...from page 10

a workflow system with a large asset management database, all accessible to management.

The US approach is not so much a one-off software solution, but rather an integrated approach to tying up all the different elements of the flow of transactions. This all plays a big role in gaining a favourable rating, which is very important.

We tend here to have lots of Excel-based hand-made asset management systems focused on the current status, rather than providing an overview of the whole master-plan.

And the future?

The CMBS market here in Europe is obviously very quiet, but it's not dead. We expect it to revive, in a different and more sophisticated way. Perhaps Americans are regaining faith in CMBS faster than we are as a form of financing for real estate, and they're reducing their debt burden faster than we are in Europe.

Perhaps it's also a cultural thing about how we face up to losses – obviously we have different approaches to dealing with creditors, the sacking of employees, handling failure etc, - but the 'loss of face' issue HAS been holding us back a bit in Europe.

We'd like to see more courage and decisiveness among managers of sub-performing and non-performing CMBS here in Germany to square up to loan-delinquency and to act firmly to enable fresh starts to be made, and troubled properties to change ownership in a rapid and healthy manner. German and European special servicers need to reposition themselves so as not to completely leave the field to the American-owned servicing groups. END

miracle, considering the limited availability of senior debt. We are glad to have been able to help our clients out of a tricky spot, in which we know many investors still find themselves. Securing renewed debt financing in what we consider a distorted debt market is a sign of our skills and relationships to bank and anchor tenant."

Charter Hall REIT operates a portfolio of Australian neighbourhood shopping centres anchored by leading supermarket tenants, and also includes a smaller portfolio of German and Polish retail assets based on the same business model.

In a recent statement to the **Australian Stock Exchange**, the company said the aim of the refinancing was to ultimately sell the *Jena Burgau* asset and to use the proceeds to redevelop the *Alt Chemnitz Centre*. "Importantly, this retains REWE as the anchor tenant of the Alt Chemnitz Centre on a 15-year lease," it said. "This approach of recycling capital to fund redevelopment allows the REIT to maximise equity from its German assets."

Charter Hall's fund manager **Scott Dundas** put the deal in context for the REIT's longer-term strategy: "This refinancing is in line with our stated strategy of re-weighting the REIT's net tangible assets to Australia, and to exit its European portfolio in the short to medium term by facilitating the sale of the German assets, with the equity to be reinvested into growing our high-quality Australian portfolio," Mr Dundas said.

The newly-negotiated loan facility, which was due to mature this month, has no debt amortisation, includes an additional €2m to be repaid on the sale of Jena Burgau, and has a €4m guarantee to be progressively reduced as the structure retains sufficient cash to fund Chemnitz redevelopment. It also has a waiver of the LTV covenant until June 2014, and no interest cover ratio covenant. *All in all, a tidy deal.*

Germany/Indices

New quarterly Index measures climate for German commercial property financing

If there is one subject that the German real estate press has been busying itself with throughout the summer, it is the big question of whether there really is a credit crunch for German real estate, and if so, how serious is it? There are no shortage of divergent views on the subject – some investors say they've had no problems, while others have hair-raising tales of their latest negotiations with financing banks.

A recent survey published by the ZIA, Germany's main lobbying group for commercial property, sifts through the detailed responses from 56 leading real estate investors in Germany. Their overwhelming conclusion is that financing conditions for real estate companies is set to deteriorate markedly in the coming months, although for the moment project financing under the €100m level is still available. Several express surprise at the banks' apparent willingness to finance property despite the obvious storm clouds overhead.

So it is perhaps timely that a new quarterly index has just been launched that attempts to measure how much financing is being made available for German real estate investment. The **FAP Barometer** is the brainchild of the Berlin-based **Flatow Advisory Partners**, with market research being carried out by specialist research group **BulwienGesa**, who have plenty of experience gathering and interpreting data from across the German real estate spectrum.

Initial results from the first survey are in, and were presented at a special launch in Frankfurt last week, attended by REFIRE. The purpose of the new indicator is to observe and highlight the "systemic change" taking place on the financing landscape at close quarters.

Only lenders are surveyed for the new

index, not borrowers – lenders include new financiers, such as insurance companies, loan funds and superannuation schemes, who are looking for commitments on the German real estate finance market, alongside the established players such as the banks.

