

# A Vision for Real Estate Finance in the UK

DRAFT RECOMMENDATIONS BY  
A CROSS-INDUSTRY REAL ESTATE FINANCE GROUP

## An industry discussion

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## Background

The UK banking and commercial real estate (CRE) sectors have emerged battered from the global financial crisis (GFC). This document seeks to outline some initial recommendations, for public feedback and comment, as to how such an undesirable outcome from the next CRE market crash can be mitigated, following which a final report with recommendations will be made.

To a large extent, financial crises, including the GFC, have been caused or prolonged by imprudent CRE lending by financial institutions – particularly systemically important deposit-taking banks. In the UK, as a result of the GFC, several banks remain mired in a slow and painful resolution of often challenging legacy loan books from the boom years. This has significantly hindered banks' ability to provide new credit to support economic recovery, just at the time when such support is most critical. Meanwhile, regulatory response to the GFC has reflected a blend of expedient short-term objectives, the fragmentation of regulatory regimes (UK, EU, US and international) and public/political reaction to the crisis as well as a desire to ensure in the medium term that banks become more robust to future crises. Such a diverse range of drivers threatens to generate overregulation, which risks stifling recovery and growth, and a series of potentially inconsistent and incomplete regulatory regimes that together are unreflective of an overall considered vision. Moreover, if history is our guide, such overregulation is likely to persist precisely during the period when it is least required, with a return to lighter touch regulation coinciding with the return of over-exuberance to the market.

Over the last two years, there has been much discussion in the CRE sector about how lending to the CRE sector can be restored as well as the potential impact of impending regulation. These culminated in the Property Industry Alliance Debt Group's report, produced in mid-2012, and presented to the Bank of England's Commercial Property Forum. That report highlighted a number of concerns about impending regulation and CRE financing and recommended the creation of a cross-industry group of informed individuals to consider a market structure and regulatory regime, which could be implemented in time for the next crisis, in order to protect the financial markets against the CRE cycle, yet ensures adequate debt support for the CRE sector across the cycle. The suggestion was received favourably and a cross-industry Real Estate Finance Group (the Group) was formed. While the Group anticipated constructive engagement from regulators, it is an industry initiative that retains complete freedom to make whatever recommendations it considers appropriate, and which in no way commits regulators to any course of action. The Group benefits from the sponsorship of the Investment Property Forum (IPF), while retaining full editorial control over its recommendations.

Members of the Group have been selected to ensure knowledgeable and expert representation from a wide spectrum of the CRE market, including CRE specialists from organisations that provide finance to that market. Each member's participation is in an individual capacity, such that the recommendations are those of the Group, and may not necessarily reflect the views of their organisations.

Further details of the Group and its remit are set out in the Appendix to this paper.

## Scope of the Vision

The scope of the Vision project warrants emphasising. The ongoing fallout from the global financial crisis raises two broad questions for the CRE industry. The first relates to whether, and how, the resolution of the legacy position can be accelerated and improved so that the industry can operate and support economic growth more effectively. The second relates to whether there are lessons to be learned from the experience of the last few years in the UK and elsewhere for the future: Could CRE finance markets be encouraged to function differently and might they be regulated differently, so as to reduce the threat the real estate cycle can pose to the stability of the financial system, while ensuring that the CRE sector is adequately supported by debt finance across the cycle?

The Vision project does not seek to address the first question, and the immediate task of helping to extricate the industry and the financial system from the predicament of the last few years. Its focus is exclusively on trying to answer the second question – envisioning a better functioning and better regulated CRE finance market that might be delivered over the next several years, with the primary goal of limiting the impact of the next property crash on financial stability.

The expectation is that the CRE finance market can be evolved to implement the Vision over the period before the next crash, with all new regulation in that timeframe being consistent with and supportive of it. Given this timeframe, the Group has left detailed consideration of timing and implementation to a later stage of this process, which is likely to be led by those responsible for implementation.

The Group considers that this approach will generate more valuable and effective recommendations.

## A Vision for Real Estate Finance in the UK

### THE ENVISIONED MARKET

The Vision is for a CRE market and regulatory regime that:

- Protects systemically important financial institutions and the financial system more generally from the CRE cycle, in particular by ensuring that such financial institutions hold sufficient capital to withstand a market crash;
- Reduces pro-cyclical tendencies, by moderating the flow of credit to the CRE sector and ensuring financial institutions are positioned to support CRE lending after a market crash; and
- Promotes the contribution of the CRE sector to the economy, by supporting the availability of CRE debt funding across the cycle.

