

European mortgage rate fall to record lows likely to be brief

European mortgage rates fell to record lows in late September but this is likely to be short lived as the ECB warns it will hike soon. **PAGE 3**

Pan-European home loan market faced with obstacles

Significant difficulties remain in forming a uniform pan-European residential mortgage market, experts at Eurocatalyst Live in Rome conference say. **PAGE 4**

German mortgage special servicing picks up pace

The rapid development of NPLs in Germany has boosted development of special servicing, and several new players are entering the sector. **PAGE 5**

Spain's Restaura continues expansion in French market

Spanish-based Grupo Restaura is investing in a residential apartment block near the Place Vendôme in Paris, extending its new policy of internationalisation. **PAGE 9**

Kingsley Greenland The Debt Exchange

The PFE Interview: **PAGE 8**

French Nexity group announces 19% rise in 1H05 turnover, doubling of net profit

The French listed property development group Nexity announced a 19% rise in first half 2005 turnover to €767m compared to 1H04, and said it expects growth of 10%-16% over the next two years. Group consolidated net profit soared to €74.3m, an increase of 109% compared to the same period last year. Profit per share rose 82% to €2.49.

The Nexity stock price has risen 67% in 2005 and was last trading at €44, near its all-time high. The company was acquired in 2002 by Lehman Brothers from the Vivendi Group. With participation also of Morgan Stanley, Lehman repositioned and refinanced Nexity twice before taking it public last October. Lehman sold 50% of its holding in the initial public offering, and placed the remainder into the market within the next six months. **SEE PAGE 9**

JP Morgan and Sal. Oppenheim form partnership to advise on REITs

The international investment bank JP Morgan and Cologne-based private bank Sal. Oppenheim have established a partnership in Germany to advise their clients on property investment and particularly Real Estate Investment Trusts.

The two banks announced last week that the probability of German legislation being enacted to allow REITs will sharply increase investment opportunities.

Oppenheim investment bank head Dieter Pfundt said the REITs market in Germany could reach a volume of €50bn-€60bn by 2010, and an IPO as a REIT could be considered for around 50 existing companies. The first attempts to gain mandates for REIT flotations have already begun, he said, and lead times were in any case around 12 months.

Focus of the activities will be companies wishing to bring residential or commercial property into a REIT, as well as investors looking to bring REITs shares into their portfolios. Pfundt said Oppenheim has 10 full-time staff employed in real estate investment banking in Germany.

Karl-Georg Altenburg, JP Morgan's German investment banking head, said the banks assumed REITs would start in 2007. One major source for new REITs would certainly be corporate commercial property where 75% of the real estate was owned, compared with around a quarter in the US. There was no reason this should not evolve similarly in Germany, Altenburg said. IVG Immobilien and Deutsche Euroshop were prime candidates to transform into REITs when the legislation is passed.

Oppenheim Managing Director Wolfgang Schäfers said insurance companies such as Allianz, Munich Re and AMB Generali are likely to become the largest investors in REITs, and will convert a lot of their current direct real estate holdings into indirect, listed REITs to gain liquidity in the investment.

Allianz and Munich Re each have around €20bn invested in property, with AMB Generali at €6bn-€7bn. Some 75% is in the form of direct investments. pfe

PFEUROPE.DE

Expo, Expo, Expo Real!

This week's highly fascinating real estate exhibition in Munich should give us a chance to rub shoulders with a lot of movers and shakers in the industry and that, on your behalf, we fully intend to do! Expo Real has become the largest of the professional fairs in the European property sector, and has a reputation for being, shall we say, slightly more focused than the French-run MIPIM in late spring. Word has it - e'en though we were not there - that MIPIM has become somewhat hijacked by huge, breathtaking and glamorous projects - underwater hotels, kilometre-high skyscrapers and the like.

Meanwhile **Property Finance Europe** battles to cover the ground and bring you information and analysis you need on the European continent. Developments and events continue at an incredibly hectic pace now everyone is back at work after the vacation period. We are growing too, and many thanks to those who have subscribed so far despite technical problems on the website. We continue to seek your support in subscriptions and advertising to finance our effort to examine continental European real estate financial strategies for you.

European real estate stocks up 4.2% in September, slightly outperforming global

Global real estate shares rose in September by 4.1% in euro terms, underperforming stock markets as a whole, even if European property stocks slightly outperformed the global property stocks performance average, the European Public Real Estate Association (EPRA) said in its latest monthly report.

By comparison in the month, global bonds lost 60bps and the global equity market advanced 5% as a whole.

On a real estate regional basis, Asia added 6.8% and North America added 2.7% in euro terms - compared to 4.2% in Europe. Year to date, the global real estate share index has risen a firm 24%, while the EPRA/NAREIT Europe Index is up 23%.

Of the major countries in Europe, Sweden real estate stocks led the way with an increase of 5.3% in September - but after a very poor month in August. French property shares added 3.6%, and the Netherlands ended the month just behind its Eurozone neighbour at +3.5%. The UK (+3.4% in September) continues to steady itself on positive ground year to date (+8.2%), EPRA said.

Broad European volatility stands at around 12%, the lowest of the three global regions.

Among European real estate companies, Denmark's TK Development topped the best performers in Europe and also on a global basis - adding 31% in value during September.

"Over the past five years, TK has given investors a rollercoaster ride," EPRA said. Greek developer Babis Vovos, for which Deutsche Bank has recently initiated coverage, reacted strongly in September, up 20%. This was closely followed by Italy's Risanamento for a rise of 19%.

Another Danish stock, Sjaelso Gruppen, appeared in the European top five, adding 18% in euro terms during September. Town Centre Securities, which won EPRA's Best Performer award at its annual conference in Paris in September, jumped 17% on the back of positive results.

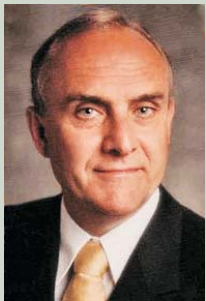
"On a corporate activity level, things are fairly quiet in Europe," EPRA said in a news release.

The biggest news is the Dutch BAM Groep's approach to AM with a possible takeover offer, said to be worth as much as €939m. BAM is seeking to add a business with earnings growth faster than its own. AM was up 3.1% in September.

Sal Oppenheim and HSH Nordbank plan to sell a combined 10% of the outstanding share capital of IVG Immobilien, Germany's largest listed real estate company (See elsewhere in this issue). The free float of IVG will remain at 75% in the FTSE EPRA/NAREIT Global Real Estate. IVG Immobilien lost 64 bps during the month.

Switzerland's Züblin Immobilien paid a special dividend of CHF 0.45 on 12 September. In Sweden, Kungsliden exercised a 1 for 5 rights issue at SEK 132, ex-date 21 September. pfe

A splendid time was had by all. We are referring to Eurocatalyt's Live in Rome conference as well as IMN's German Securitisation and NPL conference in



Hamburg. But we are worried about Italy. Is it the fact of having a government that remakes legislation to assist the industrial interests of its prime minister or is it the scandalous behaviour of the central bank

governor who openly flouts European Union guidelines, refuses to resign, and continues to be feted by his esteemed and respected peers in the European Central Bank council? To say nothing of being answerable only to the very Italian banking community he is tasked with monitoring. Are we missing something here or is this not the biggest conflict of interest we have seen in recent years in the upper echelons of European officialdom? Actually, we are unlikely to be missing much: opinion on the situation of Banca d'Italia Governor Antonio Fazio is fairly universal - among the private sector at least.

None of the predicaments in Italian high office is helpful to the natural national propensity to seek workarounds and

fudges where clear and transparent rules are patently needed. Why have rules when those at the top don't seem to take any notice? We need not mention the proliferation of tourist rip-offs in Rome: €13 for two cups of coffee and an orange juice indeed! However, the rather more serious issue of covered bond legislation, Article 26, that is not really legislation... well, sort of is... depending on which way you look at it. Whether or not one accepts the German lobby for strict secondary legislation above and beyond Basel II requirements, or the UK extreme that less is better - or even the new UK FSA position that some marginal legislation is needed on the cover pool - it will be difficult to standardise anything unless Italian authorities are prepared to clarify the position on their own covered bond funding. Still, splendid was indeed the time. Roma in Settembre. The city remains wonderful, eternal, enigmatic, breathtaking. La vite e dolce. Hamburg? Different kettle of fish. Something of a squeeze, we found, for IMN to put the traditional September German and Northern Securitisation agenda together with its first Non-Performing Loans conference. There were interesting insights from both series of sessions, with the only slight disadvantage that one couldn't be in two conference halls at once.

