STRATEGIES

OakNorth: Loan-on-loan lending helps to grow the property loan book

The challenger bank's debt finance director Mohith Sondhi speaks about loan-on-loan lending in the real estate market.

By **Alicia Villegas** - 7 hours ago

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When OakNorth provided its first loan-on-loan facility back in 2015 – a liquidity line of around £3 million (€3.4 million) to an alternative lender providing bridging finance – it was determined to grow its loan book. Four years later, the UK-based challenger bank has originated around £300 million of loan-on-loan facilities. Mohith Sondhi, OakNorth's debt finance director, tells *Real Estate Capital* that its latest such deal, a £30 million credit facility to newly launched specialist lender Hilltop Credit Partners, proves it is keen to originate more lending in this space.

Why does it make sense for OakNorth to provide loan-on-loan facilities in addition to direct real estate lending?

The reality is that we are a relatively new entrant with a relatively small team, and these other specialist lenders we are supporting have access to different clients and different geographic locations which we might not have access to typically. Loan-on-loan facilities allow us to spread wider and deeper in the UK property market. We can grow our business quicker through this type of lending.

Do these facilities provide a margin premium compared with direct real estate lending?

There isn't much material difference when it comes to margins. For loan-on-loan facilities our risk is lower because we only underwrite against a percentage of the loan, but in terms of margins the difference is not substantial. For us it's just a different way of distribution – lending into a market we don't have access to or one where we have limited exposure.

Which are the typical terms of your loan-on-loan facilities?

For us, every deal is bespoke. However, typically, we provide facilities ranging from £5 million to £15 million with a tenor from one to five years. We look at LTV as a loan-on-loan percentage, so we would usually go anywhere from 30 to 75 loan-on-loan percentage, which translates into an LTV ratio of between 15 and 45 percent. In terms of pricing, facilities can range from about 4 to 8 percent plus three-month LIBOR.

Do you see increasing demand for loan-on-loan facilities?

We are seeing an increased number of specialist lenders coming to the market, but we have also noticed higher demand from lots of platform businesses. The challenge we have for platforms, which are sold to investors once the property transactions are done, is the lack of equity coming from the management team when they sell these platforms. In terms of how much lending we want to do, this is uncapped. We support good, strong management teams. We have the equity base to continue to grow and we will continue to support entrepreneurial scale-up businesses.

How is the competition among lenders to provide loan-on-loan facilities?

There are certainly more lenders coming into this space, but I think there's great inconsistency. Facilities below £35 million are very underserved. Above that, there's liquidity.

Where would you like to gain exposure through loan-on-loan lending?

Lending to companies such as Hilltop, which focuses on development opportunities outside London, gives us exposure to an interesting part of the market in which we want to grow. The residential sector in the UK is interesting because the fundamentals of supply and demand, especially if you take London and south-east out, are very positive. Within commercial real estate, logistics and warehousing will continue to grow. In retail, the question mark is how is to be repositioned, and I think there's an interesting play there. Fundamentally, the real estate market in the UK is strong.