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 18 | 23 January 2006

France to transfer E33bn property assets to separate unit

The French government plans to transfer its E33bn real estate portfolio comprising 28,000 buildings into a separate managment entity. PAGE 15

Goldman wins second HVB NPL portfolio for E2.2bn

Goldman Sachs has won the bid for the second HypoVereinsbank NPL portfolio worth E2.17bn, after buying the first one in November. PAGE 3

UK property firms may need new equity for REITS

UK listed property firms are likely to have to raise new equity before converting to REITs, Fitch says. PAGE 5

INREV launches guidelines for secondary market in funds, code of conduct

European property fund association INREV has announced guidelines for a secondary market plus a code of conduct for funds. PAGE 10

Hans-Joachim Dübel, Finpolconsult.de

The PFE Interview: PAGE 8

German Bafin considers action as property fund nervousness persists

The German regulator Bafin is mulling new legislation on open-end property funds after the independent manager KanAm last week became the second institution in three weeks to close funds due to a run on redemptions.

With the sector in a state of high nervousness after Deutsche Bank's fund closure, Bafin was already monitoring capital withdrawals from open-end funds every two hours before Christmas. It is now reported to be considering appointing independent assessors for the €89bn-sector, and easing rules on transfers of assets from one fund to another in one group.

The independent manager KanAm last week closed two real estate funds in two days (See p2) after a run sparked by a sell recommendation from the Berlin-based Scope rating agency. This followed a negative report in The Washington Post over the American REIT The Mills Corporation (TMC), with which KanAm has close investment ties. The newspaper reported the SEC was investigating TMC over possible irregularities in reporting procedures since 2000. KanAm was a founding partner at the TMC listing on the NYSE in 1994.

By 17 January, liquidity in KanAm's US-Grundinvest had fallen beneath the legally-set minimum of 5% of assets. Last Thursday, two days later, KanAm was also obliged to close its €3.2bn domestic Grundinvest property fund after redemptions over the prior 24 hours had risen to €700m.

Separately, the fund association BVI said it was drawing up plans to reform the market after the closures, and wants Bafin to be responsible for appointing valuation experts to lessen the influence exerted by the funds. Bafin calculated that domestic real estate funds experienced capital outflows of more than €1.4bn in investor redemptions in recent weeks. Companies have sprung up to take advantage of this situation (See p3). As well, the Bad Homburg-based Feri Rating & Research received its first mandate from KanAm to assess Grundinvest, and, based on end-June books, rated the fund at A. pfe

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This 20-page issue of **Property Finance Europe** is another première for us, reflecting both the intense - and accelerating - flow of material that, we think, is of value to you, investors and intermediaries in real estate on the continent of Europe. We are delighted to welcome three new members of our Sector Advisors, Andrew Groom from Jones Lang LaSalle, Alexander Hoff from Halverton, and Achim Dübel, one of Europe's leading independent experts on home mortgages, whom we also interview on this topic on page 8. The group serves as our Advisory Board, backing us up on specialist and technical questions on various aspects of the information and analysis in *PFE* - answering our dumb questions, in other words!

PFE Issue 17, 9 January 2006, was notified to no fewer than 9,763 qualified email addressees, and our database is being widened and deepened constantly. Please let us know if you have friends or colleagues who would like to see *PFE*. Or simply ask them to register via the website for a complimentary no-obligation trial for two issues. We welcome your feedback at any time.

Sweden's Ratos, Lehman exit from Tornet after two years, making annual return of 70%

The Swedish listed private equity company Ratos has concluded an agreement to sell its holding in the real estate company Tornet to its Stockholm-based commercial property neighbour Fabege for a price of SEK1.2bn - around €129m.

Ratos and Lehman Brothers Real Estate Partners in December 2003 acquired an 82.4 % stake in Tornet through a JV, LRT Acquisition. Over the past 18 months they changed Tornet's strategy and focused its property portfolio on Stockholm, Gothenburg and Malmö.

Ratos said its capital gain, calculated on the book value of LRT and adjusted for proceeds from Tornet's reduction of share capital, is expected to be just below SEK 800m - some €86m. The average annual internal rate of return from the investment in Tornet had been 70%. pfe

KanAm becomes second German real estate group to close funds to investors

The independent funds group KanAm last week became the second German company in recent weeks to halt investor redemptions in a real estate fund, in the space of two days closing first its US open-end fund after a withdrawal of capital caused by investment links with the American REIT, The Mills Corporation (TMC), and then its domestic fund.

The management of the KanAm group on 15 January said it was halting redemptions from its KanAm US-grundinvest fund for three months due to negative media reports over TMC, its major partner for US real estate investments. The redemptions were sparked by a “sell” recommendation issued by the Berlin-based Scope rating agency. By 17 January, liquidity had fallen beneath the legally-set minimum of 5% of assets, and KanAm management cited Para. 81 of the German Investment Law in conjunction with its general contractual conditions as providing the basis for the closure.

Last Thursday, two days later, it was obliged to close the domestic property grundinvest fund after redemptions rose to €700m within 24 hours.

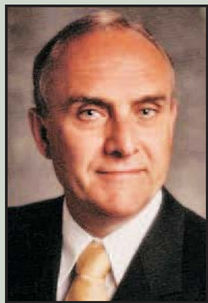
The closures came just a few weeks after Deutsche Bank’s DB Real Estate subsidiary in mid-December caused a storm of controversy by suddenly closing its Grundbesitz-Invest fund until February because of a run on redemptions. The widespread outcry and pressure from the authorities on behalf of small investors forced it to make a limited re-opening two days later. The DB fund closure, however, had different origins: the run on the fund was sparked by rumours of an imminent depreciation in Grundbesitz-Invest’s domestic commercial property portfolio.

KanAm, founded in 1978, has a total of €9.9bn under management in 46 real estate funds aimed at private and institutional investors. Of these, 24 are closed-end US funds, 13 are closed-end German funds, and six are private placements. It also has two open-end real estate funds which are publicly traded and one which is not. Based in Frankfurt, it was the first independent real estate investment company to take the form of a German KAG.

Problems with The Mills Corporation, a Real Estate Investment Trust specialised in acquisition and development of North American shopping centres, arose after the Washington Post reported on 13 January that the SEC was investigating the REIT over possible irregularities in reporting procedures since 2000. KanAm was one of the founding partners at the TMC listing on the NYSE in 1994, and has since invested some $1bn equity capital into various of its projects. KanAm’s US-grundinvest holds two majority stakes of 51% each in shopping centres managed by The Mills Corporation that comprise one-third of the entire rental income of the fund.

The negative media reports largely sparked the ratings downgrade from the independent rating agency Scope, which

Bingo! It's the demographics, stupid! No, it's alright, I'm talking to me, not you! Because you are not - as above - but perspicacious professionals(!), you may



have realised that the huge wave of US demand not only for German investment real estate but all European real estate is down to demographics. And I quote James J. L'Allier and Kenneth Kolosh from a June 2005 report: "The US baby boom generation is a demographic term for the population born between 1946 and 1964. Data from the 2000 US Census estimates that the group is made up of at least 82.8m people. The members of this group range from 41 to 59 years old, which means this demographic behemoth will start leaving the workforce in approximately six years." It stands to reason that the number of men lost in the Second World War by the US was a much smaller proportion of the entire population than, tragically, by Britain/France/Italy, and in particular Germany. While the centre of the US baby boom came in the mid- to late-1950s, west German birth rates did not start picking up until the end of that decade. Before having families, the massive reconstruction of housing and commercial stock was needed. The industrial "Wirtchaftswunder" economic miracle was also only just beginning to make itself felt. Germany's mini baby boom came between 1960 and 1965, producing a rate of 18 live births per 1,000 population in the peak 1964.

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This has implications for property now: It means the first US baby boomers turn 60 this year, and most of the rest of the cohort are well into their 50s. By contrast, the first of their German counterparts are 45 years old, with the demographically largest group about to turn 42. Patterns in Britain, France and Italy are somewhere between the two - and none is anywhere near as large as the US. It is the weight of this 10-year head start in the build-up of US pension money that has caught continental Europe unawares: US funds are prepared to pay higher prices for NPL portfolios, leaving continental Europeans scratching their heads in wonder; investments in German residential property make absolute sense to American institutions and not to many Europeans. North American investors are seeing value where others are not because their funding fundamentals are different. From a European perspective, it is also the reason why we badly need Real Estate Investment Trusts (REITs). Only more efficient and flexible European-managed capital pools can compete with the wave of US pension money for European real estate assets.

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As regular readers may have noticed, we like this little story about the reworking of the German closed-end fund association VGF. We see it is a very healthy paradigm for a sorely overdue trend toward transparency in the nation's real estate industry - even if German closed funds' combined assets of less than E20bn are dwarfed by the E90bn in open-end funds, and predominantly tend to be vehicles for investment abroad. Right now, events at VGF contrast starkly with the problems in the open-end property funds - due precisely to the lack of transparency. Latest news on VGF (Verband Geschlossene Fonds), which mainly groups real estate vehicles, is that membership has risen to 33 from just 20 this time last year before fundamental changes were made and a new chief executive brought in. In the last few weeks, Commerzbank's CommerzLeasing und Immobilien joined up, as did Deutschen Structured Finance, Dr. Peters, Hannover Leasing, HIH (Hamburgischen Immobilienhandlung) and König & Cie. The major themes for VGF in 2006 will be dividend payouts and the legal parameters for establishing a secondary market. We will keep you up to date.

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Allan Saunderson, editor@pfeurope.de

stressed that both KanAm's domestic and US fund use high levels of leverage. Scope said KanAm grundinvest has invested €1.7bn in the last six months to reach total asset value at end-2005 of some €5.2bn. This compares to its equity capital of €3.2bn, implying leverage of 163% and clearly higher than the 120% at June 2005. Liquidity level at year end was quoted by KanAm at 18%. KanAm US-grundinvest was formed in May 2003, and is denominated in US dollars, a first in Germany. Scope research showed that it acquired two properties in the last quarter of 2005, taking the total asset base to some $875m on equity of around $577m. Latest declared leverage is 151%, compared to 113% at end-September. Liquidity is put at 12%.

The domestic KanAm fund was, by coincidence, the first real estate fund to be rated by the Bad Homburg-based Feri Rating & Research group, and was awarded an A rating (See below). Feri classified the fund on the basis of documentation at 30 June 2005 and issued its rating in December.

KanAm said in a statement investment returns in 2006 should at least equal the 6% or so achieved in 2005 and recent years, and stressed that assets in US-grundinvest exclusively comprise commercial property in the form of office and shopping malls. Since the value of these assets had continually risen, it would take profits on some of them to meet liquidity needs. pfe

PFE COMMENT: A most strange situation. No hint of irregularities at KanAm but guilt only by association here. The second paradox is the extreme nervousness of German retail investors in domestic real estate in general, compared to the rapidly rising optimism of foreign investors over prospects for most domestic asset classes. See a number of quite positive assessments from different companies later in this PFE 18.

German investors redeemed more than €1.4bn in property funds recently - report

The German supervisory authority Bafin has calculated that domestic real estate funds experienced capital outflows of more than €1.4bn in investor redemptions in recent weeks.

