Trei Real Estate

Developing to hold

Retail parks, multifamily in Germany, Poland and the US

Tom Parker, executive vice president and publisher for Institutional Real Estate, Inc., recently spoke with **Pepijn Morshuis,** chief executive officer of Trei Real Estate GmbH, about the firm's real estate strategies in Poland, Germany and the southeastern United States. An excerpt of the conversation follows.

Can you give a brief overview of Trei Real Estate's investment development strategy and what you focus on? What makes your approach unique?

We have a dual focus: Retail, for one. When the company got started, we only invested in retail real estate, and we still have a sizeable portfolio of supermarkets spread throughout Europe. We sold a number of country portfolios, but we are still very well positioned with the portfolios in the Czech Republic, Slovakia, Poland, Germany and Portugal. We are also a fairly substantial retail park developer in Central East Europe, and that is the business we are expanding, simply because there is a lot of demand and room to develop. The second part of our business is multifamily, which is a fairly new part of the business. We didn't start that until around six years ago, to diversify our own portfolio, and we are investing in Poland, Germany and the United States. We are not buying existing products or income-producing portfolios, but we are constructing new products in all those countries.

What makes us unique? Two things. First, we are a privately owned company. This is a family business; we are currently the fifth generation running the company, and for a private company, we are fairly widespread. The second thing that makes us somewhat unique is that we are a long-term holder of properties, so everything we develop, in principle, we keep for the long term. Every now and then we sell some of our developments, as well, but that has more to do with our allocation within our portfolio than anything else. What we develop could stay in our portfolio long term — I am not talking about five years, but rather 50 years.

Where are your main markets, and why did you choose these particular markets?

Our main markets are Poland, Germany and the United States — each for very different reasons. We have our base in Germany. It is an expensive market, highly saturated and well developed, but it is also a very stable market, and that is why it makes sense for us to invest a good amount of our money into that market. As far as multifamily is concerned, predictability is very high with that investment class. Poland for us is pure opportunity. So much of the real estate we are investing in still needs to be developed. There is no end of shopping centers in Poland, and some office markets are at the verge of being overbuilt, as well. But for retail parks, we are catering to smaller towns with a population of 20,000. A lot of those cities simply do not have any retail infrastructure — there is nothing there, literally — so that is what we are catering to and why we are spread out through Poland. We have seven retail parks in the Czech Republic and four in Slovakia, but the two countries are dominated by only a few large cities: Prague, Bratislava, Brno and Plzen, and perhaps a handful of others. Beyond that, you immediately get to very small villages. In Poland, however, around 200 cities have 20,000 citizens or more. The reason for investing in the United States is that the Haub family has dual citizenship in the United States. Until we started investing in the United States, the amount of their wealth invested there was fairly limited. It is much easier for us as a real estate business to expand into the United States than it is for the other Tengelmann enterprises, doing home improvement and discount apparel, simply because there is so much competition already. In addition, it is a very liquid market, it is a very professional market and a transparent market, and because of those reasons, it is relatively easy to enter as an outsider.

Are there big differences when it comes to rules and regulations?

Rules and regulations in Germany and Poland are converging, and that has everything to do with the European Union. When we got started in 2008, there were definitely fewer rules in Poland than there were in Germany, but with all the EU regulation, the markets have become very comparable. The one thing, however, that is very different between Poland and Germany is exactly what is different between the European Union and the United States, and that is access to politicians and city councils, which is a lot easier in Poland and in the US than it is in Germany. Decision making in Germany is very driven by politics, certainly as far as real estate and zoning issues — there are numerous steps you have to go through before you can change zoning or get permits. The development process and projects in the United States and in Poland can get done much more quickly than they can in Germany. In Germany, if you have to go through a zoning change, we expect it to take eight to 10 years to get a project from initial zoning discussions through completion.

Within those three main markets, where can you get the best yields?

