Kapitalmarkt

Global markets, local knowledge: the evolving nature of real estate investment

Obwohl Immobilienmärkte zunehmend globaler werden, ist lokales Know-how unabdingbar für erfolgreiche Investments. Viele Investoren haben ihr Immobilienexposure in den vergangenen Jahren massiv erhöht. Dazu gehören staatliche Pensionsfonds, aber auch zunehmend ultrareiche Privatpersonen. Wenn der Anteil von Immobilienanlagen an den gesamten Kapitalanlagen nur um 1 Prozent erhöht wird, stehen dem Markt weitere 100 Milliarden US-Dollar an Kapital zur Verfügung. 65 Prozent der internationalen Gelder gehen derzeit nach Europa, nach dem Vereinigten Königreich steht Deutschland im Mittelpunkt des Interesses. US-Anleger kaufen in Europa dabei Non-Performing-Loans aus dem Segment Gewerbeimmobilien von europäischen Banken. Viele Investoren fokussieren sich auf Städte und weniger auf Staaten. Aufgrund des zunehmenden Renditedrucks werden Anlagen immer häufiger außerhalb der bisherigen Komfortzone gesucht. Deutschland spielt bei Immobilienanlagen internationaler Investoren eine herausragende Rolle. Die starke Dezentralisierung (Stichwort Big 7) bietet Investoren dabei zahlreiche Anlagechancen, stellt Erstinvestoren aber durchaus vor Herausforderungen. Die Autoren beschreiben im Beitrag, welche Vorteile lokale Partner bieten können. Red.

Despite the increasingly global nature of the world's real estate market, local knowledge is paramount: the flow of capital across borders doesn't change the fact that by its nature, real estate is a local business. In this article we ask what 'normal' means in today's climate of recovery and growth and explore Germany as an investment destination – one of Europe's solid and most sought-after markets where property assets are hotly contested by a growing cohort of investors.

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The new normal for real estate

From Asian investors, to North American private equity funds and sovereign wealth from the Middle East, the ownership makeup of many cities around the world is being transformed. Real estate emerged from the global financial crisis with a reputation as a defensive asset class and, during the six years since the global commercial real estate markets emerged from recession, investment markets have continued to strengthen. Despite Chinese stock market volatility going global and the on-going saga of U.S. interest rate movements, real estate investment has, so far, shrugged off all challenges. According to JLL, for the third quarter of 2015 investment volumes were US-Dollar 173 billion, a 2 percent rise on Q2 and in line with Q3 2014. Over the first three quarters of the year volumes are 3 percent higher across all three regions reaching US-Dollar 497 billion.

The compelling case for real estate has hit home among global investors who, industry-wide, have increased their allocation to property. The national pension funds of Norway, Australia and Canada are a prime example. Ten years ago real estate allocations were almost zero, now they are approaching 5 to 10 percent of an ever growing pool of assets under management: globally, this sits at US-Dollar 10 trillion (source: LaSalle Investment Management). Should this trend continue, even a one per cent increase to property would mean US-Dollar 100 billion would instantly flow into the real estate capital markets.

Investors internationalize

North American, Asian and Middle Eastern investors continue to dominate the scene with almost 70 percent of global real estate cross-border transactions involving these players. Europe is the key beneficiary attracting 65 percent of this capital. Chinese investors have also established themselves as a serious source of capital with their investments increasing by 20 percent during first half of 2015 (source: JLL).

In addition to the sovereign wealth and pension funds of the investment world, Ultra High Net Worth Individuals (UHNWIs) are giving traditional real estate investors a run for their money, snatching an increasing number of "trophy" assets. The General Motors Building in New York, the Gherkin in London and the Paris Marriott Hotel Champs-Elysées are just a few deals to have captured the imagination of these investors in recent years. The investment rationale of UHNWIs can be complex and numerous. Preservation of capital certainly plays an important role, but to say that it is the only motivation would be to underplay the sophisticated nature of these investors. Although one individual may control much of the decision-making, in many instances his/her decision is supported by a large investment team and/or strategic advisors.

Capital outflow from North America to Europe has become one of the main trends of recent years. With easy access to capital, North American investors are attracted to the abundant supply of quality assets across Europe, especially as we factor in the current Euro-USD relationship. Many of these investors are accessing real estate through non-performing loans as European banks continue to de-risk, particularly in commercial real estate space. North American investors are also moving up the risk curve by exploring secondary assets and new geographies of Central and Eastern Europe.

Where to invest

A recent report by WealthX and UBS found that cities, rather than countries, matter most to UHNWIs. The average billionaire owns four properties globally, worth average US-Dollar 78 million, most of which are located outside their primary country of residence - 20 cities house 34 percent of the world's billionaire population. This is certainly the case in the world's developed real estate markets, where cities take a disproportionate volume of capital. As major global cities become increasingly saturated, investors are expanding their search for yield, exploring markets further afield or outside of their comfort zone.

