

**REPORT** | Q2 2024



# Real Estate Debt Pulse Check

Pooling the visions and insights from  
Europe's biggest names in RE debt

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**GRI** *Club*

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# INTRODUCTION

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Over the past two years, the European real estate market has been significantly influenced by historically high interest rates, with debt products consequently emerging as key drivers in the market and new players entering the private real estate debt sphere.

This exclusive GRI Club report has pooled the perspectives, experiences, and outlooks of some of the market's most senior leaders in European real estate debt, asking is too much debt a good thing?

Is this huge preference for debt products leading to somewhere unsustainable in the real estate market? What happens at the inflection point when we need equity? Is there too much competition in debt products? What will this all ultimately mean for real estate in the next 2-3 years?



**TAL LEV ARI**  
Managing Director



**“Our high conviction sectors for the debt strategy are living and industrial.”**

#### **ABOUT TAL**

Tal Lev Ari is a Managing Director in the Portfolio Oversight Group and is based in London. She is responsible for setting up CIM's credit platform in Europe. Prior to joining CIM, Ms. Lev Ari was Head of Operations for the Debt & Value Add Strategies Team at LaSalle Investment Management, where she was responsible for portfolio management and loan asset management for all debt and special situations funds and separate accounts.

#### **» Q. Is too much debt a good thing?**

At CIM Group, we think there is a distinction between debt already in the system which is nearing maturity and new loans for new acquisitions.

There is a wall of real estate debt coming due in Europe in the next few years, and with assets' value average decrease of 20% peak-to-trough, we believe a refinancing gap exists. However, markets and sectors are not homogenous and we see a clear bifurcation between “best in class” assets benefiting from demand fuelled by “flight to quality” and inferior products.

At the end of the day, we believe the deals that will be refinanced will be done on rebased values which would typically require equity “cash-in” either by way of deleveraging the loan or for implementation of value-add/ESG proofing business plans. Cash-neutral refinancings are more prevalent where sponsors delivered on their business plan and seek to stabilise the assets prior to sale, or in asset classes with clear supply/demand imbalance driving strong rental growth. In such instances, we focus on the assets' debt yield on exit and how it compares to the long-term average cap rates as well as take-out financing metrics to validate the loan sizing. Cash-out refinancings are rarer in the current environment and are limited to instances where sponsors delivered on their business plans and created value through development, conversions, capex, or repositioning.

For new acquisitions, leverage is lower than what it used to be 2-3 years ago so sponsors by definition are required to invest more equity into new deals. We think it's harder for sponsors, in particular in the core space, to deliver their returns as the cost of debt is not always accretive.

The debt market remains competitive and there are some new players that raised capital for real estate debt in the last 24 months. We believe it is important to remain disciplined in this environment but acknowledge that with 2023 recording a 10-year low in transaction volumes some institutions missed their budgets for last year and are eager to deploy.



**» Q. When do you expect debt to be deployed?**

We believe the current market dislocation presents an immediate opportunity to deploy debt. Traditional lenders have pulled back and private lenders are positioned to play an important role filling the financing gap.

Since we set up our lending business in Europe last year, a large proportion of the opportunities we saw derived from refinancing activity where traditional lenders struggle to meet refinancing needs due to reduced collateral values, lower LTV requirements and delayed business plans. We anticipate to see an uptick in acquisition activity into 2024 as sponsors adapt to the higher rate environment and values solidify, narrowing the bid-ask gap. Transaction opportunities are also likely to arise from loan maturities where refinancing is not achievable or economically viable.

**» Q. What are your preferred strategies for debt and credit at present?**

We are providers of whole loan and mezzanine loan solutions across Western Europe, offering sponsors higher leverage than traditional lenders and supporting value-add business plans.

We are comfortable underwriting transitional plays involving capex, repositioning and stabilisation where we structure our loans with a focus on exit metrics. When financing capex plans, we expect to see sustainability & ESG improvement features.

Our high conviction sectors for the debt strategy are living and industrial, as both, based on what we have seen, continue to benefit from strong structural tailwinds which support above-inflation rental growth.

We also favour the hospitality sector on the back of solid growth in tourism and the rise in international long-haul leisure travel. We target “bookends” of the sector – the luxury segment which is less vulnerable to macroeconomic headwinds or select and limited service hotels. More selectively, we would also look at MICE/business travel hotels in key European gateway cities.

