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Real Estate Debt & Capital Advisory EMEA Marketbeat Q4-2023

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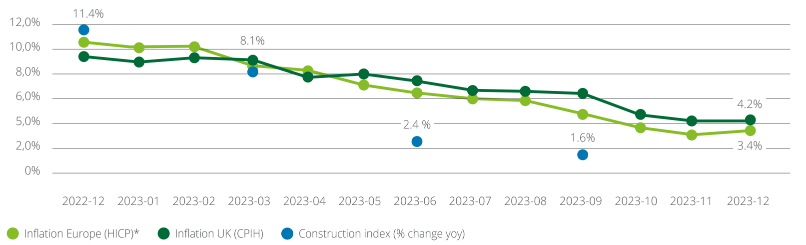
February 2024

Macroeconomic outlook

Inflation outlook

Lower economic growth, tighter monetary policy, and a resulting reduction in demand have contributed to a reduction in inflation. Major economies, including Germany, France & the UK continue to face growth concerns and stagnation resulting in a flat or marginal GDP growth in Q4-2023, in these countries. However, through effective control of inflation, economies such as Spain and Poland are bucking this trend and are showing signs of a strong recovery with growth greater than 1%. In 2024, it is anticipated that lower commodity prices will also diminish inflationary pressures at a European level.

Inflation* (one year average rate of change)



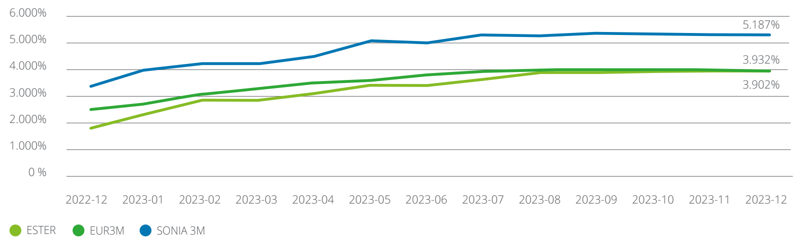
Note: (*) The Harmonized Index of Consumer Prices (HICP) is used in the analysis and is a measure of inflation in the European Union (EU).

Financing market outlook

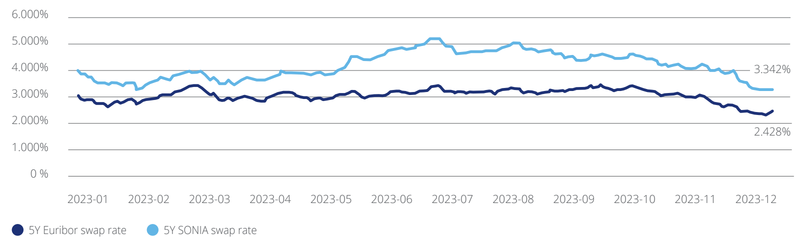
3.902%	3.932%	5.187%	2.428%
ESTER**	Euribor +3M**	SONIA 3M**	5Y Euribor swaps**

While lenders' appetite remains robust, there is a greater degree of caution, reflected in higher margins and a slight decline in the average LTVs used to size loans. With interest rates having risen significantly, interest cover is now often the key determinant of loan size. The insolvency of some well-known developers and institutional property owners in the last quarter of 2023 has also heightened a more risk-off approach. This trend is expected to continue, with lenders adopting more cautious strategies in response to recent insolvencies. However, the temporary pause in interest rate hikes, falling inflation rates and a potential recovery in asset values could provide for a more favourable financing environment.

Euribor +3M, ESTER & SONIA 3M (one year evolution)



