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The Cass Commercial Real Estate Lending Survey

Mid-year 2019, 20year debt market analysis

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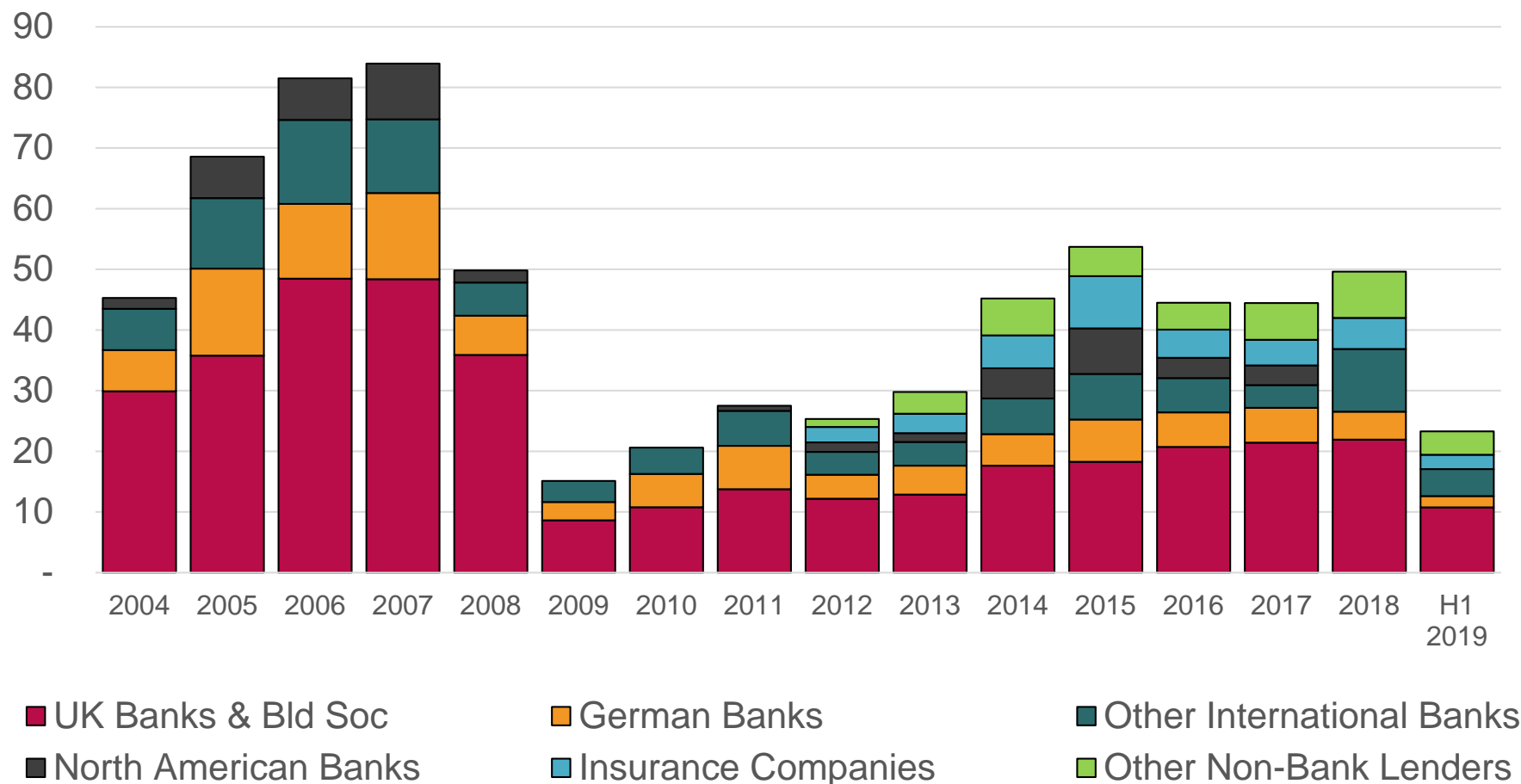
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The Cass CRE Lending Survey – Mid-year 2019

