European CRE/CMBS: bumper start to the year

Highest quarterly issuance since global financial crisis but tariffs casts uncertainty over the rest of the year

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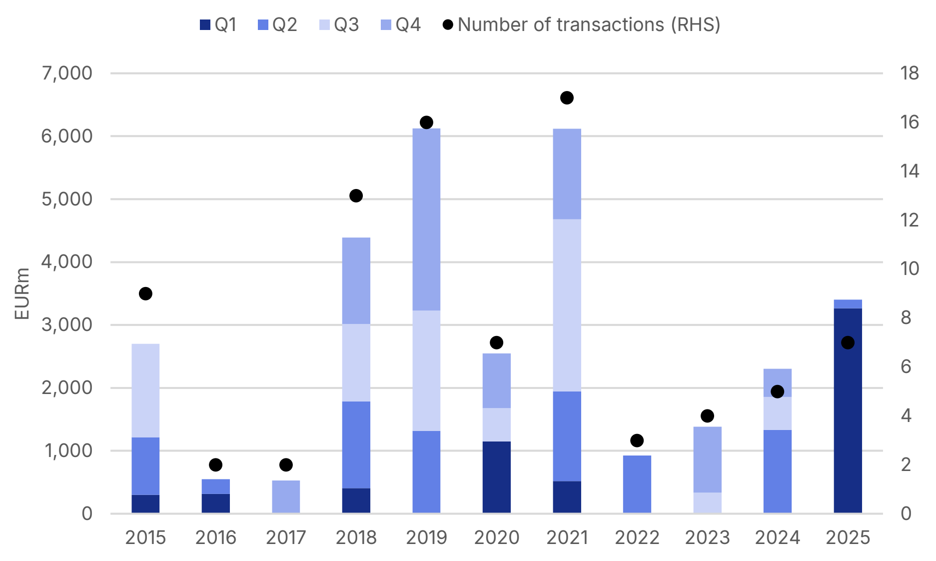
We expected a strong year of European CMBS issuance in 2025, and the first quarter did not disappoint, with EUR 3.3bn of issuance across six transactions: three industrial and logistics, one mixed-use, and two granular RMBS-like CMBS. Q1 volumes were 50% more than the whole of 2024 and were the highest not just in the past decade (Figure 1) but since the global financial crisis.

Going forward, however, companies will be affected by US tariffs and their repercussions. We expect logistics and industrial assets together with retail to be the most affected in the short term.

Meanwhile, refinancing risk for securitised loans maturing in 2025 is still elevated. We expect 60% of loans by number to face high or very high refinancing risk, with borrowers having to deal with the dual challenges of lower asset values and relatively compressed debt yields. Two loans (20%) have already been extended and two (20%) have repaid. Another two remain on our list of deals with very high refinancing risk. One already under discussion will be extended while another has seen its risk fall from high to low following a notice that the borrower is in advanced stages of arranging a refinancing.

Figure 1: Historical European CMBS issuance by quarter



Source: Scope Ratings, Scope CMBS tracker, investor reports

Tariffs: what impact on commercial real estate assets?

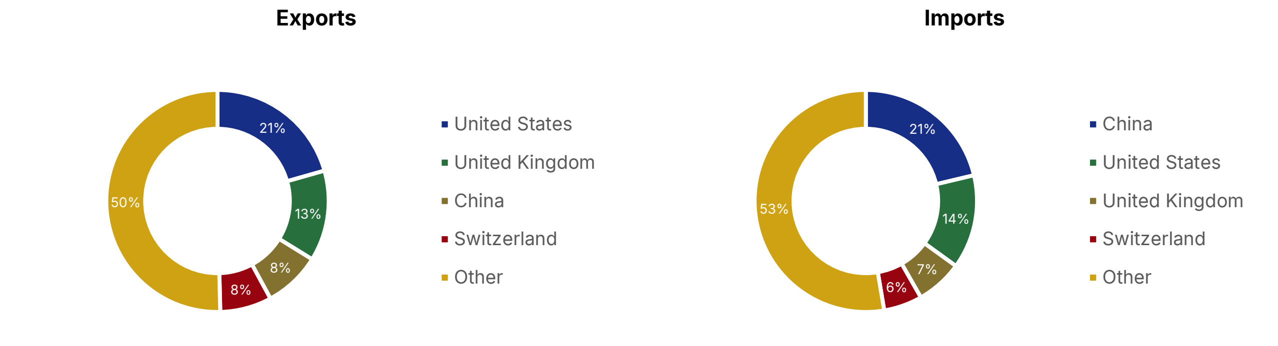
Weighed down by additional operational complexity, strategic uncertainty and potential demand fluctuation together with supply chain issues, companies will be impacted by US tariffs. We expect logistics and industrial assets together with retail to be the most affected in the short term.

