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Austria's CA Immo wins Hesse's 2nd commercial portfolio for €770m

Austria's listed CA Immo Anlagen last week won the auction for the German state of Hesse's second public sector commercial property portfolio, paying €770m as political sensitivity rose in the nation about sell-offs of state assets to foreigners.

The sale follows a disposal last year in a similar sale-and-leaseback to the CGI unit of the Commerzbank group, which paid just over €1bn for assets that included the new police presidium in Frankfurt and several ministries. The original estimated valuation was €800m.

The latest portfolio consists of 36 properties with 170 buildings encompassing a floor space of 450,000 sq.m. and 6,200 car parking spaces. The properties are mostly office, administration and government buildings. Hesse will remain the primary tenant, and annual rental earnings amount to €42m. Minimum lease lengths range from two to 30 years, the majority being long-term.

CA Immo Anlagen said that diversifying its real estate portfolio into Germany is one of its key investment strategies. The company was floated from the Creditanstalt bank, which itself subsequently merged into Bank Austria Creditanstalt. CA Immo now has 95% free float, assets worth over €1.3bn, and focuses on commercial property.

Political sensitivity is rising in Germany over state sell-offs after the Black Forest city of Freiburg's vote two weeks ago against selling a portfolio of 7,900 municipal apartments to the private sector was seen as having a signal effect across Germany. A massive 70.5% voted against the sale, with just 29.5% in favour.

Meanwhile, Deutsche Annington, a unit of Britain's Terra Firma private equity group, is in talks aimed at an Initial Public Offering of part or all of its 230,000 German apartment portfolio on the stock market next year. This follows the highly successful flotation of the 150,000-unit GAGFAH housing portfolio controlled by the US private equity group Fortress Investments. pfe

You will find in this PFE 37 a wealth of news and information about retail property - store assets and shopping malls - after firms and realtors timed announcements and research studies to coincide with the highly successful 12th MAPIC conference in Cannes earlier this month. 8,000 delegates from 62 countries up from 7,200 last year, attendance up 12%, exhibition space up 20%. Nothing if not a very lively sector! Take a look at the retail funds floating out on stock markets, the asset managers chasing these assets, to say nothing of the US and Australian investors - documented scrupulously in this Property Finance Europe.

Real estate on the European continent has suddenly become hot property. US and global investors have 'discovered' Euro and near-Euro property and are pouring money in. Pension funds and insurances see an investment asset with high and stable returns to cover baby-boom old-age-care liabilities. Listed companies, funds, private equity, and other institutional investors and managers see an asset which, with intelligent pro-active management, offers hugely promising returns. High net worth money has seen it too. Retail investors are not far behind; the coming of REITs to Europe will see to that. It all keeps us firmly on our toes!

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Australia's Babcock, GPT take 50% stake in Halverton, add €600m for European RE

The joint venture between the Australian listed real estate managers Babcock & Brown and General Property Trust has acquired a 50% stake in UK asset manager Halverton, and announced €600m in additional capital for global property investment, with the major part coming to Europe. Separately, the pan-European retail property fund that the JV is floating on Euronext set its IPO offer price to raise €400m in fresh money.

The moves are the latest examples of the wave of international capital moving into the continent's real estate, with Australian pension money in the forefront. The firms denied a report they offered €1bn to the Schwarz retail group to purchase 250 Lidl and Kaufland stores in Germany and Switzerland. However the fund will be seeded with 294 retail assets valued at €1.5bn, and most are leased to Lidl-Schwarz, Edeka, Tengelmann and Swiss retailer Coop. pfe

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MAPIC shopping centre congress in Cannes beats attendance record at 8,000

The 12th MAPIC, the International Market for Retail Real Estate held in Cannes earlier this month set a new attendance record in all sectors, from property professionals to retailers and local authorities. With 8,000 delegates from 62 countries, compared to 7,200 last year, attendance has grown 12% in 12 months.

The 20% expansion of the exhibition area at MAPIC attracted 830 exhibitors, and key territories from around the world significantly increased their presence at this year's event. Russia alone had 73 exhibiting firms compared to 36 last year, while 48% more exhibitors from 31 firms came from Germany. Spain's exhibition presence was up 39% at 52 firms.

This year MAPIC also welcomed newcomers from Bulgaria, Romania, Turkey and India, all countries showing dynamic growth and outstanding vitality in the retail real estate sector. The number of developers attending rose to 1,700 compared to 1,500 last year.

Some 26 cities showcased their activities in the exhibition area, with such first-timers as Moscow, Ulianovsk (Russia), Dunkirk and Versailles (France). Italian cities boosted their attendance, with Genoa, Lazio, Provincia di Cosenza and Porto Turistico Marina di Ragusa all attending. pfe

Babcock, GPT take 50% of Halverton, add €600m for European real estate

The joint venture between the Australia-based listed real estate investment managers Babcock & Brown and General Property Trust has acquired a 50% stake in the UK asset manager Halverton Real Estate Investment Management for €15m.

The two companies also announced that up to A$1bn (€600m) in additional capital will be contributed to the JV for real estate investment globally, with the major part coming to Europe. The new funds brings total equity in the JV to A$2.2bn (€1.32bn).

Babcock & Brown's European Real Estate origination team has around 45 specialists across five offices. The two companies founded the JV in June 2005 to pursue real estate investment, trading and development opportunities worldwide, and to establish a listed and wholesale property funds management business in Australia.

During the half year ended 30 June 2006, the JV committed to acquire assets and projects in the US, Australia, Germany, France, Denmark, The Netherlands, The Czech Republic and Poland. After one year, it had completed investments in Europe with a carrying value of €2.5bn and in the US of US$734m. The European portfolio was 57.5% residential, 20.1% retail, and 22.4% logistics, and the US 59.1% retail and 40.9% residential.

The JV has partnered with Halverton in the acquisition of a light industrial portfolio that now includes over 85 properties in Germany, Netherlands, France and Denmark, with a book value of €700m.

Separately, Babcock & Brown described as incorrect and excessively high a sum of up to €1bn that Financial Times Deutschland reported it has offered to the Schwarz retail group to purchase 250 Lidl and Kaufland retail stores in Germany and Switzerland. It did not deny that a professional auction process is under way for this portfolio however, and that it is interested in acquiring further such assets. pfe

PFE COMMENT: Phew! This is seriously big money. The weight of pension fund cash coming out of Australia and targeting European real estate is genuinely a 'wall of capital' that does not look like drying up any time soon - well, at least until Europe is fully priced. The problem for the Europeans - only too evident in current German attitudes but also heard frequently among French office sector professionals - is that 'fully priced' to the Australians, due to their requirement to invest, is quite a bit higher than the European conception. It's all about disintermediation of old-age care savings investment. The state is busy plugging its own deficits by pouring our European public sector pensions savings into its sovereign fixed income securities. The non-Europeans, meanwhile, leverage up much higher running returns for their old age by putting a little cash and a lot of borrowed money into our regional real estate. Oh dear.

French Klépierre aims at €1bn in assets in flotation of Klémurs unit

One of France's largest REIT/SIICs Klépierre plans to triple to €1bn the property portfolio of its subsidiary Klémurs which it will list on the French stock market also as a Real Estate Investment Trust with a business model of acquiring premises outsourced by large retail chains wanting to beat the 2007 closure of the beneficial capital gains tax regime.

Chairman Michel Clair told the French BusinessImmo real estate portal, "We prefer to remain conservative by aiming to triple investment to €1bn within two or three years… Development won't be constrained by a lack of financial means but by opportunities on the market."

The Klémurs business model is aimed at buying property from store chains in outright sale or sale-and-leaseback ahead of the projected end of the so-called SIIC 3 regime in December 2007. This is the deadline for companies to benefit from a halved capital gains tax rate selling assets into a French Real Estate Investment Trust (SIIC). The first main Klémurs asset will be the 129 Buffalo Grill restaurant portfolio bought by the group in August.

"Our investment strategy focuses on the acquisition of premises available due to the outsourcing of large retail stores' properties," Clair told BusinessImmo. "Klémurs is going to focus first on France… However, we are not excluding an international development, coupled with our store expansion strategy with which we want to attract our partners."

Klémurs is a fully owned subsidiary of Klépierre created in 1998 to accommodate assets other than retail centres and shopping malls, but wound down in 2000 during the acquisition of the Carrefour portfolio and the international growth of the group.

The group decided to re-start store acquisition due to the trend toward outsourcing by the major chains. "From that moment on, we wanted to isolate that specific property in an existing medium already dedicated to it. Listing Klémurs feeds our ambition for growth on the market," Clair said.

"We believe that the reservoir of commercial assets that will come from outsourcing is relatively large in France… We are focusing more specifically on the food industry, major distribution, service and retail sectors. For right now, we do not want to position ourselves in the hotel or health/para-health sectors which are too far out of our expertise."

The IPO is scheduled via a capital increase of €150m and a flotation of just 15% of capital. But Clair added, "Over time, Klémurs hopes to make its capital available as acquisition projects advance and proceed with successive capital increases, with a target debt ratio of 65% of the value of its assets."

Klepierre owns, manages and develops retail centres in 10 European countries, and has assets €7.9bn of which €900m is Parisian office properties, and the rest shopping centres. pfe

Deutsche Annington likely to seek IPO after successful GAGFAH float

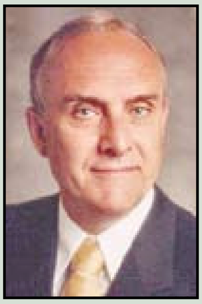
Following the highly successful flotation of the Fortress-owned GAGFAH German housing portfolio, Deutsche Annington, controlled by the UK-based Terra Firma group, is in talks aimed at an Initial Public Offering on the stock market next year.

The Die Welt newspaper, citing capital market sources, reported that DA has been in talks with possible investment banking partners Deutche Bank and Morgan Stanley over a potential flotation in 2007. DA Chairman Volker Riebel had no comment but pointed to prior statements in which he had said a flotation of the portfolio is one exit option that would be considered for next year.

The sources told the newspaper that GAGFAH had shown that a flotation can be a successful exit from German residential assets, after its share has risen by more than 25% from its issue price over the last month.

Besocked into the acronymic world of European mortgages in chilly Brussels

Whenever we venture one besocked foot into the world of European mortgages we are always deeply impressed - that the sector is just as hot and dynamic as the rapidly exploding universe of investment real estate, residential and commercial, that is the more obvious domain of PFE. We keep a strong weather eye on the mortgage sector for many reasons. For one thing developments in home loans are a bellwether for the borrowing inclinations of 457m people in the greater European Union, and therefore economies, savings and investment. For another, a tidy part of inward real estate investment these days is into residential assets – whether directly into German portfolios, or indirectly via Spanish listed companies or via the plethora of UK money managers diving straight in or taking the circuitous route via an AIM or LSE listing. If you, Dear Reader, are interested in placing your money there, then PFE wants to be the organ to tell you if it looks like a good thing, how much you might earn, the when, the how and the who's who. Indeed, as 2006 winds its windy, wet way towards the closing curtain, stock market listing fever seems to have broken out all over and some of it is focused on housing – the valuations of which, third point, will also be heavily influenced by the availability of mortgage lending. Funds are listing on stock markets. Oh dear. (You don't need to worry your head but does a quoted fund belong under Listed Real Estate or under Property Funds in our tidy segregation…? Is the editor managing? Well may you enquire.)



