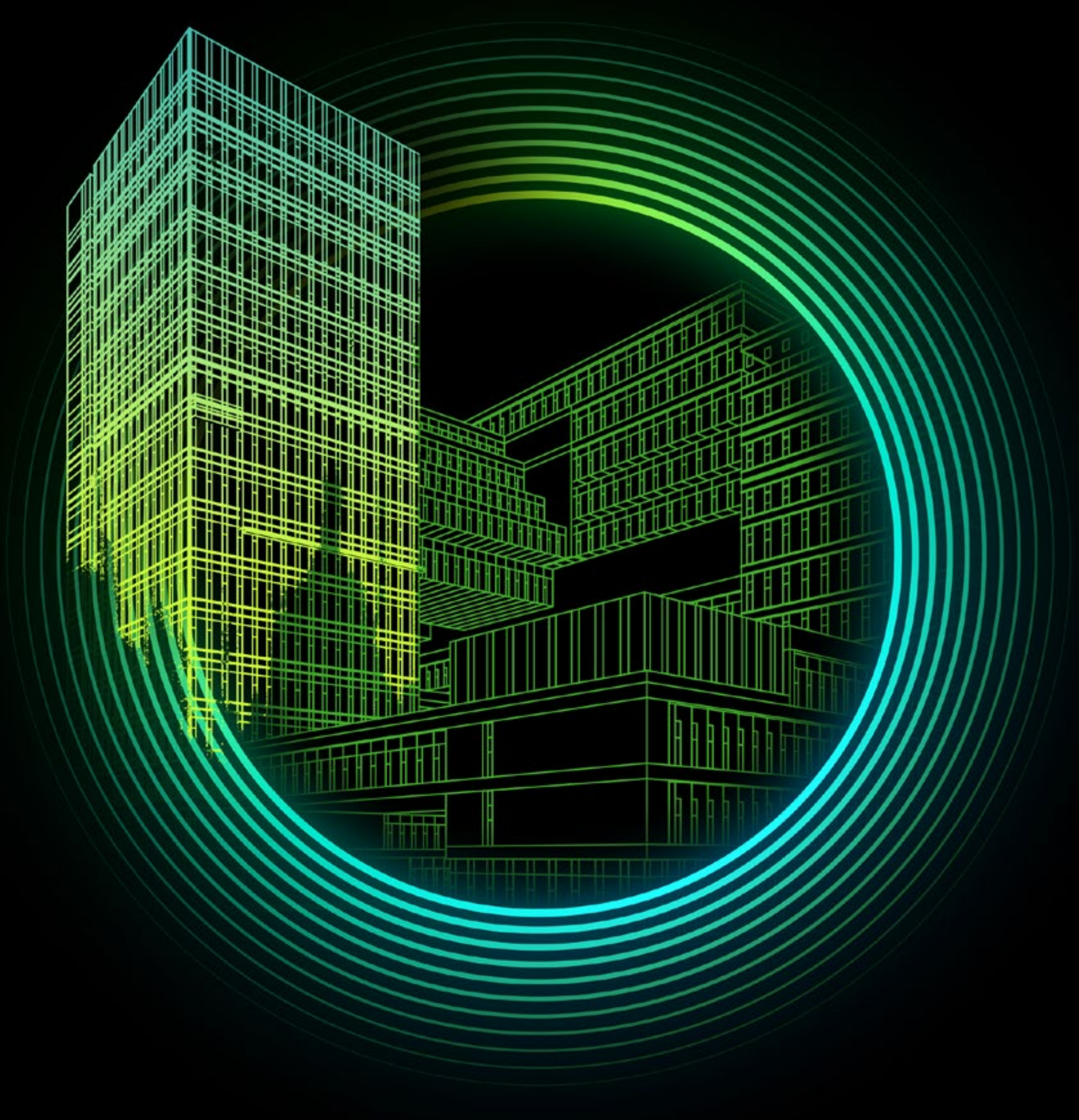


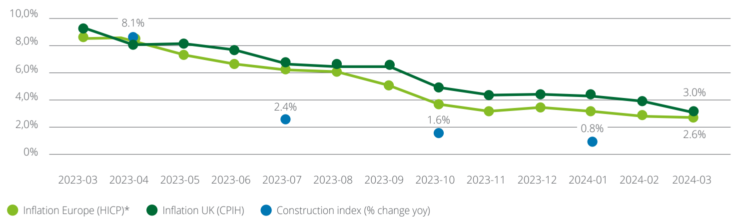
Real Estate
Debt & Capital Advisory
EMEA Marketbeat Q1-2024

