

## UK's Shaftesbury, Swiss UBS in latest buy of French SIIC

UK property company Shaftesbury PLC and Swiss bank UBS have acquired 75% of the capital of French listed real estate company Docks Lyonnais. **PAGE 3**

## Portugal's Sonae Sierra 3Q05 net rises 45% to E66m

Portuguese shopping mall developer Sonae Sierra, rapidly expanding activities throughout the European continent, reported 3Q05 net profit up 45% at E65.51m. **PAGE 4**

## German Greens minister stops abolition of closed fund write-offs

Jürgen Trittin, outgoing Greens Environment Minister, declined to sign a law abolishing tax write-offs on closed-end funds in Germany. **PAGE 9**

## Scottish Widows boosts Europe real estate investment

The Edinburgh-based funds unit of the Lloyds-TSB group says real estate in Germany offers better risk-reward profile than Spain, France or UK. **PAGE 10**

## Hartmut Bechtold True Sale International The PFE Interview: PAGE 8

# Cerberus spends €1bn to win BauBeCon apartment portfolio as North German platform

The US real estate private equity fund Cerberus has bought the 20,000-apartment union housing company BauBeCon, based in Hanover, for a sum financial sources say is well over €1bn.

In the final round, Cerberus was bidding for BauBeCon, owned by the same unions' holding BGAG that has also just sold out of BHW (see above), against Goldman Sachs' Whitehall subsidiary, Morgan Stanley and Deutsche Bank. It has made clear it intends to use BauBeCon as a platform for residential property activity in north Germany. Thus far, Cerberus has acquired a total of some 110,000 German apartments via portfolio acquisition.

For BGAG, the BauBeCon sale is part of a program of asset liquidation to cover past capital losses and future pension liabilities. The sale of its BHW stake brought in €680m. pfe

# Postbank €1.8bn BHW takeover makes it largest bank in Germany

Postbank AG, partially owned by the German post-office system, announced that it has paid €1.79bn to take over the BHW building society, valuing the target at €2.6bn. The move makes it by far the largest bank in Germany by customer base.

The move had long been expected. In February Postbank acquired 9% of BHW, and since then the process of negotiation and due diligence has been taking place in close cooperation with management and the two trades union majority equity holders. The purchase of these stakes takes Postbank's holding in BHW up to around 85%.

With BHW in the portfolio, Postbank becomes by far the largest retail bank in Germany, with around 14.5m customers. It is only exceeded by the combination of the Allianz Group, including Dresdner Bank, where the sum of insurance and banking clients gives a base of 21m.

On signing the deal, BHW placed its AHBR mortgage bank subsidiary into a trustee holding company. From the start Postbank has made clear it has no interest in acquiring AHBR, a fully-owned subsidiary of BHW and the unions.

AHBR, which has had to be supported by an injection of over €2bn over the last three years - since encountering deep problems on its Pfandbrief covered bond book - has been the focus of takeover interest by foreign and domestic investors seeking a platform for processing non-performing loans.

Investors in due diligence include Cerberus, Lone Star, Merrill Lynch, and financial interests associated with George Soros and Christopher Flowers. Last week, Eurohypo announced it was joining the AHBR bidding group, and was interested in the bank's €60bn loan portfolio.

Following the BHW takeover announcement, uncertainty surrounding the outstanding AHBR Pfandbrief caused market-makers to stop making prices in these issues. Eurohypo, Germany's largest Pfandbrief bank by far, launched an informal support action in the secondary market, heavily criticising the market-makers. pfe

## PFEUROPE.DE

Property Finance Europe is delighted to announce that it has signed a publishing agreement with the Berlin-based Hypoport AG, a leading supplier of services and products to the home loan and personal finance industry. PFE will retain complete editorial independence and will continue to concentrate on the continental European real estate themes already identified as being of high value to US and global institutional investors and all others active in the sector.

We continue to believe the requirement for information and analysis on non-UK European real estate financial strategies is huge - and we intend to meet this demand. Since launch of PFE in April the list of topics has widened from those at the top of this page. The surge of interest in listed property vehicles, particularly REITs, has caused us to give this extra weighting. We remain dedicated also to closely examining non-performing loans, residential property portfolio investment, mortgage backed securitisation, Pfandbrief-covered bond refinancing, mortgage servicing, property investment funds, developments in real estate banking - plus the short items and people notes that, twice a month, fill the gaps in your knowledge. Thanks Hypoport! And thanks to you for reading and supporting us.

## Soaring German listed property shares bring strong interest in firms' seminar

Considering the huge rise in the stock prices of German listed real estate companies over the last year, it was not really surprising that the fifth annual Real Estate Share Initiative specialist seminar organised by an informal group of the leading firms this year attracted 200 attendees, 60 more than last year.

While complaints were rife at the fourth conference in 2004 that German real estate stocks were lagging the entire world in value, and particularly France where the sector had already been galvanised by the introduction of a Real Estate Investment Trust structure, this year in Frankfurt was very different. With most German real estate stocks in the last 12 months moved into heavy premium to net asset value, the mood was a lot more buoyant.

"There's huge interest in this group of companies this year," said Hubert Bonn, spokesman for Deutsche Wohnen AG. "We probably could have fit a lot more in but we intentionally didn't want it to get too big."

The share initiative groups together Deutsche EuroShop AG, Deutsche Wohnen AG, IVG Immobilien AG, Colonia Real Estate AG, Deutsche Grundstücksauktionen AG, Deutsche Beamtenvorsorge Immobilienholding AG, Polis AG, TAG Tegernsee Immobilien- und Beteiligungs-AG and Vivacon AG.

Of this group, Vivacon has seen its share price more than quadruple in the last 12 months and has just used its new-found equity strength to raise capital. But most others have

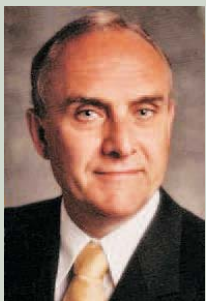
seen stock price rises of between 30% and 70%, mainly due to Anglo-Saxon investors discovering what they believe is an undervalued sector - and an undervalued asset base.

Many firms are preparing for the arrival of a REIT regime in Germany, even if the highly uncertain political situation puts more of a questionmark than ever over this eventuality (see PFE, Issue 13, 24 Oct. 2005). TAG Tegernsee Chairman Lutz Ristow said two parts of his company would each be suitable for REIT structures if the legislation comes.

He added in a presentation, "It's astonishing. For the three years up to end-2004, we had no chance to raise new equity capital through the stock market, but this year, demand for our stock has been so strong we have managed to do it three times!" pfe

**PFE COMMENT:** As we have stressed elsewhere, the most glaring anomaly in European real estate currently is the gap between the capital market valuations of German property and the domestic valuations. This seminar highlighted one group of those benefiting from the stock market valuation of their assets, which is to a large extent a valuation driven by a foreign investor perception of a cyclical low in this particular national asset class. PFE readers will have noticed a number of items in recent weeks where major institutions such as Goldman Sachs, Morgan Stanley or GE Capital have been quietly buying into small, listed companies in continental Europe to take advantage of the potential. We think they are not wrong; irrespective of the pace of development of REITs around Europe, indirect stock market investment in real estate is a wave that is highly unlikely to be stopped.

Why am I not surprised to discover that Italian banks have a much broader and laxer definition of a non-performing loan than all others in the industrial world?



