

THE EUROPEAN REAL-ESTATE FUND MARKET IN 2019

MARCH 2019



“

This transparency in the way funds are managed is attracting investors seeking stable income.

”

What trend in 2019?

Real-estate Alternative Investment Funds (AIFs) are currying favour with professional and individual investors. The market is being driven by a positive financial environment: interest rates are low and equity markets remain volatile. It is also being doped by the dynamism and innovation of professionals within this sector.

Following the investment cycles of 1980 to 1990 and 1997 to 2007, 2019 is part of the investment curve that began in 2008. This latest cycle has seen seven straight years of average yields exceeding 10%¹. Nevertheless, optimism remains high amongst investors, both institutional and individual.

Optimism in the face of an uncertain future

When share markets are volatile and bond markets are nervous about an increase in interest rates, bricks and mortar investments become a safe haven for many investors.

Fund managers can provide visibility regarding their real-asset acquisition strategy before funds are even launched.

They announce their asset selection methodology according to the expected rate of return.

This transparency in the way funds are managed is attracting investors seeking stable income.

In AIFs, assets – and therefore the funds themselves – are valued at their fair value, contrary to listed investment companies where the price fluctuates depending on the offer and demand. For a number of years now, we have been able to observe transfers from listed property companies to real-estate AIFs².

The European regulatory framework imposed by the Alternative Investment Fund Managers Directive (AIFMD)³ increased investor confidence by rendering governance more transparent and by harmonising the way these funds' financial data is presented, making it possible to compare funds throughout the European Union.

Real-estate AIF creation activity, particularly those aimed at institutional investors, has been buoyant since 2013, the year in which AIFMD was transposed.

A more mature market

The real-estate investment fund market has reached a certain degree of maturity, with a broad range of products: funds offering customised yields with various techniques for optimising existing assets, acquiring assets or accessing general or sectoral asset portfolios.

Fund managers have easier access to financing, whether secured by the asset itself or by outstanding commitments. They know the loan-to-value or loan-to-commitment ratios demanded by lenders.

As there is substantial “dry powder”, i.e. non-invested capital, there is substantial pressure to rapidly invest, and prime assets have reached record levels, with fund managers reducing their risk by spreading their investments over time⁴.

Notes:

1. “Alternative Assets in Europe” Prequin report
2. Le Journal des OPA : “Out of Stock” archives
3. DIRECTIVE 2011/61/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (Text with EEA relevance)
4. Les echos : Immobilier de bureau : “les investisseurs calent devant les prix trop élevés” (12/03/2018)

“

The French market is the second most dynamic

”

Increasingly international investors
Before 2016, 60% of funds raised originated within the European Union whilst 30% came from the United States. Since 2016, a new trend has emerged: less than 30% of capital originates within the European Union⁵.

The European market, which comprised a set of domestic markets, is opening up with investor demand from other EU countries and especially from elsewhere around the world.

Outsourcing the management of real-estate assets

Whatever the type of project – construction, renovation or refurbishment, for rental or resale – collective investment vehicles allow investors to entirely outsource the management of real-estate assets via access to the expertise of professionals whilst pooling their risks.

Types of investment

The most popular assets for AIF managers continue to be Core-Plus⁶ and Value-Added⁷ assets, which are in high demand and therefore their acquisition cost may include a premium, which is justified by higher and more reliable rental income.



Expert View by
Johann Champain,
Deputy Director of
Alternative
Investment Funds

Trends by country

The largest European real-estate market is still the United Kingdom⁷. Brexit is having a negative influence on international fund managers, although they are retaining assets in the UK whilst hedging against currency fluctuations.

The French market is the second most dynamic⁸, despite a scarcity of prime property opportunities in the French capital. However, other cities have substantial assets, led by Lyon and Bordeaux.

The German market, highly decentralised with very high office and residential occupancy rates, is attracting a growing number of investors reassured by the depth of this market.

The attractive regulatory framework in the Netherlands is enticing numerous investment funds⁹, which have opened local offices to carry out transactions much faster than elsewhere in Europe. They particularly like the less restrictive laws governing commercial leases.

Italy and Ireland are active markets for office and logistic property. Portugal stands out through its numerous residential programmes for senior citizens.

Future prospects

In Europe, cities will gradually become smart cities. Optimising resources and asset use will be prioritised, with specific attention paid to protecting the environment and minimising greenhouse gas emissions. In tomorrow's cities, real-estate AIF managers will have to be sustainable development players in order to avoid the risk of losing value associated with the Environmental, Social and Governance (ESG) criteria put in place by the regulators. They will benefit from the digitisation of the economy that will reduce administrative timeframes and make transactions more fluid.

Notes:

5. "Alternative Assets in Europe" Preqin report
6. Core-Plus: well-located good quality assets with little or no work required.
7. Value Added: asset for which more dynamic management creates value
8. Preqin report "Preqin Market in Focus 2018: Alternative Assets in Europe" June 2018, and BFM business "Villes les plus dynamiques d'Europe: Paris talonne Londres" 28/06/2017
9. BFM business "Villes les plus dynamiques d'Europe: Paris talonne Londres" 28/06/2017
10. Dutch Civil Code : Title 7 Particular agreements



THE FUTURE IS YOU



SOCIÉTÉ GÉNÉRALE
Securities Services