

## Unibail/Rodamco Europe merger may signal further consolidation

The merger of France's Unibail and Dutch shopping-centre investor Rodamco Europe, coming on the heels of Foncière des Régions-Beni Stabili, has raised excitement that a major consolidation has begun in European listed property.

Property Finance Europe is headed into the heavy season of conferences with this issue, and we will be laid out in print at no fewer than 14 of them! INREV this week, and IPD in Geneva in early May just for starters. Business Manager Gaby Wagner has a whole stack of special editions coming up to serve European professionals wanting to use our 25,000 PFE platform to speak to US and international investors. These include the Dual Trade Fair Edition, so called because it will serve both Expo Italia in Milan and Real Vienna, running at the same time in early May. The Madrid SIMA fair comes up at the end of May, and PFE will be there too! Because of the demands of growing PFE distribution and subscription numbers, PFE is also seeking Advertising Representatives in London and Paris. So if any readers know of anyone who fits the bill, then a bright future awaits, matching what is a hectic pace of growth for PFE. Let us know. We are also delighted to welcome Alex Alenitsch, who joins PFE in Frankfurt as Online Assistant, taking over responsibility for our Web presence, and enhancing our presentation in sendouts to PFE subscribers, trials and friends. A three-week break beckons now.

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The firms announced the €11.2bn merger on 10 April, creating Europe's biggest listed property company and the second-largest in the world after Australia's Westfield Group.

They called the combination a "merger of equals" and noted that they will, jointly, become the biggest owners of retail assets in Sweden, Spain, the Netherlands and France, with a market value of about €22bn. The merger is expected to create synergies that will increase net rental income by €40m to €65m annually by 2012. The deal is scheduled to conclude at the beginning of June 2007, and requires shareholder approval. Unibail CEO Guillaume Poittrinal will be the CEO of the combined group, while Rodamco's CEO Maarten Hulshoff will step down. (see also p 2 & 3)

Invest Securities commented, "It's a merger that makes sense, with two companies who hunt the same assets: for the big commercial centres it is going to give them extra strength." After the French-Italian tie-up between FdR and Beni Stabili, JP Morgan in a note: "We continue to think that there will be others." However, Boudewijn Schoon, from Amsterdam-based Kempen & Co, says in this edition of PFE (p16) that the European listed property market is not so far developed as the US, and the main obstacle to further mergers remains complex and tight shareholder structures. "That said, Unibail offers management capacities and a complementary shopping centre portfolio in the merger, showing that a good match can indeed be made in Europe," he says.

Key in the tie-up was the willingness of the giant Zeist-based pension fund PGGM to sell its 24% stake in Rodamco Europe. One of the largest pension funds in Europe, PGGM manages assets of €81bn, of which €11bn are in real estate. It also owns stakes in Eurocommercial and VastNed Retail. pfe

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## 'The Donald' plans to invest up to €1bn in hotel, tourism projects in Romania

US developer Donald Trump plans to invest up to €1bn in Romania. Local media report that the American tycoon, nicknamed 'The Donald' and famous for his New York tower, and his casino and hotel holdings, will sign a cooperation protocol with the Romania Chamber of Real Estate Trade and the Association of Real Estate Investors for office and residential investments, and possibly hotels.

The newspaper Cotidianul reported that Trump will invest between €700m and €1bn over five years, with over half going into Bucharest and the balance earmarked for tourism development. According to CB Richard Ellis, only six hotels in Romania, with fewer than 1,500 rooms in total, can be considered five-star luxury hotels. Other big hotel chains already looking at Romania include Kempinski, Hyatt, Four Seasons and Sheraton. pfe

## Unibail, Rodamco combine to create European commercial property giant

France's biggest REIT Unibail is buying Dutch shopping-centre investor Rodamco Europe for €11.2bn to create Europe's biggest listed property company and the second-largest in the world after Australia's Westfield Group, the companies announced on 10 April.

The two groups called the combination a "merger of equals" and noted that they will, jointly, become the biggest owners of retail properties in Sweden, Spain, the Netherlands and France, with a market value of about €22bn. The merger is expected to create synergies that will increase net rental income by €40m to €65m annually by 2012. The merger is scheduled to conclude in the beginning of June 2007, and requires shareholder approval.

Under the agreement, Unibail will bid €124.80 per share for the Dutch group and offer 0.53 of its common shares for each Rodamco common share, a 15% premium over the closing share price on April 5. Unibail CEO Guillaume Poittrinal will be the CEO of the combined group, while Rodamco's CEO Maarten Hulshoff will step down. The international headquarters of Unibail will be in the Netherlands and the registered office will remain in Paris. It will have its primary listing in Paris and a secondary listing in Amsterdam, and a new company name will be introduced.

In a post-announcement conference call, Poittrinal said the merger, "will create the leading pan-European commercial property company with a unique pan-European footprint and an unrivalled portfolio of prime commercial assets."

The merger will create the largest pan-European portfolio of class-A shopping centres with over 700m visits per year. Unibail and Rodamco own 95 malls with 3.3m sq. m of retail plus 628,000 sq.m of office. Total assets will reach €21.7bn and annual net rental income should be €974m based on 2006 figures. Some 73% of the assets are shopping centres, 20% offices, mostly in Paris, and the rest are conference and exhibition centres in France.

The new company will target a maximum 50% weighting in any particular country and will be three-quarters invested in retail property. It plans to cut back the existing 60% weighting in France by selling assets in France or buying more assets elsewhere. Rodamco's and Unibail's tax efficient Dutch FBI and French SIIC status are expected to be preserved. pfe

## Analysts see logic in Unibail/Rodamco powerhouse, eye further consolidation

European real estate companies have announced about €49bn of takeovers in the past year, and now the Unibail takeover of Rodamco will create a powerhouse in European property, analysts say. Speculation has already begun as to who Unibail might buy next, as the company readies itself to play an important role in the consolidation of the sector.

"We continue to think that there will be others," said JP Morgan in a note. The deal is also seen by some strategists as having a defensive aspect, with American and Australian property companies keen to establish a strong foothold in Europe.

"It is a merger which makes sense, with two companies who hunt the same assets: for the big commercial centres it is going to give them extra strength," said Invest Securities.

Analysts see a long-term rationale that will allow Unibail to nearly double its development pipeline and expand outside of France. The Rodamco Europe portfolio is more international

and almost entirely focused on large shopping malls.

The prevailing opinion is that Unibail brings management and development expertise, and has the skill to obtain additional value from Rodamco's portfolio. The combined company is expected to enter France's CAC-40, which would mark the first time a property company is included in the prestigious blue-chip index.

The merger is backed by the management of both companies and main shareholders. PCGM, Rodamco's biggest shareholder with 25% of outstanding shares, supports the merger given its industrial logic and prospects of enhanced value for shareholders. Rodamco's second biggest shareholder, Dutch pension fund ABP, also supports the merger plan. pfe

## Spain's Inmocaral files takeover for rival Riofisa, eyes foreign assets

Spain's acquisitive commercial real estate group Inmocaral continued its run of being the most active property firm in Spain, by filing last week a €2bn takeover offer for listed shopping centre developer and operator Riofisa with the stock market authority CNMV.

The listed Inmocaral has been planning the Riofisa takeover since the beginning of the year after it reached an agreement with the largest shareholder, the Losantos family, to sell its 50% stake. Businesswoman Rosalía de Mera and Deutsche Bank control 5% each of the remainder.

Inmocaral is in the process of merging with Colonial following last year's €3.6bn takeover. Chairman Luis Portillo said recently he expects the merger to be completed by 1 May and the Riofisa acquisition to be finished in summer. The new firm should be fully operating in October or November.

The resulting entity will be called Colonial and has been valued at about €12.5bn by analysts. It will focus on residential property and offices, while Riofisa activities centre on retail malls.

Portillo has also said that the firm will look for acquisitions in the Netherlands, Germany and Britain. Dutch merchant bank Kempen reported that prior to the takeover offer, Riofisa met with the Dutch VastNed Retail, which last year invested €65m in Spanish shopping centres, to discuss a takeover. A Riofisa spokesman told PFE the company has been eyeing a European acquisition, but that this was put on ice because of the Inmocaral bid.

Inmocaral has hired The Royal Bank of Scotland, Eurohypo, Goldman Sachs and Calyon to arrange a five-year, €7.2bn loan to help finance its acquisitions and refinance its debt. The loans will initially pay an interest margin of 125 basis points over Euribor and interest margins may be cut to as much as 90bp after Inmocaral holds its planned €700m capital increase. pfe

## DIC Asset buys 26 SEB property fund assets for €460m

Frankfurt-based listed office investor DIC Asset has purchased at auction 26 German commercial properties for €460m from open-ended property fund SEB Immo-Invest managed by Scandinavian bank unit SEB Asset Management.

Chairman Ulrich Höller said DIC Asset will aim to reduce the 15% vacancy rate of the SEB properties. Annual rental income comes to €26.5m, and the office and commercial properties located in several German cities have around 260,000 sq.m. of space.

Some 60% of the new portfolio is office, another 18% is retailing space, and the rest are other commercial such as logistics property. The buildings are largely rented to quality addresses

including the Hesse state government, Deutsche Bahn and electronic goods retailer Saturn.

SEB AM Managing Director Barbara Knoflach said the transaction offered a chance to exit from small properties acquired early in the life of the fund. The property funds of SEB AM started 2007 with plans to sell properties worth €1bn and buy assets worth €2bn. The sale of a New York complex and the German properties nearly matches the year's selling target.

DIC Asset purchased around 200 buildings for €1.5bn in 2006 and plans investment of at least €1bn this year. The share gained 3% after the announcement of the deal. pfe

## Danish-controlled Herkules seeks housing, retail, hotels in Germany

The Hamburg-based Herkules Grundbesitz intends to extend its business model this year in retailing, residential and hotel assets in Germany, with a particular accent on building up its apartment housing portfolio, says its Danish-born Managing Director René Ravn.

He told PFE in an interview that the residential target is mainly Berlin but the search for hotel and retail assets is country wide. "Berlin has a large concentration of residential property and we want to deepen our involvement, using the team we have just put in place in the city," he said.

As the sole owner of the Danish Herkules and Co. A/S, which controls the GmbH unit, Ravn has built up an asset base of around €300m over 20 years of operating in Germany, where he now also makes his home. He began specialising in the acquisition of German real estate for Danish investors at the end the '80s.

"We are relatively conservative and have been right from the start," he said. "There are no plans to change this for any of the three asset classes where we are active." The Herkules business model includes purchasing retail assets and hotels and putting them into small closed funds in Denmark, in which the group generally also holds 20%, trading through its funds company Griffin. The residential property is sold into Danish private companies in a long-term buy-and-hold strategy.

"Our strategy is to get private Danish investors involved and to hold onto these assets for at least 10 years. We have no intention of turning these over but having a long-term investment. We intentionally hold dividend payments low and devote resources to repaying the financing as fast as we can," Ravn said.

In retail, Herkules acquires everything from small discounters up to department stores and shopping centres, with a normal deal volume of up to €30m. Ravn says the company has been able to find assets with gross yields of 7% to 7.5%, and it generally uses a debt leverage level of around 70%. On residential, entry yields lay somewhere between 6% and 7%, with those in hotels toward the upper end of this range.

Among the latest acquisitions are two retailing properties in Goslar, Lower Saxony, and Bergkamen in North Rhine-Westphalia at a total investment volume of €10m. pfe

## Several bidders for Stockholm's €1bn CentrumKompaniet retail mall portfolio

Several bidders have emerged for the 10 shopping centres being sold by Stockholm's commercial property firm CentrumKompaniet. They are valued at around €1bn and located in the central and greater Stockholm area.

Sources close to the deal say potential interested parties include the UK's Boulton, US private equity group Carlyle, France's Axa Real Estate Investment Managers and two Dutch property companies, Rodamco Europe and Eurocommercial Properties.

The prized asset is the 63,600 sq.m. Skarholmen shopping centre that accounts for half the value, but which will not fully open and trading until 2009. The portfolio sale is part of the Swedish government's privatisation program and is the country's biggest property deal to date. pfe

## Sweden replaces property tax by introducing capped fee, equal to \$620

In an effort to boost Sweden's employment, the country has announced a cut in its residential property tax and its replacement by a fee capped at \$620 for a typical homeowner.

The centre-right government announced the property tax cut along with the abolishment of the wealth tax, and also indicated that it would in the future announce cuts in the country's income and corporate taxes.

Dutch investment bank Kempen said Wallenstam Byggnads and Heba Fastighets are among the Swedish listed companies that will save several million kronor annually. The move may even cut Swedish Stock Exchange-listed Heba's SEK7.4m property tax bill by half. pfe

## RICS Focus draws 180 attendees to Berlin event, most ever

The largest attendee number ever, around 180 real estate professionals, attended the third RICS Focus, run by the Royal Institution of Chartered Surveyors Deutschland in late March, the association said.

