



PROPERTY IN PERSPECTIVE

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The sum of all fears: inflation drives demand for real estate

Global economies have extended their economic recovery since mid-2010. Where deflation was the main topic 12 months ago, inflationary trends or the fear of inflationary trends is the main theme driving the market at the moment. The psychology has changed within 6 months from deflation to inflation, largely based on a change in sentiment. Inflation fears are fuelled by high Asian economic growth and scarcity of commodities. Traditionally, inflationary trends are linked to increasing demand for real assets, especially real estate. How relevant is inflation for real estate?



Real estate is often referred to as a great inflation hedge. That might be true for some markets and for some periods in time. It is not true for all real estate and neither is it true for long time frames. However, inflationary fears do have a positive impact on the demand for real estate, as real estate is considered to be a 'real asset', which holds its value even in times of high inflation.

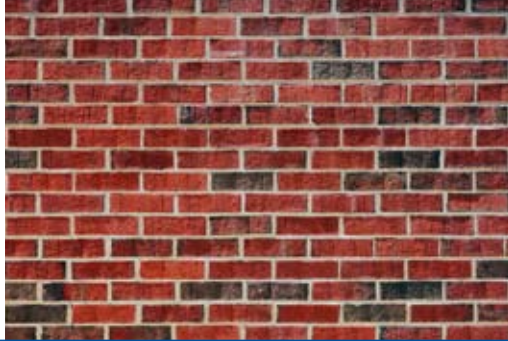
There are definitely links between real estate income and real estate values on the one hand and inflation on the other, but these links are not as direct and long-lasting as many assume:

- Lease contracts for commercial real estate (office, retail and industrial) in the US and most European countries, except for the UK, are directly linked to the CPI. If inflation rises, rents

will rise as well during the term of the lease contract. That means that there is an inflation shield but it is only temporary: it only applies as long as there is a lease contract in place.

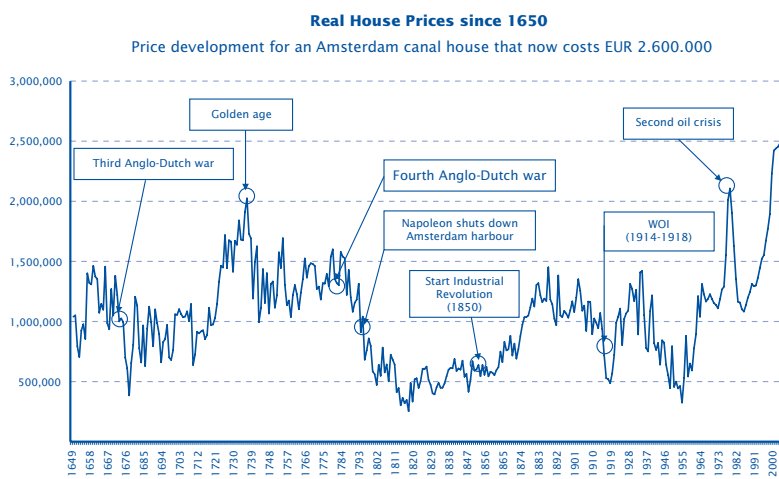
- The story is different after the lease contract expires. Rents are then adjusted to market levels, implying that there is an inflation shield but it is only temporary. If there is ample supply of existing or new space, market rents will be below contract rents and the adjustment would be downwards. The opposite is true in scarce markets.
- The situation as regards residential real estate differs per country. Rental contracts are typically reviewed and aligned with the market after one year. The Netherlands has a direct link to the CPI, whereas Germany does not and the US and Asian real estate markets typically do not have this direct link to the CPI in lease contracts either. Indirectly, though, residential rents do follow inflationary trends, but demand and supply are just as important for real estate.

All this implies that income from real estate offers some form of inflation hedge during the term of the lease. After the lease expires, contracts are readjusted to market levels again, which could mean that the link to the CPI is lost after lease expiry.



Real estate values show a less direct link to the CPI than real estate income. Discount factors, cap rates or net initial yields that, together with rental income, determine the value of real estate typically rise in a period with rising inflation and rising interest rates. That implies that even if real estate income is directly linked to inflation, real estate values might actually decline despite rental income showing a rise.

