

## French REIT/SIICs Foncière des Régions, Bail to merge

FdR and Bail Investissement, two French REIT/SIICs, are to merge to create a diversified property group with market capitalisation of €3bn. **Page 6**

## Shariah-compliant capital flows to European property growing

Shariah-compliant real estate investment capital flows from the Islamic world into Europe are growing fast. **Page 2**

## European securitisation volumes soar 40% in 1Q06

European securitised product issuance soared 40% in first quarter of 2006 to reach €65.6bn, the European Securitisation Forum said. **Page 3**

## Berlin presses for REITs compromise; delays persist

The German Grand Coalition of Christian and Social Democrats are pressing for compromise on introducing REITs, but officials are growing pessimistic. **Page 5**

## Petr Skrla, CEO

RPG Real Estate, Czech Rep.

The PFE Interview: **Page 8**

# Germany's Hesse inches toward sale of 65,000-unit housing portfolio

Following Dresden's sale of its housing assets, political moves are afoot in the German state of Hesse that may lead to auction of the nation's largest state-owned residential property portfolio, the 65,000-unit Nassauische Heimstätte.

Recent city elections in Frankfurt, Hesse's largest city, resulted in the Social Democratic Party leaving the governing coalition of Mayor Petra Roth. Since the city holds 31% of NH, it retains a blocking minority. SPD resistance to the sale has therefore prevented its approval so far. However the state government of Premier Roland Koch has long been in favour of privatising NH, following its successful sale last year of official commercial properties and the University Hospital buildings on the Main River.

The Immobilien Zeitung newspaper quoted Frankfurt Greens Party politician Andrea Lehr, a member of the NH supervisory board, as saying, "I am working on the assumption that by the time of the supervisory board meeting next winter we will have sale approval from the state government." Hesse Finance Minister Karlheinz Weimar is in favour of the sale, even though party officials have recently played down sale plans.

NH is based in Frankfurt and its apartments are located in 165 Hesse cities and communities including Frankfurt, Wiesbaden, Kassel, Offenbach, Hanau, Fulda, Dreieich, Darmstadt and Marburg. The IZ said shifting political conditions, including a mayoralty election early in 2007, may yet prevent the sale taking place. NH should be worth around 13 times its net annual rental income – on the order of €4bn.

Meanwhile, the Black Forest city of Freiburg has become the latest town to consider following Dresden's example with its Woba assets (See p15), and sell off its own holdings of 8,900 apartments in order to pay down the entirety of the city debt. pfe

## PFEUROPE.EU

The hawk-eyed will note from the above that, reflecting **Property Finance Europe's** pan-European focus, we have changed our website and our email extension to the newly-introduced .eu throughout. This comes well-timed since our network of contributors is growing to bring coverage of more information about real estate affairs on the continent that you need to know about. The new extension is reflected in our contact details on the Internet site [www.pfeurope.eu](http://www.pfeurope.eu), but you can reach us for a temporary period using the old URL and emails.

We gathered so much interesting material during the three-week break that we have used the shoehorn to leverage all the information into this 24-page issue. Thus for the first time, our section PFESHORTS comes at the back - actually uninfluenced by football or sports clothing analogies connected with the World Cup, but a simple attempt to tighten the format to at least give you a heads-up where space prevents more detail.

Interesting Real Estate InvestmentWorld and EuropeServicing conferences. Now onward to the European Real Estate Capital Markets and Property Derivatives World events in London later this month - as well as the 2nd European Faculty of Real Estate congress in Paris. See you there!

# Spain's Grupo Inmocaral to launch €3.7bn takeover offer for larger rival Colonial

In a further sign of the dramatic consolidation taking place in Spanish real estate, Barcelona-based savings bank La Caixa has agreed to sell its 39.4% stake in Inmobiliaria Colonial to listed property holding company Grupo Inmocaral, and the latter is to launch a full takeover bid, valuing its larger rival at €3.7bn.

The bid, filed with Spanish stock market regulator CNMV on 6 June, will be pitched at €63 per share and bring in about €1.5bn to La Caixa. If successful, Inmocaral will proceed with the full acquisition of Colonial's majority-held French REIT/SIIC, Société Foncière Lyonnaise (SFL). According to French regulations, any change in control of a company that owns a French firm obliges a full takeover offer (see P6). pfe

## European real estate market an attraction for Islamic Shariah capital

Real estate investment capital coming in from the Islamic world, which has to comply with the tight Shariah rules governed by the Koran, is hugely interested in European real estate and allocations have the character of being very long-term, according to a specialist fund manager in the field.

Michael Walton, managing director of Rynda Capital, told a conference recently that Shariah-compliant capital is soaring as oil prices produce huge petro-dollars from the Mid-East for re-investment. Already, such capital accounts for around \$250bn of assets under management and is growing at a rate of between 15% and 30% annually. "This is money which is very faithful, money that's very sticky," he told the Real Estate Investment World Europe conference. "Even after six years or so, these investors never want their money back."

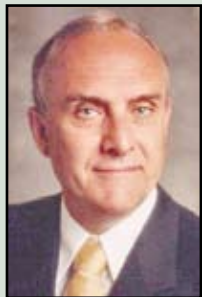
Mid-East investors tend to avoid large investments in the US because of political concerns that could result, for example, in the freezing of bank accounts. By contrast, the stability of Europe makes it a highly attractive investment destination. Capital

is flowing in from all Islamic banks - which also includes, for example, Pakistani and Indonesian - generated by retail deposits and due to the lack of adequate opportunities at home. "Shariah capital is a huge business and the property finance sector is way behind in dealing with it," Walton said.

A fund established and managed in accordance with the Islamic law of Shariah must avoid non-permitted uses of buildings, and Riba - interest payments on money. Banned property uses include betting, pornography, alcohol, armaments and certain financial services. Investors in Shariah funds expect respected Islamic scholars of religious law to approve each aspect of the fund's establishment and ongoing management. If satisfied, a separate Fatwa, a religious judgment, is issued for each acquisition and then annually for the whole fund.

Walton said some 300 Islamic financial institutions exist today, compared to only one in 1975. Though such funds are complicated, they are only €50,000-€100,000 more expensive to manage annually. "These capital sources are very interesting because these are the kind of people who can give you a \$100m cheque to invest on the spot," Walton said. pfe

Those of us outside Italy can be forgiven for seeing the election of the state President as running a close parallel to that of a new pope: huddles of important people behind closed doors, hurriedly-executed, hushed conversations in darkest recesses, blanket clamp-down on information signals...



until, finally, smoke wisps skyward from the Vatican chimney. OK, with PFE's much closer interpretation of Italy from our new contributor Erica Gasparini, we are several steps nearer to the Da Vinci code of Italian politics and real estate. Yet Rome

is not alone in its mysterious ways. A similar clandestine process has just brought a major change at the European Central Bank - and considering last Thursday's 50bp rate rise and rapidly closing gap between financing rates and yields, real estate professionals need to understand more of what's going on. The departure of Otmar Issing from the board on May 31 and his replacement was of major importance. Whether Economics would be assigned to incoming German replacement Jürgen Stark, or be taken over by ECB vice president Lucas Papademos has been a matter for enclaves of papal-like emissaries in the major capitals in recent weeks - primarily Berlin, Brussels and Paris. But the question is substantive and not personal. The reappointment of a German to Economics

- as occurred - points to the continuation of the use of money supply as the cornerstone of rates' analysis, an approach that is 15-20 years outdated. Worse, by prompting mis-analysis and false signals from the chimney of the central bank of the world's second major currency, it gives misleading signals, raising the risk of misallocations in European markets. Real estate assets are no exception.

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I should declare an interest. Ten years of watching European Monetary Union drove me to desperate measures: launching a real estate report! I see well that the world has been awash with liquidity for the last 10 years, that it has driven asset prices, primarily of all residential real estate, to astronomical highs. But has produced no inflation. Why not? Anyone who seriously believes the ECB's definition that inflation is any CPI number above 2% and stability is any number below it should email me to learn about a fantastic waterside lot I have for sale on a tidal estuary. Smoke, in other words, and mirrors. Papademos is far and away the most qualified economist in the ECB and should have got the job: Economics at MIT under the late Franco Modigliani, a Nobel-prize winning scholar, Federal Reserve of Boston, Professor at NYC's Columbia University, Bank of Greece Governor in the 1990s. What more do you want? Stark, while incredibly competent and experienced in international public and financial affairs, cannot exhibit comparable qualifications.

Jean-Claude Trichet's reaction to the pressure from Berlin for Germany to get Economics again was to use fine Gallic finesse: give Stark Economics but transfer the Research directorate to Papademos. Stark gets IT as well. Those who believe these are compatible portfolios should also be emailing on my slightly tidal lakeside property.

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What does all this mean? It means German face is saved but that Papademos has a staff in Research intensely capable of providing input to the rates' decision. It means money supply growth will no longer determine European rate changes. This is all good. However there is a much larger context. Price stability is actually not the Holy Grail. The twist at the end of the movie is that the 28% rise in unit labour costs in Spain and the 24% rise in Italy since 1999 - compared to the 2.5% drop in Germany - presage a comparative loss of national competitiveness that could break Euroland apart. Grassroots political pressure will rise in countries where living standard ebbs with the tide of lost competitiveness well within Stark's eight-year mandate - as certainly as Argentina's dollar link was bound for failure when galloping inflation made it uncompetitive tied to the dollar in the 1990s. Holding Euroland together is the real blood line that this ECB board will be obliged to seek in the few years ahead. Look for the smoke signals.

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Allan Saunderson, editor@pfeurope.de

## Investment property flows to Europe to continue, but rates a risk - AXA REIM

Huge investment flows into real estate in Europe over the last two years are likely to turn out to be long-term capital investments due to structural changes in the asset class, but some frothy demand may be choked off by rising interest rates and debt-income ratios must be watched carefully, says AXA Real Estate Investment Managers head.

Chief Executive Paul Marcuse told the Real Estate Investment World Europe conference recently that a re-allocation of petro-dollars due to the soaring oil price, a general shift in asset in asset allocation towards real estate, growing retail interest in property, the relative attractiveness of property versus bonds, and improving real estate fundamentals all implied that capital flows into European property will remain for the longer term.

On the negative side are asset sales by German open-end property funds, and the gradual closing of the arbitrage between the price of debt-funding and yields attained in real estate. "The weight is in favour of capital flows remaining strong but rising interest rates may choke off some demand," he said. "However a lot of that is fairly frothy demand and maybe that's not such a bad thing."

On the positive side prime rents are beginning to rise in, for example, office space in Paris and Barcelona, even if cities such as Amsterdam and Frankfurt are laggards. Supply conditions across real estate in Europe are tight and the lack of product has meant investments take sometimes two or three years to execute. Office lettings are showing signs of recovery and rental values have stabilised in showing positive growth.

However Marcuse said rising inflation and higher interest rates will narrow the yield – debt spreads and the most important task going forward is to manage the potential risk associated with this. "What it means for investors is that they need to manage that potential risk, make sure that debt-income ratios are robust, and avoid over-leveraged portfolios," he told the conference. pfe

## European securitisation volumes soar 40% in 1Q06, helped by RMBS

Boosted by a surge of issuance of RMBS and CDOs, European securitised and structured product volumes soared 40% in the first quarter of 2006 compared to a year ago, reaching €65.6bn, the European Securitisation Forum said in its latest report.

"Even with this significant rate of growth, we observed that the long-term market potential has barely been scratched, as a relatively small percentage of residential mortgages have been securitised in Europe," ESF said. In the US, RMBS, including agency and private label, reached approximately 65% of residential mortgage origination in 2005.

Notwithstanding the surge in growth, based on continued tight funding spreads, some regulatory issues remain to be addressed in European securitisation markets. The ESF is involved in the European Commission's Mortgage Funding Expert Group, which has among its aims increasing European Union mortgage funding market integration by identifying existing barriers and proposing possible solutions.

RMBS issuance surged in the first quarter to €39.4bn, up 47% on 1Q05. "The gain was undoubtedly fueled by housing sector volume gains over 2005," ESF said. The RMBS market increased its share of total issuance to nearly 60% compared to 44% in

4Q05. The first Greek RMBS was issued in April. Commercial mortgage-backed securities issuance rose 8.8% to €7.8bn, while new covered bond issuance grew by a slight 4% to €83.6bn. It was led by German Pfandbriefe and Spanish Cedulas.

The ESF said changes on the regulatory capital treatment of securitisation remain unclear and will affect the decision of issuers over whether to transfer economic risk through securitisation, and on capital allocations of investors. pfe

## European real estate stocks weather global downturn most strongly in May - EPRA

Weakness across all equities markets in May saw real estate stocks decline quite sharply across the world but European property stocks weathered the downturn better than other regions, the European Public Real Estate Association (EPRA) said in its latest report.

Expressed in euro terms, the FTSE EPRA/NAREIT Global Real Estate Index declined by 5.3% in May. Regionally, Europe lost 3.7%, North America fell back 4.2%, and Asia pulled back a much sharper 7.8%. Year to date, the global index is up only a fractional 0.6%.

In Europe, Sweden (-9.4%) experienced the largest downturn for the second consecutive month, followed by the Netherlands (-8.4%) and France (-6.6%). By comparison, UK property stocks fell by a relatively mild 2.8%.

Some specific real estate companies bucked the general trend however. Expressed in euros, Danish developer Nordicom (+12%) headed the European performers in May, followed by a 8% rise for Wilhborgs of Sweden and a 7% increase in the share price of Germany's IVG Immobilien. Great Portland Estates (UK) and McKay Securities (UK) both strengthened 5% in May, while at the bottom end of the list, Sweden's Hufvudstaden was hardest hit of all European stocks, down 14% on the month.

Quintain Estates became the first major UK company to rule out becoming a REIT. Adrian Wyatt, Quintain's CEO, said, "The REIT model isn't conducive for companies that want to reinvest the cash thrown off by their activities. The trading model is embedded into our model." Conversely, both Land Securities and British Land, Europe's two largest property companies, have said they intend to convert to REITs. Quintain Estates lost 6% in May. Land Securities fell 2% and British Land added 1% over the month.