Under the topic, Asset Management - Added Value, podium discussion focused on German and international market trends, innovations in asset management, and exit strategies for investors and asset managers.

Judith Gabler, Managing Director of RICS Deutschland, commented: "On account of the rising numbers of participants and the thoroughly positive feedback we received from the event, we have definitely decided to continue our Berlin series next year, and we intend once again to find an interesting and unusual place to hold it." pfe

## Macquarie's new Office Trust buys Berlin building for €85m

Making its debut on the European property scene, Macquarie Office Trust has paid a family-owned company €84.7m for a Berlin office building rented mainly to Deutsche Telekom subsidiary, T-Systems.

The purchase price was below the assessed value and the replacement value, delivering "clear growth potential in view of the rising market in Germany," said Marius Schöner, head of investments for Macquarie Global Property Advisors, which selects assets for the office fund. "The current rent for the building is below the market level, meaning that the investors will profit from the improving market conditions with rising rents."

While the seller wished to remain anonymous the buyer is a

listed property company that manages A\$5.5bn of assets for itself and its principals in the form of 42 properties in Australia and the US. Its parent firm, Macquarie, and its principals manage assets of A\$23bn in the form of REITs and funds that are both listed and unlisted. pfe

## High tax makes Italy less attractive for property investment - DEGI's Schomberg

High taxation makes Italy one of the least attractive property investment locations in Europe, according to Bärbel Schomberg, Managing Director of DEGI, the real estate investment manager of the Munich-based Allianz insurance group.

She told Italian daily *Il Sole 24 Ore* that, "foreign investors are discriminated from the fiscal point of view and investments are damaged by the reduction to 80% of direct depreciation allowances." This also has to be valued in the context of high corporate income tax and of the regional tax on productive activities.

DEGI invested around €550m in Italian property last year, buying a shopping centre at Borgogiosio near Modena in the north of the country and selling part of Il Bodio centre in Milan. Schomberg said the group is seeking other investments. "We are looking for other commercial structures" Schomberg said. Specifically in southern Italy, "we are also considering op-

portunities in shops in primary locations or so-called big boxes, or do-it-yourself centres". pfe

## REITS

## G-REITs should address quoted property deficit in Germany - John von Freyend

The introduction of Real Estate Investment Trusts in Germany should begin to address the country's need to catch up with comparable industrial nation jurisdictions, but six main elements need to be improved, says German Property Association (ZIA) Chairman Eckart John von Freyend.

He told a conference last week that while real estate held in stock exchange quoted companies in Australia makes up 35.7% of the nation's total investible property, 10.5% in the US, 6.1% in the UK and 3.0% in France, the proportion for Germany is 0.7%. German corporates have been hindered by taxation rules from bringing around €1.1tr of capital held in the property assets onto the market.

"The economic significance of the REIT is in the freeing up of real estate capital to strengthen the equity capital quota at the core of corporations, and in the professionalisation of the property industry," John von Freyend said - citing the Deutsche Börse

## Where are the trumpets and red balloons? Enter G-REITs stage right with a whimper

Not with the bang and pop of red balloons flying up to burst on the stock market ceiling, their explosions mingling with champagne corks and trumpets ablaring, but with an apologetic air and a large pinch of doom and gloom. So arrives the German Real Estate Investment Trust onto the international capital market. Even if Rainer Zitelmann did his best to cheer up delegates at his G-REIT



Congress last week, the event was characterised by a distinct absence of enthusiasm from German real estate professionals, and a large dose of wait-and-see. How different from the coming of the UK REIT in January when the Brits took the event as, what else?, an excuse for a party! Most professionals in Germany, such as Eckart John von Freyend see the vehicle benefiting the introduction of capital and market valuations into the €1.1tr base of German investible real estate. His perception that this can have a huge knock-on benefit into the overall economy conforms closely with the realisation in France at the beginning of this decade. And the success of the SIIC revolution there over the last four years is undeniable.

How many G-REITs are going to be created, and when? Real estate glitterati hauled crystal balls out of document cases. Martin Steinbach of the German Stock Exchange foresees 10-20 by the end of next year. Having lost the battle for European capital markets to the merger of Euronext and NYSE, Deutsche Börse is pressing strongly to exploit the potential in German REITs. It backed off rather fast last week from its over-hasty decision to set up a separate segment outside the internationally known DAX indices. Ralph Ziegler of HSH Real Estate predicts 5-10 G-REITs floating out before the end of this year. The bank is readying the former coal-mining firm-turned-property-investor Hamborner to be one of the first. Bernhard Schoofs from Hahn AG provided a definitive 'don't know' - and was at least popular for his honesty. Colonia CEO Stephan Rind predicts 20 by the end of 2008, and sees the quality of portfolios and managements as being decisive. DIC Asset CEO Ulrich Höller forecasts 5-7 before the end of 2007; his company is investigating fiscal and other aspects and is open to launching one or more portfolios as REITs but definitely not the parent group. He also thinks G-REITs will go some way to relieving the current imbalance of too little product and too much demand. The corporate tax reduction next year to 30%

from the current headline 38% may speed up creation. Hartmut Fründ from Ernst & Young agrees and sees asset sales into G-REIT structures picking up speed next year as a result.

Claus-Matthias Böge says his Hamburg-based shopping mall developer Euroshop already has a similar fiscal structure to REITs, and the vehicle cannot provide further advantages. Property analyst Kai Klose from Cologne's Sal. Oppenheim says his base case is €15bn-€20bn of market cap in G-REITs by end-2008. Oliver Waldeck of HSH Nordbank predicts five or six being floated this year. And Morgan Stanley's Oliver Puhl reminded the room that German quoted property should not only count listings on domestic stock exchanges but also the growing family of AIM-listed groups targeting Germany, to say nothing of Eurocastle. The latter, the German commercial property group of Fortress Investments is the largest 'Germany property company' of all, albeit listed on Euronext in Amsterdam. And what about the Euro-REIT? John von Freyend continues to see this as the future. The REIT world in Europe is unfolding, perhaps, exactly as it should. With bangs, pops AND whimpers.

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estimate of G-REIT potential of €80-€120bn in asset valuation.

The elements that need improvement are 1. the need for inclusion of residential property in eligible G-REIT assets, 2. the need for open-end funds to qualify under the rules for the 'exit' tax - a halved capital gains tax liability if industrial property is sold to them, 3. the current taxation of property-related dividend income from abroad, which has already been subject to fiscal deductions in the source country, 4. the cap on debt leverage at 60% for G-REITs which will be inappropriate in a capital market-oriented investment, 5. the inability to take minority stakes in other property companies, and 6. the requirement for insurances or pension funds to list G-REIT holdings under equity holdings, which attract higher capital adequacy ratios, rather than under property asset investments.

"In general, we see the new REITs law as an important starting point but by no means perfect," he told the Zitelmann Group Congress last Tuesday. "All these points can and should remain in discussion and should be brought into the next revision of the law."

John von Freyend, who stepped down last year from the chairmanship of Germany's largest listed property company IVG Immobilien, added: "It marks the starting signal for new and exciting challenges. The framework has been set in place, and now we need to fill it with life." pfe

**PFE COMMENT:** John von Freyend has been highly successful at building the ZIA into the central association grouping the interests of the German property sector last year. Despite some scepticism, he has won over most segmental associations, and the major corporate and institutional players. His connections into the Federal Association of German Industry (BDI), which derive from his employment there before taking over the IVG chair in the early 1990s, mean that ZIA will be accepted as a member of BDI this July. This will put real estate representation into Germany's highest employer organisation alongside major industry sectors such as car-making and the chemical industry. Given Germany's intensely corporatist economy, this will mark a highly important boost to ability of the real estate sector to influence just such legislation as the introduction of REITs to the nation.

## Deutsche Börse drops plan to exclude G-REITs from DAX indices

German stock exchange operator Deutsche Börse has dropped plans to exclude the country's Real Estate Investment Trusts from the segmental indices of the German stock exchange, including the DAX index of 30 blue chips, German Stock Exchange director Martin Steinbach told a conference last week.

Previously Deutsche Börse had planned to create a new segmental index exclusively for the new G-REITs which can now be created as a result of the law finally passing both houses of the German parliament at the end of last month. This had been heavily criticised in the industry. German Property Association Chairman Eckart John von Freyend.

Bernd Knobloch, chairman of Germany's market-leading Eurohypo property financing bank, said, "This decision ensures that the German Real Estate Investment Trusts won't be at a disadvantage in international competition." Other banks, property companies and most real estate professionals have been pressing for the change in exchange index policy, saying that there is no justification for excluding the sector, and fearing a disadvantage, particularly among asset managers tracking one or other of the DAX indices.

Seven of the 20 initial public stock offerings on the German

exchange during the first quarter of 2007 have been real estate companies, noted realtor Jones Lang LaSalle, associating this development with the enactment of the REIT-enabling legislation. The conversion of five or 10 existing property companies into REITs could result in further public stock offerings. The development of property as an asset class treated equally with bonds, currencies, stocks and commodities continues, reflecting the favourable economic trend in Germany.

The shortening of the holding period for REIT property eligibility to five years from 10 years is a smart decision, it said. However too many other restrictions exist in the law, and these risk spoiling Germany's chance of becoming Europe's largest REIT market. pfe

## Hamburg's TAG Tegernsee to launch G-REIT in third quarter

The Hamburg-based TAG Tegernsee listed in the S-DAX index of the German exchange, is to launch a German REIT the third quarter of this year. It will raise the market value of its commercial property holdings to €300m by that time from the current €160m, said Chairman Andreas Ibel. TAG plans to hold at least 10% of the proposed REIT.

The whole company cannot be converted into a tax-privileged REIT because some of its businesses are incompatible with the terms of the Real Estate Investment Trusts enabling legislation. This applies to TAG's residential property subsidiary Bau-Verein zu Hamburg.

Last year TAG made a consolidated net profit of €2.8m, following a loss of €35.5m in 2005. TAG's property holdings increased last year to €516m from €374m. TAG calculated its net asset value with debt at €11 a share. pfe

### LISTED REAL ESTATE

## Property stocks offer diversification, especially against sovereigns - EPRA

Property stocks offer good diversification benefits across a range of major investment asset classes but appear to be particularly interesting to investors in government bonds, a study commissioned by the European Public Real Estate Association (EPRA) shows.

Because of the need to spread risk and avoid excessive correlation in institutional asset allocation, EPRA wants to encourage a wider understanding of how real estate and its securities perform in comparative terms, said Paul Rivlin, Eurohypo joint CEO of European real estate investment banking and EPRA committee chairman. The research, Broadening the Investor Base Study Correlations of Property Stocks with other Asset Classes, was carried out by Prof. Steffen Sebastian of the International Real Estate Business School at the University of Regensburg, Germany.

Investigating quarterly returns of the FTSE EPRA/NAREIT Global Real Estate index, the study found that, after being relatively stable throughout the 1990s, the correlation of property stocks with bonds became quite negative from 2000 onward. Even if a direct causal link is not possible - and this is probably related to the decline in global interest rates after 2000 - it does seem to make property stocks an interesting diversifier for conservative bond investors for, say, 5% of their portfolios. pfe

## Bonn-based IVG Immobilien lifts 2006 group net profit 36% to €149m

The largest quoted German property company, Bonn-based IVG Immobilien, raised 2006 consolidated net profit by 36% to €149.2m, mostly on the strength of earnings from its own real estate portfolio, which is weighted toward offices.

IVG, which also offers property funds and project development, proposed a dividend of €0.50 a share, up from €0.38 for 2005. Earnings climbed by 45% to €1.20 a share and net asset value at year's end came to €23.56 a share, up 31% from €18 a share a year earlier.

"We are very satisfied with this result, particularly considering the background of restructuring and its associated costs," Chairman Wolfhard Lechnitz told the annual press conference. "We want to establish IVG in the top group of European property corporations in the medium term."

Earnings on IVG's own property holdings rose to €290.4m in 2006 from €131.3m in 2005. The rental ratio at year-end came to 91.1% on a portfolio covering 197,000 sq.m.

To sharpen the Bonn-based company's market profile and improve efficiency, control and transparency, the company in 2006 centralised buying and selling of properties and adopted a profit-centre structure. The four divisions of investment, funds, development and caverns were all reorganised.

IVG last year purchased €1.9bn worth of property for its own holdings and sold nearly €1.1bn. The emphasis on investments was Germany, which received €1.45m. pfe

**PFE COMMENT:** The basis of this company, which was a state-owned entity until the early 1990s, is cool heads and clever financing. It won London's Gherkin in January by agreeing with the Swiss Re tenant to accept rental in Swiss Francs, and thus also raised low-cost financing in that currency so that its bid in auction was the most competitive. It paid out in paper to take over Oppenheim Immobilien institutional special funds last year, and thereby allowed the Sal. Oppenheim bank to take a blocking minority to protect IVG equity from marauders. And which other 'real estate' company has oil and liquid natural gas caverns in its asset base? The caverns, containing much of Germany's state energy reserve, would qualify under the modern trend toward infrastructure - were they not a throwover from public sector days. They supply a steady, virtually risk-free sovereign-lease cash stream, and also mean that the IVG share price partially exhibits the charm of reacting to Vladimir Putin's growls over hydro-carbon supply to Russia's 'near-abroad' and therefore also the West.

