IVG INFORMATION SERVICE

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Editorial:

Return to our past strength with REBOOT

2009 – a difficult year characterised by the impact of the financial and real estate crisis – is behind us. We used this year to initiate change processes – mainly to return to IVG's strengths and core competencies: adding real estate value and our customers. The restructuring of the IVG Group is making rapid progress and will also be a priority in 2010.

As one major factor in IVG's successful return to past strength and to positioning our Company once again as a model in Germany's real estate landscape, we launched the "REBOOT" project within the framework of the "Operational Excellence" Guideline designed to increase the IVG Group's competitiveness. In a nutshell, "REBOOT" is the cornerstone for the sustainable improvement of our operational scope for action by returning to our strengths and core competencies. The objective is to make it possible to analyse and plan our property or asset portfolio in accordance with clearly defined principles. For this purpose, we have developed "REBOOT", which is essentially a standardised analysis and planning tool. Based on precise revenue planning for each rental unit, the smallest economic units (property, property development, cavern, fund) are gradually consolidated to ensure integrated analysis, planning and steering at the level of the Group and of it segments. The manual operations involved will be significantly reduced and computational logics will be automated. The objective is to minimise the considerable effort involved in acquiring and storing data for the purpose of analysis and planning in order to have significantly more time for in-depth analyses, which will be used as a basis for the development of sustainable and value-adding strategies.

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The development of property planning (revenue and expense planning, maintenance planning as well as property appraisal) has already made considerable progress and is currently being tested by the group of developers. The key project objectives can be summarised as follows:

- Standardised IT base: to gather and update the data of all the properties managed by IVG, based on common standards.
- Ease of use: To ensure the availability of a standardised data analysis and planning tool for each tenancy agreement, regardless of who the owner of the property is.
- Holistic, integrated Group perspective: To prepare the ground for sustainable data and process management.
- "One-stop shopping" system: The purpose of the project is to consistently analyse (standardised data sources) operational real estate and financial data and to map risk indicators at the level of the Group, the segments, the branches, the portfolio, individual properties and contracts (linked to ARGUS and FUTURE projects through key performance indicators)
- Making it possible to consistently evaluate data and to synchronise them with SAP (tenancy agreement) data
- Increasing the applicability of the entire model and specific modules by third parties for various purposes: reporting, appraisal, use by banks, preparing transactions.
- Increasing efficiency and cutting cost

The project REBOOT will help to rapidly position IVG once again as "best-in-class player" in all its fields of activity.

With future to the top

At the beginning of 2010, IVG launched the project FUTURE as if an invisible hand had pushed a button. At first glance, it was just the transfer of the property management of roughly 300 German properties from the IVG Group to two specialised partner companies. However, on closer inspection, it becomes clear that it is actually a full-blown future-oriented project that will have a major impact on IVG's competitiveness in the years to come.

IVG is one of the leading real estate management companies in Europe, with international real estate assets worth nearly € 23 billion in its own portfolio and in the funds business (assets under management). The relief of administrative responsibilities in connection with the properties reduces IVG's vertical integration, so that our Company can concentrate on its actual core business:

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Peter Forster on Project FUTURE at IVG and its dimensions

preserving and adding value through asset management. In the framework of Asset Management, IVG will also continue to maintain development know-how for developments in its portfolio. This shows that, with its Project FUTURE, IVG is pursuing one of the most ambitious projects in the European real estate sector.

The project includes not only structuring asset transfers from a fiscal and accounting perspective as well as financing them (transaction management) but also systematically recording, managing and monitoring asset portfolios. This will make it easier to identify risks and to optimise the utilisation of income potential. The objective is to manage the legal, economic and technical aspects of real estate portfolios in such a way that values can be safeguarded and increased in the long term, above and beyond the business and life cycles of the various properties. In addition, there are the ecological requirements, i.e. to increase energy efficiency and to improve environmental standards in buildings.

For this purpose, it is necessary to have standardised processes, with standardised indicators, liquidity management and tenant retention programmes - combined with quality assurance modules and reporting based on clearly defined requirements. Asset management means the application of business processes in real estate management, with active management on the asset side and the liabilities side of the balance sheet. However, the asset managers of IVG's 15 branches in the major European cities can only perform this

„A strong performance by our partner companies will be rewarded with a bonus."

