PROPERTY FINANCE EUROPE

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Volume 1, Issue 11 — *26 September 2005*

Occupier demand for euro property slows but investor interest rises

Business demand for euro area commercial property showed only a moderate rise in first half 2005 but investment demand is strengthening everywhere, except for the UK, says the Royal Institution of Chartered Surveyors.

In its latest Global Property Survey, RICS said slow economic growth has cut business real estate demand in general though occupier demand for office space has been sustained on average, and should be underpinned by low interest rates and rising profitability in 2H05.

Investment demand continues to rise firmly however, fueled by low interest rates. "While growth in investment activity showed a clear strengthening in the euro area, some dynamism has been lost in non-euro countries, namely the UK, though even here investment continues to rise," RICS said.

The previously static or declining investment markets of Germany and Italy have improved, and yields have slipped back. Investment demand is growing strongly in Spain and in France (Paris) though the latter slowed from 2H04.

The continuing yield decline across western Europe shows investors are still re-pricing assets, RICS said. High levels of foreign investment activity are apparent in Germany and France, with financial institutions strong buyers in the UK. Private individuals are active purchasers in Spain, Dublin and Amsterdam. Occupier demand for commercial property is rising at a limited pace in Paris and rents are stable. Property demand conditions are flat In Italy.

German real estate demand has strengthened slightly and rents are no longer falling. In Spain, business demand rose firmly in 1H05 as the economy continued a fast rate of expansion.In the UK, business appetite for property has come to a standstill after robust growth last year. Strong demand prevails in Dublin as expectations of an economic bust prove misplaced. In Athens, business property demand is improving after waiting for rents to fall due to extra floor space supplied for the Olympic Games. pfe

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Apologies in advance to those poor unsuspecting souls unlucky enough to catch us in tired mood facing a press release of resounding unclarity with **Property Finance Europe** right on deadline. Last week it was the turn of a large German property company which, apart from this small hint, shall remain nameless. We were thoughtful enough to offer constructive criticism: the release, we opined, reminded us of a Le Monde article where one attains an impression of events via a jumble of assorted facts. Had no reply to our constructive criticism yet. Strange that!

We are in la bella Roma at the start of this week, then the less bello Hamburg on Wednesday and Thursday. Having come to grips with the basic issues in the Pfandbrief vs covered bonds debate in this issue talking with Louis Hagen, it is time to hear some opinion on the rapidly developing residential mortgage market around the European continent. Berlin's Hypoport, experts in said sciences, have been kind enough to host **PFE** for both events and we thank them for that. You will find a copy of Issue 10 at the Hypoport booth in both the EuroCatalyst and IMN events. If you are quick enough, that is!

Banque de France in 2nd round of property sales, sale-and-leaseback next year

The French central bank, Banque de France, is putting 35 commercial properties up for sale in a tender offer to be organised by the Société Générale subsidiary Odiprom.

The portfolio consists of 35 offices and residential buildings totalling 64,000 sq.m. floor space, according to the French commercial property portal BusinessImmo. The bank plans to close the sales in first quarter 2006. The sale is part of a downsizing commenced last year after the central bank closed 82 of the 211 properties that it owns throughout France.

Local municipalities are being given priority in the case of 30 locations of former branch offices. A further program of sales is scheduled to begin in 2006, and an additional 25 properties that the bank judges too expensive may subsequently be offered in sale-and-leaseback transactions. pfe

CEE occupier demand slips but investment interest remains strong - RICS

Commercial real estate demand in central and eastern Europe remained very buoyant in the first half of 2005 and even though occupier demand is no longer the strongest in the world, foreign investment enthusiasm continued unabated, the latest Royal Institution of Chartered Surveyors survey says.

"Investor enthusiasm for the region is unabated due to the perception that many of these economies will see a catch up in incomes to western Europe," the RICS Global Property Survey said. "Emerging Europe continues to show robust growth in occupier activity for the first half of 2005 though it is no longer the strongest region in the survey."

Foreign investor demand in the new EU states and prospective entrants continues to be generated by relatively high yields in prime locations and the growing security of rule-based government and the acceptance of EU property rights. Low finance costs have sparked further yield compression, while purchase activity is also apparent from domestic financial institutions.

The slowdown in global growth in the past year has dampened occupier demand for commercial real estate in emerging Europe but activity still remains robust. The pace of export growth and corporate investment moderated from 2004 but business requirements for premises is still growing. However, the amount of available space has risen following a decline in the previous survey, putting a lid on rent rises.

In Warsaw and Prague, occupier activity continues to expand, while in Budapest, business demand for property slipped as economic growth in Hungary came in below its larger neighbours. For the prospective EU entrant Bulgaria, foreign investment is booming and unemployment has fallen, supporting a sharp rise in business property demand. But rents have been held back by rising supply.

For non-EU countries, the rejection of the EU constitution in some countries in May had a limited impact on investment appetite. In Turkey, investment demand grew more firmly than in the latter half of 2004 as its potential for future 'tiger economy status' attracts foreign interest.

Internally, rapid population growth, slowing inflation and declining interest rates are supporting a robust expansion in business demand for commercial property in Istanbul, pushing up rents sharply. "Moreover, there are few expectations of a slowdown in occupier activity despite speculation that further EU enlargement will be halted by problems over the constitution," RICS said.

Investment activity is rising in Moscow though not as strongly as elsewhere in emerging Europe, and the search for higher returns has led to a notable drop in investment yields. Despite increased uncertainty in the business climate in the past year occupier property demand is still rising, as are rents. The jump in oil prices has vastly improved Russia's external trade position but economic growth has slowed. pfe

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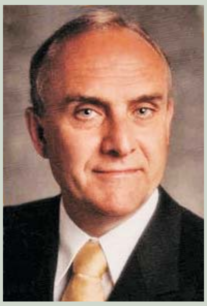
Oh, all right, we were wrong. Angela Merkel did not walk away with a resounding majority for the Right in the German election and now we are in a pretty pickle indeed! While most of Germany Real Estate AG were praying for her to defeat the disastrous Red-Green hordes, she managed to run one of the weakest, most indecisive and colourless campaigns seen since poor naïve Rudolf Scharping was thrown into the ring by the merciless SPD against big Helmut Kohl in 1994.



My former political analyst colleague at Eurozone Advisors, Erwin Grandinger, has, as usual, his finger most firmly on the political pulse of the country. He says the political relationship between Merkel and SPD Chancellor Gerhard Schröder is as poisonous as it was between George Bush and Al Gore in November 2000. "Germany remains a 51%/49% country with the slight majority for the political left," Grandinger says. "Only the 'hanging chads' are missing." And while the US Supreme Court ultimately resolved the 'hanging chad' issue in Florida, this concluding role will be played out in Germany by the 2 October by-election in Dresden, the capital of the east German state of Saxony.

