



## FORWARD THINKING »»

### A €90bn question: Can German property funds survive planned reforms?

By Allan Saunderson, Managing Editor, Property Investor Europe

**P**roposed German federal government reforms to the Investment Law, which include an across-the-board 10% writedown to valuations over five years, pose the nation's real estate fund industry with a challenge unprecedented in its 50-year existence - and show that Berlin's attitude to its investment industry is at best unconstructive.

This is compounded by the flat refusal of successive administrations of Chancellor Angela Merkel to take any responsibility for a chaotic housing sector, an attitude that contrasts strongly with its speedy generosity to carmakers. When the global financial crisis hit with full force, Berlin was lightening fast to propose a cash-for-clunkers subsidy to boost sales and 'prop up consumer demand', and has not been slow in promising billions to Opel. Similar measures to revive a disastrous shortfall of homebuilding and tackle a multi-year annual 200,000 deficit in new dwellings, or to encourage home ownership - which would also have bolstered consumption - have been notable by their complete absence. This vacuum has contributed to calls by Germany's neighbours for more effort from Berlin to contribute to consumption. France, meanwhile, supported its housing sector amid the crisis by ceding direct tax breaks, subsidising zero-interest mortgage schemes and introducing the Scellier buy-for-let investor fiscal reforms.

Now, Berlin's attempt to impose another layer of regulatory discipline on the €90bn open-end

property fund segment, in disarray for 20 months, puts into question its fundamental viability and certainly its attractiveness to foreign investors. Apart from concerns over the detail, the move raises the fundamental question whether Germany, governed by such a public sector mind-set, can foster a genuine property investment industry or if the profession will move offshore to centres such as Luxembourg or London. Finance Minister undersecretary Uwe Wewel last week made clear in a conference that even while the industry is trying to persuade the investing public that the 10% 'lawnmower' discount is unlikely to come into law, Berlin has no intention of withdrawing it.

On the same panel, Wolfgang Mansfeld, board member and former president of the German Investment Fund Association BVI, commented: "I find it impossible to think that one can put such as proposal on the table for a 10% discount. Even if it was not meant to be public, it was always going to filter through. We have all had experience of these things and now we have seen concretely what happens. We need clear declarations from the Ministry that it will not stick to this proposal if the industry sees it as inappropriate." Reinhard Kutscher, chairman of the cooperative property fund manager Union Investment Real Estate and the BVI real estate committee, added: "I would almost lay my hand in the fire to bet that the 10% valuation discount will never become law."

The industry has until 26 May to lodge coun-

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ter-proposals, and both sides are scheduled to meet five days later in Berlin to discuss the issues. Not only is the prospect of an externally-ordered 10% writedown on valuations scaring off investors, but the federal government move has dealt a severe blow to the German valuation community which has long defended the long-term stability of its valuation approach. Other elements of reform plans that have caused deep consternation include compulsory redemption notice on all capital withdrawals, with managers having the option of length - from six to 24 months. A two-year notice period would mean the opting fund has no compulsory minimum liquidity, while the shortest permitted redemption notices of six up to 18 months would require a 10%-15% minimum. BVI had proposed notice periods up to 12 months, and only for institutional investors - without any changes in liquidity requirements. "The concept is in many points so bad that it will be impossible to put into practice," said Jones Lang Lasalle German head Andreas Quint.

What is also clear however is that German property funds have partly brought the problem onto themselves. Deep divisions have emerged as the interests of managers with large distribution networks - primarily Union Investment, its savings bank counterpart DekaBank, Commerbank's Commerz Real and Deutsche Bank's RREEF - have diverged from those of smaller, private sector suppliers, some of whom are foreign based. The latter have sought to augment less solid German domestic retail distribution by attracting larger, institutional investors - and thus increased volatility and the likelihood of closure as institutions have shifted funds quickly between asset classes and vehicles in response to the crisis and its aftermath.

In the latter category, Aberdeen Property Investors, faced with dwindling fund distribution options now that its former partner Dresdner Bank is merging with Commerz Real owner Commerzbank, is now said to be looking to sell Degi Funds, acquired from former Dresdner owner Allianz. Last Friday at the conference run by the Handelsblatt newspaper, Wewel faced barely concealed anger, and showed lack of comprehension of the market reaction, in which two more funds SEB Immobilien and the Munich-based independent Kanam closed after investors reacted by selling fund certificates in droves.

Wewel made clear though that the government feels the need to step in to regulate because the industry has not been able or willing to achieve internal coherence and find its own solutions to intense volatility which has sparked many fund closures. "We need to make some changes. Things went very well for the open-end funds for the first 40 or 50 years but it did not go well in the last five years," he said. "This is not about some kind of discount but about establishing fair value both for investors already in the fund and those who might want to invest in the future." He rejected the idea that much of the volatility can be prevented by a legislative framework that creates open-end vehicles for private savers, and separate funds for institutions. However, his argument - that the securities are bearer paper and not registered and that therefore the final investor cannot be known - sounded more than a little hollow to the assembled 150 real estate professionals in Berlin.

