REFIRE
Real Estate Finance Intelligence Report Europe

Volume 7, Issue 121, June 2nd 2014

Inside REFIRE

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

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European REITs
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German Non-Performing Loans (NPLs)
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Refinancing
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Global retailers increase focus on German cities for new market entry

German cities are continuing to gain in importance for international retailer's expansion plans, with four German cities featuring in the top-20 currently most desirable locations for new market entry, according to the latest study by international realtor CBRE. The report, How Global is the Business of Retail, sees Berlin in 5th position worldwide, after Paris, Tokyo, Hong Kong and Abu Dhabi. Frankfurt, Munich and Cologne also feature with Berlin in the top-20 list.

This is the seventh edition of CBRE's annual survey, which this year encompassed 334 international retailers from 61 countries, and 189 cities as retail locations. Among those 35 retailers opening stores in 2013 in Berlin for the first time were Apple, Primark, Michael Kors and Pull & Bear. Paris, heading the list, saw 50 international retailers make their debuts in the city. The figures were presented at a journalist briefing in Frankfurt last week, attended by REFIRE.

Last year (2012), by contrast, Berlin saw 28 retail brands setting up in the city. According to Karsten Burbach, CBRE's Head of Retail in Germany, "Compared with 2012, international retailers have been pressing forward with their German expansion. Berlin is now really benefitting from its status as a capital city, as well as from the success being enjoyed by the top retailers. It's also building on the attraction of newly-established retail hotspots such as Hackescher Markt and the Mall of Berlin on Leipziger Platz, while new developments on the Kurfürstendamm are also offering future new entry spots for retailers.

All in all, Germany saw the arrival of 40 new retail brands last year, putting it in fifth place worldwide, behind France, Japan, China and Hong Kong. A further CBRE study, just published, suggests that Germany will be the top country worldwide for new retail expansion in 2014, with about 40% of global retailers planning to open further outlets in the country. With US-owned retailers leading the field last year, Italian chains

Bilfinger takeover of GVA underlines group's new real estate ambitions

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Real Estate Finance
Intelligence Report Europe

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

Real Estate Finance Intelligence Report Europe (REFIRE) is published 22 times a year, at the beginning and in the middle of each month, with two holiday breaks. REFIRE is editorially independent of any selling or investing institutions. Information contained in REFIRE is under copyright protection and is based on sources believed to be reliable, though their complete accuracy cannot be fully guaranteed. Neither the information contained in REFIRE nor the opinions expressed therein constitute or are to be construed as constituting an offer or solicitation of an offer to buy or sell investments. REFIRE accepts no liability for actions based on the information herein.

were the most active among the European retailers. 70% of European retailers plan to boost their German presence this year. Added Burbach, "Low unemployment, rising incomes and new jobs are alll helping to create a very strong consumer climate. The decentralised structure of the market, with six heavyweight metropolises and a further at leat 20 attractive cities make Germany one of the most desirable locations for a wide range of retail concepts."

"The decentralised structure of the market, with six heavyweight metropolises and a further at least 20 attractive cities makes Germany one of the most desirable locations..."

Luxury labels are proving the most resistant on the German retail landscape, particularly in Berlin, Hamburg, Frankfurt and Munich - and in these cities, in the very top locations, where demand has seen prices soaring. This seems to be caused by international brand recognition supported by the internet, and the fact that many brands have reached saturation in their home markets and are forced to expand abroad.

Speaking at the same briefing, **Daniel Herrmann**, (*left*), the Head of Fund Management Retail at **Patrizia Immobilien**, said that German retail rents and investment prices were still attractive for investors despite the strong recent rises. While peak yields are now comparable with other top European locations, rent levels have considerably more upward potential, he said. For investors, the increasing willingness of banks to sell off property portfolios bought and financed in the boom years of 2006 and 2007 provided further attractions, particularly in the retail segment just below what would be considered 'prime' or 'core'.

The food retail sector was holding up very strongly, even for conservative investors, he explained. Tenants had strong covenants, frequently long lease durations or good prospects of renewal, and a strong interest in holding on to their location. Given the shortage of real 'core' properties on the market, such 'core-plus' and even 'value-add' assets were proving very popular. These now include assets such as neighbourhood centres and shopping centres in top B-city locations, such as Münster or Regensburg, where yields were now on a par with the top A-cities.

Germany/Mergers & Acquisitions

Bilfinger takeover of GVA underlines group's new real estate ambitions

The Mannheim-based international service and engineering group **Bilfinger** was never going to just carry on plowing its (highly profitable) facility services furrow once ex-Hesse state premier **Roland Koch** decided to stop tilting at political windmills in Berlin and quit politics for the more lucrative world of private industry.

Under his leadership of the old **Bilfinger Berger**, the group has rebranded itself as Bilfinger, and is now aggressively expanding its service offering across the real estate value chain, and into new geographic markets. The company's takeover offer for UK property consultant **GVA Grimley**, which is likely to be closed by the end of June, will provide a springboard for property subsidiary **Bilfinger Real Estate** to compete with the world's biggest real estate advisors for global mandates.

Bilfinger, with €8.5bn in annual revenues, was known to be on the lookout for a UK brokerage partner to accompany

DEALS ROUNDUP

its rapidly-growing real estate business. GVA had been going through a financial restructuring and had brought in consultants **Canaccord Genuity** in 2012 to review its strategic options – a move which attracted the attention of Bilfinger. According to Bilfinger Real Estate CEO **Aydin Karaduman**, "This deal is part of a strategic plan to develop a leading international real estate consultancy and management offer with representation in every major commercial centre in the world."

The deal will see GVA combine with Bilfinger's real estate advisory, which generates annual turnover of €160m and employs some 1,500 real estate professionals. This output volume is expected to double as a result of the merger. The property business sits within the larger Bilfinger Building and Facility division employing 22,000 and turning over around €2.3bn a year.

In the year to end-April 2013 GVA reported turnover of Stg£147.3m, a 5% increase on the previous 12 months, and made pre-tax profits of £7.8m. It said it has 12 offices around the UK and has 1,300 staff, of which 700 are fee-earners, on its books. GVA offers consulting services such as project management, valuation, planning and transactional services, and its clients include occupiers, developers and public sector clients such as local authorities and government departments.

At the end of 2013, Bilfinger had already acquired facility services provider **Europa Support Services**, a company specialized in technical and infrastructural services. That acquisition boosted the annual volume of its facility services activities in the UK and Ireland €35 million to over €200 million.

In a big internal intra-company move at the beginning of this year, Bilfinger Real Estate then subsequently took over from its parent company the infrastructure and transport asset management units of the Group's dissolved project investments division. The move raised the firm's managed assets by €7bn to €40bn.

That division, Bilfinger RE Asset Management, manages 35 transport and infrastructure projects with a combined valued of €7bn. The firm operates from London, the Rhine-Main region in Germany, Toronto and Melbourne. The takeover has added infrastructure to the types of use previously managed by Bilfinger Real Estate (office, shopping, commercial & logistics, residential and hotel).

"In our new division, we have gained a lot of know-how in financing, managing, and supporting complex infrastructure projects and public facilities," said Aydin Karaduman in a statement at the time. "In addition, it gives us important access to the real estate and financial markets in Australia and North America, which we are planning to expand further. The local branches will help us start dialogue with existing customers as well as potential new clients and market participants and convince them of our one-stop-shop offering."

EDITORIAL

Sack Blatter, have a re-vote and bring the tournament back to Germany

It's hard to believe that it's four years since Paul, the Oracle Octopus, came to worldwide attention for his uncanny ability to predict the outcome of Germany's games in the 2010 World Cup. His track record of backing the winner from his tank in Oberhausen had been identified as pretty good in the Euro 2008 championships, but he really cemented his reputation two years later on the world stage with seven correct predictions for all of Germany's games.

He bravely (and correctly) predicted that Spain would beat Germany in the semi-finals, a forecast which led to death threats from irate German fans, who called for Paul to be turned into *polpo alla gallega*, or worse. Spain's prime minister Jose Zapatero offered to send Paul official state protection, and even industry minister Miguel Sebastian made preliminary arrangements for Paul to be granted safe haven in Spain, in a sort of cephalopod witness protection programme.

Paul left us in 2010 for the great aquarium in the sky, but his legacy obviously lives on. We read in the German press that three German scientists – professors of sociology, of sport sociology and of empirical economic research – have been studying what most influences the outcomes of football games, with a view to predicting the outcome of the forthcoming World Cup. Their prognosis is being published as a special research topic by the prestigious German Institute for Economic Research (DIW) in Berlin.

Their thesis – not improbable, given what we know about the outcomes of Europe's national football leagues – is that the team with the most expensive players generally wins. Currently, Spain's players are collectively valued at about €650m, Germany's €575m and Brazil's at about €470m, with others bringing up the field.

Adding up the individual market values of any team's players is not that difficult a task. In fact, compared to say, the real estate industry, the values of each component are highly transparent and globally mobile. The players are internationally tradeable, unlike fixed assets, and their productivity is instantly measurable.

The most valuable teams have a certain amount of bundled transfer value across the whole squad – the stratospheric monetary value of a Lionel Messi (€120m) or a Cristiano Ronaldo (€100m) can be lost in an instant if they tear a ligament or lose their goalscoring touch. What matters is the team's collective value. To underline their point, the professors point out that of the 204 nations who tried to qualify for the 31 places in this year's World Cup (the home team Brazil is exempt from qualifying), 30 of those places went to the teams with the highest valuation.

Barring bad luck then, or a homemade disaster, we should be looking at a Spain versus Germany final, say the esteemed academics. For the long-odds punters amongst us, the profs even have a theorem that suggests that Belgium is undervalued, and likely mispriced. There, that should serve to raise spirits over the next six weeks.

It has long been a secret contention of ours at REFIRE that Germany's current run of good economic fortune really started to take off after the magnificent summer of 2006, when the last World Cup but one was held in Germany. Apart from the weather, for which Germany cannot claim responsibility - although it helped that the sun shone for four weeks without interruption – those who came to Germany for the duration or just nipped in and out for the games of their choice will bear witness that this was the greatest ever World Cup, in so many rewarding ways.

We met Australians and Paraguayans, whose teams had been bundled out in the early qualifying rounds but who couldn't bear the prospect of returning home while the fun was so good. For hundreds of thousands of people, this was the first time they'd spent any real leisure time in Germany – a country so often associated in other people's minds with work – and found the experience immensely pleasurable.

They discovered that young Germans were like them – humorous, educated, spoke good English, enjoyed having a good time, and treated their guests fairly, rather than gouging their visitors for "what the market would bear". .Above all, it was the public-spiritedness of that summer in Germany that set the benchmark for all future large-scale sporting and cultural events, which will be hard to replicate anywhere else. Of course, geographic proximity played a role, with travel distances manageable and countless European neighbours able to make sequential visits for games or to share in the bounteous hospitality arranged by every large German city in their brilliantly-organised public viewing and welcoming facilities.

Who can ever forget the provisional stadium – free for 35,000 visitors every day, with beer and sausages – set up with full seating on both sides of the river Main in Frankfurt, and a giant double-sided viewing screen anchored out in the middle of the river? This kind of organisation, and similar facilities with a human touch all round the country, played a decisive role in shifting perceptions as to what Germany was all about. It was a watershed moment.

