

EUROPEAN REAL ESTATE LOAN SALES MARKET

A Cushman & Wakefield Corporate Finance Publication



Q1 2014



KEY HIGHLIGHTS

C&W Corporate Finance revises 2014 forecast from €40bn to €50bn

- C&W Corporate Finance recorded €23.9bn in closed transactions in Q1 2014, with a further €6.0bn so far in April bringing the total YTD to €29.9bn.
- This total is just short of the €30.3bn sold in the entirety of 2013.
- Volumes were boosted by IBRC, which managed to sell c. €19bn of the €21bn of loans it brought to the market.
- “Mega-deals” have been dominated by the large investors, who appear to be getting stronger and stronger.
- On the other side, asset management agencies have accounted for 71% of the total closed volume YTD.
- Increased activity is expected from RBS Capital Resolution Group and Permanent TSB, with plans to dispose of c. £10bn to £11bn and €10bn of non-core CRE loans respectively in the next three years.
- The UK and Ireland have seen most of the action, accounting for almost 72% of all closed sales in 2014 YTD.
- However, C&W Corporate Finance expects activity levels in Spain, Germany, the Netherlands and Italy to increase dramatically throughout the year.
- With a further pipeline of €38.4bn in live sales, C&W Corporate Finance estimates that sale volumes are likely to reach €50bn for the year.

EUROPEAN CRE LOAN & REO SALES 2014 YTD

C&W Corporate Finance now estimates that closed CRE loan and REO sale volumes are likely to reach €50bn for the year. The uplift in the forecast follows a highly active start to 2014 which has seen investor interest continue to grow and spread further across Europe.

With sales from IBRC flooding the headlines, activity in the CRE loan sales market in Q1 2014 was at its highest level since the start of structured bank deleveraging. According to C&W Corporate Finance research, closed transaction volumes in Q1 2014 reached a staggering €23.9bn, with a further €6.0bn so far in April. This means that the total YTD is €29.9bn, just shy of the €30.3bn recorded by C&W Corporate Finance in its latest *European Real Estate Loan Sales Market Report* (Feb 2014) in the entirety of 2013.

Furthermore, with a pipeline of €38.4bn in live sales, annual volumes are set to significantly surpass previous years. Once again, activity in the UK and Ireland continues to lead the way, accounting for almost 72% of all closed sales in 2014 YTD.