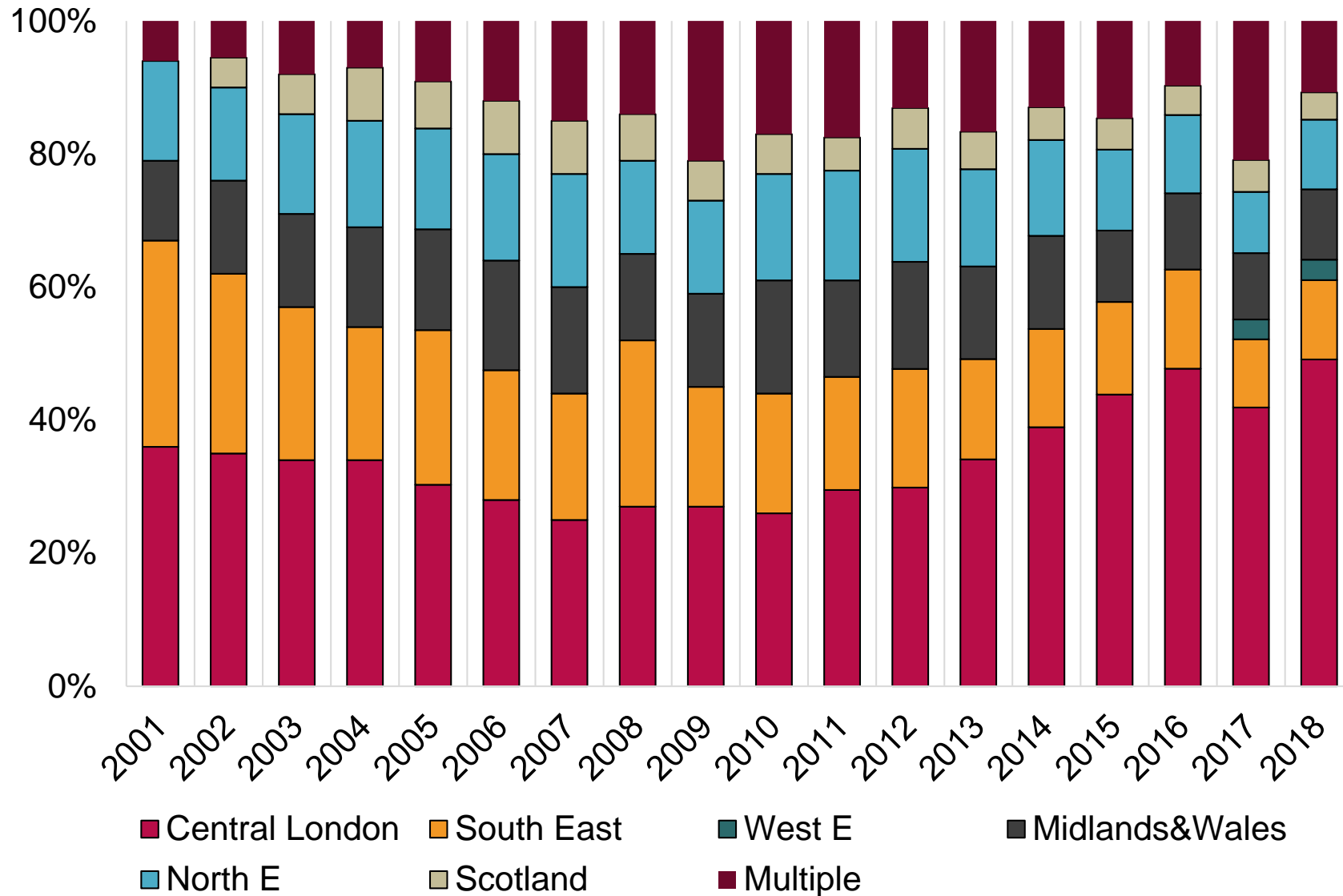
- Loan books, originations and lenders
- Underwriting – Quality of loan books
- Loan pricing

