REFIRE
Real Estate Finance Intelligence Report Europe

Volume 10, Issue 170, July 30th, 2018

Inside REFIRE

REFIRE is a specialised report focused on providing market intelligence and background analysis to finance professionals in German and continental European real estate investment.

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Refinancing
Euro-zone Property Financing

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German lenders show greater flexibility as lending margins hit new all-time low

German lenders are becoming more flexible against a backdrop of miniscule margins, which are making it increasingly challenging for them to position themselves strategically, according to Markus Hesse, head of the German Debt Project 2018 study published by the International Real Estate Business School (IREBS) at the University of Regensburg this month.

'

The German banking sector is under an extreme amount of competitive pressure,' Hesse told REFIRE. 'A big part of the story is the change in new business, which is now falling (by 7% last year), although that's only part of the story. More importantly, we found during the interviews with banks that their answers regarding a range of questions, including risk returns, have become a lot more diverse. Their strategic positioning has become more difficult. In the past, there was more talk of lending in B and C cities but this year, some players are focusing a lot more on financing the largest share possible of a core deal, while others are looking more at high-margin development opportunities. The middle market wasn't discussed as much. It hasn't gone away, it's simply been more aligned to core.'

For the IREBS' German Debt Project, Hesse met with 24 banks in Germany and sent out a large questionnaire to other lenders with a combined credit volume of €185m.

According to the IREBS, new business is expected to fall in Germany this year. 'I expect it to fall again because it was already down 20% q-on-q in the first quarter this year,' Hesse said. 'That's more than we expected.'

A major hurdle for lenders is that it is becoming increasingly difficult to differentiate on loan margins because they are so low – at just 50 bps to 70 bps for core, Hesse said. 'Some banks are differentiating themselves by pushing through loans more quickly - in just a week - and there are clients who are willing to pay a premi-

Karstadt and Kaufhof owners sign LOI for joint venture

Canadian retailer Hudson's Bay Co. and Austria's property and retail group Signa Holding have signed a non-binding letter of intent 'to explore a potential joint venture', Canada's Hudson's Bay Co. (HBC), announced this month. see page 8

Baukindergeld could put countryside back on the map

Germany has been fighting a two-tier housing system in recent years, with rapidly rising prices in the 'Big 7', against a backdrop of falling prices in rural communities as more and more people flock to big cities. However, with the introduction of Baukindergeld this year, all that could be about to change, see page 11

Frankfurt's Zeil still busiest shopping street in Germany

Property adviser JLL's annual survey of Germany's most frequented shopping streets has confirmed that Frankfurt's Zeil (pictured, below), has defended its position as the liveliest shopping street in the country. In second and third place come Munich, followed by Cologne, Hannover and Dortmund. see page 19

Analysts turn negative on German resi companies

Over the past five years the German stock market has become populated with residential property companies which have ballooned in value, much against the expectations a decade ago when residential property companies were being outlawed from any participation ... see page 18

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Real Estate Finance
Intelligence Report Europe

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Publisher:
REFIRE Ltd.,
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um for that. At the same time, it's important that the quality of decision making remain at a high level.'

Gross margins in general have tightened significantly since 2013's average of 161 bps, falling to just 121 bps today, according to the IREBS.

Moreover, you can't just look at average figures because they don't tell the true story – you have to look at risk clusters, too, Hesse said. Given the 'micro margin' environment, 'managing to core' is becoming increasingly popular. 'The question for lenders is: if they go up the risk curve, can these properties be turned around? Sometimes, assets are only priced like core. It can be very attractive for a bank to lend on if they get it right. We see that loans are becoming more complex, so going forward, lenders are going to have to get used to underwriting more and more complex loans.'

"The big question for lenders is: if they go up the risk curve, can these properties be turned around? Sometimes, assets are only priced like core"

LTVs are also falling, averaging 59% last year, down from 63% in the previous year. Lenders are also upping their exposure to project development and value-add and opportunistic assets, according to the study.

The study was sponsored by **JLL**, the **Commercial Real Estate Finance Council Europe (CREFC)**, **INREV** and **ZIA**. It has been carried out annually since 2013.

Germany/Residential

German residential increasingly differentiated as market heats up

Germany's residential market is becoming increasingly differentiated as interest in the sector heats up, **Dr. Konstantin Kortmann**, head of residential investment at **JLL Germany**, told REFIRE.

'The market is becoming more differentiated because in the classic built-to-let market listed companies have identified their respective core products in core regions and are selling off the rest,' Kortmann said. 'In addition, student housing is becoming a mature sub-market. If you look at large pension funds, they are buying new builds and developing their networks. Beyond the major deals and consolidation measures, the profiles of portfolios are becoming increasingly differentiated. They either serve a specific sub-segment, as shown by the micro-apartment transactions at the beginning of the year, or they have fairly homogeneous risk profiles in the way they are structurally designed.'

Forward deals have accounted for almost a third of the market so far this year, according to **Helge Scheunemann**, head of research at JLL Germany: 'The importance of forward deals remains at a high level. Around 30% of deals comprised project developments sold prior to completion. On average, prices of more than €4,000 per sqm were achieved — more than twice as much as for existing portfolios and properties, which were traded at around €1,700 per sqm.'

Predictably, investors remain under enormous pressure to invest, not least because many insurance companies and pension funds are still under-invested in the real estate market. At the same time, long-term government bonds are expiring and capital is being released, which in turn must be re-invested with a focus on value retention, said Kortmann.

In terms of direct property investment, banks/insurance/pension funds invested more than €1.4bn net in residential real estate in the first half of 2018, according to JLL. At the same time, indirect investments through various fund vehicles

NEWS ROUNDUP

registered a stable influx of capital with net asset growth of more than €1.2b; they have already reached 70% of the average five-year inflow. In particular, fresh capital has been injected into numerous special funds by investor pools of insurance companies and pension funds. Listed residential property groups invested by far the most in residential real estate: by the end of June, their additional residential property assets amounted to a total of more than €3.2bn.

And as the market matures, so do investment tactics. Pension funds are also changing investment tack, **Peter Papadakos** (*pictured, above*), managing director at consultancy **Green Street Advisors** and their lead research analyst for the Continental European region, told REFIRE: 'Pension funds are forward funding developments and taking on leasing risk,' he said. 'They like to buy new stock where they won't have to spend much for the next 10 years, rather than old, capex-hungry stock where rents are set according to the market.'

Berlin continues to attract lion's share of investment

And while domestic investors continue to account for 80% of the market, by mid-2018, three-quarters of the capital invested from abroad was attributable to three countries: the US (€600 m), the UK (€580m) and Singapore (€350m), according to JLL. Berlin continued to attract the lion's share of investment in the first half of the year, at 15% or €1.65bn, followed by the Frankfurt-Rhine-Main area with €920m, thereby already exceeding the volume for 2017. Hamburg, meanwhile, achieved three quarters (€750m) of its 2017 volume by the middle of the year.

It's easy to see Berlin's attraction for investors: multi-family capital values 'have been on fire', according to a report published this month by Green Street Advisors, which describes the city as 'one of the most intriguing across Europe and North America, in terms of its socio-economic transformations cur-

EDITORIAL

Trickles to streams, streams to rivers. Finally, it looks like an exodus.

Two years ago, shortly after the Brexit referendum, the FT Weekend edition published an article by Tyler Brûlé, the flamboyant Canadian publisher of lifestyle magazines Wallpaper and Monocle. The article was a tale of two cities, Montreal and Toronto, as well as the author's personal story of growing up in the Quebec capital.

In 1976 Montreal was a world city, and the undisputed home to most of Canada's blue-chip financial and industrial companies, international headquarters and most powerful families. It had just hosted the Olympics, had built a new second airport to cater for 50m passengers and upgraded its public transport infrastructure to accommodate the huge number of new visitors expected to come and experience its glittering restaurants, bars, shopping centres and cultural amenities, along with its top-rated sports teams and sophisticated metropolitan buzz.

The city was also a hotbed for the thrust for independence from the Dominion of Canada led by the French majority in the state, who had long been agitating for a closer alliance with France and even the EU. While such Gallic yearnings had helped spark the very dynamism and unique status the city enjoyed in a somewhat homogenous North American urban landscape, the heavy-handed introduction of French language laws and other forms of chauvinism gradually tipped the scales; almost surreptitiously, the life-blood of the city started seeping away.

In 1995 Quebec went the whole hog and put a referendum to the people as to whether they wanted to be in or out of Canada. The Remainers won, by a narrow margin of 51%. The dominion was saved. Thus cowed, we haven't heard much from Quebec separatists since.

But the damage was done. The obsession with Quebec's political affairs, the money, time and opportunities wasted while pandering to the rights and wants of Quebecois, had the effect of turning the rest of Canada off. Most felt that the madness was in holding the referendum in the first place. People turned their gaze away, and started focusing on other cities and regions in Canada's thriving economy.

The hollowing out of Montreal began. Since those heady days, the city's population has stagnated, and it has long since been overtaken by Toronto as THE important commercial and financial hub north of the 49th parallel. Even the mighty Bank of Montreal shifted its corporate headquarters to the booming capital of Ontario.

Montreal is still a significant city, brimming with cultural edginess and a diverse ethnic gastronomy, well worth visiting. But big business has moved away, to re-establish itself in places more in commercial lockstep with its business partners. The ambitious new airport was demolished in 2016, having been mothballed a decade earlier.

Much is being made this week of Deutsche Bank's decision to move almost half of its euro clearing activities from London to Frankfurt. Deutsche is one of the five largest clearers of interest derivatives, and has been doing all its clearing to date in London. The move will provide a big boost to Deutsche Börse's ambitious plans to concentrate clearing in Frankfurt, an area subject to strong regulation and supervision in full conformity with EU standards, as needs no pointing out.

London Stock Exchange, which owns the hitherto incumbent London Clearing House, is warning of the loss of 100,000 jobs if London loses its status as THE euro clearing hub. As the undisputed leader, the LCH has been processing up to €1 trillion of notional deals per day; clearing of these derivatives has become a key Brexit battleground for regulators, banks and exchanges. The loss of business, while not yet measurable in large job numbers, can provide pointers to future directions. Trickles turn into streams, streams into rivers - until a full-blown exodus is under way. Ask Montreal.

The likely high water point of folly was Theresa May's recent shenanigans at her country house retreat at Chequers, which bound her Cabinet to a unanimous support of Britain's case in the upcoming negotiations with Brussels, from which clear support from the EU side is a prerequisite if Britain is not to crash out of Europe ignominiously in March of next year.

It's not at all clear that Mrs. May can garner sufficient support among her own party to even sit down with EU negotiators to discuss her demands – to be in the single market when it suits, freedom from the common external tariff but with its own unique customs arrangements, control over movements of people, and freedom from the tyranny of the European Court of Justice. It's a tall order, and it's almost certainly not going to happen.

At a press conference last week, Angela Merkel took a question-and-answer session from a room full of jostling journalists, for a full ninety minutes. They had a great deal to ask of the embattled chancellor, and she fielded their myriad questions valiantly. Not one single question concerned Brexit. Not even remotely. Yes, It's that important for a nation dealing with a whole set of new problems, of more immediate relevance to the nation's voters.

Much as other Canadians shrugged over the palpitations of the Quebecois, so too are many Europeans bemusedly viewing the self-inflicted plight of Britain. "No deal" was being pitched not long ago as being better than a bad deal, according to Britain's fervent Leavers. That was then, not now. For, as the business community in Montreal can ruefully reflect, with the benefit of the passage of time, mostly you don't go out with a bang, but with a whimper.

