SitusAMC

Unlocking Potential in Europe:

5 Advantages of Outsourcing Commercial Loan Servicing, Asset Management and Valuation Management

Introduction

Outsourcing commercial real estate loan servicing, asset management and real estate valuation management creates a strategic advantage for banks and private credit lenders looking to scale and grow nimbly without typical overhead commitments. In Europe, engaging third parties to perform traditionally internal services has been less common than in the U.S., due to regulatory pressure, market conditions, data-sensitivity concerns and cultural norms. But institutions are increasingly buffeted by global and local factors beyond their control. They include the severe disruption of the Covid-19 pandemic; structural changes in real estate sectors such as office and retail; a swift rise in interest rates; and in the UK, the government's 2022 plan to slash taxes and increase borrowing, which provoked tumult in financial markets. As a result, more European institutions and U.S. companies with operations there are looking to outsourcing as a means to sustainably scale and avoid long-term fixed costs.

"Outsourcing empowers firms to operate with more efficiency and agility at a lower cost," said Lisa Williams, Executive Managing Director and Head of Europe. "Our experienced professionals give clients the freedom to focus on their customers as well as business development priorities."

Outsourcing helps address the significant pain points that arise in a dynamic market. The practice not only lowers cost but gives institutions the power to:

- Align the size of servicing teams with fluctuating loan portfolios;
- Increase focus on origination and business development;
- Move with greater speed, agility and efficiency;
- Rationalise data and better track portfolio performance;
- Gain access to deep experience, best practices and objective reporting;
- and take advantage of state-of-the-art technology investment.

Here is a closer look at five key advantages of outsourcing CRE loan servicing, asset management and valuation management in Europe.

Advantage 1

Greater Flexibility and Agility

Commercial real estate loan books expand and contract constantly. A lender may have had a sizable pre-pandemic portfolio, and a team positioned to service it. But the loan book may have declined year after year while the team remained constant. Pressure intensifies to find new origination deals while continuing to service existing loan books. Traditionally, teams must focus on both simultaneously, which acts as a drain on productivity. Outsourcing allows lenders to run leaner teams, and deploy internal resources on higher-value activities, such as business development.

“Especially in a challenging market, institutions need to focus on deals,” said Tom Moreton, Vice President, SitusAMC Europe. “Outsourcing frees them up from labor-intensive activities. They gain flexibility and agility as they try to navigate fresh territories and new ways of working, and can react quickly when an opportunity arises. Companies like SitusAMC provide a level of service that gives clients peace of mind.”

Outsourcing can be implemented quickly to respond to business shifts, notes Jonathan Kendrick, Head of Real Estate Valuation Services in Europe & APAC. This is particularly helpful as refinancing and lending activity rebound. “We're working on an engagement at the moment where we've just picked up the review of over 500 assets,” he said. “We can mobilise and deploy our team very quickly.”

At the same time, outsourcing does not necessarily mean replacing internal teams. In loan servicing and asset management, SitusAMC will typically offer employment to the client’s employees under the Transfer of Undertakings (Protection of Employment) regulations (TUPE) so they maintain their jobs and salaries.

The key is to look for an outsourcing partner that views itself as an extension of the internal team and can adapt to meet client-specific requirements. The third-party firm should be able to demonstrate an understanding of stakeholder needs in the process, from fund and asset managers to accounting teams and servicing groups, to valuers, auditors, legal, reporting and analytics teams.

“There is understandably some nervousness around outsourcing a process that historically has been done in house,” said Kendrick, noting that valuation management, while common in the U.S., only migrated to Europe about a decade ago. "The third-party provider should be able to demonstrate they have the experience, ability to adapt and nimbleness in responding to different stakeholders needs.”