It might sound naïve, but the summer of 2006 showed up in stark relief so much of what is good about Germany – its splendid cities, its parks, its generous civic spaces, its old and well-preserved buildings along with imaginative modern architecture, its funkiness, its general liveability – this was Germany's finest hour. The national team didn't even make it to the final, but they played attractive football all the way. The football team, the country, and its people gained legions of new foreign fans.

It's worth remembering that all of these factors also help to make Germany a diverse and attractive market for real estate investment, beyond the mere cold calculation of yield compression and liquidity ratios. It's worth remembering that German property – whether commercial, retail, logistics or residential – has an inherent value because it can nearly always be used for something else, and there are creative and imaginative people who have the vision and the resources to make it happen. That's what really makes a market valuable.

On the eve of this coming World Cup, then, the putrid stench of sleaze and corruption surrounding the Qatar 2022 fiasco simply drives home to us here at REFIRE the inestimable value of a mature democracy based around social capital and a responsible, fair-minded and yes, hard-working people in creating a sustainable real estate industry with enough genuine opportunities for many. Replace Sepp Blatter and his cronies, have a re-vote, and bring the tournament back to Germany. Now, let the games begin.

Charles Kingston, Editor

However, the acquisition of GVA – assuming it goes through without a hitch in June - gives the Bilfinger Real Estate business a major leg-up on the international ladder. As Karaduman says, "Our goal is to become one of the leading international real estate service providers, with the ability to support the investment activities of our clients across borders and to manage their real estate portfolios anywhere in the world. With London as Europe's financial centre, the UK is among the three largest investment and property markets in the world. We want to – and have to – have a presence here to achieve our goal. In addition to giving us a strong, nationwide presence in the UK market, the strategic merger with GVA will provide us with critical access to international investors and allow us to take on international management and consulting mandates."

Germany/Listed Companies

Terra Firma exit sees Abu Dhabi fund take 13.4% stake in Deutsche Annington

In a flurry of activity over a hectic couple of days, the ownership structure of Germany's largest private landlord **Deutsche Annington** underwent a major transformation. The share sales roundabout has resulted in, among other investors, the Middle East sovereign wealth fund **Abu Dhabi Investment Authority** taking a direct stake of 13.4% of the voting rights in Annington

The company's long-time owner, UK private equity group **Terra Firma**, in which the Abu Dhabi Investment Authority is also an investor, withdrew from its 67.3% ownership stake in Deutsche Annington (following last year's scrambled IPO) by placing most of its stake with its own fund investors, including **JP Morgan Private Equity** and **Bank of America Merrill Lynch**.

Terra Firma, through its funds **Monterey Holdings I** and **CPI Capital Partners**

Europe GP, also placed a further 12.5% or 30m shares at €19.50 for a net €585m at the Frankfurt stock exchange, in which JP Morgan Private Equity also participated alongside other investors. After falling back initially, the share price has since bounced back to about €21.70.

The listed Bochum-based Annington was effectively built by Terra Firma, starting with 64,000 railway workers' apartments in 2001. It now has nearly 215,000 of its own apartments (after its recent acquisition of a further nearly 40,000 units for €2.4bn) and managers nearly 27,000 others for third parties.

Annington has embarked on a major €150m modernisation programme of its housing assets, initially concentrating on energy-efficient refurbishment of more than 2,500 apartments. It is also budgeting a further €160m for maintenance this year. Last year the company invested €20.00 per sqm in refurbishment and modernisation, rising to €29.00 this year, which it says is the highest in the industry. In any event, new CEO **Rolf Buch** (*pictured, above*) has presided over a refinancing of €4bn since arriving in July last year, the recent two acquisitions of nearly 40,000 units, and the beefing up of local maintenance teams to 1,500 'hausmeister' and repairmen in a bid to improve tenant satisfaction.

REFIRE attended a briefing last week given by Rolf Buch, the CEO of Deutsche Annington AG, in which he outlined his plans for the medium-term growth of the company. Buch, who took over as the top man at Annington only last year, brings broad and varied experience from other industries, including from his last position as board member at media conglomerate **Bertelsmann**. He seemed relieved at the new perspectives afforded by the departure of Annington's long time shareholder and patron Terra Firma, and the transformation in the free float from 26% to 90%. In response to questions, he was particularly clear in his views as to what we should expect from the *Mietpreisbremse*, and what he sees as its likely weak points. (*We will have a later article in next issue with more on Buch's views on the subject of rental controls*.)

Germany/Asset Management

Outcome of Corpus Sireo sale process expected in July

Things are hotting up in the sales process for one of Germany's largest asset managers **Corpus Sireo**, which put itself on the block several months ago. A deadline of end-June for the submission of binding offers has now been laid down by the asset manager's owners, which should flush out the serious contenders from the tyre-kickers in a two-part deal which could be valued at more than €600m.

In the first part, the owners of Corpus Sireo, which are the **Sparkassen** (savings banks) of **Cologne-Bonn**, **Düsseldorf** and **Frankfurt**, are aiming to raise €300m for Corpus Sireo's €16.5bn pure asset management business, known as "*Project Venus*". The division posted EBITDA figures in 2013 of €41m, with peer companies in these buoyant times trading on up to a multiple of 16 times expected annual earnings – much higher than would have been the case some years ago, thanks to stable incomes and a lower dependency on transactions.

The second part, known as "*Project Merkur*" involves the company's proprietary real estate portfolio, and is likewise valued at €300m. The portfolio generates annual rental income of more than €20m, while housing portfolios of equivalent quality would normally expect to fetch a multiple of 15-16 times annual rent – with the market for quality residential portfolios in Germany still holding up very strongly.

Corpus Sireo handles real estate interests in Germany for clients including **Deutsche Telekom**, **Deutsche Bank**, and private equity groups **Cerberus** and **Brookfield**, and partners new institutional investors coming into Germany through either its Luxembourg investment management platform or through its international client management team in Frankfurt. It maintains 10 offices throughout Germany, with 560 staff.

The company has been frequently been ranked the "top asset manager in Germany" in the keenly-watched industry survey published annually by Cologne-based **Bell Management Consultants**, on which we generally report here in the pages of REFIRE. Traditionally, the Bell rankings include only those asset managers who do not work exclusively for their owners, but also manage assets for 'genuine' third parties.

Among those thought to be interested in bidding for the company (or one or the other parts of it) are property advisory groups **JLL**, **CBRE** and asset manager **CR Investment Management**, given the industry-wide trend for brokers and advisory groups to vertically integrate along the whole chain of value-added services.

Meanwhile, several German media sources suggest that a number of prospective bidders such as **Bilfinger Real Estate**, property manager **Wisag** and acquisitive Augsburg-based specialist fund manager **Patrizia Immobilien** have withdrawn. The reason cited for waning interest by these and other potential bidders is the perception of over-dependence on revenue associated with its largest client, Deutsche Telekom, which is scaring bidders off. Corpus was originally created as the property manager of Telekom, which subsequently took over Sireo Real Estate, which had been created at the same time. It still manages 14,000 Telekom properties across Germany, but it is unclear exactly what percentage of its overall turnover the Telekom mandate makes up.

Germany/IPOs

Lone Star considering flotation of TLG Immobilien

A recent report by news agency *Bloomberg* citing three company insiders said that US private equity group and turnaround specialist **Lone Star** plans to float the Berlin-based **TLG Immobilien GmbH**, which it bought last year for €1.1bn. The IPO could happen as early as the second half of this year, the report said.

When Lone Star bought TLG Immobilien last year, the eastern German-focused TLG managed about 780 offices, warehouses and hotels. Its assets included the prestigious **Hotel de Saxe** in Dresden and the **Kulturbrauerei**, a former brewery in east Berlin that has been converted into a campus venue housing restaurants, bars and music venues. The Dallas-based Lone Star paid €594m in cash and assumed €504m of debt for TLG Immobilien, which is now held in Lone Star's **Real Estate Fund II.**

TLG had had a valuation of €1.38bn prior to the sale to Lone Star, with its 266 retail properties valued at €525m and 73 office properties at €420m, plus the hotels valued at €80m, and unspecified valuations for diverse nursing homes, elderly home and light industrial buildings. Lone Star is known to have sold non-core parts of this portfolio, along with its share of Dresden's landmark Altmarktgalerie shopping centre, valued at €130m, although it's not clear from TLG's own website exactly how many assets remain in the portfolio.

TLG Immobilien evolved out of the old **Treuhand Gesellschaft**, the holding company run by the government to oversee the restructuring and sale of thousands of old East German companies after the 1990 reunification. The housing division of TLG was also sold off separately as part of the privatisation of the group last year.

Given the favourable climate for German real estate and rising stock market valuations in the listed sector, the move would likely make sense for the opportunistic Lone Star. It probably won't be alone; fellow-US private equity group **Cerberus** is also considering bundling its €2bn of German retail assets together for a market listing. Investor enthusiasm for the sector remains positive, with the **EPRA/FTSE NAREIT** index of German property stocks gaining 11.4% so far this year, compared to 0.2% in the German benchmark **DAX-30** index.

Germany/Banking

Germany decides against sale of Depfa, opts for unwinding

After nearly five years of looking for a suitable buyer for **Depfa Bank**, the Dublin-based public-sector financing subsidiary of bailed-out lender **Hypo Real Estate (HRE)**, Germany's bank bailout fund **SoFFin** took the decision to wind down Depfa rather than conclude a sale of the unit, the Berlin finance ministry announced earlier this month.

The German government abandoned plans for a sale after months weighing up bids from potential buyers. Now, Hypo Real Estate' 'bad bank' **FMS Wertmanagement** will take over the task of unwinding Depfa's positions over the next twenty years, in addition to its enormous existing burden of unwinding parent bank HRE's own toxic paper, accumulated prior to the financial crisis. This decision should prove less disadvantageous for the German taxpayer, said Germany's finance ministry in a statement. HRE has long preferred a clean sale of the Depfa unit, warning the finance ministry that it would otherwise be dragging down the bank with Depfa's unquantified risks.

The 'good' part of HRE, finance provider **pbb Deutsche Pfandbriefbank**, is however still on the block, in accordance with an EU diktat, with the government committed to finding a long-term buyer for the Munich-based bank by the end of 2015. It remains to be seen whether this task will be now made more difficult with the millstone of having to handle the unwinding of Depfa for twenty years hanging around the bank's neck.

Among bidders interested in buying Depfa were thought to have been private equity group **Third Point**, an investor group led by **Mead Park Management**, and finance investor **Leucadia** and its partner **Massachussetts Mutual**, with the latter though to have been ready to buy the bank for about €320m. Depfa still has 200 employees and a loan book of €34bn.

The decision by the government to wind down, rather than sell, the Depfa unit led to the price of Depfa-issued bonds falling by the most in almost three years. Depfa's 5% perpetual Tier 1 securities, with €500m outstanding, have dropped by 21% since the May 13th decision. The €400m of 6.5% Tier 1 bonds fell 16% while a €300m issue of similar securities sank 20%. The bonds are trading at about 50 cents on the euro.

The fear is that Germany could impose losses on the holders of the securities and extend a ban on coupon payments indefinitely. As part of HRE's restructuring plan, the EU banned Depfa from making coupon payments on the Tier 1 instruments. The ban would have expired had Depfa been sold, rather than wound down. The securities, which were sold between 2003 and 2007, would rank lower than senior debt in a liquidation.

