



30^e VOGON studiemiddag

Welkom

Vastgoedfinancieringen;
Geen geld, niet geteld?

Woensdag 1 september 2010



Vereniging van Onroerend Goed Onderzoekers Nederland

PROGRAMMA:

- | | |
|----------------------|---|
| 14:00 – 14:20 | Ontvangst en koffie |
| 14:20 – 14:30 | Opening door dagvoorzitter
Ronald Huisman – Associate Professor Risk Management, RSM
Erasmus Universiteit Rotterdam; Directeur FinEdge |
| 14:30 – 15:00 | “Externe invloeden op vastgoedfinancieringen”
Jan-Evert Post – Managing Director ING Real Estate Finance |
| 15:00 – 15:30 | “Mogelijkheden met mezzanine leningen”
Jan-Jaap Meindersma – Head of Real Estate Investment
Management NIBC |
| 15:30 – 15:50 | Pauze |
| 15:50 – 16:20 | “Financiering van maatschappelijk vastgoed”
Kees Hörchner – Financial Advisor RebelGroup |
| 16:20 – 16:50 | “De toekomst van CMBS na de financiële crisis”
Hans Gerritsen – Partner Remit Consulting |
| 16:50 – 17:00 | Afsluiting door dagvoorzitter |
| 17:00 – 18:00 | Borrel |



Externe invloeden op vastgoedfinancieringen

Jan-Evert Post (ING Real Estate Finance)

Contents

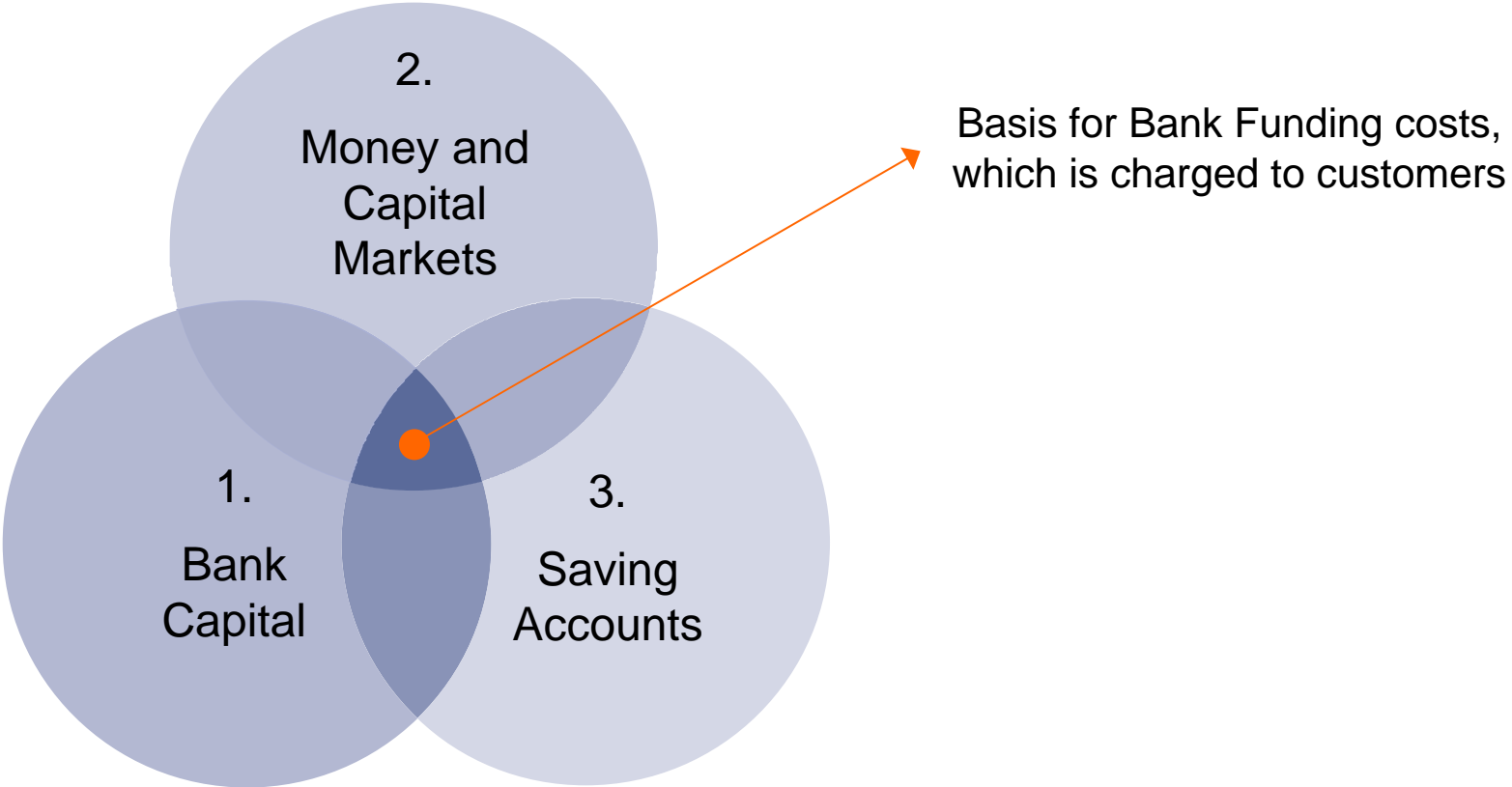
1. Financial Markets and Liquidity
2. Regulations, Basel III
3. Refinancing Risks
4. What is the effect of 1-3 on Real Estate Lending?

1. Financial Markets & Liquidity

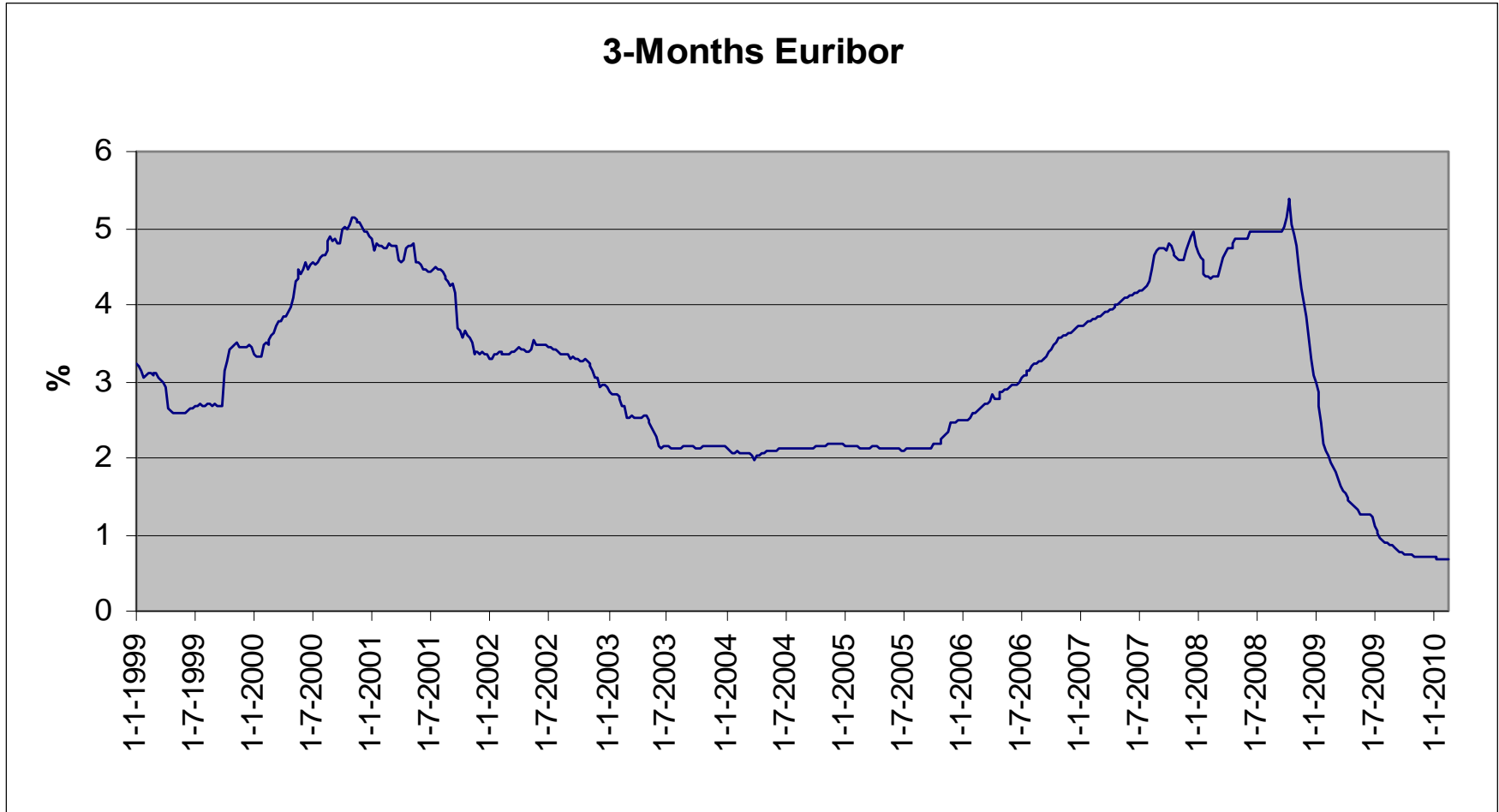
Money & Capital Markets and Funding for Banks