London Merchant Securities announced that it will spin-off its investment arm - Leo Capital - on AIM on 12 June. CEO Robert Rayne will be Leo Capital's temporary head until a suitable replacement is found. London Merchant ended the month down 7%. In Sweden, Kungsliden had a 3 for 1 stock split effective 9 May, and Wilhborgs Fastigheter completed a 2 for 1 split on 23 May. pfe

### CORRECTION

In PFE Issue 26 of 22 May, our item about a global lobby to change double tax treaties in regard to REITs, we gave an incorrect name for the Property Council of Australia. We apologise for any inconvenience caused. Representatives from PCA and other national real estate associations are meeting this month with the Paris-based Organisation for Economic Cooperation and Development (OECD) to press their case for change, and are due to meet counterparts from NAREIT in San Francisco in November.

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## Macquarie Goodman buys Eurinpro logistics firm

Australia's largest listed industrial property company Macquarie Goodman has acquired the privately-held Eurinpro International, a provider of logistics properties around Europe. Terms of the takeover were not disclosed.

Eurinpro, based in Luxembourg, has offices in eight European countries and liaison offices in Japan and the US. In the past 15 years it has completed projects worth about €850m, and developed space of at least 1.2m sq.m. It has 90 staff, and 425,000 sq.m. of logistics real estate currently under development in eight European countries.

The Eurinpro takeover follows Macquarie Goodman's acquisition last December of Arlington Securities, a UK funds manager specialised in business and office parks. Arlington has more than €5.35bn of business-space funds under management in the UK and Europe.

Macquarie Goodman CEO Gregory Goodman said the two deals are highly strategic and a strong opportunity to significantly expand in Europe. "We have acquired two specialist businesses that have been truly successful in their own right. Importantly, they complement each other and our business model," he said. "With the addition of Eurinpro we now have a comprehensive UK/European footprint with local personnel and expertise to drive the business."

At the close of the first quarter, the market valued Macquarie Goodman at €4.4bn, making it the largest industrial property company listed on Australian Stock Exchange. Its direct property portfolio was valued at €2.5bn equivalent; assets under management equalled €16bn. pfe

## ABN AMRO, GE Real Estate, Tecnocasa acquire €1.43bn Italian NPL portfolio

ABN AMRO, GE Real Estate Italy and Tecnocasa have acquired the second and final tranche of a portfolio of non-performing loans from Unicredit Group with a nominal value of €1.43bn and comprising small to mid-sized loans partially secured against residential and small commercial properties located across Italy.

ABN AMRO and GE each hold a 49.5% stake of the acquired portfolio, with Tecnocasa holding the remaining 1%. The initial tranche of the deal, announced on 25 January, had a face value of €269m. No financial details of the deal were provided.

Olivier Piani, president of GE Real Estate Europe, said in a joint company statement that his company is, "actively pursuing other opportunities to build a significant share of this growing market in Italy in partnership with ABN AMRO and Tecnocasa. We believe that NPLs can become a significant contributor to our growth in Italy as an increasing number of banks try to reposition their balance sheets". pfe

## Strong investment demand dominating European warehousing market - JLL

Last year's strong investment demand for European warehouses should continue this year because yields fell in the first quarter of 2006 for the 10th consecutive quarter, says the latest European Warehousing report from realtor Jones Lang LaSalle.

"Warehousing is no longer regarded as a fringe asset and has outperformed offices over the last four years," said Adelaide Gray of JLL's European research department. "With an estimated €10bn chasing product during 2006, it will continue to be an attractive investment option for many fund managers."

But the leasing market will see minimal rental growth in 2006 because tenants continue to seek cheaper accommodation. Sales are projected to remain strong and demand for larger units will become skewed even more toward big European distribution centres.

The strong European economic outlook has also triggered some speculative development which should add to the investment-grade stock available. Competition among developers is extremely keen.

Warehousing in the UK and France has been driven by strong consumer spend-

ding, stimulating retailing demand for logistics space, and demand around Paris was exceptional in first quarter 2006. Rental growth returned to Spain as a strong economy encouraged tenants to expand.

Strong growth continues in central and eastern Europe, with the forecast GDP gain of 5.5% there augmented by Russia's 3.3%. Polish rents remained stable at the bottom of the rental cycle, with minor increase of rents in some warehouse projects around Warsaw. Highly competitive rents should continue through the end of 2006. pfe

## German Grand Coalition presses for REITs compromise but Steinbrück pessimistic

The German grand coalition of Christian and Social Democrats are pressing to reach a compromise on the introduction of Real Estate Investment Trusts (REITs), and Finance Minister Peer Steinbrück has produced a paper proposing to limit the inclusion of residential assets, but otherwise using the UK model, with a limitation of shareholdings to less than 10%.

While the right-of-centre CDU, headed by Chancellor Angela Merkel, is pressing for legislation to allow the introduction from next January, left-wing SPD members are resisting, citing loss of tax revenues and potential risks to tenants of buildings acquired by REITs.

The chairman of the internal coalition working group Leo Dautzenberg (CDU) said preconditions for the introduction of REITs have been met. „I'm pleading for the Federal Finance Ministry to submit a draft REITs bill," he was quoted by various media as saying.

Dautzenberg is backed by Michael Meister, the deputy chairman of the CDU parliamentary group, who expressed frustration over the delays.

On the left though, SPD MPs Nina Hauer and Florian Pronold confirmed their misgivings, and denied that any agreement among the coalition experts. Pronold accused Dautzenberg in a letter that he had deliberately and intentionally violated agreements not to leak internal information to the public.

Some reports see slim chances of agreement this year. The Die Welt newspaper reported that Steinbrück will avoid an open confrontation with the SDP Left, and that the introduction of REITs before the end of this year is unlikely to be decided upon. pfe

## German REITs sector could grow to €50bn, benefit Frankfurt – Eurohypo

The introduction of Real Estate Investment Trusts (REITs) in Germany could create a sector with market capitalisation of €50bn, putting the Frankfurt financial centre on a par with London and invigorating the German property market, says a report from Eurohypo, Germany's leading real estate bank.

A chain reaction triggered by pending REIT legislation would present a "fantastic opportunity" by making the listed property sector on the Frankfurt exchange as big as London's and probably much bigger than Paris. By attracting asset managers and analysts, this enlarged sector would drive the performance of all listed companies with greater liquidity and transparency, gathering additional capital, issuers and investors.

The study, which extrapolated developments in at least 20 foreign markets onto a prospective German REITs sector, added that listed REITs are more liquid and transparent because their property assets are balanced at market prices and the lion's share of profits are distributed. By bringing market valuations into property, this would also affect assessments on the underlying real estate.

In countries with well developed markets for indirect property investment and large stock markets, property markets are equivalent to at least half the size of annual gross domestic product, it said. REITs are especially successful in countries in which pension funds loom large in retirement savings because these funds invest steadily in real estate. pfe

## French REIT Gecina acquires two office buildings from Colony Capital for €103m

Gecina, the French REIT controlled by Spain's Metrovacesa, has signed an agreement to acquire two office buildings in Velizy, west of Paris, for €103m from the private investment group Colony Capital.

One of the buildings, called the Crystalys, is under construction and will have 26,000 sq.m. when delivered in the second quarter of 2007. The second is a smaller 7,300 sq.m. asset built in 1979 and fully leased.

"The acquisition is going to enable Gecina to enter a market segment virtually non-existent today in Velizy, with a first-rate location characterized by a business park with 400,000 sq.m. of office space and a number of leading businesses," Gecina said in a statement.

Gecina, France's largest private, listed real estate firm with ne-

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arly €9bn in property holdings, has been on a buying spree, having announced more than €1.7bn in investments over the past nine months. More movement may be in the pipeline. Metrovacesa chairman Joaquin Rivero told the Financial Times recently the company is looking for buyers for 18,000 rented apartments and houses concentrated mainly in the Paris area. pfe

## German study says tax benefits of REITs for France outweigh disadvantages

The Cologne-based Institute for German Economics has calculated that the tax shortfall due to the creation of Real Estate Investment Trusts (REITs) in France cost the French government around €225m between 2003 and 2005 but brought in income of more than €2bn.

The study, made by the institute's (Institut der deutschen Wirtschaft) Michael Voigtländer, is designed to head off concerns, particularly from the left of the political spectrum in Germany that the introduction of REITs would result in huge net losses in fiscal income. France introduced REITs (Sociétés d'Investissements Immobiliers Cotées, SIICs) in 2003, and 20 are listed on the Euronext exchange with a market capitalisation of some €30bn.

The study showed that dividend payouts from the seven largest French SIICs, covering 80% of market capitalisation, totalled €2.2bn, and around half was paid out to foreign investors. A maximum of €720m may have been exempted from taxation through double taxation agreements. Even if this figure is likely to be significantly lower, the French exchequer would have missed out on around €180m at a withholding tax rate of 25%.

Against this, Voigtländer calculated, the government received income of almost €600m from dividend taxation as well as from exit tax charged for conversion to SIIC status on the basis of uncovered hidden reserves amounted to over €1.5bn. "The liberal REIT legislation is thus in no way a losing deal for the French state, even if it appears that Spanish real estate companies are increasingly penetrating the market," the Zitelmann consulting company quoted the study as concluding.

Almost all French SIICs are controlled by other companies. Free float has increased over the last few years and now amounts to almost €14bn but major companies such as BNP Paribas, Crédit Agricole or Groupama hold significant shares in individual SIICs. Only Unibail, currently the second largest in this market, has no major shareholder. If share quotas had been limited - as the UK model now envisages - market development would have been less dynamic, Voigtländer concludes. pfe

## Spain's Inmocaral to launch €3.7bn takeover offer for larger rival Colonial

In a further sign of the dramatic consolidation taking place in Spanish real estate, the Barcelona-based savings bank La Caixa has agreed to sell its 39.4% stake in Inmobiliaria Colonial to listed property holding company Grupo Inmocaral, and the latter is to launch a full takeover bid, valuing its larger rival at €3.7bn.

The bid, filed with Spanish stock market regulator CNMV on 6 June, will be pitched at €63 per share, and would bring in about €1.5bn to La Caixa.

The Colonial share closed Friday at €62.45, 34% up on the

low for the year at the start of February. The Inmocaral share was trading just above €9, compared to a range last year of €3.55 and €5.57, putting its market capitalisation at around €1.2bn.

If successful, Inmocaral will proceed with the full acquisition of Colonial's majority-held French REIT/SIIC, Société Foncière Lyonnaise (SFL). According to French regulations, any change in control of a company that owns a French firm obliges a full takeover offer.

The Madrid-based Grupo Inmocaral was founded in 2001 by the late Francisco Carrasco Alba, one of the most prominent players in Spanish real estate of the past 30 years. Until recently, it had been controlled by Chairman Luis Portillo, who owns 72% of the equity. Entrepreneurs Alicia Koplowitz and Rafael del Pino own 6.5% and 5.2%, respectively.

A few days before Inmocaral announced the acquisition of the Caixa stake and the coming bid, equity holders approved a €2.7bn capital increase and the addition of new major shareholders Domingo Díaz de Mera, Nozar, Rey, Grupo 2002 and Caja Duero.

Listed on the Madrid and Barcelona stock exchanges, Inmocaral's stated mission is to become the leading quoted real estate company in Spain. It specialises in creating products that "fit the buying requirements of large institutional investors, both locally in Spain and in major European and American markets."

Inmobiliaria Colonial last year posted net income of €266m, consolidating SFL results. The company's assets are valued at €6.1bn, of which 82% are rented office buildings. In late May, CEO Juan José Brugera said the group will invest €443m over the next three years to expand its business, doubling the estimate given at the end of last year.

Projects scheduled, in Barcelona and Madrid, will total 290,000 sq. m. and involve three new deals: the purchase of land on Lacuna Street in Barcelona, the Philips Building in and the San Fernando industrial park in Madrid. Other investments include three buildings in Paris for €172m, three in Barcelona (including the new headquarters of gas giant Gas Natural) and five in Madrid.

Inmocaral is being advised in the bid by Goldman Sachs and, in legal matters, by Freshfields Bruckhaus Deringer. pfe

## French REITs Foncière des Regions and Bail Investissement agree to merge

Foncière des Regions and Bail Investissement Foncière, two French REIT/SIICs, have announced a merger to create one diversified property company with market capitalisation of €3bn and a free float of more than €1bn.

Under the proposed agreement, one new share of Foncière des Regions will be exchanged for two shares of Bail, the two companies said. Before the agreement, Foncière des Regions owned 37% of Bail while GE Real Estate held another 26%. After the merger, Batipart, the reference shareholder of Foncière, will hold about 20% of the total group. Another 16% will be held by ISM, a unit of GE.

Under the original development plan for the companies, Bail was to be an affiliate of Foncière specialised in logistics. Through a series of acquisitions however, Bail's portfolio became more diversified like that of Foncière.

Bail's portfolio is worth €3bn and includes some 35 office buildings, 25 logistics sites and 13 shopping centres. Last year the consolidated portfolio of Foncière des Regions nearly quadrupled in value to €6.7bn. The group, through unit Foncière des Murs, recently acquired a portfolio of 76 hotels in France

and Belgium from the Accor group in a deal worth \$583m.

Over the past five years, Foncière des Régions has acquired large portfolios of buildings owned by telephone and power utilities France Telecom and Electricité de France. The group started in 1963 owning an underground parking garage in the eastern city of Metz. pfe

## 2005 total return in Italian property reaches 9% - IPD

Italian real estate delivered a total return of 9% in 2005, with capital growth of 2.9% and an income return of 5.9%, according to the latest data from the UK-based Investment Property Databank, specialised in property benchmarks.

Total returns were slightly ahead of 2004's 8.9%. David Manstretta, Italy project coordinator at IPD, said the index shows the market has remained stable over the last 12 months, both in terms of capital growth and income return. At the sector level, retail - which made up 32% of the capital value weighting of the databank at end-December - took over from office as the best performer, returning investors 11.2% up from 8.6% in 2004.

Industrial property slightly underperformed the market average, at 8.7%, down from 8.9% in the previous 12 months. Office, last year's star performer, earned investors 8.0%, while other property asset classes (strongly dominated by residential), returned 7.5%, down from 8.2% in 2004.

