

European banks to benefit if US delays Basel II

European Commissioner Charlie McCreevy says a delay by the US in introducing Basel II will give European banks a competitive advantage. **PAGE 2**

Aareal Bank in talks to sell AHM mortgage servicer

German real estate bank Aareal is in the process of selling its Aareal Hypotheken Management mortgage servicing subsidiary. **PAGE 6**

Spain's Fadesa forecasts 55% rise in 2005 profit

Spanish builder Fadesa is forecasting the sale of more than 6,000 homes in 2005 and group net profit rise of over 55%. **PAGE 9**

Fortress apartment units reorganise with view to listing

The two German residential apartment firms bought by the Fortress private equity fund, GAGFAH and NILEG, have combined management with a view to seeking a stock market listing. **PAGE 14**

Dennis Sheehan, Franz Schmidpeter, GMAC-RFC The PFE Interview: **PAGE 8**

French SIIC Foncière des Régions buys part of MS/Corpus ThyssenKrupp portfolio

French Real Estate Investment Trust (REIT/SIIC) Foncière des Régions has made its first residential investment in Germany, purchasing a portfolio of 5,500 apartments in the Düsseldorf region from Immeo Wohnen for a price of €275m. The Essen-based Immeo Wohnen is part of the former ThyssenKrupp portfolio, consisting of 45,000 apartments, bought late last year by Morgan Stanley and Corpus for a sum of €2.16bn.

Separately, the Italian real estate research institute Scenari Immobiliari said revenues in property-based funds in the largest European countries are likely to decline by 1.7% this year but if Real Estate Investment Trusts (REITs) are introduced in Germany and the UK they should increase again in 2006. (See page 5).

Double-digit home price growth major reason for rate rise - Issing

European Central Bank board member Otmar Issing hinted to the European Mortgage Federation annual conference last Wednesday that double-digit growth in euro area home prices is a major reason why an interest rate rise is needed.

Speaking in a panel discussion in Brussels, Issing, ECB board member for economics, said average euro home prices have been rising at 10% or more for a while. "This adds to our assessment that risks to inflation have increased," he said. The ECB is widely expected to raise interest rates this Thursday. It would be the first change in two years.

In a review of the impact of regional home prices and residential mortgages, Issing also said a more flexible market in Europe may bring more pronounced economic cycles and increase volatility in domestic markets (See page 5).

Separately, Eurohypo Chairman Bernd Knobloch told the EMF Commerzbank's takeover of his institution, announced two weeks ago, was due to soaring client demand for property capital market services. With Eurohypo, Commerzbank intends to offer property services internationally.

Commerzbank announced it had agreed with Deutsche Bank und Allianz/Dresdner Bank to pay €4.5bn to purchase the 66.2% of Eurohypo it does not already own. In 2002, the three sold the bulk of their real estate assets into Eurohypo to move what they then considered to be high risk assets - and to large degree also non-performing - off their balance sheets (See page 4; comment page 2).

Knobloch added that Germany should draw almost level to third-placed Sweden in the European cross border capital investment rankings this year (See page 3).

With the development of Pfandbrief-covered bonds in the forefront of the two-day discussions, EMF Chairman Philip Williamson, who also chairs the UK's largest building society Nationwide, announced that his institution is "joining the club" and launching its first ever issue (See page 3). pfe

PFEUROPE.DE

Even as the year-end festivities approach, there is still work to do! We are busy revamping our website to make it even easier for you to access the information you need on our list of themes in real estate finance. The update should be posted this week. Watch that space!

We were honoured to chair a panel at the PACT conference on NPLs in Berlin earlier this month. Even if the panel was on residential apartment portfolios, this in no way was incongruous with the overall theme of the conference. So many of you investors out there are, we know, looking at various ways to invest on the European continent. Today's NPL buyer may be tomorrow's residential portfolio investor. Look at the item on the left on MSREF/Corpus selling part of the old ThyssenKrupp portfolio to a French REIT. Never say never!

Next and last stop on the conference trail this year is in London next week for the REITsWorld UK run by our friends at Terrapinn. Perhaps someone might know the UK position on REITs. We will be glad to see you there - with a few copies of the latest edition of PFE to take away and peruse!

New Europe has embraced mortgage debt with gusto - EMF President

The European residential mortgage market has doubled over the last 10 years and grew by 10% in value during 2005 alone, and the countries of 'New Europe' have embraced mortgage debt with absolute gusto, European Mortgage Federation president Philip Williamson told the annual conference.

The key driver of the huge growth in mortgage loans has been low interest rates and an increase in the diversity of funding instruments. "This has been achieved with some of the lowest levels of defaults and repossessions seen for over a decade," said Williamson, also chairman of the UK's biggest building society Nationwide. "Mortgage debt is more affordable now than at any time for a generation."

In central and eastern Europe - the New Europe - mortgage markets in Poland, Latvia, the Czech Republic and Hungary have all seen exponential rates of growth. "Given new mortgage laws and new funding instruments, the future looks particularly bright for all of these countries," he added.

The European Commission's Green Paper on developing the pan-European mortgage market shows that there is further room and benefits to be gained from integration, and the EC has done a good job of consulting all stakeholders. But he added, "The real question is how much room is there and how will we achieve it?"

Williamson said the EMF is working on the idea of a euro mortgage and hopes to have a blueprint ready for discussion by mid-2006. Its launch of a separate entity, the European Covered Bond Council late last year, had been successful, and had attracted 71 institutional members. "This is a testament to what can be achieved at the European level," he said. pfe

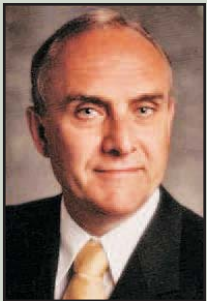
European banks will gain competitive advantage if US delays Basel II

Any delay by US banks in introducing Basel II capital adequacy guidelines should give European banks a competitive advantage though it would be problematic if US regulators do not introduce the new regime at all, European Commissioner Charlie McCreevy says.

Commenting on the recent US announcement of a delay in requiring banks to meet Basel II until 2009, McCreevy told the European Mortgage Federation, "I see European banks being at a competitive advantage for a limited period of time vis à vis their American counterparts... If over the next five years if the US say we are not going down this road at all I could see some problems there. But this doesn't look likely."

McCreevy, Internal Market Commissioner, said the European mortgage credit market is a crucial element of the global economy but that further integration is needed to boost

Jeeps! Not a moment after putting to bed PFE 14, complete with front page item on the Postbank-BHW takeover, news broke that another superlative was coming down the pike: the Commerz takeover of Eurohypo to form the biggest European real estate lender and largest domestic German lender overall! If further proof was needed on the soaring importance of real



estate in European banking, this deal definitively provides it. An asset base that just three years ago was considered junk - actually worse: corrosive sub- or non-performing waste that threatened the solvency of major banking institutions - is now considered a prize asset, the golden path into a treasure-filled financial future. It is said, for example, that 2,000 bankers at Morgan Stanley in London are now tasked one way or another on real estate deals. Deutsche has a vast City/Fft/NYC operation devoted to RE. Lehman Brothers has equity capital of 80bn and a balance sheet of 400bn ready to swing behind property. And nearly the largest global name of all, HSBC, is right now assembling its troops to invade Property Continental Europe on all fronts. Phew!