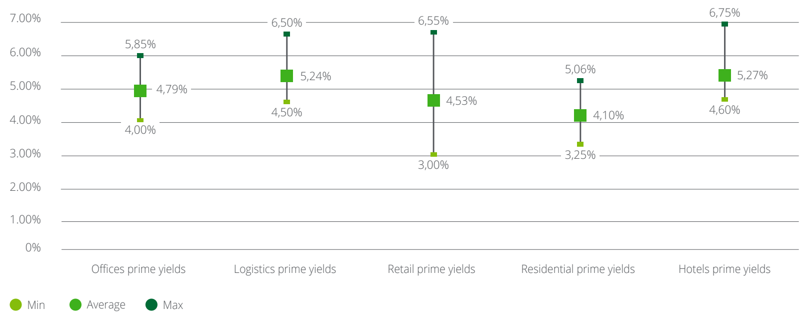
5Y Euribor & SONIA swap rates



Investment market outlook

In 2023, investment volumes significantly dropped across Europe. For example, Poland saw a 50% and Italy a 75% reduction of investment volumes. Rising interest rates and falling asset valuations especially in the commercial asset sector have resulted in a number of borrowers opting for loan extensions, therefore limiting investment opportunities. Subdued expectations for rental growth in various sectors often make current pricing unattractive, particularly given the risk-free rate. While the bid-ask spread is narrowing, transaction volumes during Q3-2024 remained low. This is expected to rebound in 2024 following the stabilisation of interest rates.

Prime yields levels by asset class (Europe)



Sources : Eurostat, Refinitiv, Statitsta, Bank of England Database, brokers

Note: (**) Numbers as of the end of December

Markets drivers

Evolution of interest rates

Decreasing inflation in European countries has led to cautious optimism that the ECB and the BoE will not raise rates further in the near term, supporting the relaunch of the real estate transactions market.

Defaults of key players

The collapse of the Austrian property group Signa, as well a number of owners returning keys to lenders following default, has sent ripples across the European commercial real estate market.

Cross-border investments

Global capital is now focusing on Europe, particularly from Asia and through some large family offices and institutions. This trend may continue through 2024 particularly as interest rates stabilize and investors look to take advantage of currency plays.

Real estate financing trends

Trends in financing products

The financing market is still adjusting to higher collateral and liquidity requirements, with analysis of metrics such as cash flow and repayment capacity becoming key. Lenders remain cautious and are generally wary of complicated capital stacks where access to the real estate can be challenging. As distressed situations begin to emerge, equity capital is playing a crucial role to plug any funding gaps, particularly given continued uncertainty around valuations. With significant capital on the side-lines waiting to be deployed, lenders are more willing to provide capital particularly regarding senior refinancing and for viable development projects

- ★ **Whole loans**
- Equity
- Senior debt
- Junior & mezzanine
- Financial leasing

Trends in financed purpose

Investment volumes peaked between 2017 and 2019, resulting in a significant number of financings with a maturity date due in late 2023 and 2024. Refinancing is therefore the highest trending activity among lenders. Increased financing costs have led borrowers to exercise debt extension options where possible, providing short term respite. This will be challenged in 2024, as lenders are less likely to push out maturities, leading to higher transaction volumes. Some lenders are showing a preference for opportunities in asset acquisition and capital expenditure financing in Spain and Ireland (driven by government support). However, due to the scarcity of these projects, many lenders are willing to consider financing development projects.

- ★ **Refinancing**
- Development financing
- Asset acquisition
- Fund Finance
- Portfolio acquisition

Trends in financed sector

Given the slowdown in the investment and lending markets, lenders are looking closely at the core characteristics and cash flow models of each asset. Best-in-class ESG assets remain in focus and operational real estate, with strong EBITDA growth potential has become a key focus. In this context, the residential and hospitality sectors continue to show robust performance and fundamentals in most European countries, and logistics remains a strong performing asset class, with the lowest decline in investment volume compared to last year. The residential sector has been an active asset class in terms of financing, particularly for BTR and PBSA schemes. Due to higher vacancy rates and continued questions around hybrid working, offices have been the most challenging sector.

- ★ **Logistics**
- Hotels
- Residential
- Retail
- Offices

Deloitte's sample of credentials for the quarter

Mixed portfolio

Glenveagh Properties PLC

Amount raised :
€350m

Debt :
Senior Bank Syndicate

Lender :
Barclays, AIB and BoI and HBFI

Deloitte Ireland advised Glenveagh Properties in the debt raising of €350m to increase its debt facilities by €100m and to support its ongoing expansion with a headline target of 3 000 units per annum.

Logistics

Edelweiss

Amount raised :
€15m

Debt :
Senior loan

Lender :
Deutsche Bank

Deloitte Netherlands raised a 5-year senior term loan for two newly developed logistics assets in the Netherlands with BREEAM excellent certificates.

