

Deutsche, Fortress, Corpus-Morgan bidding for NILEG

The NILEG housing company being sold by NordLB has attracted three main bids, scheduled to be cut back to two last week. **PAGE 3**

Hudson wins first German Special Servicer rating

Lone Star's tied special servicer Hudson Advisors has acquired Germany's first rating on such a company - from Fitch. **PAGE 4**

French govt. misses targets on planned real estate sales

Incoming French government under PM Dominique de Villepin has set new state property sale goals. But it has missed targets in 2004-2005. **PAGE 5**

Shinsei chosen as partner for WestLB/NordLB 'Bad Bank'

Shinsei is to become a partner with WestLB and NordLB in a 'bad bank' conceived as a platform for working out internal and 3rd party NPLs. **PAGE 3**

The PFE Interview: Martin Braun from Cushman & Wakefield Healey & Baker

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Cerberus joins Postbank's BHW bid to buy AHBR for NPL platform

US investor Cerberus Funds has entered a consortium with Germany's Postbank to bid for building society BHW and buy its mortgage subsidiary AHBR to use as a platform for entering the non-performing loan business.

The report, based on information obtained by the Handelsblatt newspaper and Reuters news agency on Friday, was not officially confirmed by either Cerberus or Postbank.

However, Handelsblatt said Postbank Chairman Wulf von Schimmelmann's strategy in bringing Cerberus into the consortium was to assure the trades' union majority holders in BHW that they would not be left holding AHBR (Allgemeine Hypothekbank Rheinboden), in which Postbank itself has no interest. Unions have made clear that the purchase of AHBR in a package with BHW is a pre-condition for approving the Postbank bid.

BHW has, over the last few years, become a very successful nationwide marketer and distributor of residential mortgage loans. Majority stakes are held by the BGAG trades' unions' holding company and the German Civil Service Association (Deutscher Beamtenbund). BGAG holds 39% of BHW and 50% of AHBR, while the association holds 37% of BHW and an indirect holding in AHBR through it.

AHBR's owners have been obliged to pump €1.2bn into the Frankfurt-based mortgage bank since it got into difficulties in 2002 on its fixed income proprietary loan book after badly misjudging the post-September 11 interest rate environment.

BHW, on the other hand, has built a customer base of 4.5m in retail mortgages, and become a highly attractive takeover candidate. Other potential bidders include the Sweden-based SEB, which has been strongly pressing into the retail banking market in Germany - as well as other sectors such as fund management - since the start of the decade.

Conversely, BHW would also be interesting for banks such as Commerzbank and Deutsche Bank, Handelsblatt noted. Postbank bought a 9.2% stake in BHW in January with a view to making a bid for the company, and to head off competitors.

To complicate matters further, Deutsche has expressed a strong interest in acquiring Postbank. As the partly privatised subsidiary of the giant Deutsche Post post office, Postbank offers Deutsche the prospect of nationwide branch coverage and 12m new customers. German private banks such as Deutsche are mainly represented in the major urban centres - a significant disadvantage compared to the extensive savings and cooperative banking branch networks.

Deutsche wanted to buy Postbank last year but was prevented by the SPD/Green federal government, which retains a majority stake in Deutsche Post. Instead, Postbank was floated on the stock exchange. Berlin is seen as less concerned over a Deutsche bid now, and it is unlikely that any future right-liberal government would intervene. pfe

US REIT history shows Europe structural benefits are strong

The US experience in Real Estate Investment Trusts (REITs) during the 1990s should show European governments that property market and other benefits can be gained if laws are drawn up to make such stock exchange-listed vehicles attractive to investors, a US expert told a conference in Frankfurt recently.

Jon Fosheim, CEO of Oak Hill REIT Management, said the tax exempt status of REITs, conditional on a high annual payout of profits, allowed them to pay higher prices for property and benefited the sector in general. **CONT. ON BACK PAGE**

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Charles Kingston. Business Manager. business@pfeurope.de

Disagreement delays True Sale Initiative widening to mortgage securitisation

Disagreements over details have delayed an extension of the KfW Group-led True Sale Initiative (TSI) into real estate backed loan portfolio securitisation, and there are concerns in the sector that the federal election call will put on ice the legislative changes needed to allow business to begin.

The SPD/Green German federal government announced last August that it would bring down legislation to allow the creation of insolvency-remote trustee solutions to allow the TSI to move into mortgage securitisation. The blueprint has been ready since September but not acted upon. The federal justice ministry passed the dossier to the finance ministry in April of this year.

Though the ministry and the Red/Green majority in the lower house Bundestag had reached political agreement on the changes required, the three 'pillars' of the German banking system – meeting in the forum of the highly confidential central credit committee (ZKA) - were not able to agree on the detail until 6 June.

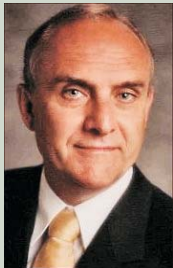
This had allowed around just 10 parliamentary days for the legislation's passage prior to this Friday's scheduled call for a no-confidence vote by Chancellor Gerhard Schröder, and the dissolution of parliament.

With the European asset-backed securitisation (ABS) market having a volume of €260bn last year, and 60% of all portfolio assets being real estate-backed, the delays have

hindered the development of MBS in Germany. TSI Chief Executive Hartmut Bechthold told the Handelsblatt newspaper, "If there is no action prior to the announced federal election it is quite likely that we are going to lose an entire year on this."

TSI was launched in June 2003 as a platform designed to bundle performing assets from across the banking system into special purpose vehicles and securitise the portfolios thus formed. It originally planned to execute up to €10bn securitisation total in 2005, but its senior officials expect only €3-4bn without the appropriate legislation in place for MBS. pfe

PFE COMMENT: TSI is regarded in the German property finance sector as having been somewhat overtaken by events. The original motivation was in reality to create intransparency: By bundling assets from different banks into single portfolios, it would become unclear to the market which banks were selling assets and thereby receiving the liquidity injections arising out of TSI securitisations. At the time, we doubted the Financial Times Deutschland surmise that the entire initiative was actually aimed at providing liquidity for HypoVereins and Commerzbank. Both were suffering in their asset base and, in 2002/2003 at the nadir of the economic, market and real estate downturn, were causing systemic worries among bankers and politicians alike. We now think FTD was right. Consequently, the improvement to the economic cycle, and the recovery in asset and share prices have taken pressure off HVB and Commerz - but also from all segments of the 'three-pillar' banking system to cooperate in TSI.



