

## "The driving force behind real estate is debt"

ERIC DOTHÉE (EAGLESTONE)



The real estate market is sluggish. Developers are struggling to sell their properties and release new projects. Here's what Eaglestone Luxembourg and its CEO Eric Dothée think about it.

**Can you take us back to the beginnings of Eaglestone Luxembourg – still a young development company, seeing as it was only founded in 2015 – and its portfolio?**

Eric Dothée - "The co-CEOs of the Eaglestone Group, Nicolas Orts and Gaétan Clermont, had connections to Luxembourg through their previous activities. So there was a natural affiliation with this country, and Eaglestone Luxembourg arrived in a fairly buoyant market. We have always mainly concentrated on the urban market, with projects predominantly in Luxembourg City and have demonstrated an appetite for offices and residential properties, as well as projects to upgrade existing buildings.

The portfolio will reach a first phase of maturity this year, since we are going to deliver our first major operations, namely the Prism office building in the Cloche d'Or, the mixed-use Prince building in town, and The Arc at the Central Station. Last year, we delivered the Shades residential building in Hollerich and the New Yorker building in Bonnevoie. For these buildings, which were both purchased by a Belgian family office, we achieved synergy within the group: Eaglestone Group has a stake in the Belgian aparthotel company Smartflats and 23 apartments in the New Yorker project are operated by this company, in addition to the 14 units already present on rue Adolphe Fischer, in Luxembourg. Previously, we also delivered the G-Forty. For projects in development, we have Brooklyn in Bonnevoie, a city district undergoing renovation which meets the principles of the '15-minute city', and the office building project The Nest at the Cloche d'Or, which will allow us to create the office that fully meets the expectations of the future."



The Nest will be developed at the Cloche d'Or. (Illustration: Eaglestone Luxembourg)

**You are active in residential real estate. How do you view the challenges currently faced by this sector?**

"Housing is a complex subject, because the land was purchased at a very high price. All the urban planning and technical stages, etc., which take time and are therefore expensive, were accepted in advance, because the products were sold at an increased price. These 'errors' were then absorbed and accepted. But now we have to deal with both a drop in prices and technical and harsh administrative constraints. For developers, it has become a complicated asset, because it is also very greedy in terms of capital investment. Today, the crux of housing revolves around its financing. Private individuals can no longer borrow as easily as a few months ago, and the State does not offer any tax measure with sufficient incentive to get the ball rolling again. Investors, who are also pan-European, are looking elsewhere. The demand is there, but the money no longer is. But the driving force behind real estate is debt."

**As a developer, is it also more difficult to obtain loans?**

"To obtain the money required to realise a project, you need liabilities – a 'track record', equity and debt. Today, Luxembourg banks are no longer providing, or almost no longer providing, loans to developers. They are in the process of conducting a major review of their customers, ranking them and making prudent choices. Only those with solid credentials will retain their confidence."

A number of new developers have tried to secure financing from banks but also from other financial lenders with securitisation, because the market was very profitable. This was demonstrated by the Cenaro case. Many projects in Luxembourg are carried out thanks to money provided by large families, pension funds or international insurance companies. As of now, these fund providers are taking a different view of returns in Luxembourg, because they are global players. And at the moment they can get better results by putting their money elsewhere."

**For Brooklyn, which is your project in Bonnevoie, you nevertheless managed to obtain a financial guarantee of completion from a major local bank for lot 1, which consists of two residences comprising a total of 44 units.**

"Yes, and we are very happy with it, because it indicates confidence in our project. I think it will reassure buyers. But we had to change our business plan and agree to start construction only with 30% pre-sale (Editor: whereas a 70% pre-sale is the norm). This represents a major financial effort for the developer and its financial partners. The real concern is financing at the start of projects. Once a project has been launched, in general, potential customers gain confidence and are reassured about the delivery."

**What do you think about actions taken by the State to facilitate housing?**

"The State is completely disconnected from reality. It owns land and takes an infinite amount of time to develop it. It builds at unrealistic prices. There is a huge problem in terms of productivity among public developers.

Changing the Bëllegen Akt by EUR 10.000 is not enough. Nowadays, global deltas are of the order of 10-15% on properties with an average value of EUR 1 million, i.e. a difference of at least EUR 100,000. The State must encourage the customer to buy residential property with a much stronger tax incentive. Luxembourg used to be a 'businessocracy', if not a democracy. Today, we are neither."