The newspaper Die Welt reported that, contrary to protestations from the real estate branch, the closure of Deutsche Bank's Grundbesitz-Invest in mid-December exacerbated this trend across the entire domestic open-end funds community.

As well, companies have sprung up to take advantage of this situation. The Troja group, for example, is offering €25.52 per share certificate in Grundbesitz-Invest ,some 33% less than the €38.41 in value that DB Real Estate announced on 11 January.

The BaFin statistics show that the highest redemptions, €800m, came in recent weeks from the DB fund, the newspaper reported. However the Hausinvest-Europa open-end fund managed by Commerzbank subsidiary CGI also experienced capital outflows of some €400m. Significant redemptions had also occurred with Fund Nr. 1 run by Difa and Westinvest 1 managed by the public sector capital markets bank DekaBank.

The Hamburg-based DIFA Deutsche Immobilien Fonds is part of the Union Investment Group and the cooperative banking sector alliance. Currently managing five open-ended real estate funds, including three retail funds, it recently issued a statement pointing out significant differences between it and KanAm, including low levels of leverage and institutional investment in its funds. pfe

PFE COMMENT: This situation continues to develop and is beginning to spark more fundamental considerations in Germany about open-end funds, including at the regulator and at federal government level. Latest plan under consideration - and highly likely to be implemented at a minimum - for the regulator, Bafin, to independently appoint the valuers for open-end funds in order to remove the suspicion of internal influence. DB Real Estate remains the object of heavy criticism not only for the action itself but for its refusal as yet to inform the market on its strategy for re-opening Grundbesitz-Invest in February. Its sector colleagues are pressing hard for this in order to plan how they should handle potential redemptions' pressure going forward.

Feri moves into property ratings, KanAm grundinvest is first fund

Feri Rating & Research, a company within the Bad Homburg-based Feri Finance group, is to move actively into rating German real estate institutions and projects, starting with open-end property funds and eventually encompassing Real Estate Investment Trusts (REITs) if they are permitted in Germany.

Research Director and Feri Finance board member Helmut Knepel told a news conference his group received its first mandate from the Frankfurt-based KanAm grundinvest property fund, based on end-June books, and rated the fund at A - very good. Feri was mandated to rate only KanAm grundinvest, and in this regard its judgment was not affected by the recent events with the group's partner in the US The Mills Corporation since KanAm's domestic fund was not invested in the US, he added.

"The Feri property funds rating provides a judgment on the quality of an open end fund from the point of view of the investor," he said. "We look at all the factors - the anticipated yield and the economic risks that will influence a fund's performance." In regard to rush of redemptions that had caused KanAm last week to close the US fund - and then two days later the domestic fund - he added that the rating process cannot take into account market psychology factors that can influence investments or redemptions in particular funds.

The Feri group manages around €5bn in assets and provides management and research consultancy on another €300bn. Founded in 1987, Feri, which is active in all aspects of wealth management, is 30% held by the family interests of Harald Quandt, the founder of the BMW automaking group, and 70% by its partners. pfe

Goldman wins second large HVB NPL portfolio, after acquiring first in November

Goldman Sachs has, following a lengthy auction process, won the bid for the second HypoVereinsbank sub- and non-performing real estate loan portfolio recently on the market, which has a face value of €2.17bn.

The latest portfolio, known in the market as Aphrodite, comprises sub- and non-performing loans to 3,610 customers. HVB said that the sale is expected to close in the second half of 2006. The loans are predominantly secured by property: 47% relates to commercial and 53% to residential real estate located across Germany.

HVB board member Johann Berger said in a release the

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transaction was a further step in the bank's plans to reduce assets in its Real Estate Restructuring unit (RER) portfolio.

The sale will be achieved via hive-down as per the German Transformation Law (Umwandlungsgesetz) and is subject to approval by HVB shareholders at their May AGM and by the national antitrust authorities.Goldman in November also acquired the first of the pair of NPL portfolios, and grouping loans worth a nominal €1.8bn. That portfolio, known as Herakles, comprised 46% commercial mortgages and the remaining residential to a total 3,000 borrowers.

HVB formed the RER at the start of 2005 as part of a strategic realignment of the balance sheet, designed to pool work-out portfolios from the German real estate finance business. HVB aims to completely eliminate the portfolios allocated to this unit through various asset reduction strategies and by taking advantage of opportunities arising from further developments in real estate markets. RER initially encompassed loans with a volume of €15.4bn. HVB said in a release it has been able to reduce the portfolio by €3.7bn as of November 2005 through internal work-out. A first portfolio sale to Goldman Sachs in November 2005 of €1.8bn helped to substantially reduce the total. This second transaction will cut back the remaining volume held in the RER unit by somewhat more than 50%, it said. pfe

PFE COMMENT: Goldman has over 2005 become a leading player in the market for large NPL portfolios, moving up alongside Lone Star Funds which has dominated the sector for the last two years. It is said in the market that in regard to the two HVB portfolios, Goldman moved its bid up to levels that most other bidders could not match and which they thought uneconomic. However, the international investment bank acquired, in the Delmora Bank early last summer, a platform specifically for working out NPLs and is now most strongly placed to process these assets. Many also believe that Goldman has a stronger demand for NPL 'product' in order for the Delmora acquisition to pay off over the longer term.

Fortress' Gagfah company buys another 4,300 German apartments from LEG of NRW state

Gagfah, the German company controlled by Fortress Investment of the US, has bought a portfolio of around 4,300 apartments from the housing company owned by the state of North Rhine-Westphalia, LEG Landesentwicklungsgesellschaft NRW.

LEG said in a statement the apartments are located in the Ruhr area, in the Aachen region and in the lower Rhine region. Both companies agreed to keep the price confidential. LEG Chief Executive Ulrich Tappe told the Immobilien Wirtschaft magazine, "we will use the proceeds from this deal for the modernisation of other LEG apartment developments. In this manner we intend to raise the quality of the remaining residential holdings that we have."

Udo Bachmann, CEO of Gagfah and of Nileg - a second apartment company Fortress bought last year from the NordLB bank - added, "As the largest German residential property group we are now pursuing an active strategy of buying and selling our holdings. Our stock has now reached the level of around 110,000 apartments, and for 2006 we are planning further acquisitions around Germany for both Gagfah und Nileg."

Tappe stressed that the portfolio did not mark the start of a complete sell-out of LEG. However, the state government has been discussing whether indeed to sell the entire company in the near future. Of the 4,300 apartments, some 3,000 are considered social housing and are subsidised. This subsidy is fixed for around two-thirds of these for the next 10 years. pfe

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Rhineland city of Mainz said considering selling apartment holdings, watching Dresden

Speculation has arisen that the western German city of Mainz, on the Rhine river, will consider selling off to an investor a part of its 13,000-unit Wohnbau Mainz residential apartment portfolio which are situated both in Mainz and

in nearby Wiesbaden.

The Allgemeine Zeitung newspaper reported comments on the considerations on the sale from representatives of the three German political parties, CDU, SPD and FDP. They cited the example of the Dresden sale of its massive Woba residential housing company.

Proceeds from the sale would go towards paying down the city's budget deficit. Mainz holds 81.46% of the housing company, with Wiesbaden city having 17,1% and the Rhineland-Palatinate Landesbank holding the remaining 1.44%. pfe

UK property companies may have to raise new equity to become REITs - Fitch

British quoted property companies are likely to have to raise new equity to meet minimum interest cover requirements prior to converting to Real Estate Investment Trusts (REITs) when legislation permits their creation probably from the start of 2007.

Fitch Ratings said this month that, after the UK government's announcement of the introduction of legislation, the successful introduction of REITs into the UK may depend on this. Draft legislation foresees a proposed minimum interest cover requirement of 2.5x.

"Assuming under this requirement that profits do not include property valuation gains, most of the larger UK quoted property companies that want to become UK REITS and not pay tax will have to find fresh equity to either repay debt or expand their balance sheet," Fitch European Property Analyst Jean-Pierre Husband said in a statement. Otherwise they will have to effectively pay a penalty tax on the shortfall between actual interest cover and this required level. Buying good income-producing property assets with new equity could also prove difficult or undesirable in an already strong investment property market.

Fitch added that this interest cover ratio, if implemented, will effectively limit loan-to-value ratios to a maximum of around 40% compared to typical ratios of 30% to 50% for property companies, and conventional bank lending up to 75%. Such under-leverage could be credit enhancing for the sector. However, few of the main UK quoted property companies could meet this interest cover target. pfe

Wachovia starts operations in Germany as first step in Europe expansion

The US banking group Wachovia has announced it is starting operations in Germany focusing on real estate financing, and intends soon to expand into France, Spain and Italy, and later also into the smaller markets of the continent such as Belgium.

The strategic objective of Wachovia, which has had no European presence of any significance until now, is to replicate its US expertise in real estate financing in the European market, Peter Riemenschneider, co-head of European Real Estate, told the Financial Times Deutschland newspaper. "The timing for getting into Germany is very propitious," he said. "An upswing is just around the corner."

Wachovia strengths lie in such strategies as securitisation, where it holds a strong position in the US in CMBS. In Germany, these have until now been dominated by institutions such as Eurohypo – acquired late last year by Commerzbank – Hypo Real Estate in Munich, and the Wiesbaden-based Aareal Bank.

Riemenschneider said Wachovia would build an initial team in Germany of 30-50 specialists. "For Wachovia, this is a long-term investment," he said. Top management had not yet been decided, but the bank had already taken office space in Frankfurt, Munich, Düsseldorf and Berlin. It may also take offices in Hamburg. "We want to be seen as a local bank. Instead of flying in from London with a few people we are hiring locally."

Hans-Günther Nordhues, head of corporate finance with legal firm Nörr, Stiefenhofer Lutz, told the newspaper Wachovia should be able to reach a volume of €2bn-€6bn in 2006.

Riemenschneider added: "Our business model foresees not

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Journalists wanted, to track property investment in Europe

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only the large real estate financings. We are just as likely to make loans of €3m or €5m as we are to do the huge billion-euro financings." pfe

Take-up in German office rises 10% in 2005, should stay high - Atisreal

Take-up in Germany's nine most important urban office markets totalled close on 2.74m sq.m. of floor space last year, a rise of almost 10% over 2004, and should reach at least the same level during 2006, according to Atisreal, the nation's largest commercial property consultant.

Due mainly to extensive completions however, total available supply of space hardly changed at just under 10m sq.m., and the volume of vacant space rose by a small 1% to 9.37m sq.m. In addition, lease contracts expired for many premises sublet in recent years.

Total office space under construction shrank in 2005 by over 38% to 1.29m sq.m. Since almost two-thirds of this will be completed in 2006, the decrease in space under construction should continue. Atisreal predicted that considerably lower construction activity and brisk demand should mean vacancy rates will peak in almost all locations in the first half. "On the other hand, because of the significantly improved mood in the market and the strong level of demand, it can be expected that new projects will be started in some locations in the course of the year, for the first time in quite a while," it said in a statement.

The figures are contained in Atisreal's Office Market Report 2006, due to be published in mid-February. The survey covers Berlin, Cologne, Düsseldorf, Essen, Frankfurt, Hamburg, Leipzig, Munich and Stuttgart.

