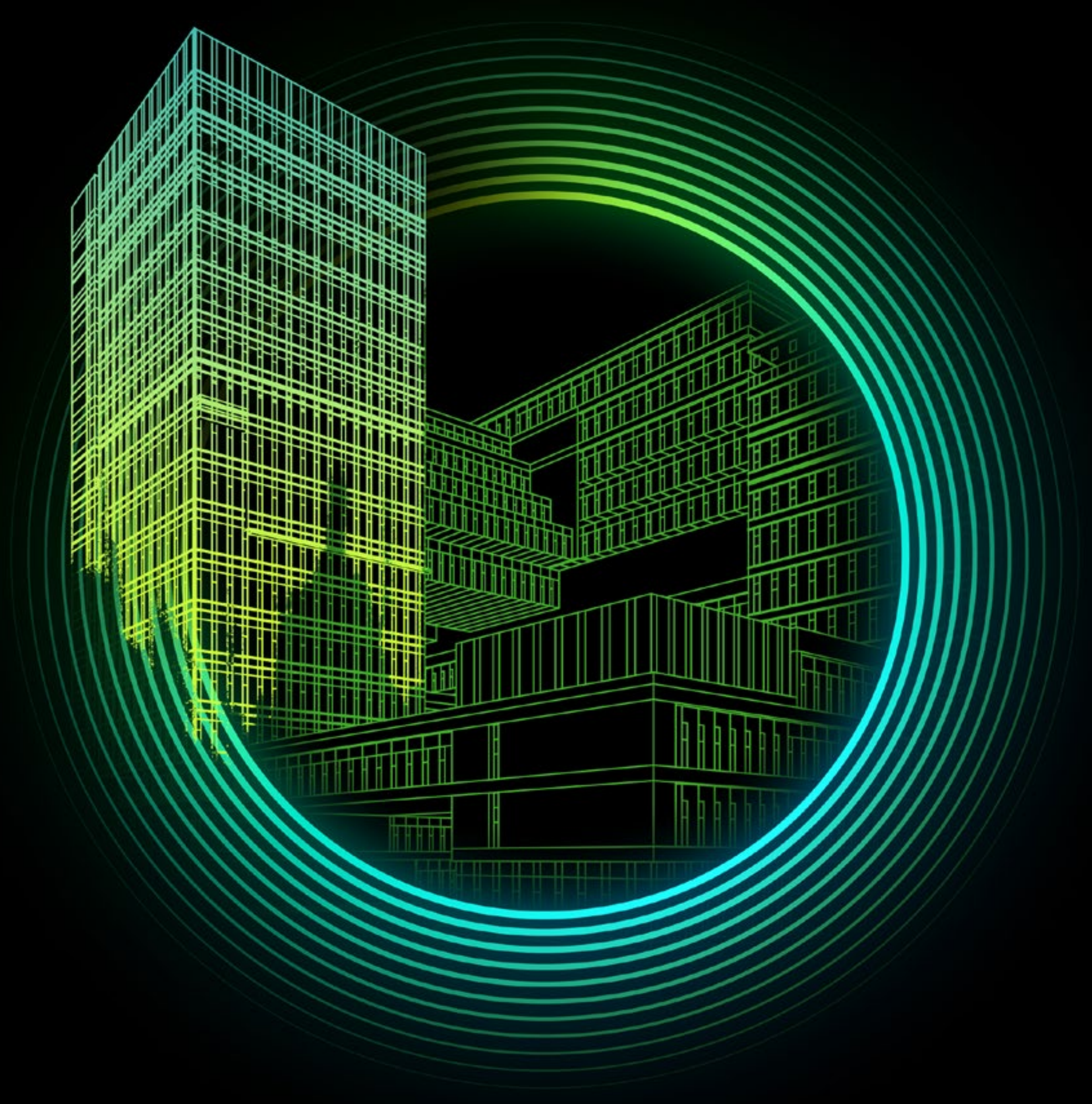


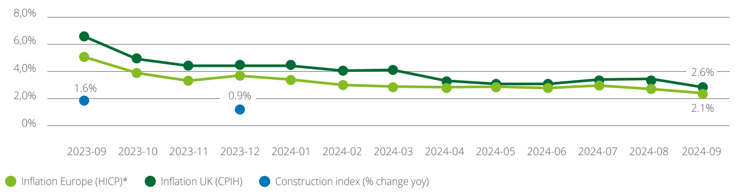
Real Estate
Debt & Capital Advisory
EMEA Marketbeat Q3-2024

