

# Commercial Real Estate Lending Survey

## Analysis and conclusions 2017/18

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- Outstanding debt & origination
- The structure of loan books
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## Why the debt survey?

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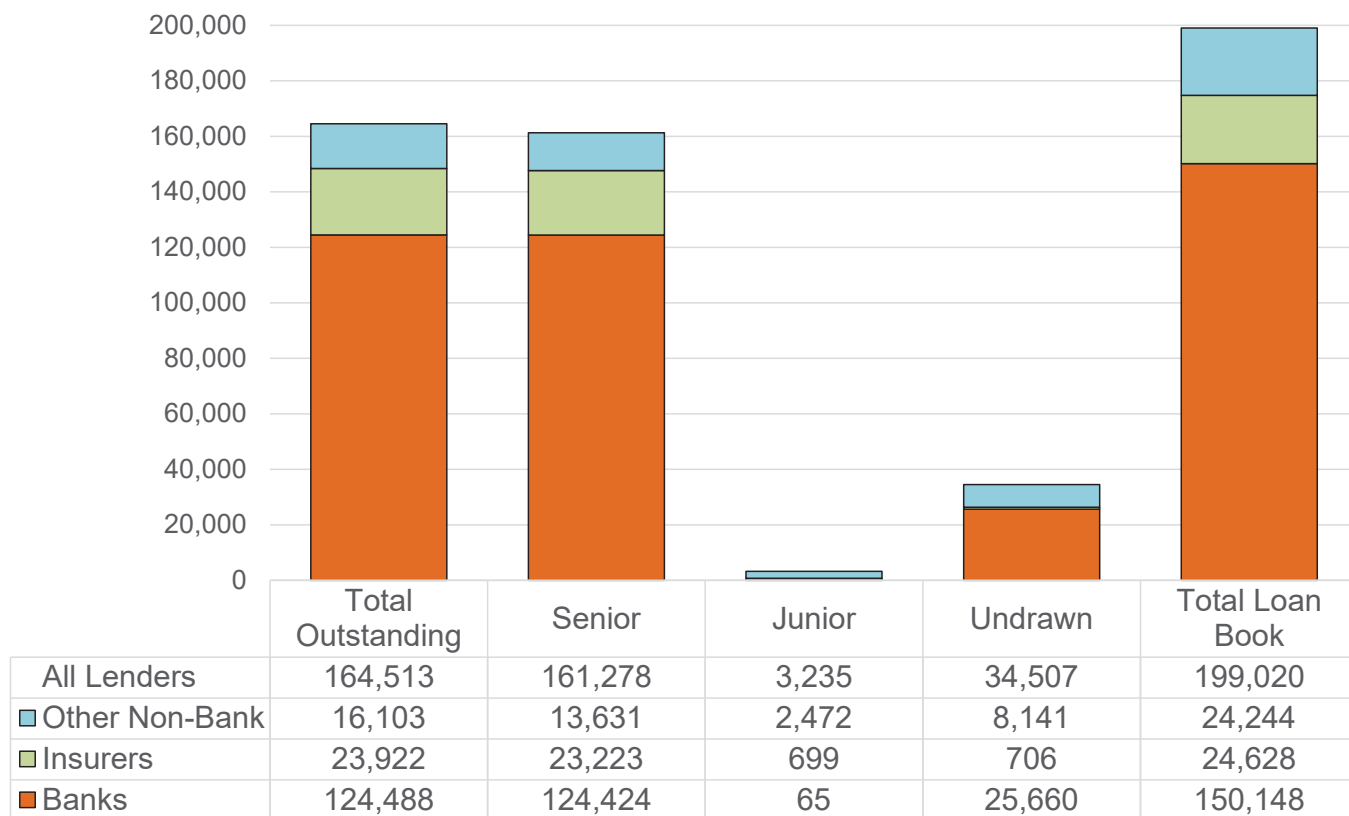
- What do we know about real estate investment?
  - Total market size 2017, £800bn (investment & owner occupied stock), investment stock, £400bn, MSCI Universe £400bn
  - granular, asset / deal level information and robust time series from MSCI, RCA, CoStar etc
- What do we know about real estate debt?
  - official statistics: BoE aggregate time series, lending to businesses in commercial real estate, coverage: banks reporting to BoE
  - Residential mortgage balance 2017: £1.3tr, BoE series
  - commercial databases: CMBS (Trepp, mainly US), Dealogic – individual transactions by industry sector
  - Total CRE debt approx. £250bn secured, £40bn unsecured

## Why the debt survey?

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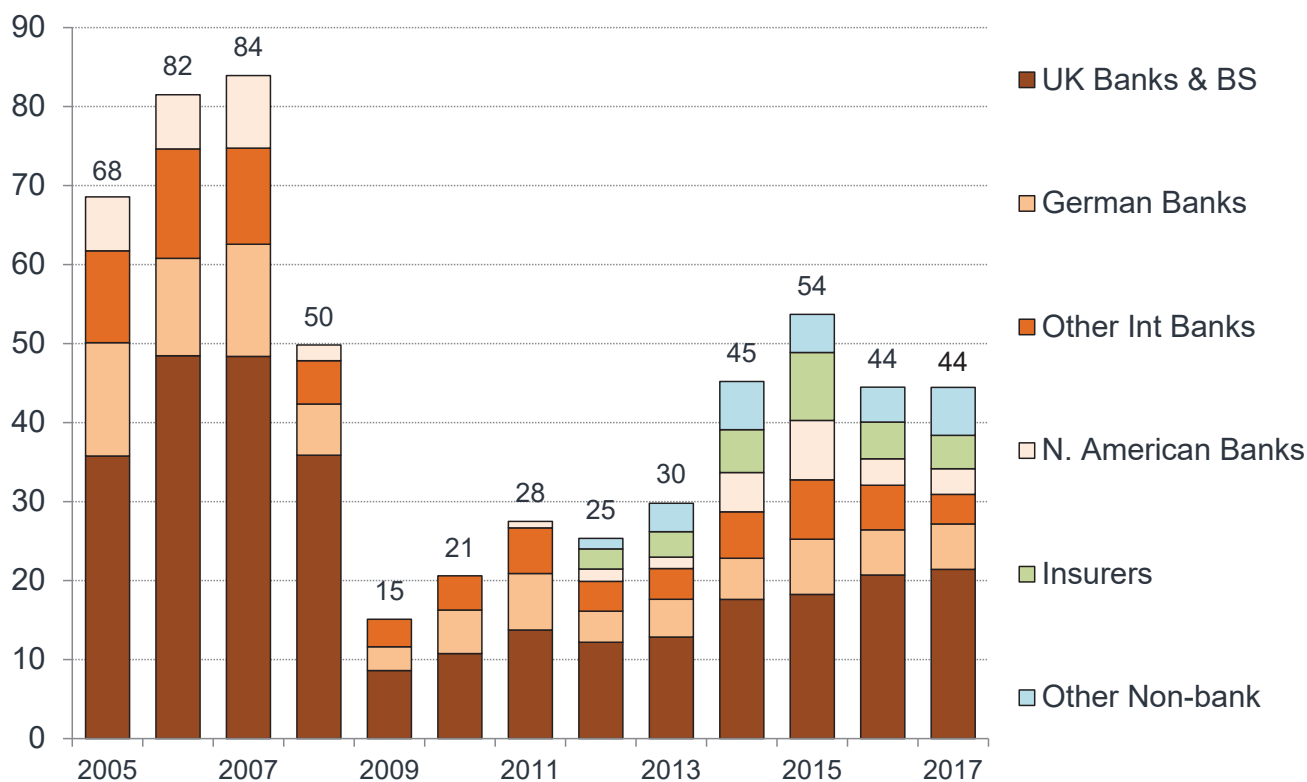
- And debt is really important:
  - Total outstanding secured CRE debt £230bn equivalent to 45% 55%? of total CRE asset value
  - BoE recorded £18.6bn cumulative write-downs 2008 – 2015, 8.8% of loan books
  - Evercore recorded £37bn of loan sales 2008 – 2015, with 50% average loss, leading to 18.5bn losses, assuming these are in addition to written down loans on balance sheets, this would lead to an estimate of 17% of loss of loan books
- So the UK lending survey fills in some of the blanks
  - started DMU 1998 covering 58 lenders, £49.6bn property loans (compared to BoE of £41bn)
  - now run at Cass, expanded to 80 lenders, £199bn secured CRE debt

