Foreign investors use REITs to catch the cycle in Southern Europe, says Savills

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The Southern European markets of Spain and Greece have seen a significant rise in commercial real estate investment in 2014 with half-year figures representing 88% of last year's overall investment volume total, according to agent Savills.

Following an active year in 2013, Italy and Portugal markets had a slower first half in 2014, but are expected to match or even exceed last year's volumes.

Research from the international real estate advisor shows that investment levels in Southern Europe have been underpinned by buying activity from new and established REITs in these markets. In addition, Savills confirms that these investment vehicles have provided a platform for international buyers to achieve exposure in Southern Europe through indirect investments with figures showing that €820 mln and €2.55 bn were invested in Greek and Spanish REITs respectively by international investors in the past 12-18 months.

'REITs have provided a safe and efficient investment structure for overseas purchasers to enter the Southern European commercial real estate markets,' said Eri Mitsostergiou, director of European Research at Savills. 'In some cases, these investors do not know the local market well and the REIT vehicle provides them access to domestic players that are better positioned to expand and deliver effectively.'

Spain has reported the largest growth in investment activity, which increased by 168% in H1 14 compared to the same period in 2013 and this is set to continue with the country predicted to report a year-end figure almost double that of last year at more than €5 bn. Of the transactions completed so far in 2014, 21% was dominated by the new Spanish REITs (SOCIMIs) which have this year invested 44% in retail, 42% in offices, 8% in hotels and the remaining 6% in industrial. Madrid accounted for 52% of the SOCIMIs' investments with Barcelona seeing 35%.

In the Greek market the REITs, known locally as AEEAP, have accounted for 38% of investment activity over the past 18 months with offices representing 84%, retail accounting for 12% and the remaining 4% allocated to industrial.

In Italy just two REITs (SIIQs) currently exist; however Savills indicates that a change in regulation in the country promoted by the 'Unlock Italy' initiative as well as a focus on attracting foreign investment into the Italian real estate market, may spur IPO activity and the creation of more REITs, similar to the Spanish market. This increase in Italian REITs could open up opportunities for those international investors that may consider Italy to be a complex market to enter.

'REITs across Southern Europe have firmly established themselves as key and important investors in the commercial sector and this is something we expect to increase as these markets continue their recovery. We also foresee the demand from international investors using these vehicles to indirectly invest in these markets to maintain momentum,' Mitsostergiou concluded.

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