



CEGELOG (France)



Project Background

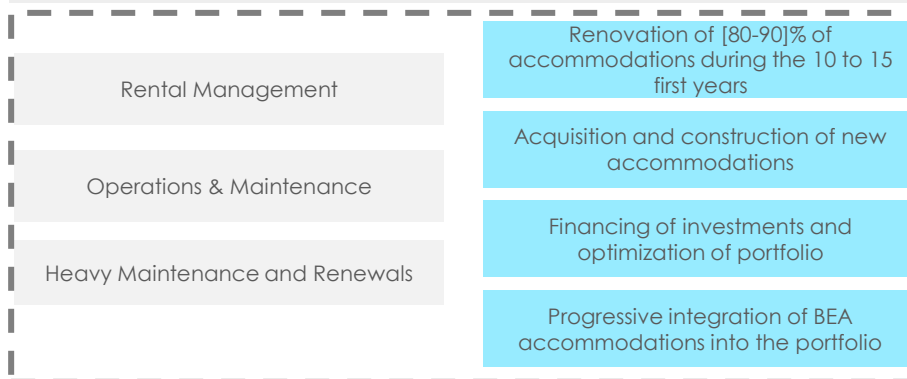
KEY FEATURES

- The “*Contrat d'Externalisation pour la Gestion des Logements domaniaux des Armées*” (“Cegelog” or the “Concession”) aims at **enhancing and enlarging the housing offer of the Ministry** under budgetary constraints.
- The Concession relates to the management of accommodations mainly dedicated to the Ministry's personnel under a scheme similar to social housing.
- Total duration of the **Concession (or PPP Contract) is 35 years**.
- The portfolio concerned by the Concession comprises **c. 8,300 accommodations with an additional 4,000 to be included over time** as their respective long-term lease agreements (“BEAs”) expire.
- Total Capex is over **EUR 1bn** in the first years, amount doubled in the course of Concession.

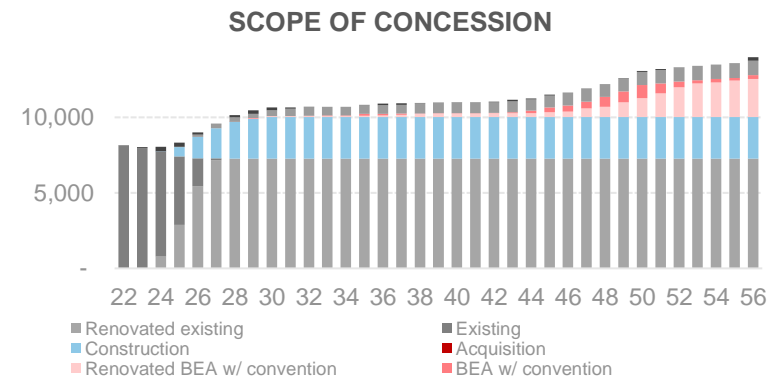
OBJECTIVES

- **Improve services offered** to the Ministry's employees.
- **Increase quality of accommodations**, whether through construction of new or renewal of existing accommodations.
- Stabilize or **increase the number of accommodations in strategic areas**.
- Adapt the Concessionaire's activity to the **Ministry's new housing management tools** (GALILEE property management system): internet portal providing information and services to the Ministry's employees.

SCOPE OF CONCESSION



NUMBER OF ACCOMMODATIONS WITHIN THE SCOPE



Asset Description

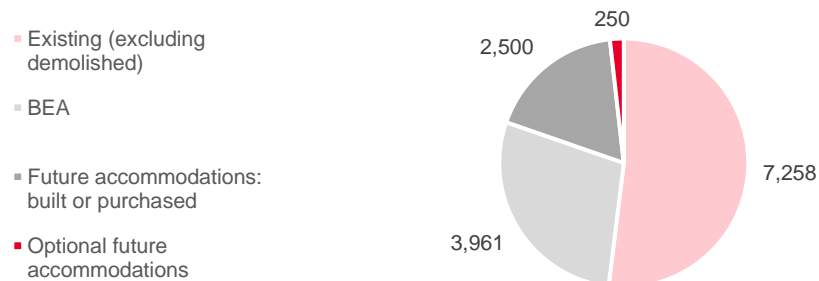
TYPE OF ACCOMMODATIONS WITHIN THE SCOPE OF CONCESSION

The scope of the Cegelog Concession is as follows:

8,258 existing accommodations belonging to the MoD

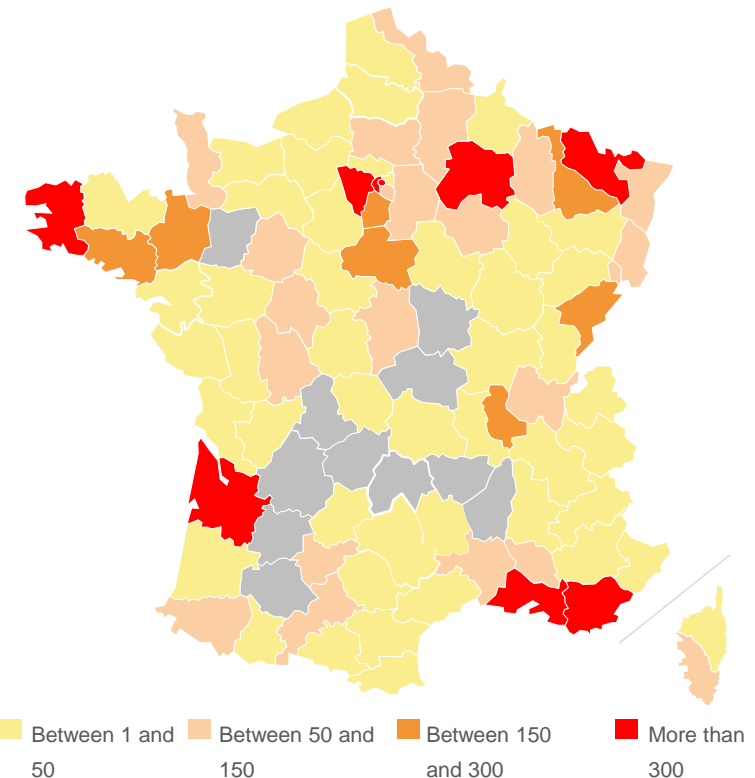
- + **3,961 accommodations under BEA agreements**, to be integrated in the scope of Concession over time. A BEA agreement (*Bail Emphytéotique Administratif*) is a long-term lease. When a BEA matures, the corresponding asset is transferred to the Ministry and enters the scope of Concession:
 - + **2,500 accommodations to be built and/or acquired** based on a program made up by the Consortium, in accordance with the Ministry's demands.
 - + **250 optional future accommodations.**
 - **1,000 accommodations to be demolished**, both within the "New Accommodation Program of the Ministry" (for replacement) and within the program of optimization of the portfolio by the Concessionaire.
- = In total, **up to 13,969 accommodations managed.**

13,969 ACCOMMODATIONS ON THE LONG TERM



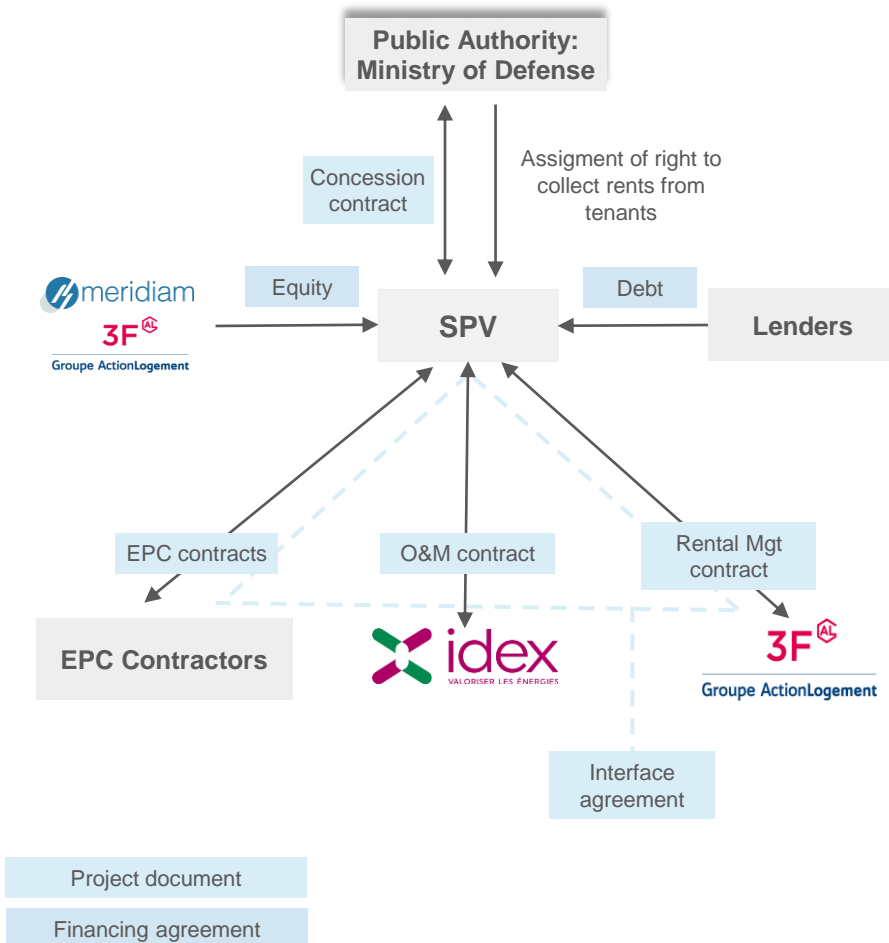
GEOGRAPHIC REPARTITION OF EXISTING ACCOMMODATIONS UNDER THE CONCESSION

Accommodations are grouped into 6 administrative areas: Ile-de-France, Metz, Rennes, Lyon, Bordeaux, Toulon.



