PROPERTY FINANCE EUROPE

• European REITs • German non-performing loans (NPLs) • Institutional real estate portfolio investment • Mortgage securitisation, CMBS/RMBS • French office property • Distressed debt • German real estate banking • Special mortgage servicing • US real estate funds in Europe • Pfandbriefe/covered bonds • Paris SIICs •

Volume 1, Issue 13 24 October 2005

France to introduce law for unlisted REIT-like fund

The French government is to introduce legislation for an unlisted real estate fund, OPCI, which will have REIT-like tax status. PAGE 2

Spain's Colonial achieves 5% NOI with Madrid purchase

Inmobiliaria Colonia, which holds the majority stake in French SIIC SFL, purchased E352m Madrid office portfolio yielding 5% NOI. PAGE 4

Four more German true sale MBS in pipeline using register

The introduction of registers for transferring MBS claims has opened the true sale market, and four new deals should launch soon. PAGE 6

German government likely to abolish home mortgage premium

The new German Grand Coalition government under Chancellor Angela Merkel is expected to abolish the home loan premium (Eigenheimzulage), but not until 2007. PAGE 9

Thomas Kretschmar Hypoport AG The PFE Interview: PAGE 8

German gov. may meet opposition to REITs; bilateral talks with UK rumoured

The new German Grand Coalition under Chancellor Angela Merkel may meet resistance to Real Estate Investment Trust (REIT) legislation - despite speculation Berlin has already discussed REIT tax problems with UK officials.

With the new government under German's first woman chancellor due to be appointed soon, members of the Social Democratic Party, the left-of-centre half of the coalition, are starting to express reservations over corporate-tax free REITs.

"I am against REITs," SPD finance spokesman Jörg-Otto Spiller said recently. "The entire basic idea of REITs is highly complicated. We would be creating a special category for companies active only in real estate." His colleague, SPD finance expert Joachim Poss has also expressed reservations.

Despite this, the sector remains optimistic. The Börsen-Zeitung newspaper reported that the Bundestag parliamentary factions of both senior coalition members, Merkel's right-of-centre Christian Democratic Union and the SPD, are fundamentally positive about the creation of REITs. Several models are being checked to try to solve tax problems.

Berlin officials are said in recent weeks to have discussed tax problems associated with REITs with UK counterparts. Though the Schiphol-based European Public Real Estate Association (EPRA) denies that the discussions took place at its urging, as reported in some media, financial sources say that there have indeed been bilateral discussions.

Sector expert Rainer Zitelmann says REITs may not be considered important for Merkel to want to raise controversy with the SPD at an early stage of her government - if the SPD raises serious opposition to the legislation. Some finance ministry officials also oppose their introduction.

The UK was likely to have no such inhibitions and would probably table REITs legislation soon. "The game is not yet lost, but also in no way won," he wrote in a recent commentary. The sector could rely on the "tireless" lobby efforts of the German Finance Initiative (IFD). pfe

Pirelli Real Estate boosts German exposure with residential investment, €4.5bn NPL bids

Italy's largest property company, Pirelli Real Estate, is massively expanding its exposure to the German market with a joint venture in residential with the Kronberg Group, and plans to bid for two NPL portfolios worth a nominal €4.5bn from HypoVereinsbank.

The JV with Kronberg has already purchased a portfolio of around 1,600 residential properties in west Berlin valued at €72.5m, the two companies announced (See p10). Pirelli has also said that it aims to invest a total of €800m in German apartment portfolios.

Separately, Chairman Carlo Puri Negri said the two HVB NPL portfolios are worth respectively €2bn and €2.5bn but gave no further details (See p4). PRE, held 51% by the Pirelli tyre-making group, has identified Germany and central and eastern Europe as potential growth markets. pfe

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The strongest motivation for foreign investors to purchase German commercial property are the high yields being offered comparative to, for instance, Great Britain and the US. A round-up of foreign investors at **Expo Real in Munich** a couple of weeks ago showed that cash flow from stable rental properties was more important than its location or even any immediate prospects for capital valuation increases.

Foreigners are buying cash-flows rather than location and quality across all segments of the commercial property market. B-level locations are more popular than top locations where the rental cash flows are dependent on the quesionable front-end income prospects - often seen as unsustainable. The majority of foreign investors are not really interested in new development properties since they find the risk to be too high and this activity doesn't really conform to their concerns over their quarterly reporting requirements.

Thanks for your continued interest in **Property Finance Europe.** We get a three-week break again and are back on your screens on 14 November. Conferences beckon.

French REIT sector seen doubling to 4% of total Euronext capitalisation

The introduction of a Real Estate Investment Trust status in France (SIIC) has boosted the property segment on the stock exchange over the last two years to a 1.8% weighting, compared with 0.8% prior to the legislation being passed. However the Federation of French Property Companies (Fédération des Sociétés Immobilières et Foncières, FSIF) said the sector should be able to double this soon.

FSIF director Dorian Kelberg said, "our objective is to reach a Paris stock market capitalisation of €40bn, or 3-4%, which is an efficient size for the listed property sector," according to the business portal Businessimmo. Current capitalisation of the sector is around €20bn, up from €12bn. France first introduced REIT legislation in 2003.

Kelberg said the state can expect €1.8bn in taxation income from the sector this year, generated by 'exit taxes', capital gains tax on property revalued to market prices for listing as a SIIC (Société d'Investissements Immobiliers Cotée) or included into the assets of an existing trust vehicle.

To this can be added €66m from tax adjustments arising from the delisting of the SIIC Sophia, and another €20m from the Accor hotel group in its sale of assets to Foncière des Murs earlier this year. Total cumulated exit tax income in 2006 should exceed €2bn simply in light of present plans for new SIIC vehicles to be launched.

The FSIF report showed that 28n SIICs were registered on the Paris Euronext stock exchange at end-September. This year, nine companies have opted for the status, including Altaréa, Corio, Foncière Masséna, Foncières des Murs et Mines de la Lucette. The supermarket chain Casino is currently in the process of floating its subsidiary Mercialys as a SIIC, and others are expected to follow suit.

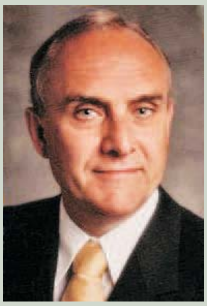
"After three years the balance of the SIIC status is positive," Kelberg said. "All the historic real estate companies have opted for this status now." The Paris stock exchange had seen a renaissance among those real estate firms already listed, and new ones introduced. The second phase of the statute (SIIC 2) became effective this year. pfe

France to introduce legislation for REIT-like investment fund, but unlisted

France is establishing a new form of investment vehicle in real estate, an investment fund that will, like its Real Estate Investment Trust (REIT) listed company counterpart, be free from corporate taxation on condition it distributes at least 85% of its profits every year.

