

Deutsche sells €500m office portfolio to Fortress-Eurocastle

DB Real Estate has become the latest German open fund to sell a large portfolio, some €500m of office assets to Fortress-Eurocastle. **page 6**

Li Ka-Shing in talks on Rome idea for Chinese 'door' to Europe

Chairman of Hutchinson Whampoa and world's 10th richest man has been in talks with Rome on investing in southern Italian infrastructure. **page 6**

France's Unibail takes profits in Paris' Palais du Hanovre

Unibail has sold the Palais du Hanovre office building in central Paris to BNP Paribas, which plans to move in and occupy the site. **page 9**

Hungary's TriGranit to seek listing, eyes Romania, Montenegro

One of biggest CEE property investors and developers may seek a stock exchange listing, and eyes potential new regions of activity. **page 9**

Mario Breglia, Scenari Immobiliari

The PFE Interview **page 8**

Spanish stock market regulator rejects upgraded Sanahuja bid for Metrovacesa

In what could mark the end of Metrovacesa shareholder Ramón Sanahuja's planned purchase of a controlling stake in Spain's largest listed property company, the stock market regulator on Friday rejected his upgraded offer. CNMV said he can maintain the original bid of €78.10 per share for 20% or withdraw it. He has until Wednesday to decide.

Facing a higher counter-bid from Metrovacesa Chairman Joaquín Rivero and shareholder Juan Bautista Soler, Sanahuja's investment vehicle Sacresa boosted its original bid to €90 per share for 26%. Since Sacresa already controls 24.29%, the new offer takes it over the 50% threshold at which Spanish takeover law dictates it must launch a full bid. Metrovacesa announced a net profit of €622.25m in the first half, an increase of almost 180% from 1H05, and almost hitting its initial target for the year of €690m. (See p 9) pfe

European REIT regimes move toward EU harmonised structures

Real Estate Investment Trust regimes in Europe are becoming more harmonised and a 'European REIT' may not be far off, a study drawn up by Amsterdam lawyers Loyens & Loeff for the EPRA annual conference said.

"Various REIT systems are slowly becoming harmonised. Perhaps a uniform EU REIT regime may not be as far away as it seems," said the report, presented to around 250 delegates at the conference Thursday and Friday in Budapest.

Speakers also advised real estate asset managers to venture outside home markets and "go global". JPMorgan AM's Joseph Azelby said the performance of property equities has "absolutely knocked the cover off the ball" and it is time to move further afield. Yield compression has occurred so strongly that some asset classes have seen unleveraged total returns over 25%. This would not occur again in delegates' professional careers. The 'new kid on the block' in the shape of infrastructure is emerging as an asset class and should not be ignored.

The conference also heard that good management and strategy are key factors determining success for property companies. Giulio Rasetta, of the Milan-based Risanamento, said a focus on domestic projects has brought success. "Development is a very local business and all our projects are no more than five kilometres from our headquarters," he said.

Peter Lowy, chairman of the huge Sydney-based Westfield Group, said his firm's exclusive focus on shopping centres had brought a 36% average compound return over the 46 years since it became a REIT. "We have a business plan, and we stick to it: that's the secret," he said.

US-based group Archstone Smith also reported that it has invested €600m in European housing – mainly Germany - less than one year after starting here. Australian quoted companies such as Stockland Trust and Allico are also looking at opportunities in the region. pfe

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Only a week after Labor Day in the US, the French Rentrée and the start of schooling elsewhere in Europe, real estate professionals are into a hectic round of conferences and seminars, avid for new ideas on where, how and what to invest. In this particular 2-week cycle, Property Finance Europe is also attempting to get to the GRI Summit today and tomorrow, Scenari Immobiliari on the Ligurian coast of Italy on Fri/Sat, Terrapinn's Real Estate Investment World in Germany and also Business Arena next week in Stockholm alongside CoreNet Global in Lisbon and REFE in Warsaw. With judicious sharing of the travel duties we may just be able to do it, so please say hello to any staff members who manage to make the plane! Another packed PFE issue this time. Thanks to Deutsche Bank, Bank of New York and DebtX for supporting us, as well as all new subscribers. Keep in mind that as well as providing continental European property investment analysis to the global investor community, PFE is keen to be the platform for your message to them - irrespective of the language of your daily business. Parlate Real Estate? is our question on p7. It could just as well be Parlez-vous Real Estate? or Sprechen Sie Real Estate? PFE is designed to serve your needs.

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Dawnay Day and Hilco

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across Germany

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GAGFAH

GAGFAH

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Le MERIDIEN

Le Meridien

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Property companies should go global, examine infrastructure – JP Morgan

Real estate companies would be well advised to venture outside their home markets and “go global”, and also seriously examine the rapidly developing new asset class of infrastructure, the European Public Real Estate Association (EPRA) annual conference heard last week.

Joseph Azelby, global head of JPMorgan Asset Management Real Estate, told around 250 EPRA delegates on Thursday that property equities have performed so strongly in recent years that they have “absolutely knocked the cover off the ball”. Yield compression has occurred so fast that some markets and asset classes last year saw unleveraged total returns over 25%, an event that would not occur again in their professional careers.

“The glass is overflowing in terms of what’s gone on in the last two years, but this has not really penetrated the investor psyche, at least not in America,” he said. Now, the growth of listed real estate companies is no longer coming through in the US – where privatisation of some Real Estate Investment Trusts has shrunk the quoted market – but in Europe and Asia. Investors should therefore go global to seek these opportunities. By 2010 the global listed real estate should reach a market capitalisation of around \$1tr, from around \$800m now, he forecast.

Azelby added: “There’s a new kid on the block, a new asset class out there and it’s called infrastructure.” The advantages are its real estate-like qualities, stable and predictable cash-flows, long-term immobile assets, low operating risks, inelastic demand trends, and – in many cases – monopoly or quasi-monopoly positions in the market, often regulated by governments.

He described as amazing the request for information to private investors from Governor John Corzine to potentially sell the New Jersey Turnpike. Upgrading US infrastructure would cost upward of \$1tr and American taxpayers are no longer willing to see tax rates rise to achieve this, Azelby said. This, combined with tight public sector budgets, is a pattern repeated around the world so that a widespread transfer of infrastructure ownership to the private sector is about to take place. pfe

PFE COMMENT: This message is now quite commonly transmitted by the leading global real estate professionals. We heard it most recently at the IPD conference in Lisbon in spring, as well as in a number of commercial sessions. Infrastructure is, however, mainly a game for those with very deep pockets and adequate staff. It will therefore partially segment the industry between those who have the resources, and those who are content to be pure managers or investors in immobile assets. Australian groups under constant, strong pressure of incoming pension money will be big players, and are likely to find the strongest competition from the private equity sector.

Standardised REIT structure across Europe may not be far off - Loyens

Real Estate Investment Trust regimes in Europe are becoming more harmonised, and a standardised structure across the continent may not be far off, according to a study by Amsterdam lawyers Loyens & Loeff conducted for the European Public Real Estate Association (EPRA) annual conference.

If all goes well, it noted, five full-fledged REIT regimes may

exist in Europe as of next year - two new ones in the UK and Germany, and three older ones in France, the Netherlands, and Belgium which have been spruced up. “Because many of these regimes are becoming more and more similar, the various REIT systems are slowly becoming harmonised. Perhaps a uniform EU REIT regime .. may not be as far away as it seems,” the report noted.

“The flowering of REIT regimes in Europe is not the result of concerted action by European institutions or governments; it rather is the fruit of successful lobbying by industry groups and the competitive pressure that existing REIT regimes and proposed REIT regimes exercise on the political willingness of authorities in various European countries,” it noted.

Loyens & Loeff partner Ronald Wijs – editor of the study - told last year’s EPRA conference that many regimes risked non-conformity with EU law. The new study concludes however that EU law is starting to affect REIT structures among European member states.

EU law aims to create a true Common Market by means of the so-called EC Treaty freedoms, of which the free movement of capital is the most important for REITs. Whether an investor invests in his domestic market or in another EU member state should not make a difference. Where cross-border investments are treated less favourably than domestic investments,

This print edition of Property Finance Europe will be available on a complimentary basis to participants in the following conferences:

Scenari Immobiliari, 14th Forecast & Strategies Forum
September 15-16, Friday-Saturday
Grand Hotel Miramare, Santa Margherita Ligure, Italy

CoreNet Global, fifth European Summit
September 17-19, Sunday-Tuesday
Hotel Le Meridien Park Atlantic Lisboa, Lisbon

Business Arena, Nordic Congress
September 20-21, Wednesday-Thursday
Clarion Hotel, Stockholm, Sweden

15th International Investment & Financial Fair REFE
September 22-23, Friday-Saturday
IASE Exhibition-Conference Center, Wroclaw, Poland

Real Estate Investment World Germany
September 18-20, Monday-Wednesday
Hotel Kempinski, Neu-Isenburg, Germany

Real Estate Finance Law Forum
September 25-26, Monday-Tuesday
Courthouse Kempinski, London

Real Estate Investment World Australia 2006
September 25-27, Monday-Wednesday
Rydges Jamison Hotel, Sydney, Australia

this enters the 'danger' zone since differentiation of treatment could form a prohibited restriction of the free movement of capital or the freedom of establishment.

National legislators should easily be able to determine whether their REIT systems are in line with EU law. If not, REITs or their investors should file requests for equal treatment in cross-border investments. The study said prohibited restrictions seem to exist in various European REIT regimes with respect to withholding tax, REIT requirements, shareholder restrictions, listing requirements, and required asset levels.

"Certain REIT regimes impose different rules on resident and non-resident shareholders. If the rules for non-resident shareholders are less favourable than those for resident shareholders, we may be looking at a prohibited infringement," it said. pfe

PFE COMMENT: A certain amount of teasing at the EPRA session on REITs took place over the fact that the entire European sector is looking to take lessons from the French on introduction and management of such a 'capitalist' vehicle. The French REIT/SIIC sector has been highly successful; the loss of tax income to foreign investors - notably the Spanish - due to the absence of any shareholding constraints is seen by the Paris community as a small price to pay for the immense revitalisation of the real estate sector since SIIC introduction

in 2003. Hats off to our friends at FSIF for shepherding the legislation through! Certainly the UK is smarting from its own late entry, however the British sector is already running hard to catch up. The REITs and Quoted Property Group has just been founded to start the process of educating UK retail investors on investing in REITs as a stock exchange property vehicle. REITA has 31 institutional founding members and a website (www.reita.org). Patrick Sumner from Hendersons is one of those leading the charge.

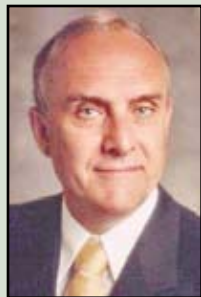
Good management, correct strategy seen key to property firms' success

Good management and the correct strategy are among the most important factors determining successful property companies, delegates at the European Public Real Estate Association (EPRA) annual conference heard on Thursday.

Peter Lowy, chairman of the largest global REIT, the Australian Westfield Group, said a pure focus on the single asset class of shopping centres had brought a 36% average compound return over the 46 years since it first achieved REIT status. "We have a business plan, and we stick to it: that's the secret," he told the conference. Westfield manages 120 retail malls worldwide,

Of end-summer sales at German property funds, crystal balls and gypsy blood

In German shop windows starting from late July you will see the sign SSV in large letters. Retailers start their end-summer sales (Sommerschlußverkauf) before we have even become used to the concept of



sunshine and warmth. Well, German open-end funds seem to have even preempted the shopkeepers; they started their own SSV some time in spring of this year - the only difference being that the prices are higher than the original valuations, and by no means lower! Already sharply reduced to a gross asset value of around E76bn from close to E100bn two years ago, German open-end funds are on their way to downsizing themselves out of existence. A dozen to 15 large portfolios are being valued even as we speak by a realtor community in Frankfurt, Düsseldorf and Munich that, despite its massive re-manning over the last year, is struggling to keep up with demand. AtisReal, Jones Lang LaSalle, DTZ, Cushman & Wakefield, CBRE, Savills and Catella are all beavering on portfolios that are surplus to requirements and mainly well above E250m. Not only the funds, but also banks and insurances are selling off large portfolios - some of them in the form of complete funds - and all sacrificed on the altar of the seemingly

insatiable appetite of foreign institutional investors. Whereas until now, the heavy focus of demand has rested on German residential, most of the current portfolios on offer comprise office or mixed assets. Just as in housing, the Anglo-Saxons see a base of a cycle that can only go one way in capital valuation terms, namely up. Current German owners consider the assets impossible to rent out in full and privately consider them worth nowhere near the sums they are being offered. Which means, as we frequently say about residential property, someone is wrong here. It is an entirely cultural thing. Tell me, Dear Reader, if you are German or Anglo-Saxon, and I will tell you if you think prices are going up or down. Last Monday's E500m portfolio sale by DB Real Estate to the Eurocastle listed subsidiary of the Fortress private equity fund was merely the most recent. Another large portfolio is soon to come from a major German insurance group. Most simply say: either we sell it now while demand is hot and heavy or we have this white elephant on our hands forever. The trend is office, and the trend - as our friends from trading desks will tell you - is always your friend.

