PROPERTY FINANCE EUROPE

• European REITs • German non-performing loans (NPLs) • Institutional real estate portfolio investment • Mortgage securitisation, CMBS/RMBS • French office property • Distressed debt • German real estate banking • Special mortgage servicing • US real estate funds in Europe • Pfandbriefe/covered bonds • Paris SIICs •

Volume 1, Issue 5 — 13 June 2005

LaSalle sees returns of 9-11% in European REITs this year

A combination of modest cash flow, net asset value growth and attractive dividend yields, means annual returns of 9-11% should be generated across European REITs this year, LaSalle Investment Mgt. said. **PAGE 2**

Lone Star's von Köller sees three elements for achieving high returns

Three factors are key to success in achieving high annual returns of around 20% for opportunity fund investors, Karsten von Köller, German Chairman of Lone Star says. **PAGE 5**

Italy's Intesa sells E9bn NPL portfolio to Fortress, Merrill Lynch

Italy's Banca Intesa said it has sold a portfolio of non-performing loans with a face value of E9bn to the financial investor Fortress and the investment bank Merrill Lynch for E2.1bn. **PAGE 6**

Crown and Westfalenbank set up Germany's first independent Special Servicer

Crown European and Westfalenbank announced the establishment of Germany's first third-party NPL servicer. **PAGE 7**

Gecina buy signals Spanish move out of overheated domestic market

The takeover bid by Metrovacesa for French REIT Gecina extends the growing trend by Spanish real estate firms to diversify out of the overheating domestic market. The acquisition creates Europe's biggest property company, with €13.6bn in assets.

At the close on 1 June, Metrovacesa, Spain's largest property management fund by assets, owned 68.54% of Gecina's outstanding shares and 71.95% of voting rights. The takeover values Gecina, one of 17 French REITs (Sociétés d'Investissement Immobilier Cotées, SIICs), at €5.5bn, around €700m above its market capitalisation prior to the bid.

Gecina is France's largest property company, with assets of €8.1bn as of December 2004. Metrovacesa, holding assets valued at €5.5bn, launched the cash offer in March at €87.65 per share at the normal clearing date, or €89.75 at year end. The latter option was originally accepted by French insurance giant AGF and property subsidiary Azur-GMF for a combined package of 30% of Gecina stock. The bid had been recommended by Gecina's board.

In recent weeks, the listed Spanish property developer Fadesa also announced it had acquired 70% of its small privately-held French counterpart Financière Rive Gauche, and intended to invest €200m in the French real estate market over the next three years. One year ago, Madrid-based Immobiliaria Colonial acquired the French company Société Foncière Lyonnaise.

"The Spanish are highly interested in the French market since they are able to find yields here well above those they get in Spain on their own assets," Rive Gauche Chairman Michel Bressot commented after the takeover of his company. Fadesa said in a statement that the French acquisition was part of a strategy of internationalisation of its asset base. It already owns assets in Portugal, Morocco, Hungary and Poland.

Metrovacesa chairman Joaquin Rivero said earlier he was aiming to win 80% acceptance for the bid from Gecina shareholders and would leave the remainder in free float. The Spanish firm intends to announce a capital increase of at least €800m soon to help finance the deal, which has been leveraged at 69% (pro forma loan to value). It intends to reduce this to around 50% in 3-4 years by paying down the seven-year financing facility through the capital increase, internal cash-flow generation, and asset disposals.

Gecina holds 2.4m sq.m. of rental property, split 56.4% commercial and 43.6% residential. Just under 90% of all assets are located in Paris or its adjacent western suburbs. The office/retail assets have limited tenant risk, with the 10 largest representing just 18.6% of Gecina's rental income in 2004, Metrovacesa said in a statement. Gecina's residential properties have shown a high and sustainable occupancy rate above 96.6% since 1997.

Metrovacesa, at a market capitalisation under €3bn prior to the bid, is the smaller company. It has a diversified rental portfolio, holding 1.24m sq.m. of real estate assets. CONT. ON PAGE 2

Likely change in German govt. to bring property sector reform

The sudden call by German Chancellor Gerhard Schröder for an early federal election, almost certainly on 18 September, is highly likely to bring with it a switch of government to the right-of-centre/liberal opposition parties and also a wind of change in German real estate.

Legislation to enable G-REITs should be a priority of a new centre-right coalition government for the property sector. Latest reports suggest a February 2006 introduction is possible after a new cabinet decides this in November. CONT. ON BACK PAGE

WWW.PFEUROPE.DE

Dear Reader,

Starting with the edition of 11 July 2005, Property Finance Europe is moving to a subscription basis for print-copy plus Website download, allowing us to serve your information needs still better. Soon we will be making all registrants a no-obligation discounted subscription offer and substituting new emails for non-registered recipients of past issues.

Please send your registration now to continue to receive PFE notification and also our no-obligation discount subscription offer. You can register via the website, an email to my attention, or via the fax registration form on the back page. Thank you.

Charles Kingston, Business Manager. business@pfeurope.de

FROM FRONT PAGE, METROVACESA TAKES OVER GECINA: Metrovacesa assets include offices, shopping centres, hotels and other uses. In the housing development business, it sells around 2,400 homes per year via 11 regional outlets in Spain. Just under 60% of its assets comprise commercial rental property, with residential making up the remainder.

In a statement at bid launch Metrovacesa said the acquisition of Gecina would enable it, "to become a leading office real estate operator in the two most attractive markets in the euro zone, Paris and Madrid, as well as one of the principal commercial real estate operators in Europe." It said France is one of the most attractive and dynamic real estate markets in Europe. Compared to Spain, it was substantially larger, offered better liquidity, greater diversity of tenants and higher yields.

Metrovacesa said its strategy is to focus on letting activities and to reduce its exposure to development of residential real estate assets. Following the transaction, its Spanish housing portfolio would represent just 17% of total assets compared with 40% on a stand-alone basis.

The Gecina board, chaired by Antoine Jeancourt-Galignani and CEO Serge Grzybowski unanimously approved the bid at a meeting on 5 April. However, it decided not to participate in the offer with nearly 3m of its own stock retained in treasury. A close ally, Predica, an insurance subsidiary of Crédit Agricole, also declined to sell its 7.6m shares, representing 12.22 % of the capital of Gecina.

Metrovacesa has said it would keep the current management in place, and accelerate the strategy already in place for development of Gecina assets. Because of the significant free float, the companies said Gecina's SIIC fiscal and legal status is not at risk.

Morgan Stanley and Calyon acted as financial advisers to Metrovacesa in the transaction. Royal Bank of Scotland and Morgan Stanley, acting as joint book runners, provided the acquisition financing, along with Calyon and Banco Popular. Linklaters was the legal adviser. Credit Suisse First Boston and Lehman Brothers were advisers to Gecina.

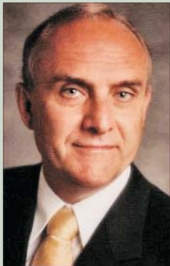
Paris stock exchange company Euronext removed Gecina from the Euronext 100 Index effective 7 June 2005. In accordance with the rules it said Gecina will not be replaced immediately but at the next quarterly review effective 1 July. pfe

PFE COMMENT: Activity in French SIICs is being watched with particular interest from Germany and Britain, where pressure for REIT legislation is gathering pace. In place now for two years now, the French legislation boosted average market cap in the sector by 42% during 2004, and another 12% in 2005 so far. Mergers and acquisition activity both within the sector and externally has been dynamic. SIICs have had good access to capital for development of individual asset portfolios via the stock market. Total market cap of the 17 SIICs has thus grown to 19bn from a prior 12bn. An April study by the IEIF (Institut de l'Epargne Immobilière et Foncière) showed that much of the commercial property sold by CAC 40 companies over the last years has been bought by or converted into SIICs.

