

The Company

Based in Hamburg/Kiel Germany, HSH Nordbank was created on June 2, 2003 by the merger of Hamburgische Landesbank and Landesbank Schleswig-Holstein. The bank has total assets of some 170 billion Euros and a staff of 4,500 worldwide. It is globally committed to real estate as a core competence. The international real estate finance vision has a US\$25 billion real estate loan portfolio, including US\$3.5 billion in the United States, managed by a staff of 25 professionals based in Hamburg and New York.

Industry

Financial, Investment, All asset types

ARGUS Software™ Solutions

ARGUS Valuation - DCF™

Case Study

HSH Nordbank AG

Competition for International Real Estate Deals

Demands Common Platform

For this multi-asset class firm, data quality and stability is essential. The international commercial real estate scene is a fast paced arena where \$100 million dollar deals are closed in a matter of days.

Couple this speed with the varying currencies and property valuation methods of different countries and the result is a highly sophisticated and lean arena where only the smartest players need apply.

HSH Nordbank, a German lender with a \$20 billion global commercial real estate loan portfolio is able to count itself among the top banking institutions structuring international deals for income producing properties. Using ARGUS Valuation - DCF as a common platform for property valuation and cash flow underwriting and structuring, say HSH's executives, has become a key ingredient of that success.

HSH handles large loans. The bank structures and arranges financing for real estate deals at the \$20 million and up level, with the average loan size being ~\$40 million.

Key Challenges

About six years ago, as HSH's predecessor institutions were entrenched in making the jump from domestic German financing to high volume European and North American engagements, the banks were confronted with the task of finding a

common platform to handle multiple currencies, differing lease terms, foreign finance structures and various valuation methods, says Bernhard Visser, HSH's Global Head of Real Estate based in the bank's Hamburg head office.

"It was very difficult for us to continuously create new spreadsheets to incorporate all of this very diverse data, and the spreadsheets could model a limited amount of deal complexities" he adds. That is when HSH first began turning to ARGUS Valuation - DCF, which the firm had become acquainted with through deals completed in the United States, according to Lisa Eugene, Senior Vice President, based in New York.

In one instance, says Eugene, HSH was providing construction and permanent financing for a portfolio of grocery anchored shopping centers in the Baltic region. The leases were written in either local currency or US dollars, but the loan was to be paid in Euros.

"While the input was in local currency and dollars," she explains, "ARGUS Valuation - DCF helped us to create cash flows that were translated into Euros at the correct currency rate, which was critical for sizing and structuring the investment. We definitely valued the accuracy achieved in under-



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About ARGUS Software™

ARGUS Software provides software and services that enable its customers to better manage the financial and operational performance of their real estate portfolios. More than 8,000 of the industry's leading owners, managers, financial institutions and REITs trust ARGUS Software's solutions to improve the visibility and flow of information throughout their critical business processes. ARGUS Software is the developer of such industry standard products as ARGUS Valuation - DCF™, ARGUS Developer™, ARGUS Property Budget™, ARGUS Property Management™, ARGUS Asset Management™, ARGUS Lease CRM™, and ARGUS Insight Reporting™. Visit ARGUS Software's website to learn more about these solutions: ARGUSsoftware.com

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writing over 100 leases across the portfolio while a portion of it was under construction and local cap rates were falling from 15% to 12% within the first 24 months of the loan.”

Getting Up to Speed

Since speed is so important in the international financing arena, HSH decided to give every one of the firm's 18 to 20 international specialists their own licensed copy of ARGUS Valuation - DCF and each analyst attends the three-day training program.

According to Visker, this gives HSH a competitive advantage over many other foreign banks. “We noticed that a lot of firms want to invest in just one stand alone copy,” he says, “but that doesn't allow the knowledge behind the program to really disseminate because people don't have it at their desktop everyday.”

Visker says “The analysts were originally sent on a rotating basis to the UK for ARGUS Valuation - DCF training as classes became available, but now the bank has such a high volume of financings that this year, HSH flew an ARGUS Valuation - DCF trainer to the head office in Germany to conduct a class.”

“It is absolutely mission critical that an analyst or originator is up and running and knowledgeable

about the program in as short a time as possible,” he says, adding that the due diligence and underwriting process on a loan generally has to happen within a few days while the majority of HSH's real estate loans are closed within a whirlwind 30 days.

“If we are not able to close loans within the parameters that the borrower is acquiring the property in, we are not going to be considered for some of these engagements,” notes Eugene.

Add to the quick timeframe the fact that HSH specializes in what Eugene terms “very customized structuring.” Therefore, she says “our analysts have to be knowledgeable about multiple markets and complex deals.”

Looking to the Future

As HSH looks to expand its presence into emerging markets, Eugene says ARGUS Valuation - DCF is the software program it will use to create a common platform for evaluating opportunities.

“With ARGUS Valuation - DCF, we are now able to do a lot of locally-focused work that is geared toward each country,” she says, “while at the same time, in-house, we have a common method to approach deals and train our people.”

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