

## French property firms watching SFL sale as benchmark for valuations

The French real estate community is watching closely to see what happens to Société Foncière Lyonnaise, a REIT/SIIC focused on central Paris office and due to be sold soon by its major shareholder, struggling Spanish real estate group Colonial.

Off this week to Milan to take a look at the burgeoning Expo Italia Real Estate EIRE as it heads towards its goal of becoming the leading trade fair for the host nation and the neighbouring Mediterranean area. Given the ever-multiplying fairs and conferences in northern Europe, the south is still undersupplied. Provada in Amsterdam this week also comes under PFE scrutiny as Publisher Richard Betts drops by to take the temperature of Dutch real estate waters. Even with summer as good as upon us, another interesting fair looms in still more exotic form: Turkey is playing host to the Real Estate Eurasia trade fair in Istanbul starting this Thursday and stretching into the weekend. Exhibitors have registered from as far away as UAE, Kuwait, Qatar, Bahrain, Kazakhstan, Ukraine, Spain and Italy. Still a host of fascinating insights to bring you from around the continent, elements designed to be strong value-add for your investment challenge in this highly diverse region of the world - Europe. This PFE Edition is once again packed to the gunnels; we are sure that, together with PFE Online Weeklies, every investor will find useful new facts and analysis to aid that hunt for elusive opportunity.

Panelists at the Property Finance Europe French Property Breakfast last month - plus other Paris sources - say the sale is important not only for the identity of the buyer, but also the valuation given to SFL assets. The trading of such a large block portfolio will serve as a benchmark for valuations in office property, and illustrate the strength of demand from both foreign and domestic investors.

"A lot of companies are watching the SFL situation with some nervousness to give an indication of what is happening in the French market," said Mark Inch, co-CEO of French REIT Société Tour Eiffel. "The price at which it gets taken out will supply a strong signal of how the state of the market here is viewed, particularly among international investors."

Four major institutions are said to be in the bidding process: Singapore sovereign investment fund GSIC, the giant Paris-based Axa insurance group, GE Real Estate and one other. The sale is largely being coordinated by the major international banks which have €6.4bn in loans outstanding to Colonial. Several institutions that originally examined bids for Colonial, including the Paris-based GE and the Investment Corporation of Dubai, were said by sources to be primarily targeted at buying SFL. This is considered the Spanish company's 'crown jewels', worth around €2bn.

Now, a tender process has been set up by creditors to Colonial, which include Calyon, Eurohypo, Goldman Sachs, and Royal Bank of Scotland. Targeted deadline for the tender closing is early July. International and domestic Spanish banks, primarily the central savings bank of Madrid, were earlier this year unprepared to accept bids pitched at as low as €0.50 per share for Colonial, seeing this as sharply undervaluing the total portfolio, including SFL. pfe

## Carlyle's third European RE fund targets €9bn

Global private equity firm The Carlyle Group has closed its third European real estate fund, Carlyle Europe Real Estate Partners III at €2.2bn, exceeding its initial target of €1.5bn, and says that with leverage it will target investment up to a massive €9bn.

The total investment objective would make CEREP III Europe's largest private equity fund dedicated to real estate investment. It has already committed €715m to 10 assets.

European real estate head Eric Sasson commented: "To have raised a fund of this scale, which exceeded our original target by a significant margin, underlines the continued confidence of investors in both the potential of real estate across Europe and Carlyle's ability to deliver superior returns." Carlyle invests in all real estate asset classes, with concentration on office, retail, hotel and residential across western and central Europe. Its two previous European real estate funds, CEREP I, which raised €427m equity, and CEREP II at €763m, have invested a total of €1.8bn in 65 assets since 2001. Carlyle's strategy is to identify assets that need repositioning, often sourced through public or corporate disposals, and where there is strong underlying potential for value creation. pfe

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## French architect Jean Nouvel wins design for La Défense Signal Tower

French architectural office Jean Nouvel has won the tender competition to design the Signal Tower, the central and highest new office building in the Paris La Défense district with a structure 300m high, the Epad management company announced.

Nouvel, a recent recipient of the Pritzker architectural prize, will join with the investors and developers Medea and Layetana for the construction of the Signal Tower, which is intended to become the centrepiece of the comprehensive renewal project for La Défense, the dedicated business quarter on the western periphery of Paris. No cost has been given for the investment.

Medea is a French-based subsidiary of the Cresa group, the principal shareholder in Madrid's largest listed company Metrovacesa and in the Sacresa group, both now controlled - after the resolution of a long stock market battle - by the Spanish Sanahuja family. The privately held Layetana group, set up in 1964, develops projects in the property and hotel sectors. In 2001, it developed the iconic office building Torre Agbar in the heart of Barcelona with Jean Nouvel.

The project will be sited at Porte Ouest to open up the La Défense neighbourhood toward Puteaux on the Paris periphery. It aims to create a strong hub at the heart of the Greater Paris region, creating a significant draw, and also establishing a relationship with the natural and built environment. The Nouvel design comprises 71 storeys, forming a mixed-use building which brings together apartments, hotels, offices and retail premises in the lower section. It is made up of four blocks piled one on top of each other, with atriums forming huge windows.

Ateliers Jean Nouvel is one of the largest architectural firms in France and Nouvel is recognised as one of the most innovative architects internationally. In Paris, he has also designed the Institut du Monde Arabe and the Quai Branly Museum, in Lyons the opera house and in Madrid the Reina Sofia Museum in Madrid. US projects have included the Hines Tower in Manhattan and the green-swathed SunCal tower in California's Santa Monica. pfe

## Russian Stroimontage to invest €1.8bn in Paris Hermitage Towers skyscraper

Hermitage, a French subsidiary of the Russian Stroimontage group, plans to go ahead with construction of its Hermitage Towers high-rise mixed-use complex in Paris La Défense at a cost of around €1.9bn, using a different location after losing the bid to build the Signal Tower.

The project was in the top five final group in the competition to build the Signal Tower set to become a new unofficial symbol of La Défense, but lost out to French architect Jean Nouvel in the final selection made by the quarter's EPAD management group early last month.

Hermitage Towers will now be built nearer the Courbevoie side of the complex. It will comprise two buildings, forming an H-shaped structure, with total area of 250,000 sq.m. Tower A will rise to 309m and Tower B to 264m. These will be linked by a nine-floor structure situated 75m above the ground. In each tower, the bottom three floors will comprise retail space, with 10 floors of office accommodation above. Floors 14-26 will house a luxury 300-room hotel, and above that will be private residential accommodation.

The scheme will be the tallest mixed-use building in western Europe when completed in 2014. Construction is due to start in 2010.

Emin Iskenderov, President of Hermitage, said the project is a unique opportunity to develop for the first time in France, a high-rise, multi-purpose building mainly intended for accommodation. "The concept of Hermitage Towers aims to provide a luxurious showcase for the business district of Paris," he told a news conference. Stroimontage, founded in 1994 in St. Petersburg, is one of the first Russian developers to enter the western European real estate market. pfe

**PFE COMMENT:** The Russians are coming; the Russians are coming! Not to be put off by losing out on Signal, Stroimontage has evidently dealt with a lot more serious setbacks in its 14-year progress to control around 10% of the St. Petersburg housing construction market. It has also been active in Moscow, where it has completed several residential and office projects. The company's most high-profile project to date was the \$500m Federation Towers in Moscow. It estimates annual turnover at \$310m.

## Eurohypo sells RE funds unit to former managers Rivlin, Lawson-May

Eurohypo, Europe's market-leading commercial property financing bank, has sold its property investment funds unit for an undisclosed price to Paul Rivlin and Neil Lawson-May, two bankers who formerly ran Eurohypo's investment banking division.

The buyers plan to expand the acquired asset-management business, consisting of two institutional funds, under the name Palatium, according to Handelsblatt newspaper. Eurohypo sold two funds with combined volume of €750m. No price was disclosed.

"Despite the current market conditions and even because of them, we have detected some attractive investment opportunities," Lawson-May was quoted as saying. Palatium plans to launch a fund for mezzanine property financing with targeted equity of €300m. Also planned together with a local partner is investment in property in Russia.

The German bank, which is owned by Commerzbank, has been reorganising its investment banking business in the wake of falling profit caused by the financial crisis. Eurohypo's pre-tax profit fell to €80m in the first calendar quarter from €260m in 1Q07. pfe

## German 2007 commercial RE capital growth seen at 13%, but yields rising now

German commercial property capital values rose by around 13% on aggregate last year, based on market transactions, says Hartmut Bulwien. But after the downturn since last summer's advent of the banking credit crunch, yields have risen by about 50bp and, he predicts, have at least the same amount still to go by year end until prices stabilise.

Bulwien, CEO of the German rating and deal-tracking company he founded, Bulwien-Gesa, told PFE recently that the record investment volume of over €60bn in German commercial real estate last year showed that the market remained strong, despite the much weaker second half. By comparison, the Investment Property Databank index, which showed no capital growth but only income gains in 2007, measures valu-

ation changes in fixed portfolios. These reflect assessment adjustments on, mostly, five-year leasing contracts that are made in off-market situations.

“What we do is we look at the deals as they take place on the market and so we have a completely a different performance read-out, a completely different tracking,” Bulwien said. “We come up with a capital value increase of around 13% for last year, so that seems to me to be closer to the real situation.” The bulk of the transactions tracked are office and retail deals. While in 2006 retail transactions predominated, the reverse was true in 2007.

Bulwien said the number of transactions collapsed dramatically in last year’s second half but value declines were not so

dramatic. In first quarter 2008, deal volume was down between 20% and 30% against 1Q07, so that investment volume is likely to be somewhere between €30bn and €40bn, he forecast. “Yields are up about a half percentage point, and sometimes even a bit more right now compared with the first half of last year, so it is beginning to look more interesting for investors to get in,” Bulwien told PFE.

But he added: “I think the re-pricing process will go further still so that at the end of this year we are going to be about 125 basis points above the first half of last year. In office last year at this time yields had fallen to about 4.5%, and by end of this year I reckon we will be at 5-1/2% or even 5-3/4%. We are about

## forward thinking

### Cracking the whip on SFL as Indiana Jones rides in to snatch the crown jewel

A highly successful PFE French Property Breakfast 10 days ago in London brought a lot of expertise to focus closely on one single problem: commercial property valuations in France, particularly Paris - where are they going? You will see in this Edition three quite lengthy items on what was said by our expert panel - you know who they are by now - and we thank them all for giving the benefit of their time and their wisdom. Now, I know you want to go off and take that sailing holiday in the Ionian Sea and/or laze on a beach or practice that scuba-diving

or para-sailing technique in some sunny clime - well I do anyway - but there is work to do still, preparing for the next PFE Property Breakfast which focuses on, wait for it, Germany. Well, what else really? I say that, but having absorbed the excited and dynamic atmosphere in Real Vienna in full, there is no doubt at all that CEE and the CIS have to be looked at carefully and comprehensively very soon by an expert panel. You can assume that the June event that PFE had planned for this region is not cancelled, merely postponed. Meanwhile, please keep the date Friday 29 August in your diary to come and hear an equally high-quality panel of experts on Germany, this time in all probability on the 31st floor of my block. No, I mean the Citibank Tower in Canary Wharf. 19th Nervous Breakdown indeed! Beside, most of You are probably weren't even born when Mick Jagger and

the boys churned that one out in the, er, 1960s. I think. It's one thing having never seen a cyclical downturn in the real estate market, and quite another to be an aficionado of the Rolling Stones. Since that particular Nervous Breakdown, quite a few property cycles have come and gone in Europe.



Allan Saunderson  
PFE Managing Editor

But digress I do. As usual. The PFE French PB did indeed provide additional enlightenment. Extra thanks to Eurohypo economist Philippe Tannenbaum for springing into the breach when IEIF Founder and Director Guy Marty couldn't make it at the last minute. One thing we learned again: IEIF, a private research institute, is working hard to provide extra transparency to the French listed property market and doing it very well. We have brought its European REIT table in our data section in the past and aim to bring its tracking of the 45-odd French SIIC sector regularly in the future. One of the insights that was brought more fully into focus was our item on the front page about SFL, and its importance for property in the Hexagon - a convoluted and complex valuation and financial structuring sale if there ever was one. Investment bankers will certainly earn their fees cracking their heads over just how to extricate this particular crown jewel from Colonial; is it the kind of problem that Indiana Jones could solve with a few cracks of his whip? The jewel in the cave being pursued by handsome hero and beautiful heroine, but surrounded

by alligators, primitive man-eating tribes and tricky-to-negotiate waterfalls. We are much too discreet to identify which of those roles the marauding Colonial bidders, Spanish banks, Colonial shareholders, or the founder of the company Luis Portillo and his allies play in that movie. Suffice it to say that SFL is the jewel.

The other fascinating story that we track closely in this Edition - and also in Vienna - is the sale of Constantia Private Bank, the outcome of which could have a significant impact on Immofinanz and Immoeast, by now easily the largest listed institutional players in CEE real estate. However, Warimpex and Trigranit are coming up fast. A number of these and other Austrian trade property groups will not have been alone in recent weeks facing irate shareholders demanding to know why their stakes have so suddenly and so dramatically become much, much cheaper in the last few months. But what can you tell them? Most CEOs I speak to are metaphorically tearing their hair out; that carefully transmitted piece of very good news on a successful sale or re-financing simply provides yet another institution a chance to exit the share and, whoops, another 5% more discount against the all-important NAV. In fact, though, there are tiny signs that the brave are quietly picking up a few property stocks out there in Euroland; conwert Immobilien raised the maximum price of its buyback: Jean-Paul Dumortier and Christophe Kullmann at the PFE FPB reported seeing a little more interest in their stock - even as recently as the last month or so. Stay alert!

Allan Saunderson, editor@pfeurope.eu

half way through the valuation re-pricing that we expect.”

Because of its wide coverage not only in the six or seven major German metropolises but across secondary cities, Bulwien-Gesa can provide a very differentiated picture of supply and demand in the commercial property market, he said. “We have some splendid benchmarks and are working with IPD on producing the index GPI.” The group’s Global Property Portfolio System brings together risk and risk management, and also provides forecasting to create a three-dimensional picture of profitability, risk and fundamental forecasts. pfe

## Italian property investment, including housing, up 5% to €104bn

Total Italian real estate investment last year, including housing, rose 5% to €104bn, or roughly 18% of the total for the largest five European Union nations. Predicted sales for 2008 are around €130bn, out of some €730bn forecast for the EU largest-country group.

