

# German Residential Real Estate Corporates: Consolidation Underway

## Special Report

### Deutsche Annington's acquisition of Gagfah reflects the consolidation trend in the German residential real estate sector

The takeover of Gagfah S.A. (Gagfah) by Deutsche Annington Immobilien S.E. (Deutsche Annington) illustrates the consolidation underway in the German residential property sector, driven by the search for size, economies of scale and diversification. Financing of M&A's in this sector is supported by the low interest rate environment, and Scope Ratings expects this M&A activity to continue if interest rates remain low.

**Figure 1: TOP 10 publicly listed real estate corporates active in the German residential sector (TOP 10)**

Company	MarketCap <sup>1)</sup>	Total Assets <sup>1)</sup>	Residential Units
(1) Deutsche Annington Immobilien S.E. <i>Deutsche Annington Immobilien S.E. + Gagfah S.A. (pro forma)</i>	EUR 8.0bn EUR 12.1bn	EUR 12.9bn EUR 21.2bn	184,000 330,000
(2) Deutsche Wohnen AG	EUR 6.5bn	EUR 10.5bn	147,000
(3) Gagfah S.A.	EUR 4.1bn	EUR 8.3bn	146,000
(4) LEG Immobilien AG	EUR 3.7bn	EUR 5.8bn	97,000
(5) Grand City Properties S.A.	EUR 1.5bn	EUR 2.4bn	43,000
(6) TAG Immobilien AG	EUR 1.4bn	EUR 3.7bn	74,000
(7) GAG Immobilien AG	EUR 0.9bn	EUR 2.3bn	42,000
(8) Westgrund AG	EUR 0.3bn	EUR 0.6bn	11,600
(9) Adler Real Estate AG	EUR 0.3bn	EUR 1.3bn	21,000
(10) KWG Kommunale Wohnen AG	EUR 0.1bn	EUR 0.4bn	9,000
	<b>EUR 26.8bn</b>	<b>EUR 48.3bn</b>	<b>774,600</b>

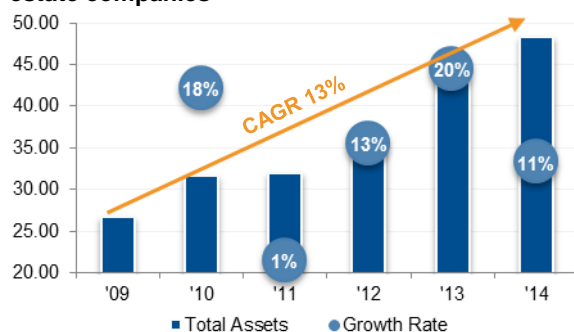
<sup>1)</sup> Bloomberg 20.01.2015

Sources: Bloomberg and Annual Reports of the companies

### 82% increase in total asset volume of the TOP 10 German residential real estate corporates since 2009

The German residential property segment experienced major consolidation in the past few years. As a result, the total asset volume of the top 10 publicly listed residential property companies in Germany (TOP 10) rose by 82% to EUR 48bn between 2009 and 2014.

**Figure 2: Changes in total assets of current TOP 10 German residential real estate companies**



Source: Annual Reports of TOP 10

### Total bond issuance of EUR 8.6bn since 2010 driven by low interest rate environment

Buoyed by the record low interest rate environment, the TOP 10 issued a total of EUR 8.1bn of bond debt between 2013 and 2014 (2014: EUR 4.5bn, 2013: EUR 3.6bn). This follows on a total issuance volume of EUR 0.5bn from 2010 to 2012. The continuation of low interest rates would be beneficial to further M&A activity.

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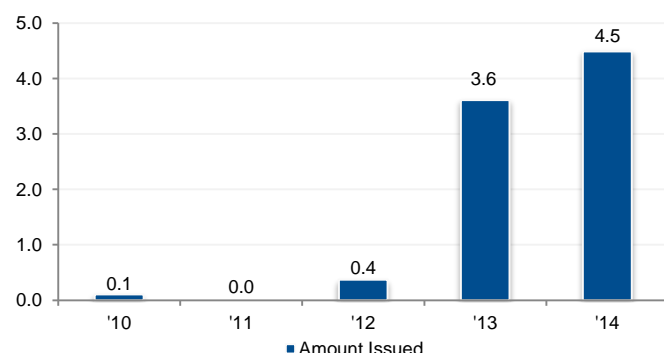
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## Share capital up EUR 3.5bn since 2010

Equity was also an important source of financing in the recent M&A transactions. Since 2010, the TOP 10 market players have increased their share capital by EUR 3.5bn (2014: EUR 1.1bn, 2013: EUR 0.6bn, 2012: EUR 1.4bn, 2011: EUR 0.4bn). This represents two-fifths of the total bond issuance volume during the same period. Scope expects property investments to remain an interesting investment option for investors if interest rates remain low.

**Figure 3: Issued bond debt of the TOP 10 (EURbn)**



Source: Bloomberg 01/15

## Variable impact of M&A transactions on credit ratings

An M&A generally improves the business risk profile of the enlarged group, thanks to the gains in size, economies of scale and/or diversification. However, the impact on the company's credit rating depends on the financing of the transaction, which is reflected in the financial risk profile of the enlarged group.

Scope has not seen credit ratings for European residential real estate corporates attain the 'A' rating category. Nevertheless, this could be possible for a company with a relatively larger scale, high profitability, strong geographical diversification and lower leverage.

## Background

Deutsche Annington yesterday announced that it has attained the minimum acceptance level for its public takeover offer to shareholders of Gagfah before the end of the acceptance period. The consolidation will strengthen Deutsche Annington position as Europe's largest residential real estate company with a total asset volume of EUR 21.2bn and 330,000 residential units. In addition it closes the gap with Europe's two largest real estate corporates Unibail Rodamco S.E. and Klépierre S.A.

## Deutsche Annington closes the gap with Europe's largest real estate corporates

**Figure 5: TOP 5 European publicly listed real estate corporates**

Company	MarketCap <sup>3)</sup>	Total Assets <sup>3)</sup>
(1) Unibail Rodamco S.E.	EUR 23.6bn	EUR 34.5bn
(2) Klépierre S.A. + Corio N.V. <sup>1)</sup>	EUR 16.2bn	EUR 21.8bn
(3) Deutsche Annington Immobilien SE+ Gagfah S.A. <sup>2)</sup>	EUR 12.1bn	EUR 21.2bn
(4) Gecina S.A.	EUR 6.9bn	EUR 10.4bn
(5) Deutsche Wohnen AG	EUR 6.3bn	EUR 10.5bn

<sup>1)</sup> Merger announced July 2014 / Closing expected for 31st March 2015

<sup>2)</sup> Merger announced December 2014

<sup>3)</sup> Bloomberg 21.01.2015

Sources: Bloomberg and Annual Reports TOP 5



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