



Exploring new shores: Ardian Real Estate in the spotlight

In September 2015, the French investment company Ardian launched “Ardian Real Estate,” focusing on investment in commercial and other European non-residential real estate assets across Europe. Driven by sector experts Bertrand Julien-Laferrière, Head of Real Estate; Olivier Piani, Senior Advisor and Chairman of the Investment Committee; and Rodolfo Petrosino, Managing Director Southern Europe, this new investment pillar aims at managing over €2 billion in the next five years.

Deloitte Partner Laure Silvestre-Siaz met them for an interview.



Bertrand Julien-Lafferriere joined Ardian as Head of Real Estate in September 2015. He has held various executive positions in the past, including Chief Development Officer and Member of the Management Board of Unibail-Rodamco and Chief Executive Officer of Société Foncière Lyonnaise. He holds an engineering degree from Ecole Centrale de Paris, a Master of Sciences in Construction Management from UC Berkeley, and a Master of Business Administration from Insead.



Olivier Piani is supporting Ardian Real Estate as Senior Advisor and will also act as Chairman of the Real Estate Investment Committee. He has been Chief Executive Officer of Allianz Real Estate during eight years and previously Chief Executive Officer of GE Capital Real Estate Europe. He holds a business degree from ESCP (Paris) and a Master of Business Administration from Stanford (USA).



Rodolfo Petrosino joined Ardian Real Estate as Managing Director Southern Europe. He has been Chief Operating Officer of Idea Fimit, Chief Operating Officer of Pirelli Real Estate, and Executive Officer of Morgan Stanley REF. He holds a degree in architecture from Politecnico di Milan.

1. Ardian announced in September last year the creation of Real Estate as its fifth pillar. Why did Ardian decide to move into real estate and why now?

BJL: Ardian is the leading European private equity firm with US\$55 billion assets under management (AuM) in its main lines of business: direct funds, infrastructure, fund of funds, and private debt. Real estate is one of the largest alternative asset class worldwide; it is a natural move for Ardian, as a global fund manager, to launch real estate as an extension of its current activities.

OP: It is a general trend among investors around the planet to consolidate their relationships with a fewer number of managers and to build up long term collaboration in a wide spectrum of investment lines. Since it became independent in 2013, Ardian has grown its AuM from US\$36 billion to US\$55 billion; it is intuitive that Ardian follows the main trends of the industry and acts as a global investment firm. Real Estate is clearly a significant element of a global investor's strategy and it is key for Ardian to be active in this asset class.

BJL: With respect to timing, we think there is no good or bad time for Ardian to enter into this new line of business. It is the time for Ardian to get into real estate as a way to sustain its development and to better respond to its clients' needs and requirements. The launch of Ardian Real Estate aims at establishing the fifth pillar of Ardian's business and needs to be looked at with a long term view.

RP: We are not in an opportunistic mode, getting in and out of the real estate market depending on where we are positioned in the cycle. We are building up a long term business in an industry which does have cycles. Ardian Real Estate aims at being active in the market for the coming 20 years or more, and being recognized as a significant European actor in our industry.

2. Why did you decide to join Ardian?

BJL: I have known Dominique Senequier for a few years, and in several occasions we have had the chance to discuss the idea of launching a Real Estate practice within Ardian. As always, there is a proper time for things to happen and the right moment came within a couple of days at the end of July last year. I was amazed to see Dominique Senequier, Dominique Gaillard, and the Ardian management team taking this move in such a fast decision making mode. This entrepreneurial spirit and immediate trust in people are part of Ardian's culture. It is also a fast moving company and an exciting business environment for all the senior executive people in the real estate team. We are at a stage in our professional lives when we don't need to demonstrate any longer but when new exiting challenges are the booster for our professional energy.

OP: I knew Ardian's name and reputation, as well as the tremendous success of its team in the past 20 years, but never had direct contact until Bertrand set up a friendly meeting with Dominique Gaillard one year ago. I also happened to occasionally meet Dominique Senequier as we are both members of the Council of Attractiveness of the City of Paris. Therefore, it became a natural decision for me to join this new real estate venture once my successor at Allianz Real Estate was in place.

RP: It is a great chance that we could join together to start this new activity in Ardian, all being available to take over a new challenge at the same time. Adding up the experience, the high reputation, and the impressive professional backgrounds of a handful of senior executives like Bertrand and Olivier should be a solid ground on which to build Ardian Real Estate.

OP: It is a very exciting challenge for the real estate team to join the most unique private equity success story in Europe and to work in a "startup" mode for the launch of a new real estate activity within the framework of a very structured, organized, and successful company. Supporting the implementation and the development of a new real estate business in such an environment is the best challenge I could imagine today to follow up with 35 years of various executive positions in major international companies.