Atisreal also calculated that total registered property investment in 2005 reached €51.4bn. Of this, commercial property attracted €23.7bn, a rise of 46% over 2004, while €15.8bn was invested in residential portfolios, a rise of 31%. The remaining €12bn was invested in non-performing loan portfolios.

By far the greatest change in pattern last year was the heavy involvement of foreign investors in the German market. Foreigners acquired more than 62% of the total investment assets changing hands, thereby dominating the market.

Piotr Bienkowski, Managing Director Germany, said the strong take-up in office space last year, the best result since 2001, came about despite the comparatively small proportion of large contracts for over 10,000 sq.m. Demand for small and medium-size premises has grown. The public sector is one of the most important sources in many locations.

Increased office take-up last year was registered in Berlin, Munich, Cologne, Frankfurt and Leipzig. In Berlin, space turnover grew by almost 29% (464,000 sq.m.), in Munich by around 22% (586,000 sq.m.) and in Cologne by 21% (236,000 sq.m.). Frankfurt was more than 8% higher (530,000 sq.m.), and Leipzig also posted an increase of about the same amount (84,000 m²). Cities with declining take-up were Stuttgart, Essen and Hamburg. Take-up in Düsseldorf (244,000 sq.m.) was only slightly lower than 2004.

Bienkowski predicted that the turnaround will become evident in all major German office markets this year as supply decreases - although more slowly than in earlier cycles. "Many cities now have a significant volume of hard-core vacant space that is not of marketable quality and which stands little chance of attracting tenants in the face of competition from modern properties," he added.

"The sinking supply will encounter demand which can be expected to remain strong... We anticipate that take-up will be at least on a par with last year's level. If the indications of a slightly faster upswing in the overall economy should firm up, it is possible that this year's total will even represent a moderate improvement. Rental price levels will remain stable for the most part, and in some locations top rents can be expected to rise." pfe

GE Real Estate invests €63m in mixed residential-commercial portfolio

GE Real Estate has acquired from a private investor a portfolio of 1,393 apartments and four commercial properties for a price of €63m.

The residential properties are spread between Leipzig, Dortmund, Essen, Oberhausen, Siegen and Aachen, and will be managed by the GE subsidiary HPE Hausbau. It said in a release that the German residential market remains an important strategic focus, and simultaneously announced that Rainer Thaler has taken over as Chief Executive of GE Real Estate Deutschland at the start of 2006, replacing Michael Gerlich. pfe

DKB Immobilien sells further 900 Berlin apartments to the Soros-controlled Apellas

German property company DKB Immobilien AG said it sold a further 900 apartments from its Berlin holdings to a company in the Apellas Group to add to the 500 already sold in October.

The latest portfolio primarily contains apartments located in the Berlin suburbs of Wilmersdorf, Steglitz and Britz. Until the recent sales, DKB Immobilien owned and managed some 54,000 apartments nationwide in Germany, the majority of them in the east.

Apellas, part of the group of companies controlled by the US financier George Soros, has placed a major focus on German residential assets and set aside at least €500m for investment this year. pfe

Corpus to privatise apartments for the city of Cologne

Düsseldorf-based Corpus Immobiliengruppe has been commissioned by GAG Immobilien, the residential company owned by the city of Cologne, to privatise some 1,000 residential units annually over a limited period of four years.

In return, Corpus said in a statement it will support GAG in purchasing new apartments to help the city overcome the erosion of its assets in the wake of the privatisations. Stadtsparkasse Köln, Cologne's savings bank association, is one of Corpus' shareholders. pfe

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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

March 21-23, Tuesday-Thursday
European Securitisation Forum Annual Conference, Venice, Italy. More info: www.europeansecuritisation.com

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The PFE Interview: Hans-Joachim Dübel, FINPOLCONSULT.DE

German home loan funding rigidities overdue for break-up, hold potential to unleash a rate of home-ownership demand comparable to European neighbours

Structural and legislative changes on the funding side for residential mortgages in Germany are sorely overdue and hold the potential to change the pattern of demand completely, boosting the very low rate of German home ownership toward the European average, says a leading expert.

Hans-Joachim Dübel told Property Finance Europe that the current rigidities in interest rate risk management for consumers were introduced into the German mortgage funding system in the high inflation years of the 1970s and are only now being reconsidered and overhauled. "In the 1970s, interest rate risk became a problem for investors in Pfandbriefe, which had been callable until then. As a result, the system was converted into what we have today, the internationally unique non-callable fixed-rate interval-financing system (Abschnittsfinanzierung) with up to 10 years fixed term. It meant for consumers that they were not allowed to prepay without the consent of the bank. To ensure this, even the Civil Code was changed and a paragraph inserted to allow the banks to actually exclude prepayment. As a result of this, in the ensuing years the funding side has determined the product side."

Achim Dübel: "Putting our heads in the sand" rather than addressing the real issues behind mortgage funding in Germany.

However such rigidities are no longer accepted by consumers in a low-interest environment with plenty of supply. In the last two or three years, mortgage financing has gradually disintermediated. The consumer decides what mortgage to buy and no longer has to take the very limited offer from his local bank. Because large swathes of German banking - particularly the public sector savings banks and the overregulated mortgage specialists - have failed to keep pace with the demand changes, they have lost market share.

Loan-to-value limits are another important example. Established over 100 years ago with the first 'modern' Pfandbrief act of 1901, LTV rules are among the oldest constraints in German finance overall, Dübel notes. "Under our rules, home mortgages above 60% of the underlying value of the property are not considered a genuine mortgage loan (Realkredit)," he says. The proportion of the loan in excess of this, if it is made at all, attracts a higher regulatory capital requirement - thereby making the overall funding more expensive for the lending institution and causing it to increase the average interest rate on the loan."

Inexplicable asymmetries persist in regulations: "German building societies (Bausparkassen), which in theory are supposed to cover the high-LTV segment of the market, are permitted to lend only up to 80% LTV while universal banks can lend above such limits" However, any lender exceeding 80% requires a full assessment of creditworthiness of the borrower and this is very resource-intensive. As a result, high-LTV loans are more expensive in Germany than elsewhere in Europe.

The Berlin-based Dübel worked in the early part of his career with the World Bank on economics and housing finance in many parts of the world. More recently he has contributed to a respected study by London Economics, which comprised a major part of the input for the European Commission's Green Paper on the EU mortgage market.

Since the early part of this decade, the Provide program of the state-owned KfW Group, has come to the rescue on some parts of mortgage funding. "The main impact of the Provide program is to reclassify the claims," Dübel says. "The mortgage is transformed through the KfW guarantee into a public sector asset and this allows loan amounts to overcome the 60% LTV constraints in the Pfandbrief system without requiring costly additional subordinate debt backing." Mortgage insurers, such as California-based PMI group, are supporting the program by purchasing high-credit risk tranches issued by KfW on the basis of the swapped mortgage portfolios. "The program reveals significant weaknesses of the Pfandbrief legal structure." Dübel says. "It artificially shifts around the overdue change of the 60% limit for residential mortgages - which actually should have been done 10 years ago - and makes their funding a bit more liquid. But on the whole it doesn't raise the credit risk appetite of German lenders or lower costs significantly. This is much effort for relatively little benefit for consumers."

Recently, the German financial regulator Bafin has agreed that a company headquartered elsewhere in the European Union can enter the primary mortgage insurance market in Germany via the so-called EU 'passport' arrangement. Foreign insurance and finance companies are moving aggressively into the German high-LTV market. Next to PMI, Genworth, a unit of the GE Group, has begun regular home loan insurance in the primary market. The US-based insurance group AIG is also present. ING and Bouwcentrum, an ABM-Amro subsidiary, are lending aggressively.

The coalition treaty of the new coalition government under Chancellor Angela Merkel stipulates that KfW should remain active in the mortgage sector and enhance activity in the high-LTV part. But Dübel adds, "With lots of appetite for German credit risk at the moment, there is no reason why there shouldn't be a private sector solution for the high-LTV market. Why not take advantage without the state having to be involved? If possible, we must avoid another sweet deal like the Provide program for Pfandbrief issuers, where KfW basically uses its privileged position to lend high-level credit enhancement."

What will count for the private sector, and in particular for consumers, is a perspective for regulatory and thus, ultimately, systemic reform. Dübel's suggestion is to reduce the regulation of high LTV products to reduce costs for consumers and synchronise the regulations for different players to ensure a level playing field. KfW could help to develop the market for prepayable mortgages and matching Pfandbrief, an area in which capital markets infrastructure and investor education matters more than in credit risk. "The way we are doing it right now is putting our heads into the sand rather than addressing the issues," he says. pfe

Banesto mortgage assets seen at €23bn, covered bonds €10.4bn - Fitch

As of end-December 2005, Spain's Banco Espanol de Credito (Banesto), a subsidiary of Banco Santander Central Hispano, held total mortgage assets of €23.18bn in its balance sheet. Banesto has already issued covered bonds to finance €10.43bn of this and plans issuance of another €2bn.

The figures were contained in Fitch Ratings' latest assessment of Banesto's seventh issuance of Cedulas Hipotecarias (CH) covered bonds in an amount of €2bn, rated provisionally AA+. The final rating is subject to a review of the CHs' final documentation. Banesto is rated Senior Unsecured AA- and Short-term F1+, in line with the ratings of its parent Banco Santander Central Hispano.

CHs are a form of covered bonds backed by mortgage loans issued under Spanish law. Only mortgage loans below a loan-to-value limit of 80% for residential loans, and 70% for commercial are taken into account in the calculation of the mandatory legal minimum over-collateralisation. This is 11.11% on a nominal basis of the cover assets in relation to the outstanding CHs. In addition however, CHs are secured by the issuer's entire mortgage portfolio upon insolvency. Additionally, the properties must be valued by a surveyor approved by the Bank of Spain.pfe

Fitch withdraws servicer rating as Italy's IGC transfers business to Fortress unit

Fitch Ratings has withdrawn its residential and commercial special servicer ratings on the Italian servicer IntesaBci Gestione Crediti after its dissolution and transfer of business, effective 7 December, to Castello Gestione Crediti, in which Fortress Investment owns a 40.5% stake.

In a release, Fitch noted that the transfer includes IGC's entire mortgage servicing portfolio, including one non-performing loan securitisation - the Intesa Sec NPL portfolio that issued €55.5m in various notes. "It is too early to ascertain what impact the transfer will have on the performance of the securitisation," Fitch said. It will continue to monitor the situation and take further rating action if necessary.

It said it will also follow developments regarding the relationship between CGC and fellow servicer Italfondiario, whose parent Fortress Investment Fund also owns a 40.5% interest in CGC. pfe

Rental growth to drive European property performance now - Aberdeen

After total property returns in Europe, including UK, weakened over 2005 to 9.3 % from 10.4 % in 2004, the next years should see rental rather than capital growth increasingly driving real estate performance, according to Aberdeen Property Advisers.

"Yield shift has been an important driver of returns performance in the past and we expect that its contribution will be less significant in future given the limited potential for further yield compression. We expect rental growth to gradually become a more important driver of returns performance," it said in a market snapshot.

