

# Arguing the case for property

The past year has seen a sharp turnaround in attitudes towards property, and the asset class still looks set to attract investors going forward. **Jonathan Boyd** and **Viola Caon** report

According to data from Lipper, the past year has seen a sharp turnaround in the amount of net new investments made into cross-border property funds in Europe (see chart below).

There may be a number of reasons for this, as Dennis Lopez, Global CIO of AXA Real Estate, explains when compared to equities and bonds.

On the bonds side, it is the case that historically low interest rates as a result of quantitative easing measures cannot go much lower. The downside concern then is that interest rates go up. Thus, the risk is not so much a credit risk as one of fixed rates on longer term bonds.

Regarding equities, it depends on which market is being discussed. They may be fairly valued in certain parts of the world, so they do not necessarily represent the same investment risk as fixed income, but alternatives, including property do look relatively attractive.

In certain regions, such as Europe, there are additional reasons to look to property assets, Lopez adds.

Growth expectations are not strong, and property could do well in this type of environment, particularly because property markets did not go into the financial crisis in a state of overbuild, except for some very specific areas, such as Spanish residential.

But lack of overbuilding in commercial office or retail property, implies that there was growth in 'grey space', of tenants vacating. Now, Lopez sees sustainable rents going forward amid the growth, and there feels positive about its prospects for generating high single digit to double

digit returns – depending on the level of risk taken by the investor.

Comparing the European property market against others globally, Lopez believes the US is showing signs of strong gains in its economy, and that despite some political issues there seems to be sustained recovery there. Emerging markets have been hit by some currency volatility linked to monetary policy decisions at the

US Federal Reserve – the tapering of its quantitative easing programme – and in that environment Europe looks relatively good as a place in which to invest in property. Additionally, Europe offers a number of transparent property markets that are based on 'global' cities such as London or Paris, which means demand too is global in nature.

## OVERSEAS MONEY

The impact of the foreign investor has been noted in Italy, where the levels of interest have not recovered to the same extent among local investors.

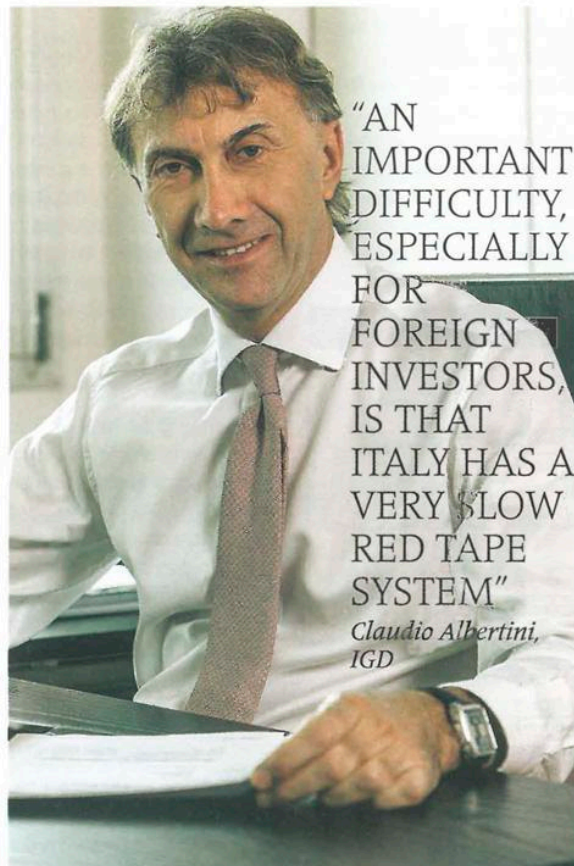
Claudio Albertini, CEO of Immobiliare Grande Distribuzione (IGD) Siiq SpA, one of the major real estate sector players in Italy, says he has experienced this change.

"Over the last months, we've noticed a rise in interest in the Italian real estate sector, but it mainly came from foreign investors such as Klepierre, Eurocommercial, Corio, Carrefour, as well as big foreign institutional investors like AXA and Allianz," he says.

The impact of foreign investors in the area of retail is felt by IGD because its €1.9bn property portfolio is mainly hypermarkets and malls, which it acquires and manages over the long term.

However, the strong presence of foreign investors in the country is not necessarily to be interpreted as a negative sign, as it might instead mean that Italy is still able to attract capital, Albertini adds.

Meanwhile, the Italian economic and political scenario poses serious challenges to real estate investors, who by definition are after medium



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Claudio Albertini,  
IGD

to long-term investments. Looking in particular at the retail sector, Albertini explains that Italian consumption generally has experienced a fall in the wake of the financial crisis.

"Moreover, another important difficulty, especially for foreign investors, is that Italy has a very slow and most of the time inefficient red tape system, as well as endless judiciary times, a lack of infrastructure and high cost level," he says.

In other European markets the outlook is better.

Michele Gesualdi, senior partner and fund manager at Kairos Partners in London, works for Italian asset manager Kairos Partners in its London office, and has therefore a privileged point of view on both the UK and the European markets.

