

## JLL Europe head Robert Orr named to new International Capital Group

Jones Lang LaSalle's European head Robert Orr, a long-time Germany country manager, was named to a new International Capital Group to coordinate cross-border institutional investment business. **PAGE 10**

## Hesse state engages CBRE, PWC and Clifford Chance for sale/leaseback deal

The German state of Hesse has engaged a consortium of advisers, including CBRE, PricewaterhouseCoopers and Clifford Chance, to investigate the sale of 20 public sector properties. **PAGE 4**

## German funds invest abroad while foreigners buy at home

The prospect that G-REITs will lead to a premium on German real estate has given an extra boost to foreign interest, even while domestic property funds increase their exposure abroad. **PAGE 6**

## First closed-end property fund starts trading on Düsseldorf's Gefox

Axa Merckens XXIII became the first closed property fund to start trading on Düsseldorf's Gefox platform. **PAGE 7**

## Germany seeks agreement from partners on treating REITs dividends as lease income

Germany should be able to introduce legislation to enable the establishment of REITs if it can persuade partner governments to treat dividends as rental or leasing income, finance ministry (BMF) state secretary Barbara Hendricks says.

She told Bloomberg News in an interview that if dividend payouts from Real Estate Investment Trusts (G-REITs) were treated as income from capital, which in some nations is completely untaxed and in others attracts a very low tax rate, a green light for their introduction risked encouraging domestic investors to establish companies in other jurisdictions to circumvent German tax laws. Hendricks said the SPD/Green government remained determined to introduce this new type of property vehicle. **CONT. ON BACK PAGE**

## Terra Firma €7bn purchase of Eon's Viterra fuels German political debate

Last week's announcement of the €7bn purchase of the Viterra AG residential portfolio by UK-based Terra Firma via its Deutsche Annington subsidiary is likely to fuel a growing political debate in Germany over real estate portfolio sales.

The Düsseldorf-based Eon energy conglomerate announced last Tuesday that Terra Firma Capital Partners, through Deutsche Annington Immobilien GmbH (DAIG), will pay €4bn for the equity and €3bn for the debt plus reserves of Eon's 150,000-apartment Viterra AG.

Terra Firma raised the bid to about €1bn in excess of its competitors', and also the level of proceeds that Deutsche Bank was able to forecast from an eventual IPO. This caused Eon to close the bidding contest before the politically sensitive North Rhine-Westphalia elections due yesterday. The timing is not incidental, but the increased price has caused consternation.

Renters' associations see a risk that DAIG will pressure sitting tenants to either purchase or leave, union representatives are becoming increasingly alarmed at potential profits benefiting foreign investors, even while many German sector specialists are sceptical that the deal can be profitable at all at the price.

Within all of this, it is clear that the early-May announcement by the SPD/Green federal government of Chancellor Gerhard Schröder over the halving of tax levels for corporate revaluations of real estate assets (See "German government announces law..." on Page 3) played a significant part in Eon's earlier-than-expected announcement.

Real estate specialist Rainer Zitelmann said prior sales of major residential portfolios such as GFW (Cerberus Partners and Whitehall) or GAGFAH (Fortress Investment) had been ignored but the Viterra sale was likely to raise political waves. "Although there is no objective reason at all for tenants to become alarmed, the capitalism critics are going to get stuck into this one," Zitelmann wrote in a commentary.

"The Viterra sale will hit home because the irrational anxieties of the 'tenant representatives' and general fears over profit-greedy Anglo-Saxon capitalists are the **CONT. ON PAGE 2**

### P F E U R O P E . D E

**Up to the 100-mark on registrations and still going!** Thanks again for registering for *Property Finance Europe*. We have a spate of interest from the German real estate sector; not surprising in one way due to our overwhelming content focus on the nation, but certainly interesting that no one German-language organ seems to be adequately covering the ground.

Conversely, we battle on to broaden the content to the French property sector. Not an easy task. Even if Paris was swifter at creating a REIT environment (SIICs), its range of real estate-focused associations and sector representatives seems at least as muddled as the German.

But this is all changing - in both nations. Real Estate Finance Germany Inc is rapidly turning toward the outside world and away from the introspection that has characterised the last decades. France seems slower, but we hope to stand to be corrected.

Please be advised that PFE is most interested if any of you are, or know, French contacts in or around les finances immobilières françaises. Merci en avance!

This week, institution of an editor's column on Page 2, and creation of space in PFE Issue 4 for more items. The last fortnight has yielded a flood of information. Only time and exhaustion prevent us from bring you still more news items.

Apart from Viterra, the main issues are the flurry of activity in NPLs - Delmora and Münchener Hyp bank/portfolio sales - but also the very sudden shift in government thinking ahead of yesterday's North Rhine-Westphalia election. **pfe**

CONT. FROM FRONT PAGE: ideal base material from which to knit together even more emotional political campaigns,” he wrote.

In announcing the Viterra sale last week, Eon said it will book a profit of €2.4bn from the transaction which would mean that full year profit for 2005 would “significantly exceed” 2004. Eon is aiming for closing the sale, which still needs to be approved by the German cartel office, by the end of July.

Assuming approval, DAIG will then own a portfolio of 230,000 apartments and becoming the largest residential real estate company in Germany. In 2000, it purchased its first large portfolio of around 64,000 railway worker apartments and, until Viterra, held a total of 75,000.

The Financial Times reported that Citigroup and five other banks are providing €6n in financing for the deal and that Citi is also taking a minority equity stake of 17.5% in DAIG. It added that Terra Firma’s existing German portfolio is being refinanced (See also item in this issue: Deutsche Annington on track for portfolio expansion even before Viterra).

Eon Chairman Wulf Bernotat said the sale of Viterra was, “an excellent solution for all concerned”. The sale price was attractive, and the activities of Viterra were complementary to those of its new owner.

Terra Firma, headed by former Nomura executive Guy Hands, was bidding for Viterra against the US opportunity funds Fortress and Cerberus. Only in April, Eon had mandated Deutsche Bank to also investigate an independent stock exchange flotation of the entire Viterra portfolio next year.

Terra Firma last year paid around €1bn to acquire the Tank und Rast group of motorway service areas from the German federal government.

Terra Firma Managing Director David Pascall told the Reuters news agency, “We intend to invest in Germany for the long term.” Its investors had undertaken a 10-year commitment to the company.

