KEYNOTE INTERVIEW

Making lending work in the new world

OakNorth's Ben Barbanel and ASK's Daniel Austin discuss the strategic partnership aimed at lending through economic cycles

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Improving each asset's income potential is crucial to making them financeable in the mid-market space, argue Ben Barbanel, head of debt finance at OakNorth Bank, and Daniel Austin, CEO and co-founder at specialist lender ASK Partners.

Q What was the operating environment like in 2023 and what were the main challenges?

Ben Barbanel: Market conditions were tough. The market has been challenging from many perspectives across multiple asset classes in the real estate world. For example, residential development has become difficult, despite the fact we used to do a significant amount of construction lending in that space over the past few years. Just about every line in a development appraisal has gone the wrong way for both a land purchaser and a lender. So there is no alignment between a willing buyer and a willing seller. And, as a result, we have seen transaction volumes drop significantly.

Daniel Austin: People had gotten used to paying around 5 percent for money; now, when they are paying around 10 percent, a lot of transactions do not pencil out. So, as lenders, we need to think creatively about how to make transactions work in the new world. If you can take an asset that is producing £1 million (€1.2 million), spend some money on it and now it is producing £2 million, then you can get the financing to work. The property is generating so much more surplus cash that borrowers can afford to pay the increased cost of debt. We have had to focus on the deals where demonstrable improvements can be made to a property to change its cashflow profile and make it financeable.

Q Your organisations frequently collaborate on lending deals. How does this benefit you?

BB: It enables us to offer a different product compared to a typical high-street bank. In a market like this, a lot of borrowers feel the need to deal with a regulated bank rather than an unregulated lender or a debt fund. Then I can provide a higher-levered loan than I would normally be comfortable with, and the ASK business will sit in my loan structure to provide an additional amount of leverage. So we provide whole loans where Dan's team takes exposure within that loan to take some of our risk, allowing us to provide a higher level of leverage to a borrower.

DA: OakNorth is a Prudential Regulation Authority bank with permanent capital. We know very clearly what they can and cannot do. And that gives us certainty when we are trying to build interesting real estate structures to serve our clients. Both ASK and OakNorth are taking a medium- to long-term view and intend to be lending into this market through the cycles – rather than being reactionary to where interest rates are and where the market is.

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> **DANIEL AUSTIN**
> **ASK**

Q Your organisations were voted Mid-Market Lender of the Year (€20 million to €70 million Market): Europe. To what do you attribute your success in this market?

DA: The mid-market has always been underserved. The big debt and hedge funds are massively attracted to scale. Unless they can write a loan of £50 million-plus – preferably £100 million – they just are not interested. And then there are loads of bridging lenders who are very comfortable at writing loans up to £20 million. But as soon as you are over £20 million, it is really beyond their capability. So, there is always demand for that space between £15 million and £50 million. We think that is one of the few areas of the market that is not particularly well served by lenders right now.

Q You also won Mid-Market Financing Deal of the Year (€20 million to €70 million Market): Europe for the loan provided to Z Hotels to purchase a vacant office block in London and convert it into a hotel. Why did this deal make sense to you?

BB: This is a great example of where we work well together. The opportunity came for us to put our heads together and do a structure for a client that we both know well, on a business that we both think is fantastic and for a great management team.

DA: It was the right time in the cycle because the borrowers bought a hotel where they can meaningfully improve the value of that asset, which gives us cover, so we are not exposed to market conditions. Even if the market retrenches, and yields go the wrong way, the fact that they have added a lot of value and can generate a lot more cash gives us that protection.

As Ben said, it was an opportunity to work together with a client we both knew, give them a bit more leverage for them to manage their cashflow, and see an asset increase in value through the business plan. We can see a meaningful uptick in the EBITDA that the asset can create, and we are very comfortable at the multiples that we have lent out.

Q Across the real estate financing markets, what do you see as the main challenges and opportunities in 2024?

BB: We are seeing reasonable flow from some mid-market operators that we would not have previously seen opportunities from. They have always had their house banks, but for whatever reason they are not playing in that part of the market now. These banks are looking at larger deals for larger institutional clients and therefore there is a bit of a void in the space where they require debt. So we are seeing some great opportunities now for clients that perhaps we have not dealt with before.

DA: Interest rates will come down, but not materially enough to solve the issues that a real estate borrower will have in the near term. So there is going to be opportunity still in refinancing. I think 2024 and 2025 are going to be tough years; there is no silver bullet in my mind. There is a lot of geopolitical risk. There is still a lot of hangover from deals that have been banked in a zero-interest-rate environment that do not work today. It is going to be a mix of some green shoots and some opportunities, and lots of problems to solve. ASK will be looking to lend to strong sponsors with creative business plans to add to their asset's value. ■