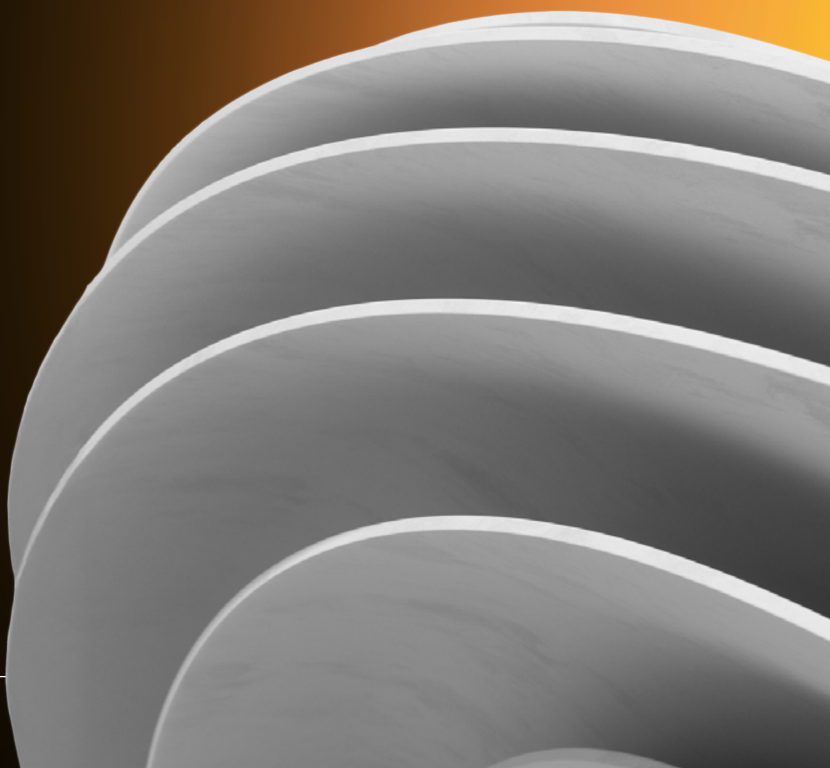
Real Estate REvolution

Dawn of real estate securitization

Index



Introduction

Real estate private debt represents a highly significant segment for the market, especially in Italy, where the combination of real estate and listed instruments has so far not been synonymous with success.

At the European level, the sector remains anchored to a model centered on traditional credit, with over 80% of commercial real estate (CRE) financing being bank-based. However, in recent times, the sector has shown clear signs of change – mainly due to exogenous rather than endogenous forces – which could lead to a structural evolution of the European market, bringing it closer to more "mature" and developed models like those of the USA or UK. In these markets, traditional credit is now steadily complemented by new players and instruments, contributing to a significant enrichment of the range of products offered by (and to) the real estate market.

In the current market context, traditional banks are progressively reducing their exposure to commercial real estate (CRE), partly due to the increasing pressures from new regulatory constraints resulting from the adoption of the Basel IV directive, as well as the macroeconomic environment and its effects on the real estate market.

At the same time, the market is facing the significant challenge of refinancing real estate debt maturing over the next three years, stemming from the "expansionary" phase that the market experienced between 2018 and 2021, with amounts totaling approximately €500-600 billion.

These dynamics can provide fertile ground for real estate securitizations, a relatively young instrument that emerged from the natural evolution of securitization regulations. With its innovative potential, real estate securitization is increasingly attracting market interest.

In order to provide an overview of this new market, we have analyzed its size, the involved parties, and its main characteristics.

We then conducted a survey on the sentiment of operators regarding their perceptions and the expected prospects for the future of commercial real estate credit, subsequently focusing on the market for real estate securitizations to capture the level of familiarity, advantages, and limitations for the sector's future.

Methodology

Considering the innovative nature of the instrument and the lack of existing data and analyses, we conducted a quantitative study on a sample of SPV 7.2 vehicles already established as of the date of this Report in order to provide a comprehensive overview of the market context and its main characteristics.
Specifically, the market analysis was carried out based on the detailed collection of data related to a representative sample covering 60% of the current market, from which the overall market size was estimated and the main characteristics were identified.

Our analysis was further deepened by a survey on the sentiment of operators regarding the traditional credit market and real estate securitizations, through the distribution of a closed-question questionnaire using the CAWI (Computer Assisted Web Interview) methodology. This survey involved approximately 200 operators in the Italian real estate sector, belonging to over 80 companies and five different clusters: asset managers, banks, investors, developers, and alternative lenders.
The response rate was significant, with averages exceeding 30% across all clusters.
The following sections present, in summary, the aggregated analysis of the collected responses, divided by investigation areas.

Commercial Real Estate: debt market

1

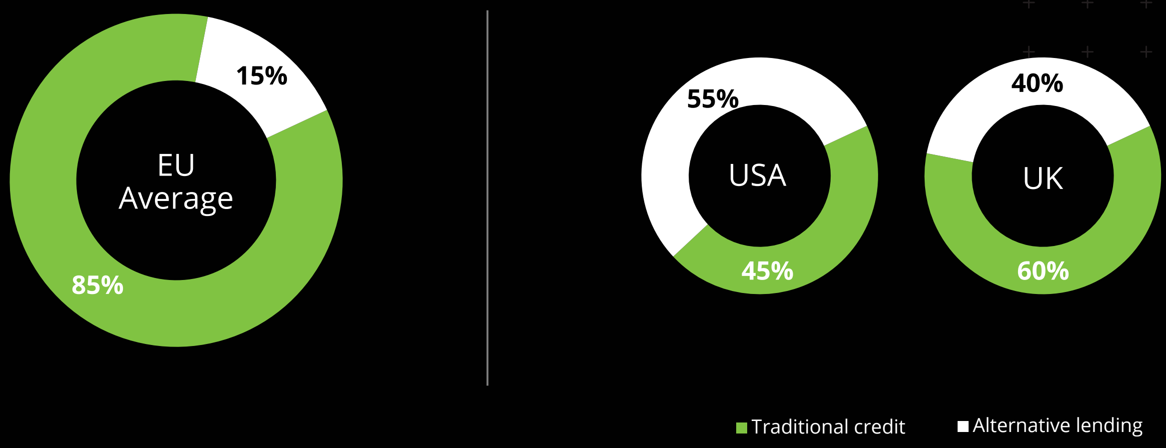
The traditional credit market

The overview of the commercial real estate (CRE) credit market depicts a market that in Europe has historically been, and continues to be today, strongly tied to the banking system.

On average, 85% of CRE financing originates from banking institutions, while the share of so-called alternative lenders stands at approximately 15%, with no significant variations across different markets (in the German system, the most diversified within the community, the share of alternative lenders is estimated at just 20%).

It is therefore evident that these statistics are still far from those of more structured and evolved markets in terms of player diversification, such as the USA market where the proportions are reversed (alternative lenders account for an estimated 55%) or the UK market where the banking system accounts for 60%.

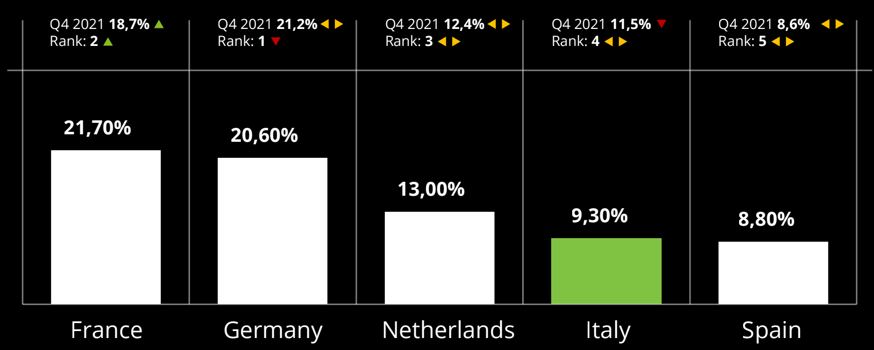
Figure 1 | Europe is heavily dependent on the banking system



Source: Bayes Business School, Cohen and Steers

The stock of banking financing in European commercial real estate (CRE) is strongly concentrated in a few countries, with the top five by size covering over 70% of the market (out of a total of approximately €1.400 billion based on the latest statistics from the EBA, European Banking Authority). In this ranking, Italy represents the fourth largest market—after France, Germany, and the Netherlands—with a market share just above 9%, although its significance has decreased over the past three years from 11.5% recorded at the end of 2021.