US tariffs are intended to incentivise a shift of manufacturing to the US but we do not expect such a shift to play out. Re-shoring takes time, and with the next US presidential elections less than four years away, that putative shift becomes more difficult. However, the US is one of the EU's largest trade partners. In 2024 (Figure 2), the US accounted for 20.6% of EU exports and 13.7% of imports.

Demand for logistics and industrial space to decrease

As such, companies may delay or re-evaluate investment decisions, as the immediate impact that tariffs have on goods orders will reduce demand for logistics and industrial space. Timing also plays a role: comparing the closing vacancy rates and debt yields (DY) of securitised industrial and logistics loans from the last five years, vacancy rates are at their highest level while yields are close to their lows (Figure 3).

Figure 2: EU's main goods trading partners in 2024



Source: Scope Ratings, Eurostat

Figure 3: Historical vacancy and debt yield for each vintage

Vintage	Loans #	Vacancy						DY					
		Closing	Dec-21	Dec-22	Dec-23	Dec-24	Latest	Closing	Dec-21	Dec-22	Dec-23	Dec-24	Latest
2019	6	9.1%	7.5%	8.6%	9.5%	2.6%	2.2%	10.2%	10.8%	11.1%	11.2%	11.8%	12.0%
2020	1	3.4%	2.9%	2.7%	4.4%	N/A[1]	N/A[1]	11.7%	11.8%	11.3%	12.8%	N/A[1]	N/A[1]
2021	7	8.6%	8.1%	7.7%	9.0%	11.9%	10.9%	8.5%	8.6%	9.0%	9.7%	9.9%	10.0%
2022	2	2.1%		4.4%	4.5%	13.0%	13.7%	8.6%		10.1%	11.1%	10.4%	10.5%
2023	2	7.1%			6.8%	8.2%	9.2%	10.1%			10.2%	10.9%	11.4%
2024	5	12.3%				10.8%	12.3%	7.3%				7.2%	7.3%
2025	5	12.6%					12.6%	7.8%					7.8%

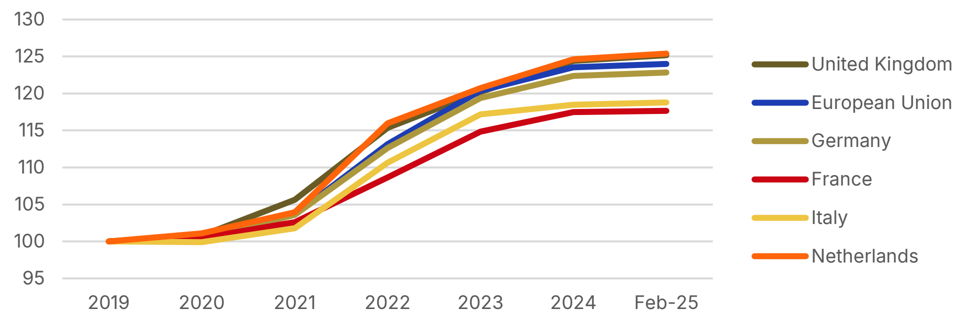
[1]The loan repaid early.

Source: Scope Ratings, Scope CMBS tracker, investor reports

Debt yield metrics improved predominantly because of rent indexation

Pre- 2023 vintages have benefited greatly from rent indexation. Even though vacancies have gone up, debt yields have increased in line with consumer price inflation (Figure 4). Logicor 2019-1 UK is the only remaining transaction of 2019 and its vacancy fell from 4.5% at closing to 2.2% in February 2025 while its debt yield increased from 10.5% to 12.0% over the same period.

Figure 4: Consumer price inflation (Base 100 in 2019)



Source: Scope Ratings, Eurostat, ONS

Asset managers to reduce tenant churn and boost leasing performance to improve debt yield

As highlighted by a Scope sovereign research note of 9 April 2025 (US trade policy: wide-ranging tariff increases heighten global credit risk), "higher inflation for American consumers contrasts with the near-term disinflationary force in countries that hold back from immediate counter-tariffs and benefit from discounted global re-routed from the US". If disinflationary forces do emerge, 2024 and 2025-vintage transactions will have to let current vacant space and manage tenant churn, both of which may prove difficult.