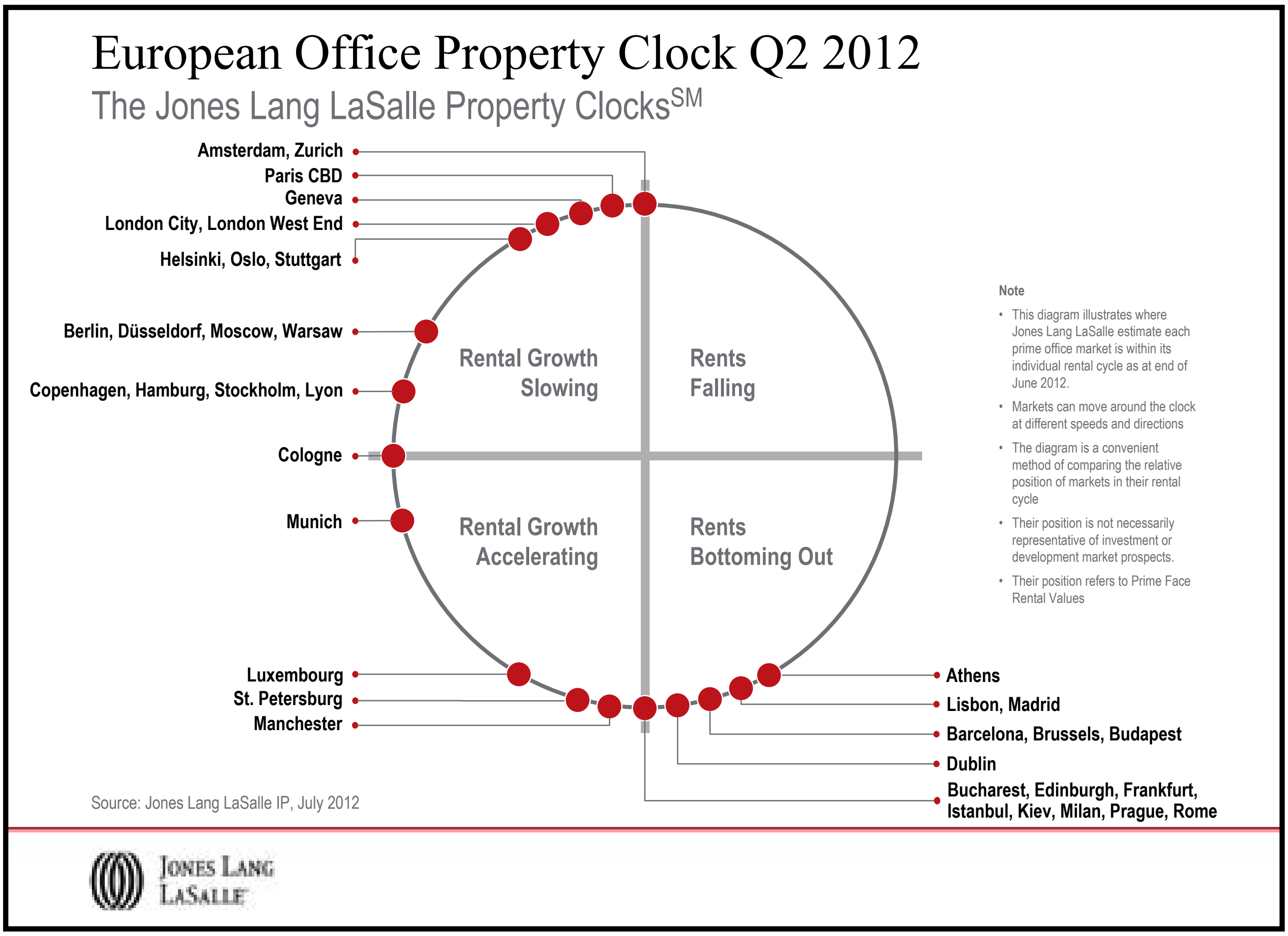
To judge from the FAP Barometer's first reading, for Q3 of this year, respondents characterised the current market as showing "a ready willingness to lend". On the Barometer's scale of -15 (credit crunch) across to +15 (liquid market), the FAP Barometer currently reads +5.8 (ready willingness to finance).

Of respondents, more than half (54.4%) said demaind for loans was rising in Q3, 41.3% saw no perceptible change, and 4.4% said they saw demand falling. On new business, 53.5% said they were signing net new business, 32.6% see new business remaining stable, while 14% are writing less new business than in the previous quarter.

64.3% of new business is in the €10m to €50m bracket, with 19% between €50m and €100m. Deals of less than €10m represent 16.7% of new signings, mainly being issued by the savings and co-operative banks.