Citigroup's Philippe Le Trung does fine and respected analysis on real estate companies. Hats off therefore to him for making public three-year old research conclusions to the collected EPRA dignitaries

last week, and revealing that he wasn't always right. But then no one is; foretelling the future can be a notoriously tricky pastime, well, without the requisite crystal ball and gypsy blood. This is doubly true in European real estate, which has been hugely dynamic and taken off in directions almost impossible to predict in even the more recent past. Which of British Land, Hammerson, Metrovacesa, Rodamco Europe and Unibail would you have recommended three years ago? Most delegates, knowing only the companies' descriptions, voted electronically for BL and Unibail as the top picks in that order. Turns out Metrovacesa knocked them all for six, with its stock price soaring a stunning 328% to date. Of course no one could have foreseen the takeover battle that has artificially inflated its share prices for now. But the surging price of the underlying asset - ie Spanish real estate - has led to the tussling between various matadors and toreadors on the Madrid stock exchange this year - implying that net asset value is just as much in the eye of the beholder as it is in last year's audited balance sheet. Le Trung was, in any case, ably abetted by Patrick Sumner of Henderson, Ritson Ferguson of ING Clarion and Robert Fowlds, JP Morgan / Casenove. Illustrious company indeed... but not a drop of gypsy blood among 'em, I'll warrant.

Allan Saunderson, editor@pfeurope.eu

with heavy focus on the US and UK. It is vertically integrated, with its own designers, architects, and mall managers.

Giulio Rasetta, chief financial officer of the Milan-based listed property development and management group Risanamento, said a focus on domestic project development has brought his company success.

"Development is a very local business, and all our projects are no more than five kilometres from our corporate headquarters," he said. The group nonetheless was able to identify and acquire anti-recessionary assets in France more suitable than in its native Milan.

However he noted that Risanamento stock is trading at a 50% discount to net asset value, and more if the investment portfolio is stripped out. He told PFE later that this is mainly due to the development focus of the group and the limited free float. Risanamento is the Zunino Group's listed property company, and is 70% held by founder Luigi Zunino.

Guillaume Poittrinal, CEO of one of the largest French REITs, nibail, said his company seeks to create value rather than look for large scale, and places a lot of accent on being opportunistic. It has found sufficient opportunities in French shopping malls and office, as well as developing congress and exhibition centres. "A big problem for multi-nationals is the risk of losing focus," he said. "It's very complicated to make money; it needs plenty of skills that are local and sometimes regional."

Adrian Wyatt, chairman of the UK's Quintain Estates, told the meeting that success requires a pragmatic approach, avoiding at all costs "falling in love with your assets". High potential exists in infrastructure which, combined with pure real estate skills, implies that cities can be eventually run as businesses.

Wyatt also issued a plea for property derivatives to be developed that would allow companies to hedge their exposure to large development projects. Quintain is involved in several that are of a size greater than its market capitalisation. pfe

European listed RE underperforms in August FTSE EPRA/NAREIT index

European listed real estate securities underperformed the US and Asia in August, with a rise of just 0.9% in the month compared to 3.7% and 4.8% respectively for the other regions, data from the FTSE EPRA/NAREIT Global Real Estate Index showed.

Globally, the index has put on 12.5% over the year to date as measured in euros, easily outstripping the global equity market's 2.3% and global bonds 1.50%.

In August, the small rise in the EPRA/NAREIT Europe Index was most heavily underpinned by a rise in the French listed property market that continued its bullish run, up 4.4%. Sweden was down most heavily at -3.3%, while EPRA/NAREIT UK lost 40bp, and EPRA/NAREIT Netherlands fell back 10bp.

Leading the European performers in August was UK health-care player Primary Health, up 14%. In France, retail specialist Klépierre jumped 11%. Derwent Valley (UK) added 7%, and Lamda Development (Greece) and Warner Estates (UK) both advanced 6%. The poorest performer among the European movers was Keops (Denmark) with a fall of 17%.

ProLogis European Properties, an externally managed real estate fund announced that it plans to list on Euronext. The fund owns 281 distribution properties in 11 countries in Europe, worth €4.2bn as at 30 June. Robert Watson will be the CEO once the IPO is complete. pfe

Archstone Smith, Australia's Stockland see European housing potential

The giant US-based housing group Archstone Smith has, less than one year after starting to look at European residential property, already invested €600m in the region, while the Australian quoted Stockland Trust is also beginning to consider opportunities in Europe.

Officers from both companies took part in a session on housing at the EPRA annual meeting in Budapest on Friday. Archstone's Dana Hamilton told delegates the principal focus has been German residential so far but the group is continuing to research opportunities.

Archstone-Smith is an S&P 500 company active in apartment investment and operations, with a current market capitalisation of some \$19bn. As of June 30, it had an ownership position in 82,491 residential units in the US, including some under construction.

While a focus on operating cash flow is highly important for residential property companies, tax considerations also strongly dictate the most efficient way to approach a market,

Hamilton said. For this reason, Archstone does not engage in condo-conversion in the US - splitting buildings into apartments and selling the individual units, but this business is more worthwhile in Germany. "There is nothing more important than cash-flow for what we do in the US, but things are slightly different in Europe," she told delegates.

Stockland Managing Director Matthew Quinn said cash-flow can be a distorting indicator if, for example, it is generated from substantially selling off the portfolio. Return on assets is a more important indicator. Stockland has a market cap of around €6bn equivalent, and has achieved compound total returns of 10% p.a. over the last decade or so. The Sydney-based group is diversified one-third into owning and managing shopping centres, one-third industrial parks and one-third in residential development. pfe

Australia's Allco seeks more European acquisitions to add to Telekom

The listed Australian-based funds management company Allco is boosting its presence in all regions of the world, and in particular looking for more opportunities in Europe to follow the recent purchase of a €333m commercial portfolio from Deutsche Telekom.

Sources at the EPRA annual meeting last week said Allco, the third largest fund manager in Australia after the Macquarie and Babcock & Brown groups, on the acquisition trail for all kinds of property, preferably with long and stable rental cash flows. With investments in shipping, aircraft and some infrastructure, it is particularly well placed to boost exposure to the kinds of assets European governments may seek to privatise over the next few years. Large parts of eastern and western Europe are especially underdeveloped in shopping centres.

Allco's majority-owned Record Realty Trust in July bought a portfolio of seven German property assets totalling some 140,000 sq.m. of space in a sale and leaseback deal with Deutsche Telekom. The commercial office space has an average remaining lease term of 13.5 years.

RRT chief executive Stewart Tillyard said at the time the investment would be leveraged, and the invested capital hedged against the Australian dollar reporting currency. RRT is an in-

vestor in structured real estate managed by Record Funds Management, a wholly owned subsidiary of Allco Finance. pfe

Morgan Stanley's global NPL exit caused pull-out from Italian Pirelli JV

Morgan Stanley has taken a company-wide decision in the last few months to move out of the business of non-performing loans worldwide, and this was the reason for its sell-out of a two-year-old NPL joint venture with Pirelli Real Estate in Italy.

Sources on the sidelines of the EPRA annual conference last week said that MSREF decided the NPL business no longer fit the global strategy.

"The returns are certainly there. If you put in 100, you can get out 125 in 15 months so the IRR (Internal Rate of Return) is potentially very good," one source said. "But what MSREF is looking for is businesses where they can put in 100 and get out 200 in a period of four years." MSREF also views the people management intensity of NPLs as outside its core skills.

Listed real estate group Pirelli RE announced last month it had enlisted Calyon, the corporate and investment bank of the French Crédit Agricole group, as financial partner in European NPLs to replace Morgan Stanley Real Estate Funds.

A second source added last week that Calyon has access to lower funding costs than MSREF and so should be able to improve the profitability of the partnership. The source noted that the NPL business continues to return high margins and can be standardised across markets. Italy itself holds huge further potential in NPLs, and Pirelli also has joint ventures in Germany, where the market is still estimated to hold strong prospects.

MSREF has been in Italian NPLs for around 10 years, and entered the JV with Pirelli RE in August 2004. The latter co-invested on a minority basis and handled workout, servicing and property management. pfe

Assoimmobiliare president calls for industrial policy for Italian real estate

The president of Italy's main real estate association Assoimmobiliare has called for the new government of Prime Minister Romano Prodi to set in place an industrial policy for real estate that is comparable to plans set for strategic manufacturing industry sectors.

Gualtiero Tamburini told the Assoimmobiliare annual meeting last month that policymakers do not yet assign the property sector the importance of other industries. "A real estate industry that is competitive and efficient is an indispensable infrastructural service for a modern country in order to support other industries such as trading, agriculture and tourism," he said.

Services offered by real estate also bring capital and resources into cities, homes and offices. "A real estate patrimony that is badly managed or not managed at all is like a machine that is producing at a much lower rate than its true potential," he added.

Tamburini was harshly critical of the manner in which the new left-of-centre coalition government managed the introduction of the new VAT decree in summer. Although the aim of curbing tax evasion was correct, the text came as a surprise to the entire sector. No representative of Italian real estate had been contacted beforehand, while consultation was normal in other nations. In the Netherlands and the UK new fiscal and

economic legislation is always submitted for comment to the sector prior to being announced.

In July, Assoimmobiliare was obliged to help foreign companies operating in Italy to understanding the thrust of the decree and how to deal with its implications. He said Assoimmobiliare will in the future work to ensure a constant dialogue between property institutions and government, and develop a federative body to promote interchange not only with other EU representatives but also to fast-growing Asian countries such as China.

New property funds that have joined Assoimmobiliare in the last year include Bnl Fondi Immobiliari Sgr; CB Richard Ellis, Prologis Italy Management, DTZ Italia, Fimit Sgr, Vegagest Sgr, Rdm Srl Gruppo Fingen, and Amis Agenzia Milano Structure Srl. pfe

Deutsche fund sells €500m office portfolio to Fortress' Eurocastle

A €500m portfolio of office properties from the Deutsche Bank's DB Real Estate Investment unit is the latest in a long pipeline of commercial property being sold off to, mainly, foreign investors by German open end funds and insurance companies.

The portfolios has been sold to Eurocastle Investment, the Euronext-listed commercial property holding company controlled by the US-based alternative investment and asset management group Fortress Investment. The portfolio comprises six office properties, located in Berlin, Frankfurt, Dusseldorf, Wiesbaden, and Eschborn and Sulzbach near Frankfurt.

Fortress said the purchase price reflects an unleveraged initial yield on cash-flow of 5.5%. Managing Director Bruce Snider commented in a release that the purchase brings Eurocastle asset acquisitions to a total of €840m this year, and takes the company very close to its transaction target for the year of €1bn.

The properties have an average age of less than 10 years and total 190,600 sq.m. The portfolio offers stable cash-flows with an average lease term of seven years. Over 80% of annual revenue is contributed by major corporate tenants. An initial occupancy rate of approximately 93% gives an opportunity for future income growth, Fortress said.

Fortress Managing Director Guido Piñol added, "This acquisition fits our property investment strategy of acquiring high quality commercial real estate let to credit tenants with an opportunity for significant value creation through active management." Eurocastle will to initially fund the purchase with a combination of debt financing using existing lines and a committed long-term fixed loan facility secured on the portfolio. Fortress has over \$23bn in equity capital currently under management. pfe

Hutchinson Whampoa shows interest in Rome plans for southern Italy

Li Ka-Shing, chairman of the Hong Kong-based Hutchinson Whampoa, has shown a positive reaction to plans by Italian Prime Minister Romano Prodi to build infrastructure capacity in southern Italy and make it the 'entrance door' to Europe for Chinese exporters.

Li met with Prodi in late August, and sources report that he showed strong interest to develop new investments in major infrastructures and properties. They said this is a first, but huge, sign of Chinese interest in the Italian real estate market.