Macroeconomic outlook

Inflation outlook

European countries are facing sluggish economic growth and persistent inflationary pressures. While inflation is gradually stabilizing, high energy and services costs continue to pose challenges. The UK, for example, has achieved its 2% inflation target, but concerns linger about underlying domestic price pressures. Economic growth across Europe remains uneven. Belgium, the Netherlands, and Italy are projected to experience modest growth of 1.3%, 1.1%, and 0.6% respectively in 2024, while Spain is expected to outperform other countries at 2.4%. Conversely, Germany and Ireland face slight contractions of 0.2% and 0.9%. Despite these challenges, the overall outlook for European economies is cautiously optimistic. As inflation and interest rates gradually decline, conditions are expected to improve.

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).

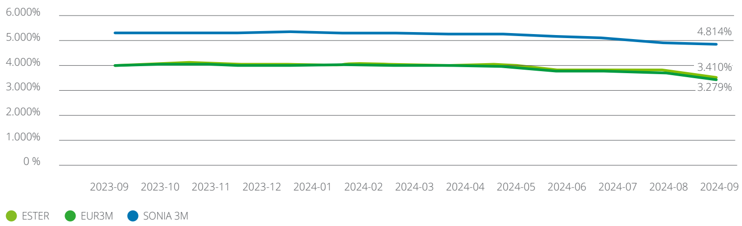
Financing market outlook

3.410%	3.279%	4.814%	2.206%
ESTER**	Euribor +3M**	SONIA 3M**	5Y Euribor swaps**

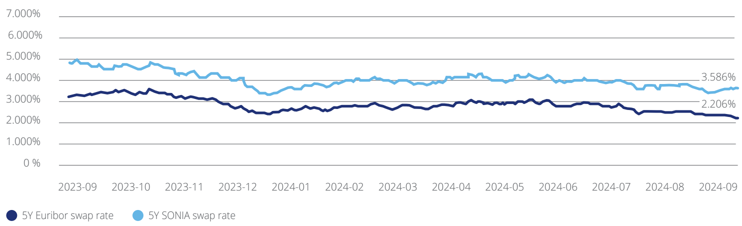
While the European Central Bank's recent interest rate cuts have created a more favourable borrowing environment, lenders remain cautious and sector-focused. Some lenders are demonstrating a greater willingness to finance transactions, particularly in sectors experiencing robust demand, signalling a positive shift in market sentiment. However, others remain more risk-averse, prioritizing the management of existing credit exposures over pursuing new lending opportunities. Tight credit requirements persist, with recent rate cuts not leading to any increase in available leverage. ESG considerations are becoming increasingly important.

Note: (**) Numbers as of the end of September 2024

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



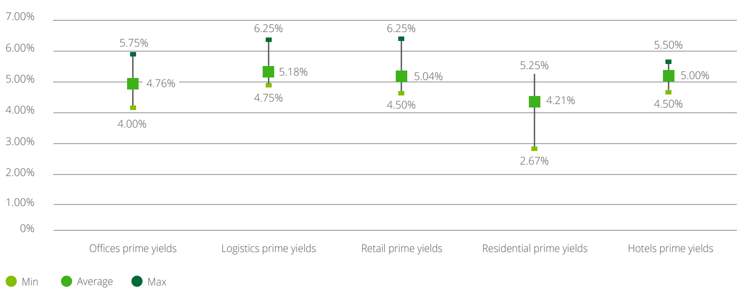
5Y Euribor & SONIA swap rates



Investment market outlook

While investment activity remains somewhat subdued in certain sectors, there are clear signs of recovery across Europe. This resurgence is driven by sector-specific demand, high-profile transactions, and a more favourable interest rate environment. Several European markets are reporting increased transaction volumes in recent months. Germany, for example, saw a 15% year-on-year increase in Q3 2024. Ireland and Italy also experienced year-on-year growth, achieving their highest quarterly investment volumes since early 2023. However, it's worth noting that the overall level of activity remains relatively low. As interest rates continue to decline, investment activity is expected to gain further traction.