According to the International Monetary Fund, while the world and his dog are defining NPLs as loans with payment outstanding for 90 days or longer, Italian bankers apparently don't get too worried until six months have gone by and they haven't heard a peep from the borrower. An IMF analysis, released last week, concluded that the Italian banking system had E33bn of NPLs on its combined books. Using of the new IFRS accounting guidelines wouldn't help, it said, unless the definition was altered to match international practice. Mediobanca, in a recent study, put the proportion of bad loans in Italy at 4.2% of banking assets, comparing poorly to the EU average of 1.2%. Still, we must be fair; efforts are being made. Banca Capitalia, Banca Intesa, Sanpaolo Imi and Banca Popolare Unite have cut their NPLs extensively in recent years. But if they're still at a loss, perhaps they could make use of DTZ's handy NPL primer, advertised in this addition of PFE (See page 5).

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Yes a birthday does make one philosophical. Well, in one's senior years, that is. In one's junior years as I recall, a birthday just made one drunk! One has just passed for me and I wonder, with the sobriety of age, just why, like hundreds of thousands of other private persons in Germany in the early 1990s, I was damn fool enough to sign up for a 'sure fire' investment in residential property. Yes, one's understanding of residential NPLs is definitely clearer if one has been veering dangerously close to the edge for a number of years oneself. The year is 1991. I am set to be a rich investment banker and live happily ever after. Why not have a small flutter in a couple of apartments in nearby Giessen that the nice man at the Frankfurter Volksbank said was a sure-fire winner? The deal went like this: no money down, 100% financing, tax write-offs for 10 years cover part of the mortgage; rises in apartment valuations over 10 or 15 years will cover the rest. Bob's your uncle. Only trouble was that the rich investment banker dream was pie in a cloudy sky, and the huge demand for homes that had to result from reunification - well, the government said so! - didn't.

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It would have been all right except for the math. I always thought sums, like

statistics, are made to deceive and confuse, and this one is compelling: Total apartment cost, DM134,000. Property tax, 2%. Realtor commission, 5.7%. Notary fee, 1%. Finance fee (for the joy of watching my innocent smile?), DM500. Disagio, 10%. Gross borrowing DM162,000. To those without immediate access to Excel or a Russian mathematics genius, this means I borrowed at 121% loan to value. Try and pay that down while capital values fall by about 40% over the next 10 years rather than rise, as the nice man, naturally, was unable to guarantee but indicated that, well, they could, should, and might. Anyway, Chancellor Helmut Kohl told us we would have flourishing industry in the east and that the solidarity income tax surcharge would be abolished after five years. Well, Helmut, we're still paying it. Did I miss something? Seriously, those outside Germany who wonder about the source of the massive residential NPLs weighing down Aareal and others, look no further. I managed to keep up the payments, topping up the mortgage with the equivalent of around E400 per month for the last 15 years. Many gave up the key and walked away. Can't say I blame 'em. Negative equity trap, Germany style. I'll be wiser next time.

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Allan Saunderson, editor@pfeurope.de

## Hesse Premier Koch, Grand Coalition optimistic over G-REITs law prospects

Prospects for introduction of Real Estate Investment Trusts (REITs) in Germany remain unclear after the formation of the new Grand Coalition government of the Christian and Social Union and the Social Democrats, but CDU Hesse Premier Roland Koch is optimistic that legislation could be passed soon.

Koch told the Handelsblatt newspaper late last month that he was confident that REITs could be discussed with the SPD, some of whose members are against the legislation. "I think this is a point that we can talk about," Koch said.

Separately, the coalition contract drawn up by the new government also made clear that REITs legislation remained on the agenda. It said the Grand Coalition under Chancellor Angela Merkel, "plans the introduction of REITs on condition that a reliable taxation of the investor can be secured, and that a positive impact can be expected on both the property market and conditions in the German market generally."

Other German media reported that the double taxation problems could well cause UK deliberations on the same subject to delay REITs introduction for the medium term. pfe

## Britain's Shaftesbury, Swiss UBS become newest purchasers of a French SIIC

British property investment and management company Shaftesbury PLC and Swiss bank UBS have acquired 75% of the capital of French listed real estate company Docks Lyonnais, valuing the company at €59m.

The two companies said in a release they will make a takeover bid for the remaining shares in Docks Lyonnais through their German joint venture Artemis Beteiligungs GmbH, and will also change to a Real Estate Investment Trust legal structure, a SIIC (Société d'Investissements Immobiliers Cotée). They intend to rationalise the asset base, while maintaining a significant presence in the city of Lyons.

The companies said the Shaftesbury managing director France, Philippe Camus, will take over as chairman of Docks Lyonnais, while Alain Juliard, Arnaud de Ménibus and Miles d'Arcy Irvine have been named to the board. pfe

**PFE COMMENT:** This is yet another instance of foreign investors taking advantage of the tax free treatment of dividends from a French REIT entity, following the investments of the Spanish companies Colonial, Metrovacesa and Fadesa in three separate SIICs over the last 15 months. More foreign takeovers are bound to come. Although France has been very successful at stimulating its domestic real estate sector at base and certainly on the stock market by introducing the REIT structure, it did so without really confronting the puzzle of how to prevent complete loss of tax income when dividends from the corporate tax-free entities are paid to foreign investors outside jurisdiction of tax authorities. French legislators are, right now, scrambling to find a way to close this gap. It is precisely the same conundrum faced by German and UK authorities in their current deliberations over REIT legislation.

## Pirelli RE strategic plan to 2008 aims at 50% operating profit growth

Italy's largest listed real estate company Pirelli Real Estate said it has set its strategic plan for the three years 2006-2008 to target growth of up to 50% in cumulative annual operating profit growth after an expansion of 80% achieved over the prior three years.

Assets under management are estimated to increase from a book value of €9.9bn at 30 June 2005 to €16-18bn at end-2008. Over the three years, the long-term portfolio is expected to account for up to 43% of the total vs 34% now, with assets concentrated entirely in Italy. This will be accompanied by a reduction in the opportunistic portfolio, which should settle at approximately 57%, down from the current 66%.

Pirelli said the three-year plan aims at 1,750 affiliate agencies in place by the end of 2008, compared with 803 at present. pfe

## UK property index IPD secures new shareholders, changes rules to head off Murdoch approach

Six British institutional investors have agreed to buy significant equity stakes in the UK real estate index group Investment Property Databank (IPD), which the company said will strengthen its ownership structure and put an end to a recent period of uncertainty.

Some 6,480 ordinary shares, representing about 32% of those in issue, will be acquired by a group comprising British Land, Hermes, Insight Investment, Land Securities, Morley and Prudential. The selling shareholders include four of the surveying firms who invested in IPD some 20 years ago, as well as a reduction in the shareholdings of some of IPD's senior management team.

The move came in response to a recent investment approach by the Rupert Murdoch media empire. Its interest had been raised by the use of the IPD's UK real estate index family as the underlyings for the nascent property derivatives market. However, precisely this reason caused British institutions to take protective stakes in IPD to preserve its neutrality.

"I am delighted that a period of uncertainty over the future of IPD has ended," IPD Chairman Rupert Nabarro said in a release. "At all times IPD tries to do everything possible to preserve and reinforce its reputation for quality, independence and integrity. The new constitution will guarantee that we can continue to do this."

Rupert Clarke, Head of Property Investment at Hermes, who led the investors in the negotiations, said, "We and the other five new investors .. had no hesitation in taking up this opportunity to underpin IPD's long-term future. The continuing integrity and independence of IPD is a key component in the commercial property industry."