He also told the Handelsblatt newspaper that the social commitment showed that Terra Firma should not be classed among the capitalist ‘locusts’ looking solely for profit maximisation. SPD party chief Franz Müntefering has sparked a storm of protest for using this phrase to characterise foreign investors, mainly private equity, opportunity and hedge funds now active in Germany.

Viterra had turnover in 2004 of around €1bn and operating earnings excluding extraordinary items of €471m, up 3.4% vs 2003.

DAIG said it intends to make further investments in German property, and now had a platform for further property acquisitions. Its interest is understood to include the NILEG portfolio of 30,000 properties being sold by Norddeutsche Landesbank, NordLB. It said it would continue and extend a program of privatisations to Viterra sitting tenants.

Eon said Deutsche Annington “has acknowledged the voluntary self-undertaking (freiwillige Selbstverpflichtung) of Viterra to ensure that unit-by-unit sales of apartments are conducted in a socially acceptable manner... The rights of the Viterra employees, especially with regard to all employment-related rights and entitlements, and all prevailing works-council agreements, remain fully intact without limitations.” pfe

**PFE COMMENT:** The sudden raising of the stakes by Terra Firma in the Viterra deal will catch the attention of many global institutional investors looking at German residential property. It has also stumped some German property finance specialists, who are puzzling how TF can make this deal pay. The FT is also sceptical. Given tight German rules over selling apartments to tenants in a socially acceptable manner, plus strict rent increase laws, it is indeed difficult to see that TF can achieve adequate returns through a program of capital improvement and privatisations alone. The only assumptions that can justify the elevated entry price are a recovery in home property values, and capital gains to be made via stock market flotations. In the Viterra case, the latter are likely to predominate in this portfolio. Real estate company IPOs - whether via a G-REIT,

A political bomb. Just as we write this comes news that the landslide victory for the right-of-centre Union parties in the most populous German state of North Rhine-Westphalia has caused Chancellor Gerhard Schröder to call a federal election a year early, this fall instead of October 2006. A hammer. Never before has this occurred in the post-war history of Germany.

Our instant reaction? Good for the property sector in general, good for the introduction of REITs; the senior Christian Democrats and the liberal Free Democrats are much more wholeheartedly behind REITs and other reforms of this nature than the SPD/Greens ever could be.

The opposition thinks this can bring dynamism and movement to the real estate sector. And we think they are right. Consumption is the problem for the German macro economy. The examples of the UK, France and the US in this decade have shown that fostering wealth creation in home ownership brings benefits that ripple well beyond property - into industry, retail sales, public budgets and many, many other corners. Phew!

We don't think there is much chance that Schröder can win again. But he is a very clever campaigner. Watch this space.

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THIS IS THE FOURTH EDITION OF PROPERTY FINANCE EUROPE. Most of you know by now how PFE came about. Since we are constantly adding qualified names to the database however, please allow me to reiterate: PFE grew out of an informal information service that we at easetec in Frankfurt have provided to clients and business friends for some time. It is designed for institutional real estate investors active on the European continent, particularly the US, City and global institutions who have re-discovered these markets.

PFE is, normally, fortnightly. In fact though, we come out on the second and fourth Monday of every month. Since May contains five Mondays, the next issue will thus appear in three weeks, on 13 June. PFE aims to report and analyse all those themes you see on the right of our title on the front. Though our name refers to Europe, our initial focus is Germany. We hope soon to supply more material on France, Italy, Spain and other major continental markets - everything, in other words, to do with property finance on the European continent that you need to know!

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Whew, brrr, a wind of change wafts through German property finance. But is it a cold eastern gust out of the wastes of Siberia or a warm southerly breeze wafting up from the balmy climes of Spain and Italy? The rather hasty sale of Viterra has awakened a large number of sleeping dogs. These are sniffing the new breeze and trying to puzzle out what it carries.

Either the Americans and the British are crazy, buying residential properties in huge numbers for huge sums of money, or the German real estate establishment is missing something. Either way, something is happening here and Property Germany Inc doesn't know what it is.

Allan Saunderson, editor@pfeurope.de

property fund or standard AG public listing – have the potential to create capital market valuations well in excess of book or current property market prices. We would not be surprised if, by the end of 2007 for instance, German real estate brought to the capital market in the next 12 months experienced a 20-30% rise in intrinsic value compared to present real estate prices.

## Germany announces law to halve tax on corporate property revaluations

In a move that sets a fundamental principle for the eventual establishment of REITs in Germany, the federal government said this month it would introduce legislation to cut in half the tax on corporate real estate revaluations, their realisation of hidden reserves.

In an official announcement, the Social Democrat/Greens government of Chancellor Gerhard Schröder said, "Currently, there exist among many companies the desire and the necessity to dispose of real estate properties that are not needed for operations in order to mobilise freely available equity capital for other economic activities." The current regulation making these revaluations fully taxable meant companies were holding back from doing this.

Berlin said however that the law would limit this tax cut to the three years 2006 to 2008. But since the reduction also diminished the basis for calculating trade tax, corporations would also benefit from this reduced liability during the period.

The huge portfolios of property held by private companies and the public sector in Germany comprise the largest potential asset base for eventual conversion into stock exchange-listed Real Estate Investment Trusts (REITs). Berlin is currently examining this, and in January received a report from the German Financial Centre Initiative (IFD) that made precisely this tax proposal in order to prompt companies to sell off property holdings.

The intended legislation places a number of additional conditions on corporate sales of property or land plot holdings to qualify for the reduced tax liability. A company must have held the real estate on its books for at least 10 years. Sales must be outright; not included in the intended tax cut are sales of buildings that a company would continue to use operationally. By definition therefore, sale and leaseback deals would not benefit from the tax halving. However any capital losses incurred on property sales could still be offset in full against overall corporate tax liabilities, the announcement made clear.

The left-wing government's decision is not however a sign of new-found largesse toward the private sector. Corporate Germany's refusal over the last few years to 'exit' from real estate holdings due to high tax liabilities on realisation of hidden reserves has kept the government tax take in this area to a minimum. Berlin badly needs these revenues now to boost its budgetary position. pfe

**PFE COMMENT:** This move indicates that a positive announcement on G-REIT legislation is quite likely to come soon. It implies that Berlin has accepted the principle that more tax revenues can be generated if thresholds are lowered, and also a general acceptance that budget revenues will see a net benefit from creation of a more dynamic environment for domestic wholesale real estate trading even if actual tax levels are reduced. The political aspect is however that any legislation proposed by the Red/Green government can be blocked by the opposition-dominated Bundesrat upper house. This will be even more the case after the probable takeover of the

North Rhine-Westphalia state government by the right-of-centre Christian Democratic Union in state elections on 22 May, at PFE editorial deadline. However tax reductions for corporate real estate would have been high on the Union parties' campaign platform for the next federal election in autumn 2006. There is no reason to think the opposition should block this now.

