

# The challenge of high-volume, cross-border property financing in Europe with post-closing syndication

More and more, globalisation is affecting commercial property financing. This applies not only to multinational property companies, insurance corporations and investment funds, but also to banks as the main source of lending for cross-border property financing. These banks are increasingly feeling the effect of internationalisation in form of stronger competition in particular markets and growing pressure on margins. At the same time, financing in some markets is also becoming more challenging. Thus, there is an obvious need to develop strategic approaches to free oneself from the dominance of competitive pressure. Moreover, it is important to tackle what are increasingly complex demands, when it comes to cross-border financing for institutional investors and customers.

## The challenges are many and varied

High-volume and cross-border property portfolio financing is a challenge for various reasons. First of all, the financing volume for larger portfolios is normally relatively high for any given bank. Secondly, cross-border portfolios may consist of numerous property types in various European countries, often with multi-currency financing tranches. Moreover, clients usually need the financing to be realised within a tight time frame. This complexity creates an enormous challenge, especially considering the necessary structuring and sector-specific country expertise as well as the deployment of internal resources.

Transactions of this type are very intricate especially owing to different legal requirements, for example when arranging collateral country by country in

highly complex legal structures. For this reason, expertise in structuring across different jurisdictions and particular property types is essential, as is profound property know-how and knowledge of the local market from a banking perspective in each country. The product complexity and the coordination effort are therefore extremely high, both internally and with regard to external parties (clients, lawyers, appraisers, notaries, asset managers etc.). Not forgetting, there are also special structuring, collateral and taxation issues which need to be taken into consideration for potential syndication partners. The aforementioned challenges show that during the course of the financing process many hurdles and barriers related to the above-average complexity of the financing transaction can threaten the time schedule and success of the project.

## USPs make the difference

Internationally-operating property lenders have to position themselves on the market by distinguishing themselves from the competition. They do this inter alia with the aim of being able to participate successfully in the growing cross-border financing market and focussing themselves more strongly on the individual needs and expectations of investors and clients. For many years, Aareal Bank AG has been working in and focussed on cross-border commercial property financing. Additionally, some partners of Aareal Bank have been interested in participating in these structures. They see value in accessing Aareal Bank's longstanding expertise, network and structures in this segment, without having to put in place a similar setup and thereby avoiding associated ramp-up time, footprint and investment costs.

## Customised financing products for the client

Banks in commercial property financing have been adjusting and expanding their product range continuously over the last few years. The development of USPs is the basis for successful market positioning and differentiation. USPs can facilitate and enable an in-time realisation of complex, customised, cross-border and cross-currency, as well as multi-jurisdictional property transactions for demanding customers. A bank has to maintain an established and resilient network of national and international players in the property sector. This network includes investors, legal advisers, appraisers, valuers and surveyors. Additionally, Aareal combines knowhow in form of local offices with central specialist



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teams for the retail, logistics, hotel, and fund sectors at the Wiesbaden head office in Germany. This set-up provides for a link between the specialist teams and local expertise, resulting in in-depth market and product know-how, allowing market and sector experts to identify client needs at an early stage, elaborate on feasible structures from the outset, resulting in reliable and on-time transaction deliveries.

### **Benchmark transactions in Europe**

The strategic approach to cross-border financing described above gives Aareal Bank's customers access to a comprehensive amount of structuring expertise and wide-ranging experience that they can call upon depending on their individual requirements. In the past, this has given rise to various benchmark transactions underpinning the excellent track record of the bank in international high-volume cross-border commercial property financing. Referring to the aforementioned, in November 2016 Aareal Bank was mandated by Invesco Real

Estate to arrange a credit facility of up to € 1 billion for a Europe-wide investment mandate. The commitment covers 27 properties in prime locations in 7 countries across Europe. This transaction followed the € 630 million senior financing facility provided to NorthStar Group in 2015 for the acquisition of a pan-European office property portfolio worth € 1.1 billion, containing 11 properties in 7 important European cities. Because of the good structures, both transactions were syndicated to an insurance company, with whom the bank entertains very good relationships, after the facilities had been closed and drawn.

### **With big deals comes big responsibility**

High-volume and cross-border commercial property financing itself is not a new invention and therefore not an explanation of why only a limited amount of banks are able to deliver the above-mentioned structures. Much more, this is due to missing local footprints and sector know-

how, combined with the rarity of highly skilled structuring know-how. A bank has to fully understand real estate in order to be able to evaluate and process the magnitude and complexity of these transactions. It is not a segment that is easily entered and exited in short time spans. These loans demand expertise not only during the structuring phase, but also during the actual loan term.

Notwithstanding this, the trend in high-volume and cross-border property financing is centred around "sharing". This comprises sharing and passing on know-how and expertise to the client. It is a matter of adjusting the complex financing structures to the individual situation of a given client, providing him transparently with a one-stop solution and certainty of delivery at an agreed point in time. As the client's partner, a bank has to be there from the outset to the final implementation of a transaction. This is the foundation for a long-term reliable partnership.