

Reuters

## **ANALYSIS-Global property feels pain of German fund freeze**

02.05.09, 9:33 AM ET  
UNITED STATES -

By Daryl Loo and Peter Starck

LONDON/FRANKFURT, Feb 5 (Reuters) - Europe's commercial property markets could slump for longer and more deeply than feared as Germany's biggest open-ended real estate funds exit the market, forced out by a lingering cash crisis.

"The worst is yet to come," said Bjoern Drescher, head of consultancy Drescher & Cie, in Frankfurt.

"There's too much uncertainty in the financial markets... nobody is in any hurry to invest in open-ended property funds right now."

Open-ended funds, at least in theory, allow investors to inject or redeem their money on a daily basis.

Germany's property funds, with over 80 billion euros in assets, spent massively in recent years to snap up prime buildings from the the pricey West End of London to Tokyo's glitzy Shinjuku district.

But some of these former white knights are now exiting the market and fighting their own fire as panicked German investors, in a flight to withdraw cash, are forcing the funds to freeze redemptions and sell assets since October.

"There is a real vacuum right now, especially for larger lot sizes up to 100 million pounds (\$143 million) which only the German open-ended funds could afford to buy," said Chris Gore, a partner at UK property broker King Sturge.

The market's downturn, sparked by a credit crisis, has already dragged U.S. commercial property values down 15 percent last year, while values in the UK fell 27 percent.

Although some analysts are predicting a bottom in 2009, property players said investment enquiries from German funds have fallen by over 50 percent, and that spells more trouble for sellers hawking higher-grade assets.

Late last month, open-ended funds including those managed by KanAM, SEB, Prudential Financial Inc unit TMW Pramerica, and AXA Investment Managers Deutschland extended closures by up to nine months.

"Before the lockdown, German funds had been spending selectively in Europe. Equity-rich, they had the field almost to themselves, especially for the big-ticket core assets they prefer," PricewaterhouseCoopers said in a report.

"With their war chests impoverished, open-ended funds are treading water," PWC said.

WORSE TO COME

Data from mutual funds association BVI show that German property funds raised a record 6.7 billion euros (\$8.9 billion) of purchasing power in 2007, but this reversed to a net outflow of 234 million euros in the first 11 months of 2008.

According to Property Data, German funds were the second-largest foreign investors in UK commercial real estate last year after oil-rich buyers from the Middle East, spending nearly 1.9 billion pounds, or 8 percent of total deals done.

Although to a lesser extent than in Europe, some German open-ended funds are also heavily invested in Asia, analysts said, where the most successful now have up to 30 percent of their assets in countries such as Japan and South Korea.

"Many of the (German open-ended property) funds are having problems with the properties they bought at the peak of the cycle. They are in for valuation downgrades," said Eckhard Sauren, head of German fund-of-funds company Sauren.

Some of these funds could now be forced to sell off their own portfolio and axe planned acquisitions, as they seek to raise cash to pay off investors.

German funds have already scrapped plans to buy a pair of up-market City of London office buildings priced at over 150 million pounds each -- 88 Wood Street, designed by London's Millennium Dome architect Richard Rogers, and UBS-owned Milton Gate, King Sturge's Gore said.

"Forced sales are the key indicator of re-pricing and Germany appears to be next in line after the UK to produce a string of cash-strapped fund sponsors bringing assets to market," said property brokers Jones Lang LaSalle.

But some daring German funds continue to see the current property market downturn as an opportunity to pick up bargains, and welcomed the reduced competition.

DekaBank, Germany's largest manager of property funds, told Reuters last week that it expects to invest about 1.7 billion euros in 2009 through its real estate funds.

German property fund firm DEGI, part of Aberdeen Asset Management with 6.4 billion euros in assets under management, is also eyeing the market, noting that "rapid upward price corrections cannot be ruled out".

"Opportunities should be identified and acted upon already today, to avoid the risk of missed chances," said Thomas Beyerle, DEGI's head of research.

(Editing by David Cowell)

(See [www.reutersrealestate.com](http://www.reutersrealestate.com) for the global service for real estate professionals from Reuters)

Copyright 2009 Reuters, Click for [Restriction](#)