EUROPEAN REAL ESTATE LENDING UPDATE

A Cushman & Wakefield Corporate Finance Publication

CUSHMAN & WAKEFIELD®

H1 2014

KEY HIGHLIGHTS

Lending activity shows significant improvement in peripheral European markets, as pricing begins to stabilise

- According to Cushman & Wakefield Corporate Finance (CWCF), the number of active European real estate lenders has increased by almost 47% since Q1 2012.
- The drive into the previously labelled "non-core" markets has continued throughout H1 2014, with interest in Spain, Portugal and Italy growing considerably.
- Today's market is marked by the increasingly diversified mix of active lenders, with non-bank financial institutions taking up a larger share of the European lending landscape.
- CWCF has tracked €32.7bn of real estate lending across H1 2014, of which €27.3bn is origination (made up of new investment lending, new development lending and refinancing.)
- Whole loan financing is becoming increasing popular with many senior debt providers, whilst the gap between LTVs offered across Western European and CEE markets is closing.
- Whilst margins in the majority of markets have continued to compress, the pressure has eased during the second quarter.
- According to CWCF research, the all-in-cost of financing in the UK for a 50% leveraged transaction, secured on a prime UK asset has fallen from 6.53% in H1 2008, to approximately 3.39% in Q2 2014.
- European property debt funds continue to play a vital role, with CWCF currently tracking 39 funds looking to raise €22.1bn to target real estate debt.
- After a promising 2013, the European CMBS market has slowed in H1 2014. Despite this, investor demand remains strong and market commentators see further issuance in the near term.
- The availability of loan-on-loan financing has grown rapidly during H1 2014, with CWCF recording over €5.5bn of debt being secured across nine transactions in the first half of 2014.

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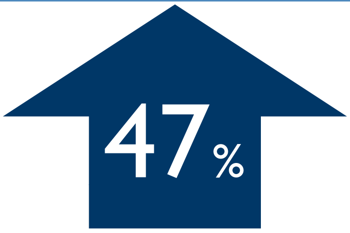
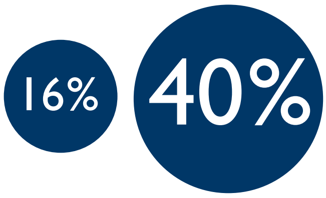
INTRODUCTION

Following the Q1 Real Estate Lending Review, Cushman & Wakefield Corporate Finance (CWCF) presents its H1 update on the activity of European real estate lenders and provides an overview of the current debt markets across Europe.

The European commercial real estate (CRE) lending market continues to stabilise and improve with countries across Europe experiencing a greater supply of debt and improving risk tolerance. Today's market is marked by the increasingly diversified mix of active lenders, with the previous dominance of banking institutions eroded by the entry of non-bank financial institutions, such as insurance companies, debt funds and private equity.



Increase in active lenders since Q1 2012



% of our sample represented by "Alternative Lenders" in Q1 2012 v Q2 2014

€27.3 bn in lending origination recorded across Europe in H1

KEY LENDERS AND LENDING

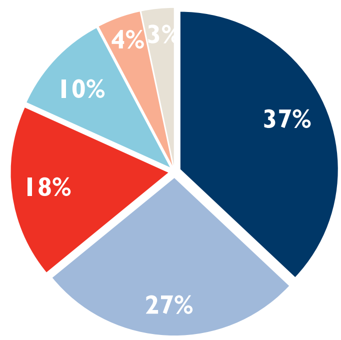
CWCF now tracks a database of 182 lenders active in Europe, up from our database of 78 surveyed at the start of 2012. Our analysis indicates that the total percentage of active lenders in the European market has increased from 58% in Q1 2012 to 85% in Q2 2014, an increase of almost 47% since Q1 2012.

The breadth of lenders has continued to grow over the past 12 months creating a diverse and increasingly liquid lending market. 'Alternative' lenders (including insurance companies, property companies, private equity and debt funds) now make up just under 40% of our sample, compared to 16% in Q1 2012.

