Guy Montague-Jones, Property Week

'New' Journalist of the Year

I am finance editor at Property Week and joined the magazine a year ago from The Grocer having not written about real estate before. The three articles I'm putting forward illustrate the breadth of topics and types of story that I've tackled since joining.

The first is a front page exclusive on John Lewis' objections to TH Real Estate's £850m redevelopment of the St James Centre in the centre of Edinburgh. The story, which came from a chance encounter at an industry dinner and was followed up with calls to other parties affected by the compulsory purchase order, was significant because, as anchor tenant of the existing scheme, John Lewis could threaten the project. The story was picked up the following day in the Edinburgh Evening News and was also the subject of the paper's leader on the same day.

The second story was an exclusive news story revealing who would be taking the top European roles in the combined DTZ and Cushman & Wakefield business. It was sourced firstly from senior figures at rival firms who knew a decision was imminent and then from a senior source at one of the companies. We decided to break the story online first and then publish it in the magazine which went to press the same day. There was huge reader interest in finding out who would be taking the leading roles at the newly merged company, which is now the third biggest property agency globally behind JLL and CBRE. The story was picked up by rival trade media and is among the top-10 most read stories of the year so far on our website.

The third story is a feature on the future of real estate debt funds, which emerged as a new source of funding as banks retreated in the wake of the financial crisis. The feature took a detailed look at whether these funds would still have a relevant role to play as the market recovers. It revealed that many were adjusting their strategies to cope with increased competition from the banks and the proliferation of rival funders. The story demonstrated my ability to tackle a complex subject only two months into my role at Property Week.

03|07|15
£5.95

Property Week

propertyweek.com

Trouble in store for St James plans

■ Anchor tenant John Lewis objects to proposed compulsory purchase order for £850m Edinburgh scheme

BY GUY MONTAGUE-JONES

John Lewis has delivered a thinly veiled threat that it would pull out of TH Real Estate's £850m St James development in Edinburgh if the proposed compulsory purchase order (CPO) goes ahead.

The department store group, which is the anchor tenant of the existing St James Centre and is central to the plans for the new St James Quarter, said it was in favour of the redevelopment in principle, but argued that the CPO proposed "a fundamental and excessive interference" with the store's trading and service areas.

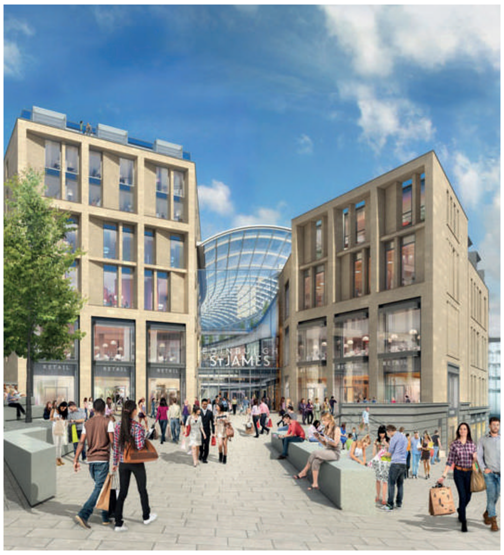
"The impacts are unacceptably severe on John Lewis," it said in a stinging 20-page legal response to the CPO, seen by *Property Week*. "Further, they will not allow John Lewis to continue to trade in the centre with the effect that it will undermine the prospect of delivering the very scheme that the CPO is intended to facilitate. Without a John Lewis anchor, it is John Lewis's submission that the scheme will not be viable or have a prospect of success."

The trading floorspace included in the CPO amounts to more than 53,000 sq ft, which is more than one-third of the existing store size and would force John Lewis to stock a more limited range. This would "fundamentally undermine the attractiveness of the Edinburgh store and its ability to draw customers to Edinburgh city centre", claimed the retailer, which also complained that a CPO would leave the store with only one customer entrance and without its existing service and loading bay for the delivery of goods.