What is clear from the FAP Barometer is how much more expensive borrowing for commercial real estate has become since the onset of the financial crisis. Whereas a margin of 80 basis points was considered average for existing properties before the crisis, 35% of lenders are demanding 100 to 140 basis points, while 30% are charging 141 to 180 basis points – effectively a doubling of their margins. For the riskier project developments a third of respondents are charging between 181 and 220 basis points, while another third are charging up to 260 basis points.

Curth Flatow, (*pictured, above*) the CEO of Flatow Advisory Partners andinitiator of the new index, commented: "Commercial real estate financing has become more demanding, but there is no sign of a credit crunch, as some market voices in the German real estate industry would have you believe. There is clearly



a basic willingness to lend, and sentiment in the financiers' camp is upbeat. With the high volume of demand as well as their own capacities in mind, active lenders are able or forced to select their commitments with care."

Here at REFIRE we will be adding the FAP Barometer to the indices we track and report on regularly in future issues, and will keep our readers informed of future movements. *Today's reading = +5.8*

Germany/Funds

Internos - Spezialfonds debut with €300m German hotel fund

Owner-managed fund manager **Internos Real Investors** has raised 75m from four pension funds and insurance companies to close on its first German *Spezialfonds* – a hotel fund – with a target investment volume of €300m.

The move comes a month after Germany's financial watchdog **BaFin** granted the Spezialfonds management licence to Internos, as we reported in a recent issue, which will allow the group to launch other real estate fund products, such as core income and retail funds. Since its founding in 2008, Internos has so far focused on taking over the management of existing fund portfolios, so the move represents a new departure for the group. The group has €2.1bn in assets under management in six separate funds throughout Europe.

Four mid-price hotels in Germany and the Netherlands will form the basis of its seed portfolio for the hotel fund, for which Internos has already committed €100m in signed off-market contracts. **BayernLB** is providing the financing for the deal for the 3-4 star hotels, which are operated by three different groups under long-term leases.

At least five other hotels are under detailed negotiations, according to Internos's Kapitalanlagegesellschaft (KAG), which is managing the fund. The fund expects to invest in stable income-producing assets in core Eurozone economies, using about 40% debt. The targeted dividend yield is 7.5% of net and targeted IRR is 11%.

Internos KAG's recently appointed boss, **Jochen Schaefer-Suren**, (pictured, right) described how the new club-style fund had been structured: "The big lesson of the crisis is that institutions prefer to invest in assets they know with people they understand, and perhaps even know personally…Fund managers like me, who have been around for a while, have seen investors react against the modus operandi from five years ago, when fund managers would assemble in one fund structure investors from different countries, with different regulatory and accounting requirements," he said.

"Today, investors need to feel not only that it's a good investment but that the regulatory, legal and tax structures are familiar and that the other investors have the same objectives and time horizon."

On the fund's further investments, Schaefer-Suren said, "From the outset, we agreed that we would only raise capital from German investors with the same profile. This limits us, but it doesn't inhibit us from growing the fund."

Germany/Study

German property foreclosures fall 15% to 10-year low

The level of German property foreclosures fell by 15% in the first six months of the year compared to last year's figures, as high demand for German housing helped put a floor under the most vulnerable section of the residential market, according to specialist publisher **Argetra**, which tracks the market.

The Ratingen-based Argetra, which publishes monthly figures on forced sales and auctions, said that given the strong current market, current foreclosure sale prices could be seen as a bargain. The falling sales figures were largely attributable to banks's keenness to avoid foreclosure, while lower interest rates also helped troubled borrowers to refinance.

Measured by dates announced for foreclosure sales, the total number fell nationwide to 33,189 for the period, the lowest level seen for ten years. Heading the list geographically was North-Rhine Westphalia (8,143), followed by neighbouring Lower Saxony (3,466). The northern state of Schleswig-Holstein showed the strongest recovery with 26.4% fewer sales, with Hamburg down nearly 20%, while Bremen (up 1.9%) was the only state to register an actual increase in auction dates recorded.

The national average sales value fell by 1.1% to €155,500, only rising in the states of Baden-Württemberg, Schleswig-Holstein and Brandenburg. As valuations for this year's foreclosures stem from 2007-2009, when the financial market crisis put pressure on valuations, today's sales values can be assumed to be quite a bit higher in many instances given the strength of the market over the past two years. As such, conclude Argetra, current foreclosure prices are very favourable – with the number likely to continue falling, as any slack is being picked up more and more by direct sales.

Germany/Logistics

UK's Hansteen buys high-yielding German logistics portfolio

The London-listed UK and European property investment group **Hansteen Holdings** recently paid €26m to buy a portfolio of six logistics properties from