The CZ-Eurohypo takeover had delegates at last week's European Mortgage Federation annual conference pretty upbeat too. Commerzbank badly needed a strategy; for the longest time it has been hanging out there, neither big enough to expand nor small enough to easily occupy a profitable niche. CZ lacked a clear mission statement for it had no clear competitive advantage. Now it has: Real Estate and Transactional Banking In Europe. And it fits right in. Deutsche Bank is concentrated on asset management and international transaction and investment banking, Dresdner is converting into a combined banking and insurance product distributor for the Allianz group, subsuming its DrKW offshoot, and HypoVerein... well, Buongiorno 'A Member of the Unicredit Group'! Meanwhile the cooperatives are sort of organised among themselves - well, apart from the seemingly unending story of the DZ-SZ squabbling at the top. Therefore it only remains for the savings and landesbanks to get a life... sorry, I mean a business model, which in commercial terms amounts to the same thing. S&P and Moodys see to that. But no. Currently, the German S & L chickens are headlessly scurrying in all directions on free range, squabbling raucously. Are they aware that the avian flu of open market competition portends a rapid but certain demise unless they decide on erecting a limited number of shared

chicken coops and scurry into them soon? I fear they are not.

The EMF conference threw up another leading RE indicator: it attracted 250 delegates, 100 more than last year. Under the capable organisation of new secretary-general Annik Lambert and deputy Simon Walley, the EMF racked its combined brain about creating and funding a more integrated residential mortgage market. And funding is the next volcano ready to blow - in the shape of exporting covered bond origination world-wide. Yes, you read that right: 'world-wide'. Two gentlemen from the Korea Housing Finance Corporation were hanging on every word of covered bond wisdom from old Europe. Just as sensationally, US institutions are also considering issuing covered bonds! Yes, the US. Copying us! Makes a change. Funding is of course crucial to European residential mortgage integration. Here, the buzzword is 'eurohypothech'. Well, for the Brits, fast becoming as culturally protectionist as the French, it's 'Euro-mortgage'. No, don't worry, I didn't know anything about it either. But now I do. Go to www.eurohypothech.com and you'll become just as wise as I... though not nearly so wise, I suspect, as Harry Potter.

Allan Saunderson, editor@pfeurope.de

the European component in it. "We envisage a market where European institutions target consumers across borders and offer services through local banks or intermediaries," he said. "The benefits of the internal market can be brought to the consumer's doorstep, so to speak."

The EC has scheduled a stakeholders' discussion meeting on mortgage markets in Brussels on 7 December. It began a consultation process in March 2003 with the creation of the Forum group, and the latter came up in December 2004 with 48 recommendations on structural changes. The group also calculated that further integration of the home loan market in Europe should by 2015 add 0.7pts to regional GDP and 0.5pts to household consumption.

The Commission intends to release a White Paper on possible action during 2006.

McCreevy emphasised that the Commission has no preconceived notion of whether or not to introduce legislation, but only that it wants to dismantle legal and jurisdictional barriers at national level. Using a golfing analogy, he told the conference, "We will do a better job if we level out the pitch and everybody can play off scratch." pfe

Foreign investment in German property to equal Sweden's 3rd place in 2005

Foreign capital investment in German real estate should draw almost level to third-placed Sweden in the European country rankings once figures for the second half of 2005 come in, Eurohypo Chairman Bernd Knobloch said.

External investment in all types of German property fell last year, causing the nation to trail far behind the UK, France and Sweden in favoured international real estate investment destinations in Europe. But Knobloch told the European Mortgage Federation conference: "That will change in the second half. You will see. Germany in 2005 will almost draw equal to the Swedish level. A lot of transactions have closed or are still in the pipeline and are for amounts of €1bn or more. In many of them, only foreign investors are left in the final bidding group."

He warned though that the market was not without risk, specifically in those European countries where property yields have fallen below equivalent maturity bond yields. "This is not expected to happen. Real estate normally has to have higher cap rates," he said. "But speculative money is not here forever and sometime will pour out again, and when it does you will see a strong impact on the market overall."

Knobloch, whose bank was the target of an agreed takeover by Commerzbank earlier this month, noted that indirect investment in property in Europe has risen by 10 times over the last decade, to €400bn now. Of this, more than 400 real estate funds in Europe - vs around 40 in 1995 - manage some €180bn of assets, as against €20bn 10 years ago. Cross border capital accounted for less than one-third of property investment in 2000, and today drives almost 50% of the deals done.

Half of cross border capital is looking for the security in real estate and therefore following core strategies. At the top end of the risk spectrum, fully 19% of foreign investors are opportunity funds. "Today the investor in the market is seeing real estate as another asset class alongside equities and bonds," he said.

While investors used to be solely focused on office investment with long term tenants, now shopping centres are seen having

better value creation and lower risk because the tenant risk is spread widely. "Investors are always looking for the turnaround play and this has now arrived in Germany," Knobloch said. However, much depended on the political environment and the plans of the new grand coalition government remained uncertain. pfe

German Schörghuber Group considers REIT status for property firm

One of the largest German building and real estate investment companies, Bayerische Bau- und Immobilien (BBIG), is seriously considering positioning itself to convert to Real Estate Investment Trust (REIT) status if appropriated legislation is enacted soon.

BBIG Chairman Udo Scheffel told the Immobilien Zeitung newspaper: "As soon as it becomes clear how a German REIT is going to look, and prospects for corresponding legislation become more concrete, we will take a serious look at this topic."

Currently, the Munich-based company has the legal form of a GmbH & Co KG, a private company form with partial managing partner liability. It has turnover of around €500m per annum, ongoing construction volume of some €300m, and holds real estate assets of around €3bn.

BBIG is in majority-owned by the Schörghuber Group, one of the largest family-run commercial industrial groups in Germany, with interests also in aircraft leasing, hotels and brewing. pfe

PFE COMMENT: The internationally little-known Schörghuber Group is a serious player in several market sectors, and this initiative encompasses one of the largest firms in the real estate sector in Germany. Together with the Starwood Hotels & Resorts, it owns a chain of 32 hotels in Europe and South Africa, including the ArabellaSheraton brand hotel chain. The real estate company was the original core of the group, founded in 1954 by Josef Schörghuber. At the end of the 1950s he entered aircraft leasing, and 10 years later took the group also into the hotel business with the establishment of the first Arabella hotel in Munich. At the end of the 1970s, Schörghuber also entered the brewing business with the purchase of the brewery Hacker-Pschorr und Paulaner.

UK's Nationwide launches covered bond program of €2bn, more to come

Nationwide, the UK's largest building society, is to "join the club" and launch its first ever issue of covered bonds, its chairman Philip Williamson said.

Speaking in at the European Mortgage Federation annual conference, Williamson told delegates to, "watch this space!" The rating agency Fitch last Monday provided a provisional AAA rating to the upcoming issue.

Williamson separately told PFE that the issue was for €2bn, and if it is successful the giant building society may make another issue next year but this had not yet been decided. "This is just a toe in the water for us to test the market," Williamson said. However, the road show for the first issue was going well.

PROPERTY FINANCE EUROPE

Publisher

Hypoport AG
Frankfurter Allee 77
D-10247 Berlin
Germany
Tel. +49 (0)30 420860
Fax +49 (0)30 42086-259

Operating Office/Enquiries

Property Finance Europe
Franklinstrasse 62-64
D-60486 Frankfurt am Main
Germany
Tel. +49 (0)700 3686 2233
Fax +49 (0)6101 813405

Editor

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

Business Manager, Subscriptions

Charles Kingston
business@pfeurope.de

Business Manager, Advertising

David Jayne
ads@pfeurope.de

Administration

Gaby Wagner
office@pfeurope.de

Sector Advisors

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

PROPERTY FINANCE EUROPE

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

ISSN 1748-8281 (printed copy)

ISSN 1748-829X (online version)

© 2005 PROPERTY FINANCE EUROPE

He added that covered bond refinancing for the Nationwide property portfolio could cut funding cost by seven basis points, and "that's a lot of money for us considering the amount of lending we have". Most of current funding comprises retail deposits. Nationwide is permitted, under UK building society regulations, to borrow only up to 50% of its asset base. Nationwide property lending totals around £115bn.

Nationwide's UK peers HBOS, Northern Rock, Bradford and Bingley and Halifax have already launched programs, with schedules to re-fund substantial parts of their balance sheet mortgage lending via the issue of covered bonds.

