Trends in the European real estate lending landscape

The 2013 ING/Nyenrode Survey conducted among international institutional real estate investors reveals how banks could help to improve access to funding in a tight European market.

Nyenrode Business University from the Netherlands and ING Bank Real Estate Finance ('ING REF') recently conducted a survey among some 30 ING clients who are considered experts in the European listed and institutional real estate sector. The results confirm that the real estate lending landscape has changed significantly over the past few years, and reveal interesting viewpoints in respect of the future. Not only has attracting sufficient funding been elevated as an important strategic issue in the boardrooms of real estate companies and funds, most respondents also highlight the need for banks to take on wider roles to support the sector adequately in the long term.

Jan-Evert Post, member of the Global Management Team, ING Real Estate Finance

Tom Berkhout, Professor of Real Estate, Nyenrode Business University

Three main trends can be derived from the opinions expressed by respondents:

- Increasing desirability of lending against a diversified portfolio of real estate assets
- Increasing use of syndication and sourcing from non-bank lenders
- Increasing importance of local expertise and local relationships that work two ways.

Diversified portfolio lending

Many expert respondents recognise the increasing value of portfolio diversification, both for themselves and for banks. They generally agree that critical mass is essential for obtaining suitable financing for a portfolio and that single-asset lending without recourse to a holding company is no longer the only desirable funding strategy.

“Portfolio solutions will become more important than piecemeal transactions”

At the same time, they are also inclined to see lending into a diversified pool of cash-generating assets - with clusters of various real estate assets - as a healthier approach for banks. This is something that banks seem to have neglected in the real estate sector in the recent past, when they often focused on large single-asset transactions on a bilateral basis.

Syndication and access to non-bank lending sources

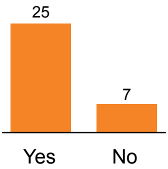
Interestingly, the respondents are generally in agreement that, in order to restore liquidity in the real estate lending markets, there will be a need for banks that are able to provide access to lenders through several sources. These include other banks and non-bank lenders such as insurers and pension funds, to which many respondents have no direct access. In addition, issuance of corporate bonds has been highlighted as an alternative source that respondents would like to be able to deploy more easily. These trends will enable a diversification in funding sources and a reduction in dependency on only a few banks.

“Other strategies outside the regular lenders are required”

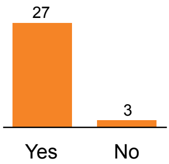
At the same time, banks are looking for lower LTVs and healthier risk profiles. Setting up lending syndicates comprising several lending sources therefore seems a logical step for banks to take, enabling them to spread risks. ING has already built up considerable expertise in this area.

Tom Berkhout: “Despite perceived real estate lending trends involving non-bank lenders, the dominant role of banks will continue. Real estate lenders will increasingly be focused on the ability of assets to generate sustainable income over the long term. According to the experts, banks currently have most of the know-how

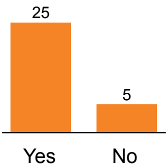
In total, 31 experts were interviewed, of whom 30 gave their reaction to the following statements:



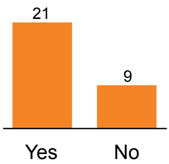
Diversification of funding sources is now an important strategic issue[1]



Real estate companies/funds build more on banks that demonstrate reliability/certainty of funding



Real estate companies/funds will use different funding strategies in 2015-2017



Banks will team up more with insurers, pension funds and other investors by 2015-2017

1 Some answered both yes and no.

about real estate finance, and they are expected to enlarge their role into that of an intermediary instead of only being a lender. In fact, banks are seen as core players to facilitate a joint platform for institutional lending within Europe."

Local expertise and relationships

According to the respondents, real estate companies and funds are attaching increasing value to the local knowledge and expertise of their real estate bankers and to the local relationship they have with them. As one expert put it, they are looking for collaboration with local professionals who know the market well and can help in day-to-day business challenges - even if this is at a higher cost.

"We have to act diligently and must only cooperate with financial institutions of excellent standing"

The experts emphasise how important it is for the parties involved to have a good mutual understanding of each other's approach to conducting business.

As lending is about the predictability of future cash flows, a lender needs to have an opinion about the borrower's main risk and value drivers. Real estate specialists at banks with a local presence are best positioned to have well-founded opinions in this regard. At the same time, real estate companies and funds want to be confident that their lenders have sustainable access to funding in order to finance their own lending activities. This is an important prerequisite of the borrower-lender relationship. Such long-term reassurance can best be given by local lenders that benefit from healthy local deposits.

Crossing national borders

In the context of the survey, Jan-Evert Post, member of the global management team at ING REF, observes that the changes in the European banking landscape are having a significant effect on international real estate players. “Since the start of the crisis, most banks in Europe have cut down on real estate lending and many have retreated to their home countries,” he says. “In addition, banks’ access to liquidity has been considerably restricted, thus limiting the availability of lenders’ capital. Effectively, new walls have been erected along national boundaries, sometimes further heightened by local regulators that limit banks’ activities outside the national market. All this makes it increasingly difficult for real estate investors to meet their financing needs, especially at an international level. This means there is a growing need for leading banks such as ING, who not only have a strong local presence, but also extensive international networks that will enable them to cross tight national borders.”

