VIEWPOINT

FOUR QUADRANTS

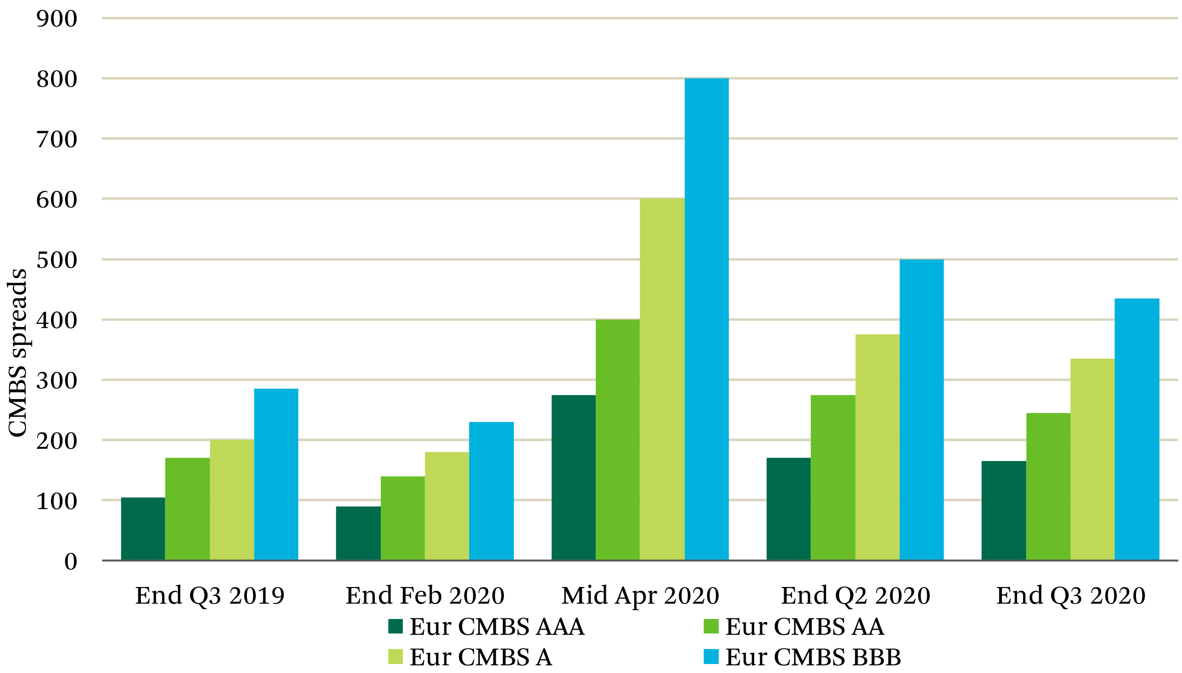
CBRE

EMEA CAPITAL ADVISORS

Public Debt

Throughout the spring and summer the public debt markets have provided, if not exactly high levels of liquidity, at least consistent and frequent estimates of pricing across the capital stack. New issuance and secondary trading of existing debt has of course been much lower than was expected at the beginning of the year, with an increased focus on the resolution of problem positions, but the markets have definitely re-opened and investors have been prepared to compete keenly for loans secured against preferred assets and sectors. Pricing has thus recovered strongly from the highs of mid-April, although spreads are 60 to 150bps higher (for AAA and BBB respectively) than was the case a year ago. There is reason to hope therefore that the further opening of CMBS in Q4 and into 2021 will be supportive of greater liquidity across other quadrants.

Figure 1: CMBS pricing, selected points over 12 months

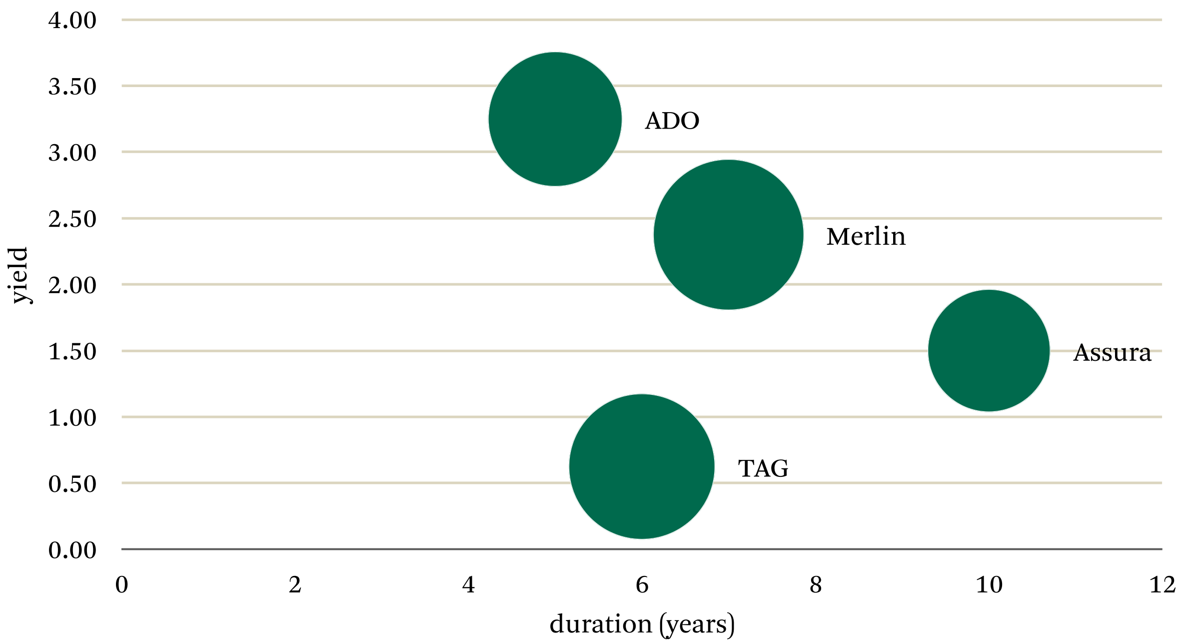


Source: BofA Global Research

In the REIT market, debt issuance in Q3 2020 was roughly €1.8bn, the lowest quarterly figure in the year so far. There were four transactions of note, as shown in Figure 2, which demonstrated the continued ability of companies in favoured sectors of the market to borrow on very affordable terms; €332m of ten year debt priced at 1.5% to Assura (healthcare) and €470m of six year debt priced at 0.625% to TAG (German residential) being the standout examples. Debt was relatively more expensive in the other two instances. This may be accounted for by sector and geographic exposure and higher existing borrowing.

As highlighted in our pricing model analysis, public debt currently appears to offer better relative value than private debt, albeit that new supply may be limited on the CMBS side (where additional value is greatest) and choice is of course narrower on the corporate side (the pool of would-be non-REIT borrowers is greater than the pool of would-be REIT borrowers). Nevertheless, we expect investors to continue to target these markets in Q4 and into 2021.

Figure 2: Selected Q3 debt raising



Source: EPRA

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