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Eric Dothée, CEO, Eaglestone Luxembourg

**Would you be interested in building affordable housing?**

"Eaglestone Group does this regularly in France. Affordable housing is not a problem as long as there is liquidity of the product and clear rules."

**Would you like to position yourself in this segment in Luxembourg?**

"Today, there is no real dialogue between the private sector and the public sector...You should also know that the specifications requested by the public sector differ from those of a developer. Developer-builders will surely have a healthier appetite for this type of product."

**What would you then require in order for the situation to change?**

"The State should, for example, hold competitive tenders for projects to develop its land. This would make it possible to deliver high-quality, innovative architecture. In this context, the developer then has little capital to contribute before the permit is granted and the pre-commercialisation has begun. We must change the financial burden on land, which is too 'capital intensive'. Pan-European developers are aware of this. To own 10,000m<sup>2</sup> in Luxembourg requires an investment of EUR 30 million. For that price, you can have 30,000m<sup>2</sup> in Brussels. Our directors and shareholders have to take a different view. That's a lot of

money to have tied up, and profitability melts away like snow in the sun. We must not lose sight of the fact that real estate, before becoming a project, is a product that must be financed, and that most often by European investors, by global capital that seeks the best profitability."

**"IN THE PAST SIX MONTHS, MANY PROJECTS HAVE BEEN STARTED FOR WHICH OWNERS ARE AIMING TO RESELL AT A PRICE JUST SLIGHTLY ABOVE THEIR LEVEL OF DEBT."**

Eric Dothée, CEO, Eaglestone Luxembourg

**Land prices are falling at the moment. Do you see an opportunity there?**

"True, land prices are currently falling by around 20-30%. There are two types of owners: the historic owner, who has a cost price of almost zero; and the owner who has bought something with a view to reselling it. The historical owner does not budge, he waits for the moment to pass. On the other hand, the other owners generally have financing obligations to repay. In March 2022, they merely paid a low rate of interest on the land. But in March 2023, interest rose sharply. In addition, banks must manage their risks and are now asking for a capital repayment and an amortisation of 5%. Overall, we pay four times the financial burden compared to a year ago. As a result, the owners of this land have to draw on their cash, which is not limitless. Therefore, in the past six months, many projects have been started for which owners are aiming to resell at a price just slightly above their level of debt. The world will be a different place before the year is out. The developer Atenor, for example, saw this coming and that is why it decided to take action to preserve its cash."

**In terms of offices, the market seems to be holding up...**

"These are not liquid assets, but there are net occupancy requirements. A state-of-the-art building is attractive because companies are aware that they have to accommodate their employees in buildings of a high standard in order to be competitive, to retain their teams and to attract talent. In addition, rents are indexed and can be amortised. The office market therefore remains more attractive than the residential market. However, the problem of financing office buildings remains difficult for developers, because they concern larger areas than those of housing. Here too, the banks will exercise caution and will finance much less where risk is involved."

**What are your development prospects?**

"We look for good deals. We still make offers, but we are more cautious than before. There are always lots of properties to renovate in the real estate stock, whether in the residential or office sector, where many properties need to be put on the path of taxonomy, since ESG has become a major issue.

A project like The Nest, for example, represents everything that is good about our profession. Because, in addition to having land, an architect, an engineer and a builder, we are

developing a product that should still be viable 30 years from now, a property that has been designed for its occupants, while keeping in mind a certain element of competitiveness. Companies nowadays are looking for offices for their teams that inspire creativity and communication. As Luxembourg is a rich country with an educated population, we have a promising breeding ground for this type of development, as well as global flagship companies that understand this approach. These are buildings that certainly cost more, but they are sought after. It's a chance for the developers who are a bit visionary."

**What solutions could you suggest to improve the situation regarding the residential market?**

"Perhaps the State could devise a sovereign wealth fund of the kind adopted in Singapore, where they have a strong State-led housing policy encompassing different levels of property for different classes of occupants. Because the problem of housing in Luxembourg doesn't only concern the less affluent classes. The problem concerns the working class much more generally. In Paris, for example, there are different types of housing for public service personnel. A chief medical officer may have access to a different type of apartment than a nurse, for example. It's not only about accessible housing for the poorest families – the State could make different products to meet different demands. The local economy could also be exploited to make the circular economy work. And the essential lever is taxation. Paper-based real estate could be an option. Producing housing is not the most complicated thing in the world. What we lack is funding. We have to prime the pump again and remember that we are very dependent on international capital."