REFIRE
Real Estate Finance Intelligence Report Europe

Volume 7, Issue 124, August 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:

Mall of Berlin sets new standards for German retail and financing

After a number of delayed starts, it looks like Europe's biggest urban shopping development, the Mall of Berlin, is all set to open on the 25th September in the city's historic Leipziger Platz in Berlin-Mitte, between the Reichstag, Friedrichstrasse and Potsdamer Platz. It is certain to set new standards in many respects – its sheer scope and size, its innovative approach to reconstructing a whole city quarter rather than just bundling the usual retail suspects under one giant roof, and the selection of retailers themselves, many of whom would not traditionally be drawn to German cities' downtown shopping centres.

The financing of the giant project has also broken a number of records, and set a new standard for the ability of developers to realise massive projects without the traditional reliance on typical bank lenders as the primary financial providers.

Deutsche Hypothekenbank, the **Bayerische Versorgungskammer (BVK)** and **BNP Paribas Real Estate REIM** are providing €600m in long-term financing for the Mall of Berlin project, a consortium owned by **High Gain House,** the vehicle of prominent developer **Harald Huth**, and his 30% partner the London-based **Arab Investments**, controlled by the **Affara** family office. The deal was arranged by Berlin-based **Primor Capital Partners**, with law firm **Noerr** acting for the lenders and **GÖRG Partnerschaft von Rechtsanwälten** representing the borrowers.

The Bavarian occupational pension fund BVK is putting up the lion's share of the loan at €450m, while Hannover-based Deutsche Hypo is lending €80m as consortium leader and agent, and two debt funds managed by BNP Paribas REIM are putting up the remaining €70m. The loans are for 10 years, with BVK's lending ranked as senior, the BNP loans as subordinate, and Deutsche Hypo's spread across the other two.

The deal ranks as one of the biggest-ever German real estate financings not principally provided by a bank

Resurgence in M&A market helps Lone Star shed DüssHyp

US private equity investor Lone Star has sold its second German real estate financing bank, Düsseldorfer Hypothekenbank (DüssHyp) to a consortium for an undisclosed price. The deal follows on the heels of its sale of Corealcredit Bank in Frankfurt to neighbouring see page 3

JLL wins Hatfield Philips mandate for €300m+ German retail portfolio

It's been a busy but very fruitful period for special real estate loan servicer Hatfield Philips (HPI). Following on from a complex restructuring process related to its Talisman 6 CMBS, which we reported on in an earlier issue of REFIRE. see page 5

IVG Immobilien to sell off The Squaire, Silberturm

The Bonn-based IVG Immobilien AG, until recently Germany's largest real estate company until it filed for insolvency last year is back in the news over reports that it is selling two of the Frankfurt properties with which it is now most closely associated - The Squaire and Silberturm see page 8

Asian hotel groups discover German market

With Asian investors becoming increasingly active on the German market, one area which can expect to start seeing a lot more interest is the hotel sector. Most hotel groups have already made see page 12

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

lender, and certainly one of the biggest loans ever provided by a German institutional investor, BVK.

The financing partnership is part of the strategic co-operation between Deutsche Hypo and Germany's biggest pension fund manager BVK which was agreed upon last autumn, and which we reported on in these pages. According to **André Heimrich**, board member and head of investments at the €60bn BVK, "Our agreed collaboration with Deutsche Hypo for projects like this can serve as an excellent example for future projects, while with the possibilities open to us as a financier, we will certainly be looking to finance further big projects."

"BVK separately confirmed that it is looking at several new projects, some in the residential sector, which it plans to become more involved in, both as a lender within a consortium, as well as on its own."

BVK has already financed several major German transactions over the past two years, including the *Silberturm* in Frankfurt (the ex-**Dresdner Bank** headquarters, now leased to **Deutsche Bundesbahn**) and *Tower 185* in the Frankfurt business district, developed by **CA Immo**. BVK separately confirmed that it is looking at several new projects, some in the residential sector, which it plans to become more involved in, both as a lender within a consortium, as well as on its own.

The €70m tranche from BNP Paribas REIM funds is the largest financing ever granted by German debt funds. "This large-volume financing is a further important step towards establishing debt funds in Germany and underlines our market leadership in the area," said BNP REIM chairman **Reinhard Mattern**. "We are convinced that the role of non-bank lenders in property financing will grow further."

The spectacular Mall of Berlin at Leipziger Platz, on the location of the famous *Wertheim* department store which was destroyed in the war, will have 80,000 sqm of lettable retail space when it opens, with more than 270 retail and gastronomy tenants, along with 30,000 sqm of residential space. Along with a 12,000 sqm hotel, a further 50 stores will be opened in an adjoining building next year, while the residential area is expected to include the completion of 250 top-quality apartments, also by early next year.

The new centre (*pictured, left*) will be the largest in Berlin in terms of shops and tenants, although not actually in terms of lettable retail space. That honour belongs to the *Gropius Passagen* in Berlin's Neukölln neighbourhood, another project of Harald Huth's which was completed in the late '90's and currently has 85,000 sqm of retail space. Huth subsequently also completed another huge mall, the *Schloss* in Berlin's Steglitz neighbourhood. The opening hours in the Mall of Berlin will be the longest in Berlin, however, with tenants required to keep their stores open from 09.00 to 22.00, rather than until 21.00 as is normal in Berlin's other big shopping centres.

Deutsche Hypo is the property financing division of north German landesbank **NORD/LB**. Active in Germany, UK, France, Benelux and Poland it has a balance sheet of €31.3bn. Bavarian BVK manages a total investment

volume of €59bn. BNP Paribas REIM Germany, part of the French banking group, specialises in property Special Funds and Luxembourg SICAV solutions. The firm has €4.3bn of assets under management in 13 funds, two of which are debt funds. BNP Paribas bought **iii-investments** late last year from Germany's **HypoVereinsbank**, a subsidiary of Italy's **UniCredit Group**.

Germany/Banking

Resurgence in M&A market helps Lone Star shed DüssHyp

US private equity investor **Lone Star** has sold its second German real estate financing bank, **Düsseldorfer Hypothekenbank (DüssHyp)** to a consortium for an undisclosed price. The deal follows on the heels of its sale of **Corealcredit Bank** in Frankfurt to neighbouring **Aareal Bank** at the end of last year. The deal is the largest German bank takeover since the onset of the financial crisis.

The buyer is a consortium headed by London investment group **Attestor Capital LLP** and investment banker **Dr. Patrick Bettscheider**. The new owners plan to convert the mandatory convertible bonds in the bank into permanent equity capital, and to boost the core capital position of the bank, while continuing to run DüssHyp as a going concern.

Attestor manages $1.5bn assets for investors (according to the sparse information available on the company), while prominent wheeler-dealer Bettschneider recently sold out of Frankfurt-based **MainFirst**, a boutique investment bank he co-founded in 2011, to establish Swiss-based **Interritus** with former Commerzbank director **Ulrich Sieber**. The buying consortium completed the deal with Lone Star through holding company **Ocean Holding**. Both parties are thought to be holding equal shares of 45%.

Founded in 1997, DüssHyp is a small (€12bn balance sheet) Pfandbrief-issuing bank specialising in financing residential properties, offices, hotels, logistics and parking with mortgage small bond loans in the region of €10-50m. It also engages in syndicated loans with other lenders.

Lone Star rode in to rescue DüssHyp in 2010 in the midst of the financial crisis after the ailing Düsseldorfer bank had been absorbed in 2008 for safe keeping by the **BdB Association of German Banks**' special protection unit. The BdB subsequently brought in further help from government bailout fund **SoFFin**, to protect the integrity of both DüssHyp's deposit insurance and its Pfandbriefe.

Lone Star is thought to have injected more than €500m to strengthen the core capital position of the bank. DüssHyp has continued to make losses, however, with the latest figure €25.9m of losses for the first half of this year, after full-year losses in 2013 of €60m and €86m in 2012. The core capital position remained weak, reaching 8.5% at end-2012 – only

EDITORIAL

The long and winding road - from Chongqing to our very own Duisburg

The Yuxinou Railway is a freight rail route which links China with Europe along the New Silk Road. It starts in the southwestern Chinese city of Chongqing, carves through the Alataw Pass into Kazakhstan, and after chugging through Russia, Belarus and Poland, it terminates in the old steel-making city of Duisburg, in Germany's most populous state of North Rhine-Westphalia.

If you live in Europe and use an iPhone or an iPad, there's a good chance that your smart device landed up in Duisburg after a 14-day, 11,200 km journey from the Foxconn factory in Chongqing, one of Apple Inc's principal contract manufacturers. Two years ago the train, about 800m in length, ran weekly. By the end of 2013 it was running three times a week. Now, after a sevenfold increase in volume since 2012, the train is about to start arriving daily.

Now, Duisburg would not normally be considered a first-choice destination for international capital looking to invest in Germany. True, the city has undergone a renaissance since its decline from its glory days as a steel producer and a centre of the mining industry, but most investors are more naturally drawn to its neighbour, Düsseldorf, which has a much more urbane and glamorous feel to it.

Duisburg is, however, the largest inland port in the world. Although deep inland, more than 20,000 seagoing ships stop off at Duisburg every year, and more than 40m tonnes of various goods are handled through the city's sophisticated container port facilities. For investors in logistics and infrastructure, the city is very much on the map.

REFIRE recently met with Duisburg's office for economic development, where the CEO told us that the previous day he had held no less than FOUR meetings with different groups of Chinese investors. All were anxious to soak up anything they could learn about what it takes to run the world's most successful inland port.

Doubtless they were also weighing up investment opportunities in the infrastructure and real estate that accompany the development of new transport arteries across the globe – new versions of the Silk Road that the Chinese government is now actively promoting to propel the movement of both goods – and companies themselves – out into the wider world, and get away from the image of China as mere sweatshop for the world's manufacturing. The process has been underway in Africa for a decade now, and its results are plain to see. Europe is now increasingly in Chinese investors' sights, and while transformation won't happen overnight, the long-term implications of this historical development are inevitable.

A recent study by consultants Ernst & Young shows that Chinese companies made 68 sizeable direct investments in Germany last year, not counting mergers and takeovers. This pushed Germany to the top of the table – ahead of the UK and France – of European destinations favoured by the Chinese for industrial development, and nudged the Chinese into third place overall, behind the US and Switzerland, for German inward investment.

Several factors are at play here. The Chinese government's recent moves to lower the barriers to Chinese companies' overseas investment will now enable Chinese capital to move much faster, a hindrance which led them to lose out on several deals in the recent past. While 'official' Chinese investment in German real estate has been modest so far, we have no doubt this is about to change. Inofficial investment, however - from private individuals, family groupings or investment pools and club deals cobbled together from the wider mainland and overseas Chinese community - is already rampant.

Just last week a REFIRE staff member was witness to an almost surreal dispute between a seemingly wealthy Chinese lady and a local Frankfurt financial institution. The lady was having difficulty understanding why she couldn't buy the two newly-built apartments that she wanted - on her credit card. The notion that Germany has compliance standards, and likes to have SOME idea of the source of sizeable sums of money, was proving difficult for the would-be investor to digest...

