REFIRE
Real Estate Finance Intelligence Report Europe

Volume 7, Issue 123, July 31st 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.

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

The areas we focus on are:

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

REFIRE has an extensive network of contacts in the field of continental European real-estate finance, which enables us to bring you the latest and most relevant news. However, we always want to know more about what's going on in this dynamic sector, so make sure your company is keeping us informed of your moves. Send your media communications to news@refire-online.com for our consideration.

CONTENTS in this Issue:

German logistics real estate booms as prime yields fall in bigger cities

The investment market for German logistics properties remains on course to break all records this year. Property advisors BNP Paribas Real Estate put the transaction volume in the first half of the year at €2.1bn, up 60% on last year's first half; along with other broker houses, the group is forecasting logistics turnover for the full year of over €3bn. The sector is currently enjoying a share of 13% of all commercial property investment, a near-doubling from last year's 7%.

On BNPPRE's figures, the lack of available properties in the big cities has seen the big cities' share fall by 15% to €499m over the first half. While traditional hotspots such as Munich (€65m), Frankfurt (€49.5m) and Düsseldorf (€41m) have seen big falloffs in volume, although Hamburg (€164m), Cologne (€69m), Berlin (€55m) and Leipzig (€54m) are all well ahead of last year's numbers

We've got slightly different figures from **Colliers**, who put figures for the first half year up 55% to €1.7bn, and who forecast €2.5bn in deals for the full year. What does seem clear is that the German market has been significantly influenced by international investors, particularly Anglo-Saxon investors: according to Colliers International, foreign buyers boosted their share of all investment to almost 67% (up from 37% in 2013). The appeal of German logistics is due to the strategic location, its market size and status as Europe's economic powerhouse, say the Colliers researchers.

Some €917m were invested in portfolio transactions in the half, the largest deal of which was the purchase of 10 assets by a joint venture of UK logistics specialist **Segro** and the **Canadian Public Sector Investment Board** for €300m from **Tristan Capital Partners.**

"The continued high demand for logistics assets lead to a significant year-on-year fall in prime yield for class A, rare assets in the top locations," said Colliers head of research for Germany **Andreas Trumpp**. Average yield across the Berlin,

WestImmo bidding process heats up, Aareal enters fray

The bidding process for WestLB's property financing subsidiary WestImmo is heating up, with the arrival of a number of new bidders in advance of an August deadline. The deal is potentially worth more than €300m. WestLB is being forced to sell the unit in return for receiving... see page 3

TLG priming for imminent stock market launch

All the indications are that Lone Star Funds is pressing ahead with the preparation for the stock market flotation of subsidiary TLG Immobilien GmbH, with the IPO expected to see a share placing of upwards of €500m. see page 5

German resi portfolio sales show signs of market fatigue

According to international real estate advisors Savills, German residential portfolio transaction volumes in the first half of this year (H1 2014) totaled €6.8 billion, an 18% increase year-on-year over the €5.8 billion in 2013. Savills said in a recent note that the number of transacted.. see page 8

Panattoni Europe in €200m German expansion drive

American commercial and logistics property developer Panattoni has major plans for an expansion of its German operations, and said it expects to invest at least €200m into the German logistics sector along with selected partners over the next 12 months. It is also planning see page 13

REFIRE
Real Estate Finance
Intelligence Report Europe

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

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

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

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

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

Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart regions came to 6.88%. Yield falls ranged from 40bp in Düsseldorf to 6.75%, to no changes in Berlin (7.3%) and Hamburg (7.2%).

Leading the category of logistics property is newly-built cross-dock facilities, particularly XXL buildings for the big courier and delivery companies, increasingly under pressure to offer Same Day Delivery or even Same Hour Delivery. There also appears to be renewed interest in older-style warehouses for conversion to modern specs, particularly those close to big cities, because of this increased demand for internet-driven instant or near-immediate delivery.

"The German government, as part of its sustainability strategy, is targeting a "30 hectare per day" goal by 2020, for the amount of new land that can be zoned for commercial, residential or logistical use."

Another factor also comes into play in limiting the amount of greenfield space available for new-build facilities. The German government, as part of its sustainability strategy, is targeting a "30 hectare per day" goal by 2020, for the amount of new land that can be zoned for commercial, residential or logistical use. The current level is 70 hectares per day, so getting new building permits is getting harder. This is also helping to put a premium on conversion of older facilities.

Meanwhile, fund manager **SEB Asset Management** is taking advantage of the strong market demand for logistics assets to dispose of its entire European logistics holdings from across several of its funds. The buyer, after a structured bidding procedure, is **Logicor**, private equity group Blackstone's logistics platform in Europe, who bought 18 separate assets in eight countries with a total lettable area of 434,000 sqm, an average occupancy rate of 85%, and a remaining average lease duration of 3.8 years. The price was said to be €275m, just slightly below SEB's book valuation.

Three of the assets, valued at €37m, are being sold out of SEB's liquidating open-ended fund **SEB ImmoInvest** (of which two are from Germany – Hannover and Dietzenbach), ten assets valued at €168m are coming from SEB's **ImmoPortfolio Target Return Fund** (including one from Langenfeld in Germany), four assets valued at €62m are from the **SEB Global Property Fund,** while the remaining asset is from an SEB Spezialfonds.

In another future sale, property broker **NAI Apollo** has been hired by **TREI Real Estate**, the property arm of German family-owned retail grocer **Tengelmann Group**, to sell a portfolio of 10 logistics facilities across the country, valued at about €200m. The portfolio has over 425,000 sqm of lettable space including the cities of Hamm, Kerpen, Berlin, Bottrop and Tuningen.

"The objective is to find a buyer for the entire portfolio by the end of the year," NAI apollo said in a statement, without giving a guide price for the sale.

TREI Real Estate owns 489 assets in Germany and six other European countries (Poland, Czech Republic, Slovakia, Hungary, Austria and Portugal). The company invests in commercial and residential properties and is a developer of **Vendo** retail parks in Central and Eastern Europe.

Germany/Banking

WestImmo bidding process heating up, Aareal Bank re-enters fray

The bidding process for **WestLB's** property financing subsidiary **WestImmo** is heating up, with the arrival of a number of new bidders in advance of an August deadline. The deal is potentially worth more than €300m. WestLB is being forced

DEALS ROUNDUP

to sell the unit in return for receiving bail-out funds of €3bn in €2008.

The Wiesbaden-based lender **Aareal Bank** and **Berlin Hyp** have now reportedly joined the bidders in the rejuvenated sales process being handled by WestLB's 'bad bank' **Erste Abwicklungsanstalt (EAA**), which has been charged with winding down the erstwhile Landesbank's assets.

The Düsseldorf-based EAA, which is aiming to have completed the sale of WestImmo by the end of the year, said it has now received a dozen expressions of interest in buying WestImmo. These are thought to include private equity groups **Blackstone**, **Apollo** and **KKR**, while Aareal's entry into the bidding process could be significant, as it had previously thrown its hat in the ring only to subsequently withdraw.

It was said at the time that Aareal withdrew from the bidding because personnel costs at WestImmo were too high, although the loan book could have fitted in well with Aareal's own book. The Mainz-based WestImmo, then as now, has about 300 staff. Aareal then went ahead towards the end of last year and bought commercial lender **Corealcredit** from US private equity group **Lone Star** for €342m.

A recent analysis by trade publication *Börse Online* suggests that the Corealcredit loan book has turned out better than expected, so Aareal may feel that having got a great deal last year they can afford to come back for more.

Berlin Hyp is itself undergoing re-organisation as part of the **Landesbank Berlin Group**, but significantly boosted its 2013 property lending by 55% to €4.5bn.

The bidding for WestImmo is thought to be at around €300m, or a discount of around 60% on equity capital. According to a source from news agency *Reuters*, some bidders are offering more than the €300m or "a bit more than half" of WestImmo's common equity of €575m. Although not allowed to currently write new business, WestImmo posted profits of more than €50m for 2013, based on its €7.7bn commercial property loan book and its further €2bn residential book. A new buyer would also be able to re-activate the bank's lending, of which the inability to do so is probably currently helping to keep the price low.

Investors have been attracted to Germany's real estate sector in recent months by the reliable income stream that property projects typically offer and by higher yields than those on German sovereign bonds. Investors are also betting on still-rising property prices in Europe's largest economy.

The current sales process, being managed by **JP Morgan**, represents the second attempt to sell WestImmo after talks with private equity investor Apollo collapsed in the final furlong in late-2001. WestImmo was subsequently transferred to bad bank EEA.

At the time WestLB had said it had a marked preference for a long-term oriented bank to take over WestImmo, preferably a member of the Pfandbrief-issuing community. The arrival of Berlin Hyp and the return of Aareal among the bidders may indicate that there has been some shift in the wind of EAA's likely selection criteria.

EDITORIAL

Singapore's German real estate IPO is just the tip of the iceberg

Mr. Tong Jinquan is a self-made property tycoon, ranked by Forbes magazine as China's 35th richest man. Like many wealthy Chinese, he is keeping a beady eye on developments in Singapore's REIT market, and at the moment prefers to invest his wealth there given the uncertainties in mainland China's own property market.

In fact, Mr Tong now has holdings in nine Singapore REITs, valued at about US$780m. His shares in Suntec Real Estate, Cambridge Industrial Trust, Viva Industrial and several other REITs give him a broad exposure to the real estate markets in Singapore and throughout Asia, including Australia. In his day job, he is the chairman of Summit Property Development in Shanghai which owns high-end hotels and the Longemont shopping centre in the city, among others.

Mr. Tong is about to buy 60% of the IPO of I-Reit Global Management which is floating on the Singapore stock exchange next week. I-Reit's assets consist of four office buildings in Germany, three of which (in Bonn, Darmstadt and Münster) are fully-let to Deutsche Telecom, and the fourth, in Aschheim near Munich, to multiple tenants, including insurer Allianz.

The IPO aims to raise €224m, which will pay off most of the debt on the four properties, leaving Mr. Tong as the majority owner of the assets. He has studied the prospectus and will be expecting a yield of 8% on his investment, which should suit him very well.

Here at REFIRE we remember well the rash of companies that sprang up on London's lightly-regulated AIM market to invest in German real estate back in 2005-2006. Most are now penny stocks, if they still exist at all. In many cases they were barely serious attempts to cash in on rising real estate markets – ANY real estate markets - while the getting was still good. Once the funny money started washing into Germany, though, the end was nigh. The era of the lawyers and the special servicers was upon us, and they've been feeding off the carcasses of those listed property vehicles ever since.

It might have escaped people's notice, however, that since the start of the financial crisis there have in fact been five IPOs of German real estate companies OUTSIDE of Germany, including listings in Canada and Israel, as well as in the UK. These have been of a different breed to their predecessors, and most have done well. With I-Reit's Singapore listing, more than €1.15bn will have been raised over the last five years on foreign exchanges for German property.

This is a testament to foreign investors' perception of the stability and security of yield offered by the German market, underpinned by a widespread admiration for the efficacy of German business as well as sound macroeconomic management. But it is still small, compared to the extent of the capital we expect will flow over the coming years.

EPRA chairman Serge Grybowski commented recently after a tour to visit Chinese and South Korean investors, how those whom his team had met were highly interested in the Eurozone's listed property sector, which they view as offering attractive dividend yields. "They consider that they already have an overweight allocation to the US and London, so the shift to the Eurozone is also part of a rebalancing of their property portfolios", he said.

EPRA's beat, of course, is the listed property sector in Europe, and hence it is not surprising that they are meeting with those Asian investors for whom investing in listed companies provides a liquid, cost-effective and efficient way of increasing their exposure to the Eurozone. As they become more familiar with European markets, Asian investors will certainly become more adventurous, and will seek out partners with whom they can invest directly in European real estate.

Our mission at REFIRE is, and has always been, to help interpret and explain to institutional investors what goes on in German real estate. We consider it a natural extension of this brief to now widen our remit to bringing the German real estate story to China.

We have spent the last couple of months establishing our team, both here in Germany and in mainland China, to ensure that we have the linguistic and cross-cultural competence to do justice to our forthcoming project.

REFIRE is organising a roadshow to bring German real estate service providers together with leading Chinese outbound investors, to explain how Germany works, to outline real estate opportunities and to make valuable connections that will serve to break down barriers and foster relationships with key Chinese investor groups.

REFIRE's "1st Annual German-Chinese Real Estate Forum" will take place in Hong Kong on January 19th, in Beijing on January 21st, and in Shanghai on January 23rd 2015. Each day is a full-on programme devoted to German real estate for outbound Chinese institutional investors. With travel time, the touring party can expect to be a week on the road.