Despite producing slightly higher income returns - 7.1% and 6.2% respectively - capital growth for both industrial and other sectors lagged the market average at 1.5% and 1.2%. Capital growth in the retail sector at 4.3%, outstripped the market average. In 2005 capital value growth was supported by a 2.5% rental value growth, just below that of 2003. Rental value growth in 2004 was 3.2%. pfe

## UK's Matrix launches commercial property fund aimed at the continent

The London-based Matrix Group is launching a European commercial property fund to eventually raise several billion euros to invest in the main continental European economies but with the flexibility of placing up to 25% in central European and Scandinavian countries.

It said the new Matrix European Real Estate Investment Trust Ltd will target a distribution yield on equity of 7.5%, a 10% IRR benchmark, and aim to create a balanced, diversified portfolio. Eight properties valued at €325m have already been acquired to seed the initial portfolio. These include a hotel and shopping centre in Germany and a distribution warehouse and office in France. The fund is domiciled in Guernsey and listed on the Luxembourg and Channel Island stock exchanges.

The fund will exploit the arbitrage between the cost of financing and initial yields on the properties, much like its UK counterpart, the Matrix No1 Unit Trust. "The European fund will provide a further diversification opportunity for commercial property investors," said Rob Randall, chief executive of Matrix Property.

Matrix cited CBRE figures which showed that €130bn of transactions took place in the EU-15 last year, up 30% from 2004, adding that many property market cycles across Europe

are positioned to offer both rental growth and capital growth through yield compression. With continental economic growth also expected to pick up to around 1.9% in 2006 and 2007, the Matrix fund, geared at 60%, will look to take advantage of this.

Separately, Deutsche Bank group's DB Real Estate subsidiary announced its grundbesitz-invest fund has sold to Matrix a portfolio of 11 logistics properties, all located at Frankfurt airport, for €122.5m. pfe

## Italy's real estate sector looks to grow fund size, attract US investors

Italian real estate funds are studying new ways to boost their dimensions to attract capital from major US institutional investors, and are increasingly looking toward the vast public property assets owned by the state and which are likely to be disinvested in the next few years.

Italian property funds average only €150-200m in volume, with peaks that reach €300m, and are generally too small to provide liquidity needed for major international institutional investment. Exceptional funds that exceed €400m include Unicredito's Immobiliare 1 and Pirelli Real Estate's Tecla, both with a value of €500m or above.

The largest outstanding exception is the Fund of Public Realty (FIP) launched onto the market by the Ministry of Economics at a starting value of €3.4bn. The size of FIP alone is equivalent to half of the entire current market volume of Italian real estate funds.

The small average size is also due to the fear that a larger fund would be difficult to invest and to manage, even though the Italian real estate market has absorbed the largest amounts to date. Many Saving Management Companies (SGRs) are investigating how to locate adequate real estate product to reach the value of €2-3bn necessary to draw the attention of international investors. pfe

## Aberdeen launches new pan-Nordic fund, also with exposure to Baltics

The Scandinavia-based real estate group Aberdeen Property Investors is launching a pan-Nordic property fund, the first of its kind in its portfolio, that aims to provide a single point of access to Sweden, Norway, Denmark and Finland but also exposure to potential high capital growth in the small Baltic real estate markets.

Fund Manager Trygve Sletteberg told PFE, "We have structured the product as a single-point access to an interesting market, the four Nordic countries." The Aberdeen Property Funds SICAV Pan-Nordic will be incorporated in Luxembourg and given the ability to operate multiple subfunds as an umbrella fund. With target for first closing of €100m in equity, the ultimate targeted gross asset value will be €1-2bn.

With the initial offering period started in May and running through to end-September, the fund will be an open-ended structure and issue two classes of shares for institutional and non-institutional investors. Minimum institutional subscription is €10m and, non-institutionals, €1m. It will target total return on equity of 10-15% p.a. net of fees and taxes, and expects annual income return on equity of 5% based around targeted gearing of 60%.

Sletteberg said the fund will be able to invest up to 15% of

## *The PFE Interview: Petr Skrla, RPG Real Estate, Czech Republic*

### **Czech RPG demerges real estate from mining assets, brings structured financial strategies to CEE property**

The Czech industrial group RPG has become one of the most significant illustrations of eastern Europe emulating western European real estate strategies by demerging property assets from the country's largest coal mining company into three separate property firms: a residential entity - including 44,000 apartments - a commercial and a land company. RPG Real Estate Chief Executive Petr Skrla says top priority is to assess the potential of the assets.

"We had all this real estate hidden in the mining company and it was more or less a caretaker for the real estate division," Skrla told PFE in an interview. "We didn't really have a chance to actively work with the portfolio, improve its transparency, work on improving rents and lettable space etc. All that has changed as a result of the demerger, where we have created a completely independent real estate entity that now has as its core business management and maximisation of the value in the portfolio."

The RPG focus until now has been the energy, mining and commodity sectors in central and eastern Europe. The driving force behind the group is the friendship and business partnership between Czech-born Zdenek Bakala and Peter Kadas, who manages Crossroads Capital, a London-based private equity house. Kadas, of Hungarian extraction, and Bakala met in business school in the US, and subsequently worked together for the international investment bank CSFB. Bakala joined the CSFB office in Prague in the early 1990s, and Kadas moved to Hungary around the same time to open the Budapest office.

With financing from institutional and high net worth investors, RPG's main holding is a 81% shareholding in OKD, the sole producer of bituminous coal and coke in the Czech Republic. First Reserve Corporation, a US private equity firm specialising in the energy industry, holds the remainder. OKD has an 85% shareholding in Pannonpower Holding, a 190-megawatt power station based in the southern Hungarian town of Pecs. With a workforce of around 27,000, OKD is one of the largest private employers in the Czech Republic. It had consolidated turnover in 2004 of some CZK56bn (€2bn).

The three companies in RPG Real Estate, created on 1 June, are RPG RE Residential s.r.o., which holds the apartments and related facility management operations, RPG RE Commercial s.r.o., containing a wide range of administrative buildings and 15 small hotels, and RPG RE Land s.r.o., owning some 1,600 hectares of land. The property is located in Ostrava, the principal city of northern Moravia in the northeastern part of the Czech Republic close to the Polish and Slovak borders.

"When I looked at the portfolio before taking on this project I was shocked at how nice the portfolio was," Skrla says. "I was expecting a lot of prefab, panel-type apartments and that has not turned out to be the case. Most of our residential buildings are integrated into towns that are very much alive, that are growing, that are attractive.

We have maybe a 2-3% waiting list for our apartments right now."

Assets in RPG RE Residential consists of 64% brick housing, mostly with good architecture from the 1950s-60s in strong locations, with the remainder pre-fab panel or wooden. The overall occupancy is 98.2%, and only a small number of tenants are employed in the coal business. The hospitality portfolio has a total of 5,850 beds, while the land portfolio holds approximately 15m sq.m. of undeveloped land, not all of it suitable for development.

The residential holdings comprise the largest privately-held portfolio in the Czech Republic. Most government-owned housing assets have been privatised over the last 10 years. "The income has been disastrously low because they have taken it more in a sort of quasi handing over of assets to the populace as opposed to maximising revenues for the state," Skrla says. A wide selloff of residential portfolios as, for example, in Germany is unlikely to happen.

Skrla says it is still too early to think about bringing new capital into the portfolio. "We're not even thinking about it. It's not on the table. We need at least 12 months to be comfortable that we have current operations under control and the opportunities well mapped.

There's going to be a number of development opportunities because we have a substantial land bank. I think we need at least 12 months to sort of say OK, this is what we have in hand, these are the opportunities and now which direction would the partners like to go with this?"

As in Germany however, one eventual exit option for any holdings could be stock exchange flotation, possibly as a Real Estate Investment Trust (REIT). "That's entirely possible; there's lots of exciting options. There's talk about REITs here in the Czech Republic. REIT legislation is a minute away so we are following that closely. But that's not on the agenda right now. First we have to get the basics right and build excellent management teams. We may just decide to continue to grow and develop the portfolio."

He adds: "Overall, the portfolios are an excellent base on which to grow in the CEE region, and using the financial strength in the RPG group we plan to tap into further opportunities. As such we have no plans to sell the portfolio in the immediate future. Since we are only a few days old, there's a lot of work to be done!" pfe



Petr Skrla: Top priority is to assess the potential of the assets before seeing how to extract value.

gross asset value in development projects and has the same cap for investment in Latvia, Lithuania and Estonia. "Historical relations and connections between the Baltics and the Nordic countries have always been close, and relations have been reopened since the end of the Cold War," he said. "They are high growth but these are after all only small markets, with small populations and GDP size. However, many investors want to have an eye on the Baltics, and that's what we want to do - give investors an opportunity to enter into markets with high growth, through a value-added strategy. So a slight portion of our capital will go in there."

Aberdeen currently manages around €9bn in property capital on behalf of insurance companies, pension funds, municipal bodies, investment companies and private investors. pfe

## Doughty Hanson fund agrees to buy €215m Stockholm office portfolio

A property fund managed by a unit of the UK's Doughty Hanson is to buy three Stockholm office properties from Whitehall Property Funds and Swedish private equity firm Niam for at least SEK2bn (€215m).

Encompassing 120,000 sq.m. in the Kista section of Stockholm, the properties Färöarna 1, Reykjavik 1 and Borgarfjord 2 are rented to at least 50 tenants, including Ericsson, Tele2, Telia Sonera, Motorola, Fujitsu and Baxter Medical.

Nils Styf, Nordic business head for Doughty Hanson Real Estate, said in a release, "The portfolio is in good condition and is almost fully leased with strong cash-flows but with opportunities for value creation. We intend to carry out light refurbishments and capital improvements, re-structure leases with tenants and to capitalise on improvements in the Swedish occupancy and rental market to create value."

The properties are the first investment by Doughty Hanson & Co European Real Estate Fund II in the Nordic region. Last December it acquired 19 UK commercial buildings in Kent, UK, in a joint venture with Liberty Property Trust, and also agreed in April to acquire a site in Brescia, Italy, to develop residential apartments.

The fund was closed in May with commitments of €306m and will target investment opportunities in France, German-speaking countries, Italy, Scandinavia and the UK. Whitehall is a subsidiary of by Goldman Sachs. The Stockholm deal has been financed by Germany's HSH Nordbank. pfe

## Henderson's Herald fund acquires shopping centre in Italy

UK fund manager Henderson Global Investors has acquired the Metropolis Shopping Centre in Rende, in the Italian province of Calabria for its Herald European Retail Property Fund. No price was disclosed but Henderson said this second European deal, following its recent acquisition of a retail warehouse park in Sweden, brings the fund's total investment so far to €120m.

The 25,722 sq.m. shopping centre in Italy is anchored by a new Iperspar hypermarket and includes tenants such as Mediaworld and Piazza Italia. It is the largest shopping centre in the Calabria region and is one of the major retail destinations in the south of Italy.

In a release, Herald fund manager James Bury said the fund has a number of other retail projects in the pipeline across Italy and Europe. Hendersons launched Herald in December 2005 to acquire retail warehouses, shopping centres and city centre retail investments that offer asset management, refurbishment or development opportunities. The fund, which closed in March at over €400m equity, has an investment focus on Eurozone countries, particularly Spain, Italy, France and Germany. pfe

## Riga-based Parex launches second Baltics fund targeted at mid-term value growth

Riga-based Parex Asset Management is launching its second Baltic real estate fund concentrating on Class-A office, warehouse, light industrial and retail assets, with some residential - though it sees housing as a speculative play after recent very strong price rises.

Parex CEO Roberts Idelsons said the new Parex Baltic Real Estate Fund II, targeting equity of €100m and closing in mid-July, is looking at longer-term opportunities and also intends to use its development expertise. Targeted return is 20% per annum, with management fee of 1.5% and hurdle rate for the promote of Euribor plus 300bp.

"We are looking most at office, warehouse, light industrial and retail with some residential in that order of priority," Idelsons told PFE. "Most of the competitors are buying into cash-flows but we have a record on the development side."

He sees soaring house prices in the region as overheated, with investors and brokers all looking for short-term opportunities. "That's the reason we don't want to get too invested into the residential space as there are too many people chasing too many opportunities for speculative purposes as it is. The things we are looking for are under-valued or specialised assets that will be in demand over the mid-term. We are not chasing after short-term opportunities, the kind of things you would buy and sell in a year."

A-class office property is in particularly limited supply in Riga. Demand for industrial space and warehousing also remains strong because of the attractive tax environment and the Baltics geographical position between east and west for transport flows. Latvia has a flat 15% corporate income tax and 25% personal income tax - planned to fall to 15% over the next three years - no tax on capital gains or dividend payments for residents, but 10% on non-resident dividend payments.

Parex is majority-owned by two private individuals but has also attracted equity from Danske Capital, Julius Baer, Svenska Handelsbanken and other institutional funds. It launched a Ukraine fund last November, and also established a small Baltics fund for Swedish clients. pfe

## Henderson, Ahli United Bank launch €350m German institutional property fund

Asset manager Henderson Global Investors and the London unit of Ahli United Bank have launched Opportunity Fund III to attract institutional investment from the Middle East into German property.

The fund is targeting assets worth at least €350m in as many as 20 German retailing, logistics, office and industrial properties, each with a maximum size of €70m. The properties will be

let to a variety of tenants with mixed-lease expiry profiles.

"It is no secret that the property market in Germany has been through a significant downturn in recent years," said James Darkins, managing director of Henderson Property. "However, we believe that the outlook for what is one of the largest European property markets looks good."

Henderson's strategic alliance with AUB, one of the Gulf's leading banks, is aimed at Middle Eastern investors. The fund will have a seven-year life, with a minimum investment is €100,000. AUB launched a €150m French Logistics fund with Henderson last October. pfe

## Morley, LaSalle jointly launch European property fund Encore+

Two leading European property fund managers, Morley Fund Management and LaSalle Investment Management, have teamed up to launch Encore+, a continental European property fund for institutional investors.

Encore+ is a monthly priced and dealt, open-ended fund that will invest in commercial property across the European Economic Area (EEA), excluding the UK. Assets will include property shares, bonds and cash for liquidity.

