

REAL ESTATE/2

Logistics Is The New Frontier

Polis, a real estate fund run by a group of cooperative banks, is searching for alternatives to investment in office space

Italian real estate funds looking for viable alternatives to the investment in office or commercial space hardly see hotels or other tourism facilities as an interesting option. This is the situation with Polis, a fund set up in mid-2000 by 14 cooperative banks, including BP Milano, BP Bergamo CV and BP Commercio & Industria. Chaired by Luigi Mella, former CEO of real estate group Aedes, Polis has been one of the most active funds in the real estate market in the last 15 months. In less than 18 months, the fund has invested L385bn (EUR 193 mn) out of the L500bn, buying five commercial properties in the Milan and Rome areas. At this point, however, the fund has exhausted the resources to be allocated in offices and is now looking for other types of property in which to invest. Giovanni Colombo, the 44 year-old manager of the fund, says the current areas of

interest exclude tourism. "As we view it, tourism is highly exposed to the fluctuations of the economic cycle. Seaside resorts are also what we might call 'trendy'," he says, "What we need, however, is stable cash flows and low vacancy risk. Logistics and retirement homes are two properties which have those characteristics." Through the end of last October, the fund had invested almost all its capital in properties in large cities, which are usually the main areas of interest for real estate funds. In particular, Polis allocated 52% of its total investment to real estate in Milan and the surrounding metropolitan area, 25% to Rome, 15% to Bologna and 9% to Florence. The

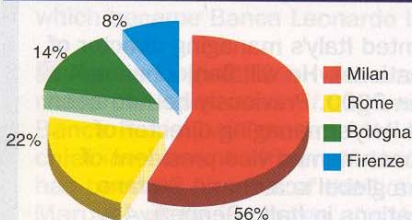
fund is now monitoring crucial crossroads within the transportation system in Italy, namely, where important railway stations are situated near the motorways. Such areas include the outskirts of Bologna and of Rome, but also smaller cities not far away from Milan such as Piacenza and Monza (the crossroads for most commercial traffic going southwards and eastwards) and Verona, which represents a crucial hub for traffic to and from Germany and the northeastern regions of Italy. The company, which has officially pledged to provide investors with capital appreciation of 5% or more per annum, has thus far focused its attention on highly



Giovanni Colombo

profitable deals which translated into a 7.2% return for 2001. Rental rates in the logistics industry, however, are such as to drive the return on investment to as high as 8% or 9%, in comparison with funding costs between 3% and 4%. Colombo, who worked for the Montedison group as property project manager and for Pirelli's real estate arm Milano Centrale (now Pirelli & C. Real Estate) as asset manager, plans to invest in the logistics facilities and then to rent them on the basis of a "rent-or-pay" formula. In other words, tenants will be obligated to pay rents even if they decide not to use the facility contracted. Polis is about to close its first logistics-related deal, for a space located west of Milan. In an effort to build profitability, the fund will also start trading activity. "In a couple of years, it could be the right time to sell something," says Colombo, who is about to start raising EUR150mn for a new fund, which will operate within the framework of new regulations which permit greater financial leverage.

WHERE POLIS' INVESTMENTS ARE LOCATED



Source: Polis

Trends & People