Within retail, certain sub-sectors appear to have turned a corner. Value and convenience driven retail presents good opportunities in our mind as well as retail warehouses.

**» Q. How are you remaining competitive in the current debt landscape?**

We believe there is still quite a bit of liquidity for core transactions at lower leverage but bank retrenchment has been noticeable for transitional plays, especially in those sectors where yields remain tight and day-1 ICR and DY considerations come into play, and for higher leverage requirements.

Being able to underwrite rental growth and take a view on stabilised occupancy for the right assets, at the right locations with what we believe are executable business plans, put us in a position to support sponsors with their value-add strategies.

Also, whilst we are relatively new to Europe, CIM Group has been active for 30 years and currently manages c. \$30bn in AUM, with close to \$10bn in credit. We have formed close relationships with global Blue-chip sponsors which we can now support on both sides of the pond.

**» Q. What concerns you most about the real estate market at present?**

The main risk in our mind is sticky core inflation, which could defer timing and extent of interest rate cuts, and the impact of such higher-for-longer rates on refinancings and acquisitions being done with the anticipation that rates will follow the curve.

Geopolitical risk and potential expansion of the conflict in the Middle East is also a threat both in terms of market sentiment as well as supply chain disruption and commodities pricing.



**DAVID GORLEKU**

Managing Director, Real Estate Debt Strategies



**“We are starting to see compression in bid/ask spreads and our borrowers are becoming more active in acquisitions and refinancings.”**

**ABOUT DAVID**

David Gorleku is a Managing Director and Head of Europe Originations in the Blackstone Real Estate Debt Strategies group, based in London. Mr. Gorleku is involved in sourcing, underwriting, negotiating and structuring debt investments across all asset types throughout Europe. Before joining Blackstone in 2020, Mr. Gorleku worked at Actis Capital in London as well as at TPG Real Estate and Goldman Sachs in New York.

**» Q. Is too much debt a good thing?**

We have seen an increase in demand for real estate credit however the European market has maintained responsible amounts of debt, with Blackstone's borrowers continuing to invest meaningful equity in assets. Given our flexible mandate, we are able to offer solutions across the capital structure where we have conviction in underlying asset performance, and we expect to continue finding attractive risk adjusted opportunities at an appropriately conservative attachment point.

**» Q. When do you expect debt to be deployed?**

Over the course of last year, the capital markets dislocation slowed transaction activity, however we are starting to see compression in bid/ask spreads and our borrowers are becoming more active in acquisitions and refinancings. My expectation is that 2024 will continue to be unsettled as markets around the world work through the process of disinflation. However, for the right asset classes and sponsors, we are seeing compelling lending opportunities and will continue to be active across Europe.

**» Q. What are your preferred strategies for debt and credit at present?**

We have the unique advantage of sitting within the broader \$586bn Blackstone real estate business which provides us with access to vast amounts of proprietary data. As thematic lenders with a \$14bn loan book for our debt business in Europe, we are focused on strategies where we can form a differentiated view and where we think that underlying fundamentals and sector tailwinds will mitigate the broader macro challenges.



**» Q. How are you remaining competitive in the current debt landscape?**

We think that it is a great time to be a lender with a generational opportunity to earn attractive risk adjusted returns in real estate credit. We have seen the profile of lenders in the market shift away from more traditional banks to lenders like ourselves who are able to underwrite complex situations and navigate an opaque market in order to provide speed and certainty to borrowers. We also expect to see an increase in capital relief transactions and loan sales where we are able to help banks manage CRE exposure across Europe.

**» Q. What concerns you most about the real estate market at present?**

While we do think that values in CRE are now stabilising, there is risk associated with the ongoing geopolitical conflict which will create uncertainty and volatility in the capital markets, and which is compounded by the continued reassessment of rate cuts and a soft landing. While this creates a risk, we also believe that we are well positioned to capitalise on the environment given our long-term view and our commitment to the UK and Europe.







## BEN EPPLEY

Partner & Head of European Real Estate Credit

APOLLO

**“People are not distinguishing between the impact from the rapid increase in interest rates on real estate valuations and the actual operating performance of the underlying assets.”**

### ABOUT BEN

Ben Eppley is Partner at Apollo, where he leads its commercial real estate debt activities in Europe. He is primarily responsible for originating, structuring, and asset managing performing commercial real estate debt investments in whole loans, mezzanine loans, structured credit, and preferred equity. Ben also oversees sourcing and arranging financings for Apollo’s European Principal Finance Funds and core-plus strategy.