Legislation defining the new form of fund (Organismes de Placement Collectif Immobilier, OPCI) was approved by the French cabinet on 12 October. It envisages a vehicle that can

The absence of private pension funds in Germany is becoming a noticeable national competitive disadvantage. None other than Paul Achleitner, chief financial officer of Allianz Insurance group, elaborated on the problem recently. The story so far: Scared by the coming rigour of the capital adequacy rules in Basel II, our robust German banking community has backed off almost completely from providing finance to industry - unless, that is, you are listed and huge and carry a name like Siemens, DaimlerChrysler, Bosch or BASF. Tiny and unimportant companies with only E100m or so turnover (!), making things our intrepid bankers don't understand, are, dreadfully sorry, no longer extended credit. Not that they don't understand the risk; they are not even prepared to try! Look at the chart on the opposite page: a sorry state of woe. German bank credit has been falling. The lion's share has been cutbacks in corporate lending; the tiger's part of the upturn in the latest quarter is almost all home loans.



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Oh, did I mention Germany will have a venture capital stock exchange from tomorrow? You can be forgiven for having blinked and missed this. Truth is, we're a bit wary of this raw capitalism. Cowed by the dreadful embarrassment of plummeting tech shares in 2001/2, Germany Inc quickly shut down Neuer Markt, closed the doors, switched off the lights and pretended it never happened... Except that Germany Inc can no longer deny the need for an exit stock exchange for venture capital. Besides which, along has come that UK upstart for start-ups, the Alternative Investment Market. AIM has attracted scores of small company IPOs, plus a lot of junior exiters from continental European ventures. What to do? Taraaaa! I give you 'Entry Standard'. Sired by the Deutsche Börse out of the newly-renamed Open Market (formerly the Frankfurt Regulated Unofficial Market), Entry Standard starts tomorrow! This is good, yet only a small step for Germany Inc; not yet a giant leap for Germankind.

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On back-end financing, as Achleitner points out Germany has a bigger problem: the absence of private pension funds which, in the Anglo-Saxon, Swiss and Dutch capital markets, provide the most significant capital agglomeration points. These "take over the investment role from which banks and insurance companies, due to changes in their business models, have been forced to withdraw," Achleitner said in a recent interview. Foreign pension fund capital is filling the funding gap since national capital providers either don't want to or don't exist. Foreigners are, via conventional asset managers and hedge and private equity funds, earning high returns from sophisticated strategies in real estate and industry. Those taking home the profits made in these here parts, in other words, are the dudes from out of town. "It is naturally regrettable that the beneficiaries of this investment activity are exclusively Californian teachers and autoworkers from Michigan and not our own working people," Achleitner, a former Goldman Sachs partner, says. "Unfortunately we failed, 15 years ago or even longer, to change over to capital coverage pensions, and now we are suffering the consequences." Achleitner admits Allianz is one of those insurances changing its business model but says the Munich-based giant has remedied the situation by setting up investment units in real estate and private equity. This is something Berlin's new black-, er, -red coalition needs to remedy, and quickly: flexible capital agglomeration at home to fill private sector funding gaps, and prevent the entirety of German real estate ownership going abroad. If, that is, Angela Merkel's coalition really wants to be Grand.

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Allan Saunderson, editor@pfeurope.de

engage in direct or indirect real estate investment for lease purposes or in or project development and construction to this end. Real estate of this nature must represent at least 60% of the total asset base.

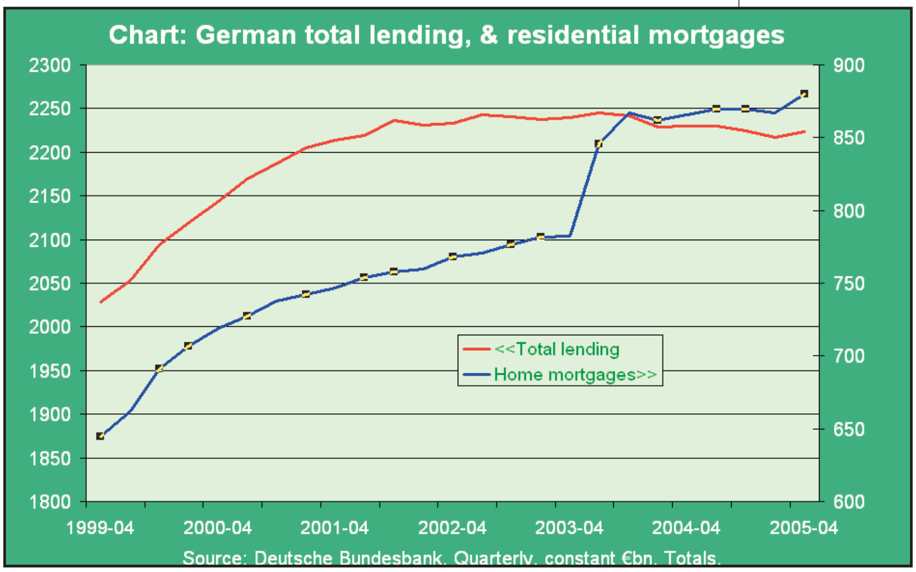
The OPCI can fit into one of two categories of investment fund within the French marketplace, either an FPI (fonds de placement immobilier) or an SPPICV (sociétés de placement à prépondérance immobilière à capital variable). The French business portal BusinessImmo reported that real estate companies with the status of SPCI (Sociétés de Placement Collectif Immobilier), which have no such tax advantages, can be converted into OPCI over a period of five years.