## Germany's Vivacon doubles 2006 net profit, triples rental income

Cologne-based Vivacon, an S-Dax traded property company that specialises in high-end residential, listed buildings and ground rent rights, more than doubled its 2006 consolidated net profit to €45.9m while more than tripling its rental income.

Turnover rose by 126% to €124.4m. Earnings before interest and tax climbed by 109% to €78.5m. Undiluted earnings rose to €2.38 a share from €1.30 the previous year, a gain of 83%.

Recurring income from rents and resale of renovated architectural landmarks increased by 245% to €20m. This was 16% of turnover in 2006, up from 11% the previous year.

Earlier this month Vivacon purchased 6,812 residential and commercial units with space of 411,200 sq.m. and a rental ratio of 85% in a series of separate deals. This raised its property

holdings to 11,000. Further residential acquisitions are planned this year. pfe

## Société de la Tour Eiffel launches business parks, lifts assets above €1bn

The listed French REIT/SIIC Société de la Tour Eiffel is launching two new business park developments following the recent acquisition of the Parcoval group, which has lifted STE assets to more than €1bn.

Parcoval owns six business parks and a land bank with development potential. "We are developing our own sites and our own portfolio rather than trying to buy madly," STE Managing Director Robert Waterland told PFE. "We are in a market phase where the name of the game is to bring in new developments and produce new buildings at reasonable rents because that's what everyone wants."

In 2006 STE saw corporate profit jump to €36.4m from €9.7m in 2005. The company, which is listed on Euronext Paris and has a market capitalisation of over €700m, focuses on ownership and the development of quality office and business space capable of attracting major corporations in emerging locations.

For 2007, STE said it plans to maintain its asset and rental income growth, and achieve anticipated yield of 9%-10%. It will aim at an active investment policy, while also initiating the development of its overall 160,000 sq.m. land bank.

Parcoval has acquired a two-hectare site next to Le Bourget Airport which will be developed speculatively in conjunction with Nexity Geprim to provide 10,000 sq.m. of office and business space. The estimated rental value is €920,000 on an investment of €8.4m. In Bordeaux, STE is also launching 6,000 sq.m. of business space adjacent to Merignac Airport as an extension to its existing Cadera Nord park. pfe

## Spain's Realia posts 2006 net profit of €161m, eyes May IPO

Spanish property firm Realia, now preparing to list on the Spanish stock market, earned a net profit of €160.9m last year, a 17% increase over 2005. Sales rose 17% y/y to €817.4m.

Development proved to be Realia's top money-maker, generating €645.9m last year. During 2006 the company invested €580m in its businesses in Spain and France. Of the total, €586m went toward the purchase of French builder SICC. It now controls some 35 properties in Paris.

Realia, which analysts value at between €1.5bn and €2bn, will float about 49% of equity at the end of May. It is expected that the price will be set on 29 May and shares will begin trading the next day. Realia is owned by the Madrid savings bank and construction firm Fomento de Construcciones y Contratas. After the stock float, the remaining 51% will be put into a holding controlled by FCC. pfe

## Italy's Beni Stabili with €1bn to invest after merger with Foncière des Régions

Italy's listed property investor Beni Stabili, currently in merger with French REIT Foncière des Régions, has indicated that it now has access to around €1bn in liquidity for new investments.

Analysts are watching to see the diversification that Beni Stabili chooses as a consequence of the agreement with FdR in order to assess the impact of a joining forces with a larger international group and a professional and diversified holding company. The exchange public offer of shares is planned to be completed by June.

Beni Stabili said it could consider creating a special development vehicle to support property investments that require residual development initiatives. It is currently aiming to acquire a portfolio from the Fintecna financial management company controlled by the Economics ministry, and will look with interest at the planned disposal program for state properties.

Beni Stabili 2006 net profit rose 122% from 2005 to reach €206.5m and EBIT climbed by 66% to €453.4m, both roughly in line with estimates. Results were supported by the positive contribution of €36.3m in asset disposals and by a €262m asset revaluation. At end-2006, Beni Stabili had total financial debt at €2.38bn, up from €1.69bn at end-2005, and a debt ratio of 1.22, up from 0.86. It proposed a dividend of €0.024 per share. pfe

## Indian investor, Spain's Wilcox acquire stakes in Renta Corporacion

Canary Island-based Indian investor Ram Bhavnani and Madrid-based developer Wilcox have recently bought shares separately in Barcelona-based property developer Renta Corporación.

Wilcox, which deals in residential, tourist and retail property, acquired a 4% stake in Renta for €36m, while Bhavnani bought about 1.5% for an undisclosed figure.

Renta debuted on the Spanish stock market last year, kicking off a slew of property firm IPOs. Last year the company posted a net profit of €47.5m, about 46% more than in 2005. Sales in 2006 almost doubled from the year earlier to €596m. pfe

## France's Klépierre expands in Europe, eyes Carrefour property

French shopping centre REIT/SIIC Klépierre is planning to expand in Germany, Spain, Italy and eastern Europe, CEO Michel Clair told the weekly business magazine *Investir*.

"Our interest is concentrated in the Eurozone and especially in countries where we are already established, notably Italy, Spain and eastern Europe. But other countries like Germany also present new interests. This country has little awareness of commercial centres because of very restrictive opening hours,

but things are starting to change," Clair said.

Klépierre plans to renovate and enlarge 50 shopping malls in France over the coming years and is closely watching Europe's biggest supermarket Carrefour for any further decisions to sell hypermarkets or other real estate assets. Carrefour, which owns 6m sq. m. of commercial real estate, is under shareholder pressure to raise as much as €30bn from property sales. "Obviously we are very attentive and we could not be indifferent to any kind of contracting out, whatever the form," Clair said.

Klépierre specialises in developing and owning shopping centres, which comprise 89% of its assets. Office buildings make up the remainder. pfe

## Spain's Sacyr Vallehermoso will not split French Eiffage; Inmocaral joins fray

Spanish construction and real estate group Sacyr Vallehermoso will not attempt to split up Eiffage if it joins the French builder's board. Sacyr Vallehermoso, a listed company which controls 33% of Eiffage, was responding to criticism from French unions which warned about the risks of allowing the Spanish firm to manage Eiffage.

In a statement, Sacyr Vallehermoso said it wants Eiffage to remain a French company and "at no time has it considered the separation of the company." The Spanish company acquired its stake in Eiffage last year.

Spanish magazine *El Economista* reported that Inmocaral is mulling whether to buy a 14% stake in Eiffage, which could prove to be helpful to SC in any shareholder vote. Inmocaral Chairman Luis Portillo has already acquired a 2% stake in Eiffage, according to the French company. Spanish property group Rayet controls a 4.2% stake. pfe

**PFE COMMENT:** The real estate world is only now coming to grips with the extent of the wealth that has been generated by the roaring asset price rises over the last 10 years in Spanish property. Despite his amazingly fast and highly successful track record, Portillo remains a mystery, mainly because he has been substantially a domestic 'player' until now, and speaks no non-Spanish European languages with any facility.

## Dutch Corio sees 8.8% rise in net profit to just under €10 per share

Amsterdam and Paris-listed shopping centre developer Corio announced an 8.8% increase in net profit to €640.7m, or €9.67

## CMSA Global CRE CDO Symposium 2007



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## The PFE Interview: Alain Chaussard, Groupe Affine

# French REIT Affine 'business as usual' means office, shopping centres, logistics assets - and watching for acquisition opportunities

Business as usual is going to characterise 2007 for Groupe Affine, says its deputy chairman. But this could lead the Paris-based REIT in a number of directions - including investing up to €150m in new office, shopping centres or logistics assets in France or abroad, but also moving fast to expand through acquisition if the right opportunities come along.

"We have an opportunistic strategy," says Deputy Chairman Alain Chaussard. "We know what kind of operation we can do but we are not under pressure to do anything anytime soon." Speaking the day after the announcement of the mammoth merger of France's Unibail and the Dutch Rodamco Europe, he told PFE in an interview: "If we don't find any opportunity in 2007 we can wait. That said however, we do realise that although small is beautiful - and we are still a small company compared with many listed property companies - if we want investors to look at us we need to maintain continuous growth in size."

Founded in 1990 by a group of institutional investors, Affine is chaired by Maryse Aulagnon, a former senior civil servant and French embassy staff member in Washington, and international director of CGE, now Alcatel. Chaussard, a banker by profession, is equally well connected. He ran structured finance at Crédit Lyonnais in the early '90s, and was also an executive with Banque Stern. The third member of the management trio is Ariel Lahmi, who runs Affine's Concerto Development subsidiary.

Affine specialises in office, retail and logistics real estate, and development. The main focus is France but the group is heavily involved in Belgium office investment via its Banimmco subsidiary, and also owns residential assets in Berlin. For further expansion abroad the group has targeted Spanish logistic assets, and Romania. Affine's property assets are now valued at €746m, up from €414m at end-2005. Replacement net asset value amounts to €351m, a 21% increase. After about a 54% run-up in its share last year to around €141, its market capitalisation is around €380m, and it is thus trading at a sturdy premium.

"We are a little bit different from other companies in France because we rely heavily on diversification," Chaussard says. "Diversification is for us the best choice in the long run for optimising profitability. That's why we were among the first ones in France to invest heavily outside the Paris area, and are now looking at neighbouring countries."

The second distinguishing feature is Affine's target of a balanced portfolio with one-third each of office, retail and logistic assets. The near-€100m acquisition in February 2006 of the Belgian Banimmco Real Estate from Macquarie Global Property Advisors, and of a majority stake this February in Paris office investor Fideimur, boosted the office component heavily. "We are going to progressively rearrange and bring it back to balance of one-third, one-third, one-third," Chaussard says. "This is no problem for us since we are

developers as well. We can always drop some of the office projects we are doing. However, the challenge is much more difficult for retail because the competition is tough and the yields are low."

Affine's invested portfolio shows an average yield of around 8%. "For the second part of 2006 and first part of 2007 we have tried to invest in new projects with yields of 7.5% or 8% across the asset classes, whether near Paris or far from Paris or abroad," he says. But this is becoming quite difficult as yields decline fast. He cannot foresee buying into assets below 6.5% or 7% but sees a case if rents can be improved. The group generally employs leverage of around 80% on investments. Its average cost of financing last year, fully hedged, was 4.4%.

Affine is controlled by the three managers, who privately own 64.4% of Holdaffine, the holding company that has 53.8% of group equity and controls 66.2% of voting rights. This leaves group free float of over 46% and fully meets the requirements of the new SIIC 4 legislation for free float by the end of 2009. The second major stake is a 25% holding by Group IRR, now in the estate of the late Edouard Stern and originating from the time he left Lazards. Three US family trusts have a combined holding of 7% via the K3 Europe holding company, and a 2% minority is held by a Franco-Portuguese fund grouping the interests of one of the original institutional shareholders.

Affine reported 2006 net consolidated profit growth of 261% to €62.3m, including a €36.2m increase in the fair value of the assets. Without this contribution however, net would have risen by 52%. Compared to adjusted 2005, net consolidated profit grew by 15.5%.

Affine focuses on smaller deals between €5m and €20m to meet its investment targets, and this keeps it well below the range which attracts hot competition for product among large institutions. But it has a second advantage: it is the only French REIT (Société d'Investissements Immobiliers Cotée, SIIC) which also has a licence from the Banque de France as a 'creditbailleur', lease finance institution. "We are the only one bringing together the two features of credit institution and SIIC," Chaussard says. "We do a lot of operations of purchasing companies which have lease contracts as lessees, or companies whose assets are financed by lease finance contracts. And these are very tricky operations from a tax point of view when we mix them with the SIIC status. And so we face very little competition - which is why we are still able to reach this 7.5 or 8% yield. It's a niche." pfe



Affine's Alain Chaussard: 'Small is beautiful, but if we want international investors to look at us we need to maintain continuous growth in size.'

per share. The property portfolio increased in value by 20.2% to €5.5bn, which was partly from a positive revaluation of 10.0% and partly by organic acquisition.

Triple net asset value rose by 19.7% in 2006 to €50.60 per share. Net rental growth increased to 4.7% from 2.7% for the total portfolio, and included a one-off rental buy-out of €4.6m. For the retail portfolio, of which 81% of the portfolio was invested in at year-end, net rental growth fell five basis points to 3.3%.

The portfolio's occupancy rate fell by 1bp to 96.0% while vacancy rates fell to 2.5% from 3.7%. Pipeline deals increased to €2.1bn from €1.7bn, and will be delivered between 2007 and 2014. The firm also noted good progress in its Turkish acquisitions and participations. Its Dutch assets, which represent 33% of the portfolio, are expected to grow 38% to €2.7bn by 2014. pfe

## UK's Dawnay, Day Treveria reports first year's results after listing

AIM-listed Dawnay, Day Treveria, a property investment company set up to invest in German commercial retail real estate assets, announced profit before tax of €87.7m and gross rental revenue of €70.8m for its first year of operations.