### » Q. Is too much debt a good thing?

Too much of anything is usually not a good thing, and too much debt on individual properties, portfolios or corporate structures typically does not end well. However, when appropriately structured on the right assets, with well-capitalised borrowers with strong operational track records, debt in a property’s capital structure is a good thing and underscores the importance of rigorous underwriting and diligence.

### » Q. When do you expect debt to be deployed?

Apollo continues to be an active lender, deploying over \$11 billion globally and \$2.5 billion in Europe in 2023. While higher interest rates have led to a decline in transaction volume, and some more traditional lenders have pulled back from lending to commercial real estate, Apollo has capitalised on the opportunity to deploy capital into transactions at reset valuations, with higher base rates and lower attachment points.

### » Q. What are your preferred strategies for debt and credit at present?

Given the permanent capital balance sheets Apollo lends on behalf of, we have the ability to offer borrowers a wide variety of credit solutions, including acquisition financing, recapitalization strategies and refinancings. We spend a tremendous amount of time diligencing our clients’ business plans, and need to have high conviction in their ability to effectuate the plans, as well as conviction in the market in which the properties are located.

**» Q. How are you remaining competitive in the current debt landscape?**

At the end of the day, real estate is a relationship business and at Apollo, we pride ourselves in having best in class, first-call relationships with the top real estate owners, sponsors, operators, brokers, advisors and like-minded lenders. As a balance sheet lender that can speak for large whole loans and offer our clients one point of contact, Apollo has a competitive advantage given our ability to move quickly and with size and scale.

**» Q. What concerns you most about the real estate market at present?**

Our biggest concern right now is that people are not distinguishing between the impact from the rapid increase in interest rates on real estate valuations and the actual operating performance of the underlying assets. Putting office to the side, most other asset classes are performing well, with stable occupancies and continued rent growth (albeit at a slower pace than in previous years). As a result, negative headlines are weighing on the real estate sector as a whole, which is causing capital to remain on the sidelines. And how we are all going to deal with functionally obsolete office buildings.

Image: GRI Club / Midjourney





**SIDDHARTH TRIVEDI**  
Managing Director, Real Estate



**“I would be most concerned about real estate portfolios which need a sharp reduction in interest rates to be solvent again.”**

**ABOUT SIDDHARTH**

Sid Trivedi is a managing director at One Investment Management with over 14 years of experience investing in global real assets and corporate credit. Previously, he was at Blackstone's real estate debt and corporate credit groups. At OneIM, he focuses on investing in real estate on a sub-sector and geography agnostic basis, covering mid to large scale private and public opportunities across the capital structure.

**» Q. Is too much debt a good thing?**

Some of the challenged capital structures we see today are arguably a result of aggressive borrowing during a low-rate environment. Debt in the context of these over-levered structures is not a good thing, given debt service or refinancing challenges for them. However, having access to more debt availability via alternative lenders and some banks (directly or via back-leverage) is a good thing for the market, as that will help benefit durable business plans and give comfort to equity players looking to make new investments.

**» Q. When do you expect debt to be deployed?**

Debt is already readily being deployed in Europe, though lenders as usual are percolating towards sectors showing fundamental strength, such as student housing, market rental housing, logistics, data centres and certain segments of lodging. There are air pockets in some sectors (i.e., secondary offices, secondary retail, rent-controlled housing and for-sale residential lending, etc.), as lenders perceive elevated cash flow and business plan risks within these.

Debt fund appetite is typically correlated with back-leverage appetite from banks, which is most liquid for the above sectors showing strength. I'd conjecture that in the past year, there has not been much risk creep from debt fund lenders but there may have been erosion of the levered returns due to competition.



**» Q. What are your preferred strategies for debt and credit at present?**

At OneIM, we invest globally across the capital structure, with credit being a meaningful portion of our activity. For debt, our capital is most suited towards larger situations, where the total portfolio or asset value is greater than \$250M, and there are bespoke liquidity requirements which fall outside the purview of debt funds, insurers, banks or the public markets.

The deals that we have completed to date are preferred equity investments or participating mezzanine debt into good business plans that require more time to complete their business plan, but are cash flow constrained in the interim, or are large complex developments. We selectively look at large whole loans where the lender is required to take a differentiated view either on the sector or business plan, and requires a bespoke funding solution.