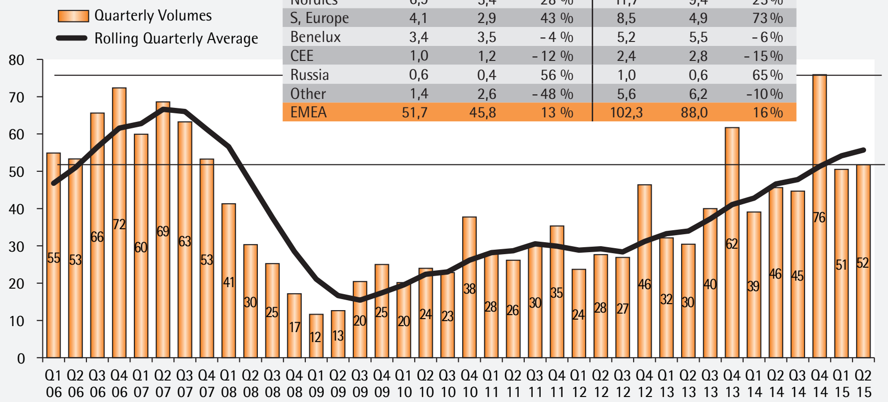
Take Germany, for example. As international investors pile into Europe in their search for safe haven assets in a liquid market, Germany is fast becoming their go-to country for stable returns. JLL research shows Germany has been 2015's standout major market in Europe with third quarter volumes up 79 percent year-on-year to Euro 13.5 billion. The country still ranks behind the UK on Euro 18 billion for the same period but it is fast gaining ground. And the positive momentum is set to continue. The German property market has long been the preserve of domestic investors but over the last year it has attracted more of international crowd. Half of the buyers of assets worth more than Euro 100 million are now foreign compared with 20 percent in 2014.

Germany stands out

A number of factors have driven this desire for global capital to increase their exposure to the German markets. The quality and availability of stock has increased, vendors have very quickly seen price transparency and the geographical demand has spread from the big five (Berlin, Dusseldorf, Frankfurt, Hamburg and Munich) to the big seven cities (including Cologne and Stuttgart) in Germany. This spread of geographical risk is an important point and makes Germany stand out against other European countries that tend to have one dominant city such as the UK and France. This has seen capital from North America, Asia Pacific and the rest of Europe look to Germany for opportunities; but this also presents challenges.

Abbildung 1: Europe Direct Real Estate Investment in €bn

	Q2 15	Q2 14	% pa	H1 15	H1 14	% pa
UK	21,0	15,4	37 %	41,9	31,7	32 %
Germany	10,4	6,3	65 %	18,6	14,5	29 %
France	3,0	8,2	- 63 %	7,3	12,3	- 41 %
Nordics	6,9	5,4	28 %	11,7	9,4	25 %
S, Europe	4,1	2,9	43 %	8,5	4,9	73 %
Benelux	3,4	3,5	- 4 %	5,2	5,5	- 6 %
CEE	1,0	1,2	- 12 %	2,4	2,8	- 15 %
Russia	0,6	0,4	56 %	1,0	0,6	65 %
Other	1,4	2,6	- 48 %	5,6	6,2	-10 %
EMEA	51,7	45,8	13 %	102,3	88,0	16 %



Source: JLL

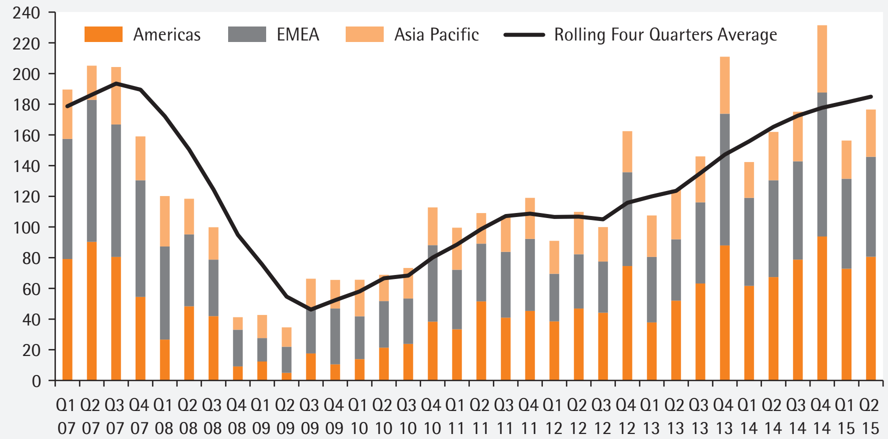
With a complex market make-up, Germany is often viewed as difficult for first timer investors to navigate. Unlike the UK and France there is no one dominant market, instead opportunities are scattered among 5-7 major German cities, reflecting the Federal nature of the country.

And the strong demand from global investors for German real estate makes it increasingly difficult to identify quality assets at the right prices. Although international investors dominate the headlines with acquisition of a few "trophy" assets, the most active players in German commercial real estate are still domestic and European investors.