The fastest move to the left since Michael Foot became leader of the British Labour Party in 1980 on the departure of James Callaghan. That is the ruling German Social Democratic Party right now - after the early election call by Chancellor Gerhard Schröder.

Indefinitely cancelling the corporation tax cut to 19% from 25%, raising the inheritance tax rate, introducing a millionaire's tax, delaying the limitations on unemployment payments, dropping references to reform, be it Agenda 2010 or any other, cancelling the change in tax-offset laws affecting closed-end funds, alienating centrist Economics Minister Wolfgang Clement. And then fighting for the far-left political cranny with the "Party of Democratic Socialism" - which hasn't yet grasped that Communism doesn't work - and with former SPD Finance Minister Oskar Lafontaine, eyes burning with socialist fervour (and desire for personal revenge) in front of statues of Karl Marx in east Germany. Excuse me, but which century are we living in, please?

The result for the German Left on 18 September will be as disastrous as it was for the British Left in the 1980s: absence from power through several legislatures. For the real estate sector the news is chilling, the atmosphere is tense, but the augurs are, ultimately, good. With the SPD

squashing into the left-hand nook with the PDS and Lafontaine, the centre and right political ground is open and as vacant as a green field zoned for development. A CDU/CSU/FDP coalition under Germany's first woman Chancellor Angela Merkel will – save divine intervention - soon have full control over parliament, the Bundestag and the Bundesrat. And don't let anyone tell you that it's too close to call, or a Grand Coalition of Left and Right is coming. The country is aghast over the bankruptcy of all Red and Green 'solutions' of the last seven years: soaring unemployment over 5m, the flood of manufacturing out of Germany, the wave of cheap labour into the republic, inability to tackle the pensions time-bomb, alienation of important NATO allies. The darker aspect is the Angst this is causing in a population entirely prone to it. The brighter aspect is that Germany Inc is, as we speak, approaching the roll-down 'rolladen' shutters in this darkened pre-dawn bakery. Nearly ready to open for business again. Real estate investing institutions take note!

Speculation is everywhere in this heady, hazy hot political European summer. One is that Guy Hands' Terra Firma is demanding a rebate on its E7bn purchase of Viterra. Financial Times Deutschland reported that TF wants Viterra's soon-to-be-former parent Eon to chip in a cool E200m to help fund restructuring and staff cuts. Germany Inc is convinced that Hands overpaid. Perhaps

it is right. Another surrounds which bank is next, after Hypo-Vereinsbank, to be the object of a takeover bid. Deutsche is wooing Postbank in an inner-German deal. Some say that Hessische Landesbank, having just swallowed Frankfurter Sparkasse, is in focus. Given the new energy that politics has injected into the landesbank segment, they might be right.

A stern, stripped-down press release zipped out of the German Association of Closed-End Funds (VGF) in Berlin Friday: "The Chief Executive of VGF, Eric Romba, makes the following statement: Former VGF chairman Thomas Engels will step down from his position effective 30 June 2005... The association, furthermore, parted company with former chief executive Carsten Lucht in April 2005. Herr Eric Romba will in future direct the association's business alone." Ouch! Engels was an officer in Falk Capital, a property fund that declared insolvency this year. Unlike Lucht, he was thanked by VGF for his long-time activity on its behalf. Uh huh...

If any international investors doubted Romba has a full political mandate to reform the previously intransparent German closed-end property fund community, this little press release should brush them conclusively away. As if with Romba's new broom.

Allan Saunderson, editor@pfeurope.de

Deutsche, Fortress, Corpus-Morgan Stanley in bid for Germany's NILEG

The NILEG housing company being sold off by Norddeutsche Landesbank (NordLB) has attracted bids from Deutsche Bank subsidiary DB Real Estate, GAGFAH-owner Fortress Investment, and a consortium of the Corpus real estate group and Morgan Stanley which bought the Thyssen-Krupp portfolio late last year, according to various media reports.

Price for the 30,000-apartment holding company is being bid significantly above €1bn. NordLB Chairman Hannes Rehm was due to meet with advisers last Thursday to reduce to two the final bidders for the portfolio, with whom the bank will enter final negotiations.

The NILEG sale is one of several initiatives in which NordLB is rapidly raising new capital or freeing up the equity capital that it already has against a deadline of mid-July when state guarantees for the German landesbank/savings bank sector officially end. It also announced a joint venture with Norway's DNB Nor in several northern European countries, as well as a cooperation with sector counterpart Westdeutsche Landesbank (WestLB) and Shinsei on setting up a 'bad bank' to manage and work out non-performing loans on book (see elsewhere in this issue).

Late last year NordLB was obliged to return €712m in capital to the state of North Rhine-Westphalia by the European Commission, which ruled that this had been an illegal subsidy. This cut its equity capital to €4.3bn, endangering its potential credit rating after government guarantees end. pfe

PFE COMMENT: This is the first apartment portfolio in which a participation by Deutsche Bank has come into the public domain. A typical hedging of bets by Deutsche, which just last month issued a research report saying the prospects of achieving returns in such portfolios were not high, and that residential real estate was unlikely to see capital valuation increases anytime soon. However it has indicated that NILEG, if it wins the bidding process, would be placed into a fund for eventual sale to institutional investors. We shall see.

Dresden to privatise its 50,000-apartment holding company

The city parliament of the east German town of Dresden decided late last week, with a clear majority, to sell at least 75% of its stake in the 50,000-apartment company Woba Dresden GmbH to private investors, the Immobilien Zeitung newspaper reported.

Mayor Ingolf Rossberg, a member of the federal liberal Free Democratic Party, proposed selling just under this total, 74.9%. A study group has been set up to post the offer for tenders. The city of Dresden intends to put the proceeds generated by the sale to paying down its debts of €800m. Woba last year had turnover of €182,8m. pfe

Shinsei said chosen as partner in new 'Bad Bank' of Germany's WestLB, NordLB

Shinsei Bank, the reconstituted Long Term Credit Bank of Japan, has emerged as the private sector partner in a 'Bad Bank'

set up by two of Germany's largest landesbanks, WestLB and NordLB, to finance a platform for working out non-performing loans from internal and third-party sources, various media reported.

