



AMERICAS NEWS: Europe does Brazil Premium

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Italian fund manager Sorgente has muito grande plans for Brazil, with an eye on investing \$3 billion in the country's real estate over the next three years. PERE Magazine, October 2012 issue

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When it comes to real estate in Brazil, the major players raising capital or making investments in the country have all been local or US-based firms. That could soon change, as one European-based fund manager with ambitious plans for the land of Carnaval is readying its entry into the market.

Last month, Sorgente Group, a Rome-based real estate finance company with an investment funds platform, announced a joint venture with Brasilinvest, a São Paulo-based business and investment agency that has developed 8 million square metres (86 million square feet) in real estate, to invest more than \$1 billion in Brazilian real estate each year over the next three years. Of that \$1 billion, Sorgente and Brasilinvest plan to raise \$500 million in equity from Brazilian and European investors.

In line with this target, Sorgente has established a new company, Sorgente do Brasil Asset Management, which will be responsible for launching Brazil-focused real estate funds that are subject to Brazilian government oversight and will target acquisitions of trophy office properties. The Italian firm also has formed Sorgente Brasilinvest Empreendimentos Imobiliários, will provide real estate services to support the funds managed by Sorgente do Brasil.

Other European investment firms already have planted their flags in Brazil, including Belgian real estate investor Pylos and London-based development and investment firm Squarestone. However, Sorgente's joint venture represents the most aggressive planned investment in the country by a European manager to date. The firm seeks to invest up to 40 percent of its real estate portfolio in Brazil in development projects in São Paulo and Rio de Janeiro, with the remainder in rental income buildings, primarily in the office sector.

Sorgente Group, which has five investment management companies in Italy, Switzerland, Luxembourg and the US, currently has total real estate assets of more than €3.5 billion. Its managed funds and funds in market include the Michelangelo Fund, which owns a majority stake in the Flatiron Building in New York.

Sorgente's entry into Brazil was prompted by its investor, including pension schemes, insurance companies and sovereign wealth funds that wanted to increase their exposure to emerging markets, according to Stefano Cervone, managing director of Sorgente Group. "For European money, it's important to have the opportunity of geographical diversification," he said. "Europe is quite a mature market in terms of real estate, so there is appetite by institutional investors for assets in emerging markets."

In the past five years, "just from a European context, the awareness of Brazil is a thousand times greater," said Robert Sloss, joint chief executive at Squarestone, which began investing in Brazil in 2007 and is one of the longest-operating European managers in the country. "Capital is much more willing to go to Brazil now."

Indeed, of the top 10 countries with the largest real estate capital flows to Brazil over the last five years, half were from Europe – including France, Spain, Portugal, the United Kingdom and Switzerland, which together invested a total of \$3.1 billion in the country, according to data provider Real Capital Analytics. In 2011 alone, European countries contributed 25 percent, or \$313 million, of the cross-border activity in Brazil, according to RCA and Cushman & Wakefield Capital Markets.

To date, Squarestone has executed two retail investments in Brazil –the acquisition and redevelopment of the Shopping Bonsucesso mall and the Golden Square Shopping Center, both in São Paulo. The firm currently has four sites under option within São Paulo state and Rio de Janeiro for the development or redevelopment of open-air retail centres.

Initially, Squarestone raised capital primarily from UK-based high-net-worth individuals, but recently it has attracted institutional money, including that of Ivanhoé Cambridge, the real estate subsidiary of Canadian pension plan Caisse de dépôt et placement du Québec. Ivanhoé, in a joint venture with Ancar Malls, acquired a 73.2 percent stake in the redevelopment of Golden Square in July.

Sloss considers Brazil to be a long-term bet for Squarestone. "The attraction of Brazil is it's a big market that's not going to be built out in 18 months," he said. "I don't think it's a market you can dip in and out of and bring home a bag of money."

Capital flows from Europe to Brazil may be a relatively new phenomenon but, given the long-term strategies for European firms like Sorgente and Squarestone, that cross-border activity could be here to stay.