Prime yields levels by asset class* (Europe)**



Note: (***) prime yields are reported for Q2 2024

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

Markets drivers

Evolution of interest rates

On September 12th, the European Central Bank's Governing Council lowered the three key interest rates. The rates for refinancing operations, marginal lending, and the deposit facility were reduced by 60, 60, and 25 basis points, respectively, resulting in new rates of 3.65%, 3.90%, and 3.50%.

The "Super Election year"

In 2024, there has been a wave of national elections in over 60 countries, including the crucial US election on November 5th. This surge in political activity is generating economic uncertainty and raising the risk of policy shifts that could reverberate across both domestic and global markets.

Geopolitical conflicts

The ongoing conflicts in the Middle East and Ukraine continue to cast a shadow over market sentiment towards Europe, elevating perceived economic risk. These geopolitical tensions have the potential to disrupt global supply chains and exert upward pressure on the prices of essential commodities.

Real estate financing trends

Trends in financing products

Equity is the highest trending financing product in the current European markets. This trend is driven by its alignment with long-term project goals and the challenges borrowers currently face in securing debt financing. While senior debt remains a cornerstone for financing prime commercial real estate, lenders are adopting a more cautious approach, with low loan-to-value ratios (albeit there is heightened lender competition for the best opportunities). This has prompted borrowers to explore alternative sources of capital. The high cost of equity and reduced bank leverage have created a favourable environment for alternative lenders, who are steadily gaining market share. Whole loans also remain attractive to borrowers seeking higher leverage through a single lender solution. In certain markets, borrowers are exploring combinations of senior and junior debt to achieve their required LTV, despite the added complexity and higher borrowing costs.

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

Trends in financed purpose

Refinancing is still occupying lenders, as property owners seek to extend loan terms or restructure existing debt. This trend highlights the demand for stable and sustainable financing solutions, with borrowers often opting to delay property sales when possible. However, recent interest rate cuts by the European Central Bank have sparked a renewed lender interest in new developments, acquisitions, and corporate financing across several markets, including France, the UK, the Netherlands, and Ireland. Luxembourg, in particular, is witnessing some developers actively preparing to launch new projects. Furthermore, development finance for residential projects is gaining momentum in certain countries, notably Ireland and Luxembourg, driven by a confluence of factors, including ongoing housing shortages and supportive government incentives.

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

Trends in financed sector

The European residential sector remains the most dynamic segment of the real estate financing market, despite challenges posed by stricter ESG requirements from banks and low loan-to-value ratios. Investors are demonstrating a clear preference for ESG-compliant, energy-efficient, and high-quality housing projects. Logistics continues to be a highly sought-after asset class, driven by robust demand for warehousing and distribution facilities, a strong occupier market, and the sector's adaptability to sustainability upgrades such as solar panels and heat pumps. Despite ongoing investor interest in hospitality, lenders are exercising caution, prioritizing established clients and assets with stable cash flow, given the sector's vulnerability to economic shifts and changes in travel behaviour. However, Ireland and Spain are experiencing robust hospitality performance, with Ireland's 2024 hotel transaction volume potentially exceeding a record €1 billion.

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

Deloitte's sample of credentials for the quarter

Hotels

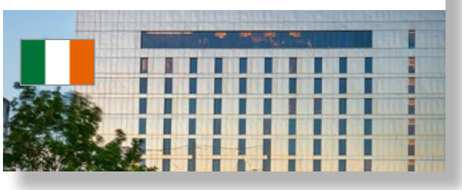
Project Dalata

Amount raised:
EUR 600m

Financing:
Senior green term loan, RCF and private placement

Lender:
Banking syndicate/institutionals

Deloitte Ireland provided advisory services to a client for the refinancing of their existing facilities. The deal featured new banking arrangements and a private placement.



Hotels

Prime London Hospitality Business

Amount raised:
GBP 100m+

Financing:
Senior loan

Lender:
Confidential

Deloitte UK provided debt advisory services to a hospitality business.

Logistics

Project Bernard

Amount raised:
Confidential

Financing:
Term loan

Lender:
Confidential

Deloitte Netherlands assisted the client in raising debt for a light industrial portfolio.