"Over the last few months we have noticed a significant improvement of sentiment towards UK real estate. The change in attitude is evident in the fact that so-called real money investors, such as sovereign wealth funds and large pension funds and endowments, have been recently investing in UK commercial real estate as well as some parts of the residential market," he says.

However, his view of in the rest of the Continent is mixed.

"While Germany looks still solid despite the continuous appreciation of the last few years and Spain has rebounded somewhat following the

bust that has been seen recently, the rest of Europe seems to be less promising because of the lack of income growth and the uncertainty about taxation, economic growth and the euro itself. Italy is a clear example, as volumes have stagnated and prices have not adjusted to reflect the pressure on consumers. It seems highly unlikely though, that domestic or foreign investors will pour into the market to snap assets at these levels," he explains.

Roberto Tamburrini, CEO of the GWM Group confirms that foreign investors are consistently returning to the Italian real estate market.

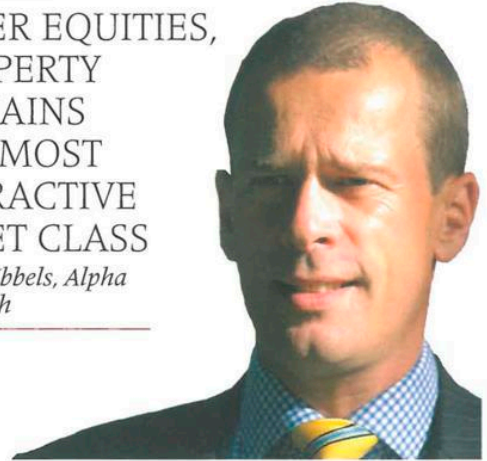
Tamburrini, whose company has bought a €220m Telecom Italia portfolio and a €130m Italian retail park over the last year, says that after buying for years in the UK, France and sometimes Germany, foreign investors are now looking for more attractive returns compared to the average 4%-5% they would get in those countries, where the prices have started to go up in recent times.

"Foreign investors are looking for double digit return opportunities in southern Europe, especially Italy," Tamburrini says, adding that these investors are mainly hunting modern shopping malls, luxury hotels, big companies' headquarters and high street retailers.

Foreign investors are becoming keener to invest in Italy, but with a

## AFTER EQUITIES, PROPERTY REMAINS THE MOST ATTRACTIVE ASSET CLASS

*Eelco Ubbels, Alpha Research*



very selective approach that normally excludes local real estate properties.

"What's striking to us is that while there has been a return of interest from abroad, there's still not much on sale. The leverage on assets is still very high and a proper appreciation has not taken place yet," he says.

This scenario contributes, in Tamburrini's opinion, to the predominance of foreign investors on the Italian market, as they are less fearful of losses and eventually shut operations if something goes wrong.

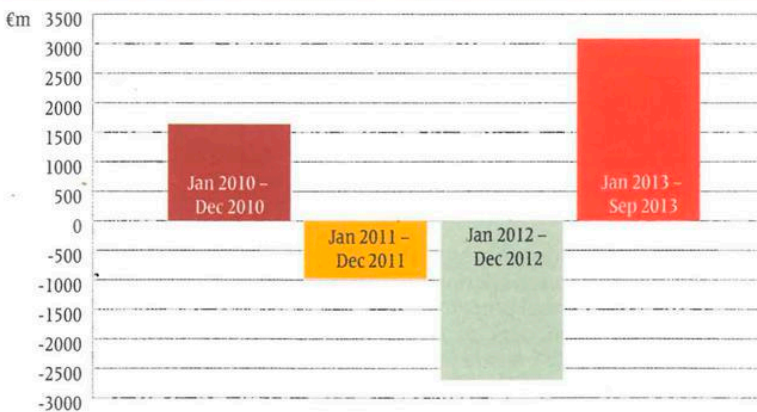
"For local investors, instead, the stakes are much higher and losses tend to be traumatic because, as things stand at the moment, they cannot always afford to lose money on their investments," he says. Tamburrini believes that it will be difficult for the sector to take off properly until a stabilisation of the country's sovereign debt as well as of the banking system, which would enable banks to start a proper appreciation process.

### LOOKING NORTH

In northern Europe, the situation is somewhat different, as the latest CREDI (Catella Real Estate Debt Indicator) suggests. As an indicator for the Swedish property market, the index moved up another 4.4 points to a new record high of 69.3 during the third quarter of 2013, according to its maker the Catella Property Group.