The store is currently one of the most successful in the John Lewis estate, with an annual turnover of more than £100m. However, John Lewis argued that the proposals would make it impossible for the store to continue trading. They would also compromise the viability of the scheme for the developers, it said, as they would not be able to bear the compensation costs and the scheme would be less attractive without a John Lewis.

Market sources said Edinburgh council and the Scottish government were eager for the development to go ahead and noted they had pledged about £60m to support it. But they said that the councillors who approved the CPO had not paid enough attention to John Lewis's interests and its importance to the success of the scheme.

The CPO order is due to go before a planning inquiry in September and the developers also have to secure planning permission for a 210-bed luxury hotel, having been granted planning permission for the rest of the scheme this week. Demolition works are due to start early in 2016.



Martin Perry, director of development for TH Real Estate, said: "It is not unusual for interested parties to lodge objections to a CPO; it is a completely normal part of the process. We can confirm that discussions with John Lewis Partnership are ongoing and progressing."

A John Lewis spokesman said: "We welcome the substantial investment in Edinburgh. Although we have objected to the CPO, we have not objected to the scheme itself."

Roles shuffled at combined DTZ/Cushman & Wakefield

John Forrester, Digby Flower and Colin Wilson land major appointments at the new firm as structure is revealed

BY GUY MONTAGUE-JONES

John Forrester, Digby Flower and Colin Wilson have been appointed to top roles in the combined DTZ and Cushman & Wakefield business.

Exor, the investment company of Italy's billionaire Agnelli family, announced last month that it was selling Cushman & Wakefield to DTZ's new owners TPG, PAG Asia Capital and Ontario Teachers' Pension Plan for \$2.042bn (£1.3bn).

Brett White, the former chief executive of CBRE, was then named as chief executive of the combined group. However, the leading management positions in Europe had not been hammered out when the deal was signed, prompting speculation as to which roles the big names at DTZ and Cushman & Wakefield would fill.

As revealed on propertyweek.com, Forrester, who is currently chief executive of the EMEA region for DTZ, will take the top job of EMEA chief executive and Carlo Barel di Sant'Albano, Cushman & Wakefield's international chief executive, will become chair of the EMEA region. Barel di Sant'Albano will also be head of global investor services and capital markets.

Meanwhile, Wilson,who is currently head of UK & Ireland at DTZ, will hold the same role at the enlarged group, while Flower, who is UK chief executive at Cushman & Wakefield at the moment, will become chair of UK & Ireland. Flower has also been appointed head of London markets, reporting to Wilson.


Forrester: chief executive for EMEA

There will be four operating hubs in Europe, comprising the UK & Ireland, northern Europe, southern Europe and central and eastern Europe. The heads of each of these sectors will report to Forrester.

Wilson is the only executive of the four regional European heads to have come from DTZ. Koen Nevens, Cushman & Wakefield's managing partner for Belgium and Luxembourg, will become head of northern Europe; Jonathan Hallett, the head of Cushman & Wakefield's central European region, will become head of central and eastern Europe; and Joachim Sandberg, who is currently managing director of Cushman & Wakefield's Italian business, will become the head of southern Europe.

All parties declined to comment. Industry sources said the appointments made sense. "They play to the strengths of the individuals and the two businesses," said one senior figure.

100 Cheapside lands its first tenant

FTSE 100 company Ashtead has signed a deal to let the top two floors at Standard Life Investment's 100 Cheapside building (pictured) in the City of London for £75/sq ft.

The deal is the first letting at the 86,000 sq ft grade-A office building, which was completed in November last year.

The British industrial equipment rental company has taken a total of 10,500 sq ft across the top two floors in the nine-storey building.

Prime rents in the City have been creeping up in recent months to above £60/sq ft, but 100 Cheapside's first letting far exceeds this and is on a par with lettings achieved in the City's skyscrapers.