Organisers of the Expo Italia Real Estate trade fair say that it is against this background that the fourth edition of EIRE opens its doors tomorrow in Milan as the international fair dedicated to the Italian property market, and the Mediterranean area in general.

Of total Italian investment volume this year, 82% will be in housing, 6% in office and 6% in retail properties, EIRE organisers note. Sales in tourism-related assets last year reached €2.8bn, with average prices up 4.7% from 2006. Office sector transactions involved around 400,000 sq.m. in the most active market of Milan, the EIRE location, and about 240,000 in Rome.

Longer-term data on commercial real estate turnover show that in the period 1998-2007, the total deal value in the public and private sectors combined was around €30bn; 15 transactions via foreign investors and 10 through Italian funds. Foreign investors targeted 40% in office, 45% in retail, 10% in hotels and 5% in logistics. The property sector currently employs around 400,000 people in Italy compared to fewer than 90,000 in 1991. pfe

## Immofinanz shareholder Constantia to announce buyer soon, sources say

A buyer for Austria’s Constantia Private Bank is likely to be announced within weeks rather than months, with a price tag close to €1bn, according to sources in Vienna. They are tipping that the buyer will be foreign, and may be the listed real estate group Trigranit.

Karl Petrikovics, CEO of Constantia as well as of its major assets, the listed real estate investment and developing companies Immofinanz and Immoeast, told PFE at the Real Vienna trade fair last week that an announcement should be made within the next few weeks, but declined all other comment. Other sources said however that a non-Austrian buyer is the most likely outcome. “I am tipping Trigranit to get the nod,” one said, declining to be named.

The major shareholding family of Constantia, the Turnauer family, has been seeking to sell the bank for some three years, which time its assessed value has roughly quintupled— alongside the balance sheet and market capitalisation of Immofinanz and Immoeast – to close to €1bn.

Credit Suisse and Deutsche Bank have been reported among some of the major interested parties for Constantia, although the former is also thought to be acting on behalf of a third party, most interested in the retail customer and fund management businesses of Constantia. The family’s chosen ownership structure for Constantia Private Bank is via a Dutch BV, Constantia Packaging, which holds 90.86% of total equity. The Turnauer family aim to use the proceeds from the bank sale to invest in industrial activities. It took over the aluminium producer AMAG based in Ranshofen, Austria, last year.

The banking and real estate divisions are likely to be sold off separately, with the former assessed by sources at around €200m. However, this has raised strong opposition from small shareholders since management contracts, also for Petrikovics, run for another six years and would have to be paid out in full at time of sale by the companies. Shareholder activists have begun legal action that may yet delay a resolution of the sell-off. pfe

**PFE COMMENT:** Myzterious times in Old Vienna continue - but for not much longer. This is not only a tale of old money and a prestigious private bank cashing in on a highly successful real estate offshoot, it is also - because of the legal dispute - a test of external versus internal management of real estate companies in the traditional Alpine nation. Constantia supplies the manager of the two I’s, Petrikovics, and at sale wants €800m for the six years of his external management contracts still to run. Petrikovics himself favours a solution whereby an incoming buyer for the bank has no influence on the two I’s that he has built up with hard work over the last decade; he tells PFE that he fully intends to stay on. Cut to Meinl European Land: One of the main reasons that Viennese firm ran into trouble last year was the very high management fees - up to 15% of earnings structured in different components. As in the Constantia case, Meinl Bank was also supplying management via an external contract. A third Austrian real estate company, convert Immobilien, altered its management structure late last year for the very reason that shareholders were highly uneasy about arrangements with fees and commissions. US institutions in particular were wary about coming into convert capital while the external management arrangement existed.

## Mezzanine funds on rise, Gulf aiming \$20bn at property - M3 Capital

GE Real Estate, ING Real Estate and CB Richard Ellis are considering launching funds targeting mezzanine financing, which is growing in popularity in real estate markets in response to stricter lender requirements, said UK-based consultant M3 Capital.

In response to more restrictive lender practices, property firms must either increase equity participation or find alternative financing. Mezzanine financing, basically debt capital that gives the lender the rights to convert to an equity position if the loan is not paid back, is increasingly bridging the gap between equity and debt. It noted that Tishman Speyer launched a fund in first quarter targeted at high-yield mezzanine from UK property investors seeking to borrow at high loan-to-value ratios. Lord Sterling and Shore Capital earlier this year established the Puma Opportunities Fund, focusing primarily on Germany and France.

Separately, M3 Capital said the six States of the Gulf Cooperation Council are forecast to spend more than \$20bn in the international property market in 2008, the majority of which is expected to be invested by the region’s sovereign wealth funds.

Sovereign wealth funds increased their investment activity in the

UK property market in the first quarter with investments at both direct property and entity levels. The surge in commodity prices and rapidly expanding foreign exchange reserves have swelled the coffers of these funds, which invested \$24.4bn in the first two months alone, nearly half of last year's total volume. pfe

## Spain's Metrovacesa in talks with HSBC on London HQ £810m loan

Metrovacesa, Spain's largest listed property group, is in talks with British bank HSBC to extend by five years the £810m loan it secured to buy HSBC's London HQ last year.

The loan had already been extended to November 2008, but Metrovacesa said the global credit crunch made it impossible to issue the mortgage-backed bonds it had planned. It said in a statement to Spanish stock market regulator CNMV that it wants to convert the debt into a medium-term syndicated loan for five year duration in the expectation that a recovery in the financial markets will allow an extension to at least 20 years.

Metrovacesa is the last of Spain's giant property firms to begin refinancing talks with creditors. It recently posted first-quarter net profit of €102m, some 77% below 1Q07 in the first earnings figure to be released since the company split into two last year. Total debt at end first quarter was nearly €7.1bn, up 1.9% from the end of last year against assets around €12.8bn. pfe

## Italy's Risanamento, Aedes said turning to Gulf investors for capital

Developer Luigi Zunino, head of listed developer Risanamento, and the Castelli family, who control the listed property fund firm Aedes, are among four Italian business groups reported to be seeking investment capital from financial sources in Abu Dhabi and Dubai.

The business daily newspaper Il Sole 24 Ore said two Arab funds, Mubadala and Limitless, are assessing a stake in one of Risanamento's two major development projects, Milano Santa Giulia or the Ex-Falck area in Sesto San Giovanni. Mubadala is a sovereign fund of Abu Dhabi, while Limitless is a fund of Dubai World, known for the artificial island it has built in front of Dubai. They are reportedly more likely to invest in Sesto than Santa Giulia.

Aedes is said seeking a capital increase from the Investment Corporation of Dubai, which reduced its stake in Aedes in February to below 2%, and recently reviewed taking an equity position in struggling Spanish real estate group Colonia. Aedes may also be looking for a partner with which to joint venture projects in Rubattinio and Naples.

The bank Monte dei Paschi di Siena, which is tight on liquidity as it works to digest rival bank Antonveneta, is also said to be in negotiations with a Qatar fund Barwa for a prestigious office building. pfe

## Spain's Habitat to continue lay-offs amidst country's real estate dive

The struggling Barcelona-based private-held real estate company Habitat has begun the legal process to lay off around half of its employees, or 160 people, in an attempt to lower its debt and stave off bankruptcy as the Spanish real estate sector deteriorates.

Habitat recently froze its business and is only developing projects that began before the market started to erode. Also recently, its realtor chain Don Piso said it will close 120 offices and fire 400 employees, maintaining the Don Piso structure for another 140 franchise offices. Sales at Don Piso have fallen 66% over the past year due to the slowdown in the residential sector.

In April, Habitat agreed terms with its 39 creditors to restructure €1.6bn debt. Under the new plan, Habitat will have a 30-month moratorium during which it will have to pay only interest payments and not the capital. The company will begin

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to repay the bulk of the debt in 2010, starting with an initial €100m payback.

Habitat will hold a shareholders' meeting to examine last year's loss of around €450m. Habitat operates mostly in housing and is 55% controlled by founders Bruno Figueras and Rafael Suñol. Its assets are worth around €2.8bn. It estimates its losses through 2010 will reach €650m. pfe

## Ex-chairman Portillo sells more equity of Spain's Colonial

Luis Portillo, the former chairman of Spanish property group Colonial, further reduced his stake in the company to 4.2%, part of a debt refinancing plan with creditors. Portillo has cut his stake from the original 33%.

Portillo created the present Colonial after his Inmocaral group bought the larger firm in late 2006. But after Colonial failed to pay its debts, creditor banks stepped in and now control around 24%. Unlisted developer Nozar holds 12.5%, and is likely to sell a portion of its stake to the banks.

Colonial still owes around €6.4bn of the syndicated loan to the banks. Colonial has said it will sell its 84% stake in French REIT Société Foncière Lyonnaise and other assets to lower its debt. SFL could fetch more than €2bn on the market. pfe

## Spain's Afirma halves its capital increase offer price to €2.70 per share

Spanish real estate company Afirma, formerly Astroc Mediterraneo, will propose cutting the offer price of its planned 2009 capital increase to €2.07 per share from €5 because of the share's poor market performance, but it still aims to raise €842m from the operation.

Afirma will now issue slightly more than 400m shares instead of the 168m it had announced in February. Afirma said the new price represents a 25% discount on net asset value.

So far this year Afirma shares have fallen 72%. Afirma will present the proposal at the next shareholders meeting on 24 June. If the capital increase is approved, it is scheduled to take place during second quarter of next year. The money raised will relaunch the company's activities.

Also scheduled for the shareholders' meeting is a change in auditor to Ernst&Young. In its last appraisal, current auditor PricewaterhouseCoopers said Afirma did a poor job of refinancing its debt and said the company's future was uncertain.

Meanwhile, a judge at Spain's High Court called witnesses from two brokerages to testify regarding allegations of irregularities committed by Enrique Bañuelos, founder and former chairman of Astroc. In the spring of 2007, its share price plummeted — 60% during one session — and ended up worth around €5 per share compared to €72 in early 2007. The brokers advised Astroc on its IPO. pfe

## THE PROPERTY CONFERENCES

Real Vienna, Vienna

PFE French Property Breakfast, London

## CEE/CIS catch-up potential to western Europe seen as endless

The catch-up potential for central and eastern Europe and Russia is nearly endless, says Andreas Ridder, Vienna Director for CB Richard Ellis. Although about the same amount of 300m people live in the region as in western Europe, the CEE/CIS attracted €13bn in real estate investment last year, only a fraction of the €230bn that flowed into the West.

Ridder told a panel discussion at the Real Vienna trade fair in late May, "The catch-up requirement against western Europe in this region is endless." More office space was, for example, rented out last year in Moscow than in London. "You have to think of this situation as if all the London market was destroyed and now has to be rebuilt within a period of 10 years," he said.

He and other speakers said the CEE and CIS nations were, because of the regions' own dynamic, relatively unaffected by the slowdown in the real estate market being experienced in western Europe and the US as a result of the credit crunch.

Unicredit CAIB analyst Alexander Hodosi said listed companies operating in the region have been impacted insofar as results in recent years were driven by rising valuations in property portfolios and now have to produce income growth. However, the listed community should be able to do this since the CEE/CIS are dynamic enough to absorb any reduced economic activity without vacancy rates soaring. As well, Austrian firms



French architect Jean Nouvel's innovative design for the centrepiece Signal Tower of the new Paris La Défense (see here with the La Défense arch) is conceived as a structure 300m high, situated in the west, opening up the development toward Puteaux. It comprises 71 storeys in a mixed-use building, and is made up of four blocks, with atriums forming huge windows.

## Property fund manager faces similar challenges to listed sector, plus read-across from UK valuations onto European asset base

**When is a property fund not a fund but a listed company - or least acts like one? Answer: When it is a closed-end vehicle with certificates listed on the capital market. Because of the credit crunch, funds such as Invista European Real Estate Trust are suffering the same deep discount to net asset value as many public stock market cousins across Europe.**

IERET, a SICAF, is run by Invista Real Estate Investment Management, the largest listed real estate fund manager in the UK and a subsidiary of the HBOS Group which resulted from the Halifax-Bank of Scotland merger. Invista controls €15bn in commercial and residential property in Britain and continental Europe.

IERET is one of its largest funds, containing 52 assets valued at €766m. It has over 49% of assets in France, and 32% in Germany; others are in Belgium, Spain, Netherlands, Czech Republic and Poland. The largest portion of asset type - 51% - are logistics, then 36% office and 13% retail.

In the six months to end March, IERET reported NAV per share fell 2.2% to €2.91 although, due to a strengthening euro, sterling NAV increased 6.6%. Invista Head of European Funds Tony Smedley told PFE recently that the results are within expectations. "We are pleased generally from a valuation perspective because it's clear that the adjustments of value between the assets and the countries is quite different," he said.

"We have sliced and dice the portfolio and recovered quite a bit of what you might call sentiment-based valuation through solid asset management, notably in the French market where we have been re-leasing vacant space and re-gearing existing leases."

However, in recent months, and particularly the last weeks, credit constraints have weighed down the IERET share price to around 40% discount to NAV. Listed on the London Stock Exchange, it has fallen from 168p in March to a recent 117p - giving a historical dividend yield of 11%. Smedley says its investor base means that British-based institutions are placing a UK property overlay although the vehicle is invested fully in Europe. In addition though, investors - just like those watching the listed sector - are not happy with IERET's 57.4% loan to value. IERET need to refinance €450m before year end - even though HBOS provided the original credit and the parent is clearly the main potential source of refunding.

Smedley says: "We are in discussions with a number of banks to bring forward that refinancing and we feel very comfortable that that's achievable. But we are not getting much benefit of the doubt in the capital markets right now and are trading at an even greater discount in the last three months because the market sees that as a risky event... In fact, yes it's an issue and we are dealing with it. The board is very much aware of the need to refinance. We have ongoing talks with banks and feel confident we can achieve it ahead of schedule."