Quoting landesbank sources, they said the management boards of both Westdeutsche Landesbank and Norddeutsche Landesbank had now agreed, after several months of negotiation, that Shinsei should be the partner for this. The concept had been extensively discussed with Lehman Brothers toward the same objective, but its chances were now seen as dim.

The chairmen of the two banks, respectively Thomas Fischer and Hannes Rehm, are keen to present the new institution in the next few days for a start of business already on 1 July. A starting balance of €200m in NPL portfolios would be placed into it for staff to start work on.

In a next step, it is conceived that savings banks associated with the two landesbanks – which act partially as clearing institutions for smaller, local, public sector banks – would contribute their own portfolios of distressed debt to it for workout. However, the new institution would be open to accept non- or sub-performing portfolios from the private sector as well.

The sources told Handelsblatt that Shinsei's experience with smaller distressed credits in Japan had given it the edge in talks with WestLB and NordLB. pfe

PFE COMMENT: Shinsei has been operating in Germany for about one year but is said to have around \$6bn in a 'war chest' to invest in opportunities in the real estate finance field wherever it can identify value. This is the refloated Long Term Credit Bank, which was taken out of the market several years ago by a group of former

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Goldman Sachs partners, in a New York-based partnership Ripplewood Holdings. One leading figure was Christopher Flowers, now active in the German market with Shinsei, and on his own account. He is also said to be involved in the bidding for the struggling mortgage bank Allgemeine Hypothekenbank Rheinboden (AHBR).

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Sales of German apartment firms to foreign investors raise cross-party concerns

Concern is growing across party lines in Germany over the implications of selling large numbers of apartment holding companies, partly out of state ownership, to foreign investors.

Chancellor Gerhard Schröder warned in a recent speech that home units should not be allowed to become 'speculation objects', and that individual as well as corporate investors or funds all had to show social responsibility in their treatment of residential assets. "Sale is only a responsible move if tenant protection is adequately in place," Schröder told a meeting of the Renters' Association in late June.

Incoming right-wing Schleswig-Holstein Premier Peter Harry Carstensen also warned against 'globalisation' in the apartment market. In the case of the internationally operating capital funds and the pension and investment funds, he said, "pure yield considerations and profit maximisation are in the foreground of their thinking.... This can have significant consequences for renters and for the apartment companies on a local level."

A similar warning also came from the Federal Association of German Apartment and Property Companies (GdW) following the purchase of a portfolio of 13,500 apartments formerly belonging to the Preussag company by the Australian fund Babcock & Brown. GdW President Lutz Freitag said in the aftermath of

the sale, all the staff of the company had been fired, and the administration of it passed to a legal firm.

GdW sees the danger that the frequent change of ownership in such companies would destroy the substantive value without making essential modernisation capital investment or improvements in the surrounding space. "The sustainable development of apartment companies and their conditions are falling victim to the short-term profit interests," Freitag said. This was a dangerous development.

GdW represents around 3,200 apartment companies mostly in communal and cooperative form, and holding a total of around 6.5m residential units. At the end of 2004, a subsidiary of Babcock & Brown, in combination with a Meerbusch-based legal practice, bought a portfolio of home units in Mainz from Deutsche Anlagen Leasing. The Australian company already owned a 6,000-apartment portfolio in the north German town of Kiel. pfe

Hudson Advisors wins first German Special Servicer rating, from Fitch

Hudson Advisors Germany, the tied Special Servicer of Lone Star Funds, has become the first such service provider in the country to receive a mortgage special servicer rating. Fitch Ratings said it assigned Hudson German residential and commercial mortgage special servicer ratings of 'RSS2-D' and 'CSS2-D' respectively.

The ratings are based on Hudson's experience servicing non-performing loans as well as performing and sub-performing loans acquired by Lone Star for which Hudson is the exclusive servicer, Fitch said in a statement. "They also reflect the extensive industry experience of its management and staff and the company's proven results in realising numerous NPLs over a relatively short period."

Hudson benefited from the strong support of its US parent, Hudson Advisors LLC, and a bespoke NPL servicing system created specifically for the German market, Fitch added. "While Hudson has been servicing German NPLs for only two years, this is longer than most other new special servicers .. including some that have no or only a small portfolio."

Hudson established an office in Berlin over six years ago to provide asset management and commercial real estate services. This had enabled it to build a presence in the German market while providing valuable information about the German real estate market.

Fitch said Hudson, collectively managed nine unsecuritised portfolios, including corporate and unsecured debt as well as both residential (including multi-family) and commercial mortgages. The residential book is mostly non-owner-occupied, multi-family. Hudson's total servicing portfolio had 8,900 loans and a gross book value just over €6bn. Of that, €2.4bn or 40% were classified as NPLs.

The entire portfolio however was on Hudson's watchlist, with business plans completed or in development for all loans. The company also recently engaged Aareal Hypotheken-Management GmbH, to provide administrative services and technology support for performing and sub-performing loans. Hudson prepared all credit decisions and management of the real estate.

Hudson employed an array of strategies in managing the NPL portfolio, including acquiring properties as real estate-

owned assets, Fitch added. "REO as a workout strategy is relatively new to the German market, and thus untested, although initial performance suggests potentially strong promise."

In the period to March 2005, Hudson had realised numerous properties with total collections exceeding business plans. "Easier assets tend to be resolved first, so that the challenge for Hudson is to maintain and hopefully improve performance over time," the ratings agency said.

Fitch rates European residential and commercial mortgage loan primary and special servicers in the UK, Italy, Netherlands and Germany on a scale of 1 to 4, with 1 being the highest rating. pfe

Dutch, Scandinavian banks set to launch first jumbo covered bonds

In a half-year review of the Pfandbrief/covered bond market, Commerzbank AG said record issue from Spain from the first half of 2005 is over, though its banks, together with Italian and Portuguese institutions, should continue to dominate southern Europe going forward.

In the north, Netherlands and Scandinavian banks are poised to launch their first jumbo covered bonds.