Charles Kingston, Editor

rently underway'. And while part of the run in German resi capital values can be attributed to collapsing corporate bond rates, Green Street Advisors' **Berlin Resi Index**'s total return has outperformed an index of Germany-wide resi by 110 percentage points since mid-2012, according to Green Street.

For would-be buyers, there are a number of portfolios circling the market. Listed housing group **Industria Wohnen** has reportedly mandated **CBRE** to sell its '*Century*' residential portfolio comprising around €800m of residential assets in Berlin, North Rhein-Westphalia and Munich, according to those who track the market. CBRE declined to comment.

'We don't see many portfolios this size, so there will be international interest,' Papadakos said. 'After all, **Blackstone** bought a residential portfolio in Berlin this year. That's an investor who expects high returns but they clearly see traction in the market.' (In May, Blackstone's European Core+ platform acquired a portfolio of 2,500 residential units located in Berlin, the majority of which are concentrated in prime inner-city districts, with additional units in Brandenburg and Magdeburg, from a joint venture which includes, among others, **KauriCAB Management** and **Apeiron/Ailon** for an undisclosed sum. **TAG Immobilien** has also put a resi portfolio expected to fetch around €100m on the market, according to market sources.

However, given the short supply of good stock in Germany, major German residential property groups are pursuing other routes to achieve growth. 'Demand is stronger than supply, so development is increasing,' Kortmann said. 'Two highly sought-after sub-markets are plots of land and good, sustainable resi product with good cash flow. It's not such an easy time to enter the development market but international players might consider it.'

Listed companies are betting big on re-fits

Germany's listed residential companies, which control around €80bn of assets, are betting big on modernization, according to Papadakos. 'These companies are taking in around €4bn to €5bn a year in rent and spending an additional €2bn a year on modernizations. This is the clearest trend we see. It's picked up a

Neugeschäft in Deutschland für die gewerbliche Immobilienfinanzierung ausgewählter Banken

Bank	Gesamt 2016 in Mrd. Euro	Gesamt 2017 in Mrd. Euro	Veränderung 2016/2017		Plan 2018 gegenüber 2017
DG HYP[1]	7,1	6,1	-14 %	↘	↘
pbb Deutsche Pfandbriefbank	4,5	5,2	16 %	↗	↘
HSH Nordbank[2]	4,6	4,7	2 %	↗	→
Helaba[3]	5,1	4,6	-10 %	↘	→
Bayern LB	4,9	4,4	-10 %	↘	→
Berlin Hyp[2]	4,2	4,4	5 %	↗	↘
LBBW	3,5	3,6	3 %	↗	↗
Berliner Sparkasse[2]*	3,0	3,3	11 %	↗	↘
Deutsche Hypo[2]	2,3	1,6	-30 %	↘	→
Münchener Hypo[2]	1,2	1,3	8 %	↗	→
Aareal Bank[2]	1,5	1,3	-13 %	↘	↘
Deutsche Postbank[4]	1,3	0,8	-38 %	↘	k. A.
WL Bank[5]	0,7	0,6	-16 %	↘	→
DekaBank	0,7	0,2	-71 %	↘	↗
Summe	**44,8**	**42,2**	**-6 %**		

[1] Neugeschäftszahlen enthalten auch qualifizierte Prolongationen
[2] Ohne Prolongationen
[3] Mittel- und langfristiges Neugeschäft
[4] Kontrahiertes Neugeschäft
[5] Werte hier nur für Finanzierungen, die über gewerblich genutzte Immobilien besichert sind
Quelle: JLL, Bankinformationen

Source: JLL Deutschland


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lot in the last three years as they tap into projected future growth, both in terms of capital values and rental growth.'

Consolidation driving sector

Property groups are also taking the consolidation route, both at home and abroad. In May, Germany's biggest residential landlord, **Vonovia**, outbid **Starwood Capital** to offer around €900m for a stake in Swedish residential group, **Victoria Park**, thereby cementing the latest step in its strategy to grow the business outside Germany. Earlier this year, German-Austrian **BUWOG Group** acquired a residential and commercial real estate portfolio in northern Germany from several unnamed international institutional investors for an undisclosed sum. The portfolio comprised 693 residential units, 32 commercial units and 386 parking spaces in Hannover, Bremen, Kiel, Lübeck and Lüneburg. In addition, **Adler Real Estate** acquired 70% of the shares in the residential portfolio of Israel-based **Brack Capital** for around €700m in March, while also selling a portfolio to its joint venture with **Benson Elliot** for about €115m.

'We've had a lot of consolidation in the sector, from Consus acquiring a stake in CG to Vonovia buying Austrian peer BUWOG,' Kortmann said. 'Big players like Vonovia are always looking at consolidation. They're positioning themselves like a utility company: they're providing social housing services that are less interesting to pension funds in a highly regulated environment, something that will deter some competitors,' Kortmann explained. 'I could see them expanding into further European markets, such as France, betting on modest but steady annual rental growth independent of the CPI– that's their pitch.'

In total, consolidation, transactions in the micro residential segment and more than 200 smaller transaction (with fewer than 800 residential units) generated €11.3b in the first half of 2018, according to JLL, which means that more than 70% of the previous year's volume has already been achieved after six months. The five-year average for first half-years was exceeded by 35%; the ten-year average by as much as 95%. Overall, 83,900 residential units changed hands by the end of June 2018. JLL is now forecasting a total deal volume of between €17b and €18b this year.

Germany/Retail Real Estate

Karstadt and Kaufhof owners sign letter of intent for joint venture

Canadian retailer **Hudson's Bay Co**. and Austria's property and retail group **Signa Holding** have signed a non-binding letter of intent 'to explore a potential joint venture', Canada's Hudson's Bay Co. (**HBC**), announced this month. Hudson's Bay Co. owns German department store chain **Kaufhof** and Signa Holding owns rival **Karstadt**.

The Canadian group has refuted widespread media claims that it has signed 'a binding agreement to sell or combine its European business or properties': 'While HBC does not generally comment publicly on market speculation or rumors, in light of recent media reports, HBC believes it is prudent to advise stakeholders that it is in discussions with Signa Holding and has signed a non-binding letter of intent with respect to the exploration of a potential joint venture,' the company said in a statement earlier this month.

If the joint venture goes ahead, Signa, which is controlled by Austrian property billionaire **René Benko**, is expected to manage the business and own more than a 50% stake. Additionally, he is expected to acquire a 50% interest in two property funds which own a number of Galeria Kaufhof stores. In return, Hudson's Bay Co. is expected to receive almost €1bn. Hudson's Bay's Dutch stores could also be transferred to the joint venture, according to analysts, who speculate that up to 15 stores are likely to be axed in Germany, making job losses inevitable. In addition, Kaufhof employees could be subjected to pay cuts if the joint venture were to adopt Karstadt's collective wage agreement, which typically offers lower wages than Kaufhof. Hudson's Bay Co. declined to comment. Signa could not be reached by REFIRE for comment.

The will-they-won't-they-merger talks have long been a fixture of the German retail scene, particularly given that the combined group would create a retail behemoth at a time when many of the country's retailers are struggling. Kaufhof has suffered losses for many years. In March, Karstadt announced its first profit in 12 years of €1.4m for 2017.

Just last month, Hudson's Bay Co. was reported to have renewed discussions with Signa about a joint venture, after flatly rejecting a €3bn bid from the Austrian group in February to merge Karstadt (79 stores) and Kaufhof (96 stores).

Hudson's Bay Co. is a diversified global retailer focused on driving the performance of high quality stores and their omnichannel offerings and unlocking the value of real estate holdings. Its formats range from luxury to premium department stores to discount fashion, with more than 480 stores globally, including Hudson's Bay, **Lord & Taylor**, **Saks Fifth Avenue**, **Saks OFF 5TH** and Belgian department store group **Galeria INNO**.

The Canadian group bought Kaufhof in 2015 for €2.8bn from listed German retail group **Metro**, effectively financing the deal by leveraging Kaufhof's own real estate in a joint venture. It also has

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several investments in property joint ventures, including its partnership with US-based **Simon Property Group Inc**. in the **HBS Global Properties Joint Venture**, which owns properties in the United States and Germany. In Canada, it has partnered with REIT **RioCan**.

REFIRE: German retail specialists are not surprised that, after so much speculation over the years about a merger between the two giants of German department strore retailing, this time it really does look as if a marriage is in the offing.

According to **Joachim Stumpf**, CEO of retail consultancy **BBE-Handelsberatung**, there are about 180 department stores in Germany for whom the market potential is simply too small. "Firstly, those profitable locations with a somewhat consistent and homogenous focus need to discover a clear concept. Secondly, the owners will ave to be firm in getting rid of those outlets that ares simply no longer suited for use as a department store."

A Kaufhof/Karstadt merger should indeed be able to achieve synergy effects in administration, logistics, development of proprietary products, marketing and purchasing, and thus lower the overall cost base. But Stumpf thinks that this alone would not be sufficient. "Whatever happens, it calls for a good multi-channel strategy – and both Kaufhof and Karstadt hav neglected online commerce in the past", he says.

Stumpf has long believed that only one big department store operator can survive long-term on the German market. The battle for survival is taking place against a background of dramatic growth in the available lettable sales area across the country over the last few years – not just in the number of competitors to the department stores, but in the range of their offerings.

"The original selling point of the department stores was their variety and huge product range, with the customer finding everything he needed under one roof. But with the growth in sales outlets over the past years, specialists in almost every product category have set up near to the department stores offering a wider range of products with more specific sales competence and expertise than the department stores – such as consumer electronics, white goods and electrical, and fashion stores. And shopping centres offer all these specialist stores under one roof," says Stumpf.

There IS still some future for department stores, particularly in the larger cities, which can offer an attractive shopping ambience along with gastronomy and perhaps childcare. And, depending on local competitors, a chance to position themselves as strong in sporting goods or textiles, or develop niches that can compete with the standardised offering of the high street chains.

Most Karstadt and Kaufhof stores have such good locations that giving them up for alternative uses or conversion into shopping centres should not be difficult. It will prove more difficult for smaller towns if there is no immediate apparent alternative use for the property asset," says Stumpf.

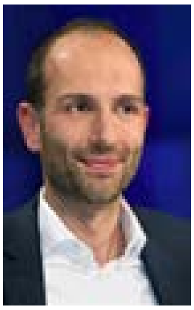
Germany/Legislation

Baukindergeld could put countryside back on the map

Germany has been fighting a two-tier housing system in recent years, with rapidly rising prices in the 'Big 7', against a backdrop of falling prices in rural communities as more and more people flock to big cities. However, with the introduction of Baukindergeld this year, all that could be about to change, according to **Professor Marco Wölfle**, director of the **Center for Real Estate Studies (CRES)** and **VWA Business School** in Freiburg.

'There has been a tendency for people to move away from the countryside to big cities in recent years,' he told REFIRE. 'However, Baukindergeld could reverse that trend, given that the subsidy is the same wherever you live and prices in the countryside are a lot cheaper. This could result in people moving back to rural areas.'

Ultimately, the subsidy is designed to benefit rural areas the most, Dr. Konstantin Kortmann, head of residential investment Germany at JLL in Frankfurt, told REFIRE: 'It will have a significant impact on the countryside,' he said. 'We could see more people move out there as a result, which will push up prices. The advantage of the *Baukindergeld* is much higher for cheaper homes, which is partly the government's intention.'



Since Germany formed a GroKo coalition in February, the **CDU** and **SPD** have introduced several proposals to boost the country's housing market, including the introduction of *Baukindergeld*, a subsidy for parents to help them buy a home, which applies retroactively from January this year.

