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# KEYNOTE INTERVIEW

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## Making the French connection



*Local knowledge is the key to unlocking lending opportunities in France according to PIMCO's Roman Kogan and PIMCO Prime Real Estate's Roland Fuchs*

PIMCO Prime Real Estate head of European real estate finance, Roland Fuchs, and PIMCO's global head of private real estate debt, Roman Kogan, reflect on 2024 and evaluate prospects for the year ahead for the firm, which won our award for Alternative Lender of the Year: France,

**Q How were lending market conditions in 2024?**

**Roman Kogan:** It was a robust environment for origination – not to the same extent as in 2021-22, which was a more buoyant market, but in line with 2023. There was a steady dealflow, much of it refinancing and development financing activity.

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Acquisition financing activity remained relatively modest because of the uncertain interest rate environment, which kept some buyers and sellers from agreeing on mutually acceptable prices. Despite the challenges presented by continued macroeconomic uncertainty, the credit environment was generally healthy because lenders were able to lend on the basis of corrected real estate values against assets that demonstrated good underlying performance. Interest rates remaining elevated also meant they were able to achieve

higher returns while taking lower risk positions.

**Q Your firm was awarded alternative lender of the year for France. What drove your success?**

**Roland Fuchs:** In our view, France is the most sophisticated and diverse lending market in continental Europe. There is good availability of finance across the capital stack, for every type of situation from core to distressed, from a combination of bank lenders, debt funds and established asset managers like us that have expanded their lending activities over the past decade.

We started building up our lending

book in France in 2012 and it now totals approximately €3.5 billion, around half of which is core and half transitional lending. We also have a team here to manage our equity investments.

In France you need to have people on the ground with both origination and asset management capabilities. That is not just because of the language issue. France is still a very local market in the sense that you need to be able to identify the right areas and assets in which to invest. For inner city schemes, which are an increasing focus for us, managers need a detailed understanding of the location, especially in large, diverse markets like Paris.

**Q PIMCO was involved in the €347 million financing of the Canopia project in Bordeaux. What attracted you to the scheme?**

**RF:** It was the largest urban regeneration financing opportunity in France last year, a 67,000-square-metre project that was 20 years in the making. The chance to be involved in that kind of scheme comes along very rarely.

It is located between the Saint-Jean train station and the banks of the River Garonne and links the two together. It will completely redevelop the area for a mixed-use scheme including retail, offices, student housing and hotels. It is the sort of project that goes beyond the normal scope of real estate financing to become involvement in the development of the city's urban infrastructure.

We are providing the senior finance alongside a French partner. We know the developer, Apsys, well from other transactions in Europe. It supports our strategic vision to focus more on inner city, multi-use, transitional opportunities. We believe those will be the assets that are most fit for the future.

**Q Did the French market present specific challenges in 2024?**

**RF:** The challenges in the French market are associated with the

opportunities. The French market is huge; the office market in Paris alone is around 55 million square metres. In one neighbourhood you can have an office market with 25 percent vacancy and asking rents of €200 per square metre, then five minutes by public transportation away, a neighbourhood with zero vacancy and asking rents five times higher. You need to understand which locations will attract tenant demand and be very selective.

If you have that local knowledge, you can find attractive transactions on the lending side. In France, as in the rest of Europe, there is good liquidity for real estate lending, although acquisition activity remains comparatively slow. However, we have begun to see some large deals recently, particularly for retail assets.

**Q Will France be a particular focus for you in 2025?**

**RF:** Around two-thirds of the PIMCO real estate platform loan book is located in the UK, Germany and France, with the remainder in Benelux, Central Europe, Spain and Italy. We have a pan-European mandate, and we go where we find attractive opportunities for our investors. But France is always on our radar, and I expect we will be continuously active in this market.

If you take a secular medium and long-term view – as we do as an asset manager mainly providing services for insurance companies and institutions – the French market still looks like a good prospect.

**Q What do you see as the main challenges and opportunities for European real estate markets in 2025?**

**RK:** The pipeline of lending transactions is not as healthy as it was two years ago because investment market activity, especially on the core side, has not yet fully recovered. Many core investors are still on the sidelines. Occupier market conditions still look healthy, particularly for prime assets,

*“France is the most sophisticated and diverse lending market in continental Europe”*

**ROLAND FUCHS**

with increasing bifurcation between the most and least attractive properties.

The secular growth story for logistics still holds true, but the pricing overshoot of a couple of years ago has reversed. That sector, like the European market in general, is less dynamic but also healthier.

Because interest rates have stabilised, we expect to see more borrowers seeking to refinance in 2025. Last year we saw that trend take hold in the UK market where the cycle is more advanced. When the value correction has fully crystallised then refinancing discussions come back to life, investors look to buy and sell, and that generates lending opportunities.

The main challenge will be increased competition. A lot of capital has been raised by alternative lenders that is awaiting deployment, and the banking market is still healthy. Nonetheless I am optimistic that we will see a good level of financing opportunities this year.

In 2024 we mostly saw smaller deals, some of which were pure equity transactions. But more real estate is being traded again. The asset class is still appreciated as an inflation hedge and a long-term investment product. Lot sizes are becoming larger and with interest rates stable levered buyers will return to the space. ■

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