

Inside REFIRE

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

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

The areas we focus on are:

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

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

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Insurers highlight major threat to real estate investment from Solvency II

There were several lively sessions at the well-attended recent PERE Forum in Frankfurt earlier this month (*of which REFIRE was the principal media partner*), the first staging of the event in continental Europe. One session which attracted the audience's rapt attention was that in which Michael Morgenroth, the chairman of European non-listed fund association INREV, issued an ominous warning about the potential threat to the real estate industry from the pending European Solvency II regulations.

Mr Morgenroth called for national and industry-wide lobbying from the pension and insurance industries to head the coming legislation off at the pass, or face dire consequences.

Mr. Morgenroth, whose day job is as management board member **Gothaer Asset Management**, the asset manager for large German insurance group **Gothaer**, was being interviewed in a one-on-one session by **Baerbel Schomberg** of Schomberg Consulting and ex-head of **Aberdeen's Degi** fund management group. He made his unequivocal plea for a strong lobbying effort against the Solvency II legislation, which he warned could "really damage the real estate industry".

Solvency II is the European Commission's attempt to reform the regulation of the insurance industry, with part of the new rules requiring insurance companies to increase their capital reserves when investing in 'risk assets' such as real estate. The regulation could also extend to pension funds in the future.

He warned: "Insurance companies and pension funds will be reluctant to invest in real estate next year because of the uncertainty," further arguing that the regulation was unfair given that government bonds would attract a zero capital charge, yet all real estate in any European location would attract a charge of 25 percent. "The capital charge for government bonds will be zero no matter what country the bonds are issued in, even in Ireland or Greece. But there will be a 25%

DG Hyp withdrawal from international lending unnerves markets

In a move which may be the precursor to similar steps by other German banks, property financier DG Hyp surprised the market earlier this month by announcing the shutdown of its international lending business, and a renewed focus on its domestic lending business. [see page 2](#)

Takeover of LB Immo Invest doubles Patrizia service business

It seems barely a year ago since listed Augsburg-based residential property developer Patrizia Immobilien AG was fighting for its very existence as it struggled to refinance its crushing loan burden. Not only has it managed to do that since.. [see page 5](#)

Bank Austria to boost stake in CA Immo

Bank Austria, the Austrian division of Italy's UniCredit, put in a bid earlier this month to increase its stake in Vienna-listed real estate group CA Immo to just under 30% from its current level of 10%, with the aim of boosting its exposure ... [see page 7](#)

Deka Bank sees German office rents rising 2% in 2011

German office rents should rise by 2% next year on average, while average yields at 4.6% to 5.7% should remain slightly under the European average, according to the latest "*Deka Immobilien Monitor 2011*" from DekaBank.. [see page 14](#)

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charge for any investment in real estate, no matter where it is," he said.

In addition, **BaFin**, the German financial supervisory authority, has introduced fresh draft rules that would place further restrictions on real estate investing. Insurers currently have to 'sort' investments into specific 'buckets' according to the type of asset they invest in, said Morgenroth. The latest draft requires real estate to be placed into the equity 'bucket 14' which allows a maximum leverage attached to the asset of 60%. That, he said, would be the end of opportunistic investments in real estate.

"The real estate industry has to lobby on the European level and fight on the national level too," he said. He pointed out that German insurance companies had a relatively low exposure to real estate at around 5%, so the sector was not such a big focus in terms of their overall allocation. That is why, he said, regulations had to be fought on a real estate industry-wide level.

REFIRE: *We have commented a number of times in recent issues of REFIRE on this strange dilemma, which we're finding difficult to reconcile; countless surveys and studies have been reporting for years on the avowed intention of particularly insurance companies to boost their real estate allocation from current levels – not least in the trend barometer for real estate investments by insurance companies regularly compiled by Ernst & Young Real Estate. Yet so far it has largely failed to materialise.*

German insurance companies hold an average of 6% to 7% of their assets in real estate, representing about 75bn. In a recent interesting article for trade publication IPE Real Estate, board member at Real I.S. Jochen Schenk pointed out the wide discrepancy between the real estate holdings

of insurance companies, and those of high net worth individuals and family offices whose conservative approach mirrors that of insurance companies but whose assets tend to be up to 50% invested in real estate. And this despite the most recent E&Y survey which confirms that 69% of the insurance companies polled yet again stated their intention to boost their allocation before the end of 2010. The year is now over, and there is precious little evidence to suggest any noticeable change. Solvency II is undoubtedly casting its shadow over the sector already.

The ramifications are significant. A raising of real estate allocations by a mere one percentage point by the insurers equates to an investment volume of more than 10bn. How insurance companies behave in the light of the pending introduction of Solvency II will have hefty consequences for the real estate and capital markets in the coming years.

Germany/Banking

DG Hyp withdrawal from international lending unnerves markets

In a move which may be the precursor to similar steps by other German banks, property financier **DG Hyp** surprised the market earlier this month by announcing the shutdown of its international lending business, and a renewed focus on its domestic lending business. The decision followed on the heels of a directive last month by its parent bank **DZ Bank** to review its international operations.

DG Hyp will continue to support existing German clients in financing projects in selected international markets, but the lender will close its international offices in London, New York, Paris and Warsaw

"I can tell you, insurance companies and pension funds will be reluctant to invest in real estate next year because of the uncertainty"

DEALS ROUNDUP

within the next 12 months. Management of the international loan portfolio will be transferred to Germany and gradually wound down. Sources in London suggested to REFIRE that the London team expects to be gone within six months.

In a statement, DG Hyp's board chairman **Dr. Georg Reutter** said, "The decision to concentrate DG Hyp's business activities on the German market, and to intensify our co-operation with cooperative banks, also reflects the regulatory requirements under the future Basel III regime. With this step, we will harness our strengths, to ensure that the bank's reserves are put to optimum use."

Essentially, what DG Hyp are saying is that in future it will have to hold more capital on its balance sheet, which makes the business of lending to fi-

nance property less profitable. In DG Hyp's case, as an unlisted subsidiary of a larger listed co-operative bank, it would find itself unable to directly tap shareholders for fresh capital to boost its balance sheet, hence the relative attraction of a more concentrated approach in its home market.

DG Hyp has been one of the more active lenders in the UK recently, so the move will come as a surprise to many. Deals it has financed this year include the refinancing of *5 Canada Square* in Canary Wharf by **Evans Randall**, the acquisition of the *N1 Shopping Centre* in Islington by **Henderson Global Investors**, and the purchase of *Drapers Gardens* by **Evans Randall**. In a report published by property advisor **Savills** in October, DG Hyp was named one of the Top 12

"most active bigger ticket lenders" in the UK. Perhaps not surprisingly, of the Top 12 lenders mentioned in Savills' report, nine were German banks, including **Deutsche Bank, Eurohypo, BayernLB** and **WestImmo**.

According to **William Newsom**, UK head of valuations at Savills, "A number of German banks are reviewing their activities right now. Germany is over-banked and they're going through two natural processes at the moment – mergers, and having to face capital adequacy issues relating to Basel III. The German banks are now very cautious, and UK property values have proven to be quite volatile, so there may be other German banks withdrawing from UK property lending soon."

Certainly the UK has been giving



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Germany offers stable values, says Pino Sergio, WGF's founder and CEO.

EDITORIAL

Lurking spectre of inflation continues to drive German residential

“So, who here is investing in Italian real estate next year? What, not a single person? Spain? No takers. France? Well, somebody there at the back just put his hand up. And Germany? Whoah, hold your horses there...!”



by 12% over last year, with this figure expected to rise again next year. So far, so good.

The figures mask a number of anomalies, however. The Big 7 cities saw lettings rise by nearly 20%, whereas the cities in the second division mostly saw hefty falls – sizeable urban areas like Leipzig and Hannover, for example, were down nearly 30%, while Nuremberg was about the only significant riser. Additionally, cities such as Düsseldorf and Frankfurt profited from large one-off lease signings which will not quickly be repeated, with a slightly distorting effect on the figures.

We were attending a conference on private equity real estate, at which the delegates list read like a roll-call of most of the serious European investor groups. Both the content of the presentations and the meat of the discussions, along with the attendees themselves, had a pan-European investment focus. All the larger markets were nominally on the agenda. It was a European event in every respect. Except that the only two markets capable of holding delegates’ attention were Germany and the UK. The other markets barely merited a look-in.

A slight exaggeration – and perhaps the audience was self-selected, to some extent. But it was clear where they were looking to invest the money they manage, and it wasn’t south of the Alps or the Pyrenees. Even the UK market itself was presented like a trusted and familiar old relative, but one who just might turn around and bite you in the hand given the medication he’s on – liable to dangerous mood swings, investors seemed to be suggesting. Germany was uppermost on investors minds. This was the market they wanted to talk about.

And indeed, the latest end-of-year figures in from the DIP property broker network in Germany show that the German market came back strongly over the last twelve months, although lagging the broader German economic performance. In the 14 larger German cities covered by the DIP group, net new lettings were up

The heavy concentration of new lease signings in City locations tends to overshadow the notable lack of activity in other areas of Germany’s commercial centres, which is a worrying trend. And both the DIP alliance and other brokers that we speak to regularly see little likelihood of Germany’s high office vacancy rate easing any time soon – and certainly not next year.