Adjusted EPS was €5.20 while the company proposed a final dividend of €2.50 bringing the total dividend to €4.50. Adjusted net asset value has risen 15.8% to €111.90 since its listing.

The company listed on the AIM in December 2005 and at 31 December, 2006 the property portfolio was valued at €1.7bn, giving a net surplus of €65.3m as compared with the purchase price. pfe

## Greece's Babis Vovos blames slowing property price rises for profit decline

Greece property developer Babis Vovos International Construction posted a 25% decrease in EBITDA in 2006 to €146m, driven by a lower than expected rise in property values. Net gain on revalued properties fell to €139m in 2006 from €189m in 2005 after the fair value valuation on investment properties.

Profit after tax for the year was €85m, a 31% drop. At 31 December, the investment property portfolio was valued at €1.2bn, a 29% increase from 2005. The portfolio's valuation increased €217m in particular from the addition of a leisure and retail centre and another retail and office space property.

Net asset value per share before deferred tax rose 19% to €20.38 from the completion of several projects, and fell by 1% in the fourth quarter compared to 4Q05.

Total revenues increased 37% to €56m in 2006. Rental rev-

enues increased by 12% to €39m as a result of new lease agreements coming into effect during the year, as well as rent adjustments of 4% on existing lease agreements. pfe

**PFE COMMENT:** Our Managing Editor's comments in the latest EPRA newsletter, *An Apology For A Communications Policy*, seems to have raised a certain amount of comment across the European listed sector. Not so, we suspect however, in Greece which continues to be inaccessible by either telephone or email. Babis Vovos, and also Lamda, occasionally casts a small light in the darkness. We continue to hope.

## Stockholm's Fabege launches share redemption plan, linked to Klöver

Stockholm-based quoted office and commercial property company Fabege announced a share redemption offer at its annual meeting in late March.

Fabege will distribute its Klöver shares through a redemption offer above and beyond the SEK8.00 cash dividend. Investors will be given two options: to participate in the offer and become a Klöver shareholder while the relative shareholding within Fabege is not diluted, or sell the redemption rights and receive SEK12.75 per share, in cash. pfe

## Franklin Templeton builds stake in German Franconofurt

The US-based mutual fund operation Franklin Templeton Investments has built a stake of over 5% in Franconofurt, a listed German residential property platform, and has made a public disclosure as required under German securities law.

Franklin Templeton informed Franconofurt that its voting rights reached 5.67%, when Franklin Mutual Series Fund owned 499,260 voting shares of the Frankfurt company.

Franconofurt, which went public in September 2005, provides a scalable platform to set up regional residential housing portfolios and to float these successively on the stock market, while retaining overall control. It put its Rhine-Main regional real estate portfolio on the stock exchange as FranconoRheinMain last September, and a listing is planned this year for FranconoWest, which holds real estate in the state of North Rhine-Westphalia.

FranconoRheinMain plans to buy property in the Rhine-Neckar region south of Frankfurt. For the core business of apartment buildings in the Frankfurt region, this unit targets purchasing volume of €120m and gross investment of €200m by year's end. pfe



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**PFE COMMENT:** Given the huge capital sums flooding into international real estate from US private investors, it is surprising in some ways that we have not seen much of this kind of stake disclosure before now. Most of the action has concentrated, not surprisingly, on the really big institutional investors. Yet many of the quoted German real estate sector is very small in market capitalisation so that the relationship to the size of funds flowing in should imply building sizable - and visible - equity chunks.

## Guernsey-based Matrix to list on LSE and raise £150m

Matrix European Real Estate Investment Trust, a Guernsey-domiciled investment company, plans to list on the London Stock Exchange and raise up to £150m. The open-ended fund is currently listed on the Luxembourg and Channel Islands Stock Exchanges.

Proceeds from the public offer for shares are intended to reduce the fund's existing debt, acquire a stake in the landmark IZD Tower in Vienna, Austria's largest office building, and also finance a joint venture investment with the firm's acting advisors, Matrix Property Fund Management, and Bank of Scotland, Corporate Europe.

As of 28 February, 2007, the firm's portfolio was valued at £330m with a 6.2% blended yield. The portfolio comprises 27 properties of buildings located in Germany, France and Holland. The firm said late last month it will acquire additional properties in Spain valued at £35m, enlarging the portfolio to include office, logistics, hotel, retail and industrial. pfe

## Shareholder seeks board seat at Stockholm-listed Heba Fastighets

One of the shareholding companies of Heba Fastighets, a property management company listed on the Stockholm Stock Exchange, may bid for a seat on the board.

Wallenstam, a Gothenburg real estate company with properties mostly in Gothenburg and Stockholm, holds a 12.2% stake in Heba Fastighets, and a market cap of SEK10bn. Its chairman, Christer Villard, is considering making an offer to be represented on the HF management board, Swedish financial newspaper Dagens Industri reported late last month.

Heba Fastighets owns mainly residential buildings in the greater Stockholm area, Lidingo, Huddinge and Borlange in Sweden. pfe

## Deutsche Wohnen buys mixed German portfolio, earnings disappoint

Deutsche Wohnen, a German housing privatisation specialist traded in the S-Dax, has acquired a mixed residential and commercial portfolio of €40.5m in the greater Frankfurt area.

Gross rent amounts to a high €7.75 sq.m. per month, and the vacancy rate is only around 5%. On this basis Dutch investment bank Kempen estimated a gross initial yield on the portfolio of around 7.6%, which would be equal to a net yield of about 5.7%. The acquisitions include 510 apartments with living space of 35,000 sq.m., or 63 sq.m. per flat, and 37 commercial units. The properties are in Frankfurt and in next-door Offenbach.

The share shed more than a third of its value after February's announcement of 2006 results in which earnings before tax and

interest rose to €46.2m from €39.4m in 2005. Earnings before tax, interest, depreciation and amortisation of €68m compared with the previous year's €56.8m. The company's result on regular business rose to €31.3m from €17m and long-term assets increased to almost exactly €1bn from €887.6m. Deutsche Wohnen's return on own funds also rose to 7.9% from 3.8% the previous year.

**PFE COMMENT:** Though well run, DW is finding the going quite tough at the moment, considering the fierce competition for any kind of German residential portfolios of size. The business model hinges on generating new product and an extensive privatisation program - and the company had hoped that its final de-consolidation from the Deutsche Bank balance sheet last year would provide a strong filip. However, the GAGFAHs of this world, and certainly the direct private equity groups scouring Germany for housing product, tend to have deeper pockets and a greater desire to allocate funds. The share has fallen from €56 to around €40 at the start of the year, but has recovered somewhat in recent weeks. Kempen still targets the share at €46.4, unchanged by the 2007 acquisition, which it sees as a small step in the growth strategy to double the portfolio to 21,000 buildings within three years. pfe

## NON-LISTED PROPERTY FUNDS

### UK's Cordea Savills buys €142m Boccaccio fund stake from Italy's Aedes

Italian listed property investor Aedes has signed a preliminary agreement for sale of an 81.7% stake in the new Boccaccio retail fund to UK-based fund manager Cordea Savills. The €142m sale incorporates a 34% premium on the net asset value.

The Boccaccio stake covers asset value of €306m out of the total €350m fund. The move is seen as contributing to a transformation of Aedes into an fund management company from a traditional property group, a strategy defined in the 2005-2007 business plan.

The Boccaccio portfolio comprises 19 assets which are predominantly high street retail, with some retail warehouses and supermarkets. The assets are located in major Italian cities, with over 72% located in Milan, Florence and Rome. Occupancy is in excess of 95% and the major tenants are high quality fashion companies with good covenants.

A second real estate fund, Ariosto, is expected to be launched at mid 2007 and this should bring revenues from services and asset management for Aedes up to around 28% of total revenues by the end of 2007, the company said.

In fiscal 2007, total revenues came in at €314m, up 55% y/y, above company budget. EBIT was €55.8m, lower than in 2005, because of the costs of transforming the business model of the group. Net profit last year reached was €27.2m. pfe

### UK-based Protego launches €1.65bn Nordic retail fund

UK property fund manager Protego Real Estate Investors last month launched a new Euro-denominated fund investing in the Nordic region's four major economies: Sweden, Finland, Denmark and Norway.

The Nordic Retail Fund aims to raise €585m in equity and expects to grow to €1.65bn by combining gearing of up to 65%. The initial €585m investment comprises property assets located

in Sweden and Finland. There are 11 shopping centres in the initial portfolio, eight of which, by value, comprise in excess of 75% of the portfolio.

"There is a lot of interest in the Nordic region currently, owing to its attractive macro-economic environment," commented Peter de Haas, International Investment Director at Protego. Retail property assets will comprise the main investments – and primarily shopping centres – though retail parks and supermarkets will also be included.

EFM Sverige, the property services division of Boulton Land, is the fund's joint venture partner. pfe

## Germany's LB Immo Invest launches invalid-care fund, hotels to follow

LB Immo Invest, a property investment fund unit of the German savings bank sector, has set a May launch date for its €500m special fund for investment in homes for invalid care, to be followed after mid-year with a fund for investment in German hotels.

Targeted dividend yield of the new Pflegeheim-Spezialfonds is 6.75% to 7% a year. First announced last autumn, the fund aims at raising €250m in equity capital and targets an investment volume of twice that. Acquisition has already been secured for the first 10 objects, including three development projects for €95m. LB Immo Invest intends to invest in about 50 invalid care residences, preferentially in western Germany. The objects would have purchase price factors of 12.5-14 and prices ranging from €8m to €13m each.

The hotel investment fund, originally scheduled to start in the first quarter, will focus on the two to four-star sector. Target volume is €300m, including €150m of equity finance. Dividend yield of the hotel fund is anticipated at 7% a year.

LB Immo Invest is a subsidiary of HSH Real Estate, Real I.S. and Landesbank Hessen-Thüringen. pfe

## UK's Europa Capital launches €600m emerging Europe fund

Eastern and southeastern Europe will be the target for acquisition of commercial property in independent European real estate fund manager Europa Capital Partners latest opportunity fund, the €600m Europa Emerging Europe Fund launched last month.

The fund will focus on Romania, Bulgaria, Ukraine, Turkey and the Western Balkans. It is the fifth managed fund from the group which altogether manages €3.5bn across 14 European countries. Tim Norman joined Europa Capital as CEO of the new fund, moving over from 14 years at the European Bank of Reconstruction and Development in London.

Europa Capital and will work with local partners to source and manage transactions. Capital commitments have been drawn from Europa's existing investors, who wish to capitalise on EU expansion. pfe

the first quarter of 2007, nearly double the €64.2bn in 1Q06, according to the European Securitisation Forum. Even if volume was 29% down on the €169.7bn record overall 4Q06, the fourth quarter consistently posts highest volumes over the year.

Based on the first quarter issuance level and considering the fact that, historically, the first quarter has accounted for less than a fifth of the total annual volume, European securitisation is thus on track to surpass the full-year issuance record of €440bn set in 2006, ESF said.

RMBS was the largest issuing sector in 1Q07, accounting for 61% of total issuance. Mortgage-related markets, including RMBS and CMBS, accounted for 70.2% issuance. CDO issuance was the second ranking product sector, with the volume more than three times the volume in the first quarter of 2006, and higher than the fourth quarter of 2006. pfe

## German CMBS finally coming into its own, conference hears

The market for German securitisation deals is finally coming into its own, panellists said at the Clifford Chance CMBS conference in London last month, and the market is maturing fast. The spirit among institutions and issuers for securitisation is high, with politicians also in favour of encouraging international financing deals.

More alternative assets such as nursing homes and hospitals are being seen as underlying assets suitable for securitisation, alongside the retail and secondary retail transactions.

English law and language were no longer necessary for documentation, a Moody's analyst also noted. German law and language now more accepted as the core of the deal. pfe



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### DEBT FINANCING

## European securitisation issuance hits first quarter record of €126bn

European securitisation issuance hit a record of €125.7bn in

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## Diary dates upcoming in 2007

### April 24, Tuesday

*IEIF Colloquium, Paris*

The Paris-based Institute for Property and Land Company Savings (Institut de l'Épargne Immobilière et Foncière, IEIF) holds a one-day seminar on REIT/SIICs.

More info: [www.ieif.fr](http://www.ieif.fr)

### April 24-25, Tuesday-Wednesday

*GRI World Summit, London*

The Global Real Estate Institute presents the latest in its regional discussions among top executives on key real estate issues. Format is a series of discussion groups.

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

### April 25-26, Wednesday-Thursday

*Turkish Real Estate Summit VII, Istanbul*

Organised by The Association of Real Estate Investment Companies (GYODER), this has an audience of developers, investors, entrepreneurs, other key players, and examines opportunities for property investment in Turkey.

