PROPERTY FINANCE EUROPE

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

Volume 2, Issue 17 9 January 2006

French association to apply for 3-yr extension of REIT law

French real estate association FSIF is to apply to the government for a 3-yr extension of a law halving tax on firms selling property into REITs, called SIICs in France. PAGE 4

Euro Covered Bond Council wins 70 members in first year

ECBC, established by the European Mortgage Federation, has won 70 members in its first year, representing 84 % market share. PAGE 6

New French OPCI may boost fund sector to E150bn

Introduction of the OPCI French property vehicle may boost the funds sector 10-fold, to El50bn, Dutch bank Kempen says. PAGE 11

$27bn King Abdullah City is Saudi's largest ever

Saudi Arabia has launched its largest ever private real estate project - the $26.6bn King Abdullah Economic City on the Red Sea coast. PAGE 12

Wesley Edens, Robert Kauffman, Fortress Investment Group

The PFE Interview: PAGE 8

Foreigners upbeat on German offices despite Deutsche calamity

US-based Fortress Investment and Quebec pension fund CDP invested over €2.2bn in German office property at year end and remain optimistic despite the uproar caused by Deutsche Bank's abrupt closure of its open-end office fund.

Fortress announced late last month that it was paying €2bn to buy an office property fund from Dresdner Bank, while CDP's subsidiary SITQ (Société immobilière Trans-Québec) spent over €200m on a a complex near Frankfurt's exhibition ground. Both deals marked the first move by the respective companies into German offices as an investment asset.

Fortress directors said in a conference call last week (see PFE Interview, p8) that German commercial real estate is set for recovery, and the domestic market is too pessimistic about apartment and office property. In response to questions from *Property Finance Europe*, Fortress Chairman Wesley Edens said: "It's very similar to the US in the 1980s and Canada after that, and also the UK in the early 1990s; it's very hard to have a perspective from inside the country. If you are suffering from the difficult economic enviroment it clouds your optimism."

CDP Real Estate Europe president Jean Lamothe commented: "The Frankfurt market is currently at the bottom of the real estate cycle due to the restructuring taking place in the banking sector, and we see considerable upside potential."

The two deals were announced amid the controversy over Deutsche Bank's sudden closure on 13 December of its open-end office property fund Grundbesitz-Invest (See p2). This deepened the gloom over already-depressed office property values and completely undermined the efforts of other funds, to assure investors and stem a flood of redemptions. Under German law, open-end funds are permitted to close for a limited period of time if there is a real threat of legal insolvency.

It emerged in last week that Grundbesitz-Invest has put around €1bn of its total €6bn in property assets up for sale, and foreign investors are showing particular interest. pfe

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A new year is upon us, and for **Property Finance Europe** this means new office, new contact details, new staff members, and new features! See page 4. Next issue we also begin looking at European investment property through the eyes of the various associations on the continent. Initial focus: central and eastern Europe.

This issue also constitutes a logistical premiere for us: the first to be notified to you along with your own personalised login code. Use of it will automatically register you for a free, no-obligation two-issue trial - unless you have already manually registered, that is. Subscribers have, of course, open access to the latest issue and all archives via the password. If you are simply curious about *PFE*, our further back dated *PFE*s are now free for inspection under Archives on our website. Vol. 1, Issue 16 - the last edition of 2005 - is also open for your checks.

Now it's into conference mode for winter 2005/2006: ULI Europe in Paris later this month, just after CIMMIT in Frankfurt. And a raft of conferences and seminars coming, on the 'hot' subjects of REITs and property derivatives. No time to lose. See you!

Launch of non-listed property funds halve, infrastructure emerges as new asset class

The number of real estate funds launched in Europe during the first three quarters of 2005 reached 22, slightly less than half the 45 funds launched by the end of September 2004, the European property fund association INREV said in a recent report.

Even if part of the difference can be explained by the time lag of entry into its database, six other factors are at play. The database of the European Association for Investors in Non-listed Real Estate Vehicles (INREV) covers 442 vehicles active in the European real estate market, representing a gross asset value of €290bn. A number of funds were launched last year targeting physical infrastructure. INRE sees these set to grow because of strong demand for private financing of infrastructure, coupled with the behaviour characteristics of infrastructure assets. pfe

Deutsche Bank said putting €1bn of Grundbesitz property assets up for sale

Deutsche Bank's open-end real estate fund Grundbesitz-Invest is putting on the market around €1bn of its total €6bn in property assets, and foreign investors are showing particular interest, the Börsen-Zeitung newspaper reported late last week.

The move is the latest development in the controversy surrounding Germany's largest bank after its abrupt decision on 13 December to close the fund for investors until February this year. Investors in the 130-property Grundbesitz-Invest, owned by the Deutsche subsidiary DB Real Estate, were cashing in their fund certificates fearing a substantial negative revaluation of the assets, which substantially comprise domestic office properties.

In closing the fund, Deutsche cited a run on assets and looming insolvency, and the need for time to make a fresh valuation of its real estate assets. Under German law, open-end funds are permitted to close down for a limited period of time if there is a real threat of legal insolvency. However, the Deutsche move threw the entire German real estate sector into confusion, and sparked protest from investors, government and most of the financial and real estate community.

The supervisory authority BAFIN claimed it was inadequately forewarned of developments, and most of the property funds sector was caught unprepared by Deutsche announcement, which came a year after similar problems encountered by the DekaBank in 2004. The funds association (Federal Association of Investment and Asset Management, BVI) rapidly conducted a survey among its members and concluded Grundbesitz-Invest was an isolated case and that all other funds' assets were fairly valued. The announcement also put the newly-formed German federal government under severe pressure from small investors.

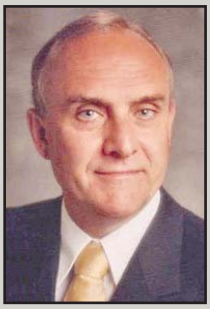
Given low occupancy rates and stumbling German economic growth, domestic office prices have been falling steadily since 2001. Most office property funds have undergone regular depreciations to mark assets to the declining market, though many specialists maintain that the rate of announced downward valuations across the sector has not kept pace with the genuine fall in market prices. Analysts calculate the requirement for negative revaluation in Grundbesitz-Invest at €200m-€600m.

In reaction to the protests, Deutsche Chairman Josef Ackermann announced three days later, on 16 December, that Grundbesitz-Invest would reopen issuance and repurchase of fund shares but only to a limited extent.

The bank said in a statement: "In view of the good performance, Deutsche Bank will provide unbureaucratic support to those private investors who purchased fund shares of grundbesitz-invest in the last two years." Ackermann added in the statement: "We want to offer quick and unbureaucratic support to private investors who invested in the fund recently, and now face a possible risk of loss in value due to the upcoming revaluation, and provide fair compensation."

The statement added: "The German Federal Financial Supervisory Authority (BaFin) has been informed of all developments. This measure was taken in the interest of all

Another year, another dollar. Well, to see Germany going through convulsions of despair over an asset class in which foreigners see significant value is getting to be a bit like Bill Murray waking up repeatedly on Groundhog Day to the strains of Sonny and Cher. A straaange feeling of déja vu… Back to the future. Over the last two years, 'only' in discussion over apartment portfolios have I felt constrained to toss in the incisive question: 'Are the Americans crazy or are the Germans missing something?' Well, pretty much to a man and a woman here, the conclusion, although politely and discretely expressed, is that US residential portfolio acquirors are indeed operating in lost-marble mode. Apartments have gone down forever. Many are unsaleable. Demand is low and will remain so. Privatisations are not easy as they think. They don't understand our rental control system. East German prefabs are worthless.



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Well maybe, but we think the wood is being obscured by the trees. How refreshing to my Anglo-Saxon ears then to hear the Big Picture: optimism over German real estate assets, an awareness of the cycle, and to actually hear explained - when we tuned into the Fortress conference call last week - just how to make a lot of money even without a capital gain in the underlying asset. This time the assets are, Lord help us, German offices! But stay calm. As long as the cap rate can be maintained above the cost of funds or, still better, increased from the entry yield - and as long as there is access to 75% financing - the trick is not that hard to comprehend. However, the most significant component of the Fortress view - why it feels the investment is sound - is that at this stage of the German office property cycle the downside risk is minimal. Supply has dried up. Jones Lang LaSalle agrees with them. New office floor space fell 40% last year and is not seen recovering any time soon.

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Talking of offices, the Deutsche move on Grundbesitz-Invest was just about the most ill advised step I have seen it make in 20 years. And we are still not clear what most funds actually own. What is ailing the sector is, in polite parlance, a 'lack of transparency'. It is primarily about valuations and whether these have been honestly calculated and/or transmitted into the public domain. This transparency shortfall has been a major burden in getting German commercial real estate onto an even keel to face the challenges of a New World: global search for yield, intensifying cross-border investor interest, potential for REIT vehicle launch and, thus, a new exit and expanded demand for assets.

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That being said: calculating what an office building is genuinely worth in Germany has been a Zen question: How long is a piece of string? In an environment in which the economy was very fragile - i.e. in Germany, 2002-2005 - the value of an office block on your fund balance sheet of course depends on if it is reliably let at a reasonable rent for the longer term, and has a sturdy cap rate and predictable cash-flows. But it also hinges on: whether you want to sell it, if you have to sell because investors are trashing your fund certificates, if the market knows you have to sell, whether you are a BIG institution and can pass assets off to the parent bank and let them take the hit, or a small institution with no mother institution capable of doing same. That's to say nothing of relative simple factors such as supply, macro-economic developments, and potential foreign demand. Like they say though: that's what they are paid for!