Still unquantifiable is the amount of Chinese real estate investment that is allocated indirectly via asset and fund managers, although it is certainly more than that invested directly. Obviously Germany has much catching-up to do. The UK is still - by far - the preferred destination in Europe for real estate investment, with a Chinese market share of 6%, compared to the estimated 1% in Germany.

This is certainly going to change, not least because of the investment pressure that many Chinese institutions now find themselves under. With a falling property market at home, the pressure to look out beyond their borders is increasing, and the Eurozone is offering stable if modest returns, in addition to a currency hedge.

Recent regulatory changes in China now permit Chinese insurers to double their allocations to infrastructure and real estate to 20%, and while the larger players are likely to look at accessing the market initially through funds and listed companies, drawn by attractive dividend yields, they will inevitably develop the expertise and the contacts to invest directly.

Furthermore, investments of up to €1bn, which previously required special government dispensation, now merely need to be registered with China's National Development and Reform Commission (NDRC), greatly speeding up the ability of Chinese companies to think boldly and move fast.

REFIRE has had a very positive response from German companies wishing to participate in our forthcoming "1st Annual German-Chinese Real Estate Forum" taking place in China, with highly-targeted Chinese investor participation. The Forum will include a full day's conference devoted to German real estate opportunities for outbound Chinese investors in each of three cities: Hong Kong on January 19th, Beijing on January 21st and Shanghai on January 23rd.

For speaker positions and sponsorship opportunities, along with the ability to participate in the week-long road-show, things will be moving fast between now and the Expo Real in Munich in early-October. Make sure to stay tuned to our website to follow developments: **www.refire-online.com**

Charles Kingston, Editor

just averting intervention by Germany's financial watchdog **BaFin** had it reached the critical level of 8.0%. By end-2013 it had recovered to reach 13%

Lone Star has been continuously reducing DüssHyp's balance sheet, particularly its public financing book which has been shrunk from its then €17bn to €6.4bn now. The bank has a commercial property loan book of €1.2bn, of which approximately €200m is underwriting US property deals, southern European loans, or securitisations which it no longer wants. While these are likely to be shed, DüssHyp does want to expand its domestic property lending, along with lending into markets like the Netherlands and larger cities in France and Spain. It doubled new business lending in these areas in the first half-year to €260m, including extensions.

Lone Star still owns a further two German banks – the stricken Düsseldorf industrial lender **IKB** and the Frankfurt-based **MHB Bank**. It may be hoping that the recent resurgence in German banking M&A activity may also help to smooth a path to exit for those holdings as well. Recent merger deals include the **BNP Paribas** takeover of Munich-based online broker **DAB**, and **ABN-AMRO**'s subsidiary **Bethmann Bank**'s takeover of **Credit Suisse**'s German private client business.

Germany/NPLs

JLL win Hatfield Philips mandate to sell €300m+ German retail portfolio

It's been a busy but very fruitful period for special real estate loan servicer **Hatfield Philips (HPI)**. Following on from a complex restructuring process related to its **Talisman 6 CMBS**, which we reported on in an earlier issue of REFIRE, Hatfield Philips has now mandated property adviser **JLL** to market 127 German retail properties held by the well-known **Treveria Silo E** portfolio, the so-called *'Orange Loan'*.

Several weeks ago the company

announced that it had implemented a workout strategy and restructuring of the €225m *'Apple' Whole Loan* in the Talisman-6 Finance Plc CMBS. That loan, originated in 2005 by **ABN AMRO**, was granted to a group of German companies to buy commercial properties throughout Germany. HPI's solution involved a complicated transfer of shares from the original German borrowers to two Irish-based holding companies, and an agreement for a final settlement of German intercompany loans, generating enough from the settlement to exceed the cost of the restructuring.

Now, out of the same Talisman-6 CMBS, comes Hatfield Philips' final drive to sell off the remaining 142-strong German retail portfolio, with a new sales process called **Project Sunrise**.

With about 15 of the assets already earmarked for individual sale, which should raise just under €8m, JLL will be selling a portfolio of 127 commercial properties, with the sales process due to kick off in September. HPI expects to raise between €300m and €380m from the whole 142-asset portfolio, which has been primed for sale over recent months by asset manager **Corpus Sireo**, working with Berlin's **Acrest Property Group** and **IC Immobilien Gruppe** to stabilise the portfolio.

Recent valuations of the portfolio are now more than two years old, with the most recent – from **BNP Paribas** in May 2012 – valuing the assets at€395m. However, these are no longer considered realistic valuations. The vacancy rate is high at 28.05%, the WALT is 3.77 years, and the annual rent roll is €24.5m, generated by mainly city centre retail properties in A and B locations across Germany. Among the assets are the *Gloria Galleria* on the Ku'damm in Berlin (the largest single asset, perhaps worth up to €95m according to some estimates), department stores in Brühl, Koblenz and Euskirchen, and shopping centres in Solingen and Wilhelmshaven.

The UK-listed Treveria, which was set up specifically to invest in German retail properties, went into default on the €360.4m Orange Loan in October 2012, with HPI refusing to extend the debt for a second 12-month period. There followed a court battle in 2013, in which the insolvent Treveria unsuccessfully tried to subordinate the Orange Loan claims behind other higher-ranking claims, pleading a recent German decision based on a principle of "equitable subordination"

HPI's CEO **Blair Lewis** said in a statement, "After careful consideration, we firmly believe now is the appropriate time to market the portfolio given its intrinsic value and attractive lease profile. This, combined with the strength of the market, should result in significant investor interest. We look forward to the sales process and maximising proceeds to noteholders."

Over at JLL, **Peter Birchinger**, head of portfolio investment in Germany, said, "Due to the excellent market conditions and the highly attractive nature of the portfolio, we expect high demand from both national and international investors."

Hatfield Philips, founded in 1997, has over €15bn under management as a primary and special servicer. It is a subsidiary of US-based **LNR Property**, which was itself acquired in April last year by **Starwood Property Trust**, the largest commercial mortgage REIT in the US.

Germany/Residential property

Germany reaping "uncertainty" dividend from Ukraine, Mid-East crises - report

German institutional asset manager **KGAL** says in its latest half-yearly report that the German residential property market is not only benefiting from Germany's own stable internal economic environment, but is reaping an "uncertainty" dividend from the crises raging in the Ukraine and in the Middle East, causing investors to seek the safety of bricks-and-mortar investments.

With premium residential properties now in scarce supply, already high prices can be expected to rise still further, say the KGAL researchers. They point to the numbers: transaction volumes in German residential real estate rose in the first six months to nearly €7bn, a further rise of 3% over the same period last year. Only a lack of suitable assets led to the market losing some of its dynamic factor in Q2, leaving that quarter somewhat behind last year's. The second half is also unlikely to see the same level of large transactions, for the same reason.

However, the researchers forecast a demand for new housing of 256,000 units annually until 2025, which will keep the market under pressure. Purchase prices for apartments rose by 1.7% in Q2, while rents rose by 1.1%, showing little sign of an end to the upward trend. Potential investors should be adjusting their strategy of looking for properties in the already-stretched A-cities and going on the "controlled offensive", particularly in smaller German cities, they advise.

The KGAL researchers also look at the prospects for retail real estate. Despite the increased competition from the online trade, Germany remains the most attractive market worldwide for retail investment, they claim. Of a total of €16.9bn of investment in commercial property in Germany in H1, a total of €4.9bn or 30% went into retail, with nearly €10bn being allocated to the segment by year-end. Foreigners were the driving force behind these figures in H1 with a market share of more than 50%, in many cases representing retailers desperate to find suitable outlets for their international brands.

Verband deutscher Pfandbriefbanken figures

A further study crossing our desk comes from the **vdp Verband deutscher Pfandbriefbanken**, the association of Pfandbrief-issuing banks, which correlates closely with the KGAL study. Based on actual transactional data, the vdp figures show that Prices on the German property market advanced yet again in the second quarter of 2014. The vdp property price index for the German market as a whole climbed by 4.7% in the months April to June 2014 compared with the corresponding quarter one year earlier.

"We observed the strongest price increase in the market segments comprising multi-family houses and office premises. Against the backdrop of historically low interest rates and favorable underlying economic conditions, demand for German residential and commercial properties as an investment opportunity persists. This applies again, and to a growing extent, to institutional investors from abroad," said **Jens Tolckmitt**, chief executive of the vdp.

In the housing market, the price of owner-occupied residential property rose by 2.5 % compared with the same period the previous year. For single-family and two-family properties, the increase on the same quarter last year was 2.6 %. The figure for condominiums was more modest, with prices rising by 2.2 % over the same period.

Multi-family house prices saw a considerably larger rise. The capital value index for multifamily houses rose by 7 % when compared with the second quarter of 2013. This was fuelled by a sharp rise in new lease rentals, which increased by 5 % against the second quarter of 2013. At the same time, there was a 1.9 % fall in the cap rate index for multi-family houses. Overall, in the second quarter of 2014, the vdp residential property price index rose by 4.8 % compared with the second quarter of 2013.

Germany/Acquisitions

Deutsche Bank, ECE said to have bought Palais Quartier for €800m

Reports circulating around Frankfurt suggest that a deal may already have been struck for a change of ownership of the whole *Palais Quartier* complex in the centre of Frankfurt's shopping district (*pictured, right)*. A number of media reports quoted reliable sources saying that **Deutsche Bank** (through subsidiary **Deutsche Asset & Wealth Management**) and shopping centre operator **ECE** are paying about €800m for the complex.

If this is true, then the price would be considerably lower than that at which owner Dutch bank **Rabobank** had been looking to sell since the beginning of the year – for a price closer to €1bn, it is thought. The construction costs for the complex, which opened in 2009, were estimated at €1.2bn.

Rabobank's development subsidiary **MAB** built the complex at Frankfurt's Hauptwache , in the heart of Frankfurt's shopping district. It consists of the 136-metre tall office tower *Nextower*, the 99-metre-tall *Jumeirah Hotel*, Frankfurt's most prominent shopping centre *MyZeil*, and the reconstructed *Thurn-und-Taxis Palace*, which gives the centre its name.

While the shopping centre, the hotel and the Palace have become accepted parts of Frankfurt's inner-city, the towering office building has remained largely empty since being built, despite its absolutely prime location. A mere three floors have been let out, leaving 27,000 sqm still vacant. Critics say this is because of the unrealistic rent expectations of its owner. The new owners will want to 'reposition' the property on the market, probably at a more realistic market rent, according to **Colliers** in Frankfurt.

If ECE takes over as joint owner, it will then be managing five of Frankfurt's six largest shopping centres, along with the recently-opened *Skyline Plaza* in the city's *Europaviertel*, the highly popular *Main-Taunus-Zentrum* on the city's fringes, the *Hessen-Center* and the *Isenburg-Center*. The MyZeil has among the highest retail rents in Germany, at €320 per sqm per month second only to Munich's very top rents.

Also in the package is the as-yet-unbuilt corner which housed the building of the old **Frankfurter Rundschau** newspaper, which the buyers are thought likely to sell on straight away to a third party developer. The plans envisage an 8-storey mixed-use office/residential property of 15,000 sqm office and 3,500 sqm residential, with retail on the lower floor.