## Total outstanding & undrawn debt end-2017 £m



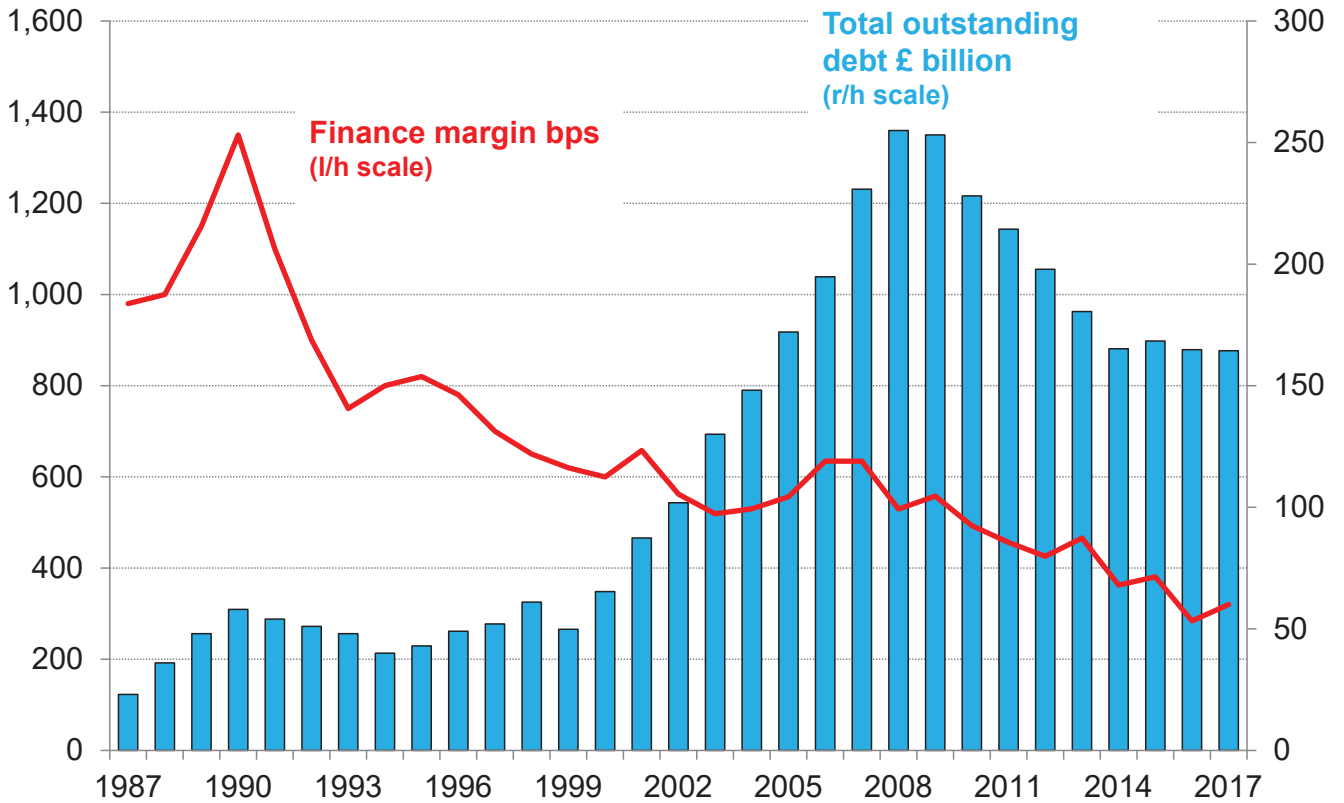
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## Loan origination by type of lender £bn 2005-2017



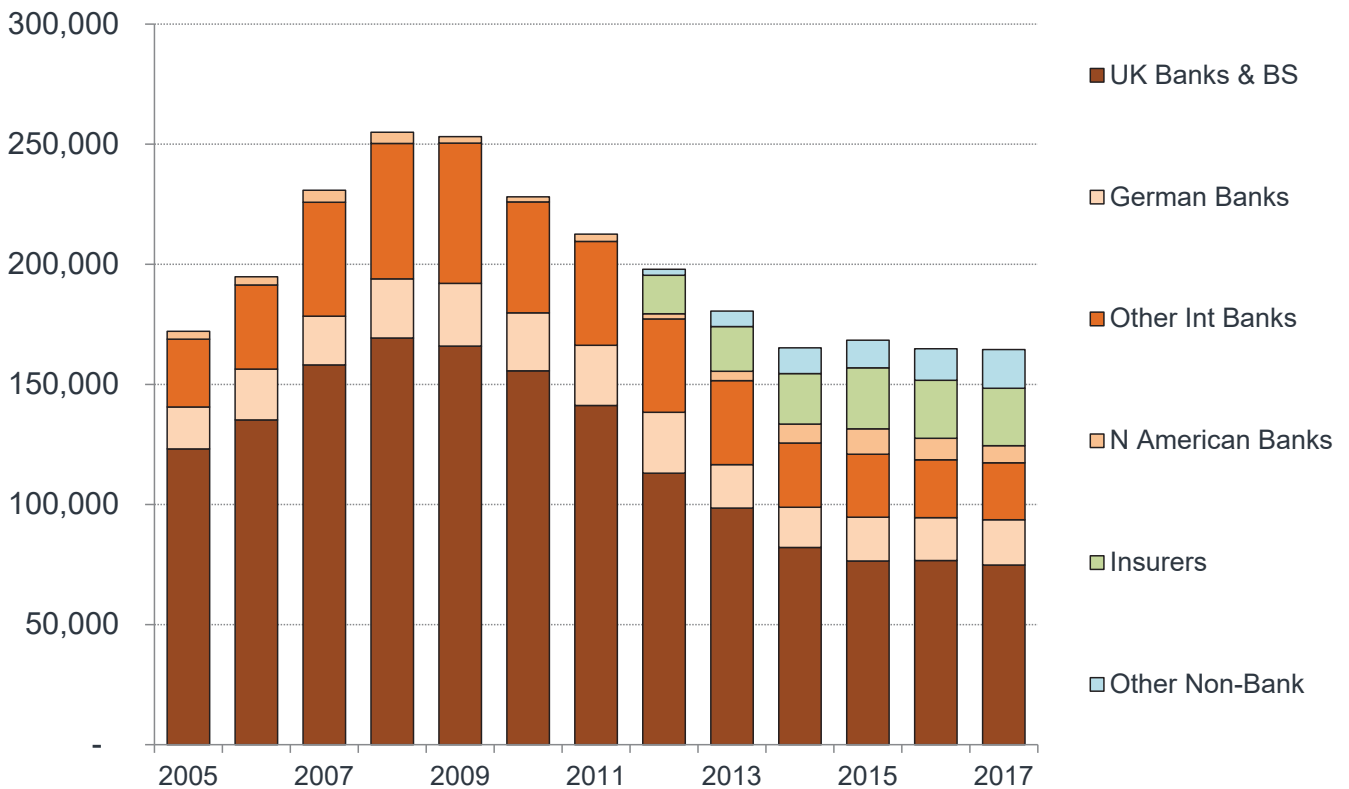
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## Total outstanding debt & lending margin