According to **Katharina Barten**, an analyst with **Moody's** in Frankfurt, "Banks in unwinding typically post losses and this is also true for Depfa, which has been structurally loss-making for some time. Future losses imply that investors in junior subordinated instruments, including in Depfa's trust preferred securities, are most exposed to absorb losses over time."

...see page 10

Europe/Acquisitions

Germany, France high on list for Norwegian state fund

When word spread in 2010 of the intentions of Norway's €860 billion sovereign wealth fund to increase its allocations to real estate, you could almost hear the rubbing of hands in anticipation among the world's property advisors. **Norges Bank Investment Management (NBIM)**, which is managing the deployment of the fund, now says it is stepping up the pace of investment, focusing on ten to fifteen cities worldwide but with a strong emphasis on the top European cities. The fund has about €33bn to invest in real estate.

In a recent interview with news agency Bloomberg, **Karsten Kallevig**, the fund's head of real estate investment said that cities such as London, Paris, Munich and Berlin would be among top target destinations. The fund plans to increase its current allocation to real estate from 1.2% to the 5% mandated by the Norwegian parliament four years ago. The 39-year-old Kallevig, with one of the hottest seats in global real estate, came to NBIM from **Grove International Partners** after stints at **Goldman Sachs** and **Soros Real Estate Partners**.

So far NBIM has indeed been active in investing across Europe and the USA, with Asia now featuring on the horizon. It is likely to be much more – the fund has invested about €10bn, but if it plans to reach its quota, this would mean more than €61m being invested between now and 2020.

The fund earned 11.8% on its real estate investments last year, ahead of the 8.3% returns on the I**PD Global Annual Property Index,** but it has so far been highly selective in its choices. It is targeting an overall annual return of 4%, but is looking for an extra mandate to invest in infrastructure and private equity to help spread its risk and "avoid making big mistakes", according to Kallevig. Its transactions to date have largely been in joint ventures, in the USA with insurer **MetLife** and teachers' pension fund **TIAA-CREF** in New York and Washington.

In Europe, NBIM has a €2.4bn joint venture with US-based **Prologis** to invest in European industrial property. It also owns part of London's Regent Street with UK's **Crown Estate**, and holds properties in Paris and Germany in joint ventures with **AXA Real Estate.** According to French media, it is also in exclusive negotiations with US private equity giant **BlackRock** to acquire the *La Madeleine* retail and office complex in Paris for €425m.

The Norwegians are not alone in their interest in more exposure to European real estate. A recent report from property adviser **Savills** shows that sovereign funds from around the world invested €5.5bn in Europe in 2013, fully 30% more than in the year before. The top destination countries for this fresh capital were the UK, Germany, Belgium, France, Ireland Italy, Netherlands, Sweden and Spain.

The Middle Eastern and Asian sovereign funds were frequently among the top 5 biggest investors in a number of markets - the Qatari funds in Italy, Spain and France, and the Kuwaiti and Abu Dhabi funds in the UK and France. Among portfolio buyers, they topped the respective lists with average investment sizes of €700m.

According to Savills head of European investment **Marcus Lemli**, "Sovereign funds tend to invest in low-risk core assets and as a rule invest from €200m upwards. But we're also noticing that they're expanding their investment horizon and are seeking out value-added potential in non-core deals and smaller job lots. We're also seeing a lot of new players coming into the market."

Germany/Study

Risk-Return ranking list highlights Germany's hidden champions

A new study, the Risk-Return-Ranking 2014, has just been published by Frankfurt-based property adviser **Dr. Lübke & Kelber**, the company which brought together the venerable brokerage house of **Dr. Lübke** with the nationwide residential acquisition and privatisation skills of industry veteran **Jürgen Kelber** last year.

The study analyses a total of 50 German cities including the Top 7, using a variety of proprietary measurement tools based on the respective population and social economical environment, local residential market structures, current rents and purchase prices as well as the local dynamics of demand and supply.

From this the researchers attributed certain scores to each city based on risk, and compared each to a risk-free investment such as German government bonds. According to **Ulrich Jacke** *(photo, right)*, long-time managing director of the old - and now new - Dr. Lubke & Kelber, "The aim was to identify and clarify the risk for investors adequately. We then answered the question, what return needs to be generated to compensate for the investment risk?" Cities would then be granted an A++, A+, A or A- rating.

Two cities which outperformed with net initial yields well above the required minimum return (both with a risk score of A+) were, somewhat surprisingly, Lüneburg and Wolfsburg. (Lüneburg, of course, is small and possibly illiquid, and would not be suitable for an investor looking to spend €100m, for example).

Two cities which had the lowest risk profile were Munich and Frankfurt, which the. Dr. Lübke & Kelber researchers determined had risk premiums of 0.6% and 0.8 % respectively. (i.e. you need 0.6% of a premium above the risk-free return on a Bund). "However, you need to be careful, as the competition in these cities is extremely strong and prices are currently being paid that don't make sense on a risk-adjusted basis" said Jacke.

Ingolstadt and Regensburg rank 3rd and 4th and top the list of the so-called B-cities. Here, the risk premiums attributed are 0.9% and 1.0 % respectively, closely followed by Potsdam and Freiburg (both on 1.1 %-points). However, as Jacke says, "These four cities are now no longer an insider tip. Therefore investors have to look very closely at the net initial yield".

Jacke also warns agains excessive exuberance on the Berlin residential market, where the the risk-return-analysis is now showing excessive purchase prices. "The net intitial yields based on our analysis demonstrate that investments in Berlin have to be scrutinised thoroughly", he said. It is true that there is currently a strong demographic development and lots of demand but the socio-economic dynamic of the capital requires taking a cautious approach. The GDP of Berlin per capita was €30,000 in 2011 and therefore significantly lower than the average of the 50 cities analysed." The researchers recommend a risk premium for Berlin of 2.3 %-points, i.e. 2.3% premium over the German Bund.

Concluding, Jacke says that, in general, he sees worthwhile residential investments in all the cities analysed in the company's study, but "Risk-oriented investors should also focus on investment locations outside the "mainstream" and strictly stick to risk-adjusted pricing"

Germany/Study

Upward price spiral in German residential now slowing - LBS

Investors looking for yield are having a tough time in times of low interest rates and high liquidity, but there is still value to be had in German residential property, according to the CEO of **LBS Immobilien**, Germany's largest building society and residential mortgage providers.

LBS Immobilien CEO **Roland Hustert** was talking to a group of about 200 high net worth individuals and family of-

fices last week at the **Kreissparkasse Düsseldorf Securities Forum**. Prices rises have so far been "moderate", he said, with the key differences being in new-build versus second-hand housing. The average price for the single family homes typically financed by LBS fell last year from €314,000 to €278,000, while the price of second-hand properties remained stable at €172,000.

On a European comparison, these prices are well behind Belgium, the Netherlands and France, said Hustert. In certain depressed parts of North Rhine-Westphalia the prices are even lower, he added.

(*Frankly, we're not quite sure where Hustert was getting his figures from. LBS research data is very good, and the bank is at the very coal-face of private mortgage lending across the country. Perhaps he was referring to a number of markets in NRW which have been in the doldrums for years, we don't know*).

What we do know is that the LBS research department in its latest study believes that demand for German residential has "reached its zenith", and price rises this year for second-hand housing will rise by between 2% and 4%, in line with general income levels. This represents the first slowing of price growth in five years. The supply of new building is now helping to ease pressure on prices, except in many southern cities.

The LBS data is based upon the responses from 600 local branches of the German savings network (**Landesbausparkassen** and **Sparkassen** in 870 localities throughout Germany.

The researchers expect a price rise of 2.5% for building land and terraced houses, somewhat more for second-hand apartments and detached single-family homes, and up to 4% for new-build apartments. Overall, these prices rose by more than 5% last year, says LBS, but it stresses that in most cases prices for both houses and apartments cost now about the same or very little more than in 2000.

According to LBS director **Hartwig Hamm**, the big price differences are to be found in detached second-hand family homes, where regional differences are most pronounced. Among the big cities, existing single home prices are highest in Munich at €900,000, followed by Regensburg (€775,000), Stuttgart (€700,000) and Freiburg (€650,000). Individual prices can be higher in attractive urban hinterland locations such as in noble Munich suburb Grünwald at a record €1.2m, or Starnberg at €1m, or in Konstanz or Lindau on the Bodensee at €780,000 and €650,000 respectively.

Prices for new semi-detached houses are set to rise by around 2.5% this year, but they are still affordable in most regions, said Hamm. They are priced around €230,000 in large and mid-sized western German cities, remain below the €200,000 mark in the East and North, but have risen to €350,000 in the South due to serious supply shortages. A Munich semi-detached house comes to €690,000, in Regensburg to €575,000. Existing semi-detached homes are usually some 20% cheaper. "In some cases – usually because of their great location – they can be more expensive than new built, for example in Bonn," said Hamm.

LBS predicts new apartment prices to rise by around 4% this year, most strongly in tourism locations, the large urban centres and university cities. Highest prices are seen in Grünwald at €6,500 per sq.m., well ahead of Munich (€5,300) or Hamburg (€4,000). Prices are still moderate, below €3,000, in cities such as Hanover, Bremen, Dortmund and Essen. Existing flats fetch 40% less on average, though demand is high. Average prices are at €1,900 in the South and €1,100 in the rest of the country. "Given the current financing conditions available, they are thus not more expensive than comparable rental apartments," said Hamm.

Building land is also in short supply, particularly in the desirable southern states (Bavaria and Baden-Württemberg) and cities, where at €400 per sqm the price is three times higher than in the north (€130 sqm) and in the east (€80 per sqm). Not surprising, Munich again tops the list at €1250, Stuttgart €900 or Heidelberg €700.

Separately, a new study published by property broker **Knight Frank** says that medium-quality residential properties in Germany are undervalued compared to their peers in other countries. The study examines the pricing of medium-quality (i.e. average) residential properties in 27 markets worldwide, and compares them with prevailing levels of rent, income and a number of other factors.

Knight Frank concludes that these average-quality houses are overvalued in 15 of the 27 markets studied based on long-term affordability, with the risk of a correction especially high in Belgium, Norway and Canada, where a rise in interest rates could wreak serious damage, according to the researchers. Fairly valued were the USA, Italy, Austria, Switzerland, Iceland, and Luxembourg.

By contrast, Japan along with Germany is among the very few where average quality homes are still rated undervalued – not having risen by double digits since the beginning of the millennium, says the study.

Germany/Indices

German rent-reversion index shows lower potential ahead

Every year since its inauguration six years ago we have reported faithfully here at REFIRE on the annual **DMX German Office Rent Reversion Index** study, produced annually by **IPD Germany** and **Alstria Office REIT AG**, Germany's first and still largest REIT.

We have had our quibbles at REFIRE over the years with particularly IPD over the methodology used to arrive at the annual readings. We don't dispute the findings – our issues have always been over the usefulness of the index in helping decision-making – but we beleive that the nature of the index means that its true value will always be only provable one there is sufficient date to look back at forecasts, and establish whether, with the benefit of later data, the original indices had merit.

The DMX Index, in essence, shows the theoretical rent adjustment potential of office leases in Germany by comparing the contract rents of existing leases with the sustainable rents from valuation certificates for office space. This measure is called rent reversion. In short, it provides an indication of the likelihood of further rent rises ahead for investors.

