VIEWPOINT

FOUR QUADRANTS

EMEA CAPITAL ADVISORS

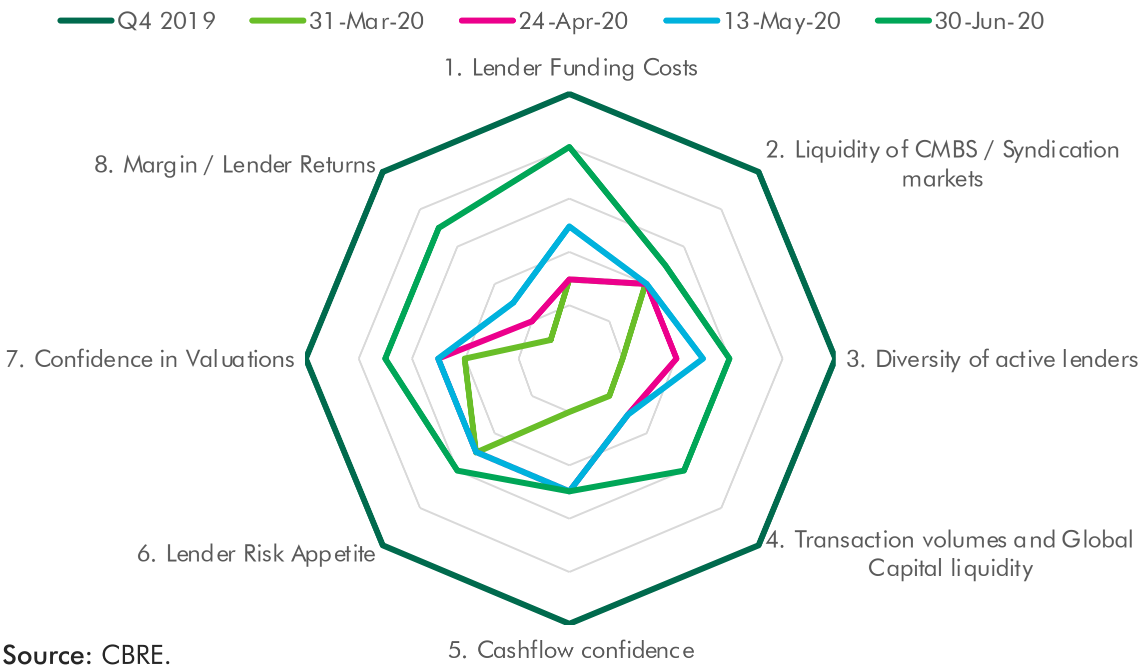
Private Debt

Since the onset of the crisis, our observation has been that the private real estate debt market is on pause across Europe; deals begun before the crisis have in many (but not all) cases been completing, but there has been precious little activity with regards new deals begun during lockdown. Instead of publishing our quarterly data on loan terms across 20 markets and four sectors as had been our practice, we have instead resorted to identifying those factors still inhibiting market operation, and the extent to which they remain a barrier. Collectively, four internal and four external factors assemble into the CBRE Lender Sentiment Indicator web, as shown in Figure 1.

For each Indicator, we produce a score from one to ten based on our knowledge of lender sentiment. For comparison purposes "ten" is taken to represent conditions in Q4 2019, an imperfect but reasonably smooth and functioning market to use as our control environment, against which we can benchmark the present. We can plot these Indicators together, as shown in Figure 1. The larger the shape, the more confident lenders are overall.

Relative to six weeks or so ago, the picture at the end of the second quarter was encouraging, with all measures showing – in our judgement – some improvement. However, there is a considerable way to go and just because progress has so far all been in one direction does not mean that some (or all) measures could not see a reversal in the weeks and months to come.

Figure 1: CBRE Lender Sentiment Indicator Web, 30 June 2020



Source: CBRE.

The biggest barrier to improved confidence and increased activity is likely to be related to rent collection, and from there cashflow confidence. If Q2 has seen weaker rent collection than Q1, as appears likely to be the case, then there is the potential for a desire on lenders' behalves to see two quarters of improvement in this measure to put the brakes on increased traction across the other measures. Lenders most prepared to form a view on this measure – be that through a focus on sectors where payment is greater or information more transparent, or through skill and bravery – will gain a significant advantage over more cautious competitors.

The above is also a "market average" view, and it is certainly true that some markets and sectors are ahead of others. We believe that data centres and logistics are much closer to pre-Covid pricing for assets where tenant demand is strong. There is a modest "risk off" attitude to prime office and residential where underwriting assumptions have been revised downwards but lending liquidity is still evident, at lower LTV and higher pricing than pre-Covid. The retail and hospitality sectors are where lending liquidity is most scarce, although as the hospitality sector begins to reopen we have had some encouraging conversations with lenders, with regards to opportunities around the best assets and sponsors.

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