CWCF has tracked lending deals across H1, with over €32.7bn in volume recorded across Europe. Origination, made up of new lending to finance investment, new lending to finance development and existing facility refinancing, accounts for €27.3bn of this total volume recorded. The remainder comprises unsecured corporate loans made to real estate organisations as well as general corporate loans secured against real estate. We acknowledge the impossibility of capturing the whole market's lending deals; the aim of our analysis is to capture key trends and overall market sentiment.

Over the past six months, European property debt funds have continued to play a key role, having stepped into a lending market vacated by traditional lenders during the recent downturn. According to CWCF research, there are currently 39 funds currently raising with a focus on providing real estate debt, providing a healthy indication of pipeline lending across Europe.

TYPE OF LENDER IN CWCF DATABASE



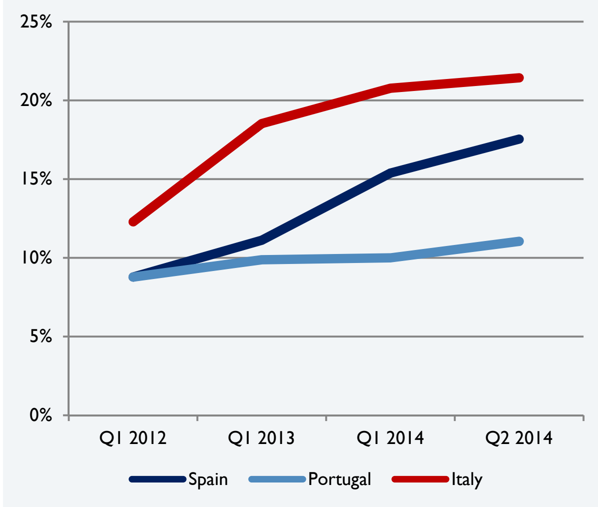
Source: C&W Corporate Finance

TOP LENDING MARKETS

The core markets within Western Europe – namely the UK, France and Germany – have remained the top targets for real estate lending. The percentage of lenders active in these countries stands at 79%, 43%, and 42% respectively, showing the continued attraction of these markets. According to CWCF tracked lending deals, just under 65% of all loans made during H1 2014 were secured by assets within these three markets.

However, the drive into the previously labelled "non-core" markets has gathered pace during H1 2014. This has been driven by the number of opportunities that have emerged within these countries but also the demand from lenders to move up the risk curve in search of superior returns. As shown opposite, interest in Spain, Portugal and Italy has grown considerably since Q1 2012, with an impact on available lending terms within these markets.

PERCENTAGE OF ACTIVE LENDERS WILLING TO LEND



Source: C&W Corporate Finance

LENDING TERMS

LTVs

Within core Western European countries, the upper LTV on senior debt remains between the 65% - 75% range. The trend towards providing "whole loan" financing has continued throughout H1 2014, with more lenders crossing the boundary into the mezzanine financing space. This is enabling lenders to provide a "one-stop" shop for borrowers, providing up to 85% LTV on core assets in most Western European markets. In Central & Eastern Europe (CEE), recorded LTVs continued their upward trend, and are now comparable to many Western European markets. A combination of improved market sentiment and desire to move up the risk curve has encouraged more lenders to focus on these markets.

MARGINS

During 2013, increased competition and greater risk tolerance helped exhibit significant pressure on the pricing quoted by a broad range of lenders across Europe. During the first half of 2014, the weight of available capital has exerted more downward pressure on pricing. However, CWCF notes that during Q2 2014 this pressure has eased, with margins stabilising in most markets. One of the most notable trends has been the change in the cost of finance in non-core markets. As illustrated overleaf, margins have come in considerably since Q1 2013, largely sitting within the 300bps – 500bps range in Q2 2014.