Bank Funding not only based on EURIBOR

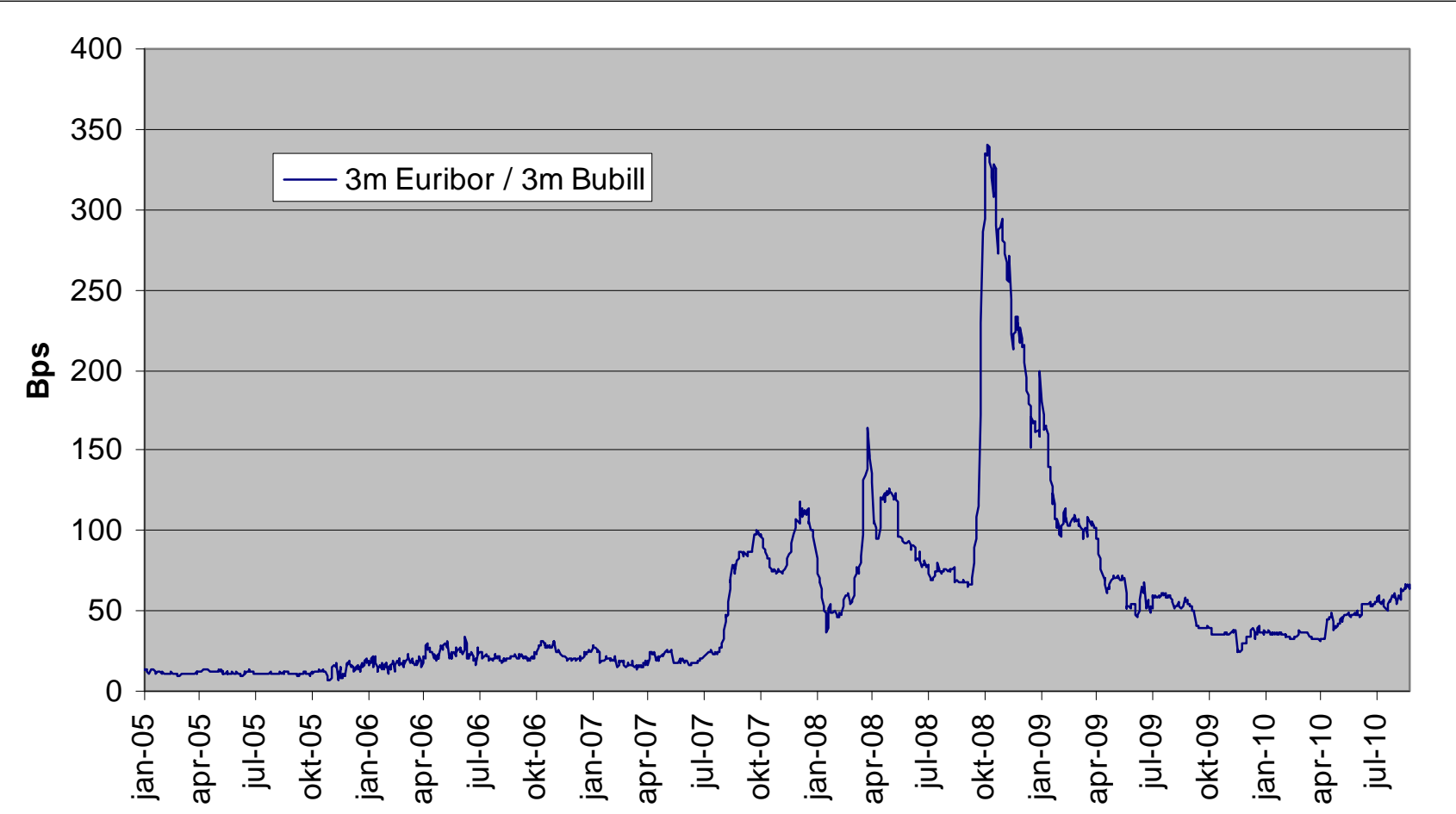
Funding for banks is a mixture of (1) bank capital, (2) money & capital markets, (3) saving accounts



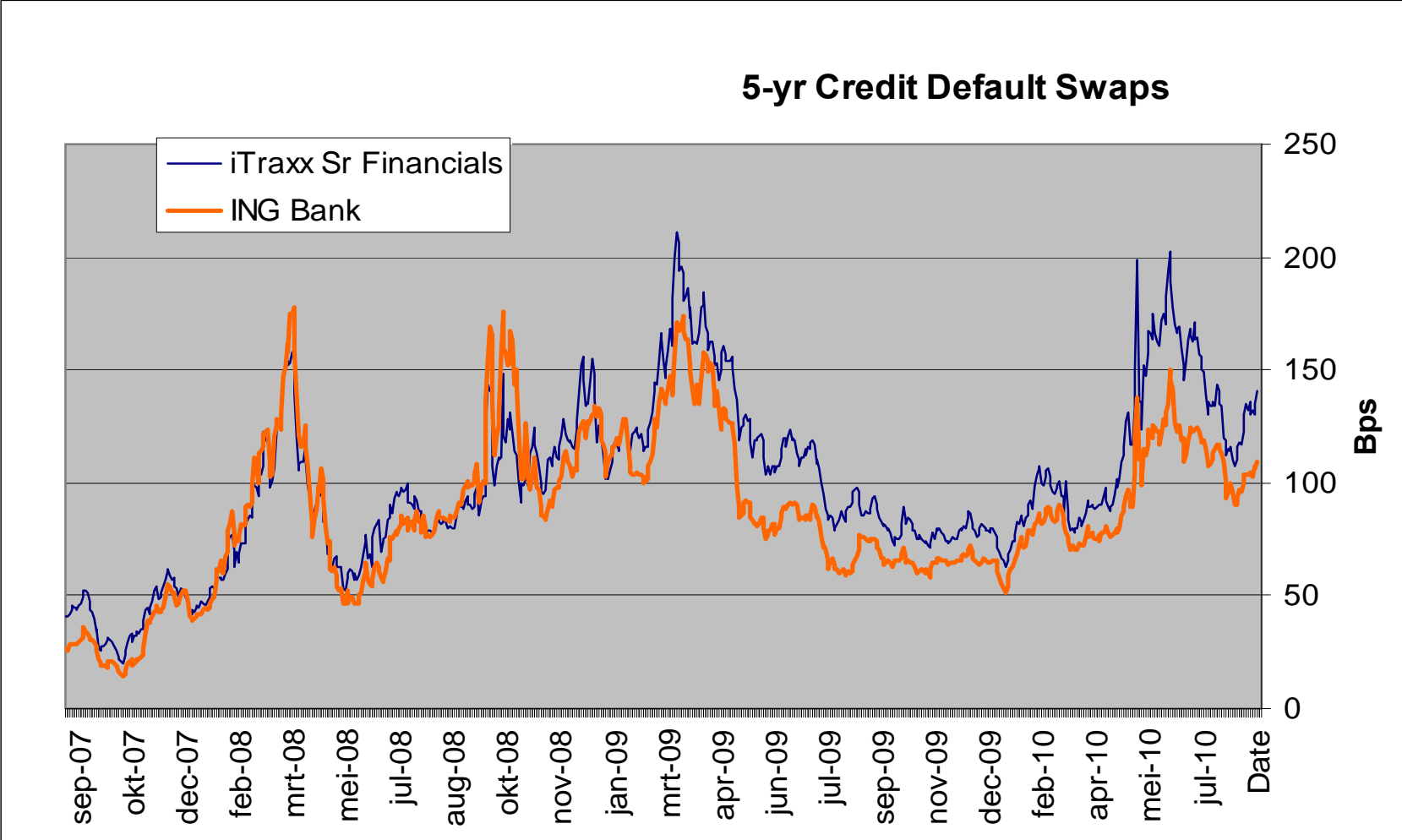
Although Euribor rates appear at all time low..



..banks' liquidity cost is rising again..



..also illustrated by increasing costs for insuring credit risk on banks...



.. and the Effect is...

=> Increased costs of funding to banks translates into the need for structurally higher level of margins/liquidity spreads payable by clients

2. Regulations, Basel III

Implementation of new Basel regulations postponed from 2012 to potentially 2018

Enhancements from Basel II to Basel III

Tighter definitions of Tier 1 Capital

Introduction of a leverage ratio

A framework for counter-cyclical capital buffers,

Measures to limit counterparty credit risk, and

Short and medium-term quantitative liquidity ratios

What's currently not in Basel II concerning Real Estate Lending

- No accounting for Real estate specific issues regarding assets or property type
- No differentiation in risk weightings for property lending capital requirements for different types of property companies (investment vs development companies or retail vs office fund)

What Basel III is about

1. **Capital Base;** Raise quality, consistency and transparency of capital
2. **Improve Risk Management;** Extra weighting for Counterparty Credit Risk (correlation), better Collateral Valuation, lower reliance on external Ratings
3. **Leverage Ratio;** Introduce a backstop mechanism – the Leverage Ratio
4. **Pro-cyclicality and Systemic Risk;** Reduce pro-cyclicality by building up buffers in good time and absorb these buffers in bad times
5. **Liquidity buffers;** Ratios for 30days liquidity and 1 year liquidity

=> General Impact: Extra Bank Capital will be needed

Impact of Basel III on Real Estate Lending

Generally:

New regulation will increase capital levels at lending institutions

Specifically:

In case of secured Lending the market can benefit from better recognition of risk mitigation through security

More Specifically:

For real estate lenders it will be important to be able to distinguish between various property companies and specific asset security characteristics



