

Why lenders should be wary of always following the herd

9 Dec 2024 | 16:15 | London | by Peter Clayton

Groupthink is increasingly prevalent in the industry



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So much analysis of real estate focuses on the likely fortunes of different asset classes, which over the past five years has broadly fallen into: “beds, sheds and meds = good”, “offices, retail and everything else = avoid”.

It can be very repetitive, and it is always interesting when someone takes a contrarian view to the general market rhetoric. For example, funding assets at a time when market perception is negative.

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Our own relevant example of this was [in August](#), when Leumi UK provided £65m to Martley Capital Group to support the recapitalisation and refinancing of The Mailbox in Birmingham city centre – one of the UK’s largest mixed-use developments outside of London.

Our view at Leumi UK is that whatever the asset class, our decision to lend will be taken according to the individual prospects for the underlying property: adopting a through-the-cycle perspective and acknowledging that there are good and bad opportunities in every sub-sector of the market.

History doesn’t always repeat

I am very wary of following the crowd, and often prefer the concept of pursuing opportunities in areas of the market which others aren’t necessarily pursuing. It stands to reason: real estate’s greatest investors have repeatedly capitalised on the property industry’s cyclical nature and followed the “buy cheap, sell dear” principle.

I do wonder if one reason why what can be called “groupthink” prevails in property is that vast amounts of money earmarked for investment is dictated by the decisions of institutional actuaries – which are often making decisions looking in the rear-view mirror, and at a lot of statistics which can’t quite tell you the whole story.



But who is to say that real estate history will repeat itself? Every cycle is different and while retail property was written off by many over the past 10 years, it is now arguably one of real estate’s strongest performers, with rental growth being seen and asset values beginning to rise.

Mike Ashley's Frasers Group buying up retail properties is a clear indication to me that he sees an improving future for retail values and a desire to capitalise on the pent-up occupier demand in the right locations.

It's like entrepreneurs have a sixth sense about when to go back into sectors that perhaps look challenging for the institutions.

Top priorities

So, what do we look out for when assessing whether to lend senior debt to a client?

First, we need to know who our sponsor is and what experience they have. Then we carry out a very critical analysis of a potential sponsor's business plan: a credible office plan might involve a multi-let property that was last refurbished 10+ years ago but is now the subject of a well-thought-through capex plan which delivers a product that has ESG credentials at its core, is clearly benchmarked against its competition (both current and future pipeline), and provides reasonable interest coverage from net rental income to service the debt.

Moreover, we would expect a clear plan on timings and when they expect to deliver potential new tenants, such that there is a clear path to successful delivery of a plan and then an eventual exit – either by refinance or asset sale.

We have recently found our retail-backed loans to be some of our best-performing. I have always liked retail as a sub-sector of our market and whilst it has faced unprecedented change over the last 10 years or so there clearly remains demand for quality product at different entry points.

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We have funded locally dominant open-air shopping centres most recently. There are some fantastic shopping centres which dominate their local catchment and have been really well run by superbly astute asset managers which we believe are well worth backing.

We continue to be an advocate for lending into the "beds" sector, because the well-versed rhetoric of a shortage of stock remains a constant dynamic in the UK. However, we are cautious on continued rental increases and believe that stock selection remains paramount. With interest rates remaining stubbornly high and yields on living assets being low, a poorly conceived bed-led scheme can easily not work out as planned.



Leumi recently provided financing for the Mailbox in Birmingham

Almost all sectors we lend against are increasingly operational in nature, and those investors that grasp this and understand true net operating income are the ones which we believe will succeed in the medium to longer term. Not understanding operational intensity of your asset is not an option – both for asset value protection but also asset value enhancement.

Looking to 2025

It feels like 2024 has been relatively slow for most lenders, with a continuing gap in the investment market on bid/offer spread. It doesn't feel like lenders have been pushing aggressively to get non-performing assets off their books and as such, forced selling hasn't been as much as was forecast.

“The well-versed rhetoric of a shortage of stock remains a constant dynamic in the UK”

My sense is that the tide is beginning to turn. We're starting to see an increasing number of new acquisition-led opportunities, and I expect this will continue into and throughout 2025.

There is still a strong appetite for lenders of all types to participate in real estate, and with interest rates falling (albeit slowly), I would expect this will only grow.

A busier year ahead

My expectation is that 2025 will involve a steady pick-up in transactional activity, which will be fought over by a large pool of lenders such that debt pricing continues to come under pressure.

Interest movements will impact this flow of transaction activity, and the speed at which rates fall is the subject of intense debate. It feels like rates falling to 4% and below is the critical indicator. Even in the last few weeks, the forecasts for when this is likely to happen have moved around quite significantly. I expect a steady decrease of rates with a sub-4% Sonia curve in Q4 2025.

My glass-half-full outlook believes the end of 2025 will be the busiest from a transactional perspective for a number of years.

At Leumi UK, we want to continue to grow our real estate finance book and to support this plan for growth. We expect the team at Leumi to be relationship-focused, hugely proactive and inquisitive for knowledge on the market. Most of all, what we want to hear are detailed, well-thought-through and considered business plans. Whether the sector is currently fashionable or not is somewhat irrelevant.