Germany/Office Properties

IVG Immobilien to sell off The Squaire, Silberturm

The Bonn-based **IVG Immobilien AG**, until recently Germany's largest real estate company until it filed for insolvency last year is back in the news over reports that it is selling two of the Frankfurt properties with which it is now most closely associated.

Various reports last week said that IVG is lining up a new attempt to sell *The Squaire*, the giant ship-shaped office and hotel property at **Frankfurt Airport** above the airport's mainline railway station. The property has been a mill around IVG's neck since its inception, and contributed in no small way to IVG problems with construction delays and massive

...see page 10

cost overruns. It was completed in 2011, is two-thirds of a kilometre long, has 146,000 sqm of lettable space, including two **Hilton** hotels, and includes consultancy group **KPMG** as its main anchor tenant, but it is still not completely let.

The nine-storey Squaire is IVG's biggest asset, with a valuation of €800m now after construction costs of more than €1bn. The insolvent IVG, which is now owned by its creditors after wiping out the shareholders, is now restructuring €3.2bn of debt after the deal with its bondholders allowed it to write off €2.2bn before de-listing. It owns about €4bn of office property assets across Europe, while its institutional funds division manages €12bn of real estate for hundreds of investors.

While IVG seeks a buyer for its institutional funds division, it is also clearly looking to lighten up here as well on its heftiest assets. Next up on the block for sale, according to reports in Frankfurt, is the landmark *Silberturm* tower near the Frankfurt main railway station.

The 32-storey, 166m-tall tower with 33,400 sqm of lettable space was once Germany's tallest building, and served as the headquarters of the **Dresdner Bank.** Following the bank's absorption into **Commerzbank**, the building was renovated and leased to the German railway operator **Deutsche Bundesbahn** on a 15-year lease, where it houses 2,000 employees. IVG Funds bought the building in 2011 from Commerzbank. The price IVG hopes to get is €450m, according to reports.

Europe/Acquisitions

MStar Europe move into gear with €260m light industrial portfolio

MStar Europe, the joint venture between US group **Starwood** and the UK's **M7**, has agreed to buy a portfolio of light industrial assets located mostly in France, Germany and the Netherlands for €258.7 million. With a planned target volume of €500m, the acquisitions see the group passing the halfway stage in its planned investment programme.

The 613,000 sqm portfolio consists of 55 properties in Belgium, France, Germany, the Netherlands and Sweden, bought through portfolio transactions and a successful buyout offer for the listed **Tamar European Industrial Fund (TEIF)**, which will see that Fund de-listed from the **London Stock Exchange** next month. The assets in the Tamar fund were valued at €130m.

The deal included 10 warehouses with lettable space of 153,000 sqm located around the populous *Randstad* region in the Netherlands, bought from **Rockspring** for €71m. It also included five light industrial properties in Germany from a fund advised by **VALAD** for €44.7m.

The German assets are in Frankfurt, Pulheim near Cologne, Stelle near Hamburg, and two in Ratingen, near Düsseldorf. At nearly 100,000 sqm, the price equates to just under €450 per sqm. The strategy for Germany is to buy multi-tenanted assets at a unit value of between €3m and €10m per asset, with "plenty of value-added potential". In other words, MStar will buy portfolios of up to €100m, with vacancy rates of up to a third and in need of capex, even on very short remaining leases, where it can add value through active asset management, it says.

According to **Richard Croft**, the CEO of M7 Real Estate: "We set up MStar Europe to seize the opportunities that we identified in continental Europe to assemble a portfolio of high-yielding multi-let assets, some of which require active and creative management. The speed with which we have deployed capital validates that strategy. We continue to see Germany as a particularly attractive market for our value-add or opportunistic approach to investment."

The deal marks the second light industrial joint investment programme between the Connecticut-based Starwood and M7. The pair set up **MStar** in June last year, a UK-focused venture, which has since bought 27 assets in the UK

with a value of €70m. M7 brings a wealth of experience to the European markets, where it also invests in and manages assets alongside private equity firm **HIG Capital** and US private equity group **Oaktree**

Commenting on the launch of the European platform, Adam Shah, senior vice president of Starwood Capital said: "These transactions are a continuation of our successful platform in the UK in acquiring light industrial real estate. These assets have strong existing cash flows in place and we expect to drive additional value to the portfolio through our shared expertise in managing these assets.

As to the financing, the ever-vigilant **James Wallace** over at **CoStar Finance** has been digging around to get a good picture of just how the whole deal is being financed, particularly the mainly-French assets being inherited from the Tamar European Industrial Fund . He's come up with the following picture:

The €500m MStar Europe II Fund, which is 95%-owned by Starwood Fund IX and 5%-owned by M7 Real Estate, used a wholly-owned subsidiary **Lux Starlight** to buy the shares in TEIF for €130m. This involved putting down €66.7m in cash and inheriting the existing debt, consisting of an unpaid balance of €67.2m in mid-April.

The majority of the remaining debt of €60.1m is held equally by **Deutsche Bank** and **Macquairie Bank**, who jointly refinanced TEIF on 13th December with a 20-month loan to facilitate the closed-end fund's wind-up, at a cost of 6.75%. The loan, with a due date of 20th July 2015, included built-in reductions based on business plan targets, including asset disposals and reduced leverage. A further three of the Fund's assets have a lien on them of €7.1m from BNP Paribas, due to mature in 2016.

All of this leads to a new borrowing requirement of about €85m to refinance the inherited debt, based on a 65% LTV five-year senior loan on a carrying valuation of €130m. The joint venture says it expects to pay about 250 basis points above three-month Euribor for the senior loan. While initial talks have been held, the search for a lender is expected to be stepped up a notch following the formal de-listing of the TEIF from the Exchange in September.

Germany/Hotels

German hotel market investment hits record high

We report elsewhere in this issue on the arrival of several Asian hotel operators on to the German hotel market. Inevitably they are draw by the need for expansion, but it's also true that the market for investment in German hotels has hit a record high at the half-year point, as underscored by data from property advisors **JLL** and **Colliers International**.

Overall investment in the German hotel market touched somewhere between €1.36bln and €1.5bln as of June, higher than the previous historic high from 2007, and up 110% year-on-year. Only 38% of the transaction volume came from single investments, while the majority was attributable to packaged or portfolio deals. **Ursula Kriegl**, head of Hotels & Hospitality at **JLL Germany**, expects to see the €2bn investment threshold reached by year-end.

Reflecting the strength of the German hotel market, the joint stand of HospitalityInside at the upcoming **Expo Real** in Munich from 6th-8th October, which promotes the interests of the hotel industry, has greatly increased its floor area and for the first time is now a large island stand with four open sides (*Halle C2, Stand 230*). The "**World of Hospitality**" stand will feature 20 companies from 10 different countries, including 6 specialised consultancies and 13 major hotel groups, including such brands as **Accor**, **InterContinental**, **Hyatt**, **Kempinski** and **Wyndham**

REFIRE also noticed a report from the **German Federal Office of Statistics** recently detailing building permits granted for non-residential buildings across the country for the first six months of 2014. Overall a total of 92.2m cubic metres of building space was approved, 0.7% less than in the same period last year. The makeup varies considerably from last year, however. Many more hotels were approved, against many fewer office properties. The allocation for hotels and gastronomy rose by 29.4%, for light industrial buildings by 12.2%, and for retail and warehousing properties by 9.8%. Permits for office and administrative buildings fell by 6.2%, while institutional (government) buildings dropped off by 20.3%. Building permits for public sector development fell by 21%, while they rose for private sector developers by 1.5%.

Meanwhile, the prominent Frankfurt downtown **Hilton Hotel** recently changed hands in one of the largest independent hotel transactions in Frankfurt in the last 10 years. The seller is the UK-based **London & Regional Properties**, who bought the property in 2005 for €100m from the open-ended fund **Grundbesitz-Invest**. The new owner was identified by acting broker **CBRE Hotels** only as "new investors specialising in the luxury hospitality sector". The lease and operating contract with Hilton will remain in place. The new buyer, or buyers, of the 342-room hotel (including 14 suites) is financing more than €50m of debt with **HSH Nordbank**.

CBRE's **Philipp Kraneis** said the deal had been concluded in the very short time of two and a half months. "The Hilton Frankfurt is a state of the art building positioned at the heart of the city center's financial district. Its location, the fact that it has a lease with a high profile branded operator and the current strength of the hotel market all made this transaction an incredibly popular investment opportunity."

Germany/Hotels

Asian hotel groups discover German market

With Asian investors becoming increasingly active on the German market, one area which can expect to start seeing a lot more interest is the hotel sector. Most hotel groups have already made big strides to accommodate Asian visitors, but the stream can expect to turn into a flood over the coming years – hence the visible efforts by most chains to understand their Asian guests' needs better.

The first hotel deals are already being done in Germany, with more expected. Just recently a group of group of Chinese investors bought a 4-Star **Steigenberger Hotel** in Deidesheim between Frankfurt and Stuttgart from a Luxembourg-based investor, although so far the buyer's identity and the purchase price have not been released. The 123-room hotel is one of the largest in the region, located in a vineyard and in walking distance of the historic town centre, and easily accessible from regional centre Ludwigshafen, said **Christie + Co**, which advised the seller. The country house-style hotel includes a restaurant, bar, winter garden, a 180 sq.m. spa and eight conference rooms for up to 150 people.

In March this year the Chinese hotel and tourism company **New Century Tourism Group** paid at least €9m for a 17-storey vacant hotel high-rise on the border between Frankfurt and Offenbach, with plans to invest a further at least €25m in the property. The property, previous run as a **Golden Tulip** hotel, has been empty for three years, following the insolvency of then-operator **Hospitality Management**. The target audience for the new four-star-plus hotel will be Chinese business visitors. The building will have 224 luxury rooms and 16 suites when it opens in end-2015.

The Hong Kong-based New Century Tourism Group is China's second largest hotel group with 118 hotels, and this is their first venture outside China. The project will pay lip-service to local clientele, but overall it will have a very strong Chinese feel to it. Its three restaurants plan to import chefs from China and establish a reputation as the new best place to eat authentic Chinese in the region. (Ed: although there has been a certain scepticism in Frankfurt circles about the choice of location for the new hotel, given the

ambitious plans of a neighbouring Holiday Inn in Offenbach to invest in a further 300-room development in the city, we're frankly looking forward to the promised gastronomic delights in the new hotel, which happens to be on the right side of town for REFIRE's editorial offices…)

Meanwhile, the Singapore-based **Frasers Hospitality** is launching its serviced apartments concept in Germany, having bought a first asset in Frankfurt (for an undisclosed price, and is looking for more properties across the country.

According to **Andreas Erben**, MD of **Colliers International Hotels** which advised Frasers on the deal "The Frankfurt asset is the first milestone in the identification of further suitable locations for Frasers. Further target locations are, among others, Munich, Berlin and Hamburg." The asset is located on the main boulevard in Frankfurt's European Quarter (*Europaviertel*) near the train station. It will be operated under the long-stay concept **Capri by Frasers**.

Frasers manages 81 serviced apartments across the globe. It is part of **Frasers Centrepoint**, one of Singapore's largest property companies with total assets of around S$10.5bn (€6.2bn) in 19 countries across Asia, Australasia, Europe, and the Middle-East.