Total issuance of Pfandbrief/covered bonds by all banks in Europe in first half of 2005 has been just over €74bn. Largest volumes came via Spanish Cedulas, with €31.325bn. This was followed by €27bn in German Pfandbrief.

But the note, from Commerzbank Corporates and Markets, said that Spanish issuance volume was unlikely to be maintained since construction activity was on a long-run slowing trend, and overcollateralisation levels were falling. It noted however that BBVA differed with this forecast, and anticipated the continuation of 600,000 per annum up to 2011.

The Commerzbank note, written by Claudia Vortmüller, also said changes within Depfa PLC and Aareal would affect their Pfandbrief issuance.

Depfa announced in late June that it is cutting staff and moving office to the outskirts of Frankfurt, as well as reducing equity capital to €600m from the current €1bn. It will also cut back funding volume massively, compared to 2004 issuance of €7bn.

"The following seems to be on the horizon," Commerzbank said. "The Pfandbrief bank issuance platform will be kept intact so as to respond flexibly to the best funding conditions going forward."

But there was a question whether Depfa would retain its Jumbo Pfandbrief program. "From this perspective there are reasons to assume that the outstanding supply of Pfandbrief.. will become more expensive," the note said.

On Aareal, the integration of the Aareal Hyp mortgage subsidiary announced after the annual meeting means that Pfandbrief will in the future be issued by the parent bank directly.

This corresponds to the coming into force of the new Pfandbrief act next month, which enables any qualifying bank to issue the traditional form of German covered bonds. The disposal of another portfolio of non-performing loans (see elsewhere in PFE) was also positive.

"We assume the bank will continue to adjust its portfolio and expect good quality of cover pools underlying future Pfandbrief issues," Commerzbank said. pfe

French government misses targets on real estate sales in 2004, 2005

The objective of the incoming French government under Prime Minister Dominique de Villepin is to raise €600m by selling real estate assets during the remainder of this year. This is up from the €500m planned to be sold in 2004 but below the original aim of €850m projected for sale in 2005.

However, in contrast to its plans, Paris last year only sold around 100,000 sq. m. of assets worth €160m and these were

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**Wednesday-Thursday 29-30 June 2005
REITs World Europe 2005, Frankfurt**

The Terrapinn Company is organising a conference on European REITs, with strong emphasis on Germany, France and the UK.

Speakers include: Norbert Müller-Jones Lang Lasalle, Klaus Droste-Deutsche Bank, Scott Crowe-UBS, Florian Schultz-Linklaters, Fernand Perreault-Caisse de dépôt et placement du Québec, Benedikt Kiesel-Eurohypo, Jürgen Schafer-FERI Wealth Management, Knut Riesmeier-MEAG Munich Ergo Asset Management, Bas Clerckx-Kempen Capital Management, Rob Falzon-Pramerica Real Estate Investors, Jürgen Herre-Hines, Nico Tates-Aberdeen Property Investors, Sabina Kalyan-Capital Economics, Joe Dryer-Dresdner Kleinwort Wasserstein, Neil Bane-Carlton Advisory Services, Barbara Knoflach-SEB Immobilien Investment, Andrew Smith-Arlington, Liz Peace-British Property Federation, Alec Emmott-Societe Fonciere Lyonnaise, Maarten Hulshoff-Rodamco Europe.

More information: http://www.terrapinn.com/2005/REIT_eur/

**Monday-Tuesday 4-5 July 2005
Hanseatic Securitisation Forum
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 a great deal of 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

mainly unused military barracks and office buildings, the property portal Business Immo said.

Jean-François Copé, budget and state reform minister, said the hold-up was due to blockages at the level of state administration.

"In the first place, the culture among ministers has not evolved to take account of current circumstances," he said. "Some of them look with great suspicion at any inter-ministerial intervention in the property and goods that they consider proprietary to the ministries they head."

However, he said the current procedure for selling state owned real estate was also not particularly efficient at present. Because of the volumes that had been earmarked for disposal, there were not enough officials to deal with this on a local level.

However, he also sees the establishment of a separate agency for this purpose as being too complicated. pfe

Bertelsmann Foundation ranks Hamburg most prosperous, secure German state

The Bertelsmann Foundation in its latest ranking of the 16 German federal states places Hamburg at number 1 for the fifth year running, followed by Bavaria, Baden-Württemberg and Hesse, all 'old states' of western Germany. The ranking is made on the basis of income, employment levels and general security.

Rhineland-Palatinate, also in the west, was able to move up two places to number five. While the east German state of Saxon-Anhalt occupied 13th place, this was an improvement on last year's ranking at the bottom of the table.

Berlin and Mecklenburg-western Pomerania each slipped down two places to the penultimate and last spot respectively.

The reason is sharply rising unemployment. The rate is above 20% of the workforce in Berlin, Thuringia, Saxony, Brandenburg, Mecklenburg-western Pomerania and Saxony-Anhalt, while it lies below 10% in their west German counterparts of Baden-Württemberg, Bavaria, Rhineland-Palatinate and Hesse. pfe

NRW government change likely to bring sale of state's apartment portfolio

The change of government in Germany's most populous state, North Rhine-Westphalia (NRW), has rapidly raised the prospects of a sale of the majority state-owned residential housing company LEG-NRW, which owns and manages around 106,000 home units.

Bernd Schulte, home-policy spokesman of the NRW Christian Democratic Union, has said LEG would be sold within the next two years either as a whole or in parts. The CDU, together with its liberal partner the Free Democratic Party, resoundingly defeated the Social Democratic coalition with the Greens in late May.

Schulte's statement caused confusion inside LEG-NRW, which evidently was not current on the plans of the new coalition, according to the Immobilien Zeitung newspaper. Talks are due in the next few weeks with the incoming government under CDU Premier Jürgen Rüttgers.

Sources inside the two incoming government parties said their coalition contract called for privatising and selling off everything possible in terms of state-owned real estate properties and projects under way, including LEG. Apartment holdings would be sold, "taking into account all necessary social standards."

LEG spokeswoman Christine Mattauch told the IZ, "What we don't know is whether the word 'possible' refers to the privatisation of the apartment holdings or not."

