ADELAER
FINANCIAL ARCHITECTS IN REAL ESTATE

Adelaer Financial Architects: The world of construction finance is changing

'As new opportunities arise, funding costs will play an essential role in the investment process'

How do you define a *financial architect*? According to Daan Reekers, CCO of Adelaer: "We call ourselves financial architects because we oversee the entire financial field, ranging from senior debt (traditional financing) to mezzanine financing (higher capital costs at higher funding) and equity partnerships (where private investors provide part of the required capital at their own risk)."

"It is mainly the established Dutch and foreign investors who use us as a traditional debt broker. Our purchasing power enables us to realise the best possible deal for our clients. Yet our real added value, that what sets us apart within the Dutch market, is the services we provide for developers with a minimum investment requirement of €10 million."

"Our motto is 'making the deal real'. It's about more than just selecting a financier. We know the opportunities within the market. Among other things, our expertise enables us to finance building ground without cash flow, giving developers the opportunity to liquidate assets. We assure the right balance between a client's equity and outside capital. Basically, we build better houses by using different building blocks," says Reekers.

Arjan Brouwer, Partner at Adelaer London, adds: "New opportunities are emerging, but the interest rates are changing as well. Developers need to take this into account when assessing the investment costs."


Arjan Brouwer (Partner Adelaer Londen)

In the international real estate market, the idea is already more widespread: "In London, it's very common to pay higher interest premiums for construction financing. Here, the lender has to consider all the risks. The average sum of banking loans for development is also significantly lower. In the Netherlands, it's common to have an advanced payment of 80%-90% loan-to-cost. Globally, the standard is closer to 60% LTC. This difference in numbers is compensated by financing alternatives of which the interest rate is much higher.

Different phases

"These changes represent new opportunities for investors and developers in the real estate market. I believe this is also being acknowledged in the Netherlands, with developers who are prepared to

invest in these financing alternatives. Let me elaborate by taking you through the steps of the financing process..."

Planning
"We see an interest among lenders to provide funding for construction project in designated areas. Depending on the location and business proposal, it's possible to get a 1- to 3-year loan of 50%-60% of the current land value. Interest rates start at 6.5% (including fees) in which the interest and fees are added to the (PIK) loan. Acquiring an additional junior/mezzanine loan could finance up to 90% loan-to-value, with interest rates increasing from 8% to 12% per year."

Development
"Some financiers take a flexible approach, meaning they are allowed to raise the amount of the loan based on a verifiable increase in value of the land during the development phase."

Construction
"In today's market, the biggest challenge for a developer is to find a financier who agrees to provide construction financing speculatively, as a whole or in part. Firms from the UK and Ireland have already successfully applied this strategy on a large scale and are now looking for the right projects and developers in the Netherlands. For speculative or partially speculative financing, we expect advance payments of up to 70% LTC, with interest rates starting at 5.5% + fees. For larger projects (> € 50 million), there are several competitive providers willing to finance between 275 - 400 bpn of storage during the construction phase. In fact, these numbers are comparable to the interest rates of traditional banks in the Netherlands, but at a much higher finance volume that these banks are not able to offer."

Exploitation
"After completing the building process, a traditional senior & junior loan is more applicable again. There is a growing interest among German financiers to provide senior loans up to 60% LTV with an interest-only credit. With the current negative Euribor rates, we managed to arrange financing plans with interest rates below 1% (all-in) for a steady term of 5 or 7 years. Based on these historically low interest rates, a senior loan can be quite appealing."

Reekers joins the conversation: "Recently we provide a 10-year loan for 70% LTV with 1% repayment at an interest rate of 1.45% all-in on a leisure asset. This way, it also gets very interesting to apply for a junior loan. This is achievable up to 75% to 80% LTV with interest rates starting at 6% + fees."

Reekers continues: "As a real-estate developer, I personally witnessed how Dutch financing firms have operated since the financial crisis of 2008, claiming back their loans. I want to prevent this from happening at our agency. At Adelaer, we make decisions based on the customer's needs and determine the financing conditions accordingly."

The financing need of the real-estate market in the Netherlands is estimated to be around €6.5 billion for this year. It is expected that established Dutch banks such as Rabobank, ING Bank and ABN Amro will fulfill around €2.5 billion of this number. "This means there is still a gap of €3.5 to €4 billion which has to be bridged by alternative financiers such as insurers, pension funds, foreign banks and private equity firms," explains Reekers.

Brouwer: “We discovered a significant increase in alternative financing options abroad. We also noticed that, depending on the type of real-estate project, there are financiers who are specialised in certain fields, allowing them to provide the best conditions in terms of rates, duration and covenant agreements.”

Of course, there are developers who prefer approaching these foreign financiers themselves. However, Brouwer strongly advises against this: “It’s a very complicated process. If you want to attain the best possible terms, you have to be negotiating with these parties on a regular basis. You’re often dealing with a different business culture as well. These firms use foreign loan documentation (LMA) that differ from the ones in the Netherlands, and you have to be consistent in following them up. So it makes a major difference if you already know what information these financiers need. It gets much easier. In all of these cases, it’s sensible to choose for a financing specialist like Adelaer.”

Reekers points out that major banks who call themselves ‘Real Estate’ financiers are misleading. “They only finance the projects with the lowest risk factors, the senior loans. They don’t cover the whole spectrum. Adelaer does more, even providing mezzanine loans and equity financing at a higher risk factor. We opt for the solution that best fits our client’s needs,” says the CCO.


Daan Reekers (CCO Adelaer Group)

Reekers compares the financing process to a construction project: “You need a piece of ground for that, permission from the municipality, an architect and a builder. A financing project also involves many aspects. The major banks handle only a small portion of this trajectory. We oversee the entire process.”

Thanks to an extensive overview of the market, Adelaer is able to advise clients from a very early stage. Brouwer: “Suppose you own a piece of land, without intending on turning it into a real-estate project. In this phase, we can draw up an extensive financial plan for you. And even if the requirements for the project couldn’t be met in the traditional way, we provide equity partners who are willing to close the financing gap and share the risk. All and all, we’re capable of guiding our clients through the entire real-estate field, allowing them to make the deal real!”

Box:

Real estate financing agency Adelaer was founded in 2015 in Den Bosch. Currently, the agency has 19 team members spread over 5 locations, including a London office. Adelaer has financed €2.1 billion in real estate deals and another €1 billion in requests are pending for 2020. Applications range from €2.5 million to €250 million with a duration of 5 to 15 years.