

Investments/ Exploring America

How much does a pied-à-terre at Manhattan bring in?

Sorgente SGR has launched its winning idea; to buy office blocks to convert into apartments. Neogothic New York will be renovated to suit European tastes. And the new fund is preparing for revenues of 10%. The company is Italian but it has a decidedly international flavor. Star Source Financial Services, already owned by the Holding company contributes to its promotional activities in the United States. However the frontier has been fully breached thanks to the Michelangelo Fund which has acquired a stake in Michelangelo Properties, which operates under American law. This is the company's vehicle to flank Star Source and is destined to develop the funds' activities the other side of the Atlantic. The choice to initiate their international dealings in America was dictated by a precise calculation: "We were convinced by the fact that prices are falling, not to mention the weakness of the dollar," stated CEO Valter Mainetti. "We will buy buildings to restructure that are historical, in the sense that they date back to prior to the Second World War, in order to renovate them to create added value and business opportunities. Our objective is to build up a portfolio that is able to yield a higher revenue than possible with the performance of the Italian market.

Sorgente is therefore hunting down historical buildings in the Big Apple, the "must-have" for many Americans and more especially for foreigners who choose to live there. "We turned our attention to Manhattan in particular because there are millions of people who love New York and would like a pied-à-terre in the Big Apple. They all love this part of the city, especially the Europeans. We've had to focus our efforts also because New York is so big that it is necessary to concentrate our search in order to operate. Indeed we have chosen the Downtown area," added Mainetti, Buildings to purchase will be office blocks to retain for their rental value and also company headquarters that can be converted. In this case it would be a condominium conversion, a formula Americans are already familiar with for which the building would be freed up and converted into a condominium.

It is a much easier solution for company headquarters because once the rental contract has expired the company can move offices. Also because these historical American neo-gothic style buildings are beginning to become obsolete and adapt well to residential conversion. The Sorgente bet was not based purely on chance: "the margins are very high, over 10%. The properties can be rented out or sold. We are still examining two purchase proposals. On average each building costs 100 million dollars and has a surface area of 400 thousand square feet which is \$250 per square foot. This would be \$2,500 per square meter. Calculating that it resells for \$800 per square foot following renovation (approximately \$200) we can achieve definitely interesting levels of performance.

Forty thousand square meters can be turned into approximately 500 apartments of 70-80 square meters each. Buildings in New York have an average of 20 floors and are therefore bigger than those we are used to seeing in our cities. The end users of these residences are yuppies working in the stock exchange: "they're not intended for the luxury client as would be the case with apartments around Central Park. We will rent or lease them as elegant units for young professionals working on Wall Street. The fund which owns them will be open to European and American institutional investors." This will therefore be the only SGR fund to operate under American law.

Besides the Michelangelo Fund, Sorgente also has two other active funds, the Caravaggio which invests in office space and the Raffaello which will involve both office and residential properties. The assets managed by the funds amounts to one thousand million euros excluding those that will form part of the most recently created fund, the Donatello, which has just received approval from the Bank of Italy. The new fund geared to the US market will open to subscriptions in 2006 following the purchase of at least two buildings.