Mixed portfolio

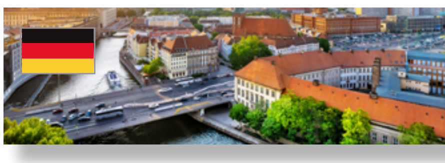
Veli

Amount raised :
€25m

Debt :
Whole Loan

Lender :
Confidential

Deloitte Germany aided in obtaining finance for the acquisition of a multi-tenant property in a central location in Wuppertal, characterized by a diversified and solid tenant structure.



Real estate financing sectorial trends and key indicators

Offices

Offices have been a challenging assets to finance as lenders have become increasingly selective. Flexibility, ESG standards, top sponsors, quality and stability of the assets and tenants have been particularly scrutinized by lenders (long WALT, strong ESG credentials, tenant strength, and preference for multi-lettings). In this context, refinancing or change-of-use deals have been most attractive for lenders. Acquisition and development deals have also emerged particularly for alternative lenders willing to take on more risk in return for higher margins.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	55-60%	↑	80-120 bps	→
France	50-55%	→	190-280 bps	→
Germany	50-55%	→	150-170 bps	→
Ireland	45-55%	↑	250-300 bps	↑
Italy	40-60%	→	250-350 bps	↑
Poland	50-65%	↓	305 bps	↑
Spain	50-60%	→	200-250 bps	→
The Netherlands	50-55%	→	250-350 bps	↓
United Kingdom	40-75%	↓	250-500 bps	↑

Source : Deloitte based on a market sounding

Residential

The operational sub-sectors of the residential market including BTR, PBSA, senior living, to name a few, have been well funded by the lending market. The relatively robust investment volumes in the living sectors and the continued supply and demand imbalance, particularly in the BTR sector have meant that there is a good degree of appetite from lenders to provide capital.

Lenders are more cautious when assessing the build to sell residential market given continued uncertainty around valuations, sales velocity and general affordability. Construction starts for build to sell have been subdued given this macro backdrop and this theme is expected to continue into 2024.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	55-60%	↑	80-120 bps	→
France	55-60%	→	160-220 bps	→
Germany	60-65%	↑	100-150 bps	→
Ireland	50-60%	↑	225-250 bps	→
Italy	40-60%	→	250-350 bps	→
Poland	55-70%	→	320 bps	↑
Spain	50-65%	→	200-250 bps	↓
The Netherlands	50-65%	→	175-300 bps	↓
United Kingdom	40-75%	↓	150-500 bps	→

Source : Deloitte based on a market sounding

Retail

The retail sector has been impacted by the large insolvencies from well known names & brands in countries including Germany, Austria and Netherlands. Whilst valuations have largely adjusted in the sector across Europe, lenders continue to remain cautious, particularly in relation to large shopping malls due to under performance and over saturation. Despite performance of prime retail high street assets being strong in France and Spain, lenders continue to focus on ESG, tenant quality and general macro economic factors (e.g. consumer spending).

The lending market will continue to watch the retail sector through 2024 with ongoing insolvency headlines a key focus.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	45-50%	↑	80-120 bps	→
France	50-60%	→	180-280 bps	→
Germany	45-55%	↓	160-180bps	↑
Ireland	50-55%	→	250-325 bps	↑
Italy	30-50%	→	300-350 bps	→
Poland	50-65%	↓	290 bps	↑
Spain	50-60%	→	300-350 bps	→
The Netherlands	50-60%	→	250-375 bps	↓
United Kingdom	40-75%	↓	150-500 bps	→

Source : Deloitte based on a market sounding

Real estate financing sectorial trends and key indicators

Logistics

Over the last quarter, logistics has been a preferred asset class for lenders and investors, although demand has been relatively lower in most European countries than previous years. In Ireland, the sector saw its largest volume of investment activity in 2023. As in the other sectors, prime locations, Grade A buildings and ESG standards have become essential to gain investors and lenders' interest as uncertainty rises, but the continued shortage in quality product and redevelopment sites have supported lending activity in the sector.

