



Bank Finance in the Commercial Real Estate Sector

Gatehouse Bank

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Key Performance Indicators (Sept 09)

- *The market is improving*

- Average initial yields in all three sectors continue to compress
- First signs of capital growth for Offices, alongside further increases for Retail and Industrial
- Year to Sept 09 saw investment purchases of £13.9bn compared to £18.2bn for the equivalent period of 2008, but
 - Last year momentum was fading
 - In 2009 it is gathering pace
- A positive borrowing yield gap remains

Yield Gap*	441bps	↓	
	Initial Yield		20 Year Average
Retail	7.5%	↓	6.3%
Office	7.9%	↓	7.3%
Industrial	8.0%	↓	8.0%

Sources: IPD, FT, Property Data, Knight Frank Research

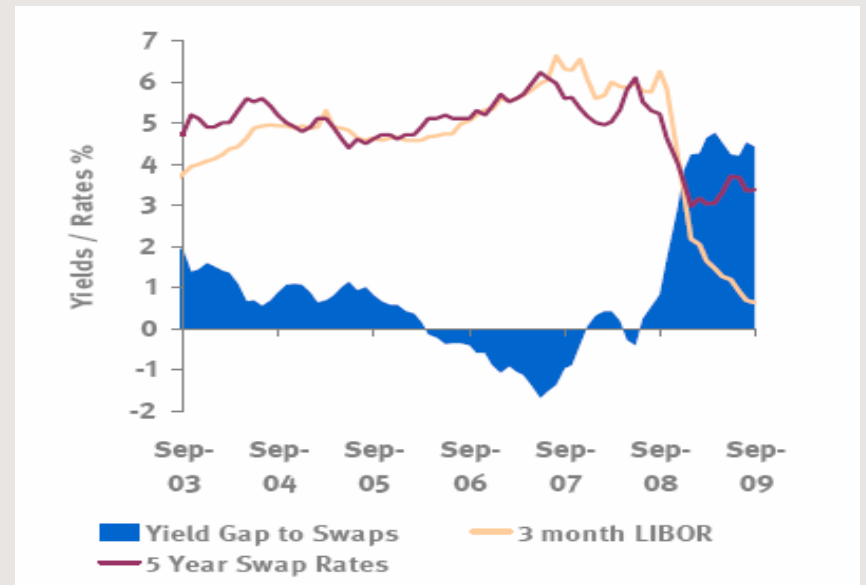
* 5yr Swap Rates to All Property initial yield

**Gilt Redemption Yield to All Property equivalent yield

Property Yield Gap

- *A rare opportunity still exists*

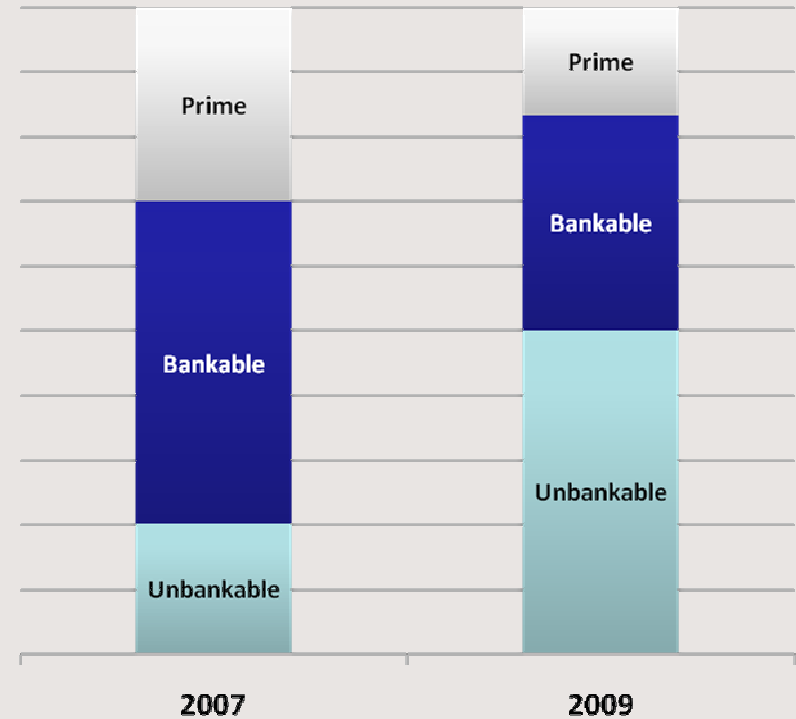
- The borrowing yield gap is at a six year high
- During the last two quarters, property investment yields decreased from a high of 7.92% to 7.72%
- Meanwhile, the total interest charges have decreased from a high of 6.1% in June to 5.7%
- A unique opportunity for levered purchasers
- Property returns can be significantly enhanced
- Access to leverage is key



