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Mixing It Up

Despite Challenges, Ambitious Mixed-Use Development Still Appeals to Visionary Investors

by Alexis Petrakis

Headlines continue to flash yellow, cautioning real estate investors on the perils of investing in both mature and emerging markets. Certainly, the risk-averse attitude that is prevalent among lenders and investors poses a stark contrast to the heady days of 2006 and 2007. This attitude, not to mention a dearth of capital, is particularly troublesome for the development community. Despite the precarious health of banks and a forecast for continued economic contraction across Europe, however, many mixed-use schemes have retained their appeal and appear to be moving ahead.

Mixed-use developments are still very much relevant today, confirms Katie Kopec, lead director of Jones Lang LaSalle's development and asset strategy team. She thinks mixed-use has advantages over single-asset-type projects, and thus has a greater likelihood of becoming reality in the current environment as long as investors are willing to maintain a long-term perspective.

The inherent diversity with mixed-use schemes, she points out, should insulate investors, since each operates (theoretically) at slightly different places in the real estate cycle. Although the unique circumstances surrounding the current credit crisis have pushed all sectors toward their trough simultaneously, certain property uses should rebound before the others and provide support to large mixed-use schemes as compared to single-sector development projects. At least, that's the basic premise.

"For the moment, much of development is stuck in the mire," says Kopec. "But that said, mixed-use is here to stay because it's a means to create functional new quarters of cities and make them sustainable. In order to do that, you need more than one use — not just work or live — you've got to put it all together. That won't change going forward."

PLANNING ENJOYMENT

Peter Victor, senior managing director with Cushman & Wakefield, also believes urban, mixed-use developments will continue to proliferate for several important reasons. Cities and their planning boards like them because they help create more vibrant urban environments. The projects by their very nature support a "green" agenda. And office occupiers are increasingly attracted to developments where the emphasis is on creating an enjoyable work environment that can be effective in attracting and retaining talent, rather than on simply building an edifice for the corporate brand.

Continued on page 6

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NOTES & TRENDS

by Richard Fleming

Keep the Faith

This Is No Time to Bale Out

Transaction numbers across Europe from the main real estate consultants for the first quarter of 2009 were uniformly awful — down 82 percent on the same period last year, at €11.5 billion, according to CB Richard Ellis; down 72.4 percent, at €11.4 billion, Cushman & Wakefield; down 70 percent, at €11 billion, DTZ; and down 70 percent, at €12 billion, Jones Lang LaSalle.

More pertinently, comparison with the first quarter of 2008 does not tell the full story — a better comparison would be with the first quarter of 2007, when the market was approaching its peak and before things started to unravel. A comparison with that quarter tells a more revealing story about how far things have fallen back.

Consultants do not often agree — the small differences in the numbers above are evidence of that — but they agree that transaction volumes are at critically low levels. Remember, these are firms that depend on real estate investor requirements for advice and facilitation on transaction activity to fund their businesses; as surely as night follows day, lower transaction volume leads to reduced income and a lower headcount, and the lower headcount in turn leads to a reduced ability to deliver the levels of service that investors expect and need.

Numbers don't tell the whole story. You can't put numbers to sentiment or confidence. But if you could, those numbers would be down, too. Markets and investors are bunkering down, biding their time, awaiting restored fortunes, a pickup in transaction activity. They may have to wait a while yet.

SOBERING STUFF

And it doesn't matter much which numbers you look at. This year's index number from INREV, the European Association for Investors in Non-Listed Real Estate Vehicles, showed that the return in 2008 from the universe of 224 unlisted European property funds, across core and value-added sectors, was –26.8 percent.

The main contributor to the severity of the overall number was the United Kingdom, with a weakened currency helping (if that's the word) to give a euro return of –49.6 percent; next year, it may be continental Europe's turn to receive this rather dubious "main contributor" accolade.

Lest it be forgot in the awfulness of things — a return of –49.6 percent is a halving, and when you get two years of halvings, your investment, your asset, is only worth a quarter of what it was when you started. That's sobering, and that's probably when you begin to wonder if you'll see any of the money again. Write-downs, write-offs and an intense scrutiny of legal documents are on the way.

That's for funds; the situation with actual buildings is no better. According to IPD, the All Property peak-to-trough decline in UK commercial property now stands at –41.4 percent. The best barometer for current market conditions is IPD's UK Monthly Property Index; the latest number, for the month to 30 April, gave an overall return of –1.6 percent and an annualised return for the year to date of –26.4 percent. Strip out the income and the capital value fall in April was –2.3 percent; yes, it's the shallowest monthly decline since August 2008, but it's still of little comfort.

The only beacon of light for real estate investors is that UK equities, as an asset class, performed worse, with a year-to-date return of –26.9 percent. If you think that's bad, consider that UK property equities have returned –50.1 percent over the past 12 months. And that Land Securities,

the largest UK-REIT, recently posted a preliminary pre-tax loss of £4.77 billion (€5.5 billion) for the year to 31 March 2009.

JUST NUMBERS

Despite their status as professional moneymen, institutional investors are bound to be depressed when faced with such awfulness. They're depressed because of the negativity of the numbers and the turmoil in the markets, because of the implications of recent bad performance for the long-term robustness of their investment strategy, because of the impact on the health-and-wealth of both their members and beneficiaries and their plan sponsors, and also because they can't see a way out. And we haven't seen the end of the negative annual returns; if you thought 2008 was bad, wait for the 2009 numbers.

Investors are questioning why they let themselves get caught up in the "irrational exuberance" of the past four years, how they got suckered into buying real estate assets and funds at the top of the market. True, some stayed out of the market, unhappy with pricing and value for money, but some now know they forgot the basic investment premise of "buy low, sell high".

It's natural in such circumstances that investors question the rationale of investing. Let's leave aside for the moment the awkward questions that are undoubtedly being asked of investment managers and investment consultants at trustee and plan sponsor meetings — where, if you want to keep the business, it pays to be honest, open and transparent about decisions, returns and prospects. Those questions can wait till another time; first of all, things need to be turned round.

Generally, investors know why they are invested in real estate — diversification, risk-adjusted returns, secure cashflows, maybe some capital growth. But they should always review their benchmarks and strategic asset allocation; they should always know why they are invested in a particular asset class, what they seek from the allocation and what they're getting.

For multi-asset institutional investors such as pension funds, insurance companies and sovereign wealth funds, this down market has sent asset values tumbling and asset class weightings askew, and is a prime reason to review asset allocation. They'd be failing in their fiduciary duty to their members and beneficiaries if they didn't. It's notable that the denominator effect is now sufficiently well understood not to need inverted commas any more. Some of the solutions that investors adopt — new targets for new times — may not be to everyone's liking.

WORK IT OUT

However depressing and frustrating the current market conditions and prospective returns must be, investors know that the time to get out is not when the market is heading toward the bottom. This would be the worst time to bale out, to sell, to divest. They know this. Even if they need to raise some money for use elsewhere, it has to be better to sweat the property assets they have, take the income and work them through until markets recover. Not for nothing are real estate investment managers now bringing out their workout specialists.

It's probably not a good time for most investment managers — themselves under severe *ad valorem* revenue pressure — to ask investors for more money, to go into asset or fund refinancing or into capital-raising for new funds; the saying "throwing good money after bad" comes to mind. Investment managers who are now seeking to call down the capital that investors committed to in "the good years" could find it a fraught exercise. But investors who can see and afford the opportunities that are becoming evident — and have the money ready, given the dearth of debt — will benefit.

One hallmark of this market downturn is that investor/investment manager relationships are being tested to the full. Not all relationships will survive the strains. Poor performance is resulting in proven and claimed expertise undergoing examination; and reputations are on the line. Investors should keep the faith, though, and stay invested. And let their investment managers manage.

Richard Fleming
25 May 2009
Kimberley, United Kingdom

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Mixing It Up

Continued from page 1

"But getting it right is not always easy," cautions Victor. "There are major design issues that require multiple inputs, in order to ensure that each use is complementary and does not create conflict within the finished project. However, when successfully designed, executed and managed, the large-scale, urban, mixed-use development can create enormous value. This tremendous upside potential is another important reason why investors will continue to look for opportunities to build mixed-use wherever they can."

Many mixed-use schemes have retained their appeal and appear to be moving ahead.

Although the long-term nature of mixed-use projects should appeal to large institutions, sometimes it is difficult to articulate the bull case for these schemes to investors. After all, development is at the riskier end of the scale, and both lenders and investors seem more apt to eschew rather than embrace risk these days.

It doesn't help that evaluating these projects is difficult, particularly when too much emphasis is based on quarterly results. The true benefits from mixed-use come from synergies created in locations where new product fills a gap in the market. Often, however, the first piece of a large-scale project will need to be discounted to buyers or tenants in order to get them into the scheme and buy them through the pain of living among an ongoing multi-phase development. If the first building of a successful mixed-use development is destined to be a lossleader, that's a particularly tough sell in today's environment where the availability of capital is at a premium.

"While mixed-use has become more acceptable for institutions, it's undeniably harder to rate its performance," Kopec points out. "There's no benchmark for measuring success; no IPD index for mixed-use. Asset managers and their performance fees are often based on measurement against a standard index, and there's no formal benchmarking process. So not only is it a riskier investment, but you cannot really report back and value it on a quarter-by-quarter basis, especially in a project that is structured to add value through a stepped process and may not be finished for 10 years."

THE COMMON GOOD

The diversity of mixed-use schemes can go a long way in overcoming inertia to help projects break ground, especially in times of limited funding. If the residential market is performing, for example, housing unit pre-sales can help offset financing costs. If the retail market is in favour, there may be less pressure to secure pre-leases on an office component before construction begins.

The other key advantage is that these schemes have a great deal to offer the communities from a creation theme. "No-one wants to live, work or play in a dead zone," says Andrew Thompson, managing partner with Cushman & Wakefield. "Mixed-use schemes, when done well, can both counteract downtimes of the day and eliminate dead zones by creating life and activity on a 24-by-7 basis. This adds value to

"Mixed-use is here to stay because it's a means to create functional new quarters of cities and make them sustainable."

— Katie Kopec, lead director, Jones Lang LaSalle's development and asset strategy team

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each part of the scheme. The sum of its parts becomes greater than the whole."

Standard office centres that otherwise might become stagnant at night can extend the life of an area — and subsequently the income potential of a project — if they are combined with a residential and leisure component. People like to live near where they work, eliminating long commutes and improving the quality of life. With a shopping centre development, public transport is also likely to improve, thereby adding benefits to the residential and office components. The synergies are undeniable when everything works together.

Mixed-use schemes can also be effective in overcoming the big hurdles associated with an often-contentious zoning and planning approval process where all constituents are only too happy to offer an opinion. "In the United Kingdom, for example, you generally need certain percentages of affordable housing," explains Duncan Hamilton, director with Grubb & Ellis Global Corporate Services. "Filling such a housing shortfall, along with offering new retail options for a neighbourhood that might lack in this regard, can go a long way in gaining traction and political will. It's a means to align developer and community goals."

Marriage of Convenience: Stenham Property's recent £25 million (€29 million) acquisition from Grosvenor Estates of the long lease on 52 Grosvenor Gardens in the prestigious London West End district of Victoria is a classic example of a prime multi-tenant mixed-use property that benefits investors, landlords, tenants and users. The 8,696-square-metre building, which comprises a retail ground floor and eight office floors, sold at an equivalent yield of 9.44 percent.

ADDRESSING THE ISSUES

Given the current populist attitudes toward financiers and investment bankers for their role in creating or exacerbating the current economic malaise, it has become more important than ever for any large-scale project to proactively illustrate what it offers to the community. This was underscored by Mayor Boris Johnson's recently released London Plan, which is a loose guide for future development across the city. The focus appears to be on brownfield sites that can build affordable housing, revitalise neighbourhoods, and create jobs and economic prosperity in a responsible and sustainable manner. Issues of climate change and green building are strong themes and are not likely to be fads. Any mixed-use scheme would be wise to address as many of these as possible.

Yet aligning goals of investor and community are not simply enough to succeed in today's conservative lending environment. The current financial crisis affects mixed-use developments because they typically require considerable initial investments. Given that securing large loans in excess of €100 million remains a significant challenge, it's difficult to move ahead even with the best of intentions and political backing. Another conundrum is the reality that acquiring prime land offers the best security for investors, yet these parcels are costly and require a sizeable upfront commitment.

Jörg Banzhaf, managing director for project development with ECE Projektmanagement International, agrees that the key challenge at the moment is to find and secure debt at a reasonable cost. Traditional lenders do not have the balance sheets to loan on higher-risk projects such as master-planned communities that take years to unfold. "There is some

> ***The true benefits from mixed-use come from synergies created in locations where new product fills a gap in the market.***

uncertainty about the direction of rents, since the economic slump is affecting all kind of industries," he explains. "In general, retail still looks quite robust, but even here a slight decrease is to be expected. Office and residential sectors are more directly exposed to the economic downturn. Under these conditions, it is not easy to forecast a return on investment, and that makes it difficult for lenders to underwrite projects."

