"The answer for an insurer like us is not to turn to secondary assets or locations, but rather to remain focused on the best product"

Allianz Real Estate, the property investment management business of German insurance giant Allianz, scooped two of *Real Estate Capital*'s 2019 awards – Insurance Company Lender of the Year: Europe, and Alternative Lender of the Year: Germany. During 2019, the company grew its European real estate loan portfolio by more than 20 percent to around €9 billion, opened its debt strategy to third-party investors and hired a UK lending team for its new London office.

Here, Allianz Real Estate's head of European real estate finance, Roland Fuchs, explains why the company likes property debt so much.

Q Why does real estate debt represent an opportunity to an insurer like Allianz?

A We deployed more than €2 billion in European debt in 2019, as well as $2 billion in the US. The appetite to invest in real estate debt is strong among our group insurance companies. The returns it generates are high relative to other fixed income products that insurance companies typically allocate to.

In the ongoing ultra-low interest rate environment, commercial real estate loans, as a secured alternative to bond investments, provide a very attractive risk-return profile compared with the corporate bonds benchmark. Property loans enable European insurers to diversify their fixed income books and can also create opportunities for them to diversify geographically.

In the 10 years since we launched our debt programme, the spread over the corporate bonds benchmark has remained between 100 and 150 basis points.

Q What criteria must property loans meet to match your liabilities?

A The investor base for our debt programme currently comprises around

Q&A

Roland Fuchs

Head of European real estate finance, Allianz Real Estate

The insurance company's real estate debt boss discusses the role institutional capital is playing in Europe's property lending markets

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20 European insurance companies, all with different investment needs. The assets they require range from three to 20 years in duration, so we have addressed that to include short-, medium- and long-term loans into our strategy, as well as floating and fixed-rate debt. We have added enhanced returns into our portfolio by including refurbishment and construction loans, alongside the standard fixed-rate, long-term investment product.

We have a mandate to operate a diversified, pan-European lending strategy. Our €9 billion loan book covers 12 European countries, so the strategy is far from the traditional insurers' investment programme of long-term, fixed-rate loans. It has diversified in the same way our equity portfolio has during the same 10-year period.

Q How has opening your debt platform to third-party investors affected your strategy?

A It has enabled us to generate supplementary fee income for the group and to extend partnerships we already had on the equity side of the business. On the equity side, we form joint ventures with partners and manage investments on their behalf, so we can replicate this model on the debt side.

We have three established origination and loan asset management hubs, in Germany, France and the UK. We can source loans directly, without the need to participate in facilities structured by banks. It means third-party investors that do not have the capability or local presence to write loans themselves can access our lending deals.

Because we have diversified our product range, we can talk to a wider profile of like-minded investors. Our circa €2 billion annual lending volume is typically split two-thirds long-term, predominantly fixed-rate loans, with the remainder in short-term, floating rate product with enhanced returns.

Q How is the role of insurance company lenders changing in Europe?

A There are two types of insurance lenders. There are those like Allianz that can originate their own investment portfolios. Then there are insurance companies that are pursuing investments by allocating capital to debt funds, in which loans are primarily sourced by banks or debt funds themselves.

The share of the European real estate lending market that is ultimately taken by insurance companies and pension funds is constantly growing. A decade ago, it was almost non-existent in Europe. Today, my guess is the share of the market attributable to insurers and pension funds – either directly or via debt funds – is as much as 25 percent.

Also, loans underwritten by banks are flowing into the books of insurance companies through secondary syndication. That activity is not particularly traceable, but the traditional exit channel for large bank underwritings – which used to be banks only – has diversified.

Q How can insurers meet investors' return expectations as returns compress?

A Real estate values are high and returns on the standard core debt programme, especially in markets like Germany, are low or moderate. That is why having unconstrained origination capability across Europe is important. The answer to this, again, is diversification. That can mean diversification even within a prime, core lending strategy, by introducing an element of financing for refurbishment or development into a portfolio.

In our equity business, we pursue manage-to-core and build-to-core opportunities, which allow us to generate higher returns. The answer for an insurer like us is not to turn to secondary assets or locations, but rather to remain focused on the best product in the market and leverage the ability to fully underwrite loans and allocate among a variety of investors.

It is important to recognise that the definition of prime has changed. It used to mean only inner-city, traditional central business district property. It has changed because end users' needs have changed. Prime really means the asset's location is appropriate for the asset type. For example, retail assets should be dominant in their catchment area and in their appeal to customers. In the office space, there are campus developments in Europe, outside traditional CBDs, that are addressing users' needs, such as the environmental impact of the building.

Q Why did you choose to open a London office in 2019?

A London is, and always will be, a global gateway city. A lot of our sponsors and investors run their pan-European strategies from London, and we strongly believe that will be the case beyond Brexit. We have invested in the UK market on the equity side of the business, particularly in logistics and student housing. As we grow our debt assets under management in the UK, it makes sense to have a local presence.

Q How do alternative lenders find opportunities in the competitive German market?

A Germany is arguably more competitive than other core European markets, with lower returns. But what is true for the overall European market is true for Germany – you need to be able to source transactions directly, without constraints. We have done loans in Germany, but we are not bound to Germany. If we believe a transaction there does not provide a suitable risk-return profile, we will simply go somewhere else. We would not sacrifice returns and the quality of our loans just to be in Germany. ■