HBOS launched the first UK structured covered bond in July 2003. However, since the UK has no covered bond law there is pressure from Basel regulators to provide secondary legislation to improve direct cover pool security for investors in order for the instrument to qualify for 10% risk weighting under the upcoming Basel II capital adequacy guidelines. The UK's FSA supervisory authority is advanced in developing advice for such legislation.

Separately, Williamson said Nationwide has no plans to expand its business into continental Europe. Experience has shown that highly diverse national cultural and jurisdictional practices made it uneconomic to try to manage this process from a UK base. pfe

Commerzbank Eurohypo takeover prompted by surging client property demand

Eurohypo Chairman Bernd Knobloch said Commerzbank's takeover of his institution, announced in mid-November, was due to the rapid development of client demand for all major banks to offer a complete

spectrum of real estate capital market services to its clients.

Knobloch told European Mortgage Federation delegates in Brussels last week that HypoVereinsbank showed the way into capital market solutions for real estate when it floated off Hypo Real Estate just two years ago. Now HVB has been taken over by a foreign bank, and HRE, which was worth 10% of its parent at its stock market debut in late 2003, is about to take the HVB position in the DAX 30 list of major German quoted companies.

"HRE and HVB are the ones that really showed the change of business type, and how you should be dealing with real estate assets via the capital markets," Knobloch said. "It was clear in Germany in the old days that real estate was not very attractive. But today, you see all the big international banks with large property departments and having to demonstrate real estate expertise and capacity - because the clients are demanding it."

With Eurohypo consolidated into the group, Commerzbank intends to also target its real estate services to international clients, he added.

Commerzbank announced two weeks ago that it was paying €4.5bn to Deutsche Bank und Allianz/Dresdner Bank to purchase the 66.2% of Eurohypo it does not already own. In 2002, the three banks sold the bulk of their real estate assets into Eurohypo to move what they then considered to be high risk assets - and to large degree also non-performing - off their balance sheets.

Commerzbank will make the agreed acquisition in two stages, buying 17.2% effective 15 December 2005 and the remaining 49% effective on 31 March 2006. Its Chairman Peter Müller told a press conference at mid-month that the takeover would produce synergy effects amounting to savings of €100m-€130m by 2008.

To finance the acquisition, Commerzbank placed a capital increase amounting to €1.36bn in just two hours to institutional investors. The combined group will have an aggregate balance sheet of nearly €700bn following the merger, making it the second largest banking group after Deutsche Bank. In terms of domestic business, it will be the biggest, Knobloch noted. "We will now be able to offer one-stop banking, whereas before we lacked parts such as transaction banking. Going forward, we will not only be the biggest mortgage lender in Germany but the largest domestic lender overall." pfe

PFE COMMENT: This transaction is the best proof there is of the rapidity of the turnaround not only in the German property market but in the European market overall. Whereas just three years ago the major private commercial banks in Germany simply wanted to get rid of all real estate assets, now a 180-degree change in attitude has occurred, driven by the huge appetite of international investors for the 'emerging asset class' of European real estate.

German REITs market capitalisation could reach €30-€60bn by 2010

The German real estate market has the potential to generate assets for a Real Estate Investment Trust (REIT) stock market capitalisation totalling €30-60bn by the year 2010. That is the conclusion of a study released this month by HSH Nordbank AG.

It said the German insurance sector is likely to have invested between €20bn and €22bn in REITs by 2010. The potential for foreign institutional investment capital in the corporate

tax-free vehicles, if legislation permits them from next year, is projected at €10bn-€19bn, while private investors are seen investing between €10bn and €16bn.

Bernhard Visker, HSH Nordbank Head of Real Estate, said in a release: "The major group of investors for German REITs is likely to be institutional investors rather than private." The German insurance sector, in particular, is expected to raise the proportion of its real estate investments to some 8% from the present 5% by 2010. By then, 18%-20% of real estate investments could be accounted for by REITs.

According to the study, this is subject to German REITs having a less regulated structure. REITs made up of office and retail real estate will predominate, with market capitalisation of €2bn to €4bn each, whereas the potential for residential REITs is estimated at no higher than €1bn in total over the next five years. Based on a market capitalisation of €500m, which is the minimum for institutional investors, a portfolio for a residential REIT would have to comprise at least 20,000 dwellings

Visker warned that competition from foreign REITs and other listed real estate companies should not be underestimated since protectionist provisions of the German Foreign Investment Act have been abolished. "This means that German investors are now able to invest in foreign real estate stocks or REITs largely without suffering any disadvantages such as penalisation through taxation," he said. If a German REIT is not introduced, insurance companies, for example, are likely to opt to invest in foreign investment vehicles.

The study warned that the REIT project was at risk not only of politicians being unable to agree on legislation, but also of an overregulated or overly complex product that would not find acceptance among international investors. "Failure to produce an optimum structure - i.e. an unsuccessful German REIT - constitutes the biggest threat to Germany as a financial centre," the study concluded. pfe

UK, Germany REITs should reverse 2005 decline in property fund revenues

Revenues in property-based funds in the largest European countries are likely to decline by 1.7% this year but if Real Estate Investment Trusts (REITs) are introduced in Germany and the UK they should increase again in 2006, according to the Italian real estate research institute Scenari Immobiliari.

It said in a recent study that 2005's sustained growth of the

UK's PUTs and the French SIIC funds, and the moderate growth in funds in Spain, were offset by shrinkage in revenues in Belgium, the Netherlands and Switzerland. But, "2006 should see growth both in revenues and in capitalisation, thanks to the forecast introduction of REITs in Germany and the UK."

Scenari Immobiliari said 2005 confirmed the success of funds investing in urban development projects and logistics. An ever greater number of funds are focusing on specialisation, and this trend is likely to be consolidated since REITs in Europe's leading countries are likely to follow the US model, where specialist funds abound.

Property fund capitalisation in the nine largest European countries, excluding Italy, should rise to €288bn by the end of 2005, up from €269bn at the end of last year. This rises to roughly €300bn, adding in Italian real estate funds with around €11bn in funding. The capitalisation of property funds worldwide currently stands at €1.2tr, up 10% compared with 2004, the study said. pfe

More flexible European home loan market to exacerbate economic cycles - ECB's Issing

A more flexible residential mortgage market in Europe, in which consumers can adjust home loan borrowing more easily to interest rate changes, may bring more pronounced economic cycles and would increase volatility in domestic markets, European Central Bank board member Otmar Issing said.

ECB board member for economics and research, Issing is the most important decision-maker in European monetary policy and the longest servicing ECB board member. Due to retire in spring next year, he has been in charge of economics and research at the ECB since its foundation in 1998 and was formerly in the same function at the Bundesbank,.

It was not the ECB's job to decide on changes in mortgage lending practices, Issing added. This must be determined by the market and mortgage professionals themselves. "It's not up to central bankers to support one or the other development, but to take the market changes into account," he said.

In particular he cited regional shifts toward increased origination of variable rate residential mortgages, rather than the long-term fixed rate, many with pre-payment penalties that exist in large parts of Europe, particularly Germany. The trend



Non-Performing Loans Handbook - Germany 2005

"... it offers a unique insight in the German Non-Performing Loan market."

John L. Glascock
Professor of Real Estate Finance
University of Cambridge

Copies obtainable from
DTZ Zadelhoff Tie Leung GmbH
email: nuzhat.nasir@dtz.com
phone: +49 69 92 100 101

www.dtz.de 

toward equity release mortgages would also change patterns of consumer demand.

"The advantages of using either fixed or variable-rate mortgage contracts are not obvious, a priori," Issing said. "Variable translates to faster changes in disposable income and is an important channel for the transmission of monetary policy into the economy. At the same time this type of mortgage loan carries the risk that the borrower attaches more importance to changes in interest rates."