Another Singaporean group, **Far East Orchard**, which is the listed arm of Singapore's largest private property investor and developer **Far East Organisation** is also making its first foray into Europe by buying a 50% stake in a European hotel portfolio in Germany and Denmark as part of its recently-launched joint venture with Australia's **Toga Group**. The hotels have a book valuation of €107m.

Far East Orchard's hospitality subsidiary took 50% of four **Adina Apartment** hotels, two of which are in Berlin, one is near Frankfurt's *Opera House* near Theaterplatz, and the fourth is Copenhagen. "This purchase underlines our expansion plans, which started with a number of hotel property acquisitions in Australia last year," said Far East Orchard managing director **Lucas Chow**. "For this purpose, we are utilising the synergies provided by our joint venture partner Toga Group." Adina Apartment Hotels offers high-end studios and apartments, aimed at the executive staying for more than a couple of nights, and operates seven hotels in Berlin, Frankfurt, Hamburg, Copenhagen and Budapest. It plans to grow its German portfolio to 15-20 assets.

Arthur Kiong, CEO of Far East Hospitality, said the acquisition strengthens the firm's standing in Europe and provides a basis for future activity. "Europe is highly attractive for international tourists and will remain the most important tourism region in the world." Far East Hospitality plans to become a leading regional player with its own hotel and apartment brands.

Europe/Financing

C&W study highlights broadening range of Euro property lenders

The financing of the *Mall of Berlin* primarily through an occupational pension fund **BVK**, joined by **Deutsche Hypothekenbank** and **BNP Paribas REIM**-managed debt funds, as reported elsewhere in this issue, shows how the market for commercial property lending has undergone significant change in the last 2-3 years. A new update from property adviser **Cushman & Wakefield** underlines how new players have been changing the shape of the lending environment.

Cushman & Wakefield's **European Real Estate Lending Update**, published earlier in August, concludes that 'alternative' non-bank financial institutions continue to take up a more significant share of an increasingly diversified mix of active lenders in Europe, whilst the drive into 'non-core' markets including Spain, Portugal and Italy also gathered pace during the first half of this year.

C&W's Corporate Finance team analysed the activity of 182 European lenders of which the group defined as Alternative Lenders, including insurance companies, property companies, private equity and debt funds now account for 40% of the total.(16% in Q1 2012).

Cushman & Wakefield's Corporate Finance team tracked a total of €32.7bn of real estate lending during H1 2014, including €27.3bn of origination (new investment lending, new development lending and refinancing) Given the increasing risk appetite amongst lenders, it is expected that the second half of the year will be just as active.

The core markets of western Europe – UK, France and Germany - remain the top targets for real estate lending with 60% of all tracked loans during H1 2014 secured by assets in these markets. Interest in non-core markets has increased, however, driven by new opportunities and demand from lenders to move up the risk curve in search of superior returns.

Whole loan financing is becoming increasingly popular with many senior debt providers, whilst average LTVs across western Europe and CEE markets are now more evenly aligned.

Whilst margins in the majority of markets have continued to compress, the pressure has eased during the second quarter. According to C&W's report, the all-in-cost of financing in the UK for a 50% leveraged transaction, secured on a prime UK asset has fallen from 6.53% in H1 2008, to approximately 3.39% in Q2 2014.

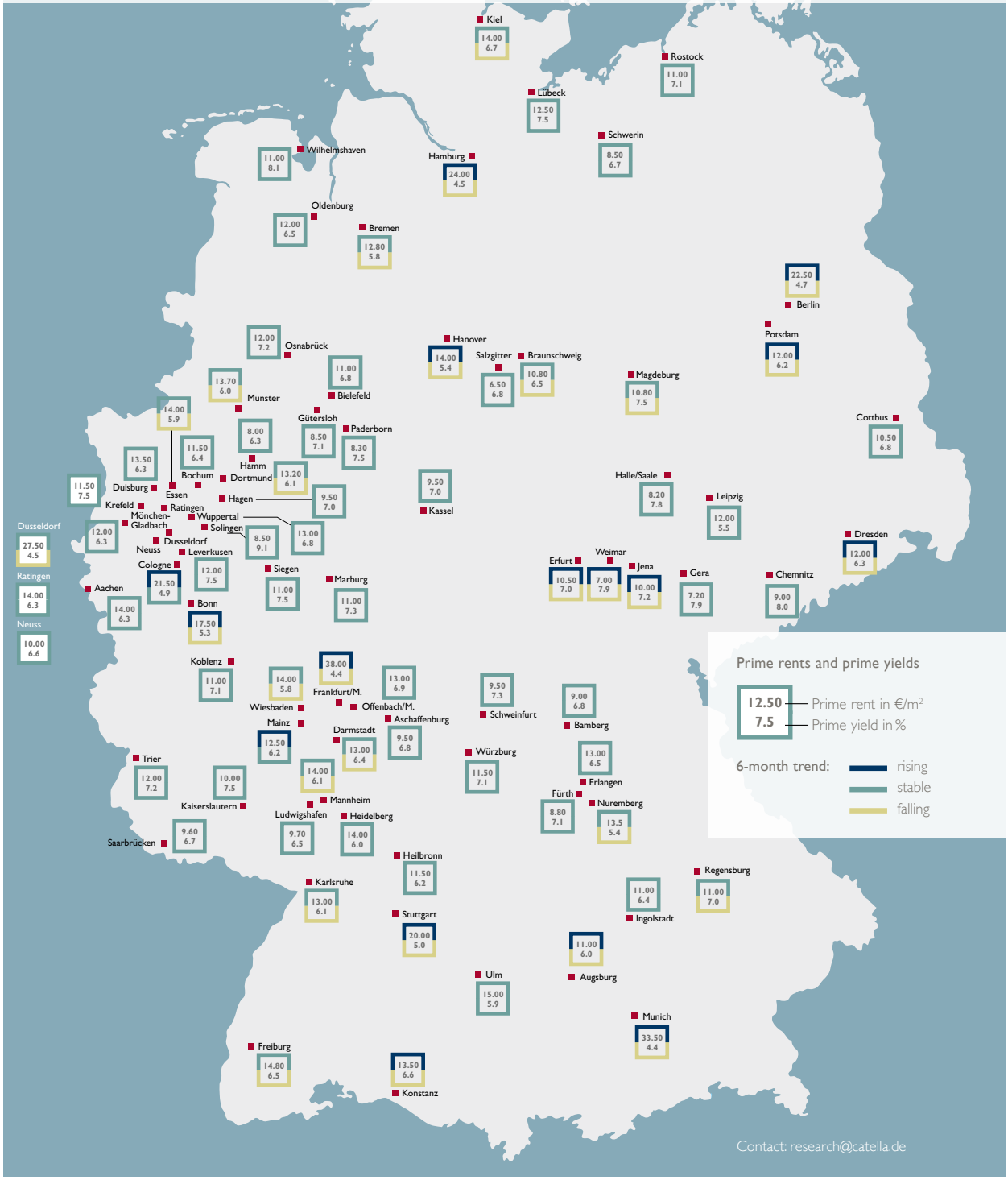
European property debt funds continue to play a vital role, with Cushman & Wakefield currently tracking 39 funds looking to raise €22.1bn to target real estate debt.

After a promising 2013, the European CMBS market has slowed in H1 2014. Despite this, investor demand remains strong and market commentators see further issuance in the near term. The availability of loan-on-loan financing has grown rapidly during H1 2014, with CWCF recording over €5.5bn of debt being secured across nine transactions in the first half of 2014.

German office market 2014

CATELLA

Catella Research: dynamic economic environment drives demand from national and international investors for property in A and B locations; value-added properties increasingly being targeted. Decreased returns for quality properties are the "price" for the changed risk assessment; rental rates stable overall.



...from page 13

"Despite the supply of debt steadily increasing in most European markets, margins seem to have stabilised over the past quarter. This has helped accelerate the movement up the risk curve for many lenders," said **Frank Nickel**, chairman & CEO of Germany, EMEA Corporate Finance.

"Lenders are aggressively competing for the right assets with strong fundamentals. This profile has now extended to locations and sectors that would not have been attractive 6-12 months ago. This trend has been captured in the transactions we have been involved in so far this year," added **Mike Morrison**, Partner, EMEA Corporate Finance.

Germany/Residential

Pramerica in profitable €79m Berlin residential exit

Munich-based **Pramerica Real Estate** Investors decided recently to take advantage of the strong run-up in German residential real estate prices when they, along with Berlin-based joint venture partner **Kauri CAB Management GmbH**, closed on the sale of a portfolio of 25 residential '*Altbau*' properties in popular residential Berlin neighbourhoods, realising €78.6m. Pramerica, which is part of US insurance giant **Prudential**, typically operates on behalf of a wide range of institutional investors.

The portfolio, consisting of ever-popular 5-6 storey older buildings built in the years 1886 and 1913, has about 50,000 sqm of lettable space in the Neukölln, Kreuzberg, Schöneberg, Wedding, Tiergarten and Prenzlauer Berg neighbourhoods. The transaction comprised the remaining assets acquired through a joint venture that Pramerica Real Estate Investors formed in August 2011 with Kauri CAB to invest in residential apartment blocks in Berlin.

Over the last three years, the joint venture amassed 953 apartments, with Kauri CAB sourcing the acquisitions. Kauri CAB also oversaw the day-to-day property management, rental negotiations and refurbishment.

Sebastiano Ferrante, head of Germany for Pramerica Real Estate Investors said, "The sale represents an excellent outcome for Pramerica Real Estate Investors and our partner. Most important, this sale confirms the successful track record of European value-added transactions we have made on behalf of our clients for the last 15 years. We intend to leverage this experience to capitalize on future investment opportunities in the German residential sector."

Kauri CAB was set up in 2008 to take advantage of cyclical opportunities in the German property market, particularly residential in Berlin, and to be a co-investor as well as being a property and asset manager.

Europe/Research

Union Investment survey highlights growing investor risk appetite

The semi-annual survey carried out by leading German fund manager **Union Investment** shows a clear shift in the willingness of investors in Germany, France and the UK to take more investment risk, and move up the risk curve from their recent fixation with Core to Core-Plus.

The survey results point to a clear sign of recovery in investor confidence, including a marked willingness to invest outside classical metropolitan areas, engage more closely with previously-shunned southern European markets, and are prepared to consider much larger-sized deals than before.

The latest **Investment Climate** barometer readings from Union Investment are based on the responses from 167 European institutional investors, in a survey carried out by market research group **Ipsos** during June and July this summer. The survey methodology uses four different sub-indicators – market structure, overall economic outlook, locally-relevant conditions, and expectations – each with a weighting of 25%, to arrive at an index score.

More investors are starting to implement a core plus strategy in response to high prices for prime property and an improved market outlook. They are willing to accept shorter leases, invest in development projects and make greater compromises on pre-letting prior to purchase.

Half of the firms plan to increase the share of secondary cities in their portfolio over the next 12 months, seeing conditions particularly favourable in home markets. Apart from Germany, UK and France, the most popular markets for B-strategies are Sweden, Spain and The Netherlands. After years of being focused almost purely on security, 60% of the investors surveyed (particulary among French respondents) said the return on investment is back as key motivation in their strategies.