After its fund closure last week, SEB said: "Despite its excellent product quality, SEB ImmoInvest is experiencing a significant rise in unit redemptions across all customer segments. The pattern of redemption requests shows that large investors who are aware of the discussion draft are again reacting more quickly than others. Management considered itself obliged to tide over this phase of intense uncertainty in the interests of its investors by a temporary suspension on redemptions, and expects all those involved in the legislative process to have a keen interest in the situation rapidly returning to normal, and in the law containing rules appropriate to the products involved." SEB ImmoInvest has the best risk/return ratio of all open-ended real estate funds in the long term - a return of 4.1% - and since launch, has generated an annual return of 5.9%.

Prior to the Berlin announcement, the sector had been doing well despite a number of closed 'open' funds, some since the original closure in the aftermath of the Lehman Brothers crash, and others that attempted in the interim to re-open, but were met with further bouts of capital outflows in excess of their liquidity reserves. In the first quarter, however, net capital inflows across all OEFPs reached €3.2bn, the best quarterly result in seven years, BVI said. Total assets in open funds rose to €89.9bn. Another €29bn is invested by institutions in the Special Funds class. ■ as

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## French Altarea agrees €450m Cap 3000 mall purchase

French shopping centre REIT/SIIC Altarea Cogedim and main shareholders Predica and ABP are to buy Galeries Lafayette's Aldeta mall unit whose main asset is the Cap 3000 mall in the south of France. The deal values Cap 3000 at €450m, representing an initial net yield of 4.65%.

Altarea, Predica and ABP have set up a new company called AltaBlue, in which they will each hold one-third of the capital, to acquire Galeries Lafayette's 99.8% stake in Aldeta. AltaBlue has agreed to pay €11.08 per share in cash for the stake, although the final figure may be adjusted to take account of Aldeta's financial statements at the end of June. An exceptional dividend of around €3.97 per share is due to be paid before ownership is transferred. Once the 99.8% stake has been transferred, AltaBlue will propose to buy out minority shareholders at a price of at least €11.08 per share. The deal remains subject to approval from the relevant anti-trust authorities.

Altarea's chairman and founder Alain Taravella said the acquisition demonstrates the company's ability to position itself in regional shopping centres offering considerable potential. "More than ever, shopping centres are the group's main focus," he said. Altarea said the acquisition constitutes a strong sign for the investment market, which is showing clear signs of long-term investor confidence in the shopping centre sector.

The Cap 3000 deal also fits the strategy of Crédit Agricole's insurance unit Predica and Dutch pension fund ABP. "The investment project is part of Predica's real estate investment policy, which in 2010 is focused squarely on market opportunities for high quality assets," said Bernard Michel, CEO of Crédit Agricole Assurances. "We feel that CAP 3000 meets those objectives perfectly. It is unique in both the French and European commercial real estate sectors." Patrick Kanters, ABP's MD global real estate, added that the deal fits with ABP's strategy of co-investing alongside companies in which it already holds a substantial interest. "We believe this partnership offers the right mix of financial resources and property development skills," he said.

Cap 3000 is France's eighth-largest mall and offers an annual yield of more than €11,000 sq.m. selling space. Located in Saint-Laurent du Var, its catchment area incorporates Nice, Cannes and Antibes, and Galeries Lafayette will remain the anchor after change of ownership. Altarea sees significant potential to enhance rental value and extend selling space, and said it is planning extensive redevelopment. ■ pie

## Grosvenor to invest €300m via French OPCI

UK investment and fund management group Grosvenor has won approval to launch its first French institutional OPCI property fund from financial market supervisory authority AMF. It is planning to invest €300m in 2010 and is mainly looking for town centre or retail park assets through direct acquisitions or sale-and-leaseback operations.

Steve Cowen, investment director for continental Europe, said the Grosvenor Retail Invest France open-end fund will extend its

strategy of targeted investments in French retail. Strategy in continental Europe is focused on a directly-managed proprietary portfolio, its stake in Portuguese shopping centre specialist So-nae Sierra, and its fund management business. France is a core market for the group, and after setting up its first continental Europe fund, Grosvenor Retail European Properties in 2004, it established the dedicated Grosvenor French Retail Investments in 2006.

Grosvenor's investments on the continent are concentrated on retail which it sees as having the most attractive long-term risk-return profile. It invests in high street properties, out-of-town warehouses, shopping galleries and malls. The group owns much of London's Mayfair and Belgravia, originating out of land held by the Grosvenor family since the 17th century. ■ pie

## German property community protests Berlin fund proposals

The German investment fund association BVI has called for calm among investors in open-end property funds after government proposals for, among other things, a 10% discount on valuations across the board sparked a wave of certificate sales and fund closures. With the sector in uproar, the leading property association ZIA also called the proposals completely unacceptable.

BVI said the Berlin proposals, published on 3 May, are a contribution to a discussion on legislative changes, and the law-setting process has not really begun. "We are sure that the concept will be considerably changed; in particular we firmly assume that there will be no valuation discount ordered by the legislator," BVI Managing Director Stefan Seip said in a statement. Any legislative changes will, in any case, not come into effect before two years.