Prodi has said he will seek international investors to build harbours and rail connections and also promote the development of major property projects. Hutchinson Whampoa is active in logistics, building, hotels and infrastructure worldwide.

Li, the world's 10th richest man according to the Forbes list, is very well acquainted with the Italian market. He owns 99% of 3 Italia, the major provider of UMTS technology for mobile phones. He is the also chairman of Cheung Kong Industries, a group operating in 54 countries. pfe

REITS

Steinbrück considers different REITs structure for Germany

In an attempt to steer legislation permitting German Real Estate Investment Trusts (REITs) through the grand coalition government and parliament, Finance Minister Peer Steinbrück is considering a structure that differs in significant parts from those being introduced elsewhere in Europe.

Against the will of his own Social Democratic Party, Steinbrück is insistent on pushing through REITS legislation – if possible for a start in January 2007. He is concerned that any delay will cause German property portfolios to rapidly become part of REITs structures elsewhere in Europe. The UK will, from January, permit REITs to hold property assets located outside the country. While the French rules for its own REIT/SIIC initially vetoed foreign property assets, this regulation is

seen by many specialists as having some flexibility now.

Steinbrück wants to create a structure to prompt industry to move property off balance sheet of a value that the finance ministry estimates at around €80bn. This would provide much needed equity capital for companies to invest in core activities. The conversion tax is proposed to be 20% - well above the 16.5% of the French structure, and compares with 2% of total gross value contained in the British legislation.


In addition the shareholder in a G-REIT will be required to tax dividend payments and Steinbrück is proposing that a shareholder should not benefit from a halved income tax rate that applies to dividend payments from industrial companies. Germany is also considering allowing communal housing companies to retain a stake as high as 25% in any REIT to which they have sold property assets. This would exceed the maximum 10% allowed to any single shareholder in a UK REIT. Berlin considers that sales of housing portfolios into REIT structures are preferable to sales to foreign private equity funds. pfe

German REIT 'fast-track' process already behind schedule - newspaper


The German federal cabinet decision on new legislation to allow the introduction of Real Estate Investment Trusts has been put back to 16 November from the original date in September, according to the Frankfurter Allgemeine Zeitung newspaper.

"Against the background of the ongoing political quarrel,

Parlate real estate?



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The PFE Interview: Mario Breglia, Raffaello Pochettino, Scenari Immobiliari

Mario Breglia reaps benefits of early start into property research, combats market intransparency as domestic, foreign interest in Italy surges

Mario Breglia recognised the need for Italian property market research early, and the firm that he founded in 1990, Scenari Immobiliari, has in this decade really begun to reap the benefits of its long experience in the market. Attendance at its annual seminar in Santa Margherita Ligure has doubled in the last three years so that the 14th event this week is heading toward a record 400 participants.

"We started fairly modestly in 1990 but the real market growth in our information service began to come through in 1996," he told PFE in an interview. "That's when the very first big international investors started to get interested in Italy, headed up at the time by Morgan Stanley. From then on the market in real estate services began to pick up, and the requirement for research along with it.

"Italy's entry into the euro in 2000 brought still more intense interest from foreign investors. So far, the biggest operators have invested 90% of the €10bn of their Italian investments into Milan and Rome, but transparency is improving all the time and people generally now know how and where to invest, so we expect this to broaden out."

As an independent research institute working from Rome and two locations in Milan, Scenari Immobiliari analyses the real estate and economy of Italy and, increasingly, also other major European countries. With around 100 employees, it focuses on the property and construction sectors, infrastructure projects and new financing procedures, investment strategies, and property management and valuation. It made a major nationwide property evaluation last year for the Italian national railway Ferrovie dello Stato.

The group has sub-divided Italy into uniform micro-areas within conurbations, taking as its starting-point market parameters such as prices and rents. Milan, for example, contains 199 micro-areas, Rome 138, Turin 60, Bologna 59, Florence 51, and Naples 44. A sample for every micro-area varies according to transactions, area characteristics and market conditions. The result is the largest independent, transaction-based database of property values in Italy, with data on all markets and localities going back to 1990.

The database is one of Scenari's three major strengths, Breglia says. Its research provides another leg. It has a Monitor Immobiliare annual report, a two-monthly report which is subscription-only report on the nine main Italian cities, and a monthly report that looks at market trends via its proprietary Isi Index. Independent property assessments have become an increasingly active area for the group.

"The large banks such as Goldman Sachs, Morgan Stanley, and Deutsche Bank - the biggest of the foreign investing institutions in Italy - are now investing huge amounts in the Italian market," Breglia says. "But it may indeed be difficult for other foreigners because they are competing with a lot of cash-rich domestic buyers." The biggest operators in the Italian mar-

ket are listed companies such as Beni Stabili, a pure property company, and Pirelli Real Estate, which is at core a services company, although an investor as well. Domestic publicly-listed mutual funds have amassed real estate assets of around €16bn in the last four or five years, and many small investing groups are also active.

Last month, Scenari Immobiliari took a unique step of opening an office in Germany. Managing Director Raffaello Pochettino says the aim is both to provide Italian research for potential German investors, but also German research to his home country investors. Speaking in his office near Frankfurt's Alte Oper, he told PFE, "We are investing here because we believe Germany is peculiar and has many similarities to Italy. For one thing, the property asset cycle in both nations is different from other European countries. In housing though, there are differences, and there we expect both ends to converge toward the centre. In Italy, home ownership is extremely high, between 80% and 90%, while in Germany it's the other way round. Demand levels will converge, we think, and this is an opportunity for our clients."

Italian institutions have already perceived an opportunity in German housing companies. Many, including Pirelli, have already invested alongside the major US private equity funds such as Cerberus, Fortress and Blackstone. "Italians perceive Germany as a good place to invest in general," Pochettino says. "Up to now Scenari has been a pretty good job providing German information from Italy. "But being in Germany establishes our credibility on a much higher level." At the end of November, Scenari Immobiliari is planning a specialised seminar on the opportunities in Italy aimed at German investors.

Breglia adds: "We first concentrated on information on Italy for the Italians - and this continues to be our major activity. However we have increasingly boosted our supply of information to foreign institutions about Italy, in particular to German investment funds, and other large foreign-based institutional investors. In very recent years, Italian investors have begun to also be much more interested in foreign markets so we are spreading our research reach to help them understand the other major property jurisdictions."

And what opportunities hold the most potential for large foreign investors in Italy now? "The segments most interesting are hotels and everything connected with tourism," Breglia says. "This includes all the major tourist centres such as Venice, Florence and Rome, plus a few more besides." pfe



Mario Breglia: "Italy's entry into the euro in 2000 brought still more intense interest from foreign investors."

the original schedule for enacting legislation for a REIT in the federal cabinet in September cannot be held," the newspaper wrote. Talk in Berlin is of a cabinet decision in November so that the final enactment of the REIT legislation by the Bundestag and Bundesrat, upper and lower houses of parliament would take place only in February or March of next year.

Finance Minister Peer Steinbrück told the Financial Times Deutschland newspaper, "We are still pressing for the 1 January 2007. It is true to say that the procedure for legislation has become somewhat bogged down. If it does not happen on schedule, then we will try to ensure that it is made retroactive." pfe

Unibail sells Palais du Hanovre office building in Paris to BNP Paribas

Unibail, the French REIT/SIIC property giant, has sold the Palais du Hanovre office building in central Paris to banking group BNP Paribas, which plans to occupy the site located in the downtown financial district.

Unibail said the 18,115-sq.m. office building was sold at a 48% premium on the last appraised value. The group acquired the building for €114m in 1999. A Unibail spokeswoman declined to provide a full price but said the space was sold for €12,349 per sq.m. This would give a sale price of close to double the acquisition cost. Unibail undertook extensive renovations early this year at a cost of €13m.

Unibail has been actively selling office assets this year including two Paris buildings: 31 rue du Colisée and 189 boulevard Malesherbes, for yields of 5.75% and 4.78% respectively. It is in the process of selling a building in Neuilly let to accounting firm Ernst and Young.

Unibail is also readying to inaugurate this month the second phase of its Capital 8 office and retail complex in Paris. The group said it has let out about 6,000 sq.m. for nine-year firm leases at rental rates about 6% higher than possible at the end of last year. Unibail started out as a finance leasing company but has grown exponentially to own major office properties in Paris and La Défense, shopping centres across France and key convention centres around the capital. pfe

PFE COMMENT: If Unibail's Guillaume Poitrinal is getting somewhere close to a doubling of capital value in some French investments over six years it's no wonder he told delegates at the EPRA annual meeting that he sees enough opportunities in France not to need to venture outside the country! Plus, whatever realtors and others say about yield compression in France, and more to come, it is also clear that Unibail sees 5.75% and 4.78% as adequately low to dispose of the assets they were holding in Paris CBD.

LISTEDS

Hungary's TriGranit may seek listing, targets Romania, Montenegro

Budapest stock exchange President Attila Szalay-Berzeviczy says one of the biggest developers in the region, Hungary's TriGranit, is likely to seek a bourse flotation soon.

TriGranit has foreign investments valued at €2bn in Slovakia, Poland, Romania and Croatia, and plans further development worth €2bn in 10 countries. Romania is its number one target in

shopping centres. TriGranit is also said to be preparing greenfield tourism developments in Montenegro, themselves worth €2bn.

Some large TriGranit shareholders are also interested in Montenegro on their own account. Canadian Peter Munk of Barrick Gold and Trizec Properties, who holds 20.29%, and Nathaniel Rothschild, who owns 15%. Austrian Immoeast Immobilien Anlagen, which raised €2.75bn from a new share issue this year, made its biggest-ever purchase in mid-August when it acquired a 25% stake in TriGranit for €400m.

The three existing property companies traded in Budapest are Graphisoft Park SE, a recently spun-off property unit of software company Graphisoft, Fotex Nyrt, a former retailer converted into a real estate holding company, and developer BIF Nyrt. pfe

Spanish regulator rejects upgraded Sanahuja bid for Metrovacesa

In what could mark the end of Metrovacesa shareholder Ramón Sanahuja's planned purchase of a controlling stake in Spain's largest listed property company, the stock market regulator CNMV on Friday rejected his upgraded offer.

In a statement, CNMV said Sanahuja can maintain his original bid of €78.10 per share for 20% of Metrovacesa or withdraw it. He has until 13 September to decide.

Facing a higher counter-bid from Metrovacesa Chairman Joaquín Rivero and shareholder Juan Bautista Soler, Sanahuja, via investment vehicle Sacresa, boosted his original bid on 7 August to €90 per share for 26%. With this modified offer, the Sanahuja family – which currently controls 24.29% – would surpass the 50% threshold benchmark at which Spanish takeover law dictates firms must launch full takeovers.

Rivero and Soler have offered €80 per share for 26%, and have received backing from Metrovacesa's board and other shareholders who control 11% of the company. The Spanish High Court is also due to rule soon on allegations from Sanahuja that Rivero and Soler had used confidential information in making its bid, which has been approved by the CNMV.

Separately, Metrovacesa announced a net profit of €622.25m in the first half, an increase of almost 180% from 1H05, and almost hitting its initial target for the year of €690m.

In June the group raised its full year profit guidance to €800m. Sales for the first six months reached €747.8m, a 29.8% rise. Total assets through June were valued at €17.2bn, up 9% from January. Investment reached €747m, of which about 64% was spent in the French market through its Gecina unit. The majority of the remainder was slated for projects in Spain. Rental fees proved the most lucrative, generating €366.5m in the first half, a 168% rise over 1H05. pfe

Inmocaral first-half earnings down 90% before shoe-in takeover

Inmocaral, the Spanish property firm expected soon to acquire larger rival Colonial for €3.7bn, reported lower-than-expected results for the first half.

The firm, led by Luis Portillo, posted net profit after minority interests of €46,000, down from €646,000 in the first half last year, the company said in a statement to stock market regulator CNMV. Sales fell to €2.4m, a 9% drop from first half 2005.