## Deutsche Annington on track for portfolio expansion even before Viterra

Even before its winning €7bn bid for Eon's Viterra 150,000-apartment portfolio, Deutsche Annington Immobilien GmbH (DAIG) was on track to expand its residential property portfolio despite a strong program of privatisations.

DAIG Managing Director Volker Riebel told the Immobilien Zeitung newspaper the company had sold 11,000 apartments from its portfolio since the 2002 start of privatisations, but had added 16,000 in acquisition. Last year alone, it had sold just over 4,000 apartments from the holding of 64,000 former railway workers' property.

Within the portfolio, the quota of tenants and owner-occupied is 75%, with the remainder owned by third parties. Since the average proceeds generated by sales has been €1,000 sq.m., the average selling price per apartment has been €65,000-€70,000, Riebel said.

DAIG is a majority-held subsidiary of the UK-based Terra



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Firma Capital Partners, is also interested in smaller portfolios, Riebel told IZ. These can generally be negotiated for good prices and without the high cost of additional consultants, or large-portfolio premia.

For 2004, DAIG reported net profit of €30.5m on turnover of €570m, with Ebitda at €191m, IZ reported. pfe

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## German state engages CBRE, PWC and Clifford Chance for sale and leaseback deal

The west German state of Hesse has engaged a consortium of advisers, including CB Richard Ellis, PricewaterhouseCoopers and Clifford Chance, to investigate the sale of around 20 public sector properties that the 2005 state budget envisages should realise around €800m in proceeds.

The state government, based in Wiesbaden, said in a press release that it intended to engage in a sale and leaseback transaction so that the buildings would continue to be in public use. The consortium was chosen after a Europe-wide request for proposal.

Wiesbaden expects to be able to sell the properties in one or perhaps two portfolios, and has made no particular stipulation over preferred identity of purchaser.

Hesse is headed for a budget deficit of €30bn in 2005, and has been looking very closely at achieving value out of its property holdings in recent months. The Hesse state premier Roland Koch, widely seen as a future chancellor candidate, has been pressing strongly for capital market reform and, amid this, creation of legislation to foster Real Estate Investment Trusts (REITs) in Germany. Frankfurt, the major German financial centre, is located in Hesse.

The Financial Times reported that talks with potential bidders for the property portfolio are planned to begin in June. The buildings in the portfolio include the finance ministry and the police headquarters. Lease

agreements are envisaged to run 20-30 years, rather than national average of around five. pfe

**PFE COMMENT:** This will be watched very carefully by other German state governments and will spark a flurry of activity in private sector property finance. All German states are under heavy pressure from ongoing budget financial deficits; sale and leaseback of their commercial real estate is an obvious move. Apart from the commercial and office buildings that the state sector uses, residential portfolios held directly or in public sector housing associations are likely to be next on the block. The intense interest by foreign investors in acquiring German home dwelling assets.

## German real estate asset managers in heavy demand from foreign investors

Real estate asset managers in Germany are in heavy demand because of the intense interest in domestic property portfolios by Anglo-Saxon institutional investors that otherwise have no local presence.

A survey in the Immobilien Zeitung newspaper showed that German property AM companies are being offered so much investment capital from abroad that they are encountering problems in locating new property portfolios. Iris Schöberl, managing director of the Munich-based REIT Asset Management (RAM), told the IZ, "it is getting much more difficult to find new deals to manage here." RAM currently manages around €700m of German real estate and has another €140m in the pipeline. Among the company's investors are Apollo Real Estate Investors of New York, and GE Capital.

One of the reasons for the lack of independent real estate asset managers is that German institutions have for a long time been unwilling to use external companies to manage for their own assets so that an independent sector has not adequately developed. Martin Lamke, managing director of Patrizia Asset Management in Augsburg, told the IZ that a large number of foreign firms, mainly from the US and Britain, were currently seeking independent German managers. Patrizia clients include the British William Pears Group, the insurance company BVV, and the U.S. opportunity fund Fortress Investment.

As a result, the market potential in the German property portfolio management sector remains huge, Lamke said. Domestic insurance groups currently hold an estimated €49bn in real estate assets. At the same time, many domestic institutions with real estate on their books are experiencing rising vacancy rates and deterioration in quality of the assets. "For years now the market has not been on the side of those who hold these assets," Lamke said. "Right now, those who think they can wait until things get better are very soon going to be the ones who are soon crying for help."

DIC AG, via its DIC Asset AG subsidiary, is one real estate asset manager that has begun a cooperation with a major Anglo-Saxon investor – the investment bank Morgan Stanley. The largest transaction to date by the two has been the takeover of 57 properties from the Frankfurter Sparkasse for around €150m. DIC manages the assets and retains 50% of the invested equity capital participation.

Company chairman Ulrich Höller told the IZ that the firm fully intends to seek more business with foreign partners. "We are now fully geared up to move fast in this direction and aim to acquire well over €500m in new business every year," Höller said. Even though there had not been many portfolios in the

market in recent years, this was likely to change as the big conglomerates began to sell off their large property holdings.

Michael Borries, managing director of Corpus Asset Management, sees the situation changing once corporate treasurers realise how complicated and resource-intensive it is to manage property portfolios – not necessarily a core competence of the company concerned. Investment banks alone would also not be up to this task.

Corpus group Chairman Michael Zimmer also predicts more competition soon in German real estate asset management. “Our most significant competitors are likely to come into the market only in the next few years,” he told IZ. “We’re going to see more institutions offering these services which have the intellectual capability and resources to be able to advise across the entire service spectrum, from financing and balance-sheet structuring of an investment, through cost management, portfolio strategy and marketing. The clients are right now looking for one institution that can do everything.”

Zimmer sees the most intense competition coming from the large US investors themselves that have in recent years acquired some large property portfolios in Germany quite quickly and are in the process of building these up into real estate trading platforms. “In three years’ time the current state of things is going to be history,” Zimmer said. “Right now a very tough process of professionalisation is taking place in the German property branch.”