*****

Allan Saunderson, editor@pfeurope.de

shareholders of the fund in order to ensure equal treatment. It was a necessary decision by DB Real Estate's management, which is committed to shareholders' interests, in order primarily to protect private investors."

It said the fund's underlying portfolio is of high quality, and offers a letting rate of 90%. Up to 35% of its assets are invested outside of Germany and, "Deutsche Bank remains convinced of the recoverability of the property portfolio. The rate of return in previous years is a sign of this quality."

Grundbesitz-Invest has achieved a return of 46% over 10 years, the bank noted. In the past five years it has earned 19% for shareholders, and in the last three years, 7.5%. The planned dividend, providing a yield of 3.3%, will be disbursed to shareholders this Wednesday.

Deutsche is due to complete the valuation at the end of this month. It announced it will make asset disposals worth €1bn to €2bn, and establish a liquidity balance of up to 50%. The moves now to offer assets to foreign investors are part of this initiative. Dresdner announced almost simultaneously that it had sold its 303-property domestic office fund entirely to the US-based private equity fund Fortress (see later in this issue) for a price of €2bn.

DB Real Estate Deutschland head Michael Kremer is resigning from the company this month to be replaced, effective 15 January, by the DWS fund subsidiary Chief Executive Holger Naumann. Three other senior officers are also leaving. Media reports have also cast into doubt over Deutsche's willingness to remain in the real estate fund business over the longer term. pfe

PFE COMMENT: Difficult to pack all the aspects and ramifications of this particular move by Deutsche Bank into one item without taking up all the space in this week's PFE! Earlier last year, for instance, Deutsche sold a portfolio of E350m in property assets to the Australian investor Rubicon, after depreciating their balance sheet valuations. This was converted in early December into an Australian REIT, with Deutsche as lead manager. Rubicon transferred the proceeds on 14 December, one day after Grundbesitz-Invest was closed. However the Grundbesitz-Invest closure was easily the most ill-advised move we have ever seen Deutsche take. It managed in one fell swoop to alienate just about everyone in the nation and gave the appearance of arrogance just as a furore over its higher-profits-plus-jobs-cuts announcements were dying down. Deutsche, to be fair, is usually the country's most forward-thinking banking institution.

HausInvest property fund already marked to market, says CZ

Commerzbank's German open-end property fund hausInvest europa, responding to the controversy surrounding Deutsche's Grundbesitz-Invest valuations and closure, said it was fully depreciated to align with the value of its domestic commercial property assets.

Over the eight months to December the Commerzbank fund had undertaken depreciations in the value of its assets totalling 8%, or around €180m, and this followed a downward mark-to-market of 6.2% in the prior 12 months, it said in a statement.

In the first 10 months of 2005, domestic investors withdrew a total €1.3bn from hausInvest europa. In reaction to pressure of share sales by investors, it had sold 18 properties worth €2.1bn - almost entirely to foreign acquirors. pfe

PFE COMMENT: This statement alone shows the depth of alarm in the community caused by Deutsche's closure of Grundbesitz-Invest. Normally, the major banking institutions show solidarity by maintaining a discrete silence if one of their number is having particular problems in one part of their asset base.

German open property funds unlikely to have net inflows until 2007 - agency

German open-end real estate funds with a domestic asset base, which have come under heavy pressure to downgrade asset valuations in recent months, are unlikely to see average net inflows again before 2007, according to a survey taken by the Berlin-based rating agency Scope. The survey was made prior to the Deutsche Bank announcement of closure in its Grundbesitz-Invest fund (see above).

Of the 12 property funds companies surveyed, eight predicted that funds invested solely in domestic assets - around half of all open real estate funds in Germany - should be able to restore positive inflows by the end of this year. Three-quarters of those surveyed said net cash withdrawals implied that the asset base by end 2006 would be below that at present. The remainder saw 2006 as likely to be merely stable in inward investment terms.

Alexandra Merz, Scope chief executive, told the Börsen-Zeitung newspaper however that optimism over the German asset base is growing. Every second fund was planning net acquisitions in the home market this year, and she expected higher annual returns of 4% or more from 2007 onward. Two-thirds of the funds surveyed plan to expand or otherwise improve their risk control procedures in light of recent events. This mainly entailed a closer inspection of tenant payment delays, and much earlier examination of the risk of contract

Wintry Frankfurt rooftops and Main river, seen from the 16th floor of the Commerzbank tower

PROPERTY FINANCE EUROPE

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

termination as lease contracts approached their due dates. pfe

European property fund launch slows but infrastructure funds growing fast

The number of real estate funds launched in Europe during the first three quarters of 2005 was 22, slightly less than half the 45 funds launched by the end of September 2004, the European property fund association INREV said in a recent report.

Part of this difference is because funds are included in the database with a few months' time lag. However the European Association for Investors in Non-listed Real Estate Vehicles (INREV) listed six other factors accounting for the slowdown. The INREV database covers 442 vehicles active in the European real estate market, representing a gross asset value (GAV) of €290bn. During the third quarter, 21 vehicles were added, of which 17 are core vehicles and almost half, nine funds, were launched in 2005.

A number of funds have recently been launched targeting physical infrastructure. These are set to grow over coming months, and should benefit from the transparency from inclusion in the INREV database. "The rationale for infrastructure becoming an established asset class is driven by two key factors: strong demand for private financing of infrastructure and the behaviour characteristics of infrastructure assets," it said.

INREV listed the following additional reasons for the slowdown in fund growth:

1. Increase in vehicle size – The average target GAV has grown to €720m in 2005 from €680m in 2004. Core funds have experienced the biggest growth - to €990m from from €540m - whereas value added funds' average target size has remained close to last year's average of €560m. Only one opportunity fund was launched in the first three 2005 quarters.

2. Over the past five years, more than 200 funds have been launched such that most major asset managers across Europe now have a suite of funds to appeal to investors.

3. As the weight of capital moving into real estate remains strong, aggressive pricing means it is increasingly difficult to invest the capital raised.

4. Significant resource implications have arisen for managers from the launch of so many funds in the past few years - both in raising capital for funds and in sourcing assets. This is particularly the case for opportunity funds for which there were eight significant launches in 2004 with a target GAV of close to €10bn.

5. The net outflows from German open-ended funds has cut pressure and the ability to launch funds; only two open-ended funds were launched in 2005 to end-September compared with 12 in all of 2004.

6. Over the past year or so, cross-border European investors and managers have increased their interest in other global markets, including Asia and the Americas.

"The recent slowdown in fund launches represents more of a maturing of the industry rather than an indication of reduced desire for real estate investment or for indirect vehicles," the report said. pfe

French association to apply for three-year prolongation of REITs law

The French association representing listed property companies is to apply to the government to extend by three years the legislation that allows industrial companies to benefit from a halved tax rate when selling their commercial property assets into a Real Estate Investment Trusts (REIT/SIIC) or a qualifying unlisted real estate fund.

Dorian Kelberg, secretary-general of the French Federation of Real Estate Companies (FSIF), told Property Finance Europe the legislation is designed to lapse at the end of 2007. However, the results of the legislation, which has been in place since January 2005, have been so positive in terms of bringing real estate into the listed marketplace that the FSIF will try to get the deadline extended.

"On the basis of a report that I have to provide the government and the French parliament in July 2006, we are going to see if it is possible to extend this for another three years," he told PFE. "The discussions on this topic are scheduled to get started in September 2006."

In France, any company subject to corporation tax is allowed to bring its real property assets - comprising either physical buildings or property lease contracts - into a real estate company and attract a halved taxation rate of 16.5% on the profits earned in this manner. One condition is that the purchasing company must retain the assets for at least five years.

The legislation was extended and slightly widened at the start of this year, and encompasses on the acquiror side not only French REITs (Sociétés d'Investissements Immobiliers Cotées, SIICs) but also the non-listed open fund vehicles SCPI and OCPI, which Paris has been at pains to treat equally to their listed counterparts. The assets can be paid for in cash or in shares or certificates of the acquiring vehicle. pfe

European Securitisation Forum issues draft 84-field RMBS reporting standards

The London-based European Securitisation Forum has issued a draft of reporting standards for European Residential Mortgage Backed Securitisation transactions designed to improve the transparency of European deals, and issued a request for input from the industry on the document.

The RMBS Standardised Report is divided into four separate sections dealing with security-level data, collateral-level data, loan-level data and transaction contact information. It also includes a special section dealing with fields and definitions for master trusts.

ESF said standardised fields will enable users to publish, confirm and compare RMBS transaction information across Europe. Compliance is voluntary but the ESF strongly encouraged market participants to follow the fields and definitions as a helpful reference point. The report will be translated into French, German, Italian and Spanish.

Persons wishing to comment on the exposure draft should send their comments to Marco Angheben at the ESF by the deadline of Friday 20 January, 2006. pfe

Denmark's EjendomsInvest buys Berlin portfolio for €138m

The Denmark-based real estate investor EjendomsInvest has paid €138m for a portfolio of apartment and commercial properties from the Berlin city-state-owned GSW.

The properties comprise total floor space of 230,000 sq.m. and encompass 4,031 apartment units, 63 commercial space units, and 333 other-use properties. They mainly comprise older buildings located in west Berlin. Financing was provided by the Hamburg-based DG-HYP cooperative sector mortgage bank.

EjendomsInvest is a subsidiary of the Proark-Group, which specialises in successful structuring of real estate investment financings. This deal will be financed via an issue of fixed interest securities on the Copenhagen stock exchange. pfe

Generali buys French logistics assets from Blackstone, Bouygues

Italian insurance group Generali has acquired six Parcolog logistics platforms in France from the US-based Blackstone group as part of a move by its Generali Immobilier property arm to diversify into logistics generally.