Banzhaf suggests that one possible approach to this financing obstacle is segmenting and marketing mixed-use projects separately, which could be sold piece-by-piece to investors. An alternative is to develop the project in phases, with each clearly demonstrating how it will contribute to the greater good. Whatever the case, it is critical that the project should deliver on areas that are underrepresented in the neighbourhood. It would also behove investors to look for a high degree of creditworthiness in any potential tenants, along with a development partner with an excellent track record and extensive experience in delivering complex real estate projects in inner-city areas, adds Banzhaf.

PRIME OPPORTUNITIES

Despite the scarcity of debt finance, some see encouraging signs on the horizon. "Financing is starting to trickle through right now, although banks continue to be very selective in what they will fund," says Jon Neale, head

Going Up in the World: Scheduled for completion in 2011, the first phase of Peel Media's ambitious 14-hectare mixed-use MediaCityUK development in Manchester's Salford Quays district will comprise 65,000 square metres of office space and 23,225 square metres of studio capacity. The £500 million (€571 million) development is aimed at media users and will include retail, leisure and residential elements as well as a 218-bed hotel. Anchor tenants will include the BBC and the University of Salford.

of development research with Knight Frank. "There are certain developments that will go through unscathed in prime markets like London and other high demand areas. Money is still available if it's the right project. The problem will be in secondary cities and locations that are deemed higher risk. It will be hard to get those going again, and a lot of funds may be unwilling to consider development in non-prime locations."

Several marquis mixed-use schemes in London appear to be intact. Developer Argent is forging ahead with Kings Cross Central, a 27-hectare brownfield site in an area with a seedy reputation that has resisted gentrification for years. The current scheme boasts an unbeatable infill location north of the City, centrally located and with excellent connectivity thanks to the adjacent rail and underground stations. With political backing, long-term funding in place, and a smart mix of residential, office, leisure and cultural assets, that massive development appears to be moving forward unscathed.

Across the river, the £4 billion (€4.6 billion) Battersea Power Station redevelopment has retained its public support, while The Shard, a high-profile 130,000-square-metre mixed-use development at London Bridge, has secured major pre-lets with Shangri-La Hotels and Transport for London.

"There are quite a few schemes dotted around London, big sites that probably will not be affected because the people behind them have long-term financing and very long-term horizons looking 20 years into the future," says Neale. "The current cyclical challenge might slow them down, but it's not going to stop the whole project. It's the small ones that face the greater liability."

LANDING BARGAINS

Targeting opportunistic returns is certainly the norm for any mixed-use investor, to reflect the myriad challenges in seeing a project through to fruition. It generally begins with a prime parcel, and the current down cycle could be beneficial in providing opportunities for savvy land acquisitions. Owning and holding property may no longer be a priority for large corporate users, who in general are looking for any and all cost-cutting measures.

"From the corporate side, 90 percent of our clients are looking to achieve savings," confirms Hamilton. "They're looking at their real estate and actively managing portfolios and shedding properties as a means to cut costs. Some are willing to invest with consultants and spend money to do planning work to maximise values, while others simply want to raise cash immediately. An opportunistic investor can now pick up land parcels with significant underlying value."

Of course, that investor will need to have equity ready to deploy, since financing land acquisitions is troublesome at best right now. "We have some clients with sites in Spain and Italy — one on the outskirts of Madrid, in a secondary market but with strong upside potential and excellent demographics. We've had interest from a variety of developers, but some lost their funding. These clients are willing to do attractive deals and work on beneficial terms. It's a sign of the times. Things may improve next year, and it's a great time to go out and pick up land at discounts. It may also be an excellent time to do rezoning and planning depending on the given market," Hamilton adds.

Knight Frank estimates that UK land is cheap right now — down some 40 percent to 50 percent in some cases when factoring in currency conversions. At these post-bubble prices, it could represent uncommon value. "If I were looking to invest in UK properties, I would strongly consider development land rather than anything already built," says Neale. "There's still a lack of supply of housing in the south-east, and I expect new master-planned communities to emerge near certain key centres, such as Oxford, Cambridge, Brighton, Bristol and around the London commuter belt as well. The current credit issues are hiding the problems with the undersupply of housing. I see real opportunity here."

EASTERN CAUTION

Building on the themes of strong demographics and an emerging middle class, central and eastern European markets were able to attract substantial capital for

Fit for Purpose: Ballymore's Eurovea mixed-use development, located on the northern banks of the River Danube in Bratislava, will give the Slovak capital a new focus when it opens in 2010. The first phase, covering around 230,000 square metres, will feature more than 23,000 square metres of class A office space across three landmark buildings and with flexible floorplates, a 55,000-square-metre Pribina Galleria shopping centre with leisure and entertainment facilities, a five-star 207-room Sheraton hotel and 236 riverside apartments.

master-planned communities and mixed-use schemes in recent years. Today, economic woes are prevalent throughout central and eastern Europe, and loans for these projects are difficult to secure.

Nevertheless, mixed-use schemes are progressing — for example, Ballymore's Eurovea development, a riverside mixed-use office, residential, hotel and shopping centre scheme located in the heart of Bratislava, Slovakia, looks well on the way to adding to the examples of successful central and eastern European projects.

Still, Banzhaf cautions that investors in central and eastern Europe need much more expertise and help in distinguishing bad locations from good ones. Until recently, it was relatively easy to execute successful real estate investments as everything seemed to work. But this is no longer the case. Still, he sees groups of investors, including pension investors, both open-end and closed-end real estate funds, and high-net-worth families, canvassing the markets for the right opportunities.

Andrew Thompson of Cushman & Wakefield shared anecdotal evidence, having recently contacted approximately 150 developers and investors historically active in central and eastern Europe. His firm was marketing a project and seeking a joint venture partner to help develop a substantially pre-leased shopping centre. The results were interesting and covered a wide range of responses to this opportunity.

"We expect to see more, not less, of these forward-looking, people-focused commercial developments."

— Peter Victor, senior managing director, Cushman & Wakefield

Some investors were actively courting opportunities, but the return expectations were too low for what they perceived as the risks. Others wanted to invest, but simply didn't want to be first or preferred taking a wait-and-see approach. And yet another group was avoiding central and eastern Europe altogether for opportunities in western markets.

"But there was a group of bold investors who indicated an expectation of re-entering the market by year-end," says Thompson. "These investors cited a lack of supply that they believe will provide significant opportunities to achieve excellent returns within the next three to four years, just as the completion of any project might correlate with recovering markets and a rising cycle."

BIG IS BEAUTIFUL

There is no denying the many significant challenges for getting larger, urban, mixed-use projects underway. The sheer size and complexity of the developments, the many moving parts and players, and today's limited sources of adequate capital all pose issues. "And don't forget that the exit strategy for the developer, investor and lender can be complicated if the project design does not specifically allow for an eventual break-up of the entire development into separately owned and operated pieces. All this further limits enthusiasm for pursuing these ambitious projects in today's environment," says Victor.

Notwithstanding these challenges, there are new, fantastic mixed-use projects currently underway all over Europe, including Porta Nuova in Milan, MediaCityUK in Manchester and City Quays/Titanic Quarter in Belfast. In each case, there is already strong interest from corporate occupiers, hotel operators, retailers and residents, which, in this environment, clearly demonstrates the continuing appeal of this type of commercial development.

"Ultimately, any delay in future mixed-use development should be temporary," says Victor. "When larger development funding returns to the market, we expect to see more, not less, of these forward-looking, people-focused commercial developments." ❖

Alexis Petrakis is a freelance writer based in Berkeley, California, USA.

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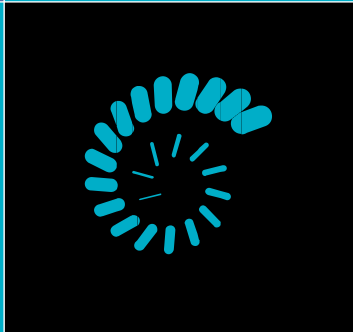
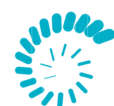


Some of the symbols that represent Europe.



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Investment News

CURRENT REAL ESTATE FUNDS ACTIVITY SUMMARY				
Firm Fund	Lifecycle	Size (M)	Type	Investment Focus
Credit Suisse Credit Suisse Real Estate Fund Green Property	Close	SFr 300 (final)	— Closed-end	Green real estate investments in Switzerland
F&C REIT Asset Management Devonshire UK Opportunities Fund	Launch	£300 (target)	Opportunistic —	UK distressed assets
Henderson Global Investors Henderson Central London Office Fund II	Launch	£500 (target)	— Closed-end	Office properties in central London
Mountgrange Investment Management Mountgrange Real Estate Opportunity Fund	Close	£300 (final)	Opportunistic Closed-end	Property in the United Kingdom
SEB Asset Management SEB Real Estate Portfolio	Launch	n/a	— Fund of funds	Open-end real estate funds and listed property

OFFERINGS

F&C REIT Launches £300 Million UK Opportunity Fund

F&C REIT Asset Management, a London-based fund manager, has launched a UK opportunity fund targeting £300 million (€343 million) in equity from institutions and high-net-worth individuals. Devonshire UK Opportunities Fund will target assets becoming available in distressed situations. The fund is aiming for IRRs of 20 percent; it is the first fund launched by F&C REIT, which was formed as a merger between F&C and REIT Asset Management. Leo Noé, chairman of F&C REIT, will lead Devonshire UK Opportunities Fund.

The firm was established in 2008, but it has already completed the largest property deal of 2009. In March, the firm teamed up with New York City–based AREA Property Partners to purchase a property portfolio from the collapsed property empire of fund manager Dawnay Day. The portfolio consists of 211 properties, 70 percent of them retail, and includes landmark properties such as the Austin Reed store on London's Regent Street. The portfolio was awarded to F&C REIT in December 2008 after a bidding process. F&C REIT claims the portfolio is now valued at £800 million (€914 million).

Credit Suisse Closes Sustainable Swiss Property Fund

Credit Suisse has closed a Swiss green real estate fund with SFr 300 million (€198 million) in equity commitments. The Credit Suisse Real Estate Fund Green Property has already committed SFr 220 million (€146 million) to projects in Switzerland. Investors include institutional limited partners, but the vehicle is expected to be open to the public within five years and to be listed on the Swiss stock exchange by 2013 or 2014.

"While we believe Swiss real estate markets are likely to have peaked, and downside risks are increasing, we expect Switzerland to outperform most other regions," Credit Suisse said in a statement.

The Credit Suisse Real Estate Fund Green Property will invest only in properties that meet sustainability and energy-efficiency criteria under the assessment of independent appraisers certified by the Swiss Financial Markets Supervisory Authority. Jean-Claude Maissen will serve as the fund manager. The vehicle was open to investors for just two weeks, closing its fund-raising period on 29 April.

Henderson Fund to Target Central London

Henderson Global Investors has launched a commingled fund targeting a total equity raise of up to £500 million (€571 million) to invest in the central London office market. Henderson Central London Office Fund II (CLOF II) will target an initial close of up to £200 million (€229 million) by the end of 2009. CLOF II will have a target maximum gearing of 50 percent.

The fund will be a seven-year absolute return, closed-end fund marketed to UK and overseas institutional investors with a target IRR of 12 percent per year over the life of the fund. CLOF II will be managed by Clive Castle and Nick Deacon, who have a combined 36 years of experience in the central London office market and have completed more than £2 billion (€2.29 billion) of transactions while at Henderson.

"The central London office market is one of the most liquid, transparent and exciting property markets worldwide," says Castle. "We are already beginning to see interesting assets at attractive prices, and aim to be in a position to invest ahead of the general market repricing expected from 2010 into 2011."

Henderson Central London Office Fund, Henderson's first fund targeted at London office properties, launched in 2004.

SEB Launches Fund of Funds for Swedish Investors

Frankfurt-based SEB Asset Management AG, a unit of Swedish bank SEB, has launched SEB Real Estate Portfolio, a real estate fund of funds for private investors in Sweden, becoming the first fund management company to receive authorisation to

Investment News

distribute the fund to the public in Sweden.

"In recent years, Sweden has seen a sharp increase in interest in real estate as an asset class, and especially in real estate products that are less volatile than real estate equities," says Barbara Knoflach, CEO of SEB Asset Management Deutschland. SEB Real Estate Portfolio was launched in Luxembourg as an FCP Part II fund.

The fund of funds will focus on open-end real estate funds (between 60 percent and 90 percent of its portfolio), real estate equities (up to 20 percent) and cash (up to 20 percent). The fund's property focus will be office assets, followed by retail and logistics and other property types.

Mountgrange Closes UK Real Estate Fund

UK-based Mountgrange Investment Management LLP has closed its first fund with a total of £300 million (€343 million) of committed equity. Mountgrange Real Estate Opportunity Fund will focus on investments in UK property. With leverage, the fund will have a total buying power of £850 million (€971 million).

The fund has attracted more than 30 investors from around the world, including the United States, Canada, the United Kingdom, continental Europe, the Middle East and Australia, with capital coming from endowments, pension funds, sovereign wealth funds, funds of funds, high-net-worth individuals and family offices.

"We believe there are opportunities in the United Kingdom [that] can provide substantial returns for our investors," says Manish Chande, a senior partner with Mountgrange. "Our task now is to bring these identified opportunities to fruition and maximise their underlying potential."

