

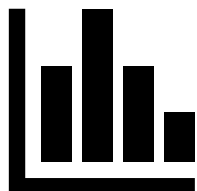
Real Estate: Credit risk evenly balanced for deleveraged European sector

Philipp Wass, Director, Scope Ratings





Real estate market
Stable capital values going forward



Capital market
Reduced issuance activity



Real estate corporates
Stable credit outlook

Real Estate Market

Less boom but still buoyant



Capital value European CRE stock -2007 to 2018-

c.10%¹

- EU GDP growth of around 2% for the fifth year²
- EU unemployment rate declined to 6.9%²
- Shortages of supply
- Rental growth exceeded average of past five years⁴
- Ample capital to deploy³
- Light Industrial/Logistics driving growth

¹ Change in capital value of commercial real estate stock in Europe (income return adjusted) 2018 vs. 2008. Sources: 'MSCI Real Estate Market Sizes 2017' June 2018 and 'Global Real Estate Performance in 2017' May 2018.

² Source: European Commission (November 2018).

³ Dry powder increase in funds with a focus on European real estate: USD 31.2bn in 2007 (USD 36.2bn HCPI adjusted, EU 28) / USD 64bn in 2017
Sources: Prequin January 2009 for 2008 and Prequin March 2019 for 2017.

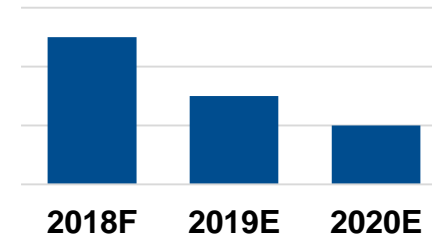
⁴ JLL and Savills.

European commercial real estate market

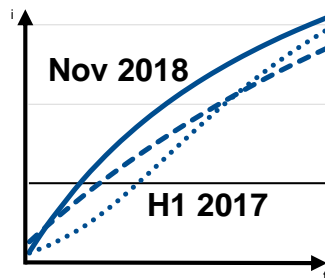
... but there are the first signs that the sector is cooling down



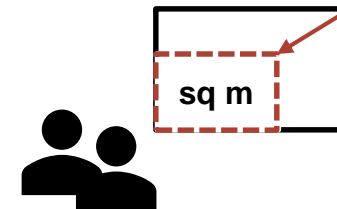
Increase in development activity¹



Slowing economic growth²



Increase in interest rates³



More intense capacity utilisation

¹ Increase in step with growing demand, forecasted output + 10% for the period between 2018 and 2020 compared to 2015 to 2017. Sources: PMA, Schroders.

² According to the European Commission EU (November 2018), GDP is forecasted to grow by 2.1% in 2018, in 2019 (+1.9%) and 2020 (1.8%)