How the Banks' Appetite Changed

– *Days of easily accessible finance are gone*

- In 2007 the definition of “prime assets” was far wider
- Today only a fraction of the market remains so
- A return to property fundamentals and a flight to quality
- Both borrowers and lenders are chasing:
 - Well let, (ideally multi-let)
 - Long term lease(s)
 - Sound tenant(s)
 - Good location
 - Good spec
 - Lot sizes up to £20m



Indicative graph only

How the Banks' Appetite Changed

– *Bank finance has become a scarce product*

- This scarcity has led to:
 - Fall in LTV ratios
 - Increased margins
 - Increased arrangement fees
- Low swap rates have mitigated these increased costs
- The use of leverage can enhance returns but it must be used well
- Leverage is scarce, but banks have budgets to make

	2007	2009
Loan to Value	75-85%	50-65%
Margin/Spread	75-100bps	200-250bps
Arrangement Fee	35-50bps	80-100bps
Rent Cover Ratio	115-125%	150-200%

Where Are We Now?

– Confidence is returning

- UK base rates remain at a historic low of 0.5%
- £162 billion of the £175 billion 'QE' money has now been spent
- The gap between 3 month Libor and the base rate dropped to just 1bps
 - This is the lowest level since July 2005
 - It suggest a renewed confidence in the debt market
- Renewed confidence in the investment market has compressed property yields for the first time since 2007
- While this has reduced the borrowing yield gap, this gap remains remarkably high creating opportunity for leveraged investors
- Bank of England's latest Credit Conditions Survey showed banks still want to cut exposure to commercial property, despite an improved willingness to lend to other corporate sectors
- Bank lending remains available for the right deals and the right borrowers and the right relationships

Bank Strategy

–*Working with borrowers*

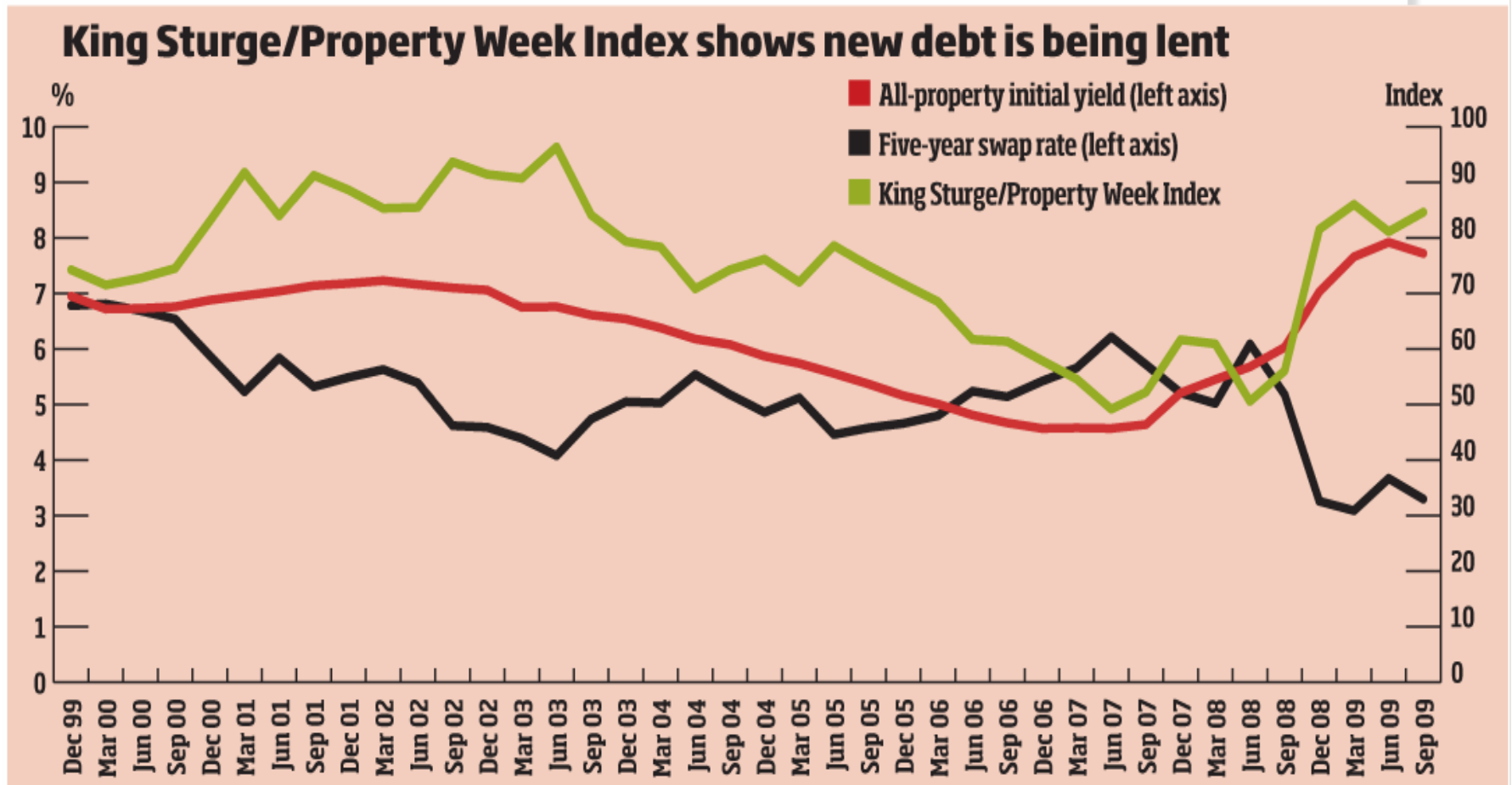
- There has been no “fire sale” of assets
- Banks have worked with borrowers
 - LTVs are breached...
 - ... but interest has been kept current
- In the case of secondary stock, the banks will sell assets in a controlled manner
- Come January many banks enter a new financial year
 - Some may now opt to clean up their loan books, to start afresh in 2010
 - This could create buying opportunities
- Banks continue to lend on commercial property investment and development deals
 - But these must be the right deals...
 - ... and borrowers must understand a bank’s requirements