One thing is evident this Christmas. German consumers are out there spending as if their lives depended on it. Which of course, they do, but no-one’s ever quite seen it like that before... Retailers are ecstatic – and it’s obviously good news for owners of retail real estate. Wage expectations are now rising after years of restraint. Recent figures from the GfK marketing institute show that German purchasing power will rise by 2.6% next year, or €499 per head of population, despite rising healthcare costs and social contributions. If inflation doesn’t eat this up, then a good year lies ahead. People are certainly looking and feeling confident – a far cry from two years ago, and indeed an even further cry from citizens in many fellow eurozone states over this holiday period.

More than usual, this theme of differentiated multi-speed economic recoveries is now playing out across the globe. For 2011, we expect property deal flow to remain modest in the US and Europe, while in Asia and Australia the markets are still barreling ahead, particularly in development and leasing. Here on the Old Continent, regional disparities are likely to be even more pronounced, with distressed opportunities still likely to be the main attraction in Germany and the UK. Investors with equity capital who can take an aggressive approach to leasing, re-financing and selling are likely to be among the winners.

We see plenty of evidence, too, of the latent fear in Germany of potential inflation, although so far no parts of Europe are seeing inflationary tendencies – the opposite, in fact. Nonetheless, shrewd investors made uneasy by the European Central Bank’s easy money policy are clamouring to put their money into residential housing. Since existing owners are thinking the same way, most are unwilling to sell, and prices in Germany are rising sharply.

Rents for new residential leases are rising briskly too, as anybody recently signing a new lease in mid-sized to larger German cities can testify. Although residential construction is cranking back into gear after years of stagnation, the rising number of single households and demands for more space are outpacing the available housing stock. With interest rates as low as they are (albeit twitching upwards for most private buyers over the last quarter – but well below their long-term average of 6.5%), this trend will continue, at least in the western part of the country, through next year.

Until January, then, we wish all our readers a happy and peaceful Christmas.

Charles Kingston, Editor

.....from page 3

German lenders plenty to think about in recent months. As a result of Basel III and fears about the UK property market heading for a 'double dip' recession, lending to the sector has nosedived in recent months.



Lenders and investors report that interest rate margins being offered by banks have jumped from around 150-200 basis point over LIBOR to 200-250 basis points for prime investment deals. Figures from the Bank of England confirm that the second and third quarters of 2010 were the worst on record for lending to UK property with net new lending to the sector of minus £7 billion.

DG Hyp is likely to post full-year figures for 2010 showing a loss of 'just under €150m, according to a recent report in the business daily *Handelsblatt*. The

bank itself said it does not expect to return to profitability until 2012. The increased concentration on the domestic market was prompted by parent DZ Bank's renewed commitment to profitability for, in turn, its own owners, Germany's co-operative **Volksbanken** and **Raiffeisenbanken**.

Germany/Acquisitions

Takeover of LB Immo Invest doubles Patrizia service business

It seems barely a year ago since listed Augsburg-based residential property developer **Patrizia Immobilien AG** was fighting for its very existence as it struggled to refinance its crushing loan

burden. Not only has it managed to do that since, but it has pushed forward in leaps and bounds throughout this year, emerging as a significant funds initiator as well as active buyer for its own trading and development portfolio.

Its latest significant move was as the successful bidder for the Hamburg-based special fund manager **LB Immo Invest**, the subsidiary of troubled **HSH Nordbank** which has been restructuring and divesting itself of non-core assets since 2009, in the process of shrinking its balance sheet by half. Although no price for the sale was formally announced, it is likely to have been in the region of €30m to €40m. It boosts the assets under Patrizia management by about 60% in one fell swoop, a significant enlargement for the company. Patrizia CEO **Wolfgang Egger** said of the deal, "We are signifi-

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.....from page 5

cantly expanding our service business with this acquisition and have increased our assets under management to over 5 billion.”

LB Immo Invest was established in 2001 and today employs 50 people. It initiates modular, individual and label funds for institutional investors, with its current subscribed equity amounting to around 2bn. While the funds predominantly invest in office and retail real estate, the portfolio of 180 properties also includes managed care facilities, hotels and apartments. In addition to its main location of Germany, LB Immo Invest also has investments in France, the UK, the US, Scandinavia, the CEE and Benelux countries. The institutional investors that make up its customer group primarily include savings banks, insurance companies and pension funds.

LB Immo Invest had pre-tax earnings

of €3.7m in 2009, which Patrizia expects is likely to be €3.5m in 2011 after acquisition-related expenses. (Traditionally, deals of this type are priced at roughly ten times earnings, hence the likely purchase price of 30m-35m). Patrizia is thought to have paid 40% in equity, with the rest funded by a five-year loan.

Merging the LB Immo Invest funds with Patrizia’s own growing fund interests will create the third-biggest special fund (Spezialfonds) entity in Germany. It will double Patrizia’s EBT from its fund servicing business to over €7m next year, and importantly, reduce its dependency on sales from its trading portfolio in favour of recurring management fees in a tough market environment.

The merger of the two fund divisions



- albeit not geographically, as LB Immo Invest will remain in Hamburg - may improve the prospects of creat-

ing further funds in the future in line with current high customer demand for new Spezialfonds.

Patrizia is also likely to move its own 700m commercial portfolio management to Hamburg, leaving its headquarters in Augsburg to concentrate on the residential investment side. The company recently announced plans to invest up to a further €250m over the next two years in mainly Hamburg residential property, primarily newly-developed projects. Of Patrizia’s current 10,000 apartment holdings, about 1,200 of them are located in the Hamburg region.

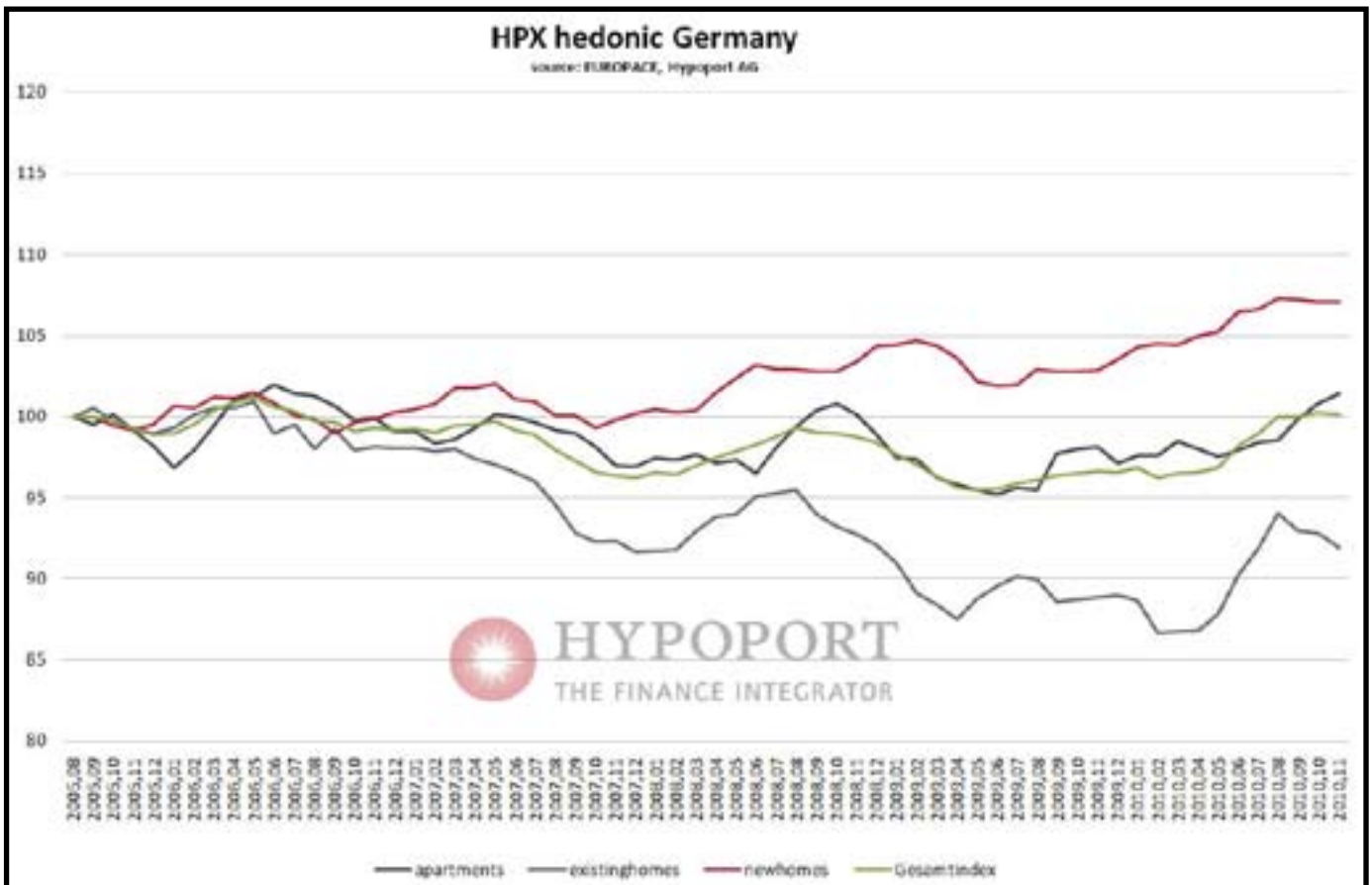


Chart courtesy of Hypoport, Germany

Germany/Banking

Sale of WestImmo unit unlikely to be agreed by latest deadline

Troubled German state-owned Landesbank **WestLB**, which is seeking a buyer for itself, is likely to include its real estate subsidiary **Westdeutsche Immobilienbank (WestImmo AG)** in its new restructuring plans which it must present to the EU Commission in mid-February 2011.