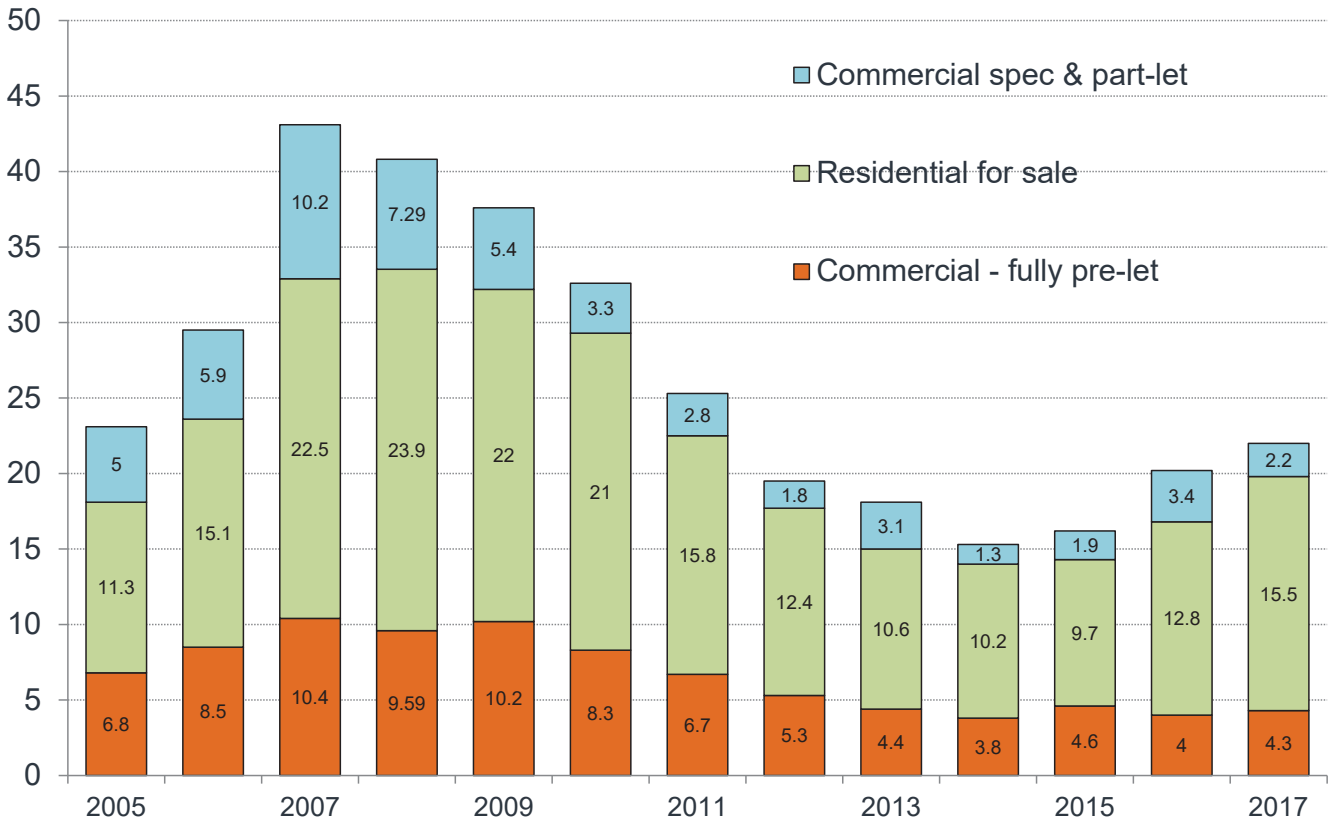
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## Total outstanding loans by lender type £m



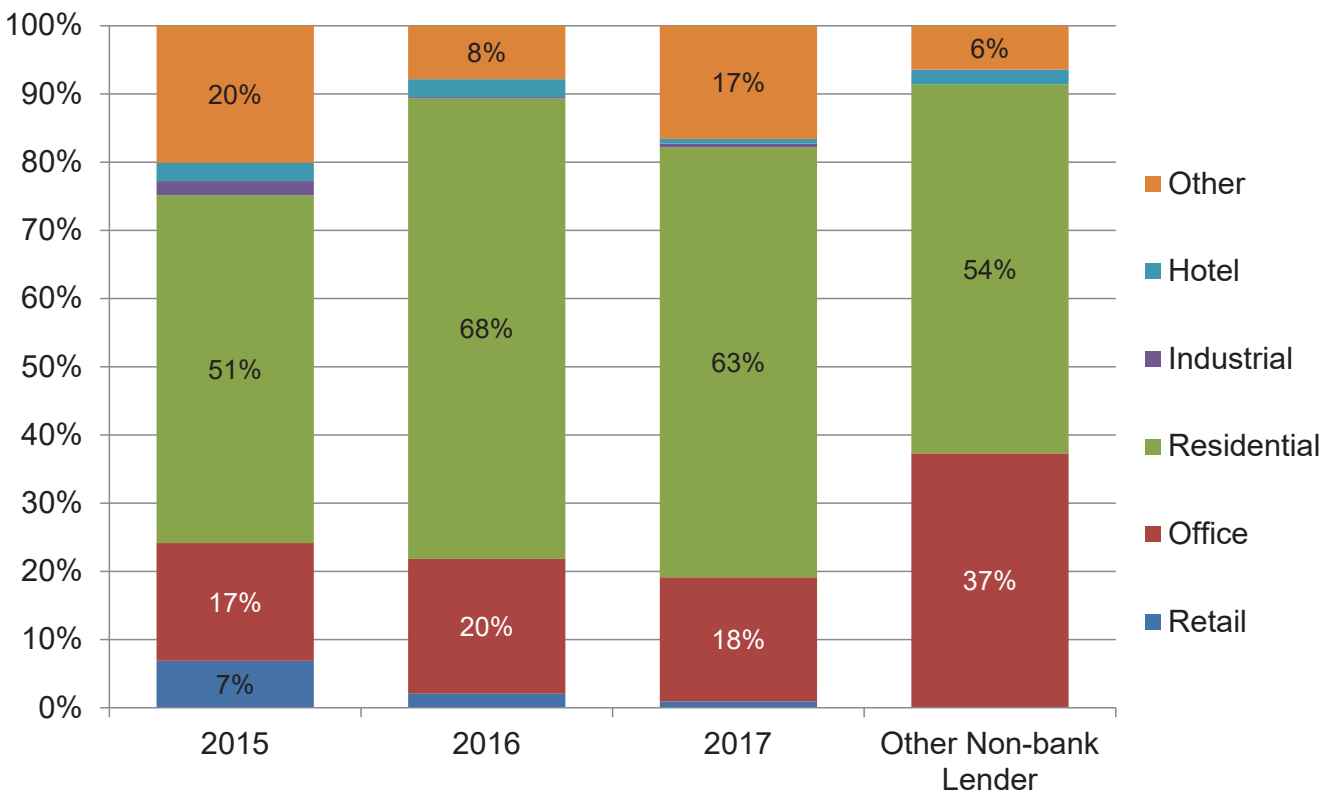
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## Outstanding development loans £ bn



