REFIRE
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# 'Senior Living' deals in Germany soar by 149% in 2018 on rocketing demand

**Senior living deals in Germany rocketed by 149% last year to €2.1bn, in a sign of just how sought-after the asset class has become. Portfolio sales accounted for 75% of the market in 2018, according to advisors CBRE, up 33% year-on-year. For the first time, prime yields dipped below 5% to 4.75%. REITs accounted for 55% of deals, up 18% year-on-year.**

Asset and fund managers, as well as insurers and pension funds, accounted for an additional 7%. Domestic buyers dominated, securing 65% of deals. Subsequently, international investors' share of care home deals fell to 35%, down from 58% in 2017, according to **CBRE**.

'Demand for healthcare assets is very steady – a lot more money is chasing it every year,' **Dirk Richolt**, head of real estate finance at CBRE in Germany, told REFIRE. 'However, there's not much on offer. It's hard to know what the deal volume will be this year as I haven't seen anything on the market yet. There's a lack of sale-and-leasebacks and it's too easy for operators to raise debt, which makes them less likely to sell assets.'

### Massive shortfall of senior living facilities

Real estate consultancy **Wüest Partner Deutschland** is predicting that around 230,000 new inpatient care places will be needed in Germany by 2035. Most of the additional care places over the next 20 years will be needed in Berlin (around 10,400), Hamburg (around 3,600) and the districts of Hanover (around 3,200) and the Rhein-Sieg district (around 2,100). However, these places show no sign of being met, according to many in the industry.

'The gap between the number of people needing senior living places and the number of places on offer continues to grow over time,' Richolt warned. 'Old stock will get revamped. Traditionally, the rent was typically derived from

## Record year for German real estate in 2018, but mood shifting

Last year marked a record year for German real estate, with around €77.3bn invested in real estate, of which €60.1bn was invested in the commercial real estate market, an increase of 6% y-on-y, according to CBRE. see page 8

## Less forward deals, more profit-taking forecast in EY annual survey

Despite higher prices and a restricted supply, turnover on the German commercial property market reached €78bn in 2018, about 7% more than in 2017. But the high point in the cycle has been reached, according to the latest survey by consultancy group EY. see page 18

## Union Investment invests €2.3bn on behalf of its real estate funds

German fund manager Union Investment invested €2.3bn last year, taking its real estate fund assets under management to more than €40bn for the first time, Dr. Reinhard Kutscher, chairman of the board at Union Investment Real Estate, told REFIRE this month. see page 22

## Activum buys second German senior housing developer

European turnaround specialist ActivumSG Capital Management has bought WirtschaftsHaus, a major German developer of senior housing, to lead the sector in Germany with a €1.2bn pipeline of properties. see page 32.

## Inside REFIRE

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Refinancing
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the rent that patients were paying. It typically costs between €80,000 and €120,000 to build each bed space, which is quite low. However, that works out at around €2,500 per sqm, compared to €4,500 per sqm for regular residential stock, which makes it much less attractive to developers.'

Yet the biggest problem, according to Richolt is that 'it's almost impossible to get enough nurses': 'At the moment, the German government is focusing on nurses and trying to make nursing more attractive. However, local regulators have made it harder for senior living operators, particularly in states such as Bavaria and North Rhein Westphalia, because they want a certain ratio of single bedrooms as opposed to shared occupancy. It's a populist approach but given that one third of patients are on social welfare, it's not feasible from a cost perspective. Besides, politicians tend to favour outpatient care which means the severity of patients' conditions when they are finally admitted tends to be much worse (which is more expensive). Nonetheless, international investors love German healthcare because they see it as well-funded and regulated.'

***"Based on demographics, there is a significant capacity built-up required with new construction activity not keeping pace. In a fragmented and undercapitalized market, that creates opportunities for large players like Deutsche Wohnen with efficient access to capital."***

**Healthcare funds move out of the shadows**

Healthcare funds have also gained momentum in recent years as investors start to view the asset class as investment-grade. Fund managers **Corpus Sireo**, **Patrizia Immobilien**, **Catella**, **TSC German Property Income Fund** and **Principal Real Estate Investors Europe** are some of the most active in the sector.

Earlier this week (28th January), Patrizia launched its third healthcare fund with a focus on care properties in Germany. The fund, **PATRIZIA Social Care Fund III**, has an initial target volume of €300m and a long-term target of €700m. It has already made its first acquisition: a portfolio of three new care homes in Germany for an undisclosed sum. The three properties will provide 128 living facilities and 196 day care places when they are completed in 2020. The homes are let on 25-year leases to operators **Kursana**, **Quali- Vita-Gruppe** and **Advita**. Two of the care homes are located in North Rhine Westphalia and one is in Saxony. Overall, Patrizia holds 56 healthcare assets in Germany, with a combined value of €900m.

'The fund aims to have around 50% of its assets dedicated to assisted living properties in Germany,' said **Jan-Hendrik Jessen**, Patrizia's head of fund management operated properties. 'In addition, the fund will also look to invest in select European markets as well as in Germany.'

Principal Real Estate Investors Europe has also been ramping up its exposure to the German healthcare sector via its two funds, **Care Invest I** and **Care Invest II**. Five years ago, the group acquired the institutional real estate fund business from **CommerzReal,** including Care Invest I which, at the time, did not hold any assets. 'We have since launched the second healthcare fund, Care Investment II,' **Paul Muno**, head of capital relations & Germany at Principal Real Estate Investors Europe, told REFIRE. 'We closed the first fund last year and it is fully-invested, with €140m of AUM. The second fund, which can invest Germany-wide, will be bigger, at around €300m, because it has the remit to invest in the full gamut of healthcare assets, from care homes to senior living, rehab facilities and medical office buildings. I expect it to be fully invested by the end of 2020.'

In December, the group acquired a medical office building near Bonn for an undisclosed sum. It is also close to finalizing its acquisition of a rehab clinic near Freiburg, according to Muno., (*pictured right*).

It will buy both existing healthcare facilities and develop assets, Muno said. 'We like healthcare in Germany due to the ever-aging population. The need for care for the elderly keeps on growing. We currently have between €150m and €160m of deals in the pipeline and would like to invest up to €200m on behalf of Care Investment II this year. Our target is a cash dividend of 6%.'

Other investors, such as listed residential landlord **Deutsche Wohnen**, have been investing in healthcare for more than 20 years. 'We've been active in nursing and assisted living for more than 20 years, so we were ahead of the curve,' **Dr. Malte Maurer**, managing director and head of nursing and assisted living at Deutsche Wohnen, told REFIRE. 'Nursing facilities account for around 85% of our healthcare assets, with assisted living making up the rest,' he said.

'Locally, we also have some outpatient care services. What we like about this segment is its long-term growth potential. Based on demographics, there is a significant capacity built-up required with new construction activity not keeping pace. In a highly fragmented and somewhat undercapitalized market, that creates opportunities for large players like Deutsche Wohnen with efficient access to capital.'

Going forward, Deutsche Wohnen will focus on the acquisition of good quality assets in attractive core and core plus regions, such as Berlin, Maurer said. 'In 2018, we spent around €750m on acquisitions in nursing and assisted living. Our mid-term target is to increase the EBITDA contribution of that segment to around 15% of group EBITDA (up from around 10% today).'

Today, the group holds 89 assets and has another one under construction. Its nursing and assisted living portfolio stands at €1.3b of AUM.

However, not all investors are swayed by care homes. One investor giving them a wide berth – at least for now – is fund manager **Union Investment**. 'The only asset class we're not really considering is very specialized operator-run real estate, such as care homes, because it's more about the quality of the operator than the underlying real estate and the rules and regulations,' Dr. Reinhard Kutscher, sam

# Tenants to the left of me, trade wars to the right, here I am, stuck in the middle...

The news this week that Caterpillar, often viewed as a bellwether industrial group, reported a sharp slowdown in sales in China will have been widely noted in Germany, many of whose leading exporters will shortly be perusing their own results for the final quarter of last year. They're not likely to make for pleasant reading.

Caterpillar, along with other leading groups like chipmaker Nvidia, Apple, Ford and Samsung, have been warning about the rapidly slowing Chinese economy for months. The looming trade war between Washington and Beijing won't kill Caterpillar, whose China revenues represent less than 10% of its sales. But for Germany's powerful exporters, this will have worrying consequences.

The problem with exporting capital equipment, which Germany does so well, is that a downturn in a major market can resemble falling off a cliff. Sales are steady until, all of a sudden, they're not. When companies fear the immediate future, or they face a new tariff of 25%, they cancel that order for new machinery. Production in factories across Germany's famed Mittelstand can suddenly grind to a halt, after ten years of operating at growing capacity.

Economists of all hues are now scrambling to revise their projections for Germany's economic performance through 2019 and beyond. In all cases the new projections are sharply lower than the cautiously circumspect forecasts of even a few weeks ago.

Germany just about escaped a technical recession in the last quarter, by the skin of its teeth. But all the indicators are pointing to tighter times ahead.

The stock market recognized this six months ago, with shares across the board falling heavily from September onwards, after a few earlier wobbles. Listed real estate stocks slid in sympathy, but since the start of the year have been recovering strongly. After all, if the European Central Bank has been scared into revising its forecasts so abruptly downwards, they're unlikely to be raising interest rates in a hurry. That's good for real estate investors, who can still point to the attractive spread between their modest returns and the miniscule or negative rewards on bonds or cash.

But while the real estate party in Germany is sobering up, the guests are far from leaving. There is still mileage in Europe's strongest economy as long as that interest rate day of reckoning can be postponed. So far, it can.

And yet, at the edges, investors need to be scrutinizing their assumptions now more than ever. Politically, the tide is turning, to accommodate the strident demands of factions on the left and the right. While Germany's headlines have been dominated by the AfD and its tolerance of unsavoury extreme right elements, on the streets the groundswell of support for official state intervention in the housing market is surging. Germany's listed housing companies are beginning to feel the heat.

The fight that erupted last November between Deutsche Wohnen and residents of apartments on the old East Berlin's famous Karl Marx Allee has resulted in the effective re-nationalisation of the apartments, after years of seemingly incessant privatisation of the city's housing stock. The city's mayor, Michael Müller, now has the bit between his teeth and claims the fight against property speculation has only just begun.

Tenants across the city are now clamouring for a referendum which would allow the city to claw back properties from companies that own more than 3,000 apartments in the capital. If they get 170,000 signatures by April, they will get their public vote. A straw poll taken by local newspaper *Tagesspiegel* shows that 54% of Berliners are in favour of the referendum. The hard-left Die Linke party, a member of the city-state's ruling coalition government, has given its blessing to the expropriation initiative.

This could seriously rattle companies like Deutsche Wohnen, which owns 115,000 apartments in the city and surroundings, and others like Ado Properties, Vonovia, Akelius and Grand City Properties, who could fall foul of the city's new-found zeal to dispossess them and pander to the activists. The market value of these apartments is put at about €33bn, although any compensation paid would be unlikely to be at market prices. Still, should anything like it occur, the bill to the city would be astronomical. And the message to investors unmistakeable.

By now, public unrest about the soaring level of rents and the shortage of affordable housing is reaching levels that no politician can ignore. Recent protest marches in Munich, Berlin and Frankfurt could morph into future "gilets-jaunes"-style demonstrations that could become nasty very quickly. Behind the scenes the movement is gathering political force, with Berlin's demands for nationalisation of the state's housing assets only the most vocal among many similarly discontented groupings. Where Berlin goes, others are following.

These groups are recognizing that existing measures designed to protect tenants, such as the *Mietspiegel* and *Milieuschutzgebiet*, which prevent predatory rent hikes by landlords, are simply not cutting the mustard. More radical steps are necessary, particularly to counter the effective lobbying for the real estate industry by the ZIA trade body and other influencers.

The growth of this organized resistance is gathering pace, as cells in different cities network together to force local governments' hands. In Frankfurt a concrete plan for a new social housing subsidy of €113m for one company, funded by a new special increase in corporation taxes, raised 22,000 signatures and the support of more than 40 organisations. Similar initiatives are taking place across the country, with protesters using social media to co-ordinate physical demonstrations against the big housing groups. There is more trouble ahead.

Despite the newly-acquired conciliatory tones from the big groups' managements, they are facing new and better organized resistance from opponents of their brand of capitalism – and are going to have to deal with it. It's not going away.

**Charles Kingston, Editor**


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chairman of the management board of Union Investment Real Estate, told REFIRE this month.

Nonetheless, for many investors, care homes are a no-brainer in light of an ever-increasing elderly population. According to real estate consultancy Wüest Partner Deutschland's *'Care Home Atlas 2018'*, published in October, the need for care homes in Germany is set to rocket in two years' time as 'baby boomers' approach retirement. The study analyzed the care home market and predicts the future need for care places and nursing homes for all 402 German districts and independent cities before 2035. It concluded that the number of people requiring care rose by 22.3% between 2009 and 2015, to around 2.9m. At the federal state level, this figure rose most in the east of the country, notably in Baden-Württemberg (33.4%), Brandenburg (30.1%) and Mecklenburg-Vorpommern (28.8%).

The German government could do more, though, to facilitate private development of care homes, according to Muno: 'The government makes it very difficult to invest in care homes because there are 16 different laws when it comes to building and operating them, so it's not the same from state to state,' he explained. 'For example, in North Rhein-Westphalia, you are not permitted to build more than 80 beds per care home. If you want to build 160 beds, you have to build two properties. And in Baden-Württemberg, you are only allowed to build single occupancy rooms, so if a couple had to be in a care home together, they wouldn't be able to share a room. The pressure on the German government to provide more care homes will grow; it needs more interaction with private investors, especially given that it expects them to make the investment.'

**Portfolio sales dominated 2018**

Last year was a busy year for German healthcare, with several large portfolios changing hands. In June, French portfolio management company **Primonial REIM** acquired €800m of German healthcare assets, in the biggest healthcare deal of the year. The company acquired a 50% stake in a German real estate portfolio managed by Alabama-based healthcare **REIT Medical Properties Trust (MPT)** for institutional investors in Germany.