No target size was given in a release, but the companies said the fund already has €160m of equity committed by Norwich Union Life and affiliates of LaSalle, and will be 50% geared. Morley, a unit of Aviva with £7.2bn of open-ended European property funds under management, has overall fund management responsibilities, while LaSalle will handle procurement and operating asset management.

Encore+ has already contracted to acquire a shopping centre in Trier, Germany, an office park in Stockholm, and an office building in Madrid, in total value of €172m.

Morley's Ben Stirling said Encore+ is designed to appeal to investors seeking a balanced and relatively liquid exposure to

European property, with its attractive diversification and return characteristics." Jeff Jacobson, regional CEO Europe of LIM, added: "The fund's first assets are a good reflection of the style of portfolio we will be creating. Overall, these buildings would generate some €20m in rent, with a blended net yield over 6% per annum." pfe

## Mortgage servicing seen key to continental European housing funding

The residential mortgage market on the European continent is in a state of flux driven by technical changes, increasing foreign access and highly diverse developments in house prices and their supply. Mortgage servicing is sorely needed to improve market funding.

That was the conclusion from the EuropeServicing conference in London at the end of May. Servicing, a sector well developed in the Anglo-Saxon world and the Netherlands, provides the mortgage administration link between borrower and lender where the latter cannot or does not wish to provide the activity itself.

The conference, organised by the Eurocatalyst organisation, concluded that the development of more widespread mortgage servicing will be a key driver of housing and mortgage markets. It focused on three key concepts:

Although housing and real estate are local activities, their funding is increasingly global. Despite natural differences among national jurisdictions, mortgage markets vary in form but not function. Servicing is the bridge between primary and secondary markets.

The key drivers for cross-border lending in continental Europe are securitisation, the ability to share risk, and the ability to outsource servicing to third parties. Both securitisation and mortgage insurance/monoline schemes are advancing much faster than third-party servicing, and more efforts are needed to developing the third-party sector

Loan-level and portfolio-wide information that servicers ma-

### Latest European mortgage backed securities, covered bond transactions

April, May 2006

Asset Class	Asset Type	Country	Currency	Deal Name	Originator / Arranger
CMBS	Commercial Mortgages	UK	GBP	DECO 8 - UK Conduit 2 plc	Deutsche Bank AG, London Branch
CMBS	Commercial Mortgages	UK	GBP	Epic (More London) plc	Royal Bank of Scotland
CMBS	Commercial Mortgages	UK/DE	EUR	Windermere VII CMBS Plc	Lehman Commercial Paper Inc., Lehman Brothers Bankhaus AG
RMBS	Residential Mortgages	IE	EUR	Lansdowne Mortgage Securities No. 1 plc	Start Mortgages Ltd.
RMBS	Residential Mortgages	GR	EUR	Lithos Mortgage Financing plc	Emporiki Bank
RMBS	Residential Mortgages	UK	EUR/US/GBP	Lothian Mortgages Master Issuer PLC	Standard Life Bank Ltd.
RMBS	Residential Mortgages	ES	EUR	Fondo de Titularización de Activos UCI 15	Union de Creditos Inmobiliarios S.A. E.F.C
RMBS	Residential Mortgages	UK	GBP	Money Partners Securities 3 PLC	Money Partners Ltd. and Money Partners Loans Ltd
CMBS	Commercial Mortgages	IT	EUR	Atlante Finance S.r.l.	Unipol Banca S.p.A.
CMBS	Commercial Mortgages	UK	GBP	LEO CMBS No.1 plc	ING Real Estate Finance N.V.
RMBS	Residential Mortgages	UK	EUR/USD/GBP	Granite Master Issuer plc Granite 2006-2	Northern Rock Plc
RMBS	Residential Mortgages	NL	EUR	Storm 2006-II B.V.	Obvion N.V.
RMBS	Residential Mortgages	ES	EUR	TdA IBERCAJA 3, Fondo de Titularización de Activos	Ibercaja
CMBS	Commercial Mortgages	DE	EUR	primus MULTI HAUS 2006 GmbH	NORD/LB
RMBS	Covered Bonds	UK	EUR	Bradford and Bingley Covered Bond Programme	Bradford & Bingley plc
RMBS	Residential mortgages	UK	GBP	Arran Residential Mortgages Funding No. 1 PLC	The Royal Bank of Scotland PLC
RMBS	Residential mortgages	ES	EUR	AyT Kutxa Hipotecario I, Fondo De Titularización De Activos	Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián
RMBS	Residential Mortgages	NL	EUR	E-MAC NL 2006-II B.V.	GMAC RFC Nederland B.V., Quion 20 B.V., and Atlas Funding B.V.
RMBS	near-, sub prime res. mortgages	UK	GBP	Eurosail 2006-1 PLC	Southern Pacific Mortgage Ltd., S. Pacific Personal Loans Ltd.
RMBS	Cédulas Hipotecarias	ES	EUR	Programa Cédulas TdA, F.T.A. (Tap Issuance Series)	Any Spanish financial institution. 12 will participate after closing
RMBS	variety of public and private entities	ES	EUR	RURAL HIPOTECARIO VIII, Fondo de Titularización de Activos	19 unrated Spanish Rural Savings Banks
RMBS	Mortgage loans	UK	EUR/GBP	Mound Financing (No. 5) PLC	Bank of Scotland
RMBS	Residential Mortgages	UK	GBP	Whinstone 2 Capital Management Ltd.	Northern Rock Plc
CMBS	Commercial Mortgages Loans	DE	EUR	Titan Europe 2006-2 plc	Credit Suisse International
RMBS	Residential Mortgages	ES	EUR	AyT Genova Hipotecario VIII	Barclays Bank S.A.
CMBS	Commercial Mortgages	EU	EUR	Talisman-3 Finance PLC	ABN Amro Bank N.V. (London) ABN Amro Bank N.V. (Paris)
RMBS	Residential Mortgages	UK	GBP	ALBA 2006 - 1 PLC	GMAC-RFC Ltd. and Kensington Mortgage Co. Ltd.
RMBS	Residential Mortgages	UK	GBP	Clavis Securities PLC 2006-1	GMAC RFC
RMBS	Res. and commercial mortgage loans	IT	EUR	BCC Mortgages PLC	Societe Generale Corporate & Investment Banking
RMBS	Residential mortgages	ES	EUR	IM PASTOR 4, Fondo de Titularización de Activos	Banco Pastor, S.A.
RMBS	mortgages to individuals	DE	EUR	E-MAC DE 2006-I B.V.	GMAC-RFC Bank GmbH

Source: Europace for Investors

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FOR INVESTORS

nage is the currency of the mortgage and real estate industry. As such, servicers are the repository of that information so that the perception of servicing must change from the outdated view as the 'originator's back office' to a more accurate concept as the shareholder and investor's front office.

„I would like to see the servicing sector in Europe grow as much as I would like to see current capabilities improve,” Euro-catalyst CEO Toni Moss said. “This is the sole purpose driving the EuropeServicing event.” pfe

**PFE COMMENT:** A highly interesting event, focused on a topic that has been long neglected but which is key for a healthy and prosperous residential sector overall on the continent in the next few years. The development of third-party servicers is needed to ensure that consumers gain access to the most efficient funding using all available capital market structures, and that residential assets are also opened up to investment capital that domestic and foreign institutions are increasingly keen to bring to the euro area.

## Basel II opens virgin European market for US residential mortgage insurers

Capital coverage provisions of Basel II are creating a new market niche in Europe for insurers of residential mortgage loans, especially the seven private underwriters that have already captured nearly 77% of the vast US mortgage-insurance market.

In a recent panel discussion in Frankfurt hosted by PMI Mortgage Insurance Company, the world's second-largest private mortgage insurer, the head of PMI's newly-opened German office said the market offers good prospects. “Basel II tolerates high-weighted risk (mortgage lending) with high LTVs (loan to value),” Claudia Schneider told the panel. “The building societies offer good possibilities for our product.”

Under Basel I, mortgage insurance was useless to European banks for unburdening risk capital because regulators assigned insurers a 100% risk-weighting without considering their credit-worthiness. Starting next year, Basel II tightens the capital coverage requirements for building loans unless a bank can show a guarantee against possible defaults. Insurers with strong credit ratings will be able to issue such guarantees.

With the UK financial regulator FSA having accepted mortgage insurance as a guarantee, final word is pending from the German regulator Bafin. “We see good chances for recognition,” Schneider said.

The appeal of mortgage insurance as a risk-steering instrument - along with stagnating property prices, economic weakness and unemployment in such countries as Germany - has prompted European banks to emphasise risk management. After Germany abolished its mortgage subsidy last year, said Steve Smith, CEO of PMI's US parent company, “the banks approached us amid the current momentum in the German mortgage market.”

Andrea Giorio, who heads PMI's Milan-based operation, said in the fast-growing Italian mortgage market with total volume of €20bn-€30bn, the high loan-to-value segment targeted by PMI is around €2bn. Thanks partly to government policies, Italy has a house ownership ratio above 50%, higher than Germany's 43%.

Deutsche Bank's Markus Schaber said all German banks are looking for ways to increase LTV on loans but no big change is likely in the next two or three years.

Martin Damaske of the Berlin-based mortgage platform Hypoport, parent group of Property Finance Europe, said he de-

fects a long-term trend toward German house buyers to take on greater debt. While their grandparents would have approached the local savings bank, today's house buyers, especially young families with strong income, are increasingly inclined to engage an independent financial intermediary. These brokers now have 10% of the mortgage market. “Germany is a construction financing market in which 80% of the financing is not done through the capital market,” Damaske said.

A California company listed on the New York Stock Exchange and rated triple-A by all three agencies, PMI insures \$270bn of mortgages and has consolidated assets of \$5.3bn. Its mortgage underwriting includes €30bn in Europe, where its main competitor is Genworth Mortgage Insurance Corporation. pfe

## Spanish mortgage volume rockets 27.3% in 12 months to March

Outstanding Spanish mortgage volume soared to €783bn at end-March, a record high and a 27.3% rise from March 2005, according to the Spanish Mortgage Association (AHE). Over the past 12 months, property debt has grown by more than €168bn and sparked several warnings from the Bank of Spain to not overspend on credit.

The rise in mortgages was sparked around 2001 by historically low interest rates set by the European Central Bank. In the first three months of 2006 the total volume of mortgages rose almost €44bn, which the AHE called “the most extensive in the history of the national mortgage market.”

Spanish savings banks have the most outstanding mortgages issued, some €416bn and a rise of 36.4% since March 2005. Commercial banks contributed another €285bn, up 32.6%. pfe

## Cibergestión seeks to develop into full mortgage service in hot Spanish market

The Spanish mortgage market, with house prices at least as red hot as the UK over the last few years, is well overdue for structural change. Panelists at the EuropeServicing conference in London recently identified it and Germany as ripe for disintermediation and the development of mortgage servicing.

Cibergestión is one of around a dozen companies in Spain providing at least part of the servicing task to link lenders with borrowers and allow mortgage portfolios to be traded. Cibergestión Vice-President Juan Guell Cancela told PFE on the sidelines of the conference that, given soaring home sales, demand is huge. Turnover of his privately-held firm last year hit €18m. “We are doubling our turnover each year now. It's incredible,” Cancela said.

Formed in 2000 by bringing together companies throughout Spain to provide general outsourcing of document processes, Cibergestión administers 150,000 mortgage deals annually at an average value of €200,000 each. Processing takes place through an internet-based platform that gives borrower and lending institution transparency on the process.

While the company specialises in externalisation of back and middle office processes, it is looking to develop into a complete third-party servicer soon. “Third-party servicing does not exist in Spain at the moment,” Cancela said. “It is a market that must be created.”

# PROPERTY FINANCE EUROPE - BULLETIN BOARD

## DIARY DATES AND UPCOMING IN 2006

### June 12-14, Monday -Wednesday

*Commercial Mortgage Securities Association, 12th Annual Convention, New York, USA*

With record global CMBS and CDO issuance in 2005, are the real estate capital markets approaching the 'tipping point'? Will innovations spread like epidemics and expand the scope of our market? The convention promises to be a learning experience in these and other questions, plus a great networking opportunity.

More info: [www.cmbs.org](http://www.cmbs.org)

### June 12-15, Monday -Thursday

*Global ABS 2006, Barcelona, Spain.*

Annual event bringing together participants in the asset backed securitisation market at the Hotel Arts, on the waterfront in Barcelona.

More info: [www.imn.org](http://www.imn.org)

### June 14, Wednesday

*Scenari-Immobiliari seminar. I fondi immobiliari in Italia all'estero, Milan*

Presentation (in Italian) of the fifth edition of the report by the Milan research group Scenari-Immobiliari on real estate in Italy and abroad. The research group will illustrate the situation with property funds in Europe, the US, Japan, Australia and analyse the Italian situation.

More info: [www.scenari-immobiliari.it](http://www.scenari-immobiliari.it)

### June 19/20, Monday-Tuesday

*European Real Estate Capital Markets Conference, London*

This conference focuses on the importance of real estate and real estate solutions as drivers of capital and financial markets activity. It poses such questions as what are the macro drivers in key European countries? Has the market reached a level playing field? Who is financing the sector? It will also look at trends in CMBS and pan-European REITs.

More info: [www.ifrconferences.com/erecm/](http://www.ifrconferences.com/erecm/)

### June 27-29, Tuesday-Thursday

*Property Derivatives World, Terrapinn, London.*

A high-level strategic conference that caters to executives exploring the opportunity to invest in or broker property derivatives. It is a gathering of Europe's key providers, advisors and investors at an event that brings together senior world class speakers.

More info: [www.terrapinn.com](http://www.terrapinn.com).

### June 28-29, Wednesday-Thursday

*2ème Congrès Efore de l'immobilier parisien et francilien, Paris*  
2nd European Faculty of Real Estate congress looks (mainly in French) at investment property issues. Topics include the arrival of Spanish investors, and the risk of German institutions withdrawing. Includes Joaquín Rivero from Metrovacesa, Benoît du Passage from Jones Lang LaSalle, Jean-Marie Tritant from Unibail, and Frédéric Nouel from Gide Loyrette Nouel. More info: [www.iir.de/paris](http://www.iir.de/paris)

### June 29, Thursday

*OPCI: Mieux comprendre les enjeux et les perspectives, Paris*  
Half-day seminar on new French real estate funds with REIT-like tax rules, OPCI. These new property investment products produce numerous questions. The IPD and Phj companies are conducting a series of seminars for investors (in French) to discuss the new vehicle.

