

Seeking optimum opportunities

Germany's real estate market is unique in both Europe and the world. Firms like Optimum Asset Management are capitalising on the sector's exclusive investment opportunities



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Optimum Asset Management is a Luxembourg-based asset management company with specialisation in the private equity sector and a strong focus on real estate. We have a registered office in Luxembourg, as well as representative offices in Berlin, London, Miami and Orange County. In line with our investors' objectives to achieve long-lasting returns, the company offers investment opportunities characterised by specific themes and attractive risk-return ratios. Through our 161 employees, including a team of property and facility management experts, we manage 13 funds with a total assets under management of €1.4bn (\$1.57bn).

Our team has been active since 2006, initially as BMB Investment Management Partners. The company was set up as a platform for institutional investors to invest in the German property markets through a vertically integrated structure comprising asset management, property management and facility management. The vertically integrated model is still one of the main principles of our company today. Such a model allows for full control and management of assets in all aspects, in addition to the allocation of resources and management focus on the relevant points of the value creation chain.

We are a trusted partner to many of the world's top institutional investors. Through various investment vehicles, we preserve and protect assets for public and corporate pension

funds, sovereign wealth funds, social securities institutions, insurance companies, family offices and other institutional investors. With a wealth of entrepreneurial ideas, our credo is to create a firm that puts client needs first, is independent and conflict-free, adheres to the highest ethical standards, and strives to create long-term value for investors.

Focusing ahead

With a population of 81.2 million people, Germany is the most highly populated country in Europe, with 41 percent of the population in the 25-to-54 age bracket. Its GDP is the highest across the European continent, the fourth largest in the world, and has a forecast annual growth ranging between 1.8 percent and 1.9 percent for 2016.

Employment numbers add positive colours to the national picture, with a record of 170,000 new jobs created in 2015 raising total employment figures to 42.8 million. Furthermore, Germany had an unemployment rate of 4.6 percent in 2015 – the lowest in Europe and far below the European average of 9.4 percent.

Germany is also the third-largest exporter in the world and has been named the most innovative nation in Europe by Bloomberg's Innovation Index, with more than 20 percent of European patents being held by Germans. It is regarded as one of Europe's most cost effective production locations, with one of the highest productivity rates in the world.

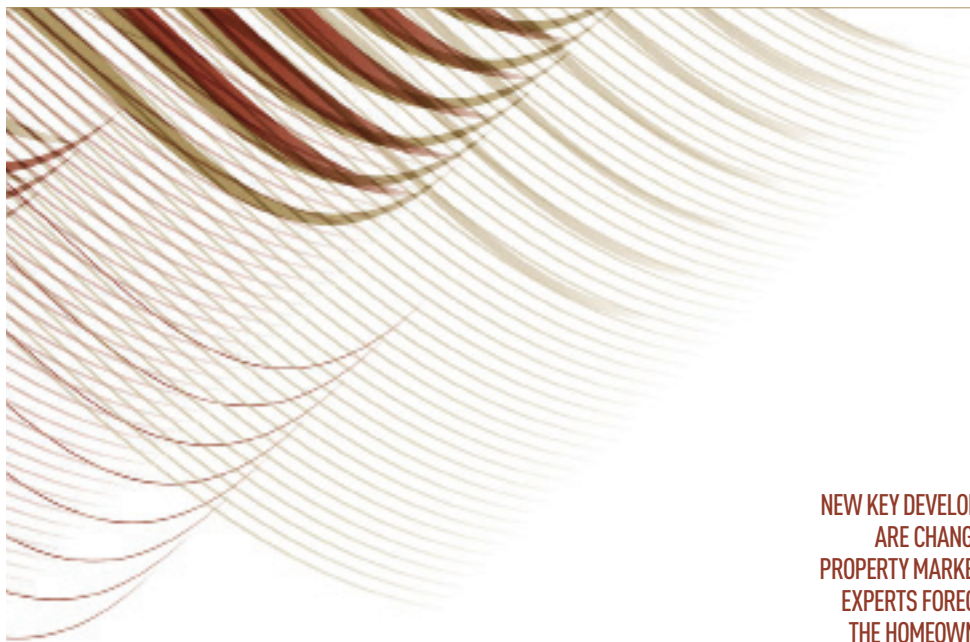
The German property market attracts large amounts of international capital because of these exceptional characteristics. A total of €70bn (\$78.7bn) was invested in the sector between 2010 and 2015, with Germany attracting around half of the capital invested in European residential property during this period.

The year 2015 set a new record for transactions in the residential sector, with €25bn (\$28.1bn) and almost 360,000 apartments transacted. Traditionally, Berlin is by far the most liquid German investment location for residential property, with a transaction volume of €5bn (\$5.6bn) invested in 2015 – 20 percent of the national turnover.