The Lending Market is Improving

– An opportunity for lenders too

- The number of banks willing to lend has almost doubled since this time last year
- Conditions for both lenders and borrowers are better than before the credit crunch
 - Only certain banks and investors are able to take advantage of this improved situation
 - New debt is being lent against property, which is near to bottom in terms of the fall in values
 - Banks that can lend are well placed to create a strong loan book

The Leverage Market is Improving



Sourcing Leverage Finance

– *Know your bank*

- A return to relationship banking
 - Knowing your bank is key...
 - ... and the bank must know the borrower
 - Personal relationships count
- A track record is essential
 - Investors must back asset managers with proven banking relationships
 - Managers must be able to identify “bankable” assets
 - And to be able to work within the bank’s parameters

Characteristics of a Bankable Property

- Finance is available for the right deals

- For an Investment Property
 - Bankable tenant(s)
 - Preference for multi-let
 - Minimum lease length of at least 8 years
 - Well located and not over rented
 - A clear exit route
- For a Developments
 - Pre Let to a strong tenant(s)
 - Well located and appraised off of realistic underwriting
 - A clear exit route
- The bank should always been seen as a partner in any transaction

Conclusion

- Opportunities exist for the leverage buyer

- Bank finance remains a cornerstone of the real estate market
- The Property Yield gap has created a rare opportunity for investors
- A distinction between perception and fact

Perception

Banks aren't lending

Margins are too expensive

The market has already recovered

Fact

They are for the right deals

Low swap rates mitigate this

Yields remain above the 20yr average

- ***Opportunities exist, as does the bank finance to seize them***

Gatehouse Advantage



Philip Churchill



Adam Cavanagh



Stuart Jarvis

- Access to both on-market and exclusive off-market deal flow through an extensive network
- Investment opportunities specifically selected following detailed research and analysis of the sector and alternative opportunities
- Terms negotiated with vendors to secure the most opportunistic price
- Access to a wide range of third party banks able to provide Shariah compliant leverage and financing
- Establishment of offshore non-recourse special purpose vehicles to minimise taxable income and maximise investor returns
- On-going investment advisory to maintain and enhance value, with quarterly reporting and recommendations to add further value

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