The highest returns are likely to be produced in countries on Europe's periphery such as in Greece, Ireland and Norway, and the weakest returns in Germany.

On office property, Aberdeen said although vacancies have edged lower and somewhat higher levels of take-up have been registered in some markets, it will take longer before all European markets see stronger levels of rental growth. Retail property should outperform office, but not in the UK. There, retail returns are likely to fall significantly and Aberdeen is predicting that UK offices will outperform retail. Investor interest in German retail assets increased in 2005 due to higher yields and expectations that consumer spending might eventually gain momentum.

Table: Recent mortgage backed securitisation transactions in Europe

Class	Country	Closing Date	Deal	Originator/Arranger/Borrower
CMBS	UK	Nov 2005	Opera Finance (MEPC) plc	Eurohypo
CMBS	UK	Nov 2005	Prominent CMBS Funding No. 1 plc	BOS
CMBS	UK	Nov 2005	Deco 6 - UK Large Loan 2 plc	Deutsche Bank
CMBS	UK	Nov 2005	London & Regional Debt Securitisation No. 1 plc	Morgan Stanley, Arranger
CMBS	IT	Nov 2005	Taurus CMBS No. 2 S.r.l	Merrill Lynch, Arranger und Originator
CMBS	FR	Nov 2005	Odysseus (European Loan Conduit No. 21) FCC	Morgan Stanley
RMBS/CM	ES	Nov 2005	Rural Hipotecario Global I, FTA	11 grouped under AECR
RMBS/CM	IT	Nov 2005	Asti Finance S.r.l.	Cassa di Risparmio di Asti SpA
RMBS	ES	Dec 2005	Ayt Caja Murcia Hipotecario I, FTA	Caja de Ahorros de Murcia and others
RMBS	DK	Dec 2005	Provide Bricks Mortgages plc	Danske Bank
RMBS	UK	Dec 2005	Gracechurch Mortgage Funding plc	Barclays Bank
RMBS	DE	Dec 2005	Centaurus (Eclipse 2005-3) plc	Barclays Bank
RMBS	IT	Dec 2005	Sestante Finance S.r.l. - 3	Meliorbanca SpA
RMBS	NL	Dec 2005	Shield 1 B.V.	ABN Amro
RMBS	PT	Dec 2005	Hipototta No. 4 plc	n/a
RMBS	ES	Dec 2005	Valencia Hipotecario 2, FTH	Banco de Valencia
RMBS	ES	Dec 2005	Bankinter 11, FTA	Bankinter
RMBS	NL	Dec 2005	E-MAC NL 2005-III B.V.	GMAC RFC Nederland
RMBS	ES	Dec 2005	TDA 24, FTA	Various Spanish banks
RMBS	FR	Dec 2005	French Residential Asset 2005-2	French Residential
RMBS	UK	Dec 2005	Holmes Financing (NO.9) PLC	Abbey National plc
CMBS	DE	Dec 2005	TALISMAN-3 Finance plc	ABN Amro
CMBS	UK	Dec 2005	Cornerstone Titan 2005-2 plc	Credit Suisse, GMAC CM
CMBS	UK	Dec 2005	Perseus (European Loan Conduit No. 22) plc	Morgan Stanley Bank International Ltd.
CMBS	UK	Dec 2005	Talisman-2 (Priory) Finance plc	ABN Amro
CMBS	UK	Dec 2005	Epic (Ayton) plc	RBS
CMBS	UK	Dec 2005	DRACO (Eclipse 2005-4) plc	Barclays Bank
CMBS	EU	Dec 2005	European Property Capital 3 plc	JPMorgan Chase Bank, N.A.
CMBS	UK	Dec 2005	ING (UK) Listed Real Estate Issuer plc	ING (UK) Listed Real Estate
CMBS	UK	Dec 2005	Tahiti Finance plc	Citibank N.A. New York, NY
NPL	IT	Dec 2005	Cairoli Finance S.r.l	BNL, FIM. Finanziaria
RMBS	NL	Jan 2006	Stichting Memphis 2006-I	Postbank N.V.
RMBS	UK	Jan 2006	Granite 2006-1	Northern Rock plc

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The study also noted that Italy's government, which owns around €90bn of real estate, is expected to sell off up to €15bn within the next three years to reduce its budget deficit. Government's in France, Belgium and the UK are also likely to sell off significant assets. In Germany, around €25bn of residential portfolio sales have already been concluded and a further €50bn could be sold by private companies, housing corporations and government bodies in the next few years.

Aberdeen is a global investment management group listed on the London Stock Exchange with asset management activities in bonds, equities and property. The subsidiary Aberdeen Property Investors manages client property investments across Europe worth over €7.8bn through property funds and management mandates. API has some 500 employees and offices in Belgium, Denmark, Finland, Germany, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom. pfe

Externalisation of German commercial property, public sector to rise - DTZ

The rate of externalisation of German commercial property is increasing and, after the sale of a large portfolio by the state of Hesse last year, the public sector is likely to continue to bring sale-and-leaseback portfolios onto the market, DTZ Research said.

In a recent report, it said sale and leasebacks have beenn almost exclusively limited to corporate disposals so far, with the exception of the €1.1bn sale of the Hesse portfolio to a closed-end fund unit of Commerbank late last year. "Further externalisation is expected from the state of Baden-Württemberg, though the size of the portfolio to be sold is still not clear," the report said.

"From the sellers' point of view, both corporates and governments, an underperforming economy has created financial pressure sufficient to encourage the raising of equity through property assets via sale and leasebacks." These portfolios would not, however, go cheaply and this was shown by the much higher price for the Hesse portfolio than the €800m that the state originally expected it to be worth. "A lack of suitable assets combined with a tremendous weight of money… is reponsble in large part for this premium," DTZ added.

As well, there is potential for the securitisation of the cash-flows arising from sale and leasebacks, and this could improve returns due to the thin spreads on commercial mortgage-backed securities (CMBS). German property-backed CMBS averaged 25bp above Euribor for AAA-rated deals during 2005. This contrasted strongly with the cost of borrowing spreads for a large German portfolio of A and B grade properties prelet to a high-quality tenant which stretched up to 350-370bp.

The UK firm Terra Firma is planning to use CMBS to refinance some €4bn in debt accumulated as part of the giant Viterra residential portfolio purchase in spring last year from the German utility Eon.

Though the residential deals have grabbed the headlines, smaller private equity buy-outs of property have occurred in the chemical, automotive and industrial sectors. This should boost a round of secondary buyouts and generate a new source of property investment opportunities in the medium term. pfe

Table: Non-performing loan transactions in Germany

Seller	Date	Nominal Value	Purchaser	Comment
HVB	Jan 2006	€ 2.170 Mill.	Goldman Sachs	47% commercial 53% residential, 3,610 borrowers
Aareal Bank	Dec 2005	€ 388 Mill.	Shinsei Bank	50% residential, 50% commercial real estate, 142 loans to institutional clients comprising 157 properties.
Trade Union BGAG; Asset sold: "Allgemeine Hypothekenbank Rheinboden" (AHBR)	Dec 2005	na	Lone Star	Transaction comprised the whole distressed AHBR Bank with a balance sheet total of EUR 80 billion and 350 employees. Terms of sale: Recapitalisation of AHBR, € 380 Mill. contributed by BGAG, € 200 Mill. by Lone Star resulting in a hypothetical negative purchase price of € 180
Aachen Münchener	2005	€ 1.000 Mill.	Lehmann Brothers / Goldman Sachs	Lehman took the performing part, Goldman Sachs the NPLs
Bayern LB	2005	€ 400 Mill.	Cerberus	Commercial / Property Loans
Wüstenrot Hypothekenbank	2005	€ 250 Mill.	Citigroup	Property Loans
Aareal Bank	2005	€ 388 Mill.	Shinsei Bank	Property Loans
Aareal Bank	2005	€ 690 Mill.	Lone Star	Property Loans
DZ Bank	2005	€ 585 Mill.	JP Morgan	Property Loans
Allgemeine Hypothekenbank Rheinboden	2005	€ 129 Mill.	Merrill Lynch	Property Loans
Concordia Versicherung	2005	€ 260 Mill.	Eurohypo	Private Loans
HVB	Nov 2005	€ 1.800 Mill.	Goldman Sachs	46% commercial 54% residential, 3,000 borrowers
DG Hyp	2005	€ 300 Mill.	CSFB	Property Loans
DG Hyp	2005	€ 600 Mill.	JP Morgan	Property Loans
West LB	2005	€ 200 Mill.	Joint Venture West LB, Nord LB, Shinsei Bank	Platform
Dresdner Bank	2005	€ 1.400 Mill.	Lone Star Funds, Merrill Lynch	SME Loans, Property Loans
Münchner	2005	€ 150 Mill.	Lehman Brothers	Property Loans
Delmora Bank	2005	€ 2.300 Mill.	Goldman Sachs	
Eurohypo	Nov 2004	€ 2.400 Mill.	Joint-Venture der Eurohypo AG, der Citigroup und GMAC	
West LB	Nov 2004	€ 400 Mill.	Joint-Venture of West LB and Nord LB	
Dresdner Bank	Oct 2004	€ 1.200 Mill.	Lone Star	Approx. 40% Real Estate Loans
Hypo Real Estate	Oct 2004	€ 400 Mill.	Morgan Stanley und Citigroup	100% Real Estate Loans
Hypo Real Estate	Sep 2004	€ 3.600 Mill.	Lone Star	100% Real Estate Loans
Niederschlesische Sparkasse Görlitz	Jun 2004	€ > 100 Mill.	JP Morgan und Lone Star	
Hypo Vereinsbank	Dec 2003	€ 500 Mill.	JP Morgan und Lone Star	
L-Bank	Nov 2003	€ 100 Mill.	Goldman Sachs und Fortress	100% Real Estate Loans of WCM
ING BHF	2003	€ 175 Mill.	Goldman Sachs	
Gontard & Metallbank	2003	€ 225 Mill.	Lone Star	
Dresdner Bank	2003	€ 511 Mill.	Deutsche Bank	Non-Strategic Loans
Deka Bank	2003	€ 110 Mill.	Deutsche Bank	
Total		**€ 22.731 Mill.**		

Source: DTZ Zadelhoff Tie Leung GmbH

INREV launches secondary market guidelines

The European property fund association INREV in early January announced a set of guidelines for a secondary market plus a code of conduct for funds listing on it, and simultaneously said its membership has risen to 186 fund organisations.

In a statement it said it aims to create a

framework for non-listed real estate funds across Europe, and the publication of the guidelines follows an extensive period of consultation. This had focused on investor requirements for liquidity, and on market practices hindering the development of a secondary market.

The basis was the INREV Investment Intentions survey published in April 2005 which identified four key areas deterring investment in non-listed property vehicles. These were lack of suitable product, lack of transparency and market information on non-listed vehicles, high costs associated with investing in non-listed vehicles and limited liquidity.