But we digress. The impression we took away from the European Mortgage Federation annual conference in a chilly Brussels last week was one of standoff. Oh, and lots of acronyms. While the European Commission's internal market directorate (ECIMD), with the help of the expert group (MIFUDDLE), is puzzling its collective mind (COMIND) over how to foster the integration of European mortgage markets (INGEUMOGMARK), great puzzlement universally obtains (UHHH). In the blue corner, the Brits want nought to do with rules and regulations cobbled together by 'Bureaucrats in Brussels'. In the red corner, the Germans and French are in no doubt that pan-national mortgage market entry cannot be achieved without firm directives. The internal debate about whether to let market forces achieve European mortgage integration from the bottom up, or whether – and if so to what extent – rules should be imposed from the top down in the form of directives is fierce. No one is moving, but a lot of staring down is going on. The EC delayed release of its White Paper from last September to 31 May 2007 because of the dithering. Quo indeed vadis?

The trick is to create a level playing field for the benefit of consumers but also to give lenders and other commercial market forces just enough guidance without excessive central control. How can a lender in Norway provide financing for a citizen wanting to buy that second holiday home in Spain? The lender knows the borrower well; the borrower would like to transact in Norwegian. But the lender has difficulties with local Spanish practice, valuations, property security – to say nothing of the language. Thus, the borrower must go to a Spanish bank, which then has to understand the nature of the security back in Norway. Oh dear.

And we are talking about a huge market here. In 2005, mortgage loans outstanding in the EU rose by 11% to E5.1tr compared to 2004, faster even that the average 9.4% p.a. over the past 10 years. The fastest growing mortgage markets in the EU25 were in the new Member States. The Baltic countries of Latvia, Lithuania and Estonia recorded growth rates of 97%, 94% and 80% respectively. Now that's fast! EMF Secretary General Annik Lambert sees the fall in interest rates as the major driving force for the general house price surge and, thus, the explosive mortgage market growth. But no one will sure how it will all end. "Given that every boom is followed by a slowdown, the recent rises in the ECB repo rate would suggest that the next slowdown is likely to happen sooner rather than later," she says. Need I mention that everyone is still puzzling why German house prices are not doing what they are everywhere else in Europe, surging. The VDP's Louis Hagen posed the question just to confuse the masses. Of course I had to explain at the fine reception that evening. Thanks Genworth Financial! Read PFE, I said, and you will know. See? Managing. That's what it's all about!

Allan Saunderson, editor@pfeurope.eu

While GAGFAH's 150,000-unit portfolio attracted a premium over net asset value of around 34%, Terra Firma, with its still larger 230,000-portfolio might even see a larger capital market premium at flotation, the sources told Die Welt journalist Richard Haimann. The IPO is likely to list only a part of total DA capital, and aim at something over €2bn in volume.

The decision by the German federal government to exclude residential assets from upcoming Real Estate Investment Trusts legislation had played no part in DA's reflections, according to the sources. "The example of GAGFAH has shown that foreign investors are able to bring their portfolios to the stock market even without residential REITs," one said. pfe

PFE COMMENT: It stands to reason that Deutsche Annington will seek a flotation as a partial exit from the investment - even if only to raise further equity to continue to purchase residential assets in Germany. Riebel has already announced the company wants to acquire another 270,000 units over the next few years. Besides which, the 9mth figures from GAGFAH make clear that privatisation programs - selloffs to sitting tenants - are not moving at nearly the kind of rate needed to plough back adequate equity to maintain a recurring process of re-investment at any interesting rate for these private equity funds. A note of caution however: the vote in Freiburg two weeks ago against selling off the municipal housing portfolio has raised the political sensitivity of stock exchange flotations for now at least. The political heat is also being turned up over announced plans by the North Rhine-Westphalia government to float the 95,000-unit LEG portfolio, one of the last of the large single state owned apartment portfolios in Germany alongside the 270,000 units owned by six communal housing companies in Berlin.

New head of Spain's Colonial sets sights on expansion in France

Luis Portillo, the new chairman of Spain's listed Colonial property group, said growth opportunities in Spain are limited and it will therefore seek expansion in France through its majority-controlled Real Estate Investment Trust (REIT/SIIC) Société Foncière Lyonnaise.

"It doesn't make sense to continue buying buildings in Spain and we think that there are no good opportunities to acquire firms in the Spanish market," Portillo told a press conference earlier this month. "Thus to grow we are thinking about France." He added that the purchases will be financed by capital increases.

Portillo's Inmocaral recently bought larger rival Colonial for €3.7bn using a €2.7bn capital increase to help finance the takeover and a €3.7bn guarantee from The Royal Bank of Scotland. At present the plan is to merge Inmocaral and Colonial, and to continue trading on the stock market. pfe

GAGFAH reports €147m 9mth net, cuts vacancies on its 150,000 apartments

GAGFAH, the Germany's residential property company floated on 19 October by the Fortress private equity group, last week reported net profit of €147.2m for the nine months to end-September and a reduction in the vacancy rate across its 150,000-apartment portfolio to 5.7% from the 6.2% at the end of the second quarter.

In the first interim report since flotation, it reported €17.8m net profit in the third quarter, making earnings per share of 8 cents. The GAGFAH share was last trading around €24 this morning, after first listing just above its €19 IPO distribution price.

In the first three quarters, the Luxembourg registered company acquired 48,216 units for a total consideration of €2.5bn. However, it sold off just 476 apartments to sitting tenants during that period, 301 of which in the third quarter.

GAGFAH last week also announced the acquisition of nearly 87% in a housing company in Heidenheim, Germany, paying around €437m for 9,000 apartments in GBH AG, a price it put at €763 sq.m., with a rent multiple of 13.7 times.

On its outlook, the company said in a statement: "We believe that our financial and trading prospects remain favourable based on our potential acquisitions pipeline, and continued improvements to the performance of the existing portfolio." pfe

Italian luxury hotel assets seen in strong demand from global investors

Luxury hotel assets in Italy are heavily in demand by international investors and total transactions in the sector have reached $12bn in the year to date. Four Seasons is currently at the centre of attention because Microsoft founder Bill Gates, Saudi prince Al Waleed Bin Tahal, and founder Isadore Sharp made a public offer to buy out the chain for $3.7bn.

The Italian daily Il Sole 24 Ore reported that Four Seasons is eyeing giants like Starwood, which recently bought the Le Meridien and Hilton chains. The company will soon open its second hotel in Florence in collaboration with Frattini and is preparing a project near Torre Salsa, in the region of Agrigento in Sicily, very near to the site of a five star Forte Sotogrande-NH hotel, currently under construction.

One of the largest deals is the acquisition of Rimini's Grand Hotel - much loved by the late film director Federico Fellini - by real estate and media tycoon Danilo Coppola. The Hotel Gallia in Milan, a five-star Meridien, has also so far attracted 20 offers at a starting price of €80m - which has now reached €110m. Among them are Accor, which is trying to establish the Sofitel brand, and Pirelli Real Estate.

Important deals are also being made in Venice. Starwood has decided to sell properties in the Lido, which include Hotel Des Bains and the Excelsior. Some reports suggest the Excelsior has already been bought by the real estate developer Giuseppe Statuto, who recently acquired Hotel Danieli for €160m from Starwood. Hilton and a leading building and real estate company Caltagirone are about to open Palazzo Stucky Giovannelli there.

Real estate developer Gabriele Statuto will soon open a hotel in Milan created with Spanish chain AC10. In Brera, the old part of Milan, he has been collaborating with Starwood to open a hotel in front of the Academy of Arts, and also transforming a property in Via Monte di Pietà into a luxury hotel. Statuto recently bought six large hotels for €1bn and now wants to expand abroad in London, Paris and New York. In Rome the hotels Tiberio, Flora and Ambasciatori are up for sale.

Pirelli RE is also focusing on tourism, and may take a major stake in Italia Turismo, possibly also acquiring a former public-owned hotel company in Croatia. The fashion designer Versace will launch 15 super-luxury hotels, and has signed an agreement with Sunland Group, a listed Australian company that specialises in property development, for the construction of 15 new hotels. Two Russian billionaires, Roman Abramovic and Viktor Vekselberg, are also competing to buy Villa Feltrinelli in Gargnano, on Lake Garda. The owner, Bob Burns, has received a €42m offer, but a Chinese group might make a higher bid. pfe

Slough Estates to redeploy out of US into continental European REITs - Fitch

A strategic review by the UK's listed Slough Estates is likely to bring disinvestment in US biotech property assets and redeployment of the capital toward its growing continental European operations that will benefit from tax exemptions under various Real Estate Investment Trust regimes, Fitch Ratings said in an analysis.

Although Slough Estates' US West Coast R&D/Science park business with around £724m of property assets has performed well in recent years, it has limited synergies with the firm's domestic and European operations. The ability to recycle any taxable gains on a sale of US science parks may also prove difficult.

The company's strategic review is linked to its decision to convert to REIT status both in the UK and France, and Slough Estates is well placed to convert due to its concentration on a clearly defined asset category and a strong dividend policy.

The Fitch analysis said: "Disposal of the US biotech property assets would allow Slough Estates to reinvest this capital into its REIT/SIIC tax exempt businesses in the UK and France and the generally higher yielding Eurozone, although it should be acknowledged that income yield returns have been tightening in Europe."

Slough Estates specialises in industrial and office/R&D space within estates and business parks. pfe

Paris rushes to meet state property selloff target by year end

The French government will sell three buildings by the end of the year in a hurried effort to meet the 2006 plan announced plans of a selloff of at least €480m, Jean-Francois Copé, Minister for the Budget and State Reform, told a parliamentary committee.

The government will sell off three historic buildings known as the Kunski, Vigny and Croisilles mansions, the French property portal Businessimmo reported. All three house government departments and are located in Paris.

The French government is under pressure to sell or make better use of its immense property holdings to reduce the budget deficit and streamline the use of its buildings, many of which are situated in prime locations in and around Paris.

As part of the reform, Copé said a program under which some ministries have included estimates of their rental costs will be extended to all departments next year. Rents should move increasingly in line with private sector rates to give a more "realistic understanding of costs." Copé also said an inventory and evaluation of property holdings of the 50 largest departments will be ready by the end of this year and a report on another 200 departments should be complete by the end of 2007. pfe

Freiburg vote against housing sales seen having signal effect in Germany

The Black Forest city of Freiburg's vote two weeks ago against selling off a portfolio of 7,900 municipal apartments into the private sector is seen having a signal effect across Germany against public housing sales. A massive 70.5% of the city's voters on 12 November voted against the sale, with just 29.5% in favour.

Real estate commentator and consultant Rainer Zitelmann said the vote will have a signal effect for Germany, alerting politicians of all stripes that further privatisations - particularly private foreign investors - will meet the disapproval of their voters. "The world is a changed place after the Freiburg vote," Zitelmann wrote in a commentary.

The hysteria against foreign investors has come to take on grotesque features, he said. In Freiburg, fibreboard kits for crafting toy bridges were handed out to children to illustrate that they may have to sleep under bridges in the future if the apartments are sold off. Even the liberal Free Democratic Party in Freiburg mobilised against the privatisation.