DIP
THE ALLIANCE OF PROPERTY COMPETENCE

**Top Yields and Multipliers in the DIP Locations 2018**

| Location | Office and retail buildings | | Residential multi-family | | Self-service / specialized stores | |
|---|---|---|---|---|---|---|
| | Top yield | Multiplier | Top yield | Multiplier | Top yield | Multiplier |
| Berlin | 3.0% | 33 | 3.0% | 33 | 5.3% | 19 |
| Bremen | 4.7% | 21.5 | 4.3% | 23 | 6.1% | 16.5 |
| Dresden | 4.8% | 21 | 4.0% | 25 | 6.3% | 16 |
| Düsseldorf | 3.3% | 30 | 3.2% | 31 | 5.3% | 19 |
| Essen | 4.6% | 22 | 4.5% | 22 | 6.1% | 16.5 |
| Frankfurt/ Main | 2.9% | 35 | 3.4% | 29 | 5.0% | 20 |
| Hamburg | 2.9% | 35 | 2.9% | 34 | 4.5% | 22 |
| Hannover | 4.2% | 24 | 4.0% | 25 | 5.3% | 19 |
| Karlsruhe | 4.2% | 24 | 3.3% | 30 | 7.1% | 14 |
| Cologne | 3.5% | 29 | 3.5% | 28.5 | 4.9% | 20.5 |
| Leipzig | 3.9% | 26 | 3.6% | 28 | 6.3% | 16 |
| Magdeburg | 4.8% | 21 | 4.2% | 24 | 7.1% | 14 |
| Munich | 2.5% | 40 | 2.5% | 40 | 4.3% | 23 |
| Nuremberg | 4.0% | 25 | 3.7% | 27 | 6.5% | 15.5 |
| Stuttgart | 3.3% | 30 | 3.1% | 32 | 6.3% | 16 |
| Average of the DIP locations | 3.8% | 26.7 | 3.6% | 27.4 | 5.7% | 17.4 |

Source and Copyright: DIP Deutsche Immobilien-Partner, AENGEVELT-RESEARCH


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The portfolio comprised 71 properties with a combined total value in excess of €1.63b. MPT has retained a 50% interest in the portfolio and one of its affiliates will continue to manage the facilities.

Also in June, listed Belgian real estate company, **Cofinimmo**, acquired 17 nursing and care homes in Germany comprising 1,500 beds for €172m from a joint venture belonging to European private equity group, **Revcap**. All 17 assets are let to German operator **Stella Vitalis**, with whom Cofinimmo has signed leases for a fixed 30-year period.

Germany/Research

## Record year for German real estate in 2018, but mood shifting

Last year marked a record year for German real estate, with around €77.3bn invested in real estate, of which €60.1bn was invested in the commercial real estate market, an increase of 6% y-on-y, according to **CBRE**.

'Last year set another record in the investment market for German commercial property,' said **Fabian Klein**, head of investment at CBRE Germany. 'In particular, lively investor interest in commercial real estate in investment centres such as Frankfurt am Main, Berlin and Munich drove momentum. Office properties are especially attracting investor attention, not least due to great demand on the letting markets. The German real estate market generally remains one of the most important target markets for domestic and international investors due to the promising macroeconomic fundamental data and interest rates running at a persistently low level,' he added.

In Germany's 'Big 7' - Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – the investment volume jumped by €6.3bn or 17% y-on-y. German investors dominated their home market last year, accounting for €46.5bn or 60% of deals, up from 53% last year.

'Given the German economy's stable fundamental data, demand remains persistently strong and the German real estate investment market continues to top the list for real estate investors,' said Klein. 'Consequently, the transaction activity will continue to run at a high level in 2019 as well despite speculation about a possible interest rate reversal, with the sole constraint being the lack of property suitable for investment,' he added.

**Resi defies expectations**

The residential sector benefitted from significant growth, accounting for €18.7bn of deals, thereby surpassing the five-year average of €16.9bn, according to JLL. This was achieved despite new regulatory and bureaucratic measures that resulted in investors facing more stringent conditions last year. Higher transaction volumes were achieved in 2005 (€19.8bn) and 2015 (€25.2bn).

Since the number of traded properties and portfolios fell slightly and the number of traded units increased only fractionally, last year's growth was almost entirely due to higher property prices. Compared to the previous year, the average cost for a residential unit increased almost 20% to €142,000 or €2,200 per sqm. Five years ago, prices were 70% below this level, according to JLL.

However, this year, the transaction volume is likely to fall, warns **Konstantin Kortmann**, head of residential investment at **JLL Germany**: 'Even if developers, municipal housing companies and large housing companies build more new housing, it is likely that the overall transaction volume will fall,' he said. 'Sustained price growth and the tendency to invest more in special segments such as micro apartments and student accommodation will not fundamentally change that. However, a transaction volume in line with the five-year average of about €17bn should be achievable.'

The largest transaction of the year was the acquisition of **Buwog** in Austria by the German housing group Vonovia - including around 27,000 German units - for a purchase price of around €2.9bn, including liabilities. Only three other portfolios with more than 4,000 residential units changed hands. More than 90% of the transactions involved fewer than 800 residential units and generated close to €10bn overall, according to JLL.

The acquisition of Buwog alone ensured that listed housing companies again accumulated the highest asset volume, investing a net amount of around €3.6bn. 'These companies will only be able to retain their leading position in future if adequate large portfolios or companies come onto the market,' Kortmann said. However, this is not expected to be the case because market consolidation in Germany is now at an advanced stage. 'Further growth can either be achieved through investment in international markets - a path that is already being taken by some listed German housing groups - and/or development of the existing portfolio,' he added.

**Hotel market just misses €4bn mark**

Single asset sales dominated the German hotel market last year, with portfolio sales markedly absent, according to JLL. In total, €3.85bn of hotels were transacted, down 7% y-on-y – not quite hitting the forecast of €4bn – of which single assets accounted for €3bn.

'Yes, the result has fallen for the third consecutive time. No, that does not signal declining interest in this asset class,' said **Stefan Giesemann**, executive vice president of the **JLL Hotels & Hospitality Group**. 'It's the same old story: if suitable (portfolio) offers are not available in the market, neither German nor foreign investors have the opportunity to invest. It's very simple. Last year, only one large portfolio transaction in the three-digit-million range took place, compared to

...see page 11

# Outlook for 2019: No easing of property prices

**The year 2018 was marked by low base rates and very little movement in long-term interest rates. Both rates could rise in 2019 – but only slowly and gradually. The ECB remains the dominant factor when it comes to interest rates.**

**2018 in review**
Over the course of 2018, short-term interest rates remained almost static. The room for manoeuvre provided by the European Central Bank (ECB) through its base rate is severely limited. Monetary policy instruments can be used with a high degree of precision to directly affect short-term rates – but this is not the case where long-term interest rates are concerned. In this regard, the ECB sent a strong market signal through its bond-buying activities, but did not influence rates directly. This means that market influences can have a stronger effect, and indeed the long-term rates in 2018 moved slightly more than the short-term rates, though the fluctuations remained limited.

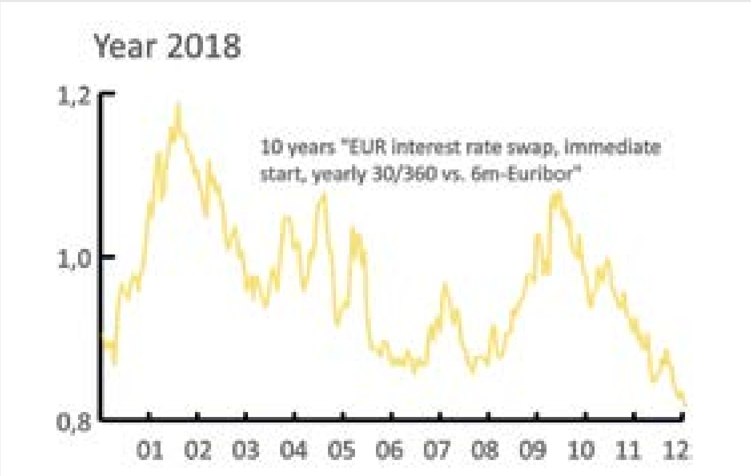
The ECB has been carrying out a bond-buying programme of over EUR 60 billion per month since March 2015, with the purchasing volume increasing to EUR 80 billion from April 2016 onwards. Long-term interest rates subsequently reached a historic low in October 2016. In 2017 and 2018, the monthly purchasing volume was lowered to EUR 30 billion and then to EUR 15 billion in October 2018. At the end of the year, the bond-buying programme was discontinued for the time being. However, long-term interest rates during this period have only risen slightly, showing mild fluctuation. Various crises such as the trade conflicts initiated by the US government, the UK's impending withdrawal from the EU, or Italy's banking and budget crises also failed to have a significant impact on the long-term rate's development. Since the beginning of October 2018, the conditions for ten-year swap rates have actually fallen again, coming in below 0.8% in January 2019. This means that long-term interest rates are also still at a historic low, despite increases in the interim. On balance, the ECB remains the key influence on long-term interest rates.

Francesco Fedele
CEO, BF.direkt AG

Prof. Dr. Steffen Sebastian
IREBS

**Outlook**
The ECB will continue to be the dominant bond-buyer on the market in 2019 due to the continuous replacement of maturing bonds. This process will result in the ECB purchasing a further EUR 15 billion in bonds each month. It is therefore expected that long-term interest rates will continue to rise slowly over the course of 2019. However, sudden increases are unlikely.
Where short-term rates are concerned, the ECB has repeatedly stressed that it will not change the base rates before summer 2019. The imminent departure of Mario Draghi as president will not lead to any changes in that regard either. The key decisions will be taken by the Governing Council of the ECB, in which the president only has one vote. The ECB has indicated several times that all of the decisions announced depend on the continued positive development of the inflation rate. In light of the weakening economy, this is far from a certainty. In December, inflation fell back to 1.7%.

Despite a slight increase in interest rates, property prices have not yet fallen. The development of the German property market is thereby following the American pattern: In the US, both interest rates and property prices have been rising steadily in recent years. The link between interest rates and property prices is less direct than is often assumed. That is why there is no reason to assume that the moderate interest rate increases expected for 2019 will have significant effects on property price trends.



three in 2017 and seven in 2016. However, the increase in individual transactions (+11) compensated for this shortage, because capital is sufficiently available and financing conditions are investor friendly.'

In 2018, a total of 93 single asset transactions were completed, most of which were between €25m and €30m in size, according to JLL. The top five transactions accounted for a volume of about €900m, and included the sale of **Hilton Berlin** in the second quarter by a joint venture of **Park Hotels & Resorts** and **Abu Dhabi Investment Authority (ADIA)** to **Aroundtown** for around €297m.

'The hotel markets continued to show robust growth with record numbers of overnight stays in almost all cities, stable domestic demand and a steady rise in foreign tourists, an important reason for the strong performance of hotels,' Giesemann added. 'This encourages foreign off-shore investors to invest their capital into German hotels with lease structures.'

Domestic players dominated the market accounting for around 72% of all transactions or €2.8bn. International investors, who were particularly interested in large portfolios or individual transactions, accounted for a further €1.1bn. Most capital came from the UK (€300m across five deals), followed by French investors with about €164m across eight transactions. Off-shore investors from the Middle East and Asia invested around €180m in three German hotel transactions, according to JLL.

**Office properties remain the strongest asset class with new high**

Office deals accounted for the lion's share of investment at €31.9bn, or 41% of the overall volume and a 15% increase year-on-year, thereby outpacing all other asset classes. Of the total, 60% of office deals were transacted in the 'Big 7', according to CBRE.

'The dominance of the most sought-after asset class, office real estate, is of particular significance,' said **Helge Scheunemann**, head of research at JLL Germany. 'Around 80% on average has been invested in property in the 'Big 7' over the past few years (since 2012).'

In Frankfurt, the commercial real estate market broke through the €10bn barrier last year, following the completion of a number of large-volume office transactions at the end of the quarter, according to JLL.

'The high level of interest in the established markets is primarily owing to the strong lettings market, which provides a fundamental basis for investments as well as the prospect of further rent increases following refurbishments or the renting out of vacancies in a property,' said Scheunemann. 'In the face of diminishing yield compression, rental growth in particular is becoming increasingly important as a way of generating added value. This is also why value-add properties with short remaining leases, or properties with vacancies, are currently in continued rising demand due to the shortage of existing properties in both the investment and letting markets, especially in central city locations. Numerous office or residential construction projects are currently let before completion, thus reducing the risk of such investments.'

Prime yields for offices in the 'Big 7' on office properties dipped by 0.22% to 3.04%, according to **German Property Partners**. The lowest prime yield was registered in Hamburg at 2.80%, with the highest recorded in Cologne and Stuttgart at 3.30%.

'The transaction volume in 2018 was the best result for more than ten years,' said GPP spokesperson **Guido Nabben**. 'Currently, the market features a large number of properties in which the majority of space is already let before completion. Investors are especially interested in these properties, which explains why the number of forward deals is now appreciably rising,' he added.

**Logistics expected to remain on wish lists in 2019**

Logistics and industrial properties are expected to retain their charm for both domestic and foreign investors, with the latter group investing around €1.65bn more on balance in 2018, according to JLL.

The logistics and industrial asset class recorded its second-best year ever last year with a transaction volume of almost €7.5bn. Mid-cap transactions grew significantly, and proved to be an extremely dynamic segment with 140 deals recorded, totaling €810m.