The German market is not only one of the most liquid residential markets in the world, but it also stands out for its attractive and stable conditions. Residential properties remain priced at extraordinarily appealing levels, averaging €1,300 (\$1,460) per square metre in 2014 – well below levels in comparable markets in the rest of Europe. When the historically low bond yields are added to the equation of the extremely attractive fundamental data and favourable growth prospects, the German residential market remains a sensible cornerstone of portfolios, particularly for risk-averse investors.

I discovered Germany's real estate market – with its strong growth potential and limited risks – at the end of 2006. With almost 20 years of expertise, I had never seen a comparable investment opportunity. Since then, Optimum has launched four real estate funds dedicated to the German market – particularly Berlin's.

I launched our first real estate fund, Property I, in 2009. It was sold to a prominent European institutional investor only four and a half years later, reaching a gross internal rate of return equal to 23 percent. Additionally, since its launch in 2011, our real estate fund Property II has registered an increase in net asset value equal to 53.3 percent by December 2015, while our real estate fund Property III recently finalised its fundraising phase and fully deployed all the capital raised, constituting a €342.6m (\$385m) portfolio. We are now focusing on the fundraising for our first pan-German fund.



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NEW KEY DEVELOPMENTS
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B-cities and C-cities have better risk-return ratios than A-cities, as they either generate higher returns on comparable risks or deliver lower risks for similar returns. However, they require an intensive research effort and detailed analyses. In this respect, knowledge of regional markets and, where possible, partners on the ground, are indispensable.

Increasing homeownership rates

According to an EU-SILC survey, 70 percent of all households in the EU-28 are owner-occupied, while tenants occupy 30 percent (see Fig 1). The highest home ownership rates are recorded in the eastern EU member states and the Baltic member states. By contrast, the lowest rates are in Germany, with 52.5 percent, and Austria, at 57.2 percent. In particular, more than half of the properties in Europe's capital cities are rented, such as Berlin (74.6 percent), central London (63.1 percent) and Brussels (61.4 percent). Some of the lowest occupancy rates are also registered in seven main German areas: Hamburg, Mecklenburg-Vorpommern and Bremen in the north; Leipzig, Dresden and Chemnitz in the east; and Düsseldorf in the Rhine-Ruhr metropolitan region.

The low homeownership rate registered in Germany was initially influenced by the problems of reunification and the stagnating economy. In particular, public deficits and the enormous stock of property inherited from the German Democratic Republic resulted in a constant inflow of properties into the market, causing oversupply. Weak demand as a result of the poor economy put enormous pressure on property prices and created a legacy of low rental costs, which encouraged people to rent as opposed to buy. However, structural reforms led to an economic recovery. New key developments are changing the property market, with experts forecasting the homeownership rate to increase, especially in Berlin.

This phenomenon is ruled by a misbalance in the purchasing power of German residents who, compared to other regional and international residents, have a significantly higher salary-to-property price ratio and can benefit from the positive incentive of low-rate mortgages, with increasing property value. Based on a regional and international comparison, Germany has positioned itself as the most affordable market with regards to the number of salaried years needed to buy 120sq m in the city centre. Buying 120sq m in Berlin takes on average 10 years, the shortest time among all OECD capital cities. Cologne and Dresden follow close behind, at 14 and 14.6 years respectively. Furthermore, even the highest number of salaried years for a German city – for example, Hamburg at 23.3 – is well under the one of other major global cities and the EU-28 average.

This is leading to the strengthening of a high-potential condominium market, providing an exceptional opportunity to actors like Optimum, which can buy entire buildings and then split them into single units that can be sold at a much higher asking price. ■

New phenomena

Due to growing competition, investors are now encountering difficulties in obtaining adequate yields in German 'A-cities'. Furthermore, as a consequence of the lack of core properties and high prices, rents in prime locations do not increase at the same rate as invested capital. This has encouraged investors to look at secondary cities, which offer investment alternatives that combine the advantages of the stable German real estate market with affordable prices and attractive yields.

One of Germany's strengths is its decentralised structure, with a large number of centres classified as 'B-cities' and 'C-cities'. The classification is not based on any standardised criteria, though the general consensus is that the biggest cities in Germany – Berlin, Düsseldorf, Frankfurt, Hamburg, Munich, Cologne and Stuttgart – are the A-cities. An additional

73 cities are classified as B-cities and C-cities. The latter have more than 100,000 inhabitants each and are collectively home to around 16 million people – roughly one fifth of the national population.

For our new pan-German fund, Optimum is focusing on mid-sized cities with promising growth prospects, like Potsdam, Dresden and Leipzig. Medium-sized cities have strong demographics and economic growth indicators, although they are smaller, with less liquidity and less data availability than A-cities. These characteristics often prevent large investment firms with extensive borrowing histories driving up prices during periods of cheap credit, and therefore offer opportunities for experienced investors with local knowledge. Furthermore, smaller cities are exposed to significantly fewer price fluctuations than large cities.