The Group has approached these objectives from a number of angles, and its different work streams have developed a number of provisional high-level recommendations.

### A RESILIENT MARKET SUPPORTED BY REGULATION

As a starting point, the Group has accepted the commonly-held view, that markets are more effective and productive generally when intervention, which is distortive, is kept to a minimum. At the same time, asset bubbles are a recurring feature of market cycles, and the GFC has revealed that financial markets have the capacity to become self-destructive, with implications beyond the markets themselves. It seems clear that a more effective market and regulatory framework is required – but it must be informed, focussed and proportionate, and avoid distorting markets unjustifiably.

The Group believes that the features of an effective CRE market and regulatory framework in this context are as follows:

- Participants, potential participants and regulators are **informed** by good quality, granular, real-time data and by expert analysis and advice;
- The CRE market and regulatory structure actively **encourages industry self-management**, through market participants developing and promoting good practices, thereby reducing the need for regulatory intervention;
- The regulatory approach is instinctively **supervisory** and encouraging before it is interventionist;
- The regulatory framework adopts graduated, and largely automated **'governor'-based interventions** – applied incrementally as the CRE market moves through the cycle – to influence market behaviours, rather than blunt instruments and 'on/off' switches;
- Regulatory measures and incentives act as **counters to pro-cyclical tendencies**; and
- Regulators are **adequately resourced and supported (by Government and the CRE industry)**.

The recommendations discussed below seek to translate these features into concrete proposals.

## Realising the Vision – Recommendations

### A. INFORMATION ABOUT, AND ANALYSIS OF, THE MARKET

#### (i) A CRE loan database

Market participants, potential new entrants, regulators and others need to have good quality, granular and timely information to analyse and interrogate in order to improve their understanding of the CRE loan market and enable them to make better decisions.

#### Recommendation 1

**Recommendation:** A database of all UK CRE loans (whether originated or held by UK regulated banks or by other market participants), appropriately populated, should be mandated.

Key market lenders should be required (for their own risk management purposes) to maintain real-time risk analysis of their books (akin to those expected for trading operations) – including appropriate ‘stress-testing’ of positions – with the regulator having real-time access to individual lender risk analysis as well as overall market risk analysis.

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**Aim:** To ensure lenders and regulators have the information they need to understand the risks that are being taken and to have it within a timeframe that allows them to respond in times of market stress.

To allow academics and others to undertake analysis and provide insights, including warnings of overheating, to lender, borrower and regulatory participants.

To reduce barriers to entry for new lenders, thereby facilitating diversification of lenders, and the more rapid entrance of new lenders who can support the market in the event that existing participants withdraw.

To support a cost-effective and consistent approach to loan valuation by providing a common information source.

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**Issues:** There is a tension between the desire for widely available, fully granular information and confidentiality concerns. The database should be public, in a form that reflects maximum granularity and manipulability of information so as to enable market participants, academics and potential new entrants to analyse the market, but it must be subject to such restrictions and controls (over reports and base data) as are necessary to maintain public anonymity for individual lenders and borrowers.

#### (ii) An expert advisory committee

Essential to effective regulation is access to the best possible information and analysis, in a timely manner. The regulator needs adequate skills and resources to assess the CRE market data and analysis, but this should be enhanced significantly by the analysis and insights of experts and commentators.

Recommendation 1 (CRE loan database) enables academics and CRE market participants to analyse the overall CRE loan market and comment accordingly.

Even with a wealth of data and analysis, it can be challenging for a regulator to interpret the overall picture clearly and in particular to:

- Assess whether the data that is collected (to show where we are in the cycle and whether market self-management is working in other respects) is adequate, or whether the choice of the data that is collected needs to be modified in some way; and
- Analyse the data and interpret analysis of commentators to determine whether the operation of regulatory governors can be left 'on automatic' or whether different intervention (or its absence) may be more appropriate.

The Group recommends that the regulator should seek advice from a committee created for this purpose and comprising industry experts.