During the quarter, refinancing deals remained the most prominent with acquisition and development deals in second place, due to high construction costs and interest rates leading to a shortage of new construction space.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	55-60%	↑	80-120 bps	→
France	55-65%	→	170-280 bps	→
Germany	45-55%	→	160-180 bps	↑
Ireland	50%	→	225-275 bps	↑
Italy	40-60%	→	225-300 bps	↓
Poland	55-70%	↓	280 bps	↑
Spain	50-60%	→	250-300 bps	→
The Netherlands	50-60%	→	175-275 bps	↓
United Kingdom	40-75%	↓	150-450 bps	→

Source : Deloitte based on a market sounding

Hotels

As occupancy and ADRs continue to improve, the outlook from lenders regarding the hotel sector is generally positive in all European countries. The sector is benefiting from increased overall EBITDAs following Covid as hotels have been able to increase their room rates, with occupancy steadily improving. In Ireland, occupancy levels surpassed pre-COVID levels and in Spain the hospitality segment has been strengthened by record-breaking performance in the tourism sector, which has boosted RevPar growth. Germany is an exception, as the lenders and investors' sentiment towards the sector continues to deteriorate given the wider macro economic backdrop.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	50-55%	↑	80-120 bps	→
France	55-65%	→	130-240 bps	→
Germany	50-60%	→	150-170 bps	↑
Ireland	50-60%	→	250-300 bps	→
Italy	40-60%	→	250-350 bps	→
Poland	55-60%	↓	290 bps	↑
Spain	50-65%	↑	200-300 bps	→
Netherlands	50-60%	→	225-350 bps	↓
United Kingdom	40-75%	↓	150-450 bps	→

Source : Deloitte based on a market sounding

Netherlands / Dutch team's view

The Dutch financing market shows lenders to be very carefully cherry picking their clients and transactions, whereas many companies are dependent on one lender, which makes them vulnerable. The outlook of interest rate cuts by central banks in 2024 results in a continuing 'wait and see' attitude as credit terms are expected to improve in during the year.

Michael Vuijsje

Meet the team

The European Debt & Capital Advisory team assists you in your debt and fundraising processes through a large European lenders and investors' network thanks to an in-depth expertise of the financing and investment market.

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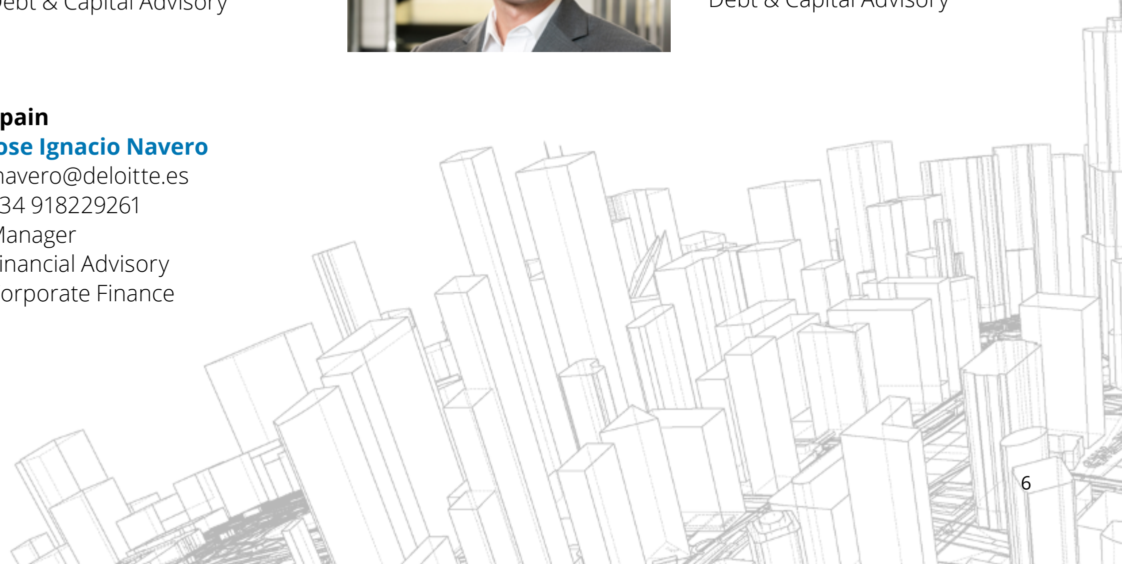

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