

French REIT Tour Eiffel's three-pronged strategy signalled with Patron share deal

French REIT/SIIC Société de la Tour Eiffel is shifting to a new three-pronged strategy after appointment of CEO Renaud Haberkorn last year. Last month's share-based purchase of a Paris property from UK's Patron Capital was the clearest signal of change.

Haberkorn took over as STE CEO in September 2012 as British-born founders Mark Inch and Robert Waterland stepped back from day-to-day operations. "When I joined this firm a year ago, the company was made up of offices, business parks and some logistics in Paris, outside Paris, and in the provinces," Haberkorn said recently. "We had great experience in the team from the very early days in the late '90s with a core skill in offices in and around Paris and on creating value... So we decided collectively to focus on this and concentrate our balance sheet, our efforts and our expertise towards being one of the best players in the Paris office sub-market. And as part of the strategic plan, we decided to have three tiers to our strategy: the first was to focus on Paris and office, the second was to have a strong value-added element to what we do, and the last one was to have a sound balance sheet and good risk management."

Much of the effort to date has gone into cutting leverage. Haberkorn told PIE: "So far we have been very active at selling assets and de-leveraging the balance sheet. Following the sale of the assets under contract, loan-to-value will be down to 49% from almost 60% two years ago. As we gradually approach the 45% LTV level that we have set as a goal we will consider new acquisitions that fit the core business of the company." Aiming to sell €180m-€210m of non-strategic assets over the next two years, Haberkorn has moved fast. STE in first half sold €89m of assets, and has agreed initial contracts for a further €58m. The portfolio has already been cut to €809m from €915m.

He aims to focus STE progressively on Paris office, and sees the near suburbs as offering better opportunities - rental values and locations more in line with the needs especially for large users. "They've left the Paris CBD and moved to inner rim markets looking for a better product in general and also a more modern, cheaper and a more effective space for staff. We have been able to capture some of that demand and we want to do more because this trend is not over." STE will thus focus on Paris ex-CBD and the inner ring, excluding the western suburb of Neuilly and

business district La Défense, concentrating on assets with annual rents of €250-€450 per sq.m. "We felt that was our sweet spot... And even more importantly, at €250 per sq.m. we know we can create value. Below that it's difficult, given construction costs and land values."

STE made its most dramatic move in the new strategy last month, starting exclusive talks to buy the Malakoff office property on the Paris fringe from UK-based opportunity fund Patron Capital Partners, and paying with an equity stake of 8.4%. The deal is the start of a business partnership focused on value-added projects. "This is a clear endorsement of our strategy and portfolio quality by a demanding investor," Haberkorn said. Patron MD Keith Breslauer said STE is rightfully targeting one of the most dynamic segments. STE targets a value-added component of 5%-15% of the future portfolio - forward purchases, properties with short leases, or refurbishments. Haberkorn says a strong aversion to risk has driven the spread between pre-let and speculative off-plan properties to a historical high of 200bp, and STE's track record demonstrates it has the expertise to capture this opportunity. Over the past eight years it has generated a 47% gross margin from €280m of investments in six value-added deals. STE's shareholder base is also diversifying. M.I.29, a firm controlled by French businessman Chuc Hoang, holds 11.9% of equity. It has not yet exercised a call option to buy an 8.67% stake from a Dubai firm controlled by Inch and Waterland. ■ pie



Renaud Haberkorn: "Companies have left the Paris CBD and moved to inner rim markets looking for a better product and more modern, cheaper and a more effective space for staff. We have been able to capture some of that demand and we want to do more because this trend is not over."

INFO BOX

Société de la Tour Eiffel | Renaud Haberkorn
contact@societetoureiffel.com | www.societetoureiffel.com