The subsidy will be awarded to the tune of €1,200 per child per year for up to 10 years. The subsidies are available to couples whose taxable joint income does not exceed €90,000, if they have one child, which rises to €105,000 for two children and €120,000 for three children, Wölfle said.

While no limit has been set as to how large a home can be, there are some constraints. While these subsidies do not have to be repaid, they only apply to those buying their first home. Existing homeowners are not eligible. In addition, children must still live at home and be under the age of 18.

Politicians have hotly debated how the *Baukindergeld* plan should be rolled out. Many politicians, including Bavarian prime minister **Markus Söder**, have rejected calls for limiting the size of the home, saying that families in rural areas, where homes tend to be larger and more affordable, would be penalized.

So what will the subsidies mean for Germany's housing market going forward? According to a study carried out by the Center for Real Estate Studies (CRES) and the hosuing association **IVD**, *Baukindergeld* could have a substantial impact on young families buying their own home, resulting in savings of between 5% and 63% in cities such as Berlin, Hamburg, Leipzig, Nürnberg and Krefeld, depending on the location. Even taking into account regional prices differences, the subsidies will make homes affordable for many households, according to IVD president **Jürgen Michael Schick** (*pictured, left*).

Around 200,000 households a year will be eligible for the subsidies, according to the German government. Wölfle estimates that around 2.5m households will be eligible in total. The scheme is expected to cost the government between €4bn and €6bn during the first three years, according to the CRES.

However, there are challenges ahead, Kortmann warned: 'In bigger cities, it will put prices up, particularly if competition for homes increases. As such, the Baukindergeld will effectively subsidize a pretty big part of the market but in tense markets it won't help the people it is trying to support if homes get too expensive. I personally don't really like the Baukindergeld as a concept. I am all for giving help to young families but I don't think this is the best way. It's barely better than the *Mietpreisbremse*. However, it will increase home ownership rates, which is a good thing.'

People in states such as Saarland and Rheinland-Pfalz, as well as Eastern Germany, will profit the most, according to Wölfle, because there house prices are the lowest. The subsidies may help to tackle the overbuild in rural areas, where supply continues to outpace demand, driving down prices. Between 2011 and 2015, around 20% of homes built

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in German rural districts were surplus to demand, according to the **German Economic Institute (IW)** in Cologne. Single-home properties were overbuilt to twice the degree. In Emsland, for example, more than 1,000 apartments built in the period were surplus to requirements.

Before the introduction of Baukindergeld, it was estimated that prices for apartments would fall by more than 25% in a third of rural areas by 2030, according to the **DIW Berlin (the German Institute for Economic Research**). The price of single family home and duplexes was expected to fall by more than 25% in around 100 of Germany's 402 rural districts and municipalities. Areas that were expected to be particularly badly hit include Brandenburg, Sachsen, Sachsen-Anhalt and Mecklenburg-Vorpommern, according to the DIW. Now, those price corrections may not come to fruition.

However, Wölfle does not expect Baukindergeld to have a big impact on the housing development pipeline, despite Germany's housing shortage: 'The main problem is that there is so little land upon which to build in many cities and that is dampening development,' he said.

Germany/Study

Salary-rent ratios: where rents in Germany don't eat up your salary

In popular German cities, rents are eating up the salaries of workers who live there. But for workers looking for the best salary-rent ratios, there are some surprising opportunities out there.

Predictably, rents in Munich, Berlin and Hamburg are taking a hefty chunk out of people's salaries, according to analysis carried out this month by online job portal **StepStone** and property portal **Immowelt.de**.

Professionals in Munich can count on an average salary of €66,800. However, an apartment of between 80 sqm and 100 sqm will set them back around €1,500 – or 27% of their gross salary. Rents in Frankfurt are just behind those in Munich. While those in the banking sector can count on an average salary of around €67,700 – the highest average salary in Germany – 21% goes on rent. In Berlin, people are forking out around 24% of their gross salary in rent, which drops slightly to 22% in Hamburg, according to the study.

'Life in trendy cities such as Berlin, Hamburg and Munich is sought-after but also very expensive,' said Immowelt's CEO **Carsten Schlabritz**. 'Employers in medium-sized cities with cheap rents can leverage that to attract highly-qualified workers.'

Dortmund is the place to be for people keen to capitalize on the best salary-rent ratio in the country. Its 500,000 inhabitants only have to pay around €580 in rent per month on average, equating to a modest 12% of their salary. Essen is almost as cheap, with rents averaging €590 a month, or 13% of the average salary of €55,600.

'Cities like Dortmund are still characterized by heavy industry,' a spokesperson for Immowelt told REFIRE. 'In addition, they suffer from comparatively high unemployment and are, therefore, less attractive to buyers despite lower prices. That's why the salary-rent ratio is the best.'

Elsewhere, notably in Dresden and Stuttgart, the salary-rent ratio is also very attractive. Average salaries here are low – at just €20,000 – which is offset by inhabitants paying just 19% of their salary in rent.

However, StepStone's CEO **Dr. Sebastian Dettmers** warns against only looking at the salary-rent ratio when job hunting. 'If you can choose from several job opportunities, you should look at all the factors, including the cost of living but also whether you would feel comfortable at the firm in question and whether the job is a good fit.'

The study looked at 15,100 homes for rent via Immowelt.de in 14 of Germany's biggest cities. It then factored in the most popular offers. Rental prices listed are without utilities (*Nettokaltmieten*).

Germany/Acquisitions

Sweden's Heimstaden, France's AEW Ciloger make German debut

Two prominent European players recently entered the German market for the first time – Sweden's **Heimstaden** and French OPCI **Franceurope Immo**, the former into the residential market and the latter with a refurbished office development.

Listed Swedish group Heimstaden teamed up with Berlin investment group **Skjerven Group** to buy a €66m residential property portfolio from a Berlin family office, in what the Swedes said was the first transaction in along-term investment drive into Germany. The ten residential properties in Berlin-Spandau in the west of the city (Päwesiner Weg) comprise 484 residential units with a total of 27,831sqm of living space and 50 parking spaces.

Einar Skjerven (*pictured. left*), the Norwegian-born CEO of Skjerven Group, said: "We have been developing our extensive regional expertise and robust network for more than a decade, which means that we are ideally placed to support Heimstaden as it enters its first market outside Scandinavia…. At the same time, our own Scandinavian background can only benefit our cooperation with our new Scandinavian partners."

Magnus Nordholm, deputy CEO of Heimstaden, said: "Real estate prices in Berlin are growing steadily, starting from

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a relatively low level. In combination with a very stable rental market, which hardly has any vacancies, this represents a very solid basis for profitable investments."

Nordholm said German residential real estate markets continue to offer great potential, especially with the long-term investment strategy Heimstaden is pursuing. The Malmö-headquartered company currently owns, develops and manages 31,600 residential properties and other assets in Sweden, Norway and Denmark, valued at around SEK54.8bn (€5.27bn).

Meanwhile French group **AEW Ciloger**, a subsidiary of property investment manager AEW, has bought a 10,000 sqm six-storey office building in Dortmund on behalf of OPCI Franceurope Immo, a French property fund for private investors, marking its first investment in Germany.

The seller is **Cording Real Estate Group**, on behalf of **LQG Landmark Partnership**. Cording has fully let the property, which was comprehensively renovated and enlarged in 2017, to **BIMA (Bundesanstalt für Immobilienaufgaben)**, the German state-owned property administrator, for 15 years.

Franceurope Immo is an OPCI for private clients (*SPPICAV)*, with a diversified portfolio comprising both direct property investments (60-65%) and investments in financial instruments (30-35%).

Europe/Non-Performing Loans

PwC Austria leads new consultancy for joint loan servicing platform

Consultancy firm **PwC Austria** is teaming up with the **Silverton Group** and **720° Restructuring & Advisory** to set up a long-term co-operative loan servicing platform enabling international investors and banks to outsource their non-performing loan (NPL) and non-core loan commitments, primarily in Eastern Europe.

Under the Vienna-based partnership, PwC will bring up-to-date expertise in processes, compliance and data management, while Silverton and 720° will provide local expertise in restructuring and workout approaches to complex credit exposures. The key advantages of the platform, say the three partners, is the consistent cross-national customer service and individual reporting, with particular heed to local compliance regulations.

The platform currently manages a property-secured NPL portfolio with a volume in the double-digit millions. A number of estimates suggest that over €40bn of non-performing loans are slumbering in the southeast Europe target markets, with up to €1 trillion in Europe as a whole.

'For the first time, loan commitments in Eastern Europe can be managed across national boundaries and with consistently high quality,' said **Bernhard Engel**, partner and leader financial services at PwC Austria.

Jascha Hofferbert, managing partner of Silverton, added: 'The cooperation between PwC, 720° and Silverton offers banks and investors all the advantages of a global consulting firm as a central point of contact, together with our special expertise in credit servicing and our local presence in the countries concerned.'

Austria/Listed Companies

Immofinanz exits CA Immo with Starwood sale – next up S Immo?

After much to-ing and fro-ing, and several rebuffed attempts, US private equity investor **Starwood** finally succeeded in buying a big piece of listed Austrian property investor **CA Immo**, when fellow listed Austrian player Immofinanz agreed to sell its stake in CA Immo to Starwood for $882m.

This long ongoing Austrian saga thus reaches a new milestone after the two Vienna-headquartered players cancelled their long-mooted merger this year under pressure from an activist investor. Once that proposed marriage had been called off, Starwood came a-wooing both Austrian groups, but was rejected by both. It had originally offered €84m less than the now-agreed price for a 26% stake in CA

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Immo. The Austrian cartel office has yet to approve the deal, but it is expected to go through.

The price paid of $882m or about €758m corresponds to €29.50 per share (current market price is €29.90), and includes four ‘golden shares’, entitling the new owner to nominate up to four directors to the supervisory board. Starwood’s earlier offer was €27.50.

Immofinanz said it planned to use the proceeds to intensify its share buyback programme through the end of 2019, buying back up to 8.66% of the outstanding shares. It said it would have made a hefty profit of about €184m including dividends over the two year period it held the CA Immo shares.

According to CEO **Oliver Schumy**, “By selling our shareholding at nearly the historical high point of the CA Immo share price we have realised a considerable profit, and by buying more of our shares back we’re boosting our equity capital structure.” After paying down loans to finance the CA Immo stake, amounting to about €250m last year, the net inflow to Immofinanz should be about €508m, the company said.

Starwood’s CEO **Barry Sternlicht** commented, “We see great potential in the Austrian, German and central and eastern European real estate markets.” With its “substantial capital resources and relevant experience”, Starwood would support CA Immo management as a strategic anchor shareholder, he said.

Speculation in Vienna now centres on whether Immofinanz might use some of its cash pile to make an all-out takeover offer for the last remaining significant Austrian player, **S Immo**, whose share price has risen on the speculative rumours. Immofinanz has already committed to buying a 29% stake in S Immo, which in turn owns a 12% stake in Immofinanz. Expect more drama from the rapidly-thinning ranks of Austria’s listed property sector.

