

By Charles Keenan

SIICs—France’s version of real estate investment trusts—are still in their early stages as an industry, yet offer investors plenty of opportunities, a panel of executives said Wednesday at NAREIT’s REITWeek 2008: Investor Forum[®] in New York.

SIICs, short for “sociétés d’investissements immobiliers cotées,” were created in 2003 as part of an international trend of the securitization of real estate. While real estate markets everywhere have felt the strain of tightening credit markets, macroeconomic fundamentals point to a solid outlook for SIICs in France, the panel said.

“The real estate market is very healthy,” said Mark Inch, chairman of the **Société de la Tour Eiffel** (EPA:EIFF), a Paris-based SIIC that specializes in offices. “There is a balance between available space and tenant demand.”

The French real estate market has a better outlook than other countries using REIT regimes for a variety of reasons, according to the panelists. The office market, for example, is not as reliant on financial company tenants, which have suffered worldwide when credit tightened. Only 11 percent of offices tenants are financial related, vs. more than 30 percent to 40 percent in London.

“It is a very sound market because the tenants are very diversified,” added Jean-Paul Dumortier, president of **Foncière Paris France** (EPA: FPF), an office SIIC, and chairman of the **Fédération des Sociétés Immobilières et Foncières**, an organization that represents SIICs. “There is no over supply today.”

Meanwhile, the market hasn't fallen as low as other REIT countries in Europe, yet still offers investors a deep discount. The FTSE EPRA/NAREIT France index is off 8.7 percent over the last 12 months vs. a loss of 26 percent for Europe. That said, SIICs still trade at a 15 percent discount to net asset value, according to Institut de l'Epargne Immobilière et Foncière, a Paris based research firm.

Meanwhile, private equity money is flowing into France, helping to support values. "There is a wall of money coming from private equity arms," said Alban Lhonneur, the moderator of the panel and analyst at **Citigroup** in London. "There will likely be more buyers."

The recent credit crisis also presents an opportunity for SIICs. No longer will prices be bid up into the stratosphere by foreign funds relying on bank credit. "We had been living for two three years where there was so much competition coming from aboard," said Alain Chaussard, co-chairman of **Affine Group** (EPA:IML), a commercial property SIIC based in Paris. "It was difficult for us to find assets that fit our criteria. It is a little easier now."

SIICs are in their infancy relative to their U.S. counterparts. As of May, there were 49 SIICs with a combined market capitalization of \$53 billion, according to IEIF. The three largest companies account for almost half of the market capitalization.

The structure of SIICs are viewed as the one of the least restrictive REIT formats, despite recent revisions by the French government to recently cap shareholder ownership at 60 percent of outstanding shares. A SIIC pays out a minimum of 85 percent of profits to shareholders and must have a minimum of 15 percent of free float of its shares, which are shares available to the public. Yet SIICs only have to distribute 50 percent of capital gains to shareholders.

Securitization of French real estate also has plenty of room for growth. Companies ranging from retailers to industrials are choosing to sell off their holdings to real estate specialists and redeploying the capital. They now benefit from legislation that gives them a tax break for selling real estate assets to SIICs: the capital gains are half of the typical corporate rate of 33 percent.

That type of structure may give SIICs an edge in the years to come. “The French SIIC regime is undoubtedly the most attractive of any where in the world,” Inch said.