REFIRE
Real Estate Finance Intelligence Report Europe

Volume 11 Issue 199
March 11th, 2021

New alliance calling for six-year nationwide rent freeze

Despite the uncertainty about the legitimacy of the Berliner Mietendeckel, which has capped residential rents for the next five years, forces across Germany are marshalling to impose a similar rent freeze on properties in the country's bigger cities along the lines of the Berlin model.

Grand coalition partners, the left-of-centre **SPD** have clarified their demands in the run-up to this year's federal elections. They want a further tightening of the *Mietpreisbremse*, or rent brake, that limits rent increases in German cities where rental demand is high. Furthermore, they demand 100,000 more social housing units be built annually, and an ending of the "share-deal" loophole, whereby corporate entities can avoid the *Grunderwerbsteuer*, or property transfer tax, which individuals cannot avoid paying when buying property. Depending on federal state, this can be as high as 6.5% - an insurmountable additional cost on purchasing property for many people.

In parallel with the SPD's brushing-down of its new housing manifesto, across the country tenants and social associations are mobilising for a renewed offensive on the housing status quo, which is leading to heightened social tensions.

A new alliance of the **German Tenants' Association**, the **German Trade Union Federation DGB**, the **Joint Welfare Association (Paritätischer Wohlfahrtsverband)** and tenants' initiatives from major cities is demanding that politicians impose a "rent freeze for the residential housing stock for six years. The Berlin reasoning should apply across the country, they believe, while the COVID pandemic additionally means people need a "breathing space". Otherwise, Germany is threatened with considerable social upheaval, they warn.

Lukas Siebenkotten, president of the tenants' association **DMB**, justifies the push among reasons with the "failure" of the federal government to succeed with its widely-heralded "housing offensive". In fact, not nearly enough new affordable housing has been built, with hardly any social housing, he claims. The *Baukindergeld* (child subsidy) incentive was only helping those who already had enough, and didn't need it. As a result, rents continued to rise, by an average of 3% a year. Now only "drastic measures" like the rent freeze for six years could help, he said.

The new alliance's proposals envisage exceptions for new construction - as in Berlin - and for "fair landlords" whose rents are below 80% of the local comparable rent. These would then be permitted increases of 2% annually.

Tenant initiatives from Berlin (*"23 Houses say No"*), Munich (*"Ausspekuliert München"*) and *Cologne* ("Recht auf Stadt") report rent increases of 100% in ten years, investor speculation with conversion to condominium (and hence unavailable for rent), and rising eviction figures. **Ulrich Schneider**, veteran spokesman for the Gesamtverband Der Paritätische said the "entire body of social work" was being cruelly burdened by housing shortages and displacement of tenants through higher rents, with younger and older people and single parents being torn from their established social networks.

Florian Moritz of the DGB described the situation as a 'social emergency', and stressed how hard-fought-for wage improvements were being eaten up by rent increases, while many people in short-time work (Kurzarbeit) due to the pandemic are increasingly "afraid for their homes."

The new alliance partners agree that only a "lockdown" on rents could defuse social dangers, and they are demanding that the government tackle the problem head on before the end of this legislative period and new elections in the autumn. Meanwhile, major public protest demonstrations are being planned - and will take to the streets once the lockdown is lifted.

Siebenkotten of the tenants association DMB has been garnering support at EU level for his

HIGHLIGHTS

Campaign to expropriate Berlin landlords enters second phase

The campaign in Berlin to drive a stake through the heart of large German residential landlords moved into its second phase last week, when the "Expropriate Deutsche Wohnen & Co." movement began collecting...

See page 2

Edmond de Rothschild raises initial €250m for debt fund

Edmond de Rothschild Real Estate Investment Management (REIM) has raised an initial €250m for its new European real estate debt strategy, focused on providing whole and mezzanine loans as well as preferred equity to investors in the major European markets.

See page 6

Healthcare real estate delivers record revenue despite pandemic

Allianz Real Estate, part of giant insurer Allianz Group has grown its European loan portfolio to €10.6 billion at year-end 2020, an increase of about 15% year-on-year, said the company.

See page 21

Frankfurt top German city for economic potential - study-

German data platform Quis has published a new study analysing and ranking the most populous 400 Germany cities and districts based on their future economic potential, and hence - hopefully - should be a good indicator of likely buoyant real estate markets.

See page 26

"The illusion of lower rents, as granted to tenants in pre-2014 properties, may turn out to be just that - an illusion - should Germany's Constitutional Court overturn the Berlin rental freeze later this year"

organisation's goals of a nationwide rent freeze and better protection for tenants. He says it's "high-time for a supranational initiative to tackle the shortage of affordable housing." The **European Parliament** is indeed looking at ways of enforcing by law the provision of affordable housing in its member states.

"Affordable", as defined by the EU, is where the rental burden is below 40% of the household income. A quarter of European tenants who are paying a market rent are already exceeding this level in their monthly outgoings, while average rents were rising remorselessly.

Another factor helping to push up rents is the steady growth of short-term accomodation such as **Airbnb**, which is successively removing available rental properties from the local market and fuelling price rises, as well as lowering the quality of local life. With firms such as Airbnb in its crosshairs, the EU is preparing to legislate for a 'more restrictive framework for temporary rentals'.

Siebenkotten of the DMB said he was expecting first concrete proposals at the upcoming **EU Summit** meeting in May, followed by the **EU Housing Minister's conference** in October this year.

In Berlin, where the city has now been living for a year with the '*Mietendeckel*' or rent freeze, the effects are becoming more visible by the day. In the absence of a comprehensive strategy of new building by the ruling red-red-green **Senate**, the economic inevitability of the rent freeze has been playing out - a reduction of 70% of apartments offered for rent, widespread postponement of maintenance and renovation works by landlords, and a heightened willingness of landlords to sell their apartments to other owner-occupiers, thus removing lettable housing stock. The illusion of lower rents, as granted to tenants in pre-2014 properties, may turn out to be just that - an illusion - should Germany's **Constitutional Court** overturn the Berlin rental freeze later this year, compelling beneficiaries to repay the rent reductions withheld since the measure was introduced. Chaos looms, and a feeding frenzy for the city's lawyers, should that happen.

Back in German national politics, both the **Greens** and the hard-left **Die Linke** are also raising the stakes in their demands for more tenant protection, particularly in respect of landlord termination of their leases. The Greens want new protective measures for vulnerable tenants in maintaining their right to stay even if the landlord makes a (legitimate) claim that the apartment is needed for a family member, while Die Linke want such lifelong protection for all over-70s.

Landlords and owners associations are naturally doing all they can to counter these measures and are likewise launching lobby initiatives to prevent politicians 'selling them out' before the upcoming elections. The issue of housing will be very much to the fore in the upcoming election campaigning.

GERMANY/POLITICS

Campaign to expropriate large Berlin landlords enters second phase

The campaign in Berlin to drive a stake through the heart of large German residential landlords moved into its second phase last week, when the "**Expropriate Deutsche Wohnen & Co.**" movement began collecting signatures in its petition to cut large housing owners down to size.

The goal is to expropriate the holdings of landlords owning and managing more than 3,000 apartments in the city in return for compensation, and transfer the apartments into common ownership. At least 12 companies fall into this category, but **Deutsche Wohnen**, as the second-largest housing company in Germany and the owner of more than 120,000 apartments in its stronghold of Berlin, is the prime and most visible target of the protesters' ire.

The initiative requires the support and signatures of 170,000 Berliners, or at least 7% of local inhabitants who are eligible to vote in Berlin state election - which effectively means German citizens registered in Berlin. The activists have until June 25th to collect enough signatures to demand a referendum, which would then be added to the ballot on September 26th this year, when both Berlin state elections and the German national elections take place.

In the first phase of the campaign last year, the initiative did manage to gather the required 77,000 signatures to get their campaign ball rolling, with Berlin's **Interior Ministry** validating the legitimacy of the petition, after months of deliberation.

"This poll demonstrates clearly that Berliners are against ideology and class warfare, but ARE in favour of a fair deal in a well-regulated market."

Kai Wegner, CDU

The highly controversial campaign envisages expropriating - and then compensating the owners for - some 230,000 apartment units. However, the campaign puts the cost of compensation at somewhere below €13bn, while the Senate estimates compensation costs at well more than double that, at €29bn.

Of the red-red-green ruling coalition in Berlin, only the hard-left **Die Linke** party are throwing their weight behind the campaign. Their three cabinet ministers in the Berlin government will be prominently signing the petition, they say. The left-of-centre coalition partner **SPD** rejects the move totally, while the Greens have held back from endorsing what it sees as a move too radical for its taste.

Nonetheless, the **Greens** have described the petition as a "wake-up call to politicians to enforce the guiding principle of 'property comes with obligations' as laid down in the constitution. While we support the goals of the petition, we are critical of the general quantitative hurdles - such as the expropriation proposed by the initiative for a certain number of apartments", according to party leader **Werner Graf**.

On the opposition benches, the **CDU** recently presented an opinion poll which showed that 51% of Berliners are against the expropriation move, while 36% were in favour, 11% were unsure and 2% gave no response. This demonstrated clearly, said CDU leader **Kai Wegner**, that Berliners were against ideology and class warfare, but DID want a fair deal in a well-regulated market.

The opposition **FDP** is against the move, on the grounds that it doesn't lead to the building of a single new dwelling to help ease the affordable housing shortage in the city. Likewise, the **Alternative für Deutschland (AfD)** calls the movement "economic madness" and the debt burden the city would have to take on to com-

Continues on page 6

Charles Kingston, Editor

Germany in 2040? Without tackling essential reforms right NOW, it'll be downhill from here

It's easy to accuse Germany of being a nation of worrywarts and pessimists. The truth is that no country in Europe (bar Spain) shows a greater tendency among its citizens to have trust in their own personal strengths and future, while being simultaneously convinced that their society is going to hell in a handcart.

Dr. Daniel Stelten is a well-known German economist and writer, whose book "*Ein Traum von einem Land - Deutschland 2040*" we are currently reading. It's a gripping and highly-recommended read, which takes a hard, sober look at how Germany has been coasting on the fruits of earlier successes, while urging the radical changes now needed if Germany is to remain a decent, peaceful, and prosperous society by 2040.

Central to Dr. Stelten's thesis – being painfully borne out in everyday reality - is that Germany's political leaders have too tenuous a grasp on real-life economics as to be fit for purpose. Less than a third of the current crop of MPs in the Bundestag have ever - EVER - had any job in the free market economy. They, along with a shockingly high percentage of the German public at large, often have a truly sub-standard grasp of the basics of economics, he asserts. We agree.

This might sound strange, given Germany's well-deserved reputation as an economic powerhouse. Yet its's true that many intelligent people are beginning to feel that things are going wrong, that the country is standing still, that the pronouncements from government are all about issues that are not really bringing Germany forward. It is not helped by the shame being felt about the botched COVID-19 app testing and the vaccine distribution debacle. Falling far behind countries with nothing like Germany's organisational reputation is now proving embarrassing.

Private companies, including housing giant Vonovia, are impatiently looking to sidetrack the government and vaccinate their own staff. The state's effort to roll out the vaccination drive on schedule, across the country and the generations, may well be in even further disarray by the summer.

Vonovia's CEO Rolf Buch has warned that the political volume surrounding housing policy will be even louder this summer, in the run-up to national elections in September.

As the pandemic hopefully ebbs, the political parties are all jostling for position, with housing moving centre stage as THE election issue. With Berlin's drive to expropriate big residential property owners gathering pace, Buch admits to being worried at the extent to which all the political parties are responding populistically to the growing danger of widespread Mietendeckel-led infection.

Housing, along with Energy, is one of the big themes in Dr. Stelten's book, which provides countless practical solutions as to what must be done to help Germany avert its looming downfall. Inequality is now higher in Germany than in any other European economy, he points out – with 10% of the population owning 67% of the wealth, and the top 1% owning 35% - a staggering figure for a western democracy.

Still, the position of the top 10% is comparable with that in France and Italy. Where it differs is in what the bottom half of the population can claim as assets - €12,000 in Germany, as against €28,000 in France and €42,000 in Italy. The ratio in France and Italy of private wealth to GDP is five, compared to less than four in Germany, a deficit of more than €40,000 per head.

This striking difference largely has to do with the German preference for renting, rather than owning property, which over time leads to an ever-widening gulf between owners and renters. The share of homeowners among the poorest fifth of the population in Germany is 16%, compared to 51% in Italy and 63% in poor embattled Greece. The effect on individual personal wealth over the course of a lifetime is colossal.

This summer, the politicians will be outbidding each other in their promises for housing while bleating about eliminating inequality. None of it is likely to raise the rate of home ownership, which has fallen even further over the last three years. Dependent on the outcome of the Constitutional Court on the legitimacy of Berlin's *Mietendeckel*, we will probably be faced with another wall of supposedly tenant-friendly measures.