Our good friends from France's BusinessImmo magazine/portal are warning quite strongly these days on the disconnect between the frenetic investment appetite for Paris office and other commercial property, and the flat to negative rates of rental occupancy. "The good rate of demand in place conceals a (utilisation) net absorption rate that is zero and may even be negative... and rental levels that are still under pressure, even if the owners are holding to the illusion by maintaining their face value," writes BusinessImmo Managing Editor Gael Thomas in the latest edition. One article also quotes Colony Capital's Sébastien Bazin saying the current risk - i.e. the discrepancy between investor and occupancy/user demand for commercial property - is a cause for concern. "This risky behaviour seems to be widespread among those who have been present in our market for no more than 18 months, or even less," Bazin says. "The absence of experience and exposure to a complete cycle can, I'm afraid, quickly lead them to make errors and thereby can negatively prejudice the entirety of the sector in calling into question our credibility as investors." Newcomers to the highly rated French market, be warned!

Allan Sanderson, editor@pfeurope.de

Merrill buys NPL portfolio from takeover candidate AHBR

Merrill Lynch said it has bought a portfolio of non-performing loans with a face value of €129m from Allgemeine Hypothekbank Rheinboden (AHBR), the mortgage subsidiary of the Cologne-based BHW building building society, and remained interested in taking over the entire bank.

Merrill gave no details of price but said the portfolio encompassed residential and commercial properties in Germany. Ulrich Dunkelberg, Head of Debt Marketing for Merrill in Germany, told the *Börsen-Zeitung* newspaper, "This transaction is a first portfolio that was able to be taken out of the asset base fairly quickly." Merrill remained interested in purchasing further portfolios from AHBR, was tracking the selling process for the bank as a whole "with great interest, and was interested in purchasing the bank.

AHBR has been up for sale by BHW since June, and is the object of purchase interest from the likes of Lone Star Funds, Cerberus, a consortium of investment interests of Georges Soros and Christopher Flowers, as well as two other unnamed institutions.

Dunkelberg said however that Merrill was not involved in the due diligence currently taking place for the bank, even if it had attained a good overview during its negotiations for the portfolio acquisition. AHBR assets were entirely saleable - something that could not be said for credits held by all banks.

The NPL business was still in an early stage in Germany, he added, both in primary acquisition of portfolios as well as the business of trading them on. Merrill had been involved in several transactions in Germany, but has only made public one so far - a joint acquisition with Lone Star of a €1.4bn nominal value portfolio from Dresdner Bank. pfe

PFE COMMENT: The BHW/AHBR sales process continues to rumble on. Certainly the holdup is connected with the hiatus in Germany's political process, still undecided as we write. Corporate affairs in Germany - and France - take their lead from politics much more than in the disintermediated Anglo-Saxon environments. And the Postbank - still partly held by the state-owned Deutsche Post post office - is the major minority shareholder in, and bidder for, BHW - while two trades' unions groups comprise a very solid majority shareholding. This is of course a recipe leading not necessarily to disaster but certainly to long prevarication while all sides look to Berlin in order to ascertain the political framework for such corporate decisions over the next four years of the German legislative period. For 'four' of course read 'two' in the case of a Grand Coalition, which looks inevitable.

Calpers raises allocation to international property, and non-core

The world's biggest pension fund, the California Public Employee's Retirement System (Calpers) this summer raised its asset allocation to real estate, sharply boosted the proportion of non-core property within this and, for the first time, decided to enter overseas property markets.

Calpers controls \$190bn on behalf of 1.4m members. Its intended two-point increase in property investment, to 8%, means the fund intends to allocate around \$15bn to property, rather than some \$11bn. Within this, non-core real estate holdings will rise to 55.2% vs the current 32.1% - to include investment in housing, care homes, forest land and vineyards, the *Financial Times* reported.

The shift is in line with predictions from sector professionals of a general world-wide boost in allocation to property as an asset class, particularly to finance old-age care provision. Not only because of its size but because Calpers has been a leader in such issues as corporate governance and ethical investing, its decisions have wide influence in the north American money management community.

Calpers has taken profits on \$7bn of core US real estate assets and its staff is looking internationally at properties, a fund spokesman said. The FT also sees the move as part of a wider trend of cross border property investment. "Whether this is Multiplex, Westfield or Lend Lease, the Australian groups entering the UK - or British institutions such as Standard Life and Prudential investing in Europe - the race is now on for exotic, high-yield properties," the newspaper commented.

PFE COMMENT: This is good news for everyone on the European side of the pond, and certainly confirms the general tenor of comments from listed property companies officers in general and, specifically, at the EPRA meeting in September. It remains a contradiction, of course, that US capital is so keen on Europe, while German capital is investing outside the country and outside the continent wherever corporately possible.

European mortgage rate decline to record lows but likely short-lived

Mortgage rates on the European continent fell to record lows at end September but this is highly likely to be a short-lived phenomenon since the European Central Bank strongly indicated on Thursday that it will finally raise official short rates after a two-year hiatus, probably before the end of the year.

Table: German mortgage rates

In %, effective rates

Provider	5yrs	10yrs	15yrs
Hypotheken Discount	3.15	3.49	3.82
MKIB	3.10	3.52	3.83
Interhyp	3.10	3.53	3.81
Enderlein & Co	3.06	3.54	3.82
Haus & Geld	3.04	3.54	3.90
Dr. Klein & Co	3.08	3.55	3.84

Banks

Immobank direkt	3.15	3.61	3.90
Citibank Privatkunden	3.30	3.63	3.91
Postbank	3.40	3.65	3.99
ING-Diba	3.14	3.66	3.97
Saar LB	3.27	3.66	4.05

Insurances

Hanover Life	n/a	3.48	3.82
Allianz Life	3.39	3.70	4.09
Cosmos Direkt	3.29	3.72	3.97
Volksfürsorge	n/a	3.97	4.33

Source: FMH Finanzierung Max Herbst, Mano-Dienste, FAZ

The average interest rate on a German 10-year mortgage fell to a record 3.72% even while the 10-year Bund yield ducked below 3%, a level not seen since the 19th century.

However, warnings from both the European and the US central banks last week made clear they have upgraded their concerns over inflation risks. The ECB is likely to lift its rate from the 2% it has held steady since 2003, while the Fed will continue its steady tightening of policy, possibly with larger incremental rises than the 25bp increases it has been making for the last 18 months.

The Frankfurt-based FMH Finanzberatung Max Herbst said the recent low rates have been partially caused by strong supply; new bank players, credit brokers and insurance companies have entered the market hitherto dominated by savings banks.

The insurers have been particularly aggressive. "They are trying to invest their surplus cash, and with mortgage financing they get significantly more for their money than they do with an investment in bonds," FMH CEO Herbst said. Several insurers in the German market such as Hannover Life and Allianz Life offer a discount of 5bp off the mortgage rate if the borrower takes out a life insurance policy at the same time. pfe

Obstacles seen to pan-European residential mortgage market

Significant difficulties remain in establishing a uniform pan-European residential mortgage market, and these range all the way from valuation methods for underlying real estate, to differences in APR calculation and lack of uniformity in home loan funding techniques, the Eurocatalyst conference heard.

And while continental European mortgage specialists are looking to the European Commission to provide guidelines for best practice in many parts of the value chain,

UK providers are generally hoping for local barriers to be removed to allow less regulated, British-style home loan products to be offered to national borrowers in individual markets.

"Low prices, product choice, risk protection," was how Berlin-based international mortgage consultant Achim Dübel defined the main wishes of consumers in mortgage markets. "Laws are not taking into account the changes of environment, and the shifts in consumer risk," he told the conference in late September. "The regulators should also give some direction for lenders in terms of variable rate calculations."

Erik Urskov, vice-president of international business at Denmark's Nykredit, said it remains virtually impossible to introduce the highly competitive Danish covered bond funding model into other countries. Buying a local bank simply meant adopting local practices. "If you do that you play like a local bank, use the same funding, the same product, and that will not create Europe," he said.

Urskov told the conference Danish funding rules could be used for the home loan but the collateral was governed by local laws - in particular in France. "Do we want to protect national markets or create an EU integrated market?" he asked. Europe needed a euro mortgage, the so-called 26th regime.

