German Estates Group is undertaking a third, fascinating project: the 70m purchase of MainTor Quarter, Frankfurt: among the occupiers at the now completed 20,700 sq m office development are chip tenants such as Deutsche Bank AG, Degussa Bank, Universal Investment and KfW. The weighted average lease term is around 10 years. GEG paid €400m for the campus.

**GEG’S FAST-GROWING PORTFOLIO**

In less than 18 months, GEG’s portfolio has grown from nothing to more than €1.6bn. Here are its assets, including an innovative development for migrants – the success of which will be vital in Germany’s efforts to accept record numbers of new entrants.

**New acquisitions**

Junges Quartier Obersendling development: JQS is a project for the repurposing and repositioning of a site formerly used by Siemens. The result will be a campus that focuses on education, and the needs of recent migrants. It will create offices for a local social services agency, training facilities, and accommodations for young refugees. The initiative will act as a model for similar projects throughout Germany. After a year’s development, proposals have now been approved by the City of Munich. Work has already commenced, and completion is scheduled for late 2018.

GEG is tasked with project development, acting on behalf of a joint venture between Deutsche Immobilien Chancen Group and Morgan Stanley. The undertaking is valued at around €150m.

Junges Quartier: the 16,300 sq m office building, purchased for €70m, is almost fully let to well-known tenants including Münchner Stadtwerke, Toyota Boshoku Europe and 1&1 Internet. The average remaining lease term in July 2015 was around six years.

**Development projects taken over from DIC**

MainTor Quarter, Frankfurt: among the occupiers at the now completed 20,700 sq m office development are Union Asset Management Holding, CMS Hasche Sigle, DIC Asset AG, restaurants and K7 gym.

**New acquisitions**

Villa Kennedy, Frankfurt (core deal): Completed in 2006, the Villa Kennedy hotel complex is one of 12 five-star luxury hotels in Frankfurt, and is ranked in the top three alongside the Jumeirah, Frankfurter Hof, and Hessischer Hof. The hotel provides 19,250 sq m of space available to let of which 720 sq m is office accommodation. Its 163 rooms are fitted out with bespoke high-end amenities.

IBC International Business Campus, Frankfurt (core deal): the 84,000 sq m IBC is one of Frankfurt’s best-known office properties and consists of a 112 metre-tall tower, and another two buildings. It is occupied on long-term leases by blue-chip tenants such as Deutsche Bank AG, Degussa Bank, Universal Investment and KfW. The weighted average lease term is around 10 years. GEG paid €400m for the campus.

**Neue Pasinger Mitte, Munich**

The initiative will act as a model for similar projects throughout Germany. After a year’s development, proposals have now been approved by the City of Munich. Work has already commenced, and completion is scheduled for late 2018.

The medical centre and the rental building complex are to be redeveloped and revitalised, while the retail building complex will be rebuilt. In addition to 80 new homes, the development will create new shops. There will be more than 11,000 sq m of floorspace.

Sapporobogen, Munich (core deal): the 27,050 sq m office building, purchased for €90m, is almost fully let to well-known tenants including Münchner Stadtwerke, Toyota Boshoku Europe and 1&1 Internet. The average remaining lease term in July 2015 was around six years.

**Business lines**

GEG and its team of 50 professionals undertake investments across the risk spectrum and across Germany. It has three business lines: “landmark core”, which buys core or famous assets, opportunistic deals targeting returns of 15% plus, and development.

The core business uses capital from GEG’s balance sheet to secure deals then syndicates the equity among global investors, keeping a stake in the projects itself. KKR does not invest extra capital in these deals. It recently undertook the second largest deal in Germany so far this year, a €400m office acquisition in Frankfurt.

Opportunistic deals will use equity from KKR funds, and although only one such deal has been undertaken so far, GEG’s structure gives KKR a foothold in Germany for the long term.

Finally, the development business will sometimes use KKR fund equity, and sometimes equity from other partners. This division took over two projects from DIC and is undertaking a third, fascinating project...
which is part of Germany’s drive to take in more than 1 million new migrants (see box).