Bärbel Schomberg, vice-president of the German Property Association ZIA and former head of Aberdeen Property Investors' Degi fund manager, commented: "Fundamentally, a strengthening of investor protection in the grey market makes sense. The legislator must however balance the usefulness for the investor against damage done to the products affected to avoid an unnecessary impact across the diverse product range. The planned regulations are, in part, not appropriate to the situation, and to this extent we see need for improvements." The planned discount on valuations made by certified valuers is entirely unacceptable, she added. "To communicate to the investor that an across-the-board discount would serve his interests we see as extraordinarily difficult," and both investors and fund managers have been unnecessarily disturbed by the finance ministry's announcement, she said.

Berlin also proposed a minimum redemption period of 6-24 months for all investors in OEPFs, while the industry had been pressing for limitations only on institutional investors to prevent sudden outflows of large capital amounts that are impossible to serve if fund liquidity is too low. The industry is focusing on two issues, dealing with this so-called maturity transformation - ie the difference between a requirement to provide immediate repayments in an open-end fund structure, and the longer-term nature of real estate investment - and the possibility of separating private from institutional investors. ■ pie

## Paris green buildings to revitalise property sector

The Paris region's supply of environmentally sustainable real estate is expanding rapidly in a way that could help revitalise the French capital's property sector, says a study by consultants DTZ and the Paris regional development agency.

In 2009 some 788,400 sq.m. of office space in the Paris region were certified as environmentally sustainable, and more than 80% of premises over 5,000 sq.m. scheduled for completion by 2012 will meet the HQE high environmental standard. "We know what investors and businesses require when it comes to environmental quality and we also know that this is one of the keys to revitalising the sector," said Denis Tersen, CEO of regional development agency ARDPI (Agence Régionale de Développement Paris Île-de-France).

"Sustainable development is a growing issue in the commercial real estate world. The fundamentals are now established and we are entering a more pragmatic phase with a raft of initiatives," said Magali Marton, head of research at DTZ France. HQE certification, which originally applied only to new office buildings, has now been extended to renovated buildings and to premises such as shops, warehouses and hotels. And green leases, which incorporate environmental clauses into leases, are also increasingly being discussed as a way of meeting sustainable development challenges, according to the report. Marton said the development of green buildings and green leases represents a promising start, but there is still much more to be done. ■ pie

## French commercial RE investment doubles in 1Q10

French commercial real estate investment doubled in the first quarter from a year earlier to almost €1.8bn, and is on course to €10bn-€12bn this year, according to realtor Savills. This would mark an increase from 2009's €7.9bn but would still leave investment below the 10-year average of €14bn, due to limited secure investment opportunities and the lacklustre rental market, which has seen prime office rents drop to €644 per sq.m. from €711 over the past year.

Lydia Brissy, Savills head of research in France, said: "The CBD office market in Paris will remain a top investor pick in 2010 due to forecast rental growth of around 5% for prime CBD rents. While the credit market has slackened, sentiment is still cautious and so investment volumes will remain down relative to ten year averages." Pascal Rupert, Savills France investment director, said insurance companies and pension funds are all looking to acquire new office buildings as a way of increasing the green share of their portfolios. "To achieve this some investors will now consider speculative development, which they have not done for over two years now," he said.

Apart from the €425m purchase of the 35,000 sq.m. HSBC headquarters at 103 avenue Champs Élysées by a Qatar investor, French investors and German funds continued to dominate the market in 1Q10, with last year's marked increase in domestic private investor spending expected to continue this year. Retail properties accounted for more than 40% of the investment

total in 1Q10, up from an average of 17% last year, due to a number of big retail deals in Bordeaux, Grenoble, Cannes and Toulouse. ■ pie

## AEW Europe sees investors anticipating RE recovery

Investors have already started to anticipate the recovery in property markets that is likely to follow an upturn in the European economy, says investment manager AEW Europe.

"Aided by the normalisation of financing costs and a gradual increase in the availability of capital, investors are returning to real estate assets, above all the core European office market, to the extent where we are now even witnessing a reduction in capitalisation rates for the most secure products," said Mahdi Mokrane, AEW head of research and strategy, according to French real estate magazine Business Immo. Investors remain cautious about taking on new risk, and the rental market is expected to take a long time to recover, but AEW expects rents to start rising by late 2010 or mid-2011 in core markets, partly due a shortage of new buildings. France also appears to be the favoured target for investors in office and retail, ahead of the UK and Germany, it said.