By contrast, Stephen Knight, chief executive of GMAC RFC in the UK, said the best way to become a pan-European player was to go in, understand the local culture and then move out along the risk curve in terms of products offered. "In the UK, consumers can borrow up to 125% of LTV and have 4,000 products to choose from," he noted. The Danish system, by contrast, only offered long-term fixed rate mortgages and home loans up to 80% loan-to-value.

Manfred Westphal, of the federation of German consumer organisations, said the European Commission could usefully standardise such simple elements as the calculation of the Annual Percentage Rate and mortgage contracts which, at up to 10 pages long, were not read in adequate detail by borrowers. "We have almost no European legislation in the area of mortgage credit," he said. "Consumers would shop more across border if they knew, for instance, that the APR is calculated the same all over Europe."

Toni Moss, CEO of Eurocatalyst and a sector specialist, said the EC could make valuable suggestions in a number of areas, including appraisals and standardised right to title. But she added: "We are not going to have cross-border lending until we have international servicers. You can't have standardised funding until this happens. That's key."

European Commission representative Harsha Shewaram said the Forum group, which had studied European home loan provision, had concluded that gradual and partial integration of European mortgages can happen without EU intervention, but it was likely to be more complete if the Commission intervened. The group's conclusion led to release of a EC Green Paper in July, seeking input from the pan-European industry. A public hearing will take place in Brussels on 7 December, and this will be followed by a White Paper early next year containing concrete proposals. pfe

PFE COMMENT: A pan-European mortgage market would indeed be a good thing for EU consumers; the entry of foreign providers into national markets can only be welcomed for its ability to open up choice and market pricing. There is however no indication yet among specialists as to how Commissioner Charlie McCreevy and his staff will decide next year, following the end of the public and market consultancy process. We can only hope that the chastening of President José Manuel Barroso's strongly reformist tendencies via the lost constitutional vote in France does not carry over into an inability to act in this regard.

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 Sanderson
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 (MBIA) * Wolfgang 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)

PROPERTY FINANCE EUROPE

is published on the second and fourth Monday of every month from Frankfurt am Main, Germany. PFE is independent of investing or selling institutions. Information it contains is under copyright protection and is based on sources believed to be reliable, though their complete accuracy cannot be fully guaranteed. Neither the information in PFE nor the opinions expressed constitute or are to be construed as an offer or solicitation of an offer to buy or sell investments. PFE accepts no liability for actions based on the information herein.

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

© 2005 PROPERTY FINANCE EUROPE

German mortgage servicing picks up as cooperatives, JP Morgan enter market

The rapid development of non-performing loan trading in Germany has boosted the development of mortgage servicing. Several new companies, big and small, tied and independent, have set up, including a new company from the German cooperative banking system, and a special servicing subsidiary of international investment bank JP Morgan.

Alongside Aareal's primary servicing subsidiary Aareal Hypotheken Management and Eurohypo's Prompter, the future of both of which is highly uncertain, Lone Star Funds' affiliate Hudson Advisors was one of the first special servicers to become established to process non-performing mortgage loans, and the first to gain a rating. Proceed Portfolio Services, in which Goldman Sachs has an equity stake, has also been in the market for several years.

Earlier this month Fitch announced it had giving its second German servicing rating to another large special servicer, Servicing Advisors Deutschland GmbH, the joint venture announced in December between EuroHypo, Citigroup and GMAC Commercial Mortgage (see elsewhere in this issue).

Crown Westfalen Credit Services, a joint venture between UK rated servicer Crown Mortgage Management and the Bochum-based Westfalenbank, was established in June. Chief Executive Clarence Dixon set the objective of achieving a rating for CWCS during the current year. The Mainz-based JV between Merrill Lynch and Florida-based Ocwen Financial, Global Servicing Solutions Germany, started two years ago, is also on track to seek a rating.

Two more servicing companies have established recently, and were present at Information Management Network's annual German and Northern European securitisation conference earlier this month in Hamburg: Immofoi GmbH, a 100% subsidiary of the cooperative banking system's central mortgage bank DG HYP, and Whiteshire Debt Solutions GmbH, a direct subsidiary of JP Morgan.

Thomas Gäde, Immofoi co-managing director, said the NPL market is growing fast. German banks still have to optimise workout process, while investors in NPL portfolios, many of them foreign, lack local knowledge in processes and in the property market in general. "We think there are great opportunities for people that don't have an infrastructure, and don't have local knowledge," he told an IMN panel on NPL servicing.

The Hamburg-based Immofoi was set up one year ago and went live in March this year. It has two portfolios in workout already, one with a face value of €150m from the cooperative banking affiliate Münchener Hypothekenbank, and a second that is genuinely third-party - around the same book value from the international investment bank Lehman Brothers.

Dixon noted that building special servicing companies was highly resource intensive unless the acquiring institution had or was intending to achieve a high volume of NPL portfolio purchases. JP Morgan, Merrill Lynch and Lone Star were among these. However, most market players were aiming to turn round portfolios in 24 or 36 months and it did not make sense for them to set up stand-alone operations.

"Local knowledge is the key," Dixon said. "We were fortunate to find a partner who had that local know-how and also the willingness and the mindset to learn how to do things differently."



Senior officers from Crown Westfalen Credit Services made their public debut at IMN's German securitisation conference in Hamburg last month. From left to right, Johannes-Jörg Riegler, Lothar Ziller, Clarence Dixon and Christian Foersch.

Entire procedures must be oriented toward rating agency best practice, he added. "Anything I do is the rating agency way. Using that as the bible is something that is very transparent, and you need a team that can work like that and can live like that."

Ralph Good, with long experience in US special servicing, recently moved from JP Morgan in London to set up Whiteshire in Frankfurt. The investment bank has for two years now been closely involved in bidding for several large NPL portfolios, either independently or together with partners such as Lone Star.

All agreed that the earliest possible involvement of the servicer in the NPL transaction greatly facilitated a smooth takeover of the portfolio. Kai Sudmann, Immofoi co-managing director, said this was needed in order to provide advice to the acquiror during the bidding process.

Dixon said: "What you don't want to have is a three-month phase where no one is taking care of the borrower," he said. "You are opening a can of worms under these circumstances that will make problems for you in the long term."

In the majority of cases, the optimal workout solution is a discounted payout (DPO) - negotiating with a defaulted borrower to ease the repayment terms, extending the maturity of the loan and/or agreeing a discount on the outstanding balance. "At Crown, we have processed 24,000 assets in the last four years, and 80% of those assets have been done via DPO," Dixon said. "It's an easy transition for the borrower, and an easier transition for the investor... But you can't do a DPO unless you have a partner bank. You need someone who has the appetite to take that risk." pfe

PFE COMMENT: The development of servicing, particularly special servicing, is sometimes overlooked in the grand scheme of things in property investment on the European continent. As Toni Moss observed at her Eurocatalyst Live in Rome continent (see below), servicing of performing assets is key to the trading of mortgage portfolios. In NPLs, other players are likely to emerge in Germany as the business picks up. Hoist AG, a Duisburg-based company, made a strong presentation at the Hamburg IMN of its growing business in selling distressed retail bank debt. Its list of clients are blue-chip: Allianz, American Express, Barclays, Citibank, Commerzbank, Deutsche Bank, Dresdner Bank, GE Money Bank, GMAC, norisbank, Royal Bank of Scotland, SEB as well as savings and cooperative banks. Not yet a special servicer but may be soon?

EuroHypo, Citigroup, GMAC CM Special Servicer JV wins Fitch rating

The mortgage special servicer joint venture of EuroHypo, Citigroup and GMAC Commercial Mortgage has become the second such company in Germany to receive a rating after Fitch in early October announced it had assigned RSS3+D and CSS3+D respectively for its German residential and commercial mortgage operations.

Servicing Advisors Deutschland GmbH (SerAd) was created in July 2004, with EuroHypo holding a 50% interest. Originally called Special Eurohypo Servicer, the name was changed in May 2005, and SerAd is now conceived as an independent firm servicing non-performing, performing and sub-performing loans for EuroHypo and third-party investors.

Fitch said the ratings are based on SerAd's limited tenure but reflect the extensive industry experience of management and staff, and the strong support provided by SerAd's shareholders. The rating follows a similar process for Hudson Advisors, the tied special servicer of Lone Star Funds.

SerAd employs an array of strategies in managing the NPL portfolio, including acquiring properties as real estate-owned (REO) assets. "REO as a workout strategy is relatively new to the German market and, like other German special servicers, SerAd's portfolio includes only a few REOs so performance data is extremely limited," Fitch noted.