More info: [www.opci.info](http://www.opci.info)

### September 7, Thursday

*Euromoney/ ECBC European Covered Bond Congress, Madrid, Spain*

More info: [www.euromoneyconferences.com](http://www.euromoneyconferences.com)

### September 7-8, Thursday-Friday

*EPRA Annual conference 2006, Budapest, Hungary*

This event brings together listed property companies in Europe to discuss current issues, including the development of REITs in Europe. More info: [www.epra.com](http://www.epra.com)

### September 11-12, Monday-Tuesday

*The GRI European Summit, Paris, France*

GRI is organised in discussion groups. Discussion chairs design topics to get everybody to talk to one another in collegial small groups in the inspiring environment of the French capital, devoid of 'selling' pressure.

More info: [www.globalrealestate.org](http://www.globalrealestate.org)

### September 17-19, Sunday-Tuesday

*CoreNet Global, fifth European Summit, Lisbon Portugal*

This Summit will take the theme 'New Maps for Real Estate: Europe's Expanding Reach', exploring real estate perspectives on Europe's expanding reach to other cultures, markets, businesses and partners. Focus will be the convergence of companies, corporate functions and communities and how this affects the boundaries of traditional multi-national business by increasing scope and opportunity but raising risk and complexity.

More info: [www2.corenetglobal.org/summits\\_events/lisbon\\_2006](http://www2.corenetglobal.org/summits_events/lisbon_2006)

Domestic clients include BBVA, Grupo Santander, Barclays, Deutsche Bank and many savings banks. Cibergestión entered the Chilean market last year and this month has started activities in Mexico. Cancela said Mexico has virtually no such processing or servicing industry, and therefore represents a high potential opportunity. pfe

## Netherlands shows servicing can open up housing finance market - experts

The experience of the home loan servicers in the Netherlands over the last 10 years has been in advance of any other country on the European continent and shown the need for third-party servicing to open up the mortgage market in general, sector specialists told the EuropeServicing conference in London recently.

The Netherlands market adopted securitisation in the mid 1990s, disintermediating residential mortgage portfolios well before the rest of continental Europe, and making it one of the most developed markets on the mainland. The two major Dutch servicers are Stater, 100% owned by ABN Amro, the independent Quion launched in 1994, and the Ordina Group, a newcomer into the market in recent years.

Rob van den Berg, director of GMAC-RFC Nederland, told the conference a lot of innovation had occurred in the Netherlands and many mortgage products can now be processed online. This also allows innovations introduced, for example, in the US can be quickly transplanted into the Dutch market. But the Dutch experience with third-party servicers contrasts with countries where this does not exist such as Spain, Germany, and central and eastern Europe.

Quion's Peter Besuijen noted that his company began as a combination of originator and servicer working with a Canadian bank. "The availability of Quion and Stater in the market makes it attractive for companies to come into the Dutch mortgage sector," he told a panel. Toni Moss of the Amsterdam-based Eurocatalyst, said: "Services are fundamental to opening up all of these markets. This is a function that is very often overlooked."

Stater Director Ryszard Kruzal noted also that the lack of technology remained an obstacle to further development, and Tom van der Geest, from management consultant HypsoTech, agreed. "There is an enormous need for more people to start developing technology for this market," van der Geest said. "None of the big software developers have yet really shown an interest." pfe

## Experts see pan-European NPL special servicer hindered by national jurisdictions

Expertise in special servicing of non-performing mortgage loans may be able to become pan-European but different national jurisdictions and practices will continue to make its establishment very difficult, a panel at the recent EuropeServicing conference concluded.

Soaring house prices in many countries have made mortgage credit readily available but at the same time stretched the financial resources of many residential borrowers. The importance of special servicing is thus likely to increase. As well, commercial property loans may be at risk from an increase in interest rates and oversupply in some asset classes.

Maurizio Coggiola, deputy chairman of Italy's Capitalia Service said the ability to bring expertise from other jurisdictions into local markets for such processes as collection and for closure can be beneficial. "Of course you need to have a local player but the key drivers of special servicing are always the same – good reporting, real estate understanding, legal processes and so on," he told the conference.

Tom Haverkamp, board member of Germany's JFKL Financial Services, said difficulties in different legal processes as well as culture and language will always exist in processing a non-performing loan. "Investors need to be able to read a loan file. I think that's a real issue," he said. "I think special servicing is a local play."

The most hotly contested NPL markets in Europe are Italy and Germany, where volumes may exceed the internal capabilities of banks' internal workout facilities. Jörg Wulfken from Mayer, Brown, Rowe & Maw, told the conference foreign investors are still pouring into Germany but local banks have become more sophisticated and are processing NPLs themselves. "We are doing a little bit more now than just selling the NPLs. We are restructuring an entire German banking industry," he said.

Haverkamp added that the German NPL market is still experiencing intense demand. "Prices are completely crazy right now in terms of what people are prepared to pay to get a foot in the door," he said. Some bidders cut margins to zero to secure portfolios and gain a foothold in the market.

The panel also considered whether a captive special servicer – owned by a major institution – or a third-party independent is best for dealing with the tricky business of NPL workout. Matt Grefsheim, from Morgan Stanley Mortgage Servicing, noted that in some cases CMBS investors in the lowest tranche of bonds, the B-piece, may want to do any special servicing

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themselves or at least use their own analytics on the portfolio. "It can be done on a pan-European basis or even on a global basis come to that," Grefsheim said.

Capitalia is a captive servicer joint venture formed three years ago between Italy's fourth largest banking group and Archon, part of the Goldman Sachs group, to deal with an in-house NPL book of close to €11bn, Coggiola said. pfe

## Sireo, Immofoori, Grub Brugger form new German special servicer JV

The three German real estate firms Sireo Real Estate, Immofoori and Grub Brugger have formed a new special servicing joint venture for the processing and workout of non-performing mortgage loans, named the Loan Recovery Alliance.

In a release, the companies said the alliance marked the first JV of established real estate service companies that brings diverse expertise in order to cover all aspects of NPL workouts from a single source. The Loan Recovery Alliance will offer its services as a third-party to commercial banks, savings banks and institutional investors.

Sireo, with €12.2bn in assets under management, is one of the largest managers of commercial property in Germany and Europe. Founded in 2001, it employs 320 staff and has transacted deals worth more than €4.6bn. Primary shareholders are the Corpus Group and Morgan Stanley. Immofoori was formed in 2004 by the cooperative mortgage bank Deutsche Genossenschafts-Hypothekenbank AG (DG HYP). It has since gained experience working on in-house portfolios, performing many tasks from due diligence through to special servicing. Grub Brugger is a nation-

wide legal practice which has specialised on distressed companies and creditors, financial investor advisory, and insolvency. pfe

## Real estate opportunities seen remaining in Baltics despite soaring valuations

The growth rate in the Baltic states is among the fastest in the world, and has propelled residential and commercial property prices through the roof in the last few years, but Jānis Siklis, chairman of Cirrus Real Estate, says opportunities still remain strong.

"The country and its structures are, basically, still developing - plus the attraction of getting the euro as our local currency soon will mean that momentum is maintained," he told PFE on the sidelines of the Real Estate Investment World conference in London in late May.

The closely-held Cirrus group represents a number of foreign players entering the region. "We act as co-investor in projects with our partners, thus sharing the equity financing as well as any profit," he said. "What it means for our partners though is that we can serve as additional security in the investment case, providing local experience, knowledge and most importantly the contacts."

Based in the Latvian capital Riga, Cirrus operates via a network of real estate brokers and a database of partners in the major cities of Latvia, and also Estonia and Lithuania. On behalf of third parties it seeks land plots in good locations for development, shopping malls already in operation, new residential developments and logistic centres. Siklis started the company in 2003 after 16 years in real estate, partnering major foreign concerns. pfe

### Leading listed real estate stocks in Europe, performance by country

Country	Company	REIT?	Price local	52W Low	52W High	Mkt cap €m	chge% 1mth	chge% YTD	chge% 1Yr	chge% 5Yr
1 Austria	CA Immobilien Anlagen	No	EUR 21,34	20,39	21,75	931	0,1%	1%	5%	5%
2 Austria	Conwert Immobilien Invest	No	EUR 14,95	13,51	16,02	877	-2,0%	3%	12%	n/a
3 Austria	Immoeast Immobilien Anlagen	No	EUR 8,5	7,07	9,49	1890	-1,2%	2%	22%	n/a
4 Austria	Immofinanz Immobilien Anlage	No	EUR 8,55	7,36	8,73	3826	-1,5%	5%	16%	11%
5 Austria	Meinl European Land	No	EUR 15,74	14,2	15,78	2833	0,6%	6%	11%	n/a
6 Belgium	Befimmo	Yes	EUR 75,5	74,4	88,5	739	-7,7%	-3%	2%	11%
7 Belgium	Cofinimmo	Yes	EUR 131,5	126,4	139,5	1292	3,8%	4%	8%	15%
8 Denmark	Nordicom	No	DKK 1230	336	1264	516	11,5%	36%	271%	57%
9 Finland	Sponda	No	EUR 7,95	7,68	9,4	630	-6,5%	6%	10%	19%
10 France	Klepierre	Yes	EUR 85,15	75,9	106	3931	-8,4%	14%	18%	24%
11 France	Silic	Yes	EUR 81,15	288	390,8	1410	-7,4%	8%	13%	20%
12 France	Unibail	Yes	EUR 128,3	102,3	154,4	5883	-7,1%	16%	28%	25%
13 Germany	Deutsche EuroShop	No	EUR 53,3	42,4	58,35	916	-4,6%	12%	30%	14%
14 Germany	Deutsche Wohnen	No	EUR 252,4	176,7	303,5	1010	-3,3%	29%	50%	19%
15 Germany	IVG Immobilien	No	EUR 23,94	14,3	26,87	2777	6,8%	37%	69%	14%
16 Italy	Aedes	No	EUR 5,51	5,3	6,8	554	-6,7%	4%	4%	12%
17 Italy	Beni Stabili	No	EUR 0,8	0,78	0,96	1363	-10,4%	1%	6%	14%
18 Italy	Immobiliare Grande Distribuzion	No	EUR 2,35	1,58	2,6	662	2,2%	16%	51%	n/a
19 Netherlands	Corio	Yes	EUR 47,14	43,73	56	3170	-6,0%	8%	10%	21%
20 Netherlands	Eurocommercial Properties	Yes	EUR 28,37	27,06	33,45	1001	-7,1%	-2%	8%	15%
21 Netherlands	Nieuwe Steen Investments	Yes	EUR 19,25	18,55	24,5	689	-7,7%	-3%	11%	12%
22 Netherlands	Rodamco Europe	Yes	EUR 77,25	64	90	6925	-9,4%	13%	29%	18%
23 Netherlands	VastNed Offices/Industrial	Yes	EUR 24,71	20,5	29,45	469	-12,0%	16%	32%	11%
24 Netherlands	VastNed Retail	Yes	EUR 58,15	50,8	66,8	983	-10,5%	12%	13%	17%
25 Netherlands	Wereldhave	Yes	EUR 75,55	75,55	93,2	1570	-8,7%	0%	-4%	14%
26 Poland	Globe Trade Centre	No	PLN 249	111	315	1371	-6,4%	44%	n/a	n/a
27 Spain	Inmobiliaria Colonial	No	EUR 54,2	42	61	3236	-3,0%	15%	32%	36%
28 Spain	Metrovacesa	No	EUR 73,15	57,3	96,84	7446	1,0%	45%	67%	44%
29 Sweden	Castellum	No	SEK 65	256	350	1206	-9,4%	-6%	-7%	27%
30 Sweden	Fabege	No	SEK 127,5	29,28	42,24	1323	-10,2%	-11%	-11%	22%
31 Sweden	Hufvudstaden	No	SEK 50,75	48,3	65,25	1112	-14,7%	0%	-8%	17%
32 Sweden	Kungsliden	No	SEK 76,75	375	654,7	1130	-12,1%	4%	39%	49%
33 Sweden	Wallenstam Byggnads	No	SEK 97,5	425	577,5	665	-8,9%	6%	1%	55%
34 Sweden	Wihlborgs Fastigheter	No	SEK 116,5	170	248	483	8,4%	25%	n/a	n/a
35 Switzerland	Allreal Holding	No	CHF 122	117	143,3	763	-4,9%	9%	13%	12%
36 Switzerland	PSP Swiss Property	No	CHF 62,5	55	65,9	1878	-4,6%	13%	21%	14%
37 Switzerland	Swiss Prime Site	No	CHF 61,8	291,3	341,1	1016	-5,5%	6%	15%	8%
38 Turkey	Atakule REIT	Yes	TRY 1,34	0,8	2,96	42	-33,1%	-33%	n/a	n/a
39 Turkey	Is REIT	Yes	TRY 2,59	2,02	3,86	423	-22,9%	-11%	n/a	n/a

Source: Global Property Research, end-May 2006

## US-based MortgageFlex brings web mortgage software into Turkish JV

The Jacksonville Florida-based mortgage software company MortgageFlex Systems, which entered the European market this year, has set up a joint venture in Turkey where residential housing is undergoing intense structural changes.

Chief Operating Officer Jim Dowell told PFE the group's web-based systems for residential lending and mortgage servicing, branded LoanQuest, can be adapted to different jurisdictions. "We immediately saw the potential in Turkey, which is just opening up and really is without software and the other structures that it needs to develop," Dowell said.

The privately owned MortgageFlex Systems was founded in 1980. Its technology has been through a number of changes, with the most recent being the introduction of a Microsoft.net-based servicing system. It supports the complete mortgage lending process, beginning with web-based broker and consumer originations through to servicing and real estate owned (REO) management.

