PROPERTY FINANCE EUROPE

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G-REITs near certain to be introduced in 2007 with two-tier tax structure

German Real Estate Investment Trusts (G-REITs) are near certain to be legalised from January 2007, and the Finance Ministry (BMF) is expected soon to announce a two-tier REIT AG & Trust structure to solve the tax problems.

Financial sources are expecting an announcement at latest in May that G-REITs will be introduced simultaneously with UK REITs, the introduction of which is expected to be included in Chancellor Gordon Brown's UK budget next month. The contract drawn up by the German grand coalition under Chancellor Angela Merkel favoured G-REITs. As in other countries, the sticking point has been the risk of losing huge amounts of tax income if dividends on the corporate tax-exempt REITs are paid out gross to shareholders.

Further consideration has also been delayed by the crisis in German open-end property funds, sparked by unprecedented fund closures by two institutions, Deutsche Bank and the private KanAm group (see p3-5). This is being dealt with in the same BMF division under State Secretary Axel Nawrat. However Finance Minister Peer Steinbrück demonstrated full backing for G-REITs in a recent meeting. "He pointed to his people and said, 'get this done fast and keep me fully informed'," one financial source said.

Deutsche Bank Director Klaus Droste, a member of the lobby group Finance Centre Germany Initiative (IFD), told PFE, "We will have the REIT in Germany from the start of next year." A recent IFD paper outlining the double-tier structure now favoured by Berlin (see p6) should ensure non-resident shareholders can be taxed at source at a rate expected to be around the 15% levied by the US and other countries that already have REIT regimes. The 'exit tax' - the rate levied at sale of assets into a REIT or for formation of a REIT - is expected to be half the current German capital gains tax, similar to the French and other systems, and be subject to a five-year sunset clause. pfe

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Property Finance Europe has now instigated a newsline email for you to reach us with your messages and public domain communications. Please send all of these to news@pfeurope.de, where we promise to give your message due consideration!

Also, we will soon be delivering words of wisdom (!) on continental European real estate via your tv screens -that is, if you are in Europe or can otherwise successfully access CNBC Europe at 8 p.m. central European time every Thursday after the first monthly edition. This starts on 16 March from the parapet above the floor of the German stock exchange with our old friend and colleague Silvia Wadhwa.

This PFE 19, now on your screen or in hard copy, is yet another 20-pager. Despite this, after the first of the year's three-week breaks, so much material flooded in that we had to jettison quite a lot for the spike. Apologies therefore to the Polish real estate association, which we wanted to profile as the next in our series, but now will have to move into line for the next issue, PFE 20 due on 27 February. We haven't forgotten you though!

French SIIC Société Foncière Lyonnaise reports 16% rise in 2005 cash flow to €103m

Because 2004 included significant exceptional gains, French REIT/SIIC Société Foncière Lyonnaise announced virtually unchanged net profit for 2005, at €89.5m. In fact, cash-flow rose 15.9% to €103m - the fifth consecutive year of double-digit growth - while net asset value of its property holdings was 11.2% higher, at €44.6 per share.

The increase in current cash flow was attributable to the improved underlying profitability of the property portfolio. The modest 2.2% decline in rental revenue to €153m was due to the net effect of property purchases and sales. On a comparable portfolio basis, rental revenue rose 4.7%. The occupancy rate at 31 December 2005 was an exceptionally high 96.1%, reflecting the strategic location of assets in the Paris business districts. pfe

Mid-East investors to use higher oil income for global real estate - Jerry Speyer

Jerry Speyer, co-chairman of the Tishman Speyer property development group, predicts the flow of funds into global property will accelerate during 2006, and that the recycling of income from higher oil prices means Middle East investors will become much more active.

Speyer told the CIMMIT conference in Frankfurt last month institutional investors are looking for cross-border opportunities and increasing their diversification out of home markets. "The flow of funds to real estate has increased dramatically in the last period of time and will continue to increase," he said. "2005 already exceeded 2004, and 2006 will exceed 2005."

Aside from Mid-East investors, Japanese institutions have also reappeared in the market after 10 years in which the world was highly concerned about their economy. "I believe we will see all kinds of new capital flowing into real estate," Speyer told the conference (See also the PFE 19 interview with Robert Orr, p8). The yield for commercial properties in Germany has now become very competitive when compared to the key markets of the world, the UK, France, Sweden, US and China.

The wider spread of Real Estate Investment Trusts (REITs) on the European continent and in the UK would certainly foster this trend. However, while their public capital market listings made them good for ownership of property this also meant REITs were not particularly suitable for property development projects. He characterised repositioning of older properties that need capital investment and renovation as a highly interesting opportunity in Europe, but noted this takes risk capital. "This is not sourced through a REIT because REITs by definition have to pay out everything that they earn," Speyer said.

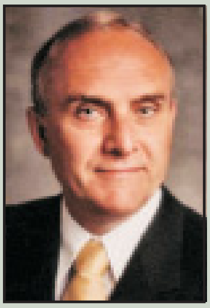
In regard to his own company, Speyer said Germany would hear more of Tishman Speyer in the coming year - just 10 years also after it helped develop the Messeturm in Frankfurt, among many other large office developments. "There are going to be terrific opportunities for everyone to make money in real estate this year," Speyer forecast.

"Real estate has got a wake-up call. It's become a much more professional business than it was in the past. The opportunities today are much greater than they have been in the last 40 years that I have been in the real estate business. Foreign investors will turn to real estate in larger numbers over the next few years despite the fact that real estate is a regional business. That is a consequence of globalisation." pfe

European Central Bank changes collateral rules to clarify ABS eligibility

The European Central Bank has published amendments to the criteria for eligibility of asset-backed securities as collateral within Eurosystem credit operations in order to increase the

A good conference month, January. CIMMIT in Frankfurt saw attendance rise to around 250. Interesting contributions on foreign investment: REITs of course, and an entertaining view from, among others, Rocco Forte (see later) who is developing one of his fine upmarket hotels just down the road on the Kennedyallee. The ULI Europe (Urban Land Institute) conference in Paris was a bit strange though; the Americans and Brits talking about 'China in the 21st Century', and 'Rebuilding New Orleans; Lessons from Katrina'. Our strong suspicion that many Anglo-Saxons think Europe ends at Dover was further heightened by one US participant telling us that these topics were chosen because "Europe is boring". Well no, actually. European property is anything but. We may take a bit longer, but the hugely dynamic changes now visible under every real estate stone you care to lift - in any nation and also continent-wide - are producing a rapidly emerging whole new asset class. In the world's second largest global currency, by the way. Eurozone property offers a secure yield in a politically stable region in a stable currency: the Bund of the real estate global asset management industry. We pressed a hot-off-the-press PFE into our interlocutor's hand in the Paris Interconti elevator. "Read this!", we said. Exit stage right in high dudgeon. Last week, Business Manager David Jayne took us to Barcelona for the Euromoney Propinvest Europe, and reports only very good things. JP Morgan's Nick Tyrrell did a fine job of chairing, he says - and David knows a thing or two about theatre! If Shearman & Sterling were the major Propinvest sponsors, European property must be entering the big time! "Hot or Not - Is It Time To Get Out?" was one of the session titles. Lots of variations on this theme in PFE 19.



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You can be forgiven for reaching for your weapon when you hear the words 'REITs' and 'property funds' in the European real estate sector. But REITs may indeed change the world, as I always say with ridiculous exaggeration. One senior international banker we spoke to recently not only can't hear the word REITs any more, he thinks that, in Germany at least, they will be a damp squid, and that Berlin tax fiddling will ensure the globe will spin further, unhindered, on its present slow axis. Note one thing though: on the European continent, developments in REITs and property funds go together - and the combination of the two is hugely important for valuations, capital flows, tax revenues for governments, jobs, consumer spending, etc. France, for instance, is busy creating open-end real estate funds just at the moment when Germany is thinking of giving up on the whole damn thing. Not surprising. The German sector is a disaster; an inherently illiquid investment sold to retail clients as a liquid vehicle. We strongly suspect that Paris legislation to create an OPCI open-end fund is more or less an attempt to counter the foreigners swooping down on our beautiful national real estate. French nationalism at play; nothing new there. But yes, the OPCI should be a useful pension vehicle. Paris thought it could quietly create REIT/SIICs in 2003 to rescue the suffering listed real estate sector - and no one would notice. Well, they did. The Spanish, Americans and English have diligently bought into French SIICs and are exploiting the tax-free status to the hilt. Now, Paris wants to redress the investment imbalance by encouraging private domestic capital into OPCIs and having them compete with SIICs and also invest in them. Read a very good analysis by Boudewijn Schoon of Kempen & Co in Amsterdam. OPCIs will be able to invest up to 39% in property shares, probably serve for insurance sector conversions of current property saving schemes, and may be managed externally. Also talk to the French association Aspim, or law firm Gide Loyrette & Nouel. Boring? Huh!

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transparency of the collateral framework.

The amendments specify the precise criteria to be fulfilled by ABS in addition to criteria on debt instruments in general. It has been decided, for example, that the "fixed, unconditional principal amount" requirement will no longer apply to ABS because the principal amount is usually dependent on the performance of the underlying assets.

In the past, the ECB has not applied specific eligibility criteria to ABS. It interpreted the general Tier One eligibility criterion stipulating that debt instruments must have "a fixed, unconditional principal amount" as excluding ABS, due to the fact that the credit risk is transferred to a SPV using credit derivatives.

The new criteria relate to the following five aspects:

1. The cash-flow generating assets must be legally acquired from the originator or an intermediary by the SPV in a manner which the Eurosystem considers to be a "true sale" enforceable against any third party.

2. The cash-flow generating assets must not consist of credit-linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives.

3. Debt instruments affording rights to principal and/or interest subordinated to the rights of holders of other debt instruments are excluded from Tier One. A tranche or sub-tranche is considered to be non-subordinated and senior if it receives payment in priority to other tranches or is last in incurring losses in relation to the underlying assets.

4. ABS issued by entities in the United States, Canada, Japan and Switzerland are not eligible.

The ECB also said that units of French fonds communs de créances (FCCs) in the Tier One list will remain eligible for a transitional period until 30 December 2008.

The changes are contained in a document published in mid-January entitled, The implementation of monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures. pfe

Deutsche Bank makes provisions of €200m for investors in Grundbesitz-invest

Deutsche Bank has made provisions of €203m in its 2005 accounts to remunerate investors affected when it made an unprecedented closure of its Grundbesitz-invest property fund in mid-December.

The figures, contained in Deutsche's year-end balance sheet accounts, were allocated to "fund investors for indemnification against possible losses" as a result of the new valuation of the assets still taking place. No details are yet available but Deutsche Bank Chairman said Grundbesitz-invest will be re-opened as soon as possible, according to a report in the Immobilien Wirtschaft magazine.