Through June 2005, SerAd had realised over 1,100 loans, including 832 properties with overall collections near business plan targets. As SerAd had only actively managed the loans for about six months it was too early to ascertain whether the performance is due to the quality of the loans or the effectiveness of SerAd's workout strategies.

SerAd's first NPL portfolio, begun in November 2004, had a gross book value of €2.4bn and was sold in February 2005 to Delphi I LLC. As of 30 June 2005, SerAd managed two unsecuritised portfolios comprising over 25,600 loans with a GBV of €3.85bn. The portfolios include sub- and non-performing mortgage loans on EuroHypo's balance sheet.

Residential mortgages (including multifamily) account for 88% of the total portfolio by number of loans, with single-family representing 23% of the residential pool by GBV. Sub-performing assets account for 11% of the portfolio, while non-terminated NPLs represent 21%. The portfolio does not include any performing loans.

Headquartered in Frankfurt, SerAd has branch offices

throughout Germany. A dedicated REO team is based in Ahrensburg in northern Germany near Hamburg. Along with asset management, accounting is also decentralised; however, a project is under way to centralise the accounts payable process in Frankfurt. All other operations, including portfolio management, are centralised in Frankfurt. pfe

French SIIC Acanthe opens capital to major British, Belgian investors

Paris-based Real Estate Investment Trust (REIT) Acanthe Développement announced that two major new institutional shareholders, one British and one Belgian, have taken large minority equity stakes totalling nearly 31% of its issued capital.

Without naming the new shareholders, Acanthe said in a press release that the operation, which would significantly increase liquidity in the share, entailed issuing new stock already authorised. This would bring total shares in issue to 75.3m, effective end-October, and value the company at €360m at the current stock price.

"This operation demonstrates the attractiveness of Acanthe for European investors. It validates the significance of the strategy set in train by the group earlier this year," Acanthe Chairman Alain Dumenil said in the announcement.

Acanthe assets comprise 66 properties representing 202,300 sq.m. of space. Earlier this year it announced a far-reaching overhaul of corporate strategy. After having converted to the status of a French REIT (Société d'Investissement Immobilier Cotée, SIIC) on 1 January 2005, it announced it would henceforth focus on generating returns.

"With returns on property investments currently at around 6.5% - only slightly more than it costs to finance these assets - our leveraged investment activity had become less attractive," the group said. Ardor Investment, its majority shareholder, abandoned its plan to sell the stake. "The potential buyers proved to be opportunistic funds seeking to dispose of the group's assets over a short-term horizon - a strategy that we can implement ourselves," Acanthe said.

The new strategy concentrates on building a portfolio of luxury retail and office buildings with high occupancy rates - located primarily in the central business districts of Paris - repaying group loans in full and reducing management expenses. It implemented a divestment program involving a variety of assets that did not conform to the new positioning.

Since 2004, it has sold off 40,800 sq.m. for total proceeds of €95m. The program is being pursued in 2005. Based on current and forthcoming sales, Acanthe said it should own a total of 102,600 sq.m. at the end of 2005. These asset sales will generate a total of €200m which will contribute to the complete repayment of debt, currently at €250m. pfe

EUROPACE[®]
STAY AHEAD OF THE RACE

FOR CUSTOMERS FOR PORTALS
FOR ISSUERS FOR ADVISORS
FOR INVESTORS FOR LENDERS
FOR RISK MANAGERS FOR LOAN OFFICERS

 **HYPOPORT**
THE FINANCE INTEGRATOR

www.hypoport.com

PROPERTY FINANCE EUROPE - *BULLETIN BOARD*

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

Monday-Tuesday 17-18 October 2005

First CMSA-Europe Conference, Brussels

The first 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

Tuesday - Wednesday 18-19 October 2005

European Finance Convention Regional Congress on Housing and Mortgage Finance for the New Europe, Warsaw

A two-day education conference and networking platform on housing finance and mortgage market development in the new member states, accession countries, Russia and the Caucasus. The programme includes presentations, showcases and discussions covering housing finance systems, development of mortgage primary markets, new funding systems, securitisation, credit risk and mortgage insurance, how municipalities and sub-national governments are making use of mortgage finance, maturing real estate markets in CEE/SEE. More information on <http://www.euroconvention.com/2000-warsaw1.htm>.

Wednesday 26 October 2005

Fifth conference of the German Real Estate Share Initiative, Frankfurt am Main

The fifth conference of the Real Estate Share Initiative provides presentations of the nine member companies on: German Real Estate markets 2005, Current status regarding the G-REIT, Real estate on the stock exchange - a story with perspective? EPRA Best Practice regarding IFRS: Added-value out of IFRS-accounting? Speakers include: Claus-Matthias Böge-Deutsche EuroShop AG, Fraser Hughes-European Public Real Estate Association (EPRA), Matthias Barthauer-Jones Lang LaSalle, Peter Wallner-Innova, Hans Volkert Volckens-Beiten Burkhard, Dirk Matthey-IVG Immobilien AG, Wolfgang Schäfers-Sal. Oppenheim. More information at <http://www.deutsche-wohnen.de/eng/index.php?kat=212>

Wednesday-Thursday 9-10 November 2005

German Distressed Property Risks and Opportunities, Berlin

The US-based PACT is organising a conference on the 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, Henning Heuer-PriceWaterhouse Coopers, 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, Wolfgang Eggers-Patrizia, Manuela Better-Hypo Real Estate, Nick van Ommen-EPRA, Eckart John von Freyend-IVG Immobilien. More information at www.pactnet.net.

Tuesday-Wednesday 15-16 November 2005

Information Management Network Sixth Annual European Real Estate Opportunity & Private Fund Investing Forum, London

Information Management Network presents its forum billed as an educational and networking event where over 700 delegates attended last year. Presentations, panel discussions, and interactive participation will explore the current state of the CMBS market, deal structuring, winning investment strategies, joint ventures and hot regions for investing. More information at <http://secure.imn.org/>

The PFE Interview: Kingsley Greenland, The Debt Exchange (DebtX)

European banks that tackle bad loan problem early seen in stronger position compared to other national counterparts

European banks that have sold off bad loans, even if the balance sheet loss is painfully large, are in a stronger position compared to counterparts that have delayed doing this, and the current takeover of Germany's HVB Group by Italy's Unicredito is evidence of this, says the head of a leading international loan sale platform.



Kingsley Greenland says NPL deals will get smaller as Basel II approaches.

Kingsley Greenland, Chief Executive Officer of the Boston-based Debt Exchange (DebtX), told *PFE* in an interview that it makes no sense for banks to continue a state of denial over distressed loans, i.e. credits that are sub- or non-performing. German banks facing this problem are in roughly the same stage of the cycle as US banks 15 years ago and Italian banks in the early part of this decade. Both banking systems are stronger for having tackled the problem.

"A bank's job is to lend money and extend credit and it is not the most efficient place to work out bad loans," Greenland told *PFE*. "Of course you don't want to give all the profit away but managing distressed debt on the balance sheet is not the business you are in ... Move the bad assets out quickly and concentrate on making money. The pain is more severe but if you wash it through, experience shows that both your business and the economy in general will recover more quickly as a result."

Founded five years ago, DebtX is an Internet-based marketplace for loans, allowing individual credits or portfolios to be shown to accredited investors. Active in Europe for more than three years, DebtX is sourcing loans in Germany and Italy through various channels. The exchange has 3,500 accredited investors, the vast majority in the US. Some 175 financial institutions have sold loans via its market.

At the IMN NPL conference last week Greenland predicted that direct loan sales will be an integral part of German banks' active portfolio management in five years' time, and 100 institutions are likely to participate on the buy side for each offering. DebtX has just sold a small €10m portfolio of German loans, and over 60 institutions had looked at the assets. As well, more innovative balance sheet asset management will ultimately lower the cost of credit for borrowers.

The forecasts are based on US experience from the early 1990s, he told *PFE*. After the Savings and Loan crisis, bad loans from the financial system were taken over by the government-backed Resolution Trust Corporation (RTC). They were subsequently transferred back to the private sector in some form.

"It looked a lot like what has happened in Germany in the last two years, and in Italy in 2000 and 2001" he told *PFE*. "It was a crisis, and the US said the banking industry would be crippled if nothing was done. Banks were not going to earn their way out of it - at least not quickly." Because Italy in the late 1990s offered its banks a five-year period to spread the balance sheet impact of marking down poor quality assets, the nation's banking system had, in effect, dealt with the major part of its NPL problem within six years. "Now loan sales are not considered a bad thing in Italy. They are considered a normal part of the process," he said. Unicredito has been one of the banks that tackled its problem at the time. Because it has emerged strengthened, it has been able to make a takeover bid for a German bank still struggling with an underperforming asset base.