Standard Life Investments Pooled Pension Property Fund bought the building last September from a joint venture partnership between CarVal Investors, Orion Capital, the City of London Corporation and Quadrant Estates.

BNP Paribas Real Estate and CBRE are letting agents on 100 Cheapside.

Crown buys again in Piccadilly

The Crown Estate has added to its holding in St James's, London, by purchasing Threadneedle's headlease interest at 207-209 Piccadilly.

The Crown Estate already owns the freehold of the building, which could be a redevelopment opportunity. The property company redeveloped the nearby Eagle Place to create 60,000 sq ft of offices, retail and residential accommodation.

The lease, which was bought for £5.3m, encompasses the NatWest banking hall at ground, basement and mezzanine levels, with apartments on the upper floors.

The Crown Estate has formulated a £500m, 10-year investment strategy to enhance its holdings in the St James's area.

"Given the block's position adjacent to our Eagle Place redevelopment, this is an important strategic purchase, which increases our critical mass in the area, enhancing our ability to manage the wider environment around Piccadilly and Jermyn Street in line with our broader vision for these parts of St James's," said Anthea Harries, St James's portfolio manager at the Crown Estate.

London improvements
The removal of the Aldwych gyratory and a new promenade along Victoria Embankment were among projects unveiled this week to improve the Northbank area of London.

Derwent scheme approval
Derwent London has secured planning permission to develop a 110,000 sq ft mixed-use scheme at 40 Blackfriars Road on London's South Bank.

Student fund for sale
The portfolio of the suspended Mansion Student Accommodation Fund has been put up for sale, with a price tag of more than £400m. The portfolio comprises 25 properties.

Carpet factory let to ad agency
Helical Bar has prelet the majority of a former Shoreditch carpet factory to creative advertising agency DLKW Lowe, which is moving from South Kensington, west London.

Finance

Mushrooming debt

As debt funds face falling margins and increased competition both from high-street and investment banks, **Guy Montague-Jones** assesses how they are responding to a more challenging marketplace

Life has been good for debt funds in recent years. Capitalising on the retreat of traditional bank lenders during the crisis, they have delivered enviable returns for investors without taking big risks.

But today it isn't quite so easy. UK high-street banks are ramping up their lending, US investment banks are coming back in a big way and the number of debt funds sparring for business has also mushroomed. As competition grows and bond yields fall, margins have come down, squeezing potential returns.

So how are debt funds responding? Faced with fierce competition and falling margins, are they being forced to take on too much risk?

For deals related to good-quality assets where the borrower has time on the their hands, senior debt funds have struggled to compete with the German mortgage banks and UK high street banks because of their higher cost of capital.

"If a debt fund is targeting returns of 6%, how is it going to compete against a bank funding against covered bonds issued at 0.6%?" says Rockspring head of research Jose Pellicer.

However, where transactions are less straightforward, senior debt funds still have a role to play. For example, AXA Real Estate has targeted large loans or deals that require a quick execution. It has also had to adapt its approach by looking away from the UK towards markets that are at an earlier stage of recovery.

"Recently, we have been less active in the UK due to increased competition and tightening yields," says Isabelle Scemama, head of real asset finance at AXA Real Estate. "However, we made a significant shift in going back to Spain, where we have deployed approximately €1.2bn this year to date."

> "It felt like there was a new fund launching every week during the first quarter of 2014"
> **Simon Mower**

As a result, AXA Real Estate has achieved spreads only 25 basis points tighter in the past six months than the same period a year ago, while the wider market has tightened by 60-75 basis points, claims Scemama.

Institutional players such as AXA, L&G and Aviva are focused on the senior market, but it is in the mezzanine debt space that the number of players has really exploded in the years since the crisis. "It felt like there was a new fund launching every week during the first quarter of this year," says Simon Mower, an associate director in KPMG's capital advisory group.

The surge of new arrivals has made it a tougher market. "The heyday was probably about 12 months ago, when the property market was recovering and there were fewer funds around," says David Reitman, a partner in KPMG's capital advisory group.

