

Debates at La Maison Dorée

PROPERTY 'FINANCIARISATION':
THE INNOVATIVE RESPONSE OF THE BNP PARIBAS GROUP

Report of the '23rd November 2006' Meeting

LIST OF SPEAKERS

Introduction by:

Mr. Alain PAPIASSE,
Manager of the *Asset Management & Services* Department

Presentation by:

Mr. Philippe ZIVKOVIC
Chairman of the Board of Directors at BNP Paribas Real Estate
Chief Executive of ATISREAL

INTRODUCTION BY MR. PAPIASSE:

Mr. Alain PAPIASSE is the Manager of the 'Asset Management and Services' Department

It is with great pleasure that Mr. PAPIASSE welcomes all participants to these new 'Entretiens'. Even more so because the 'Maison Dorée' also celebrates 20 years of these debates today. The 'Entretiens de la Maison Dorée' were started in 1986, the idea being to invite all senior executives of the bank to these conferences to discuss general current issues or subjects relating to our business culture.

It is worth noting that the professions in the 'Asset Management and Services' (AMS) Department have been regularly at the forefront and have been the topic of a number of meetings, the most recent being in 2005 with the presentation of *BNP Paribas Insurance* by Eric LOMBARD. Today's meeting is focused more specifically on Real Estate, a topic which affects the group's executives not only on a professional basis, but also privately. Taking account of the evolution of the real estate market, often given coverage in a confused and muddled way as seen through the distorting glasses of journalists (price increase, real estate bubble, shortage of assets, excess assets, financiarisation...), it seemed interesting to outline the evolution of the market as well as the proposed offers from BNP Paribas to adapt to these changes, the group being one of the rare, if not the only European player, to have built up a fully integrated real estate business branch. Who better than Mr. Philippe ZIVKOVIC – being in himself the very symbol of the success of *BNP Paribas Real Estate* – could speak to us about this business branch today?

PRESENTATION BY **MR. PHILIPPE ZIVKOVIC:**

Mr. Philippe ZIVKOVIC is the Chairman of the Board of Directors at BNP Paribas Real Estate

Mr. Philippe ZIVKOVIC is particularly happy to be able to cover the subject of real estate today, and to present, in the face of the phenomenon of financierisation of real estate, the response brought by *BNP Paribas Real Estate*. A response which, in his sight, is highly innovative and convincing.

Even though the share of the real estate branch at *BNP Paribas* still accounts for a moderate amount of the Group's turnover, it is nonetheless experiencing very rapid growth and the Bank can boast a very specific position in the market. It has been the first bank to develop a comprehensive offer of real estate services with a strategy of vertical integration of their financial and real estate services.

THE EVOLUTION OF THE REAL ESTATE MARKET

Real estate services, at large, are extremely important for the economy these days and account for 10% of the European Union's GDP. In France alone, there are 76,000 companies employing almost 300,000 people in real estate services. Now, the very notion of 'real estate services' needs to be defined, an expression which groups together both the production and the brokerage professions. But also, professions relating to consulting, property management and real estate asset management.

For a few years now, real estate markets have been 'revitalised' by the combination of three factors, a very rare combination in the history of real estate business cycles. The first factor is the craze for households to become the owners of dwelling premises. The second factor is the craze for businesses to take over premises adapted to their needs, while the third is the huge quantity of liquid assets attracted by all kinds of real estate property.

A first example can be used to denote the craze for households and private investors to acquire housing property. Real estate prices keep rising at a pace which is in no way connected to the pace of economic growth. In Britain and Spain the prices have tripled, and in France they have doubled. The increase, in terms of sales volume, of the number of new accommodation sold provides a second example. In France, this increase amounts to 62% between 2000 and 2005. Concerning the businesses' craze, it translates into an increase of the number of square metres sold. 2,500,000 m² will have been sold in the Paris/Ile-de-France region in 2006, to be compared with 1,550,000 m² in 2002; 1,000,000 m² will have been sold in London, to be compared with 675,000 in 2002. 5,000,000 m² will have been sold in the other 14 major European markets, to be compared with 4,000,000 m² in 2002, that is to say an increase of 25%. Witness to the strong craze from institutional investors for corporate real estate is the very sharp rise of investments since 2003 (times 2.5), 2006 being an exceptional year in that capacity.

In addition to this combination of three factors, the real estate markets have experienced two big structural trends: internationalisation and financierisation.