Separately, the Hamburg stock exchange announced last week that it would trade certificates of the DB fund on its trading platform "Fondsbörse Deutschland". Prices would be set according to the order supply and demand, and HSE stressed that the certificates may indeed trade at levels well below asset valuations published by DB Real Estate.

Hamburg recently also announced that, in a similar action, it was also listing the share certificates of the private KanAm group on its trading platform. KanAm was obliged to close two funds last month after a sell recommendation from the Berlin-based Scope ratings group. pfe

Investors redeem €3.4bn from German open-end funds in 2005, run continues

German open-end funds saw redemptions totalling €3.4bn on a net basis during 2005, the federal Association of Investment and Asset Management (BVI) reported.

In December alone, €3.1bn flowed out of the funds, with more than €1.2bn comprising redemptions from funds owned and managed by the DB Real Estate subsidiary of Deutsche Bank. In an unprecedented move in mid-December, the bank closed its Grundbesitz-invest until this month after a run on the fund from investors fearing a strong mark-down in its valuation.

At end-2005, German open-end funds therefore held assets valued at €85.1bn, BVI said. Because the measurement came before the closure of the KanAm funds last month, it noted that precisely this group had been the major beneficiary of net inflows through 2005, attracting no less than €1.1bn to its funds.

Separately, the Frankfurt subsidiary of SEB reported last week that it had also suffered the contagion of a property funds capital outflow during January. Barbara Knoflach, director of SEB Asset Management in Frankfurt, told the Handelsblatt newspaper that SEB Immoinvest had seen €480m in redemptions. With a volume of €5bn, SEB Immoinvest counts among the largest of Germany's open-end real estate funds.

BVI figures showed that the property funds of the savings banks' DekaBank, Deka Immobilien, saw the largest net outflows last year, losing a net €2.3bn in investment. Deka got into difficulties with its real estate funds in late 2004 as a result of valuation intransparency and mismanagement - which has led to legal actions against former managers. Since then, it has replaced management and taken fund assets into the parent bank balance sheet to ensure ongoing liquidity. Deka did not close any funds in difficulties at the time.

Commerzbank's Commerz Grundbesitz fund was the third most negatively affected by net redemptions last year, seeing €1.8bn of capital flow out of the fund, BVI reported. pfe

No change in KanAm sell recommendation, Scope MD Merz says

The rating agency which issued a sell recommendation on a US property fund of the German KanAm group, the Berlin-based Scope, said that an additional precision it issued late last month at the request of KanAm does not constitute a withdrawal of the assessment.

Responding to rumours that the furore sparked by the unprecedented second closure of a German property fund within a month had caused Scope to withdraw the 'sell' recommendation on KanAm's US-grundinvest fund, Scope Managing Director Alexandra Merz told PFE this was definitely not the case. "We have in no way withdrawn the KanAm recommendation," Merz told PFE. "Our change in rating recommendation (from 'hold' to 'sell') from Sunday 15 January 2006 remains unchanged."

She said Scope had, one week later, provided more detail on its change of recommendation by pointing to the SEC Filing of 6 January in which JP Morgan Chase had agreed to extend KanAm's US partner The Mills Corporation (TMC), a US REIT, a short-term credit line to allow it to meet payment obligations. KanAm management had requested that Scope publicise this change to TMC's original SEC filing.

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KanAm was obliged to close the US-grundinvest on 17 January, when the recommendations sparked a run on the fund causing liquidity to fall beneath the legally-set minimum of 5% of assets. Two days later, it closed its domestic grundinvest fund after redemption contagion brought an outflow of €700m within 24 hours.

Merz said Scope had issued a comment to make investors aware of the new credit line for TMC. "Unfortunately, this slight update has been used by interested parties to raise the impression that Scope had made a mistake and it is even being suggested in some quarters that we have revised our analysis," she told PFE.

"This is not the case. It is our duty as a rating agency to recognise and communicate market weaknesses and risks. For the future as well, we will not be diverted from this responsibility, for the emotions of the last few weeks have highlighted once again the importance of neutral information in this branch. We intend to deliver this in the future as well." pfe

PFE COMMENT: Hats off to Scope for not buckling under the intense pressure from the German real estate branch over the last few weeks. It is certainly high time that the financial sector in general realised that rating agencies are independent bodies, and that they cannot - and indeed should not - be controlled, supervised or otherwise monitored. A few rather silly proposals have been made to this effect over the last few months in Germany when one or other institution disapproved of a downgrade from a major ratings agency. To show that elements of this old-fashioned thinking remain in place, WestLB late last month 'fired' the rating agency Fitch and announced in a short, sharp press release that it would no longer cooperate with Fitch and that its officials would no longer be personae gratae in WestLB offices. A highly foolish move, and one that should merely attract the appropriate derision, we think. If any ratings agency can be shown to be wrong, or having miscalculated, then modern disintermediated capital markets dictate that this must be documented in the public domain. The agencies will then lose reputation, leading to loss of mandates, and thereby curtailed.

Canadian-American Triple Five pulls out of investment in Bremer Space Park

The sale of the Bremer Space Park, in which a Dresdner Bank property fund invested €400m, has run into problems, and the Canadian-American shopping centre developer Triple Five has pulled out of an eventual takeover despite being offered the project for €55m.

A spokesman for Dresdner Bank confirmed to the Immobilien Zeitung newspaper that new negotiations had been taken up with another potential foreign investor in the project. Sources in Bremen said this was a British financial investor that, however, had no interest in operating the retail and entertainment project located on the waterfront in Bremen, and that the Israeli Elbit Medical Imaging group was in discussion as a possible operating partner.

The Financial Times' Patrick Jenkins wrote a long article in the newspaper last week focused on the Space Park project, and outlining that Dresdner's Degi property fund had been the principal investor on the 66,000 sq.m. facility that cost €650m to build. The City of Bremen put up another €200m mainly to cover infrastructure development in and around the Space Park, which was designed to attract 1m visitors per year and create thousands of jobs.

"If ever there was a textbook example of the flaws in Germany's open-end fund market, this is it," Jenkins wrote. "The Space Centre, dreamt up by the city council in the 1990s, had struggled for years to find backers until Degi … stepped forward in 2002." By last November, Dresdner had written it off and Triple Five initially agreed to purchase the project for less than one-tenth of its cost.

The FT quoted Bärbel Schomberg, who became Degi Managing Director after the Space Centre affair, as saying, "Our fund wanted to be innovative, which was no bad thing. But today, we no longer see the risks associated with venture capital projects as an appropriate investment for a classic open-ended fund." pfe

PFE COMMENT: Not really much more to say about this. There could not be a clearer example of misallocation of capital, which is in reality the core risk inherent in the construction of the German property funds at present. Only if the structure itself can be made more flexible in its access to liquidity, and also overhauled to require complete transparency - perhaps down to valuations and tenancy agreements of individual assets

- can the industry move forward now. Proposing, as the BVI is doing (see below), that institutional investors should be required to provide 12 months' notice before redeeming their larger investments is merely addressing the effect, and not the cause. This would be a structure completely out of step with the modern capital market direction that the vast majority of the German real estate sector is pressing to take.

BVI's 18-point proposal to enhance open-ended German real estate funds

The following is an edited version of the proposals put forward by the German Investment and Asset Management Association (BVI) to reform open-end funds:

1.An investor acquiring units in an open-ended real estate fund to the value of €1m or more must inform the investment management company immediately. Failure to do so can result in a fine.

2.When redeeming units acquired after the new rules come into force, a notice period of 12 months applies for amounts of €1m or more. The same applies to redemptions that represent 1% or more of fund assets. This requirement shall not apply if the amounts were paid into the fund by the investment management company itself or its parent companies for the purposes of ensuring liquidity and after prior notification of BaFin.

3.As part of an industry-wide voluntary agreement, investment companies will double the minimum liquidity of their retail funds from 5% to 10%.

4. If the liquidity of a property fund for retail investors reaches or exceeds 40%, management companies are required to suspend active unit sales and report this fact to BaFin. This does not apply during the startup period.

5.Open-ended real estate funds should be allowed to invest part of their assets in REIT shares or shares issued by listed property companies. The permitted extent of such investment should be at least 20%.

6. Investment management companies will be allowed to sell properties held by a retail fund to a special or retail fund managed by the same investment company at market value. The same rules apply as for transactions with third parties.

7.To cover the eventuality that redemption of units is temporarily suspended, the necessary conditions will be created for all open-ended real estate funds to trade their units at market prices on a regulated exchange.

8. BaFin or another neutral body shall appoint the members of the expert committees of the investment management companies based on a pool of experts and a procedure independent of both the management companies and the experts. The latter may not act for an investment management company for a continuous period of more than five years.

10. The principal and assistant appraisers for a specific property must change at least every two years; they must be selected solely by the expert committee.

11.Properties must be valued at least once a year. In the case of retail funds, the valuation must be reviewed by the expert committee after six months.

12.A mandatory valuation method and documentation requirements will be laid down.

13.Experts are to be paid according to a standard set of charges to which all investment management companies must adhere.

14. It shall be clarified that transaction costs associated with purchasing a property do not form part of the market value of the property. They will be disclosed separately in accordance with IAS 40 and written down over the usage period, but not exceeding 10 years.

15.The market value of the individual properties will be published in the annual reports of retail open-ended real estate funds.

16.The investor structure by size of holding will be published in the annual reports of retail open-ended real estate funds.

17.If the borrowings of a retail real estate fund exceed 40% of assets, the company will make a public announcement to this effect.

18.A standard level of provision for tax liability which may arise from subsequent capital gains is to be laid down in binding regulations. pfe

Insurance, investment funds likely to be allowed to invest in G-REITs

The crisis in German open-end funds has underscored the need for them to have much more flexibility on investment rules to facilitate quicker access to liquidity - with the result that legislation on G-REITs is likely to include provisions to allow insurance companies and investment funds to allocate a specific amount of assets to the new vehicle.

Germany is considering a similar construction to France, where legislation proposed late last year foresees permitting new OPCI open-end property fund vehicles to invest up to

39% of assets in French REITs/SIICs. The recent Financial Centre Germany Initiative (IFD) paper, reworked from earlier versions to better conform with the wishes of the new grand coalition government, says, "To ensure there is demand for REITs on the part of institutional investors, the regulatory environment for investment in REIT shares will be relaxed for the benefit of insurance companies and real estate investment funds."

Unlike provisions expected to be contained in the UK REITs legislation, the German financial sector is lobbying hard against any limitation on equity stakes. The UK is expected to announce a 9.9% cap on shareholdings in its REITs, but the German paper says: "German REIT shares must be publicly listed and are therefore fungible and liquid as well as subject to the control of the capital markets. Stringent distribution requirements will limit the REIT's capacity to fund its activities from within so that the REIT's business will develop as a function of stockholders' willingness to provide fresh capital. In addition, REITs can be taken over by other enterprises of the same sector if management is not able to achieve the expected appreciation in value."