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Advantage 2

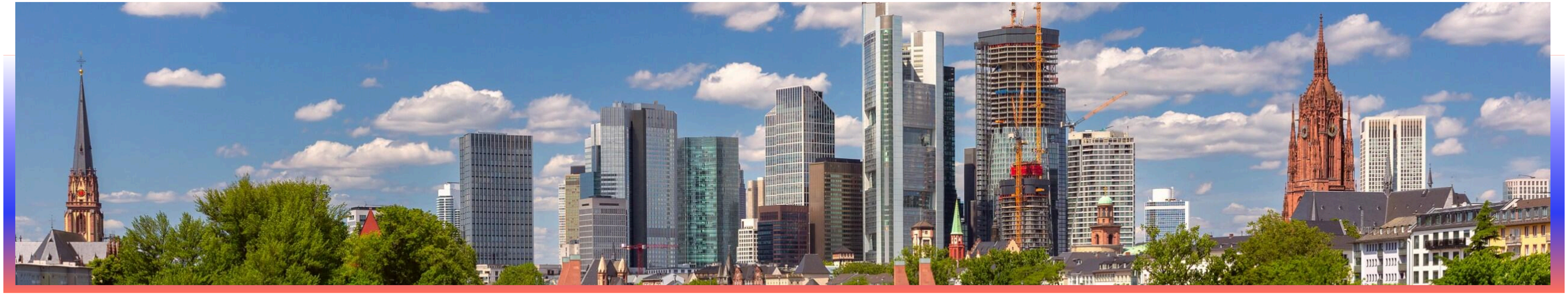
Lower Cost, Faster Decision-Making, Improved Processes

Third-party firms such as SitusAMC can manage an existing loan book more efficiently and at lower cost. In service-level agreements, fees charged are on a per-loan basis, so clients only pay for work on specific loans. SitusAMC has developed a cost-savings calculator that allows clients to input their portfolio specifics to demonstrate the return on investment from outsourcing. (See Sidebar 1.) On the valuation management side, services can be included in the loan term sheet at origination, shifting the cost to the sponsor.

As for speed, internal teams can be bogged down in bureaucracies, corporate red tape, layers of signoffs and stagnant processes which have evolved over years in response to regulatory requirements – in the UK, for example, by the Financial Conduct Authority. "These internal policies and practices are no longer fit for purpose and stymie progress, but institutions don't have the time or resources to restructure them," Moreton said. "As a result, a process done in house might take weeks or months."

By contrast, outsourced teams face fewer restrictions and can accomplish the same tasks in hours or days, depending on the assignment. SitusAMC, for example, holds a credit servicing license operated out of Ireland and is regulated there, so its approval chain is shorter. Depending on the outsourcing facility agreement, SitusAMC can be empowered to make decisions or utilise predetermined responses on behalf of clients, so teams are faster to respond. Borrower requests or escalations that are forwarded from SitusAMC to the lender don't need to be pushed through an internal approval chain, allowing clients to make swift decisions.

Meanwhile, outsourcing enhances flexibility in processes. For example, when the valuation management process is managed internally, firms often rely on a single vendor for simplicity's sake. An outsourced valuation management firm has the bandwidth to manage multiple different relationships with external vendors. This gives clients the ability to select the most qualified firm to value a specific asset or sub-portfolio, implement rotation policies, better manage conflicts of interest and ensure consistency in approach and knowledge transfer through the rotation process and reporting.



Advantage 3

Expert Market Knowledge, Superior Insights, Greater Objectivity

In addition to flexibility, cost savings, efficiency and flexibility, outsourced teams also bring decades of experience, deep expertise and an objective viewpoint to client engagements. Loan servicing and asset management professionals at SitusAMC, for example, have worked across all asset classes, including office, retail, industrial, build to rent and purpose-built student accommodation (PBSA).

"Our experienced teams speak the local language and are intimately familiar with market dynamics as well as industry, legal and cultural norms," Williams explained. "This means institutions don't need to invest in recruiting or hiring new teams as they expand into new markets or pivot in the face of industry changes, financial market turmoil or regulatory shifts."

Additionally, given market strength since the Global Financial Crisis (GFC), there are many situations in which most of a client's team has not navigated significant down cycles. Partners like SitusAMC have built diverse teams with experience across cycles, and they leverage that knowledge on behalf of clients.