Peter Forster,
Managing Director of IVG Asset Management

task independently if they are relieved of administrative responsibilities.
For this reason, it made sense to transfer the essential services that are associated with buildings – i.e. "property and facility management" – to specialised companies. Following a public bidding process, two-thirds of these activities were transferred to EPM Assetis GmbH (a subsidiary of Bilfinger Berger Facility Management Services) and one-third of the activities was transferred to Strabag Property and Facility Services as of the beginning of 2010. The range of their activities includes the settlement of operating expenses and rent collection, as well as building services, cleaning and security services. In the context of this transaction, approx. 35 IVG employees were transferred to EPM Assetis, so that no employees lost their jobs. EPM Assetis offers the transferred IVG employees a long-term future perspective with interesting development opportunities. This has been the beginning of strategic partnership that relies on long-term cooperation.

If they demonstrate that they provide better quality, our partner companies will receive a bonus on their fees. In this context, one very important criterion will be the satisfaction of our tenants. The primary purpose of awarding contracts to service providers is not only saving money; instead, our objective is to find professional partners for these activities so that we con concentrate on our core functions in asset management. These include in particular transactions, letting and broker management, intensive support for portfolio tenants, developing business plans and strategies for each property, managing service providers, developing the portfolio and acting as the contact point for our customers.

While property and facility management is property-focused, asset management is focused on finance and therefore includes everything that is related to adding value by letting and developing properties while achieving maximum tenant satisfaction. As far as this is concerned, IVG has embarked upon a promising course into the future.

Petersberg Colloquium of IVG Private Funds:

A crash – but not for real estate funds

The two years of crisis have left deep skid marks in the German funds sector, which has been caught by three concurrent developments: the plans for regulation pursued by the EU and the German government; the withdrawal of banks from intermediate financing for funds; and the crash of the equity investment market. The equity investment volume has dropped to a level of only € 5.5 billion, which has nearly been cut in half. It has "hit rock bottom", as Dr. Helmut Knepel, member of the Executive Board of Feri Finance AG, said at the Seventh Petersberg Colloquium of IVG Private Funds on 25 February. However, he added, the future of the funds sector was not at all at risk, although the sector's image was changing – also in sales. In the wake of the crisis, he explained, the share of the big banks had dropped from 66 to 33 per cent, i.e. half of what it had previously been. While the market for ships plummeted by roughly 71 per cent, the percentage decline in real estate funds was only about 27 per cent, which was much less than in the overall market for equity investment models (approx. 46 per cent). This once again demonstrates the strong security interest of investors, who appreciate the safe long-term cash flows from rental income.

Mr Knepel felt that there were signs of improvement, not only because London was gaining ground again, but also because quality and excellence were focused on active fund management.

"Companies that look after their funds and their customers have advantages in the market", emphasised Dr. Georg Reul, member of IVG's Bord of Management, at the colloquium. He said that he expected an improvement from the planned governmental regulation of the equity investment market because the "grey capital market" would disappear. However, he also saw drawbacks if the regulation were to affect the fund products themselves. For the time being, he said, the proposal for a European directive on "Alternative Investment Fund Managers" (AIFM) did not provide for regulatory supervision of products, but only for mandatory registration of initiators and a review of their flawless organisational functionality. This meant that companies had to demonstrate their risk management and compliance in order to show vis-à-vis the public that their organisational structure ensured compliance with ethical and legal obligations. With real estate assets of approx. € 15 billion in private and institutional funds, Reul, IVG board member, said, IVG was the market leader in Germany and had the entire range of business management instruments at its disposal. He added that the current version of the AIFM Directive would not lead to any major changes for IVG. He welcomed the compulsory registration of fund managers and establishments to prevent conflicts as well as the verification and information duties; bearing in mind that fund managers were handling other people's money, he said, this was acceptable. Now, it was a matter of waiting to see what requirements would be imposed on the markets in terms of consumer protection.

Almost all of the funds (EuroSelect) issued to date have received a very good rating.

Fund News

EuroSelect-Funds 14:
Collateral problems solved: A solution has been found in cooperation with the banks as regards the collateral situation for EuroSelect 14 (The Gherkin). This landmark in London's City with its glass façade has won several awards. With equity of £ 158 million, the fund was fully placed in a matter of only two months in December 2007. In 2008, the London real estate market was hit hard by the severe financial crisis. While trends indicating significant improvements have recently been observed, the real estate values are still substantially below their highest levels. The valuation of "The Gherkin", for instance, half of which is held by EuroSelect 14 and the other half by The Skyline Unit Trust, has fallen from £ 605 million to £ 470 million (value adjusted by -21.67 per cent). As a result of this valuation loss, it was agreed with the banks (with the approval of the shareholders) that, in accordance with the credit rules (Basel II), collateral amounting to 2 annual dividend payouts would be furnished. IVG assumes that the withheld dividends of 4 per cent p.a. will be distributed at a later point in time. The Gherkin has been fully let to a total of 23 renowned companies. Swiss Re Services Ltd., the principal tenant which will account for nearly half of the rental income until 2023, is a subsidiary of Swiss Re, the world's biggest reinsurer.