Potential sponsors are invited to get in touch, but we will be notifying our many thousands of German contacts more officially over the coming weeks. It promises to be a groundbreaking project.

Charles Kingston, Editor

Germany/IPOs

TLG priming for imminent stock market launch

All the indications are that **Lone Star Funds** is pressing ahead with the preparation for the stock market flotation of subsidiary **TLG Immobilien GmbH**, with the IPO expected to see a share placing of upwards of €500m. Market rumours of a launch as early as this year may be somewhat optimistic, but when it happens the IPO is likely to be the first significant domestic flotation of a German commercial property company for some time, after several recent residential property launches.

Lone Star bought TLG from the German government privatisation agency last year for €1.1bn, while the residential assets of the old TLG were hived off into a separate company and sold to listed Hamburg residential investor **TAG Immobilien**, which is focused on modestly-priced housing.

Lone Star has now appointed **UBS** and **JP Morgan** as lead managers to handle the flotation of the eastern Germany commercial property specialist, which owns more than 800 assets including offices, hotels and retail properties in large eastern cities such as Berlin, Dresden and Rostock. Among their most prominent assets are the *Kulturbrauerei* campus and the *Spreestern* in Berlin, and the *Hotel de Saxe* and the *Zwinger-Forum* shopping centre in Dresden. The company is valued at about €1.5bn including debt.

In a recent interview with newspaper *Die Welt*, TLG Immobilien's CEO's **Peter Finkbeiner** and **Niklas Karoff** described how they have been slimming down the group's holdings over the past number of months, "to set up the whole portfolio in a much more efficient manner", as they said.

TLG has certainly been disposing of smaller office and retail assets and concentrating its attention on the larger cities, with cities such as Berlin, Rostock and the Leipzig/Dresden region taking

priority for its office properties, while B- and C-locations are being primed for retail – particularly those with imminent lease expiries that can be renegotiated upwards.

TLG has also been renegotiating its debt arrangements. According to **Finkbeiner**, "We now have average loan maturities of around five years, which gives us much more room to plan. In many cases we've been able to avail of the low interest rate environment to secure loans at less than 3%"

The company's growth plan envisages buying office properties in 1-B locations in the larger cities as well as supermarkets in smaller towns with good growth prospects, of which there are still plenty in eastern Germany, despite countervailing demographic trends, say the TLG managers.

Germany/Retail real estate

Internos breaks new ground with French partner in German retail

Fund and asset manager **Internos Global Investors** bought two retail parks ("*Fachmarktzentren*") for a total of nearly €16 million in the Bavarian towns of Rottenburg and Moosburg from the Luxembourg-based **BGP Investment** as part of BGP's strategic shift into focusing on German residential assets.

The deal is significant in that the deals were the first acquisitions for the **'Novapierre Allemagne'** fund, a joint venture between Internos and **Paref Gestion**, that launched in February 2014 and is the first SCPI-structured fund to invest French capital exclusively into German retail parks.

The fund has a mandate to invest in the western part of Germany and in micro-locations with strong underlying catchment areas. Acquisitions will typically comprise retail parks with 4-6 units let to well-known national retailers. The fund is targeting a gross investment volume of over €200 million.

At the Moosburg asset, discount retailer **Kaufland** is the anchor tenant with 4,100 sqm secured on a long lease, while at Rottenburg (with 5,800 sqm lettable area) the main tenants are grocers **Rewe** and **Lidl**, also on long leases.

Commenting on the acquisitions, **Guillaume Masset**, Head of Benelux and Southern Europe at Internos, said: "We believe the relative strength of the German economy has created an opportunity for investors to generate attractive returns from retail parks located in strongly performing regions. Over the next four years, we will use our expertise and track record of investing in Germany's complex and regionally diverse real estate market to select and manage retail parks fitting the profile of the fund."

Germany/Hotels

Chinese-Belgian consortium enters German hotel market

In a significant move, a consortium led by **A Capital**, a private equity firm backed by Chinese and Belgian sovereign funds **CIC** and **SFPI**, has bought a portfolio of 10 hotels in Germany from **DHM Group** for an undisclosed amount.

A Capital, which is based in Beijing and Brussels, has joined forces with **Starwood's** French hotel unit **Louvre Hotels** to make its first market entry into Germany with the purchase of the assets, which offer a total of 1,246 rooms and are operated under the **Balladins** brand.

The package consists of five three-star and five four-star hotels in gateway cities of western Germany (Frankfurt, Dortmund, Bremen, Mannheim, Bad Bramstadt, Braunschweig, Offenburg, Peine, Sindelfingen and Troisdorf).

A Capital said it plans to renovate the assets and rebrand them under the **Tulip Inn** and **Golden Tulip** brands. They will be operated by Louvre Hotels Group, which is currently the fourth-largest hotel group in the EU, and which currently operates seven German hotels. The group operates 1,200 hotels in 47 countries, under brand names such as Royal Tulip (recently resuscitated out of insolvency), **Campanile**, **Kyriad**, and **Premiere Classe**.

A Capital said it plans to build up a portfolio of 50 hotels in German over the next four to five years. Head of business development at Louvre Hotels, **Matthieu Evrard,** said that the partnership with A Capital should lead to the group developing critical mass in Germany and create a platform for future investment.

Germany/Student housing

German student housing sector coming into focus

It's been a lively month in the student housing sector, an asset category that seems finally to be coming of age in the highly fragmented German market. Traditionally a market for joint ventures, several overseas investors have clearly decided the time is right to enter the German market.

Firstly, Dutch group **Bouwfonds Investment Management** said it had raised €110m for its **Bouwfonds European Student Housing Fund** in its second closing, a more than doubling of the amount raised after its first funding round. After launching last year, the fund has so far bought four assets in Germany, the Netherlands and the UK.

The fund has a target volume of €200m-€300m and a 'core' risk profile, will use a maximum of 40% leverage, and is offering investors and an IRR of between 5.5% and 6.5%.

According to **Xavier Jongen**, the fund's director, the current portfolio of about 4,000 individual units is perform-

ing very well, "highlighting that student housing investments offer stable and secured cash flows." He added, "We can fulfil demand from institutional clients with our European-wide investment strategy and thus participate in growing the asset class further."

In a fresh market move, UK privately-owned multi-family office **LJ Group** said earlier this month that it has committed a total of €100m of equity to **Cresco Capital Group**'s German student housing venture, **Cresco Urban Yurt**.

The partnership has made its first acquisition with the purchase of the landmark *Frankfurter Tor* building in Berlin and will invest over €60m to redevelop the asset into around 552 apartments, including ground floor and basement retail units.

The landmark six-storey building has about 24,000 sqm of lettable space. Cresco purchased the building several months ago after a bidding process against 21 other bidders, and won with a bid of €15.75 million. The seller was the I**nstitute for Federal Real Estate (the Bundesanstalt für Immobilienaufgaben or BImA),** the German government agency that provides federal government entities with real estate services. The BImA minimum valuation on the building was €10.3 million

The new student housing venture is led by **Alexander Bürk**, founder of the Cresco Capital Group and **Daniel Schuldig**, a former senior private equity executive.

"The acquisition of the Frankfurter Tor property exemplifies our focus on large redevelopment projects in prime locations," said Bürk. "We secured planning for the property in a short space of time by working closely with the local planning authorities, providing a strong concept which will revitalise the property by integrating it into the local community."

Cresco Capital Group has acquired and developed properties valued at over €500m since its foundation in 2006, including **Soho House Berlin**.

According to Schuldig, "We are building a best-in-class student housing platform delivering attractive dividend yields and strong downside protection for our investors. We have an attractive deal pipeline in place and aim for market leadership."

LJ Group provides private office, investment advisory, alternative investment, trust and fiduciary services to individuals, family offices and foundations from offices around the world. The Group's alternative investment business makes direct investments in alternative assets classes, primarily in real estate and private equity connected to the real estate sector. LJ also backs **Queensgate Investments**, **Osprey Equity Partners** and **Hadley Property Group.**

Another new market entrant also announced its presence in the student housing sector. The Hamburg-based investment and asset manager MPC Capital has teamed up with Danish investor Sparinvest in a new German joint venture to develop student housing, both as project developer and subsequent manager. All it's saying at the moment is that the JV is looking at "various attractive university locations in Germany".

Germany/Study

German resi portfolio sales show signs of market fatigue

According to international real estate advisors **Savills**, German residential portfolio transaction volumes in the first half of this year (H1 2014) totaled €6.8 billion, an 18% increase year-on-year over the €5.8 billion in 2013. Savills said in a recent note that the number of transacted units rose by almost half during the same period to about 132,500, with the average price per unit dropping as a consequence by a fifth during July 2013 to July 2014.

Whilst the half year figures were strong, Savills does caution that only €1.4 billion was invested between April and June 2014, the second quarter, compared to €5.1 billion in the three months previously.

Karsten Nemecek, Managing Director of Corporate Finance and Valuation at Savills, said: "We have seen a succession of large residential portfolio sales, some totaling over €1 billion, which started in February 2012 with the sale of the LBBW apartments. We do not believe we will see many more transactions of this scale other than mergers and acquisitions, such as the takeover of GSW and Estavis."

Savills finds that investment activity also shifted towards secondary locations in H1 2014. In 2013, the prime markets of Berlin, Munich and Dusseldorf accounted for 22% of activity, whereas in 2014, Berlin was the only remaining prime market on the list of top five most active markets, joined by Kiel, Bremen, Möngchengladbach and Lübeck.

Matthias Pink, head of research at Savills, commented: "Given the substantial increase in prices and the lack of product in the prime markets, investors are increasingly looking towards alternative locations."

The firm states that private equity companies took advantage of this lowered risk aversion of investors to become the most active group of sellers, accounting for €1.7 billion of volume transacted. Listed property companies and REITs were the most active buyers, together purchasing about €3.8 billion or over half of German residential portfolios. In terms of nationalities, Germans were the most active buyers and sellers accounting for 75% and 33% respectively, while Austrian buyers accounted for 16%, and UK and Swedish buyers both 2%, while among sellers the Americans were the most active after the Germans at 32%.

Nemecek added: "We believe the second half of the year will follow similar trends to Q2 with transaction activity primarily taking place in small to medium lot sizes, as well as outside the prime markets. As demand exceeds supply, even in secondary and tertiary markets, we expect prices to rise in these locations.

...see page 10

In terms of total annual turnover we predict it could be considerably above €10 billion although is unlikely to reach the €14.3bn seen in 2013.

Germany/Hotels

Thai group enters Europe with German hotels buy

It's not just Asian investment groups from China, Taiwan and Korea that are looking further afield than their home markets for new opportunities. Thai group **Fico Corporation** is also moving out beyond its traditional roots in Thailand to make its first investment in Europe, investing €80m in a portfolio consisting of eight hotels in Germany and one in Belgium.

The hotel package was sold by **Grand City Hotels**, whose German-listed associated company **Grand City Properties** has been more in the headlines (and in the pages of REFIRE) recently. The hotels are: Days Inn Berlin West, Days Inn Dresden, Ibis Hotel Erfurt Ost, Ibis Gelsenkirchen, TRYP by Wyndham Bad Oldesloe, TRYP by Wyndham Berlin City East, TRYP by Wyndham Leipzig North, TRYP Wyndham Garden Bad Malente and TRYP by Wyndham Antwerp.

The FICO Group, owned in the third generation by the **Srichawla family,** has its origins in the textiles and machinery industry and has recently been branching out into real estate in Thailand, with the emphasis on prestige hotels and serviced apartments.

Sanjay Singh, managing director of Fico Corporation, commented that "This acquisition is a carefully planned diversification move designed to expand our portfolio of hotels to a dynamic German market." Financing (a two-year bridging loan of €45m) is being provided by Thailand's **Krungthai Bank**.

Depending on investment opportunities, said FICO chief executive **Krit Srichawla**, the group would aim to buy up to 20 more hotels in Europe over the next two years. In a statement, Mr. Srichawla said that the acquisition of the mid-range hotels is in line with FICO's plan to expand overseas, noting that "even though the euro zone is in a nascent economic recovery, some countries including Germany have solid economic fundamentals." Revenue from the company's hotel portfolio was small and it wanted to strengthen the portfolio, he said, with the acquisition of hotels

in Europe the main focus.