"With all of these moving goal posts, chances are that SitusAMC has a professional in our business, if not several, who have managed through a specific challenge before with another client, and know how to deal with it," Moreton noted. "In primary servicing alone, we have six senior vice presidents with a combined 130 years of experience."

On the valuation management side, third-party firms offer comprehensive market knowledge and attention to detail. Their dedicated specialists serve a diverse client base and regularly interact with the major valuation consultancies, giving them unique perspective on market activity and trends. In Europe and APAC, for example, SitusAMC's MRICS professionals provided valuation services on €54.5B in asset value representing c.1,500+ valuations in 2023.

"The client's internal professional who is responsible for valuations and running the process might not be a valuer by background," said Kendrick. "By contrast, every professional on our team has the accreditation and deep experience in both completing and reviewing valuations, which brings different insights."

Moreover, more lenders, equity funds and syndicate investors are embracing the outsourcing of real estate valuation and review services to ensure objective reporting. The European Central Bank in August 2024 warned of issues in the ways banks value the collateral underlying their commercial real estate loans. ECB inspectors began looking into the details of valuation processes starting in 2018, and found institutions relied too heavily on old transaction data, misinterpreted the definition of "Market Value" and lacked proper oversight of automated valuation models. The report emphasised the need for banks to implement effective frameworks for reviewing and challenging valuations.

Outsourcing to a third-party firm, which can manage the RFP process to appoint valuation firms, coordinate workflows and review the valuations, provides that independence. "When the process is managed by an expert third party with appropriate systems, and no financial stake in the outcome, institutions can demonstrate to regulators or investors that their process has a level of objectivity," said Kendrick. "That inspires greater confidence."

Advantage 4

Technology to Drive Consistent Data and Reporting

Third-party firms also bring an advantage in terms of best practices. Serving a range of clients in different institutions and geographies exposes third-party firms to a wide array of strategic approaches, processes and technologies in loan servicing, valuation and asset management.

“We're consistently looking for ways to improve our service for all of our clients,” Williams said. “We are performing these activities day in and out with an intense focus on the quality of our service delivery. When we see a process, idea or software that makes workflows faster or more efficient, or a more robust style of reporting that’s helpful in client decision-making, we immediately disseminate these practices among our clients. Any marginal gains that occur through any one of those means will be applied for the benefit of all of our clients.”

Third-party firms can also help clients stay ahead of industry trends. For example, over the last few years, valuations in Europe have seen a greater emphasis on using a discounted cash flow (DCF) method, and a shift away from the traditional income-capitalisation approach. “Fund and asset managers are looking for a greater understanding of the inputs that go into valuations and a DCF method more closely aligns with how they look at assets,” Kendrick explained. “We've been able to support both clients and valuers in transitioning into DCF and understanding some of the challenges and the nuances that go alongside it.”