There will be more *Mietpreisbremse*, more *Umwandlungsverbot*, the *Grunderwerbsteuer*, the new *Grundsteuer*, the attempt to limit the building of single-family homes – a veritable array of well-meaning but misguided obstacles that make the realisation of home-ownership less and less likely in the near future.

This can only lead to more addiction to dependency on the state to protect citizens from the robber barons, and the gradual impoverishment of the middle classes, while the power of politicians can only increase.

"Less than a third of current MPs in the Bundestag have ever - EVER - worked in the free market economy"

Germany has seen this before - higher taxes on ownership and inheritance, and even a return of the dreaded *Hauszinssteuer* of the Weimar Republic, or the 'special' *Lastenausgleichgesetz* in the postwar period, imposed on 'priveliged' property owners to help level out inequalities in society.

Murmurings about the return of inflation are becoming audible, with fears of a mixture of post-corona consumer boom, de-globalisation, climate change expenditure and a pickup in corporate investment very much on the minds of central bank economists.

It's not back yet, and has barely played a role in consumer consciousness for nearly half of the lifespan of the euro. But when it does, Germany - with its traditional stock-market aversion and love of the risk-free little Sparbuch - will start to experience massive real wealth destruction. Dr. Stelten doesn't fully tell us what will happen then, but it won't be pretty.

The vast majority of investors (76%) see a "medium risk" that the "rent-related economic turbulence could increasingly spill over onto the rental side in 2021." 12% of respondents are expecting a 'high' risk of this happening.

From page 3

pensate the owners would be so heavy it would hamstring the city in any attempts to launch a new building programme to bridge the housing deficit.

EUROPE/DEBT FUNDS

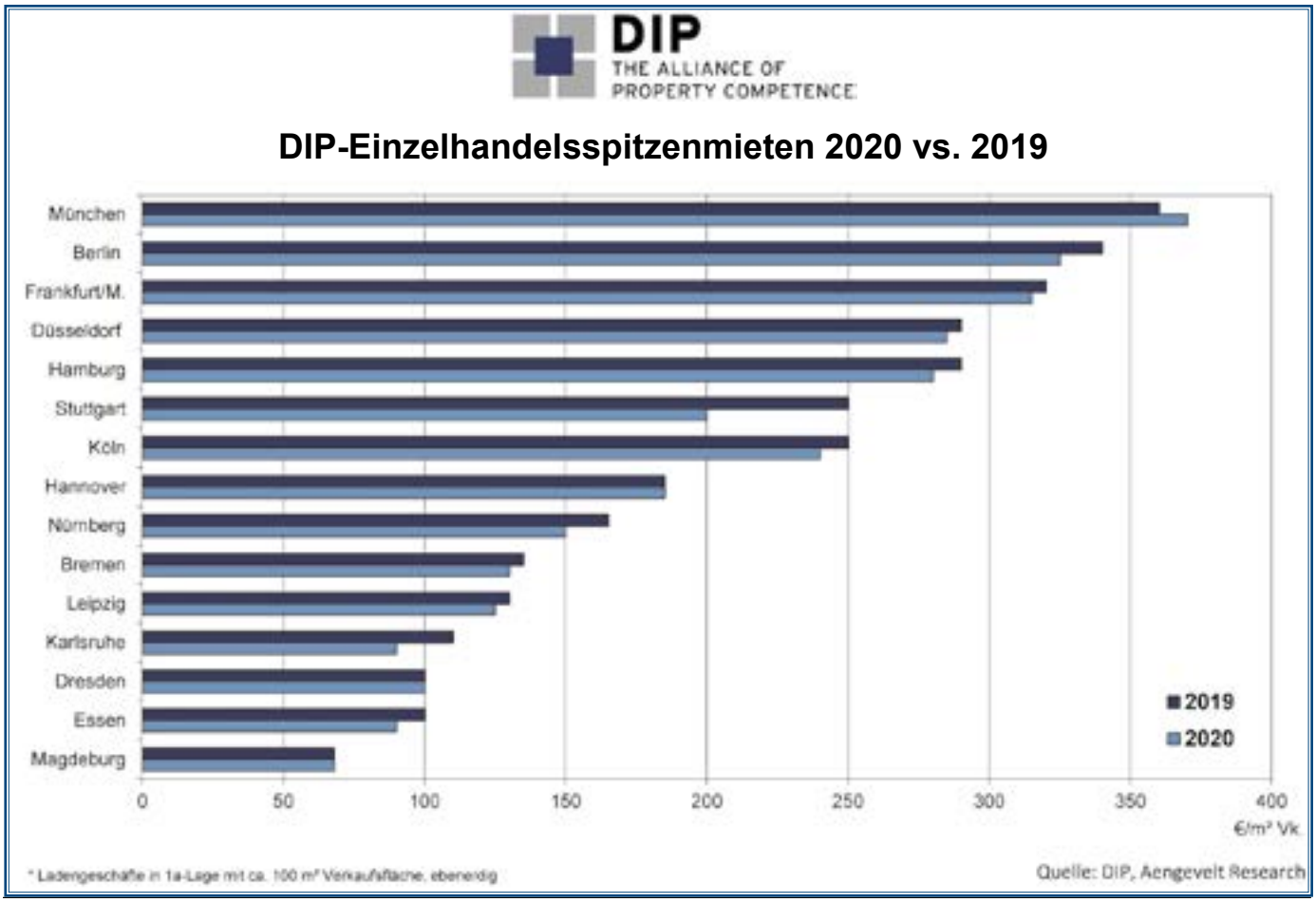
Edmond de Rothschild raises initial €250m for debt fund

Edmond de Rothschild Real Estate Investment Management (REIM) has raised an initial €250m for its new European real estate debt strategy, focused on providing whole and mezzanine loans as well as preferred equity to investors in the major European markets. The company is a recent new market entrant in the debt sector.

The capital has been raised from a mix of international investors for two debt vehicles, the **Edmond de Rothschild European Real Estate Debt Fund** and a dedicated fund with a German insurance group. The Real Estate Debt Fund, which is targeting an income distribution of 4%-5% a year and a net total return of about 8%, is aiming for an ideal size of €300m, while the separate account represents a mandate of €180m and a slightly lower yield.

The two debt vehicles have complementary risk-return profiles, with a slightly higher risk bias for the main fund, and may co-invest in the same loan transactions with target loan-to-value ratios of 70%– 80% on average, with potentially more on individual deals.

The lending strategies focus on all major and alternative property sectors in the European real estate markets, including Germany, France, Benelux, Nordics, Spain, Italy and the UK, leveraging off Edmond de Rothschild REIM's extensive network and local presence across Europe. This now includes a staff of 134 in nine office



"The case for private real estate debt has become even stronger given the huge lending opportunities at lower risk and higher margins. Credit is a good place to be when markets are going through a correction." Christophe Caspar, Edmond de Rothschild

across 7 countries, and manages more than €10bn on behalf of discretionary funds and third party mandates.

The Edmond de Rothschild Real Estate Debt platform offers a comprehensive and flexible range of debt products for borrowers across the capital stack including whole loans, mezzanine debt, select preferred equity, bridge and term facilities for existing properties and development projects.

Ralf Kind, Head of Real Estate Debt at Edmond de Rothschild REIM, said, "As an alternative lender we can provide flexible financing solutions for borrowers from a single source. With our dedicated and experienced international real estate debt team based in Frankfurt, we are not distracted by any legacy, pre Covid-19, loan book positions. We can, therefore, focus entirely on new deals".

He said the fund would look at all asset classes, and did not rule out retail or hotels, while adding the fund was likely to be very choosy in those sectors. The fund was currently looking at 20-25 loan applications with a volume of about €400m, and hoped to close its first deal in March, in tandem with a second closing of a further €30m.

His colleague **Christophe Caspar**, Global Head of Asset Management at Edmond de Rothschild Group, added: "We are now in a lenders' market. The case for private real estate debt has become even stronger given the huge lending opportunities at lower risk and higher margins. Credit is a good place to be when markets are going through a correction."

Edmond de Rothschild REIM is just one of several new market entrants into the debt space over the past year, as we have been reporting regularly in these pages. With the full ravaging of the market due to the COVID-19 pandemic yet to become apparent, they're all arriving at a time when the markets will be faced with steep challenges - particularly in the hospitality and retail sectors - with the exception of grocery-anchored retail.

Torsten Hollstein, CEO of Berlin-based **CR Investment Management**, who has considerable experience in turnarounds and distressed real estate, said in a recent interview in business daily *Börsen Zeitung*: "The number of insolvencies has been rising daily since the end of December, beginning of January. These are our tenants. Sooner or later we're really going to start to notice this in the real estate industry. Because risk is now being priced on a differentiated basis, in contrast to when we're in a boom phase."

Hollstein doesn't foresee too many problems with residential debt funds, which have financed up to 97% LTVs, at least for those focusing on 'average' properties, which would make up the bulk of debt funds' focus. The biggest danger as he sees it, and which we'll probably start to see in this quarter, are funds which were focused on hotels and retail, and financing the gap between the 65% and 90% level in the capital stack.

These tend to be Anglo-Saxon asset managers who have favoured the riskier segments - such as shopping centres - which provide the prospects of harvesting the higher yields which they've promised to their investors.

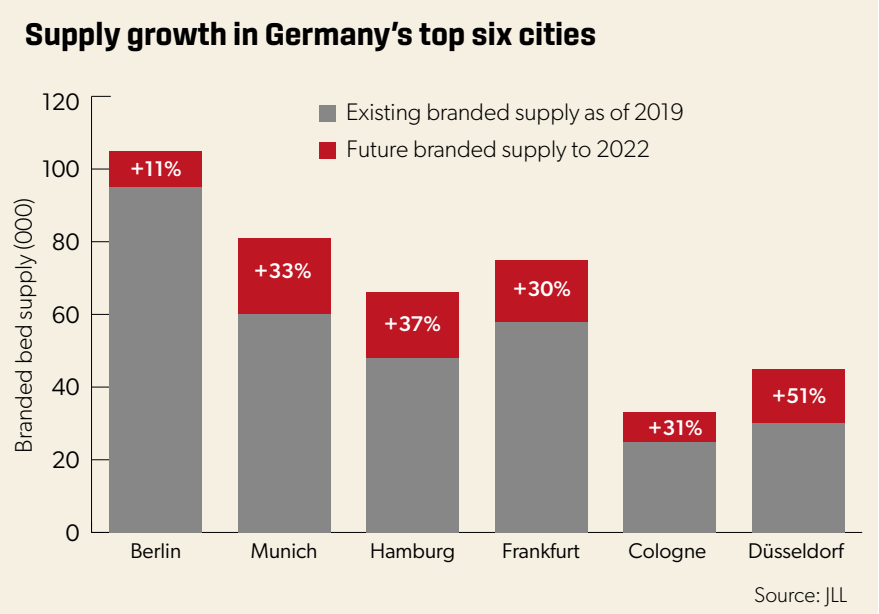
Torsten Hollstein, CEO, CR Investment Management

"Those hunting grounds envisage 15-20% returns including success elements such as exit fees, while German lenders favour less risky markets such as residential, which yield 6-8%, or up to 10% with success fees on riskier investments", said Hollstein. This is where individual insurers or pension funds invest three-digit million sums through a separate account, whereas with funds the investors are likely looking at assets priced between €20m and €50m.

Hollstein believes that the debt funds are going to have to be ready to review their strategies in light of trouble ahead, and the fact that many of them have yet to experience a crisis in their relatively short-lived existences. In particular, the tension between senior and subordinated lending will cause problems, he thinks.

"When a tenant or a borrower files for insolvency, then the debt fund turns to the provider of equity capital and generally falls in with that provider's alternative plan, which is normally some form of conversion or re-structuring. The debt fund wants to help the borrower to stay alive, and might even see some way of even earning further commissions or fees by his actions. By contrast, the bank will be looking to realise something from the property. This is where the debt funds will have to review their situation, since they too are financiers and not providers of equity capital. They're going to have to decide quickly, early on in the cycle, that to stabilise their value they're realistically going to have to sell."

Another man talking to the Börsen Zeitung about debt funds was **Manuel Köppel**, managing director of Stuttgart-based real estate asset manager **BF Capital**, part of **BF.direkt**. Köppel says that what's in demand are conservative, balanced loan strategies with a first-ranking component or capped loan-to-value ratios. While newer debt funds are currently investing in fund-of-funds, Köppel points out the difference between financing by banks and funds. Debt funds might often accept a higher loan-to-value ratio of up to 80% or 85% - in other words, by packing the first-rank financing and a mezzanine part into one tranche. BF Capital could set up such a Whole Loan for an individual mandate from a large German insurer or for several institutional investors in his **BF Real Estate Debt Fund** of between €10m and €30m. "Below €10m the heavy burden of loan documentation makes it not worth it," he says.



Where debt funds have more leeway is in terms of valuation. For example, an office building with a remaining useful life of one year, but which can then be converted for partly residential use, can be valued (i.e. higher) with that in mind. "That's how we can finance business plans and not just pure properties," said Köppel. "A bank can normally only base the valuation of the office building with the remaining useful life of one year, as it stands, because of the regulatory requirements."

