

GRI EUROPE SUMMIT 2014



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Real Estate and Sustainable Development Chair -
RICS Real Estate Track*



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Find the answers to the most crucial issues in European Real Estate from a selection of 37 closed-door discussions covering the 4 asset classes; the strongest and emerging markets in Europe, Asia and America; and the financial strategies born out of last year.

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1. WALL OF CASH MEETS LACK OF PRODUCT: WHERE TO INVEST IN EUROPE?

- Prices are going up and cheap debt is available. It is particularly obvious in Germany.
- The lack of product depends on asset classes: prime assets are lacking; MBS and secondary assets are being sold again.
- Comparison with the 2006 situation:
 - Volume of transactions, availability of cheap debt and leverage levels are similar to those of 2006.
 - Primary and secondary markets are no longer priced with the same yields, and the yields are still higher than in 2006.
 - The actors involved in real estate financing have changed: there are new big bets from sovereign funds, and insurance companies are replacing big banks as lenders.
- Preferred geography for the transactions:
 - The sentiment on Italy and Spain has changed; yields in Spain have decreased by 80 bps.
 - The Nordics have growth and very expensive assets. Finding sizeable investment is the biggest difficulty there.
 - Participants are more worried about France than Spain or Italy, because austerity hasn't happen. An institutional investor in the round points out that Paris is the 2nd most liquid European market after London. Scarcity of land preserves the value of capital, but there is tax uncertainty. Few big transactions with sovereign funds result in a high volume of transactions.
 - The Netherlands has an "under-demolished" office market according to Orion Capital Managers. Offices are turned into hotels or student housing because they have no residual value.
- REITS have an important advantage and become dominant because they can issue corporate debt at rates lower than mortgage loans. To do that, they need to be recognized as experts, and that creates the conditions for consolidation.
- Retail: the dominant shopping centers are going to be profitable investments, whereas investors taking the risk to invest in secondary retail markets are going to lose money.

Conclusion:

The participants have different opinions about the type of asset to invest in: Poland, retail in Italy, logistics in Northwestern Europe, value-added assets in London and Paris, French regional markets, any debt product and consolidation operations have all been cited as participants' targets.

The participants agree that rental growth is going to be low in Europe, which could mean that returns will be lower compared to the rest of the world.

One large Asset Manager suggests that real estate assets are going to be split into different tranches of asset classes in the future, to highlight the different strategies associated with the different types of assets.

2. UK PROPERTY – HOT MARKET, IS IT TIME TO SELL?

- **What is the attractiveness of the UK versus investment possibilities in other countries?** The real estate markets of the United Kingdom, Ireland and Spain offer good investment opportunities and, to that extent, the UK is further down the line than anyone else.
- It is a good time to sell and buy. However the strategy to adopt depends on where you are on your investment cycle.
- There are still **core plus investments** to be made. They require more asset management than in 2011-2012.
- **Economic recovery** is slow but sustainable in the UK. One can expect a recovery of the property market.

Success factors to invest in the UK property market:

- Focus on the markets where banks are deleveraging to make opportunistic investments;
- Rely on motivated people who know the local market;
- Anticipate tomorrow's occupational drivers to target developing areas, like Birmingham or Leeds;
- Considering the shortage of construction possibilities, one should focus on the occupier when doing the deal and, at the end, take the money off the table.

Financing

- Eighteen months ago the market was still very uncertain. Now it tends to recover, with an important change in the occupier profile. They now demand energy-efficient buildings.
- The arrival of hedge funds has changed the diversity of capital and enabled a better access to it.
- The main question today is **to what extent banks are going to finance property, in a low interest rates environment**. Even if the cost of credit has dropped, one can wonder whether banks will finance real estate projects, considering that the economic environment is still fragile.

Perspectives:

- **Does the UK benefit from a relative stagnation of the other European economies?** The UK tends to attract US capital, thanks to its slow but sustainable recovery, its strong ties with the US and the absence of a language barrier.
- In the future the supply should remain low since **the increase in selling prices is inferior to the increase in construction costs**. This point is likely to slow the recovery of the UK property market.

Conclusion: The audience agrees unanimously that it is not time to sell in the UK and there are still many business opportunities available there.

3. LENDING ENVIRONMENT – RETURNING TO NORMALITY OR STILL DYSFUNCTIONAL?

Introduction:

New changes: more and more active players in the lending environment in Europe, European countries that attract investors after years of disinterest... Do these recent changes prove that lending environment is getting back to normality? Studying such a question requires making distinctions between the different European countries and between the different types of real estate projects.

- **GERMANY**

Second hand market: Local and international lenders try to be active in the Big Six where there are few great opportunities.

Development financing: Still a very prime market (properties in Berlin, offices in the other big cities)

- **FRANCE**

Margins have come down, LTVs are getting higher and higher and the market is more and more liquid.

The country is less attractive for lenders than Germany but new actors are emerging. Paris and its core assets still the best market for a classic lenders. Lenders will prefer countries like Spain or Italy for opportunistic investments.

- Ok to finance projects in France but without taking risks.

- **SPAIN**

A competitive market for private equity buyers but not an active one for German banks.

- Significant transactions but nothing to do with what Spain used to be.

- **UNITED-KINGDOM**

London specifically: a very competitive market that moves very quickly.

- **IRELAND**

Many differences between Dublin, which is an attractive market, and the regions.

- **ITALY**

New optimistic tendencies: more interests from investors, specifically from bond market investors, DPO is seen as a good solution.

- **EASTERN EUROPE**

A pretty great tendency: very competitive market with many sources of financing, attractive rates, leverage growth and more and more development projects. Countries like Poland and Czech Republic are going back to what they use to be for local actors but don't interest American investors yet.

- **GREECE**

According to international banks, Greece is only interesting for its hospitality assets.

Conclusion:

Investors and classic banks still prudent: a real interest for core assets in the big European cities.

Normal or dysfunctional? Good elements that can announce better times but the current situation is not similar to the past. Perhaps a new norm is setting up.

Better to be a borrower than a lender at this time.

4. GERMANY - ALL ABOUT HEALTHY PRIME OR PROMISING SECONDARY MARKETS?

- Prime office market in Germany concerns the seven main cities. The secondary market is where refurbishments are necessary and where a more opportunistic approach is appropriate.
- The difference can depend on the region but also on the asset class which is considered. Also, the level of liquidity can define what is prime or not.
- The capability for B-market assets to be absorbed increases more and more, especially with a greater presence of institutionals, family offices, trusts ...
- The main end investors for a Canadian REIT are retired people, and so everything will depend on the yield that the asset offers. So it will depend on the cash flows and the security of these cash flows. Moreover it is important to consider the security of the liquidity.
- Not every player agrees about the fact that commercial real estate in Germany is not as attractive as the residential real estate. Indeed, there is no certitude about the potential growth of the non-residential market in Germany.
- During the early 2000's, the German market was principally for German players.
- According to some, the office market is constantly over supplied.
 - The tenants can go from one building to another with better specifications, for similar rents
 - It is not easy to guarantee an investor that his money will be safe

Conclusion:

The difference between prime and secondary markets may lie in the region and level of refurbishment necessary but also in the security of cash flows and liquidity. That is why opinions may differ on the German non-residential market.

5. OPPORTUNISTIC – WHERE DO PRIVATE EQUITY INVESTORS FIND YIELD?

Introduction:

Private Equity investors are not looking at individual cities, but they are looking for opportunities.

Money is for free:

- The cost of capital in continental Europe has dropped drastically to 1.2%, thanks to low interest rates. On the contrary, in the USA and the UK, the interest rates are increasing.
- Money in Europe is cheap, investors have to take more risks in order to create value.

Yield in Europe:

- The real challenge is the offer side. Southern Europe is where the yield is, but the supply is going down and there are not many good products.
- For weeks only, the Greek market re-emerges, and opportunistic players are looking at it.
- Poland is a first priority, because it is the only European economy which did not suffer from the recession. There is general agreement that Poland is a main market on everyone's agenda.

The importance of local teams and partnerships:

- Investors need to have confidence in the markets they want to invest in, so they need local partners or local teams.
- Opportunistic players need to be closer to local asset managers and local partners than long-term investors, in order to be the first to know about good opportunities.
- Partnerships with banks are vital as investors need to deploy a lot of money really fast in order to make good off-market deals.
- When foreign investors want to invest in a new market, it is easier for them to be in a partnership with a local team. One opportunity fund insists on the fact that it is better if they do not have the majority because partnerships must be led by people who know what they are doing.

Conclusion:

Last year, investors were only interested in the USA and Asia, while today they are also interested in Europe, as the situation is improving.

Market is changing from one year to another, so investors cannot stick to a five-year strategy.

