

BAI-Webinar

Theme:

Impact of Rising Interest Rates -
Inflation on the Real Estate Market

Date:

13 September 2022
11:00 am – 12:15 pm

Strategic property investors, those looking to maximise long-run risk-adjusted returns, should hold both equity and debt real estate through the cycle. The astute ones will fine-tune their preferred blend depending on the phase of the property cycle. Debt exposure can be built-up through the top of the cycle - forgoing frothy peak equity returns, but limiting the inevitable downside to come. The converse also applies, with more equity investments added when return expectations are rising in the market recovery phase at the bottom of the property cycle.

The optimal property debt allocation will depend on the individual investor's investment objectives (target returns/risk tolerance). The basic principles of investment diversification means a minimum and therefore meaningful property debt allocation for the "average" investor is going to begin at around 15-20%. That could rise to over 50% for the most risk intolerant long-term capital sources. While real estate debt investment is not a substitute for real estate equity, it is highly complementary.

AGENDA

Opening Words

Philipp Bunnenberg, Head of Alternative Markets, BAI

Real Estate Debt: How to prosper in an uncertain environment

- **Capital preservation and downside protection** - with real estate loans also secured by 'hard' collateral, considerable downside protection exists in the event of delinquency or even default
- **Interest rate sensitivity** - floating rate real estate loans partly mitigate duration risk, the perennial challenge for fixed income investors
- **Illiquidity premium** - on a risk-adjusted basis, real estate debt tends to outperform publicly traded asset types
- **Diversification** - the lack of uniformity adds the opportunity for extra diversity and the potential to exploit pricing anomalies. We believe now is a great time to increase allocations to real estate debt

Kasimir zu Eltz, Director, Barings

Real Estate Debt – the impact of rising interest rates on alternative debt lending structures

- **The return of inflation** – the end of zero interest period and the impacts on the real estate debt markets
- **Spill-over effect** – tighter asset selection on bank side leads to transfer of bankable assets towards alternative lending vehicles
- **Risk-adjustment** – rising interest rates lead to covenant adjustments in order to manage refinancing and exit risks
- **Product segmentation** – different products from Senior via Whole Loan to Mezzanine meet different investor risk/return adjusted returns

Guido Gerstner, Head of Real Estate Debt, Managing Director, Prime Capital

Q&A

Remarks:

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BAI Webinar – The speakers



Kasimir zu Eltz is a Director at Barings, responsible for origination and execution of real estate debt transactions in Europe. Based in Frankfurt, Kasimir focuses on Germany, Benelux and the Nordics. He has worked in the industry since 2007. Prior to joining Barings in 2022, Kasimir was a director and VP at PGIM Real Estate, where he was most recently responsible for senior and mezzanine debt investments in continental Europe. Before that, Kasimir was the European Chief Underwriter, overseeing the underwriting and closing of all of PGIM's equity and debt transactions in Europe within a 2 year period (c. USD 4.7bn of transaction volume); furthermore he co-managed a global core equity mandate. Prior to PGIM, Kasimir worked at Dutch NIBC bank in Frankfurt and The Hague, where he originated and executed real estate and structured finance loans. Kasimir holds a degree in Business Administration from European Business School Germany.



Guido Gerstner started his career in 1999 at ING Bank in Frankfurt, where he worked in the financial markets department after completing his bank training. Subsequently, Mr. Gerstner studied International Business in Mainz, as well as Finance in the USA. After graduation, he worked for Citi in New York in Business Development and then moved to Lehman Brothers in London in Real Estate Investment Banking. In the course of his career, Mr. Gerstner took on assignments in commercial real estate finance in the areas of relationship management, restructuring, structured finance and portfolio management in the regions of Germany, Holland, France, Nordic countries at various banks, including Lloyds Banking, Bank of Ireland, and ING. Prior to joining Prime Capital in April 2020, Mr. Gerstner was responsible for Commercial Real Estate Finance in Germany - Region West, at HypoVereinsbank. Mr. Gerstner holds a degree as Certified Real Estate Analyst from IREBS|DVFA.

Moderator:



Philipp Bunnenberg is Head of Alternative Markets at Bundesverband Alternative Investments e.V. and responsible for the association's activities in the areas of Private & Liquid Alternative Markets, Research & Science and Public Relations. After studying economics and business administration at the Universities of Potsdam, Münster and Vigo (Spain), he initially worked as a research assistant at the Chair of Finance and Banking at the University of Potsdam. During this time, he completed his dissertation on Closet Indexing and risks in the ETF market.