Increased competition has resulted in falling prices. Margins vary depending on the nature of the deal, but they have typically contracted about three percentage points in the past 18 months, estimates James Wright, a member of CBRE's debt and structured finance team.

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« **Shifting focus**

Many funds argue that the returns are still attractive enough. DRC Capital partner Rob Clayton believes that in some ways it was much harder for mezzanine debt funds during the crisis. "The difficulty in finding senior debt meant that it was much harder to get things accomplished," he says. Now the recovery in the property market has meant there is also higher demand for credit, he adds.

Some debt funds have shifted from a focus on mezzanine debt to providing whole loans. This is partly because they are now more confident of syndicating off the senior piece of the debt afterwards – but it is also a way of staying ahead of the competition.

"The junior debt funds have gradually increased their focus on a whole loan approach in order to differentiate themselves through their ability to execute a transaction quickly," says Reitman. "Their chain of command is shorter than the banks and this allows them to underwrite and execute in an expeditious manner."

A good example is Pramerica, which has done an increasing number of whole loan and preferred equity deals. It has also started to take on more development and asset management risk.

The £136m whole loan and financing deal it struck to back Aidan Brooks' Tribeca Holdings' acquisition of 431-451 Oxford Street earlier this year was a case in point. It has since brought in Credit Agricole to take on the senior debt, but has retained the mezzanine tranche and the preferred equity, giving it a potential share in profits made from the work to turn the property – which is opposite Selfridges – into a high-end retail destination.

"We're willing to take on refurbishment and repositioning risk – but only for well-located assets – and we also look to take preferred equity," says Andrew Radkiewicz, co-head of Europe and head of European debt at Pramerica. "If you are going in and taking risk, you don't want to cap your upside."

"We're willing to take on repositioning risk – but only for well-located assets

Andrew Radkiewicz

There are plenty of properties trapped in non-performing loan portfolios that have had no investment for five years or more and offer good opportunities to add value, argues Radkiewicz. He believes the boom in loan portfolio sales this year therefore provides a wealth of opportunities for debt funds. For borrowers who find themselves caught up in a loan portfolio sale, debt funds can also be a good option.

Reitman adds: "The whole loan option can be particularly attractive in this situation, where the borrower might be able to negotiate a better deal with the purchaser of the debt if a transaction can be turned around quickly."

No shortage of opportunities

Aeriance is another debt fund that is willing to take on development risk through its Opportunistic Real Estate Loan Fund 2, which launched last year. Initially, it focused on providing development financing for luxury residential properties in central London, but it has since broadened its focus to incorporate Greater London and other major cities as the outlook for central London has started to look more uncertain.

The firm sees no shortage of opportunities for debt funds in areas such as these, where bank financing is likely to remain hard to come by. "In the US the funding market is split into one-third banks, one-third institutions and one-third alternative lenders – so why shouldn't it be the same here?" says Aeriance chief executive Harin Thaker.

As the recovery has gathered pace, debt funds have started to take on more risk. "Alternative capital providers, who have done so well in recent years, are finding they need to change tactics," says Mark Bladon of Investec Property Finance. "We see an important shift in the behaviour of private debt funds as they seek to maintain IRRs by moving up the yield curve and taking on more project risk."

However, most observers believe that debt funds have so far been quite measured in how they have adjusted their strategies. There has been no return to some of the riskier practices of the pre-2008 era. 90%-plus LTVs are still virtually unheard of and although LTVs in the mid-80s are now available, they come with better covenants and more sensible pricing than in the past. The danger is that as competition continues to increase and pressure to deploy grows, some funds will become tempted to push the risk dial a notch too high. ■

47%

Jump in number of active European real estate lenders since Q1 2012, according to Cushman & Wakefield

3%

Typical contraction in mezzanine debt margins over the past 18 months

39

Number of European debt funds, tracked by Cushman & Wakefield, looking to raise €22.1bn