6. HOTEL INVESTMENT OPPORTUNITIES – NEW TOURISM TRENDS AND HOT SPOTS?

General remarks:

- 2 kinds of market can be distinguished:
 - Hotels, which have to be well located
 - Resorts are built from scratch: lands are cheap and the destination has to be created through a concept that attracts customers. Resorts are usually large scale assets because medium scale assets are difficult to operate.
- Most resort groups are trying not to invest in the assets, but it can be difficult to find investors in exotic locations (for example Tanzania). In Europe, it is easier to find institutional investors.
- Due to the size of investment in a hotel, very few people can do it only with equity: the availability of debt is crucial to the hospitality market.

Is the hospitality market growing?

- In Europe, occupancy levels and operating results are high: all markets are growing, including France. Eastern Europe has been flat for many years, but it is growing too nowadays. Yields are currently going down.
- During the 2008 crisis, the assets had been hold, whereas nowadays, there are new buyers.
- The market is very hot in certain countries (UK, Germany), where yields are aggressive, debt is available again, and therefore refinancing is possible.
- The strong appetite for core assets has started to overflow to other types of assets: however, even if there are a lot of opportunities, not so much capital has gone to secondary markets yet.

How to deal with distressed assets?

- Resorts are a kind of business, which is riskier in general. However, some assets are distressed because of mistakes that were down from the beginning.
- Some distressed assets have been imposed in developments by local governments: for example, hotels used to be imposed in residential developments in Spain.
- Some assets are not distressed, but their ownership structure can make things complicated.

Sustainability in the hospitality sector:

- Most investors want projects to be sustainable, it has become a minimum requirement. Most pension funds invest around 2 to 3% in green value.
- Green certification is different from green regulation: certification allows investors to anticipate on regulation, by going a step further.
- Green buildings bring value, such as reduced operating costs, improved image, higher occupancy levels, etc... The cost of green buildings is estimated at 7%, which is usually recovered after 5 years. But the difficulty with green value is that there is no metric yet to show the monetary value of it.
- Another issue is the split of green value between the investor and the operator: it can be difficult for operators to convince the investor to pay for sustainability.

Conclusion:

Good investment opportunities can be found in budget hotels, some countries outside of the core markets (Italy, Portugal, Greece) and under-managed hotels owned by families where a lot of value can be created. There are also many innovations in the hotel industry, for example with companies like Airbnb.

7. LA FRANCE – TROP CHERE OU CONDITIONS PROPICES ?

- La demande pour les actifs « Core » à Paris est supérieure à l'offre, ce qui entraîne une explosion du prix des immeubles. Les rendements des bureaux sont donc très faibles, mais les primes de risque restent historiquement élevées par rapport au taux de l'OAT, qui risque de se maintenir bas pendant encore un moment compte tenu du contexte économique. Les investisseurs raisonnent beaucoup en comparant les primes de risque de plusieurs types d'investissements et la prime de risque immobilière reste encore très attractive.
- L'obsolescence du parc tertiaire français fait émerger de nouvelles opportunités d'acquisition pour les investisseurs « value added » ou opportunistes qui souhaitent créer de la valeur via des restructurations d'ouvrages vieillissants. L'un de ces investisseurs se lance d'ailleurs dans cette stratégie afin de monter dans la courbe de risque et augmenter ses taux de rendement.
- Aujourd'hui un actif de bureaux *prime* dans le centre de Paris offre un taux de rendement de l'ordre de 4 % alors qu'un actif à Saint-Denis offre un taux de 5,5 %. Ce niveau de taux convient parfaitement aux SCPI avec des investisseurs grand public derrière. En revanche les institutionnels sont de moins en moins attirés par la France où les taux de rendement ont été comprimés (ils s'orientent davantage vers Allemagne, en Angleterre, en Pologne...).
- Nous avons atteint un point où les loyers ont touché un point bas, et les mesures d'accompagnement un point haut, par conséquent l'investissement en France devrait être de plus en plus rentable avec un accroissement futur des valeurs vénales. De véritables opportunités s'offrent aux investisseurs avec les actifs « secondaires », pour lesquels la demande est plus faible et les primes de risque plus élevées.
- Compte tenu de la compression des rendements en immobilier d'entreprise « Core », le logement peut s'avérer une alternative intéressante, et notamment via des opérations en développement. Cependant, l'incertitude juridique en France constitue un véritable frein aux investissements dans l'habitation.
- La logistique a le vent en poupe en ce moment, avec des taux de rendements de l'ordre de 7 % à 10 %, mais présente des risques importants. C'est une stratégie d'investissement qui peut s'avérer très fructueuse pour les propriétaires de parcs logistiques, capable d'avoir une véritable offre à proposer à leurs clients. En revanche, investir de manière isolée dans une plateforme présente un risque locatif trop important.
- Selon le point de vue d'un investisseur opportuniste, la France est trop chère comparée à d'autres marchés européens et arrive derrière l'Espagne, le Portugal ou l'Italie. De plus, il est de plus en plus compliqué d'y investir compte tenu du contexte fiscal instable. La stratégie de cet investisseur opportuniste est d'investir à contre-cycle, quand les taux sont très élevés du fait d'un risque important (objectif de rendement entre 15 % et 25 %). La France, du fait de sa situation économique actuelle, devrait offrir des taux de capitalisation plus hauts.

Conclusion:

La France offre des taux de capitalisation très bas, pouvant intéresser des investisseurs « Core » qui ont besoin d'acheter des actifs non risqués, mais les prix élevés dans la capitale repoussent souvent les opportunistes.

8. DETTE OU FONDS PROPRES DANS LES INVESTISSEMENTS IMMOBILIERS – LEQUEL EST LE PLUS DIFFICILE?

- Aujourd'hui, les investisseurs ont de plus en plus de sources de financement différentes à leur disposition (*pfandbrief*, *covered bonds*, fonds alternatifs, etc.)
- Tout l'enjeu des asset managers aujourd'hui est de trouver des investisseurs qui aient une vision réaliste. Un investisseur qui exige un taux de rendement trop agressif conduira souvent l'asset manager à prendre des hypothèses trop optimistes dans la construction de son *business plan* ; ce qui peut mener à des investissements contre-productifs.
- Le marché français est moins volatil que les marchés anglo-saxons. Cette stabilité est rassurante pour la plupart des investisseurs, bien qu'elle puisse décourager les plus opportunistes.
- Aujourd'hui, il y a globalement plus de liquidités sur le marché qu'il y a trois ans, que ce soit en termes d'*equity* ou de dette. Toutefois, il est aujourd'hui plus facile de se financer en dette qu'en *equity*, les banques ayant augmenté leur LTV, le ticket d'entrée ainsi que leur spectre de risques. Il y a quatre ans, c'était l'inverse : il était plus difficile de trouver de la dette que des fonds propres.
- Sur les tranches de dette « mezzanine » (>70 %), il est cependant encore difficile de trouver des financements, et la marge reste importante (600 à 700 points de base).
- Les banques jouent un rôle de régulateur du marché, en ce qu'elles freinent les lancements de projets en blanc. Toutefois, la lourdeur excessive de certaines procédures de mise en place d'un financement bancaire peut décourager les investisseurs. C'est pour cela que les fonds opportunistes spécialisés en développement se tournent plutôt vers d'autres marchés.
- Cette complexité des procédures s'explique par les contraintes externes appliquées aux banques. Chaque projet doit en effet être soumis à un *rating* qui évalue la qualité de l'actif, du locataire, l'investisseur, etc. Cela influe directement sur la marge bancaire. Régulièrement, les banques sont soumises à des *stress tests* afin d'évaluer leur capacité à supporter en fonds propres des défauts sur les crédits accordés.

Conclusion:

L'augmentation des liquidités sur les marchés permet aujourd'hui de se financer avec un coût assez faible, que ce soit en fonds propres ou en dette. Toutefois, la régulation est plus contraignante qu'auparavant sur les établissements bancaires.

9. SUSTAINABILITY AND ENERGY EFFICIENCY: WHAT ADDS VALUE, WHAT DOESN'T?

- Sustainability is a competitive advantage for real estate assets. A building can be green in its construction or in its usage.
- 50% of the criteria for a HQE certification are about comfort and health: visual comfort, daylight, acoustic comfort, materials used for the building and the presence of pollutants... Sustainability is not only a question of energy efficiency, and waste reduction but also of human factors.
- Some companies have also put in place policies to encourage employees to pro-actively and preventively take care of their health. This shift from curative to preventive approach has a beneficial impact on sick leaves, employee engagement and company health insurance costs.
- Employees are happier and more productive in sustainable building, and a 1% increase in productivity is equivalent to a rent decrease by 30%, so sustainability is profitable for the tenants.
- A certified green building costs 7% more than a non-green building. This cost is recovered in 2 to 5 years. So, green building is profitable for investors with middle to long-term strategies.
- Big brands have an obligation to publish a corporate social responsibility report, and have the power to convince landlords and developers to provide certified green buildings, even if it costs more during the construction.
- There are four stakeholders for sustainability: investors / landlords, developers, tenants and tenants' employees. Communication and leadership is critical to develop participation of employees.
- Technology is available; the crucial point now is to educate tenants and their employees through user booklets and communication meetings, to have a building managed in a sustainable way. It is a leadership question.
- Green buildings are a way for both tenants and landlords to get a competitive advantage.
- Green funds are emerging, where the sustainability of the assets is assessed, and landlords are obliged to offer green lease clauses to their tenants, who are not obliged to accept them. These green funds also provide technical assistance and energy audits.
- Some working cultures are in opposition with the digitalization and sustainable practices, such as lawyers who print everything. Digitalization also reduces the need for storing space, and less space taken means a lower rent.