High demand for scarce assets is leading managers to develop new sales strategies as well. Some 68% said they aim to exploit market opportunities to streamline portfolios, dispose of mega-properties or take profits. "While re-calibrating their overall risk profiles, opportunities for selling in markets experiencing high demand are being seized upon much more actively than in recent years," said Union Investment board member **Frank Billand**. "Substantial portfolio deals are also set to become a more prominent feature of the market again." Some 41% are preparing sales; 40% want to invest more into existing holdings, the survey showed.

While sustained interest rate rises are not on the horizon yet, investors are aware of the risk and 56% give this a higher priority than in prior years. Measures include stress tests to analyse the impact of rate hikes, and more than half are stepping up activities to secure rental income. The optimistic investment mood lifted

performance expectations, with 65% rating their financial situation better than last year and most expecting a rise in business performance over the next 12 months. Differences between the three nations polled have all but disappeared, with a marked improvement in sentiment in France, where the index was up 3.4% to 69.3 points, the most optimistic reading for several years. The German index gained 0.2pt to 69.9, while that for the UK fell by 14 points to 70.9 on the scale.

Germany/Financing

Corealcredit figures boost Aareal Bank's bottom line

Wiesbaden-based real estate financier **Aareal Bank** has seen an immediate impact on its bottom line following the acquisition last year of the restructured **Corealcredit Bank** from US private equity group **Lone Star**. The MDAX-listed Aareal saw its gross profits rise in the second quarter of this year by 44% to €65m, in line with expectations, and its net profit up 60% on a year ago to €34m.

Aareal Bank, which has traditionally had a strong exposure to foreign borrowers, also upped its new business lending from €1.6bn in the first quarter to €2.6bn in the second quarter. According to long-time bank chairman **Wolf Schumacher**, the bank is "well on course" to meet its lending targets despite growing competition as previously reticent competitors get back into the market. Full year operating profits are now expected to come in at €400m, up from previously forecast €380m, while full year lending should be close to €9bn – slightly down on last year's €10.5bn.

Aareal closed on the €342m acquisition of Corealcredit Bank, the former labour union-owned **AHBR Bank**, in March of this year, so the full effect of the takeover is only now being reflected

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

Lots of cooks? Then only with a cookbook!

You know the saying about the many cooks and the spoilt broth? It's particularly annoying when it isn't just broth that is spoilt, but instead, a real estate transaction worth millions. My experience from several hundred transactions with a total volume of over 120 billion Euro is that many transaction processes are slow, poorly structured and, as a result, ultimately expensive. And this has nothing to do with the quality of advisers; it's the way their cooperation with one another is organised. It's a point made to me by Karsten Jungk of Wüest & Partner, who works as an appraiser in a different position in the constantly changing transaction teams. The streamlining of transaction processes was also discussed during a meeting of the German GRI Panel this year – Why, the question was asked, are purchase contracts negotiated from scratch over and again, just to end up with 90% of the provisions always being the same? And why are there no uniform indexes for data rooms? The professionalisation of our industry has certainly made great progress through the specialisation and differentiation of job descriptions. On the other hand, however, the progressively deepening focus on the commercial, legal and technical specialities of real estate transactions demands a more generalistic coordination and clarification of interfaces, as well as the standardisation of trivia.

The question hangs in the air: How do we now get from the subroutines we've since developed to a truly integrated due diligence review, in spite of constantly changing teams? Let's look at the example of data quality. From one country to next and, for that matter, from one transaction to the next, there are differences in the depth of the data, the period recorded, and so on. At the same time, there are obscurities. Which consultant is actually dealing with which questions? It stands to reason that the legal adviser takes care of the entries shown in the land register, but who, for example, is responsible for the matter of developments? Is the situation on site consistent with that shown in the data? Is it the technical or legal adviser's job to conduct these checks? Or let's look at the building permits: Is this review a technical or legal matter; or is it both? To oversee and manage these interfaces

www.valteq.de

demands a great deal of experience and skill on the part of the investors.

There are already a number of initiatives in this direction, such as, for example, on the matter of data room structure at the Gesellschaft für immobilienwirtschaftliche Forschung e.V. (gif), the matter of standardisation of technical due diligence processes at the RICS, as well as more informally on the periphery of conferences and in smaller expert circles. Yet it would be useful if the major providers in the due diligence fields of legal, technical, commercial and valuation could find a platform upon which – in order to maintain the image – they could take care of a joint cookbook for transactions; one that assigns everyone a role at the head chef's side, whether as the garde manger, boucher, entremetier, tournant or pâtissier.

in Aareal's figures. The highly-conservative bank said it was holding off on the issue of a scheduled hybrid bond of €300m, destined to pay down the last remaining injections of silent reserves from the state bank bailout fund during the financial crisis, and Schumacher said it might even be able to repay these without recourse to the proposed bond. Servicing the interest on these reserves hampers the bank's dividend payout, he said, hence the need to repay them as soon as possible.

Aareal's core capital ratio is currently a comfortable 12.5% with the state's €300m, but would be 12.2% without, said Schumacher, adding that the bank was targeting a 10.75% ratio, to be topped up by further equity-raising measures such as the hybrid bond. He also hinted at the bank's interest in buying further loan portfolios or complete takeover, while refusing to be drawn on the level of the bank's interest in buying **Westimmo**, for which it has re-entered the bidding fray (*see elsewhere in this issue*).

The bank is also now starting to prune its Corealcredit Bank subsidiary after the first couple of quarters integrating it into its main structure. According to various reports, up to 30% of the jobs at Frankfurt-based Corealcredit are expected to be axed, or 35-40 of the 160 staff remaining.

Meanwhile, Aareal has been active in a lot of prominent European financing deals this year. Earlier this month, the UK's **Brockton Capital** financed its UK retail parks portfolio with a new loan of around €190m, provided by Aareal Bank on a five-year facility held against a portfolio of eight parks. The parks are valued at about €300m, implying a loan-to-value of 63%.

The deal will see existing arrangements across different assets in the portfolio paid back, including facilities with **Santander** and **GE Capital**, which inherited its position following its purchase of **Deutsche Postbank**'s £1.4bn UK commercial property loan book in November last year. Aareal was the existing lender on two assets in the portfolio.

The new financing includes a tranche for capital expenditure that will be used to carry out asset management across the portfolio as well as allow the sponsor to make new acquisitions. The portfolio is a joint venture between Brockton Capital's second £500m fund, which was raised in 2010, and its asset manager **Pradera**.

Other recent Aareal deals include a £300m refinancing of the *Hilton London Metropole* and the *Hilton Birmingham Metropole* for T**onstate Group** in the UK in July; a €228m loan to **Aerium** alongside **pbb Deutsche Pfandbriefbank** to refinance a portfolio of 23 mainly Parisian properties provided in the same month; and the provision in February of a €72m four-year facility for **Helical Bar** for its *Europa Cenralna* retail park in Gliwice, Poland.

Germany/Financing

Westimmo doubles first half profit while awaiting sale outcome

Despite being embargoed from writing any new real estate financing business, the Mainz-based **Westdeutsche Immobilienbank AG (WestImmo)** posted profits for the first half-year double those of last year. The good figures will do no harm in helping Westimmo in its search for a buyer, with a sale of the bank out of 'bad bank' **EAA Erste Abwicklungsanstalt** still expected before the end of the year.

Net pre-tax profit jumped to €39.6m over the first six months, up from €19.7m in the same period last year. Net interest income and current earnings remained stable at around €65m. According to **Claus-Jürgen Cohausz**, (*pictured, right*) chairman of the bank's managing board, "We are very satisfied with how business has developed in the first half. The excellent results were achieved through a consistent reduction in costs and risks. The bank remains profitable despite the restriction on business activities."

With its parent company **WestLB** being wound up, Westimmo has been quarantined within EAA, preventing it writing new business, which has seen its interest-bearing securities decline. However, provision for bad debts has also fallen sharply, while Westimmo said administrative costs continue to be pruned back, by 11% to €29.5m from €32.1m.

To help prime the bank for sale, Westimmo's restructuring has seen the transfer of all assets that are not in conformity with its profile as a Pfandbrief bank into the EAA. This has left Westimmo's equity reduced by €450m, but leaves it with a still-comfortable equity ratio. "WestImmo is now a lean and focused Pfandbrief bank with a core Tier I ratio of 13.4% and a very low risk potential", said Cohausz earlier this month when presenting the half-year figures. He also said he expects the full-year figures

to be strongly positive.

EAA board member **Matthias Wargers** said the sale process is proceeding 'satisfactorily', and he still expects a conclusion by the end of the year. In July, *Reuters* reported that German financiers Aareal Bank and **Berlin Hyp** and private equity investors **Blackstone**, **KKR** and **Apollo** are still among the bidders for WestImmo, with the bids exceeding €300m.

Westimmo is still allowed to service and process its existing loans as a specialist commercial real estate financier and Pfandbrief-issuing bank. It can renew or in some cases slightly increase existing commitments, and manage all its covered assets for its issued Pfandbriefs, while awaiting the outcome of the bidding process to become its new owner.

Germany/Residential

Westgrund triples its holdings with Berlin residential buy

We reported in the last issue of REFIRE (Issue 123) about the recent acquisition by listed German housing firm **Westgrund**, when it paid about €390m for nearly 13,300 apartments from **berlinovo**, a company majority-held by the state of Berlin. The deal is likely to provide a strong boost to Westgrund's full-year figures, as improved rental income works its way through to the company's bottom line.

After the largest German residential deal for several months, Westgrund 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) would 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.

from page 18

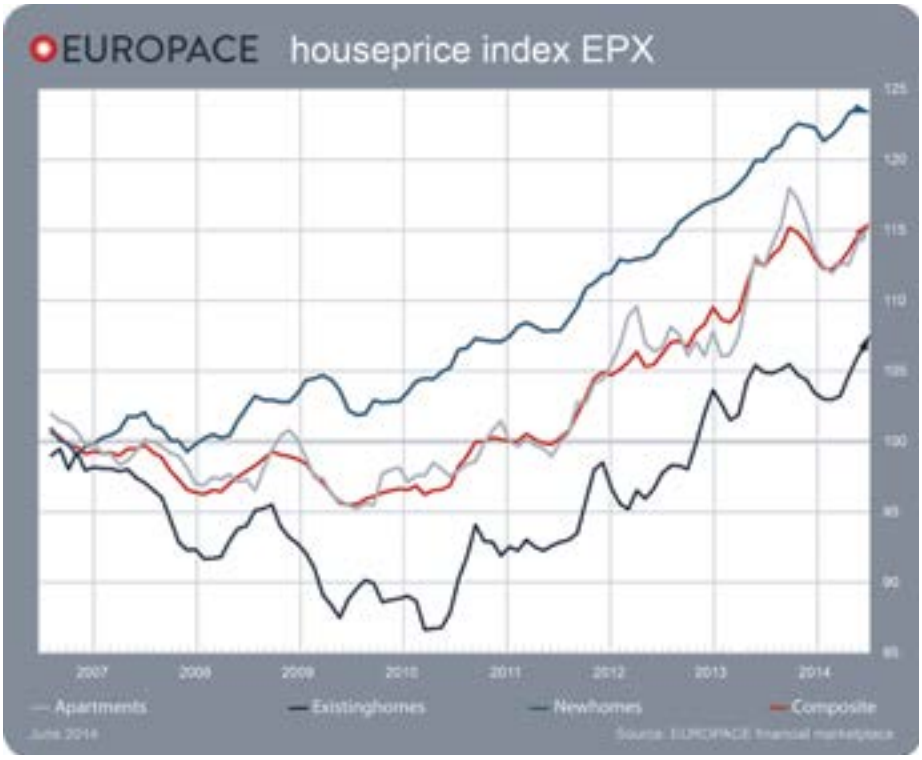
Berlinovo inherited 24 property funds as a legacy of the near-insolvency of banking group **Berliner Bankgesellschaft**, whose total meltdown was only prevented by the injection of €22bn in equity by the city of Berlin, and the hiving-off of its non-core properties into BIH.

