

Real Estate Strategies With Jaume Sabater, Founder & CEO of Stoneweg



Acquisition - Project V is a substantial income generating asset in Milan built for and occupied by Eni S.p.A., an Italian multinational active within the oil and gas sector. It was acquired in June 2017 as a tenanted office complex which also comprised some retail units.

Hi Jaume, could you give us some background on your firm Stoneweg and how your approach to real estate differs from other funds?

Stoneweg Group is a real estate investment platform, which structures real estate mandates and provides advisory services for real estate portfolio optimization.

The investment philosophy is based on a bottom-up approach to project execution / selection.

We tend to cultivate a flexible structuring approach. We have 360 degrees brainstorming with our partners, such as RJ Management, not only on the investment but also the structuring level.

We also have strong local teams in all markets we invest in, and 80% of ours teams are fully focused on asset management. This strong local presence with highly experienced and skilled local teams, makes a real difference.

Thanks to this global presence we have been able to invest € 3.6 billion in more than 240 acquisition and investments, since inception in 2015.



Jaume Sabater, CEO, Stoneweg

Stoneweg now runs 6 strategies in 6 countries (Switzerland, Italy, Spain, the US, Ireland and Andorra plus the “European Diversified Opportunities” fund). Can you share with us some insights about your opportunity identification process, scaling methodology and synergies between these strategies?

Our motto is “Our Product is the Opportunity”. Our local teams have developed strong local networks which are the main source for our investment activities. Thanks to this presence in the different markets and to our experience and our analysis capabilities, we are able, not only to originate, but also to structure and develop unique off market opportunities in different locations and asset types.

Our two main strategies are: equity and debt

- Within equity, we have 2 sub strategies: pure developments (we develop and then we sell) and income assets (managing the property to obtain a rental income). Spain and Ireland are good examples of markets where we have been active in developments. US, Switzerland and Italy are examples of markets where we mainly focus on income assets.
- In our debt business line, we have mainly focused on Bridge Loans in Spain as well as NPLs (“Nonperforming Loan”) in Italy. But we have the ability to originate this kind of opportunities in other markets as well.



Development - On May 28th, 2019 in Madrid, Stoneweg presented its new project “Skyline Residential”. The project consists of two 25-floors height towers which will accommodate 600 dwellings boasting 1,2 and 3 bedrooms.

How we scale our methodology and create synergies among these strategies? I would first mention that we only do real estate and nothing else. We are specialists of Real Estate investments.

At Stoneweg, we all speak the same language and we structure ourselves in a way that guarantees on one hand, that we keep the focus by having specific teams by location and strategy, and on the other hand that we create synergies and leverage on our team’s potential. This is only possible by having local transversal committees/teams in which we discuss/monitor the activity in the different business lines. On top of that, we have global and transversal teams that monitor the global activity ensuring consistency and quality.

A good example of how our model works and how we leverage on our different skills is in our debt strategy: when a potential borrower presents us a deal we use all our internal capabilities to analyze the deal as if we were about to enter with our own equity. Why? Because we already have analyzed and invested in similar deals through our equity teams and have therefore inhouse tools, people and skills to do so.

The Swiss real estate market has experienced a major takeover by institutional investors (insurances, pension funds, real estate SICAV). This shift seems to expand to other markets in Europe. What are the consequences in terms of opportunities and expected returns?



Commercial Income - iLife, in Etoy, is indicative of the Swiss Realtech investment strategy; this is a newly constructed complex of flexible office, education, restaurant and entertainment spaces. On acquisition, the team created a tailored asset management plan specifically addressing the tenant mix.

Market conditions in the swiss real estate market, where cap rates and yields are extremely low, and competition is very high are leading investors to look for alternatives. We believe there are 2 different ways to look at these alternatives:

1. Differentiate yourself within the swiss market getting out of the usual “easy” investments. We can illustrate that with our Swiss Realtech strategy (that RJM supports). Our focus here is purely on assets that will benefit or resist the impact that the digitalization is going to have on real estate investment. In this approach we can target 150-250 bps additional return compared to traditional real estate investment
2. Diversify out of Switzerland looking for higher yields and less mature markets (in a need of institutionalization). An example of this is our PRS (Private Rented Sector) in Spain. There is a solid and unstoppable trend in favor of the residential rental market versus purchasing in the age range of 45 or less, but 97% of total rented units in Spain are managed by individuals. There is a clear gap, and a huge opportunity for new professional players, in a market that offers interesting and stable income for long term investors. Institutional investors are helping to improve the quality in terms of property management and opening a new market in Spain for residential rental developments.

Real Estate Bridge Financing has become a hot topic in Europe. Could you tell us more about the do's and don'ts of such investments?

I fully agree it is a hot topic today and it is no coincidence we have been active in this market for the last 3 years

Alternative lending is:

- Targeting the gap where the banking industry has low appetite (e.g. early stages of the development land acquisition, license management, use change or buildings under construction) and
- Complementing the investor equity and increasing the IRR.

I would focus on the “don'ts”: you should never invest in something you don't understand. In this case it means you should not invest in a deal in which you do not understand the borrower strategy or if you think the numbers he is showing are too optimistic. The capital structure proposed by the borrower should also be balanced and adequate. Avoiding LTV's above 75% is key to protect nominal. Finally, our experience shows that financing luxury houses or mansions is also much more at risk as luxury prices (and perception of what is luxury) is very volatile.