PFE COMMENT: These are crucial points in the creation of a REITs environment, even more so in Germany where the entire financial and capital market sector is for the most part tightly controlled, and at the least closely scrutinised by authorities like the BAFIN and the Bundesbank. In particular, insurance groups are key capital-collection points; they have for decades been the main beneficiaries of a favourable fiscal regime to encourage individual savings. The thinking on the UK's 10% equity limitation in Germany is sceptical: while the British are likely to get round this in some way, perhaps through a 'muddle-through' form of subsequent secondary legislation, any such limitation in Germany would be disastrous. 'Muddle-through' is not the German way. Such a limitation is thought to hold the risk of considerably reducing the fungibility of REITs as vehicles for the longer term. G-REITs should ideally be completely open to global capital market institutions that may want to get involved in this way in German real estate. Any limitation on equity holding from the start may jeopardise the sector. The financial market is lobbying hard in Berlin to avoid serious consideration of this element.

New REITs laws will open further pan-European investment chances - SWIP

The introduction of real estate investment trusts (REITs) in the UK and Germany will offer European investors a number of significant new investment opportunities, according to Scottish Widows Investment Partnership (SWIP).

As well as the expected introduction in Britain and Germany from January 2007, a roll out of REITs in such countries as Italy and Scandinavia may follow. "The launch of REITs in Germany will have a particularly dramatic effect on property investment," SWIP said in a statement. Germany is Europe's largest property market but has a very small quoted sector. Approximately 65% of German companies own their own property, a much higher rate than in the UK.

The two-tier G-REIT structure: REIT AG & Trust

The following is a description of the two-tier structure for a German Real Estate Investment Trust (G-REIT), expected to be announced by the federal finance ministry in spring. The structure - a Real Property Stock Corporation with segregated Trust Asset Pool (REIT AG & Trust), will ensure that non-resident shareholders can be taxed in Germany, and is contained in a report released at the end of 2005 by the leading lobby group, Financial Centre Germany Initiative (IFD).

A German REIT will consist of a REIT stock corporation (REIT AG) which will assume management tasks, and a separate Trust Asset Pool administered by the REIT AG. The Trust Asset Pool represents a stand-alone pool of assets that is separate from the REIT AG's other assets. The Trust is neither liable for indebtedness of the REIT AG nor will holders of Trust interests be liable for indebtedness of the Trust or the REIT AG. Administering the Trust Asset Pool is the (inalienable) right of the REIT AG which is also the legal owner of the assets attributed to the Trust. Individual holders of Trust interests cannot request the dissolution of the Trust. The Trust Asset Pool can therefore only be dissolved as a result of a waiver or a loss of the REIT status or the liquidation of the REIT AG itself. Earnings derived from the Trust assets are directly attributable to the holders of Trust interests.

For purposes of exchange trading, the Trust interests are securitized together with the stock of the REIT AG and can be transferred on the exchange only together as one unified security. Conflicts of interest between the shareholders of the management AG and the beneficiaries of the Trust will therefore be avoided from the outset. Economically, however, stock and Trust interests remain separable as each holder can assign his individual rights contractually.

The rules of the Stock Corporation Act apply to the management of the REIT AG. Its shareholders exercise their member rights in respect of the REIT AG and its own assets in the general shareholders meeting. As regards rights in respect of the Trust Asset Pool these are exercised in a general meeting of Trust interest holders.

This will ensure that decisions relative to the assets of the AG, on the one hand, and of the Trust, on the other hand, can be arrived at through a transparent and unambiguous governance procedure. The powers of the general shareholders meeting and the general meeting of Trust interest holders are defined in a way that key entrepreneurial decisions, such as capital measures or property transfers, require the consent of both bodies. In practice, this will not complicate procedures as the REIT shareholder is, at the same time, a Trust interest holder and as it is permissible to hold the general meeting of Trust interest holders directly after the general shareholders meeting.

The registered share capital of the AG must amount to at least EUR 5 mil and must be equally divided into ordinary voting shares with no par value. Parallel to the AG's registered share capital the Trust has to show an "allotted" equity capital that must not be distributed. This allotted capital must amount to at least EUR 50 mil. To the extent that the Trust is not required to retain equity in order to preserve the tax status, the general meeting of Trust interest holders will decide disbursements (profit distributions) whereas the board (Vorstand) of the management AG is responsible for the requisite minimum distributions.

In order to achieve a rapid development of a publicly listed REIT sector the transition to a REIT is to be facilitated by reasonable exit tax provisions applicable to the contribution of real property to a REIT. By means of the REIT exit tax, accrued appreciation of the real property being contributed will be realized and the resulting capital gain will be subjected to a preferential tax regime. Further, to ensure that there is demand for REITs on the part of institutional investors, the regulatory environment for the investment in REIT shares will be relaxed for the benefit of insurance companies and real estate investment funds.

A reduced exit tax regime applies to accrued appreciation which is realized when real property is contributed to a REIT or when an entity is reorganized into a REIT. In parallel to the French rules, the tax on realized appreciation is to amount to effectively half of the general tax rate and shall be spread over a time period of four years. These rules are subject to a sunset provision after five years, i.e. are only available until the year 2010. pfe

Nigel Bolton, Head of European Equities at SWIP, believes this is set to change significantly: "We could see as much as €80bn in German REITs in the next five years as owner-occupiers take the opportunity to realise their real estate assets by moving their property into a REITs structure."

SWIP calculates that the successful REITs introduction in Australia, Japan, France, Holland and Belgium mean some 72% of the global real estate market is currently held in REIT-type structures. With UK and German REITs, this will rise to around 90%.

"We are starting to see the development of a pan-European property market for the first time," Bolton says. "In terms of total returns, our long-term forecast for European direct property is around 8% compared to around 7% for the UK. With REITs benefiting from the use of gearing we would expect a higher return of around 10%."

SWIP expects a significant increase in M&A activity within the European listed property markets. "Companies that trade at a discount to peers could be more easily acquired by their better-managed and more efficient peers," it said. pfe

London Stock Exchange eager to be home to main European REITs listings

With the UK and German Real Estate Investment Trusts (REIT) regimes now looking increasingly likely to become effective simultaneously next January, the London Stock Exchange is actively lobbying to become the trading centre for REITs from across the continent.

The UK Chancellor of the Exchequer Gordon Brown finally announce the legislation for a start to UK REITs in January 2007. Even ahead of the announcement the LSE is gearing up to build a property market segment in the exchange listings which would group all European REITs.

In a statement issued to *PFE*, LSE Main Market Product Manager Paul Haddock said: "With £12 billion institutional assets under management, an active retail market and a highly regarded regulatory regime, London's potential to become the natural home in Europe for the listing and trading of REITs is clear."

The LSE, the UK property sector, and several key players in the global REIT market have been taking an active part in the British government's consultation on the format of a UK-REIT,. In particular, the group remains opposed to the limits on gearing levels that the British Treasury is expected to impose on the UK-REIT, as well as the probable maximum equity stake for any one shareholder of 9.9%.

"Compared with successful established REIT regimes such as those in the US, Australia and many other developed countries, which have no specific gearing restrictions, the limit on borrowing currently proposed for a UK-REIT is prescriptive," Haddock said. "A 'disclosable event' approach would be preferable, allowing companies to choose the debt level they consider most appropriate to their business and allowing investors to make an informed decision on any changes proposed.

"We are also suggesting the removal of the proposed 10% limit on individual shareholdings or voting rights, a restriction that would add a layer of complexity to any consolidation or M&A activity, which is a part of any dynamic marketplace."

The so-called 'exit' tax rates for UK property assets and companies being sold into or forming a REIT remain open. The LSE and the lobby group are pressing for a level that would encourage this process. In France the decision to levy half the standard capital gains tax - 16.5% - on revaluations of property assets at sale to a REIT (Société d'Investissements Immobiliers Cotée, SIIC) has strongly promoted the sector since legislation was introduced in 2003. Germany is likely to adopt a similar tax regime, perhaps with a three-year limitation. pfe

Paris office space seen expanding as high as 60m sq.m. by 2015

Paris office space is likely to grow to around 53m sq.m. or even as high as 60m within the next 10 years from an estimated 49m at the present time, according to an estimate made by Atisreal director Alain Béchade for the think-tank Orie (Observatoire régional de l'immobilier d'entreprise en Ile-de-France).

A report by the Businessimmo portal said the forecasts were made of the basis of three scenarios: (i) the worst-case with no growth in office-based employment over the next 10 years; renewals and quality upgrade development of new space would reach about 700 000 sq.m. annually, and around 2m sq.m. would be taken out of service, (ii) the median, whereby economic growth is around 2% per year and 250,000 extra office jobs are created annually. Orie estimates potential additional demand at 5m sq.m., taking the total to 53m, plus around 500,000 sq.m. per year for restructuring, and (iii) the best-case, whereby French GDP growth averages 3% and generates 500,000 new office jobs per year. Here, 10m sq.m. of new office would be needed in the Ile-de-France region. pfe

The PFE Interview: Robert Orr, Jones Lang LaSalle, International Capital Group

Japanese cross-border real estate capital flows seen developing as private sector recovers; start of Chinese external property investment only 2-5 years off

Global pools of real estate investment capital moving across borders into other regions, particularly Europe, are likely to widen soon to include Japanese private entrepreneurial wealth and, in 2-5 years, also Chinese money generated by that nation's immense economic expansion, says a leading expert.

Robert Orr, one of three high-level executives named last year by Jones Lang LaSalle to an International Capital Group, told *Property Finance Europe* in an interview that the first signs of a revival of private and institutional Japanese investment flowing into the US are now evident. In the late 1980s and early '90s, Japanese money dominated cross-border property investment, mainly targeting the US, Australia, central London, Paris and Germany.

"We may not see much in 2006 but in the next couple of years we will see very substantial investment outside the country from Japanese investors," he says. After that, the next major wave out of Asia is likely to emanate from China. "The wealth that has been created in that country won't stay in that country, it will go into other economies, other currencies and other asset classes to diversify out of what they are dealing with the whole time domestically. I think China is probably two to five years off in terms of becoming a force in global real estate, in other words exporting investment capital to other parts of the world."

Orr was named last year to take responsibility for Europe in a new three-person JLL team tasked with tapping into the growing capital flows earmarked for inter-regional property investment. Fellow executive Noble Carpenter takes care of the Americas, while Guy Hollis, based in Hong Kong, looks after Asia-Pacific. The three report to Tony Horrell in London.

"The whole concept is simple," Orr says. "In the past, when clients of our firm wanted to go from one region to another, it was nobody's full-time role to see that happened effectively and seamlessly. When we studied global flows of capital going into real estate, it was blindingly obvious that it was not just cross-border business in Europe but inter-regional flows that were growing dramatically." The ICG is designed to service clients better, differentiate JLL from competitors, and enhance earnings.