EuroSelect-Funds 17: Amstelveen completed ahead of schedule: IVG Funds has fully placed its closed-end real estate fund EuroSelect 17, which invests in the Amsterdam headquarters of KPMG. The fact that the limited liability capital of approx. € 95 million was placed within a period of only six months shows that, in the difficult environment of the international financial and economic crisis, conservatively calculated real estate funds are an attractive investment for private investors. With this fund, the investors own an interest in the Dutch headquarters of the auditing and consulting firm KPMG in Amstelveen, Amsterdam. The recently completed building has a total floor space of 70,000 square meters, of which 42,000 square metres is owned by the fund. The remaining parts of the building will be taken over by three of IVG Institutional Funds. IVG Netherlands will be responsible for managing the entire property. KPMG planned the building and had it constructed in accordance with its own ideas; consequently, KPMG has concluded a long-term tenancy agreement. The investors of EuroSelect 17 will receive a yield of initially 6 per cent. Since the building was completed and accepted by the tenant KPMG roughly three weeks ahead of schedule, the EuroSelect 17 fund will receive rental income earlier than expected, which will lead to a liquidity advantage for the fund company.

EuroSelect-Funds 20: Northgate nearly fully placed: With an equity of € 130 million, EuroSelect 20 (Northgate), which was launched last autumn as the first real estate fund in Belgium, has been nearly fully placed ahead of schedule. Since the building has been let for a long period of time to users of top credit ratings – the Belgian Ministry of National Security and the Ministry of Economics – the fund meets the expectations of many investors in terms of security. The expected payout amounts to 5.3 per cent p.a. after taxes – compared with a fully taxable yield of 3.75 per cent for German government bonds.

EuroSelect-Funds 18: Distribution stopped: IVG Private Funds GmbH has stopped its EuroSelect 18 fund. The fund was to invest in a real estate portfolio consisting of two existing office properties and three office properties to be developed, as well as two associated multi-storey car parks in Hamburg, Nuremberg and Munich. However, since three of the five office properties are still under construction, the product was perceived as a high-risk project development fund in the market. In view of the uncertain future economic development in the wake of the financial and economic crisis, the opportunities provided by this investment, as well as the extensive safety mechanisms of this investment offer, have not been sufficiently appreciated. For these reasons, unit sales have been unsatisfactory. In order not to jeopardise IVG's reputation in the market or risk the satisfaction of its customers, IVG will call an extraordinary shareholders' meeting in April 2010 in order to propose to the fund's current investors the termination of the fund and, consequently, at the same time the liquidation of the investment company.
Subsequently, IVG will market the properties separately.

Award for Dr Eckart John von Freyend

IVG's former CEO Dr. Eckart John von Freyend was given the "Lifetime AWARD 2010" by the Cologne-based trade journal "Immobilienmanager". In his laudatory speech, Ulrich Höller, the CEO of Deutsche Immobilien Chancen AG & Co. KGaA, emphasised that John Freyend had above all created a powerful body to defend the interests of real estate companies in Germany by establishing the Central Real Estate Committee (ZIA – Zentraler Immobilien Ausschuss).

He described John von Freyend as a "wanderer between the worlds", who was a trendsetter in both the public sector and the private real estate sector.
From 1970 to 1988, the economist and political scientist worked for the Federation of German Industries (BDI); his latest position was that of a member of the central management. From 1990 to 1995, he was employed in the Federal Ministry of Finance as head of the department in charge of government investments and the Treuhandanstalt privatisation agency. From 1995 to 2006, he served as the CEO of IVG Immobilien AG; during this period, he transformed the company from a national conglomerate to a European real estate company. Since then, he has been a member of IVG's Supervisory Board.

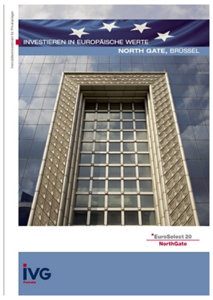
Today, John von Freyend acts as a consultant for national and international companies. At the same time, John von Freyend is the President of the Institut der deutschen Wirtschaft, Cologne, and a member of the Executive Committees of the Federation of German Employers' Associations and of the Federation of German Industries. He was "German Real Estate Professional of the Year" (2005) and is a fellow of the Royal Institution of Chartered Surveyors.