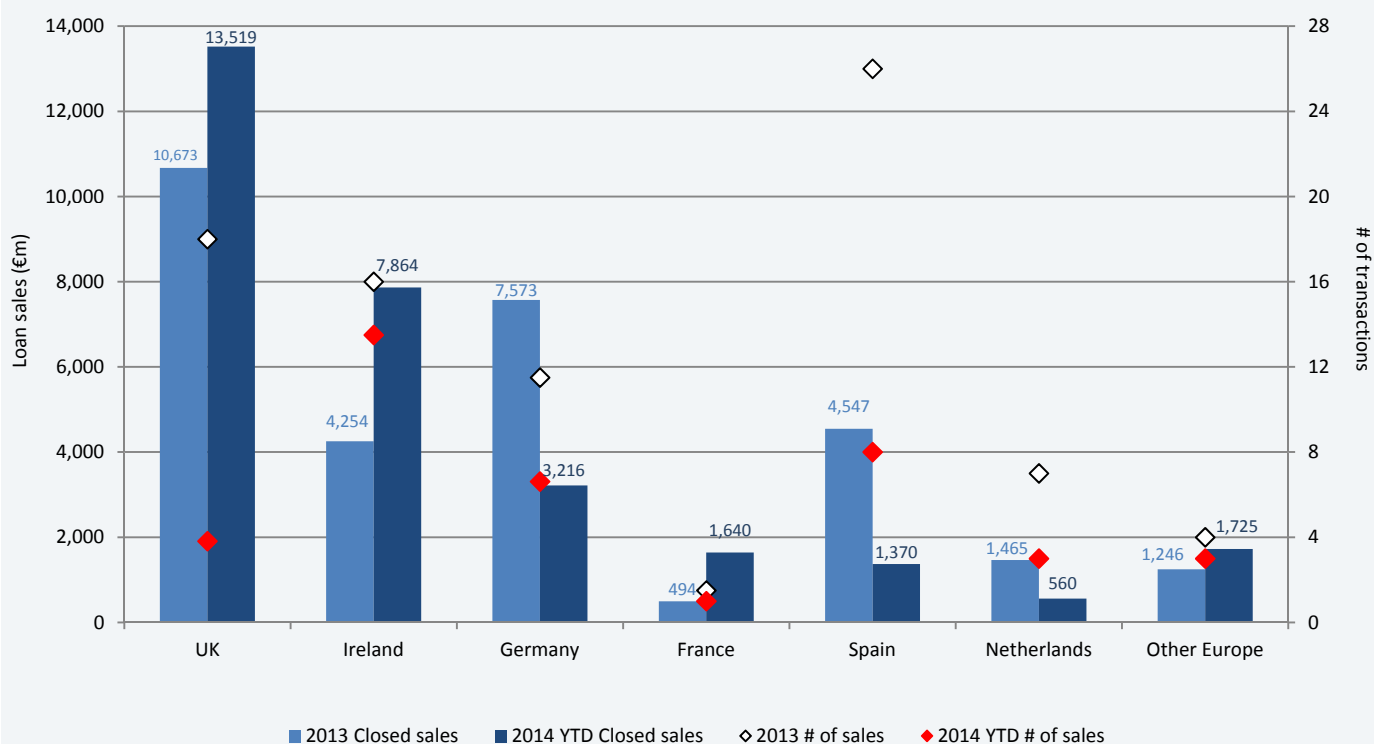
The momentous rise in the loan portfolio market is mainly due to several large transactions from IBRC in Special Liquidation which were being prepared in Q3/4 2013 and completed in Q1 2014. Overall, the vendor has managed to sell around €19bn of the €21bn of loans originally put up for sale, a far greater total than would have been anticipated at this point in time. The speed at which the processes were concluded is a clear message that investor appetite is at an all-time high, with plenty of capital still to deploy.

Closed transactions worth €29.9bn in 2014 YTD

“The European real estate loan sale market could reach its peak in 2014 as activity soared in the first few months of this year – we won’t see a quarter like this for quite some time. Investor appetite is at an all-time high, with plenty of capital still to deploy.”

Federico Montero
Partner, Head of Loan Sales
EMEA Corporate Finance

EUROPEAN CRE LOAN & REO CLOSED TRANSACTIONS 2013 V 2014 YTD (€M)



Source: C&W Corporate Finance

Rise of the “mega-deals”

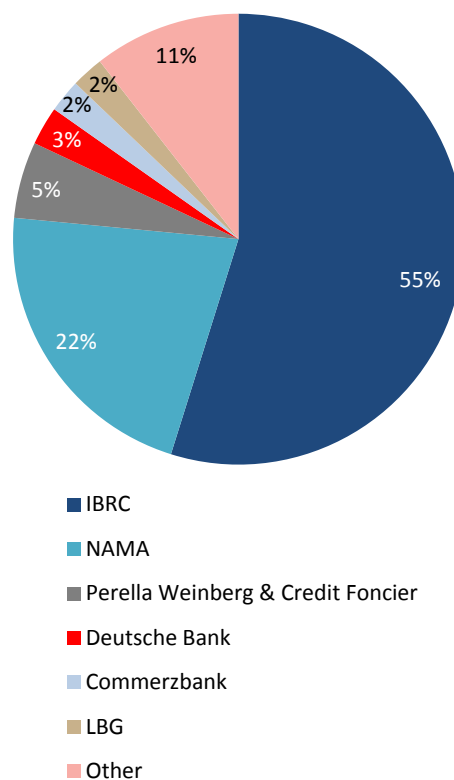
Those deals with a face value over €1bn or “mega-deals” have once again attracted all the big players that have been active in the market over the last three years. C&W Corporate Finance has recorded 39 transactions YTD showing that the average OPB of these deals was €767m, highlighting the scale of the offerings and well above the deal average reported in our **European Real Estate Loan Sales Market Report** (Feb 2014) of €360m for 2013.