Previously European CEO, Orr worked for four years in France and was also JLL's German chief executive. Carpenter has wide experience in the US, while Hollis has worked in South Africa, Thailand, China, Hong Kong and Northern Ireland. "Clients appreciate people who can take a helicopter view, have got experience across borders, and have seen a number of cycles," Orr says.

Using a JLL intelligence database of around 400-500 of the top cross-border real estate investors worldwide, Orr is currently working on a number of major transactions in Europe. One is a deal worth around €200m for an asset in an emerging market. "We were able to attract hot money to this product, which didn't otherwise have the CEE on its radar screen at all," Orr says. Another encompasses at least one large German commercial property portfolio sale.

JLL figures for first half 2005 show that global direct real estate investment grew 18% to $237bn vs 1H04. With the pace accelerating over the year, the company forecast around $550bn for 2005 as a whole. Europe attracted $81bn, while another $124bn was invested in North America. Cross-border flows grew at a slightly faster 21% in 1H05. Around $19bn was targeted at Europe - much higher than the $9bn that foreign investors put into the US. One-third of inter-regional property investment in 1H05 came from institutions such as pension funds, insurance companies, bank sponsored funds and finance companies. Developers and property companies contributed 29% of total, unlisted opportunity and third-party managed funds invested 15% cross border, private high net worth individuals and syndicates took 10% of total, and REITs and other listed firms invested 5% of total externally.

Orr sees the substantial re-rating of real estate as the major driving force behind its globalisation. "It's grown up as an asset

Jones Lang LaSalle's International Capital Group, formed to help major clients access inter-regional property investment. Pictured left to right are Guy Hollis, Noble Carpenter, Tony Horrell and Robert Orr.

class. It's become institutionally acceptable," he says. "There's faster and greater transparency and knowledge now." The benign investment environment, low financing rates and lack of attractive, fixed-income alternatives also contribute to the externalisation.

Investors such as Morley fund managers in the UK, or Hermes - the pension fund of the British Post Office and BT - have minimal international exposure and many are now looking to allocate significant funds abroad. Some 95% of assets of the UK's Prudential insurance group were located in the UK, and it is now diversifying abroad. Similarly Equity Office Properties, the largest US REIT with $27bn under management, has been reorganising its portfolio to focus on key US cities and international. Orr says. "You see that pattern repeated time and time again. Investors who have allocated 5%, 10% or 15% to real estate globally are typically moving to a 20-30% allocation to non-domestic property."

This year, the active inter-regional investors in Europe are likely to include Australian Listed Property Trusts, Irish syndicators and middle-eastern money, some of it Shariah-compliant. "We are going to see a lot of petro-dollars targeted at continental Europe, some of which is Shariah-compliant but not all. We saw the royal family of Dubai buying one billion pounds worth of central London property in the last year. Australian investors, particularly the unlisted property companies and the LPTs, are going to be big players, and that's all driven by very cheap source of capital." To cover pension funding, Canberra has made it compulsory to place 9% of gross income into qualifying retirement benefit schemes. "That money can't all be responsibly invested in the small Australian market, so a lot is looking to go abroad," Orr says. pfe

European RMBS issuances hits another record in 2005 - Fitch

Issuance volume in European residential mortgage-backed securities (RMBS) in 2005 has proven to be another record year, with growth of around 30% compared with 2004, according to the Fitch rating agency.

Issuance levels saw growth in all the major RMBS issuing countries in Europe, except France. This is in spite of a darker credit picture, which saw arrears rise in existing transactions in some countries, reflecting a more challenging economic environment generally. "The market might have been expected to contract given that upcoming Basel II implementation reduces the capital benefit to RMBS and the availability of covered bonds as an alternative source of mortgage funding," Fitch said. However, continued tight pricing in RMBS maintained its attraction as a funding source.

"Continued strong issuance levels are expected to remain in 2006, although the pace of growth is likely to reduce again compared to 2005 as the market matures," it added. pfe

Italian covered bond legislation likely to be passed by summer

Italy is likely to pass legislation in the first half of this year to back the issuance of covered bonds for financing mortgages, according to the European Covered Bond Council (ECBC) adjunct of the European Mortgage Federation (EMF), and leading European experts.

Tim Skeet, ABN Amro Managing Director and a member of the ECBC Steering Committee, wrote in the EMF's January newsletter that the next markets to develop significant covered bond issuance are likely to be Sweden, Norway and Italy. The latter is will legislate, and establish a regulatory framework run by the Bank of Italy and the Treasury.

"Interestingly enough, Italian investors will be offered potentially AAA bonds from domestic institutions, where the sovereign rating is Aa2 and AA-," he wrote. "This throws up the intriguing possibility of the new Italian covered bonds trading through the government curve."

Commerzbank's Claudia Vortmüller noted that eligible assets in Italy are residential mortgage loans up to a maximum 80% loan to value, and commercial mortgages up to 60%, with collateral located in continental Europe. Also eligible are ABS, but only the senior tranches with a minimum rating of AA. The assets must be bundled in an SPV, which also takes over the guarantee for the covered bondholders. The SPV may dispose only of covered bond assets, and incoming payments used exclusively to satisfy the covered bondholders.

However, the Italian covered bond regime can only be accurately evaluated once secondary legislation is finalised. "This will be a hybrid product that cannot be compared with covered bonds in France or Germany," she wrote in a research note.

Skeet said the European covered bond market in 2005 had had an important year in new issue volume and secondary market activity. Outstanding volume in the market is now €1,654bn, of which €650bn comprise 'Jumbos' of over €1bn individual issuance. pfe

Ukraine legislation for introduction of covered bonds comes into effect

After the Ukrainian parliament late last year passed legislation on mortgage bonds, which came into force in January after presidential approval, the nation is set for the issuance of covered bonds backed by domestic mortgages.

The law sets the framework for issuance and circulation of mortgage covered bonds, requirements for mortgage coverage as well as specifics of state regulation and supervision in this area, the European Covered Bond Council said.

To allow for the first issue of covered bonds, a number of regulatory acts still have to be approved by the Ukrainian Securities Commission. The last barriers could be removed by September 2006, and the first issue are expected to follow soon thereafter. pfe

Worldwide rise in house prices seen slowing to 6.7% in 2005 from 9.7% in 2004

The average increase in residential home prices in the 23 most developed nations worldwide slowed in 2005 to 6.7% from 9.4% in 2004, according to a study by the South Africa-based organisation ResearchWorldwide.

For 2006, ResearchWorldwide is forecasting a further slowdown in average price increases to somewhere between 2.5% and 5%.

Last year, the strongest climbs in house prices came in South Africa, Denmark and France, where price rose in each by around 14%. Double-digit increases were also recorded in New Zealand (13.5%), Spain (13.4%) and the US (10.5%). Much slower growth rates were recorded in the Netherlands (5.6%) and Britain (3%).

In Germany residential home prices fell by 1.3%, slightly less than the average for 2004 of -1.7%. This was exceeded only by Israel (-2.2%) and Japan (-4.7%). pfe

Denmark, Latvia see fastest European rises in house prices in 3Q05

Denmark and Latvia were the two countries in Europe with the fastest rises in house prices during the third quarter 2005, reaching annual rates of growth of just under 26%, the European Mortgage Federation reported in its January newsletter.

"However, while in Latvia house price growth is lower than during previous quarters, such a growth rate is extremely high for Denmark. In fact this growth rate is even higher for specific segments of the Danish market such as in Copenhagen or for certain types of properties such as apartments where annual growth exceeds 30%," it added.

In Sweden, Finland and Ireland, house price growth picked up again in 3Q05, after a lull during the first half. House prices increased by annual rates of 11.3% in Ireland, close to 10% in Sweden, and by 6.4% in Finland.

By contrast, in the housing market boom in Spain seems to have run out of steam, the EMF said. Since 4Q03 when price rises reached their highest rate of 18%y/y, these had

PROPERTY FINANCE EUROPE - BULLETIN BOARD

DIARY DATES AND UPCOMING IN 2006

March 14-17, Tuesday-Friday
MIPIM, Palais des Festivals, Cannes, France.
Building the World with MIPIM (Marché international des professionnels de l'immobilier) which bills itself as the world's leading real estate event. MIPIM brings together key industry decision-makers to establish long-lasting relations, present new projects, and lay the foundations for fruitful collaboration. Through a series of panels, workshops and keynotes, delegates 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.
ESF says the 2006 event, the third annual conference, will be the most innovative and exciting yet. It will "retain its reputation as the most substantive, educational and engaging securitisation conference in Europe, while substantially expanding issuer and investor participation to maximise business networking opportunities with the dealer and servicer communities." More info: www.europeansecuritisation.com

March 30, Thursday
The British GRI 2006, London, England
Pre-eminent leaders of the UK and Irish property markets come together at the British GRI to debate the burning issues and latest trends affecting the real estate industry today. The British GRI is a forum for decision makers. More info:www.globalrealestate.org

April 6-7, Thursday-Friday
The Second Annual CMBS Conference, Canary Wharf, London
Information Management Network in conjunction with Clifford Chance LLP. Commercial Mortgage Backed Securities is the fastest-growing asset class in European ABS. The conference is a prime venue for networking with the industry leaders responsible for this growth. More info: www.imn.org

April 21-23, Friday-Sunday
14th International Real Estate and Investment Fair REFE, Wroclaw, Poland
To examine current themes on investment and property financing, including apartment building for communes, strategies of investment funds, a forum of economic cooperation with regions such as the Persian Gulf, Russia and Siberia, and central and eastern European markets evaluated in the light of the economic situation and opportunities for further investment. More info: www.refe.pl

April 19-20, Wednesday-Thursday
Euromoney's inaugural global REITs conference, London
This two-day event covers all aspects of global REIT markets. Topics include: What makes REITs attractive to investors and where should they feature in your portfolio? Why have REITs been so popular in the US? What can the UK market learn from the US experience? Which model will become the industry's vehicle of choice post UK REIT Introduction? Why convert to REIT status? More info: www.euromoneyseminars.com/reits

April 27-28, Thursday-Friday
INREV Annual Conference, Rome, Italy
The 2nd Annual Conference will address key issues on the current state and future evolution of unlisted real estate vehicles in Europe and beyond. The conference program is divided into three main themes: Economy, Capital Markets and Real Estate: current state and prospects, Going Global, and INREV Initiatives. More info: www.inrev.org

decelerated to just 13.2% in 3Q05. Also in France house prices moderated for the fourth consecutive quarter, and in the UK house prices grew by only 3.4%, which is 10 points slower than 3Q04. Anecdotal evidence for Italy suggests that house price growth rates declined, and that further house price rises are unlikely for the near future. pfe

German residential assets still attractive for foreigners - Morgan Stanley

Foreign investor interest in German residential portfolios will continue in spite of rising prices as investors anticipate a marked increase in the home ownership quota, positive economic development and favourable investment conditions, according to a report by Morgan Stanley.