Alparslan Sengezer, general manager of the Istanbul-based AgilePark group, said his company's joint venture with MortgageFlex in Turkey will exploit recent legislative changes that make the domestic housing market more attractive for domestic buyers but also for foreign investment. During the past few months, Turkey has revised legislation to bring it closer to European standards. pfe

## Spanish government approves bill to increase land for public housing

The Spanish Socialist government led by Prime Minister José Luis Rodríguez Zapatero has approved a draft law aimed to cut back on land speculation and increase the amount of terrain available for public housing.

The major changes, decided at a cabinet meeting on 26 May, include permitting only land value assessments based on current conditions and not on possible future worth, penalising landowners of unused plots, and increasing the proportion of land that contractors must cede to town halls to a maximum 15% from 10%. Land slated for residential housing will be extended to 25% of available terrain in a bid to provide housing to people who cannot afford property amid the current real estate boom that has seen prices double over the past seven years.

According to the Housing Ministry, the Zapatero administration has built 42,000 low-cost flats since coming to power, compared to only 26,753 during the Popular Party's prior eight years in office. The government pledged to build 21,000 homes each year. So far the housing plan has spent about €3.1bn, 53% of the total slated until 2008.

The Association of Madrid Property Developers (Asprima) reacted positively to the measures, but criticised the rise in land that can be ceded to town halls. With less land to develop, Asprima leader José Manuel Galindo told news agency EFE, property companies will have to boost prices to maintain the same margins.

Galindo added that the measures are designed to provide local governments with space to provide public housing for low-income families, but that is not always the case. He added that the plan to value land as a formula is not the proper route, and that, "the value of land, like any other commodity, depends on the value that it can achieve on the market."

The bill will now be reviewed by a parliamentary committee before going before the parliament for a vote. pfe

## Black Forest town of Freiburg becomes latest to plan residential sell-off

The German Black Forest city of Freiburg has become the latest town to decide to sell off its municipal apartment holdings – totalling 8,900 apartments.

Mayor Dieter Salomon has proposed to the city council the sale of its entire holdings of 7,900 units plus another 1,000 apartments held in associated portfolios. The proceeds will be earmarked – as in the recent Dresden sale of its Woba portfolio – to pay down the entirety of the city's debt.

A decision on the Freiburg portfolio is scheduled for 4 July at municipal council meetings. If successful, Salomon intends to set up an auction process, with further details

made public in the autumn.

Various media reports have said that the Baden-Württemberg state residential holding company is interested in acquiring the apartment portfolio in Freiburg. The state recently set up an arms-length property holding company chaired by a directors of the Sireo property company, Karl-Josef Schneiders, to analyse its entire real estate holdings and eventually identify properties to be sold into the market. pfe

## Rome seen attracting up to €40bn in property investment in next 10 years

The Italian capital Rome is likely to be the country's most dynamic real estate market in the next 10 years thanks to the new General Urban Development plan, and should attract indirect investment of some €40bn, according to estimates by Ecosfera, a private consulting company.

The new plan (Piano Regolatore Generale, PRG) adopted by the city administration calls for direct investment of €1.8bn, 90% of which will be put up by private institutions, to develop Rome's periphery. A third of the amount will finance public infrastructure.

However, this core investment is likely to bring €9bn of private capital into infrastructure, €5bn into the urban centre, and €10bn to the so-called transformation cities, Ecosfera said. The PRG is one of the biggest rehabilitation programs ever planned in Italy.

One of the projects included in Rome's current urban development plan is Farecentro a Romanina, a complex that has an investment value of about €2.5bn. It will extend over an area of 92 hectares, of which 30 will be occupied by greenery, and 40% of the usable surface earmarked for residential use. The rest will be given over to private and public services as Tor Vergata University, the new Sports Palace, the Bank of Italy, the new technological hub and the Agricultural centre.

The Geode and the Planetarium will also be located in the zone, along with the new Cinecittà movie studios. Initial urbanisation work will get under way in 2007 and construction of housing, shopping centres and hotels will be launched in 2008. The project should be completed by 2016. Aareal bank is financing the project, and construction will be undertaken by the Roman group Scarpellini. pfe

## Pirelli RE, Telecom Italia, Marzotto launch €1.2bn Acilia-Madonetta project in Rome

A joint venture of Pirelli Real Estate, Telecom Italia, and Marzotto has launched the €1.2bn Acilia-Madonetta project to redevelop 136 hectares in the southwest area of Rome called EUR.

This area, which plays a strategic role for the capital because of its proximity to the sea, is owned by Aree Urbane, a holding vehicle in which the three companies each own one-third.

Designed by Vittorio Gregotti for Pirelli-RE, the project is scheduled to start in 2008 and should relieve urban pressure for residential and commercial real estate space.

Pirelli RE expects 30% to 40% of the Acilia-Madonetta to be dedicated to housing, providing for a community of 200-300,000 inhabitants. The commercial part includes a 40,000 sq.m shopping centre. It also involves construction of a sports centre, and public transit facilities with a street car system to

## *The real estate associations: Scandinavian International Property Association*

### **SIPA opens door to Nordic, international investors as property market globalises, moving further from crisis of early 1990s**

**In a reflection of the globalisation of the real estate industry the Scandinavian International Property Association (SIPA), currently with 43 members and growing, in May last year changed its bylaws to open the door to the international investors into the Nordic countries. It now provides a thriving network for the membership to develop business activities internally, but also to bring in outside partner institutions.**

Established in 1989 to create a network to support Nordic investors seeking to invest in property outside of their respective home markets, SIPA was started from the offices of the Swedish Property Federation in Stockholm. It still retains administration space and sources a lot of support tasks there. SIPA Managing Director Elinor Fors took over the highly demanding task of running the growing range of SIPA activities just two years ago.

"In the beginning SIPA was a Swedish organisation and when I started the membership was still strongly Nordic focused," Fors told PFE. "What I have tried to do in my time is basically open the door to other Nordic country members and to the world as well. I think it should be an interaction platform between the Nordics and the rest of the world."

Though SIPA profiles itself as exclusive, with membership open only to investors who, by virtue of their size or activity, can play an important role in northern Europe's property markets, it is keen to welcome institutional members interested in investing in Sweden, Denmark, Norway and Finland. It was because of the increasing international interest in the Scandinavian region that SIPA made the bylaw change at its annual meeting in Copenhagen in May last year.

Current members represent total investment in property assets of €40bn, of which 14% comprises real estate exposure outside members' domestic Scandinavian markets. SIPA originally provided general advisory services for international investments, consulting in direct investment cases, seminars and quarterly market reports. As Swedish property companies flooded Europe with investments in the late 1980s and early 1990s the organisation got off to a booming start, and new members were quickly attracted from the other Scandinavian countries.

The financial and property market crises that followed were difficult for SIPA and its members. Although the markets recovered from the financial crises after a couple of years - due in part to massive government support - the regional property market needed several years to regain its balance. In this process, many Scandinavian property companies divested two-thirds of their international assets to raise liquidity. Significant restructuring has taken place during the last few years, involving not only Nordic property companies but also large international property investors from Europe and the US. Today, Nordic property markets have become much stronger and more stable, and investors

are currently active in their home markets, while the intensity of their reinvestments abroad is also growing.

SIPA is an executive organisation which groups the top real estate investment company officials, and membership is personal. "SIPA is a kind of contact network," Fors says. "We make sure we attend off kinds of conference and meetings on behalf of our members such as MIPIM, Expo Real and the NEPIX in Copenhagen. Our own different kinds of gatherings are also very well appreciated. We run our dinners and lunches on a very personal level where people get to know each other. That is very useful for many members since it allows them to exchange knowledge and experience and do business together."

Institutional members of SIPA include such names as Aberdeen, Fastighets AB Tornet, Folksam, Ica Fastigheterer and NewSec from Sweden, from Denmark, ATP Ejendomme, SEB, Danske, De Forenede, KEOPS, Nodicom and Sjaelso Gruppen, from Norway, Vital, KLP and Storebrand, and from Finland, Citycon, SAMPO and Kapiteeli.

Despite strongly-developing ties between the Nordic region and the Baltic countries, historical partners on the north and south rims of the Baltic Sea, Fors see widespread and intense interest from many developing central and eastern European countries. "Most of the eastern countries are interested in getting into western networks," she says. "That was our experience at MIPIM for example. They were very intense in the way they approached SIPA, and the interest they showed in what we are doing."

For the future, Fors sees a further opening to Nordic and non-Scandinavian members. "You can't stop the way it develops," she says. "Today we have a much more intense interchange between different countries. This has also come about as a result of the property funds that have started over the last few years. Our business is going global the same way as any other business. Because our Nordic members are active in all European markets now, and also in markets beyond the region through their property funds, that means we have to provide the knowledge and networks that are useful for them. So taking away the borders is the first step in creating that." pfe



Elinor Fors, Managing Director of SIPA: Opening the door to other Nordic countries and to the rest of the world as well.

This *Property Finance Europe* series looks at national and trans-national real estate associations and the implications of their activities for European property investment.

link Riva di Roma to the Rome-Lido rail line.

Improvements of public and private open spaces focusing on water, greenery and infrastructures with special attention to the archaeological environment are also included. Final approval of the project by the Latium regional administration is expected by next year. pfe

## German logistics space needs to soar to 20m sq.m. in next 10 years - newspaper

The requirement for logistics space in Germany is likely to climb over the next 10 years to around 20m sq.m. from the current 12.5m, according to a survey in the Immobilien Zeitung newspaper.

Annual turnover of the logistics branch in Germany is around €170bn, and it employs 2.5m people, making the sector the third largest sector behind healthcare and the auto industry. Some 24,000 logistics carriers exist. Current warehouse space is concentrated in the regions of Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and the Ruhr area, according to a recent study by Jones, Lang, Lasalle.

The newspaper quoted Jörg Risse from Visality Consulting in Berlin as saying, "By 2016 I expect a logistics requirement of between 18 and 20m sq.m." Only around two-thirds of the current space meets modern requirements – in other words, having ceiling heights of at least 10 metres for high stacking, floors that can stand weights of up to five tonnes a square metre, and ideally offering at least three access ramps of up to 1600 sq.m. plus an office space component of a maximum 10% of the entire area.

Risse said at least 1-1/2 times the current warehousing space will have to be built in the next 10 years within the six major German conurbations. JLL data show that around 62% of current space is used by owners. pfe

## Commercial property investment triples in France's regional cities - Keops

Investment in commercial property in France's provincial cities tripled in 2005 compared to the previous year as investors searched for higher yields and better opportunities than available in the Paris region, says a new study.

"The increasing scarcity of offers, particularly in (the Paris region), investors' demand for diversification, increasing sales of portfolios and an improved knowledge of markets in the provinces have helped to make 2005 a record year," says Keops, a unit of the French banking group Credit Foncière.

Cities outside Paris attracted about €4.6bn in investment last year, with acquisitions and new developments becoming more common in cities such as Lyon and Lille. This was inflated by three large portfolio transactions, but the strength of demand so far this year indicates the trend is likely to continue.

The office markets outside of Paris that picked up the most since 2003 are Lyon, Nice, Montpellier and Toulouse, where the aircraft-maker Airbus is based. Office stock is down 2.4% overall in the 10 main cities, although in Lyon and the northern city of Lille, which attracted most investment funds last year, stock actually rose.

Rents also rose slightly for new and recently-built offices in the regions, a trend expected to continue this year because of the scarcity of large new office buildings. In Nice, where there

is a huge property shortage, and Lyon, commercial real estate rents are now close to the inner suburbs of Paris.

Entry yield differences between Paris and provincial cities are narrowing. "There has been an overall reduction of nearly 100 base points on the best assets in the last 12 months," Keops said. Investors are also taking more risks because rents are improving in the provinces and new products are scarce. pfe

## Cargill takes stake in German property firm, to invest €1bn in retail

The US-based Cargill Value Investment has taken a majority stake in the Erlangen-based German property company SNP German Retail REIT (GRR) and intends to use it to invest around €1bn in German retail properties over the next few years.

GRR holds around 16 properties worth some €33m currently, but with the new backing aims to make significant new investments and place the entirety of the capital within the next two years, according to the Immobilien Zeitung newspaper.

GRR was formed recently by the Erlangen-based property specialist Sontowski and Partner GmbH, which will remain a shareholder in GRR. CVI is the UK-based subsidiary of Cargill Inc., based in Minnesota, the agricultural and food raw material conglomerate with turnover of around €71bn annually. pfe

## Spain's Sanahuja family studying full takeover of Metrovacesa - press reports

Spain's Sanahuja family, via its Cresa investment vehicle, is analysing whether to increase its offer to 100% of Metrovacesa, the country's largest listed property group, financial daily Cinco Días reported, citing company sources.

A full takeover appears to be the only recourse for Metrovacesa board member Ramón Sanahuja, who is contending with a counter-offer from the real estate firm's chairman, Joaquín Rivero. In response to rumours in the press, Cresa issued a statement saying that no decision has been made yet.

On 1 March, Sanahuja announced the plan to increase the family holding in Metrovacesa a further 20% to 44.29% at €78.1 per share, valuing the company at around €7bn. Sanahuja tried to boost his offer to €82 per share, but Rivero and business partner Juan Bautista Soler pre-empted the move with a counter-bid for 26% of the firm worth €2.16bn. If Spanish stock market regulator CNMV approves the second offer and Sanahuja opts to improve his bid, takeover regulations may force him to launch a full takeover.

"What's clear is that we are not going to withdraw the offer," a source at Cresa told the Spanish newspaper.

Should Cresa push for 100%, it will also have to buy out Metrovacesa's French unit Gecina. Spanish daily ABC reported recently that Cresa has already started shopping around for investment banks, but the company did not confirm any contacts.

Separately, Rivero told the Financial Times in late May that Metrovacesa plans to sell or spin off residential properties in France worth €3.6bn and to reinvest in office and hotel rental assets. The company is targeting 18,000 rented flats and houses, mostly located in Paris.

In January, Rivero said that Gecina, the firm's French unit,

will invest €4.6bn over the next five years and divest assets worth €3.1bn. Of the total investment, about 85% will be slated for rented properties and the remainder for development projects. pfe

## Bonn-based IVG Immobilien raises 2006 profit, NAV forecast

The Bonn-based IVG Immobilien has raised its profit forecast for 2006 to €135m in consolidated net income after taxes and before minority interests, from a previous prognosis of €125m. It earned €110m in 2005.

