

Mark Robinson's and Morgan Garfield's new firm will combine their experience in the property and debt fields to target opportunities thrown up by the credit crunch, reports *James Wallace*

Hostile environment suits property and debt hybrid

"Ellandi is not a reaction to the credit crunch but it is born out of it," says the company's co-founder, Mark Robinson, searching for the right words to explain his new venture.

A year ago, Robinson, co-founding managing director of Oracle Estates, and Morgan Garfield, a former Deutsche Bank MD and head of UK loan origination, hatched their plan to set up a business combining their experience of the domestic bricks-and-mortar market and property debt.

At that time, the plan seemed fraught with pitfalls: the direct market had been overheated for a long time, while debt was a cheap commodity. The duo felt they could raise capital in a seemingly ever-expanding market on both fronts, but couldn't see how to add long- or even medium-term value.

"We decided to keep a watching brief on the market," recalls Robinson. "It was clear by last September where the market was heading – both in terms of valuations in the direct market and the availability of property-secured debt."

By this time Robinson was already a free agent, having exercised a call option to sell his minority stake in Larrik Property, the property company which he co-founded with entrepreneur David Burke in 2001. Larrik changed its name to Oracle Estates in December 2004.

Garfield was still at Deutsche Bank then, but the bank was hamstrung by unsecured commercial property loans dormant on its balance sheet and had been effectively closed for new business since last summer.

Considerable experience

Garfield has considerable real estate debt experience. He joined Rothschild as a graduate in the late 1990s then went on to help set up Deutsche Bank's Real Estate Capital division under Andrew Radkiewicz from 2000, before Deutsche Bank poached him to assist in establishing its own UK real estate debt division in 2004.

"I had great training at Rothschild and moved on to a fantastic set up at Deutsche



Mark Robinson (left) and Morgan Garfield will run "a lean, skinny company" with low fees

Bank," says Garfield, "but I had a yearning to see if I could go off and do it on my own and learn some new skills in the process."

The duo started business planning in November and by December started to have meetings with strategic partners – potential equity investors and debt providers. They also sought advice from "a couple of individuals whose opinion we respect", says Garfield.

Robinson and Garfield refuse to name their backers, but have targeted a pool of "four or five investors, ranging from high-net-worth individuals to international investment institutions, who have collective access to hundreds of millions of pounds in equity".

Investors will be able to invest on a deal-by-deal basis, either in individual buildings, portfolios, individual loans or loan portfolios. This approach, they claim, will prevent investors from having to buy into every asset or loan Ellandi brings to the table, as would be required in a standard fund structure. "We aim to be a very lean, skinny company with no funds-under-management fee and rarely any acquisition fees," says Garfield.

Ellandi – the name inspired by a tree popular in India that flourishes even in hostile environments – is a limited liability partnership, which will buy UK property with strong cash flows and medium-term asset management prospects.

The company's first direct property deal is already in the bag. It is a modest opener; a mixed-use, £6m development site in south-

east London, comprising two restaurants and 10 flats. But there are offers on the table for two separate portfolios outside London with a combined value of around £100m, using debt at loan-to-value levels of around 70%. They are keeping the identity of their funders close to their chest.

Slower progress on loans

Progress on buying loans has proved slower. Garfield says that over the medium to long term, Ellandi will mainly buy mezzanine loans and B-notes – again secured against purely UK commercial property – to satisfy its investors' appetite for returns in the mid teens.

"When looking at loans, we have been doing exactly the same analysis as if we had been buying the underlying real estate. If we believe in the real estate we will unpick the structure and buy into the debt. Ultimately, if the debt defaults, we should be happy to own the real estate."

He adds: "We are not going to buy debt expecting or hoping for defaults, but the concept is correct – we have to have that level of comfort with the underlying collateral."

However, Garfield argues that investment and commercial banks are still not marking down loans to "fair value", which has prevented Ellandi from completing deals. He says he has viewed and unsuccessfully bid on B notes and mezzanine loans, pricing in discounts ranging from 15% to 40%.

"There will only be a tradable market for those loans when banks are willing to write them down to an honest position," Garfield says. "Until then, there will only be a very limited secondary debt market in the UK."

But he is confident that eventually, banks will be forced to relent on discounts. The final word goes to Robinson: "Ellandi will stand or fall on our reputations. If in 12 months time we have done three deals and we haven't performed, you can be the first to write our obituary. But if we have delivered everything we said we are going to do, people will believe we are the real deal."