The increased use of housing equity withdrawal to finance consumption and expenditures could generate additional effects on output and inflation. The use of securitisation on the funding side had also changed the impact of interest rate policy on the regional economy overall.

Yet he told the conference that further integration of mortgage markets in Europe should be welcomed. The dispersal of mortgage interest rates in Europe - the diversity between one country and another - is relatively low compared to other asset classes such as consumer loans. But it is still higher than dispersal across the US.

"The most important contribution the ECB can make to the European mortgage markets is to maintain price stability," Issing said. pfe.

PFE COMMENT: We have followed Issing's career closely since his entry into the Bundesbank in the early 1990s, and have been heavily and openly critical of his approach to monetary policy analysis for a number of years now. This remains the case with the current ECB concerns over inflation and, in particular, the likelihood of so-called 'second round' effects of oil prices rises. This is the theory that 'high' headline inflation numbers will cause organised labour around Europe to press for higher wage contracts and thus spark an inflationary spiral. We think anyone who considers a CPI number with a 2 before the decimal point to be high and that inflation in Europe is a risk is not living in the real world. In any case, the entry of eastern Europe, China and India into product manufacturing and, increasingly, service provision has changed the supply equation so dramatically that all monetary theories, especially those deriving from the world as it was in the 1970s and 1980s, are of little or no use in the new millennium. Despite our disagreement though, Issing retains our greatest respect. His side comment to the EMF conference that the ECB stands squarely against all attempts to use legal or jurisdictional rules to prevent cross-border institutional mergers speaks volumes about his undoubted internal ECB Council position in regard to Banca d'Italia Governor Antonio Fazio's scandalous behaviour over the ABN Amro takeover of Banca Antonvenuta in recent months.

French SIIC Foncière des Régions makes first German apartment acquisition from MESREF/Corpus

French Real Estate Investment Trust (REIT/SIIC) Foncière des Régions has made its first residential investment in Germany, purchasing a portfolio of 5,500 apartments in the Düsseldorf region from Immeo Wohnen for a price of €275m.

The Metz/Paris-based Foncière des Régions said it intends to use the portfolio, which generates an annual rental income of €17m, as a platform for further expansion in Germany. Immeo Wohnen will continue to manage the portfolio.

The Essen-based Immeo Wohnen is part of the former ThyssenKrupp Wohnimmobilien portfolio, consisting of 45,000

apartments, bought late last year by Morgan Stanley and Corpus for a sum of €2.16bn. Morgan Stanley Real Estate owns 93.5% and the Corpus real estate group holds 6.5%. Citigroup provided the majority of the debt financing. pfe

PFE COMMENT: Highly interesting development. As far as we know this is the first major investment in German residential real estate by a French SIIC. Given considerable cultural difficulties always involved in Franco-German ventures, we have doubts that it will be the prelude to a flood of interest from Germany's western neighbour. The larger point however is that there is little or nothing the German government can do to prevent German nationals investing in German property via a French REIT quoted on Euronext in Paris. The same, of course, goes for REITs based in other European Union nations. In the growing integration of the continental European property market, free cross-border capital markets for property investment will therefore make Berlin's (and London's) further prevarication over legislation to allow REITs increasingly irrelevant. These attractive listed vehicles are of course also completely free to market their asset base in any EU investment jurisdiction. Few have done so yet, but this will come. Just as interesting for the residential portfolio acquirors of the last 24 months is the fact that a purchaser has within less than a year found an 'exit' for a part of the portfolio, to a French SIIC. We certainly assume the sale was made at a profit. Is this another aspect of REITs revaluing European property?

Aareal Bank in talks to sell its Aareal Hypotheken Management servicing unit

German real estate bank Aareal is in the process of selling its Aareal Hypotheken Management mortgage servicing subsidiary based in Mannheim, a spokesman for the Wiesbaden-based institution said, confirming media reports.

Financial sources told the Handelsblatt newspaper three institutions are bidding for AHM, including UK-based Crown Mortgage Management, the German cooperative bank credit factory VR Kreditwerk and the financial advisory company Accenture. Clarence Dixon, CMM Europe Managing Director, confirmed to PFE that his company was one of the bidders.

AHM is in the main a primary servicer but has also taken on some sub-performing portfolios in recent months. The sale was partially announced at the Aareal annual meeting by Chairman Wolf Schumacher though it was not clear from his comments that a sell-off of the loss-making AHM was intended.

No details are available on prices being offered, and one financial source said it was, "anywhere between zero and 50 (€m)". A bank spokesman told Financial Times Deutschland, "we are interested in a sale but not at any price."

The newspaper also cited the opportunity fund Lone Star as being interested but most sources believe this is highly unlikely. Lone Star is a major client of AHM but is not believed likely to want a primary servicer, but to remain focused, via its Hudson Advisors subsidiary, on processing and working out non-performing loans.

AHM currently services 215,000 private mortgage loans with a volume of €13.6bn. Aareal earlier this month announced that it had sold its Aareal Hypotheken Discount broker network to the HVB subsidiary Planet Home. pfe

PROPERTY FINANCE EUROPE - *BULLETIN BOARD*

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

REIT World UK is a two-day executive level conference with 30 speakers, more than 150 professionals and many networking opportunities. The conference says: "The massive change afoot in European real estate investment cannot be overestimated. More and more allocation has been made 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. Massive development can be triggered in the sector. Residential REITs also hold huge potential. More information: www.terrapinn.com/2005/reituk/

DIARY DATES AND UPCOMING IN 2006

8-9 February 2006

Institute for International Research Conference on Valuation of Real Estate Assets, Madrid, Spain. More info (in Spanish):

14-17 March, 2006

MIPIM, Palais des Festivals, Cannes, France.

MIPIM bills itself as the world's leading real estate event: "It brings together key industry decision-makers from around the world, allowing them to establish long-lasting relations, to present new projects, and to lay the foundations for fruitful collaboration....Conferences are an essential part of MIPIM. Through a series of panels, workshops and keynotes, delegates can discover the latest news and trends on various issues that affect their business." More info: www.mipim.com

21-23 March, 2006

European Securitisation Forum Annual Conference, Venice, Italy

Building on three years of successful ESF conferences in Geneva and in Nice, the 2006 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." Sponsorship package available. More info: www.esf.org

4-6 April 2006

Madrid Real Estate Exhibition (Salón Inmobiliario de Madrid, SIMA), Madrid, Spain

SIMA bills itself as the biggest European exhibition in the residential sector. More than 700 exhibitors and 140,000 visitors participated last year, with 15,000 professionals from over 40 countries. SIMA is the best platform to market homes and related services to tens of thousands of customers. More Info: www.saloninmobiliario.com

10-11 May, 2006

13th Handelsblatt Annual Conference on Real Estate, Berlin

This two day conference is offering top rank speakers, and numerous discussion groups. More info (in German): www.immobienforum-forum.com, or call Daniela Tóth on +49 (0)211 9686 3431.

The PFE Interview: Dennis Sheehan & Franz Schmidpeter, GMAC-RFC

GMAC-RFC invades European home loan market with a name that might disappear but a business model that is booming

GMAC-RFC may not be around in 12 months' time but its business certainly will. The parent of the residential mortgage financier is has been announced to be up for sale by the giant carmaker General Motors and, if so, is likely to change its name. But GMAC Residential Funding Corporation is now 10th largest UK home loan lender, and is building fast in the Netherlands and Germany. It has just began its expansion into the Spanish market.

"The RFC story is a pan-European story," GMAC-RFC Managing Director Europe Dennis Sheehan told PFE in an interview. "We are a business-to-business product company and a monoline. We will do any kind of mortgage you want, but only a mortgage; not an auto loan, and not a consumer loan... In other words we focus purely on residential mortgages; that's where we see the risks and rewards."

