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OPEN FOR BUSINESS

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OPEN FOR BUSINESS

From hotels to retail, offices and now residential, nothing is off-limits for Venn Partners to lend on. Managing director Paul House tells *EuroProperty* how it targets areas where bank lending is decreasing.

Venn Partners' financing of a retail and office complex in Dublin for Meyer Bergman in June marks the latest in a series of "firsts" for the credit investment manager. This year it launched a Dutch residential mortgage platform, will soon hold a final close for its inaugural real estate debt fund, and is set to pass its initial loan agreements as part of a government-guaranteed bond programme for UK private rented (PRS) stock.

The Dublin deal is Venn's first loan in Ireland, albeit not its first financing for Meyer Bergman. The facility funded the investor's €90m acquisition of a building located on the western corner of Nassau Street and Dawson Street in downtown Dublin in partnership with BCP International Property Fund, serving to bridge the planning process for the property's redevelopment.

The asset is located in the city's prime shopping district, where there is a shortage of large retail units, in a country that offers some of the strongest growth prospects in Europe. One of the reasons Venn likes Ireland as a lender is because "it's a market that has recapitalised [yet] there are less banks operating than there used to be, so we're pricing against credit risk", explains Paul House, Venn Partners's managing director.

The loan is one of 12 Venn has written out of its VeCREF I fund (one of which has repaid), the rest emanating from the UK although its remit also spans the Netherlands, France and Germany.

Launched in August 2015, the co-mingled vehicle is a culmination of "three years worth of work", says House.

VeCREF I is Venn's first discretionary fund. Before its inception the company deployed capital (and still does) on behalf of managed accounts including a €500m mandate for its part-owner, Siem Industries. The experience and track record this allowed it to build provided evidence of the team's capability to investors in the wider market.

Investment manager Venn Partners began in 2009 and subsequently moved into commercial real estate debt when House and Beatrice Dupont, along with several other colleagues, joined the firm from Citi. Venn's real estate credit business, Venn Finance, was set up in January 2013, since when it has completed 30 transactions totalling circa £1.3bn.

The real estate debt fund is targeting £250m of equity overall, having already deployed the £185m it raised from a mix of UK and North American pension funds at second close in January. Its final close has been extended from Q3 this year to Q1 2017 to allow for the initial dust to settle following the EU referendum, with indication of a supportive response by investors.

Flexible debt

VeCREF I provides flexible debt in return for higher margins, typically through whole loans of £30m to £50m, up to 80% loan to value, over a period of six months to five years. It seeks to achieve low double-digit returns.

"We view lending opportunities in value-add real estate, which means we position ourselves in a gap in the market where we see strong relative value," says House.

Among its largest deals was the £97.5m whole loan financing of a residential development at London's Royal Docks for developer HUB. This was executed on behalf of Siem in 2014, with the senior sold down and the junior channelled into the debt fund's £55m seed portfolio.

One of four transactions it has financed in the Manchester office market completed in December last year: a £9m loan for FORE Partnership's acquisition of London Scottish House ahead of its office redevelopment.

In Europe, it funded a €180m multi-jurisdiction hotel purchase for Blackstone in Q1 2014 – debt which has now been repaid.

Hotel loans comprise a significant portion of Venn's current loan portfolio owing to a glut of deals in 2013 and early 2014, although it "hasn't done much" in the past 12 months.

"We found the industry extremely attractive at that time. There was a shortage of banks willing to go into it and LTVs were lower across the board," House recalls. The hotels Venn financed performed "very well" and while it is still open to investments, "it's a little later in the cycle so we'll be a bit more careful".

On the Continent, where Venn has issued

SYNDICATED LENDING AT THREE-YEAR LOW

Syndicated lending to real estate in EMEA in the first half of 2016 dropped to its lowest level for three years, hit by a number of factors including the fall in commercial property transactions and the uncertainty created by the EU referendum vote.

According to Dealogic's latest figures – which are supplied by around 25 lenders and focus purely on club deals and syndication – there was €20.7bn of EMEA syndicated property loans in the first half of the year, the lowest since the €7.1bn seen in 2013 when the report first began.

The figure was down €15bn or 41% from the admittedly record highs seen in the same period last year when €34.8bn was borrowed and syndicated.

In line with the weak first half volumes, the number of deals being signed fell by 19% compared to the same period for 2015 with just 84 reported.

