ULI UK

Annual Conference 2016
Press Coverage

Diary – 28 May 2016

By Estates Gazette | 27-05-2016 | 12:00

Developer in a spin

If proof were needed that the pursuit of fitness is all-consuming in this industry, a developer missing the launch of his own scheme has to be up there. So what if the man in question – who shall remain nameless, on these pages at least – developed one of London's most iconic buildings? Or if he invested heart, soul and a whole pile of cash in the process? Because while more than 100 people turned up to celebrate the launch of the scheme, he was not one of them. Why? He had a spin class to go to, don't you know. Now that is dedication to cardio.

(Very) long lunch? It's a deal

The art of doing deals over leisurely lunches lives on – at least for Jorge Pérez. According to the *FT*'s *How To Spend It* supplement, the chairman and chief executive of Miami-based property developer Related Group ironed out the difficulties on one of his latest projects over three hours and a feast of Dover sole, fettuccine with garlic, "a few" bottles of sauvignon blanc and "plenty of tequila". Impressive. Diary would need a siesta after that fiesta.

Activities are a hard cell

The Collective has appeared on website Vice as part of its "rental opportunity of the week" series. It highlights the Collective's 500-bedroom community living scheme in Old Oak Common, W3, which it calls "halls of residence for adults". Suggestions of what to do locally include "visiting damaged men at Wormwood Scrubs prison, or go to the nearby Hammersmith hospital when they assault you furiously with a biro". Not bad for £1,083 pcm.

There's no [height] limit

The prize for the wittiest avoidance of answering a question at the Urban Land Institute conference at Goldman Sachs this week came during the post-event drinks. Goldman's global co-head of real estate, Jim Garman is (at least) 6ft 6in tall. Eastdil Secured managing director James McCaffrey is of average height. Eastdil runs a jolly in the US that involves real estate moguls bonding while pretending to love fly fishing. Garman seemed, to a listener, to be angling for an invite. "We have a height limit," said McCaffrey. Ouch. Message received.

I'm David Partridge

Google David Partridge and the familiar mugshot of Argent's chief executive pops up at the top of the search. But look a little closer and it becomes clear that all is not as it seems. Because the accompanying Wikipedia profile describes the Ibiza-loving raver as a 37-year-old retired professional footballer who represented Wales in international matches. A case of mistaken identity? Or was Partridge a star defender in a previous life? Diary can't work it out – not least because he doesn't look a day over 21.

Make Friends at work

When the clock strikes about lunchtime, Diary can hardly think of a better proposition than a sandwich and a date with Rachel, Phoebe, Joey, Chandler, Ross and Monica. And we know we are not alone. Props then to the Office Group. Ever ahead of the curve on matters of integrating work and life, the workspace provider has daily screenings of *Friends* in the theatre of its Henry Wood House office in W1. If nothing else, the choice of series, more than 20 years after the first episode was screened, is a tribute to its enduring appeal. Could there be some subliminal messaging at work from TOG at play here?

Global uncertainty for property

By Louisa Clarence-Smith | Investment/finance | 24-05-2016 | 11:51

Listen to panel chair LaSalle Investment Management's global head of client capital group Jon Zehner discuss what he considers to be the most significant global threats to the industry

A vote leave at the EU referendum could plunge the UK into a recession of our own making. That was the outlook from CBRE Global Investors' head of EMEA Jeremy Plummer, speaking on a panel at the Urban Land Institute's UK annual conference 2016.

"We are seeing a complete seizure in investment activity which I think will remain for the next month," he said.

"David Cameron said yesterday this would be a recession of our own making and I think that is absolutely right."

But Brexit is just one of a list of global threats facing the property industry.

Donald Trump gaining power in the US and more extreme far-right voting globally implies a "particularly unstable world", Plummer said.

"So it is interesting that in our global real estate forecasting at the moment there is a very consistent and not very differentiated view of where the real estate market is going."

He said while there was a moderate trend for economic growth flatlining, real estate trend back to inflation of 1-2% and core real estate returns for the long term at 5% or 6%, there was "probably less confidence in that as the actual outcome than we have seen in a while".

AXA Real Estate Investment Managers' global chief investment officer Dennis Lopez, who is based in Paris, said European cities were likely to pull business away from London in the event of a Brexit.

But he said there were still good investment opportunities "if you are in at the right price". He said AXA was avoiding investing in the regions because after the 2008 financial crash all markets stopped except Paris and London.

