

# 2021 Europe RE deals rebound

Investment from private equity firms and public property companies has propelled a strong comeback this year, with plenty of M&A activity

BY ROBIN MARRIOTT

Most professionals have been surprised by the way real estate investment rebounded so strongly in 2021.

After volumes were destroyed in 2020, the pandemic's first year, they have come back with a vengeance. And, one of the most noticeable trends has been the strength of M&A activity.

## PRIVATE EQUITY

Private equity groups showed up strongly in 2021, taking over real estate-related companies throughout the year. Heavyweights such as KKR, Starwood Capital, Brookfield, Blackstone, Bridgepoint and EQT have all been active, targeting diversified property portfolios but also offices, retail, the hot logistics sector and forward development deals, but also specialised asset classes such as data centres, telecoms masts, student flats, science and holiday parks.

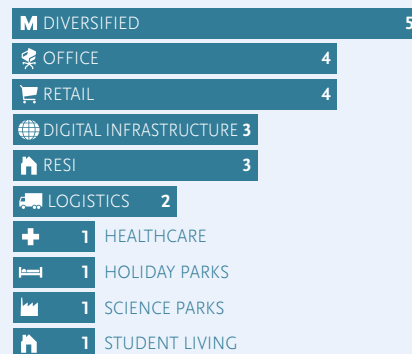
It also looks like the year will end with a bang with several €1 bn-plus transactions still in the works, according to industry professionals. German real estate lender Aareal Bank, for example, is likely to be added to the takeover list by private equity. Aareal recently welcomed a €1.9 bn takeover approach by US-based Advent and Centerbridge.

Clearly, private equity firms are seeing value in public as well as private companies and are prepared to patiently extract value before finally looking to exit in a few years' time.

Evan Lazar, co-chairman of global real estate at law firm Dentons, noted: 'Deal making fell off a cliff in the second quarter of 2020, as buyers, including private equity firms, pressed the pause button, uncertain of what the Covid-19 pandemic might bring. But private equity activity skyrocketed this year with multiple mega deals already completed and more yet to come.'

## Top 25 deals by asset class

IN NUMBER OF DEALS



'Private equity activity skyrocketed this year, with multiple mega deals already completed and even more yet to come'

PE firms have amassed much dry power and, buoyed further by cheap debt, they have not held back. Takeover activity has not been restricted to the real estate sector. Indeed, it seems to be a feature across industries, especially in the UK. In an article in the Financial Times in July, the newspaper said depressed valuations of public companies since Brexit was fuelling a surge of interest from buyout firms flush with cash, calling it a 'raid on corporate Britain'.

Security company G4S, infrastructure group John Laing, defence firms Meggitt and Ultra Electronics, supermarket group Wm Morrison, and even Marks & Spencer to name a few have either been taken over or are the subject of bids or takeover speculation.

That said, demand for income-producing real assets – including real estate – has undoubtedly been high even if takeover activity is widespread across other industries.

## EUROPEAN VOLUMES SURGE

Amid a strong pick-up across Europe, there have been complex and marquee deals including market-firsts and restructuring of distressed portfolios and acquisitions of premium assets.

The strength of rebound in real estate has been remarkable in 2021. Globally, investors purchased a record amount of commercial real estate in Q3, according to Real Capital Analytics (RCA), up 19% on the same quarter in 2019 before the pandemic.

In Europe, deal volume has approached pre-pandemic levels, boosted by the industrial and apartment sectors, said RCA. For the year to November, Europe volumes reached €202.6 bn, which is just 5% lower than the average between 2015 and 2019.

## 2021 HIGHLIGHTS

It is not just private equity firms that have been active. Mergers involving publicly listed property companies have been a feature of the landscape too.

Germany's Vonovia and Deutsche Wohnen (DW) were the stars of the show in 2021 after entering into talks over a €19 bn mega merger. Admittedly, the deal seemed to wobble due to lack of shareholder acceptances. But the combination is now in the final stretch to create a residential property company with a combined €90 bn of assets and thus seal the year's largest real estate transaction.