The share deal, based on net entry yield of 7%, was tendered by Rothchild and financed by BNP Paribas and Hypo Real Estate, businessimmo.fr reported. Blackstone held a 66% share, and Bouygues Construction owned the remaining 33%.

Generali Immobilier Chief Executive Alban Liss said the acquisition of the Parcolog portfolio is an extension of a diversification strategy in commercial real estate started with the purchase of the Carrefour hypermarkets, residential apartment buildings from Westbrook, and also in hotels and leisure with the acquisition of a stake in the listed Foncière des Murs.

"For a few months now we have been looking to enter the logistics sector but only on condition of finding something to immediately give us good critical mass," he told businessimmo. "The Parcolog portfolio corresponds very well to our strategy because it encompasses the potential for considerable further development."

The six Parcolog platforms of a combined 190,000 sq.m. in Bretigny, L'Isle d'Abeau in Lyon, Lille, Nancy, Bordeaux and Beaune. The deal also includes a 53,000-sq.m. warehouse under construction in Beaune as well as land and options for future land acquisitions. Parcolog has a potential size, after development, of 700,000 sq.m.

Generali Immobilier made €880m worth of property acquisitions in France last year and held €4bn in property at the end of 2004. pfe

Aareal Bank continues NPL sales; portfolio of €388m goes to Shinsei

Aareal Bank has sold another portfolio of non-performing loans with a total volume of some €388m to Shinsei-Bank Limited, bringing total NPL sales during 2005 to around €1bn.

The bank said in a statement the transaction will not burden net income. It was structured as a true sale; the bank sold loan receivables that had already been terminated, together with the associated collateral. "With this type of disposal, no residual risk exposure remains with the bank," it noted.

The portfolio comprises 142 loans relating to a total of 157 properties. It consists exclusively of non-performing loans to institutional clients, relating to equal proportions of German commercial properties and commercial housing properties.

Aareal Bank Chairman Wolf Schumacher said the bank, "continues to see strong demand by international investors for transactions of this kind and Aareal Bank is well placed to capitalise on this trend." Aareal will accelerate the reduction of its NPL portfolios. "This core element of our six-point realignment programme is crucially important to gain flexibility in our core Structured Property Financing business. The relief on capital means that we can use more of our equity in a targeted way, to generate further highly profitable new business."

The Shinsei transaction is scheduled for completion by the end of February, and was Aareal Bank's second true sale involving NPLs in 2005. pfe

PFE COMMENT: This is a further move by Shinsei into the German market, providing strong competition for major players such as Lone Star. Shinsei, it should be remembered, was formed from the assets of the LTCB Bank. Taken over the Japanese state after LTCB's near-bankruptcy in 1998, it was sold on to the opportunity fund Ripplewood, of which Christopher Flowers was one of the main investors and directors. Shinsei, under its new president Thierry Porté, in June last year set up a 'bad bank' with the two German landesbanks NordLB and WestLB to process NPLs, naming it SGK. Here it is acquiring 'product' for this factory, even though the main thrust of SGK is to source NPL portfolios in the savings bank sector.

Quebec pension fund CDP makes first German investment - €200m office complex

The Quebec-based pension fund Caisse de dépôt et placement du Québec (CDP has made its first ever investment in Germany, acquiring two buildings in Frankfurt's IBC office complex opposite the exhibition grounds for more than €200m from The Blackstone Group.

The acquisition, made by CDP's SITQ subsidiary (Société immobilière Trans-Québec) encompasses two properties with total floor space of 50, 000 sq.m. The main tenants are the Deutsche Bank with around 37,000 sq.m. and the Degussa Bank, a subsidiary of ING, with some 7,000 sq.m. The two buildings were constructed in 2003 and 2004 respectively.

CDP Real Estate Europe president Jean Lamothe commented: "The Frankfurt market is currently at the bottom of the real estate cycle due to the restructuring taking place in the banking sector, and we see considerable upside potential. This acquisition demonstrates the high motivation of SITQ to invest in the European office market." pfe

PFE COMMENT: Yet another example of a foreign investor seeing more value in German office properties than domestic institutions - and taking a more pragmatic cyclical view. CDP is in for the longer term and clearly has rather different funding and return expectations than Europeans. In other words, the amount of North American retirement capital chasing investment and yield wherever it can find it in the world is the dominant dynamic here. This, we expect, will gradually transform even the depressed German office market. Yields remain fairly attractive, and the prospects for capital appreciation are more reasonable than in a multitude of other developed western industrialised economies. Even if utilisation rates for German office continue to be low on average, the prospect of G-REITs being thrown into the valuation pot during 2005 should give a significant additional boost to the demand side.

European Covered Bond Council wins 70 members, 84% mkt share in first year

The European Covered Bond Council (ECBC), established in November 2004 by members of the European Mortgage Federation, has won 70 members from 17 different European member states in its first year of operation, representing 84 % of the market share of all covered bond issuers in Europe.

In a report, ECBC senior adviser Cristina Costa noted that the council has achieved a number of positive results. These include monitoring the debate on the capital requirements directive of the European Union and successfully lobbying for preferential treatment for covered bonds. The result has been the reduction to 11.25% from 12.5% in equity capital cover needed by investors in covered bonds against Loss Given Default level under the Internal Ratings Based Approach of Basel II. This will apply to covered bonds rated at AAA level or those that meet eligibility criteria on the quality and mix of assets.

A working group has also been established to discuss topics such as minimum standards in market-making for Jumbos, conventions on trading standards and the market-making process, especially in light of the recent AHBR case (see elsewhere in this issue). Another working group is looking at covered bond frameworks in Europe, while a third has begun collecting detailed statistics on covered bonds on a quarterly basis.

Starting this year, the ECBC will also co-organise with Euromoney an annual covered bond event, the Euromoney/ ECBC European Covered Bond Congress, which will hold its inaugural meeting in Madrid in September. The most important operational objectives are to produce a definition of the covered bond and to further strengthen the ECBC as the voice for the European covered bond industry and beyond, Costa said. pfe

Lone Star takeover likely to lead to revival of AHBR Pfandbrief issuance

The objective of the takeover of ailing German mortgage bank Allgemeine Hypothekenbank Rheinboden (AHBR) by the US opportunity fund Lone Star Funds remains unclear but may lead to a revival of its Pfandbrief issuance, according to a recent report by Commerzbank Corporates & Markets.

The report, written by Claudia Vortmüller, details three possible scenarios: long-term settlement of the credit portfolio acquired over the last two years, liquidation of non-performing

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DIARY DATES AND UPCOMING IN 2006

January 24, Tuesday

Diagnostic Seminar of the French Real Estate Savings Institute (IEIF), Paris

Les Rencontres de l'IEIF Diagnostics 2006. Morning seminar at the Paris Chamber of Commerce and Industry. Speakers and themes include Paris Chamber President Pierre Simon, IEF Director Guy Marty, Pierre Schoeffler from S & Partners on what do financial and the asset allocation models say for 2006, Eurohypo research director Philippe Tannenbaum on SIICs, OPCIs, funds and hedge funds. More info: www.ieif.fr.

January 24-25, Tuesday-Wednesday

16th Annual CIMMIT 2006, Frankfurt am Main, Germany

Chaired by FRICs President Jürgen Ehrlich, and Barbara Knoflach, chief executive of SEB Immobilien-Investment GmbH, this conference will discuss: Germany in the focus of foreign investors; is German real estate undervalued in international comparison? What strategies are foreign investors following? Will real estate become a capital markets product? What are the investment products of the future, G- REITs, closed funds, open-end funds? More info (in German): www.cimmit.de

January 25-26, Wednesday-Thursday

10th Annual ULI Europe Conference, Paris.

The Urban Land Institute (ULI) hosts its 10th Annual Europe Conference. "Much has changed over the last 10 years: The industry is booming and we have capital surpluses instead of deficits. Information technology has helped to create a truly global market where borders matter little and something is happening 24/7. We are also seeing tremendous growth in new and emerging markets. But where do we go from here?" Property Development, Investment & Finance- The Future is Not What It Used to Be: Real Estate in a Fast-Changing World. More info: www.uli.org.

February 7- 8, Tuesday-Wednesday

2nd Annual Euromoney PropInvest Europe conference, Barcelona, Spain.

This looks at the future of European Real Estate as it matures as an asset class. Areas to be covered include: Are we in an asset bubble? Future trends In European real estate markets. The European REIT market in a global context. Future allocation to European real estate. Why launch a cross border fund? How best to source product. How do derivatives apply to real estate? Alternative real estate investments: Maximising return on investment. More info: www.euromoneyplc.com.

March 14-17, Tuesday-Friday

MIPIM, Palais des Festivals, Cannes, France.

Building the World with MIPIM. The MIPIM (Marché international des professionnels de l'immobilier) bills itself as the world's leading real estate event. MIPIM brings together key industry decision-makers from around the world, to establish long-lasting relations, to present new projects, and lay the foundations for fruitful collaboration. Conferences allow delegates, through a series of panels, workshops and keynotes, to discover the latest news and trends on issues that affect their business. More info: www.mipim.com

The PFE Interview: Wesley Edens and Robert Kauffman, Fortress Investment Group

Fortress predicts coming upturn in German commercial and apartment market as it pays €2bn to buy Dresdner Bank open-end office property fund

The German real estate market is set for recovery, and the domestic market is too pessimistic about the prospects for capital appreciation in assets such as apartment and office property, according to the directors of the Fortress Investment Group, which late last month announced it was paying €2bn to acquire a portfolio of office properties from Dresdner Bank.