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

### April 25-27, Wednesday-Friday

*ICSC European Conference, Warsaw, Poland*

The International Council of Shopping Centres European conference is arena for debate and business for over 700 delegates. It will examine opportunities in emerging markets, with emphasis on Russia and CEE, and showcases from Europe's hottest retailers.

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

### April 26, Thursday

*CMSA Global CRE CDO Symposium, London*

Following on from the success of our the first event in September 2006, CMSA Europe is hosting the second symposium focusing on the CRE CDO product. The programme features a selection of speakers with in-depth understanding of the issues in CRE CDOs.

More info: [www.cmb.org/international/European\\_Chapter](http://www.cmb.org/international/European_Chapter)

### April 26-27, Thursday-Friday

*INREV Annual Conference, Madrid, Spain*

The European Association for Investors in Non-listed Real Estate Vehicles is hosting its annual conference for investors and other participants in the growing European institutional funds market – this time in the Spanish capital.

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

### May 7-8, Monday-Tuesday

*Deutsche GRI, Frankfurt, Germany*

The Global Real Estate Institute presents the latest in its regional discussions among top executives on key real estate issues. Format is a series of discussion groups.

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

### May 9-10, Wednesday-Thursday

*14th Handelsblatt German Property Forum, 2007, Berlin*

Conference on German real estate issues run by the country's leading business newspaper.

More info: [www.immobilien-forum.com](http://www.immobilien-forum.com)

### May 9-11, Wednesday-Friday

*9th IPD European Property Investment Conference, Geneva, Switzerland*

Annual European conference presented by the London-based Investment Property Databank focusing on the quality of global real estate.

More info: [www.ipdindex.co.uk](http://www.ipdindex.co.uk)

### May 15, Tuesday

*BIIS Seminar on European commercial property, Frankfurt, Germany*

This German language seminar by the national valuation association will discuss current price valuations of European commercial property. Is it a bubble or a sustainable development?

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

### May 15-16, Tuesday-Wednesday

*EuropeServicing 2007, Eurocatalyst, London*

Bridging primary and secondary markets, enabling cross-border lending and protecting investment value in European mortgage and real estate markets. This conference will focus on residential mortgage servicing the first day and commercial servicing the next.

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

### May 16, Wednesday

*HfB-Business School NPL Forum, Frankfurt*

The Frankfurt Business School of Finance and Management presents a one-day seminar, with discussion on non-performing loans and challenges connected to the workout process.

More info: [www.hfb.de](http://www.hfb.de)

## Morgan Stanley conduit SILENUS issues €1.2bn in CMBS

SILENUS European Loan Conduit No. 25, a Morgan Stanley conduit, last month issued €1.2bn in CMBS. The securitisation of the 16 underlying commercial mortgage loans is the conduit's 26th CMBS offering.

France, Germany and Italy are represented in the portfolio. The mortgages were originated by Morgan Stanley Bank International and secured by first ranking mortgages on 216 commercial and multifamily properties. Loan-to-value was reported at 66.3%, according to Moody's. Based on property values, office properties comprise 50.5%, retail properties 28.2%, mixed use (office/retail) properties 13.2%, multifamily properties 6.4% and leisure properties 1.8%. pfe

## Hypo Real Estate structures SEK2.3bn funding for Danish group

Hypo Real Estate Bank International has set up a SEK2.25bn investment financing for PG Svenske Boliger, a vehicle set up by Danish-based Property Group A/S. The transaction was completed on 28 March.

The financing facilitates the acquisition of a residential portfolio in Sweden of 63 properties including 4,500 residential units. pfe

## Hypo Real Estate in €120m financing of Monaco development

Hypo Real Estate Bank International, a unit of Germany's Hypo Real Estate, has provided €120m of facility and development financing for an apartment project in Monaco, its first transaction in the principality.

Called Melrose Place, the development is a 12-storey building with another four basement levels and 6,100 sq.m. of space for 20 luxury apartments and 60 parking spaces on Monaco's Boulevard de Belgique.

The deal is being managed by the Meyer Bergman Group, which has developed 3.3m sq.m of prime real estate and currently has €2.6bn of assets under management. "The provision of a highly structured facility in a niche luxury residential market segment clearly demonstrates our ability to address quickly the needs of our clients," said Harin Thaker, HRE Bank International's European chief executive. pfe

## Eurohypo starts marketing €550m German CMBS issue

Germany's biggest real estate bank Eurohypo has started marketing a €550m domestic CMBS transaction under its pan-European Opera program secured by a portfolio of 36 office properties rented to the German state of Hesse for 30 years.

The transaction is the third German issue under the bank's European Opera program of commercial mortgage-backed securities. It is secured under German law on a single loan to nine special purpose vehicles ultimately sponsored by Austrian property firm CA Immobilien.

The collateral assets of Opera Germany (No.3) includes the premises of the state ministries of economics and education in Wiesbaden, as well as police stations, court houses and various administrative offices located in 19 Hessian cities. The issue is the 15th from the Opera CMBS conduit, taking the program's volume of issuance to €8.7bn.

"This continues Eurohypo's strategy of 'buy and manage,' which will see further issuance this year from all three CMBS platforms – Opera, Europa and Semper," said Caroline Philips, Eurohypo head of European securitisation. pfe

## Crown makes Westfalen head of its European debt servicing group

Having acquired Germany's Westfalenbank from Hypovereinsbank last year, listed US servicer Crown Northcorp has made the renamed Crown Westfalen the lead institution of its European service companies in servicing and non-performing loans.

The consolidation exploits synergies among UK, Belgian and German units for European expansion, said Crown Westfalen director Christian von Villiez. "We foresee an increasing amount of cross-border activity from both new and established players," he added.

The servicing companies include Crown Mortgage Management of the UK, Crown Westfalen Credit Services of Germany and TBE, a Belgian firm jointly owned with Fortis Bank. These companies handle administration of performing and non-performing loans and allocation of non-conforming loans to a selected clientele.

Crown Northcorp provides services to the real estate and associated debt-capital markets in Europe and in the US. Services include mortgage management, mortgage origination and asset management of real estate interests. Texas-based Crown had €15bn of assets and loans under management at the end of 2006. pfe

## Fitch Ratings launches new report on operational risk in RMBS

In response to the growth of mortgage-backed securities throughout Europe, Fitch Ratings last month launched a newsletter focusing on operational risk and those parties managing such risks.

The "Operational Risk Grapevine" will discuss trends and topics within the origination and servicing MBS community, and their impact on the EMEA structured finance industry as the MBS market expands into eastern Europe, Central Asia and the Middle East.

Edward Register, Senior Director in Fitch's European Structured Finance Operational Risk Group, said: "As many of the mortgage markets associated with these new jurisdictions are in their infancy, origination and servicing practices are still developing and changing constantly." Lack of experience raises questions about a special servicers' ability to effectively manage and workout assets, and a number of historical or current arrears in some markets demonstrate that mortgage servicers have not been fully tested.

The inaugural issue includes articles on risk as related to mortgage servicers, overviews of the European RMBS and CMBS servicer roundtables held in December 2006, the growing emergence of title insurance across Europe and the impact of Law 231 on Italian servicers. pfe

## Fitch expresses cautious optimism on German commercial real estate lenders

After surviving huge bad loan write-downs, German commercial property lenders have improved risk management procedures and are now better able to cope with a stagnant residential mortgage market, says Fitch Ratings. It is cautiously optimistic for the near future.

Most private-sector banks have now reduced their stock of impaired loans following write-downs of collateral caused by depreciation of property values.

"The development of the domestic real estate market is highly relevant to the creditworthiness and asset quality of the German banks, given that real estate collateral secures around half of the banking system's customer loans," said Sabine Bauer, of Fitch associate director wrote in the report. Foreign investors' interest in German residential and commercial real estate has significantly picked up in the last two to three years.

Although lending for housing is generally diversified and a less risky business that will benefit from Basel II regulation, Fitch fears further price declines in the eastern states of Mecklenburg-West Pomerania, Thuringia, Saxony-Anhalt and in west's Ruhr industrial belt. But Munich, Stuttgart, Hamburg, Berlin, Brandenburg and Saxony have upward potential. pfe

### INTERMEDIARIES

## UK's GVA Grimley to build new pan-European consultancy team

International property advisers GVA Grimley has launched a pan-European building consultancy team which will draw on the firm's GVA Worldwide network to coordinate their consultancy specialists based in 32 locations across Europe.

Ian Bragg, Partner at GVA Grimley's UK-based Building Project Management Consultancy team, said the service aims to provide "UK investment knowledge combined with local expertise."

The new division extends the firm's BPMC team, which has worked with clients in Europe including Canada Life, Wolsley, International Hotels Group, Axa and Henderson Global Investors. pfe

## Coldwell Banker Affiliates unveils plans for Romanian market

Coldwell Banker Affiliates of Romania has set the goal of becoming one of the top five real estate agencies in the country by the end of 2007. The firm foresees 20 new offices in the first three years from initial set up and has introduced a new management team.

"This target will be achieved by recruiting highly skilled professionals as well as by launching, for the first time in our country, programs that have proven their functionality on other markets," said Valentin Ilie, CEO of Coldwell Banker Affiliates of Romania.

The company plans to recruit experienced sales persons, particularly real estate brokerage specialists. pfe

## CBRE buys Spain's FM Arquitectos architect group

Real estate consultant CB Richard Ellis is to acquire Spanish architecture firm FM Arquitectos, the two firms said, releasing no financial details. The move was designed to reinforce CBRE's architectural department, similar to Jones Lang LaSalle's purchase last year of Spanish architecture firm Areazero.

FM Arquitectos was founded in 1993 by current director Javier Martínez, and handles residential, office, hotel and industrial projects. Among its clients are Microsoft, Ericsson, NH Hoteles and Banco Bilbao Vizcaya Argentaria. pfe

### RESIDENTIAL PROPERTY

## Italian house price rises slow, but solid family finances seen giving support

After a long upward cycle mainly due to a structural lack of quality supply and foreign direct investments, housing price rises in Italy are showing some signs slowing. However, analysts say that the stable finances in family income should continue to support demand going forward.

According to Bank of Italy, financial assets in the hands of Italian families are on average 40% higher than in European countries. Italian families have low indebtedness and show positive net financial budgets. Thus, they are less exposed to financial fluctuations and the consequences of interest rate rises so that property demand in Italy should be more stable than in other countries.

According to Turin-based think-tank Centro Einaudi, 84% of Italians consider a financial investment in housing as the safest investments possible. Further positive factors are fiscal innovations being considered by the government. These include the abolition of the local property tax (ICI), a standardisation at 20% of the tax on house rents, and introduction of Italian REITs (Società Investimento Immobiliare Quotate, SIIQ).

However, a negative impact could come from the disposal of speculative investments driven by concern that the government might again rise capital gains tax from the present 20% in the context of the new budget law.

Market supply of housing, although still very low compared to other European nations, is increasing towards 300,000 units per year. The lack of quality supply is producing a decoupling between top quality in top location and low categories in provincial cities - and the latter show a flat or even negative trend in transaction prices and volumes. pfe

## Spanish house prices flat or falling in first quarter, studies say

The expected levelling out of residential property prices is taking place quicker than expected, and prices in some areas are falling after several boom years in the sector, according to two recent studies from Internet sites Idealista and Expocasa.

Idealista reported that prices of second-hand homes rose only 0.5% in Barcelona and 0.8% in Madrid during the first quarter of the year, and dropped in some areas away from the city centres. Expocasa said house prices fell in 66 of the 91 areas with more than 25,000 inhabitants.

The provinces that showed the largest correction in price in-

creases were La Coruña, Valladolid, Cáceres, Lugo and León. According to Expocasa, the average residential price throughout the country is €2,796 per sq.m. Average prices in the two largest markets, Madrid and Barcelona, were €4,221 and €4,917 per sq.m., respectively.

Over the past few years, prices have risen between 10% and 14% annually. Property prices overall have risen 170% since 1997. Standard & Poors recently said residential property prices rose 9.6% last year compared to 2005. pfe

## Turkey's residential property stock rises 31% in value in 2006

The value of residential property in Turkey increased 31.4% in 2006 while the number of new buildings decreased by 5.4%, the Turkish Statistics Institute reported last month.

The data further revealed that the number of dwelling units increased by 9.6% and 4.1% respectively.

New residential buildings fell from 99,220 to 94,309, but the actual area of new residential buildings rose 7.6% to 88.5 sq. km. in the same period. According to occupancy permits the number of new inhabited residential buildings increased 5.3% to 55,155 and the area of inhabited residential buildings rose 7.5% to 39.1 sq. km. pfe

## AIM-listed Dolphin Capital buys controlling stake in Cyprus's Aristo

Dolphin Capital, which listed on the AIM in 2005, has made a €289m offer for Aristo Developers, Cyprus's largest holiday home development company.

Dolphin has already acquired 80% of Aristo for €2.15 a share and plans to purchase the remaining shares in the near future for a full acquisition.