If you focus on the don'ts, the do's become natural.

Borrower experience and track record are key; we want him to have equity injected in the project, but also a clear exit strategy or alternative exit scenarios.



Bridge Loan Financing- Project “Byblos” is an example of a bridge loan which Stoneweg provided in Spain, based on the underlying collateral valuation, the notional value / LTV, as well an analysis of the borrower. There was a first lien mortgage debt, with an attractive underlying as collateral. This was a hotel complex, with substantial golfing facilities. As with all projects, the progress of the loan was measured against clearly defined milestones and the loan was successfully repaid in April 2019.

You recently explored the launch of a Residential Development Strategy in Ireland. Can you tell us more about this new venture?



Development Ireland – Cork Street (Dublin) – 1.062 acre site located in Dublin City Centre -300 unit shared accommodation

There are 2 key elements for us when deciding to start a new strategy/market:

- Is there an economic opportunity?
- Do we have a local team or partner?

In Ireland, as you had the opportunity to analyze for your own clients, the market offer very attractive opportunities, thanks to a favorable macroeconomic environment: asset values are depressed, there is a strong governmental support for residential developments as demand is boosting but there is very limited capital available for developers and landowners.

We believe that Ireland is in a similar market cycle as Spain was 5 years ago with very few players with equity available.

But we were missing a team or partner there. Luckily, thanks to our large network, we identified and hired a specialist of the local market who has both experience on the real estate's equity and debt markets in. Thanks to him and another colleague we have been able to develop a strong local network and are becoming a key player in this niche market.

In the current context of fear and uncertainty – how do you perceive the COVID-19 impact on your investments and what would you recommend in terms of real estate strategy allocation?”

We find ourselves in the midst of a very challenging social and financial situation. Events are unfolding nonstop and we are operating in an environment of uncertain and often conflicting information. We are facing a novel virus that will take a substantial toll on human life, radically alter day-to-day life in the coming weeks and months; it will significantly harm our economies in the very short term as it affects consumption on the demand side and, on the supply side, services and products. But this is not a systemic failure. It is, however, the first pandemic of the interconnected world, where the news coverage of events is minute-to-minute and markets - which hate uncertainty - react accordingly. As authorities and the general population gather more information on the virus, the effectiveness of responses and policies should improve. Life should gradually return to normal as the virus is contained, better understood and more effectively treated over time. All regional governments and political parties from all ideological background are united to face this pandemic and its impact on the economy.

Current situation is evolving too quickly to draw already concrete conclusions. What we can share is our conviction that real estate is a sector which will (on its majority of sub-sectors) resist well to this temporary situation; this is due to the fact that people will continue to live somewhere but also that rental contracts exist and will in their majority be honored.

Off course sector by sector the situation is different:

- Residential real estate for rent should not in our view be impacted by this situation as we are already seeing decisions or discussions from many governments (local or national) to ensure individuals will keep their liquidity in this context. Construction projects (of any sector) will definitely be delayed depending on supply chains and restrictions imposed on site, but we don't expect, at the moment, an issue in terms of values/prices over time.
- Assets linked to hospitality services, as well as variable contracts on income or activity, will be the most affected due to their high sensitivity in to demand which almost disappeared.
- Office, retail, logistics negative impact will be depending on exceptional measures to be taken by authorities to support the companies, most critically the small and medium ones.



A woman walks in an empty street in Turin

I believe is important to assess situations that are over-levered, with limited coverage ratios or projects that are dependent on short-term funding for their execution, as they are the more exposed in the current environment.

The team grew from 8 to nearly 100 people in 4 years. How do you manage your time to ensure efficiency and performance remain at the heart of your strategies?

The people are key to success, and we have been able to gather a group of great talents. We have a motivated team sharing the same views and objectives. I try to have a close relationship with everyone, but I cannot and should not, of course, manage all of them directly. I do believe in a direct line of reporting with maximum 5-6 people. We take management issues very seriously, it is a big responsibility towards your collaborators, and we have to be 100% there for them, in order to provide clear objectives, the necessary tools to reach them and direct objective feedback.

Off course another important topic is implementing the processes. Based on our prior experience, we have defined clear processes that help us to reach our objectives. We are not new players in this field and we knew since day one how we should be structured; in any case it is important to revisit regularly the way we work to adapt to the growth of the company.

Internal reporting is another important tool. Local teams are responsible for sourcing, due diligence and report both to local and group committees. Our teams at group level ensure what local teams execute is in line with initial strategy and deviations are immediately reported.

Last, but not least, finding the right balance between process and reasonable freedom and flexibility in all positions is very important for us. We want to remain flexible in order to provide our partners and investors with the best opportunities.

What is the investment / project you are the proudest of?

The project I'm the proudest of is without any doubt, Stoneweg itself and not a specific investment.

Few years ago, Stoneweg was just an idea and, today, thanks to our investors and partners, but also to the enthusiasm and hard work of our teams we are a hundred and have all the elements to continue growing: a great skilled and experienced team with strong roots in all markets in which we operate, almost 5 years of track record that demonstrates our ability to deliver and the same enthusiasm we had when we started.



Left to right: Jaume Sabater with Cyril Roditi. Xavier Roesle & Eric Roditi

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