The lenders – originations June 2019, £ bn

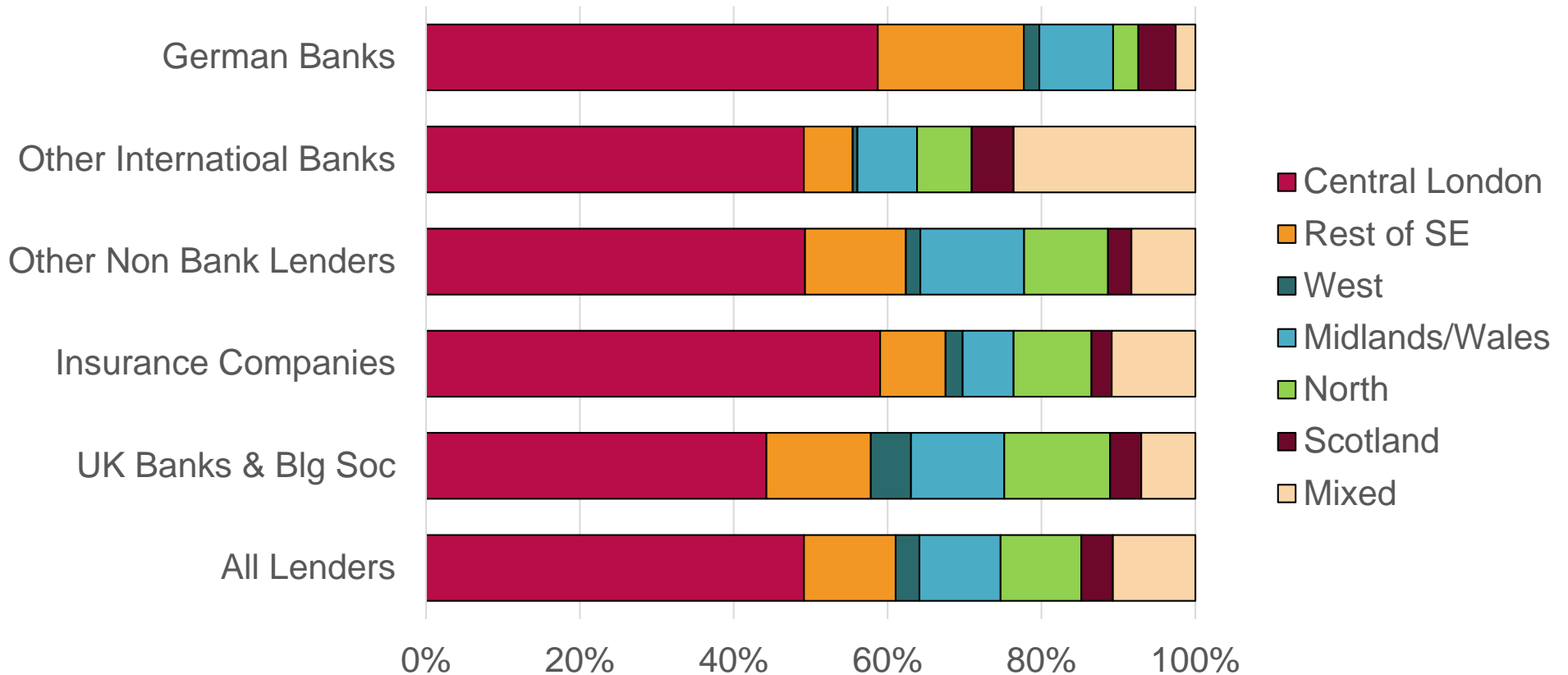


Loan origination was £23.3 bn during H1 2019 – 4% up from H1 2018, while German Banks reported a decline of 30%, other lenders reported increases from 7 – 11%. UK Banks had a share of 41% in total loan origination. Activities were related to 62% of refinancing.