Conclusion:

Sustainability is an advantage in terms of image, and for the investor it gives better tenant mix, better tenant quality, and a higher retention of tenants. An IPD study has shown that German investors are willing to pay a premium for green buildings because of these advantages.

10. HIGH STREET RETAIL & SHOPPING CENTERS – TWO DIFFERENT WORLDS OR CONVERGENCE?

Main market trends:

- The new generation of shopping centers tends to offer the same quality of shopping experience and entertainment as a high street urban environment. These shopping centers gather various functions and services in a single location, stemming from the fact that people now want to live, work, shop and entertain themselves in one place.
- In Europe, national laws - 70% of which are the transposition of EU's directives - create many constraints, especially to obtain building permits. Nevertheless European legislation favors the revival of railway brownfields that can be transformed into retail areas through PPPs.

Convergence factors:

- High street retail and shopping centers have both suffered from **the economic crisis**.
- They are both threatened by the **evolution of consumer spending** and the development of **e-commerce**.
- To attract customers they both have to be **high-end and convenient**. They should also provide **an entertaining shopping experience**.

Differences:

- It is easier to **manage** a shopping center, where everything is in one place and gathered in a few hands, than to manage four or five shops in high street.
- For shopping centers the aim is to **create a golden cage with open doors**. Therefore they provide additional services, such as concierge services, that high street shops do not have.
- High street retail focuses on **flagships** whereas shopping centers rely on **anchor shops**.
- The **charges of exploitation** are clearly different. They are way more important in a shopping center.

Success factors:

- When setting a new shopping center, developers pay much attention to the quality of the **surrounding infrastructure**, and to the fact that it will benefit from a **significant footfall**.
- Shopping centers are often successful when they are located in a urban environment (St Lazare, Westfield)
- Given the difficulty to obtain building permits, a key success factor is to **drive what you have** and do repositioning when needed.

Are luxury shops the most profitable ones?

- Luxury shops are often located where the tourists are; for instance Guerlain has two shops in Paris, one on the Champs-Élysées and one in Beaugrenelle. However the most profitable brands in terms of value per square meter are not luxury brands like Louis Vuitton, but brands like Desigual or Aigle.

11. DEBT FINANCING – SUPPLY / DEMAND MISMATCH OR NEW LENDERS TO THE RESCUE?

- Important change:
 - MBS are back. There is a demand for some products that generate high enough yield to get bond investors (from all over the planet) interested. Italy and the Netherlands are trades that interested investors this year.
- How can banks make money under current circumstances (low margins)? It depends on the risk profile but globally :
 - “Lots of cheap money”, high pressure on the margins.
 - By leveraging their balance sheet.
 - Sometimes by moving away from core assets but too much risk is not a good strategy: risk can never be compensated by return and it is not appropriate for a bank.
- Real issues for bankers :
 - Equity funds have become major competitors: not the same returns. New role for lenders if they want to keep an edge: educating borrowers (different risk profiles / business models, rates are moving, banks need to reinvest capital...).
 - But still clients who search flexibility, security, delivery and have time. They accept the yields.
- Not a “black and white” market : we see more and more in Europe a combination of several partners in one transaction

Conclusion:

- Supply and demand come from everywhere. European market is exciting: it evolves every year and there are many actors (banks, insurances, funds...) with different standards.
- Some assets like hospitality: not enough supply, a fact to explore and develop.
- Different actors and mechanisms: the market is functional.
- Important role of brokers: more transparency, more information and important for the market.

12. CEE & RUSSIA - IS THE WEIGHT OF MONEY PUSHING INVESTORS FURTHER EAST?

- As the yields are decreasing in the traditional European investment targets, investors are considering other countries, especially the Central and Eastern Europe.
- Russia is a big global player, and is not to consider like the other “emerging” countries of the CEE.
- Some countries like Hungary or Romania, because of the size of the market they represent, generate more interest than the Baltic States or Slovenia. Indeed, for the last ones, the market may not be big enough to catch international investors.
- Opportunistic funds are now interested in Poland, thinking this is a market that would grow in the next years.
- Poland is (with the Nordic Countries) in fourth or in fifth position after the first European countries: UK, Germany and France. However, there is a gap between these first markets and the others: so Poland is one the first niche market.
- There are not many investors who would take the risk of investing in the Polish office because the numbers of the overall market are not convincing (vacancy increasing, rents decreasing...).
- The total transaction volume in the CEE remains relatively low.
- In Czech Republic:
 - The retail market is still limited but it is improving and becoming more professional: it is an indicator.
 - Currently, fundamentals are good in Prague, especially for the residential market.
 - On the other hand, the office market is struggling: money is pressuring the products.
- In Hungary:
 - There are signs that investors are coming back.
 - Currently, fundamentals in Budapest are excellent.
 - However, Budapest is not stable enough in terms of legislation for a strong inflow of international investors.

13. SPAIN – ZERO TO HERO OVERNIGHT, WHAT IS LEFT TO INVEST IN?

Introduction:

All participants agreed that Spain has received lots of attention and pressure from hedge funds and subsequently from SOCIMIs (Spanish REITs). This has made the market to overheat to some extent in some particular deals. Lots of these deals seem to be macro bets without consideration for the market's underlying values or fundamentals.

According to one fund, Spain is the only market left for investors, as: France is a limited market because of high prices; it is difficult to find opportunities in the UK; and Germany is not an equity market.

Fundamentals:

- In 2014, growth is 2%, outperforming European average. Growth in 2015 and following should increase further.
- Labor costs have substantially reduced, making Spanish economy more productive. Exports and the economic activity have increased, but unemployment is still 23% to 25% today, even if it has decreased.
- Pressure for high loan-to-value (more than 60%) and lower debt margins contribute to higher real estate values.

Investors are still active:

- SAREB saw more than 1,000 investors in one year, and brokers are strongly present. Spain is attractive because everyone thinks it is a cheap country, but this is not true anymore.
- There are few assets of very good quality, and investors are careful about quality and location, so there are not so many deals.
- Today, investment is not supporting construction, due to the fact that some investors put money in land and wait.
- Core and core + investors are coming back to Spain and they want to buy assets from the opportunistic investors: it is now a virtuous circle.
- Niche strategies are developing.
- NPL portfolios in Spain have now more money than core investors.
- Real estate in Spain is a two-tier market: everybody wants to buy the A-quality assets, while few investors are interested in the other assets.
- Investment Banks are still present in Spain because they can still invest in the debt market.

Conclusion:

Spain is still at the beginning of the cycle, so long-term investors still have opportunities.

14. OFFICE INVESTMENTS – BUYING EXPENSIVE OR CREATING VALUE IN ABSENCE OF FINDING VALUE?

European markets

- After the crisis, we could observe price adjustments and opportunistic investments can be made today.
- London is still core and very expensive. There are also speculative developments in the UK and there will be a first mover advantage when demand comes back.
- Paris offers good perspectives because rents have corrected downwards and it is a good opportunity to create long-term value. Paris market has credibility and is very diversified: it will probably have a strong come-back.

However, there are transparency issues (shadow occupancy), new developments and many uncertainties.

- In Spain, it is still difficult to find a good office stock: it is a complicated market and it is not fairly priced today. However, you can find high-quality core assets with a very low risk, decent cash flows and attractive yields: but a lot of local investors take positions on core assets.
- Germany is a strong market but there can be high vacancy levels, in Frankfurt for example. Some Anglo-Saxon investors lost money in secondary markets in Germany. In the long-term, on nominal terms, rents and yields are flat.

Key factors for office investment

- Both in France and Spain, one of the main problems is job creation: this creates a risk on secondary markets. Spain has 25% unemployment and a huge vacancy level. However, the country is making structural reforms.
- The risk of government bonds has an impact: in France and Spain, yields can be smaller than in core countries like Germany, because government bonds are riskier and this pushes real estate yields up.
- Investment is mainly micro-driven, very closely linked to a specific asset, a specific localization, a type of financing, etc...
- Location and micro-location of an asset is very critical: good locations bring a regular strong yield.
- The level of stock is also critical: around 80% of office stock is over 20 years old in Europe (60% in Spain).
- Interest rates have an impact: with low interest rates in France, financing is easier.