Even if it may be soon be under new ownership, the GMAC-RFC business is unlikely to miss a beat. Residential Funding Corporation was founded in 1982 as the correspondent lending division of Banco Mortgage. It was purchased in 1984 by Salomon Brothers, and in 1990, by General Motors Acceptance Corp.

The business model is wholesale financing of residential mortgages originated by third parties - i.e. in the main, broker networks, banks and via Internet. In Europe, this means working at the front end with all kinds of local brokers and multipliers in home loan distribution, and at the back end, financing via whole loan sales, Pfandbrief/covered bonds and/or residential mortgage securitisations.

In the UK, GMAC-RFC this year will finance nearly £7bn of home loans, a market share of 2.4% - just eight years after entering the market. It first brought the model onto the continent in the Netherlands in 2002. To facilitate business in Germany, GMAC-RFC bought the home loan broker network Creditweb in February 2002, and two years later acquired DFH Eigenheimbank from the Metro retailing group. Now, apart from Creditweb, it works with all the large brokers, including Interhyp, Dr. Klein and Planet Home. In Germany, GMAC-RFC volume has reached €80m-€100m per month, and should hit €1bn for all of 2006. Volume this year in the Netherlands should be €2bn.

"The magic we bring is how to put all the pieces together and mould the mortgages into a discrete asset pool," Sheehan says. In June, GMAC-RFC successfully executed its first German true-sale RMBS, raising €302m and with

servicing provided by Aareal Hypotheken-Management. The issue, rated AAA, attracted very strong international interest. Cost of funding was 16-17bp over Libor. "We really think this was a major event for our franchise," Sheehan says. "The appetite for these kinds of assets is huge. 90% of the investors were non-German... and many were traditional investors in Pfandbrief. The true-sale structure means the investor gets a direct investment in the mortgages without having any institutional risk." Franz Schmidpeter, Managing Director Germany, adds the roadshow indicated a high level of knowledge: "I was really impressed with the level of detail they asked about in regard to what is going on in German mortgages."

Given this appetite, the bottleneck is locating the assets. And because legal issues remain with residential mortgage portfolios more than two or three years old, this means heavy reliance on German broker networks.

"We're benefiting from strong growth in the credit channel," Sheehan says. "Our advantage is that whereas in the past, traditional lending here only offered only up to 60% loan-to-value, we do above 80% on a standard basis." In fact, says Schmidpeter, GMAC-RFC offers up to 108% of LTV in German buy-to-own residential - including financing some of the fees - and 102% in the buy-to-let market. Its standard mortgage also allows up to 5% prepayment per year without penalty, something most mortgage providers have traditionally avoided. He sees plenty of potential for the €110bn annual mortgage market to grow. "To succeed we don't have to have a different distribution of the existing cake, we're interested in making the cake grow bigger," Schmidpeter says. Many potential borrowers lacking a downpayment have been neglected. Adds Sheehan: "The likes of policemen and dentists often just can't get mortgages."

The two men have also approached the purchasers of the huge residential portfolios that have recently changed hands, offering to work with them to finance the giant privatisation programs they plan. Sheehan and Schmidpeter think the new acquirors are going to have to move fast to get the returns they need, even if the coming of REITs could offer an alternative exit. "They know they're going to have to start right now and move very fast - and that's where we come in," Schmidpeter says. "Otherwise, these deals may take 15 or 20 years to pay off. And if interest rates go up it will take longer still." pfe



Dennis Sheehan: "Any kind of mortgage you want but only a mortgage."



Franz Schmidpeter: Residential portfolio acquirors know they need to move fast with privatisation

Bavaria's commercial real estate company floats on stock exchange

The Bavarian commercial real estate investment company VIB Vermögen AG is to float on the Munich stock exchange, with the listing scheduled for today, 28 November.

VIB was founded in 1993. It converted to a limited liability legal structure in 2000 to boost focus on its core competence, which is the development and management of commercial real estate as well as participation in other property companies. VIB activities are focused principally on the southern German region.

In 2004 VIB said it earned net profit of just under €1m, reported operating profit of €5.43m, and generated cash-flow of €2.41m. It has paid a dividend in every year since 2000.

Chairman Ludwig Schlosser said in a release the aim is to achieve profitable double-digit growth over the next years, and the board is fully determined that all shareholders participate in its success. "In the past we have regularly paid out over 50% of our profit to our shareholders, and it is our intention to retain this active dividend policy going forward," he said.

The VIB portfolio contains 15 diverse assets, with rentable space totalling some 137,000 sq.m. The flotation involves an offering of 4.8m already-issued shares plus a capital increase of another 5m. They have been on offer since the middle of this month at a price of €6 per share to institutional and private investors.

The resulting new capital of €30m will be completely dedicated to increasing the asset base in commercial real estate. VIB has long-term lease contracts on its assets with companies such as EDEKA, Aldi, Burger King, Bosch Rexroth and Ciba Vision. pfe

Average German apartment vacancies seen at 3.9% of total

The latest index of apartment vacancy rates in Germany shows that in the west, around 2.4% of apartments are standing vacant, while the rate in east Germany including Berlin is 7.1% of total, giving an average for Germany as a whole at 3.9%

The company Techem produces the index with partner empirica on the basis of the spread of heating bills relative to the total available apartment floor space.

The three east German cities Frankfurt/Oder (20%), Görlitz (16,9%) and Schwerin (16%) showed the highest vacancy rates of all towns canvassed, while in the west, the highest rates were recorded for Wilhelmshaven, Pirmasens and Emden, each at more than 7%. The lowest vacancy rates were recorded for towns in Bavaria. pfe

Hamburg-based TAG writes off stake, investment in JUS subsidiary

Hamburg-based TAG Tegernsee AG said that in the quarter ending in November it will finally include full write-off costs of €20m for its stake in JUS AG, and also assign a further

€6m for capital investment in the subsidiary.

Earlier this year, JUS sold a portfolio of 2,300 apartments in Leipzig to the Vienna-based Conwert AG. The latter simultaneously took a stake in a TAG subsidiary, Bau-Verein, which holds a further 670 residential units and land plots.

Michael Haupt, TAG board member responsible for real estate and also the JUS Chief Executive, is leaving the group at year end. He said in a release the closing balance sheet consolidation has only become possible because of the three successful capital raising operations undertaken by the group in the course of this year. pfe

Spain's Fadesa forecasts a 55% rise in 2005 profit, domestic home sales soar

Spanish builder and developer Fadesa is forecasting the sale of more than 6,000 homes in 2005 which implies an increase in group net profit of more than 55% for the year and an increase in total pre-sales of close to 30% compared to 2004.

Fadesa said in a release net profit for the first nine months reached €121.7m, an increase of 36% compared with the same period last year.

Home sales' value in the period soared 38% to just over €1bn. The value of pre-sold homes reached a new peak of

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. Or look into its website www.pfandbrief.de and download the pdf file.

vdp

VERBAND DEUTSCHER
PFANDBRIEFBANKEN
Association of German Pfandbrief Banks

just over €2bn, around 40% more than in the same 2004 period.

Income from residential activity increased by 19% and building progress at its current residential developments means sales will be completed on a significant number of homes in the final quarter of the year.

Consolidated EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) increased 33% in the first nine months, to €191m. Net financial debt at 30 September was €1.28bn, and net debt as a percentage of the market value of assets as at 31 December 2004 was 18%.

In the third quarter, Fadesa said it completed a number of domestic transactions. It also strengthened its position in Hungary. As well as promoting over 270 upmarket homes in the heart of Budapest, it said it has been chosen by the Csepel-Budapest to develop the most important property project in the Hungarian capital over an area of 80 hectares. pfe

Vivacon trades apartment portfolios, boosts nine month net profit

The Cologne-based Vivacon AG in November announced two separate apartment deals, taking its total portfolio of residential assets briefly up to 10,000 apartments but then that it had sold nearly one-third of these to a UK-based investor.