An interesting piece of research was done by Professor Piet Eichholtz from Maastricht University in the Netherlands in 2007 'inflation protection from home ownership'. Eichholtz researched prices of Dutch houses along the famous Amsterdam canals to as far back as 1814 (see Graph 1). The quality of the houses along the Amsterdam canals has always remained the same and there has been virtually no new supply. This makes price trends relevant as real comparisons can be made, especially with these long time horizons. New research from Piet Eichholtz which will be published shortly in the Journal of Money, Credit and Banking sheds more light on the relationship between real estate values and values of international real estate.



Source: Eichholtz

The conclusion from this study is that:

- Dutch house prices show a good inflation protection in the longer run, especially against expected inflation, and especially if inflation is persistent. The link towards unexpected inflation is markedly different. In longer time frames (twenty or thirty years), no significant relationship is found between house prices

and unexpected inflation. So if inflation is persistent and expected, which probably takes place in time frames with relatively low but persistent inflation, house prices appear to be a good inflation hedge.

- House prices and rents are co-integrated, indicating that the same underlying fundamentals likely influence both. Between these two, house prices appear to have greater importance than rents in correcting bubbles or crises. This implies that real estate strategies, which focus on capturing real estate prices (as opposed to rents), like development, run bigger risks in an unexpected downturn of the market.
- The second piece of research of Piet Eichholtz shows that there have been long periods, for example from the Second World War until recently (with the exception of 1979) during which Dutch canal house prices rose. But there were also long periods in which house prices fell (for example 1780 – 1820 caused by war with England and the invasion of Holland by Napoleon from France). Sustained periods of 'bubble' or 'crisis' conditions can continue for longer periods without a corresponding correction or crash. The research shows that it is decidedly difficult to know when, or even if, an asset price bubble will collapse. Moreover there are several examples of markets which are widely thought of as overvalued, but have nevertheless kept their value, while other markets experience a free fall which were not generally seen as overvalued.

House prices (and real estate in general) perform best in periods with relatively low inflation and low interest rates. Both inflation and interest rates have traditionally been low in the Netherlands. One important reason is that the Dutch government has historically had good budget discipline, which produced a strong currency and low interest rates. Moreover, the Dutch have historically always had an internationally good ranking on the Global Transparency Index, which indicates the level of corruption. The Dutch score in 2010 was 8.8 on a scale of 0 – 10, just behind the global leaders in this respect, Sweden and Finland, both with 9.2, but ahead of the US with 7.1 and Germany with 7.9. As a result, Dutch companies and private individuals have historically been able to benefit from favourable long term inflationary and interest rate trends. The Dutch have therefore been able



to borrow money at low cost, which has generally led to high economic growth. It also helped Dutch exports and trade.

This is all very interesting but what does it tell us about future global economic growth and inflation? The answer is: it does not tell us anything. 'Black swans', as described by Nassim Nicholas Taleb in his book of the same name, such as (i) a demise of the euro or (ii) an overheating of the Chinese economy could be good indications that we are nearing the peak of Dutch house prices, because inflationary pressures and therefore interest rates are rising. There are however just as many reasons why now is the time to switch to 'real assets' like Dutch canal houses. Real estate might not bring major gains in times of inflationary pressures but, in relative terms, the positive element is that real assets tend to outperform bonds and equities in these periods. Possible black swans could be: (i) social unrest in China on the back of toppling governments in the Middle East producing an uncertain outcome and uncertain effect on inflation and interest rates, (ii) increasing focus on China's ageing population and the costs related to this ageing, given that the country's one-child policy means fewer caarers, (iii) or the establishment of a strong Northern European euro that excludes the weaker (and therefore too costly) euro members.

This underlines Warren Buffet's view on investing. Make sure (i) you do not lose money and (ii) you remember point (i). What his investment philosophy has taught us is that it is not very interesting to try to predict the future. Nor is it wise to invest in things you do not understand. This should be positive for real estate investing. Investors cannot see black swans coming, let alone influence them. It was impossible to predict things like the introduction, rise and success of the internet, but these types of black swans can be vitally important for the performance of your investments. One example is the impact of online retail on retail real estate. Another is the impact of increasing efficiency on the use of office space, leading over time to a decline in work space per worker from 25 sqm to 15 sqm.