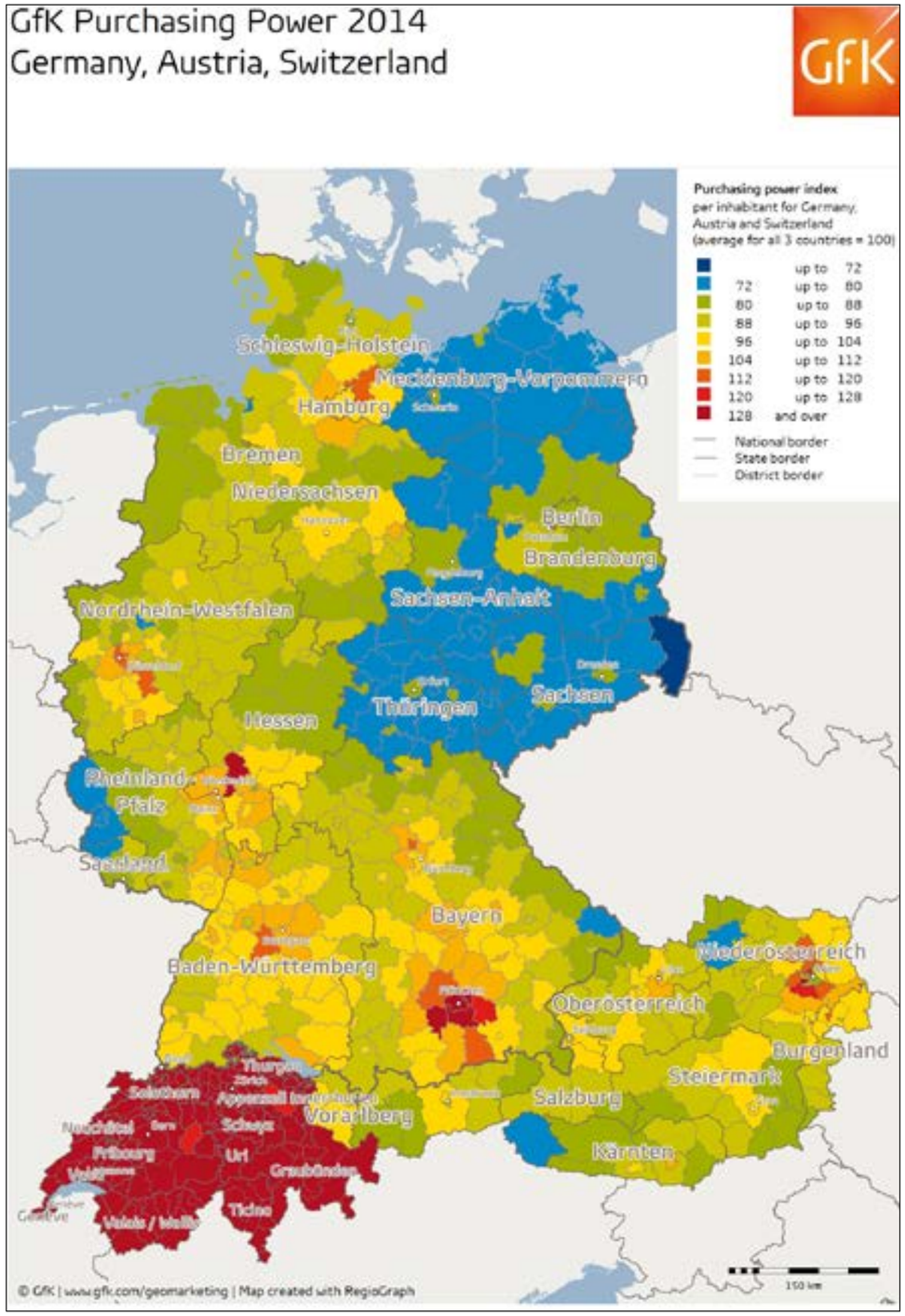
This year's reading shows a slightly negative potential for rent adjustment on German office leases of 0.6% (on average) for the reporting year to May 2014. By contrast, last year's index pointed to a "catch-up" potential of 2.5%. To be specific: the sustainable rent from valuation certs of €13.38 per sqm per month is marginally below the average contract rent of €13.45 per sqm/month – largely due to the rise of 3% in contract rents since May 2013, while sustainable market rent remained stable at 0.1%.

In other words, investors need to accept the idea that for contract extensions they will have difficulty pushing through rent increases. That is this year's take-home message, from what we can see.

As usual, there are wide regional differences. The highest potential for rental growth for leases was measured in Cologne at 5.3%, followed by Dusseldorf with 2.2%, Berlin 1.9% and Munich at 1.0%. Negative potential for rental growth of office leases was determined for Stuttgart and several B-cities at 3.2% each, as well as Frankfurt with 2.4% and Hamburg at 0.7%.

The strong growth of contract rents did not include all markets. Berlin, Frankfurt, Stuttgart and Munich have seen increases of 6%-8%, whereas Cologne or the B-cities saw reductions of 6% and 2% respectively for the year to May 2014. However, not all of the leading cities achieved sustainable market rental growth, e.g. Frankfurt has a rather strong growth of contract rents with 7.6% but featured a slight decline of 0.5% in rental value growth, leading to negative potential for rent adjustment of 2.4%.

Closer scrutiny of lease structures demonstrates (for the overall market, as well as individual locations) an under-rent



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for expiring leases on the one hand, but also for concluded contracts.

Daniel Piazolo, CEO of IPD Germany, commented: "It seems that investors are not able to enforce rental growth or an adjustment to market level in many cases when negotiating new leases or renewing running contracts. This is a crucial indication as rental income is the main driver for real estate performance, even in the office sector."

Germany/Open-ended Funds

Open-ended fund managers optimistic, distribution less so

Berlin-based rating agency **Scope** has just published its annual Rating Review for the German open-ended funds sector. It concludes that fund initiators and managers are taking a bullish view, while sales and distribution agents are decidedly less optimistic.

Obviously it depends on whether the fund being managed is still in business, rather than being wound down. Nine fund managers provided estimates to Scope about their business prospects; five of them said they expect net positive inflows in 2014. Six firms said they would be investing as much this year as last. Likewise, six companies said they would be launching new fund products in the next three years, including new mutual funds as well as *Spezialfonds* for institutions, and closed-end funds for private clients.

A much larger total of 91 banks and financial intermediaries who sell the fund products responded to the Scope survey with their views. These were much more sceptical than the fund initiators – 30% described the climate for selling funds as "unsatisfactory", while more than half found that the funds in their new incarnation (since the introduction of much stricter regulation regarding fungibility, minimum holding periods, etc.) are much less attractive to sell.

Independent sales channels (i.e. not banks) complained about lack of products to sell (more than half the currently available open funds are now exclusively being sold by Sparkassen and Volksbanken – the typical sales outlets for Union Investment and Deka funds, the largest fund managers). New smaller-sized and flexible funds, along with products focused on residential or with a global focus, are what's seriously missing, Scope heard in its feedback.

Other analysts view the funds industry for German investors to be in rude good health despite the shocks which led to a third of all funds closing down and currently liquidating themselves. According to **Stefan Mitropoulos** (*pictured, above right*), head of research at **Helaba**, "The funds still provide the only real possibility for the average private investors to invest in any meaningful way in a diversified real estate portfolio." Helaba's own 12-month performance index, the **Helaba OIFIndex** which tracks nine investable open-ended funds for private investors, shows a return of 2.3%.

Mitropoulos credits the poorish performance of the index with the high level of cash liquidity which the funds are currently carrying, plus further valuation write-downs on difficult assets. Nonetheless, he says, the funds are still returning a risk premium over the 1.5% return available on ten-year government bonds.

Part of the problem for the poor returns on open-ended funds is the high level of cash they are holding, earning very little interest, in the absence of suitable investment opportunities. Some funds are actively putting a brake on new fund inflows until they identify new properties in which to invest. Normally these are 'core' properties, and as such properties for which there is the most competition.

Nonetheless, the funds association **BVI** say that investors are returning to the sector drawn by exposure to real estate and an aversion to the volatility of the stock market. Last year a further net €3.4bn flowed into the sector, a trend which is continuing this year. Three of the four leading fund managers saw a further €700m net inflows in January and February, the latest figures available. All agree that the new regulations will see a slowing down of inward funds this year, as the market digests the implications of the new regulations.

Funds are now turning to family offices and occupational pension funds, which are anxious for more real estate exposure, even considering investing in project developments. Two new funds have nonetheless sprung up – the "**Leading Cities Invest**" from **KanAm**, which has bought its first Hamburg property, and a fund from **SEB Asset Management**, which is still in the process of jumping through its legislative hoops at the financial watchdog **BaFin**.

Meanwhile, the insolvent funds are in the process of liquidating themselves, and will be doing so up until about 2017. According to Mitropoulos, "The funds which are being wound up are under time pressure to sell their assets, which is often only possible by accepting heavy discounts on their respective book values. What this has shown up is the very differing quality of the dissolving funds' asset portfolios."

Scope researcher **Sonja Knorr** added, "Investors in the frozen funds will simply have to accept losses. As the funds are wound up, the best assets are sold first. The further into the process, the worse the quality of the remaing assets in terms of location and occupancy. Investors will only be getting back a fraction of their capital on these ones."

Germany/Residential

Look for value on the peripheries of larger cities – Gothaer

The German property market is in strong shape despite the recent price and rental growth, particularly in the housing sector, according to **Gothaer Asset Management (GoAM)**, part of sizeable German insurance company **Gothaer Versicherung**. But investors need to be careful with certain prime commercial property categories in the larger cities, he believes.

"All indicators show that market mechanisms are functioning perfectly," said **Ingo Bofinger**, head of property at Gothaer Asset Management, in a recent interview in trade publications Fonds Online. While demand for residential assets in the large conurbations continues high, there is no sign of a massive increase in mortage issuance. "In fact, the latest data from the **Bundesbank** even show that German citizens' debt has fallen slightly. In our view, there is no indication of the emergence of a credit-based property price bubble."

The Cologne-based Gothaer Asset Management holds €26bn in assets for both its parent insurance company as well as third party insurers and pension funds.

Bofinger sounds a note of warning for core assets in A-cities, which are attracting increasing international investor capital. "Prime locations in cities such as Munich or Hamburg have recently attracted investors from Asia and North America," said Bofinger. "We've seen several assets trading at prices which would normally cause us to go into very cautious mode."

Bofinger believes that the best residential investment opportunities are currently for assets located on the periphery, but not within, large cities. The trend toward urbanisation and limited space in the conurbations will strengthen the housing in regions that offer fast public transport into centres, green living spaces and a larger range of leisure activities, he believes.

Guest Column:
Prof. Dr. Alexander von Erdély, Managing Director, CBRE GmbH

The merger of CBRE and VALTEQ – added value for the customer?

www.valteq.de

Not so long ago, multi-million Euro investments were decided on the basis of Excel spreadsheets. Cash flow was the decisive factor. In the meantime however, market players, such as investors or developers, are increasingly looking towards a new, more comprehensive approach, in which the real estate is viewed as a whole. This inevitably leads to an increased need for advisory services regarding the property itself. For example, the technical building services, repair requirements and the building fabric must all be assessed. As a global service provider, CBRE latched on to this trend at a very early stage and has responded with appropriate teams. These focus on the subject property and its market environment in equal measure and, in doing so, ensure the depth of analysis the customer demands. It was from this development that the idea first formed to take the VALTEQ-team on board with us. For one of VALTEQ's great strengths – one we have known of for some time from our professional dealings – is translating technical issues into market-relevant factors. This allows even greater detail in the holistic analyses that are so essential to the customer.