It first announced the acquisition of 1,250 apartments, and then that it had sold a portfolio of 2,658 units to a British institutional investor. Vivacon in a press release did not name the investor but said the sale was the largest single transaction in its corporate history.

The second deal, which involved total floor space of 166,000

sq.m., brought in proceeds of just under €100m and a profit margin of over 10%. The apartments were located in the Ruhr, North Germany and Berlin.

Separately, Vivicon also announced group net profit in the first three quarters of the year reached €5.4m, reversing a loss of €1.1m in the first three 2004 quarters. Total turnover soared to nearly €130m from just €31m at end-September 2004, and earnings before interest and taxes (EBIT) rose to €9.9m from €500,000 in the year ago period. pfe

Colony Capital's French subsidiary Lucia to adopt REIT status

Lucia, the French quoted subsidiary of US-based opportunity fund Colony Capital, announced it will convene its board in the context of an extraordinary shareholders meeting to approve its conversion to the status of a SIIC (Société d'Investissements Immobiliers Cotée).

The new Real Estate Investment Trust (REIT) legal status will take effect on 1 January. Among other major projects Lucia is playing a major role in the development of the T1 tower, a 70,000 sq.m. office block in the Paris La Défense complex. pfe

Dutch Corio nine-month results rise 8.2%, expects over 7% increase for all 2005

The Netherlands-based Corio NV, one of the largest retail-

Table: Recent mortgage backed securitisation transactions

Class	Country	Currency	Closing	Vehicle	Originator/Arranger
CMBS	UK	GBP	Nov 2005	Opera Finance (MEPC) plc	Eurohypo
CMBS	UK	GBP	Nov 2005	Prominent CMBS Funding No. 1	BOS
CMBS	UK	GBP	Nov 2005	Deco 6 - UK Large Loan 2 plc	Deutsche Bank
CMBS	UK	GBP	Nov 2005	London & Regional Debt Securitisation 1	Morgan Stanley, Arr.
CMBS	IT	EUR	Nov 2005	Taurus CMBS No. 2 S.r.l	Merrill Lynch
CMBS	FR	EUR	Nov 2005	Odysseus (European Loan Conduit 21	Morgan Stanley
RMBS/CMBS	ES	EUR	Nov 2005	Rural Hipotecario Global I, FTA	11 banks (AECR)
RMBS	ES	EUR	Nov 2005	Hipocat 9, FTA	Caixa Catalunya
RMBS	ES	EUR	Nov 2005	AyT Génova Hipotecario VII	Barclays Bank S.A., Ahorro y Titulización
RMBS	IE	EUR	Nov 2005	Celtic Residential Irish Mortgage Sec. No. 9 plc	First Active
RMBS	NL	EUR	Nov 2005	Dutch MBS XIV B.V.	16 subsidiaries of NIB Capital
RMBS	PT	EUR	Nov 2005	Douro Mortgages No. 1	Banco BPI S.A.
RMBS	UK	GBP	Nov 2005	Southern Pacific Securities 05-3 plc	Southern Pacific Mortgage
RMBS	UK	GBP	Nov 2005	Paragon Mortgages (No. 10) plc	Paragon
RMBS	UK	GBP	Nov 2005	Alba 2005-1 plc	Preferred Mortgages
RMBS	UK	GBP	Nov 2005	RMAC 2005 - NS4 plc	GMAC RFC
RMBS	DE	EUR	Nov 2005	Provide-A 2005-1	HVB
RMBS	UK	GBP	Nov 2005	Holmes Financing (NO.8) PLC	Abbey National
RMBS	Spain	EUR	Dec 2005	TDA 24, FTA	Caja de Ahorros de Castilla La Mancha
RMBS	UK	GBP	Nov 2005	Money Partners Securities 2 plc	Money Partners
RMBS	UK	GBP	Nov 2005	Graphite Mortgages plc	Northern Rock
RMBS	UK	GBP	Dec 2005	Holmes Financing (NO.9) PLC	Abbey National
RMBS	FR	EUR	Dec 2005	French Residential Asset 2005-2	Crédit Logement
RMBS	DE	EUR	Nov 2005	Provide Blue 2005-2 plc	BHW
RMBS	ES	EUR	Nov 2005	Fondo de Titulización de Activos UCI 14	Unión de Créditos Inmob.
RMBS	ES	EUR	Oct 2005	Santander Empresas 1, Fondo de Tit. de Activos	Banco Santander Central Hispano
RMBS	ES	n.a	n.a	TDA Ibercaja 2 Fondo de Titulización de Activos	n.a
RMBS	IT	EUR	Oct 2005	Vela Home S.r.l. - Series 3	Banca Nazionale del Lavoro
RMBS	UK	EUR	n.a	Northern Rock plc Global Cov. Bond Prog.	Northern Rock
RMBS	UK	various	n.a	Whinstone Capital Management Ltd.	Northern Rock
RMBS	ES	EUR	Dec 2005	Bankinter 11 Fondo de Titulización Hipotecaria	Bankinter
RMBS	NL	EUR	Dec 2005	E-MAC NL 2005-III B.V.	GMAC RFC Nederland, Quion 20
RMBS/CMBS	IT	EUR	Nov 2005	Asti Finance S.r.l.	Cassa di Risparmio di Asti

focused property companies in Europe, said direct profit in the first nine months grew 8.2% to €11.5m and the good results plus the present portfolio and pipeline gives cause to expect a 7.4% rise in profit to €200m, €3.02 per share, for 2005 as a whole.

The increase in the first nine months of this year was caused particularly by the 2.2% growth in net rental income to €201m and a €6.7m share in the profit of Akmerkez GYO, Istanbul between the time of its acquisition on 11 April 2005 up to the end of September. Corio accounts were prepared under IFRS guidelines.

The property portfolio, including projects under development, increased by €195m over the first nine months to €4.1bn.

Corio said in a release its strategic target is to have 80% of the portfolio invested in retail property. In the first three quarters, investments in new retail projects amounted to €312m, of which 22% were projects in the pipeline and around 48% were the group's first acquisition in Turkey - the shopping centre Akmerkez in Istanbul. Corio aims to invest some \$500m in Turkey within the next three years, around 10% of the total portfolio.

The company said it adds value by active hands-on management in its core countries of the Netherlands (53%), France (23%), Italy (13%), Spain (7%) and Turkey (4%). Corio is listed on the Amsterdam and Paris stock exchanges and is included in the Euronext Amsterdam Midcap Index (AMX). pfe

Portugal's Sonae Sierra signs up €119m project finance for Italian shopping centre Freccia Rossa

Portuguese shopping centre developer Sonae Sierra, increasingly expanding into other European nations, said it has signed an 18-year, limited recourse mortgage-backed €119m loan facility to develop the shopping and leisure centre Freccia Rossa, in Brescia, Italy.

The loan will fund a joint venture special purpose vehicle which groups Sonae Sierra at 50%, with AIG global Real Estate at 40% and Coimpredil at 10%, it said in a release.

The loan represents 83% of the €143m estimated total investment. It was provided by a bank syndicate formed by Banca Mediocredito e Unicredit Banca D'Impresa (Unicredit Group), Intesa Mediocredito (Intesa Group), BIPOP (Capitalia Group), BNL, Banco di Brescia (Banca Lombarda Group), and WestLB Italia.

Freccia Rossa is part of the "Comparto Milano" urban renewal project being carried out in a former industrial area in Brescia. With 28,500 sq.m. of gross leasable area and parking for some 2,500 cars, Freccia Rossa will be the largest downtown shopping centre in Italy, providing a family entertainment centre, a multiplex cinema, a health club, a supermarket, 23 restaurants and over 100 further shops. It is scheduled to open in the spring of 2007. pfe

Casino supermarkets in sale-leaseback

The French Casino supermarket group has sold its warehouse retail sites for €201.5m to Mines de la Lucette, a

listed company that has opted recently for REIT status and is controlled 76.7% by Morgan Stanley Real Estate.