With such large portfolio sizes, it has been very difficult for mid-sized investors to get involved in the sales processes and the large US private equity firms have been left to fight it out amongst each other. In fact, it is much the case that the larger firms seem to be increasingly dominant and are winning more deals than ever before. As many of these firms continue to raise capital, such as Blackstone raising a €5bn European real estate fund and Kennedy Wilson’s £1bn IPO, investor demand is likely to remain high for the foreseeable future.

Investor appetite for the large European transactions has also been reflected by the aggressive pricing or “mega-deal premiums” observed on IBRC’s Project Rock, Stone, Sand and Salt, NAMA’s Project Eagle, and Hypothekenbank Frankfurt’s Project Octopus.

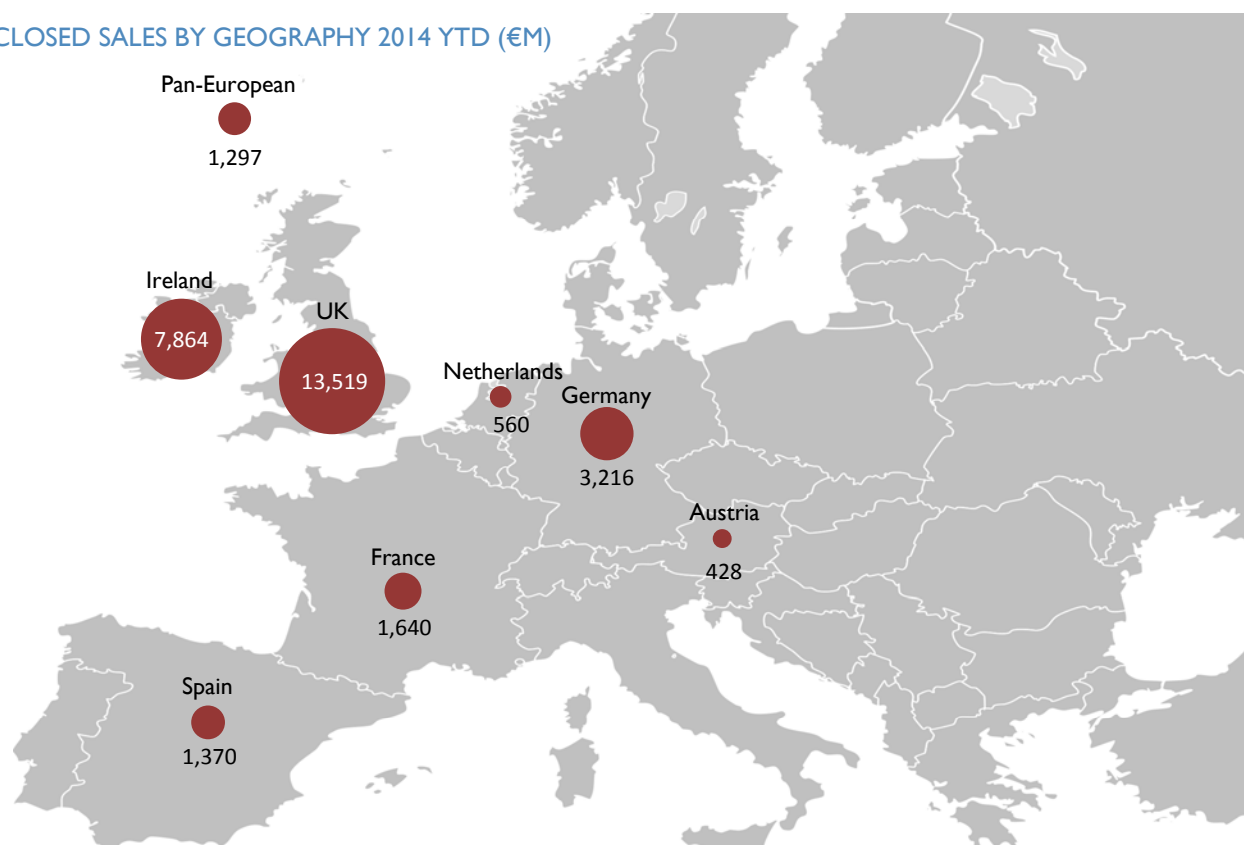
There are several rationales behind these potential “mega-deal premiums”. Firstly, it is estimated that investors have around €100bn to €125bn of capital to deploy in Europe in the upcoming years, and are therefore eager to win these mega sales processes. This increased competition has resulted in an upward pressure on the underwriting in order to not be left disappointed. The offerings also present an opportunity to build large portfolios in one transaction, thereby saving on the costs and time associated with participating in several smaller sales. Finally, many of these larger sales may be a key opportunity for investors to gain their required exposures to certain locations and asset classes, for example Project Octopus.