Mr Srichawla said the nine acquired hotels are expected to yield a return of 8-9% per year and the breakeven point is expected in the 10th year. The company plans for its hotel portfolio to represent between 10% and 20% of its total revenue in the next few years. "The supply [of hotels] in Europe is interesting for us and Europe's interest rates are reasonable," he said.

For Grand City, the deal is the second in as many months after it sold a portfolio of four hotels to **DTZ Asset Management** on behalf of a French investor. Grand City is one of the biggest hotel investors and operators in Germany, with a broad range of brands and asset types in its portfolio. It specializes in snapping up hotels in financial difficulty and rejuvenating them. Its CEO **Christian Windfuhr,** an international hotel group veteran and who also appears to be the driving force behind the group's German residential housing acquisitions, indicated last year that his group would be selectively offering hotel assets for the first time to test the state of the market.

Germany/Legislation

Hesse buyers scramble to beat new property tax deadline

Getting an appointment with a notary in Frankfurt these days is like trying to get a table at a long-since booked-out favourite restaurant. You'll only get one if you've got VERY special connections.

Part of the reason is the decision by the **CDU-Green government** in the state capital of Wiesbaden to increase the *Grunderwerbsteuer* or land transfer tax by from 5% to 6% with effect from August 1st, fully five months before it was due to come into effect on January 1st next year.

The result has been a scramble to finalise purchases and get them notarised before the August 1st deadline, or face the higher tax imposition.

This is the second time in the last eighteen months that Hesse has raised its Grunderwerbsteuer, pushing it up from 3.5% at end-2012 to a punitive 6%, an increase of 70%. The difference between 2012 and now on a house or apartment price of €400,000 is the difference between €14,000 and €24,000 in extra tax – quite apart from the myriad other charges falling due on purchase, which in total can add on about 15% of the typical purchase price. Additionally, most new apartments have also seen hefty per sqm price increases in that time, so the actual amount due on most properties to the Hesse fiscus is higher.

Hesse CDU finance minister **Thomas Schäfer** justified the controversial move by saying this would help the state to reduce its overall borrowings from federal funds in 2014 – a plea which was immediately criticised by his political opponents. The earlier date is expected to bring in extra tax this year of €60m, and an extra €150m annually from 2015. The new rate brings Hesse up to the level charged by permanently-broke Berlin. Only Schleswig-Holstein with 6.5% and Saarland (also 6.5% from January 1st 2015) are charge higher rates.

The flood-gates were opened in 2006 when the federal government decided to decentralise decision-making to the individual states on the levying of the uniform 3.5% Grunderwerbsteuer. Since then every state bar Bavaria and Saxony has engaged in a seemingly endless race to raise the rate at every opportunity. Governments see it as an easy tax to raise, and everything they can drum up above the 3.5% level remains in their own budget, rather than being redistributed to other federal states through German *Länderfinanzausgleich*, or payment-equalising system from the richer to the poorer states.

While Bavaria and Saxony have exercised restraint to date, it seems just a question of time until the 7% barrier is breached by neighbouring Länder, and the free-for-all could enter a renewed upward battle.

Germany/Non-performing loans

CR Investment Management selling two German portfolios

The London and Berlin-based **CR Investment Management** said earlier this month it had been mandated to sell two German real estate portfolios made up of 20 different assets.

The first portfolio, to be handled by CR's **Transaction Advisory Group**, is made up of 12 **Deutsche Telekom** real estate assets totalling 153,000 sqm, located across Germany, with nine of the properties larger than 10,000 sqm, and mainly in secondary locations.

According to *CoStar Finance*, the portfolio is the collateral for the **DT12** loan, part of the legacy €739m **Talisman 4 Finance CMBS** issued by **ABN Amro** in 2006. The assets have been in special servicing with **Hatfield Philips International (HPI)**, having been acquired in a sale-and-leaseback deal by listed Israeli investor **Summit Real Estate Holdings** in 2006 for about €220m, with ABN Amro providing a €176m senior loan.

CR said it was approaching about 400 potential investors and developers to submit bids for the whole or part of the portfolio, stressing that the buyers will need to be capable of carrying out large developments and refurbishments. This would appear consistent with the most recent valuation of the portfolio at €90.7m in February of this year, itself down a third on twelve months previously, as the remaining lease terms on the

portfolio fell to 3.3 years on average.

A presentation by HPI at the end of March showed that several of the major assets in the portfolio, including those in Mannheim, Magdeburg, Düsseldorf and Nuremberg had had their leases terminated. The €90.7m valuation in February stood in contrast to an unpaid balance of €163m, giving the portfolio a current loan-to-value ratio of €179.68%.

The second portfolio, which CR has been appointed to both asset manage and sell, consists of 8 mainly retail assets, covering 39,000 sqm of fully-leased lettable space predominantly in north-west Germany. The lender, Royal Bank of Scotland, is enforcing a legacy defaulted loan on the portfolio, which is currently valued at €25m and which generates a rent roll of about €3m annually. Investors can bid on all of the portfolio, tow sub-portfolios or for single assets.

Germany/Logistis real estate

Panattoni Europe in €200m German expansion drive

American commercial and logistics property developer **Panattoni** has major plans for an expansion of its German operations, and said it expects to invest at least €200m into the German logistics sector along with selected partners over the next 12 months. It is also planning several new hires to boost its German team to support the expansion.

According to **Artur Mokrzycki**, Head of Capital Markets at Panattoni Europe, "The development of e-commerce, modernisation and growing integration of supply chain processes between Central Europe and Germany are boosting market dynamics in this part of the continent, and Panattoni's long-term presence in this region opens development prospects for the future. We see there is a wide spectrum of opportunities for us, ranging from core to value-added strategies on build-to-suit and multi-tenant parks, either via green or brown field developments."

The group is no stranger to Germany, having already built 6 projects, mainly build-to-suit facilities, totalling 140,000 sqm altogether of warehouse space. The properties are located in Alzenau in Bavaria, Schwäbisch Gmünd, Lorsch in southern Hesse, Bodenheim in North Rhine-Westphalia and two parks in Bre-

men. A new distribution centre is currently under development for **BLG** in Bremen, while construction works are also about to be kicked off on two new projects near Hamburg and Frankfurt.

Panattoni Europe is headquartered in Luxembourg, with offices in Germany, the Czech Republic, and Poland. It offers clients a full-service package, including site selection, environmental analysis, architectural and engineering services and financing. The group has delivered 2,500,000 sqm of commercial buildings in Europe in practically every market segment, from small logistics/industrial facilities amounting to less than 5,000 sqm through to distribution centres of more than 100,000 sqm, and up to complete logistics parks, for clients such **Amazon**, **Coty Cosmetics**, **DSV** and Dachser Logistics. It currently has 1,700,000 sqm of space under management.

Germany/Indices

German refinancing and lending indices reflect plentiful liquidity

Property advisor **CBRE** has stepped into the breach with a new market index for German real estate refinancing costs, after the "**vdp-Pfandbriefkurven**" index, published quarterly by the **VdP Verband deutscher Pfandbriefbanken (Association of German Pfandbrief-Issuing Banks)** ceased publication of their yield benchmark index in April this year.

The CBRE index, likewise to be published quarterly, shows refinancing conditions relaxing, and at 40 basis points are a full ten points lower than in January this year, about 80 bps below their average at the beginning of 2012, and practically back at the levels they were at before the financial crisis. In other words, the cost of financing is unlikely to get much cheaper than it is now, say the CBRE researchers.

Meanwhile, we regularly report on the **FAP Barometer**, another quarterly reading which taps into the well of lenders for German commercial real estate loans to take the temperature of the lending climate directly from lenders themselves.

This quarter (Q3 2014) the FAP Barometer climbed by 65 basis points to +2.48 barometer points, its highest level since Q4 2012, its highest score of the year to date, and also of the past four quarters in 2013. This represents a very favourable lending environment.

According to **Curth-C. Flatow**, founder and managing partner of **FAP**, "The reasons for the bright mood continue to include the favourable interest environment, which seems to have seriously boosted demand, and the robust business cycle which makes German real estate portfolios attractive even for foreign investors. Time will tell to what extent the situation will remain stable."

"We assume that the euro is slowly but steadily coming under pressure on the world's financial markets, and that the time of low interest rates is over. Then again, turmoil on the financial markets is not to be expected. The robust German economy will cope with the slow withdrawal of the liquidity glut, which would, in any event, not be healthy for it in the long run."

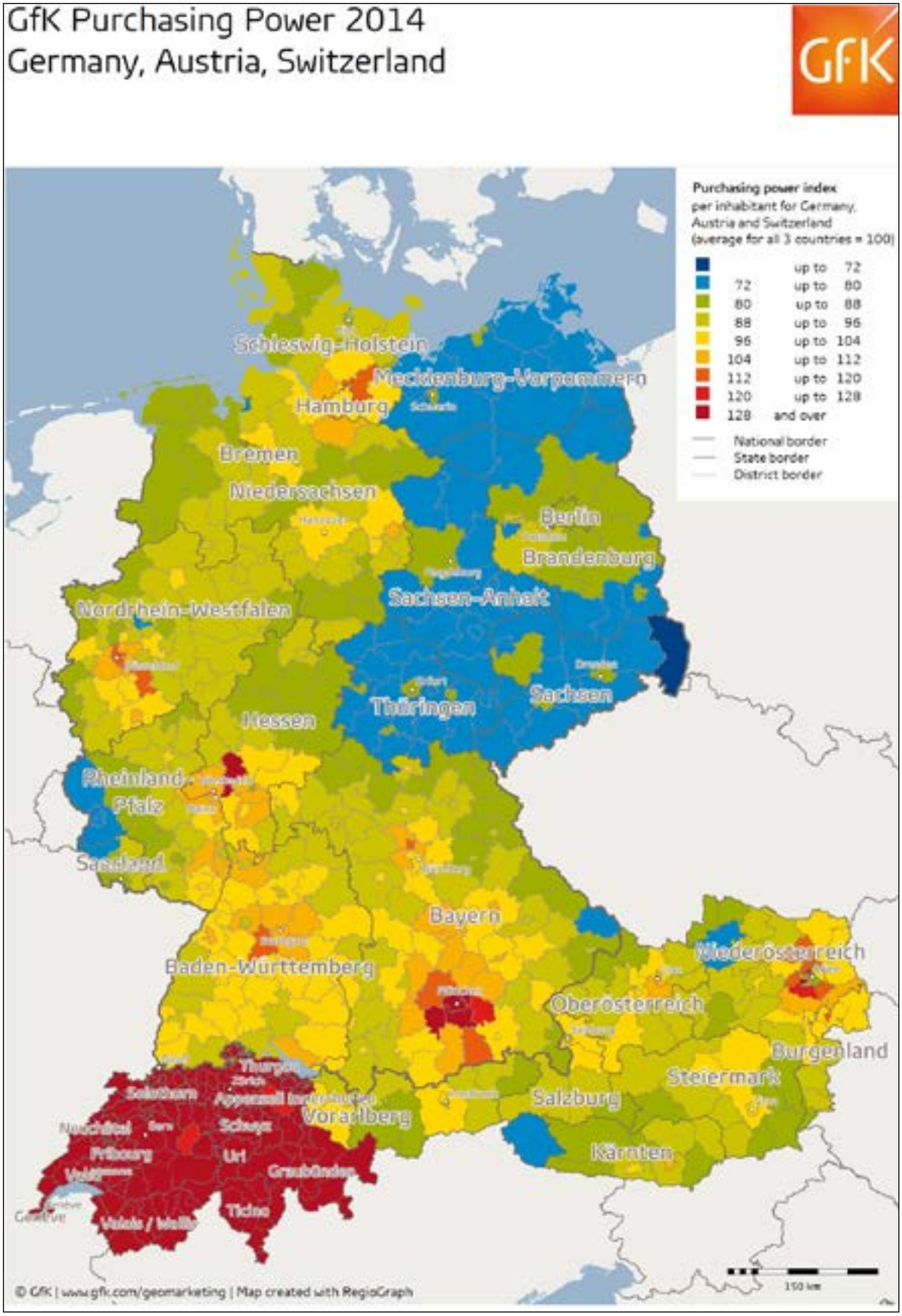
This quarter's survey respondents clearly view financing conditions as very favourable. For the first time, more than 60 percent rated conditions as more progressive than the previous quarter. None of the survey respondents reported a more restrictive market situation, while nearly 40% rated the terms of financing as unchanged.

As for new business, 48% of respondents said their lending would increase in the quarter, while 38% said their lending would remain stable. Niche segments are becoming more important, such as entertainment or health/wellness facilities, at the expense of other niche categories such as micro-apartment or hotel properties.