IERET would breach its covenant if LTV reaches 70% but

Smedley says: "In order to reach our covenant limit the valuations would have to fall by 17%, and that would be even before we used cash to pay down debt. If we used just the cash that we have right now it gives us a significant amount of headroom.... In fact, some of our peers have even higher debt levels and lower headroom than we have."

IERET is making some asset sales but on a small scale. "What we have started to sell are assets that have met objectives," Smedley said. "When we buy assets we write a business plan for each of them based on the investment rationale for ownership. When we meet those objectives we consider those assets to have become, as we call them, ex-growth.. and we consider selling them. Clearly the market is not in great shape today, however there is still quite a bit of equity available but it tends to be for smaller lot sizes, between €15m and €50m.

"Once you get outside that you move into the debt-driven buyers category, and obviously with the capital constraints of the debt market now it reduces the range of buyers considerably."

Invista manages 21 funds in total, on behalf of some of the largest UK providers of savings and investment products. Seven are HBOS funds such as Clerical Medical; another six are for other institutional clients such as St James's Place. The remainder are collective investor schemes, including real estate investment trusts and open ended unit trusts -

such as Invista Foundation Property Trust and Invista Property Portfolio Fund. It recently launched the Invista Real Estate Opportunity Fund to take advantage of mis-pricing of assets across Europe, and target IRR is 15%. Like a growing number of funds, it is also looking at real estate debt. "The Opportunity Fund is an excellent vehicle to have and is very active," Smedley says. "We expect to go back to the capital markets to grow our trusts when they normalise, and the structure allows us good access to capital under normal conditions."

Going forward, he expects more price adjustments in European markets. "I expect markets like Madrid to be hit quite hard - which means though that when markets recover generally they will look quite cheap, so that they offer a little higher risk but, I suspect, higher growth in the future.

"In a more defensive play I like the low countries, Belgium and Holland, and of course the big markets France and Germany that we know very well. In Scandinavia too, even though I am not a big fan of the smaller markets, Sweden continues to do well. I like Stockholm as an office market even though we haven't bought anything there yet." pfe



Tony Smedley, Invista Real Estate Funds: "Comfortable with re-financing, but not getting much benefit of the doubt from the market right now."

will be at **EIRE 2008**

corporate stand **Pirelli RE**  
hall **2P**

**M31-M39; N32-N40**



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# PROPERTY FINANCE EUROPE - BULLETIN BOARD

*Diary dates upcoming in 2008*

## | June 10, Tuesday

*IPD Central and Eastern European Conference, Warsaw*

Strong economic growth and continuous investment have brought buoyancy to CEE real estate markets in recent years. This conference also encompasses the IPD CEE property index release, and is an opportunity to network and share knowledge.

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

## | June 10-12, Tuesday-Thursday

*Provada, The Real Estate Meeting Point, Amsterdam*

The Real Estate Fair provides opportunity for property professionals to enter into strategic joint ventures, inform the public of prestigious activities/projects and build up networks.

More info: [www.provada.nl](http://www.provada.nl)

## | June 10-13, Tuesday-Friday

*EIRE Expo Italia Real Estate, Fieramilano, Milan*

Fourth edition of EIRE trade fair on the Italian and Mediterranean real estate market brings together public administration and professionals in several exhibition halls, and a number of professional seminars to discuss current topics from the region.

More info: [www.italiarealestate.it](http://www.italiarealestate.it)

## | June 12-15, Thursday-Sunday

*Real Estate Eurasia, Istanbul*

This trade fair is residential-focused but highlights opportunities in locations not normally on investor maps. It showcases 250 products and projects. Exhibitors have registered from Turkey, UAE, Kuwait, Qatar, Bahrain, Kazakhstan, Ukraine, Spain and Italy.

More info: [www.biztradeshows.com/trade-events/real-estate-eurasia.html](http://www.biztradeshows.com/trade-events/real-estate-eurasia.html)

## | June 18-19, Wednesday-Thursday

*Property Derivatives World, Paris.*

After four years in London, this event is moving across the Channel, and promises to be bigger and more comprehensive. The content-driven agenda offers an unrivalled insight from over 25 world's top derivatives experts and investors from across Europe.

More info: <http://www.terrapinn.com/2008/pdw/>

## | June 18-20, Wednesday-Friday

*NCREIF Summer Conference 2008, Washington DC, USA*

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

## | June 18-21, Wednesday-Saturday

*15th Annual European Real Estate Society conference, Crakow, Poland*

Conference hosted by Cracow University of Economics and Technology in the heart of Crakow, will provide an exceptional intellectual and physical setting.

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

## | June 25-26, Wednesday-Thursday

*AFIRE European Conference, Amsterdam*

Consolidation of the, previously, four European meetings in spring in Europe. AFIRE represents foreign investors in US property.

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

## | August 29, Friday

*Property Finance Europe German Property Breakfast, London*

The second of a new series of morning events designed to brief real estate investors on valuation and other key value-added topics on countries and regions of Europe.

More info: [www.pfeurope.eu/events](http://www.pfeurope.eu/events)

## | September 9-11, Tuesday-Thursday

*Terrapinn: Real Estate Investment World Global Opportunities, London*

Among the elements in this conference: Benchmarking against world best practice, current investors in European property, forum on real estate investment across Europe, new business opportunities and how to take advantage of them, and of course, networking.

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

## | September 15-16, Monday -Tuesday

*GRI Europe, Paris*

Henri Alster's Global Real Estate Institute holds its annual European discussion at the start of autumn in Paris.

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

## | September 17-18, Wednesday-Thursday

*Business Arena, Nordic Real Estate investment conference, Stockholm*

8th Annual two-day congress, organised by trade magazine Fastighetsnytt. Arranged together with the leading companies from the region, this has become the No. 1 congress and offers an excellent program with the major actors addressing many questions and current issues.

More info: [www.businessarena.eu](http://www.businessarena.eu)

## | September 21-23, Sunday-Tuesday

*CoreNet Global Summit, Berlin*

The summit, for the first time in Germany, will focus on the theme Productivity Puzzle – Redefining the Work Environment. Corenet represents corporate real estate managers. Among others, Berlin Mayor Klaus Wowereit is scheduled to speak.

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

## | September 25-26, Thursday-Friday

*European Property Italian Conference, Rome*

EPIC, dedicated to Italian real estate relations with international finance, can be considered an open house where all stakeholders have an opportunity to share ideas, build and consolidate networks, expand their knowledge and develop strategies for new business.

More info: [www.epic.it](http://www.epic.it)

operating in CEE/CIS have high equity ratios – in the range 50%-75%, compared to German counterparts where 20%-25% is more the norm.

Reinhard Madlencik from Bank Austria Corporate Banking said the shutdown of securitisation has, in particular, made real estate financing this year very different from 2007. “In addition, we have higher country risk, meaning investment and development are difficult to forecast; banks must seek a higher return to cover this risk,” he said. pfe

## Real estate developers, investors urged to move south, east in Europe

Real estate development and investing institutions, having promoted strong growth in the major central and eastern European countries, should move further south and east in Europe, bringing their skills to the Caucasus, central Asian and Balkan regions, according to an official of the European Bank for Reconstruction and Development.

Michele Small, senior banker in the EBRD property and tourism team, told a panel session at the Real Vienna trade fair, “there is a lot of work to do in the ‘forgotten’ countries.” These include Georgia, Armenia, Azerbaijan, as well as central Asia, the Balkans and Macedonia.

The EBRD was set up in 1991 to promote transition, she noted. Having seen much already completed in nations such as Poland and Czech Republic, it is focusing on nations east and south in the region, including Russia and the Ukraine. “We want to support projects that are needed, and not the 10th shopping centre in a city that already has nine!” Small said.

A major part of EBRD’s value-added is support investors in countries or regions where they are not comfortable. It can do this by facilitating dialogue with local authorities and politicians. pfe

## Austria’s CA Immo developing funds to provide flexibility, boost pipeline

Vienna-based real estate investor CA Immo is in the process of developing its fund business to provide flexibility and boost the pipeline, and the next step is the launch of a hotel fund, H1, to add to an already existing Property Fund, according to the company’s CEO Bruno Ettenauer.

He told PFE on the sidelines of the Real Vienna conference in late May that there is a limit to the amount of development projects CA Immo can commit to in relation to its own equity base and its investment total in existing real estate. CA Immo is setting up H1 as a closed-end investment fund with €275m of equity provided by itself, the Vienna-based insurance group UNIQA, and third parties. H1 may be leveraged up to €700m total investment, and target assets are hotels only in central, eastern and southeastern Europe and the former CIS countries. It aims to assemble a diversified portfolio of 25-30 hotel assets within 3-4 years – either greenfield or existing. Audit and consultancy group Deloitte will handle site and hotel operator selection.

The establishment of non-listed property funds, “gives us much more flexibility and also allows us to expand the pipeline without over-committing,” Ettenauer told PFE. “The advantage is that we can call in the capital we have committed from various institutions such as UNIQA, who have very specific wishes

on the mix of assets and the kind of risk profile in development projects that they want to be involved in.” pfe

## Bratislava-Prague Centrop Valley project attracts major institutions

A major project next to the highway between Bratislava and Prague named the New Centre of Europe or Central Europe Valley-Centrop, has attracted initial capital backing from international investment funds, banks and others for some \$220m.

The site, potentially 800 contiguous hectares of land, has been chosen by the Slovakian firm Opera, one of the nation’s leading residential developers, specifically for its geographic location adjacent to the two trunk railway lines to Vienna and Prague, next to major highways, and less than 30 minutes from Vienna and Bratislava airports. It is already the location of some Slovakian industrial sites such as the Volkswagen factory.

Opera is working with investment firm Reform Capital, based in Prague, Bratislava and Warsaw. Reform arranged financing for the venture and is responsible for the project’s engineering work, while Opera focuses primarily on land acquisition.

A Reform official told PFE at the Real Vienna trade fair that the short-term target is to assemble 400 ha by end-2008, and the project is on track, having put together close to 250 ha so far. Reform Capital and Opera have sponsored analysis on the development of the site from the Massachusetts Institute of Technology and London Business School. However, land use will also hinge on demand; some sites may be sold as re-zoned greenfields, but others will be developed together with partners on a case-by-case basis.

The investment is structured through a Jersey-based holding company, into which the major institutions have each committed around \$50m of capital. The project is focused substantially around a university core, with medical, research, cultural, sports and manufacturing real estate facilities, alongside significant residential housing. pfe

## French commercial RE values may drift lower but no sharp fall – PFE panel

French commercial real estate values are likely to drift slightly lower, sending yields higher through to the end of the year but the further fall will not be dramatic and prices, mainly due to a robust demand side, should stabilise quite quickly. That was the consensus from Property Finance Europe’s French Property Breakfast held in London’s Cannon Street on 23 May.

Christophe Kullmann, CEO of French REIT Foncière des Régions said France continues to create jobs, and absorption in the office market remains steady. Supply is less than in London, for example, and fewer projects are under way. As well, indexation of rents to the construction cost index means steady rises that should outstrip the consumer price inflation. “The future is clearly linked to the debt side and to the ability of banks to go back to their financing patterns,” he said.

“I do not have too many doubts about the capacity of the French market, seeing it sliding very far. What we have seen in the first months of this year is there continues to be an appetite from large investors and particularly for buildings rented with long-term tenants and long-term leases.”