CLOSED SALES BY VENDOR 2014 YTD



Source: C&W Corporate Finance

CLOSED SALES BY GEOGRAPHY 2014 YTD (€M)



Source: C&W Corporate Finance

Crucial role played by asset management agencies

As with 2013, the vendor landscape in 2014 is still dominated by deleveraging banks and asset management agencies ("Bad Banks"), the latter accounting for 71% of the total closed volume YTD. With IBRC in Special Liquidation completing several large disposals, any remaining loans will be expected to be transferred to NAMA later in the year, ensuring that asset management agencies continue to play a crucial role in the loan sales market.

It is also anticipated that there will be increased activity from RBS which recently announced its creation of an internal "bad bank" or so called RBS Capital Resolution Group, which will look to dispose of c. £10bn to £11bn of non-core CRE loans in the next three years. With Permanent TSB also revealing plans to dispose of just short of €10bn in real estate loans in the near future, there should be plenty opportunities for investors to deploy their wealth of capital.

Investors circling Italy...

Closed transaction volumes have been dominated by the UK and Ireland so far in 2014, but C&W Corporate Finance expects activity levels in Spain, Germany, the Netherlands and Italy to increase dramatically throughout the year. The Netherlands has seen several distressed sales, and further activity is anticipated following the completion of the asset quality review exercise and the establishment of Propertize, the Dutch asset management agency.

Whilst Italian banks have yet to bring substantial CRE loans to the market, investor interest has been high for their unsecured debt. UniCredit recently announced deleveraging plans of €55bn in non-core asset over the next 5 years, and with many other Italian banks likely to follow suit, investors will be eager to take advantage of the awaited opportunities.

...and raring to go in Spain

Investors continue to grow their presence in Spain, with Blackstone's recent purchase of Catalunya Banc's real estate servicing unit a further indication of the eagerness surrounding an anticipated increase in activity levels. The purchase is also significant as it is the first servicing platform that Blackstone has bought in Spain, adding the investor to the long list of big players with teams on the ground in Spain raring to go, i.e. Centerbridge, Apollo, Kennedy Wilson / Varde, TPG, Cerberus and others. Project Octopus will also have a noticeable impact on the Spanish market; not only will it boost transaction volumes, but it is expected that several secondary trades will immediately follow the closing of the sale.

€50bn to transact in 2014

In summary, activity levels have soured at the start of 2014 as the European CRE loan and REO market could perhaps reach its peak this year. The €29.9bn of closed transactions has seen the same sellers and same purchasers, with the big name investors becoming more dominant than ever. With C&W Corporate Finance tracking a further €38.4bn in live sales, opportunities will continue to flow from vendors and record volumes of c. €50bn will be witnessed in 2014.