One of the premium Dresdner bank downtown Frankfurt office properties sold in a €2bn fund portfolio to the US Fortress investment group.

Fortress Chairman Wesley Edens said in a conference call last week that office property prices have likely reached the base of the price cycle and are due for recovery. In response to questions from Property Finance Europe he said: "The German market has been through a difficult time. It's very similar to the US in the 1980s and Canada after that, and also the UK in the early 1990s; it's very hard to have a perspective from inside the country. If you are suffering from the difficult economic enviroment it clouds your optimism over what could be the prospects for the future."

"Germany as an economy is one we are very bullish about. We continue to be very active in looking at additional apartment assets, and we are quite sure we will find additional other investment opportunities there."

Fortress on 22 December announced that its Eurocastle Investment listed subsidiary had signed an agreement with Dresdner to acquire 100% of an open-end fund which owns a portfolio of 303 commercial properties - primarily office buildings occupied by Dresdner. The bank will continue to occupy its current space which represents around 80% of rental income, and its average remaining lease term is nine years. Some 15% of the portfolio is currently vacant. The properties, totaling about 845,516 sq.m. of leasable space, are concentrated in Frankfurt, Hamburg, Munich, Düsseldorf and Berlin.

Fortress is using the listed Eurocastle for commercial investment in Europe

The New York-based Fortress, founded in 1998, is a private equity and opportunity fund with some $16bn in capital under management. It first created a stir in 2004 in Germany by paying €3.5bn for the 80,000-unit GAGFAH apartment portfolio, which it is transforming into a platform for investing in apartments. GAGFAH will be brought to the stock exchange soon, perhaps taking advantage of any domestic REIT legislation.

At the start of 2005, an offering for the Fortress Residential Investment Deutschland Fund took just two months to bring in $2bn from US institutional and private investors. With leverage, it pointed out at the time, this provides $10bn to invest over the next three years. The purchase last spring of NordLB's 28,500-unit Nileg portfolio quickly followed. Now Fortress is said to be among the bidders, alongside its usual competitors the Nasdaq-listed Cerberus Funds and the UK's Terra Firma, for North Rhine-Westphalia's state-owned apartment company LEG, which owns 110,000 apartments.

The Dresdner acquisition marks Fortress's first significant entry into German commercial real estate. Particularly because it was announced amid the controversy over Deutsche Bank's closure of its open-end office property fund Grundbesitz-Invest, which deepened the gloom over already-depressed office property values, it extended the Fortress reputation of perceiving asset value where the domestic market patently does not.

Fortress said in a statement the Dresdner acquisition should put it in a strong position to take advantage of growing investor demand for exposure to the office sector. "Pending adoption of REIT legislation in Germany, improving real estate fundamentals, and distress among German open-end funds are expected to provide strong growth prospects for Eurocastle," it said. Edens added: "We .. expect the Dresdner assets to provide a valuable new source of income growth and platform for other strategic acquisitions."

Eurocastle's portfolio now includes over 1.6m sq.m. of European commercial real estate, with German assets comprising 93%. In value terms, it holds commercial assets of some €2.7bn, and €1.6bn of real estate securities and other related loans.

The Dresdner portfolio provides a stable 5% initial yield with upside potential as the properties are fully leased, and Fortress says Germany's commercial property markets, which have been severely affected by overbuilding and five years of sluggish economic growth, appear to have bottomed out. With little new construction taking place, the Dresdner portfolio is well positioned to benefit from positive net absorption.

Robert Kauffman, head of Fortress's European investment operations, said Eurocastle will fund the purchase with equity and debt financing. He told the conference call the yield on the portfolio should rise to 7% once vacant floor spaced is rented out. Since Eurocastle will finance about 75% of the purchase price at an overall cost of 4%, this should boost its return on investment well into double figures. Fortress chose to buy out the fund shares because it was more tax efficient than purchasing the properties directly as a portfolio. "We are putting the shares straight into Eurocastle," Kauffman said. "What it does, in effect, is to emulate a REIT-like structure without actually being a REIT."

Like Edens, he sees the current German fund difficulties as highlighting the dislocations in the way capital is allocated to real estate in the nation. "For us, this gives a great opportunity to start the game in Germany," he told the conference call. "There are significant liquidity limitations in these products right now and we expect to see more opportunities like this." pfe loans and retention of core business, or asset-stripping and break-up of the bank. She said however that the latter was the least likely scenario in the short term.

In the first scenario, Lone Star will either keep the Pfandbrief issuing business or sell it to another bank. In any case, the US investor is likely to reduce its public sector issuance. Further mortgage Pfandbrief issuance is also likely to re-emerge as a focus if AHBR's NPL book is liquidated in the medium term.

AHBR is the second bank Lone Star has acquired in Germany, after its acquisition of Mitteleuropäische Handelsbank last May. "The acquisition of a banking licence therefore should not have been the main motivation", she wrote.

US-based Lone Star was reported to have received €400m to take over the Frankfurt-based AHBR - bought out of a trust fund into which it had been placed by the prior parent BHW prior to its own acquisition by Postbank in autumn. AHBR was recapitalised at sale with €175m, and received a further capital injection of €584m from BHW and its German trades union partners. Financial sources said Lone Star paid some €600m in the transaction, but no amounts in the transaction were publicly disclosed.

At the end of September, AHBR held property-backed assets of some €24bn and another €36.9bn in public sector credits, and total assets were valued at €75bn. AHBR ran into liquidity problems during 2002 and 2003 when interest rate miscalculations brought losses on its covered bond book.

Its fragility had thrown confusion into the Jumbo Pfandbrief market - issues of more than €1bn in value - and had caused price spreads to widen considerably. Germany's largest real estate bank, Eurohypo, stepped into the stabilise the market, and the AHBR uncertainty brought considerable criticism from the Pfandbrief funding community. pfe

PFE COMMENT: The uncertainty surrounding AHBR has been particularly difficult for the Pfandbrief/covered bond community since the funding vehicle is secured against institutional insolvency via extremely rigorous German secondary legislation in the newly revamped (July 2005) Pfandbrief Act. Despite this, spreads against swaps in German Pfandbrief widened considerably and market-making in AHBR Pfandbrief was, in effect, halted for several days. Lone Star has put Karsten von Köller into the bank as chairman - a move likely to restore confidence quickly. Von Köller has a long background in German mortgage banking. He was chairman of Eurohypo after its creation in 2002 from the mortgage banks of the three largest German private commercial banks, and only left to take over as chief executive for Lone Star in the domestic market.

AHBR to take credit write-down in one action, show €1.3bn loss for 2005

Lone Star's newly-acquired German mortgage bank Allgemeine Hypothekenbank Rheinboden (AHBR) said it will declare a balance sheet loss of €1.1bn-€1.3bn for 2005, newly valuing the assets and the loss-making interest rate positions in one action.

The bank, since December 88% owned by Lone Star, said it was decided to make a complete depreciation to revalue the assets to market, rather than follow the original plan to write off valuations over a number of years. The restructuring of the bank was designed to set the base for a new business model, which will be presented to the public during January.

"These results are attributable to the complete realisation of losses on charged interest rate positions and the revaluation of the loan portfolio in the course of comprehensive restructuring and repositioning following the takeover by US financial investor Lone Star," a statement said. "In view of the expected deficit, significant claims will be made on the liable equity capital provided by creditors holding profit participation certificates and silent partnership investors. Those holding subordinated and senior unsecured bonds are not affected."

It added: "Lone Star will support the repositioning of the Bank by providing an appropriate injection of equity capital at the beginning of the 2006 financial year." pfe

Fortress, Pirelli said bidding against Soros for Dresden's Woba portfolio

Fortress Investment and Italy's Pirelli are among the final four-member bidding group in contention for the 50,000-apartment portfolio Woba being put up for sale by the east German city of Dresden, according to the Immobilien Zeitung newspaper.

It named the other two as being Apellas Property Management GmbH und the Corpus Group. Apellas is 95% owned by the financial group controlled by George Soros.

Dresden has set March 2006 as the deadline for a decision on the successful bid. WOBA Dresden GmbH, founded in July 2003, is fully owned by the city of Dresden, capital of Saxony. Its real estate portfolio consists of 47,829 apartments and 1,337 smaller commercial properties. It had turnover in 2004 of €184m, and employs just over 500 staff. pfe