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The preliminary official result showed that the SPD secured 222 seats in the Bundestag lower house while the CDU/CSU has only 225 seats (CDU 179 seats, CSU 46 seats). That puts the CDU/CSU just three seats ahead of the SPD and makes it the strongest faction in parliament. However, in the most extreme case, the Dresden by-election could produce three seats for either side. It is not at all clear whether the CDU/ CSU will ultimately be the strongest faction in the Bundestag but Grandinger thinks this will eventually be the case. In 2002 in Dresden, the CDU won 33.8% and the SPD 31.3%. The direct mandate was won by the CDU candidate. Polls, if one still believes polls, also indicate a CDU victory. Because of the uncertainty Schröder on election night ruled out a CDU-led Grand Coalition for now at least, claiming this is only possible if the SPD provides the chancellor and the CDU/CSU assumes the junior role. Until the Dresden by-election, this contested point will remain the prime political battleground, Grandinger says.

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Regardless of the outcome in Dresden, Schröder and the SPD leadership have begun to question the CDU/CSU faction status, claiming that, constitutionally, CDU and CSU must be treated as two separate political parties. This overturns the political tradition of German post-war politics that always treated the CDU/CSU as one faction. The largest faction provides the chancellor. This point will not be resolved before the Dresden by-election. In the extreme case, up to three seats could be gained by either party in Dresden, even if two are most likely - one for the direct candidate, one for the party list. One more additional seat could be gained in a so-called 'overhang mandate', based on the complicated German election law. SPD leader Franz Müntefering has indicated that the Social Democrats may be willing to 'share', or 'split' a Grand Coalition legislative period into two parts. "This is of course a trial balloon to entice the CDU into a possible initial (junior) role," Grandinger says. If, after 2 October neither Schröder nor Merkel is acceptable by the other side to run a coalition of the two senior parties, Lower Saxony CDU Premier Christian Wulff and former North Rhine-Westphalia SPD Premier Peer Steinbrück could be called to do the 'job-sharing'. Mesdames et Messieurs, place your bets!

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Allan Saunderson, editor@pfeurope.de

Increase in global real estate allocations to bring extra $600-700bn capital inflows - DB Real Estate

Structural increases in asset allocations to global real estate assets should bring an additional $600bn-$700bn in capital inflows over the next few years though the yield compression that could result brings growing risks if interest rates rise, says Peter Hobbs of DB Real Estate.

The current global institutional equity allocation to real estate in mixed portfolios, including standard bonds, industrial equities and derivatives, is around $1.3tr, and $400bn of new investment was flowed in during 2004. This should rise by about 10% in 2005, he told a seminar in Frankfurt last week.

Total global capital invested in real estate, including leverage/debt finance, amounts to $5.2tr, though the value of investible real estate in the world is nearly double this, around $10.2tr. In Europe, the total stock of real estate is valued at around $4.8tr, investible property is assessed to be worth $3.4tr, and the amount owned by investing institutions - i.e. excluding owner-users - is some $1.2tr.

This illustrated the huge potential for property investment on the continent over the next few years."If there is one message it is that there is huge potential, but after working in the industry for 25 years it's clear that we need to about that long again for the industry to really mature," Hobbs told the seminar, organised by the UK-based Investment Property Data Bank, IPD.

Capital markets are only now really discovering property and it has gradually become the asset class of choice over the last five years, he added. There are five main reasons for this: In the last 10 years real estate has outperformed all other assets. Since 1986, it has offered a high, steady income yield - an average of 7-8% annually. Spreads between average returns and financing rates have remained high and positive.

In addition, property offers low correlation with the performance of bonds and equities, and therefore allows strong portfolio risk diversification. The sector is also maturing fast and taking on more characteristics of a financial asset; this includes outsourcing in many functions, growing public listings, and the beginnings of the use of derivatives in the sector, the entry of hedge funds, developing of mezzanine finance funds. Since Supply of new property into the investment market has not kept pace with demand over this decade, prices are rising and rents have remained, in Europe at least, fairly stable, Hobbs noted.

Even if this has meant that cap rates - the yield expressed by the rental return compared to the property's market value - are falling, this is unlikely to continue. "We are at a sweet spot in the cycle in terms of rental growth," Hobbs said. Hong Kong yields, for example, have doubled this year.

The risk is that rents do not rise in Europe but investment demand remains very strong, compressing yields. "This is the big risk," Hobbs said. "Over the next few years what will happen to cap rates in a rising interest rate environment?" pfe

German property investors told to "mind the gap" in rental, cap market valuations

"Mind the gap!" The traditional warning broadcast to passengers boarding trains on the London Underground is also an extremely appropriate message to investors of the wide valuation divergences developing in the German real estate market, says Peter Birchinger, Associate Partner at Cushman & Wakefield Healey & Baker.

He sees these as the disparity between high demand on international capital markets and low demand in the domestic rental market, the drifting apart of effective and nominal rentals in the German internal market, the increasing polarisation between prices being paid in prime and in secondary locations, and the gap growing between fully-rented properties and those standing empty.

"Economic weakness and the restructuring and privatisation processes are particularly being exploited by Anglo-Saxon Opportunity Funds," Birchinger said in a presentation to the IPD seminar last week. "Cross-border investment is climbing, while domestic investment demand remains weak. Open-end

Table: Structural Increases in capital allocations to real estate

Region	Country	Institutional allocation $bn	Inst. allocation % of portfolio	Est. Target % of portfolio	Increase in allocation $bn
	UK	150	5%	8%	90
	France	90	4%	6%	45
EUROPE	Germany	160	7%	8%	23
	Italy	70	21%	21%	0
	Netherlands	60	10%	13%	18
	Switzerland	50	13%	13%	0
Region total		580			176
NORTH	US	500	6%	9%	250
AMERICA	Canada	60	6%	9%	38
Region total		560			288
ASIA-	Japan	130	2%	3%	130
PACIFIC	Other Asia	20	1%	3%	40
	Australia	30	7%	9%	6
Region total		180			176
Grand total		1320			640

Source: DB Real Estate, DTZ, UBS

funds are barely active any longer in the German market."

He points to the growing trend toward sale-and-leaseback transactions, kicked off by the €1.4bn Deutsche Bank office transaction with Blackstone two years ago, and followed up recently by the recent €150m Ruhrkohle SLB deal with the Difa fund group (Deutsche Immobilien Fonds AG) belonging to the cooperative banking system.

Residential property portfolios were also in demand from US Opportunity Funds, and provided liquidity for large cities and smaller municipalities facing intense budgetary pressure.

