Better mapping needed as global capital hits UK CRE debt territory

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With De Montfort University's *Commercial Property Lending Report* and our Laxfield Barometer issued recently, there is plenty of data on deals closed and borrower requests in the UK property lending market. But what seems to be missing is an accurate picture of the total amount of capital coming into this market.

The sources of capital are clearly increasingly diverse, both in terms of lender types and strategies. The market is no longer concentrated in the hands of the top 12 lenders.

Many see this as a positive sign, meaning lower risk associated with the vagaries of the banking market and less systemic risk in UK banks' property lending. The IPF's *Vision for Real Estate Finance* also recognises such diversity as a key characteristic of a market structured for stability.

While most observers welcome broader participation, there are implications for the market. Historically, UK real estate lending was heavily dependent on cost and liquidity of bank capital. It is now affected by a wide range of issues.

Ten years ago, our industry thought little about corporate bond pricing or rapid GDP growth in Asian economies. Both are now significant factors driving capital into UK property lending, alongside a range of other global, economic and political factors. These have affected both London real estate prices and the commercial mortgage market.

US life companies were perfectly positioned to respond first to the golden opportunity that arose in 2009/10. Having enjoyed a good recession in the US, they were largely free of legacy issues.

US ENTRANTS STORM UK

Marrying extremely good lending platforms with local experience, they soon entered the UK market. Met-Life shot into the premier league, its ability to compete on fixed and floating-rate positions giving it strong firepower in a changing market.

Mass Mutual first analysed the UK market in 2007 and decided not to invest, but when the post-crisis opportunity arose, its asset manager, Cornerstone, mandated Laxfield to help establish its lending programme. Pacific Life also gained a foothold and is seeking opportunities that fit its business plan.

But some big US names have not rolled out expected UK lending programmes, which suggests the market is less accessible or profitable than expected. Buying property is largely a matter of price, but lenders need borrowers. Relationships with good sponsors are the starting point to building a quality loan portfolio.

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Every week we are approached by another would-be debt investor, some with approved allocations, others starting to research the opportunity. But overall volumes have not increased greatly in the past year, suggesting more frustration ahead for new entrants and current lenders – especially the 60% who told De Montfort that they plan to expand their loan books next year.

A lot of the credit being provided is hardly captured by the surveys and brings a range of often undetected investors into the market. We are constantly surprised to see how one lender in a deal acts as a front for other investors, taking profit through syndication or harnessing capital with higher-risk appetite to lay off risk.

We also meet Asian and US debt investors who are already fully conversant or participating in the CRE debt market. Some have no desire to broadcast their entry to the market, preferring quietly and selectively to take returns from CRE loans rather than use lending as an opportunity to build their brand.

Using a front-end platform with aligned long-term interest between 'deal providers' and 'deal investors' has been a rational response to a market that has moved too quickly for many new players to gain traction.

UK lending is already more global and diverse than we realise and this looks set to continue.

It makes the job of De Montfort et al ever harder and gives us the another data challenge – to work out who all the ultimate investors are, and how to quantify the lending capital circling the market.