This has led to lots of problems for hotels, for example, due to the Corona pandemic. But again, much depends on the phase of its development that an asset was in when it was financed. He cites a hotel project BF Capital accompanied in an early phase which could be re-purposed to a different use in good time.

Köppel also highlighted the increasing importance of ESG aspects on routine daily business, which is now impacting the entire real estate industry. "Our investors are exclusively institutional investors who, depending on their size, are to a greater or lesser degree affected by ESG regulation. We are confronted with these requirements because we work with institutional money. That is why we are dealing with it, but it's clear we're only at the beginning of a long road ahead."

Manuel Köppel, managing director, BF.Capital, Stuttgart

Not surprisingly, it became even more difficult for professional investors to lock in secure returns in 2020, where even liquid and stable asset classes such as offices in A-cities have seen risk and yield spreads widening enormously.

AUSTRIA/M&A

Bidding war brewing for control of Austria's CA Immo

A battle is brewing in Vienna as two suitors bid for the hand of local listed property company **CA Immo**. US investing giant and major shareholder **Starwood Capital**, which holds a 29.99% share in CA Immo has - as expected - made a full bid for the company, but local Austrian group **Aggregate Holding** looks almost certain to make a counter-bid any day, topping Starwood's offer, and valuing CA Immo at €3.6bn, according to local observers.

In line with regulations, Starwood made its formal offer which is valid until April 9th, pitching its offer price at €34.44 per share which is below Friday's (5th March) closing price of about €36.00, and which values CA Immo at €3.5bn. The Starwood offer is for all CA Immo's shares and the convertible bonds which it doesn't already own.

The key attraction for Starwood, led by **Barry Sternlicht**, is CA Immo's valuable holdings of office space and big land banks in the business districts of Berlin and other German cities, mainly Frankfurt and Munich. It first took an initial 26% stake in CA Immo in 2018 at €29.50 per share, raising it to 30% over the course of 2020.

The likewise Vienna-listed **S Immo**, which is the second largest shareholder (6%) in CA Immo behind Starwood, had already rejected the Starwood offer in January, as did fellow investor **Petrus Advisers** led by **Klaus Umek**, and another block around the smaller investor association **IVA**.

Aggregate Holding, the Luxembourg vehicle of Austrian investor **Guenther Walcher**, already has exposure to the German property market through its holding in listed **Adler Real Estate AG**, which itself maintains close links with Austrian businessman **Cevdet Caner**.

In anticipation of funding future acquisitions, Aggregate recently sold €500m in bonds. Aggregate is itself not trying to make a full takeover bid for CA Immo, instead being content with a minority stake in the business, it says. This may make its offer less attractive to investors, it is thought, as should Starwood not cede ground, it (Starwood) still controls so-called 'golden shares' that would still give it key control over the appointment of supervisory board members.

GERMANY/STUDY

Chasing the elusive 5% yield in challenging market conditions

We've grown used to reporting on the annual study carried out by researchers **Bulwiengesa** – with the traditional support of law firm **BEITEN BURKHARDT** – which attempts to pinpoint where investors should look to ensure a 5% yield on their investment. In the current circumstances, no easy task.

A big audience tuned in for this year's sixth annual running of the event, as always presented very succinctly by board member **Sven Carstensen** from Bulwiengesa in Berlin, and ably assisted by **Klaus Beine**, partner and notary at BEITEN BURKHARDT's Munich office. Carstensen gave us a preview of the forthcoming study, which will be published in April, and which covers the residential, office and retail segments of the German real estate industry.

Not surprisingly, it became even more difficult for professional investors to lock in secure returns in 2020, where even the traditionally liquid and stable asset classes such as offices in A-cities have seen risk and yield spreads widening enormously. Whereas in 2019 it was still possible to achieve an IRR of between 0.9% and 3.3% in the core sector – for stably leased properties in sustainably good locations – in 2020 the range fell from 0.0% to 2.8%.

A-cities suffered the biggest decline, while the B-cities held their own. While risks are increasing, purchase prices in 'core' areas remain high. Increasingly, finding and managing suitable properties requires a great deal of local knowledge and expertise.

As Sven Carstensen said, "Working from home doesn't mean the death of the classical office. But many investors are uncertain about how home office working will affect the future demand for office space. It is indeed foreseeable that companies will allow their employees to work from home more in the future than before the Corona crisis. However, a possible reduction in space will be offset by the need for more distance in the office. The slump in office employment growth feared by many has also failed to materialize so far."

While the rapid recent growth of office employment has indeed been losing momen-

The key attraction for Starwood, led by Barry Sternlicht, is CA Immo's valuable holdings of office space and big land banks in Berlin and other German cities, mainly Frankfurt and Munich. .

Continues on page 11

Sponsored statement

ESG Concerns Everyone – Even Property Developers!

While providers of property funds and institutional investors have long been preparing for the looming ESG regulation, many property developers still consider themselves exempt. It is a dangerous misconception, because property funds and institutional investors are major buyers of new-build properties. It is high time for property developers to get ready. But here is the thing: The actual regulation has yet to be finalised and many questions remain to be answered.

Francesco Fedele
CEO, BF.direkt AG

Prof. Dr. Steffen Sebastian
IREBS

The environmental, social and governance aspects of corporate conduct, or ESG for short, will probably be the dominant topic in the institutional real estate industry in 2021. In the wake of implementing the Paris Climate Accord, the EU will create a unified classification system for sustainable activities (the "taxonomy") and demand a high level of transparency on the market ("disclosure").

Principally speaking, the Disclosure Regulation and the Taxonomy Regulation represent financial market guidance and therefore do not directly concern property developers. This explains why most property developers have not quite arrived in the new world of ESG. Those who plan to keep putting properties on the market, though, will not be able to dodge the issue forever. It is of the utmost urgency therefore that property developer comprehend what institutional investors will soon be looking for.

Any real property completed on 01 January 2021 or thereafter will indefinitely be considered new-build for regulatory purposes and will have to meet the corresponding requirements. Unless a property complies with the EU taxonomy, it will permanently be disqualified from the spectrum of investments that are eligible for institutional investors who seek to adhere to EU sustainability criteria.

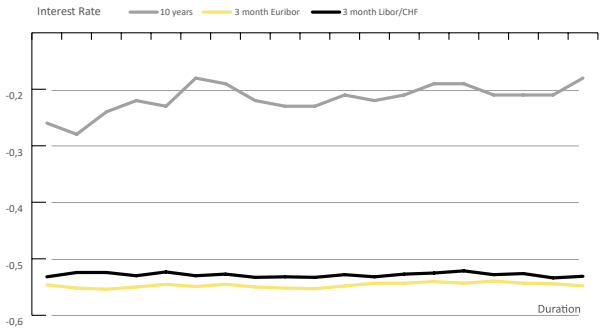
That being said, the criteria for the real estate sector remain incomplete; indeed, the EU is falling short of its own road map, which appears to have been a bit ambitious. The actual classification is not to be defined until 2022 or 2023. Only drafts have been tabled so far. For the time being, it thus remains quite impossible to compile qualified environmental or full ESG audits in the required form. The result will be an interim cacophony of different national standards, a scenario that the EU actually sought to avoid at all costs. Nonetheless, institutional investors have started requesting a plethora of details from property sellers that, as often as not, depend on the reporting standards or benchmark systems a given company uses. And there are plenty of those, of course. This means that property developers will have to become every bit as transparent as property funds and insurance companies.

Sustainability covers not just environmental impact but also and especially governance or, differently put, the way a company conducts its business. Naturally, companies should have zero tolerance for unreported employment, pay minimum wages at the very least, and respect many other employee rights. The difference going forward is that they will have to provide evidence they did so. In practice, this will necessitate comprehensive documentation. Since these standards will have to be upheld by sub-contractors and supplier, too, the effort may tie up considerable in-house resources for a given property developer. Equally obvious is that compliance with the regulation will have to be prepared long before the start of construction in order to ensure conformity with EU standards.

Outlook

At the moment, the EU is lagging behind its own ambitious schedule, and it remains anybody's guess how compliance with the EU Taxonomy Regulation is supposed to be ensured. But property developers planning to sell to institutional investors should seek legal counsel early on in order to meet the prospective requirements on the investor side to the extent possible. Still, steering completely clear of risks will be quite impossible, given the hazy legal situation. This makes it all the more sensible to keep comparing notes with potential investors—and intensely so—before and during the construction phase. Doing so is particularly advisable in the case of forward deals.

Market development January 2021



Food-oriented retail space, less dependent on the economy and e-commerce, remains much in demand. Retail parks with a high proportion of 'essential' needs offerings are benefiting, and these assets remain in demand. The yield range is 2.4% to 3.3% p.a.

From page 9

tum, Bulwiengesa still expects a growth of 1.0% per annum as early as later on this year.

The emerging legal ramifications of home office or mobile working mean that the phenomenon is not yet mature enough to seriously threaten to replace office working. BEITEN BURKHARDT'S Beine commented: "Legislative measures have raised question marks in the real estate sector not only since the beginning of the pandemic. The so-called 'right' to home office does not even cover the real issues regarding the workplace, which are regulated, for example, in the **German Civil Code**, the **Labor Protection Act** and other laws, or even data security implications."

The investment market for shopping centres is currently moribund, with only isolated assets being traded, and with the demand outlook cloudy. Buyers are having to factor in high expenditure for the conversion of (parts of) areas. Investors are uncertain about the extent to which future rent adjustments will fail or stores will close. With these risks priced in, the yield spread has widened significantly, from between 3.2% and 3.9% in 2019 to between 2.5% and 4.3% in 2020 for core properties.

Food-oriented retail space, less dependent on the economy and e-commerce, remains much in demand. Retail parks with a high proportion of 'essential' needs offerings are benefiting, and these assets remain in demand. The yield range is 2.4% to 3.3% p.a. The comparatively low margin reflects the perceived safety of the asset class.

The safest asset class is residential housing, where the least has changed since the previous year. The Bulwiengesa researchers forecast purchase prices showing lower growth between now and 2024 than in previous years, with project developments in expensive city locations becoming fewer, with prices having reached a high level in absolute terms. Still, despite the uncertain economic environment with more short-time work (*Kurzarbeit*) and the unemployment figures creeping up, housing demand remains strong.

In many cities, supply is still low and new building plots are scarce and expensive. The achievable yields remain at a low level, between 1.5% and 2.5% for residential properties in A-cities. The potential for price increases is increasingly limited by legal regulation. Carstensen said, "With a base value of 1.94%, there is still value protection for residential real estate but it's getting tougher. At the same time, market risks remain very manageable - residential continues to be a very safe asset class."

Beine, talking about the value of the research, said: "For us as a commercial law firm, the study is always valuable because we can see how political influence affects the market – right now, the keywords are rent brakes, rent caps, preservation statutes, conversion bans or building land mobilization laws." In other words, that elusive 5% will have to be sought elsewhere in the real estate domain – and as the full study will show, that's likely to be in certain industrial/logistical sub-sectors, or even offices in the least liquid markets – with commensurate risk, and for investors with strong nerves.

Sven Carstensen, Bulwiengesa

Continues on page 13

From page 11

GERMANY/INVESTMENT

Yields on office, industrial, to head further down despite bond yield rise

The German mainstream media are all running scare stories about how inflation is on its way back, and prices across the country are galloping upwards. The **Bundesbank** boss **Jens Weidmann** issued a statement a few weeks ago that with the upward pressure on prices the central bank might have to tighten the money supply and shift the direction of monetary policy. Inflation in Germany is expected to hit 3% this year, possibly even 3.5%, albeit in what is likely to be a temporary distortion, fuelled by COVID.

Still, it's all led to more scare stories; tied in with stock markets coming off their recent peaks, Germany has joined the rest of the world in pushing up government bond yields over the past month, and although they've pulled back a little bit, they (along with Italian bond yields) are up about 20bps since the start of the year. Italian bond yields are up 10bps. Other alternative assets, such as corporate bonds and equity dividends, have also seen upwards shifts in yields.

Over at **Capital Economics**, the smart analysts issued a note recently which crossed our desk saying that they still hold to their view that yields on office and industrial property will continue to edge downwards over the next couple of years, with no broad-based upward pressure on property yields until 2023 at the earliest. In other words, they believe that property yields will be largely unaffected by the rise in government and corporate bond yields in Europe.

Their argument is that the recent rises in bond yields are expected to be temporary, and have been driven by these well-touted fears of rising inflation, rather than really expecting a more hawkish **ECB** approach. And since recent increases in inflation have been driven by temporary factors, while economic activity remains weak, this shift is not expected to be permanent, they say. Added to this, ECB policymakers have expressed concerns about the recent rise in bond yields and would likely step up their asset purchases if the sell-off in bond markets were to resume.

In any event, they add, bond yields remain low by historic standards, so that property remains attractive to investors. Indeed, even with the rise in bond yields, they say valuations continue to suggest that most office markets are still fairly or undervalued, with some exceptions in Europe such as Prague, Athens, Oslo and Zurich.