The BusinessImmo magazine reported that the sale and leaseback transaction involves 13 Casino super- and hypermarkets, with total floor space of 418,000 sq.m, and should close in the first quarter of next year. It allows Casino to get the value out of its property, and simultaneously tie in long-term leases below 7% of capital value.

Mines de la Lucette is quoted on the Eurolist of the Euronext stock exchange in Paris. pfe

Office assets account for 40% of European investment property - IPD

Office is the single most important investment sector in Europe, accounting for around 40% of all assets by capital value at the end of last year, and national average net income yields ranged at the end of last year from 4.8% to 7.0%, says a new report by International Property Databank (IPD).

In most of continental Europe operating costs on offices amounted to 8-13% of gross income. They were highest in the Nordic region at 17-19% and lowest in the UK and Ireland at 2% of gross income.

The retail sector shows the largest range in yields in Europe. National average net income yields ranged from 3.4% to 7.0%.

Operating costs account for a slightly higher percentage of gross income in the retail sector than in either office, or industrial.

REITWORLD

UK 2005

6 - 8 December 2005, Royal Garden Hotel, London, UK



Opportunity!

Exploring the new era of REITs in the UK

- Europe's only devoted REIT conference
- Capitalise on the opportunities created by REITs
- Understand how the UK-REIT affects property investment
- Find out who will be the first to convert - and the first to invest!

REIT World UK is the two day executive level conference that allows you to learn, do business and initiate new business relationships. With 30 expert speakers, 150+ likeminded professionals and 8 hours of networking, you will have access to property's leading minds and will reap benefits for your business

TO BOOK SEE THE WEBSITE:
www.terrapinn.com/2005/reituk
 or call +44 (0)20 7827 4171

The gap with the other commercial sectors is due mainly to multi-let shopping centre.

Industrial is the smallest sector in European investment property and is not a significant part of portfolios in Norway or Switzerland. However, industrial yields are generally higher than in other sectors. Net income yields were highest in Germany (8.4%) and France (8.3%) at the end of 2004, and lowest in the UK, Ireland (6.3%), Portugal (6.1%) and Italy (5.6%).

Residential is the third largest investment sector in Europe, after office and retail. It is the biggest sector in portfolios in the Netherlands and Switzerland, but does not constitute part of the professional investment market in Ireland, Italy, Norway, Portugal and the UK.

Net income yields on residential assets average around 4%, but are notably higher in Switzerland at 4.6%. Operating costs were significantly higher than for commercial property, reflecting the fact that most of the residential investment stock is multi-let flats and apartments. Operating costs were generally around 25% of gross income, though around only 10% in Spain and much higher in the Nordic region at 40-50%. pfe

UK's Halverton opens Frankfurt office, eyes €400m commercial RE investments

The UK-based Halverton Real Estate Investment Management, a real estate investment and asset manager established in November 2004, announced that it has opened



The Dutch residential property market is also open for business.

a branch office in Frankfurt and appointed former Vivico manager Alexander Hoff to run it.

Halverton, which also has offices in London, Paris, Amsterdam and Copenhagen, said it aims to increase German commercial real estate investments to at least €400m by the end of 2006. Since its establishment, Halverton has built a portfolio of around 40 commercial and industrial complexes with a total volume of approximately €250m.

Halverton's business model offers direct and indirect access to high-yielding, multi-let light industrial sector in Europe. pfe

EU competition law stops west European cities plug regional aid gap - RICS

Inflexible EU competition law is stifling regeneration in Europe's cities, and preventing western governments filling the vacuum left by EU regional development funds now being redirected to central and eastern Europe, says the Royal Institution of Chartered Surveyors.

Many of the 10 new EU member states qualify as high priorities for regional aid - the money allocated to help develop the most deprived parts of Europe. The bulk is now being directed to poorer areas such as Poland and Estonia, and away from underdeveloped regions in western European.

"This funding gap should present a classic opportunity for the private sector to step in, but EU competition law prevents local and national governments, or their private partners, from taking up the slack," RICS said in a release. "The EU is particularly wary of state money flowing into private regeneration schemes as it fears unfair competition and corruption."

RICS spokesman Michael Newey added: "This is not a crude matter of east versus west. Eastern countries too will need alternatives to regional support because Brussels will have nowhere near enough money to provide the development funding they need." pfe

Fidelity plans first German property fund

The US fund manager Fidelity is planning to introduce its first real estate investment product into the German market next year, the Immobilien Zeitung newspaper reported.

A spokesman for Fidelity said the product would not be a classic open-end real estate fund, but gave no further details.

Fidelity distributes and markets several property funds in the UK and US, which invest extensively in Real Estate Investment Trusts (REITs) and other listed real estate companies. At the start of this year, Fidelity set up a capital investment company in Germany. From its subsidiary in Kronberg, outside Frankfurt, it manages around 100 mutual funds marketed in the country, with a value of some €10.8bn. pfe

Around €104bn invested in real estate-based funds in Germany - BVI

The 90 German real estate funds for institutions (Spezialfonds) that currently exist were managing €16.7bn

at the end of September, while property-based funds in total, including mutual and special funds, accounted for a huge €104bn, according to the latest statistics from the German federal investment fund association (BVI).

For comparison, total institutional fund investment in Germany was €613, while capital invested in mutual funds (Publikumsfonds) amounted to €537.

In October, mutual funds overall attracted capital inflows of €3.4bn, though in the property-based funds buyers and sellers were about balanced out - with a slight net outflow of €100m. pfe

Caution needed over low commercial real estate yields - Natexis research

Yields on commercial real estate need to be much greater than the current 60 basis point differential between industrial company and sovereign bonds in order to take into account the risk on property assets, according to Philippe Waechter, director of economic research at Natexis Asset Management,

He told the BusinessImmo magazine that institutional investors are increasingly managing property as an asset, whose valuation approaches that of a fixed income bond, but that the liquidity considerations are very different.

"The financial development of real estate is prompting the professionals to price their assets like a normal tradable security," he said. "As a result, they are looking at profitability in terms of the differential with the OAT (French government bond), and in the context of the strong capital inflows these have naturally been brought down to very low levels." pfe

European RE intransparency seen major hurdle for developing asset class

The lack of transparency in European real estate investments continues to be a major hurdle in preventing its development as an asset class to compete with equities and bonds, according to Fitch Ratings.

While real estate investments produce long-term stable income and aid portfolio diversification, concerns have been raised over market transparency by recent financial scandals and the complex regulations and tax-regimes in European countries.

Isabelle Cardon, a director of Fitch Asset Management Rating said in a release: "Transparency is still limited in most European markets. It is often hard to find comparable transaction prices for an asset with particular features, or to establish what rents are being charged. Funds rarely publish the value or yield on each of the buildings in their portfolios."

This is exacerbated by the complex tax-regimes across Europe. "Coupled with poor liquidity owing to the high transaction costs, and the long-term nature of real estate investments, this explains why these assets are less common in investor portfolios than equity or fixed-income instruments," she added. pfe

New German grand coalition signs into law abolition of closed-fund tax offsets

The new German grand coalition, in one of the first acts after being officially appointed to office, immediately signed into law the significant reduction in tax write-offs for closed-end funds legislated but not completed by the prior Red-Green coalition.

The legislation, which former Greens' Environment Minister Jürgen Trittin - in one of his last official acts - declined to sign, drastically cuts back writes-offs contained in Art. 15 of the German Income Tax law which applied to solar and wind-energy funds, shipbuilding and media funds, and some limited property-related closed funds.

The curtailment of advantages for financially supporting wind energy development was the primary reason for Trittin's objection to the legislation. The new law, backdated to take effect on 11 November, reduces the prior ability to set off any income or profit equivalent to 300% of funds' losses against individual tax liability.