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Advantage 5

Industry Best Practices

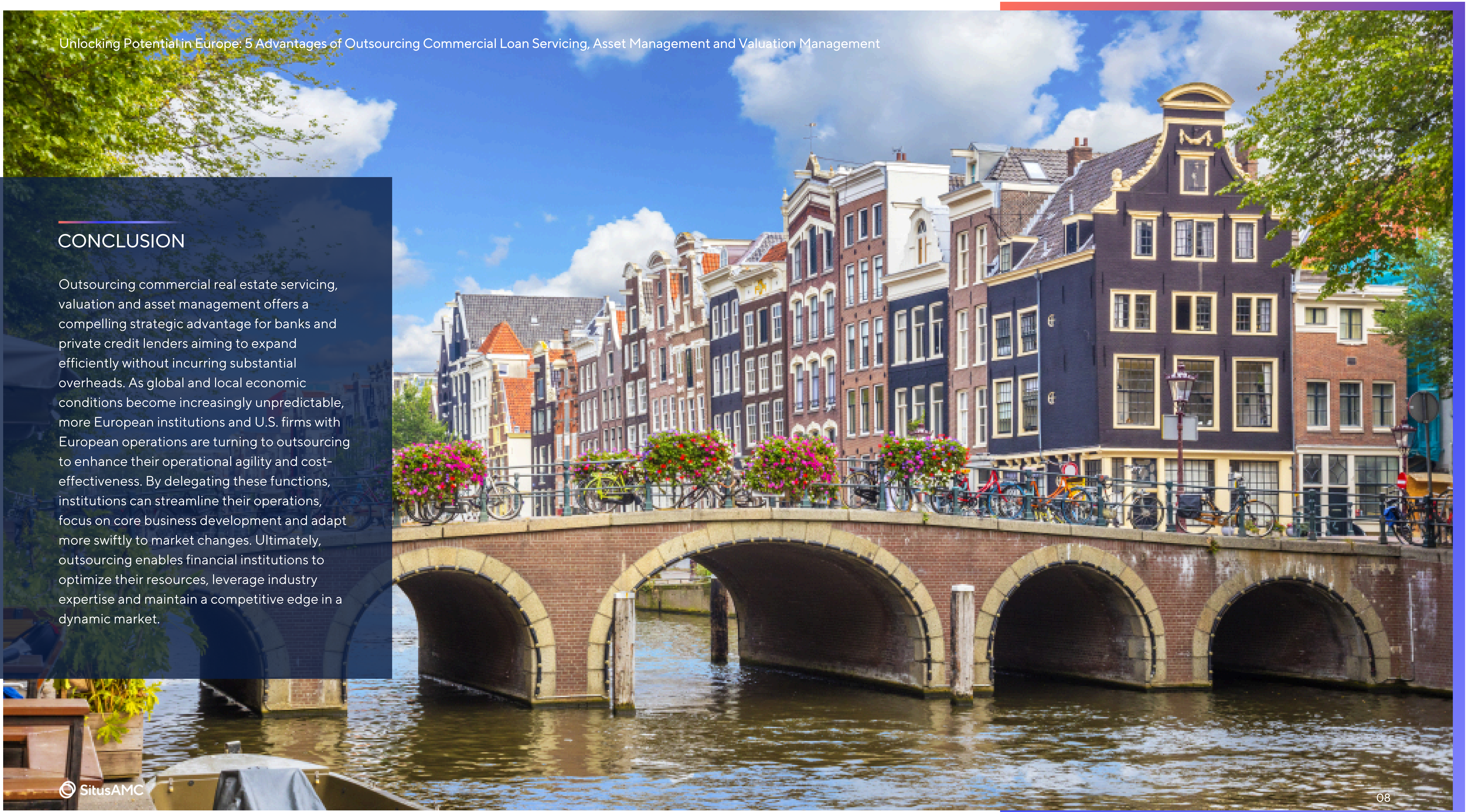
With an emphasis on constant improvement, third-party firms invest deeply in innovation to support their areas of expertise. While clients are focused on investing their capital, third-party firms such as SitusAMC are deploying technologies that increase performance and speed, and give clients an advantage.

For example, SitusAMC's proprietary valuation management system (VMS) is a web-based workflow tool that aggregates data and provides real-time valuation reporting, supporting but not dictating the client's requirements. "Our technology helps manage the process and allows clients to do a deep dive into trends at the asset and portfolio level," Kendrick explained. "For example, our value-change analysis tool can show period-over-period changes with the monetary impact of those changes to different metrics within the valuation."

SitusAMC reviews all data received from multiple valuers to ensure KPIs are uniform. Then the firm aggregates portfolio reporting of KPIs, and analysis against other metrics in the market. "The ability to quickly respond to your investor queries and reporting requirements not only saves time, but also gives those investors greater confidence in the lender or fund, which can lead to longer-term relationships," Kendrick noted.

On the servicing side, in 2024 SitusAMC rolled out an enterprise software for loan management in Europe that was 18 months in the planning. The software establishes a user-friendly portal for clients, so both lenders and borrowers can log in and check on loans in real-time, improving transparency and efficiency. The system also automates a range of processes to increase speed and provide quick access to granular reporting on issues such as the environmental KPIs of green loans.