Regional distribution of loan books since 2001

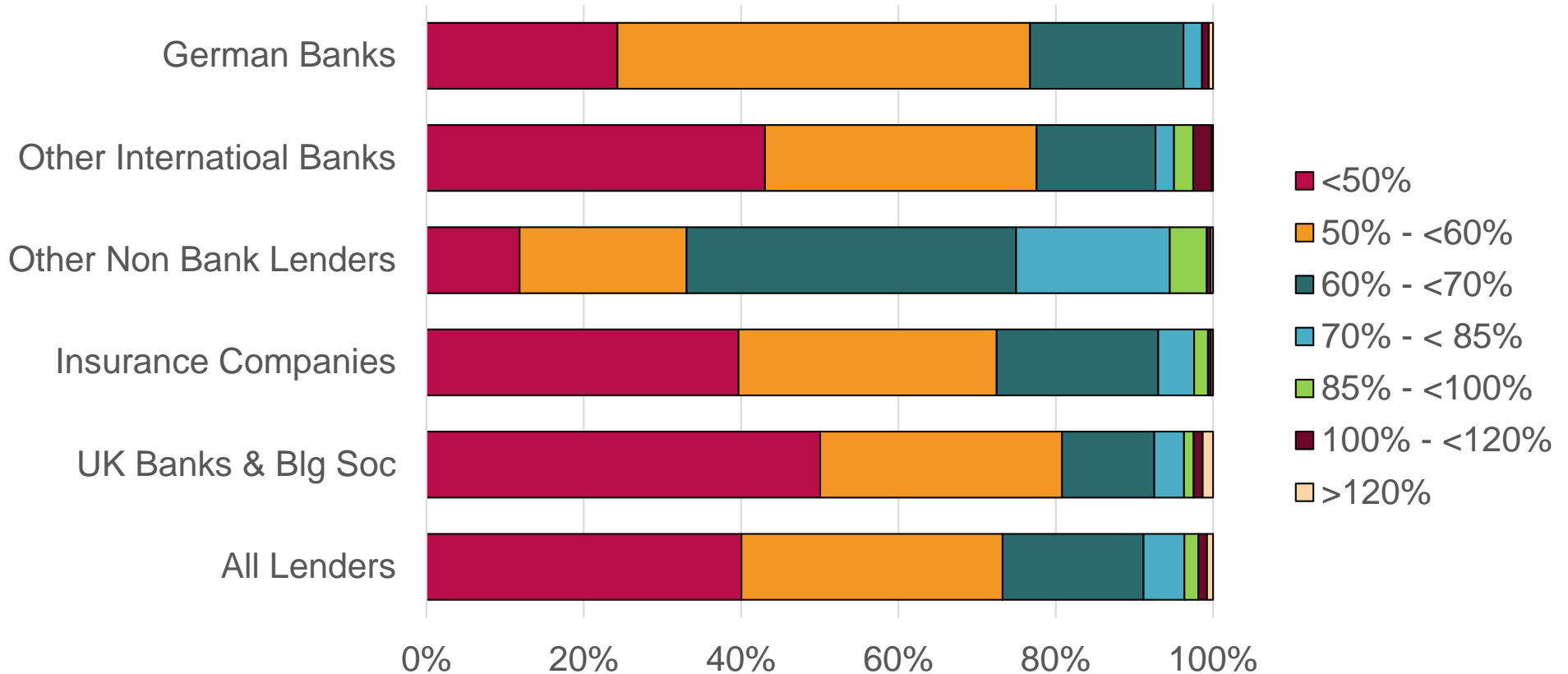


Regional distribution of loan books, 2018, % by lender



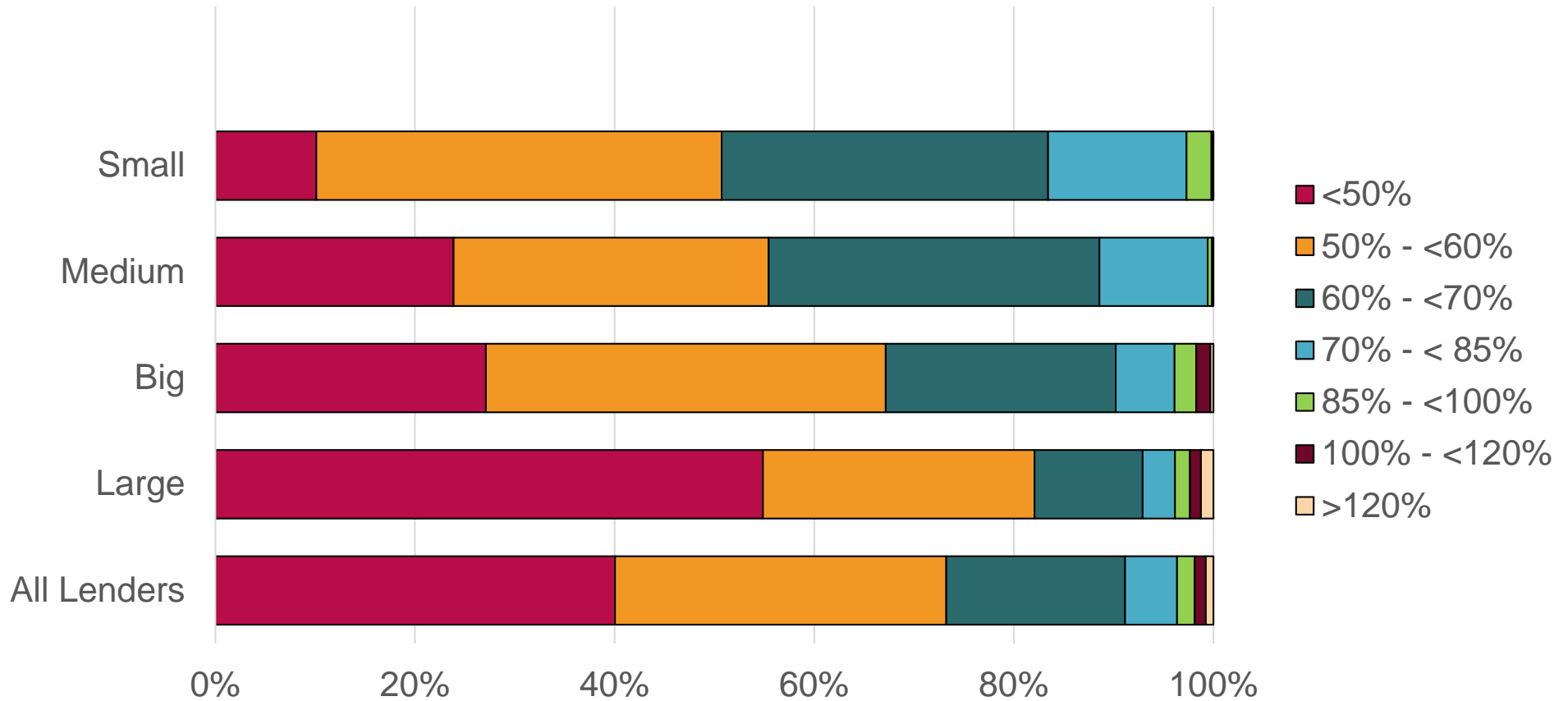
49% of loans were secured by Central London assets – 61% if accounting for London & South East