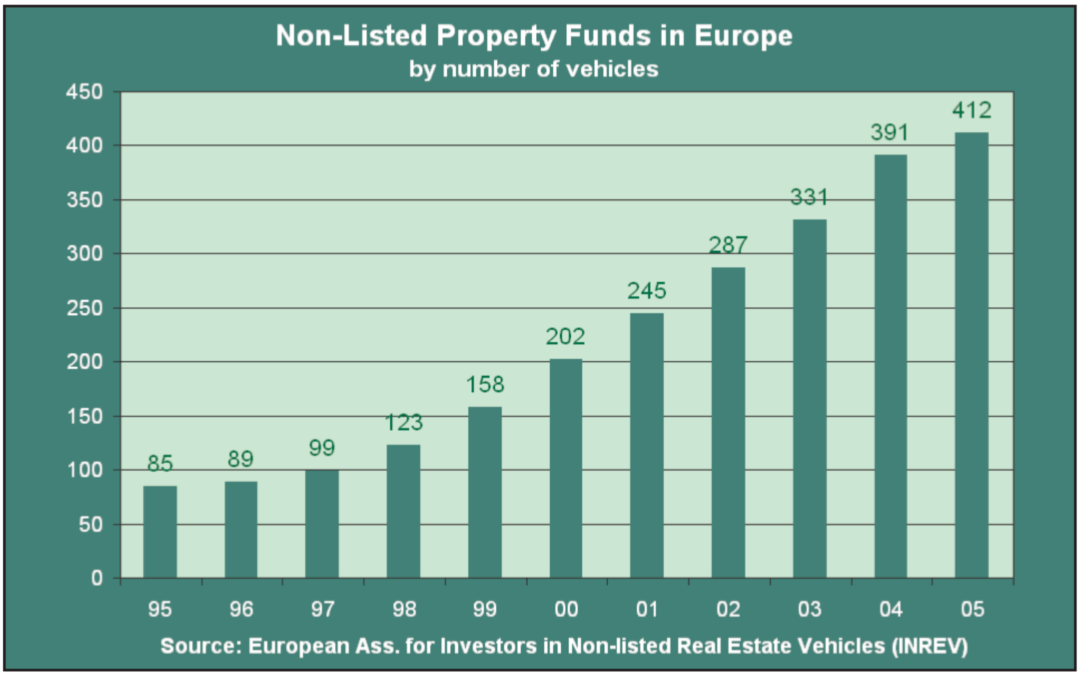

Table: Best-Performing European Listed Real Estate Companies in 2005
By share price rise in national currency, at end-2005

	company	Total return 2005	Country	Last Price	Free market Cap, €m	Free float global weight.%	Free float Europe weight.%	Dividend Yield %	Total return% - 5 Yrs	Tot. Rtn,% Tot. Rtn,% - 3 Yrs	Tot. Rtn,% YTD	36 Mths volatility	Turnover 3mth an
1	Keops	642,50	DK	29,60	186	0,03	0,18	0,00	48,74	109,30	642,50	103,19	527,80
2	Nordicom	290,72	DK	915,00	384	0,07	0,38	1,20	52,00	84,67	290,72	37,85	399,84
3	Sjaelso Gruppen	188,02	DK	1691,00	250	0,05	0,25	2,37	35,65	93,47	188,02	44,05	487,51
4	TK Development	167,61	DK	76,00	143	0,03	0,14	0,00	-21,40	14,22	167,61	93,47	349,70
5	Kungsleden	101,39	S	230,00	1.115	0,20	1,10	3,26	42,84	54,09	101,39	25,30	1261,32
6	Risanamento	89,86	I	3,79	416	0,08	0,41	0,74	18,39	40,22	89,86	23,52	294,73
7	Lamda Development	82,28	GR	5,76	76	0,01	0,07	0,35	-3,58	12,88	82,28	33,43	103,74
8	Metrovacesa	75,74	E	51,30	3.916	0,72	3,85	2,09	37,94	50,17	75,74	26,03	4279,69
9	Marylebone Warwick Bal	72,67	GB	1,49	119	0,02	0,12	0,00	-8,34	43,03	72,67	52,60	76,99
10	Medical Property Fund	66,41	GB	1,73	359	0,07	0,35	0,00	-NA-	-NA-	66,41	-NA-	177,85
11	Inmobiliaria Colonial	65,19	E	47,88	2.144	0,39	2,11	2,12	29,26	50,75	65,19	17,24	2246,04
12	Globe Trade Centre	63,21	PL	173,00	447	0,08	0,44	0,00	-NA-	-NA-	63,21	-NA-	167,50
13	Fonciere Des Regions *	62,07	F	90,00	312	0,06	0,31	2,75	37,96	65,18	62,07	18,45	72,65
14	Technopolis	62,03	SF	5,00	179	0,03	0,18	2,40	28,11	42,87	62,03	19,39	99,54
15	Big Yellow Group	61,48	GB	3,01	334	0,06	0,33	1,16	17,50	55,00	61,48	33,93	311,89
16	Primary Health Prop.	52,48	GB	4,06	134	0,02	0,13	2,96	29,55	42,96	52,48	18,52	118,26
17	IVG Immobilien	51,13	D	17,71	1.539	0,28	1,51	1,98	8,59	31,19	51,13	25,17	1189,39
18	AM	47,20	NL	10,08	699	0,13	0,69	4,27	11,55	37,66	47,20	20,93	877,57
19	Deutsche Wohnen	46,25	D	195,30	781	0,14	0,77	4,48	11,64	15,77	46,25	11,68	347,83
20	Workspace Group	43,94	GB	3,10	762	0,14	0,75	1,14	24,88	46,09	43,94	14,71	884,45
21	Aedes	43,86	I	5,50	412	0,08	0,40	2,73	8,53	20,49	43,86	24,55	280,21
22	Daejan Holdings	39,63	GB	37,65	670	0,12	0,66	1,17	27,94	41,40	39,63	17,61	114,92
23	Grainger Trust	38,63	GB	5,27	743	0,14	0,73	0,97	33,12	39,62	38,63	22,23	397,51
24	Fabege	38,20	S	151,50	1.551	0,28	1,52	4,29	27,23	39,50	38,20	20,91	1066,66
25	Gecina *	38,13	F	97,00	1.154	0,21	1,13	3,81	16,67	28,14	38,13	12,27	610,18
26	Warner Estate Holdings	37,49	GB	7,00	409	0,07	0,40	2,72	22,58	33,10	37,49	15,47	51,93
27	Warehouses De Pauw *	35,96	B	44,00	260	0,05	0,26	8,15	19,59	23,78	35,96	12,46	118,42
28	Town Centre Securities	35,30	GB	4,43	268	0,05	0,26	1,40	35,02	48,59	35,30	22,97	30,95
29	St Modwen Properties	34,57	GB	4,52	596	0,11	0,59	1,77	36,88	39,92	34,57	23,70	154,05
30	Great Portland Estates	34,21	GB	4,30	1.015	0,19	1,00	2,52	10,08	26,71	34,21	12,48	879,88
31	Citycon OYJ	33,20	SF	3,11	318	0,06	0,31	4,50	31,10	46,80	33,20	28,14	104,73
32	Intervest Offices *	32,78	B	28,40	197	0,04	0,19	6,97	12,81	13,10	32,78	10,34	54,34
33	Klovern AB	30,15	S	24,50	236	0,04	0,23	3,06	-NA-	31,21	30,15	27,89	122,70
34	Derwent Valley Hldgs	29,36	GB	14,41	1.114	0,20	1,09	0,89	15,29	39,95	29,36	19,60	641,88
35	Helical Bar	28,77	GB	3,05	408	0,07	0,40	1,20	18,86	27,80	28,77	23,78	114,11
36	Deutsche Euroshop	28,17	D	47,45	816	0,15	0,80	4,05	7,50	20,08	28,17	14,06	402,93
37	Nieuwe Steen Inv *	27,57	NL	20,48	692	0,13	0,68	6,64	15,26	20,59	27,57	11,54	189,24
38	Capital & Regional Props	27,45	GB	8,68	896	0,16	0,88	1,84	32,51	41,68	27,45	22,05	819,27
39	Brixton	26,98	GB	4,33	1.689	0,31	1,66	2,68	15,32	27,94	26,98	19,72	1703,93
40	Unite Group	26,75	GB	3,80	672	0,12	0,66	0,66	4,61	35,11	26,75	26,34	739,00
41	Shaftesbury	26,25	GB	4,62	884	0,16	0,87	1,08	12,16	32,07	26,25	26,81	718,81
42	Rodamco Europe *	25,77	NL	70,30	4.726	0,87	4,64	4,48	16,23	25,28	25,77	13,60	3190,58
43	Unibail *	25,71	F	112,40	5.098	0,93	5,01	3,38	22,50	31,08	25,71	16,62	3752,31
44	Klepierre *	25,25	F	79,30	1.830	0,34	1,80	2,90	21,35	25,76	25,25	15,36	1431,44
45	Immoeast Immobilien Anlage	24,53	A	8,32	925	0,17	0,91	2,69	-NA-	-NA-	24,53	-NA-	929,48
46	Babis Vovos	24,44	GR	13,90	236	0,04	0,23	2,59	-NA-	-4,32	24,44	22,28	225,25
47	Castellum	24,16	S	286,00	1.310	0,24	1,29	3,32	25,48	36,68	24,16	23,33	904,28
48	ISIS Property Trust 2 Ld	23,63	GB	1,29	155	0,03	0,15	3,05	-NA-	-NA-	23,63	-NA-	69,76
49	Land Securities	22,83	GB	16,63	11.256	2,06	11,06	2,73	17,51	31,90	22,83	16,04	14665,76
50	CLS Holdings	22,70	GB	5,00	437	0,08	0,43	0,00	20,35	32,69	22,70	19,47	163,31
51	Leasinvest Real Estate *	22,45	B	66,20	161	0,03	0,16	5,62	9,63	15,13	22,45	11,02	44,02
52	British Land	20,92	GB	10,66	8.039	1,47	7,90	1,51	19,16	35,10	20,92	19,12	13196,37
53	Freeport	20,22	GB	4,73	260	0,05	0,26	0,58	-1,43	20,38	20,22	27,88	250,77
54	Hammerson	20,01	GB	10,22	4.236	0,78	4,16	1,79	19,41	32,33	20,01	17,79	5541,06
55	PSP Swiss Property	19,54	CH	57,00	1.720	0,31	1,69	0,00	10,57	18,50	19,54	14,49	653,85
56	McKay Securities	19,18	GB	3,14	155	0,03	0,15	3,06	18,34	32,17	19,18	17,79	184,80
57	ISIS Property Trust Ld	18,65	GB	1,38	114	0,02	0,11	5,08	-NA-	-NA-	18,65	-NA-	51,24
58	Invesco UK Property Income Trust	18,61	GB	1,15	257	0,05	0,25	5,38	-NA-	-NA-	18,61	-NA-	212,94
59	Sponda	17,69	SF	7,95	472	0,09	0,46	6,29	23,44	23,11	17,69	15,63	174,55
60	Cofinimmo *	17,11	B	133,70	985	0,18	0,97	5,46	13,13	15,83	17,11	6,72	533,76
61	Eurocommerical Props *	16,77	NL	29,02	1.000	0,18	0,98	5,34	14,95	18,76	16,77	11,84	402,22
62	Immofinanz	15,86	A	8,11	2.722	0,50	2,67	0,00	10,83	12,39	15,86	4,38	970,52
63	Standard Life Inv Prop	15,80	GB	1,19	174	0,03	0,17	5,45	-NA-	-NA-	15,80	-NA-	59,46
64	Development Securities	14,71	GB	4,99	265	0,05	0,26	1,23	12,23	18,90	14,71	25,32	174,74
65	Zueblin Immobilien Holding	14,14	CH	10,40	156	0,03	0,15	0,00	5,73	9,82	14,14	11,97	62,31
66	SPS Swiss Prime Site	13,33	CH	60,50	749	0,14	0,74	0,00	5,33	12,74	13,33	9,69	193,97
67	Mucklow <A&J>	12,58	GB	4,19	146	0,03	0,14	3,04	21,99	24,12	12,58	22,32	26,07
68	Slough Estates	12,12	GB	5,99	3.683	0,67	3,62	2,73	10,49	24,21	12,12	19,50	4494,81
69	Corio *	12,04	NL	45,90	3.087	0,57	3,03	5,21	16,27	28,75	12,04	10,95	1693,62
70	Hufvudstaden A	11,97	S	52,00	450	0,08	0,44	2,50	13,13	27,22	11,97	15,62	192,02
71	Sparkassen Immo Invest	11,24	A	95,20	214	0,04	0,21	0,00	7,15	8,68	11,24	6,62	51,85
72	Beni Stabili	11,12	ITA	0,81	1.040	0,19	1,02	2,46	14,08	26,26	11,12	17,99	571,07
73	UK Balanced Prop	11,09	GB	1,26	351	0,06	0,35	5,64	-NA-	13,75	11,09	7,65	243,16
74	Quintain Estates	11,04	GB	6,29	1.183	0,22	1,16	1,59	28,98	37,63	11,04	23,78	547,51
75	London Merchant	10,96	GB	2,43	869	0,16	0,85	2,67	9,21	30,66	10,96	20,47	648,54
76	Conwert Immobilien	10,23	A	14,55	569	0,10	0,56	0,00	-NA-	9,59	10,23	3,25	190,05
77	Insight Foundation Prop	9,82	GB	1,14	438	0,08	0,43	5,95	-NA-	-NA-	9,82	-NA-	447,30
78	Silic *	9,76	F	78,05	1.015	0,19	1,00	4,06	17,19	26,27	9,76	16,65	312,84
79	Vastned Retail *	9,46	NL	53,75	900	0,16	0,88	8,95	11,85	17,52	9,46	11,71	420,07
80	Allreal	9,15	CH	116,00	364	0,07	0,36	3,88	9,46	19,27	9,15	10,58	172,22
81	Befimmo *	9,07	BELG	77,60	760	0,14	0,75	6,19	10,00	12,12	9,07	10,07	210,98
82	Vastned Offices Ind *	8,46	NL	22,60	436	0,08	0,43	9,42	4,24	12,52	8,46	11,87	356,97
83	Wereldhave *	5,19	NL	79,65	1.655	0,30	1,63	5,65	14,08	20,24	5,19	14,06	997,88
84	CA Immobilien Anlage	5,19	A	21,05	918	0,17	0,90	0,00	5,69	5,77	5,19	2,03	174,20
85	Liberty International	4,13	GB	9,81	4.591	0,84	4,51	2,76	18,00	23,61	4,13	15,02	3435,60
86	IGD	-NA-	I	2,04	230	0,04	0,23	0,98	-NA-	-NA-	-NA-	-NA-	241,97
87	Wihlborgs Fastigheter	-NA-	S	192,00	393	0,07	0,39	0,00	-NA-	-NA-	-NA-	-NA-	239,09
88	F&C Commercial Prop	-NA-	GB	1,19	507	0,09	0,50	4,01	-NA-	-NA-	-NA-	-NA-	894,67
89	ING UK Real Estate Income Trust	-NA-	GB	1,08	481	0,09	0,47	0,00	-NA-	-NA-	-NA-	-NA-	-NA-
90	Minerva	-0,94	GB	2,74	637	0,12	0,63	1,19	-1,39	16,47	-0,94	29,01	1153,77
91	Acanthe Developpement *	-10,74	F	4,34	142	0,03	0,14	6,05	5,87	10,80	-10,74	19,98	115,28