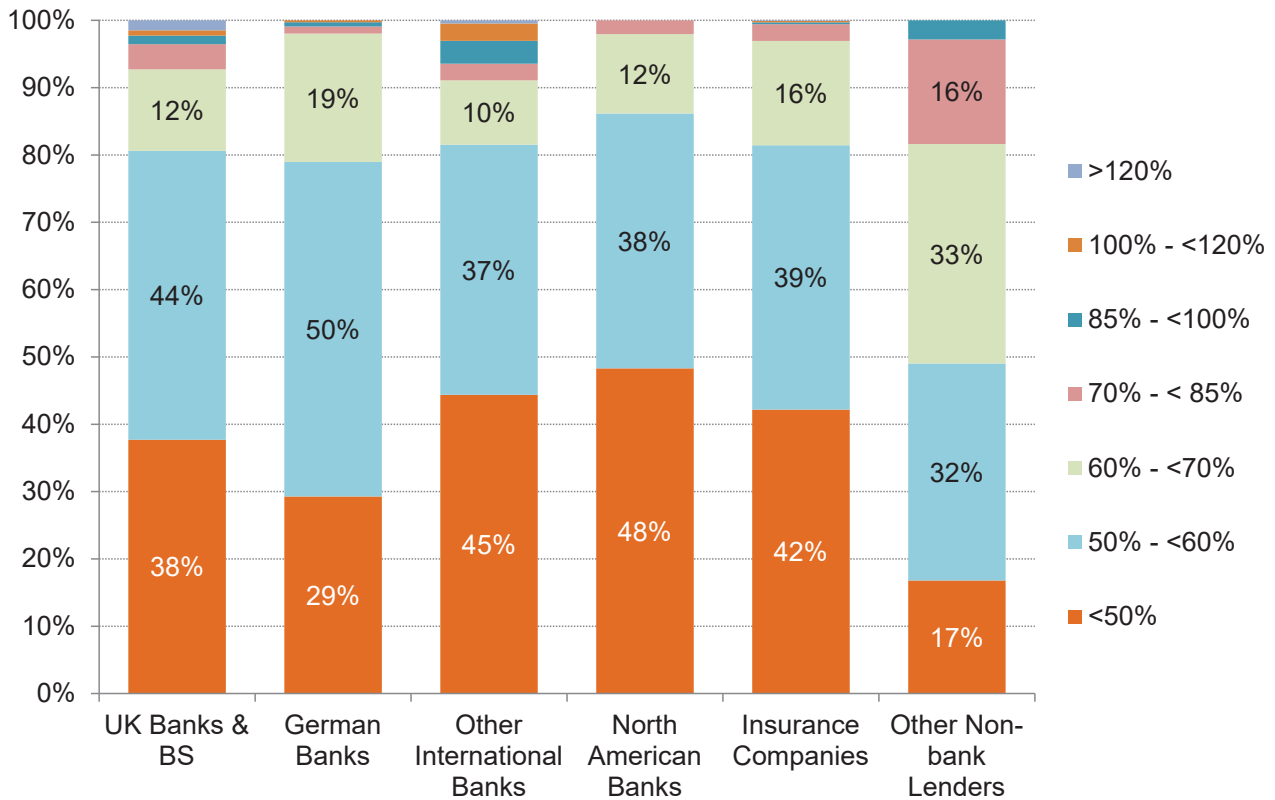
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## Allocation of development finance 2015-2017



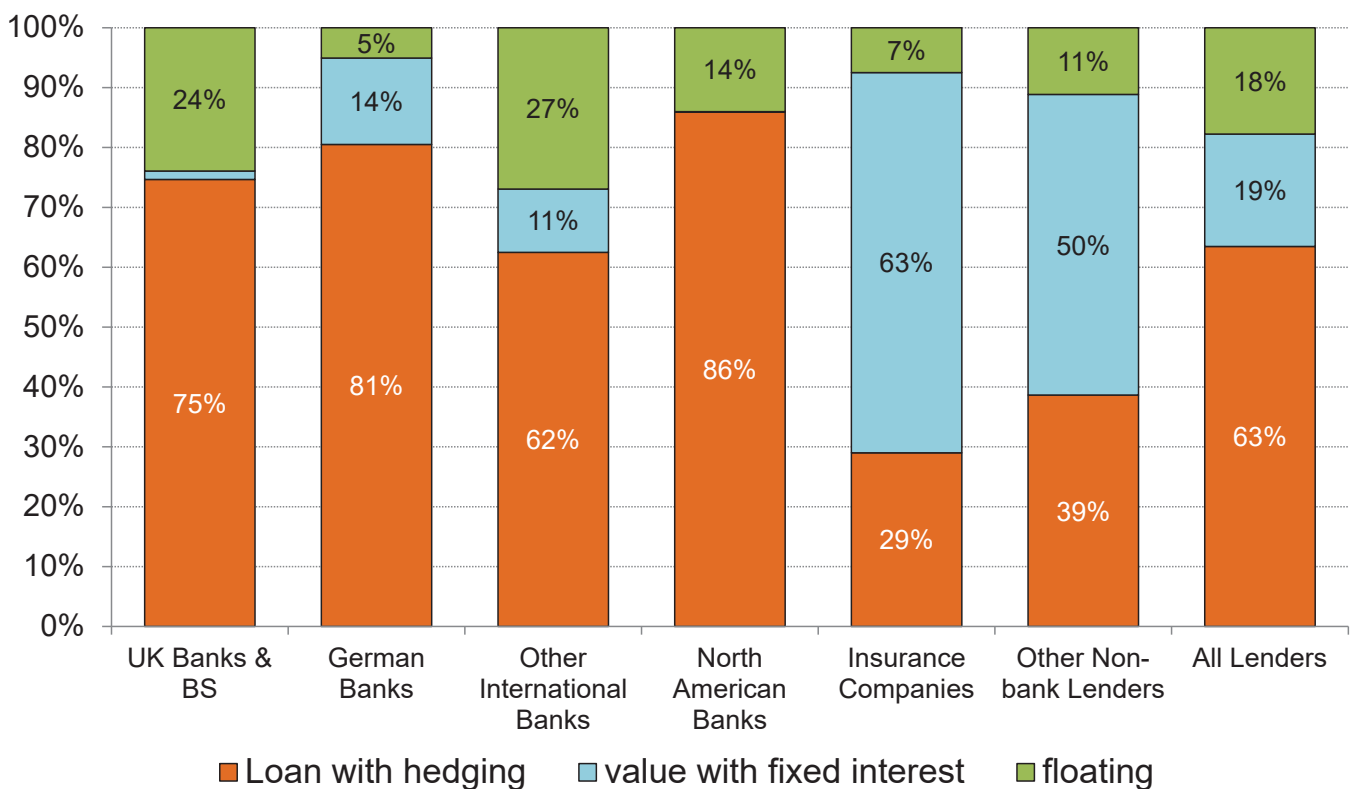
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## Percentages of outstanding loan value by current LTV, 2017