The report estimates that up to 1m apartments could come on to the market over the next five or six years as the public sector continues to sell off a large proportion of its holdings, and private-equity apartment holding companies re-sell their investments on the capital market.

Smaller transactions of up to 5,000 units are growing in importance as international property companies tend to focus on the larger portfolios. Some 75,000 apartments were sold in small deals over the last two years, compared with 437,000 units that changed hands for a total of some €20bn in large transactions.

Oliver Puhl, head of German real estate investment banking at Morgan Stanley, said in the report that many long-term property investors are focusing on ultimately listing their holdings on the capital market. pfe

Vienna's Conwert joins Pirelli, Kronberg, Lehman in Berlin apartment buy

Vienna-based Conwert Immobilien Invest AG has joined forces with the joint venture of Italy's Pirelli RE and Germany's Kronberg International, and Lehman Brothers to purchase a property portfolio in Berlin valued in excess of €78m.

The portfolio consists of 1,560 apartments and 31 commercial units totalling 105,000 sq.m. useable floor space. The joint investment partnership intends to modernise the apartments and then privatise them. Conwert said in a release the sale could produce yields well in excess of 10%, given the attractive purchasing price.

Conwert holds 34% of the acquired portfolio, P&K Real Estate - the joint venture between Pirelli RE and Kronberg International - 45%, and Lehman Brothers the remaining 21%. pfe

Soros-apellas buys 400 flats in Berlin

Berlin-based apellas, an associate firm of the George Soros group, has won a public bidding auction to purchase a portfolio of more than 400 residential units in Berlin from the German Bundesbank central bank at a price of some €50m.

The apartments are located in the Berlin suburbs of Schmargendorf, Schlachtensee and Dahlem. According to both parties, the transaction is the largest property portfolio put up for sale by the Bundesbank in recent years.

In defence of the high purchase price, apellas Managing Director Ulrich Weber said the company was convinced the properties offered unique value sustainability. Following the purchase, apellas, which is 95% owned by US investor George Soros' Grove Capital fund, now holds more than 6,000 residential units in Berlin and Potdam. pfe

German home prices dropped 10% between 2003 and 2005 - institute

Prices for homes built since 1990 dropped by as much as 10% between 2003 and 2005 in nearly all major German cities, according to Hamburg-based Analyse & Konzepte.

The survey, based on a monthly evaluation of 1.7m properties culled from 89 sources, found that markets such as Hamburg, Munich, Bonn or Mainz had already witnessed declines of some 10%, though prices in less volatile locations had not fallen to the same extent.

Separately, the German newspaper Handelsblatt reported that property was more affordable than ever as prices fell in the wake of the abolition of state home ownership subsidies at end-2005. A survey by the Munich-based Ifo Institute also revealed that a normal newly-built terraced house in Munich, which cost 20 times per capita income (PCI) in 1982, was now available for only 13 times PCI.

The same applies to apartments. Bad Homburg-based Feri calculated that square metre prices for owner-occupied apartments had fallen across the board over the last 10 years with drastic declines in certain cities, such as Kassel, where prices fell to €822 per sq.m. from €1,559 - and Magdeburg where the drop was even more pronounced, down to €791 compared with €1,831. pfe

Cerberus purchases further 2,000 apartments in Germany

The US opportunity fund Cerberus has purchased another 2,000 residential units to add to its already considerable portfolio of 110,000 homes acquired over the last 18 months in Germany.

The residential units sold by various private investors are located in west Berlin (600), the Rhine-Main region and the former eastern states of Saxony and Saxony-Anhalt. The total transaction volume was not disclosed but is reported by Immobilien Wirtschaft as being in the low triple-digit million euros.

The units will be managed by Hanover-based BauBeCon, which Cerberus purchased at the end of last year. pfe

Germany ready for luxury hotels, France a "complete nightmare" - Rocco Forte

Low entry and financing costs to the hotel development business plus a proven ability to achieve premium room rates make Germany an obvious place to develop more luxury hotels but France is a 'complete nightmare', according to Forte group

Chairman Rocco Forte.

He told the CIMMIT 2006 real estate conference in Frankfurt in January that Germany is a promising place to invest; not only is it Europe's largest economy but the economic cycle shows strong signs of picking up. "We can't just ignore Germany, we have to be in a number of different cities - unlike France where it is enough to be in Paris, or in the UK where it is enough to be in London," he said. Apart from low financing costs, "the existing structure in the luxury hotel market here is, to say the least pedestrian, not very lively at all."

He described France, by contrast, as a "complete nightmare" for developing hotel assets currently, and said this would remain so until President Jacques Chirac retires.

Development and construction costs in Germany are €360-400,000 per room as compared with €1m-€1.4m in other places, with London the top of that price range, Forte said. Cities such as Madrid, Paris, and Milan are also becoming prohibitive in cost. But the financing appetite among institutions is sufficiently strong that they are prepared to invest in such developments at fixed rates, with only very slight inflation proofing.

"Most people think I am completely bonkers to be investing in hotels in Germany and actually investing in Germany at all," Forte told the conference. However, domestic investors are too pessimistic about the country's prospects. "The trouble with long-lasting stagnation is that no one ever thinks that you are going to come to the end of it." He compared the current domestic pessimism to Britain in the 1970s and at the start of the '90s when sterling's membership of the Exchange Rate Mechanism of the European Monetary System kept interest rates high and the economy depressed. Both situations reversed quite rapidly.

Incoming hotel developers are also helped by the fact that the luxury hotel business in Germany is mostly dominated by small family-owned or diversified groups. These have difficulty investing sufficiently and maintaining the quality of the product so as to prevent deterioration. This sparks a vicious cycle where premium rates cannot be sustained. "There is a certain insularity in their approach to the marketplace - a rather cautious approach," he said.

Turning to Italy, Forte noted it has suffered a 25% loss of competitiveness through the euro link over the last few years and, "may choose to move out of the single currency if it cannot solve this problem." Despite this, it has proven possible to develop hotels in Italy with room rates at premiums up to €200 per night higher than other top rates in place. The Four Season group had also achieved this in Milan with a €350 per night premium over the marketplace, and repeated this with the George V in Paris.

Forte said his company's strategy is to become the premier luxury hotel group in Europe. Competitors include the Four Seasons group, Mandarin Oriental, and to some degree the Kempinski group. Most Forte hotels are smaller than the 300-400 room properties of many top class hotels - which commonly have 150-200 rooms. The company's strong focus on service means that secret audit checks on service in each hotel are used to determine individual manager bonuses, which comprised around 40% of total remuneration. pfe

Australia's Toga Group launches European apartment hotel expansion

Toga Hospitality, a subsidiary of one of Australia's largest private property development and investment groups, Toga Group, has announced the launch of a new hotel brand for Europe, Adina Apartment Hotels.

The company on 1 January opened a luxury apartment hotel in Copenhagen, adding to the first European operation in Budapest that has operated for several years under the name Sydney Apartment Hotel. This will now be re-branded Adina Apartment Hotel Budapest. The group's third project is for 127 apartments in the Mitte district of Berlin, commencing construction this month.

The Toga Group, which recently established an investment fund, has earmarked in excess of €500m to invest in new projects over the next five years. It is now actively pursuing new developments in key European cities through a combination of land acquisition and development, joint ventures, turnkey contracts and management and lease agreements. pfe

Aberdeen raises €623.5m for first property fund backed by pan-Europeans

Aberdeen Property Investors announced the final closing of Aberdeen Property Partners (AIPP), Europe's largest pooled property fund of funds, which is the first to be backed by a pan-European group of institutional investors.

With total equity of €624m, AIPP will build up a gross real estate exposure of some €1.9bn through investments in a number of property funds across Europe. Managed by Aberdeen's subsidiary AIP Indirect Investment Management, it and was launched in February 2005 with €162m of equity commitments. Lead investors included Folksam, Nordea Life & Pension and The State Pensions Fund in Finland.

API IIM Managing Director Anders Åström commented in a release, "Since our first closing we have raised another €462m in three additional closings, bringing the total volume to €623.5m, which is well above our initial target of €400m… We were unable to accommodate all the investors that wanted to subscribe in the final closing."

Structured as a Luxembourg FCP, AIP will invest primarily in value-added funds that provide a stable income return and offer potential for capital growth, but also in core and opportunistic vehicles. The aim is to achieve an annualised net IRR of 10-14%, with an annual dividend yield in excess of 5% p.a. pfe

European listed real estate is strongest region in January, rising 5.4%

European listed real estate companies added an aggregate 5.4% in value during January, outstripping North America at 3.7%, and Asian companies with an average 2.2% rise in market capitalisation, according to euro-based monthly data from the European Public Real Estate Association (EPRA).

The indices, produced by EPRA with the US NAREIT and the FTSE group, showed Europe finished 2005 up 26.1%, underperforming the global index gain of 32.9%.

In January alone however, UK produced a third consecutive month of strong gains (+4.1%), and produced nine of the top 20 European performers. France performed best overall in the month, however, with listed real estate capitalisation rising by 5.3%. This was followed by the Netherlands (3.5%), and Sweden +1.2%.

As at the end of January, the European section of the FTSE

EPRA/NAREIT indices consisted of 90 constituents and had a free float market capitalisation of €107bn. A net 22 constituents were added in 2005, with free float market capitalisation increasing by €27bn. pfe

Rise in French house prices slows, households hit record mortgage debt

The rise in French house prices slowed down quite considerably at the end of 2005 and, with French households now at record levels of mortgage debt compared to income, only a shallow further increase is expected for 2006.

A survey in the French monthly business magazine L'Expansion concluded that apartment prices in Paris in December were rising only at an annual rate of just over 4%, compared with around 15% at the start of 2005. Quoting the National Federation of Estate Agents (FNAIM), the magazine said the yearly house price increase in the regions of France slowed to 9% in 4Q05, around one-half of the annual rate of increase one year earlier.

Most experts on French house prices agree that there will be no crash, mainly because the chances of a sharp rise in long end interest rates are very low.

According to calculations by Credit Agricole analysts however, household mortgage leverage is running at a record. The magazine quoted the bank's view that payment of capital and interest on mortgages reached an average of 31% of disposable income at end-2005 versus 21% in 1998. Almost one quarter of all French households have a mortgage servicing ratio above 35% of disposable income, which is a record.

David Lacroix, director of research at Credit Foncier, told the magazine, "Households have used up all of their disposable leverage to exploit the rise in house prices. Now, they have less and less room for manoeuvre." Various financing institutions and brokerages have, as a result, been offering ever longer amortisation of mortgages, sometimes as long as 30 years. Some estimates put mortgages of longer than 25-year duration at around one quarter of the total as compared with only 2% of total in 2002.