Greenland said the appetite for European assets from US institutional investors is very high, focused on finding yield and diversifying out of dollar assets. Exchanging NPLs through a marketplace means smaller portions of balance sheets become fungible - alongside the large well-publicised portfolios currently being sold in blocks by European banks to foreign investors. He predicted that more than 10% of German banks will have executed such a loan sale by 2010, that individual sales will range from as low as €3m up to €250m, and that total annual face value of German bad loans sold will be around €3bn annually. Commercial property loans are likely to attract the majority of exchange activity, conveyance documents will be standardised, and execution costs will drop significantly.

Even if the latest announcement from US regulatory authorities indicates a delay of Basel II new capital adequacy guidelines until 2007, Greenland sees the approach of the new, more precise risk-based pricing environment as increasing business for DebtX. Since banks will be required to match their overall equity capital more precisely to the risk profile of their asset base, they will ultimately incur no additional negative impact from downgrading the status of a loan prior to sale. "Basel II is all about marking an asset to market," he noted.

"By having an effective secondary market, European banks will be able to price an asset on their balance sheet according to what they know they can sell it for," he said. "The more liquid you make any instrument, the better you can price it. It makes for deeper pools of capital."

Greenland sees 2005 marking the beginning of the end of the "super-size transaction" in NPLs, and predicts focused buyers will emerge, with the next two years dominated by smaller volume NPL deals. If Germany follows the pattern of the US, the years 2008-2010 should see the emergence of a secondary market for performing loans, he added. pfe

French Nexity group doubles net profit in 1H05, as share price soars

The French listed property development group Nexity announced a 19% rise in first half 2005 turnover to €767m compared to 1H04, and said it expects turnover growth of 10%-16% over the next two years. Net profit more than doubled to over €74m.

Group consolidated net profit soared to €74.3m, an increase of 109% compared to the same period last year. Profit per share rose 82% to €2.49.

The Nexity stock price has risen 67% in 2005 and was last trading on Euronext at €44, near its all-time high of €46. A developer of residential and commercial real estate and provider of associated services, the company was acquired in 2002 by Lehman Brothers from the Vivendi Group.

With participation also of Morgan Stanley Real Estate, Lehman repositioned and refinanced Nexity twice before taking it public in October last year. Lehman sold out of 50% of its holdings in the initial public offering, and sold the remainder into the market within the next six months.

Nexity said it paid €43.4m in tax on first half operating results up no less than 87% to €129m. This amounted to a tax rate of 35.2%.

Chairman Alain Dinin said 1H05 results exceeded expectations. "In a dynamic market, characterised on the residential side by weak supply and strong demand, and on the commercial property side by very active participation from investors, both in France and abroad, Nexity has achieved results significantly above its aims for the first half of 2005," he said in a press release.

Group subsidiaries include Foncier Conseil, George V, Geprim, Nexity Services, Saggel and Nexity Entreprises, and it is active outside France in Belgium, Spain and Portugal.

Nexity said its backlog of construction orders totals the equivalent of 16.5 months of activity and its commercial property development side holds options totalling the equivalent of 34 months.

"Due to these elements and generally buoyant conditions in all its activities, Nexity foresees turnover growth of more than 10% in the current year, and 15% in 2006, while being able to retain a margin above 13% for both years," Dinin said. pfe

Carlyle Group raises €760m for second European real estate fund

The Carlyle Group, a global private equity firm, said it has raised €760m for its second European real estate fund dedicated to investing in off-market opportunities primarily in office, logistics, and retail properties but also in the hotel and residential sectors. Geographical focus will be France, Germany, Italy, UK, Spain and the Nordic countries.

Carlyle Europe Real Estate Partners II, the firm's second European fund, has already signed five transactions for more than €400m, including the acquisition of three residential developments of 400 apartments in Copenhagen. It has also bought a 26-building portfolio in Italy from Beni Stabili for €255m.

The new fund brings Carlyle's total global committed capital to \$4bn, spread over seven real estate funds. Last month, it announced the launch of a new Asian fund of \$410m in capital,

and a US real estate fund to raise \$950m.

Carlyle Europe Real Estate Partners I closed in 2004 at €430m and is now fully invested in 25 transactions. These include the Poseidon portfolio of 230 properties across Italy, bought from San Paolo IMI for €320m, the large Montrouge site in France bought from Schlumberger for €175m, as well as developments in Hamburg, Brussels and London Cheapside.

The second Europe fund will be managed by a team of 27 acquisition and asset management staff based in France, Germany and Italy, and will focus on a single asset approach in the €20-€80m range - but also at portfolios.

"We believe there is good potential in the real estate market in Europe," Carlyle Managing Director Eric Sasson said. Corporates are boosting their property sales, vacancy rates are declining, and there have been few new developments. Carlyle would extend its proactive strategy of refurbishing existing buildings and developing properties to take advantage of this environment. pfe

Spain's Restaura continues international expansion with Paris apartment block acquisition

In a further sign of the Spanish interest in the French real estate market, the Spanish based Grupo Restaura is investing a further €11.5m in a residential apartment block near the Place Vendome in Paris, extending its new policy of internationalisation.

Restaura specialises in the purchase of buildings with or without tenants, for their renovation and later resale. It had turnover of €230m in 2004, a rise of 25% compared to 2003, and has set a clear goal of €300m in the current year, its website says. Of 2004 activities, 12% corresponded to new construction and 88% to renovations.

Restaura announced in February that after more than 25 years in the business of building renovation in a number of Spanish cities, it had fully established its business model and "decided that the moment has come to take the leap into the international market."

Paris is the first step in an expansion plan which this year involves the creation of 10 regional offices in various cities in France. Chief Executive Xavier González considers that the Restaura business model can respond to the various demands in the renovation sector in the French capital, its house publication reports, and that Restaura has the technical, financial and management capacity to carry out all sorts of renovation projects.

To date Restaura has invested €120m in the French capital, purchasing 18 buildings composed of 1,012 housing units, plus commercial premises and car park. Acquisitions were made in Rue Boccador, Coye-La Fôret and Rue de la France Mutualiste, with the latter being the largest operation ever performed by a Spanish company in Paris.

In 2004, Madrid was the highest volume investment location, reaching 41%, followed by Paris with 27%, and Barcelona with 25%. The buildings Restaura acquired during 2004 are in prestige locations such as the Barcelona Eixample, the Salamanca district in Madrid or the Golden Triangle in Paris.

In the current year, Restaura has already invested €115m in 42,000 sq.m. of constructed surface. Acquisitions have included properties in Calle Serrano 23 in Madrid, Avenida Meridiana 254 in Barcelona, Paseo de la Independencia 3 and

Alfonso I 27 in Saragossa, and Coyo-La Fôret in Paris.

Restaura has renovated more than 460 buildings in its 27 years of operation. Its new Paris acquisition comprises 31 apartments that occupy 3,148 sq.m., adding to a stock of 1,000 Paris apartments already purchased. pfe

PFE COMMENT:An interesting group with a solid business model – and of course further evidence of the expansion of Spanish real estate developers and investors throughout the European continent. See also Metrovacesa, Fadesa and Riofisa. The Restaura model rests, evidently very solidly, on the assumption that property acquisition plus capital expenditure produces either a higher capital value at exit or a higher core yield over long-term asset management.

Securitisation to be important funding tool on equity release mortgages - Fitch

Securitisation is likely to be an important funding tool in the market for equity release mortgages, which is set to grow worldwide as a result of ageing populations and uncertainty about pension provisions, the Fitch rating agency said.

Equity release schemes allow homeowners to make use of equity in their property by providing either a lump sum, a series of instalments, or both, on the basis of the value of the home. Lenders are repaid when the loan matures, typically upon the death or disablement of the borrower, via a sale of the property.

“Many new originators are entering both markets and Fitch expects securitisation to be a key funding tool for these new originators”, says Kevin Stephenson, Head of Non-Japan Asia Pacific Structured Finance. Fitch UK and Australian RMBS teams are developing a coordinated approach to rating securitisations of mortgage-backed equity release schemes.

