

# PROPERTYEU

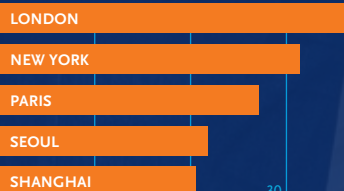
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## CERBERUS 'OUR BIGGEST YEAR YET'

An exclusive interview with the firm  
behind €11.5 bn of deals in 2018

### TOP 5 CITIES

FOR DIRECT COMMERCIAL REAL  
ESTATE INVESTMENT \$ BN 2018



30 40  
SOURCE: JLL, 2019

### FOCUS ON CITIES

Korean capital fans out

### MYSTERY AT THE TOP

What happened to Corestate's CEO?

# Cerberus: 'Our biggest year yet'

The New York-based firm has enjoyed phenomenal success in Europe and just completed its most prolific year yet with over \$13.1 bn (€11.5 bn) of transactions

BY ROBIN MARRIOTT

Undoubtedly, Cerberus Capital Management has enjoyed some huge years in European real estate. Indeed, once current deals have been completed, it will have bought over \$60 bn (€52.2 bn) since 2010. Specifically, its real estate leadership team says 2015 was perhaps the largest in terms of total purchases of residential and commercial performing and non-performing loan (NPL) portfolios, for which it is best known. However, the year just gone by has been even bigger than 2015 when counting both NPLs and 'hard' assets – the latter denoting non-loan, direct asset acquisitions.

In Spain it has consistently hit the headlines over the last 12 months, the biggest deal being with Spanish bank BBVA, a transaction that involved approximately 78,000 assets

with a gross book value of €13 bn and a servicing platform including 400 employees for which it paid around €5 bn. With plans to make available upwards of \$8 bn of dry power for Europe, the company believes it will continue to make significant real estate investments in the region. This makes it a perfect time to understand more of this intriguing firm.

In a rare interview, Lee Millstein, president of Cerberus Global Investments and global head of real estate, Ron Rawald, head of international real estate, and Daniel Dejanovic, head of European real estate, provided Prop-

ertyEU with insights into the company behind the headlines. Just one example is how it thinks about 'working out' the assets it controls – not something usually covered in the press given Cerberus is only ever in the news it seems for buying something (most actively in Spain, Ireland, Germany, and Italy).

Rawald explains: 'It is something that we are really proud of – the fact that over 85% of our resolutions of NPLs are consensual deals with the borrower. We sit down with the borrower and come up with a solution that the borrower and ourselves are happy with.'

Once Cerberus has control of an asset (typically via a portfolio acquired in bulk), the firm rolls up its sleeves and begins the task of managing it. That can be alongside an external partner such as a best-in-class operator and/or the borrower. The workout could result in a borrower buying back the asset, or the borrower might agree to sell the property under Cerberus' direction or hand back the keys.

In recent years, the firm has worked out tens of billions of dollars of European NPL assets. 'We are agnostic about the alternatives,' continues Millstein, 'but what we don't like to do is to have to go through enforcement and foreclosure – it takes time, money and is not a positive experience for anybody.' He adds: 'Part of our success in this market is that we have been incredibly effective in working out deals on a friendly basis with borrowers.'

## LONG HISTORY

Cerberus has been in business for almost 30 years. Having started out in 1992 in US distressed debt, it very quickly ventured into property investing and subsequently added private equity to the mix. In 1998, it expanded into Asia and Japan in particular, where it was

## Key points

**New York-based firm had biggest year in European investing in 2018, counting NPLs and hard assets**

**Plans for upwards of \$8 bn of equity dry powder available for European real estate**

**Building platforms in single-family rentals, green hotels and logistics**



PHOTO: KATJA MALI FOTOGRAFIE  
LEFT TO RIGHT: LEE MILLSTEIN, DANIEL DEJANOVIC AND RON RAWALD



### LEE MILLSTEIN

Lee Millstein is president of Cerberus Global Investments and global head of real estate. Millstein has 26 years of industry experience, including serving as head of corporate and investment banking for Aozora Bank and as managing director at Morgan Stanley. During his more than 10 years at Cerberus, Millstein has also served as head of European and Asian real estate and distressed assets.



### RON RAWALD

Ron Rawald is head of international real estate and joined Cerberus in 2006. Rawald has 32 years of experience, including as a managing director at Fortress Investment Group and Aetos Capital, where he was a founding partner. During his 13-year tenure at Cerberus, he has served as head of European real estate, first in the firm's Frankfurt office and then in London.



### DANIEL DEJANOVIC

Daniel Dejanovic is head of European real estate at Cerberus. Dejanovic has 21 years of experience, including at Ernst and Young and China Light and Power. He joined Cerberus in 2006 and has been a key figure in establishing the firm as one of the largest real estate investors in Europe.

## 'Our overall goal is to create real estate at attractive values, which could be through NPLs or hard assets'

very much focused on distressed assets with real estate. Millstein and Rawald were simultaneously working in Japan at the time for Morgan Stanley, which partnered with Cerberus on billions of dollars of transactions.