## Recommendation 2

**Recommendation:** A committee of senior expert individuals from the CRE industry, together with others with broader, macro-economic expertise, should be set up with a duty to interpret all relevant indicators of the CRE market position within the cycle, and against the context of the wider economic environment, and communicate its views to the regulator.

Key CRE market cycle and crash warning metrics to be monitored alongside broader macro data and acted upon; the list of CRE metrics to be dynamic, and regularly reviewed for relevance.

The regulator should have sufficient, experienced and skilled resources at its disposal to enable it to carry out its duties effectively.

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**Aim:** To inform the regulator and CRE market, by reference to objective metrics and expert views, of where the market lies in the cycle, to enable market governors (Recommendation 7) to be applied.

To enable the best regulatory response as the market cycle evolves.

## B. EDUCATION AND QUALIFICATIONS

Market participants in key roles need to have the necessary skills, experience and influence to be effective in their support for, and implementation of, the desired CRE market.

## Recommendation 3

**Recommendation:** Key members of (all lenders not just bank) CRE lending teams and credit functions with responsibility for UK CRE lending should be required (through self-regulation or imposed regulation) to have an accredited 'CRE lender qualification', maintained through continuing professional education.

- Junior members – focus more on loan and asset level training.
- Senior/credit – focus on CRE loan portfolio risks and CRE cycle.

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**Aim:** Lending initiators, decision makers and macro risk managers will have the skills and experience to understand the risks arising from individual property loans, the portfolio and the impact of the property cycle; thereby having the capability to ensure property risks do not threaten their organisation.

### C. INCENTIVES FOR INDIVIDUALS

Clearly, it is essential that those involved in CRE lending are incentivised in a manner that both supports and does not undermine the desired CRE lending market.

The Group is of the view that incentives for bank employees have already been the subject of considerable public discussion and recommendation, so does not feel the need to duplicate this work. In summary, CRE lenders should be appropriately incentivised to make good loans, having due regard to economic risk and reward, and to manage them well. To that end, their reward needs to have an element that reflects the longer-term performance of the CRE loans they make and manage.

### D. INCENTIVES FOR LENDING INSTITUTIONS TO REDUCE PRO-CYCLICALITY AND REDUCE SYSTEMIC RISK

Regulatory capital requirements are an essential tool in the armoury of the regulator to create a framework within which the market can self-manage. To be effective, regulatory capital requirements should be well aligned with economic risk, recognising that:

- Economic risk can be difficult to assess accurately; and
- A difference may exist between economic risk from the point of view of the lending institution and economic risk from the point of view of the financial system as a whole. Capital requirements offer a way of 'internalising' systemic risk arising from actions and decisions of individual lending institutions.

Regulatory capital requirements do not apply to, and are not appropriate for, all CRE lenders. As a general matter, they should only apply to types of lender that are (as a category) systemically significant. At present, that obviously encompasses banks, may apply to certain other financial institutions such as insurance firms, but correctly does not extend to alternative investment funds. The rules already contemplate differentiated capital requirements, having regard to the extent to which a particular institution is systemically significant. It is appropriate that the overall scope of capital requirements be kept under review and, in particular, that regulators maintain vigilance for new types of CRE lender becoming systemically important, either individually or together.

The way in which regulatory capital requirements deal specifically with CRE lending risk is very important for at least three reasons. First, UK banks continue to be the dominant provider of debt funding to the UK CRE sector, and CRE lending may exceed 10% of total bank lending late in the cycle. Second, real estate lending has a history of causing serious problems for individual financial institutions and helping trigger financial downturns. Third the relative treatment of CRE lending and other forms of lending can cause capital to be diverted either into, or away from, real estate, to the detriment of the economy as a whole. The Group believes that the rules in this area could be improved significantly by following Recommendations 4 and 5 below.