Respondents indicated that existing property margins keep softening, while project development margins harden. In portfolio financing, the benchmark LTV ratio remains unchanged at 71%, with spreads extending from 60 to 450 bps, with the median being 167 (down on the quarter from 181). In project development financing the benchmark was 73%, while spreads were 129 to 301 bps, with the median being 205 bps, up from 198.

Importantly, more than 85% of respondents expected that the expanded loan supply will imminently encourage higher financing ratios, while the role of alternative lenders is expected to grow stronger still.

FAP Barometer reading Q3 2014


GfK Purchasing Power 2014
Germany, Austria, Switzerland
GfK
Purchasing power index
per inhabitant for Germany, Austria and Switzerland
(average for all 3 countries = 100)
up to 72
72 up to 80
80 up to 88
88 up to 96
96 up to 104
104 up to 112
112 up to 120
120 up to 128
128 and over
National border
State border
District border
Schleswig-Holstein
Mecklenburg-Vorpommern
Hamburg
Bremen
Niedersachsen
Berlin
Brandenburg
Sachsen-Anhalt
Nordrhein-Westfalen
Thüringen
Sachsen
Hessen
Rheinland-Pfalz
Saarland
Bayern
Baden-Württemberg
Niederösterreich
Oberösterreich
Burgenland
Steiermark
Salzburg
Vorarlberg
Kärnten
Solothurn
Appenzell
Schaffhausen
Neuchâtel
Fribourg
Uri
Graubünden
Ticino
Genève
Valais / Wallis
© GfK | www.gfk.com/geomarketing | Map created with RegioGraph
150 km

...see page 13

Germany/Retail real estate

Greenman now open to Euro investors for German retail

Ambitious Irish real estate investment company **Greenman Investments** has gained another feather in its cap with the acquisition of Berlin's first stand-alone **E-Center** for its **Greenman Retail Fund**. E-Centers are the upmarket brand of food retailer **EDEKA**. The deal is the fifth centre for the company's retail fund, and brings the value of the portfolio up to about €47m, while a further acquisition is planned for the third quarter.

The E-Center project, on one of the busiest arterial roads in Berlin Mahlsdorf, will be completed in spring 2015 and has a total lettable space of 5050 sqm, which is being leased to EDEKA, drugstore **dm**, and textile retailer **KiK**. All three have long-term lease agreements of 12 to 15 years. Greenman is paying €11.3m to developer **GVG Projektentwicklungsgesellschaft mbH**. CEO John Wilkinson commented, "While the planning processs was lengthy, we fixed the price about 18 months ago, which highlights the benefits of early stage access to projects."

(Greenman has taken the – in our view – innovative step of posting a webcam link on the company website featuring a live link to the E-Center building site. A delivery of concrete pipes was taking place when we last checked in. A nice touch for investors).

Greenman's strategy is to focus solely on German retail parks, or *Fachmarktzentren*, which it allocates to its two funds, **Greenman Retail +** and **Greenman Income PRO**. Two new funds are also slated for launch later this year. REFIRE met the company five months ago to learn more about its investment strategy – since when the company has reviewed and analysed retail parks with a total volume of €2.1bn, and says it has identified centres with a total volume of about €83bn to acquire in this year's fourth quarter.

The fund Retail+ is geared towards Irish pension funds and professional private investors and aims to collect a total of €50 million with a target fund volume of €90 million. Greenman recently received the approval for its fund Income PRO from Luxembourg's financial regulator, the **CSSF**. Income PRO plans to generate investment volume of €150 million and will collect up to €100 million in equity from professional investors based in Ireland, Germany, France, Belgium and Luxembourg.

The Luxembourg financial regulatory approval opens up new doors for Greenman's fundraising. According to Wilkinson, "We can now also offer to European institutional investors the opportunity to invest in retail parks in Germany, an exciting asset class. Thanks to our long-term experience in the German retail real estate market, we have a vast network of property developers and estate agents at our fingertips. As such, we have been able to establish a considerable purchase pipeline."

Earlier this year Greenman became the first Irish-owned investment company to receive full authorisation as an Alternative Investment Fund Manager (AIFM). With its **Greenman Auto**, **Greenman Accelerate** and **Greenman Retail** funds, Greenman currently manages a portfolio worth approximately €100 million consisting of 18 retail parks across Germany with a total rental area of 72,000 square meters. Funds will continue to be managed via a Luxembourg-based SICAV investment vehicle.

Germany/Corporate real estate

Study highlights untapped potential in German corporate real estate

Enormous potential is slumbering in the €3 trillion German corporate real estate sector, with about €178bn which could be freed up annually through optimising corporate real estate management, according to an important new study presented at a press briefing in Frankfurt earlier this month.

The report, published by **ZIA**, the central lobbying organisation for the German real estate industry, and **CoreNet Global**, is the first comprehensive study on the economic significance of corporately-held real estate in Germany. Private companies **BASF**, **Siemens** and Berlin-based **Eurocres** were co-sponsors of the study.

The key findings of the study are that the value of corporate real estate in Germany amounted to €3 trillion in 2013, of which 70%, or €2.1 trillion, was owner-managed - a far higher percentage than that typical of Anglo-Saxon or Asian markets. After personnel costs, property represents the second-highest cost factor for companies, amounting to 10-20% of costs depending on industry and type of business. Through optimising these real estate management costs, there is big scope for improvement in staff productivity, conclude the researchers.

The report's author, **Professor Dr. Andreas Pfnür**, head of the faculty of real estate and construction at the prestigious **Technical University of Darmstadt,** says that "The strategic potential of a company's real estate in determining that company's competitive position is very often underestimated. Companies tie up a very high percentage of their capital in property. This makes it sometimes hard to understand why the role of corporate real estate often plays such a secondary role within companies themselves, on the capital markets, and in the political and public administrative sphere. A more pro-active approach to managing corporate real estate could unearth considerable potential for both companies and the economy as a whole."

About two-thirds of the property used by Germany's largest companies is owned by those companies, with the figure rising to

three-quarters in the famed German Mittelstand. By contrast, the figure in the USA is 30%, while in Asia it's 20%.

"The rate of ownership by German companies is very high on an international basis", says Pfnür. "This leads to a lot of potential in the real estate sector being left on the table, and simply isn't justifiable from a corporate finance point of view. Economically it would make sense to lower the rate of property ownership and at the same time to improve individual employee productivity. Appropriate corporate real estate management could boost labour productivity by 13% - taken together, we estimate that about €178bn could thus be freed up annually.

So, why isn't this happening right now? Professor Pfnür says this is partly to do with the weak capital market culture prevailing on the German commercial real estate market, compared to its American and Asian peers. Of Germany's €3 trillion in corporate real estate, only €46bn is held in closed-end funds and €37bn in open-ended funds. "In Germany, companies simply don't have the capital market partners to enable this reduction in their level of ownership", says Pfnür. The effectively stillborn REIT regime in Germany might at one stage have helped to address this, but any help from that quarter appears to be a distant dream now.

The study highlights how in only about a half of Germany's largest companies and about a third of the Mittelstand companies, any serious effort has been introduced to structure the corporate real estate management (CREM) function - leaving a lot of potential for increasing efficiency.

Germany/Legislation

Further watering-down of Mietpreisbremse in the pipeline

There had been rumours swirling around for a couple of weeks that **Heiko Maas**, the justice minister in the Berlin coalition gov-

Guest Column:
Richard Weller, Senior Director, Head of VALTEQ's Nuremberg office

Energy-efficiency of buildings – Enough of the I-don't-care attitude!

www.valteq.de

The main problem is that many are quite simply indifferent to it – perhaps even you yourself. I refer to the energy-efficient operation of real estate. You are a landlord? Then your primary concern is secure and stable rental income, rather than the excessive costs of the property. You are a "normal" office user? Then your main interest is that the air-conditioning works smoothly, irrespective of the cost. You are an energy supplier? Then you are interested in earning the greatest possible revenues. You are a facility manager? Then you are only interested in energy-efficient operation if it's part of your assignment and where you participate in the savings. The only one with any real interest in energy-efficiency is the one who has to foot the bill for heating and energy.

However, quite apart from the conflicts of interest described, there are also other framework conditions to be looked into. For example, when one looks at the consumption habits of many users, energy still appears to be inexpensive. Likewise, building equipment is often so highly developed and, in some cases, so complicated that many users are no longer able to operate it – or do you know, for example, how to correctly control the ventilation in your office?

Solving these problems is a huge challenge – but it is one that is well worth tackling. Based on experience, between ten and twenty percent of energy consumption, and therefore energy costs, can be saved. In this respect, there is no shortage of ideas on how energy-efficiency can be improved, whether it is through the completion of heated space rental contracts or the training of real estate users.

We at VALTEQ have successfully implemented a solution in a model project, in which savings guarantees were introduced vis-à-vis landlords, tenants and facility management providers. In this model, the landlord benefits from the improved tenant relationship and by gaining an energy-efficient building (including the associated tax breaks). The FM service provider receives a budget to implement investment measures related to energy use. In addition, the tenant enjoys a drop in operating expenses and the facility manager benefits from the savings achieved based on a set allocation key. Following its adoption, this model stood the test.

However, as a real estate industry, we are all challenged to put such models and approaches to the test. Only then will all the well-meaning words used on the energy-efficient operation of real estate be followed up by meaningful actions.

ernment, had been weighing up further measures designed to water down the effects of the coming *Mietpreisbremse* legislation, the new rental cap on German residential housing.

He surprised the market at the weekend by suggesting that new construction would be exempt from the dampening effect of the proposed new law, a key pillar of the coalition government's programme to promote affordable housing despite rapid rises in rent levels in Germany's larger cities.

Opponents of the rental brake have argued that the measure would strangle badly-needed new housing construction, as investors would be unable to charge rents that would provide any incentive to build. As it stands, the law envisages new leases as being capped at 10% above an agreed local 'rent table' in localities with housing shortages, with the law applicable for five years.

It is also becoming clear that the new law is running up against a number of bureaucratic hurdles – including the difficulty of establishing what is an acceptable *Mietspiegel* or 'rent table' for the purpose of measuring acceptable rents in a neighbourhood to underpin allowable rent increases on new leases.

The head of RICS in Germany, **Martin Eberhardt** (*pictured, left*) of **Bouwfonds**, recently warned the lawmakers of over-hasty introduction of the law as defined before the latest watering-down. "We need to look at the rental facts in a European comparison as well as the consequences of such rental caps in countries that have already introduced the instrument before coming to premature decisions," he said.

While rents in Germany have risen significantly in the large cities over the past few years, when compared with growth rates since 1997 across all 28 European countries Germany still come in in last place last with a 1% annual average over the period. "In practice, this means that the majority of rents were not raised at all and increases only affected a small percentage of rental stock," he said. "The 'urgent demand' for a rental cap formulated by politicians has no real basis in factual justification from an international viewpoint."

Eberhardt drew unfavourable comparisons with the experiences in neighbouring Austria, which has had a form of rental cap for nearly 100 years. "The results of these constraints were frequently: non-carried out maintenance backlog all the way to collapsing houses, landlords excessively paying tenants to move out, unattractiveness of free-financed rental apartment construction, quasi monopolisation of communal and public rental apartment construction, determent of international investors, confusing laws with several loopholes and illegal utilisation of flats – among many side-effects," said Eberhardt.

Germany/Takeovers

Pamera takeover gives Cornerstone strong European platform

The US-headquartered fund manager **Cornerstone Real Estate Advisers** took a big step towards creating a pan-European platform for its investment when it took over Germany's **Pamera Asset Management** earlier this month.