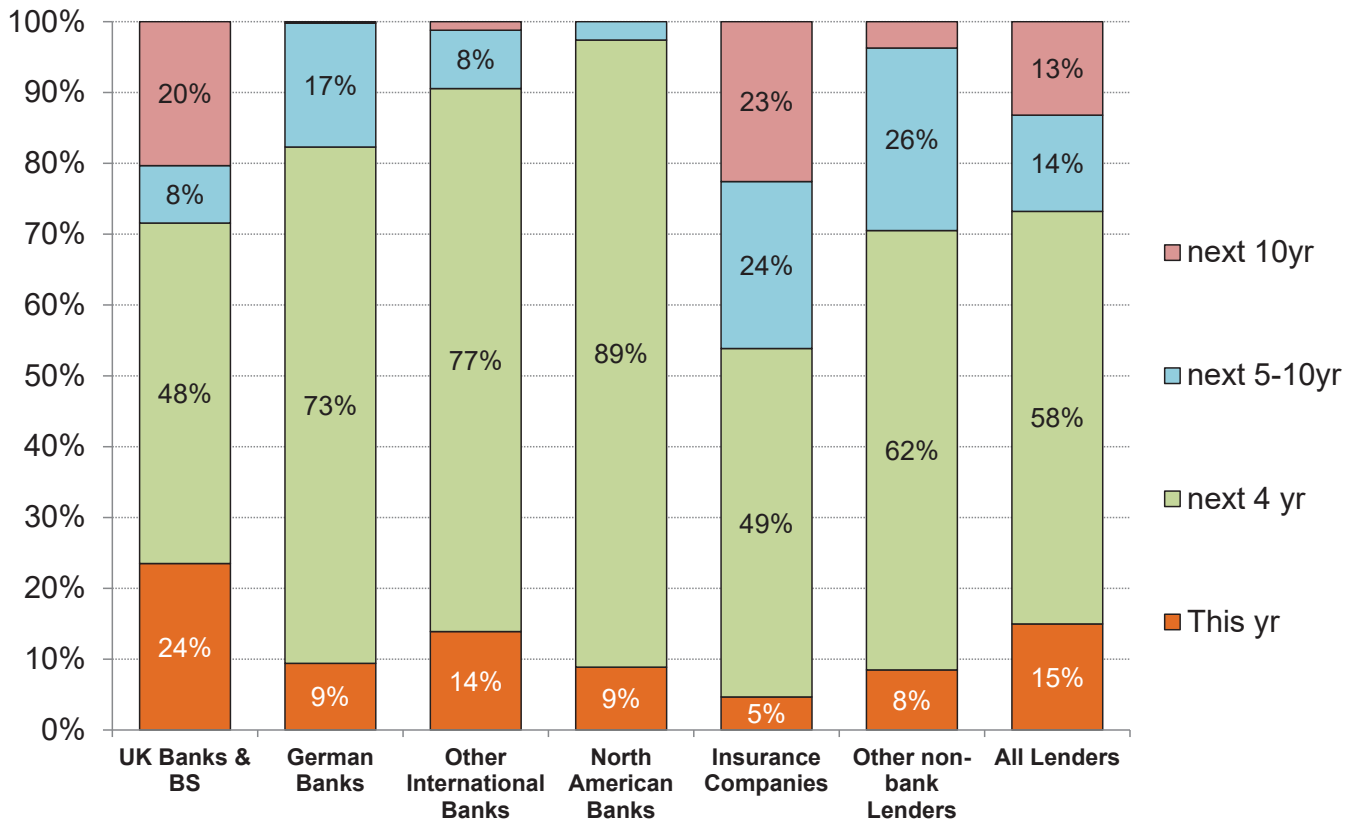
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## Interest rates by lender type - % of loan book value



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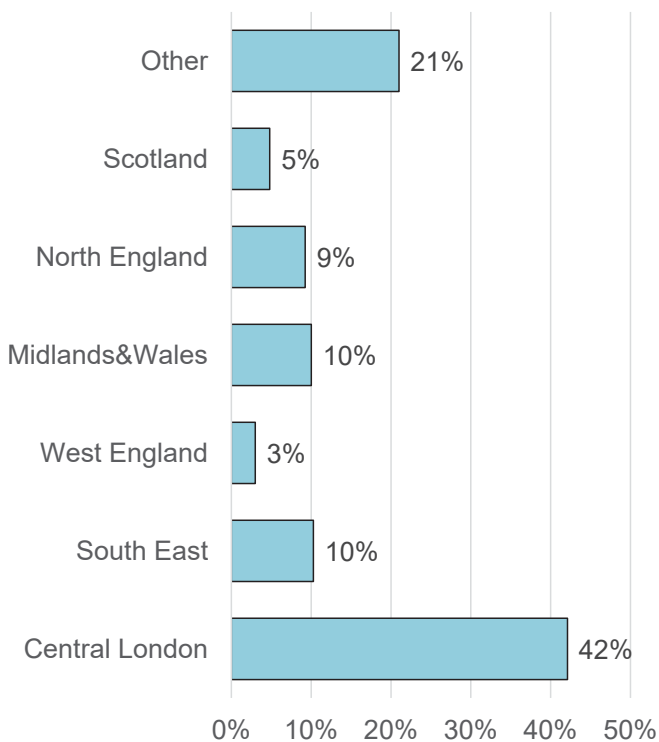
## Maturity % outstanding loan value by lender type



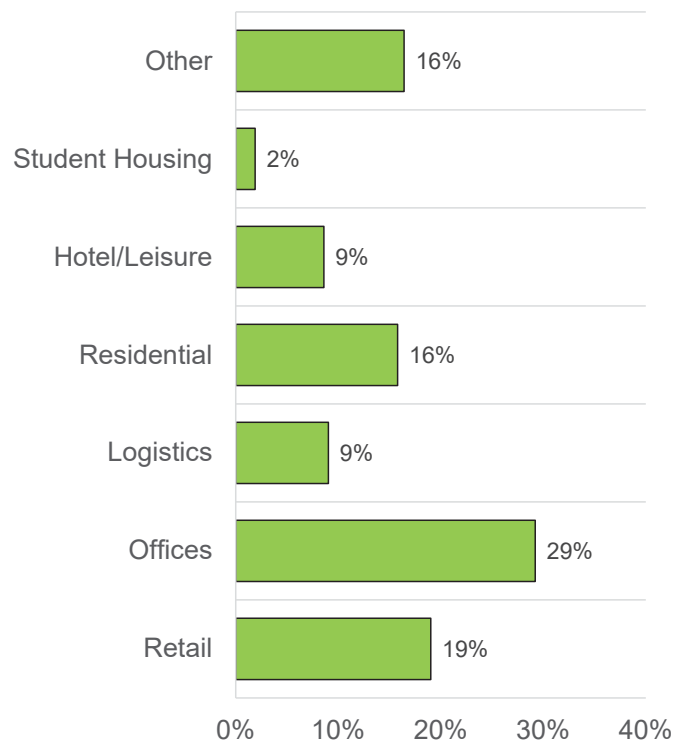
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## Outstanding loans by location & type, 2017