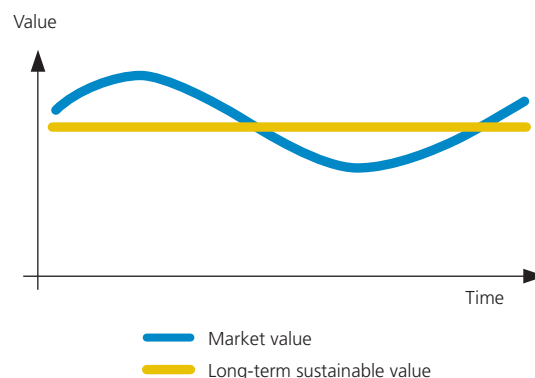
#### *(i) Economic risk in real estate lending and regulatory capital requirements – property valuation*

Perhaps one of the hardest – as well as the most important – judgments faced by CRE lenders and regulators alike is assessing the level of risk arising from CRE loans. Here there has been overreliance on loan to current appraised value (current appraised LTV). This is particularly problematic because it is doubly pro-cyclical: Lenders will increase the loan-to-value (LTV) levels at which they are prepared to lend as values become inflated, and reduce them when values have collapsed. As well as allowing riskier lending, it allows existing borrowers to extract equity from existing CRE investments through re-gearing, making the stock of past lending riskier.



The increased risk arising as the market overheats can be mitigated significantly through the use, in addition to current appraised LTV, of a measure that compares the amount of the loan to the long-term sustainable value of the property (long-term sustainable LTV) – being the average value of the property through the market cycle. Under this approach, the most important element of pro-cyclicality would be removed. A valuation approach along those lines underpins Germany's Pfandbrief market, albeit this is based on a significantly more cautious valuation, and the credit rating agencies have also developed models designed to focus on through-the-cycle value, as this allows a better insight into the risk involved.

### Long-term sustainable value



#### Recommendation 4

**Recommendation:** Regulatory capital requirements for CRE lending should be linked to a property's long-term sustainable LTV, rather than its current appraised LTV.

**Aim:** Ensures build-up of adequate regulatory capital as a market rises, providing lenders with the desired level of regulatory capital after a CRE market correction.

It would also act to dampen credit growth during a boom, reducing the potential for regulated lending to 'feed' a CRE bubble, by breaking feedback loops between valuations and lending.

**Issues:** Long-term sustainable LTV should be assessed by an independent external valuer at inception and during the term of each loan (in addition to, and not in substitution of, current market valuation).

The use of LTV-based caps is specifically not recommended.

#### *(ii) Economic risk in real estate lending and regulatory capital requirements – effective risk differentiation*

While real estate lending can be very risky, particularly in the feverish atmosphere of a boom, it can also be very safe (throughout the cycle), particularly where the nature of the loan, the asset and cash flows are favourable. Defining a formula to measure the safety of any loan reliably would be very difficult, due to the varying weighting one should attribute to different characteristics when comparing loans – there must always be a judgmental element, as well as consideration of all the relevant information. However, a simple focus on LTV suggests an inflection point below which the risk of loss is very low indeed, particularly if value is assessed for these purposes on a long term sustainable basis as proposed in Recommendation 4.

Favourable regulatory treatment for loans that fall below a sensible long-term sustainable LTV level would have minimal additional impact on the risk of failure of significant lenders. Furthermore, it would positively encourage lending to support the property sector's contribution to the economy, even in the challenging times following a CRE market crash, when the economy is struggling to recover from recession. Regulatory

intervention designed to restrain exuberant lending should focus on imposing higher regulatory capital cost on lending at higher long-term sustainable LTVs, in a graduated way, reflecting the accelerating risk of loss (to the lending entity and economy) that arises from such lending. As long as the capital charges on regulated lenders were sufficient to offset their natural advantages in lending, this would likely enable and encourage non-systemic institutions, such as debt funds, to provide higher LTV and mezzanine lending, at commercial prices reflective of risk.

### Recommendation 5

**Recommendation:** The basis for regulatory capital requirements should reflect better the level of actual risk arising from CRE loans, with greater differentiation of capital requirements between loans.

Very low-risk CRE lending (even if unrated) should be recognised as such for banks, including their use as collateral.

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**Aim:** To remove the disincentive for regulated entities to advance low-risk CRE loans, and discourage higher-risk loans appropriately.

To encourage increased safe lending supportive of investment after a CRE market crash.

To reduce the risk of distortion that arises when similar risks in real estate lending and other lending are treated in very different ways by regulatory capital rules.

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**Issues:** While the Vision should be to achieve more granular and more appropriately calibrated 'slotting', pending that, under currently applicable international rules there are two obvious ways of implementing an improved, more differentiated regulatory capital framework for CRE lending:

- Carefully calibrated implementation guidance for 'slotting' by UK regulated firms; and
- The development of appropriately structured, internal ratings-based models by UK regulated firms.

