Q&A: CRAIG BENDER, ING REAL ESTATE

ING REAL ESTATE FAVORS GLOBAL APPROACH

Last month, *REFI* sat down with Craig Bender, head of U.S. real estate finance at ING, to discuss the company's strategy as a greater number of banks, non-bank, and commercial mortgage-backed securities lenders enter the debt space. This influx of new participants, coupled with a decrease in new acquisitions, is driving prices lower, according to Bender, but ING is leveraging its experience lending on high-quality, trophy assets in gateway cities with repeat customers to carve out a niche in the new environment. Recently, the bank teamed with HSBC to finance the acquisition of the Cheesegrater building in London which Bender discusses below.

REFI: Can you give our readers a brief overview of ING's real estate finance group?

CB: ING is global financial institution with headquarters in Amsterdam and real estate finance is part of our global Wholesale Banking platform. In Europe, we are a dominant real estate lender and were the number one book runner for real estate lending in 2016. In other markets, including the United States, we are more of a boutique lending group. We differentiate ourselves with our global network of real estate specialists and our structuring and distribution capabilities.

We are a floating-rate lender and hold at least a portion of all of the loans we originate on our balance sheet. Larger transactions are typically syndicated. We are also experienced in underwriting and distributing subordinate or junior loan positions to non-bank lenders such as pension funds, insurance companies and private equity firms. We are comfortable underwriting fairly large positions, which is important to our client base, who typically are acquiring or refinancing large trophy assets or portfolios of assets where debt facilities may be $1bn or larger. In the United States, the assets we finance are typically in the larger gateway markets

REFI: In which international markets is ING active?

CB: We have teams of real estate specialists active in every major international real estate market with the exception of Latin America. Our real estate finance teams are in Amsterdam, London, Paris, Frankfurt, Madrid, Milan, Warsaw, Sydney, Singapore, and Hong Kong, [as well as in the U.S.]. Our clients can access any international market through their local ING office and the service remains the same around the world.

Our global management team is located in Amsterdam. The management team sets our strategy and risk appetite, and coordinates client coverage, particularly for our global clients. I don't think there are any other real estate lenders in the market that are as well coordinated as we are across the globe.

REFI: ING recently teamed up with HSBC to provide £644m of financing on the Cheesegrater building at 122 Leadenhall St. in London. Can you tell us more about your role in that transaction?

CB: Several of our global offices played a role in financing the Cheesegrater building. It is one of the premiere office towers in London and was acquired by a high net worth investor from Asia. The buyer was familiar with ING from our activities in Asia. Our track record of successfully financing other trophy office assets in London was also a huge plus.

REFI: You've provided debt for several other large trophy assets in London including the Gherkin [at 30 St. Mary Axe]. Why have you been so focused on this part of the market?

CB: These large financings require a lender that is willing to take on a big underwriting position and also price and structure the loan as efficiently as possible for the syndication market. We have one of the strongest loan syndications teams in Europe. The team has a real-time view on investor appetite which allows us to offer the most efficient pricing and structure to the client. In addition, the large global investors that [have] recently [been] buying these types of assets are seeing value in working with a global financial institution that can offer them consistent execution in the different markets and countries where they are allocating capital. I think this was also true for the financing of the Sony Building in New York City in 2016 for a Saudi family where we had previously financed other acquisitions in London and Paris for the same investor.

REFI: Have you noticed any changes to covenant structures recently?

CB: We haven't seen much movement in loan structures over the past six to 12 months. On the top-tier assets that we compete for, banks seem to be competing more on price than on structure. Tighter covenant packages will be found on higher leverage deals or assets in secondary or tertiary markets but we are not looking for those types of deals.

REFI: U.S. real estate valuations are hitting all-time highs across the country. What are the implications of a future market correction on your business?

CB: The valuations we're seeing here in the U.S. are largely a function of international capital. Negative interest rates in Asia and in Europe have those investors seeking positive yields outside of their home markets. Therefore, the amount of capital flowing into the U.S. is significant.

Most people agree that we're at the peak, but they're wondering how long we'll stay here and how severe the correction is. As a lender, we feel comfortable because we typically sit at a very moderate leverage point, which is somewhere between 55% and 65% of today's value, on really high-quality assets and with well-capitalized sponsors. Overall, we feel good about where we are and of our ability to weather any type of correction.

REFI: What else are you paying attention to in the current market?

CB: Competition has increased due to the growth in the number of lenders and a decrease in acquisition activity. For one, there has been a big resurgence in the floating-rate commercial mortgage-backed securities market, particularly in the single-issuer space. That is something that impacts us because the single issuer deals are typically done with the same types of sponsors and assets that we look for, so we are often competing with some of the CMBS lenders on floating rate financing requests.

We are also competing with some of the non-bank lenders, such as debt funds and insurance companies, that have entered the floating rate space. In particular, there has been a significant amount of capital raised by debt funds. All of this has had an impact on pricing which has come down significantly since the beginning of 2017. As pricing starts to reach bottom, we will be watching for lenders that start to loosen loan structure as a way to compete and differentiate themselves.