Bankruptcies rise but disinflation may increase consumer spending and boost retail

Retail has faced many challenges in the last decade particularly from the rise of e-commerce. In the UK, online purchases now amount to around a quarter of all retail sales, lower than during the pandemic boom (peak of 37.8% in January 2021) but otherwise rising since 2006. The number of retail businesses failing also remains elevated: in the UK alone, 34 entered administration in 2024 affecting 7,537 stores and 55,914 employees, according to the Centre for Retail Research. If inflation eases, however, retail could benefit from any shifts in consumer spending habits.

Figure 5: E-commerce share of total retail sales in the UK

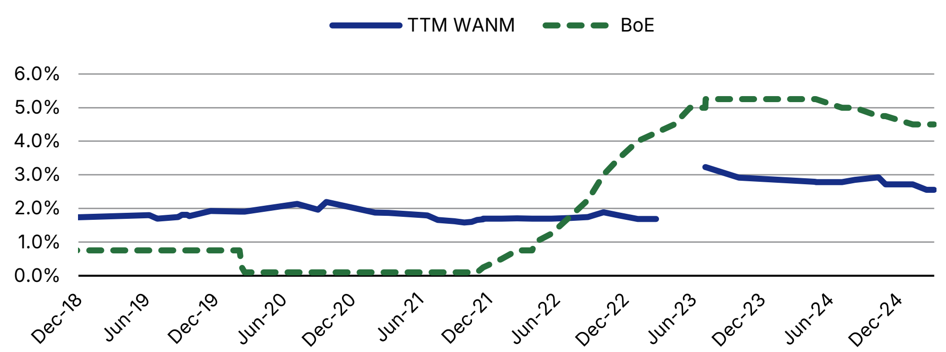
Source: Scope Ratings, ONS

CMBS weighted-average note margins tightening

Weighted average note margins decreased further but recent market back drop may stall the trend

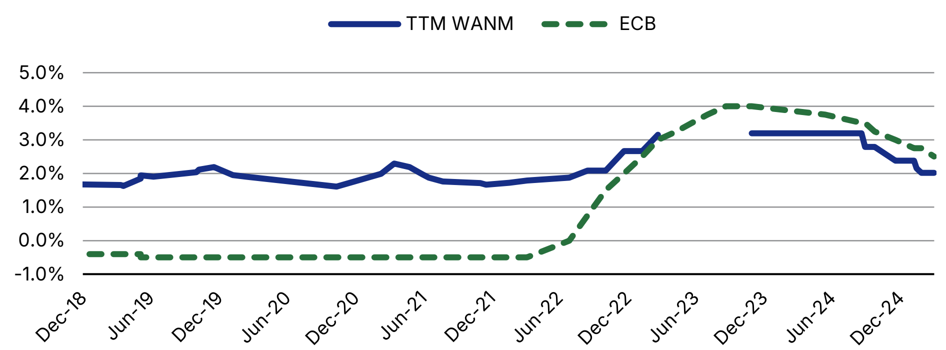
The weighted-average note margins (WANM) of CMBS have continued to tighten from their 2023 wides. The latest offered WANM were 2.50% for UK Logistics 2025-1 and 1.77% for Taurus 2025-1 EU, down respectively from the 3.23% and 3.19% peaks in the UK and continental Europe seen in the third quarter of 2023 once the market re-opened. The recent market backdrop is likely to affect the recent trend, however.

Figure 6: Trailing 12-month weighted-average margin over SONIA vs deposit rate



Source: Scope Ratings, Scope CMBS tracker, transactions' offering circulars, Bank of England ('BoE')