Recent trends

- Yields are extremely low in super-prime markets, but not so many people yet are looking in secondary markets.
- In Germany, there is a big move to residential and secondary cities: the demand for apartments is high. The market is safer and more resistant than the UK, and residential yields are going down. However, it is difficult to invest, because it is linked to micro-specificities.

Conclusion:

- There are a lot of new sources of investment in real estate, especially for investments with low return expectations and long-term perspectives.
- The focus must be on well risk adjusted returns, which requires a lot of work on assets (for example re-positioning), especially on local opportunistic markets.

15. FINANCEMENT – LES NOUVEAUX PRETEURS FONT-ILS MIEUX ?

- En 2010, les banques ont commencé à se faire plus discrètes dans le monde de l'immobilier et nous avons assisté au développement des fonds de dettes.
- Aujourd'hui de plus en plus de prêteurs alternatifs émergent, tels que les fonds de dette, les compagnies d'assurance etc.
- Ces nouveaux prêteurs ont une manière d'intervenir sur le marché différente de celle des banques classiques. En effet, chaque acteur alternatif possède sa propre stratégie de prêt : alors que les assureurs optent pour des prêts plutôt long terme à taux fixe sur 10 ou 15 ans, l'un de ces prêteurs alternatifs a financé des opérations à hauteur de 75 % de LTV (*Loan To Value*) alors que les banquiers ne prennent plus ce risque.
- Le volume de capitaux prêté par les investisseurs alternatifs est faible comparativement aux financements bancaires. Cependant ils interviennent sur des secteurs de marché où les banques ne sont pas forcément présentes. Les fonds de dettes par exemple vont apporter des liquidités sur des marchés de niche. Ceci s'explique notamment par la différence de réglementation qu'il peut y avoir entre les banques et les acteurs alternatifs. Un assureur par exemple n'a pas les mêmes contraintes qu'une banque hypothécaire allemande.
- Les nouveaux prêteurs innovent et poussent ainsi les banques à revoir leur approche du financement, notamment en termes de risque.
- Il est important d'avoir des interlocuteurs qui maîtrisent le fonctionnement d'un financement et qui sont actifs tout au long de la vie de celui-ci (Les business plans des investisseurs peuvent en effet évoluer). D'après les banques, ce n'est pas forcément le cas des compagnies d'assurance qui, après avoir signé le deal, restent passifs jusqu'à l'échéance.
- Les banquiers quant à eux ne sont pas toujours à l'aise avec les sûretés immobilières: un immeuble dans le bilan du banquier créait une perturbation. Ce n'est pas le cas des compagnies d'assurance qui possèdent déjà des portefeuilles d'actifs immobiliers, et qui n'ont aucun problème pour récupérer les immeubles d'un investisseur qui ne rembourserait pas son crédit.
- En France, il y a un monopole bancaire, les fonds de dettes travaillent en partenariat avec les banques ; ils apportent de la liquidité aux banques sur certains types d'opérations. Il y a donc également un intérêt pour les banques à travailler avec les fonds de dettes, qui sont souvent plus souples au niveau de leur fonctionnement.

Conclusion:

Les nouveaux prêteurs proposent une offre complémentaire à celle des banques (développement ou dette mezzanine), il n'y a donc pas de compétition directe.

16. COTÉE OU NON COTÉE : OÙ EST LA JUSTE VALEUR ?

La création du statut SIIC en France en 2003 a joué un rôle fondamental sur la liquidité et la transparence des marchés. Outre le statut SIIC, il existe aujourd'hui en France une multitude d'outils performants pour investir dans l'immobilier.

- Aujourd'hui, on attend plus des foncières que la simple gestion d'un parc immobilier. Les contraintes de rendement qui pèsent sur elles les conduisent de plus en plus à s'exposer au marché. En France, l'actionnariat des foncières est en majorité constitué d'investisseurs institutionnels.
- En Allemagne toutefois, les véhicules d'investissement cotés sont peu performants :
 - L'importance des fonds ouverts diminue l'intérêt de créer un secteur coté
 - Historiquement, la plupart des acteurs qui ont tenté de créer un secteur coté ont échoué.
- La France est-elle surévaluée ? Il est essentiel pour tout investisseur de bien évaluer l'importance du sous-jacent et de ne pas raisonner uniquement d'un point de vue financier. Il y a des gisements en Ile-de-France qui peuvent potentiellement intéresser les investisseurs (ex : reconversion de bureaux en logements) mais il n'y a presque pas de marché pour les investisseurs opportunistes. Le problème de fond reste qu'il y a sur le marché francilien trop de capitaux par rapport à l'offre de mètre carrés. La dichotomie entre Paris et la Province reste forte.
- Question : pourquoi investir dans le coté plutôt qu'en direct ?
 - Les règles de gouvernance et de transparence qui s'appliquent aux véhicules cotés sont un atout pour l'investisseur, notamment international, qui ne connaît que moyennement bien le marché français. Ces investissements offrent également un avantage en termes de liquidité, ce qui attire les *fund managers*. Enfin, l'investisseur fait l'économie des droits de mutation.

Conclusion:

La France a la particularité d'être un marché profond et diversifié ; la multitude de sous marchés et la possibilité d'investir en direct ou via un véhicule en fait une destination de choix pour différents types d'investisseurs. Les SIIC ont grandement contribué à attirer les investisseurs en leur offrant une transparence fiscale et une liquidité plus grande.

17. NON-CORE INVESTING – WHERE TO REALIZE THE BEST RISK-ADJUSTED RETURNS?

- Core markets are defined by the capital flow, by investor's demand.
- Core markets are growing in terms of geographic area and type of assets. Logistics used to be seen as non-core. But today core investors are buying logistics, maybe data centers will go the same way.
- The participants see the lack of product, lack of finance and overpricing of core assets as the three biggest problems of investments today.
- The best strategy is to invest in assets that have been core and will be core again:
 - In Spain, only the best offices in Madrid and Barcelona are core, but residential assets and offices on the edge of the cities will be core again, and are a good non-core investment. Hotels can also be a good investment, with a better upside in Madrid than in Barcelona.
 - In France, only assets in Paris are core for non-French investors. Investing in vacancy in La Défense can be a good strategy but it is difficult to find an opportunity because there is no forced sale, investors can keep an asset for a long time due to the low interest rates.
 - In Germany, family offices are willing to invest in B cities, in assets with A locations. But liquidity has never disappeared from these markets and it is difficult to find A streets, even in B cities, for low prices.
 - In Central and Eastern Europe, the problem is that the EBRD sees no convergence between these countries and Western Europe, because of the lack of infrastructure. It is a very narrow market, with low liquidity. Key cities are core but what is not core today is unlikely to be core anytime soon. The legal framework is another problem, because you need to understand the types of specifications, the leases of each country.
 - The Netherlands is an oversupplied country. Only Amsterdam Zuidas keeps being attractive. As a whole, the market is very difficult.
 - Brussels could become a core market in the future, due to the importance of the European capital in terms of job and company creations – in the US, Washington DC has increased as an investment place.
- The current premium between core and non-core products is the highest of the last 20 years.
- Debt is available for both core and secondary markets.

Conclusion:

Non-core investment is a local business, for which there is a need for local expertise. The safest strategy is to invest where the jobs are, for example in Germany secondary cities or in Paris.

18. ASSET MANAGEMENT – IS SUCCESS A MATTER OF EFFICIENCY OR PROJECT CONTROL?

- Real Estate is not only about investing; it is also about managing.
- According to Metro Properties, excellence in asset management has two dimensions:
 - A transactional part that implies providing detailed documentation on the asset: technical, legal, financial, etc.
 - A relational part with the tenants and the investors. A good asset manager should understand the needs of its tenants so that they use the building in the most efficient way.
- Property managers need tools (IT support, software) to collect data and produce reports in short delays. Owners are increasingly demanding, in particular on documentation. Therefore it is crucial for property managers to be trained and have tools to meet their requirements. More and more, property managers are asked to perform asset management tasks (lease renewals).
- The main concern for owners today is to trust the asset manager. Communication between asset and property managers, and owners is crucial. Owners should be warned immediately when there is a loss in value on their assets; asset managers should not keep it from them. For asset managers, it is more than a transparency challenge; it is a leadership challenge.
- In terms of property management, each type of asset requires different tasks. For example, offices are quite simple to manage; they do not require a lot of tasks. On the contrary, shopping centers require the property managers to deal simultaneously with all the tenants.
- One big challenge for the asset management is to have a good estimation of the level of Capex for an asset.
- For complex assets – a shopping center for example – property managers may resort to outsourcing (for workflows control, electricity, etc.) in order to be more efficient, since such assets require a lot of management attention.
- For foreign investment, it is important to have local teams for daily control tasks.

