

Ardian

The investment opportunity in Europe's self-storage and residential real estate sectors

Tom Parker, Institutional Real Estate, Inc.'s executive vice president and publisher, recently spoke with **Stéphanie Bensimon**, head of real estate and member of the executive committee at Ardian, and **Daniel Noeltner**, director in the real estate team at Ardian. Following is an excerpt of that conversation.

Can you describe the investment environment for the self-storage and residential real estate sectors in Europe today?

Stéphanie Bensimon: The self-storage sector in continental Europe is a niche, high-yielding asset class. There is an increasing investment appetite for the sector, but we are still in the early stages compared with more mature markets, such as the United States or the United Kingdom. The U.S. self-storage sector is diversified in terms of supply and advanced in terms of how much self-storage floor space is available. In fact, there is nearly 20 times more self-storage space in the United States than there is in France.¹ Further, the self-storage sector in Europe is a very local business with few large operators present in the market. We, therefore, see a huge opportunity to aggregate and consolidate the market.

Daniel Noeltner: The self-storage sector possesses interesting fundamentals; for instance, the break-even point in terms of occupancy rate is usually under 40 percent, and the current average occupancy at the European level is around 79 percent.² We are at a nascent stage of a very high-yielding sector. Additionally, self-storage ticks a lot of ESG boxes because centers in Europe are not cooled or heated, and they consume little water. These attractive dynamics led Ardian to enter the self-storage space in December 2023 with the acquisition of Costockage, a leading self-storage operator and marketplace in France.

Bensimon: Residential is a growing market in Europe, although it's facing a challenging environment today. High interest rates are making it difficult for developers to build and for individuals to buy. At the same time, most cities in Europe are undersupplied, driven by many factors, such as low emissions requirements, land constraints and city regulations. This high demand and limited supply condition in the residential market makes it an attractive opportunity for investors. Historically, the residential sector was occupied by developers and insurance companies, which owned a lot of residential buildings that now need to be refurbished. Many of these older assets are now obsolete from regulatory and energy-efficiency perspectives, which means that they require a lot of capex investment to finance and manage – something many owners are struggling to do in the current environment. This will open opportunities for investment, moving forward, that were not previously available.

There are also some subsectors within residential we feel are undersupplied and therefore attractive, such as student housing. Given the growth in the student population and severe lack of supply, we think there is a huge opportunity to enter and grow the market, especially in countries such as Italy, Spain, France and Germany.

Noeltner: We entered the residential market last year with the acquisition of a property in Milan. It is a historic building, but it was also obsolete. We've been refurbishing it with high-end

improvements and amenities, and it has been resonating very well on the market. We also acquired a residential property in a high-end area of Paris last year near the Arc de Triomphe, and we recently signed in Milan the acquisition of former and abandoned

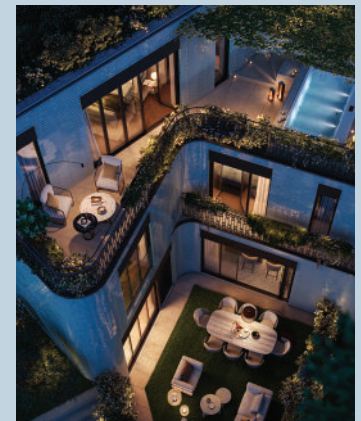
Bird Nest, Paris residential

Bird Nest is a luxury apartment building located in the 16th district of Paris, near the Bois de Boulogne and the Arc de Triomphe, which is a high-end residential area and one of the most sought-after real estate markets. The building has excellent access to public transport and is located near multiple embassies and private schools. Ardian acquired the property in December 2023.



Revere, Milan residential

Revere is a prestigious residential property built in 1898 and located in the historical city center in Milan. It is a stand-alone property that comprises three buildings: The main building overlooking Via Revere, with seven floors above ground and one basement; and two buildings overlooking the internal courtyard. This project is a good example of Ardian's strategy to redevelop and modernize historic properties in excellent locations. This transaction closed in July 2023.