CWCF has tracked the change to the all-in-cost of financing since H1 2008 for a 50% leveraged transaction, secured on a prime UK asset with a strong covenant. As illustrated in the graph opposite, the all-in cost has fallen from 6.53% in H1 2008, to approximately 3.39% in Q2 2014.

EUROPEAN CMBS MARKET

After a promising 2013, the CMBS market has shown little activity during H1 2014. Activity last year was dominated by the refinancing of maturing issues, and with this now largely complete, there is a need for new loans to finance. Despite the current lack of new deals, optimism remains high, with investor demand for European CMBS product remaining robust. Earlier this year, CWCF and several other commentator predicted issuance of c. €15bn in 2014. Though issuance in H1 has failed to live up to the pace required to reach this level, CWCF and other commentators expect H2 to deliver a more robust level of issuance.

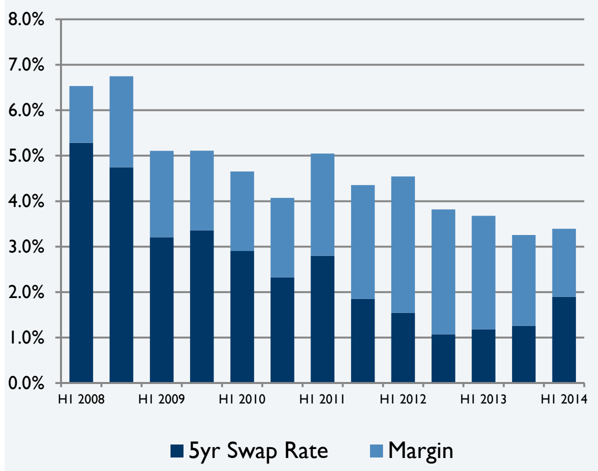
LOAN ON LOAN FINANCING

Activity in the European CRE loan and real estate owned (REO) sales market is at an all time high, with over €40bn of transactions closed YTD. The availability of loan-on-loan financing appears to have grown rapidly, with CWCF recording over €5.5bn of debt being secured across nine transactions in the first half of 2014. In comparison, only €3.2bn was secured during the entirety of 2013, also across nine transactions. The competitive lending environment has resulted in a tightening of margins to between 300bps - 400bps, a reduction on the 400bps - 600bps seen in 2013. In addition, the typical LTC ratio has increased to between 60% - 70%, again suggesting that lenders are keen to look further up the risk curve. However, it must be noted that lenders continue to be focused on the UK and Ireland, and there is little evidence to suggest that financing is becoming more affordable throughout Europe, if available at all.

> "Despite the supply of debt steadily increasing in most European markets, margins seem to have stabilised over the past quarter. This has helped accelerate the movement up the risk curve for many lenders"

Frank Nickel
Chairman & CEO of Germany
EMEA Corporate Finance

UK SENIOR DEBT ALL-IN-COST, 50% LTV: H1 2000 – H1 2014



Source: C&W Corporate Finance

PROJECT	BUYER	LENDER	LOAN €	MARGIN
HOLLY	Lone Star	Royal Bank of Canada	c. 155m	4%
CENTRAL PARK	Green REIT / Kennedy Wilson	BOI	150m	2.95%
PLATINUM	Blackstone	Morgan Stanley	60m	3%
ROCK	Lone Star	Citi, Wells Fargo & RBC	c. 2.2bn	4%
COEUR DEFENSE	Lone Star	BOAML	910m	-
SALT	Lone Star	Citi, Wells Fargo & RBC	c. 1.2bn	4%
PEBBLE	Colony Capital	M&G Investments	140m	-
ADELAIDE	Oaktree Capital	JP Morgan and AIG	-	-
TOWER	Blackstone	GE Capital	770m	-

Source: C&W Corporate Finance

LENDING TERMS – COUNTRY BY COUNTRY

KEY	CURRENT
LTV	Senior Prime LTV
MARGINS	Prime Margins
RATING	Market Liquidity (1 – 5)
MEZZ	Availability of Mezz (None, Limited, Good, Strong)

The tables below provide a summary of the movement of LTVs and margins in a number of European markets, as well as providing an indication of the availability of mezzanine finance. CWCF has also provided a market liquidity rating, indicating the depth of that particular lending market. Determined through our local market knowledge, the rating ranges between one and five, five being the most liquid. Sources: CWCF, C&W European Offices and C&W Alliance Partners.

