

Briefing note

New large-scale investors to Europe are reshaping the markets

May 2014

Changing pattern

■ As the share of global cross-border flows increases, and some of the traditional pan-European and domestic players are holding back, the pattern of investors dominating the European investment markets is changing.

■ Global buyers from the USA and AsiaPac are reshaping the markets in the periphery, while newcomers to the property investment market, ranging from family offices to insurance companies, are looking for higher returns in a low-interest rate environment.

■ According to the timing of their market entry, this group of top investors* can be split into three groups: the first are well-known since they have been present for more than 10 years (e.g. M&G, Union, Blackstone) there are more recent entries who have made an impact due to the large scale of their purchases (e.g. Qatari Investment Authority, SIGNA), and finally several newcomers who have entered the market for the first time

in 2013 (e.g. Fibra Uno, IBA Capital Partners).

■ Looking at the type and country preference of investors, investment managers account for the highest share in most countries, followed by insurance companies and pension funds. This latter group is the main buyer in Sweden and Belgium.

■ Other important pan-European types include sovereign wealth funds from the Middle East and AsiaPac who have a strong presence in the UK, France and Italy, and private equity funds who are buying across the region.

Investor types and their preferences

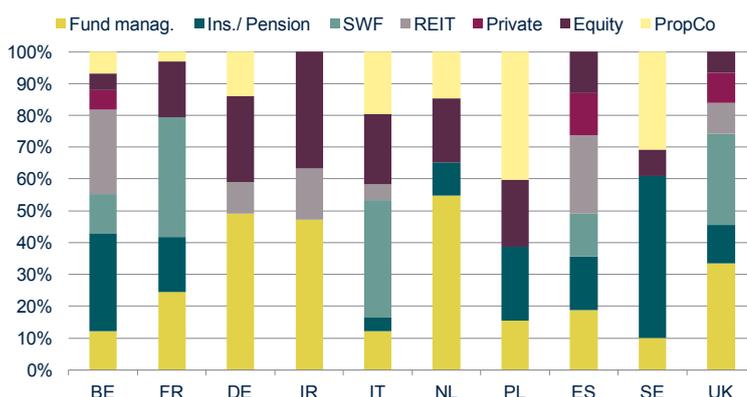
■ The insurance/pension fund category comprises international players like Allianz and AXA, as well as domestic names like Belfius and Alecta.* They mostly buy offices, the dominating asset class, apart from in the UK where they have invested an equal amount in retail properties (retail warehousing. Since domestic investors are prevailing here, acquisitions

range across country markets, i.e. not just in the tier 1 markets, as their local knowledge gives them enough security. Apart from Allianz and AXA, M&G is the only other international player active outside their home market in this category, although this last one has mainly focused on the UK in 2013 (with the exception of a €17m acquisition in Dusseldorf).

■ There are five SWFs from the Middle East and AsiaPac among the top investors in Europe who have only been involved in 9 transactions. Qatari Investment Authority was in the top 5 in Italy, Spain and France, while SWFs from Kuwait and Abu Dhabi were at the top in the UK and France respectively. Together, these SWFs have bought almost €5.5bn. The average deal size is the largest of all, at €700m although this figure is bloated by the €2bn purchase of More London by St Martins. Without it, the average falls to €450m. Two of the 9 transactions here have been portfolios (comprising hotels, offices, SCs and warehouses) which has also added to the large deal size. Apart from the landmark assets, More London and Porto Nuova in Milan, the SWFs, bought luxury hotels in Barcelona and Rome. They have ventured out to more European markets in 2013, and in some cases used JVs with local players to attain local knowledge but less management work.

■ Private-equity investors from the US have long been present in Europe, and, again in 2013 Blackstone was a top buyer in France, Germany, the Netherlands and Italy. Another major US-player, Lone Star, has only been active in Germany although they are trying to enter other markets. Over a third of this top private equity capital

GRAPH 1
Share of different investor types by country*



Graph source: Savills, RCA / *This group refers to a survey of the top 10 investors by volume in each country.

TABLE 1
Main investor types and their investment strategy

Type	Source markets	Destination markets	Asset/ risk strategy	Average deal size
SWFs	Middle East, AsiaPac	UK, FR, SPA, IT, BE	low risk, core assets; like JV with major local partners	>€200m
Private equity	USA, GER, AT	Pan-European	opportunistic; value add and secondary; like portfolios	€150m
Private/ family office	GER, BE, SPA	domestic, UK	landmark assets	€100m
Insurance international	FR, GER	FR, IT, NL, PL, SPA	core to core plus; all asset types	€80m
German open-ended funds	GER	Pan-European	core; core plus in core markets; all asset types	€100m
REITs	UK, BE, CAN, MEX	domestic, GER, SPA	core to opportunistic	€80m
Property companies	GER, SWE, USA, FR, AT	PL, NL, SWE, GER	high share of portfolios; prefer offices and industrial, retail in secondary locations	€180m

→ went to Germany, followed by the UK and France with 12% each. An interesting point is the high share of portfolio acquisitions, at around 50% of the total. Unsurprisingly this investor group is mostly going for value add opportunities, or distressed sales like in Ireland with a certain preference for retail and industrial assets.

■ There are only four private buyers/ family offices among the top 100 but together they have invested approximately €1.3bn, slightly more than 3.5% of the total, which makes them one of the biggest European investor groups. The two London acquisitions by a family office made this investor the sixth largest buyer in the UK last year. The other private acquisitions in Belgium and Spain were much smaller in comparison.

■ The long-active German open ended funds, Deka and Union, have returned strongly to the European markets in 2013. Both are among the top investors in France, the Netherlands, Spain, Deka in the UK and Union in Germany and Poland. Depending on the specific fund, they are buying in the core to core plus sector, mostly offices but as an alternative, increasingly also hotels on a long-lease in prime European cities.

■ REITs belong to the top investors in the UK, Belgium and Spain. The Mexican REIT, Fibra Uno, entered the European market for the first time in 2013, purchasing a portfolio of high street bank branches. Another major player is Canadian REIT Dundee who has so far only acquired German offices. There is no clear sector preference here, however, the deal size

is at the lower end of the spectrum.

Outlook for the year

■ Consistently low base rates and bond yields will mean that a diverse range of investors will continue to be attracted to investments in European commercial property.

■ Inflows to insurance and open ended funds will remain high, fuelling further demand for prime assets.

■ Given the improving economy and leasing market outlook, we expect that a broader group of investors will be moving up the risk curve. There will be a higher share of core plus and opportunistic investments among these main investor groups.

Savills team

Please contact us for further information



Marcus Lemli
European Investment
+49 69 273 000 11
mlemli@savills.com



Julia Maurer
European Research
+44 20 7016 3833
jmaurer@savills.com

Savills plc

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