

Successful financing for Eindhoven's industrial landmark

# Trudo brightens up the 'City of Light'

Eindhoven is changing from a sleepy provincial city into a vibrant, creative enclave. You can literally see the city changing. Everywhere in the "City of Light" industrial heritage is being made suitable for housing, employment, culture, and entertainment. One of the accelerators of this gradual transformation is the Trudo housing corporation. Zanders helped Trudo find financing to acquire and renovate the imposing Klokgebouw, an industrial icon in Eindhoven. It marked the start of a far larger operation.



Consultant Iris Hensen and Controller Nicole van Kempen at the Lichttoren, one of Eindhoven's industrial icons.

Trudo is anything but a run-of-the-mill housing corporation. It's no coincidence that Trudo's slogan is Dare to be different. This daring is reflected by Trudo's transformation of the centre of Eindhoven. Trudo likes getting its teeth into impressive, high-profile projects that give Eindhoven an identity all of its own. Trudo's most ambitious project is arguably the development of Strijp-S. This old, run-down industrial area in the centre of Eindhoven is being re-designed, renovated and "returned" to the city. "The size of Strijp-S means that, almost overnight, we can give Eindhoven some urban allure," says Nicole van Kempen, controller at Trudo. Strijp-S is destined to become Eindhoven's second city centre. "At 28 hectares it is just as large as the city's present shopping area." It is an expensive operation and also one with a hefty impact on the financial position of the corporation. Trudo currently has a real estate portfolio worth more than EUR 200 million. Over the coming 10 years this amount will double or perhaps even triple.

One of the first Strijp-S buildings that Trudo purchased is the listed Klokgebouw, a former bakelite factory of the Philips group. This impressive building dating from 1930 has six floors and floor space of approximately 30,000 square meters. The total investment comes to EUR 30 million. To fulfil these plans Trudo required financing of EUR 15 million. The money will be used to turn the building into a truly cultural site including a multi-company building for creative enterprises that also houses various social functions. However, the Social Housing Guarantee Fund (WSW) is unable to issue a guarantee for this particular mix of functions. In January 2009, at the height of the

crisis of confidence in the banking sector, the Eindhoven housing corporation ventured into the commercial money market and fairly quickly found a partner in Rabobank.

## **Trudo Monumenten BV**

A few years ago Trudo established Trudo Monumenten BV. This private limited company acquires and maintains listed buildings like the Klokgebouw. The Trudo Foundation rents the building from the BV. This allows exploitation to be embedded at the Trudo Foundation and assures the banks of a reliable and affluent main tenant.

Commercial financing on the strength of cash flows is unique in the housing corporation world and requires rock-solid validation. That is why Trudo and Zanders started in January 2009 by producing a well thought-out financial business case. The case was used to test enthusiasm among lenders. Iris Hensen, a Zanders consultant, was closely involved in the project. "Nowadays commercial financing is not purely about comparing percentages. You also need to look at the offers, at the required collaterals and at the room for negotiation." Van Kempen adds: "We are very quick learners. One of the things we learned was how a bank looks at a financing case, the risks, and the tenants. These are lessons that we will take on board in new projects." The offers that the banks submitted for the EUR 15 million financing were in line with what we expected. However, the risk premium was higher than Trudo was accustomed to and the banks also wanted a liquidity premium. Nevertheless, Trudo was satisfied. "As interest rates are low, we are still financing at



the average rate at which the loans portfolio of the Trudo Foundation is financed,” says Van Kempen.

#### Lichttoren and Strijp-S

The next project is the commercial financing of the Lichttoren, another Eindhoven icon. Trudo needs financing of EUR 25 million for the Lichttoren. This will be followed by the rest of Strijp-S, again a combination of housing, employment, and social real estate. It will take Trudo until at least 2017 to develop the area. But this project can be financed with a guarantee from the WSW. Van Kempen explains: “WSW raised the guarantee limit to EUR 240,000 so in principle all the homes can be guaranteed. Moreover, the guarantee fund allows plinthing (other rentable space in a building consisting of at least 80% dwellings below the rent benefit ceiling).

One third of the total investment costs may be under the plinthing scheme for social or commercial amenities with a regional function.” Trudo now faces the challenge of generating sufficient cash flow, particularly now that the corporation is not going for the big fish but inexpensive business premises for entrepreneurs and public authorities. Hensen notes: “Trudo will undoubtedly go through a dip over the coming years. It is very important to keep doing the arithmetic and to stay in control.” Van Kempen agrees. “We are working on it all the time. Every week buttons are being pressed in order to develop the Strijp-S project optimally. Our very strong solvency position provides a good basis, but at the end of the day the cash flows determine the degree to which we can finance.”

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#### Excellent cooperation

Zanders and Trudo work well together. Van Kempen explains that they needed a partner who could act as a kind of sounding board: “What we need most is somebody who looks over our shoulder and points out our alternatives. We need someone who can say whether offers are in line with market standards, somebody with experience of models who can assess our ‘financeability’, for example. But at the same time we need somebody who allows us to get on with the job on our own. Zanders does that very well.” The feeling is mutual. Hensen observes: “Trudo has always been a little bit different from the rest. And it’s obviously terrific for us to be able to contribute to the financing of a project like the Klokgebouw.” <



► MORE INFORMATION ABOUT THE EXCEPTIONAL PROJECTS THAT TRUDO IS DEVELOPING IN EINDHOVEN CAN BE FOUND ON THEIR WEBSITE AT [WWW.TRUDO.NL](http://WWW.TRUDO.NL). IF YOU WISH TO KNOW MORE ABOUT THIS CASE FOR HOUSING CORPORATIONS AND ABOUT THE DOS AND DON'TS OF COMMERCIAL REAL ESTATE FINANCING, PHONE IRIS HENSEN ON +31 (0)35 692 89 89.