Of these, Oslo and Prague are markets where they think the respective central banks will start tightening interest rates in the second half of this year, keeping upward pressure on bond and property yields, and therefore property valuations are unlikely to improve.

Although they concede that bond yields may now start trending up sustainably from next year, earlier than they'd projected in a recent note, The Capital Economics researchers say their prime office yield model does not suggest that any significant changes are needed to their forecasts as a result. They're sticking their neck out and saying that the rise in bond yields will come alongside an improvement in economic activity and expected rental growth, which should provide offsetting support to property yields.

In fact, they say, model estimates would be consistent with only small upwards moves in offices yields of around 5-10bps, but not until later in their forecast horizon. So, office and industrial yields will continue downwards in a small way this year and next, before stabilising and gradually edging back up after 2023. *So, now you know.*

Jens Weidmann, Bundesbank

GERMANY/LISTED COMPANIES

Deutsche Konsum REIT-AG prepares for Johannesburg secondary listing

Following up on an announcement it made a year ago, **Deutsche Konsum REIT-AG (DKR)** – focused on grocery-anchored retail in northern Germany – expects to launch its secondary listing on the **Johannesburg Stock Exchange** on 8th March.

The move is designed to attract additional institutional investors, while at the same time giving South African investors unlimited access

Continues on page 15

Based on the experience of other REITs with South African secondary listings, Elgeti believes that South African investors could end up holding between 10% and 20% of DKR's share capital within a few years.

From page 13

to direct investment in a foreign country on the JSE – not normally possible under existing laws which restrict South African investments in foreign companies. The listing should also improve liquidity in DKR's stock, and could provide another future source of capital raising for the German company.

UK, Eastern Europe and even Asian companies have long sought a listing in South Africa, but DKR's move represents the first time a German company has listed on the JSE. However, **Sirius Real Estate**, the owner and manager of branded business parks across Germany, whom we feature regularly in these pages, has also got a listing on the JSE, although its other listing is on the main board of the London Stock Exchange – despite all of its business activities being in Germany.

DKR has already taken its business model around South Africa's finance houses and said it received strong interest. It plans a three-day virtual road show just before commencement of trading on 8th March, it said.

DKR is headed by **Rolf Elgeti**, who has a stellar track record in German real estate investment and management at among others **TAG Immobilien**, since returning to Germany some years ago after an equally luminous career in finance in London, where he worked as an analyst at **UBS Warburg**, **Commerzbank** and as head of equities strategy at **ABN Amro**.

He said of the impending listing, "We are very pleased that the DKR shares are now the first German company to be traded in South Africa. We are convinced that this opens up a special opportunity for South African investors to invest in a German REIT with a focus on robust and non-cyclical local shopping properties with everyday tenants. At the same time, we believe that we can generate additional financial support in South Africa to continue to grow strongly and profitably in the future."

Although he stressed he was not normally a fan of second listings (typically in the USA) because of the divisive effect they can have on liquidity, Elgeti said that South Africa represented an exception, because it has an investor community with a strong affinity for real estate, such as pension funds and life insurance companies, but also has capital movement restrictions, which limit investors' international options.

Given that the JSE listing will take place without a capital placement right now, the additional demand and broadening of the shareholder base may prove beneficial to the share price, he said, while in the longer term the JSE could prove fruitful as a platform for further capital raising.

Based on the experience of other REITs with South African secondary listings, Elgeti believes that South African investors could end up holding between 10% and 20% of the share capital within a few years – or about one-quarter to one-half of the official free float of 40.6%. However, Elgeti claims that the actual free float is much higher, with a good 70% of the capital held by shareholders who have no strategic interests, he believes. Elgeti himself holds the remaining shares (28.6%) through his **Obotritia Capital** company, headquartered in Broderstorf, outside the northern German City of Rostock.

The company currently owns 172 retail properties which generate an annual rent of about €70m. As one of the few German REITs, it is exempt from corporation and trade tax, instead recycling dividends back to shareholders. With its rising share price the company has generated a total shareholder return (including dividends) of more than 170% over the past five years.

Rolf Elgeti, CEO, Deutsche Konsum REIT-AG

Continues on page 18

From page 15

Earlier in February the company posted figures for its first quarter, with rental income up 32% year-on-year to €16.2m. The key FFO figure rose 38% to €10.2m, or €0.29 per share. NAV per share is put at €11.34.

The performance was attributed to improved economies of scale and the growth in the company's portfolio, which in the quarter added a further 11 properties valued at €73m and with a rent roll of €6.9m. It also sold an asset in Berlin-Pankow which it bought two and a half years ago at an initial yield of 9.7% and which it now sold for 4.5%, booking a profit of €1.7m.

On December 31st the company had a balance sheet value of €831m before the latest acquisitions, and a lettable area of 917,000 sqm. The acquisition yield of the total portfolio is currently about 10.4%.

The company said it had experienced no significant rent deferrals or rent losses from its tenants as a result of the COVID-19 pandemic, with only a handful of individual cases in talks at the moment. The forecast of expected FFO for the full year 2020/21 remains at €42-€45m.

GERMANY/HEALTHCARE

Swiss Life swallows huge healthcare portfolio for new fund

Swiss Life Asset Managers in Germany recently bought a huge portfolio of healthcare properties for its new fund **Swiss Life ESG Health Care Deutschland V S.C.S**. in one of the largest transactions in recent years.

The portfolio, consisting of 27 properties across 11 of Germany's states, was sold by independent funds manager **Threestones Capital Management** of Luxembourg, likewise focused on European healthcare strategies.

According to Swiss Life's head of healthcare transactions **Nikolai Schmidt**, "The opportunity to acquire this portfolio came at exactly the right time, as we have just launched our new Swiss Life ESG Health Care V fund. It is a rare opportunity to acquire a large portfolio of high-quality health care properties in Germany, and a great start for the new fund."

The ESG Health Care Deutschland V fund invests in the nursing home, assisted living and medical centre sectors, focusing on core and core+ properties, and continues Swiss

Nikolai Schmidt, head of healthcare, Swiss Life

TOP YIELDS AND MULTIPLIERS IN THE DIP LOCATIONS, AS OF 2020

	Office and retail buildings		Residential and multi-family		Self-service/specialised stores	
	Top yield (%)	Multiplier	Top yield (%)	Multiplier	Top yield (%)	Multiplier
Berlin	2.8	36	2.9	35	4.8	21
Bremen	4.4	23	4.2	24	5.6	18
Dresden	4.8	21	4.0	25	5.6	18
Düsseldorf	2.6	38	3.1	32	5.0	20
Essen	4.6	22	4.4	23	5.6	18
Frankfurt/Main	2.7	36.5	3.0	33	4.8	21
Hamburg	2.3	43	2.9	35	4.3	23
Hannover	3.9	26	3.9	26	5.1	19.5
Karisruhe	4.0	25	3.4	29	7.1	14
Cologne	3.1	32.5	3.1	32	4.7	21.5
Leipzig	3.9	26	3.3	30	5.6	18
Magdesburg	4.4	23	4.2	24	6.7	15
Munich	2.3	44	2.0	49	4.0	25
Nuremberg	3.5	28.5	3.6	28	6.5	15.5
Stuttgart	3.3	30	3.0	28	5.6	18
Average of the DIP locations	**3.5**	**28.6**	**3.4**	**32.6**	**5.4**	**18.6**

Source: DIP Deutsche Immobilien, Partner, Aengevelt Research

Swiss Life says this latest portfolio has a particularly advantageous geographic and operator diversification, with over 60% of its care facilities being operated by two of the three largest German operators in the care sector.

Life's 15-year involvement in healthcare funds for institutional clients. The fund is targeting a volume of €1bn and has already raised equity of €350m, with another €200m pending, said the company. By end-February it had already acquired €515m of assets. It has committed itself to full ESG transparency, along with further specific ecological and social criteria beyond formal ESC compliance. The fund is targeting a yield of 5%.

Swiss Life says this latest portfolio has a particularly advantageous geographic and operator diversification, with over 60% of its care facilities being operated by two of the three largest German operators in the care sector.

All the properties have a clear focus on full in-patient care. They are all of different ages and degrees of modernization, and hence different asset management requirements, said Swiss Life. Annual rental income amounts to about €18.4 million and is secured by the assets' well-established operators. The average remaining term of all leases is around 16 years.

Separately, private equity investor **Carlyle** is said to be preparing a sale of its healthcare clinic chain **Ameos**, for a price reported to be up to €1.3bn.

Founded in 2002, Ameos is based in Zürich and operates a chain of 96 acute clinics and psychiatric hospitals across Germany, Austria and Switzerland, employing 15,700 staff. Carlyle bought a majority stake in the company ten years ago, in which private equity group **Quadriga** and original founder **Axel Paeger** are also shareholders. Carlyle is also a major shareholder in the Bavarian healthcare chain **Schön-Klinik**. Ameos most recently generated an EBITDA of about €110m

Carlyle is said to have mandated **JP Morgan** and **Macquarie** to organize the structured bidding process, which based on typical valuations of a multiple of annual profits in the sector, could value the business at €1.3bn. An alternative, should the price prove too ambitious, pay itself a debt-financed special dividend, according to some observers. This might prove realistic, given the struggles of COVID-year 2020, when large numbers of beds were reserved for COVID patients and non-urgent operations were postponed, turnover was down and remains under pressure.

GERMANY/LEGISLATION

Pressure on politicians to cut deal on Grunderwerbsteuer before elections

We report regularly in these pages about the ongoing efforts of politicians to get to grips with reform of the *Grunderwerbsteuer*, or property transfer tax, payable on real estate acquisitions.

Once the domain of the federal government and set at 3.5%, the federal reforms of 2006 saw the sixteen individual Länder imposing their own rates, and invariably they have moved in only one direction – upwards - as regional governments desperately look for new sources of tax revenue.

The land transfer tax is now 6.5% in a number of German states (Saarland, Schleswig-Holstein, North Rhine-Westphalia and Brandenburg) after a succession of incremental increases. The tax is uniformly paid by private individuals. Institutional investors are generally able to avail of canny accounting solutions that allow them to buy property assets as share deals and avoid the tax almost completely.

Such efforts are particularly worthwhile for investments of €15m upwards, and buyers will now go to great lengths and expense to turn assets into companies and avail of the share deal exemption from the land transfer tax.

In a share deal, a property – often the only asset a company has – is sold off as shares. Typically, the buyer will hold 94.9% and the seller will keep 5.1% for a five-year period. However, ministers have recently been proposing that if a stakeholder holds more than 89.9%, it will become taxable. In addition, ministers have proposed that no stakeholder should hold more than 90%.

Two years ago at a conference in Berlin, the majority of regional finance ministers voted for tougher regulation, a ruling that finance ministers **Edith Sitzmann** (Baden-Württemberg), **Monika Heinold** (Schleswig-Holstein) und Bremen's finance senator **Karoline Linnert** heralded at the time as 'an important first move'. But since then nothing much has happened.

Speaking to REFIRE at the time, **Tobias Schneider**, a partner at law firm **CMS** in Stuttgart said, 'The Finance Ministry has said that

Continues on page 20

Attempts to reform the thorny issue of the *Grunderwerbsteuer* have been kicked around for years. Most recently the Finance Minister of Lower Saxony, Reinhold Hilbers (CDU) spoke out against any attempt to cobble through a compromise deal before federal elections in September, saying that his concern is that any agreement would be at the expense of corporations.

From page 19

share deals will become more difficult, with holding periods longer than the current five years, although we don't know what their timeline for this is. However, these changes will make share deals less attractive as an option. The advantage of a share deal today is that no transfer tax is payable. If the Finance Ministry brings in the proposed changes, the buyer will have to think carefully about the additional complexities.'

Ministers were also proposing that shares should be held for at least 10 years (and as long as 15 years) instead of five years today. 'Players in the market might not want to be bound for such a long time,' Schneider said. 'The reason for this is not so much the costs, but mainly for reasons of flexibility and limited investment periods.'

Attempts to reform the thorny issue of the *Grunderwerbsteuer* have been kicked around for years. Most recently the Finance Minister of Lower Saxony, **Reinhold Hilbers** (CDU) spoke out against any attempt to cobble through a compromise deal before federal elections in September, saying that his concern is that any agreement would be at the expense of corporations. His CDU party, along with sister Bavarian party CSU, are in principle open to reform, but won't countenance any threshold below 90%.

In Hilbers' view, the latest proposals envisage subjecting corporates to the same treatment as partnerships, for which there are a catalogue of legal exceptions – but which corporates would not be able to avail of. That's unfair, he says, saying "That's wrong and needs to be changed. If you're going to tax corporates, then you also have to grant them exemptions. My colleagues in Bavaria, North Rhine-Westphalia, Saxony, Saxony-Anhalt and Saarland see it the same way."

