

Press release

Deficits in the sales of corporate real estate

Increased need for optimization of real estate marketing

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Germany's businesses own more properties than their international competitors. Although having reduced their share by 15 percent since the year 2000, they are still tying up too much capital which could be invested more effectively in their respective core business. The reasons for this obvious restraint of German companies regarding the sale of their properties have been examined in a recently published study carried out by the research center Forschungszentrum Betriebliche Immobilienwirtschaft (FBI) in Darmstadt. "Disinvestment of corporate real estate under particular consideration of marketing opportunities" is the title of the survey supported by PropertyPartners Immobilienetzwerk Deutschland (real estate network Germany).

Property costs of up to 15 percent are causing the second highest corporate costs after personnel costs. This is a lot more than they generate. In addition, they are tying up around 10 percent of the balance sheet capital. Value-oriented management, however, calls for the release of the capital to the business in order to stay competitive. Whereas the average quota of proprietorship of German companies is at 60 percent, it amounts to 40 percent in Great Britain and just 30 percent in the USA. A majority of companies surveyed, however, plans to reduce the amount of corporate real estate namely by around 30 percent. Only half of the intended sales have been realized by them of yet. According to the study, a minimum of 50 million euros in disinvestment potential of German corporate real estate has to be expected in the coming ten years. The development is to put an enormous pressure on prices.

The sampling frame of the survey consists of companies that are already experienced in the marketing of corporate real estate or who are intending to sell. All businesses listed on the DAX were considered. A total of 148 major German companies - who could afford disinvestments in the first place - with at least 8,000 staff were interviewed. Over 50 percent of the surveyed were not oriented on a specific target rate of return.

Wrong idea of marketing

Many companies are still not aware of the significance of their properties. The very eventuality of a rise in property value is often preventing its sale. Although the sell-off of unprofitable capital is a completely normal process in many business areas, it is often being overlooked in real estate. One of the reasons is that in many cases the fair market value of the property is assumed wrongly, as the calculated values are often out-dated.

The interviewees name insufficient marketing chances as the major reason for the slow processing of disinvestment. However, the companies themselves often lack in clearly defined disinvestment strategies. With the sale of their properties they foremost wish to release equity capital and reduce costs. They often sell their properties too fast, due to shareholder-value issues and irrespective of price losses. At the same time the owners are striving to reach the book value and retain the right of disposal to the greatest possible extent. Without any given standards of corporate policy a conflict of objective with serious consequences is looming which could lead to the failure of planned sales.

Furthermore, the study finds that marketing proper is often concentrated on single pieces of real estate and the activities do not focus on a sufficient number of

property investors, although alternative marketing is offering numerous advantages. Around one third of the companies questioned thought that transactions on the basis of capital shares in a company or in open and closed-end funds could not be realized by them. Well over half of the interviewees disapprove of securitization.

Companies need to rethink

Methodical problems with the valuation of operational costs and benefits can lead to self-interest-based decisions on real estate. Control mechanisms such as market price systems thereby loosing effect. Here it is the management's responsibility to create structures that prevent mismanagement by the personnel.

The study not only describes the current shortcomings but simultaneously also outlines chances for profitable dispositions of corporate real estate. There is above all an increased need for the optimization of marketing processes. Most of the interviewed deem the clarification of attendant strategic conditions as paramount for detecting conflicts of competing marketing targets. The necessary steps, such as decisions on the release of capital or property potential analyses, therefore need to be appreciated to a far greater extend. Once financial valuations and suitable delimitation of marketing units receive more attention, further scope of action will be available. This rarely happens as the companies prefer to control disinvestment internally rather than rely on competent external partners.

About PropertyPartners:

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