As far as retail is concerned, I would definitely say Poland. Certainly, we get to terrific yields with the retail parks we built. But, as always, yield comes with risk, and the risk in Poland is that we are building in Polish zloty, and we are getting our rents in euros. We have our exposure on the asset side in Polish zloty, so we need to get some additional return to make up for that. Then again, we don't hedge simply because we have a long-term commitment to Poland, but retail returns in Poland are really very good as far as retail parks are concerned. But where it concerns multifamily, the United States delivers the best returns. On average, the projects we develop get a 6 percent net initial yield, which is substantially higher than in Germany. In Germany, we get to around 3.0 percent or 3.5 percent on new developments, but, once again, there is a big difference because predictability and stability in Germany are very high. With your 12-month leases in the United States and 50 percent turnover annually, your volatility can be much, much higher, besides the fact that with all the rules and regulations in Germany, your rent is never going to go down, whereas in the United States, it could go down.

What kind of properties are you looking to develop in the US Southeast?

Our strategy there is purely focused on class A multifamily in larger cities. We have looked at a number of opportunities in Atlanta but never really got convinced. We are in Charlotte and Raleigh, NC; we are in Nashville; we are in Charleston, SC — all cities where you have good universities, good quality of living, cities that are fairly affordable and that offer economic and job growth. We are now looking at North and Central Florida, which means three, if not two, cities: Jacksonville, Orlando and Tampa. That is as far south as we will go.

German investors seem to have been hesitant in the past when it comes to entering the US residential market. What is the main reason for that? Do you think it might change?

I think it is changing as we speak. There is continuous increase in interest in the US market, and I think one of the reasons why German investors were hesitant in the past is, first of all, the US dollar, which is a perceived risk. Basically since the early 1970s, the US dollar has been stable — it has had its ups and downs compared with the European currency, but if you look at 1970, the US exchange rate is exactly the same as it is today. Another reason, of course, is that real estate is a local business, so you need to know the cities, you need to know people, you need to have an office yourself or have very trustworthy partners, and it is much easier from Germany to look for something like that in the Netherlands or in France or even in Poland than it is in the United States, simply because it is farther away. I think that is changing now because everyone understands how professional, liquid and transparent the United States is, and you actually can get better returns there.

How do you find the ideal partner when it comes to development overseas?

We have a top-down approach. We first looked at where we wanted to be — what cities do we want to be in, and then where within the cities? We did a lot of research to identify the up-and-coming neighbourhoods in which we wanted to invest. The challenge then becomes finding a local partner. We have our own team in the United States, with an office in Charlotte, NC, with a few very experienced people. Because of that, we know exactly what to look for. We have our own development background here in Europe, so we also know what to look for in development partners in the United States. We look for trustworthy people with a track record. We need to understand what they have done in the past, how that went, why they did that, etc., so we spend a lot of time understanding the people we might work with. When we feel comfortable, we will take the business risk together with them, but we need to make sure they know what they are doing.

You recently announced you have found a joint venture partner for retail parks in Poland. Why did you seek one, and what were the criteria you were looking for in a partnership like that?

Within our portfolio, the retail parks sector was getting to its limit. We allocate our money by country and asset class, and we are hitting the maximum there. At the same time, we are still seeing a lot of potential for further development in Poland for the next five to six years. That is why we started looking for a partner. We were looking for a partner that is entrepreneurial, because we are developing in an immature market — so someone who understands what risk is, understands the opportunity, can quickly and easily make decisions based on the experience we have with the local markets — and that is what we have found. We have found a very entrepreneurial partner, also with a base in Poland, so they understand the country, and they have experience in retail parks in cities with a population of 20,000.

CONTRIBUTOR

Pepijn Morshuis

Chief Executive Officer

Trei Real Estate

Pepijn Morshuis has served as CEO of Trei Real Estate since 2015. His responsibilities include international transactions, asset management and development. Before joining Trei, he spent 19 years working for Dutch asset manager The IBUS Company, the last 11 years thereof as its CEO. Morshuis brings 25 years of real estate experience and has been responsible for development and repositioning projects involving office, residential and retail properties in Europe, the United States and Asia.

CORPORATE OVERVIEW

Trei Real Estate is a German real estate company that acquires, develops and manages customised and sustainable residential and retail properties. As a wholly owned subsidiary of the Tengelmann group, it concentrates on real estate investments and developments in Germany, Poland, the United States, the Czech Republic, Slovakia and Portugal. It has €1.3 billion in assets under management, with the proprietary portfolio accounting for €1.2 billion thereof, and another approximately €1.2 billion worth of developments in the pipeline.

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