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 Westgrund, 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**, 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 up to €130m 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.

The Berlin-based Westgrund was founded in 1990 and floated on the stock market in 1998. Its stated strategy is to invest only in assets with a positive cash flow at the point of purchase, and in German cities with 50,000-plus inhabitants. Its controlling shareholder is Swiss family office **Wecken** with just under 50% of the shares, **Quartenal Investments** of Cyprus with 20-6%, **Angela Lechner** with 10.2%, with 19.49% in free float.



Germany house price development

Germany/Acquisitions

Canadians, Korean pension fund in JV for €240m German investment

Korea's **Public Officials Benefit Association (POBA)**, the pension manager with 6 trillion won (€4.5 billion) in assets, is to invest approximately €250m million into prime German real estate via Canadian listed company **Dream Global REIT**.

The long-term joint venture with Toronto-based Dream Global REIT (previously known, until recently, as **Dundee International**) will see POBA acquire a 50% interest in seven properties owned by Dream. The properties are: *ABC Bogen* in Hamburg; *Löwenkontor* in Berlin; *Werfthaus* and *K26* in Frankfurt; *doubleU* in Düsseldorf; *Z-Up* in Stuttgart, and *Marsstrasse 20-22* in Munich. The deal was done at a cap rate of 5.3%.

The deal is expected to close in stages through the third and fourth quarters of this year. Dream Global REIT said that it would reinvest the net proceeds from the transaction into high-quality office properties in its target markets.

"This strategic joint venture and significant acquisition of a high quality office portfolio in Germany allows us to expand into one of the most highly sought-after real estate markets in the world. With Dream, we have found a partner on the ground who is not only an experienced owner and operator of real estate but also understands our unique requirements," commented **Eunghan Park**, executive managing director of POBA, in a statement.

Jane Gavan, president and chief executive officer of Dream Global REIT, added: "This joint venture offers us the opportunity to diversify our sources of capital, to leverage our REIT operating platform by generating joint venture management income and to continue to take advantage of the attractive investment environment."

Founded in 1975, POBA – as a pension fund for government officials - has

grown from around 79,000 members to more than 235,000 last year. Its investment portfolio includes commercial real estate assets in the UK, China and Brazil.

Dream REIT (as Dundee) entered Germany three years ago by acquiring a portfolio of over 1,000 assets belonging to the **Deutsche Bundespost**. It has been gradually selling off and buying new assets, and repositioning itself on the German market. Overall, Dream has invested €125m this year so far in Germany, and sold assets worth €21m.

According to **Michael Cooper**, board vice-chairman at Dream, "We are excited that we are being recognized for establishing an excellent platform in under three years that provides value to joint venture partners to co-invest with us. We now can grow with equity from the sale of properties from the original portfolio, with partners and with equity from the Canadian capital markets. The opportunities in Germany are plentiful and strategic partners like POBA will help us grow in Germany and potentially elsewhere when we identify appropriate opportunities."

At the end of July, Dream completed the acquisition of "*Officium*" in Stuttgart from developer **Tishman Speyer.** The asset is a multi-tenant property with a blue-chip tenant roster that includes insurer **AXA**, banking group **Deutsche Sparkassen** and software firm **Oracle**. The acquisition of the €46.9 million property has a cap rate of 6.6% and will add approximately 28,000 sqm of high quality office space in one of the Big 7 office markets in Germany to Dream's portfolio. Dream said it had arranged 7.5-year mortgage financing for the asset at a loan-to-value of 60% and an interest rate of 1.99%.

Germany/Study

Trend shift in migration figures from east to western Germany

A new study produced by Hamburg-based **Quantum Immobilien** concludes that there has been a trend shift in the eastern German states, and that for the first time since reunification, net migration from the east to the west of the country has now stopped. In fact, says the study, certain eastern German cities have experienced a surge in population that had not been anticipated. This has clear implications for real estate markets, it says.

The study, based on 2012 figures, was produced by Quantum Immobilien for the federal government as part of its "state of reunification" annual study. The **Quantum Focus Nr. 12** study demon-

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*,

strates how clearly the times have now past when young and well-educated east Germans headed *en masse* for employment in western cities.

Focussing on eastern Germany's 10 largest cities, the nuanced study deals with the question of residential housing in these cities and to what extent the region has been underestimated by developers. Here the big winners are the university towns, particularly those with strong technnology sectors, whose demographic developments have exceeded even the more optimistic forecasts. These towns' housing sectors are characterised by low vacancy rates, rising rents and new construction activity.

Rural areas and cities with poor infrastructure and employment and educational opportunities were still seeing major population outflows, putting further pressure on already weak rental markets. According to Quantum, the "main winners" are cities like Leipzig, Potsdam, Jena or Dresden. These four cities and other urban centres with similarly positive "fundamental data" showed "healthy residential market constellations with investment potential", the researchers noted.

Leaving aside Berlin, investment turnover in the eastern states has risen 38% since 2009 to €9.4bn in the year 2012. While Dresden and Leipzig have profited strongly, so have cities like Erfurt, Rostock and Magdeburg. Dresden topped the list in 2013, with a volume of €393m in multi-family homes traded, fully 44% above its 10-year average. Along with Leipzig, Dresden properties now sell for a multiple of 16-17 times annual 'cold' rent (i.e. ex-utilities).

In particular, the researchers conclude, value is to be found in those residential markets where the reduction in the vacancy rate is not yet reflected in rising local rents, or where construction activity is still lagging the level of demand. The full study can be found here: ***www.quantum.ag/immobilien-ag/research/***

Germany/Construction

German construction booms, fears rise about Mietpreisbremse

After a run of three good years since 2010, there are further good times ahead for the German construction industry, with growth of 3.5% forecast for the full-year 2014 on turnover of €285bn, and an even better 5.3% growth for 2015, according to a new study by German leading credit insurer **Euler Hermes**.

"Germany's construction industry is booming – against the general trend in Europe", said **Ludovic Subran**, chief economist at Euler Hermes, presenting the study. Growth is coming almost exclusively from the demand from private individuals to invest in their own four walls, with public construction a long way behind. However, rising prices for energy and material costs are keeping builders's margins under pressure, at about 6%. This has also led to a high level of insolvencies, the second-highest of any industry in Germany, although the number is set to fall, according to Euler Hermes' director for risk management **Thomas Krings**, by 3% in 2014 and a further 5% next year, as a result of improving payment practices.

The biggest threat facing the construction industry's future growth is the so-called *Mietpreisbremse*, or rental cap, due to be introduced across Germany next year. A similar move in France led to a fall of 19% in new building projects and the granting of 13% less building permits.

In Berlin the Justice Minister in the coalition government, **Heiko Maas** (SPD) confirmed that the lawmakers were excluding newly-built properties from the constraints of the Mietpreisbremse, so as not to strangle the incentive for new construction as a measure to cool down demand for housing, particularly in the larger cities where de-

...see page 26

CORPUS SIREO
REAL ESTATE

SWISS LIFE BUYS CORPUS SIREO, THE LEADING INDEPENDENT REAL ESTATE ASSET MANAGEMENT SERVICE PROVIDER IN GERMANY

Swiss Life is acquiring CORPUS SIREO and becoming a leading real estate asset manager in Germany.

The Swiss Life Group is expanding its position in real estate asset management by acquiring CORPUS SIREO, the leading independent real estate service provider in Germany, with retroactive effect from 1 January 2014. The sellers of the company are three German savings banks: Sparkasse KölnBonn (50%), Stadtsparkasse Düsseldorf (25%) and Frankfurter Sparkasse (25%). This makes Swiss Life a leading real estate asset manager in Germany. The purchase price is EUR 210 million. Pending approval by the competition authorities, the transaction will be completed in the course of the second half of 2014.

„This acquisition is an important step to extending our position as a leading provider in one of our core strategic areas, real estate asset management, from Switzerland and France to Germany," says Patrick Frost, CEO of the Swiss Life Group. „Given our more than 150 years of experience in the real estate business and the additional expertise contributed by the 550 employees of CORPUS SIREO, we are confident that we will be able to successfully expand this business area further."

CORPUS SIREO, with its head office in Cologne, was founded in 1995 and has since evolved from a regional real estate brokerage company into the leading German independent real estate service provider, winning a number of awards over the past years as the top real estate asset management service provider in Germany. The company is also one of the two most popular employers in the German real estate sector. CORPUS SIREO provides real estate services for third parties through its 11 branch offices in Germany and Luxembourg. The company manages some EUR 16 billion in real estate assets and generates revenues of approximately EUR 160 million. Its customers include investors, banks, and companies with proprietary real estate portfolios.

„With the globally focused Swiss Life as its new owner, CORPUS SIREO will be able to further develop its business systematically and enter new markets. To this end we would also like to give greater consideration again to co-investments. We are looking forward to taking the next steps in our development alongside Swiss Life," says Ralph Günther, spokesperson for the Management
The business segments acquired by Swiss Life comprise:

- Asset management (commercial, residential and retail) with full-service solutions for acquiring, optimising and marketing customers' real estate portfolios or individual properties;
- Project development including the design, building and marketing of residential projects;
- Investment management comprising the design, launching and management of indirect real estate investments;
- Marketing of residential property in the conurbations of Cologne / Bonn, Düsseldorf and Frankfurt, as well as commercial properties throughout German

Swiss Life

The Swiss Life Group is one of Europe's leading comprehensive life and pensions and financial solutions providers. In its core markets of Switzerland, France and Germany, Swiss Life offers individuals and corporations comprehensive and individual advice plus a broad range of own and partner products through its sales

CORPUS SIREO head office in Cologne

force and distribution partners such as brokers and banks.

Swiss Life Select, tecis, HORBACH, Proventus and Chase de Vere advisors choose suitable products for customers from the market according to the Best Select approach. Swiss Life Asset Managers offers institutional and private investors access to investment and asset management solutions. Swiss Life provides multinational corporations with employee benefits solutions and high net worth individuals with structured life and pensions products.

Swiss Life Holding Ltd, registered in Zurich, was founded in 1857 as Schweizerische Rentenanstalt. The shares of Swiss Life Holding Ltd are listed on the SIX Swiss Exchange (SLHN). The Swiss Life Group employs a workforce of around 7000, with approximately 4500 certified financial advisors.

