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Tide shifts in Asia-Europe property capital flows

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"Select a proper site for your garden and half your work is done." This is as true for healthy vegetable yields as it is for real estate yields. Despite the debt crisis in Europe, recent trends in cross-border capital flows indicate that Asian investors increasingly choose to target investments in European real estate. Asian outbound flows increased from $1bn at the turn of the millennium to $30bn in 2013. Singapore, mainland China and Hong Kong accounted for 71% of this. Asian inflows overall grew roughly four-fold from 2008 to December 2012. Newcomers from China, South Korea, Malaysia, Hong Kong and other Asia have joined traditional offshore investors from Japan and Singapore in this new move into Europe. Why, how, and where are these investments occurring?

Koreans have increasingly ventured into Germany, with NPS e.g. buying in Munich (banks of the Isar pictured).

Capital flows to European real estate have increased due to factors specific to both Europe and Asia. Since March 2009, the LIBOR rate has been below 2%, leading to increased liquidity in European markets. Simultaneously, the easing of regulatory controls on outbound investments in Asia, e.g. China and South Korea, has come at a time when prices in domestic markets have risen sharply due to inbound investments in Asian economies. Investing overseas provides risk diversification in relation to the dollar, and the appreciation of the RMB has afforded greater purchasing power to Chinese investors abroad. Finally, real estate financing in Asia has become more difficult. Singapore, China and Hong Kong have instituted regulatory controls to limit housing prices and loans.

Asian investors have typically employed joint ventures, non-listed real estate funds, and separate accounts when investing in European real estate. The region's sovereign wealth funds have increasingly invested in London and other European cities, along with Korean pension funds and Chinese life insurance companies such as China Life and Ping An. While core office assets in prime locations are the most popular asset type, in the future value-added investments and opportunistic investments are likely to increase. Also, consistent with the "Going Out" policy, China Construction Bank's recent purchase of its European headquarters in London reflects an ongoing trend of corporate expansions overseas. This is likely to further increase Asian investment in European real estate.

London and Paris have traditionally been the most popular destinations, and recently Asian investors have expressed a desire to invest in central and eastern Europe. With increasing Asian tourism, investments in this and hospitality will become increasingly prevalent. Inflows into student housing, data centres, healthcare, private rentral housing, serviced apartments, and retirement living are likely to yield healthy returns too.

Perhaps the tide of real estate capital flows between Asia and Europe is shifting as regulatory controls such as stamp duty taxes in Hong Kong and Singapore and restrictions on developer loans in China provide additional incentives to seek further diversification in Europe. However, increased competition has further compressed yields in London and Paris and made investment in peripheral cities more attractive. This demonstrates the ongoing importance of selecting a proper site and structuring the investment to fit in with the regulatory environment so that it may grow profitably. ■ **mdd/aw**

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Savings growth, rule changes spark Asian outflows - JLL

The growth in savings rates, changes in regulations and other macro economic factors are encouraging outbound investment from China, South Korea and more recently Taiwan, says global realtor JLL in an exclusive contribution for PIE.

Sovereign wealth funds such as Korean NPS, and large conglomerates, are paving the way for smaller insurance groups, developers and ultra high net worth individuals who wish to diversify real estate portfolios internationally. Between 2010 and 2013 volumes into European real grew from \$4.8bn to \$14.6bn. Of this, London received an average 72% of Asian inflows to Europe. However investors are increasingly moving in, focusing on the most liquid markets of UK, France and Germany. As such, Germany, Europe's largest economy, offers a stable financial, political and legal environment, as well as high quality assets. This is encouraging some Asia-Pacific groups to diversify away from London and make Germany the next step in building their European portfolio. The focus has been on core office in the Big Five German cities.

Matthew Richards, Head of JLL's International Capital Group in Europe, says the acquisition of the Sony Centre in Berlin by NPS set a precedent and has created strong investor interest from other Korean groups. In 2013, South Koreans were the most active Asians investing in Germany. IVG acted on behalf of a club of South Korean investors on Galileo in Frankfurt, and NPS buying the Siemens forum in Munich.

Bidding activity and the weight of capital reveal that the depth of Asian demand is much stronger than investment volumes suggest. Looking at JLL office sales of over €100m over the last 18 months, to-