Conclusion:

There are several challenges for asset managers for the next few years. On the one hand, technological innovation has changed working habits (with video calls, asset managers no longer need to travel to meet owners). On the second hand, owners ask for more control over the asset, which leads to more specialized teams (asset managers need more support from property and facility managers). Last, it is crucial for shopping center asset managers to understand how shopping evolution will have impacts on the asset and the tenants.

19. DEBT FUNDS: CONQUERING THE MARKET OR FLASH IN THE PAN?

Context: after the 2008 crisis

- As banks have been side lined for the past years, it is good to develop debt funds that add to the availability of capital.
- One can differentiate mezzanine funds from senior lending. The latter tends to lend to institutional investors such as insurance companies. Mezzanine funds are competing with lenders on equity, not with banks. Mezzanine funds focus on assets that undergo a repositioning.
- Private capital focuses on low yielding assets, and has a huge potential in a low interest rates environment.

Regulation issues:

- During the past years, regulations have imposed huge constraints to banks. Nevertheless banks are now coming back in Europe and especially in the UK. Indeed, regulations are always changing and therefore have a limited effect on the market players and their profit expectations.
- During the past year, spreads and leverages have been on the rise. However many political risks are not taken into account, particularly in Europe.

A debt fund's key success factors are:

- Capital flexibility;
- The capacity to adapt to different asset classes, and to go from one market / country to another
 - It requires intelligence and sourcing capacities
 - Developing these success factors is a step by step process
- In order to gain value, Blackstone says, that one has to create the demand, then do the whole loan. Blackstone focuses on assets that have temporary defects but are in prime locations. They do not go on the secondary market.

What are the differentiation factors between debt funds?

- Speed, capacity to do the whole loan and ability to resolve complicated situations

How do you source assets?

- Banks advise to talk directly to bankers and asset managers.
- Use local teams who know the market.
- There are a lot of newcomers in alternative lending, which does not reassure investors who may question the durability of the fund. This must be taken into account when sourcing assets.

Conclusion:

Debt funds are a good way to have access to more capital. The audience remarks that debt funds help fund projects in a context where banks are less prone to taking risks and where the investor demand is important. Nevertheless debt funds are still relatively small compared to the size of the market.

20. BENELUX: CORE MARKETS OR BYPASSED FOR A REASON?

- Benelux **is not a homogenous core market** even if these 3 countries are almost always put together.
- **In Luxembourg:**
 - The Luxembourg market represents 3.5 millions square meters, as a result of a tremendous “success story” begun 30 years ago. But **the market is slowing down for the past few years**: the banks pull back in terms of financing real estate.
 - The number of square meters is huge in proportion to the total population of the city and even of the country. The huge number of commuters from Belgium, France and Germany must be taken into account.
 - There are a lot of family offices to source financing, and **bigger deals often fails** (e.g. Belval).
- **In Netherlands:**
 - The market could seem good from a macro perspective (low unemployment, etc.), but the micro perspective reveals in fact a **real oversupply**, which led the municipality of Amsterdam to attempt to create a fund to demolish surplus office buildings.
 - Underscores the **importance of the bank sector** compared to the GDP, with 3 banks (RaboBank, Fortis, ING Bank) which are very big compared to the size of their home country.
 - Pension funds own the high quality buildings.
 - Regarding Benelux, Netherlands remains the **most balanced market**, whereas Belgium is rather dependent on public demand (including European institutions).
- **In Belgium:**
 - The country shows common points with Netherlands. **The oversupply is obvious in the outskirts of Brussels** with a vacancy rate of 15 to 25%, even if some opportunistic funds follow a contrarian strategy and invest.
 - As a consequence, some developers went on the **residential market**, considered as more liquid.
- **Conversion can be a solution** (transform offices in housing or in students residence), but it remains a niche market.
- **OPEX and location remain the 2 essential criteria for the tenants**, whereas being environmental-friendly is a plus for a building, but it doesn't make the difference. **The tenants want green and smart buildings**, even if there is an extra-cost.

Conclusion:

Benelux is a non-homogenous market which still needs a real demand from the private sector.

21. ITALY – WHEN WILL ASSET RE-PRICING DRIVE THE COMEBACK OF FOREIGN INVESTMENT?

Introduction:

The discussion is pointing out that Italian real estate asset prices have reduced. However, the discounts are on very difficult properties, while the price reduction is slowed down on good assets, which, in certain cases, see their value increasing. Italy is not a top destination today for international investors, while it is an extremely interesting market with good opportunities, especially for developers and opportunistic investors.

Italy is still in a vicious circle that delays reforms; however this should change with the new government.

A small market:

- Italy is a small market, with a lot of sellers but few domestic buyers.
- Contrary to the 2000's, there are not super large portfolios these last years. Investment in Italy is more about cherry-picking, so local teams have a great advantage.
- A lot of office stocks are obsolete or will soon be considered as obsolete, which is a problem because investors are still looking for stabilized cash flows rather than assets which need to be re-worked.
- Investors want a reform in order to organize public processes, because today it is much easier to make person-to-person deals and off-market deals than public deals.

Foreign investment:

- In Italy, opportunistic investors have found a 9% yield in retail (easier to read and of better quality than other sectors). However, the 9% yield is gone.
- Chinese investors could be interested in Italy, but remain quite rare due to a lack of information. There is agreement, which explains that after they published a deal in the Financial Times, they were contacted by some investors.

Italy versus Spain:

- Opportunistic players are now interested in Italy because Spain is over and Italy offers better opportunities. But the two countries are different:
 - Spain is dynamic and implements reforms, but it has more problems (e.g. overbuilt) and worse fundamentals than Italy.
 - Italy has administrative issues, with difficulties to make reforms, but it is much wealthier, with a great industrial backbone.

Conclusion:

Italy is still less attractive for institutional investors than the rest of Europe, but the situation is starting to improve. A number of opportunistic investors are starting to look closely, with the support of local partners.

22. LIGHT INDUSTRIAL – FASHION OR STABLE INVESTMENT OPPORTUNITY?

General remarks:

- Industrial real estate is a production based real estate. It is different from logistics, which deals with large-scale distribution. Light industrial is much more mixed: it includes production, small logistics, small offices... It is mainly small assets.
- The main advantage of light industrial is that it brings diversification to a portfolio.
- Industrial investments are short-term investments.
- Interest rates are stably low in the euro-zone, which makes financing easier.
- For investors in this sector, it is critical to reach a critical mass of around 1,5 billion euros. It is also very difficult for small specialized funds to get listed.

European markets:

- The industrial real estate market is not transparent, especially in mainland Europe
- Most of investors doing light industrial are specialized in it.
- Whereas light industrial usually belongs to funds in the UK, ownership is much more fragmented in countries such as Germany.

Conclusion:

- Because of diversification issues, it is a new trend to invest in light industrial, but it requires local knowledge and a lot of work on the asset.

23. INVESTISSEMENTS ÉTRANGERS – LA FRANCE MOINS ATTRACTIVE ?

- Les investissements immobiliers sont à la hausse depuis 2 ans, atteignant 22 milliards d'euros en 2014. Cependant, la part d'investisseurs étrangers diminue : elle passe de 70 % en 2007 à 40 % aujourd'hui.
- Les principaux pays qui investissent en France sont les suivants :
 - Amérique du Nord (13 %)
 - Proche et Moyen-Orient (8 %)
 - Allemagne (6 %)
 - Chine (2 %)
- Paris se positionne souvent en deuxième position après Londres auprès des nouveaux investisseurs en Europe. La part d'investisseurs étrangers à Londres est de 77 %, ratio qui peut être expliqué par les raisons suivantes :
 - Réglementation fiscale stable
 - Absence de la barrière de la langue (anglais)
 - Monnaie très forte
 - Capitale du Commonwealth, un état d'esprit « investor friendly »
- Les prix à Paris sont très élevés comparativement au reste de l'Europe. De moins en moins d'étrangers achètent des immeubles en France car ils ne sont pas prêts à payer autant que les investisseurs français. De plus, on assiste à un véritable phénomène de "*French Bashing*" lié à l'instabilité politique et fiscale du pays, qui touche en particulier les investisseurs « long terme ».
- La structure des baux commerciaux français (3/6/9) inquiète les investisseurs étrangers. Une forme d'accompagnement doit alors être menée de la part des acteurs français pour les rassurer et leur permettre de contourner cette barrière « technique ». Il faut notamment leur expliquer que la durée moyenne ferme des baux en France est de 6 ans et qu'il est de plus en plus courant de signer des baux de 9 ou 12 ans fermes.
- On assiste ces dernières années à l'arrivée de nouveaux investisseurs (Corée, Malaisie,...) qui sont à la recherche d'opportunités à Paris et sont présents souvent sur de grosses transactions (>1 milliard d'euros). Les investisseurs étrangers sont très peu présents en régions. Les seules transactions auxquelles nous assistons ont lieu sur des actifs « *prime* » situés dans des QCA (Quartiers Centraux d'Affaire) comme la Part-dieu à Lyon ou Euromed à Marseille.
- Il existe également un marché pour les investisseurs « *value added* » et opportunistes car le parc de bureaux devient obsolète, et les opportunités de restructuration sont de plus en plus nombreuses.