The pace of the sharp rise in residential property prices has outstripped the rise in rentals, though investment is also likely to moderate considerably in 2006. L'Expansion reported that average yields in residential housing have sunk as low as 4% in gross terms from around 7% in 2003. This does not however mean that demand has disappeared completely. The broker agency Orpi is still seeing an average of around five purchasers for each property it puts on the market - even if this is well down from eight at the start of 2005.

On the supply side, the agency Century 21 reports that the number of homes on the market has risen by 18% over the last year. Some 405,000 houses and apartments were started during 2005, around 42,000 more than in 2004. This is unlikely to slow down in 2006.

Around 12.5 % more construction permits were awarded during 4Q05 than in the year earlier quarter. However, demand could also be improved this year by the creation of the new tax favoured investment fund OPCI (Organisme de placement collectif on immobilier), a vehicle similar to the German open-end funds. pfe

French home prices are slowing after recording some of the sharpest rises in recent years. They should continue to rise but at a slower rate. Residential brokers report reasonable demand in the regions as well as in Paris, where prices were rising at a 4% rate at year end, down from15% at the start of 2005.

Gecina plans €4.6bn investment 2006-2010 with a cut in residential exposure

Gecina, the largest French REIT/SIIC, plans to make property investments of another €4.6bn up to 2010 seeking a targeted average yield of 6.6%, the company said in a presentation of its investment strategy.

Gecina plans to put 55% of funds into industrial real estate, 35% into hotels, logistics and other commercial property, and the remainder into residential property. About 85% of the total will be in property already in use while the rest will be in new projects. During the same period, the group plans to sell €3.1bn worth of property, almost two-thirds of it residential, with an average current yield of 4.1%.

Enrique Gracia, director of corporate strategy, said office rental rates are currently stabilising and are expected to increase slightly over 2006 and 2007. "The decrease in yields is expected to continue for some time," he said, adding that Gecina's commercial property strategy will be to boost investment in new projects. In the residential market, the increase in prices is expected to slow following seven years of strong growth, and Gecina will reduce its exposure.

By 2010, Gecina is eyeing total net rental revenues of between €710m and €720m from a property portfolio worth more than €12bn. This compares to €515m in rental revenue in 2005 from property worth about €8.9bn, with total occupancy hovering around 97%.pfe

Deutsche Wohnen to propose cancelling Deutsche link, put option

One of Germany's three largest listed real estate companies, Deutsche Wohnen, has announced an Extraordinary General Meeting for 23 March at which the management and supervisory boards will propose a resolution cancelling a control agreement with Deutsche Bank which hinges on shareholders also passing on a right of put option on their stock.

The move marks a major break for the company, which has been constrained by a complicated agreement whereby Deutsche subsidiary DB Real Estate Management, the original owners of its founding portfolio, provided investors six years ago with a 10-year put option valid until 2009 - in return, effectively retaining control. Only if all shareholders agree to relinquish the call option is Deutsche prepared to waive the control agreement.

In recent years, the bank has applied significant constraints on Deutsche Wohnen's ability to expand its business, which is the acquisition, development and management of residential property portfolios focused around its Rhineland base in Mainz. Despite this, international investors have bid the share price massively higher over the last 12-24 months, and it reached €226 last week, more than double the €110 strike price for the option.

The company said in a statement, "Currently, the German housing market provides good opportunities for Deutsche Wohnen AG. For the coming years, further growth potential is discernible in the market for privatisation of residential property."

Chairman Andreas Lehner commented that Deutsche Wohnen faces ideal conditions for continued growth. As a capital market platform, it can ideally cooperate with municipalities and other owner's groups for implementing value-driven strategies in residential housing - also assuming entrepreneurial and financial responsibility.

As measured by its market capitalisation of €904m, Deutsche Wohnen is currently the biggest German listed residential real estate stock corporation. It announced net profit of €21.3m for 2005, based on German accounting rules, a rise of 12% on 2004.

Table: Listed Real Estate Companies, returns January & year/qtr to date

Index Description	Curr	Closing Index Jan 06	Dividend Yield % Jan 06	Total % Return QTD	Total % Return Jan 06	Total % Return YTD
Global	EUR	2.306,02	3,61	3,58	3,58	3,58
Europe	EUR	2.721,38	2,62	5,44	5,44	5,44
North America	EUR	2.804,06	4,22	3,71	3,71	3,71
Asia	EUR	1.693,67	3,22	2,24	2,24	2,24
Austria	EUR	1.646,27	0,18	3,69	3,69	3,69
Belgium	EUR	1.884,39	6,14	- 0,26	- 0,26	- 0,26
Denmark	EUR	700,14	0,92	11,00	11,00	11,00
Denmark	DKK	703,35	0,92	11,08	11,08	11,08
Finland	EUR	3.676,03	4,55	9,64	9,64	9,64
France	EUR	3.137,74	3,30	5,33	5,33	5,33
Germany	EUR	1.402,00	2,55	22,88	22,88	22,88
Italy	EUR	3.826,68	1,81	10,74	10,74	10,74
Netherlands	EUR	2.686,45	6,30	3,54	3,54	3,54
Poland	EUR	1.021,26	-	17,87	17,87	17,87
Poland	PLN	1.208,33	-	17,34	17,34	17,34
Spain	EUR	5.582,81	2,06	9,98	9,98	9,98
Sweden	SEK	3.995,75	3,22	1,19	1,19	1,19
Sweden	EUR	3.679,69	3,22	2,73	2,73	2,73
Switzerland	EUR	1.627,04	0,46	1,69	1,69	1,69
Switzerland	CHF	1.585,74	0,46	1,76	1,76	1,76
UK	GBP	2.791,16	2,12	4,15	4,15	4,15
UK Net Index	GBP	1.463,34	1,59	4,15	4,15	4,15
Global Ex-Europe	EUR	2.179,36	3,85	3,15	3,15	3,15
Europe	EUR	2.721,38	2,62	5,44	5,44	5,44
Europe Net Index	EUR	1.714,55	1,97	5,42	5,42	5,42
Euro Zone	EUR	2.854,50	3,34	6,56	6,56	6,56
Euro Zone Net Index	EUR	1.734,24	2,51	6,51	6,51	6,51
Europe Ex UK	EUR	2.974,71	3,09	6,09	6,09	6,09
Europe Ex UK Net Index	EUR	2.946,12	2,32	6,06	6,06	6,06
Europe Liquid 40	EUR	2.649,82	2,64	5,42	5,42	5,42
Europe Liquid 40 Net Index	EUR	2.614,42	1,98	5,40	5,40	5,40
Europe Liquid 40 Ex UK	EUR	3.085,95	3,14	6,28	6,28	6,28
Europe Liquid 40 Ex UK Net Index	EUR	3.008,82	2,36	6,23	6,23	6,23
United States	USD	3.226,29	4,14	6,88	6,88	6,88
Canada	USD	3.899,88	5,36	4,95	4,95	4,95
Asia	EUR	1.693,67	3,22	2,24	2,24	2,24
Pure Asia	EUR	1.744,90	2,70	2,97	2,97	2,97
Japan	JPY	3.117,50	0,87	4,75	4,75	4,75
Australia	AUD	2.209,80	6,60	- 1,18	- 1,18	- 1,18
Hong Kong	HKD	1.494,50	2,30	8,32	8,32	8,32
Singapore	SGD	1.252,72	3,07	9,56	9,56	9,56
New Zealand	NZD	1.217,36	6,78	-	-	-

Source: European Public Real Estate Association (EPRA)

PFE COMMENT: A good company, well run by some very intelligent and experienced real estate specialists, but hamstrung completely in recent years due to the resistance of Deutsche to contribute equity or allow capital expansion to enable the company to develop its business. Shareholders attending its AGM are, as in many German listed companies these days, a fairly polyglot mixture of older, mainly residents of the Deutsche Wohnen apartments who bought in at the firm's foundation, and young investment bankers from the City or New York who are easily identified by their use of translation headphones. The core irony in the Deutsche Wohnen story is that due to the depressed state of German residential property in 1999, Deutsche Bank felt obliged to provide the put option 'guarantee' for shareholders in order to be able to place the stock. Now, however, things have radically changed. It would seem to us in the bank's best interests to comply fully with DW's expansion and development plans but this evidently does not fit strategically.

Deutsche EuroShop increases earnings by 60% in 2005

German retail property company Deutsche EuroShop is forecasting that, in 2005, final figures will show net asset value reached €45.70 per share, up 4% over 2004, and consolidated net income attained at least €44.5m, up 60%.

The company said the record results, equivalent to €2.80 EPS, were driven by the valuations of its Phoenix-Center Harburg and Forum Wetzlar shopping centres. At end November 2005, the portfolio comprised 16 shopping centres with asset value of €1.4bn. Revenue and operating profit should increase by 20% in 2006. pfe

Bouwfonds boosts profit to record for 2005 ahead of spin-off from ABN AMRO

The massive Netherlands-based pension fund belonging to the ABN AMRO group, Bouwfonds, announced that it reached a record net profit of €314m in 2005, a 16% increase over 2004, mainly due to further growth in financing activities and a strong improvement in asset management. Project development also delivered a good performance.

The contribution from activities outside the Netherlands rose by 44%. Activities in other countries contributed 16% of profits before taxes. Revenues rose by 25.4% to €871m, while costs rose by 25% due to continuing growth in all activities but also substantial once-only costs in relation to the spinning-off of Bouwfonds mortgage business.

The balance sheet total rose to €43.5bn at end-2005, up from €38.4bn a year earlier. This increase of more than 13% was especially due to growth in the finance portfolio. Profit retention increased equity to €1.9bn at end-2005, with group capital up €304m to €3.1bn. The balance sheet results raised the BIS ratio for core assets to 8.4% from 8.1% at end-2004, and for all the assets included in the total capital ratio, to 12.0% from 11.6%.

ABN AMRO has announced its intention to sell Bouwfonds, and this is likely to take place this year. As of January 2006, the Bouwfonds mortgage business merged with the mortgage activities of ABN AMRO bank to form the ABN AMRO Mortgages Group. Bouwfonds net profit for 2005, excluding the mortgage business, was €135m.

The figures for 2005 are the first published based on International Financial Reporting Standards (IFRS). The comparative figures given for 2004 are also based on IFRS, and are therefore not comparable to earlier published figures for 2004. pfe

Paris should take lessons from London in attracting capital to listed property

Paris can do better in terms of attracting investment to its listed property sector, the real estate specialist bank Eurohypo said in a study. While liquidity is flowing into listed French property firms, the amount pales compared to London.

Four recent operations on the Paris bourse had mixed results. They indicated that the relatively new Real Estate Investment Trusts vehicles (Sociétés d'Investissements Immobiliers Cotée, SIICs) are working but have been slow to take off.