His view, shared with other party colleagues, is to instead abolish the *Grunderwerbsteuer*, which can often be a crippling additional cost for a family trying to buy a home. The government is trying to raise home ownership by granting building subsidies and (until end-March) offering *Baukindergeld* (a payment per child) to incentivize home-buying, but the up to 6.5% extra tax on purchase is a hurdle too high for many. It looks like the reform talks are set to go on and on.

GERMANY/OPPORTUNISTIC FUNDS

Peakside raises €160m at PREF IV first close

Pan-European investment manager **Peakside Capital Advisors** has already raised €160m in equity at the first close of the **Peakside Real Estate Fund IV (PREF IV)**, a closed-end fund which will be focused on picking up on cancelled deals and auctions arising out of the market disruption caused by the COVID-19 crisis.

Peakside said the Peakside Real Estate Fund IV's (PREF IV) first close was backed by institutional investors and family offices across Europe. The new fund's investors also include about 80% of the equity base of the predecessor fund which raised €200m in September 2018. The company said that returns on funds II and III had performed 'significantly above expectations'.

The main asset categories of interest for the new fund are logistics and light industrial properties, while the battered hotel and retail sectors may also throw up some compelling opportunities. At least one asset is currently in exclusivity, with further deals in the pipeline.

Overall, the Frankfurt-based Peakside plans to raise around €350m of equity for a total investment volume including debt of up to €900m for PREF IV.

The focus of the fund lies on German real estate investments impacted by pricing dislocations and opportunities with value-add potential within a price range of between €30m and €150m per investment, and is targeting a 15% annual IRR.

According to Peakside founding partner **Boris Schran**, "In the current environment, we are of course specifically looking at investments in the logistics and residential sectors. At the same time, we are expecting several opportunities coming out of market distortions in the wake of the Covid-19 pandemic, particularly in the retail and hotel sectors, and specifically for assets which lend themselves to conversion into office or residential use.

"Failed auctions or project developments with additional (re-)financing needs also offer attractive opportunities. Despite the increase of people working from home, we still believe in office as an asset class. Our pipeline is broad and filled accordingly."

"We are expecting several opportunities coming out of market distortions in the wake of the COVID-19 pandemic"

Boris Schran, Peakside

DIC Asset's logistics holdings prior to the takeover amounted to only about €50m, so the company is moving swiftly to deliver on its announcement last summer to boost its logistics holdings.

Schran said the company had fared well over the past year, given the circumstances, but had had to slow down on fundraising for PREF IV as the pandemic took hold. "Of course transaction and leasing processes have slowed down also for us. But at the same time, we experienced a strong resilience in our tenant base," he said. The rent collection rate across the assets, mainly offices and logistics properties, had stood up well at 97%, with two tenant falling into insolvency.

In January Peakside sold a commercial building in Berlin's Steglitz district, the last property from the so-called *Theodor* portfolio, from PREF III. Since then, another asset in Frankfurt has been divested, marking the fourth sale of the total of six investments in PREF III.

Peakside was founded ten years ago as a management buyout from **Bank of America Merrill Lynch**. It currently manages assets worth more than €1.4bn on behalf of its institutional investors, with a team of 30 operating out of five offices across Europe.

GERMANY/HEALTHCARE

Healthcare real estate delivers record revenue despite pandemic

The positive trend in healthcare property revenue continues unabated according to market figures for 2020 published by **BNP Paribas Real Estate**. The asset class generated almost €4 billion in revenue, 68% more than in 2019, and looks set to become increasingly sustainable.

The dynamic development in healthcare property investments during the first year of the pandemic reveals that investors are increasingly recognising the sustainability of this asset class. Remarkably, the ten-year revenue average was exceeded by around 130% in 2020. According to **Georg Ritgen** (*pictured, right)*, Director of National Healthcare Services at BNP Paribas Real Estate Germany, one reason for this is that demand for healthcare properties is less affected by market fluctuations. This increases their rental security and makes them particularly attractive in today's difficult macroeconomic environment. Ritgen also suggests that dependence on healthcare operators is becoming less of an issue due to their increasing professionalisation, which is decreasing the risk of default.

More portfolio transactions and increasing investment in assisted living facilities

Portfolio transactions made a strong contribution to this positive development, as they increased by around 140% to almost €3.09 billion. Yet revenue from individual properties dropped by around 18% compared to 2019. "Nevertheless, it is the second-best single deal volume ever recorded," explained Ritgen.

Care properties accounted for a record-breaking two-thirds of healthcare real estate revenue (€2.7 billion), while properties such as doctors' practices, hospitals, and medical centres more than doubled to €842 million. Particularly noteworthy is the 120% increase in the investment volume in assisted living properties. According to the BNP analysis, this is due to society's changing attitudes towards old age living arrangements and a shift towards facilities that offer both assisted living and nursing homes.

Project developments are on the rise—nearly half of all sales topped the €100 million mark

Project developments contributed 24% to the overall result and in absolute terms represented by far the highest investment volume. Still, finding suitable sites often posed a problem as developers are increasingly competing with regular residential developments. Portfolio deals with a value of over €100 million accounted for almost half of the transaction volume.

Three groups of investors account for the bulk of the revenue: special funds (43%), investment managers (18%) and corporates (11%). Foreign investors are investing more than ever in German healthcare properties, although their share has fallen by around ten percentage points compared to the two previous years and is currently 46%. This reduction was primarily driven by interest from German buyers, who are discovering the attractiveness of healthcare properties as an asset class.

Georg Ritgen, Director of National Healthcare Services, BNP Paribas Real Estate Germany

This latest transaction follows Titanium's acquisition in March 2020 of a German business park in Hilden, Düsseldorf, for €59 million. The seven business parks in the Joint Venture are operated by Sirius, and the Sigma Technopark will be rebranded as a Sirius business park.

Rates of return are clearly declining

High demand for healthcare properties coupled with limited supply is reflected in the price trend. At the end of 2020, the net prime yield for high-quality, modern care properties was only 4.00%. It fell by 90 basis points in the last three years alone and this decline is likely to continue in 2021.

Despite this figure and the challenges posed by the pandemic, the significant increase in investment revenue indicates sustainable growth in healthcare real estate. According to Ritgen, medium- and long-term growth is expected to continue over the next few years thanks to demographic trends, the rising average age and growing social acceptance for different types of old age housing. "Sales in 2021 are more likely to be determined by the existing supply, as investor demand will most likely continue to rise," Ritgen explained

.

GERMANY/FINANCING

FAP nearly doubles revenues as bank caution increases

FAP Group, the independent Berlin-based advisory company for real estate capital-raising and structuring, said it had a record year in 2020, with revenues increasing by 92% over 2019, despite the onset of the COVID-19 pandemic.

Over the year, the group concluded 26 projects and structured capital for properties worth over €1.03bn, up from €801m the previous year. Foremost among its refinancings was a residential portfolio located across several mid-sized German cities, with a financing volume of about €230m.

The group's "**FAP Balanced Real Estate Financing I**" debt fund, launched at the end of 2018, has distributed a volume of over €65m over the past several months. The fund allocates subordinated capital to existing properties, revitalization projects and developments in Germany.

Among the projects financed by the FAP debt fund is a revitalisation on Düsseldorf's *Königsallee*, the development of a plot in Frankfurt, and maximising financing for the acquisition of a residential asset in central Berlin, close to the *KaDeWe* department store. The largest ever fund commitment, in the high double-digit millions, was also made last year by a German insurer.

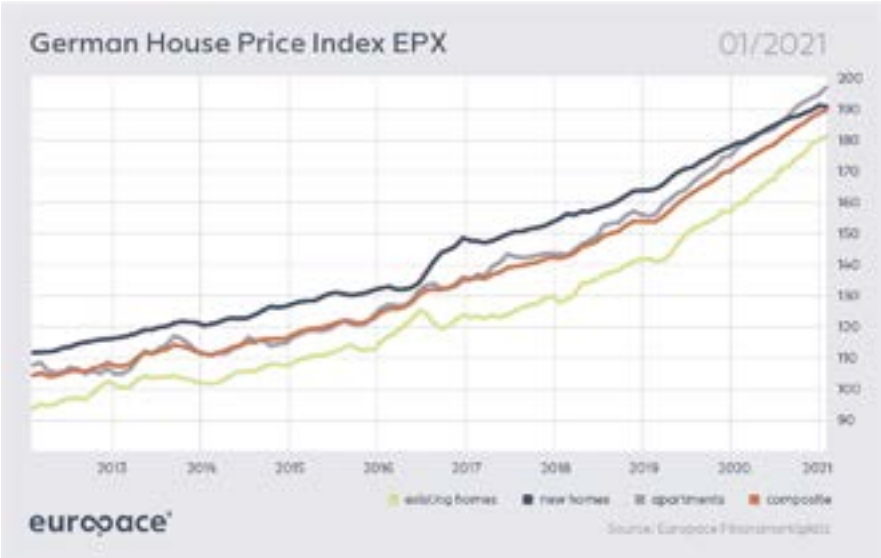
According to **Curth-C. Flatow**, founder and managing partner of the FAP Group, "The year 2020 was the most successful one in our history so far. Banks have become increasingly cautious in financing property developments during the COVID-19 pandemic, and this is where we are filling the gap. At the same time, structuring of classic first-tier financing is also getting more complex; the need for professional advisory is rising."

Flatow added that he's expecting even further growth in 2021. "We are experiencing extremely high demand both from financiers as well as credit seekers. Our target this year is to increase assets under management to around €500m."

Hanno Kowalski (pictured, right), managing partner of FAP Invest, which manages the FAP debt fund, said: "Our fund strategy is gaining significant traction in the current market environment, resulting in its successful closure over the coming months. A successor fund is already in the starting blocks."

With its two main business lines FAP Finance and FAP Invest, the company brings together investors and those seeking capital, structuring both classic debt financing on real estate

Hanno Kowalski, managing partner, FAP Invest



MAYER | BROWN

Trusted Legal Advisors

Since 1881

For over 135 years, real estate stakeholders have trusted Mayer Brown to guide them through changing and uncertain times.

Fast-forward to today's market, a dynamic landscape that demands legal counsel who understand the ownership, management and operational aspects of the industry. We're those lawyers.

Dr. Fabian Hartwich
Partner, Frankfurt
+49 69 7941 1115
fhartwich@mayerbrown.com

Dr. Jörg Michael Lang
Partner, Frankfurt
+49 69 7941 1661
jlang@mayerbrown.com

Dr. Joachim J. Modlich
Partner, Düsseldorf
+49 211 86224 222
jmodlich@mayerbrown.com

Mayer Brown LLP | Königsallee 61 | 40215 Düsseldorf | Germany

Mayer Brown LLP | Friedrich-Ebert-Anlage 35-37 | 60327 Frankfurt am Main | Germany

Americas | Asia | Europe | Middle East

mayerbrown.com

Just before year-end, DIC Asset bought the Munich-headquartered RLI Investors, along with a minority stake of 25% of Realogis Holding GmbH, from Schweizer Capital Holding, a vehicle owned by 'impact' investor Umut Ertan, who founded both Realogis (in 2005) and RLI in 2013.

From page 22

deals, as well as sourcing mezzanine capital all the way up to senior, bridge and whole loans. Since its founding in 2005, the group had advised and structured more than €16bn of capital.

GERMANY/LOGISTICS

DIC Asset AG quickly off the mark with first logistics fund with RLI

Listed German property company **DIC Asset** has wasted little time since its recent takeover of RLI Investors in launching a special logistics property fund with its newly-acquired subsidiary.

The open-ended special AIF, **RLI-GEG Logistics & Light Industrial III**, with a risk profile of "Core/Core-plus", is aiming for a total investment volume of €400 million and is planning for the fund to mature in 10 to 12 years. The targeted annual distribution is 4.5% to 5%.

In addition to classic profitable logistics real estate, the fund will invest in light industrial and urban logistics property in Germany, Benelux and Austria, which will mark DIC Asset's first investments abroad.

According to **Sonja Wärntges**, CEO of DIC Asset, "We are demonstrating here how exceptionally well the competencies of RLI Investors complement our management platform. The fact that we went to the market with this product within just a few weeks of integrating RLI Investors makes it clear what we mean by 'dynamic performance'.

The fund, which will be administered by **Hansainvest**, is aimed at professional institutional investors wishing to diversify their portfolios with investment opportunities that exceed current low interest rates. The fund has been already been seeded with four logistics assets in Germany with a combined value of about €132 million. "We have reacted quickly, collaborated creatively, leveraged our networks in the market and now offer institutional investors a seed portfolio of the highest quality", said Wärntges.

The Spezialfonds expects to reach its target volume within three years. Its acquisition target per asset ranges from €15m to €75m, to complement the assets already seeded. Other properties – including standing properties and new-build units, and portfolios as well as property developments with high alternative use potential – are already in due diligence.