Dr. Eckart John von Freyend,
Member of the supervisory board
IVG Immobilien AG

Feri Award:

IVG Private Funds “Best Initiator – International Real Estate”

The European rating agency Feri Rating Services AG has given IVG Private Funds the “Best Initiator - International Real Estate” award. Together with the television channel n-tv, Feri for the first time awarded prizes for closed-end investments in various investment classes for the best fund initiators in 2009, the year of crisis. For this purpose, Feri also analysed and compared the companies’ track record and their professional qualifications (asset management competency). Feri is a major business and forecasting institute based in Bad Homburg which carries out analyses and ratings of investment products via its subsidiary Feri Euro Rating Services AG.



“The Feri Euro Rating Awards are a quality seal designed to allow investors to identify initiators that have issued particularly attractive funds”, said Helmut Knepel, member of the Executive Board of Feri Euro Rating, during the award ceremony on 18 February 2010. In future, Feri intends to award prizes to the best issuers for closed-end investments every year. Three years ago, the rating agency already introduced the “Feri EuroRating Fund Award” to acknowledge the best investment funds.

Dr. Georg Reul, a member of IVG’s Board of Mangement, said that the award received by IVG’s EuroSelect funds had shown – especially during last year’s severe economic and financial crisis – that properties that provide long-term value and solid yields enjoy considerable trust among investors. He said that investing in real estate funds was not only attractive because of the low prices and the tax conditions but also because of the usually value-locked tenancy agreements; they were perceived as a kind of insurance policy against risks of inflation.

Among the special funds issued last year, there was a Belgian fund with a long-term tenancy agreement concluded with the Belgian government (EuroSelect 20). Last year, investors entrusted a total of € 175 million to IVG’s EuroSelect funds. Despite the severe economic and financial crisis, IVG’s EuroSelect funds did not lose a single major tenant.

Co-ownership and contribution funds:

An option for large corporations

There was a time when corporate properties, with their cost of acquisition or production on the balance sheet, were considered to be hidden reserves that companies were reluctant to sell. This situation has changed completely, not least because of the new accounting regulations (IFRS). Today, the presentation of the facts – and hence, the intelligent application of fiscal and company law – is being rewarded. It therefore seems reasonable to hand over corporate properties to specialists – if possible, as an off-balance-sheet item, also in order to have a stronger position in the capital market.

However, regardless of the benefits, experience has shown that there are reservations about selling off corporate properties. Companies that want to bundle their real estate portfolio under one roof to manage these properties more effectively will regularly be confronted not only with additional costs but also a potential loss of control.

In this context, the amendment to the Investment Act of 2007 with its liberalisation of Specific Separate Assets (Spezial-Sondervermögen) has opened up new avenues – almost unnoticed by the public. These avenues are designed to offset disadvantages for legal entities compared with legal structures available in other countries – such as the Luxemburg fund. In this context, it is only recently that one of the most significant options has gained importance as a result of several identical rulings by various regional courts: co-ownership and contribution funds. Anne Keilholz of IVG Institutional Funds, Wiesbaden, who manages such a fund, stated: “There has always been a lot of interest in contribution and co-ownership funds. However, it is only now – after initial positive experience with contribution and co-ownership funds – that more and more institutional investors are contemplating issuing a fund of their own and then having it managed.”

„Owing to recent judgments, it is now possible to divest properties on optimum terms – without loss of control and without land transfer tax.“
Anne Keilholz,
IVG Institutional Funds

Contribution and co-ownership funds enable institutional investors to contribute properties as contributions in kind to Specific Separate Assets – in return for investment fund shares. From a civil law perspective, the assets will continue to be wholly owned by the investor; they will merely be managed by an investment trust (KAG – Kapitalanlagegesellschaft). The owner transfers the right of free disposal and the right of possession to the KAG. The KAG acts on its own behalf, but for the investor’s account. The Specific Separate Assets – and hence, the investor – benefit from the positive financial performance.

Dr Josel Brinkhaus, lawyer, tax consultant and partner of the law firm Clifford Chance, Frankfurt, describes the particularities of the Specific Separate Assets with the co-ownership solution as follows: “Unlike the trust solution practised to date, the shareholder continues to be registered in the land register as the owner. Only a transfer of the investment fund shares will lead to a change in ownership, and hence, will create the liability to pay land transfer tax (possibly on a pro-rata basis). The contribution itself is not subject to land transfer tax.”