Characteristic of these is the absence of cash-flows until loan maturity so that the lender is exposed to property price risk over an unspecified future period. The analysis thus focuses on actuarial analyses of death rates, and rates of entry into aged care. The growth potential for such schemes, targeted at elderly homeowners, is explored in a new report "Repay my mortgage? Over my dead body! -- Fitch's Reverse Mortgage Criteria". pfe

LaSalle forms JV with British Columbia in German high-yield retail property i

LaSalle Investment Management said it has formed a joint venture with the provincially owned British Columbia Investment Management Corporation of Canada to pursue high yielding retail property investments across Germany.

In a release, it said the LaSalle German Retail Venture is seeking to invest €600m in the German retailing sector. Barclays Capital, the investment banking division of Barclays Bank PLC, has provided the debt. To date, the fund has already secured or has under due diligence some €250m of assets spread across a wide variety of retail assets across Germany.

The JV's fund manager, LaSalle's David Ironside, said in a release, “we are extremely pleased to combine LaSalle's established platform in Germany with an experienced like-minded investor to capture what we believe to be a cyclically attractive investment opportunity in one of Europe's largest real estate markets.”

LaSalle expects to generate attractive income returns by acquiring shopping centres, hypermarkets, retail parks and supermarkets throughout Germany. In addition, the investments

Table: Listed real estate companies, performance

<i>in euros</i>	Sep 05	YTD	Rolling 5Yr	Av Annual
<i>Asset Classes</i>	<i>Return%</i>	<i>Return%</i>	<i>Return%</i>	<i>Return%</i>
Global Real Estate	4.1	24.3	64	10.4
Global Equities	5	21.7	-20.9	-4.6
Global Bonds	-0.6	3.5	35.9	6.3
Europe Real Estate	4.2	22.9	112.9	16.3
N. America Real Estate	2.7	24.6	83.5	12.9
Asia Real Estate	6.8	24.8	29.4	5.3
Countries				
Europe (EUR)	4.2	22.9	112.9	16.3
UK (GBP)	3.4	8.2	107.6	15.7
Netherlands (EUR)	3.5	22	151.4	20.2
France (EUR)	3.6	35.8	192	23.9
Sweden (SEK)	5.3	32.6	182.6	23.1

Source: European Public Real Estate Association/FTSE/JP Morgan

will offer the potential for capital growth through yield shift, active management initiatives and the expected economic and real estate market recovery. pfe

Investment demand for German store space lively despite flagging sales

Despite the very flat developments in store sales turnover in Germany, the market in retailing space is thriving, and traders continue unabated to seek expansion, according to a new report by the BNP Paribas-owned realtor Atisreal.

Because of low yields at home, capital from the Anglo-Saxon countries, Scandinavia, Spain and Israel is flowing into Germany, it said. "The pressure of demand is immense", Atisreal Director Christoph Meyer said in a release accompanying the report.

"The rental market for store premises in heavily frequented city centres and local district locations is lively but also more short-lived", he added. "New store concepts are being developed all the time, so retailers often change their minds about exactly what they want. To let shop premises successfully, you have to be on the ball!"

For years, Munich has been the unrivalled No. 1 in Germany for retail rents, with prime locations commanding €250 sq.m. Buying retail properties with top addresses – at 20-22 times

the annual rent – is also much more expensive there than in other German cities.

Atisreal puts Frankfurt in second place, with prime square metre rents of €210, 52 % higher than in the mid-90s and a rate of growth unequalled anywhere else in Germany. The purchase multiplier is 18–20 times. Equal third places are taken by Berlin and Stuttgart, with rents of €200 and multipliers of 18-20 and 19–20.5 times respectively. pfe

German Internet mortgage provider Interhyp sees 30% rise in stock price at first listing

Shares in the German Internet mortgage provider Interhyp rose 30% above their issue price at the start of its stock listing at the end of September. The stock was offered to the market at €42, and first traded on the Frankfurt stock exchange at €54.

Company co-founder Robert Haselsteiner told the Frankfurter Allgemeine Zeitung the short road show in late September had raised strong interest, and the share had been 30 times over subscribed. The IPO raised a total of €103.4m, of which €29.4m accrued to the company in new capital and the remainder to Haselsteiner, his co-founding partner Macus Wolsdorf and venture capital firms Earlybird and 3i.

GERMAN DISTRESSED PROPERTY

RISKS AND OPPORTUNITIES

NOT LEIDENDER IMMOBILIENMARKT DEUTSCHLAND

Chancen und Risiken

November 9-10, 2005

The Ritz Carlton Hotel
Berlin, Germany

www.pactnet.net

 John F. Tsui President Peninsula House, LLC	 Prof. Dr. Karl-Werner Schulte Director - Real Estate Center European Business School	 Michael Buckley Director, Real Estate Development Program Columbia University	 Stephane Theuliou Managing Director - Europe Morgan Stanley	 Dr. Thilo Sarrazin Senator of Finance City of Berlin	 Dr. Richard Scholz Partner in charge - HP, advisory Welleniek Grub & Partner
 Jan Karst Managing Director W.P. Carey & Co.	 Birgitte van der Jagt-Bullink Geschäftsführerin CB&I Investors	 Nick van Omsien Chief Executive Officer European Public Real Estate Association	 Marin Lemke Managing Director Patricia Asset Management GmbH	 Dr. Eckart John von Freyend CEO IVG Immobilien AG	 Henning Heurding Partner in Charge - Distressed Loans Pricewaterhouse Coopers
 Gregor Kuntz Wirtschaftsprüfer Dr. Roever & Partner KG	 Dr. Ralf A. Pampel Managing Director B. Metzler GmbH	 George E. Kountouris Managing Director Credit Suisse First Boston - Alternative Capital	 Barbara Knoflach Managing Director SEB Immobilien Investment GmbH	 Raffaello Ling Managing Director DZ Investment Advisors GmbH	 Gunter Grimes Director Citigroup Global Markets Deutschland AG & Co. KGaA
 Christian Koehler-Ma Kochszweid Leonhardt & Partner	 Robert Delany COO - Europe European Financial Realty	 Tom Schaez Head of Mortgages Germany DB Immobilien	 Lorenz Reibling Chairman Taurus Investment Holdings, LLC	 Jim Garman Managing Director Goldman Sachs International	 Udo Stoecker Partner HFE RealEstate GmbH & Co. KG
 David M. Abrams Global Head of Distressed Debt Credit Suisse First Boston	 Yakup Gabay Private Investor	Sponsored By			









Inquiries: United States 1 (914) 925-1041 or info@pactnet.net Europe (495032) 963-413 or schmidt.iris-ann@gmx.de

Following the IPO, the proportion of shares in wide distribution was 37.9% of those in issue, while the founders retained just over 16% each, down from 24%. Stakes of the venture capital firms declined to 25% each from around 45% prior to the IPO. pfe

Spain's Riofisa enters real estate JV in Romania with Ion Tiriac

The Madrid-based private property development group Riofisa said it has signed a joint venture agreement with the Romanian holding company of Ion Tiriac, tennis trainer and promoter, to develop various real estate projects in the east European country.

In a press release, Riofisa said the joint venture with Tiriac Investment Ltd holding will take the form of a new company name Riofisa/Tiriac. The objective will be to develop various projects throughout Romania. Two such projects are in advanced stages and should begin in the short term.

Riofisa, founded in 1992 by Mario Losantos del Campo, is 68% owned by Riofisa Holding, with the remainder in the hands of the Catalanian savings bank Caixa Catalunya. It operates throughout Spain and has close contacts with the real estate group of Caixa Catalunya, focusing on shopping centres and other commercial property activities. pfe

WestLB in closer cooperation with Saxony landesbank, merger possible

Westdeutsche and Saxony Landesbanks have agreed on closer cooperation on a number of business segments that is quite likely to lead to a majority ownership at a future date.

WestLB agreed last week both with its smaller Dresden-

based counterpart as well as with the Saxony Finance Group (SFG) which owns a controlling stake, on a cooperation that could lead to a takeover of the latter by the former. The banks released a declaration of intent that sees WestLB taking at least a blocking minority 25.1% stake, and does not exclude raising this to a majority holding. The institutions said this would be decided over the course of the next year.

First areas of cooperation would encompass new financial products for the Saxony savings banks, such as equity derivatives and certificates, interest rate derivatives and mezzanine financing for small and medium-sized companies.

Saxony LB is the third smallest of the 11 remaining landesbanks in Germany, with a balance sheet of €61bn. WestLB is the third largest and has a balance sheet of €254bn. Together, the combined institutions would rival sector leaders LBBW and BayernLB in size.

Saxony LB is owned 53% by SFG, 11% by Saxony savings banks combined, and 36% by the east German state of Saxony. Given state budget constraints, the most likely eventuality is that the state sells part or all of its stake to allow WestLB to take a significant holding.

