

Understanding the new

At the head of AG Real Estate and with a long background at Cofinimmo, Serge Fautré is well placed to comment on the Belgian real estate market. His views are forthright, realistic and cover the whole spectrum of the real estate industry.

The real estate sector has traditionally been seen as a safe haven for investors and others. It is quite clear that even though the sector is still more reliable than many others, the dynamics within it have changed, buffeted by sub-prime, the economic crisis, the Eurozone debt... Serge Fautré is well aware of all this.

How do you see the Belgian real estate market at the moment and in the immediate future, especially where offices are concerned?

Serge Fautré: Well in fact it is perhaps not most obvious to talk about offices first. It is offices which are of course the most visible, and which people talk of regularly, but it might be better to start with residential or retail. There is not just 'a real estate market' but a number of segments. I could make a sort of resume and say that a number of different forces are impacting the market. The first is very positive – the decrease in interest rates. It should be remembered that short term interest rates, while they may not actually be negative, are very close to zero. This means that several institutions which have to invest, pension funds and insurance companies in particular, are looking for yields, and in certain segments of real estate they find yields they can't find on the bond markets or on the stock exchange. This is also because in many cases the regulators are imposing a major risk reduction. The stock market is clearly not a favourite of regulators and hence it is being deserted by investors. Another favourable force, especially in the Brussels area, is the expected demographic growth. There are forecasts for an extra 20,000 inhabitants for Brussels over the next few years, so this should have an impact on real estate in the widest sense.

Then there is another element which raises questions. What is the future of the European institutions? Will they come out of the crisis strengthened or weakened? If it is stronger then for Brussels this will mean more 'European' work. I have one more positive force to talk about – a degree of re-balancing. Certain players have tended to transform the real estate market into a speculative market. "The real estate market has to be liquid", they say. Why? Is it necessary for a market to be as

liquid as a bond market in order to exist? Not as much as some say. And the liquidity of this market has had the effect of persuading people to buy and sell year after year. I call that a speculative market and one which has pushed developers into constructing buildings which are not absolutely necessary under the pretext that there are buyers for them. At one time there were numerous buyers, but then it all melted away and so the market is in the process of re-balancing itself. There is less speculation, leading to a market which is less liquid, but which is much healthier.

You have mentioned a number of positive forces – what are the negative ones?

Serge Fautré: I think there are three. A particularly weak level of economic growth and a lack of decision-making. On top of this there is de-leveraging and a reduction of indebtedness. I believe this is negative in the short term because it creates risk. But in the medium term I think it is indeed better to see the real estate market sustained with less debt. So in fact there is good and bad news in this, but those who come out of it as winners will be those who understand how the market works, those who are well informed and those who react without losing their heads.

Other segments than offices? Tell us about these.

Serge Fautré: Well the offices market is not seen in a good light at the moment because it is a segment which everyone believed to be risk-free. This is the segment in which most speculation has always taken place. It is now suffering because speculators are not getting the returns they expected and because it cannot be denied that overbuilding has taken place. This is the segment in which there may be the greatest gap between quality assets and those of lower quality. But what is a quality asset? One which is well let, whereas a lower quality asset is one which is empty...

In retail it is a reality that building permits have been granted with much more parcimony. People complain about the ten or fifteen years needed to obtain a permit for a shopping centre, but in reality this has protected the market. The number of new shopping centres over the recent past has been

reality in real estate

extremely low: I can point to the Grands Prés at Mons, the Esplanade at Louvain-la-Neuve, Médiacité in Liège, the Blue Tower in Bruges... But there has not been an excessive amount of construction. And these are not mega-shopping centres. So the balance between supply and demand means that shopping centres fare rather well. It is also a fact that we are in a country where purchasing power has been well protected by economic policies, so even if we have not seen enormous growth in the turnover of shopping centres, neither have we seen any major crisis. So we have a quite healthy retail sector.

And residential?

Serge Fautré: Where residential is concerned, demographic growth and a trend for households to come back into urban areas again, mean that in the cities such as Brussels, the market is doing well. Some people complain that there is no longer 10% growth! Let's remain prudent. Real estate has to yield returns, but what sort of return? A return estimated somewhere between bond yields and equity yields—at least for the case of classic real estate, real estate which is managed in a responsible way. Bonds are at almost zero percent, maybe I'm being a bit excessive there – Belgian government bonds are at 2.2%. On the stock market the risk taken should produce returns of maybe 6 to 8%. So real estate should provide a return of around 5%, which is more or less the case.