Loan-to-value of loan books, June 2019, % by lender



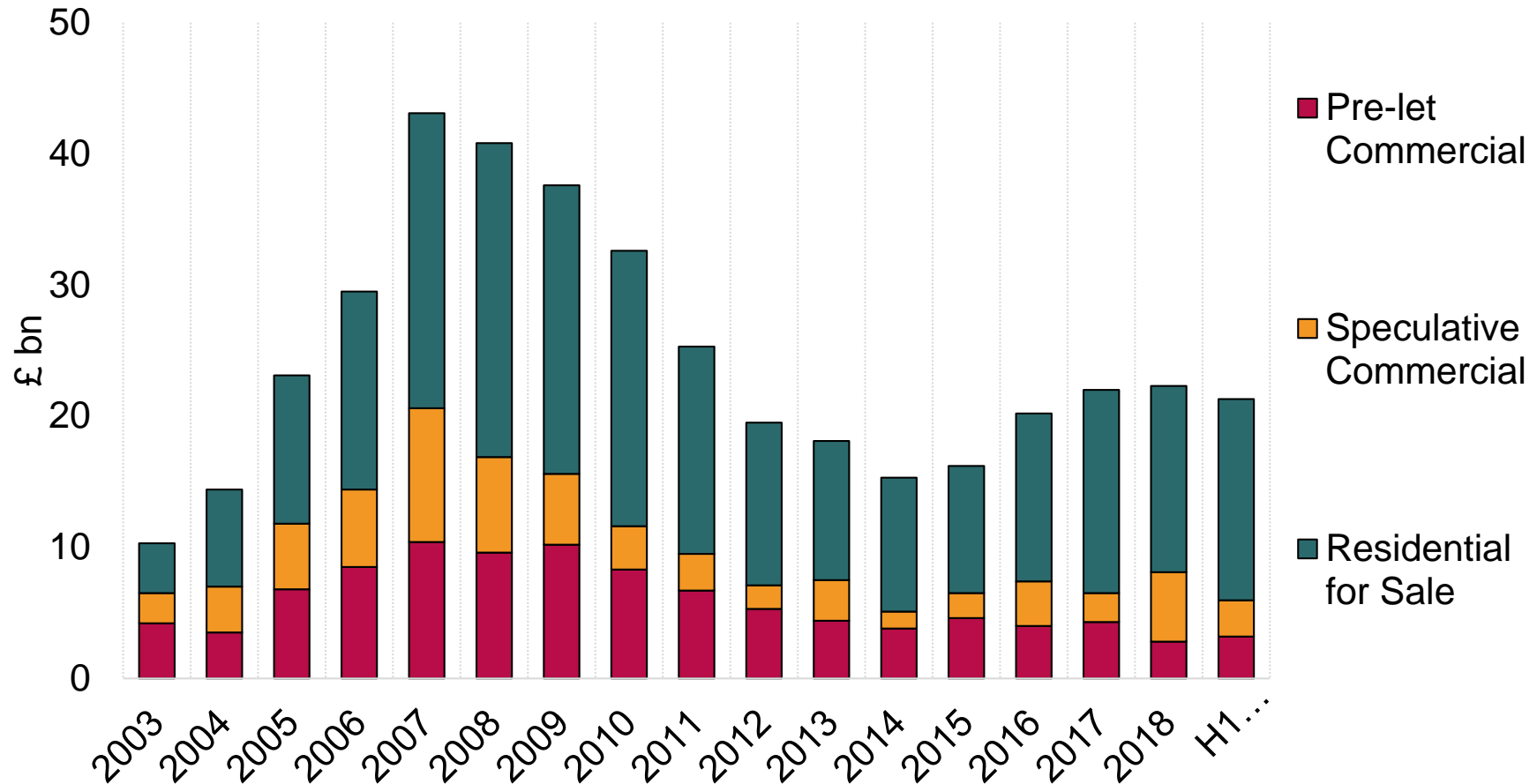
Non Bank Lenders hold only 36% of loans below 60% LTV.