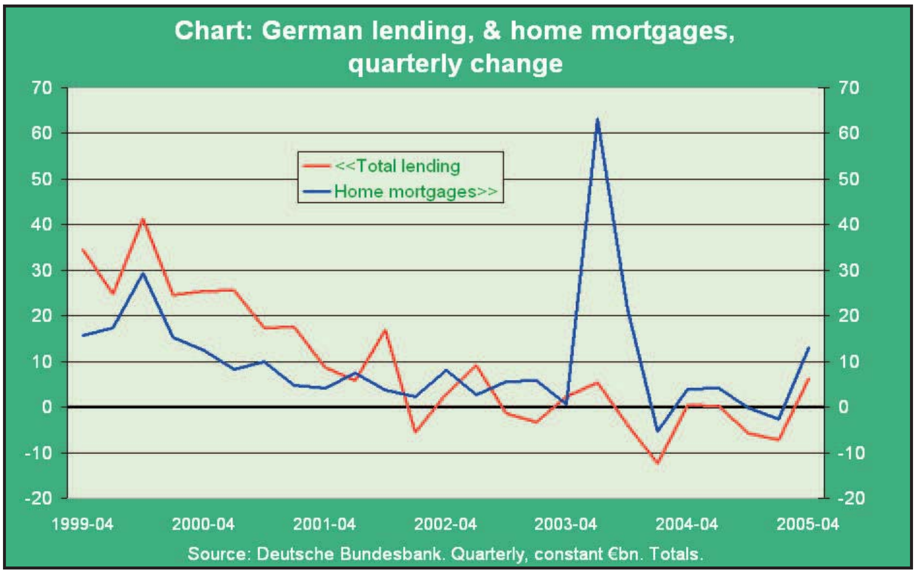
The Paris real estate office of Baker & McKenzie said the new OPCI will be exempted from corporation tax on condition they distribute at least 85% of their net profits, "corrected by a theoretical amortisation of at least 50% of any capital gains from a property sale."

The legislation stipulates that the OPCI must respect a certain number of ratios covering liquidity levels, risk dispersion, debt levels and performance commissions. The legislation, which requires the government to issue further secondary decrees, is expected by sector specialists to come into effect during first half 2006.

BusinessImmo also reported that several companies are ready to begin the process of launching OPCI. Antin Vendôme, chief executive of Groupe BNP Paribas Immobilier, has already announced the intention to launch several OPCI funds in 2006, split between institutional and retail funds. Opéra Rendement, an SCPI involved in commercial real estate, has already pooled assets of €50m that it intends to bundle in the first OPCI on the market, its CEO Patrick Lenoël said. pfe

PFE COMMENT: This is an attempt by the French government, also with the sure guiding hand of Senator Philippe Marini, to provide the same favourable fiscal regime for unlisted real estate funds as exist for French REITs (SIIC). It is a sound and equitable idea. However, though no one is undiplomatic enough to say so, it should be realisted creation of the OPCI legislation is partially a reaction to the strong investment in SIICs by foreign institutions, and an attempt to establish two types of real estate investment vehicles attractive to domestic, French investors. The new investment funds have been the subject of a strong lobby by the French Association of Real Estate Investment Companies (Association Française des Sociétés de Placement Immobilier, ASPIM).





Metrovacesa's French SIIC Gecina to invest €4.5bn in new businesses

Metrovacesa SA's French arm Gecina will invest €4.5bn in the next few years in new businesses, Metrovacesa chairman Joaquin Rivero told the French economic magazine Expansion.

The business plan involves the creation of a logistic network throughout France and the acquisition of hotels. Gecina's expansion plan will be financed by the sale of rented residential property and smaller offices over the next five years.

Metrovacesa purchased the majority stake of Gecina early this year in a successful takeover bid, though the target company remains quoted with the status of a (Société d'Investissements Immobiliers Cotées, SIIC). French insurance group AGF had held a majority in Gecina. pfe

Germany's IVG expects strong rise in 2005 net profit to €100m

Germany's largest listed property company IVG Immobilien said that positive business development this year should boost net profit to around €100m, compared to €74.9m after tax posted in 2004, and it aims to propose an increase in its dividend.

In a press release, IVG said all three divisions - caverns, project development and funds management - will contribute to this significant increase in earnings. On account of the positive development, the board intends to propose another increase in dividend for 2005, compared to the fiscal year 2004 dividend of €0.35 per share. It gave no details of the prospective increase

In addition, IVG said it expects an increase in Net Asset Value of its asset base. This had amounted to €15.20 per share at the end of 2004. pfe

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Spain's Colonial boosts Madrid office exposure, achieving 5% NOI

The Spanish listed property company Inmobiliaria Colonial has strengthened its downtown Madrid presence by acquiring seven office buildings, achieving a yield of 5% at purchase, according to the Brussels-based real estate securities asset manager Houlihan Rovers.

Colonial, which paid paid €352m for the properties, said at the time that the move was to benefit from increased exposure to an expected recovery in the Madrid market while maintaining financial leverage of 45%-50%. Recent central business district transactions in Madrid have been yielding as low as 4.5%.

Seller of the properties was car insurer La Mutua Madrileña, which itself owns a Madrid property portfolio of some €1.5bn. Payment was made in the form of €178.1m in cash plus a 6.5% stake in Colonial, which last year took a majority stake in French REIT Société Foncière Lyonnaise.

Mutua said it intends to use the proceeds to acquire another 3.8% of Colonial from the largest shareholder La Caixa and 2.8% directly from the market.

Houlihan Rovers, which has some $500m in assets under management, is 50% owned by Cohen & Steers, Inc., a NYSE-listed New York-based manager of income-oriented equity portfolios and the largest REIT manager in the US. pfe

Sal. Oppenheim offers certificates on listed European real estate companies

The private Cologne-based bank Sal. Oppenheim said it is offering certificates on the shares of three listed European property companies, Deutsche Euroshop AG, Rodamco Europe und Klépierre SA.

In a news release, it said the certificates would allow investors to benefit from stock price developments of the companies without the need to purchase the underlying shares themselves. Final redemption date of the certificates in 18 August 2008. pfe

Pirelli RE set to bid for two NPL portfolios from HVB worth €4.5bn

Italy's Pirelli Real Estate will make a bid for two portfolios of non-performing loans being offered for sale by HypoVereinsbank worth a combined €4.5bn in face value, PRE Chairman Carlo Puri Negri said. He told the Reuters news agency this was split between a portfolio of €2bn and one of €2.5bn, but gave no further details.

HVB at the start of the year transferred €15bn of mortgage NPLs into a separate unit. The so-called Real Estate Restructuring in August sent out documents to selected investors with information on a first NPL portfolio.

PRE is the largest real estate company in Italy and belongs 51% to the Pirelli tyre-making group. It has identified Germany alongside central and eastern Europe as potential growth markets (See also JV with the Kronberg Group elsewhere in this issue). pfe

PFE COMMENT: What is glaringly missing from this item is the strong Italian connection now with HVB: No one is talking about it. But Unicredito last week declared it has acceptances for its takeover bid from more than the minimum 65% of HVB share capital. The takeover can go ahead, despite misgivings from Austrian bankers in HVB subsidiary, from within HVB's own supervisory board, as well as elsewhere in the German financial community. That an external Italian institution, PRE, looks to have been "invited" by Unicredito to help clean up HVB's balance sheet quickly is an indirect condemnation of the inability of the Bavarians to get to grips with their own problem assets a lot earlier.