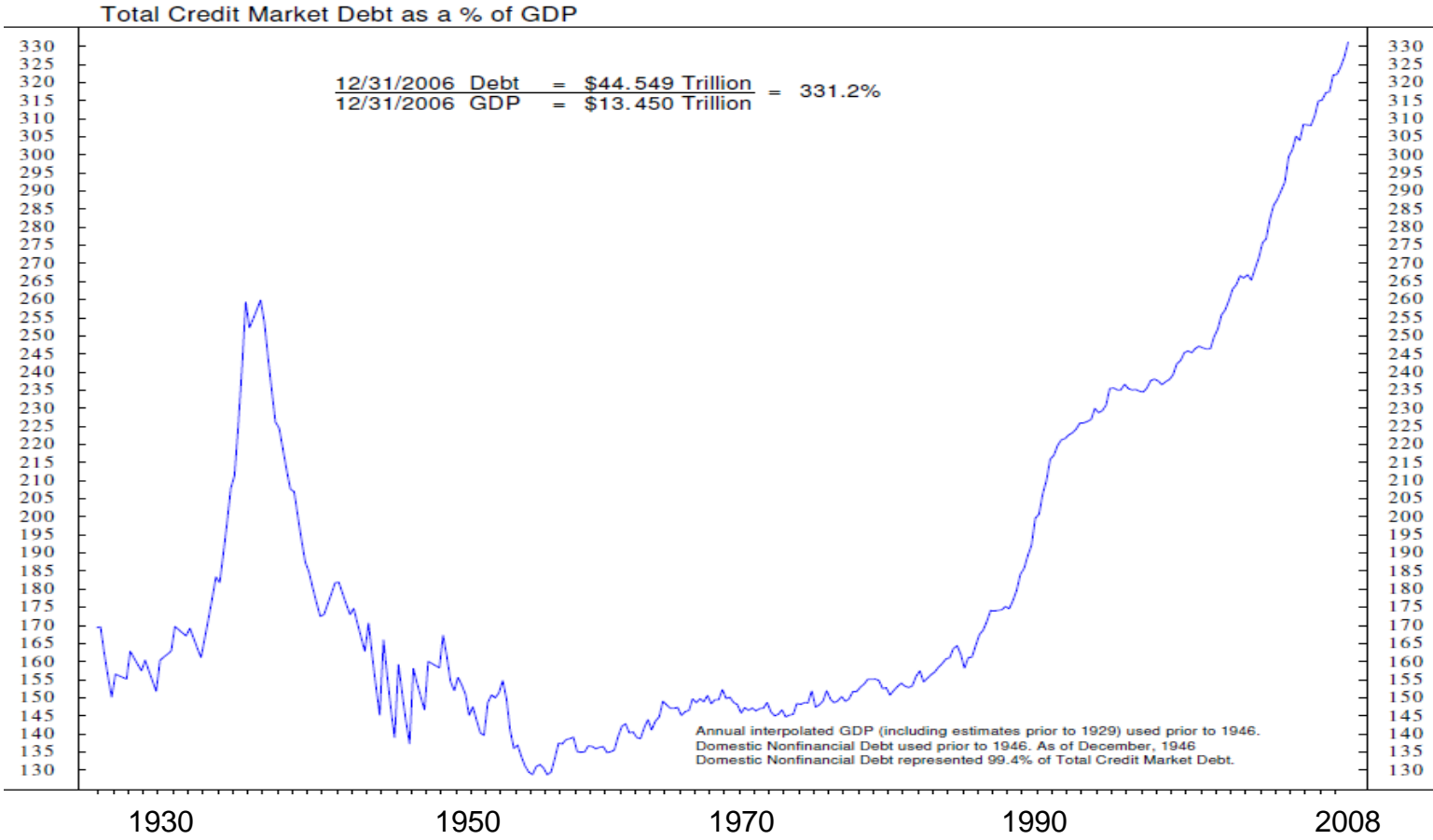
This is not (yet) included in Basel III

3. Refinancing Risks

Heritage of Peak of 2006/2007 Debt Issuances

Debt Levels in Economy Surged

Example: US economy's total debt level 1920 – 2008 as % of GDP



Source: Ned Davis Research, Inc.

Current Universe of Real Estate Debt...

YE 2009, total debt to commercial real estate across Europe totalled >€1,000bn

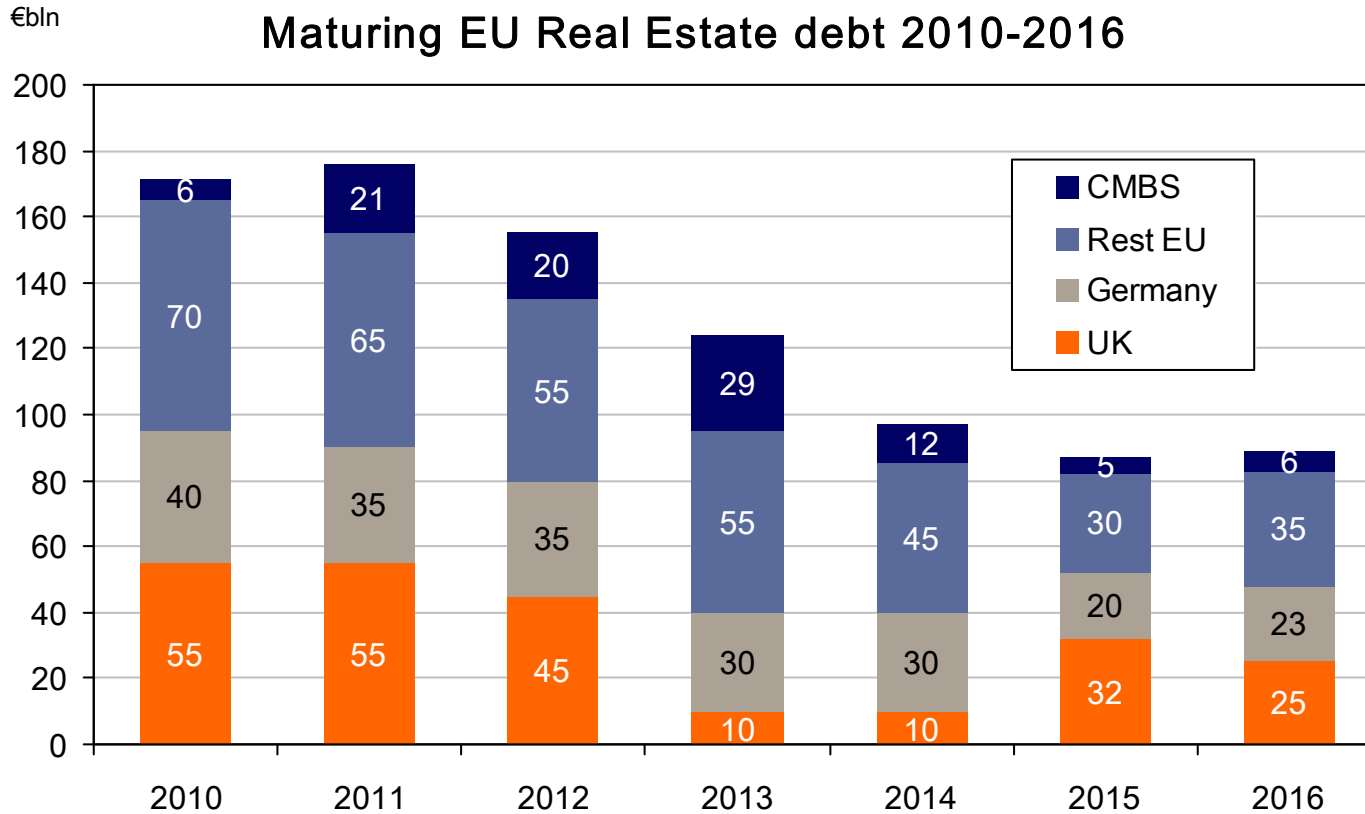
This was some 65% higher than in 2004

Much originated during peak (2006/2007), with generally weak credit structures (LTV often >80%), and low margins for lenders

Since market peaked, capital values fell considerably (AVG > 25%). Consequently, investors' equity was wiped out. Now loan amount >> collateral's market value

On those loans that reached maturity, loan restructurings incl. maturity extensions with 1-2 years are currently often used to date to avoid a default

..with near term maturity profile...



2010: 17% of total EU debt to mature

2011: 18% of total EU debt to mature

2012: 15% of total EU debt to mature

50% of EU RE debt to mature within three years...

Sources: CB Richard Ellis, Moody's, Morgan Stanley Research

..results in refinance issues..

- Short term funding of loan books from Central Bank liquidity have been reduced
- Therefore, banks will not extend loans indefinitely and more rigorous discipline is now applied
- Improving market sentiment has given “General Commercial Banks” more confidence in their ability to exit
- Large proportion of debt that was due to mature in 2009/2010 was rolled over for just 1-2 years
- Total European debt that is due to mature over the next 3 years: AVG €155 bln p.a.

..including for Mortgage Backed Securities

Moody's* claims that CMBS loans continuing to struggle to refinance.

Of 16 loans that reached maturity in Q1 2010 just 1 refinanced successfully.

Of the other 15 loans, seven defaulted at maturity and eight were extended.

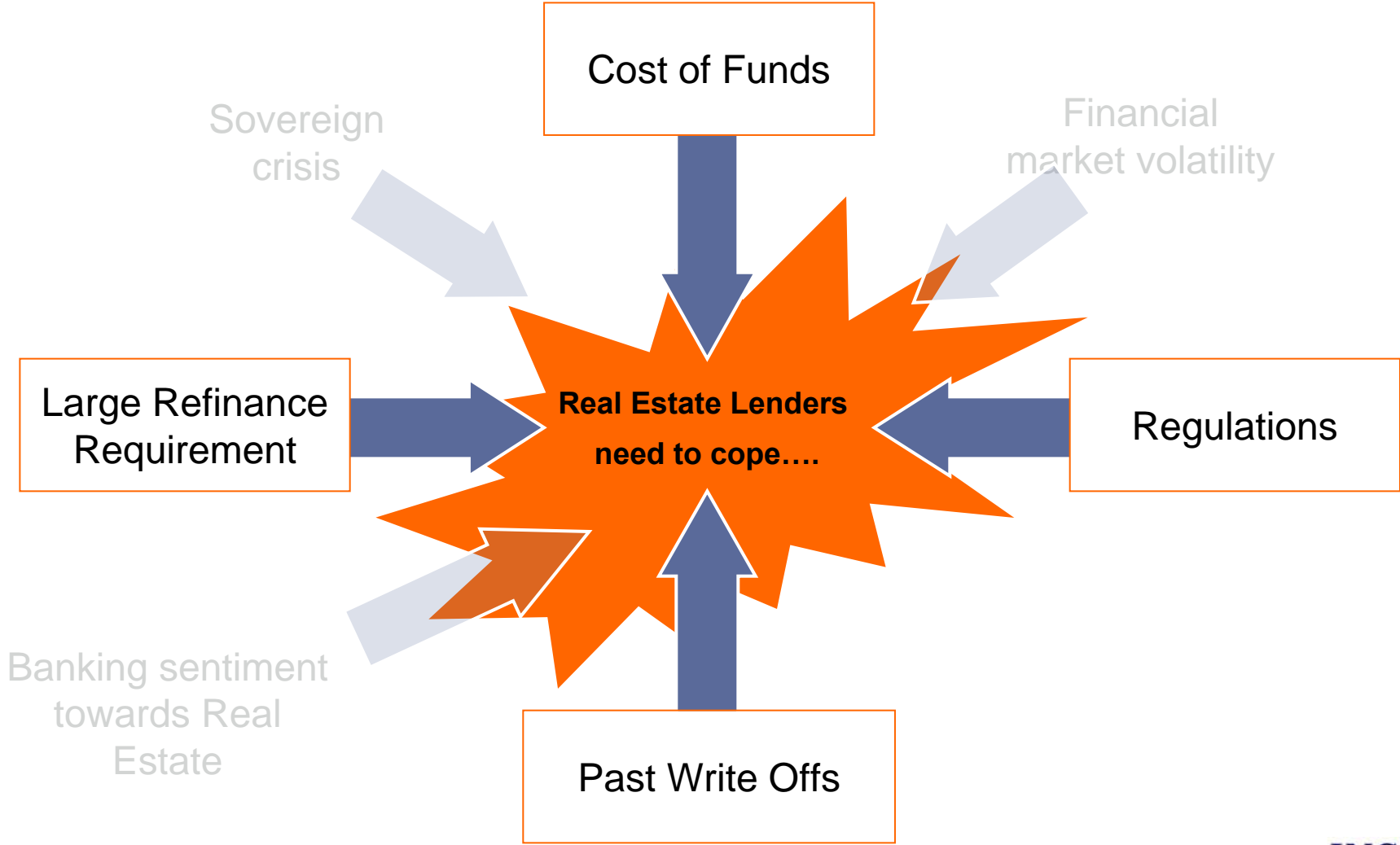
For some of the defaulted loans, standstill agreements were put in place and loan extensions may follow.

