business. The bank still employs nearly 300 staff and EAA is looking to sell it to a long-term as a going concern, after firstly selling nearly €1bn of assets that would not qualify for refinancing via Pfandbrief issuance.

Commenting on the bank's recent results, Wargers said: "Once again, WestImmo has demonstrated that it is a healthy and successful real estate bank and deserves to be continued as a going concern… Concrete negotiations are currently being held on the sale with several interested parties."

WestImmo chairman **Claus-Jürgen Cohausz** also commented: "Despite the suspension of new business imposed by the EU and the planned decline in interest-bearing inventories, earnings climbed significantly compared with the previous year while risk provisions were cut in half. This demonstrates the attractiveness of the bank and the very high quality of its loan book."

Germany/Pfandbriefe

New-look Berlin Hyp sees strong demand for €500m Pfandbrief

Commercial property financier **Berlin Hyp**, which is currently undergoing a major restructuring and a new logo and company colours emphasising its integration into Germany's **Sparkassen-Finanzgruppe**, will have been well pleased at the market reception for its first benchmark mortgage Pfandbrief of the year earlier this month.

The seven year bond with a volume of €500m and a coupon rate of 1.25%, was rated Aaa and AA+ by ratings agencies **Moody's** and **Fitch**, and was placed on the market by a consortium consisting of **Commerzbank**, **Credit Suisse**, **DZ Bank**, **J.P. Morgan** and **Landesbank Baden-Württemberg**.

The order book opened in the mid-swap +7 region and closed at mid-swap +5 basis points only 1.5 hours later. At this level, it received orders worth over €800 mln, representing an oversubscription of more than 60%. At closing Berlin Hyp collected 50 individual orders, of which 89% came from Germany, with banks and German savings banks making up 67% of all investors in the issue.

Meanwhile, news from other *Hypothenkenbanken* in Germany point to a resurgence of confidence in the sector for new real estate lending, and a further easing of pressure for borrowers this year.

Hamburg-headquartered **DG Hyp**, the commercial real estate bank in the **Volksbanken Raiffeisenbank** cooperative financial network and a subsidiary of **DZ Bank**, has increased its emphasis on local lending. For 2013, new business at €5.4bn was slightly up on the previous year, of which €5.3bn was in Germany – or almost the entire amount. Joint lending with its German co-operative banks came to €2.9bn, up from €2.2bn in 2012. Besides offices in Hamburg, Berlin, Dusseldorf, Frankfurt, Stuttgart and Munich, DG Hyp opened regional offices in Kassel, Leipzig and Hannover (in Kassel and Leipzig sharing premises with the local cooperative banks).