He warned that foreign investors should begin to communicate their message more clearly in order to counter the trend. "Anglo-Saxon investors have made a decisive mistake: They have forgotten to elaborate their investments in Germany with more care," Zitelmann wrote. This failure means "they will soon face a dangerous hodgepodge of state-based, egalitarian, anti-economy and 'patriotic' arguments." pfe

PFE COMMENT: We are not as convinced as Rainer Zitelmann that even the Freiburg vote will stop German public housing selloffs in their tracks. Certainly it will make such operations highly politically sensitive in the short term and probably produce a hiatus, coupled with a retreat into secrecy by municipal or regional governments considering the move. It is not for nothing that the Hesse state government, headed by the federally ambitious and politically savvy CDU Premier Roland Koch, sold its first E1bn state property portfolio last year to a subsidiary of the Commerzbank, and its second last week for just under E800m to the Austrian company CA Immo (see elsewhere in this issue). The latter has been listed on the Vienna stock exchange since 1988 and, being Austrian, is the acceptable face of foreign investment for the German public. Both buyers are politically more acceptable than the Anglo-Saxons in the current political context. Koch is bidding to become deputy leader to Chancellor Angela Merkel; he does not make political mistakes - even if Freiburg will bring him headwinds in the immediate future. But we see the business case for public housing sell-offs as much too compelling for both sides. The public sector plain needs the money. The investors - GAGFAH, Deutsche Annington et al - will continued to be attracted by leveraged returns of up to 15% p.a. combined with stock market valuations of about double the domestic value for German housing.

RETAIL PROPERTY

Sonae Sierra and Foncière Euris invest €470m in German shopping centres

The French listed property company Foncière Euris and Portugal-based shopping centre developer and owner Sonae Sierra have signed a partnership agreement to develop two shopping malls in Germany for a total investment of €470m.

The two will develop the 66,000 sq.m. 3DO retail centre in Dortmund for €272m, and also the 55,000 sq.m. retail and leisure centre in Weiterstadt south of Frankfurt, for a total investment of €200m. These centres will open in 2010 and 2008 respectively. The closely-held Foncière Euris is a holding company for property and retail interests. Aside from shopping malls, its assets comprise logistics and office. pfe

Investment in French retail property at record levels, says Jones Lang

Investment in French retail property is headed for a record year as institutions view the sector as a safe haven linked to household spending and not the cyclical ups and downs of the property market, says a report by Jones Lang Lasalle.

During the first nine months of this year, investment in retail property was nearly €1.8bn, or 38% more than the €1.3bn for the whole of 2005. The realtor expects €2.2bn total investment for the full year, about 10% of total property investment in France.

The increase is due in part to institutional investors looking for stability in the property market or to diversify their portfolios. Strong interest in the sector has pushed yields down, however, with prime entry yields for commercial parks standing at 5.25%, and for retail property in city centres or shopping malls at 4.5%.

Looking ahead, JLL says 2007 is likely to be slower. “Despite an institutionalisation of the market, this sector will likely remain active but to a lesser extent in 2007,” it said.

The PFE Interview: Stephan Rind, Colonia Real Estate

Germany's Colonia shifts toward residential, boost in office exposure co-investing with partners as in Oaktree's Hercules acquisition

The quoted Cologne-based Colonia Real Estate is shifting strategy to focus on boosting its domestic residential portfolio and co-investing in commercial property assets. Chairman Stephan Rind says there are now concrete signs of a recovery in the German office market, and he wants to increase the firm's exposure fast.

Rind told PFE in an interview that the investment in apartment assets not only draws on Colonia experience in reducing portfolio vacancy rates but creates steady income with diversified risk. "We see value in residential because one of our main strengths in acquiring portfolios is that we are usually able to substantially reduce vacancies," he said. "With the portfolios we are targeting, we can create nice recurring cash-flow enhancements over the next three, five, six or even seven years."

Rind also told analysts in a conference call in mid-month: "In our new strategy Colonia will focus on majority or proprietary investments in residential real estate. We are buying on the commercial side, preferably office, but to avoid conflict of interest in the future and also to expand our service business we will dispose of majority-held assets and focus on minority co-investments alongside our customers."

Colonia's Stephan Rind is shifting the group's strategy to boost residential assets, and also sees the German office at its turning point, with rents beginning to recover.

In the third quarter, Colonia boosted its residential portfolio with the acquisition of 2,500 units in Berlin. The company plans to increase apartment assets to 15,000-20,000 by end-2007 from around 8,000 now. The total has climbed from 2,500 in January despite the sell-off of 1,500 units from the Grasmus portfolio in early autum. Part of Grasmus, acquired last year from private equity group Cerberus, was sold for €62m, booking disposal gains of almost €9m pre-tax. Illustrating the strength of the investment market in German housing, Rind noted, "the valuation we achieved in the market is more than 20% higher than the IAS 40 valuation in our books at the end of last year."

Value will be created through individual privatisations to sitting tenants or in block sales, "as well as keeping open the option that our residential portfolio in the coming years could be ready for a separate spinoff or IPO." Rind told PFE: "We have always said that a potential IPO of the residential part of the portfolio is a valid option and we still follow this path." The experience of other companies investing in residential assets shows however that privatisation is generally not happening fast enough to extract adequate equity and meet meaningful return targets. "This is something where most of the investors in the last two or three years who bought large portfolios were working under different assumptions," he said.

Colonia was created in 2004 from the former housewares group Küppersbusch after the Swiss-based private equity group Fortman Cline in 2003 acquired 85% through its investment vehicle SwissReal Estate. Rind was Chief Investment Officer of Fortman Cline from 1997 to 2002. He had started his career in 1991 at Prudential Securities in New York and Düsseldorf where, among other positions, he was US REITs analyst and adviser to European institutional investors in quoted real estate companies.

Colonia hugely expanded its overall portfolio in the first nine months this year, simultaneouslyboosting net income nearly fourfold to €19m. Earnings per share rose to €1.24. Total operating performance surged to €74.7m from €4.6m. Rental income improved to €10.3m from a previous €4.6m.

The company's stock price was last trading around €31 compared to a high of nearly €50 in April. Following the interim figures, Sal. Oppenheim real estate analyst Kai Klose upgraded the stock, setting a target at €39. "Colonia Real Estate is currently in a transmission period from an opportunistic buyer towards an integrated company with its own mainly residential property portfolio and asset management for third parties," Klose wrote. "We appreciate this business model, which we regard as attractive given the significant inflow of investment capital into the German real estate markets."

To accord with its new minority investment strategy on its commercial real estate activities, Colonia has put up for sale an office portfolio in Cologne and a three-asset Marriott hotel portfolio bought from Arcon Trust for stock in 2004. Its first foray into minority co-investment is scheduled to be the €1bn Hercules office portfolio acquired from DekaBank's real estate arm in August by private equity group Oaktree Capital Management. Colonia's Resolution unit will manage the portfolio and co-invest by the end of this year.

"On the commercial real estate side we are clearly focused on the office sector because we think this market is at its turning point right now and that's why we want to have as much exposure on a diversified basis as possible as soon as possible," Rind told PFE.

He cited a recent CB Richard Ellis report that calculated an average office rent increase in Frankfurt this year of 14%, mainly due to severely reduced incentives. "About a year ago if you signed a new lease contract for five years you would usually have been given 12, 15, 18 months rent-free at the beginning," Rind said. This has now been reduced to two or three months. Even if Colonia does not have the size to obtain high exposure to office by itself, it can co-invest without putting up too much equity. The new strategy therefore targets a 35-40% equity stake in any joint venture, and can also offer, through Resolution, asset management, participating in fee income for the portfolios in which it also invests. Apart from Oaktree, major clients include UBS and the Cargill hedge fund subsidiary CarVal. pfe

Figures for this year do not include exceptionally large transactions such as the sale of the Printemps department store chain for €1.1bn and that of Foncière Massena. The 2006 figures do however include the sale of the Buffalo Grill and Courte Paille chain of restaurants to Bail Investissement which together were worth €764m, or 42% of the total so far this year.
Investment trends point to more money going into shopping centres and other large commercial parks outside Paris rather than to city centres. Also two-thirds of investment this year was by French investors, followed by the British and Dutch. pfe

European retail developments up 9% to date - French Procos study

Retail development projects in Europe so far this year have reached 1,262, up around 9% or 111 from the same period in 2005, according to the Federation for Urbanism and Development of Specialised Commerce (Procos). The main trends included a strong increase in mall projects without food stores, and a growing number of commercial business parks.

The study, reported by the French BusinessImmo real estate portal, showed that France remains the European driving force for the commercial property market. With 410 new projects registered, France represents more than 30% of the total in Europe. „Given that the number of projects remains stable, the volume of square metres scheduled is experiencing a true inflation, with 800,000 sq.m. more than in 2005,“ Procos said.

This growth is mainly explained by 31 new projects for commercial business parks, nearly half the area under planning. Downtown projects are decreasing while those in peripheral centres are stabilising. The study also shows that the creation of retail centres is more dynamic than additions and renovations: 36% in area, or 920,000 sq.m. under planning.

In the rest of Europe, Italy is in second place with 185 projects, leading Spain with 164 new projects. In the East, Poland has set itself apart with 134 projects registered, a 30% progression over last year. The increase in malls without food stores results from changes in shopping patterns in France and Spain. The growing number of business parks is due to continuing strong development in France but also their spread into Italy and Belgium. pfe

European retail warehousing set for another record year - JLL

The continental European retail warehousing market transacted €3.8bn in the first nine months of 2006, 14% ahead of total volume for 2005 and accounting for 26% of total retail transaction volumes in the period, according to the realtor Jones Lang LaSalle.

"The pace of development of the retail warehousing investment market has been astonishing," said European Retail Capital Markets Director Jeremy Eddy. In two years the sector has moved from being an emerging investment product to an established sub-sector accounting for a quarter of total retail investment market in continental Europe.

Eddy added: "It is interesting to note that third-party managed funds is the second most important investor group with 29% share, after the UK which accounts for 31%. We are expecting full year investment volumes to reach at least €5bn."

Occupier demand remains strong across Europe, especially in central and eastern Europe where DIY and electronic retailers are seeking to build market share. In southern Europe the trend is for more fashion retailers to look at out-of-town locations. Prime rents were stable in 2006 and are still low compared with high street locations. JLL said there is significant scope for rental growth, particularly for high quality products in good locations.

Some 126 transactions were completed in the first nine months of the year, compared with 60 in 2005. Germany remains the main target for investors by far. Yields have come in markedly - down 200bp in CEE and 100bp in western Europe since 2004. Positive market fundamentals and a huge weight of money continue to maintain downward pressure. pfe

German WestInvest opens new Madrid shopping centre

German property investment firm WestInvest opened its new Spanish shopping and entertainment centre in Madrid last week valued at about €101m. Espacio Torrelodones comprises 32,000 sq. m. of shops, restaurants and leisure activities.

Developed by the Morgan Stanley-controlled Multi Development Spain and Spanish hypermarket chain Eroski, the new shopping centre is located in one of the suburbs northwest of the capital. Most of Madrid's larger shopping areas are located outside the two main ring roads. WestInvest, which owns assets worth about €5.3bn, tends to invest in commercially used properties with a high potential for yield and appreciation, the company said.
Multi Development forms part of Netherlands-based Multi Corporation, which is financed by a Morgan Stanley Real Estate Fund. In Spain it has designed shopping centres in León and Girona, and is currently building others in Murcia, La Coruña and Asturias. pfe

Dutch Rodamco Europe net up 10.0% in 9mths, NNNAV rises 17%

The Dutch shopping mall developer REIT Rodamco Europe reported that net direct earnings rose 10.0% in the first nine months of 2006, and triple net asset value per share grew by 17.3% to €70.90, supported by a substantial valuation result.