Despite the markedly higher overall number of transactions (230, +13% compared to the previous year), the investment volume was below the record level of 2017 (-14%). This is because in 2017, the five largest deals amounted to €4.57bn, including the **Logicor** portfolio

**Sector prospects in 2019 - Top Ten**

| Overall ranking | Sector | Investment ranking | Development ranking |
|---|---|---|---|
| 1 | Co-living* | 1 | 1 |
| 2 | Logistics facilities | 3 | 2 |
| 3 | Retirement/ assisted living | 4 | 3 |
| 4 | Flexible/serviced offices | 5 | 4 |
| 5 | Data centres* | 2 | 5 |
| 6 | Student housing | 6 | 6 |
| 7 | Private rented residential | 8 | 7 |
| 8 | Serviced apartments | 7 | 8 |
| 9 | Housebuilding for sale | 13 | 9 |
| 10 | Social housing | 10 | 10 |

**a significantly lower number of respondents scored this sector*

.....see page 13

CATELLA

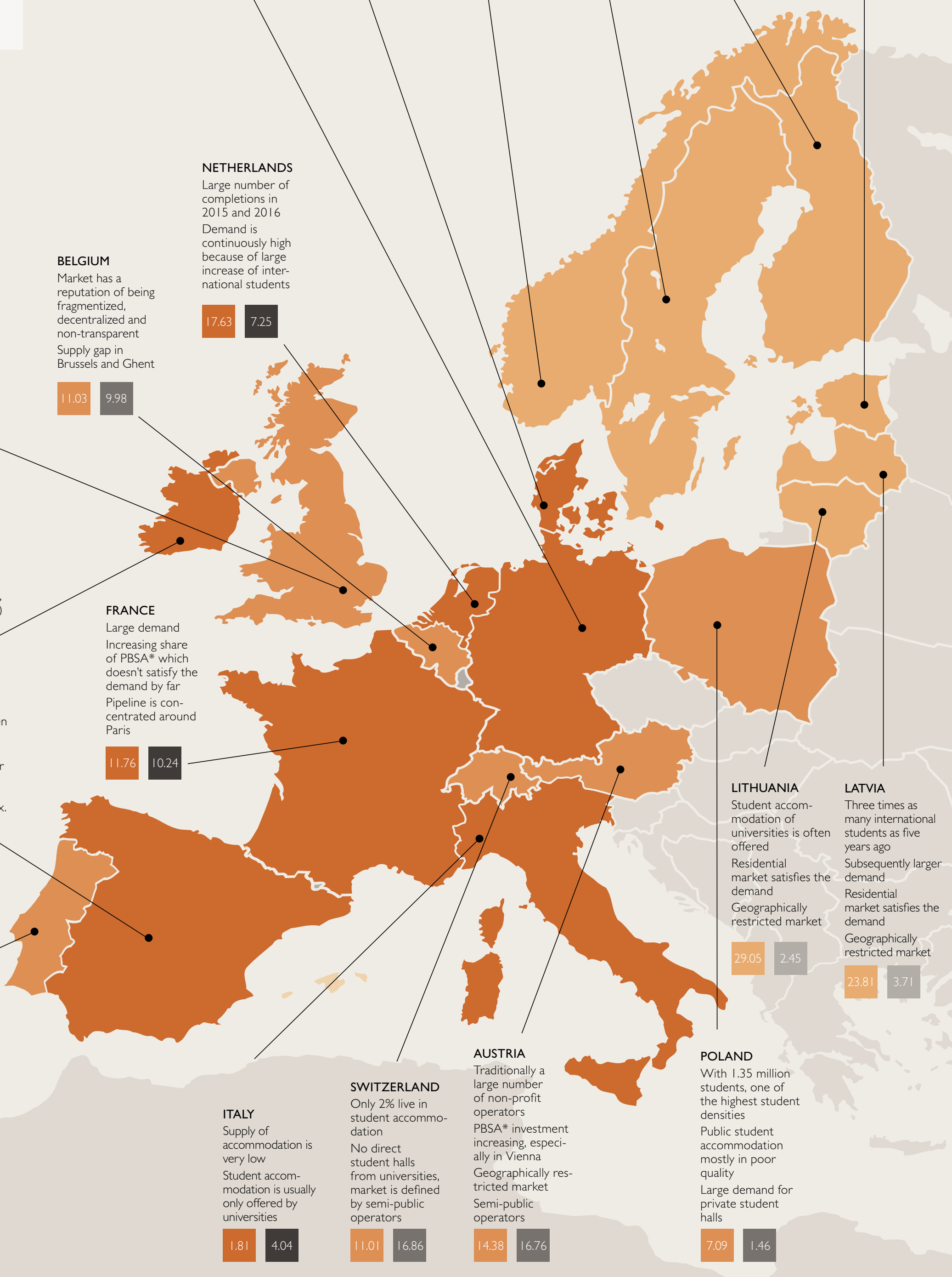
# Market Analysis Student Housing in Europe 2018

**Development of student figures 2003 to 2018**

- Increase of 0 – 10%
- Increase of 11 – 25%
- Increase of more than 25%

0.0 Saturation in % (ratio of student figures and beds in residential halls)

0.0 International students in %



**GERMANY**
Student union is the largest supplier (low-price segment, limited capacity)
Scarcity of supply in the middle-priced segment, strongly increasing number of private investors
10.68 | 12.8

**DENMARK**
Especially around larger cities a very large demand
Geographically restricted market
11.16 | 10.13

**NORWAY**
Little competition
Exchange students receive a place in (public) student accommodation
9.16 | 3.62

**SWEDEN**
Scarce supply of student accommodation and low general supply
Subsidization of small residential apartments including student accommodation by Swedish government until 2019
17.38 | 5.83

**FINLAND**
Large demand for residential space in general
Small number of central student accommodation
Geographically restricted market
26.21 | 7.07

**ESTONIA**
Some universities offer accommodation (inexpensive, close to university)
Public residential market satisfies the supply
Geographically restricted market
17.59 | 2.89

**NETHERLANDS**
Large number of completions in 2015 and 2016
Demand is continuously high because of large increase of international students
17.63 | 7.25

**UK**
Sustained high demand for high-quality, modern and affordable accommodation
Some markets already achieve a balance between supply and demand, while others have large potential
18.35 | 17.46

**BELGIUM**
Market has a reputation of being fragmentized, decentralized and non-transparent
Supply gap in Brussels and Ghent
11.03 | 9.98

**IRELAND**
High demand for public student accommodation
Shortage of student apartments (especially Dublin, Cork and Galway)
16.79 | 5.76

**FRANCE**
Large demand
Increasing share of PBSA* which doesn't satisfy the demand by far
Pipeline is concentrated around Paris
11.76 | 10.24

**SPAIN**
Large gap between demand and current supply
Estimated number of unsatisfied demand for Student Housing at approx. 400,000 students
4.56 | 2.86

**PORTUGAL**
Geographically restricted market
University accommodation only plays a small role, many students rent on the public market
PSBA* investments increasing
3.77 | 3.92

* purposed-built-student-accommodation

**LITHUANIA**
Student accommodation of universities is often offered
Residential market satisfies the demand
Geographically restricted market
29.05 | 2.45

**LATVIA**
Three times as many international students as five years ago
Subsequently larger demand
Residential market satisfies the demand
Geographically restricted market
23.81 | 3.71

**ITALY**
Supply of accommodation is very low
Student accommodation is usually only offered by universities
1.81 | 4.04

**SWITZERLAND**
Only 2% live in student accommodation
No direct student halls from universities, market is defined by semi-public operators
11.01 | 16.86

**AUSTRIA**
Traditionally a large number of non-profit operators
PBSA* investment increasing, especially in Vienna
Geographically restricted market
Semi-public operators
14.38 | 16.76

**POLAND**
With 1.35 million students, one of the highest student densities
Public student accommodation mostly in poor quality
Large demand for private student halls
7.09 | 1.46

Source: Catella Research 2018

...from page 11

(€1.9bn), accounting for 53% overall. In 2018, the top five deals totalled €2.46bn, corresponding to a third of the overall logistics volume, according to JLL.

The largest transactions included the sale of the **Laetitia** portfolio by **Aurelis Real Estate** to **Swiss Life**, comprising 32 commercial properties in locations throughout Germany; the sale of **Optimus Prime Portfolio** by **BEOS** to **Helaba Invest**; and the sale of a logistics portfolio by **Alpha Industrial Holding** to **Frasers Property Limited** - the majority of the €500m portfolio was invested in Germany.

'This year again looks set to be an exciting period in the German investment market for logistics and industrial property,' said **Willi Weis**, head of industrial investment at JLL Germany. 'Prime yields will fall further in the 'Big 7' cities.'

In the 12 months to end-2018, yields fell 40 bps to 4.1%, according to Weis. The gap between logistics and office yields (3.11%) is now only one percentage point, compared to two percentage points in 2011 (4.9% compared to 6.9%). In 2019, the prime yield could drop to 3.75%, causing a further narrowing of the yield gap between the two asset classes, Weis added.

'Portfolio transactions above €500m will also reappear in 2019,' he said. 'At least two deals in this range are in the preparatory stage. On the other hand, small and medium-sized companies from the manufacturing sector will ramp up their activities significantly in 2019. It was already the case last year that such companies were increasingly thinking selling their industrial property under a sale and leaseback arrangement. We will undoubtedly see more transactions in this area. Overall, we believe that a transaction volume at the level of the previous year is possible for 2019.'

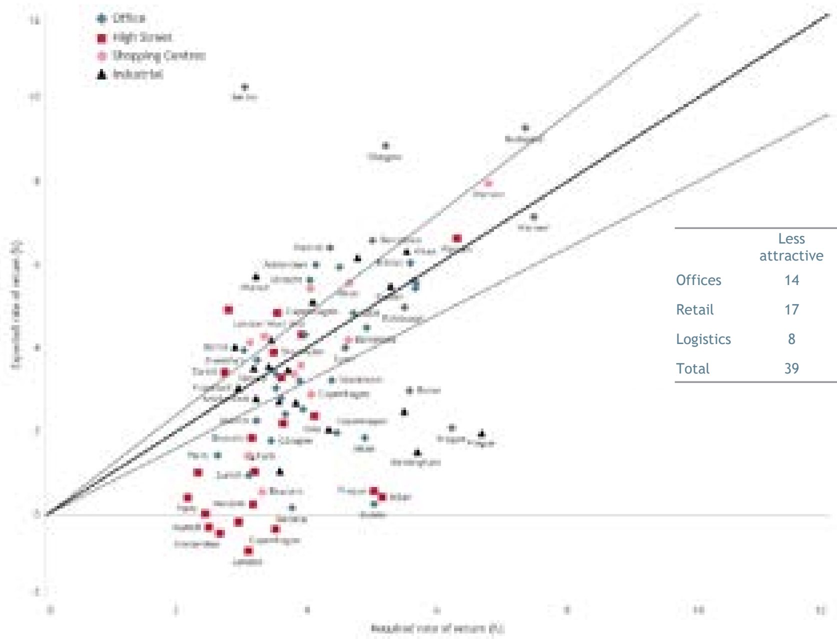
### Retail market hits the skids

Predictably, the retail market did not fare so well last year. While €10.5bn was channelled into retail deals in Germany in 2018, this marked a 25% drop year-on-year.

'The decline in the retail transaction volume in the German market calls for a more discerning look,' said **Jan Dirk Poppinga**, co-head of retail investment

DESPITE LATE CYCLE, 51 OF 90 RATED ATTRACTIVE OR NEUTRAL

RETAIL MARKETS EXPECTED TO FACE TOUGHEST CHALLENGE



| | Less attractive | Neutral | Attractive | Total |
|---|---|---|---|---|
| Offices | 14 | 14 | 9 | 37 |
| Retail | 17 | 10 | 6 | 33 |
| Logistics | 8 | 8 | 4 | 20 |
| Total | 39 | 32 | 19 | 90 |

Source: CBRE, RCA, MSCI, Oxford Economics, Natixis & AEW

AEW Focused on the Future of Real Estate 15

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at CBRE Germany. 'While inner-city retail properties in top locations increased their share in the overall volume to 39% (€4.1b), with a major impact emanating from the merger between **Karstadt** and **Kaufhof**, the proportion invested in shopping centers, in particular, declined significantly.'

The disruptive change resulting from e-commerce is causing investors to adopt a reticent approach to shopping centres in B and C locations, according to Poppinga. Last year, €1.3bn was invested in shopping centres, just 13% of the overall volume. In 2017, this figure stood at €2.7bn (20%), according to CBRE. Retail warehouses and retail parks remain the dominant asset class, accounting for €4.4b of deals or 42% of the market, according to Poppinga: 'Strong investor interest in retail warehouse properties is evident from the yields that slipped further toward the end of the year, particularly for retail parks,' he added.

At €2.4bn, the final quarter was especially disappointing, according to **Jan Schönherr**, co-head of retail investment at CBRE Germany: 'All in all, we anticipate the demand for retail property in 2019 at the level of the previous years, with investors continuing to focus on properties in the food market segment,' he predicted.

International investors upped their game to account for an additional 5% of deals last year or 42% of total retail transactions, according to CBRE. In the 'Big 7' locations, this rose to 53%. Berlin alone registered a transaction volume of more than €1bn, according to CBRE.

Germany/Indices

## Deutsche Hypo: change of mood rings in 2019

The year has kicked off with a change of mood, according to German lender, **Deutsche Hypo** - and with a healthy dash of scepticism to boot.

'After last year's record year, I am a bit more sceptical about 2019,' **Sabine Barthauer**, member of the board at Deutsche Hypo, told REFIRE this month. 'Going into 2019, we see that there is increased differentiation between the asset classes. For a while now, investors won't buy just anything, much less finance it.'

Deutsche Hypo's *'Immobilienklima'* (investment climate) index started the year up 4.4% at 123 points, thereby wiping out December's losses. Still, the index has fallen 11.4% from 138.9 points a year ago.

'How the index develops this year depends on a lot of factors, including trade frictions between China and the US as well as whether we are left facing a 'No deal' Brexit,' Barthauer warned. 'If the leave date is postponed past March, all that does is prolong the uncertainty, which doesn't help the market. German GDP growth and politics will also play a role. In all likelihood, we are looking at a sideways movement in the index this year. The overall deal volume will probably be lower than last year's €60bn but still above €50bn.'

Offices (+6.2%) and logistics (+4%) are still very popular but there is less investor interest in high street retail because it has become less stable in the wake of e-commerce, according to Barthauer. 'I think we'll still see a lot of interest in office in major cities and rents will likely rise, particularly in cities such as Berlin where demand is incredibly high and the supply remains very tight. Micro living also remains a big trend.'



Germany/Study

## Outlook for German occupier markets weaker as export growth cools

**Capital Economics** issued a note last week saying that the cooling in German export growth was leading to a poorer outlook for the German economy and increasing the downside risks for occupier markerts.

While preliminary Q4 data show that Germany narrowly avoided a recession in the second half of last year, economic activity has nonetheless slowed down

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abruptly, and GDP growth is likely to have been only 1.5% last year, against 2.5% in 2017 – figures backed up by Germany's **Federal Statistics Office**. Leaving aside disruption to car production, consumer spending growth has also been hit by a sustained slowdown, as higher inflation eroded real incomes.

Real incomes may get a boost this year due to lower energy prices, says Capital Economics researcher **Hamish Smith**, but with fading consumer confidence household spending will remain weak. Lower business confidence and weaker export growth will see GDP growth fall to 1% this year and next, the study predicts.

This will have an impact on office demand, particularly in Berlin and Munich. "We expect the poor outlook for the economy to dampen German occupier demand and rental growth. Indeed, the pace of job creation has already started to ease a little, with the volume of office take-up across Berlin, Frankfurt, Hamburg and Munich also showing signs of having peaked. We expect the cyclical downturn to start showing up in lower take-up volumes this year, as firms begin to pare back expansion plans.