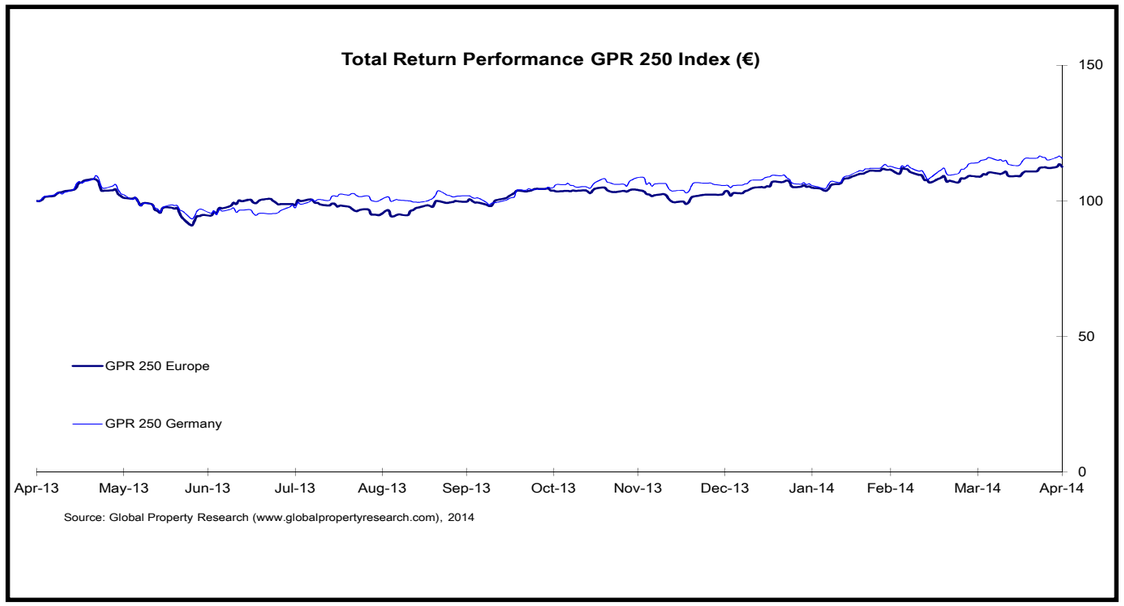
Down in Munich, **Münchener Hypothekenbank**, which is also a partner bank for the co-operative Volksbanken and Raiffeisenbanken, also booked full-year operating results double the previous year's, with net income rising to €6.7m. Despite what it said was "intensive competition in the property financing market, Münchener Hyp made €3.6bn in mortgage loans, although the volume of new residential property financing business declined slightly to €2.9bn. According to board chairman **Dr. Louis Hagen**, "Currently we are seeing that competition in the residential property financing market is being increasingly driven by lending conditions. We are not, however, interested in growth at any price. Margins also have to be adequate." He added, "The business environment is right for us. Demand for property financing – both for residential and commercial property – is very likely to remain high. For this reason we are confident that we will be able to further expand our position in the market,"

The bank's new business in commercial property financing rose by 12% to € 740 million over the year. Overall the bank's portfolio of mortgage loans rose by €0.5bn to €21.5bn, of which about three-quarters is lending within Germany.

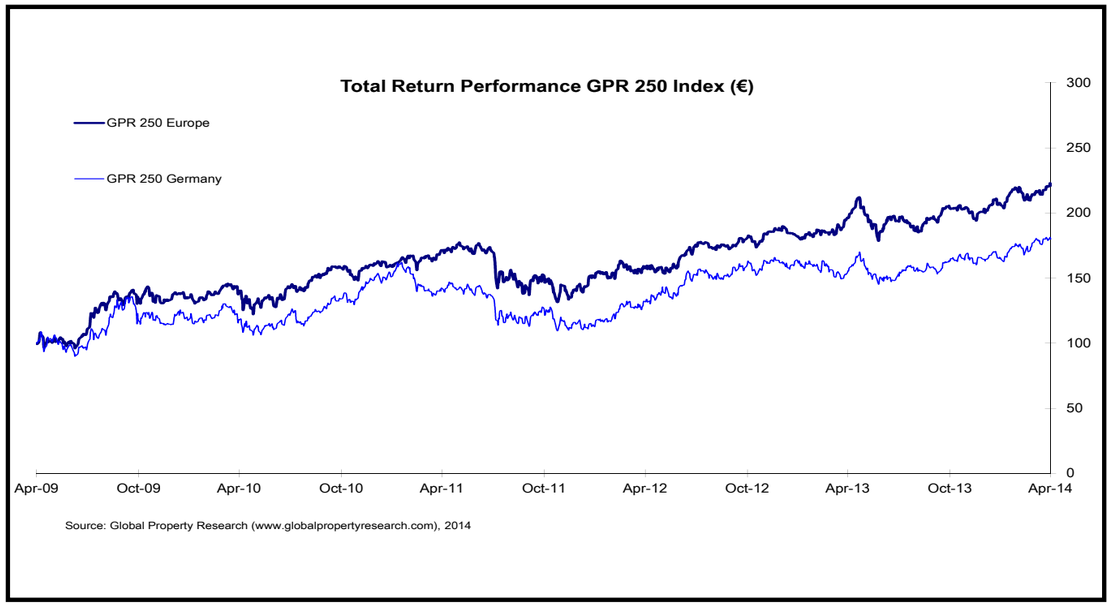
Germany/Funds

Activum SG raises €380m in record time for new German fund

Jersey-based opportunistic real estate investor and fund manager Activum SG said earlier this month that it had reached its hard cap of €380m in record time for its third Germany fund, which like its pre-