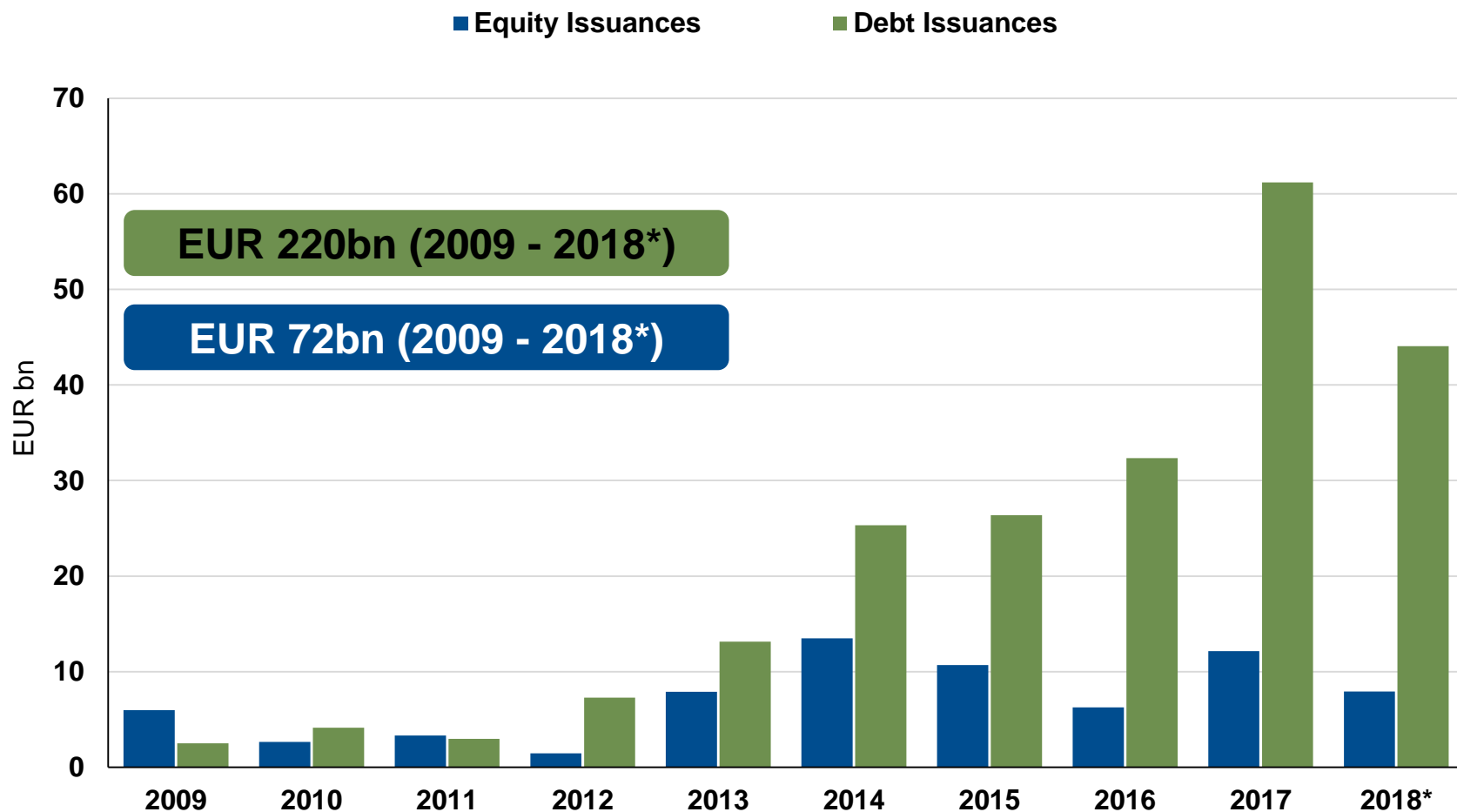
³ Government bonds Eurozone (all bonds spot rate). Spread widened especially for tenors in between two (+36bp) to five years (+39bp). Source: ECB

Capital Markets

Reduced capital market issuance with a focus on
refinancing

European debt and equity capital markets

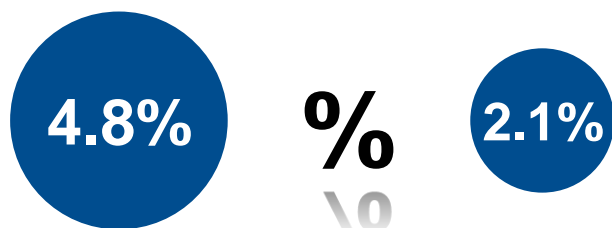
Capital raising falls from 2017 peak...



* Issuance volume up to October 2018. Source: public information

European debt and equity capital markets

...aims of considerable cash call fulfilled...



