US investors seek better returns in European property debt - roundtable

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Real estate debt funds targeting European property deals are raising new capital in the US and globally from investors eager to boost returns with attractive investments that deliver regular income, fund managers said at a roundtable organised by advisor Brookland Partners in London.

New real estate debt funds have flooded into Europe to attempt to fill the void left by banks that retreated after the credit crisis, providing investors with potentially better returns than they can find in fixed income, the roundtable heard. Research firm Preqin says 19 funds are seeking to raise some €10bn for European real estate debt, against €2.3bn this time last year.

"There is an active debt investing universe in the US and they are looking to Europe for incremental returns," DRC Capital managing partner Dale Lattanzio told the roundtable event, held at the offices of law firm Berwin Leighton Paisner. Investors have flocked to back US private equity giant Blackstone's second real estate debt strategies fund, which CEO Steve Schwarzman recently said had raised $2bn already, and is on target to raise $3bn.

DRC was formed in 2012 and focuses on providing debt at the mezzanine level. Preqin reported that it is seeking €400m for its latest European fund, making it one of the 10 largest in the market. "For a global investor who is under-allocated to Europe, real estate debt provides a very good entrance," Lattanzio added.

Those wanting to make lower-risk senior loans are finding similar investor appetite for new debt vehicles. Aalto Invest, with offices in London, Madrid and Switzerland and a background in investing in CMBS structures, is raising a £1.5bn loan fund, making it the largest fund in Europe looking for backers, according to Preqin figures. Co-founding partner Mikko Syrjanen said the group, which traditionally counts pension funds and small and medium-sized insurers among its investors, is in discussion with a broader range of institutions than previously. "The reason the senior lending funds exist is that traditional credit markets don't offer end-investors with these kinds of risk-adjusted returns any more," he said. Syrjanen thinks the firm could make €500m-€700m in new senior loans in the next 12 months.

The debt funds face stiff competition for new deals from banks however. Lenders such as the Uks Lloyds, German savings banks and large US groups, including Wells Fargo, are gearing up Europe, and again offering cheap debt to real estate buyers. That competition, combined with more investor capital, could open up lending for more secondary assets, for which buyers are still struggling to source financing, said Stephen Eighteen, former global head of non-core real estate at Royal Bank of Scotland. "We are at an embryonic stage of non-bank debt coming into the market. The key for debt funds is to prove they can originate deals and ultimately assemble quality loan portfolios," he said.