Currently tracking
€38.4bn of live
sales

TOP BUYERS – 2014 YTD

RANK	INVESTOR	VOLUME (€M)
1	Lone Star	12,932
2	Cerberus	5,625
3	CarVal Investors	3,219
4	Deutsche Bank	1,763
5	Oaktree Capital	1,251

Source: C&W Corporate Finance
Note: Total amounts include JV investments

"The €29.9 billion of closed transactions which have taken place so far this year are made up of the usual sellers and purchasers – but big name investors are becoming more dominant than ever. We are tracking a further €38.4 billion in live sales, which means that opportunities will continue to flow from vendors and record volumes of near €50 billion will be witnessed in 2014."

Federico Montero
Partner, Head of Loan Sales
EMEA Corporate Finance

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CLOSED CRE LOAN & REO TRANSACTIONS 2014 YTD

Almost €30bn of closed transactions

Date	Vendor	Project	Type	Country	Buyer	Face Value €m
Jan-14	SAREB	Dorian Portfolio	REOs	Spain	Blackstone	42
Jan-14	Goldman Sachs	Saxony loan	CRE Loans	Germany	Junior lender	47
Jan-14	Hatfield Philips	8,500 unit residential portfolio	REOs	Germany	IN-WEST Partners	268
Jan-14	NAMA	Project Platinum - Pool 1	REOs	Ireland	Blackstone	100
Jan-14	NAMA	Project Platinum - Pool 2	REOs	Ireland	Google	65
Jan-14	NAMA	Central Park	REOs	Ireland	Green REIT plc / Kennedy Wilson	312
Jan-14	NAMA	Project Holly	CRE Loans	Ireland	Lone Star	374
Jan-14	Österreichische Volksbanken	CA Immo debt	CRE Loans	Austria	CA Immo	428
Jan-14	RBS	Electra Dutch Asset	REOs	Netherlands	PPF Real Estate	30
Jan-14	SAREB	BanESCO Building	CRE Loans	Spain	Pontegadea	66
Jan-14	SAREB	Project Walls (Indigo)	CRE Loans	Spain	Deutsche Bank / Magic RE	100
Jan-14	Commerzbank	Spanish NPL CRE loans	CRE Loans	Spain	Group of international investors	710
Feb-14	IBRC	Project Rock	CRE Loans	UK, Germany & Europe	Lone Star / Sankaty / Canyon Capital	5,736
Feb-14	IBRC	Project Salt	CRE Loans	UK, Germany & Europe	Lone Star	1,854
Feb-14	Perella Weinberg & Credit Foncier	Coeur Defense	CRE Loans	France	Lone Star	1,640
Feb-14	Danske Bank	D2 Portfolio	REOs	Ireland	Green REIT plc	23
Feb-14	Friends Life	Project Magenta	CRE Loans	Ireland	Carval	60
Feb-14	Portigon	4 Dusseldorf offices	REOs	Germany	Blackstone	350
Feb-14	RBS	Ulster Bank CRE loans	CRE Loans	Ireland	Hibernia REIT	67
Feb-14	UniCredit	German PLs	CRE Loans	Germany	Hansteen Holdings	58
Feb-14	GE Artesia Bank	Dutch residential mortgages	Resi Loans	Netherlands	Venn Partners	500
Mar-14	IBRC	Project Sand	Resi Loans	Ireland	Lone Star / Oaktree Capital	1,152
Mar-14	Banco Sabadell	115 Avenida America	REOs	Spain	London & Regional	117
Mar-14	IBRC	Project Stone - Tranches 1, 2 & 4	CRE Loans	Ireland	CarVal / Goldman Sachs / Pepper AS	3,219
Mar-14	IBRC	Project Stone - Tranches 3 & 5	CRE Loans	Ireland & UK	Lone Star	1,970
Mar-14	IBRC	Project Stone - Tranches 6 & 7	CRE Loans	UK, Germany & Europe	Deutsche Bank	1,665
Mar-14	Spanish banks	Castellana 200	REOs	Spain	Anchorage Capital Group	145
Mar-14	LBG	Project Aberdonia	CRE Loans	Europe	Marathon AM	590
Mar-14	IBRC	Project Pebble	CRE Loans	Ireland	Colony Capital	800
Mar-14	Nationwide, RBS & BOI	Hilton Hotels senior debt	CRE Loans	UK	Oaktree Capital	99
Mar-14	SAREB	Project Crossover	REOs	Spain	Castlelake	100
Mar-14	Deutsche Bank	Mars Fixed I Loan	CRE Loans	Germany	Kildare Partners	828
Mar-14	TAG Immobilien	TAG GI	REOs	Germany	Apollo	297
Mar-14	LBG	O'Flynn Loans	CRE Loans	Ireland	Kildare Partners	100
Apr-14	IVG Immobilien	Dutch light industrial units	REOs	Netherlands	HIG Bayside Capital	30
Apr-14	RBS	Dundrum syndicated loan (1)	CRE Loans	Ireland	NAMA	129
Apr-14	Royal Bank of Canada	Dundrum syndicated loan (2)	CRE Loans	Ireland	NAMA	108
Apr-14	NAMA	Project Eagle	CRE Loans	UK	Cerberus	5,625
Apr-14	SAREB	Cartera Klaus	Resi Loans	Spain	Hayfin Capital Management	90