The direct result after tax came in a €281.1m compared with €255.6m in the same 2005 period, driven by a 11.9% increase in gross rental income. Property assets increased 10.1% to €10bn vs end-2005, with 93.5% of the portfolio now invested in the retail sector. Triple NAV rose to €6.4bn from €5.4bn at the end of 2005.

Rodamco Europe focuses on these two items in evaluating its performance since the direct result after tax measures operational performance while triple NAV gives the best picture of intrinsic value of the assets.

CEO Maarten Hulshoff commented that operating earnings showed strong like-for-like growth of 4.8%, while loss of rent ratio improved to 3.7% from 4.6% in 2005. The investor market for retail space remained robust, which resulted in a 10bp shift down in general yields in the sector in the third quarter to 5.6%.

New legislation in the Netherlands allowing development of REITs/FBIs and sent to the Dutch parliament recently will cause Rodamco Europe to adjust its strategy. "Once approved, most likely during the first quarter of 2007, we will cautiously expand our business model to include developments for our own account and risk," he said. "Over time we will therefore evolve as an Investor-Manager-Developer, covering the whole spectrum in the European shopping centre sector."

In the first nine months, net rental income rose 14.3% to €422.3m, with the overall occupancy rate up to 98.2% from 97.9% at end-2005. Net shareholders' profit was up 4.8% to €982.4m, which includes indirect result after tax of €701.3m, compared with €681.7m in the first nine 2005 months. pfe

Dutch shopping centre REIT Corio hits €5bn portfolio size at 9 mths

The Dutch shopping centre REIT Corio boosted the value of its property portfolio at end-September for the first time to €5bn, an increase of 10.7% on end-2005. However, direct earnings fell slightly to €146.3m from €151.6m in the first nine months, to €2.21 per share.

For the full year the direct result should reach €195m or €2.94 per share, it said. The pipeline increased to €1.5bn at end-September from €1.2bn at end 2005.

Financing costs and partly one-off tax and management costs increased more than the 3.5% growth in net rental income. Like-for-like net rental growth over the nine months expanded by 2.8%, beating the 2.5% rise in the same period last year. The average occupancy rate increased to 96.1% compared to 95.5%.

With a positive portfolio revaluation of €233.1m, net profit, combining direct and indirect results, rose 12.5% to €347.8m or €5.25 per share. Triple NAV increased over the year by 23.0% to €46.01 per share at end September.

With 80% of the portfolio invested in retail, a strategic milestone has been achieved, the company said. Corio is an closed-end investment institution with variable capital and operates under the REIT/FBI (fiscale beleggingsinstelling) fiscal investment regime in the Netherlands. In France Corio has the comparable status of the REIT/SIIC. pfe

Immoeast to invest €210m in Transylvanian shopping centre

Immoeast, the largest listed property company in Austria, is to pay €210m to Hungary's TriGranit for a shopping centre development in the Romanian city of Cluj, located in the province of Transylvania next to Hungary.

The acquisition will be carried out in the form of a forward purchase in which Immoeast will acquire the centre in several stages with respect to building progress and level of occupancy. Immoeast acquired a 25% stake in TriGránit Holding this summer.

The new mall, Polus Center Cluj, will comprise a total lettable space of 100,000 sq.m. and is scheduled for completion in November 2007. Transylvania is one of the most promising economic regions of the country and benefits from its proximity to Hungary. Some 270,000 people can reach the centre within 15 minutes. Around 700,000 people live in a larger catchment area less than 40 minutes drive distant.

Polus Center Cluj is Immoeast's biggest single investment in Romania to date and the second large shopping centre project after "Harbourside" in Constanta. Immoeast now has 21 assets with more than 765,000 sq.m. of lettable space in Romania.

"We are positive on this acquisition that has an expected net yield slightly above 8%, while the market yields on these type of projects vary between 7.5-8.0 %. We expect about 3% rental growth in the next year in Romania,' Immoeast said. pfe

Italy's Beni Stabili, IGD launch shopping centre development JV

The two Italian companies Immobiliare Grande Distribuzione and Beni Stabili have signed an agreement for the creation of a joint venture to acquire and develop existing shopping centres in Italy.

The company, to be called RGD Riqualificazione Grande Distribuzione, will be 50% owned by IGD and 50% by Beni Stabili. It will have initial equity of some €120m and a medium-term investment target of around €500m. Investments will be financed primarily via the use of financial leverage in order to maximise the value of the company.

The two companies said in a release that the transaction marks an alliance between two leading property companies, which will prove strategic for future expansion in a sector with high investment potential. pfe

LISTED REAL ESTATE

Outcome of French talks on changes to REIT/SIIC delayed

A conclusion to talks between the government and the property investment industry on the future of French Real Estate Investment Trusts (REIT/SIIC) has been delayed into December, Dorian Kelberg, general manager of the French REITS Federation (FSIF), told PFE. He was originally expecting them to end by the third week in November.

Kelberg declined to provide any details but said they are focussing on "technical aspects" of rules. These include possible caps on shareholding and cross-border taxes on property capital gains.

Last month Olivier Mesmin, a partner with Baker & McKenzie and advisor to the FSIF, said he expected the government to tighten ownership rules so that a single shareholder cannot own more than 60% of a company's share capital.

Unlike regulations in place or planned in other European jurisdictions, French REITS/SIICs currently have no shareholding threshold. Some are totally controlled by one shareholder with barely any free float.

French REIT/SIICs benefit from a reduced capital gain rate of 16.5% which is scheduled to end in December 2007. pfe

France's Saint Honoré bids for Gaillard to gain REIT/SIIC status

La Foncière Saint Honoré, a unit of the Bleecker Group, has launched an agreed bid to for a majority stake in Compagnie Francaise des Établissements Gaillard, a listed property group that it plans to use to gain the status of a Real Estate Investment Trust (REIT/SIIC).

According to a document lodged with French market regulator AMF, Gaillard has agreed to sell to Saint Honoré a 71.5% stake for €14.9m. All Saint Honoré's assets will be transferred to Gaillard during first quarter of 2007 and the new entity will specialise in property management.

Foncière Saint Honoré directly or indirectly office owns commercial and logistics property worth about €185m. pfe

Locindus approves takeover offer by Crédit Foncier de France

The board of French commercial property financing group Locindus has unanimously approved a takeover bid by mortgage bank Crédit Foncier de France, a subsidiary of the savings bank giant Caisse d'Épargne, valuing Locindus at around €301m.

CFF said it had already reached agreement with shareholders controlling 27% of Locindus to launch a full bid for the company at €37 per share. This compares to the pre-offer stock price of €32. Locindus said in a statement last Monday its board has unanimously approved, and, "considers that the growth of Locindus will benefit from the synergies produced by the entry of the Caisse d'Épargne group into its capital and in the context of the sector property leasing which is primarily undertaken by CFF."

CFF is making the move in association with the listed company Icade. On taking control of Locindus, CFF will sell Icade control over SIICInvest which is 72.6% owned by Locindus and is a property company specialised in commercial real estate and converted into a Real Estate Investment Trust (SIIC) last July.

It is intended that this vehicle would then become SIIC d'Icade Foncière Publique, which would adopt the business model of managing property assets rented out to public sector entities or released in public-private partnerships, particularly in the area of health care. The price to be paid by Icade will be based on its net asset value of SIICInvest.

CFF said the offer for Locindus is conditional on obtaining at least one third of its equity and will be made officially by 15 January 2007 after formal approval of the supervisory board of Caisse d'Épargne. Agreement has already been reached to purchase the stakes held by Locindus' major shareholders Groupama/GAN, Prévoir, Caisse des Dépôts, CNP Assurances and SCOR, which represent 26.8% of the equity.

CFF said the move follows its strategy of expanding its property leasing activities, and offers Locindus the support of a major institutional parent in developing its business. CFF finances and insures real estate transactions, develops commercial and residential properties, and is active in consultancy, consumer and business lending and structured finance.

The Paris-based Locindus engages in leasing financing focused on office, warehouse, factory premises and workshops and other commercial. It also buys and sells investment properties, and does project management and consultancy through its subsidiary Oxiane. pfe

Spain's Reyal to sell Inmocaral stake as non-strategic before Urbis merger

Spanish real estate and building group Construcciones Reyal plans to sell its 6.85% stake in rival Inmocaral next year before it merges with third-largest listed property company Urbis.

Reyal Chairman Rafael Santamaría said the Inmocaral stake,

PROPERTY FINANCE EUROPE - BULLETIN BOARD

diary and dates upcoming in 2006

November 27-28, Monday-Tuesday

The New Europe GRI, Budapest, Hungary

The Global Real Estate Institute conference brings together leading local and international real estate players in an enlarged Europe. GRI format is to have no speeches or panels but discussions in collegial groups to ensure everyone talks freely to benefit all viewpoints.
More info: www.globalrealestate.org

November 29/30-December 1, Wednesday-Friday

SIMI, Salon de L'Immobilier d'Entreprise- Commercial Real Estate Congress, Paris

This is the 5th congress for professionals in the French commercial property sector, and is focused this year on property users. Expecting 300 exhibitors, it plans discussions, round tables, and around 9,500 visitors.
More info: www.salonsimi.com

December 6-7, Wednesday-Thursday

Terrapinn - Alternative Real Estate Opportunities 2006

A two-day conference assembling global expertise for those looking to avoid the yield compression brought about by an abundance of funds in real estate. Uncompromising investment strategies are thinking well 'outside of the box'. This event looks at alternative asset classes, deal structures, locations.
More info: www.terrapinn.com

December 7-8, Thursday-Friday

Financing Real Estate, London

The C5 group is organising a two-day program to provide in-depth understanding of how to use latest instruments and structures to maximise LTV, minimise tax consequences and provide the greatest possible flexibility and protection for property investments.
More info: www.C5-Online.com

January 18-21, Thursday-Sunday

The GRI Chairmen's Retreat, St. Moritz, Switzerland

An exclusive and collegial three days of interactive discussions on strategy and industry developments reserved for the top 100 real estate investors, financiers, owners and developers from across the world, active in Europe. By invitation only.
More info: www.globalrealestate.org

January 29-31, Monday-Wednesday

Strategies for Real Estate Financing in the Capital Markets, London

CMBS and RMBS issuance is skyrocketing. Today's securitisation transactions are complex and innovative. C5 has put together a comprehensive program to ensure you have an in-depth understanding of the latest structural techniques, practical strategies and how to draft and negotiate the key documents.
More info: www.C5-Online.com

January 31-February 1, Wednesday-Thursday

CIMMIT 2007, Frankfurt am Main

IIR presents the 17th CIMMIT in German language to bring together leading industry players. Panels will discuss REITs and the outlook for property AGs, how long Germany will continue to be European favourite for real estate inward investment, and how property as an asset class stands in comparison to others.
More info: www.cimmit.de

February 6-8, Wednesday-Thursday

European Investor Forum / PropInvest Europe 2007, Barcelona, Spain

The 3rd Annual Euromoney PropInvest Europe is a real estate investment industry conference featuring over 40 of the industry's most respected and renowned speakers in a two-day programme of keynote sessions, panel discussions and case studies.
More info: www.euromoneyseminars.com/

February 7, Wednesday

11th Annual ULI Europe Conference, Paris

Unlocking Europe For Growth. Judging by investment and development in its cities over the past decade, Europe is still a formidable competitor. However the old world will have to be more resourceful to compete for growth and the property industry needs to connect with new clients.
More info: www.uli.org

February 22-25, Thursday-Sunday

Real Estate Expo 2007, Athens, Greece

This trade fair focuses more on investing or building residential but also on commercial property in Greece. Exhibitors offer products and services available in the nation.
More info: realestateshow.gr

March 13-16, Tuesday-Friday

MIPIM, Building the World, Cannes, France.