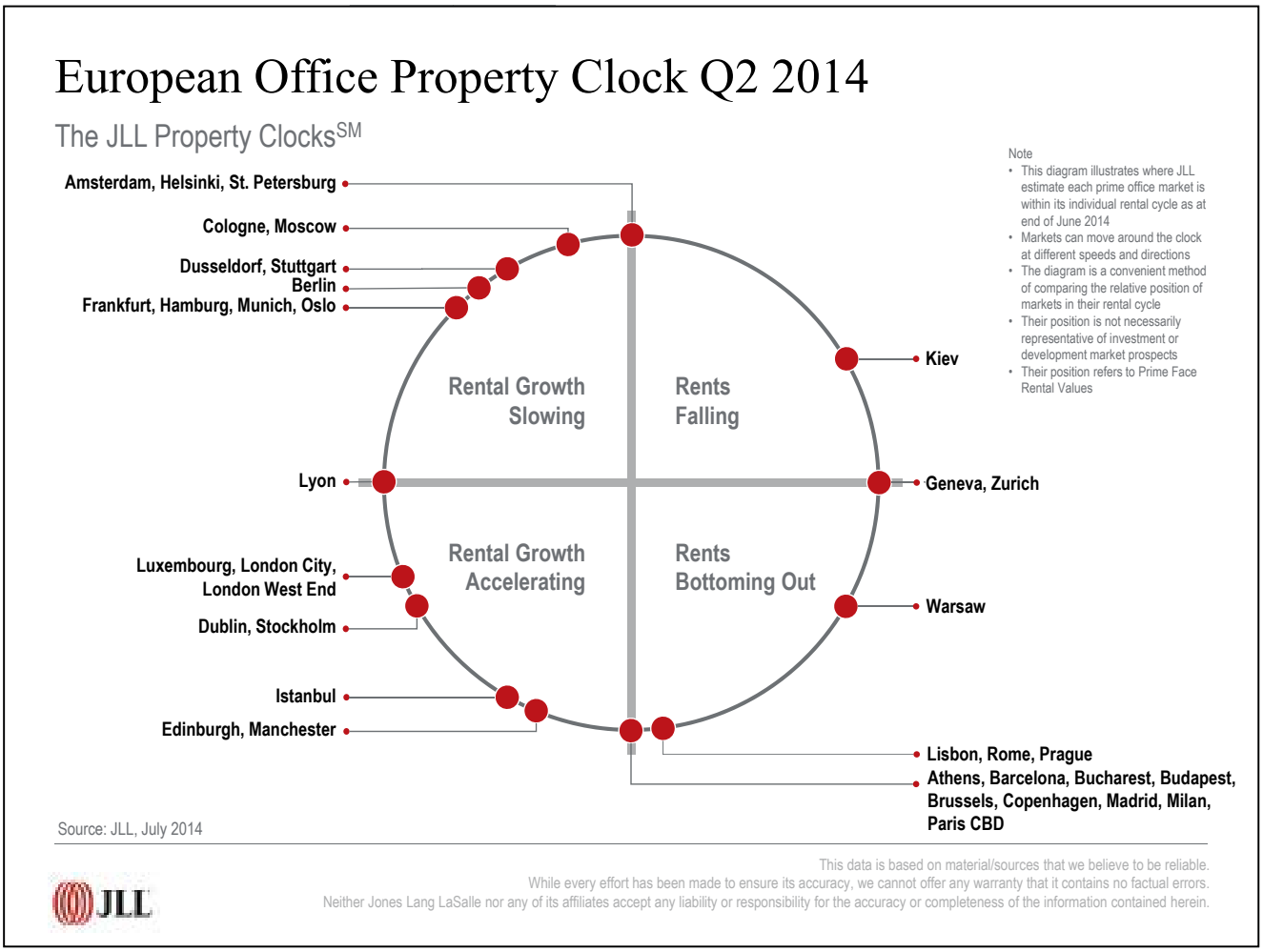
The deal will give Cornerstone an additional €1bn in office and retail assets as well as a team of 38 staff across five offices in Germany. Cornerstone said it will use the acquisition to launch new real estate products in Germany for domestic and international investors, focusing on core and value-added markets.

Pamera, which has offices in Frankfurt, Berlin, Düsseldorf, Hamburg and Munich, was established in 2010 by **Christoph Wittkop**, **Gunther Deutsch**, **Lars Borghaus** and **Maximilian Isenberg**. Wittkop and Deutsch will join Cornerstone' European board.

Pamera manages assets on behalf of **Bouwfonds**, **Curzon**, **LaSalle**, **Patron**, **Tristan** and **Stuttgarter Insurance Group's SIS fund**, among others. It said it will continue to work with its existing client base of German and international private equity investors, loan servicers and institutional investors operating in the value-add and opportunistic segments of the market.

Cornerstone, a subsidiary of US insurer **MassMutual Financial Group**, currently manages €32bn of assets globally, of which €1.5bn are in Europe. The firm established its position on the continent with the acquisition of UK-based firm **Protego** in 2010, which brought with it assets in Finland, Germany, Sweden and the UK. The firm focuses on retail, office and industrial properties but, increasingly, is looking at alternative sectors and, particularly, international capital flows in and out of Germany.

Pamera CEO **Christoph Wittkop**, who becomes Head of Germany under the new structure, added some background to the merger of the two companies: "Both our companies were pursuing the same goal –



building up a successful investment management organisation with German and international institutional investors. This requires not just a local presence as well as active asset management, but you also need a certain size and financial muscle, because of the increased regulatory burden but also to avail of more opportunities as a co-investor.

"MassMutual is a large insurance company and therefore a potential either lead investor or a seed investor in pools or club deals in Germany. Cornerstone can also offer German investors interesting perspective, for instance investments in the USA.

Pamera says little will change for its German operations, staff, and client base, who will continue to deal with the existing management team. Pamera plans new investment vehicles, such as *Spezialfonds* for German investors and Luxembourg structures for investors from the USA and Asia, but this will happen from next year onwards

Germany/Listed Companies

Patrizia enters Dutch market, residential poised for recovery

The Augsburg-based listed **Patrizia Immobilien AG** continues to break new ground in Europe – this time in the Netherlands, where it paid €578m to buy about 5,500 apartment units from the **Vestia** housing association. This is the biggest transaction ever seen on the Dutch housing market.

The broadly-diversified portfolio has 340,000 sqm of lettable space, mainly located in and around Vestia's domestic heartland of Rotterdam and the Hague. The vacancy rate is 3%, while 70% of the apartments have rental protection clauses.

The huge package will be allocated to Patrizia's co-investment **"Wohn-Modul 1" fund**, a partnership with an as yet unnamed German pension fund. The Vestia team will be taken over by Patrizia and continue to manage the assets. Patrizia only opened its first office in the Netherlands three months ago, and hired **Peter Helfrich** from **CBRE Global Investors** to head up its Dutch operations.

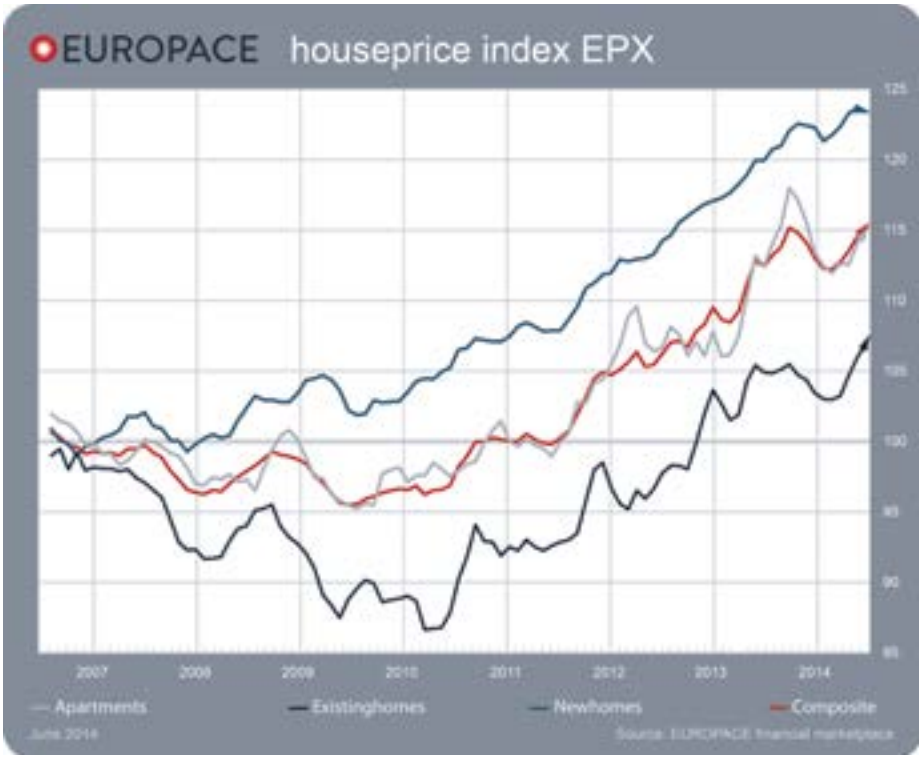
According to **Klaus Schmitt**, COO and board member at Patrizia, "We've been enjoying a lot of trust from our institutional investors for quite some time

from page 18

now – so much so that they're happy to join us in cross-border transactions."

After a rocky period since 2007 which has seen sharp price declines, the Dutch residential market is starting to recover, and investor groups are again being wooed to invest in the market. The demographics are good, with the population rising slowly across all regions through the next two years, so housing demand can be reasonably predicted. Rents have remained stable, and vacancy rates have barely budged. Structural changes are also contributing to the market's attraction, such as improved tax breaks for owners and stricter criteria for qualifying for subsidised housing – measures which should underpin the private housing market.

German institutional investors made their first big move for a while earlier this year when **BNP Paribas REIM Germany** teamed up with **Amvest** in a €40m deal to buy 265 Dutch apartments in the Randstad district on behalf of the Luxembourg *SICAV* of a German pension fund. Munich-based **Catella Real Estate** is also bringing out a Dutch residential product for German investors later this year.



Germany house price development

Europe/Study

€600bn loan sales targeted, of which €60bn this year

International property advisor **Cushman & Wakefield's** Corporate Finance team estimates that European banks and asset management agencies have a gross exposure of €584 billion to non-core real estate which is subject to disposal or work-out strategies.

The findings, published earlier this month in the firm's **European Real Estate Loan Sales Market** H1 2014 update, suggest that despite the record volume of commercial real estate (CRE) and real estate-owned (REO) sales seen so far this year, the deleveraging process throughout Europe is far from over.

Cushman & Wakefield Corporate Finance carried out extensive research into the non-core real estate exposure of 46 banks and asset management agencies throughout Europe for the in-depth report. The nine European 'bad banks' analysed hold over 46% of the total gross exposure to non-core real estate, indicating their importance in the CRE loan and REO sales market in the next few years.

The publication details eight 'mega-deals' – those with a face value over €1 billion – which have closed in H1, while another four are currently being tracked. These 'mega-deals' accounted for 71% of the total H1 loan sale volume; this is up from 40% in H1 2013.

Contrary to the trend observed across Europe in 2013, the average size of loan sale transactions has increased in H1 2014 to €621 million from €346 million in the same period last year – this makes it even more difficult for smaller investors to participate in the sales process.

Large US investors such as **Lone Star** and **Cerberus** continue to grab the headlines, accounting for 77% of all European CRE loan and REO acquisitions in H1 2014.

Frank Nickel, executive chairman of Cushman & Wakefield's EMEA Corporate Finance group, said: "US investors have raised an enormous volume of capital targeting opportunistic real estate. 'Mega-deals' prove popular to these buyers since they offer a chance to gain large exposures to key assets and markets in one transaction, saving on both costs and time."

Following a record first quarter dominated by Ireland's **IBRC (ex-Anglo Irish Bank)**, Q2 saw activity spread to Southern Europe as vendors look to take advantage of increasing investor appetite in the region. As a result, Cushman & Wakefield's Corporate Finance team estimates €16.3 billion of sales completed in the three months to July, over six times the volume closed in Q2 2013 (€2.5 billion).

When combined with the Q1 2014 figure of €24.7 billion, the total volume for

the first six months of this year amounts to €40.9 billion. This represents an increase of over 30% on volume for the entirety of 2013 and of 611% on H1 2013.

A highly active H1 has led to Cushman & Wakefield Corporate Finance forecasting that closed CRE and REO sales are now likely to reach €60 billion in 2014.

Cushman & Wakefield's **Federico Montero**, Head of Loan Sales, EMEA Corporate Finance, said: "The record loan sales volume seen so far in 2014 has been impressive, although the non-core real estate exposure of €584 billion across Europe signifies the enormity of the deleveraging process still to occur. Additionally, the upcoming stress tests being enforced by the ECB will guarantee that the current high levels of activity in the market will be sustained in the next few years."

Germany/Funds

DIC Asset launches third German fund, targeting core

Listed German office property developer and investor **DIC Asset AG** has just launched its third open-ended fund for institutionals, the **DIC Office Balance II Fund**, targeting an initial volume of €200m and focusing on core German office property occupied on long-term leases.

The fund is being specifically created for two clients, **SV Sparkassen Versicherung** in Stuttgart, and **Helaba Invest KAGmbH**, Frankfurt, on behalf of several of their institutional investors. DIC Asset will itself take a stake of around 5% in its own right, while also handling the asset management and property management as well as the property acquisitions and sales.