Returns of 9-11% seen generated across European REITs sector this year

Shares in European Real Estate Investment Trusts are attractively valued, and the combination of modest cash flow, net asset value growth prospects, plus an attractive dividend yield of 3.5%, means annual returns of 9-11% should be generated across the sector this year, LaSalle Investment Management said.

Dividend yields at current share valuations are 6.5% for Dutch REITs, and 6.0% and 5% respectively for similar vehicles in



Certainly we would deride the political radicalisation of the so-called capitalism debate in Germany, with the ridiculous characterisation by SPD Chairman Franz Müntefering of private equity, opportunity and hedge funds as 'locusts'. However readers should be aware that its arguments have had a profound echo among a wider – and worried - German population than merely those the English would call 'the loony left'.

When private equity groups buy unleveraged groups like bathroom-fittings maker Grohe and old-established electronics firm AEG, load them with debt to pay themselves large profits, and sell them on to leave the debt servicing burden to cripple and probably bankrupt the company, no government of any colour in Germany or France can politically afford to stand by and let this happen.

The job losses are getting high media coverage. Be they the current incumbents, or a German Chancellor Angela Merkel, or a French President Nicolas Sarcozy - all are right now puzzling how to respond to this phenomenon. A similar puzzle focuses on delocalisation – the trend to transfer company tax domiciles to cheaper locations. Watch this space in Berlin and Paris.

*****

The Germans becoming a home-owning nation? Whatever next! A new study by the Infratest group shows that the average income of new homebuyers has sunk by 21% to a monthly 2,750 compared with the last test from the years 1998-2000, and the average purchase price also fallen to 177,000.

Only 47% of Germans own their own homes compared with rates above 60% for UK, France and North America. The test also showed that the numbers of Germans changing homes is constantly rising now. And the average age of these repeat buyers has risen to 49 years, compared with 44 before. Some 20% of repeat homebuyers are over 60.

*****

Envy and scepticism are floating on the breeze in equal measure in Frankfurt, Berlin, Munich and Düsseldorf, and the Viterra sale is bringing both to fever pitch. If Terra Firma and its like can pull it off – at a purchase price of 800 sq.m. – then Real Estate Germany Inc wants to know how, and if possible get into the game. After all, can Guy Hands and the gentlemen and ladies from Fortress Investment, Cerberus Partners, Blackstone, Morgan Stanley. Oaktree et al all be wrong?

'Yes', Deutsche Bank was curmudgeonly enough to say in a recent report on residential portfolio sales. It has most recently been on the sell side. Two days before Christmas, Jade, a Wilhemshaven-based DB subsidiary, sold a small 7,500-apartment portfolio to Cerberus.

(Cerberus and Fortress are also active in our own backyard: they are both reported to be interested in the Frankfurt-based Deutsche Wohnen AG, a 23,000-apartment public sector portfolio.)

Knowing Deutsche, it is hedging its bets even as we speak. This is not an unwise bank. In the Viterra deal, it was at least optimistic enough on residential property to offer some tentative price prognoses to Eon for flotation of Viterra as a REIT next year.

The public sector owns 3m apartments in Germany. This massive engagement is not, as DB acknowledges, justified. Apartment property today is cheaper than after the historic event of reunification. We part company with Deutsche on its forecast that there is little chance of German home price rises anytime soon; we believe that structural elements are in play. And the intense change dynamic in banking and institutional real estate will not only influence German valuations but have an influence on property sectors in European Union partners.

*****

Allan Saunderson, editor@pfeurope.de

Belgium and France. "Together with the healthy cash-flow growth and NAV growth, we expect this to put a floor under the share-price unless interest rates unexpectedly rise dramatically, which we do not expect to happen," LaSalle said in an overall assessment of the sector contained in a first quarter 2005 valuation report.

France started introducing a REIT structure in 2003 as a SIIC (Société d'Investissement Immobilier Cotée).

LaSalle also noted the announcement by the French Casino supermarket group that it will pay capital gains tax on sale of property assets to a subsidiary with the aim of ultimately creating a REIT (SIIC) from them. "With the sale of the assets to the subsidiary, Casino will pay the 16.5% capital gains tax, which probably would not have been the case without a REIT. This will encourage other countries to introduce a REIT structure as well" LIM said.

The Casino subsidiary is intended to be listed as a SIIC this year. The assets to be transferred into it are mainly shopping malls adjacent to hyper- and supermarkets, as well as cafeterias it owns, but not office and warehouse assets.

The asset manager said the French introduction of a second stage of REIT legislation at the beginning of the year should encourage other French corporations to sell off property assets into a REIT structure during 2H05. The recent takeover of two French property companies by Spanish real estate groups is also very positive news for the sector as a whole.

UK companies potentially convertible into REITs are trading at a discount to their continental European peers. However, the cash flow generating capabilities of the UK companies is less than that of existing REITs elsewhere, and an introduction of legislation that allows for property development will result in a lower overall cash yield.

"Besides this, property yields in the UK are in many cases lower than the yields on the continent, mainly as a result of the attractive lease terms," the report said. "Therefore, we expect dividend yields in the UK to increase once the REIT legislation is introduced, but not to levels comparable to the Netherlands, Belgium or France." pfe

In the early part of this year, disappointment in stock market performance and the ongoing discounts to NAV had produced signs of a move toward listed real estate companies converting into fund management firms. The bid by a consortium of Warner Estates and Anglo Irish Bank for Ashtenne showed the value of a well-run fund management business appeared to be around 9 times earnings, or 2.25% of total assets under management. This potentially made other companies active in the fund management business attractively valued, LaSalle said. pfe

---

No rapid way to solve REITs fiscal challenges, says German study

A new study has concluded there is no rapid way to reconcile the fiscal regime for German Real Estate Investment Trusts (REITs) and at the same time avoid legal and tax avoidance risks, and current discussions over classifying dividend payments bilaterally as rental and lease income is unlikely to provide an genuine international solution.

The study, conducted by the Mannheim-based Centre for European Economic Research (ZEW) and the European Business School on behalf of the German federal finance ministry, concluded however that REITs would provide a sensible extension of the spectrum of investment vehicles in the German property market.

They would enable professional asset management, are more fungible than direct investments and produce a different risk-return profile than either open or closed-end real estate funds. Institutional investors had a strong interest in REIT investments, and provision of appropriate fiscal incentives would bring property portfolios into REITs' formats and out of the hidden reserves of major corporations. The study also found that:

– German REITs should be legally structured as public listed companies, AGs, but should have still more comprehensive reporting obligations,

– Stock market listing should be a fundamental principle but should not be initially insisted upon by the government since the German capital market is not yet adequately developed,

– REITs should attain their profits primarily from real estate activities and pay out a high proportion, for example 90% of this in dividends,

– In return, REITs should be freed from trade and corporation tax, with the entirety of the tax obligation transferred to REITs investors,

– Domestic investors, for instance, should be taxed via their income tax declarations or their own corporate tax levels,

– There is no real way to tax foreign investors in Germany where double taxation agreements exist with their land of residence. pfe

PFE COMMENT: The body of these conclusions is not particularly dramatic in that it is the same as the recommendations made to the SPD/Green government in January by the Financial Centre Germany Initiative (IFD). However the call for new elections changes

easetec
SCENE ABS+MBS
DATE TODAY
PRODUCTION www.easetec.com
DEAL DONE!
THE BIG EASE
easetec ag® provides software solutions for securitisation in Europe: Data collection and management, transaction cash-flow modelling and pricing, and deal tracking and reporting.

the situation completely. A new right-of-centre government is likely to focus much more on the overall benefits for the macro economy of bringing capital into the property sector. The condition of the German real estate and construction sectors has received scant attention from Berlin under the Red/Green government. The absence of wealth creation via residential capital gains has been the principal difference in demand patterns between Germany and, say, the UK and France.