German insurer AachenMünchener said selling €1bn portfolio of mortgage loans, NPLs

The German insurance group AachenMünchener Versicherung is selling, in two tranches, a total portfolio of performing and non-performing mortgage loans worth around €1bn in face value, according to a report by Financial Times Deutschland.

Purchaser for the performing part of the pool is Lehman Brothers, while Goldman Sachs is reported to be buying the NPL package. No other details were available. pfe

Three more bidders enter due diligence for Germany's AHBR

Three more interested parties have emerged to buy AHBR Bank alongside the investor groups Cerberus, Lone Star, and Christopher Flowers. These were named as Eurohypo, Merrill Lynch, and the US opportunity fund Texas Pacific.

Financial Times Deutschland reported that the three new interested parties had entered a due-diligence for AHBR, which is being sold by the building society BHW. Merrill was named earlier as a possible purchaser of AHBR after it bought a portfolio of €129m in non-performing loans last month from ailing mortgage bank.

The Hamelin-based BHW itself is up for sale and the main interested parties here are Postbank and Commerzbank, neither of whom are interested in also purchasing the BHW subsidiary AHBR. BHW is in the majority ownership of two trades union associations. Postbank bought a 9% stake in January this year. pfe

A record number of 1,400 exhibitors and more than 18,000 visitors were attracted to the 2005 Expo Real real estate trade fair in Munich.

Expo Real attracts record number of 1,400 exhibitors, over 18,000 visitors

Germany's major real estate trade fair, Expo Real, which took place earlier this month in Munich, was the largest ever, attracting 187,000 visitors from 60 countries and just over 1,400 exhibitors.

Expo Real director Eugen Egetenmeir told a press conference the number of exhibitors had climbed from just 1,344 last year.

The trade fair above all had proven to be more popular with international investors than ever before. Some 293 exhibitors, a rise of 16%, came from outside Germany..

The main origin of the visitors was, first of all Germany, and then Britain, Austria, Netherlands and Switzerland.

But this year visitors from Russia were more numerous than those from Italy among the top-ten list of origin nations for those visiting the trade fair, Egetenmeier said. organisers have pushed back the date for next year's Expo Real until later in the month, 23 until 25 October 2006.

Participants reported very heavy business volume this year, reflecting general foreign interest in German real estate deals. pfe

Expo Real 2005 took place for the fifth year running in the new exhibition ground on the eastern outskirts of Munich, the site of the city's former main airport.

Commerzbank unit said successful bidder for Hesse property portfolio

A unit of Germany's Commerzbank, CommerzLeasing und Immobilien (CLI), has won the auction for the Hesse commercial real estate portfolio, which had attracted a total of around 100 bidders for 18 properties, the UK magazine EuroProperty reported, quoting sources close to the transaction.

Separately, Hesse Finance Minister Karlheinz Weimar said earlier this month that he expected to raise €1.03bn for the portfolio. Hesse had originally ancitipated that the proceeds for the portfolio, which includes the Frankfurt police station and the interior ministry building in the state capital of Wiesbaden, would not exceed €800m.

Walter Arnold, state secretary in the Hesse Finance Ministry, also told the Immobilien Zeitung newspaper at the Expo Real exhibition earlier this month that Hesse would offer two more portfolios to the market. In 2006, it would offer 35 properties with a total value of €740m, and follow this in 2007 with a 40-45 property portfolio worth around €550m.

It is unclear how these will be sold however. Hesse finance ministry officials are also considering whether these portfolios could be floated on the stock exchange in a Real Estate Investment Trust (REIT) format if the enabling legislation is put in place.

Weimar gave the valuation of the current sale and other details during his presentation of the 2005 budget earlier this month. Negotiations on the current transaction were in the true closing stage, and contracts should be signed at the end of October.

The portfolio was put on the market in spring and comprises 18 buildings used by different state authorities. They will be leased back for long-term contracts for periods between 20 and 30 years.

More than 100 bidders emerged for the portfolio, with demand strongly exceeding the expectations. Alongside CLI, US opportunity funds Cerberus and Fortress were believed among the major bidders for the portfolio, together with the

UK-based REIT Asset Management. pfe

PFE COMMENT: Where Hesse leads, many other German states and local governments are almost certain to follow. It will be interesting to see if the political environment is right, next year or in 2007, for the public sector to bundle assets directly into a Real Estate Investment Trust (REIT), as Hesse is intimating it may do. Given SPD misgivings on REITs (see front page), this question truly remains open at the present time.

Four German true sale MBS in pipeline after introduction of claims' registers

The relatively small legal change in establishing registers in Germany to work around the problem of transferring claims in securitisations without having to seek permission of borrowers has opened up the market for true sale securitisation after a long delay, and four deals are in the pipeline.

Financial sources say some of the four are likely to be launched before the end of the year in the context of Germany's True Sale Initiative, set up in spring 2003 by the KfW Group. This is in addition to the two true-sale auto-loan securitisations, Driver I and Driver II, that have already been launched for the Volkswagen group.

One of the new transactions is the Eurohypo transaction, according to the sources. But all agents in CMBS in particular in Germany are now overhauling operations in preparation for much larger volumes, in particular now that the general funding side in property loans has been opened up by the change in the pfandbrief-covered bond laws in July. pfe

Delinquencies rise in two HRE CMBS transactions despite bank, transaction upgrades

Despite a recent upgrade of both Hypo Real Estate Bank AG and two CMBS deals credit linked from before HRE's flotation from the HVB Group, a new Fitch report shows that delinquencies and credit events in the transactions are beginning to trend higher again.

Fitch said that since April 2005, the HVB Real Estate 2001-1 and NurnbergHyp 2001-1 deals experienced an increase in delinquencies, defined as 90 days or more in arrears, by some 130bp. The latest investor report shows delinquencies of 3.76%, up from 2.43% at end-April.

But, "while the last two quarters have shown arrears trending upwards, it is also important to note that the amount of losses being allocated has slowed. After three consecutive quarters of loss allocation, the current period has seen no losses." In Fitch's view however, further losses will emerge in the coming periods. Cumulative realised losses are 10bp of the initial portfolio balance.

The latest investor report showed that at end-July, delinquencies in the NurnbergHyp 2001-1 transaction were 3.39%, an increase of 116bp since April, so that, again, an upward trend was becoming apparent. Losses remained stable this quarter, at 16bp of the initial balance, but further losses are expected, Fitch said.

Fitch nonetheles upgraded some tranches of both deals that are credit-linked to the long-term rating of HRE, reflecting its institutional upgrade of BBB+ from BBB this month. Remaining tranches have been affirmed. Following the €3.6bn sale of problem loans to Loan Star in September 2004 the performance of these two portfolios significantly improved, it said. pfe

UK, Scandinavia, Benelux investment in covered bonds seen growing

The largest volume of placement for covered bonds continues to be in the German-speaking world - mainly the so-called 'Jumbo' Pfandbrief issued by German banks - but the popularity of UK covered bonds has boosted investment by British institutions, and the appetite among Scandinavian and Benelux investors for the asset class is also growing, Commerzbank said.