Macroeconomic outlook

Inflation outlook

Europe's economic outlook continues to be characterized by a notable variation between countries. The subdued global economy, restrictive monetary policy and continued impact of energy and food price shocks have stalled growth in economies such as Germany and Italy, which have been stagnating for more than a year. In contrast, economies such as Denmark are showing greater resilience supported by positive consumer sentiment and improved income and output expectations while the UK and Ireland are showing signs of recovery. Overall, the outlook across Europe is expected to improve as inflation continues to fall and interest rates come down.

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).

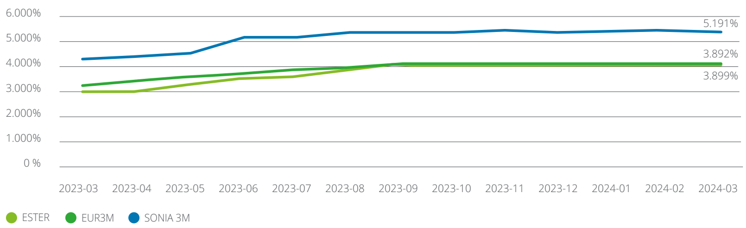
Financing market outlook

3.899%	3.892%	5.191%	2.659%
ESTER**	Euribor +3M**	SONIA 3M**	5Y Euribor swaps**

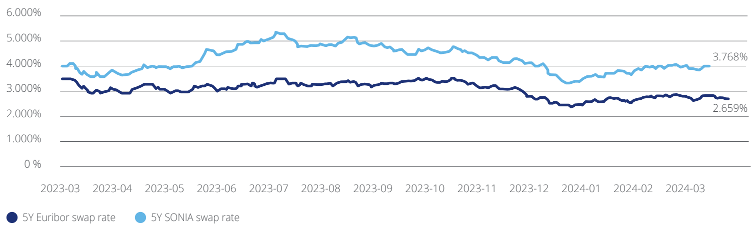
Increasing sentiment that central bank rates have now peaked and are likely to begin falling in the coming months has led to growing positivity in Europe's real estate markets. Despite this, the impact on lending activity has been nuanced. In countries such as Poland and the Netherlands, more certain rate environments together with the low number of transactions last year, have resulted in renewed appetite from lenders. In other European markets, commercial real estate lending remains constrained, with negative experiences in the US and high-profile collapses in Europe leading to greater caution from lenders who remain highly selective in terms of the sponsors and business plans that they will fund.

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

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



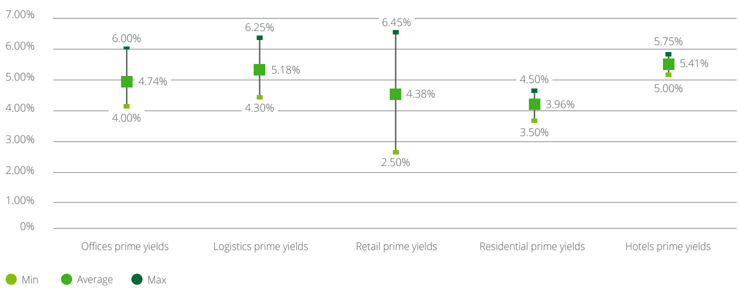
5Y Euribor & SONIA swap rates



Investment market outlook

The sharp rise in government bond yields continues to impact the real estate market: the need of investors to obtain a premium above the risk-free rate of return coupled with an unwillingness of many prospective vendors to trade at the pricing implied by this has resulted in a bid-offer spread that remains difficult to bridge. However, while transaction volumes remain low compared to historic standards, the market has been showing signs of recovery. Buyers and sellers are in some cases starting to find common ground due to a variety of factors including: cautious optimism regarding interest rates, increasing pressure for some owners to sell due to refinancing difficulties, or the need to raise cash to fund redemption requests from fund investors or reduce leverage.

Prime yields levels by asset class (Europe)



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

Markets drivers

Evolution of interest rates

On the 25th of January the ECB Governing Council decided to leave the three key interest rates (refinancing operations, marginal lending and deposit facility) unchanged at 4.50%, 4.75% and 4.00% respectively.

Geopolitical tensions

The global economic outlook and geopolitical tensions continue to influence market sentiment. The macroeconomic environment remains fragile, with heightened uncertainty due to the ongoing conflicts in Ukraine and in the Middle East.

