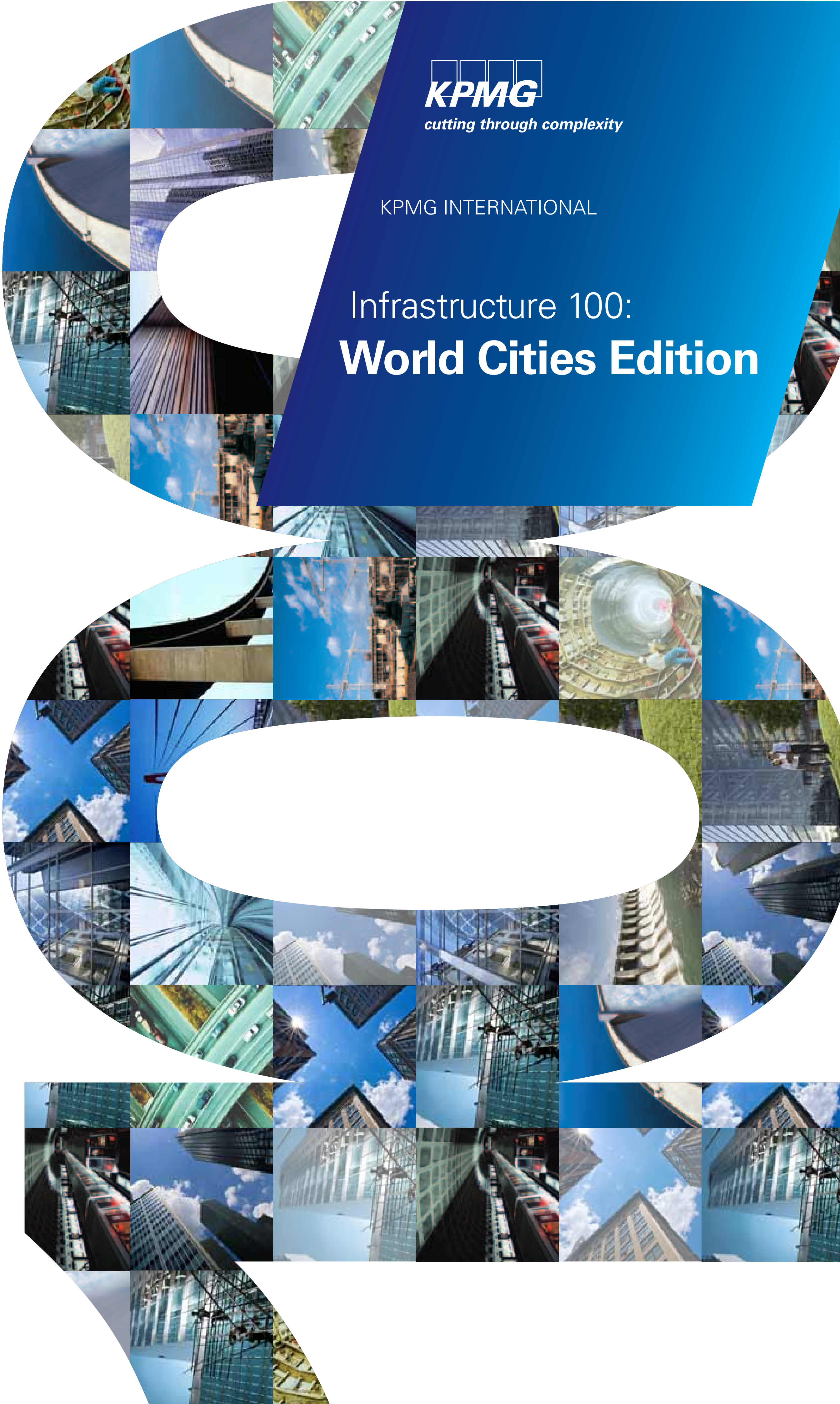
INFRASTRUCTURE



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Infrastructure 100:
World Cities Edition

Is leverage on the way back?

With the availability of equity not a major issue, the availability and cost of leverage is key to whether deals are able to close.