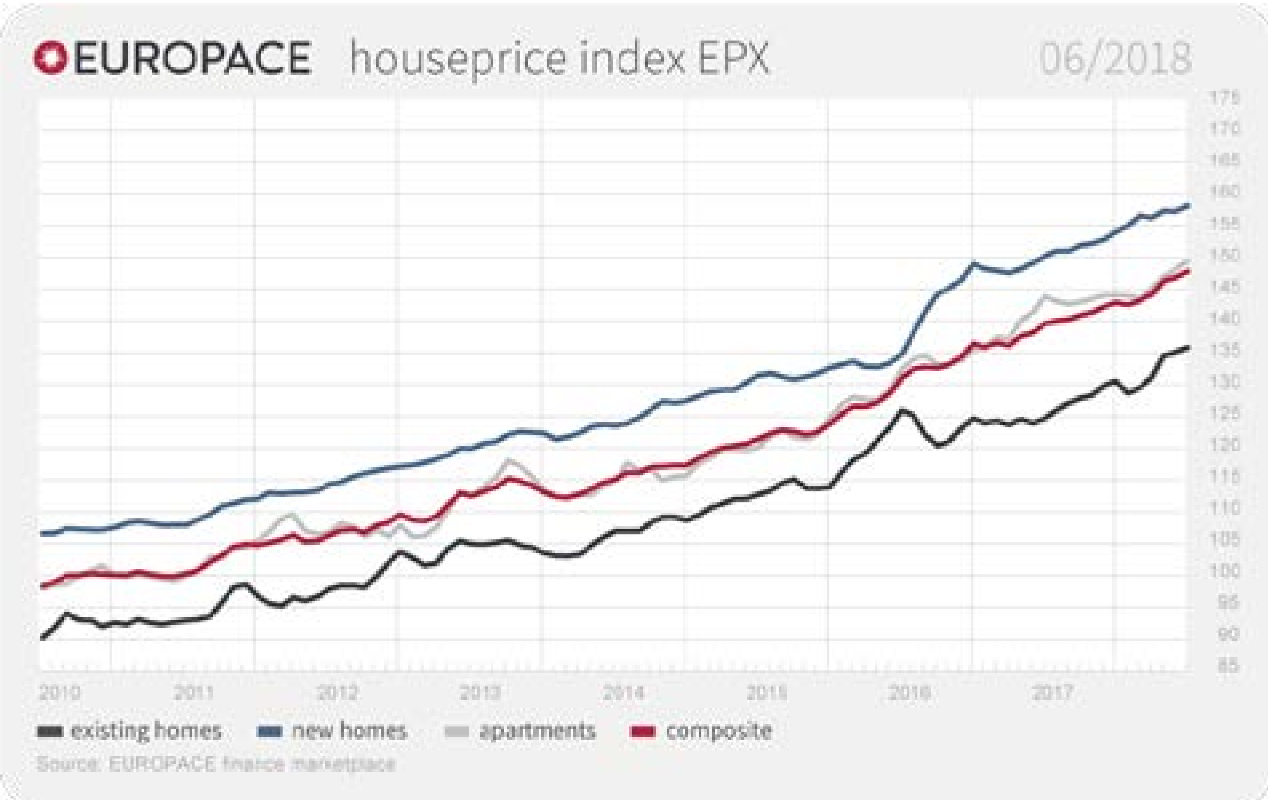
Germany/Logistics

M7, Frasers and Granite to the fore in new logistics deals

Some of the standout logistics deals of the past month on the German market were transacted by foreign investors, including the UK’S **M7 Group**, **Frasers** of Singapore and the Canadian group **Granite**, against a background characterised by an ongoing shortage of suitable logistics properties.

M7 invested €140m on behalf of its M7 **European Real Estate Investment Partners IV (EREIP IV)**, its largest fund so far, with a further €35m expected to close over the summer months, it said. In a combination of portfolio and individual deals it bough 68 separate assets totaling 331,000 sqm across Denmark, Germany and the Netherlands.

When completed, the total fund portfolio, which is managed by M7 through



its pan-European platform, will own 1.3 million sqm across 212 multi-let office and industrial assets with a WALT of 4.2 years and a vacancy of 17.1%.

Meanwhile **Frasers Property Europe (FPE)**, part of Singapore-incorporated **Frasers Centrepoint**, has purchased four logistics facilities in Germany, for an undisclosed sum. The four properties, sold by UK REIT **Segro**, consist of over 85,000 sqm lettable area and have a weighted average lease expiry (WALE) of five and a half years. They are leased to international logistics companies. Three properties are located in the federal state of Saarland, while the fourth is located near Ulm in Baden-Württemberg.

Canadian-based REIT Granite Real Estate Investment is buying a 717,00-sqm warehouse and logistics property in Erfurt for €54m for an initial yield of 5.4% excluding transaction costs. The property is fully leased, mainly to **LGI TechLog GmbH**, a subsidiary of the Swedish **Elanders Group**, with a WALT of 4.7 years.The company has already built up a presence in the German logistics market.

Meanhwile, Warsaw-listed logistics real estate company **MLP** is expected to to begin its first German project development this year on a brownfield site in Unna near Dortmund, and has also secured further conversion sites in Mönchengladbach and a greenfield site outside Berlin.

MLP is both a developer and portfolio owner and manages logistics properties totaling around 1 million sqm of lettable space in Poland and Romania. CEO **Radoslaw Krochta** said he would like to develop three large projects annually in Germany in order to acquire 500,000 to 700,000 sqm of managed space within three years. If achievable, this would rapidly put MLP very much on the map as a serious logistics developer and investor.

In financing, German securities services provider **DekaBank** has arranged a €117.3m loan facility for **KWASA Goodman Germany**, a co-investment between Goodman and Malaysia's **Employee Provident Fund (Malaysia)**, to finance three logistics facilities in Germany.

pbb Deutsche Pfandbriefbank jointly underwrote the loan facility with Deka-Bank acting as arranger. The loan was structured as a forward facility with three different drawdowns upon the completion of each asset.

The first property consists of a modern logistics asset located in Ergolding (Bavaria) and fully let to **BMW** until 2032. Two further assets are located in Marl and let to the **Metro Group** on long leases. The Metro properties, with a combined area of approximately 235,000 sqm, make them one of the largest logistics assets in Europe.

A recent report by property advisers **CBRE** highlights how, following last year's major portfolio transactions (including **Hansteen**, **Logicor**), the shortage of suitable logistics properties has intensified yet further. Transaction volume in the 1st half year was €3.2bn, 41% below the record year of 2017.

This is still the second-best midyear result of all time according to Colliers International, which gave the same numbers, and **BNP Paribas Real Estate** (€3bn, -47%). CBRE confirmed that investor interest in the segment remains very high, particularly among foreign investors who make up 72% of investors in the segment, higher than in any other asset class.

Colliers has observed a slowdown in yield compression and sees peak value unchanged at 4.65% since the end of 2017. In contrast, the gross yield for increasingly popular industrial properties fell by 10 basis points to 5.9%. CBRE also forecasts that the current peak yields of 4.35% will fall in smaller steps as the year progresses.

Hubert Reck, co-head of industrial & logistics investment at Colliers, commented: 'As expected, it proved impossible to exceed the outstanding results of the previous year (H1 2017: €5.4bn), which can primarily be attributed to several large-volume portfolio deals. Nevertheless, 2018 mid-year results significantly outperformed previous H1 results. Industrial and logistics investment volume is double the five-year average, for example, making it the second-highest result ever recorded.'

Peter Kunz (*pictured, left*), co-head of industrial & logistics at Colliers, added, 'The main problem continues to be insufficient supply. Development sites are particularly scarce in conurbations with construction costs increasing every year, which in turn has an impact on long-term rent trends. You also have the fact that municipalities prefer residential and office developments over pure logistics projects.'

Traditional logistics properties, which accounted for more than two-thirds of total investment volume, were not the only asset class to meet with investor interest. Industrial properties and business parks once again proved to be a coveted investment target as well, generating over €1bn in the first half of the year and doubling their share in total investment volume.

Germany/Listed Companies

Analysts turn negative on share prospects for listed German resi companies

Over the past five years or so the German stock market has become populated with residential property companies which have ballooned in value, much against the expectations a decade ago when residential property companies were being outlawed from any participation in the nascent REITs sector.

The big companies have soared in

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size and market capitalisation after a long wave of mergers and consolidations within the sector. A new study by **Kirchhoff Consult** suggests a less rosy future for shares in the listed residential sector, while the commercial property companies are viewed in a more positive light.

The latest *Stimmungsindikator Immobilen-Aktien* from Kirchoff, which evaluates perspectives for share price development, saw values fall for the 2nd quarter, largely based on a fall in residential property company shares.

The barometer uses a proprietary scale of minus 100 to plus 100; in the second quarter the gauge fell from 21.4 to 8.3, with residential shares falling from plus 12.5 points to minus 8.3 points. Prospects for commercial property shares held steady at 37.5, the same as last quarter. In particular value-add is seen as having strong growth potential, while not a single analyst expects rising share price in the residential sector.

Analysts justify their views on the residential companies' past surge in values – share prices in the big companies have risen by 77% over the past three years, and by 8% over the last six months - a much faster rate than commercial property companies (up 23% in three years, and minus 1% over the last six months). 83% of the analysts surveyed expected stagnating prices, with the remaining 17% expecting falls of between 1% and 15%.

Most analysts are anticipating a sideways movement in residential company shares at best over the coming three months. Two-thirds are expecting rises in the share prices of commercial listed companies, largely as a result of strong rents in the office sector. The lack of available portfolios will hamper M&A moves, they believe, with growth coming from smaller portfolios and own project developments. Respondents also predicted at least two new IPOs over the next two years.

Germany/Office Property

Frankurt office rent pace unlikely to be sustained – study

A new report from the European commercial property team at **Capital Economics** provides food for thought as to where office rents are going, particularly in Frankfurt. Specifically, the report, authored by senior property economist **Hamish Smith**, concludes that the recent pick-up in Frankfurt office rents won't be sustained, despite strong occupier demand and limited completions, which have provided a boost to rent levels.

Across German office rents have benefited from the strong German economy and labour market, with unemployment falling to just 3.4%. A shortage of development has also helped to keep rent levels buoyant. With Berlin grabbing much of the limelight for the last three years, Frankfurt growth rates have recovered to overtake Hamburg and Munich, but still lag Berlin.

The report says that take-up in Frankfurt last year arguably overshot what might be expected on the basis of employment growth alone. So, while Frankfurt benefited from exceptionally strong levels of occupier demand last year 2017, 50% above the 2012-2016 average, the volume of new completions has not kept pace with demolition and conversion of older stock, with the result that the overall level of stock has been falling, by about 200,000 sqm over the last 18 months. This has helped push the vacancy rate down by more than 200 bps since the end of 2016, from 10.1% to 8.0%.

However, take-up was boosted last year by several large leasing transactions of over 10,000 sqm, which are unlikely to be repeated this year. And, with the labour market operating at near-full capacity, surveys are suggesting that employment growth will soon slow, which will inevitably affect occupier demand growth.

While several new completions are coming on stream this year and next, they won't outpace occupier demand, meaning further falls in the vacancy rate, but at a slower rate of decline, consistent with slower rental growth. The author expects the outlook for Frankfurt prime rates to remain positive, but says the recent rally in rental gowth is unlikely to last beyond this year, in which rises of 3.5% to 4% are expected – down on the 4.5% seen last year, but ahead of next year's slower growth of about 2%.

Germany/Retail Real Estate

Frankfurt's Zeil still busiest shopping street in Germany

Property adviser **JLL's** annual survey of Germany's most frequented shopping streets has confirmed that Frankfurt's **Zeil** (*pictured, below*), has defended its position as the liveliest shopping street in the country. In second and third place come Munich, followed by Cologne, Hannover and Dortmund.

On a busy Saturday the Zeil in Frankfurt counts 14,390 pedestrians an hour. In second place is the **Kaufingerstrasse** in Munich (14,155) followed by the **Neuhauser Strasse**, likewise in Munich (13,455).

Next comes Cologne's **Schildergasse** (13,040) which is also represented in the top 10 by **Hohen Strasse** (8th place, with 9,425 pedestrians), with Hannover's **Georgstrasse** in Hannover (10,985), **Westhellenweg** in Dortmund

(10,180), the **Königstrasse** in Stuttgart (9,145). Düsseldorf's **Flingerstrasse** (7th place, 9,670) and **Schadowstrasse** (10th place, 9,130).

