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Germany/Retail Real Estate

"Fachmarktzentren" bidding more competitive as institutions seek more yield

REFIRE has recently been talking with several specialist investors in German neighbourhood shopping malls, or so-called *"Fachmarktzentren"*, to get a better idea of why new investors are moving into this asset class – which they appear to be, in ever larger numbers.

A recent report published by the Munich-based closed-end fund initiator **KGAL** puts the level of commercial property transactions in Germany in Q1 at €9.5bn, or about €0.5bn less than in the same quarter last year. Still very solid figures, although the emphasis has shifted slightly in the first six months to the German residential and retail property markets, which are breaking all records. Within the retail asset category, one highlight is the growth in the segment for neighbourhood shopping centres, or *Fachmarktzentren*, which saw transaction volume jump by 42% to about €1.65bn.

With such demand, overall retail yields have naturally come under pressure, falling below 4% in many of Germany's biggest cities in the meantime. If a shopping centre is now yielding 4.4% at peak, somewhat lower than back in 2007, then high-quality *Fachmarktzentren* can generate 5.5%, with individual stores offering yields of 5.8%.

In the boom years, many foreign investors plunged into the sector and overpaid to get their hands on any retail assets they could, often without a clear concept of how they would manage the properties at a local level. The result was a bonanza for the lawyers and the special servicers who have been living from the pickings of the carcasses for the last years as the original buyers exit the market.

Old hands like investment manager **Värde**, with earlier experience of the sector, are now selectively returning to the market. It recently bought twelve shopping and retail parks (known as the **Stellar portfolio**) with a total lettable area of about 32,000 sqm from British investment partnership **Sterling Developments**. The shopping and retail parks are located in different cities in Bavaria, Baden-Wuerttemberg, North Rhine-Westphalia, Hesse and Lower Saxony and are rented to anchor tenants like **Rewe**, **netto**, **Aldi**, **Lidl** and **KiK**.

We recently visited the company **GPEP** in Frankfurt, a specialist investor and asset manager focused on retail properties. The company currently manages over 180 properties with 300,000+ sqm of lettable space and 500 tenants, on behalf of clients such as **GE Real Estate**, **Allied Irish Banks**, and Frankfurt-based fund initiator **Universal Investment**.

In July GPEP bought a portfolio of 10 **Lidl** food discount markets, acting as portfolio manager for a Universal fund. The assets are mainly located in Baden-Württemberg and Bavaria. It followed that up by buying a retail park, in Bodolz on Lake Constance, for another Universal special fund. The anchor tenants are Rewe and drugstore **Rossmann**, with leases of 10 years.

The three partners at GPEP – **Marcel Fuhr**, **Jochen Friedrich** and **Herwart Reip** – bring an eclectic mix of capital markets and retail asset management experience to the sector. They point to the several billions of euros worth of retail centres and retail parks that the banks are currently looking to sell from the old foreign-held portfolios.

Part of the attraction, if the investor can identify high-quality properties, is the ever more restrictive granting of building permits by local authorities – pushing up the values of existing properties in attractive locations. The total market of potential assets, thanks to Germany's decentralised geography, amounts to 30,000 discount food retailers and full-range providers, giving investors good scope for diversification.

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Further attractions of the sector, they point out, are low vacancy rates, long-term leases, a limited number of quality locations, and low and highly predictable management and maintenance costs.

GPEP says that, with 100% equity backing, and based on a conservative approach with a little bit of opportunistic spice thrown in, yields of 5% to 6% are realistic. With leverage of 50%, the yield can be increased to 8% to 9%, giving distributions of 5.25-6.25% annually.

Bidding in the retail sector in Germany has always been competitive, and GPEP believe it's getting even more competitive as the traditional opportunists drawn to the comparatively higher returns in the specialist *Fachmarktzentrum* market are now being joined by traditional institutionals hunting for yield, and not finding it any more in the classical 'core' markets.

Germany/Hotels

Carlyle latest investor to put hotels on the block

With interest in German hotels at unprecedented levels, numerous investors have been bringing in the consultants to review what they are doing – or should be doing – with their hotel assets.

We reported in these pages last month how traditional German brewery group **Warsteiner** was evaluating a potential sale of its **Welcome Hotels** chain, with 17 three- and four-star hotels across Germany. Asian investors are looking around for suitable acquisition, and the Chinese group **Jin Jang Hotels** have bought the French **Louvre Hotels**. There is a lot of movement in the sector.

Now US investor **Carlyle** is reported to have mandated investment bank **Morgan Stanley** to handle the sale or public listing of its **B&B Hotels** chain, aiming to raise about €1bn and conclude the sale by autumn of this year. Apart from the operating business, Carlyle has already been selling off some of the hotels it owns in the group, most recently 22 units to the French investor **Foncière des Murs**.

Carlyle owns 80% of the group, having bought it in 2010 from listed French investment group **Eurazeo** for €480m and expanded it from 223 to 340 hotels.