Inflation

Ongoing instability in the Middle East is continuing to impact energy prices, global output and the overall price level, thus impacting Bank of England and European Central Bank policy.

Real estate financing trends

Trends in financing products

The bank financing gap for borrowers remains in Q1-2024. In fact, the risk attributed by banks to real estate financing has increased as demonstrated by increasing loss given default rates and subsequently the lower leverage granted. Therefore in this market, equity continues to be the financing product of choice. Whole loans, especially in refinancings where LTVs have increased or where banks have become too defensive to finance, are more attractive to borrowers as they can provide them with the liquidity they need. Real estate borrowers are also slowly starting to adjust to increased financial guarantee requirements from lenders and the simultaneous devaluation of real estate values is leading to an adjustment of borrowers' expectations and business plan calculations.

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

Trends in financed purpose

With reduced transaction volumes in the commercial real estate markets and lenders being increasingly selective when taking on new borrowers, refinancing is currently the highest trending activity among lenders. The aim is often to provide a bridge to sale – capital cover for a period of 2 to 3 years with borrowers hoping that the fall in interest rates expected later this year precipitates a tightening of yields and the ability to achieve a higher price for the asset in the future. This trend reflects an adaptation to changing economic conditions, with a marked preference for security and stability in the short term, while waiting for the tide to turn. At the same time, lending to finance asset acquisition has started to pick up in some markets, particularly Spain and Ireland, where housing demand and public investment are underpinning residential development.

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

Trends in financed sector

'Beds and sheds' continued to be the main lending trend in Q1. Lender interest in BTR (build to rent) and PBSA (purpose-built student accommodation) remained strong as well as demand from lenders for hotel opportunities, particularly in the high-end and luxury segments, has also been sustained, with robust performance despite economic fluctuations. In Spain, this has been particularly pronounced with lenders showing strong interest in financing both existing assets and capital expenditure plans in the hotel sector. Similarly, the logistics sector continues to attract significant interest from lenders, especially when supported by long leases with blue chip occupiers. On the other hand, many lenders are keen to reduce exposure to offices and retail due to the challenges facing these sectors.

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

Deloitte's sample of credentials for the quarter

Residential

Gem Construction

Amount raised :
Confidential

Debt :
Senior development financing

Lender :
Bank of Ireland

Deloitte Ireland advised GEM Construction, raising development financing to deliver 300 new affordable purchase and social units under license agreement for a Local authority in West Dublin.

Residential

Marstead Living Limited

Amount raised :
Confidential

Debt :
Whole loan

Lender :
Federated Hermes Private Credit

Deloitte UK advised Marstead Living Ltd on securing a land loan to fund the acquisition of an 18-acre development site in London. The site has planning permission for a £260m 175 home retirement community.

Hotels

Confidential

Amount raised :
€52.5m

Debt :
Senior debt

Lender :
Dutch Bank

Deloitte Netherlands advised a confidential client on financing an apartment hotel redevelopment and investment project located in Amsterdam.

Real estate financing sectorial trends and key indicators

Offices

While lenders are still financing offices, they are increasingly selective, particularly with regards to valuation risk and stabilization. As a result, extra scrutiny is being placed on energy performance, WAULT and tenant strength considerations and locations outside CBDs are increasingly difficult to finance. Projects that lenders and investors are looking at most are change-of-use and refinancing deals. In Germany, where the market has been affected by the default of key players (e.g., Signa Group), the transactional market is increasingly characterized by asset sales by distressed companies, with a particular focus on high street assets.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	55-60%	→	80-120 bps	→
France	50-55%	→	210-270 bps	→
Germany	50-55%	→	140-160 bps	→
Ireland	45-55%	→	250-300 bps	→
Italy	40-50%	↓	250-350 bps	↑
Poland	55%	→	200-275 bps	→
Spain	50-60%	→	200-250 bps	→
The Netherlands	50-55%	→	225-325 bps	→
United Kingdom	55-60%	↑	250-305 bps	↑

