

Irish investors set their sights on Germany

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From trees to property, Declan Kennedy is used to getting people the best returns on their investments. Previously head of the Irish Forestry Funds, Kennedy has turned his attention to commercial property by establishing the Dublin-headquartered investment company, Augusta, three years ago.

Since then the company has invested in a number of properties in Britain (London, Birmingham and Bolton, in particular) before turning its attention to Germany – currently seen as the best performing property market in Europe.

His friend and business partner, Philipp Graf von Matuschka, has provided invaluable help in getting to grips with the country. Born in Limerick to German parents, Matuschka has a number of strategic business contacts in Germany as well as being a successful businessman here.

“Philipp’s presence has been a huge help in opening doors for us in Germany. The Matuschka name carries a lot of weight there; it’s a very historical name and is held in huge respect. So, he’s been a big factor in us doing so well there; there’s not so much that’s unique about me!” Kennedy laughs.

Originally an accountant, Kennedy has spent much of his career developing and marketing capital and tax-based financial investment products.

The Augusta syndicates (there have been five to date in Germany, with the sixth one currently being set up) works in much the same way as the Forestry Funds do – asset backed, tax efficient, and capital growth in nature. Property values are linked to rental income, in the main.

That effectively means that any increase in rental income should have the effect of increasing the capital value of a property. Anticipated yield compression in the German property market should increase the capital appreciation of properties too.

Augusta’s focus will remain on Germany for the foreseeable future (the company has its head office in Monkstown in south Dublin and one smaller one in Berlin).

“If you spread yourself too thinly, you run the real danger of losing focus,” says Kennedy.

But that’s not to say the company hasn’t one eye on its next big move. Yield compression is beginning to become evident in the German market just as it has sucked the value out of the British market in recent times.

While still delivering high yields, they’ve slipped from an average of 10% to 8%, and over the next few years are expected to drop to 6% and beyond. Just as low yields and high interest rates have turned investors off the commercial property market in Britain, so too is Germany heading for saturation point – gradually.

“Most countries in Europe are losing value now – Britain is a seller’s market right now – and in a few years commercial property companies will be looking at places like India, the US and Russia for value options. That will pose a few challenges but it’s in the

future; for now Germany is still showing good returns and that should remain so for the next four years or so.”

“The attractiveness of the US market – particularly the East Coast – is that the exchange rate is friendly, and although interest rates are a little higher than here, there is substantial growth going on in the American economy. Also, long-term deals are seen as being three years rather than eight, so you’re in and out quickly, and hopefully make a quick return.”

As for Russia, no less a figure than Sean Quinn said recently that the country could easily cope with 50% more hotel rooms.

Perhaps surprisingly, the Eastern European accession states haven’t popped up on many commercial investors’ radars, though.

“It’ll be a long time before I’d put my money into Eastern Europe, and if I wouldn’t invest in it I wouldn’t advise anyone else to. You’re going to see currencies in that region devalue a lot as countries aim to come in line with the Euro.”

Similarly, Kennedy’s very passionate about the benefits of the commercial property market over its residential counterpart.

“If people are interested in investing in property and understand the commercial sector I can’t understand why they’d choose the residential sector over commercial. Commercial is cheaper and easier with guaranteed rental income. It’s a good investment, basically, money in the bank. It might be more expensive to get into, but that’s why people get into syndicates,” he says.

Augusta’s fifth syndicate featured two retail properties in Mannheim and Saarbrücken. The sixth syndicate’s properties have largely been finalised. There will be three – the maximum for any commercial syndicate in Germany (if you have more than three properties you’re seen as a property trader and incur an additional 15% tax).

Germany, recently opening up to international investors, has seen a raft of nationalities storming the market – with the Irish being joined by the Americans, the Japanese and even the Israelis. The entire country – except the low yield southern Bavaria – is still seen as being rife with good opportunities.

Kennedy and Augusta have been travelling around Ireland over the past week or so on an investor roadshow in support of the upcoming sixth syndicate. It finished up this week in Dublin and Kennedy is more than impressed with the reaction.

“We’ve found the reaction in rural areas to be fantastic and more impressive than in Dublin. I don’t know why that should be; maybe Dublin investors are spoiled for choice, but the reaction from around the country away from the capital is great – they’re asking the right questions and technical, knowledgeable questions at that, not just the basic ones,” he says.