One small company pressing into the market is Beos Project Development, based in Berlin and headed by real estate expert Stephan Bone-Winkel, also a professor at the real estate department of the European Business School. Working together with the privately-held equity partner Hojasco of the UK, Beos already manages 300,000 sq.m. of commercial space.

Bone-Winkel sees property development companies such as Beos well placed to be asset managers as well for third parties because they have experience in executing all the tasks required such as acquisition, refurbishment and leasing.

Separately, Bone-Winkel also confirmed to PFE the very strong demand from foreign institutions to find experienced asset management for property investment in Germany. He has fielded recent enquiries not only from US funds but from others as far away as Japan and Australia. All are considering allocating significant sums to the German property market. pfe

## Pricing of German NPLs seen part of wider assessment of property loan assets

The pricing in the acquisition process for loan portfolios in Germany is highly diverse, reflecting the wide range of assets currently on offer, and even if real estate backed non-performing loans have a pricing floor of about 60%, distressed corporate debt prices can go all the way down to zero, according to Merrill Lynch director Burkhard Heppe.

He also told a recent seminar run by Euroforum that the current NPL market in Germany remains a sellers market; more capital is available for acquisition than, currently, portfolios for sale. “We expect that Germany will continue to be a seller’s market for the foreseeable future. There are many investors around with a lot of capital to spend and we don’t see that changing at any time soon,” Heppe told the conference in Berlin.

The result has been that most larger German NPL portfolios have been changing hands in the range of 60-70% of face value

## PROPERTY FINANCE EUROPE BULLETIN BOARD

### Friday 3 June 2005 - EuropeServicing 2005 Amsterdam

Eurocatalyst BV in Amsterdam is hosting a one-day conference on European mortgage servicing, focusing on maximizing growth, managing operational risk and recovering asset value in the European servicing sector.

The proposition: Servicing has long been a silent partner due to the predominance of on-balance sheet funding and the bundled nature of the value chain in most of Europe — but no more. Servicing is now seen as a crucial sector in need of further development because of technological advances, the emergence of securitisation and the innovation of structured covered bonds on the funding side, the dramatic increase in regulation upon lenders and the drive toward a single market.

Speakers include Ron Roark-Crown Mortgage Management, Edward Register – FitchRatings, Anne Bridges-Hatfield Philips International, Tracey Hill-HBOS, Steve Haggerty-Homeloan Management Ltd., Hugo Doswald-DG Hyp, Marc Bajer-Via Capital, Glenn Aaronson-SIB/Corso Venezia, Günther Gleumes-Citigroup, Thomas Kretschmar-Hypoport, Craig Beresford-GMAC-RFC, Brian Kane-Standard & Poor’s, Jean Louis Bravard- EDS. More information at <http://www.europeservicing.com>

of the outstanding unpaid balance. Originators in the future may however have to be prepared to accept less. The price that an originator is prepared to accept is also dependent on the extent of risk provisions it has made, Heppe said.

Generally an investor in such portfolios can expect to achieve an internal rate of return of 15-20% if he uses external debt capital. Any institution expecting to make 20-30% from the quick turnaround of NPL portfolios in Germany is likely to be disappointed. Sellers are not offering such low prices that can make this possible, he added.

Conversely, even if originators accept only the balance sheet value to which they have written down NPL assets, they reap the advantages of freeing-up equity capital, relieving overburdened internal workout departments, and cutting down expenditure and investment on IT systems. Originators know that handing over the workout of an NPL to an external institution with no relationship or history with the borrower allows freer and more flexible decision-making that can clean up the claim.

Heppe also pointed at the recent Kroll/Mercer Oliver Wyman study on NPLs (See also PFE Issue 1, Issue 2). This said the key to an agreement is that originators move away from thinking in accounting terms – the value of the loan asset on their balance sheet – and look at the net present value of the claim, as investors do. “Where banks’ quotes were based on their net present value perspective they have come fairly close to investor quotes,” the report said. “However, where .. they were based on an accounting view, it has been difficult or impossible to reconcile these with the investor quotes.”

Merrill is one of many investment institutions chasing such portfolios, even more so in recent months after building a special servicing capability via its Global Servicing Solutions Germany joint venture in Mainz with the Florida-based Ocwen group. Like many other major investors, Merrill has bid on several large portfolios over the last 12-18 months but so far has only been successful in buying a few small NPL packages.

Heppe said the underlying value of the property is the starting point for the price discussion between an originator and an investor in a portfolio of real estate loan assets in

whatever condition. "If the seller and the buyer can agree on the valuation of the underlying property then there is not too much to disagree about left," he told the seminar. "Everything else is technology and method."

There are several reasons however why either side may pitch its price requirement at variance with the underlying property valuation. The originator has costs associated for marketing, even with a standardised and relatively easily-sold property package.

Frequently, unsuccessful property projects lead to high-risk concentration in a particular local market, causing excess supply of real estate. Properties in these cases either have to be sold significantly below their normal market value or the sale process has to be stretched over a longer period of time because market absorption is low. This imposes additional capital costs.

In the case of compulsory foreclosure, complicated property packages or those of lesser quality are difficult to sell at auction and can often only be disposed of if the seller is prepared to accept a significant discount. Servicing costs for a portfolio of NPLs significantly reduce the overall value because a workout is generally very labour-resource intensive. pfe

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## Münchener Hypothekbank sells €150m NPL portfolio to Lehman Brothers

The Bavaria-based mortgage bank Münchener Hypothekbank announced in mid-May that it has sold a €150m portfolio of non-performing loans to the US investment bank Lehman Brothers.

The portfolio includes terminated real estate loans on collateral properties spread throughout Germany. The Munich-based bank said the main reason for the sale was to refocus activities on its core business. The transaction was advised by HypoVereinsbank Real Estate M&A.

MünchenerHyp says on its website that its goal is to gradually expand in direct its syndicated commercial property business. It has strengthened its staff in this segment, and can offer other competitive advantages such as favorable refinancing, a short, quick, decision-making process since it has no parent company. In general, the bank says it finances only multi-use commercial real estate in good locations. pfe

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## German domestic funds invest abroad while foreigners invest in Germany

The prospect that the introduction of German Real Estate Investment Trusts (G-REITs) will lead to a premium on current market pricing of German residential and commercial real estate has given an extra boost to foreign capital pouring into the country, even while domestic property funds are increasing their exposure abroad.

