Academic perspective on the history and future of REITs in Germany

MIT Forums in Real Estate
“German REITs: A transatlantic Real Estate Investment Concept?”
14th October 2005, Munich

Martin Becker
ebs Department of Real Estate
Content

1. Performance of European REIT Markets
2. German Real Estate Investment Market
3. Outlook
International Overview

Introduction of REITs and current market cap of REITs and listed property companies:

Source: Global Property Research, Kempen & Co; market caps as at January 2005
Netherlands

Netherlands

# Netherlands

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Stocks</th>
<th>Property Stocks</th>
<th>Correlation</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Return p.a.</td>
<td>Standard Deviation (SD)</td>
<td>Return p.a.</td>
<td>SD</td>
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<tr>
<td>Jan. 1990 - Aug. 2004</td>
<td>8.3 %</td>
<td>4.6 %</td>
<td>9.4 %</td>
<td>18.3 %</td>
</tr>
<tr>
<td>Jan. 1990 - Dec. 1995</td>
<td>10.2 %</td>
<td>4.8 %</td>
<td>13.1 %</td>
<td>13.1 %</td>
</tr>
<tr>
<td>Jan. 1996 - Dec. 2000</td>
<td>7.0 %</td>
<td>4.2 %</td>
<td>23.5 %</td>
<td>18.8 %</td>
</tr>
<tr>
<td>Jan. 2001 - Aug. 2004</td>
<td>7.2 %</td>
<td>4.7 %</td>
<td>-13.2 %</td>
<td>23.0 %</td>
</tr>
</tbody>
</table>

Belgium

Belgium

## Belgium

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<td>SD</td>
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</tr>
<tr>
<td>Jan. 1990 - Aug. 2004</td>
<td>9.5 %</td>
<td>4.7 %</td>
<td>8.6 %</td>
<td>17.2 %</td>
</tr>
<tr>
<td>Jan. 1990 - Dec. 1995</td>
<td>12.2 %</td>
<td>5.3 %</td>
<td>7.8 %</td>
<td>14.9 %</td>
</tr>
<tr>
<td>Jan. 1996 - Dec. 2000</td>
<td>7.7 %</td>
<td>4.2 %</td>
<td>16.7 %</td>
<td>17.2 %</td>
</tr>
<tr>
<td>Jan. 2001 - Aug. 2004</td>
<td>7.6 %</td>
<td>4.2 %</td>
<td>-2.0 %</td>
<td>20.2 %</td>
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</table>

France

France

# France

<table>
<thead>
<tr>
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<th>Correlation</th>
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<tbody>
<tr>
<td></td>
<td>Return p.a.</td>
<td>SD</td>
<td>Return p.a.</td>
<td>SD</td>
</tr>
<tr>
<td>Jan. 1990 - Aug. 2004</td>
<td>9.1 %</td>
<td>5.1 %</td>
<td>7.7 %</td>
<td>19.7 %</td>
</tr>
<tr>
<td>Jan. 1990 - Dec. 1995</td>
<td>11.3 %</td>
<td>5.9 %</td>
<td>4.1 %</td>
<td>17.7 %</td>
</tr>
<tr>
<td>Jan. 1996 - Dec. 2000</td>
<td>7.8 %</td>
<td>4.4 %</td>
<td>26.0 %</td>
<td>19.6 %</td>
</tr>
<tr>
<td>Jan. 2001 - Aug. 2004</td>
<td>7.2 %</td>
<td>4.4 %</td>
<td>-10.2 %</td>
<td>21.5 %</td>
</tr>
</tbody>
</table>

## International performance of REITs / property stocks

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>12.18 % 12.8 %</td>
<td>19.34 % 14.1 %</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Return</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>12.18 %</td>
<td>12.8 %</td>
</tr>
<tr>
<td>Japan</td>
<td>-3.8 %</td>
<td>31.4 %</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5.2 %</td>
<td>12.0 %</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.6 %</td>
<td>13.9 %</td>
</tr>
<tr>
<td>France</td>
<td>9.7 %</td>
<td>14.1 %</td>
</tr>
</tbody>
</table>


- Particularly in the last years REITs were successful
- As well the risk-return profile improved
German Real Estate Investment Markets
### Overview: German real estate investment market

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Measure</th>
<th>Date</th>
<th>€ Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed-end funds</td>
<td>Investment volume</td>
<td>31. Dec. 2004</td>
<td>171.5</td>
</tr>
<tr>
<td>Open-ended mutual funds</td>
<td>Fund volume</td>
<td>31. Dec. 2004</td>
<td>87.2</td>
</tr>
<tr>
<td>Listed property companies</td>
<td>Market capitalization</td>
<td>31. Dec. 2004</td>
<td>5.8</td>
</tr>
<tr>
<td>Opportunistic funds</td>
<td>Transaction volume</td>
<td>Year 2004</td>
<td>app. 15</td>
</tr>
</tbody>
</table>
Open-ended mutual funds

Capital in- and outflows (EUR billion)

Total fund volume and number of mutual funds

Data source: BVI.

Data source: Deutsche Bundesbank.
However: Low Real Estate Proportion within Asset Allocation...


- Real Estate: 67%
- Securities: 12%
- Cash at bank: 9%
- Other assets: 5%
- Interest in property companies (partnerships): 2%

Source: Deutsche Bundesbank, Calculations ZEW.
Open-ended special funds

Capital in- and outflows (EUR billion)

Data source: BVI.

Total fund volume and number of special funds

Data source: Deutsche Bundesbank.
Additionally: High Real Estate Proportion within Asset Allocation

Asset Allocation of German Open-Ended Special Funds (2004)

- Real Estate: 83%
- Securities: 15%
- Interest in property companies (partnerships): 2%
- Cash at bank: 7%
- Other assets: 4%

Source: Deutsche Bundesbank, ZEW-Berechnungen.
However: Only moderate appetite by foreign investors...

Investor base of German Open-ended Special Funds

- Insurance Companies: 74%
- Pension funds: 6%
- Social insurance agencies: 1%
- Other Corporations: 3%
- Financial Institutions: 2%
- Private Organisations: 5%
- Foreign Investors: 7%
- Other: 3%

Data Source: Deutsche Bundesbank.
Closed-end real estate funds

Cumulated fund volume (EUR billion)

Data source: Deutsche Bundesbank.
However: So far no established secondary market for closed-end funds...

**Fondsbörse Deutschland**
- Only 13.2 million euros turnover in 1st half of 2005 at Hamburg’s „Fondsbörse Deutschland“
- Turnovers rarely above 50% of nominal value

**Fondsbörse Gefox**
- At Düsseldorf’s „Fondsbörse Gefox“ since a couple of weeks only two closed-end funds are listed
- No turnovers so far

Underperformance of German property stocks

Open-ended funds vs. property stocks vs. capital market (Dec 1993 =100)

Data Source: DID, Ellwanger und Geiger, EcoWin.
Outlook
Which consequences result from a delayed/failed REIT introduction?

Postponement:
- Right now, demand for REITs increases (current situation of open-ended funds)
- Bad signalling effects, if England is first

Failure:
- Immanent, in case Germany will not adapt international industry standard
- Medium to long term debilitation of REIT segment
- Slow growth of REIT segment

Suspension:
- Germany becomes even less competitive
- Other EU countries become more attractive for diversification of international investors
- German investors will look for alternative liquid property investments abroad
„REITs können Anlagespektrum in Deutschland bereichern“

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