As with DIC Asset's earlier funds, **IntReal International Real Estate Kapitalverwaltungsgesellschaft mbH**, Hamburg, is serving as the investment service company ("Service KVG").

The fund has already bought its first office property, the highly prominent *"Barbarossa Center"* with some retail units on Barbarossaplatz in Cologne from an international institutional investor for about €32 million.

Originally built in 1972, the centre was redeveloped and modernised in 2002 and 2013. It extends over 13,300 sqm of rental space across 19 floors. The building is fully occupied by nine different tenants.

Separately, the Frankfurt-based DIC Asset bought another two retail properties for €27 million that are earmarked for the **"DIC HighStreet Balance"** institutional fund. Both of these assets – one

UPCOMING EVENTS AND CONFERENCES

EVENTS/ CONFERENCES August-Sept-Oct 2014

September 15th-17th Monday-Wed
CoreNet Summit EMEA, Berlin
The CoreNet Global EMEA Summit, being held in Berlin in 2014, is expected to attract more than 550 attendees working in the corporate real estate space. More than ever, CRE leaders have an unprecedented opportunity to change the conversation from cost to value within their organizations and CoreNet Global Summits provide multiple opportunities to facilitate these conversations.
more at: http://www.corenetglobal.org/Events/BerlinSummit2014/

September 17th-18h Wed-Thurs
GRI Europe Summit 2014, Paris, France
GRI Europe Summit 2014 reflects investor appetite for a greater geographical scope and sub-sector analysis. But GRI Europe Summit is about more than this. It is your best opportunity of the year to understand what your clients and peers are really thinking, to get to know each other on a first-name basis, and engage in a meaningful way. From this comes new business opportunities and lasting relationships. *More: www. globalrealestate.org/Europe2014*

September 25th-26h, Thurs-Friday
Unternehmens- & Industrie-Immobilien, Cologne
- Marktwert von Industriegrundstücken
- Rendite-Upside ohne Risiko?
- Liegenschaften aus Sicht von Industrie-Unternehmen
- Multi-Tenant – Garant für nachhaltige Renditen?
- Industrie 4.0: Die Fabrik der Zukunft

More at www.euroforum.de

October 6th-8th, Monday-Wednesday
EXPO REAL - the 17th International Trade Fair for Property & Investment, Munich
The key event in the German commercial real estate calendar *www.exporeal.net*,

located in Düren, the other in Wuppertal – have a rental space of around 4,000 sqm, are situated in prime high street locations and are almost entirely let on long-term leases to blue-chip tenants clothing retailer **Peek & Cloppenburg** and the drugstore **Rossmann**, respectively. The acquisitions bring DIC Asset's spend up to over €60m this year so far.

DIC Asset has now launched three institutional funds since 2010 (as open-ended special AIF): an institutional fund for retail property, "DIC HighStreet Balance," and two institutional funds for office property, "DIC Office Balance I" and "DIC Office Balance II" Fundraising for the first two funds (now at a combined total of about €520 m) has already hit the 75% mark of its target volume (€700m). The third institutional fund just launched, DIC Office Balance II, brings the minimum target volume up to about €900m.

Germany/Listed Companies

DO Deutsche Office emerges from Prime Office and OCM

It has been earmarked for some time, but the former German listed property group and REIT **Prime Office** has officially been re-named as **DO Deutsche Office** after its merger with **OCM**, moving its headquarters to the city of Cologne in the Rhineland from the Bavarian capital Munich.

The group said the new name was registered earlier this month but the Deutsche Office share continues to be traded in the Prime Standard of the Frankfurt stock exchange under stock market symbol PMOX. The re-branding followed a merger with **OCM German Real Estate Holding**, an affiliate of US-based private equity fund Oak Tree.

"The new name Deutsche Office stands for a leading office property company that focuses on return-oriented growth in German metropolitan regions," DO said in a release. The decision on the name change was made at the annual meeting of Prime Office on 20 May where 99.9 % of the shareholders voted in favour.

Deutsche Office at 31 March owned a geographically diversified real estate portfolio containing 57 properties with a total rentable space of about 950,000 sq.m. and an attractive and broad tenant base, it said. As at 31 March, the portfolio had a total market value of about €1.9bn. The group's model is based on the return-oriented management of assets and particularly of office properties – "complemented by the selective pursuit of value-add investments and attractive buying opportunities in locations with a proven track record of significant value increases."

Germany/Listed companies

IVG insolvency plan gets legal go-ahead

A German court has now approved the insolvency plan proposed by erstwhile German heavyweight **IVG Immobilien AG**, paving the way for an orderly insolvency and a €2.2bn debt reduction programme. The company will be delisted from the stock exchange in the course of the summer.

The move marks the end of an 11-month campaign by disgruntled former shareholders to salvage some value for themselves, and sees previous bondholders becoming the new owners of what was once Germany's largest real estate company.

Effectively, the **Bonn Regional Court** rejected the complaints filed against the plan by subordinate investors and shareholders in the final instance, and denied further appeal against the decision. The plan will reduce the company's debt by around €2.2bn, primarily in the form of a debt-to-equity swap in which existing IVG Immobilien AG creditors will exchange their receivables for newly-issued shares.

...see page 26

CORPUS SIREO
ASSET MANAGEMENT COMMERCIAL

EXPERT VIEW: UPWARD TREND ON THE GERMAN COMMERCIAL REAL ESTATE MARKET

Guest column by:

Ingo Hartlief,
Chief Operating Officer,
CORPUS SIREO Holding GmbH & Co. KG,
Cologne

The year 2014 has made a very good start, and economic performance in Germany is encouraging. There is also a corresponding increase in investor interest in German commercial real estate. These investors are targeting strengthening demand for office space and rising rents. The following assumptions of Corpus Sireo - the leading German provider of investment and asset management services with a wide network of branches - are supporting the optimistic assessment of the German market for commercial real estate.

Assumption 1: Economic growth in Germany is resulting in increasing demand for office space

Despite ongoing uncertainty, also as a result of the Ukraine crisis, the leading indicators are pointing to further economic recovery. German economic growth is forecast to come in at 1.9%, the unemployment rate will fall further to 5.2% (ILO) and the employment rate will probably rise to 78.2% in 2014. These assumptions mean that demand is likely to increase for office premises. On the rental markets, we expect to see a reduction in vacancy rates and rent increases; it is foreseeable that this will be followed by price increa-

Assumption 2: Financing of commercial real estate is becoming cheaper

We are observing increasing competition and declining bank margins despite the trend towards higher interest rates. LTVs have risen to approx. 70%, and credit availability is good. Core properties continue to be the focal point of financing activities; this area is characterised by fierce competition between lenders. The margins for average commercial properties will fall to approximately 150bp despite slightly higher interest rates. Overall, financing for commercial real estate in Germany will become cheaper.

Assumption 3: Rising demand for office premises with a positive impact on rental markets

Demand for office premises will continue to rise as a result of economic growth; the rental markets are responding with a reduction in vacancy levels and rent increases. The currently moderate volume of completions is also having a positive impact on rental markets. Turnover with office premises was high during the past three years, and this trend will continue in 2014. The process

progress particularly in top-20 cities. In consequence, there is likely to be a further increase in rent levels, and the discrepancy between prime rents and average rents is likely to decline.

Assumption 4: Ongoing investment pressure is driving transaction volumes and is reducing risk aversion

Strong demand from within Germany and abroad is resulting in higher trading volumes, prices and 'side-stepping' movements of investors. There is a strong inflow of funds from abroad, and we are observing increasing levels of activity particularly with regard to private equity and funds. Investors continue to focus on 'core' products; product availability is correspondingly low, and acquisition yields are falling. At the same time, there is strong investment pressure and yield expectations have risen. In consequence, we are already observing certain side-stepping movements in subprime locations, regional markets as well as properties with optimisation potential.

Conclusion and outlook: Investors focusing on German subprime locations

Core properties at attractive locations outside the German 'Big 7' are investments offering stable values and good yields prospects. This is also demonstrated by the annual study "GERMANY 21 – Regionaler Büromarktindex", in which Corpus Sireo compares the German top-7 cities (Frankfurt, Hamburg, Munich, Cologne, Berlin, Düsseldorf, Stuttgart) with 14 regional cities (Aachen, Bonn, Bremen, Dortmund, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Mainz, Mannheim, Münster, Nuremberg, Wiesbaden). A striking aspect is that the office market in the 14 regional cities mostly achieve a more stable performance than the traditional German prime locations. Overall, since the beginning of 2008, rents in the regional office locations have performed better in the centres of the cities than in the other municipal districts. New premises built since 1995 in the city centre have produced a particularly positive performance. Properties which were built before 1945 are also very popular. Rents for these properties have performed very well at the subprime locations, and are leading the index. The focus on German subprime locations is becoming more and more important for investors. And there are various reasons why this is the case: The vacancy rate is low, prime rents are stable and long-term rental agreements have been concluded with local companies. At the prime locations, prices are frequently driven by fierce competition between investors – this is (still) not the case in the subprime locations, and investors in such locations are less 'driven' by the market. This means that there are good prospects for investors. ih

Contact:
CORPUS SIREO
Holding GmbH & Co. KG
Ingo Hartlief
Chief Operating Officer
ingo.hartlief@corpussireo.com

For further information go to www.corpussireo.com

...from page 22

It also splits the company into three separate and independently operating companies: **IVG Immobilien AG** (portfolio management business), **IVG Institutional Funds**, and **IVG Caverns**. A new company will be installed above these businesses specifically to hold their shares.

The shareholders of this holding company will be the present creditors of IVG Immobilien AG. **Hans-Joachim Ziems**, board member responsible for the restructuring, expects the implementation of the plan and the closing of the insolvency proceedings during the current quarter. Ziems said in a statement, "The lengthy and intensive negotiations with our capital providers have paid off… Moreover, under difficult conditions in some cases, IVG's employees have demonstrated their perseverance and commitment, helping to return the company to a solid financial footing and make it operationally fit for the future."

From next quarter onwards, **Ralf Jung**, former CEO of **Allianz Alternative Assets Holding** and former management board member of **Dresdner Bank,** will become CEO of the newly-formed IVG Group.

The surviving group expects to still have about 80% of its previous staff numbers at 320 people, but the last remaining board member of the previous regime, COO **Guido Pinol**, is following CFO **Hans Volkert Volckens** and CEO **Wolfgang Schäfers** out the door by the end of the summer, along with several top managers from the IVG Institutional Funds division.

Germany/Acquisitions

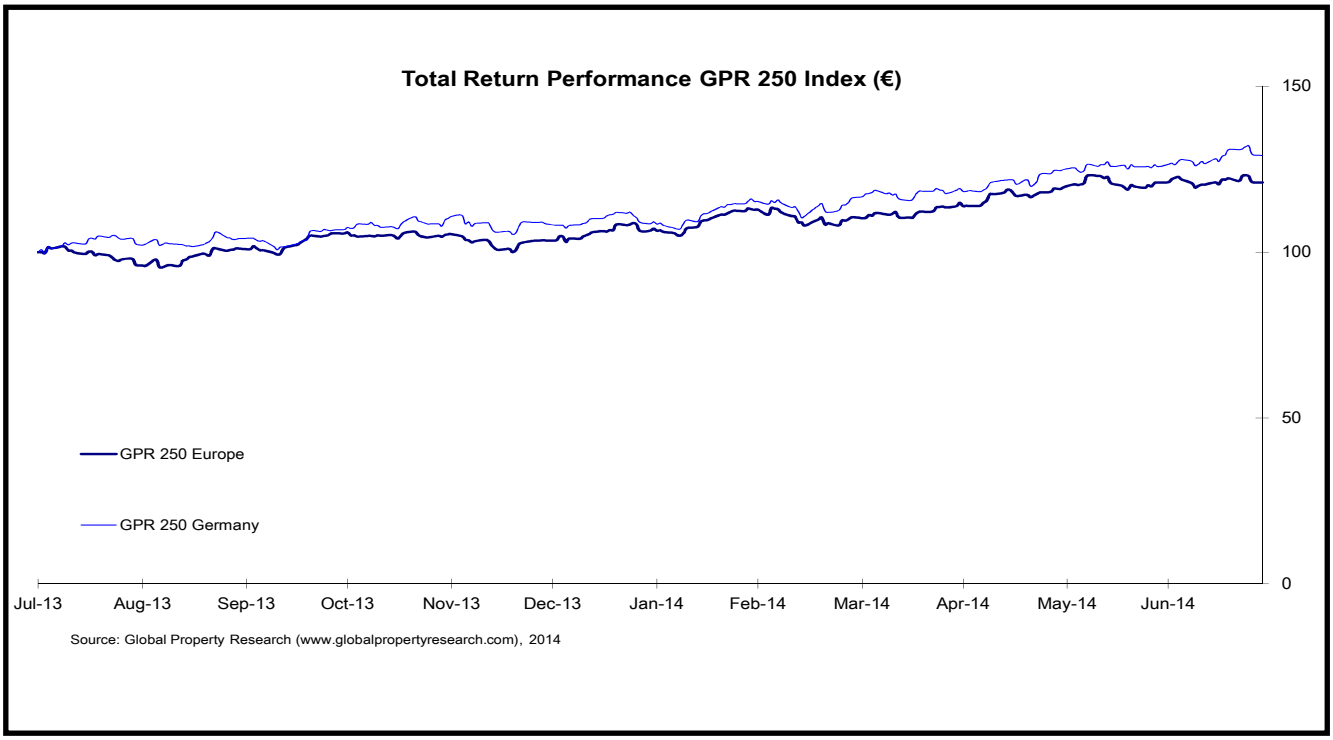
Captiva sells German healthcare portfolio to Canadian REIT

A fund managed by independent investor **Captiva Capital Management** has sold a portfolio of 13 healthcare centres in Leipzig, Berlin and Ingolstadt with a total area of 33,000 sqm to Canadian group **NorthWest International Healthcare Properties REIT**. The transaction values the portfolio at about €35 million.