PROPERTY FINANCE EUROPE

Publisher
Rose Advisory Ltd,
Manufactory House
Bell Lane
Hertford,
Herts SG14 1BP
England

Operating Office
c/o easetec
Hainer Weg 13 – 15
D-60599 Frankfurt am Main
Germany
Tel. +49 (0)69 962448- 0
Fax +49 (0)69 962448-90

Editor
Allan Saunderson
editor@pfeurope.de
Cell +49 (0)172 672 3938

Business Mgr / Advertising
Charles Kingston
business@pfeurope.de

Internet / Distribution Mgr
David Jayne
webmaster@pfeurope.de

Administration
Gaby Wagner
office@pfeurope.de

Sector Advisors
Iain Barbour (Commerzbank) * Martin Damaske (Hypoport) * Clarence Dixon (Crown Mortgage Management) * Hugo Doswald (DG HYP) * Kingsley Greenland (DebtX) * Raffaele Lino (DTZ Investment Advisers) * Georges Ruchti (easetec services) * Philip Rutovitz (easetec) * Dr. Dieter Wermuth (Greater Europe Fund) * Thomas Ziegler (Reporting Online)

PROPERTY FINANCE EUROPE is published on the second and fourth Monday of every month from the easetec offices in Frankfurt am Main. PFE is independent of investing or selling institutions.
Information it contains is under copyright protection and is based on sources believed to be reliable, though their complete accuracy cannot be fully guaranteed. Neither the information in PFE nor the opinions expressed constitute or are to be construed as an offer or solicitation of an offer to buy or sell investments. PFE accepts no liability for actions based on the information herein.

© 2005 PROPERTY FINANCE EUROPE

G-REITs legislation unlikely before new federal election – government official

A member of the German SPD/Green government said last month there is no real disagreement with the right-of-centre opposition parties over the introduction of legislation allowing German Real Estate Investment Trusts (REITs), but the call for new elections means there will be no time to introducd a new law before then.

Christine Scheel, the Greens Party chairperson of the finance committee of the Bundestag lower house of parliament, told a conference at the end of May, "apart from a few isolated cases, there is no sign of a blocking position on this from either side."

However, assuming Chancellor Gerhard Schröder goes ahead to call a confidence vote on 1 July as currently planned, it makes no sense to try to tackle legislation before the summer and because of time pressures it could not be put onto the parliamentary agenda. "It wouldn't be bad if we were quicker than the British on this," Scheel added, in remarks reported in the Handelsblatt newspaper.

Separately, Michael Meister, deputy faction head of the CDU/CSU opposition, confirmed the positive position of the Union parties on REITs. "We consider it right to introduce REITs in Germany because obviously we are not appropriately positioned in an international context with the instruments that currently exist (open and closed-end funds)." pfe

Independent German lobby group sees France as guideline for G-REIT legislation

An independent lobby group formed by the German property industry told the federal government last month that the success of the French REIT vehicle over the last two years showed that the structure adopted in France should be the guideline for legislation on its Germany equivalent, the G-REIT.

The so-called Bundling Initiative of the German Property Industry (Bündelungsinitiative in der Deutschen Immobilienwirtschaft) gave its opinion in a hearing in the Bundestag lower house of parliament. It also said that an underlying principle of any REIT legislation should be to ensure that the vehicle is competitive in the global industry and therefore attractive to foreign investors.

"In respect of the exit tax, the ongoing taxation and the dividend payout quota, the BDI considers an orientation to the French REIT model should be the guiding example," it said in an accompanying statement. In France, the REIT vehicle (Société d'Investissement Immobilier Cotée, SIIC), allows half taxation on capital gains spread over four years for property transferred into it. The dividend payout requirement for SIIC status is 85% of all profits.

This model had brought the French state already around €2bn in exit taxation revenues alone, BDI noted. In its deposition, it therefore said a basic criterion for G-REITs should be dividend payout of at least 80%. The taxation responsibility should lie exclusively with the investor so that direct and indirect investment in property is placed on an identical footing.

Because REIT structures are becoming standard across the worldwide real estate industry, and exist already in around 20 countries, the simplest and clearest international designation for a German structure should be "G-REIT".

In addition, the success of any new legislation in this area would be determined by its ultimate international competitiveness. "Only under these circumstances will there be benefits for the public sector, investors, the real estate industry and the economic and labour market competiveness of Germany as a whole," the lobby group said.

It cited the following elements as being essential for international competitiveness:

1.A G-REIT should be regulated solely by market pressures and should not be placed under the German investment law which would put it under supervision of the BaFin authority. In this way a G-REIT would be clearly distinguished from current listed open-end funds.

2. The stock exchange listed company (AG) structure is an ideal guideline for making G-REITs internationally acceptable. Legislation should set a five-year deadline for a REIT to establish a stock market listing.

3. A wide distribution of REIT equity is beneficial and no formal limitations should therefore be set for share holdings in them; this would hinder the functioning of capital markets and not be accepted by international investors.

4.The permissible structure for a G-REIT should allow it to conduct the entire range of modern real estate market activities, and not confine it to being a passive holder of property assets.

5. G-REITs should be allowed to use a range of financing techniques such as appropriate roll-up fiscal offsets and debt financing in order to permit a quick entrepreneurial reaction to events; REITs in the US, Australia and France have no limitations in this area.

6. In order to achieve a high degree of capital market acceptance, real estate held in a G-REIT should be valued

according to the internationally-standard discounted cash-flow method.

BDI membership comprises 23 firms, composed of open and closed-end funds, listed property companies, and real estate developers. With an objective of providing support for current associations, the BDI says its mission is to promote all measures which maintain and improve the economic, legal, political and tax conditions of the German real estate industry. The sector represents annual output of €300bn or 8% of national gross domestic product. pfe

---

Lone Star's von Köller sees three main elements for achieving high returns

Three factors are key to success in achieving high annual returns of around 20% for opportunity fund investors, Karsten von Köller, German Chairman of Lone Star Funds, said recently. These are careful acquisition, where the condition and availability of data are key, the profit potential that can be realised in the workout, and the current low financing rates which allow a strong leverage on fund equity of up to 80%.

"The better the data basis, the higher the price," von Köller said in a speech in Frankfurt reported by the Börsen-Zeitung newspaper. Generally however, the condition of data in German banks was barely adequate to meet the demands of investors.

On the workout side, Lone Star's subsidiary Hudson Advisors was more intensely focused on achieving the highest recoveries from the assets than bank departments are.

Von Köller also said he had been relieved to find, after contact with the federal finance ministry, that remarks by Finance Minister Hans Eichel over a possible regulation of non-performing loan portfolio activities in Germany reflected a desire by Berlin to understand the business better rather than an intention to regulate it anytime soon.

Texas and London-based Lone Star is the largest investor in NPL portfolios in Germany, having acquired a combined volume of €6.1bn in face value since 2003. Von Köller said the company is regulated in any case by its investors, the newspaper reported. These were primarily pension funds with an average 'AA' rating.