Reduce financing costs¹



Reduce reliance on bank debt²

unibail-rodamco

Westfield

VONOVIA

BUWOG
group



COVIVIO



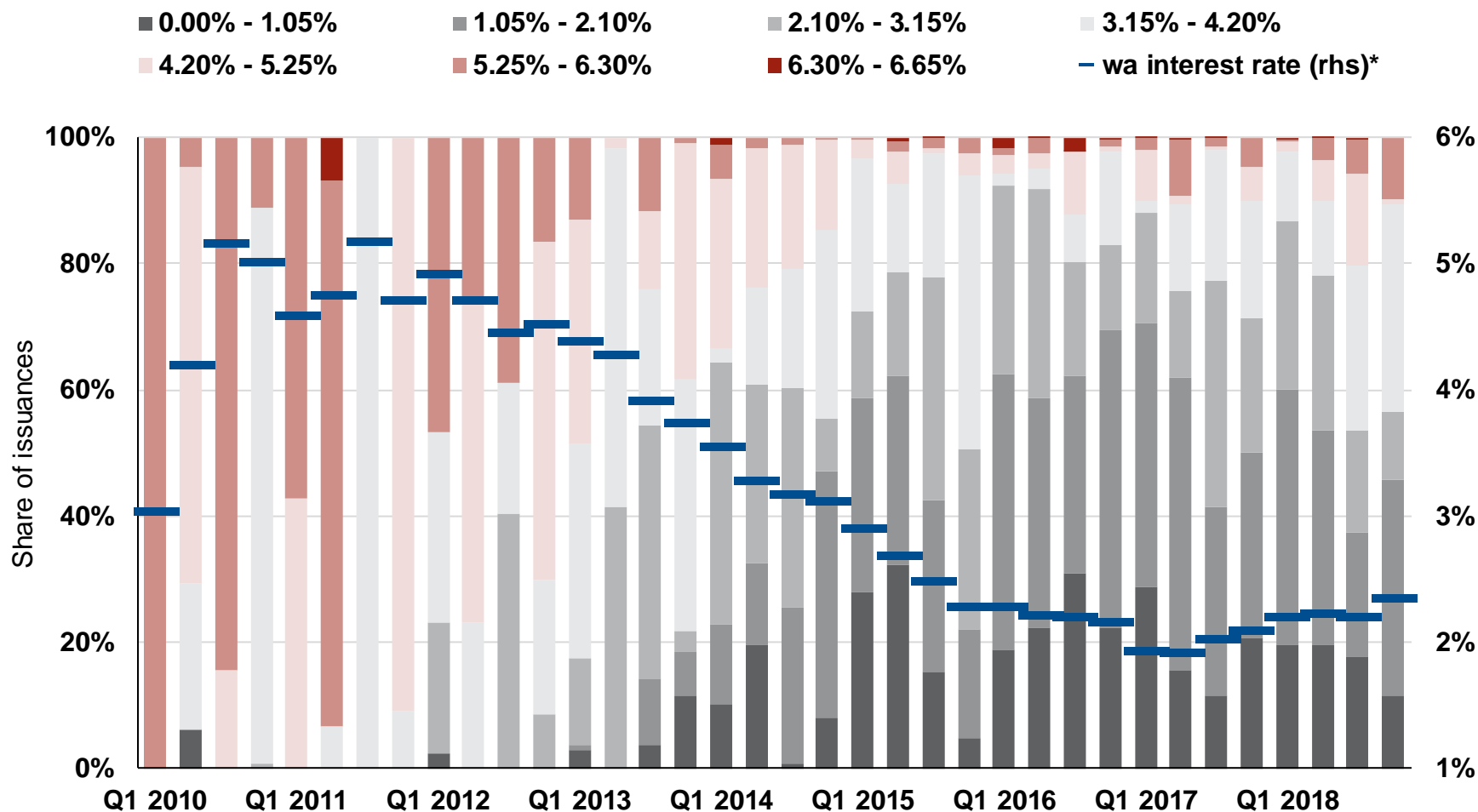
Finance large-scale acquisitions and development projects

¹ Cost of debt for top 50 commercial real estate corporates by market capitalisation (median) FY 2008 vs. FY 2017. Source: public information October 2018

² Share of bank debt from total interest bearing debt (on-balance) for top 50 commercial real estate corporates by market capitalisation (median) FY 2008 vs. FY 2017. Source: public information October 2018

