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**“WHY WE WANT TO BUY A LISTED COMPANY”**

The savings management instruments at which it excels are no longer enough for Sorgente SGR. The company is considering how it can take advantage of the new plans for urban renovation that are appearing. With a listed company based on the French tax model. It's a warning: those who rely too heavily on leverage could end up getting burnt.

Sorgente SGR is one of the pioneers in Italy. The real estate investment fund market holds no secrets for the company that has a managed equity of well over a billion euros (which could however reach 2.5 billion including leverage) and which has the charming habit of naming its products after the most famous artists of the past. The Michelangelo Fund had yielded over 10% by December 3, 2004, Caravaggio, preparing for floatation has a variation of 8.57% NAV compared to its placement value. Recently the Bank of Italy has also authorized the subscription in kind product Donatello with a value of 300 million euro. But there is something new on the horizon: Sorgente also wants to include real estate operations with a preference for development, to be carried out through a listed company, in its core business.

"One of our next objectives is the creation within the group of a listed real estate company. We have two paths we can take: either to create it ex novo and then float it, though this would take two to three years, or acquire control of an existing company. To this end we have contacted Mediobanca," CEO Valter Mainetti tells us.

**Why so much interest in a listed company?**

Because we have come across many opportunities for development and it would be rather unconventional to exploit them through an investment fund. Many of our subscribers are urging us to form a company instead of a fund that can concentrate on development. We can, therefore already count on two partners ready to guarantee capital.

**However this would not form part of your core business. And then aren't you worried about the tax penalties for a property company compared to a fund?**

We have always carried out fairly unconventional property acquisition operations in the search for buildings to partly restructure and then rent out. During our searches we have often come across opportunities that, with a higher level of risk, could bring home much higher yields than those we are used to. We have chosen not to take advantage of them either because the risk level was to high for the fund or because they were too complex from an urban planning point of view. I must admit that the tax element does worry us somewhat. We are used to managing funds for which we absorb lower tax costs and in the meanwhile we hope that the real estate business will soon be modified at legislative level.

**On the one hand there has been a negative view of instruments available to the real estate operator, on the other, the choice to back up the fund with a different product. This means that in the near future you envisage increasingly narrower yields.**

Not exactly so. Recently we have come across many more operations regarding development projects compared with those with standing income and we'd like to exploit them using an instrument that is more suitable that the fund. We do not come from the banking division like many savings management companies but rather we have a consolidated history in real estate and we believe that to be able to invest at 360° in the real estate market you need to have a traditional property instrument that is highly developed from a financial point of view and recourse to a listed company, therefore, seems to us to be the right course of action.

**Don't you think it a choice that runs counter to current trends that see many listed companies are switching over to becoming management funds like Aedes which is turning to the property investment fund sector in its new business plan.?**
It's not that we want to transform the savings management company, that certain. We have a holding company that controls the management company to which we'd like to add a listed company. We have also considered opening a speculative fund through the listed company with the authorization of the Bank of Italy. However a listed company can lend a certain weight to the group which is just what an operator like ourselves with 2.5 billion euro of potential investment needs. Considering the enormous value of the properties, it will, moreover, also provide an instrument to enable us to find solutions for the properties rather than selling them off, once the fund has expired,.

**Today, funds are a very popular investment instrument, how do you interpret the increase in recent years.**
The growth of savings management companies and funds is something to be hoped for as the more the market expands the more mature and developed it is and the better guarantees it provides for subscribers. However we don't agree with the so-called "tax funds" that is products with one or two subjects who use the OEIC merely to cut costs, transforming a collective organism into an individual one for personal gain. Certainly, there may be a single shareholder behind a fund but it should be a listed company or a foundation with thousands of members. Instead, I believe that the fact that real estate dealers could consider transferring their properties into a fund only to obtain the best tax benefits to be technically improper, even if it were allowed within the law.

**But the authorization process for the creation of these funds is a complex one and they are subjected to very strict limitations …**
Indeed, I'm not sure that the Bank of Italy can authorize funds whose only purpose is to save tax… I hope this doesn't happen. For example, our Michelangelo Fund has just thirteen subscribers but they are institutional investors that have millions of members.

**Don't you think that the regulations governing funds are lacking in clauses that block tax evasion operations or on conflicts of interest in transferring the buildings?**
I don't think that the Bank of Italy or the Consob regulations are lacking. I believe that these watchdog authorities are capable of blocking certain operations based on mere tax interests. It may be necessary for the Ministry of Finance to issue a clarification forbidding management companies from setting up funds simply to save on taxes. A bit like when the ministry clarified that cooperatives should not seek profits but rather the interests of their members. When the fund is not a proper OEIC then it should become a property company.

**Looking beyond the tax problem, what principles do you think should inspire any eventual reform of property companies?**
To my mind, the reference model should be the French one which could guarantee the particular qualities of property companies. In order to avoid the abuse of funds, the ideal thing for tax purposes would be to legitimate a company that fits midway between a fund and a traditional non property company.

**After 5 boom years the market panorama for operators has changed a lot. There are large companies like Pirelli RE that didn't exist before, then there are the developers like Risanamento. How, on the other hand, can we rate the new players like the real estate dealers who nowadays are taking stakes in large banks and are interested in funds?**
They are not developers in the traditional sense. There are listed property companies, there are large investors. Then there are a whole lot of newcomers who it's impossible to classify and that only time will be able to crystallize into a category. Among them, some will remain and others will change sector. When a sector goes through a boom period new operators that didn't exist a few years before spring up.

**At national level you are cautious and negotiate many deals abroad. Is it a sign of globalization or is Italy too small for you?**
In realty we are putting our know how and experience of situations we know particularly well to good use. That is why we took advantage of the opportunity in Manhattan. There we are buying at approximately 2,000 dollars per square meter in an area near Wall Street, whereas in Italy prices are less advantageous.

**So that means our market is stronger than that in America or maybe it's less flexible with more standardization of prices towards the top end?**
The Downtown New York market is still feeling the influence of the attack on the twin towers. We are talking about obsolete office blocks to transform into condominiums. We can't generalize for the whole country. As far as the Italian market is concerned, I don't think we've reached exasperation levels for the price of "professional" buildings, we still come across buildings with a yield of 7%. Without doubt, yields are falling especially around town centers which are the most interesting for us but it is within acceptable levels considering the revaluation there has been to date. And this also depends on the number of new operators that have joined the market. These players are prepared to pay much higher sums to purchase properties and have a very different approach to our own.

**In what way do they differ from yourselves**
Despite considerable available liquidity we are more cautious than they are. It wouldn't be wrong to call us "old economy". We don't believe in being easily transported. We set ourselves targets of one and a half billion even though with leverage we could rise to two and a half billion. There is massive recourse to loans also in the U.S.A. There are entrepreneurs who control properties worth 150 million dollars with an equity of just 10 million. They complete transactions very fast and are content with lower margins. Their approach is justified by the maturity of the American market and the derisory tax costs. In Italy the rhythms are much slower, the market is more tired and exaggerated stamp duties discourage fast trading. It is in fact the younger players who tend to buy at over-inflated prices and hold onto the property for too long, thus paying increasing levels of interest. I don't know how they manage to keep going. Maybe then we shall will be the ones to buy from them.