Notable is that only four of the ten most frequented shopping streets (Frankfurt, Dortmund and the two Munich streets) have been able to maintain or improve on their 5-year average. The other six streets in the Top 10 have all lost footfall.

In Stuttgart, for example, the Stiftstrasse which links the **Königstrasse** with the new **Dorotheenquartier Centre** has seen its footfall almost double. The national average has sunk by about 1% from 724,000 pedestrians to 718,880 over a comparable time period in the larger cities.

JLL points out that highly frequented streets located beside each other tend to benefit each other significantly, as common sense would suggest. This enables the larger cities to hold their overall footfall at or above past levels, whereas the smaller regional towns are losing out in the battle for consumers.

JLL carried out their survey in 174 German towns and cities on April 14 this year between 13.00 and 16.00. This form of field research is not without its critics, as they inevitably cannot take account of weather conditions, local events or traffic or building site hindrances. New methods of measuring footfall, such as measuring by laser or smartphone frequency, are being tested but have not yet been fully adopted.

According to **Helge Scheunemann**, JLL' s head of research, "The method we use to count footfall is of course just a momentary snapshot", but the manual method remains perfectly valid, requiring as it does no special permits for counting equipment from local stores, and no complications with Germany's very prickly privacy and data protection regulations.

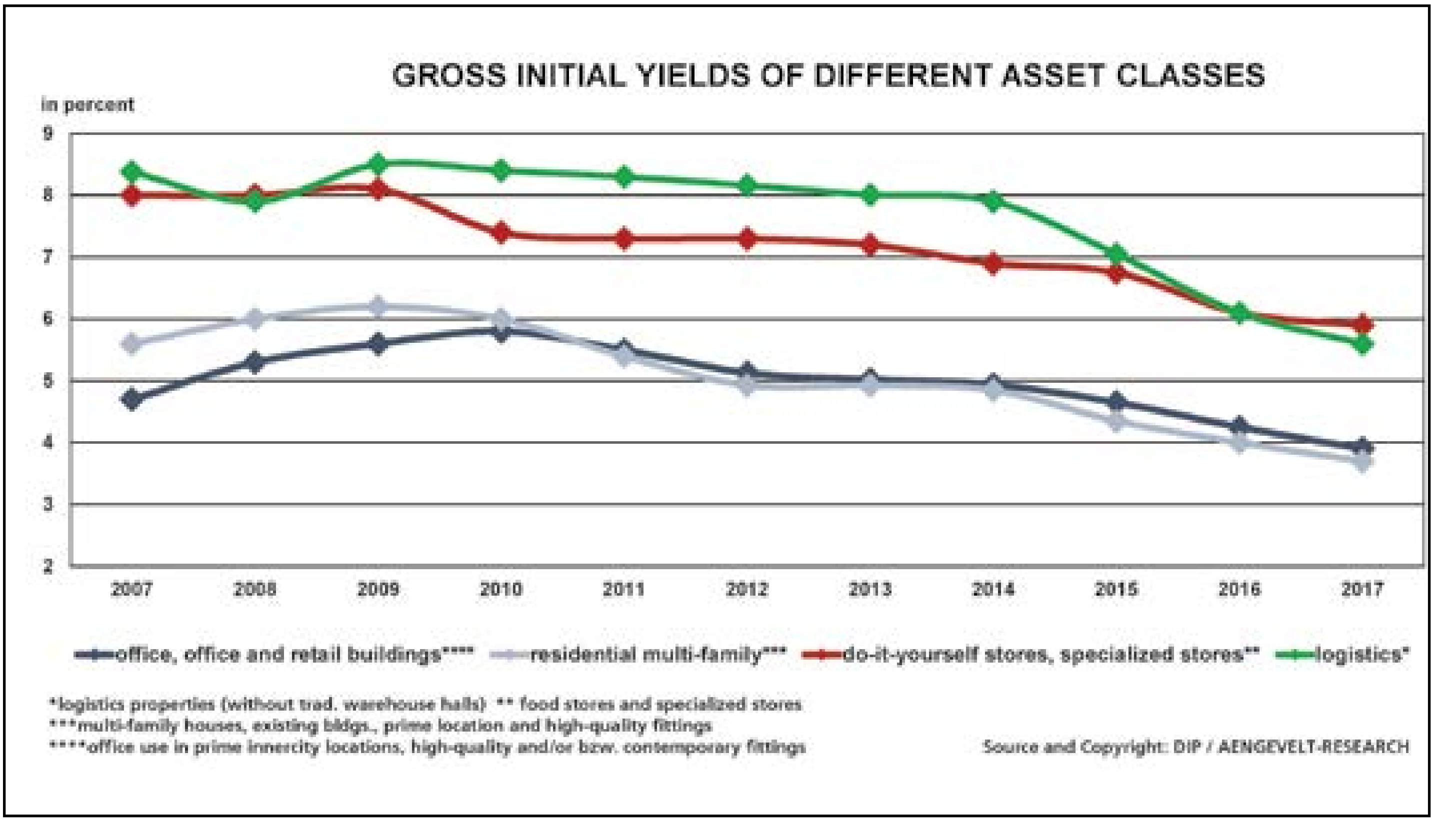
Germany/Retail Real Estate

Greenman snaps up Berlin's Biesdorf Centre from Cerberus for €79m

Irish real estate investment company **Greenman Investments** has bought a 32,200 sqm retail asset in Berlin from **Cerberus** for €79m.

Greenman said it bought *Biesdorf Center* from a Cerberus affiliate for its **Greenman Open** portfolio. Cerberus bought the asset as part of a portfolio in 2013. The center was built in 2003 and has retailer **Kaufland** occupying about 12,500 sqm. Cerberus had extended the lease with Kaufland until 2028 in the past years, while Kaufland also invested between €8m and €10m in upgrading its own outlet.

John Wilkinson, the CEO of Greenman Investments, said: "We're delighted to add the Biesdorf Centre to Greenman Open's portfolio and thus increase Greenman's assets under management



Source: Aengevelt Research

to around €610m."

'It's a perfect fit to our strategic policy of investing in food-dominated retail centres and hybrid centres. This property will be a pillar from which will drive further expansion plans both in Berlin and across Germany,' Wilkinson added.

Formed in December 2016, Greenman Open's investment strategy is to grow a portfolio of German retail dominated commercial property whose tenants meet high levels of creditworthiness.

Wilkinson (*pictured, right*) said the Biesdorf Centre is a perfect fit to Greenman OPEN fund's strategic policy of investing in food dominated retail centres and hybrid centres and will be a pillar from which will drive further expansion plans both in Berlin and across Germany.

"Currently there are more promising retail properties in our pipeline. For the third quarter of 2018, we anticipate further additions to Greenman Open with a volume of €140m," said Wilkinson.

Germany/Acquisitions

ÄVWL in €250m forward purchase of Olympus HQ in Hamburg

The **Ärzteversorgung Westfalen-Lippe (ÄVWL)**, one of Germany's largest medical occupational pension funds, has partnered with US private investor Hines to buy the Hamburg site where Japanese optical technology manufacturer **Olympus** will have its European headquarters. The price was thought to be around €250m.

ÄVWL, a €13.5bn funded German first pillar pension scheme for doctors in the region of Westfalen, is the main investor. Real estate investment firm **Hines** will take over the long-term asset management of the property. ÄVWL owns and manages around €2.6bn of real estate investments in its portfolio.

The seller of the building project is **Campus Properties 1 GmbH & Co.**, a joint venture from Germany's largest project developer **Zech Group**, and Olympus, which remains responsible for the completion of the building. The building is scheduled for completion by the end of 2020.

Christian Mosel, CEO of ÄVWL, commented, "In the Olympus Campus, we have acquired an object in a central location in Hamburg, which thanks to the high occupancy rate promises a stable long-term cash flow basis and thus high earnings security."

Markus Altenhoff, managing director, chief investment officer at ÄVWL, added: "The prestigious, timeless architecture and high space efficiency offer good conditions for a sustainable real estate investment."

Hines was advised on the acquisition by **Pöllath+Partners**, while the seller was advised by **PwC Düsseldorf**. Support in the transaction process was also provided by **CBRE Hamburg**.

The Olympus Campus covers around 47,000sqm of office leasable space and 505 parking spaces on up to eleven storeys. Around 38,000sqm of office space has been leased long-term by Olympus. The Japanese firm plans to operate its new headquarters for the Europe, Middle East and Africa region from the site, while a further 9,000sqm have been leased long-term to coworking provider **Design Offices**.

Europe/Research

NOI growth to drive total returns in Europe

Net operating income is becoming the key to driving total returns against a backdrop of tight yields, according to **Invesco**'s *Real Estate House View: European summary 1H 2018*, published this month.

As a result, it will become increasingly important to consider lease structures and opportunities to deliver market-level rental growth at an asset level and to look for sub-market and asset opportunities that can outperform the general market via active asset management, according to the report.

1. 'Manage to core' is the new mantra

Unsurprisingly, value-add assets are becoming increasingly popular, particularly 'manage to core' to create core assets in strong locations, according to **Christian Eder**, director of European Real Estate at Invesco Real Estate: 'These assets deliver better returns in the office sector and Germany's office market doesn't see much speculative development. Also, submarkets in city centre locations have very low vacancy rates, which means there's a good chance of being able to let properties there.'

Invesco describes the 'manage to core' strategy as 'taking some development risk but competition for suitable assets is likely to result in aggressive pricing, so risks should be carefully assessed'. Ultimately, successful investors will require a good understanding of key asset characteristics and greater granularity in understanding sub-market characteristics.

2. Office-based employment growth to slow

The office market in Europe faces headwinds as Europe's working age population starts to decline, coupled with disruption in the service sector due to automation. Also, office employment growth, which has been a key driver of demand in previous cyclical upswings, will be more modest in this cycle, according to the report.

In particular, cities such as Frankfurt, Berlin, Madrid and Helsinki are expected

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to deliver strong three-year office rental growth from 2018 to 2020, according to Invesco.

Co-working has become increasingly prevalent, particularly in the tech sector which, in turn, is having an impact on European office markets. While many investors still have to be convinced as to why they should jump aboard the co-working train, the occupier market is signaling that the growing start-up segment of the economy is being joined by more established occupiers who are attracted to the increased employee satisfaction and flexibility. This suggests that office spaces need to be flexible enough to offer occupiers a broad range of working configurations for their staff as well as attractive amenities.

That's not to say that all investors are jumping on the co-working bandwagon. Eder, for his part, remains cautious: 'We wouldn't look for a single tenant in a co-working building but we do see the value of holding some co-working space. However, it's hard to know how it will perform during a downturn. In Germany's 'Top 7' last year, 5.5% of overall take-up was co-working space, which is pretty incredible. That said, co-working is like a gym – with end users on short contracts.'

3. Hotel market delivers a stellar performance

European hotels continue to hog the top spot, according to Invesco, with average occupancy rates up 61.8% as of February this year and daily rates averaging €98.90, equating to a 5.1% jump in the revenue per available room. Invesco favours 'seven-day trading markets' where supply is constrained, unless there is the option of benefiting from exceptional lease terms, market mispricing or infrastructure developments. Markets like Munich hit the right note, due to its stability, as do Edinburgh and Paris, according to the report.

German hotel investment 2017 by buyer group - Source: CBRE

4. Resi market benefits from strong demand

Quality supply remains tight in most European cities and Germany is no exception. ‘The scarcity of modern residential product is astounding,’ said Eder. ‘Around 284,000 apartments were completed in Germany last year but it’s still not enough.’ The German government’s Federal Office for Building and Regional Planning (BBR) has said that Germany actually needs an average of 350,000 new homes a year over the next three years to cover demand.