Essentially, this means that the ongoing sales process of the Mainz-based WestImmo is still very much in flux. The real estate financing bank was originally slated to be sold off by December 31st, but because the only binding offers received (from **Aareal Bank** and **NAI Apollo**) were considerably under book value, parent bank WestLB successfully pleaded to the EU for an extension to the deadline – until mid-February, although that deadline too is looking increasingly untenable. A spokesman for WestLB, **Armin Kloss**, confirmed last week to journalists that “The sale of WestImmo is part of the new agreement with the European Commission. This foresees that a new package for the restructuring and future of WestLB will be presented by February 15th.”

The options now look like: a separate sale of WestImmo, or a sale as part of a complete package including the parent bank; a break up of WestImmo into separate tranches for individual sale; or, the most likely, a new extension of the deadline in the hope of a more realistic offer being placed on the table at a later stage.

Under the EU ordinance, WestLB has to sell itself by the end of 2011 under the terms of the agreement which approved the injection of taxpayer money which kept it alive during the financial crisis. The bank is under threat of being wound down if it can't find a new owner, with German Finance Minister **Wolfgang Schäuble** saying recently he's prepared to make “difficult decisions” on the bank.

Germany/Acquisitions

F&C REIT on acquisition trail for German retail

F&C REIT Asset Management in Munich, part of the UK-owned international real estate manager **F&C REIT**, said earlier this month that it was planning to invest up to €240m in German retail properties, having already raised capital for a new real estate fund and a separate *Spezialfonds* (segregated account) with a German pension fund.

The investment manager closed its **Best Value Germany 1 Fund** at the beginning of the month with an initial commitment of €120m from a number of German insurance companies and pension funds. The fund will focus on buying prime retail assets in medium-sized and large German cities, with a smaller proportion of office properties in the mix. It expects to complete its first acquisition before end-January 2011.

The *Spezialfonds*, a segregated account as defined by German investment law, will invest in core-plus properties valued at up to €120m on behalf of an unnamed pension fund based in northern Germany. Its focus is on German retail properties prime locations, albeit in secondary cities. It will be administered by **HANSAINVEST Hanseatische Investment GmbH** as the Service-KAG to the fund.

Frau Iris Schöberl, managing director at F&C REIT Asset Management in Germany, explained that the pension fund was interested in the same strategy as the Best Value Germany 1 fund, but wanted to invest more than €30m – the maximum amount for an individual investor in the fund – so it decided to set up a segregated account.

The company has already made acquisitions for this new separate account, most recently *Kasino*, a retail building in Trier, for an unnamed price, but thought to be in the double-digit millions of euros. It also bought a property in the southern

German town of Schwäbisch Hall, leased long-term to clothing chain **H&M**, as well as a building in Kiel.

Schöberl said F&C REIT was responding to demand among German institutional investors for retail properties, driven predominately by their interest in diversifying away from existing office portfolios.

Austria/Listed Companies

Bank Austria to boost stake in CA Immo

Bank Austria, the Austrian division of Italy's **UniCredit**, put in a bid earlier this month to increase its stake in Vienna-listed real estate group **CA Immo** to just under 30% from its current level of around 10%, with the aim of boosting its exposure to what it sees as undervalued property assets, including German assets, in anticipation of rising prices.



The offer of €12.35 per share represented a premium of nearly 20% over the previous closing price of €10.41 and more than 30% above its six-month volume-weighted average. It values CA Immo at about €1bn. Bank Austria said that CA Immo had considerable earnings potential due to low property valuations and its recent purchase of real estate business **Europolis**, due to be concluded in January 2011, which it bought from **Österreichische Volksbanken** for €272m. Europolis owns and manages logistics parks, offices and shopping centres in the CEE and SEE regions, and has assets under management of 1.€6bn.

Justifying its bid for CA Immo, Bank Austria said in a statement, “With the acquisition of Europolis, CA Immo offers its shareholders a real estate portfolio with stronger earning power, ideally comple-

REFIRE - Wrap-Up 2010

At this time of year, we traditionally look back over the last twelve months and review what we wrote in previous issues of REFIRE over the period. It helps us to clarify our thinking - or indeed, to ask ourselves what were we thinking at the time - and do our views still hold water. In any case, our views and prognoses are there in black and white for both ourselves and our readers to review. Here are excerpts from some of our earlier commentaries:

January 7th, 2010

...The shift in favour of tenants is likely to disproportionately affect properties in secondary and tertiary locations – the bulk of properties, by definition. In the vicious circle of capital chasing the most secure returns, the yield spreads between ‘core’ and ‘non core’ properties and locations will widen even further – with hefty discounts being demanded on properties in poor locations, or with high vacancy levels. This in turn makes it more difficult for opportunistic investors to meet their yield expectations, given the higher levels of equity they have to stump up.

We expect, therefore, to see many opportunistic funds shying away from direct investment on the German market this year. They should keep their eyes wide open in the meantime. Because, distressed wave or not, there are legions of mid-sized investors who need to be exiting the German market. Domestic pressures mean they need to fight fires at home – and they’re looking for an acceptable way to exit the market. Opportunities are appearing for the wide-awake, and they’re likely to become more plentiful as the year wears on.

February 3rd, 2010

...Quint (of JLL Deutschland) was telling the assembled throng of real estate professionals at the CIMMIT conference in Frankfurt that investment flows are again concentrating on the largest economies. Germany will profit disproportionately from the interest of foreign investors, he declared. He had our attention. We rubbed our eyes and sat up, sharpish.

This new-found concentration on the strongest economies is a reaction to the crisis in the real estate markets, he said. Smaller markets that rose quickly and subsequently collapsed, such as those in Eastern Europe, will take longer to recover than more developed markets. The most stable markets, like Germany, will benefit sooner from the huge war chests accumulated over the past two years and now wait-

ing on the side lines to enter the market, while prices cooled to more reasonable levels.

Quint is convinced that, after an almost total absence in 2009, we will see many more foreign investors returning to the German market this year, with refined and adapted strategies. His own company is engaged in many new negotiations right now with these investors, he told us. Many are looking for a good hedging option to dollar and sterling exposure, and Germany makes the most sense.

February 25th, 2010

...If you’re Morgan Stanley, or Goldman Sachs, or Fortress, or any other high priest at managing Other People’s Money, it’s that extra layer of income, your gilt-edged, downside-hedged, honey-lined guarantee that makes it all worth while - should it just turn out that you’re no better at investing in real estate than anybody else, heaven forbid. Three years ago, Morgan Stanley was the biggest single buyer of German commercial real estate in the entire country. The investment bank spent over 10bn in 2007, swooping in to scoop up Germany’s most visible and prestigious office buildings, partnering in syndications and joint ventures, teaming up with asset managers to profit across the whole value chain – and to enlighten the slow-witted Germans, who just didn’t seem to ‘get it’ – that is, ‘get’ the whole real estate thing.

In one of the last of the big deals before the crisis hit home heavily, Morgan Stanley paid 2.1 billion for the ‘Pegasus’ portfolio from fund manager Union Investment – presumably one of those German investors who ‘didn’t get it’. (It’s maybe a good thing they didn’t, as it’s helped them become the largest cross-border investor in Europe over the past twelve months.)

March 13th, 2010

...Meanwhile, back here at the coal face of our industry, we’ve been grappling with the extraordinarily comprehensive study by Harvard economist Kenneth Rogoff and economics professor Carmen Reinhart - This Time is Different : Eight Centuries of Financial Folly, an in-depth analysis of past financial crises in sixty-six countries on five continents. Despite the heavy emphasis on charts, tables and empirical research, where the authors draw conclusions, they do so very clearly.

And, as the title hints...It Never Is. The authors demonstrate exhaustively how banking crises so often lead countries into default, while governments inevitably try to prop up the financial system with yet more debt. Traditionally, governments would then either default on the

...from page 8

debt or try to inflate their way out, by manning the printing presses and inducing hyperinflation. Within the eurozone itself, right now, these forces are trying to assert themselves – most visibly with the Greeks, trying to break out of the straitjacket that they are now blaming Germany for – but inevitably to be followed by the other weaker European economies.

Germany is an unwilling benefactor, especially as it has plenty of its own problems, but it remains the currency lynchpin until either the eurozone tears itself asunder, or the profligate periphery members accept wage and price deflation that restore their competitive edge.