Costockage, France self-storage

Acquired by Ardian in December 2023, Costockage is the No. 1 self-storage marketplace in France and a growing operator. Ardian's investment will be used to help extend Costockage's footprint and build a scalable self-storage platform with the aim to consolidate the fragmented European market.



military barracks with a conversion objective into a residential mixed-use scheme. These assets fit nicely into how we envision the market, going forward. Historically, we've focused on the office space and looked at transforming large obsolete offices into multi-use corporate headquarters – somewhere people could live, work and enjoy, with hospitality-type amenities. This strategy worked well, and we achieved above-market rents, good returns and high occupancy rates. We envision applying the same strategy to other property types, where there is large demand driven by a lack of high-quality projects and the need for greater energy efficiency.

Why is now an attractive time to invest in self-storage and residential real estate in Europe?

Bensimon: The self-storage sector is attractive today for a few reasons. First, the investment market is cheaper, so you can access assets at a better price per square meter. Further, demand is not driven by the macroenvironment, but rather by demographics and socioeconomic shifts, such as the commonly known “three Ds” for self-storage: *death, divorce and displacement (or lack thereof)*. These life events create the need for space, whether people end up downsizing their living arrangements or staying longer in places with little storage because they cannot afford a bigger space. The size of most European residential units has reduced dramatically in the past few years, which means people increasingly need a place to store belongings. The process of leasing space is quick, affordable and convenient, especially with marketplaces and operators such as Costockage, where everything is digitalized.

Noeltner: Put simply, the residential market benefits today from high demand and limited supply, making it an attractive time for investment in quality residential assets with services, which are critically lacking in continental European capitals.

What are the biggest opportunities for investors in these sectors?

Bensimon: In self-storage, the biggest opportunity is to consolidate what is now a very fragmented market and look for ways to improve cash flows.

On the residential side, the key opportunity is driven by the lack of good-quality assets and the obsolescence of current assets. This opens the door to reposition and refurbish assets in prime locations that are not being utilized as they should be. This is also a sector that needs more supply. Developers today are in a

difficult position between the higher costs of building and the rising interest rates, so there is a big opportunity for value-add players like us, who want to enter the market.

What are the biggest challenges for the investors in both sectors?

Bensimon: As mentioned, regulatory challenges, such as zoning laws and building regulations in urban centers, can slow down new developments in both markets. Both sectors also operate very locally. This means you need to have a local team on the ground to handle things such as obtaining permits, which depend largely on the country, or even the city, where the asset is located, and which can vary widely. The local aspect is key and requires the right team – from an administrative point of view, but also operationally. Lastly, the uncertain macroeconomic environment and fluctuating market conditions we are seeing today continue to be a challenge. Because these areas of the market are driven by strong demand, however, we believe we have a good opportunity to buy at attractive prices in the current environment.

What is your outlook on these sectors moving forward, and what changes do you expect to see in the next five to 10 years?

Bensimon: Both sectors will need to become more efficient. Digital tools and AI will help increase efficiency and transparency and drive yield management. They will also help to scale and to increase the traction of these sectors.

Mixed-use buildings will also continue to be a trend. People want to live and work in a more dynamic and integrated way, with access to high-quality services all in one place. There will be significant opportunities, moving forward, to combine office, residential and self-storage to build more sustainable cities of the future.

Noeltner: Combining self-storage and residential makes a lot of sense, especially for student accommodations. Imagine buildings where the top floors are student accommodations and, instead of a parking garage, there are self-storage units on the bottom. These are complementary offerings, and we envision seeing more of these mixed-use assets, going forward.

In residential real estate, we also expect to see an increased focus on sustainable building practices and the integration of services and technology in property management to enhance living experiences.

Notes: ¹ CBRE / FEDESSA *European Self Storage Industry Report 2023*; ² Ibid.

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COMPANY OVERVIEW

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