

“Of course we’re looking at other targets”

INTERVIEW WITH RALPH WINTER, CHAIRMAN, AND CHRISTIAN SCHULTE EISTRUP, MANAGING DIRECTOR, CORESTATE CAPITAL



Ralph Winter, Chairman, CORESTATE Capital



Christian Schulte Eistrup, Managing Director, CORESTATE Capital

Ralph Winter, the former Managing Director of Cerberus Germany, and his team founded CORESTATE Capital in Zurich in mid 2006. Here, he and Christian Schulte Eistrup talk about the strategy of CORESTATE German Residential Ltd. and the German Commercial Fund. Winter also thinks that investments in publicly listed companies are an interesting prospect.

REAL ESTATE MAGAZIN: How are you dealing with current developments in the market?

WINTER: People are just more cautious nowadays. They are taking a closer, more in-depth look at financing than they were a few months ago. Two years ago, it was easy to get a loan from the bank; now, bank loans are the limiting factor. There is some interesting real estate out there, but the question is what kind of financing conditions are available. Still, we are already seeing some improvements in the situation. Banks know exactly what they want to finance and what they don't want to finance. That, of course, makes it a bit easier, regardless of whether we're talking about residential property or commercial real estate.

REAL ESTATE MAGAZIN: Have you noticed any uncertainty with foreign institutional investors? What questions are you hearing most at road shows?

WINTER: These questions both have to do with financing and the repercussions of the subprime mortgage crisis. Even so, there is no one single answer, because the situation in the U.S. market is different from here in Europe, and the situation in Spain, for example, is totally different from the situation in Germany. Needless to say, we talk about this in detail, but I don't think you can say as a general rule that investors are more restrained. There are quite a few funds that have raised money, which, of course, must be invested selectively.

REAL ESTATE MAGAZIN: At the moment, is it easier to raise money in the commercial or residential industry?

SCHULTE EISTRUP: The state of affairs in Germany is basically very good, as confirmed by economic data. Moreover, the situation in the real estate industry in Germany was not the same as it was in the U.S. Ultimately, our assessment of the German real estate market is positive, and its volatility and risk profile tend to be relatively lower than in other large markets, such as the U.S. and U.K. Consequently, foreign investors are still interested in the German market. Of course, there are also those who believe in making major investments in emerging markets, but then again, the risk profile of emerging markets is very different.

REAL ESTATE MAGAZIN: Many foreign investors have lost considerable sums of money in German real estate shares, and more specifically, investors got overly excited about the privatization of public housing. Are you confronted by questions on these issues?

WINTER: Developments have been decidedly negative throughout the equity market over the past 24 months, but this was because companies were raising entirely unrealistic expectations. This most certainly has to do with insufficient prior experience with privatizations and asset management on the part of some market participants, and with the fact that these players were created through mergers and first have to complete integration and restructuring measures in order to start exploiting their potential.

However, the public equity market does not reflect how things are in the German real estate market.

REAL ESTATE MAGAZIN: How much leverage are you working with now?

WINTER: We usually work with 1/3 equity and 2/3 debt capital.

REAL ESTATE MAGAZIN: Is that easy to finance for the time being?

WINTER: Yes, we've been doing that ever since the beginning. One-third equity is not overly aggressive, and we don't have trouble obtaining financing.

REAL ESTATE MAGAZIN: How has CORESTATE German Residential Ltd. been developing thus far?

SCHULTE EISTRUP: We closed the fund on May 31, 2008, as planned. Some 50% of the fund is already invested in residential properties in Germany. In all, the targeted investment volume will be EUR 2bn. Our investors are acknowledged real estate specialists, some of whom also invest directly in property assets – which makes us all the more appreciative of the confidence placed in CORESTATE as a fund and asset manager. This is especially the case because most of our investors stepped up the amounts they had originally allocated, which certainly contributed to the overall success of the capital raise.

REAL ESTATE MAGAZIN: How much will CORESTATE invest in commercial properties and which areas have you invested in?

SCHULTE EISTRUP: Just as in the residential sector, we intend to invest EUR 1.5-2bn. To date, we have invested about 10% of this target. Since we usually focus on smaller properties, we typically don't have problems finding interesting investments. We can already pay out dividends, which is something that is very important to investors.

REAL ESTATE MAGAZIN: Do you still have cash holdings, or when you raise funds, do you invest them straight off?

WINTER: No, of course we still have modest cash holdings. We scrutinize the market thoroughly to take advantage of any opportunities, and then draw the appropriate equity from investor commitments.

REAL ESTATE MAGAZIN: What is the expected return, structure of rates and charges and maturity of your funds?

WINTER: We expect an annual return of around 15% after fees and fund-level taxes. We are in the second year of the residential fund, which will mature after 8 years but can be extended upon request by the investors. The commercial fund has a life of 6 years and can also be extended. Both funds include a performance fee of 20% on returns over a 9-10% hurdle. This puts us at the same level as other private equity funds.

REAL ESTATE MAGAZIN: You made a 14.18% investment in the publicly traded company Alta Fides AG in the early part of the year. What is your strategy with this investment?

WINTER: We see Alta Fides as an interesting investment. The com-



CORESTATE-building, Dresden



CORESTATE-building, Hameln

pany has carved out a strong, first-mover position for itself in the student housing market and found a promising market niche. We also think that over the next two years there will be a consolidation of smaller publicly traded real estate companies.

REAL ESTATE MAGAZIN: Are you planning to invest in other publicly traded companies?

WINTER: Of course we're looking at other targets. Right now, the sector is proving to be quite interesting for investors; and companies with the right strategy and tangible synergies can represent attractive opportunities.

The Interview was conducted by Christian Schiffmacher and Robert Cleve.