DeA Capital Real Estate: Demographics are destiny

DeA Capital Real Estate works with selected third-party institutional investors across Europe, with a total AuM of E13.5bn. Emanuele Caniggia and Emanuele Dubini, CEO and CIO respectively of DeA Capital Real Estate, explain why their international platform is driven by demographics and macroeconomics.

Emanuele Caniggia, CEO

Emanuele Dubini, CIO

DeA Capital Real Estate is the leading independent asset manager in Italian real estate. Backed by De Agostini, an international and diversified group with a strong alternative asset management arm and longstanding family wealth, the company decided to grow organically into Europe six years ago, and today has offices in France, Spain, Poland, Germany and the UK.

"Rather than concentrating on increasing by a few percentage points in our home market, we decided to go cross-border and build an international platform," says CEO Emanuele Caniggia.

Experienced heads such as Emanuele Dubini, whose previous posts include leading GE's real estate business in the region and head of capital markets at BNP Paribas, were brought in to establish national centres.

"The task was to get our name out there," says Caniggia. "Senior recruits have brought us links to the right brokers, advisers and notaries. Our country executives are entrepreneurs that have substantial stakes in the business. All in all, this is more 'skin in the game' to reassure clients that their interests and our interests are mutually aligned."

Of course, Covid shocked the whole world, not just European real estate. The subsequent rising cost of financing and the trend to work from home has led to much consolidation in real estate management. But DeA Capital, anchored by private money, emerged from the pandemic stronger.

"It is a new world," says Dubini. Is that good or bad for providers and clients? He replies confidently that the new world offers "a great opportunity for dedicated investment managers. Many clients prefer to deal with specialists like us. They believe they will get a more tailor-made approach with firms such as DeA."

Dubini notes that risk-sharing on a meaningful scale engenders trust. DeA Capital typically takes 5-7% equity in development projects.

Six years into international expansion and DeA Capital has pivoted from a natural beginning of national verticals to cross-border leadership by asset class. The three classes it champions are living, logistics and industrials, with specialisms in sub-categories. Build-to-Rent in Spain to start with, where nineteen hundred units have been developed under the Lavidda brand in the last eighteen months. Close to one thousand beds are in the pipeline in France for Purpose-Built Student Accommodation (PBSA) and more to be expected in 2025. Then there is industrial and logistics with over E 2.5bn of AuM across Europe.

Amid the burgeoning successes in this 'new world', what about offices? DeA Capital Real Estate has sourced, developed and manages plenty. In the current era, however, when working from home has become a norm, Dubini highlights that it becomes somewhat more challenging in continental Europe to refurbish and see approved change of use, notably for historical buildings. He draws a contrast with cities elsewhere, such as London, where it is relatively straightforward to repurpose or replace buildings.

Dubini points to the concentration of central business districts in the continent's historic cities. The lack of appetite for new satellite commercial zones is indicative of stagnancy in the office sector. Contrast the Living sector. In PBSA, Dubini notes that European governments want more student accommodation built. "There is not enough in quantity or quality to match growing demand for further education," he observes. "That is even before you factor in the rising competition for foreign students. Many of these expect high-quality accommodation as part of their overseas experience. And these projects benefit from ESG certifications: standards which students are increasingly aware of."

Palazzo La Rinascente, piazza Duomo Milano, one of DeA Capital Real Estate's longstanding and iconic assets

There are national and cultural differences. Continental Europe's tertiary education, traditionally, was very much about the learning. In contrast, the British experience also emphasized students socializing and gaining independence from their parents. "The UK has led the way in PBSA over the last 15 years," says Dubini. "But interest is shifting to continental Europe now. The cost of living for students in the UK has trebled and Brexit has rendered British universities less attractive."

Another growth area within living is hotels, a sector tested during the pandemic. DeA Capital Real Estate is developing new both luxury and upper midscale properties in southern Europe. The first Four Seasons Hotel in Rome is under way in the historical centre.Other hotels are located in prime cities approximately two hours by high-speed train from the economical or political centre of each country.

There is more to this trend than merely a post-Covid resurgence. Dubini explains that the appeal of travel accords with the growth in Build-to-Rent. "Millennials are less interested in investing capital to owning their home. They want to be freer to travel and spend their money on experiences."

As in PBSA, Build-to-Rent reflects cultural differences. Italians and Spaniards are keenest to own their homes whereas renting for life is more familiar from Germany northwards.

Caniggia believes that long-term allocations must be decided by these long-term secular trends. "We must be led by demographics and macroeconomics, not financial compression or leverage," he says.

Recognising demographics and macroeconomics has led DeA Capital to three investment strategies allied to its real estate platform: distressed debt, private equity and infrastructure. "Infrastructure is cashflow-driven," observes the CEO. "This is what a lot of retirement providers need to match maturing liabilities. Their risk profile requires continuity of income, preferably on a contractual basis."

"Selected pension funds and other institutional investors trust us with their capital," concludes Caniggia. "Our responsibility is to deploy that capital in sustainable assets generating returns for the long term."

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