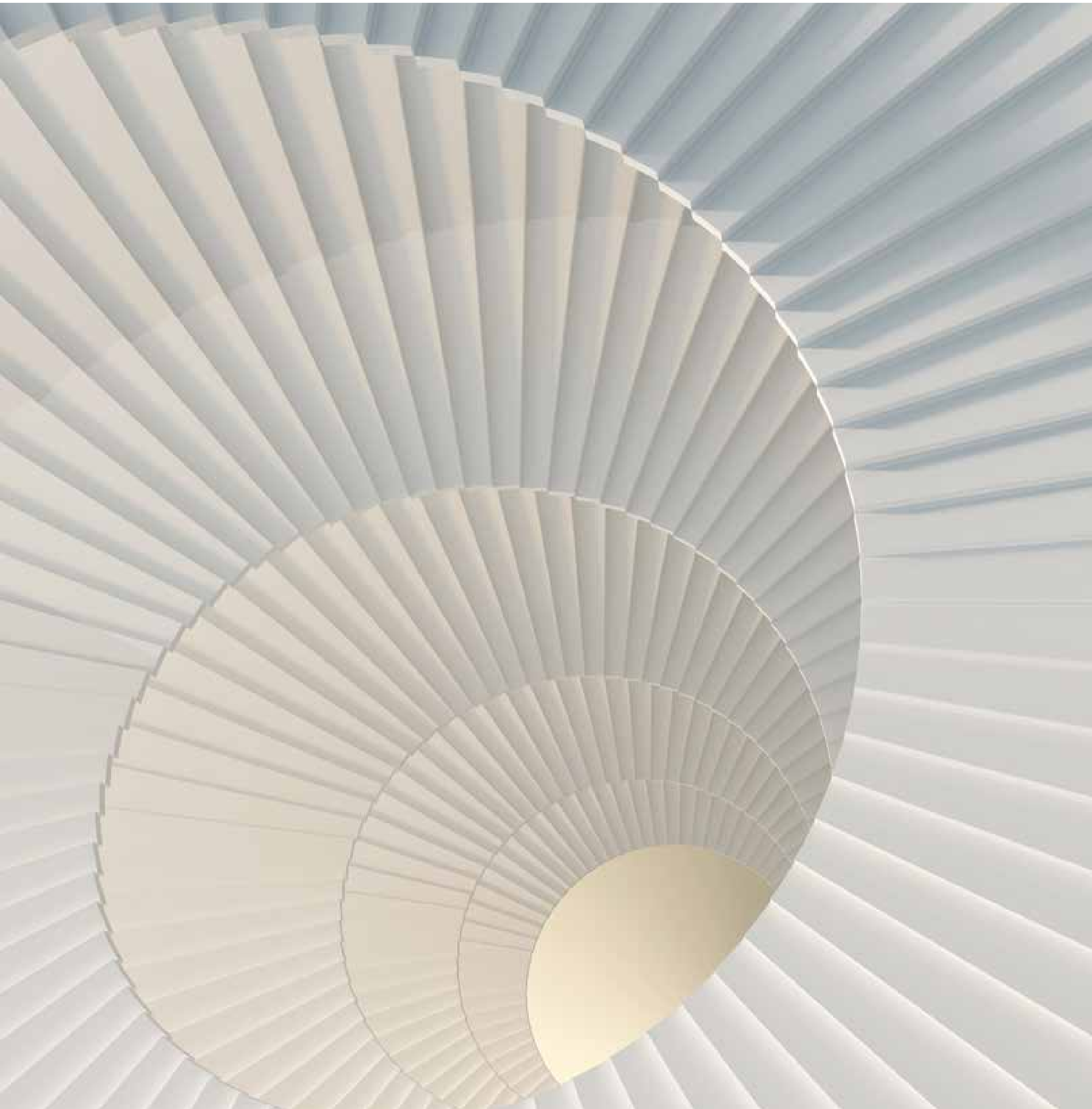
PERE

Europe roundtable



John Ruane

Partner and co-head, European real estate equity, Ares Management Corporation

Ruane joined global alternative asset manager Ares in 2013. The firm's real estate business manages around $41.2 billion of capital across its equity and debt strategies. Its European real estate team invests in the value-add and opportunistic space, focusing on the industrial and residential sectors.