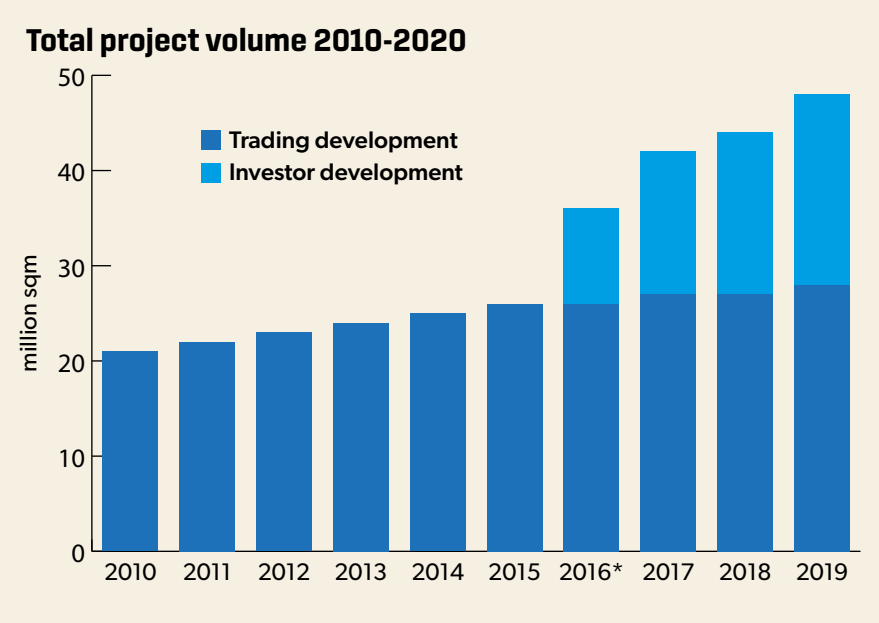
Just before year-end, DIC Asset bought the Munich-headquartered RLI Investors, along with a minority stake of 25% of Realogis Holding GmbH, from Schweizer Capital Holding, a vehicle owned by 'impact' investor Umut Ertan, who founded both Realogis (in 2005) and RLI in 2013.

It followed DIC Asset's new strategy to expand its involvement with the logistics asset class, and saw DIC Asset's AUM increase by about €700m, as well as taking over the investor base of RLI. DIC Asset's logistics holdings prior to the takeover amounted to only about €50m, so the company is moving swiftly to deliver on its announcement last summer to boost its logistics holdings.

In a recent media interview, Wärntges talked about the firm's new commitment to logistics. "The growth potential in the sector is very attractive. In addition, there are significant structural changes in this market, which are also providing impetus. In Germany, Europe's largest logistics market, and also abroad, this market promises to be highly dynamic. Accelerated by the Covid 19 pandemic, we will see

Sonja Wärntges, CEO, DIC Asset AG

Continues on page 26



*Investor development figures for 2016 are not fully resilient due to the survey methodology

Source: Bulwiengesa

From page 24

increased growth in the future as supply chains in Europe and globally reorganize.

"One reason is increased demand for buffer stocks, particularly for security of supply of everyday goods. Another is the booming electronic mail order business, which is putting even more focus on supplying population centers with goods from the Internet and creating increasing demand for logistics space.

"The logistics market is only just picking up momentum and we expect it to continue. The requirements and challenges will also change here. In this respect, this is a good time and a very good opportunity for both RLI Investors and DIC to combine strengths and shape the future.

GERMANY/LOCATIONS - STUDY

Frankfurt top German city for economic potential - study

German data platform **Quis** has published a new study analysing and ranking the most populous 400 Germany cities and districts based on their future economic potential, and hence - hopefully - should be a good indicator of likely buoyant real estate markets.

The "*Quis Zukunftspotenzial 2021*" study from **Immo Analytics**, a subsidiary of Hamburg-based consulting firm **Analyse und Konzepte**, is based on a proprietary evaluation method consisting of 13 indicators of primary relevance to the labour market, including the proportion of employees with university degrees among employees subject to social insurance contributions and the proportion of employees in knowledge-intensive industries. Cities also scored well with a large number of young workers and a high proportion of foreign students and employees.

On a scale of one to ten (low to high future potential), 34 cities and districts received top marks. Frankfurt ranked first, followed by the city and district of Munich. As expected, the largest cities are to be found far in front: Düsseldorf takes fourth place, while Stuttgart, Cologne and Hamburg are in the top ten. Berlin comes in 22nd place.

According to the analysis, attention should also be paid to the surrounding areas of the metropolitan cores. In addition to Frankfurt, the top 20 also include the Main-Taunus district, Offenbach and the Hochtaunus district, in the Frankfurt surrounds. Among the cities beyond the metropolitan regions that received full marks are Ulm, Münster, Jena, Osnabrück and Kaiserslautern.

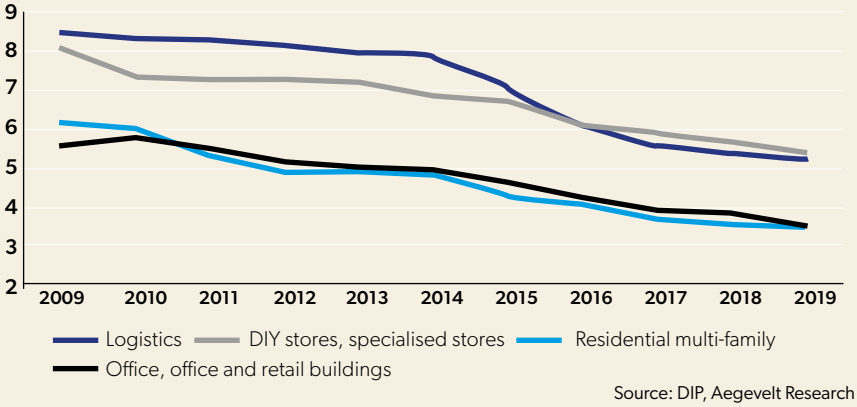
Perhaps surprising (*for us at REFIRE*) in the study is how many smaller 'big' cities (more than 100,000 inhabitants) scored the full ten points, including Ulm (18th), Münster (27th), Jena (30th), Osnabrück (31st) and Kaiserslautern (32nd). Notably, too, cities like Oldenburg (39th) and Mülheim an der Ruhr (40th), both of which placed ahead of cities Dresden (50th) and Bielefeld (51st), which boast a number of 'high-tech' and semiconductor-driven employers.

According to **Bettina Harms-Goldt**, managing director at Immo Analytics, "In the knowledge society, the jobs of tomorrow will be created where young, international and very well-educated people come together. The good incomes paid here have an impact on demand in the housing market, making investments attractive."

Harms-Goldt thinks it makes a lot of sense to look at "very well-placed C and D locations." As examples, she cites Aschaffenburg, Oldenburg, Mülheim an der Ruhr and Bayreuth, which have nine points in the ranking and are thus ahead of Dresden (50th), which is quite popular with investors. Harms-Goldt said these cities perform so well because they are

Bettina Harms-Goldt, Managing Director, Immo Analytics

German market for real estate investments: Gross yields of different asset classes (%)



Source: DIP, Aegevelt Research

ROUNDTABLE REPORT: **RETAIL - THE WINNERS AND LOSERS IN A CHANGING MARKET**

REFIRE and TARGA Communications February Roundtable - RETAIL

The **February Roundtable** was very well attended by an audience keen to hear the views of our panellists, all experienced veterans of the German retail market, from shopping centres to the high street to the most resilient segment of the market during the COVID pandemic - the 'essentials' and grocery-anchored retail market.

Dr. Thomas Beyerle, Head of Research at **Catella,** set the scene and reminded the audience that COVID-19 was not responsible for the decline in the European retail real estate market. The investment peak had been reached in 2015, and markets have been grappling with the disruptive forces impacting the industry since then.

"Investors aren't saying goodbye to retail, but the sector is definitely under pressure. The age of the shopping centre as we've known it is coming to an end, a phenomenon increasingly visible across Europe as markets become more synchronized. As go rents, so too do transaction volumes, in the same direction.

Susanne Klaussner (*pictured, left*), the managing partner at **DIR Deutsche Investment Retail**, has years of experience as the ex-managing director of food retail investor **GRR**, and has learned to appreciate the sector's stable and sustainable cashflow. She discussed the ever-present changes in the 'daily needs' supply chain and how she expects to see new tenant structures in shopping centres. Investors are focusing more on smaller cities and on the peripheries of the Big 7 – but she reminded us that in total, no net new retail properties are needed, even with the rise in delivery services. Developments of whole new quarters is critical.

Jörg Krechky, Head of Retail Investment Service Germany at **Savills**, chose as his Zoom backdrop an apocalyptic vision of an abandoned and desolate shopping centre – as brought to you by those YouTube guided tours of an abandoned Detroit or the numerous ghost malls that dot the American suburban landscape… He foresees a further decline in rents and rising yields in shopping centres, but his vision for the future was by no means as gloomy as his backdrop, seeing centres of the future being more mixed use, housing a lot more of the facilities we avail of in our daily lives, such as medical centres and other services, as well as retail. In his view, yields in the food retail sector will continue to go down until they're on a par with logistics assets, 3.5-5.0%.

Adam Pearce, managing partner of **Kintyre Investments** in Frankfurt, spoke for most of the panellists when he said that retail is "a multi-headed animal – so it's difficult to categorise bluntly between winners and losers." Realistically, however, many shopping centres are in a downward spiral, and although there is pressure from investors not to sell assets below book value, in many instances they'll have to accept that they have to free themselves from an orientation around prices paid in the past. The future will determine the price.

While investors view the pricing of shopping centres as a function of the yield of shopping centres, they need to start viewing the yield as closer to the yield of a project development. This means vertical integration, a rebasing of the risk shared between landlord and tenant, and a rational appraisal of underperforming tenants.

The resilience of the German grocery sector is what attracted the Canadian group **Slate Asset Management** to Europe and Germany in 2016, and the group has since bought more than 250 grocery-anchored stores and those selling 'essential' daily items. **Briain Morris**, Head of Investments Europe at Slate, highlighted how the margins of German retailers are so much narrow than in other countries. COVID didn't damage the grocery sector – if anything, our needs are being more than ever being fulfilled by the supermarkets and the discounters. While yields remain low, the supermarket sector remains very resilient from a cashflow perspective. In his view, the future of online delivery in Germany is still very uncertain, although he's more optimistic about Click & Collect.

Johnnie Wilkinson (pictured right), the CEO of **Greenman Investments** who have now got more than €1bn of assets under management in the German grocery-anchored retail segment, also sees a growing willingness of consumers to embrace Click & Collect, and expects major advances over the next 18 months. The challenge will be to also get Click & Collect customers to go into the store to buy addition products.Greenman invest big resources in learning more and more about the behaviour of the visitors to their Fachmarktzentren against a background of rapid changes across the whole supply chain. They work as close as possible with their tenants, but getting accurate data is always difficult. Technological advances, such as drone delivery in which Greenman has itself invested, will further enhance the services provided by tenants.

Argetra CEO Ruesch was quick to dispel the impression that buyers can automatically get their hands on apartments or houses at truly knockdown prices at the foreclosure auctions. "Nothing is cheap any longer in the real estate market", he said.

From page 26

very well connected in terms of infrastructure, have a high proportion of employees with a high level of education, attract many commuters and their business tax revenues are above average.

The future is not quite so rosy in the eastern part of Germany, even after thirty years since reunification, says the Immo Analytics study. Apart from Berlin, only Jena, Potsdam, Dresden, Leipzig and Frankfurt/Oder are in the top third of the scale (90 cities rated with at least eight points).

GERMANY/FORECLOSURES

Fewer German property foreclosures despite pandemic

Last year saw a falling number of German property foreclosures despite the ravaging effects of the COVID-19 pandemic, according to the annual figures released recently by the Ratingen-based specialist forced auction publisher **Argetra**.

2020 saw foreclosure proceedings opened on 14,853 properties with a market value of just over €3.1 billion. In the previous year 2019, there were forced auctions of 17,600 houses, apartments or land with a market value of more than €3.4 billion.

The Argetra team write in the report that continuing low interest rates, deferred loans from banks and the state-sponsored short-time allowance (*Kurzarbeit*) had prevented numerous cases falling into foreclosure during the pandemic. In 2020, an average of 36 out of 100,000 households in Germany were affected by foreclosures (previous year: 42).

Argetra warns that, with the expiry of state aid, more unemployment and insolvencies, the numbers could be set to rise. For its study, as every year, Argetra collates the foreclosure data from all the nearly 500 district courts throughout Germany.

Of the properties offered at auction, two-thirds (66%) were single- and two-family homes, followed by owner-occupied apartments (condominiums). The remainder (34%) is accounted for by commercial properties, business premises, land and other properties.

In reality, however, only about half of the foreclosure proceedings opened actually end up in court. The other half of the houses, apartments or plots of land are sold off beforehand - with there being no shortage of buyers in the current real estate boom.

The number of foreclosures has been falling steadily for years, probably due to the sustained period of strong economic activity and the prevailing low interest rates, which keep the interest burden of loans low for debtors as well as driving demand for real estate.