German domestic investors in recent months have heavily favoured property funds that are investing more outside the country. They see no change in the comparative underperformance of German real estate from recent years.

Morgan Stanley's Pedro Aznar-Foth told the Immobilien Zeitung newspaper recently that the bank fully intends to use REITs as an exit for at least some of the Thyssen-Krupp residential portfolio of 46,000 apartments it bought through

the Immeo GmbH vehicle late last year. "We want to bring this company in the medium term to the capital market," Aznar-Foth said. "We believe in the G-REIT. Institutional and private retail investors are, we think, going to be quite prepared to pay a premium in order to participate in the residential property market here."

German investment fund association figures show that in the 15 months from Jan04 to Mar05, German investors redeemed a net €6bn of investments in funds focused on German real estate but at the same time raised their exposure to global or European-oriented funds by 75% or around €4.4bn. The research company BulwienGesa estimates that in 2004 foreign investors placed €9.5bn in German residential property.

Cerberus, the US opportunity fund that last year purchased the Berlin GfW residential portfolio sees the same trend. Ralf Winter, managing director of Cerberus Deutschland, told the IZ, "Competitive pressures among the opportunity funds are very strong at the moment. I could easily imagine that the GfW sale now would attract much better prices than it did at the time."

Fortress Investment's German managing director Mathias Moser said the very tight market for management talent is a sign of the present very intense competition in residential property portfolios. Moser told the IZ he strongly supports private individuals either buying property through the purchase of their own rented homes or by investing other savings in the growing residential property company sector.

Yet some growing irritation in Germany to the booming foreign purchases of residential property sales, and the situation may become increasingly political. Particularly at a time when serious fundamental worries exist about the future of the German pensions system some feel it is inappropriate that the benefits of current real estate trades will ultimately be being derived by US pension funds rather than those at home. pfe

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## Goldman makes winning bid to buy Delmora, cartel office to rule by end-May

Goldman Sachs has become the successful bidder for Delmora Bank GmbH, the institution created to take and work out around €2bn in distressed debt from the private bank Delbrück and Schmidtbank in Bavaria. Most media are reporting, based on unnamed sources, that the purchase price is under €500m.

Goldman applied in late April to the German cartel office to purchase Delmora. The US-based investment bank has been in a competitive bidding process alongside Lehman Brothers, and a syndicate of Lone Star Funds and Deutsche Bank.

Information from the cartel office shows that Goldman registered the deal on 28 April. The plans should be approved by the end of May if no anti-trust concerns surface, otherwise the process could take until late summer.

Delmora managing director Horst Rachinger told the Dow Jones news agency that Goldman plans to take over 100% of Delmora including around €2bn in bad loans.

Delmora was set up by the German private banking association (Bundesverband deutscher Banken, BdB) in late 2001 to restructure non-performing loans from the private Schmidt Bank and Bankhaus Delbrück & Co. It brought in an experienced banker, Paul Wieandt, as chairman of Schmidt Bank after the latter nearly went bankrupt in November of that year. pfe

## Foreign Investors to reduce US real estate portfolio allocations

Institutional real estate investors are planning to significantly decrease their investment allocations in the US, cutting north American investment proportions to 55% from the 71% held at the end of 2004, according to a survey by the Association of Foreign Investors in Real Estate (AFIRE) published earlier this year.

Since the 13th annual survey was conducted among AFIRE members who collectively have nearly \$300 billion invested globally, the 16-percentage-point shift in allocation represents a move of \$48bn in assets away from the US and mainly toward Europe and Australasia.

The survey, conducted by Kingsley Associates, said the reason for the re-allocation is increasing difficulty for institutions to find attractive real estate investment opportunities in the US.

Nearly 60% of survey respondents said that it had become 'very difficult' to find attractive real estate opportunities in the US, compared to only 38% of respondents who said the same thing in 2003 and, in 2002, only 32%. Real estate prices have been rising rapidly throughout the entire period.

Steve Zoukis, partner in Jamestown, a German closed-end real estate fund with \$4.4bn in US assets and the association's newly elected chairman, commented: "It has been a challenging market, particularly for organizations like ours which are committed to offering both stable rates of returns and the ability to sell in the future at a profit." Yet part of the wave of capital in the market would remain invested in real estate. "Some of the drivers are long-term phenomena, and the US remains of great interest to investors around the world," he added.

After the US, the survey showed that the UK and France were the countries seen as providing the most stable and secure real estate investments. The top three new European Union countries targeted for investment are the Czech Republic, Poland, and Hungary. Survey respondents said they would be shopping primarily for retail (78%) and office (72%) properties in these countries.

For the first time since the question was asked in 2001, Tokyo was named one of the three top global cities for real estate investment, taking third place after Washington D.C. and London. Japan was also the second-ranked country in terms of the potential for capital appreciation. pfe

## First closed-end property fund starts trading on Düsseldorf SE's Gefox

The Düsseldorf stock exchange announced that the first closed-end property fund to start trading on its recently-introduced Gefox platform is Axa Merkens XXIII, a unit of the French Axa insurance group.

Axa Merkens XXIII began trading on 9 May. Its trading start was accompanied by a valuation assessment from the Berlin-based Scope Group, which put its fair value at 103% of initial listing price. EuroSelect 07, a fund belonging to the IVG Immobilien AG property group, listed in December last year and is still open to subscription by investors. It is expected to close and to begin trading within the next two to three weeks,

a Gefox spokesman said.

A third fund, MSF Master Star Fund, is also being offered for subscription by the DPM Deutsche Portfolio Management AG group on the Gefox. No closing date has been set for this.

Bernd Hemmersbach, managing director of AXA Merkens Fonds GmbH, said in a press release that the listing on Gefox marked, "a milestone in the development of German closed-end funds." It was the start of a more yield-oriented assessment of investments in such funds, and a move away from the previous tax-driven view of the investment.

"The listing of the fund in the secondary trading segment of the Düsseldorf bourse's Gefox platform was a significant element for many of our distribution partners and small investors," he said. "Along with a good yield and more service, today's investor expects above all to have a valid exit option."