“Reliability (two ways) prevails over pricing, leading to a concentration in banking relationships”

Jan-Evert Post: “More use of syndicated transactions will increase the transparency of real estate lending, helping market participants to better compare risk-return trade-offs in lending transactions. This would be a very positive development indeed.”

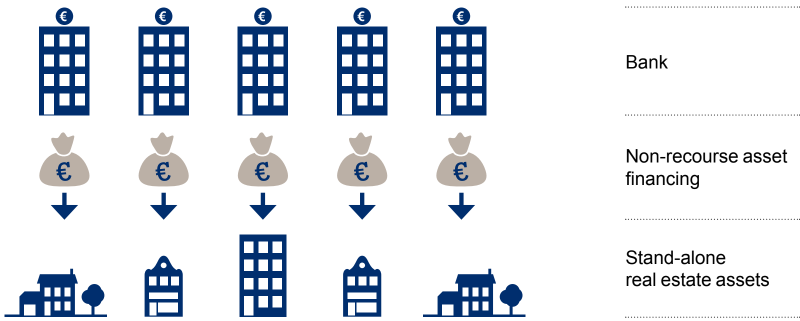
“We will see more balance sheet financing combined with asset-based financing instead of a one-product approach”

About the survey

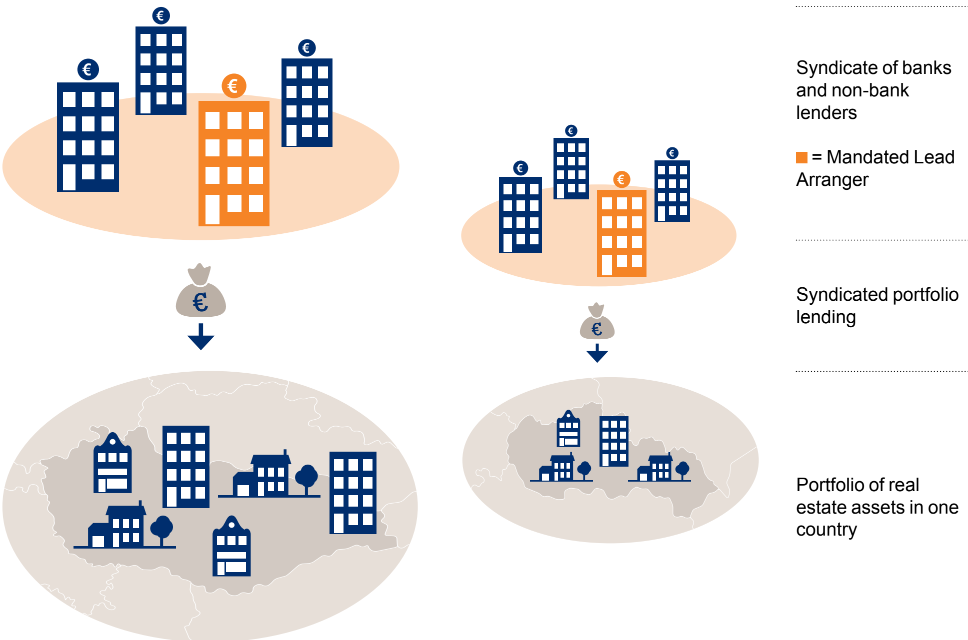
The goal of the explorative research was to identify lending trends for European real estate investors and real estate funds by interviewing selected ING clients as experts. Of the 55 ING clients who were approached, 31 responded. ING relationship managers subsequently conducted personal interviews with them, using a semi-structured questionnaire, from April to June 2013. The respondents included real estate companies managing assets in Austria, Germany, Poland, the Czech Republic, Slovakia, Hungary, the Netherlands, Spain, the United Kingdom, Italy and France. The research was carried out under the supervision of professors Tom Berkhout and Ad Kil from Nyenrode Business University, the Netherlands, in consultation with ING REF, coordinated by Jan-Evert Post, member of the global management team of ING REF. This collaboration falls under the partnership between ING REF and the Nyenrode Center for Real Estate Finance. Set up in 2011, this partnership combines each of their respective areas of expertise in real estate commercial practice and academic coverage of the sector. The knowledge and expertise thus gathered is shared with ING REF’s clients and made available through publications and meetings, to positively contribute to the general functioning of the real estate market.

The Expert View

From: Less asset-by-asset financing



To: Banks team up with other lenders to finance diversified portfolios



Although country-by-country portfolio financing may prevail over asset-by-asset financing, tight national boundaries can be crossed by leading banks with both local expertise and international presence, enabling the funding of diversified portfolios through syndicated loans.

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