=> Low likelihood that similar level of investors appetite exists to refinance CMBS

* = Moody's Report on EU CMBS, June 2010

4. What is effect on Real Estate Lending?

Real Estate Lending challenging...



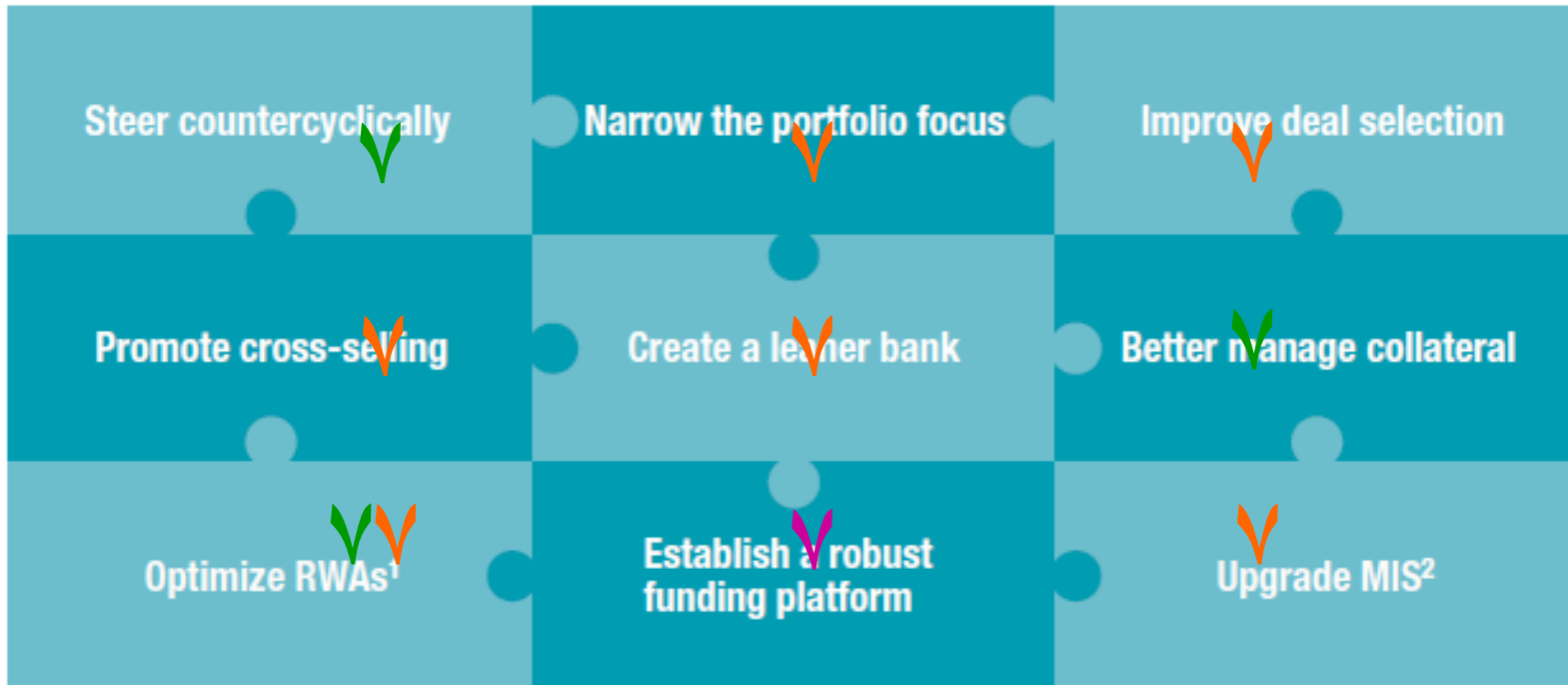
...therefore Real Estate Lenders need to improve their business model

- According to McKinsey¹, there are 9 levers to be integrated for sustainable economic returns:

I. Funding 

II. Basel 

III. ING REF Strategy 



¹ McKinsey report Qtr 3, 2009

² Management Information Systems

Conclusion

- Banks face increasing costs of funding due to status of Financial Markets and impact of new regulations
- Refinancing Real Estate debt in near term not likely to be completely absorbed by banking institutions
- Business model of Real Estate Lenders needs to become more sophisticated to deal with new reality

Thank you for your interest





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Mogelijkheden met mezzanine leningen

Jan-Jaap Meindersma (NIBC)

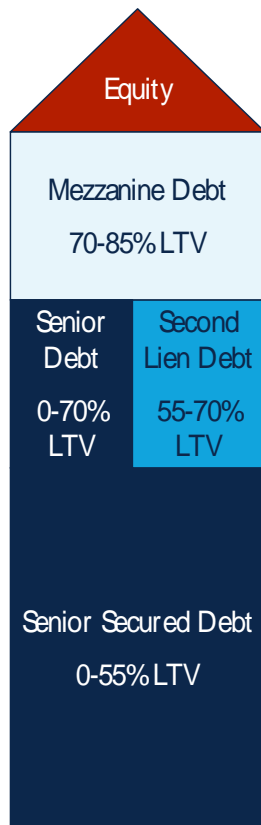


Relative value within the RE capital structure

Generally speaking, one could invest in real estate via:

1. Equity
2. Mezzanine
3. Senior Debt

Senior debt spreads currently range between 150 and 250bps while mezzanine returns reach up to double digit levels



Debt Funding instruments

- Mezzanine debt
- Senior loan
- Junior (second lien) loan
- Junior (second lien) inflation linked loan
- Senior loan
- AAA CMBS
- Senior Unsecured Bond
- Inflation linked loan / bond

Investors / debt providers

- Specialized funds (backed by Institutional investors)
- Hedge funds, Opportunistic RE funds
- Commercial and pfandbriefe banks
- Institutional investors
- Commercial banks
- Pfandbriefe banks
- Institutional investors (e.g. insurers, pension funds)
- Fixed income investors (e.g. banks, insurers, pension funds)

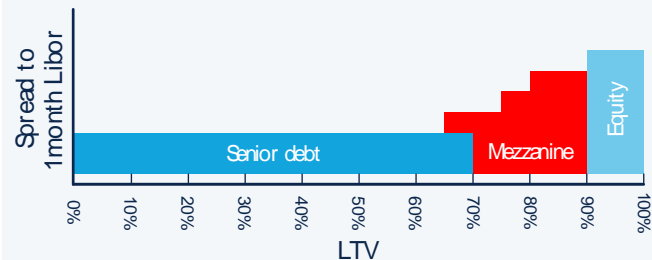
Limited supply of high LTV real estate debt...

Limited supply of high LTV real estate debt

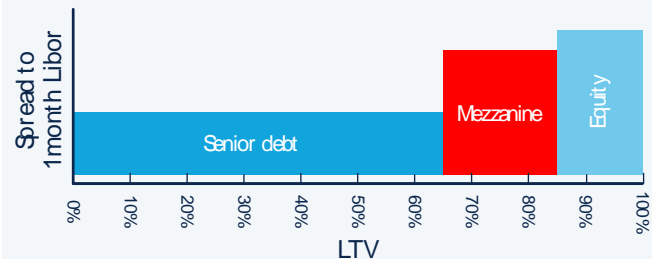
- Financial crisis has strongly reduced availability of real estate financing
 - Many traditional RE banks inactive due to capital and liquidity concerns
- Senior financing will remain modestly available, albeit at conservative LTV levels
 - Easier to distribute or fund (a.o. pfandbriefe)
 - Higher capital charge for high LTV loans
- Very limited supply of higher LTV loans
 - Banks expected to remain cautious
 - Historical providers of RE mezzanine, like CRE CDOs, not expected to return to the market

Illustrative real estate capital structure

Before market dislocation



After market dislocation



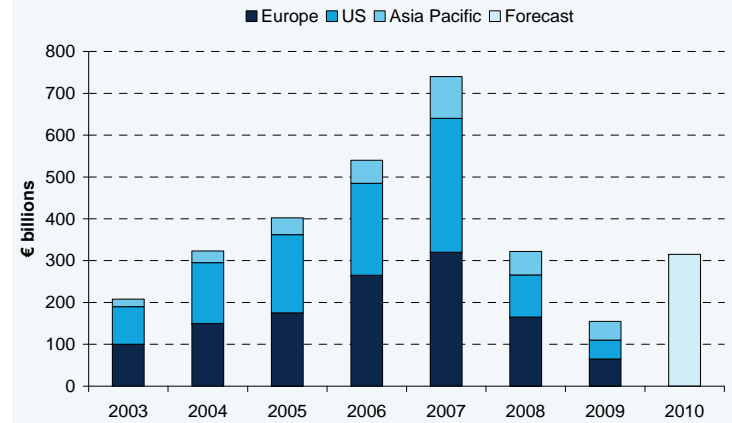
Source: RREEF Research, February 2010

...while demand is fueled by maturing RE loans

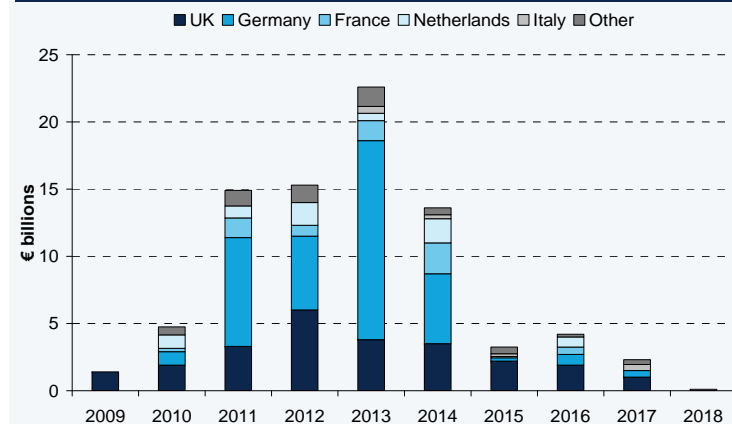
Wave of refinancing, equity availability is scarce