Billing itself as the world's premier real estate summit, MIPIM draws upon its international coverage and reputation to bring together the most influential decision-makers in the market, offering them access to the largest available showcase of development projects. http://www.mipim.com

March 22-23, Thursday-Friday

3rd Annual European CMBS Conference, London

CMBS will represent the fastest growing asset class in European ABS this year. This conference is the prime venue for networking with the industry leaders - credit analysts, portfolio managers, bank and non-bank conduit administrators.
More info: www.imn.org

worth about €500m at current market prices, will no longer be strategic once the merger with Urbis is completed.

Spanish stock market regulator CNMV recently approved Reyal's €3.32bn takeover offer for rival Urbis. The deal should proceed smoothly since Spanish bank Banesto and construction firm Actividades de Construcción y Servicios, which together control 74.8% of Urbis, have already agreed to sell to Reyal.

Reyal is financing the takeover with a credit from Morgan Stanley, Santander Central Hispano, Caja Madrid and Banco Sabadell. pfe

Property boom lifts Spanish listed companies in third quarter

The ongoing boom in the Spanish commercial and residential property market boosted the nation's 14 listed real estate companies to a combined a net profit of about €1.5bn in the third quarter, a 57.6% rise over 3Q05, according to a survey by Spanish news agency EFE.

Sales not surprisingly also fared well, increasing 29.5% y/y to about €4.8bn. Sector leader Metrovacesa almost tripled net profit to €861m, while Urbis and Fadesa – second- and third-largest Spanish property firms, respectively – generated increases of 32.1% and 9.5% compared to third quarter 2005.

Of the smaller firms, Astroc outdid the rest after quadrupling last year's mark to take in €87m in profit. Sales for Astroc came in at €194m, an 84% rise compared to the same period in 2005. Parquesol, currently a takeover target of the San José Group, said net profit was €47.8m, a 14% y/y increase. Sales amounted to €209m, a 5% boost.

Sotogrande was one of a few to post negative results in the third quarter. It reported net profit of €2.5m, a 60% drop from 3Q05. Real estate sales fell 25%. pfe

IVG doubles net profit in 9mths, announces Oppenheim stake price

Germany's largest listed property company IVG Immobilien reported an improvement in the first nine months in all earnings ratios. Group EBIT rose to €208m from €140m in the same 2005 period, and net profit more than doubled to €127m from €56m.

For the year as a whole, IVG confirmed a prior guidance of an increase in net profit to around €145m from €110m in 2005. Non-recurring charges from value adjustments in the project development segment have been offset by higher sales proceeds, it said in a release.

"Office markets in Europe are booming and demand on the part of international property investors remains very high," Chairman Wolfhard Leichnitz said.

IVG Immobilien manages €18bn of real estate assets in its Portfolio Management, Project Development, Investment Fund and Caverns business areas.

For its own portfolio IVG focuses on office properties in major Germany cities and selected European capitals - Brussels, Helsinki, London and Paris. In the first nine months, IVG contracted portfolios for a total of €1.4bn, and Germany was the focus. The disposal of properties not in line with the portfolio is being accelerated and should be concluded by 2008. Properties worth €600m were sold, generating gains of €110m vs €46m in the 2005 period.

In project development, IVG will concentrate on medium-size office assets in a total of 8-10 European branches. Value adjustments on land and capitalised start-up costs resulted in a negative impact of €20m on the operating result in this segment.

In caverns, IVG currently has 40 oil and gas caverns which are let on long-term contracts. On the basis of the salt rights it has secured, the system can be extended by at least 65 more caverns. The steadily increasing market for energy storage results in strong demand. For this reason, IVG has started the construction of 12 caverns.

IVG said the price for its increased stake in funds manager Oppenheim Immobilien (OIK) announced in early autumn was €146m. By January 2007, IVG will increase its stake to 94% from 50.1%. Bankhaus Sal. Oppenheim is the seller. OIK will be integrated into IVG Funds to serve investment needs of institutional investors in an improved fashion.

In its funds business for private investors IVG placed more equity to private investors for the EuroSelect funds in the first nine months - €202m - than the €170m in the whole of 2005. An extensive change management project has been initiated for integrating OIK in the IVG Group and restructuring the company. In the first quarter, decisions are to be made on the new structure, locations and processes. The objective is to generate total annual synergies of €8m-€10m from growth and cost savings starting in 2008. pfe

Soros-linked Medgroup cancels 2007 Spanish stock market IPO plans

Spanish real estate firm Medgroup, linked to the Soros financial group, is cancelling its plans to list shares on the stock market, scheduled for next year.

Director Josep María Pont told journalists earlier this month that the company lacks adequate size for the operation. "The Medgroup shareholders began the operation during a sweet time of liquidity in the market but in June we reached the conclusion that the decision was premature," he said.

Soros Real Estate, controlled by financier George Soros, holds 45% of MedGroup which, under existing statutes, it must sell its stake by end-2007. The New York based private investment firm Perry Capital Management owns another 45%, while the management team led by Chairman Jordi Robinat controls the remaining 10%.

MedGroup, which specialises in residential tourism, golf courses and hotels, earned €195m in sales last year, almost doubling its sales from 2004. Separately, the firm announced a investment of €125m to build 700 homes in a complex in Tarragona on the eastern coast. pfe

Spanish takeover target Fadesa to widen expansion in eastern Europe

Spain's Galicia-based, listed real estate group Fadesa, currently the object of an agreed takeover offer, plans to begin operations in four east European countries before the end of the year, adding to its existing portfolio in Poland and Hungary.

According to Chief Executive Officer Antonio de la Morena, Fadesa will first invest €23m in a Bulgarian residential project comprising 250 homes. He did not disclose the other three countries. Fadesa also operates in Spain, France, Portugal, Mexico and Morocco. The company foresees that in 2008 about 50% of its revenues will originate from abroad from around 42% now.

Fadesa is the takeover target of smaller rival Martinsa, which recently offered €35.70 per share, giving it a market capitalisation of €4.05bn. The deal is expected to proceed without problems. Martinsa chief Fernando Martín has already signed an agreement with Fadesa's largest shareholder, the Jove family, which controls 54.6%. pfe

Spain's Rayet group to buy stake in Astroc Mediterraneo for €350m

Madrid's privately-held Rayet Group has agreed to purchase a 5% stake in Spanish residential property developer and manager Astroc Mediterráneo as part of a deal in which Astroc acquired a 60% stake in Rayet's property unit for €350m.

Various media reports said the 5% stake was bought from Astroc Chairman Enrique Bañuelos, and the holding is worth about €170m. Rayet is now Astroc's second-largest shareholder after the Nozar group, which holds 10%.

Astroc has been active of late buying smaller property firms. In October, it announced the purchase of Landscape, the real estate unit of Banco Sabadell, for €990m, and it said last week that its eventual stake in Landscape now amounts to slightly under 50%. The company aims to close the year with sales worth €633m and a net profit of €154m. pfe

IVG sells property portfolio for €85m to British Capital and Income

German listed property group IVG Immobilien has sold 12 commercial properties with total office space of 50,000 sq.m. to British property asset manager CIT Europe for €85m.

The portfolio comprises 10 properties located in Dresden and one each in Berlin-Schönefeld and Dortmund. With the sale, IVG said it continues to focus on office properties central sites in Europe's key urban areas. IVG manages €18bn of real estate assets.

CIT Europe is a division of the London-based Capital and Income Trust Group. It sources and manages real estate investments in continental Europe, with a focus on standing commercial assets fully or substantially let on relatively long lease terms. It leverages these to establish robust cash-on-cash returns to equity, and seek capital appreciation. pfe

US REIT Behringer Harvard acquires second European portfolio, Dutch office

US REIT Behringer Harvard, along with co-investment partner HCI Capital has acquired a portfolio of seven office buildings located in Amsterdam, its second major acquisition in Europe since starting to invest only last month. No financial details were given.

The suburban office properties were constructed from 1982 to the late 1990s and reflect a diverse mix of international, regional and local tenants. Two properties, Tilburg and Hengelo, are 100% leased to International Flavors and Fragrances, manufacturers of Hugo Boss and Estée Lauder fragrances, and to PricewaterhouseCoopers. The other five are more than 86% leased and are located in various suburban submarkets around Amsterdam.

Behringer Harvard on 11 October announced an investment alliance with Hamburg-based HCI Capital for co-invested acquisitions of up to $1.3bn in European real estate. This alliance will focus primarily on short- and mid-term investments in the UK, Netherlands and Germany with development, improvement or repositioning potential. pfe

Sweden's Castellum invests €45m in two properties, refurbishment

Sweden's listed property company Castellum has through wholly owned subsidiaries acquired two properties for approximately €19m (SEK 188m) and decided on new construction and refurbishments of approximately €25.5m.

A property in Hagalund industrial estate, Solna municipality, has been acquired for approx. €5m (SEK 48m). The lettable area of approx. 3,700 sq.m. consists of 1,400 sq.m. office premises and 2,300 sq.m. warehouse/industrial remises. At the time of taking possession in the beginning of November the property was fully let.

A property in Kungsbacka has been acquired for some €14m. The lettable area of 23,500 sq.m. consists of 4,000 sq.m. office premises and the remaining area are warehouse and manufacturing premises. The land area amounts to 106,000 sq.m. and the property holds an unutilized building permission of 25,000 sq.m. The property is acquired without tenants and the time of taking possession is at the end of December. pfe

DIC Asset doubles net in 9mths on tripled asset base, eyes capital increase

Germany's listed DIC Asset reported that it more than doubled consolidated net income in the first nine months compared to the same 2005 period, up 156% to €6.4m. Total revenues were €7.2m or 34% higher at €28.5m. It also said it is considering a capital increase.

DIC's total assets exceeded €1bn for the first time, amounting to €1.1bn as at 30 September, more than triple the €370m at end-2005. In view of the strong growth in its real estate portfolio, DIC commissioned external appraisers to conduct a market valuation and, on the basis of this, calculated net asset value per share of €20.1.

DIC shares were last trading around €27, giving a market capitalisation for the company of some €550m. During the third quarter the DIC share, brought into the SDAX segment of the Frankfurt Stock Exchange in June alongside Patrizia, gained 41%.

Rental income in the nine months rose by 53% to €20.6m, mainly as a result of the significant expansion of the portfolio: Floor space tripled since December 2005, to more than 660,000 sq.m. At the same time, the increase in total expenses – up by 29% - was clearly lower than revenue growth. Nine-month EBITDA rose by 43% to €16.6m, while earnings per share rose to €0.39.

Chairman Ulrich Höller said DIC is adhering to its strategy of growth with sustained high profitability and should be able to make attractive acquisitions in the fourth quarter. He added: "DIC Asset is currently assessing the conditions for a capital increase, to make sure it is in a position to continue exploiting the potential for acquisitions." He gave no further details.

Established in 2002, the Frankfurt-based DIC Asset maintains a dedicated investment focus on commercial real estate in Germany, pursuing a return-oriented investment policy split between core, value-added and opportunistic strategies. The €1.9bn portfolio includes more than 750,000 sq.m. of floor space, spread over 212 properties.