Bearing all this in mind, to be a successful investor, it is much more interesting to think in terms of scenarios instead of trying to predict the future. When investing in real estate, thin-

king in terms of scenarios implies asking the following questions:

- What is the liquidity of the type of real estate you have invested in? A EUR 100 million investment is far less liquid than a EUR 10 million asset.
- Consider alternative uses for the building you are investing in, in case tenants run into problems for whatever reason. Does the zoning plan allow for other retail tenants in the event of department stores no longer being wanted by customers?
- What costs would achieving alternative use entail? It can be great to have an alternative plan but if it costs too much, it will still ruin your investment case.
- What kind of debt financing can the income from a property bear in different economic scenarios?
- What will happen to rental growth, vacancy rates and demand for space in the event of changing demographics? Incidentally, demographics is a black swan which can be predicted.
- How will you handle contact with your clients (i.e. tenants) in the best and most efficient way? Listening to your clients is of vital importance, in real estate as in other sectors.
- What are the construction costs of building or rebuilding the same sort of assets? Or in other words, how does the acquisition price compare to the price of the bricks and mortar?
- What other ways are there to improve the value of the real estate you have invested in by applying active asset management in adverse economic conditions? What is the best and most efficient way to achieve these value improvements?

IBUS has historically invested largely in offices but around 5 years ago it shifted its focus towards rental apartments and retail.

We believe that real estate currently offers interesting long term potential for investors after the reduction in values of 2008, 2009 and 2010. There is no need to rush, though. And it makes a big difference what kind of real estate you decide to invest in, the technical state it is in and where it is located. Just as with bonds: a Dutch government bond has been demonstrated to have different risk parameters than a Greek government bond.



Background and rationale IBUS Winkelfonds

IBUS is launching a new fund called IBUS Winkelfonds. It is a fund that will focus on retail investments in Germany, the Netherlands, France and the UK with Germany carrying the most weight. IBUS believes that cash return, governance and diversification have become more important issues for investors lately due to the financial crisis. This fund will therefore have different characteristics than traditional IBUS funds. It will be a larger, growing and more diversified fund with a target asset base of over EUR 200 million; it will focus on cash-generating retail investments; it will be constructed in the form of voting shares; and it will have an independent supervisory board. What is the background to these changes?

What have we learned from the past?

Real estate is an asset that serves the needs of people or businesses looking to use space. So real estate is a service-oriented sector whose clients are tenants and end users. The demand for space depends on a combination of demographic and economic development, which implies the following:

- Firstly, real estate income is best safeguarded in strong economic and demographic areas. The risk of vacancy is lower in these areas and the opportunity for rental growth is better.
- Secondly, now that Europe will be facing demographic changes in the decades to come, European real estate markets will become replacement markets as opposed to growth markets. This means that replacement cost (or the cost of constructing a building) will become an important measure for valuation (again). Real estate rents and values will not automatically rise and acquiring existing real estate needs to be compared to the value of building a new asset (replacement cost).
- Thirdly, sustainable cash returns have traditionally been drivers for real estate investment. These traditional principles will return to the market again. That implies that investors will be looking for a healthy cash return from their real estate investment, whereas a rise in real estate value is 'nice to have' but not a given. Value increases can only be achieved when the asset is revitalised. We do not believe that the 'automatic' value increases which took place in the past decade with excessive financing will return any time soon.

What is different compared to the past?

There are a number of differences compared to traditional IBUS funds.

- First of all, the fund will grow its asset base on a regular basis over the term of the fund. If new assets are found that match the risk/return profile of the fund, the fund will add these investments to its existing asset base.
- New investors can regularly enter the fund based on the net asset value of the assets. As a result, the fund will be able to grow further. Traditional IBUS funds invested in a set portfolio without growing their asset base. Once a fund had been introduced to the market, it would close and new investors would have to wait for the next fund to be introduced. As a result, the old funds provided investors with exposure to a small number of specific real estate assets. The new structure will lead to better diversification.
- The exit from the fund is similar to traditional IBUS funds. In year eight, the fund will set its exit strategy based on a decision by its shareholders. All possible exit routes can be considered: selling individual assets, selling groups of assets, selling the portfolio as a whole, or alternatively, an IPO could be considered or selling the entire portfolio to a stock-listed company.

Why this fund and why now?