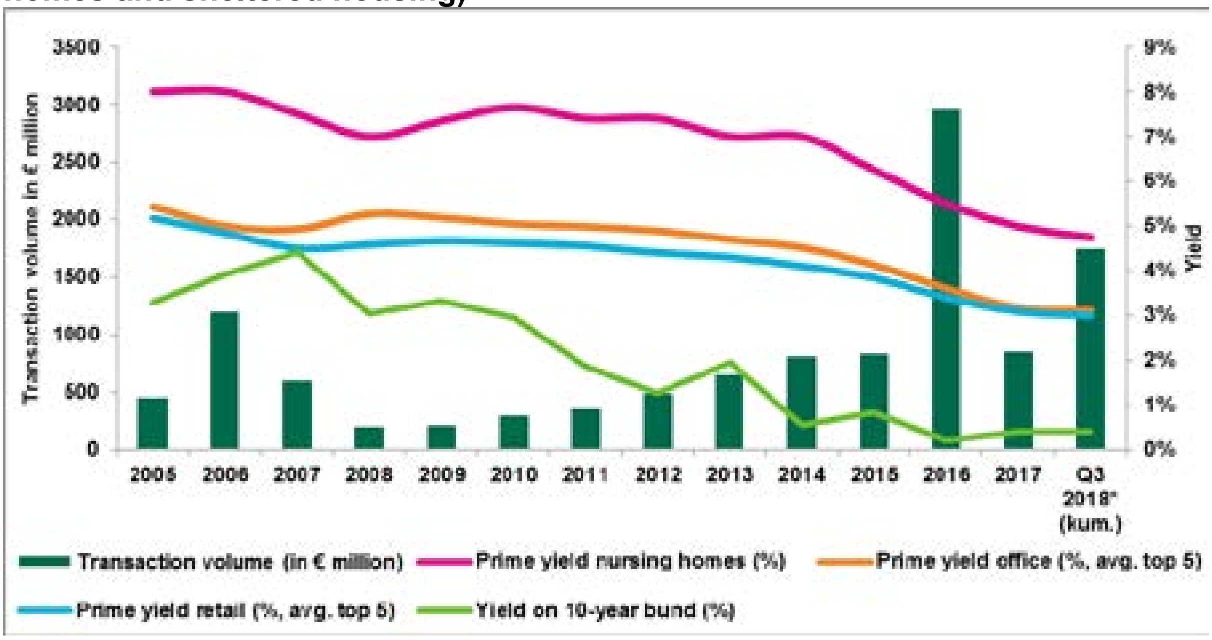
"That said, with Germany's labour market near capacity, we already expected that slower employment growth would hold back occupier demand. Indeed, this underscores our below-consensus forecasts for office rental growth this year and next. Even so, the more marked slowdown in the economy that we are now forecasting increases the downside risks to our rental outlook, especially in Berlin and Munich, which have relatively large supply pipelines.

And it's not good news for the retail sector, either. "We have been similarly downbeat about the prospects for rents in the retail sector. Ordinarily a pick-up in consumer spending would be positive for rental growth. But we think that factors such online competition have led to a breakdown in the relationship between consumer spending and retail rental growth. As such, we continue to be of the view that prime retail rents are likely to mark time this year and next.

However, Capital Economics feels that the greatest risks to its rental growth forecasts are in the industrial sector. With Germany more exposed to the global slowdown than other euro-zone markets, further weakness in export demand is likely to take a toll on industrial occupier demand. Any sustained deterioration the new export orders PMI (Purchasing Managers Index) would imply a sharp slowdown in take-up, with rental growth much weaker than the already modest 1% the researchers have penciled in for 2019-21.

For Europe as a whole, Capital Economics predicts that commercial property capital values will rise again in 2019, supported by an improved outlook for yields, which will edge slightly lower this year.

**Investment transaction volume – care home properties (including retirement homes and sheltered housing)**




* Incl. sheltered housing as from 2018

Source: CBRE Research, Q3 2018.

That's because, with the eurozone economy slowing faster than expected amid a weakening global backdrop, there is an increasing likelihood that the **European Central Bank (ECB)** will push back its plan to increase interest rates, from late this year, into 2020.

Although the ECB has drawn the curtain on its quantitative easing (QE) programme, it has noted that the balance of risk to the euro-zone economy is moving to the downside. This, together with safe-haven flows as a result of the flare-up of political tensions in Italy, has seen German 10-year Bund yields fall from around 0.5% at the start of October, to less than 0.2% currently – the lowest level since Q2 2017.

As a result of this changed economic environment, Capital Economics thinks that prime property yields will generally mark time, rather than rise, across most western European markets.

Germany/Research

## Less forward deals, more profit-taking forecast in EY annual survey

Despite higher prices and a restricted supply, turnover on the German commercial property market reached €78bn in 2018, about 7% more than in 2017. But the high point in the cycle has been reached, according to the latest survey by consultancy group **EY**.

97% of the 300 respondents for EY's annual *Trendbarometer Immobilien Investmentmarkt* from the banking, funds management, wealth advisory and residential housing industries said that Germany will remain an attractive location for commercial and residential property investment. However, the share of respondents viewing market prospects as "very good, without limitation" fell from 52% last year to 41% now.

According to **Christian Schulz-Wulkow**, DACH head of real estate at EY, "The price rises of previous years, federal and municipal government interference and capacity bottlenecks in the construction sector have been taking their toll."

EY is expecting a transaction volume in 2019 of €72-75 billion, a slight reduction on last year. The share of respondents viewing Germany as "less attractive" has fallen slightly from 6% to 3%.

71% of respondents still view residential property positively, with 2018 seeing residential portfolios valued at €17.6m changing hands – 13% more than in 2017. However, there is very little supply on the market, and 89% of the investors surveyed were skeptical about political measures to ease the housing shortage. "Tightening up the tenancy laws won't build a single new house", says Schulz-Wulkow.

80% of respondents will have their

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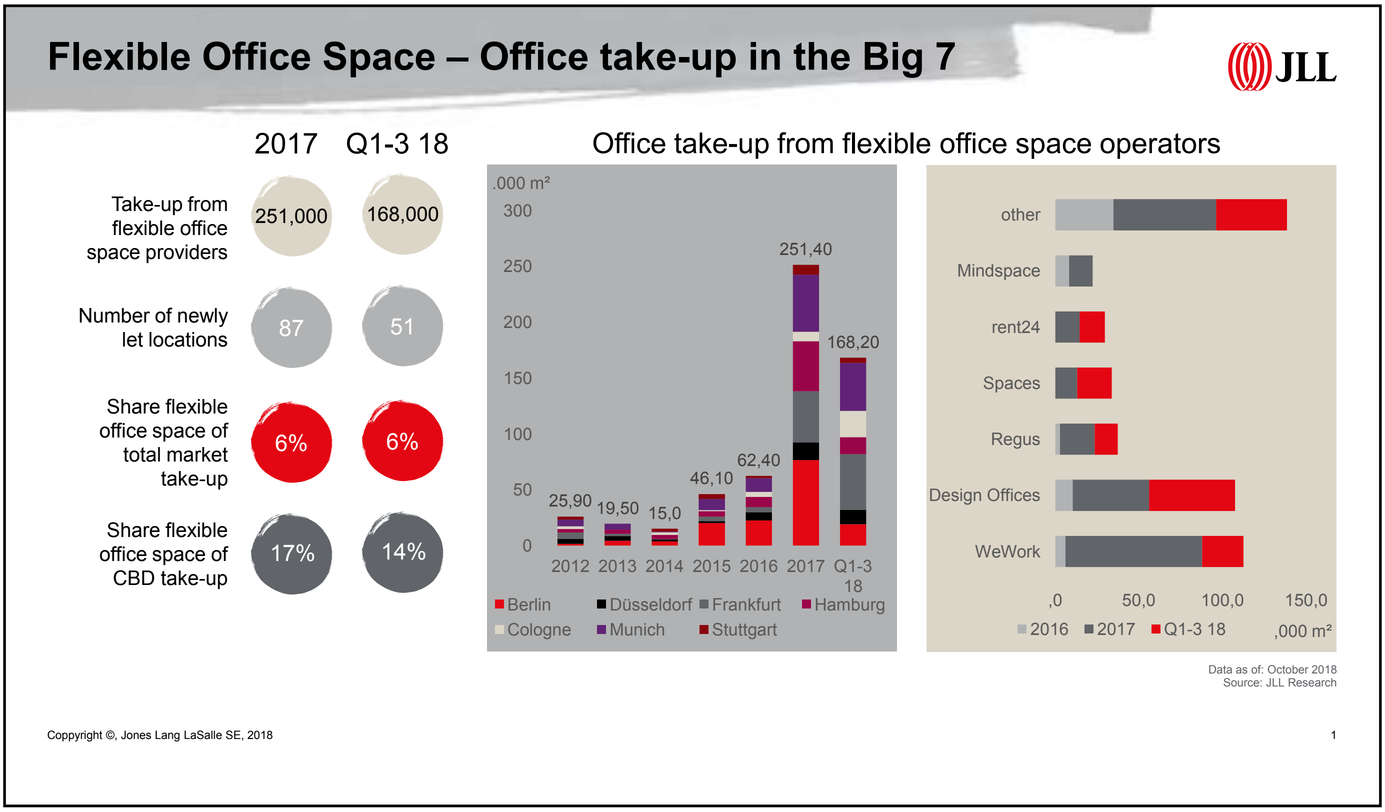



Source: JLL Deutschland

## Guest Column

# Germany's continued appeal to net lease investors

*Arvi A. I. Luoma, Managing Director, Head of European Investments, W. P. Carey*

Net lease is a sector in which investors are often able to secure higher yields than other types of income-focused investments. W. P. Carey, a U.S.-based diversified net lease REIT with a long-standing presence in Europe, and other foreign investors continue to be attracted to sale-leaseback investment opportunities in Germany.

As foreign capital flows into the region and competition amongst businesses increases, corporate owner-occupiers are turning to alternative capital sources such as sale-leasebacks to monetize their corporate real estate and support their long-term operating and financial goals.

A decade or so ago, sale-leasebacks in the region were largely driven by Germany's Mittelstand companies realising the capital tied up in their industrial real estate assets to reinvest in other business initiatives.

This financing tool has since expanded rapidly to corporate offices, technology facilities, logistics and even hotels. The growing availability of net lease capital and increasing recognition of the value created by sale-leasebacks have been key drivers of this development.

For investors well-structured net-lease real estate investments can offer an attractive opportunity for capital preservation and long-term income generation, due to the fundamentals of population growth and generally upwards economic trends.

By working with owners and corporate management, investors are able to develop and structure an economic platform to support their long-term investment objectives and at the same time the future growth needs of tenant companies.

Market drivers have evolved, but the core fundamentals of real estate analysis remain central to a successful investment strategy. Location has always been key to ensuring defensible rents and a good investment position down the line.

In order to generate a stable long-term yield as cities expand, successful investors must find locations, like Germany, that will remain relevant over time as demographics and consumer trends change, and the impact of the internet on daily life and business operations continues to grow.

For example, in parallel with the ever-increasing consumer demand for quick deliveries, logistics facilities with multiple floors and small 'last-mile' locations are tipped to generate steady long-term yields.

Companies that bought warehouse space in German cities and indeed throughout Europe, ten years ago have reaped the benefits because of the undersupply of central locations with these same specifications.

Furthermore, amidst today's market uncertainty, rising interests rates could be on the horizon. As rates rise, upward pressure on cap rates and borrowing costs is likely, making now a particularly good time to lock in long-term rental rates and maximize capital proceeds.

Despite some concerns that it is late in the market cycle, investors who choose their assets wisely and structure long-term leases, say 15-25 years, will usually ride out short-term cycles.

Ultimately, the most important aspect is in the matchmaking process. Owner-occupiers should prioritise investors with the experience and due diligence skills required to understand their businesses in detail and provide customized capital solutions, while securing the most attractive long-term investments for themselves and their shareholders.

**END**

*...from Page 18*

main focus on commercial office property in 2019, with retail property losing further ground – only 41% expect high demand in the sector, down from 60% last year.

89% of respondents said their main investment emphasis would be on their own existing assets, rather than expensive new acquisitions, despite the construction industry operating at nearly full capacity across Germany. EY says forward deals will feature less this year, although in times of demand overhang they are normally a popular vehicle.

"Forward deals can represent a risk factor for investors and project developers through construction delays", says **Paul von Drygalski**, EY director and co-author of the study. Still, 53% of respondents said they were likely to at least consider forward deals this year.

At this late stage in the cycle, profit-taking by selling off assets is likely to grow in importance, in EY's view, confirmed by nine out of ten respondents, with the same amount saying they would be "extremely selective" when buying this year. "A sense of proportion when buying - determination when selling - that's the motto for this year", says von Drygalski.

More and more investors are looking at niche segments, particularly those that are closely associated with digital developments – 91% said they were looking at Co-Working, 85% said Serviced Apartmentsk, and 83% Micro-Apartments.

"The waning attraction of retail property is being balanced by a growing demand for Logistics assets, with the conflict of e-commerce and the bricks-and-mortar trade being played out directly in the real estate markets", says Schulz-Wulkow.

93% of respondents are particularly observing the growing attractions of 'last-mile' logistics assets, while 80% of respondents are hoping for a further surge in digital offerings with the introduction of 5G mobile infrastructure as a catalyst for the sector.

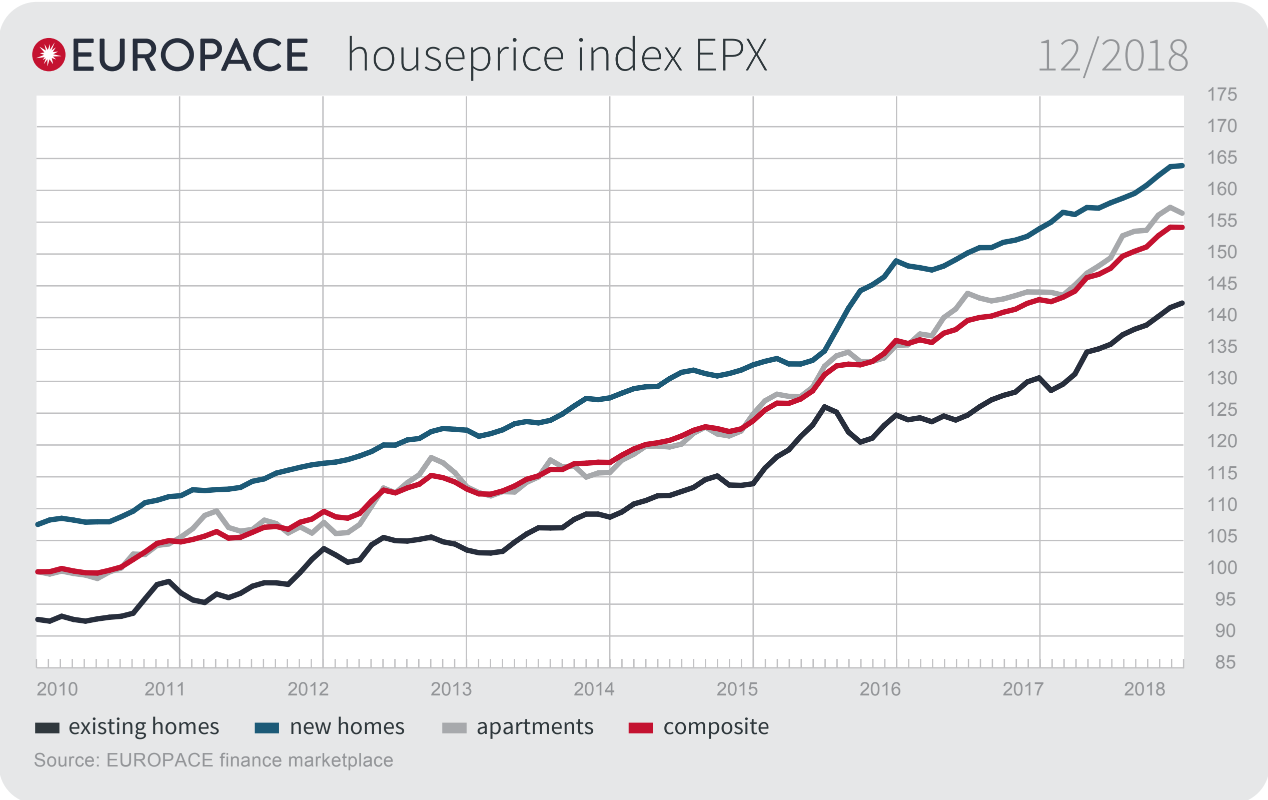
"The new mobile telecom standard will create innovative building concepts and can help compensate for otherwise poorer physical location. Property owners will also benefit from the income possibilities of renting out roof space for installing mobile and broadcasting technology", says von Drygalski.