For any deal GEG is the exclusive partner for KKR in Germany.

The three business lines mean the company is less cyclical than other private equity-backed companies. If, as is currently the case, yields are low and capital plentiful, and opportunistic deals therefore thin on the ground, the focus shifts to core investment. And if occupier markets are strong, developments capturing higher returns are undertaken.

“My background is that I ran a development company, at which I started my business career in 1991 and sold to Deutsche Immobilien Chancen, and for 14 years I was chief executive of DIC Asset AG,” says Ulrich Hölter, chief executive of GEG.

“KKR were looking for a partner in Germany, and a well-known adviser said: ‘You must talk to Deutsche Immobilien Chancen-Group and Ulrich Hölter’ and put us in contact. After 15 years with DIC I was keen to build up GEG as a new and important platform.

“KKR has been looking to increase its real estate presence in the US and Europe, and Germany is important for anyone who wants to have a global real estate strategy. You saw from the last cycle that a lot of US private equity firms came into Germany and did not stay, so they were looking for a good partner.”

**Fragmented market**

Ralph Rosenberg, global head of real estate at KKR, told EuroProperty in an interview last year: “The reason we have done this is because the German market is fragmented between the seven largest cities.

“You need a big team if you are going to do lots of deals of €50m or €100m in markets that are very different. In terms of how big it will get, that depends on the deals that come up. But we have a team of 50 professionals that can look at deals across the risk spectrum from core to value add, opportunistic and development.”

Core or landmark deals will have a minimum size of €80m, and focus on the top five cities, Hölter says.

“You can’t buy large assets outside of those cities because there is not enough liquidity,” he explains. “But in general there is a good appetite for assets that provide stable cashflows, from German and global investors. These days you can reach 4%-5% cash-on-cash returns, which are attractive for a broad base of institutional investors.”

The biggest acquisition undertaken by GEG so far is the €400m purchase of the International Business Campus in Frankfurt, which it bought from US investor RFR for €400m in June.

Hölter says the deal highlights the GEG strategy in both its ability to find good deals and then bring in capital for them.

“That was a truly off-market deal,” he says. “We don’t look to participate in auctions, we want to be present in selective situations or off-market deals, and we have the network to do that.

“We use the capital power of the business to secure the acquisitions and then syndicate them in Germany or around the world. But we always keep a stake in the deals, and that sends a powerful message: I was confident enough to do this deal using my own balance sheet and I want to keep a stake in it.

“I have just been out in Asia talking to investors about syndicating the IBC deal, and there was a lot of interest. Germany is becoming more and more a safe haven, especially after the Brexit vote. Normally someone from Asia investing in Europe, their first thought is to go to London, but now that is changing, and Germany will attract more and more of this capital.

“Even if investors have a critical view of the euro, of Brexit, or they think returns are low in Germany, there is still the potential for rental growth or value increases. And if you talk to someone from Asia, yields in Germany are quite attractive compared to yields in Asia, so I do think Germany will still attract a lot of capital.”

For the time being, Hölter says that opportunistic deals will not be as plentiful, given the general overall strength of the Germany market, but it has completed one, a €70m acquisition in Munich.

It has bought a mixed-use property and will improve and release office and retail space and add residential units to the building (see box).

“Opportunistic deals are certainly limited at the moment, they only really happen at times of market distress, so that will be more one for the future,” Hölter says.

In terms of the future plans for the company, a target figure of €5bn was mentioned when the company was set up and, given it has built a portfolio of €1.6bn in 18 months, it seems well set to reach this figure.

“We’re a young company and we’re building a successful track record,” Hölter says.

As to how the partners will ultimately monetise or exit the business he says: “There is no exit strategy yet – but both owners, KKR and Deutsche Immobilien Chancen, have put money into the platform business, which shows it has a long-term view.

“For the first five years we will be focusing on building the portfolio. But we just want to build a successful and sustainable business.”

It has gone about this differently, and it seems to be reaping rewards.