Inmocaral is a holding company, bought as a shell for the sole purpose of the takeover bid for Inmobiliaria Colonial, within which investors have until September 26 to participate. Inmocaral has already obtained sell guarantees from Colonial's two largest shareholders, savings bank La Caixa and insurer Mutua Madrileña, which control a combined 49.3% stake. The CNMV (Comisión Nacional del Mercado de Valores) cleared the takeover offer on 20 July. pfe

PFE COMMENT: We need to talk with Sr. Portillo very soon - though it is clear that he has quite a few matters on his hands right now! Portillo, based in the Andalusian capital of Seville, made his professional start in real estate when he acquired the rights in the early 1990s to construct housing in his native city on exhibition grounds where his original company had organised trade fairs. He made his first fortune as house prices soared in Spain through the last decade and into the first years of this one. He then made a very large investment in Metrovacesa with some of these proceeds and, once again, was able to benefit enormously from the massive run-up in Metrovacesa stock in the last months since the takeover battle has raged between the chairman and the major shareholder. Judging Colonial to be an undervalued asset, Portillo's major coup in the Inmocaral takeover bid was to persuade giant savings bank La Caixa to sign over a sell option at a relatively low price. When Mutua Madrileña did the same, Portillo's success was a done deal - and the Colonial chairman immediately stepped down. Now, one of the major questionmarks hangs over the interpretation by the French regulatory authorities of the supposed requirement for Portillo to make a full takeover bid for the part of the French SIIC Société Foncière Lyonnaise (SFL) not already owned by Colonial. We do not yet know. However, now read on...

Vinci dismisses Nexity overtures for property arm, reports 32% profit jump

French construction and real estate group Vinci said it does not plan to sell its property arm Vinci Immobilier despite overtures from Nexity, the country's largest real estate brokerage firm.

In a short statement, Vinci said, "In response to a question raised in the press... Vinci would like to make clear that it has no intention of selling Vinci Immobilier, which is an integral part of its activities." The two-line statement came following comments by Alain Dinin, chairman of Nexity that he has raised his bid for the unit to an all-cash offer.

A previous plan called for Nexity to take over Vinci Immobilier in exchange for Vinci taking a stake in Nexity. That plan soured earlier this year in the wake of a management scuffle at Vinci which led to the ouster of chairman Antoine Zacharias.

Dinin said Nexity plans to develop its service activities including retirement homes and student residences. These projects will eventually lead to a tie-up with another group. He also intends to expand into Italy, Belgium and Germany.

Vinci last week reported a 32% jump in first-half consolidated net profit to €518m and a 8.4% rise in revenue to €11.9bn compared to the same period last year. The group has set objectives for sustainable and profitable growth to allow it to reach revenue of at least €30bn by 2009, and EBITDA of more than €5bn, of which more than 60% will be generated by the concessions. pfe

Rodamco reorganises group's French shopping mall portfolio

Dutch shopping centre group Rodamco Europe has raised its stake in two retail malls in suburban Paris as part of a strategy to invest in retail complexes with upside potential.

Rodamco said it acquired through a swap transaction with French real estate company Union Financière de Gestion 3,660 sq.m. of leased retail space in Velizy 2, a huge, upscale shopping complex southwest of Paris, for €19.2m and a net initial yield of 4.5%.

The move brings Rodamco's stake in Velizy 2 to 27.1% from 23.7%. Rodamco became a dominant stakeholder in Velizy 2 by raising its share to 23.7% from 17.8% only at the beginning of this year. The other major shareholder is French retail giant Auchan.

In exchange for the additional Velizy 2 stake, Union Financière will acquire for the same value from Rodamco 12,438 sq.m. of offices in the Credit Lyonnais tower in the eastern French city of Lyon. Rodamco also divested to Union Financière some non-strategic retail units in the south-western city of Bordeaux and Paris. The Bordeaux deal was done at a net initial yield of 7.5% and the Paris-Bobigny deal for an initial yield of 8%.

Rodamco also raised slightly its stake in another, nearby shopping complex west of Paris called Parly 2 at an initial yield of 4.9% from SCI Paripar. The Dutch group now has a 69.3% stake in Parly 2, up from 68.7%, and says it is planning a major redevelopment and extension of the site located near the town of Versailles. The Dutch group's property portfolio in France is worth some €1.7bn and includes one office building and nine shopping centres, five of which are in and around Paris. pfe

Frankfurt's DIC Asset acquires real estate portfolio of FAY Group

DIC Asset, the exchange-listed real estate investor based in Frankfurt, has acquired the entire real estate portfolio of the Mannheim-based FAY Group for a total investment of some €585m. The portfolio comprises 55 properties with a total rentable area of 292,000 sq.m.

DIC Asset said it also acquired a 74.9% stake in FAY Property Management, which has been very successful in providing real estate, asset, and facility management services for more than 10 years. FAY Property Management employs 25 staff between its Mannheim headquarters and a branch office in Düsseldorf. FAY will retain a 25.1% stake.

DIC Asset Chairman Ulrich Höller said DIC Asset has realised growth and expansion plans announced at the IPO in the spring of 2006 much more quickly than anticipated. "A large share of the funds raised with the capital increase earlier this year has already been invested with this transaction and five others involving individual investments and real estate portfolios," he said.

The transaction doubles DIC's portfolio to some 750,000 sq.m. floor space, with real estate assets under management of around €1.8bn. Almost two-thirds of the acquired portfolio consists of office and administration properties, with the remainder comprising retail and mixed-use properties. About 40% is concentrated in the Rhine-Neckar region in southern Germany, with sites in Mannheim, Ludwigshafen, and Heidelberg. A further 45% is located in the Rhine-Main region including Frankfurt.

The properties are in top inner-city locations, and almost 90% rented. Many have long-term contracts, and the average rental period is above 6.5 years. Actual rental income is €39m per annum. pfe

Luxembourg-listed Orco sees profits soar in first half, eyes other listings

The Luxembourg-listed Orco Property Group reported first half net profit attributable to equity holders of €26.7m, up by no less than €23.9m or 848 % compared to 1H05. The main contributors were the sale of services, revaluation profits both on the existing portfolio and 2006 acquisitions, plus and improvement of operating margins.

To support the strong growth, significant investments in equipment and people in 2005 have been maintained and have translated into increased operating profit margins, it said. Sales rose 51% to €33.7m in the period. Net gain from fair value adjustments rose 183 % to €40.3m, while the operating result rose 253% to €38.0m. Management estimated NAV per share on June 30 at €70.

Orco is mainly active in central and eastern Europe, particularly the Czech Republic. It said revaluation profits mainly stemmed from revaluation of the Luxembourg Plaza office part rented to third parties, the Praga site in Prague, the Jozefoslaw project in Poland, the Starlight hotel in Budapest - and to the first consolidation of the Viterra portfolio bought from Deutsche Annington earlier this year.

Orco is also considering a listing in Warsaw as early as 2007, and may list in Budapest as well. The listings could bring "other capital and other possibilities of bonds," Orco Senior Vice President Ales Vobruba told Bloomberg news agency.

This month, Orco is setting up a Luxembourg residential property fund with equity of around €100m and aimed at residential assets of some €300m in Germany, where Orco bought Viterra Development for €75m last June. In CEE, the Czech Republic accounts for almost half of Orco's activities; it also has properties in Hungary, Poland, Russia, Slovakia and in Croatia.

Orco's biggest project to date is for redevelopment of a 27-hectare site in the Prague 7-Bubny district near the city centre on behalf of SZDC (Czech Railway Infrastructure Administration) where it will invest an estimated €700m. Vobruba said the initial acquisition is financed by equity.

State owned SZDC, split from Czech rail operator CD in 2003 to manage its property assets, owns several other properties in prime city locations including central Prague. In Prague, Orco also has received planning permission for a new build-to-lease development project for Radio Free Europe/Radio Liberty, a 15-year lease with option to extend by 30 years.

Separately, Orco said its Endurance Fund closed-end fund for institutional investors acquired the FIM tower in central Warsaw from Italian company FIM Spolka, making the fund's eighth purchase in eastern Europe. pfe

Hamburg's listed TAG group earns €3.8m before tax in first half-year

TAG Tegnsee, a German property investor based in Hamburg, reported group earnings of €1.1m before tax in the first half of 2006, compared with a group loss of €1.3m in 1H05.

The parent joint-stock company, listed on the German exchange, earned €3.8m before tax in the first half of 2006, compared with a loss of €2.6m last year. The company expects to earn about €6m before tax for all of 2006.

TAG Tegnsee said it grossed €160m from a capital increase at the start of August, more than doubling its share capital. The placement raised its ratio of equity financing to 30.3% from 19.1% midway through 2005, and also made a deal to buy an unspecified residential and commercial property portfolio before 30 September. Further acquisitions are planned.

Bau-Verein zu Hamburg, TAG's main business division, earned €4.2m in the first six months, compared with a loss of €1.9m in the year-earlier period. The purchase of a property portfolio for €105m by Bau-Verein will be booked in the second half-year, influencing its the results and those of TAG for all of 2006. pfe

Austria's Conwert Immobilien sees first half earnings soar by 201%

Conwert Immobilien Invest, a property firm listed in Vienna, boosted first half profit by 201% to €47.5m before tax and interest charges on 243% higher turnover of €89.8m - and predicts that its 2005 full year result should be "substantially exceeded".

The 1H06 growth came mostly from profitable sales of apartment property and from higher rental income. Along with the record sales and earnings, Conwert's assets grew to €1.48bn

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diary and dates upcoming in 2006

September 11-12, Monday-Tuesday

The GRI European Summit, Paris

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

September 15-16, Friday-Saturday

Scenari Immobiliari conference, Santa Margherita Ligure, Italy

14th forecasting and strategy forum of the real estate market. It is now essential that real estate companies put the accent on developments regarding products, protagonists and competitive position. The forum is a key appointment to examine Italian and foreign markets and firms.

More info: www.scenari-immobiliari.it

September 17-19, Sunday-Tuesday

CoreNet Global, fifth European Summit, Lisbon

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.

More info: www.corenetglobal.org

September 18-19, Monday-Tuesday

Real Estate Investment World, Germany

The Terrapinn organisation presents one of their series of REIW, looking at relevant issues in Germany such as listed companies, G-REITs, funds, and the differing views of foreign and domestic investors.

More info: www.terrapinn.com/2006/reiwg

September 20-21, Wednesday-Thursday

Business Arena, Nordic Real Estate investment conference, Stockholm

Nordic nations have become an integrated part of the global real estate market, and Business Arena is the Nr. 1 meeting point for the region. It presents visions for the future and a picture of the current rental and investment market. Over 5000 delegates have participated since 2001, representing owners, developers, architects, financial institutions, investors and advisors.

More info: www.businessarena.eu

September 21, Thursday

Conferencia 'Internacionalización del Sector Inmobiliario', Madrid

Spanish language conference on internationalisation in the real estate sector. Latest estimates indicate Spanish

firms will invest 1.5bn abroad this year, two-thirds more than in 2005.

More info: www.recoletosconferencias.com

September 22-23, Friday-Saturday

15th International Investment and Financial Fair REFE, Wrocław, Poland

The 15th edition of REFE is for participants who want to consolidate their position in international real estate investment, and extend their knowledge about finance and investment property. The 2nd International Economic Forum of the World Polonia Business Club will take place at the same time.

More info: www.refe.pl

September 25-26, Monday-Tuesday

Euromoney Legal Training - Real Estate Finance Law Forum, London

The forum looks at the key legal and regulatory developments in structuring real estate finance transactions, with special focus on REITs. To be chaired by Slaughter and May's James Featherby; includes key presentations from experts including Merrill Lynch Investment Managers, S J Berwin and HM Revenue & Customs.

More info: www.euromoneytraining.com/legal

September 28-29, Thursday-Friday

European Property Italian Conference, Rome

The first conference of its kind is dedicated to the Italian real estate sector and its relations with international finance. EPIC can be considered an open house, where all industry stakeholders have an opportunity to share ideas, build and consolidate networks, expand their knowledge and develop strategies for new business.

More info: <http://www.epic.it>

September 30, Saturday

7th European Business School Immobilienkongress, Oestrich-Winkel, Germany

Under the title Value Chain of Real Estate Private Equity Institutions, this one-day German language conference focuses on private equity fund involvement in domestic real estate.

More info: www.ebs-immobilienkongress.de

October 3, Tuesday

14th Annual Les Echos Property Investment Conference, Paris

French language conference focusing on the inflow of capital into commercial property. Some 80% of investment is into office and user demand remains strong – 1.1m sq.m. in Ile-de-France this year to end-May. Aim of the 14th conference is to present the strategies of the best performing real estate firms in France and Europe.

More info: <http://conferences.lesechos.fr>

by mid-year. It projected that its 2006 result would substantially exceed that of 2005.

Sales growth was strengthened by the disposal of some properties in the Vienna market. Eleven older properties carried at €45m were sold at profit, compared with two sold for €5.22m in first half of 2005. Revenue of €10.43m, up 86%, came from sales of apartments.