The constellation involving co-ownership funds preserves not only the company’s role as the owner, but it also relieves the company of annual depreciation; at the same time, it is possible to finance up to 50 per cent through debt, thus releasing up to 50 per cent of the equity. In addition, co-ownership funds can also be used as funds of funds, with a suitable payout policy. The contracts are not overly complex, and it is possible to agree on high reporting standards, with monthly investment fund share settlements. In view of the fact that the real estate assets owned by large German corporations are worth more than € 100 billion, co-ownership funds provide new options for German business enterprises.

Investor Relations:

End of crisis in sight – IVG with significant performance improvement

A glance at IVG's preliminary, as yet unaudited operating results shows that the macroeconomic trend in 2009 is also reflected in the profit and loss account of this large European real estate group. After a Consolidated Net Loss of € 451.7 million in the previous year, the restructuring programmes initiated by IVG began to bear fruit through a significant performance improvement: The Consolidated Net Loss decreased to a mere € 158 million, of which nearly € 150 million was due to construction cost overrun in the Frankfurt Airrail project. Based on the results of an analysis described in an external, independent expert report, the values were adjusted once again in the fourth quarter of 2009 because of higher construction cost to ensure that the project would be completed and handed over to the first major tenants on schedule.

Aside from higher expenses, IVG's EBIT after value changes increased by € 162.7 million: from € 98.6 million in the previous year to +€ 64 million. Before value changes, IVG's EBIT even amounted to € 216.9 million. The financial and economic crisis also left its mark here. IVG was obliged to reduce the market value of its portfolio properties once again by € 194.2 million. On the other hand, the first-time fair value accounting of the potential caverns under construction led to an increase in value of € 197 million, so that the market value changes of Investment Property amounted to a total of € 2.8 million.

The property sales of approx. € 1 billion in 2009 led to realised market value changes of -€ 64.1 million in investment property. These value changes mainly occurred in the first half of 2009 because of the weak investment market; some of the properties were sold at values below the amounts stated on the balance sheet. In the second half of 2009, the market situation improved, so that the markdowns were no longer as important.

IVG's revenues increased by € 230.2 million to € 838.8 million, mainly due to the completion and sale of a property in Italy, which generated € 287.5 million in proceeds from project sales, and to letting services for the IVG Caverns Fund, which generated € 43.1 million in proceeds (from a debtor warrant bond).

The adjusted Net Asset Value per share decreased from € 12.70 in 2008 to € 9.95 as a result of sales and value changes. However, because of the higher number of shares due to the capital increase in October 2009, the NAV remained stable.

Dr. Gerhard Niesslein, spokesman of IVG's Board of Management, emphasised that IVG was on the right track by consistently reducing the company's debt and risks. Other Operating Expenses, for instance, were reduced by € 41.2 million to € 137.4 million, he noted. This meant that IVG had already reached a cost level in 2009 which was below the target of € 140 million to € 150 million set for the full year. IVG would now focus its attention on the successful completion and sale of projects from the development pipeline and concentrate on restructuring IVG's operations. IVG would present more details about its performance in fiscal 2009 at its financial press conference and analysts' meeting on 25 March 2010 in Frankfurt/Main, he said.

A strong team for the Airrail Center in Frankfurt am Main

IVG Immobilien AG has taken an important decision to set the course for the Airrail Center by appointing a team of specialists for the national and international positioning of this spectacular property at Frankfurt Airport. After its completion this year, the building with its gleaming silvery facade on top of the ICE mainline railway station will provide a unique space where every day up to 10,000 people will work, live, shop, enjoy experiences and talk – and all under one roof. The mix of users includes two Hilton hotels, the European headquarters of KPMG, the business and conference centre "Plug&Work", as well as restaurants and retail shops. This makes the Airrail project an ideal platform for a high-level meeting of the minds.

IVG is pleased to announce that **Dr. Kerstin Hennig-Brade** has joined the IVG Group as of 1 March 2010 as Head of Marketing. Kerstin Hennig is a real estate marketing specialist who obtained her doctorate (Dr. rer. Pol./ Immobilienökonom ebs) at the European Business School (ebs), a private university in Oestrich-Winkel, Germany. In her professional career, she held leading positions at Daimler-Benz InterServices Immobilienmanagement (with a strong focus on marketing the Potsdamer Platz project) and at Tishman Speyer Properties, where she was responsible for marketing the Rockefeller Center in New York, the Millbank Tower in London and the Trade Fair Tower in Frankfurt. Before joining IVG, she was a member of the management of UBS AG, operating in the field of Wealth Management, where she was responsible for developing and marketing real estate funds. At IVG, she is now in charge of the national and international positioning of the Airrail project in the framework of Airrail Center's marketing.