Apache Capital to Launch Four Property Funds

Apache Capital, a start-up investment firm based in London, is planning to launch four separate property funds. Apache plans to raise a London residential property fund and a London commercial property fund as well as a China real estate vehicle and an infrastructure fund.

Paul Orchard-Lisle, a former senior partner at Cushman & Wakefield and an adviser to private equity real estate firm Patron Capital, will chair Apache Capital. Orchard-Lisle was senior partner of Cushman & Wakefield for 11 years until 1999 when the firm was known as Healey & Baker. In addition to his advisory role with Patron Capital, he is a nonexecutive director of Trikona Trinity Capital, listed on London's Alternative Investment Market (AIM).

TRANSACTIONS

AEW Europe Acquires European Logistics Properties

AEW Europe, on behalf of its core-plus fund Curzon Capital Partners II (CCP II), has agreed to buy a €119.5 million European logistics portfolio from Denver-based industrial REIT ProLogis. The 228,990-square-metre portfolio consists of seven bulk distribution facilities spread throughout Germany and the Netherlands. ProLogis plans to use net proceeds of the sale to reduce outstanding debt.

AEW Europe also recently acquired two logistics properties in France on behalf of CCP II. AEW Europe purchased a distribution warehouse near Lyon for €8.9 million from EM2C, a regional developer. The 14,756-square-metre logistics facility has just been completed and is fully let on a nine-year lease term. The firm also purchased a 26,735-square-metre facility near Lille for €16.0 million. The asset, located on the Zone Parc du Beck in the commune of Wattrelos, was purchased from Goodman's European Logistics Fund. The asset was built in 2007 and is fully let to Promod SA.

In addition, AEW Europe has purchased four prime logistics assets in London from UK property company Brixton for £70.25 million (€80.3 million). The properties, purchased by AEW Europe's European Property Investors Special Opportunities (EPISO) Fund, are four of Brixton's largest single-tenant assets and include Greenford Park leased to Kühne & Nagel, Heathrow Gateway Industrial Park leased to the Royal Mail, and CEVA Logistics and the nearby Polar Park leased to the Metropolitan Police.

The value-added/opportunistic EPISO Fund raised €788 million in equity from European institutional investors in 2008 and has so far invested €170 million in six transactions, including the Brixton portfolio.

Carlyle Closes £150 Million UK Office Sale with Menolly Investments

The Carlyle Group has closed a forward sale of London office building 107 Cheapside to Irish firm Menolly Investments for £150 million (€171 million). Carlyle agreed to sell the 17,100-square-metre office development from its Carlyle European Real Estate Partners Fund in January 2007.

However, the sale's closing, which should have closed on the building's completion in February 2009, was delayed when Menolly took Carlyle to the United Kingdom's High Court in a dispute challenging the building's completion and whether a certificate of completion awarded to the building was valid. The High Court ruled in favour of Carlyle in March, but Menolly appealed. The appeal has now been dropped, clearing the way for the sale to close.

Carlyle purchased 107 Cheapside from AXA Sun Life for £67 million (€77 million) in September 2003. The property was 95 percent leased at the time, with the expectation that office space would become partially vacant within three years. Carlyle planned to refurbish the property when office space became vacant.

Orion Buys Spanish Retail, Office Assets

Orion Capital Managers has acquired two properties from a Spanish fund that has decided to liquidate its portfolio. Banif Inmobiliario has sold Plenilunio mall in Madrid, one of the biggest shopping centres in Spain, for €235 million. The fund has also sold an office building for €27.5 million. The move to liquidate the assets of the fund comes four months after the fund asked financial regulators if it could halt redemptions. The deals also come two months after Orion

Investment News

announced it was opening a Spanish office. Roberto Roca is the firm's investment director in the region.

Zurich Acquisition for Union Investment Fund

Union Investment Real Estate AG has acquired the 26,900-square-metre West-Park office building in Zurich for its UniImmo: Global open-end fund for €104.3 million. The seller was West-Park Zürich AG. The property is 94 percent occupied; the principal tenants are Schweizerische Post, Barry Callebaut, a manufacturer of cocoa and chocolate, and management consultancy BearingPoint.

Stenham Buys London Mixed-Use Property

Stenham Property has purchased 52 Grosvenor Gardens, a leasehold mixed-use property in Victoria, London. Stenham paid £25 million (€29 million) for the 8,696-square-metre property, which contains retail space on the ground floor and eight floors of office space.

"As a consequence of the turmoil in the financial sector and downturn in the wider economy, we believe value is beginning to return to the UK commercial property sector," says Paul Arenson, managing director of Stenham Property.

Harbert Buys Lyon Business Park

Harbert Management Corp, on behalf of affiliates of Harbert European Real Estate Fund II LP and Harbert European Real Estate Fund II (Parallel) LP, has acquired the Parc Mail business park in Lyon, France. The property was acquired for €39.29 million from Goodman's European Business Parks Fund.

Parc Mail consists of approximately 22,000 square metres of modern office space in 12 buildings. It is 99 percent occupied by 23 tenants.

PLAN UPDATES

Berkshire Pension Fund Hires Investment Managers

The £1.05 billion (€1.2 billion) Royal County of Berkshire Pension Fund, a UK local authority fund, has hired two new real estate investment managers as part of a diversification strategy. The pension fund has awarded Aviva Investors Global Services a global indirect property portfolio, while Macquarie Capital Funds will take responsibility for an infrastructure mandate.

The council issued seven tender notices in July 2008 for a range of investment management roles as part of a new risk management and diversification strategy to try and reduce the volatility associated with its existing allocation of 70 percent in equities.

The first wave of appointments resulted in Aviva beating seven other providers to take on an active segregated global indirect property contract, which will also include advising on the UK indirect property portfolio. Macquarie will be responsible for an active segregated portfolio of infrastructure-related investments.

French Pension Scheme Seeks Direct Real Estate Manager

The €27.7 billion Fonds de Réserve pour les Retraites, a French pension reserve fund, has launched a search for two active managers to each run €500 million in direct European real estate. Proposals were due by 26 June. The pension fund, whose assets declined 24.8 percent in 2008, will review its asset allocation strategy this year.

Aberdeen Wins Swedish Property Asset Management Mandate

Aberdeen Property Investors has won a €1.4 billion property asset management assignment with insurer Gamla SEB Trygg Liv, part of Sweden's SEB bank. The mandate will begin in 2010 and will more than double Aberdeen's property assets under management in Sweden.

Aberdeen will manage the insurer's 72-asset property portfolio in Sweden. The portfolio totals 525,000 square metres of space and comprises office buildings with elements of retail in central Stockholm as well as assets in Gothenburg, Uppsala, Malmö and Helsingborg.

RESEARCH

European Property Yields Repricing

Property values are falling and yields rising across Europe, reports Invesco Real Estate, though the pace varies significantly between markets. The UK property market is furthest through the current yield repricing, followed by France. Repricing will continue through 2010 for Spain, Ireland and eastern Europe. Germany will have only a modest peak-to-trough price correction, reports Invesco, and there has not yet been a high level of distress in Germany, Italy or the Nordic countries.

Cushman & Wakefield also reports that UK property yields are stabilising. However, capital values have continued to fall as rents and occupancies are negatively affected by the current recession.

"The United Kingdom is looking very attractive at the moment to overseas investors who can take advantage of the weak currency," says David Hutchings, head of research EMEA with Cushman & Wakefield. "Our commercial property market is among the most sophisticated and liquid in the world, and its medium-term fundamentals are sound."

Invesco Real Estate reports that 2009 will be a difficult year for property investment, but most markets should begin to stabilise in 2010. Although investors may hold to a wait-and-see approach, Invesco believes that "there could be opportunities to purchase exceptional assets at highly attractive prices, most likely in distressed markets."

German Open-End Funds Remain Resilient

Open-end real estate funds will pay out an average return on investment of 3.5 percent, reports Feri EuroRating Services AG, which analysed 33 German funds. Performance is expected to range from 2 percent to 5 percent.

"Compared to other asset classes, the open-end real estate funds manifest a remarkable resilience in times of crisis," says Wolfgang Kubatzki, head of real estate at Feri.

"We assume that the property portfolios of the

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funds will not suffer major depreciations," notes Kubatzki. "While it is true that sales prices on the real estate markets have fallen worldwide, this does not impact the valuation of fund property, and with it the fund performance, except in softened form and subject to delay."

UK Commercial Property Rents Hit 16-Year Low

Commercial property rental values in the United Kingdom have hit a 16-year low, according to IPD's UK Monthly Property Index for April, which ended at –3.21 percent, the lowest rental value equivalent figure since December 1992. UK property has been significantly impacted by the recession, and owners have seen rents fall and vacancies increase.

"The demand shock has been so severe, given the breadth of industries affected by the downturn and the scale of companies downsizing, that office relocations and expansions have been off the agenda. Given the pace of rental adjustment to date, it suggests that when the wider economy does recover the UK commercial property market will be well placed to recover from a low base," says Malcolm Frodsham, research director at IPD.

OTHER NEWS

EC Proposes Further Fund Regulation

The European Commission (EC), the secretariat for the European Union, has pleased some and angered others with its draft proposals for tighter regulation of managers of hedge funds and private equity funds. The proposed new directive is aimed at Alternative Investment Fund Managers (AIFMs) and would apply to all private equity real estate and infrastructure funds that operate and market in the European Union. If enacted, the legislation would take effect in 2011. The EC's views on the desirability of the new legislation are clear; its website announcement was titled "Reining In Risky Investment."

Under the proposals, managers of Alternative Investment Funds (AIFs) will need to obtain authorisation and file detailed financial information if their funds under management exceed €100 million, or €500 million for non-leveraged funds that have a minimum five-year lock-in. AIFMs will be required to keep capital of at least €125,000 or, if greater, 0.02 percent of AUM.

Each AIF managed by an AIFM will have to appoint a valuer that is independent of the AIFM and a depositary (which must be a bank) to receive payments from investors and act as a custodian. Delegation of these, and any other administrative, tasks outside the EU will only be permitted where that entity is locally licensed by an equivalent regime, and where co-operation agreements between that regime and the EU are already in place.

AIFMs will be able to market AIFs to professional investors throughout the EU. Where the fund is domiciled outside the EU, there will be a three-year delay to this right (ie, 2014). Even then, marketing will only be permitted where reciprocal arrangements are in place and where tax information-sharing with the EU has been agreed to by the local jurisdiction.

The proposed legislation includes many other onerous requirements. Rob Moulton, partner at legal firm Nabarro LLP in London, says that "the proposal has been drawn up hastily without proper consultation, and in many ways looks like a classic EU compromise. It therefore satisfies neither side of the debate." Although the draft directive will undergo a myriad of changes before enactment and implementation, Moulton suggests that further regulation and disclosure requirements will inevitably result and that fund managers should start preparing for the changes.

M7 Investment Launches to Focus on UK Industrial

M7 Investment Management, a new fund and asset management company, has been formed by Richard Croft, the founder and former CEO of UK industrial property company GPT Halverton. The London-based firm will focus on buying light industrial properties in the United Kingdom. Croft has been joined by former GPT Halverton colleagues Taco de Groot and Teresa Gilchrist and 11 other staff. M7 Investment Management plans to offer its clients services including fund management, deal structuring and financing, and asset and corporate management.

EPRA to Relocate to Brussels

EPRA, the European Public Real Estate Association, is moving its offices to Brussels from Amsterdam in early July, following approval by the executive board and members. EPRA CEO Philip Charls says: "A major part of European policymaking takes place in Brussels, and EPRA's move will provide the association with the opportunity to build better relationships with EU policymakers on a day-to-day basis."

EPRA's new address in Brussels will be: Boulevard de la Woluwe 62, B-1200 Brussels, Belgium. Telephone: +32 (0)2-739 1010. EPRA's annual conference will take place near Brussels on 3–4 September. ❖

Calendar of Events

SEPTEMBER 2009

European Public Real Estate Association (EPRA)
EPRA Annual Conference 2009
Dolce La Hulpe Brussels
Brussels
+31 (0)20-405 3830
info@epra.com
www.epra.com
3–4 September

Global Real Estate Institute
GRI Europe Summit 2009
Intercontinental Grand Hotel
Paris
+44 (0)20-8445 6653
www.globalrealestate.org
15–16 September

Global Real Estate Institute
GRI Russia 2009
Venue TBD
Moscow
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www.globalrealestate.org
30 September

Institutional Real Estate, Inc.

Upcoming Events

The Letter – Europe
Editorial Advisory Board Meeting
By invitation only
Penha Longa Resort
Sintra, Portugal
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29 September–1 October

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INVESTMENT

by Larry Gray

Asset Values Take a Hit

Managers Take Write-Downs, Investors Tighten Purse Strings

Real estate investment managers took a broadside hit from the recent global financial markets implosion — a result of the US subprime mortgage crisis — and its subsequent adverse economic fallout. Now, managers are knee-deep in the wreckage, battling a host of challenges including liquidity issues due to the frozen credit markets, softening property fundamentals fuelled by global recession, investor redemption requests in some cases, and significant portfolio write-downs in most cases. The damage is evident in the assets under management figures reported in a survey of real estate investment managers conducted by Property Funds Research, a research and information firm and the UK branch of Feri EuroRating Services AG, and Institutional Real Estate, Inc, a US-based publishing and consulting firm.