UK

	CURRENT	Q1 2014	Q1 2013
LTV	60% - 70%	60% - 65%	55% - 65%
MARGINS	1.35% - 2.25%	1.75% - 2.50%	2.50% - 3.00%
RATING	5	5	4.5
MEZZ	Strong	Strong	Strong

GERMANY

	CURRENT	Q1 2014	Q1 2013
LTV	55% - 75%	55% - 75%	55% - 75%
MARGINS	0.80% - 1.75%	0.80% - 1.75%	1.20% - 2.00%
RATING	5	5	4.5
MEZZ	Strong	Strong	Strong

FRANCE

	CURRENT	Q1 2014	Q1 2013
LTV	55%-70%	50% - 70%	55% - 65%
MARGINS	1.25% - 2.50%	1.40% - 2.50%	1.90% - 3.00%
RATING	4.5	4	4
MEZZ	Strong	Strong	Good

THE NETHERLANDS

	CURRENT	Q1 2014	Q1 2013
LTV	55% - 65%	55% - 60%	50% - 55%
MARGINS	2.50% - 4.50%	3.75% - 5.50%	5.00% - 6.00%
RATING	4	4	3.5
MEZZ	Good	Good	Limited

SPAIN

	CURRENT	Q1 2014	Q1 2013
LTV	55% - 65%	50% - 60%	40% - 50%
MARGINS	3.00% - 4.50%	3.00% - 5.00%	5.00% - 6.50%
RATING	3.5	3	2.5
MEZZ	Good	Limited	None

PORTUGAL

	CURRENT	Q1 2014	Q1 2013
LTV	50-60	40% - 60%	40% - 50%
MARGINS	3.50% - 5.00%	5.00% - 6.00%	5.00% - 6.50%
RATING	2.5	2.0	1.5
MEZZ	None	None	None

DENMARK

	CURRENT	Q1 2014	Q1 2013
LTV	55% - 60%	55% - 60%	50% - 55%
MARGINS	0.50% - 1.20%	0.50% - 1.20%	0.75% - 1.50%
RATING	3.5	3	2.5
MEZZ	Good	Good	Good

SWEDEN

	CURRENT	Q1 2014	Q1 2013
LTV	65% - 70%	65% - 70%	55% - 65%
MARGINS	0.50% - 1.00%	0.50% - 1.00%	1.75% - 2.75%
RATING	4	3	2.5
MEZZ	Good	Good	Limited

BELGIUM

	CURRENT	Q1 2014	Q1 2013
LTV	60%-75%	55% - 60%	55% - 60%
MARGINS	0.75% - 2.50%	0.75% - 2.50%	1.00% - 2.50%
RATING	4	3	3
MEZZ	Good	Good	Limited

IRELAND

	CURRENT	Q1 2014	Q1 2013
LTV	60% - 70%	60% - 65%	55% - 60%
MARGINS	2.50% - 3.75%	2.50% - 4.00%	3.25% - 4.25%
RATING	3.5	3.5	3
MEZZ	Good	Limited	Limited

ITALY

	CURRENT	Q1 2014	Q1 2013
LTV	50% - 65%	55% - 60%	40% - 50%
MARGINS	2.50% - 4.00%	3.50% - 5.00%	5.00% - 6.00%
RATING	3.5	3	2.5
MEZZ	Limited	Limited	None