Christoph Nebl, who was previously IVG's branch office manager in Munich, was appointed to the management of the Airrail Company and of IVG Investment GmbH on 1 January 2010. In the past few years, Christoph Nebel, who holds a degree in business administration from the University of Regensburg, Germany, has been involved in the successful development and marketing of various real estate projects. Following a professional career at Viterra AG, he joined IVG in August 2006, where he assumed responsibility for managing the marketing the 660-metre long property at Frankfurt Airport.

IVG will also be able to rely on the advice of **Adriaan A. Mast,** M. Sc. FRICS for the Airrail project. Adrian Mast, who for many years held leading positions at Rodamco Europe B.V., is one of the most well-known airport real estate specialists. In 2008, he established the consulting company "Masters Airport City Real Estate" (MACRE). Previously, he had held leading positions within the Airport Company Schiphol Group, where he contributed to the success of the Schiphol Airport City in Amsterdam. In 2001, he issued the Airport City Real Estate Fund (ACRE), which currently has an investment volume of approx. € 400 million. In addition, Adriaan Mast provides advice to the Aero cities of New Delhi and Hyderabad.

This shows that IVG has considerably increased and strengthened the existing team. Managing Director **Jens Dörrie,** who has been with IVG since 2001, will manage the new Key Account Management function, with a focus on the current tenants KPMG and Hilton. **Roland Liederbach** – who has been on the team since November 2009 – is Head of Sales.

With a lettable area of 140,000 square metres, the Airrail Center is one of the world's largest commercial properties. Users and visitors of this property will only need a few minutes to walk from their office desk or hotel room to one of the international check-in counters or the ICE mainline railway station. With its communication rooms and its impressive atriums, the Airrail Center provides a platform at the unique interface linking rail, road and air traffic, and has an atmosphere that promotes the exchange of know-how and experience between institutions and companies. This will also be effectively supported by the planned construction of a multi-storey car park with approx. 2,500 parking spaces.

Research:

Deutscher Immobilienmarkt vergleichsweise wertstabil

Compared with other European countries, the German office markets are characterised by lower volatility of rental growth rates and initial yields, and hence of property prices.

One key reason why rents in Germany vary less than in other major European cities like London and Paris is the polycentric structure of the German market. While demand for office space is largely focused on the capitals in the UK and in France, it is spread out over a large number of markets in Germany because of the country's federal structure. This is particularly relevant with regard to the prestigious, expensive city centre locations which usually attract the financially strongest tenants and are often subject to supply restrictions due to high building density and a large number of listed buildings. Against this background, the availability of reserve areas in Germany's city centres (e.g. "Berlin-Mitte", Hamburg's "HafenCity", Frankfurt's "Europaviertel") may also have slowed down rental growth.

„Compared with many other countries, the property values in Germany are relatively stable. Only the Frankfurt office market sometimes cuts capers."
Dr. Oliver Voß,
Head of Research IVG Immobilien AG

In the past few decades, Frankfurt has been the only German office market with variations similar to the rents in London and Paris. This can explained by the fact that in all these cities a large part of the demand for office space is generated by the cyclically sensitive financial sector which is financially sound during boom periods. The other major German cities have a more diversified sectoral structure of tenants or their key industries are not dependent on office space in expensive, central locations.

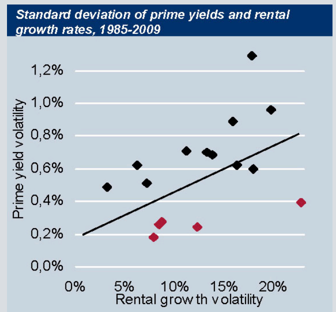
Because of the relatively limited variations of rents and rental growth expectations, initial yields are also relatively stable in Germany: An investor who can expect increases in value due to rising rents will accept a lower income yield, and hence a lower initial yield when he buys a property. Conversely, he will expect higher yields to compensate for falling rents.

Consequently, the moderate increase in German prime yields since mid-2007 is also due to the fact that investors in Germany expected relatively soft rental adjustments. Unlike the rents in the overheated office markets of London, Paris and Madrid, office rents in Germany had not recovered very much from their lows during the short upswing in the years 2006 and 2007 and were therefore still relatively affordable for many companies.