All Conwert profit from selling single properties and freehold flats during the reporting period came to €7.93m, compared with €1.53m in the first six months of 2005. Rental income increased by 124% to €34.3m on finished development, rising rents in Vienna, Germany and Czech Republic and expansion of the property portfolio.

A new appraisal of properties by independent experts added fair value adjustments of €23.86m to the result. This included properties just acquired from Allianz Austria.

Conwert expanded its property portfolio in Austria, Germany, and the Czech Republic to 899 properties by mid-year from 598 the end of 2005 and 243 in mid-2005. pfe

Spain's NH Hoteles bids for remaining stake of Sotogrande

NH Hoteles, one of Spain's largest hotel chains, has launched an offer for the 20.94% stake of real estate company Sotogrande that it does not already own.

NH said in a statement to stock market regulator CNMV that it is offering a 1-for-1 share swap. It added that Sotogrande's other main shareholder, savings bank Caja Madrid with 17.27%, has agreed to accept this offer. NH plans to consolidate its tourism development projects within Sotogrande, and then reduce its stake in the real estate firm to a maximum 51%.

During the first half of the year, NH Hoteles posted a net profit of €21.2m, a 22% increase compared to 1H05. Its hotel business grew, but the real estate side declined 39.5%. pfe

Listed Spanish property firms' profit surges 53% in 1H06 - CNMV

The combined net profit of listed Spanish real estate companies totalled about €1.06bn in the first half of the year, a 53.1% increase over first half 2005, according to figures from the stock market regulator CNMV.

Metrovacesa, Colonial, Urbis, Fadesa, Astroc and Riofisa generated about €976m to the total, while the remainder was provided by Inmocaral, Testa, Parquesol, Sotogrande, Renta Corporación, Montebalito, Inbesós and Urbas - although the latter posted a loss. pfe

Spain's Sacyr Vallehermoso sees earnings fall during first half

Spanish construction and real estate firm Sacyr Vallehermoso posted a net profit of €160.1m in the first half of the year, a 15.1% drop from the same period last year.

Sacyr's revenue grew during this time, but the large capital gains from last year's sale of its stake in Banco Bilbao Vizcaya Argentaria distorted the yearly comparison. First-half figures

from its newly-acquired French unit Eiffage are not yet consolidated. Revenue reached about €2.2bn in the first half, a 23.6% y/y rise. Construction generated about 51.4% of income, or €1.2bn. The real estate wing brought in €592.7m, a 24.5% rise, after selling 2,283 homes during the first six months of the year. pfe

Spain's Riofisa boosts first half earnings more than fivefold

Riofisa, the Spanish property firm which specialises in shopping centres, earned a net profit in the first half of 2006 of €43.7m, dwarfing the €7.9m during the same period last year.

The company, which debuted on the Spanish stock market in July, posted sales of €308.3m, again widely surpassing first half 2005 of around €61m.

Shopping centre sales provided the bulk of the growth, especially the June sale of the Plenilunio centre in Madrid. The sale also contributed to reducing Riofisa's debt, which was cut by about 89% to €34.2m. The company invested €113.5m in projects around Madrid and Toledo. Riofisa's share price has risen almost 38% since July. pfe

FUNDS

German Dekabank set to sell large slice of property fund's assets

Dekabank, the funds unit of the German savings banks, has agreed to sell another large chunk of assets from its open-ended property fund, Deka Immobilien-Fond, which has already been reduced to €4.5bn from €6bn in its heyday.

A spokesperson for Dekabank declined comment on the impending sale, saying only: "We can confirm that the sale contract for the real estate packet has been notarially certified."

Financial Times Deutschland said the price of the assets being sold is €1.1bn and has identified the purchaser as Oaktree Capital Management, an international private equity partnership that has \$31bn in assets under management for corporate investors and institutional investors. The Los Angeles-based firm runs hedge funds and special closed-end funds.

The identification of Oaktree as the buyer of €1.1bn in fund assets follows reports saying that Whitehall, a Goldman Sachs unit, or US financial investor Cerberus, were potential buyers.

Dekabank has cited €3.5bn as the target for the assets of a viable Deka Immobilien-Fond. The fund, which now has assets of €4.5bn after selling properties piecemeal to regain liquidity, was hit by a sell-off of fund shares starting in autumn 2004. A new Deka management intervened by the middle of last year, with Deka purchasing fund certificates shares to ensure sufficient liquidity to cover redemptions and maintain trading. pfe

Sireo fund buys German health-care homes for new fund

German asset manager Sireo Investment Management has bought 17 German health-care homes from Vitanas, which will continue to operate them under a lease-back arrangement.

The properties were the first acquisition made for a new Luxembourg-based property fund, SIM No. 5 Sicav - Health Care, which was chartered to invest €500m.

The Vitanas homes are located in Bavaria, Berlin, Mecklenburg-Western Pomerania, Saxony-Anhalt and Schleswig-Holstein. Sireo is controlled by Corpus Immobilien, a property agent of the German savings banks. Deutsche Telekom and Morgan Stanley each have a one-quarter interest. pfe

UK's Kenmore to list industrial fund aimed at continental European assets

Kenmore European Industrial Fund, a new closed-ended investment fund targeting property assets primarily in France, Benelux, Germany, Italy, Iberia and Scandinavia, plans to list as much as £140m of its shares on the London Stock Exchange this month.

The Guernsey-based fund targets a gross dividend yield of 6%, with potential for capital appreciation. Its investment objective is western and northern European industrial property that will provide an attractive income stream and the potential for income and capital growth.

The initial portfolio has 7.8% rental yield and reversionary yield of 8.6%, Kenmore said in a statement. Diversified fund assets independently valued at €316m will be secured on listing.

Further properties have already been identified for acquisition, with the aim of investing another €270m within 12 months.

Kenmore Financial Services Limited, regulated by the British Financial Services Authority, will be appointed investment manager. It belongs to Kenmore Property Group, which has about £1bn of property assets under management in the UK, Benelux, France, Germany and Scandinavia. pfe

ABN Amro registers Luxembourg listed property equities SICAV

ABN Amro Asset Management, the funds unit of the big Dutch bank, has registered a Luxembourg mutual fund that will invest in the stocks of traded companies which manage, develop or market properties anywhere in the world.

The new fund, an open-ended Luxembourg SICAV, is called ABN Amro Global Property Equity Fund. It intends to diversify by investing in markets that are only marginally affected by one another.

ABN Amro Asset Management has been managing property stocks for more than 10 years and currently offers at least €3.6bn of its own property equity products. The new fund will leverage ABM Amro's skills for managing property securities funds in its home market. pfe

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Teesland launches €750m Nordic property fund for institutional investors

Teesland, a pan-European fund and asset manager listed in the UK is launching a €750m fund for institutional investors interested in property assets in major conurbations of Scandinavia.

In a private offering, Nordic Aktiv Property Fund should raise €280m equity from institutional investors, with a minimum subscription of £10m. It forecasts a cash return in excess of 8% after initial costs and is targeting an IRR of 12%-14%. A €452m portfolio of 62 properties has already been assembled for the new fund in the last nine months. This portfolio will be transferred into the fund at independent valuation by DTZ.

Included in this inventory was a €120m Swedish portfolio acquired from Merrill Lynch Global Principal Investment of seven Swedish properties, 86,300 sq.m. of mainly 86 warehousing and offices in Solna, Stockholm and Sundbyberg, and let to 61 tenants. It currently produces a yield of just over 8%, and this should rise to 8.3% when fully let.

"We initially considered launching Nordic Aktiv as a public company but, despite the growing demand for listed property funds over the past 12-18 months, the recent volatility in the quoted arena led to the decision to make this a private offering," said Paul Oliver, Teesland's UK investment chief.

Nordic Aktiv Property Fund, managed by David Seddon, intends to use a multi-sectoral approach to investment in Sweden, Denmark, Finland and Norway. Teesland merged with Property Fund Management in 2004. pfe

Germany's KGAL group gives up Italy investment after new VAT decree

German closed real estate fund group KGAL has given up a planned investment in Italy because of the increase in fiscal costs from the new decree on value added tax announced by the government - even after its impact was diluted by a number of amendments.

KGAL wanted to buy three properties from Telecom Italia for a fund and open it to retail investors for individual shares of €10,000. Property lawyer Riccardo Delli Santi told PFE that KGAL cancelled the deal after discovering that the tax exemption for foreign investors had been scrapped.

The decree, first proposed on 4 July, was kept in place but strongly amended after loud and widespread uproar from the real estate sector. However the cancellation of the tax exemption for foreign funds was not reversed. The profitability of the KGAL project was negatively affected by the abolition of the tax exemption.

Delli Santi, who also chairs the legal initiatives committee of real estate association Assoimmobiliare, said German investors are normally cautious over the Italian market. The painful experience of the new decree could deepen their unwillingness to invest in the country. pfe

Italian real estate funds buck negative investment trend in July

While Italian savers are taking away their money out of in-

vestments funds overall, real estate funds bucked the trend and recorded positive flows of investments.

The association of fund management companies Assogestioni, said that in July savers redeemed a net €2.2bn from all Italian investment funds, but the flow of funds towards real estate trusts was positive, at €31m. Sector professionals said the figures may hint of a growing retail confidence in financial investments in property funds. pfe

German open-ended property funds see incoming cash in July - BVI

After haemorrhaging liquidity in the sectoral crisis last winter, Germany's open-ended funds have regained favour with investors, according to net purchasing figures from BVI, the country's association of asset managers.

The 34 open-end property funds took in €83m in July, following an investment influx of €220.3m in June. In the first six months of 2006, however, a net €8.2bn worth of shares in these funds were sold - €7.5bn in the first calendar quarter and another 719.6m in the second quarter. pfe

UK's North Asset Management lists fund for CEE commercial property

North Asset Management, a London-based hedge fund, has listed closed-end North Real Estate Opportunities Fund on London's Alternative Investment Market to invest primarily in commercial property in the Czech Republic, Slovakia, Hungary, Romania and Bulgaria.

In mid-August, the fund placed shares with institutions to raise a total €100m. North Asset Management, which manages assets of over €785m in total, said in a release the new fund will seek to capitalise on the growth of disposable income and consumer spending in the target markets, and to enhance value through active investment management.

A representative said the new fund will concentrate on retail and logistics properties, and has several transactions in the pipeline. The new fund is managed by Magnus Lofgren, previously of Resolution Property, and Robert Provine, previously of Somerston Capital and Vincent Tchenguiz's Consensus business group. pfe

MBS/Covered Bonds

Eurohypo launches first German-loan Opera CMBS certified by True Sale

German real estate bank Eurohypo has launched the first commercial mortgage backed securitisation under its Opera program backed by German assets, but said that while this form of refinancing will be offered to domestic clients it is not intended to replace traditional balance sheet lending.

The €254m Opera Germany (No.1) is also the first CMBS true sale securitisation certified by Germany's True Sale International, a credit enhancement program backed by the state-owned KfW Group.

Eurohypo, a subsidiary of Commerzbank, is securitising a

The Real Estate Associations: CoreNet Global

CoreNet Global to spread message of professional corporate real estate management in upcoming European Summit in Lisbon

Professional management of corporate real estate in terms of global positioning of industry's property assets is the focus of the 7,500-member association CoreNet Global, which holds its fifth European Summit next week in Lisbon around the theme **New Maps for Real Estate: Europe's Expanding Reach.**

CoreNet Global, a short form for global Corporate Real Estate Network, was created in May 2002 from the integration of the International Development Research Council (IDRC) and The International Association of Corporate Real Estate Executives (NACORE International). The 'Net' symbolises a professionally and geographically-diverse membership unified by a network of over 50 chapters in five global regions: Asia, Australia, Europe, Latin America and North America including Canada.

"Positioning a company's real estate portfolio in relation to market, workers and resources is very important," CoreNet Global's CEO Prentice Knight told PFE last week. "Global positioning could relate to labour, markets, or productive assets of other kinds. And it goes way beyond industrial activities. Any large multinational, be it Nokia, be it Microsoft, occupies different kinds of spaces or work environments – industrial, warehousing, distribution, office space, retail space, call centres, data processing centres, showrooms etc. All those work environments are used by the corporation as productive assets."

CoreNet Global members manage \$1.2tr in worldwide corporate property assets totalling 700bn sq. ft. of owned and leased office, industrial and other space. Its chairman is Mark Golan, vice-president of Cisco Systems with responsibility for Workplace and Worldwide Real Estate.

