

PIE French Property Breakfast sees La Défense, Grand Paris muddying waters, but market rising



Property Investor Europe on 28 April 2010 brought together six experts to discuss the outlook for investment in the French property market. Held in the offices of DLA Piper in London's City business district, PIE's French Property Breakfast attracted nearly 80 partici-

pants. Panellists were (left to right): Maryse Aulagnon, CEO of Affine; Jean-Paul Dumortier, CEO of Foncière Paris France and President of the FSIF association of listed real estate firms; Ranald Hahn, Managing Director-Southern Europe, Prologis Europe; PIE's Allan Saunderson; Philippe Le

Trung, Director of Capital Markets, Foncière des Régions; Robert Waterland, MD, Société de la Tour Eiffel; Stéphane Theuriau, Joint CEO Commercial Property, Altarea Cogedim. The following is a resumé of the main topics discussed and the experts' views on them.

La Défense weighed down by high costs, oversupply



Foncière des Régions' Head of Capital Markets Philippe Le Trung (top) and Affine Founder Maryse Aulagnon: "cap rates have stabilised".

The La Défense business district in Paris faces difficulties in attracting new investment despite ambitious plans for new towers, with high costs likely to outweigh achievable rents, according to panellists at PIE's French Property Breakfast.

"The big issue for La Défense is the hiatus between the cost of construction of a high rise building, with all the specifications that we need now, versus the actual achievable economic rent," said Altarea Cogedim's Stéphane Theuriau. It will be difficult to achieve yields of more than 7%-7.25% for a new building in the area and there are real fears that oversupply will keep a cap on rents, he said. "We don't think that the risk-reward for the investors is there."

FPF's Jean-Paul Dumortier said La Défense's problems could benefit other areas. "The fact that La Défense probably will grow more slowly in the future than it did before will have a good influence on other areas around Paris," he said. Other areas being developed on the outskirts of Paris offer attractive locations at rents of €250-€350 per sq.m., he said. Robert Waterland also said that building in other outlying

locations can offer a good economic alternative to La Défense, where the transport system is already reaching saturation point. La Défense is in any case highly cyclical and the profitability of any investment is therefore very dependent on timing, he said.

Affine's Maryse Aulagnon agreed that the centre of La Défense is a high risk investment but said that there are areas at the edge which offer a more reasonable risk profile. Affine is involved in a residential development there which has been selling well even during the recent market crisis, she said. Foncière des Régions owns the CB 21 tower in La Défense and FdR's Philippe Le Trung was more optimistic about the outlook for the area than other panellists. The size of La Défense - three times that of London's Canary Wharf - means it attracts big-name tenants and offers good opportunities for large investors, he said. ■ pie

FSIF sees alternatives to Grand Paris tax

The French listed property association FSIF is backing a number of alternatives to the capital gains tax currently being proposed to finance the Grand Paris

plan for the transformation of the Greater Paris area, FSIF President Jean-Paul Dumortier told PIE's French Property Breakfast.

The FSIF (Fédération des Sociétés Immobilières et Foncières) has led the charge against the French Senate's proposal for a 15% capital gains tax on property benefiting from new transport networks which form part of the plan. "The story is not over. I think we will try to persuade the government not to finance Grand Paris that way, but to choose something that could be more simple, maybe to add some more taxes to the transaction, maybe to create a specific but low rate of taxation of the rents," said Dumortier.

A financial solution is needed because the transport improvements will cost around €30bn over 15 years, he acknowledged. But he said the Senate's proposal to impose a tax on property a set distance from a station would create a perverse situation in which some buildings are subject to the tax while those on the other side of the street are exempt.

Maryse Aulagnon said a tax of the kind proposed could cancel out some of the transparency gains resulting from the creation of the French SIIC/REIT regime in 2003. "It is just going backwards to 10 years ago," she said. Despite the tax issue, the Grand Paris transport improvements have got to be good news for the real estate sector, said Stéphane Theuriau. But while the project will create new business districts, this will hit struggling development areas further outside Paris such as Marne-la-Vallée, he said. ■ pie

French property now post-crisis, improving

The French property market is starting to show signs of improvement after the difficulties of the past two years, panellists at PIE's French Property Breakfast said.

"Things are coming along a little bit better. There are some signs in the market that cap rates for instance have stabilised and in some areas are again diminishing, which is a very good sign," said Maryse Aulagnon. Philippe Le Trung said many corporate clients were not able to commit to new property rentals last year, but this appears to be changing in 2010.