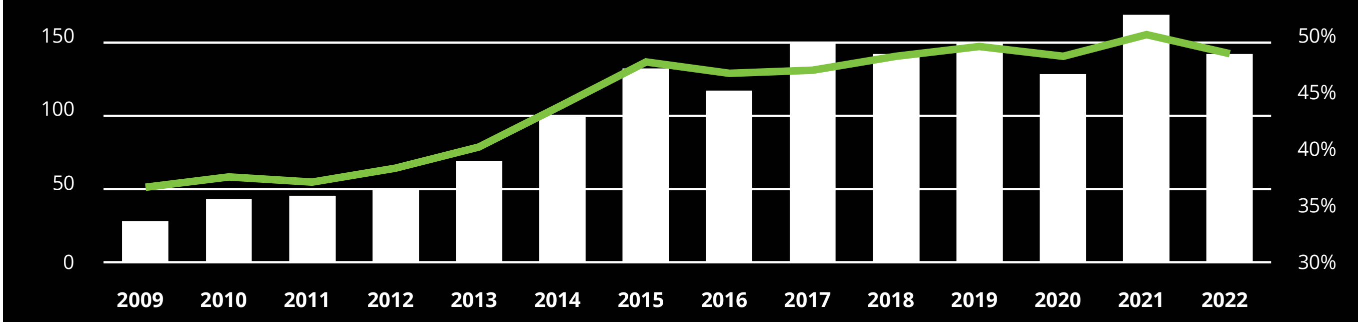
Figure 2 | Top-5 European CRE credit markets by share of EU total



Source: Deloitte analysis on European Banking Authority (EBA) data as of June 30, 2024

In a context of increasing regulatory pressure and uncertainty about real estate market fundamentals, European banks have started to gradually reduce their exposure. This includes a 16% decline in terms of new loans granted and a contraction in the average Loan to Value (LTV) ratio applied.

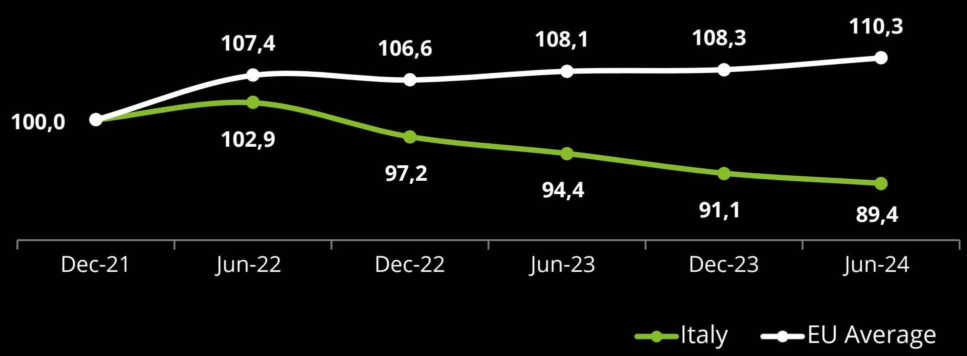
Figure 3 | Origination & average LTV: signs of a market slowdown



Source: Candriam, Tristan Capital Partners

This dynamic has resulted in a flattening of the curve related to the evolution of CRE loan stock at the European level and within many of its national markets, although it has not yet shown significant decreases in the value of outstanding loans.
However, focusing specifically on the Italian market, the evolution of CRE loan stock shows an even more pronounced trend, highlighting a contraction in bank exposure that began in the second half of 2022 and is still ongoing.

Figure 4 | CRE Credit: Evolution of Loan Stock between Q4 2021 and Q2 2024 (base Dec-21)



	233.8	254.6	275.5	286.7	287.2	298.9
	264.0	272.8	275.4	281.6	283.2	283.6
	154.9	160.6	175.6	176.0	175.0	178.3
	**142.9**	**147.0**	**138.9** ▼	**134.9** ▼	**130.2** ▼	**127.8** ▼
	106.9	119.0	117.4	120.0	118.2	120.5
	**1,248.0**	**1,340.2**	**1,330.7**	**1,348.7**	**1,352.1**	**1,376.4**

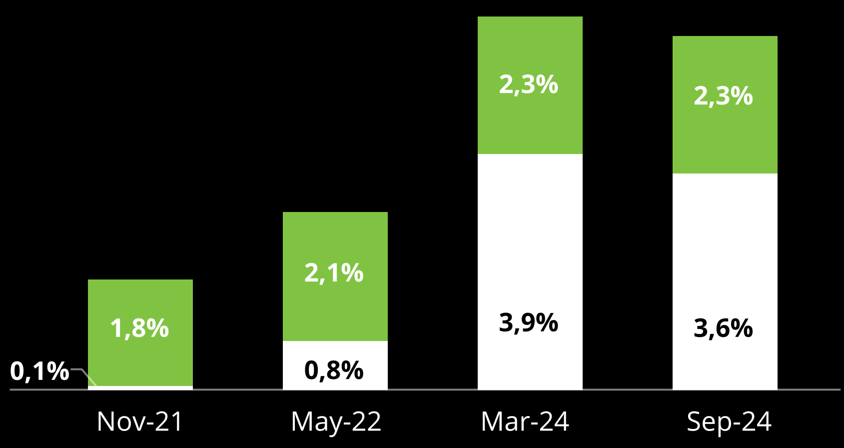
Source: Deloitte analysis on European Banking Authority (EBA) - €bn

The data shows that, in conjunction with increasing regulatory pressure and stricter capital requirements imposed on banks, along with a less vibrant real estate market in 2023, the value of loans recorded on the books of Italian banks has decreased. This is due to significant extraordinary operations in recent years, which have considerably reduced the stock of non-performing loans (NPLs), leading to a marked improvement in asset quality. However, this quality is still below the European average, with the NPL ratio decreasing from 11% to 6.0%, compared to a European average of 4.4%.

The reversal of the banking system's approach comes in a macroeconomic context that has changed significantly compared to the recent past.

After years of interest rates being close to zero, the monetary policies undertaken to combat inflation have led to a substantial increase in base rates, which, before the first cuts were announced, nearly reached 4%.
Lenders have also followed this upward trend, with spreads on senior loans generally increasing by 50 basis points.

Figure 5 | Evolution of Average Financing Cost (EU Average)

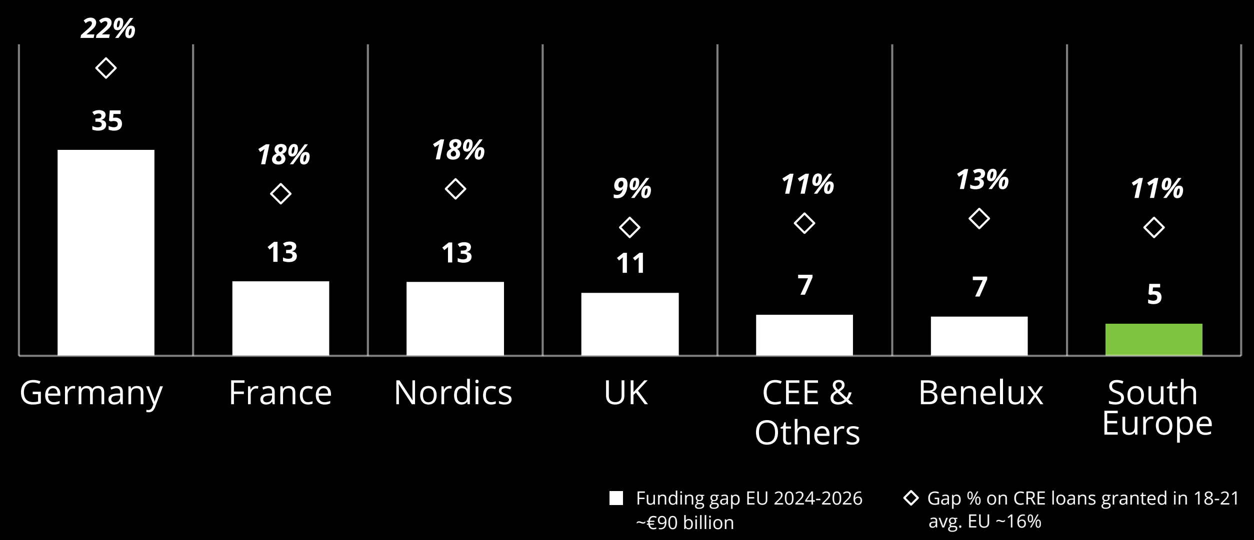


Source: Apollo Global Management

The strong inflationary pressure and the increase in interest rates have also impacted the real estate market, as evidenced by the reduced volume of investments in 2023 and the overall decline in property values.

The reduced propensity for credit, combined with declining asset values after a period of intense activity, has contributed to the much-discussed phenomenon of the funding gap. In 2024-2026, the market will face the significant challenge of refinancing maturing debt (primarily related to loans granted in 2018-2021, assuming an average maturity of 5 years).
It is estimated that about 16% of the European debt maturing in the next three years—ranging between €500 billion and €600 billion—will remain uncovered by refinancing dynamics. This corresponds to a gap of approximately €90 billion, with more pronounced needs in Germany (22%) and smaller gaps in the UK (9%), Italy, and Central/Southern Europe (11%).