April 7th, 2010

... However, with the bonhomie of Cannes now but a fading memory, we remain fixated on the commercial property debt problem looming in Europe, particularly in the UK and Germany. These two markets experienced the highest lever age in the final boom years, and together account for nearly 60% of the almost 1 trillion debt outstanding, at least a quarter of which is potentially distressed. Much of it is secured at high LTV's on poor quality real estate, and nearly half of all the debt on this is maturing by the end of 2012.

These are really scary numbers, and frankly, they scare the bejaysus out of us. We shudder (metaphorically speaking, of course) when we talk to yet another equity-rich investor who is purely focused on core properties in central business districts, with blue-chip tenants of superior provenance, and water-tight long-term lease agreements, etc.... Just how many of these magical properties can there be, at affordable prices? Is this what the entire market has come to consist of, we ask ourselves? The big lending banks have major exposure to secondary offices and shopping centres outside the biggest cities – and with all the potential buyers expressing interest only in the top percentile of the market, it's clear that asset sales below this exalted level are going to be difficult without major further impairment. A ten-year unwinding period is still our best assessment of what lies ahead for the markets at large.

May 1st, 2010

...Last month investors stared aghast at the disaster wrought upon them by their alpha seeking 'partners' at Morgan Stanley, who had managed to lose \$5.4bn of their \$8.8bn equity. The fund, with its 'enhanced return strategy', had buying power of more than \$30bn in 2007. This fund volume includes many of its German trophy acquisitions, now being sold off one after another at a loss, or which have been completely written off, with the keys in the post on their way

back to the lender.

This destruction of investor wealth is staggering, even by recent standards. What on earth could have led these hard-bitten real estate professionals to spend so much above what would be mathematically justifiable, and to barge in waving thick wads of cash where angels truly would have feared to tread?

Well, let's see. The Wall Street Journal has uncovered documents that show what Morgan Stanley charged for the 'promote', or fees to manage Other Peoples' Money in the MSREF VI fund. Just in 2007, these came to \$104m in acquisition fees, \$22m in fund management fees, \$13m in financing fees, \$36m in real-estate management fees, and \$21m in financial advisory fees. There's your alpha returns right there. For the promoter, of course. Not the investor. To no great surprise, the investing public is left wiser, more experienced – and wiped out.

May 27th, 2010

...Now the whole mammoth complex is being redeveloped as the new headquarters of the European Central Bank. For 850m (before factoring in inflation), the guardians of our wobbly currency are building themselves a splendiferous new headquarters, designed to house double the amount of staff from the 16-member eurozone that are currently working in the organisation's downtown Eurotower headquarters. The entire project stands as a testimony to Cyril Northcote Parkinson's Third Law, which reminds us that "Expansion means complexity and complexity, decay."

Plans are now too advanced to cancel the building project. We're reconciled to further traffic chaos until the building is completed in 2014. But that's the least of our problems, we're fairly sure. The new colossus will be over 180m tall and consist of two towers – of 41 floors and 44 floors – joined by a massive conference and visitor centre, designed "to reflect the values essential to our activities – transparency, integrity, excellence and efficiency" as Jean Claude Trichet said at the ground-breaking ceremony last week.

As these words were uttered, our spirits sank. Our suspicions turned to convictions, clarity returned to our thinking. We knew what this meant. As every experienced stock market trader knows, this is a sell signal. In fact, we can paraphrase the Third Law to read, "No organisation ever takes over the palatial building which it regards as its due until the moment of its terminal decline." Rarely has the Third Law been more apt - of this we are convinced. The strains on the euro-currency and the underlying tensions among its member states will remain the overriding feature in our political landscape for the immediate future.

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June 14th, 2010

...Again, perhaps it's no coincidence that, in these very weeks, harassed German legislators have proven unable to contain their instincts to outlaw naked shorting across a range of financial instruments, acting unilaterally without seeking prior European consensus. It won't work, it can't work, given the ease with which trades can be executed elsewhere – but it won't prevent the heavy handed mandarins from trying. These instincts for tightened regulation in uncertain times are manifesting themselves in the Berlin finance ministry's zeal to encumber the open-ended real estate funds sector with a raft of unworkable and potentially damaging proposals that have undermined the whole sector in recent weeks.

A solution will be found – the open-ended model has served its market too well for it to disappear as the preferred institutional investment vehicle – but there's a rocky road ahead. Private and institutional investors are shorting the property funds sector, while the fear persists of valuation write-downs. Whether the finance ministry imposes its will or not, several of the funds will be forced to recognise losses at some point – understandably, fund investors would prefer not to be around when it happens.

June 29th, 2010

...Meanwhile, a new study by consultants PriceWaterhouseCoopers on non-performing loans here in our own European back yard paints a sobering picture. The volume of German banks' non-performing loans rose last year by 50% to 213bn, according to the researchers. This puts Germany well ahead of the 155bn in NPLs held by British banks, 96.8bn by the Spanish, while the Italians weigh in with 59bn.

In contrast with the UK, Germany saw almost no sizeable NPL transactions last year, but the study suggests that the second half of this year will see much more action as the German banks put their hit-squad 'phaseout' units to work. We're less optimistic than PWC that the German banks are quite ready to outsource this work so soon, but we might be surprised.

In the meantime, our focus is still on what's actually happening with commercial rents in Germany, the very bread-and-butter of the business. The big property brokers assure us that peak rents are holding remarkably stable. We've no doubt they are – but this remains largely a façade. The level of incentives, from what we hear, has rarely been higher. For new commercial leases, at least 5 to 15% on the rack rate can be had just for the asking. Three to six months rent-free can generally be negotiated on a contract as low as three years, instead of the previous five. Back in 2005, the last time the market was so weak, the bon-bons on offer weren't half so generous. This time around, many

more people have a vested interest in maintaining the fiction of higher headline rents, as everybody in the food chain has an interest in protecting nominal valuations. But it can lead to a distorted view of the market. With actual contractual rents unlikely to pick up in Germany much before 2012, we'll have to get even more used to picking and probing to see what people are really paying for their office space.

July 29th, 2010

...There is no shortage of confidence oozing from the real estate broker community. Peak rents are holding firm. Transaction volumes are soaring past last year's subdued figures, foreign investors are returning to the market. The great wave of distressed selling has so far failed to materialise, held at bay by bankers bending over backwards to waive covenant breaches and 'extending and pretending' to avoid categorising the loan as non-performing. Fair enough, as long as property loans are being serviced, and tenants continue to pay their rents. All sides have seen the sense of avoiding out-and-out confrontation and the need to focus on common interests. A rolling loan gathers no loss, as the industry likes to say.

If only it were so. Sadly, however, these conciliatory times are coming to an end. For the banks, the new regulatory reforms in the pipeline are almost exclusively concentrating the minds of their senior people – countless potential borrowers will attest to the fact that access to the lenders is next to impossible at the moment. Basel III coming into effect in 2012 will make it a great deal more difficult for banks to lend to property companies and investors, with their much higher future liquidity and capital requirements. What loans are granted will be scarcer and more expensive, particularly higher risk lending such as investment in secondary property, or where income is volatile or speculative.

August 24th, 2010

...So what's going on, then? Are German consumers suddenly starting to put their hands in their pockets and spending, for the first time in years? "If the evidence of improving domestic demand in Germany is for real, it's going to turn out to be major", says Mr. O'Neill (Chief economist at Goldman Sachs). "If Germany were entering a period of self-sustaining domestic demand, it would be of major importance for the rest of Europe. Germany is a third of the euro area. Ireland is tiny – its downgrade is pretty insignificant."

The Irish will no doubt be grateful to Mr. O'Neill for helping them to gain a balanced view on things. As, no doubt, will the Greeks, fellow-sufferers on the periphery of the eurozone, who took advantage of Mr. O'Neill's employer's financial chicanery some years ago to fictionalise their books when they joined the eurozone. Both countries are creaking at the joints, such is the pressure they are under to stanch the

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bleeding and deflate their way back into employment, with their backs this time truly up against the wall.

But of course in one respect Mr O'Neill is right. The good news is all coming from Germany right now, bubbling along on a wave of confidence, with economic indicators moving up, unemployment moving down, exports showing record increases, container ports bursting to capacity with German capital equipment heading out to fuel China's insatiable appetite for production. The one ingredient that has been missing to make the German economic success story complete has been the timid German consumer, whose recycled savings so valiantly helped to create limitless funds for borrowing by his more profligate European neighbours.

September 21st, 2010

...And it is indeed 'real' jobs which have carried Germany through this economic downturn so far. Jobs that weren't lost when they were expected to be. An enlightened policy of maintaining skill levels by subsidising short-time working rather than chucking willing workers on the scrapheap. A smoothing-out of shift-work and job rosters to minimise employee dislocation. It does seem to have worked. The great German export machine continued to turn, and for now it's humming along as key manufacturing centres throughout the world look to re-boot their capital investment.