Dolphin is the second-biggest overseas property company listed on the AIM. The firm focuses on resorts in the Mediterranean region, including Greece, Turkey and Croatia. pfe

## Spain's Sando group agrees to buy developer Agofer

Unlisted Spanish property group Sando, which operates mainly in residential projects in southern Spain, has agreed to buy 100% of Madrid-based developer Agofer for €220m - with the aim of doubling its business with the acquisition.

Last year Sando generated about €759m in sales from its businesses in Andalucia, Madrid, Spain's eastern coast and Poland. Both buyer and target are family-run firms. Agofer, which earned €169m in sales last year, also operates in Poland. pfe

## Fitch sees rising lending competition in Greek mortgage market

Greek lending banks have reduced interest rates and are offering more complex mortgage products to increase market share in the competitive Greek mortgage market, rating agency Fitch noted recently.

Demand for Swiss Franc-denominated mortgages has increased as well as for fixed rate loans, which previously made up only a small part of the Greek mortgage market.

The findings are part of Fitch's review of several Greek RMBS transactions, which noted an increase in principal payment rates due to increased competition in the country's mortgage market. Five of the seven Fitch reviewed transactions saw a significant rise in principal repayment levels over the last six months. pfe

## Spain's Marina d'Or to invest €1bn in international expansion

Spanish property group Marina d'Or will invest around €1bn over the next three years to build 15,000 homes in north Africa, eastern Europe and south America.

The projects will be located in Morocco, Egypt, Bulgaria, Romania, Brazil and Argentina, and with them the company expects to generate about €5bn in revenue. The Castellón-based Marina d'Or already operates in Morocco and Egypt with several residential, office and hotel developments. pfe

### CENTRAL & EASTERN EUROPE

## Israeli-controlled Africa Israel Europe plans London IPO, Romanian moves

Africa Israel Europe, part of the property development and

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investment group 80% owned by Israeli businessman Lev Leviev, is targeting an IPO on the London Stock Exchange by the end of the year to raise funding for its operations in central and eastern Europe.

"We may be listed on the London Stock Market by the end of the year and through this move, hope to raise several hundred euros," AFI Europe's Reuven Havar told on-line financial news service Ziarul Financiar.

AFI Europe and has been active since 1997 in development and investment in commercial and residential real estate in the Czech Republic, Serbia, Romania and Bulgaria including office complexes, shopping malls, business and logistics park.

It is currently building the Cotroceni Park shopping complex in the Romanian capital Bucharest, and will also invest over €50m in a shopping centre in Arad. It plans to buy three plots of land worth €60-70m for housing development in the next two or three months. Land purchases have been funded out of own resources but the group now plans to seek 75% financing from domestic banks. It raised about €100m euros for financing Cotroceni Park, which is being developed in partnership with

New Century Holding investment fund.

Havar said the company aims for yields of at least 12%, but predicted these will compress towards around 6% in Romania in coming years and it would then consider selling. pfe

## Allied Irish Bank to launch €600m Polish real estate fund

The Dublin-based Allied Irish Bank, Ireland's largest bank, plans to launch a property fund via its AIB Capital Markets unit to invest about €600m in Polish real estate, local news service PAP Market Insider reported.

The fund will invest in real estate in Warsaw and other Polish cities, and AIBCM hopes to attract both institutional and individual investors to the fund. This will be AIB's second investment in Poland, the report said.

AIB also holds a majority stake in Bank Zachodni WBK of Poland. pfe

## Guest Column

### Unibail/Rodamco shows potential for consolidation in European listed property sector

By Boudewijn Schoon, Property Research Analyst, Kempen & Co

The merger between Unibail and Rodamco Europe, coming on the heels of Foncière des Régions-Beni Stabili, is seen as a signal that the quoted real estate sector in Europe has entered a stage of consolidation. However the European listed property market is not yet so far developed as the US, and the main obstacle remains shareholder structures so we have some doubts how far this can run. That said, Unibail offers management capacities and a complementary shopping centre portfolio in the merger, showing that a good match can indeed be made in Europe. In addition to more active management, Unibail aims also to increase alternative income such as advertising revenues in the malls themselves. Rodamco Europe's largest shareholder, the giant PGGM pension fund company based in Zeist, has steered toward a share offer instead of cash, and will submit its 24% into the merger. By far the largest pension manager in the Netherlands and one of the largest in Europe, PGGM manages assets of €81bn, of which €11bn are in real estate. It also owns stakes in Eurocommercial and VastNed Retail.

Given the commitment of management, and the longer-term growth story, the bid has a good chance to succeed. The offer from Unibail implies an attractive premium for Rodamco Europe shareholders, while it will modestly dilute the growth profile for its own stockholders. The bid represents a premium based

on future net asset value and cash-flow per share earnings estimates. The broader risk to our Add rating on Unibail would be a further correction in the property sector. Some risk could come from its own investors because shareholder approval will be required, as Unibail will have to issue new stock to fund the merger. The EGM is scheduled at end-May, and the exchange offer runs to early June. The value of the bid is based on the share price of Unibail, which at the time of the offer represented an implied yield on the Rodamco Europe portfolio of 4.1%. A higher offer only makes sense if another bidder has the operational capacity to add value. After the decline in the Unibail stock in subsequent days, the offer now represents an implied valuation yield on the portfolio of 4.5%. Although we still believe PGGM prefers to accept shares from such an obviously complementary partner as Unibail, chances of a competing cash offer have increased modestly.

The combination will have a below-average loan-to-value ratio of 28%, and management has indicated that the merged entity will use the extra capacity

to finance development opportunities. The outcome of the full review of potential in the Rodamco Europe portfolio is expected around September. Assuming a maximum LTV of 50%, the entity will have



Boudewijn Schoon

room for development spend of about €10bn, we estimate. A further extraordinary dividend afterward to optimise balance sheet ratios would depend on whether sufficient funds remain. Given the new outlook for the combined group - taking additional development opportunities and an increase in like-for-like rental growth on the Rodamco Europe portfolio into account - we arrive at a new price target of €220 for the combination.

Based on the announced 0.53 equity exchange ratio, we have increased our price target on Rodamco Europe to €116.6. Since the end of June, Unibail and Rodamco Europe have gained 51% and 42% respectively, compared to 33% for the GPR 250. Given the relative outperformance to date, both stocks have potential for some declines near term. Our 12-month price target on Unibail of €220 is based on underlying fundamentals and future development potential. We see risks for the 72% shopping mall part of the portfolio as limited. bs

## UK's Atlas Estates to debut soon on Warsaw Stock Exchange

Atlas Estates, a UK real estate developer and investor operating on the Polish market and also active in Hungary, Slovakia and Romania, is considering floating its shares on the Warsaw Stock Exchange before year-end, the Construction Poland newsletter reported.

The total value of Atlas Estates' assets at end-2006 was €312m, with the company's Polish property assets accounting for €189m.

The company invests in Warsaw, where it owns the Hilton hotel, the Platinum Towers and Millennium Plaza office buildings and two residential projects: Capital Art Apartments (Wola) and Zielono (Zoliborz). pfe

## Czech developer ECM founder Janku takes stake in construction group PSJ

Milan Janku, the founder and majority shareholder of the Czech listed developer ECM Real Estate Investments, has taken a 51% controlling stake in construction group PSJ holding in partnership with another private individual, Frantisek Vaculik.

Janku told Czech Business Weekly the deal, whose terms were not disclosed, is a private investment. "It isn't advisable to integrate a developer and a construction firm," he said. ECM was listed on the Prague stock exchange last December, and is now being covered by analysts.

Janku noted an unexpectedly low correlation between rising real estate prices and prices for quality construction works, and said PSJ is well positioned in the central and east European market to benefit from the real estate boom in the region. Synergies could also be found as both groups look to expand in

eastern markets such as Russia.

ECM is currently working on 20 development projects in residential, office and commercial. PSJ had sales of €125m last year with net profit of €2.8m.

Another large Czech builder, North Moravia-based firm Tchas, also recently sold a majority stake to French construction group Eiffage to help it expand, Czech Business Weekly noted. Tchas projects revenues of €322m this year. pfe

## Croatian closed property fund Fima Proprius raises €27m in IPO

Croatian closed-end real estate investment fund Fima Proprius has raised the equivalent of €27m through a public offering of shares, twice the minimum amount targeted in the issue, on-line news service Croatia Today reported.

After closing the public offer, Fima Proprius had a total of 485 shareholders, of which 60% are domestic and 40% foreign. The value of accumulated assets makes the group the largest real estate fund and its shares should be listed on the Zagreb Stock Exchange next month. pfe

## Nordics' Capman takes stake in new Bulgarian REIT, Roy Property Fund

Nordic private equity group Capman is the biggest institutional investor in the Roy Property Fund, which has become Bulgaria's latest Real Estate Investment Trust, local news service Dnevnik.am reported, citing the Central Depository bulletin.

Roy Property Fund, whose prospectus has to be approved by the financial regulator, brings the number of Bulgarian REITs

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to over 50, including 20 launched in 2006.

Capman, one of the leading private equity investors in the Nordic countries with some €2.9bn in capital, is the biggest institutional investor in the fund with a 30% stake. Sasho Donchev, CEO of Bulgarian firm Overgas and Bulgarian Industrial Chamber Chairman Bozhidar Danev are also among the shareholders. pfe

## Bulgarian REIT Activ Properties buys Plovdiv land plot for residential complex

Bulgarian REIT Activ Properties has bought for an undisclosed amount 16,522 sq.m. of land in the nation's second largest city of Plovdiv, said the company's executive director Dilian Panev. The site will be developed into a residential complex.

The acquisition boosts the land the company owns in Plovdiv to 75,581 sq.m. Dnevnik portal reported. The REIT plans to further increase that area to 100,000 sq. m. Construction will begin after the site is included in the city's master plan, expected by the end of the summer, Panev said. Activ Properties raised its capital early this year from BGN 5.2m (€2.6m) to 19.8m (€9.9m). pfe

## Investors burned by Bulgaria property mishaps in tourism, commercial

Developers are rushing into misguided projects in Bulgaria, overestimating their return and profit targets, the Dnevnik portal learned from local real estate consultants in a survey prompted by the announcement that two foreign firms are pulling out of investments there.

In tourism, Black Sea Property Fund terminated its financing agreement for an 86-apartment development at Bulgarian coastal city of Tsarevo. The Greek Sprider Group, whose local division Sprider Bulgaria is developing a residential project in Sofia, also sold an unfinished property for a profit of just €130,000. Realtors now consider investments in holiday villages in some local resorts and in residential developments in Sofia as risky.

But larger commercial projects are suffering too. Petar Dudolenski from Real Estate Services Bulgaria predicted that only 6-7 of the 15 mall developments planned for Sofia will be implemented. Other investors are running into trouble by consolidating large-scale projects that later suffer delays or misfire altogether, said Ivan Velkov from realtors Colliers International.

Valeri Valchev, director of commercial property advisors Forton International, said major difficulties and delays can be expected next year due to inexperience of the developers. Sofia Airport Center, a Tishman International development, is among major projects behind schedule due to technical glitches. Forton has the exclusive agency contract for the €200m business park, and prices in the airport area have risen substantially, he added. pfe

## Warimpex, Louvre Hotels in €300-€500m central Europe budget hotel JV

The French group Louvre Hotels and Austria's Warimpex Finanz- und Beteiligungs have set up a strategic 50/50 joint venture to develop and own budget hotels in central Europe. It will cover activities in Poland, the Czech Republic, Hungary and Slovakia,

with possible extension into other countries in the region.

The companies intend to jointly invest €300-€500m in the JV in the next five to seven years, with the aim of developing over 80 hotels in the region. The first €150m investment phase will comprise about 30 budget hotels in this region. Warimpex will act as a developer and Louvre Hotels as the hotel operator.

The joint venture will enable the two companies to develop the budget brands of Louvre Hotels: Campanile; Première Classe and Kyriad, and is expected to start operating mid-2007. pfe

## Spanish developer Alius in first Romanian residential investment

Alia Inmobiliaria, a subsidiary of Spanish property development group Alius, has entered the Romanian real estate market with a €35m residential investment in 130 luxury apartments in Bucharest's Arcul de Triumf area.

"The compound will be erected on the Maresal Averescu Boulevard and will consist of three buildings, of six, eight and 20-stories high," Alius Group general manager Fernando Moreno told Mediafax news agency. The project is funded from Alus' own resources and a €26m loan from HVB Tiriac Bank. pfe

## Romanian first quarter real estate transactions surpass 2006 first half

The value of real estate transaction in Romania in the first three months of the year reached some €450m, more than half of last year's total figure of €740m, portal Nine o' Clock reported.

This year's most important transaction was the forward purchase of the Polus Constanta commercial facility by Austria's Immoeast for €185m, which has been the most active investor this year, involved in four out of the 10 transactions concluded. Two other projects purchased by Immoeast are business parks S-Park near Baneasa airport and Victoria Park in Bucharest for €90m and €60m respectively. It also bought a 25% stake in Adama Holding Public real-estate development group, which envisages Romanian investments estimated at €600m.

