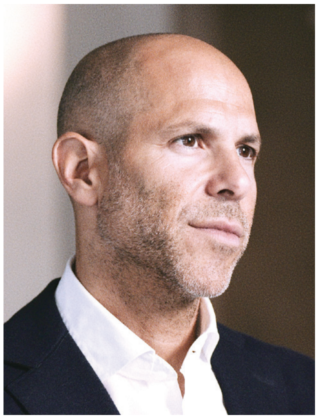
KEYNOTE INTERVIEW

Why it pays to be adaptable



ASK's Daniel Austin anticipates increased demand for finance in the small-ticket market

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As the property market shifted, ASK Partners strategically focused on smaller loans using internal capital instead of structured financing, which CEO and co-founder Daniel Austin says is a move that paid off as the firm won the award for Small-Ticket Market Lender of the Year (Sub-€20m Market): Europe.

Q How were lending market conditions in 2024?

The cost of money was expensive, values were coming down and serviceability was very hard. Interest cover ratios didn't work – if borrowing costs increased from 7 percent to 10 percent, but income remained stagnant, borrowers struggled to service their debt and meet banking criteria.

Many expected a big transfer of assets from high street banks to shadow banks, debt funds and private equity firms, as the market thought banks would push borrowers who no longer met their criteria to refinance. While this happened to some extent, it was far less than anticipated. Existing lenders took a gentle approach to non-performing loans, limiting opportunities for alternative lenders.

So, this combined with fewer new acquisitions meant last year was less active. While there were always secondary office refinance opportunities, refinance pricing on logistics and residential assets remained tight, making it harder for non-banks to compete.

However, the beginning of 2025 looks better for mid-market lenders. Loans issued in 2021 that matured in 2023-24 have been allowed to linger, but now lenders are applying pressure for refinancing, creating opportunities for new lenders to come in.

Q Your firm was awarded European small-ticket lender of the year. To what do you attribute your success?

We stood out in the UK mid-market in 2022 and 2023, however, in 2024 we made a strategic decision to write smaller loans, relying entirely on

> *"When there are differing views on the market, it also creates opportunities as divergence often leads to investment potential"*

internal capital rather than structured financing.

This had the advantage that we didn't need to secure back leverage and put complex capital stacks together. It also meant it provided us with total control by removing the need to negotiate with other lending partners should markets deteriorate.

It was a good strategy and we are still very much following that line of thinking. But as an opportunistic lender, and as we are seeing the market stabilise, we are starting to look at larger-sized loans again and have already completed two over €30 million in 2025.

Q How did borrower demand in the small-ticket market change last year?

As the market turned, some asset managers reduced deal sizes to originate and manage new acquisitions without external capital. Meanwhile, we started to see clearing banks start to push smaller-ticket borrowers to refinance after prolonged periods of interest cover covenant breaches.

This meant demand for refinancing was quite good, but for new acquisitions, borrowing costs and macro-economic uncertainty meant sellers were holding out for unrealistic prices. Many of our clients and smaller-ticket investors felt discounts weren't deep enough to justify buying new assets.

However, during the course of last year, sellers began accepting reality, realising their equity wasn't gone, but wanting to offload assets, repay banks and move on to refocus on new opportunities to make money again. We are now starting to see the fruition of that feed through to a more active acquisition market.

Q What were the particular challenges of financing transactions in the small-ticket size-range last year?

The greatest challenge was the rigidity of the rate cycle. The cost of money was still stubbornly expensive.

Real estate had been such a great asset class from 2010 to 2021, with income typically exceeding financing costs. Now, with lower income and higher borrowing costs, many borrowers need fresh equity to hold onto properties.

From a development perspective, build costs have remained high as a result of inflation on materials, but also increased building regulatory requirements. Planning continues to take far longer than it should, and this in combination with expensive finance makes it hard to make the numbers stack up for developers and hence new lending opportunities.

Q How will small-ticket financing needs change?

There will be more demand as people look to get more on the front foot again. I think speed and certainty of delivery will continue to be a key factor in the small-ticket financing market.

Whilst rates are coming down, the speed of reduction is slower than we would like in the UK, but they are decreasing at a faster rate in Europe.

Politically, the landscape has shifted in the US and I believe this will generate activity. Last year was dominated by elections globally, but now that those are over, especially in America and the UK, we know who will be in government for the next four or so years. This, I believe, will strengthen activity and create more demand, which will be beneficial for lenders.

Q What do you see as Europe's main challenges and opportunities in 2025?

The main challenge across Europe is political as the landscape is shifting rapidly, creating a real political vacuum. I think one of Europe's challenges will be that external investors are uncertain about what is happening. However, when there are differing views on the market, it also creates opportunities as divergence often leads to investment potential.

Europe was heavily focused on green investing, driven largely by the funds, but with Trump returning to power, there is less emphasis on green policies. This is unfortunate, as I believe the built environment still needs to move toward greater sustainability.

In terms of opportunities, interest rates are lower so the cost of money is coming down. Logistics will remain strong, supported by Europe's efficient infrastructure networks. There is also significant demand for hotels as post-covid-19 travel rebounds.

A lot of good medical-based real estate development is underway. Life sciences, which boomed during covid-19 before falling off the cliff last year, I expect will come back slowly. The problem with covid-19 was that it made some sectors incredibly hot and others extremely cold; distribution warehouses and logistics went through the roof, while offices went through the floor, for example.

As inflation comes under control and interest rates come down gently, those markets will change direction in a much more controlled and balanced way, although some markets such as secondary offices will likely continue to struggle without some type of change of use or de-gearing of debt. As a result, we will see convergence and money flowing into a broader range of asset classes. ■