The share sales and purchases will be concluded immediately after an Extraordinary General Meeting in early December 2005. The EGM is expected to agree a change in IPD's articles of association and the adoption of a new shareholders' agreement aimed at maintaining IPD's independence. Measures include a limit of 9.99% on the number of shares owned by any one shareholder except for IPD's co-founder Nabarro. pfe

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**PFE COMMENT:** The IPD bid approach and its defence is one of the most significant items of recent months in the UK real estate capital market, and indicates the British determination to develop property derivatives. While indices are the traditional underlying for any new derivatives market, experience from industrial equities shows that the widening of the real estate segment of European stock exchanges to be expected from the development of Real Estate Investment Trusts (REITs) across Europe will almost certainly spread the use of derivatives quickly onto stocks as cash underlyings. IPD itself has been building a number of continental European indices in recent years, and is a shareholder in Deutsche Investment Databank (DID), as well as firms in other nations west as well as east.

## Belgium's Cofinimmo boosts nine months property income by 10%

Belgian property management and development company Cofinimmo said it raised property income in the first nine months of 2005 by 10.3% to €108.36m compared to the year-ago period, and the operational performance is improving due to the occupancy rate and the positive effect of acquisitions of buildings let for the long term.

In a release, Confinimmo said consolidated nine month net profit reached €62.15m, up 15.2% vs the 2004 period, and per share earnings were €6.58, a rise of 8.0%.

The improvement in the current year largely stemmed from the admission to the portfolio in May 2004 of the Egmont complex and, during the 2Q05, of the North Galaxy and Tour Albert buildings in Brussels. Rental income was boosted by the nearly 1.8% improvement in occupancy rate and by a non-recurrent cash rent payment.

The market value of the property portfolio reached €2.11bn nearly unchanged from

end.2004. The value enhancement of recent acquisitions in the Central Business District of Brussels generated unrealised gains but were offset by the erosion in values around the airport and in outlying areas.

Confinimmo gave the net asset value per ordinary share as €110.45, an increase of 4.91% over 12 months. pfe

## German Designbau shares substantially oversubscribed

The recent share offering in connection with a €16m capital increase by German residential property company Designbau AG has attracted enormous interest from institutional investors and was oversubscribed several times, the company said.

Institutional investors subscribed to 89% of the 800,000 shares at a price of €20, the top of the range. The shares started trading over the counter on the Frankfurt stock exchange on 25 October.

The Molfsee-based Designbau purchases land for residential development in the green belts surrounding major cities in northern and eastern Germany, and aims to offer potential developers low-cost pre-fabricated houses and help with arranging financing. pfe

## New investors in French shopping centre manager Altaréa named as Crédit Agricole subsidiaries

The institutions investing in the French listed shopping centre manager Altaréa have been named as Prédica and Crédit Agricole Private Equity, both belonging to the Crédit Agricole cooperative banking group.

Altaréa said in a release they will take a 12% stake on the basis of €108 per share. The move raises equity capital in Altaréa to €121m. The company currently owns and manages 15 shopping centres in France and one in Rome, representing total 170,000 sq.m. of space. It also has some 30 new projects in the pipeline with potential to develop another 420,000 sq.m. in France and Italy. pfe

## Portugal's Sonae Sierra 3Q05 net up 45% at €66m, continues international expansion

Portuguese shopping centre developer Sonae Sierra, rapidly expanding activities throughout the European continent, reported third quarter consolidated net profit of €65.51m, an increase of 45% compared to the same period last year. EBITDA rose 18% to €89.29m.

The company said in a release the increases are due to a rise in the number of shopping centres managed and of development projects. Its performance was marked particularly by growth in profitability in Spain, with the opening of Luz del Tajo, Zubiarte and Plaza Éboli, an improvement in occupancy rates, and the renewal of many key contracts in Portugal. It has continued to pursue its expansion strategy and before the end of this year will be opening Serra Shopping

in Covilhã in central Portugal.

Abroad, the company acquired 25% of Parque Principado (Oviedo, Spain) and

Valecenter (Venice, Italy) in June. Projects currently in development include Plaza Mayor Shopping (Malaga), and El Rosal (Ponferrada).

In Italy, Sonae Sierra has four ongoing projects: Biella (Biella) and Caselle (Turin), and Freccia Rossa (Brescia) and La Spezia (Spezia). In Germany, the undertakings currently being developed are 3Do (Dortmund), and Alexa (Berlin). In Greece, Mediterranean Cosmos opened on 19 October as part of the development of Aegean Park (Athens). In Brazil, Sierra Enplanta is building Shopping Campo Limpo (São Paulo). pfe

## French SIIC Klépierre reports 17.5% rise in shopping centre lease income

French Real Estate Investment Trust (SIIC) Klépierre, a developer and manager of shopping malls, reported a 17.5% rise in lease income over the first nine months of 2005 to €326m, though office rental income was down 20%.

In shopping centres, external growth accounted for 12% of the increase. Hungary alone generated €15m, France €5.5m, Spain €1.9m and Italy €4.3m. The four malls acquired in Poland in late July 2005 brought in €2.7m in rents. Business outside France accounted for 46% of all shopping centre lease income, €129.8m, with major contributions from Spain (14.6%), Italy (14.4%) and Hungary (7.8%).

Klépierre said in a release the sharp decline in office property lease income reflects a deliberate divestment policy in a market characterised by strong demand at high prices. Owing to the quality of the buildings, its portfolio had been holding out well in a soft rental market.

In Europe overall, mall tenants' revenues rose 2.4% over an eight-month period. All categories except for household equipment have been performing well, with personal products leading the way, followed by health/beauty. In France, where data for September has been released, business shows a 5.5% increase over September 2004. pfe

## Two property portfolios change hands in Berlin, one to an Australian investor

Two smaller German apartment sales transactions were announced in early November, with one going to an Australian investor.

Idealwert, a property company based in Berlin, said it sold a portfolio of 19 residential and commercial units to the Luxembourg-based BGP Investment for around €50m. Separately, the Potsdam-based DKB Immobilien reported the sale of some 500 residential units located in the Berlin suburbs of Britz and Wilmersdorf to the Apellas property management group.

BGP Investment is a joint venture between two Australian investors - listed property fund GPT and international investment company Babcock & Brown, both based in Sydney. The 19 properties are located throughout Berlin and are currently 97% leased, according to Idealwert. DKB Immobilien AG is part of the Bayerische Landesbank group. The value of the transaction was not disclosed. pfe

## Grainger Trust acquires €71.5m German residential investment portfolio to start home loan platform

Grainger Trust, the UK's largest quoted residential property investor, announced it had bought a largely residential property investment portfolio from Preussag Immobilien for €71.5m, and intends to use it to start building a platform of residential assets from which it can grow business in Germany.

Located in the Metro Ruhr area, mainly in Recklinghausen, Hamm and Herne, the portfolio comprises 1,406 homes - of which 192 are houses and the remainder apartments - and six commercial units covering about 95,000 sq.m. The portfolio generates annual income of €4.5m, reflecting a running yield of approximately 6.3%, Grainger said in a release.

Grainger CEO Rupert Dickinson sees the acquisition as an opportunity to acquire high quality assets and to create a strong platform in Germany from which the company can grow. The portfolio sale completes the divestment by TUI AG, PI's owner, of its property assets. pfe



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## LaSalle cautious on German market; favours specialist retail, French office

Commercial real estate investment opportunities exist in Germany in such segments as specialist retail, and foreign investors should examine this sector, but opportunities must be weighed carefully and German property is not yet so widely compelling that it justifies establishing new investment funds, says LaSalle Investment Management's Claus Thomas.

Thomas, LaSalle European Managing Director based in Munich, told PFE in an interview that commercial property investment has become much more sophisticated over the last 10 years, with a surge in the amounts of capital being invested cross border - i.e. outside the home countries of the capital



LaSalle's Claus Thomas: Property investment should be selective, like equities and bonds.

providing institutions. "Ten years ago it was simply too costly to do this to a large extent, and many institutional investors just decided to stay at home," he said. Even though this has changed and huge amounts of capital are being deployed globally, it is important to examine specific opportunities. "There's no avoiding doing the research and just saying that investment diversity is a benefit in and of itself," Thomas said. "Investment in real estate should be selective, just like investment in equities and bonds has been for decades now."