Henceforth, only profits made on the individual fund itself can be offset against any losses accruing from it. pfe

PFE COMMENT: There really is no way of predicting if the grand coalition will be successful in reforming Germany, or positive for its real estate industry. The key lies in the battle for the heart of the Social Democratic Party now that Gerhard Schröder is gone. If the radical left wins the debate, it will lobby against any reform initiatives Chancellor Angela Merkel might want to introduce. But the reverse is also true: were moderates to win the SPD heart, the grand coalition has great potential.

ING's German Deutsche Hypo originates €672m property loans

The German mortgage subsidiary of the Netherlands-based ING Group, the Hanover-based Deutsche Hypothekbank AG, said it originated real estate loan volume of €672m in the first three quarters of 2005, though €510m of this was done outside Germany.

In a release, Deutsche Hypo said €417m of total lending was in commercial property. The German bank boosted foreign business by €149m compared to the same 2004 period.

It also said operating profit fell by 20% compared to the first three quarters of 2004, but this has been impacted by a special effect of a €244m portfolio purchase. Net profit on standard business rose in the period by 4.5% to €36.9m. pfe

Low product availability cuts shopping centre investment in Italy, says JLL research

Shopping centres and retail parks in Italy are the object of high investor demand but lack of product availability is likely to cut total investment volumes by 15% this year, Jones Lang LaSalle said in a new report.

The realtor's latest Italian Retail Capital Markets Bulletin said €680m was invested in the sector in the first nine months of 2005, 13% less than the record levels of last year.

"We estimate the total annual investment volume at around €1.1bn, a 15% decrease on last years' record levels," said Davide Dalmiglio, head of JLL Retail Capital Markets Italy.

The Italian retail investment market continues to be dominated by international investors, and cross-border flows in the first three quarters reached 70% of total investments. In response, the sector has greatly improving levels of transparency, professionalism and asset quality.

For 2006, JLL foresees an increasing supply pipeline, and retail warehousing growing in importance thanks to a strong development pipeline and rising standard of design and construction quality.

Central and southern Italy will become more important for investment activity as a result of new shopping centre developments and better transparency, and lease levels should continue to increase for prime locations. Due to a continued high level of liquidity, German property funds are expected to allocate further capital to retail in Italy. pfe

Kempers sees some demand returning to German retailing property

Demand may be picking up in the German retail market. The Düsseldorf-based broker Kempers, specialised in store lets, said a survey of 350 retail space rentals showed that after a flat first half, 40% of total volume for the year was transacted in the third quarter.

Another 13% of the total volume was made in October, indicating that retail in Germany may be showing some signs of life. pfe

CoreNet Global sees continent losing 'island status', founds German Chapter

CoreNet Global, the US-based association for corporate real estate, said continental Europe is in the process of losing its 'island status' and property professionals need to have closer contact to industrial companies using operating buildings but not needing to own them. As a result, the 7,500-member association announced last week it has founded a German 'chapter', based in Frankfurt am Main.

CoreNet first attempted to set up in Germany last year but the full integration in the worldwide group was rejected by local representatives. As a result, CoreNet Global director Christine MacKenzie said in a release, "we have decided to make a completely new start in Germany. We want to offer our members in Germany the incredible potential of our network, and our unique worldwide contacts to non-property companies that 'only' use real estate."

A constituent meeting took place grouping MacKenzie with a number of other members of worldwide boards, plus specialists such as Dr. Andreas Pfnür from the Technical University Darmstadt and Andrew Burt, Head of Corporate Real Estate EMEA, Disney Corp.

CoreNet Global sees a complete reordering coming in German and continental European real estate, and says the trends that will determine the way forward for commercial property will be determined by industrial companies.

CoreNet Global headquarters are in Atlanta, Georgia. It has regional offices in Brussels, Hong Kong, London, Melbourne, Sao Paulo, Shanghai, Sydney and Toronto. pfe

Australian Rubicon Europe Trust invests €344m in German office blocks

Rubicon Europe Trust, a stock exchange listed Australian real estate company, has invested €344m to buy three office buildings from DB Real Estate, the latter announced.

Two of the office blocks are located in Frankfurt, and the third in Berlin. Rubicon was advised by DTZ which also did commercial and technical due diligence. pfe

BNP Paribas to double property investment in next three years, forms new division

One of the largest French commercial banks, BNP Paribas, intends to double the amount invested in real estate over the next three years to around €8bn, and said it has established a new business division Paribas Real Estate Investment Management to bring together all the real estate management activities in the group.

In an announcement, BNP Paribas, which owns the realtor Atisreal, said it currently owns and manages property in the value of €4bn. It presently acts on behalf of institutional and private investors from Germany, France, UK, Spain and Belgium. pfe

Fortress combines management, prepares two German apartment subsidiaries for stock market listing

The two major residential apartment companies bought in the last two years by the Fortress Investment Group opportunity fund, the Essen-based GAGFAH and the Hanover-based NILEG, have combined their management with a view to seeking a stock market listing

For both groups, GAGFAH chairman Udo Bachmann takes over board responsibility for portfolio management, group communications, controlling and finance. Responsibility for real estate acquisition and project development will be taken by Wilhelm Gehrke, until now chairman of the NILEG management board.

The company said it aims to grow the current portfolio of 110,000 apartments to around 150,000. It will for now retain the commercial real estate interests taken over with the purchase of Nileg earlier this year, consisting of 12 properties. pfe

www.pfeurope.de

Property Finance Europe is a regular report giving information and analysis on continental European real estate finance for US and global institutional investors, banks, private investors, asset managers, global Real Estate Investment Trusts and other listed vehicles, corporate treasurers, traders, financial professionals, public sector officials, academics and others. Editorially independent of any investing institution, *Property Finance Europe* is published on the second and fourth Monday of every month and produced from Frankfurt, Germany.

SUBSCRIPTION AND REGISTRATION – PROPERTY FINANCE EUROPE

Property Finance Europe is available worldwide on subscription. Subscribers receive immediate notification for real-time Internet download as well as a mailed hard copy. Multiple subscriptions for institutions and their internal information delivery systems are available and are subject to negotiation.

The 12-month subscription price for *Property Finance Europe* is E975 on the European continent (plus 7% VAT if you live in Germany), £675 in the UK, or US\$1,475 if you live in the US, Canada or elsewhere in the world. We are delighted to offer a discount for new subscribers of 25% for a 12-month subscription and 35% if you choose to take a 24-month subscription. A subscription to *PFE* gives you:

- (i) 22 editions over a 12-month period (no issue on first August or second December Monday)
- (ii) Immediate download access, via URL notification, to the latest *PFE* edition on day of issue,
- (iii) A mailed hard-copy *Property Finance Europe* for your records and travel convenience,
- (iv) Free access to the Internet *PFE* electronic archives holding all issues published to date,
- (v) Between-issue notification of items important to your success in European property finance.

You can also register for a complimentary trial subscription. To continue to receive *Property Finance Europe* regularly, please tick one of the following boxes and fill in your contact details below:

- Yes! I would like to subscribe to *Property Finance Europe*. I qualify for the new subscriber discount and understand that I can cancel at any time and receive a full refund on undelivered issues.
- Please register me for a no-obligation trial subscription to *Property Finance Europe*. I understand that this entitles me to download the next two issues completely free of charge from the Internet via a login code, and to review all past editions.
- Please contact me to discuss a multiple subscription, or clarify a query that I have.

first name last name.....

job title

company

address 1

address 2

town

county/state postcode/zip.....

country

email

telephone fax.....

- Please send me an invoice. I would like to pay by credit card. Please contact me.

Mail or fax to: *Property Finance Europe*. Franklinstrasse 62-64, 60486 Frankfurt am Main. Germany.
Tel. +49 (0)700 3686 2233. Fax: +49 (0)6101 813405. Email: business@pfeurope.de.