Figure 6 | Funding gap estimate 2024-2026, €bn



Source: AEW Research

The difference between the original amount of debt and what will be accessible will therefore need to find alternative coverage through other forms of financing, whether by resorting to equity or alternative lending solutions.

CRE: private debt – why now?

The analysis of observed quantitative variables presents a unique combination of discontinuity and novelty elements that could lead to a new phase of maturity for the European private debt sector, mirroring the transition that occurred in the US market over the past decade.

On one hand, the supply landscape is undergoing profound changes with the partial retreat of banks, linked to regulatory factors (the implementation of Basel IV) and the widespread reduction of exposure to the real estate market. This latter trend is accompanied by stricter credit evaluation criteria and greater caution from traditional lenders, who have become highly selective in terms of partners and projects to finance.

On the other hand, on the demand side, there is a growing need for financing solutions, especially in light of the significant resource requirements to address the refinancing challenge over the next three years and to support the energy transition.

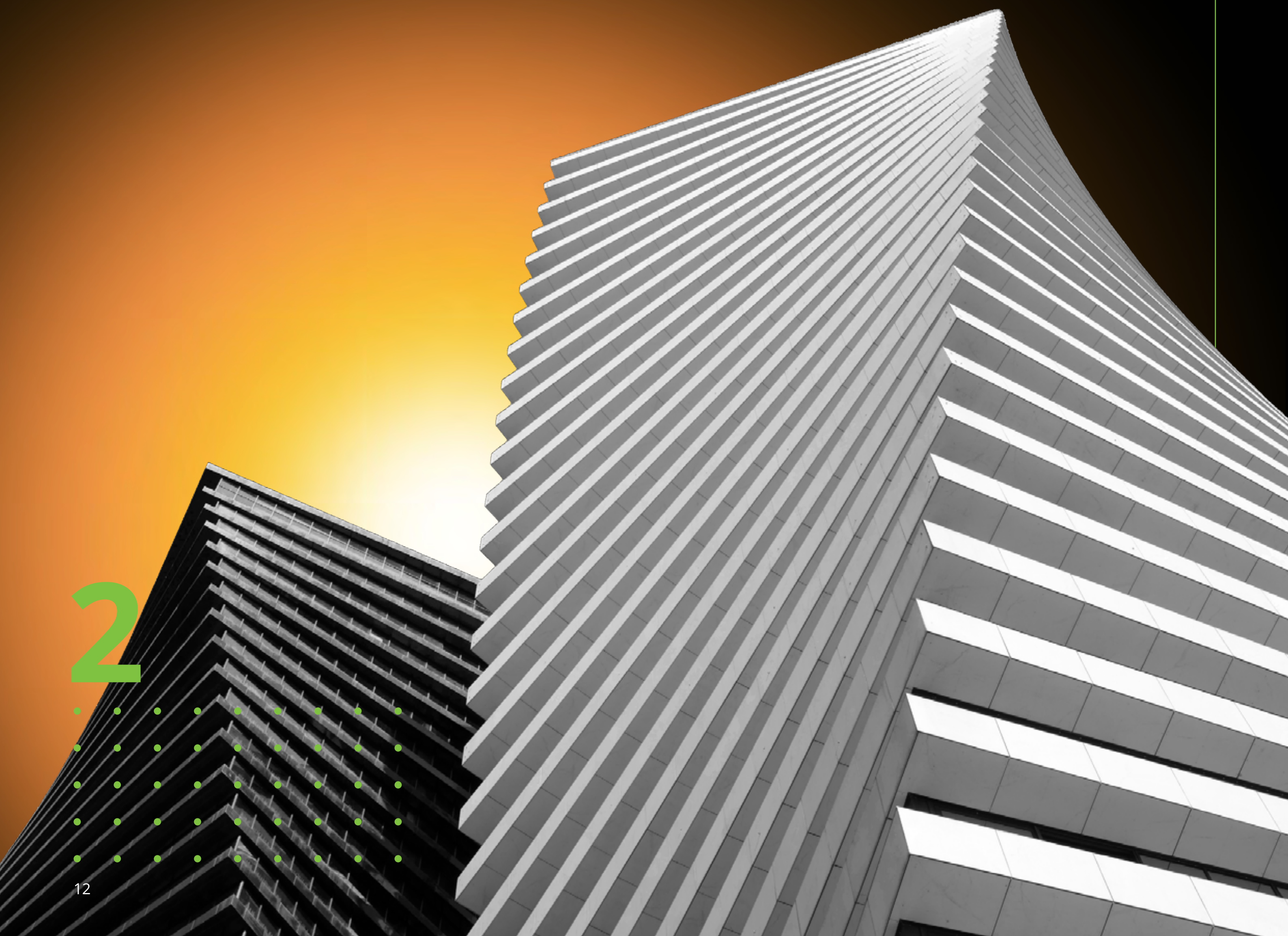
These combined factors drive the renewal of sector dynamics, representing an outstanding opportunity for new players to enter the market. They can exploit the mismatch between supply and demand and position themselves as partners for entities seeking more agile and flexible financing compared to the past.

Lastly, the current economic conditions of credit also represent an opportunity to capitalize on, with prospects of robust returns for those who can swiftly enter the market to leverage the current interest rate levels to their advantage.

In this context, there is an increasing focus on debt instruments in the international market. For the third consecutive year, global investors involved in a survey conducted by INREV (European Association for Investors in Non-Listed Real Estate Vehicles) have identified debt as the preferred pathway for accessing the European real estate market. Additionally, more than 60% of respondents indicated their willingness to further increase the collection and allocation of capital destined for real estate debt, primarily dedicated to direct lending instruments. At the same time, there is increasing pressure on debt funds, which since 2020 have achieved a record fundraising of over €150 billion, a significant portion of which has not yet been deployed and is therefore ready to be injected into the market.

These factors could trigger – and facilitate – the evolution of the European credit market towards more diversified models akin to those in Anglo-Saxon countries, where traditional credit and alternative lending often coexist and complement each other.
On one hand, traditional credit remains oriented towards core solutions with lower Loan-to-Value (LTV) ratios and shorter durations (more favorable in terms of capital requirements).
On the other hand, alternative financing can intervene with non-senior financing instruments, including longer durations, to support developments, renovations, and the energy transition.

Real Estate Securitization (SPV 7.2)



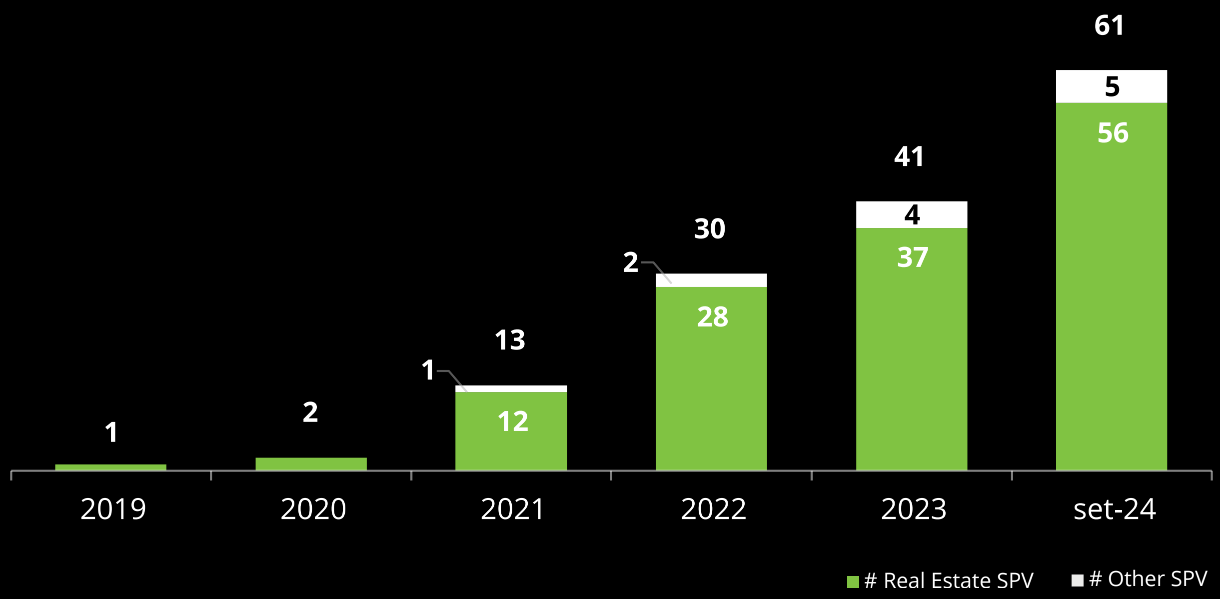
2

Among the innovative instruments in the domestic market, real estate securitizations stand out. This instrument emerged from recent regulatory developments starting in 2019 with the introduction of the possibility for securitization vehicles to directly acquire real estate and registered movable assets (Budget Law 2019).