CoreNet Global headquarters is in Atlanta, GA., and it has regional offices in Brussels, Hong Kong, London, Melbourne, Sao Paulo, Shanghai, Sydney and Toronto. Its mission: to be "a dynamic, fully developed global network of professionals who create strategic value for their enterprises." Its

Prentice was CEO of IDRC in the 1990s, and named CEO of the merged group in April. "Probably the biggest single differentiator between us and other real estate groups is that we are focused on the corporate sector and the corporate occupier," he told PFE from his Atlanta office. "Then we put a lot of focus on research and learning. We have executive development education programs, a certification program for corporate real estate called the MCR (Master of Corporate Real Estate), and offer these in all global regions."

CoreNet Global's membership base also increasingly includes external service providers as more and more of the property-related activities are outsourced. It has around 500 members in Europe, with the largest number for now based in the UK. But growth is coming through in Europe and Asia in particular. "Europe has tremendous variations in terms of regulations, markets, prices and languages," he says. "Now, more and more companies are looking at managing the real estate portfolio as a pan-European whole so we have a very valuable

message and, I think, tools and information for them."

The Lisbon Summit will highlight some speakers not directly related to real estate.

These include political economist and author Noreena Hertz, who taught market economics to advisors of former Russian President Boris Yeltsin. International adventurer Miles Hilton Barber who, despite being blind, circumnavigated the globe in 2003, will share stories of determination, hope and personal insight.

"We try to have at least one speaker who is more of an inspirational speaker because there's a real human component to everything related to business and we can't separate and make business just dollars and cents," Knight says. "One of the trends over the last decade has been a holistic approach ... It used to be in the past that those were treated separately, but we have recognised that you really have to take a holistic look at the life cycle of real estate and facilities. This means all the way from planning and creation of the facility, to management, then to its redesign and possible replacement - and looking at that globally."

The conference will feature seminars, workshops and study trips exploring real estate perspectives on Europe's expanding reach to other cultures, markets, businesses and partners. It examines how the convergence of companies, corporate

functions and communities affects the boundaries of traditional multi-national business by increasing scope and opportunity, as well as raising levels of risk and complexity.

For the future, Knight has expansion of CoreNet Global firmly on the agenda. "So much of our growth is coming through in Europe because corporate real estate management as a profession and an industry is still developing and spreading there. In Asia it's happening just because there's such enormous development taking place.

"Secondly, we want to diversify our perspective. We are finding that corporations are becoming more interested in work environments. How do you create office environments, call centres, data-processing centres, as well as manufacturing in terms of the industrial layouts of floors - how do you improve that in terms of work environments? And we want to look at the relationship between facilities and environments and information technology. Human resources has to be part of that equation too. People are becoming much more mobile." pfe

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



Prentice Knight: "Positioning a company's real estate portfolio in relation to market, workers and resources is very important."

€108m senior loan secured on an office building in Königsallee in Düsseldorf and ultimately sponsored by two funds managed by real estate group Tishman Speyer. The main tenant is Deutsche Bank. The second facility is a €146m senior loan made to Prima, a Berlin residential property company. It is secured on a granular portfolio of 4,500 apartments and a small office building in Berlin.

Eurohypo board member Joachim Plesser said the securitisation is the first of a series of CMBS in respect of German loans. While the objective is to establish securitisation in Eurohypo's domestic market as well as the rest of Europe and the US, it is not intended to replace balance sheet lending but to offer clients a refinancing alternative. Eurohypo does not seek to re-focus on securitisation but will seek to further develop both sides of the business.

Eurohypo is one of the founding members of the TSI securitisation initiative. TSI Managing Director Hartmut Bechthold said that this first German CMBS transaction using the TSI platform, "will provide further impetus for the securitisation market in Germany, including the CMBS segment."

Since 2003, Eurohypo has issued 12 transactions with a total volume of €7.9bn 's under its pan-European Opera program. Opera Germany (No.1) is tranchised in four rated classes, and the Class A forms 74% of the issue size. Credit Suisse and Dresdner Kleinwort are joint bookrunners. pfe

Washington Mutual gets AAA rating for €20bn covered bond program

Fitch Ratings has assigned an expected rating of AAA to the new €20bn covered bond program announced by Washington Mutual, the first issuance of covered bonds backed by assets originated by a US financial institution. Issues will have an individual size of up to €3bn, with an expected maturity between five and 10 years. The final rating is contingent on the receipt of final documents conforming to information already received.

In the absence of a dedicated covered bonds regime, the program rests on an asset segregation mechanism which is customary under US legislation, Fitch noted. The issuer is a Delaware statutory trust while the sponsor of the program is Washington Mutual Bank, one of the largest US mortgage lenders. WMB will issue floating-rate dollar-denominated US mortgage bonds secured on a portfolio of residential mortgage loans originated or acquired by its branch network.

The mortgage bonds will be direct and unconditional obligations of WMB, ranking pari passu. Each series will be purchased by WMCBP, which will finance this acquisition through the issuance of covered bonds. Dollar-denominated proceeds will be swapped in exchange to interests and principal due under the covered bonds in the relevant currency.

At end-August 2006, the cover pool in favour of the mortgage bondholder consisted of 37,694 performing hybrid, adjustable-rate mortgage loans secured on residential properties, with a total outstanding balance of \$18.8bn. The portfolio has a weighted average original loan-to-value ratio of 68.5%, and an average 19-month seasoning. The pool is highly concentrated in California (47.3%), with the top five states accounting for more than 66% of the portfolio. The cover pool is dynamic and can change over time.

Separately, the managing director of the association of German mortgage banks (VDP) Louis Hagen said a number of other US institutions are poised to join WMB in launching a Pfandbrief covered bond, including Wells Fargo, Wachovia and the mortgage financier Countrywide. While most refunding in the past has been done by mortgage backed securitisation, the VDP estimates that the cost of financing via covered bonds is 25-30 basis points cheaper than using MBS. pfe

Washington Mutual may start wave of non-European covered bond issuers

The Seattle-based US mortgage lender Washington Mutual may be only the first of a wave of non-European institutions that launch programs of covered bonds to take advantage of low cost of funding, the European Covered Bond Council congress in Madrid heard on Thursday.

Its own €20bn fund-raising program in euro covered bonds, announced last month, is expected to be followed by more US issuers, attracted by low risk, relatively few market restrictions and efficient refunding costs. The program was arranged by Barclays Capital, and lead managed by ABN Amro and Deutsche Bank.

"I think US firms will have an easy time in the European market," one British banker at the conference said. "Institutions in Asia, Australia, eastern Europe are all looking for covered bonds here because the market is quite open."

Executives from Washington Mutual, one of the largest US mortgage lenders and the first non-European bank to join the

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"Everything you always wanted to know about the Italian real estate market *

* But were afraid to ask"

European covered bond market, spent Thursday talking to potential investors and rivals at the congress. Washington Mutual Vice-President Paul Phillips said he is confident that the program will be attractive. "Once new bonds come out, more investors appear," he commented.

Commerzbank estimates that around €108bn of covered bonds have been issued this year so far and that the full year should easily exceed the total of €134bn in issuance in 2005. Still, covered bond volumes have not kept pace with the €153bn of MBS issued in 2006 to date. pfe

Portugal, Italy, Turkey to enact covered bond laws before year end

The popularity of covered bonds as a refinancing vehicle is spreading through Europe and Asia, with Portugal, Italy and Turkey likely to enact legislation to launch or boost the market before year end, the European Covered Bond Council congress in Madrid was told last week.

Portugal passed new legislation in March and the Bank of Portugal will be publishing secondary legislation in a few days, according to Filomena Oliveira, senior general manager of the capital markets division at Caixa Geral de Depositos in Lisbon.

A new Italian covered bond is due to be launched during the second half of the year. In Turkey, the parliament is expected in October to approve legislation to establish a covered bond market. "I see issues worth between €3-4bn on offer," Kudret Akgun, senior vice-president of financial institutions at Garanti Bank in Istanbul, told the ECBC congress in Madrid Thursday. "Once the bonds start to be issued, they will move."

Pfandbrief/covered bonds are backed by dynamic pools of mortgages or public sector loans. They often carry higher ratings than their issuing institution, and therefore offer the prospect of lower funding costs than straight interbank or other forms of borrowing. Outstanding volumes of covered bonds and have soared in recent years and reached €1.8tr at the end of 2005. Participants at the conference were confident that this will grow as the number of bonds and issuers increase rapidly.

Thomas Mayer, chief European economist for Deutsche Bank, told the congress that soaring property prices in the Eurozone, though often disconnected, have matched the US trend in recent years. The European Central Bank reacted more slowly than the Fed in raising interest rates to head off this inflationary danger but will keep tightening now. "So if you are worried about the US market you should be also worried about the European market," he told ECBC congress delegates.

ECBC, founded in 2004, is an offshoot of the European Mortgage Federation. Recent new members include Merrill Lynch, WestLB and Allied Irish Banks. pfe

SERVICING

Loan Recovery Alliance is latest player in German servicer segment

Three German companies in the property finance segment have joined forces to form a joint venture in special servicing of non-performing commercial loans, adding to a number of players that have formed recently in the German market.

The Loan Recovery Alliance (LRA) was formed by Sireo Real Estate, based in Heusenstamm near Frankfurt, the Hamburg-based ImmoFori, and the lawyers office Grub Brugger and Partner, based in Munich. LRA announced that it will offer an interdisciplinary service for all aspects of NPLs from one source.

"We saw immense potential, particularly in the commercial NPL market in Germany," Klaas Ockens of Sireo told PFE recently. "LRA will be aiming at maximizing cash recoveries, and we are able to cover the NPL ground on a nationwide basis."

Another major player in the sector is a new joint venture between NordLB, WestLB and the Shinsei Bank. Shinsei, controlled by financier Christopher Flowers, has strong experience with NPLs in a global environment.

The JV, named SGK-Service Gesellschaft Kreditmanagement, started by taking over a €200m NPL portfolio from WestLB and NordLB, but it is also pitching for NPL business from the savings banks system. One of the directors, NordLB's Johannes Riegler, told the Handelsblatt newspaper, "by the end of the year we will be working on a credit portfolio of around €1bn and should have a business relationship with around about 45 savings banks, that is about 1 in 10 in the public sector."

The domestic German ventures are competing with Anglo-Saxon investors such as Lone Star Funds – with its Hudson Advisors servicing unit – JP Morgan, Goldman Sachs via its Berlin based GFKL – and other private German banks such as Deutsche Bank. Even if some of these have had problems in the recent months with achieving levels of recoveries, the market remains huge. The east German association of savings banks estimated that their members may have as much as €100bn in poor or non-performing loans on their books. The business is being partly driven by the requirement to increase risk provisions and equity capital with the approach of the Basel II equity capital regulations. pfe

REAL ESTATE BANKING

Hamburg's HSH Nordbank boosts 1H06 operating profit by 38%

The real estate unit of the Hamburg-based HSH Nordbank savings bank reported a 38% year-on-year improvement in operating profit after risk provisions to €112m for first half 2006. Net interest and commission income advanced by around 19% to €235m, and pre-tax return on equity increased substantially to 17.6% from 15.3% in 1H05.

HSH Nordbank board member Peter Rieck said in a statement, "Real estate financing remains a fiercely competitive business so it is very encouraging that we have successfully positioned ourselves as an advisory and financing partner for large, highly solicited transactions."

The improvement in the German property market and generally strong international markets drove strong growth in interest and commission business. The bank's real estate clients are primarily German and international investors in commercial and residential property, listed property companies, project developers, and housing companies.

HSH Nordbank registered new commitments of €6.5bn, more than double the €3.2bn in 1H05. The lion's share of new business was once again acquired abroad. Growing interest in the Nordic region among international investors resulted in

a marked upturn in new business in Copenhagen and Stockholm.

At end-June 2006, HSH Nordbank's portfolio of business with real estate clients totalled €24.3bn compared with €21.7bn in June 2005. International activities accounted for 41%. pfe

Essen Hyp buys €440m performing portfolio from AHBR

The Essen Hyp subsidiary real estate bank of the German Commerzbank group has acquired a portfolio of €440m from the Allgemeine Hypothekenbank Rheinboden (AHBR) mortgage bank, taken over at the end of 2005 by the US-based Lone Star Funds.

The portfolio consists completely of performing real estate loans, Wolfgang Böving of Essen Hyp told the *Börsen-Zeitung* newspaper. The newly acquired packet comprises 59% first rank loans and some 4,100 single private mortgages, mainly for housing units in the north-western state of North Rhine-Westphalia. The purchase price was not disclosed.

