Capital for the energy-efficient renovation of Swiss homes

In this interview, Wanja Eichl, Managing Partner of Blackfort Investment Partners Europe, explains why the asset manager is launching the new Blackfort Swiss Real Estate Debt fund.

In September 2022, Blackfort launched a new fund which invests in subordinated mortgages in Switzerland. What is the idea behind it?

Wanja Eichl: The fund enables investors to invest in the Swiss real estate market in a new and innovative way. It offers attractive interest earnings and a very broad diversification due to the wide range of real estate loans which it is investing in. It also provides a level of transparency that was previously not possible. The basic idea behind it is to make a market that every investor understands, namely the mortgage market, investable using state-of-the-art technology.

What are subordinated mortgages?

Wanja Eichl: Swiss real estate is generally a safe investment. The demand for it continues to be undiminished. Banks usually lend up to about 60-70% on real estate, the remaining value must be contributed by the buyer as equity capital. The mortgage market in Switzerland amounts to be about CHF 1,200 billion and is dominated by banks. Now there are situations in which a higher loan-to-value ratio makes sense for financing a new project. For example, if the owner of a property wants to carry out an energy-efficient renovation, but the required capital is not freely available. The ideal case for us are properties in the suburbs of Swiss cities in the midlands that are getting on in years and now need to be renovated in terms of energy and appearance. According to Raiffeisen, half of all real estate is over 40 years old, which means that around 1.5 million houses need energy renovation. This means that there is an urgent need for subordinated mortgages, as this makes it possible to lend on properties up to an upper limit of 80%. They are usually granted at an interest rate that is higher than that of the first mortgage and they are amortized relatively quickly.

How does the fund specifically invest in subordinated mortgages?

Wanja Eichl: The business with subordinated mortgages is not very attractive for banks because it usually involves smaller asset volumes. This is the reason, why in the past few years online lending platforms have increasingly made their mark in granting these real estate loans. The lenders in this case are not banks, but private and institutional investors looking for attractive returns. The fund invests in a large number of such loans and keeps track thanks to the use of a software from the Swiss FinTech i2 Group. With an Excel file, the management as well as the ongoing monitoring and reporting of such a large amount of loans would not be possible or only with disproportionate effort.

Will the rising interest rates not affect the real estate market or such loans?

Wanja Eichl: Traditional real estate investment funds are traded on the market at a premium (agio) or a discount. In fact, the premiums have been declining significantly for some time due to the rising interest rates. Blackfort's fund, however, has no such premiums at all. The properties are only mortgaged up to 80% of their value, which creates a risk buffer if one day the prices of the properties would decline. In addition, the majority of the loans we invest in have a term of less than two years. Therefore, the fund has a short duration, which further flattens the risk of rising interest rates. For slightly longer durations, we attach importance to LIBOR/SARON-based real estate loans.

In the financial crisis starting in 2007, the US subprime market played a major role. Are there not certain similarities?

Wanja Eichl: As an investor, I must be willing to take a certain amount of risk in order to be able to generate a target return. Without risk, no return. This is also the case when investing in subordinated real estate loan claims. However, the Blackfort Swiss Real Estate Debt fund is a very conservative investment. Compared to the US subprime market before and during the financial crisis, there are more differences than parallels. In the US subprime market, securitization of mortgage loans played a significant role. By bundling the loans into packages, the creditworthiness of the overall package was substantially increased, at least on paper, while the risks at the level of the individual counterparties and the individual properties receded into the background or could hardly be seen through. But if I put bad fruits together in a basket with fresh fruits, it spoils the whole picnic. With our new fund, each individual claim and the respective counterparty are examined in detail. This review takes place once at the level of the online lending platforms and once at the level of the fund. After the investment, the loans are monitored on an ongoing basis. As mentioned earlier, each property must also be financed with at least 20% equity capital.

Is there anything else to add?

All in all, we are moving in unfamiliar territory in the current market environment. But new markets also carry new opportunities. In this context, I like to quote the author Toba Beta: "Opportunists seek for a chance. Entrepreneurs make new chances." And with Blackfort Swiss Real Este Debt, we have created a new opportunity that can generate returns uncorrelated to the traditional capital markets.

Wanja Eichl, M.A. HSG, CAIA –
Managing Partner Blackfort Investment Partners Europe AG

T: +423 239 68 17 | M: +41 79 531 09 56
E-Mail: eichl@blackfort.li