Captiva bought the portfolio in 2007, and has invested considerable capex in renovating, enlarging and modernising the assets, eleven of which are in Leipzig, with the remaining two in Berlin and Ingolstadt. This boosted the occupancy rate from 75% to 93% over the period, while raising rental income by 34%.

Captiva said it plans further divestments in the three-digit million euro range this year. **Stephan Fritsch**, CEO of Captiva in Germany, said "Demand for high-quality commercial and logistics properties remains high in Germany, where we made anti-cyclical investments during the years of the financial crisis. Through structured and sustainable measures to increase the value of the properties, today we manage a real estate portfolio of around 700,000 sqm of lettable space in Germany worth more than €700 million."

Last year Captiva concluded 61 new rental contracts and contract renewals for about 83,000 sqm in Captiva's port-



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

folio, which it said helped to further optimize the tenant mix. So far this year 40 new contracts and renewals have been signed for about 50,000 sqm.

Fritsch (*pictured, right*) said he plans further divestments in Germany this year and is in negotiations on a portfolio sale in the three-digit million euro range. "A focus will be on retail and logistics," he said. But Captiva is also looking for selective investment opportunities in Germany, as well as being a seller. "Even though some market segments have reached very aggressive pricing levels, there are still opportunities for good investments," he said. "We still see potential in small and mid-sized cities in Germany."

The low-key Captiva mainly invests its capital on behalf of clients through closed-end funds or specialized platforms. It typically looks for assets with improvement potential after a certain injection of investment. One of the group's largest German projects to date was the

launch of **Alstria Office REIT** in 2007, German'a first REIT. To date, Captiva has invested €1.7 billion of equity capital in the real estate sector including over 1,700 properties across Europe worth more than €11.1 billion.

Switzerland/Research

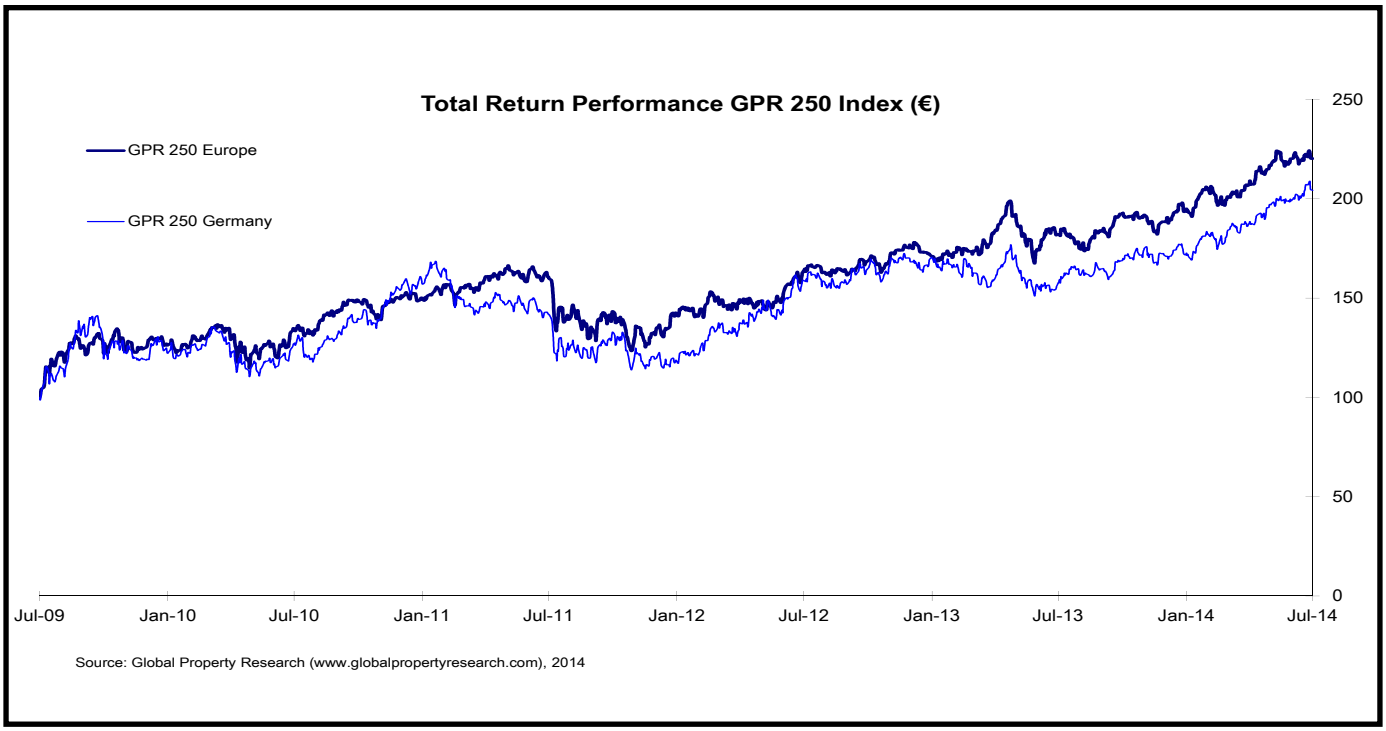
Switzerland – office rental value correction not over

Switzerland office rents still have plenty of room for further falls over the coming quarters despite touching current historic lows, according to macroeconomic research group **Capital Economics.** Positive rental growth is still some way off into 2015 for Zurich and Geneva, the group says.

In its latest **European Commercial Property Update**, the UK-based research group says that subdued take-up, paired with speculative development in both Geneva and Zurich, put the short-term risk for rental values on the downside. In 1Q14, rents fell by 2.2% in Zurich, reaching their lowest level since 1999, and 0.9% in Geneva. Zurich vacancy rate rose to 9.9% from 9.5% in 4Q13. "Much of the recent weakness in Zurich is down to the banking sector, while in Geneva companies' cost cutting has been putting pressure on rents," say the Capital Economics researchers.

The **KOF (Konjunkturforschungsstelle)** employment intentions survey by the **ETH Zurich** university suggests that banks are gearing up to cut more jobs this year. Geneva is on its way to recovery, with first quarter take-up the highest since 2011 and vacancy rate stable at 5.3% over the last three quarters.

The development pipeline could still put downward pressure on rents, however, warn the researchers. It is only 2.7% of existing stock but the majority is speculative. With cutting costs still uppermost on employers' minds, landlords may have to cut rents to compete. The supply pipeline in Zurich is even higher,



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

Markets Report

Hamburg logistics market surges in the first half of 2014

The Hamburg market for the leasing of industrial and logistics real estate posted significant gains in the first half of 2014, well ahead of the same period the previous year. Elsewhere in this issue we examine how this phenomenon is affecting many of Germany's larger cities – the example of Hamburg is a good one.

According to a recent analysis conducted by Realogis, total turnover by all market players in Hamburg and surrounding region together amounted to 215,000 sqm during this period. This represents a plus of more than 65% over last year (1st half 2013: 140,000 sqm). This positive trend is attributable, among other things, to the rising number of large-scale deals of more than 8,000 sqm, which was already forecast last year, and which constituted 37% of the overall turnover.

For example, the start of construction on the new air cargo center at Hamburg Airport marked the biggest deal of all, totaling around 20,000 sqm. In big demand among logisticians was the southern Hamburg metropolitan region, where two leases of 8,900 sqm and 9,500 sqm respectively were signed with logistics providers.

"Many companies don't necessarily need to be close to the container terminals in the port, and logistics enterprises are increasingly willing to accept higher truck costs when deciding where to locate their warehouses, in return for the lower rents outside the conurbations," explains Jörg Lojewski, Head of Department at Realogis Immobilien Hamburg GmbH. As many logistics centers in the metropolitan regions now have good public transport connections, among others for their employees, these venues will remain interesting for many forwarding agents in the future as well.

Still sought after were facilities with between 1,000 and 3,000 sqm, mainly in the eastern districts of the city such as Billbrook/Allermöhe (33% of all turnover). Jörg Lojewski: "Unfortunately there is still a lack of high-quality real estate products in this popular location, which has again prevented an increase in turnover from being achieved in this segment."

Units larger than 3,000 sqm accounted for around 22% of the overall result, and the segment from 8,000 sqm upwards for 37%.

Large spaces await tenants

In the Hamburg port and inner city areas, most of the available properties are in the size category of 10,000 sqm and over. These are primarily intended for contract logisticians. "The supply in this segment has further increased in recent months thanks to new building projects and existing properties becoming vacant," says Jörg Lojewski. "As we experienced a tangible revival of demand in the first half of 2014, we now expect to see some good deals going through in this segment by the end of the year, as was forecast. Furthermore, the first logistics property developers are starting to take into consideration the possibility of a splitting of the large spaces in their newly built facilities, as there is still strong demand for high-quality logistics properties with possible alternative usages in the segment up to 5,000 sqm."

Lack of land designations in Hamburg city for SMEs

Many mid-sized companies plan to purchase their own warehouse or production venue – partly because of the historically favourable conditions for financing right now. "What is more, the requirements that these companies have on such buildings are often so individual that a leasing solution is not an option," says Jörg Lojewski. But it is very difficult to find commercial and industrial properties in the Hamburg municipal area, as there is hardly any land available. Unfortunately, the administration failed to designate land near the city centre for this purpose, with the result that small and medium-sized companies now find themselves forced to move out to the surrounding districts.

Companies moving to metropolitan regions

The business development programs of the Hamburg metropolitan regions have reacted to this and now offer commercial real estate with flexible section layouts for sale on the edge of Hamburg city, at affordable prices in line with the market. Also, the townships are attempting to lure companies with lower land taxes and a Hamburg telephone number. Many industrial areas now have an excellent infrastructure that makes the jobs there much more attractive for employees, and the companies' search for specialist personnel considerably easier.

Relevant transactions in the first half of 2014: As expected, an increase in large-scale deals compared to the same period last year:

Hamburg Airport HH-Fuhlbüttel/North 20,000 sqm
Asropa Food GmbH Glinde/Surrounds east 11,700 sqm
van Eupen Service Logistik GmbH & Co. Rade/Surrounds south 9,500 sqm
Spedition Dirk Vollmer GmbH Rade/Surrounds south 8,850 sqm

Logistics companies still lead the industry ranking

In the ranking of floor-space turnover by industry, the Realogis analysis did not expose any changes from last year. Logistics services providers were able to defend their leadership with around 67% of the turnover, even adding 4% to their lead compared with the same period the previous year. The areas with the most turnover were those close to the city, such as Billbrook/Allermöhe in the east, the port and the southern outskirts of Hamburg. The deals with logistician van Eupen and forwarder Dirk Vollmer were among these transactions. Retailers placed a poor second with 17% (minus 3%), followed by industry/production with 14% (minus 1%) and other industries, again with 2% of the real estate changing hands.