The evolution continued with the establishment of the principle of segregation of securitized assets (Growth Decree 2019) and culminated with a response from the Revenue Agency to a 2021 inquiry, which essentially defined the tax regime applicable to the SPV 7.2.

Also due to the reduced dynamism of the real estate market during the pandemic, the SPV 7.2 market has only begun to show signs of strong growth in the past three years, with its size quintuplicating from 2021 to the present in terms of the number of existing vehicles.

Figure 7 | A young but rapidly growing market

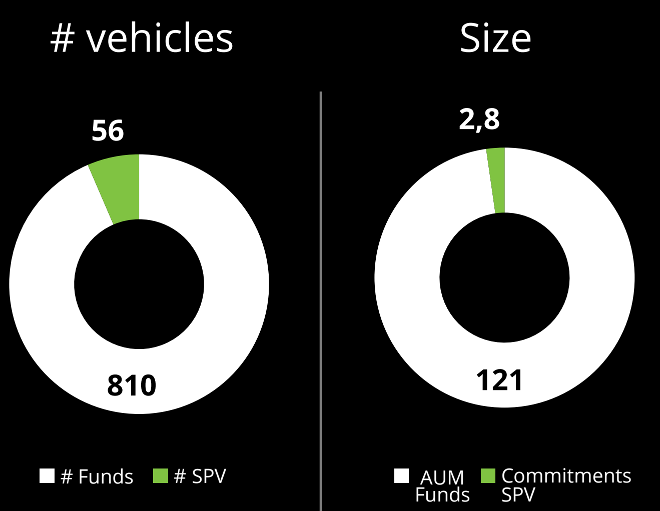


Source: Deloitte analysis based on public data (Bank of Italy and Gazzetta Ufficiale)

There have been 61 vehicles established from 2021 to the present, of which 5 are represented by vehicles that have invested in registered movable assets—primarily fleets of leased vehicles. Therefore, we have excluded these from our analyses presented later in the document.

Despite the significant growth recorded, the real estate securitizations market remains still emerging. When compared to real estate funds (the main real estate investment vehicle present in the national landscape), the real estate securitizations market appears more limited both in terms of the number of vehicles (56 SPV 7.2 versus the current 810 reserved funds) and overall size (€2.8 billion in commitments subscribed by the noteholders of the SPV 7.2 compared to €121 billion in assets under management in real estate funds).

Figure 8 | PV 7.2 and Reserved Funds compared: # vehicles and size (€bn)



Source: Deloitte analysis (SPV 7.2), Nomisma (RE Reserved Funds)

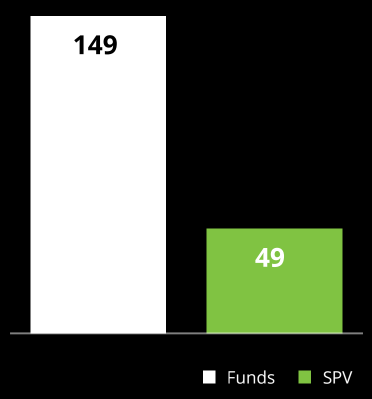
The analysis of these two variables allows us to identify the first important characteristic of SPV 7.2, namely their average size. Real estate funds have an average size of approximately €150 million, while real estate securitization vehicles average around €50 million. This demonstrates that the latter have so far been primarily employed for smaller-scale transactions, which would likely have been less economically efficient if executed through a real estate fund.

To identify other main characteristics of this type of vehicle, we conducted an analysis on a representative sample of vehicles and operations covering approximately 60% of the target market.

The collected information and analyses first highlight a high diversification of the pool of involved investors, belonging to different categories, including international investment funds, asset/investment management companies and groups, developers, banks, and private professional investors.

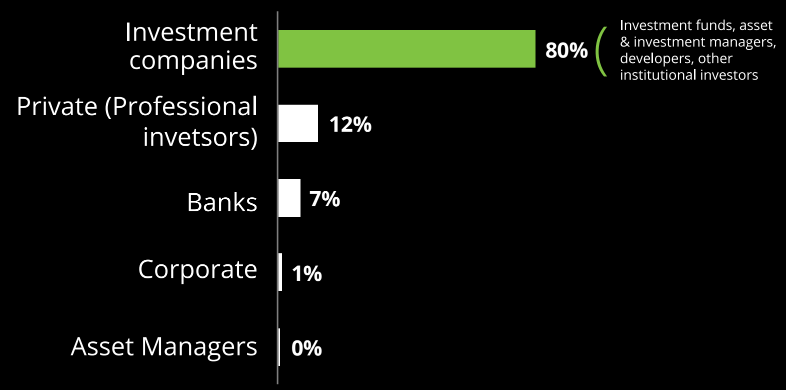
Of particular interest is the involvement of additional types of operators, especially in more complex transactions involving a plurality of investors, including corporate operators and national asset management companies.

Figure 9 | SPV 7.2 and reserved funds comparison: average size (€m)



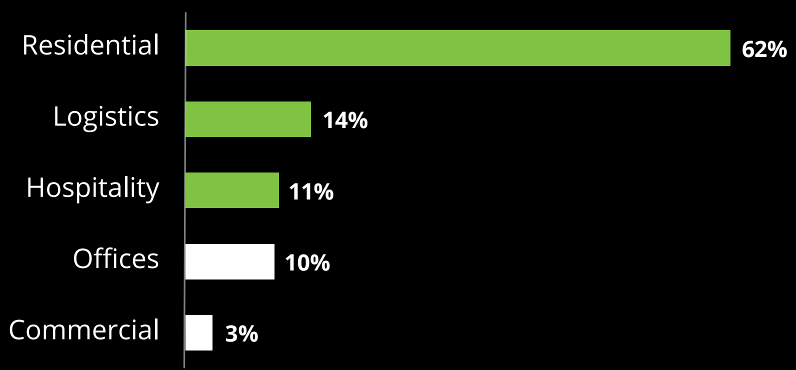
Source: Deloitte analysis (SPV 7.2), Nomisma (RE Reserved Funds)

Figure 10 | Breakdown by investor type (% weighted by commitments)



Source: Deloitte analysis on a sample of vehicles representing 60% of the market

Figure 11 | Breakdown by asset class (% weighted by commitments)



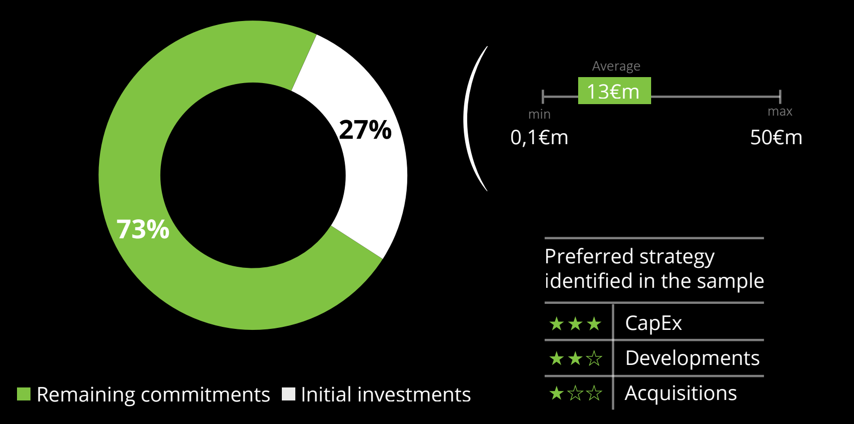
Source: Deloitte analysis on a sample of vehicles representing 60% of the market

The analysis of the selected sample also revealed that, on average, only 27% of the subscribed commitments were allocated to the vehicle's initial investment, with an average tranche of €13 million.

This latter aspect indicates that the underlying initiatives are predominantly in the early stages of their development, with the majority of the raised capital yet to be deployed.

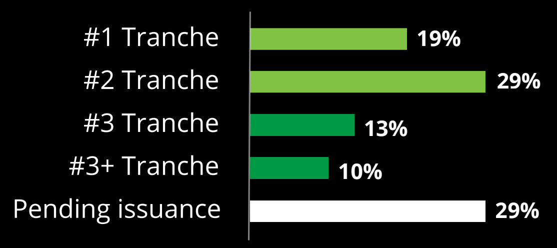
The remaining 73% of commitments, according to the business plans presented to the subscribers, are primarily allocated to refurbishment plans and capital expenditures (capex) on the acquired assets, or alternatively to future developments and further real estate acquisitions.