Germany/Project Development

## Instone boosts German resi dential pipeline to €4.5bn

German listed residential developer **Instone Real Estate** has signed to secure three further development projects in Germany, bringing its current pipeline of projects to about €4.5bn.

The latest projects should create 680




Source: Europace


TRUSTED LEGAL
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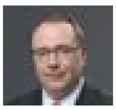


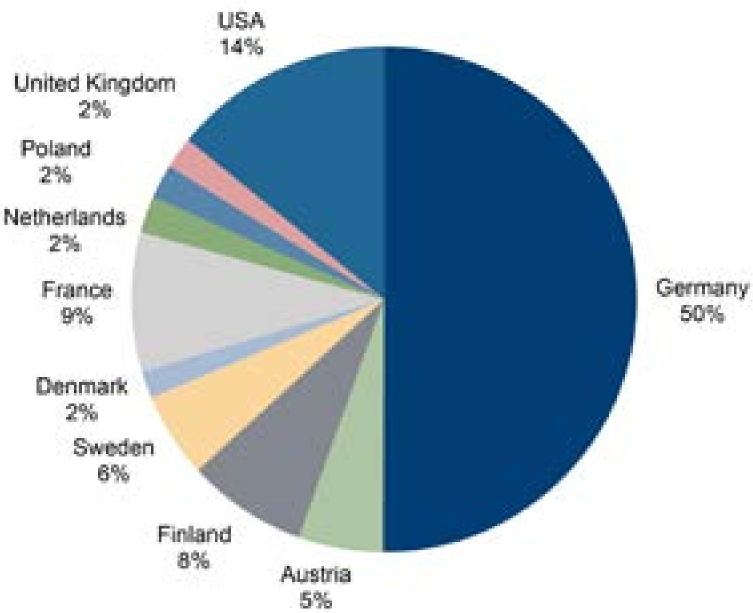
apartments in Potsdam, Hanover and Norderstedt (near Hamburg), and Instone said they should generate a combined sales volume of €265m.

Instone's CEO **Kruno Crepulja** (*pictured, right*) said, "In an exciting market environment, we succeeded in securing attractive new property developments in cities with positive demographic forecasts. The communicated target for the year 2018 of acquiring projects with a future sales volume of between €900m and €1bn was even exceeded."

The company also inked a deal with acquisitive Bavarian pension fund **BVK Bayerische Versorgungskammer** to develop and sell an 18,000 sqm residential portfolio. The €72bn BVK is buying part of the *"Stuttgart City Prag – Wohnen im Theaterviertel"* project in Stuttgart. BVK said it will acquire 250 residential units, which includes 24 rent-controlled flats, for an undisclosed sum. Instone is planning to begin construction work on the project in spring of 2019 and to complete the project by 2022.

**Christoph Geirhos**, head of DACH real estate at BVK, said "Our residential portfolio is perfectly complemented by the 250 units at the *Pragsattel* site in Stuttgart. The strong housing demand in Stuttgart, the attractive location, the well-considered concept plus the trust-based and proven collaboration with Instone persuaded us to invest in this project early on."

The Essen-based Instone, with 320 employees in eight offices across Germany, has been planning, building and marketing more than 1,000 residential units annually for owner-occupiers, for private buy-to-let, and for institutional investors, focusing on Germany's key metropolitan regions. Its project pipeline is currently valued at more than €4.5bn, with 45 development projects totaling nearly 9,000 planned residential units. It floated on the **Frankfurt Stock Exchange** in September last year.




Spread of Union Investment's assets 2018 - Source: Union Investment

Germany/Funds

## Union Investment invests €2.3bn on behalf of its real estate funds

German fund manager **Union Investment** invested €2.3bn on behalf of its real estate funds last year, taking its real estate fund assets under management to more than €40bn for the first time, **Dr. Reinhard Kutscher**, chairman of the management board of Union Investment Real Estate, told REFIRE this month.

'Of the €2.3bn we invested last year, around half was in Germany,' he said (An additional 36% was invested elsewhere in Europe, with a further 14% channelled into the US). 'How much we invest this year depends on the opportunities but we'd like to invest around €2bn. We look at all asset classes in Germany and beyond. Logistics is very interesting to us, so we'd like to do a bit more in that segment, both in Germany and elsewhere. Last year, we started looking at micro living as well and would like to do more, including forward investments into micro living projects developed by partners. We're also starting to look at long stay apartment-hotels and did three deals last year. We're also interested in more mixed use-use, which can mean retail/offices or retail/housing. There's a need for more resi stock in downtown locations.' (*see chart, left*)

In October last year, Union Investment acquired four hotel development projects comprising 675 rooms for its Immofonds 1 and its hotel fund **UII Hotel Nr. 1** for an undisclosed sum from **Benchmark REAL Estate Development** via a forward purchase agreement. As part of the deal, three hotels will be built in Dresden, Oberhausen, and Eschborn. The fund manager also acquired an additional planned hotel property in Freiburg im Breisgau for its UII Hotel Nr. 1. Fund. The portfolio contained two future Super 8-branded hotels and two planned long-stay formats by **Hyatt House** and **Adagio Access**.

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In addition, Union Investment sold 18 properties last year for around €770m, bringing the total transaction volume to around €3bn, broadly the same as in 2017.

Interestingly, around 60% of Union Investment's acquisitions in 2018 were via development and forward funded deals, according to Kutscher (*pictured, right*): 'The advantage is that you get a slightly better price because you take some letting risk,' he said. 'In addition, you can influence the quality of what is built, which is very important to us. Potentially, we could spend a similar amount on forward funded deals this year. Last year, we intensified our acquisition of smaller deals – below €50m – which is in line with most of our institutional funds. Some of these were forward funded deals as well. However, to tap into deals like this you need good relationships with local developers.'

And as Brexit chaos rumbles miserably on, the jury is still out in terms of what it will mean for the real estate sector in the UK, both in the short and long-term. 'At the moment, we are waiting to see what will happen in the UK,' Kutscher said. 'We bought a hotel in Edinburgh last year. We'd only look at long-term leases and high-quality tenants but we may still invest there in the long-term. The US has always been a big part of our portfolio but it has become so expensive to hedge currency that I don't really see us investing there this year, which is a shame.' (Union Investment has €5.2bn of AUM in the US.)

At the end of 2018, Union Investment's large real estate funds for retail investors reported occupancy levels of between 95.3% and 98.9%, with its office portfolio achieving a record occupancy level of 98%. The associated sustained rental income was a key contributor to the solid performance of the funds. As at the year-end, the funds for retail investors reported returns of between 2% and 3%.

'In addition to solid growth in our traditional core business, our investments in various niche markets also made a very positive contribution to the overall result for our real estate business,' Kutscher said. 'Early engagement with digitisation and sustainability and the resulting strong positioning in these key areas mean that we are very well placed to continue benefiting from the outstanding importance of real estate as an investment product in turbulent times.'



Germany/Residential

## CORESTATE makes further move into serviced apartment segment

Luxembourg-headquartered and German-listed **CORESTATE Capital** has been entering new business segments on what seems like an almost quarterly basis for so long now that we shouldn't be surprised to hear about the group's latest thrust into a growing niche market.

This time it's the launch of *JOYN*, an expansion of the group's micro-living platform, which is a new product line for serviced apartments. CORESTATE says that *JOYN* is specifically geared to business travelers, project workers and commuters, who have higher demands on furniture and service than a traditional hotel environment is able to provide.

**Thomas Landschreiber** (*pictured, below*), co-founder and CIO of CORESTATE, says: "With *JOYN* we're providing our clients with a luxury alternative within the booming asset class micro-living. This is what makes our offer unique in Europe. We expect strong demand from tenants and investors. By a continuous expansion of our product portfolio in this segment, we're providing our clients with a broad variety of investment opportunities in a trendsetting asset class and, concurrently, enhance the earnings base of CORESTATE Capital Group."

The company has already bought the first eight *JOYN* houses for about €500m, securing more than 1,100 beds for its clients. The first two serviced-apartment properties recently opened in Munich, comprising in total 315 serviced apartments. Further buildings in Germany (Cologne, Düsseldorf, Hamburg, Frankfurt), Austria (Vienna) and Switzerland (Zurich) are currently under development and other European cities will be successively added.

CORESTATE now has three micro-living brands in its stable – **YOUNIQ** (in which it was an early innovator on the German market), **Linked Living**, and now **JOYN**. Additionally, we reported in December last year on the group's co-operation with **Medici**, which bills itself as Europe's leading co-living service provider. All told, CORESTATE now has over 30,000 units in the micro-living segment.

Germany/Listed Companies

## Boardroom struggle at TLG Immobilien escalates as Ouram seeks changes

In our December issue of REFIRE , we speculated that **Ouram Holding**, controlled by Israeli investor **Amir Dayan**, was about to make a full takeover attempt for the German listed **TLG Immobilien**. The power struggle at board level has escalated dramatically since then, with supervisory board chairman **Michael Zahn** warning shareholders that Dayan may well be about to gain full control of the company without making a full takeover offer.

Ouram took the step last week of calling for an extraordinary shareholder meeting to push through major changes in the composition of the supervisory board.

In an official announcement, TLG Immobilien said the management board has received a request submitted by Ouram Holding to convene an extraordinary shareholders' meeting in which it will request the revocation of current members Michael Zahn – also CEO of **Deutsche Wohnen** - **Michael Bütter** - until recently CEO of **Corestate Capital** - and **Helmut Ullrich**. Members **Sascha Hettrich** and **Stefan E. Kowsk**, who were appointed to the board after Ouram became a major shareholder, are to stay. (Zahn has already made clear his intention not to remain on after his contract expires in May.)

Ouram will propose the election of **Beatrice Ruskol**, **Amir Ramot**, **Klaus Krägel** and **Jonathan Lurie** as new members. Ruskol is a former executive of **PBM Construction Germany**, part of Dayan's **Intown Group**, Ramot had posts with the Israeli **Aurec Real Estate**,

*... to page 27*

*Guest Column: Michael Schneider, CEO, IntReal*

## A Way Out of the Brexit Dilemma?

*Michael Schneider, Managing Director of IntReal International Real Estate Kapitalverwaltungsgesellschaft mbH*

British fund providers may no longer sell fund shares in the EU after the UK leaves the bloc. Some of the affected companies consider collaborating with German third-party AIFM. This sort of collaboration offers an efficient and affordable way out of the dilemma.

"I do not expect to enjoy all the benefits of an EU membership without meeting all of its obligations," British Prime Minister Theresa May told the German daily DIE WELT in September 2017. One of the major benefits of EU membership is the so-called passporting of financial products. What does this privilege imply? It means that a fond provider or a bank may market its financial products throughout the entire EU. The one precondition is that the fund provider be properly licensed by the financial supervisory authority of its EU country of origin. Once the British regulator, the FCA (Financial Conduct Authority), licensed a fund provider, the latter has so far been at liberty to market its products in any of the 28 member states.

This arrangement will probably come to an end once the UK has left the bloc for good. In legal terms, the British FCA would then become the supervisory authority of a third country, and a license from that authority would no longer automatically clear it for marketing within the in EU.

### First Way Out: Setting up a Subsidiary in the EU

This will leave two options open for British fund providers who intend to keep selling overseas. Option one: They could form an offshore subsidiary in an EU member state and there register it as a fund under UCITS (Undertakings for Collective Investment in Transferable Securities) or as an AIFM (Alternative Investment Fund Manager). Preferred destination countries due to their favourable parameters include Ireland or Luxembourg. However, this option is rather a solution for larger players—for maintaining a subsidiary abroad involves serious resources and costs. According to experts, the assets under administration (AuA) would have to amount to at least one billion euros—depending on the EU country—to vindicate the expense of seeking an AIFM license. Second Way Out: Collaborating with a Third-Party AIFM inside the EU

### Second Way Out: Collaborating with a Third-Party AIFM inside the EU

The alternative would be to enter into a collaboration with an already licensed AIFM inside the EU—such as a third-party AIFM in Germany. Here is how the arrangement would work: The asset manager would be in the United Kingdom while the third-party AIFM would be domiciled in Germany, for instance. The latter would launch an investment fund in accordance with German law. Since the AIFM company would be licensed in Germany—and thus for the entire EU—the fund shares would be admitted for trading throughout the EU.

What does this model look like in detail? The third-party AIFM would provide all services involved in the formation and administration of the funds. It would handle the risk management, the portfolio management, the accounting, the reports to investors and supervisory authorities, the management accounting, among other this. The fund partner, meanwhile, would take care of the real estate end. As a demonstrable specialist in its market segment, it would commit its competence to the buying and selling of assets and to the running management. This distribution of responsibilities is not only efficient but also increasingly appreciated and sought among investors.

A large number of British real estate and property fund managers have already opted to pursue one of the two variants. INTREAL, as a major third-party AIFM in Germany who specialises in property funds, has for years cooperated with asset managers who chose the second option for good reasons. But up to now, the collaboration did not use to be motivated by the Brexit: Rather, economic arguments, such as accelerated product development and implementation, proved convincing as did the maximum flexibility in product and client policy decisions.

Against the background of the approaching exit date of 29 March 2019, the market shows manifest interest among British property fund providers in collaborating with German third-party AIFMs. The advantages are perfectly obvious: Fund providers save the costs of setting up an EU subsidiary and its running overhead while being able to initiate their investment funds and sell their fund shares across the EU at the same time. END

*...from page 25*

while Jonathan Lurie is a former senior executive of **Blackstone**.