AEW Europe is a unit of the French Natixis financial group. Philippe Waechter, head of economic research at Natixis Asset Management, said that despite the Greek financial crisis and turmoil in stock markets, there are reasons to expect an improvement in the European economy, and this should pave the way for a recovery in real estate markets. "In the United States, indications from the corporate sector points to a positive dynamic, with a marked upturn in business investment for the past two quarters. Europe will be pulled along by this acceleration in growth, even though it will take a long time before the adjustment in the labour market is complete," he said. ■ pie

## UK's Resolution pays €86m for McArthurGlen Troyes outlet

UK-based real estate investor Resolution Property has acquired the McArthurGlen Troyes designer outlet village in central France from Henderson Global Investors' European Outlet Mall Fund for €85.5m. The purchase is Resolution's first in France and was made for its Resolution Real Estate Fund III L.P. Financing was provided by German bank Helaba.

McArthurGlen is a developer, owner and manager of designer outlet villages in Europe, and Troyes, opened in 1995, was its first designer outlet village in continental Europe - acquired by Henderson in 2004. Located around 90 minutes from Paris, it offers 30,000 sq.m. of retail space and 118 units and attracts some 3m visitors annually. McArthurGlen will remain a co-investor in McArthurGlen Troyes after the change of ownership and be responsible for managing and leasing.

Resolution Property was founded in March 1998 by CEO Robert Laurence with backing from private equity group EM Warburg, Pincus and Co, with the specific aim of investing in European commercial property that offers scope for high returns.

It raised €808m for its Resolution Real Estate Fund III L.P. in December 2007, and the fund now has around €1.5bn to invest across Europe including the UK. ■ pie

## DIC Asset sees operations turnround, begins funds

Frankfurt-based listed property group DIC Asset reported a slight rise in quarterly profit in the first three months of 2010, driven by stable rental income, higher earnings contributions from co-investments, and a further improvement in the net financial result.

It reported funds from operations up to €10.9m from €10.2m in 1Q09, and affirmed full year projections of some €126m in rental income, and FFO of €39m-€41m. Total revenues however fell 12% to €38.4m largely due to lower sales. Total assets were €2.3bn at 31 March. "We have made a successful start into the new year," said DIC Asset Chairman Ulrich Höller. "Despite the continued difficult market environment, we see a turnaround in our various operating businesses."

The group, which recently announced establishment of a new funds division, said it has commenced marketing of a special fund, with initial success. DIC Office Balance Fund will be launched with core properties from DIC Asset's portfolio. "This will offer institutional investors the benefit of immediate investment – and hence, distributions – from day one," it said in a statement. The fund is scheduled for full placement by the end of this year. However board member Jürgen Schäfer told PIE last week that the group does not intend to use its funds division in general for taking over assets it develops, but that these properties will be sold into the market, as in the past. The City of Frankfurt also finally gave planning approval to the group's €500m MainTor project in the quarter, meaning that this can move ahead. ■ pie

## Hamburg's TAG buys Franconofurt units in share deal

Hamburg-based property group TAG has acquired, using its own shares, 97% of the equity of FranconoWest and 100% of its sister company FranconoAdvisory from the listed Franconofurt residential real estate firm. With total market value of the portfolio at €104m, total consideration was €31.3m, with TAG taking just over €70m in debt.

TAG said it will carry out a capital increase against contribution in kind this summer, issuing around 5.58m new shares, giving Franconofurt around 14% of TAG stock. The transaction brings 1,852 apartments and 109 commercial units in North Rhine-Westphalia and Saxony into the group, comprising a total area of 126,000 sq.m., the companies said. Net annual rent of the new portfolio is around €8m. The acquisitions bring the residential property inventory of the TAG group up 41% to 6,910 units with an area of 434,000 sq.m.

The deal is the third similar transaction in recent months for TAG, which has been on an acquisition trail building its residential portfolio since the arrival of Rolf Elgeti as CEO last year. In

February it took a stake of 15% in smaller listed German firm Estavis at €2.35 per share via the same kind of targeted capital increase. A few weeks earlier it had boosted its share in residential housing affiliate Bau-Verein zu Hamburg to 91% from a prior 71%. Franconofurt was advised in the latest transaction by legal practice Buse Heberer Fromm. ■ pie

## Frankfurt Opera Tower for sale again for €500m-€600m

US property group Tishman Speyer has placed the Opera Tower in Frankfurt up for sale again, according to industry sources. The 168-metre office property located next to the Old Opera House in Germany's financial centre, is being offered for €500m to €600m.

Sources at the Handelsblatt Real Estate conference in Berlin said better demand in the German market means that it should be able to be sold, at over €500m.

The property, in which senior tenant is Swiss Bank UBS has taken 31,000 sq.m., around 50% of total floor space, was completed last year and is around 85% let in total. It is one of the prime office assets in Germany, and was originally offered for sale in 2008 by Tishman as developer in 2008 for a price said to have been around €450m. The deal was hit by the global financial crisis and the buyer, independent Munich fund manager Kanam, pulled out, diverting a similar large investment into a large retail-mixed development in Moscow.

"Business is picking up quite well this year, and I think it will be sold this time," Marcus Lemli told PIE on the sidelines of the conference. Because of its character as a trophy asset, and the high price tag, it is probably more suitable to a large international institution than a German buyer. Tishman also developed the Sony Center in Berlin's Potsdamer Platz, where Morgan Stanley Real Estate Funds is said nearing close on is sale to the Korean National Pension Fund. ■ pie

## Sjælsø acquires major residential project in Odense

Danish property firm Sjælsø has acquired a €107m residential project in Odense, Denmark's third largest city. Called the Promenadebyen project, it will see the completion of 16 harbour-side apartment blocks.