"We assume that this trend will go further," Birchinger said, citing the current negotiations of Dresdner to sell of a large apartment portfolio.There is also further potential in the sale of non-performing loan portfolios. "Despite all the moaning in Germany," , Birchinger said, "the battle of the international investors for the best products has broken out in full."

The high demand for real estate in general in Europe has pushed rental yields continually lower. Recently, it produced the first sale of a property in London, the Knightsbridge Estate, at a starting yield below 4%. By contrast, cap rates in Brussels were around 4.4%, in Paris 5.3%, in Copenhagen around 5.5% and in Warsaw 6.5-7%. pfe

PROPERTY FINANCE EUROPE

Publisher
Rose Advisory Ltd,
Manufactory House
Bell Lane
Hertford,
Herts SG14 1BP
England

Operating Office
Hainer Weg 13 – 15
D-60599 Frankfurt am Main
Germany
Tel. +49 (0)700 3686 2233
Mobile +49 (0)172 672 3938
Fax +49 (0)6101 813405

Editor
Allan Saunderson
editor@pfeurope.de
Cell +49 (0)172 672 3938

Business Manager
Charles Kingston
business@pfeurope.de

Internet / Advertising
David Jayne
webmaster@pfeurope.de

Administration
Gaby Wagner
office@pfeurope.de

Sector Advisors
Iain Barbour (Commerzbank) * Wolgang Barchewitz (legal adviser) * Martin Braun (Cushman Wakefield * Martin Damaske (Hypoport) * Clarence Dixon (Crown Mortgage Management) * Hugo Doswald (DG HYP) * Kingsley Greenland (DebtX) * Raffaele Lino (DTZ Investment Advisers) * Georges Ruchti (easetec services) * Philip Rutovitz (easetec) * Dr. Dieter Wermuth (Greater Europe Fund) * Thomas Ziegler (Reporting Online)

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ISSN 1748-8281 (printed copy)
ISSN 1748-829X (online version)

Dresden's Woba apartment firm sell-off seen sparking wave of state sales

German municipalities are watching the sale of Dresden's 48,000-apartment holding company with particular interest, and if it succeeds in raising enough funds for the city to pay down its debts this could spark a large number of follow-on deals.

Rainer Reddehase, of Real Estate Stuttgart, says there is high potential for further big deals from the public sector selling their residential housing stock, motivated by the need to free themselves up from high debts built up in the post-unification period.

Estimates for potential sales range from the the GDW housing association's expectation of 500-700,000 of the total 2.3m in state sector ownership, Deutsche Bank Research's forecast of 1m apartments to come onto the market through 2010, and the highest prediction by the realtor and research firm BulwienGesa of as many as 3.3-3.7m apartments to be sold in total portfolio sales over the next four years.

But Dresden's housing company (Woba Dresden GmbH) could be the spark. "If Woba is successfully sold off and manages to free Dresden from its debts, then all other communes and municipalities are going to start doing the same thing," Reddehase told the DID-IPD seminar last week.

Woba Dresden owns 47,800 apartments in the urban area and around 1,300 commercial properties. It had revenues last year totalling €182m, and employs over 500 staff.

Such is the strength of demand from Anglo-Saxon investors, however, that the market threatened to be overheating, Reddehase warned. While, at the start of the decade, a large portfolio of railway-owned apartments was sold for an average price of €620 sq.m., the recent Viterra sale by the utility conglomerate Eon was transacted at €800 sq.m. and the most recent major purchase - of Nileg by Fortress from NordLB - cost an average €840 sq.m.

Reddehase sees 10 reasons for the change of paradigm in German residential real estate:

(i) a shift from a classical management approach to active portfolio management,
(ii) a change from holding to trading of property,
(iii) a much-needed new orientation toward the capital market,
(iv) the ending of the social contract inherent in the state sector's need to provide housing in the post-war period, and
(v) transfer of this social contract to the need to create affordable housing for the population,
(vi) the surge of international interest in the domestic housing market,
(vii) inflows of new liquidity allowing capital investment in housing stock, and generating customer satisfaction,
(viii) maintenance of social component via the retention of strict standards in home building and maintenance,
(ix) the recognition by housing companies that renters should be treated as customers, and
(x) the generational change taking place in the leadership of the real estate sector in general. pfe

BHW buys additional 10% stake in AHBR from insurer DBV-Winterhur

The German building society BHW Holding AG is to buy an additional stake in the troubled mortgage bank AHBR (Allgemeine Hypothekenbank Rheinboden) from the insurance company DBV-Winterhur, taking its holding to just under 50% and thus almost equivalent to that of the trades' unions holding company BGAG.

BHW said the move will simplify the process of selling AHBR to an external investor before or even within a transaction in which the group itself is likely to be taken over. It gave no details of price to be paid, but in its 2004 annual report wrote down its then-39.5% holding in AHBR by more than €200m to €234m, thus giving

10% of AHBR a value of around €60m.

"This will improve our negotiating position," BHW Chairman Henning Engmann told the Frankfurter Allgemeine Zeitung. An acquiror will have more freedom to restructure AHBR. It can employ a squeeze-out strategy on minority shareholders, thus allowing the purchaser full access to the bank's tax loss carry forward.

BHW said however that the purchase implied another write-off for its AHBR stake in 2005 accounts that would turn its expected unchanged net profit of €100m into a slight loss. This is a prudent measure in reaction to the current negative market environment for commercial property, Engmann said.

While the BHW group is a building society, principally active in distributing residential mortgage products, AHBR assets mainly comprise commercial real estate. AHBR incurred significant losses on its Pfandbrief funding strategy, after miscalculating monetary developments in the aftermath of the September 2001 terrorist attacks.

The transaction is also designed to hasten the sale of the group, which has been in negotiation with purchasers since the start of 2005.

The giant, partially state-owned Postbank bought a near-10% stake earlier this year and is seen as a front runner for acquiring BHW. Commerzbank is however also believed to be bidding, though the bank has been reluctant to confirm this.

Neither wants to buy AHBR as part of the package. However, several bidders have emerged for the Frankfurt-based mortgage bank, principal among them Anglo-Saxon Opportunity or Private Equity funds wishing to use AHBR as a platform for processing non-performing loans.

Engmann would not comment on the ongoing sales process for the group.

Financial sources name Cerberus, Lone Star and Christopher Flowers - perhaps via the Shinsei Bank - as the major bidders, now currently involved in the principal due diligence process. The bid process is expected to close in mid-November. pfe

Dresdner Bank to auction off 300 properties in sale-and-leaseback

Dresdner Bank is to auction off 300 properties in a sale-and-leaseback deal likely to realise around €1bn and improve return on equity as wanted by Chairman Herbert Walter.

Walter has approved the transaction in an attempt to exit from the low-yielding real estate management and try to attain his stated objective of 8.5% post-tax ROE for this year, a bank spokesman confirmed. His ultimate profitability aim is 12% ROE.