There was also a second reason why we extended our feelers towards VALTEQ. In the current market situation, properties or portfolios in core locations are few and far between. And where they are available, the yields are relatively weak. This means optimisable real estate in the Core+ or Value Add fields will gain ever greater importance. Here, too, our now strengthened expertise on both the market and technical sides adds value to the advisory services we provide for our customers. Whether it is to investigate how the overall property life-cycle can be sustainably improved, or what technical matters must be considered when acquiring a property. Take the following, for example: An office property, predominantly made up of open-plan office space, in which the temperatures in summer were very high. Following analysis of the requirements and optimisation of the tender documents, it was possible to install a cooling system for 25% of the originally estimated costs. The tenant was just as satisfied as the owner. A small effort but, at the same time, one with considerable benefits.

There is one other positive side effect of the merger of CBRE and VALTEQ that shouldn't go unmentioned. At CBRE, we have the Global Corporate Services unit, which looks after international customers, such as Siemens or BASF. Thanks to the growing importance of international real estate investments and the ever-stronger global presence of companies, this is an exciting area of business. In the future, we will be able to offer these customers an even greater range of advisory services, all from a single source.

Our goal is clear: We want to offer our customers one-stop integrated advisory services and, in doing so, reduce the complexities they face.

Sponsored Statement

Europe/Logistics

Germany favoured in red-hot logistics market

A new report published by investment manager **Realogis Real Estate** shows just how strong the focus of logistics investors in Europe has been on investments in Germany.

As we reported in the last issue of REFIRE, the market for German logistics assets was red-hot in the first quarter of the year, with investment volume of more than €1.2 billion, itself more than half of the total volume for the full year 2013. This time the emphasis from European investors was increasingly on the larger cities particularly Hamburg, Berlin, Frankfurt am Main, Cologne, Leipzig and Stuttgart

"In contrast, German and North American investors also bought in eastern Bavaria in locations that are more peripheral but nonetheless strategically important for the logistics industry," according to **Nicole Kinne**, research analyst at Realogis Real Estate GmbH.

The Realogis report shows that transactions in the quarter were distributed across most of Germany's states, but three quarters of all deals were in western Germany. These included established logistics regions such as Rhine/Main, Rhine/Ruhr and Hanover/Brunswick/Wolfsburg as well as in logistics regions with growth potential, such as the "*Sachsendreieck*" or Saxony Triangle (Dresden, Chemnitz, Leipzig) and the South German locations of Dingolfing, Regensburg and Ingolstadt that are dominated by the automotive industry.

Portfolio sales made up much of the record transaction volume in the first quarter of the year, generating around €824 million (71% of total volume). The largest transaction closed was about €300 million, involving the sale of 10 logistics properties by **Tristan Capital Partners** to joint venture company **Segro European Logistics Partnership (SELP)**. Another significant transaction was the entry into the market by Malaysian pension fund **EPF** via the **Kwasa Goodman Germany Fund** managed by **Goodman Property Investors**.

Germany/Financing

Aareal Bank resumes dividend payout, boosts new business

The Wiesbaden-based property financier **Aareal Bank** is resuming its dividend payment to shareholders after a five-year hiatus, during which it was first prevented by the bailout bank

SoFFin from paying dividends due to its 'silent participation', and then subsequently held back distributable reserves to bolster its balance sheet.

Shareholders, who have seen the bank's shares double over the past year and rise nearly six-fold since the darkest days of the financial crisis, voted last week for a dividend payout of €0.75 for the full-year 2013, the first payment since the 2007 financial year.

The conservative Aareal Bank, which is more focused on foreign lending than many of its peer German banks, has come through the financial crisis stronger than many of its erstwhile competitors, many of whom are now being broken up. According to longtime CEO **Dr. Wolf Schumacher** at the bank's recent AGM, "Today, we enjoy a very solid capitalisation, as measured by all applicable indicators and also in a sector-wide comparison. We have sufficient risk cushions to deal with all realistic scenarios. This has opened up a return to an active dividend policy, which we want to adhere to in the future".

Dr Schumacher also re-affirmed forecasts for Aareal Bank's performance over the current financial year, "against a background of mild economic recovery worldwide, and an increasingly intense competitive environment".

For the first quarter of 2014 new business declined (€1.6bn versus €2.0bn in Q1 2013) but genuine new business (less extensions) rose from 59.5% to 67.4%. All in all, Aareal Bank said it is on target, despite the non-recurring effect from the acquisition of **Corealcredit Bank** (negative goodwill of €150m), to achieve consolidated operating profit of between €370 and €390 million for the 2014 financial year. Schumacher also affirmed the bank's medium-term target for a pre-tax return on equity of 12%.

Germany/Listed Companies

Strong German rental market lifts Canada's Dundee Int'l

Canadian-listed **Dundee International REIT**, which is exclusively invested in German office and commercial properties, saw its FFO funds from operations surge from €10.5m to €16.1m in the first quarter (year on year), based primarily on very buoyant demand for lettings in its properties, the highest in the company's history.

Dundee, which is now changing its name to **Dream Global REIT**, said that its occupancy rate rose to 87.7% at the end of the quarter from 86.4% last year, due to positive absorption. According to CEO **Jane Gavan**, "Our leasing team in Germany is seeing higher levels of activity compared to prior years which is translating into more people touring our space and driving our leasing performance. The strength of the German economy helped reduce the vacancy in the Big 7 office markets by 15 bps in Q1 over Q4 2013 to 8.1%."

The company also managed to further diversify its tenant profile, reducing its dependence on its largest tenant **Deutsche Post** to 35% from 43% at the same time last year. In-place rents also increased €7.87 per square foot in Q1 2013 to €8.72 in Q1 2014, largely due to high-quality acquisitions, said the company. Overall, at €8.85 per square foot, average market rents in the portfolio remain about 1.5% above in-place rents, and about 11% above in-place rents on the assets the company initially bought when it initially launched by buying a major Deutsche Post portfolio, so these are seen as offering high upside potential.

Dundee also bought two further office assets in Munich and Hamburg for about €75m, financing them with Can$69m of mortgage financing, made up of $13.2m at a fixed rate of 1.98% for a five-year term, and $55.8m at a fixed rate of 2.33% for a seven-year term. The company says, "These acquisitions, which were completed on average at a 400 bps spread between cap rates and mortgage interest rates, with an average occupancy rate of 98%, added approximately 286,000 square feet of high quality office space in two of the most desirable markets in Germany to our portfolio."

CFO **Rene Gulliver** commented, "Mortgage rates in Germany are among the lowest in the Trust's history, as increased competition in the German lending market has put pressure on credit spreads. Coupled with our success in building strong relationships with German lenders, we continue to achieve highly attractive rates for new acquisitions." Dundee also sold five properties for €13.1m, or 120% of book value, in the period.

The company now manages €1.7bn of assets in Germany, up from €1.2bn a year ago. It has a debt-to-book value of 56%, a weighted average interest rate of 3.35% on its debt, and an interest coverage ratio of 3.41 times.

from page 18

Germany/Indices

German prime offices 4% more valuable than last year

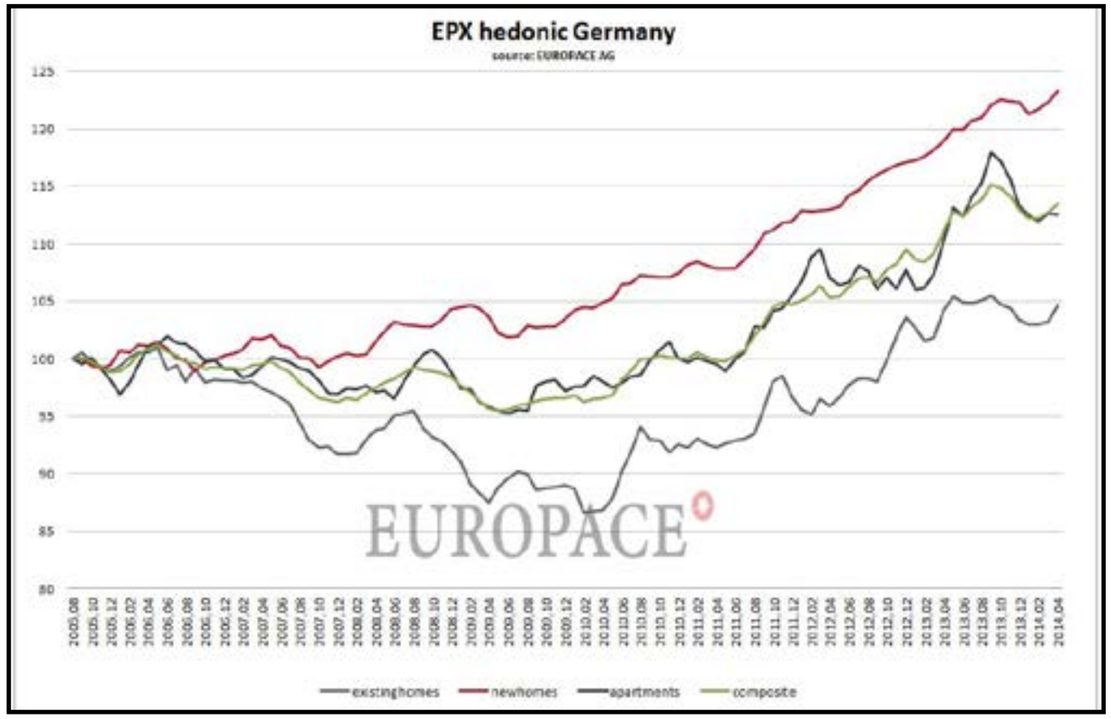
JLL Germany's **VICTOR Prime Office Index**, which tracks prime office price development in Germany's top five commercial centres, rose 4% in the first quarter year-on-year, and 1.4% over the previous quarter, pushing through its previous all-time high last reached in the second quarter of 2007.

The index, covering top properties in Berlin, Munich, Hamburg, Frankfurt and Düsseldorf, is based on input from transactions and valuations, local market data, rental conditions and forecast rental trends, and computed on a quarterly basis. It currently stands at 127.7 points, besting its previous high of 123.1 before the financial crash. It shows that investors are now accepting higher prices for top-tier office properties in the prime business districts of the big cities.

The most solid performer over the past twelve months has been Hamburg with a rise of 5.2% year-on-year, the Victor index shows. All cities posted positive performance, with 4.5% for Munich, 4.3% for Berlin, 3.7% for Frankfurt and 2.5% for Düsseldorf. Investors' total return rose to 8.7% from 8.3% in 4Q13, led by Hamburg at 9.9%, Berlin at 9.1%, 8.9% in Frankfurt and 7.2% in Düsseldorf. Since the trend reversal in 2Q09, the overall index has now gained 29.1%.