"We are constantly seeking feedback from our clients about their changing needs and trends," Moreton noted. "We take that feedback and seek out novel solutions to help them effectively address their challenges."



CONCLUSION

Outsourcing commercial real estate servicing, valuation and asset management offers a compelling strategic advantage for banks and private credit lenders aiming to expand efficiently without incurring substantial overheads. As global and local economic conditions become increasingly unpredictable, more European institutions and U.S. firms with European operations are turning to outsourcing to enhance their operational agility and cost-effectiveness. By delegating these functions, institutions can streamline their operations, focus on core business development and adapt more swiftly to market changes. Ultimately, outsourcing enables financial institutions to optimize their resources, leverage industry expertise and maintain a competitive edge in a dynamic market.

About SitusAMC

SitusAMC is a leading provider of comprehensive commercial real estate finance services in Europe, catering to a wide range of clients in the corporate finance sector. The firm serviced a €101B commercial loan portfolio and managed an €18B commercial loan portfolio as of March 2024.

For more information on outsourcing services in Europe, contact:

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Outsourcing

The Cost Benefit Analysis

Clients are already paying to service loans internally, so outsourcing adds efficiency without adding to existing costs, and in fact, can reduce them.

The chart above illustrates a book of 40 loans in the UK which requires six internal full-time employees to manage, which requires recruitment, training, salary, pension, national insurance, at an approximate costing of £103,000. The model assumes the number of loans fluctuates over five years. But even when the number rises, outsourcing still offers savings, and the total is significant over time. Meanwhile, these figures don't include the institution's cost for hardware and software to support the loan book. SitusAMC offers a tool to help clients perform these calculations using their own numbers to determine potential savings.