## EPRA/NAREIT Europe Index - Stock Performance

Prices at end-prior month

Index Constituents	Sector	Local Price	Mkt Cap €m	Float Global Wght (%)	Float Europe Wght (%)	Div Yld (%)	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) May-08	Total Rtn (%) YTD
Immofinanz	Diversified	7,6	3.474,64	0,7	3,7	4,4	2,48	-34,17	6,77	8,92
CA Immobilien Anlage	Diversified	15,4	1.339,42	0,3	1,4	-	-8,99	-36,54	2,68	0,33
Conwert Immobilien	Residential	11,5	979,92	0,2	1,1	-	-4,98	-25,89	-3,04	-4,65
Sparkassen Immobilien	Diversified	7,3	496,59	0,1	0,5	-	-NA-	-39,25	5,96	-5,69
Sparkassen Immo Invest	Diversified	88,0	197,47	0,0	0,2	5,0	2,17	-10,20	-1,12	2,62
<b>Austria Total</b>			<b>6.488,04</b>	<b>1,3</b>	<b>7,0</b>	<b>2,7</b>				
Cofinimmo *	Office	120,2	958,46	0,2	1,0	6,5	3,38	-12,14	-7,09	-0,64
Befimmo *	Office	74,3	969,63	0,2	1,0	6,1	3,96	-7,51	-2,47	2,03
Warehouses De Pauw *	Industrial	43,9	282,59	0,1	0,3	6,2	13,26	-13,76	1,74	-0,50
Interest Offices *	Office	27,1	188,18	0,0	0,2	7,2	11,86	0,17	-0,44	-2,02
Wereldhave Belgium	Diversified	54,8	116,88	0,0	0,1	6,9	-NA-	-16,17	3,16	16,85
Leasinvest Real Estate *	Office	67,4	108,18	0,0	0,1	5,6	9,12	-12,06	1,20	1,14
<b>Belgium Total</b>			<b>2.623,92</b>	<b>0,5</b>	<b>2,8</b>	<b>6,3</b>				
TK Development	Retail	73,0	274,45	0,1	0,3	-	35,35	-47,48	3,55	0,69
<b>Denmark Total</b>			<b>274,45</b>	<b>0,1</b>	<b>0,3</b>	<b>-</b>				
Sponda	Diversified	6,7	555,09	0,1	0,6	7,5	5,61	-40,66	-16,40	-12,12
Citycon OYJ	Retail	3,5	576,82	0,1	0,6	1,1	12,13	-32,78	-6,17	-0,39
Technopolis	Office	5,9	338,30	0,1	0,4	2,4	20,33	-23,18	6,92	9,08
<b>Finland Total</b>			<b>1.470,22</b>	<b>0,3</b>	<b>1,6</b>	<b>3,8</b>				
Unibail-Rodamco *	Diversified	167,3	13.603,26	2,8	14,6	4,2	20,54	-18,23	0,92	13,85
Klepierre *	Retail	38,0	2.634,13	0,5	2,8	3,3	21,01	-18,15	-2,74	12,35
Fonciere Des Regions *	Diversified	87,5	1.819,90	0,4	2,0	6,1	13,71	-26,48	-4,98	7,01
Icade	Diversified	93,0	1.658,45	0,3	1,8	3,5	-NA-	-28,11	1,29	-8,83
Silic *	Office	89,0	1.157,18	0,2	1,2	4,5	10,24	-31,29	1,18	-7,29
Gecina *	Diversified	91,8	1.142,73	0,2	1,2	5,5	3,57	-25,00	1,44	-9,79
Mercialys*	Retail	32,4	973,64	0,2	1,0	2,5	-NA-	12,93	10,09	25,49
Societe de la Tour Eiffel	Diversified	81,1	411,74	0,1	0,4	7,4	-NA-	-31,58	-11,72	-10,40
Affine*	Diversified	35,9	144,55	0,0	0,2	4,6	-NA-	-21,24	0,87	-1,09
Acanthe Developpement *	Diversified	2,5	109,22	0,0	0,1	5,2	-10,76	-29,01	0,00	0,80
<b>France Total</b>			<b>23.654,81</b>	<b>4,8</b>	<b>25,5</b>	<b>4,3</b>				
IVG Immobilien	Diversified	15,5	1.344,44	0,3	1,4	4,5	5,93	-49,70	-0,06	-31,42
Deutsche Euroshop	Retail	26,2	899,25	0,2	1,0	4,0	14,63	-3,55	-4,25	11,32
Gagfah	Residential	11,1	497,25	0,1	0,5	5,4	-NA-	-39,10	-0,18	-5,30
DIC Asset	Diversified	20,6	440,33	0,1	0,5	8,0	-NA-	-NA-	6,10	2,30
Alstria Office	Office	11,5	322,00	0,1	0,3	-	-NA-	-28,13	-8,37	12,20
Deutsche Wohnen	Residential	15,0	288,03	0,1	0,3	23,5	-1,31	-60,69	-5,32	-29,10
Colonia Real Estate	Residential	10,6	232,04	0,0	0,2	-	-NA-	-70,77	-18,96	-37,65
Vivacon AG	Residential	8,7	167,40	0,0	0,2	5,8	-NA-	-NA-	-18,05	-29,19
Patrizia Immobilien	Residential	3,8	97,74	0,0	0,1	4,0	-NA-	-73,33	1,90	-27,33
<b>Germany Total</b>			<b>4.288,48</b>	<b>0,9</b>	<b>4,6</b>	<b>5,6</b>				
Babis Vovos	Diversified	22,0	559,85	0,1	0,6	-	18,78	-11,43	12,82	8,06
Eurobank Properties	Diversified	8,2	150,06	0,0	0,2	5,2	-NA-	-38,64	0,24	-8,13
Lamda Development	Diversified	9,9	129,78	0,0	0,1	2,3	48,94	-41,12	-2,18	-31,01
<b>Greece Total</b>			<b>839,69</b>	<b>0,2</b>	<b>0,9</b>	<b>1,3</b>				
Beni Stabili	Office	0,7	522,68	0,1	0,6	4,7	-0,75	-42,79	-0,83	-3,90
IGD	Retail	2,1	256,99	0,1	0,3	2,7	11,77	-44,15	-6,31	4,84
Risanamento	Diversified	1,4	153,41	0,0	0,2	-	-19,56	-79,07	-19,89	-62,17
Aedes	Diversified	1,8	134,72	0,0	0,1	14,1	-26,04	-72,76	-9,79	-49,03
<b>Italy Total</b>			<b>1.068</b>	<b>0,22</b>	<b>1,15</b>	<b>4,72</b>				

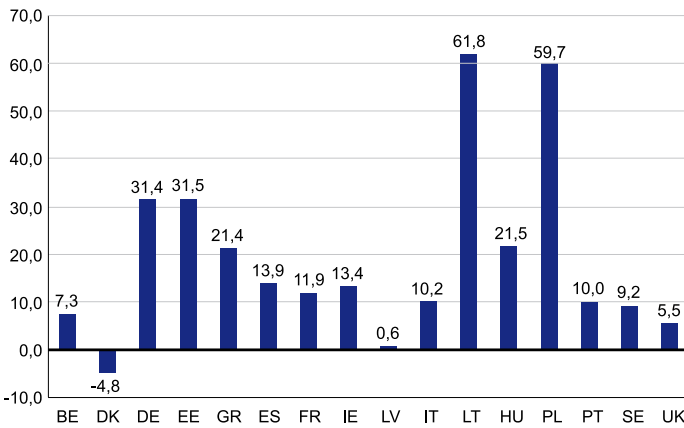
\* 3 Years Total Returns are annualised

Source: European Public Real Estate Association, NAREIT, and Financial Times group.

Entry into the EPRA overview was cited by panelists at PFE's French Property Breakfast as being a mixed blessing but clearly boosting visibility among the global fund management community. But it also makes company stocks more

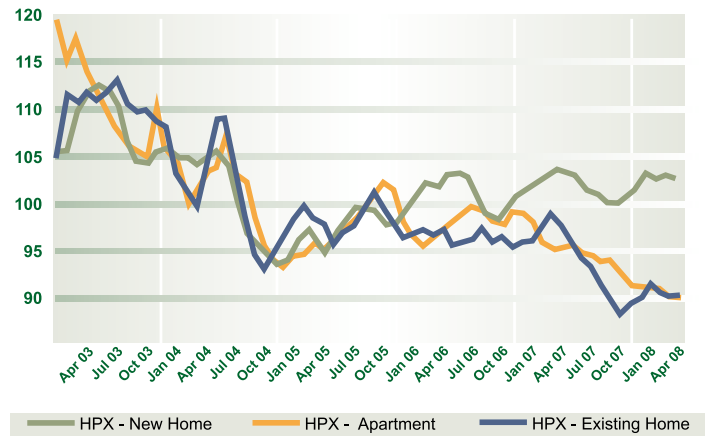
open to global trends, as now. Below left, the EMF gives its read out of residential house price growth last year, showing Poland and Lithuania led the pack. Below the Hypoport House Price Index signals a slight stabilisation in Germany.

### Total outstanding residential lending, year-on-year growth rates 2007-2006



Source: European Mortgage Federation

### Hypoport Monthly HPX German House Price Index



Source: Hypoport AG/Europace, Berlin. August 2005 = 100

### EPRA/NAREIT Europe Index - Stock Performance Prices at end-prior month

Index Constituents	Sector	Local Price	Mkt Cap €m	Float Global Wght (%)	Float Europe Wght (%)	Div Yld (%)	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) May-08	Total Rtn (%) YTD
Corio *	Retail	56,41	3.794	0,8	4,1	4,6	14,0	-4,9	-1,6	11,2
Wereldhave *	Diversified	75,01	1.559	0,3	1,7	6,2	2,4	-27,2	-8,0	6,6
Eurocommercial Props *	Retail	35,70	1.276	0,3	1,4	4,7	13,7	-14,4	-3,5	1,1
Vastned Retail *	Retail	58,59	981	0,2	1,1	6,6	8,5	-10,8	-9,9	-6,7
Nieuwe Steen Inv *	Diversified	17,95	642	0,1	0,7	7,5	5,9	-8,9	-1,7	5,6
ProLogis European	Industrial	10,09	571	0,1	0,6	8,4	-NA-	-27,8	-3,0	3,7
Vastned Offices Ind *	Office	19,65	414	0,1	0,4	8,7	7,8	-31,5	-6,9	-8,2
<b>Netherlands Total</b>			<b>9.237</b>	<b>1,9</b>	<b>9,9</b>	<b>5,7</b>				
Norwegian Property ASA	Office	35	349	0,1	0,4	7,1	-NA-	-56,8	-15,5	-43,6
<b>Norway Total</b>			<b>349</b>	<b>0,1</b>	<b>0,4</b>	<b>7,1</b>				
Renta Corp	Diversified	5,64	56	0,0	0,1	7,5	-NA-	-81,1	-32,6	-60,3
<b>Spain Total</b>			<b>56</b>	<b>0,0</b>	<b>0,1</b>	<b>7,5</b>				
Castellum	Diversified	66,00	1.217	0,2	1,3	4,6	1,3	-31,9	-2,2	2,6
Fabege	Office	52,50	1.004	0,2	1,1	7,6	-0,6	-36,9	-6,7	-14,7
Kungsliden	Diversified	55,75	815	0,2	0,9	14,4	16,2	-33,3	-7,1	-11,5
Wihlborgs Fastigheter	Diversified	118,25	487	0,1	0,5	5,3	15,1	-16,4	-10,4	7,6
Hufvudstaden A	Office	62,75	546	0,1	0,6	2,8	10,2	-24,1	5,9	4,0
Klovern AB	Diversified	23,20	311	0,1	0,3	6,5	2,5	-23,8	-0,9	-3,1
<b>Sweden Total</b>			<b>4.379</b>	<b>0,9</b>	<b>4,7</b>	<b>7,1</b>				
Globe Trade Centre	Diversified	37,50	1.204	0,2	1,3	0,0	46,6	-23,9	2,3	-15,7
<b>Poland Total</b>			<b>1.204</b>	<b>0,2</b>	<b>1,3</b>	<b>0,0</b>				
PSP Swiss Property	Office	64,30	1.857	0,4	2,0	0,0	10,1	-8,9	-0,2	12,4
Swiss Prime Site	Office	66,35	786	0,2	0,8	4,7	7,3	-6,1	2,5	15,4
Allreal	Office	133,00	466	0,1	0,5	3,8	10,2	-4,7	-1,3	5,7
Zueblin Immobilien	Office	9,58	201	0,0	0,2	5,2	1,3	-17,4	0,5	-4,2
<b>Switzerland Total</b>			<b>3.311</b>	<b>0,7</b>	<b>3,6</b>	<b>2,0</b>				

\* 3 Years Total Returns are annualised

Source: European Public Real Estate Association, NAREIT, and Financial Times group.

FdR has made €567m in sales in France since the start of the year, and gained an average of 5% above the last appraised value for the assets, he said.

Eurohypo economist Philippe Tannenbaum, who sat in for Guy Marty of IEIF, said the French economy is holding at or around 2%, which is the threshold for creating jobs so that demand for commercial real estate space shows no sign of tailing off yet.

Mark Inch, co-CEO of the REIT Société Tour Eiffel, told the specialist seminar that larger-size asset packages, of €100m or over, are unsaleable currently. Also, firms must adapt their assets to match different demand patterns. Many companies are moving out of more expensive accommodation into the suburbs, such as the bank Credit Lyonnais taking space in the down-market Paris suburb Villejuif. "We have experience at tearaway market for too long until recently, and forgotten what people want," Inch said. "They are looking for cheap buildings in good locations, with good access and service charges that are kept down to a minimum. If you build buildings that are like that you will have a full portfolio." STE has just sold a three-asset office portfolio for €92m, and received a total yield across the package of 5.7%, he noted.

Jean-Paul Dumortier, founder and CEO of Foncière Paris France, said Paris is not nearly so over-exposed to the financial market as London is, and analysts are wrong to predict oversupply. However, he is less optimistic about the investment market. "I think the price will drop, the problem is to know how deep and how long," he said. But the share discounts to NAV on listed firms such as his own have ranged from 20% up to 40% and this is too much. "Cap rate will increase 15% on average but there are other drivers such as the linked index which is rising 4%-5% per year. "So I see a drop in valuations from where we are now not more than 10%, and I think it will be very short," Dumortier said. The market will remain soft until 2010, he predicted.

Maryse Aulagnon, founder and CEO of the REIT Affine, told PFE's Property Breakfast that she is always surprised by the pessimism in London, and said the overlay of UK property behaviour should not be carried onto the continent. "Every two weeks I have returns from my managers of failures among my tenants," she said. "And the reality is that we haven't seen any recently; they continue to pay the rents." She said Affine invested €164m across the group last year, up from €120m in 2006. It is unlikely to reach even €100m this year. But she added: "We will invest inside the buildings to enhance them and bring them up to high standards. Definitely we are not sellers; we may not be buyers in large amount but we are not sellers." pfe

## Retail banks entering RE lending likely to stay in due to Basel II – PFE expert panel

The credit crunch is changing the nature of lending in the real estate sector, and banks with retail customers entering the field to take up slack from others with refunding challenges are – largely because of Basel II capital adequacy rules – likely to remain in the business.

Eurohypo economist Philippe Tannenbaum noted that his bank continues to lend to the sector, and has the advantage of refunding via Pfandbrief covered bonds (see also launch of new Eurohypo jumbo Pfandbrief in this issue). But the margins are higher to price risk better, and loan to value ratios are lower than a year ago. "Risk premia are back," he said. "Up until last year we had forgotten to price the risk; we still don't know how to price the risk but we are getting better."

However, the structure of Basel II favours real estate in terms of risk weighting, and may well persuade new financing players to come into the market. He added: "This is one reason why we think cap rates are going to increase and values are going to decline. The real threat on the market would be the total vanishing of liquidity and this is not what we see, not what is happening." A new generation of investors is emerging, including Irish investors and sovereign investors, while German open end funds are coming back who were sellers in the upward part of the cycle.

Maryse Aulagnon noted that Affine also owns a small credit institution, subject to Bank of France disciplines and controls. This helped bring in €350m fresh money last year. But the difficulty to get financing will also impact development and therefore supply, she said, providing support for prices.

Société Tour Eiffel's Mark Inch noted that his company was offered an extension of one financing, plus extra borrowing, due to difficult banking conditions in the refunding market. "This happens once in a lifetime, and when it happens you have to do it," he said. In another instance, he could not find financing with usual partners for a standard construction and finally located the loan in a number of small tranches from retail banking partners. "I wouldn't like to have to develop a project for €500m because I don't think the banks have the liquidity to do that," he said.

Christophe Kullmann CEO of the €11bn-asset Foncière des Régions said he was happy to refinance last year, finding some €2bn in loans. However, he is now having new discussions and, "I think the market is beginning to open up a bit." He added: "We are able to negotiate new loans even if they are clearly more expensive than they were and LTV levels are lower than they were."