Initial yields are thus obviously heading downwards, headed by Munich, where peak yields have fallen by 2.5% over the three-month period. According to **Andrew Groom** (*pictured, right*), head of valuation at JLL in Frankfurt, "At this stage we certainly can't rule out the possibility of a further yield-driven rise in performance in the very top locations, driven by investors' search for stable returns." The lower yields from core assets in top locations has increased the pressure for performance from investors, "which suggests investors are likely to branch out into higher risk segments", says Groom.

The low interest-rate environment still makes property an attractive investment, he says. "The recent performance and price growth in German office prime locations has had a sustainable basis. Despite the recovering global economy there are not really any real investment alternatives to property for security-focused investors."



Europe/Hotels

Accor buys 97 hotels from Moor Park, AXA for €900m

French hotel group **Accor's HotelInvest** business has committed to buying two real estate portfolios consisting of 97 different hotels for a total sum of about €900m. The move comes as part of the hotel group's plans to restructure its real estate business. HotelInvest claims to be the leading specialist hotel investor in Europe.

The first portfolio, representing 86 hotels and 11,286 rooms across Germany (67 hotels) and the Netherlands (19 hotels) has been operated by Accor since 2007 under variable-rent leases and the following brands: **ibis** (29 hotels), **ibis budget** (31 hotels), **Mercure** (17 hotels) and **Novotel** (9 hotels). The total consideration for the acquisition is €722 million, while the sellers are two funds, **Moor Park Fund I and II**, advised by **Moor Park Capital Partners**.

Separately, Accor has entered into exclusive negotiations with **Axa Real Estate** for a second portfolio representing 11 hotels and 1,592 rooms in Switzerland. This portfolio too has been operated by Accor since 2008 under variable-rent leases and the following brands: ibis (5 hotels), ibis budget (2 hotels), Novotel (3 hotels) and **MGallery** (1 hotel).

Accor said that both acquisitions will be accretive to the company's EBIT in 2014. Based on proforma 2013 figures, the relative contribution of owned hotels to HotelInvest's net operating income will increase by around 14 percentage points to 68%. HotelInvest has stated that it aims to raise this proportion to more than 75% over the medium term.

"The new hotels are fully aligned with our selective asset acquisition criteria: hotels located in key European cities and delivering excellent operating performance in our most profitable market segments", said **Sébastien Bazin**, Accor's chairman and CEO.

Meanwhile, property market research firm **BulwienGesa** report in a new hotel study that nearly one in three (15,300) of the 53,000 new hotel rooms built in German over the past five years was in Berlin. The study encompassed the 347 hotels or extensions of more than 40 rooms to existing facilities that were built since 2009.

At a good distance back came Hamburg with 4,600 rooms, Munich and Frankfurt with 3,400 each, Dresden with 2,010, and Cologne with 1.300 rooms. About 80% of the new rooms were from

UPCOMING EVENTS AND CONFERENCES

EVENTS/ CONFERENCES May - June 2014

June 4th-6th, Wednesday-Friday
European Facility Management Conference, Berlin
After Prague last year, this year's focus is "FM – Innovation, Integration, Vision." As FM's management role increases due to routine decision-making in FM projects and the rapidly changing demands and needs of clients, innovation in FM needs a boost throgh technology and new tools.
More at www.efmc-conference.com/

June 25th-26th, Wednesday-Thursday
PERE Summit Europe, London Marriott, Grosvenor Square
The PERE Summit: Europe is back for its tenth year to once again bring you the leading private real estate investment experts and institutional investors from across Europe to discuss the pressing issues in the private real estate world in 2014.
More at www.frankfurt-school-verlag.de

June 25th-26th, Wednesday-Thursday
Handelsblatt Immobilienwirtschaft 2014, Hamburg
Now gathering in Hamburg after years of meeting in Berlin, the Handelsblatt event is a fixture on the German real estate calendar with top-quality participation. This year with a range of new interactive tools to enable fuller participation by delegates and superb networking opportunities.
More at www.immobilien-forum.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

branded hotel chains, headed by **Motel One** with 6,400 new rooms in 23 new hotels, followed by French group **B&B** with 4,100 rooms – although given that their hotels tend to be smaller (at about 105 rooms on average), they led the field with the number of new openings, at 39, and have a further 14 hotels in the pipeline due for opening shortly.

In third place was the ibis family of hotels with 2,500 rooms in 20 hotels. Despite the fast growth of the budget chains, they totalled only 21.3% of new rooms on the market, underlining BulwienGesa's claim that German B- and C-cities still lack sufficient modern hotel accommodation. Most of the actual new rooms on the market (43.7%) came from the four-star segment. Also now making a noticeable impact are the conversion of old office buildings into hotel accommodation, with the report highlighting one company **A&O Hotels/Hostels**, which opened nine hotels in the budget category with an average of 235 rooms over the period.

Germany/Debt Funds

Deutsche Hypo, Nord/LB launch first institutional debt fund

We reported in a recent issue of REFIRE about a discussion we had had with **Andreas Pohl**, (*pictured, right*) board member at the Hanover-based **Deutsche Hypo**, in which he described the shifting approach traditional German real estate financiers are taking to new business.

His bank Deutsche Hypo and **NORD/LB Asset Management**, who are both part of the landesbank **NORD/LB**, have now launched their first debt fund for institutions. The *Spezialfonds*, set up initially for an unnamed investor, will have an starting volume of €200m, and will invest in Deutsche Hypo's key markets of Germany, UK, France, Benelux and Poland.

The fund will invest in a diversified property financing portfolio, secured against core office, residential and retail assets, said Deutsche Hypo which takes over servicing. Just last year the bank entered into a strategic partnership with the Bayerische Versorgungskammer (a major Bavarian occupational pension fund group) also to invest in real estate in Deutsche Hypo's key business markets, with the bank providing finance and real estate know-how.

"We are happy to have created a product that matches investors' strict requirements for both safety and yield," said Pohl in a statement. "Banks are finding themselves in a state of flux at the moment: The classic function as mere loan providers is no longer as important as it was. Now, it is far more important to acquire further providers of capital and then to successfully structure the financing."

NORD/LB Asset Management will handle the management and risk due diligence. According to **Dr. Hinrich Holm**, NORD/LB board member for capital markets business, "We're finding that institutional investors such as savings banks, insurers and pension funds are increasingly taking up the offer to invest in our asset classes, so we can well imagine launching further debt funds in the near future."

Germany/Retail real estate

GRR buys further assets for retail fund from Internos

The Erlangen, Bavaria-based **GRR Real Estate Management GmbH (GRR REM)** has acquired a bundle consisting of three retail properties for its GRR **German Retail Fund No.1** from a fund

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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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managed by **Internos Global Investors**.

The GRR fund, which focuses on retail properties in the basic retail segment, is to grow to almost €300 million in the course of the investment period of two to three years, with food retailers representing around 70% of rental income. Launched in 2012, the fund already owns 21 properties.

The properties in this latest deal are a self-service multi store in Bramsche (North Rhine-Westphalia) as well as two local retail centres, one in Nordenham (Lower Saxony) and another in Riegelsberg (Saarland). The combined purchase price was €22.5m. Key tenants in the three centres include grocery retailers **Edeka**, **Penny** and **Rewe** on long leases.

The Internos fund, the **German Retail Partnership Fund 1** which is selling the three properties, was launched in 2007, and now comprises 57 specialist stores and local neighbourhood centres throughout Germany valued at about €125m.

Germany/Privatisations

Final bidders sought for WestImmo sale

EAA Erste Abwicklungsgesellschaft, the Düsseldorf-based 'bad bank' established by the government to wind down the assets of **WestLB**, including its real estate lending subsidiary **WestImmo**, set a new May 30th deadline for investor expressions of interest for WestImmo after its first attempt to sell the lender fell through in 2011.

WestImmo was put on the selling block by its erstwhile parent under the terms of the WestLB restructuring imposed on the landesbank by the EU in return for government subsidies granted to bail out the bank during the financial crisis. **JP Morgan Chase** has been mandated to handle the sale.

The Mainz-based WestImmo has €9.7 billion in property loans, including €7.7bn in commercial property and €2bn in residential. Although not allowed to write new business, most of the WestImmo loans

Westdeutsche ImmobilienBank

ARE performing, and the bank actually posted a 2013 net profit of €50m, which should help shore up its marital prospects. EAA's shareholder equity is likely to be of the order of €575m after stripping out certain loan portfolios, not eligible for Pfandbrief-refinancing, when the sale is consummated. The bank, which primarily refinances itself by the issue of Pfandbriefe, still has 290 employees.

Back in April, **Matthias Wargers**, EAA's CEO said that the workout bank was "currently in negotiations on the sale with several interested parties." Among those known to have been interested in WestImmo last year were **PIMCO** and **ING Bank**, while WestImmo's near neighbour Aareal Bank dropped out and instead bought **Corealcredit Bank** in Frankfurt from turnaround specialist **Lone Star** for €340m. Among the six or seven likely suitors is also thought to be **Starwood Capital**, which manages the world's largest mortgage REIT in the US.

Back in 2011 a deal for the sale was in advanced stages with New York-based **Apollo Global Management** before falling through. EAA said at the time its preference was for a long-term owner for WestImmo, who was itself able to fund the acquisition through long-term financing and would continue to run WestImmo as a German Pfandbrief-issuing bank. (The prospective deal with Apollo essentially collapsed over these differences, we seem to recall).

Germany/Research

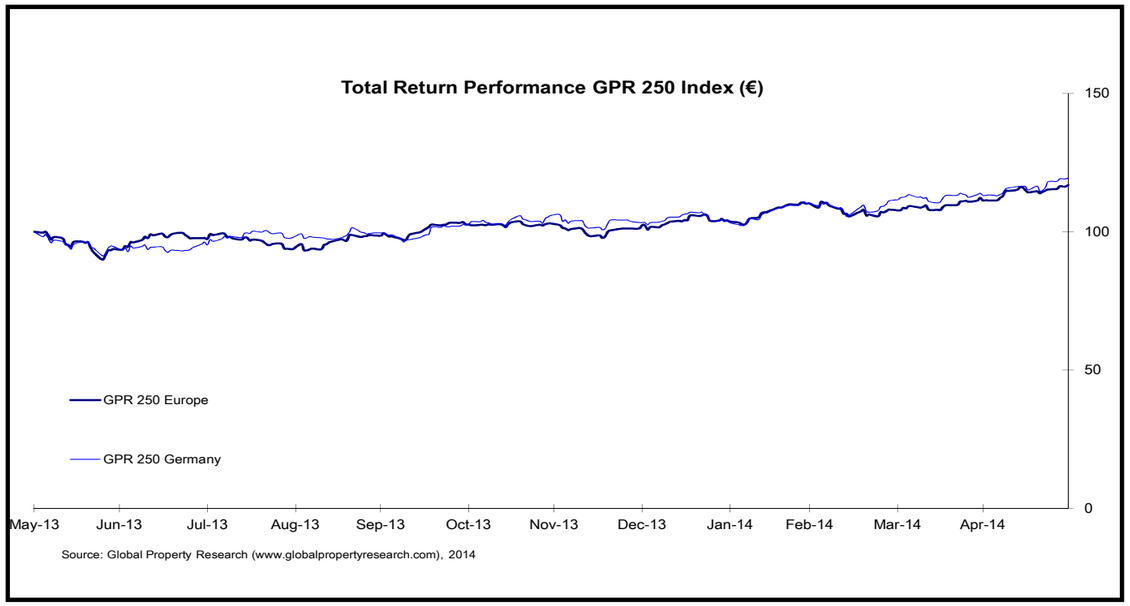
Rent in the city, buy in the East

The question of whether to rent or to buy has become increasingly common in Germany over the past couple of years, as interest rates remain at rock-bottom levels and swathes of traditional renters are now calculating that it might make sense to buy. The evidence that ever more Germans are making the leap to home ownership can be seen in the current rate of ownership – now at 46%, up from 43% as recently as 2008. and heading for 50%, according to **Michael Voigtländer**, (*pictured, right*) professor at the prestigious **Institut der Deutschen Wirtschaft (IW)** in Cologne, and occasional guest columnist in REFIRE.