Sjælsø CEO Flemming Joseph Jensen said that the investment is attractive as Sjælsø has experience of completing similar well-designed high-quality residential projects. "The acquisition of the project in Odense is an excellent example of how Sjælsø's skills can be put to use in ensuring completion of projects that, one way or the other, have stranded due to changed market conditions," he said. Sjælsø gave no details of the counterparty in the deal.

Two of the 16 proposed apartment blocks have been built and 47 of the 68 apartments have been sold, with a third apartment block currently under construction. The remaining 13 apartment blocks will be built as and when units are sold. Sjælsø claims that acquisition of the project will not affect the company's expected full-year pre-tax losses for 2010 of up to 250m

Danish kroner (€33.6m). The project will, however, support earnings in the years ahead.

The mayor of Odense Anker Boye said that the project, once completed, will give Odense the most exciting harbour in Denmark. The 52,500 sq.m. project will contain recreational areas and is at the centre of attempts to regenerate the city's harbour area. ■ pie

## Eastern Europe joins global property upswing – RICS

A gradual recovery in commercial property values evident in many parts of the world is now becoming established in a number of eastern European countries, according to the Royal Institution of Chartered Surveyors.

Its Global Commercial Property Survey for first quarter 2010, RICS said Russian property in particular has rebounded from a gloomy 2009, with reports of higher rents and values. Market sentiment for second quarter of 2010 has also materially improved, while capital values have also turned positive in Poland and the Czech Republic. The availability of real estate for occupation continued to rise across 90% of the globe, with the exception of Australia, Hong Kong and Poland.

Commercial property transactions increased globally, with Peru, Brazil and Singapore leading the way. With generally low interest rates and relatively high yields, investors have continued to find commercial property an attractive proposition. Transactions rebounded in the US for the first time in three years, with surveyors reporting a rise of 13%.

RICS Chief Economist Simon Rubinsohn said that although Latin America and Asia are leading the recovery, signs of improvement are appearing in other parts of the world. The rebound in the US has been significant. "However, one challenge still to be overcome in much of the developed world is the overhang of public sector debt. This could have consequences for both occupier activity and the ongoing strength of the investment recovery reflecting both the rationalisation of government property space and the potential for higher borrowing costs," he said. ■ pie

## Germany property sentiment almost pre-Lehman

German real estate market sentiment has almost returned to pre-Lehman crash levels according to King Sturge Germany. The company's monthly poll for April showed sentiment rising 9.1% over the month, that for user demand and rents up 11.6%, and its investment climate index up by 7.1% to its highest level since the survey started in January 2008. Other areas of improvement include a 6.5% monthly rise in the retail segment, a 14.7% improvement in the office climate index and a 4.8% rise in the residential climate index to an all-time peak. pie

However Sascha Hettrich, managing partner of King Sturge Germany, warned that, although the industry has largely recovered from the worst losses of the financial crisis, "the situation remains extremely fragile then as now, with setbacks being al-

most unavoidable... The acute risks apparent in some of the national economies in Europe tell the same story. These risks might keep putting pressure not just on the common European currency but also on other areas of the international financial markets." ■ pie

## Pre-lets could herald upturn in Madrid

Four major pre-let contracts concluded in Madrid over the last four months could be a sign that the market for commercial property is on the up, says real estate advisor Savills. The market has seen gross take-up rise 54% to 100 sq.m. in the year to 31 March.

During the same period the average size of units leased has increased to 977 sq.m. from 677 sq.m. Despite these positive signs however, over 260,000 sq.m. of speculative new build space is anticipated before the end of 2010 and this should ensure vacancy rates continue to rise.

Of the Spanish capital's total office stock of 12.57m sq.m., 1.44m sq.m. is currently vacant, a vacancy rate at a 10-year high of 11.5%. Although falls in prime rents have slowed over the last six months, average rents could continue to fall. This downtrend has been recorded for seven consecutive quarters and, while it is less marked in downtown Madrid, is causing average capital values to slide. Although there is evidence of yield compression, the shift to 5.75% in the central business district has not triggered a rise in capital values due to continued falls in rents.

Luis Espadas, Savills Spain capital markets director, described the investment market as being on tenterhooks. "Pressure to invest in both national and international prime office buildings continues to increase, but there is no corresponding yield shift to fulfil potential sellers' price expectations," he said. "The key question is: who will be first to give in and start doing deals? It seems that demand will force investors' hands." International funds continue to pay a close interest in the market but lack of supply and an aggressive approach from nationals, when downtown product is available, has led to no recent deals involving international parties. ■ pie

## Emerging European property returns plunge 6.5%

Investment returns in central and eastern Europe's commercial property markets plunged 6.5% in 2009, reversing a positive 0.6% return in 2008, according to the Investment Property Databank's annual property index. Capital value slides accelerated last year to 12.5%, after -5.3% in 2008, while income returns improved by 50bp to 6.8%.