LEG-NRW (Landesentwicklungsgesellschaft Nordrhein-Westfalen) is one of the largest real estate holding companies in Germany, and is 68% owned by the state.

It offers a range of services: asset management, property investment and development, and real estate ancillary services. LEG-NRW owns 1,200 hectares of commercial real estate, and is thus the largest supplier of industrial and commercial space in the northern, west German state. pfe

PFE COMMENT: The rate at which these publicly-held property companies are coming onto the market now is picking up significantly – ever since the government sector realised that external institutions – i.e. Anglo-Saxon investment funds, in the main – are prepared to pay top dollar for them. This new-found

external demand coming into the property sector fits perfectly together with the requirement caused by extremely stretched government budgets. These are proving impossible to balance at all levels: federal, state and urban-municipal, and this is one of the major reasons why Chancellor Gerhard Schröder felt compelled to go to the country to seek a new mandate before next year. Though the politics of such sales is becoming more complex, we think it is unlikely that any incoming Right-Liberal government would attempt to curtail them. What is more probable is a review and overhaul of tenant protection statutes, plus the gradual development of a disintermediated real estate environment where governments can, for example, participate in the capital gains in a stock market flotation of their assets. Hesse has already indicated it is interested.

Table: Equity capital ownership of LEG-NRW

Equity holders	euros	%
North Rhine-Westphalia state holding co.	102.308.381	68,15
Landesbank NRW	33.406.308	22,25
Local apartment companies	7.776.122	5,17
Insurances & banks	5.177.505	3,45
Internal	1.247.199	0,84
Towns	134.465	0,09
Associations	61.933	0,04
Municipalities	17.348	0,01
Other companies	762	0,00
Total	150.121.023	100,00

Source: Landesentwicklungsgesellschaft Nordrhein-Westfalen

German institutions outweigh US in French commercial property investment

German institutions have consistently been the largest national group of investors in French commercial real estate in recent years, having spent more than €3bn per annum in 2001-2004, and investing €3.2bn in 2004 alone, according to a recent study. US institutions are however still the heavyweights in the market, having begun to invest earlier.

The study, published in May by the French Institute for Property and Land Savings (IEIF), said the volumes invested by German institutions in French commercial real estate have been spectacular. "They have not hesitated, in particular, to position themselves in the bidding for key properties in Paris and in La Défense, where single investment volumes are above €100m, and even up to €150m," the study said.

German investors have included open and closed-end funds, plus private individuals and companies. Factors driving German real estate investment have been the significant size of the asset base deriving from private households, plus the opening up of foreign investment rules in 2002. The difficult domestic property market has also provoked scrutiny of opportunities in Germany's western neighbour.

The interest from Germany in French commercial property started in 1997, propelled by the planned and subsequent introduction of the euro. However, the study, written by Nathalie Droulez, Olivia Millioz and Karine Niemand, said volumes really took off from 1999.

By contrast, US interest began to become more evident in French commercial real estate from 1995 onwards. Following the French property crisis in the early 1990s, American institutions first began by purchasing portfolios of non- or sub-performing property backed loans. They then moved into other kinds of portfolios, including participating in the privatisations of France Télécom and EDF.

"American investors are the heavyweights on the French market," the study said. They were market leaders from 1996-1999, and then again in 2001, with a record €3.6bn invested in a single year. Average acquisition size has been above €100m.

The pattern of investment out of the United Kingdom has been one of increased activity at the base of the property cycles over the entire 35-year period researched. "The United Kingdom is the country which has had, over the entire period, the largest number of active investors annually (with the exception of Germany in the years 2001-2004)", the study said. It used data

from Cushman & Wakefield Healey & Baker as the research base. pfe

French residential rental rates begin to fall, country home-buying picks up

Apartment rental rates in the major towns have begun to decline over the last few months, while the purchases of country homes by private individuals is picking up fast, the Le Monde newspaper reported.

While as recently as three years ago, renters' associations were denouncing the absence of rented accommodation and prohibitively high rents, with brokers' waiting lines extremely long, everything has changed in the last few months. Real estate agents are now reporting a surplus of rental accommodation on the market, and the start of a decline in rents as a result. While the fall is not spectacular, the signals for further declines are multiplying.

The newspaper recently also reported separately that the purchase of country homes by non-agricultural private individuals reached a near-record volume of almost 100,000 in 2004, while the average price paid has almost doubled in the last eight years.

In 2004, the price for rural space either for principal or secondary residence rose by 14%. For an average property on a plot of around 8,000 sq.m. it reached €164,000, more double the price of €71,000 paid in 1996. pfe

Berlin changes savings bank law to enable Bankgesellschaft sale

The Berlin city-state parliament, supported by votes from the Social Democrat and Green parties of the federal government, has changed the law on savings banks within its jurisdiction to allow in private sector capital.

The move was made to allow a new structure in order to re-capitalise and sell Bankgesellschaft Berlin (BB) to prevent its collapse. Under this structure, the Landesbank Berlin will, effective 1 January 2006, become the major subsidiary of a holding company which is opened to private capital, and will

itself be converted into the legal form of a public company (Aktiengesellschaft).

Shareholders of the AG will be the city of Berlin with 81%, Norddeutsche Landesbank with 10%, Gothaer Finanzholding AG with 2%, and the remaining 7% in diverse ownership. The construction dictates that the Berliner Savings Bank (Sparkasse) remains a fully-owned subsidiary of the Landesbank Berlin,

(cont. on page 9)

Chart: International investment in French commercial property

Monthly average, 2004, By nationality. In €m



NB: Rest-Eur. is Belgium, Denmark, Spain, Ireland, Italy, Luxembourg, Switzerland

Source: Institut de l'Épargne Immobilière et Foncière, Cushman & Wakefield

The PFE interview: Dr. Martin Braun, Cushman & Wakefield Healey & Baker

German corporate offices hold more REIT asset potential than residential portfolios, says Cushman & Wakefield specialist

Office property in Germany owned and used by the major companies represents a huge potential asset base for the eventual introduction of Real Estate Investment Trusts (REITs), and is even more suitable than residual parts of the residential apartment portfolios currently changing hands, according to a Frankfurt-based property specialist.