"The total amount of new money that flooded the sector in 2005 was close to €1bn…The success of the last operations can be taken as evidence of the undiminished market appetite and of the capacity of the Paris stock exchange to attract international liquidity," Eurohypo said.

"During the same period, the property sector in London raised £400m only but with a better split, between about 20 companies, of all sizes. In addition, about 20 funds went public, bringing several hundreds of millions sterling to the market. The market has thus been more active, more diversified, and more retail orientated."

In the last quarter of 2005, the French property market saw three initial public offerings and one equity increase, all of which raised about €430m in new money. This boosted the French listed sector capitalisation by €1.8bn to around €36bn. The four included Mercialys, Société de la Tour Eiffel, Paref and Vectrane. The first two tapped into the new REIT regulation known as SIIC2 which allows the externalisation of property into REITs in exchange for shares. Eurohypo said this tested the market's appetite for this type of investment vehicle. pfe

Paris office market seen continuing to offer best prospects in 2006

The size and liquidity of the Paris office market made it last year the top overall European investment market for risk-adjusted returns out of 27 markets surveyed by the Urban Land Institute (ULI) and PricewaterhouseCoopers.

And "the shine is unlikely to come off investors' views" about the Paris market in 2006, they said in an investment report. However, the enthusiasm for Paris has driven prices up and yields down, leading some investors to look toward second-tier French cities, such as Lyons.

London runs a close second to Paris in the overall investment category, with low risk and solid total return prospects: investors in all property sectors find it a "buy or hold" market in 2006. Many respondents see London office as a recovery play gathering pace in 2006, and foresee two to three good years of performance ahead. The weak spot is likely to be retail, but the introduction of REITs, likely in January 2007, should support the market.

Helsinki jumped to third from sixth place for overall investment prospects in 2006, where office and retail earned high 'buy' recommendations. Madrid takes fourth place, with industrial assets in Spain also seen as solid prospects in the main corridors from Madrid to Barcelona, Valencia and Toledo. Rounding out the top five is Barcelona, which beat Paris in its outlook for both rent increases and capital growth. But Barcelona lacks size and liquidity - and offers more risk.

Prague, Zurich, Brussels, Hamburg, Rome, Budapest and Munich all rank in the middle of the pack. Istanbul dropped from middle market ranking to challenging, yet still captures top ranking for development, capital growth and total returns and fourth place for rent growth.

The report said investors should be looking to buy industrial properties in Warsaw, Moscow, Prague and Budapest, and retail assets in Helsinki, Moscow, Lyons, Madrid and Istanbul for office; and Istanbul, Prague, Budapest, Lyon and Helsinki for retail.

A shortage of conventional real estate is turning niche products into mainstream investments. Hotels, nursing homes, retirement communities, student housing, self-storage, parking facilities, pubs, spas, resorts, condo-hotels, are all examples of this broadening market. pfe

Demand rises for Romanian valuations

Demand for real estate valuations in Romania has grown considerably over the past 12 months, fuelled by the development of property financing facilities in the country and the active interest of a large number of property investors.

The DTZ property company said in a release that its Bucharest-based valuation department has, in the last six months, undertaken valuations in excess of €600m throughout Romania, with strong demand coming from the banking and financial sectors for international standard real estate valuations.

Valuations performed in 2005 included several large portfolios for an international bank, together comprising over 1,500 properties. In addition to large one-off instructions, there was increasing demand for regular valuations by individuals or organizations with property holdings requiring annual or bi-annual valuations of their portfolios. pfe

Office rental turnover rises 9% across Europe, including UK, in 2005

The major European office markets last year saw improved demand for space, slight increases in prime rents and declining vacancy rates, according to the quarterly real estate barometer published by IVG and Cushman Wakefield Healey & Baker.

Across Europe, including UK, nearly 9m sq.m. were rented in 2005, 9% up on 2004. Budapest, Prague and Warsaw all witnessed an increase of 10%. Brussels topped the list with an increase of 48%, followed by Frankfurt at 41% and Vienna at 33%. Office rental turnover declined in only six major cities: Dusseldorf, Hamburg, Lisbon, London, Madrid and Rome.

The vacancy rates in CEE markets declined from 14% to 10.8%, compared with 9% in western Europe. Amsterdam still has the highest vacancy rate at 21%. Düsseldorf experienced the strongest increase over the year, from 10.8% to 11.9%. Overall, the availability of vacant office space declined in 13 cities, and increased in six. The biggest decreases were witnessed in Budapest and Warsaw, at 3.6% each, and Prague, by 2.2%.

Overall, prime rents increased by 3.9% in the 21 cities measured. In Warsaw they fell by 5.6%, in Budapest they rose by 8.8%, and in Prague they remained unchanged. The biggest decline in prime rent was in Brussels, falling by 17% despite the highest increase in rental volume. The biggest increase was in Milan at 11.2%, followed by 8.8% in Paris, 7.1% in Zurich and 6.4% in Helsinki.

London and Paris remained the highest-priced office locations at €104.40 and €56.70 per sq.m. per month respectively. Milan (€41.70), Zurich (€37.50) and Stockholm (€35.50) were also expensive. The lowest prices were commanded in Warsaw (€17), Vienna (€18), Budapest and Prague (€18.50).

The report further stated that investments in the top five German office locations of Berlin, Hamburg, Munich, Frankfurt and Dusseldorf offer yields between 5.25 to 6%. This is higher than the average return in Western Europe (5.14%). Yields fell by 1.2 points on average in central and eastern Europe.

London and Madrid have the lowest yields on prime properties at 4.5%, alongside Barcelona and Paris at 4.75%, and the sharpest declines came in Lisbon and Stockholm. pfe

German building society LBS West reports its second-best results ever

LBS West, part of the LBS building society group owned by the savings banks, said new residential home savings contracts rose 2.5% in 2005, with overall home savings volume up 6%, making it the second best year ever in new business volume.

It said total market share rose to nearly 46% in unit contracts in just two years. Last year, LBS West signed 447,193 with a savings volume of €9.6bn. The LBS group, which is Germany's largest, has a customer base in excess of 9.7m clients who account for a total savings volume of over €241bn. pfe

Schwäbisch Hall boost earnings, new mortgage business

One of German largest building societies Schwäbisch Hall reported an increase of nearly 21% in risk-adjusted operating profits to €342m and considerable growth in both its mortgage savings and mortgage financing divisions in 2005.

The building society, part of the cooperative bank system, signed new mortgage savings contracts with 935,000 new clients valued at nearly €28bn in 2005. Its customer base of more than 6.6m customers now accounts for a total savings volume of €183bn. The mortgage financing division witnessed an increase of 19% in credit volume to over €12bn. pfe

Germany's fourth largest building society sees soaring home savings

The Coblenz-based Debeka building society said newly signed home savings contracts rose in 2005 by 35.1% to a total 128,562, boosting the funds saved in this manner by nearly 28% to €2.45bn.

The bank said in a release total home savings contracts on hand rose at end-2005 to 802,149, with a total savings volume of €16.2bn, up from just over €15bn at the end of last year. Debeka's balance sheet size of €14.3bn makes it the fourth largest building society in Germany. pfe

Eurohypo completes largest ever institutional refinancing deal in Russia

Eurohypo has completed its $130m refinancing of the Pushkino Logistics Park near Moscow, the largest institutional senior debt facility closed to date in the Russian commercial property market.

The 210,000 sq.m. park to the northeast of Moscow, scheduled for completion in summer 2006, is Eurohypo's first investment in Russia. Tenants include DHL, National Logistics Company and Relogix. Markus Leininger, Eurohypo's Head of Corporate Banking Central and Eastern Europe, sees the Russian property market as one of the most dynamic in Europe and expects the market to perform outstandingly.

Eurohypo is Europe's specialist bank for property and public finance with total assets of almost €240bn. The subsidiary of Commerzbank opened an office in Moscow earlier this year.

Partners in the development project include the US based Lone Star Ventures and Capital Partners, a specialist property investor focusing on Kazakhstan, Russia and Turkey. pfe

HGA Capital acquires record Budapest real estate package from IVG

Germany's listed IVG Immobilien is selling five Budapest properties with a total rental area of almost 38,000 sq.m. to the Hamburg-based HGA Capital Grundbesitz for just under €100m, making it the largest office real estate transaction in recent years in the Hungarian capital.

The sale comprises three modern office buildings at Infopark Budapest and two historical, listed properties in the city centre on Andrássy út Boulevard, which is a UNESCO World Heritage site. The acquisition paves the way for further development of the HGA's Central European fund product line, and are to be incorporated into HGA Capital's third Hungarian fund. Its launch is planned for the end of first quarter 2006.

IVG acquired the two period buildings, built at the end of the 19th century in neo-renaissance style, in the late 1990s, and restored and modernised them in line with original plans. Tenants include Budapest Bank, the Hungarian Investment and Trade Development Agency (ITDH) and the international solicitors, White & Case.

Due to increased interest from international investors, Hungary has developed a well-recognised real estate market over the last few years. Since the boom at the end of the 1990s the office vacancy rate has fallen to 12% from 21% in 2001. The IVG European real estate barometer posted an average rent of €14.50 per sq.m. in Budapest for 3Q05, extending an upward trend. pfe

Germans increasingly relying on homes rather than state pension

More than 64% of the German workforce thinks owning their own home is the best way to finance retirement, compared with 60% reliance on the state pension scheme, according to a recent survey conducted by Postbank and the Allensbach research institute.

Self-employed Germans (over 71%) are the strongest supporters of home ownership, and some 45% of the current workforce assumes it will spend its retirement in owner-occupied property, although only 12.3% actually expect to generate any income from owning residential property and land. pfe

French Accor hotel group increases revenue by nearly 8% in 2005

The France-based hotel group Accor reported an 8% increase in consolidated revenue to €7.6bn for 2005, and said it expects to meet its forecasts of €600m pre-tax profit and €300m in net earnings for the year.

The increases were fuelled primarily by its services division, although hotels also reported positive growth. Turnover from hotels in the mid- and upscale ranges performed better in the US (10.7%) than in Europe (1.5%) where the market remains sluggish. Revenue from economy hotels throughout Europe, excluding France, increased by 3.5%.

At end-December, Accor's portfolio numbered 4,065 hotels, with a total of more than 470,000 rooms in 92 countries, a net increase of 92 hotels and 12,000 rooms over the year. pfe

Holland's AM companies change back to former names after sale to MSREF

Following the purchase of the Netherlands-based AM group by Morgan Stanley Real Estate Funds, AM Development and AM Vastgoed are changing their names back to Multi Development and Multi Vastgoed - names they had used up to three years ago with the merger into the Amstelland group.