Last year was the first time the multi-country index delivered negative annual total returns in its five-year history, IPD noted. Offices saw the best sector performance with a total return of -5.0%, followed by the retail sector at -5.2% and industrials at -9.7%. "Looking at the long-term picture, the last couple of years were characterised by negative capital growth while the initial three years by booming capital appreciation of the average market

portfolio,” said IPD regional director Nassos Manginas. “Over the last five years it was income return at a level close to 7.5% that has been the primary driver of performance across the region with compounded capital growth being slightly positive.”

Since the start of a dedicated index in the region, Poland has been the best-performing market followed by Czech Republic, while Hungary has delivered the worst returns. The index monitors 429 properties in 27 portfolios worth €9.1bn. ■ pie

## Profits rise at German mortgage lender Berlin Hyp

Pre-tax profits at German real estate financing bank Berlin Hyp rose 10.2% to €21.6m in the first quarter of 2010, compared to 1Q09, despite a slight drop in interest and net commission income to €53.9m.

According to an interim report, net commission income amounted to €1.3m in the first quarter of 2010, reflecting “the still cautious new lending activity, particularly with regard to commercial properties.” There was also a slight increase in operating expenditures to €19.4m.

New lending stood at €468m and reflects the gradual easing of the market in recent weeks, the bank said. It has warned that current levels of sovereign debt in Europe along with the possibility of greater regulation of the international banking system mean market trends are unlikely to improve before 2011. In the meantime the bank will continue to invest exclusively in selected strong economic areas in Europe outside Germany. Together with Landesbank Berlin, Berlin Hyp will this quarter open a Paris office.

Chairman Jan Bettink said that the bank’s consistent pursuit of conservative business policy ensured its bank’s performance in first quarter and also lead to the bank remaining profitable throughout the financial crisis. “We continue to place quality above quantity and pay attention to maintaining a comfortable liquidity position,” he said. ■ pie

## Former ING manager joins Townsend in London

US-based real estate investment consultancy Townsend Group has appointed the former CEO of ING Real Estate Select Nick Cooper as one of two principals in its London office. Cooper will become principal for the group’s multi-manager business in Asia and Europe and will join Adam Calman, head of Europe.

While at ING, Cooper managed £4bn for over 150 investors in non-listed real estate

funds worldwide and developed Osiris, the UK’s largest property fund of funds. “Real estate markets globally are offering the best investment opportunities in a generation, but only to those who have the expertise and infrastructural support to seek out those opportunities and underwrite the risks,” Calman said. Cooper will help Townsend position itself to be an industry leader in identifying the best real estate investments for clients.

Cleveland-based Townsend advises on over \$100bn in property investments around the world on both a discretionary and non-discretionary basis. Clients include major European, Asian and US corporate and public pension schemes, sovereign wealth funds, endowments, foundations and high net worth investors. It opened a London office last May. ■ pie

## Emerging markets expected to shine in 2010

The year 2010 will be the year of the emerging markets according to a survey of 67 fund management firms by the German rating agency Feri. Almost 85% of respondents expect assets under management in emerging markets to rise.

Almost a quarter of the companies surveyed see the greatest sales potential in emerging market equity funds followed by value strategies (14.1%) and European equity funds (10.7%). Emerging market bond funds are seen as having the best poten-



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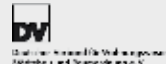


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Geschäftsführender Gesellschafter, AS&P – Albert Speer & Partner GmbH, Frankfurt a.M.



**Prof. Dr. Ernst Ulrich von Weizsäcker**  
Co-Chair, International Panel for Sustainable Resource Management, Emmendingen

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tial by 13.3% of respondents with only corporate bonds (24.7%) and inflation-linked pensions (15.3%) rated as more attractive.

Mixed and equity fund are particularly confident of good sales in 2010. By contrast, most money market and real estate funds are expecting low sales this year. Bond funds, meanwhile, were found to be optimists and pessimists in equal measure. Christopher Wolter, fund analyst at Feri EuroRating Services said findings are in line with a recent survey of private investors which had also revealed significantly higher ratings for emerging markets. ■ pie

## Norwegian Property progresses on office, hotel split

Norwegian Property is pressing ahead with plans to divide the company into two separate firms, concentrating respectively on office and hotel investments. The aim is that each firm will be able to function as fully-integrated property companies with in-house competence in both development and property management.

A trading statement from the company, one of the largest listed property companies in Scandinavia, said the first quarter of 2010 experienced a recovery in the office market and that the hotel market was improving. In the three months to March 31 operating profit before fair value adjustments totalled NOK360m, down from NOK377m in 1Q09. Gross rental income amounted to NOK428m, which, adjusted for the sale of property, corresponds to a 2.6% fall from 1Q09. Both the hotel and office portfolios recorded positive value adjustments.