Lone Star launched its first fund in 1996 at $400m in volume. Two years later, the next fund raised $1.2bn. The latest closed last year at a total of over $5bn. Von Köller said Lone Star had invested around 70% of the first $8bn it raised in Asia. Via debt financing of around two-thirds, investment assets had been leveraged up to a total of around $24bn.

Given the high interest by foreign investors in non- and sub-prime assets of the German banks, the latter were now increasingly offering portfolios of unsecured corporate loans, he said iin the speech. Lone Star no longer participated in bidding processes on portfolios under €500m in value. However it was prepared to look at any portfolio banks were considering offering if it was given exclusivity.

In terms of time commitment, von Köller said the acquisition phase for a portfolio generally lasted 3-5 years, with the workout phase requiring around the same period for completion. After setting up the processes, this platform could be used in later years for regular NPL business, perhaps by savings or cooperative banks. By then, the NPL acquisition wave would probably have moved into eastern Europe, he added. pfe

---

PROPERTY FINANCE EUROPE BULLETIN BOARD

Monday-Thursday 13-16 June 2005
Global ABS conference, Barcelona

Information Management Network is hosting the ninth annual Investors and Issuers Summit on Global ABS. The conference proposition: All issues in an around ABS. This is the biggest event of the year in the European Asset Backed Securitisation calendar, attracting 3000-4,000 attendees and speakers from all practitioner firms along the value chain of asset-backed securitisation and related segments. More information at www.imn.org

******

Wednesday-Saturday 15-18 June 2005
12th Annual Conference of the European Real Estate Society, Dublin

Hosted by the Centre for Real Estate Research, Smurfit School of Business, University College Dublin, the conference includes over 260 papers, and themes in all areas of real estate, urban economics and urban studies.

The purpose is to provide an arena for an international comparison of real estate, encompassing land, commercial property, housing and mortgage markets. A number of special sessions will specifically examine the Irish real estate market, and a plenary session on international real estate will be organised by the International Real Estate Society.

Speakers include: David Ling (University of Florida), John Quigley (University of California, Berkeley), Gerald Blundell (LaSalle Investment Management), Jürgen Fenk (Hypo Real Estate) and Morgan Salmon (John Hancock). More information at www.eres.org/eres2005/

******

Monday-Tuesday 4-5 July 2005
Hanseatic Securitisation conference, Hamburg

The Hanseatic Securitisation Forum is organising a conference (in German) for agents in the asset-backed securitisation value chain. The conference brings together originators, arrangers, investors and ratings agencies and proven experts with practical ABS experience to cast light on the 'mysteries' surrounding securitisation transactions, pass on background information and practical advice on transactions.

Speakers include: Markus Hammes-DWS Investments, Nicolaus Trautwein-Commerzbank, Markus Krebsz-Fitch Ratings, Prof. Lutz Johanning-European Business School, Torsten Althaus-Standard & Poor's, Hugo Doswald-TXS financial products, Thomas Ziegler-HSF, Dieter Glüder- True Sale Initiative, Jens Rinze-Lovells, Almudena de la Mata Munoz-Genworth, Jens Lindner-Moody's, Gunnar Petersen-DG Bank. Joachim Fröhlich-Volksbank Wetzlar-Weilburg, Peter Prestel-HVB. More information at www.hsfonline.de

******

Lone Star approved to buy NordLB bank subdidiary Mitteleuropäische

The German financial supervisor BaFin has approved Lone Star Funds to take over the Central European Trading Bank (Mitteleuropäische Handelsbank, MHB) a subsidiary of Nordeutsche Landesbank (NordLB), according to press reports

The Financial Times said the German regulator, BaFin, had previously said the deal depended solely on foreign bank supervisors' confirmation of the credibility of the owners of the US-based opportunity fund. Acquisition of MHB would allow Lone Star to extend its leading position in the acquisition of German non-performing loan (NPL) portfolios, and also move into corporate lending.

However, Lone Star Germany Chairman Karsten von Köller has since refuted earlier FT reports that the fund intended to engage in standard corporate lending.

Bafin has been hesitant over granting banking licenses to private equity funds due to political criticism over their aggressive market activities. pfe

PFE COMMENT: The sudden decision by Chancellor Gerhard Schröder three weeks ago to bring forward the federal election by one year, to this autumn, is likely to rapidly change the political backdrop to this and other regulatory decisions. The radicalisation of the German political debate ahead of the North Rhine-Westphalia state election was polarising opinion, and caused considerable soul-searching among public officials.

Twelve original bidders for AHBR included Soros and Flowers

Around 12 investors have made bids for Allgemeine Hypothekenbank Rheinboden (AHBR), the Frankfurt-based mortgage bank owned by the trade unions and the building society BHW, according to various press reports. These include the large financial investors George Soros and Christopher Flowers, believed to be acting separately.

Only a few of this group have moved forward to due diligence, which began with the opening of the data room in late May. Their identity is not known. However, some reports suggest that the plan is to submit the names of the remaining bidder or bidders in the process to the BaFin supervisory authority by the end of June.

AHBR is 50% owned by the German trades' unions holding company BGAG, with BHW itself the subject of a takeover bid, having 39.8%. AHBR has accumulated losses of €1.2bn since it disastrously miscalculated the monetary environment for its fixed income book in the aftermath of the September 2001 terrorist attacks in the US. This prompted BGAG and BHW in January of this year to sell the bank, which has equity capital of €900m.

BHW itself is close to an agreement to be taken over by Postbank AG, which is keen to distribute BHW's successful retail mortgage products through its nationwide network.

The interest in AHBR consists in purchasing both a portfolio of non-performing mortgage loans and a platform for developing this business further in Germany. With a similar strategy in mind, Goldman Sachs last month was given the green light to purchase Delmora Bank. Lone Star Funds recently also gained supervisory approval to take over the NordLB subsidiary Mitteldeutsche Handelsbank (MHB).

Cerberus Partners' agreement last October to buy the Bavarian Handelskreditbank (HKB) still awaits BaFin approval.

Soros is widely known for his successful £1bn bet against sterling staying in the ERM in 1992. Flowers is a former Goldman Sachs partner who left to set up Ripplewood Holdings. The US private equity firm then bought and turned round the troubled Long-Term Credit Bank of Japan, later renaming it Shinsei Bank. Flowers and his partners reaped $2.3bn in the public offering of Shinsei. The latter, currently building a presence in Germany, is now said to have a total of $6bn earmarked for investment in the country.

Goldman Sachs is mandated to handle the AHBR bidding process. In a briefing to the AHBR owners in late May, it cited the interest of Soros and Flowers but also a number of investors considering making strategic bids.

BHW originally insisted on the sale of AHBR as a precondition to its own transaction. However Postbank Chairman Wulf von Schimmelmann told his company's annual meeting in May that it is now considering the option of buying AHBR in a package with BHW.

The chairman of Cologne-based BHW Reinhard Wagner stepped down at the annual meeting last week, taking responsibility for the AHBR problems. Finance Director Henning Engmann was expected to be named as his successor.

BGAG has made clear to media that it has no qualms about selling to a financial investor, even one who counted among the "swarm of locusts" cited by SPD Chairman Franz Müntefering amid the highly politicised debate over private equity fund takeovers prior to the North Rhine-Westphalia election in late May. The union movement is tied closely to the SPD party.