The transaction would be the third large corporate sale-and-leaseback after Deutsche Bank in November 2003 sold a portfolio of €1.3bn to the US Private Equity group Blackstone, and then a second portfolio worth €400m to Eurocastle Investment last December.

It confirms a widening trend for German corporates to monetise commercial property they own and use. Citigroup Director James Brent told PFE earlier this month he expects German corporates to launch a lot more sale-and-leaseback transactions for such real estate in the near future.

The Dresdner portfolio is not expected to include its main headquarters on the Jürgen Ponto square in Frankfurt. It will mainly comprise branch offices of the bank, for which Dresdner intends to take out long-term leases, and also prestige properties in Düsseldorf, Munich and Hamburg.

Dresdner, part of the Allianz group of companies since the takeover in 2001, reported significant losses in 2002 and 2003, leading to speculation that it would be sold off. Walter has however significantly cut operating costs.

At the end of this month, the bank is due to close down its Institutional Restructuring Unit which, since 2003, has successfully sold off €35bn in non-performing loans. Principals in the team are largely expected to transfer to US Opportunity Fund Lone Star. pfe

Table: Large cap quoted real estate companies, Germany

LARGE CAPS	share price;€[1]	Shares in issue (m)	Market cap, €m	P/E 2004	Earnings per shr, €	Net earn. 2004. €m	Free float %	Major shareholder
IVG Immobilien	15.5	116.0	1798	25.5	0.6 €	70.5 €	57.5	Sal. Oppenheim (25.1%)
Deutsche Wohnen	184	4.2	768	59.9	3.1 €	12.8 €	84.3	AV Wesfal.Lippe (9%)
Deutsche Euroshop	46.3	15.6	723	26.1	1.8 €	27.7 €	79	Familie Otto (21.2%)
Dibag Industriebau	30.5	18.0	549	35.1	0.9 €	15.6 €	2.4	Doblinger Industriebau (97.6%)
RSE Grundbesitz	9	40.4	363	n.a	n.a	n.a	2.7	WCM (97.3%)
GBWAG	46.5	6.5	302	48.9	1.0 €	6.2 €	n.a	Bayerische Landesbank
Nymphenburg Immobilien	400	0.6	225	57.6	6.9 €	3.9 €	n.a	n.a
Vivacon	12.9	17.4	224	27.9	0.5 €	8.0 €	65	Management (25%)
GAG	23	18.7	430	10.2	2.3 €	42.1 €	8.8	City Of Cologne (91.2%)
Hamborner	27.3	7.6	207	28.5	1.0 €	7.3 €	31.3	Familie J. Thyssen
GBH	28	7.2	202	15.5	1.8 €	13.0 €	8.9	several major shareholders
B&L Immobilien	17.8	11.0	196	n.a	n.a	n.a	11.1	Albert Büll (31.3%)
Stodiek Europa Immobilien	8.7	14.6	127	10.2	0.9 €	12.4 €	5.6	IVG (94.4%)
Schlossgartenbau	502.7	0.2	106	n.a	n.a	n.a	4.9	Baden-Württemberg (95.1%)
AIG International Real Estate	25.5	3.8	96	12.1	2.1 €	8.0 €	70.4	AIG Group, US
Rathgeber	1280	0.1	81	n.a	n.a	n.a	1.2	Meiller Fahrzeugbau
Deutsche Beamten Vorsorge	8.5	9.5	80	-8.1	- 1.0 €	- 9.9 €	100	n.a
Stilwerk	5.7	10.0	57	570.0	0.0 €	0.1 €	5.2	Bernhard Garbe (94.8%)
Anterra Vermögensverwaltung	15.9	3.6	58	14.3	1.1 €	4.0 €	50.4	Pfersee Kolbermoor (49.6%)
TAG Tegernsee Immobilien	7.3	6.8	50	22.1	0.3 €	2.3 €	45	several major shareholders
Bau-Verein Hamburg	5.7	8.5	48	31.6	0.2 €	1.5 €	12.1	TAG Tegernsee Immobilien (87.9%

Source MM Warburg Investment Research *Figures may differ from published numbers due to rounding.*

[1] *Share price as of early July 2005* [2] *Takeover bid by Goldman Sachs Whitehall funds in process Sep05*

Bear Stearns' sets up new Real Estate Principal Investments group in London

The London based investment bank Bear Stearns International has set up a Real Estate Principal Investments group (REPI) to structure and execute commercial real estate transactions across the UK and continental Europe, underwriting as principal the senior and junior debt and arranging the equity.

The new group will be headed by Ralf Nöcker and Philippe Vienot, who previously held similar roles in Asset Finance at Nomura International. Nöcker told PFE that the new group was sparked by a strategic decision within Bear to expand its commercial real estate activities on its own and on clients' behalf.

REPI will utilise high leverage and provide up to 95% of loan-to-value in the transactions, Nöcker added. The senior debt in any deal will be extended by Bear but then exited via syndication or securitisation, and the senior mezzanine portion will be sold mostly into the banking sector. Equity will be arranged with private and institutional investors across Europe.

The junior mezzanine component, effectively preferred equity, can stretch the overall financing and will be underwritten and held by Bear Stearns. REPI has an approved in-house financing facility of $100m for this. Since junior mezzanine will represent no more than 5-10% of the total deal, it effectively provides REPI with the means to complete up to $2bn of real estate acquisitions in the first instance.

"We have a lot of flexibility in how we structure this," Nöcker told PFE. "The ability to tap into the syndicated market and to hold junior mezzanine makes us different from all the other players on the street."

Bear's REPI group will complement its recently established commercial mortgage conduit, run by Adam Toft who was recruited from Standard & Poor's earlier this year. The CMBS group priced its first securitisation in July, the Ursus transaction. Nöcker said REPI would work closely with the CMBS group when securitisation was selected as the preferred exit.

REPI will seek transactions with asset values of €100m or more, and will place particular emphasis on high-yielding and operational property assets in such industries as leisure, retail and health care. It would not be active in the non-performing loan business, Nöcker said, but would be interested in looking at transactions involving sub-performing assets. pfe

Spain vulnerable to sudden drop in house prices - Standard and Poor's

The Spanish housing market could see a significant sudden fall in prices that could dent consumer confidence, and residential price growth in other countries has also slowed sharply, according to a new report on European housing markets by the Standard and Poor's rating agency.

Spanish house prices have risen about 140% since 1997, with annual home price inflation hitting 17.2% at the end of June and running at around that rate for several years now. Price growth has been matched by a boom in building. Last year, Spain saw a record 700,000 more new homes coming onto the market, more than in Germany and France combined.

The S&P report says the housing boom is fuelled by immigration growth, more women entering the workforce, plus low interest rates. It says a cooling-off is long-overdue.