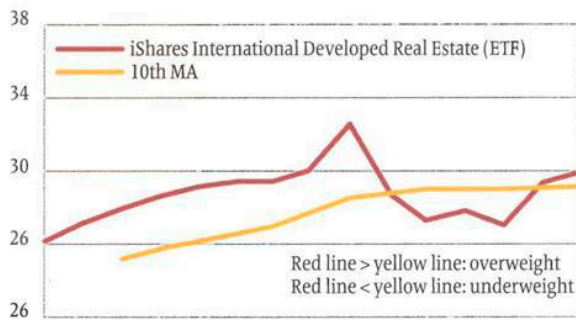
"The increasing availability of loan financing has supported liquidity in

### REAL ESTATE SECTOR NET SALES



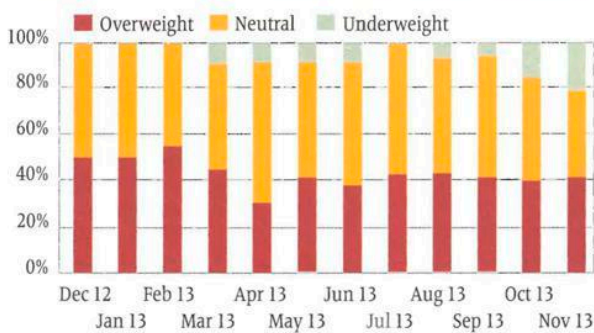
Source Lipper Fundfile

## REAL ESTATE MONEY INDICATOR



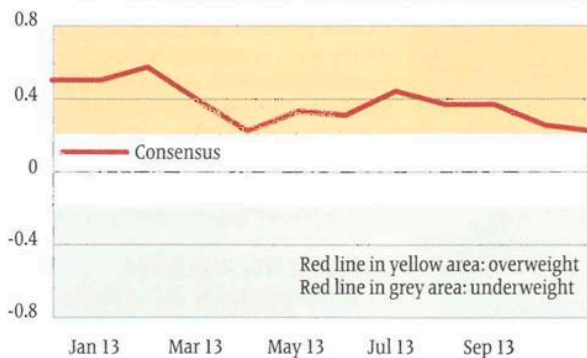
Source: Alpha Research

## REAL ESTATE ALLOCATION INDICATOR



Source: Alpha Research

## REAL ESTATE CONSENSUS INDICATOR



Source: Alpha Research

the Swedish real estate transaction market. Since May we have seen a surge in transactions and it is evident that both banks and investors share a rising appetite for risk on the back of the broader economic recovery," says

Daniel Anderbring, research analyst at Catella.

According to Catella's data, in the listed property sector average loan-to-value increased 0.8% to 54.1% in the second quarter of 2013, a slight reversal of the deleveraging trend observed since 2009.

Niclas Forsman, capital markets analyst at Catella, added: "We believe that this is indicative of a shift among the listed companies to invest in growth potential as the availability of financing improves and the general economy recovers."

## CAN IT CONTINUE?

The net new demand for property assets via funds seen over the past year is likely to remain, according to figures from Eelco Ubbels, director of Alpha Research based in Delft, Netherlands.

Recent research published by Ubbels, based on 38 asset allocation reports from managers suggests that there was a tapering of investor interest through the middle of 2013. Inflows weakened through the summer, along with a weakening in the allocation consensus toward the asset class.

However, Ubbels also notes that while the general overweight position has shifted to one that is almost neutral, there is still positive long term momentum.

He concludes that after equities, property remains the most attractive asset class, based on the consensus seen in the allocation reports seen this year through September (see charts left).

Dennis Lopez at AXA Real Estate sees interesting opportunities in offices based in major cities. Property linked to logistics is being supported by recovery in trade. Hotels, health-care and student housing property is also interesting.

By contrast, Lopez identifies higher quality regional centres as offering relatively expensive retail property, so less of an investment opportunity. Retail is tricky, he adds, because of the impact of prices on consumers. However, he is generally pretty optimistic on most property types.

Certain regions outside Europe will be interesting for their own particular reasons.

For example, the US market is not dealing with distressed property values as it was, while certain emerging markets in Asia look attractive to Lopez, although areas such as Russia and the CEE less so.

AXA Real Estate has also been active in infrastructure, and this is another area where the business could accelerate, Lopez says.

IPD, the property database and index services provider, illustrates another challenge for cross-border investors: currency risk.

Its latest quarterly Nordic property index, published in the third week of November 2013, showed that the property funds tracked delivered a 0.5% positive return through the period in local currency terms. However, when converted to euros, the property index showed a -0.7% return through the period.

Håvard Bjorå, vice president & deputy head of Nordic, IPD, said it was "disappointing to see the weakening in performance in 2013 and over the last three years, both in local currency and euros.

Furthermore, the wide discrepancies between local currencies and euro returns illustrate some of the challenges investors are facing in cross border investments."

IPD's Global Quarterly Property Fund Index, covering data to the end of June 2013, pointed to a 2.6% return across all regions, although Europe (1.4%) lagged both North America (3.4%) and Asia Pacific (2.1%) in terms of the performance over the period.

What remains important, then, is the view of fund selectors in the face of such evidence.

Anecdotally, the level of interest seen from the sell side data is supported by comments such as that from Susanne Bolin-Gärtner, head of Fund Selection at Folksam in Sweden. She notes that property maintains a position as a suitable asset to add to equity and bond funds, as part of a multi-asset approach. ■