Loan-to-value of loan books, June 2019, % by lender



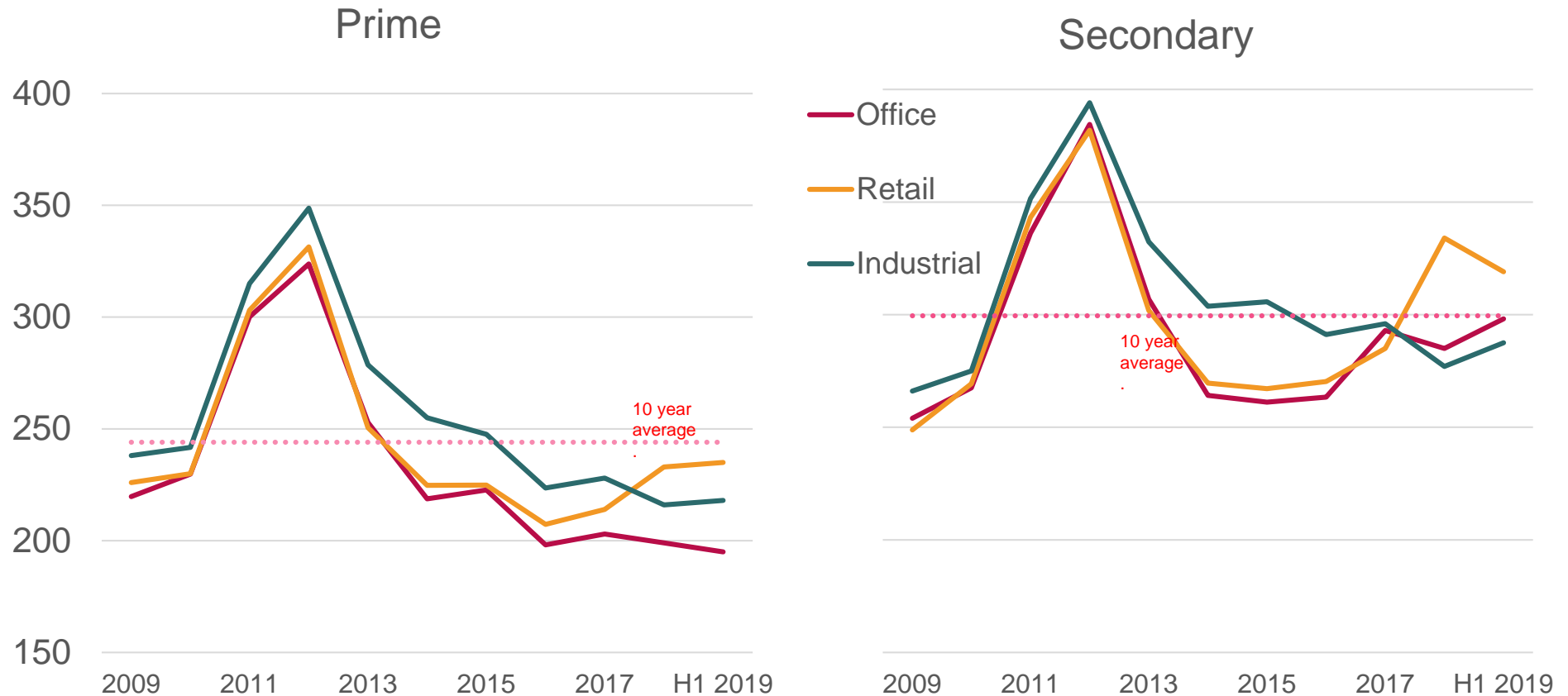
Lenders with balance sheets up to £500m do 49% of their lending in loans above 60% LTV

Development cycle of loan books, June 2019, £bn



The development finance pipeline has been stable during H1 2019. With £27bn undrawn loans there is more firepower in H2 2019.