"If anything, the cost of secured funding for the acquisition of performing loan portfolios has remained stable or even slightly improved on the back of banks re-entering the fray, as well as the emergence of new funders, including insurance companies," says Philippe Tapernoux, Head of Financial Institutions Debt Advisory in the UK. A buyer concurs: "Banks have slowly overcome their fears of secured funding. This is starting to be reflected in the cost but not yet in the advance rate or maturity."

The funding cost often stays higher than the yield on assets and, with conservative assumptions, buyers must take on refinancing conditions in one, two or three years, meaning lower bid prices.

The situation does not affect every buyer in the same manner. Traditional, longer-term performing mortgage portfolios targeted by private equity houses will be impacted with transactions harder to close given the gap between loan yield versus funding costs, and loan term versus available funding terms. On the other hand, strategic bank buyers have the ability to use retail deposits or covered bonds as an additional source of funding, and established buyers in areas where the returns are higher, such as consumer NPLs, can also tap the corporate high yield bond market. A recent example is debt purchaser Lowell's GBP200 million issue at an annual interest rate of 10.75 percent with a 2019 maturity in March 2012. In the non performing CRE debt sale market, recent financing deals have been at 600 basis points, which seems to effectively have become the benchmark price for such deals.

Are new entrants aggressive movers?

A substantial number of US funds – notably Centerbridge, Baupost, Kennedy Wilson and DE Shaw & Co – have entered the market in Europe in the last 2 years. The US market is very competitive, with returns being squeezed, prompting many funds to look beyond their home market. There are concerns that the aggressive pricing strategies adopted by some funds, with target equity IRRs in the low-to-mid teens, will squeeze incumbents out of the market.

In particular, we have seen a large focus from US investors on markets such as Spain and Ireland, where they have recently transacted for the first time. Entering a new market doesn't come without its risks and choosing the right servicing partners or anchor portfolio/platform investment is often critical for future success.

"You have a new breed of hungry US investors chasing higher returns than they can achieve at home – and they are pricing the deals accordingly," says Stuart King, Global Co-Leader of the Portfolio Solutions Group.

In addition, we are seeing a number of large Australian performing residential mortgage investors focusing their attention on Europe (most notably the UK and Ireland) looking for anchor portfolio/platforms from which to grow their European presence. This has been evidenced by Pepper Home Loans' reported acquisition of a major US bank's Irish residential mortgage business.

> The cost of secured funding for the acquisition of performing loan portfolios has remained stable or even improved as banks re-enter the fray and new funders emerge.

Philippe Tapernoux, Head of Financial Institutions Debt Advisory, KPMG in the UK

> You have a new breed of hungry US investors chasing higher returns than they can achieve at home – and they are pricing the deals accordingly.

Stuart King, Global Co-Leader, KPMG's Portfolio Solutions Group

How to build your brand

Nov 2012 | Business Coach

Brands are more than your logo or 'livery'. Brands make a statement about your business, forming a joined-up statement that tells everyone what you stand for, how you operate, your values, qualities and positioning.

The key to building a brand is to understand that, in a sense, you don't own your brand – your customers do.

Why is branding important?

"At its simplest, brand equals reputation," says Ryan James of Playmaker Services, a sales and marketing consultancy. "This reputation makes a brand valuable. And the key to your reputation is consistency – delivering your brand's promise every time.

"As a business, your task is to create what your brand stands for, and then maintain it. That's because people tend to buy from suppliers where they know what they will get before their purchase. So to be a world-beater, you don't have to be 'the best'. For example, Marks & Spencer is synonymous with quality clothing and delivers this consistently, so people go back time and again.

"If the quality of their clothing suddenly deteriorates for a season, their loyal customers will start to lose faith in the brand's promise, weakening the power of the brand to attract repeat customers."

Do's and don'ts of social media

Nov 2012 Business Coach

With millions of people blogging, tweeting, liking and sharing, the internet is more social than ever before. As Eileen Brown, social media strategist and author of *Working the Crowd: Social Media Marketing for Business*, says: "We're having a digital revolution. Companies need to embrace the new way of working, or die." So what do you need to know before joining the conversation?

Do spend time writing a social media strategy

"One of the most important things brands get wrong is launching social media activities without a strategy," says Eileen. "If you do that, you won't be able to measure results."

Spend time identifying your goals, planning how you will engage employees, and thinking about human resource needs, who your audience is and what content types and channels are best to spread your message.

Do use social media internally

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