Source: European Public Real Estate Association, EPRA.
** indicates company has REIT status in local jurisdiction.*

French plan for OPCI seen boosting property fund sector to €150bn

A French government plan to replace non-listed property fund vehicle SCPI with a more flexible vehicle could result in 10-fold growth in investment in France's property fund sector to around €150bn, the Dutch bank Kempen & Co. said.

The French draft legislation would create a new open-ended vehicle called OPCI (Organisme de Placement Collectif Immobilier) which could invest up to 39% in property shares. This would replace the existing and mostly closed-end non-listed property vehicle SCPI. Paris announced the new legislation late last year.

Existing SCPIs can opt for OPCI status over a five-year transition period, and Kempen sees the OPCI as likely be actively marketed by banking and insurance networks as part of insurance contracts. The current size of the ACAVI and SCPI funds sector is only around 0.8% of the total French non-listed funds industry of €1,830bn.

Kempen bases growth estimate on a comparison with Germany's €88bn open-ended property funds industry. It sees the biggest obstacle to investment growth in France as the availability of investment products such as office and retail property.

The new fund vehicle would be similar to the German open-ended format, allowing for similar growth potential, Kempen said. The SCPI would be externally managed and mostly sold as part of insurance contracts. It would also create additional liquidity in the listed property sector which currently suffers from low trading volumes.

The current SCPI is a closed-ended pension fund real estate vehicle aimed at French private investors and externally managed by banks and insurance companies. Legislative constraints limit the ability to actively manage the portfolio or redevelop assets however. In addition, the current SCPI format stipulates that shareholders and geographic location of investment must be French. Trading volumes in the shares of SCPI are low - only some 2-3% of market capitalisation per annum and only at fixed dates. The lack of liquidity has resulted in many SCPI funds trading at a discount to NAV, Kempen pointed out. pfe

Morgan Stanley mortgage servicing unit upgraded by S&P

Morgan Stanley's mortgage servicing unit, a commercial loan servicer for UK and Irish portfolios, was upgraded in December by Standard & Poor's Ratings Services to Above Average, with outlook stable.

S&P said the upgrading of Morgan Stanley Mortgage Servicing Ltd. (MSMS) reflects many key operational enhancements including a "cohesive, new, energetic management team with an average of more than 15 years' experience in servicing commercial loan pools, a reorganized and integrated loan cycle, tighter portfolio surveillance and much improved investor reporting procedures." Technology had also been upgraded, encompassing a collateral analysis system, document imaging, a revamped intranet, a more functional borrower and investor Web site, and BACS functionality.

"In upgrading the ranking on MSMS, we were particularly impressed with improvements in investor reporting," said S&P servicer analyst Marie-Noelle Brisson. pfe

Pirelli RE and Morgan Stanley acquire mega NPL portfolio from Italy's BNL

The Italian property company Pirelli RE, and Morgan Stanley Corporate Credit Group have acquired a portfolio of mortgage and corporate loans from Italy's Banca Nationale de Lavoro with a gross book value of €927m.

The transaction, with a purchase price of some €345m, includes NPLs related to 320 companies, secured by residential, touristic and industrial properties.

The acquired portfolio will be securitised through the special purpose vehicle ICR (8), which already owns an NPL portfolio with a gross book value of about €366m acquired from BNL at the end of 2004. The payment is expected by the end of February 2006.

With this transaction, the gross book value of Pirelli RE NPLs under management increases to €3.3bn, or around €1.4bn of net book value, the companies said. pfe

Office turnover in Germany rises 14% in 2005 - DIP agents association

Some 14% more office space changed hands in the 13 main office markets in Germany during 2005 compared with 2004, according to the German Estate Agents' Association (DIP).

Of the 13 regional markets - Berlin, Bremen, Dresden, Düsseldorf, Frankfurt am Main, Hamburg, Hanover, Leipzig, Magdeburg, Mannheim, Munich, Rostock and Stuttgart – Frankfurt reported the highest increase in turnover in former western Germany, at 44%. It also continued to command the highest rents, at €33 per sq.m. following €32 at the end of 2004.

Berlin, Munich and Hamburg all witnessed higher turnover while the Düsseldorf and Stuttgart markets reported negative figures. In the east, the city of Magdeburg topped the rankings at a 69% increase in office turnover volume.

Average vacancy rates declined slightly throughout the course of the year to 10.8% from 11%, DIP said. It expects turnover to continue at the same level this year. pfe

Jones Lang LaSalle sees further record year for foreign investment in Germany

The year 2005 has ushered in a new era of globalisation for the German property market which, combined with a new capital market orientation, will pull the sector out of its malaise and turn real estate, via such vehicles as REITs and property derivatives, into a tradable commodity, says the German managing director of Jones Lang LaSalle.