The company is also anticipating a significant increase in its net asset value (NAV) to more than €22 per share by year end, vs €18 at end-2005. The forecast for 2008 was increased to more than €24 per share from €20.

At the annual meeting, outgoing Chairman Eckart John von Freyend said IVG's improving performance opens up potential for further dividend increases. The meeting resolved distribution of a dividend for 2005 of €0.38 per share, up from €0.35 in 2004.

„In addition to appreciation in real estate and investment fund business, a key factor in the rise in net asset value is the partial inclusion of cavern development potential,” he said. “The construction of the 65 caverns .. will increase net asset value by around €10 per share.”

The annual meeting also resolved to expand the IVG Supervisory Board to nine persons from the current six. Paul Marcuse, chief executive of Axa Real Estate Investment Managers, was elected as a new member alongside former CDU federal finance spokesman Friedrich Merz, and John von Freyend. From 1 July 2006, former Viterra CEO Wolfgang Lechnitz will succeed John von Freyend as management board chairman. pfe

## Rodamco Europe direct result after tax rises 11.4% in first quarter

Europe's largest listed shopping centre group, Rodamco Europe, raised first quarter direct result after tax by 11.4% to €94m and its triple net asset value per share by 5.9% to €64.02.

Direct result after tax, the group's main operating performance indicator, is expected to grow by more than 7% for the full year 2006, the company added.

First quarter triple NAV was supported by a substantial upward valuation, also the main contributor to the 68.7% growth of net shareholder profit to €245m in the quarter. The valuation result on investment property was €167m, with net initial yield at 6.0%

Chief Executive Officer Maarten Hulshoff said the results were very pleasing. “Although high-quality opportunities are limited and expensive in the current environment, Rodamco Europe has a €2.4bn pipeline portfolio, of which 37% is committed... The total portfolio including the total pipeline currently tops the €11bn-mark.”

Its main indicator of intrinsic value, Triple NAV, was €5.7bn at the end of the quarter. Net rental income rose 12.5% to €136m, while the overall occupancy rate fell slightly to 97.7% and retail occupancy dipped to 98.4%. pfe

## Société de la Tour Eiffel buys five medical clinics, takes over Awon Asset Management

Société de la Tour Eiffel, a French Real Estate Investment Trust (SIIC), has acquired five medical centres for €35m and taken over Awon Asset Management, a move designed to bring the company's real estate assets and management under one roof.

STE bought the clinics, located in the French provinces, from Société Ruby Participations SAS on the basis of an entry yield of 7.3%. The group said the acquisition allows it to diversify property holdings while maintaining a previously-set entry yield target.

The group wants to boost assets to €1bn by the end of this year from the current €800m, although Managing Director Robert Waterland told PFE, “We don't want to buy at any price. The market is extremely difficult. It's overheated everywhere.” He added: “We have chosen assets based on yields and these have ended up being offices in secondary locations, business parks and in the provinces.”

Until recently, Awon was a separate entity overseeing the property portfolio owned by STE. Waterland said the decision to bring Awon into the group stemmed from complaints from analysts who preferred an integrated company. Instead of buying property, the group is now actively looking for assets to be injected in exchange for shares, he said.

As a SIIC (Société d'Investissements Immobiliers Cotee), STE benefits from a lower tax regime on capital gains. Awon took over a dormant company in 2003 in a joint venture with Soros Real Estate Investors, which has since pulled out. pfe

## Deutsche Wohnen aims at doubling market capitalisation, portfolio

The Mainz-based listed German residential property company Deutsche Wohnen AG, having received sufficient shareholder acceptances to free itself from a restrictive link to the Deutsche Bank group, now intends to double its market capitalisation and its property portfolio within the next three years.

Chairman Andreas Lehner told the Immobilien Zeitung newspaper that his asset expansion focus was on the insurance sector where another 300,000 apartment units remain on balance sheets. “These investors are not interested in a sale despite the fact that they could very quickly achieve high cash earnings in this manner within the current market environment,” Lehner said. “They want to generally remain invested in property.” However Deutsche Wohnen intends to offer equity in exchange for the transfer of these assets into its own portfolio. “We are going tap into this area immediately and in a systematic manner,” he said. “Even if we only manage to exploit 10% of the total market potential here, we will be able to hit our three-year goal.”

Deutsche Wohnen has seen its share price soar massively during the last year and amid its attempt to free itself from the tight link to the Deutsche Bank group. Current market capitalisation is around €1bn and it has an apartment portfolio of around 20,000 units, well down from closer to 30,000 in recent years. Last month it finally received adequate acceptances from shareholders to convert into common stock from their previous registered stock and accept the cancellation of a put option offered to buy the Deutsche Bank group when it floated the

company in 1999. The cancellation was a pre-condition from DB for the dissolution of its own golden share which it had used, for equity capital reasons, to prevent further expansion of the company's asset base.

Current share price is around €294 which compares to a conservative valuation by the company itself of around €200. Lehner told the newspaper he does not expect this high premium to last, and that it is based on very strong expectations of the company for the future. Deutsche Wohnen will increase its debt-financing to around 70% from its current 60%, freeing up another €300m in the short term for further investment. pfe

## Fadesa, Globalia forge hotel management joint venture in Spain and Morocco

Spanish property group Fadesa and travel holding firm Globalia have agreed to create a hotel management joint venture in Morocco and Spain, covering beach resorts in Saidia in northern Morocco, Ayamonte in the southern Spanish province of Huelva, and Fuerteventura in the Canary Islands.

No financial details were disclosed in a recent announcement, but ownership will be divided 90% for Fadesa and 10% for Globalia.

Galicia-based Fadesa recently posted strong first-quarter results— net income of €41.3m, a 67% increase compared to the first quarter last year, and total sales rising 111% to €259.6m. It is now preparing to expand into eastern Europe to complement its operations in Spain, Morocco, Portugal and France.

Globalia is a holding firm specialising in tourism, and controlled by Spanish airline Air Europa, plus travel agencies Halcón Viajes, Viajes Ecuador and Travelplan.

The Mediterranean Saidia multi-hotel resort project covers about 75,000 sq.m. on the Mediterranean coast, with capacity for 16,000 guests, three golf courses, a marina, 17 beach clubs, shopping centres, a spa and a convention centre. The first phase of the project is scheduled to be finished in 2007. In Ayamonte, the plan involves 6,000 homes and two 18-hole golf course over an area measuring 52,800 sq.m. In Fuerteventura, the pair will run the four-star Aparthotel Janie Golf, which includes 166 furnished flats and an 18-hole golf course. pfe

## Germany's Corpus sees possible flotation for future but has no present plans

The Düsseldorf-based Corpus Property Group may in due course envisage a flotation of a minority of its equity but there are no plans at present, its chairman Michael Zimmer told a press conference recently.

"We have taken no concrete decision about a stock exchange flotation. However we will make a decision on this topic during the current year," the Immobilien Zeitung newspaper quoted Zimmer as saying.

Corpus is one of the larger German property management companies, having around €15bn in current gross assets under management, of which around €842m comprised its own holding at the end of 2005. However just over €12bn of total assets

under management are held in the form of commercial property managed by the majority-held subsidiary Sireo, and another €2.1bn are in the residential company Immel, the holding company for the former Thyssen-Krupp portfolio it bought at the end of 2004 together with Morgan Stanley. Corpus sold off around 8,000 of its original 48,000-unit Thyssen-Krupp holdings last year, somewhat faster than envisaged in the business plan.

Corpus is owned in the main by the German savings banks. While the Zimmer family holding has 25% of the equity, savings banks of Cologne-Bonn, Düsseldorf and Frankfurt own the remaining 75%. pfe

## America's JER invests with Sponda in Finnish retail property

A venture fund jointly owned by the US-based private equity fund JER Partners and Finland's listed property company Sponda has purchased retail properties in five Finnish cities from Oy Realinvest for €42m.

The fund, First, bought retailing properties in the cities of Hämeenlinna, Jyväskylä, Kemi, Lappeenranta and Rauma. First, managed by Sponda, which also has a 20% minority interest, was set up this year to invest in office and retail properties in Finland's mid-sized towns and cities. It has a targeted volume of €150m but could grow to €400m with the right opportunities. The fund portfolio now exceeds €60m.

Bill Hancock, JER director for Scandinavia, called the new

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purchases, "typical of the type of properties which we jointly believe have the right criteria for strong economic performance."

JER Partners is a London-based division of JE Roberts Companies of McLean, Virginia, and manages private-equity real estate investments for institutions and high net worth individuals. Sponda is the largest property group on the Helsinki Stock Exchange. pfe

## Danish Sjælsø Gruppen acquires IBI Group for €107m

Danish listed property group Sjælsø Gruppen has acquired 100% of Ikast Byggeindustri (IBI), one of Denmark's leading developers of retail properties, for the equivalent of €107.3m.

IBI was purchased from its manager-owners with a cash payment of €40.64m and the transfer of 225,909 new shares in Sjælsø, valued at €294.97 each, the companies said. It has offices in Stockholm, Oslo and Helsingfors, and has recently begun expanding in Germany, France, Spain and Portugal. The company projects growth of 10%-12% in sales and earnings in coming years.

Sjælsø is a project and financial manager of commercial and residential properties. For the 2006 financial year it projects pre-tax profit between €94m and €121m. pfe

## British Land joins forces with Spanish builder to build in Zaragoza

The UK-listed British Land has formed a joint venture with a group of European private investors and Spanish construction company Copcisa to develop a 200,000 sq.m. retail and leisure project in Zaragoza, Spain, with an estimated final value of €500m.

The project, called Puerto Venecia (Venice Port), will be one of the largest developments of its kind in Europe. Valentine Beresford, director of British Land European Fund Management, said, "This is our first major exposure to eurozone retail development outside of the expanding PREF retail park fund. It is directly in line with our strategy to expand in Europe in out-of-town retail and builds on our existing UK/Europe expertise."

Puerto Venecia is scheduled to open in late 2007, in advance of the 2008 Expo hosted in Zaragoza, though the final phase is scheduled to be completed at end-2008. So far, committed tenants are IKEA, Leroy Merlin, Conforama, Decathlon, Boullanger and Porcelanosa. pfe

## Immofinanz just misses €1bn target in largest-ever Austrian capital increase

Austria's Immofinanz fell just short of its target capital increase of €1bn last month, raising €923m mostly for its Immoeast subsidiary that invests in eastern European property. The offering price of €8.25 came in below the €9.00 that Immofinanz had aimed for, the Financial Times Deutschland newspaper reported.

Morgan Stanley analysts criticised the capital increase as exaggerated because it is equivalent to two-thirds of all 2005 investments in the Czech Republic, Hungary and Poland, noting that the subsidiary itself is planning a capital increase of €3bn before 20 July.

Immofinanz said its capital hike was the largest ever undertaken by an Austrian company and is aimed at securing its long-term position in central and eastern Europe. The €3bn in fresh funds will be leveraged into around €5bn in investments, and acquisitions are planned for the 2006/07 business year, raising Immoeast's real-estate assets to €7bn.

Immofinanz Chairman Karl Petrikovics said: "We have secured attractive investments with a total volume of €5bn and will be able to rapidly and solidly invest the capital inflow from the capital increase. This strategy preparation of operating business first, then raising the financial means on the capital market has proven itself thus far and we will abide by it in the future as well." pfe

## Spain's Godia group buys into IPO of Mediterranean property developer Astroc

Spain's family-run Godia real estate group has bought a 4.9% stake in Valencia-based Astroc as part of the latter's initial public offering. According to the set price of €6.40 per share, the stake was worth about €38m. The price values the entire company at about €776m.

Astroc, which deals in properties along the Mediterranean coast, has been controlled until now by Enrique Bañuelos de Castro, who owned 99% of the equity via his CV Capital holding vehicle. The remaining 1% is owned by Capital Madrid. The net value of its assets is €455m, according to the IPO prospectus.

The flotation of 25% of Astroc was slated exclusively for institutional investors, and savings bank Caixa Galicia and Banco Sabadell had placed orders for about 5% each prior to the listing. The company said it plans to list another 20% in the medium term.

Since listing on May 24, the share price has risen about 29%, a stark contrast to the poor performances on the stock market from recent real estate listings Parquesol and Renta Corporación.

Astroc's IPO is underwritten by savings bank Caja Madrid. UBS España and Riva y García are acting as financial advisors, and Madrid-based Garrigues is legal counsel. pfe

## Spain's Parquesol triples first-quarter profit, but share price falls after IPO

Spanish real estate company Parquesol, which recently held an initial public offering, has tripled net income for the first quarter to €12m from €3.6m in 2005.

Gross revenue amounted to €50m, a rise of €16.8m from the year-earlier figure that Parquesol attributed to the Spanish property boom and rising rents. As of the close of the first quarter, the company's portfolio is 90% full and it values its assets at €500m.

Parquesol shares have fallen 18% in value following the first day of trading on 5 May. Currently, the Fernández family controls about 50%, while savings banks Caja Castilla La Mancha and Caja Burgos own 10% and 5%, respectively. pfe

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### BBVA's Anida to invest €250m in Spain and abroad in 2006

Anida, the property unit of Spain's second-largest bank, Banco Bilbao Vizcaya Argentaria (BBVA), said it will invest €250m to expand in Spain and abroad this year, and also announced that its 2005 net income reached €83m, almost double the year-earlier figure.

Anida is targeting a net income rise of 15% annually and an increase in the size of its property assets to 3m sq.m. from its current 2.4m. Coastal regions and urban centres will be the focus, according to managing director Carlos Deprit.

In addition to Spain, expansion is targeted place for countries where BBVA already operates, such as Chile, Colombia and Portugal. It presently is developing four large projects in Mexico, where BBVA is one of the largest banking firms.

Last year, Anida's assets were valued at about €1.1bn, an 81% increase on 2004. Capital gains for the year rose 50% to €370m. pfe

### US lawyers Katten Muchin set up European real estate finance practice

The US legal firm Katten Muchin Rosenman has set up a joint venture with the London-based Cornish group to launch a real estate finance practice which focuses on the structured financing of commercial real estate in Europe.