**» Q. How are you remaining competitive in the current debt landscape?**

The way we think we add the most value to the market today is by providing bespoke funding solutions for special situations, which is the primary area we are focused on. We can move quickly and in size like several peers, but can also go deeper into the capital structure and potentially for longer than average durations to allow for the business plan to fully play out.

**» Q. What concerns you most about the real estate market at present?**

There is always some risk round the corner as we saw with SVB and Credit Suisse. Right now, we are experiencing geopolitical instability, which is likely to continue for a while.

In my personal view, I would be most concerned about real estate portfolios which need a sharp reduction in interest rates to be solvent again. It is difficult to accurately predict rates and there is reasonable probability that long term rates settle higher than where rates on average have been for the last 15 years.



**DANIEL POTTORFF**  
Head of Debt Investment



**“Too much debt can be a bad thing but, at an aggregate level, this is not today’s problem.”**

#### **ABOUT DAN**

Dan is the Head of Debt Investment at Tristan Capital Partners. Prior to joining Tristan in 2021, Dan was Managing Director in the Debt & Special Situations team at LaSalle Investment Management where he was responsible for originating and executing transactions for the LaSalle Real Estate Debt Strategies fund series and several separate account mandates encompassing development finance, whole loan lending and special situations.

#### **» Q. Is too much debt a good thing?**

Too much debt can be a bad thing but, at an aggregate level, this is not today’s problem. The challenge in this higher interest rate environment is whether debt is accretive and serviceable on realistic business plan assumptions.

#### **» Q. When do you expect debt to be deployed?**

Debt continues to be deployed from a range of primary sources including bank, insurance and institutional lending platforms. We are seeing greater caution from banks in the largest continental European markets and this is likely to drive a more diverse flow of financing capital for the next few years especially for transitional assets.

#### **» Q. What are your preferred strategies for debt and credit at present?**

We continue to support capable, well capitalised sponsors delivering great quality assets in the right locations. We are particularly active financing core+ and value-add business plans on a whole loan basis.

#### **» Q. How are you remaining competitive in the current debt landscape?**

We remain competitive by thoughtfully structuring our terms to be sensitive to the particulars of the asset business plan.

#### **» Q. What concerns you most about the real estate market at present?**

Asset liquidity and pricing of that liquidity look like the most important risk factors at the moment and thus we want to make sure we are on the right side of the ongoing asset quality bifurcation. That might often mean financing the capex to deliver that asset quality which we prefer to underwriting more questionable asset quality or location.



**MARTIN FARINOLA**  
Head of Real Estate Debt Strategies



**“Debt has its place in the real estate ecosystem, but it should be used appropriately and prudently.”**

**ABOUT MARTIN**

As Delancey's Head of Real Estate Debt Strategies, Martin is responsible for managing debt investments and developing and executing real estate debt strategies. Martin has over 25 years of experience in real estate finance and investment and, prior to joining Delancey in 2022, Martin was at Brookfield, where he ran the European CRE credit business sourcing, evaluating and executing new investments.

**» Q. Is too much debt a good thing?**

Like most things in life, too much of anything is never the best. I think debt has its place in the real estate ecosystem and can be very helpful, but it should be used appropriately and prudently. This is the responsibility of both the lender and the borrower to determine what is appropriate for their risk appetite and if accretive.

**» Q. When do you expect debt to be deployed?**

The market never went away. We have seen many opportunities but have really had to sift through to find the deals that make sense for our debt program and investors. I think when people get comfortable with the macroeconomic environment we will see a further increase especially in deal acquisitions.

**» Q. What are your preferred strategies for debt and credit at present?**

We are an alternative lender that provides whole, mezzanine, and development financing in the UK across most property types.

**» Q. How are you remaining competitive in the current debt landscape?**

I think our biggest strength is our ability to understand complex situations, offering certainty of execution and generally being pleasant to deal with.

**» Q. What concerns you most about the real estate market at present?**

I think it is a great opportunity for alternative lenders such as Delancey. However, I do think the complexities of the market require a seasoned debt team that can be advocates of sound lending for their investors and offer solutions for their borrowers.



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Founded in 1998 in London, GRI Club currently brings together more than 16,000 senior executives spread across 100 countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Club content.

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