Foncière Paris France's Jean-Paul Dumortier, who is also president of the French REIT association, said he has also had to seek other financing partners, and instead of signing with one for a financing margin of 50bp he has had to pay a higher price by drawing on five retail banks. "But probably for the bank, the spread in real estate loans was a little too low; 40-50bp is too low for a banker. I understand their attitude." pfe

## Balance sheet, float size affects property share behaviour – PFE expert panel

Size of balance sheet and free float are important elements in the way listed real estate shares behave, for one thing because they are linked to inclusion of a company in major tracker indexes such as the EPRA index, used increasingly by global investment managers, the PFE French Property Breakfast heard.

All four listed company CEO panellists were perplexed at the 30%-40% discounts of their shares to their companies' net asset value, and see this as unjustified given the shallow downturn of commercial property valuations in the French market.

Maryse Aulagnon CEO of Affine, which has a portfolio of €1.4bn and free float of about 45%, said many REIT/SIIC in the French market remain too small. "It's not just a question of float, it's more a question of being over the visibility threshold," she told the event. "You need to be in the trackers of the big fund managers. These are global players now and if you are not in their screen of trackers you are just not visible, so this is very difficult." But Aulagnon, who is on the board of the listed property company group European Public Real Estate Association said its index is a huge positive, but can create a dynamic of its own. "Once you are in that index that takes you up at first, but if everyone in the world says let's get out of real estate then mem-

bership of the EPRA index takes you down again just as fast.”

Jean-Paul Dumortier, CEO of Foncière Paris France, said the index of listed French companies from the IEIF institute is useful for tracking French SIICs. FPF took in a new major shareholder last year, and he is seeing more interest over the last two or three weeks by institutions attracted by the low valuations. “It’s very recent but I think it will continue,” he said.

Société Tour Eiffel’s Mark Inch commented: “I think we just have to grin and bear it, and use this as an opportunity. We have to communicate more. There is no need to go and see just your big shareholders; they don’t sell anyway. But our share price is falling on a 15,000 share sale so you have to tell the rest of the world your story as well.”

Christophe Kullmann, CEO of Foncière des Régions, said the financial market is exaggerating the expectations but the industry is by nature a long-term sector. “We are building the company for a long period,” he said. “Right now a lot of people are speaking with a lot of people, but the situation of debt and the global economy will take some time. 2008 will continue to be difficult for all sectors, and there is clearly a difference between big caps and mid caps in terms of discount to NAV. The larger ones tend to have a narrower discount. But this period will allow the entire sector to consolidate to be able to move forward in the future.” pfe

## LISTED REAL ESTATE

### Merrill Lynch, Colonia Real Estate buy German housing for €103m

Listed German property company Colonia Real Estate, and Merrill Lynch Global Principal Investments have agreed to buy 2,000 apartments from Wohnbau, a Bonn housing firm, for €103m.

With a 92.5% stake in the transaction, the Merrill property unit is the main investor, according to an ad hoc filing. Colonia’s stake as co-investor is 7.5% but its housing management subsidiary, Resolution, will manage the acquired portfolio. Changing hands are 140,000 sq.m. of residential space in 51 objects located mostly in Berlin and Bavaria.

“Germany remains one of our preferred markets for worldwide property investment,” said Merrill’s German head Stefan Aumann. He cited Germany’s resilience in the financial crisis, attractive locations and favourable conditions for rising value from residential property.

Resolution’s Christoph Wittkop said the opportunity to expand in commercial and residential asset management was a logical step desired by his customers. pfe

### Deutsche Wohnen housing investors reports €23m net first-quarter loss

Deutsche Wohnen, a listed Berlin residential property corporation, lost a net €22.7m in the first calendar quarter of 2008 because of an adjustment of valuation for interest swaps.

Before tax and financial items however, the group earned €32.9m in the quarter, up 15% pro forma from the first three months of 2007. Funds from operations grew by around 37% to €5.9m.

Rents in the reporting quarter increased by 2.5% from the end of 2007 and apartments were sold for an average of €1,366

a square metre, 33% above fair value.

The loss at net level did not affect liquidity, the Berlin firm said. Falling interest rates caused the market values of the interest rate swaps that were recorded at fair value to fall by €24m. The swaps were supposed to hedge against interest risks associated with variable-rate loans.

Some 1,346 new leases without rent controls were concluded for an average rent of €5.69 sq.m., up 15% from the previous rentals. Average net rent without utilities grew by 2.5% to €5.01 a square metre, leaving a remaining potential for increasing rents to market levels of 14.1%. pfe

### Vienna’s CA Immo sees rental income up 43%, international income stable

Vienna-based CA Immo, which focuses on the German market, posted rental income in 1Q08 rose 43% to €43.1m against first quarter 2007, of which Vivico, the German group it took over at the end of last year, accounted for around 23%.

The inclusion of Vivico’s €1.3bn portfolio expanded group’s assets by 52% to €3.8bn, but the acquisition also significantly increased financing costs, cutting consolidated net income after minorities to €3.2m from €19.7m. Broadly stable yields whittled down the contribution of revaluation, leading to a reduction of 8% to €40.3m in earnings before interest and tax. CA Immo plans to pay its first dividend for 2008, some 2% of average 2007 net asset value.

The second group company, CA Immo International focused

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on CEE, also experienced a drop in revaluation, and first-quarter earnings before interest and tax fell 36% to €15.5m. Rental income climbed 1.2% to 9.6m. Earnings per share fell 37.2% to €0.32. The Vienna-based CEE/SEE specialist said the sale of the Renaissance Tower in Warsaw led to an increase of 78% to €7m in profits from property sales. pfe

## Austria's conwert posts 12% rise in 1Q08 rental income

Vienna-listed top-end residential property developer conwert Immobilien reported that rental income rose 12% in 1Q08 on a like-for-like basis with property assets climbing to €2.42bn from €2.35bn at year-end. It said business development should be generally positive through 2008. Net asset value climbed to €16.50 per share, up 12% from a year earlier.

After aggressive growth in 2007, the firm focused in 1Q08

on sustainable asset management and integration of new acquisitions in property management and services. First-quarter profit before interest and tax rose 24% to €40.82m, but due to a significantly higher shares outstanding, net profit per share fell to €0.24 from €0.33. Overall rental income grew by 42% to €34.64m.

conwert expects a further steady rise in rental income this year, with its property portfolio expanding to €2.6bn. In the second quarter it expects to prepare for rising demand for high-quality condominiums in Austria and Germany. It still plans to sell 10%-15% of its portfolio this year. At the end of the first quarter, conwert's total usable space was 1,946,100 sq.m, comprising 23,818 rental units. Revenues fell to €73.1m from €106.8m at end 1Q97 due to lower sales proceeds.

Separately, shareholders at the annual meeting authorised conwert's board to issue convertible bonds within five years corresponding to nominal share capital up to €128m. The board also approved a rise in the price of the share buyback program to a maximum €13. pfe

### Guest Column

## Sustainability challenge in Hungary; first steps on a long road

By Pal Baross, Chairman, RICS Hungary; Country Manager, ING Real Estate Development

In Hungary, the concept of sustainable real estate development is gradually moving out from well-attended conferences to the drawing boards of project development. Green development is no longer merely a marketing tool with leafy landscape views from boardroom windows on mega-posters advertising new office projects. Occupiers' concern with soaring energy prices, the tightening of regulatory environment from adopting EU directives and the increasing lobbying activities of green NGOs have raised stakes for developers to consider sustainability as one of the key factors of commercial success. True, the criterion is still ill defined as a hard core business concept, and even less so as a measurable financial reward tested in the local market. As a result developers tend to evolve their business decisions on a project-to-project basis rather than at policy level.



Pal Baross

building to include residential developments in the environmental impact review as well. At regulatory level the Hungarian Ministry of Environment will have to issue, at the latest in 2009, legislation that will require energy certification of buildings. This will be a fairly straight forward adaptation of the EU Energy Performance in Building Directive with the introduction of Energy Performance Certificates. Initially the measure will cover new developments (including housing) but soon will also be extended to the resale of older commercial properties. Both the environmental impact assessment and the energy certificate are based on criteria that can be scientifically measured and enforced.

A clear starting point for project design is the need to meet the regulatory requirements by producing an acceptable environmental impact statement. Retail projects above 5,000 sq.m. GLA, larger logistics developments and office projects where parking provisions are higher than 300 places all have to produce traffic impact statements on congestion, noise levels and air pollution. Housing projects are still exempted but the pressure is

While the assessments are primarily relevant to developers as part of the planning and permit application process, green groups challenge the industry on the basis of a much broader agenda that includes suburbanisation, public transport, mixed use, brown field redevelopment, social displacement and the preservation of historic heritage and globalisation. Increasingly they delay or even derail projects and play their advocacy card both

towards the government and the property development industry. Last year a number of green NGOs lobbied a provision of the planning law in Hungary, which provides legal neighbours status - ie the legal right to appeal against building permits even if they have no local organisation where the project is being proposed. The globalisation sentiment is especially sensitive since most developers, tenants and investors in Hungary are international players. Yet evidence suggests that local affiliates of multinational corporations are in the forefront of the green agenda. Many large firms will simply not consider a building for occupation if it does not meet stringent in-house global sustainability requirements. The Hungarian affiliates of Dutch, German, and Swedish, English or US development firms follow corporate guidelines for innovative green technological design, partly driven by their global tenants and partly their global investors' affiliates. BREEAM and LEEDS ratings are being applied to at least three recent projects in Budapest. However, Hungary is not immune from tensions between industry, government and green NGOs about the value-related implications of sustainable development. The jury may be out about market implications but it is increasingly evident that the general public - the ultimate client of the built environment - is about to make up its mind: there is a growing consensus that we need liveable cities and energy-efficient buildings if we want to make a positive contribution to global environmental well-being. pb

## NON-LISTED PROPERTY FUNDS

### Apollo Real Estate planning \$1bn European real estate debt fund

US private equity group Apollo Real Estate Advisors is planning a \$1bn European real estate debt fund after absorbing a team from niche firm Stoneleigh Capital.

Reuters reported that Apollo announced in an email that it is, "looking to fill the void left by lenders' retreat" by offering mezzanine credit finance to real estate investors and is eyeing opportunities to buy distressed property debt from banks. Any future European property debt fund will be comparable with its existing US property debt fund, Apollo Real Estate Finance Co., which has around \$1bn in capital commitments. Apollo has hired David Ferguson and a team of debt specialists from Stoneleigh Capital - a joint venture with the Canadian Pension Fund CDP.

Apollo is looking at all the biggest economies in Europe - at residential, hotel, office, retail and industrial property-related debt. European MD William Benjamin said: "There are substantial opportunities, particularly in western Europe and we already have a pipeline of transactions we are reviewing... We see this as a major source of revenue for the foreseeable future."

Apollo Real Estate Advisors was founded in 1993 by William Mack in cooperation with the Apollo private equity funds. It is a private partnership and has overseen investment of 13 real estate funds and joint ventures, allocating over \$7bn in more than 350 transactions. Apollo seeks situations to make investments at an attractive cost and in which value can be enhanced through intensive operational and financial management. pfe

### GE Real Estate, BNP Paribas set up €1bn Capital France Hotel fund

GE Real Estate and the BNP Paribas insurance division have jointly set up a new French hotel fund, Capital France Hotel targeted at eurozone, Scandinavian, and central and eastern European hotels. It aims at assembling assets under management totalling €1bn by 2010.

CFH is to be managed by Algonquin Asset Management France. It currently runs a 12-asset French portfolio valued at €275m - including two hotels in Paris, one in Cap d'Ail, and nine in the regions and operated by Rezidor - including the Nice and the Lyons Radisson and.

GE has contributed three assets operated by Marriott, also situated in France. Algonquin will also take an equity position in the fund, the companies said. pfe

### Ireland's Quinlan completes fundraising for €2.5bn European fund

Irish private equity firm Quinlan Private has completed fundraising for its European Strategic Real Estate Fund targeted at total investment of €2.5bn.

It said it raised €725m of equity from endowments, institutional investors, life companies and high net worth individuals in the UK, US and Ireland. Chairman Derek Quinlan said, "We are pleased to report that the equity capital raised exceeds our initial objective."

Quinlan said the fund has already made significant investments in Bulgarian and Slovakian retail development, Dutch, Polish, Czech, German and UK offices and hotel and leisure investments across central and Eastern Europe. The fund is expected to be fully invested during 2008.

Quinlan Private co-owns and manages around €11bn of assets, including the Diagonal Mar shopping mall in Barcelona, and the Maybourne Hotel Group. pfe

### Curzon/AEW raises €800m for European distressed asset fund

Curzon/AEW Europe has completed its largest-ever capital raising for a fund targeted at investment opportunities arising from the current dislocation in European real estate markets. The European Property Investors Special Opportunities fund closed with just under €800m in equity raised from German, Dutch and Nordic institutional investors as well as US pension funds.

"The tremendous response we've seen from investors for this fund I believe demonstrates their satisfaction with our track record and alignment with our view that what we call: 'The Great Exchange,' is just getting underway in European real estate markets," said Ric Lewis, Chief Executive of Curzon Global Partners. "Companies, hedge funds, governments and private investors are sitting on a vast array of real estate waiting to be divested from their balance sheets."

The new fund will focus on broken IPOs, resource-constrained owners, operators or fund sponsors of real estate assets, distressed property assets and situations, as well as direct property with value-added potential. The fund fits in the value-added risk spectrum of investment strategies as defined by the European funds association INREV. pfe

### Germany's Deka launches new family of institutional property funds

DekaBank, the funds unit of the German savings banks system, is launching a family of property funds that will allow for highly customised institutional investment in the asset classes of logistics, hotels and retailing real estate.

Called WestInvest Target Select, the new group of three German special funds will restrict investments to Europe in an initial phase, when more than half the funds' assets will be spent in well established markets. Most of the assets will be core investments, with some other objects also included for their potential for added value. Apart from an average liquidity reserve of 10%, the funds that are not earmarked for the western European market will be invested as core fund assets in growing markets of eastern Europe.

To be launched first by WestInvest is the fund Target Select Logistik. That will probably be followed before the end of this year by Target Select Hotel and Target Select Shopping. All three are designed as open-ended institutional property funds in order to benefit from expanded investment possibilities offered by a change on the Investment Act.

Individual real estate allocation, for example, can be had by mixing various elements from the three funds. WestInvest Immo-Value, a European office property mutual funds set up for institutional investors in 2003, can also participate in this mixture. pfe

## Corestate Capital closes German housing fund with €486m equity

Private equity firm Corestate Capital of Zürich has closed its institutional fund for investment in German residential property after raising equity of €486m.