"For the market to evolve, a flow of willing buyers and sellers is required," said INREV (European Association for Investors in Non-listed Real Estate Vehicles). "With the large demand for non-listed real estate funds and the excess of capital in today's market, there is currently some unwillingness amongst investors to sell their existing holdings." However, this should change over time. Once the guidelines are adopted by INREV, it is hoped that investors and managers will use these as industry standard when designing or carrying out due diligence on new funds and assessing their potential liquidity.

One of the key elements is the encouragement of greater transparency of base information, which in itself creates a requirement for a common set of definitions across the industry to encourage investors to trust information and compare funds easily. INREV is seeking to reach agreement on these standard definitions during 2006.

Michael Clarke, chairman of INREV's Secondary Market committee, said in a release,

"This initiative is essential to the well-being and growth of the indirect real estate investment market… We will be actively encouraging all managers to state in their marketing material and annual report and accounts if they adhere to the guidelines and, if not, the reason for not doing so."

Simultaneously, INREV announced that it had recently added the following new institutional members: The Blackstone Group, DEGI Deutsche Gesellschaft für Immobilienfonds, Delta Lloyd, HSH Nordbank, ING Real Estate Finance, Macquarie Global Property Advisors, Standard Life Investments , Swiss Re and Tapiola General Mutual Insurance Company. pfe

German commercial strongest RE potential in Europe - Morgan Stanley survey

A survey of 250 institutional property stocks' investors conducted by investment bank Morgan Stanley showed that they expect the German commercial property market to perform most strongly over the next 12 months in Europe.

Around 40% of those surveyed see Germany in first place for potential performance, 24% predicted that UK office and retails would outperform, 8% saw Spain outperforming, 7% Italy, 6% France and 2% Sweden, Morgan Stanley said in a release.

Regarding German real estate prospects over the next three years, 30% of those polled consider that the best profits are to be made in residential property, 28% are looking for outperformance in retailing assets, 19% expect office to outperform, and 17% see the best potential in industrial and logistics assets.

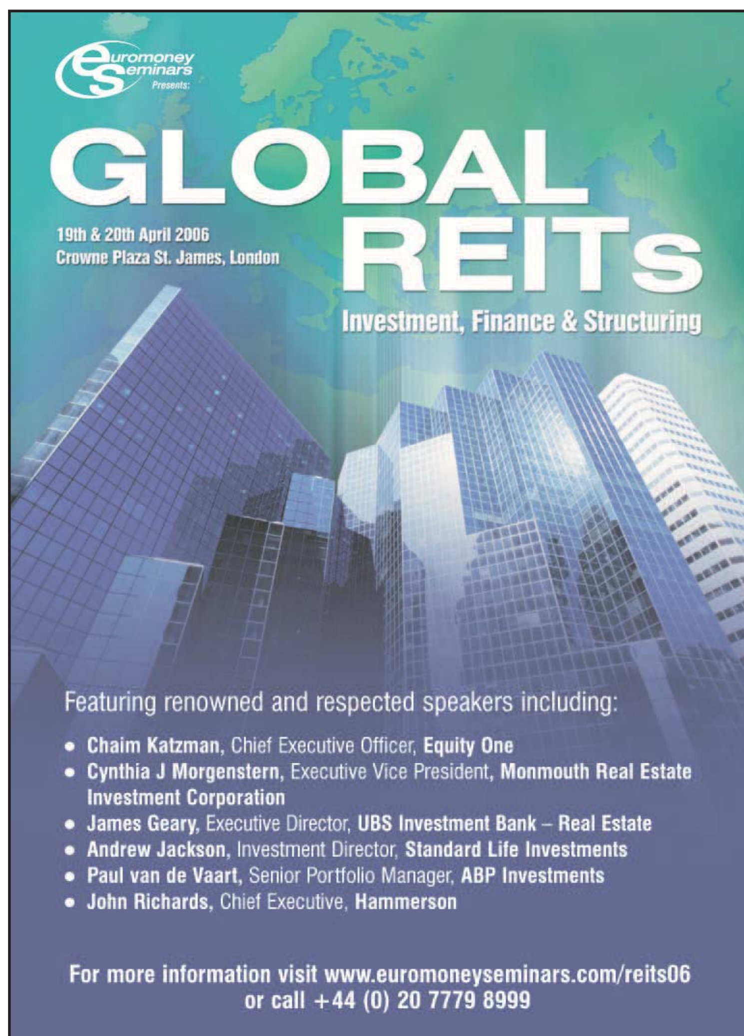
The popularity of residential property is based on the low home-ownership quota of around 43%, and the expectation that this will rise over the next five years. Most see chances for a rise of close to 50% in capital valuations. pfe

Frankfurt's CIMMIT real estate conference sees attendance climb again

The 2006 CIMMIT real estate conference scheduled for tomorrow and Wednesday in Frankfurt has attracted 250 registrants, around one-quarter more than in 2005, and indicates that interest in the sector is growing, according to the organisers IIR Deutschland.

IIR Chief Executive Matthias Brodrück said in a release, "CIMMIT has more than ever become an indicator for the well-being of the property sector in general. If the sector is in good shape, we at CIMMIT usually see this kind of run on places."

The conference highpoint was reached in 2002 with around 700 property specialists attending, but this dropped down to around 200 only in the following two years. The growth in attendance this year is certainly a sign of a turnround in the trend, he added. The CIMMIT conference this week is the 16th annual event. pfe



European property associations: The Association of Real Estate Offices of The Czech Republic

Czech investment property market rapidly consolidating, but ownership questions remain; yields on Prague apartments around 6%, office/retail at 7-8%

The Association of Real Estate Offices of the Czech Republic (ARK CR) is the largest professional association of service providers in the field of property active in the Czech Republic. Founded in 1991, it now has more than 200 corporate and individual members - real estate offices, property managers and administrators, and auctioneers from all over the country - in practice, about 1,200 individuals oriented mainly around the broker community.

Secretary-General Jan Boruvka says the main reason for establishing ARK CR was to bring together business people working in the real estate market, and protect and support their interests, especially in the legislative context. Coming just after the fall of Communism in 1989, it was also important to bring professional training and education.

The Czech Republic's accession to the European Union in May 2004 brought significant changes in the approach to investment, above all expanding the circle of individuals and institutions permitted to acquire real estate. A number of new "European" laws were applied from this date.However, the overriding principle remained: that the directives and laws of the nation where the real estate is located are applicable to purchase and management, and its registration of ownership.

The Czech Real Estate Association ARK CR: Lobbying for further changes in legislation to clarify land and property ownership.

Czech property prices have been constantly rising since 1991 but remain well below western Europe. Residential properties in the city centre of Prague are providing entry yields of around 6%, and rent for the equivalent of €10-15 sq.m. per month, with space in other districts of the city going for €6-10 sq.m. For new and refurbished office space, rentals are running at €15-22 sq.m. per month in Prague centre, €9-17 in other districts of the capital and €8-14 on the outskirts of the Czech capital. Entry yields are 7-10.5% depending on location and lease terms. A Jones Lang LaSalle study in first half 2005 put Prague office vacancy rate at 13.6%, down from 15.3% in 2004. Prime yields are just over 7% for offices, and also for retail investment property. Warehousing prime yields are 8-8.5%.

Even though restrictions exist on ownership - in most cases a residency permit is required - most private sector analysts expect residential property valuations to rise by 15-20% per year for the next 6-10 years. Under EU rules, purchase restrictions will have to be relaxed by 2009, allowing any EU citizen to purchase Czech property. There is talk of this happening in 2007. Following 40 years of totalitarianism, most Czech real estate was in the hands of the state and cooperative organisations. One of the first changes therefore was the widespread privatisation of state property - which sparked development of new laws and regulations. At the same time, restitution was taking place: Substantial property assets were returned to original owners, eliminating some of the injustices of the decades under Communist rule.

In this process inadequate attention was paid to the rights of those obliged to give up their property, Boruvka says. This frequently caused bitter disputes, and a number of cases came up in the early 1990s in which people who acquired property in privatisation had to subsequently give it up. A number of legal battles were fought which, in some cases, reached up to the European Court of Human Rights in Strasbourg.

Overall, however, most Czechs agree that privatisation and property restitution has had a positive impact, and has "got the ball rolling" in the real estate market, Boruvka says. One of the impacts of this massive transfer of property has however been the increase in specific risks in property acquisition both for Czech and for foreign investors.

Two basic legal codes govern real estate: the Civil Code and the Commercial Code. Classic citizens' rights are treated in the Civil Code, while most commercial operations are dealt with in the Commercial Code. The legal system currently gives preference to the real owner of a property instead of the person or institution entered in the public land registry, or cadastre. "When buying real estate in the Czech Republic," Boruvka says, "it is of the utmost importance to thoroughly go through all available documentation on the basis of which the ownership rights have been granted to the seller, or as the case may be to any of his family members.

"The goal of this investigative process is to find out whether there was ever an ownership dispute or conflict in the past that could in the future threaten the rights of the investor."

Another potential problem is a Communist-era law that denied the traditional principle of "superficies solo cedit" - in essence, making it legal to own a building on land belonging to another person, and thus slowing down the process of granting mortgage loans. Before construction begins, a lien can be put on the land only. The right of lien on a building can only be made during construction - and only after the building is entered in the land registry. The new version of the Czech Civil Code includes the unification of rights to land and the buildings on it but has not yet been passed into law. In the area of residential housing, regulated rents continue to exist but Prague is preparing legislation to change this.pfe

As 2006 starts, *Property Finance Europe* is beginning a new series looking at real estate investment markets in Europe through the perspective of national and trans-national associations. We intend to place initial stress on the emerging nations of central and eastern Europe.

The first in the series looks at: The Association of Real Estate Offices of The Czech Republic (Asociace realitních kancelárí Ceské republiky, ARK CR).

Swedish private equity firm Ratos, Lehman Brothers sell out of Tornet holding

The Swedish listed private equity company Ratos has concluded an agreement to sell its holding in the real estate company Tornet to its Stockholm-based commercial property neighbour Fabege for a price of SEK1.2bn - around €129m.

Ratos and Lehman Brothers Real Estate Partners (LBREP) acquired an 82.4 % stake in Tornet in December 2003 (Ratos 40 %; LBREP 60%), through the jointly owned company LRT Acquisition. Over the past 18 months the two changed Tornet's strategy and concentrated its property portfolio on Stockholm, Gothenburg and Malmö.

The transfer to Fabege will be effected by Ratos and LBREP selling their holdings in LRT. Ratos said its capital gain, calculated on the book value of the LRT holding at 30 September 2005 and adjusted for proceeds from Tornet's reduction of share capital in October 2005, is expected to be just below SEK 800m - some €86m. The average annual return (IRR) from the investment in Tornet has been 70%.