- A high volume of real estate investments were financed with debt during the booming period 2003-2007
- The credit crisis has severely pushed down generic real estate values, leading to substantial increases in LTV's
- A wave of these high LTV loans require refinancing during the coming years, with a peak in 2013
- In addition, real estate investors are limited in their equity capacity and welcome debt capital to fund new investments
- Demand for real estate debt is therefore expected to be high

Global RE investment transaction volumes



CMBS wave of upcoming RE loan maturity dates



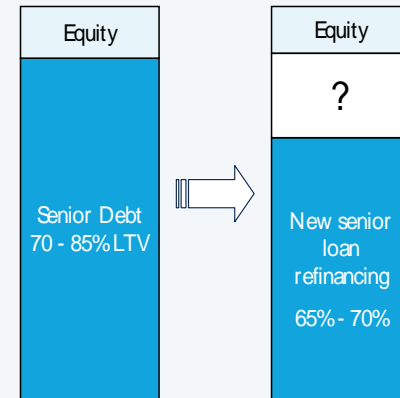
Source: Fitch; DTZ Research & RCA

Supply / demand imbalance leaves a funding gap

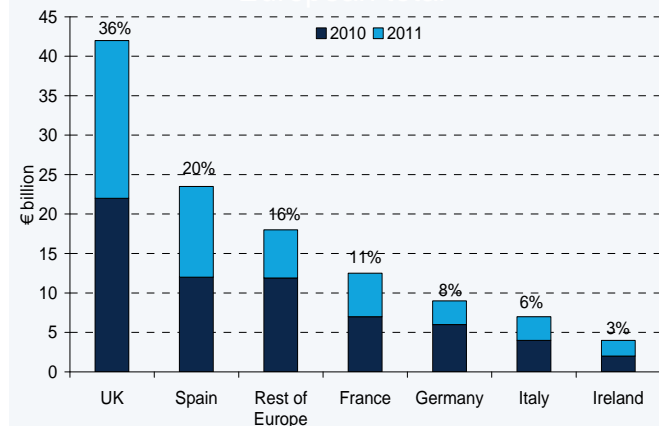
Strong supply / demand characteristics

- This supply/demand imbalance has led to a shift in power from the borrower to the lender:
 - Tightened credit standards
 - Lower leverage and higher amortisation
 - Higher returns (both margins and fees)
- Mezzanine providers can fill an interesting void in the real estate finance landscape

Funding gap in RE capital structure



Debt funding gap by country as % of European total



Source: Fitch, DTZ Research

Mezzanine debt: applicable situations

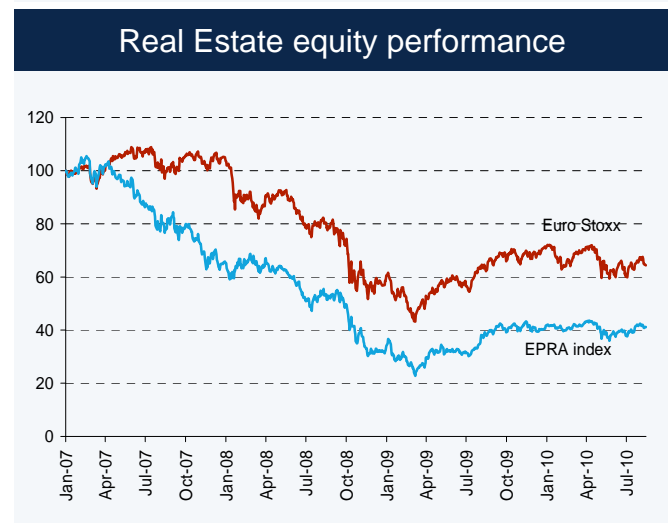
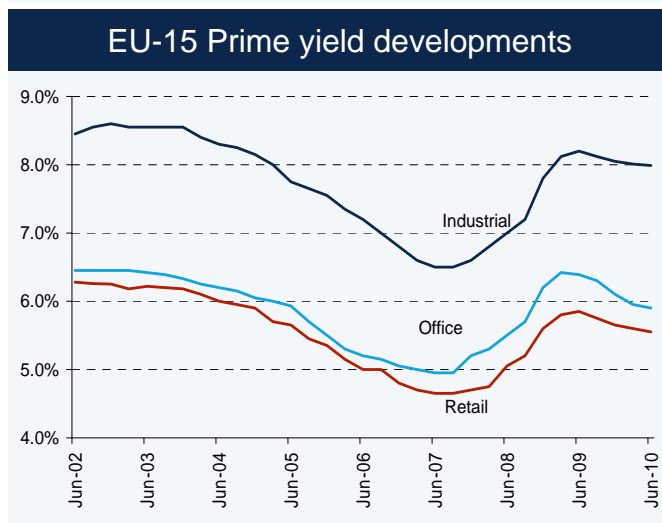
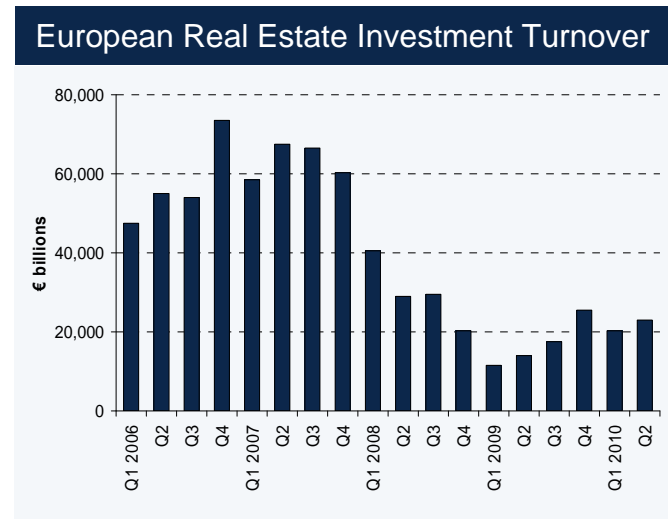
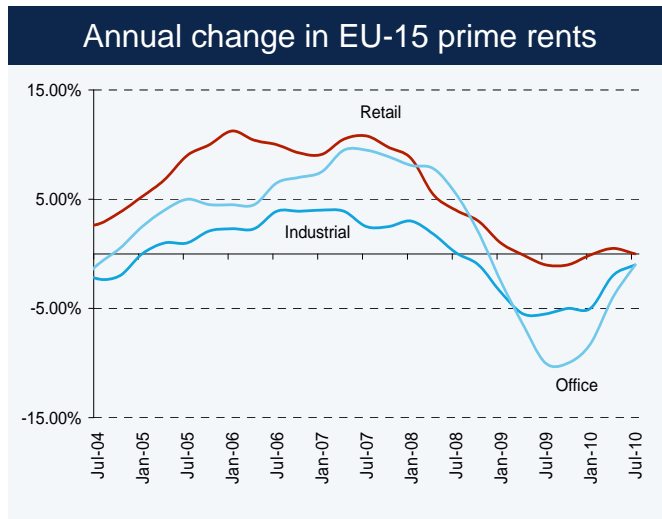
When does mezzanine financing make sense?

- Real estate mezzanine debt can be valuable in 4 general situations:
 - Refinancing of existing debt
 - Restructuring of existing debt
 - Increase existing debt
 - Financing of new transactions
- Advantages of mezzanine debt in refinancing or restructuring of an existing debt position:
 - Achieve loan refinancing instead of extension
 - Reduce real estate exposure and / or decrease risk profile
 - In case of restructuring: quick solution instead of potential cumbersome work-out situation

When doesn't mezzanine financing make sense?

- Prime quality properties that are valued at low yields
 - The mezzanine piece is relatively expensive and may not work for the equity investor from a return perspective
- Risky cases where mezzanine financing is actually disguised equity financing without control and at a lower return

Real estate markets: where are we today?



Source: CBRE, Q2 2010

Source: Bloomberg

Current observations in the real estate mezzanine market

- Both lending and general real estate markets are gaining momentum
- Improved market sentiment leads to an acceptable clearing level for many distressed situations
- Mezzanine transaction volume to date has been low and the number of European real estate mezzanine lenders is limited
- However, we have seen a jump in our transaction pipeline in the last few months, both from real estate investors that seek capital for making acquisitions as from other banks that are becoming aware of the mezzanine product

Questions?



30^e VOGON studiemiddag: Vastgoedfinancieringen

PAUZE



Vereniging van **O**nroerend **G**oed **O**nderzoekers **N**ederland



Financiering van maatschappelijk vastgoed

Kees Hörchner (RebelGroup)

REBEL

Wat doet Rebel?