Ranald Hahn said Prologis is now investing again after a very difficult 2008 and 2009, when it had to sell assets. Jean-Paul Dumortier said Foncière Paris France would also like to invest more, but it is difficult to find the right product at the right price.

Significantly, financing is becoming easier to access, although constraints still apply. "It's getting slightly better all the time...but it's far from satisfactory," said Robert Waterland. Le Trung said credit is

available, although the cost of financing is currently too high, but Dumortier said the worst of the sector's financing problems are over. "I think these difficulties are behind us. We can access loans at reasonable spreads, which is new."

The outlook for the property market is also crucially dependent on the broader pace of the economic recovery. "We know from experience that if you've got 2% GNP growth or higher, you've got net employment growth and net absorption in the office market," said Waterland. "If in two years time, you're hitting 2.5% GNP growth, it will be a very rapid turnaround in the market."

And as demand picks up, there is a risk of a shortage of new property in a few years time, after construction came to a halt during the recent crisis. "We are going headfirst to the next property crisis because there is going to be an acute shortage of good quality space in three years time," said Waterland. Only 200,000 sq.m. of new office space is currently in the pipeline for the Paris region in 2012, he noted. Stéphane Theuriau agreed that the halt in construction since 2008 will lead to a dearth of quality space in a few years time, but said that 1.0m-1.2m sq.m. due to be delivered over the next 18 months will weigh on rents in the near term. ■ pie



Société Tour Eiffel MD Robert Waterland (top left) enjoys the analysis of Altarea Cogedim Joint CEO Stéphane Theuriau. ProLogis MD North Ranald Hahn (top right) and Foncière Paris France's Jean-Paul Dumortier (above, centre) deliver some fascinating analysis. Audience questions (left) were welcome.



"If in two years time you're hitting 2.5% GNP growth, there will be a very rapid turnaround in the office market," observed Tour Eiffel's Robert Waterland (second right). Altarea's Stéphane Theuriau (far right) had his own views.

Beni Stabili change ends FdR shareholder pact

The decision by Foncière des Régions' leading shareholders to end their shareholder pact relates to the company's move to make its Italian subsidiary Beni Stabili more independent, said Philippe Le Trung, head of capital markets for the company.

Batipart, controlled by FdR founder Charles Ruggieri, and Delfin - controlled by Italian industrialist Leonardo Del Vecchio - in March ended the pact by mutual agreement but gave no explanation for the decision. Le Trung said the agreement was put together when FdR bought Beni Stabili, in order to manage the combination of the two companies. As FdR is now reducing its stake in Beni Stabili, the agreement is coming to an end.

FdR is proposing to pay part of its dividend in the form of Beni Stabili shares, which will reduce its stake in the Italian company to around 52% from 68% now, creating greater transparency and marking a key step towards the adoption of REIT/SIIQ status by Beni Stabili.

Le Trung said the end of the pact will be welcomed by minority shareholders. "From a minority shareholder point of view, the less that this sort of special agreement exists, then the better it is for the valuation and the strategy of the company," he said. Batipart holds a 14.1% stake in the company while Delfin, holds 21.6%. He also refuted a suggestion that Del Vecchio is aiming to reduce his activities on age

grounds, saying the Delfin has stocked up about 2% of equity in recent months. ■ pie

French REIT Altarea in talks to buy Cap 3000 mall

French shopping centre REIT/SIIC Altarea Cogedim and its shareholders Predica and ABP have entered exclusive negotiations with retail group Galeries Lafayette to buy a controlling stake in its Alteda mall unit. Alteda's main asset is the prime Cap 3000 mall in Saint-Laurent du Var in the south, which boasts the second best per sq.m. sales in France.

Altarea deputy CEO Stéphane Theuriau told PIE's French Property Breakfast that Cap 3000 has proven its ability to drive sales very meaningfully over the past 25 years and it offers a good fit for Altarea, which hopes to be able to help its own institutional investors realise the full potential of the asset. He declined to give details of price, or the negotiations.

Galeries Lafayette currently owns 99.8% of Alteda. Galeries Lafayette and Altarea said they cannot pre-judge the outcome of the negotiations but will make a full announcement once the talks are completed. Altarea mainly develops and invests in shopping centres, with a portfolio of €2.3bn and a pipeline valued at €1.5 bn. Some 80% of its retail portfolio is in France and 15% in Italy. It also develops office and residential property for third parties. ■ pie