Conclusion:

Les investisseurs étrangers ne recherchent pas uniquement du rendement en investissant en France, ils recherchent aussi des immeubles de prestige, dans un pays économiquement stable de manière à protéger leurs capitaux.

24. IMMOBILIER COMMERCIAL - INVESTISSEURS FRIENDS OU FRILEUX?

- L'un des plus grands groupe de distribution français possède 900 hypermarchés à travers l'Europe et l'Asie :
 - un tiers en Europe de l'ouest, un tiers en Europe centrale et de l'est, et un tiers en Asie.
 - Le groupe n'a jusque-là que peu communiqué sur son immobilier mais cette stratégie est en changement.
 - L'entreprise a procédé à un million d'euros d'externalisation en 2013, l'objectif étant d'atteindre les deux millions sur une durée de deux ans voire deux ans et demi en cherchant à réinvestir la totalité en partie dans son développement en Asie mais pas uniquement.
- Une société de gestion qui investit en fonds discrétionnaires et qui lève principalement auprès des institutionnels, en est à son quatrième fonds, son troisième fonds possédant une forte exposition commerciale, avec deux centres commerciaux en Espagne et le centre Quartz.
- Il est possible qu'un centre commercial soit créé à proximité immédiate d'un autre en Espagne, contrairement au cas de la France en raison des process administratifs et réglementations d'ouverture.
- Le succès d'un centre commercial n'est pas uniquement garanti par sa localisation, même en pleine capitale. Il paraît primordial de s'adapter à la ville, à sa densité commerciale. En effet, on raisonne actuellement beaucoup au niveau pays (vision investisseur assez lointaine), or la réflexion doit se mener sur un plan plus local, en fonction des caractéristiques propres d'une zone. C'est la position que prend la filiale immobilière d'un grand groupe de distribution français dans le développement de centres commerciaux, par exemple en Espagne.
- Beaugrenelle est un centre pour lequel la verticalité est une contrainte urbaine importante mais qui a connu une forte réussite pour les raisons suivantes : La commercialité existante, la localisation, la zone de chalandise (aux revenus moyens par habitants assez élevés), une faible concurrence. Attirer des enseignes de luxe fut compliqué, cependant au vu du succès rencontré par celles présentes, d'autres pourraient envisager une venue. La clientèle semble en réclamer davantage; de plus les m² les moins rentables sont ceux du *mass market*.
- Le centre Quartz a connu de belles performances, entre autres, pour les raisons suivantes : Localisation dans une zone sans grande activité commerciale, Ouvert avec 0 % de vacance, avec des flux satisfaisants depuis l'ouverture.

Comment prendre en compte l'impact d'internet sur les performances des centres commerciaux ?

- Pour cela, il est possible de considérer les centres de « nouvelles générations », qui donnent l'occasion de ne pas centrer le lieu sur l'achat uniquement mais aussi sur le loisir/plaisir, notamment avec des concept stores, des flagship stores...
- Le e-commerce ne touche pas encore toutes les tranches commerciales mais est bien présente. Il faut considérer la complémentarité entre les commerces physique et numérique.
- Pour le moment, le prix du « dernier kilomètre » est cher en France (en comparaison avec la Chine par exemple).
- Enfin, uniquement 25 % des enseignes en centre commercial ont un site internet marchand.

25. INSTITUTIONAL EQUITY IN EUROPE – CHASING SAFETY OR YIELD?

- The investments from institutional investors in European real estate have increased lately. Investors are seeking real estate because the returns in other asset classes are too low.
- Investors' appetite is such that when a fund is opened, too many investors want to subscribe for it.
- Asian and Middle Eastern institutional investors are also increasing their investment in Europe. They have different views on what investments are risky compared to European investors. Foreign interest is such that equity can be sourced in Singapore for an asset in Europe.
- Foreign investors are looking for stable countries, because the past trends in Brazil and Turkey for example, have proved to be ephemeral.
- Asian institutional investors are currently changing their strategy: they are now prepared to take long-term positions (20 – 30 years horizon), whereas they used to invest for short terms.
- Lots of institutional investors are currently looking at development projects.
- Contrary to the private equity funds, institutional investors cannot directly invest in distressed assets, even if they have expertise in the markets, because their shareholders don't allow it.
- What type of investment do institutional investors prefer?
 - Investors prefer high-quality products in core markets, with liquidity, transparency, and future growth. They are ready to take development risks to create long-term assets.
 - Asian institutional investors like to invest in residential assets, for example in Germany, where there is a shortage of housing supply.
 - Rental growth in Germany is in B cities, like Mannheim, more than in the biggest cities. Similarly, in the UK, some investors go from London to Manchester.
 - In Poland, the time for investment is over, even if Warsaw is doing great, because the market is oversupplied.
 - Everybody thinks Spain is recovering. Good assets have 5.5 yields.
- The investments are reasonably leveraged; investors have long-term strategies; there is no pressure for investors to sell their assets: these are signs that the market won't crash soon.
- Investors are ready to sell value-added assets, but not their core portfolios. They are also ready to sell assets that might be too small, or good for development projects.

Conclusion:

Institutional investors are currently forced to invest in real estate, even if prices are high, because real estate returns are higher than other assets' returns. Institutional investors need to allocate money to meet their long-term liabilities, and some are even investing 100% equity, without loans.

26. INVESTOR AND FUND MANAGER RELATIONSHIP: MORE THAN A RETURN PROMISE?

Regulation changes over the last twelve months have created a stress on the market, which has increased the cost of operations for managers. The AIFM directive, in particular, has had significant consequences on the relationship between investors and fund managers. There has been a shift from an alternative managing model to a direct one.

- What are the major changes for fund managers?
 - They need to apply to the AIFM directive. This directive is a heavy constraint on the creation of investment vehicles (OPCI, for example, are more difficult to create)
 - There is strong uncertainty about what the new regulation will be like.
 - There is insecurity on the market.
 - Legal documentation has to be more detailed.
- The new regulation makes fundraising more expensive in Europe than in the US, which does not help European fund managers.
- The role of the banks has also evolved.
 - They are focused on both the quality of the asset and the sponsor. The quality of the sponsor is as important as that of the asset in the pricing of the debt. The LTV will also depend on the sponsor.
 - The development of covenants in loans has made banks significant actors in the asset management of a building. They are more and more working together with the asset management team. When there is a loss in value on the asset, they prefer to find a constructive solution rather than take control of the asset.
 - They are more willing to lend than two years ago. LTV levels are higher than they were, even though regulation is stricter on banks.
- Today, the political and geopolitical context in Europe is more important than the interest rate, the level of rents, etc.

Conclusion:

Players need to be watchful as long as there is uncertainty about regulation in Europe.

27. NEW DEVELOPMENT FINANCING - STRAIGHTJACKET FOR DEVELOPERS, HOW TO OVERCOME?

- Financing for development in Prague is quite accessible, from local banks, with a loan to cost of 80%.
- There is no generic data (rates, etc.) for Europe. It depends on the region. In Paris, for example, the land has a significant share in the total value of the product, which is absolutely not the case in other areas.
- The conditions for financing are tough. For example, if there is no pre-letting, it is really difficult to obtain something from the financiers.
- One of the main questions in financing is: Are you ready to take that risk or not? If yes, you look at the spread. Nevertheless, financiers would rather take a product in the CBD with a top developer than another product, even if the net initial yield is higher.
- In Luxembourg, the administration pushes for development, so it is much easier to develop than in other neighboring countries. Moreover, it is possible to launch an operation “*en blanc*”, without any pre-letting.
- In the UK, the interest of an asset may depend on the location and the potential profit.
- The middle sized developers are facing difficulties :
 - To find lenders,
 - To have interesting rates

Conclusion:

The developers, given the difficulty of raising money, make more use of various ways to finance (with mezzanine debt for example). Also, it is interesting to note that, based on profiles, perceptions may be quite different.

28. SECONDARY INVESTING – VALUE FOR BUYERS AND SELLERS?

General remarks:

- Secondary investments enable better liquidity of assets: assets are becoming more and more liquid as new investors enter the market and there is a wider acceptance of the benefits of secondary market trading (portfolio rotation and speed of access)
- It also implies more complexity, especially with regulations and the complexity of players. It can be more difficult to get visibility on the underlying assets due to the levels of transparency
- The market was initially concentrated on activity in closed-ended specialist unlisted fund. Today there is however also significant secondary market activity in balanced open-ended UK funds from institutional managers
- This market now experiences a lot of activity, with a lot of new entrants. A substantial increase is expected in this market. It offers many opportunities.
- Distressed opportunities are less common now as prices have started to re-adjust and sellers aren't under the same selling pressure.