Gefox began operation last December. Hemmersbach added that the system of quarterly analyses of the Gefox-listed funds selected by the Düsseldorf stock exchange was a good way to provide a quality assessment and also prevented prices being manipulated by interested parties. "The fair value assessment serves as a basis for price considerations by buyers and sellers even though the ultimate price of the trade is determined by the interplay of supply and demand," he said.

Separately, Scope announced a report which indicated that closed-end funds holding German assets show an average amortisation maturity of 19.4 years, significantly longer than the aggregate of just 12.2 years for those invested abroad.

There are also significant differences in minimum investment rules, Scope said. While domestic-oriented closed-end funds show aggregate minimum investment of €23,600, those holding foreign assets had an average of €15,100.

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Scope, a German rating agency with representation also in the UK and the US, focuses on research, analysis and assessment of capital investments, management and target markets. Founded in 1999, it is developing assessments of closed-ended funds as an add-on to its rating activities already in place in the open-ended real estate and alternative investment fund sectors. pfe

## Germany's IVG expects increase in earnings, net asset value again in 2005

The German listed property fund IVG AG said it expects to increase both net earnings and the fund's net asset value in 2005 after solid earnings in 2004. It also said growing rental income and top rents in several major cities in Europe point to a recovery in the property markets which is likely to continue.

"We are expecting that the encouraging net income of €74.9m in 2004 and the net asset value of €15.20 will again be exceeded this year", CEO Eckart John von Freyend said in a news release at the publication of its quarterly figures earlier this month.

In the year so far, IVG has achieved new rentals of more than 111,000 sq.m.. The economic letting quota of the company's portfolio is expected to increase to over 93% by the end of the year, and IVG's buy and sell program has started well. In 2004, IVG closed acquisitions for more than €530m in London, Paris and Wilhelmshaven. In Brussels, Milan, Munich and Paris, acquisitions totalled €120m.

For the first quarter of 2005, IVG said group operating profit rose slightly to €103.7m vs €101.1m in 1Q04. Pre-tax earnings rose to €3.9m vs €3.1m in the same 2004 quarter, with net profit rising to €2.7m from €2.3m.

The highlight of the first quarter 2005 was the acquisition of oil and gas caverns in Etzel near Wilhelmshaven in Germany, used to store large amounts of hydrocarbons in a secure and environmentally conscious way. IVG now owns 40 gas and oil caverns in this fast growing market, which yield rental volumes of more than €45m p.a. The company expects to increase this considerably as a result of major developments currently being planned. pfe

## SEB Immobilien-Investment becomes first property fund manager rated by Fitch

SEB Immobilien-Investment GmbH, a Frankfurt-based unit of SEB Bank, said it has become the first German real estate fund management company to receive an asset manager rating from the international agency FitchRatings.

Fitch awarded SEB Immobilien the REAM 2-rating. The Fitch scale spans from a best REAM 1 rating to the lowest, REAM 5. A plus or a minus indicates more precise grading within the rating classes REAM 2 to REAM 4.

SEB's main SEB Immoinvest fund separately also reported a net new investment inflow in the 2004/5 financial year of €556m, bringing total assets under management to €5.1bn at 31 March 2005, a rise of 12.6% on the year.

Real estate asset volume under management rose 20% to

slightly over €4bn, though valuations themselves rose over the financial year by just 0.2%. Within this, German property under management lost an aggregate 0.5% in value, while foreign assets gained 0.9%. In the current financial year, SEB Immoinvest management intends to raise the proportion of foreign property assets to 60%, vs 56.4% at the end of March.

The fund's annual yield dropped slightly to 4.3% vs 4.5% in the prior financial year.

Fitch uses five differently weighted criteria in the rating: investment assets (30%), risk management (25%), business structure (20%), communication (15%), and independence and controls (10%). This provides an assessment of a company's strengths and weaknesses and its ability to meet the demands of institutional investors. In the SEB Immobilien case, the rating highlighted the clearly structured investment process, strict risk management in a stable technological environment, and active management, SEB said. pfe

## Vivico real estate manager places fund into German Property Index DIX

The German property company Vivico Real Estate GmbH said it has decided to represent a part of its portfolio of assets in the DIX German Property Index.

In a press release Vivico said that, in a first stage, it would place data on its property fund performance into the index retroactively to the start of 2004. "With this move we want in particular to be able to measure and to improve the performance of our real estate assets in terms of our competitors," Vivico Chairman Dirk Grosse-Wördemann said.

Vivico decided on the DIX index since its conception as a performance index took into account net earnings from rental and leasing as well as changes in capital valuations. "Through the two components of annual yield on the one hand and current market value on the other, the comparison of our portfolio with the DIX provides us with a strong strategic and operational ongoing assessment of where we are," Grosse-Wördemann said.

The privately-owned DIX was founded in the late 1990s and is an associate index of the UK-based IPD Investment Property Databank Ltd. pfe

## Aareal expansion outside Germany continues strongly in first quarter

The Wiesbaden-based Aareal Bank said it continued its business strategy of expanding outside Germany by boosting new business in the first quarter by 41% compared to 1Q04, of which the vast majority, a 37% rise, was recorded in foreign business.

It added that it would further reduce its non-performing loan portfolio during 2005, but gave no details.

Consolidated net profit after minority interest was € 19m, while the mortgage and public sector Pfandbriefe issued by its Aareal Hyp unit retained the top AAA rating from Fitch.

Commenting on the first quarter, new chairman Wolf Schumacher said, "We are pleased with the results achieved in

our most important earnings components. Nonetheless, we also face new challenges." Aareal planned to step expansion in international property and had identified clearly-defined target clients. "The 41% growth in new business to € 1.4bn confirms that we are on the right track to further enhance our successful business model."

1Q05 group net income was € 24m, including €5m in income attributable to minority shareholders. After taxes and minority interest income the figure was €19m. International lending commitments rose 37% to € 1.2bn and the volume of new lending in Germany climbed to €194m vs €114m in the first quarter of 2004.

"By expediting further reductions of the bank's non-performing loan portfolio, as well as reducing the complexity of Aareal Bank Group, the bank will use its core strengths even more efficiently in the future," the bank said in a press release.

Schumacher took over as chairman of Aareal on 1 April, moving from the top job at DG Hyp in Hamburg after the former Aareal head was obliged to step down due to strongly underestimating loan loss provisions against Aareal's sub- or non-performing mortgage book. Aareal said provision for loan losses in 1Q05 was €30m, largely unchanged from 1Q04.