Investors are looking for cash flow-oriented investments, now that interest rates are low and inflation is creeping up again. Moreover, investors are looking for products they understand. Retail real estate is a stable asset class with sustainable income based on long-term lease contracts. IBUS Winkelfonds will combine stable cash flows with a diversified portfolio. That implies that the security of income is high, which is important as the economic recovery is still rather fragile. However, some of the assets in IBUS Winkelfonds will provide opportunities to improve the asset by renewing lease contracts and/or revitalising



Langwahn 54, Eschweiler

the real estate. We believe that this potential upside in value fits well with the fund's stability of income.

How about governance?

Governance is becoming more important to investors. IBUS Winkelfonds will have an independent supervisory board as opposed to the traditional advisory board or '*Raad van Toezicht*' that just had an advisory role. The downturn in the market has shown that many real estate management firms have a different agenda to that of their investors. The supervisory board oversees all major decisions taken by management to safeguard investor interests. Shareholders in IBUS Winkelfonds will have the right to make proposals for members of the supervisory board. Moreover, investors will become shareholders in IBUS Winkelfonds as opposed to holders of certificates. Voting rights for investors are in line with what is required these days. The start of the sales process will be an item that will be discussed with shareholders. Once that decision has been taken, whether assets are sold either individually or as a portfolio is at the discretion of the management board of IBUS Winkelfonds and will be overseen by the supervisory board. This gives the management board the opportunity to act swiftly when interesting selling opportunities arise.

And liquidity?

Real estate is an illiquid asset class. The financial crisis has once again shown that open-end structures for real estate funds do not work at times when these structures should provide flexibility to sell the shares in a fund. There have been numerous examples of funds where the open-end structure forced the management board of a fund to sell assets in weak market conditions at a low price. This underlines the fact that open-end structures do not deliver what they are supposed to. Management and shareholders will together set an exit strategy after eight years to ensure that investors get their money back and the fund faces an exit. This exit strategy will then be executed in a limited time frame.

Case example: Eschweiler

A good example of what the fund will buy is Marktforum Eschweiler. The Marktforum Eschweiler was developed by an international development company called Caelum

Development. As a result of the crisis, the developer scaled down its plans to develop a large German retail portfolio and decided to sell. The Marktforum Eschweiler is located a couple of hundred meters from the high street area of Eschweiler, a city near Aachen with around 60,000 inhabitants. The property was completed in 2009, consists of 7,100 sqm of lettable retail space, contains eight retail shops (two supermarkets Rewe and Penny, fashion retailer C&A, pharmacist Schlecker, etc.) and has ample parking space. The strengths of the centre are the walking distance to the Eschweiler city centre, the complete tenant mix with regard to daily groceries and necessities, the good quality of tenants and the high construction quality. Most lease contracts have a term until 2019.

Obviously, this is only an example. More types of retail will be added, not only in Germany but also in the Netherlands, France and the UK. The common denominator of the retail in the fund is that it should be competitive in a changing environment with regard to demographics and shopping behaviour.

What is the return and risk profile of IBUS Winkelfonds?

The fund targets an annual cash distribution to investors of 5% to 6%. The overall risk profile of the fund will be limited as quality retail assets will be acquired. These will be established real estate assets with a proven coverage area, quality tenants and longer lease contracts. To some extent, the fund will also invest in assets where IBUS can add value through active asset management. The maximum leverage on a portfolio level will be 60%, which can be considered relatively low. All in all, we believe that this fund will give investors exposure to quality real estate and annual cash income based on a stable real estate asset class with a possibility of a slight upside through renewing lease contracts and/or revitalising the real estate.

If you would like to find out more, please contact Max Berkelder, Eva Mogendorff or Ton Luyk.

IBUS towards the future:

Interview with Pepijn Morshuis and Max Berkelder

IBUS is an independent real estate management firm that has been in business for almost 20 years. The nature of the real estate business is shifting, influenced by changing demographics and changing investor needs. What are the implications of all of this for IBUS and its product line? Managing Directors Pepijn Morshuis and Max Berkelder shed light on the latest developments.



Pepijn Morshuis



Max Berkelder

What are the changes that can be seen in the real estate market?

Pepijn Morshuis: The real estate market in Europe will become a replacement market as opposed to a market which allows new development to take place. In the first decade of this century plenty of real estate was developed in Europe. The fundamental changes currently taking place in working and shopping behaviour will have a significant impact on the characteristics of real estate needed. At the same time, due to a changing demographic profile, there will be a requirement for less real estate in Europe rather than more. Redevelopment will be the name of the game.

