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# 'Importance of Private Equity'…

**Dear Reader**

**Almost two years on from ' Lehman's Day' and it appears that the real estate debt market is no clearer on its future. Bank institutions have spent this period analysing their debt books with the intention of gaining clarity on the 'fault lines', now they need to take decisive action!**

**The general consensus is that the autumn will start to see more assets coming to the market. Driving this de-leveraging will be the obvious loans subject to maturity in addition to the desire to exit loan positions that were made at the wrong time, many on a far too aggressive basis; plus concerns over planned changes to the financial environment requiring banks to set aside more capital. RBS recently announced its plans to start selling £194bn of non core funded assets, of which 26% is represented by commercial property. This announcement is widely rumoured to be the catalyst that will bring other lenders to the same position.**

**One of the greatest casualties of these changes will be a continued scarcity of development finance in the residential sector. The irony of these circumstances is not going without comment…….just at the time when the best opportunities are forced to the market, the financial muscle required to realise them appears absent.**

**Certainly market indicators would suggest that demand for prime residential stock is stronger than ever so it is no surprise that developers are looking to alternative sources of funding to fill the gap left by their banking partners.**

**There is an emergence of 'Debt Funds' being talked about, however at present not much data to their success. Perhaps more interesting is the appearance of well capitalised private equity groups. When you consider, as I heard from a private client only this week, that a cash deposit of £2.5 million is only earning its investor £100.00 pa. In comparison the right development scheme, in a prime London location, managed by an experienced developer is realistically capable of achieving returns of 20-30% IRR.**

**As the debt market becomes more challenging, traditional business models are having to change, so too are we, looking to more innovative solutions through which to assist our clients. Private Equity is still yet to find its natural balance, but we believe that it will play an ever increasing pinnacle role. Due to the culmination of 'mixed messages' in the market, where a limited supply of the right stock is forcing artificially high prices, an uncertain environment will take some time to settle. The opportunities in a credit starved market are without question, however the key will be in the considered analysis and your access to deal flow ahead of the competition!**

**Wayne Coleman**