WestLB chairman Thomas Fischer has long been seeking expansion via acquisition but has been blocked by the rigidity of the publicly held banking sector from prior projects. A concept for founding a direct Internet bank JV was dropped, as was a combined holding with the Sparkasse Düsseldorf. WestLB also holds 27% of HSH Nordbank, but was prevented from a closer partnership by the resistance of the city of Hamburg which holds at 35.4% stake. pfe

Eurohypo property business soars but junior MBS buys seen boosting risks

Eurohypo AG's new real estate business expanded by a massive 135% in the first half of 2005 but increased purchases of junior tranches of mortgage backed securitisations entailed

Table: German Landesbanks

Balance sheet size, in €bn

LBBW	340	
BayernLB	333	
WestLB	254	
NordLB	202	
HSH Nordbank	164	
Helaba	143	
Bankgesellschaft Berlin	133	
LB Rhineland Palatinate ¹	68	
Sachsen LB	61	
Bremer Landesbank ²	33	
SaarLB ³	18	

Source. Börsen-Zeitung. ¹ owned by LBBW, ² Maj. stake NordLB, ³ Maj. stake BayernLB

higher risks as well as offering higher returns, a new study by Commerzbank said.

Eurohypo, Germany's largest real estate and public sector finance specialist, raised new commitments in property to €14.7bn. State sector financing rose by no less than 325% to €21bn compared to 1H04. At the half year 2005, the total volume of real estate financing stood at just under €94bn and of public sector financing was nearly €127bn.

Eurohypo net profits in first half 2005 rose by 31% compared to 1H04, to €254m, with return on equity rising to 9.1% from 8.1%. It is thus approaching the target of 10% set for 2007, Commerzbank noted. Total cost/income ratio improved to 32% from 35.5%, and the bank has announced that it is ready to launch its scheduled Secondary Public Offering some time in 2006.

In first half 2005 75% of new real estate business comprised international assets while 49% of new commitments in public financing were made outside of Germany. Real estate business concentrated on the UK (35%), followed by its home market (25%), other continental Europe (24%), and the US (16%).

The Commerzbank study, by analyst Claudia Vortmüller, said a comparison between the cover pools at 30 June and 31 December 2004 shows only marginal shifts, and Germany continues to make up over 80%. Over-collateralisation has fallen from 16% nominal and 17.5% NPV to 8.24% nominal and 9.67% respectively, but is still at a comfortable level.

However the study noted, "We hold a cautious stance with regards to the expansion of business activities, particularly in the area of securitisation, as the purchase of junior tranches not only entails higher returns but generally also entails higher risks." In October, Eurohypo is scheduled to issue its second Global Benchmark Pfandbrief this year. pfe

ESF analysis/pricing investors seminar brings strong turnout

The European Securitisation Forum (ESF) said its first seminar on securitisation analysis and pricing had won a strong attendance from investors in ABS/MBS consumer loan analysis and CDO analysis.

Four presentations were debated in the late September meeting in London: Stephanie Ferrieu of AXA Investment Managers focused on differences among investors' and rating agency methodologies for assessing and monitoring performance of securitised assets, and Krishna Prasad of Lehman Brothers presented a paper on cash-flow analysis and pricing in the ABS market.

As well, Markus Herrmann of HSBC Bank analysed spread, issuance and relative value of investments in ABS compared to covered bonds and corporate bonds, while Alexander Batchvarov of Merrill Lynch presented a paper on the market impact of cash and synthetic Collateralised Debt Obligations (CDOs). pfe

Basel Committee publishes new Quantitative Impact Study:

The Basel Committee on Banking Supervision has published its fifth Quantitative Impact Study (QIS 5) with

the purpose of evaluating the impact of the new proposals for double default and trading book issues.

QIS 5, which is being carried out in the context of new capital adequacy guidelines in the process known as Basel II, will be carried out between October and December, the European Securitisation Forum (ESF) said in its latest monthly report.

The study includes a number of questions on credit risk data; standardised approach; IRB approaches; trading book-related issues; securitisation; and operational risk. Questions in the securitisation area will focus on the treatment of liquidity facilities under the current accord and the standardised approach, as well as underlying exposures under the Internal Risk-Based (IRB) approaches.

ESF said it will continue to monitor these developments. pfe

Demand for office space in Germany shows a marked recovery - Oppenheim Immobilien

The demand for office space in the major German cities increased noticeably in the first half of the year compared with the last three years, according to Oppenheim Immobilien-KAG (OIK).

At 240,000 sq.m, nearly twice as much office space in Frankfurt changed hands compared with 1H04. Major transactions took place in city locations, in particular, although rents again weakened somewhat.

Top performer among the major German office locations continued to be Hamburg, where turnover, at 200,000 sq.m, matched the level last witnessed during the new economy boom, Oppenheim Immobilien said. pfe

First Ukraine property funds launched

Equity Trust Services Ltd., an asset management firm based in the Channel Islands, said it has launched two property funds investing only in Ukrainian properties in response to investors' interest in the eastern European commercial property markets.

Primeros Property Fund will focus on an existing portfolio of Kiev properties to be converted into modern office complexes that generate rapid cash flows. Primeros Logistics Fund will redevelop and rent out up to 350,000 sq.m of industrial space.

NAI Pickard advised the subsidiary of the Jersey-based asset management firm on site. pfe

Scotland's Miller Developments launches German investment drive

Scottish firm Miller Developments announced that it has made its first investments in Germany, purchasing

supermarket portfolios for around €50m, and intends to seek more.

The supermarkets, some of which are still under development, are located throughout Bavaria, Rhineland-Palatinate, North Rhine-Westphalia and Thuringia. Tenants include a number of major German retailers such as Plus, Rewe, Penny, Norma, Toom and Wasgau.

The seller, Bavaria-based Prebag Gewerbebau AG, is completing the development projects. Miller said it also has the right to purchase further supermarket schemes currently under development, and the total amount ultimately invested could reach €80m.

Chief Executive Officer Phil Miller said the Scottish company is expecting to secure further retail investments in Germany, both directly and in partnership, over the coming months. Miller Developments is particularly keen to step up its investment activities across Europe and aims to contract around €500m of investment properties on the European continent in 2005. pfe

Growing demand seen for valuation advisory services in Germany

The increasing professionalism of the German commercial property market is prompting Jones Lang LaSalle to boost its valuation advisory team in anticipation of sustained growth in demand for such services.

JLL said in a release that its valuation team, headed by Andrew Groom, has doubled in size over the last 15 months to total 20 staff at the end of September. A further two consultants, Roman Heidrich and Julia Kreipe, are scheduled to join in October and November respectively.

The teams focuses on such diverse issues as international capital flows, yield discrepancies within the EU, the internationalisation of the German property market, and the low level of interest rates in the eurozone. Groom is aiming to develop new segments and grow his team even further in 2006. pfe

Vivacon invests €130m in two residential portfolios in Germany

Cologne-based Vivacon AG said it has invested some €130m in two residential portfolios comprising 4,600 apartments in Germany, one in the Dortmund/Essen region and the other grouped around the conurbations of Hamburg and Kiel.

The Dortmund/Essen portfolio consists of 2,700 apartments with total living space of 160,000 sq.m. The second portfolio comprises 1,900 apartments with total living and floor space of 116,500 sq.m, and is scheduled for resale with heritable building rights.

Vivacon purchased the portfolios through its subsidiaries Vivacon Rhein-Ruhr Portfolio 1 GmbH & Co. KG and Norddeutschland Grundbesitz GmbH & Co. KG from a privately owned company that declined to be named. The Dusseldorf office of Aengevelt Immobilien arranged the deal. pfe

French SIIC makes its first major investment in Germany

Groupe Affine, a French Real Estate Investment Trust, said it has added its first major residential complex in Germany to its portfolio.

Through its German subsidiary, Affinvestor GmbH, the French SIIC (Société d'Investissement Immobilier Cotée), purchased a housing complex in the Lichterfelde suburb of Berlin-Steglitz. This comprises 17 buildings with 223 apartments and total living space of 18,300 sq.m.

Until now, Groupe Affine's major assets primarily included numerous office and commercial complexes and some residential properties located throughout France. The company said in a release that it plans to purchase further residential properties in Germany through Berlin-based Affinvestor. pfe

German quoted property group announces fifth annual conference

An informal grouping of German quoted property companies, the Real Estate Share Initiative, is to hold its fifth annual conference on 26 October and discuss themes such as market conditions in the current year, the outlook for Real Estate Investment Trusts (REITs), and best practice regarding IFRS accounting.

