Press release

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3rd Institutional Real Estate Symposium: Experts continue to see attractive conditions for indirect real estate investments in Germany

For the third time, institutional investors discussed current trends, challenges and solutions in real estate investment at the iii-investments Institutional Real Estate Symposium. Experts such as Prof. Dr. Hans-Werner Sinn addressed both investment-specific and macroeconomic topics.

Stefan Janotta (Head of Research at iii-investments) during his presentation

Prof. Dr. Hans-Werner Sinn (ifo Institut, left) and Reinhard Mattern (Managing Director, iii-investments, right)

More than 75 participants, mainly representatives from insurance companies, pension funds and company pension schemes, attended the event in Munich on April 17.

Kornelius Purps, Fixed Income Strategist at UniCredit, opened the event with a look at the macroeconomic situation and interest rates. In his opinion, besides shares, German real estate is currently one of the most attractive asset classes. He does not view the current real estate boom in Germany and the associated increase in prices, particularly for residential real estate, as a sign of a bubble forming - indicative, that is, of the market overheating.

In his analysis, **Stefan Janotta**, Head of Research at iii-investments, looked at the price trend and outlook for the European office real estate markets. He made it clear that, given the low volume of speculative new construction activity on the supply side, there is a basis for rental growth. Within Europe he expects higher than average office rental growth over the coming years in Germany and the Nordic countries. Due to the large gap of around 300 basis points between the initial yield on real estate investments and government bonds, Mr. Janotta again recommended investing in the core segment in Germany. In contrast, he feels that southern Europe is too aggressively priced, where real estate investors should take advantage of exit opportunities.

Manuel Jahn, commercial real estate expert at GfK GeoMarketing, focused his presentation on a much-discussed topic in the real estate industry. He presented the current situation in the European investment market for retail real estate and analysed both the supply and demand situation on the rental markets. He also outlined the increasing influence of online trade, before closing with a number of retail real estate examples with no chance of success due, amongst other things, to poor design or idiosyncratic architecture.

Dr. Stephan Kloess, owner of the eponymous Swiss consultancy company, looked at selection criteria for asset managers and indirect real estate investments from the perspective of institutional investors. According to Dr. Kloess, one conclusion that can be drawn from the last market cycle is that the timing of the selection of indirect assets is just as important as the timing of investments themselves. Due to increasing complexity, particularly with regard to regulatory issues, the selection process must be more intensive and structured than in the past. However, Dr. Kloess recommended ensuring an appropriate relationship between checks and planned investment in the selection of the asset manager so as to avoid over-standardization. In general, Dr. Kloess is convinced that institutional investors will in future control their indirect real estate investments more actively and will intensify their risk management activities, leading amongst other things to increased requirements for transparency from the providers.

Reinhard Mattern, Managing Director of iii-investments, looked at investments in real estate debt by institutional investors. In this process, loans for real estate projects are provided not by banks but by financial investors. Whilst real estate debt has been a feature of the US and UK markets for some time, in Germany the first transactions of this type took place only recently. Mr. Mattern stressed that indirect vehicles — for example, a German special fund — here represent an interesting investment opportunity. "In our view, with regard to investment in real estate debt, professional management on the loan side is just as important as real estate expertise. Indirect investment is therefore an interesting alternative above all for small and medium-sized institutional investors," explained Mr. Mattern. In his view, real estate debt is an interesting investment alternative for German institutional investors in the current market environment for various reasons, such as the regulatory environment, or as a low-risk alternative to government bonds.

In his presentation, **Friedhelm Stucke**, from the North-Rhine Westphalia Ministry of Finance, described the effects of Solvency II on pension funds of the liberal professions from a supervisory perspective. He started by addressing the implementation of the 9th amendment to the German Insurance Supervision Act (VAG) and circular 3/2009 from the German Federal Financial Supervisory Authority (BaFin) on the minimum requirements for risk management in insurance undertakings (MaRisk VA). Pension funds of the liberal professions are not affected directly, but regional supervision of such funds is based on German national insurance supervisory practice. Mr. Stucke then addressed the implementation of the first pillar of Solvency II for pension funds of the liberal professions. This pillar establishes a concept for capital requirement, which Mr. Stucke explained.

Prof. Dr. Hans-Werner Sinn from the ifo Institut focused on the worsening debt situation in southern Europe. He highlighted the substantial growth over the last four years in both the TARGET2 liabilities of some southern European states and in German Bundesbank receivables from the European Central Bank (ECB). He would prefer a system similar to that in the USA, where unlimited growth of balances between the regional Federal Reserve banks is impossible because, in contrast to the ECB system, balances arising are cleared annually by means of a transfer of asset-backed securities. A critical issue for Prof. Dr. Sinn is that countries such as Spain or Italy have, to date, barely devalued as far as price levels are concerned and are therefore not competitive in the European context. He cited Ireland here as a positive example of a country that has already successfully addressed this difficult adjustment process. In future, Prof. Dr. Sinn expects inflationary trends to bring the debt situation under control.

About iii-investments

iii-investments is the real estate investment company of HypoVereinsbank in the UniCredit Group and one of the market leaders in real estate special funds in Germany. The company currently manages real estate of approx. EUR 4.5 billion in 13 countries in Europe. iii-investments currently manages nine special funds and one Luxembourg SICAV-FIS for its institutional investors.

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