The breadth of geographical placement of covered bonds is assumed to correlate to the familarity of the institution in capital markets, the deal's maturity, its issue volume, price and choice of lead managers. However this is becoming less important as the market internationalises, analyst Claudia Vortmüller says in a report

"The largest volume of covered bonds continues to be placed in the German speaking world," she says. The sharp rise in significance of UK investors is interesting to note. Increased participation of Scandinavian and Benelux investors is probably due to the strength of ABN Amro.

In the first two weeks of October, €12.5bn of covered bonds were issued Europe-wide, include German Pfandbrief and Spanish Cedulas, the largest in the general asset class. New issues in the pipeline total €10bn. However, the issue of liquidity in the asset has still not been resolved, and the aggregate volume of deals without regular market making is around €100bn. pfe

Vienna office market shows strong upswing in first half - CBRE

The market for office space in the Austrian capital of Vienna is showing a significant upswing, according to latest figures for the first half of the year from the realtor CB Richard Ellis.

A record 170,000 sq. m. was rented out in 1H05, more than a third more than in 1H04.

The strong demand is beginning to push up rents. An estimate of the Vienna-based property intermediary Otto Immobilien shows average rents at €11.7 per sq. m., and peak rents in top locations unchanged from last year at €22.

Around 300,00 sq. m. of new space should be rented by the end of the year, the realtors say. Otto Immobilien calculates that around about 220,000 sq. m. are going to come on to the market during 2005 – some 2.3% of the entire existing office space available. Vacancy rates in Vienna office space should sink to 6% from the former 6.5%. pfe

PROPERTY FINANCE EUROPE - *BULLETIN BOARD*

Tuesday-Sunday 25-30 October 2005
Barcelona Meeting Point, Hall 1. Fira de Barcelona
The 8th Barcelona Meeting Point has a Property Symposium running on the first two days. This will be divided into five different subjects. The Urban Land Institute organizes a full-day seminar on Transforming and Energizing Cities: Urban Tourism as Catalyst. Sessions later that day, organized by ESADE and IESE, will discuss Management of Real Estate Companies. Scheduled for Wednesday 26 October are two different topics: New Directions in Property Investment, organised by The Royal Institution of Chartered Surveyors, and Investing in Emerging Markets, organised by the Global Real Estate Institute and the International Council of Shopping Centers. A session on Social Housing in Spain will wind up the session. More information at www.bmpsa.com/eng/home.php

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Wednesday 26 October 2005
Fifth conference of the German Real Estate Share Initiative, Frankfurt am Main
The conference 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

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Wednesday-Thursday 9-10 November 2005
German Distressed Property Risks and Opportunities, Berlin
The conference will discuss 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. 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.

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Tuesday-Wednesday 15-16 November 2005
IMN Sixth Annual European Real Estate Opportunity & Private Fund Investing Forum, London
Information Management Network presents its forum billed as an educational and networking eventwhere 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: www.imn.org/

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Wednesday-Thursday 23-24 November 2005
European Mortgage Federation, Annual conference, Brussels
The 2005 Conference takes integration as its theme and aims to be the starting point for the generation of new ideas, to spark debate and to help build new relationships among the industry's stakeholders. The conference program covers all aspects of the mortgage process from servicing, product development and risk management to economic trends, consumer protection and, of course, regulation. More information: www.hypo.org.

Wednesday-Friday 30 November -2 December 2005
4th French Commercial Real Estate Salon, Salon de l'Immobilier d'Entreprise, Paris
Aside from a full program discussing all aspects of French commercial property, SIMI will this year include a jury of commercial real managers from the large French companies to judge a number of Grand Prizes, Grands Prix SIMI 2005. Categories will include the Property of the Year in the new and renovated sub-categories, the Grand Prize for Technical Innovation. More information: www.salonsimi.com

Wednesday-Thursday 6 - 8 December 2005
REIT World UK, Royal Garden Hotel, London
Two-day executive level conference with 30 expert speakers, more than 150 professionals and many networking opportunities. The massive scale of change afoot in European real estate investment cannot be overestimated, with more and more allocation to real estate in institutional portfolios and by the ever more significant private investor. All parties stand to benefit if tax treatment and regulation for REITs is right, and massive development can be triggered in the sector. There is also huge potential for residential REITs, and this is something that many countries would like to utilise. More information: www.terrapinn.com/2005/reituk/

The PFE Interview: Prof. Dr. Thomas Kretschmar, Chairman of Hypoport AG

German home mortgage market seen facing more foreign competition as margins stay thin, attitudes shift

Thinning margins in residential mortgages in Germany, combined with a cultural shift in attitude, mean domestic bank cost structures are too high to compete and foreign banks, working through brokers, are likely to push further into the market, according to the chairman of a leading Internet mortgage platform.

Thomas Kretschmar, chairman of Hypoport AG, told *PFE* in an interview margins in home loans fell as low as 15 basis points earlier this decade, much too low to cover costs and provide a profit for most German banks. Many have either withdrawn from the market or turned mortgage operations into credit factories. A number of different factors have combined over the last few years to break down traditional structures. This has introduced transparency and dynamism, as well as a lot more choice for consumers.

Thomas Kretschmar sees more changes to come in the German home loan market.

"The changes in the German mortgage market really began around 1998, '99," Kretschmar told *PFE*. "Newspapers and magazines around that time began to publish lists of the top mortgage deals. Stiftungwarentest (a quality testing magazine) began to assess the different mortgage offerings, and transparency started to come into the market."

The first Internet broker emerged, and large financial advisory companies strengthened brokerage services for residential mortgages, working through a branch or a franchise network, Internet, or a combination. Kretschmar cited MLP AG (formerly Marschollek, Lautenschläger and Partner), the AWD AG (Allgemeiner Wirtschaftsdienst) financial advisers, Bonnfinanz - now part of the Zurich Group - and DVAG (Deutsche Vermögensberatung) as among the first to enter the market. "More and more people began to compare mortgage deals," Kretschmar said. "This brought pressure into the market through transparency. Rather than just go to their house bank for home loan financing, people started to shop around and became aware of the differences in the mortgages on offer."

Savings banks, funded by cheap retail deposits, have traditionally been the leading mortgage providers in Germany, a market estimated at €70bn-€150bn per year. The nationwide networks of local branches, provide a strong competitive distribution advantage.