Almost uniquely in Europe, Germany now has a serious stake in China's development, as it is German equipment that is fuelling the rest of Europe's imports from China. Germany, unusually, is becoming the most 'globalised' major economy in Europe and is likely to be the engine that drives the EU economy out into the world market. With or without the consensus of its erstwhile European partners, if needs be. And needs WILL probably be, we suspect.

What's different now is that Germany is no longer so committed to nourishing its fellow European neighbours, and providing a warm wing for them to nestle under. The worm, for so long accommodating to its fellow Europeans' needs, is turning. The sovereign spat over the Greek bailout is a forerunner of things to come, with German disillusionment over those sponging neighbours hanging on to its coat-tails only likely to increase as the strains on the euro intensify.

October 20th, 2010

...At the other end of the line, Frankfurt represents the financial capital of a country which seems to be pulling away from Britain and other European neighbours in leaps and bounds. Growth in Germany will be 3.5% this year, and forecast to be 1.8% next year, with economists scrambling to revise their figures upwards almost weekly. So just

how sustainable is the current upswing? Is this just a short-term blip that sees Germany profiting disproportionately from China's insatiable hunger for capital equipment – the machines that build the machines that relentlessly churn out the products the world wants to buy?

It's true that ships leaving German ports are bursting to capacity, helping almost single-handedly to revive the European shipping industry. But those ships (and planes, trucks and barges) are also full on the return leg, their cargos destined for German shopping malls, catalogue sellers and specialist stores. German retail operators are more optimistic than they've been at any time in the past ten years, according to retail trade association Handelsverband Deutschland (HDE) this week – while investors have promoted German retail real estate to their favourite asset class, surpassing investment in the office sector over the first nine months of this year, and making up nearly half of all real estate investment in the country.

In what may prove to have been the worst year of the financial crisis, 2009, total German retail expenditure fell by only 2%, while this year it's up 1.4% - a testimony to the reliability of the German consumer even in tough times. It's worth remembering that many leading German retailers do not accept credit cards – so the spending is not on the 'never-never', but rather comes from consumers' current income, which tends to focus the mind a little more on the desirability of the purchase and the stability of the income source. Confidence in the latter is now growing strongly.

November 29th, 2010

...There's no denying that tolerance in Germany of what appear to be the fiscal foibles of the country's wanton European neighbours is wearing thin. In public discourse there is little patience for following the trail of money (much of it originating in Germany) which helped fuel the dissolute lending at the heart of the Irish troubles, nor for facing up to the imminent widespread financial restructuring across the EU that will directly affect German banks.

With the weaker euro members buckling under the weight of insupportable financing costs, we are categorically of the view that the euro will have to be modified – the question is when. In the short term, the 'euro-doubt' factor is likely to lead to even more real estate capital flowing into Germany at the expense of other euro zone markets, we believe. In the mean time, building work at the new European Central Bank's palatial new 800m head quarters continues apace at the bottom of the road where REFIRE has its offices. We're still betting that the current euro will be on its last legs by the time DOUBLE the number of current ECB staff are due to move in in 2014. Or perhaps they're just far-sighted, and know they'll have TWO currencies to manage by then...

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menting the high-growth development activities in Germany...A particularly attractive feature is the plan to sell selected properties, which should reduce CA Immo's debt ratio and improve its equity ratio."

The bank added, "We expect overall conditions in markets which are of significance for CA immo and the valuation levels of real estate held by the company will recover perceptibly"

CA Immo has been investing significantly in Germany since its acquisition in 2008 of landbank holder and developer **Vivico AG**, and through the German holdings is now involved in several key city-centre development projects, such

as the *Europaviertel* in Frankfurt, the *Arnulfviertel* in Munich, the *Europacity* in Berlin and the *BelsenPark* in Düsseldorf.

Germany/Residential

Receivers called in at SDIC Deutsche Speymill

The AIM-listed residential specialist **Speymill Deutsche Immobilien Company plc (SDIC)** effectively collapsed earlier this month when its debt providers asked for receivers to be appointed to all its property subsidiaries. The shares in the company were suspended at £0.06 each.

SDIC as a holding company is still solvent, the company says, although it has been struggling to refinance itself for some time. It initially breached one of its debt servicing cover ratio covenants at the end of March, and the interest cover

ratio in August, although (as we reported in REFIRE at the time) there were indications that investors may have been willing to pump in more cash. However, talks with Dutch bank **NIBC** about restructuring the company's loan facilities seem to have reached the end of the road after SDIC "surpassed its amortisation covenant level and is therefore now liable to amortisation payments along with the other packages".

According to the Isle of Man-based SDIC, the company recently paid its former investment manager, the likewise quoted **Speymill**, €1.03m plus €700,000 in fees to buy its Berlin-based **GOAL** property services business, which manages its German assets and is exempted from the current insolvency proceedings. The payment is in the form of a convertible loan note which can be repaid or converted at SDIC's option, and which



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.....
UPCOMING EVENTS

**EVENTS/ CONFERENCES
January -March 2011**

**January 25th-26th, Tuesday-Wednesday
CIMMIT 2011, Hilton Hotel, Frankfurt**

The new year always kick offs with the CIMMIT in Frankfurt. With the economic climate in Germany improving, will this spill over into the real estate industry? Top-level keynote speakers and panelists discuss the prospects.

More at www.cimmit.de

**January 27-28th, Thursday-Friday
The 11th Euroforum Jahrestagung - Die Logistikkimmobilie, Cologne, Germany**

The event for logistics real estate specialists in Germany - get the facts and the figures, listen to the latest thinking, find out what banks, investors and developers are planning. German-language conference.

More at www.euroforum.de/logistik

**February 2nd, Wednesday
The Infrastructure Investors Forum Europe 2011, London**

The 5th annual Infrastructure Investors Forum Europe organised by InfraNews. How infrastructure funds and institutional investors optimise their strategies to benefit from the next generation of infrastructure M&A opportunities in Europe and beyond. Funds, investors, corporates, debt finance arrangers, transaction advisory firms plus government officials and regulators will attend.

More at www.inframationevents.com

**February 3rd, Thursday
IPD Deutschland Seminar: Real Estate Strategies - Property Users vs. Investors, Frankfurt**

German-language seminar organised by IPD with speakers from industry, facility manage-

ment and construction/architecture to put the view of the corporate/user in measuring real estate performance.

More at www.ipd.com

**February 8th-10th, Tuesday-Thursday
Quo Vadis 2011, Berlin**

The 21st staging of the traditional beginning of year event in Berlin run by Heuer Dialog, this time in the new venue of the Scandic Berlin on Potsdamer Platz. The opening address is scheduled to be given by the Bundesfinanzminister Dr. Wolfgang Schäubl, with three leading research institutes giving their annual prognosis for the coming year.

More at www.heuer-dialog.de/quovadis

**February 8th-9th, Tuesday-Wednesday
ULI Europe Annual Conference, Paris,**

Under the motto, "Nothing is Certain but Debt and Taxes", this year's ULI annual European event brings you the insights into the economic, political and business trends that shape the real estate markets.

More at www.uli.org

**March 8th-11th, Tuesday-Friday
MIPIM, Cannes, France**

One of the key events of the international real estate calendar, MIPIM brings together the most influential real estate professionals to explore major development projects, connect with existing and potential partners.

More at www.mipim.com

**May 3rd-4th, Tuesday-Wednesday
Deutsche GRI, Frankfurt am Main**

The Deutsche GRI brings together the influential drivers in the German and European real estate industry. The GRI form is group discussions in collegial small groups, masterminded by leading industry players.

More at www.uli.org

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matures at end-May 2011.

Its latest report shows that it has net debt of €1.14 billion, although it puts the value of its 26,000 apartments in Germany at €1.36 billion after taking valuation write-downs of €70m for the year. It made an after-tax loss last year of €134m, down from €163m the previous year. Rental income on its properties fell from €150m to €144.8m, while FFO (funds from operations) was a negative €12.5m, due to higher non-recoverable operating costs and higher-than-expected bad debt provisions.

Germany/Study

Deka Bank sees German office rents rising 2% in 2011

German office rents should rise by 2% next year on average, while average yields at 4.6% to 5.7% should remain slightly under the European average, according to the latest "Deka Immobilien Monitor 2011" from **DekaBank**. The average German vacancy rate in the sector is expected to fall to 11.2%.

The study forecasts a total return in the German office sector of between 4.6% and 5.7% annually, against a background of slowly rising rents between 2011 and 2015. This would keep German yields below the European average of 6.3%.

Presenting the study in Frankfurt recently, DekaBank's CEO **Matthias Danne** commented, "German growth will be well ahead of the eurozone average next year, and ahead of growth rates even before the onset of the financial crisis. Perspectives are good for German commercial property markets."

He pointed to the likely weakness in the PIIGS economies, which will experience below pre-crisis growth levels, while countries like Germany, Austria, Finland and the Netherlands will profit disproportionately from expected

worldwide growth of 4% - although the effects of this on demand in European commercial property markets would take time to work itself through.

DekaBank's analysts forecast falling initial yields across most of Europe's main office markets, which are expected to be 8.1% next year and 6.2% in 2012. Over the four year period from 2011-2015 London City and Warsaw are expected to top the league with yields of 9.9% and 9.7% respectively, while Madrid, Paris and Prague are also singled out for likely yields of 7.5% to 9.4%.

