## CITY VIEW Emma Huepfl

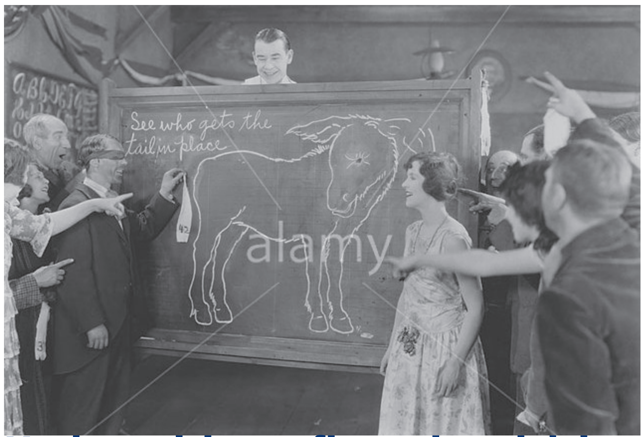
# Relax and enjoy the luxury of a range of lenders

Another year on in the lending universe and nearly six since the start of the financial crisis. Equity investors who have battled through and whose portfolios are in reasonable shape, particularly if there is a prime orsouth-east bias, can relax about where their debt is coming from and enjoy the luxury of a range of lenders.

Every finance director with a substantial refinancing requirement I have had dealings with this quarter has been taken aback by the ferocity of appetite from lenders to get to the table and, although the market is far from uniform, a good range of terms are coming back.

Bidding on every good debt deal is now a hard contest, but this is better than having the place to yourself when deals have a tendency to fall over.

Lots of equity and lots of debt equals momentum, and it is nice to feel that underwriting refinancing risk is not so much like pinning the tail on the donkey.

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The great quest for where debt is coming from seems to have been satisfied to a large extent. We are not seeing new debt funds announced day in, day out any more, and quite a number do not seem to have gone further than the initial market fanfare. A shakedown appears to have taken place between business-like capital, and money raised on unsustainable risk/return parameters.

### No second helping

ALAMY

On the other hand, things have not changed hugely for the overleveraged investor with secondary properties, although more creative financing is emerging from debt funds, specialist banks and other lateral thinkers prepared to back borrowers whose equity is pressurised but still has prospects.

There are still bitter complaints that regional funding is limited to one or two relationship lenders, but on the other hand borrowers who fall into the "wanted" category are being hotly pursued on large deals up and down the country. Clearing banks are back and competing strongly to place large senior tickets, but anecdotally I am told they are less active in the sub-£30m range and haven't reactivated the power of their regional networks, so getting approval for smaller loans can be drawn out and patchy.

The chatter about insurance money coming into the market has now been followed by real action, borne out by many large deals being soaked up with life co-funding over the past 12 months. That demand will continue, and has brought substantial price pressure into the 10 year-plus market, where large deals with long-term characteristics are taken down avidly by large global players that are comfortable with London as the next best market outside their own.

The beneficiaries have been debt-backed owners of large prime assets, and the larger prop-cos with a requirement for a pocket of long-term funding.

This year I have been surprised by the quantum of "follow-on" money pointing at UK commercial mortgage lending from a huge array of worldwide pension funds and life companies. Although it is natural that experienced lenders from overseas would expand their business to the UK when it offers relative value, I am now meeting a huge range of life companies and pension funds that are new to real estate debt and ready to make an allocation to the sector.

The investment advisers and fund management houses have noted the interest, and worked quickly to add corporate real estate debt to their repertoire to harness some of this capital. Collectively, huge swathes of time are being spent by institutions working earnestly with gatekeepers drafting RFPs (requests for proposals) and interviewing managers to decide how best to deploy.

It seems unlikely that all of it can get invested on some of the parameters we see – and it will be interesting to see whether barriers to entry have been sufficiently high to guard lending terms over time. This investment community places a lot of emphasis on rating tools and benchmarking, whereas property lending is a lumpy, illiquid business that does not necessarily lend itself to the detailed classification and price determination required by institutional investors.

The outcome may well be a lot of time and effort put into raising funds, but predicated on pricing that does not stay within the carefully drafted parameters for long enough to allow it to be invested.

Older, wiser borrowers are adding a layer of self-protection from inexperienced capital too, and apply great scrutiny to the lender's process, track record and long-term intentions before committing to new relationships. The downturn has produced an ongoing scepticism from sponsors about whom they work with and whether the capital is there for the long term, so for the moment at least, it is not all a matter of price.

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