Jean-Michel Six, chief European economist at S&P, told the Financial Times however, "We're not predicting a hard landing... Our concern is that Spain has not yet shown the same signs of a slowdown that we are seeing in countries such as the UK and France."

The S&P concerns echo those of European central bankers. Jaime Caruana, governor of the Spanish central bank and a member of the European Central Bank council, warned recently that domestic house prices were about 20% over-valued.

The report chimes with a similar conclusion from the OECD in spring last year that housing prices could fall suddenly and sharply in Spain over the medium term, i.e. in two or three years. The real estate market has been an issue in Spain since the start of the decade. The OECD has also warned against offering further incentives for future house buyers and suggested the Spanish government should introduce alternative policies such as rent subsidies for low-income families.

Spanish Finance Minister Pedro Solbes has said however that he did not expect a sudden fall in housing prices.

PROPERTY FINANCE EUROPE - *BULLETIN BOARD*

Wednesday-Thursday 28-29 September 2005
Information Management Network (IMN) German and Northern European ABS including the inaugural Summit on German Non-Performing Loans, Hamburg

Speakers include: Michael Weller-Clifford Chance, Hans-Jürgen Fritz-ABN Amro, Markus Schaber-Deutsche Bank, Stefan Krauss-Hengeler Müller, Detlef Scholz-Moody's, Hugo Doswald-TXS, Matthias Renner-WestLB, Nicolaus Trautwein-Commerzbank, Susanne Matern-Fitch, Jens Rinze-Lovells, Torsten Althaus-Standard & Poor's, Dieter Glüder, KFW Group, Hartmut Bechtold-True Sale Intl., Ulf Kreppel-White & Case, Ulrich Lotz-Deloitte & Touche, Christoph Hultsch-Ernst & Young, Wolfgang Richter-Eylaw Luther Menold, , Bjoern Reinecke-Volkswagen Bank, Jens Lillelund Jørgensen-HSH Nordbank Copenhagen, Gunther Plohr-HSH Nordbank, Markus Reule-Royal Bank of Scotland, Andreas Schenk-Württemberger Hypo, Katie Hostalier-Commerzbank, Dagmar Schemann-Teuber-ABS+MBS Consulting, Usman Ismail-Lewtan Technologies, Caroline Junius-FSA. More information at www.imn.org.

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Thursday 29 September 2005
Les Echos 13th Annual Conference on real estate investment in Neuilly sur Seine

The 13th annual conference will focus on the most successful strategies in the commercial property sector and the positioning of investors in regard to the opportunities on offer.

Speakers include: Maurice Gauchot-CB Richard Ellis Bourdais, Laurent Ternisien- IPD France, Philippe Tannenbaum-Eurohypo, Paul Koch-ING Real Estate, Jean-Francois Ott-Orco Property, Joaquin Rivero Valcarce-Metrovacesa, Pierre Vaquier-AXA REIM France, Bruno Keller-Eurazeo, Eric Adler-Tishman Speyer, Alain Brochard-ASPIM, Anne Florette-RFF, Jean-Pierre Lourdin-Min. de l'Économie, Jean Luchet-Accor, Struan Robertson-Morgan Stanley. More information, email: achatellier@lesechos.fr

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Thursday-Friday, 29-30 September 2005
EPIC - European Property Italian Conference is organising its conference "Painting by Numbers", in Rome.

Speakers include: Carlo Borgomeo BAGNOLI FUTURA, Marco Causi COMUNE DI ROMA, Ugo De Bernardi CITYLIFE Massimo De Meo BENI STABILI, Maurizio Grilli CORDEA SAVILLS, David Ingram PROPERTY & PORTFOLIO RESEARCH, Jeremy Kelly JONES LANG LASALLE, Bill Kistler ULI EUROPE, Arjan Knibbe UBS INVESTMENT BANK, Pietro Malaspina SONAE SIERRA, Mauro Mancini AM DEVELOPMENT ITALY, Mauro Mancini METRO COMMERCIALE, Gianluca Marcato UNIVERSITY OF READING, Aldo Mazzocco BENI STABILI, Daniela Percoco NOMISMA, More information at www.epic.it.

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Monday-Wednesday 10-12 October 2005
EXPO REAL 2005, 8th International Trade Fair for Commercial Property, New Munich Trade Fair Centre

Premiered in 1998, EXPO REAL has become a central platform for investment, business and real-estate projects in Europe. About 1,400 exhibitors from 30 countries are scheduled at this year's fair. The events program focuses on the latest trends and innovations in the real estate market, and there is an extensive conference programme, broken down into five forums. More information at www.exporeal.net/id/8026

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Monday-Tuesday 17-18 October 2005
First CMSA-Europe Conference, Brussels

The first the European chapter of the Commercial Mortgage Securitisation Association, CMSA-Europe, conference will focus on educational seminars, which will complement the conference program. Speakers include: Hans Vrensen-Barclays Capital, Charles Roberts-Moody's, Ron Miao-Citigroup, Clive Bull-Deutsche Bank, Holly Hammarstrom-European Credit Management, Ronan Fox-Standard & Poor's, Scott Goedken-LNR Partners. More information at www.cmbs.org

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Wednesday-Thursday 9-10 November 2005
German Distressed Property Risks and Opportunities, Berlin

The US-based PACT conference on risks and opportunities in German distressed property. Discussions focus on non-performing mortgage loans, housing portfolios, exit strategies and liquidity sources for a funds market in transition, sources of debt capital in distressed acquisitions and the potential that G-REITs may introduce initiative into Germany's property market.

Speakers include: Steve Williams-GMAC Commercial Mortgage, Chad Pike-Blackstone, David Abrams-CSFB, Quasim Abas-Citigroup, Matthias Moser-Fortress, David Teitelbaum-Cerberus Deutschland, Rainer Zitelmann-Berliner Immobilien, Barbara Knoflach-SEB Immobilien, Peter Starke-Aengevelt Immobilien, Brigitte van der Jagt-Buitink-CBRE Investors, Jonathan Paul-Rockpoint, Raffaele Lino-DTZ Zadelhoff Tie Leung, Kingsley Greenland-Debt Exchange. More information at www.pactnet.net.

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Tuesday-Wednesday 15-16 November 2005
IMN Sixth Annual European Real Estate Opportunity & Private Fund Investing Forum, London

An educational and networking event; over 700 delegates attended last year. More information at http://secure.imn.org/

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The PFE Interview: Louis Hagen, German Pfandbrief Association

Pfandbrief finds growing pan-European echo as Germany considers ways for foreign banks to issue against non-German assets

The basic concept of the German Pfandbrief, its asset, cover pool and investor security safeguards, is taking root in many countries in Europe even while Germany is investigating ways for foreign banks to efficiently qualify non-German assets for funding via Pfandbrief, says the head of the European Covered Bond Council.