Responses from 113 firms, including many of the largest real estate investment managers around the globe, revealed that portfolio values were down, in some cases by more than 40 percent to 50 percent. Combined, the firms' year-end 2008 assets totalled more than €873.6 billion. A similar survey for 2007 tracked 107 real estate managers with total assets of €1,030 billion. Of the 81 firms that supplied AUM figures for both 2007 and 2008, nearly 70 percent reported a decline, with the average change registering –13 percent. It is more than likely that 26 fund managers who completed the 2007 survey but declined to take part in 2008 were influenced by the desire

Executive Summary

- **Turmoil in the global financial markets has caused real estate fund redemptions and significant write-downs of asset values.**
- **Real estate managers' AUM shrunk by an average of 13 percent during 2008.**
- **European properties represented more than 49 percent of managers' aggregate AUM, while North America accounted for 34 percent.**

GLOBAL REAL ESTATE ASSETS UNDER MANAGEMENT (€M, as of 31 December 2008)

Rank	Fund Manager	Total	Europe	North America	Latin America	Australasia	Asia	Middle East	Africa	Other
1	ING Real Estate Investment Management	66,458.00	27,317.00	30,636.00	—	5,579.00	2,925.00	—	—	—
2	RREEF Limited	41,051.00	17,501.00	21,243.00	—	—	2,306.00	—	—	—
3	AXA Real Estate Investment Managers*	40,246.00	40,026.00	—	—	—	220.00	—	—	—
4	Tishman Speyer	34,932.79	4,026.45	30,266.99	316.80	—	322.55	—	—	—
5	UBS Global Asset Management	32,458.73	14,652.71	11,767.86	—	222.06	5,816.11	—	—	—
6	AEW Capital Management*	31,105.33	17,528.18	10,200.82	—	—	130.74	—	—	—
7	Hines*	30,310.10	4,012.80	24,589.01	964.05	—	744.23	—	—	—
8	LaSalle Investment Management*	29,524.92	9,769.80	12,858.79	431.02	—	6,465.30	—	—	—
9	Aberdeen Property Investors Holding AB*	27,880.00	26,900.00	350.00	—	30.00	600.00	—	—	—
10	CB Richard Ellis Investors*	27,657.16	6,608.98	15,804.09	—	—	1,939.59	—	—	3,304.49
11	Aviva Investors	26,408.50	25,165.40	46.20	—	82.94	1,113.96	—	—	—
12	Brookfield Asset Management*	25,629.21	958.30	16,530.36	2,873.47	5,232.59	—	34.48	—	—
13	Commerz Real	21,700.00	19,460.00	1,130.00	—	—	1,110.00	—	—	—
14	Pramerica Real Estate Investors	21,072.50	3,450.40	14,910.00	709.50	—	2,002.60	—	—	—
15	Invesco Real Estate*	18,802.20	5,661.82	12,660.73	—	108.69	370.97	—	—	—
16	AIG Global Real Estate*	18,677.57	—	—	—	—	—	—	—	—
17	BlackRock	18,656.01	2,821.03	15,487.29	—	346.97	—	—	—	—
18	PRUPIM**	16,601.25	15,310.90	949.12	—	—	340.17	—	—	—
19	IVG Funds GmbH	15,295.00	14,119.00	1,021.00	—	—	155.00	—	—	—
20	Heitman International*	14,077.14	3,071.02	10,988.16	—	—	17.96	—	—	—
21	Beacon Capital Partners	13,433.48	4,382.04	9,051.44	—	—	—	—	—	—

GLOBAL REAL ESTATE ASSETS UNDER MANAGEMENT (€M, as of 31 December 2008)										
Rank	Fund Manager	Total	Europe	North America	Latin America	Australasia	Asia	Middle East	Africa	Other
22	Centro Properties Group	12,835.92	—	8,724.41	—	4,111.50	—	—	—	—
23	Walton Street Capital***	11,493.89	—	—	—	—	—	—	—	—
24	Rockpoint Group (Q3)	11,144.76	1,725.52	6,574.50	—	—	2,844.74	—	—	—
25	Standard Life Investments	10,431.95	10,140.07	9.45	—	110.24	172.19	—	1.00	—
26	Bentall*	10,401.47	—	10,401.47	—	—	—	—	—	—
27	AMP Capital Investors Limited	10,379.04	—	—	—	10,379.04	—	—	—	—
28	Henderson Global Investors*	10,347.00	8,269.00	1,795.00	—	—	283.00	—	—	—
29	Syntrus Achmea Vastgoed	10,000.00	9,600.00	300.00	—	—	100.00	—	—	—
30	Starwood Capital Group Global	9,195.11	3,735.51	4,741.23	143.67	—	215.51	—	—	359.18
31	Legal & General Property	8,979.92	8,979.92	—	—	—	—	—	—	—
32	Hermes Real Estate Investment Management Ltd	8,800.00	—	—	—	—	—	—	—	8,800.00
33	Schroder Property Investment Management Ltd	8,358.37	8,295.37	—	—	—	62.99	—	—	—
34	Macquarie Global Property Advisors*	7,948.74	1,150.83	—	—	6,797.92	—	—	—	—
35	BNP Paribas Real Estate Investment Management	7,928.50	7,928.50	—	—	—	—	—	—	—
36	F&C REIT Asset Management	7,874.36	7,653.88	—	—	—	8.40	212.08	—	—
37	Cohen & Steers Capital Management	7,821.02	1,042.53	5,154.95	—	576.89	1,046.65	—	—	—
38	Bouwfonds Real Estate Investment Management	6,849.00	5,693.00	1,156.00	—	—	—	—	—	—
39	Invista Real Estate Investment Management*	6,637.56	6,575.61	—	—	52.50	—	—	—	9.45
40	Mn Services	6,434.00	4,921.00	883.00	—	—	630.00	—	—	—
41	Valad Property Group	6,164.00	4,904.00	—	—	1,260.00	—	—	—	—
42	Patron Capital	5,830.00	5,830.00	—	—	—	—	—	—	—
43	Mirvac Investment Management	5,766.00	41.82	422.28	—	5,301.84	—	—	—	—
44	Lend Lease Investment Management	5,615.71	902.53	—	—	3,860.80	752.10	100.28	—	—
45	Scottish Widows Investment Partnership	5,249.57	5,176.08	73.49	—	—	—	—	—	—
46	Threadneedle Property Investments Limited	5,008.62	5,008.62	—	—	—	—	—	—	—
47	Rockspring Property Investment Managers*†	5,000.00	5,000.00	—	—	—	—	—	—	—
48	iii Investments	4,810.30	4,810.30	—	—	—	—	—	—	—
49	Grosvenor Fund Management	4,412.47	2,651.56	1,116.06	—	—	644.86	—	—	—
50	Russell Real Estate Advisors	4,302.40	317.10	3,258.10	—	—	677.70	—	—	49.80

** AUM includes advisory account mandates and/or non-fund assets*
*** Prudential Property Investment Managers Limited (PRUPIM) is an indirect subsidiary of Prudential Plc, incorporated in the United Kingdom and not affiliated in any manner with Prudential Financial Inc, whose principal place of business is in the United States of America*
**** GAV is calculated by equity + debt + committed capital*
† AUM as at 30 September 2008
Date for currency conversion was 31 December 2008.
Sources: Property Funds Research (UK branch of Feri EuroRating Services AG); Institutional Real Estate, Inc

not to publish significant declines in assets under management.

"Turmoil in the global financial markets and the subsequent deleveraging process saw the real estate investment market environment transition from a go-go offensive approach to a dig-in defensive mentality," states Geoffrey Dohrmann, president and CEO of Institutional Real Estate, Inc. "Institutional investors are less concerned with new deals and more concerned with managing their existing portfolios. Many fund managers are in the process of calling down capital to recapitalise deals while they work with lenders to extend maturities and restructure obligations. The bad news is that investors will continue to feel the pain in 2009 as property values get repriced. The good news is that billions of dollars committed to funds raised in 2007 and 2008 have yet to be called and are still available to take advantage of the anticipated buying extravaganza."

The "Global Real Estate Assets Under Management" table on pages 18 and 19 ranks the top real estate investment managers and shows the geographic distribution of their assets. ING Real Estate Investment Management tops the list with more than €66.4 billion and also manages the most assets in North America, with a total in excess of €30.6 billion. AXA Real Estate Investment Managers controls the largest pool of European assets, with more than

€40.0 billion, and LaSalle Investment Management oversees the largest Asia portfolio, valued at approximately €6.5 billion.

GEOGRAPHIC BREAKDOWN

Similar to past survey results, European property assets represented the largest slice of the pie, 48.8 percent of the total asset value. Assets in North America posted a 34.2 percent share, while investments in Australasia and Asia registered 5.8 percent and 5.2 percent, respectively. Domiciles of the responding fund managers somewhat mirrored the asset geographic distribution; 54 percent of the managers surveyed are based in Europe, while 29 percent are headquartered in North America, 12 percent in Australia and 5 percent are centred in Asia. Analysing the discretionary

DISCRETIONARY SEGREGATED MANDATES UNDER MANAGEMENT (€M)

Rank	Fund Manager	Total	Europe	North America	Latin America	Austral-asia	Asia	Middle East	Global	Number of Mandates
1	AEW Capital Management	20,114.30	12,284.09	7,830.21	—	—	—	—	—	n/a
2	AXA Real Estate Investment Managers	19,180.00	19,180.00	—	—	—	—	—	—	10
3	LaSalle Investment Management	17,355.77	6,393.47	8,692.25	—	660.90	423.84	1,185.31	—	103
4	CB Richard Ellis Investors	15,739.44	5,384.89	6,742.60	—	232.03	442.51	2,937.41	—	98
5	ING Real Estate Investment Management	15,220.00	4,653.00	10,156.00	—	—	411.00	—	—	63
6	Aviva Investors	12,266.15	12,162.21	25.20	—	78.74	—	—	—	61
7	Aberdeen Property Investors Holding AB	11,598.00	11,549.00	—	—	—	—	—	49.00	51
8	PRUPIM	11,474.51	11,474.51	—	—	—	—	—	—	8
9	RREEF Limited	9,861.00	318.00	9,109.00	—	—	434.00	—	—	28
10	Syntrus Achmea Vastgoed	7,700.00	7,700.00	—	—	—	—	—	—	25
11	Hermes Real Estate Investment Management Ltd	7,200.00	—	—	—	—	—	—	—	2
12	Mn Services	6,408.00	6,408.00	—	—	—	—	—	—	6
13	BlackRock	6,169.34	25.86	6,143.48	—	—	—	—	—	15
14	Invesco Real Estate	5,824.53	44.47	5,412.40	—	200.28	167.38	—	—	49
15	F&C REIT Asset Management	5,709.43	5,488.95	—	—	—	8.40	212.08	—	44
16	Scottish Widows Investment Partnership	5,018.59	5,018.59	—	—	—	—	—	—	4
17	Legal & General Property	4,702.57	4,702.57	—	—	—	—	—	—	4
18	Threadneedle Property Investments Ltd	4,208.37	4,208.37	—	—	—	—	—	—	6
19	Cohen & Steers Capital Management	4,140.74	364.64	2,004.30	—	112.40	1,659.40	—	—	69
20	Invista Real Estate Investment Management	3,963.43	3,963.43	—	—	—	—	—	—	11
21	Cushman & Wakefield Investors	3,462.00	3,462.00	—	—	—	—	—	—	16
22	Hines	2,766.43	158.76	1,898.65	529.44	—	179.59	—	—	8
23	European Investors	2,102.66	1,075.40	1,009.31	—	17.96	0.00	—	—	82
24	Royal London Asset Management	2,100.23	2,100.23	—	—	—	—	—	—	4
25	Mirvac Investment Management	2,017.14	—	1,895.30	—	121.84	—	—	—	7
26	UBS Global Asset Management	1,919.45	146.97	1,772.49	—	—	—	—	—	8
27	Franklin Templeton Real Estate Advisors	1,780.19	175.14	107.76	—	1,490.18	7.11	—	—	11
28	Pramerica Real Estate Investors	1,270.90	303.60	967.30	—	—	—	—	—	6
29	Heitman International	1,551.67	245.68	1,305.99	—	—	—	—	—	41
30	Urdang	1,354.84	—	1,354.84	—	—	—	—	—	49
31	Secured Capital Japan Co Ltd	1,255.71	—	—	—	—	1,255.71	—	—	10
32	AMP Capital Investors Limited	1,253.51	—	—	—	1,253.51	—	—	—	4
33	Sentinel Real Estate Corporation	1,196.08	—	1,196.08	—	—	—	—	—	8
34	Schroder Property Investment Management Ltd	1,139.16	1,139.16	—	—	—	—	—	—	22
35	Henderson Global Investors	1,075.00	627.00	448.00	—	—	—	—	—	20
36	Russell Real Estate Advisors	979.49	31.18	911.75	—	—	36.56	—	—	8
37	BNP Paribas Real Estate Investment Management	777.00	777.00	—	—	—	—	—	—	2
38	DTZ Investment Management	756.99	756.99	—	—	—	—	—	—	8
39	Standard Life Investments	756.99	756.99	—	—	—	—	—	—	3
40	Grosvenor Fund Management	751.74	—	751.74	—	—	—	—	—	8