Secondary investing strategy:

- In 2008-2009, secondary investing was purely opportunistic because the need for liquidity was so high that secondary assets had highly discounted prices. There were very few buyers and the discounted price was a premium for liquidity. Buyers were looking for positions on opportunistic deals with distressed sellers.
- Nowadays, it is more complex and the strategy is less opportunistic and more long-term and focused on creating value. Indeed, the discount on prices of secondary assets has decreased a lot.
- Today, secondary investments are undertaken for a variety of reasons and not simply because of the attractive entry pricing.

European secondary markets:

- Whereas the US market is still focused on opportunistic deals, long-term oriented investments are more prevalent in the UK.
- The UK market is also more transparent, which makes it easier to make long-term investments.
- National European markets are still dominated by capital cities
- In general, funds are managed more actively in the UK than in continental Europe.

Managing secondary assets:

- With a secondary assets, fundamentals are even more important (market demand, localization) and the relationship between the investor and the fund manager has to be closer.
- There can be a principal-agent dilemma with the manager, especially with ventures or financing strategies that include a bank.
- The winners in secondary markets are managers with credible track records who survived the crisis.

Conclusion:

- The activity on secondary market is developing, but still limited: investors into unlisted funds still tend to hold rather than sell their positions to either avoid further losses or crystallize gains on the secondary market
- New funds are entering this market but they are not many. This is a problem for the liquidity of this market.
- However, the market is more educated, more open and more diversified today: it has become more efficient, liquid and stable. The market is healthier than before.
- The key issues in secondary markets are transparency, liquidity and capitalization.

29. SOUTH-EASTERN EUROPE – STILL DROUGHT OR NEW FUNDS FOR DEVELOPMENT?

Introduction:

When looking at investments in South-Eastern Europe, we can observe a very significant change in mood comparing to twelve months ago: investors are now looking at this part of the world, especially at Italy and Greece.

Italy:

- There are very high quality assets and also high yields (8%).

Greece:

- Greek fundamentals are still weak: political instability, debt/GDP ...
- The banking system is a huge issue, but recapitalization should happen now, thanks to new stress tests. However, today banks are not getting rid of their assets because it would change their balance sheet.
- In the office market, rents have decreased for four years to one of the lowest level in Europe.
- Hotel investments are popular, so is retail, though overall opinion is it is too early for offices and retail.
- In Greece, there is a lot of very opportunistic money, coming from London and New York.
- Although local teams are important, Greek teams seem to be unable to see the Big Picture, which is improving, so local investors do not invest.

Romania:

- On paper, the office market is good, but it is only euphoria. However, Bucharest is an obvious market for the one looking for high yield.
- For now on, the market is still quite, without a big strategy, but it starts to move, especially thanks to investors who are already present.

Bulgaria:

- Very slow activity in the office market.

Conclusion:

The more investors want high yields, the more they should come to South-Eastern Europe.

Money exists, but these countries need to be more attractive and more transparent.

30. LOGISTICS: MORE GREEN FIELD BIG BOX OR DEMAND FOR URBAN LOGISTICS?

- There are structural changes in the sector of logistics, due in particular to e-commerce, but **fundamentals are still the same**: transport links are maintained, and so are the good locations.
- Logistics structures are moving **closer to the heart of the cities** (“infield strategy”, allowing having stocks near the cities). However, some logisticians still prefer custom-built structures, like DHL whose structures are a little further out.
- In London, for example, huge problems of congestion imply for logistics to be inside the city, **but lack of space is a technical and economic problem**. To face this issue, Amazon, for example, created *Amazon Premium* services: extra cost for the client, to cover the extra cost due to the central location.
- The shared objective of **reducing land consumption** encourages to limit the number of “green filed big boxes”.
 - For example, Germany decides to restrict undeveloped land consumption to 30 hectares per day by 2020 (as opposed to 75 ha per day in 2011).
 - With offices, it’s easy to build higher, but in logistics, it doesn’t pay off → not a solution.
 - In the logistics sector, there is **no imperative to rent brand new structures**, as for offices. The older parts of a shed are sometimes the easiest to re-rent.
- As a consequence, **the activity of development sites is quite limited** in the logistics sector.
 - Obtain permits is quite a challenge, and getting the rights entitlements can take more than 10 years.
 - There is **inflation over land prices**, and there is not a big margin to make with logistics.
 - **Replacement costs** (= the amount that an entity would have to pay to replace an asset at the present time, according to its current worth) **are high**.
- Competition is very high (for example, 280 developers in Germany), sometimes requiring to sell or rent **10 to 20% below-market**.
- **Looking for portfolios is safer** than single tenant assets. Maintain a pool is better.
- Some investors are deciding to sell their logistics assets, as Foncière des Régions did in 2014, which might be an opportunity.
- **Promising markets: Hungary, Slovakia, Spain, potentially Italy**. Countries of Eastern Europe represent a market with strong growth for logistics, whereas the Russian market is limited because of the numerous national logistics companies. For structures which are linked with big infrastructures (ports, airports...), there will always be a market.

Conclusion:

The “big boxes” out of the cities are still useful, but their potential of development isn’t strong everywhere and the potential margins are limited. Urban logistics is a growing market, but land issues are significant.

31. CORE OU NON-CORE – LES PRIX JUSTIFIENT-ILS LES RISQUES ?

- Définition du « core » d'après le panel d'intervenants :
 - Actif « prime » de bonne qualité intrinsèque
 - Achat avec peu ou pas d'endettement
 - Principal critère : la localisation. Un actif « core » est localisé dans un secteur mature où la demande est soutenue. Certains emplacements qui n'étaient pas « core » le deviennent, c'est le cas de l'Est de Paris par exemple.
 - Rendement faible mais stable (entre 3 % et 10 %), avec peu de risque.
 - Les actifs « core » sont recherchés par les investisseurs qui ont une stratégie de détention sur le long terme (les compagnies d'assurance notamment qui ont des obligations de distribution, ou encore les SCPI).
- Certains considèrent qu'un actif est « core » s'il est bien loué (bail ferme avec un locataire sûr). D'autres au contraire estiment que ce critère ne doit pas être pris en compte puisqu'un actif « prime » vacant se relouera très rapidement grâce à ses qualités intrinsèques et sa localisation privilégiée. Cependant, certains actifs « non prime » présentent des taux de rendement « core » car ils sont bien loués et que les cash-flows se paient chers.
- Pour retrouver des rendements plus importants, il faut se rapprocher de marchés secondaires un peu délaissés où la demande est plus faible et les prix moins élevés. On parle alors de stratégie « core + » ou « value added ». Cependant cette stratégie ne s'applique pas à n'importe quel investisseur car il y a une part de risque (risque locatif en particulier). Elle peut néanmoins s'inscrire dans une stratégie de diversification. Les investisseurs opportunistes et « value added » doivent créer le futur « core » si l'on veut renouveler cette typologie d'actifs.
- Lorsque l'on se trouve en bas de cycle immobilier et que le marché va reprendre, c'est le moment idéal pour investir dans des actifs « non core », c'est d'ailleurs la stratégie qu'ils suivent actuellement aux Etats-Unis. En effet, cela permet à la fois de s'appuyer sur la reprise macroéconomique, mais également de se placer sur un marché de niche. La question épineuse qui persiste est de savoir à quel moment du cycle nous nous situons.

Conclusion :

Le « core » reste une typologie d'actif très demandée. Mais nous avons un fossé entre les investisseurs « value added » ou opportunistes et les investisseurs « core ». Il est très rare de voir des investisseurs qui ont les 2 types de stratégie.

32. CORPORATE REAL ESTATE – OPPORTUNITIES AND VALUE CREATION STRATEGIES

- Current trends of corporate real estate are to design transparent workspaces serving the interests of the community with the help of ergonomists and to get happier and more productive employees.
- Individual offices are disappearing, in some cases less than 4% of the offices are individual offices. But open spaces are varied: for example, in a new large campus opening in 2015, there will be more than 12 different types of spaces in the space menu.
- One of the key elements of these changes is to get rid of the managers' feelings that their importance is measured through the size and view from their office.
- For the change of offices organizations, IT teams and HR teams **are solicited**. Usually employees take one year to accept the changes, but after the year, they don't want to go back to the previous organization.
- Corporate real estate teams are under pressure to help reduce costs, which can be achieved through a higher productivity, reduced consumption of space, or healthier employees (which decreases the number of sick leaves and the number of health insurance premiums paid).
- Some companies allow employees to work at home one day a week, other companies are experimenting programs for satellite buildings in places close to employees' home to **relieve** commuting time.
- How do the corporations take into account the differences across countries?
 - Office standards are going up in Africa, infrastructure in Kenya equivalent to the ones of Western countries.
 - India is a hierarchical country where space is already optimized: One large occupier has put into places change programs to create a friendlier atmosphere.
 - Security standards are key for corporations – they need to respect the most stringent standards, in order not to damage the brand.
- For big companies, having buildings that are both sustainable and appreciated by employees is key because their shareholders expect them to set the example, and they are watched closely, and have corporate social responsibility reports to publish. Decontamination and depollution initiatives are to be understood in this context.
- Investors prefer modern real estate therefore it is useful for sale and leaseback programs.
- Corporate real estate programs are never fully done, mergers and acquisitions always add new buildings to deal with.