The management board said it intends to meet the request for the extraordinary shareholder meeting, which is expected to be held in March.

Last month listed commercial property investor **DIC Asset AG** sold its 14% stake to Ouram Holding and wealth manager **Bedrock Group** for €376m. The net effect was that Ouram got a further 6% stake in TLG Immobilien, while newcomer Bedrock is getting 8%, although Ouram said in a statement that there is no connection between its holding in TLG and that of Bedrock.

Ouram held 22.47% of TLG through most of 2018 after converting financial instruments to voting stock. The company's new holding therefore rises to 28.47%, keeping it below the 30% threshold for requiring a full takeover bid for TLG. Ouram hinted last year it might want to take a controlling interest in TLG, which is currently capitalized at about €2.7bn.

Before the year-end 2018, TLG Immobilien revalued its portfolio by up to 11% since July, not counting new additions and sales since then. In an ad hoc statement, it said that its portfolio would appreciate by year-end by between €370m and €400m as a result of higher valuations, supported by advisers **Savills** and **Cushman & Wakefield**, largely driven by yield compression and higher market rents, particularly for its Berlin assets, and from current re-letting contracts.

This should boost its portfolio value from €3.7bn to €4bn, corresponding to an increase in NAV of more than €3.00 to up to €26.10 per share. The current share price is now about €26.40, having risen steadily from €21.30 in early-November 2018.

TLG Immobilien also experienced considerable operational changes last year, with the dismissal in summer of its two long-time chief executives **Peter Finkbeiner** and **Niclas Karoff**, reportedly over strategy differences with the supervisory board. TLG brought in former DIC Asset executive **Jürgen Overath** and ex-Vonovia board member **Gerald Klinck** to replace the two TLG directors.

Germany/Retail Real Estate

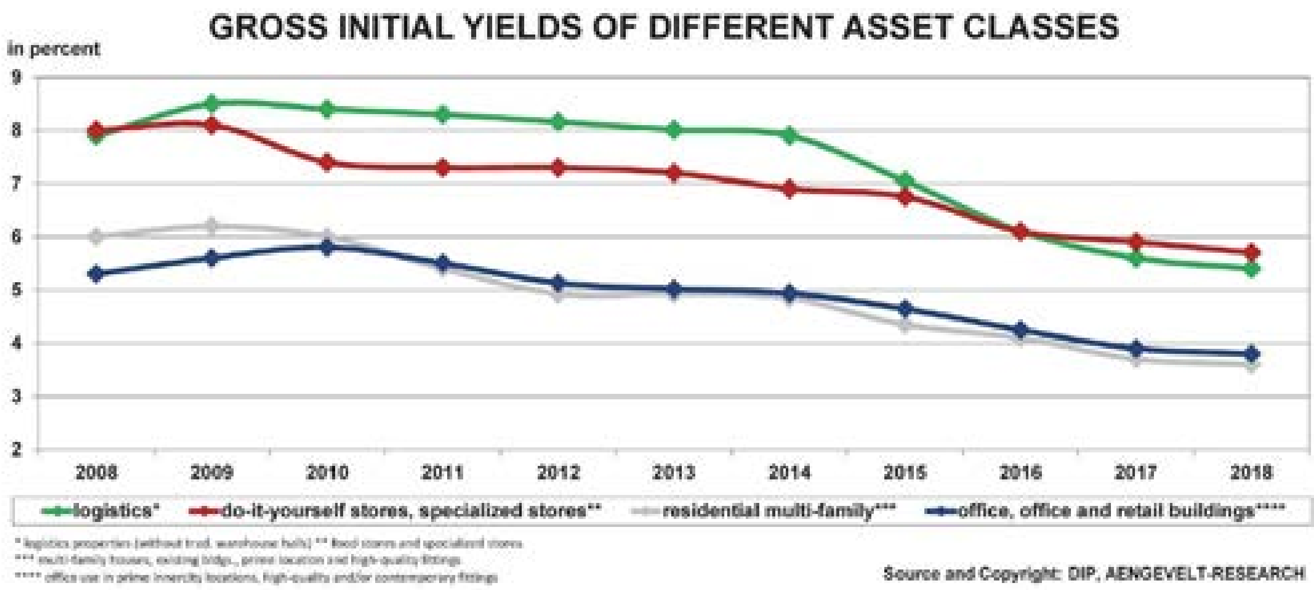
## Heavy fall in number of German retail investment deals

The latest report on the German retail property investment market from **CBRE** shows that in 2018, just €10.5bn of retail properties in Germany changed hands, marginally above the long-term average but nonetheless a decline of 25% compared with 2017.

CBRE said the transaction volume reflects current market challenges. "At €2.4bn, the final quarter was especially disappointing. Several larger deals were delayed and postponed until 2019," said **Jan Schönherr**, co-head of Retail Investment at CBRE Germany.

"All in all, we anticipate the demand for retail property in 2019 at the level of the previous years, with investors continuing to focus on properties in the food market segment."

The merger between department store groups **Kaufhof** and



**Karstadt** in Q3 dominated the market in 2018, as “inner-city retail properties in top locations increased their share in the overall volume to 39% (€4.1bn)”, according to **Jan Dirk Poppinga**, co-head of retail investment at CBRE Germany.

“The proportion invested in shopping centres in particular declined significantly”, Poppinga added. “The disruptive change resulting from e-commerce is causing investors to adopt a reticent approach to shopping centres in B and C locations. Over the course of 2018, €1.3 billion was invested in shopping centres, corresponding to a share of only 13% in the overall volume. The year before, this figure stood at €2.7 billion (20%).”

“Retail warehouses and retail parks remain the dominant asset class with a transaction volume of €4.4 bn and a share of 42%,” Poppinga said. “Strong investor interest in retail warehouse properties is evident from the yields that slipped further toward the end of the year, particularly for retail parks.”

Despite the declines in volumes, international investors raised their share in investment activities by 5.0 percentage points, accounting for 42% of nationwide transactions. In the Top 7 locations, this share reached 53%.

Market activities tended to be directed more toward the metropolitan regions. The Top 7 locations’ deal share increased to 28% by year end, with Berlin alone registering transaction volume of more than €1bn.

Austria/Financing

## First Austrian benchmark bond helps fuel merger speculation

Austrian listed property group **Immofinanz** bolstered its finances earlier this month when it placed €500m of fixed rate senior unsecured notes with a four year maturity and a 2.65% coupon. The net proceeds of the note issue will be used for the refinancing of existing debt and for general corporate purposes, the group said.

The bond earned a BBB rating from agency **Standard & Poor’s**, earning it the distinction of being the first-ever rated bond issue from an Austrian real estate company. S&P cited among the

DIP
THE ALLIANCE OF PROPERTY COMPETENCE

**German DIP office markets 2018 (vs 2017) in an overview, as of: 21/01/2019**

| | Office space turnover* (in m²) | | Weighted top rent (in EUR/m²) | | Average rent city centre (in EUR/m²) | | Supply reserve (in m²) | | Vacancy rate (in %) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | End of 2018 | End of 2017 | End of 2018 | End of 2017 |
| Berlin | 840,000 | 930,000 | 34.00 | 30.00 | 25.10 | 20.00 | 360,000 | 560,000 | 1.9 | 3.0 |
| Bremen | 95,000 | 92,000 | 13.00 | 12.80 | 8.90 | 8.80 | 110,000 | 115,000 | 3.1 | 3.3 |
| Dresden | 85,000 | 105,000 | 14.00 | 13.00 | 11.35 | 11.00 | 170,000 | 190,000 | 6.8 | 7.7 |
| Düsseldorf | 390,000 | 451,000 | 28.00 | 27.00 | 18.60 | 18.40 | 730,000 | 780,000 | 7.8 | 8.4 |
| Essen | 128,000 | 116,000 | 15.00 | 15.00 | 10.50 | 10.20 | 155,000 | 204,000 | 4.9 | 6.5 |
| Frankfurt a.M. | 616,000 | 702,000 | 41.00 | 40.00 | 25.10 | 26.10 | 830,000 | 1,050,000 | 7.1 | 8.9 |
| Hamburg | 555,000 | 625,000 | 27.00 | 26.50 | 19.50 | 19.10 | 560,000 | 680,000 | 3.9 | 4.8 |
| Hannover | 105,000 | 135,000 | 15.50 | 15.00 | 10.50 | 10.50 | 150,000 | 165,000 | 3.3 | 3.7 |
| Karlsruhe | 68,000 | 84,000 | 15.00 | 15.00 | 10.00 | 9.50 | 80,000 | 83,000 | 3.3 | 3.4 |
| Cologne | 297,000 | 306,000 | 22.50 | 21.70 | 14.50 | 14.20 | 230,000 | 290,000 | 3.0 | 3.7 |
| Leipzig | 135,000 | 158,000 | 14.00 | 13.00 | 10.90 | 9.50 | 235,000 | 265,000 | 7.1 | 8.1 |
| Magdeburg | 23,000 | 18,500 | 12.75 | 12.25 | 8.50 | 8.50 | 75,000 | 91,000 | 7.2 | 8.7 |
| Munich | 932,000 | 960,000 | 38.50 | 36.50 | 25.00 | 24.70 | 645,000 | 690,000 | 3.3 | 3.5 |
| Nurenberg | 90,000 | 100,000 | 15.50 | 15.00 | 11.70 | 11.50 | 125,000 | 150,000 | 3.5 | 4.1 |
| Stuttgart | 220,000 | 300,000 | 23.00 | 23.00 | 16.50 | 16.00 | 170,000 | 180,000 | 2.2 | 2.3 |
| DIP office markets | 4,579,000 | 5,082,500 | 30.10 | 28.50 | 20.40 | 19.30 | 4,625,000 | 5,493,000 | 4.1 | 4.9 |

* including owner-occupiers

Source: DIP Deutsche Immobilien-Partner, AENGEVELT-RESEARCH

Source: AENGEVELT

reasons for its rating decision "IMMOFINANZ's market position as one of the largest commercial property owners in CEE region, the stable occupancy levels and the stable demand trends in the company's operating environment."

According to Immofinanz CFO **Stefan Schönauer** in a press statement, "This transaction represents an important milestone for Immofinanz in further diversifying the funding sources with an investment grade rated unsecured instrument, while the refinancing of existing debt will secure currently low interest rates and increase the hedging quota. The investment grade rating underlines the success of our consistent strategy implementation, which has resulted in a very solid financial profile and a sustainable improvement in profitability."

The notes have a denomination of €100,000 and will be listed on the regulated market of the **Luxembourg Stock Exchange**. Immofinanz said an application will be made to introduce them for trading on the Third Market (MTF) of the **Vienna Stock Exchange**. **Deutsche Bank**, **J.P. Morgan**, **Société Générale** and **UniCredit** acted as Joint Bookrunners and Joint Lead Managers.

As a result of the newly-achieved investment grade rating, Immofinanz's outstanding convertible bonds 2024 will undergo a step-down in coupon by 0.5pts to 1.5% p.a., already applicable for the next interest period, the firm said.

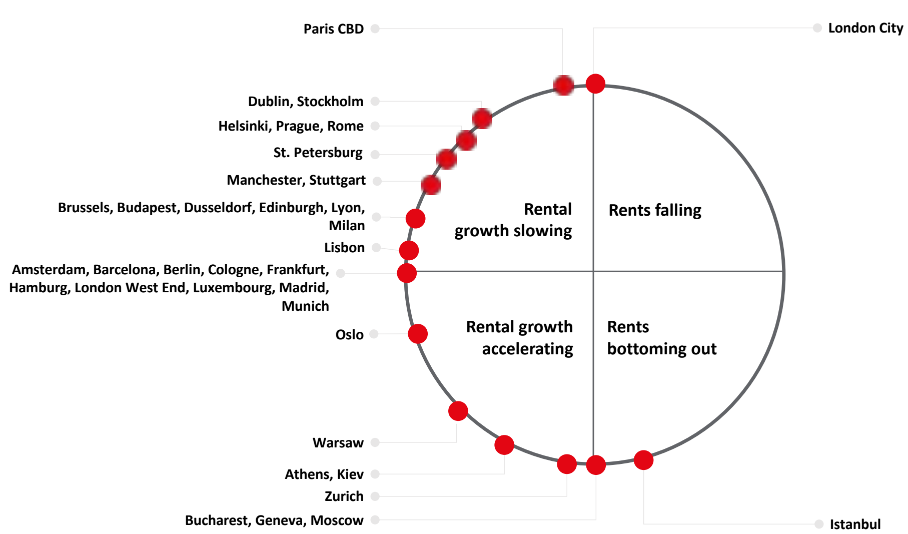
The initial announcement that Immofinanz would seek to place a benchmark bond already sparked speculation that the proceeds will help at least partially finance the takeover of smaller Vienna peer **S Immo**.

Last year the big Viennese listed companies Immofinanz and **CA Immo** cancelled plans for their long-mooted merger, with Immofinanz selling its stake in CA Immo to US private equity investor **Starwood** for $882m. At the time Immofinanz said it planned to use the proceeds to intensify its share buyback programme through the end of 2019, buying back up to 8.66% of the outstanding shares. It said it would have made a hefty profit of about €184m including dividends over the two year period it held the CA Immo shares.

After the disposal of its CA Immo stake, speculation in Vienna then centred on whether Immofinanz might use some of its cash pile to make an all-out takeover offer for the last remaining significant Austrian player, S Immo. Immofinanz has already committed to buying a 29% stake in S Immo, which in turn owns a 12% stake in Immofinanz. A merger between the two is still thought likely, and could occur early this year, say local Vienna sources.

Immofinanz's real estate portfolio is valued at about €4.3bn, and covers more

European Offices Rental Clock Q4 2018




*Note*

*This diagram illustrates where JLL estimate each prime office market is within its individual rental cycle at the end of December 2018.*

*Markets can move around the clock at different speeds and directions.*

*The diagram is a convenient method of comparing the relative position of markets in their rental cycle.*

*Their position is not necessarily representative of investment or development market prospects.*

*Their position refers to Prime Face Rental Values.*

*This data is based on material/sources that we believe to be reliable.*

*While every effort has been made to ensure its accuracy, we cannot offer any warranty that it contains no factual errors.*
*Neither JLL nor any of its affiliates accept any liability or responsibility for the accuracy or completeness of the information contained herein.*

...from page 30

than 220 properties. It focuses on retail and office in seven core markets in Europe: Austria, Germany, Czech Republic, Slovakia, Hungary, Romania and Poland. Among its better-known brands are **STOP SHOP** (retail), **VIVO!** (retail) and **myhive** (office/co-working). The company is listed in Vienna and Warsaw.