What does that imply for the IBUS organisation?

Morshuis: IBUS is a real estate asset management firm that offers real estate solutions for

its clients. Different client groups have different needs. More and more, IBUS will buy existing real estate that meets or can be made to meet the appropriate urban real estate needs of end users in order to achieve returns. In order to optimise this asset management approach, we have made choices about the number of countries and sectors we are able to cover. We would rather be a larger player in a smaller number of countries like Germany, France, the Netherlands or the UK, than a smaller player in a larger set of countries. The direct contact IBUS has with tenants and end users and the service it provides is our added value. Consequently, we will increasingly insource commercial real estate management. We will continue to use local property managers when investing in residential real estate.



What kind of changes can be seen on the investor side?

Max Berkelder: IBUS used to offer a 'one size fits all' investment product. An IBUS fund was based on a certain market opportunity, a property that could be acquired from a bank, a developer etc. It has become more and more difficult to match several investor groups with one product. Limited partners (investors in a fund) are increasingly aware of their fellow investors, as investors need to be united if important decisions have to be taken. Private investors require different fund characteristics than wealthy families or institutional investors. For that reason, we are now making different investment products for different investors: larger, well-diversified funds for private investors, tailor-made products and constancy for families and dedicated funds for pension funds.

Are there any parallels in investments that all investors require these days?

Berkelder: Yes. Investors' focus, whether they are institutional or private investors, is shifting towards cash returns as opposed to capital appreciation. Historically, cash return has been the main attraction for real estate investment. In the boom of 2006 and 2007, investor attention shifted from cash return towards capital appreciation. Investors believed it was a fact that real estate would increase in value over time. That has turned out to be a wrong assumption, as demand for real estate has its limits, especially in an environment of declining economy or declining population. The return of the market to traditional standards is marked by the desire of real estate investors to receive a cash return again.

And what about governance?

Berkelder: Governance is a big issue for all investors. An important element in governance is the supervisory board. The downturn in the market has shown that many real estate management firms have a different agenda than their investors. The supervisory board oversees all major decisions taken by management to safeguard investor interests. The supervisory board of IBUS consists of Gijts Verweij (former CEO of Wereldhave), Jaap Fieret (managing director of a large single family office and former head of ABN Amro global asset management) and Kees

Scholtes (former board member of ING Bank Netherlands). So it is a board with experience in the field of direct real estate, from a client as well as a banking perspective.

Is real estate illiquidity still an issue for investors?

Berkelder: No, we are seeing that it is less of an issue now. Illiquidity of private real estate funds was a big issue until 12 months ago. Investors did not know where the market was going so wanted to have maximum flexibility and therefore liquidity. Although some of the macro-economic problems that caused the crisis of 2008 have not really changed, investors are again prepared to accept the illiquid nature of investment classes like private equity or real estate.

What does that mean for IBUS funds going forward?

Morshuis: It will change the way we structure our funds. We are currently working on the rollout of a new IBUS fund for private investors called IBUS Winkelfonds. It will invest in quality retail locations in Germany, the Netherlands, France and possibly the UK. The retail assets in this Fund will be located in an urban environment with a focus on delivering what consumers need in a stable demographic area. That makes the investments less vulnerable to trends like online retail. The difference compared to traditional IBUS funds is that IBUS Winkelfonds will be open to new investors on a regular basis because it will continuously expand its asset base. That means that this fund will have an improved diversification profile compared to IBUS' traditional funds. Future funds will focus on cash returns and low volatility of returns. The fee structure of IBUS funds will be different to that employed by other fund initiators. Instead of charging upfront fees, IBUS wants to be aligned with investors. IBUS will receive an asset management fee linked to the work which has been done and therefore linked to the return for the investor.

Will all IBUS funds have this same set-up?

Berkelder: In the future, we are thinking of launching an IBUS Woningfonds that will invest in rental apartments along the same lines. Products for families are mostly tailor-made. The process with a family typically starts with consultancy or a specific deal that is already on the table.



We employ a case-by-case approach to look at what the client needs are and what IBUS is able to offer.

