

Transcript: Finding opportunities in European real estate debt

How have the opportunities for real estate debt changed over the last few years?

Dominic Silman: I think since the global financial crisis (GFC), a real trend we've seen is this tendency towards more active regulation of risk taking by banks. And that, in part, has opened up this whole new space of opportunities for alternative lenders like ourselves. And that's not just in the commercial real estate space, but wider corporate credit that's led to the development of this kind of whole new asset class called "Private Credit".

Dave White: And what's really interesting is alternative lenders didn't exist before the GFC; it's really a trend that started really out of the GFC, and it's become a lot more prominent in the market today. Borrowers, in turn, are now much more willing to borrow from alternative lenders like ourselves instead of banks. And it's gone full circle where banks are now working with us and help us optimize and complete the capital structure with that financing. It's really come a long way in the last decade or so.

Dominic: Then, of course, just in the last few years, especially since the pandemic, we've seen the return of inflation and the significant increase in interest rates that central banks have handed down to try and control that inflation.

That obviously, and the adjustment in CRE valuations that went along with it, has led to some challenges for incumbent asset owners, but from our point of view, when we're looking at new origination, this means that income returns are somewhat higher than they were a few years ago. Perhaps more critically, we're at this point where those kind of values have rebased in such a way that we're at risk points that are much more attractive than they were a few years ago, as well.

How has LaSalle determined where and what to invest in?

Dave: It's really interesting as lenders, we're very much led by our borrowers. We can be sector agnostic in many ways and really think about where we're comfortable with value and where we're comfortable with basis.

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That being said, we work very closely with your team. We're very focused on certain sectors within the lending landscape, predominantly living. We're very active there, everything from student housing through to senior housing, logistics, data and power, life sciences and hospitality.

Dominic: In the research team, as you say, we have expertise across all of the major sectors of real estate and a number of the kind of up-and-coming alternative niches within the asset class as well. And really what we're trying to do there is bring all that expertise together and take a view on where the best risk-adjusted returns are.

This goes not just to sector, but also of course to geography. So macroeconomically, we're thinking about the prospects of different European countries and at the moment that's led us to focus more on Western Europe and those traditional economic powerhouses: France, Germany, Spain, the United Kingdom, the Netherlands and so on.

Dave: That's a good point. As lenders, we're able to think about what basis we are comfortable at, and that can be driven as well by geography.

What does all of this actually mean for LaSalle's Investors?

Dave From an investor perspective, the driving factor here is you'll see a lot more discretion over our bases that we're taking with debt investment. That in turn gives us an ability to deploy beyond just seeing acquisition and transaction volume within the market. We can support refinancings and we also do quite a bit of development financing as well.

Where that really comes together internally is, we're working very closely with you and your team in Research and Strategy to figure out where we're really comfortable lending.

Dominic: I think when thinking about how investors should be approaching real estate as an asset class, I think it's really interesting because it's this fundamental underlying framework that kind of powers the whole economy. It's what you might call a factor of production in classical economics. And land and how we use space is always going to be fundamental no matter how your economy is positioned, so whether it's a heavy-manufacturing led or a services-oriented economy like the UK, real estate is always going to have this this core place in driving all those economic outcomes. And that's why we think it's central to the portfolio of institutional investors.

Lending, we think, can be a really good way to access that without some of the risks and difficulties associated with directly owning commercial property.

Dave: It's a good point. There's always the conversation around whether this is a debt investment or an equity investment. As a house, we benefit from that, but our ability to really take a view on risk-adjusted returns and think about where we're comfortable is critical to what we do.



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