LIVE CRE LOAN & REO SALES 2014

Currently tracking €38.4bn of live transactions

Vendor	Project	Type	Country	Face Value €m
SAREB	Project Blue	REOs	Spain	N/A
SAREB	Project Harvest	REOs	Spain	N/A
AIB	Project Shift	REOs	Germany	130
NAMA	Project Tower	CRE Loans	UK	1,800
EAA	WestImmo	CRE Loans	Germany	11,800
Finansiel Stabilitet	Project KS II	CRE Loans	Denmark	85
Hypothesenbank Frankfurt	Project Octopus	CRE Loans	Spain	4,400
NAMA	Project Drive	CRE Loans	Ireland	225
Nationwide	Project Adelaide	CRE Loans	Germany	850
Unknown	Project Sun	CRE Loans	Spain	205
Volksbank Romania	Romanian NPLs	CRE Loans	Romania	600
Danske Bank	Project Circle	REOs	Ireland	80
German Instit.	German Resi & CRE NPLs	CRE Loans	Germany	213
RBS	Project Button	CRE Loans	Ireland	715
Credit Agricole	NPL / CRE	CRE Loans	Greece	459
NAMA	Project Redwood	REOs	Ireland	165
ING	Zwolle office tower loan	CRE Loans	Netherlands	90
LBG	Dublin office properties	REOs	Ireland	30
LBG	Project Avon	CRE Loans	UK	781
NAMA	Project Spring	CRE Loans	Ireland	300
Publity	German CRE NPLs	CRE Loans	Germany	213
IVG Immobilien	Dutch offices and shopping mall	REOs	Netherlands	70
Italian regional bank	Italian RE NPLs	CRE Loans	Italy	100
Catalunya Caixa	Project Hercules	CRE Loans	Spain	6,947
Various banks	Italian CRE debt	CRE Loans	Italy	7,630
Bank of Cyprus	London residential loans	Resi Loans	UK	438

Source: C&W Corporate Finance

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About the Report

The research was conducted by C&W Corporate Finance, with support provided by C&W offices in all the major European countries including France, Germany, Italy, the Netherlands, Portugal, Spain and Ireland (the latter through C&W's alliance partner, Lisney.) For more information on the data or any particular transactions, please contact the C&W Corporate Finance team.

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