

A Vision for Real Estate Finance in the UK

Recommendations for reducing the risk of damage to the financial system from the next commercial real estate market crash.

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Why is commercial real estate lending so important?

- CRE is a substantial contributor to economic growth
- CRE lending has a history of contributing to bank stress
- It will happen again, unless we stop it!

A Vision for Real Estate Finance in the UK

- Background – industry initiative
- Real Estate Finance Group constitution and membership

Recommendations

Three themes:

- Information, Analysis & Expertise
- Incentives
- A market structured for stability

Key Recommendations

Information, Analysis & Expertise

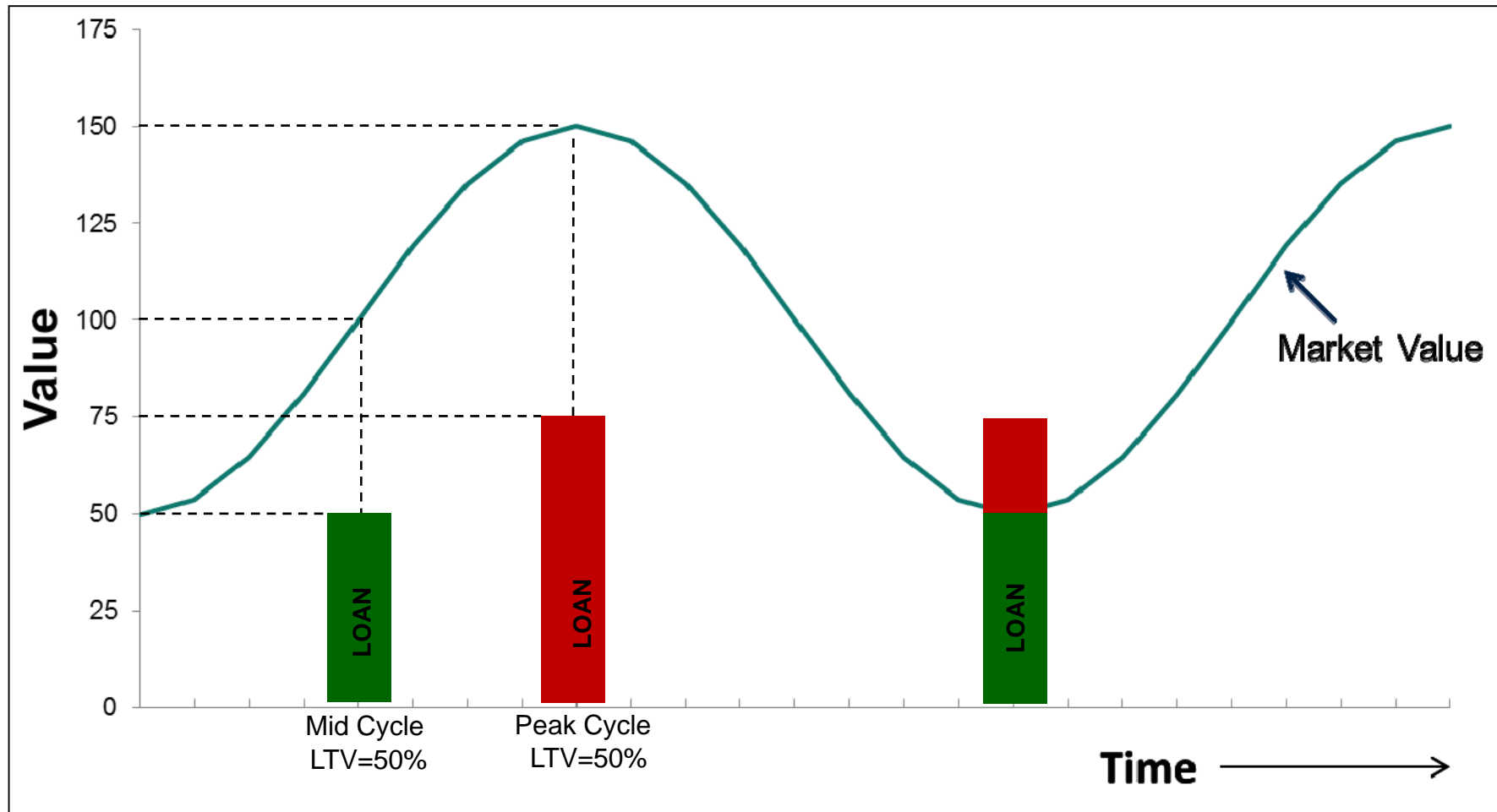
- CRE Loan Database
- Expertise and insight for the regulator
- CRE finance qualifications