The sale is subject to approval from the competition authorities. Fabege has also undertaken to make an offer of SEK 146 per share to Tornet's other shareholders within 21 days from the closing of this transaction. The sale price corresponds to SEK 146 per Tornet share, and the sale is expected to be carried out during January. pfe

PFE COMMENT: Never let it be said that Americans and British investment bankers are the only real estate operators able to manage this kind of P2P transaction! Hats off to Ratos and to Lehman for identifying this opportunity and carrying it through, evidently, with such success. Ratos is chaired by veteran real estate executive Olof Stenhammar, led by CEO Arne Karlsson, and its board reads like the crème de la crème of the Swedish property sector. It sets out its objectives clearly on its website: Holdings normally 20-50% and normally the principal owner. Preferred investment size (equity) SEK 150-1500m, usually comprising 15-20 unlisted companies. Ownership period from acquisition via development to divestment is usually 3-7 years. "The entry point for investments is the Nordic region. Exits can be effected globally. In addition, the companies in which Ratos invests must have competitive advantages in their sector and strong management. There is a clear exit strategy for every investment Ratos makes. Ratos works actively to ensure that the companies in which it invests have incentive strategies for boards and senior executives." Very impressive.

U.S. Withholding Tax Rates on Ordinary REIT Dividends to Non-U.S. Investors

AS OF Aug.1, 2005

NOTE: The withholding rate is 30% (other than for a governmental entity) if the non-U.S. shareholder does not reside in the countries listed. Under recently passed U.S. tax legislation, the tax rates in the chart apply to REIT capital gain distributions so long as the non-U.S. investor owns 5% or less of a REIT listed on a U.S. stock exchange.

U.S. Income & Capital Tax Treaties	Individual	Non-Individual Entity	Pension Trust	Tax-Exempt Charity
Armenia	30%	30%	30%	30%
Australia	15%[1]	15%[3]	15%[3]	15%[3]
Austria	15%[1]	30%	30%	30%
Azerbaija	30%	30%	30%	30%
Bangladesh[12]	30%	30%	30%	30%
Barbados	15%[1]	30%	30%	30%
Belarus	30%	30%	30%	30%
Belgium	15%	15%[2]	15%[2]	15%[2]
Canada	15%[1]	30%	0%[4]	0%[4]
People's Rep. of China	10%	10%	10%	10%
Cyprus	15%	15%[2]	15%[2]	15%[2]
Czech Republic	15%[1]	30%	30%	30%
Denmark	15%	15%[3]	15%[3]	15%[3]
Egypt	15%	15%[2]	15%[2]	15%[2]
Estonia	15%[1]	30%	30%	30%
Finland	15%[1]	30%	30%	30%
France	15%[1]	30%	30%	30%
Georgia	30%	30%	30%	30%
Germany	15%[1]	30%	30%	0%
Greece	30%	30%	30%	30%
Hungary	15%	15%[2]	15%[2]	15%[2]
Iceland	15%	15%[2]	15%[2]	15%[2]
India	15%[1]	30%	30%	30%
Indonesia	15%	15%[5]	15%[5]	15%[5]
Ireland	15%[1]	15%[3]	15%[3]	15%[3]
Israel	25%[1]	30%	30%	30%
Italy[11]	15%	15%[6&7]	15%[6&7]	15%[6&7]
Jamaica	15%	15%[7]	15%[7]	15%[7]
Japan	10%[1]	10%[3]	0%[4]	10%[3]
Kazakstan	30%	30%	30%	30%
Republic of Korea	15%	15%[7]	15%[7]	15%[7]
Kyrgyzstan	30%	30%	30%	30%
Latvia	15%[1]	30%	30%	30%
Lithuania	15%[1]	30%	30%	30%
Luxembourg	15%[1]	15%[3]	15%[3]	15%[3]
Mexico[1]	10%[1]	10%[3]	0%[4]	0%
Moldova	30%	30%	30%	30%
Morocco	15%	15%[7]	15%[7]	15%[7]
Netherlands	15%[8]	15%[3]	0%[4]	0%[4]
New Zealand	15%	15%	15%	15%
Norway	15%	15%	15%	15%
Pakistan	30%	30%[9]	30%[9]	30%[9]
Philippines	25%	25%[10]	25%[10]	25%[10]
Poland	15%	15%[2]	15%[2]	15%[2]
Portugal	15%[8]	30%	30%	30%
Romania	10%	10%	10%	10%
Russia	30%	30%	30%	30%
Slovakia	15%[1]	30%	30%	30%
Slovenia	15%[1]	15%[3]	15%[3]	15%[3]
South Africa	15%[1]	30%	30%	30%
Spain	15%[8]	30%	30%	30%
Sri Lanka	15%[1]	15%[3]	15%[3]	15%[3]
Sweden	15%[1]	30%	30%	30%
Switzerland	15%[1]	30%	0%	30%
Tajikistan	30%	30%	30%	30%
Thailand	15%[8]	30%	30%	30%
Trinidad and Tobago	25%	25%[7]	25%[7]	25%[7]
Tunisia	20%[8]	30%	30%	30%
Turkey	20%[1]	30%	30%	30%
Turkmenistan	30%	30%	30%	30%
Ukraine	30%	30%	30%	30%
United Kingdom	15%[1]	15%[3]	0%[4]	15%[3]
Uzbekistan	30%	30%	30%	30%

FOOTNOTES

1. 30% tax rate if the shareholder owns 10% or more of the REIT's stock, or, in the case of residents in Australia, Ireland, Mexico, Japan, Slovenia, Sri Lanka, the U.K., and Venezuela, if the shareholder owns more than 10% of the REIT's stock.
2. 5% tax rate if corporate shareholder owns at least 10% of the REIT's voting stock and in the case of REIT dividends paid to a corporation resident in Cyprus, Egypt, or Iceland no more than 25% of the REIT's gross income consists of interest and dividends.
3. 15% rate (10% rate in Japan) only if: the dividend is paid with respect to a class of stock that is publicly traded and the shareholder owns no more than 5% of any class of the paying REIT's stock; or the stockholder holds no more than 10% of the REIT's stock if the REIT's property portfolio is diversified, *i.e.* no property is worth more than 10% of the REIT's real estate holdings. Otherwise the withholding rate is 30%. For these purposes, a publicly traded Australian Property Trust is deemed owned by its investors.
4. Other than for Canada and the Netherlands, 0% if: (1) the dividend is paid with respect to a class of stock that is publicly traded and the shareholder owns no more than 5% of any class of the paying REIT's stock; or (2) the stockholder holds no more than 10% of the REIT's stock. In the case of Canada and the Netherlands, 0% only so long as the dividend is not from a related person.
5. 10% tax rate if shareholder owns at least 25% of the REIT's voting stock.
6. 5% tax rate if shareholder owns more than 50% of the REIT's shares for the 12 months before the dividend is declared.
7. 10% if shareholder owns at least 10% of the REIT's voting stock (except in the case of Jamaica), and no more than 25% of the REIT's income consists of dividends and interest.
8. 30% tax rate if shareholder owns 25% or more of the REIT's stock.
9. 15% tax rate if shareholder owns more than 50% of the REIT's voting stock.
10. 20% tax rate if shareholder owns at least 10% of the REIT's voting stock.
11. The U.S. Senate has approved a new treaty that contains the same withholding rates as in footnote 3, but the Italian legislature has not ratified it yet.
12. Currently, there is no tax treaty between the U.S. and Bangladesh. The U.S. and Bangladeshi governments signed a tax treaty on September 26, 2004 that would adopt the REIT dividend policy described in footnote 3. The new treaty will go into effect upon the approval by 2/3 of the full U.S. Senate and the formal exchange of instruments of ratifications by the two governments.

European governments such as the UK and Germany could approach the tax conundrum over potential loss of tax revenues for foreign investors in REITs as the US government did. Standard 15% withholding tax on income from property. Here is the NAREIT list of tax rates.

French REIT Gecina, US-based Hines sign €308m joint venture

The French REIT Gecina has signed a joint venture partnership agreement with the US-based real estate group Hines for a number of properties under construction or to be developed in the Paris region, representing a total investment of €308m.

The two said in a release they will jointly develop 40,000 sq.m of office space in Boulogne-Billancourt and La Défense (Courbevoie) in the Hauts de Seine region to the west of Paris. The portfolio comprises an office building in La Défense (Courbevoie, ZAC Danton) with over 9,000 sq.m and two buildings in Boulogne-Billancourt representing nearly 31,000 sq.m.

These assets will be developed by Hines in conjunction with architects such as Pei Cobb Freed & Partners for the La Défense building and Jean-Paul Viguier and Foster & Partners for Boulogne-Billancourt. The delivery of these high-quality assets, incorporating the most modern facilities and services, is spread over the period from 2007 to 2008.

Gecina's Chief Executive Officer Joaquin Rivero, also chairman of Spain-based majority owner Metrovacesa, commented: "This represents a real opportunity for Gecina, contributing to filling our commercial real estate investment pipeline." Hines Europe Chief Executive Officer Michael Topham added that The Hines Group is particularly delighted with this first partnership with Gecina. pfe

Metrovacesa sees 2005 net up rose 69% to €370m, beating forecast

Spanish property company Metrovacesa SA said 2005 net profit rose 69% to €370m, beating the company's forecasts for net profit of about €340m, and net earnings should soar to €697m in 2006.

The property company had earlier made almost precisely the same forecast for 2006. However EBITDA this year is seen climbing 55% to €1.03bn, above previous forecasts of some 830m. Revenues are expected to more than double to €2.5bn from an estimated €1.2bn in 2005. The estimates exclude its Gecina unit, a French REIT in which Metrovacesa last spring took a majority stake.

Metrovacesa expects asset investments of €6.6bn during 2006-2010, with 69% of this earmarked for France and 31% expected for Spain. Portfolio rotation should bring divestments of €4.1bn over the five-year period, with 75% targeted for France and 25% in Spain.

The company at end-2005 held assets valued at €15.5bn, up from €13.6bn in 2004. Over the next five years it is targeting an cumulative 30% pct rise to take assets to above €20bn. Metrovacesa said it expects to raise its dividend by an annual 8-8.5% in that period, and to make a recurring payout of 45-55% yearly. pfe

PFE COMMENT: Continuing to be one of the success stories of the European listed company see, Metrovacesa - and several of its Spanish counterparts as well - are showing the European sector the way forward. The consolidation of its audacious move on French REIT/SIIC Gecina earlier last year is not even included in this stellar performance at operating and net level. However, the move has set the French government thinking hard over what to do about the foreign investment in its REIT sector. It had hoped that the foreign investor community would not notice the REIT legislation of 2003. In the new world of global cross-border real estate investment, this was not to be!

France's Klepierre invests €780m in Europe in 2005, targets €600m for 2006

French property REIT Klepierre invested €780m in 2005 mostly in France, Italy and Poland and plans another €600m worth of investments this year, according to the group's president Michel Clair.

Last year, Klepierre acquired a shopping complex in downtown Paris, three shopping malls in Italy and another four in Poland while at the same time selling Parisian office space, the French real estate portal immonews reported.

Further acquisitions in Poland and the Czech Republic are planned this year. "In terms of office space we will pursue our opportunistic strategy of acquisitions and sales in and around Paris," Clair said. Klepierre is one of the largest French REITs, known in France as SIICs (Sociétés d'Investissements Immobiliers Cotées) pfe

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German retail property specialist Kemper's boosts turnover, deals by 80%

German retail property specialists Kemper's reported an 80% increase in both turnover (to €14m) and transaction volume (to €660m) in 2005, due mainly to strong interest from international investors for store properties.