POLAND

	CURRENT	Q1 2014	Q1 2013
LTV	60% - 70%	65% - 70%	50% - 60%
MARGINS	1.75% - 2.25%	1.75% - 3.00%	2.50% - 3.50%
RATING	3	3	2.5
MEZZ	Good	Good	Good

CZECH REPUBLIC

	CURRENT	Q1 2014	Q1 2013
LTV	60% - 70%	60% - 70%	50% - 60%
MARGINS	1.75 % - 2.50%	2.25% - 3.00%	3.00% - 3.50%
RATING	3.5	3	2.5
MEZZ	Limited	Good	Limited

TURKEY

	CURRENT	Q1 2014	Q1 2013
LTV	50% - 60%	50% - 60%	50% - 60%
MARGINS	3.25% - 5.50%	6.00% - 6.25%	5.00% - 5.50%
RATING	2.5	2	2
MEZZ	Limited	Limited	Limited

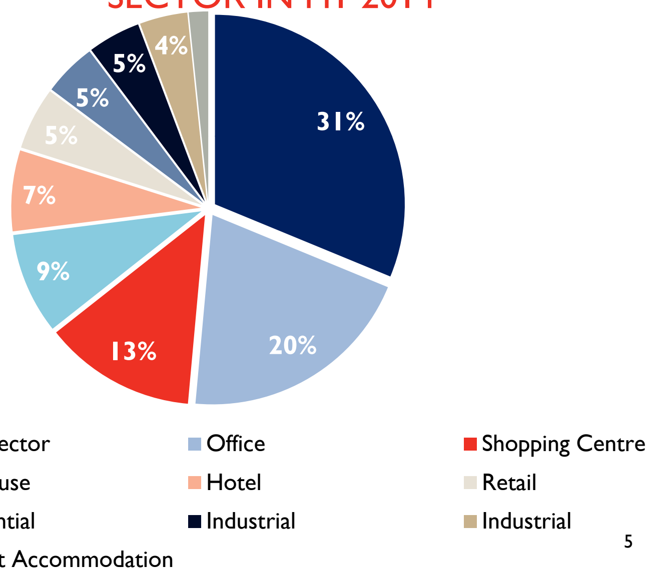
SELECTED RECENT TRANSACTIONS

DATE	BORROWER	SENIOR HOLDER	LOAN SIZE (M)	ASSET	SECTOR	COUNTRY	TYPE	NOTES / COMMENTS
Jun -14	China Life; Qatar Holding;; Canary Wharf Group	Barclays; Lloyds HSBC	€ 555	10 Upper Bank Street, Canary Wharf	Office	UK	New Investment Lending	▪ 55% LTV ▪ c160bps margin
Jun-14	Hines Italia	Unicredit; Intesa Sanpaolo; BNP Paribas; Societe Generale; Bank of America Merrill Lynch	€ 430	Unicredit Tower + 6 Prime Properties	Multi Sector	Italy	Refinancing	▪ Low 200bps margin
May-14	Blackstone	Wells Fargo; Metlife	€ 233	Alban Gate, EC2	Office	UK	New Investment Lending	▪>150bps margin
May-14	WP Carey	pbb Deutsche Pfandbriefbank	€ 55	Lipowy Office Park, Warsaw.	Office	Poland	Refinancing	
May-14	Jost Hurler Beteiligungs	pbb Deutsche Pfandbriefbank; Ergo Insurance Group	€ 388	Schwabinger Tor Development, Munich	Mixed Use	Germany	New Development Lending	▪ pbb :€188m ▪ Ergo: €200m ▪20 year facility
Apr-14	Green Reit; Pimco	Bank Of Ireland	€ 150	Central Park Office Portfolio	Office	Ireland		▪295bps margin ▪c.65% LTV
Apr-14	Apollo Global Management	Bank Of America Merrill Lynch	€ 260	Project Moon Portfolio	Multi Sector	UK	New Investment Lending	▪c.65% LTV
Apr-14	AREIM	pbb Deutsche Pfandbriefbank	€ 155	Stockholm Office Building	Office	Sweden	New Investment Lending	
Mar-14	ADIA	Heleba; Pbb Deutsche Pfandbriefbank; Allianz Real Estate	€ 350	6-8 Boulevard Haussmann and Le Capitole Business Park, Paris	Mixed Use	France	Refinancing	▪c.63% LTV ▪c150bps margin
Mar-14	The Mall Fund	Morgan Stanley	€473	6 Shopping Centres	Shopping Centre	UK	Refinancing	▪c175bps margin
Mar-14	Hannover Leasing Group	Aareal Bank	€ 152	Belair Office Complex	Office	Belgium	New Investment Lending	
Feb-14	CBRE Global Investors	Natixis; ING Real Estate; Allianz Real Estate; AXA Real Estate	€ 407	12 French Shopping Centres	Shopping Centre	France	Refinancing	▪c200bps margin ▪c60% LTV
Feb-14	HSBC Alternative Investments Limited; Hines	Bank Of Ireland	€ 140	Liffey Valley Shopping Centre	Shopping Centre	Ireland	New Investment Lending	▪c375bps margin ▪c55% LTV
Feb-14	Native Land Grosvenor; Hotel Properties; Amcorp Properties	DBS Bank; OCBC Bank	€ 252	Campden Hill Development, Holland Park	Residential	UK	New Development Lending	c350bps margin