Germany/Office Property

## Listed Belgian Immobel enters German market with Frankfurt tower

The Belgian **Immobel Group** has bought the "*Eden*" residential tower project in the Gallus district of Frankfurt am Main (*artist's picture, right)* marking the group's first entry into the German market.

The high rise with 263 apartments or 20,000 sqm living space was designed by **gsp Städtebau**, with completion scheduled for 2022. The project is part of the so-called *Telenorma* site development, which also includes the hotel and office tower *"The Spin"* being built by **Groß&Partner**.

The actual deal involves Immobel buying 89.9% of the shares in the company **Europa-Allee Wohnen gsp GmbH**, but the group declined to provide further financial details.

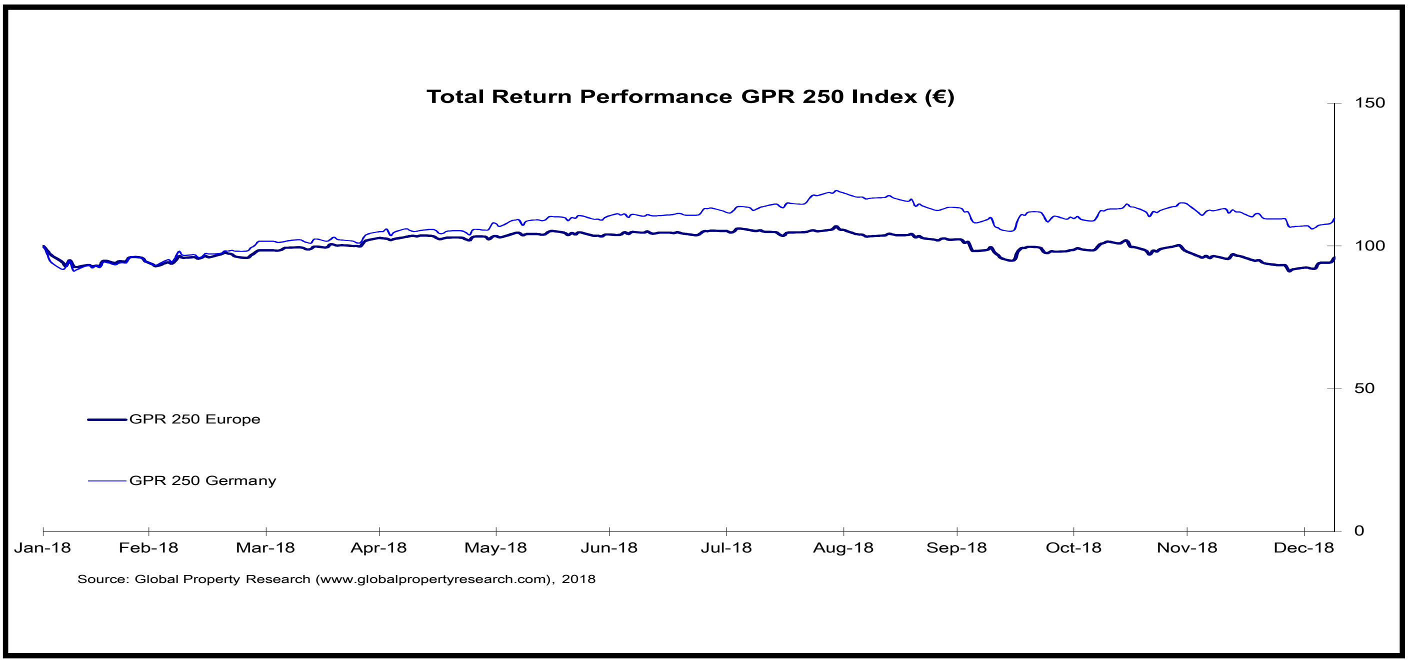
Immobel's chairman **Marnix Galle** commented; "The performance of the German economy in relation to the European situation makes this country naturally attractive in the context of the geographical diversification strategy we have announced. This acquisition demonstrates Immobel Group's interest in Germany, where we are seeking more projects to create, in the medium term, a development platform similar to those we have deployed in countries in which we operate."

The demography of Frankfurt is continually growing, driven by the success of its financial position, Immobel said. For more than 15 years, Frankfurt has been attracting large numbers of new residents, particularly professionals in the financial sector with high purchasing power. "At the same time, the creation of an insufficient number of new dwellings has led to a clear imbalance between supply and demand, and even a quasi-structural shortage in the residential market. This phenomenon risks being compounded by Brexit."

Immobel is already present in Belgium, Luxembourg, Poland, Spain and France through a number of diversified real estate programs.

**Olivier Bastin**, CEO of Immobel Luxembourg, said the profile of the Frankfurt acquisition is entirely consistent with Immobel's development philosophy as an expert in urban planning, providing bespoke, high added-value urban responses in European cities.

Immobel is one of the oldest companies on the Belgian stock exchange, with its first listing dating back to 1863. Currently with a market cap of over €500m, the firm now focuses on four areas - office, residential, retail and land banking. The firm recently sold the *Cedet* building in Poland to South Korean funds managed by **GLL** for €129.5m.




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

Charts courtesy of GPR Global Property Research

Germany/Logistics

## Warburg-HIH, Nord/LB launch new €250m logistics fund

The Hanover-headquartered German state bank **Nord/LB** and **Warburg-HIH Invest** are launching a new logistics real estate fund called **Warburg-HIH Deutschland Logistik Invest**, targeting a fund volume of around €250m.

The open-ended special alternative investment fund will invest exclusively in German logistics real estate and is targeting a gearing ratio of 45%, with an expected dividend yield of between 4.5% and 5.5%. Institutional players may invest in the fund by acquiring equity interests of €2.5m or more.

'The fund will invest in modern distribution and trans-shipment centres with alternative use potential, located in established sites throughout Germany,' said **Alexander Eggert**, managing director at Warburg-HIH Invest. 'The asset value of the properties, which are occupied on long-term leases, ranges from €10m to €40m. It is planned to add some properties with optimisation potential to boost the performance.'

According to Warburg-HIH, logistics is the most important economic sector in Germany after the automotive industry and retailing at the moment. 'The main factors driving the increase in the movement of goods are global economic growth, the increasing product diversity and the rising significance of e-commerce,' said **Andreas Strey,** senior fund manager at Warburg-HIH Invest.

'The demand for space generated by these trends is matched by a low floor space supply, the result being that vacancy rates are very low and that rents in the central logistics regions are subject to a stable trend,' Strey concluded.

Earlier this month Warburg-HIH Invest sold off three multi-tenant assets from one of its open-ended institutional real estate funds, **Deutschland Selektiv Immobilien Invest**, for an unnamed price. The three properties – *Sanitätshaus Schlieben* in Sonnenstrasse 17 in Munich, a doctors' office building at Hahnenstrasse 13-15 in Cologne, and an office building at Gutleutstrasse 32 in Frankfurt - had been bought as part of a portfolio deal in 2017.

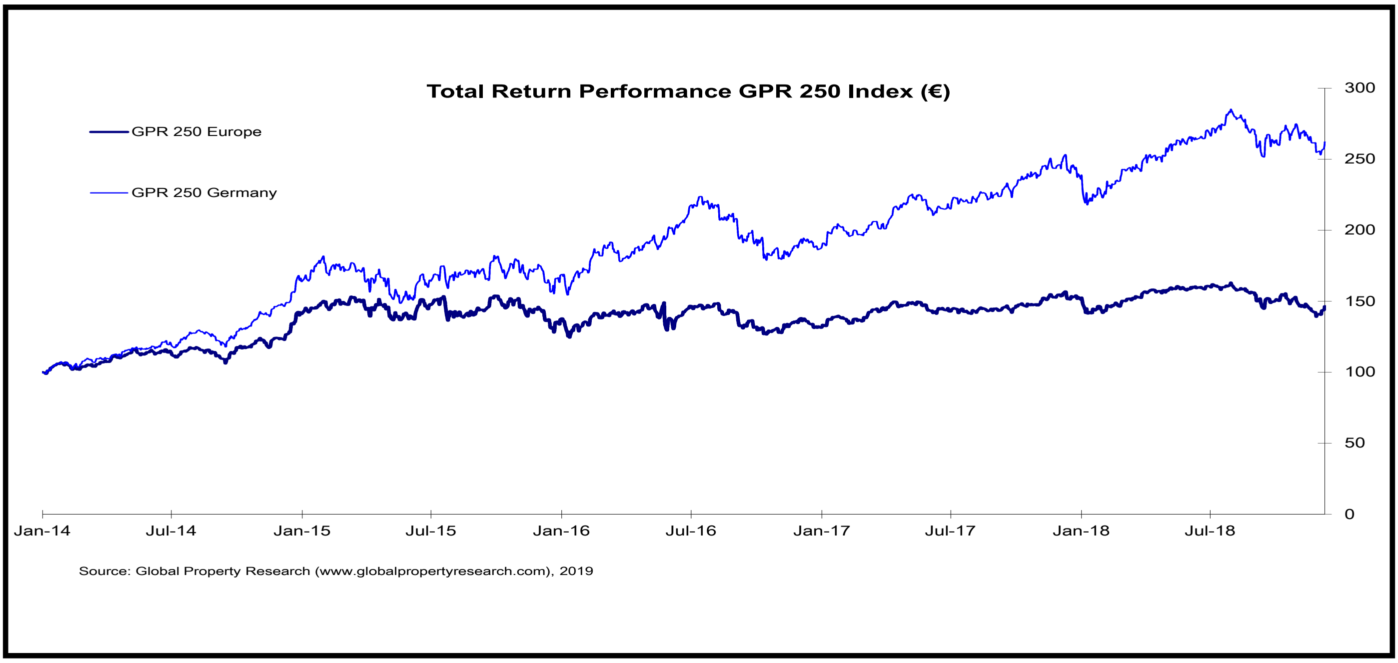
"Reshuffling the portfolio is part of the fund's strategic alignment and helps to optimise the revenue situation. The freed-up capital is being reinvested in assets in Potsdam and Darmstadt," said Eggert.

Warburg-HIH's Deutschland Selektiv Immobilien Invest fund has a target volume between €300m and €350m, and is currently committed to nine properties valued at more than €200m. Its investments in office real estate with no more than 30% in retail real estate as an add-on option focus on fast-growing German cities and are expected to return an annual dividend yield of 4%. The fund is distributed exclusively by long-term partner **Nord/LB**.

Germany/Listed Companies

## AIM-Listed Summit Germany to list unit in Frankfurt IPO

The AIM-listed German commercial property group **Summit Germany Ltd**. confirmed earlier this month that it was exploring an initial public offering of its




**Graph of the Total Teturn Performance of Europe and Germany over the past five years**

Charts courtesy of GPR Global Property Research

**Summit Luxco** unit on the **Frankfurt Stock Exchange**. The listing of Luxco, which holds all of Summit's German real estate business, including asset and property management operations, would be subject to market conditions, the firm said. The share sale would be to raise money for new investments and to make it easier to trade its stock.

Summit is also considering a private placement of shares in Luxco. In a statement the company said: "Summit is considering the listing to provide investors with the opportunity to invest in Summit's German real estate business and to facilitate Luxco's growth in Germany."

Summit, which will continue to be a major shareholder of Luxco, said it would diversify its real estate business and pursue investment opportunities throughout Continental Europe and other markets.

Summit Germany Ltd. is a 50.1% subsidiary of the Tel-Aviv headquartered and listed **Summit Real Estate Holdings**, controlled by chairperson **Zohar Levy**, who is also managing director. It has a market capitalisation of €526m, is incorporated in Guernsey and listed on London's AIM market, but invests mainly in German office, retail, logistics and storage properties.

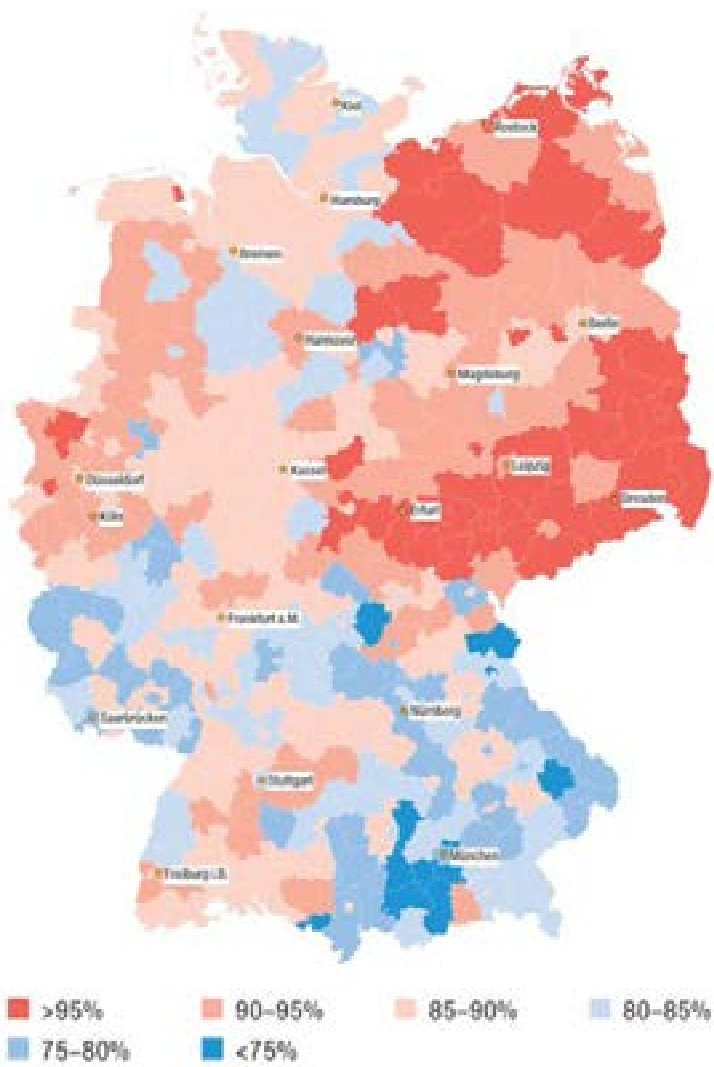
In 2017, it doubled its net profit to €113m, while in the first nine months of 2018 profit was flat at €96.4 million. The group's net asset value was €667.5m at the end of September.

In 2018, Summit purchased commercial properties from buyout group **Fortress** for €86m as well as a controlling stake in **GxP German Properties AG**. It bought real estate assets, mainly used by **Volkswagen**, worth €100m from **Dazzle Capital** a year earlier.

Summit Germany currently owns more than 80 properties, mainly offices, logistics buildings and shopping centres, mostly in or near the major German cities, with a total of 910,000 sqm and a value estimated at €939 million at the end of the first quarter. The assets are managed by **DRESTATE Services GmbH** from offices in Berlin and Frankfurt. The company raised €300 million in unsecured bonds at 2% interest at the beginning of 2018, which were subsequently listed on the **Luxembourg Stock Exchange**.

