

## Europe Debt roundtable 2025

## R O U N D T A B L E

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Facing up to competition  
and uncertainty*Geopolitical chaos overshadows the discussion around the outlook  
for private real estate debt markets in Europe. **Stuart Watson** reports*

**T**his year, the participants in *PERE*'s European debt roundtable meet on the morning of a date that seems likely to become famous – or infamous – as Donald Trump's tariff-trumpeting 'Liberation Day.'

But prior to the market meltdowns triggered by the US president's proclamation, the mood among the four real estate debt fund managers gathered in LaSalle's West End office was calm, with only the merest hint of foreboding. The discussion kicked off with an analysis of the market environment for private real estate lenders in Europe relative to other regions, particularly the US.

Notably, competition has increased of late in Europe, reports Shaun Connery, head of European debt at Affinius Capital. "There is a lot of dry powder available in the debt market, waiting for acquisition volumes to increase," he says. "There is also more back leverage available and insurance capital being deployed, so spreads are tightening. That said, tariff-induced market turmoil may end up reducing liquidity and result in a

more conservative approach to leverage and covenant levels for some market participants."

The market uncertainty caused by the introduction of protectionist measures could begin to divert capital flows toward Europe, he suggests. "It will be interesting to see if that filters through to the real estate market. We've certainly had more inquiries coming through, particularly for the logistics space in continental Europe, since there have been tariff discussions. And as the equity market moves the debt market will follow."

David Mortimer, co-head of real estate debt at ICG, agrees that some areas of the market have become more competitive. "European banks are back in a big way compared with where they were 12 months ago," he says. "We are seeing the effect of that in both margin compression for prime vanilla loans, and in slightly higher LTVs."

Many banks' real estate lending books have been in decline for several years, but that is now beginning to reverse as they seek to maintain their allocations to the sector, he explains. That is driving down loan pricing as

traditional lenders compete to secure the relatively limited volume of situations that fit their regulatory and risk appetite criteria.

**Fragmented market**

However, in a bifurcated market, the range of lending solutions available to borrowers whose business plans do not fit the requirements of bank capital or back-levered capital remains limited. Mortimer contrasts that situation with the US, where there are more diverse sources of debt capital available, including a much larger CMBS market.

Research by LaSalle into the total stock of outstanding debt secured by real estate in each region shows that the EU remains a bank-dominated market, in which traditional lenders account for 84 percent of real estate lending, compared with just over 40 percent in the US, as of the end of 2023. David White, the firm's head of real estate debt strategies for Europe, describes the market as "fragmented – there are pockets of heavy competition, and then there are areas where we are seeing a total lack of liquidity." That fragmentation is also observable at the asset level, he adds,



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### Adam Baghdadi

**Head of lending solutions,  
Arrow Global**

Baghdadi is a managing director in the Arrow central investment team focused on lending. The firm services around €110 billion in real estate credit assets across Western Europe, with offices in eight countries. It also manages approximately €10 billion of capital through its fund management business, which is focused on real estate lending, credit and equity strategies.

### David White

**Head of real estate debt  
strategies, Europe,  
LaSalle**

White joined the global real estate investment manager LaSalle in 2021 to oversee its European real estate debt strategies. The firm's European debt business spans senior secured, development finance, whole loans, levered whole loans, mezzanine and preferred equity positions across Western European markets. It manages around \$80 billion across debt and equity strategies globally.

### Shaun Connery

**Managing director,  
head of European debt,  
Affinius Capital**

Connery is head of European debt at Affinius Capital, the recently rebranded, integrated businesses of USAA Real Estate and Square Mile Capital. The firm, which manages \$64 billion in gross AUM, has been active in European equity markets for 11 years, and is in the process of launching a new European debt platform with a strategy focused on development lending and transitional credit.

### David Mortimer

**Co-head of real estate debt,  
ICG**

Mortimer is co-head of real estate debt at ICG. He joined the global alternative asset manager in 2016. FTSE 100-listed firm ICG manages around \$107 billion of assets overall, including around \$12 billion in its pan-European real estate debt and equity strategies, which focus on whole loan lending, construction finance and logistics investments in Western European markets.



