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Real Estate Debt & Capital Advisory
EMEA Marketbeat Q2-2024

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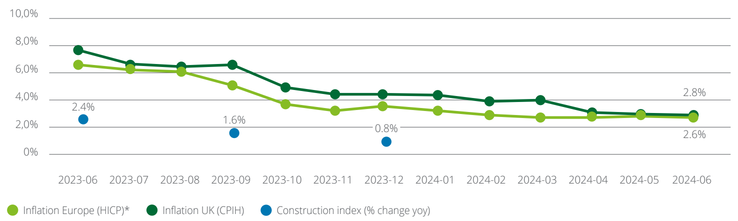
Macroeconomic outlook

Inflation outlook

Following recent recessions in a number of European countries, the disinflationary period in Europe is advanced but still ongoing with inflation stabilized at 2.6% in Europe and 2.8% in the UK. While above the 2% target of the European Central Bank (ECB) and Bank of England (BoE) this reflects a significant reduction on the recent highs and comes at a time when European countries are showing gradual signs of recovery, albeit at varying rates. Notably, the economic expansion of southern EU countries continues to outpace growth in northern and western Europe, with countries such as Spain anticipating GDP growth of 2.1%, while France and Germany's GDP growth is expected to reach 0.7% and 0.1% respectively by the end of 2024.

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

3.656% ESTER**

3.711% Euribor +3M**

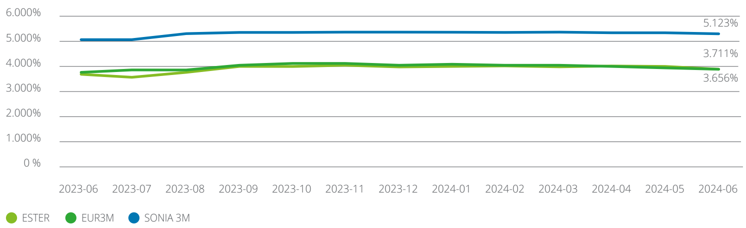
5.123% SONIA 3M**

2.874% 5Y Euribor swaps**

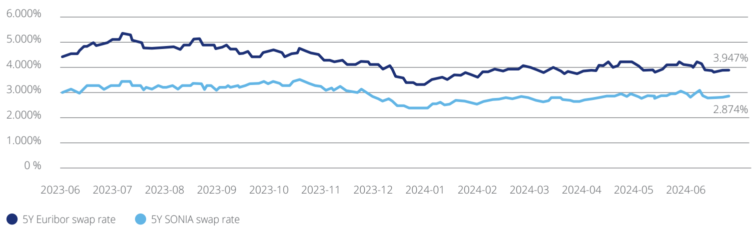
The ECB's June rate cut has delivered a positive signal to the market. However, while markets are anticipating a gradual reduction in base rates both in the UK and Continental Europe they remain elevated. Against this backdrop some lenders are prioritizing helping existing borrowers to manage their current exposures rather than actively seeking new funding opportunities, while others are displaying increased appetite to lend to make up for reduced lending in 2023. Most lenders remain reluctant to lower their expectations regarding equity and covenant requirements though and with some borrowers unable to make up for reduced borrowing capacity by injecting additional equity we are seeing challenges with financing/refinancing some business plans.

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

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



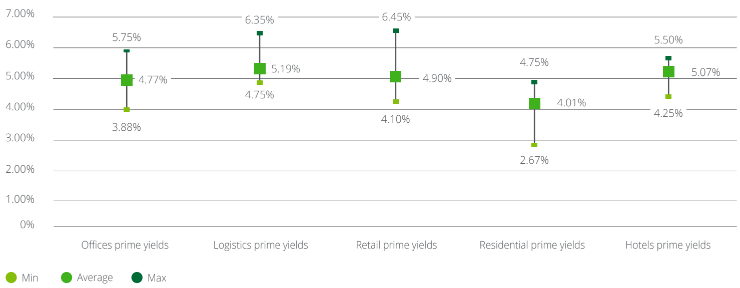
5Y Euribor & SONIA swap rates



Investment market outlook

Real estate investment activity has been gradually gaining momentum as demand and supply slowly realign. Furthermore, the willingness of certain lenders to deploy money (even if only very selectively) has mildly stimulated the investment market for borrowers with sufficient equity to support their projects. Still, finding price equilibrium in larger real estate transactions remains difficult. Anticipated further interest rate reductions in 2024 are expected to further increase transactional activity, as the market transitions from the "wait and see" approach of the last 24 months.

Prime yields levels by asset class (Europe)



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

Markets drivers

Evolution of interest rates

On the 6th of June, the European Central Bank Governing Council decided to lower the three key interest rates (refinancing operations, marginal lending and deposit facility) by 25 basis points to 4.25%, 4.50% and 3.75% respectively.