Christian Ulbrich told a year-end news conference, "What began with real estate funds and has been continue by REITs, will in the future be extended into swap transactions and trading with property derivatives." The investment boom is also likely to continue into 2006 and 2007. Some €19bn was invested in German commercial real estate during 2005, with more than half of the total coming from foreign investors. A further €17bn in capital was invested in residential portfolios.

Analysing prospects for German office property, JLL Research Director Helge Scheunemann noted that new floor space coming onto the market fell by 40% in 2005, compared to 2004, and was likely to hold at around 700,000 sq.m. this year before declining again in 2007. Total office vacancy rates should fall from around 7.5m sq.m. now to 6m by 2008. He sees some €9bn in investment ready to come into German property. "The foreign component is likely to remain at a fairly constant level over the next few years, with growing interest in office property," Scheunemann said.

Ulbrich added that the controversy surrounding the Deutsche Bank closure of its open-end office fund would be counterproductive for the discussion in the nation over legislation to permit Real Estate Investment Trusts (REITs). "You won't get a very large push from the political scene for REITs now," he said. pfe

European listed real estate shares rise an average 26% in 2005 - EPRA

Share prices in European listed real estate companies rose on average last year by just over 26%, the European Public Real Estate Association (EPRA) said. The EPRA/NAREIT Europe Index closed the year 26.1% higher, with most of the major European countries outperforming the smaller nations *(See table, p10)*.

The European section of the index that EPRA has constructed together with the UK's FTSE and the US National Association of Real Estate Investment Trusts (NAREIT) started the new year with 91 constituents, up 22 from 2005, EPRA said. European listed companies had a free float market capitalisation of €102bn, up €27bn from 2004.

In December alone, the UK listings finished the year with a gain of 6.4% following continued impressive performance from UK companies, which accounted for nine of the top 20 European performers. EPRA/NAREIT France added 3.8% in December, followed by the Netherlands a 3%. Sweden moved on 2.4%.

After a quarterly review in December, Globe Trade Centre (Poland), Keops (Denmark), Lamda Development (Greece) and Sparkassen Immo Invest (Austria) entered the FTSE EPRA/NAREIT Global Real Estate Indices. Keops topped the European performers list in December with a gain of 28.7% followed by Globe Trade Centre, up 21%. Lamda Development and Sparkassen Immo also posted positive returns.

Retail investor Shaftesbury jumped 9.8% in early December when the company announced its full-year net asset value had risen 29%. Shaftesbury is selling offices to focus on retail and leisure properties. Shops and restaurants account for 71% of the value of its assets. Swedish investor Fabege announced it was buying a majority stake of 82.4% in Tornet for $390m from Swedish private equity company LRT Acquisition AB. pfe

Sonae SGPS and UK's Grosvenor move to 50/50 ownership in Sonae Sierra

The UK's Grosvenor Property and Partnership has increased its holding in Portuguese shopping centre developer Sonae Sierra to 50% following an agreement with the holding company Sonae SGPS for the sale of 17.04% of the latter's share capital for €218m, the two companies said. Each now has 50% of Sonae Sierra's capital.

The share capital of Sonae Sierra was previously split between Sonae SGPS (67.04%) and Grosvenor (32.96%). The agreement will make Sonae Sierra the platform for the future development, investment and management of shopping and leisure centres in Continental Europe for both groups.

Explaining the reasoning behind the agreement, which is subject to clearance by the Portuguese Competition Authority, Grosvenor's continental Europe CEO Neil Jones said it was important to provide the right ownership conditions to enable Sonae Sierra to focus on its strategy and continue to thrive.

Álvaro Portela, CEO of Sonae Sierra, said the agreement is confirmation that both shareholders of Sonae Sierra are satisfied with its performance and believe in the business strategy that the company has been following.

Grosvenor is an international property development and investment group which currently manages a portfolio of some £5.4bn and has interests in 16 countries. Owned by trusts for members of the Grosvenor family, its property business origins can be traced back to 1677 when the areas of London now called Mayfair and Belgravia came into family ownership. Grosvenor's interest in Sonae Sierra is held through its subsidiary GFEPI, in which GIC and Wellcome Trust are minority investors. pfe

$27bn King Abdullah Economic City is largest ever Saudi property project

Saudi Arabia has announced the single largest private sector property development ever in the Kingdom - the $26.6bn construction of King Abdullah Economic City, to be built on a massive 55m sq.m. of greenfield land with a 35-km shoreline close to the industrial city of Rabegh on the Red Sea coast to the north of Jeddah.

The project, begun on 21 December, envisages 'a New Age City' with easy access from the Holy Cities of Makkah and Madina. It will encompass a mixed-use development with six distinct components: a modern world-class seaport, industrial district, financial island, education zone, resorts and a residential area. Completion of the project will be executed in stages, with the first businesses and residents moving in within 24-36 months.

Central to the mega project is a 2.6m sq.m. new Millennium Seaport similar in size to the world's top 10 ports, such as Rotterdam, that would allow even the world's largest super vessels to drop anchor. With its strategic location on the Red Sea and the instant access to key cities within Saudi Arabia, the port will have a designated area for light industry and logistics and be a natural platform for onward movement of goods to Europe, Africa, Asia and beyond.

Based on initial forecasts, the project and its components will create up to 500,000 jobs in various industries and service-oriented companies. The world's largest real estate company by market capitalisation, the United Arab Emirates' Emaar Properties, has been named the master developer of the project. The Saudi Arabian General Investment Authority (SAGIA) is the prime facilitator for the development. pfe

Italy's Pirelli RE establishes new asset management company

The Pirelli RE group has established a new asset management company Pirelli RE Opportunities SGR which will focus on promoting, establishing and managing opportunistic closed-end property funds for Italian and foreign institutional investors.

The new SGR has authorisation from the Bank of Italy to act as an asset management company, and Pirelli RE said it intends to enlarge its business model which currently uses SPVs for the acquisition and management of opportunistic portfolios with a 3-5 year time horizon. The new opportunistic fund model will be more transparent and will improve the functioning of the market and efficiency for investors. The company hopes to be able to attract a greater number of foreign institutional investors, thus making the Italian market more competitive.

The first fund rules for "Spazio Industriale" have been approved. This is a closed opportunistic property fund with a targeted maximum value of €500m that specialises in light industrial/logistics properties and is reserved for institutions.

The majority of the fund's units have been placed with the Cypress Grove International Fund, with Pirelli RE holding a stake of about 35%. Spazio Industriale currently comprises 246 assets valued at about €177mn. The properties, mainly located in northern Italy, have a total size of some 300,000 sq.m. and are entirely leased to Telecom Italia. pfe

French house prices show signs of overheating, CBRE says

After rising 110% over 10 years and 10% in 2005 alone, French house prices are showing signs of overheating, CB Richard Ellis said in a recent report.

Residential property sales held steady in 2005 compared to the previous year, while mortgage loan volumes rose 11%, indicating a rise in prices of about 10%. This is in line with double-digit annual growth since 2002 and more than doubling of prices since 1995.

Despite continuing low interest rates, French households are beginning to feel the pinch of ever-higher prices and growing indebtedness so that the market may be losing steam, CB Richard Ellis concluded. Yet the realtor sees no signs of a residential property market crash since demand continues to outstrip supply and said prospects for a sharp rise in interest rates or a severe economic downturn in the short-term are low. pfe

Bank of Spain sees domestic household debt at record level

Spanish household debt has reached a record level and continues to grow, mostly due to rising housing prices, the Bank of Spain said in a recent report.

Overall household debt rose in October for the fourth consecutive month by 0.2% vs September, giving an increase of 20.7% over the prior 12 months.

Total household debt has now reached a historic high of €626bn, or 70% of GDP, of which €456bn comprises home mortgages. Mortgage debt alone has risen faster than the overall household debt, at 24.6% on an annual basis, the Spanish central bank said.

Consumer credit expanded by 11.4% in the 12 months to end-October. pfe

Germany's IVG acquires interest in Italian €240m property portfolio

The Bonn-based IVG Immobilien AG has acquired a 50% interest in 11 office properties in Italy within a joint venture with the listed Italian real estate company Aedes S.p.A. The market value of the total 86,000 sq.m. of rental space is €240m.

Eight properties are located in Milan, and one property is located in each of the cities of Rome, Bologna and Florence. The properties offer appreciation potential through an improvement in the tenant structure and adjustment of rents to the market level. Aedes and IVG will restructure the real estate portfolio in 2006 and turn it into an Italian office real estate fund for institutional investors.

The investment will enable IVG to access the rapidly-growing Italian property funds market, according to Georg Reul, IVG board member responsible for the funds business. pfe

Morgan Stanley Real Estate buys 16.79% of Spain's Grupo Lar

The property arm of American financial services company Morgan Stanley has acquired 16.79% of diversified Spanish real estate company Grupo Lar by means of an extension of capital valued at €124m.

Morgan Real Stanley Estate intends to extend the alliance over the next five years to allow the Spanish property group to grow its international business. The American company plans to invest up to €500m through the joint venture Lar Sun for the development of holiday homes on the Mediterranean coast.