In office property investment for example, demographics in Germany and Japan indicated a long-term trend decline, while emerging Asia and central and eastern Europe offered much better prospects.

LaSalle last month announced last month a joint venture with the British Columbia Investment Management Corporation to invest €600m in high yielding retail property investments across Germany. The JV will acquire shopping centres, specialist retail stores, supermarkets and hypermarkets. These opportunities, Thomas said, offered potential for capital growth, improvement of yield through active asset management and should benefit from any economic and real estate market recovery.

"You have to be selective where you buy," he told PFE. "It's important to know where the purchasing power is geographically located and where you find the heaviest population density of shoppers for these kinds of facilities." Currently, the low end of the grocery retail offers good opportunities, as well as the upper and specialist segments in retail complexes. "We think that there will be a definite yield shift downward in these properties, combined with a lift in valuations so that the upside potential is greater than the downside risk," he said.

LaSalle has also just launched its second French Fund, targeting office and logistics property in Paris and the regions. The hope is to reach around €300m in capital raised and, with leverage, to make potential capital investments of around €1bn. French Fund 1, launched in 1997, was paid out and closed last year, having more than fulfilled its objective. pfe

## Portuguese RMBS performing well despite sluggish overall economy - Fitch maintains ratings

Fitch Ratings said it affirmed 40 tranches of Portuguese residential mortgage-backed securitisation (RMBS) transactions following a review, even though the pattern of the Portuguese economy has remained uneven.

Delinquencies on the Portuguese transactions, defined as mortgage loans more than 90 days in arrears, remain relatively low but are above average compared to other prime RMBS transactions in Europe. They ranged between 0.07% - on a portfolio called Azor Mortgages Plc - and 1.90% on Pelican Mortgages No. 1.

Six out of the 11 Portuguese portfolios reviewed encompass government-subsidised mortgages, targeted at first-time buyers with low incomes. Although such a borrower profile is likely to represent a higher risk of default in the absence of the subsidy, the transactions tend to perform considerably better than non-subsidised portfolios, Fitch said.

The solid performance of these transactions is also enhanced structurally by most using a sequential pay-down structure and non-amortising reserve funds. Almost all have delinquencies triggers, whereby the reserve fund will be built up to a certain target level if the trigger is breached. To date these triggers have not been breached.

Losses within the transactions are negligible, although foreclosure timing in Portugal is approximately three years. Transaction prepayment rates have mainly remained low, at 10%-12%, limiting the potential for upgrades despite the good performance seen to date. pfe

## Third Northern Rock covered bond series, at €1.5bn, gets AAA rating - S & P

Standard & Poor's Ratings Services said it assigned a 'AAA' preliminary credit rating to the €1.5bn fixed-rate covered bond Series 3 to be issued by UK building society Northern Rock PLC under its global covered bond program.

The covered bonds will be direct, unsecured, and unconditional obligations of the issuer. Under the intercompany loan agreement, the issuer will onlend the proceeds of the bonds to the LLP, which will buy the mortgages from the seller, Northern Rock PLC.

Series 3 is the third of Northern Rock's €10bn global covered bond program. Series 1 was issued on May 6, 2004 and series 2 was issued on April 20, 2005. The main structural features of this latest transaction closely resemble those of the previous deals.

Standard & Poor's credit analyst Eamonn Leamy noted in the release, "No legislative framework for covered bonds exists in the UK, but Northern Rock has reproduced all the major characteristics of covered bonds using existing UK law for the purpose of this program. If other UK-based financial institutions show interest in creating similar programs, we would expect to see more structural diversity than in countries where a specific legislative framework exists." pfe

## UK's Mansford Holdings opens first French property fund targeting €80m

The British private equity real estate investment fund Mansford Holdings Plc has launched its first French investment fund, targeting total capital of €80m in the first round.

Mansford France Fund 1 is aimed at investment in mixed industrial use, specialist activity and corporate offices, as well as logistics properties, the company said in a release. To date, Mansford's entire property portfolio has focused on England and Wales. pfe

## Recession in German construction to deepen in 2005 - association

The recession in the German construction industry is nowhere near rock-bottom and will continue to worsen this year, according to Arndt Frauenrath, president of the umbrella organisation of the German construction industry, ZDB.

Frauenrath said recently that private investors were worried

about the high levels of unemployment and remained reluctant to invest in residential construction. Uncertainty about future demand for goods and services was hampering the commercial construction sector.

ZDB's management report contradicts the opinion voiced by the Association of German Construction Companies, the mouthpiece of the major construction corporations. The association last week claimed that construction was undergoing a process of stabilisation and that the industry had become noticeably more optimistic. For 2006 it forecast a 1% increase in turnover. pfe

## 80% of property deals involve first-time investors in Europe - Catella

Around 80% of the deals arranged by Catella Property Group in the first six months 2005 involved investors making their first property purchases in Europe.

Swedish based Catella said it was arranged deals throughout Europe valued at some €3.7bn in 1H05, up by about €1bn from the same period 2004.

# PROPERTY FINANCE EUROPE - BULLETIN BOARD

**Tuesday-Sunday 25-30 October 2005**

**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 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: [www.imn.org/](http://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](http://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](http://www.salonsimi.com)

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**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/](http://www.terrapinn.com/2005/reituk/)

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## ***The PFE Interview: Dr. Hartmut Bechtold, True Sale International***

### **TSI 'brand certification' of securitisation to bring transparency, legal clarity - should accelerate ABS/MBS in Germany**

Germany's True Sale Initiative, now renamed True Sale International, is well placed to become a kind of brand certification for all domestic asset-backed securitisation, opening the way for strong growth of the financial technique for disintermediating bank assets that has been slow to take off in the nation, says one of the two TSI chief executives.

Hartmut Bechtold told PFE in an interview: "Aside from influencing the fiscal and legal framework in Germany, the intention has always been to create a brand and to standardise procedures over SPVs and investor reporting."

Many in the German structured finance industry believe the TSI, announced in spring 2003, was conceived to introduce intransparency into ABS issuance. The worst-ever post-war bank asset deterioration in 2002, following the 11 September 2001 US terrorist attacks, had raised deep concerns in Germany over systemic risk. With stock markets and institutional ratings depressed, German banks were battling to find liquidity to preserve capital ratios. Two of



Hartmut Bechtold says TSI will bring transparency and liquidity into German ABS/MBS transactions.

the largest private banks, HypoVereinsbank and Commerzbank, were hit particularly hard on real estate and corporate credit books.

During 2003 and the first half of 2004, legislative and jurisdictional obstacles prevented launch of any TSI transactions however. At the same time, markets, economies and assets recovered their balance, dissipating the urgency. Therefore in June 2004, the 13 founding institutions - Bayerische Landesbank, Citigroup Deutschland, Commerzbank, DekaBank, Deutsche Bank, Dresdner Bank, DZ Bank, Eurohypo, HSH Nordbank, Helaba, HVB Group, the KfW Group and WestLB - formed True Sale International GmbH.

Bechtold, who heads TSI together with Dieter Glüder, does not totally refute this interpretation. He stresses TSI has always been a cooperative effort, backed by politicians and authorities, to introduce the legal framework for securitisation in Germany, and to convince public opinion of the merits of asset backed securitisation in general. The first TSI-certified ABS deal was launched in November 2004 for Volkswagen Bank - an €1.1bn issue of auto loans called Driver One. In June this year, heavy

TSI lobbying convinced the SPD-Green government to introduce refinancing registers to allow the insolvency-proof transfer of assets in ABS and Pfandbriefe/covered bond deals. In August, VW launched its second ABS transaction under the TSI securitisation platform, this time for €1bn in auto loans.