3. How are you getting organized and structured?

OP: Bertrand has done an incredible job to prepare the ground for this new activity since he started with it in September last year. It is very impressive for me to be part of a company full of young and very talented professionals, getting all the support, enthusiasm, and energy from the various support teams—from investor relations, to legal, marketing, and compliance to name only a few. You can feel their energy, curiosity, and excitement for this new business of real estate and their ambition to contribute to its success.

BJL: We are building up the Ardian Real Estate team, a European multi-local team, which we believe is going to be an amazing and quite unique group of people in the real estate world. Olivier has built up great multi-local teams at GE Real Estate (Europe) and at Allianz Real Estate (worldwide) and I believe I also did it in my past professional life with Ricardo Bofill, Accor, and Unibail-Rodamco. Since our core business will take place, at least in the coming years, in Germany, France, and Italy where Ardian has a very strong presence, significant business, and excellent people, it has been our first priority to identify the best senior professional executives in each of these three main markets of Continental Europe.

We shall also announce soon the arrival of our Managing Director for France / Northern Europe and of our Managing Director for Germany / Central Europe. Both are well established French and German professionals with impressive investment track record in our target countries and, more widely, with an extensive international experience. We are delighted that they decided to accompany us and complement very well our senior real estate management team.

RP: In addition to this senior management team, we are moving forward with the structuring of the operational real estate teams, respectively in Paris, Milano, and Frankfurt. We are bringing in the best talents of the new generation, with high level educational backgrounds, great professional experience, and already impressive professional achievements. We are amazed to see how the mix of Ardian's name, a startup culture, and the participation of some senior people like Bertrand,

Olivier and myself make an incredible attraction for the best talents of this industry. We know that, in real estate more than in any other business, the quality of people makes the difference.

BJL: We want our investment and asset managers in Paris, Frankfurt, and Milan to be fully in charge of and accountable for their operational business, from acquisition to disposal. We want them to act as entrepreneurs and deal with the properties as if they own them. This entrepreneurial culture is very much how it has been working within the private equity teams at Ardian for the past 20 years, and it will be a main driver for our success in real estate. I have spent a large part of my time in the past six months in the critical issue of building up a unique team. The outcome so far is much better than what I could have dreamed of when I started. It is not yet finished since we expect other key professionals to join in the coming months, including a managing director and a team of real estate professionals based in Frankfurt. We want our real estate of 12-15 persons to work in a very open, horizontal, and empowering structure with a great team spirit and very little hierarchy.

OP: We do want to promote Ardian's multi-local model for Real Estate as a main piece of a successful business development. Every member of the team will have a full alignment and get his or her share of the collective success. It may look a little surprising but, the whole real estate team in Paris shares the same working space place Vendome; it is the first time in my life that I am working in an open space but I love it. It speeds up the sharing of information and the generation of ideas, it helps build a fast alignment, and it supports the team spirit. It is amazing and it changes the communication completely.

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4. How do you see the market trends and how do you plan to address the main challenges of the industry?

OP: There is a clear objective by a number of investors around the world to increase their allocation in real estate both in absolute terms and relative terms. This strategy is identified in most of the reports which record the investors' intents and forecast. This has been confirmed to us during the first series of meetings we held so far with European and North American investors, such as insurance companies or pension funds. This has to be understood in a lasting environment where the fixed income and risk-free government bonds deliver historically low returns. Therefore alternative assets, and among them real estate, are a desirable investment class for most of these investors at a time when interest rates are low and the potential for rental value growth is in sight. This will make the real estate investment market very sustainable in the coming years.

RP: Although the market situation in the main Eurozone countries looks globally good, we cannot stand with the beliefs that the improvement of the market conditions, at a macro-economic level, will be enough to generate sufficient return on real estate investments in the coming years. The cost of financing is historically low, it will probably continue being low in the future, but we cannot gamble on such interest rates to decrease significantly in the future. We share the same opinion regarding prime yields on our main markets of interest: they will probably be stable and sustainable but we cannot expect them to go much lower in any mature market. Therefore, we do believe that the return we will offer to our investors will come from the work on the assets themselves and not from a dramatic improvement of the market conditions. We will need to bring a true professional and economical added value at the asset level.

BJL: Today, the situation has changed: most of the international investors are ready to move a little higher in the risk curve than a few years ago when the two most active segments used to be the core/prime assets sought after by long term institutional investors and opportunistic highly-leveraged acquisition by the US-based fund managers. It is not reasonable to expect a 20 percent return in today's real estate market and to keep a proper risk profile for the investment. We feel that investors will be comfortable with a 9-12 percent return on their real estate assets as long as the leverage and the risk are kept at a reasonable level and the assets are of good quality. This is why we feel that a 50 percent LTV on a core+/value added strategy makes sense in Europe today.