Figure 12 | Allocation of commitments raised by SPV 7.2



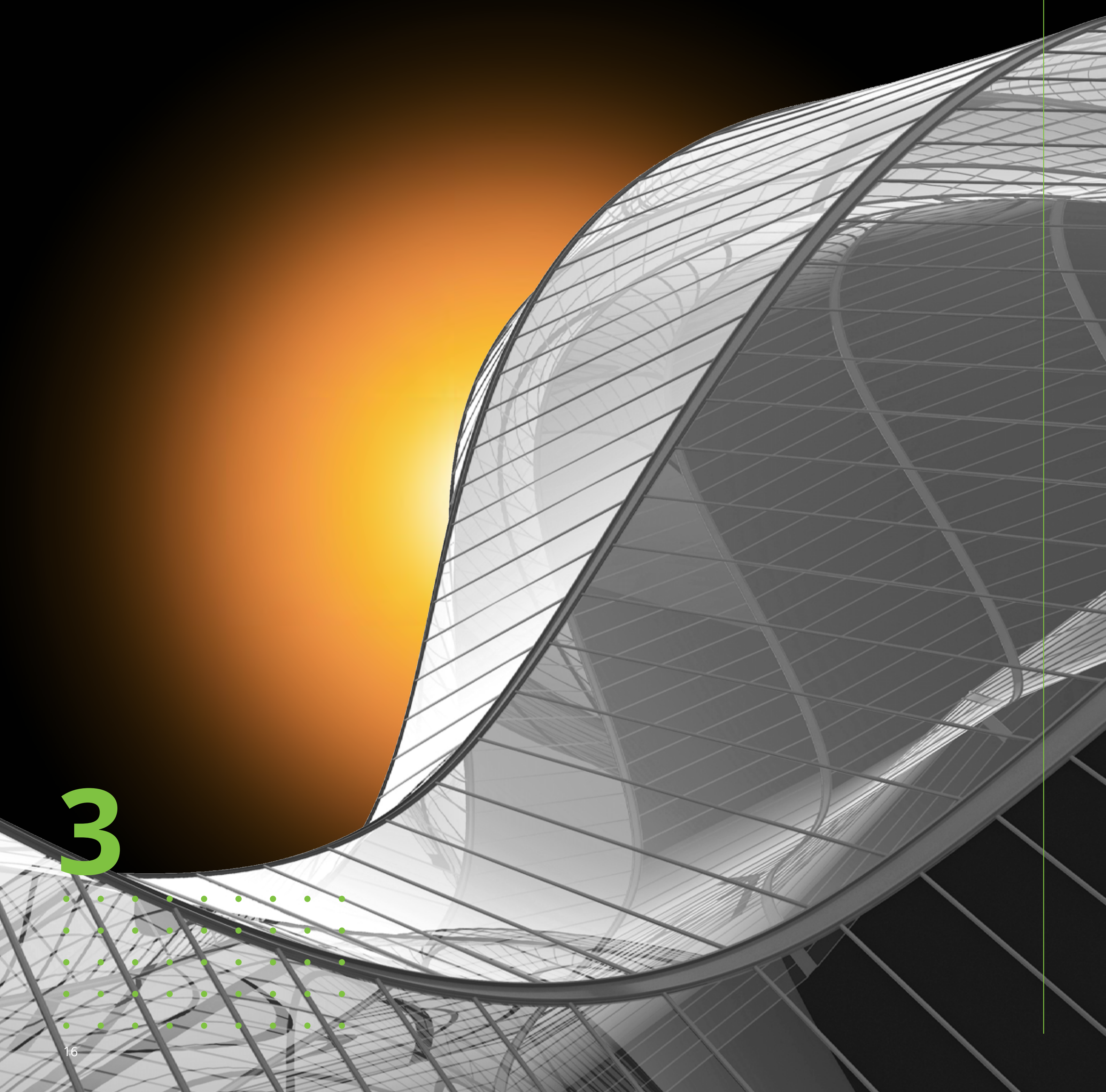
Source: Deloitte analysis on a sample of vehicles representing 60% of the market

Figure 13 | Distribution of real estate SPV 7.2 by number of classes of securities issued



Source: Deloitte analysis on a sample of vehicles representing 60% of the market

The operators' perspective



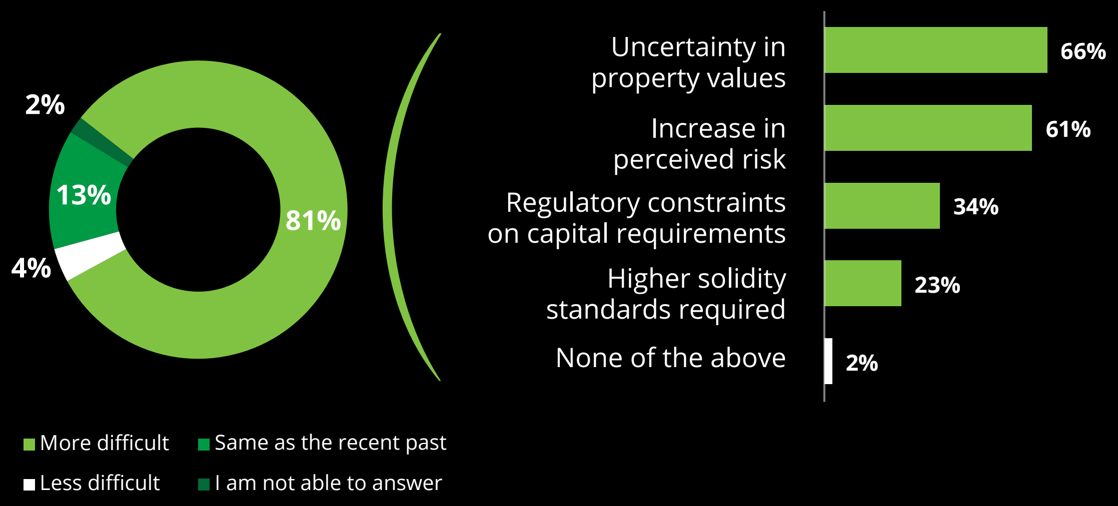
3

To provide a snapshot of how real estate securitizations are perceived by operators and how they fit into the current credit market context, we conducted a survey involving key players in the real estate market.

More specifically, the survey addressed the market sentiment of operators regarding, on one hand, access to traditional credit in the recent past and expectations for the near future, and on the other hand, the instrument of real estate securitizations.

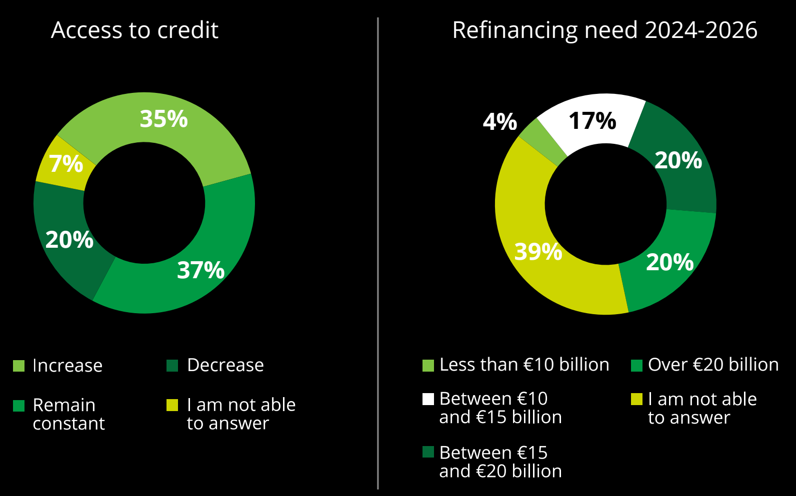
Regarding the traditional credit market, 81% of the respondents perceived increased difficulty in accessing credit, citing the uncertainty of credit institutions about real estate values (66% of respondents) and the increase in perceived riskiness by lenders (indicated by 61% of respondents) as the main causes. Additionally, other factors such as stricter regulatory requirements on capital adequacy (34% of respondents) and higher standards of solidity and solvency required (23% of respondents) were mentioned.

Figure 14 | Access to the traditional credit market in the last 12-24 months



As for future expectations, a significant degree of uncertainty emerges, highlighted by the heterogeneity of the responses obtained.
Nonetheless, operators hope for less restrictive access to credit, especially in light of the substantial stock of debt maturing over the next three years.
This latter figure, although difficult to quantify, can be reasonably estimated to exceed €15 billion, also considering the volume of CRE investments generated in the Italian market between 2018 and 2021, amounting to €35-40 billion.

Figure 15 | Expectations for the credit market over the next 12-24 months



In light of the shifting balances within the traditional credit system for commercial real estate, we therefore asked the respondents to assess the usefulness of alternative financing forms in the Italian real estate market.

The response was nearly unanimous: more than 9 out of 10 believe that alternative lending can indeed represent a valid alternative to traditional credit, especially in a context characterized by increased difficulty in accessing credit.

As for real estate securitizations, the responses to our survey indicate that SPV 7.2 are currently still moderately known in the market. However, they are perceived as a valid complementary tool to real estate funds, with generally positive expectations for the near future.