Geographic distribution of loan books



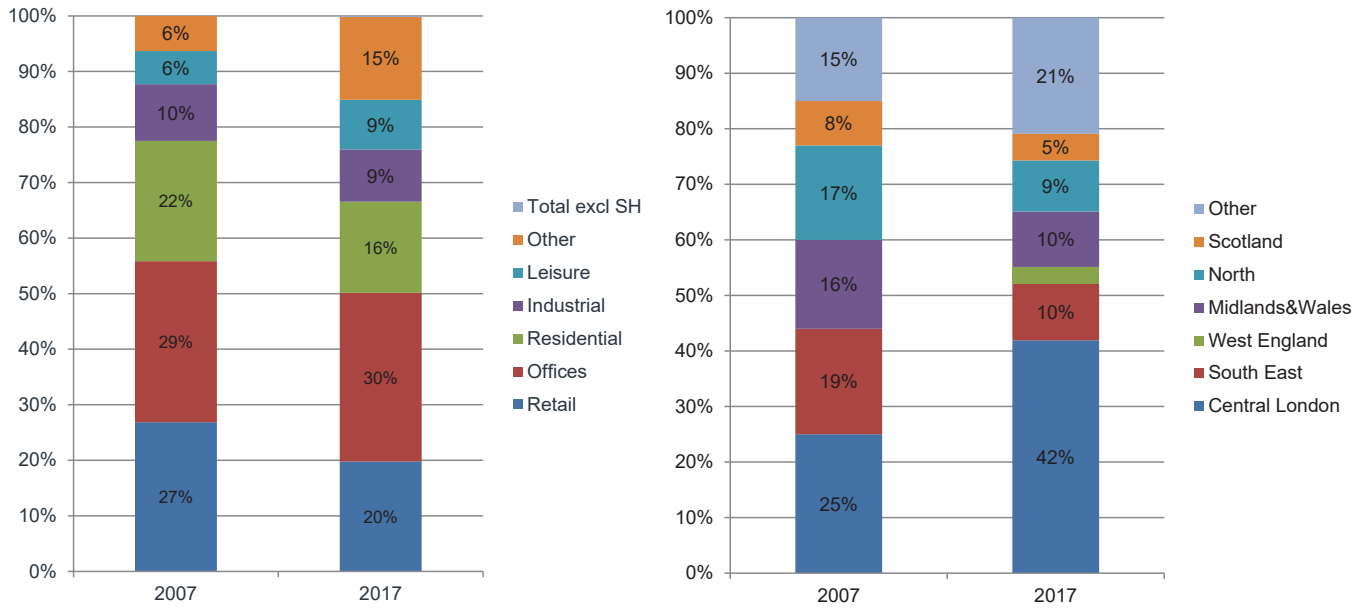
Property type distribution of loan books



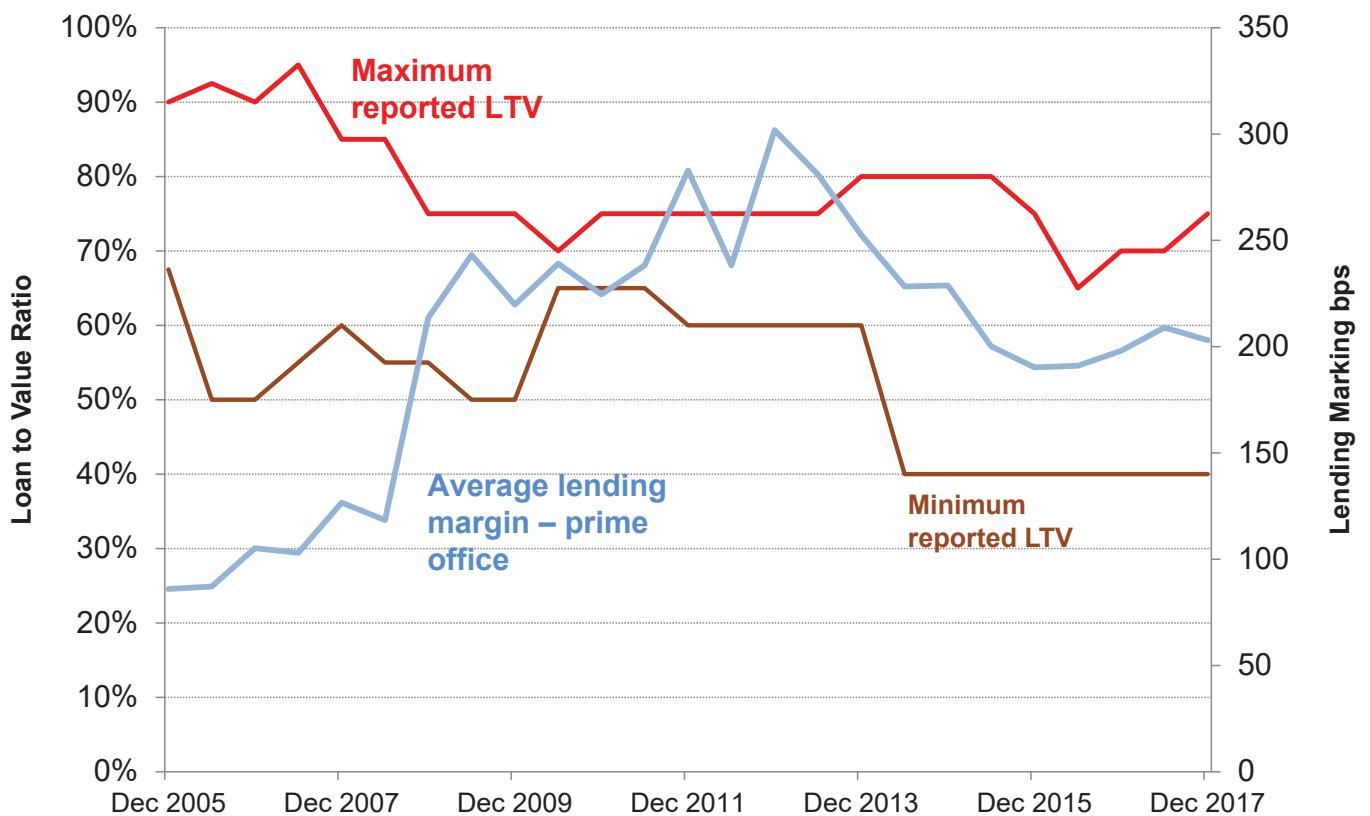
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# CRE Lending UK – Dec 2017 vs 2007 highlights

- In 2017 loans are more London centric, regional exposure declined
- Non-traditional asset classes expanding, retail exposure is declining