In the hotel market, Israeli company Atlas Estates took over the Golden Tulip hotel, located on Bucharest's Victoriei Avenue, for €20m, while Metis Capital, also from Israel, purchased the capital's Cerna hotel as part of its Finit Investment & Development takeover.

CB Richard Ellis analysts see Romania remaining one of the most appealing markets in central and eastern Europe this year. pfe

## Serbian property market hampered by space problems, political risks - newspaper

Despite improvements over the past few years the real estate market in Serbia still faces unsolved problems and risks that could brake further development unless adequately solved, Serbia & Montenegro Today reported. A lack of adequate construction space in the centre of Belgrade is so acute that the possibility of constructing a 'third Belgrade' is being considered.

In retailing, the largest international chains, already present in other east European countries, are not yet involved in existing construction projects in Belgrade. Political instability also hinders construction projects and could lead to economic stagnation and stall the arrival of large foreign trade chains.

King Sturge Serbia Executive Director Srdjan Vujicic said potential investors in Belgrade select the separate development Novi Beograd in 40% of cases for construction projects, while 60% invest in the centre of the capital. "The basic problems with downtown Belgrade locations are unsolved restitution issues, which pose a significant risk factor for future investments," Vujicic said. A second problem is inadequate infrastructure and overcrowding. The centre also lacks prime locations since it is occupied by decrepit facilities ripe for demolition. pfe

## Rising rents, lack of vacancies hamper retail in Baltic states

Demand for retail space in the Baltic states is high, with vacancies virtually at zero, according to a report by Ober-Haus Real Estate Advisors. Regional rents in new shopping centres are €15-20 per sq.m. for smaller stores, and supermarkets acting as anchor tenants are paying €9-10 per sq.m. with service charges from €3-5 per sq.m., CEE Estates Gazette reported.

Development is booming in the Latvian capital Riga, where total retail space grew 33% last year to 715,000 sq.m. Ober-Haus predicts another 250,000 sq.m. will come onto the market over the next two years. Lithuanian developer Vilnius Prekybas plans to build one of the largest retail centres in the Baltic region in Riga to provide over 150,000 sq.m. of retail space. Norway's Balder Invest is building Galeria Patollo, a 50,000 sq.m. shopping centre for over 200 shops.

Three major retail centres are set to open in the Lithuanian capital of Vilnius this year, providing 146,000 sq.m. of space. The largest, Panorama, is currently under development by ELL. Other future projects include Ozas, which is set to provide 62,300 sq.m. of retail space.

There were no major openings in the Estonian capital of Tallinn last year. Analysts commented that property owners are currently reluctant to sell. pfe

## €800m to be invested in Hungarian hotel development by end-2008 - newspaper

Investments in hotel development projects in Budapest and other parts of Hungary are expected to total €800m by end-2008, business daily Világgazdaság reported. Projects between 2006 and 2008 will result in 100 new hotels, the newspaper predicted.

Current projects to be completed in 2008 include the Klotild Palace in Budapest city centre and Baglioni Hotel Rác Thermal Spa, another five star hotel which will incorporate a reconstructed 17th century spa. Although foreign investors are primarily interested in opportunities in Budapest, other areas such as the Danube Bend north of the capital and Lake Balaton in the west have also attracted major projects. pfe

### STUDIES/REPORTS

## French commercial returns top 20% in all four sectors – IPD

French commercial real estate returned a total of 21.7% in 2006, the highest level since 1998, according to Investment Property Databank. Over the three-year and five-year periods to 2006, total

returns were 15.6% per year and 12.7% per year respectively.

French property outperformed the French equity total return of 20.9% and the very weak bonds return of -0.9% in 2006.

The results for all property returns in 2006 were driven by strong capital growth at 15.3%, well up from 8.8% in 2005, while income return slipped to 5.7% from 6.1% in

2005. The solid capital growth in 2006 was a result of 3.1% rental value growth and gross

initial yields falling from 6.2% to 5.7%.

The retail sector was the best-performing in 2006 for the sixth consecutive year, with a total return of 23.7%. All sectors except mixed-use assets exceeded 20% total return. IPD said office total returns recovered strongly, up to 21.8% in 2006 from 12.9% in 2005, as rental values recovered from a fall of 0.9% in 2005 to growth of 3.6% in 2006.

France now ranks second in Europe in the IPD indices behind Ireland (27.2%), but ahead of the UK (18.1%), Denmark (17.8%), Norway (17.6%), Sweden (16.2%), Netherlands (12.5%) and Portugal (12.0%). IPD France Managing Director Christian de Kerangal said that France's record result indicates a robust property investment market. pfe

## Retail tops Portugal's commercial property, total return at 12% - IPD

Portugal's all property total returns in 2006 of 12.0% reached its highest level since 2002, reported index and asset performance measurement firm Investment Property Databank. This compares to the country's 0.2% bond return and 2.5% inflation rate, though

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## The PFE Interview: Iain Keys, London & Capital

### London fund manager sees strong demand for German property fund focused on retail, logistics - expects above-inflation rental growth

The attraction of Germany for British and other global institutional investors is so strong that the move of the UK-based London & Capital asset managers to set up a German Real Estate Fund at the start of last year is really beginning to pay off, says its Director of Real Estate.

Iain Keys told PFE in an interview that the recent purchase of a retail warehouse in Heppenheim, near Frankfurt, takes the fund size up to €268m. Fund equity, reflected in net asset value, is about €160m. "We have no particular size target for the fund though," he says. "On completion of all the deals so far notarised we will soon be over €400m. Our preferred trajectory would be to take it to about €1bn by the end of the year, and we can certainly hit €750m. And because of the recovery in the market we think the best buying opportunity will be this calendar year, so we are very keen to keep up this flow into the deal pipeline."

Targeting retail and distribution properties with high quality tenants and long leases is the strategy London & Capital have selected for its German fund - even though it is cautious to give room for above-inflation rental growth by not tying all purchases into long-term contracts.

The fund, which returned 9% in the six months to the end of February, is helping London & Capital to be one of the fastest-growing asset managers in the City. It now has around \$2.7bn in total assets under management, of which \$1.6bn are in real estate.

The open-ended German property fund was launched in March 2006, and Keys makes sure that the majority of the capital is allocated. "We had about 15% in unallocated cash, but this is being put into new deals now," he says. The money comes from a growing variety of sources. "The company was built on the back of high net worth investors, and as we have got more critical mass in assets under management, we have obviously attracted more interest as well."

Family offices are one large source of money, and other institutional money is also coming in. "Particularly in real estate, a lot of global sources of money are desperately trying to get into the German market," he says. "It's coming in on a global basis now - loads of European and also Far Eastern clients. Yield compression will happen, as in the UK, in the short-term. So we need to make the most of that arbitrage, see the yields come in, and take the rental growth as the economy grows in the medium-term."

He sees the German property market exhibiting many attractive characteristics. Unlike the UK and most of western Europe where property values have appreciated substantially in recent years, rental yields in Germany remain very attractive - effectively creating a mis-pricing for prime real estate relative to other markets: "With the boom and bust phase of unification and the high rate of unemployment

that followed, Germany, as the fourth largest economy in the world, is now beginning to show signs of economic improvement. This will have a positive effect on the retail sector and property as a whole over the next five years."

The fund asset profile is mainly logistics and out-of-town retail and supermarkets. "Discounters, Praktika, OBI, Hornbach - most of the do-it-yourself groups. Supermarkets - with Marktkauf, Rewe, Plus and so on. Metro with its REAL distribution centre, and ATU, the big car parts and servicing retailer. Deutsche Post is in there as well."

He adds: "A lot of them are big-name tenants and pretty much all assets were built post-2000 so it is modern, prime-quality units in excellent locations, and with a mixture of lease lengths. We did not want to have a portfolio completely of 10-15 year lease expiries though, because we think there is going to be good market rental growth which should be higher than CPI rental growth."

In acquisitions, Keys has been able to find entry yields on quality retail and logistics assets of between 6% and 7%, which is well above UK rates. He finances at five-year fixed rates of 4.8% or 4.9%, with gearing generally at 75%-80%. "The office market in Germany has been so popular domestically that it has kept the yields down

in that sector," he notes.

"We felt that with the lower supply in retail and logistics it's a much safer environment to be in. Also, rental levels are so low that while we have the capital growth that will happen over the short term and the yield shift, we also see some superb rental growth potential in the longer term." Rises in German house prices should come through to support consumption.

"So many people just like the story of Germany that they want to get into that product but there is very little around," he notes. "A lot of institutions don't like being tied to a closed fund for five years; they like a bit more flexibility." Over the last year, the main challenge has been finding the right product to match capital inflows. "I don't want to take all this capital in and have an overweighting of cash which will dilute returns and be unfavourable for current investors, so building our pipeline of deals to match cash inflows is very, very important," he says.

"We are expanding the range and source of deals to make sure we have the capacity. The last thing we want in the fund is feeling forced to spend money so we are very conscious of the quality of deals." pfe



London & Capital's Iain Keys: "The best buying opportunity in Germany will be this year, so we are very keen to keep up the deal pipeline."

industrial equities still outperformed all property at 29.9%.

As in previous years, the retail sector was the property market leader with a total return of 15.9%, largely due to international investor interest in regional shopping centres. The industrial and mixed-use property sectors both produced higher returns compared to 2005, at 7.7% and 11.1% respectively.

The office sector continued to be the worst performing sector, producing a 5.7% total return. Investor prudence in Lisbon was noted in particular.

Capital growth was the main driver of the 2006 increase in total returns, with the retail sector achieving 8.9% capital growth. All property capital value growth increased by over 200 basis points compared to 2005 and income growth in the industrial sector increased from 6.7% to 7.1%. However, retail and offices experienced a drop compared to 2005 with the exception of mixed-use properties which remained the same at 6.7%. pfe

## Swedish 2006 residential property performance hits 15% - IPD

Total 2006 returns for Swedish residential property reached 15.1%, a four-year high, according to Investment Property Databank. The return exceeded the country's 0.9% bond return but was lower than the 28.1% industrials equity return.

The figures are part the SFI/IPD Swedish Residential Property Index 2006. This also measured the Swedish All Residential total return below the Property Equities total return of 38.7%.

Strong residential property performance was attributed to a higher than average capital growth of 11.6%, while income return slowed in 2006 to 3.2% from 3.5%. Capital growth was driven by a fall in yields of 88 basis points and annual rental value growth of 1.8%.

Central Stockholm's 13.0% total returns in 2006 were the weakest in the country's three segments. Income return on residential properties in this area fell to an all-time low of 2.3%. Residential properties in the rest of Sweden achieved a 16.0% return, surpassing the 15.1% all residential return and the 2005 rest of Sweden total return of 9.9%. pfe

## Norway sees strong office recovery, 2006 total return of 18% - IPD

Norway's property total return for 2006 increased 240 basis points to 17.6%, which was above the 0.9% bond return but still under-performed the 32.4% industrial equity return, reported the UK's Investment Property Databank late last month.

Norway's total return rate was the highest since the index's inception in 2000.

Office properties were the strongest sector, with total returns of 18.2%. Other commercial was the second highest performer and showed signs of rental recovery over the last two years. The weakest sector was retail properties, achieving total returns of 16.4%.

Christina Gustafsson, Managing Director of IPD Norden, said, "The high office returns in Norway are consistent with a trend we have seen in other parts of Europe. The close in yield gap prompts investors to look for opportunities in rental growth." Offices in Oslo were also noted as experiencing the strongest growth.

Capital values rose by 10.2%, while income return fell to 6.7% from 7.2%. Compression in valuation yields – which fell by 50 basis points – drove strong capital returns, despite a rise in

Norwegian interest rates, the ninth hike since June 2005. Rental value saw growth increase by 8.6% overall and, in the office sector specifically, by 11.4%. pfe

## Australian property funds shifted to Europe in 2006 – Jones Lang LaSalle

Australian property funds in 2006 invested 350% more in Europe than they did the year before, reported Jones Lang LaSalle recently. Total investments of \$6bn were invested predominantly in Germany at \$3.5bn and the UK at \$1.5bn. Funds also targeted the Netherlands, Poland, Belgium and Spain.

Overall, Australian property funds purchased \$12bn of assets outside their domestic market in 2006, down 7% y/y. Investment in the Americas was 67% lower than last year at \$3bn. In 2005, Australian funds were the largest cross-border investors in the US.

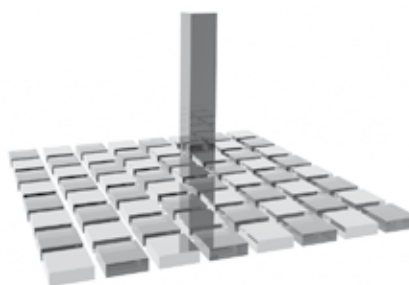
Most Australian funds acquire European and North American investments by way of joint venture arrangements, Tony Horrell, CEO of Jones Lang LaSalle's International Capital Group said. The firm expects Australian fund investment volumes outside of Australia to be higher again this year. pfe

## Slow first quarter for German office rentals - Jones Lang LaSalle

Office rentals or sales to users in Germany's five biggest office markets fell by 3% in the first quarter of 2007 to 537,000

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sq.m., although business was still up by 16% from the five-year average, according to realtor Jones Lang LaSalle (JLL).