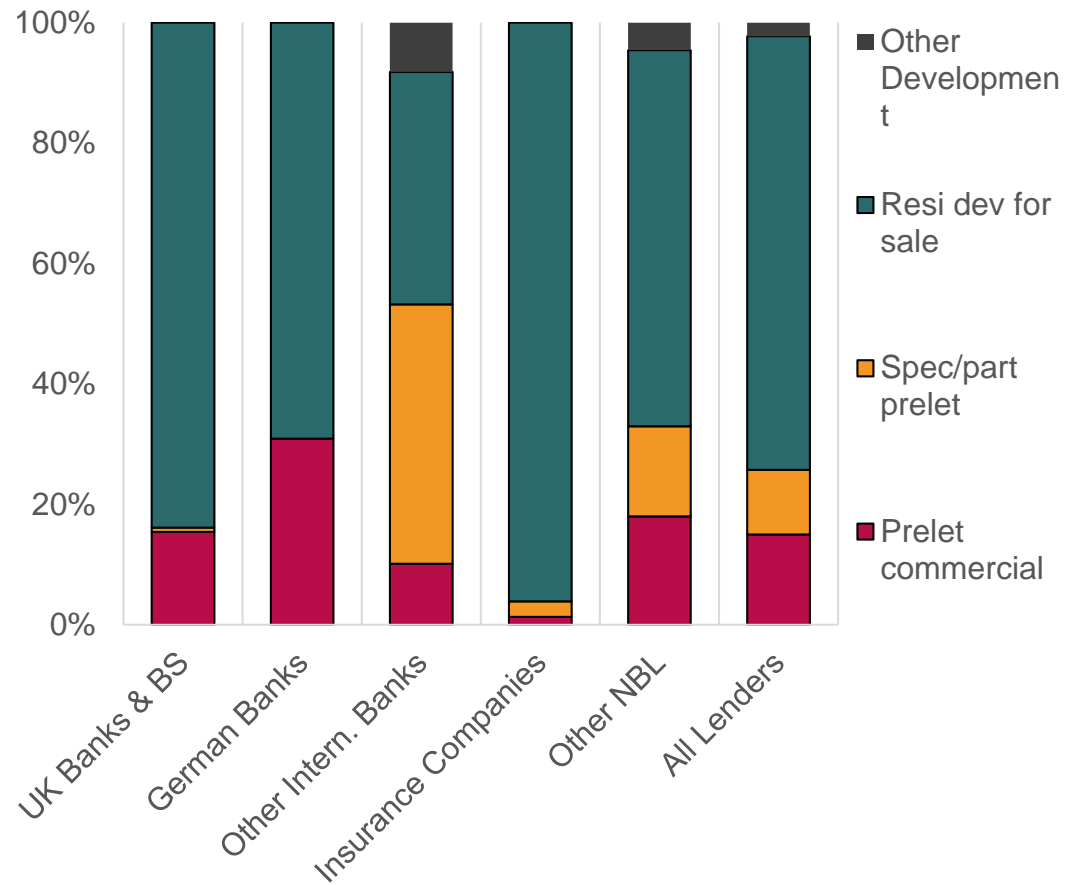
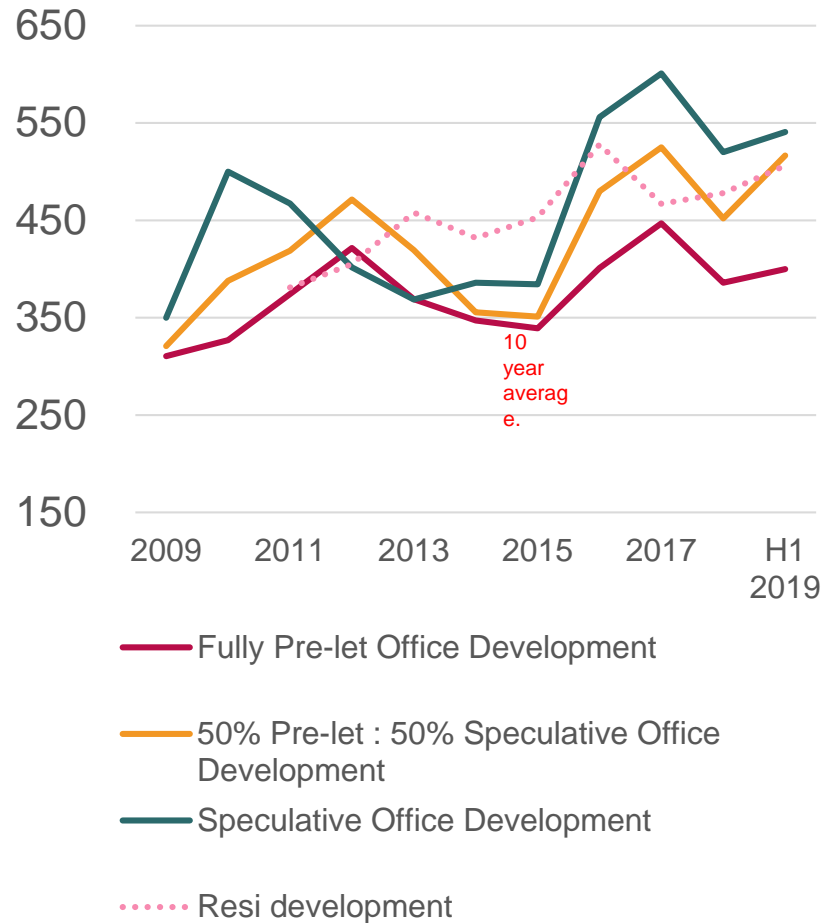
Underwriting – average target lending margins bps



Prime ending margins are below the 10-year average across all property types.