Corestate German Residential Fund has already made about half of its targeted €2bn in investments in German housing, said Chairman Ralph Winter. Corestate intends to invest about €600m more this year.

Separately, the Zürich private equity firm may become a bidder for public housing that will be auctioned by LEG NRW, a housing authority of the German state of North Rhine-Westphalia, according to media reports. The state recently decided to reopen its housing auction, which was interrupted when initial offers proved disappointing.

Corestate's German residential fund, which will have redemption in 2014, invests directly or by taking stakes in German housing firms. Investors include Dutch insurer ING, Morley of the UK and Goodman of Australia. Its fund-raising was supported by the US investment bank Citi. pfe

## Delta Lloyd announces first closing of the Delta Lloyd Dutch Property Fund

Amsterdam-based Delta Lloyd Asset Management completed the first closing of the Delta Lloyd Dutch Property Fund, the only diversified, non-listed property fund of institutional scale in the Netherlands. It raised €96m in equity from institutional investors, and is targeting investment volume of €500m in 2010.

HSH Nordbank provided debt financing for the seed portfolio, which is valued at €280m. The fund invests in office, retail and residential assets. Its current portfolio consists of eight office buildings, four retail properties and nine residential assets.

Delta Lloyd Asset Management is the manager of the mutual funds of Delta Lloyd

and OHRA and carries out asset management for institutional investors. Total assets under management amounted to about €42bn at yearend 2007 of which €2.3bn was invested in property. pfe

## RREEF Italy begins early closure of listed Piramide Globale fund

RREEF is to liquidate its Italian listed fund Piramide Globale, after having sold six of the fund's eight properties by the end of the first quarter. Piramide's liquidation comes seven years early, and marks the first closure of a listed real estate fund in Italy.

The fund has earned an annual return of 6.68% since it was launched in June 2000 with €250m, overshooting its target annual return of 5%. RREEF is pocketing 20% of the difference as an overperformance fee, leaving investors with a the annual return of 6.36%.

In the first quarter of 2008, the fund sold off a shopping centre in Florence and a hotel in Rome for €93m, fetching a capital gain of €34.6m. The fund still has hotel and a poly-functional centre worth a total of €77.4m, which are expected to bring in a 12.5% capital gain.

RREEF Italy also manages two other closed end real estate funds for retail investors: Valore Immobiliare Globale, listed in 1999, and Dolomit, launched in July 2005. RREEF Italy also runs the RREEF Express Real Estate Fund, which is reserved for institutional investors. pfe

## INVESTMENT MANAGEMENT

### Irish investors buy Berlin airport site from Munich developer Investa

A consortium of Irish investors called Bulberry Properties has bought a majority stake in a 34-hectare site bordering the new Schönefeld international airport for Berlin and the state of Brandenburg from Munich developer Investa for an undisclosed price. The investors in the site dubbed Airport City include asset manager FGS and the brothers Ulick and Des McEvaddy. Development is supposed to start next year with an investment of €800m.

The acquired site is near a commuter rail line and an autobahn highway as well as the main road to Schönefeld, making it attractive for the development of hotels, offices and logistics bases. Commercial and residential development is also planned.

The McEvaddy brothers had founded in 1984 aircraft mid-refueling enterprise Omega Air, which does contract work for the US and UK. Among other holdings, they also own a large site next to Dublin's airport and plan to erect terminal facilities there. pfe

### Italy's Pirelli RE launches €1bn fund, to cede €2bn assets, cut back stakes

Italy's Pirelli Real Estate has launched a €1bn fundraising for a Europe-wide fund as well as a program to sell about €2bn in assets. The new fund is part of efforts to expand assets under management from roughly €13bn to €17bn, and will invest in offices and retail where Pirelli RE is present, namely Italy, Germany and Poland.

Pirelli RE's total minority stakes in real estate joint ventures were worth €3.52bn as of the end of 2007. Fixed assets add up to €886.1m, net equity €720m, and net invested capital excluding minorities, €1.6bn. CEO Carlo Puri Negri told *Il Sole 24 Ore* recently that the group will roughly halve the minority stakes it takes in new investments to about 15% as of early 2009.

The company also announced that Olivier de Poulpique will head up its investment and fundraising as executive director and co-head of Pirelli RE's European Real Estate Investment Group. Paolo Bottelli was appointed General Manager of Asset Management and Residential Services, and Rodolfo Petrosino will head up services and acquisitions in the office sector. Massimiliano Bertolino is in charge of asset management and services for non-performing loans.

Pirelli RE is coping with dramatically sinking share value, steady debt and lower revenues. The company's market capitalisation has dropped 68% in the last twelve months, and stood at €711.5m on June 3. Net debt excluding loans to joint ventures stood at €808m as of March 31, down €8m from the end of 2007. The company first quarter revenues were down by 25% over the same period last year at €301m and net profits fell by nearly 40% to €11.6m. pfe

## RESIDENTIAL PROPERTY

### EU mortgage markets slowed further in 4Q07 but no severe downturn seen

In the last quarter of 2007, most EU's residential mortgage markets showed further signs of a slowdown, confirming the trend of previous quarters, but there was no sign of an impending severe downturn, said the European Mortgage Federation.

Writing in its latest newsletter the EMF's Alessandro Sciamarelli said that in the second half the consequences of the crisis on mortgage lending and housing markets in Europe were in no way comparable to the US, although there was evidence that the impact from the resulting credit crisis was still going on. However, this slowdown is unlikely to develop into a harsh recession and severely restrict households' access to mortgage products.

At the end of 2007 the picture across the EU was a combination of continuously - but moderately - rising interest rates, slowing growth in house prices, difficulties faced by banks to fund mortgage loans and falling economic confidence among consumers.

For the 'housing boom countries' - Spain, Ireland and the UK - the correction from record levels was more pronounced than in the rest of western Europe. In the Baltic States and Hungary, mortgage and housing markets performed buoyantly. Germany experienced counter-cyclical signs of vitality after years of stagnation. In France, the only bad news was moderate growth in residential lending, while total outstanding loans continued growing on a year-on-year basis. In Sweden and Denmark mortgage activity continued to be generally positive as in previous quarters of 2007. Ireland was the only country to report contraction in house prices in 2007, but this meant that nominal prices returned in absolute terms to 2006 levels. pfe

### Existing Spanish home sales off nearly 40% in first quarter

In a sign of further deterioration in the Spanish housing sector, the volume of sales fell 29.1% in 1Q08 from the year-earlier period, driven by a 38.6% drop in sales of existing homes.

According to figures from the national property registrars, sales of new homes dropped 16% in the first quarter. The regions that registered the highest volume of sales were Andalusia, Valencia, Catalonia and Madrid.

In March, the volume of home sales in Spain fell 38.6%

compared to the same month last year, according to the National Statistics Institute. The year-on-year figure in February was a 24.4% decrease. Of the total March volume, the ratio of new to used homes was nearly even, and nearly 60% of the sales took place in Andalusia, Valencia, Catalonia and Madrid. INE also said that the average mortgage price fell 3.7% to €141,725 in March compared to the year-earlier figure.

In a separate report, Internet real estate portal Globaliza said the selling price for Spanish homes via websites dropped 8% over the past year and the average time a home spent online for sale lengthened by 3-5 months. pfe

### Madrid housing prices seen off 5.8% in 12 months - Aguirre Newman

New-home prices in Madrid dropped 5.8% over the past 12 months, the largest decline since the early 1990s but one that compensated for the rise in Euribor, said consultant Aguirre Newman.

The largest declines occurred in blue-collar neighbourhoods on the outskirts of Madrid. But, due to the reduced offer on the market, prices in the city centre rose 10.5%. Demand for homes in the Spanish capital is down 53% compared to the past three years, largely due to the rising difficulty in obtaining financing and its cost.

According to Manuel Martí, head of the Spanish Association of Builders and Developers, home prices have dropped at least 15% over the last few months and he does not rule out a further slide. Spanish bank Caixa Catalunya predicts residential prices will fall a much lower 2.2% by the end of this year but Madrid will suffer some of the sharpest decreases. pfe

### Spanish RMBS delinquencies rise in first quarter - Moody's

The total issuance of Spanish Residential Mortgage Backed Securities surged to €5.3bn in the first quarter of 2008, says Moody's Investors Service, and four new transactions were closed.

However delinquency rates, which can be an early indicator of mortgage loan defaults, deteriorated during the quarter. Weighted-average delinquencies greater than 60 days past due represented 1.13% of the outstanding pool balance, up from 0.85% in 4Q07.

Moody's economist Nitesh Shah commented: "The dete-

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rioration in Spanish RMBS delinquency rates takes place in an environment of softening house prices and slowing economic growth. Housing activity is decelerating, in terms of the number of both constructions and mortgage approvals, with the housing boom having clearly passed.”

Moody's anticipates that 2008 may be a more challenging year given tighter credit conditions and a softening global and domestic economy. Rising unemployment, slowing employment growth and higher mortgage interest rates and are likely to weigh on mortgage holders.

“In this context, the deteriorating performance observed in the Spanish RMBS indices is likely to continue, especially for younger vintages. Whilst the impact on an economy that has 13% of the labour force employed in construction could be significant, the package of tax cuts and rebates totalling €18bn for this year and 2009 may soften the effect,” said Shah. pfe

## French housing sales fall 28% in first quarter - government figures

French housing sales in the first quarter fell by 27.9% from 1Q07 in volume terms to 26700, and the number of apartments put up for sale declined by 28.1%, with single family homes on the market dropping by 25%, according to French government data.

The analysts from Fortis Bank Global Markets noted however, that 1Q08 suffered from a negative base effect, given that 1Q07 sales had registered an historical high. However, unit sales remained below the number of homes put up for sale, and thus the housing inventory continued to increase as the ‘time to sale’ now represents close to 11 months.

In addition, building permits plunged in April, they noted. The shift in the environment caused Fortis analyst Thomas Alzuyeta to cut his earnings estimates for the residential broker Kaufman & Broad, which is the subject of a takeover bid. pfe

## German house prices show signs of stabilisation in April – Hypoport

German house prices showed some signs of stabilisation in April following a steady decline in recent months, according to the HPX price index of the Berlin-based Hypoport group. Prices were down overall by 4.3% over the prior 12 months, slightly improving over the 4.5% fall in the year to end March. In April alone, overall home prices fell 0.1% y/y, after a 0.2% decline in March.

“House prices across Germany finally seem to be bottoming out,” the group said in a commentary, forecasting that they will continue to increase slightly over the coming months.

Apartment prices were down 5.0% in the year to end-April, slight recovered from -5.2% in the 12 months to March. Existing home prices were off 7.4%, slightly better than the prior 8.4% slide. However, new homes were weaker; prices fell 0.9% compared to a fractional rise of 0.3%.

The average purchase price of an apartment in Germany is now €135,000 for living space of 84 sq.m., giving an aggregate value of €1,608 per sq.m. For existing homes, the average land area is some 405 sq.m. and living space of 124 sq.m. - for a median price of €189,900, equal to €1,533 per sq.m. New homes have a larger median plot, at 471 sq.m., but the same average

living space, while the average purchasing price has remained stable at €224,500, equivalent to €1,805 per sq.m.

Hypoport, the parent group of *Property Finance Europe*, said the number of loans for new residential construction projects is continuing to decline. However it grew its market share in the distribution of mortgages in Germany. In the first quarter, its internet-based financial marketplace Europace recorded a transaction volume of €3.4bn, with mortgage products accounting for €3.2bn.

“The volume for the quarter is the largest ever reported in the history of the company,” group co-CEO Ronald Slabke noted. Transaction volumes were up by 13% on the first four months of 2007, continuing to grow even in a declining market. Deutsche Bundesbank data show that new mortgage financing slid 5% lower in the first two months of 2008 against the 2007 period. pfe

## Italy's Gabetti dives into red, says to be back in black by 2010

Italy's Gabetti Property Solutions, a listed national residential property agency, saw EBITDA plummet into a negative €25m for 2007, and the company expects to earn below €1m on the same calculation in 2008. However, it said it aims to see positive operating margins by 2010.

The 50-year-old real estate agency has 800 branches throughout Italy. Its stock price has fallen 40% since November to €1.81.

Gabetti said the loss last year was due to its merger with the mortgage and insurance company UBH. The company's strategic plan for 2009-2011 foresees 46% growth per year in EBITDA to reach €32m by 2011, with services making up 68% of earnings and investments providing 32%. It has also committed to reduce debt to €161m by 2011, down from €209m as of end March, but in the meantime approved a convertible bond of €25.1m to be offered to shareholders in July. pfe

## DEBT FINANCING/BANKING

### French SocGen creates covered bond bank for €25bn refinancing program

In a further innovative refinancing move on the European continent, French banking group Société Générale has created Société de Crédit Foncier to act as an issuer vehicle in a €25bn covered mortgage bond program.

The first series of covered bonds (obligations foncières) is planned at €1.5bn and will be backed by a cover pool consisting purely of loans to French public sector entities, worth €2bn.

SCF is considered as a supplementary funding tool for SocGen, additional to the issuance of its own unsecured debt, wrote analyst Claudia Vortmüller in a recent report. Also, SocGen aims to increase its competitive position on the market and to expand its investor base. The proceeds of the issuance will be passed back to the parent bank via secured loans that rank *pari passu* and without priority among themselves.

SocGen has faced not only the challenges of the credit crunch in recent months, but also the impact of a credit fraud, unearthed in January, that cost the bank €4.9bn and cut the net income below €1bn for the year. Its first quarter 2008 earnings fell 23% from 1Q07 to €1.1bn. pfe

## Germany's Aareal sells €1.5bn residential loan portfolio to Postbank

The Wiesbaden-based commercial property financier Aareal Bank has sold a portfolio of 28,000 residential mortgage loans with face value of €1.47bn to the Postbank subsidiary of the German post office, which itself is earmarked for complete privatisation in the near future.

The transaction clears 84% of all remaining housing loans off the Aareal balance sheet, taking the bank almost completely out of the sector that had been its core focus at the start of the decade. Huge write-downs for non-performing residential loans hit profitability earlier in the decade and led to the replacement of then-chairman by current CEO Wolf Schumacher in 2004.