In terms of operators' familiarity, only 22% claim to have a high level of knowledge of the instrument, while 35% of respondents stated that they have limited familiarity with SPV 7.2. It is important to note that 4% indicated having no familiarity and were therefore excluded from subsequent questions.

Figure 16 | Alternative lending: a valid tool in an environment where access to credit is challenging

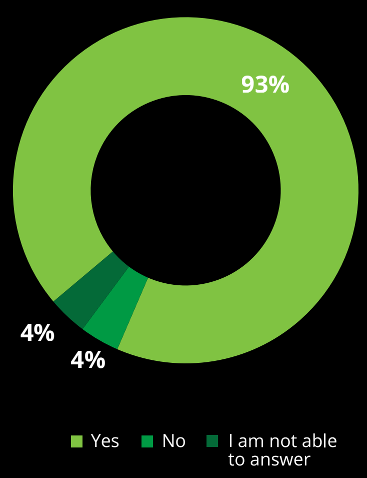
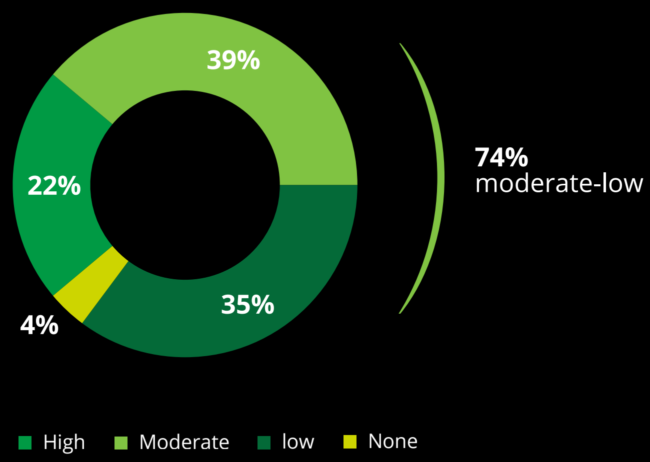
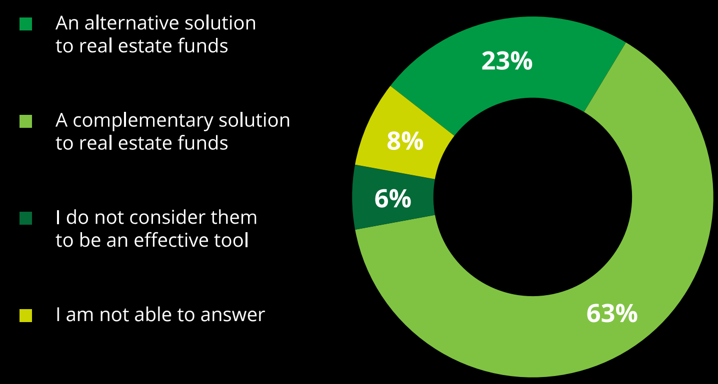


Figure 17 | Operator familiarity level



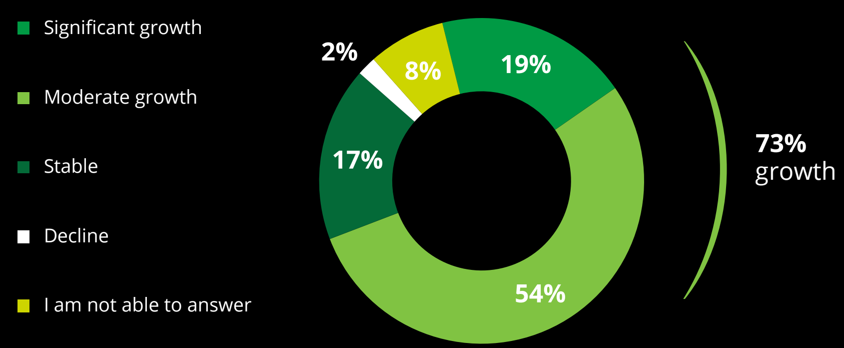
63% of respondents view real estate securitizations as a complementary rather than an alternative tool to real estate funds, although the two share some characteristics, especially from a fiscal perspective. 23% consider them an alternative, while only 6% do not believe that real estate securitization constitutes an effective tool.

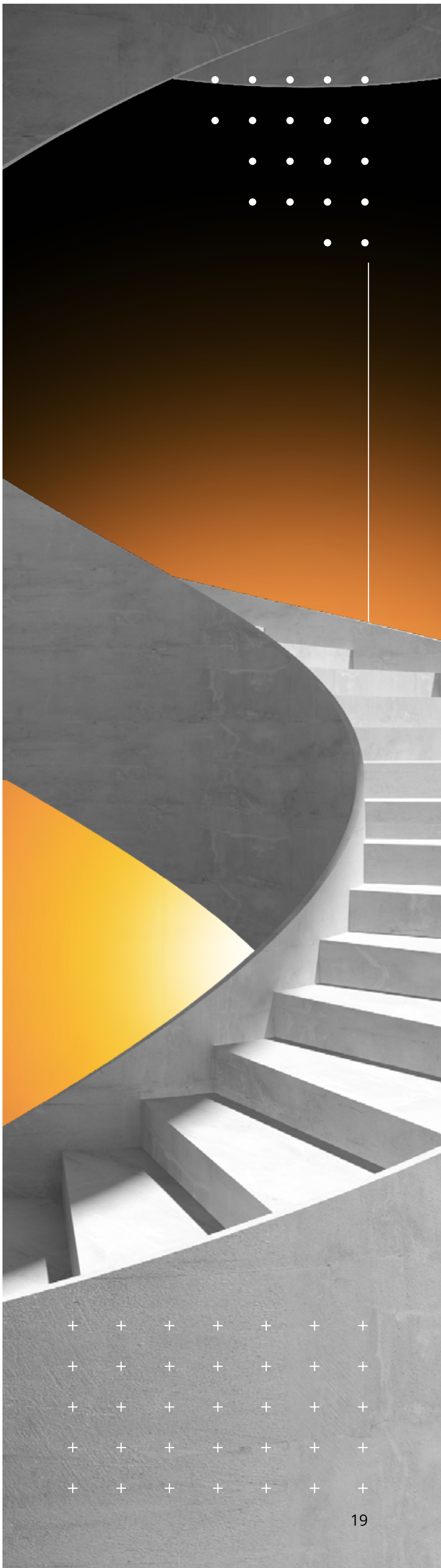
Figure 18 | Perception



Finally, regarding future prospects, about 73% of respondents anticipate that the market for real estate securitizations will continue the growth trend recorded in the last three years. Specifically, 54% of respondents foresee moderate growth, while 19% anticipate significant growth. For the remaining 17% of respondents, market growth is expected to stabilize.

Figure 19 | Expected trend over the next three years





As for the identified advantages, the main features most frequently indicated by respondents concerned the ability to access new capital—thanks to the flexibility these instruments offer in capital structuring—the tax efficiency, and the possibility of more direct governance compared to other forms of investment. Other widely identified advantages include adaptability to small/medium-sized transactions, diversification/reduction of risk, and greater investment liquidity.

As for the potential limitations in usage, the respondents highlighted a lack of understanding (indicated by 58% of respondents), confirming the fact that, being a relatively young instrument, one of the main challenges to address concerns its establishment in the national landscape.

Another significant limitation mentioned relates to the regulatory framework (indicated by 38% of respondents), which is still perceived as not fully mature and consolidated, an element that may have fueled market uncertainty and distrust up to now.

Finally, another identified limitation is the perceived burden in terms of transaction costs (indicated by 29% of respondents). This limitation stems from the fact that—when considering senior notes as a pure form of financing—the use of such a structure may appear inefficient from a fiscal standpoint.