*“Prices tend not to stabilize during trade wars”*

**ADAM BAGHDADI**  
Arrow Global

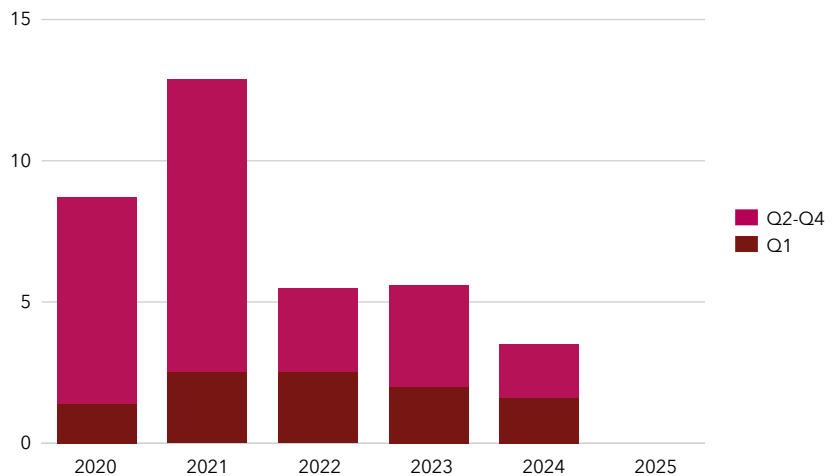
with some deals offering striking upside potential, while others look fundamentally mispriced.

The divergence between US and European markets is attributable to the different role played by banks, argues Adam Baghdadi, head of lending solutions at Arrow Global. In the US, the

supply of bank capital in real estate remains generally steady and is supported by capital markets through CMBS. Whereas in Europe bank liquidity for real estate lending is much more variable.

“Banks are the drivers of fundamental lending liquidity through the cycle.

Capital commitments to European real estate credit funds totaled only \$3.4bn in 2024, with no funds closed in Q1 2025 (\$bn)



Source: PERE

What they decide to do determines the bulk of market outcomes,” he says. Consequently, alternative lenders typically fill the territory in which banks are unwilling to operate. Meanwhile, because the amount of cross-border lending remains low, with banks usually lending against assets within their own jurisdictions, there are significant national variations. “Risk appetite and lending outcomes are very locally driven. That determines the flavor of deals country-by-country and the asset classes we lend against.”

Owing to local variation in Europe, the panelists agree that having boots on the ground in the countries where they want to operate is essential to sourcing good transactions; having a network of offices in place to support equity investing operations provides a solid foundation for expanding into credit markets.

### Capital scarcity

Conditions for capital formation have proved challenging for European debt fund managers in recent quarters. *PERE* data shows only \$3.44 billion

was raised for European real estate credit strategies in 2024, with no funds closed in Q1 2025, only co-investments and joint ventures. “From an alternative lending perspective, there is less capital in the market than people think there is,” suggests White.

Mortimer picks up the theme: “Fundraising has been challenging the last two years for real estate debt and equity, and the industry numbers evidence that.” However, he maintains there is some cause for optimism: “The fundraising environment is certainly improving, but we’re talking about green shoots from a low baseline.”

While there is some capital in separate accounts waiting to be deployed, Mortimer believes there is a relatively limited supply of liquidity in debt funds, which could run out as capital is invested and not replenished. “For those that have already raised capital to deploy, that might mean a more interesting deal pipeline.”

Most of the capital raised for lending strategies is targeting returns in the low teens, which is “everyone’s favorite spot

*“From an alternative lending perspective, there is less capital in the market than people think there is”*

**DAVID WHITE**  
LaSalle



*“The effect of tariffs will be negative, but to balance that, the removal of the German debt brake is positive”*

**SHAUN CONNERY**  
Affinius Capital

to operate,” adds Baghdadi. Meanwhile, there is a lack of capital willing to lend in the high-single-digit space. “As you go up the risk-reward curve you start to find there is money out there.”

The corporate direct lending market is growing fast, and with increased competition in that segment, many LPs are beginning to look at other forms of private credit including real estate, which could lead to a little more confidence and liquidity returning to the fundraising market, says Mortimer.

“After a tough couple of years there are more investors beginning to look at the sector as an established asset class,” he observes. “It can fill a gap in their portfolios that they might have otherwise filled with a core-plus real estate fund, for which performance has been pretty subdued recently.”

### Deal pipeline

Muted investment activity has restricted the volume of loan originations over the past two years. The acquisition financing element of LaSalle’s loan pipeline, which typically accounts for 40-50

percent, fell to just 10 percent in that period, says White. However, there are signs of recovery, with the proportion of acquisition loans reaching 15-25 percent for the firm in Q1 2025.

“That gives us comfort that we’re starting to see some sort of price discovery. We believe we will start to see transaction volume pick up, with lenders getting a little bit more confident on scenarios where they have been holding their breath for the last two years,” he says.

Connery is also guardedly optimistic: “There are probably more deal-specific discussions going on than I can remember for the last several years, which is positive, but we are still waiting for that volume to come through.”

Affinius is in the process of building out its European real estate lending platform, but Connery says the decision to enter the lending market was not triggered by cyclical considerations. “We are not trying to pick a point in the market. This is strategic growth. We have done \$50 billion of originations in the US over the last 11





## Wave of distress fails to materialize – again

### European lenders are primarily still content to extend and pretend, say participants

“Last year and into 2025 we didn’t see the volume of distressed opportunities that we might have expected given the correction in real estate values across most sectors, but particularly in offices,” notes ICG’s David Mortimer.