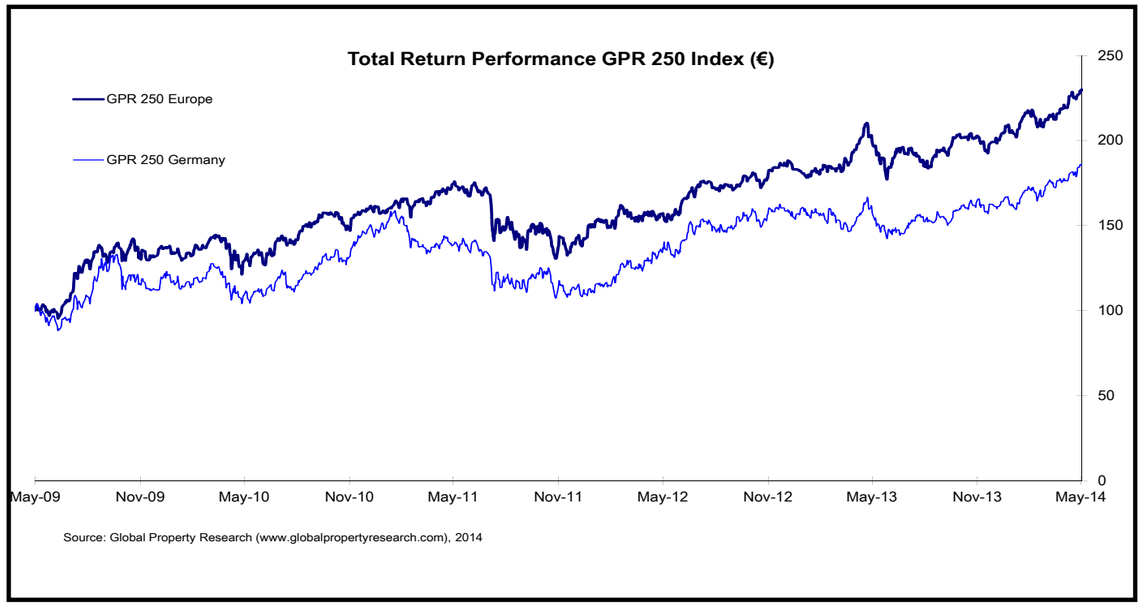
However, home ownership won't progress smoothly at an even rate across all regions in Germany, says Prof. Voigtländer. A new study produced by Voigtländer and his colleague **Michael Schier** at the IW has analysed all 402 administrative regions across Germany over the past five years to highlight in which towns and regions renting would have proved more attractive than buying. The researchers consider a number of factors including local rental and price trends, relevant property taxes, maintenance costs, write-off possibilities, and of course mortgage interest rates, which have fallen from 4.4% to 2.6% over the period – fixed for five or ten years.

In 2013 it was more profitable to own rather than rent in 27% of German towns and regions, in contrast to 2009 where this would only have been true in 7% of places, they say. They see little negative influence on the market from the pending *Mietpreisbremse*, or rental cap, due to be introduced later this year, and in fact attribute the comparative stability and flexibility of the residential market to the balanced mix between rental and home ownership in Germany, compared to countries with much higher owner-occupancy rates.

The comprehensive study concludes that there has been a proportionally greater mover to home ownership in



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

Conference Report

1st Frankfurt Real Estate Finance Day: “Bringing together what belongs together”

Hosted by Frankfurt School of Finance & Management, Frankfurt School Verlag and Targa Communications

“Loans are much cheaper in this country than in Scandinavia, for example, because Germany is overbanked,” **Matthias Moser**, Group Head of Alternative Investments at Patrizia, informed the around 150 delegates at the 1st Real Estate Finance Day held in Frankfurt last week. Hosted by Frankfurt School Verlag and Targa Communications, this new event was aimed at bringing together representatives of the German finance and real estate sectors under one roof.

At the event, which was expertly chaired by **Prof. Martin Faust** of the Frankfurt School of Finance & Management, Moser was joined for the morning session by speakers such as Bilfinger Board member **Dr. Jochen Keysberg**, (*pictured, right*), **Hartmut Fründ** of Ernst & Young Real Estate and **Dr. Bernhard Scholz**, member of the Management Board of Deutsche Pfandbriefbank.

The issues addressed ranged from new models to improve the financeability of real estate projects and risk-adequate financing structures for non-core real estate to encouraging banks to finance commercial properties. The speakers kept their contributions short and to the point, so there was never a chance for the delegates from the real estate and finance sectors to get bored.

The chair compensated for the participants’ initial reluctance to ask questions by skilfully querying some of the points the speakers had made. This soon broke the ice and the audience eagerly took the opportunity to dig deeper.

There were no signs of holding back from the participants in the ensuing panel discussion – facilitated by **Werner Rohmert**, editor of “Der Immobilienbrief”, in his usual provocative style: **Dr. Christian Glock**, Managing Director of Bilfinger Hochbau GmbH, **Ulrich Höller,** CEO of DIC Asset AG, Dr. Bernhard Scholz, member of the Management Board of Deutsche Pfandbriefbank AG and **Dr. Eckehard Schulz**, (*picture, previous column, bottom left*) Head of Real Estate Finance at the ERGO Insurance Group.

It soon became obvious that Ulrich Höller (*left*) considers the endless debate over so-called core real estate as extremely irritating and that, although insurers make an important contribution, they will continue to play a minor role in real estate financing. Banker Dr. Bernhard Scholz surprised the audience during the discussion when he openly blamed banks for fanning the flames in crisis situations – when misfinanced properties are transferred to them. The representatives of the real estate sector readily agreed.

After lunch, the delegates split up into themed breakout sessions. The choices were “Alternative financing of commercial real estate”, “Current aspects of credit checks” and “Full cost analysis, third-party use and more”.

At the session on “Alternative financing of commercial real estate”, **Michael Morgenroth**, CEO of Caerus Debt Investments AG, and **Michael Ullmann**, (*first picture, next page*) Managing Director of Kapitalfreunde.de, demonstrated the uses of debt funds and crowd funding in real estate financing.

The issue was then discussed with them by REFIRE editor **Charles Kingston**. He was joined by **Lars Bergmann**, Managing Director of Immobilien-Projektgesellschaft Salamander-Areal Kornwestheim, and **Ralf Schlautmann**, Managing Director of E&G Funds & Asset Management GmbH, who gave a rare insight into the financing options using real estate bonds, profit participation rights, bridge equity and NPLs.

It became clear that these financing vehicles are all facing the same issues: Investors demand assurances of professional project evaluation and trustworthy platforms for handling the financing. There was broad agreement that only those providers would survive the coming years that subjected themselves to strict self-regulations and clear, realistic project evaluation.

On the subject of credit checks, **Dr. Altfried M. Lütkenhaus**, (*left*), member of the Management Board of Frankfurter Sparkasse, explained in his presentation that the issue of core or non-core was completely irrelevant to him. What mattered rather was the decision about recourse or non-recourse financing.

In his presentation, **Manfred Kronas**, Managing Director of GRR Real Estate Management, then explored how important it can be for a potential investor to involve his asset manager in the loan negotiations at an early stage. After all, the asset manager is the expert when it comes to providing the valuer with the right information, for example. On the other hand, continued Kronas, with Lütkenhaus nodding in agreement, banks like it when they get to know the future asset manager early.

In the “Full cost analysis, third-party use and more” session, **Ulf Walliczek**, (*pictured, top right)* Head of Real Estate at WealthCap, explained his firm’s new investment strategy, which is aimed at maintaining and enhancing value during the holding period of investments. This is to be achieved firstly by replacing high energy users such as ventilation and heating systems with energy-saving equipment during repair and maintenance work that is scheduled anyway.

Secondly, carpets, windows and materials should be replaced with cleaner, healthier products when there is a change of tenant. The audience reacted positively, but was at the same time somewhat surprised at this approach, seeing that for years investors had shown no interest in issues like energy consumption and maintenance.

Hans-Peter Richter, member of management at Bilfinger Hochbau, highlighted the advantages of a value partnership, which brings together investor, service provider and producer in the early development phase of a project. It allows the plans to be drawn up in such a way that construction time and building costs can be kept within budget and tenants and owners/investors can plan for secondary costs a long time ahead.

As a special treat for the joint conclusion of the event, the hosts had invited the architect and visionary **Ardi Goldman**. Dressed in denims, the individualist and out-of-the-box thinker gave a lively and extremely entertaining talk in which he explained that life is full of surprises and can change at any moment – and flexibility in thought and action is the only way to deal with it.

As an example, he used MA*, a building designed by him in Frankfurt’s Neustadtquartier, which was rededicated and adjusted several times during its realisation. Today it is a lively property with a quirky mix of retail, a body and soul floor and office use, thus adding an attractive asset to Frankfurt’s city centre.

Conclusion: The premiere of this cross-sector event was a big success. The 2nd Real Estate Finance Day is already being planned for May 2015 in Frankfurt.

eastern Germany, where the relative advantages of ownership are highest in Brandenburg, Saxony, Saxony-Anhalt and Thuringia. Home ownership beat renting in every single municipality in these states in 2013. This also applied to several regions of North Rhine-Westphalia, Lower Saxony, Rhineland-Paltinate and Saarland in the western part of the country.

The IW researchers advise that renting is more advantageous in Bavaria and much of Baden-Württemberg, as it is in most of Germany's very biggest cities, where rapid price rises tilt the odds back in favour of renting. However, they conclude that in much of Germany the yield difference is less than 0.5%, making it very much a matter of personal circumstances as to which is better. On balance, buyers tend to favour family homes, while the trend is to move into the cities where renting is still marginally more favourable. This should act as a brake on Germany becoming suddenly a nation of committed homeowners, they conclude.

Germany/Acquisitions

Avison Young leads Canadian pension funds into Germany

Avison Young, a Toronto-based commercial real estate services firm recently made its first foray into the German market when it advised two Canadian pension funds in the acquisition and financing of a mixed-use, two-building complex in Cologne, Germany, for an unnamed amount.

Frankfurt-based **Allianz Real Estate Germany GmbH** was the seller on behalf of Stuttgart-based **Allianz Life Insurance**, in a deal brokered by **CBRE**. The long-term loan funding was provided by **DekaBank**.

The Cologne dual property is a prominent complex on Barbarossaplatz and Luxemburgerstrasse in downtown Colgone's business district, comprised of 16,700 sqm in total, divided into 14,500 sqm of office space and 410 sqm of retail, and eleven residential units. It is fully leased, with the anchor tenant being consultants **KPMG**. The intial yield is 6.5%. In another first for Avison Young, it will also serve as asset manager, its first asset management mandate outside North America.