The refinancing registers are particularly important because of the shape of German borrowing. Of private sector credit, over 60% are secured by land charges. Not only residential and commercial real estate but also loans to small and medium-sized companies, Germany's 'Mittelstand', are largely secured against private property land charges. This legal difficulty of transferring claims from originator to purchaser has held up all ABS/MBS development. Individual re-documentations cost €400-€500, making RMBS transactions with tens of thousands of loans otherwise prohibitively expensive. "This is a significant step because over 60% of all private credits were secured against land charges, and we badly needed to change this," Bechtold said. "Without having the register, executing any ABS transaction would have been associated with really excessive costs, and simply become uneconomic."

Banks with lower credit ratings suffered an additional burden without the register. "Over 60% of German private sector loans could not have been open for securitisation because of this apparently small land charge problem," Bechtold said. Now the problem is solved. Aside from the insolvency-proof trust solution, the new law overcomes banking secrecy problems, securitisation of assets not subject to German law and the recharacterisation risk by the insolvency administrator. "It should provide a lot more comfort for true sale securitisation," he added. The register, run by the arranging bank, can also be used for consumer credits, auto loans and shipbuilding credits, plus loans originated against foreign assets. Bechtold is optimistic about German ABS, foreseeing CMBS deals as well as corporate and consumer loan ABS. RMBS would remain difficult. Commercial property valuations were beginning to recover too. "The general market looks to me to be past the bottom of the cycle," he said. "I see office use rising and the vacancy rates beginning to fall."

"TSI has produced a highly valuable asset for the community that can be used by all domestic market participants and also foreign SPVs." The brand certification should be seen as similar to the VDI electro-industry association certification for electrical components - a uniform trademark for German true sale ABS recognised by investors. "If you see what we have achieved in 2-1/2 years and the significance ABS has gained in the political consciousness, then it is clear that we have gained an obvious advantage in doing this - that it was the right move...For the investor, we want to make our deals as transparent and liquid as we possibly can," he said. "Given our credit volume we have the potential to grow to the dimensions of the British market, but this will only come in the longer term. It may take a couple of decades for us to get there." pfe

German purchasers and sellers accounted for some €700m of the transaction volume. pfe

## European city office rent index shows no declines for first time since 2000

Jones Lang LaSalle said that, in the third quarter for the first time since 2000, none of the 24 European cities in its rental index showed a decline in rents and most are witnessing a rise in rentals and a decline in vacancy rates.

In September 2005 the average vacancy rate throughout Europe at 9.4% regained a level last witnessed in 2004.

The latest release of the index revealed a 1.6% increase in rentals in the third quarter 2005 compared with 2Q05. At +2.6%, Hamburg was the only German city to benefit from an increase in rentals; the remainder remained stable. In the first nine months of 2005, tenants signed contracts for 7.4m sq.m. of office space, equivalent to 90% of the total volume in 2004. pfe

## Germany needs 330,000 new apartments annually between now and 2010 - Empirica

Some 330,000 new apartments need to be built each year between now and 2010 throughout Germany to cope with the growing demand for more living space, research institute Empirica estimated.

In a study conducted on behalf of the regional savings banks, Berlin-based Empirica estimated the demand for living space would increase to 56 sq.m. per person by 2030 from its present level of 46 sq.m.

The research institute anticipates faster growth in per capita demand in eastern Germany, which still has to catch up with its western counterpart. The demand for living space in this region will grow by 60m square metres over the next 10 years. In addition, Empirica sees a need for 300m sq. m. of additional living space in western Germany between now and 2015. pfe

## German KfW sees rising interest in home loans for second-hand properties

The home loan unit of the partly state-owned KfW Group said it is witnessing a growing interest in the purchase of second-hand housing and apartments, and such mortgages comprised some 59% of the total 66,000 approved in the first nine months of 2005.

The KfW Förderbank said it approved €8bn in home loans in the first nine months of 2005 following €8.6bn for the same period 2004. More than half of all loans were used to finance second-hand properties.

Loans granted in connection with KfW's home ownership programme were up 10% over the previous year, at €3.8bn. pfe

## German Greens minister stops abolition of closed-end fund loss write-offs

Outgoing German Environment Minister Jürgen Trittin, a member of the Greens Party, last week declined to sign legislation for the abolition of tax breaks associated with a number of closed end funds, including those focused on media, renewable energy and property.

The abolition of the write-offs for the funds, due to come into effect on 11 November, had been decided by the Red-Green government of Chancellor Gerhard Schröder at the request of Finance Minister Hans Eichel. The latter had projected savings of around €3bn from the measure over the next three years.

The write-offs have been a major feature of residential property investment via closed funds for German private investors. Adjustments to their jurisdictional application as well as their terms and conditions have been extensively employed by successive governments to subsidise and promote specific sectors via the fiscal system over the last two or three decades.

Contained in paragraph 15b of the German income tax law, the abolition would have meant that closed fund taxpayers could no longer write off potential losses against overall gross tax liability, but only against income from the fund itself. pfe

**PFE COMMENT:** Typical of the kind of see-saw situation pertaining in Germany at the present time, this particular measure is likely to be reintroduced and rapidly carried through by the incoming Grand Coalition government of Chancellor Angela Merkel. However, no one in the domestic real estate sector is prepared to predict with any certainty precisely what impact the new government will have on the property sector. The major imponderable is the ability of the left-

## A unique insight into the German Property Finance Market

The "Facts and Figures 2005" edition of the yearly publication "Real Estate Banking? Committed to professionalism" focuses on the structural changes in German and European real estate finance. Articles cover subjects as diverse as the impact the Basel II rules are already having on financiers, German REITs, Real Estate Price Information in Germany and the EU Green Book on integrating the market for mortgage finance in Europe. Contact the Association of German Pfandbrief Banks for your complimentary copy of this new Fact Book: [info@pfandbrief.de](mailto:info@pfandbrief.de). Or look into its website [www.pfandbrief.de](http://www.pfandbrief.de) and download the pdf file.



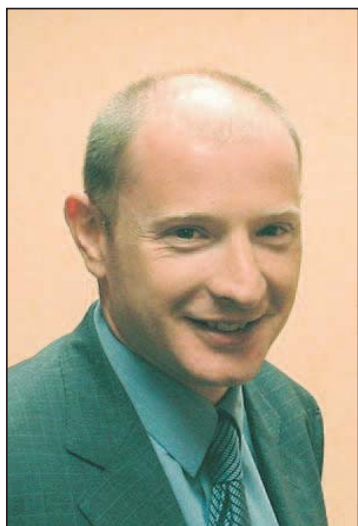
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Association of German Pfandbrief Banks

wing Social Democrats to hinder the liberalising thrust of the right-of-centre Christian Democrat senior partner. This particular questionmark also hangs over the introduction of legislation enabling Real Estate Investment Trusts (REITs).

## Scottish Widows to boost investment on European continent, sees bubble in UK

Scottish Widows, the €146bn Edinburgh-based fund subsidiary of the UK's Lloyds TSB bank group, is expanding its investment program on the European continent begun three years ago, and is looking for €500m of investment focused initially on German shopping centres, French warehouses and offices, and Spanish retailing assets.

Scottish Widows Investment Partnership (SWIP) senior officials Alex MacKenzie Smith and research head Ian Hally said in an interview that commercial property on the European continent offers much better prospects to its pension fund and insurance institutional investor base than UK assets, which are becoming over-priced.