Grupo Lar is a diversified company with activities in promotion, investment and services related to real estate sector. Based in Madrid, it is currently active in the Mexican and Portuguese markets and is split into four divisions: Lar Crea (residential), Lar Grosvenor (services), Lar Senior (senior citizens housing) , Lar Sol (tourism resort). The group has announced its intention to expand into eastern Europe, and ultimately targets at least one-third of its business abroad. pfe

PFE COMMENT: Are we alone in thinking that MSREF is out to buy the world?! The amount of exposure it has built up over the last year in European real estate is massive, and it has been executed throughout western Europe, with some higher-risk participation in central and eastern Europe. In this issue alone, PFE 17, you will see elsewhere its JV acquisition of a portfolio from a Munich Re subsidiary, as well as a participation in the otherwise Dutch national takeover of the AM company by the Royal BAM Group (see below). It was only last May that it purchased nearly 70% of French SIIC Mines de la Lucette. And these are only a few examples. In particular, like its equally canny global investment bank peers such as Goldman Sachs and Lehman Brothers, MSREF is heavily boosting exposure to smaller listed companies, an excellent plan. The flexibility of being able to offer real estate on the public market means that several routes are available for highly profitable exit - or the company can be taken over, moved private, restructured and refocused if needed, and then relisted.

Netherlands' Royal BAM Group and AM reach final agreement

Terra Amstel, a subsidiary of the Royal BAM Group, and the Dutch company AM have announced that final agreement has been reached on a recommended public offer for all shares and warrants in Dutch residential developer AM.

Terra Amstel originally offered €10.15 per share and €2.30 in cash per outstanding warrant, valuing AM at €952m. The shares are listed on Eurolist by Euronext Amsterdam. AM shareholders meet this week to discuss the offer.

The offers will be discussed this Wednesday at an extraordinary shareholders' meeting of AM in The Hague. Terra Amstel, based in Bunnik, the Netherlands, was incorporated for the transaction in November 2005 and all shares are held by Terra Amstel Holding B.V., a group company of Royal BAM Group. pfe

Austria's IMMOEAST increases earnings to new record

Consolidated profit of IMMOEAST Immobilien Anlagen AG, a 51% subsidiary of Austria's IMMOFINANZ Immobilien Anlagen AG, rose by €19m to €51.8m in the six months of the financial year to end-October, the company said.

Operating profit was up by nearly €12m to €47m, while revenues rose to some €27m. This improved performance followed a heavily oversubscribed capital increase of €1.2bn in July 2005 that brought equity to over €1.5bn.

The property portfolio of IMMOEAST invested some €1bn in the course of the last fiscal year, closing 2005 at a fair value of €1.64bn. Rental space doubled to 1.147m sq.m in the first half of the fiscal year.

Investment activity in first half 2005/06 focused mainly on development projects. Together with the investment volume of the building projects, the fair value of the property portfolio has now surpassed €2bn, IMMOFINANZ said in a release. pfe

Colonia Real Estate forecasts marked increase in 2005 revenues

Cologne-based Colonia Real Estate said it has raised its revenue forecast for 2005 to €17m from the originally budgeted €10.3m in the wake of the company's improved performance.

The group expects profits of €6.3m following a loss generated by the AG of €0.6m the previous year. Colonia adopts an opportunistic investment approach focusing on residential, office and hotel properties valued between €10-50m. pfe

German residential forced auctions fall in value in 2005, but unit sales rise

German residential property valued at €18.3bn was put up in compulsory auction during 2005, following €18.8bn the year before, although the actual number of properties increased by a slight 0.3%, according to business information publishers Argetra.

Although market values were reduced in weak economic areas, buyers could not be found for commercial properties, in particular, even at the third or fourth attempt, it added. pfe

CBRE Investors buys Frankfurt Westend property for its fund

CB Richard Ellis Investors is paying some €25m to private investors for an office building located in Frankfurt's Westend district for its SP Europe II fund. The 8,000 sq.m. building has been vacant for some time and will undergo substantial refurbishment between now and 2007.

The investment management arm of CBRE announced further plans to invest some €2bn throughout Europe over the next two years. pfe

ABN Amro plans to divest Bouwfonds property subsidiary

Dutch bank ABN Amro has announced plans to sell off its huge Bouwfonds property subsidiary in the coming months to enable the bank to focus on its core financing business.

Excluding the mortgage business, Bouwfonds expects to generate operating profits of €150m in the current year on risk-weighted assets valued at €12bn.

ABN Amro acquired full control of Bouwfonds, a company focusing on property development, finance and fund management based in Hoevelaken, in April 2005, after initially taking a 50% stake in 1999. pfe

Lehman fund acquires 40% stake in France's Atemi

Lehman Brothers property fund, LBREP, has acquired 40% of Atemi, a French property services group managing a €400m portfolio.

Atemi group founders Georges Pebereau and Alain Teste will retain 45% of the group through a unit called Scorimar while Atemi management will hold 15%, businessimmo.fr reported. Guy de Boisgrollier was named vice president of Atemi, the report said. pfe

French Paref group opts to extend IPO due to strong demand

The new stock flotation by the French property company Paref (Paris Realty Fund) on Eurolist Paris was larger than expected when demand for shares outstripped supply. The success of the issue prompted the directors of the company to exercise the option to extend the offering.

For a price of €71.50 a share, Paref issued 26,989 new shares to the public and 191,242 shares to institutional investors, bringing total listed shares to 725,713 of which 30% are now publicly held. The flotation is aimed at achieving the status of a Real Estate Investment Trust (REIT/SIIC), and will raise €75m for investment during 2006. pfe

French state property should be placed in listed fund - Institut

The French government's property holdings should be converted into a listed real estate fund managed by the Caisse des Depots in which foreign funds and the public could invest, the Institut Montaigne think-tank said in a recent report.

The plan would encourage efficient management and better valuations of the vast state-owned property holdings. A trial should be made with an initial €800m portfolio. Eventually, management of state-owned real estate holdings should undergo performance reviews by parliament, the Institute said. pfe

Investors warned of French commercial property bubble

A bubble has formed in France's commercial property market but it is unlikely to burst this year, the Credit Foncier bank said in a recent report.

The bank recommends investor caution but says demand continues to outstrip supply and property is likely to remain a relatively safe investment haven. Investment last year in French commercial property was more than €12bn, about the same level as 2004, with institutional interest concentrated on office space. pfe

CSFB Real Estate Capital Partners sells Rome real estate portfolio

CSFB Real Estate Capital Partners, part of Credit Suisse First Boston's Alternative Capital Division, has successfully sold its portfolio of three well-located properties in the centre of Rome to an Italian private investor for an undisclosed amount.

The portfolio was acquired in mid-2004. Originally it was envisaged that it would undergo active management to improve rental income. After successfully extending a major lease, and given the strength of the market, the portfolio was sold in December 2005 at an attractive return to the fund.

George Kountouris, European Head of CSFB's Real Estate Capital Partners, said the exit concludes the first successful collaboration with Realty Partners. pfe

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Grégory Pajot has been appointed to head the North/East region of the Paris office real estate division at **Cushman & Wakefield Healey & Baker**… Eurohypo Board member **Henning Rasche** has been elected to succeed **Jürgen Grieger** as new president of the **Association of German Pfandbrief Banks** (vdp)… **Ludivine Prenot-Cabon** was made a partner at **Sorovim**… **Philippe Z. Tromp**, Managing Director Europe, **Financial Security Assurance** (UK) Ltd., has been confirmed as the **ESF**'s new chairman for a term of one year. He is joined by **Frederic Drevon**, Group Managing Director of International Structured Finance at **Moody's**, and **Ralf Bauer**, Managing Director, Global Head of Structured Credit Group, **Fortis Bank**, as the two new vice chairmen of the **ESF**… **Jean-Marc Blanc** rejoins **Cibex** as head of development… **Dr. Karsten von Köller**, chairman of **Lone Star** in Germany, has been named as new CEO of **Allgemeine Hypothekenbank Rheinboden**… **Jacques Lemaire** will become the new property director at **La Poste**… **IVG Immobilien** has appointed **Dr. Wolfhard Leichnitz** as a member of the Management Board with effect from 1 June and as chairman with effect from 1 July 2006. Leichnitz was most recently chairman of **Viterra AG**… **Christophe Guillemard** becomes property director at the Paris region residential division at **Vinci immobilier**… **Andreas Ibel** and **Erhard Flint** have joined CEO **Lutz R. Ristow** on the Management Board of **TAG Tegernsee Immobilien- und Beteiligungs-AG**… **Falk Schollenberger** heads up **Jones Lang LaSalle's** newly created team of residential valuation advisory experts. He is joined by **Stefan Mergen** and **Roman Heidrich**. Schollenberger and Mergen come from **Dr. Lübke** … **Bernd Hermann**, Managing Director **Nileg Immobilien Holding GmbH**, has retired… **Jean-Frédéric Pezé** has returned to **Sanofi Aventis** as associate property director… **Albrecht Reihlen** has been appointed to the board of **Deka** subsidiary **WestInvest** Gesellschaft für Investmentfonds, Düsseldorf, where he joins **Gerhard Gminder**, **Matthias Drüppel**, and **Wolfgang Schwanke**… **Alain Brossé** was appointed Business Development Manager EMEA at **Regus** Paris… **Michael Hintze** is rumoured to have joined **EPM Assetis** after just one year at **DB Real Estate** where he is expected to join the board of subsidiary **EAM Euro Asset Management**… , former head of real estate at **Bank of Scotland** has founded **Artemis International** B.V., Stuttgart, as managing partner… **Jürgen Baurmann**, former Managing Director of hotel consultants **G.O.P.** has become national director Germany at **JLL Hotels** following the merger of G.O.P. with **Jones Lang LaSalle Hotels**. He replaces **Christoph Härle** who has taken over responsibility for German, central and eastern European business. **Sylvia Turtenwald** also joins **JLL** from G.O.P. as vice president Consulting and Evaluation… **Hartmut Wagner**, has resigned his post as Managing Director of **Siemens Real Estate** to become an independent property consultant. **Philippe Guillerm** was appointed new president of **RICS France**. pfe

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