RP: Our main challenge will be the sourcing of large scale assets (€100/250M) with potential in our targeted markets since the investment market has become very competitive in the last couple of years. Having a very senior real estate management team with a combined 120 years of real estate experience will certainly be helpful in this respect. Operating in a multi-local model with a capacity to be fully integrated into the real estate business environment and taking advantage of Ardian's significant involvement in the French, German, and Italian business environment through all the networks with banks and financial institutions will support our capacity to source off-market deals. At the end of the day, Ardian Real Estate will be a European platform which will keep itself active regardless of the real estate market cycles; this will enable us to build long term relationships and consolidate trust and reliability with our main stakeholders. They will recognize that we are in this business for the very long term.

5. How will Ardian differentiate itself from the other large players in the industry and become a major player in Real Estate investment management?

BJL: When looking at the size of Ardian in its historical business, you may think the scale of operations is our main objective, but it is not. What matters is our success and achievement in delivering good results to our clients. There are many very large, good, and respected real estate fund managers around the world which are and will keep being much bigger than Ardian Real Estate. We want to create and develop our success on the ground of our particular strengths and specificities. When many US-based fund managers promote Pan-European real estate funds, they run their business from London and the investments are usually based on a mix of currencies from United Kingdom (pound sterling) and Germany/France (euro). Our main pan-European funds will be euro-based. Ardian is a European firm, mainly active in direct investment in France, Germany, and Italy where it has a strong presence, offices, business connections, and great reputation. Ardian Real Estate will be active in the main cities of the three largest economies in the Eurozone where Ardian has already the strongest position for direct private investment.

OP: We will not run our real estate business from HQ or centralized offices in New York, London, or even Paris. Although our team will always keep a global perspective and all investment decisions approved by the Ardian's relevant governance at corporate level, our operational offices in Paris, Milano, and Frankfurt should be instrumental for operational actions and business undertakings. Real estate is a local business; it is important to look at global market perspectives and evolution, but at the end of the day, you need to act locally, you need to understand your market at the micro-level, and you need to know that a building on one side of the street has a different value than the exact same building on the opposite side of the street. This is what Ardian's multi-local model is: a capacity to share a global vision but to act with a perfect understanding of the specificities of the local market and environment.

RP: The success of Ardian Real Estate will come from our capacity to appreciate the way the local market conditions evolve, secure the right assets, and work out the product to make it fit to the evolving needs of the market. The senior members of Ardian Real Estate's management team have demonstrated in their past professional experience that they have the expertise to beat the market by having a good understanding of the local conditions and by having an efficient asset management and portfolio strategy.

OP: Our multi-local model and our local professional expertise are very well fit with pan-European and core+/value added funds. Many fund managers are based in London, working from a distance and using local partners. We will do the job ourselves, with our own small but very talented teams in each market where we are going to invest.



6. Where are you standing with the fundraising of your first fund and when do you plan your first activities?

OP: As you know, there is a limit on what we can disclose from a compliance/regulatory perspective during the time when a fund is raised. We have received our marketing passport for our pan-European Core+/Value added fund mid-February and we have started our contacts and discussions with potential investors. So far, the reactions have been very positive and we are confident that the process will develop quickly and smoothly. Obviously, we will prioritize communication toward the 470 investors that are already Ardian's clients in our other business lines and with whom we have long lasting relationships. In addition, we believe that real estate might interest investors with whom Ardian has never collaborated in the past and be a gate to enlarge its list of clients.

RP: We all know that the market conditions are tough today when it comes to buying the right asset in the right place and at the right time. Core assets are in demand, mainly by institutional investors, insurance companies, or sovereign funds, and their price is quite expensive, although with a good premium over government bond yields. At the other side of risk spectrum, the opportunistic segment may look attractive but we do not currently feel very comfortable with it. The secondary products in secondary locations may very well be on the wrong side of the obsolescence curve and/or happen to be too far from the needs of the tenants in a market that is evolving very fast. The risk becomes higher for opportunistic investments when, and this is a paradox, a tremendous amount of capital is willing to flow into that segment, thus making the price become relatively expensive. This is why the positioning of our first core+/value added fund has a rationale that makes sense in the current environment and it is why it seems to be positively welcomed by most of the investors whom we have met so far in Europe and North America.



BJL: We anticipate having the fund up and running before the summer and we hope to proceed with our first real estate acquisitions in September or October this year. We are confident that with our professional networks, business contacts, and trustful relations, we will be able to rapidly secure the proper assets to seed our fund. Everything is moving well and ahead of schedule and we are very positive about the future.

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