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



Graph of the total return performance of Europe and Germany in Euro currency over the past five years
REFIRE charts courtesy of GPR, Global Property Research

Guest Column

Debt funds as credit providers – alternative or addition to bank loans?

by **Michael Morgenroth, CEO Caerus Debt Investments AG**

Not all debt funds are the same, which is why the question in the heading cannot be answered with a straight "yes" or "no", but in theory the initial answer is "both".

Strategies and terms and conditions of debt funds

The European Association for Investors in Non-Listed Real Estate Vehicles (INREV) currently distinguishes five investment strategies being pursued by debt funds in the area of commercial real estate financing. The senior debt funds invest in loans with an LTV (loan-to-value) ratio up to 60%, while subordinated debt funds specialise in junior and mezzanine loans (LTV of 60 80%). Whole loan funds cover both ranges.

As shown in the tables below (Fig. 1 and Fig. 2), the various strategies differ significantly in the way the terms and conditions are formulated (pricing, duration, loan amounts) due to the different risk profiles of the intended financing tranches and the returns investors look for as a result.

Regulation triggers quest for alternative or additional financing options

The question as to whether debt funds can be used as an alternative or in addition to bank loans is being asked primarily as a result of changes in the regulatory environment.

Overview of real estate debt fund strategies

Commercial real estate debt fund strategies

	Loan types	LTV range (%)	Target gross IRR return (%)	Leverage
Senior debt strategy	Senior loans	0-60	4-6	Unlikely
Subordinated debt strategy	Junior and mezzanine	Low risk 60-70 High risk 70-90	8-12 12-15	Unlikely
Whole loan strategy	Senior and mezzanine	0-75	6-8	Unlikely
Mixed debt strategy	Whole loans, stretched senior, junior, mezzanine	0-80	8-10	Unlikely
Distressed debt strategy	Distressed loans	50-100	15-20	Likely

The increased capital requirements for loans under Basel III is forcing banks to increase their equity and use it more selectively. For this reason, equity has to be strengthened by adding to reserves and/or reducing risk exposure. One consequence is an increase in loan margins – i.e. borrowing becomes more expensive. Another is that banks also reconsider their real estate loan portfolios and decide to reduce them. If the equity situation is tight, a reduction in the loan portfolio is often the only solution for credit institutions.

However, this does not necessarily lead to financing constraints for real estate projects and real estate transactions. In the area of senior loans, i.e. with an LTV of up to 60%, we do not currently detect a credit squeeze.

Firstly, given that Pfandbrief (German mortgage bond) cover is available for this kind of loan-to-value ratio, refinancing is not a problem for credit institutions. Secondly, there is sufficient buffer (in most cases) because additional financing components of approx. 40% can be accessed. Another factor is that in addition to foreign banks, which favour the German real estate market because of its relatively low level of volatility, insurance companies are also increasingly discovering this as an area for doing business. The Solvency II regulations are making direct investments in "real estate equity" more expensive for insurers, and this in turn is making investments in debt capital relatively more attractive. The investment universe of typical German insurers is changing. Alternative investments with a real estate basis – especially loans – are increasingly becoming a focal point for insurance companies.

German market for commercial real estate financing too competitive for senior loan funds

For this reason, we do not see much demand for senior loan funds in Germany and therefore do not believe they will have high chances of success. There is sufficient competition for this tranche of financing. In this country, this is the territory of the mortgage banks, which not only benefit from years of risk management experience, but are also capable of taking on large-volume loans. What is more, the use of Pfandbriefe for refinancing means they can issue these loans on substantially more attractive terms than a senior debt fund could under normal circumstances (see Fig. 3).