Date for currency conversion was 31 December 2008.
Sources: Property Funds Research (UK branch of Feri EuroRating Services AG); Institutional Real Estate, Inc

INDIRECT REAL ESTATE INVESTMENT VEHICLES UNDER MANAGEMENT (€M)

Rank	Fund Manager	Total (€M)
1	ING Real Estate Investment Management	48,889.00
2	UBS Global Asset Management	32,458.89
3	RREEF*	31,189.00
4	Tishman Speyer	26,192.70
5	Commerz Real	21,700.00
6	Pramerica Real Estate Investors	19,801.60
7	IVG Funds GmbH	15,295.00
8	Aviva Investors	14,142.35
9	Aberdeen Property Investors Holding AB	14,136.00
10	Beacon Capital Partners	13,433.48
11	AXA Real Estate Investment Managers	12,864.00
12	Centro Properties Group	12,835.92
13	BlackRock	12,487.39
14	LaSalle Investment Management	12,212.25
15	CB Richard Ellis Investors	11,911.26
16	Walton Street Capital	11,493.89
17	Rockpoint Group (Q3)	11,144.76
18	Brookfield Asset Management	10,918.47
19	AEW Capital Management	10,906.26
20	Standard Life Investments	9,674.96
21	Starwood Capital Group Global	9,195.11
22	AMP Capital Investors Limited	9,125.54
23	Hines	8,413.52
24	Schroder Property Investment Management Ltd	7,617.13
25	Invesco Real Estate	7,485.18
26	Henderson Global Investors	7,335.10
27	BNP Paribas Real Estate Investment Management	7,151.00
28	Bouwfonds Real Estate Investment Management	6,520.00
29	Patron Capital	5,830.00
30	Macquarie Global Property Advisors	5,795.07
31	Mirvac Investment Management	5,766.13
32	Lend Lease Investment Management	5,515.43
33	Valad Property Group	5,038.60
34	iii Investments	4,810.30
35	Rockspring Property Investment Managers	4,526.00
36	Legal & General Property	4,258.45
37	PRUPIM	4,140.86
38	Transwestern Investment Company	3,735.51
39	Cohen & Steers Capital Management, Inc	3,680.28
40	Grosvenor Fund Management	3,660.53
41	Russell Real Estate Advisors	3,337.32
42	Sierra Asset Management	2,930.00
43	GPT Funds Management Limited	2,663.45
44	Secured Capital Japan Co Ltd	2,395.76
45	Charter Hall Funds Management Ltd	2,362.61
46	Syntrus Achmea Vastgoed	2,300.00
47	Cordea Savills	2,258.37
48	Heitman International	2,203.38
49	F&C REIT Asset Management	2,164.92
50	Warburg-Henderson Kapitalanlagegeselischaft	2,074.00

** excludes securities funds; Date for currency conversion was 31 December 2008.*
Sources: Property Funds Research (UK branch of Feri EuroRating Services AG); Institutional Real Estate, Inc

account mandates, 61.6 percent of the total assets represent European investments, while 32.0 percent were North American investments and only 2.3 percent of the total was in Asia.

"It appears that the managers who have suffered the most in the rankings have been those that have had to deal with redemptions, and many of these closed their funds for a period at the end of last year to prevent the need to make firesales."

— Jane Fear,
managing director,
Property Funds Research

"We are extremely pleased with the outcome of this year's Global Real Estate Fund Manager survey and very grateful to everyone who took the time to complete the survey and answer our questions," notes Jane Fear, managing director of Property Funds Research. "It appears that the managers who have suffered the most in the rankings have been those that have had to deal with redemptions, and many of these closed their funds for a period at the end of last year to prevent the need to make firesales. The effect of weakening currencies has further compounded the dramatic falls in assets under management — hitting some managers particularly hard." ❖

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STUDENT ACCOMMODATION

by Richard Fleming

Those Were the Days

My Friend, We Thought They'd Never End. Thankfully, Student Accommodation Today Isn't What It Used to Be

Students — there's millions of them, they're everywhere and the economic climate is such that their numbers are expected to swell further in the near future. Do you remember when you were a student? What do you remember most about that time? The lectures, the studying, the library? The parties, the socialising, the student union? The going home at the end of term? Managing meagre resources? Or the hunt for somewhere decent to live?

Of course, today's students have more to think about than where to live — depending on which country they're studying in and how the education system treats them, they also have concerns about the level of tuition fees and living expenses, about how much debt they're racking up by improving their education and "self-denying", about how this improved education is going to help their future employment prospects in an economy ravaged by recession, about how they're supposed to save up for a pension when they've also got to put money aside to pay off that student debt and get on the housing ladder.

But finding somewhere decent to live in these years of transient deprivation has always been a fundamental part of the student experience. Expectations of what "decent" means in this context have risen — it is no longer just enough to have your own room in a purpose-built block, it seems, today's students also want en-suite facilities and a few of life's essential luxuries. These expectations, however, collide with the reality that demand for decent accommodation far outstrips supply and that competition for rooms is fiercer even than competition for places on higher education courses.

"Essential luxuries" may be a contradiction in terms, but students represent a solid, payment-upfront tenant base, and real estate developers, operators and investors recognise this. Student accommodation is also a readily understood market — investors have "been there, done that" and they're probably also doing it all again for their children and grandchildren. After all, do you want your offspring to go through what you went through?

Executive Summary

- **Rising student numbers means that demand for affordable student accommodation across Europe is resilient and growing.**
- **Developers are meeting this higher demand with structured construction programmes, but supply is still tight.**
- **Real estate investors are keen to gain exposure to this vibrant residential investment subsector.**

THAT'S LIFE

The Big Five EU countries — France, Germany, Italy, Spain and the United Kingdom — each have around 2 million students, and the smaller countries have smaller numbers. It's a big market by any measure. For many students, especially in the Mediterranean countries, "the time of their lives" is spent at or not far from home — in the town, county, state or region — and sometimes this is a result of a country's culture, education and/or employment policy. Whether students undergo their higher education near or far from home, however, they still want to be independent of authority and they prefer to live away from home.

Student numbers are rising — due to government efforts to bring about a more highly trained workforce or, as the cynics would say, to keep the unemployment numbers down — so it is no surprise that demand for student accommodation is also rising. Many universities and colleges recognise the steep "that's life" learning curve that new students are faced with and make halls of residence available to help with the experience and transition into independent living.

VISIBLE ATTRACTIONS

Once students have endured the hall of residence experience, they are ready to move on to the next rung of student housing. Private landlords and real estate operators are waiting for them. Universities and colleges do their best to make sure that their students do not fall prey to unscrupulous landlords but the brutal fact is that the supply-demand situation is such that there are many more students than rooms available. This is the case for every student accommodation market in Europe. For operators of private accommodation and investors, this means that occupancy rates are high, rental growth prospects good and default ratios low.

A report published recently by Savills on the student accommodation market in the United Kingdom suggests that investors will continue to be attracted to the sector for just those reasons. "High demand, low supply growth, rising rents and high occupancy rates make student accommodation an investment vehicle of choice during uncertain economic times," says Jacqui Daly, director of Savills Research. She indicates that the sector will remain relatively low risk for the foreseeable future.

"An underlying supply-demand imbalance points to a robust outlook

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for the sector, while the fundamental strengths of the business model mean that capital values have not fallen to the same degree as other commercial or residential real estate," Daly continues. Marcus Roberts, head of student housing at Savills, points out that the firm's forecast of 10 years ago that student accommodation would be a counter-cyclical investment is proving to be accurate.

"At the institutional level, the counter-cyclical dynamics of the sector are boosting investor interest," Roberts says. "After risk adjustment, this is a sector that is still showing rental growth, clearly setting it aside from other commercial investment vehicles. The model is based on many individual students regularly paying small amounts of rent, meaning that the risks of large-scale default or voids are extremely negligible, with or without a university guarantee."

In the United Kingdom, the portfolio of the largest developer and operator, Unite Group Plc, is being augmented this year by a further 2,772 beds in 13 developments across six cities. At year-end 2009, its portfolio will comprise some 39,000 beds in around 130 developments. Unite's principal investor mechanism is the Unite UK Student Accommodation Fund (USAF), launched in December 2006; it is "drip-fed" by new Unite developments and now has 53 properties in 17 cities. Geoffrey Maddrell, outgoing Unite chairman, comments that student accommodation "has now been firmly established as an institutional-grade property asset class."

The company points to the rising student registration numbers in the United Kingdom as evidence for the growing demand for student housing. According to UCAS, the Universities and Colleges Admissions Service, 524,151 people have applied to start full-time undergraduate courses in September/October, an increase of 8.8 percent over the previous year, which itself represented a 10.4 percent intake increase on the year before. Savills Research estimates that this growth outpaces the new supply of accommodation by a factor of 10 to one, rising to 15 to one in London. These are numbers real estate investors can work with.

London is a prime focus. Unite's development programme for 2010, for example, comprising three developments and a total of 1,125 beds, is reduced from earlier plans but will concentrate on London, "where demand and rental growth prospects are strongest."

The UK capital city suffers from a chronic shortage of student accommodation, not helped by the large numbers of foreign students who opt for London universities, and a marked lack of development space and potential. Foreign students are an important source of revenues for higher education institutes; it is also the case that foreign students gravitate toward private halls, despite the expense, as a way of avoiding potential cultural and language difficulties in the shared housing sector.

King Sturge, in a report published earlier this year, identified falling residential land prices in London and the weakness of sterling as prime land-acquisition opportunities for foreign developers and investors.

EASIER THAN EVER

In Germany, Alta Fides AG, based in Stuttgart, has embarked on the first three of its "Youniq" student housing developments in the university cities of Erlangen, Greifswald and Leipzig. Two of these cities are in the eastern part of the country, the former German Democratic Republic, where the quality of higher education was second to none but where the quality of student accommodation lagged behind. Where the quality of most accommodation lagged behind.

A Far Cry from Home: Student accommodation has come on a long way since we were students. Today's cohorts have expectations that student housing developers such as Alta Fides AG are happy to meet: en-suite bathroom, kitchenette, internet connection, utilities, furniture.

The majority partner in Alta Fides is a fund owned by Corestate Capital AG of Zug, Switzerland. Corestate Capital's COO Thomas Landschreiber explains that the Youniq concept — Youniq is a play on words, covering you, uni, unique and IQ; it works well enough in English and apparently in German, too — is a result of research with student focus groups that aimed to find out more about the kind of accommodation students actually wanted. "Students want to be independent and private," says Landschreiber, "but they also want to be together."

Unsurprisingly, the higher expectations of today's students came through in requirements not just for higher-quality en-suite accommodation but also for an optimal learning environment close to campus and on-site sport and recreational facilities. The all-in rent for a new Youniq single-bedroom apartment with built-in kitchen and bathroom starts at €350 per month, depending on location; this includes utilities (power, heating, water), internet connection and furniture. This compares very favourably, for example, with the "from £113 to £199 per week" — equivalent to €520 to €920 per month — that Unite in the United Kingdom is seeking for units in the second phase of its Plaza development in Leeds, pictured on page 25.

Alta Fides plans to roll out the Youniq concept across other German cities — Heidelberg, Karlsruhe and Munich will be next and from 2010 the company is planning to complete between 1,500 and 2,500 residential units per year across some six to 10 developments. An internal ranking system will be used to inform decisions on where to embark on developments; a primary criterion will be that student numbers in a location should be greater than 5,000.

Landschreiber says that as the first specialist private provider of purpose-built student accommodation in Germany Alta Fides is pushing at an open door: "It will be easy to become market leader." IRR objectives for the developments will be the same roughly as for Corestate

Discerning Tastes: The Unite Group's 1,500-bed Plaza development in Leeds is a good example of how student accommodation has developed to meet changing needs. Located within walking distance of four prominent universities and colleges, the second phase of the Plaza development features a 37-floor high-rise building that includes upper floors with premium rooms, luxury fittings and "stunning views".

Capital's residential fund; above all, the lack of correlation with the economic situation and other property sectors is useful and the investment being undertaken — some €100 million per year — should generate attractive returns, both for the company and its investors.

Will Alta Fides take Youniq outside Germany? Quite possibly, says Landschreiber, to Austria and Switzerland. "But not yet, there's enough to do in Germany. We've only just started, it's the beginning of a long road."

GOOD BUSINESS

Back in the United Kingdom, Brandeaux recently re-opened its £700 million (€800 million) student accommodation fund — dealings were suspended last December following a high level of redemption requests — and announced its intention to launch euro and US dollar versions of the fund for international investors. The new funds will be offered on the same terms as the Brandeaux Student Accommodation Fund and will invest in the firm's existing 15,000-bed portfolio through the main fund.

