KEYNOTE INTERVIEW

Opportunities in a changing market

Daniel Austin and Joshua Weinstein of London-based ASK Partners, winner of Small-Ticket Market Lender of the Year (Sub-€20m Market): Europe, discuss how they are taking advantage of some radical shifts in the market

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Q What were the key events for your firm last year?

Daniel Austin: In the first part of the pandemic, there was a lot of nervousness and a lot of investors decided they were out, so we picked up a lot of loans. That momentum picked up through 2020 and we wrote twice as many loans in 2021 – around £415 million (€493 million) in capital, spread across around 35 loans – as we did in 2020.

In 2020, a lot of our loans were in residential with some industrial, but in 2021 and into this year, we started to see some interesting trends in the office space. Clearly there is divergence of opinion regarding the future of offices, and that gives a smaller lender more opportunity to lend.

That is because where everyone thinks capital is safe – industrial, logistics, build-to-rent (BTR) for example – there's a lot of institutional capital chasing the same kind of loans. Where there's slightly more variety you get a bit of dislocation and then we can pick and choose which parts of that sector we like.

Q What growth have you seen in the small-ticket loan size market over the past year?

DA: We continue to grow our planning-related loan book. Fundamentally, there seems to be a lot of demand for land. If someone intends to get planning for an asset, even if they don't, if the asset is in a good location on a sensible piece of land, more often than not the land value alone gets you covered. For us it's about those old property maxims: is it in a good location? Structurally it might not make sense for the banks, but do you feel comfortable if you had to own this asset? Is it future-proof?

Joshua Weinstein: Even in the small loan space there's a lot of competition, not necessarily from new entrants but from alternative lenders and challenger banks who are very well capitalised. That's pushing leverage up or pricing down or both.

That capital is looking to take advantage of origination platforms that have the skillset and the wherewithal to play in the small loan space. You also have people chasing deals because they've got capital burning a hole in their pocket, and they just need to deploy it.

Q What were the key trends in borrower demand in this loan size range?

DA: I think they're increasingly looking for more flexible capital. You might have written a business plan in 2019 with an 18-month turnaround, but no one could have predicted covid. So they want to be able to deal with the unexpected should it happen again.

JW: We do find some institutional clients want to try to contract out of every eventuality when the house view is very much that we've seen your business plan, we like it and we've structured the facility accordingly.

That is just a teething pain of us starting to explore that segment of the market more and learning how clients of that nature operate; how to match the right capital to the different risk profile.

Another thing that sets us apart is we are real estate people that happen to be on the debt side of the table. We're not operating a discretionary fund, so we can look at each deal in its entirety and structure accordingly, which borrowers really appreciate.

"We don't need as many offices, because not as many people are working five days a week. But there is still a huge demand for the built environment"

DANIEL AUSTIN

Q Do you predict more institutional money investing in the small-ticket real estate debt market this year? What is driving this investment?

DA: There is going to be a lot of alternative lenders looking for institutional partners because the institutions are realising that if you are private equity-backed and you need unlevered mid-to-high single digits and levered double digits, you are not going to get that in big ticket loans anymore because there's so much demand. It's not our model – we think it restricts the way we run our business – but we are seeing a lot of it going on.

Q What will the main challenges and opportunities be in 2022 in this part of the market?

DA: Clearly rising inflation is one of the big challenges. We don't do a lot of development finance as a percentage of the book, and that is because if inflation really takes hold, it is difficult to manage costs.

In terms of opportunities, there's going to be a massive amount of pent-up demand to travel, to work with other people, and to socialise. We are going to see the return of leisure, but perhaps in a new guise, and London retail and department stores will certainly offer additional scope.

We do a lot of retail repositioning and I think those opportunities will continue. A lot of shopping centres aren't fit for purpose anymore but they are in great positions with great land.

JW: I think BTR offers a home for long-term patient capital, and the market here will start to mirror that of Germany, the Netherlands and the US. Multifamily – what we call BTR – is a better and more secure asset class in those markets than anything commercial. If you look at the lack of affordability for first-time buyers in this country – what you can rent versus what you can buy for the same budget, plus the location, the amenities that are offered and the willing transience of younger generations – a long-term rental option actually starts to make a lot more sense.

DA: General demand for classic real estate is getting sucked out by the internet. We don't need as many shops because not as many people are shopping physically. We don't need as many offices, because not as many people are working five days a week. But there is still a huge demand for the built environment across the board and my sense is that we will increasingly look at assets in terms of their different possible uses. There is a lot more room for people to be creative. ■