CBRE

VIEWPOINT

FOUR QUADRANTS

EMEA CAPITAL ADVISORS

Private Debt

Private debt markets are slowly but surely reopening across Europe following retrenchment in the second quarter of the year, and as liquidity returns a number of common themes can be observed. Uppermost perhaps is the flight to quality on the part of many lenders, who are focussing ever more on preferred asset classes, core locations, and long duration of income. Indeed, even this may not be enough; some lenders remain almost exclusively focussed on existing relationships and clients, with any other activity spent looking inwards at managing risks in their own books, and lobbying outwards for further policy support.

This retrenchment on the part of many commercial banks, combined with a general softening in the levels of debt offered – we judge that LTVs have fallen by 5-10% or so across many markets – has left a gap for others to exploit, and alternative lenders and North American banks are likely to step up activity to fill this void, benefitting from attractive pricing (compared to pre-Covid levels) as they do. A hurdle to overcome for some will be the lower levels of activity in the syndication and CMBS markets, meaning that lenders will have to "distribute up front", but this can be achieved with parties willing to adapt to new (hopefully temporary) market situations.

As we anticipated earlier in the year, lenders' forbearance has begun to fray as the yearend approaches and income – and interest payment – remains unforthcoming from certain types of asset. While retail restructuring has been a constant in the market for some time (given the structural shifts in the sector over the last few years) we have begun to see the beginnings of such activity in the hospitality sector, as lenders selectively seek to protect their positions in relation to assets in which they have less long-term confidence.

Looking ahead to 2021, it feels safe to predict continued strong enthusiasm for logistics and PRS lending, as well as reticence with regards to retail, hospitality and other sectors most affected by restrictions associated with COVID-19. Where office lending appetite lands is a trickier call, given the sudden challenge to the sector from the "great work from home experiment". We think that fundamentally there is strong long-term demand for office-based working, albeit that hours worked outside an office environment will be noticeably higher than pre-Covid. Lenders are likely to focus on offices in core markets with tight fundamentals, and on assets that permit greater occupational flexibility, as offering the best defensive characteristics.

CBRE

Contacts

For more information, please contact our Capital Advisors team:

Richard Dakin
Global Head
Capital Advisors
t: +44 (0)20 7182 2030
e: richard.dakin@cbre.com

Paul Robinson
Executive Director
Alternative Investment
t: +44 20 7182 2740
e: paul.robinson@cbre.com

Tim Ryan
Executive Director
Real Estate Investment Banking
t: +44 20 7182 2775
e: timothy.ryan@cbre.com

Graham Barnes
Executive Director
Corporate Finance
t: +44 20 7182 2516
e: graham.barnes@cbre.com

Clarence Dixon
Executive Director
Loan Services
t: +44 20 7182 2917
e: clarence.dixon@cbre.com

Paul Coates
Executive Director
Debt and Structured Finance
t: +44 20 7182 8050
e: paul.coates@cbre.com

Graeme Rutter
Executive Director
Investment Advisory
t: +44 20 7182 2700
e: graeme.rutter@cbre.com

Dominic Smith
Senior Director
Research
t: +44 20 7182 2369
e: dominic.smith@cbre.com