At the current share price, Summit Germany has a more than €516m market capitalization, with the share price seeing a little boost on the news since the start of the year.

The average occupancy rate of full-time care home places




Source: Wüest Partner Deutschland based on care statistics 2015/16

Germany/Healthcare

## Activum buys second German senior housing developer

European turnaround specialist **ActivumSG Capital Management** has bought **WirtschaftsHaus**, a major German developer of senior housing, to lead the sector in Germany with a €1.2bn pipeline of properties. No price details of the deal were given.

The deal comes two years after the purchase of the **WI-Immo Group**, anoth-

er senior housing developer, by another ASG fund. Together, the companies develop around 1,500 units a year of retirement homes or assisted living facilities. The two companies, WI-Immo Group and Wirtschaftshaus, will now be merged into a new entity with a new top management team.

'Germany needs to accommodate 300,000 more of its senior citizens by 2030 and we identified this as a huge opportunity for establishing a specialist developer of scale,' said managing partner **Saul Goldstein** (*pictured, below*), who founded ActivumSG in 2007 after leaving private equity investor **Cerberus**, where he held a number of senior roles.

'Purchasing the project development activities of WirtschaftsHaus is another major step forward in this strategy and highlights how we have been favouring the unconventional corporate route to invest in attractive real estate themes in Germany on behalf of our investors,' Goldstein added.

The acquisition of the project development activities of WirtschaftsHaus is the 17th investment by ASG's fund V, which has committed about 85% of the €489m it raised from investors by its final close in December 2017.

According to ASG, the fund's investments are split between Germany and Spain, where it has invested directly into real estate – mainly in condominium projects in high-demand locations that are managed by ASG's Spanish residential development platform, **ASG Homes**.

'Our local teams are seeing a significant number of highly attractive investment opportunities in Germany and Spain, which is why they have had no difficulty in deploying Fund V's capital so quickly,' added Goldstein. 'They are well-placed to source deals and transact swiftly, managing assets to maximise their operational performance to deliver healthy returns for our funds' investors.'

Meanwhile, Activum said it had hired **Karl Reinitzhuber**, the former head of Germany for **Unibail-Rodamco**, as co-CEO and CFO of its new care property subsidiary. He will work alongside **Edwin Thiemann**, also co-CEO and former head of developer Wirtschaftshaus, to handle the strategic and operative management of the new group. The management team also includes **Ralf Licht** as head of development and **Sandro Pawils** as head of sales.

Europe/Infrastructure

## UBS raises €1bn for second European infrastructure fund

**UBS Asset Management** said it had reached the final close of its second European infrastructure debt fund, **Archmore Infrastructure Debt Platform II (IDP II)**, raising €1bn within nine months of launch, thereby exceeding its initial target of €700m.

'Our new Archmore Infrastructure Debt Platform II fund will focus on Euro-denominated countries, such as France, Italy, Germany, Spain, Portugal and the Benelux region, although it can also invest in the Nordics,' **Alessandro Merlo** (*pictured, right*) executive director, infrastructure debt funds at UBS, told REFIRE. 'We have already done four transactions on behalf of the fund in France, Belgium, Finland and Portugal (details are confidential) since we launched the fund last March. We don't have a fixed target per country but we can't invest more than 30% of the fund in any one country. We also can't invest in countries that aren't investment grade, such as Greece.'

Technically, the new fund can also invest in the UK but 'hedging the currency is very expensive so I think we're unlikely to', Merlo said. 'It's less prohibitive to invest in Denmark or Sweden, despite hedging, because those costs can be offset by higher margins.'

UBS is targeting loans with a weighted average life of seven to 10 years. Its first infrastructure fund, launched in 2015, invested predominantly in transport infrastructure, benefitting from the rebound of traffic flows. The new fund will continue to invest in transport, energy, telecoms and social infrastructure, although the latter will be a smaller part of the portfolio.

'We can also lend on greenfield projects with shorter draw-down periods, such as renewables, but as we are focused on maximising cash yield for investors, we will avoid projects with extended draw-down periods such as long concessions for newly built motorways,' he said. The first fund was fully-invested in 18 months and Merlo expects the latest fund to be fully deployed within 18 to 24 months.

In total, 48 limited partners, comprising a mix of pension funds and insurance companies from 10 different countries across Europe and Asia, committed capital. The fund will look to take advantage of the continued capital supply/demand imbalance in mid-size European infrastructure financing and focus on private senior secured infrastructure debt opportunities, primarily through direct lending where it sees the most attractive risk-adjusted yield potential.

'The successful closing of our second European infrastructure debt fund has received strong support from both new and existing investors, who have looked to the track record of IDP I and reaffirmed their confidence in our strategy, underpinned by efficient deployment and investment diversification,' said **Tommaso Albanese**, head of infrastructure at UBS REPM. 'While we will remain selective in our approach, IDP II's exciting pipeline provides me with confidence in its ability to deliver solid results.'

The latest fund-raising benefitted from over 70% re-up rate from investors in IDP II's predecessor, **Archmore Infrastructure Debt Platform I (IDP I)**, which was fully-invested last year. IDP I is now deployed across a diversified portfolio of infrastructure financings, which have delivered gross returns averaging 3.8%. UBS is also targeting a gross return of between 3.8% and 4% for its second infrastructure fund, according to Merlo.

However, there are challenges, he warns: 'The biggest challenge is the disconnect between the public and private markets: the decrease in valuation and the steep increase of credit spreads due to global market volatility, US-China trade tensions and slowdown of the European economy. Will the volatility in public capital markets filter through to the private infrastructure market? I think it will, so that's where you need to have a lot of investment discipline. We need to preserve the premium we had in the first fund.'

REPM's European infrastructure debt platform now totals €1.6bn in committed capital across both of the Archmore European IDP funds and has invested in 16 transactions with operations spread across 11 countries over the past four years. REPM's wider infrastructure business, comprising both debt and equity strategies for direct investments, has more than $4.5bn (€3.9bn) in funds under management.

Germany/Financing

## Recent financing deals - roundup

Among the standout financings throughout January by the more prominent classical lenders were deals arranged by **LBBW**, **pbb Deutsche Pfandbriefbank** and **Münchener Hypothekenbank**.

Listed company Vonovia SE, Germany's largest residential landlord, closed a deal with LBBW-Landesbank Baden Württemberg and pbb Deutsche Pfandbriefbank for a €500m 10-year loan for general business purposes. The two banks are lending the money in equal amounts. The loan is secured by a residential portfolio in Dresden with a total lettable area of around 800,000 sqm, consisting of 13,400 residential and over 200 commercial units – nearly all of which is let.

Vonovia's **Thorsten Arsan**, head of corporate finance, gave few details but said the financing arrangement was secured on attractive terms. "The deal demonstrates the benefits of our financing strategy, which relies on a balanced mix of unsecured and secured instruments."

**Gerhard Meitinger** (*pictured, right*), pbb Head of Real Estate Financing Germany, said: "This successful transaction is the result of good cooperation with LBBW and Vonovia, which shows how large-sized financings can be provided." Added **Dieter Hildebrand**, LBBW Head of Real Estate Clients Germany: "Working together as partners leads to excellent results for large-sized transactions in the interests of the client."

Pbb Deutsche Pfandbriefbank was also instrumental in a French refinancing when it committed to a €103.8m refinancing of assets owned by London-headquartered logistics investor **Valor Real Estate Partners**.

Valor said the refinancing is for recently-acquired French assets held within its fund **Valor Industrial Partners 1**. The funding is secured against seven last-mile logistics assets across the nation, including five in prime Paris locations and two in Lyon. The combined portfolio totals 170,000 sqm in size. The largest investment is in *Le Bourget*, the site for the 2024 Paris Olympics, and comprises 11 fully let units and a 30,000 sqm development site.

The facility with pbb represents day 1 leverage of 65% LTV with a capex facility to complete the works at Le Bourget.

Pbb Deutsche Pfandbrief's **Norbert Müller**, head of financing for western Europe, said: "We are pleased to deepen our relations with Valor with this first financing in France after the previous financing in the UK last year. This is a further example of an investor seeking to add value through long term asset management."

The Munich bank also lent €59m to the **EPISO 4** fund, managed by long-term client **Tristan Capital Partners** and its operating and equity partner **White Star Real Estate**, to buy a logistics portfolio with assets in five Polish cities. The properties – in Gdansk, Poznan, Wroclaw, Czeladz and Grodzisk – are all modern logistics centres with high ceilings, loading dock ratio and floor capacity, and are nearly fully let to a mix of international and national tenants.

Meanwhile fellow Munich property financier MünchenerHyp is providing a long-term loan of "several hundred million euros" as sole underwriter to **GEG German Estate Group** to finance the acquisition of the *Garden Tower* in Frankfurt's central business district. It is the first financing deal between the two groups.

One of the most prominent buildings in the city, the 127-metre Garden Tower has more than 27,000 sqm of office space under long-term leases to a total of 17 tenants.

Münchener Hyp's **Christian Winges**,

regional director in Frankfurt, said: "Our ability to deliver in terms of processing speed, underwriting capacity and reliability throughout the entire processing phase was the decisive factor that enabled us to cement this new partnership." GEG's chairman **Ulrich Höller** commented: "Financing the Garden Tower through MünchenerHyp allows us to further diversify our funding base. MünchenerHyp won us over in this regard with its competitive offer and very professional processing."

Münchener Hyp also financed the purchase of the *Helix* office building in Eschborn, just outside Frankfurt. It served as underwriter and sole lender for a €74.3m loan to the buyer, **Hana Financial Investments** from South Korea.

The Helix office building has more than 36,000 sqm of office space and is completely let to **Commerzbank AG** for 15 years in a sale and lease-back transaction.

Europe/Non-listed Real Estate

## Investors in non-listed sector still set to raise commitments through 2019

Despite the near-universal recognition that we are somewhere near the later end of the European real estate cycle, investors in non-listed real estate vehicles still seem set to hike their commitments to the sector, judging by the latest *Investment Intentions Survey* published earlier this month by **INREV**, **ANREV** (INREV's sister organization working across Asia Pacific and North America, and **PREA** (the Pension Real Estate Association).

The key findings of the survey suggest that the gap between actual and target allocations to real estate is narrowing dramatically. Below are the main takeaways from the survey, which attracted a total of 154 respondents (144 institutional investors and 10 managers), 85 from Europe, 41 from North America and 28 from Asia Pacific. The largest two groups of investors were pension funds (79) and insurance companies (22).

Current average allocations to real estate for German investors rose from 14.0% to 14.2 % versus an uplift in target allocations from 15.1% to 15.8% in 2018. Overall, average allocations increased to

10.0% from 8.9% in 2018, against an increase in target allocations from 10.2% to 10.4%, significantly narrowing the gap between the two for the first time.

However, global institutional investors remain bullish about real estate indicating their intention to place a minimum of €72.4 billion of new capital into the asset class in 2019, continuing the recent trend of positive sentiment. Around €47.6 billion of this total is earmarked for non-listed vehicles, of which €7.2 billion is from German investors who plan to invest €5.3 billion in non-listed real estate funds, specifically.

Half of all investors will increase their allocations over the next two years, while only 9.3% expect to decrease their allocations, and 40.7% anticipate no change. Around 66.7% of German investors plan to increase their allocations while 33.3% say they will maintain current allocations, and none anticipate a decrease during this period.

Looking at the AUM-weighted results, 80.4% of all investors intend to increase allocations, indicating that larger investors will likely commit more than their smaller counterparts.

On a regional basis, the majority of European investors expect to increase their allocations, while most of those from Asia Pacific and North America expect no change. More North American investors will decrease their commitments, than their counterparts in other regions.

Diversification and enhanced returns remain the two main benefits attracting all investors to the asset class.

**Risk off**

For investors targeting Europe, there's been a significant shift in favour of core, which rose from 31.8% to 39.1%, while opportunity dropped from 18.8% to 9.8%. More than half of German investors indicated that value added is their preferred investment style, at 57.1%, while the rest indicated they prefer core (42.9%).

In comparison, value added retains its status as the preferred investment style overall, with 51.1% of investors still attracted to the risk-adjusted return prospects it offers.

These results suggest investors may be taking a more risk-averse approach to their real estate investments, in preparation for the approaching late stage of the current cycle.

**Brexit pinch**

Overall, the UK, France and Germany remain the dominant European destinations for investors, though the order of priority has shifted since the last survey. This year Germany topped the list of preferred investment locations, selected by 66.7% of respondents, while the UK – number one in 2018 – is second at 64.6%, and France is third at 62.5%.

Funds of funds managers expressed a different order of preference placing the UK top, with the Netherlands second, followed by Spain. But while London / office is still at number three in the list of preferred city / sector combinations, European investors are less enthusiastic about the UK than their counterparts from North America and Asia Pacific.

It seems likely that the reality of Brexit has affected sentiment on the UK, and this year's respondents are indicating that Germany will be one of the beneficiaries.

**Alternative thinking**

The office sector remains the most popular, selected by 93.8% of investors, followed by retail at 75.0%, residential at 70.8% and industrial at 60.4%.

Interestingly, investor interest in alternatives is also growing. At 33.3% and 31.3%, respectively, student accommodation and healthcare have become increasingly appealing. However, for these sectors to have a more meaningful impact on their traditional rivals, they will need to increase in scale and investors will need to acquire new skills to get comfortable with different operating models.

**Vehicular access**

Over 50% of investors already invested in non-listed real estate funds in Europe will increase their allocations to these vehicles in the coming 24 months. Commitments to JVs and club deals appear to be slowing down relative to previous years, though nearly 57% of international investors expect to increase their allocations.

This year and next, most investors will increase or maintain their commitments to directly held real estate and separate accounts, reflecting the ongoing desire for greater control. Separate accounts witnessed the strongest growing trend in commitments signalling the high demand for this route into real estate.

German investors indicate a strong preference for directly held real estate and separate accounts, with 60.0% and 66.7% respectively indicating intentions to increase their allocations to these investment routes over the next two years. Around 40.0% indicate that they will increase allocations to funds, while 40.0% also indicate that they will increase allocations to JVs and clubs.

Commenting on the survey results, **Lonneke Löwik** (*pictured, left)*,INREV's CEO, said: 'With considerable amounts of cash continuing to flow into the market, investors are clearly focused on long-term investing. But, given that real estate cycles are typically 10 years one can say that we're now in the late stage of the current cycle. The key questions raised are how are investors preparing themselves for an inevitable rise in interest rates, and how will this affect their investment decisions this year and their intentions to increase allocations beyond 2019?'

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