Louis Hagen, also Executive Director of the Association of German Pfandbrief Banks (vdp), told PFE in an interview that discussions with colleagues from 22 European nations showed that most countries have already or are now considering putting in place secondary legislation governing the asset pool and various investor security issues underlying covered bank bonds.

Louis Hagen says many EU nations considering covered bond law

This is a key issue. Three years ago, British banks, led by HBOS, started issuing securities called covered bonds - backed by mortgage assets - though transactions provided security only via UK insolvency law. The German Pfandbrief, originated in the 18th century, is governed by strict secondary legislation clarifying investors' claims on the real estate loans and other facets of the pool. Mortgages in the pool may be no more than 60% loan-to-value, for example. The legislation also provides rules for the securities and specifies that the transaction must be monitored by the financial supervisory authority.

Unlike securitised mortgage-backed securities (MBS), the asset pool of a covered bond is not held by an independent, bankruptcy-remote special purpose vehicle, but remains linked to the underlying issuing institution. Germany, with 72% of the €1.4tr European covered bonds in issue, has a special interest in preserving the Pfandbrief's special status.

"It is not a case of the UK instruments not being secure, but if we want to build an asset class, it can't be done if different institutions from different countries all have their own definition of what a covered bond is," he said. Given the market acceptance of the UK covered bonds, which have been rated AAA by all three major agencies, Hagen and others saw that the Pfandbrief and other similar securities in Denmark and France would be undermined unless some standardisation guidelines were agreed upon.

At the beginning of 2003 he therefore brainstormed with representatives from Denmark, Switzerland, France and Luxembourg as to how to create an asset class with common standards and attract as wide an investor group as possible. The result was the establishment of the ECBC in Brussels last November under the auspices of the European Mortgage Federation (EMF). ECBC has just signed up its 70th institutional member.

"The entry of the English without a specific law but only general legislation for covered bonds shook up the whole conceptual foundation," Hagen said. "Our thought was to make sure that this instrument is a secure investment. As an investor in a covered bond I should have no reason to worry that I won't get my money back."

The legislative environment for covered bonds also influences the investor's view. The European Union's UCITS (Undertakings for Collective Investments in Transferable Securities) directive, along with coming Basel II guidelines, specifies that the risk weighting for holding bank bonds secured by cover assets and not governed by secondary legislation is 20%, double the weighting on legislated products. The British Financial Services Authority (FSA) is therefore now evaluating a regulatory framework for UK issuance.

In turn though, many non-German banks have examined the feasibility of either buying banks or setting up subsidiaries in Germany to issue Pfandbrief and achieve the most efficient financing of parts of their non-German asset base. Hagen said the topic came up again at the vdp's annual Pfandbrief Forum on Thursday evening in Frankfurt.

"They say, 'we have a lot of assets in the UK or the Netherlands', for instance, and 'how do we get these assets transferred to Germany to qualify for the cover pool of a Pfandbrief'... The problem is that this is very time consuming and difficult," he told *PFE*.

Many foreign banks have dropped the idea. However, German banks have financed foreign mortgage assets through Pfandbrief by ensuring that the origination procedure has conformed with domestic ussuance regulations. The VDP is considering if there is a way to facilitate 'qualifying' previously held non-German assets for Pfandbrief after the fact.

"We are giving some thought at the moment how we can solve this situation," he told PFE. "It may be possible to make asset transfers from outside Germany into the balance sheet of a domestically-registered bank using some kind of trust structure."

Even considering the various different national approaches, Hagen sees huge potential for the issuance of covered bonds in Europe in general. Many UK institutions such as Nationwide, Royal Bank of Scotland, and Abbey National have not ventured to follow the lead of the first issuing institutions HBOS, Bradford & Bingley and Northern Rock.

As well, Italy is likely in early 2006 to bring into effect covered bond secondary legislation that is not dissimilar to the German construction for the Pfandbrief. Portugal is also working on a similar law. "Around 20 countries are saying we need our own law for this. Only the UK and the Netherlands see it differently," Hagen said.

At home, the law governing Pfandbrief underwent a dramatic change on July 19, when the Mortgage Bank Law was abolished, doing away with the special mortgage bank status requirement and opening up issuance to any bank that qualified under new guidelines. Several major institutions, including WestLB and Hypo Real Estate, have either sold off or merged their mortgage bank subsidiaries into the group.

"The way this has run has been really optimal," Hagen said. The proof was the complete lack of reaction from the market in terms of Pfandbrief valuations; spreads have continued to compress. "Investors have perceived that the new Pfandbrief Law provides the same degree of security as the old law, and is perhaps even better." pfe

The general feeling among domestic economists is that housing prices will start coming down in the new urban areas that have sprung up around large towns and cities during the building boom of the past few years. But housing prices in coastal areas and consolidated urban areas are unlikely to fall.

PFE COMMENT: For several years now, economists at the ECB have fretted over the soaring prices of housing assets in the euro area, predominantly of all Spain. This kind of 'asset price inflation' they see as potentially cementing in place a more general inflation, mainly via the mechanism of boosting consumption and credit growth. As usual, the ECB has been wrong about this - or more precisely, miscalculated to the extent that many other countries, most significant of all Germany, have remained completely uninfected by rises in residential prices elsewhere on the continent.

Dekabank restructures ailing property funds, boosts valuation reserves to €1.1bn

The central investment bank of the German savings bank system, DekaBank, is to drastically reduce the size of its domestic real estate funds, boost to €1.1bn the balance sheet liquidity set aside to support them for the next four years, and offer retail investors a performance guarantee.

The measures are designed to stabilise Deka Immobilien Investment's open-end funds, which went into crisis last year as a result of rising vacancies and falling yields. This was exacerbated by a valuation scandal which resulted in three bank officers being fired. One was accused on accepting a bribe and is under fraud investigation.

Redemptions reached €50m per day at one point and the group has had to pump in €1.5bn of extra liquidity so far. Chairman Axel Weber was forced to step down in March as a consequence.

Incoming Chairman Fritz Oelrich said recently that DekaBank real estate funds continue to experience capital withdrawals at the rate of €1.5-€3m per day, a rate of €300-400m annually, but that this is manageable. "No investor is going to lose any money. That is our clear declaration," he told a news conference in mid-September,

"In the short term we want to regain the trust of our investors and stabilise the funds, and medium term we intend to restructure the funds and boost their performance."

Deka will add up to €400m to the €700m already set aside in valuation reserves for its five property funds over the next four years. This results from revised assumptions of an average 10% decline in annual rental income on the domestic portfolio through 2009, and a re-lease quota of 80%. The liquidity injection is designed to guarantee investors at least a 2% gross return over the period - rising to 4% net for domestic investors, given existing tax incentives.