Separately, DIC announced last week that it has reached agreement with the investment company belonging to the Dietz group to take over five retail parks in the Rhine-Neckar region in an off-market transaction worth €37m for an initial yield of 7.25%. With this strategic acquisition, DIC is expanding the high-yield retail sector in its portfolio, which the group in the medium term plans to increase the current 17% to around 30%.

Höller said recently that DIC will keep the yield on its property assets above 6.5%, according to Reuters. "I'm sure we can keep a high yield. A year from now it could be 6.6% or 6.7%, but it will definitely be higher than 6.5%," he told a briefing during a real estate conference in Frankfurt. "You won't see us with 5% yields." DIC has financing costs on average of 5-5.25%. pfe

Kempen boosts share price target for Immoeast to €10.9, ups rating to add

The Amsterdam-based Kempen & Co real estate investment bank has boosted its share price target for Austria's ImmoEast to €10.9 and upgraded the rating to add. The stock was last around €10.

"We are positive about the progress the company has made in spending the proceeds from its equity issue in June," Kempen said in a note. "Immoeast's local presence and strategic stakes in companies active in CEE countries can accelerate further growth." The acquisitions contribute to Kempen's NNAV growth estimate of 13% p.a., bringing the 2008/09 value to €12 per share.

In June 2006 Immoeast issued €2.75bn in new equity to finance the €5.8bn acquisition pipeline disclosed early this year. ImmoEast had already realised investments in CEE of €2.6bn in July. As at end October, €3.5bn of the disclosed pipeline has been invested or contracted while a further €1.5bn is under due diligence. "We see particular upside in the recent acquired stake in TriGránit that has a €5bn development pipeline," Kempen said. pfe

Fortis keeps buy rating on Retail Estates, Cofinimmo; sell on VNOI, INTO

Real estate analysts at the Brussels-based Fortis group have, following recent study tours, maintained buy ratings on the Belgian Retail Estates and Cofinimmo but issued sell rating on the Dutch VastNed Offices/Industrial and its Belgian subsidiary Intervest Offices.

In separate investment notes, Matthijs Storm and Frank Jansen said they still expect Cofinimmo to be elected for the Belgian State Sicafi and that Retail Estates will report further acquisitions in the next quarters. Conversely, VNOI's share price rise of 11% over the last six weeks, driven by an anticipated improvement of its office part of portfolio, is unjustified.

The office rental market in Brussels outskirts is still not improving, they noted. Very different from the CBD with vacancy rates of around 6%, the decentralised and periphery are experiencing difficult circumstances with vacancies as high as 12.3% and 18.5% respectively. Since 1995, vacancy rates have never been below 8-10% due to speculative building activity.

Likewise, rental growth has not occurred and rates have been flat since 2001. Prime rental rates are at €200 sq.m. for Brussels decentralised and €160 for the periphery. These should also be netted for incentives of some 15% so that average levels are around €140-150 for Brussels decentralised and €130 for the periphery.

The Fortis upside price target for Retail Estates is €45.6, with that for Cofinimmo at €151.6. The sell price target for VNOI is €20.7 and for Intervest Offices is €23.70. pfe

ECM IPO in Prague seen possibly resparking new listings

Property developer ECM intends to list on the Prague Stock Exchange in December, ending a drought of IPOs there - even though the PSE has now overtaken Budapest as the second-strongest central European bourse after Warsaw.

A number of other property firms are expected to follow, including delisted coal-mining company OKD and insurer Ceska Pojistovana. The Czech government may consider using the stork market for future privatisations, possibly including power company CEZ and Prague airport. The lack of IPOs is attributed to tardy pension reform, by contrast with Poland.

If property companies do queue up to list, it may reignite the push for REITs, which has dropped off the political agenda due to a lengthy period with only an interim government. pfe

PROPERTY FUNDS

UK's Invista to list Luxembourg pan-European SICAF on LSE

The UK-based listed property manager Invista is to make an initial public offering on the London Stock Exchange of its Luxembourg-based Invista European Real Estate Trust SICAF, a closed-ended company focused on investment on the European continent. The IPO is expected to raise some £166m, giving a total market capitalisation of £208m.

Invista European is intended to be Invista's primary listed pan-European property fund, and already has a portfolio of 10 owned and 10 committed properties across seven countries. The parent, Invista Real Estate Investment Management was formerly the property fund management arm of Insight Investment Management until its own IPO in September 2006. The group manages property assets in 15 funds with an aggregate value of £8.6bn, making it the largest listed real estate fund manager in the UK.

Gross assets expected at IPO, plus financing, will enable the Invista European to reach a gross asset value of some €700m, the company said. It owns or has contracts to acquire commercial properties valued at €488m by DTZ Debenham Tie Leung, some €281m of which are owned, €127m are assumed to be acquired prior to admission, and €80m are anticipated to be acquired post-admission.

Invista European focus will be on sectors and markets that it see as undervalued and offering strong income returns from relatively low risk tenants. Most are in France and Germany and have attractive income yields. The initial target annualised dividend yield for the ending September 2007 is currently 6%.

Duncan Owen, Chief Executive of Invista REIM, said: "The continental European commercial real estate sector continues to perform well and there is increasing interest, both domestically and internationally, in investing in a portfolio of commercial real estate assets across Europe." pfe

Cordea Savills in three-way deal on €320m Italian mixed portfolio

UK fund manager Cordea Savills has exchanged contracts on an Italian property portfolio for a price of €320m, comprising 20 residential and commercial assets in and around Milan, and executed in a joint venture with Operae and Sviluppi Immobiliari - a subsidiary of the vendor, Beni Stabili. The assets are part of the former Comit portfolio.

They are being acquired on behalf of Cordea Savills' Italian Opportunities No.1 investment vehicle and private clients of Cordea Savills. The proposed portfolio is 52% residential, 25% office, 15% retail and bank agency and 8% other.

Although Italy is one of the largest European economies, Cordea Savills said the prevalence of off-market transactions, high levels of owner-occupation and little active management of the many properties mean there is considerable potential to generate strong returns. pfe

German open property funds see €530m net inflows in October

German open-end property funds saw net inflows in October of €530m, and were, for the first time in over a year, the strongest asset class for incoming investment capital, turning round net outflows in September of €327m.

Bond funds had net capital outflows in October of €738m, investors withdrew €1.15bn from equity funds and money market funds saw net inflows of €508m.

However the figures, from fund association BVI, also showed that no less than €8.3bn is capital has been lost by open-end real estate funds in the year to date. Open-end property funds represent about 7% of all assets managed in Germany.

While the open-end mutual funds have lost capital in the year so far, special funds, primarily institutional capital managers, have amassed a further €2.6bn, taking the total capital now invested by these vehicles up to €20.2bn. pfe

German open-end funds sold or selling total €6.2bn of assets in recent months

German open-end funds have sold are in the process of selling a total of €6.2bn in commercial property assets over the last few months, a round-up of various German media conducted by the Zitelmann property PR consultancy showed.

DB Real Estate is to offload the entire German portfolio from its Grundbesitz-Invest fund, worth around €2bn (See also PFE 36), and will earmark the proceeds for the repayment of loans, further share redemptions, and acquisition of new assets elsewhere in Europe. DB Real Estate has already sold assets worth €2.3bn since the start of the year.

Commerzbank's real estate subsidiary CGI has sold a portfolio from its HausInvest Europa fund to the Morgan Stanley Real Estate Fund for €526m. Difa Grund, a fund run by the real estate unit of the Union Investment group, sold a portfolio worth €190m to listed company IVG, and is seeking to sell another €600m worth of assets right now.

DekaBank is planning sales of around €850m from its Deka real estate fund, and is reported by Financial Times Deutschland to be negotiating exclusively with the Dutch financial investor Alliance Capital Partners about the sale of the block internally referred to as Hannibal. In late August, Deka sold the so-called Hercules portfolio to Oaktree Capital Management and Colonia Real Estate for just over €1bn.

Deka has also recently sold the Skyper office block in Frankfurt to UBS, having acquired it from the Deka real state fund for €472m last year. pfe

Allianz's DEGI buys first Belgian property for fund, 40% leveraged

DEGI, the real estate investment manager of the Munich-based Allianz insurance group, has purchased its first property in Belgium, paying €31.3m, including 40% of the total investment volume in debt financing.-

The fully-let nine-storey office building located at Boulevard d'Avroy 35-39 in the city centre of Liège was bought from Belgian REIT Cofinimmo for the open-ended property fund DEGI Global Business, which now owns investments in five different countries.

The Liège office property market, at approximately 500,000 sq.m., ranks among the major regional locations in Belgium, and is enjoying a stable upturn. The city possesses the world's third-largest inland port, and work is in progress to make it into a central junction for the European network of high-speed trains (London, Brussels, Paris, Frankfurt, Lyon). The building is located south of Liège's historic core, with convenient access to main roads and the urban public transport network. pfe

British Land's PREF to purchase three European retail parks for €153m

British Land Fund Management's PREF fund is has contracted to purchase three

European retail parks with a combined value of over €153m. These are a development located in Udine in north-eastern Italy, plus two fully-let and trading retail parks in Switzerland.

In the first transaction, PREF has made a forward commitment to acquire the entire share capital of OPIT Real Retail, an Italian company that owns and is developing the Udine scheme. The park is scheduled to be completed in time for Christmas trade in 2007 and will provide 31,480 sq.m. of prime retail accommodation. The purchase price of €107m provides a net initial yield of 5.40%.

The two trading retail parks in Switzerland were purchased from clients of Foncière Arizona SAS for a combined price of €46.6m, providing a net yield of 5.39%. Etoy Retail Park, 20km west of Lausanne, provides 6,746 sq.m. of retail warehouse accommodation. The Matran Retail Park, located 8km from Fribourg and 32km from Bern, comprises two buildings with a total floor area of 12,137 sq.m.

The Swiss purchases have been enabled following amendments to PREF's articles

allowing it to invest in the non-Eurozone region, thus enabling PREF to benefit from the gap which exists between the cost of borrowing and property yields in the Swiss market. The freehold of both parks will be acquired via the purchase of two Swiss holding companies.

In the six months to 30 June, PREF provided a total return of 7.1%. pfe

Aberdeen's Pan-Nordic property fund attracts €125m at first closing

Aberdeen Property Investors' recently launched Aberdeen Property Funds SICAV Pan-Nordic successfully completed its initial closing on 31 October, raising €125m from investors in Norway, Finland, Sweden, the Netherlands, France and UK. The fund expects to invest this capital within the next three months. Investment capacity is in excess of €300m.

Pan-Nordic is an open-ended fund for investors seeking exposure to the property sector in the Nordic and Baltic regions. The current portfolio consists of a supermarket and an office building in Norway together with a retail park in Barkarby outside Stockholm, together representing a total value of €93m. In addition, bids have been accepted for two Danish office buildings with a value of €55m.

The fund aims to build a portfolio of commercial properties totalling €1.5bn over the next 2-3 years. It also intends to diversify in terms of regions, property types, composition of tenants and length of lease contracts. The Baltic allocation, currently limited to 15%, provides additional investment opportunities in some very fast growing economies.

Ubbe Strihagen, International Director of Aberdeen Property Investors, commented:

"This successful closing demonstrates a sustained interest by investors for the Nordic and Baltic regions, where the forecasted property returns are far better than the European average." The next closing is expected to in January 2007. pfe

Aberdeen launches European Shopping Fund, aimed at €1bn investment

Aberdeen Property Investors has launched a new European Shopping Fund for institutional investors, with targeted return on equity of above 9% p.a. net of fees and after leverage, and investment volume of €1bn by end-2009.