Elections across Europe

Elections in a number of European countries have impacted the stability of European financial markets and generated economic uncertainty for both local and international market players.

Geopolitical conflicts

The conflicts in Ukraine and the Middle East continue to negatively influence market sentiment towards Europe and increase the perceived economic risk.

Real estate financing trends

Trends in financing products

Senior debt remains highly sought after, driven in part by the market's refinancing needs and in part by its pivotal role in facilitating new developments. However, while development debt is available, sponsors with more complex projects are encountering difficulties in securing senior financing at their desired levels and cost. Consequently, borrowers' primary focus has remained on equity, primarily to bridge the lending gap from Senior & Mezzanine debt quantum. Conversely, market conditions for those seeking equity have improved, with current macroeconomic conditions presenting equity investors with opportunities to pursue counter-cyclical investment strategies. In Germany, this trend is exemplified by a significant increase in foreign equity investment.

- ★ **Equity**
- Senior debt
- Whole loan
- Mezzanine debt
- Junior debt

Trends in financed purpose

Refinancing currently dominates lenders' market activity in most European countries, as borrowers opt to postpone sales due to uncertainty surrounding current market prices. This has resulted in reduced transaction volumes in the commercial property markets in favour of refinancing. However, the combination of increased interest rates and heightened ESG requirements for new financings (sometimes involving capex) has led to a rise in refinancing costs, prompting owners to exercise their debt extension options whenever possible. Transaction volumes have begun to improve in 2024, albeit for selected high quality assets in prime locations where the numbers stack up. Both lenders and borrowers are eager to explore asset acquisition opportunities, but the scarcity of quality projects eligible for financing, coupled with high equity requirements, has resulted in relatively low asset financing volumes. Additionally, the pressing need for investment and renewal, particularly in light of new regulations and the need to "rescue" stranded assets, is generating significant demand for capex financing from borrowers.

- ★ **Refinancing**
- Asset acquisition
- Capex financing
- Development finance
- Portfolio acquisition

Trends in financed sector

The residential sector has been the most dynamic asset class within the real estate financing market, having been invigorated by the prospect of decreasing rates, an anticipated lack of supply in certain countries (e.g., France) and high levels of savings, which are expected to align supply and demand in the sector. Furthermore, many institutional actors are seeking to sell their residential assets to generate liquidity, thereby creating opportunities in the market. In light of these trends, residential developers have begun raising funds for new opportunities. We have also seen strong activity in the hotel sector where luxury hotels in prime locations across Europe are attracting strong interest from lenders, enabling higher leverage and reducing margins, particularly in the UK. Lenders also continue to exhibit an appetite for logistics assets, particularly where supported by long-term lease contracts with prominent players.

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

Deloitte's sample of credentials for the quarter

Retail

Wilton Shopping Centre

Amount raised :
Undisclosed

Financing :
Senior and mezzanine debt

Lender :
Confidential

Deloitte Ireland provided lead advisory services in relation to a debt raise to refinance facilities relating to the Wilton Shopping Centre in Cork.

Hotels

Confidential

Amount raised :
GBP 50m

Financing :
Senior debt

Lender :
Confidential

Deloitte UK achieved a very successful outcome raising acquisition debt to fund the purchase of the freehold interest in an ultra-prime luxury hotel in Covent Garden, London with a blue chip lender.

Residential

Confidential

Amount raised :
EUR 30m

Financing :
Equity

Lender :
Private

Deloitte Luxembourg advised a confidential client on a single ticket equity investment across two large-scale residential developments in Luxembourg.

Real estate financing sectoral trends and key indicators

Offices

Lenders remain highly selective with a clear focus on prime locations and high sustainability characteristics. However, despite yields moving outwards, senior financings remain rare as high interest rates coupled with low occupancy have resulted in difficulties meeting debt service requirements at higher levels of leverage. Conversely, the underperformance of assets outside CBDs with high vacancy rates has led to a lack of interest from investors and reluctance from lenders to finance them. In some countries such as Spain, however we are starting to see notable appetite for changing the use of such assets and the financing of the accompanying business plans.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	55-60%	→	80-120 bps	→
France	50-60%	→	160-180 bps	↓
Germany	55-60%	↑	150-170 bps	↑
Ireland	45-55%	→	250-300 bps	→
Italy	40-50%	→	250-350 bps	→
Luxembourg	55-70%	↓	200-250 bps	→
Poland	50-60%	↓	250-290 bps	→
Spain	50-60%	→	200-250 bps	→
The Netherlands	50-55%	→	200-300 bps	↓
United Kingdom	55-60%	→	250-270 bps	→