Reinhardt Gennies, newly appointed Chief Executive of Deka's real estate funds, said some €930m of property had been sold off, without significant loss.

However the group itself has acquired much of the portfolio, including paying €472m in March for the now-infamous Skyper, a 39-storey skyscraper in Frankfurt which has been vacant since construction was completed last year. DekaBank may use the property itself as well as rent out additional office, residential and retail space in it. Skyper also includes a historically-protected villa that dates back to 1915, and a six-floor residential and commercial building.

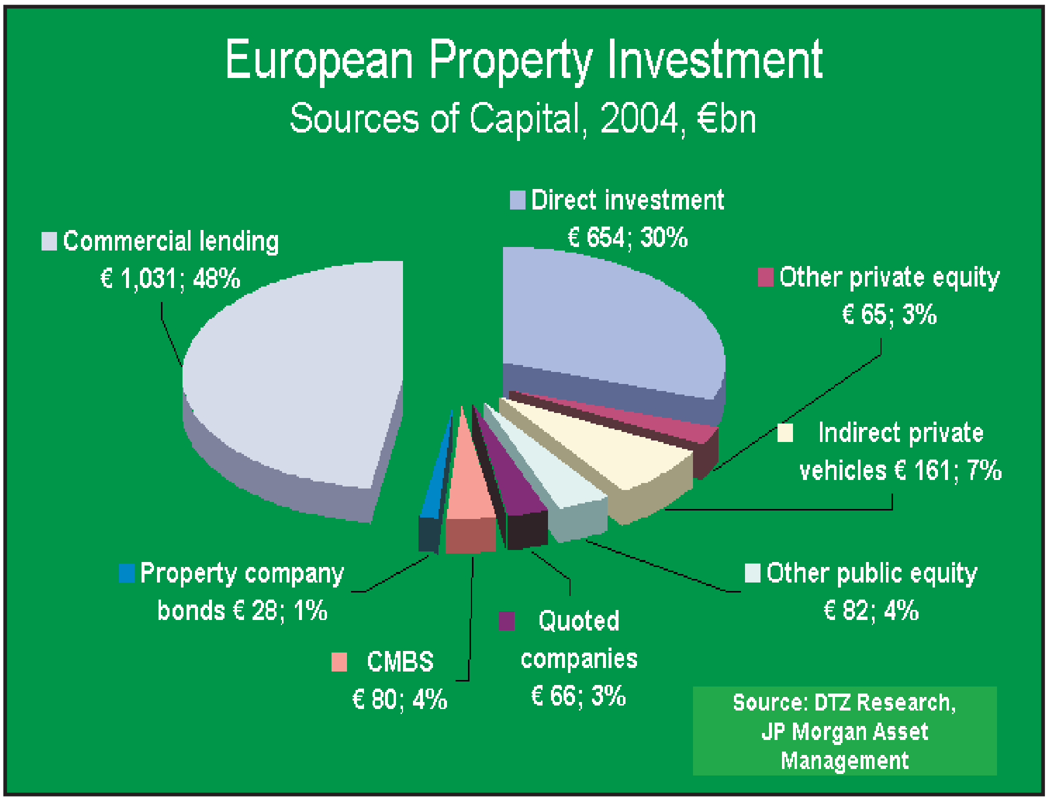
Gennies said the asset sales are designed to halve the domestic funds' portfolio to between €2.5bn and €3bn in assets. The funds would henceforth adopt a conservative leverage structure and restrict individual object size to €30-€100m. They would diversify geographically in Germany, diluting the current 40% asset base in Frankfurt.

Deka would monitor the development of Real Estate Investment Trusts (REITs) in Germany but had no intention to place fund assets in such a vehicle for onsale into capital markets, Gennies added. If they are permitted in Germany however, REITs would help by prompting the funds community to improve reporting procedures. "The branch has some catching up to do in terms of transparency," he said. "We at Deka also have some catching up to do in transparency." pfe

Danish Kristensen Properties aims at 30,000-apt. German portfolio

The Danish real estate company Kristensen Properties, based in Aalborg, said it has paid €154m to purchase a portfolio of 6,000 apartments in the German cities of Salzgitter and Kassel.

The acquisition is the second such transaction for Kristensen. It bought a portfolio of 3,700 apartments in Kiel for €125m,



which together with an investment in 30 retail stores in pedestrian zones of large and medium-size cities, takes their total investment in Germany up to €350m.

Kristensen said it would continue to supplement this, expecting to purchase another 6,000 German apartments by year end. It maintains the ultimate objective over the next few years of buying around 30,000 apartments, and also plans a number of acquisitions in the German commercial property market.

Kristensen is the first Danish fund to venture into the German property market in recent months. Established in 1998 by Thorkild Kristensen, its main offices are in Aalborg and Copenhagen. It set up a subsidiary office in Riga in 1999, and recently opened a subsidiary office in Berlin. pfe

Adler Real Estate sold from insolvent Agiv to US investor Heikenfeld

The insolvency administrator of German property company Agiv AG has sold its 89% stake in the Frankfurt-based developer Adler Real Estate AG to a company backed by US investor John Heikenfeld, the Immobilien Zeitung newspaper reported.

Heikenfeld, president of the Atlanta-based Remas Corp, had already been involved with the Agiv group. Working with former Agiv Chairman Andreas Helwig, he offered German investors participations in Atlanta properties through the company Transatlantica Partners.

Adler, which has equity capital of €10m, posted group net loss of €8.2m for 2004, following a loss of €35m in 2003. In the first half of 2005, it showed net profit of €1m, the newspaper reported. Adler owns development lots in Frankfurt am Main, Offenbach, Berlin, Munich, Saarbrücken and Amsterdam.

Adler Chairman Christian Bock will step down from the board following the restructuring, leaving director Axel Harloff to run the company. Heikenfeld, who has invested in Adler via the holding company Real Futura AG, will join the Adler supervisory board. pfe

German mortgage broker Interhyp starts roadshow for IPO this month

The German independent mortgage broker Interhyp AG has begun a roadshow ahead of its stock market flotation, with the aiim of achieving a listing on the official market in Frankfurt by the end of this month.

Current equity capital of €5.8m will be boosted to €6.5m ahead of the flotation, Interhyp-Chairman Robert Haselsteiner told the Immobilien Zeitung newspaper. The uncertain outcome of the federal election was unlikely to have any significant impact. "We can continue our success irrespective of whichever government is in power," he said.

Interhyp, which provides distribution network via Internet and telephone, originated €601m of residential mortgages in the first six months of 2004, and in 2005 expects to reach volume of €2bn for the full year. Its objective is an annual €10bn of mortgages originated within five years.