SWIP's Ian Hally: "Bubble in UK, Spanish and French markets."

A bubble is probably evident in UK, Spanish and French real estate since yields are at historic lows compared to a risk-free investment in sovereign bonds. However, Germany and other markets on the continent offered better prospects. "The 300bp differential with risk-free bond assets is an appropriate yield for real estate in Europe in our view," Hally told PFE. "We also think the European continent is entering a growth phase, not perhaps a very fast one, but a stable upward move in its overall economy."

SWIP is currently recruiting a manager to set up a local office in Germany. It has €7.2bn in real estate assets under management run by nearly 30 property specialists from Edinburgh and has so far set up a variety of UK and pan-European funds. Of this sum, around €500m are invested in the US and the remainder in the UK. But around €100m has already been invested on the European continent and another €400m is to follow.

It distributes its products worldwide through various intermediaries, including the Mizuho Bank, the Spanish CECI confederation of building societies, and Intervalor in the Nordic region. It was the first UK funds manager, MacKenzie-Smith said, to list a UK-balanced property trust in the Channel Islands as a vehicle designed to be converted into a Real Estate Investment Trust (REIT) when the UK introduces legislation to allow them.

Hally noted that the continental European real estate market has become more stable as its investor base has widened and deepened over the last couple of years. "The base of investors investing in the continent real estate is far deeper now than it has ever been. This means buying and selling properties can take place without any change in the price," he said.

Among the opportunities SWIP has identified are French warehouse assets which have yields 500 basis points above bonds, Spanish retail assets, and German shopping centres. The officials see demand picking up and vacancy rates falling in Paris office property and are also interested in retail assets in Helsinki since Finnish consumer spending remains strong.



Alex MacKenzie Smith: Setting up Channel Island funds set up to prepare for UK REITs

Hally said the asset bases suitable for its clients were primarily core or core-plus, returning respectively 6% to 9% per annum. Gearing in terms of loan-to-gross asset value was no more than 50% but this allowed a yield pickup of 200-250bp on the return of the core asset investment. Currently SWIP is less enthusiastic about central and east European markets which they see as having dropped in yields too quickly. "We don't think that the price in some of those markets currently really reflects the risk," Hally said. pfe

## GE opens first of nine French regional branch offices in Toulouse

GE Real Estate France (GEREF) has opened a branch office in the southwest French city of Toulouse in a further extension of its objective to expand into regional commercial and residential property outside of the Ile de France Paris region.

GEREF regional director Thierry Riba said the group planned to invest around €60m in the region over the first year. "Toulouse very quickly rose to the top of our list after the purchase of the property management branch of the real estate firm Ariane last May", he told BusinessImmo.

Outside Paris GEREF has exposure to around 100,000 sq.m. of assets, and has announced plans to invest in nine of the major conurbations, Lyons, Nice-Sophia-Antipolis, Marseille, Montpellier, Toulouse, Bordeaux, Nantes, Lille and Strasbourg.

GEREF's real estate portfolio in France totals €5.1bn in France, comprising direct investments as well as participations and debt financings. It focuses on office, specialist retail, commercial and logistics properties with values of between €3bn and €5bn. "We look just as closely at rented properties as we do at potential restructuring operations or development programs," Riba said. pfe

## Investment in pan-European non-listed property funds to reach €13bn

The UK-based Investment Property Databank (IPD) said that institutional and high net worth investors are increasingly

investing in non-listed and tax efficient property vehicles across continental Europe, and these should attract at least €13bn in 2005.

In its directory of European Property Vehicles, IPD said the gross asset value of these vehicles should reach €25.6bn.

Hans Op't Veld, Head of Property Vehicles for IPD, said the continued pressure of capital continues to push yields down and this has prompted capital to seek investments in eastern European markets. Interest in commercial property has increased in step with the strong returns generated over the past five years, and investors are seeking suitable ways to gain exposure without having the high costs of direct investment. As a result, the funds of funds industry had seen at least seven vehicles launched over the last two years.

Despite falling returns, core styled vehicles continue to be the majority of the non-listed property vehicles in continental Europe, with 55% having adopted a core style. Value added vehicles form 31% of the universe, with the remainder investing with an opportunistic style. Transparency in the market is improving, with more information available on fees. Out of 287 vehicles in the IPD universe, 161 provided information on fee structures. pfe

## Growing demand for second-hand residential properties in Bavaria

Demand for second-hand detached and terraced houses in Bavaria will continue to grow, while interest in newly built terraced houses and apartments is declining, according to a survey among savings banks' experts.

The survey revealed that second-hand apartments are showing a similar upward trend, albeit to a lesser extent.

Oliver Gerstner, managing director of the savings banks' property arm Sparkassen-Immo, confirmed that they were witnessing precisely the same development. Over the first nine months of this year, residential property deals arranged by the savings banks and LBS were up 10% over the previous year. pfe

## Hesse confirms state office portfolio buyer is Commerzbank subsidiary CLI, yield at 5.5%

The German state of Hesse confirmed that the successful bidder for public property it was selling in a portfolio is Commerz Leasing und Immobilien (CLI), a subsidiary of Commerzbank AG, and added the price is €1.07bn for 18 office buildings.

It thus confirmed a report in EuroProperty magazine that CLI has become the first domestic investor to win such a large commercial property bidding round. Hesse will lease back the buildings for €55.3m per year, thus providing a combined yield on the portfolio of just under 5.5% in gross terms.

Four foreign investors, in addition, had reached the final round of the bidding. These included Cerberus Funds and Fortress Investment, both US-based, and Reit Asset

Management, based in the UK.

Purchase of the portfolio, which includes the Frankfurt Police Presidium, the Hesse Finance Ministry and the Hesse Interior Ministry, will be debt-financed by Hypo Real Estate, the bank spun off by HypoVereinsbank from the group in autumn 2003. The deal is expected by many in the sector to be a watershed for numerous other state and local governments to engage in sale and lease-back transactions on their public sector office real estate.

The next deal is expected by real estate specialists to come from Dresdner Bank which is selling around 300 properties in one portfolio at a value of at least €1bn. pfe

## Residential property prices collapse in parts of Rhineland-Palatinate

The decline in the value of residential properties in the more rural regions of Rhineland-Palatinate is reaching alarming proportions according to German property association IVD.

Prices for second-hand single-family homes in small towns dropped by between five and 26% over the last 12 months. By contrast, house prices in locations closer to the Rhine-Main conurbation have remained more or less stable.

Prices for a second-hand single-family house in a good area were stable in Mainz at around €420,000 but were declining in Wiesbaden to around €550,000. pfe

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## Deutsche Annington in apartment buy

Deutsche Annington Immobilien Gruppe, a fully-owned subsidiary of the UK's Terra Firma, said it purchased a portfolio of 748 apartments in the Leverkusen suburb of Steinbüchel from Wilhelm-Sander-Stiftung (Neustadt an der Donau).

Without disclosing the price it said ownership of the portfolio will be transferred on 1 January 2006. The apartments are primarily used by current and former employees of Bayer AG.

In May, DAIG was the buyer of the largest residential portfolio ever to change hands in Germany. It paid nearly €7bn for the giant Viterra residential holding company from the industrial conglomerate Eon. pfe

## Deutsche EuroShop boosts 9-mth pre-tax profit but net hit by special factors

German listed property company Deutsche EuroShop reported a rise of 8% to €42.9m in pre-tax EBIT profit for the first nine months of 2005 but special factors and currency volatility reduced the consolidated net result by 9% compared to the year-ago period, to €13.7m.

The company said in a release that these results have led the board to increase its annual forecasts and dividend recommendation for 2005. Turnover rose by 18% to €53.3m.