Results from non-trading assets of €7m were largely attributable to the disposal of fixed income securities from the available-for-sale portfolio. Administrative expenses rose by €9m compared to first quarter of 2004, to €94m. This reflects ongoing investments in new products and in expanding Aareal target activities where it is focusing on IT investments and the improvement of internal processes.

After taking into account net other operating income and expense of €6m, profit before taxes amounted to €32m, with taxes at €8m.

Commenting on its property asset management activities, Aareal said 50% of commission income from its funds is performance-related and is generated on at investment maturity dates. "Thus the full earnings potential of this segment will not be evident for some years yet" it said in a press release.

Aareal intends to substantially increase the share of Pfandbriefe in its refinancing mix drawing on new guidelines contained in the overhauled German Pfandbrief Act. "Stepping up the use of Pfandbriefe will achieve a sustainable reduction in the bank's refinancing costs," it said. Aareal has already announced a new Jumbo Pfandbrief issue for after the new Pfandbrief Act comes into effect in July. pfe

## Hameln-based BHW building society reports sharp rise in first quarter profit

The German BHW residential mortgage supplier said new business was very strong in the first quarter of 2005, boosting group net profit by €31m compared to 1Q04, to €83.4m.

Mortgage loans for new construction boomed so that net profit in this segment rose by 51% to €47.6m, the building society, based in the north German city of Hameln, said. New business in construction loan contracts (Bausparvertrag) was up 8% in volume compared to 1Q04, with mortgage loans extended separately from such agreements rising 1.6%. Over the first four months of 2005, group new business volume totalled €4.5bn.

BHW said its subsidiary, the Frankfurt-based Allgemeine

Hypotheckenbank Rheinboden AG (AHBR), also appeared to be on a recovery path. It achieved total operating profit of €1m, with lower provisions set aside for risk assets.

The partially state-owned post office bank, Postbank AG, has been in takeover talks with BHW in recent months and is reported to be close to closing the transaction. Postbank has made clear that it has no interest in also buying AHBR, which has been primarily engaged in commercial property financing and ran into difficulties in recent years due to heavy losses in its proprietary fixed income book. pfe

## Hypo Real Estate domestic business moves into profit for first time at start of 2005, sees rise for whole year

Hypo Real Estate bank said its German domestic business in the first quarter of 2005 moved into profit for the first time, reporting net earnings of €19m compared to a loss in 1Q04 of €1m.

"The development in net income .. is thus overall in line with the ambitious plans," it said. For the whole of 2005, the bank is still forecasting that consolidated net income before taxes will increase to €400m-€425m vs €221m, and return on equity after taxes of 7.5-8%.

HRE was floated off in autumn 2003 from the Hypovereinsbank group, largely to ring-fence and then work out out a major part of HVB's sub- or non-performing loan asset book separately. Since then therefore, it has been one of



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the principal sellers of such loans. In autumn last year made the largest such transaction yet, selling a portfolio of €3.6bn in mixed NPLs to the US-based opportunity fund Lone Star funds.

The bank said in a press release, "On this basis, 2005 would be the first time that the Hypo Real Estate Group covered its capital costs – two years earlier than originally planned on the occasion of the spin-off of the group from the HVB Group."

All three business segments saw net income improve in the first quarter. New business in real estate financing attained a total volume of more than €3.3bn vs €1.2bn in 1Q04. Refinancing was also very successful in the first quarter, it said.

In the first three months, consolidated net income before taxes increased to €102m vs €55m in 1Q04. Excluding a deferred tax expense from capitalised losses carried forward of €9m, after tax consolidated net income reached €78m vs a comparative €41m million. This gave return on equity after taxes of 7.6%, vs 4.0% in 1Q04. Earnings per share for the quarter came in at €0.58, up from €0.31.

The Munich-based bank said provisions for losses on loans and advances fell to €35m in the first quarter, much lower than the corresponding previous year figure of €71m. General administrative expenses of €73m were virtually unchanged from the previous year so that the cost-income ratio improved to 34.8% from 37.7%.

Group consolidated total assets declined by €1.9bn to €146.9bn as of 31 March 2005, and total lending volume was down by €2.9bn billion to €96.2bn. pfe

## Cologne/Düsseldorf-based Corpus reports lower 2004 profits but strong 2005 outlook

The Cologne/Düsseldorf-based real estate management company Corpus reported group revenues for 2004 of €372m, up 14% on 2003 and the highest since the company's foundation in 1995, though net profit fell 13% to €14.5m.

However the group said in a press release that profits in the current year should rise again because of service fees it is earning from preparation and management of the Thyssen-Krupp portfolio of apartments, as well as the sale of properties from the so-called Millennium portfolio belonging to partner Deutsche Telekom.

Corpus Managing Director Michael Albertz said the Thyssen-Krupp portfolio involvement was the highlight of the 2004 business year. The transaction, which involved acquisition of 48,000 apartments for a price of €2.1bn - was led by Morgan Stanley International. Corpus has a 6.5% equity holding in the transaction company Immeo Wohnen GmbH.

Millennium (MSC Millennium Holding GmbH & Co. OHG) is a portfolio of, originally, 27 office and other commercial properties belonging to Deutsche Telekom, put together in 2001 as a joint venture holding. Corpus holds 25% in Millennium while Morgan Stanley Real Estate Funds Inc. has the remaining 75%.

Corpus announced in April that it had sold seven of the properties for a price of €273m to Sandstone Real Estate GmbH, part of the Israeli Ahouvi group, and to North Road Property GmbH.

Corpus attributed its 2004 decline in profits mainly to lower turnover among its tied brokers and narrower margins from

sales and other business activities. This was not offset by higher volume sales of land plots and properties in 2004 compared to 2003. This year however, "our brokers will be able to sell more", Albertz said.

Corpus sold 3,300 apartments in total during 2004, with most going in block portfolios. Albertz noted a clear trend now toward higher prices being offered by more speculative-orientated investors. The property sales reduced group-owned real estate assets to €482m from €612m in 2003. Total volume of assets under management is €3bn, excluding the Corpus participation in the Frankfurt-based Sireo Real Estate Asset Management.

Corpus and Morgan Stanley each hold 24.5% of Sireo, with the remaining 51% in the hands of Deutsche Telekom AG. Sireo manages commercial real estate assets worth around €11bn.