BGAG chairman Norbert Massfeller has made clear internally that the most important criterion in the sale by far is price. A BGAG source told the FT Deutschland, "in view of the situation with AHBR it would be inappropriate to decide this on the basis of political criteria. They can't afford it. The new BGAG leaderships doesn't see this case as political but is interested to achieve the highest price possible." pfe

Italy's Intesa sells €9bn non-performing portfolio to Fortress, Merrill Lynch

The Italian bank Banca Intesa said it has sold a portfolio of non-performing loans with a face value of €9bn to the financial investor Fortress and the investment bank Merrill Lynch for a price of €2.1bn.

In a press release coinciding with the publication of first quarter figures it gave no further details on this transaction. However, Banca Intesa added that it would merge its asset management arm Nextra with that of French bank Calyon, created last year from the fusion of Crédit Agricole and Crédit Lyonnais.

The Italian bank intends to retain a 35% stake in the merged business, with the French bank holding the rest. Banca Intesa received payment of €850m within the terms of the deal. pfe

German onshore SPV can be tax-efficient for NPL acquisition – Clifford Chance

The use of a German onshore structure for the acquisition of a non-performing loan portfolio does not trigger any additional taxes compared to a foreign structure using an acquisition vehicle located outside Germany, the legal practice Clifford Chance said.

In a recent report, it said this had been the conclusion of discussions with the German state government of Hessen. "In particular, the potential upside of an NPL portfolio should not suffer German taxes," Clifford Chance said. "A German structure avoids any PE/PR issues and can be set up as VAT-neutral. No German withholding tax will be imposed if the NPL portfolio generates an upside and such upside is paid to non-German investors through a structured note."

The report, signed by Hubert Schmid, Heiko Stoll and Klaus Weinand-Härer, points out that the domestic structure for the NPL transaction requires that a bank sells receivables which qualify as such within Section 1 of the German Banking Act (KWG).

First, the seller transfers the NPL portfolio to a new and wholly-owned subsidiary which is fiscally integrated into the group. The unit then sells the NPL portfolio to a German Special Purpose Vehicle (SPV) but retains the servicing activities. The German SPV uses the True Sale Initiative platform set up two years ago under the chair of the KfW Group, and thus may be held by three existing charities.

The German SPV can fund the acquisition of the NPL portfolio through the issuance of structured debt instruments that transfer the risk to the creditors. Non-resident investors in these notes would not incur German withholding tax, and payouts from the notes would be tax deductible. This holds true irrespective of whether the debt is classified as a bond or a derivative, Clifford Chance said. pfe

Crown European and Westfalenbank set up Germany's first independent Special Servicer for NPL assets

Crown European Mortgage Management and Westfalenbank AG have announced the establishment of Germany's first independent third-party Special Servicer for residential, commercial and corporate non-performing debt.

In a joint statement released on 1 June, they said the combined company has been named Crown Westfalen Credit Services gmbh i.G. (CWCS) and is based in Bochum and Frankfurt. Crown Westfalen will provide debt services to non-performing loan (NPL) investors such as private equity funds and investments banks.

It will also target German banks wanting to outsource internal workout departments to a professional servicer.

Crown European is a subsidiary of Crown Mortgage Management Ltd. UK, one of the very few rated servicers in Europe, and the only independent servicer to be rated by Standard & Poors, Fitch and Moody's. The companies said that preparations have begun at Crown Westfalen to achieve, during 2005, Germany's first servicer rating.

Servicer ratings are viewed as a sign of transparency and well-developed processes. The two companies said they bring together highly seasoned management and professional staff, an exceptionally well-automated environment, well-documented and effective procedures, and a proven ability to manage both large complex assets and smaller assets with excellent results.

"By bringing together the collective talent and technologies of Crown and Westfalen, we have formed an established servicer which is capable of doing business from day one," said Crown European Managing Director Clarence Dixon. "We feel that the formation of Crown Westfalen expresses our deepest intent to play a major role in the German servicing arena."

Lothar Ziller, Managing Director of Westfalen Credit Services, added, "We are proud to work together with a servicer of renowned international experience and to offer joint capabilities in international and domestic special servicing."

He noted that servicing in Germany is governed by very specific legal regulations and customs, and that Westfalen has long experience in this highly specialist environment. His unit, Westfalen Credit Services, will contribute experienced local management to the JV, a strong emphasis on technology, extensive employee training and a commitment to add local staff to meet the anticipated rising volumes.

Dixon said the joint venture with a domestic bank subsidiary in creating Crown Westfalen had the advantage of avoiding the long start-up times which faced foreign servicing companies hoping to access the German market. pfe

Real estate fund of funds is an idea whose time has come - OPC chairman

A real estate fund of funds, providing one-stop investment in a number of unlisted property vehicles across Europe, is an idea whose time has come, says Andrew Baum, Chairman of Oxford Property Consultants (OPC).

The UK-based OPC, an independent real estate research and investment company, was adviser on the Pan-European Real Estate Fund of Funds (PREFF) that is the first fund of funds at the core end of the spectrum for pan-European property investment.

PREFF, sponsored by ATRIUM Investimentos, a Portuguese asset manager, in early May achieved a first successful closing of €58m. It is targeting a total of €250m through additional closings within the next 12 months.

"The argument for a real estate fund of funds is just overwhelming," Baum told *PFE*. "You get diversification across markets which, unless you use listed vehicles, allows you to take part ownership of a lot of buildings with a relatively small amount of capital."

PREFF is a closed-end company domiciled in Ireland. It aims to invest in a portfolio that gives diversified exposure to European real estate within pre-defined country and sector allocations. The objective is a total return of 8-10% per annum over a 10-year life. A significant part will be delivered through a semi-annual dividend payment of 5-6% p.a.

PREFF is targeted primarily at institutional clients, including pension funds, insurance companies and foundations. The initial investors were a pool of Portuguese institutions, including the Portuguese Social Security (IGFCSS) with a 10% stake, the

subsidiaries of two major Spanish financial institutions, and one leading international insurance group.

ATRIUM Director Nuno Sampaio said in a press release that there is a very strong case for investing in an innovative fund such as PREFF since it can bring together the best real estate funds across Europe with large minimum investment sizes.

OPC has been in existence for four years, mainly in research and advisory. Baum says current focus for further closings for PREFF are Swiss investors but its domicile in Ireland makes it an attractive vehicle for many different types of institutional investors. pfe

IVG/Cushman see recovery in European property markets, with yields falling

The European real estate markets are showing broad signs of recovery, with yields diminishing gradually as available real estate investment capital outstrips supply, and office vacancy rates falling fast in eastern Europe. These are the main results from latest property barometer produced by German real estate company IVG Immobilien AG and the international realtor Cushman & Wakefield Healey & Baker.

IVG Board Member Bernd Kottmann said in a statement, "The recovery of the European real estate markets is continuing: the upwards trend in rental volume continues and rents are also rising in many European cities."

Across the 21 office markets examined, vacancy rates held steady in first quarter 2005 at around 10% compared with a year ago. However, while in western Europe, 9.5% of all office space remained empty, the rate fell 2.2 pts to 13.4% in the three central European cities examined, Budapest, Prague and Warsaw. The sharpest decrease was in Budapest where building vacancies dropped to 14% of floor space vs 18.9% at the end of 1Q04.

The highest vacancy rate is in Amsterdam at 20%, and Stockholm at 19%. The lowest is in Paris and Vienna with approximately 6.3%. In Germany, office vacancy rates ranged from 8% in Hamburg to 17% in Frankfurt. Despite increasing sales of space, the vacancy rate in Frankfurt held steady due to new supply coming onto the market. However sales of space in most German cities increased by over 10% in comparison with 1Q04.