Martin Braun, Associate Partner at the realtor Cushman & Wakefield Healey & Baker, told PFE in an interview that German corporates own about 70% of the real estate they use, compared to just 30% held by the average US company. "REITs can and will help corporates to sell their real estate assets," he said. "Compared with the US, they hold a lot of their office property in the balance sheet and this doesn't make sense. There is no need for a Daimler or an Eon or whoever to own the office buildings they use."



Martin Braun

He cited the move by Deutsche Telekom two years ago as an example. Under pressure to raise cash and reduce liabilities, DT made a number of sale and leaseback transactions of office space occupied and used for its operations. "It's different with the specific factory or manufacturing property, which companies probably need to hold, but the general non-operating office space doesn't need to be on balance sheet," Braun told PFE.

"The potential is much higher for putting these assets into REITs than it is in residential portfolios."

Though pressure on balance sheets had considerably diminished since activity, profits and cash-flow had picked up, eventual introduction of legislation making REITs a viable and attractive property management vehicle should make companies seriously consider selling office space into them.

The current SPD/Greens federal government has been considering legislation enabling introduction of REITs since late 2004 but had come to no decision prior to last month's call for early elections by Chancellor Gerhard Schröder. A potential right-of-centre government of Union parties and the Liberals is likely to be less hesitant on the issue. Since they are far ahead in the polls, hopes are high that G-REITs will be permitted from the first half of 2006.

The senior right-wing Christian Democratic Union (CDU) party is generally seen as more open to foreign investment than the current left-wing coalition. "It's beginning to change already," Braun said. "Everybody is much more positive."

In the wake of the successful sale by companies such as Eon, with Viterro, or Thyssen Krupp, many German conglomerates are weighing the sale of residential assets on book. Daimler has been quoted in the media as looking at its holdings of over 100,000 apartments. But Braun said, "in many respects, some corporates have unrealistic price expectations." Apart from those situations, such as Viterro, where the residential holdings had been run as a separate business, corporates were unlikely to bring these packages to market in large volume anytime soon.

For the large apartment portfolios which had changed hands over the last two years, margins should be realised via the traditional wholesale-retail strategy – buying in bulk and selling individually to sitting tenants or to third parties. The main difficulty with placing remainders into a REIT could be the diversity of the packages left over. "They are going to end up looking like Swiss cheese," Braun said, "Twenty units in Bochum, 50 units in Essen and so on."

He sees the most likely candidates for conversion into REITs as being property management companies such as IVG, Deutsche Wohnen and Deutsche Euroshop. Under certain circumstances some open-end real estate funds could consider the move but they might be hindered by different asset valuations methods.

German open-end funds are subject to the Investment Law and therefore tightly controlled by the financial supervisor BaFin. The real estate sector has been lobbying for REITs to be excluded from this legislation, subject only to the control of the capital markets. Because of this, most REITs were likely to be established from newly-combined pools of assets, Braun said. "I expect many new companies to be created," he told PFE.

Around a dozen international investment banks and Opportunity or Private Equity Funds are currently seeking opportunities in Germany, mainly in the purchase of non-performing loan or residential property portfolios. These include Morgan Stanley, Goldman Sachs, Merrill Lynch, Lehman Brothers, Lone Star Funds, Fortress Investment, Cerberus Partners, Lennar Partners, Shinsei, and Terra Firma.

In the last five or six months, German real estate was beginning to attract the attention of more long-term institutional core investors, Braun said. British pension funds, US REITs, and smaller, private US investors, were seeking currency diversification. UK institutions were building exposure to euro assets, expecting in a generation or so to face pension payout liabilities in euro – despite the current UK resistance to joining the single European currency. US investors were simply moving out of highly-priced American real estate.

"Long-term investors have wanted to come to Germany for some time but they couldn't because it was such a closed environment," Braun said. "Now, they are coming to the realisation that Germany is after all the third largest global economy and it makes sense to invest here."

While two or three years ago, the market was closed and domestic investors were buying at ridiculous price levels, mainly tax driven, valuations have fallen and we are seen as offering good opportunities." pfe



Braun looks over the Main from his Frankfurt-Westhafen office

and that it continues to be governed by the savings banks law, without an independent banking license or its own assets.

The complex structure was evolved to try to resolve two conflicting objectives: the ruling by the EU Commission that Berlin could supply bailout capital of €21.6m only if it undertook to sell off the group by the end of 2007, and the desire by various interests – most of all the political left wing and the German Savings Bank Association (DSGV) – to preserve the historical public sector exclusivity with the business focus on common welfare of the local community, i.e. rather than profitability.

However, various media report that the BaFin supervisory authority has expressed doubts that the Berliner Savings Bank can continue with the name after the new structure comes into effect. Under the German Banking Act, the word Sparkasse may only apply to a public sector institution holding a banking licence – with the exception of the "free" savings banks. The DSGV is likely to challenge the change as unconstitutional. pfe

WestLB, NordLB cooperation in new 'Bad Bank' seen as possible merger signal

Cooperation between Westdeutsche Landesbank and Norddeutsche Landesbank to set up a 'Bad Bank' to work out internal and third-party non-performing loans has re-sparked speculation that the two banks, both strongest in northern, west Germany, could eventually consider a merger as the savings bank sector in general consolidates, the Handelsblatt newspaper said.

At the same time, it also reported NordLB had announced the establishment of a joint venture with Norway's leading bank DnB Nor to boost general business activities in northern Europe. The new cooperative venture, to be called Bank DnB Nord, will take up activities in Denmark, Finland, Poland, Latvia, Estonia, Lithuania starting in 2006.

NordLB will have 49% of the new bank, with the Norwegian institution taking the remaining slight majority stake.

But the WestLB-NordLB cooperation on NPLs showed that the two might consider closer cooperation in the north-west German region. "This is a strategic decision in favour of finding more points of cooperation," one landesbank source told Handelsblatt.

Dietrich Hoppenstedt, president of the Savings Banks Association, has himself recently shifted position to favour the survival of just three landesbanks in Germany, compared to the 11 that currently exist. Landesbank Baden-Württemberg (LBBW) is now the largest, with WestLB and NordLB, alongside Bayerische Landesbank, among the big four.