Loan terms and conditions and target return for fund strategies

Loan pricing and terms (as at September 2012)

Style	Loan pricing	Other fees	Loan term (years)	Yearly cash payment (%)	Average loan size (€ million)
Senior loans	Libor/Euribor + 250-400 bps	Combination of upfront and exit fees: 2-4%	5-10	3-4	50-150
Subordinated loans	8-12% fixed rate	Combination of upfront and exit fees: 2-4%	3-7	7-10	10-25
Whole loans	Libor/Euribor + 400-700 bps	Combination of upfront and exit fees: 2-4%	3-7	5-7	40-100

Mezzanine capital provided by debt funds closes the gap caused by Basel III in the area of junior/subordinated loans As traditional lenders tend to concentrate on financing tranches with an LTV of up to 60%, a financing gap of 15-20% arises for customers. Unless it can be filled with equity, the shortfall has to be made up from other sources of financing.

This "mezzanine" capital can be provided by debt funds, which specialise in this area.

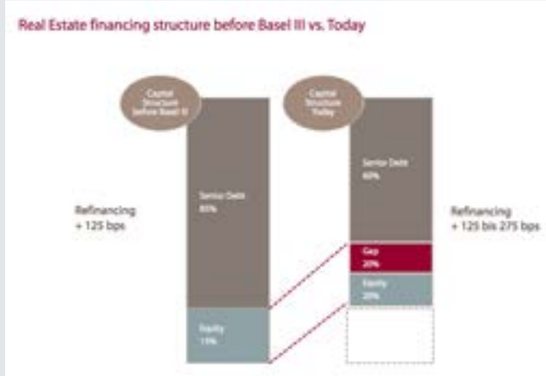
The resulting cooperation between the mortgage bank and the debt fund requires both parties to sign an intercreditor agreement. Nowadays, most banks are significantly less reluctant to enter into such an arrangement than in the past. However, this also means that the debt funds have to know and understand the specific requirements banks make on these types of arrangements.

Excursus: Market for mezzanine capital in Germany

If you assume the total volume of German real estate loans to be €240 billion, with 20% financed by equity and 80% by debt, of which 60% is attributable to senior loans and 20% to mezzanine capital, the total market potential for mezzanine capital for real estate financing stands at an estimated €60 billion.

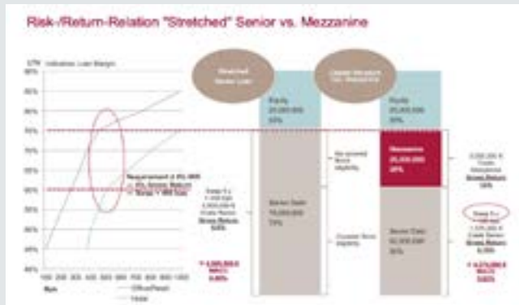
The volume of real estate loans becoming due for repayment in Germany in the period from 2014 to 2016 is estimated at around €50 billion a year. If you again assume that mezzanine capital accounts for 25%, this would mean potential demand for mezzanine capital of €12.5 billion a year. This indicates the existence of an enormous market, which is increasingly being discovered by investors in Germany as well.

Mezzanine capital provided by debt funds not only closes a funding gap, but can also generate an advantage in terms of financing costs. As shown in the diagram, "Stretched" senior vs. mezzanine capital (Fig. 4), the use of a mezzanine capital component may in certain circumstances lower the overall cost of financing for borrowers. If you replace €25 million out of total debt capital of €75 million with mezzanine capital, the remaining €50 million can be borrowed on attractive terms, because this amount is below the threshold for Pfandbrief cover.