Founded by former Goldman Sachs bankers Haselsteiner and Marcus Wolsdorf in January 2000, Interhyp received start-up venture capital funding of €14m from Earlybird Venture Capital and the 3i Group.

The company plans a marketing offensive next month to significantly expand its current base of 800 brokers and agents. "In contrast to the traditional high street bank - the internet-based mortgage broker is a future model in the financial services market," Haselsteiner said last year. pfe

ING joins line of recent UK offshore listed trusts, with pre-REIT vehicle

ING Real Estate Investment Management said it will in October launch an initial public offering of an UK offshore property trust based in Guernsey, with a portfolio consisting of British commercial properties valued at about £490m.

The new company, ING Real Estate Income Trust, will target a gross annualised dividend yield of 6.25%, and has holdings in offices (40%), retail and retail warehouses (30%), industrial (22%) and leisure (8%). Chairman and Chief Executive Robert Houston said in a statement, "The launch will realise our long-standing ambition to create an income-focused real estate investment vehicle which will be open, for the first time, to all investors."

The IPO takes the market capitalisation of the UK offshore quoted property trust sector to about £3.5bn, and it joins a stream of recent listings, including those by Teesland, F&C and Insight. The tax efficient offshore status of trusts means they can tap into the strong income yield from real estate rents and deliver relatively dividends to investors averaging between 5.4% to 6.3% - far in excess of the average 2.3% yield of the UK's conventional property companies.

The trusts' shares trade at a premium to their net asset value (NAV). Onshore listed property firms normally trade at a discount to NAV, largely due to taxes. Analysists liken them to an early example of a Real Estate Investment Trust (REIT). Onshore REITs could be introduced into Britain in 2006 and are forecast to at least double the size of the quoted property sector over the next five years if they go ahead.

"The offshore listed property trusts are REITs in all but name," Elliot Caldwell, fund manager of ING Real Estate Income Trust told the Reuters news agency. British commercial property has produced higher investment returns than either UK equities or sovereign bonds (gilts) over most recent years but have underperformed in the past 12 months.

ING REIM UK is part of Dutch financial services company ING, which has €37bn in property assets under management. pfe

European securitisation issue volume reaches record in second 2005 quarter

Second quarter issuance in the European securitisation market reached its highest quarterly total ever and is on track to surpass the record €244bn issued in 2004, says European Securitisation Forum (ESF).

Of the total, securitised debt made up for €99bn, nearly twice the volume in the first quarter and surpassing the quarterly record set in 4Q03. Issuance in 1H05 totalled €148.7 billion, 18.3% higher than the same period a year ago.

The European Central Bank's accommodative monetary policy was the driving force in maintaining higher issuance volumes. European economic growth is expected to improve in the second half, though this outlook is tempered by the effect of the run-up in oil prices and any fallout from recent geo-political events. Credit fundamentals have held up well and should help drive securitisation growth to record levels through the remainder of the year.

MBS new issue volume totalled €94.7bn in the first quarter, a 35% increase vs 1H04. Spreads widened from 6 basis points at the beginning of the quarter to 10bp. Spreads of Italian residential mortgage-backed securities (RMBS) also widened 5bp to 14bp before tightening. Prepayment spreads in the Italian mortgage market may have contributed to the wider spreads during the quarter.

RMBS accounted for nearly 47% of total securitised issuance in 1H05 and continue to dominate the European market, although market share has shrunk recently with the growth of other collateral sectors. Commercial mortgage-backed securities (CMBS), the second largest issuance sector, accounted for nearly 14% of total securitisation volume over the first half-year. CMBS increased to €21bn in 1H05, nearly seven times the issuance volume in 1H04, and now represents more than 20% of the MBS market. This rapid growth is due to conduit lenders providing cheaper funding than traditional lenders. Competitive pricing between banks has also enabled more deals to come to market.

In the first half, new Pfandbrief issuance increased by 12.5% over the previous year to €133bn. German Pfandbriefe totaled €84.5bn, up 12% from a year ago, and continued to dominate the sector, accounting for more than 63% of total issuance. A number of countries accounted for sizable covered bond issuance volume. Spain issued €31bn of covered bonds in 1H05, up 41% from 1H04, while French issue volume was €9bn, down 14%y/y. pfe

Fitch launches delinquency index for Spanish RMBS transactions

Fitch Ratings has launched a delinquency index for all Spanish RMBS transactions that are 12 months seasoned and beyond, saying that the sector is now mature enough for the development of objective performance measures and the index will benchmark the performance of the mortgage loan delinquency rates.

The aim is to provide investors with an insight into sector trends as well as a means of easily identifying performance that is better or worse than average via comparison to an index. The index is based on loans in arrears by 60+ days. These are weighted according to the total current rated mortgage balance and are adjusted for deal seasoning. The index highlights that the performance of Spanish RMBS transactions varies greatly across the 32 deals included.

Fitch said Spanish RMBS transactions have continued to perform extremely well in 2005, favoured by Spain's sound economic climate, low unemployment, which has now stabilised at around 10%, and the progressive decline in interest rates since Spain's entry into the European Monetary Union in 1996. pfe

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Timo Tschammler is transferring to London from Paris as director of the **DTZ** international investment team. He was previously with **Atisreal** in Paris having handled the €450m **Crystal Park** sale for **KanAm...** As part of the **SEB Asset Management** reorganisation in Frankfurt, **Matthias Bart** is joining **Pontus Bergekrans** and **Thomas Nahmer** in the management of SEB Invest as of 1 October 2005... **Choy-Soon Chua** will be strengthening the management of **SEB ImmoInve**st with effect from 1 January 2006, joining **Barbara Knoflach** and **Axel Kraus**... **Henderson Global Investors** is expanding its European property capability with the appointment of **Andrea Orsa** as head of the property team based in Milan, Italy.... **Patrick Schmitz-Morkramer**, formerly executive director in German Investment Banking at **Lehman Brothers** in London has joined the supervisory board of **Vivacon AG,** replacing **Marco Meyer**.... **Tobias Jauch**, formerly with **Bauland GmbH**, is joining **Vivico** in Munich as marketing director... **Burkhard Lohr** has been appointed to the board of German builder **Hochtief** for five years starting 1 January 2006, replacing **Hans-Georg Vater** who is retiring.. **Peter Noé** will assume responsibility for Corporate Finance and Investor Relations... **Bernd Lüthje** has been appointed chairman of the state owned housing association **LEG NRW**... German builder **Züblin** has expanded its group management and appointed **Barbara Stuber** to the newly-created post of COO...**Bo Ljunglöf** has joined **Aberdeen Property Investors** as a director with responsibility for new product development. He previously served as managing director for **Skandia Liv Fastighetsinvesteringar AB** and Chairman of **Diligentia**.pfe