Chairman Kay Brandeaux reports strong demand for the new funds from institutional and wealth investors in continental Europe, the Middle East, Asia Pacific and South America. "The two new funds that we are launching to invest in student accommodation," he says, "will give further opportunities for investors to participate in this popular asset class, which has shown resilience to the current economic downturn."

The performance numbers for the Brandeaux Student Accommodation Fund will be heartening to investors looking for a real estate good story — Lipper Hindsight has total returns for the period to 30 April 2009 for one, three and five years of 10.78 percent, 34.52 percent and 58.04 percent, respectively.

You know an investment model is popular when the fund of funds players enter the market. The Coral Student Accommodation Fund of Funds was launched recently to invest in student accommodation providers and funds, in the United Kingdom initially and throughout western Europe later. The Luxembourg-domiciled open-end fund, with Coral Portfolio as the fund manager and Strutt & Parker Real Estate Financial Services Ltd (SPREFS) as the investment advisor, held its first close at the end of March and is aiming to raise around £100 million (€114 million). It has already made investments in two UK funds, Unite's 18,563-bed USAF and Valad's 1,641-bed University Capital Trust.

John Kennedy, director and fund manager at Coral in Luxembourg, explains that the rise in student numbers and the imbalance between supply and demand of quality accommodation augurs well for investments in the sector. "The student accommodation market has followed a different path to other property investment sectors," he says. "Student accommodation is an investment that is easily understood. It's a supply and demand story, and it's immediately relevant to most people through their own personal experience."

Philip Ingman, MD of SPREFS, comments that "in these market conditions it is common for university and college admissions to increase, due largely to shrinking employment opportunities. Where there is demand, there is value. We are confident that this fund will be able to offer investors competitive returns without the volatility associated with the stock markets."

A HIGH PRICE

Whether the student accommodation market across Europe remains a real estate success story depends largely, therefore, on the supply-demand imbalance continuing. On whether there will continue to be accommodation capacity constraints resulting from a lack of supply and the larger numbers of budding students who decide to embark on higher education.

A primary reason for the higher student numbers is that young people want to better themselves and realise their potential; equally, it is highly likely that many school leavers see little point in entering the job market while mainstream employment prospects are so bleak.

In the current economic environment, though, students and, more importantly, those still at school may start to think that higher education is no longer worth the higher price that many may be asked to pay in future. In the United Kingdom, for example, discussions continue on whether the current cap on tuition fees of £3,145 (€3,594) per year should be raised and, if so, what to.

Everyone and everything has a price, and higher levels of education cost and student debt have the potential to become a real deterrent. Until that point is reached, however, real estate developers, operators and investors will continue to see the student accommodation market as a useful and secure addition to their armoury. ❖

THE NORDICS

by Johan Bergman

Looking Good

Sound Fundamentals in the Economies and Property Markets of the Nordic Countries Augur Well for Investment Opportunities

Executive Summary

- **The Nordic countries of Finland, Norway and Sweden have largely stood aloof from the worst effects of the global recession.**
- **The current turbulence in the markets provides investment opportunities for investors with a local presence and real estate industry expertise.**
- **The addition of currency effects to the investment case will be particularly helpful for international investors.**

The financial turmoil of late 2008 and early 2009 has developed into a world recession, and demand has decreased significantly. The global demand for investment goods has slumped during the past six months, resulting in falling industrial production and significant layoffs, especially in the Swedish and Finnish export sectors. Swedish exports are expected to bottom out in mid-2009, due to the levelling out of the current global inventory adjustments together with increasing demand from US and Chinese consumers and a weak Swedish krona.

Finnish exports, however, are expected to experience a longer downturn, due to the strong euro and their dependence on construction materials, especially the processed wood industry. Norway has a better starting point than the other Nordic countries, due to its oil and gas assets. Although the past year's slump in oil prices has affected investments in the oil sector, Norwegian exports have remained more stable than in the other Nordic countries and the decreases in industrial production have been smaller.

In spite of these downturns, the general economic outlooks for all the Nordic countries are fairly stable relative to other countries in Europe. This is due to stable government finances, well-functioning labour markets and competitive industrial production, which generate good fundamentals for stable long-term development.

The Norwegian krone and Swedish krona have lost value against the larger currencies during the recent turbulence. At their lowest levels in March, the currencies had lost between 15 percent and 25 percent against the euro and between 40 percent and 50 percent against the US dollar, compared to the same month one year earlier. Since then, there has been a recovery, and fundamental macroeconomic factors such as current account surpluses are expected to strengthen the currencies further as trust returns to the financial markets, even if the exchange rates against the US dollar may not return to pre-crisis levels.

LINKED TO DEMAND

Employment in Sweden and Finland is expected to decrease during the coming years, as companies increase their productivity to counteract falling demand. Employment trends are linked to GDP trends with a six- to 12-month time lag, and, as demand in the economy slowly starts to increase in 2010, employment is expected to stabilise in late 2011. Norway is expected to have a smaller decrease in employment and a faster recovery due to its better initial situation in the economic downturn. However, because productivity improvements are expected to continue, employment is not expected to show a significant upswing even when the general economy recovers.

Finnish private consumption is forecast to experience the largest fall, due to an initially low savings ratio in combination with a weak labour market. In Sweden and Norway, private consumption is expected to hold up better, stimulated by increasing real disposable incomes due to an expansive fiscal policy in combination with wage increases and low inflation. In Norway, the accumulated oil and gas incomes will also lead to a faster recovery in employment.

LOW INFLATION THE KEY

As oil and food prices fell back during the second half of 2008, central banks all over the world cut their interest rates to stimulate the contracting economies. Inflation and short-term interest rates are now expected to remain low for some years, due to a combination of factors.

First, it was speculation rather than real demand that led to the booming commodity prices of recent years, which were an important contributor to the global inflation peak in autumn 2008. Second, there is currently a large output gap in the world economy, and it will take time before production reaches a level that starts to propel price increases; when this happens, globalisation now makes it possible for companies to move production to the cheapest country, creating inertia in the price-wage spiral.

The third and most important reason for low inflation in the future is the dependence of the United States on low long-term interest rates. This dependence is based on the large deficits in the US

economy, both governmental and private, which highlight the importance of low inflation expectations as a means of keeping down long-term interest rates and decreasing the deficits in a controlled way.

If the above analysis is correct, low inflation pressures will make it possible for the Nordic central banks and the European Central Bank to keep their steering interest rates at fairly low levels in coming years, creating the prerequisites for relatively low short-term interest rates.

However, there is an endogenous tightening in the credit market, and the banks' interest rate margins are high due to expected credit losses and consolidations in their balance sheets, a situation that is expected to continue for some years. The credit market is expected to recover gradually although it is hard to forecast when it will return to normality. When it does, however, we may have a situation where there is a combination of a functioning credit market, low inflation and low interest rates.

LOWER VALUES

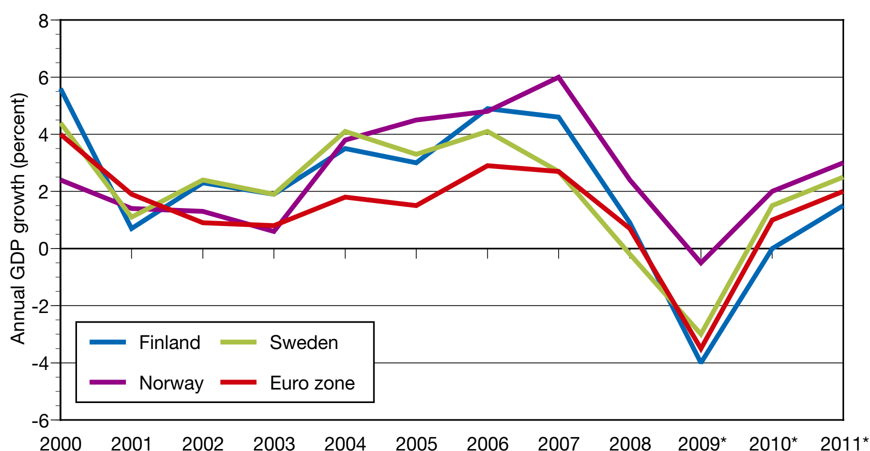
The Nordic property market has high liquidity compared to other European markets and has attracted a large number of international investors in recent years. In 2007, almost 60 percent of the Swedish transaction volume and 65 percent of the Finnish transaction volume was created by foreign investors — figures that fell to 25 percent and 46 percent, respectively, in 2008. The region has a well-developed infrastructure for international property business; property consultants have a local presence and industry know-how, which in combination with a high transparency facilitates low transaction costs.

However, the period since the second half of 2008 has been dominated by uncertainty due to the credit turmoil and the global economic downturn, and transaction activity in the Nordic countries has slowed from the historically high levels of the preceding years. Transactions are now taking longer to close, and the number of deals in the Nordic area has fallen. The high-leveraged investors and those relying heavily on financial engineering have been leaving the market in favour of the increasingly active cash investors.

A consequence of the changed market conditions is that there has been a shift of focus from financing to property management. It has now become even more important to have an "industry" approach to the market through asset selection, an understanding of the local property market and day-to-day management.

The effects of the financial turmoil on the Nordic financial system have been fairly gentle compared to North America and other European countries, which have suffered large credit losses. Aversion to risk has increased and the number of international investors has decreased significantly during the past year, as these players have switched focus to their home markets. However, the international players are expected to return to the market as the situation normalises in the rest of Europe and the United States and investors' risk aversion decreases.

Annual Nordic Region GDP Growth Versus the Euro Zone, 2000–11*



** Forecast*
Source: Newsec

TRANSACTIONS FALL BACK

Among the Nordic countries, Sweden held its ground best last year, with a strong third quarter resulting from a few large transactions; the 2008 volume was €12.5 billion, a 20 percent decrease from the €15.5 billion volume in 2007. Finland showed a 29 percent decrease in transaction volume, from €5.6 billion in 2007 to €4.0 billion in 2008. Norway showed the largest fall, 55 percent, down from €6.6 billion in 2007 to €3.0 billion in 2008; this was largely due to increases in the Central Bank interest rate and bank interest rate margins that occurred earlier than in the other countries.

During the first quarter of 2009, the Norwegian transaction volume fell to €0.29 billion, ie, by around 45 percent compared to the same period of 2008, the Swedish volume fell by 80 percent to €0.43 billion and the Finnish volume fell by around 85 percent to €0.30 billion.

Although transaction volumes have fallen dramatically, there are still large amounts of capital in the hands of institutional players and private dedicated funds that may enter the property markets if the calculated returns on their investments are right. The current market situation may open new possibilities for institutional investors and other low-leveraged equity investors to acquire a safe cashflow at a reasonable yield in several of the Nordic markets. The significant factors are the credit market and the financial system: when these normalise, transaction volumes may start to rise.

Yields increased in all the Nordic capitals in 2008 to 2009, but the forecast now differs between the countries. In Stockholm and Helsinki, the effects of slowing economic activity and declining office rents are outweighing the positive impacts of the lowered interest rates. In contrast, Norway experienced the yield shift earlier than the rest of the Nordic countries due to its high interest rates, hard financing prerequisites and expectations of declining rents. This resulted in a steep increase in yield levels during the first half of 2008. Currently, the impact of the decreasing interest rates is a significant counterweight to the negative impact

of expectations of declining rents, leading to a forecast of a faster yield recovery than in the other countries.

OFFICE RENTS LAG

The economic downturn is now affecting all the Nordic labour markets. Finland and Sweden are expected to be hardest hit by the downsizing in production, with declining employment rates of 2 percent to 3 percent per year in 2009 to 2010. Norway's current high rate of capacity utilisation in combination with a labour market that includes guest workers is likely to generate a relatively small increase in unemployment during the coming years. Employment growth there is expected to be negative in 2009 and to recover to around the zero mark in 2010.

The highest rent increases in Stockholm have been in the CBD and other central areas; the rise in office rents has levelled out and rents are expected to fall back during 2009 and 2010. In Helsinki, the smallest falls up to now have been in the CBD and other prime submarkets. However, rents in all submarkets are expected to fall during 2009 to 2010. Office rents in Oslo's CBD have risen strongly during recent years, with rent levels more than doubling between 2005 and 2008. However, rents have started to fall and are expected to decrease further in 2009 and 2010, as subletting of office space becomes more common and the vacancy rate increases.

The harder economic environment in combination with companies' continued emphasis on attracting competent workers is reinforcing the trend seen in recent years whereby companies have considered it increasingly important to locate in newly constructed or highly efficient refurbished office premises. The results of this have been a fairly quick absorption of new space put on the market but at the same time higher vacancies in the older, unmodernised stock. The future effect is expected to be that modern and efficient premises will manage better than the less efficient parts of the office stock, with a less dramatic impact on vacancies and rent levels when demand for offices falls.

NO BUBBLE HERE

All in all, property values have so far fallen by about 15 percent to 20 percent in Finland and Sweden and by around 25 percent to 30 percent in Norway. In Finland and Sweden, the values are expected to continue downwards by another 10 percent to 15 percent due to further increases in yields and decreases in rents. In Norway, values are expected to fall by a few percent more due to the sluggish rental market and despite a stabilising yield.