SLIDE 38

- Rebel adviseert sinds 2002 over financiering op het snijvlak van publiek en privaat
- Rebel adviseert met 90 medewerkers publieke en private klanten
- Rebel doet dat in sectoren met een groot maatschappelijk belang, zoals vastgoed, gezondheidszorg, infrastructuur, transport en mobiliteit, onderwijs, energie, water

A Maatschappelijk vastgoed: *gevarieerd landschap*

SLIDE 39

- Maatschappelijk vastgoed omvat een variëteit aan gebouwen en faciliteiten
 - Ziekenhuizen
 - Scholen
 - Overheidsgebouwen
 - Kunst, cultuur en sport
 - Sociale woningbouw?
- Jaarlijkse investeringsvolumina
 - Zorg 1 – 1,5 mrd
 - Scholen (ex hoger onderwijs) 1 mrd
- In deze presentatie nadruk op financiering van zorgvastgoed

A Trends in financiering maatschappelijk vastgoed

SLIDE 40

- Terugtrekende overheid die niet wil privatiseren
- Prestatieafhankelijke bekostiging of beperkte introductie van marktwerking
- Risico als prikkel tot efficiëntie
- Financiering wordt steeds risicovoller

Zorgsector als voorbeeld

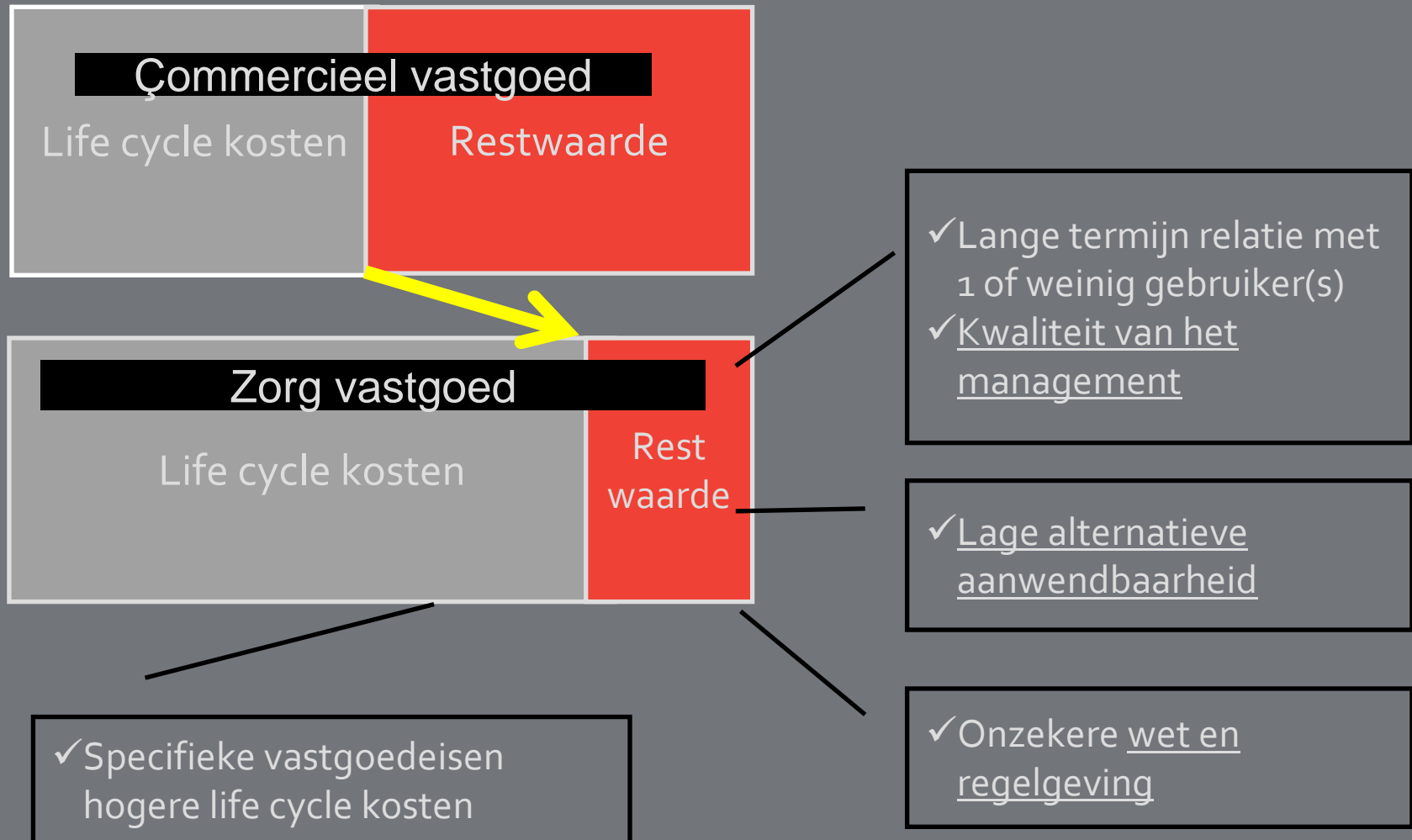
Financiering van zorgvastgoed is vooral bancair

SLIDE 41

- Financiering vooral bancair: daar zit de expertise voor het inschatten van zorgsector risico
- Smalle bancaire markt;
 - slechts vier spelers in NL,
 - buitenlandse banken hebben vooralsnog geen interesse
- Paar ontwikkelaars zijn actief (bijv VitaalZorgVast, ZorgID) echter zonder een goedwerkende beleggersmarkt

A Zorgvastgoed heeft (nog) nauwelijks restwaarde

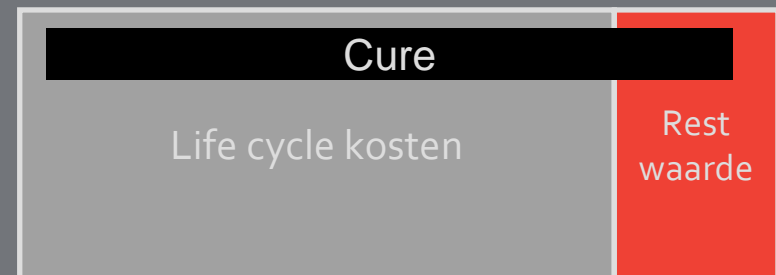
SLIDE 42



A Beleggingsfinanciering in deelsegmenten

SLIDE 43

- Beleggingsfinanciering in
 - Zorg gerelateerd vastgoed
 - Verzorging; semi-wonen
- Vooral woningcorporaties zijn actief als 'belegger'



Rol van de zorginstelling is dominant

SLIDE 44

- Beperkt aantal zorgaanbieders
 - 100 ziekenhuizen (7 amc's)
 - 60-70 GGZ instellingen
 - 1900 V&V instellingen
- Specifiek vastgoed voor een doelgroep die geclusterd is in een beperkt aantal instellingen
- Goed management van die instellingen is het fundament van een financiering

A Organisaties worstelen met klein eigen vermogen

SLIDE 45

- Nadruk bij financiering ligt op de levensvatbaarheid van de instelling
- Bruikbaarheid van vastgoed is een randvoorwaarde
- Remmende factor is de lage solvabiliteit van de instellingen

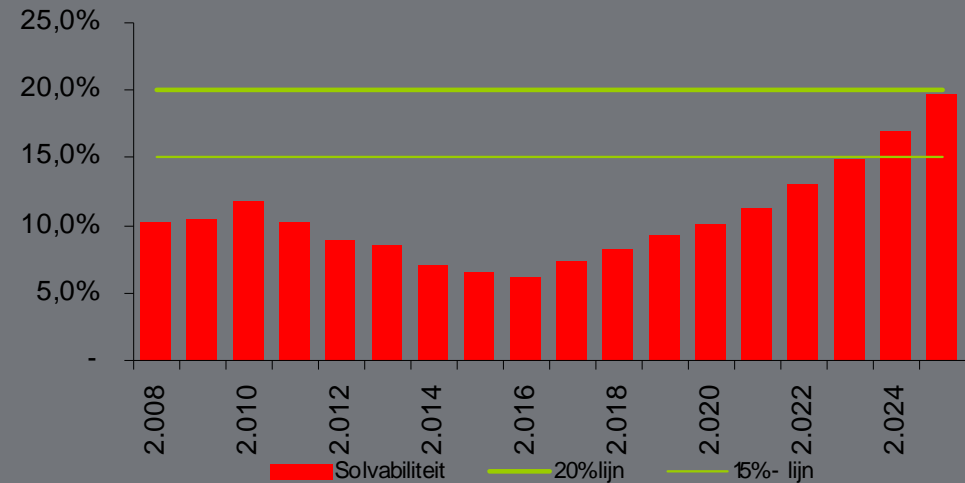
	Solvabiliteit (% vd balans)
Cure	~11 – 12 %
Care	~15 – 16 %

- Voor een streefwaarde van 20 % solvabiliteit zou ~EUR 1,5 mrd extra risicodragend vermogen nodig zijn

A Te kleine buffer voor doen grote investeringen

SLIDE 46

- Veel zorginstellingen 'overleven' grote investeringen niet
- Balansverlenging en hogere afschrijvingen + rente eten het eigen vermogen op



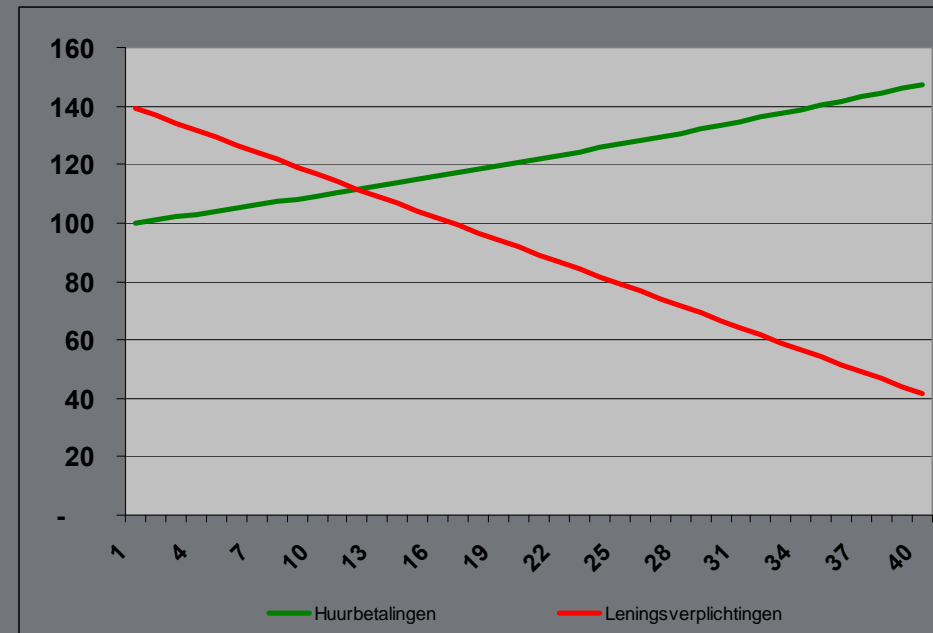
Impressie van representatief ziekenhuis

Looptijden	25 - 30 jaar met een herfinanciering na 10 - 15 jaar
Renteniveau	Opslagen van 100 tot 180 bps boven IRS afhankelijk van duur vastzetten opslagen

A Beleggingsfinanciering vergroot eigen vermogen

SLIDE 47

Bancair krediet	~ 5 – 6 %
Beleggingsfinanciering	IRR van 7 % ?? (vgl IPD index 6,8 % direct rendement)



- Bancaire financiering is op termijn aantrekkelijker voor zorginstellingen
- Verschil zit in het 'gratis' eigen vermogen van de instelling

A Alternatief als beleggers en markt 'veranderen'

SLIDE 48

- Beleggers investeren in het (ver)kennen van de zorgmarkt
- en beleggen op basis van brede marktontwikkelingen
- De markt versplintert in meer spelers, zodat er minder afhankelijkheid ontstaat van 1 zorgaanbieder
- Eerste activiteiten zie je dus bij
 - 1^e lijns centra (veel zorgpartijen) (zie bijv combi Menzis-Reggeborgh)
 - Zorgboulevards en kantoren

Contact:

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REBEL

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Executives
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ROTTERDAM
ANTWERPEN
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**NO CHANGE
WITHOUT A REBEL**

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De toekomst van CMBS na de financiële crisis

Hans T. Gerritsen (Remit Consulting)

Remit Consulting

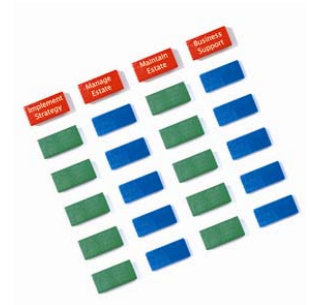
Who we are

- Management Consultants
 - “Big 4” background
- International team
 - UK, Netherlands, Germany
- Broad real estate experience
 - Corporate finance, IT, audit&tax



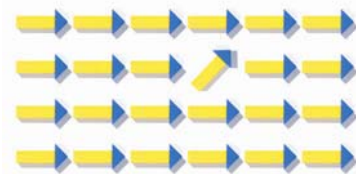
What makes us different?