In rentals, turnover in the 21 major European office markets increased by 6% y/y to end-March 2005, with a rise of 3.9% to 1.6 million sq.m. in the first three months of the year alone in west European cities. The long maligned German cities posted clear rental increases in comparison with the weak 1Q04: in Berlin, 105,000 sq.m. had been rented by the end of March, an increase of 75% in comparison with first quarter 2004 and in Frankfurt the figure was 71% higher.

The greatest slumps were recorded in Rome and Lisbon while the absolute amount of rented office space in 1Q05 was in Paris, at 368,500 sq.m. In central Europe, Budapest rentals soared 22% y/y, with Warsaw stable and Prague down by 13%.

In terms of rental levels, the demand over the last year has focused on modern spaces in prestigious buildings in the best inner-city locations, the IVG/Cushman survey found. Within a year, the top rent in western Europe increased by 4% to almost €46 sq.m. In eastern Europe it decreased slightly by 0.7% to almost €18.

Overall, the highest price increase was in London where the top rent rose 11% y/y to €104 sq.m. by end-1Q05. Paris was the second highest at €52. In Germany, the highest rents remained steady at €28 sq.m. in Munich, Berlin and Dusseldorf lost approximately 2.5% y/y while Frankfurt rents were down 3%.

However, the development in the German cities is a reason for optimism, the survey said. By contrast to prior surveys rents across all German cities held steady on average. "In conjunction with the steady vacancy rate and increased sales of space in coming months, this justifies some hopes of recovery", Kottmann said.

Yields across Europe are also declining. "The decreasing yields throughout Europe show how much money waiting to be invested is in search of lucrative properties," Kottmann noted. In western Europe the yields for first-class properties fell 0.3 pts y/y to 5.6% and by as much as 0.7 pts to 7.6% in the east. The difference in yield is therefore narrowing; two years ago the IVG property barometer found this at 3 percentage points.

Heavy demand for investment properties led to a reduction of 1 pt to 7.5% in Warsaw, by 0.75 pts in Budapest to 7.5%, while in the west London at 5% and Madrid at 5.25% were the lowest. After a slight decrease, the yield in Lisbon is 7.25%, the highest value in the old EU countries. Kottmann forecast further declines in central Europe: "The strong economic growth in Central Europe and the increased confidence of investors will cause yields to decrease further in Budapest, Prague and Warsaw, approaching western European levels in the mid term," he said. pfe

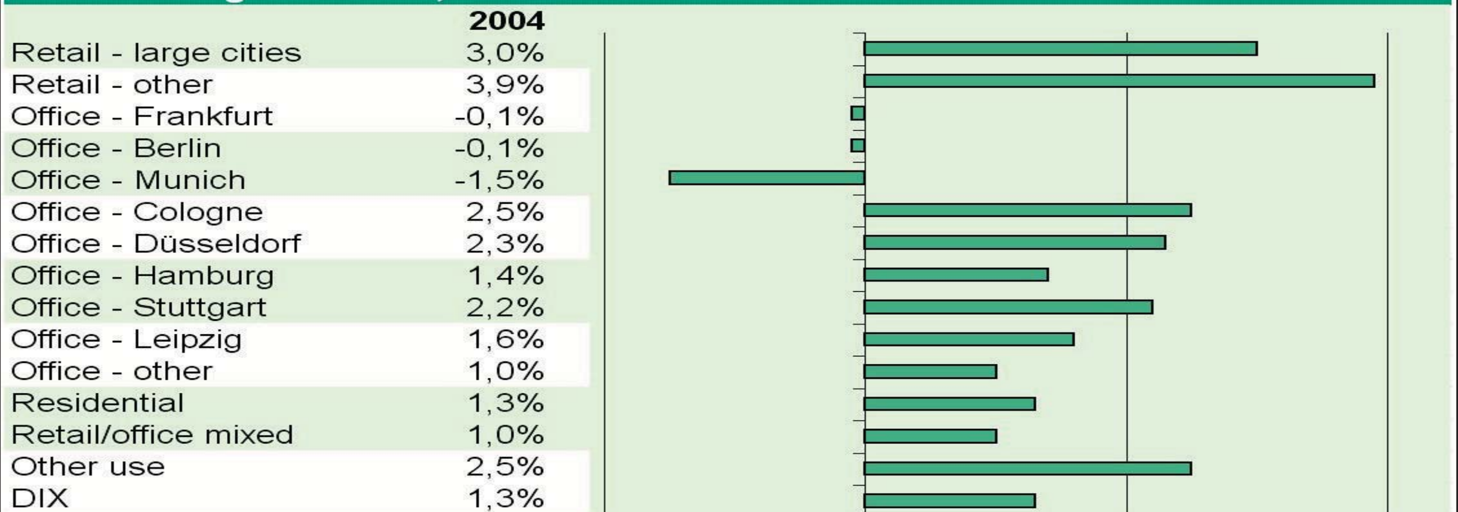


Table: Total gross return, German real estate in 2004

	2004
Retail - large cities	3,0%
Retail - other	3,9%
Office - Frankfurt	-0,1%
Office - Berlin	-0,1%
Office - Munich	-1,5%
Office - Cologne	2,5%
Office - Düsseldorf	2,3%
Office - Hamburg	1,4%
Office - Stuttgart	2,2%
Office - Leipzig	1,6%
Office - other	1,0%
Residential	1,3%
Retail/office mixed	1,0%
Other use	2,5%
DIX	1,3%

Source: German Property Database, Deutsche Immobilien Datenbank, DID

German property records first negative yield, retail only steady sector

German property returned to investors an average gross yield last year of 1.3% but after taking into account inflation it produced the first negative real yield, -0.3%, in the nine years of existence of the German Property Database (Deutsche Immobilien Datenbank), DID co-director Nassos Manginas said.

"We can say that this is the first time a negative yield has been recorded since we began measuring returns," he told a press conference.

Manginas said low macro-economic growth in Germany has been manifested in declining rents for office and retail space, plus rising vacancy rates. This had depressed the total return to current levels from 4.1% recorded as recently as 2002.

Manginas said the main underperformer last year was office space, which comprises some 65% of all German commercial real estate. Yields in this sub-sector were only 0.6% in 2004 on average across the country. For residential property assets, which had reached total returns of 5.3% in 2003, yields dropped back last year to just 1.3%. "Valuations have been dropping in all sectors since 2000," he said.

Because of oversupply in prior years, the overall vacancy rate in the German office sector stood at 13.6% of finished space at the end of 2004, well above the 9.3% of 2003 and more than double 2002. "Supply is being taken out of the market right now since it is impossible to think of bringing new offices on stream," he said. "We have to wait until this process moves further before we can begin to see rental rates begin to rise again on average."

He cited the example of Frankfurt where currently 1.6m sq.m. of office space is empty, compared to a 'normal' rate of 400-500,000. "You are looking at the creation of around 50,000 jobs in this city just to stabilise this vacancy rate," he said.

Pure retail property held relatively stable at total return of 3.6% last year, after 4.3% in 2003 and 3.9% in 2002. However, this was mainly due to steady returns in shopping centres which were professionally managed, and had resisted the generally flat consumption pattern in Germany.