Real estate financing sectoral trends and key indicators

Offices

Lenders in most European markets hold diverse views on the office sector, reflecting a broader divide between countries embracing remote work and those encouraging a return to the office. This contrast is evident in markets like Denmark, Germany, and the UK, where a resurgence of office attendance is driving increased rental demand and stimulating sector growth. Conversely, in Spain and France, a notable appetite for change of use operation is observed as offices are threatened by obsolescence. Furthermore, while prime office space remains highly sought after in markets such as the UK, Denmark, the Netherlands, and Spain, secondary office properties in these same countries are grappling with significant challenges.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	50-60%	→	170-225 bps	→
Denmark	55-60%	→	80-120 bps	→
France	45-60%	→	165-185 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%	↓	260-300 bps	↑
Spain	50-60%	→	200-250 bps	→
The Netherlands	50-55%	→	200-300 bps	↓
United Kingdom	55%	→	275-310 bps	→

Source : Deloitte based on a market sounding

Residential

Lenders' appetite remains strong for the residential sector despite the current macroeconomic environment. Many countries are facing housing shortages, leading to high demand for affordable and rental housing, particularly in Germany, the Netherlands, the UK, and Ireland. In Ireland, domestic lenders face increased competition from non-domestic lenders who have expanded their participation in the residential market. As a result, domestic lenders' activity concentrates on refinancing existing portfolios. Germany is experiencing population growth and an increasing demand for student accommodation. In Italy, there is a lack of supply in the main cities but strong demand for prime residential properties. In the UK, emerging sectors like single-family housing are gaining traction as there is an urgent demand for high quality and sustainable rental housing, especially for families. In France, there is a renewed interest in acquiring both existing and new properties.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	55-65%	→	125-200 bps	→
Denmark	55-56%	↑	80-120 bps	→
France	50-60%	→	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	55-65%	↓	175-250 bps	→
United Kingdom	60%	↑	235-265 bps	↓

Source : Deloitte based on a market sounding

Retail

The European retail sector presents mixed trends across different markets. In France, lender preference leans towards retail parks and street-level retail spaces over traditional shopping centres. Germany and Spain are witnessing growth in the prime retail segment, while their secondary markets struggle to attract interest. Meanwhile, Irish lenders are focusing on out-of-town retail locations, favouring their low vacancy rates, strong tenant mix, and typically higher yields. The Danish retail market remains largely driven by the grocery segment, which offers greater resilience to economic fluctuations. Similarly, discount grocery chains are expanding in the UK, capitalizing on strong consumer demand for affordable products. Belgium's retail sector is optimistic, with transaction volumes reflecting an economic correction from the COVID-19 crisis that appears to be already priced in.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	50-60%	↑	170-275 bps	↓
Denmark	50-55%	↑	80-120 bps	→
France	50-60%	→	165-185 bps	→
Germany	50-60%	↑	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%	→	210-250 bps	↓
Spain	50-60%	→	300-350 bps	→
The Netherlands	50-55%	→	200-250 bps	↓
United Kingdom	50-55%	↓	265-315 bps	↑

Source : Deloitte based on a market sounding

Real estate financing sectoral trends and key indicators

Logistics

The logistics sector continues to be a highly sought-after asset class across much of Europe. In France, despite relatively low transaction volumes, logistics stands out as the most resilient sector. Italian and Danish lenders are particularly interested in new, modern, and high-quality (A-grade) properties, as well as assets with strong sustainability and energy efficiency credentials. The UK logistics market has returned to a more sustainable growth trajectory following a period of price adjustments. While rental growth has softened due to increased availability, demand for sustainable and future-proofed assets remains strong. In contrast, Polish lenders are closely monitoring market dynamics amid concerns of potential oversaturation stemming from a high volume of projects.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	55-65%	→	125-200 bps	→
Denmark	55-60%	→	80-120 bps	→
France	45-60%	→	160-185 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	50-70%	↓	230-290 bps	↑
Spain	50-60%	→	250-300 bps	→
The Netherlands	50-60%	→	175-250 bps	↓
United Kingdom	60%	→	265-300 bps	→