Despite the decreasing property values in Sweden, Norway and Finland, however, there is no real estate bubble for a number of reasons. First, the rent increases in the Nordic region during the boom years of 2005 to 2007 were relatively controlled. (The exception was Norway, which showed significant increases. However, these increases were restricted to a limited part of central Oslo and applied only to a few highly attractive properties.)

Second, the real economies of the Nordic countries are fundamentally in quite a good condition, which generates the fundamentals for a smooth recovery of the economy in general and hence in the demand for commercial premises. Third, there was no construction boom in Sweden, Norway or Finland such as was seen in Spain in recent years, and this kept the supply of commercial premises more in balance with demand.

AN OPEN WINDOW

The Nordic economies have great potential in the long term. One important factor is that population growth is high compared to other EU countries. The birth rate per woman is fairly high in the Nordic region and is supplemented by migration, which accounts for a major part of the population increase. This is highly significant for the region's long-term economic growth and the long-term demand for retail, office and industrial premises.

The second factor speaking for the region in the medium term is its well-balanced, transparent and internationally competitive economies. In contrast to countries such as the United Kingdom and the United States, the economic growth of the Nordic countries in recent years has not been based on debt. Sweden, Norway and Finland have controlled their private and governmental debt; in fact, Norway is one of the few countries in the world that is expected to have a significant budget surplus in 2009 and 2010, while Sweden and Finland expect controlled deficits over the next few years. These factors form the fundamentals for a generally smooth recovery and future economic growth as demand starts to return to the global economy.

In the short term, however, one of today's great problems for investors is the difficulty of getting financing on reasonable terms, even at a time when the general interest rate level is low. The world's governments have implemented powerful measures to solve the problems on the financial markets, but it is currently hard to say when normalisation of the credit market may occur. It may take some time for the banks to get rid of their bad credit risks and for market confidence to return.

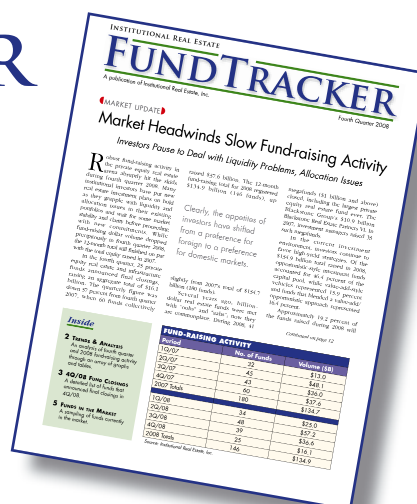
When this finally happens, the property market may find itself in a situation with a functioning credit market in combination with low interest rates and a large difference between interest rates and property yields. In addition, there is a possibility that the rental markets may have bottomed out at this time, which may generate the prerequisites for fast yield adjustments.

The effect will be that investors with local knowledge, timing and the ability to make a good asset selection may have a window of opportunity to acquire stable cashflows at high yields combined with attractive financing prerequisites. The window of opportunity is enhanced for foreign investors by indications of undervalued Swedish and Norwegian currencies and the currency effects that this may give property deals in Sweden and Norway.

At present, this situation is still a few years ahead, and until then commercial property yields in the Nordic region are generally expected to increase despite low interest rates. Investors with the right skills, however, should stand by and be ready to act when the window of opportunity opens. ❖

Johan Bergman (johan.bergman@niam.se) is MD of **Niam AB,** based in Stockholm. Niam is a private equity real estate firm with two active funds and investments across northern Europe; it is currently in the process of raising its fifth fund.

Keep an Eye on Your Competition with FundTracker.



Institutional Real Estate

FundTracker

A publication of Institutional Real Estate, Inc.

Fourth Quarter 2008

MARKET UPDATE

Market Headwinds Slow Fund-raising Activity

Investors Pause to Deal with Liquidity Problems, Allocation Issues

Robust fund-raising activity in the private equity real estate arena abruptly hit the skids during fourth quarter 2008. Many institutional investors have put new real estate investment plans on hold as they grapple with liquidity and allocation issues in their existing portfolios and wait for some market stability and clarity before proceeding with new commitments. While fund-raising dollar volume dropped precipitously in fourth quarter 2008, the 12-month total still finished on par with the total equity raised in 2007.

In the fourth quarter, 25 private equity real estate and infrastructure funds announced final closings, raising an aggregate total of $16.1 billion. The quarterly figure was down 57 percent from fourth quarter 2007, when 60 funds collectively raised $37.6 billion. The 12-month fund-raising total for 2008 registered $134.9 billion (146 funds), up slightly from 2007's total of $134.7 billion (180 funds).

Clearly, the appetites of investors have shifted from a preference for foreign to a preference for domestic markets.

Several years ago, billion-dollar real estate funds were met with "oohs" and "aahs"; now they are commonplace. During 2008, 41 megafunds ($1 billion and above) closed, including the largest private equity real estate fund ever, The Blackstone Group's $10.9 billion Blackstone Real Estate Partners VI. In 2007, investment managers raised 33 such megafunds.

In the current investment environment, investors continue to favor high-yield strategies. Of the $134.9 billion total raised in 2008, opportunistic-style investment funds accounted for 46.4 percent of the capital pool, while value-add-style vehicles represented 15.9 percent and funds that blended a value-add/opportunistic approach represented 16.4 percent.

Approximately 19.2 percent of the funds raised during 2008 will

Continued on page 12

Inside

2 Trends & Analysis — An analysis of fourth quarter and 2008 fund-raising activity through an array of graphs and tables.

3 4Q/08 Fund Closings — A detailed list of funds that announced final closings in 4Q/08.

5 Funds in the Market — A sampling of funds currently in the market.

FUND-RAISING ACTIVITY

Period	No. of Funds	Volume ($B)
1Q/07	32	$13.0
2Q/07	45	$48.1
3Q/07	43	$36.0
4Q/07	60	$37.6
2007 Totals	180	$134.7
1Q/08	34	$25.0
2Q/08	48	$57.2
3Q/08	39	$36.6
4Q/08	25	$16.1
2008 Totals	146	$134.9

Source: Institutional Real Estate, Inc.

Institutional Real Estate FundTracker is a new quarterly publication produced by Institutional Real Estate, Inc. Published five weeks after the quarter closes, it provides the most comprehensive overview of fund-raising activity in the private equity real estate arena. It features a detailed list of funds that closed during the previous quarter, as well as analysis of fund-raising activity by investment style, geographic focus and fund size. In addition, you will receive a sampling of funds that are currently being marketed. Having data like this side-by-side will give you the best view of what the competition is doing and help you better position your own products.

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by Dr William Yip and William Nobrega

A New Opportunity

The Global Meltdown Has Focused Real Estate Investor Attention on Areas of Future Growth

The global real estate correction currently underway may go down in history as one of the greatest asset bubbles the world has ever seen. Although global markets have experienced numerous asset bubbles in the past, from the Dutch tulip crash of 1637 through the dot.com bubble of 2001, it could be argued that no single speculative asset bubble of the past has been as far reaching and financially traumatic as the current crisis.

At the epicentre of this maelstrom was the US housing market, which saw housing prices explode, increasing in some cases by 50 percent or more within a two-year period. The US consumer and financial system became addicted to leveraging, with homeowners taking home equity loans on non-realised housing appreciation to finance new cars and holidays, while financial institutions jumped in head first with leverage ratios of 40:1 or greater.

Often described as the world's greatest Ponzi scheme, the carnage was not limited to the United States, spreading quickly to various parts of Europe as well. Financial regulations had been gutted in 1999 at the behest of the US Republican-dominated Congress, and new regulations that should have regulated exotic derivatives simply did not exist.

The Bush administration's initial response to the crisis was schizophrenic, first claiming that the US economy was fundamentally sound and then days later rushing to Congress to ask for $700 billion (€502 billion) in funds to stave off a financial Armageddon. In many cases, that capital was pumped into financial institutions that had made bad management decisions and had engaged in risky financial practices, ultimately rewarding bad behaviour with US taxpayer capital.

Executive Summary

- **The global economic crisis has brought to an end the easy returns from real estate investments in mature markets.**
- **The economies of China, India and Brazil offer the best prospects for future growth and real estate returns.**
- **Investors should decide on an appropriate strategy when entering such markets, including partnering with a local developer.**

WILL IT WORK?

There has now been a concerted attempt on behalf of the G20 group of leading nations to stabilise the global financial system and, in the case of the United States, to stabilise the housing market. While we believe to a large degree that the efforts to stabilise the global financial system — which have included fiscal stimulus measures, capital infusions and mark-to-market accounting rules — will be successful, we are less certain as to the prospects for the US housing market.

There are a number of reasons for this pessimism: firstly, there are more than 20 million empty homes in the United States with relatively low demand. Secondly, easy credit with low or, in some cases, no equity no longer exists, making it much more difficult (albeit more rational) to finance new homes. Thirdly, more than $12 trillion (€8.6 trillion) of equity and capital have been wiped out in the United States, making speculative buying a distant memory for most. Fourthly, US financial institutions are still adding to their loan loss reserves and, until the bleeding stops, credit will continue to be tight. So while the US housing market may be approaching a bottom of sorts, it is difficult to envision any significant rebound and concurrent appreciation of these assets in the near future.

RECOGNISING VALUE

This brings us to the proverbial light at the end of the tunnel. There are currently three real estate markets in the world that will offer investors the opportunity for significant returns going forward: China, India and Brazil. There are a number of commonalities that these three countries share: a growing middle class, a shortage of affordable/quality housing, increasing availability of financing, financial institutions that have limited or no exposure to subprime debt, and growing rates of domestic consumption.

China and India also have some of the highest domestic savings rates in the world, adding to their value proposition. In the case of China, the shortfall in housing versus demand exceeds 7 million units, according to official estimates, but this figure may mask the true demand as demographic shifts drive up demand for mid-tier multifamily housing in the coastal regions.

The opportunity for real estate investors in these three countries may be greater today than at any other point in recent memory. All three markets have felt the impact of the global recession, with reduced exports, falling commodity prices and shrinking liquidity. This has created a concurrent correction in the real estate markets of these countries. In the Chinese market, real estate prices have

No single speculative asset bubble of the past has been as far reaching and financially traumatic as the current crisis.

fallen 30 percent to 50 percent in some areas, with numerous small developers unable to complete a myriad of projects.

While the Chinese economy was clearly overweighted to exports, the collapse in demand for those exports has forced the Chinese government to reorient the economy to a much more balanced domestic-consumption model. At the core of this reorientation is a $580 billion (€416 billion) stimulus package that equals 20 percent of China's GDP. This capital is being invested in infrastructure, education and healthcare, all of which will foster domestic consumption.

In our opinion, Russia is a somewhat different story. The Russian economy continues to be overly dependent on commodities for growth, and when commodity prices decline, so does the Russian economy. The current Russian recession is deep, with double-digit unemployment and high rates of inflation. Any potential rebound in the Russian economy is not likely until 2010 at the earliest, and with high rates of inflation even an economic rebound would be tempered.

This makes Russian real estate a less attractive value proposition when compared to China, India and Brazil, and as such we would recommend focusing on the markets that have the potential for the greatest returns.

EQUAL TREATMENT

The key challenge for potential investors in any of these markets is to execute a successful entry strategy. In most cases, these markets are opaque, with byzantine legal systems that can make legal recourse difficult or take years to resolve. Many global funds have created country-specific or region-specific funds for these markets, but they are ultimately dependent on partnering with local real estate developers to deploy capital and to realise returns on successful projects.

The challenge with this approach is that, while the fund manager will claim to be an active partner that carefully screens local developers, it is ultimately a third-party observer subject to the whims of the developer in question. Additionally, this model erodes the ultimate returns of the fund and concurrent profit of the LPs, as the developer will demand a portion of the profits from the development in question. The developer may also use many other methods to ensure that it is making a hefty profit.

The optimal entry strategy for institutional real estate investors in these markets is to invest in a country-specific fund in which the GP of the fund is a reputable and experienced developer from that market. This model optimises the returns of the fund and concurrent profits of the LPs. If structured properly, it will also create co-investment opportunities for the LPs.

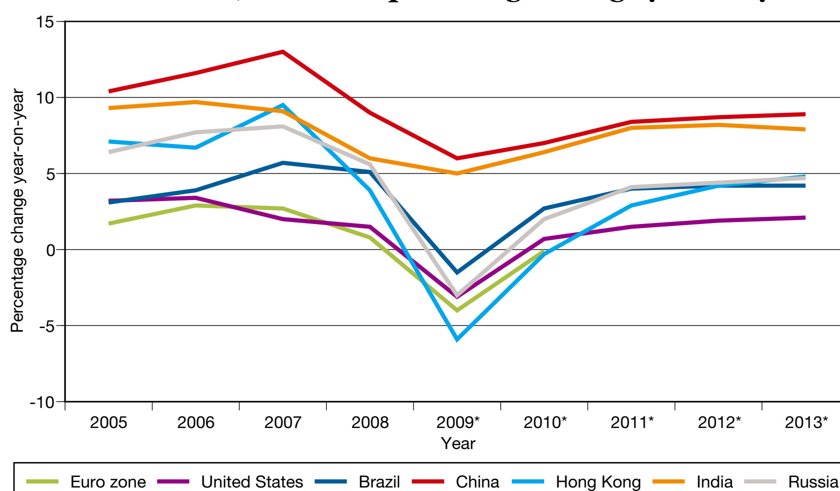
While we believe that this is the optimal model for an investor entry strategy into these markets, the investors must ensure that the fund management team also has a strong finance and accounting background with the clear oversight and transparency that can be garnered from a Big Four auditor, administrator and legal counsel.