New mortgage financiers also entered the market, offering directly to consumers and using the Internet as a distribution tool, Kretschmar added. Dr. Klein, now part of the Hypoport group, was already in place. Then came Interhyp - floated earlier this month in a highly successful IPO - Westdeutsche Immobilienbank, 99-Online, Deutsche Bau und Boden, Nuremberg Hypo, and foreign institutions such as ABN-Amro and ING which bought Direct Bank from HypoVereinsbank and now distributes through its ING-DiBa Internet portal.

But massive structural and cyclical changes changed traditional mortgage lender. The abolition of state guarantees for savings and landesbanks, which took effect this July, undermined their funding base, created a maelstrom of reorganisation, and diverted attention from the home loan sector. The global economic downturn that followed September 2001 added to problems and brought a deep banking crisis.

"The traditional banks suddenly had to worry about their equity capital and avoiding being bought out by major competitors," Kretschmar said. "Banks were completely concerned with reacting to this crisis, lowering costs and cutting back branch networks. This gave a strong boost to pure financial service companies and new entrants without such problems."

Banks also realised that working with brokers brought cost efficiencies. The traditional credit process - marketing, client acquisition, mortgage application, document processing, credit check and eventual approval - proved too costly when half of the customers proved to be simply shopping around. "Banks suddenly had double or triple the work load so that plugging into a broker network suddenly made a lot of sense. It was a win-win situation," Kretschmar said.

The number of home loan suppliers, combined with subdued mortgage demand, cut margins as low as 15bp, and many traditional providers pulled out. Those that stayed in, such as the cooperative banks and the giant Postbank, created highly sophisticated credit factories. Postbank, currently a strong contender to take over the Hamelin-based BHW building society, is now market leader, alongside ING-DiBa. GMAC RFC is also focusing strongly on Germany after, in the UK, having sprung from nowhere to Britain's 10th largest home loan provider.

Hypoport's EUROPACE mortgage processing platform was the logical response to the complexity that resulted from the changes, Kretshmar said. "If you have 10 banks and 10 brokers then you have 100 potential business relationships. If all of them have a relationship to us; they all file applications to the same place using the same, standardised documentation, and we offer interfaces to all broker and banking systems, we are creating an obvious cost and resource efficiency."

Hypoport's EUROPACE Internet platform really began to take off after the merger of the group's forerunner Freie Hypo with mortgage provider Dr. Klein at end-2001. Now, mortgage volume processed on the platform is soaring. EUROPACE was processing €200m home loans per month at the start of the year. By September this had soared to €800m. Hypoport is on track for processing 10% of the entire German home loan market. "EUROPACE has becomes an electronic market, a sort of mortgage finance E-Bay," Kretschmar said. "Financing banks log on because there are lots of brokers, and brokers use it because our financing partner group is second to none. It's a logical progression, exploiting the technology tools that are available these days." pfe

European home mortgage market expansion outpaces average in 2004

The European residential mortgage market grew by nearly 10% in volume during 2004, outpacing both the 7.4% growth in 2003 and the average 8.5% annual increase over the last five years. Net lending was €412bn, or 4% of European Union GDP, taking mortgage loans outstanding up to €4.7tr for the 25 EU countries, 45% of the region's GDP.

The figures were included in the annual publication from Brussels-based European Mortgage Federation, and confirmed the strong progress of Europe's housing and mortgage markets, particularly in the new EU members, EMF Secretary General designate Annik Lambert commented. "Especially in the EU's new member States borrowers are discovering the benefits that secured lending can bring in terms of lower rates, longer maturities and the ability to release capital from their homes," she said.

The data also showed that the UK has overtaken Germany to become Europe's largest mortgage market, with €1.2tr of loans outstanding or almost a quarter of all EU mortgage balances. The smallest national mortgage market in the EU 25 is in Lithuania, with mortgages outstanding of €387m at end-2004. However, the market was also the fastest growing.

Last year, house price rises were fastest in Malta (18.8%), followed by France (17.6%) and Spain (17.5%). Belgium, Denmark, Ireland and the UK also experienced significant price increases, of around 11%. Conversely, home prices in Portugal were close to flat. Germany and Austria were the only two countries to have falls in house prices last year.

In terms of home ownership rates, the EMF showed that the Swiss have the lowest level of home ownership in Europe, at 35 %. The highest rate, at 98%, is Lithuania.

Across the EU 25 as a whole, the number of dwellings per 1000 inhabitants is 434. In the former EU 15 it is 457, while in the new central and eastern European member States it is 399. The highest number of dwellings measured by population is in Spain followed by Austria and Greece. Slovakia and Lithuania have the lowest number of dwellings per 1000 inhabitants. pfe

European property investment volume to hit record in 2005 - CBRE

Investment volume in European real estate is set to reach another record high this year after transactions for the first half of 2005, at €55bn, were 22% higher than the same period in 2004, according to CB Richard Ellis.

In its European investment report, CBRE said cross-border investment activity also continues to rise. Whereas in 2004, non-EU investors accounted for some one-third of cross-border acquisitions, this rose to almost 50% in 1H05.

With continuing intense competition for limited product, investors are looking outside traditional sectors for future investment. One area that has seen a rise in activity is the German market, and notably the residential sector, where many large transactions have involved the sale of public sector housing, a sector favoured by US investors.

Nick Axford, Head of EMEA Research at CBRE, said the German investment market witnessed substantially more activity through 1H05, as yields increased relative to other European markets. Non-German investors are now accounting for a significant proportion of deals.

Investment in Central and Eastern Europe also showed strong growth, with a 40% increase in transactions in the first half. Much of the activity remains in the office and retail sectors in the core markets of Czech Republic, Poland and Hungary, where yields have dropped to 7.25% and 7.5% respectively.

While the strength of current demand and continued falls in yields raise concerns of a possible future correction, CBRE said pricing in the market overall remains rational. "Whilst European real estate may appear expensive relative to recent history, the economic and investment environment is very different to what we have experienced in the past," Axford said. "The property cycle is not dead, but neither is the market suffering from some 'irrational exuberance' that will require a correction in the future."