Aareal said the mortgages were all performing, were sold only for strategic reasons. "On no account did we sell these financings with any discount," a spokesman told the Handelsblatt newspaper. Neither did the sale have any impact on the contractual rights of the borrowers, it said.

The latter point remains politically sensitive in Germany. After numerous complaints over the last few years by borrowers detailing pressure from new owners of their housing loans, the federal government is in the process of introducing a Risk Limitation Law, which will provide some protection from this procedure.

The disposal, which expands the Postbank's already-achieved dominance in the German mortgage market, comes just 10 months after Hypo Real Estate last summer sold a portfolio of €4.3bn in residential credits to the ING-Diba group. pfe

## JP Morgan positions itself for larger volume real estate financing in France

The US investment bank JP Morgan is positioning itself in France to attract larger volume real estate financing business, looking at deals up to €300m, but expects further yield rises as sellers cut expectations, probably in the second half of this year.

The heads of JP Morgan Real Estate Finance in France, Christophe Ben Naceur and Damien Giguët, told the Business Immo real estate portal that the bank has earmarked balance sheet capacity for real estate. "Since September 2007, we have provided more than €1.5bn in financing and completed syndication of part of that

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amount. We are set apart from other institutions by our capacity to position for transactions that exceed €250m-€300m and can go far beyond that.”

Conditions applied to financings are in line with market and on average cover 70% to 75% of assessed value. JP Morgan also offers structured solutions in junior or mezzanine tranches and can selectively go higher depending on cash-flow, and quality of assets, sponsors and asset managers. In terms of asset type, the bank looks at classic corporate real estate – offices, retail shops, logistics and business parks – and residential. Only assets with existing cash-flow are financed, ranging from core assets to opportunistic; it does not finance development.

The two men told the portal that a flat month in January was followed by a pick-up in financing requests since February. Although commitment volume has been low, this can be explained by tightening credit terms and conditions, and by the conflict between sellers and buyers over valuations. “Repricing is inevitable, but opinions differ on the extent. We think opinions will merge in the second half of 2008. Moreover, we should see portfolios returning to the market.” pfe

## Hypo Real Estate says Flowers' tender for 24.9% undervalues bank

An investor group led by US financier J.C. Flowers has published its call for voluntary tenders of 24.9% of the share capital of Munich commercial property bank Hypo Real Estate after receiving approval from the German banking supervisor. However, HRE says the offer undervalues the institution in the market, and this “argues against acceptance.”

Flowers, plus partners Grove Investment - linked to George Soros - is offering €22.50 a share in cash, or no more than €1.1bn for the targeted minority stake, to bank shareholders who accept by midnight 23 June. The price is 25.3% above the property financing bank's weighted three-month quote before 16 April, when the intended offer was first disclosed. Conditions include a minimum acceptance of at least 20% of outstanding share capital.

The Munich bank invited Flowers' minority participation in April after its share collapsed because of a crisis of confidence over unexpected write-downs of €390m caused by US sub-prime mortgage exposure. Flowers is the world's biggest private financial investor in distressed banks.

In a statement, the HRE management and supervisory boards said they welcome the participation of financial investors in principle since this can stabilise the shareholder base and facilitate long-term planning. Nevertheless, they would refrain from making a recommendation.

“According to the assessment of the Management Board and Supervisory Board, the current intrinsic value of HRE shares is significantly higher than the offer price of €22.50 per share, which argues against acceptance,” the bank said, even if the offer may appear beneficial to shareholders interested in realising capital gains in the short term, or avoiding potential capital losses.

Management board chairman George Funke and supervisory board chairman Kurt Viermetz noted to the bank's annual meeting in late May that the offer was well below the book value of €38 per share. The HRE stock was last trading below the offer at around €21.50. pfe

**PFE COMMENT:** This is a particularly sensitive piece of manoeuvring and gives the impression that HRE had panicked and invited Flowers and Grove to come into the capital, and has now changed its mind. Nothing intrinsically wrong with that; business is business. Flowers is certainly, excuse the pun, no wall-flower. Not only was he the first-ever private investor into the German savings bank community at HSH Nordbank, blithely ignoring the supposedly sacrosanct and separated German three-pillar system, but he did something very similar in Japan a few years before. In 2000, Flowers became the first foreign investor in the Japanese banking system, picking up what the Japanese considered to be a worthless asset in the shape of Long-Term Credit Bank and converting into the successful investment bank Shinsei.

## Corealcredit ends housing credit with €670m sale of residential loans

Corealcredit, the Frankfurt commercial real estate bank previously known as AHBR has completed its withdrawal from private house financing with the sale of a final package of mortgage loans nominally valued at €670m.

Neither the price the bank received for the 16,000 private mortgage loans was nor the buyer identity.

Coreal changed its name in 2006 to signify its exclusive reorientation toward commercial property lending in Germany. The loan sale was the latest of several with which the former trade-union lender cleared its books of in private credit. pfe

## Iceland's Landic sells on Denmark developer Keops to private Stones Invest

Icelandic investment company Landic Property is to sell Danish realtor Keops Development, which it bought only in September, to private investment firm Stones Invest, based in the Danish town of Vedbaek. The parties did not disclose terms.

Landic Property CEO Skarphetthinn Berg Steinarsson said the company acquired Keops knowing it did not fit the business model, focused on becoming the biggest property holding company in the Nordic region. The Lighthouse Project in Aarhus is not part of the transaction and will stay with Landic.

Stones Invest Managing Director Steen Gude commented: “Keops Development is innovative and strong at real estate development, and has several interesting projects at present.” Stones Invest now controls nearly 40 companies and has total annual revenue exceeding DKK1bn, around €135m. pfe

### REPORTS/STUDIES

## Deka says credit crisis has stopped speculative real estate trend

The credit crisis came at the right time in the property market cycle in the sense that a glut of space will now be prevented from developing in most locations, says the first edition of the property monitor from Deka Bank, the funds unit of the German savings banks.

“Instead of speculative new building, we see development projects being scrutinised and the decision-making parameters of the property business being given precedence,” said Matthias Danne, Deka’s board director for property. “No speculative bubble is threatening the commercial property markets.”

Deka called 2007 the turning point in this market because rent increases slowed markedly and entry yields began to rise in the second half of the year. “This will be the year of price corrections in Europe as well as in the US,” said research head Karsten Junius, adding that rent trends cannot arrest the price declines even in Germany.

The correction should be a brief and healthy episode in a long-term upward trend. Starting with 2009 will be four years of average overall yearly return of at least 4% in Europe and 4.5% in the US, with cash-flow as the main price driver. Investors flush with equity capital are best positioned at the moment to take advantage of selective, countercyclical buying opportunities. pfe

## French property leasing returns to more normal levels after record 2006/7

The French commercial property market has returned to a rhythm of leasing corresponding to the average of the first years of this decade and, despite being below the record years 2006 and 2007, is far away from a collapse even amid the more subdued economic situation, according to the broker Cushman & Wakefield.

C&W French leasing director Thierry Juteau told the Expertise Pierre newsletter recently that around 766,000 sq.m. of commercial space was rented out in the first four months of the year, a downturn of some 7% from the same 2007 period. However, the number of individual rental transactions fell further, by 27% to 875 in the period, compared to the first four 2007 months.

Juteau quoted figures to end May that showed that 30 leasing transactions had been signed for commercial property space larger than 4,000 sq.m. This was a rhythm comparable to 2003, even if below the 38 and the 46 transactions recorded in 2006 and 2007 respectively.

“On the basis of this data so far, we are probably on track for 70 or 80 such transactions of 4,000 sq.m. or more, compared to 96 and 112 realised in the last two exceptional years,” Joteau told the newsletter. “Faced with a market that is legitimately lacking in confidence because of the bad macro-economic news, but also the statistical elements that we observe up until now, we are far from observing a market collapse.” pfe

## EMERGING EASTERN EUROPE

### Sharjah ruling family looking at possible Bulgaria real estate investment

Sheikh Tariq Bin Faisal Al Qassimi, owner of Emirates Investment Group and a member of the ruling family of Sharjah, the UAE’s third largest emirate, is looking for possible real estate investments in Bulgaria.

“We are yet to examine the projects and decide which are of interest to us,” the Sheikh declared after a meeting with Bulgar-

ian Minister of Economy and Energy Petar Dimitrov. As well as real estate, he listed other possible investment in Bulgaria such as financial services through a branch of his bank, road construction and tourism.

“We already have a presence in other EU countries, but find Bulgaria a much more suitable market,” Sheikh Tariq said. Speaking after a meeting with the Sheikh, Sofia’s mayor Boyko Borissov said Sheikh Tariq was interested in building a luxury hotel in the Bulgarian capital as well as a skyscraper financial centre. pfe

## Turkey’s Dogan Holding buys Ukrainian real estate investor, builder

Turkey’s largest media group Dogan Holding has taken another step into the real estate market by announcing the purchase of Ukraine’s Tov D-Yapı Real Estate Investment and Construction Company.

Dogan said in a filing with the Istanbul Stock Exchange that the purchase is part of its strategic real estate plans. Tov D-Yapı has nominal capital of UAH 51,500. Dogan will pay an amount equal to the nominal value of the company to complete the purchase.

Last month US property developer Donald Trump chose Turkey as the location for his first investment in Europe, signing an agreement with Dogan to build an office residential and shopping complex in Istanbul.

Dogan Holding, a conglomerate spanning media to construction, reported net profit of €210m for the year ending December 31, 2007. pfe

## Morgan Stanley's Multi in Ukraine shopping centre, starts Czech projects

Multi Development's Kiev-based Ukraine unit and developer Galereja Centr are jointly developing a shopping centre in Lviv, the largest city in western Ukraine.

Forum Lviv will have a total estimated area of 36,000 sq.m., with a 2-storey shopping centre plus multiplex cinema, leisure facilities and restaurant with terraces overlooking the city. It is scheduled for completion in 2010.

Multi is a subsidiary of Multi Corporation, a leading European developer, owner and operator of shopping centres, offices and mixed-use projects headquartered in the Netherlands and owned by a Morgan Stanley Real Estate Fund. In emerging Europe, it has offices in the Czech Republic, Slovakia and Romania as well as the Ukraine. Multi has two other Ukrainian shopping centre projects underway in Kharkiv, eastern Ukraine. Its strategy is to further strengthen its position in Ukraine by developing retail projects in Kiev and major regional cities.

In the Czech Republic, Multi Development has started work on a 24,000 sq.m. retail inner city development in Usti and Labem due for completion in autumn 2009, with supermarket, cinema, retail and entertainment space and a square with restaurants and cafes. In Ostrava in the east, Multi has begun work on its huge inner city redevelopment project on the Karolina former industrial site, to include offices, flats, hotels and a shopping centre.

Next door, Czech steel producer Vitkovice plans another large-scale brownfield project, Nove Vitkovice, including 153 ha. of land leading from Karolina, aimed at complementing Karolina by including production buildings, a science and technology centre, and sports and recreation space and believed to represent an investment of €480m, Cij property investment and development magazine reported. pfe

## Romania's Ion Tiriac plans €1bn project near Bucharest airport

Tiriac Imobiliare, the real estate division of Romanian businessman Ion Tiriac, will invest between €500m and €1bn in an 88-hectare mixed real estate project on the site of the former Metro Otopeni, near the Henri Coanda airport.

"Investment in the project could amount to €500m-€1bn in the coming years, depending on the type of real estate project we decide on. This will be the biggest real estate project developed by the Tiriac group, and could also include a hotel," Anca Ioan, CEO of Tiriac Holdings, told Ziarul Financiar newspaper. The project could also include an exhibition centre since it is close to the airport. Given the project's size, Tiriac Imobiliare could bring an experienced foreign partner on board, market sources said.

Former Olympic ice-hockey player and tennis player Tiriac sold off stakes in companies he had built up in banking, insurance, auto leasing and retail to Western companies and ploughed proceeds into Romanian property, building a portfolio estimated to be worth more than €1bn. Last year, Tiriac revealed Tiriac Imobiliare owns 210 ha. of land in major cities across the country.

Companies run by Tiriac have five residential projects totalling 320,000 sq.m. under development in Bucharest, Timisoara, Brasov and Sibiu. In the office segment, four projects totalling 121,000 sq.m. are planned in Bucharest. Tiriac also has a partnership with the Spanish Riofisa group to build two mixed projects

in Timisoara and Brasov, with investments put at €260m, each including a mall, offices, residential area and hotel. pfe

## Avrig 35 to sell Romanian shopping complex to DEGI for €140m

Romanian property development and investment company Avrig 35 is in advanced talks to sell its Iris Shopping Center project in Titan, Bucharest, to German property asset manager DEGI, now part of Aberdeen Property Investors.

The deal is worth some €140m, Ziarul Financiar newspaper reported. Buyers would receive an annual yield on investment of around 7%. The Titan project, on a 10 ha. site, includes Romania's first Auchan hypermarket with a retail area of 16,000 sq.m. and a 30,000 sq.m. shopping centre to open this summer. The built area of the entire project will be 75,000 square metres.

Avrig 35, founded by four US investors, has set up several independent companies to develop its projects. Its pipeline includes office, retail, residential, distribution and industrial projects. In the next five years, this pipeline will have a market value exceeding €1bn. pfe

## Romanian/Irish Creativ Global to invest €1.5bn in office, mixed projects

Romanian businessman Marius Ivan plans to invest €1.5bn in the coming years in commercial and residential projects in several Romanian cities with his Irish partner Tom Quinn and Briton Jonathan Youens through their Creativ Global Property partnership.

Ivan will launch a €700m project in Bucharest and subsequently develop projects in Brasov, Cluj and Iasi. Funds for development will come from banks and the businessman's own resources.

"So far, we've invested over €100m to acquire more than 200 ha of land in Bucharest, Cluj, Iasi and Brasov, where we intend to develop real estate projects, with the biggest project in the Pipera area of Bucharest," Ivan told Ziarul Financiar newspaper. Most projects will be offices, but the company is also considering the acquisition of some finished projects.