The merger is the largest deal of the year. However, it seems that not everyone is instantly convinced by the acquisition. Analysts at Green Street issued a note in November entitled 'Empire Building is Costly' saying Vonovia had launched an €8 bn equity rights issue to deleverage after paying for DW in cash. Green Street called the merger, 'modestly value destructive for Vonovia shareholders'. While believing DW was right to sell, Green Street punched Vonovia, say-

## Top 25 deals Europe 2021

| TYPE  | COUNTRY   | ASSET NAME/TRANSACTION TYPE  | VALUE (€ MLN) | BUYER  | SELLER   |
|---|---|--|---------------|--|--|
|    |    | M&A (Merger)   | <b>19,000</b> | Vonovia  | Deutsche Wohnen  |
|    |  Latin America   | M&A (Take-private)   | <b>13,300</b> | KKR/Global Infrastructure Partners                 | CyrusOne Inc   |
|    |    | M&A (Take-private)   | <b>11,600</b> | Clayton, Dubilier & Rice (CD&R)                    | Wm Morrison Supermarkets   |
|    |  and Nordics   | Portfolio of 28,766 apartments   | <b>9,100</b>  | Heimstaden   | Akelius  |
|    |   CEE | M&A (Take-private)   | <b>4,630</b>  | Starwood Capital                                   | CA Immo  |
|    |    | M&A (Takeover) of leisure company including 56 sites   | <b>3,570</b>  | Blackstone Capital Partners/Blackstone Real Estate | Bourne Leisure   |
|    |  South and Central America   | Data centre investment as part of a JV to develop and operate data centres across EMEA and South and Central America | <b>3,470</b>  | GIC/Equinix  | n/a  |
|    |    | M&A (Take-private)   | <b>3,500</b>  | Brookfield   | Alstria  |
|    |    | M&A (Takeover)   | <b>2,600</b>  | Castellum  | Kungsliden Aktiebolag  |
|    |    | 14,740 Berlin units  | <b>2,460</b>  | Berlinovo, Degewo and Howoge                       | Vonovia/Deutsche Wohnen  |
|  |    | M&A (Takeover)   | <b>1,900</b>  | Altarea  | Primonial Group  |
|  |    | Alaska sale-leaseback portfolio  | <b>1,900</b>  | Blackstone   | Asda   |
|  |   | M&A (Merger)   | <b>1,660</b>  | EQT  | Exeter Property Group  |
|  |   | ATC Europe BV  | <b>1,600</b>  | Caisse de Dépôt et Placement du Quebec             | American Tower Corporation REIT  |
|  | CEE   | Merger (Takeover)  | <b>1,450</b>  | Gazit Globe  | Atrium European Real Estate  |
|  |    | Forward purchase T1 Tower in Frankfurt   | <b>1,400</b>  | Allianz Real Estate                                | Gross & Partners   |
|  |    | M&A (Take-private)   | <b>1,400</b>  | Blackstone   | St Modwen  |
|  |    | M&A (Take-private)   | <b>1,130</b>  | Scape, Iqsa/APG Asset Management and Blackstone    | GCP Student Living   |
|  |    | Milan properties   | <b>1,100</b>  | Blackstone   | Reale Compagnia Italiana   |
|  |    | High Tech Campus Eindhoven   | <b>1,100</b>  | Oaktree/GIC  | Ramphastos Investments   |
|  |    | 34 grocery-anchored assets in Western Europe   | <b>1,000</b>  | x+bricks   | SCP Group  |
|  |    | 69 assets (Take-private)   | <b>1,000</b>  | Tristan Capital                                    | Summit Real Estate Holdings/ 77% of the listed GxP German Properties AG platform |
|  |    | Behavioural health facilities  | <b>953</b>    | Medical Properties Trust                           | The Priory Group owned by Acadia Healthcare Inc                                  |
|  |    | 31 assets in 6 countries   | <b>882</b>    | Dream Industrial REIT                              | Clarion Partners Europe  |
|  |    | Mixed assets   | <b>842</b>    | Apollo   | Enpam  |



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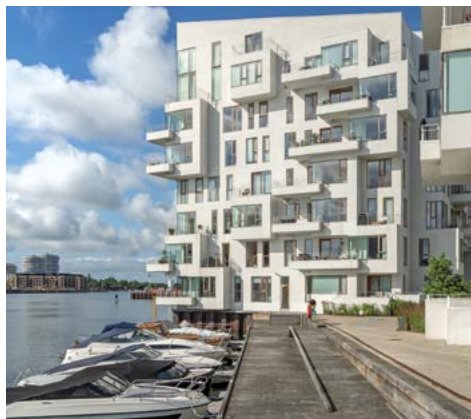
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VONOVIA'S TAKEOVER OF DEUTSCHE WOHNEN WAS 2021'S BIGGEST TRANSACTION AS A WAVE OF M&A ACTIVITY SWEEPED EUROPE



HEIMSTADEN LED THE YEAR'S LARGEST PRIVATE PORTFOLIO DEAL OF THE YEAR



CYRUSONE'S DATA CENTRE DEVELOPMENT IN FRANKFURT: INTEREST IN DIGITAL INFRASTRUCTURE LED TO JUMBO DEALS THIS YEAR

ing it was now 'crystallising its poor cost of equity capital by expanding the share count by 35%' and that Vonovia had delivered pedestrian returns in relation to its peers due to its acquisitive drive.

