Undoing Kering property bets may dent foundations

The $34 bln Gucci owner is grappling with falling sales and rising debt. Flogging some of its $5 bln of real estate therefore makes sense. But its strategy of selling stakes in flagship properties only chips away at the problem, and vacated stores risk rivals like LVMH moving in. LONDON, Aug 28 (Reuters Breakingviews) - Kering (PRTP.PA) , opens new tab may find its real estate empire makes for a flimsy safety net. The $34 billion Gucci owner has suffered from falling revenues and rising debt. Incoming CEO Luca de Meo could flog more of the group's 4-billion-euro ($5 billion) store portfolio to ease the company's ballooning leverage. But selling stakes only chips away at the problem, and vacating plush addresses could hand rivals a leg up.

The French luxury firm has spent 3.9 billion euros building up its real estate empire since 2022. Last year, Kering bought 715-717 Fifth Avenue for $963 million, securing a top retail location which stretches over 115,000 square feet – around the same area as one-and-a-half soccer fields – in one of the world's most popular fashion districts. Last April, it also splurged 1.3 billion euros on Via Monte Napoleone 8 in Milan – one of the largest retail sites on the city's luxury strip.

This shopping spree preceded a particularly ropey time. Kering has lost over 50% of its market value in the past two years amid plummeting sales from Gucci, its biggest brand. To shore up extra cash, the group has begun flogging some of its real estate. In January it raised 837 million euros by selling majority stakes in three Parisian buildings to private equity firm Ardian, while keeping 40% of the project. Deputy Chief Executive Jean-Marc Duplaix said the deal was “smart and efficient”, and hinted that the same model could be applied to Gucci's Fifth Avenue flagship in New York, the Milanese trophy and another Paris site.

This strategy is an attempt to avoid bigger challenges. A fire sale could erode value further: the company already booked capital losses this year on its Paris transactions. What's more, ceding full control could open the door for Bernard Arnault's $300 billion LVMH (LVMH.PA) , opens new tab or another competitor to take up prime locations, eroding brand prestige and perhaps sales.

Still, de Meo is in a tricky spot. Holding on to 40% of a building rather than cashing in 100% won't tackle the company's near-10-billion-euro net debt pile, which equates to nearly 3 times the 3.6 billion euros of EBITDA it is expected to deliver this year, as per forecasts compiled by Visible Alpha. Shouldering this debt while leaving cash on the table means rivals, with cleaner balance sheets, can invest more aggressively in marketing, products, and growth. The new boss could accelerate disposals to shore up finances and plough capital back into Gucci. But he's likely to find out that playing both landlord and tenant creates more problems than it solves.

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