The case for a local partner

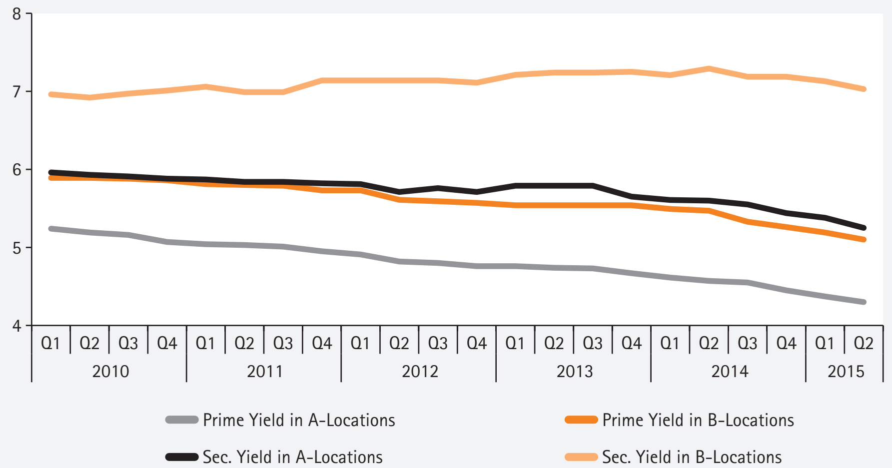
Like any investment, where real estate investors focus and the assets classes they prioritize depends largely on their end-goals. What is common among almost all investors is the need for local knowledge – even in a global market, local nuances can make or break an investors' strategy. In order to better manage the 'new normal' witnessed in today's real estate markets, and the massive amounts of future capital flows, a local partner offers investors a clear competitive advantage. Diversification of a portfolio sounds easy in theory but can be extremely complicated in practice,

Abbildung 2: Global Direct Commercial Real Estate Volumes by Region, Q1 207 – Q2 2015 in US$ bn



Source: JLL

Abbildung 3: Germany Office Yield in the Big 7 (Average) in percent



Source: JLL

juggling multiple market characteristics and practices.

One option is to set up Germany-based operations and to build in-house investment teams, which poses numerous operational and financial challenges at say the least and makes sense only for a handful of global investors. Often, the more attractive option is to partner-up with a trustful asset management partner who brings a wealth of knowledge and expertise and who knows the rules of the game as well as major players.

Local partners and as such investment and asset managers are, in many markets, better suited to source investment opportunities and to ensure performance of the underlying business plans. Investment decisions must be based on realistic economic as well as real estate fundamentals, particularly given current volatility.

Having a strong local presence and/ or management partner is a prerequisite for global investors to mitigate risks as it gives flexibility and ability to adapt a particular investment to changing market conditions.

Moreover, not being tied to rigid fund terms allows the investor to choose the most optimal time to exit. Local partner is critical in supporting considerations with regards to exit strategy and must not passively wait for capital to appreciate. In addition, local presence and/ or management partner should offer:

- enhanced due diligence, asset management (especially for leasing), oversight and implementation of property management,
- execution and value creation, which is particularly critical in development and re-development cases,
- investor focus on the underlying asset, direct control and individual reporting, unlike discretionary, blind pool investments,
- strong team with local knowledge and experience, which gives international investors confidence and access to valuable regional networks, and
- better control and transparency over investments.

It is important to perform thorough due diligence on the underlying real estate in order to ascertain its quality, both in physical and intangible terms. Local partners are typically best suited to steer, coordinate and control the due diligence process, often involving many professional experts and service providers. Third-party advisors must be quickly identified and engaged (based on their specific expertise, referrals, cost/benefit analysis and ability to meet transaction deadlines, etc.), which can be a serious challenge for non-German players.

Fierce competition

The asset management team with their local relationships and knowledge also plays a key role in the acquisition process, performing financial modelling, cost management and revenue/value enhancement.

As unprecedented amounts of capital have entered markets, there is fierce competition for attractive opportunities in many real estate markets globally. Traditional appetite focused on core assets. This is typical defined as low risk, yield driven investments in locations which have low tenancy risk and liquidity to trade assets. Consequently global core assets have compressed in yields, in line with lowered interest and bond rates but also increased competition.

Appetite for risk has increased as investors used to higher returns have had to invest in riskier assets. There has been a slowed but general acceptance of the lower return environment from many global investors. This has also led to the rise of alternative asset classes as institutional level investments for global players still looking for higher returns. These have proven effective as most have provided long-term income driven investments. Consequently, to manage competition, new and interesting asset classes and not get carried away with high prices, a local partner can be very beneficial.

Open structures in Germany

- Whilst there are greater flows of capital in real estate markets than ever before, (local) fundamental real estate drivers remain the same.
- It is critical to have a local partner who has experience in the macro and micro economic environments of the asset, to avoid the long list of risks that can exist for offshore investors in unfamiliar markets.
- Germany can allow real value for investing with a wider spread of city based opportunities than can be found in other European countries.
- This geographical diversification is further enhanced by each major city having a different spread of tenant specializations.
- The cost of debt in Germany is among the lowest in Europe, helping drive enhanced returns in an increasingly competitive marketplace.
- The open capital market structures in Germany mean that capital from all over the world are able to enter and exit the German real estate sector with little hindrance, providing investors with another level of assurance that their investments are secure and can be easily accessed.