Norwegian Property had assets valued at NOK27.6bn at end-2009. The company's office portfolio comprises 48 commercial properties in Oslo and Stavanger. The hotel business comprises 74 properties in the Nordic region. Its tenants include leading international and regional chains such as Scandic Hotels, Choice Hotels, Scandinavia and Rezidor. ■ pie

### ▼ RUSSIA/CIS-CEE

## AIM-listed Carpathian refinances €109m Riga mall

London's AIM-listed commercial property investor Carpathian has agreed a refinancing structure, allowing completion of its €109m city-centre retail scheme Galleria Riga in the Latvian capital. Senior lender Nordea's revised debt facility totals €59.9m of which €40m has been drawn.

Drawdowns from existing facilities had been restricted due to breaches of agreements including a shortfall in pre-leasing. Without the ability to draw further on the bank facilities, construction and other required funding would have ceased. A revised agreement with development partner Titan Invest and revised terms with project joint venture partner SIA Patollo, and Nordea, means the project is now fully-funded to completion, the companies said.

Under the agreement, Carpathian has increased its shareholding in Patollo to 80% from 18% and agreed with Titan to cancel existing second-rank loans. Titan has a new incentive arrange-

ment allowing its shareholding to double to 40%, and an option to buy Carpathian's stake at prices stepped-up over the period up to February 2012. Galleria Riga will have a gross development cost of some €109m at completion and is scheduled to open in September with 22,459 sq.m. of retail and catering space in the heart of the old town. The retail is on seven levels plus roof garden/restaurants. Galleria Riga is the last remaining development project in the portfolio of Carpathian, which was founded in 2005 to invest in central and east European commercial property. Its primary focus is shopping centres, supermarkets and retail warehousing in Croatia, the Czech Republic, Hungary, Poland, Romania, Lithuania and Latvia. ■ pie

## AIG/Lincoln tops mall in €132m Polish project

AIG/Lincoln Polska has topped out its Galeria Słoneczna shopping mall, in Radom, Poland,

part of its €132m mixed Centrum Słoneczne project. Construction began last July and the mall, for which over 50% is already leased, is scheduled for opening in spring 2011.

Galeria Słoneczna will be the first shopping mall in Radom, south of Warsaw, with over 110,000 sq.m. of gross buildable area. It will have about 170 shops on almost 42,000 sq.m. of space, with a multiplex cinema. Centrum Słoneczne combines Galeria Słoneczna retail with service, recreational and residential elements and also involves modernisation of infrastructure and nearby roads, said AIG/Lincoln board member Mirosław Szydel-ski. "It will give the city centre a new attractive image."

AIG/Lincoln is a strategic partnership between New York-based AIG Global Real Estate Investment, a subsidiary of insurance giant AIG, and Lincoln Property based in Dallas. It is active in western and southern Europe, Russia and Romania, and has subsidiaries in Poland, Hungary, Romania, Czech Republic, Germany, Italy, Spain, Switzerland, Austria and Russia.

Centrum Słoneczna's Aqua Park is already under construction, with sport and recreational pools and a Wellness and Spa complex with health and fitness club and restaurant and a children's playground and amphitheatre, with a skating rink planned for the winter months. The residential component is Osiedle Słoneczne, for which the first phase, three buildings with 86 apartments, has been completed. The first apartments are scheduled for handover in November. ■ pie

## W. P. Carey in first Croatian sale-leaseback

NYSE-listed investment management company W. P. Carey has made its first sale-leaseback transaction in Croatia. Its publicly-held non-traded REIT affiliate CPA17-Global has acquired two office and logistics facilities in the capital Zagreb for €77m including fees.

The two properties are the headquarters and national distribution centre of Konzum, the largest food retailer in Croatia and a subsidiary of Agrokor, the largest private company in the Balkan nation, and among the largest in CEE. Founded in 1976,

Agrokor is Croatia's largest food producer, processor, distributor and retailer.

W. P. Carey executive director Jeffrey Lefleur said that, as one of the largest property transactions in east Europe in the past three years, the deal shows W. P. Carey's ability to provide long-term capital to companies in capital-constrained regions. "Given Agrokor's dominance of the agribusiness industry and history of successful acquisitions and growth, this was an ideal situation for us to enter the Croatian market. Having its strategically critical operating assets on a long-term lease is consistent with our investment strategy." Agrokor said the transaction allows it to structure a deal that meets its short term commitments while supporting its longer term goals.

In recent months W. P. Carey has completed some €270m in sale and leaseback transactions in Europe, including €66m for Tesco's Hungarian logistics portfolio, a €74m deal with Spanish supermarket operator Eroski and smaller deals in the UK and Poland. W. P. Carey manages a global investment portfolio approaching \$10bn. Its CPA series of income-generating, non-traded REITs have contractual agreements with over 275 tenants spanning 28 industries and 15 countries. ■ pie

## Albania's Balfin in €48m mall, villa projects near Tirana

Albanian private retail and property developer Balfin, through its property development subsidiary Mane TCI, is developing a Shopping House Tirana East Gate and an adjacent upscale villa residential project near the Albanian capital of Tirana. Total project investment is €48m.