"We are doing a lot of work looking at the global cities," he said. "From our perspective it is really cities that matter." While AXA is looking at Brazil, China and India he said those places required a huge amount of effort in terms of rules of law, valuing of contracts and currencies. "You are better off sticking with the big cities," he said.

Goldman Sachs senior economist Kevin Daly said a vote leave would create "quite extreme uncertainty" for investors in the short and medium term. He pointed out that the UK would have to negotiate its trade agreements with every other country, because all trade deals currently exist via the EU.

PEI Alternative Insight
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Private equity real estate firms should not bank on the Italian broken credit opportunity

26 May 2016

"Italy might be the last major source of property NPLs in Europe, but the country does not deserve to be a primary target for opportunistic capital just yet.

For those private equity real estate businesses with an appetite to locate, acquire and extract value from broken credit, it appears that today all roads are leading to Rome. That was one of the major takeaways from the real estate capital markets session at this week's Urban Land Institute (ULI) conference in London on Tuesday. Delegates heard from a panel of sector heavy-hitters comprising Goldman Sachs, Blackstone, Lone Star and Eastdil Secured how the NPL market was today approximately 75 percent worked out in the UK and Ireland and 50 percent in Spain. Italy, on the other hand, was just getting started.
According to Cushman & Wakefield's corporate finance team, Spanish loans accounted for half of the €3.7 billion of closed sales recorded in 2016 so far, with 1,855 sales. Second highest was €1.1 billion in Italy with 1,155 sales.

Subsequently, having jousted for market share in the UK, Ireland and Spain, the aforementioned quartet on-stage (Eastdil on the advisory side) are bringing their tourney to Italy with the purpose of catching as much of the country's €60 billion to €200 billion – depending on whose numbers you believe – distressed property debt opportunity as possible.

Precisely what level of investment is possible will depend largely on how cooperative the Italian banks are willing to be. ULI's panellists were right to be assembling a strategy for buying Italian NPLs, but given the potential obstacles to investment, they were right also to demonstrate how they were not placing a disproportionate number of eggs in that particular basket.

Unlike Spain or Ireland, Italy's economy never collapsed following the global financial crisis - it just suffered. As such, property prices did not fall to a point where clear value for opportunistic investors could quickly be ascertained. As a consequence, Italian lenders, which, unlike their Spanish or Irish counterparts, were not centrally-recapitalized and were not pressured to accept rigid asset markdowns and/or transfer them into a centralized bad bank. As another consequence, major write-downs never happened, just a slow bleed in valuations. Today, underlying asset pricing is creeping into interesting territory for opportunistic capital, but is not unquestionably attractive just yet.

Add to that back story a legal system which remains more accommodating to the borrower than the lender, and an asset base including a great deal of property in secondary or tertiary locations, or which was the collateral of an operating business and not held as investment property, and the challenge for buyers compounds. These factors are off-putting for many investment managers.

Nevertheless, there is increasing pressure from both the Italian government and wider European regulators to see Italy's toxic loan base shift stewardship. While there still is no bad bank in the form of Ireland's NAMA or Spain's SAREB, in that the state will not be using public funds to directly buy bad loans at enforceable marked-down prices, a function has been agreed whereby the state staples guarantees to bundles of NPLs that are sold. From something of a standstill, Italian loan books are beginning to emerge. Cushman's latest live transactions table has a significant handful of low-to mid-hundred million euro books currently testing the water.

Whether these early offerings trade and the market grows remains to be seen. As such, private equity real estate's last bastion of NPL opportunity in Europe should not be its primary strategy, but one of a number of ways to capture that much-coveted 20 percent IRR and 2x equity multiple.

PEI Alternative Insight
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ULI panel: 'Something has to jumpstart Italy'

25 May 2016

"Senior executives at private real estate big-hitters Blackstone, Lone Star and Goldman Sachs said they view Italy's banking system as the next potential source of distressed real estate credit deals. But they expressed concerns about obstacles to deal-flow.

Heavyweight investment managers in the private equity real estate sector are running the rule over the Italian distressed credit market, delegates at the Urban Land Institute conference in London heard yesterday. However, those participating in a panel session at the conference dedicated to real estate capital markets, expressed concerns about Italian bankers' willingness to do business.