Invesco favours mass market residential assets in sustainable locations, particularly strong ‘live-work-play’ environments, such as London. Frankfurt has also seen strong growth in recent months.

5. Retail lags behind

The retail sector, predictably, is lagging, as high streets and shopping centres alike struggle to reposition themselves to complete with online shopping. Smaller, mass-market retail segments are especially vulnerable to store closures as retailers rationalize their portfolios, according to Invesco. Fashion retailers are also struggling to make their mark.

Today, fashion retailers account for just 26% of take-up, compared to 40% in 2012, according to Eder. ‘Strong, dominant pitches will do well. However, fashion stores in the city centres are shrinking and will need to be replaced with something else.’

Europe/Funds

Capital raised for funds of funds at highest-ever level

Non-listed real estate funds of funds doubled their share of total capital raised in 2017, as investors increasingly sought niche strategies and diversification, according to the **ANREV / INREV Funds of Funds** study released earlier this month.

In total, €152.3bn of fresh equity was raised for non-listed real estate, with €8.1 bn or 5.2% destined for fund of funds. This is a record level of new capital and a significant jump from the €3bn or 2.5% of the total capital that was raised in 2016.

Fund of funds delivered positive

Guest Column:

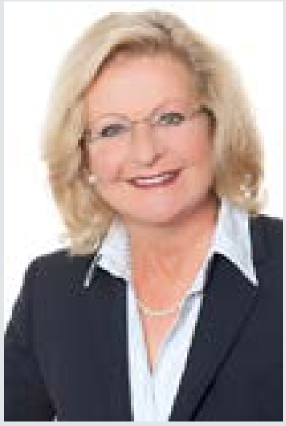
European real estate markets - Spain strides forward

by Brigitte Walter, Director, Real I.S. AG

Things are getting tight on Europe's real estate markets, with investors desperately looking for opportunities in many places. Prices, especially in Europe's major cities in the core segment, have been rising continuously for years, and yields on purchases are falling across all types of use, aided by the persistently low interest rates in the euro zone. Nevertheless, it might be worth taking a closer look, as there are markets that still offer promising opportunities. Spain, for example.

Spain has long since overcome the severe financial and economic crisis, which was no less of a real estate crisis. In recent years, the race to catch up has overtaken the economic upswing in other European countries. The economy has been growing steadily for several years with impressive growth values of over three percent. While this dynamic may have returned to normal by now, Spain's economic growth remains stable and above the euro zone average. Unemployment has also fallen significantly in recent years.

In the initial years following the crisis, the dynamic development of Spanish real estate markets was mainly due to opportunistic investors who, with short holding periods, were speculating on relatively high purchase yields and rapidly rising prices. This phase seems to have ended. Buyers who are now entering the Spanish market tend to be institutional investors from Germany and abroad who are less speculative and pursue a lower-risk investment strategy. The entry of these classic portfolio holders demonstrates that the Spanish market is visibly gaining stability while market volatility is decreasing, as these types of investors focus less on high returns on purchases or short-term value increases. They are banking on a still relatively pronounced potential for rising rents. In Madrid or Barcelona, prime rents for core office properties are still around a third below the pre-crisis level.



Spain's real estate market is gaining stability and professionalism

Overall, Spain has experienced significant adaptation to other European markets during the last ten years, making it easier for foreign investors to gain a foothold in the country. Only a few years ago, fund and corporate structures established elsewhere were relatively rare in Spanish investment contexts. The Spanish government has significantly advanced

Methodik: X-Achse: Spitzenanfangsrendite (2017) von PMA. **Y-Achse:** Mietwachstum 2018 bis 2020 abgeleitet aus einem eigenen quantitativen Modell, welches das Mietwachstum auf Basis einer Funktion verschiedener Variablen ermittelt (BIP, Fertigstellungen, Zinsniveau, Leerstand). Die „Ballgröße" gibt die Größe des jeweiligen Büromarktes wieder. **Quelle:** PMA, Real I.S. AG the professionalisation of the commercial real estate market through a variety of regulatory measures. This applies both to the implementation of the European AIFM directive and to the introduction of the Spanish equivalent of REITs (Spanish: SOCIMI). These developments highlight to foreign investors that the Spanish market has reached European normality.

The increased confidence has led some international investors to show interest in risk classes outside the core segment, such as in the managed-to-core sector or regions outside the two metropolises of Madrid and Barcelona. Active asset management is necessary to make efficient use of the numerous opportunities in these segments, however. Thus, an on-site presence is essential. This is even more important because, despite all the convergence with the rest of the European market in Spain, several special features still need to be taken into account.

On the one hand, it has been a legal requirement in Spain for several years that at least one qualified employee of the investment provider must have a permanent presence in the country. On the other hand, Spanish tax laws differ in ways that immediately impact investment strategies. Unlike most other OECD countries, Spain does not apply the exemption method to its double taxation agreements. Instead it follows the 'credit method'. This means that German investors' income from Spanish real estate is taxable in Spain and must subsequently also be taxed in Germany. The tax paid in Spain is then taken into account. As a result, German investors will not benefit from the lower Spanish tax rates, as the final tax has to be paid according to German rates.

Investors with a tax exemption in Germany, which may also include income from other OECD countries if the more common exemption method is applied, would lose this privilege for Spanish investments, for example. In order to keep the additional tax burden neutral, qualified employees are needed who are very familiar with the special features of Spanish tax legislation and the market, as well as the peculiarities of various German investor groups. It is advisable to offer funds with various structures tailored to different tax situations, depending on the investor's needs. Before it is possible to put together a larger portfolio of fund properties in Spain, investment providers thus also need a domestic location from which the properties can be managed.

Investors who are serious about their commitment in Spain will see that this extra effort is worthwhile, however. Spain's real estate market is enjoying a stable growth phase with a larger rent increase potential than most other European countries. Investors who want to profit from this can do so, but not completely from abroad.

returns to their investors, whether broken down by style, structure, regional strategy or size. The results showed that one in seven investors plan to increase their allocations to funds of funds over the coming two years. The sector achieved an annual return of 5.1% over 2017, slightly down on the 6.2% achieved previously.

The study, which includes 60 funds of funds managed by 25 managers, showed that one in seven investors plan to increase their allocations to funds of funds over the coming two years.

Funds of funds with a global strategy comprise the largest share of vehicles in the universe surveyed, both by number and size. Global strategy vehicles make up just under 50% of the overall vehicles and represent 78.6% of total NAV.

Vehicles with a European strategy followed next, representing 33%, whilst those targeting Asia Pacific represent 20%. Strategies targeting North America were minimal.

All regional strategies delivered positive returns, but those targeting Asia Pacific especially so. After a few years of subdued performance, Asia-Pacific funds of funds posted a remarkable comeback with returns of 15.1% in 2017, a strong come back from the -3.3% recorded in 2016. In comparison, European and global funds generated 6.6% and 4.4% respectively, performance similar to last year.

As to investor confidence, while the funds of funds universe is almost evenly split across the three main investment styles, core, value added and opportunity; nonetheless, core funds are much larger in size than the other two, in fact making up just over four fifths, 83.1%, of total NAV.

They also invest on average in 20 vehicles and 16 managers which is double the number for value added and opportunity funds of funds.

According to **Lonneke Löwik**, INREV's CEO (pictured, right), 'The results demonstrate that funds of funds remain in good health. For smaller investors in particular, they offer significant diversification options, and the opportunity to create a nice blend of different aspects.'

'It's no surprise to see the positive figures from INREV as funds of funds continue to be an excellent tool for investors. They are a great way to achieve exposure to best-in-class fund managers or niche strategies, while simultaneously reducing risk due to significant diversification across sectors and regions,' added **Dimme Lucassen**, senior investments manager, **Aberdeen Standard Investments**.

Germany/Proptechs

Eight major German investors agree on new data sharing platform

Berlin-based proptech company **Architrave** has taken a major stride forward by signing up eight leading German commercial real estate and asset management companies to develop a common open digital strategy.

The deal was concluded at the first **REDS (Real Estate Data Summit)** event which took place in Berlin earlier this month. The companies agreeing to promote a common digital standard are **CommerzReal**, **Credit Suisse**, **Deka Immobilien**, **DWS**, **ECE**, **Patrizia Immobilien**, **Union Investment** and **BEOS**.

As a first step the partners will agree on the catalogue classification format for different classes of documents, standardised for all participants with the purpose of facilitating easier transactions across the industry. Further details are expected to be agreed upon over the coming months, followed by a major push to gain acceptance of the agreed-upon standards by broad swaths of the industry, including the main brokerage groups.

According to Architrave, the initial agreement also identified further use cases for common data structures, such as the transfer of information for property listings for asset sales. The participating companies commited to engage in dialogue with the real estate brokerages, to provide all information in machine-readable format – all with the goal of reducing transaction costs, improving transparency and providing more access to relevant information.

Europe/Research

JLL Office Property Clock: 2Q strongest European office take-up on record

European office take-up in the second quarter was the highest on record, driven by an extended cycle in occupier markets, according to **JLL's Office Property Clock** published earlier this month

In the second quarter, European office take-up increased to 3.4m sqm, an increase of 5% y-on-y. As a result, at 3.4%,

DIP
THE ALLIANCE OF PROPERTY COMPETENCE

Deutsche DIP-Büromärkte 1. Halbjahr 2018 (vs. 1. Hj. 2017) im Überblick, Stand: 01.07.2018

	Büroflächenumsatz* (in m²)		Gew. Spitzenmiete (in EUR/m²)		Mittlere Miete City (in EUR/m²)		Angebotsreserve (in m²)		Leerstandsquote (in %)	
	1. Hj. 2018	1. Hj. 2017	**1. Hj. 2018**	1. Hj. 2017	**1. Hj. 2018**	1. Hj. 2017	**30.06.2018**	30.06.2017	**30.06.2018**	30.06.2017
Berlin	**402.000**	503.000	**31,50**	29,00	**25,00**	19,40	**460.000**	720.000	**2,4**	3,8
Dresden	**29.000**	40.000	**13,00**	12,50	**11,20**	10,15	**185.000**	200.000	**7,4**	8,0
Düsseldorf	**203.000**	243.000	**27,00**	26,50	**18,50**	18,30	**760.000**	795.000	**8,2**	8,6
Essen	**82.000**	51.000	**15,00**	14,50	**10,40**	9,90	**155.000**	160.000	**4,9**	5,1
Frankfurt a. M.	**247.000**	244.000	**40,50**	39,00	**25,30**	23,20	**930.000**	1.170.000	**7,9**	9,8
Hamburg	**232.000**	300.000	**26,50**	26,00	**19,40**	18,80	**670.000**	750.000	**4,7**	5,3
Karlsruhe	**42.500**	38.000	**15,00**	15,00	**12,50**	13,00	**85.000**	90.000	**3,5**	3,8
Köln	**115.000**	140.000	**22,00**	21,50	**14,50**	13,90	**250.000**	385.000	**3,2**	5,0
Leipzig	**71.000**	71.000	**13,00**	13,00	**10,20**	9,50	**255.000**	295.000	**7,7**	9,0
Magdeburg	**6.000**	8.000	**12,25**	12,25	**8,50**	8,50	**91.000**	98.000	**8,7**	9,4
München	**444.000**	420.000	**37,00**	36,50	**25,00**	24,00	**650.000**	780.000	**3,3**	4,0
Nürnberg	**70.000**	35.000	**15,00**	14,50	**11,50**	10,70	**141.000**	176.000	**3,9**	4,8
Stuttgart	**120.000**	120.000	**23,00**	22,00	**14,50**	14,00	**170.000**	230.000	**2,1**	2,9
DIP-Büromärkte	**2.063.500**	2.213.000	**29,20**	28,30	**20,40**	18,20	**4.802.000**	5.849.000	**4,5**	5,6

*** inkl. Eigennutzer**

Quelle: DIP Deutsche Immobilien-Partner, AENGEVELT-RESEARCH

Source: AENGEVELT

2018 European office rental growth is forecast to outpace the five-year average (2.1%), according to JLL.

Rental growth beating 10-year average

In a sign of how buoyant many European office markets have become, 10 of the 24 Index markets benefitted from rental growth last quarter and, at 4.1%, annual European rental growth continues to exceed the 10-year average of 0.3%. JLL's European Office Rental Index rose by 0.7% q-o-q in the second quarter.