Further information:
swisslife.com and corpussireo.com

Cautionary statement regarding forward-looking information
This publication contains specific forward-looking statements, e.g. statements including terms like “believe”, “assume”, “expect” or similar expressions. Such forward-looking statements, by their nature, are subject to known and unknown risks, uncertainties and other important factors. These may result in a substantial divergence between the actual results, developments and expectations of Swiss Life and those explicitly or implicitly described in these forward-looking statements. Given these uncertainties, the reader is reminded that these statements are merely projections and should not be overvalued. Neither Swiss Life nor its Members of the Board of Directors, executive managers, managers, employees or external advisors nor any other person associated with Swiss Life or with any other relationship to the company makes any express or implied representation or warranty as to the correctness or completeness of the information contained in this publication. Swiss Life and the abovementioned persons shall not be liable under any circumstances for any direct or indirect loss resulting from the use of this information. Furthermore, Swiss Life undertakes no obligation to publicly update or change any of these forward-looking statements, or to adjust them to reflect new information, future events, developments or similar.
Board of CORPUS SIREO Holding GmbH & Co. KG.

...from page 22

mand is greatest for affordable housing.

The decision has been welcomed right across the German real estate industry, where many landlords had feared being unable to charge an acceptable market rent for a new tenancy agreement. Jürgen **Michael Schick**, head of the **IVD** property association, which represents landlords, commented: "This is a move in the right direction, as finally the housing can be built which can help to alleviate the housing shortage in urban areas."

However, the gap is still growing between building permits granted and actual buildings built. "A lot of building projects still fail to get built despite having a permit. In central areas of the bigger cities demand for housing is still outweighing supply", he said. Schick's organisation is still appealing to municipalities and city planning authorities to rezone more land for residential and to speed up the issuing of permits, particularly in areas likely to be affected by the *Mietpreisbremse*.

Germany/Project Development

RFR Holding buys Berlin's Upper-West Tower, strong pre-lets

Berlin's third-highest tower development, the 118m-tall *Upper West Tower* on the city's Kurfürstendamm, has changed ownership after US property investor **RFR Holding** bought the asset from Austrian developer **Strabag** for a price thought to be around €250m.

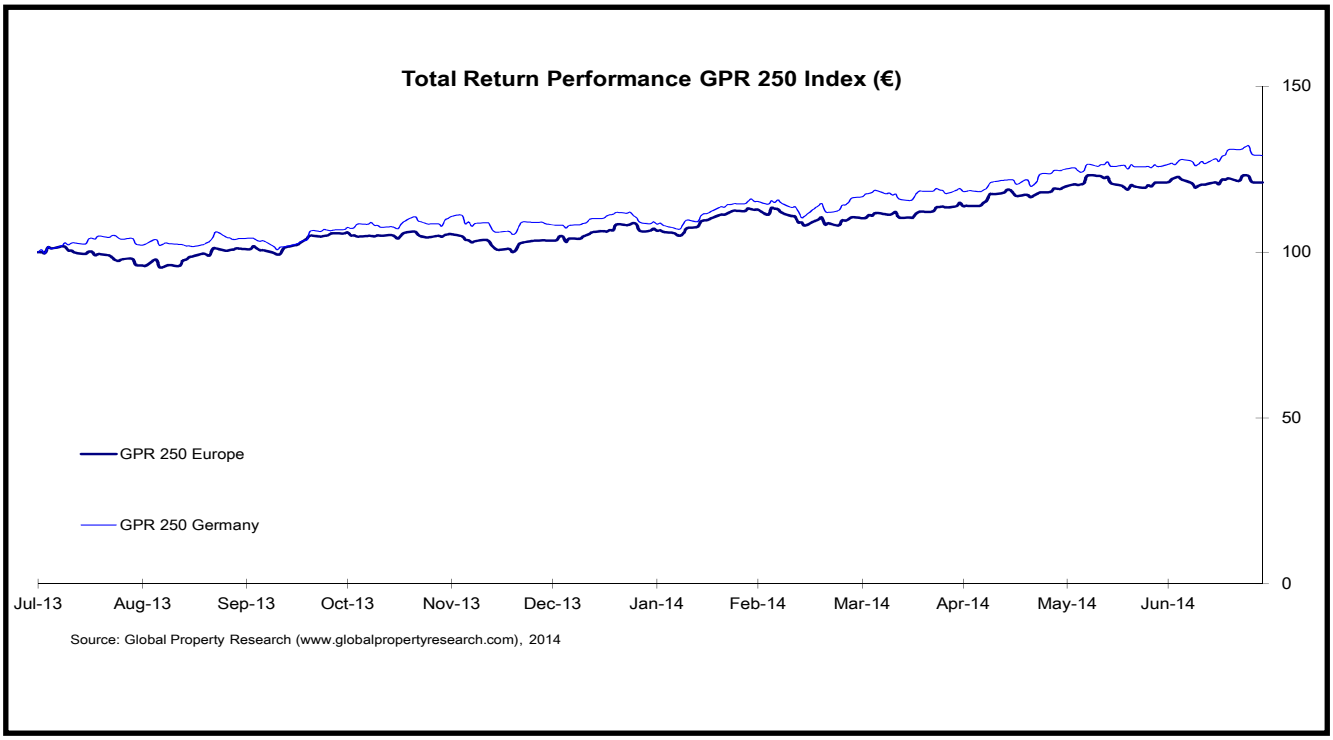
The 33-storey development, on Breitscheidplatz in the popular Charlottenburg district of City-West beside the zoo, will have 53,000 sqm of lettable space including offices, shops, and what will be **Motel One**'s largest German hotel, with 580 rooms in 21,000 sqm of space. A further 25,000 sqm is dedicated to office space, with law firm **Görg** committing to take 5,000 sqm to house all their separate Berlin practice areas in one place. Retail will take up a further 5,500 sqm, while a spectacular 1,000 sqm Skybar with 360-degree is planned for the top floor. All in all, over 60% of the development has now been pre-let, and the building is expected to be completed at the beginning of 2017.

RFR Holding is based in New York, but was founded by the German-born **Aby Rosen** and **Michael Fuchs**. With over €10bn of real estate assets, the group has been a prominent German investor, owning the *Bienenkorbhaus* and *Westendgate* among others in Frankfurt, the *Kaufmannshaus* in Hamburg, and other landmark properties in Berlin and Nuremberg, along with prestigious properties such as the *Gramercy Park Hotel*, the *Seagram Building* and *Lever House* in New York.

Germany/Funds

Record inflows of capital into German listed real estate

German real estate *Spezialfonds* saw inflows of €3.1bn in capital in the first half of this year, up 14% on the same period last year and the highest amount



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

Charts courtesy of GPR Global Property Research

ever recorded over a six-month period, according to capital markets research group **Barkow Consulting**. The figures are extracted from statistics issued by the **Bundesbank**.

Germany's listed property companies also had their best-ever half-year, collectively raising €3.3bn through rights issues and capital raising placements, a year-on-year increase of 59%. Leading the charge here were the big listed residential companies. A further record was set for the issue of convertible bonds, which reached a volume of €999m in the period.

The losers among the vehicles for indirect investment in real estate were the large mutual or open-ended funds for private individuals, which failed to reach last year's levels of volume. Not surprisingly, given the flurry of activity in the summer of 2013 when new, stricter regulations were being introduced, this year's volume so far of €1.4bn in inflows is less than half that of the corresponding period of last year – although the figures for the second quarter showed signs that inflows were stabilising around about the 2012 level.

"There are market rumours that institutions are again showing interest in GOEFs, but these funds will never have the same significance as before the crisis – and this is one of the reasons why Spezialfonds are doing so well," CEO **Peter Barkow** (*pictured, above*) commented..

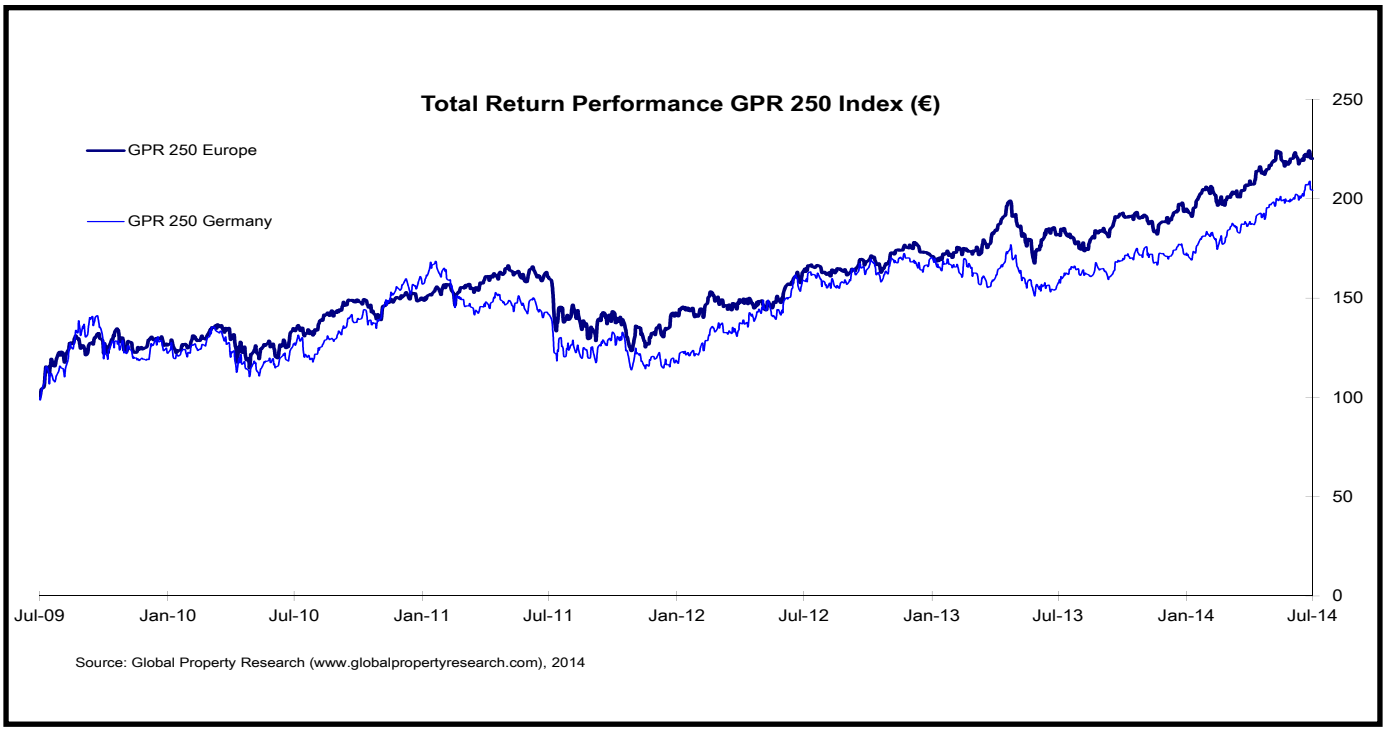
He also highlighted in his report how the second quarter was "the best quarter in capital markets' history" for inflows into listed real estate, at €1.8bn. The main impetus was demand coming from foreign institutional investors, he said, with German investors lagging. He added, "German institutions are very slowly but steadily rethinking their strategy mainly because of a lack of alternative investments – and because listed real estate can be invested in quickly."