As for NordLB's new JV with the Norwegian bank, the chairman of the former, Hannes Rehm, noted that this marks the first time that a German public sector bank has entered such a cooperation with a foreign private bank. He is also optimistic that the deal will boost NordLB's chances of a favourable credit rating. Standard & Poor's are in the process of analysing NordLB to this end. A strong rating is key for all German public sector banks to find refunding at a rate which fits into a business model making them a viable concern going forward. pfe

PFE COMMENT: The merger agreement announced two weeks ago between Italy's Unicredito and Hypo-Vereinsbank has certainly given a new impetus to the entire Germany banking establishment to think 'bigger' in terms of both domestic and international business and, above all, 'out of the box'. The high

probability of a right-of-centre government after September under Germany's first woman chancellor, Angela Merkel, has also made clear to a number of public sector bank management boards and their chairmen that the time is past for delay. Under a rightist federal government they can no longer expect (a). that Berlin provides flanking protection for the landesbank/savings bank sector while they prevaricate seeking a business model that works after losing state guarantees next month, or (b). that the current savings bank law forbidding the entry of private institutions into their capital has a very long shelf life. pfe

Aareal says it will set up a "state-of-the-art" NPL workout organisation

The Wiesbaden-based Aareal Bank Group, with remaining non-performing loan assets of around €2.5bn, said it is, "in the process of establishing a state-of-the-art workout organisation, which will focus on restructuring, property development, and the disposal of non-performing loans".

In a statement released after its annual meeting in mid-June, Aareal said it had recently sold an NPL portfolio of €690m, "reducing its overall portfolio in this area by more than 20%."

It had earlier announced that the buyer of this was Lone Star Funds, for whom Aareal, through its servicing subsidiary Aareal Hypotheken Management, is providing servicing of parts of the US opportunity fund's prior NPL portfolio acquisitions in Germany.



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Chairman Wolf Schumacher reiterated the bank's determination to expedite further reductions in NPL debt on the balance sheet. "The know-how we have gained allows us to access the market, while at the same time, the freeing-up of capital resources will boost the expansion of our target business," he told the meeting. "2005 is going to be a year characterised by strategic decisions with long-term impact."

Since being spun off from the Depfa group in 2002, Aareal has been struggling with its German distressed mortgage debt portfolio, mainly focused on residential and hospitality assets. A consistent underestimate of the provisioning required caused its former chairman to step down in mid-2004, to be replaced on 1 April this year by Schumacher, previously head of the Hamburg-based DG HYP cooperative-sector mortgage bank.

Aareal said its future funding strategy would leverage its Pfandbrief know-how. It intended to remain among the major issuers of asset-covered bonds.

"The bank intends to exploit the possibilities of the new German Pfandbrief Act to significantly boost the structural portion of mortgage bonds in its funding mix, from currently 10% to between 40% and 60%," the statement said. An inaugural Jumbo Pfandbrief issue is scheduled for the second half of 2005.

Schumacher added, "The complexity of the Aareal Bank Group will be reduced. We will simplify processes, remove unnecessary interfaces, and further enhance the bank's credit organisation in line with the regulatory framework. Furthermore, the bank's management structure will also be streamlined during the course of this year."

A six-point realignment program will include the expansion of new business, and a more pronounced regional diversification - including a new branch office to be opened in Istanbul this summer. The bank will continue to leverage its mid-sized corporate structure by revising its organisational structure.

It will emphasise the international focus of its corporate culture with a targeted training campaign and sponsorship of an Assistant Professorship at the European Business School. More transparency will be realised by disclosing the remuneration of board members, and also by including a new 'Workout' segment in the annual report.

Schumacher said he is optimistic for Aareal's outlook as an international property specialist - focused on Europe and North America - concentrating on lending to commercial borrowers and the provision of property-related services. pfe

Dutch Ibus picks up apartment, small commercial German portfolio

The Ibus Company, based in the Netherlands, has used the first of its funds created for real estate investment in Germany to purchase a €35m portfolio of apartment and small commercial property in Lüneburg, near Hamburg, the Immobilien Zeitung newspaper reported.

Ibus has 35 funds, with a total volume of €800m. Until now these have been focused on property investment in the US, UK, France and the Netherlands.

The Lüneburg portfolio consists of 603 apartment, six commercial properties and car parking facilities. The apartments will be retained in the fund, and further similar investments are planned. pfe

German open-end funds outflow continues in May, BVI figures show

German open-end funds continued to experience a strong net outflows of investment in May, mainly sparked by real estate-focused funds.

Latest data from the Federal Association of Investment and Asset Management (BVI) showed that the 31 funds listed had combined net outflow of €63.6m. This was only slightly less than the €72.5m in April.

Since the start of 2005, German open-end funds have lost a total €716m in investment capital.

The winners in May were fixed income securities' funds, the BVI data showed. Bond funds attracted a net inflow of €2.7bn, while equity funds were down €826m and money market funds lost a net €113m. pfe

Austria's Immofinanz buys first German apartment portfolio

The Austrian real estate company Immofinanz Immobilien Anlagen AG said it bought the Berlin-based apartment company Tempelhofer Feld AG (Tefag), which owns 1,400 housing units, in its first venture into the German market.

The apartments have a combined floor space of 105,000 sq.m. Around 98% of the portfolio is rented.

After selling two smaller portfolios earlier this year totalling 150 apartments, the remaining investment volume was around €80m, the Immobilien Zeitung newspaper said. The company did not confirm the price. More than half of the apartments are in the suburbs of Tempelhof-Schöneberg, with the remainder in Charlottenburg, Steglitz and Reinickendorf.

Broker on the deal DTZ Zadelhoff Tie Leung said Immofinanz Immobilien is a classical buy-to-hold investor in the pan-European market. pfe

Foreclosure auctions increase again in Germany after recent decline

Foreclosure auctions are rising once again in Germany, after slackening off in the last few months.

Figures from the tracking company Argetra GmbH show that in the first half of 2005, the number of compulsory residential property auction dates has risen by 1.5% vs 1H04, to 48,438. The aggregate assessment of properties put up for auction fell by 0.9% to €9.6bn.

The following states had double-digit growth in the number of foreclosure auction appointments: Schleswig-Holstein, Hamburg, Mecklenburg-western Pomerania, Brandenburg and Saarland.

