



Building a culture at Birchwood

*Birchwood Real Estate Capital is the new lender on the block. Founder Lorna Brown and director Kate Tovey tell **Daniel Cunningham** why being a female-led business will help the firm to stand out*

PHOTOGRAPHER: PETER SEARLE

Lorna Brown's real estate finance career to date has taken in major institutions including banking giant Royal Bank of Scotland, mega-manager Blackstone and insurer Legal & General. Most recently, she built the lending business of Delancey, one of the biggest names in the UK property investment market.

But Brown has now seized the opportunity to strike out on her own with the launch of a new commercial property lending business. She is not starting out completely solo – joining from the outset is first hire Kate Tovey, who has worked with Brown for five years at both Delancey and Legal & General's LGIM Real Assets. And while Birchwood Real Estate Capital is a start-up, it has the backing of a major institution – the US property and casualty insurer WR Berkley.

“There will be two parts to what we do,” Brown says. “Doing a good job for our investors and borrowers, while seeking to build a culture that supports women joining the industry and, more importantly, remaining in the industry.”

Birchwood officially launched in June with Brown as chief executive and Tovey as director of real estate debt strategies. A maiden fund has been launched, with WR Berkley as



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cornerstone investor. It will be opened to other investors with the aim of raising capital to create a UK loan portfolio in the region of £1 billion (€1.2 billion) in the near term. Beyond that, there are ambitions for a fund series and expansion into continental Europe.

“We have the opportunity here to build a lender of scale,” says Brown, “and the relationship with Berkley gives us appropriately priced capital for this point in the cycle.”

WR Berkley’s interest was a major driver for the launch. Until now, the insurer has not been a direct participant in European property debt, but its presence in global real estate is huge. In February, it was reported to have sold the City of London skyscraper in which Brown and Tovey have moved in – 52 Lime Street, better known as The Scalpel – for £718 million.

Setting an example

Another attraction of launching Birchwood, says Brown, is the opportunity to create a business – and a company culture – from scratch. A crucial aspect to this, she says, is that this is a company led by two women in an industry where such a fact is rare.

“It’s really exciting to have the opportunity to build your own culture in an industry that – there’s no shying away from it – is male-dominated,” says Brown. “The experience I’ve had in big institutions is helpful because it has allowed me to see what it is like to work in a bank, a private equity firm, an insurer, and bring the best practices we’ve experienced to the new firm.”

For Tovey, the chance to continue to work with Brown encouraged her to make the leap and join Birchwood. “I have valued having a female mentor and leader,” Tovey says of Brown, “and the balance of successfully achieving what you set out to do in your career alongside family life is an important point for me.”

Tovey cites research by industry body INREV that shows women represent just 16 percent of executive management roles in the European industry. For Brown, it is important for people in the industry to see a female-led firm. But to have an impact on addressing the imbalance in the make-up of the senior tier of the industry, she believes, is necessary to foster a culture that genuinely accommodates a diverse workforce.

Brown and Tovey agree that a flexible approach to working – in which employees are responsive to investors and borrowers, but within a context of colleagues genuinely supporting each other – is the key. “When I started out on a graduate recruitment programme for a surveying firm, the intake was 50/50 male and female, but it didn’t stay that way,” recalls Brown, who says there has been much positive change in the industry but identifies the retention of women, particularly after having families, as a major challenge.

“It is important for the next generation to continue to see more senior female roles across the real estate industry, so they don’t feel they are ploughing on alone,” she adds. “There are amazing and talented women across the industry, in lot of different roles, but they are alone in senior roles rather than part of a similar team, as we are at Birchwood. To be fortunate to have a support network of other women is one of the things that helps people stay in the industry and it is one of the areas people are getting better at organising.”

People business

Birchwood has hired a third person, chartered surveyor Carole Cook, and others are in the pipeline. Brown notes, however, there is no deliberate strategy to hire only women. “We are hiring people we’ve worked with before and have enjoyed working with, to help build that culture,” she says.

Tovey argues that diverse businesses

“Investors are keen to back businesses with diversity of thought”

KATE TOVEY



Brown's CV

- **May 2000** Joins UK lender Royal Bank of Scotland as a managing director. From 2008, becomes head of real estate restructuring
- **January 2012** Takes a managing director role at US manager Blackstone with a focus on value-add investment, asset management and debt
- **January 2018** Becomes head of real estate debt at insurer Legal & General's LGIM Real Assets division
- **January 2020** Joins UK property company Delancey as head of capital markets. Starts lending business
- **June 2022** Launches Birchwood Real Estate Capital with backing from WR Berkley

will increasingly appeal to investors as they focus on the social and governance aspects of ESG.

"In the fundraising market, investors are keen to back businesses with diversity of thought," she says. "WR Berkley are certainly pleased to have invested in a female-led business, so



hopefully other investors will recognise that as positive."