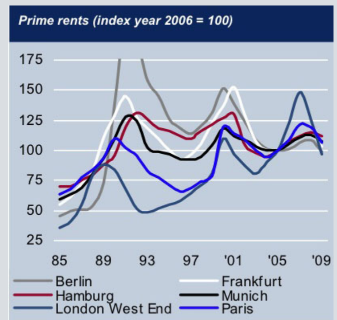
Another reason for the moderate volatility of initial yields and prices of office properties in Germany is the specific investor base: Apart from the interlude between 2005 and 2007, the German investment market has been dominated on the buyers' side by investors with good equity capitalisation in the past few years, namely domestic investment companies and institutional as well as private investors. During the boom years of 2006 and 2007, which had been induced by foreign investors, this group of investors whose investment strategy tends to be more focused on current income yields than on potential increases in value were net sellers who behaved anticyclically in Germany. However, in the past two years, in which lending terms have been restrictive in the real estate sector, these equity-rich German investors have been net buyers and have therefore had a stabilising effect on prime yields and property prices during the downswing. In comparison, institutional investors in the UK played an interesting role: In 2008 and 2009, they were obliged to sell properties on a large scale because of their high debt, which contributed to the destabilisation of British property prices. Because of the growing importance of cross-border investments, property prices in Germany can be expected to be more volatile in the future than in the 1980s and 1990s: The investment horizon of traditional groups of German investors increasingly extends to foreign countries, while properties in Germany are competing internationally to attract investors. As a result of the growing influence of Anglo-American investors, factors driven by the financial market (such as the interdependence with other investment classes, the use of the credit lever) have become more important for the appraisal and the pricing of German properties; and to some extent, German investors have changed their thinking with regard to their investment strategy (active real estate trading, total return approach). In addition, real estate returns in Germany and abroad will probably be subject to more frequent fluctuations because market cycles may become shorter due to the influence of global cycles.

However, it can be expected – in view of the polycentric structure of the German office market and its specific mix of industries – that rents will continue to be less volatile in future than in Europe's other two major investment markets, i.e. the UK and France. For this reason, German properties will probably continue to be characterised by a relatively strong stability of values in the next few years.

Dr. Oliver Voß,
Head of Research
IVG Immobilien AG



Source: IVG Research based on broker data for 16 Western European office markets.
** German locations in red.*
Correlation 0.46
(without Berlin freak value 0.65)

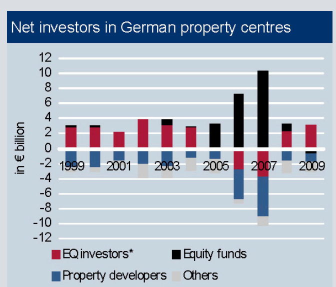


Source:
IVG Research based on broker data

Market volatility 1985-2009

	Prime yield		Prime rent growth rate	
	Mean	Standard deviation	Mean	Standard deviation
Berlin*	5,3%	0,39%	3,5%	22,7%
Düsseldorf	5,2%	0,26%	1,4%	8,4%
Frankfurt	5,0%	0,25%	2,6%	12,2%
Hamburg	5,0%	0,18%	1,9%	7,9%
Munich	4,9%	0,28%	2,8%	8,7%
London	5,1%	0,60%	4,8%	17,9%
Paris	5,4%	0,62%	3,0%	13,7%

Source: IVG Research based on broker data.
** High volatility of Berlin rents due to special effect of reunification in 1990.*



** "EQ investors" include: Open-ended & closed-end funds, insurers, pension funds, private investors.*
Source: IVG Research based on data of BNP Paribas RE.

Airrail Center Frankfurt

An involuntary blower test

On 28 February 2010, Hurricane Xynthia, which wreaked havoc in Europe and claimed many lives, also hit the Airrail Center at Frankfurt Airport. The A3 motorway was closed for several hours because plastic sheets from the façade of the Hilton hotel had been ripped from their bracing and were flapping in the wind. In addition, several provisional covers had also come off and had landed on an area next to the motorway. This involuntary "blower test" had led to an immediate closure of the A3 motorway in agreement with German Rail, Fraport, the fire brigade and other security forces. After the removal of the plastic sheets from the building, the motorway was re-opened in the night of 1 March. The ICE mainline railway station and the local railway station at the airport had to be completely closed because of severe problems in the Rhine-Main region – mainly due to damaged overhead lines. However, the hurricane had also caused damage inside the Airrail Center. Some sheets of glass had come off the interior sloping facade of the Hilton hotel because they had not yet been fully secured with ledges. They fell on the scaffolding below, parts of them also hit the fringes of the glass dome of the mainline station, outside the areas that were accessible for pedestrians.