International investors from Holland, Great Britain and Scandinavia, in particular, were involved in more than 40% of the deals arranged by the Düsseldorf-based agents and consultants, which included both retail properties in first-rate inner-city locations and, increasingly, shopping centres.

Rüdiger Thräne, Managing Director of Kemper's Holding GmbH, expects international investor interest in German retail properties to remain strong at least until the end of 2006. Further development will depend on the level of price increases and mortgage rates. Thräne expects the good investment climate to continue until higher prices start pushing down yields. pfe

CDP to float 30% of Icade capital on Paris bourse in April

French property company Icade will float 30% of its capital on the Paris stock market in April, said Francis Meyer, director general of the Caisse des Depots et Consignations, the government investment arm which controls Icade.

The move won't involve the Caisse's Societe Nationale Immobiliere, business immo.fr reported. Icade revenue was €1.39bn in 2004. pfe

Sponda and US private equity firm JER partner up in Finnish property fund

Finland's largest listed property company Sponda Plc and the JER Europe Fund II Holdings run by the Virginia-based private equity firm JER Partners have signed an agreement for the establishment of a real estate fund to invest in office and retail properties in Finland's mid-sized towns and cities.

Sponda announced that it holds a 20% stake in the fund, which has a target size of €150-400m, and will be responsible for providing management services both to the fund and the properties it acquires.

JER Partners is a fully integrated private equity, real estate investment management company and a a division of the J.E. Robert Companies headquartered in McLean, Virginia. JER has offices across North America and in Europe. pfe

Germany's IVG boosts 2005 net profit to over €100m, share price soars

The Bonn-based listed real estate company IVG Immobilien AG has boosted net profit for 2005 to more than €100m. Due to high capital value gains generated by caverns and foreign property holdings, it said the net asset value per share has increased to more than €17.

In the past financial year, IVG sold real estate with a total value of more than €400m, and these sales will generate pre-tax earnings of over €130m, the company said. As in prior years, investments exceeded sales clearly in 2005.

The IVG share has soared in recent weeks to around €22 from €16 in October. It was trading around €13 at the start of 2005.

The company said contracts and binding pre-contracts for the sale of real estate and project developments in Brussels, Budapest, Munich and Kassel with a volume of more than €350m were concluded last year. These will generate a profit contribution of up to €100m in 2006 so that IVG expects a further improvement in results over 2005. pfe

PFE COMMENT: Far be it for us to criticise what it in reality a highly well-run and focused company with a very informative and detailed website. On the back of this, IVG recently won an award for the best media and investor relations communications - and its soaring share price certainly attests to general investor enthusiasm. It is a shame therefore that IVG's announcements are evidently written by a committee that cannot decide what it is they want to communicate to the world. They do not seem to think, for example, of providing prior-year comparisons which, for profits and revenues, might be useful. We have to award IVG the worst performing in Germany in terms of media announcements. In Europe, announcements concerning the Dutch takeover of the AM company was much worse - so bad that no one has really understood what happened, outside of a few Morgan Stanley executives! The regular announcements from Sweden's listed Kungsleden are also an exercise in obfuscation. Lots of enthusiasm; no clarity. Europe is evidently only gradually emerging into the disintermediated world of real estate capital markets.

French government to sell €480m worth of property in 2006 to lower debt

French Budget Minister Jean-Francois Cope said the government plans to sell at least €480m in state-owned property this year to alleviate public debt.

The government will require a return on investment of at least 15% for each sale, AFX News reported. Cope said sales last year of government-owned property generated €630m in proceeds and benefited financially from the country's buoyant property market. The funds will "automatically be used to reduce debt," he added.

Cope also announced the government plans to transfer management of its vast real estate portfolio of 28,000 buildings worth an estimated €33bn to a separate property entity. As part of this transfer, government ministers will no longer be allowed to live rent-free in state apartments. This is a response to the public outcry that followed revelations last February that Herve Gaymard, then Finance Minister, was living in a 600 sq.m. apartment at a cost of €14,000 per month to the public purse. pfe

PFE COMMENT: This is potentially a much more important announcement than it seems at first sight. Even if the amount of asset sales in the current year is relatively low, the plan to shift the entire state sector real estate portfolio into a separate entity should raise the interest of a large number of investment banks and private equity companies hunting for product in France. We have no firm information at the moment but it seems highly probable that the push by French Finance Minister Thierry Breton to reduce the national debt will lead over the next 18 months to announcements of much more substantial real estate asset sales. The high prices being paid in Germany for state assets will not

have been lost on Paris. As a result, we would not be surprised if public sector property sales do not rise well above 500 this year.

Australian investors buy 33 properties from Württembergische Insurance

Stuttgart-based Württembergische Versicherungsgruppe has sold a portfolio of 33 mainly office and commercial properties located across Germany to BGP Investment for just under €100m.

The properties measuring a total of 80,000 sq.m. are spread across various towns and cities in both east and west Germany, including Munich, Frankfurt, Wiesbaden, Bonn, Leipzig and Dresden.

According to Immobilienwirtschaft, the sale is a further step in Württembergische's programme to divest all but its strategically relevant property investments.

BGP Investment, a joint venture between Babcock & Brown and the oldest and second largest Australian REIT GPT, is focusing on expanding direct property investments in Germany. Colliers PropertyPartners was exclusively mandated with the preparation and sale of the portfolio. pfe

Aberdeen Property Investors attracts €45m for its Finnish property fund

Aberdeen Property Investors has attracted €45m for the first closing of its new Finnish property fund, which aims to invest across all sectors of Finnish real estate, including commercial, office and logistics properties.

The semi open-ended Aberdeen Property Fund Finland is targeting total returns of 10% and aims to provide both a stable income return and offer potential for value growth. With a maximum leverage for the fund of 50%, the fund is now ready for new property investments of up to €90m. The target fund size is €150-200m.

The investment has come from pension funds, institutions and corporations such as the Local Government Pensions institution, Suomi Mutual Life Assurance Company, Seamen's Pension fund and the Local Insurance Group. pfe

French office rental rates could rise on more office jobs – think tank

The number of office jobs in the Paris region is expected to rise for the third consecutive year this year which could lead to a rise in some office rental rates, a study to be published tomorrow by the IEIF real estate association will show.

An estimated 27,000 new office jobs will be created this year in Ile de France, the name of the Paris region, the IEIF property investment think tank said in a study. While this is lower than the 58,000 new jobs created last year, it is more than the 8,000 created in 2004. The number of office jobs in Ile de France dropped in 2002 and 2003 and this was partly to blame for a subsequent drop in office rental rates.

The Paris-based IEIF (Institut de l'Epargne Immobiliere et Fonciere) said the additional jobs created this year could help stop the steady drop in office rental rates and even lead to a rise in rent in certain areas.

A study published earlier this month by realtors Cushman & Wakefield Healey & Baker indicated that average rents of office space in prime west Parisian neighbourhoods and La Defense fell between 34% and 38% last year compared to 2004. pfe

One of the Frankfurt office properties used by Dresner Bank to house its Dresdner Kleinwort Wasserstein investmeng banking unit opposite the Frankfurt Exhibition Ground. It was contained in the €2bn portfolio of assets sold in December to the Eurocastle subsidiary of the US-based Fortress Investment Group .

Commercial property investment in France hits record

Investment in commercial property in the Paris area rose 12% to a record €11.63bn in 2005 compared to the previous year, according to a new study. About 70% of the total came from foreigners. US investment was nearly on par with local interest.

Commercial property investment for all of France was

estimated at about €15bn, indicating a huge concentration in and around the French capital, said the study by Immostat, a group created to track the French market by property firms Atisreal Auguste-Thouard, CB Richard Ellis, DTZ Jean Thouard and Jones Lang LaSalle .

With investment demand outpacing supply and rents falling, yields have continued their three-year downward spiral to below 4.5% in Paris' golden triangle . This trend is expected to continue in 2006, although yields aren't expected to go below 4% for long, according to a Jones Lang Lasalle comment on the study. Paris commercial property investment is considered low risk because of relatively low office vacancy rates. More office space is expected to come into the market this year, and some investors will continue to look into alternative markets such as retirement homes and leisure sites outside Paris.

Immostat also looked at the office rental market. Office space rental transactions in the Paris area rose 12% last year with total rented space reaching a five-year high of 2,165,300 sq.m. compared to 1,930,600 sq.m. in 2004. Available office space in the Ile-de-France area in and around Paris was 2,770,000 sq.m. at the end of last year, down 3.3% from end-2004.

The Paris office rental market was so active mainly because companies are taking advantage of lower rental rates to rationalise their office sites and move into cheaper, more modern offices. Firms are also not generally moving outside the French capital area. This trend is expected to continue in 2006. Paris office space vacancy rates have dropped for five straight trimesters to under 6% at the end of 2005, one of the lowest rates in Europe, said Benoit du Passage, CEO of Jones Lang Lasalle France. pfe

Berlin office rental turnover rises 33% but average rents still falling - JLL

The Berlin market for office rentals witnessed turnover of 484,000 sq.m. in 2005, the highest level in four years and 33% higher than in 2004, according to a report by Jones Lang LaSalle. Further key data in the study included:

Public sector administration, industrial and services companies accounted for half of all rental turnover

·More than 50% of total turnover was generated by deals for more than 2,500 sq.m., and some 40% for areas of less than 500 sq.m. Some 60% of all rental contracts were for properties in 1B inner-city locations.

At 212,000 sq.m., new enquiries remain moderate but demand continues to grow. Vacancy rates fell for the first time at end-2005 after having risen by nearly 50% between 2001 and the end of 2004.

Some 153,000 sq.m. of office space were completed in 2005, down 40% from 2004. Weighted average rents for the entire city dipped to €9.80 in 2005 from €11.30 in 2004, mainly as a result of the federal government agencies signing rental contracts for huge spaces at extremely favourable terms. pfe

International investment in Berlin, Munich holds strong in 2005 - CBRE

Last year, CB Richard Ellis arranged property deals valued at €1.9bn in Berlin, up 85% over 2004, and €1.5bn in Munich, up 25% over 2004 - and added that international investment activity increased strongly in both cities over the year.

Foreign buyers accounted for 65% of the total transaction volume in Berlin and over 50% in Munich. Stefan Striedl, head CBRE Munich's investment team, said the number of traditional buyers, such as open and closed-end German funds, declined, whereas private investors were on the rise. Investments in Munich focused on central inner-city locations, with long-term rental contracts playing a decisive role. The average investment volume remained unchanged over 2004 at €28.5m.

Separately, Fabian Hüther, head of CBRE's Berlin investment team, reported that while international investor interest continued to be strong, German institutional investors were scarce in 2005. Purchasing prices in Berlin were lower than in any of the other five major property markets in Germany. Hüther sees the Berlin investment market as being short of product rather than capital. Investors are interested in office and retail properties with long-term rental contracts, but given the imbalance between supply and demand, some foreign buyers were prepared to accept the risk of partial vacancies. pfe

Carrefour Spanish unit to sell 43 Champion supermarkets, replace brand

The Spanish unit of the French supermarket chain Carrefour SA plans to sell 43 Champion supermarkets and replace the brand name by Carrefour Express for the remaining outlets, according to Spanish press reports.