Key Recommendations

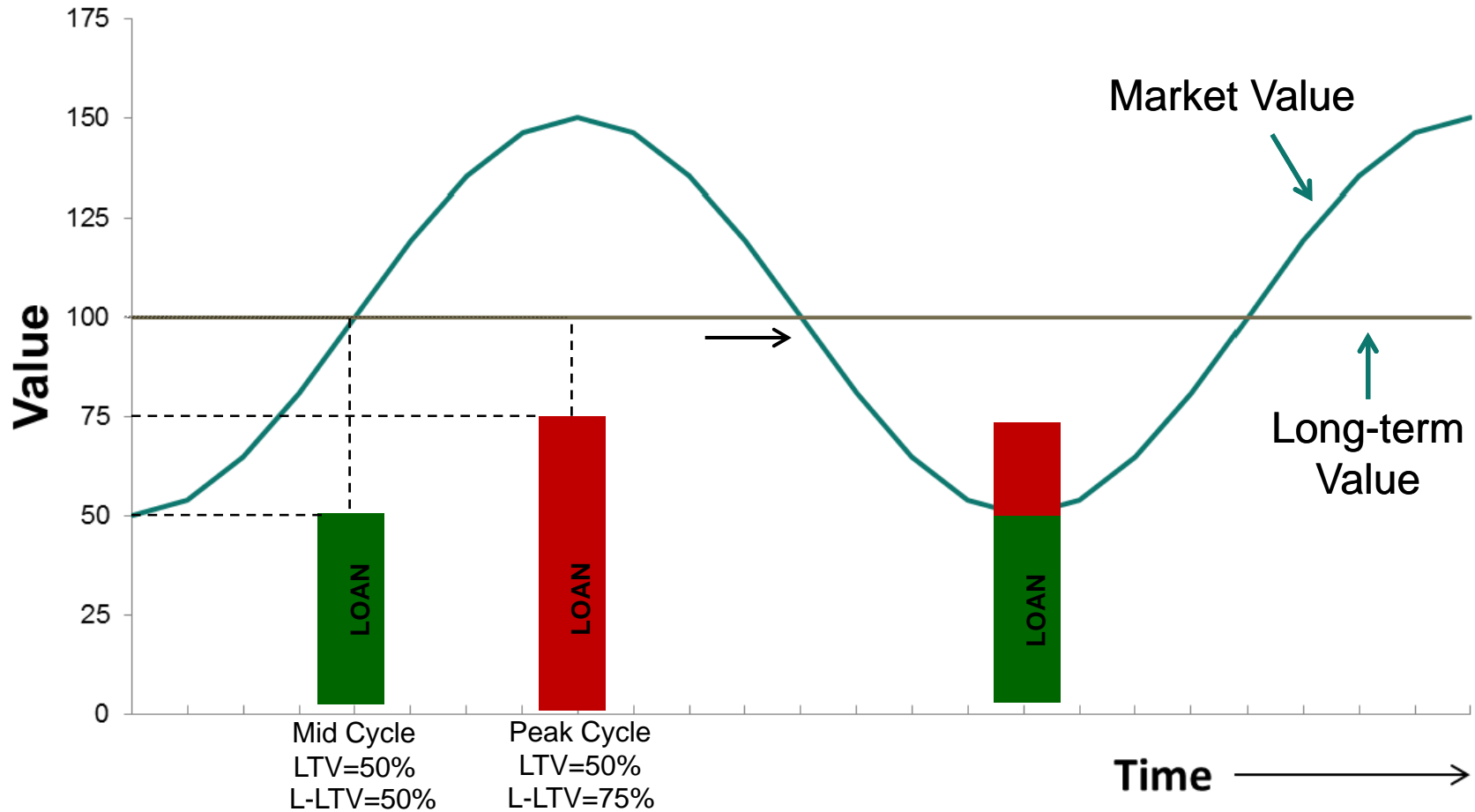
Incentives

- Use of long-term value measures for risk management

The Market Cycle and Loan to Value

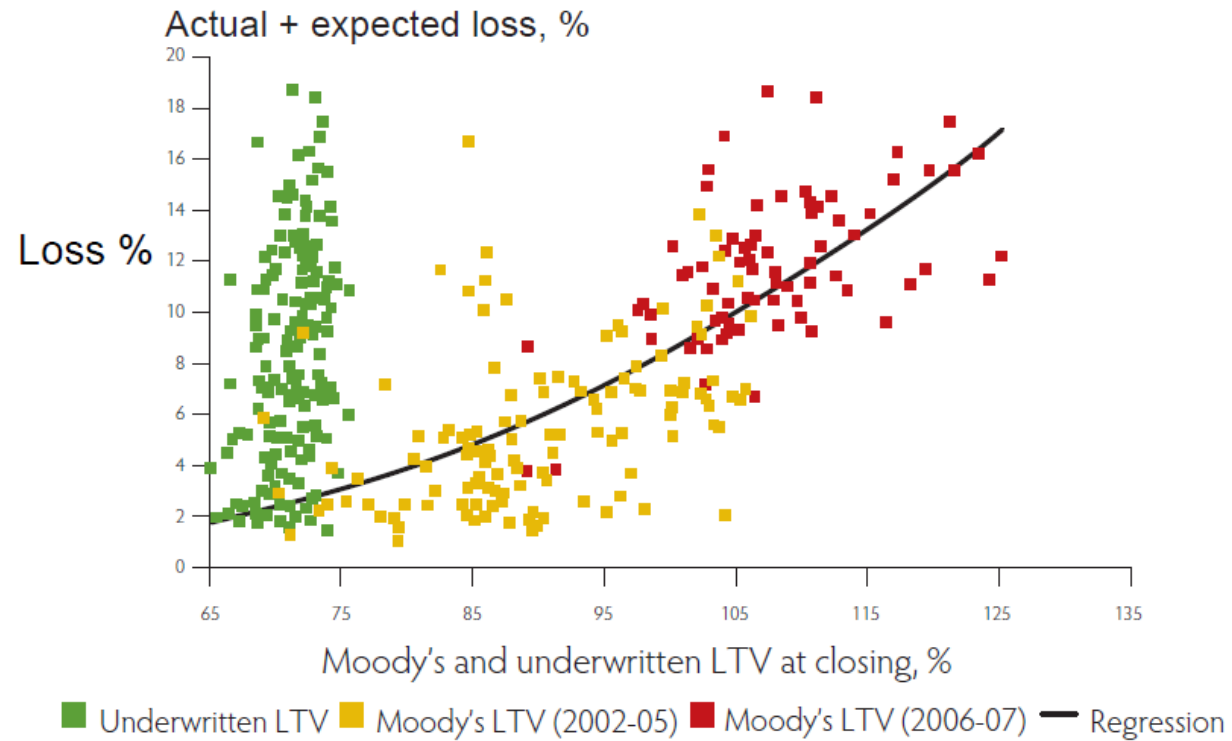


Loan to Long-Term Value



Long-term value as a risk metric

Performance of US CMBS loans measured by LTV



Source: Moody's Investors Service, Inc., 'MLTV Flagged Growing Risk in Peak Vintage Deals' Exhibit 1 from Moody's Special Comment: US CMBS: New Database shows that Moody's loan level credit metrics effectively differentiate default risk.