Source : Deloitte based on a market sounding

Residential

The residential market continues to show robust fundamentals. The expectation of further rental growth ahead, as well as the shortage of newly issued construction permits for residential development in various European regions putting upward pressure on rents, has led to purpose built residential for rent (e.g., PBSA and senior housing) emerging as one of the most sought-after asset classes for investors – particularly in France and the UK where there has already been strong rental growth. The residential sector is expected to continue to show resilience given the low supply, but investors must be wary of new rent regulations in some jurisdictions and their impact on cashflows. The anticipation of an interest rate decrease, together with the subsidy programs in some countries (e.g., Germany), are also strongly supporting investment and lending demand.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	50-55%	→	80-120 bps	→
France	50-55%	→	160-200 bps	→
Germany	60-65%	→	100-120 bps	→
Ireland	50-60%	→	225-250 bps	↑
Italy	40-60%	→	250-350 bps	→
Poland	70%	→	200-325 bps	→
Spain	50-65%	→	200-250 bps	↓
The Netherlands	60-70%	→	175-250 bps	↓
United Kingdom	55-65%	→	205-280 bps	↓

Source : Deloitte based on a market sounding

Retail

Most European retail markets are gradually recovering from a period of stagnation or decline as the markets adjust to changing shopping habits. In these markets, lenders are favoring prime to luxury locations and assets exhibiting strong performance, while secondary shopping centers are experiencing difficulties with low market appeal. Lenders are paying close attention to the core characteristics of retail assets, with an accessibility and consumer experience focus (e.g. good access to public transport, restaurant areas, etc.). In Germany, the retail market in high street locations remains under severe pressure, with prime rents falling sharply, and asset valuations following.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	45-55%	↑	80-120 bps	→
France	50-55%	→	180-230 bps	→
Germany	45-55%	↓	170-190bps	↑
Ireland	50-55%	→	250%-325%	→
Italy	30-50%	→	300-350 bps	→
Poland	65%	→	220-300 bps	→
Spain	50-60%	→	300-350 bps	→
The Netherlands	50-60%	→	225-350 bps	→
United Kingdom	55-60%	→	240-330 bps	→

Source : Deloitte based on a market sounding

Real estate financing sectorial trends and key indicators

Logistics

Lenders' appetite for logistics assets is still strong, although investment and financing demand is slightly lower than in recent years. Most banks are showing a preference for large logistics assets and last-mile logistics assets (e.g. Ares Management acquired a logistics portfolio in France for 310M€, the biggest transaction of the last 4 years in France) with investment grade tenants and are paying particular attention to the certification of the assets, as ESG plays a prominent role in the banks' decision-making process. The stabilization of yields, which has already started in some countries such as France and Spain, could boost investor's confidence in the asset class and create positive momentum for the transaction market.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	55-60%	→	80-120 bps	→
France	50-55%	→	195-245 bps	→
Germany	45-55%	→	170-190 bps	↑
Ireland	50%	→	225-275 bps	→
Italy	40-60%	→	225-300 bps	→
Poland	70%	↑	200-300 bps	→
Spain	50-60%	→	250-300 bps	→
The Netherlands	50-60%	→	175-275 bps	→
United Kingdom	55-65%	→	205-285 bps	↑

Source : Deloitte based on a market sounding

Hotels

Lenders are showing a strong appetite for hotel assets in all European countries. The sector is benefiting from higher overall EBITDAs as hotels have been able to increase their room rates and occupancy rates have steadily improved. As in other sectors, there is a strong focus on location, luxury and sustainability metrics. In France, the hotels' financing market has been particularly supported by the increase in investment volumes (+0.6M€ y-o-y) and large transactions (e.g., Pullman Tour Eiffel 330M€ and Dame des Arts 110M€). The value-add market with repositioning opportunities is also attracting strong interest from lenders and new international entrants. However, there are still some challenges, particularly in Germany and Ireland where a sizeable bid-offer spread illustrate that the hotel market is still lagging behind the transaction volumes of previous years.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Denmark	50-60%	↑	80-120 bps	→
France	60-65%	→	200-250 bps	→
Germany	50-60%	→	150-170 bps	→
Ireland	50-60%	→	250-300 bps	→
Italy	40-60%	→	250-350 bps	→
Poland	50%	→	280-380 bps	→
Spain	50-65%	↑	200-300 bps	→
Netherlands	50-60%	→	200-300 bps	→
United Kingdom	55-65%	→	200-285 bps	↑

Source : Deloitte based on a market sounding

Netherlands / Dutch team's view

The first quarter of the year started cautiously positive. While in 2023 only a few transactions were actually closed, 2024 began with more transactions, especially in the mid-market segment. Some lenders are showing greater risk appetite due to pressure to maintain or grow their credit portfolios.

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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