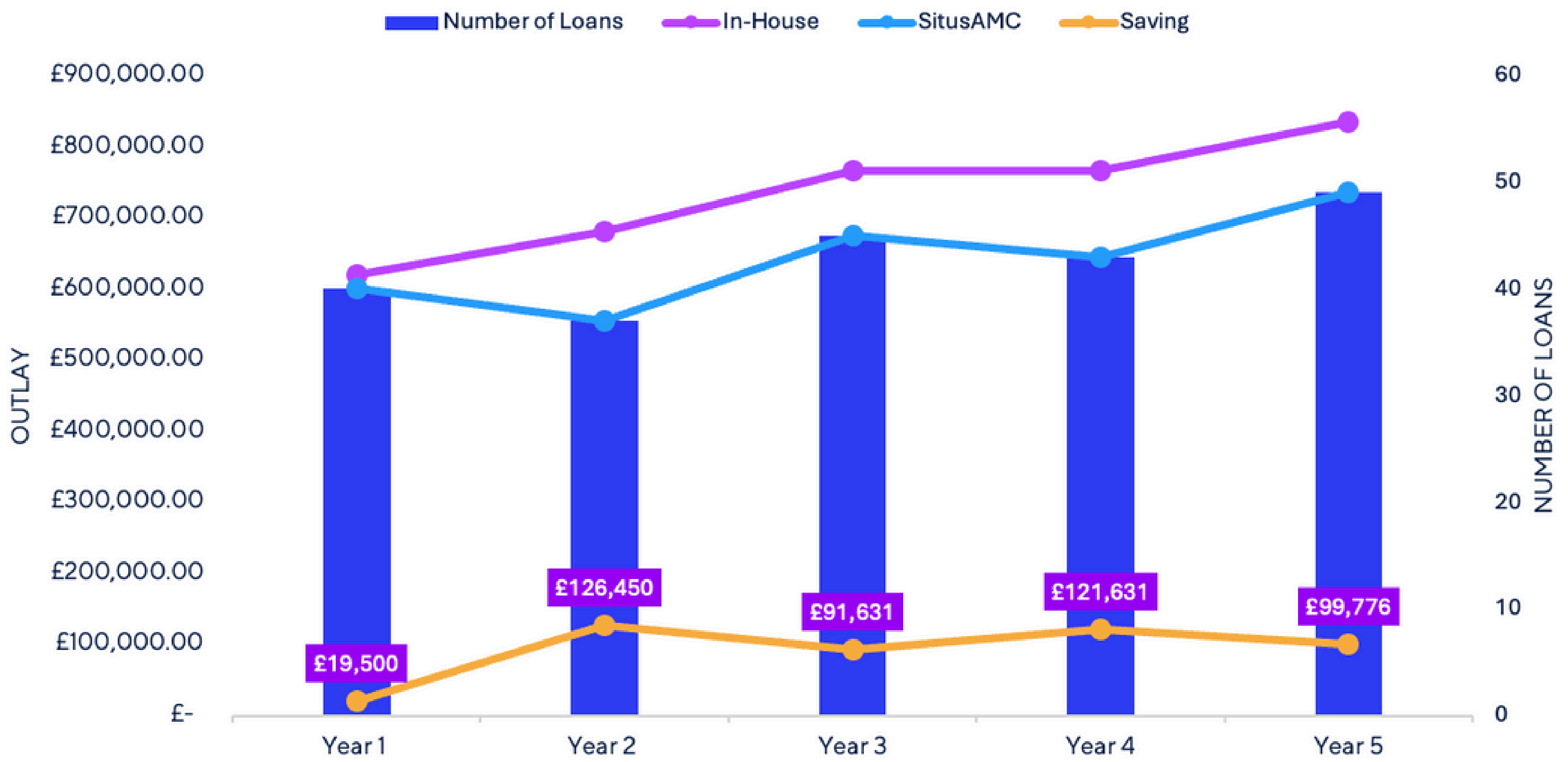
Loan Asset Management - Example Savings

Cost Over 5 Years

	Year 1	Year 2	Year 3	Year 4	Year 5	
Number of Loans	**40**	**37**	**45**	**43**	**49**	
In-House	£ 619,500.00	£681,450.00	£766,631.25	£766,631.25	£834,776.25	£3,668,988.75
SitusAMC	£ 600,000.00	£555,000.00	£675,000.00	£645,000.00	£735,000.00	£3,210,000.00
Saving	£19,500.00	£126,450.00	£91,631.25	£121,631.25	£99,776.25	**£458,988.75**

FTE	
Salary	£70,000.00
Pension	£5,250.00
NI	£10,500.00
Training	£3,500.00
Recruitment	£14,000.00
Total	**£ 103,250.00**
Total FTE	
FTE	6
Loan Book Size	
Loans	40
Current Outlay	**£ 619,500.00**

Cost Over 5 Years



Outsourcing

Service Options

SitusAMC offers a full menu of outsourcing services to meet clients' needs, from loan reporting through monitoring to analysis and advisory.

Loan Asset Management

	Reporting	Monitoring	Analysis & Advisory
	Agency Plus	Loan Surveillance	Loan Asset Management
Weekly / Monthly Loan Status Update	O	O	O
Diarising and Obtaining Borrower Deliverables	O	O	O
Covenant Monitoring	O	O	O
Quarterly Asset Reviews	O	O	O
Coordination of Borrower Drawdowns	O	O	O
Independent Review of Borrower Reporting	-	O	O
Loan, Property and Tenant Performance Metrics	-	O	O
Early "Red Flag" of Deteriorating Performance	-	O	O
Monitor Waterfall Payments and Account Balances	-	O	O
Capex Drawdown Recommendations	-	O	O
Tracking of Required Development Milestones	-	O	O
Annual Reviews	-	-	O
Review Borrower Requests and Produce Recommendations	-	-	O
Underwriting and Re-Underwriting of Loans	-	-	O
Preparation of Credit Papers	-	-	O
Engaging Third Party Consultants	-	-	O
Providing Practical Advice and Solutions on Loan Positions	-	-	O

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