The other participants concur. While real estate values have reset and high interest rates persist, the anticipated wave of distressed situations has failed to eventuate. European banks are not offloading large volumes of bad debt to non-performing loan specialists. LaSalle’s David White says most of the opportunities he has witnessed are more likely to involve an equity owner seeking to consolidate their debt and equity position, or a “discreet step-in” from a bank that sees the asset handed over to a receiver for disposal.

Adam Baghdadi says Arrow Global has seen two main categories of distressed situation. The first is ‘zombie’ situations, where loans have been extended repeatedly until interest rates have risen to the point where the lender is finally forced to act. The second is assets that cannot achieve the required interest coverage ratios for conventional bank debt – either because of a shortfall in occupancy, or because they are so low-yielding – and need a special tailored solution, often for the short term until the asset has been stabilized.

Why have there been so few distressed opportunities? “The same reason we haven’t seen the volume of day-to-day refinancing. We are seeing things get kicked down the road,” argues Mortimer. So long as interest is being paid, lenders are still content to push the day of reckoning further out for non-performing borrowers, rather than go through a long and painful foreclosure process that will crystalize losses.

or 12 years. We are keen to establish a brand in Europe, building on our US relationships.”

Meanwhile, in construction financing, where Arrow Global is an established provider, Baghdadi notes that borrowers have been slow to complete deals over the past two years. However, the last quarter of 2024 saw a sudden surge of deals in a concentrated period. “A lot of borrowers realized that rates aren’t about to fall sharply and construction costs are rising, so they could lose more money by waiting, and they decided to get on with it and build.”

That momentum has carried over into 2025, he says, although the geographic focus of most transactions has

shifted from the UK and Ireland to southern Europe.

While Mortimer expects acquisition activity to be “somewhat better” this year, he believes it will still be constrained by ongoing price discovery in some sectors and by geopolitical challenges. Meanwhile, the volume of refinancings has not been as great as expected, he adds. “Lots of loans that had short-term extensions in 2022 and 2023 were expected to come to the market for refinancing last year, and we didn’t really see that.”

Unless the assets can be sold, those deferred refinancings will eventually have to happen, potentially bolstering deal volumes, he suggests.

### Geopolitical turmoil

The conversation returns to the geopolitical and macroeconomic turmoil currently unsettling investors around the world. Is it possible to gauge its likely impact on European private debt markets?

The participants speculate that the necessity for European nations to pull together in the face of Russian aggression on one flank and US isolationism on the other could turn out to be a catalyst for investment as governments seek to rearm and shore up supply chain resilience.

“The effect of tariffs will be negative, but to balance that, the removal of the German debt brake is positive,” says Connery. “Companies are more bullish about increased investment in Germany, so there is more equity demand coming through into the industrial and distribution space. And with more developments kicking off, there will be a need for more development financing.”

Inconsistent policy makes it difficult to price equity and invest thematically because of uncertainty around the costs of doing business. That is problematic for equity investment, but debt capital, because of its position lower in the capital structure, is insulated against a downturn, suggests White. “Put simply, if a borrower thinks a building is worth 100 and I think it’s worth 80, I can still lend at 60. Even when equity is underperforming, the debt story still performs,” he says.

The content of news headlines today should not have too much sway over managers making medium- or long-term investment decisions, argues Mortimer. “Obviously we are speaking in the shadow of an announcement on tariffs, but the situation is volatile, and while there is no doubt an increased level of uncertainty, it may be that in a few months this has largely settled down.”

In any case, ICG remains vigilant and focused on sectors with long-term structural tailwinds, he says.

Local political decisions often have a

greater direct impact on real estate investment than geopolitical trends, suggests Baghdadi. He cites the example of the 'Gateway' building safety approvals process in the UK, which he says is holding up permissions for major residential development.

Nevertheless, tariffs may impact interest rates by causing supply bottlenecks that drive up inflation, prompting central banks to slow the rate of interest rate cuts. Conversely, rate-setters could decide to cut borrowing costs more sharply to alleviate the danger of a trade war triggering a deep recession.

There is a consensus that the trajectory of interest rates will be downward, but beyond that, seeking to predict their movement is a fool's errand, says

White. "And that shouldn't drive your investment thesis anyway, particularly in credit."

A few months ago, the market was expecting steeper and faster rates cuts than it is today. "There are plenty of reasons to suggest that if we try to predict interest rate movements, we will be dovishly wrong again, because that keeps happening," says Baghdadi. "Prices tend not to stabilize during trade wars."

While equity investors will be more impacted by higher-for-longer rates than credit vehicles, borrowers that have bought wisely should still be able to generate positive returns, argues Connery. "If they took out debt at a low rate and they own good assets, they

will still have seen compounded rental growth over the last several years, even if they are not going to have the capital appreciation windfall on top."