Subsequently, the 2Q 2018 Office Clock underlines JLL's view of an extended cycle with occupier markets continuing to perform well. As at 2Q 2018, just one city – Istanbul - is located in the 'negative rental growth' section of the Office Clock. At the same time, most markets have now moved into the 'rental growth slowing' phase. This does not mean rental growth is a thing of the past, highlighted by the performance of most German office markets in recent years. For example, Munich, which has been located between 9 and 12 o'clock for 24 consecutive quarters, recorded 23% prime rental growth in the same period.

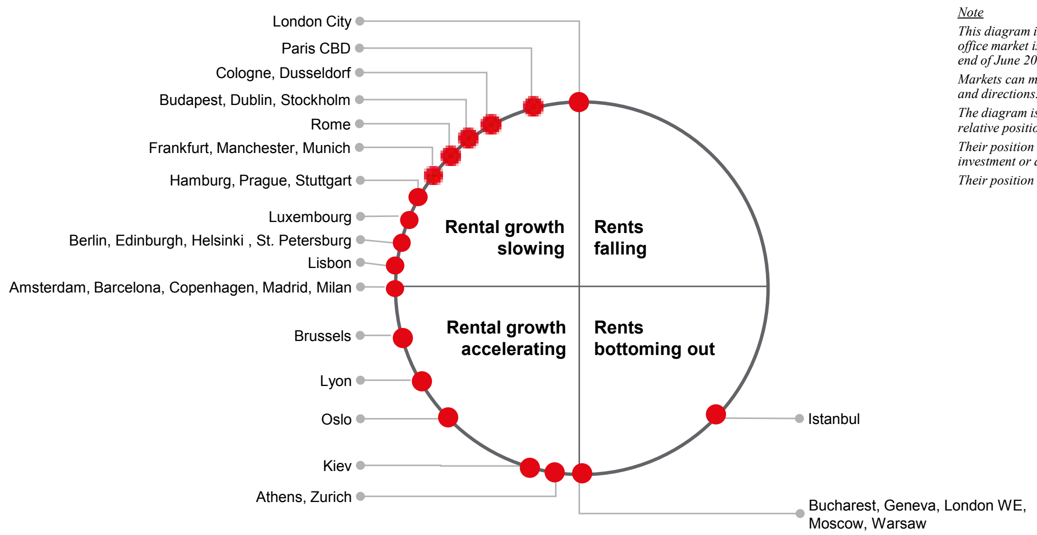
In Germany, prime rents increased in Munich (+1.4%), Berlin (+1.6%) and Frankfurt (1.3%), but held stable in Hamburg and Düsseldorf. Elsewhere, prime rents remained unchanged. Looking ahead, solid occupier activity and limited development will continue to restrict the availability of high quality space, driving up rents as a result. European prime office rental growth is expected to total around 3.4% in 2018, followed by 1.9% in 2019. And despite uncertainties regarding London's macro climate, prime rents remained unchanged in the second quarter, highlighting the continued robustness of the occupier market despite Brexit. Elsewhere in the UK, prime rents continue to see healthy growth, with Edinburgh recording a 3% increase on the first quarter 2018.

Rental growth in the last quarter was strongest across the Netherlands, led by Utrecht (+6.0%) and Amsterdam (+2.5%) on the back of tightening Grade A supply and strong demand for prime space. Rental growth across Southern Europe continued apace, with Barcelona (+1.0%), Madrid (+3.1%) and Milan (+1.7%) the standout performers.

Anticipated slowdown in Germany fails to materialize

Despite a slow start to the year, the anticipated slowdown in office take-up in Germany failed to materialize in the second quarter. The 'Big 5' office markets saw a combined take-up of 785,000 sqm, up 7% y-o-y, which was mainly due

European Offices Rental Clock Q2 2018



Note

This diagram illustrates where JLL estimate each prime office market is within its individual rental cycle at the end of June 2018.

Markets can move around the clock at different speeds and directions.

The diagram is a convenient method of comparing the relative position of markets in their rental cycle.

Their position is not necessarily representative of investment or development market prospects.

Their position refers to Prime Face Rental Values.

This data is based on material/sources that we believe to be reliable.

*While every effort has been made to ensure its accuracy, we cannot offer any warranty that it contains no factual errors.
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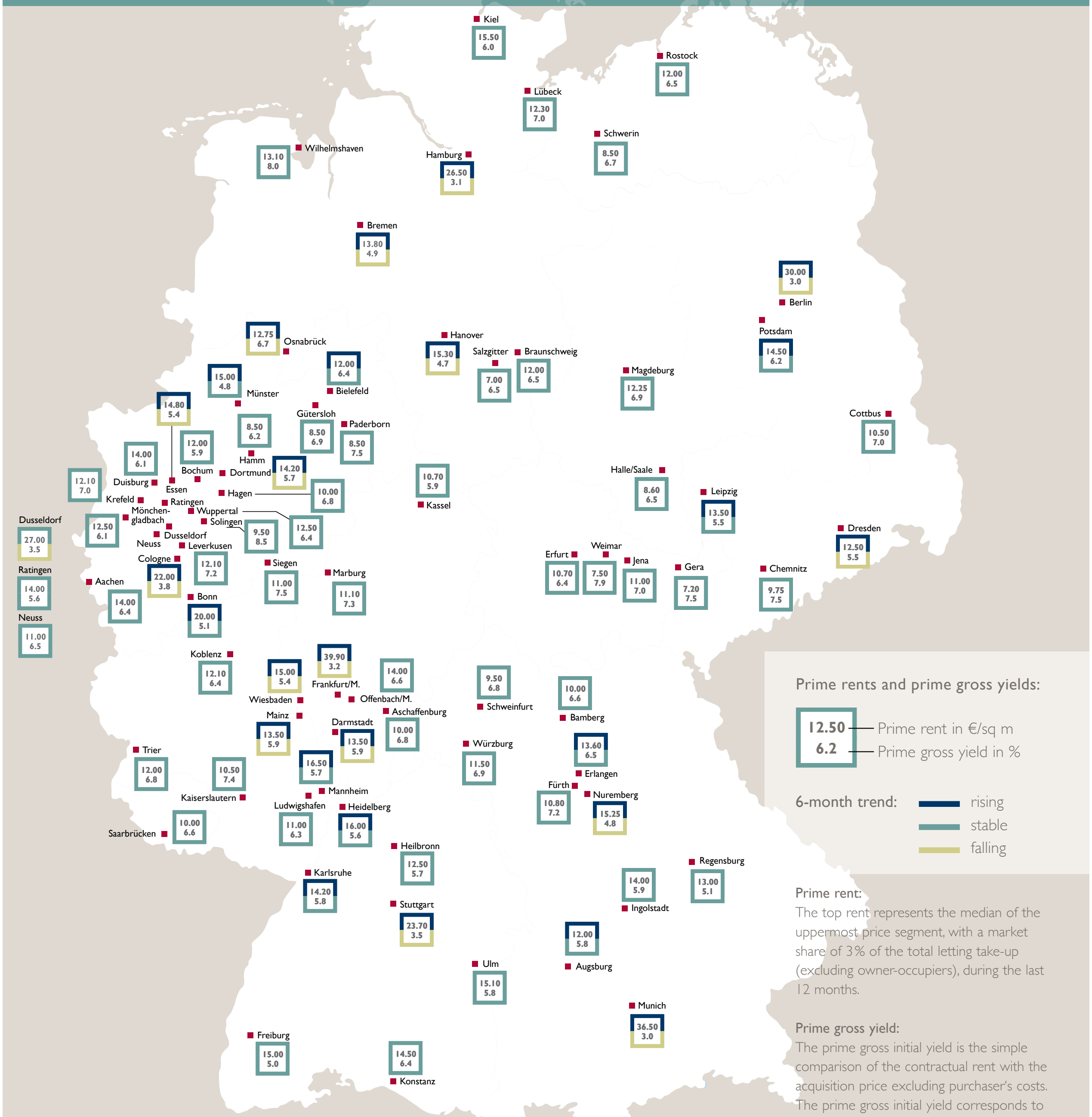
Investment locations Germany 2018
Office – rents and yields

CATELLA

The positive economic conditions are reflected in the German office market – especially in the demand for office space in central and urban locations. Shortages in new-builds and the reduction of office space per employee define the increase in rent. The cyclical lag of project developments and the reduction of classical, monofunctional office properties launches beginning of a phase of mixed-use property in CBD locations – investors see many opportunities here. This trend is also visible at B- and C-locations.



Prime rent:
The top rent represents the median of the uppermost price segment, with a market share of 3% of the total letting take-up (excluding owner-occupiers), during the last 12 months.

Prime gross yield:
The prime gross initial yield is the simple comparison of the contractual rent with the acquisition price excluding purchaser's costs. The prime gross initial yield corresponds to the multiplier normally used in the market.

2018	Ø prime rent	Δ 2017/2018	Ø prime gross yield	Δ 2017/2018
A-location	29.37€/sq m	+3.05%	3.30%	-37Bp
B-location	14.93€/sq m	+2.40%	5.33%	-13Bp
C-location	12.71€/sq m	+1.60%	6.24%	-10Bp
D-location	10.31€/sq m	+0.58%	6.98%	-4Bp

* bp = basis point

As of 1st quarter 2018
Contact: research@catella.de
Source: Catella Research 2018

...from page 30

to strong take-up in Munich (+52% y-o-y) and Düsseldorf (+16% y-o-y). In Berlin (-14% y-o-y), Frankfurt (-12% y-o-y) and Hamburg (-4% y-o-y) take-up slowed in the second quarter.

Central and Eastern Europe also recorded a very strong second quarter (+33% y-o-y), led by a significant increase in activity in Budapest (+81% y-o-y), Moscow (+52% y-o-y) and Warsaw (+17% y-o-y). Other notable performances included Stockholm (+38% y-o-y) and Milan (+27% y-o-y). As demand for office space continues to strengthen across Europe, JLL has increased its full-year take-up forecast for 2018 to around 13.2m sq m – below 2017's record result but still 18% above the 10-year average.

Vacancy rates are falling

European office vacancy decreased by 30 bps to 6.7% in the second quarter, the lowest level since 2002, according to JLL, with strong leasing activity offsetting development completions in most cities. Across Europe, 19 of 24 Index markets recorded a decline in vacancy in the second quarter. In four markets, vacancy remained stable and one – Dublin - saw an increase (+140bps to 8.5%). The largest falls were recorded in Moscow (-110 bps to 12%), Prague (-100 bps to 6.2%) and Utrecht (-90 bps to 6.9%).

Office completions picked up significantly in the second quarter, up 77% from the first quarter to 1.1m sqm in Europe. Nonetheless, that marks a 9% decrease on the 10-year average in the second quarter. In total, Munich, Paris and London account for 40% of the total 2H pipeline this year. Still, completions in 2018 and 2019 are unlikely to address the supply shortages in many European office markets.