While working on the merger, Vonovia/DW also arranged another of the biggest deals of 2021 – the sale of 14,760 Berlin flats for €2.46 bn to three public housing associations. These are looking to strengthen their positions and fulfil their municipal duty to house people. The portfolio mostly comprised housing complexes but included some smaller developments.

### GERMAN APARTMENTS

The year 2021 saw European rental apartments – including BTR opportunities – in hot demand all year round. Markets such as the UK, France, the Nordics, and Spain have all seen inward investment. But Germany was the epicentre of large residential property trades.

Heimstaden's €9.1 bn acquisition of 28,766 apartments from Akelius was the year's largest private real estate deal. The transaction comprised 17,642 flats in Germany, with the remainder being in Scandinavia. Heimstaden's strategy is to expand in cities where it believes in long-term rental demand, and it felt Akelius' portfolio was the perfect fit to help it expand in Berlin and Hamburg, Stockholm, Malmo, and Copenhagen.

The year could well end with at least two more mega German residential deals, both involving German public property company Adler Group. Adler has been busy fighting against an activist shareholder who claimed the company was 'not investible'. In re-

'The year could well end with at least two more mega German residential deals, both involving public property firm Adler Group'

sponse, it has inked a deal to sell 15,350 apartments and 185 commercial units for €1.49 bn to LEG Immobilien. Adler is also in talks to sell 14,300 apartments for around €1 bn to a foreign investment manager, tipped to be KKR working with its German investment subsidiary, Velero, which KKR acquired in December 2020.

### TAKEOVERS BY PUBLICS

Apart from the Vonovia/DW tie-up, there have been no fewer than 14 M&A transactions of scale (see box). In the public sector, Castellum Aktiebolag of Sweden bought Kungsliden Aktiebolag in a €2.6 bn deal as well as Kielo for €640 mln. Tel Aviv-listed Gazit Globe took over listed retail property company Atrium European Real Estate for €1.45 bn, while newly listed CTP took over industrial specialist Deutsche Industrie for €800 mln. Elsewhere, Spain's Inmobiliaria Colonial bought out 100% of shares in its French subsidiary Société Foncière Lyonnaise (SFL) for £800 mln (€890 mln). Public US company Medical Properties Trust acquired a portfolio of select Priory behavioural health facilities in the UK for €953 mln while Waterland Private Equity Investments took over Priory's operations.

### DIGITAL INFRASTRUCTURE

One of the standout themes has been the interest in digital infrastructure, now being seen by many as real estate investment – not just infrastructure.

Data centres as well as telecoms masts have been big business this year and at the centre of three huge transactions. KKR and Global Infrastructure Partners took over CyrusOn Inc for €13.3 bn, giving them access to pan-European, Latin American and Singaporean assets.

Also, this year, GIC agreed a \$3.9 bn (€3.47 bn) investment as part of an existing JV with digital infrastructure firm Equinix to develop and operate 32 xScale data centres across Europe, APAC, South and Central America. Data centres will be built in Dublin (3), Frankfurt (5), Helsinki (1), London (2), Madrid (2), Milan (1), Paris (4), and Warsaw (1). Meanwhile, a US REIT sold telecoms mast company ATC Europe for €1.6 bn to Caisse de Dépôt et Placement du Québec.

Now, there is the very strong prospect of an \$11 bn (€9.8 bn) takeover of data centre company Global Switch Holdings with KKR, Equinix, DigitalBridge Group, and Digital Realty Trust reportedly among potential suitors.

### SCIENCE PARKS

In the top 25 transactions, four were in the retail sector. Science parks showed up strongly, given Oaktree Capital Management/GIC's purchase for €1.2 bn of High Tech Campus Eindhoven. Brookfield's €835 mln private purchase of Arlington in the UK fell just outside the top 25 yet was another significant deal in the sector. ■