Source : Deloitte based on a market sounding

Residential

The build-to-rent residential sector has been notably active in the real estate financing market, buoyed by expectations of stable or slightly increasing market rents in the upcoming year, while required returns are anticipated to remain consistent with current reported levels. The stability of required yield is partly attributed to the expected decrease in interest rates throughout 2024, which should improve conditions in the transaction market. At a European level, various economic trends and policies are impacting the market in diverse ways: in Luxembourg, both the government and lenders have implemented measures and incentives to stimulate growth within the sector, while in the Netherlands, new regulations limiting the maximum rent allowed for residential assets have led to uncertainty regarding the future of the sector. In Germany, uncertainties in housing policy and economic conditions continue to complicate market balance.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	50-55%	→	80-120 bps	→
France	50-55%	→	160-180 bps	↓
Germany	65-70%	↑	110-130 bps	↑
Ireland	50-60%	→	225-250 bps	→
Italy	40-60%	→	250-350 bps	→
Luxembourg	50-70%	↓	200-250 bps	→
Poland	60-70%	→	220-260 bps	→
Spain	50-65%	→	200-250 bps	↓
The Netherlands	60-70%	→	175-250 bps	↓
United Kingdom	50-60%	↓	220-250 bps	→

Source : Deloitte based on a market sounding

Retail

Lenders are favoring prime retail locations and retail parks exhibiting strong sales and footfall numbers, while secondary shopping centers displaying poorer performances are lacking market appeal. Yield requirements for prime assets are expected to remain broadly stable or experience slight growth in the next year, with some secondary areas facing potential declines in market rents. Lenders' appetite is focused on food and/or supermarket-anchored shopping areas with good access to (public) transport and centered around consumer experience.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	45-55%	→	80-120 bps	→
France	50-60%	→	160-190 bps	→
Germany	45-55%	→	170-190 bps	→
Ireland	50-55%	→	250-325 bps	→
Italy	30-50%	→	300-350 bps	→
Luxembourg	n/a	n/a	n/a	n/a
Poland	50-60%	↓	250-290 bps	→
Spain	50-60%	→	300-350 bps	→
The Netherlands	50-60%	→	200-300 bps	↓
United Kingdom	50-60%	→	230-280 bps	→

Source : Deloitte based on a market sounding

Real estate financing sectoral trends and key indicators

Logistics

Lenders have expressed a keen interest in prime logistics assets situated in prime locations, particularly those with strong ESG standards and certifications (e.g., BREEAM or Leed). The appetite for large logistics assets varies across Europe. In Germany and Poland, lenders are anticipating a risk of rising vacancy levels in this asset class. Conversely, in Spain, Netherlands and France, lenders are keen to finance large logistics assets with investment-grade tenants, where there is a strong demand for spaces and limited supply.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	55-60%	→	80-120 bps	→
France	50-60%	↑	160-190 bps	↓
Germany	45-55%	→	170-190 bps	→
Ireland	50%	→	225-275 bps	→
Italy	40-60%	→	225-300 bps	→
Luxembourg	n/a	n/a	n/a	n/a
Poland	55-75%	→	220-280 bps	↑
Spain	50-60%	→	250-300 bps	→
The Netherlands	50-60%	→	175-275 bps	→
United Kingdom	55-65%	→	220-260 bps	→

Source : Deloitte based on a market sounding

Hotels

In most European countries, the hotel asset class continues to experience enhanced overall EBITDAs, as hotels have successfully raised their room rates, with occupancy rates steadily improving. Lender appetite is generally positive, although there remains a strong emphasis on location, luxury level, and sustainability metrics. The investment market has witnessed significant transactions, such as the sale of the Hotel de Rome in Berlin for €145M, contributing to an overall transaction volume of €260M in Germany. In Denmark and Spain, new investors are entering the market with strategies focused on repositioning or portfolio aggregation.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	50-60%	↑	80-120 bps	→
France	50-55%	→	140-180 bps	↓
Germany	50-60%	↑	150-170 bps	↑
Ireland	50-65%	→	250-300 bps	→
Italy	40-60%	→	250-350 bps	→
Luxembourg	n/a	n/a	n/a	n/a
Poland	50-70%	→	240-290 bps	→
Spain	50-65%	↑	200-300 bps	→
The Netherlands	50-60%	→	200-300 bps	→
United Kingdom	55-65%	→	225-275 bps	→

Source : Deloitte based on a market sounding

Germany / German team's view

The German property financing market remained robust in Q2 2024, with traditional lenders identifying and managing risks while developing strategies for the year. Government subsidies in residential construction provided support. The commercial investment market recorded a 22% year-on-year increase in turnover, reaching EUR 11.16 billion in the first half of 2024, despite the challenges posed by high bond and debt financing levels. The second quarter saw a slight decrease in transaction volume compared to the previous quarter, with institutional investors focusing on high-quality office properties. On the residential property market, the upward trend in house prices was halted due to higher construction costs and interest rates, which led to a stronger increase in rents.

Matthias Hahner

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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