Multi said it will continue to develop shopping centres throughout Europe and will add investment, asset management and mall management to its activities. The company is active in regions such as Turkey, Greece, the Czech Republic and Poland, in addition to its traditional markets of the Netherlands, Belgium, Germany, France, UK, Portugal, Spain and Italy.

Projects in the Netherlands include Beursplein (Koopgoot) in Rotterdam, Kalvertoren in Amsterdam and Malietower for VNO-NCW, situated above the A12 motorway in The Hague. pfe

Office is best performing European asset class in 2005 - Fitch

Office was the strongest performing real estate asset in Europe during 2005, while retail declined on average across the continent, according to a recent Fitch Ratings report. But the European commercial property market improved only slightly in 2005, reflecting an overall economic recovery on the continent.

On a performance score range of 1 to 5, Fitch gave the European office market 2.88 for 2005, a marginal improvement from the 3.00 average in 2004. The scores within the retail sector declined, although these were coming from a high base since the asset class was among the best performing in 2004. Fitch said however that retail scores in 2005 were still generally good.

The Fitch score system (E-PMM) combines historic volatility of a property market with its growth prospects to derive a single performance metric. pfe

UK's CLS purchases three new commercial properties in Germany

UK-listed property company CLS Holdings said it paid more than €78m for three commercial properties in Hamburg, Berlin and Munich, bringing its German portfolio to five properties with a total value of over €84m.

The 5,654 sq.m. office property in Hamburg, fully let to nine different tenants on leases ranging from one to six years, generates an initial annual yield of 7.5%, with the initial cash return on equity with the completed loan facility of €10.4m or 23.2%.

Adlershofer Tor, a 19,715 sq.m. retail and office building currently under construction in south Berlin, is 45% let to German retailer Kaufland for 17 years. The average length of the other leases is 13 years, and the initial yield will 7.5% upon completion in April 2006. CLS has also purchased the new head office being developed for BrainLAB in Munich, which is let on a 10-year term with an initial rent of just over €2m. The initial yield is 7.0% and the initial anticipated return on equity is 20%, with the cash return anticipated at 15%. pfe

Hypo Real Estate preliminary 2005 net profit doubles from 2004

The DAX-listed Hypo Real Estate said preliminary net income before taxes doubled in 2005 to €442m, compared with 2004. If the one-off additional charge of €34m from a group reorganisation effective January 2006 is taken into consideration, preliminary net income before taxes amounted to €408m and is thus within the communicated target range of €400-€425m.

Total operating revenues rose to €909m vs €835m in 2004, with the addition to provisions for losses on loans and advances of €149m, down considerably lower than the previous year's €276m. This includes risk shelter of €130m provided by HVB AG, which floated HRE on the stock market in 2003. At €22.3bn, new business in real estate financing was considerably better than expectations.

HRE management will propose to the Annual General Meeting on 8 May 2006 a dividend of €1 per share for financial 2005, representing an increase of €0.65 compared with 2004.

For 2006, the management board expects to see consolidated net income before taxes increase by at least 20% and new business at the 2005 level. "We intend to expand further and boost our profitability in 2006," Chairman Georg Funke said in a release. pfe

More foreign than domestic office investment in Germany for first time

A new committee, comprising specialists in real estate assembled by the Immobilien Zeitung newspaper, says that of the €30bn in domestic property changing hands last year, foreign investors for the first time bought more than nationally-based purchasers.

Hartmut Bulwien, CEO of research firm BulwienGesa AG, added that German office property assets remain relatively cheap but prices will begin to rise from 2007 onward. "Reason number one is the price," he commented in a release. "Germany in international comparison is a cheap buy currently. The other major property markets such as Paris, London or the US cities have now come to be viewed as overheated."

Since 2005, the yield spread - positive gap of the net entry yields over sovereign bonds - of office properties in Germany has risen even above the extremely high French level. In Britain, the spread has, since 2004, been significantly lower.

Thus 2006 will be the best year for getting into the market before the window of opportunity closes, Bulwien said. "From 2007 onward, we anticipate that the increasing demand on the office rental market will begin to bring with it rising prices again."

But Bulwien also noted that the quality and technical level of some vacant office buildings were inadequate and that demolition is likely to be the only alternative. "The high vacancy levels will persist," he forecast. "The average vacancy rate in the seven major office locations of Munich, Frankfurt, Berlin, Hamburg, Düsseldorf, Cologne and Stuttgart will fall only to 10.2% by the year 2009." Even if peak rents rise over the next four years by around 11%, this was very low compared with the 22% decline over the prior decade. pfe

US REIT AMB buys stake in Hamburg logistics portfolio from Buss group

A subsidiary of the US REIT AMB Property Corporation is to purchase a 94% stake in a portfolio of three logistics terminals in the Hamburg Port area from the city's Buss group and its logistics development partner Ixocon GmbH.

The total floor space of the buildings amounts to around 60,000 sq.m. Buss will retain the remaining 6% and manage the properties. It said in a release it intends to use the proceeds to develop new real estate projects together with Ixocon. pfe

West European retail expands in new EU

West European retail companies are expanding strongly in the new eastern European member states of the EU and focusing especially on the development of shopping centres in the Czech Republic, Hungary, Poland, Slovakia and Slovenia, according to a recent survey by the Institute for Commercial Centres (IfG).

At the end of 2005, Starnberg-based IfG counted nearly 500 shopping centres of more than 5,000 sq.m. in size, including 200 regional shopping centres of 15,000 sq.m. or more, most of which have bee developed since about 1995.

Poland dominates in both numbers and total space, with 200 shopping centres of which 100 are regional shopping centres already built or in the pipeline. The Czech Republic has the second largest market in terms of overall floor space.

In terms of retail space in comparative terms, Slovenia tops the CEE at 360 sq.m. per 1,000 residents, followed by the Czech Republic (181.0), and Hungary (156.2), with Slovakia (104.5) and Poland (103.7) bringing up the rear.

The survey reported a marked increase in international activity in grocery retail. pfe

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The European Securitisation Forum has confirmed the nomination of **Financial Security Assurance** Managing Director Europe **Philippe Tromp** as its new chairman for a term of one year, beginning on 9 December 2005... The ESF board also confirmed two new vice chairmen, **Frederic Drevo**n, MD at **Moody's Investor Service**, and **Ralf Bauer**, MD at **Fortis Bank**... **Jean-Marc Besson** has been appointed to head **Beacon Capital Partners** in Paris... **Diane de Flaujac** will become asset manager at **Catalyst Capital France**... **Peter M. van Rossum** has been appointed new CFO of **Rodamco Europe** with effect from 1 April… **Marcel Kokkeel** will join the board of **Multi** (formerly **AM NV**) as of 1 March, replacing **Jaap Gillis** who has resigned... **Pierre Le Goff** was named director of development at **Parcoval**... **Pascal Duhamel** was named managing director at **Morgan Stanley** in Paris... **Jürgen Schmid** has left **Deka Immobilien** to take over the Asset Management division at **Tishman Speyer**... Dutch pension fund **PGGM** has appointed **Jan Overmeer, Herman Wijffels** and **Jan Frijns** to its investment advisory board… **David Massip Bonet** is to head up the new holiday accommodation management division at **FADESA**… **Philipp Freiherr von Wilmowsky** and **Alexander Tannenbaum** have joined the management board of **Commerz Grundbesitz-Spezialfondsgesellschaft**… **Karsten Kluge** is replacing **Frank Schönebeck** as head of marketing at **Vivico**… **Klaus Schmitt** has been appointed as COO of **Patrizia Immobilien**... **Michael Borries** has become head of commercial real estate at **Cerberus Deutschland**… **BHW Holding** has appointed **Horst Küpker** and **Joachim Neumann**, both from **Postbank**, to its management board… **Michael Meyer** has joined the board of **BHW Bausparkasse**… **Frank Hartung** has been appointed managing director of **LEG Düsseldorf**… **Jan Lucht** has been promoted to CFO of **Immac** property group … **Rainer Laufs**, former CEO of **Shell Germany**, has been elected chairman of the supervisory board of **WCM** to replace **Dieter Vogel** who has resigned… **Oliver Bäumler** has been appointed to the management board of **Gesellschaft für Gewerbeimmobilien**… The former **Aareal Hypotheken Management** mortgage servicer, which has changed its name to **Kreditwerk Hypotheken-Management** after being taken over by **VR Kreditwerk Hamburg** late last year, has appointed **Bernd Meier** as new CEO… His deputies will be **Beate Stollenwerk** and **Alexandre Janicki**... Denmark's **Sparinvest Property Fund** has appointed to its investment team **Mads Rude**, **Kresten Dahl Juelner** and **Bo W. Jensen** , who previously worked for the Danish pension fund, **ATP**, and the Danish life insurance company, Danica Pension, respectively… **Laurent Martin** rejoins **UBS Real Estate Europe** to head investment and asset management... Olivier Bokobza and **Jean-Francois Morineau** were named deputy directors for real estate at **BNP Paribas**... **Christopher Hollowa**y, president and director general of **Capital & Continental,** was elected president of **ORIE, the Observatoire Regional de l'Immobilier d'Entreprise en Ile-de-France**, covering the Paris region… **Oliver Fuchs**, who until the end of January headed **Bouwfonds MAB Development** for the Frankfurt project **FrankfurtHochVier** has left to form his own consultancy, and is advising Bouwfonds Property Finance in other projects… The lawyer **Robert Buchalik** joins the **WCM** supervisory board... **Eurohypo** Chairman **Bernd Knobloch** will, from April, join the board of the **Hertie Foundation**. **Kurt Morgen**, formerly in the **Dresdner Bank** board, takes over as chairman of the foundation from **Bernhard Wunderlin**... Italy's **Pirelli RE** has co-opted **Carlo Croce** as non-executive director in place of **Sergio Lamacchia**, who passed away recently. **Paola Lucarelli** was elected to the remuneration committee, and **Carlo Bianco** as deputy chairman…. Pirelli RE also appointed **Olivier de Poulpiquet** as general manager of Investment & Asset Management… **Edmund Craston** has joined **Lehman Brothers** in Paris… **Sophie Bellynck-Ebrard** has just been appointed to the Paris office rental team of **CB Richard Ellis**… **Caroline Abecassis** has been appointed to the Saint-Denis agency of **DTZ Jean Thouard**, while **Fabien Racle** joins the Paris team and **Céline Gomez** is appointed to the Aix and Marseilles regional office group… **Philippe Emiel** has joined the Paris legal office of **Landwell & Associés**, responsible for commercial property… **Louis-Baudouin Decaix**, **Bruno Pinard** and **Raymond Sauvegrain** had been named as directors of the **Meunier** group… **Bernard Michel** takes over responsibility at **Crédit Agricole** for real estate in the area of industrial development…**Pascal Boulenger** has joined the French **OPS** group… **François Adam** becomes deputy director of the **OPAC** group in Paris. pfe

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