With the market dominated by highly leveraged buyers, unleveraged institutional purchasers are now looking outside traditional core markets where competition for product is not so fierce. CBRE sees a continued move eastward into Romania, Bulgaria and Turkey - where yields should fall. pfe

New German government likely to abolish home purchase premium in 2007

The new Grand Coalition government in Germany under under the nation's first woman chancellor Angela Merkel, is now near certain to abolish the home purchase premium

Table: European residential mortgage market

2004	Value of mortg. debt [1]	growth rate y/y	Mortgage loans/GDP	Per capita mortg. debt [2]
UK	1,243,261	11.1%	72.5%	20,835
Germany	1,157,026	0.1%	52.4%	14,019
Netherlands	518,115	14.3%	111.1%	31,868
France	432,300	12.2%	26.2%	7,217
Spain	384,631	22.9%	45.9%	9,083
Italy	196,504	13.4%	14.5%	3,395
Denmark	174,300	6.0%	89.7%	32,292
Sweden	147,163	10.0%	52.7%	16,396
Belgium	88,434	8.2%	31.2%	8,506
Ireland	77,029	29.8%	52.7%	19,125
Portugal	70,834	6.9%	52.5%	6,762
Finland	56,522	10.8%	37.8%	10,829
Austria	48,064	20.9%	20.3%	5,905
Greece	34,052	28.3%	20.6%	3,084
Poland	10,686	22.9%	5.5%	280
Luxembourg	8,797	12.3%	34.3%	19,480
Hungary	7,767	35.1%	9.6%	768
Czech Republic	6,576	34.9%	7.6%	644
Cyprus	2,182	4.6%	17.6%	2,988
Estonia	1,500	57.3%	16.6%	1,110
Latvia	1,273	67.5%	11.5%	549
Lithuania	1,258	88.3%	7.0%	365
Malta	1,236	20.6%	28.6%	3,090
Slovakia	839	82.3%	2.5%	156
Slovenia	387	30.3%	1.5%	194
EU15	4,566,198	9.6%	46.4%	11,931
EU 25	4,670,736	9.7%	45.3%	10,223
US	*7,568,200*	*13.8%*	*64.5%*	*25,772*

[1] in €m, [2] in €

Source: European Mortgage Federation

(Eigenheimzulage) but is unlikely to do this before 1 January 2007.

The coalition is being strongly advised to abolish the premium already in 2006 in order to progress rapidly with its stated top priority of balancing the federal budget in 2007. The home purchase premium was cut by one-third in 2003 but the program this year is still likely to cost the state up to €11bn.

Officials estimate that its abolition will save €223m for the state in the first year after abolition, €1.5bn in the second year, and €2.2bn in the third year. Only after eight years would no-one any longer be qualified to receive any home purchase premium.

The right-of-centre Union parties and the Social Democrats in the Grand Coalition agreed last week to combine two working groups on subsidies previously planned to remain separate - budget and taxes. This would be led by the two men who, two years ago, worked from opposite sides of the political spectrum on a cross-party plan for cutting subsidies - designated Finance Minister Peer Steinbruck and Hessen's CDU Premier Roland Koch. Both have now ruled out further tax cuts unless they are budget-neutral.

The extent of subsidies in Germany is a matter of definition. While the subsidy report of the Red/Green former federal government in 2003 counted total subsidies of €59bn, combining federal, state and local governments, the Institut für Weltwirtschaft in Kiel two years had earlier identified €156bn across all government levels, including the entire earmarked cultural promotion monies.

Two years later Steinbruck and Koch cut the IFW calculation back to €127bn and divided the subsidies into three compartments: tax reductions and financial subsidies of €77bn on which both were able to agree. This includes elements such as the commuter subsidy, the coal-mining subsidy, tax-free savings loans and transportation discounts for schoolchildren.

In the second, the two put all subsidies that were controversial such as environmental taxation and tax-free home purchase premia. Compartment three contains acceptable subsidies such as those for small and medium-sized enterprises, research subsidisation, and donations and church tax. pfe

Pirelli RE, Kronberg Group set up joint venture, buy German home portfolio

Italy's Pirelli Real Estate and the German Kronberg Group have established a joint venture to invest in residential real estate in Germany and have already purchased a portfolio of around 1,600 properties in west Berlin valued at €72.5m, the two companies announced.

The JV, P&K Real Estate GmbH based in Berlin, is 60% owned by Pirelli RE and 40% by the Kronberg Group, a private property company. P&K made a successful bid for the portfolio being sold by Corpus Immobiliengruppe, consisting of 1,560 residential properties with a total surface area of 100,000 sq.m. and 31 retail units. About 95% of the properties are leased, generating rental income of over €5m a year.

The company said it aims to become a key player in the German property market, and has already identified further attractive investment opportunities. It sees significant growth potential, especially in the residential sector.

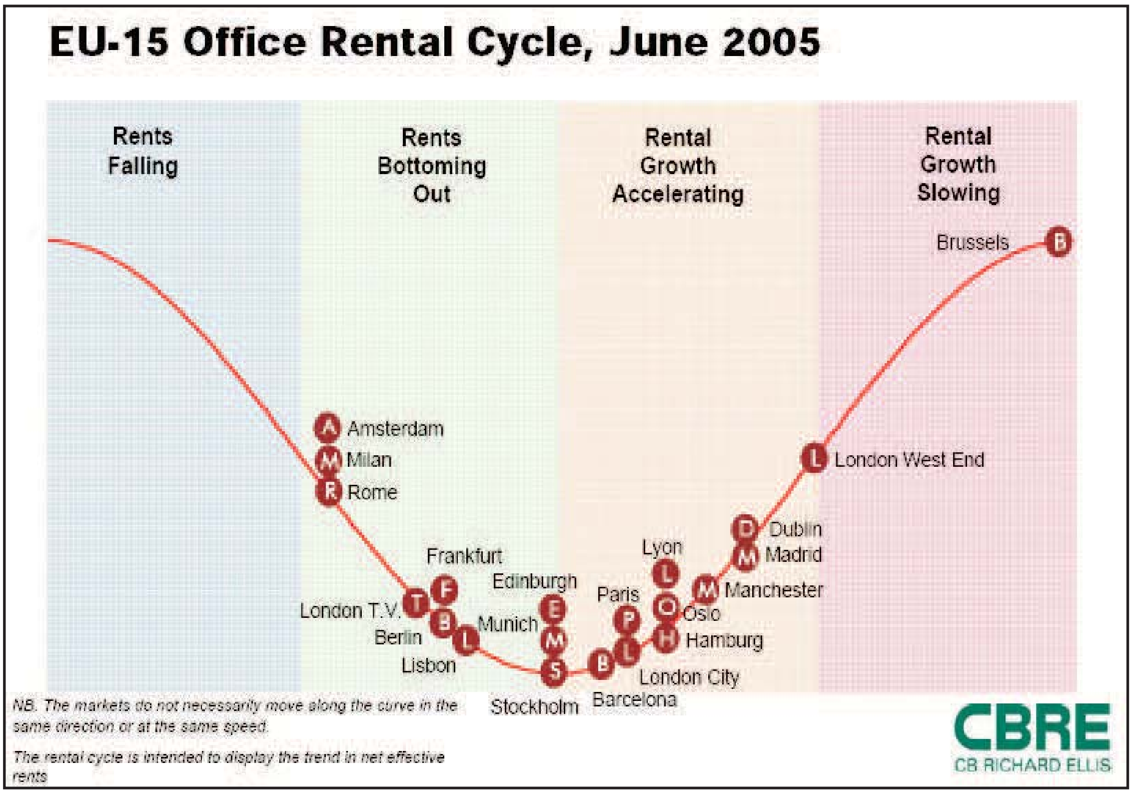
P&K advisers Scenari Immobiliari sees the German residential sector this year accounting for 61% of turnover generated by property deals, which are expected to amount to €170bn. pfe