Feb-14	Prime Office	pbb Deutsche Pfandbriefbank; Heleba	€ 370	Homer Office Portfolio	Office	Germany	Refinancing	
Jan- 14	Grand City Hotels	pbb Deutsche Pfandbriefbank	€ 139	10 Hotel Portfolio	Hotel	Netherlands and Germany	Refinancing	

" Lenders are aggressively competing for the right assets with strong fundamentals. This profile has now extended to locations and sectors that would not have been attractive 6-12 months ago. This trend has been captured in the transactions we have been involved in so far this year "

Mike Morrison
Partner
EMEA Corporate Finance

TRACKED LENDING (ORIGINATION) BY SECTOR IN H1 2014



Source: C&W Corporate Finance

Source: C&W Corporate Finance

SUMMARY

- The cost of CRE financing fell across a broad range of markets during H1 2014, beginning to stabilise in the latter half of the period. CWCF expect margins and core LTVs to be remain stable for the remainder of the year in the majority of markets.
- Lenders continue to move up the risk curve in the search for higher returns. This includes geographical location, sector as well as development financing.
- With the banking community returning to normalisation, CWCF expect that the proportion of alternative lenders will remain static at 40% of the lending sample.
- CWCF have tracked €32.7bn real estate lending in H1 2014. Given the increasing risk appetite amongst lenders, it is expected that H2 2014 will as active as the first half of the year.
- Given the number of opportunities that have emerged in Spain, Portugal and Italy, CWCF expect lending demand to intensify from lenders looking to move up the risk curve.
- Whilst the CMBS market has been lacklustre to date, investor demand and optimism has not disappeared and CWCF expects H2 issuance to be more robust.
- Lending conditions for loan-on-loan financing improved during H1 2014, with margins tightening to between 300bps - 400bps. CWCF recorded €5.5bn of transactions in H1. For more information, please see our European Real Estate Loan Sales Market report, released in July 2014.

About the Report

The underlying data was researched by CWCF team, who track the activity of leading CRE finance providers to assess the market. This research exercise has been undertaken since 2007 and is based on our long established relationships with lenders in the European market. CWCF has also collected data from various other sources, with support provided by C&W offices and Alliance Partners across Europe. In terms of tracking real estate lending, our goal is not to capture the whole market, but to identify and analyse emerging trends in real estate lending markets.

For more information about C&W EMEA Corporate Finance, and our Debt Advisory service line, please contact:

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