Argetra said the reason for the rise in the east German states was simply a continuing lack of any buying interest for either commercial or yield-bringing residential real estate there. pfe

Heavy outflows at Commerzbank's European property fund

Commerzbank AG's main real estate arm Commerz Grundbesitz-Investmentgesellschaft (CGI) announced that the 2004/2005 financial year for its flagship open-end fund Hausinvest Europa was characterised by strong net outflows of investment, numerous asset sales and a weak operating performance.

Net fund outflows for the year totalled €1.43bn, obliging sale of seven individual properties to realise €600m, though it bought four more properties for a total investment of €2.6bn. Assets under management thus grew by 1.9%, vs a 3.5% rise in 2003/2004. pfe

Volume of real estate in German M&A to rise but unlikely at 2004 pace - UBS

The volume of real estate transactions encompassed by merger and acquisition activity in Germany is likely to continue to rise at a rate of 5-10% per annum for the foreseeable future, according to UBS M & A director Wolfgang Fuchs.

The Immobilien Zeitung newspaper reported Fuchs telling a conference in Frankfurt that the near-tripling of property values included in such deals in 2004 - to €20.4bn - was highly unlikely to be repeated. However, the continual flow of capital into Private Equity Funds, comparatively low apartment prices and planned sales by open-end real estate funds meant that the trend of active property portfolio trades was set to remain in place. pfe

US REITs buy German Hellweg home improvement stores' portfolio

The German home improvement store chain Hellweg said it had sold a portfolio of 16 market store locations for €125m to two US REITs managed by sale-and-leaseback specialist W.P. Carey based in New York.

The Dortmund-based Hellweg has signed 25-year lease-back agreements on the stores which have total retail space of 125,000 sq.m. They are located mainly in North Rhine-Westphalia and Hesse in the west, and in Thuringia, Saxony and Saxony-Anhalt in the east. pfe

Cerberus sells German apartment portfolio stake to Dutch group

Colonia Real Estate AG (CRE), a subsidiary of the Colonia insurance group, said it had bought a 94% stake in the Netherlands-based Grasmus Holding B.V. from a subsidiary of Cerberus Funds, Vega Investments S.à.r.L., based in Luxembourg. It gave no price details.

Grasmus owns a portfolio of 3,488 apartments in eight locations in north Germany, totalling over 216,000 sq.m. of residential space and over 500,000 sq.m. of property in total.

The Cologne-based CRE said it plans to start a program of privatisation in January 2006, mainly to sitting tenants, to offer parcel sales in two of the locations to private and institutional investors, and to retain a portion of the assets in its portfolio. It said it planned further purchases of apartment portfolios, giving no details.

The transaction encompassed an assumption of Grasmus debt by CRE, a cash payment and a rise in Vega assets through takeover of new shares issued by CRE. pfe

German private household assets rise above €4tr for first time

The savings assets of German private households climbed above €4tr for the first time at the end of 2004, latest figures from the Bundesbank central bank show.

Aggregate private household wealth rose by almost €400bn in each of the last two years, though households at the end of last year also held a total of €1.6tr in debt. A disproportionate rise in debt was due to mortgage credits.

The Bundesbank said the average German private household now owns gross liquid assets of €100,000, but net of only €60,000 after deduction of its average debt load. Adding in fixed assets from property and business operations, this produced average net assets of €185,000 per household. pfe

German open property funds valued assets down by 3% in 2004

German open-end real estate funds made net downward value assessments of domestic assets last year of 3%, or €896m, according to the Federal Association of Investment und Asset Management (BVI).

This was greater than the downward valuation of 2.3% in 2003, or €591m, and the €154m negative assessment in 2002.

By contrast, valuations of foreign real estate held by the open-end fund community in Germany were raised by an average 6% in each of the last three years. pfe

Fortress Investment's Gagfah names Zohari to management committee

The apartment housing company Gagfah, acquired last year by the Fortress Investment Group, said it has named Worna Zohari to the executive management committee of Gagfah GmbH and Gagfah Immobilien-Management GmbH based in Essen.

Zohari, who will take over the new division of property trading, joins Gagfah with effect from 1 July 2005. Prior to founding his own brokerage company last year, Zohari was branch manager and signatory company officer with Viterra AG.

Viterra was sold last month to the UK opportunity fund Terra Firma.

Gagfah, currently preparing a stock exchange listing, said it plans to develop a real estate brokerage business as a second major business activity alongside property management. pfe

US REIT LESSONS FOR EUROPE: Fosheim said many US real estate funds that wanted to list on the stock market were at first determined to avoid adopting a REIT structure because of the profit payout minimum. But they invariably changed their minds because of the tax advantages.

"The tax savings are so enormous that it's compelling. You can't underestimate the power of the investment draw," Fosheim told the European conference of American Foreign Investors in Real Estate. "Here in Europe you will also find that companies that have converted to a REIT can afford to pay more for properties and still deliver after-tax returns that are superior."

Some 180 REITs exist today in the US, having combined market capitalisation of \$297bn. This compared to just \$8bn some 20 years ago. Development stumbled from their original beginnings in the late 1960s, when US REITs were not particularly investor-friendly but the sector began to take off in the 1990s, Fosheim said.

REITs were now the largest owners of property in the US. They had exhibited annual returns of 14% over the last few years and consistently outperformed the S&P general stock market index. Because of this however REITs were

overvalued at present, with a dividend yield at around 4.6%, below that of the general market.

The German SPD/Green government has, since late 2004, been considering legislation to allow creation of REITs but has been hesitant due to the risk of losses of tax revenues. The UK is in a similar discussion process but weighing the same problem. The introduction of French REITs two years ago is however regarded domestically and internationally as a success.

Fosheim said the US experience taught that governments must ensure REITs are given an investor-friendly structure, and that the private sector and the state are encouraged via the tax system to place property into them. They must have transparency and submit to high disclosure rules. "With transparency and disclosure more is better," Fosheim said. "You can't lose by having transparency and good disclosure."

A further lesson was that REITs must have internal management. Having external management did not work in the US but, despite this, the same trend was now visible in Japan and Korea. "I am not really encouraged by what I see in J-REITs and K-REITs," Fosheim said. But the global move toward listed property holding vehicles was unstoppable. pfe

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