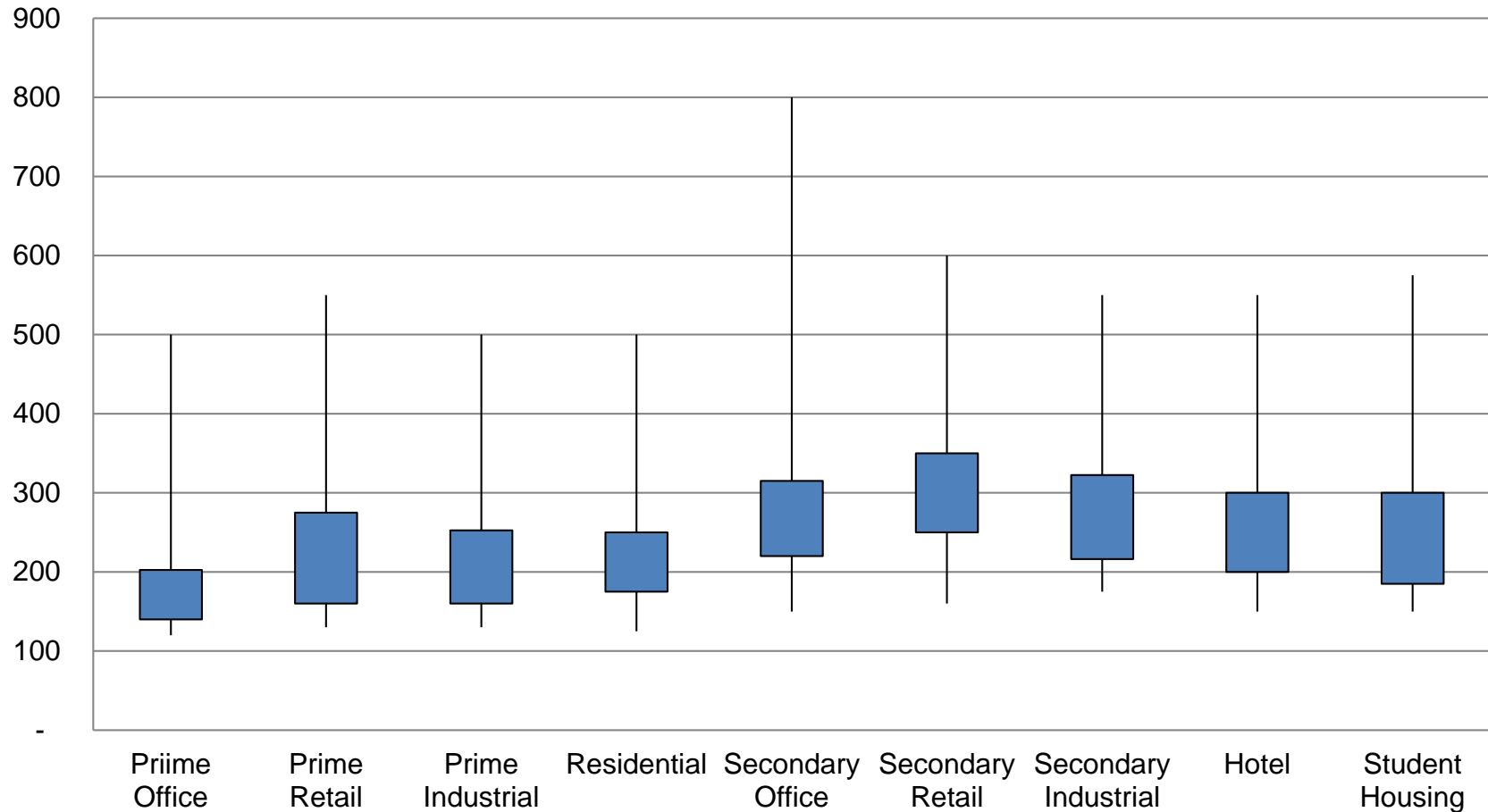
Pricing of loans secured by retail property has increased substantially due to credit issues and structural changes of retail property

Underwriting – Development finance



Development loan pricing is competitive for pre-let schemes, but margins remain high for speculative finance as well as residential development finance, albeit at slightly higher LTC levels.

Underwriting –lending margin ranges bps



Senior lending margins by range (25th perc, 75th perc, min, max, average)

Lender comments - Retail

- Valuations, where is “V”, what is the quality of income, is there any trust in valuations?
- We estimate that of 650 UK shopping centres 200 – 300 are in trouble
- Shopping centre workout are slowing starting, but still 6-12 months away
- Workout of a shopping centre takes at least 12 – 18 months
- Large retail units are a problem to find alternative use, need to be split into smaller units
- There is no more anchor tenant in shopping centres
- Secondary shopping centre assets are only slowly going into receivership, this is mostly because lenders and borrowers/owners are trying to avoid a receivership at all cost
- The lenders are not keen on appointing receivers if there is no clear exit strategy for the centre.
- Often retail shopping centre managers might not be the right appointment to a struggling shopping centre as they don't have a different strategy to think outside the box

Lender comments - Office

- We believe the occupational office demand is highly distorted through Wework
- Leases are getting shorter in office markets as well as other markets
- We are happy that we do not have exposure to Wework
- We only like deals with no letting risk, with shorter lease profiles this is difficult
- Wework has helped to change how tenants behave with their landlords
- Since we have seen nice Wework spaces we demand more from our landlord
- Office tenants have a lot nicer choices now than 10 years ago
- Rent free periods in many properties are being covered by cash reserves.
- We believe the real occupier demand in the city is highly distorted by Wework leasing
- There is no more visibility in leasing/occupier activity to the end-user/occupant, due to Wework
- The culture of the occupier market is changing, occupiers want more flexible options

Summary

- Loan originations 4% up on H1 2019 while property transaction volumes are down
- Prime lending margins have remained highly competitive while lenders are cautious about lending on secondary properties
- Asset quality in loan books remain stable at this point, although repricing of loans on retail assets is expected to show overall changes in the data within the next 12 months.

Additional information

- The full report & data are available for purchase from Cass Business School
<https://www.cass.city.ac.uk/business-services/consulting/research>
- More about Cass Business School real estate research & consulting
 - Ask for bespoke data extracts
 - Peer group analysis reporting for lenders
 - Bespoke statistical loan modelling & further analysis
- contact Nicole.Lux@city.ac.uk

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