"The French market's relative stability gives it strong appeal"

Winner of the Alternative Lender of the Year: France category at the *Real Estate Capital* Awards 2019, London-based alternative asset manager Cheyne Capital originated €450 million of debt across six deals in the country last year.

A notable transaction was the provision of a €77.6 million construction loan to French real estate investor GDG Group for H2B, an office development in the Parisian suburb of Clichy. The company also provided a €110 million mezzanine loan to LHC, the luxury hotel branch of media company LOV Group, against its hotel portfolio – which included the recently acquired Château La Messardière, a high-end hotel in Saint-Tropez on the French Riviera.

To better facilitate its business in France, Cheyne has expanded its French loan origination team over the past 12 months. Raphael Smadja, the group's head of real estate origination in France, spoke to *Real Estate Capital* about what makes the market so appealing to the company.

Q How has Cheyne gone about making inroads in the French real estate lending market?

A One of the key things for us, as a foreign lender, has been the expansion of our French loan origination team. We are now a team of three dedicated French professionals, within our wider real estate team of 32, who are French-speaking and have a lot of previous experience as well as strong ties to the local market.

Being one of the few non-bank debt providers in the market, we have also worked hard on the practical aspects of lending in France. We have a strong understanding of regulatory issues as well as a good network of advisors, including agents, lawyers and notaries.

This means that when a deal comes up, we are ready and able to underwrite it and close it as quickly as possible.

Developing a platform in the French market has helped us diversify our portfolio, creating a good balance between continental Europe and the UK.

Q What makes the French market so appealing to you, as an alternative lender?

A It is one of the largest markets in Europe. It has an extremely liquid investment market, especially in Paris. That makes it very appealing to property investors.

In addition, banks operating in France are limited in their lending criteria, including lower loan-to-value and loan-to-cost ratios and a focus on income-producing assets. This provides opportunities for lenders to finance assets where banks are constrained.

Other positives are the structural reforms undertaken by the government since

Q&A

Raphael Smadja

Head of real estate origination, France, Cheyne Capital the election of Emmanuel Macron as president in 2017 – especially on the employment front. All of that makes it even more attractive for foreign investors looking at France, which, in turn, creates better opportunities for lenders.

Q How competitive is the alternative lending space in France?

A On the one hand, you could argue that it is less competitive – in the sense that there are fewer non-bank players operating in France than there are in the UK. The French private debt market is probably a little less developed, which provided Cheyne with an opportunity to get in early.

On the other hand, the fact that there are fewer players – and transactions – does make the market competitive. Our competitors are mainly insurance companies, which operate through their real estate debt divisions.

Loan pricing is probably tighter in France than in the UK. However, that does depend on the category of the loan. For instance, we would struggle to be competitive on a 60 percent LTV acquisition of a fully let building in the La Défense business district of Paris.

But if you go outside that bracket of transactions, which are more appealing to banks, there are nuggets of value to be found.

Q What are the most interesting real estate sectors in France?

A The office market is extremely vibrant at the moment. There is quite a bit of demand for office buildings beyond central Paris, in areas such as Clichy, where we recently provided a loan to GDG Group for the new H2B development.

Luxury, which is often associated with France, also remains in demand. Luxury retail and hotels are areas that continue to carry a lot of value. Last year, we provided a mezzanine loan to LHC to support its acquisition of the Château de la Messardière hotel in Saint-Tropez. However, I would say there are some challenges ahead that cannot be ignored. Luxury is dependent on foreign demand – particularly from the Chinese market – and we are bound to see a reversion of the cycle at some point. We need to be mindful of this and make sure we back the very best deals and sponsors in order to have good downside protection.

The head of origination in France for alternative asset manager Cheyne Capital shares his experience of the country's non-bank lending market

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Q What are some of the other challenges of being a lender in the French market?

A For alternative lenders, it is about finding the right balance between getting the best returns and ensuring that we protect our investors' money. That means selecting opportunities very carefully. The location of the asset, as well as sponsorship, are absolutely key in this regard. Another challenge comes from the legal framework, which I would say is more complicated in France than in some other core European jurisdictions. When it comes to security, regulations or employment rules – which are definitely important if you are looking at a hotel or an alternative asset, such as operational real estate – you have to be really careful. That means having the right advisors, which can help structure the best means possible to protect your investors' money.

Q What are the benefits of operating in France compared with other European markets?

A In addition to liquidity of the assets, the French market's relative stability gives it strong appeal. It has less pronounced economic cycles than other parts of continental Europe, such as Italy or Spain. That stability also means France provides more balance and a slightly different investment proposition to the UK, especially in light of Brexit.

Q What headwinds does the French market face in 2020?

A In my view, the main headwinds in 2020 will come from the general economic context.

First, domestically, 2020 is a critical year for the Macron government. The municipal elections are coming up in an already complicated context. The government needs to pursue essential but difficult structural reforms and needs a large consensus to do so. The general social context needs to be monitored carefully as any further disputes will not only have an immediate impact on economic growth – as was the case following the general strikes against pension reforms – but will also lead to watered down reforms.

Second, potential turbulence may come from a trade war between China and the US, and Brexit. Both situations could impact French exports. The consequences of the coronavirus should also be considered, as it could have a negative impact on the luxury sector, which is dependent on Chinese demand.

Despite these headwinds, France remains in a good position for 2020. Unemployment is reducing significantly, especially for skilled workers, and the GDP growth should outperform the eurozone average. With interest rates likely to stay low in the medium term, 2020 should be another good year for French real estate. ■