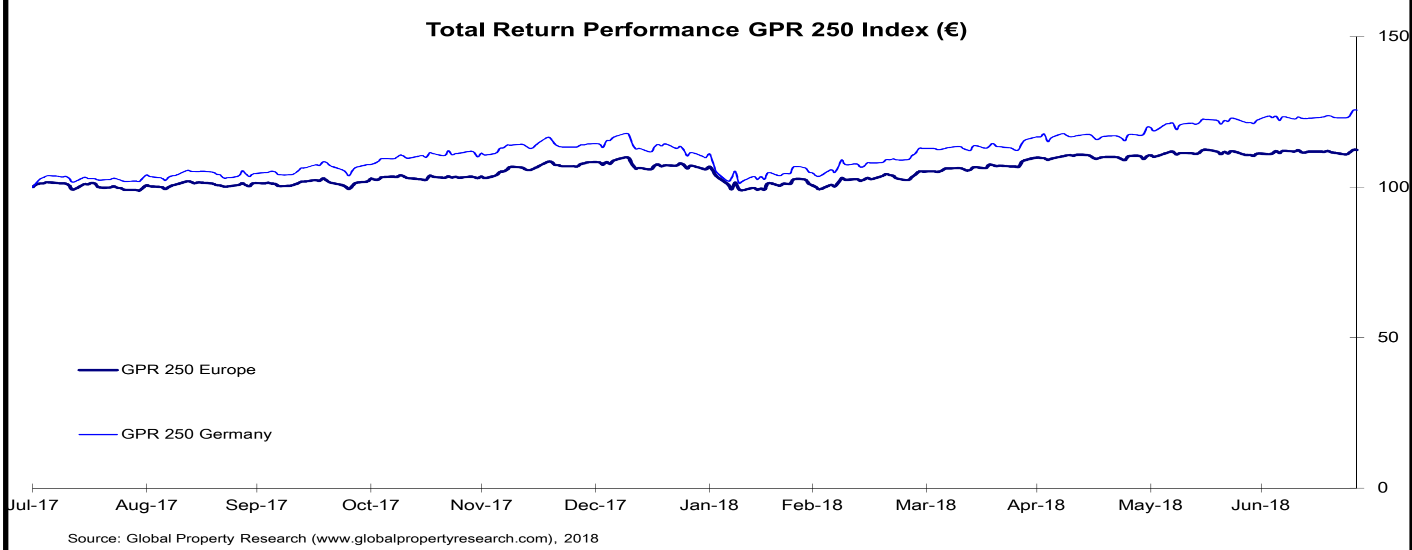
Germany/Financing

Corestate subsidiary HFS exceeds mezzanine fund volume mark of €1.2bn

Helvetic Financial Services (HFS), a wholly-owned subsidiary of **Corestate Capital Holding**, has exceeded the €1.2bn fund volume mark for the first time, it announced this month.

The Wollerau, Switzerland-based mezzanine finance provider is currently financing around 60 projects with a combined volume of €7bn, of which almost 80% are residential.

'Over the past 12 months alone, under the umbrella of Corestate, we are proud to have raised the fund volume by well over €150m,' said **Tim Schymik**, COO of HFS. For **Dr. Michael Bütter**, (*pictured, left*), CEO of Corestate, HFS represents 'a great example for the effective integration and enhancement of an already successful business model in the Corestate Group'. 'HFS provides a considerable contribu-



Graph of Total Return Performance of Europe and Germany in Euro currency over the past twelve months
Charts courtesy of GPR Global Property Research

tion to the group's total earnings, without us taking any project development risks of our own,' he said.

Corestate acquired HFS in July last year for an undisclosed sum. HFS offers subordinated capital for urgently needed residential development in German metropolitan areas. Around 60% of the projects it finances are in Germany's 'Big 7'. Corestate's real estate AUM rose by 3.7% (or €600m) q-on-q to €16.8b at the end of the first quarter this year.

DIC Asset launches €400m Office Balance V fund

Other asset managers have also been busy this month. Frankfurt-based **DIC Asset** has just launched its seventh open-ended special alternative investment fund (AIF). The new fund, **DIC Office Balance V**, will invest in commercial real estate in German metro regions on behalf of institutional investors, thereby continuing the strategy of former Office Balance funds in the series. The target investment volume is between €350m and €400m.

The start-up portfolio comprises two buildings in Munich and Hamburg with a combined value of €130m, which were added to the fund at the end of last month using a corresponding amount of equity capital. The annual target return is expected to be between 4% and 4.5% annually.

'Demand for office real estate remains very high in cities like Hamburg and Munich,' said **Sonja Wärntges**, CEO of DIC Asset. 'The high-end start-up portfolio of two assets, which we secured for the fund as early as 2017, permits us to ensure stable rental demand and continuous rent revenues for our investors, and we are convinced that DIC Office Balance V will generate permanently sound distribution yields,' she added.

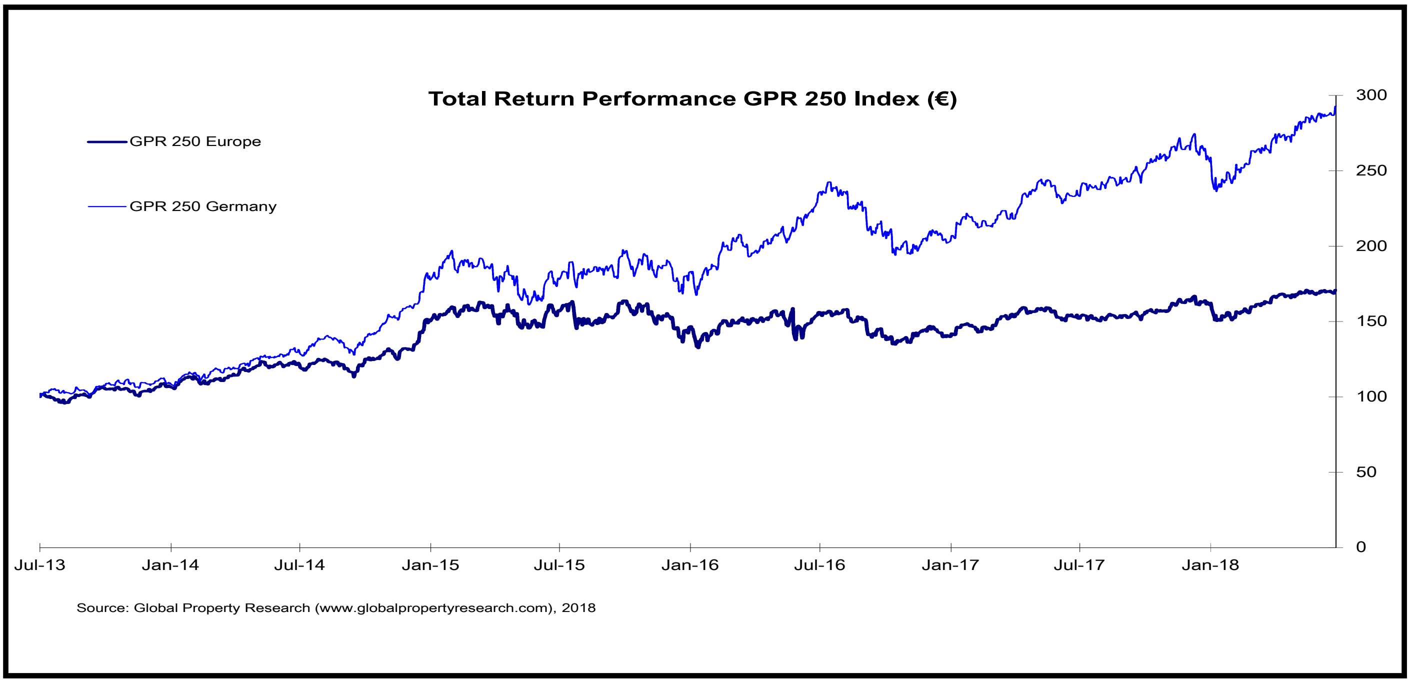
DIC Asset has been included in the **SDAX** segment of the **Frankfurt Stock Exchange** since June 2006.

Germany/Developments

Large-scale site in Bremen with illustrious history

We occasionally feature potential projects or sites for sale in Germany in the pages of REFIRE that strike us as being unusual or in some way not quite run-of-the-mill developments. One such site is currently on the market in Bremen, which might appeal to developers looking for a large-scale commercial development for a factory, a distribution centre, light industrial plus warehousing, or a combination of any of these.

The site has about 346 acres (or 140 hectares), with direct waterfront access for maritime transport. It has a long and chequered history of manufacturing, shipping and exporting, with a traditional pool of skilled workers in the neighbouring vicinity as a result of the region's specific industrial legacy. All told, with its buildings and assembly areas along with the large outside space, the areal amounts to a



Graph of the Total Teturn Performance of Europe and Germany over the past five years
Charts courtesy of GPR Global Property Research

good 38,000 sqm.

The Lemwerder site with many of its buildings was originally founded in 1934 as **Weser Flugzeugbau Gmbh**, and employed 7,000 workers building aircraft for the German air force.

After the war, American fighter planes (F85) were manufactured on this location, with components being delivered from the US by ship. The **Noratlas**, the predecessor model of the **Transall**, was also manufactured in Lemwerder. Following a merger with **Bremer Focke-Wulf-GmbH** in 1964, the company went by the name of **Vereinigte Flugtechnische Werke GmbH (VFW)** and built the VFW 614 passenger aircraft.

In 1981, WFW merged together with the **Messerschmitt-Bölkow-Blohm** consortium, later known as **MBB-Erno**. In 1988, MBB-Erno employed 40,000 people across 18 sites and was ranked third place among European aviation and space industry companies.

In the 1990s, **DASA** manufactured on

the site, as well as **EADS** until 2010. Most recently, **Carbon Rotec GmbH & Co. KG** manufactured rotor blades here for the wind power industry.

According to **Peter Kragler**, of **Kragler Immobilien** in Augsburg which has been mandated to reposition and sell the site, "The area, that has existed for more than 80 years, offers manifold opportunities for use through its infrastructure features, with its runway and connection to the open seas. In addition, skilled workers that other companies are desperately seeking are available on location due to the history."

"The area has been convincing for more than a century thanks to its location in the vicinity of Bremen and Hamburg and its access to the North Sea. A current **HWWI** study puts Bremen among the Top 30 largest German cities in terms of its future prospects. Companies in the aviation and space, metal and mechanical engineering industries, logistics providers and speciality shipbuilding dockyards have settled in the environs.

"Additionally, at the beginning of July, the Bremen-based **Gustav Zech Stiftung** also bought a nearly 20 acre piece of land in the direct vicinity that was recently owned by Carbon Rotec GmbH & Co. KG," says Kragler.

The current owner of the 1.4m sqm piece of land is **SGL/A&R-Immobiliengesellschaft**, which is, in turn, owned by the **Lemwerderaner Werft Abeking und Rasmussen (A&R)** and the **SGL Group**.

SUBSCRIPTION & REGISTRATION FORM

Real Estate Finance Intelligence Report Europe (REFIRE) is a-monthly English-language report providing detailed information and analysis on continental European real estate finance. Each issue contains vital information about the latest deals done in the major European markets, and delivers insights into the significant developments in this hugely dynamic field.

Our readers are global investors in real estate, asset managers, REITs and other real estate investing vehicles, lawyers, private investors, public sector authorities – in short, anybody who is interested in staying up-to-date with and learning more about real estate finance in continental Europe.

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