The €700m investment in the mixed Pipera City project in Bucharest is scheduled for 2011 and will include 200,000 sq.m. of office, 30,000 sq.m. of commercial space and more than 800 housing units. The 12 ha site was acquired in 2006 for about €40m. The company has to date attracted loans worth €80m from Bancpost, to complement its approximately €30m capital, enough to develop the first part of the project.

A number of offers have been received for Pipera City, but no decision has been made on whether to include other shareholders. The company has already invested €21m in the North Gate Center office project in Pipera with a lettable area of 21,000 sq.m., and Ivan does not plan exiting the project earlier than next year. pfe

## Deutsche's RREEF buys Romanian project in record €340m deal

RREEF Real Estate, part of the alternative investment arm

of the Deutsche Bank group, has acquired the Upground Pipera-based office and residential project in a €340m transaction, the biggest real estate deal to date on the Romanian market.

The developer and representative of the sellers, Ioannis Papalekas, will participate in the acquisition as RREEF's 22% joint venture partner, said law firm Nestor Nestor Diculescu Kingston Petersen which acted as legal advisor. The transaction was structured as a forward purchase, with the projects to be acquired on completion.

The Upground project, under way in northern Bucharest, consists of two office buildings totalling 100,000 sq.m., and two residential buildings with 600 apartments. Bancpost has already leased half of the first building. The project is scheduled for completion towards end-2009, Business Review reported.

Papalekas, together with other investors, was involved in the development of the City Mall commercial centre in Bucharest and of the PGV Tower office building in the city, sold respectively to investment funds Charlemagne and APN/UKA. pfe

## Spanish fund Azora plans €1.2bn investment in Romania, Poland housing

Spain's largest private equity fund, Azora, has launched operations in Romania and plans to invest some €1.2bn in Romania and Poland in the next five years, mainly in residential projects.

Azora recently set up property asset management company Azora Europe to invest in residential projects in CEE, mainly in Bulgaria, Romania, Poland and the Czech Republic.

Azora Europe's major investors include Spanish savings banks, pension funds and industrial groups, as well as billionaire Armancio Ortega, chairman of textiles group Inditex. Azora has investment capacity of more than €3bn, and manages assets of more than €750m, local news services report.

The company will primarily develop residential projects with accessible housing units for the medium-income class, but does not rule out office, industrial and retail projects. The company welcomes joint projects with local developers, by acquiring projects at various development stages, establishing new partnerships or acquiring stock in existing companies. pfe

## Orco posts first-quarter loss, starts flagship Polish investment in Warsaw

Orco Property Group, listed on Euronext and in Prague, Warsaw and Budapest, dipped into a €13m loss in the first quarter from a year-earlier profit of €0.4m.

Operating profit was up at €11.4m from €1.3m at the Central European commercial, residential and hospitality developer, investor and asset manager. Total revenues fell by nearly one-fifth to €47.2m, due to a €32m drop in development turnover to €15m. Revenues from leases climbed to €27m from €6.6m, boosted by last year's acquisitions. Consultant DTZ estimates the value of Orco's portfolio at €2.4bn. Alongside the Czech Republic, the company is also active in Hungary, Poland, Russia, Croatia, Germany and Slovakia

Analysts polled by Czech news service CTK expected a loss



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and said six-month and full-year results are more important because net asset value (NAV) is published with them. "Revenues from reappraisals, which influence profit in a significant way, were absent in Q1," Cyrrus analyst Karel Potmesil said. They cut full-year estimate of sales from construction to €182m from €197m after the unexpected fall in sales.

Orco said some effects of the international financial crisis were felt, particularly in fund-raising, but no effects were seen on the physical property market in CEE, which continues to be fuelled by economic growth and driven by fundamental demand, particularly in mid-class residential and office space. Based on its portfolio of office, residential, retail, logistics and infrastructure assets, and development of its asset management division, it is confident the group can achieve double-digit NAV growth over the next five years.

Separately, Orco said it received the final building permit for its flagship residential project Złota 44 in Warsaw, designed by Daniel Libeskind. Construction is starting immediately for completion towards end-summer 2010. The 192-metre, 54-floor sustainable luxury apartment building tower in central Warsaw will use sustainable technology and include sundeck, swimming pool and sauna in a green urban zone. It is also forward-purchasing a shopping centre in the west of Moscow on a 3.4 ha site with gross buildable area of 122,367 sq.m. to provide 54,477 sq.m. of leasable space, already 98% let. The developer, Rubin Development, is in process of construction with the opening planned for the first quarter of 2009. pfe

## Austria's Immorent partners up with Rompetrol in €300m Bucharest project

Businessman Dinu Patriciu, president of Netherlands-registered multinational oil company Rompetrol, together with Immorent, the property development and leasing subsidiary of Austria's Erste group, and the Rompetrol group, are to invest €300m in a mixed project

Financing for the project, covering 150,000 sq.m. in northern Bucharest, near Baneasa lake, will be provided by Erste Bank.

The Smart City project will include 50,000 sq.m. of class A office buildings, 100,000 sq.m. of retail and housing units and Rompetrol's new headquarters, a 110.7-metre office tower. Construction is to start in the second half of 2009 for delivery in 7-8 years. The plot was acquired in 1991, Ziarul Financiar newspaper reports. pfe

## Hungarian developer SCD reshuffles portfolio ahead of IPO

Property developer SCD Holding sold its Interfruct Cash and Carry chain to financial investor Calslane Holdings Ltd for an undisclosed price in preparation for Interfruct's initial public offering for planned for the third quarter of 2009.

SCD previously had long-term plans for the 24 Interfruct retail units, acquired three years ago from the Tengemann group, but the strategy was revised last year due to the economic environment, SCD co-owner and president Gellért Jászai told Budapest Business Journal website. SCD's Hungarian owners will buy out the 19% stake owned by SCD UK and subsequently list the company.

SCD Holding plans to set up project companies to complete separate projects. It has just completed construction of a Ft 4bn

(€29m) residential complex near Lake Balaton, while its €450m development around Lake Balaton in a joint venture with Ireland's Quinlan Private will start this autumn. The company is also planning to invest in offices and retail in Bulgaria, residential in Romania and hotel projects in Croatia and is said to be interested in Ukraine. pfe

## Czech developer CPI 2007 net profit six times higher at €150m

Czech investment and development group CPI reported 2007 net profit six times higher than a year earlier at Kc3.8bn (€150m), with growth in sales and the volume of managed assets.

The profit was driven in part by acquisitions related to a change in CPI's ownership structure. Acquisitions contributed Kc1.6bn (€60m) to revenues. A reappraisal of Kc1.9bn (€80m) to reflect appreciation of properties also boosted earnings. The company lifted its investments by 140% last year to Kc14.5bn (€580m). Net asset value almost doubled to Kc7.4bn (€290m).

CPI said housing construction made up a significant part of the group's portfolio last year. It expects earnings to be at about the same level this year. CPI owns and rents over 10,000 flats in Prague and other Czech cities. It owns over 73,000 sq.m. of retail space and over 2m sq.m. of land for industrial construction. UK private investors took a 50% stake in CPI last year, with the rest owned by Milada Mlada, mother of billionaire Radovan Vitek, via Cyprus-based company Gandolf and consumer co-operative Vcela, Czech news service CTK said. pfe

## Prague-listed Czech developer ECM posts first-quarter net loss €14.6m

Czech commercial and hotel property developer, investor and facility manager ECM Real Estate Investments swung into a €14.6m first-quarter loss from a year-earlier profit of 0.82m, hit by the strengthening Czech currency. The loss was higher than analysts expected.

Net rental income at the Luxembourg-registered, Prague-listed company was up 64% at €4.6m. ECM did not report on net asset value or revalue its portfolio this quarter. Total assets increased by 8.8% from the second half of 2007 to €613m. The company said the volatility of the Czech crown hurt its results, but not its cash performance, including mainly FX differences stemming from the company's investment portfolio that were previously reported as part of valuation gains. Given the nature of these items, ECM started to report all FX-related items in the financial result line of the profit and loss account starting in the first quarter of 2008. pfe

## GE enters Romania with Helios Phoenix in €175m project

GE Real Estate's Eastern European division is investing €175m with Helios Phoenix of Greece in 12 logistics parks in Romania under the Olympian Parks name, in GE Real Estate's first project on the Romanian market and Helios's second. pfe

## 1 PFE PEOPLE 1

At its AGM in Tallinn, Estonia, the **European Property Federation** unanimously elected **Danish Property Federation** Chairman **John Frederiksen** as its next president... **ING Real Estate** has made appointments to three of its European funds: **Thierry de Wever** has been appointed Portfolio Manager of **ING Logistics Property Fund**, replacing **Eudes Berthelot** who transferred to **ING Real Estate Select**; **Frédérique Weber** is appointed Portfolio Manager of **ING Real Estate Office Fund**. **Leo Weidenaar** is appointed Director of **ING Logistics Property Fund Europe** and Director of **ING Real Estate European Industrial Fund**... **Henderson Global Investors** has appointed **Kay Jackson** as Head of Asset Management for its pan-European retail property fund **Herald**... **Savills** has recruited **Laura Rodríguez Larios** to join its land and development department in Madrid. She joins from **Knight Frank**... **Cordea Savills** has expanded its Nordic platform with three appointments to its Stockholm office: **Patric Gustafsson** joins as Director of Finance, **Christoph Vejde** as Asset Manager and **Peter Broström** as Transactions Manager. **Gustafsson** moves over from **AREIM** based in Stockholm. **Vejde** was formerly Head of Real Estate Financing Sales in Sweden and Norway for **HSH Nordbank**. **Broström** formerly worked at **Niam** on opportunistic funds investing across the Nordics and the Baltics... Hotel advisory firm **Hamilton Hotel Partners** has made four new management appointments taking its professional team to 14. **Jose Rihan** has been appointed director, and moves over from **Molinero Koger**. **Sandra Hummell** joins as senior associate, with responsibility for sales and marketing. **Moritz Dietl** has been appointed as associate from **Global Hyatt's** regional office in Berlin. **Jamie Afnaim** joins **Hamilton** as associate in the asset management and hotels management teams... **RREEF Alternative Investments** appointed **Susan Barlow** as Managing Director and Head of Global Client Relations, based in New York and reporting to **Chuck Leitner**, Global Head of **RREEF Alternative Investments**... In Paris, **Gecina** has made two appointments in its architecture and construction divisions: **Olivier Haye** is appointed group director and **Clément Lhomme** takes the post of deputy director. The nominations boost the effort to develop innovative architecture respecting the environment, and corresponding to the market and to client needs, a new strategic resources department entrusted to **Yves Dieulesaint**. **Haye** and **Lhomme** both joined **Gecina** in 2007... At **Bouygues Immobilier**, **Agnès Lostis** has been appointed director of sustainable development, reporting to marketing director **Pierre Auburger**... **Laurent Gentel** has been appointed director of retail investment France for UK property investor **Grosvenor**. He moves over from a similar task at the Dutch REIT **Corio**... In Milan, **Pirelli Real Estate** has promoted two internal managers in the context of its internal expansion: **Paolo Bottelli** and **Rodolfo Petrosino** have both been appointed general managers with responsibility for asset management and residential services... In Paris, **DTZ** has appointed **Frédéric Bourillet** to the responsibility for the Paris Left Bank quarter, while **Benoît Gendrot** joins the Paris team as deputy director alongside **Guillaume Raquillet**, reporting to **Olivier de Labeau**... **Marc Eginard** has been named deputy director at **ING Real Estate Development** in charge of mixed projects in the Paris region and provinces. **Yves Schwarzbach** also takes the same title in the area of large mixed projects. **Jean-Luc Dorgère** is named project manager at **ING RED**, in charge of operation of **Evry Centre Urbain** and other projects in the team headed by **Jean-Olivier Godart**... Also in Paris, **Yves Sabouret** has been named senior adviser at **Tishman Speyer Management OPCI**, a new fund... **Jones Lang LaSalle** in Paris is strengthening its expertise in sustainable development with the appointment of **Franz Jenowein** as global head of research in this field. He joins after 13 years with **Accenture** in research and marketing... In Vienna, the shareholders' meeting of **Warimpex** resolved to re-elect **Heinrich Geyer** as deputy chairman of the supervisory board and **Victor Igalffy-Igally** as a member of the board. Terms of the supervisory board members of **Franz Burkert** and **Friedrich Grassi** have expired, and they will not be replaced... Across town at **conwert Immobilien**, **Volker Riebel**, chairman of the **GEWOBA** housing company, has been newly elected to the administrative board... **Rabo Bouwfonds** intends to appoint **Isaac Kalisvaart**, currently management board member of the development division, as chairman of the Commercial Property Development division. **Walter de Boer**, director of Central and East Netherlands at **Bouwfonds Property Development**, will become chairman of the residential property development division... **Hypo Real Estate's** annual meeting resolved to increase the Supervisory Board by adding six prominent personalities. These are **Francesco Ago**, **Gerhard Casper**, **Thomas M. Kolbeck**, former **Irish National Bank** head **Maurice O'Connell**, former **Bundesbank** President **Hans Tietmeyer**, and **PGGM** real estate investment chief **Johan van der Ende**... **Apollo Real Estate Advisors** has expanded its senior executives focusing on European and global senior debt securities. Debt finance expert **David Ferguson** and his team of specialists from **Stoneleigh Capital** have joined **Apollo's** European headquarters in London... In Germany, **Peter Knopp** has been named chairman of **Westdeutsche Immobilienbank**. He succeeded **Hubert Beckmann**, who retired to the chair of the Mainz bank's supervisory board 1 June... **Alexander Tannenbaum** has been made Cologne-based director of **Aberdeen Property Investors Deutschland**... **Ole Sauer** became an equity partner of **King Sturge** in Germany on 1 May... **Nedeljko Prodanovic** joined the managing board of **Grüezi Real Estate** the start of June. **Prodenovic** is part owner of Berlin's **Vito Unternehmensgruppe**... **Ines Peters** has surrendered her post as managing board chairman of **Greta Immobilien**. She had headed the Munich firm since last year... The supervisory board of **Deutsche Real Estate** has appointed **Torsten Hoffmann** to the managing board of the Hamburg company... **Andreas Beckers** has been appointed the new director of investor management for the institutional funds firm **LB Immo Invest**. **Beckers** succeeds **Sebastian Thürmer**... pfe



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