Source : Deloitte based on a market sounding

Hotels

While the hospitality sector continues to attract lenders, they are increasingly selective, favouring prime locations, luxury properties, and established brands, particularly in France, Italy, and the Netherlands. Several markets are experiencing robust growth in hospitality, with Denmark, Spain, and the Netherlands witnessing high occupancy rates and revenue driven by resurgent tourism, strong event calendars, and rising room rates. Spain is a particularly attractive market for lenders, buoyed by record-breaking tourism in 2023 and positive projections for 2024. The Italian market, focused on value-add and repositioning opportunities, is also viewed favourably by lenders. In Ireland, senior lenders are particularly interested in hotel assets with strong sponsors and a proven track record of success.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	45-55%	→	180-250 bps	→
Denmark	55-60%	↑	80-120 bps	→
France	50-55%	→	160-170 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%	→	250-300 bps	↑
Spain	50-65%	↑	200-300 bps	↓
The Netherlands	50-60%	→	200-275 bps	↓
United Kingdom	60%	→	265-315 bps	→

Source : Deloitte based on a market sounding

Ireland / Irish team's view

Ireland's resilient economy and compelling demographic trends provide strong fundamentals for the country as an investment location. Employment reached a record 2.75 milllion persons in Q2 2024, while the Central Bank of Ireland forecasts growth in both personal consumption and domestic demand in 2024 and 2025. For real estate, the picture is improving. Following subdued activity in 2023 and the start of the 2024, occupier and investment activity has increased. Dublin office take up is estimated to have reached 138,600 sq m in the year to date, while the volume of space reserved also rose 80% on the previous quarter. This data, along with notable deals in both the second and third quarter have all aided sentiment within the sector. Similarly, investment volumes also improved, reaching €1.3bn in the first three quarters. Retail accounts for 34% of total investment activity in the year to date, as vacancy rates have decreased and rental growth is evident in some elements of the market. Lastly, PRS continues to struggle as construction costs, rental controls and interest rates impact the market. PRS to the side, the residential market is noting increased activity in social and affordable accommodation with state bodies playing a significant role. With the ECB cutting interest rates for the third time this year, the outlook for the market continues to improve.

Daniel Lockley

Meet the team

The European Debt & Capital Advisory team can assist you in your debt and fundraising processes through a large European lenders and investors' network, and has in-depth expertise in financing and investment markets across the continent.

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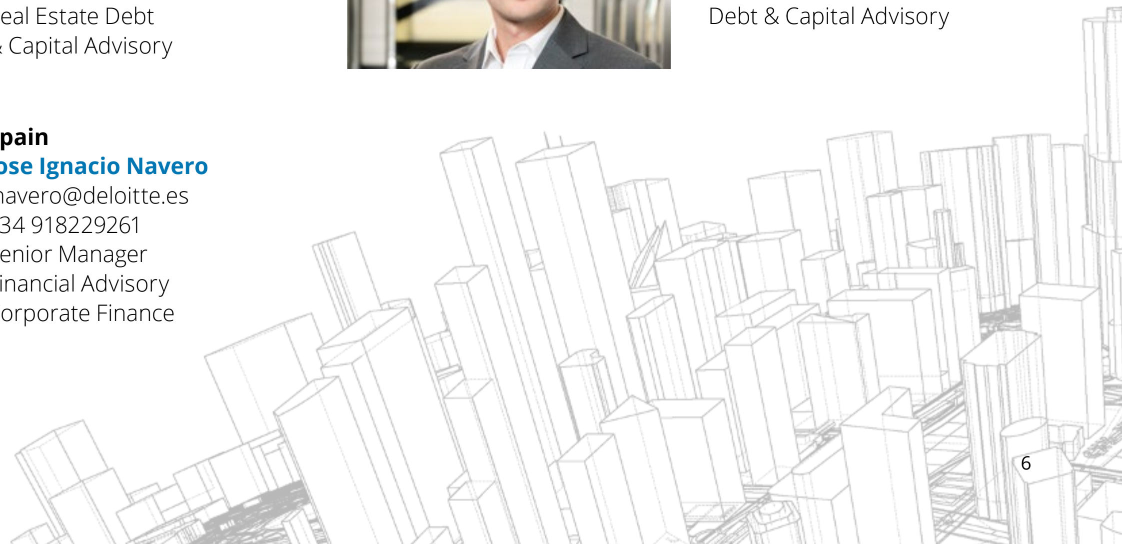

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