DID publishes a regular index of total return, the DIX, which records 3,500 properties and land plots collectively valued at around 30% of all property assets held by institutions and stock exchange listed companies. It does not include transactions and property in development

Across the total DIX database aggregate asset value dropped back to €63bn last year, around €2bn below 2003. "This was due to a combination of very strong asset sales but also falls in valuations across our customer base," Mangonas said. pfe

GE Commercial Finance Real Estate France acquires French regional property portfolio

GE Commercial Finance Real Estate France (GECFREF) said it has acquired Foncière Ariane and GAGI, its 100% owned asset management company based, from GA, a company owned by DB Real Estate Global Opportunities Fund, Five Mounts Properties and Highridge Partners.

In a statement, GE said the portfolio increased the geographical spread of the portfolio into the French regions. Price paid for the acquisition was not disclosed.

GA, formerly known as Giraudy Auffèvre, owns 85 buildings on 71 sites which generate a rent of around €25m per annum. Half the portfolio is office buildings, with the remainder equally divided between industrial, retail and logistics assets. The assets are located in Toulouse, Roissy, ^

Saint Quentin, Lyon and Strasbourg.

Following the transaction, GA's shareholders will retain their holding in GA's construction and development companies, the statement said.

GECFREF President François Trausch said the acquisition demonstrates GE's desire to pursue growth in France. "The excellent balance of this portfolio, well rooted in French regions, particularly in Toulouse, is in-line with our long term investment strategy in France."

GECFREF was advised by Lazard Frères, Deutsche Bank and Freshfields Bruckhaus Deringer, while the vendor advisory group comprised Catella, Clifford Chance, Taj and Deloitte Touche Tohmatsu. pfe

New LBBW chairman aims at private banks' high net worth market

The new chairman of Germany's largest landesbank, LBBW, says he has set the target of taking market share from the large private commercial banks above all in high net worth

client business and in medium size company lending.

Siegfried Jaschinski, appointed as chairman of Landesbank Baden-Württemberg in January, told the Handelsblatt newspaper this was not confined to the ambitions in the bank's home states of Baden-Württemberg and neighboring Rhineland-Palatinate. Deutsche, Dresdner and Commerzbank were currently well positioned in the market in the remainder of Germany but this would change.

"We want to focus on the private investment clients with over €1m in assets, which have until now bypassed the savings bank sector to go to the large commercials," Jaschinski said. In the area of corporate lending, LBBW would place more emphasis on smaller companies, lowering the prior turnover size minimum below €50m.

After taking over its neighboring Mainz-based landesbank, LBBW, based in Stuttgart, is now the fourth largest bank overall in Germany and the largest of all 11 remaining landesbanks, outstripping prior sector leader Westdeutsche Landesbank (WestLB) in size of balance sheet. It recently opened branches in Bavaria but has no ambitions to copy, for example, Bayerische Landesbank in expanding throughout Germany in consumer credit.

Jaschinski said he had no plans to expand further through mergers with others for now, but did not rule this out completely, preferring to wait to see the outcomee of the disappearance of the state guarantees for the savings bank sector as a whole in July. "We are open to development of new structures in the landesbank sector if any enquiries are directed at us," he told Handelsblatt. "But we want to grow primarily through customer acquisition."

This directly contradicts the strategy of WestLB Chairman Thomas Fischer who has announced an interest in acquiring HSH Nordbank, based in Hamburg and Kiel. Fischer envisages the survival of only three or four landesbanks going forward.

Jaschinski said the most important immediate concern was retention of a high credit rating after July. "Orientation around profit maximisation has not been our public mandate before now.It will take some hard work to achieve this cultural change within the bank."

LBBW Chmn Siegfried Jaschinski

Jaschinski moved to take the top LBBW job after seven years at Deutsche Bank. However, he has no ambitions to emulate his former boss Josef Ackermann at Deutsche by trying to achieve a 25% return on equity. Jaschinski told the newspaper he would be satisfied with 15% pre-tax ROE. pfe

PFE COMMENT: Jaschinski, 50, is typical of the new breed of younger bankers being brought in to run the major financial institutions in Germany. These are men conversant with capital markets, the rapidly disintermediating environment, and techniques for dealing with it at a profit for the bank – hence the stress on ROE. Prior to the European Commission ruling five years ago that the state guarantees for German savings/landesbanks must be abolished, a focus on ROE in the sector would have been unheard of. Savings banks were established to mutually spread the benefits of financing agriculture and commerce into the local communities by whom they were owned. Jaschinski originally studied history and philosophy, then business administration. He was in controlling and investment banking at Trinkaus & Burkhardt, moving to the Deutsche Bank in 1986 before ending this part of his career in the Deutsche securities and derivatives department in 1994. He joined the board of the Southwest German Landesbank (SüdwestLB), the predecessor to LBBW, and had been deputy chairman of LBBW in charge of capital markets since January 2004.

French SIIC Klépierre adds two new board members after meeting

The French SIIC Klépierre, a specialist in shopping centre investment, said the Supervisory Board, at a meeting on 1 June, made two new executive board appointments, Jean-Michel Gault and Laurent Morel.

In a press statement the company, one of 17 French REITs (Société d'Investissement Immobilier Cotée, SIIC), said the appointments bring the board members up to five. Gault has been Klépierre's CFO since 1998, while Morel joined the group in February 2005. His new role is to work to help consolidate growth in Klépierre's Shopping Centre Division.

The statement said, "the appointments reflect the broader backdrop of sustained growth for Klépierre, which plans to invest over €3bn between 2005 and 2009."

Klépierre is continental Europe's largest owner and management of shopping centre property, with close to 345 malls under management, most of them in France, Spain and Italy. At the end of 2004 its real estate holdings were valued at €6bn.

With the acquisition of seven shopping centres in Poland and two in the Czech Republic announced in May, Klépierre is now present in 11 different countries. pfe

Bilfinger Berger stays in red in 2005 but reports stronger business volume

The Bilfinger Berger building group, one of Germany's largest diversified construction companies, said its first quarter business volume this year rose by 3% to €1.4bn. New orders received were up by 31% to €1.75bn, mixed between strong foreign business but also an improving picture in Germany.

However, the group remained in a slight operating loss reporting EBITA for the first three months of -€4m, slightly improved from the -€5m in 1Q04.

Orders received in 1Q05 included major road-building projects in Australia, new building and industrial construction in Germany and Nigeria, as well as additional orders for industrial services in both Europe and Australia. At the end of the quarter, the order backlog totalled €6.7bn, 7% higher than at the same time in 2004.

"As is typical for the industry, earnings at the beginning of the year are always considerably lower than in the following quarters, and the figures for the first quarter cannot be extrapolated for the earnings development over the full year," it said in a press release. For full-year 2005, Bilfinger Berger said it expects output volume to grow to €6.7bn. Both EBITA and net profit are expected to rise substantially, and it has target a return on capital employed of at least 11%. pfe

Berlin/Brandenburg apartment vacancies fall to 14% as demolition stepped up

The association representing apartment housing companies in the east German states of Berlin and Brandenburg said that in 2004 the vacancy rate fell for the first time since 1995. due however to stronger demolition activity, according to the Immobilien Zeitung newspaper.

The association (Verbandes Berlin-Brandenburgischer Wohnungsunternehmen, BBU) represents government-held housing companies in the two states and manages about half of all existing apartments in the state of Brandenburg,

It said the vacancy rate across its members declined to 14.1% by the end of 2004 from 14,8% a year earlier. In Berlin and its surrounding region, apartment vacancy rates dropped to 6.6% from 6.9%, while the so-called outer region saw vacancies fall to 17.4% from 18.2%.

BBU Chairman Ludwig Burkardt said the associations members took a good 7,000 apartments off the market during 2004. pfe

2004 Bavarian housing companies' investment rises by 4.3% to €1.1bn

The Bavarian association of apartment housing companies said that in 2004 its 481 members increased investment spending on residential housing by 4.3% or €1.1bn compared to 2003.