In Germany, Cologne is viewed as the most attractive with 5.7% annually and 5.5% for Berlin, with Stuttgart holding up the table at 4.7%.

Germany/Legislation

New German fund legislation criticised by Bundesbank, EPRA

We have reported exhaustively throughout the year on the ongoing crisis being faced by the German open-ended funds sector (GOEF), culminating recently in the decision by three funds to dissolve themselves and repay existing investors over the next three years. About 25bn of the GOEF's 88bn in assets is currently tied up in funds frozen to investor redemptions.

Legislation is now pending to reform the sector in the interests of protecting the smaller investor, and more clearly delineating the needs of individual and

institutional investors. The proposed amendments have increasingly been coming under fire by critics, most recently by Germany's own **Bundesbank**, and the Brussels-based European Public Real Estate Association **EPRA** – albeit for different reasons

Moves by the German government to solve the structural liquidity problems of the German open-ended funds sector are misguided and are simply likely to lead to further fund closures later, said the Bundesbank in a statement. It said that introduction of minimum holding periods combined with additional cancellation periods, as recommended in the reforms, will not solve the open-ended funds' structural liquidity problems. Minimum terms, it said, cannot prevent

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investors from performing renewed massive withdrawals when the terms expire. As an alternative, the bank proposed combining redemption periods with liquidity minimums, in a model much closer to the Swiss model, in which a general one-year notice period applies across the board.

Meanwhile, further criticism of the proposed reforms has come from EPRA, whose business is promoting listed real estate markets in Europe and whose CEO **Philip Charls** has made no bones about what EPRA sees as an underdeveloped listed sector in Germany. EPRA figures show that Germany has the lowest proportion (at 1.6%) of its underlying

real estate held by listed companies among the 10 largest global property markets – except for Italy. The international average is 5.1%, with France at 5%, the USA at 5.8% and Australia at 16%.

EPRA describes the German government approach as “propping up the ailing open-ended funds structure with reactive legislative changes” – instead of growing the publicly listed property market, and addressing the glaring imbalance between the sectors. In recent pronouncements, CEO Philip Charls has been drumming home his message: “The problems that the German open-



ended funds face are similar to those seen in the past in other countries like the Netherlands, Australia and the US. The suggestions we have made, to allow unit holders to convert the fund assets and liabilities into a REIT, have

been successfully used in the past in similar situations where the result was the constitution of a leading listed real estate sector, improvement of transparency, and better investor protection.” He added, “A healthy real estate sector needs a good balance of listed and private investment vehicles – both from an operational perspective and to en-



The DIP-Office markets 2010 (vs. 2009) overview, as of 21st December 2010

	Office Turnover* (in m ²)		Weighted Peak Rent (in EUR/m ²)		Mid-Rent City (in EUR/m ²)		Supply overhang At year-end (in m ²)		Vacancy rate At year-end (in %)	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Berlin	425.000	420.000	20,50	20,20	14,00	15,00	1.590.000	1.490.000	8,9	8,4
Bremen	84.000	85.000	12,50	12,50	8,50	8,00	115.000	118.000	3,5	3,6
Dresden	78.000	75.000	10,50	10,00	8,00	8,00	300.000	350.000	12,4	13,8
Düsseldorf**	370.000	232.000	23,50	22,50	16,50	16,50	1.020.000	900.000	11,5	10,3
Frankfurt a.M.**	500.000	360.000	35,60	35,00	22,00	22,00	1.850.000	1.700.000	15,1	14,3
Hamburg	440.000	387.000	23,00	24,00	13,50	13,50	1.300.000	980.000	9,8	7,5
Hannover	100.000	150.000	12,50	14,00	9,50	9,50	205.000	200.000	4,8	4,8
Köln	220.000	200.000	20,00	21,00	11,25	12,50	645.000	590.000	8,9	8,3
Leipzig	72.000	115.000	12,00	12,00	7,60	7,90	590.000	645.000	17,5	19,2
Magdeburg	20.000	25.000	10,50	10,50	8,50	7,80	149.000	150.000	14,5	14,7
München**	600.000	540.000	28,50	31,50	15,50	14,90	1.800.000	1.760.000	9,8	9,7
Nürnberg	55.000	50.000	13,50	13,00	9,50	9,00	195.000	190.000	8,1	8,0
Rostock	10.000	10.000	10,00	12,00	8,50	9,50	70.000	80.000	8,1	9,2
Stuttgart	183.000	171.000	17,00	18,00	13,50	13,60	515.000	453.000	6,9	6,1
DIP-Büromärkte	3.157.000	2.820.000	23,70	23,60	14,80	14,40	10.344.000	9.606.000	10,1	9,4

* incl. own use ** incl. Surrounding areas

Source: DIP Deutsche Immobilien-Partner, AENGEVELT-RESEARCH

sure the right investment opportunities are available for the broadest range of investors. Whether the current flavour of the month is GOEFs or Spezialfonds, it is clear that Germany needs to have a relevant listed property sector. By missing this opportunity, the German government is papering over the cracks and ignoring a broader problem - to the detriment of the investing public."

Meanwhile, treading a more conciliatory path through the middle is the German investment and asset management association **BVI** which has been weighing in on the government hearings with its won proposals for an acceptable solution. The association's plans include introducing separate funds for institutional investors, reducing the holding period for normal retail funds to a year and introducing a 12-month notice period for insitutional investors. Open-ended fund properties would also be valued on a quarterly basis.

"These proposals complement the draft government proposals and are designed to protect private investors in particular," said BVI's **Stefan Seip**. "They will make GOEFs more stable and attractive for investors seeking to take part in the growth of real estate markets in a way that spreads their risks."

Germany/Acquisitions

Frankfurt's OpernTurm finally sold by Tishman Speyer

The building has been an iconic bellwether for not just the Frankfurt office market, but perhaps that of all of Germany for the past three years – the **OpernTurm** (pictured, right), the landmark office tower in downtown Frankfurt opposite the old opera house that was completed in 2009.

Now, after a number of false starts since coming on the market two years ago, developer **Tishman Speyer** along with partner **UBS** has finally conclud-

ed a deal to sell the magnificent state-of-the-art 42-storey, 168-metre high skyscraper, for a price thought to be about €550m. The buyer is the fund management unit of **JP Morgan** along with the **Government of Singapore Investment Corporation (GIC)** in an equal-shares joint venture.

The property, with over 67,000 sq.m. of office space, is now 95% let to tenants including UBS itself (with nearly half the available space), lawyers **Allen & Overy**, **Ashurst LLP**, **K&L Gates LLP**, **BlackRock**, **3i** and **Cerberus**.

The deal is thought to be 60%-financed by debt provided by **UniCredit**, **Helaba** and **Bayerische Landesbank**, with the rest being provided as equity capital by the new owners. The purchase by JP Morgan comes just a few days after another high-profile acquisition by the bank of the *Bishops Square* office complex in London for £557 million (€657 mln). The seller is a 75:25 joint venture between **Oman Investment Fund**, an investment arm of the Omani Government, and UK REIT **Hammerson**.

The OpernTurm originally came on the market two years ago when German fund manager **KanAm** pulled out of a deal at the last minute, citing the need to reduce the dependency on the financial sector in its portfolio. With the sale of the property finally away, Tishman Speyer's joint CEO's **Jerry** and **Rob Speyer** said in a statement, "The sale marks another chapter of Tishman Speyer's successful history in the Frankfurt office market, which began over 20 years ago with the development of the *MesseTurm*. With Frankfurt such an important European financial centre, we're looking forward to continued engagement there."



Germany/Listed companies

Deutsche Wohnen, Gagfah lead residential share revival

The last six months have been good to the German listed property sector, with most companies having seen share price rises of about 30% in the period. This contrasts strongly with this time last year, when re-financing issues hung like a cloud over the sector – but these concerns are largely resolved, for the moment at least.

Three companies now line up in the MDAX, the index for medium-sized companies, after **Deutsche Wohnen AG** (Deuwo) displaced **Postbank** in last month's reshuffle, to join **IVG Immobilien** and fellow residential property investor **GAGFAH**.

Deuwo has been making much of the running in the news recently after posting strong figures for the first three quarters and indulging in a bit of sabre-rattling. Apart from potentially taking over Berlin housing group **GSW**, potentially back in play after its aborted IPO earlier this year, Deuwo CEO **Michael Zahn** has also suggested he could be interested in bidding for the real estate subsidiary of **LBBW Landesbank Baden-Württemberg** (under EU pressure to be spun out of its parent group), or the German residential holdings of Austria's **Conwert Immobilien**. Deuwo manages 47,000 apartments, mainly in the Berlin and Rhine/Main regions. It recently posted nine-month profits of €10.1m (compared to a loss of €2.5m last year), and has fully re-financed itself until 2014.