Morshuis: Examples of this are the requests that we have had to advise families on the set-up of both direct as well as indirect real estate investments. If a family with real estate expertise approaches IBUS with a transaction already on the table, we can look at options for IBUS to take an asset management role and find co-investors.

Berkelder: And teaming up with a small number of high net worth investors for a specific transaction will remain possible if we see an interesting asset with opportunities for adding value.

And what does IBUS do for institutional investors?

Berkelder: Traditionally we have had a number of Dutch pension funds in IBUS funds. Dutch institutions typically select IBUS for residential exposure in Germany, as investors see us as hands-on Managers. We might look at launching another institutional German residential fund at some stage if demand is good. Apart from that, we have a long-lasting relationship with Sentinel Real Estate Corporation from New York for whom we act as a trusted advisor and placement agent with regard to European institutions. That business is expected to be expanded into the Nordics with a partnership with a local Nordics party.

What kind of product can IBUS offer families?

Berkelder: Family investors are looking for someone they can trust, someone who is alert to their needs throughout the entire process from plan to implementation and is able to give an independent opinion. In some cases, that means they need someone to help to solve real estate problems for them. It seems that there are still many problems that need to be solved. In other cases, families are looking for new real estate exposure. Some families like to team up with other families to invest in real estate together, whereas others like to operate on a stand-alone basis. We act as the party that searches for and manages the assets. And finally, we are regularly looking for wealthy investors who are open to the idea of temporarily pre-financing real estate transactions that we have under contract.

How has IBUS survived the difficulties in the real estate market?

Morshuis: The market is improving but still challenging. IBUS started taking measures between 2004 and 2008 before the financial crisis hit the real estate industry. We decided to become more defensive in our investments (apartments versus offices) and decided to streamline our organisation, so that we were prepared for a market standstill, even if it lasted a long time. In 2010, we were able to expand our team again with two new professionals, bringing our organisation to around 20 people. We are seeing our activities gradually expanding again. With the benefit of hindsight, we are happy that we took these portfolio and organisational measures so that we do not have to deal with legacy issues now.

Berkelder: The fact that our solid financials mean we are not forced to start new business and can afford to be picky, means we can focus on the right transactions. We started seeing new business picking up again from H2 2010 for private investors, family offices as well as institutional investors.

To sum up: where do you see IBUS in 5 years from now?

Morshuis: The nature of IBUS is gradually changing from a market timer to a focused asset manager. However, the key to our business, namely adding value to real estate, remains unchanged. We will increase our knowledge of how to add value to existing real estate with a highly specialised team of professionals. IBUS' position as an independent firm gives us a competitive edge compared to real estate management firms that are allied to financial parties like banks.

Berkelder: We will further increase our focus towards offering specialised products to different investor groups. The element that will remain unchanged is our focus on return and not on volume. Challenging times ahead but we are looking forward to them.

The future of the Dutch Construction and Project Development industry

Interview with Jan Berghege (CEO of Bouwbedrijf Berghege)

The Dutch Construction industry is in a state of severe recession. 700 construction companies went bankrupt in 2009. The Federation of Dutch construction and infrastructure companies (representing 1,700 small and medium-sized construction companies employing 40,000 people) expects the number of bankruptcies in 2010 to be double this. According to the Federation, 25% of Dutch construction companies are in difficulties and no recovery is expected until 2013 (!). The recession has hit all construction sectors and all Dutch regions. Three problems have struck the sector: (i) the financial crisis, (ii) the economic crisis and (iii) the extended periods of frost in 2010. Bouwbedrijf Berghege, a medium-sized construction company with 180 employees, based in Oss in the Netherlands, has successfully managed to survive the market turmoil. Jan Berghege, CEO of Bouwbedrijf Berghege, talks in this interview about how the company is organised and how they are dealing with difficult market circumstances.



Jan Berghege

Can you tell us briefly how Bouwbedrijf Berghege works and what kind of business lines your company has?

Berghege: Bouwbedrijf Berghege BV is a general civil, commercial and industrial construction company. We intentionally operate market-wide, from project development, where we take the risk, to full-service turnkey projects for third

parties, and from residential to commercial construction. All of this is based on long-term relationships with clients, in which added value is our main focus.

Do you believe that the recession is due to an oversupply of the number of contractors, and is it demand driven or is there another reason?

Berghege: Absolutely. The signs of over capacity within the construction sector were visible long before the current economic crisis.