Conclusion:

The challenge for real estate programs these days is to have buildings that are both adaptable to different cultures and transformable, maybe into other types of assets, hotels or housing.

33. EUROPEAN REAL ESTATE 2015 – IS THE OPTIMISM SUSTAINABLE AND LASTING?

In France, there is a disconnection between the investment market, where high levels of capital are flowing, and the leasing market which is more dependent on the economic growth.

- Quite optimistic about the investment market, but remains more prudent about the leasing market. Because of the abundance of debt and equity, investment volumes have increased significantly whereas there has not been any big improvement on the occupational market.
- Major shift since last year on the debt financing market. The context is good for borrowers.
 - Lenders pay less attention on LTV and occupation of assets.
 - Banks start taking risks again.
 - Spreads have fallen.
- Lenders regard both the quality of the asset and the sponsor to price the debt. In 2014, the quality of the asset is better and the leverage lower than it was in 2004, which explains why spreads are lower.
- Reckoning that we currently are within the best stage of the cycle. If spreads keep on falling, people may overinvest in unhealthy projects.
- Europe is slowly modeling its way through the crisis. It offers better clarity on fiscal and monitoring policies.
 - Paris and Milan are seen as healthy markets.
 - Secondary markets like Rome are seen as healthy too.
 - In the UK, the real risk in the pricing of assets stems from the exchange rate more than the interest rate ; 50% capital invested in London offices come from overseas.
 - In Spain, there is a discount on real estate prices.

Conclusion:

Europe is in a better shape than it was last year, but one should stay careful. Advice to invest in micro locations and micro markets.

34. GLOBAL DISTRESSED - WHICH MARKETS COME NEXT?

- From the US view, some of the smaller players maybe are a little frustrated and come therefore to other markets.
- An interest for Portugal has increased after the interest of the past years for the Spanish market. Economically, Portugal has not the same potential as Spain (global companies, important industries).
- What is happening in Spain is not necessarily a bubble. Indeed, the market seems to be stabilizing in terms of expected returns.
- We used to talk a lot about the Turkey market 3 years ago, but today, this is not the case at all.
- Greece seems to afford good opportunities with the recapitalization of its banks.
- Opportunities are already available in Italy. But few CAPEX are invested in Italy.
- Like Turkey, we used to talk about Russia 3 years ago, but much less today.
- Poland :
 - It is an interesting market
 - People have good education
 - There are no astonishing taxes like they exists in some “emerging countries”
 - It is not easy to price the future of this market.
- France has 4 or 5 well capitalized banks, but the international investors are not very confident in its economy.

European markets:

- The British market is very strong, on a long-term basis. There is a huge gap between supply and demand in London. Opportunities exist mainly in Greater London. Some of these opportunities can be found with houses that have regulated rents with 30 years old contracts and that can be redeveloped when they become vacant.
- The residential investment market is very developed in Germany, which has low rents, a low ownership ratio, a strong demand, liquidity and transparency.
- Countries like the Netherlands, Ireland or Czech Republic can offer interesting opportunities too.
- Some fundamentals are common to all European countries: people move into cities, households get smaller. Therefore having a portfolio of small apartments in city centers is rather safe.

The role of regulation:

- The role of regulation from market to market is critical: it creates opportunities or barriers to entry.
- In Germany, the role of price regulation is relatively small because it is a matter of negotiation between the public authorities and the industry (unlike the French project of price regulation for example).
- Regulation used to be a strong barrier that made investors walk away of residential markets. However, most countries now agree that rent control is not a solution to resolve shortage of supply. Therefore, most housing policies are now linked to land development and mixed projects.

Residential investments strategy:

- The objective with residential investments is to deliver dividends on a stable, predictable, transparent and long-term basis.
- There is a trend of going to secondary residential markets.
- There need to be a critical mass of houses in order to invest: social housing institutions selling parts of their assets can therefore offer opportunities. This can be a constraint for developers who can't reach this critical mass in new developments.
- Some investors are sometimes taking development risks (The Shard in London for example).

Managing residential assets:

- Local knowledge is key in making residential investments: a local partner is often required.
- Direct investment in residential assets requires local experience, whereas indirect investment is easier.
- With risk-adverse investors (typically southern investors) who usually don't leave the core markets, there is a need for external expertise through local partnerships.
- Asian institutional investors usually focus on offices and retail but UK residential market (especially London) has a strong attraction for individuals, mainly because of cultural ties.
- There is no institutional product yet to invest in residential markets in Europe, except for Germany.

36. BUREAUX – PARIS QCA OU RIEN ?

- Le marché de l'investissement se porte bien, mais le marché locatif souffre.
 - En Île-de-France, au 1^{er} semestre 2014, nous avons assisté à un record depuis 2007 en termes d'investissements. 80 % du volume des transactions sont des transactions supérieures à 100 millions d'euros (faiblesses des transactions intermédiaires). Nous devrions atteindre les 12 ou 14 milliards d'euros investis à la fin de l'année 2014.
 - Concernant le marché locatif, 40 % de la demande placée provient des grandes entreprises.
- L'intérêt principal d'investir dans le QCA est la liquidité. L'entreprise a d'ailleurs été approchée par 75 investisseurs lors d'un deal de 400 millions d'euros concernant 3 immeubles dans le quartier de la Madeleine, ce qui prouve la forte demande pour ce secteur.
- La fourchette de loyers dans Paris QCA est importante, mais les actifs « *prime* » présentent un loyer moyen sur les 10 dernières années de 735 €/m², et jamais en dessous de 650 €/m² ces 15 dernières années. La demande locative sur des grandes surfaces est rare dans ce secteur.
- Le risque pour les investisseurs « *value added* » dans le QCA n'est plus du tout rémunéré, c'est pourquoi le nombre d'opérations de ce type est faible.
- Hors Île-de-France, l'une des principales foncières française ne réalise que des opérations clés en main (pas de risque locatif), en particulier pour des compagnies d'assurances qui disposent d'énormément de fonds et peuvent se permettre d'allouer une partie de cet argent en région.
- Selon cette autre société foncière cotée spécialisée dans la détention et la gestion d'actifs immobiliers de bureaux, il existe un marché en régions. Ils ont investi à Lyon, Lille, Toulouse et Rennes notamment. Les taux de rendement y sont plus élevés car les prix d'entrée plus faibles et la demande moins forte.

Conclusion:

Les investisseurs qui achètent dans le QCA recherchent de la résilience, une protection du capital et de la liquidité.

Concernant l'investissement en régions, sur toutes les entreprises représentées lors du débat, seules 2 entreprises ont investi cette année hors de l'Île-de-France. Aujourd'hui le marché en région semble à l'arrêt, à l'exception de quelques pôles tertiaires dynamiques comme Lyon Part Dieu ou Euromed à Marseille.

37. KEYNOTE – EUROPE AND THE SPECTRUM OF DEFLATION – CAN THE ECB REPEAT “WHATEVER IT TAKES”?

Introduction:

Six years after the Great Recession, Europe is still experiencing a slow recovery. Every time the situation gets better, more risks appear, as we can see with Russia.

Lowflation:

- Europe will not know deflation, but inflation near to zero with growth near to zero, low level of investment and stagnation of activity.
- Because of the euro, it is impossible for countries to devalue. In order to be competitive, Greece and Spain lowered wages. As a consequence, demand and inflation decreased.

The UK is different:

- Government has stopped talking about fiscal consolidation. The UK experiences strong growth (more than 3%) with decline of debts.
- Support for housing market is important, and as a result British self-confidence is increasing.

Draghi-nomics:

- Mario Draghi's policy is to inject liquidity to boost lending, because banks are not willing to lend. Therefore, the ECB gives strong incentives to lending banks, with cheap liquidities.
- The ECB wants to do quantitative easing but the market is too small for that.
- The ECB only buys time, but cannot solve the problems alone. Demand is a short-run problem, but supply is a long-term problem, so Europe needs structural reforms.

Italy and France:

- Governments do not have enough pressure, so they do not pass reforms. They postpone because of resistance within their own political parties.

Scotland:

- The referendum represented a major risk, because it could have led to the exit of the UK from the EU, and it would have been an example for others like Cataluña.

Conclusion:

The crisis is not over. The worst is probably behind us, but the main roots of the crisis still exist. EU needs to become more efficient and more democratic to solve its problems.

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