Delancey finances office acquisition in latest London debt deal

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News & Analysis

The firm's head of real estate debt strategies sees more opportunities for non-bank lenders.

Daniel Cunningham -

The lending arm of UK real estate asset manager Delancey has found opportunities to deploy capital in Central London's office market in recent weeks. Earlier this month, it provided the mezzanine component of a £235 million (€278 million) refinancing of 280 Bishopsgate in the City of London.

In its latest debt deal, the firm has provided financing for the acquisition of a 42,000 square foot office asset in the Farringdon area of the UK capital, 2 Hosier Lane.

Delancey provided a two-year, bridge-type whole loan of £15.7 million to ZCS 2 – a vehicle led by Zero Carbon Space, a development platform that aims to acquire and retrofit existing environmentally poor office buildings. The platform is a joint venture between two London-based investor-developers – NorthStar Capital and LandCap.

According to a City of London investment market report issued by property consultant Savills in April, the freehold interest in 2 Hosier Lane was sold by Hong Kong manager Park Capital in March for £22 million, which would put the loan-to-value of Delancey's facility at around 70 percent.

Savills said the building, which was developed in 2000, is single let to law firm Travers Smith at a passing rent of £1.9 million per year, until November 2025. Travers Smith is due to relocate to Ivanhoe Cambridge's Stonecutter Court development in London, meaning there is potential to reposition 2 Hosier Lane, which is close to Farringdon Station and the under-development site of the new Museum of London.

Delancey has lent to Zero Carbon Space previously. In January, it provided it with £19.5 million loan for three years to fund the acquisition of a mixed-use asset at 105 Jermyn Street in London's West End.

Poles apart

In a statement, Martin Kom, director of real estate strategies at Delancey, said the firm continues to have "high conviction" in central London offices. "The polarisation taking place within the office market is causing many lenders to withdraw entirely, creating an opening for us to step in."

Delancey entered the UK real estate lending market in 2021, and has since lent through its Delancey Credit Investment Fund, including in the 2 Hosier Lane deal.

Speaking to *Real Estate Capital Europe*, Martin Farinola, Delancey's head of real estate debt strategies, said the shortage of high-quality office assets in London means the sector has appeal to Delancey as a lender. He added that the geographical spread of the city's office sector has expanded. "Because there is a shortage of stock, occupiers will move to places like Shoreditch, Southwark, King's Cross. They are gravitating towards the better buildings, for sure."

The competition for office financing deals has changed, he added. "Some of the traditional bank lenders have either stayed away from the product or are lending less. So, that has lent itself to mezzanine, or whole loans from alternative lenders like us."

Farringdon's 2 Hosier Lane was previously financed by a bank, and Farinola said the asset would have been "typical bank product" until the reduction in market liquidity, brought on by interest rate rises in the past two years. "The change in the market has enabled us to enter into some of these debt deals on a basis that's very comfortable for us, in terms of leverage per square foot."

In Delancey's previous London office debt deal, it provided around £30 million of mezzanine at an LTV in the high 60s percent, in the refinancing of the 275,000 square foot 280 Bishopsgate. German bank LBBW provided senior debt. The borrowers were CBRE Investment Management and King Street Real Estate, with operating partner Arax Properties.

In a statement at the time, Christina Forrest, EMERA head of value-add funds at CBRE IM, said the firm received an “exceptionally high number of offers for the refinancing from a variety of leading banks and debt funds”. The asset had undergone a comprehensive refurbishment, which completed in 2022.

“Bishopsgate was relatively low geared,” said Farinola. “It’s a great example of what’s happened in the market. Several years ago, that would have been done by one bank, or maybe a whole loan, and not separated into two pieces. Now is not dissimilar to what happened after the global financial crisis; borrowers are looking for certainty and speed of execution.”

While Farinola described 2023’s real estate market as fragile, he sees a stronger pipeline of deals this year. However, sponsors are focused on certainty of execution from potential lenders, he added.

“This market has allowed us to access different property types which would be highly competitive, and priced outside our returns. We’re seeing logistics deals, residential, student accommodation, and, of course, offices. We’re substantially deployed, but our pipeline is strong, and has been throughout this year.”

Farinola believes market sentiment is stronger than in 2023. “I think there’s more of a willingness to transact on both the debt and the equity side, and the overall quality of the deals coming through has improved.”