Aberdeen European Shopping Property Fund will be structured as a closed ended fund with a defined term of 10 years. It will draw on Aberdeen's collective capacity in Europe to build a diversified retail portfolio with moderate gearing in markets offering strong return prospects. The fund made its first acquisition in September and currently holds a portfolio of 150 unit shops in inner city locations across the Netherlands at a value of €124m.

Initial investment focus will be on the Northwest of Europe including Belgium, France, the Netherlands and Germany. Other areas such as the Nordic markets will be considered as opportunities arise.

The subscription period is now open for up to 36 months, with the first closing set for the beginning of 2007. During the investment period the Fund will have maximum gearing of 65% of gross asset value but the long-term objective is around 50%. pfe

UBS buys Frankfurt's Skyper office block for €400m from Deka fund

DekaBank, the central investment bank of the German savings banks system, has sold the 153-metre Skyper building in the Frankfurt banking district to UBS Wealth Management Continental European Property Fund for €400m.

The one-year-old skyscraper, which has 48,000 sq.m. of office space, 4,300 sq.m. of living space and 1,300 sq.m. of retailing space, is only 60% rented. It has been the subject of some controversy and is the highest profile example of overbuilding in the Frankfurt market, having been developed by the DekaBank's open end property fund in 2004.

Losses on the building due to its high vacancy rate forced the parent bank to step in to purchase Skyper from its own fund during early 2005. pfe

Warburg-Henderson acquires further €115m of European warehouse assets

Hamburg-based property asset manager Warburg–Henderson has completed acquisition of four warehouse properties in Spain, Italy, France and Germany for its Pan-Europa Fonds Nr. 1 for €115m. They bring total investment this year to date to over €1bn.

This acquisition follows the purchase at the beginning of the month by Special Fonds Nr. 1 and Nr. 3 of €123m portfolio of warehouses, at locations including Lagny le Sec in France, Sraubing-Sand in Germany and Tilburg in the Netherlands. The gross property yield for both transactions is 6.5%.

Other assets include Alovera, a 42,654 sq m warehouse in Madrid for some €41m, a 14,300 sq m warehouse in Veronella Italy for €9.7m, a 76,330 sq m warehouse in Amiens, France from Gazeley for €58m, and a 7,210 sq m warehouse in Mannheim, Germany for some €6.5m. pfe

London SE-listed Kenmore European Industrial makes first investment

The London Stock Exchange listed Kenmore European Industrial Fund, registered in Guernsey and focusing on industrial property in western Europe and Scandinavia, has made first investments since admission to trading.

Kenmore European has agreed to purchase seven properties from a number of vendors with a combined purchase price of €70m, representing a blended yield of 8%. These are the first investments the company has made since shares commenced trading on the LSE on 25 September, having raised £140m in an over-subscribed placing and offer for subscription and acquired a seed portfolio of €316m.

The property acquisitions include a production and warehouse facility with associated office and utility space in Urbach, Germany with an initial yield of 7.76%, a 14-unit industrial estate in Dortmund with an initial yield of 13.05%, and a warehouse buildings in Aarschot, Belgium to the north east of Brussels providing a net initial yield of 7.42%. In France, Kenmore acquired a warehouse development scheme in Lisses with an anticipated yield, once let, of 9.25%, a light industrial asset fully let in Tremblay for an initial yield of 7.16%.

In the Nordic region, Kenmore acquired a single warehouse building in Drammen, Norway with an initial yield of 6.9%, as well as production and warehouse/storage space in Norrahammer, Sweden having an initial yield of 8.50%.

It also announced an additional €161m four-year financing facility with The Royal Bank of Scotland to finance acquisitions in France, Belgium and The Netherlands. pfe

Generali France to invest in Invesco's fund to develop hotels across Europe

The Texas-based Invesco Real Estate has reached an agreement under which Generali France, a branch of the Generali Group insurance and financial products group, will invest €300m in its funds focused in the hotel sector across Europe.

Under the agreement, Invesco will assume asset management of three Generali-owned hotels and is advising on the insurer's interest in a French REIT-like listed hotel real estate company. Hotels in this investment portfolio will be a wide range, potentially from economy lodges to luxury hotels, Invesco said in a statement.

Generali France is already one of the biggest investors in an Invesco Real Estate fund which will invest about €850m in mid-market hotels in the Eurozone.

"Generali France has become a significant investor in hotel real estate in the recent past," said Jochen Schaefer-Suren, director of the hotels and leisure department of Invesco Real Estate. The agreement will allow the insurer's hotel portfolio to grow and diversify.

Invesco Real Estate manages some $6.8bn in European real estate portfolios. pfe

Babcock, GPT European retail fund sets €400m price for Euronext IPO

The pan-European retail property fund being floated on Euronext by the joint venture between Australian managers Babcock & Brown and GPT has set the offer price for its initial public offering at €15.20-€17.00 per share and intends to issue 24.7m shares, implying an offer size of some €400m at the mid point of the range.

Babcock & Brown GPT European Retail Fund is a closed-ended, limited liability investment company incorporated in Guernsey to provide an investment opportunity in the pan-European retail property sector. The fund anticipates a total annual shareholder return of approximately 11% and an annual dividend yield of 5.5% of initial net asset value.

"The board will aim to achieve its return objectives while maintaining a low-risk profile, including long-term contracts with a diversified list of high-quality tenants and good retail locations across Europe with minimal development and construction risks," the company said in a release. The investment manager will be a Guernsey incorporated joint venture company and will be held 50% each by Babcock & Brown and GPT.

After admission, the fund will be seeded with a portfolio of 294 retail assets contributed by Babcock & Brown and BGP Investments, with a gross asset value of €1.5bn. The Initial Portfolio primarily comprises supermarkets and shopping centres located in Germany and Switzerland, the majority of which are leased to leading retailers, including German groups Lidl-Schwarz, Edeka and Tengelmann and Swiss retailer Coop.

The company said other opportunities have been identified in Austria, the Czech Republic, France, Hungary, Poland, Slovenia and Spain. pfe

ASSET MANAGEMENT

Catalyst Capital on track for European retail, office assets with Italian buy

The UK-based property asset manager Catalyst Capital, which just announced a €174m investment in four shopping centres in Italy, is likely to stay focused on acquisition in the retail and office sectors across Europe, looking for yields in the 6-7% range, according to senior Partner Anthony Yiannakis.

He told PFE in a recent interview that with yield compression having taken rental returns to low levels, Catalyst is seeking properties where it can add value and improve performance on a total return basis. "The type of property that we buy has opportunities within it," he says. "We are prepared to take risk. We will buy an office building that perhaps has some extra vacancy or is a little bit old and tired and needs refurbishing. We will refurbish it and improve rents, and see our value that way… We don't tend to underwrite things because we think we are going to get more yield compression. We try to use our own asset management expertise and achieve an added value."

Catalyst is currently looking for investment opportunities in key European markets, in particular France, Italy and Germany and the more established central European countries. A limited partnership established in 2001 after the acquisition by management and key executives of the European division of Greenwich Group International, Catalyst earlier this month announced it had acquired three Italian shopping centres and was closing on a fourth.

The Italian deal was done in conjunction with West Coast Capital and Bank of Scotland Corporate Europe. Three shopping centres are located in Bufalotta and Barcaccia in Rome, and in Lucca to the northwest of Florence. Because of its Italian activities, Catalyst opened offices in Milan to add to European branch offices in Frankfurt and Paris. Siegfried Fernitz moved over in January to run the German office.

Catalyst's most recent UK deal was 1 America Square in London, acquired for £117m from Vincent Tchenguiz's Consensus and the State of Qatar.

While yields are important in the selection of assets, investment is not made on this basis alone, Yiannakis says. "We don't look at things in that way. I would say that typically we would be buying properties within the yield range of 6-7%. If it's much less than 6% your cash-on-cash return is pretty low so you have got to be confident that you are going to make your upside further down the line. If it's more than 7%, then great, but we would be quite surprised to find yields above 7% for the type of property we are looking for."

Catalyst chairman is Julian Newiss, a former chairman of Colliers Europe. The firm, Yiannakis says, is opportunistic and will leverage up to the 75%-85% range in any deal. "We are opportunistic IRR-driven investors so we try to borrow as much as possible as cheaply as possible." Cost of debt finance depends on the risk profile of the deal, the number of tenants and the risk for the bank. But standard borrowing margins are 1%-1.5% over Euribor or swap rates on the top slices if the gearing is high.

Most of the assets Catalyst is being shown in France comprise office property since retail is hard to find in the nation. In Germany, it is evenly split, while in eastern Europe, retail property is most interesting. Sellers in France are a mixed bag. "We are even getting assets offered to us by other opportunistic purchasers who might have achieved their own business plan. They are IRR-driven themselves and if they can get an exit now and leave something in it for the next guy they are pretty happy to do that," he says. In Germany open-end funds and private property companies are the most active sellers. pfe

RESIDENTIAL PROPERTY

Spain's Hercesa expands into Romania, hints at stock listing

Spanish housing developer Hercesa, which recently announced it is studying a stock market flotation for its international business, is to buy land in the Romanian capital Bucharest for the purpose of building about 800 homes. It gave no financial details.

Hercesa, based in the city of Guadalajara and controlled by the Cercadillo family, did not disclose a price. It already owns about 60,000 sq. m. of land in Romania. Aside from Spain, it also operates in Portugal, and this year invested €70m to build a new headquarters in Lisbon.

And at a recent conference the company said it was studying the possibility of an initial public offering for its international business. Although it did not provide any details, company officers have said in the past that Hercesa aims to general revenues of about €1bn between 2006 and 2010. This compares with last year's sales of about €322m.

The privately-held Hercesa specialises in the development of urban plans and land management for housing, and has amasses a portfolio of more than 9m sq. m. of building land in the regions of Madrid, Castilla-La Mancha, Catalunya, Valencia, Castilla y León, Aragón and Andalucía, and also Romania and Portugal. It has plans to construct 20,000 homes in the latter two countries over the next seven years. pfe

Hypoport, Stater to bring German financial platform into Dutch market

German financial services group Hypoport and the Netherlands-based mortgage service provider Stater intend to cooperate in a joint venture to bring Hypoport's proprietary internet-based financial products platform EUROPACE into the Dutch market.

Initial implementation of EUROPACE is aimed at providing brokers and lenders in the Dutch mortgage market with quick and cost-efficient transaction. Around 10% of Germany's first mortgage market of €110bn is transacted over EUROPACE.

Stater, Holland's largest independent mortgage service provider, will promote EUROPACE to current and potential clients in its home market. Founded in January 1997, Stater focuses on support for mortgage financiers in sale, processing and financing of portfolios. It has over 800 employees throughout Europe, and branches in Amersfoort and Leusden (Netherlands), Bonn (Germany) and Brussels (Belgium)

The coming Dutch WFD legislation in financial services makes it essential for mortgage providers to provide higher transparency and quality in the sales process, the companies said. Also, chain integration is key to efficient cooperation to integrate the different players and realise economies of scale.

Hypoport is the parent of *Property Finance Europe*. pfe

Blackstone said seeking buyer for 31,000 German apartments

Private investor Blackstone group is seeking a buyer for 31,000 northern German apartments it bought from the trouble holding company WCM in late 2004 for €1.4bn, reported Financial Times Deutschland. .