In Dealogic's synidcation figures excluding loans to REITs, 2016's volume stands at €14.9bn, a 7% fall from 2015's first half figure of €16.1bn.

The number of non-REIT deals also dropped, with 64 deals reported compared to 75 in H1 2015.

The UK saw activity drop 51% year-on-year to €6.3bn, with 20 deals, but remained the largest contributor with a 30% market share.

debt totalling €190m since it began, the Netherlands is a market in which the lender sees current opportunities.

"In the Netherlands there are openings; the market is getting stronger. Macroeconomic and occupational performance is staring to improve yet the bank market is quite constrained. That creates a good dynamic for people like us," House says.

Thanks to "white collar job growth" Venn is mainly focused on the Dutch office market (its mortgage platform operates on a separate premise).

There is less potential for an alternative lender like Venn in France and Germany given the strength of their banking markets.

"That said, if there is product banks will not do it may find a home with us," House says. One potential deal in Venn's pipeline is a bridge loan on a residential project in Germany.

Breadth of offer

The debt fund shows "the breadth of our offer", House insists. One of Venn's other main areas of focus is UK PRS, relating to which it won a government contract to allocate, fund and manage up to £3.5bn of residential property in 2014.

It is one of the few take-out vehicles for build-to-rent housing – a growing sector with a need for alternative sources of capital as not all banks have an appetite to lend against PRS. It is a relatively new industry which means there is less to go on from an underwriting perspective.

"The same thesis runs throughout our business," House says. "We target areas that exhibit strong credit fundamentals where there is an entrenched bank market decreasing in capacity due to regulation or other reasons."

Venn will provide investment finance up to 60% LTV at gilts plus 100-130 basis points for a maximum duration of 30 years (way beyond banks' remit), to developers of PRS product to help them source and eventually refinance development loans from other lenders.

Development finance has become more scarce, but there is already a strong existing PRS pipeline therefore new development loans are not necessarily needed. Furthermore, "a lot of PRS entities are credit worthy institutions which gives banks comfort", House points out.

The debt Venn issues will be sold as bonds guaranteed by the government – effectively a low-risk single-tranche mortgage-backed security.

Two years in the making and Venn's bond issuance subsidiary, PRS Finance, is now up and running. A bond issuance is scheduled for early October.

"Almost every day we see another application come in," says Dupont, who anticipates up to £600m of business this

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> Paul House, Venn Partners

year in the UK PRS sector. Alongside fellow partner Richard Green, she has led efforts to secure more than £350m of PRS loan mandates so far.

The company is making strides in its other line of business, providing home loans to individual borrowers in the Netherlands. In March Venn launched a residential mortgage origination platform called Venn Hypotheken, led by Marc de Moor, which has advanced 10 loans worth around €2m already and is receiving up to €10m of leads per week through a large network of mortgage brokers that the business works closely with.

The fact Venn is operating through an on-the-ground platform that's "nimble, knows the industry and speaks the same language as borrowers", says managing partner Gary McKenzie-Smith, will push it towards its €500m lending target for 2016.

By 2018 Venn hopes to underwrite €2bn annually, including at least one residential mortgage-backed security (RMBS) issuance per year, capturing 3% of the Dutch mortgage market.

Current dynamics make the Dutch housing industry fertile ground. The market has been picking up over the last couple of years, new regulation is encouraging housing associations to sell off their portfolios in an effort to increase the country's social housing stock, and consumers are becoming more receptive.

Early mover

Venn was an early mover in the market, which "performed well throughout the downturn without a great deal of losses", notes McKenzie-Smith. Early in 2014 it bought €480m of residential loans from GE Artesia which it refinanced through an RMBS named Cartesian. These are now in servicing or have been repaid.

The company's foothold in the areas of the market it is active hasn't been established overnight. House considers Venn to be skilled at "identifying opportunities for strong relative value and putting them into action at an early stage in the cycle".

Its strategy has and continues to evolve in line with the market, from hotel lending "when there was a shortage of hotel lenders" to residential financing "when that was a relatively new sector".

Three years down the line and Venn has carved out a distinct niche in UK PRS and Dutch home loans. Currently with £350m of total assets under management, it is "increasingly looking to find opportunities in both the UK and on the Continent" and is focused on "pursuing what we've already put in place" in the short term.

House believes "the market opportunity has increased. A growing number of people have been coming to us since the referendum, tying in with banks being more conservative. The overall rationale for debt funds is still strong."