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This graph is taken from 'A Vision for Real Estate Finance in the UK: Recommendations for reducing the risk of damage to the financial system from the next commercial real estate market crash'. This report by a cross-industry real estate finance was sponsored and published by the Investment Property Forum in May 2014

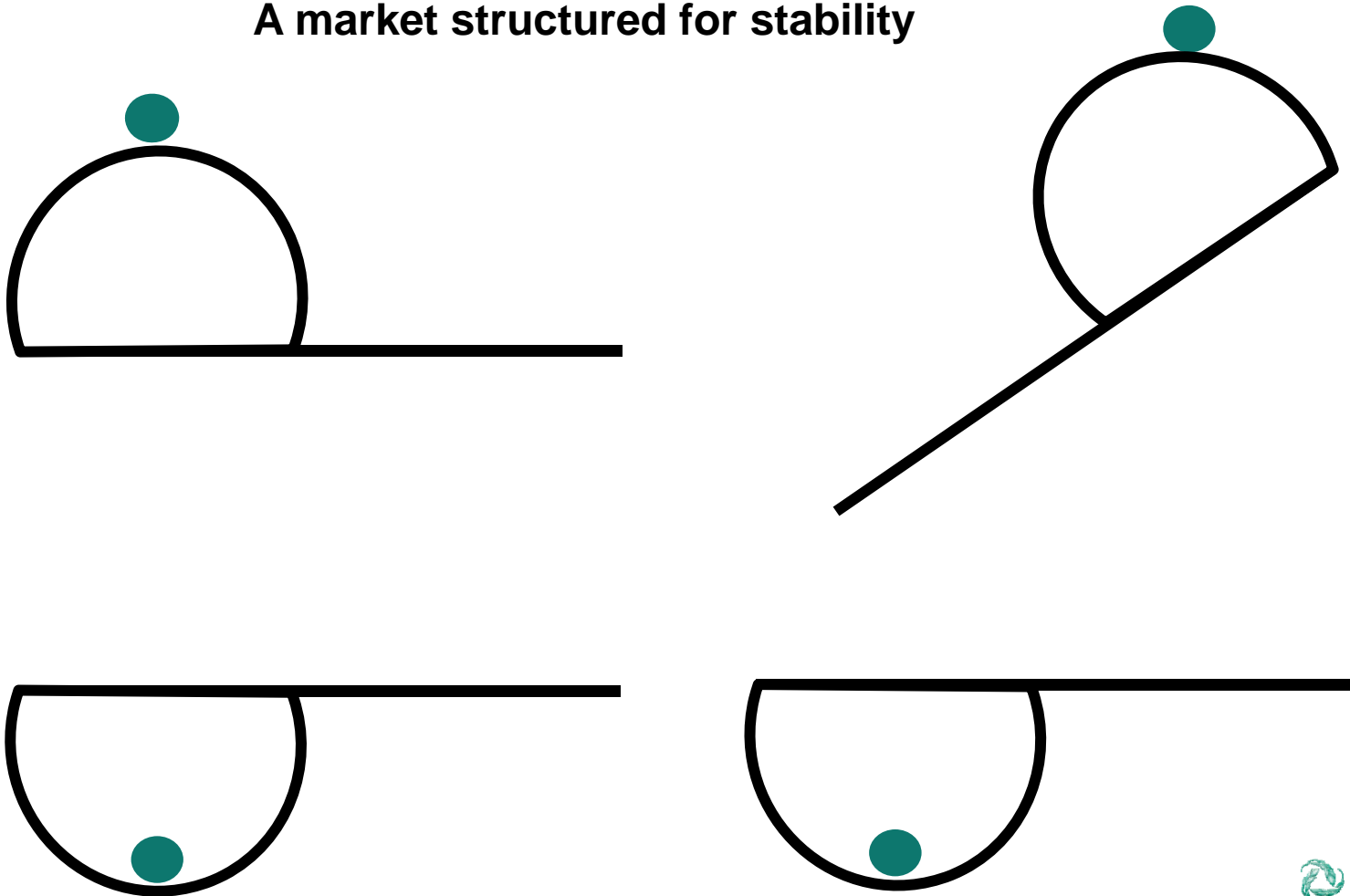
Key Recommendations

Incentives

- Use of long-term value measures for risk management
- Better risk differentiation in regulatory capital requirements

Key Recommendations

A market structured for stability



Key Recommendations

A market structured for stability

- Regulatory governors, not switches, operating consistently across the cycle
- Encouraging diversity

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