The apartments are located in the federal states of Schleswig-Holstein, Bremen and North Rhine-Westphalia. pfe

REAL ESTATE BANKING

Germany's Aareal reports stronger 9mths, raises pre-tax target for 2006

The Wiesbaden-based Aareal real estate banking group closed the first nine months of 2006, reporting net income after taxes and minority interest of €73m and sustaining the earnings improvement recorded in the preceding quarters. As a result, the bank raised its pre-tax target for the year to above €150m.

Pre-tax profit climbed in the nine months to €122m compared with a €117m loss in the corresponding period of the previous year. Chairman Wolf Schumacher said the good performance confirmed the bank's high expectations for the year: "Overall we are confident that we will maintain this successful development. Therefore, we have raised our target for pre-tax profit to above €150m," he said.

Aareal's new business grew by 47.5%, or €2.4bn. With €1.4bn in new business generated in Germany, Aareal Bank has also clearly exceeded its communicated target range between €800m and €1bn. The bank accordingly raised its target for new business to exceed €8bn for the full year. pfe

DEBT FINANCING

Title insurance used for first time in Terra Firma's €5.8bn Viterra CMBS

Title insurance provided by the First Title Insurance group and advised by the international law firm Paul Hastings has been used for the first time Germany to provide extra security on the largest ever multi-family commercial mortgage- backed securities transaction in Europe, the €5.8bn refinancing for Terra Firma's acquisition of the giant Viterra portfolio.

The policies enabled the successful 3 August close of the transaction, and will protect the security agent against certain defects in title or priority that may exist within the portfolio of properties. "With the development of larger, complex and structured transactions, the soft spots of the German system of land registration and notary involvement have become more exposed," Hastings said. "Whereas even in complex transactions the system works well, the involvement of the rating agencies in these transactions has led to a more sophisticated review of the risks associated with ownership and sustainability of the security package."

Historically, German banks were prepared to take small, equity risk when accepting security packages. However, banks nowadays demand a price for increased risk. Rating agencies have also recently been convinced to award deals with title insurance a significantly higher rating than those without.

In the Terra Firma deal, title insurance not only safeguarded the fact that the owner and chargor actually had title but also gave reassurance to bondholders and banks that, for the period of time during which a security package had not been yet registered or even filed with the land registry, registration of the security package would actually take place. pfe

STUDIES/REPORTS

Strong Romanian, Bulgarian commercial property growth forecast

Romania and Bulgaria will register the fastest growth in new commercial properties through to end-2007, at 150%, a recent

Cushman &Wakefield report predicts.

With the two countries due to join the EU in January, Romania, with a population of 22m, is seen as the second biggest market in central and eastern Europe after Poland, and has projects totalling 560,000 sq.m. due to be opened. Bulgaria will have 98,000 sq.m. of new commercial space by end-2007, for a population of 7.5m.

Romania's rapid development offers a very good opportunity for international investors and retailers, according to Actv Consulting General manager Razvan Gheorghe.

A Jones Lang LaSalle survey forecasts the stock of retail space in Romania will increase by 50 hectares by the end of next year, putting it among the top 10 countries in Europe. But in relation to its population, Romania's existing stock of malls only ranks it 18th out of 19 European markets surveyed, ahead only of Russia.

At least 10 malls will be completed by the end of next year but the market is far from saturated, at least outside of Bucharest,' real estate consultancy Eurisco manager Luiza Moraru predicts.

The main player in shopping complexes outside Bucharest is Julious Group, with two malls in Iasi and Timisoara and two more announced for Cluj, to open next year, and Suceava. Two more at least will open this month in Sibiu and Ramnicu Valcea. For 2007, most shopping centres are outside Bucharest in cities like Constanta and Cluj. pfe

Decline in European prime office yields slows in 3Q06 to 5.03% - CBRE

The decline in European prime office yields slowed in the third quarter to just 2bp to 5.03%, making a stark contrast to the 25bp downturn in the first half of the year, according to a study by CB Richard Ellis. Further limited falls are likely in the short term.

CBRE EMEA Research Director Michael Haddock said the slowdown is probably due to the rise in financing costs. "In the context of increasing interest rates, there is also growing concern over whether current prices will be maintained over the long-term," he said.

However Senior Analyst Anna Starczewska said capital still coming into the market should keep pressure on. "Prime office yields are likely to continue to fall slowly in the short term due to the weight of money still chasing real estate," she said. "However, the recent increases in interest rates mean the justification for further sharp falls in yields is limited."

The third quarter of the year also saw further increases in demand. Overall take-up of office space in 15 of the largest EU-15 cities showed a 17% y/y increase, and this healthy demand was reflected in falling vacancies and rental growth.

The shift in the supply-demand balance is influencing rental values. Increases in prime rents were seen in a growing number of markets, indicating that the recovery is becoming much more broadly based across Europe. Take-up reached 2.7m sq. m. in the 15 largest cities in the EU-15. Occupier consolidation and relocations remained key driving factors. In particular, substantial increases in take-up were seen in London City and Germany, especially Frankfurt, Berlin and Hamburg. Healthy demand for office space was reflected in falling vacancies. The CB Richard Ellis vacancy index dropped to 8.04% at the end of 3Q06, with the sharpest decreases recorded in London, Dublin and Barcelona. Rents in several key markets have continued to increase, and even in those cities where headline rents are stable, incentives are starting to be dismantled. The highest quarterly rental growth has been recorded in London City at 6%. pfe

German office rents should rise - DTZ

German office rents are climbing strongly and should be 2% higher on average by the end of this year, according to an analysis by the realtor DTZ. Turnover in the sector should almost match the record data of 2005, and take-up is improving so that vacancies are falling in all major cities except for Düsseldorf.

The upturn of the economy, expected by most companies to progress further over the next few months, should bring new jobs and thus more demand for office space. Commenting on the first nine months of 2006, DTZ Managing Director Germany Jörg Nehls said, "At last we are seeing new jobs being created; companies are expanding and they are looking for more space for their employees." pfe

Madrid, Barcelona market boom outruns office space - JLL

Investment in the office market in Madrid and Barcelona slowed in the third quarter for lack of space on offer, but demand has been growing in the suburbs, says Jones Lang LaSalle.

Total investment in the quarter was €235m, €170m of it in Madrid. This year through September, investment in the two cities' office space totalled €2.3bn, of which €1.6bn was transacted in the Spanish capital.

Third-quarter yields for prime buildings on Madrid's business artery Paseo de la Castellana remained at 4%, while yields for buildings outside the city centre ranged between 5% and 5.25%. Good opportunities became scarce Barcelona's city centre, with buyers looking toward peripheral neighbourhoods. pfe

Paris office rentals up 44% in first nine months - DTZ Jean Thouard

Office rental in the Paris region reached more than 2m sq.m. in the first nine months, 44% more than in the same period last year, according to realtor DTZ Jean Thouard.

During the third quarter, about 650 commercial transactions were carried out on about 573,000 sq.m. of real estate, a jump of 15% compared to 3Q05. These included relatively large deals in La Défense as well as in Paris' 13th district, not directly part of the central business district but attracting more and more businesses.

Office property available for immediate occupancy now stands at about 2.5m sq.m, giving a vacancy rate of about 5.2% compared to the 3m sq.m. available at the end of September 2005. Rental rates, dropping since 2001, have stabilised. Some increases are expected on new, top quality office space since this is becoming increasingly rare.

Investment in office property, even during the traditionally quiet summer months, was unusually active. Big investors in Paris have included Gecina, Cambridge Place Investment Management and Tishman Speyer. Entry yields appeared to stabilise during 3Q06 to about 4.3% in the CBD, 5.5%-6.5% in the near suburbs and 4.75% at La Défense.

Looking ahead, DTZ cautions there could be a tightening in the market for new office property in the Paris region due to a lack of top quality, large surface areas. pfe

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Former deputy director of eastern operations for Spain's **Restaura**, **Fernando Conde**, has been named new managing director…. **CB Richard Ellis** has added to its team in Hamburg, naming **Klaas Hildebrand** to the office. **Hildebrand** moves over from **Jones Lang LaSalle** …. In London, **JLL** is launching an indirect investment business. **Julian Schiller** joins as director to head the team while **John Scott** and **Indeesh Bhogal** join as associate directors. All are moving over from **Cushman & Wakefield**. The team will report to **Chris Jolly** and **Tony Edgley**…. **Julian Schiller** is named joint Head of **Corporate Finance & Indirect Investment** at **Cushman & Wakefield**, where he is responsible for buy and sell side real estate fund advisory… **Fabrice Lefevre Sory** will head French investment fund activities at **Aberdeen Property Investors**. He was previously at **CNP Assurances**... Deputy chairman of **IVG Immobilien** board **Bernd Kottmann** will assume responsibility for finance from 1 January 2007. **Dirk Matthey** is to leave the company by mutual agreement. **Andreas Barth** will join the board to assume responsibility for Project Development, moving over from **Hochtief**…. **Cushman & Wakefield** will open a new office in Helsinki in the New Year, and it will be headed by **Markus Gylling** who has been adviser since last year, and prior to that at **Handelsbanken**… Portugal's **Sonae Sierra** has appointed **Jorge Morgadinho** to its expansion team. He will report to board member **Fernando Oliveira**… **Peter J. Keller MRICS** has been appointed as new president of **RICS** in the Netherlands. **Keller** is as Director of Property Management at **Vesteda** and succeeds **Paul Stotesbury** FRICS, who has headed **RICS** NL for eight years... **Philippe Mejean** was named deputy director general of **DTZ Consulting & Research** in Paris. He will also retain his position as president of **DTZ Eurexis**. He was previously at **Ernst & Young**… The board of **NCC** has appointed **Olle Ehrlén** as new president and **CEO**. **Ehrlén** is currently deputy CEO of **NCC Construction Sweden** and will succeed **Alf Göransson** on February 12, 2007… The executive board of the **Rabobank Group** has approved the appointment of the Executive Board of **Rabo Bouwfonds** subject to approval by **De Nederlandsche Bank** and the works council. The management board will be **Tjalling Halbertsma**, Chairman, **Jos van Lange**, CFRO, **Henk van Zandvoort**, Area Development, **Jean Klijnen**, Asset Management and **Peter Keur**, Real Estate Financing… UK-based property advisor **Savills** has opened a new office in Budapest, Hungary, and appointed **Peter Chatfield**, who previously worked for Colliers in Prague, to head the team. **Damien Revon** has been appointed MD of **CBRE Investors in Germany**… **Phong Hua** was named as an investment analyst at **Savills** in Paris, moving over from **DTZ**... **Catherine Barthe** was named president of the oversight committee of **Foncière Massena** following its takeover by the insurance arm of **Credit Mutuel**... **Isabelle Baraud-Serfaty** has been named program director at **ING Real Estate Development**. She was previously at the **Caisse des depots et consignations**... **Tishman Speyer**, the global real estate owner, developer and investor, announces the appointment of **Gabi Stein** as Senior Director, **Equity Capital Markets**. **Stein** will be based in London and work alongside Frankfurt-based **Matthias Hünlein**, jointly responsible for relationships with real estate investors and consultants across Europe. Stein joins from **Henderson Global Investors**. **Eurinpro International** has appointed **Werner Knan** as Managing Director for Germany with effect from 1 December. He will support Eurinpro's growth in Germany and manage its three offices in the country. pfe

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