European debt and equity capital markets

... scale of fundraising likely to diminish with turn in interest rate cycle



* wa interest rate = weighted average interest rate show the 12 months rolling average. Source: public information

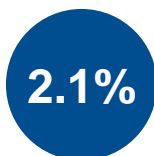


Real Estate Corporates

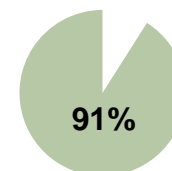
Stable credit outlook

European commercial real estate corporates

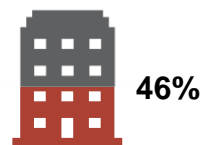
Corporate credit metrics improved significantly against 2007/08



Low cost of debt¹



High portion of fixed rate debt¹

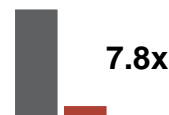


Relatively low leverage¹



49%

Broad debt funding mix¹



Strong debt protection¹

6 years
→
t

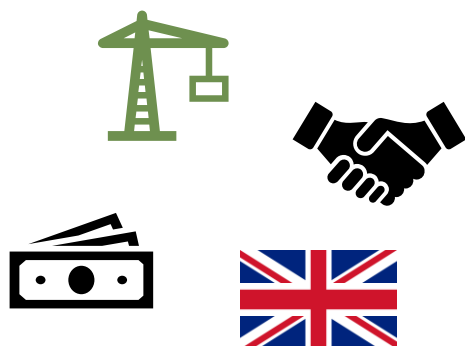
Maturity wall in distant future¹

¹ All data for top 50 commercial real estate corporates by market capitalisation (median). Source: public information October 2018
[Europe's commercial real estate sector: Financial discipline set to pay off as cycle nears end \(Scope October 2018\)](#)

European commercial real estate corporates

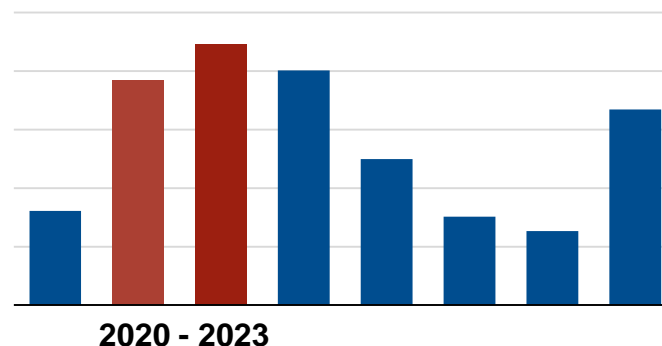
Tighter monetary policy, slowing growth, politics remain key risks

2019



- No further deleveraging
- Slightly improving Asset Quality
- Muted M&A activity
- More volatile credit profile for UK corporates

2020F



- EUR 83bn to be refinanced between 2020 and 2023
- Reduced access to unsecured financing
- Developers at risk
- Pressure on UK high street



Q&A

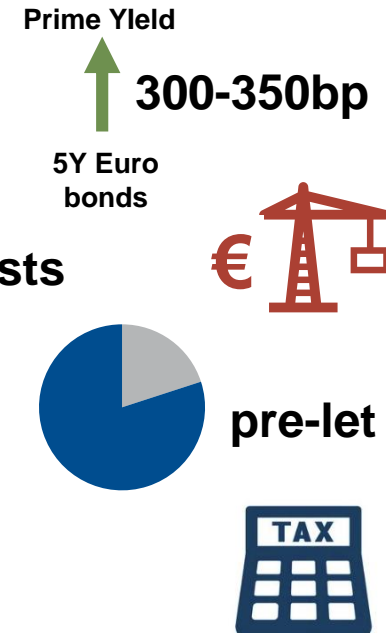
APPENDIX

European commercial real estate markets

Potential factors leading to the end of the current cycle



- High spread of prime yields to risk free rates
- Values partially below market construction costs
- Low share of speculative construction
- Lower economic incentives for leverage
- ‚New‘ asset classes backed by sound demographic fundamentals





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