Essen Hyp said it will add the new portfolio to its balance sheet as it builds its business in real estate finance. Until now, the bank has focused on public sector financing and the mortgage business of €7bn makes up only 10% of its total credit portfolio.

AHBR is steadily selling down parts of its portfolio in order to slim down to around one quarter of its balance sheet and concentrate on commercial mortgage financing.

HSH Nordbank becomes first German savings bank with private ownership

The American financier J. C. Flowers, together with an allied consortium, has won the bidding process for a 27% stake in HSH Nordbank that has been put up for sale by Westdeutsche Landesbank, paying a total of €1.25bn.

The sale to a private consortium breaks a number of traditions and has raised many eyebrows in the German financial community. HSH was formed in 2003 from the merger of Landesbank Schleswig Hollstein and the LB Hamburg. Private institutions are normally prohibited from investing in the German savings bank sector.

The *Handelsblatt* newspaper reported that the remaining bidders in the last round included US equity fund Cerberus, Corsair and Hellmann & Friedman.

HSH is planning a stock exchange listing in 2008 or 2009, and the proceeds from the equity sale will go toward development to this end. HSH Chairman Alexander Stuhlmann told a press conference recently that financial investors intended to keep their equity through the listing. HSH is the only one of the eight independent Landesbanks to consider floatation.

Flowers, who created Shinsei out of the remains of the Long Term Credit Bank of Japan in the 1990s, has been active in the German real estate market over the last 2-3 years, principally seeking non-performing loan portfolios and recently entering the special servicing segment in a joint venture that included WestLB and NordLB (see elsewhere). He had attempted in 2003 to purchase the savings bank Bankgesellschaft Berlin, but was prevented by a strong public sector financial lobby. His professional origins trace back to Goldman Sachs in the 1980s and

1990s.

HSH declared post-tax profit for first half 2006 up 61% to €250m, and a pre-tax return on equity capital of 15%. pfe

Finnish Citycon signs new €600m syndicated loan facility

Citycon, a traded Finnish property company, said it has signed a €600m credit facility agreement with an international bank group, consisting of a seven-year amortising term loan of €435m and a €165m revolving credit facility of up to five years.

The facility will be used to refinance Citycon's existing credit facility of originally €450m, raised in 2004 and maturing in 2009, and to finance company's property acquisitions. Initial interest margins of the facility are 0.5-0.675 pts. The new facility will reduce annual financing costs by about €700,000 and will extend the average loan maturity of its loan portfolio.

Mandated lead arrangers of the facility are Nordea Bank Finland, Danske Bank Eurohypo and OKO Bank, with five additional banks joining. The facility was substantially oversubscribed at syndication. pfe

RESIDENTIAL

French new home sales slump; stock, prices, building continue to expand

Sales of newly-built homes in France slumped in the second quarter of this year while stock increased, government statistics showed, providing further evidence that the French residential housing sector is slowing.

During the second quarter, 29,400 new homes were sold, 7.6% fewer than in the same 2005 period. The biggest drop came in single-family homes, down 22% compared to 2Q05. At that time, European interest rates were at historic lows and French property was red hot. Sales of apartments fell 5% during second quarter 2006, and new home sales dropped to levels not seen since the first three months of 2003.

The number of newly-built homes on the market increased by 37% compared to June 2005. The number of apartments rose 40% and single-family homes 23%. The lag time between completion of dwellings and their sale lengthened to seven months from five for individual homes and six months from four for apartments.

Despite the declines though, prices continue to rise. The price of newly-built homes rose 14% per square metre, with apartments up 9.6%. Government figures also indicated that building permits granted for new homes rose 14% in the 12 months to end June compared to the year-earlier period. pfe

Berlin's Gehag housing company eyes stock market flotation

Berlin residential property management company Gehag, majority held by US private equity investor Oaktree Capital, is considering a stock market flotation, according to a recent re-

port in the Die Welt newspaper.

It says the formerly state-owned company wants to boost profitability substantially, and is planning to invest in existing residential assets but also acquire additional apartments.

Managing Director Michael Zahn does not rule out an IPO for Gehag in the near future. "This year, Gehag already acquired an additional 5,300 apartments, while negotiations for another 4,500 units are under way," he told the newspaper. The company's portfolio should expand to nearly 26,000 apartments from the current 21,000.

Zahn said Berlin rents are on a level comparable with that in the regional town of Bielefeld, "which means that Berlin as a location is not appropriately rated. In the long run, Berlin has a rent-raising potential of 30-40%, depending on how the legacy real estate portfolio is upgraded." pfe

Fortress, LEG BW compete for 9,000-unit Freiburg apartment portfolio

The US-based private equity investor Fortress Investment has announced that it will bid for nearly 9,000 municipal flats up for sale in the southern Black Forest town of Freiburg.

It is competing with the housing company LEG Baden-Württemberg, a unit of the Landesbank Baden-Württemberg savings bank, which has offered more than €500m.

Just under 8,000 of the portfolio belong to the municipal property development company Freiburger Stadtbau, while around 1,000 are directly held by the city. So far, the LEG BW offer is the only binding bid for the portfolio. Privatisation plans

may however be upset in November when a public referendum will be held to approve the council's decision to sell. pfe

German private building societies see lending up 5% in year to July

Germany's private building societies, which have nearly two-thirds of the home financing market, paid out €13.4bn in housing credit in the first seven months of this year, up 5% from the year-earlier period and the first increase registered in three years.

The association of private building societies attributed the trend reversal to the government's abolition of grants for house ownership at the end of last year. A spate of transactions initiated before the benefit expired influenced subsequent payouts.

The private building societies sold 1.4m contracts in the January-July period of 2006, 2.3% more than in the same period of 2005. Savings deposits for house purchases grew in this period by 10.4% to €36.4bn. The association said its members now command a 66.5% share of the house financing market on the basis of savings contracts. pfe

Denmark's Keops invites international tenders to sell Swedish housing

Keops, a Danish property firm, has invited international tenders from prospective purchasers of three portfolios of Swedish residential properties, after Swedish investors signalled interest in these properties in June.

Keops said it is offering a pool of three Swedish property companies. They are composed of parts of the Malmstaden portfolio in Norrköping, the Borgs portfolio in Norrköping and the PBA portfolio in Malmö, Kalmar and Karlskrona.

The company said the proposed sale, if it goes through, will probably take place before the end of 2006. By expanding the bidding to Denmark and other countries, it seeks to obtain best market price. For sale are 66 properties with 4,489 flats and 346,000 sq.m. Only 52,087 sq.m. are rented for non-residential purposes, such as ground-floor shops. pfe

Leading listed real estate companies in Europe

Performance, by country

Country	Company	REIT	Curr	Price local	52W Low	52W High	Mkt cap €m	chge% 1mth	chge% YTD	chge% 1Yr	chge% 5Yr
1 Austria	CA Immobilien Anlagen	No	EUR	21,55	20,66	21,75	1254	1%	3%	4%	5%
2 Austria	Conwert Immobilien Invest	No	EUR	15,75	14,17	16,02	924	0%	8%	12%	0%
3 Austria	Immoeast Immobilien Anlagen	No	EUR	9,2	8,07	9,49	5114	3%	11%	17%	0%
4 Austria	Immofinanz Immobilien Anlage	No	EUR	9,05	7,83	9,08	4050	1%	12%	15%	11%
5 Austria	Meinl European Land	No	EUR	16,85	14,56	16,9	3033	2%	13%	16%	0%
6 Belgium	Befimmo	Yes	EUR	83,4	74,4	88,5	817	1%	7%	4%	13%
7 Belgium	Cofinimmo SA	Yes	EUR	136,4	125,1	139,5	1368	0%	8%	11%	16%
8 Denmark	KEOPS A/S	No	DKK	17,8	14,7	37,6	412	-17%	-40%	24%	0%
9 Finland	Sponda OYJ	No	EUR	8,8	7,44	9,4	698	0%	17%	11%	23%
10 France	Klepierre	Yes	EUR	109,7	75,9	109,7	5064	11%	46%	44%	31%
11 France	Silic	Yes	EUR	99,5	288	401,6	1729	4%	33%	23%	24%
12 France	Unibail	Yes	EUR	152,4	104,2	157,9	6996	5%	39%	35%	30%
13 Germany	Colonia Real Estate	No	EUR	29,75	24,09	195,5	467	-10%	95%	0%	0%
14 Germany	Deutsche EuroShop	No	EUR	53,95	42,97	58,35	927	0%	18%	16%	14%
15 Germany	Deutsche Wohnen	No	EUR	242,42	229	268	913	2%	0%	0%	0%
16 Germany	IVG Immobilien AG	No	EUR	25,34	15,83	26,99	2939	2%	45%	50%	16%
17 Italy	Aedes SpA	No	EUR	5	4,49	6,8	502	-6%	-6%	-21%	11%
18 Italy	Beni Stabili	No	EUR	0,8	0,71	0,96	1364	2%	1%	-6%	13%
19 Italy	Immobilare Grande Distribuzione	No	EUR	2,53	1,82	2,6	713	5%	25%	38%	0%
20 Netherlands	Corio NV	Yes	EUR	52,55	43,66	56	3534	0%	20%	17%	25%
21 Netherlands	Eurocommercial Properties NV	Yes	EUR	33,3	27,06	33,65	1175	0%	15%	16%	20%
22 Netherlands	Nieuwe Steen Investments NV	Yes	EUR	20,39	18,95	24,5	729	-1%	5%	14%	15%
23 Netherlands	Rodamco Europe	Yes	EUR	84,35	65,15	90	7561	2%	23%	28%	22%
24 Netherlands	VastNed Offices/Industrial	Yes	EUR	26,08	21,03	29,45	495	-5%	25%	28%	13%
25 Netherlands	VastNed Retail	Yes	EUR	61,8	50,8	66,8	1045	-5%	21%	21%	20%
26 Netherlands	Wereldhave NV	Yes	EUR	82	71,3	93,2	1704	-1%	9%	1%	17%
27 Poland	Globe Trade Centre	No	PLN	27	135	315	1488	-7%	56%	0%	0%
28 Spain	Inmobiliaria Colonial	No	EUR	62,75	45,18	63	3746	0%	33%	38%	42%
29 Spain	Metrovacesa SA	No	EUR	73,9	64,88	96,84	7522	3%	46%	37%	49%
30 Sweden	Castellum AB	No	SEK	78	248	350	1449	4%	13%	21%	29%
31 Sweden	Fabege AB	No	SEK	144	28,44	42,12	1564	0%	0%	14%	26%
32 Sweden	Hufvudstaden AB	No	SEK	57,75	48,3	65,25	1266	0%	14%	9%	21%
33 Sweden	Kungsleden AB	No	SEK	70,25	390	654,69	1036	-15%	-5%	21%	43%
34 Sweden	Wallenstam Byggnads AB	No	SEK	95,5	430	577,5	667	-5%	4%	13%	54%
35 Sweden	Wihlborgs Fastigheter AB	No	SEK	115	170	258	477	-8%	24%	28%	0%
36 Switzerland	Allreal Holding	No	CHF	129,5	118,12	143,3	801	2%	16%	14%	12%
37 Switzerland	PSP Swiss Property	No	CHF	63,95	55,2	65,9	1900	0%	20%	21%	15%
38 Turkey	Is REIT	Yes	TRY	2,66	2,06	3,86	468	1%	-8%	28%	15%

Source: Global Property Research, end-August 2006

Bucharest housing development sets sales record

Romanian realty consultant and broker Eurisko says it needed only three months to sell 300 of the 343 apartments in Quadra Place, a Bu-

charest residential complex that is slated for completion in autumn 2007.

“No other project has ever been sold so quickly,” says Eurisko partner Ionut Bordei, citing the appeal of “new apartments at affordable prices, located in a fast developing area.” Quadra Place, a 15,447 sq.m. project in leafy northwest Bucharest, is being developed by Conarg Real estate with architecture by Arxstudio and financing from Austria’s Raiffeisen Bank. pfe

Foreign investment in Spanish homes drops sharply in year to May

Foreign investment in Spanish residential real estate fell by 13.2% in the first five months of 2006 to €1.96bn compared with 1H05, figures from the Bank of Spain showed.

In May, the last month when figures were collected, non-Spanish investors spent €504m on housing, or 5.1% less than in May 2005.