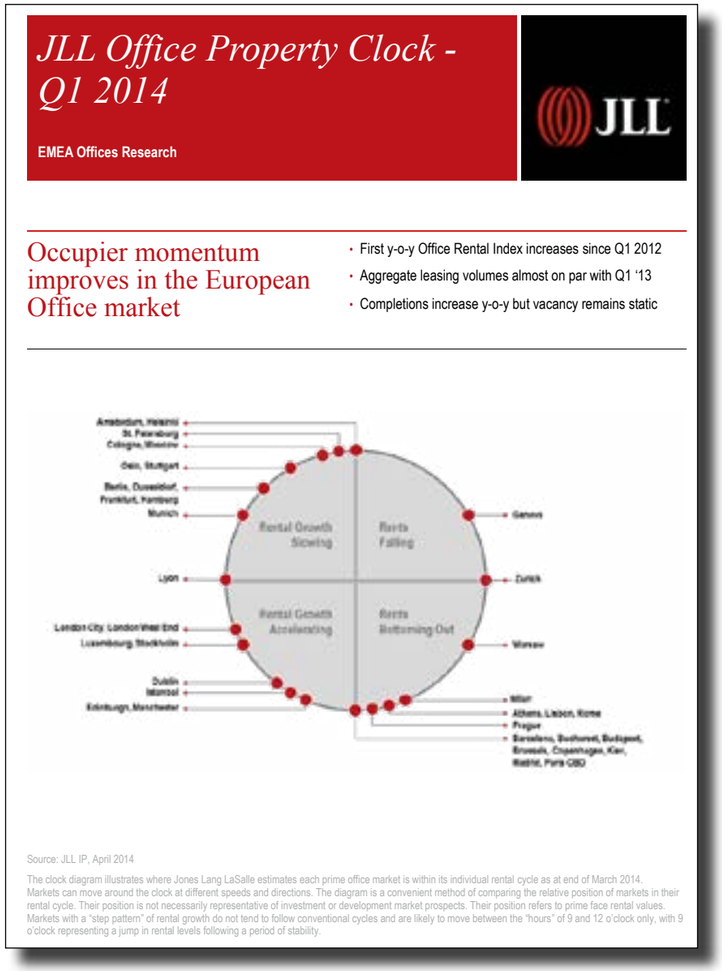
Avison Young has been flexing its muscles in North America over the past couple of years and, to listen to **Amy Erixon**, head of investment management at the group, has been itching to take broader international steps. "We are grateful for the confidence placed in us by our Canadian pensionfund clients to secure investments on their behalf,

which can provide diversification and more attractive riskadjusted returns than comparable properties in Canada can offer at this point in the cycle," she said. She also said that Avison Young plans to buy increase its investments in Europe, and is looking at office and industrial, residential and mixed-use assets in the €30m-€40m range. Germany, the Netherlands, Austria and Switzerland are high on the list of favoured countries, she said, with possibly Poland in the future.

Avison Young's man in Frankfurt, **Udo Stöckl**, also commented: "Our European and North American investment teams worked seamlessly across borders to provide the same level of service that our clients expect in North America. For our growing European team, it was also an exciting opportunity to introduce North American clients to an entirely new market that was previously unfamiliar to them. We took the opportunity to share with them, and our extended team, German business traditions and culture, and look forward to

expanding that knowledge to other recovering markets in Europe."

The German acquisition is not the first European move for the group. Last month Avison Young launched its European presence by buying London-based **NAI Haywards LLC** and opening new offices in London and Thames Valley, U.K. Over the past five years, the company has grown from 11 to 56 offices and from 300 to more than 1,500 professionals across Canada, the United States and now Europe.



Austria/Listed Companies

CA Immo to continue sell-offs in 2014 with land and logistics

Not surprisingly, given its recent track record of almost unremitting sales and disposals to pay down what was beginning to look like a crushing debt burden, Austrian listed real estate company **CA Immo** saw the first quarter's net profit tumbling by 22% year-on-year to €13.9m, although its EBIT remained stable at €38.3m. Revenue from rental income fell 21.4% to €33.2m after property sales of €1.3bn.

The sell-offs are expected to continue through out 2014, with the sale of its €266m logistics portfolio seen as the next priority, which should free up equity for share buybacks and to boost the dividend. Also on the block will be zoned German building land, of which the group owns €345m worth, 57% for office projects and 43% for residential. Last year major disposals included the sale of the **Leo** Hessen Portfolio and two-thirds of the group's share in Frankfurt's *Tower 185* prime office building.

CA Immo did manage to book a rise of 7% in first quarter FFO (a key indicator to the group's profitabilitiy in its rental business) to €16m despite all the sales and resulting reduced rental income. CEO **Bruno Ettenauer** (*pictured, above*) said he was still confident of full-year FFO of at least €55m. "Having successfully consolidated the balance sheet last year, our efforts in 2014 will be focused on raising long term profitability still further. The sustained recurring results of the first quarter, while the balance sheet has strengthened substantially and risk to the company has fallen considerably, underlines the effectiveness of the measures implemented last year as part of our strategic program for 2012-2015."

CA Immo improved its overall equity ratio since 31st December from 44% to 47%, while total net debt stands at €1.1bn after the recent sales. Diluted net asset value per share at end-March was €20.26, while the share is currently trading at about €13.50.

Germany/Listed Companies

Adler Real Estate continues stellar rise with surge in profits

From minnow status barely a year ago, the Hamburg-headquartered, publicly-listed **Adler Real Estate** has soared over the past year to become one of the most active and aggressive residential investors on the German market. The company, which has its roots in the old Frankfurt **Adlerwerke** automotive and engineering firm, made the commitment over a year ago to transform itself into a specialist residential investor, and has been hungrily on the acquisition trail ever since.

Its most recent acquisition – and its largest to date - was a share deal which saw it buying 7,721 residential units, along with 490 commercial units, bringing its German residential holdings up to about 18,000 units. The 540,000 sqm portfolio is spread out across most of Germany, but with a strong weighting towards North Rhine-Westphalia, Saxony and Saxony-Anhalt.

Earlier this month Adler secured its minimum acceptance rate of 50% approval from the shareholders of the Berlin-based listed property trader **Estavis AG** in its bid to acquire the company. With Estavis' management board recommending that its shareholders accept the Adler exchange offer, the takeover is now expected to be finalized by early June. Adler is offering 14 Adler shares for every 25 Estavis shares.

Estavis was created in 2012 out of a residential portfolio of Hamburg's **TAG Immobilien,** holds €146m of assets under management. Its subsidiary **Accentro** focuses on the privatisation of residential housing for Estavis itself and third party holdings. US private equity fund **Mezzanine IX Investors**, controlled by Atlanta-based **John D. Heikenfeld**, owns 47.9% of Adler equity, with Swiss family office **Wecken** holding 10.18%.

In a recent statement, Adler's CEO **Axel Harloff** said, "We are growing very successfully on all levels - revenue, assets and earnings - and we also have the resources which are required for continuing the expansion of Adler rapidly and consistently".

This is certainly true – consolidated revenue in the first quarter rose twelvefold to €12.8m (up from €1.08m) as the full rental income on the portfolios bought in 2013 – plus the 2,400 **WBG** housing association units in Helmstedt, near Braunschweig and Wolfsburg, bought in the quarter - came through to the bottom line. The total of all operating income rose to €37.66m from last year's €1.72m. Adler's balance sheet total reached €540.9m at the end of the quarter, up from €460.9m at the end of December, while equity rose from €86.9m at end of year to €115.3m after the first quarter.

All of this helped make the placement of a further €50m bond at the end of March even more palatable to investors, and gives Adler further firepower to propel itself towards its goal of 25,000 units by year-end

Europe/NPLs

€4.5bn ex-Eurohypo Spanish loan book to Lone Star, JPM

Commerzbank is still relentlessly selling off its legacy loan portfolio inherited from its disastrous ownership of former real estate powerhouse **Eurohypo**, and according to media reports, is now on the verge of what may be the biggest real estate-related deal in Spain since the market collapsed in 2008.

In an auction arranged by **Lazard Ltd.** know as *Project Octopus,* which attracted all the big names in the industry including already-active Spanish investors such as **Cerberus**, **Apollo** and **Blackstone**, the final nod looks likely to go to **JP Morgan Chase** and **Lone Star Funds** for a package of loans valued at €3.7bn to €3.9bn, backed by shopping centres, hotels and office properties. (Spanish business newspaper *Expansion* put the price at €3.5bn).

Lone Star will take over the majority of the loans, while JP Morgan will take a smaller portion but also provide the financing for the deal. The loans were thought to have a face value of between €4bn and €4.5bn when Commerzbank took them over.

Although interest in bottom-fishing in the Spanish market has soared over the past year, not all banks have been willing to sell their loan books at heavy discounts, and so far the number of major loan sales such as this have been thin on the ground. This package is considered attractive because of its exposure to the commercial sector, rather than residential, and the high degree of perfoming loans in the portfolio. Only about €1bn in the package is thought to be non-performing.

The Dallas-based turnaround specialist Lone Star has already been successful in buying the ex-Eurohypo's UK portfolio, valued at about €4bn, which it bought in combination with US bank **Wells Fargo**. The sale of this latest loan portfolio may help unplug the somewhat constipated Spanish market, with many of the Project Octopus bidders also keen to acquire the even bigger €6.95bn *Project Hercules* non-performing loan portfolio coming on to the market by nationalised Barcelona regional bank **Catalunya Banc**.

Europe/Debt Funds

Boom in debt funds targeting Europe

Research group **Preqin** confirm that capital raised for European real estate debt funds in the first quarter is more than the total raised in all of 2013 of $12.2bn, in particular by North American investors.

Major debt funds focused on Europe include **Blackstone Real Estate Partners'** Europe IV Fund which has raised €5.1bn, **Tristan Capital Partners'** €950m for its Special Opportunities III Fund, **M&G Investments' Debt Fund III** at £750m, and the €2.87bn Broad Street Real Estate Credit Partners II (RECP II) of **Goldman Sachs**, which will partly invest in European senior and meezanine debt, announced earlier this month. Other large funds targeted at Europe include **Pimco Bravo Fund II** ($5.5bn), and senior lending funds from Anglo-Swiss manager **Aalto** and the UK's **Hermes Real Estate**, both targeting €1.8bn.

REFIRE shared a platform in Frankfurt recently with two German practitioners who represented different views on the impact such funds are having in Germany right now. **Matthias Moser**, head of alternative investments at Augsburg-based **Patrizia**, which generally co-invests alongside equity-rich consortia, told the conference at **Frankfurt School of Finance & Management** that he has not seen an economically viable mezzanine structure for his transactions yet. "Though we often hear about mezzanine and debt funds in the public discussion, the high yield-requirements make them far too expensive," he said. "There is enough equity out there and bank financing is also readily available."

Michael Morgenroth, who manages debt funds as CEO of Düsseldorf-based **Caerus Debt Investments AG**, countered that the lack of liquidity for B- and C-location assets will prove the merits of the debt funds. Banks are increasingly limited by regulation rather than liquidity, and these higher equity requirements will make banks more selective in the future, he said.

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SUBSCRIPTION & REGISTRATION FORM

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

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

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