The objective of the RESI is to bring German publicly listed companies more strongly into the focus of capital markets at home and abroad. Deutsche Wohnen spokesman Hubert Bonn said that despite the generally growing interest in listed real estate companies in Europe the group had no plans to convert into a more formal association.

The group has nine members: Colonia Real Estate, Deutsche Beamtenvorsorge Immobilienholding, Deutsche EuroShop, Deutsche Grundstücksauktionen, Deutsche Wohnen, IVG Immobilien, Polis, TAG Tegernsee Immobilien- und Beteiligungs and Vivacon. One of its members, Agiv, was forced to declare insolvency earlier this year. Its meeting is scheduled to take place in Frankfurt's Arabella hotel. pfe

SEB German subsidiary reorganises asset management to prepare for REITs

The German subsidiary of the Swedish SEB Group, SEB AG, said it will combine real estate and capital market asset management, giving property investment a central role and preparing for an expansion over the next year to include additional products such as Real Estate Investment Trusts.

SEB will merge the two investment firms SEB Immobilien-Investment GmbH and SEB Invest GmbH

under the umbrella of the newly-founded SEB Asset Management AG. Barbara Knoflach and Matthias Bart will make up the management board, with the former appointed as CEO.

"We haven't taken the next logical step within SEB, bundling our strengths and positioning ourselves on the market with our entire range, including our open-ended real estate funds," said Knoflach.

SEB Asset Management will start next year with assets of around €12bn, of which around €5.5bn comprises SEB ImmoInvest's real estate assets. The group has total assets under management of around €80bn. pfe

Corpus buys residential portfolio on way to setting up trading platform

The Cologne-based Corpus Real Estate group said it has taken over GHG Wohnen GmbH, the housing company owned by the Berlin traffic authority, and comprising 5,100 apartments spread over several quarters in the German capital city.

Corpus CEO Michael Zimmer said in a press release it intended to create a sustainable platform for housing units in Berlin and 'clearly intensify' its business activities in the city. This marked a further step in Corpus plans to establish itself as a nationwide property group, and move beyond its traditional markets in the Rhine-Ruhr and Rhine-Main regions. pfe

German house prices seen highly undervalued

Compared with other European countries, house prices in Germany are extremely undervalued, according to a recent survey by Dekabank.

Prices in Germany have dropped by 4% over the last 10 years, even while they rose by 105% in the UK and 106% in Spain. Other European countries recording strong price increases include Sweden (80%) and the Netherlands (74%).

Separately, HSH Nordbank said it had approved some €3bn in new mortgages in the first half of 2005, an increase of more than 100% compared with the same period a year ago, but only 40% of this volume was actually transacted in Germany. HSH is currently focusing on international mortgage business. The bank's medium-term outlook for the German market is only cautiously positive and it does not anticipate more than moderate growth in German property transactions. pfe

Private equity capital increases focus on clinics, nursing homes

Private equity investment is increasingly focusing on hospitals and nursing homes, according to a recent

survey by the consultant A.T. Kearney.

Publicly-owned hospitals in financial difficulties are up for sale and there are no large private chains of nursing homes yet in the country. Kearney sees private equity investors, many of them equipped with international capital, aiming to set up chains of 50-80 nursing homes within five years.

Between now and 2012 the number of publicly owned and run hospitals will decline by 15, while private ownership will increase, it said. The number of beds will decline by 20% although the number of cases requiring hospitalisation will rise by 15%. Privately owned, professionally operated and yield-oriented clinics will benefit from this development, says the survey. pfe

Peak apartment rents in Frankfurt hold stable at around €13 sq.m.

Apartment rents and prices for apartments in Frankfurt in good or very good locations will remain stable, while prices will probably weaken in less attractive locations, according to a report by HVB Expertise GmbH.

Rents peak at €13 sq.m. in top-class locations, falling to €6-7.50 in less attractive locations, while apartments are selling at up to €3,600 sq.m. in the better areas and €2,000 in less desirable quarters. pfe

PROPERTY FINANCE EUROPE

Property Finance Europe announces the launch of its advisory services for the European real estate finance sector:

- Asset allocation

*Investment committee input
US investor briefings, network
Euro real estate developments
Macro-, monetary, politics
Focus on Germany, France*

- Public relations

English/German/French

- Events, speakers

European property finance

- Internet presence, translations

English from German or French

**Contact: Gaby Wagner, Frankfurt, Germany. office@pfeurope.de
Phone +49 (0)700 3686 2233**

PFEPEOPLE PFEPEOPLE PFE

The **European Securitisation Forum** has appointed **Desirée McDonald** as Manager, Events and Marketing, joining from conference company Terrapin and reporting to ESF Managing Director **Scott Rankin** ... **Nicolas Rousse-Lacordaire** has been appointed deputy CEO (Directeur Général Délégué) of **Aareal Bank France**, following the departure of **Philippe Prouillac**. **Sophie Courcier** has been promoted to Deputy-CEO ... **Jan Stadelmann** has taken over the management of the Investment Department of the Frankfurt branch of **Atisreal** from **Patric Fiegle** ... **Daniel Piazzolo**, previously Senior Economist at **Feri Research**, has been appointed chairman of the management team of **Deutsche Immobilien Datenbank** in Wiesbaden, alongside management colleagues **Nassos Manginas** and **Matthias Thomas**. ... **Marcus Lehmann** is moving to **Savills'** Berlin office as Director of Berlin rentals, joining the company from **Catella Eureal**, while **Jan-Frederik von Strünk** is appointed deputy director of rentals... The board of French

SIIC Gecina on 7 October named **Joaquín Rivero Valcarce** as chairman, taking over all executive functions and succeeding long-time chief executive **Serge Grzybowski** who has resigned; Valcarce is an appointee of new majority shareholder **Metrovacesa**... **Alastair Hughes** is to extend his role to CEO of **LaSalle's** European operations and becomes a member of the firm's Global Executive Committee ... **Bruno Lafont** has been appointed CEO of **Lafarge Group** from 1 January 2006... **Iain Barbour** has left **Commerzbank** to join monoline insurer **MBIA** as head of fixed income investors relations for Europe... former Commerz colleague **Mark Bajer**, who for two years headed **Via Capital**, has been appointed MD for Europe for **Assured Guaranty**, replacing **Jack Lester** who has returned to the US.... **Guy Barker** has been appointed with immediate effect as CEO for the European activities of **Invesco Real Estate**. Barker founded the German branch of **Knight Frank** in 1992 and in 1998 moved to real estate fund management at **HypoVereinsbank**. New Chief Operating Officer at Invesco is **Andrew D. Thornton**. pfe

www.pfeurope.de

Property Finance Europe is a fortnightly report on European real estate finance aimed at banks, institutional and private investors, asset managers, REITs, corporate treasurers, traders, financial professionals, public sector officials, academics and others. Independent of any institution, *Property Finance Europe* is published on the second and fourth Monday of every month by Rose Advisory Ltd., and produced from the offices of the easetec companies in Frankfurt, Germany.

REGISTRATION FORM – PROPERTY FINANCE EUROPE

Thank you for registering for Property Finance Europe. We are delighted to offer a subscription at a discount of 25% to the cover price for 12 months; or 35% if you choose to take a 24-month subscription. The full 12-month PFE subscription price for Europe is E975 or £675, and for the rest of the world is US \$1,475. A subscription to PFE gives you:

- (i) 22 editions over a 12-month period,
- (ii) Immediate download access, via URL notification, to the latest PFE edition on day of issue,
- (iii) A mailed hard-copy Property Finance Europe for your records,
- (iv) Free access to the PFE electronic archives holding all issues published to date,
- (v) Between-issue notification of items important to your success in European property finance markets.

Your trial offer allows you free access, via email URL notification, to the current and the next issues.

To subscribe immediately, please contact me on the email address business@pfeurope.de, or go to the PFE website and activate the Subscribe button. Thank you, Charles Kingston, Business Manager

Register for the free trial for Property Finance Europe, via Internet, email or by filling out the form below

0 Please register me for a free, no-obligation trial subscription to *Property Finance Europe*.

name

email

company.

telephone fax.....

Property Finance Europe. Hainer Weg 13-15, D-60599 Frankfurt am Main. Germany.
Telephone +49 (0)700 3686 2233, or email: business@pfeurope.de
FAX TO: PROPERTY FINANCE EUROPE +49 (0)6101 813405