Christian Goebel

Co-head EMEA real estate, Macquarie Asset Management

Goebel co-heads the European real estate division of Macquarie Asset Management. He was previously executive vice-president at GLL Real Estate Partners, which was acquired by Macquarie in 2018. MAM's network of 157 real estate professionals manages $12 billion of assets globally.

Richard A Johnson

Head of international capital markets, SIGNA Real Estate

Johnson joined SIGNA in 2020 with a brief to expand the Austrian-headquartered group's connections among international institutions, sovereign wealth funds and private capital. The privately managed development and investment company manages over €20 billion of real estate, principally prime assets in German-speaking cities.

Stéphane Theuriau

Partner and head of real estate, BC Partners

Theuriau heads the real estate business at alternative asset manager BC Partners. The firm announced the final close of its debut real estate fund, BC Partners European Real Estate I in January having secured €900 million for the value-add and opportunistic strategy. Around 40 percent has so far been invested.

Fiona D'Silva

Head of investment, Europe, Kennedy Wilson

D'Silva leads Kennedy Wilson's European investment and acquisition efforts. She has 22 years of real estate experience, and has worked at Goldman Sachs and Deutsche Bank. Kennedy Wilson is an owner, developer and operator, managing around $21 billion of real estate assets, half of which are located in Europe.

All property total returns to Q3 2021 easily outstrip full year figures for 2019 and 2020, with Germany, Central and Eastern Europe and Nordics among the best performers (%)

Source: MSCI

situation, whether it's on balance sheet or in a fund."

Exceptionally low interest rates have made it difficult to compare today's dynamics with previous cycles and predict the impact of tighter lending conditions on pricing, says Goebel. "However, spreads to government bond yields seem wide enough that there could still be significant scope for interest rates to increase before pricing is impacted."

Managing the next stage

Case numbers alone would suggest that the coronavirus pandemic is raging across Europe with as much intensity as ever. But vaccination is reducing serious illness, and in turn reducing the governments' need to rely on economy-chilling lockdowns. The continent is learning to live with the virus. "Maybe the posture at the moment is not looking at managing the pandemic, but managing the next stage, seeing what business looks like with the pandemic moving behind us and recovery emerges," muses Johnson.

CBRE data demonstrates what every investor knows: beds and sheds have been the in-demand property sectors during the pandemic. In 2021, European logistics volumes grew by 48 percent year-on-year, while multifamily was up 42 percent, coming close to rivalling offices' position as the best-selling segment.

Meanwhile, investors wishing to divest themselves of low-performing retail or office assets have found it difficult to do so. "If you want to rotate out of negative rental growth retail assets, it is too late, and a lot of listed companies have tried to exit bad office assets and then pulled them from the market because they weren't getting the prices that they wanted," notes Theuriau.

"We are looking at lifestyle and technological changes that are going to be there for the next 30 years. We also see cost inflation at the point of entry, rising capex budgets, and cap rate

"Cap rate compression is mostly behind us, and our job is to invest in this risky uncertain environment"

STÉPHANE THEURIAU
BC Partners

"The key to success is to provide occupiers with the ammunition that they need in order to win the 'war for talent'"

CHRISTIAN GOEBEL
Macquarie Asset Management

"Calling inflation, and the underlying bond and financing environment incorrectly, could significantly damage your situation"

RICHARD A JOHNSON
SIGNA

winners and losers among office assets. Successful locations will be located within environments to which workers are happy to return, says D'Silva. "That is all about light, green spaces, and amenities. It is incredible the response we have got from tenants and prospective tenants about having employees go back to work post-pandemic to a location where health and safety is easier to manage."

"The key to success is to provide occupiers with the ammunition that they need in order to win the 'war for talent,'" says Goebel. "Companies are now reimagining office design, refocusing on factors like occupancy ratios and health and safety. As investors, we have to explore what we can offer potential tenants to help them attract and retain that talent. Today, we're no longer just talking about ESG, we are talking about post-pandemic architecture, and numerous other criteria that office buildings of the future will have to fulfill."

Ruane agrees that improving office buildings' ESG credentials will play a crucial role in enhancing their appeal to occupiers and therefore to investors. However, the costs involved present a conundrum for the real estate industry. "A major theme for the office sector