Borrowers are waking up to the need for dealmakers

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From major consultancies to boutique shops, real estate debt advisors are vying to handle European property finance mandates, writes Lauren Parr

Brookland Partners has launched a mezzanine and whole loan lending platform with support from shareholder, Omni Partners.

Europe's real estate finance market is nowhere near as heavily brokered as its US counterpart, but there are signs that it is gradually heading that way.

Since *Real Estate Capital* last reviewed the European debt advisory space in September 2016, there have been new entrants – most notably US firm HFF (see page 26) – although some have stepped away from the space, with Situs among those that have decided to concentrate their European resources elsewhere.
Making money from debt advisory in the European markets can be challenging. "A tough market has played out and not everyone is surviving," admits one debt advisor.

Reduced deal flow, particularly in the UK market, combined with an increase in investment activity from non-European investors, means there have been fewer mandates for advisors to pitch for. "Deals are being transacted by Chinese or other Asian buyers who are borrowing in their own countries or not taking advice," comments Alex Lanni, head of transactions at advisory firm Laxfield Capital.

Some lenders argue that there are few shops brokering deals on a meaningful scale. However, the increasing diversity of the European lender base means that several firms are making a living.

New York-headquartered Eastdil, which entered Europe in 2007, is the brokerage that has made the largest impact on the European markets. The firm predominantly serves US clients and is known for handling large mandates and attaining aggressive terms through competitive tenders.

HFF, another major US advisor with a focus on combining investment and debt/capital markets advice, is in its early days in Europe, but is tipped as an important

addition to the market. Borrowers are also served by debt teams within the full-service property consultancies, as well as units within investment banking and consultancy firms. Then there are the smaller shops set up by real estate finance specialists, which sell themselves as bespoke advisors. Asked what sets them apart, most argue that they are not 'brokers', with especially younger platforms emphasising their ability to add value to a sponsor by handling its debt needs from cradle to grave.

"We're not just introducing capital and chasing the next fee, but structuring a loan that the borrower can live with in order to keep and win new clients," says Richard Fine, managing director at Brotherton Real Estate, a three-year-old advisory firm based in London.

Small property companies and some listed REITs appoint advisors as a means of outsourcing workload. Borrowers are coming around to the idea of paying intermediaries to get the best deal. "When you're a relatively small team it's more efficient to use a third party that knows the market well and is talking to people often. You can't just make four or five calls anymore and know you've captured the market," says Toby Phelps, partner at investor GreenOak Real Estate.

It is on complex deals that advisors prove their worth. GreenOak selected CAPRA Global Partners to source debt for its acquisition of a mixed-use asset in London's Whitechapel in July. "This particular loan was not a plain-vanilla financing because the site features a series of older buildings as well as a site we hope to develop, so we needed someone that understood the real estate story to help sell our value-add business plan to the banks," says Phelps.

In the event, Legal & General emerged as the best fit, offering a three-year facility. Luca Giangolini, partner at CAPRA, insists it is always worth testing the market. "You can claim to know where the aggressive money is but we've found a few surprises," he says.

Each advisory house is characterised by a combination of people skills. A few run on experience and charisma, some are populated by lawyers and valuers, others tote a principal mindset, while several advisors approach deals with first-hand banking knowledge.

One point on which advisors differ is how wide to cast the net when seeking terms. Morris Rothbart, head of Manchester-based Seaford Finance, recalls a former investment banker that had a mandate ahead of him on a £300 million development: "He had approached 30 different lenders; never have we approached that many. We are speaking to lenders continuously so we know the minutiae of what they will appreciate, which ones go out of the box on certain things."

Making it pay

Most brokers get paid a retainer upfront, with a fee following upon draw-down of the eventual facility. Sources suggest that fees on investment loan transactions are often in the region of 50 basis points of the loan facility. Refinancings fees are about 10 bps lower as there is less chance of a deal falling through.

On a development facility, fees can amount to 1 percent because such deals involve a huge amount of speculative work at the beginning and brokers are usually still involved many monthly draw-downs later. This is added to the loan and often paid by the lender.

Brokers are key players in the development and bridge finance markets, although the proportion of mainstream investment deals they are involved in still represents a small minority.

"Debt brokers have made inroads, but the model remains less embedded in European market culture than it is in the US. Real estate investors will consider using their services, but if it's a straightforward deal they will turn to their relationship banks," says Nassar Hussain, principal at Brookland Partners.

There is clearly a role for advisors in today's environment. "Historically, broking was a beggar's role and any- body using brokers was hiding some- thing, whereas today a broker has more access to lenders than it did before," says Rothbart.
"The process of bringing a transaction to fruition today is so notoriously difficult that banks have more faith in clients' commitment to a deal if a broker is involved."

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