Kai Warnecke, president of nationwide property owners' association **Haus und Grund**, puts it thus: "Over the past ten years, the economy has grown steadily, the number of socially insured employees has reached ever higher records, and real wages have risen steadily in the process, so the falling numbers of foreclosures is no surprise. The positive economic development has come to an abrupt end due to the corona pandemic."

During the crisis, banks are permitting borrowers to defer payments instead of canceling loans and initiating foreclosures, said Argetra CEO **Walter Ruesch**. He added that many foreclosure appointments have been canceled because of assembly bans during the pandemic. Because of the economic slump and increased unemployment, especially in the auto industry, significantly more foreclosures can be expected down the line after a time lag, he said. "We're not really expecting the corona-related loan cancellations until the second half of 2021 and especially 2022, given the long processing times at the banks and the courts."

The Argetra figures show that properties auctioned last year had an average market value of just over €212,000, up from an average of €195,000 the previous year. The values were highest in Hamburg and Berlin, and lowest in Saxony-Anhalt. The market value of properties often deviates from the current market value, as one to two years often elapse before the date of the forced auction and prices rise or fall in the meantime.

A particularly large number of properties were auctioned in central Germany, from North Rhine-Westphalia to eastern Germany. Despite a decline, the number of foreclosure appointments per 100,000 households is still three times as high in Saxony-Anhalt (73) as in

"We're not really expecting the corona-related loan cancellations until the second half of 2021 and especially 2022, given the long delay at the courts"

Walter Ruesch, CEO, Argetra

Dr. Kai Warnecke, president, Haus und Grund

Bavaria (22). Chemnitz leads the 40 cities with the most court appointments, followed by Leipzig, Zwickau and Berlin.

Argetra CEO Ruesch was quick to dispel the impression that buyers can automatically get their hands on apartments or houses at truly knockdown prices at the foreclosure auctions. "Nothing is cheap any longer in the real estate market", he said. It's more that the forced auctions are now more about debtors getting out of their financial situation as best they can, generally after becoming unemployed.

GERMANY/RETAIL

Retail sales are booming - guest commentary by Prof. Dr. Günter Vornholz

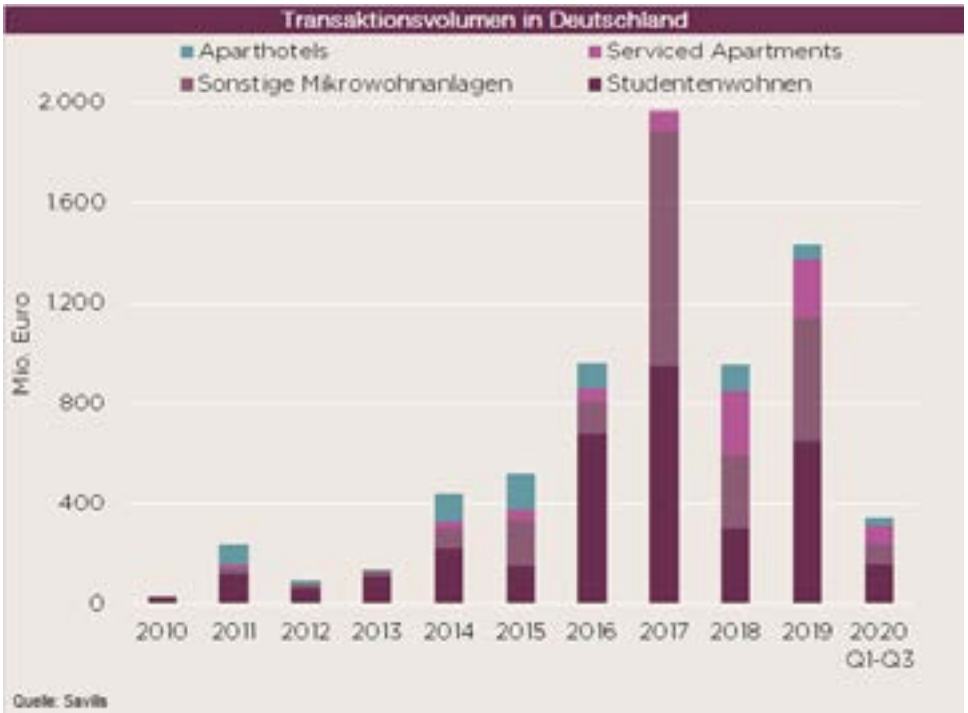
All we've had over the last weeks and months are gloomy predictions from representatives of the retail industry about how badly the industry was suffering. And now this update from Germany's **Federal Statistics Office** – we've had the highest sales growth of the past decade!

Their figures show retail sales growing by a good 5% in nominal terms and by just under 4% in price-adjusted terms compared with the previous year.

So, what's going on? Individuals' high propensity to save and the lockdown consequences of the pandemic have indeed had a negative impact on consumer spending. However, the retail sector has been able to benefit from the state's countermeasures (primarily, the government's economic stimulus package with the child bonus and the temporary reduction in VAT) as well as lower spending in other areas such as eating out. As a result, retail sales growth has been the highest since 2010, although not without inevitable side-effects.

The clear winner is e-commerce, which has benefited particularly from the lockdown and seen a surge in sales growth. Increased consumer expenditure has given e-commerce and mail order businesses a boost of almost 25% - more than twice as much as in previous years. Despite the strong growth in e-commerce, however, over-the-counter retail sales also increased, showing growth of 2.4%. Adjusted for price, this still represented an increase of 0.8%.

Within retail, however, performance varied widely across individual segments. Clearly on the winning side was the grocery trade and supermarket retailing, each of which saw sales growth of a good 8%. Retail sales in DIY stores also benefited during the COVID-19 crisis.



"On the winning side was the grocery trade and supermarket retailing, each of which saw sales growth of a good 8%"

Dr. Günter Vornholz

Continues on page 34

REFIRE
Real Estate Finance Intelligence Report Europe

INVESTING IN GERMANY ONLINE ROUNDTABLES

WITH REFIRE AND TARGA COMMUNICATIONS

17 MAR	Residential – finding a home for your money
21 APRIL	Health Care & Senior Living
19 MAY	Hotel & Leisure
21 JUL	Real Estate Debt
15 SEP	Logistics
20 OCT	Offices
17 NOV	Shorter-term accomodation
18 DEC	Preview & outlook for 2022

Targa Communications & REFIRE, have come together to present a new series of online round-table events that will be focused on 'Investing in Germany'.

Charles Kingston
REFIRE

Andrew Barber
Targa Communications

Register here: targacommunications.de/roundtables

Parts of the retail industry have seen clear losers and the emergence of definite problems, which the pandemic has only served to highlight in clearer detail. Consumers spent a lot less on clothing and textiles, for example, which saw the sector fall by more than 20%. This is just the culmination of a multi-year phase of structural sales declines, which has been exerting a fundamental impact on the decline of city centres, which are still home to a large number of clothing stores.

In the more mixed retail segment, including that of department stores, sales were down 10%, reflective of the long-term downward trend in that troubled asset category. The pain was felt even more acutely as the decline was accompanied by the widescale closure of numerous departure stores nationwide.

Taken as a whole, the retail sector has seen much less dramatic underperformance in terms of sales growth. Where it has performed badly, the pandemic has merely exacerbated problems within the industry which have been festering for several years.

GERMANY/SELF-STORAGE

Angelo Gordon and Marcol launch €250m German self-storage platform

The German market for self-storage companies is set to be enlarged with the arrival of a new German investment platform, **Space Plus**, which is a joint venture between alternative investment firm **Angelo Gordon** and private investment group **Marcol**.

The company, which will be headed by self-storage veteran **Russell Jordan** (*pictured, right*) will target underperforming retail and commercial assets across Germany. Targetted transaction volume is €250m.

Jordan comes with a wealth of relevant experience, having been managing director of **Self Storage Plus Germany** and before that, at **Fauvic European Business Partners**. He joined Space Plus in January last year.

Angelo Gordon has been positioning itself for a while to be a sizeable player in the European self-storage market. It bought **EasyBox Self Storage** in Italy in 2018 as part of what director **Marcel Hertig** described as a drive to "take advantage of the rapidly expanding self-storage market in Europe and to build a platform with significant value and economies of scale".

Space Plus has already bought five assets for conversion or redevelopment into new state-of-the-art self-storage facilities, located in Essen, Hagen, and Krefeld in North Rhine-Westphalia, with one in Osnabrück in Lower Saxony and one in Bremen. The assets had previously been used primarily to serve the retail industry. Targeting off-market deals, a further four in the pipeline have now also been secured.

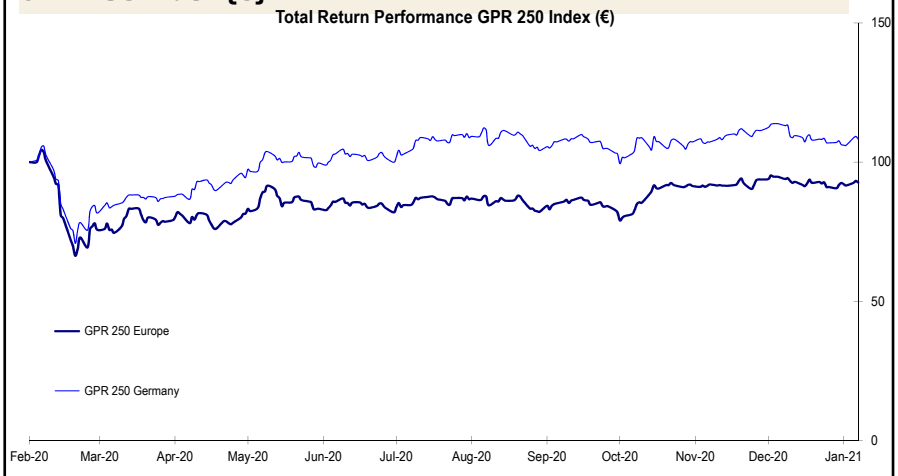
According to Marcol's head of business development, **Rebekah Tobias**, : "This is an optimal time to launch an innovative, new self-storage platform given the increasing demand for the product across Europe. Having assembled a highly experienced team, combined with a truly disruptive business model and the robust growth forecast for the sector, Space Plus is poised to become a predominant player in one of Europe's most undersupplied markets."

Space Plus has mandated Frankfurt-headquartered **Krieger Group** to manage the properties of its growing portfolio, including capex, accounting and tax advice. Krieger

Russell Jordan, CEO, Space Plus

GRAPH-3

12-month total return performance, Europe & Germany GPR 250 Index (€)



Source: Global Property Research (www.globalpropertyresearch.com), 2021

already manages about €8bn of assets for its clients, many of whom are family offices.

GERMANY/CONSTRUCTION

Lack of urban building land pushes up housing prices

New construction can't keep up with increasing demand in many growing cities, according to a **BBSR** housing market analysis. Why? Building land is either not available or it's too expensive, among other factors.

Apartment building construction has been booming in major and medium-sized German cities for more than a decade. Yet bottlenecks continue to be an issue and the housing markets remain tense. Cities are struggling to accommodate the new residents resulting from immigration and in-migration because there is hardly any building land available or it is simply too expensive. These are some of the findings of the *Housing and Real Estate Market Report 2020* produced by Germany's **Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR)**.

Building land prices in major cities nearly doubled in a decade

A scarcity of residential land in urban areas saw the cost of building land increase nationwide by a massive 84% between 2010 and 2019. During the same period, prices for new and existing housing went up by roughly 50%. The populations living in large German cities grew by 7.5% and many cities experienced steady growth in housing demand.

Meanwhile in rural areas, vacancies remain a challenge even though those areas have also experienced some in-migration. According to BBSR, around 4.2% of Germany's total housing stock was vacant in 2018.

Rental apartments dominated new residential construction

Between 2009 and 2019 the number of completed rental apartments nationwide rose by more than 84% to 293,000, while the number of construction permits for apartments doubled. These developments are paired with a significant construction backlog: at the end of 2019 there were more than 740,000 apartments that had been approved but not yet completed.

The BBSR attributes the dynamics in the construction completion figures almost exclusively to multi-storey residential construction. Almost three times as many apartments in new multi-story apartment buildings were completed in 2019 compared to 2009. Such buildings now make up 59% of the total new residential construction activity in Germany.

This type of construction dominates in the large and medium-sized cities – insofar as there is sufficient building land available – while the construction of detached houses dominates the outer-urban and rural regions. Despite the difficulties caused by a lack of affordable building land, construction in large cities increased from 20% to 30% between 2005 and 2019. The BBSR expects the positive trend in building completions will continue in the coming years.

Rental price growth slowed throughout Germany in 2020

Last year the asking rents for new and renewed leases only increased by 3.1% to €9.16 net per square metre. This slowdown most noticeably affected major cities with more than 500,000 residents, where growth was just 2.9%. The highest rent increases were recorded in outer urban districts with 3.8% growth.

In summary, the BBSR suggests that high demand for housing in the growth regions will continue to determine the rents and prices for building land, houses and apartments in 2021.