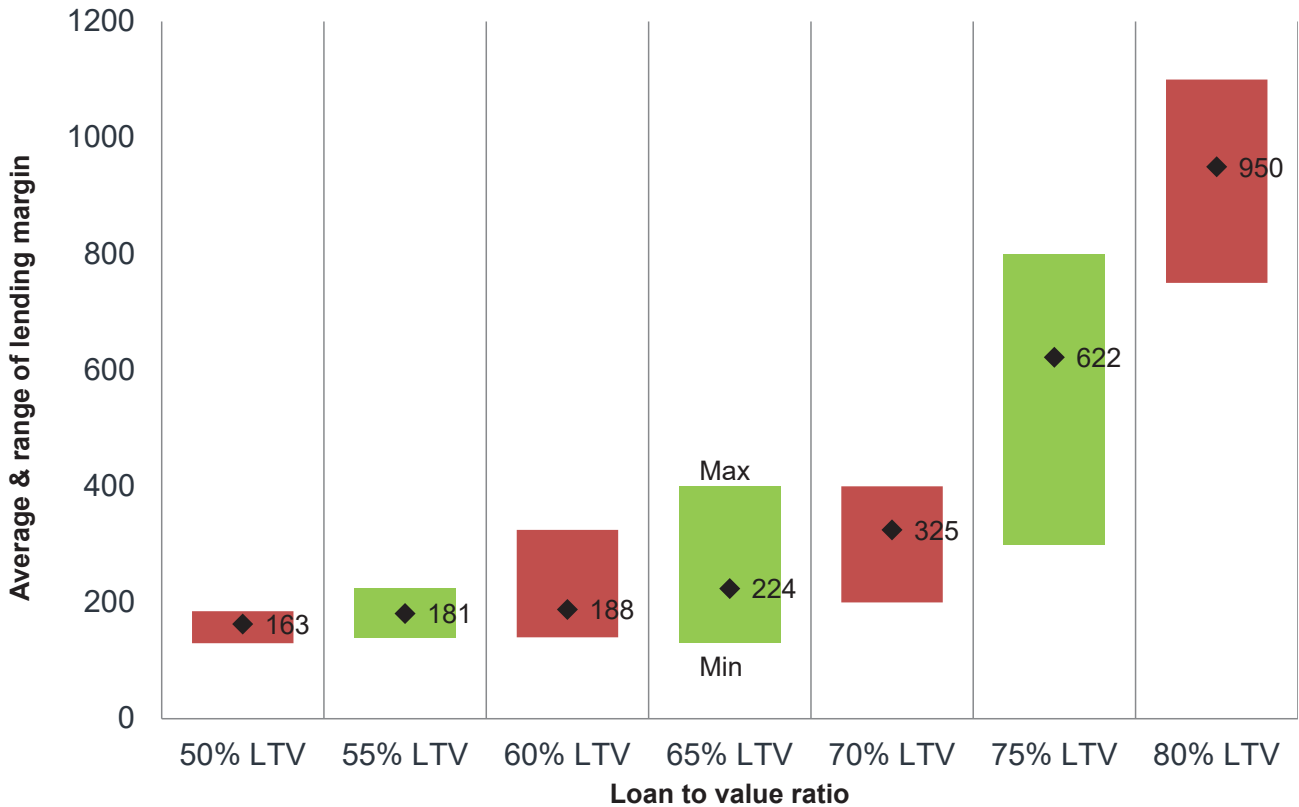


# Reported LTV & margins on originations 2017





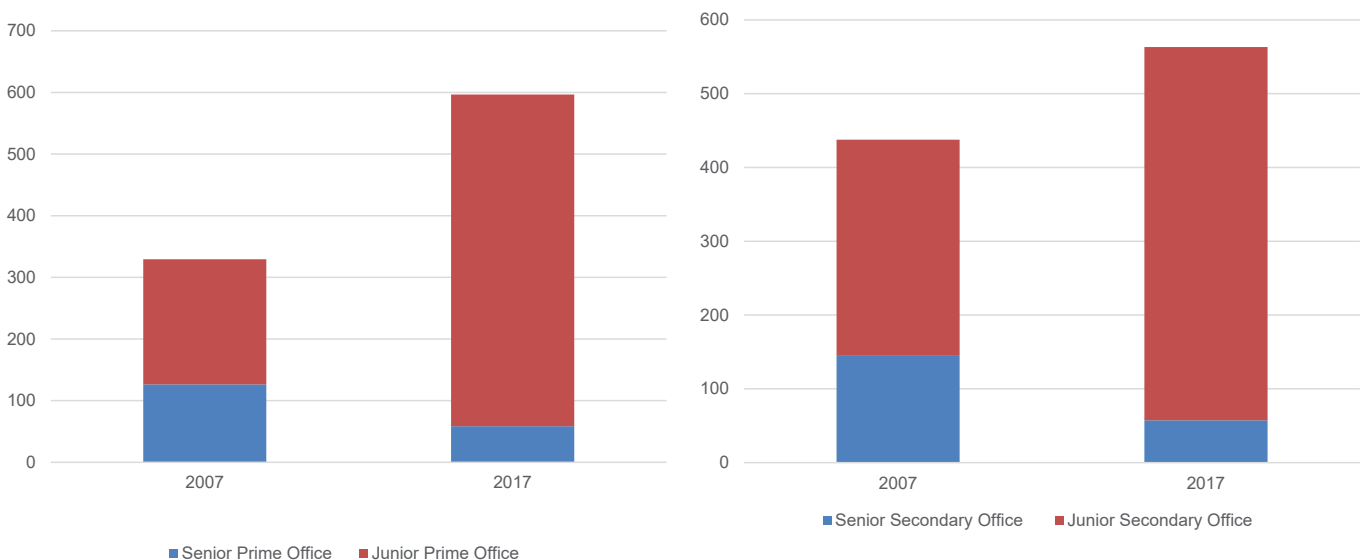
## Prime office margin ranges by LTV



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## CRE Lending UK – Pricing terms 2007 vs 2017

- 2007: senior margin 85bps, junior 170bps (85% LTV), 202bps (90% LTV)
- 2017: senior margin 203bps, junior 741bps