INTERNATIONALISATION OF THE REAL ESTATE MARKET

This internationalisation is noticeable both at the brokerage level and at the clients' level. More than 50% of real estate transactions in Europe in 2005 were 'cross-border' transactions. In the field of Corporate Real Estate, 60% of investments in France today are made by foreign investors. Listed real estate investment companies (SIIC) are owned by foreign parties for up to 49%. Simultaneously, we can witness the globalisation of the main players in the real estate business. CB Richard Ellis, by now number one worldwide, has emerged as a result of successive mergers and acquisitions of American and European groups. The same applies to Jones Lang LaSalle, ranking second worldwide, or for Atisreal (No. 5 worldwide) which successively took over Wheatheralls in the United Kingdom, Müller in Germany and Gésinar in Spain.

THE FINANCIARISATION OF THE REAL ESTATE MARKET

The financierisation of real estate is probably due to the very important presence of available funds, notably with the important issues on the funded pension plans. This phenomenon can also be linked to the bursting of the Internet bubble and the loss of confidence in the stock markets following the ENRON case, and to the terrorist attacks of September the 11th which led to a decrease of 50 to 60 % on all financial markets. Above all, financierisation proves to be the most adapted response to the speeding-up in real estate assets transfers. This has gone from a 'sleeping beauty' (a real estate asset being traditionally kept for dozens of years), to a kind of hectic dance (or '*Ballet Fantastique*') where the assets keep changing hands (from the State to private investors; from private corporations to institutional investors; from institutional investors to households), at a frantic rhythm.

The financierisation of real estate results in an increase of market capitalisation of real estate worldwide, which has doubled within a period of 6 years. It also results in the continuous growth of unquoted real estate investment funds in Europe and in the creation of new tools such as the limited real estate investment companies (SIIC), the '*de Robien*' SCPIs and, very soon, the OPCIs. Tools which operate thanks to the leverage effect of credit.

The more frequent outsourcing solutions for the management of real estate properties and the optimisation of this management have led to the strong development of professions specialised in real estate asset management and property management. And so the real estate services companies are under the obligation to recruit – in the face of the growing complexity of packages and set-ups – new teams of financial analysts and talented young executives. These new professions denote the strong influence of Anglo-Saxon countries which, in this field, have been in a position to launch the process of promoting and transforming these professions.

THE INNOVATIVE APPROACH OF BNP PARIBAS

What is the response proposed by BNP Paribas to these fundamental changes in the real estate market? It must be stated that the real estate business has a long history within the group. It was for a long time controlled by Meunier, Comadim, Gérer and Antin Vendôme. In 2000, property development still accounted for 75% of the real estate branch, whereas other real estate services only accounted for a quarter. Today it is the opposite. With the creation of BNP Paribas Real Estate and the acquisition of Atisreal, 2004 marked a turn of events. The

objective was twofold: to attain a European dimension to respond to the internationalisation of the real estate business, and to develop services in order to guarantee recurring fees and to respond to the evolution and financierisation of the real estate business.

BNP Paribas Real Estate and its subsidiaries are operating today in eight European countries (France; the United Kingdom; Germany; Spain; Italy; Belgium; Luxembourg, and Ireland) and in New York. BNP Paribas Real Estate is also one of the leaders in real estate services to companies in continental Europe and one of the major players of residential real estate in France.

Today the group offers a variety of services that are unique in Europe based upon 4 professions:

- Brokerage and Consulting with Atisreal in the field of Corporate Real Estate, and BNP Paribas Real Estate places in the field of Residential Accommodation;
- Investment Management with BNP Paribas REIM;
- Property Management with BNP Paribas Real Estate Property Management in the field of Corporate Real Estate, and GERER and '*Les STUDELITES*' in the field of Residential Accommodation;
- Property Development with Meunier

BNP Paribas Real Estate has created quite an original model, thus establishing its image simultaneously as a real estate developer, administrator, marketer and investor, in a world where sourcing (finding the product) is a fundamental issue. Even though this model has been the subject of many criticisms, subsequent events demonstrated that this strategy was an optimal one and that it did meet the clients' expectations. So Atisreal is No. 1 in corporate real estate consulting in continental Europe, and is a leader both in France and Germany (with market shares of 35% in these two countries). This year Comadim has become the No. 1 player in the field of property management of Corporate Real Estate in France, managing 7 million m². The group also currently manages 15 million m² of office space in Europe. As for '*Les Studélites*', they rank third in the management of student housing in France. Meunier is the 3rd-ranking French real estate developer and is first in Corporate Real Estate with construction starts for 300,000 m² in 2006. BNP Paribas have experienced an extremely quick development. It must be noted that BNP Paribas Real Estate have increased their volume of business by 3.5 between 2002 and 2006. And so, the net result (before tax) for this same period has been multiplied by 2.