In retail, AG Real estate has recently renovated the Anspach Gallery in the centre of Brussels and the Monnaie Centre alongside it is set to follow. Do you have other ambitions in retail too...?

Serge Fautré: We would very much like the Monnaie Centre to follow and we are working hard on this. If we had been able to we would already have started to renovate this centre. Going further, we bought

the Westland Shopping Centre at the beginning of 2012, and we expect to modernize it soon. We also own part of the Woluwe Shopping Centre and we manage the real estate certificates which own the rest of it. It is also necessary to ensure that this centre responds to the norms of the 21st century, and I would add that in all of the retail assets we own we will ensure they are kept up to these latest norms. This will also be true for City 2 right in the centre of Brussels, which will also be modernised. All of this, along with other reasons, is because maintaining means investing and because the retailers who are our clients demand it. And we can't ignore the fact that sooner or later there will be more competition in and around Brussels, whether it is Neo, Uplace, Just Under the Sky. But I want to make it clear: whether these new centres finally become reality or not, we will maintain our assets. The various associations which look after city districts – such as the Avenue Louise – also want to make sure their territories are in the best possible shape.

Tell us about another segment very much in the news – retirement homes.

Serge Fautré: This is a niche market which has attracted a certain number of entrepreneur-operators and also a certain number of operators who own their buildings. This is a sector which has been the subject of an enormous amount of publicity and

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visibility in the press and all the media. But let's remain cautious, because in Belgium this sector has become extremely competitive. I think that in this field as in others you have to be creative, to 'think out of the box', not act in a way which pushes prices too high, and especially not create a bubble driven by the media. At AG we are involved in this market, although not with a very big portfolio – less than 100 million Euros at the moment, which is not yet a critical size. Our challenge, I repeat again, is to be creative in this segment. We will try and get off of the beaten track. This is also true for another niche segment – student flats. We are not investors because this is a sector which has been understood and controlled by others for many years, and again we have to avoid the stampeding of interest pushing prices up to unreasonable levels.



photo: Bernard De Keyser

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How are your principal subsidiaries positioned with respect to AG Real Estate?

Serge Fautré: our main subsidiary operating autonomously is Interparking which is a multinational in its own right, employing 1,900 persons. This is a company which turns in operating profits of over 100 million Euros and is therefore an important company. Today it benefits from a proven strategy. Interparking operates in nine countries, some of which perform better than others, some have higher margins than others. This means that in the current uncertain and difficult economic climate Interparking is holding its own. This spreading of risk operates within the countries as well – we are in very large cities and in smaller ones.

We have another, smaller subsidiary consisting of around a hundred people – Devimo. This company should benefit from the creativity of its new CEO Pierre-Yves Bolus who has demonstrated his ability in other spheres. Devimo manages shopping centres for a number of owners and so this creativity will be a real advantage. It is Devimo which talks to clients and in real estate as in other professions the added value, the value, comes from clients. People tend to forget this, but I have always had this central philosophy that it is important in real estate to keep very close contact with clients.

Do you have any other large projects you can talk about?

Serge Fautré: None which I am able to reveal at the moment. But what I can say is that we will continue to diversify our activities. One area for diversification is towards credit – not banking credit, but using our capacity to finance operations in the same way that

American institutional investors have been doing for 25 years. We have the capacity to participate in bond issues, by subscribing to long term financing required by long term borrowers. We are in a position to be complementary to the banking sector which has access to shorter term sourcing funds. The banks can finance short term construction, for example, whereas we, via our life insurance activities, have the ability to invest the money entrusted to us by our insurance clients, in longer term products. Real estate financing whether via corporate bonds or financing of specific assets, these are natural avenues for us. Public private partnerships represent another opportunity for us to increase real estate-related long term financing assets on our balance sheet, and we are currently involved in a PPP which is building 165 schools in the Flemish region of Belgium 'Scholen van Morgen' with the Flemish government. We have other projects to participate in PPP's and also in fixed income projects.

And real estate projects?

Serge Fautré: Where real estate projects are concerned, the Silver Tower is the most obvious one yet to come, and we are also going to renovate the 'Centre 58', but it is clear that we are not in an economic situation in which we are going to launch many speculative projects. We have a great deal of experience in the Build-to-Suit market and we are launching a project for PricewaterhouseCoopers in Luxembourg, non-speculative of course.

We are going to continue with a number of projects converting older office buildings into residential, and with other projects in the various segments I have talked of.

Interview by Tim HARRUP ■