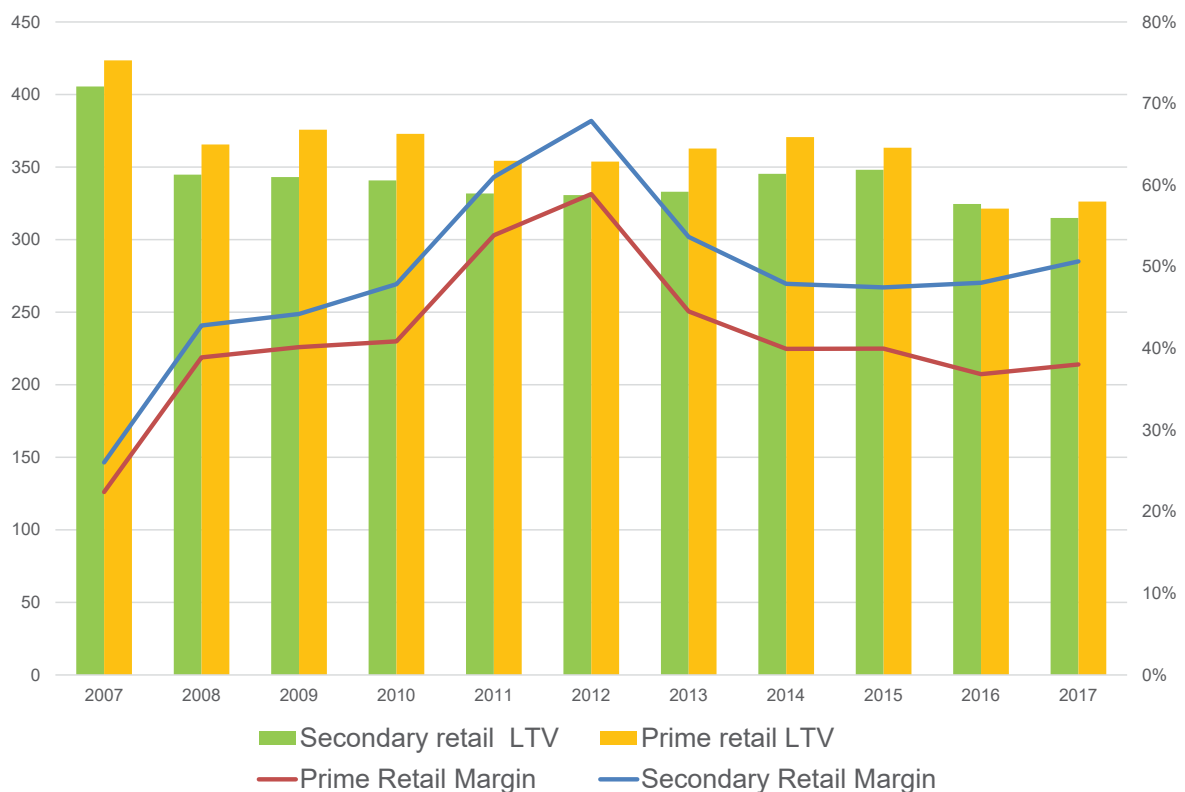


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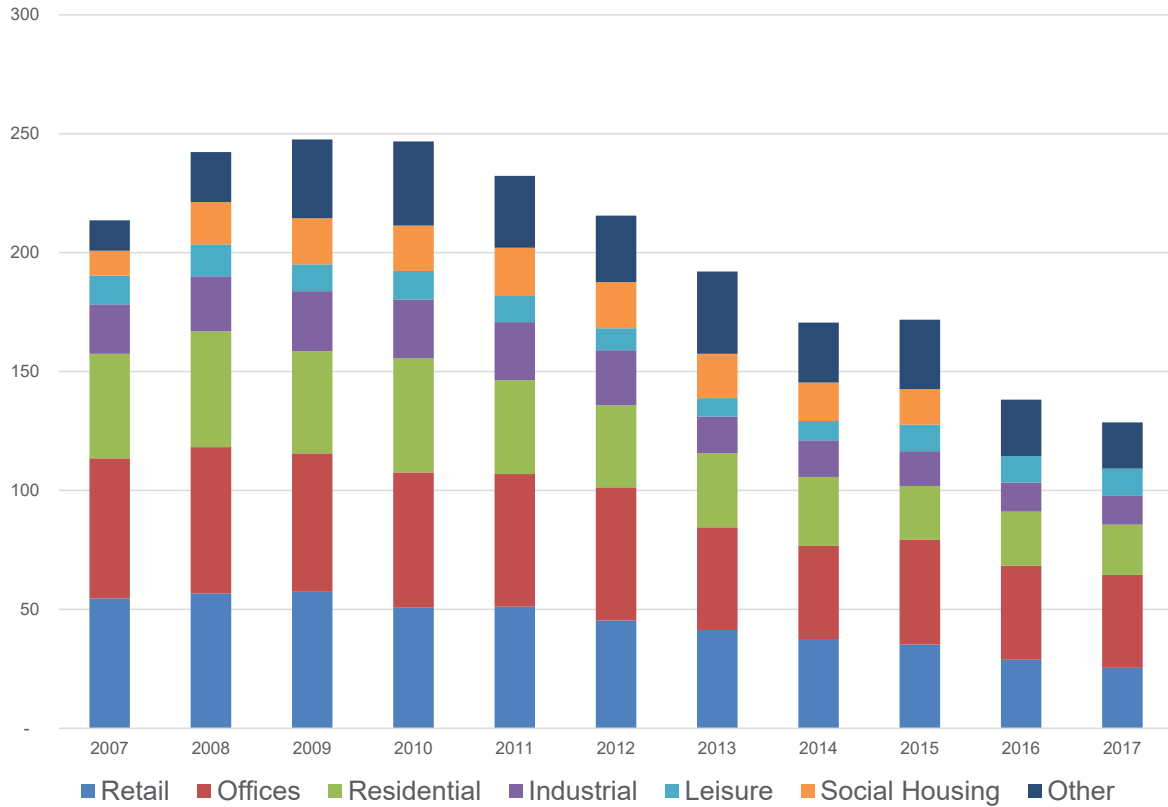
## What is happening to the retail sector?

- Recent headlines:
  - House of Fraser - <https://www.bbc.co.uk/news/business-44394948> - closing 31 stores including London flagship
  - Poundland - <https://www.theguardian.com/business/2018/jun/06/poundland-faces-administration-as-it-struggles-to-find-buyer>
  - M&S - <https://www.theguardian.com/business/2018/may/20/marks-spencer-to-reveal-latest-list-of-store-closures>
  - Closures of retailers like Toys R us, Maplin etc.
- What does this mean for lenders?
  - Share of lending to retail property has been declining
  - Margins for secondary retail have been declining
  - Impact on banks' cost of capital

## What is happening to the retail sector?



## Sector allocation over time (£bn)



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## CRE Lending UK – 2007 vs 2017 risks

Challenge/Risk	2007	2017
increasing investment interest by property investors in local markets– focusing on submarket dynamics and asset specific characteristics – in the search for yield,.	Lending across UK (portfolios), strong believe in tenant and property diversification to mitigate risk	Very selective on local submarkets, avoid concentration risks, Bank lenders might be less interested in following the investors' steps, due to regulatory pressures
Extending the definition of the Real Estate Investable Universe, increasing to so-called niche property types (e.g. hotels, self-storage, senior housing, and student housing),	Across a wide range such as healthcare, pubs, casinos	Focus on income sustainability, absence of riskier and more unstable assets like restaurants, pubs, casinos, petrol stations or trailer parks, which were popular alternative assets during the previous cycle peak 2006/07
Lending at higher LTV – extending senior LTV and additional mezzanine	Max senior LTV 75% Max mezz LTV 91%	restricted Max senior LTV 58% Max mezz LTV 78%
Move into development finance and non stabilised properties	Development finance cycle peaked in 2006/07, high amount of speculative development	Development finance cycle rising, but with less speculative development

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# Conclusion

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- New loan origination picked-up in second half of 2017 (£26.8bn)
- Development loans up 11% y-o-y, undrawn commitments up 30% y-o-y
- Non-bank lenders provided nearly 25% of 2017 originations
- Lending margins stable for Investment up for development
- Debt yields low for office, retail property in UK and across Europe

## Thanks to survey participants & financial supporters

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- End-2017 data was received from 80 lending organisations:
  - 41 Banks and Building Societies
  - 11 Insurance Companies
  - 28 Other Non-bank Lenders.
- Cass Business School gratefully acknowledges the generous financial support provided by Allen & Overy, Association of Property Lenders, GVA, British Property Federation, Canada Life Ltd, Asset Services, Commercial Real Estate Finance Council Europe, Fitch Ratings, Helaba, Jones Lang LaSalle Corporate Finance Limited, Maslow Capital LLP, Crestbridge UK Limited, Savills and The Royal Bank of Scotland

## Additional information

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- The full report & data are available for purchase on the Cass Business School webpage:
  - <https://www.cass.city.ac.uk/business-services/consulting/research/commercial-real-estate-debt/the-uk-commercial-property-lending-report>
- More about Cass Business School real estate lending research & consulting
  - <https://www.cass.city.ac.uk/business-services/consulting/research/commercial-real-estate-debt>
  - or contact [Nicole.Lux@city.ac.uk](mailto:Nicole.Lux@city.ac.uk)