BEST IN CLASS

The Treasurer's 2014 European Treasury Team of the Year, Deutsche Annington, has an edge over its rivals. Lars Schnidrig, Thorsten Arsan and Olaf Weber explain why

Words: **Sally Percy** / Photography: **Bruno Alexander**

Deutsche Annington's treasury is a team that knows how to get things done. And it gets them done quickly. Take the time it took the team to secure an investment-grade rating from agency Standard & Poor's (S&P's) in 2013 as part of the process of raising €1.3bn through its inaugural unsecured bond issue. The rating was secured over a period of just six weeks.

When you're in the business of social housing in Germany – which Deutsche Annington is – then speed matters, explains Lars Schnidrig, the residential landlord's MD, finance and treasury. If a portfolio of new residential units comes onto the market, the company wants to be in a position to snap them up, provided they meet its strict investment criteria, of course. The challenge, however, is beating a string of hungry rivals to it.

In 2014, Deutsche Annington's treasury rose to this challenge by creating a 'time to market' key performance indicator, whereby the team sets itself strict targets for raising finance quickly and cost-efficiently. Its achievement in obtaining unsecured funding, rather than sticking to the secured funding methods – for example, commercial mortgage-backed securities (CMBS) – that it had used in the past, played a key part here. While companies in the German residential housing sector traditionally use secured funding, raising this type of financing is a slow process that typically takes months.

By going down the unsecured route – with noticeable success – Deutsche Annington's treasury has given the company a competitive edge. Because it can secure more funding at a faster rate, it has become a more attractive purchaser, which puts it in a good negotiating position with vendors. "We said to the business: you can acquire what you want. We will deliver the funding," Schnidrig explains.

Indeed, such is the team's commitment to supporting this bold principle that it is actually embedded in the bonus scheme for its senior managers. They are benchmarked according to whether they can deliver better acquisition financing than the treasuries of competitor organisations.

Back story

Getting unsecured funding is more easily said than done, however, especially if you happen to own a rather large portfolio of residential properties that naturally lend themselves to being security. So how did Deutsche Annington manage to convince investors to agree to unsecured funding?

Firstly, the business has worked hard to deleverage since 2006, when it was private-equity-owned and its leverage was 84.5% loan to value. Following the financial crisis, it targeted leverage in the region of 50% in order to gain access to a wider variety of funding markets, including the corporate bond market, the German covered bond market, the insurance market and the pension market.

Then, in 2013, it refinanced €4.3bn in commercial mortgage-backed facilities and undertook an initial public offering (IPO) that enabled its then majority owner, private equity group Terra Firma Capital Partners, to subsequently exit. It also put €400m of the IPO proceeds into deleveraging. Since then, it has continued to manage its debt and monitor its credit rating closely. "We never risk our rating," Schnidrig explains. "Because that gives the company stability, optionality and a strong financial framework."

Deutsche Annington's treasury has also invested a considerable amount of time and effort into educating investors, both in Europe and the US. "We told the story of the German social housing business to investors who had never invested in social housing," explains Thorsten Arsan, the company's head of structured finance. "We showed them that the historic volatility in our sector is extremely low. We are fully let and we are in the most stable economy in the eurozone. We also outlined our valuation methods so

Deutsche Annington's treasury leaders (from left to right): Lars Schnidrig, Olaf Weber and Thorsten Arsan

TOP TIPS FOR SUCCESS

1

"Always look at what the market leaders in treasury are doing and see what you can learn from them."

2

"Keep reinventing yourself."

3

"Develop your people and create a strong team that can respond both to growth and recession."

4

"Take your risk management very seriously so that you are properly prepared for a crisis."

CURRICULA VITAE

Lars Schnidrig
2008-present
MD, finance and treasury, Deutsche Annington
2000-2008
Various roles; member of the credit and investment committee, HypoVereinsbank and its spin-offs

Thorsten Arsan
2013-present
Head of structured finance, Deutsche Annington
2008-2012
Director – real estate finance, Eurohypo
2006-2007
Vice president, real estate finance, Deutsche Bank
2004-2006
CMBS analyst, Moody's
2000-2004
Real estate adviser, KPMG

Olaf Weber
2013-present
Head of middle office finance, Deutsche Annington
2011-2013
Head of treasury and risk control, EDE Group
2007-2011
Deputy head of group treasury, OBI Group
1994-2007
Vice president, Deutsche Bank

that they understood that half of our portfolio could burn down and they would still get their money back."

Convincing investors in the US – where Deutsche Annington became the first ever European real estate issuer of corporate bonds in October 2013 – required particular effort. The company undertook 26 investor meetings during a comprehensive US roadshow in order to explain their proposition. "They didn't know about the German tenant law, which protects cash flow," says Schnidrig. "But, in the end, they invested because they could see the stability of their investment. If our tenants lose their jobs, by law the government steps in for their rent. Therefore, if the economy goes down and more people lose their jobs, there is no effect except the positive effect that we get an AAA-rated customer – the German government."