Conclusion

The future of debt funds as lenders does not lie in the provision of financing in competition with banks. In Germany's current banking landscape, they would hardly be able to compete with the country's Pfandbrief banks. The future belongs to debt funds that aim to work in partnership with banks, with the shared objective of presenting attractive financing offerings so that banks can exit from the high-equity lending business for the riskier financing tranches without leaving their loan customers out in the cold.



decessors is targeting underperforming and undervalued assets in Germany's larger cities.

Activum SG is headed by industry veteran **Saul Goldstein**, who formerly worked with **Cerberus Capital Management** in Europe before setting up Activum SG in 2007. It specialises in creating funds that invest in niche opportunities, mainly in Germany.

Its latest fund, **Activum SG Fund III L.P.** has now surpassed its original fundraising target of €325m, from investors in Europe and the US. The fund worked with **Atlantic-Pacific Capital** as placement agent, as with its previous two funds – **Germany Fund I** (2009); which is currently in liquidation, while **Fund II** (2011) is fully invested in value-add and opportunistic assets in Germany. The normal transaction size is €10m-€75m. Overall, Activum SG has now invested more than €400m of equity in 18 separate transactions.

Goldstein commented on the latest fund-raising, "We have kept our focus on steady platform growth and as a result we are seeing strong results across our portfolio of investments in office repositioning, specialty finance, and residential development in Berlin. This capital raise comes at a perfect time for us as we are finding increasingly complex and capital intensive investments in Europe."

Europe/Research

INREV conference: Property fund guidelines overhauled

INREV has overhauled its industry guidelines for European non-listed real estate funds as it pushes for the creation of a global reporting standard. The **European Association for Investors in Non-listed Real Estate Vehicles** launched the new guidelines at its annual conference earlier this month in Berlin, changing key items that were created before the global financial crisis.

In fact, INREV took advantage of the presence of a wide cross-section of the real estate funds industry at the event to effectively redefine its own mission. The redefinition of its own guidelines is largely a function of changes in the structure of indirect real estate investment worldwide, said INREV CEO **Dr. Matthias Thomas**. This means INREV has to widen its own areas of concern to debt-side funds, segregated mandates, club deals, joint ventures and a variety of other structures.

Talking to a news briefing at the start of the Berlin gathering, Dr. Thomas referred to the shift away from funds in favour of more direct approaches since the start of the financial crisis, but said his organisation still had a clear role to play, a role enhanced by the provision of the new guidelines. "We will keep the mission statement unchanged in terms of increasing transparency, increasing professionalism, whatever strategy is appropriate for investors. But we are certainly broadening our perspective and deepening it. Broadening means embracing other products than the traditional fund model, and so we have changed our remit to cover debt funds, joint ventures, separate accounts next to the fund model. In fact, it may seem easier to explain in negative terms: everything that is NOT direct and NOT listed basically falls into the INREV remit - regardless of whether on the equity or debt side."

The revised guidelines take into account regulatory changes, cover liquidity issues for the first time and cater for different vehicles such as joint ventures and club deals. Approximately 300 organisations in Europe, the Americas and Asia were consulted during an 18-month review of the original guidelines, which were developed in 2005 and formally integrated in 2008. INREV said the move would "boost transparency and performance analysis", and "promote greater investor choice".

Dr. Thomas said the guidelines were intended to improve reporting across all three continents. "Geographically, we are aiming for other regions than Europe. At the moment, it's going to be a nightmare if you try to compare different NAVs, for example. The foundation of a global standard would help compare on a like-for-like basis."

Lonneke Löwik, who is stepping down as INREV's director of professional standards at the end of the month, said the industry had "now been through a full financial cycle since the guidelines were first formalised", and "it was clear to us that there was not only a need to update the INREV guidelines but to ensure that they could respond to market changes."

Among those welcoming the new guidelines at the Berlin gathering was Singapore's sovereign wealth fund **Government Investment Corporation (GIC)**. **Neil Harris**, head of asset management for real estate in Europe at GIC, described them as a "significant step forward" for the real estate funds industry.