The Airrail Center's gleaming silvery facade was not affected by the hurricane. Hence, the property damage caused was limited; delays in the construction work were described as minor.

IW Director Hüther:

"Only a break in growth"

In its coalition agreement, the German government declared its intention to reduce carbon emissions by 40 per cent without attaching any conditions to this target. This is "a declaration of war to the detriment of German businesses", said Professor Dr Michael Hüther, Director of the Institut der deutschen Wirtschaft, at the Petersberg Colloquium organised by IVG Private Funds on 25 February. Mr Hüther spoke of "drastic requirements – without any positive climate effect whatsoever".

On the other hand, Mr Hüther kept his calm with regard to the financial crisis. The banks had more or less completed their recovery phase and were ready for business again, he said. What we were witnessing, he added, was "far from being a trend away from manufacturing and exports"; instead, it was only "a break in growth". There were no fundamental structural upheavals in the German economy. The value-adding processes were intact. Companies were already hoarding jobs in order to be fast able to return to growth. From Mr Hüther's perspective, German properties were among the winners of the crisis; they had proven to be extremely stable. Equity-rich investors from other countries had set their sights on German properties again. He said that office rents followed the business cycles, so that because of the uncertainty prevailing in the labour market, rents would continue to dip in the foreseeable future; however, in the medium-term, Mr Hüther added, he anticipated a significant improvement in the German real estate market.

Real Estate Conference of IVG Institutional Funds:

Upswing – downswing – stagnation?

Participants listening to Friedrich Merz as he held a speech about "the financial crisis and transatlantic relations" at the Fourth Real Estate Conference of IVG Institutional Funds at the beginning of February 2010 in Wiesbaden were bound to get the impression that the turmoil in the markets was far from over. Speaking before a large number of representatives from the insurance industry, professional pension plans, pension funds and foundations, Mr Merz argued instead that the crisis – which had originated in the United States – had caused enormous damage, and the impact would be felt for a long time to come. The well-known lawyer and member of the supervisory board of IVG, had been in the public eye for many years as a member of the German Bundestag and as a member of the Finance Committee for the parliamentary group of the CDU/CSU (suggesting, for instance, that a tax return should be simple enough to jot it down on a beer mat). With reference to the public debt in the United States and the Chinese hoarding of US currency reserves, Mr Merz spoke of the growing self-confidene in Asia. As a result of the shift in the economic and financial balance, he said, many things would end up upside down in the West.

Dr Hannes Rehm, spokesman of Steering Committee of the Federal Agency for Financial Market Stabilisation (Soffin), also warned about the consequences of the crisis. Companies should beware of being optimistic and should instead use the Special Fund wherever possible because the consequences of the crisis were far from over, even if specific segments were less affected, or not at all.

Raimund Noss, partner of PMA Property Market Analysis, spoke about "upswing, downswing and stagnation" all at once. The property markets were going through different cycles. While the real estate investment markets of London and Paris seemed to be bottoming out, he said, the letting market had not yet reached the bottom. And he drew attention to Eastern Europe, where some markets were gradually becoming interesting again.

Women's Carnival Day at IVG

At this year's Women's Carnival Day (Weiberfast-nacht), cowboys and red Indians, clowns and hippies as well as rock stars and little devils once again met in the cafeteria of IVG's headquarters in Bonn. While they danced and drank some local beer, they of course kept up the traditions of the Rhine region. There was a very lively discussion among the more than 50 IVG employees who attended this event, primarily about the wide variety of costumes. And for a good reason: The three best costumes won a prize; the winners were a hippie, a rock star and a crazy-looking neon guy. This year, the BBQ prize was awarded for the first time to the unit with the highest participation rate.

The accounting department had the best team attendance. Although they had to prepare the annual accounts, a very large number of accountants were present for a while before they had to return to their work. Finance, Human Resources, Legal Affairs and Corporate Development also reached attendance rates of more than 50 per cent. A loud triple "IVG – Alaaf!" and see you next year!

The magazine article of the month

+++ "The Foundation" +++
An entry in the land register is better an article in the newspaper Dr. Georg Reul
(Link)

Imprint

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