

Private Equity / Profile

Corestate returns to core values

The economic crisis is effecting all areas of the real estate industry, but private equity player Corestate is continuing to make tracks. With a strategy which includes prioritising good building management, the Swiss-based firm, with founder Ralph Winter at the helm, is proving itself capable of exploiting the knowledge its team enjoys in Germany. But its not all about surviving - 2009 should also be a year of positive progress, as COO Thomas Landschreiber explained to REurope Magazine in the sunshine of MIPIM last month. Addressing everything from private equity's role in the crisis to playing to their strengths, Landschreiber also describes their strategy for their student homes business, one of the stars of their activities, through subsidiary Alta Fides...



Thomas Landschreiber, COO Corestate

RE: THERE'S ONE THEORY THAT PRIVATE EQUITY COULD BE THE SAVIOUR OF REAL ESTATE IN CURRENT TIMES. WHAT DO YOU THINK?

TL: It's true that industry commentators are talking a lot about alternatives to the banks, and private equity could be one of them. Mezzanine loans etc. are certainly feasible, but history shows us that for real estate investment, in most cases it makes sense to use a combination of debt and equity. Private equity companies, too, need some kind of leverage, except for the plain vanilla business plans from pension funds and insurance companies, which require a 5% dividend - there you don't have the leverage effect. Private equity needs leverage however because otherwise they are not able to earn their 15% IOR, and the prices, especially in Germany, are not at low enough levels to allow you to earn 15 or 20% IOR without any leverage. So, yes it can help; mezzanine can help, private equity can help, but in the long term perspective, its not possible to work without banks.

RE: HOW IS CORESTATE COPING WITH THE MARKET CONDITIONS AT THE MOMENT?

TL: The most important thing for us at the moment is to manage the buildings that we have. We have €1.5bn of property under management, the debt is secured, and we can pay interest and dividends to our investors. Its very important in the current climate to build trust with your investors; those companies which are able to secure investment funds need to continue paying dividends, whether five, six or seven percent; the investors will enjoy decent shares when the market improves. We have a huge management team on the ground, on the

other hand; and in terms of new products we see two kinds of investors. Firstly, there are core investors, insurance companies and pension funds which try to find alternative investments to shares and fixed-income bonds; they are interested in residential, which has been a very stable business in recent times, and you can dividend out in a normal, stable resi portfolio in good locations, 4.5-5.5%, which is attractive in the current environment. Core investments also take place in commercial property, in Germany, particularly through the open-ended funds. Then there are opportunistic investors, but they are more or less in a waiting stage as they all think that prices will go down in 2009. Partly I agree, but I think we will see some really good deals this year, and we will see a return of this kind of investor.

RE: I KNOW THAT THE ALTA FIDES STUDENT HOMES BUSINESS HAS BEEN A VERY INTERESTING GROWTH AREA FOR YOU. YOU RECENTLY COMPLETED THE FIRST THREE PROJECTS IN GREIFSWALD, ERLANGEN AND LEIPZIG WHICH ARE BEING MARKETED UNDER THE YOUNIQ BRAND. CAN YOU TELL ME A BIT ABOUT HOW THAT'S PROGRESSING?

TL: This is potentially the most exciting thing that we're doing at the moment. We acquired Alta Fides last year, whose main business is to develop student housing across Germany, in the typical University cities. The interesting thing is that it's a type of residential product, so its very stable, and the worse the economy is, the more students tend to be in education, because they recognise that they have to develop their careers for the future. Its currently the biggest, untapped property area in Germany - there hasn't been a single, main

In an exclusive interview with REurope Magazine, COO of Corestate Thomas Landschreiber talks about the role that private equity firms can play in the current climate, and why their student homes initiative could make a real play for growth even in the economic downturn.

by Isobel Lee

private player capable of developing this asset class across the country, so we want to fill that gap, creating a brand. That way, every student who's looking to study in a city will say, first things first, I want to find a YOUNIQ apartment. Our company is staffed by people with 15-20 years experience in Germany, so they know the territory very well as well as the country's history, as well as finance experts. That way we combine great ideas with financial acumen, to drive the business forward.

RE: IT'S AN EXCITING PROSPECT – ANY MORE THOUGHTS ABOUT GROWING THIS BUSINESS OUTSIDE GERMANY?

TL: I think that we are specialists for the German market, and in other countries there are already firms working on this, such as UNITE in the UK, so we wouldn't want to be a competitor in that market, for example. After the US and the UK, Germany is the third most popular desti-



A "Youniq" apartment, above and below

nation for foreign students in the world. Germany it itself is a great place to roll this out because the field is large, we have

no competition, there is real lack of supply at the moment, and in the next five years the number of students will grow from 2 – 2.7 million, which creates the need for around 2000 developments in the next few years.



RE: WHAT ELSE WILL CORESTATE DO TO GROW IN 2009?

TL: We're creating a core product for residential, for German institutions, next we'll be doing some special situations deals, where players are bankrupt or have problems, some banks in fact have approached us because they need a specialised asset management team for their clients. In this business, we're also going to invest our own money, as well as look for joint venture partners who'll invest with us deal by deal. What is difficult at the moment is getting full discretionary money from investors; they want to see in which deal they're investing their money.