"Stronger reporting and increased transparency are vital for accurate performance measurement, which in turn can help make real estate an even more attractive asset class for investors," he said. "As well as encouraging compliance with the new guidelines to improve consistency of reporting and governance, INREV are also promoting best practice throughout the industry, both of which we strongly support.

The new guidelines have been launched three months ahead of the authorisation deadline for the Alternative Investment Fund Managers Directive (**AIFMD**), and INREV said they "acknowledge and reference" the new regulations "where needed". The changes also include greater guidance around frequency and level of disclosure of reporting, the

inclusion of liquidity, such as redemptions, and fund terminations and extensions.

Meanwhile, INREV published its *Global Real Estate Fund Index* this week, which combines indices published by INREV, **ANREV** (Asia) and **NCREIF** (USA).

Performance in Europe was driven by the UK, which delivered returns of 8.77% - a significant jump from the 0.28% it produced in 2012. Elsewhere in Europe, CEE funds saw returns of 1.98%, while in Continental Europe returns were 0.99% - up from -0.90% in 2012 - and Southern Europe hit returns of -11.86%.

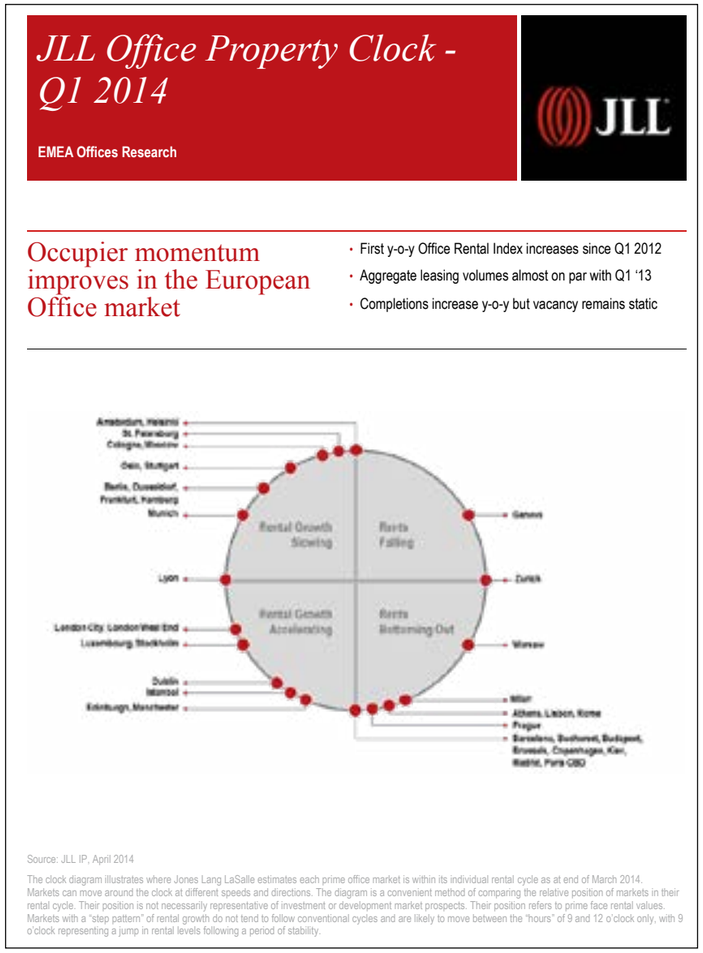
"While the headline numbers in Europe are impressive, the detail in the INREV Quarterly Index indicates a more mixed picture. The main story is about outperformance in the UK, but Southern Europe is still struggling. If real estate is in anyway a proxy for economic recovery, these results underline the view that we're witnessing a two-speed momentum," said **Casper Hesp**, INREV Director of Research and Market Information.