Figure 20 | Main perceived market advantages

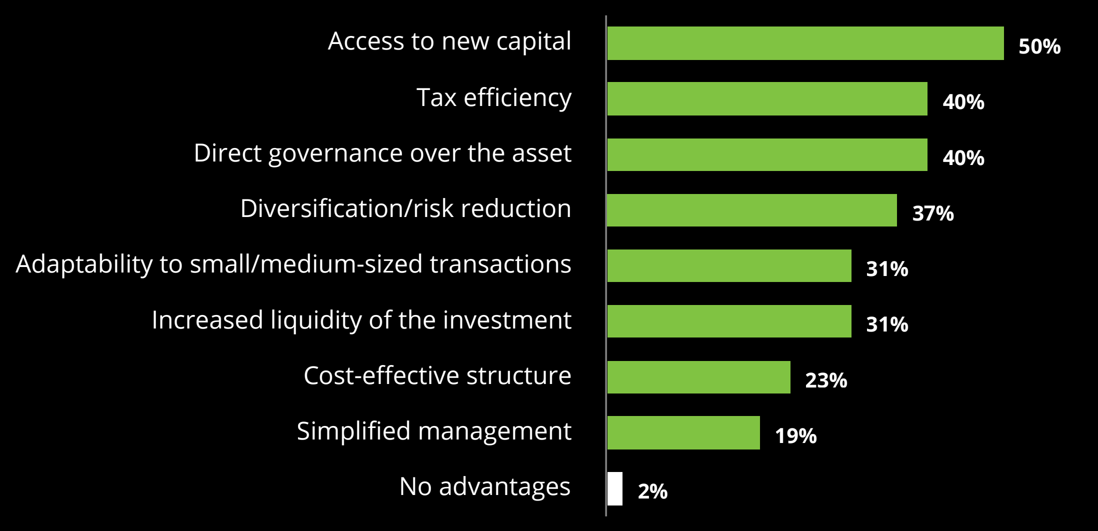
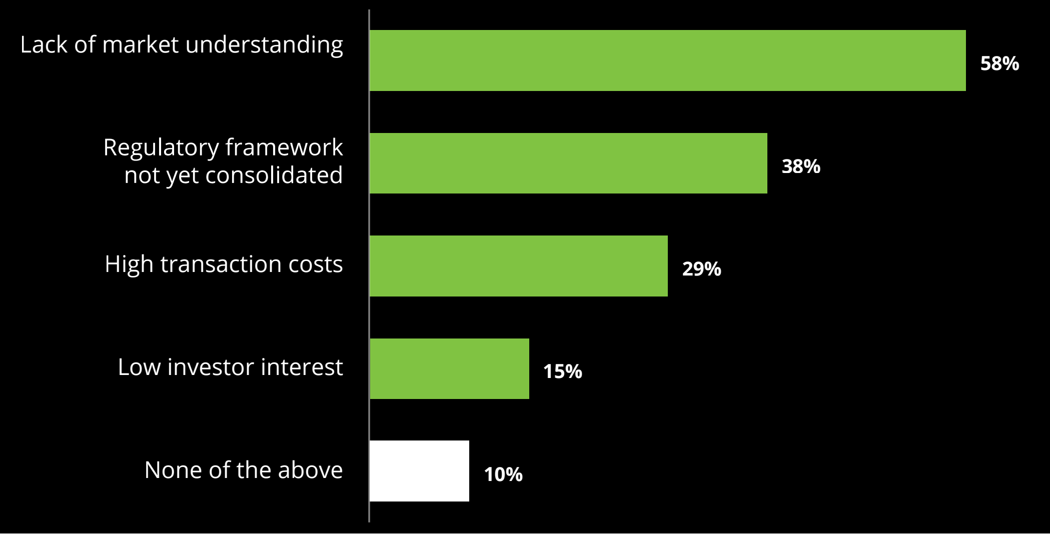


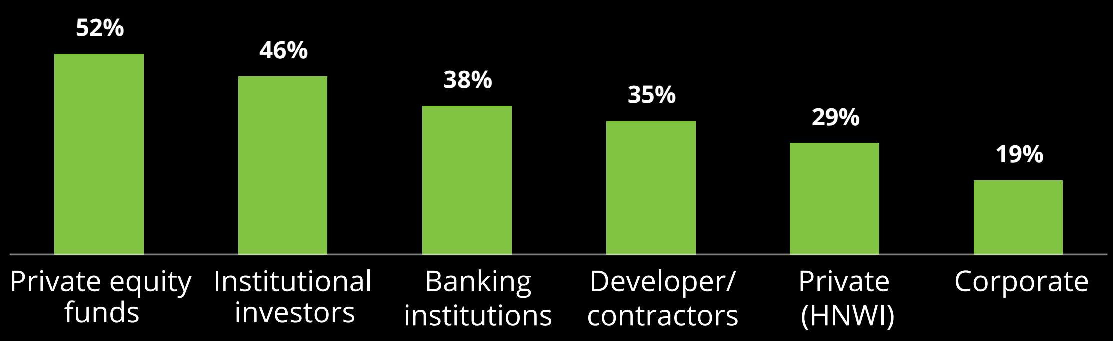
Figure 21 | Potential limitations in the use of SPV 7.2

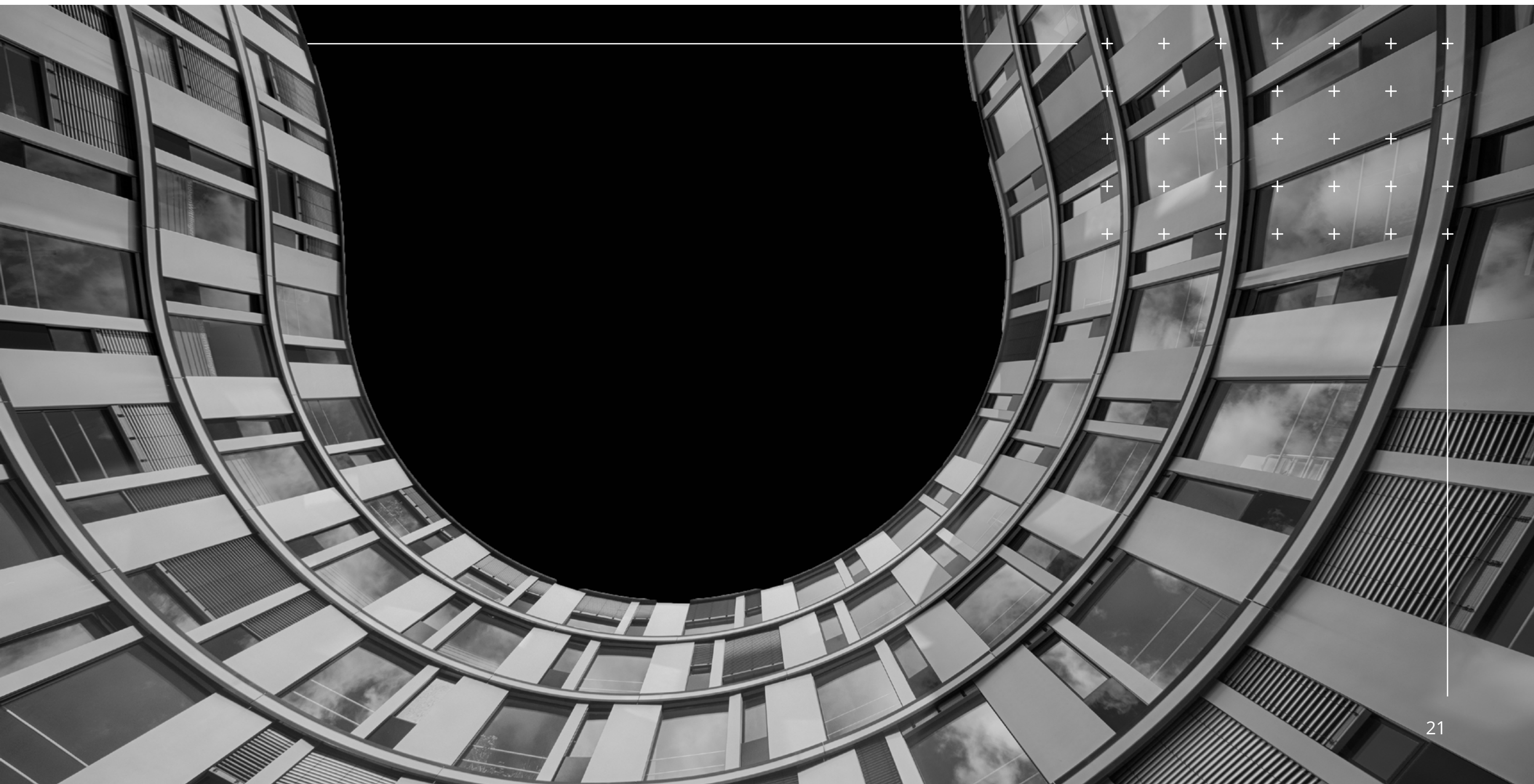


We also asked the survey participants to indicate the potential target of real estate securitizations in terms of investors, asset classes, and investment strategies.

Regarding the source of capital, 52% of investors identified private equity as their top preference, followed by institutional investors (46%) and banking institutions (38%). Less prevalent, but still present, are developers (35%) and the private HNWI segment (29%), while only 19% of respondents identified the corporate sector as a potential market interested in subscribing to notes in a real estate securitization.
This distribution of responses highlights that there is no clear preference for a specific type of investor, but that the instrument in question can be of great interest to a wide range of entities, confirming its potential attractiveness and flexibility.

Figure 22 | Target investors





In terms of asset classes, a fairly broad distribution emerged, with a preference for residential and commercial sectors, while still maintaining a good frequency of responses for other usage types.

The preference is clearer in terms of risk profile, where value-add and opportunistic strategy operations account for over 50% of preferences. This is also confirmed in the analysis of the 60% sample of vehicles presented earlier, where the majority share of approximately 75% of subscribed and yet undeployed commitments is expected to be allocated to investment and/or property refurbishment programs and real estate developments.