"It feels like Italy will be the last big NPL cycle to unwind," said Jim Garman, managing director and global co-head, European Real Estate Investments, in the Merchant Banking Division of investment bank Goldman Sachs. "But the big question is: will there be enough deals?"

Anthony Myers, senior managing director and head of real estate for Europe at private equity real estate giant The Blackstone Group said there was between €60 billion and €80 billion of loans classified today as non-performing residing within the Italian banks. "Tomorrow there could be more," he said. "But, as we saw in Spain, there is reluctance. [However, like in Spain], there really needs to be pressure from the central bank. Something has to jumpstart the market in Italy."

"We're evaluating the landscape currently. Today, it looks like there is a challenging structural and judicial system; there is a reluctance to trade and one must also be careful about the underlying collateral."

As things stand, Italy has no bad bank to compare with those in countries like Spain – SAREB – or Ireland – NAMA. However, the Italian government did agree with EU legislators earlier this year steps to deal with the hundreds of billions of euros of bad debt in the country which will see it offer guarantees for a special purpose vehicle to buy some of it.

James McCaffrey, senior managing director at Eastdil Secured, the real estate investment bank, said: "It will take a lot of time, culturally, for the commercial juice to leak into the market. I think we're looking at deals of €100 million here, €200 million there. A €5 billion loan book coming out? I don't think you'll see that anytime soon."

Nevertheless, Angus Dodd, senior managing director and co-head European Real Estate investments at Lone Star Funds, the Texas-based private equity real estate firm, said that after the UK, Ireland and Spain, which he felt were each between 50 percent and 75 percent through selling their impaired real estate loans, Italy has "barely started."

Dodd said Lone Star had recently purchased a "small platform" in Italy to be well positioned when a meaningful NPL opportunity arises, but also that, currently, investment activity was minimal as it conducted its research. "We're looking for the predictability of creditor processes," he said.

Investors call time on the European NPL bonanza at ULI's UK Annual Conference

Sophia Furber
25 May 2016

The end of an era for NPLs

Europe's banks have provided rich pickings for investors in distressed real estate in the years since the global financial crisis. But opportunities to snap up huge portfolios of distressed assets or non-performing loans are becoming fewer and farther between as both commercial and bad banks come to the end of their cleanup processes, according to a panel of experts at the Urban Land Institute's inaugural U.K. Annual Conference on May 24.

"Last year marked the end of the NPL market in the U.K. Most of the big trades have been done in Ireland too," said Angus Dodd, managing director, Lone Star Europe, during a panel discussion on capital markets.

Lone Star's acquisition of the giant Project Churchill loan portfolio from Aviva in September 2015 marked something of a watershed moment for the U.K. market, and it was not immediately obvious where the next opportunities for big portfolios of property debt would be, he said. Lone Star picked up the loan portfolio for almost £2.25 billion, giving it access to over 1,000 properties across the U.K.

Dutch bad bank Propertize is currently on the market, and could represent the last seriously large European real estate debt portfolio of the cycle, according to speakers.

Italy may yield some interesting opportunities due to the sheer amount of toxic real estate loans that its banks still have to work through, but the type of portfolios that will come through will be a lot smaller in scale, "€100 million here and €100 million there," as speaker James McCaffrey, senior managing director, Eastdil Secured put it.

Investors will have to keep an eye out for asset quality in whichever portfolios do emerge as there will likely be a lot of small, tertiary assets to work with, Blackstone Group LP's Anthony Myers, senior managing director, head of real estate Europe, said during the panel discussion.

Blackstone considers dual-track process for Logicor

The question of whether more real estate IPOs were on the horizon came up during the capital markets discussion, which seemed to be somewhat directed at Blackstone's Myers. It emerged earlier in May that the private equity juggernaut was looking into an IPO of its European industrial property unit, Logicor. Myers said during the panel discussion that there were "no decisions" on IPOs for the time being.

However, during an interview on the sidelines of the event, Myers said that Blackstone would consider a "dual track" process for the business, in which it would prepare the unit for either an IPO or a sale. Blackstone's sale of U.K. resort operator Center Parcs through a similar process in 2015 could be a "proxy," he said. Blackstone sent requests to banks in January last year to handle a possible IPO while also preparing the business for a sale. Eventually, Brookfield Property Partners LP agreed to buy the business in June 2015.

However, Myers added the caveat that the dual-track plan was on the table "only insofar as we decide to do anything."