GWM on raising €1bn for debt and special situations funds

Q+A: GWM on raising €1bn for debt and special situations funds

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Managing partner Matteo Cidonio talks to React News about opportunities in a troubled market

Matteo Cidonio, managing partner at GWM

London-based asset manager GWM Group is getting ready to turn a difficult market into an opportunity. Amid the increasing costs of financing and banks retreating from the market, debt funds are seeing their chance across Europe.

In May GWM recruited Guillaume Soule as head of real estate debt origination from Blackrock. Now it is fundraising to reach €500m for the debt fund Credo – Commercial Real Estate Debt Opportunities. In the meantime they are targeting a similar size for the fund RESS 3 (special situations three).

In an interview with *React News*, GWM managing partner Matteo Cidonio said: "Our strategy is to pursue the more conservative lending opportunities through Credo, while the more complex ones may be suitable for the special situation funds, which will initially focus on mezzanine financing or pref equity or some sort of hybrid capital."

After selling the servicer Aurora Recovery Capital (Arec) to Illimity Bank earlier this year, GWM has €2.5bn of assets under management among five funds and specialises in alternative investments in Europe, with offices in London, Luxembourg, Malta, Rome and Milan.

Which of GWM's funds are currently active?

We currently invest in three strategies in the real estate sector, in which we manage (including co-investments and separate accounts) circa €2bn.

A core-plus strategy keeps on investing through a long dated evergreen fund for which we target Western Europe, including the UK.

A special situation strategy – implemented through a series of closed-end funds (currently IRESS 2) – invests in distressed secured credit and market dislocated opportunities. The next fund's focus (RESS 3) will be investing across Western Europe (including the UK), still with about 50% focus on where we maintain a large interest.

A senior secured real estate credit strategy, invested through an evergreen fund (Credo – Commercial Real Estate Debt Opportunities), deploys capital on a pan-European basis.

> *"We expect to see a larger amount of opportunities for the credit fund (Credo), driven by reduced activity by traditional lenders"*

We expect 2023 to offer very good investment opportunities for all three strategies. Given the potential outcome from Covid and the incoming recession and higher interest rate environment, we expect to see a larger amount of opportunities for the credit fund (Credo), driven by reduced activity by traditional lenders, as well as the special situation fund (IRESS 2 and RESS 3), given the refinancing needs that the sector will have in 2023 and the distressed opportunities that may ensue from the recession and the Covid slowdown.

Are you currently raising capitals for these funds?

We are preparing to raise capital for the real estate strategies in 2023. The special situations fund is a closed-end fund, so we're not currently raising capital for this fund. We will start raising for the next special situations fund (RESS 3) towards the second half of 2023.

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We will also restart capital raising for the credit fund (Credo) which is an evergreen fund. We had a first close at the end of last year. We've now deployed the capital and are seeing many opportunities and we will most likely start fundraising again actively at the beginning of 2023.

What are the expectations of fundraising for the two fund?

IRESS 2 (special situations fund two) had €513m commitments. We are targeting a similar size for RESS 3 (special situations three) and a similar size for Credo. About €500m each. We believe this is a perfect fund size for us as we seek to invest in relatively smaller transactions (ideally €30m-60m), where we see the best risk-adjusted opportunities.

In May GWM recruited Guillaume Soule as head of real estate debt origination

So do you can expect next year to raise about €1bn in total among the two of them?

We are starting the new fundraisings next year; we expect to have first closings towards the end of the year. I expect the fundraising to take more than next year. If we start fundraising the special situations at the end of the year, we will most likely have a final close towards the end of 2024.

Similarly, for the credit fund it's going to be 2023 onwards. We have a medium-term objective of getting the commercial real estate credit fund to the half a billion mark.

What are the typical investments for Credo?

Credo's investment strategy is focused on issuing new loans to borrowers mostly as acquisition financing but also refinancing, with a target leverage of 60-65% loan to value, on stabilised or transitional/value add assets. We like to lend to good-quality real estate properties, which need some asset management.

> *"We are targeting assets which have low appeal to the banking market because of the value-add nature of the assets, and for loan sizes smaller than the ones typically appealing to the global credit funds"*

We are targeting assets which have low appeal to the banking market because of the value-add nature of the assets, and for loan sizes smaller than the ones typically appealing to the global credit funds, below the €100m loan size. We can do bigger loans, and we can do smaller loans, depending on the borrower and on jurisdiction.

With the retreating of the banks from the market, is this potentially a good moment for alternative lenders?

It had been a good moment for the past few years. Clearly this current economic slowdown has increased the pressure on capital for traditional banks from central banks. This is an opportunity for credit funds in all sectors and clearly in real estate.

We expect next year and the following to be big in terms of refinancing needs. If we look at the volumes that traded in 2018, 2019, most of the real estate loans had a five-year duration and will come to maturity shortly.

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We expect those loans to be refinanced between 2023 and 2024. Hence there will be a great need of capital, which will not entirely be fulfilled by the banks. Our strategy is to pursue the more conservative lending opportunities through Credo, while the more complex ones may be suitable for the special situation funds, which will initially focus on mezzanine financing or pref equity or some sort of hybrid capital. We target to provide capital to credible sponsors to help them navigate choppy markets.

And what are your expectations in terms of distress?

I think we're going to be facing a very different situation compared to that of the global financial crisis. There's a lot less leverage in the system.

> *"There will be quite a large amount of loans in distress, but investment opportunities are going to be more selective and there are probably not going to be the jumbo portfolio deals that we've seen in the past"*

There's going to be less debt available from the banks, but we don't expect the massive number of defaults and NPLs that were generated with the global financial crisis. The banking system across Europe has organised itself fairly well in terms of internal teams, procedures and knowledge on how to manage Stage 2 loans, unlikely-to-pay loans, and NPLs. There's a lot more knowledge, a lot more awareness within the system.

We still believe there will be quite a large amount of loans in distress, but investment opportunities are going to be more selective and there are probably not going to be the jumbo portfolio deals that we've seen in the past.

What are your short-term expectations for the end of this year and early next year?

We are seeing some refinancing opportunities that may need commitment by year end. Most borrowers in need of refinancing given the market volatility are seeking extensions, and lenders seem inclined to provide six to 12 months grace periods to allow their borrowers to get into the better part of next year and have more options in terms of refinancing or asset sales.

So we think there's going to be some loan extensions at the end of this year, but we believe this is going to increase demand for 2023. Prices have already started coming down a little bit in most jurisdictions. Investors are waiting to see where interest rates are going and where the fundamentals on the different asset classes will end be. Interest rates increases and glooming recession are going to be impacting all real estate asset classes, but at different levels.