Neither route is without its challenges, but since changing the international rules would be a slow, difficult and uncertain process, they may be the most practicable ways of delivering the vision in the medium term.

A complementary approach might be to focus on UK regulators' existing powers to use sectoral and cyclical capital buffers so as to target disproportionately the riskier CRE lending when the market is overheating.

## E. MARKET-WIDE COUNTERS TO PRO-CYCLICALITY

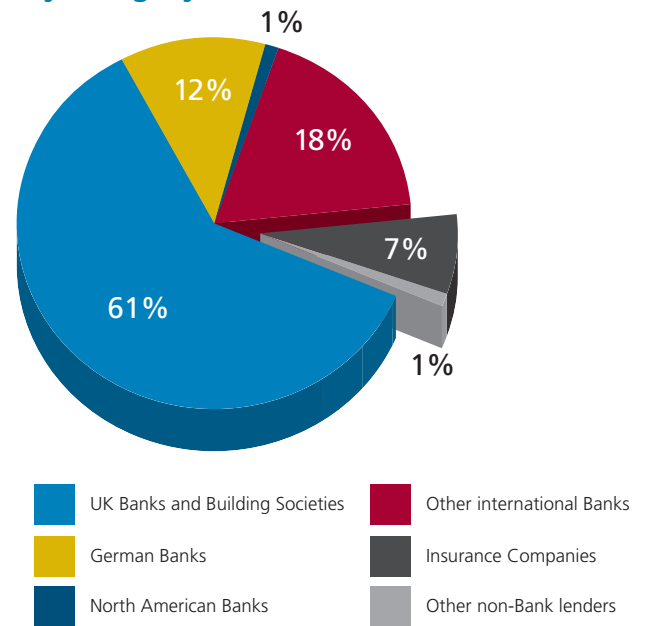
The use of long-term sustainable LTV in real estate lending, for the purposes of setting associated regulatory capital requirements (Recommendation 4), should make a valuable contribution to moderating the extremes of the real estate cycle, dampening excessive exuberance near the top of the cycle, and keeping credit flowing at the bottom of the cycle. However, more can and should be done to build resilience into the CRE finance market.

*(i) Resilience through diversity*

An undesirable feedback loop arises when key financial market participants respond to stress by reducing CRE lending, which then adversely affects values and thereby causes further stress in CRE loan portfolios and consequently CRE lender balance sheets and (currently) regulatory capital. If CRE lenders representing a material part of the CRE loan market make the same decision to reduce real estate lending at around the same time, as might happen in a banking crisis, they will see higher CRE loan losses as a result. To mitigate the potential impact of such feedback, the CRE market would benefit from being structured to ensure 'diversity of response' among CRE lenders.

Diversity of response is more likely to be achieved where the market has significant representation from a range of CRE lender types, who themselves are reliant on diversified sources of funding. Diversity of CRE lenders of the same or similar type is clearly better than no diversity at all, but it offers more limited

**Outstanding debt secured by UK commercial property by category of lender**



Source: *The UK Commercial Property Lending Report*, published by De Montfort University in May 2013

**Recommendation 6**

**Recommendation:** The regulator's function should reflect the important role that can be played in promoting financial system resilience and stability by diversity of lender response (principally through diversity of lender types). Where possible, regulatory action should have regard to levels of diversity and seek to reduce barriers to entry, particularly for different types of lender.

**Aim:** To promote diversity of lenders in CRE sufficient to protect/cushion the market from a change in strategy by any individual or a group of lenders.

To encourage a regulatory focus on the constitution of the CRE lending market, which can act as an additional indicator of market behaviours and the drivers of participation in that market of different types of lender.

**Issues:** The Group appreciates that positive regulatory intervention to promote diversity would be both culturally and practically very difficult. However, monitoring the constitution of the market, with a sense of what looks healthy or not, would add value in regulatory terms.

Diversity of lender type is not the solution on its own, as it does not always ensure diversity of lender response. For example, the UK CRE lending market became markedly less concentrated in 2006 and 2007 as debt capital poured in from all kinds of sources (just as equity capital did), before taking flight when the market collapsed, worsening the plight of regulated UK lenders. It is therefore important to monitor and understand both the timing and the nature of new lenders entering the market and their likely response to a CRE crash.

assurance that they will not respond in a similar manner, and at a similar point in time, to stress in their sector or the economy overall. In a market that has diversity of response, in the event of a sector of the market ceasing to offer new CRE loans, a continuing flow of credit from a significant class of other lenders (presumably able to access alternative sources of funding) would support liquidity and investment activity, helping both those wanting to reduce exposure and the real estate market itself.