- Our property focus
- Leading practice process library
- Our financing and structuring experience
- Our presence in Europe
- Our independence from banks and other suppliers



What we do

- Business Strategy & Research
- **Real Estate Finance**
- Business process and outsourcing
- IT & Systems



Some of our recent Dutch clients

- Vesteda
- Amvest
- Rabo Bouwfonds
- Homburg
- Corio
- Ahold Real Estate
- Redevco
- Reggeborgh Vastgoed



Boom times it were!

“Autumn economic forecasts 2006-2008: solid growth and unemployment and deficits falling!”

EU press release 6/11/2006



But then



What happened to the CMBS market?

As the credit crunch continued, the majority of borrowers under loans held in European commercial mortgage-backed securities (“CMBS”) transactions face significant challenges in their ability to refinance or sell properties at levels sufficient to repay their loans.

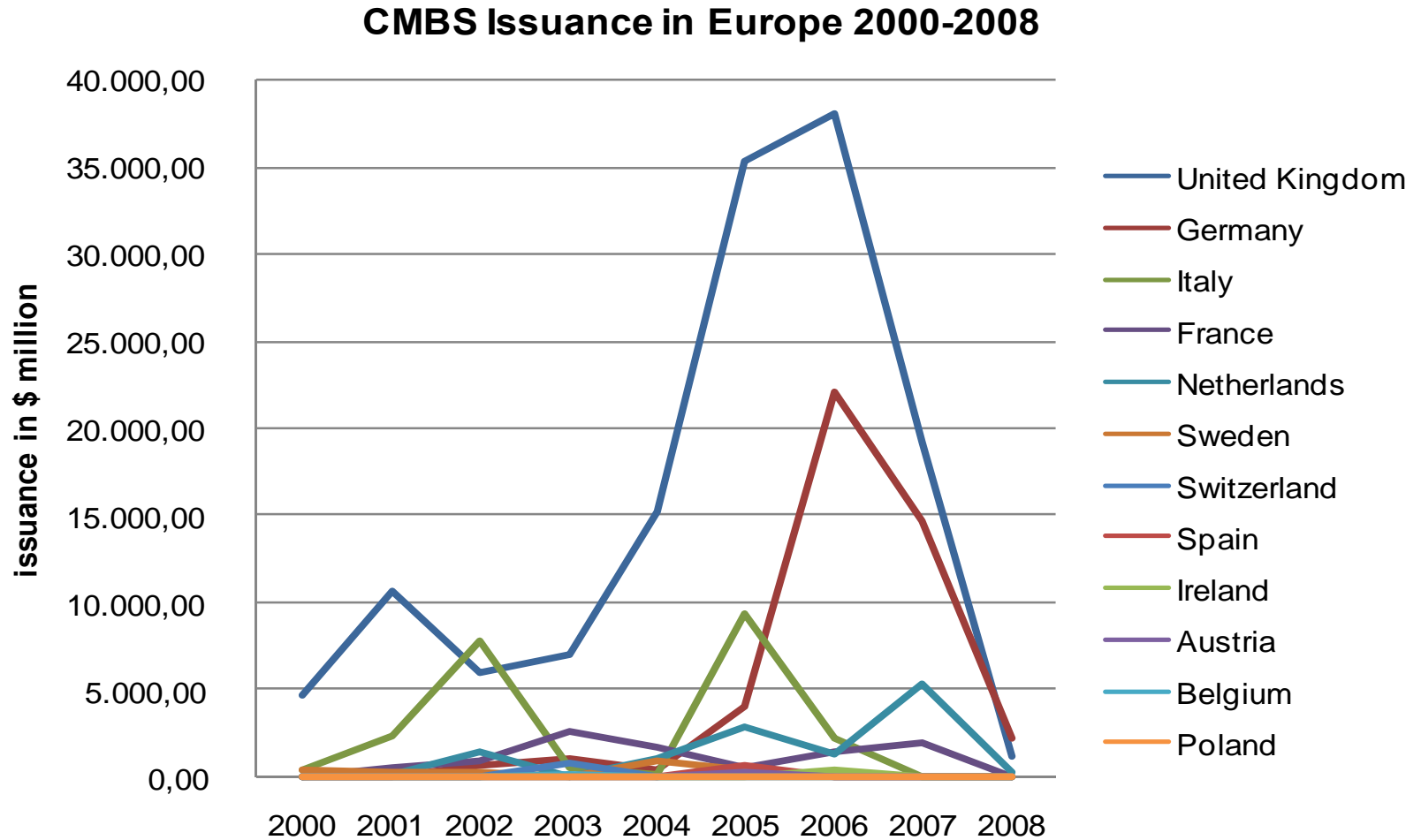
In addition, many borrowers have encountered issues in maintaining rent on their properties at a level sufficient to meet their debt service obligations under their loans.

As a result, an increasing number of borrowers are defaulting on their European CMBS loans.

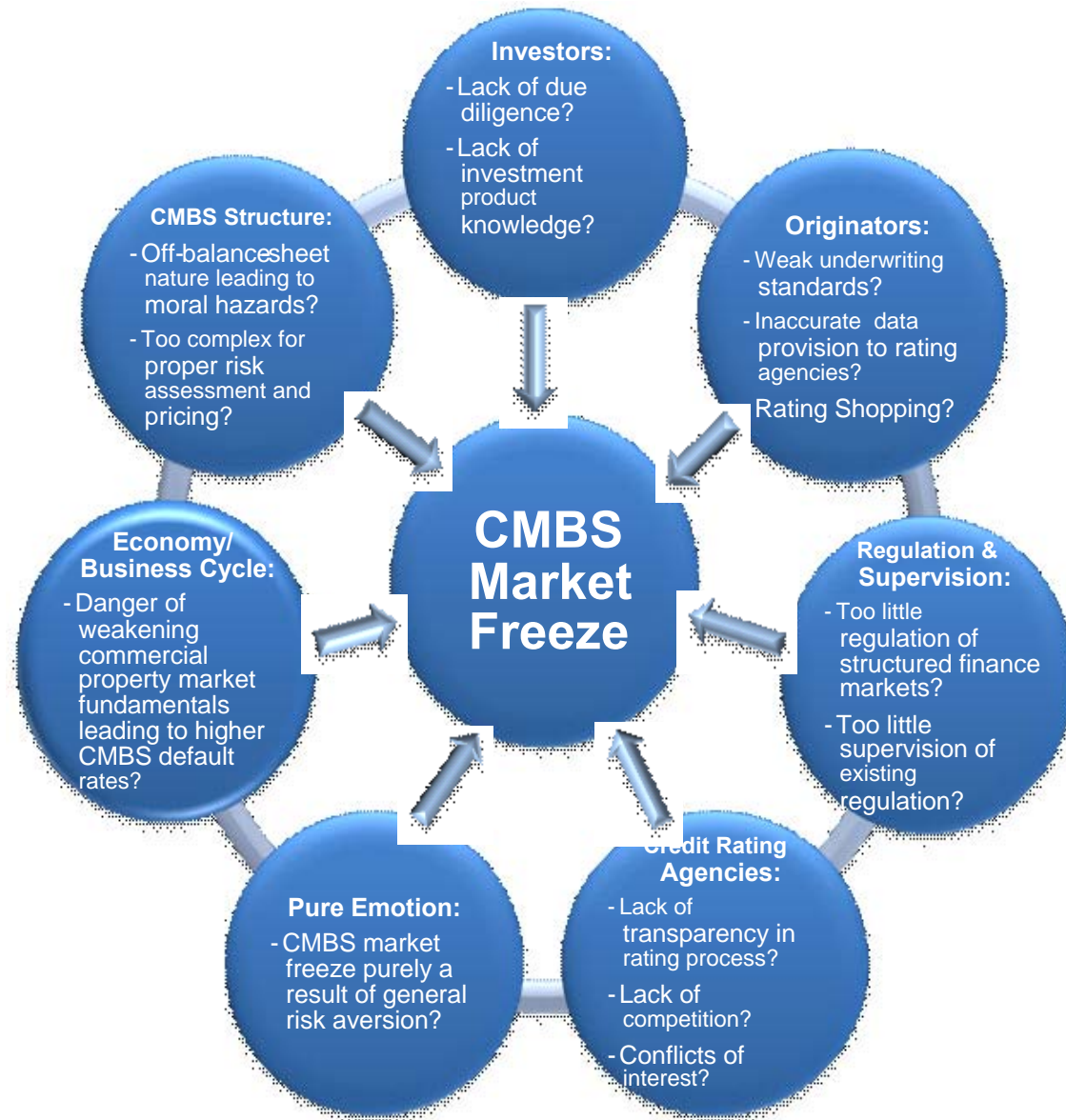
This trend is expected to increase significantly between 2012-2015 as up to Euro 50 billion of loans in European CMBS transactions near their maturity dates. The extent of the refinancing challenge is enormous. This comes on top of the real estate lending held on bank balance sheets which will also mature over the same period.