How do you think a construction company should change its business model to survive in the long term?

Berghege: A construction company that limits itself to just offering capacity is condemned to become mainstream. A modern construction company that is concerned about its future will need to focus on added value in all of its business models. If they want to put their clients first, construction companies will need to integrate all elements in their value chain, forwards as well as backwards. In other words, construction companies need to be able to offer the full range from project development through to maintenance and services.

Can you see a trend amongst contractors towards more specialisation or are contractors moving towards chain integration?

Berghege: The majority of contractors seem to be continuing their business as they have done



in the past. The minority are changing their business fundamentally and bringing it up to date.

What has Bouwbedrijf Berghege done in order to survive the recession and is it possible to build a new business yet?

Berghege: Our strategic choices were made long before the current recession. You should always make choices from a position of strength, not from one of weakness. We made a clear decision to implement chain integration throughout the different stages of the construction and maintenance process. Besides that, we identified segments in the market, like high-end commercial real estate, the care and health sector, professional maintenance and service in which our knowledge and skills can add significant value.

What is the average construction margin in the Netherlands at the moment and where in the process do contractors make their profit in a project?

Berghege: The average gross margin is currently between negative and 1%.

Is this margin enough for contractors to survive?

Berghege: In the long run this would simply be impossible. The market is searching for equilibrium between supply and demand. This implies

that the capacity on the supply side should diminish by about 25-30% compared to the pre-2008 level. The recent purge of large Dutch contractors is a result of this situation. The reason we are only seeing this happening now, in 2011, is that the construction sector has a long lead time and therefore can be qualified as late cyclical.

What do you see as the biggest risk caused by the declining number of contractors due to bankruptcies?

Berghege: Personally, I don't see it as a risk, but more of a necessary evil. It's like Spanish flu restoring a body's balance. And anyway, I like to think in terms of opportunities, not threats.

Do you believe that the government should act to help contractors or is this a healthy readjustment?

Berghege: There is no single answer to this question. On the one hand I am absolutely opposed to overcapacity being subsidised, but on the other hand, you cannot walk away from the huge lack of demand in the construction sector. Compensating this lack of demand by government-driven investments or subsidies that focus on the future would seem to be necessary.

In the heydays of the market, contractors went into project development in order to secure their

project pipeline. Project developers are now in difficulties due to a combination of a lack of project financing, no return from the land on their balance sheets and postponed sales projects.

Do you think that contractors should be involved in project development at all?

Berghege: Absolutely. Contractors are usually the ones who know about the technical aspects of the product being built. Many developers lack this knowledge. On the other hand, independent developers think more from the client's perspective, whereas contractors are inclined to put too much focus on the technical aspects of the product being built.

So how can project development best be integrated with contracting?

Berghege: Actually, my response to the previous question already answers this one. Developers and contractors should use each other's qualities and turn project development into an integrated process. This is the fundamental idea behind chain integration.

What is the major challenge for project developers now that demographic development in Europe is leading to a shift from greenfield development to redevelopment of existing real estate?

Berghege: In fact, the main question for both types of development is the same: what does the client want? Redevelopment requires more specific skills from both a financial and a technical point of view. Besides that, marketing will become more important in the company process. The key to all of this is that project development will be driven by the demand and desires of the end user.

Where in the process does a developer make his profit and will this change in the future?

Berghege: A developer only makes a profit when he knows how to put the right product on the market at the right time. That means developers will need to have more flexibility in their business models. There are too many developers who are only capable of making a product for one specific part of the market. I see them as supertankers, ships that need a lot of time to turn around in open sea.

Do you believe that developers should be specialists in one country or in one particular market niche such as town retail or affordable housing?

Berghege: This is not an easy question to answer. I think that development should be close to the market, so it should be done locally. But trends are usually international, so they affect local markets as well.

What will turn out to be the biggest challenge for project developers going forward?

Berghege: Market vision, flexibility and financial strength.

How do you see the future for your company?

Berghege: I see our company as being at the centre of construction activity. Our activities will continue to be more and more part of an integrated chain. But in the end, we will remain a family-owned business with its corresponding values and vision.