#### THREE PILLARS

The three pillars of Cerberus' business today are credit, private equity, and real estate, with the NPL business predominantly a real estate one. 'The vast majority of the value in NPLs is from real estate, so we see ourselves very much as a real estate business and real estate investors,' says Millstein.

After the US Savings and Loan Crisis of the early 1990s and the Asian Financial Crisis later that same decade, the next really major event to occur was the Global Financial Crisis (GFC) of 2008. It provided a huge buying opportunity in RMBS, CMBS, and structured credit in the US, explains Millstein. Further charting the firm's growth, he says it also started looking towards Europe where banks had not been disintermediated. Financial institutions were stockpiling NPLs and other impaired assets on balance sheets and elsewhere to the tune of over \$2 tln. 'We saw that opportunity as the most interesting across all

asset types globally,' Millstein recalls. Cerberus, which runs its European business from the Netherlands, began its operations in Europe with a small team from the early 2000s but started to ramp up its network and capability from 2010 as buying opportunities materialised. The gates really began to open from 2013 onwards as financial holders of assets became motivated sellers.

At first, Cerberus got heavily involved in German, UK and Irish commercial real estate. It then went large scale into Spain in 2017 and 2018 as its main theatre of operation alongside Ireland and also struck plenty of deals in Germany and Italy. Nine years on from the GFC, the firm employs close to 100 property professionals and asset managers to attack deals from NPLs to hard assets across the asset spectrum.

It is a misunderstanding to characterise Cerberus as an NPL acquirer only. Real estate NPLs form the bulk of its NPL business, but approximately a quarter of real estate transactions have been for 'pure' assets as opposed to loans collateralised by real estate. 'We don't really care how the asset is created. We just want to create the asset at an attractive value,' explains Millstein. 'We think NPLs are an incredibly interesting space exhibiting very limited competition, but there are some really interesting opportunities in hard assets as well.'

#### BIGGEST YEAR YET

Cerberus has just rounded off a huge 2018 in terms of business. Spanish banks really started to sell following a milestone transaction the previous year when Banco Santander bought Banco Popular for €1 (one euro) leading to the sale of all their non-performing assets in one chunk. Other banks followed suit. In 2017, Cerberus

came off the sidelines because it finally observed prices arriving at what it deemed to be attractive. The firm has driven the business hard in Spain and three really large deals arrived in 2018 (see box on page 12). As mentioned above, the monster among those was the €5 bn purchase of approximately 78,000 property assets from Spanish bank BBVA with a gross book value of €13 bn and a servicing platform including 400 employees.

The exclusive transaction was structured through the contribution of all assets to a company in which BBVA retained 20% and Cerberus acquired 80%. The transaction had its first close in October 2018. The firm says it had been preparing for opportunities in Spain from 2010 onwards. In 2013, the firm purchased a real estate management company from Bankia and began building what is today Haya Real Estate, a specialist in servicing distressed Spanish real estate. Haya manages approximately €40 bn of assets for third parties, employs 1,250 people and possesses a huge amount of institutional experience, which has helped provide the firm with an edge. But it has not just been about Spain. In Germany, for example, Cerberus and co-investors invested in German bank HSH Nordbank and simultaneously acquired a significant NPL portfolio, around a quarter of whose assets were in Germany and the other portion outside it. The portfolio was a combination of ship leasing and real estate, with the real estate NPLs portion totalling \$1 bn.

#### HARD ASSETS, NOT ONLY NPLS

But it is not all about NPLs for the real estate team. This can be a common misperception. Millstein says the firm also buys a lot of hard assets where there is a real asset management play. Cerberus has stepped into various situations, investing capital expenditure to help lease up the building, for example. In Italy, it has taken on a lot of offices and converted them into residential living spaces. It has also bought hotels requiring total renovation – that's another example of a pure asset strategy. Of course, such projects take time but here's what Millstein says about it: 'While we are dealing with sophisticated sellers and pay fair value for the NPLs and hard assets, we create value through our asset management.' He continues: 'We are not investing typically thinking rents are going higher or cap rates are compressing. We are going to create the value, not rely on the economy or the market. For hard assets, when we finish our work and improve the performance of the property, we want to own at substantial discount to replacement cost and significantly wide to market cap rates.' The team has not only been busy with transactions, but also in establishing real estate-related platforms in Europe. 'Our overall goal is to create real estate at attractive values, which could be through NPLs or hard assets, but we also look to do this through buying or building our

own platforms,' says Dejanovic. The firm is building out a business in Spain to acquire and manage single-family rental properties along the lines of a larger platform in the US. 'We established a US single-family rental platform a few years ago managing over 22,000 detached homes today. While Spain is different than the US, we believe there is a similar value creation opportunity in forming a Spanish business that rents and manages properties directly,' explains Dejanovic. The firm has also been busy building a high-tech, green hotel platform under the trendy and modern brand Qbic Hotel. The Qbic model, which uses a patented technique that can easily go from shell to fully functioning rooms, has been rolled out in London and Amsterdam and is in the process of opening locations in Brussels and Manchester in 2019. Lastly, Dejanovic highlights that the firm is developing a last-mile logistics platform. 'Through our acquisitions, we have acquired a number of logistics assets. We think the underlying fundamentals of logistics are really interesting, especially in last-mile logistic centres in urban areas across Europe.'