Figure 23 | Asset class target

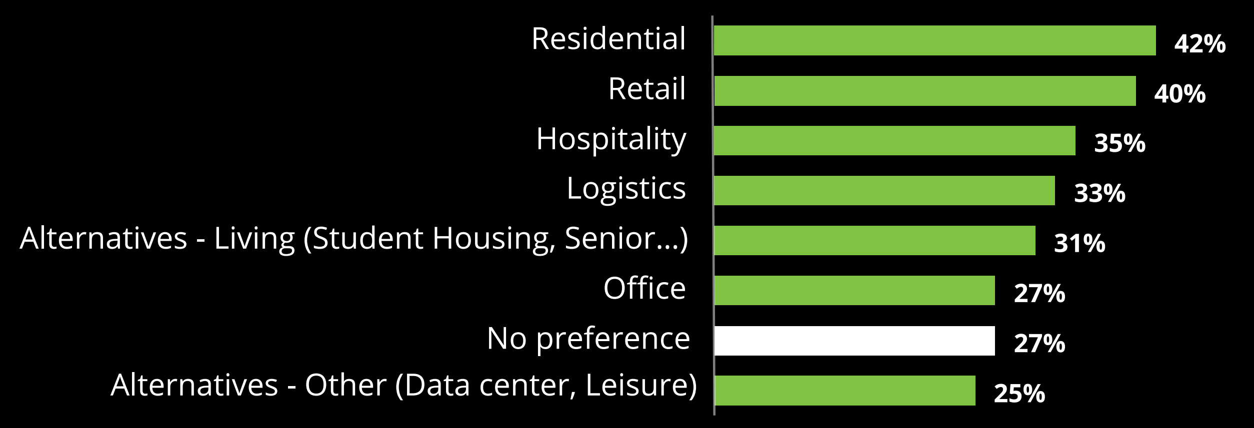
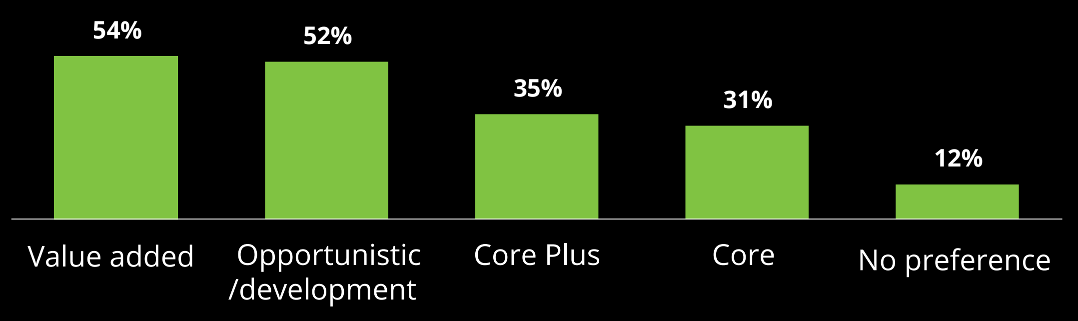


Figure 24 | Target strategy



Conclusion

The European commercial real estate sector has so far shown a strong dependence on traditional banking credit, which accounts for approximately 85% of total financing. However, a structural change in the market is clearly observable, leading to a reduction in banking exposure within the CRE sector and simultaneously highlighting the need for alternative financing sources to address the challenges awaiting the market and to fill the gap created by the retreat of traditional lenders.

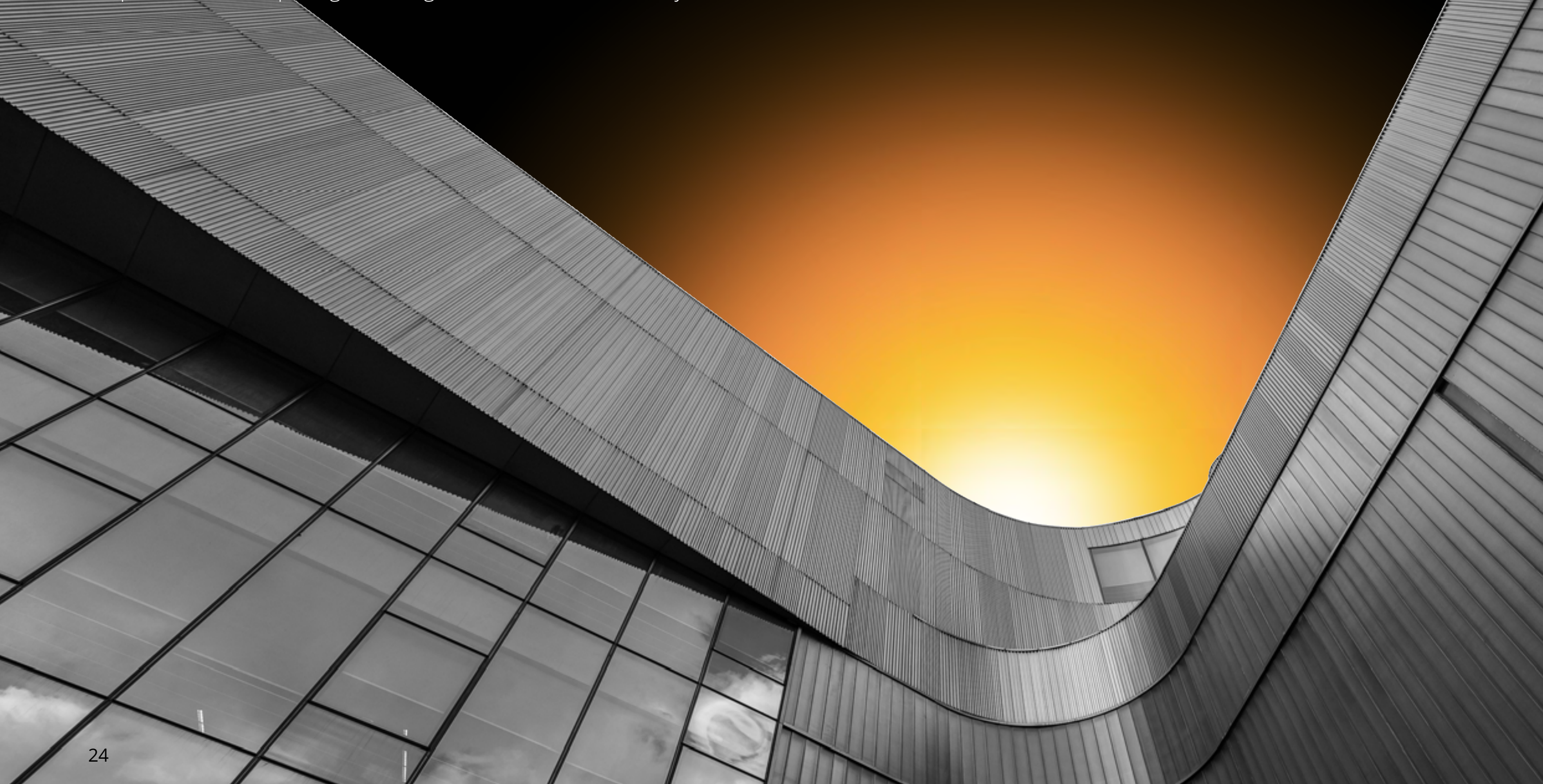
In this scenario, real estate securitizations emerge as an innovative and promising financial instrument. Introduced thanks to recent regulatory developments, securitizations allow investment vehicles to directly purchase real estate assets, offering greater flexibility in capital management and more direct access to investments.
Despite being relatively young, these solutions have seen significant growth, quintupling the number of vehicles established since 2021 and reaching an estimated market size of approximately €2.8 billion.

Our survey on the sentiment of industry operators revealed that, although real estate securitizations are still moderately known, there is strong interest and positive expectations for their future development. Operators recognize significant advantages—such as access to new capital, tax efficiency, and more direct governance—and maintain high expectations, with over 70% of respondents anticipating market growth in the next three years.

This is despite our survey also highlighting some significant challenges. In addition to a regulatory framework that is still perceived as evolving, factors such as a lack of market understanding and the perceived burden in terms of transaction costs still represent potential obstacles to their widespread adoption by operators.

Nonetheless, more than half of the respondents acknowledge the innovative potential of this new instrument to attract new capital. Over 60% of respondents consider SPV 7.2 to be a complementary (and not alternative) investment tool to real estate funds, hence enriching the range of real estate services offered to the market.

The ongoing evolution in the financial market for commercial real estate thus offers great investment opportunities in alternative debt, opening new prospects in the real estate sector through advanced financial instruments. Real estate securitizations—with their inherent flexibility—represent a concrete opportunity that deserves thorough consideration by investors and market regulators alike.



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