The company, a buyer and manager of shopping centres in Germany, said it had invested more than €100m to purchase the Rathaus-Center in the east German Dessau, effective 1 January 2006. It would also purchase a further retail complex for €80m before the end of this year, and in the past nine months had spent a further €20m in boosting stakes in three more shopping complexes.

Euroshop has raised new capital this month, placing nearly 2m new shares via an issue of 1,562,499 new shares to add 10% to its equity capital base. In a private placement various German institutions subscribed to the total volume at €43 per share, bringing in gross new funds of €67.2m. Shareholders' pre-emptive rights were disapplied. As a result of the capital increase, the number of Euroshop shares in issue rose to 17,187,499 from 15,625,000. pfe

## London & Cambridge Proudreed French arm in first CMBS of property loans

Proudreed, the French real estate investment arm of London & Cambridge Properties, said it has made its first CMBS securitisation in France, refinancing €398m of loans secured against 134 commercial buildings and originally syndicated among banks in 12 European countries.

Lead managed by Société Générale Corporate & Investment Banking and HSBC, the CMBS transaction has a nine-year maturity and involves industrial, logistics and office properties located throughout France, and a total 354 leasing partners, Proudreed said in a release.

The special purpose vehicle FCC Proudreed Properties 2005 is purchasing two loans syndicated to the 45 institutions in the original financing group. Proudreed estimated the current value of the assets at nearly €568m.

Jean-Pierre Raynal, managing director of Proudreed France, told the BusinessImmo portal: "We reached the term on our first financing, and had to find the most appropriate method of refunding while at the same time tying in the capital gains that we have realised." pfe

Table: France, Listed companies by market capitalisation

Company	Share price €	Market capital. €Tsd	--- Price / net cash-flow ---			----- Gross yield -----			Discount / premium on replacement NA			Discount / premium on liquid NAV		
			2004	2005e	2006e	2004	2005e	2006e	2004	2005e	2006e	2004	2005e	2006e
1 Rodamco Europe	71,5	6405	19,6	18,5	17,8	4,34%	4,55%	4,84%	33%	25%	20%	50%	41%	36%
2 Gecina	99,1	6151	23,3	20,5	18,8	3,77%	4,17%	4,48%	17%	8%	3%	28%	17%	11%
3 Unibail	117,3	5340	18,1	21,1	19,1	3,21%	3,43%	3,64%	26%	33%	21%	31%	44%	30%
4 Klépierre	80,7	3723	20,9	17,6	15,6	2,89%	3,14%	3,39%	44%	18%	8%	57%	27%	15%
5 Corio	48,7	3272	17,2	15,6	14,9	5,00%	5,12%	5,35%	32%	25%	21%	39%	31%	26%
6 Lyonnaise	49,0	2106	21,7	20,8	18,7	4,25%	4,46%	4,87%	22%	17%	13%	29%	24%	20%
7 Foncière des Régions	90,0	1558	20,9	15,1	13,9	2,98%	3,72%	4,17%	58%	33%	22%	75%	49%	35%
8 Silic	84,0	1454	17,6	16,8	15,2	3,82%	4,05%	4,42%	25%	13%	7%	36%	21%	13%
9 Bail Investissement	38,9	1371	15,6	13,4	12,5	4,43%	4,69%	5,03%	25%	10%	7%	37%	17%	14%
10 Cofinimmo	131,6	1243	16,8	17,1	16,2	5,65%	5,69%	5,73%	23%	17%	16%	53%	44%	43%
11 Eurocommercial prop	30,7	1059	19,8	19,4	19	5,08%	5,25%	5,32%	25%	11%	8%	34%	19%	16%
12 Icade EMGP	72,1	773	24,4	25,1	22,9	1,89%	2,03%	2,17%	75%	60%	48%	84%	68%	57%
13 Foncière des Murs	86,5	539	57,4	18,8	17,8	3,10%	3,16%	3,23%	55%	47%	39%	55%	55%	47%
14 SIIC de Paris	217,0	424	16,2	13,6	13,1	3,98%	4,21%	4,45%	15%	1%	-6%	22%	7%	-2%
15 Locindus	47,4	386	17,8	17,6	18,3	5,78%	4,92%	4,92%	31%	29%	27%	51%	49%	45%
16 Icade Foncière des Pimon	105,0	348	20	15,6	13,4	2,24%	3,35%	3,83%	0%	-4%	-8%	10%	5%	0%
17 Cofitem-Cofimur	90,0	306	13,8	14,4	13,1	4,18%	4,40%	4,57%	26%	25%	19%	43%	42%	35%
18 Acanthe Dev.	4,7	243	39,5	20,6	14,5	16,10%	5,90%	6,02%	-16%	-5%	-9%	-7%	1%	-3%
19 Affine	90,0	232	17,5	15	14,7	4,52%	4,69%	4,86%	17%	11%	8%	25%	18%	17%
20 Tour Eiffel	89,0	226	20,8	14,2	12,9	1,79%	4,57%	4,69%	35%	23%	14%	42%	30%	20%
21 Cbo Territoria	6,8	167 ns		261,6	80,5	0,00%	0,00%	0,00%	ns	376%	293%	ns	376%	293%
22 Lucia	26,5	117	157,9	169,4	169,4	0,00%	0,00%	0,00%	-16%	-21%	-27%	-15%	-21%	-26%
23 Sofibus	142,0	112	22,4	21,4	20,8	1,77%	1,95%	2,06%	-2%	-7%	-11%	42%	35%	29%
24 SIIC de Paris 8e	45,0	90	16,2	23,3	21,4	3,61%	3,72%	3,83%	14%	0%	-5%	22%	6%	2%
25 Eurosic	37,0	53	13,2	11,7	10,8	4,75%	4,97%	5,22%	-5%	-10%	-14%	5%	-1%	-7%
26 Foncière Masséna	10,7	42	82,4	20,6	18,1	0,00%	0,09%	0,56%	52%	26%	13%	78%	39%	24%
27 Mines de la Lucette	24,2	38	-1008,9	116,6	43	0,00%	0,00%	0,00%	28%	15%	13%	23%	36%	26%

Valuations as at 9 September 2005

Source: Fideuram Wargny - Gruppo SanPaoloIMI. Chief Analyst, real estate: Benoit Faure Jarrosson

## Eurohypo purchases mortgage portfolio from Concordia Versicherung

Eurohypo, Germany's largest mortgage bank, boosted its private-sector mortgage business by acquiring a loan portfolio valued at €260m from Hanover-based Concordia Versicherung.

The portfolio consists of mortgage loans to private clients. The purchase is part of Eurohypo's strategy to boost its holdings of private mortgages, according to management board member Jochen Klösger. pfe

## Takeover target HVB says nears full year 2005 goal in first nine months

HVB Group, releasing the last set of nine month figures prior to its takeover by Italy's Unicredito Italiano (UCI), said nine month figures showed it nearly reached its ambitious €1bn guidance for full-year 2005 net profit.

In the third quarter HVB said it succeeded in accelerating the strong operating performance. It substantially increased revenues from the second quarter, while net commission income and trading result surged significantly. Despite considerably lower one-off and seasonal effects, net interest income edged down only slightly.

Administrative expenses and loan-loss provisions were stable on a quarter-on-quarter basis. All told, this resulted in a substantial increase in operating profit.

HVB Chairman Dieter Rampf said in the release: "HVB Group has recorded a decidedly pleasing year-to-date financial performance... We are fully on track with respect to full year targets. In 2005, HVB Group will earn its cost of capital and thus be a key component of the new UCI Group."

