19 YEARS OPALESQUE

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Lending fund banks on attractive European secured real estate market

B. G., Opalesque Geneva:

There are many attractive opportunities around in short-term senior-secured loans, especially in real estate. An asset manager that specialises in private debt runs a new fund that banks on these very opportunities, and it is up 8% YTD.

"The European secured real estate lending market is very attractive currently, especially for opportunistic funds that focus on specific niches, and not the standard real estate projects," Pascal Rohner, CIO of Katch Investment Group, tells Opalesque. "There are many new lending opportunities in the pipeline that offer very attractive risk-reward. Projects are often related to ESG, such as alternative energy and sustainable housing."

The **Katch European Secured Lending Fund** deploys capital in credit opportunities in Western Europe. Its loans are always senior-secured and mid-term (up to 4 years). The real assets represent on average 170% of the value of the loans. Diversification is key for the manager, who tries to balance the book across jurisdictions and sub-strategies.

"Katch focuses on areas where the borrower, typically a real estate developer, identifies a unique opportunity to create significant value by acquiring a property or a plot, sometimes at values below market, that can be used for thematic projects," Rohner explains.

"Katch typically would provide an acquisition or pre-development facility for plots with building permits. Given the relatively low LTVs, small fluctuations in real estate prices would not impact the downside protection meaningfully. So far, the real estate prices have continued to rise, but we expect the market to cool down and some areas to correct moderately, eventually. However, thematic projects and areas with strong supply-demand characteristics should remain very stable. These will offer strong protection for our first-lien secured loans."

The loan-to-value (LTV) ratio is an assessment of lending risk that lenders examine before approving a mortgage. Typically, loan assessments with high LTV ratios are considered higher-risk loans.

For example, in the past year, Katch was approached by a Luxembourg real estate investment fund. This fund urgently needed a bridge loan to buy back one of the three partners - the exiting partner had set a tight deadline to complete the transaction. Katch lent £3m, with first lien on in excess of £60m of real estate (5% LTV), and completed the transaction in 10 days. The rate charged was 14%. The borrower paid back after four months with a 3% early redemption penalty. A lien is a claim on collateral pledged to secure a financing. The first lien debt has the first claim on collateral.

Pascal Rohner, one of the three founding partners of Katch, will be speaking at the **Small Managers - Big Alpha Episode 10 webinar** on October 4 at 11 am ET. Pascal has more than 20 years of experience in financial market research, portfolio management, and investment advisory. Before joining Katch in 2019, he was the CIO of a multi-family office.

"Private debt is the most interesting asset class available"

More generally in direct lending, the opportunistic, short-term, little-noticed, smaller ticket-size loans offer very attractive risk-reward because there is not a lot of competition, according to Rohner. Traditional lenders such as banks have been retreating since the 2008 financial crisis because of tougher regulations, compliance costs, and higher costs of capital. This especially applies to short-term loans, where banks are far too slow and bureaucratic.

"It is easier to get much higher interest rates and stronger security for short-term mortgages (e.g. bridge loans), while there is much more competition for longer-term mortgages coming from traditional banks," he continues. "So, you get a bigger premium for short-term loans compared to longer-term loans within private debt.

"We call it "liquid" private debt because of the short duration that allows offering liquidity to investors. The portfolio gets liquidity from frequent loan maturities, thanks to the short duration and diversification of the loans. This is a big plus for investors as they can invest and redeem on relatively short notice, without sacrificing returns. Less liquid private debt funds, and even illiquid private equity funds, with up to 10-year investment horizons, often don't generate higher returns, at least on an un-levered comparable basis."

Katch Investment Group is an asset manager dedicated to investing in private debt; it was founded in 2017 and has offices in London, continental Europe, and South America. The firm manages more than $500m in six investment strategies.

The NAV of the USD share class of the fund, incepted in August 2021, stood at $111.3 at the end of August 2022. The $74m fund is domiciled in Luxembourg as a SICAV-RAIF (a SICAV is a collective investment scheme common in Western Europe, and a RAIF is a Luxembourg Reserved Alternative Investment Fund). It is managed by Maria Ryan, who has 16 years of senior corporate, asset and real estate-backed underwriting experience.