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With Europe''s laggards on the mend, are they now a good bet for commercial property investment?

With Europe's laggards on the mend, are they now a good bet for commercial property investment? : While Greece's is recovery is slow, the outlook for the previously troubled economies of Portugal, Ireland and Spain is positive and presents opportunities for investors

The euro zone in 2017 likely recorded its highest level of GDP growth for a decade, with the figure forecast to come in at around 2.2 per cent. Today's outlook for Europe is in sharp contrast to when the European Union was reeling from the sovereign debt problems of its member states of Portugal, Ireland, Greece and Spain, known by the acronym PIGS, triggered by the financial crisis of 2008.

Initially, the bad news was focused on Greece, where the true scale of government debt was revealed in 2009 and was serious enough to threaten the very existence of the euro. Nervousness cascaded to other states, particularly Portugal, Ireland and Spain, whose economies were suffering the bursting of property price bubbles. At the worst point, government bonds of the PIGS were downgraded to junk status by international credit rating agencies. But turbulence also means opportunity. In the wake of the crisis, opportunistic investors looked for distressed property-based assets. For many, their patience – and bravery in entering markets that many had written off – has been rewarded. Ireland, whose economy shrank 7.1 per cent in 2009, has been experiencing double-digit growth over the last few years. Spain's economy has been growing between 3 per cent and 4 per cent per year, corporate and household debt has reduced considerably and unemployment has fallen from around 27 per cent in 2013 to less than 17 per cent today. Similarly, Portugal's unemployment rate fell to 8.5 per cent in late 2017, compared to 17 per cent in 2013.Asian investors pouring money into Europe's real estate and logistics property markets

Looking at the property market in Ireland's capital, Dublin, office take-up in 2017 was at an all-time record of 325,000 square metres (3.5 million square feet), according to JLL. Some of this was from major tech players such as Google and Facebook expanding their presence – attracted, among other things, by some of the lowest corporate tax rates in Europe. And in Spain, commercial take-up in Madrid reached a decade high of 359,000 square metres, according to Knight Frank. In both countries, residential markets have also recovered strongly – a dramatic turnaround from the so-called ghost estates and abandoned projects that symbolised the depths of the crisis.

Unsold apartment blocks at a project near Madrid, Spain, photographed in 2012 and one of the so-called ghost estates that became a symbol of the country's property bust. Photo: AP

Portugal has followed a similar trajectory, with investors from Brazil and Asian countries particularly attracted by its "golden visa" programme, which provides a fast track to a residency permit. However, Greece – burdened by debt, an austerity programme forced on it by creditors following its bailout, political turmoil, and restricted by its membership of the euro from undertaking quantitative easing to make its exports more competitive – has taken far longer to recover, with its economy only returning to growth in 2016. Now, the outlook for Europe is optimistic. Provisional analysis of 2017 data suggests commercial property market investment volumes will be between the 2016 total of 216 billion euros (US$264.8 billion) and 2015's peak of 250 billion euros; and Knight Frank expects investment volumes in 2018 to be similar to 2017. The consensus of various bodies for economic growth across the euro zone in 2018 is around 2 per cent. In the UK and across much of Europe, commercial property is now in the early stages of the growth cycle, with little speculative new build outside London. However, there are political risks. Negotiations are still under way in Germany for the formation of a coalition government, an election is scheduled for March in Italy, and growth in the Spanish economy is likely to be moderated by the controversy over Catalan demands for independence. But opportunities exist. The UK's surprise Brexit vote in 2016 and drop

in the value of sterling led to a surge in investment from Asia and Hong Kong in particular, highlighted by major transactions such as the £1.3 billion (US$1.8 billion) purchase of 20 Fenchurch Street, christened the Walkie Talkie, by Hong Kong's Lee Kum Kee Health Products Group, and the sale of The Leadenhall Building – or the Cheesegrater – for £1.15 billion to Chinese developer CC Land Holdings. Having delivered strong returns across the property cycles for more than 18 years, for us at Patron one thing is clear: when numerous players are looking to benefit from changing dynamics across Europe's property markets, local knowledge is vital. Misjudging pricing, betting on political outcomes or being too optimistic about the time it takes for a market to recover can be expensive mistakes.Keith Breslauer is managing director of Patron Capital, the pan-European opportunistic property
investor

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