The supply was fuelled mainly by private equity funds selling their holdings or from initial public offerings (IPOs) – such as the stock-market flotation of **Deutsche Annington** last year – predominantly in the residential market, said Barkow. He added that there was potential for new products in the commercial real estate sectors, as they were "heavily under-penetrated" in Germany and "market participants are hoping for growth".

Germany/Closed-end funds

German market for new closed-end property funds remains in doldrums

A report issued this month by rating and research group **Feri EuroRating** shows clearly the extent to which the German closed-end real estate funds sector has nearly ground to a halt. In the second quarter only three funds aimed at private investors were launched, with a total of



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.

€57.8m in equity capital – after a first quarter which saw only a single fund (from the Leipzig-based **Publity**) offered to investors. The two quarters represent an all-time low for the sector.

At the end of Q2 in 2013, before the introduction of the new stricter **KAGB** regulations, 14 funds with equity capital of €422.1m were in the starting block with their **BaFin** licences, ready for distribution. Commenting on the development, Feri's **Christian Michel** said, "Since the KAGB regulations came into force on July 22nd 2013, only four property Alternative Investment Funds as recognised by the KAGB have been licensed by BaFin." However, he said the number was set to rise before the end of the year, with 24 funds altogether readying themselves for the market – albeit mostly in shipbuilding, aviation and private equity. It remains to be seen how quickly the market for property funds can recover.

Germany/Funds

Warburg-Henderson raises €400m for TOP 5 German office fund

German fund manager **Warburg-Henderson**, the joint venture of UK fund giant **Henderson Global Investors** and Hamburg private bank **Warburg**, has closed a *Special Fund* investing in Germany's top five locations at a €400m investment volume.

Only 18 months after its launch, the Deutschland TOP 5 fund reached full investment, despite expansion after strong demand from existing investors, the manager said. The portfolio of core and core-plus assets now consists of six offices, located in Berlin, Hamburg, Frankfurt and Munich. Due to good initial fund performance and the speed of investments, existing investors added another €22m in equity to the €208m originally underwritten, to cover a further asset, the office property *Valentinshof* in Hamburg.

"Given the intense competition for high-quality office assets in Germany's investment centres, we are proud to have reached full investment in the fund after 18 months," said senior fund manager **Daniel Fahrer**. **HIH Hamburgische Immobilien Handlung** acts as asset manager. Warburg-Henderson is planning several new property vehicles, with the investment focus on Germany and Europe as well as the US, in line with the global plans of shareholder **TIAA Henderson**, said the fund manager's head of business development **Nikolas Jorzick**.

Separately, the UK-based **TIAA Henderson Real Estate (TH Real Estate)** said that it had secured a new €54.7m debt financing on behalf of its **European Outlet Mall Fund**. The new five year facility replaces the previous €39.2m financing, which was due to mature in December 2014. The debt has been secured against phases one and two of *Designer Outlet Parndorf*.

The loan, provided by **pbb Deutsche Pfandbriefbank**,

gives the Fund the firepower to undertake asset management at the property and work towards the development of a new phase at the scheme, which is expected to open in 2016. The deal is competitively priced, said TH Real Estate, reflecting a conservative loan-to-value on this prime Austrian retail asset. The refinancing comes shortly after the successful ten year "extension" of the approximately €1.5bn flagship **European Outlet Mall Fund**, which owns eight outlet mall assets across Europe, in addition to its indirect holding in three UK outlet mall assets.

Designer Outlet Parndorf is located 30 minutes from Vienna's centre, and 25 minutes from Bratislava, the Slovakian capital. The centre hosts designer stores including **Armani**, **Gucci**, **Polo Ralph Lauren** and **Michael Kors**.

Since its big merger last year, TH Real Estate, jointly owned by US-based **TIAA-CREF** (60%) and the UK's **Henderson Global Investors** (40%), is one of the largest real estate managers in the world, focusing on retail, office, logistics, debt and multi-family assets. It manages $24bn of real estate and debt across 50 funds and mandates.

Germany/Acquisitions

Swedish pension funds increase German commitment with Hamburg buy

Sweden's **Cityhold Group**, which acts as real estate investment manager for Swedish national pension funds **AP1** and **AP2** made a further commitment to building up its asset abase in Germany when it bought the prominent *Atlantic Haus* in Hamburg earlier this month from a fund managed by Swiss bank **UBS**. The deal brings Cityhold's German portfolio up to about €200m.

Completed in 2007, Atlantic Haus is a high-rise office building in the *Harbour Business District (HBD)* of Hamburg, Germany's second largest city. It is located 100 metres from the historic main building of the *Landungsbrücken* jetties, and, at 88 metres, is among the tallest buildings in the city. The gross lettable area of around 32,000 sqm and the 415 underground car park spaces are spread across three buildings of eight storeys each and the tower with its 21 storeys, and the building is almost fully let.

The property was developed in 2007 for about €100m by Hamburg-based **Quantum Immobilien**, on the grounds of the old *Bavaria Brewery*, with financing from **HSH N Real Estate**. Along with neighbouring buildings the *Empire Riverside Hotel* and the *Astra-Tower*, built at the same time, the trio make up what's know as the Hafenkrone, or 'crown' of the harbour area.

The Stockholm-headquartered Cityhold is jointly owned by two Swedish national pension funds, AP1 and AP2, which together have €50bn under management. The funds have earmarked approximately €500 million in equity for Cityhold in a first investment phase. The capital is intended primarily for long-term investments in core office properties in major European cities, with investments to date in London, Munich and now Hamburg. The first German investment was in February this year, when Cityhold bought a multi-let, 15,000-sqm office property in Munich from **IVG Institutional Funds**. The current portfolio amounts to a total value of approximately €800m.

According to **Berith Kübler**, responsible at Cityhold for asset management in Germany,"As Europe's largest national economy and, above all, as a stable real estate market, Germany plays a key role for Cityhold's property investment strategy. We are planning to further expand our investments in Germany. In this context, Cityhold has expanded its geographic target area to include Germany's five largest cities."

Kübler stressed the green and sustainability credentials of the Atlantic Haus, pointing out how Atlantic Haus is connected to the district heating supply and uses a chilled frame for cooling purposes. The building has recently been awarded a **LEED Gold** sustainability certificate.

Germany/Study

Freelancers, seeking office space, to provide German office impetus

Investors in German office properties should be looking carefully at Germany's regional cities, particularly in western Germany, where the amount of office workers is expected to grow by 80,000 annually, creating extra demand of 2 million square metres. The demand from self-employed people, no longer wanting to work out of a "home office", will provide fresh impetus to the office market, say consultants **Wüest & Partner** in a new study.

The new study, **"Perspektive Büroflächenmarkt Deutschland 2014"**, which was compiled in collaboration with research firm **Ottenströer**, analyses the trends of the past five years in office investment. The study concludes that the above figures could double if Germany continues to enjoy the same dynamic growth it has seen over that period.

This would particularly benefit cities and their near suburbs in the western part of the country – although it's not good news for office vacancies in rural areas, C-cities, and the far-out peripheries of the A- and B-cities, where high vacancy rates will become even more ingrained.

The study also highlights how freelancers and self-employed workers will become the most dynamic sector for the office markets of the future, followed by sub-segments of health and social services, IT and communication, manufacturing, finance and insurance and administration.

The researchers have identified a trend 'away' from working in a 'home office'. According to the **Federal Statistics Office**, about 8.8% of non-self-employed workers could do some work from home in 1996. This rose to its peak of 9.7% in 2008, and has since fallen to 7.7%, and is still in a downward trend.

In pointing to cities with an attractive risk-return profile, Wüest & Partner highlighted Bonn as offering particularly good perspectives give its low volatility, steady rental increase and low level of speculative construction. Among eastern German cities, Jena stood out with the best profile, while others rated highly were Dresden, Rostock and Potsdam.

Germany/Research

Austrian residential prices go into reverse, helped by Russian sanctions

Austrian residential real estate, which had been rising at a steady 10% clip annually for the past several years, has experienced a trend shift and prices are now actually falling, according to a report from specialist researcher **IMMOunited**, which tracks all property transactions in the Alpine republic.

The report says that Austria's falling prices are due to an increase in supply, with 44,141 properties changing hands in the first two quarters of this year, an increase of 10% over last year. Austrian analysts are now expecting prices to fall 3% before next year, and continue falling beyond 2015.

Particularly hard hit is luxury real estate (€500,000 upwards), which has seen demand falling by 5.5% in the first half, with prices down by 4%. This has been partly affected by the sanctions imposed on Russia by the EU, according to Austrian newspaper *Der Kurier*. Vienna is the only city just about holding up, with prices up 1.3%, but mainly at the lower end of the market.

This is all in stark contrast to Germany, where prices are still rising – although there is evidence of the larger cities seeing a levelling-out of the price level, while new, smaller cities are coming to the fore. Prices of owner-occupied apartments in German cities saw price increases by up to 21% in the past year – 10% in the second quarter of 2014 – although the rises were less spectacular in the biggest markets, according to an index by advisor **F&B** from Hamburg, which eval-

uates prices for every city with more than 25,000 inhabitants.

The biggest price jump was not in the normally booming property markets of Berlin or Munich, but in the picturesque Bavarian town of Kempten im Allgäu. According to F&B, Munich prices rose 1.4% in Q2 making it still the most expensive city in Germany by far, at a full €1,000 more per square metre than the next most expensive city, Garmisch-Partenkirchen in the German Alps.

Despite the jitteriness of the Bundesbank, whose remit is, of course, to worry on behalf of the nation and who issue sporadic warnings about regional overheating, the latest study by market research group **empirica** takes a more sanguine view on the market. Germany shows no sign of housing or credit oversupply, and rents, home prices and income are growing apace so that no general bubble is emerging, it says in its latest report. Nonetheless, overheating is emerging in several market segments, it cautions.

Independent economics research house **empirica's** latest house price 'bubble index' HAS risen, but still re¬mains on a healthy level, it says. Several sub-indices have moved into the red, however. One is the house price-income ratio in six of Germany's largest cities (Hamburg, Düsseldorf, Frankfurt, Stuttgart, Munich and Berlin), up from only three last year, and that for rent multipliers in eight cities (the above minus Berlin, plus Bremen, Essen and Cologne), up from six.

Adding a further cautionary note, empirica points to the higher visibility of dubious studies in the media and elsewhere, proposing where one still can buy cheap or how to refinance at good conditions. "Apparently we have reached the point where – to paraphrase the legendary investor **André Kostolany** – the taxi driver stops asking experts for investment tips and starts issuing recommendations himself," said the report. "The seed for a bubble has started to germinate."

Germany/Listed Companies

BUWOG plans to buy and build up to 4,000 apartments annually

Recently-listed residential investor **BUWOG**, which split away from Austrian mother company **Immofinanz AG** in April, said this week it planned to buy up to 4,000 apartments annually in Germany, particularly in northern Germany and Hesse to add to its 8,000 units in Berlin and a further 17,000 German units. It also plans to itself build a further 5,000 units for €1.5bn, a third in Berlin and the rest in Vienna. The group currently owns and manages a total of 53,000 apartments in Germany and Austria, valued at €3.5bn.

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