In a market commentary it said the first quarter is typically a sleepy one for the office market and this one contrasted sharply with the strong year-end office rental rally of 2006 "Our (2007) forecast of reaching a volume similar to that of 2006 stands," said Helge Scheunemann, German research director. "There's no reason to doubt this at the moment."

Contract signings in Berlin, Düsseldorf, Frankfurt, Hamburg and Munich, the five cities, varied widely, with Munich leading and Frankfurt trailing. Munich's 2% higher space turnover of 195,000 sq.m. included a deal by car club ADAC with 60,000 sq.m. Contracted volume of 66,500 sq.m. in Frankfurt was down by 8% from the first quarter of last year.

Düsseldorf had the strongest sales growth, a gain of 18%, on volume of under 86,000 sq.m.. And Hamburg's 8.2% rise to 123,000 sq.m. included 26,000 sq.m. rented by Spiegel publishing house. Berlin had no such luck, its volume falling by 37.5% to 66,000 sq.m.

Vacancies in the five cities continued to fall despite the slow quarterly rental gain because a lot of sublet space was taken over by the principal tenants without generating new rent contracts and there were also few office project completions. Including subletting, the vacancy rate fell – with strong regional differences - by 7% to 7.16m sq.m. in the five markets. Peak rents rose only in Düsseldorf. And only 134,000 sq.m. of new or renovated space came on the market, 98% of it in Hamburg and Munich. JLL projected a completed office volume of 585,000 sq.m. for all of 2007. pfe

## Brussels office property market attracts investors - King Sturge

Investment into the Belgian real estate market more than doubled in 2006 to €4.3bn from the prior year, reported UK firm King Sturge. The office sector comprised 59% of all investment, with prime office yields tightening to 5.75% by year-end 2006.

The findings are part of the King Sturge's Brussels Office Property Market 2007 study. It also found that the vacancy rate in the city's office market fell below 10% for the first time since 2003 to 9.7%. The capital's office market accounted for 40% of all real estate investment in the country.

Public sector is driving most demand, accounting for 40% of take-up last year. pfe

## German cyclical upswing to cut office vacancy, boost rents – Deutsche Bank

A cyclical upswing in German office markets resulting from rising economic output means that vacancy rates in the seven major German office markets should ease through 2010 by about 2pts while headline rents climb by 12%, says a new analysis by DB Research.

Analyst Tobias Just found said that private consumption is lifting out of the doldrums and is giving the battered construction industry its first gain in many years. Vacancy rates are falling and rents are buoyant, providing attractive yields when compared with the rest of western Europe. Although yields are likely to fall with sustained investor interest, they are unlikely to reach the low levels of London or Paris - and they remain well above those of the long-term government bonds.

Hamburg and Munich are seen as the main winners of the upturn. Although strongest rental growth is likely to occur in prime city locations, investors should not neglect diversification. Opportunities can be found in secondary and tertiary markets in the east and west of Germany.

The biggest risk ahead lies not in a downswing of property markets but in an overreaction by investors and project developers, the report said. It also cautioned against excessive optimism because the German economy still has unsolved structural problems. pfe

## Barcelona investment rises 18% in first quarter - Jones Lang LaSalle

Investment in Barcelona property amounted to €371m in the first quarter of 2007, an 18% increase over the same period in 2005, according to a recent report for Jones Lang LaSalle.

The majority of the investors were Spanish, although the demand from abroad is growing. The key for these investors, the report said, is to obtain high yields in the empty lots and buildings on the outskirts of the city. Yields in the CBD fall between 4.25% and 4.50%. In the secondary and peripheral areas, the yields fall between 4.75% and 5.25%, and 5.25% and 6.00% respectively.

The slight decline in yields and the high prices are driving potential investors to other countries such as France and Germany, the report said. It sees the office sector more profitable in the future than the residential market.

In a separate report, JLL said prime rents in top location offices cost €25.25 per sq.m. per month in the city, a slight rise from the last quarter. Vacancy remains about the same at 4.79%, although availability in the prime zone falls to around 1.3%. Rented office space in the first quarter came in at 87,820 sq.m., a 11% drop from the first quarter last year. pfe

## French diversified OPCIs outperformed specific-focus funds - IEIF

French unlisted OPCIs real estate funds focused on diversified shares have outperformed more specifically focused products over the past 20 years, according to a new study by the Paris-based Real Estate Savings Institute IEIF.

OPCIs must have a minimum of 10% liquidity and 60% real estate assets, while the remaining 30% can have different allocations. The IEIF (Institut de l'Épargne Immobilière & Foncière) compared the performance of OPCIs invested in property companies, diversified property, diversified bonds and diversified shares. The diversified OPCIs multiplied five-fold between 1985 and 2005 thanks to the strong performance of the equities markets, while the property OPCIs suffered from the property market crisis of 1990 to 1996.

Diversified property OPCIs were the second-best performers thanks to favourable period for REITs (Sociétés d'Investissements Immobilières Cotées, SIICs) and on a 10-year survey, revealed the best performance. They profited from a profound restructuring of the sector in the late 1990s, even before the introduction of the SIIC regime in 2003.

Diversified property OPCIs also outperformed from 2000-2005 with a strong performance for property companies and regular high dividends due to the SIIC regime and a dynamic property cycle. pfe

## ■ PFE PEOPLE PFE PEOPLE ■

**Alec Emmott** is stepping down as Managing Director of French REIT **Société Foncière Lyonnaise**. A graduate of **Trinity College Cambridge**, Emmott joined SFL in 1995 and was made MD in 1997. He intends to remain active in the sector in Paris... **Jan Haars** has been nominated by the supervisors to join the managing board of **Corio N.V.** as chief financial officer, pending approval by the stockholders. **Haar** starts his four-year tenure 1 May. As acting financial director since last 12 October, he has been cleared by the Netherlands Authority for the Financial Markets... **Tommaso Di Tanno** and **Paolo Mascagna** are the new president and managing director of **IPI S.p.A.** The Italian real estate investment firm has just separated from the troubled **Coppola group**... Real estate investment management firm **Heitman LLC** has appointed **Ajay Sharma** senior vice president for client service and marketing. **Sharma** will work from **Heitman's** London office... **Berend Scholten** has joined **INREV** as director of professional standards. He will help the pan-European association's membership of unlisted property funds to develop corporate governance standards and reporting guidelines. **Scholten** had been a legal officer of **ING Real Estate**, dealing with property funds launchings, investment, mergers, acquisitions, joint ventures and regulation... **Hans-Joachim Neumann** of **Postbank AG** has been named chairman of the managing board of **BHW Holding** in Hamelin. The only other board member is **Horst Küpke**, also of **Postbank**. **Ralf Kanther** has been made chief financial office of this newly acquired **Postbank** property subsidiary... In Paris the group **HRO** has announced a restructuring following the death of the founder and international chairman **Howard Ronson**. The four managing directors will take control of the company. **Larry J. Wyman** becomes Non-Executive Chairman of the Supervisory Board. **Tim Carden**, Chief Financial Officer will also become Chief Operating Officer. **Philip Gaillard** and **Tom Stauber** will continue to be responsible for project development. **Richard Ward** will remain in charge of building conception and construction... Spanish property firm Aisa has named **Manuel Balcells** as its new general director... German apartment house investor **FrancoRheinMain** has hired **Botho Finck** as its purchaser for the Rhine-Neckar region. **Finck** is an economist from the **European Business School** and an expert on the targeted region around Mannheim... **Oliver Kreckler** will join the managing board of **Deutsche Immobilien Holding** in May. He comes from **Oppenheim Immobilien** of Wiesbaden... **Matthias Drüppel** has been appointed to the management of Hamburg property fund manager **LB Immo Invest**, joining business managers **Hans-Dieter Martin** and **Hartwig Hasenkamp**. **Drüppel** will be responsible for property acquisition an administration... **Johann Thoma** has become the third member of the managing trio of **Mesago Messe Frankfurt**. **Thomas** has been personnel director of the parent Frankfurter Messe fair organisation... **Claudia Kruse-Madsen** has taken over responsibility for press and public relations at **Hamburg Trust Grundvermögen und Anlage GmbH**. She leaves a similar post with **HGA Capital Grundbesitz**, part of German state bank **HSH Nordbank**... **Fabio Filippini** is the new director of due diligence of **ERIF**, an Italian real estate broker and consulting firm... **Jean-Marc Blanc** has been appointed director of **Cibex**, a property marketing group directed by **Robert Pivont** and **Patrick Egretreau**... **François de La Rochefoucauld** has been appointed Regional Director, Operations for **Prologis** in Paris, and will be in charge of southern Europe... **Philippe Bresteau**, a member of the **Keops** board, will replace **Solly Gubbay** who is stepping down as head of investment to devote time to his consultancy company. pfe

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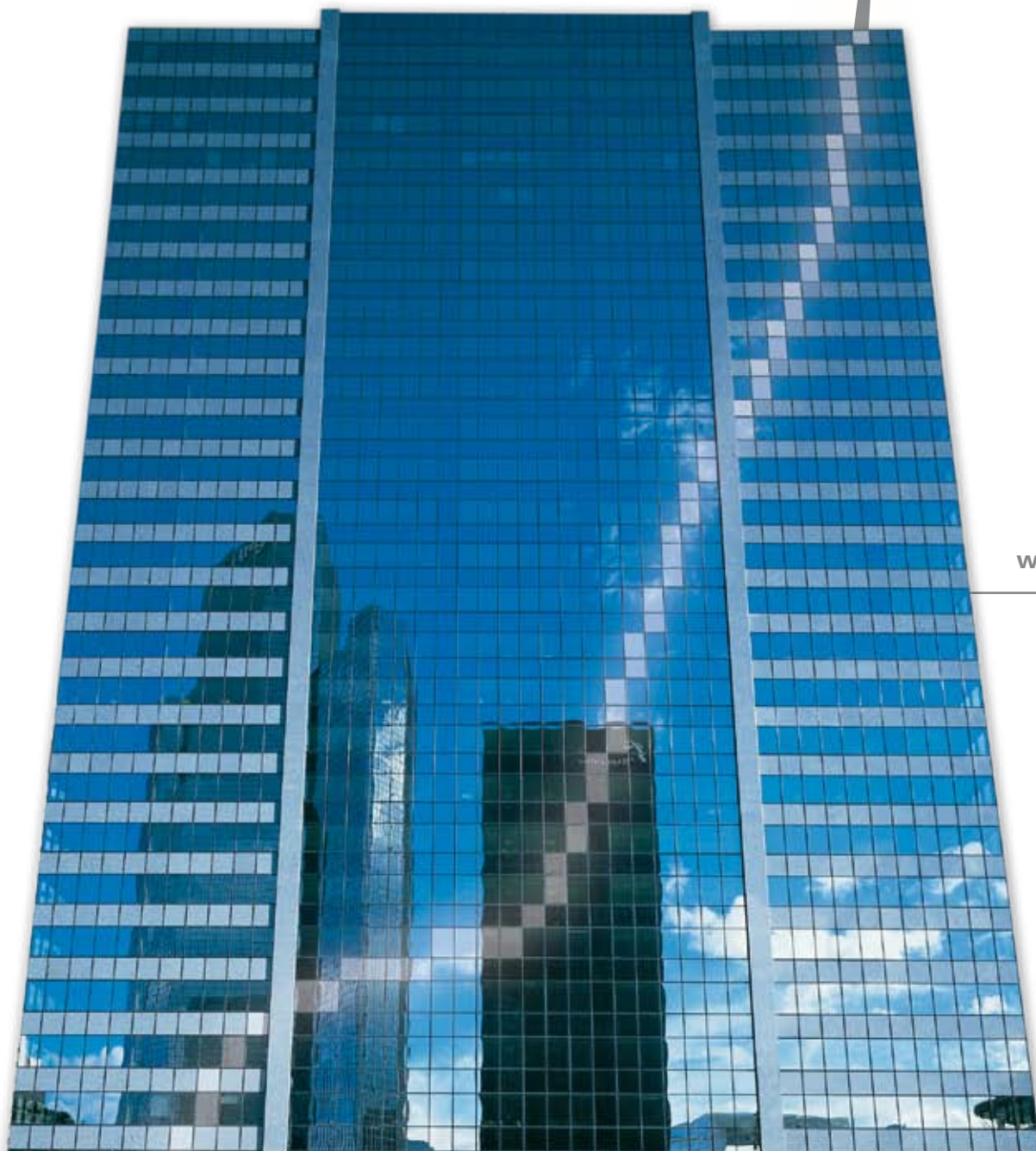
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