Much of the improved performance in Europe was the result of capital appreciation, which increased from -3.62% to -0.04% in 2013. But there was also a strong contribution from income returns, which increased from 3.20% to 3.58%. In general, returns in Europe also benefitted from the significant inflow of capital from Asia and the US during 2012/2013. This is reflected in the INREV Quarterly Index for Q3 and Q4 2013, which posted consecutive improvements in returns that correlated to an uplift in capital inflows.

In Europe, the industrial and logistics sector stood out as a star performer delivering returns of 5.62% on the back of growing awareness from investors of its long-term income-producing benefits. Returns in the retail sector followed on at 2.83%.

Core funds in Europe outperformed value added funds since 2008. However, the INREV *Quarterly Index* showed that the predominance of core is waning with value added funds starting to outperform core at 3.87% and 3.46% respectively in 2013.

"This is an interesting narrative. The INREV Quarterly Index shows value added funds rapidly gaining ground and starting to overtake core. It suggests a measure of increased confidence and risk appetite that could be re-calibrating investors' default setting. Time will tell," concluded Hesp.



Germany/Funds

Real I.S. raises €600m for latest eurozone commercial fund

The Munich-based commercial real estate fund initiator **Real I.S.** has fully placed its fifth fund in its Eurozone property **BGV** series of funds, raising €600m from institutional investors. The fund is targeting a volume of about €1bn.

About 80% of the fund has already been invested, in core and core-plus office, retail and logistics properties in the primary target markets of Germany, France, Belgium and Luxemburg. Already bought are retail properties in Berlin, Hamburg and Amsterdam, offices in Munich, Hamburg, Hanover, Luxembourg, Amsterdam, Lyon and The Hague.

The five funds in the BGV series have invested over €2.5bn so far. For BGV V, Real I.S. is looking for another €50m in equity. "For the sixth fund in the BGV series, we already have equity commitments of €100m," said chairman **Jochen Schenk**. The fund strategy of **BGV VI** will be similar to its predecessor but will add budget hotels to the asset mix.

Schenk said that the BGV series of funds seemed to have struck a strong chord with institutional investors's needs. So wfar the five funds have raised more than €2.5bn, with BGV VI already enjoying equity commitments of about €100bn, said Schenk. The next fund will operate a similar strategy to the earlier funds, but with the addition of budget hotels and some logistic assets.

Real I.S. is **BayernLB's** asset management and real estate fund provider, and a member of the **Sparkasse** group of German savings banks. It has raised more than €8bn across more than 100 fund products since 1991 for private and institutional investors.

Germany/Disposals

DTZ Germany wins €200m mandate to sell TIAA-CREF fund portfolio

Following its recent worldwide launch, new global investment manager **TIAA Henderson Real Estate**, the joint venture between TIAA-CREF and London-based Henderson wasted little time in kicking off in Germany by giving a mandate to property broker **DTZ** to dispose of a €200m property fund on behalf of one of its institutional funds.

Included in the mandate are 38 separate retail, logistics and office properties, which DTZ said will be sold off in several lots. The core, core-plus and value-added assets include 18 supermarkets, discounters and retail warehouses, along with seven office and three logistics properties with a total gross lettable area of 220,000 sqm, available as either single or portfolio deals.

The retail assets include anchor tenants such as **Edeka** and **Rewe**, drugstores **Rossmann** and **Müller**, DIY retailer **TOOM**, and discounter **Aldi**.

Separately, TIAA Henderson has created a European retail fund, primarily designed to extend the life of the €1.5bn **Outlet Mall Fund** run previously by Henderson, which expired this February. 80% of the unit holders wanted to transfer units into the new vehicle, while a further €260m of equity raised for the fund will now be used to redeem earlier investors looking to exit. A further €100m is almost committed, partly for capex investment on existing assets. The previous fund has returned 12% since 2004, with eight outlet stores on the continent and three in the UK, in partnership with asset manager **McArthur Glen**.

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SUBSCRIPTION & REGISTRATION FORM

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