The association (Verband bayerischer Wohnungsunternehmen, VbW) said some €376m was spent on new construction of 2,768 apartments.

Members of the VbW own a total of 470.000 apartments, of which 158, 681 comprised socially subsidised housing (down 4.1% vs 2003). Rental rates across the membership rose on average by 2.7% to €4.15 sq.m. pfe

Surveys show Budapest offers strongest potential among European cities

Recent European market surveys show that property market developments in the main central European capitals, in sharp contrast to the situation at the end of the 1990s, are becoming increasingly aligned to the cycles in western Europe, and Budapest is about to experience a clear upturn in rent prices.

Surveys conducted by German property company IVG Immobilien, the international realtors Jones Lang LaSalle and Cushman & Wakefield Healey & Baker (CWHB), and Feri Research, noted that Budapest is one of the five European cities with the highest growth potential.

While western Europe was booming at the end of the 1990s Budapest was particularly suffering due to strong falls in rents and rising vacancy rates resulting from the construction boom of mid-decade. Now however it, alongside Prague and Warsaw, has moved very close to the cycles in western Europe.

IVG manager Kay-Uwe Blandow said, "In the past, the property market cycle in Budapest was largely independent of those of the western markets." Now, investors have more and more confidence in the city. "The Hungarian capital is one of the most aspiring property markets with decreasing vacancy rates and yields".

The Jones Lang LaSalle conclusions came in its "World Winning Cities" research project carried out over many years which examined 500 cities around the world.

Feri Research awarded the Budapest office market an "AA" - an excellent rating. The analysts concluded that the investment risk is very low. Between 1999 and 2004, the Hungarian economy grew by 3.8% p.a. and Feri is assuming an average 4.3% p.a. for 2006-2013.

With 1.8m inhabitants in Budapest itself, and 2.9m in the entire region, the Hungarian capital is the economic powerhouse of the country. Budapest's main thoroughfare, Andrássy út, was recently declared a world cultural heritage site. pfe

Table: Main residential portfolios sold in Germany

	Name of seller	Date	Buyer	Apartments in portfolio	Price paid per unit	Price paid total
1	Deutschbau	1997	Veba/Deutsche Bk	40.000	42.000 €	1.680.000.000 €
2	WBD/WBK	1998	Corpus	9.000	45.500 €	409.500.000 €
3	Wohnbau Rhein Main	1999	Viterra, HVB	14.000	45.000 €	630.000.000 €
4	Deutsche Annington	2000	Nomura/Terra Firma	112.600	30.250 €	3.406.150.000 €
5	Ffter Siedlungsgesellscha	2001	Viterra	10.000	55.896 €	558.960.000 €
6	GSW [1]	2001	Lone Star	70.000	25.560 €	1.789.200.000 €
7	GAG Immobilien AG	2003	Terra Firma	42.000	45.233 €	1.899.786.000 €
8	GSW [1,2]	2004	Whitehall [3], Cerberus	65.000	30.255 €	1.966.575.000 €
9	GAGFAH	2004	Fortress	80.000	45.000 €	3.600.000.000 €
10	RSE AG	2004	Blackstone	31.000	45.000 €	1.395.000.000 €
11	Thyssen-Krupp	2004	Morgan Stanley, Corpus	48.000	45.000 €	2.160.000.000 €
12	Viterra	2005	Terra Firma	150.000	46.667 €	7.000.000.000 €
13	NILEG [4]	2005	*? still in bidding process*	28.000	44.000 €	1.232.000.000 €
	Totals (where relevant)			*699.600*	*545.361 €*	*27.727.171.000 €*

Source: Property Finance Europe and various. Notes:

1. Gemeinnützige Siedlungs- und Wohnungsbaugesellschaft Berlin mbH *2. Second deal from the same seller*

3. A subsidiary holding company of Goldman Sachs *4. Data on apartment units and price are PFE estimates*

LIKELY NEW GERMAN GOVT. PROPERTY SECTOR REFORM: The polls certainly suggest the Union parties - Christian Democratic Union and Bavarian sister Christian Social Union - together with the liberal Free Democratic Party, should have an easy time of it. The CDU/CSU currently has around 44% support among the population, and the FDP around 7%. This compares with Schröder's Social Democratic Party languishing near historic lows of around 28% and its Greens environmental federal coalition partner at 8%.

Aside from G-REIT legislation, the German property sector is hoping for clarity in the reform of Para. 15 of the income tax law. SPD/Greens had planned to drop write-offs against income tax of private individuals investing in specialised funds. These included funds investing in ship-building, media, new energy such as wind power, leasing and listed securities, video games, plus some other types of closed-end funds in particular.

As well a new government under CDU leader Angela Merkel, wanting to boost home ownership, is likely to unravel some of complex and fairly rigid tenant protection laws, and reduce taxation on capital gains, changes of home ownership, land tax and the like. The reform of the investment law for open-end funds has been promised by SPD/Greens, and should be hastened by a new right-of-centre government.

Hesse Premier Roland Koch, one of the more influential and reform-minded senior CDU officials, proposes keeping the home-ownership allowance - i.e. a tax offset specifically for amounts set aside for eventual mortgage downpayments - but lowering the income band slightly. Koch is otherwise in favour of cutting subsidies, proposing a reduction of no less than €11bn in annual public subvention. He also supports raising the German value added tax rate strongly from the current 16% in order to help balance the budget.

The German property sector also places strong hopes on a new government promoting, as in Britain and elsewhere, Public-Private Partnerships - government seed funding alongside commercial enterprise for public sector projects.

A plea for a general simplification of the income tax system finds strong support inside and outside the real estate sector. Udo Scheffel, director of Bayerische Immobilien AG, told the Immobilien Zeitung newspaper: "I took my doctorate in tax law and in spite of this I am not able to fill out my own tax declaration by myself any longer. This cannot be right." pfe

www.pfeurope.de

Property Finance Europe is a fortnightly report on European real estate finance aimed at banks, institutional and private investors, asset managers, REITs, corporate treasurers, traders, financial professionals, public sector officials, academics and others. Independent of any institution, *Property Finance Europe* is published on the second and fourth Monday of every month by Rose Advisory Ltd., and produced from the offices of the easetec companies in Frankfurt, Germany. *Property Finance Europe* contents are available electronically via Internet. A print/mailed copy will be available for subscription starting with the 11 July edition. Internet/email/fax registrations are encouraged and all registrants will receive a no-obligation discounted subscription offer.

REGISTRATION FORM – PROPERTY FINANCE EUROPE

Registration for *Property Finance Europe* can be made via Internet, email or by filling out the form below. Registrants will be made a no-obligation discounted subscription offer in the next few weeks.

❍ Please register me for email notification of *Property Finance Europe*. I understand that registration places me under no obligation to subscribe. *Property Finance Europe* will be made available to me in Adobe PDF form for downloading from the above website.

FAX TO: PROPERTY FINANCE EUROPE +49 (0) 69 9624 4890

name……………………………………………………………………………………….

email…………………………………………………………………………………………

company..……………………………………………………………………………………

street…………………………………………………………………………………………

city……………………………………… postcode.……………………………………………

state…………………………………….. country………………………………………………

telephone ……………………………… fax……………………………………………………

Property Finance Europe. c/o easetec, Hainer Weg 13-15, D-60599 Frankfurt am Main. Germany.
Telephone +49 (0) 69 962448-0, or email: business@pfeurope.de