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### CERBERUS' COMPETITIVE EDGE

Europe possesses less complete real estate data than the US, so one edge Cerberus has is in the platform's information. It has purchased over 400,000 pieces of real estate or loans collateralised by real estate in Europe, providing it with a ton of general data. 'Our business really relies on sale and rental comps, and part of the advantage of size is having direct data on transactions,' says Rawald. 'The size of our portfolio is giving us a lot of clarity on value and one can get a lot more comfortable on price when you have detailed, extensive comparables.'

Rawald explains it is not just data that provides Cerberus with what it believes is a competitive edge but also its relationships and reputation. It has long experience dating back to the Resolution Trust Corporation era of the US of the late 1980s/early 1990s, and Japan later the same decade. It has proved adept at forming relationships with banks – the most common type of holder of real estate assets for Cerberus. 'It is about the power of relationships and reputation. That is what makes the difference,' says Rawald. 'If you had to ask how we have been able to be the biggest buyer from the banks in Europe, I think it is just a matter of having built relationships and a reputation as a counter-party they can trust, and we treat the borrowers with respect.'

## Country-by-country deals



### SPAIN

The three main deals in Spain in 2018 were: 1. BBVA (Project Marina). Around 78,000 property assets with a gross book value of €13 bn and a servicing platform including 400 employees with a transaction value of around €5 bn. 2. Banco Sabadell (Project Challenger/Colosseum). Collectively around 67,000 pieces of residential and commercial real estate collateral already foreclosed on across Spain with an original face value of €9 bn. 3. Banco Santander (Project Apple). Approximately around 35,700 of mainly residential

assets with a gross book value of €2.8 bn and a price exceeding €1.5 bn.



### IRELAND

Between 2010 and 2018, Cerberus purchased close to \$6 bn (€5.2 bn) in both loan and asset form. The bigger play has since shifted to residential real estate, particularly buy-to-let product.



### ITALY

The firm has bought hard assets generally focused around Milan and Rome and has bought some NPL portfolios with real estate as the underlying asset. Italy has not been as significant a market

as Spain, Ireland, or Germany, but the firm has transacted deals over \$1.4 bn (€1.2 bn) during the last few years.



### GERMANY

Not only did Cerberus co-invest in HSH Nordbank, but simultaneously in an NPL portfolio containing shipping leases and \$1 bn of real estate. Historically, Germany has been a very important market to Cerberus. Frankfurt was its first European investment office when Cerberus became a major player in multi-family residential and retail, having bought and sold more than 120,000 apartments and over 2 million square metres of retail assets in Germany.

Cerberus considers itself an opportunistic buyer with commensurate returns. That can mean different things to different firms, but traditionally opportunistic returns are regarded to be anything starting from the high teens. The

firm declines to state its number, pointing out it depends on each situation. When asked if it has seen IRRs decline for investments in Europe in recent times, it says 'no'. Although Cerberus has already had several strong years in Europe, there is more to come. The NPL opportunity has 'several years to run' says Millstein. Meanwhile, the firm sees itself buying more and more hard assets alongside loans.

The firm has recently raised close to \$5 bn of commitments for global NPLs with a predominant focus on ongoing opportunities in Europe. In addition, it has plans to raise another \$3 bn of equity capital for its real estate strategies. Collectively, that means it plans to have upwards of \$8 bn of equity dry powder in 2019.

And while it's difficult to rival Cerberus' giant year in 2018 in terms of total transaction volume, the opportunities look very solid and broadly are in the same markets such as Spain, Ireland, and Italy, says Dejanovic. 'We are very optimistic about 2019 given our real estate pipeline in Europe.' Cerberus is seeing good activity in Western Europe as well as Central and Eastern Europe, he further explains. 'While 2018 was a record year, 2019 feels like it could be another strong one for us when it comes to activity in pure NPLs and hard assets,' he continues.

However, one thing the firm stresses is that if the returns are not there, it will not stretch to invest. On NPL deals going back to the 1990s it has lost money on only 3% it has ever done. To ensure preparation, the company frequently mobilises large teams to work on transactions. For the BBVA Project Marina deal in Spain, for example, it had more than 600 people working on it including outside consultants and advisors. Millstein emphasises: 'We are going to do all that work, but you know what? If the transaction doesn't make sense, we won't do it. If it is not there, we won't stretch.' ■

'While 2018 was a record year, 2019 feels like it could be another strong one for us in terms of pure NPLs and hard assets'



### RON COGGLE

Ron Coggle leads Cerberus European Servicing (CES) as a senior managing director. He joined Cerberus in 2013 and has 38 years of experience. CES is a proprietary advisory company that supports Cerberus' real estate-related investments across Europe. Besides leading Lone Star's Hudson Advisors as its European president for four years, he founded Park Associates



### ROBERT FALLS

Robert Falls joined Cerberus European Servicing (CES) in 2013 and leads the platform alongside Ron Coggle. Falls has 31 years of experience and prior to Cerberus, served as European head of asset management for real estate investing at Morgan Stanley for six years.