Most of the listed companies have now been able to re-finance themselves adequately, with the banks again offering financing at decent rates. This has proven a spur to the revival in company valuations after the previous precipitous falls, with listed companies such as **Deuwo** itself, **Deutsche Euroshop**, **TAG Immobilien** and **DIC Asset** all recently tapping shareholders for fresh funding in the cur-

REFIRE - Broker Study

German brokerage services sharply criticised in ‘undercover’ study

If you, like ourselves here at REFIRE, have often asked yourself what precise value for money do many German real estate brokers offer, you are not alone. It is a subject that we have returned to frequently in these pages. After all, German broker fees can be as high as 7% on a real estate transaction – but the question often remains, whose interests are they representing? Since in most cases the brokers are commissioned by the seller, but have their fees paid by the buyer, it would seem to be an un-level playing field, tilted in favour of keeping the price higher. Despite a number of ill-fated attempts to change the status quo over the past years, the system remains entrenched.

Now a new study has appeared just before Christmas, casting the broker profession in an even more miserable light. The FUCHSBRIEFE publishing group, known throughout Germany for its investigative reports and willingness to rattle a few sacred industry cages, went undercover to test the effectiveness and professionalism of a wide range of nationally-represented property brokers. The results were sobering.

FUCHSBRIEFE’s incognito research team approached a wide range of different national broker groups in the guise of an investor looking to invest up to €1m in solid yield-producing properties. The brokers ranged from classical broker/advisory houses to the real estate brokerage divisions of banks and building societies.

After adequately briefing the respective brokers, feedback was evaluated at 25% each for the quantity and quality of results, as well as granting further points for professional competence, level of advice, personality of the advisor (15%) and broker transparency (5%).

FUCHSBRIEFE’s conclusion? Most brokers failed miserably to live up to their own billings as competent, knowledgeable and trustworthy partners. The ‘investors’ were often offered properties that in no way corresponded to their clear brief and investment goals.

Time and again the brokers’ services fell way short of the minimum a potential buyer could expect from an adviser, and proved repeatedly that the sellers’ interests were uppermost in their considerations. “Buying an investment property is a complex undertaking in which a great many factors have to be taken into consideration, and where investors are dependent to a large degree on the quality of advice and service offered by the property advisor.

“However, all too often the advice given simply pointed to the desire for a quick sale and the cashing of commissions. Most failed completely to undergo a thorough analysis of the customer’s actual investment goals, while the brokers almost never intervened on behalf of the buyer on questions of price”, concluded the testers.

The one company that stood out for the quality of its services was **Aengevelt Immobilien**, which was rated head and shoulders above the rest. The Düsseldorf-based group with offices



nationwide scored 71 out of a possible 100 points, followed at a distance by **Engel & Völkers** (58 points) and **BW Baden-Württembergische Bank** (51 points). The Aengevelt team was particularly commended for the quality of its advice and customer support.

Those receiving ‘must try harder’ notes on their report card included **Corpus Sireo Real Estate**, which was criticised for the poor quality of its service, while at the ‘top’ end of the market, brokers such as **Poll Immobilien** and **Sotheby’s NRW Immobilien** were characterised as “having a large discrepancy between what they promise and what they deliver”.

In most need of pulling up their socks, according to the testers, were the larger mortgage advisers who have added on brokerage arms as appendages, with firms like **PlanetHome**, **Schwäbisch Hall**, **Corpus Sireo** and **Württembergische** being singled out as being among the worst offenders.



21. Jahresauftaktkongress der Immobilienwirtschaft



25. und 26. Januar 2011, Hilton Frankfurt

Kommt der Aufschwung für die Immobilienwirtschaft 2011?

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Barbara Knoflach, SEB Asset Management AG | Marcus Lemli, Jones Lang LaSalle GmbH | Dr. Wulf Meinel, The Carlyle Group
 Christoph Meyer, BNP Paribas Real Estate GmbH | Dr. Frank Pörschke, Eurohypo AG | Prof. Dr. Dr. Franz Josef Radermacher,
 Forschungsinstitut für anwendungsorientierte Wissensverarbeitung (FAW/n), (Keynote am 26. Januar 2011)
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rent favourable climate. TAG Immobilien is raising €82m in fresh capital and via a convertible bond to buy up likewise-listed **Colonia Immobilien** with its 18,000 residential units, at a premium of nearly 30% to Colonia's earlier share price.

Meanwhile, Germany's largest listed residential company GAGFAH has embarked on a share buyback program, aiming to invest €125m to buy back up to 9% of the outstanding shares. The share price has responded as expected, rising strongly through December to reach fresh new recent highs. The move is likely to improve NAV, and earnings per share, although GAGFAH still has massive debt of €4.5bn due to be re-financed by 2014. The company is also coming under renewed criticism for bleeding its housing assets of re-investment funds for maintenance and repair. Further share buybacks of up to 25% of shares outstanding were flagged by the company's supervisory board earlier this year.

Germany/Retail real estate

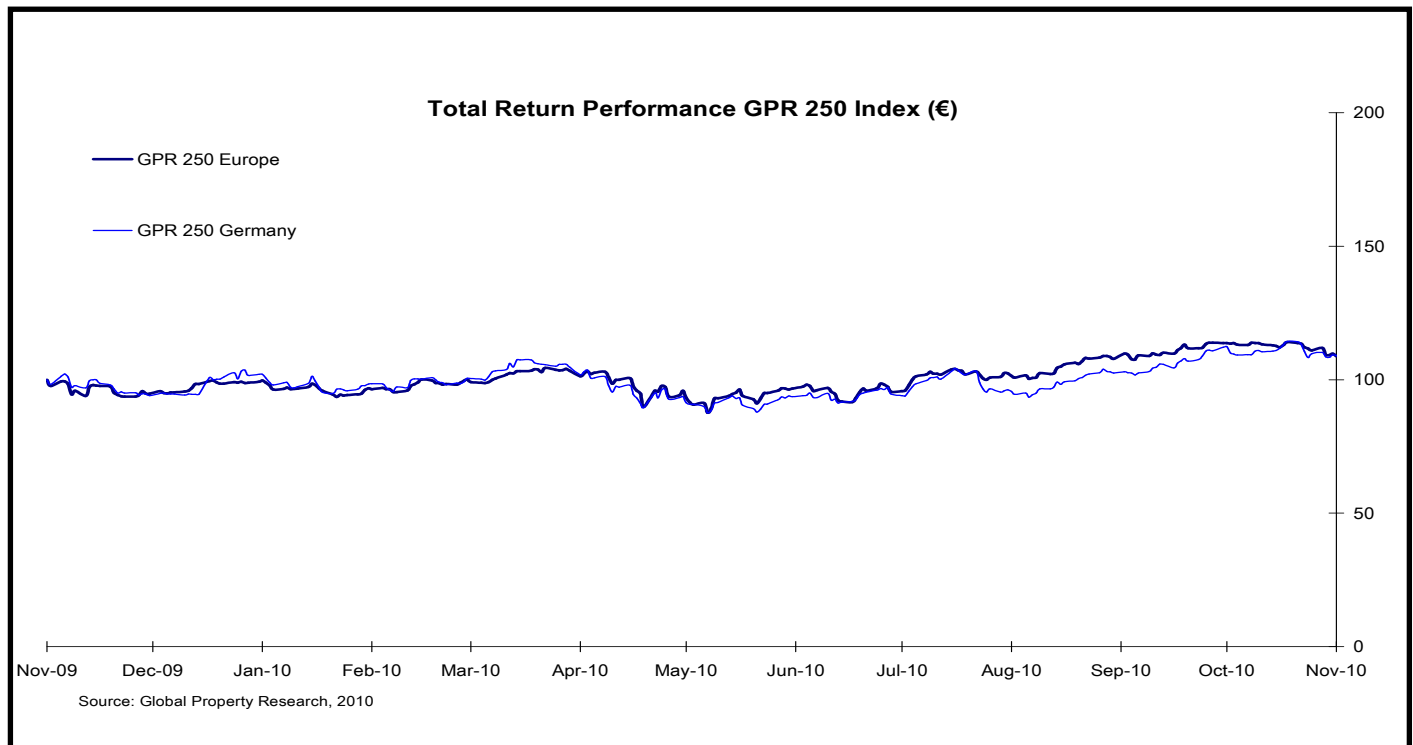
Deutsche Euroshop takes majority stake in Frankfurt shopping centre

Listed Hamburg-based shopping-centre investor **Deutsche Euroshop** is rounding off a most active year for acquisitions by buying a further 9% stake in the **Main-Taunus-Zentrum** shopping centre (MTZ) near Frankfurt from an institutional investor, for an amount of around €17m. With its existing shareholding, Deutsche Euroshop now holds a majority 52% stake in the prominent centre, which was one of the company's very first portfolio holdings.

Once ongoing expansion work has been finalised in autumn 2011, MTZ will be able to offer 180 specialist shops of well-known retailers, including **Ansons, Breuninger, H&M, Kaufhof, Karstadt, Media Markt, Peek & Cloppenburg, Zara**) on a retail space of around 91,000

sq.m. Following completion of expansion work to its northern side, the centre will offer its visitors more than 4,500 car parking spaces. "The pre-letting level already stands at around 70%, and - in keeping with all our shopping centers - we expect 100% occupancy by the time the extension is opened", said Deutsche Euroshop CEO **Claus-Mathias Böge**.