Corpus said it intends to acquire further residential property portfolios in the future by emulating the Anglo-Saxon opportunity fund practice of using non-recourse financing. This entails a number of advantages for the purchaser in property transactions. pfe

## JLL Europe head Robert Orr named to new International Capital Group

Jones Lang LaSalle's European head Robert Orr, a long-time Germany country manager in the 1990s, is part of a trio of senior group executives named earlier this month to form a new International Capital Group (ICG) to coordinate cross-border institutional investment business.

JLL announced the formation of the group in a press release. It said the move is designed to harness cross-border capital flows globally and strengthen JLL's ability to serve the international portfolio needs of global clients. The group will develop and manage sell- and buy-side mandates, focusing on assets in excess of \$100m.

Colin Dyer, president and CEO of Jones Lang LaSalle, said: "Capital Markets is a major strength of our firm. In 2004, we completed institutional property sales and acquisitions, debt financings and equity placements on assets and portfolios valued at \$34 billion. The new group – a first for Jones Lang LaSalle and, we believe, for the sector – will help secure our position as leader in this extremely important global market."

Alongside Orr in the ICG are Noble Carpenter, a senior US executive, and Guy Hollis, country head of China since May 2002. The trio will report to Tony Horrell who heads the European Capital Markets Group and drives the firm's global capital markets strategy.

Orr, who will join the ICG on 1 July 2005, said: "This move reflects my wish to spend more time working directly with clients and developing business. It has been a unique privilege to lead our European business during a time of significant change, and the diversity of experience the role has given me will serve me well in the future."

Orr started his career with JLL in 1980, and gained most of his professional experience in capital markets. He spent 15 years in France and Germany, working in property management, valuation and investment assignments. He moved to the Frankfurt office from Paris in 1986 to help build JLL investment capability in Germany. In 1991, he

took on the responsibility of country managing director and eventually moved back to London in early 1998 to become Europe CEO. pfe

**PFE COMMENT:** If anything shows the booming state of cross-border institutional real estate capital flows it is this announcement. That one of the biggest global realtors sees the internationalisation of property capital investment is a sure sign that the world is changing from the two-dimensional old world, US and 'international'. Capital is chasing yield. Former communist systems are a distant memory; even the post-communist chaos is in many states a distant memory. And diversification out of cluster risk in pure dollar assets is, we think, a wise move.

## INREV appoints Doorn-Gröniger as new chief executive, lists 150th member

The European Association for Investors in Non-listed Real Estate Vehicles (INREV) has announced the appointment of Lisette van Doorn-Gröniger as Chief Executive Officer, and simultaneously also the listing of its 150th member organisation.

Doorn-Gröniger succeeds Judy Hill who stepped down at the end of April. She will be responsible for driving INREV's strategic and organisational goals, boosting membership, overseeing new product development and continuing to improve the professionalism and transparency of the unlisted real estate vehicles sector across Europe.

INREV, a non-profit association based in Amsterdam, was launched in May 2003 to act for investors and other participants in the growing unlisted real estate fund sector. It aims to create a forum and increase the transparency of and accessibility to non-listed vehicles, and to promote professionalism and clarify best practice.

Doorn-Gröniger was previously managing director of research and strategy with ING Real Estate Investment Management.

INREV Chairman Michiel Olland commented: "Lisette is joining us at a time of steady growth in non-listed property investment vehicles across Europe and when the importance of unity and regulation of this significant sector is steadily increasing."

INREV's 150 members comprise leading institutional investors, fund managers and promoters and advisors from across Europe and the US. It has 37 investor members with property assets under management of over €100bn. The association last month hosted its inaugural conference in Budapest with over 300 attendees.

The latest and 150th organisation to join INREV is IVG AG, the major German listed company, whose fund management arm Oppenheim Immobilien KAG manages unlisted open and closed-ended funds for institutional and private investors.

Other recent new members include Hermes Property Asset Management, Citigroup Property Investors, Pillar Property, HSBC, Colony Capital and Swiss-based investor BLPK. pfe

## Henderson Global Investors appoints Kleuters for Frankfurt office

Henderson Global Investors said it is strengthening its Frankfurt office with the appointment of Denis Kleuters as Senior Manager of Property Business Development for Europe.

Focusing on Germany, Switzerland and Austria, Kleuters (40) will be responsible for developing and structuring new property products, developing new and existing business relationships, and identifying potential new joint venture partners.

Kleuters, who will report to Michael Englisch, director of Property Business Development (Europe), is an experienced French investment specialist. He was most recently responsible for Special Purpose Vehicles – Property Companies at Deka Immobilien Investment GmbH, and prior to that spent 10 years working in property leasing/taxes for VR-LEASING AG, part of the DZ-Bank Group, and for the DekaBank Group. pfe



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GERMANY SEEKS AGREEMENT ON REITS: A new, indirect real estate holding vehicle would benefit the property sector and the German capital market alike, Hendricks said. She gave no details of how far off agreement might be.

However, Hendricks' colleague Claus Tollmann, BMF representative in the inter-governmental committee currently discussing G-REITS, said separately he was sceptical that legislation could be enacted by the end of the year in order that G-REITS could be introduced in January 2006.

He told the Immobilien Zeitung newspaper the problems would be discussed again in the next few weeks and there may be some agreement by the end of May but, "we're sceptical that the legislation process can be finished by the end of the year."

Tollmann said it had been decided that G-REIT legislation would not be included in the general investment law since Berlin was determined to create a competitive international financial product for the capital markets that would create shareholder value.

Many sector critics have said that its inclusion under Germany's general investment law would make administration of G-REITs too bureaucratic and complicated

to be attractive for foreign investors.

As well, Tollmann said, G-REITS should be able to invest worldwide and should not be burdened with tight regulations concerning their asset diversification or limitations on their leverage flexibility through debt capital.

In another significant development he said stock exchange listing would be obligatory to qualify as a G-REIT. "This is the only way for small private investors to get access and to be guaranteed transparency and control over their investments."

The insurance sector in Germany has recommended that unlisted REITS should be allowed. This recommendation was also supported by an expert paper produced by the European Business School department of real estate in Oestrich-Winkel.

These two groups are concerned that stock exchange listing would oblige property holdings to come to market quickly and remove the flexibility of being able to react at more appropriate times to capital market conditions.

In a related development Hesse Finance Minister Karlheinz Weimar said if the Berlin government could not find a tax solution for REITs, those wanting to sell property portfolios would have to find ways to work around this. pfe

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