

The Rise of the Alternative Lender

Stockholm (HedgeNordic) – Alternative credit has evolved quite rapidly into a larger and growing asset class that is now receiving more attention from institutional investors. As banks in the Nordics have been deleveraging and shying away from providing credit to certain market segments, structural and strategic gaps in the lending market are providing opportunities for new players. Stockholm-based **Apikal Fastighetspartner** is one such player, a firm that “enables investors to find opportunities to lend money out to small and mid-sized real estate companies in Sweden.”

Apikal Fastighetspartner has been providing debt capital to real estate companies in a non-fund format for several years now, but in May of this year, the Stockholm-based firm launched its first alternative direct lending fund. In fund format or not, Apikal Fastighetspartner provides capital to borrowers in the Swedish real estate market seeking funding for refinancing, acquisition, rebuilding and other related needs. “Before the current fund structure, we had been issuing one bond per each borrower,” explains **Martin Fredriksson** (*pictured*), the CEO of Apikal Fastighetspartner. With that approach, “investors have full transparency on the underlying borrower,” but not enough diversification.

The fund format enables investors to get exposure to a more diversified portfolio of borrowers. “If an investor wants to buy a portfolio of five underlying borrowers via the normal bond market, the investor has to buy for SEK 5 million, for instance,” explains Fredriksson. “With our fund, however, an investor can get exposure to five, six or more underlying borrowers with just SEK 1 million.” The fund format also allows Apikal Fastighetspartner’s investors to redeem their investments in the secondary market, with the fund’s so-called participation loan debentures being listed on the Nordic Growth Market. “All the transactions so far on the secondary market have been between 98 percent and 100.5 percent of net asset value, so investors get a fairly good price on exit, around par,” says Fredriksson.

In addition to getting exposure to a diversified portfolio of borrowers and getting the ability to sell at any time, investors in Apikal Fastighetspartner’s fund also “receive the quarterly returns that we get from our borrowers” according to Fredriksson. “We pass the returns through; we distribute between 5.5 and 6.5 percent per year.” Summarizing the benefits of the fund format, Fredriksson says that “everyone who has had an interest in selling, could sell; and investors appreciate the quarterly distributions.” Nonetheless, “if there is a Lehman situation, the ability to sell is going to be different,” acknowledges the man at the helm of Apikal Fastighetspartner.

Benefits for Borrowers

The fund format of direct lending offers a range of benefits for investors looking to tap into the growing asset class of alternative credit. The demand for accessing alternative credit has been increasing at a rapid pace of late, notices Fredriksson. “Investors keep asking when the next bond is coming,” says the founder of Apikal Fastighetspartner. “The appetite is big, which is frustrating because we cannot supply at the pace investors are asking.” Apikal Fastighetspartner only raises the capital that the team knows they are going to lend out. When a borrower comes knocking, Apikal Fastighetspartner raises the capital from investors and lends the money out to the borrower. “We never just open the fund for new investors to see how much capital we get in and only then lend out,” says Fredriksson.

Apikal Fastighetspartner’s direct lending fund raised SEK 120 million during the first of the four planned rounds of capital raising for 2019 and raised an additional SEK 80 million in a second round

in September. "We currently have six underlying borrowers in our portfolio with around SEK 200 million outstanding," says Fredriksson. Borrowers in need of capital come to Apikal Fastighetspartner, and the Apikal team are out looking for borrowers as well, but "mostly borrowers come to us." The searching process "has mostly been done through word of mouth so far." Whereas the size of the portfolio may not seem significant, Apikal Fastighetspartner has another close to SEK 1 billion of loans outstanding outside the direct lending fund. "We have issued ten bonds outside the fund, three of which matured, so there are still seven one bond-per issuer bonds standing."

Apikal Fastighetspartner typically lends money out to real estate companies that investors "do not usually know of." According to Fredriksson, "one of the main positives for borrowers is that they get access to a supplier of junior capital." If borrowers are too small, issuing their own bonds may not be economically feasible. "The process of issuing bonds comes with a lot of work and costs," says Fredriksson. "If you borrow from us, we are the entity issuing." The typical borrower for Apikal Fastighetspartner represents a real estate company with a portfolio of assets between SEK 200 million up to SEK 4 billion. "Very large real estate companies can obtain cheap financing by issuing their own bonds rather than by borrowing from us," says Fredriksson.

In the market segment Apikal Fastighetspartner targets, demand for capital typically comes from companies with portfolios of commercial real estate in regional cities such as Västerås and Uppsala - "strong regional cities where we notice that banks are moving back from lending a little bit." As Fredriksson explains, the current market conditions are very good for alternative credit. "We see that banks are not going to be more generous with real estate companies; rather the opposite, they are more conservative and are opening up the market for players like us."

The article was originally published on Ekonamik.com