MTZ was one of the first ever shopping centres to be opened in Germany in 1964, and was modernised and expanded from 2001 to 2004. It is located in Sulzbach on the western outskirts of Frankfurt, directly on the A66 (highly visible from the motorway between Frankfurt and Wiesbaden). Managed by **ECE**, the European market leader in the shopping centre segment, since 1998, the shopping centre has a hinterland comprising a population of 2.2 million, with up to 40,000 customers visiting MTZ each day.



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

Austria/Funds

Takeover of HRI to boost IVG's CEE platform

The Bonn-based **IVG Immobilien AG** made an important strategic move in buying Austria's **Hypo Real Invest (HRI)** in a recent deal for an undisclosed sum, which will give the German group a strong toe-hold in central and eastern European markets, both for its own product platform and for exporting its asset management expertise.

HRI has been focusing on managing property funds for institutional investors in the CEE region since its foundation in 2008. Key among these is its **HRI Immobilienfonds Nr. 1** managed by its Luxembourg-based *Fonds Commun de Placement (FCP)* vehicle. The fund currently manages €160m of assets, with a targeted volume of €300m.

IVG itself already manages €22bn of assets from 18 locations throughout

Europe. The HRI deal is expected to close before year-end.

IVG's move follows a wave of consolidation of fund and asset managers in the region, including the takeover of CEE specialist **Europolis** by Vienna-listed investor **CA Immo** (see article elsewhere in this issue about Bank Austria's holding in CA Immo). "In addition to initiating own fund products, this kind of deal perfectly represents how we want to grow in the future - by buying small platforms and developing them," said **Steffen Ricken**, a member of the management board for IVG's institutional funds.

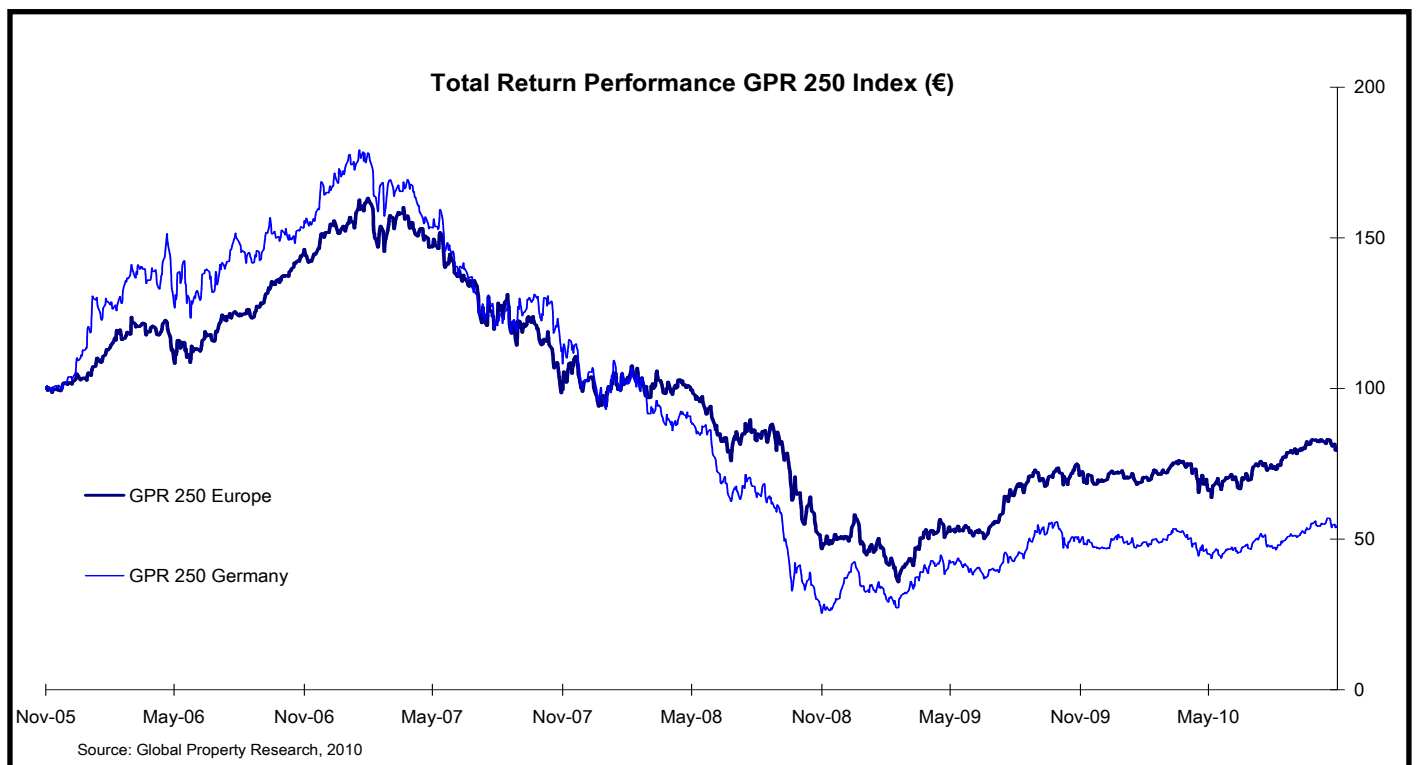
"We will consider similar deals in Europe looking ahead. As we already have offices in Warsaw and Budapest, for example, it would make sense to optimise them in the future via a deal like this. We will also consider similar deals for markets which we are contemplating entering."

Europe/Funds

First capital growth in funds since 2007 - INREV

The **European Association for Investors in Non-listed Real Estate Vehicles (INREV)** has measured positive capital growth across the continental European property markets for the first time since 2007. The results of INREV's study shows broad alignment with **Investment Property Databank's (IPD)** quarterly indices for the most recent quarter, reflecting the relative slowdown over the past three quarters after a dynamic start at the beginning of the year.

For the first time in three years there has been capital growth in continental European non-listed real estate funds of 0.7% resulting in a total return of 1.4%, according to the latest INREV Quarterly Index results for the sector. Capital growth was negative in INREV's Annual Index in 2008 and 2009 as well as the first



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

two quarters of 2010.

In local currencies, the overall Index returned 1.7% in the third quarter of 2010, compared to a quarterly performance of 1.8% for Q1 and 2.4% for Q2. This slow-down in growth of the total Index



is a reflection of the UK market. The UK showed strong returns at the beginning of this year, 6.3% in Q1 but has slowed down since then to 3.6% in Q2 and now down to 2.2% while continental Europe picked up. Continental Europe returned 1.4% in Q3 from lower returns of 0.7% and 0.2% for Q2 and Q1 respectively. Multi-country funds have also seen a similar improvement, strengthening from 0.9% in Q2 to 1.6% in Q3. (For the UK, IPD's quarterly UK index showed a 2.3% total return and 0.7% capital growth in Q3, suggesting close correlation with the INREV figures.)

According to **Caspar Hesp**, senior research manager at the Amsterdam-

based INREV, "The continued improvement of the continental European non-listed fund market is a substantial indicator that capital growth and confidence is flowing back into Europe's non-listed real estate funds. It is also interesting to

note that there is a trend towards convergence where the difference in returns between the UK and continental Europe decreases."

The INREV Index also shows that as the industry continues to post relatively stable positive numbers, value-added funds continue to outperform core funds with returns of 2.2% and 1.5% respectively.

The results of the third quarter are based on a sample of 208 funds, the vast majority of which already contribute to the established annual INREV Index. The next update of the INREV Quarterly Index will be published in the last week of March in line with the publication of the INREV Annual Index release.

Europe/Hotel Investment

Investors see improved fundamentals for hotel sector

The hotel investment market throughout the EMEA region is seeing growing confidence from investors, who are expecting stabilised to improved fundamentals over the next six months, according to the latest Hotel Investor Sentiment Survey by Jones Lang LaSalle Hotels.

The semi-annual report also highlights that good growth prospects over the next two years are expected for the majority of cities, a significant rise in optimism since last May. Short term performance expectations were most positive across Western Europe, while those for Eastern Europe and the Middle East remained more fragile. In particular cities in Scandinavia and Germany are expected to show a substantial improvement in the short term.

The study surveys the attitudes and intentions of 2,500 investors worldwide. Germany's five markets in the survey were all rated more highly than in the last report, with the number of investors saying they want to BUY in Düsseldorf, Frankfurt or Hamburg rising strongly. Interest in BUILDING hotels has risen in Berlin, Hamburg and Munich. All German cities noted a higher investor interest in four-star hotels, while Frankfurt and Munich were favoured for luxury five-star hotels.

Mark Wynne-Smith, regional CEO of Jones Lang LaSalle Hotels, said: "This optimistic short term view has been driven by the positive occupancy results achieved across the majority of EMEA markets this year. The gradual move out of the recession and rising business confidence has also supported the return of hotel investment activity in EMEA, fuelled by motivated sellers bringing more stock to the market."

In the survey, the average yield requirement for German cities stood at 6.8% with London's requirements just below 7%.

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