The Expansion newspaper reported that 52 Champion supermarkets will be turned into Dia discount stores. The 43 stores to be sold, out of a total of 190, are mainly located in Catalonia, on the Mediterranean coast, in Madrid and in Galicia.

Cinco Dias reported that Carrefour has guaranteed to retain the jobs of all its employees affected by the sale of the Champion stores. pfe

Germany's DIFA enters Czech, Hungarian markets via stake in Europolis' portfolio

The Hamburg-based open-ended real estate fund manager DIFA Deutsche Immobilien Fonds AG, owned by the German cooperative banking system, is expanding into central and eastern Europe by taking a significant stake in an existing portfolio built up by Europolis, the real estate arm of the Investkredit Group, Vienna.

The investment, which will take DIFA into the Czech and Hungarian markets for the first time, was made via acquisition of a 49% stake in seven property companies operated by Investkredit Bank AG and the European Bank for Reconstruction and Development (EBRD).

DIFA has also taken 100% in Hadovka, another property company, bringing total investment in the Czech Republic and Hungary to €180m. The weighted initial yield after finance costs is 13%.

The investment package comprises four office buildings in Prague and Budapest, two shopping centres in Teplice and Mladá Boleslav, as well as two logistics sites on the outskirts

of Budapest with total floor space of some 230,000 sq m. These new portfolio holdings also mark DIFA's international debut in the logistics segment. Shares in seven of the associated companies will become part of the open-ended real estate fund DIFA-GRUND, while Hadovka Park in Prague will be assigned to DIFA-Global.

DIAF said an ongoing relationship with Europolis will also facilitate further property acquisitions in CEE countries. pfe

German office market 2005 dominated by low rental contracts - Colliers

Rental contracts at square metre prices of €10 or less per month accounted for the lion's share of turnover on the office markets in Berlin, Munich, Dusseldorf, Hamburg and Stuttgart in 2005, according to Colliers Property Partners.

The partnership comprised of one agent each from the six major German property centres reported that Frankfurt was the only exception, with contracts at €20 upwards accounting for the largest share of turnover.

Average rents in the six property centres only increased in Munich, to over €13, whereas they remained more or less unchanged in Hamburg (€12), Frankfurt (€14.50) and Stuttgart (€10.80). Rents in Berlin and Düsseldorf declined by 12% (to €10.20) and 8% (to €12.40) respectively.

In terms of space, the largest share of turnover went to contracts for up to 500 sq.m. in Munich and Stuttgart, up to 5,000 sq.m. in Düsseldorf, and over 5,000 sq.m. in Frankfurt and Berlin. pfe

Germany's Colonia Real Estate raises its forecast for 2006

Colonia Real Estate has raised its forecast for 2006 in the wake of the excellent performance of its property portfolio and amid bids received for the sale of a portfolio of 566 residential units.

The Cologne-based company, which invests in and manages distressed property, raised its forecast for 2006 earnings per share to €3.53 from €2.04 following €1.80 in 2005. In a statement made to the Frankfurt stock exchange, CRE said sales could climb to €34.6m, which would represent an increase of over 70% compared with 2005. pfe

Investkredit's Europolis and Poland Central sign €172m logistics park JV

Europolis, the real estate arm of the Vienna-based Investkredit Group, has signed a joint venture agreement with Polish property company Poland Central to invest €172m to develop the biggest logistics park in central and eastern Europe, in the heart of Poland.

The Poland Central Logistics Park development, planned to create employment for 6,000 people, will be situated some 47km south of ?ód? and 137km southwest of Warsaw. Its strategic location has attracted international companies such as IKEA, Unilever, Ahold and Auchan.

Poland Central is located close to the A1 expressway - connecting Warsaw with Katowice and the region of ?l?sk. The road network interconnects to Gdansk, Kaliningrad and the Baltics in the north, and with the Czech Republic, Slovakia, Austria and Hungary in the south. The companie said in a release that it thus provides a natural hub for the provision of a national strategic logistic / light production European or local headquarters for Poland and the Region.

The construction of the infrastructure and the first warehouse with a size of 44,000 sq.m. will start in mid-2006, and is scheduled to open for new tenants in December 2006.

Europolis Chairman Bernhard Mayer said, "Poland Central will definitely strengthen our significant position in the industrial real estate segment in CEE." pfe

EU forces Berlin to purchase 37 property companies from Bankgesellschaft

Berlin has been forced by the EU to purchase the 37 property services companies formerly belonging to Bankgesellschaft that were neither sold nor dissolved by the end of 2005 and for which the state had provided so-called risk shields.

Bankgesellschaft found itself in serious trouble in 2001, caused by high-risk real estate transactions. In December 2001 the government of the state of Berlin gave the bank what it termed a "risk shield" (Risikoabschirmung) for a maximum of 30 years: this consisted of far-reaching guarantees that Berlin would take over all risks such as bad debts, reductions in value, or claims on the part of investors in real estate funds. The theoretical nominal maximum value of this risk shield was about €35bn. The EU deemed however that this rescue operation was not compatible with the common market.

The companies include IBV, IBG, Bavaria, LPFV and Arwobau, which were responsible within the banking group for managing property funds and processing the risk shield guarantees given by Berlin.

IBAG was split into a non-shielded part, which will stay with Bankgesellschaft, and a shielded part, which has been converted into a limited liability company that will operate under the name of Berliner Immobilien Holding GmbH (BIH) in future. The property services operations acquired by Berlin for a price of €1 will become subsidiaries of BIH. pfe

Ellwanger & Geiger's German property share index Dimax rises 39% in 2005

The southern German private bank Ellwanger & Geiger has updated the property companies listed in its index E&G-Dimax, which comprises 48 companies with a total market capitalisation of €8bn, and said the index rose by 38.6% in 2005.

The Dimax lists German stock companies that generate more than three-quarters of their earnings from real estate. The rise in 2005 was driven mainly by the performance of IVG Immobilien AG (+48%), Hamborner AG (+30.3%) and

Colonia Real Estate, IMW Immobilien and Vivacon.

In an overhaul of the index the bank dropped three companies - W. Jacobsen AG, Tempelhofer Feld AG and RSE Grundbesitz und Beteiligungs-AG. They were replaced by DIC Asset AG, Frimag Frankfurter Immobilien AG, VIB Vermögen AG, RCM Beteiligungs AG and Rücker Immobilien AG. pfe

European hotel investors to look East in 2006 - JLL study

Eastern European hotel markets, such as Prague and Moscow, are likely to emerge as serious competition for their more established peers in western Europe in attracting major investment during 2006, according to a report by Jones Lang LaSalle Hotels.

The research, which surveyed 2,000 of the world's principal investors and owners of hotel and resort properties, found that the majority are keen to hold on to their European hotel assets. Just 13% of hotel investors plan to sell and one-third are looking to buy in the short term.

Mark Wynne-Smith, Jones Lang LaSalle Hotels European CEO, expects recovery in Europe to be gradual but says investors are still confident about the trading outlook in London, Paris, Rome and Amsterdam. Oversupply remains an issue in Germany and Spain, which top the "sell" wish list, but counter-cyclical buying could emerge, he says.

Investor interest in building new hotels continues to be weak across Europe as development land remains scarce and expensive in major cities and construction costs rise, but Moscow has the best prospects for new supply. London has witnessed 17% growth in new building projects, mainly due to its winning bid to host the Olympic Games in 2012.

According to Wynne-Smith, initial yield requirements for hotels in Europe are still tightening and investors expect the increase to slow over the next six months. The exception is in Hamburg where yield requirements have declined and recorded at one of the lowest levels across the region. London and Paris also have low yield requirements, indicating the strength in these markets. Investors report significant tightening in yields in London, Milan and Amsterdam reflecting strong trading expectations across these markets. pfe

Greek Pireaus Bank to set up a €50m Balkan real estate investment fund

The Athens-based Pireaus Bank is to establish a €50m Balkan real estate investment fund to seek capital growth from the developing real estate market in the region and focusing on the countries most likely to enter the European Union soon.

The fund, called Trieris, will be established with starting capital to be invested by the bank's private customers, and will be managed by the Pireaus Banking group. Pireaus said the move is in line with its stated aim of expansion and investment in south-eastern Europe.

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Gecina's former Chief Executive **Serge Grzybowski** was named director of insurance, banks and financial markets and will be senior advisor on property for **HSBC France**... **Luca Fantin** and **Laura Piantanida** have been appointed Managing Directors by Milan-based **Reddy's Group**... **Francois Delarue** will become president director general of **Agence Fonciere**... **Rainer Thaler** has replaced **Michael Gerlich** as Managing Director of **GE Real Estate** in Germany... **Jan Eijkemans** is leaving **ING Real Estate Development** to take on the post of Directeur Internationaal at **Bouwfonds MAB Development**, The Hague, from February 2006... **Jean-Marc Roger** was named property director of the French railways **SNCF**... **Richard Wartenberg,** currently Managing Director of **Bouwfonds Real Estate Services Deutschland**, will head up the commercial acquisitions team of **Apellas** in Berlin from February 2006... **Jean-Claude Bossez** was elected president of **Afilog**... **Michael-Joachim Siebold** has left **Reit Asset Management GmbH** to head up the Asset Management division of **P & K Real Estate GmbH** , the new joint venture between **Pirelli RE** and **Kronberg International**... **Achim Tillmann** has been appointed to the Management Board of Cologne-based **AMB Generali Immobilien GmbH**, the **AMB Generali** Group's property services provider... **Francois Bonnet, Bruno Corinti, Emmanuel Deloge, Jean-Philippe Ruggieri** were appointed director generals at **Nexity Logement**... **Marc-Antonio Unverzagt** has left **Catella Eureal** to join the Management Board of **Primarc Developments GmbH & Co. KG**, Hamburg, where he will be responsible for all property projects... **Edouard Vitry** will join the Paris office of **Simmons & Simmons** to head the property division... **Robert Öhman** has been appointed Chief Financial Officer of Finnish building company **Sponda Plc** ... **Martina Fidlschuster** has taken over the management of the **Unternehmensberatung für Hotellerie und Touristik Hotour** GmbH, Frankfurt am Main. Founder **Peter A. Bletschacher** retired at the end of 2005... **Michael Hermes** has left the Management Board of **Deutsche Annington Immobilien**... **Jean-Luc Chalard** was named director general of **DTZ Jean-Thouard** in Paris... **Peter Holtz** has joined **Cushman & Wakefield Healey & Baker** in Frankfurt as Partner and Head of Investment Germany... **Pierre Mirabaud** was named interministerial head of development and competitiveness of French territory... **Gilles Ryckebusch** was appointed director of investment and development at the **Port of Dunkerque**... **Jörg R. Lammersen** has left **IVG Immobilien** AG to become Director of Strategic Portfolio Development at **TLG Immobilien GmbH**, Berlin... **Miguel Ruth** has been appointed to the Management Board of **Engel & Völkers Immobilien GmbH**, Hamburg, as Director Operations and IT... **Mario Liebermann** has left **DB Real Estate** following the closure of **Grundbesitz invest... Jean-Luc Nguyen** will become director general of **Nexity-Appollonia.** pfe

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