The results of the treasury team's investor education efforts speak for themselves. Since listing, the company has been on an ambitious acquisition drive that has been funded by a string of impressive financings. In 2014, it acquired rival real estate companies DeWAG and Vitus, which signed on the same day for €2.4bn, undertook a separate €2.4bn strategic growth refinancing, and launched four benchmark bonds as well as two hybrid bonds. This was on top of the US bond and the hybrid bond that it had issued the previous year.

Then, in December 2014, Deutsche Annington achieved its biggest coup to date when it announced its acquisition of Luxembourg-based real estate company GAGFAH. The merger, which completed in March, created an enlarged group with a market capitalisation of more than €10bn, some €21bn in assets and a portfolio of 350,000 residential units across Germany. It is now the second-largest real estate player in continental Europe.

GAGFAH was an ideal partner for Deutsche Annington, Schnidrig reveals. "There were many similarities that made the deal a good deal," he explains. "For example, it had a huge portfolio in Dresden. We had nothing there. We were very strong in North Rhine-Westphalia. It was less strong there." The merger made so much sense, in fact, that S&P upgraded the company's rating following the close of the transaction. The enlarged group now has a BBB+ long-term corporate credit rating, up from BBB.

Getting organised

It is not just funding that has been keeping Deutsche Annington's treasury busy. In 2013, it embarked on a comprehensive restructuring exercise that resulted in the creation of a formal front office, middle office and back office structure. The front office, which is headed by Arsan, handles refinancing activity and bank relationships. The middle office, which is led by head of middle office finance Olaf Weber, oversees general cash management, covenant reporting, risk management and loan management. There is also a back office function that sits within the business's accounting department and acts as the interface between accounting and treasury. "We did the restructuring from scratch over 14 months," Schnidrig explains. "That's an enormous job."

Risk management is something that the team takes seriously, explains Weber. "Liquidity is not an issue right now, but it may be in the future. We also look carefully at the counterparties that we deposit with." At present, Deutsche Annington has around €1.5bn in cash

Until the merger with GAGFAH, Deutsche Annington's treasury was a lean team of 14 individuals. It may now expand slightly and Schnidrig is looking at how he can develop his staff. "Qualifications are very, very important," he says and he may encourage his team members to sit the qualifications offered by the ACT.

On the topic of the ACT, Schnidrig is thrilled that the association recognised Deutsche Annington as the European Treasury Team of the Year in *The Treasurer*'s Deals of the Year Awards 2014. "It was a very important award for us," he says. "It raised our profile within the business and the industry. I was even congratulated by competitors." The award, he says, shows that Deutsche Annington is very serious about treasury. "It means that we can negotiate on a different level and it has gone down well with the board and the advisory board."

Asked about the secret to his team's success, Schnidrig cites commitment and an ability to work well under pressure. It's also important to be a real team player and not to put your own career goals ahead of the team goals, he says. Another characteristic of Deutsche Annington's treasury team is

> "We never risk our rating. Because that gives the company stability, optionality and a strong financial framework"

on its balance sheet that it distributes among its syndicate of seven trusted banks. The middle office keeps a close eye on the credit default swap spreads of those particular banks. Interest rate risk is another threat to the group, which has systems in place to manage it if necessary, by using derivatives, for example.

The ongoing crisis in the eurozone is inevitably a concern. "We take that risk very seriously," says Schnidrig. "In each and every transaction we work with a back-up plan. So we identify reserve windows that we can use if we can't access the market the first time that we want to. We also put in place a sufficient buffer in terms of pricing in both our debt capital market and secured financing transactions to incorporate potential interest rate risk and also potential political risk. We have acquired a lot of units over the past 20 months, so if there was a crisis, we would stop acquiring and just focus on managing our portfolio."

that it contains experts who have a wide spectrum of abilities. Arsan, for example, has previously worked for credit rating agency Moody's, while Weber has a background in restructuring. "It's a mixture of personalities and skills," is how Schnidrig puts it. He also emphasises that the achievements and organisation of Deutsche Annington's treasury team put it in a class of its own among treasury organisations in the German real estate sector. It is setting the benchmark, he notes.

Certainly, the team has achieved a lot in a short space of time, but Schnidrig, who joined Deutsche Annington in 2008, won't pretend that it was easy. The €5.8bn financial restructuring that the company had to undertake in the wake of the financial crisis was particularly challenging, he notes. "We weren't on the sunny side, but we are on the sunny side now."

Sally Percy is editor of ***The Treasurer***

VITAL STATISTICS

1

Deutsche Annington is Germany's largest private-sector residential real estate company

2013 was the year in which Deutsche Annington floated on the Frankfurt Stock Exchange

Circa **350,000** residential units worth €21bn are owned by Deutsche Annington following the GAGFAH acquisition

28% was the rise in Deutsche Annington's profits in 2014

€11.7bn is the size of Deutsche Annington's debt following the GAGFAH acquisition

3,800+ people are employed by Deutsche Annington following the GAGFAH acquisition