Contemplated Structure & Contractual Framework

The contemplated contractual framework features standard project finance risk allocation with O&M and construction risks passed to the subcontractors



COMMENTS

- 4 EPC contracts will encompass refurbishment works and construction.
- EPC subcontractors will include experienced and reliable mid-size construction companies, some of which having extensive experience in French PPP / procurement.
- It is worth noting that given each EPC contractor has its own geographical area and that construction penalties are on a per asset basis, interface issues should be very limited.
- Idex will sign an O&M and property management contract with the SPV.
- 3F will be in charge of the relationships with tenants through a rental management and operational assistance contract.
- A standard interface agreement will be signed between EPC, O&M and Rental Management contractors.
- Very large scope with multiple small operations - harder to manage than one unique project:
 - Need to choose the right contractors that can run this kind of spread-out work
 - Important to consider that smaller contractors can not accept the same penalty regimes than bigger ones

Please note the above structure is presented indicatively and is subject to change



Focus on the Revenues

The **Concessionaire will be in charge of collecting the rent revenues**, however the revenue risk is strongly mitigated through a subsidy scheme:

- An **operational subsidy** to compensate the difference between what the military tenants are paying (discounted revenue between 30% and 50%) and what the housing units are really worth
- A **construction subsidy** because the Concession lengths doesn't allow enough time to fully amortize the constructions (it takes c.60yrs in social housing to amortize a building vs. 35yrs length of CEGELOG concession)

The commercial risk remains low during the whole life of the Concession

To build its business plan, the Consortium has been provided by the Ministry with a database detailing the collected rents, the level of vacancy and the level of unpaid rents for each housing complex.

Furthermore, the **Consortium has conducted a thorough market analysis, with a leading housing valuation expert**, to determine for each neighborhood within the scope, the market level of vacancy and the rents.

Rental Value Estimation methodology

- For each building in the portfolio, the market value has been analyzed derived from **experts' databases** and from their own local expertise.
- Advising expert worked with its local branches to conduct local visits of a major part of the portfolio – they have assigned a **tailored rental value** based on the property attractiveness, state, amenities in the area (schools, shops, leisure, etc.).
- Those values was then refined using 2 of the most recognized **valuation tools of the market**
- These 3 rental market data sources complement each other and have made it possible to correct certain discrepancies that may exist, particularly in the most remote locations
- From this extensive market study, **Foncia has determined 3 values for each address: Poor, Average and good condition value – then used by the consortium to determine rental values before and after renovation**

Vacancy rate

- The Ministry in its dataroom gave a lot of historical data points for vacancy rate (monthly % since 2015)
- Sponsors used those historical values combined with the market vacancy rates provided by the experts for each location to determine the BP target vacancy rates.



Bid Evaluation Criteria

Bids will be evaluated on a scale of zero (0) to one hundred (100), by using the following criteria

LEGAL AND FINANCIAL CRITERIA (40 POINTS)

•Amount of public subsidies (20 points)

- The NPV is calculated at 1.25% and the criteria is as follows:

$$\text{Criteria} = 20 * \frac{\min(\text{NPV from all bidders})}{\text{NPV of the candidate}}$$

•Legal and financial strength (15 points)

- Sharing of the project risk (including the proposed guarantees);
- Other commitments or recourses asked to the MoD.

•Weighted Average Cost of Capital (WACC) value (5 points)

- The WACC criteria will be calculated as follows:

$$\text{Criteria} = 5 * \frac{\min(\text{WACC from all bidders})}{\text{WACC of the candidate}}$$

with **WACC** = proportion of equity * cost of equity + proportion of debt * (debt margin + 20-year swap rate)

TECHNICAL CRITERIA (60 POINTS)

• Rental management (15 points)

- Quality of service;
- Costs cutting;
- Relevance and credibility of organization proposed.

• Construction (15 points)

- Environmental and technical quality of accommodations;
- Relevance and credibility of schedule proposed;
- Relevance and credibility of organization proposed;
- Environmental considerations on construction sites.

• Renovation (15 points)

- Environmental and technical quality of accommodations;
- Relevance and credibility of schedule and organization proposed;
- Environmental considerations on renovation sites.

• O&M – heavy maintenance and renewals (10 points)

- Quality of O&M and level of commitment in terms of heavy maintenance and renewals;
- Commitments quality regarding the state of accommodations at the maturity of the Concession contract.

• Quality of bid in terms of management and organization (5 points)

- Information systems;
- Territorial organization (resource repartition) and governance.

In case of tied offers, the technical criteria will prevail.