The creation of Katten Muchin Rosenman Cornish LLP includes the additions of English partner Jayne Black and senior associate Eleanor Hunwicks. Edward Zughuib, a partner at the US firm, will also join the London team and oversee its full integration with Katten's US real estate practice.

One of Katten's specialities has been the mortgage servicing sector. In addition to negotiating agreements and other securitisation-related documentation, the practice advises servicers on a wide range of asset-related matters, ranging from routine loan administration, borrower requests for consent, and loan modifications, to more complex issues including restructurings and workout strategy and enforcement action. pfe

### Morgan Stanley's Mines de Lucette buys La Défense building for €185m

Mines de Lucette, a French REIT/SIIC controlled by Morgan Stanley Real Estate Funds, has acquired an office building in La Défense west of Paris for €185m, the company said in a statement.

The Colisée building has 25,000 sq.m. of office space generating about €12.1m annually in rent. Mines de Lucette bought the building from Vivendi and Philipp Morris Capital Corporation.

Earlier this year Mines de Lucette bought a portfolio of five office buildings from troubled German fund KanAm Grund for €1.11bn. One of those buildings, the Scor tower, is also in La Défense. pfe

### Spain's privately-held Monteverde buys second Barcelona landmark

Private Spanish real estate company Monteverde Grupo Inmobiliario has bought its second emblematic building in Bar-

celona, the Tarragona Tower, for €90m, the company said in a statement. Last February, the property group bought the well-known Banesto Building in the Plaza de Catalunya on the corner of Paseo de Gracia.

Monteverde purchased the building from Credit Suisse Asset Management Immobilien KAG, with consultants Realis and Cushman & Wakefield advising both seller and buyer.

The 20-storey Tarragona Tower, measuring about 27,300 sq.m., was designed by architect Josep Maria Fargas and opened in 1998. It is used primarily for office space and ground floor shopping. pfe

### Ernst & Young projects German NPL deals of €10bn to €15bn this year

German banks have sold non-performing loans worth €21bn during the past three years and this selloff should continue for at least another two years, with record volume of €10bn or €15bn this year, the auditing group Ernst & Young has concluded in a report.

Strong demand for distressed debt is allowing German banks to obtain prices up to 70% of nominal value.

Separately, German property consultant DTZ showed that the largest of the five big NPL transactions of 2005 was the sale by Delmora Bank of €2.3bn to Goldman Sachs. Next was Dresdner Bank's sale of €1.4bn to Lone Star and Merrill Lynch.

Other sellers were DG Hyp, West LB and Münchener Hypothekenbank. The corresponding buyers were JP Morgan; a joint venture of West LB, Nord LB and Shinsei Bank, and Lehman Brothers. pfe

### French parliament passes law to dissuade developers from selling rented apartments

French parliament has passed a law making it more difficult for residential property investors to buy up entire buildings for resale as separate housing units.

Under the new law, tenants in buildings with more than 10 housing units will have the right to buy their property if new building owners do not agree to prolong rental contracts for a further six years after the sale becomes final.

French residential property prices have jumped over the past few years fuelling a shortage of affordable housing. The government has been under pressure to come up with incentives for the creation of low-cost and rental housing, but French rental laws are already favourable to tenants, leading most foreign investors to shy away from the market. pfe

### Germany's Deka sells shopping centres for €390m to UK's Prime Commercial

The German savings bank investment institution Dekabank has sold two shopping centres out of its real estate subsidiary Deka Immobilien for €390m to the British company PCP, Prime Commercial Properties PLC.

The Handelsblatt newspaper reported this was around €30m above the assessed value. The move is part of Deka's strategy to reduce its overall exposure to retail property to 15% from a prior 20% of total assets, and is also part of a wider sell-off by German open-end property funds following outflows totalling

just under €8bn in the first four months of 2006.

Deka Immobilien also confirmed that it had to make supporting purchases of its open-end fund during the first quarter of this year and is still experiencing outflows of between €1m and €2m a day. The liquidity quota at the end of April was around 9. pfe

## Small Hamburg property manager plans IPO - newspaper

The small German property company Hanseatische Immobilien Invest AG has announced plans to float on the German stock exchange, and raise a net new capital of €9m to use as equity in a highly leveraged strategy including apartment privatisations and construction of property portfolios.

The company, founded only in 2002, has annual turnover of only €2-€3m but after its flotation intends to invest around €35m this year in German residential property, the Immobilien Zeitung newspaper reported. The two main shareholders, Nikolaus Andriatschke and Sebastian Siemers intend to each retain their 15% stake, alongside other current investors. Through a capital increase, HII intends to establish a free float of around 29% of equity capital. Following the IPO the two directors will hold 10% each. pfe

## Cerberus sells Jade German residential portfolio after 18 months

The US-based private equity group Cerberus has sold the Jade property company, containing around 7,000 residential apartments, that it acquired at the end of 2004.

It said in a release it sold the entire portfolio to the joint venture BGP, the Luxemburg based joint venture between Australian investors Babcock and Brown and that nation's giant real estate fund General Property Trust.

Alongside the Jade portfolio, Cerberus also sold around 5,300 apartments from portfolios centred on the Hannover region and in the Ruhr area. pfe

## Goldman's Deutsche Real Estate sells retail portfolio to Gibraltar investor

Deutsche Real Estate AG, purchased last year from the insolvent German property manager AGIV by Goldman Sachs, has sold a retail and specialist market retail portfolio with 13 properties to the international real estate investment group To-plant, based in Gibraltar.

No selling price was given but they were part of a total portfolio of 17 properties owned by the DRE subsidiary Deutsche Shopping AG and assessed at an aggregate value of €127m. The Immobilien Zeitung newspaper quoted insiders as describing the portfolio as the crown jewels of the Goldman Sachs investment. pfe

## Germany's RWE transforms Harpen unit into pure property group, sets sale

Harpen AG, a subsidiary of the energy conglomerate RWE, said it has transferred its business units Decentralised Energy and Regenerative Energy to other companies in the group and

become a pure real estate holding company.

RWE Power AG, its immediate parent in the group, simultaneously announced it will sell Harpen during the current year. Even though results for 2005 have not been made public, Harpen earlier announced a loss in the year to July 2005 amounting to around €30m. pfe

## German real estate investment to climb 50% this year to €62bn - DEGI

Total capital likely to be invested in German real estate during 2006 is likely to climb by 50% to €62bn, according to the research arm of the Allianz group's DEGI property unit.

Some €17bn have been invested in the first four months of 2006, according to DEGI Research head Thomas Beyerle. He estimates foreign investment companies will increase their share to around two-thirds of this, while domestic investors will see their proportion fall back to around 32% from the current 37% of total capital placed.

The Immobilien Zeitung newspaper quoted Beyerle forecasting an increase in interest by all investors in special property asset types and also exposure to those regions that they have until now largely ignored. "The wave of capital is now breaking over into B-locations," he said. DEGI (Deutsche Gesellschaft für Immobilienfonds mbH) manages around €9bn in real estate assets. pfe

## Dow Jones Wilshire launches property indexes to track growing European IPO trend

The European index provider STOXX and the US-based Dow Jones company have launched global real estate securities and Real Estate Investment Trust (REIT) index products into the European market with the aim of serving the increasingly securitised property sector.

Dow Jones originally developed real estate indexes with Wilshire Associates for the US market to track the performance of publicly-traded securities. DJW RESI and DJW REIT are derived from the broader US index and are designed to serve as proxies for direct real estate investment used by investment banks and other asset management institutions, pension funds and plans. The move was part of a wider global launch of regional indices.

The global real estate securities index is an expansion of the original US index developed in 1991 by Wilshire, while the REIT index focuses solely on the tax-efficient listed vehicle worldwide and regionally. Separately, the company announced that the REIT index has been expanded to include eligible real estate companies based in South Africa for the first time. pfe

## Germany's Aareal Bank lifts new business by 80% in year to April

The Wiesbaden-based property financing specialist Aareal Bank plans to resume dividend payouts in 2007 after having new business soared 80% in the year ended with April.

Chairman Wolf Schumacher told the annual meeting new business volume increased by €1.3bn in the past financial year to €3bn, and promised a dividend for the 2006 financial year. The traded Wiesbaden bank is quoted on Germany's mid-market MDAX index.

Aareal plans to cut its portfolio of non-performing loans to about €1bn. "Given our projection of risk provisioning at a normalised level of €80m to €90m per year, we anticipate operating profit before taxes to a range between €130m and €150m. Accordingly, we envisage the banks return on equity after taxes to be between 7.5% and 8.0%," he said. pfe

## Sweden' Kungsliden sells €700m of commercial property to Riksbyggen

Listed Swedish property corporation Kungsliden is negotiating the sale of SEK6.5bn (€700m) of commercial property from which it would derive a capital gain of some €134m, adding €169m to the dividend computation, the company said.

A contract on the sale of the commercial property should be signed by 1 July.

Separately, Kungsliden is acquiring at mid-year 11 retirement homes for about €34m from Riksbyggen, a tenant-owners' association. These properties, which have municipal tenants and total space of 26,000 sq.m., have a rental value of €3m and an estimated property yield of 6.75% under the transaction terms.

Riksbyggen is also acquiring part of a property called Lund Klostergården 2:6 in the St. Lars quarter of Lund, southern Sweden, for around €11.5m. Kungsliden and Riksbyggen toge-

ther have also agreed to buy the property-care operation Realia Service as part of a transaction with Weland Fastigheter and Fogelvik Holding. Kungsliden. pfe

## Vinci, Nexity deny French merger but see closer property development ties

Vinci, the French construction and concession giant, and Nexity, the country's largest real estate brokerage firm, said they may explore a tie-up between some of their property activities but have ruled out a merger.

While the possible rapprochement drove the firms' share prices higher, it also coincided with a management scuffle at Vinci, resulting in Chairman Antoine Zacharias leaving. Nexity chief executive Alain Dinin, a member of Vinci's board, has since declined an offer to head the group.

The departure of Zacharias sent shockwaves through French financial circles but was largely applauded by analysts, who were bracing for a protracted backroom battle. Vinci has dismissed the possibility of a merger as a way to defend against a hostile takeover. Company officials have said however that closer cooperation with Nexity could be agreed on common projects such as development on the site of a former Renault car plant on an island in the Seine River near Paris. pfe

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**IVG Immobilien** Chairman **John von Freyend** is stepping down after 11 years and joining the Supervisory Board from 1 July 2006. He will be succeeded by **Wolfhard Lechnitz**, previously CEO of **Viterra AG**. **Bernd Kottmann** is appointed Deputy Chairman. **IVG's** Supervisory Board will also be expanded to nine from six persons. **Gert Haller** has resigned his position on account of his new role as Head of Office of the German Federal President, while Chief Executive of **Axa Real Estate** Investment Managers **Paul Marcuse** and former finance spokesman for the federal **Christian Democrats**, **Friedrich Merz**, were elected as new members... **Pierre Vaquier** was named president of **Dolmea Real Estate** and **Nicolas Dutreuil** will become operational and financial director... **AXA REIM UK** announced the appointment of **David King** as Fund Manager based in London, and reporting to **Anthony Shayle**, Head of Business Development. **King** will manage the new core plus European Added Value Fund, which recently announced its first successful closure and attracted €118m of new equity. The fund is targeted at an eventual total size of €625m. Prior to joining **AXA REIM**, **King** was Director, Property (Europe) at **Henderson Global Investors**... **Anne Lalou** will become head of franchises and **Francois Buchet** director of development at **Nexity**... Holland's **AM** has appointed **ing. H.E. (Erik) Röling** as director commercial real estate, moving over from **Johan Matser Projectontwikkeling**... European designer outlet developer **McArthurGlen** has appointed **Brian Collie** as a non-executive director. **Collie** is a former board member and retail director of **BAA** and chairman of **Lastminute.com**... **Gerard Canales** was elected president of the Interdepartmental Chamber of **Notaries**... Spain's **FCC** is to propose to the shareholders meeting on 29 June an increase in the number of board directors by one to 19, and will propose the appointment of **Max Mazin** to fill the new vacancy... **Florent de Malherbe** was named director at **Cushman & Wakefield Investors**... **Jones Lang LaSalle**, Germany, is restructuring

**Retail Capital Markets** into **Shopping Center Investment** and **Retail Warehouse Investment**. The former will be run by **Jörg Krechky**, and the latter by **Sylvio Michelitsch**. Both will report to **Uwe Wegner**... **Pascal Duhamel**, managing director of **Morgan Stanley's** property funds in France, Spain, Belgium, the Netherlands and Luxembourg, will join **Icade's** board of directors... **DTZ Consulting & Research** director **Bernhard Hildebrand** in Frankfurt has also taken on responsibility for Consulting... **Merrill Lynch** Investment Managers has appointed **Matthew Ryall** as director in its Real Estate Research and Strategy Team, with particular responsibility for the planned European Fund of Funds. **Ryall** joins from **LaSalle** Investment Management... **CB Richard Ellis** has added two staff in its Berlin office, **Aleksandra Socha** and **Barbara Bendix**... **Financial Times Deutschland** reported that the former **Viterra** board member **Michael Hermes** and long-time Manager **Saul Goldstein** will take over responsibility for the German operations of **Cerberus** funds, succeeding **Ralph Winter** who has left the company... **Metrovacesa** has named **Victoria Solar Lujan**, **Santiago de Ybarra y Churruca** and **Antonio Truman** to the board of directors of **Gecina**... **Hans-Ulrich Sutter** has been appointed to the board of the **Bremerhaven-based Deutsche Real Estate**, owned by **Goldman Sachs**... **Edgar Krauss** is stepping down from the board of Germany's **Colonia Real Estate**... **Stefan Schober** will, in August, take over as head of Capital Markets for **Jones Lang LaSalle** in Berlin... **Xavier de Lacoste Lareymondie** was named director general of **ANF** in Paris, part of the **Eurazeo** group... **Antoine Beslon** will join **Credit Foncier Reim** as research director... **Frederic Fontaine** will join the management board of **Corio**... **Michel Ginot**, director of real estate at **Thales**, was elected president of the **Association of Real Estate Directors**... **Francis Mayer**, director general of the **Caisse des Depots**, will join the board of directors of **Icade**... **Jean-Paul Bertheau** was named to the board of directors of **Silic**. pfe

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