Due to gradually rising interest rates in Europe and the seemingly endless surge in Spanish property prices, foreign investors began avoiding the Spanish market since around 2004. Prices for new homes rose 10.3% in 2005 over 2004 – one of lowest yearly increases during the nearly decade-long real estate boom. pfe

Spain’s Acciona to sell 400 new eco-homes in Catalonia, boosts earnings

The real estate unit of listed diversified Spanish group Acciona has put 400 new homes in Catalonia up for sale as part of a program of ecologically friendly facilities that conserve water and energy. The homes are located along the Mediterranean coast and near urban centres.

The Acciona group, which is in infrastructure, real estate, energy, logistics / transportation, and urban and environmental services, last week it announced a rise in EBITDA of 52.1% to €458m in the first half. Executive Director Juan Muro-Lara told analysts London that it had margin expansion of 150bp to 15.9%.

Acciona made €2.9bn in sales during the first half, a 37.3% increase compared to the year-ago figure. Company investment amounted to €1.5bn, quadrupling the year-on-year investment. pfe

Spain’s Lazora buys low-income homes from Fadesa for €146m

Lazora, a Spanish company which specialises in low-income, government sponsored housing, has bought 1,375 homes in the regions of Galicia, Castilla y León, Murcia and Madrid for a total €146m from listed developer Fadesa.

The companies said in a release that the operation is the largest cooperation they have undertaken. Two former deals involved 76 homes in the Canary Islands and 184 homes in Madrid.

The Spanish government has pledged to offer more housing for low-income families as a result of the property boom which has seen real estate prices doubling over the last decade. pfe

SURVEYS / STUDIES

Paris office yields to stabilise at lows, rents to climb - CBRE

Yields on prime office space in Paris continued downwards during the first half of this year but are expected to stabilise in the coming months, CBRE said in a recent market outlook.

In Paris’ central business district, yields on prime office space hovered around 4.25%, while in La Défense, west of the capital, they were slightly higher at 4.6%. Yields were around 5.75% in other areas of central Paris and 5.5% in the western suburbs. For higher yields, investors had to look to France’s provincial cities where they were 6.75% on average.

“The pressure exerted by capital on the market and investors’ aggressiveness for good product have squeezed yields even more, despite the slight upswing of interest rates,” the report said. “In addition, as a result of lower rates and higher market volumes sales between investors have increased, contributing to the rise in volumes.”

French investors remained dominant on their home turf in the first half, having made 55% of the acquisitions, mainly through property companies. North Americans, mainly through investment funds, have been more active in sales than acquisitions, accounting for 18% of total investment, a drop from 28% against first half 2005. Spanish investors made 6% of the total acquisitions in 1H06 while German institutions accounted for only 5%.

The rental market was particularly active with a take-up of 1.44m sq.m., nearly 50% higher. CBRE attributed this activity to “occupiers’ opportunism” in the face of attractive rents. There is also an ongoing push by French companies to consolidate business operations. Rents in the Paris CBD rose about 6% during the first six months and have also started to climb in La Défense.

Paris vacancy rates averaged 5.2% at the end of the first half, down 0.6pts from January. In La Défense it was 6.4% and for the central business district 4.8%. Immediate office supply stands at 2.51m sq.m.

“As for rental values, they have reached a low point and the average trend is now upward, with a very likely reduction of commercial incentives by year end,” CBRE said. “The rent hikes will no doubt be moderate as companies seek above all to improve their quality-price ratio.” pfe

German insurance companies cut real estate holdings - survey

German insurance companies have cut in half their portfolio allocations in real estate since 1996 to just 2.3% now, according to a recent survey by the Kandlbinder/Entzian firm.

The often verbalised suspicion that the decline in direct real estate investments has been more than compensated by the increased share in indirect investment is incorrect. While insurance groups’ holdings of special property funds have increased by just over 1 percentage point over the same period, they still hold only 3.43% allocation, as compared to 4.7% in 1996.

A second survey by the German realtor Dr. Lübke found that two-thirds of German insurance companies and pension

funds intend to reduce their share in domestic real estate, and also realign their portfolios internationally. pfe

Central European property investment to hit record €8bn in 2006 – DEGI

Real estate investment in the markets of central and eastern Europe should rise to a record €8bn this year after having jumped by nearly 45% last year to €6.2bn, says Deutsche Gesellschaft für Immobilienfonds (DEGI), the real estate investment manager of German insurer Allianz.

Thomas Beyerle, head of DEGI's property research, said in a study that at least €16.4bn has been invested in the region's property since 1998, roughly 80% in the last three years. Poland, Hungary and Czech Republic were on the receiving end of 70% of this investment and all but 5% was made in the capital cities of Warsaw, Budapest and Prague. Some 45% of the investment allocated to the three countries was made for office premises.

While investment opportunism and scarcity of property assets drove rents and prices to extremes at the start of the 1990s, core investors, international parameters and competition calmed those markets by the start of the new millennium. Prime rents stabilised or are even rising again now as comparatively strong economic growth and transparent legislation fuel demand.

Since new construction cannot keep up with demand for prime properties in top locations there, net initial yields, now 5.5%-7%, will be forced into line with western European levels in the long term, Beyerle forecast. The combination of shortage and the influx of international capital provide a form of yield compression, although Beyerle projected the yield markup compared with the EU-15 markets would persist.

Some investors are reacting to falling returns by shifting to Class B locations, and smaller cities such as Katowice, Brno and Debrecen. Competition is also causing investors to look eastward to Slovenia, the Baltic States and Ukraine, where modern properties are still in short supply. The mostly likely candidates for the next boom phase are the emerging markets of Croatia, Slovakia, the Baltic States and Romania, Beyerle said. pfe

Morgan Stanley's Multi Development wins Czech Ostrava project

Morgan Stanley unit Multi Development Czech Republic has won the biggest development tender in central Europe. It was selected by the council of the third largest Czech city Ostrava to develop the 30-hectare site of the former coking plant Karolina in the city centre.

MDCR expects to invest over €400 in Karolina, and Morgan Stanley's investment in all its Czech projects could reach over €700m, according to Managing Director Lubos Koci.

MDCR just beat out a consortium of Luxembourg-based Orco and TriGranit Czech Republic, with ECE Projektmanagement Praha and Passerinvest Group third. ING Real Estate Development and the Sekyra Group were also bidding.

The Ostrava site, located near the Polish border, is rated the country's largest vacant city-centre area. It will be a mixed-use development of about 90,000 sq.m. retail, 80,000 sq.m. offices and 1,000-2,000 apartments over 10 years with the first phase planned for 2007-2010.

Netherlands-based Multi Development, Europe's leading

project developer, is part of Multi Corporation, acquired by MSREF for €475m at end-2005. It operates in 18 countries in Europe. In Central Europe, Multi Development also operates in Slovakia, Poland, Hungary, Bulgaria and Romania. pfe

Cooling of French property market a "good thing" - central bank

The rate of increase in French property prices is slowing, according to the country's central bank governor, who called the trend a "good thing."

"This will be a good thing because household spending capacity has dropped significantly in recent years," Christian Noyer said in a television interview.

Noyer has in the past sounded the alarm on France's hot property market, recently complaining that French banks have loosened the criteria for home loans too much, raising their exposure to a market downturn and allowing households to borrow beyond their means.

He said rules on lending have been relaxed to the point where French households and lending institutions could be at financial risk should the housing market take a turn for the worse or interest rates rise. pfe

Doughty Hanson RE sells Stockholm office building to Citycon

UK private equity and property asset manager Doughty Hanson RE has sold Liljeholmstorg, a Stockholm office and commercial building, to Finnish property firm Citycon for the equivalent of €80m.

The transaction, which included rights for a new shopping centre and residential development, as well as the 20,000 sq.m. building, was the 13th sale by Doughty Hanson's European Real Estate I fund from its 21 investments in eight European countries.

Doughty Hanson bought Liljeholmstorg in December 2000 from listed Swedish property company Hufvudstaden. The new owner worked on leasing of the property and secured zoning approval for 30,000 sq.m. of retailing and 8,000 sq.m. of residential development there.

"Citycon has been a strong supporter of the scheme and plans to develop the shopping centre and residential scheme in the near future," said John Howard, the head of Doughty Hanson & Co Real Estate. Doughty Hanson had already sold two Helsinki shopping centres to Citycon this year. pfe

UK's Prudential Property buys Amsterdam office building for €44m

The UK's largest institutional property manager Prudential Property Investment Managers (Prupim) has purchased the two-year-old Jupiter Building in Amsterdam from Dutch developer OVG Projectontwikkeling for €44m on behalf of one of the institutional funds it manages.

Seventy percent let for 10 years, the eight-storey 12,000 sq.m. office building comes yielding just over 6%. "Our client's

€400m European portfolio is now exposed to one of the most important office markets and financial centres in Europe, complementing its existing presence in France and Italy," said David Jackson, Prupim's director of fund management.

Prupim has £17bn under management. pfe

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In Paris, **Stephane Theuriau** was named chief executive officer of Mines de Lucette and will be leaving his position as managing director at Morgan Stanley. Mines de Lucette is a French REIT/SIIC controlled by Morgan Stanley... **Lutz Behrendt** has been appointed managing director of DTZ Deutschland Holding and of DTZ Zadelhoff Tie Leung and will also head up German investment advisory from 1 March 2007. Behrendt has more than 20 years' experience and moves over from Atisreal in Munich where he led national and international investment of commercial property. He succeeds **Jörg Nehls**, who from 1 September took over the chair of the executive committee of DTZ Deutschland Holding... **Guy de Boisgrollier** was named chairman of French group Atemi, replacing **Alain Teste**, who will remain a member of the board of directors and head of its investment committee... the valuation department of realtor CB Richard Ellis is expanding its German staff with the appointment on 1 September of **Simon Ritsch** as Head of International Valuation Germany and responsible for coordination of cross border assessment.... The board of Royal BAM Group has appointed **Hendrik-Jan Oskamp** chairman of the management of Heilijgers with effect from 1 September. Oskamp succeeds **F.P. Lambert** who is unable to combine his position as chairman of Heilijgers with his position as director of the project development division Heilijgers Projectontwikkeling... The UK's London & Capital announced that **Ralph Weichelt** has been appointed Country Fund Manager, Germany, and will assume management of the German Real Estate Fund. Weichelt previously headed up the German Capital Markets desk at Jones Lang LaSalle. Weichelt will report to Director of Real Estate Iain Keys... Bad Homburg-based Feri Institutional Advisors has restructured its executive board: **Jürgen Olbermann**, **Dirk Söhnholz** und **Min Sun** are now the three managing directors, alongside four further members of the board **Reiner Dietz**, **Werner Goricki**, **Carsten Hermann**, **Bernd Kreuter**. **Hartmut Leser** leaves the group at his own request at the end of September... **Caroline Dheilily** was named director of acquisitions and property management at Zublin Immobilière in Paris. She was formerly a director at ANF, part of the Eurazeo group, managing 400,000 sq.m. of property in Lyons and Marseilles... Commerz Grundbesitz has appointed **Heiko Beck** to its management effective 1 December. Beck takes over from **Detlev Dietz** to allow him to commit himself fully to his role as Chief Operating Officer for Asset Management of Commerzbank AG. Beck moves over from DekaBank.... Hamburg-based MPC Capital has expanded its management board via the appointment of **Boris Boldyreff** last month. Boldyreff moves over from the Allianz group, while Siepman is currently partner in a consulting company... Economist **Michael Hüther** has been appointed to the advisory board of DID Deutsche Immobilien Datenbank, Wiesbaden, expanding the board to eight members, chaired by **Willi Alda**. Hüther has for two years been director of the Institute of the German Economy in Cologne... **Francois Jouven** was named president of Akerys, replacing one of the founders **Maxime Basaia**. Jouven comes from the Caisse des Dépôts where he headed investment... the University of Regensburg in southern Germany has added the IREBS International Real Estate Business School to its official activities following the transfer there of **Karl-Werner Schulte**, long-time professor at the European Business School in Oestrich-Winkel near Wiesbaden. Jones Lang LaSalle Netherlands has appointed **Erik Huigen** as Chief Operating Officer Benelux reporting directly to **Vincent Querton**, Managing Director Benelux... Spanish property firm Fadesa named **Ignacio Ponce Gutiérrez** as financial director. The Harvard Business School graduate will oversee treasury, management, legal services, accounting and investor relations departments... **Jacqueline Faisant** was named director general at BNP REIM after having headed asset management and development at Rodamco.... **Davide Madini**, ex Cushman & Wakefield, Healey & Baker and Deutsche bank has been appointed co-CEO at Investire Immobiliare, the savings management company of Banca Finnant Euramerica in Italy. pfe

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