### Loan pricing

Like the market in general, the picture on loan pricing is patchy. It is easier to price senior debt than higher-risk or subordinated debt, notes Mortimer. Increased competition in that segment of the market has driven down pricing for the best assets in preferred sectors at LTVs of 55-60 percent to between 150 and 175 basis points over the reference rate, he says. "Over the last 12-24 months, margins are probably down 25-50 basis points, and LTVs are potentially two to five percentage points higher."

However, the participants agree that pricing for stretched senior debt, whole loans, back-levered loans, mezzanine and preferred equity is much more variable. White says he has seen mezzanine debt priced at anything between 6 percent and 15 percent on an IRR basis depending on the deal. "If a borrower is having to go out and find a pretty chunky senior loan and a very thin slice of mezzanine to complete their capital structure, the lender will get higher pricing on the mezz, but they will be sitting at a different risk point from simply a structural perspective."

Continued uncertainty in a high-interest-rate environment means borrowers are willing to pay for stopgap solutions that will help overcome urgent problems in their capital structures, says Baghdadi. "We do a lot of short-term bridge loans, and we can price those at a point a month and a 1 percent fee for loans at 60-65 percent LTV. A high-turnover bridging book can make low-teens returns, so there really isn't one price across the whole market."

Debt fund lenders can generate value by assisting borrowers to address the issues in their capital structures, suggests Connery. "Competitive deals are not so exciting, but finding where you can work in partnership with your

## Back leverage helps European debt funds stay competitive

### Loan-on-loan funding has become more widespread in Europe, but is still not universally accepted

As bank capital returns to the European market in greater volumes, the increase in liquidity is causing loan spreads to tighten, and debt providers are increasingly utilizing back leverage to stay competitive on pricing, says Affinius's Shaun Connery. "For straightforward deals having quality back leverage could be the determining factor in who wins the bid," he says. "Being able to secure that really pushes the returns up for debt funds."

Back leverage is available in European real estate credit markets, but large-scale international managers find it easier to access than smaller firms, he adds. "Having a global platform and established relationships with lenders is important to get the best back leverage pricing."

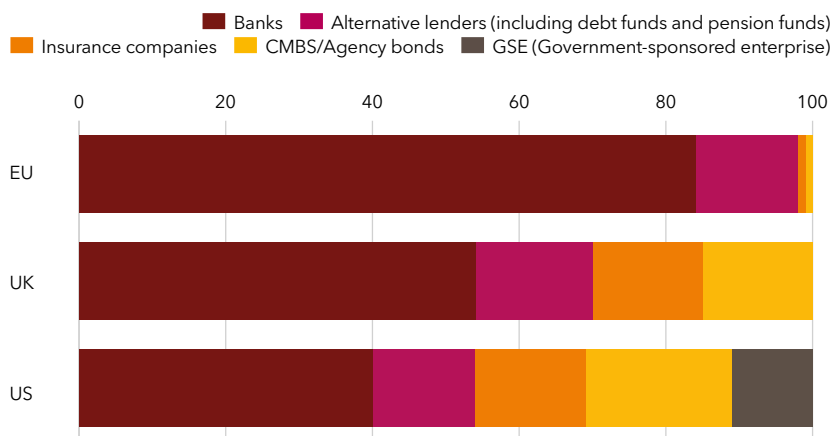
The cost of putting such arrangements in place is higher than some debt fund managers may imagine, says LaSalle's David White. "Even to put a single loan-on-loan structure in place can be very expensive, let alone a repo line. Because you become the borrower, you have to indemnify costs on the whole structure. It can help you achieve a very attractive risk-adjusted return, but to justify the cost you need to be able to do it at scale."

Most of the participants utilize back lending to some degree. However, they often do so on a loan-on-loan basis rather than leveraging at the fund level. "We have used back leverage for managed accounts rather than in commingled fund structures," says ICG's David Mortimer. "In the US, it is very difficult to find an unlevered manager, whereas in Europe it is still reasonably common. A lot of European LPs, either for regulatory or risk appetite reasons, have a strong preference for unlevered strategies."





Banks hold 84% of the total stock of outstanding debt secured by real estate in the EU, as of the end of 2023, whereas sources of debt capital in the US are much more diverse (%)



Source: LaSalle research/combined sources

equity to solve a piece of the structure where pricing is not so sensitive is key to finding attractive opportunities in this market.”

Because of the continent’s multiple legal systems, banking markets and national dynamics, complexity is baked into European real estate debt markets. That complexity will inevitably

be compounded by an overlay of macroeconomic uncertainty in the coming months. While credit is less vulnerable than equity to market vicissitudes, selecting the niches for capital deployment that offer attractive risk-adjusted returns for investors will require debt fund managers to utilize every advantage at their disposal. ■

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**DAVID MORTIMER**  
ICG