Philippe Zivkovic gave several examples of projects that were made successful thanks to the complementarity of the respective professions at BNP Paribas Real Estate and in conjunction with the other professions within the bank:

- The EPI capital investment fund, a fund created and managed by BNP Paribas REIM, one advantage of which is granting access to the buildings made by Meunier.
- The '*Les Studélites*' residences plus services which require competences within the Group as real estate developers, administrators, and marketers, often serving clients from the Private Bank (LMP).
- The complementarity between the Bank and Atisreal that led to prescribing 650 projects in 2006.

- Etc...

A FOCUS ON SPAIN AND ITALY

As the model presented earlier was a key factor in the success of BNP Paribas Real Estate, it seemed logical to develop it in Italy and Spain. So, regarding Italy, there are plans to reinforce the links with *BNL Fondi Immobiliari*, the 2nd-ranking administrator of real estate investment funds in Italy. At the same time, the group also decided to reinforce its position – a position that remained weak – in Spain by the acquisition by Atisreal of GESINAR. Consequently, BNP Paribas Real Estate moved up from 8th-ranking to 2nd-ranking in Corporate Real Estate services in Spain.

CONCLUSION

BNP Paribas Real Estate have a major asset, as their model allows them to solve all the real estate problems of the bank's clients. Their significant European network is a second asset, as it is worth mentioning that the bank is by now able to provide customized business follow-up to its clients, thereby allowing them to develop transnational business activities. The complementarity of professions, as well as the quality of expertise provided, also allows the real estate products to be considered as more than simply financial products. The model developed by BNP Paribas Real Estate is now copied by other banks in France, which proves how worthwhile it is (*Crédit Agricole* and *Caisse d'Epargne* to name but a few).

DEBATE WITH THE PUBLIC IN THE CONFERENCE HALL

How is the BNP Paribas Group getting prepared for a possible bursting of the 'Real Estate bubble'? We all remember the dramatic effects the crisis of the 1990's had on the accounts of the former BNP.

Mr. ZIVKOVIC brings to our attention the fact that even though Meunier recorded losses for an estimated amount of 100 million French francs in 1991 and 1992, the company rapidly found its way back to profits. Meunier never resorted to a capital increase. The risk/return relationship is extremely positive as the projects carried out in the field of corporate real estate have already been pre-assigned, pre-rented or pre-sold. It is also worth noting that the company does not have undelivered housing in stock and that current stocks remain relatively low. To finish, Mr. ZIVKOVIC states that a large proportion of the results originates from services, that present no financial risks whatsoever. Concerning a possible bursting of the 'Real Estate bubble', the fundamentals are good: a high level of sales and/or rentals for office buildings and a vacancy rate of 5%. Concerning housing, if the growth rate for market prices has somewhat stabilised, still the sales rates remain high and demand does persist. It goes without saying that the market can punctually experience declines in prices in sectors for which the offer is quite abundant. The current changes that we have witnessed are but a sheer "levelling-off" of the market and it we must point out that the clients' purchasing intentions remain steady.

Some organisations – such as Morgan Stanley in Italy – have gathered a very big real estate investments portfolio. What is the logic behind such remarkable positions?

Mr. ZIVKOVIC gives a reminder that, for some reasons of their own, some big property-holders may wish to sell their property holdings as fast as possible. At the same time, some big investment funds wish to buy these property holdings in order to restructure them, to increase their value to the best of their ability, and to resell them. BNP Paribas Real Estate can be of help to them in this respect.

What are BNP Paribas Real Estate's development projects in Asia?

Mr. ZIVKOVIC states that BNP Paribas Real Estate do not intend to extend their geographical coverage to Asia, as the Asian markets are currently covered by Anglo-Saxon countries. The group wishes, firstly, to reinforce its position in Great Britain, Italy or Spain by optimal integration. It also intends to develop business activities in Scandinavia and Eastern Europe, the objective being to launch in 2007 the creation of small platforms, mainly through acquisitions and alliances with local partners. The group will also have the aim to establish a strong partnership in the United States.

What will the impact of the arrival of OPCIs be on BNP Paribas Real Estate's model?

Mr. ZIVKOVIC is still convinced that the introduction of OPCIs is a fantastic project. This project is even more interesting, in so far as the SCPIs have a bad reputation and are often badly perceived by the bank's clients. The OPCIs, a modern product, are supported by a credit leverage effect and so, due to this, are well adapted to the real estate market. They should experience great success both with households and real estate investors. The amounts of collections should certainly be high, considering that these products are to be found at an international level.