**PFE COMMENT:** Lots of kerfuffle surrounding the HVB takeover in the German media and the banking 'chattering classes' now the deal has been done. Why did HVB sit on its huge bad debt portfolio for so long, thus making it vulnerable to a foreign takeover? After all, Dresdner dealt with 35bn of NPLs in just over two years' existence of its Institutional Restructuring Unit. Yes, good, HVB could not afford the equity capital hit. But in the modern world, capital is the least of the problems; there are creative ways to raise it, aside from just tapping the equity market. Why did Unicredito Chairman Alessandro Profumo manage to alienate top HVB managers Christine Licci (ex Citibank- Germany head) and Stefan Jentsch when they were supposed to represent the new guard? Most importantly, what is Profumo's strategic plan? Truth is, Germany has never before experienced such a heavy foreign incursion into its banking community in the last 60 years. And the German banks are in no condition to circle the wagons and head off the intruder; just about all are readjusting business models to match massive shifts and there is no possibility of combined action either covert or overt. Munich, though, is circling its city wagon. It is quickly putting the HVB HQ building, complete with logo, under listed monument protection.

## Germany's Hypo Real Estate doubles net income in first nine mths

Hypo Real Estate, floated from the Munich-based HVB Group in 2003, said it more than doubled consolidated net

income before taxes in the first nine months of 2005, to €327m vs €155m in the same 2004 period.

The HRE group, an international financier of commercial real estate, generated new business of €14.3bn between January and September 2005. Of this, €6bn alone was attributable to the third quarter, meaning that the full-year target of €13.5bn has been attained after nine months and thus will be considerably exceeded by the end of the year.

Adjusted earnings per share amounted to €1.81 compared with €0.89 in the 2004 period. Unlike last year, the fact that the group increased its holding in Württembergische Hypothekenbank to 100% meant that no minority interests occurred this year.

Adjusted return on equity after taxes improved to 7.7% vs 4.0% in full year 2004. The group said in a release it is thus within the target range of 7.5 to 8% for the whole of 2005, meaning that the group will cover its capital costs for the first time. pfe

Addition to provisions for losses on loans and advances amounted to €112m after three quarters, down slightly from €109m in the same period last year. If the pro-rata risk shelter of €97.5 million provided by HVB AG to Hypo Real Estate Bank AG contained in last year's figures is disregarded, the addition declined by around €207m - a clear indication of the dramatic improvement in the portfolio quality of domestic business, it said. pfe

Total lending of the group as of 30 September 2005 was €93.9bn, €5.3bn lower than at 31 December 2004, while consolidated total assets increased by €2.8bn to €151bn. pfe

**PFE COMMENT:** The internal excitement currently being generated in HRE, which has been a huge success story during its just two year independence from HVB, is not only the stellar performance internally and on the stock market, but the fact that it is highly likely to replace its former mother company in Frankfurt's DAX top share index in the next few weeks. HVB, of course, will be delisted due to its takeover by Unicredito.

## Germany's Aareal reports nine month net loss of €84m after high provisions

Germany's Aareal real estate bank said it made loss provisions of €189m in the third quarter and had made a €50m negative revaluation of real estate assets, bringing a consolidated net loss for the group of €84m over the first nine months.

Chairman Wolf Schumacher said the measures provided the basis for a new positioning of the bank in the market. Since being appointed to the bank at the start of 2005, Schumacher has made extensive changes and announced a number of strategic shifts, and additional write-downs. Aareal has suffered extensively from its non- or poorly performing residential property book, and is in the process of exiting from the segment to concentrate on specialits commercial and pan-European business.

Reporting third quarter figures, the Wiesbaden-based Aareal also said it had sold its Mannheim-based residential brokerage division Aareal Hypotheken Vermittlungs to Planet Home AG, which is a subsidiary of the HVB Group. pfe

## Supply in French investment property seen rising to meet surging demand

The real estate investment market in France remain favorable to the end of this year and the distinct imbalance in the market is being redressed by a rapid increase in supply, according to a recent study by the realtor Knight Frank.

Because of the reduced supply of investment properties, all major investors have widened their criteria both in terms of the type of assets being sought as well as their location. Hotels, retirement homes, parking garages and leisure parks have, for example, come increasingly into favour.

The BusinessImmo real estate portal quoted the Knight Frank study as saying, "to avoid some of the harder competition in the market some investors are now prepared to pay a premium for operations that take place off market." Some were even making open offers without having found counterparties with specific properties to fit their criteria.

Despite this, Knight Frank sees the fundamentals of the French market remaining healthy. The study concluded: "The likelihood of international investors turning their back on the French market is low, and the supply is beginning to realign itself: some of the German funds which pioneered the Paris office market in the late 1990s are now taking their first profits, the new fiscal status of the SIIC companies is bringing a more rapid rotation of assets, and the insurance groups are looking to realise capital gains in real estate assets to compensate for losses made in other markets." pfe

**PFE COMMENT:** These reports should be read closely by German authorities in particular. Given the parlous state of German domestic commercial real estate, causing many financial institutions to continue to mark down valuations in balance sheets, the flipside of the loss of tax income in foreign takeovers (See item elsewhere on Docks Lyonnais takeover) by the French finance ministry has been a considerable strength in underlying market fundamentals as a result of the introduction of the REIT structure nearly three years ago. In other words, the risk of a leakage of tax income should be seen in Berlin as preferable to the risk of foregoing on potential huge advantages of revitalising German real estate.

## Pan-European office rentals rise strongly in third quarter, vacancies down

The average yields on investments in prime office properties

in western Europe fell to 5.3% in the third quarter from 5.8% one year ago, while in central Europe yields slipped to 6.9% from 8% 12 months ago and 9.2% in 2002, according to the real estate barometer run by Germany's IVG Immobilien and international realtor Cushman & Wakefield Healey & Baker.

Over the 21 major cities assessed, pan-European office rental volumes rose by nearly 7% in the third quarter, accelerating from both the second quarter and 3Q04. Some 2.2m sq.m. of office space were leased assessed, with significant differences between central and western Europe. Budapest, Prague and Warsaw saw rentals soar by 49%/y/y, whereas only 2.1% more was leased in western Europe.

Average vacancy rates edged down to 9.4% vs 9.5% one year ago, which represented the highest level after the collapse of the office markets in 2002. The two companies forecast further declines for most locations in western Europe.

Cushman & Wakefield's Bernd Kottmann said in a release, "The falling yields are caused by the positive medium-term prospects of the European office markets and the rise in cross-border real estate investments by institutional investors."

Prime rents held stable, on average, over the last 12 months, with western European rises tailing off and the decline in eastern Europe bottoming out, at least in Budapest, Prague and Warsaw. pfe

## Carlyle Group enters Spanish real estate market with Madrid acquisition

One of the world's largest private equity firms, the US-based Carlyle Group, said it has made its first real estate acquisition in Spain, purchasing Gran Via 68, a landmark building in the heart of the historical and commercial center of Madrid.

Carlyle recently raised a €760m fund dedicated to European real estate investments and expects to invest at least 10% of this in Spain.

"We see great potential in the real estate market across Europe," Carlyle Managing Director Eric Sasson said in a release. "We have invested extensively in France, Germany, Italy and the UK, and are pleased to be now entering the Spanish market. There are many opportunities ... in Madrid and Barcelona as well as other cities such as Valencia and Seville."

Colleague Rachel Lupiani added: "The residential and retail markets in Madrid are buoyant, and we see strong demand for

new apartments in such an architecturally impressive building."

Carlyle has more than \$30.9bn under management worldwide and runs 32 funds across four investment disciplines - buyouts, venture capital, real estate and leveraged finance.

Gran Via 68 was bought from Grupo Urconsa. Carlyle was advised in the transaction by CBRE,

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