What happened to the CMBS market?

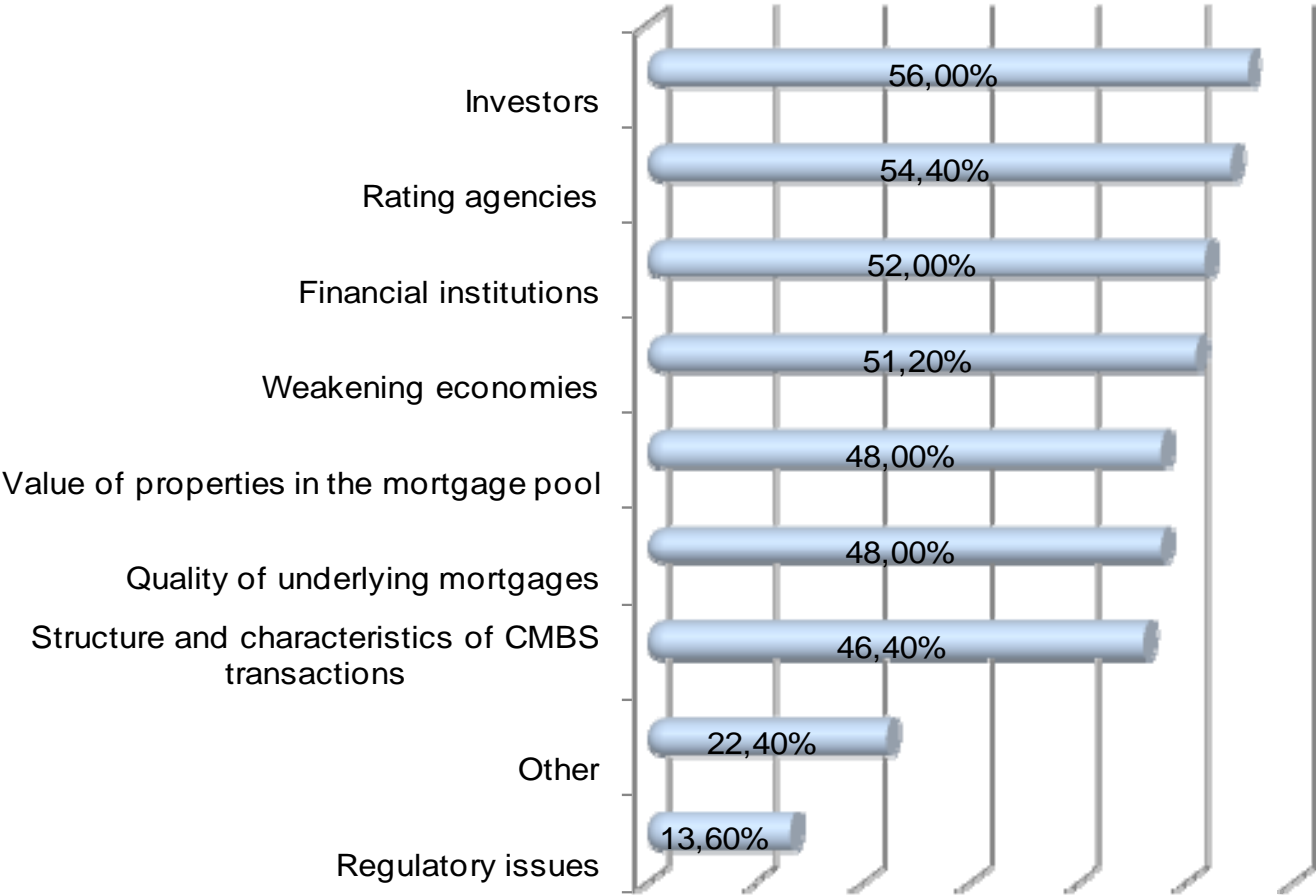


Financial crisis resulted in a CMBS Market Freeze!



Remit Consulting's Survey Findings (140 respondents)-1

● The reasons for the freeze:



Remit Consulting's Survey Findings (140 respondents)-2

- The role of the Rating Agencies:

The great credit rating scandal!

S.E.C. in the US Criticizes Ratings Agencies' Conflicts of Interest!

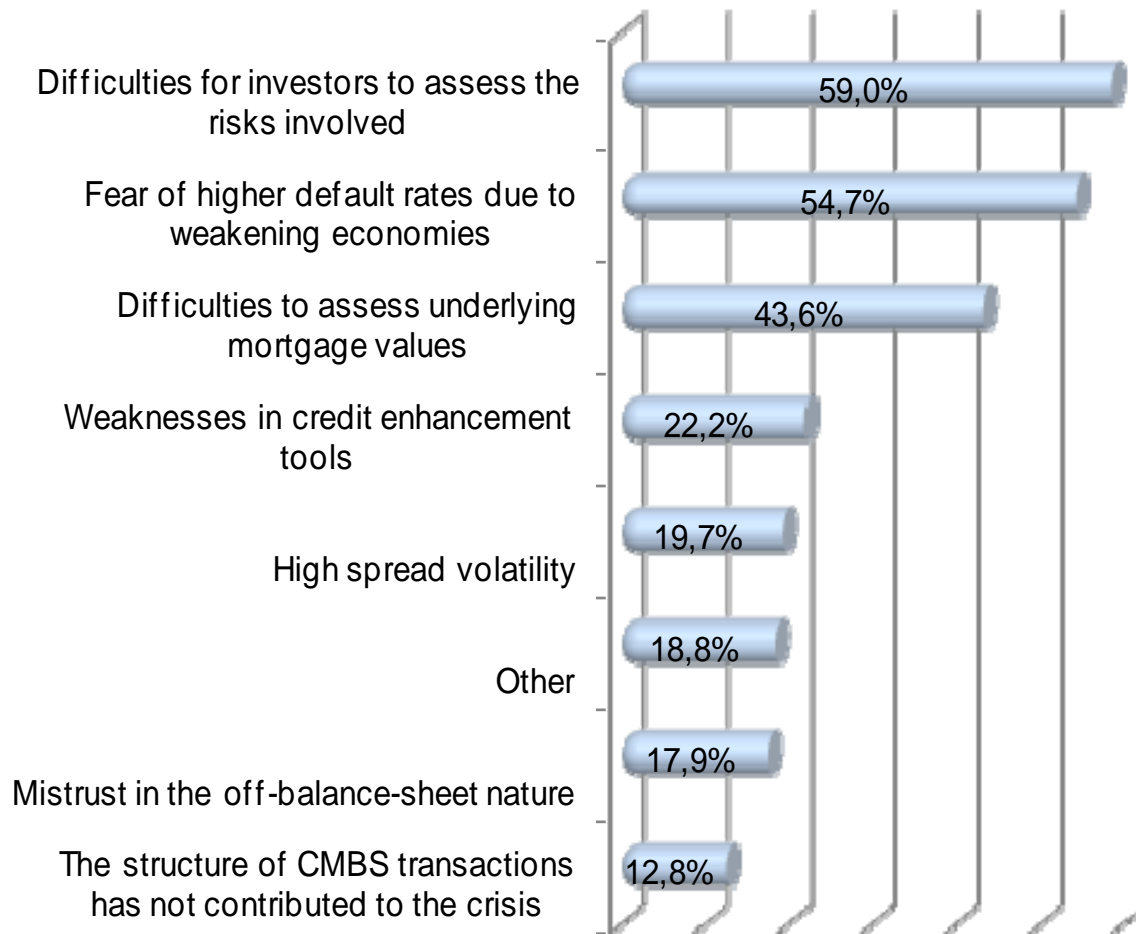
Brussels to reveal rating agency plans!



Banks' links with rating agencies under investigation!

Remit Consulting's Survey Findings (140 respondents)-3

- The role of CMBS structures and characteristics:



A new CMBS version 2.0?



The research found that CMBS as an investment and refinancing product makes sense but needs to be **simplified** to allow better risk assessment by investors in the future.

The improvement of risk assessment is needed via:

- more transparency regarding assumptions and methodology by the RAs themselves,
- better information disclosure by issuers and banks;
- more thorough due diligence by investors;
- less leverage, less complexity, less reliance on third parties, expectation that banks are willing to participate more in the risk;
- parties involved in the originate-to-distribute process should apply the same credit due diligence standards at all stages regardless of whether assets are to be held on the books or distributed;
- appropriate monitoring and disclosure of the performance of the underlying collateral should be carried out on an ongoing basis.

Industry players have nicknamed this new world of conduit lending CMBS 2.0, but it seems more a clever turn of phrase rather than representing a new kind of lending.

Current Status 2010

The commercial mortgage-backed securities (CMBS) market is beginning to defrost—faster than many had expected, but definitely slower than anyone had hoped. But, it's much too early to say that a robust CMBS market is re-emerging, simply because new CMBS issuances have been unimpressive. Since June 2008, there have been only a handful of new-issue CMBS deals, including the April 2010, Euro 350 million Vesteda re-financing transaction (margin 163 bps).

The thawing of the CMBS market ('CMBS 2.0') began with very simple issuances—single-borrower deals, which are just a small subset of the CMBS world overall. Traditional multi-borrower conduit deals that made up the majority of the market prior to the credit crisis have been slower to emerge, but that is where the main part of the refinancing needs to take place.

As demonstrated with recent CMBS deals, investor demand has returned with surprising force. In 2008, however, fixed-income investors, from pension funds to life insurance companies, turned their backs on CMBS. It's hard to say whether investors have bought CMBS because they feel more confident about the recent deals that have closed or if they are just dissatisfied with other fixed-income investments.



Is there a future for CMBS after this crisis?

In fact, the biggest obstacle for CMBS 2.0 may be timing. “There are a lot of people who want/need to borrow, and there are a lot of lenders who want and/or have to make loans, but it takes some time for banks to warehouse the larger conduit loans.

Investors want strong borrowers with high-quality, stabilized properties with strong in-place cash flow!

And banks, under more strict regulations including Basle 2, 3,, don't want to keep all these loans on their books, so securitization in the form of CMBS will grow again and may become even bigger than before. However, competitive solutions like Pfandbrief loans and more equity-like products might take a larger share of the real estate finance market.

The question remains whether all these measures and market forces will actually result in the revival of the CMBS market on the short term (2011-2014)?

Yes, there is!



Thank you

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