Outlook

The rising demand for large properties will have a positive effect on the market for warehouse and logistics space in Hamburg, and lead to a reduction of the vacancy levels in projects built on spec in this segment. Indicators of this positive trend include the resurgent container handling figures in the port of Hamburg, the good consumer climate and the Government's economic growth forecast for Germany of 1.8% in 2014 and 2.0% in 2015. Realogis expects a turnover volume around the five-year average of 540,000 sqm by the end of the year. That would represent an increase of around 6% year on year.

One of the main tasks for the future remains the development of the port and the related infrastructure for smooth traffic flows. The extension work being done on the BAB 7 motorway to the north and south of the ElbTunnel has further aggravated the transport situation relevant to the logistics industry in the region. Jörg Lojewski: "Logistics providers fear effects on the cost structure of container trucking due to these long-term construction sites. This could cause financial difficulties for SMEs." It remains to be seen how the crisis in the Ukraine will affect the market.

at 3.9%, most outside the CBD, which seems to be currently favoured by companies. This might lead to the opening-up of space as a result, say the researchers.

The longer-term prospects are better, however. As GDP is set to grow by 2% in 2014 and 2.5% in 2015, and most sectors planning to hire new employees, growth should return in 2015. "Once vacancy rates stabilise, additional job creation should then begin to boost rental growth," said Capital Economics.

Germany/Foreclosures

Number of German foreclosures set to rise in trend reversal

There were less real estate foreclosures on commercial and residential property in German in the first half of this year than last year, according to the half-yearly report from sector specialist **Argetra**. Overall 23,000 court-ordered foreclosures took place over the six months, 1.4% less than in the same period last year. Last year the figure was down 29% on the previous year. Argetra gathers its data from court-ordered procedures at over 500 German district courts.

Interestingly, the Ratingen-based Argetra is flagging a trend change, however – they expect the total of foreclosures for the full year to be up on the previous year for the fist time in eight years, both in number of foreclosures and in the total value of the assets.

In fact, the value of foreclosures in the first six months was up by nearly €29m to €3.6bn. The number of actual foreclosures rose in western Germany by 0.5%, while the figure in eastern Germany was marginally down. 70% of all foreclosures are in the residential sector, where banks have traditionally considered their risk to be very low, so a trend change could give them pause for thought after a steady run-up in prices over the past three years.

Germany/Residential

BIH saga grinds on, Wertgrund the winner in major acquisition

The most significant residential deal over the past couple of months saw listed residential property investor **Westgrund** nearly triple its holdings, when it paid about €390m for nearly 13,300

apartments from **berlinovo**, a company majority-held by the state of Berlin.

Wertgrund said that about 12,000 of the residential units and 63 commercial properties will be integrated into its existing holdings, with the rest (mainly in Neubrandenburg and Görlitz) destined to be disposed of quickly. Most of the assets are in Lower Saxony (particularly the **Volkswagen** city of Wolfsburg), Brandenburg, Mecklenburg-Vorpommern and Saxony. The new acquisition brings Wertgrund's holdings to about 20,000 units.

The new portfolio (after disposals) generates rental income of €37m and has an occupancy rate of 91%. The new revenue stream will boost Westgrund's annual rental revenue by more than 150% to €61m.

The properties in the portfolio have a chequered history. They represent all the non-Berlin assets of the berlinovo group, the former **BIH Berliner Immobilien Holding**, which now finds itself left holding a remaining 14,000 units in Berlin for the long haul, as was its stated goal. Berlinovo inherited 24 property funds as a legacy of the near-insolvency of banking group **Berliner Bankgesellschaft,** whose total meltdown was only prevented by the injection of €22bn in equity by the **city of Berlin**, and the hiving-off of its non-core properties into BIH.

In a complicated agreement at the time, Berlin agreed to buy out all previous shareholders of the funds with a view to gaining full control and then dissolving the funds. It is now very close to reaching the desired 100% by buying up shareholders' interests. Before this sale to Wertgrund, Berlin held 526 separate assets with 41,000 rental units – nearly all of them now residential, throughout Germany with a few in neighbouring European countries.

According to Westgrund CEO **Arndt Krienen**, (*pictured, above*) the newly-acquired residential assets in this latest deal are located outside the pricier neighbourhoods in their locations and were let to squarely middle-class tenants, which "ideally complements" the company's existing holdings, he said. Funding for the acquisition would come from a rights issue, which has been guaranteed by a consortium of investors and German banks.

The €100m capital-raising exercise, being handled by **Arbireo Capital** as Sole Financial Adviser, is also expected to broaden Westgrund's shareholder base and lead current acquisition being seen as merely the "ignition for a further growth path", he said.

Barclays Bank provided financing for the deal, with the bank also taking on the role of M&A adviser for Westgrund.

REFIRE Report - Retail real estate in mid-sized German cities

GfK study on 2014 retail centrality in Germany

Mid-sized cities offer substantial retail trade potential, according to the GfK study "Retail Centrality 2014". To tap this potential, certain location and real-estate prerequisites must be met. An essential factor in establishing and maintaining an attractive retail landscape is the availability of good retail real estate.

In 2014, mid-sized cities such as Straubing, Passau and Weiden once again succeed in generating retail turnover more than twice the amount of the retail purchasing power available at those locations. With centrality ratings between 213.7 and 204.7, these Bavarian mid-sized cities lead the retail centrality rankings calculated by the GfK study, outpacing shopping metropolises such as Berlin, Munich and Hamburg. Fifteen mid-sized cities with populations from 20,000-100,000 rank in the top 20.

Top 10 districts in Germany	GfK Retail Centrality 2014 rank urban district (UD) / rural district (RD)	inhabitants	retail centrality*
1	Straubing UD	45,099	213.7
2	Passau UD	49,038	207.7
3	Weiden i.d.OPf. UD	41,684	204.7
4	Trier UD	106,544	201.8
5	Schweinfurt UD	52,098	201.7
6	Würzburg UD	124,577	186.5
7	Rosenheim UD	59,935	181.9
8	Hof UD	44,461	176.2
9	Memmingen UD	41,551	173.4
10	Zweibrücken UD	34,064	169.5

The study "GfK Retail Centrality 2014" provides a breakdown of retail potential for all of Germany's regions. Values over 100 indicate an inflow of purchasing power, while values under 100 indicate an outflow of purchasing power. A total of 157 districts have a centrality rating above 100, while 245 districts have a centrality rating below 100. This means that 60 percent of Germany's districts do not succeed in converting the local population's purchasing power into turnover or in drawing additional purchasing power from further afield.

There are various reasons that explain the sometimes surprising low or high retail centrality revealed by the study:

Successful large shopping centers and retail centers have a drawing power that extends far beyond their regional boundaries. For example, this effect can be observed in the tenth-ranked district of Zweibrücken, whose high centrality rating is due to its factory outlet center.

An additional factor is the regional significance of a specific town or city with respect to Germany's retail trade. Cites such as Straubing, Weiden and Passau serve as retail hotspots for the surrounding rural areas. All of these cities have large catchment areas that encompass a relatively high level of purchasing power. At the same time, the cities themselves have a relatively small number of inhabitants, which means that the inflow of purchasing power from the surrounding areas significantly exceeds the purchasing power of the cities' inhabitants.

By contrast, metropolises such as Berlin, Hamburg and Munich have a large number of inhabitants who predominantly shop within the city boundaries. While the retail trade in these cities draws many out-of-town shoppers, municipalities that serve as retail hotspots for surrounding rural areas draw proportionally even more shoppers.

Centrality rating of Germany's five most populated urban districts rank	Urban district	inhabitants	retail centrality*
1	Berlin UD	3,375,222	105.3
2	Hamburg UD	1,734,272	110.9
3	Munich UD	1,388,308	114.0
4	Cologne UD	1,024,373	122.5
5	Frankfurt am Main UD	687,775	105.9

"Centrality ratings measure the extent to which a given area can currently draw turnover beyond the locally available purchasing power," explains GfK retail expert **Manuel Jahn (***pictured, right)*. "The greater the product variety and turnover volume, the greater the drawing power. A good retail location functions as a magnet for the surrounding region. This makes it even harder for already weakened small and mid-sized cities to lure back consumers."

An important and often underestimated factor behind this situation is the increasing lack of sufficiently large and modern shop spaces with attractive surroundings. "Franchise chain retailers are also looking for good locations in small and mid-sized municipalities," says Jahn. "But even if there many unoccupied retail spaces, expansion endeavors often still fail due to the lack of suitable retail real estate with acceptable conditions. In this age of online trade, tenants are increasingly less tolerant of real estate with small spaces and unfavorable layouts. At these already flagging locations, prominent chains usually only accept pure turnover rent, for which investments and financing are hard to justify."

Jahn stresses that cities, owners and project developers must summon the vision and decisiveness to offer retailers favorable conditions for establishing a presence at a given location: "Even communities with currently low centrality ratings can be very attractive to chain retailers if they offer good potential. But if cities with weak centrality do nothing, a vicious cycle of declining customer frequency, turnover, consumers and drawing power can occur. It's crucial that project developers, retailers and municipalities think ahead at least 10 to 15 years so they can flexibly react to emerging developments, particularly in these times of expanding online trade and increasing consumer demands for convenience and an appealing shopping experience."

For many small and mid-sized cities, maintaining vitality depends upon proactively modernizing the existing real estate according to guidelines from the city, determined in cooperation with real estate owners and retailers. Studies from the UK – where the decline of small and mid-sized shopping cities has long been a theme – show that cities with historical architecture offer better conditions. But even the most appealing architecture will be of no use without a good retail offering.

For this reason, Jahn argues that it's vitally important that product offerings be aligned with both the size of the catchment area and the characteristics of consumers in the region. This imperative is meant for both municipalities and retailers interested in establishing a presence at a given location.

"Straubing is obviously doing many things well to earn the top spot in the centrality rankings: Compared to other small mid-sized cities, Straubing has an above-average city center offering of top-tier clothing, shoe and jewelry retailers; this offering is well chosen with respect to the city's socio-demographic characteristics and income situation. Thanks to sound urban planning policies, discount retailers are concentrated at a limited number of traffic-oriented locations that clearly target consumer demand in the extensive rural regions surrounding the city."

Definition of "mid-sized city"

According to Germany's **Federal Office for Building and Regional Planning (BBR)**, a mid-sized city is a city with between 20,000 and 100,000 inhabitants. Cities with between 20,000 and 50,000 inhabitants are characterized as small mid-sized cities. Assuming good catchment area conditions and potential, these small mid-sized cities are in some cases as attractive for retailers as large mid-sized cities with more than 50,000 inhabitants.

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.

- Published 16 times a year from Frankfurt am Main, in the business heart of Germany, REFIRE is available worldwide on subscription. Issue dates are the beginning and the middle of each month, with two small breaks throughout the year. Each issue is delivered to subscribers' desks or home address by email notification and immediate PDF download.
- As a subscriber, you will be give a special login code enabling you to download the latest issue from day of publication, in addition to giving you full access to the full searchable archive of articles previously published.
- Subscribers will also be able to avail of occasional special offers which REFIRE will negotiate on your behalf, and which we will notify you about accordingly.
- The normal price for an annual subscription is €595.00, but we are offering new subscribers the opportunity to subscribe for the first 12 months **for only euro €385.00, a discount of over 35% off the normal rate.**
- For subscribers in the UK, the discounted first-year rate is **Stg£275.00** (normal rate Stg£425.00). If you live in the US or Canada, the discounted first-year rate is **US$475.00 (normal rate US$730.00).**

☐ YES! I would like to subscribe to Real Estate Finance Intelligence Report Europe (REFIRE). As a first-time subscriber I qualify for the new subscriber discount of over 35%. I understand that I can cancel at any time and for any reason and I will receive a full refund on any undelivered issues.

☐ I would like to register for a free trial subscription to REFIRE. I understand that you will issue me with my own login code, enabling me to download the next two issues of REFIRE completely free of charge and with no obligation on my part to subscribe. With my login code, I will also be entitled to review all past editions.

☐ I would like to access REFIRE as part of a multiple subscription for my company, and would like you to contact me.

First Name _____ Last Name _____

Job Title _____ Company _____

Address 1 _____

Address 2 _____

City _____ Country/State _____

Postcode/Zip _____ eMail Address _____

Telephone No. _____

Method of Payment:

☐ Cheque Enclosed (please make payable to REFIRE) ☐ Please Invoice Me

☐ Please Charge my Credit Card: ☐ VISA ☐ Mastercard 3-digit Code:

Credit Card No. _____

Expiration Date _____ Signature _____

Mail or fax to: Charles Kingston, Editor REFIRE, Habsburgerallee 95, 60385 Frankfurt, Germany. FAX +49-69-49085 804