

The increasing demand for buildings with a high energy standard is changing the real estate industry. Many stocks are sold because of the costs. Real estate investor Richard Apfelbacher from L'Etoile Properties Funds is using the niche that has emerged and launched his first broken core fund at the end of last year.

The sustainability trend is gaining ground in the various sectors of the investment industry and does not stop at the real estate industry either. In an interview with Fundview, real estate investor Richard Apfelbacher from L'Etoile Properties Funds in Hamburg explains: “We are currently seeing a real ESG tsunami - the topic is part of almost every conversation. In the meantime, you have to create facts about this and have yourself measured against a benchmark.”

In his opinion, this means that many portfolio holders who already have a large allocation for offices have to deal with potentially obsolete portfolios in order to at least refurbish them energetically so that they meet the requirements of the new regulation. Because if buildings no longer have a certain energy standard, they may no longer be allowed to be rented out.

In November last year, Apfelbacher reacted to this development by launching its EP Sienna IM European Broken Core Office fund. “With our fund, we are positioning ourselves in the right niche at the right time. There will be portfolio holders who cannot or do not want to manage such a renovation financially or with personnel and would rather sell such portfolios,” he explains. This in turn creates opportunities for the broken core fund, but also for core plus and value add investors who are able to upgrade such buildings and sell them back to core investors who need security, who take on the construction and rental risks, resulting from non-ESG compliant buildings. “So we are looking for buildings with a small tick, which we remove so that the building can be counted as a core building again. As a result of the ESG issue, we expect that there will now be an increasing number of motivated sellers who want to sell their holdings,” said Apfelbacher.

### **Cities in addition to the top five in Germany are also interesting**

L'Etoile Properties Funds supports international investors in their core markets of Germany, France, Spain, the Netherlands and Great Britain. “Up to now we have not had any German investors in Germany, as they mostly invest independently in their home market. That is changing with the launch of the Broken Core Fund. So far we have accompanied French, Spanish, Finnish and Korean investors into the German market,” says Apfelbacher.

When it comes to investments in Germany, international investors usually look at five to a



maximum of seven cities. The top five are Berlin, Hamburg, Düsseldorf, Frankfurt and Munich. Stuttgart and Cologne or Cologne and Nuremberg are the next most important cities. Apfelbacher explains: “In Germany there are many more investable markets than in centrally oriented investment markets and much more information that you have to understand than, for example, in France or England, where international investors actually invest almost exclusively in Paris and London.”

Apfelbacher therefore also classifies cities such as Dresden, Leipzig, Karlsruhe, Mannheim or Augsburg as exciting locations: “These are cities that are located in economically strong regions and where there is population growth. If people want to settle and live there, then they can also work there. And where there is work, you also need office space. So there are actually a relatively large number of locations in Germany that you can buy from this perspective.”

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