Longstanding industry relationships with like-minded people helped create Birchwood, Brown explains. Going back to before the global financial crisis, she had done business with individuals now in senior roles at WR Berkley, providing the starting point for the company's backing of Brown's venture.

While having these contacts made the deal possible, the ultimate reason for WR Berkley's backing was its belief, shared by Brown, in strong sponsor demand for commercial real estate debt in the UK and continental European markets.

"WR Berkley is attracted to investing in the UK because it continues to offer, despite the current economic volatility, a transparent and stable real estate market," says Brown. "They have been a long-term direct and indirect investor in real estate in equity and credit in the US, so this strategy is a natural progression for them."

Case for debt

The case for real estate debt strategies remains strong, Brown argues, despite the volatility created by inflation and rising rates. She argues real estate credit is an attractive product for investors at a time of inflation coupled with low growth. "There is a lot of talk of a recalibration in the equity market, with yields moving out as people look for more return. The greatest challenge on the debt side will come down to affordability of finance due to a rising interest rate environment. That is what will really dictate what returns are available to lenders. But our objective will be to deliver the appropriate risk-adjusted return for our investors."

The firm will be able to originate loans priced between 200 and 600 basis points, depending on the risk profile of the deal. "We're lucky that is quite a wide range," she adds.

Borrower demand is strong, Brown says: "There was around £50 billion of origination in the UK in 2021, one of

An experienced backer

WR Berkley is a major name in the property and casualty insurance world, with an investment portfolio in excess of \$20 billion. It is making its direct debut in UK real estate debt.

The nature of its business means its capital is well suited to real estate debt.

“WR Berkley is a specialist property and casualty insurer rather than a life insurer, meaning its typical investment horizon is shorter,” explains Brown.

“It means we are comparing returns against the traditional alternatives of the bond market, the equities market, although without a benchmark, which gives us the flexibility to price according to where we see the risk in an individual transaction, by virtue of the type of capital that they have.”

The Birchwood name is a nod to its cornerstone backer, as well as Brown’s native Scotland, Brown explains.

“The origin of the name Berkley is an old Scottish word meaning birchwood meadow,” she says.



the highest levels seen. That is against a backdrop of £60 billion of direct real estate investment, so it tells me there was a significant volume of refinancing activity in 2021 as the average leverage is less than 65 percent. It also tells me a lot of lenders were very busy, had a great year and as a consequence have met their lending targets. There may be a little less debt supply due to the economic headwinds brewing, but it remains an interesting time to be a new lender, with no legacy book, because it allows us to adapt to the current market conditions and be responsive to borrowers.”

According to Brown, in excess of 90 percent of UK real estate finance market demand is for senior and whole loan capital. To meet it, Birchwood plans to provide such loans on a floating-rate basis, to a stabilised loan-to-value of 65 percent, albeit with the ability to provide higher day-one leverage to sponsors with convincing business plans. Loan sizes will vary, with £35 million

a likely low threshold, and around £150 million the size Birchwood will go to in bilateral deals.

“Core-plus and value-add properties will be the focus,” says Tovey. “We are looking to finance good quality real estate with deliverable business plans. We are happy to look across sectors, depending on the sponsors’ track record.”

Taking stock

Tovey says equity market volumes are dipping and many lenders are taking stock of the economic headwinds. “Lenders will be looking to move forward a little more cautiously due to the volatility and take a risk-averse approach. So, if you’ve got appropriately priced capital and the risk tolerance to underwrite specific properties and debt structures with the benefit of everything going on in today’s market, then it is an interesting time.”

Birchwood is preparing to provide loans in Q4, and Brown says it is

starting out with the flexible capital needed to identify the right deals in the current economic circumstances. “We are also fortunate enough to have discretionary capital, allowing us to be responsive and make quick local decisions on deals and execute efficiently for borrowers,” she adds.

“It is only right that the increased focus on ESG for real estate will result in demand for upgraded properties, although it is clear that supply chain and inflationary pressures are impacting construction costs to deliver these buildings,” says Brown. “This will create uncertainty for lenders and sponsors alike, and we will need to select the right real estate, in liquid markets offering the right quality, because the market will polarise between good quality stock and poor-quality stock.”

While new non-bank lending organisations have sprung up across Europe with increasing regularity in recent years – many of which have US backers, as is the case with Birchwood – Brown and Tovey are adamant there is room for another entrant.

“There is definitely a place in the market for alternative lenders now,” says Brown. “A range of investors are seeking real estate debt as part of their portfolios and the fact they can get access to this asset class without having to directly implement the underlying real estate strategies is something that will continue to make real estate credit an important part of the market. The UK does not benefit from the same diversity of lenders as the US and there is scope to grow these strategies for a wide range of investors.”

While Birchwood is one of many entrants to the European real estate lending market, Brown and Tovey believe there is plenty of business to be done. They are also determined to shape the business, and its all-important culture, on their own terms. ■