It would therefore seem worthwhile to encourage genuine diversification of lender response, principally through diversity of lender types. Indeed, limited diversification of lender types may be an indicator that one type of lender (comprising those with the lowest cost of capital, highest use of leverage or greatest risk appetite) is pricing others out of the market – something which should ring warning bells that a bubble may be developing.

### *(ii) Governors more effective than switches*

A preference for sensitive, graduated intervention over the intermittent use of blunt instruments runs through all the Group's recommendations. This approach is particularly important when it comes to the way the regulatory framework responds to information about the CRE cycle.

Predicting reliably as to when a property market crash will happen is impossible. If a bubble is irrational overvaluation then there is no rational way to predict when it will burst. Rather than trying to do so in order to make a surgical intervention at the right moment, a better approach is to use market data to determine when market values have moved into above their whole-cycle average, and to intervene thereafter in a graduated way so as to reduce the likelihood that the bubble will overinflate. Intervention should seek to restrain CRE lending by key financial market participants, including through an increased focus on the sufficiency of their capital buffers to withstand a correction.

## **Recommendation 7**

**Recommendation:** Regulators should use regulatory governors (including the application of sectoral and cyclical capital buffers) that are increasingly applied as the CRE market rises above its full cycle average, irrespective of views about whether a CRE market crash is anticipated or considered unlikely.

Specific indicators of factors which have been relevant in previous CRE crashes should trigger a presumption of regulatory action, and absent that an explanation.

**Aim:** To ensure the economy is positioned to manage a CRE market crash at any time when objective criteria indicate that one is possible, irrespective of subjective perceptions of its likelihood.

**Issues:** A balance needs to be struck between the benefits of automated governors and the need for judgment to be applied – but by their very nature, governors are much better suited to an automatic regime than on/off switches and other blunt instruments.

Automated intervention has at least three benefits:

- It maximises certainty and predictability for market participants;
- It obviates the risk to markets of policy signalling; and
- It minimises the risk that a regulatory 'cycle' synchronised with the market cycle results in a belief that "it's different this time".

Against this, regulatory actions need to reflect all circumstances, including many which cannot be factored in advance into metrics.

Good, real-time information and analysis is essential to enable regulators (as well as other market participants) to understand when the market is above its whole-cycle average, and regulators could then use a series of triggers for increasingly laying on market restraining measures to dampen an overheating market. Governors that increasingly restrain the market in this way would in the Group's view be both less distortive and more effective than simple on/off switches, fixed caps or thresholds and similar blunt instruments. These risk over-distortion of the market and may themselves prompt the crisis they seek to avoid if applied at the wrong time. The use of governors has the added advantage that no absolute bubble/no bubble, intervene/don't intervene decision needs to be taken.

## F. THE REGIONAL AND SMALL LOAN CHALLENGE

The potential for multiple lenders to operate outside the principal CRE markets is limited as there is often insufficient density of lending opportunity for lenders to justify employing local presence or local expertise. Consequently there can be very limited lender competition, and in market downturns potentially no CRE debt financing available at all.

The all-in cost of providing, monitoring and recovering small CRE loans (particularly those not in the principal markets) is believed to be high, such that profit margins are small (if positive) and risk-based pricing would potentially lead to increased margin for borrowers.

A solution needs to be found to facilitate a more consistent and diversified flow of sustainably priced credit to regional CRE markets and smaller CRE borrowers and assets across the cycle. The problem is essentially a subset of the broader policy challenge around providing finance to smaller businesses and rebalancing the economy. The solution is likely to involve some form of aggregation and standardisation mechanisms to:

- Allow efficiencies of scale, reducing the cost of responsible loan origination sufficiently to allow it to be priced on a basis that both recognises the risk of loss and remains affordable for borrowers; and
- Facilitate distribution of risk throughout the system.