CHANGES IN PORTFOLIO

Acquisition of retail centre in Eschweiler, Germany

IBUS acquired the Marktforum Eschweiler in Eschweiler in January 2011. The centre has a total GLA of 7,111 sqm and contains eight retail shops. The total plot of land is 24,500 sqm and includes 323 parking places. The centre was acquired for EUR 11.8 million (excluding acquisition costs) or 12.7x the gross annual rent of around EUR 0.93 million per year.

Acquisition of two retail units in Braunschweig, Germany

In March 2011, IBUS acquired two retail units in the high street area of Braunschweig subsequent to a bankruptcy. The properties have a total GLA of 2,172 sqm. The larger of the two can be redeveloped in the future into large-scale retail over several floors. The assets were acquired for EUR 5.5 million (excluding acquisition costs) or 12.7x the gross annual rent of around EUR 0.43 million.

Sale of residential properties in Cologne and Mülheim, Germany

IBUS sold 20 residential units in 2010 of 45 sqm on average. The assets were sold for EUR 1.55 million or EUR 1,686 per sqm. This is 18.2x the gross annual rent. IBUS sold four individual properties (521 m², 10 apartments) for a total of EUR 578,000 in 2010. The average sales price amounted to EUR 1,109 per m² and a multiplier of 17x the gross rent.

Completion of first batch of Life Resort boats in Halong Bay, Vietnam

Life Resorts Management Company has completed the first batch of 13 boats out of a total of 22 boats. The boats will offer full service day and overnight cruises in Halong Bay, Vietnam. More information can be found at www.life-resorts.com.

Weena Tower Rotterdam, the Netherlands

IBUS relaunched the website for the Weena Tower www.weenatoren.nl in late 2010. This apartment building offers the ultimate living experience in the centre of town as part of the famous skyline of Rotterdam. Large three-room and four-room apartments in the Weena Tower are let and sold both to individual as well as corporate tenants and buyers.

Trip to Wiesmann factory

In October 2010, IBUS hosted a trip for a group of car-minded entrepreneurs to the production facilities of car manufacturer Wiesmann in Dülmen, Germany in order to learn more about the company and its production process.

IBUS organises Nyenrode workshop

Following the workshop on 'Real estate as a necessary instrument for capital preservation' in March 2010, IBUS, PwC and Nyenrode University (Centre for Wealth Management) are organising a follow-up workshop for Ultra High Net Worth investors and family offices on the topic of 'real estate as an asset class for generations'. Families dealing with the transfer of ownership to the next generation will be especially interested in this theme but it is also relevant for families looking for a steady cash flow. During the workshop they will work in small groups on realistic cases and dilemmas comparing investing in real estate directly or outsourcing all tasks to a specialist. Participation in the workshop is by personal invitation only.

IBUS to give presentation in Salzgitter on demographic changes

IBUS will give a presentation to a group of Dutch housing corporations, municipalities, provinces and delegates from the Dutch central government in April 2011 on the effects of demographic change. This presentation will be part of a larger programme hosted in Salzgitter, Germany, especially set up for Dutch government-related bodies to gain knowledge of the effects of demographic changes. Salzgitter is an area with a declining population, a situation that is starting to occur in some parts of the Netherlands and will affect others in the future.

Sentinel welcomes 9th Dutch institutional client

In late 2010, Sentinel welcomed PGGM as its 9th Dutch client. IBUS assists Sentinel in structuring, placing and marketing new and existing Sentinel funds.

Advice on private real estate fund strategy

IBUS has been asked to assist a Dutch family holding in determining its future real estate strategy in private real estate funds internationally. The family is planning to include private real estate fund investments in its portfolio, primarily for reasons of diversification.



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The IBUS Company is an independent group established in 1992 by Onno Husken, former Chief Executive Officer of Wereldhave N.V. and Kempen & Co. IBUS develops and invests in office, retail, residential and hotel properties in the United States, Europe and Asia. Since inception, 48 real estate funds, with a total investment consideration in excess of € 1.2 billion, have been introduced with private and institutional investors. Over the years, more than half of these investments were successfully sold. IBUS also uses its real estate knowledge and experience to advise financial institutions, listed companies and institutional investors. These assignments are directed towards portfolio analysis, asset allocation policy, investment strategy and second opinions on direct and indirect real estate investments. IBUS is based in offices in Amstelveen (The Netherlands), Washington DC (United States) and Ho Chi Minh City (Vietnam).