GERMANY/OFFICE REAL ESTATE

The working-from-home versus office debate has a way to run

We've known **Professor Andreas Pfnür** of the prestigious **Technische Universität Darmstadt** for many years now, and we keep a beady eye out for the studies he publishes. That's because he often takes an assertion that has

gained currency in public discourse, and then proceeds to test it - scientifically - for veracity. In the past, he's punctured holes in several shibboleths by scrutinising them scientifically - the result is often surprising.

Prof. Pfnür and his research team have recently been examining the question of Working from Home (WFH) and asking who are the winners, and who the losers. In their thematically broad-based survey, Pfnür's own department, the Department of Real Estate and Construction Management teamed up with the boffins at the TU Darmstadt's Department of Marketing and Human Resource Management, and set about surveying office workers across Germany shortly after the onset of the first lockdown, a year ago, when the phenomenenon of widescale working from home first took root.

The researchers asked a series of questions - How and where do people work at home? How do employees perceive working at home? How productive is home office work and what determines its success? Over a series of three waves of surveying, a universe of 952 employees were questioned in June, August and October 2020.

The results of the survey paint a nuanced, differentiated view, in which there is a wide gap between the reality of working from home and its perception in society. Even before the pandemic, many more people had already been working from home than was widely assumed. And - the extent to which 'knowledge work' can be really done from home is far lower than expected. More than a third of respondents admitted that they were less productive working at home than in the office. This last fact seemed to become clearer to respondents over the course of the year, in proportion to the amount of experience they actually had with working from home.

The most important cause of this has to do with *where* people actually work. Their specific home situation was the key determinant in the success of their actual productivity. "How people actually live says a great deal about whether they can successfully work from home", says Prof. Pfnür. "Their specific housing environment is more meaningful to the result than the type of work they do or the number of children at home. Frankly, we hadn't fully expected that to be the case."

In other words, those who had the highest degree of overall satisfaction with their home living arrangements, including space, location and general amenities, ended up the most satisfied and productive when working from their home office. This sounds obvious, but is not.

In addition to a good domestic situation, the researchers identified other factors that were associated with favourable productivity from home working. In particular, they found that complex and multifaceted tasks involving a high degree of autonomy were associated with a successful outcome from working from home. Older, higher-earning and professionally experienced employees worked more successfully, as did full-time employees compared to part-time employees. Singles obviously found it particularly difficult to work from home. Isolation, as well as career development, played a role here.

"Direct social interaction with colleagues, the opportunity to learn from older employees and

career opportunities are less pronounced in the home office," said Pfnür (*pictured, above*). "Accordingly, a feeling of personal identification with the job falls away for younger employees, and this affects overall life satisfaction."

The study highlights how not all forms of office work are suited to be carried out from a home office, and that the traditional office will continue to play a role. However, used correctly and under the right conditions - such as better infrastructure and it being a voluntary decision to work from home - the home officer route offers numerous opportunities to further improve the individual success of individuals with their work in the future.

But Pfnür warned: "Without an active change process, the risks of working-from-

home, which the empirical data in our study reveals, threaten to get out of hand." A home-office-based work environment could result in social dislocation for many, unless the public sector and employers take active measures to control and manage it, he said.

"Home office offers the risk of creating a new split between officer workers in what would lead to a dual-class society," Pfnür said. On the one hand there would be employees who could work extensively at home because they could do so in comfort or because their jobs were suitably attractive. On the other would be people who would be less successful in worse conditions in the home office or would be exposed to addtitional burdens or costs from working from home. "Home office could very well end up becoming a status symbol marking out the winners in the new worlds of work."

The findings of the study have important implications for employers, policymakers, the real estate industry and urban planners, said Prof. Pfnür, for which he and his team of TU researchers are currently developing recommendations. In addition, data from the international arena will also be evaluated to more closely analyse the impact of different national sets of conditions, cultural influences, etc.

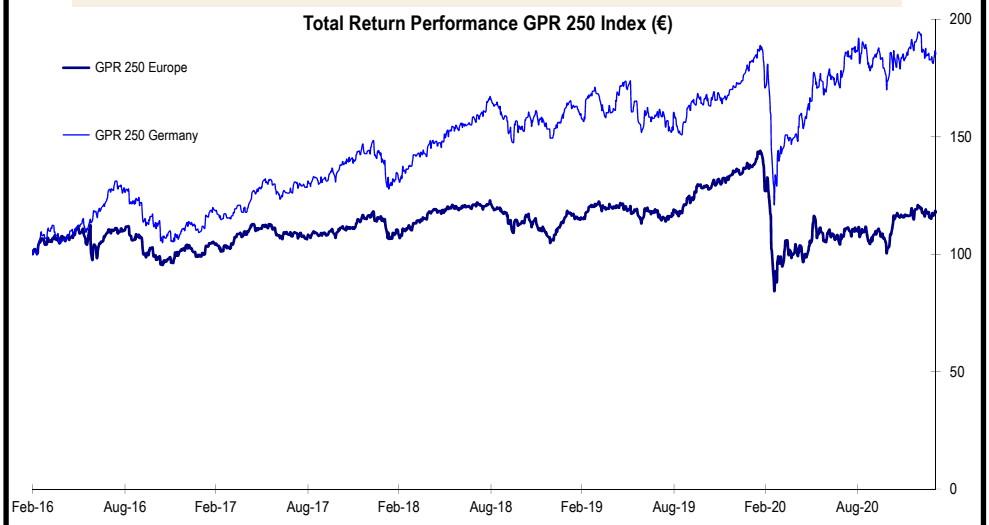
REFIRE: *We'll be interested to see what comes out of this. Our own view is that, in the long term, there may indeed be two classes of home office worker and it may partly come about as Prof. Pfnür forecasts.*

But we think there is another whole side to this story, and that effects the younger staff in any organisation. A whole cohort of white collar workers, more driven by notions of personal career advancement than work-life balance, are likely to want to see, and be seen, in the head office, where the upper echelons of management in their businesses reside. this is natural, and is as much a function of age, curiosity and experimentalism as anything else. The most thrusting and ambitious employees will actively seek out visibility and a social and physical presence close to the movers and shakers in the firm, and will eschew the home office option where they can in favour of advancement and the natural urge to be physically present..

Much too will depend on the technology that becomes available in the coming years to stay in touch with the office. It's not always just a choice of office or home. There's also the 'on the road' variant for customer-facing staff, which many were practicing even before the pandemic. Change is here, in any event.

GRAPH-1

5-year total return performance, Europe & Germany GPR 250 Index (€)



Source: Global Property Research (www.globalpropertyresearch.com), 2021

REFIRE
Real Estate Finance Intelligence Report Europe

Operating Office
REFIRE
Mainauer Strasse 4, 12161 Berlin, GERMANY
Tel: **+49-30-8974 2215**
Fax: **+49-30-8974 2231**
Email: **news@refire-online.com**

Managing Editor
Charles Kingston
Senior Reporter
Sara Seddon-Kilbinger

Tel: **+49-30-8974 2215**
Fax: **+49-30-8974 2231**
Cell: **+49-172-8572249**
Email: **editor@refire-online.com**

Subscriptions
Tel: **+49-30-8974 2215**
Fax: **+49-30-8974 2231**
Email: **business@refire-online.com**

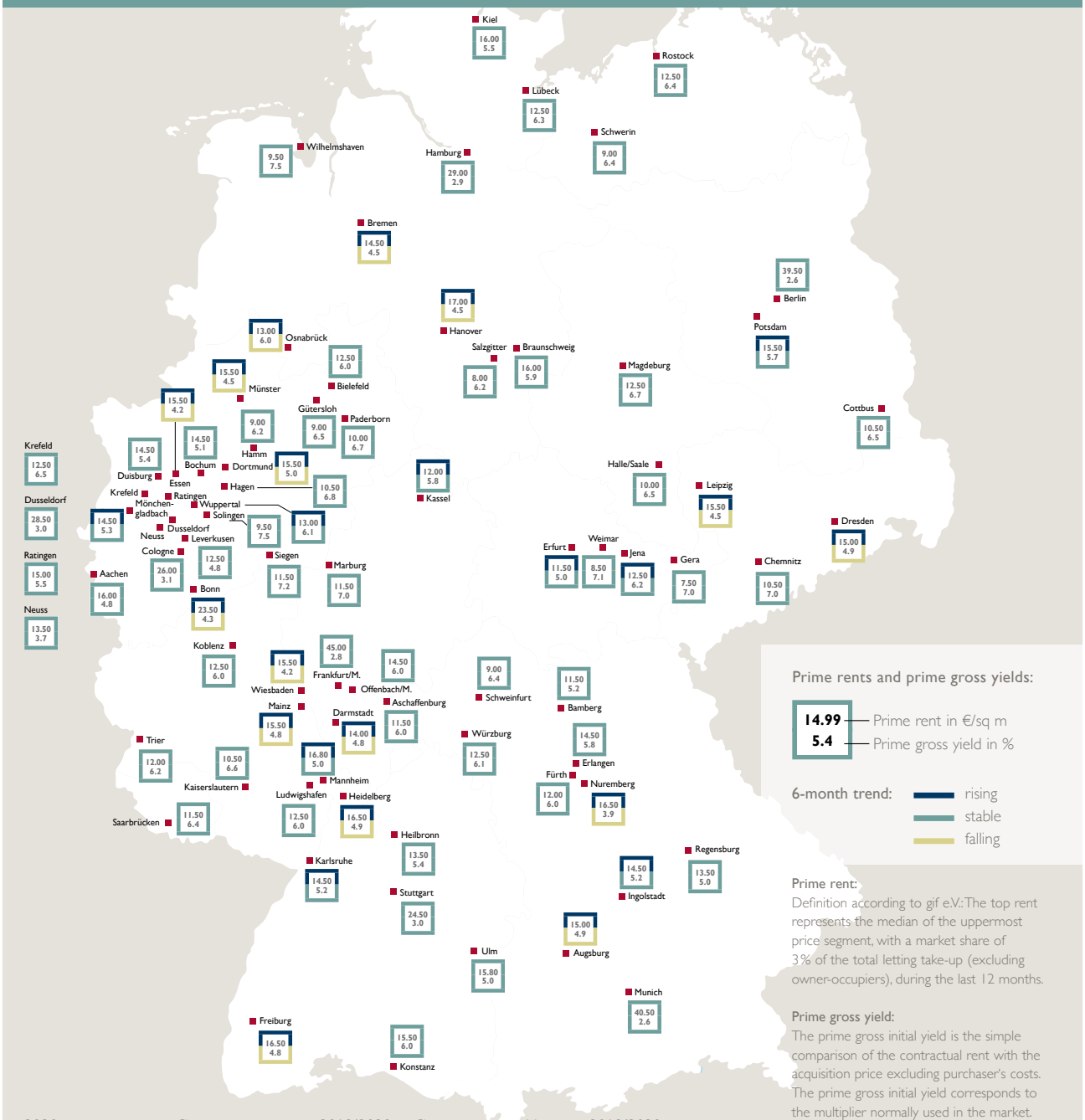
Advertising:
Tel: **+49-30-8974 2215**
Fax: **+49-30-8974 2231**
Email: **advertising@refire-online.com**

Publisher
REFIRE Ltd,
49 Sandymount Avenue,
Ballsbridge
Dublin 4, Ireland

Real Estate Finance Intelligence Report Europe (REFIRE) is published 22 times a year, at the beginning and in the middle of each month, with two holiday breaks. REFIRE is editorially independent of any selling or investing institutions. Information contained in REFIRE is under copyright protection and is based on sources believed to be reliable, though their complete accuracy cannot be fully guaranteed. Neither the information contained in REFIRE nor the opinions expressed therein constitute or are to be construed as constituting an offer or solicitation of an offer to buy or sell investments. REFIRE accepts no liability for actions based on the information herein.

Investment locations Germany 2020
Office – rents and yields

The German office property markets have not yet been affected by the effects of the pandemic in terms of value. Three factors are decisive in this respect: the good economic development that continued until mid-February, the relatively low supply of new construction in the metropolitan regions or CBDs and the delaying effects of a recession on the floor-space markets. At present, we therefore do not see any significant change in our rental and yield forecast up to September, although economic development will leave its mark at the beginning of the third quarter.



Prime rents and prime gross yields:

14.99 — Prime rent in €/sq m
5.4 — Prime gross yield in %

6-month trend: rising / stable / falling

Prime rent:
Definition according to gif e.V.: 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.

2020	Ø prime rent	Δ 2019/2020	Ø prime gross yield	Δ 2019/2020
A-location	33.29€/m²	7.25%	2.88%	-18Bp
B-location	16.02€/m²	3.09%	4.66%	-40Bp
C-location	14.10€/m²	5.62%	5.58%	-31Bp
D-location	11.35€/m²	8.30%	6.20%	-50Bp

* bp = basis point

As of 1st quarter 2020
Contact: research@catella.de
Source: Catella Research 2020