While the Group has not yet identified a specific recommendation that solves this challenge, and does not create others, the concept of a mechanism which provides an efficient bridge between diverse small CRE borrowers and well-financed lenders with appetite is likely to have some of the following features:

- Efficient local origination expertise; likely placing loans ultimately on behalf of multiple lenders and in some way regulated to ensure minimum standards are maintained. This might, for example, include brokers (although it is recognised that experience in the US raises important questions about whether this would be desirable), or local branches of high street banks;
- Standardisation of small/regional CRE loan criteria and documentation to enable lenders to understand the risks arising from and management of a portfolio of such loans. Recommendation 1 (Database of CRE loans), would support this;
- Loan aggregation, without loss of understanding of the features of individual loans so portfolio risk can be easily understood and monitored;
- Loan managers, who may be different from originators or ultimate lenders. Such managers, to be effective, should have increased powers and responsibilities compared to today's CMBS special servicers, including the power to negotiate and bind lenders, to substitute lenders etc, so their legal duties would need to reflect this;
- Specialist lenders who hold lending capacity but do not necessarily originate or manage their loans, with access to capital raised or allocated for that specific purpose. These could be any equity provider, including pension/life companies, or new vehicles such as mortgage REITS (public and private); and
- A continuing role for UK-regulated lenders as substantial contributors to the origination of regional and smaller ticket CRE lending.

## Appendix: The Real Estate Finance Group

### 1. CONSTITUTION OF THE REAL ESTATE FINANCE GROUP

The Group has no formal constitution, being a group formed by individuals acting in their personal capacity with the objective of delivering, unconstrained, their best recommendations. The Group comprises a Review Group and six separate work streams (each with its own members) selected to ensure representation from a spectrum of, and for their knowledge of and expertise in, the real estate finance market, supported by a Support Group. The Group is grateful for funding that has been made available by the IPF to support its work, on terms that allow the Group to retain full discretion and editorial control over its recommendations.

#### REVIEW GROUP

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Peter Cosmetatos (Secretariat)	CRE Finance Council Europe
Michael Brodtman	CBRE
Phil Clark	Kames Capital Plc
Dr Ian Cullen	IPD
John Gellatly	Aviva Investors
Ian Marcus	Ian Marcus Consultants Limited
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Max Sinclair	Wells Fargo Bank International
Shirley Smith	Consultant
Jonathan Thompson	Argent Group
Matthew Webster	HSBC Bank plc

#### ADDITIONAL PEOPLE ON WORKSTREAMS

<b>Name</b>	<b>Organisation</b>
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Dr Richard Barkham	Grosvenor Group Limited
Dr Neil Blake	CBRE
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Sue Forster	Investment Property Forum
Dr Benedikt Kiesel	Hypothekebank Frankfurt
Kevin Sale	Aviva
Isabelle Scemama	AXA Real Estate

#### SUPPORT GROUP

<b>Name</b>	<b>Organisation</b>
Douglas Marvin	KPMG LLP
Mark Peachey	The British Land Company Plc

*The Group has benefitted from the attendance at some of its meetings by an individual from the Bank of England in order to provide technical support to the Group.*

## 2. REMIT OF THE GROUP

The remit that the Group set itself at the outset is as follows:

“To consider and produce a vision for the real estate debt finance market in the UK, which meets the objective of ensuring an attractive, efficient and stable market, in the timeframe of the next cycle.”

**Vision:** Covers the nature and balance of participants in the market, the nature of their returns, the categories of the market in which they operate, the objectives of the regulatory framework affecting the market, and the broad nature, balance and types of debt finance available.

**Real estate:** UK commercial (i.e. not residential) real estate as might be determined investible by general real estate investors, therefore now including student accommodation, leisure and healthcare, but not other specialty asset types (such as infrastructure, offshore, mineral extraction, generation etc).

**Debt finance:** All debt finance, including hybrid, other than (in economic terms) pure equity, regardless of the nature or location of the lender.

**Attractive:** Ensures a balance of risk and reward, set at a level which encourages active participation throughout the market cycle.

**Efficient:** Market operates effectively and with transparency, with barriers to entry set at justifiable levels, and which encourages new participants into the sector.

**Stable:** The market mechanisms and regulatory processes provide a governor that increasingly discourages lending as, not after, values and aggregate lending rise above trend levels, encourages lending when markets fall below trend and is devoid of perverse incentives that fuel boom and bust. The market, and each relevant segment of it, is not over reliant upon a few lenders or lender types – diversification in almost every sense.