Dresden's residential company sale attracts 50 bidders, to close in March

Some 50 bidders have expressed interest in purchasing the city of Dresden's residential company Woba, which manages around 50,000 residential units with a balance sheet value of €1.8bn, Dresden Mayor Ingolf Rossberg told the Immobilien-Zeitung newspaper.

The deal should move ahead soon. In November a steering committee set up to oversee the sale will compile a short list of between 10 and 12 bidders, he said. This would be pared down even further by year-end so that actual negotiations would be conducted with between two and four prospective purchasers.

Rossberg said the ultimate decision about the sale was scheduled for March 2006. pfe



Vivacon buys 1,400 apartments

Cologne-based Vivacon AG has added another 1,400 apartments located in the Rhine-Ruhr area around Gelsenkirchen, Essen, Bergisch-Gladbach and Düren to its portfolio, paying some €45m for a total living space of 78,000 sq.m. apartments were purchased by Vivacon's subsidiary company, Vivacon Rhein Ruhr Portfolio 1 GmbH & Co. KG, and are scheduled for resale with heritable building rights. pfe

IXIS says it will invest up to €2bn in German sale and leasebacks

The London-based IXIS Capital Partners intends to invest between €1.5bn and €2bn in Germany in sales and lease-back transactions over the next two to three years, its chairman John van Oost said.

The main interest of IXIS, founded at the end of 2001 out of the France Telecom Real Estate activities, is focused on logistical and office properties. It has already bought three logistical properties from Karstadt AG, and also the entire real estate portfolio of the Barmer Insurance pension fund for €173m.

"Retail space, particularly shopping centres, are not suitable for sale and lease-back transactions," van Oost told the Immobilien Zeitung. IXIS was looking for flexible contractual structures and intended to actively manage the portfolios it had taken over.

"Many people think that long-term rental contract buildings are the best properties they can get on the market. We don't believe that. We see our job as increasing the value of a portfolio without limiting the development of the company," he said. He was therefore critical of the sale of the Hesse portfolio (see elsewhere in this PFE issue).

IXIS invests through its fund Captiva Capital Partners II and, alongside DB Real Estate, has already also invested in property belonging to the Italian utility ENEL. IXIS has equity capital of €400m and is targeting an internal rate of return of 15% annually. pfe

Eurohypo sees increase in demand for office space in Russia, opens Moscow representation

Germany's largest mortgage bank Eurohypo AG predicts a continued increase in the demand for premium office space in Russia in the next few years and announced that it had opened a representative office in Moscow.

Through the representative office Eurohypo intends to offer property financing in what it considers to be a growth market, where it expects property prices to rise. Initial focuse is on financing office space in Moscow, but this said in a press release this will subsequently broaden to include retail and logistics properties in other established locations. pfe

Savills establishes German property management company

UK-based realtor Savills said it has established a joint venture with Berlin-based Factor Immobilien Management GmbH to move into residential and commercial property management in Germany.

The German arm of the London-based Savills has taken a stake in Factor Immobilien, which is a member of the Jachimowicz group of companies. This will manage residential and commercial properties throughout Germany under the name of Savills Immobilien Management GmbH.

The company says it plans to increase the existing management portfolio by 2010 to more than 20,000 residential units and 300 commercial properties. pfe

Building permits for German homes fall to record, but demand picks up

Building permits for residential accommodation in Germany fell in the first half of 2005 by no less than 23% to reach a record low, according to figures from LBS-Immobilien, one of the country's largest mortgage suppliers.

Permits for single and double family homes fell by more than 28% in unit terms compared to 1H04. In west Germany permits for rental accommodation were 6.8% lower and for owner-occupied apartments down by 14%. However east Germany showed a sharp recovery from very low levels - with build-to-rent apartment permits rising by 47.3%.

Yet demand is picking up, LBS said. Nationwide demand for owner-occupied apartments was up by 14%, and for single family homes rose by 11%. pfe

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The board of **Catella Property AB** has appointed **Emmanuel Schreder**, co-managing director Catella Property France, as new Deputy Chief Executive for Catella Property Group to replace **Misha Moeremans d'Emaus** ... **Angelika Kunath**, managing director of **HGA Capital** until May, will join **Fondshaus Hamburg** as managing director from 1 January 2006 to build up a new division for the company focusing on closed-end property funds … **CDU member of parliament** and former director of business development in Stuttgart, Dr. **Joachim Pfeiffer** has been appointed to the Advisory Board of Institut der deutschen Immobilienwirtschaft (iddiw) … **Simone Ulmer** became new director of **Akademie der Immobilienwirtschaft** (ADI) in Stuttgart on 1 October, taking over from **Kirsi Wilhelm** who has joined a property company in Berlin ... On 1 October **Marco Mallucci** joined **Jörg Philippsen** as head of office rentals in **Savills'** Frankfurt office. Mallucci comes from **Catella Eureal**, where he spent the last four years heading up the Frankfurt rental department ... **Invesco Real Estate**, London, has put **Guy Barker** in charge of its European headquarters. **Andrew D. Thornton** (London) was appointed new COO. Invesco's executive committee was named as follows: **Andy Rofe** (London), **Doris Schumacher** (Munich), **Paul Kennedy** (London), **Ferdinand von Sydow** (Munich) and **Ben Maudling** (Prague)…**2006 ESF Annual Conference** in Venice: The **European Securitisation Forum** (ESF) has announced that next year's Annual Conference will be held in the beautiful, historic city of **Venice, Italy** from 21 March to 23 March at the "wonderfully luxurious" 5-Star **Westin Excelsior Resort** on the Venice Lido. Building on three years of successful ESF conferences in **Geneva** and in **Nice**, the 2006 ESF Annual Conference will be the most innovative and exciting yet... ESF says: "The conference will retain its reputation as the most substantive, educational and engaging securitisation conference in Europe, while substantially expanding issuer and investor participation to maximise business networking opportunities with the dealer and servicer communities." pfe