PropertyWeek

Pimco in €1bn distress fiesta

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Spain and Italy retail targeted in joint venture with GWM

Pimco, the world's largest bond investor, is to build a portfolio of €1bn in the retail markets of southern Europe in a joint venture with asset and investment manager, GWM.

It will initially target the beleaguered Italian and Spanish markets over the next year and will invest in shopping centres, retail parks and factory outlets. It may also enter the smaller Portuguese market, but is likely to avoid Greek territory.

GWM is expected to invest around €150m and Pimco €350m. This will be matched with an equal amount of debt, providing total spending power of around €1bn.

It will aim to provide a "value add" leveraged return of 13%-16% and buy in lot sizes of €70m to €200m.

The rationale behind targeting retail assets is linked to the tail-end of the last boom. International investors were particularly prolific in the retail sector as complex management and large lot sizes precluded many domestic investors from entering the market.

These investments were often held in funds with lifespans of around seven years and bought using debt with similar maturity dates. As a result, it is anticipated by Pimco and GWM that good-quality assets will soon become available. The joint venture does not have a fixed length.

The pair have already bought their first asset. In August last year, GWM bought Da Vinci Market Central, near Rome airport, for more than €130m from AIG Lincoln. The 603,000 sq ft retail park, which is the largest in Italy, has now been sold to the joint venture. Pimco owns 70% and GWM 30%.

Pimco's entry into Italy and Spain follows recent investments in the recovering Irish market. In July last year it part-financed Green Reit's €310m initial public offering to raise funds to invest in Ireland (see below) and in November last year it bought the Ulysses portfolio - 25 properties mainly in central Dublin previously owned by investor Liam Carroll — for more than €140m.

Pimco is raising its $4bn Bank Recapitalisation and Value Opportunities II Fund (Bravo II) that will invest in US and European distressed residential and commercial real estate.