



BEDROCK CAPITAL PARTNERS: AN INNOVATIVE APPROACH TO INVESTMENT IN PORTUGAL

Local knowledge is a key factor for success in real estate investment, and Bedrock Capital Partners wants to be the leading partner for new investors in the Portuguese market.

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From left: David Leote Arié, André Gomes de Sousa and João Tenreiro Gonçalves

Committed to an innovative approach to this market in Portugal, Bedrock Capital Partners was founded by three executives with extensive experience in the Portuguese real estate market, in firms like ECS Capital and Fidelidade, across all segments and with a focus on value-added, opportunistic and development assets. André Gomes de Sousa, João Tenreiro Gonçalves and David Leote Arié.

The three partners have worked together for several years in some of the largest and most complex real estate projects in Portugal, developing a solid network in the market, which extends to real estate brokers, financiers, advisers, real estate owners, developers and funds operating in the Portuguese market. Altogether, they were responsible for the conclusion of

more than €2.9 billion in buy and sell-side real estate transactions, under different structures (asset/REO deals, share deals, NPLs). In terms of asset management, they have handled real estate portfolios representing an area of more than 850,000 sqm, often distressed, involving operational and financial turnarounds, releasing, refurbishing/repositioning and managing the licensing and development of new projects. Furthermore, regarding financing, this team has closed financing operations involving more than € 2.2 billion (acquisition finance, refinancing, recaps, construction loans) in real assets (infrastructure and real estate).

In a discussion with Iberian Property, André Gomes de Sousa and João Tenreiro Gonçalves, executive partners, explain that «*Bedrock was founded based on our vision that local knowledge is a critical factor for successful real estate investing, particularly for value-added, opportunistic and development strategies, where our team holds extensive experience. Considering this and the small size of the Portuguese market,*

which often makes it unprofitable/impractical to set up a local office, many international investors have preferred to develop partnerships with local players. After probing the market, we realized that some investors were struggling to find a partner with the right fit».

Therefore, «we offer a turn-key service to investors, including execution, asset management and implementation of exit strategies, whether for investment programs or limited to specific deals. Investors maintain their full discretion over the capital invested, with each investment requiring approval, and control over the capital invested, with strict governance and reporting controls implemented to ensure adequate portfolio monitoring and decision power», they tell.

With an investment philosophy «to turn value-added, opportunistic and development assets into Core/Core+ in order to achieve superior risk-adjusted returns ... Bedrock's approach is innovative in the Portuguese market in at least three ways: (i) we invest across all real estate classes through pre-defined research-driven investment strategies, (ii) we have a very active approach to asset management and, (iii) we ensure an adequate alignment of incentives with investors by assuming the exposure to each investment», they guarantee.

Superior returns will keep bringing new investors to the country

With their eyes on the future, at Bedrock Capital Partners «we believe that Portuguese real estate will remain attractive to international investors, providing superior risk-adjusted returns when compared to other European countries. We see potential for growth in rents given supply constraints in the market, and potential for further yield compression in some segments, such as offices. Our view is that Portugal stands as a very interesting late-cycle play», they state.

Regarding the best investment opportunities currently available to those who want to invest in this country, these experts believe that the office segment is one of the asset classes that stands out the most. «The Lisbon office market currently faces a severe lack of supply, with a limited pipeline coming to the market in the next few years and latent demand for large areas and high-quality buildings, namely in the central locations favoured by tenants. Once comprised almost entirely of domestic tenants, in the past few years, the Porto office market has received several high profile international shared services and IT firms, such as Natixis or Farfetch, generating potential for some convergence with yields in Lisbon. In our view, there is an opportunity for the acquisition of offices with a potential for rent increases or lease extensions with the current tenants, taking advantage of the current 'landlord market', for acquisition of well-located assets for refurbishment, and for the development of new office buildings in the areas with lowest vacancies and high demand, preferably with pre-letting agreements».

Another market that stands out is residential, they say. «While the luxury segment is somewhat crowded, we see Lisbon's middle and upper-middle class housing market as a very interesting

opportunity, with local buyers finding it difficult to buy or rent a new home. Although price increases have spread to Lisbon's peripheral councils and the suburbs, there are still specific areas which can be an opportunity for middle and upper-middle class residential developments. We are also looking at alternative locations such as Porto and other cities that benefit from positive demographic trends».

Furthermore, «we are paying increasing attention to the urban logistics market. Although growth of online channels in Portugal has lagged that of other countries, we expect this growth to accelerate as players increase their investment in last mile logistics. We see specific opportunities in the conversion of assets strategically located near Lisbon and Porto, but pure development is still dependent on rent increases».

Bank properties still offer good opportunities

In Portugal, banks and servicers continue to own a vast pipeline of real estate assets – a sector that continues to offer good deals, the Bedrock Capital Partners executives believe. «In the last couple of years, major international private equity funds (e.g. KKR, Bain, Anchorage, Apollo and Cerberus) with opportunistic strategies that are heavily leveraged and aim to achieve high returns, have acquired large portfolios of NPLs and REOs. This trend has created a market opportunity, as these investors will be looking to cash in quickly on assets and should be more likely to engage in off-market deals. In such large portfolios, business plans involving refurbishment, repositioning or the conversion of assets into different uses may generate value-added opportunities. In addition, those portfolios also include interesting assets for development. ■