The optimal entry strategy for institutional real estate investors in these markets is to invest in a country-specific fund in which the GP of the fund is a reputable and experienced developer from that market.

Additionally, the investment committee of the fund should comprise independent professionals as well as selected LPs.

2008 was a traumatic year, by any definition, but this has created a significant and growing opportunity for real estate investment in the markets of China, India and Brazil in 2009. We believe investors will begin to see returns on their investments in these markets in 2010 and that, over the next three to four years, these returns will significantly outperform other mature markets. Naturally, the "devil is in the detail" and investors must, therefore, deploy the optimal entry strategy. ❖

Real GDP Growth, 2005–13* (percentage change year-on-year)



** Forecast; Source: Colliers International*

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All-Europe Transactions

Sample of All-Europe Transactions, April 2009					
Buyer **Seller**	**Property**	**Location**	**Price (M)**	**Size (Square Metres)**	**Price Per Square Metre**
OFFICE					
LB Immo Invest GmbH STEP Stuttgarter Engineering Park GmbH	STEP 8.1	Stuttgart Germany	n/a	6,800	n/a
INDUSTRIAL					
Not disclosed Goodman Group	Single property	n/a France	€21.60	42,700	€505.85
Mandatum Life Insurance/Kaleva Mutual Insurance Sponda Plc	Two-property portfolio	Vantaa Finland	€20.10	20,500	€980.49
RETAIL					
Union Investment Real Estate ImmobiliarEuropea SpA	Auchan Monza	Monza Italy	€142.00	28,000	€5,071.43
LaSalle Investment Management British Land	Silverlink Shopping Park	Newcastle upon Tyne United Kingdom	£91.19	18,800	£4,850.53
Corio Not disclosed	Tekria Shopping Center	Tekirdağ Turkey	€67.60	30,600	€2,209.15
Credit Mutuel Arkea Foncière Euris/Apsys	Fleur d'Eau	Angers France	€37.00	13,000	€2,846.15
HOTEL				**Size (Units)**	**Price Per Unit**
KanAm InterContinental Hotel Group	Holiday Inn	Zurich Switzerland	€22.00	n/a	n/a

Currency Note: €10 million = £8.8 million
Source: Institutional Real Estate, Inc.

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BUCHAREST
Romania

Market Focus

By Cushman & Wakefield

PROPERTY INFORMATION (Q1 2009)

OFFICE

Prime rent:	€252 per square metre per year
Rental change over past year:	0.0%
Prime yield:	8.75%
Yield shift over past year:	+250 basis points
Stock:	1.1 million square metres
Vacancy:	3.02%

INDUSTRIAL

Prime rent:	€48 per square metre per year
Rental change over past year:	0.0%
Prime yield:	9.00%
Yield shift over past year:	+150 basis points

RETAIL (HIGH STREET)

Prime rent:	€960 per square metre per year
Rental change over past year:	–40.7%
Prime yield:	9.00%
Yield shift over past year:	+150 basis points

BACKGROUND

Bucharest is the largest city and capital of Romania. It is located in the south-east of the country, on the banks of the Dâmboviţa River. According to July 2007 official estimates, the capital has a population of just over 1.9 million, making Bucharest the sixth largest city in the European Union by population within the city limits. The metropolitan area is home to around 2.1 million people.

Post-2000, Romania (and, in particular, Bucharest) has experienced strong economic growth. Bucharest is the financial and industrial centre of the Romanian economy. It accounts for approximately 14.6 percent of the country's GDP and for around 25 percent of its industrial production. Furthermore, more than 60 percent of total foreign direct investment is being invested in the capital. The city's strong economic growth has revitalised infrastructure and led to the development of many projects, including modern residential towers, high-rise office buildings and quality shopping centres.

Bucharest has a variety of historic buildings, with a mixture of elements from the Roman period to buildings that are influenced by French architects. Landmarks from the communist period are still to be found all across Bucharest, including the famous Palace of Parliament (the largest building in Europe and the second largest in the world).

REAL ESTATE MARKET OVERVIEW

The Romanian property market performed well in the first half of 2008, on the back of strong economic growth. However, economic growth slowed rapidly toward the end of 2008, as almost all components of GDP witnessed a sharp falloff in activity. The Romanian investment market experienced a significant slowdown last year, with the total volume of transactions falling to just under €1 billion. The market has been severely affected by the credit crunch, and, while there are numerous properties for sale, there are very few prospective buyers. Bucharest continued to be the main destination for investors, accounting for more than 70 percent of total investment volume.

The retail market has seen a significant transformation over the past five years. The first modern shopping centres appeared in 2001, and development activity has accelerated since: 2008 was a record-high year for shopping centre development, with more than 720,000 square metres of gross leasable space delivered to the market. Other retail formats are also slowly emerging, with more retail parks being constructed (although standalone retail warehouse units and clusters still dominate) and the first factory outlet centre opening in 2008. Shopping centre development has been focused on the major cities, with Bucharest accounting for the majority of activity. Indeed, approximately 25 percent of total stock is located in the capital.

Bucharest has the largest and most developed office market in the country, and the majority of international companies' Romania headquarters are located there. While Bucharest has the largest population of all the cities in central and eastern Europe, office stock remains low. Indeed, the provision of modern office provision is 73 percent and 69 percent lower, respectively, than in Prague and Warsaw. While the financial crisis and global economic recession have impacted demand for office space, vacancy rates remain low — 3 percent as at December 2008. Office take-up slowed significantly in the first months of 2009.

The industrial market in Romania has historically been dominated by built-to-suit development. However, in the past two years a large amount of speculative logistics developments by international developers has resulted in a rapid expansion of the industrial market. Bucharest continues to lead the market, accounting for more than 60 percent of developed space in 2008.

Although the Romanian economy has been slower to succumb to the global downturn than others in the region, it no longer appears able to avoid recession in 2009. The investment market is not expected to recover in the near term, and transaction volumes are set to be lower than last year. ❖

Alexander Colpaert (alexander.colpaert@eur.cushwake.com) is a research analyst in the European Research Group at **Cushman & Wakefield,** based in London.

People

❑ ABC International Bank Plc (ABCIB) has appointed **Faisal Alshowaikh** as head of Islamic financial services, based in London. Alshowaikh has been tasked with growing ABCIB's Islamic finance business, which includes real estate, leasing and Islamic home finance through its alburaq Shariah-compliant retail finance unit. Alshowaikh was previously deputy CEO and head of business at Ajman Bank in the United Arab Emirates.

❑ **Odile Batsère** has been promoted to asset management director at Awon Asset Management, based in Paris. **Nicolas Ingueneau** has been promoted to investment director at the firm. Awon Asset Management is a division of Société de la Tour Eiffel.

❑ ING Real Estate Select, the global multi-manager arm of ING Real Estate, has appointed **Matt Day** as a senior fund manager on Osiris, the firm's UK fund of funds, based in London. Day, previously head of RREEF's UK multi-manager business, will also work closely with **Mark Bunney,** head of European fund management at ING Real Estate Select, on segregated portfolios.

❑ Rockspring Property Investment Managers has appointed **Hugh Elrington** as head of UK transactions, based in London. He was previously a managing partner at Pensus Fund Management; prior to that, he was a senior director and head of cross-border EMEA investment at CB Richard Ellis.

❑ **Peter Forster** has been appointed managing director of IVG Asset Management GmbH, a division of IVG Immobilien AG, based in Bonn. He was previously director and head of asset management for Germany at Deka Immobilien GmbH. Other recent appointments at IVG Immobilien include **Martin Praum** as head of investor relations and capital markets and **Steffen Ricken** as co-head of the corporate development division. Praum was previously a senior analyst and director at Deutsche Bank, where he was co-head of the European real estate research team that focuses on German and Austrian stocks; Ricken was senior vice president, real estate investment banking, at Sal Oppenheim jr & Cie KGaA in Frankfurt.

❑ Aviva Investors has appointed **John Gellatly** as head of its multi-manager real estate business in Europe, based in London. Gellatly was previously a managing director and head of real estate fund of funds at BlackRock. He is also vice chairman of the Investment Property Forum (IPF) and chairman of IPF's research steering group.

❑ Atrium European Real Estate Ltd has appointed **Ewoud van Gellicum** as general counsel and **Ljudmila Popova** as a financial analyst, based in Amsterdam. Van Gellicum was previously general counsel, company secretary and compliance officer at TomTom NV. Popova, who will report to CFO **Robert Bolier,** was previously an equity research analyst at Kempen & Co where she specialised in real estate companies that have a large exposure to central and eastern Europe.

❑ **Robin Hubbard** has been appointed executive director of CB Richard Ellis's real estate finance team, based in London. Hubbard was previously head of the European operations of global fund placement agent Probitas Partners; prior to that, he was executive director of investment banking at NM Rothschild. CB Richard Ellis states that Hubbard's appointment is a direct response to an increasing demand both for fund structuring and equity placement services and for restructuring and loan recovery work. Hubbard will work alongside **Philip Cropper,** current head of the real estate finance team in London.

❑ INREV, the European Association for Investors in Non-Listed Real Estate Vehicles, has added to its management board in advance of elections next year that will see many existing board members step down. The appointments of **Jeff Jacobson, Deborah Lloyd** and **Michael Morgenroth** are also said to further improve the alignment of the board with the membership by increasing the UK representation and including the first adviser member. Jacobson is CEO of LaSalle Investment Management, based in London; Lloyd is a partner in the indirect investment team at legal firm Nabarro LLP, also based in London; and Morgenroth is a management board member of Gothaer Asset Management AG, based in Cologne. **Jan-Willem de Geus,** managing director of Morgan Stanley and a founding member of INREV, has stepped down from the board following his relocation to Singapore.

❑ **Ulrich Lindhaus** has been appointed to succeed **Jörg Basche** as head of the front office, southern Germany, and head of the Munich office at Westdeutsche Immobilien-Bank AG; Basche has retired.

❑ PRUPIM has appointed **Joel Quintal** as manager of the sustainability and environment team within the asset management division, based in London. Quintal's responsibilities will include sustainability reporting, community initiatives and environmental programmes; he will also lead projects on environmental due diligence, environmental risk profiling, energy procurement and sustainable investment throughout the United Kingdom. Quintal, who joined PRUPIM's environment and energy team in 2007, takes over from director of sustainability **Paul Cornes,** who has taken up a corporate responsibility post at legal firm Linklaters. A further appointment at PRUPIM is that of **David Morris** as director of property development; Morris succeeds **Bob Radley,** who has retired.

❑ **Buddy Roes** has been appointed head of logistics fund management at Schroder Property Investment Management Ltd, based in Wiesbaden. Roes will also become the fund manager for the Schroder European Logistics Fund, taking over from **Robbert Bergmann** in Amsterdam. Bergmann will remain on the management board of the €600 million fund but will concentrate on other activities. Roes, previously with ING Real Estate, where he ran European logistics funds and established ING's German office, will

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People

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report to **Neil Turner,** head of property fund management.

❑ **David Swan** has been appointed managing director of WW Advisors Ltd, a newly authorised pan-European real estate consulting firm based in London. Swan was previously a director at Arcapita, a Middle Eastern private equity group, where he directed acquisitions across Europe in the logistics, residential and retirement housing sectors and handled all aspects of asset management; prior to that, he was a director of Tishman Speyer Properties in London.

❑ **Andy Taylor** has been appointed head of UK property at Stenham Property, based in London; Stenham has made a strategic decision to return to the UK commercial property market after concentrating its acquisition activities in recent years on continental Europe and Asia, primarily in France, Germany, Japan and Switzerland. Taylor was previously director and head of UK property at Hotbed.

❑ **Leo van den Thillart** has been appointed managing partner, private institutional equity, at Brookfield Asset Management Inc, based in London. Van den Thillart's responsibilities will include managing the client relationship and fund operations group, implementing fund-raising strategies and managing private equity institutional relationships. He was previously senior managing director and global co-head of the private funds group at Bear Stearns & Co, J.P. Morgan.

❑ **Zhora Tsagareishvili** has been appointed CEO and a director of XXI Century Investments, based in Kiev. Tsagareishvili has been with the company since 2003, most recently as director of the real estate investment and development division of the company's Ukrainian subsidiary. **Lev Partskhaladze** has stepped down as CEO of XXI Century Investments but retains his position as chairman; he will now devote more time to strategic issues.

❑ Sentinel Real Estate Corp has appointed **Jan Watzl** as director of European marketing and client services, based in the firm's new office in Munich, its first in Europe. Watzl, who previously held a similar position at Pramerica Real Estate Investors, will have responsibility for overseeing the firm's activities in Germany, Austria and Switzerland. He will also develop new US-focused real estate funds specifically tailored for the German marketplace. ❖

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