Tirana East Gate is a retail and entertainment centre in Lundër, 4km southeast of the Albanian capital. Last October, the Albanian American Enterprise Fund invested €2.4m in Tirana East Gate, and the European Bank for Reconstruction and Development is providing €24m in senior debt and mezzanine financing. The adjacent residential complex will include 112 villas.

With a leasable area of 40,274 sq.m. on a total area of 94,725 sq.m., the new mall will be the largest western-style centre in Albania. Balfin President and CEO Samir Mane said it will be

almost double the size of its existing QTU shopping centre, currently market leader, and will provide a significant boost to retail choices for the public.

Balfin also plans to invest €68m in Skopje for a 32,000 sq.m. mall to be located in the city's Karpos district, eurobuild portal reported. Balfin, headquartered in Tirana, is one of the largest business groups in Albania. The Albanian-American Enterprise Fund is a not-for-profit US corporation set up to promote private sector development. ■ pie

## Growing interest in sustainable Polish logistics

Despite last year's slowdown on the Polish logistics market, 64% of operators plan to expand over the next 24 months, 58% of them by over 5,000 sq.m., surveys by Jones Lang LaSalle and the Warsaw School of Economics show. Over half occasionally experience a shortfall in warehouse space. Average utilisation of warehouse space is 80%-100% throughout the year, and 50% of logistic companies are approaching maximum warehouse space capacity.

For both retail and logistic occupiers, faster rotation of goods, more frequent deliveries and getting to the market faster are becoming increasingly important, JLL reports. Occupiers are also more demanding in their expectations and seek further advantages in addition to the grade-A development market norm. Some retailers and logistic operators are seeking to develop their own facilities, with a considerable group of retailers outsourcing the storage function to external partners. Others are co-operating with developers in tailor-made built-to-suit projects.

Additional features include meeting sustainable, "green" requirements. At a time of rising costs and increasing demand for fuel, the need to construct sustainable buildings and minimise the negative impact on the environment is crucial. One-third of respondents are actively considering sustainability and "green" issues for warehouse buildings, and a further 44% will look closely at sustainability in the future. More significantly, 65% of logistic operators surveyed are willing to pay more for a warehouse space in a pro-ecological distribution centre. ■ pie

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# German Property Breakfast

Can German real estate provide stable rental flows to bring long-term value, or has local demand compressed yields too far?

## SPEAKERS:



### MARKUS BEAUMART

**Real Estate Partner, DLA Piper, Cologne**

DLA Piper became one of the world's largest legal service providers in 2005 via a merger of unprecedented scope and now has 3,500 lawyers in 29 countries and 67 offices. Dr. Beaumart heads the German Real Estate group and is experienced in all aspects of transactions, development and financing. He gained his PhD from the University of Cologne and his law degree in Bonn, Geneva and Cologne.



### CHRISTIAN BISCHOFF

**MD, ProLogis Northern Europe, Düsseldorf**

A global provider of distribution facilities, ProLogis entered Europe in 1997 and has expanded into 15 nations. It now owns and operates over 11.5 sq.m. across 51 markets. Hr. Bischoff, responsible for Scandinavia, Benelux, Germany, Austria and Switzerland, was previously MD of Parkridge Services, acquired by ProLogis in 2007. He originally graduated in Logistics and Business Administration.



### CLAUS-JÜRGEN COHAUSZ

**Board Member, Westdeutsche ImmobilienBank, Mainz**

With a €27bn balance sheet, WestImmo is Centre of Competence for commercial real estate finance in the WestLB Group, due to be sold to meet EU rulings. Hr. Cohausz has held board responsibility for all commercial property lending since 2006. He originally studied law in Muenster after bank management training, and held posts at WestLB before joining WestImmo at creation in 1995.



### ALEXANDER VON CRAMM

**Chief Financial Officer, Prime Office, Munich**

Prime Office has a portfolio of €1bn in high-quality German office property, and retains the aim of converting into a REIT when viable. Hr. von Cramm, after studies in the US, began as trainee with Deutsche Bank, becoming PA to then-Board Spokesman Hilmar Kopper. He then transferred to Morgan Stanley, and subsequently worked for Vivacon and KWG Wohnen before joining Prime Office in 2007.



### ANDREW GROOM

**Head of Valuation Advisory Germany, Jones Lang LaSalle, Frankfurt**

Global real estate services group Jones Lang LaSalle employs over 30,000 staff in 60 nations. Mr. Groom heads a 50-person valuation/due diligence team and is also responsible for key clients, business acquisition, portfolio strategy and risk assessment. With over 20 years' experience, he has been based in Germany since 1992 and previously worked with other major realtors in Europe.

## SCHEDULE:

8 - 9 a.m. **Breakfast**  
9 - 11 a.m. **Expert Seminar**  
11 - 12 noon **Coffee/Networking**

## DATE:

**Friday, 21 May 2010**  
DLA Piper, 3 Noble Street  
London EC2V 7EE, England

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