Figure 7: Trailing 12-month weighted average margin over Euribor vs deposit rate

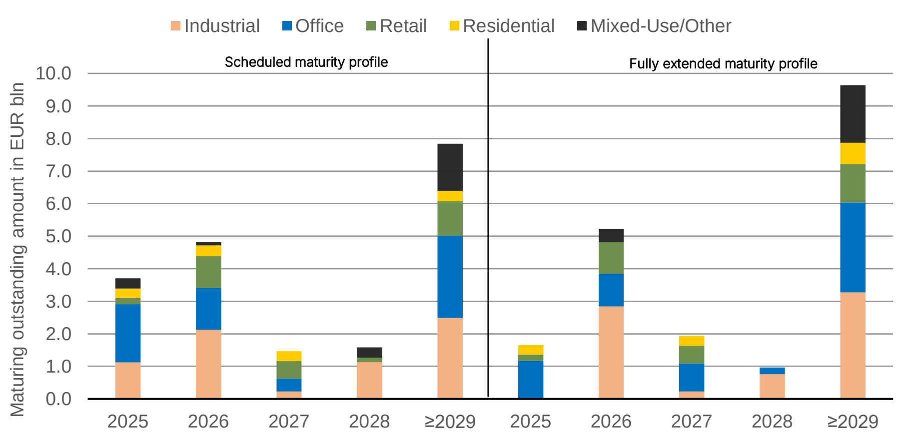


Source: Scope Ratings, Scope CMBS tracker, transactions' offering circulars, European Central Bank ('ECB')

Refinancing risk: liability management on the rise

EUR 1.65bn across 10 loans came up for refinancing in 2025. So far, they have either been or are subject to liability management exercises or repaid. Of those due in Q1, the Sellar loan repaid, leaving the CRE CLO Starz Mortgage Securities 2021-1 DAC with a single performing loan (due in Q2). All the rated notes repaid in full, but a residual amount remains on the class F. That was a strong outcome given the transitional nature of some of the loans at closing and a nod to more CRE CLOs. Meanwhile, the senior loan of Taurus 2017-1 IT was extended for a third time by a year to February 2026. The Loonie loan of Taurus 2020-1 NL was also extended to February 2026.

Figure 8: Scheduled vs fully extended maturity profile of the European securitised CRE loans



Source: Investor reports, Score Ratings CMBS tracker

As for Q2, Brookfield is looking – unsurprisingly – to restructure the Salus loan of ELoC 33, extending it by 2.75 years from April 2025 to January 2028 while conceding 20bp on the liability margin in addition to a note exit fee of 45bp. Other changes include an increase in the cash trap account, the establishment of a re-leasing reserve (thanks to a loan from a Brookfield affiliate), and an increase in the hedge strike from 2.50% to 4.5%.

Brookfield looking to extend to loans securitised in ELoC 33 and ELoC 39

Brookfield is also looking to extend the Haus loan of ELoC 39 by three years to July 2029. It was due to mature in August 2026. There is little concession on the liabilities side until the extended maturity, but Brookfield has been instrumental in keeping the loan performing since the rental and capex guarantees dried up, something noteholders are aware of. The sponsor has injected EUR 132.7m into the transaction to-date to cover the renewal of the interest-rate cap, interest expenses on the notes as well as capex and maintenance costs.

The Viridis loan in ELoC 38 will finally be refinanced by a new securitisation, Pine Finance 2025-1, entirely pre-placed by Citi. The notes amount to GBP 116.8m, leading to a securitised loan of around GBP 123m or 14% lower than the latest Viridis loan. Considering a similar change in the whole loan, and the latest available information, the LTV decreased to 60.5% from 70.1% and the DY increased to around 7.5% from 6.5%.

ELoC 38 refinanced by a new office CMBS with improved metrics thanks to equity injection

Figure 9: Updated refinancing risks for securitised loans maturing in 2025

CMBS	Loan	Country	Sector	Vacancy	DY	LTV	Refinancing risk	Trend
Taurus 2020-1 NL	Loonie	Netherlands	Office	23.1%	6.9%	74.1%	Extended +1	
Starz 2021-1	Sellar	UK	Hotel	N/A	N/A	N/A	Repaid	
Taurus 2017-1 IT	*Senior*	Italy	Mixed-use	11.9%	2.2%	129.6%	Extended +1	
EloC 33	Salus	UK	Office	11.7%	8.6%	54.2%[1]	Very high	↑
EloC 38	Viridis	UK	Office	12.7%	6.5%	70.1%	Refinanced	
Starz 2021-1	Zamek	UK	Residential	2.2%	7.8%	69.2%	Low	
DECO 2019-RAM	Derby	UK	Retail	9.7%	28.7%	17.2%	Very low	
Taurus 2019-4 FIN	*Senior*	Finland	Retail	7.5%	11.7%	68.2%	Moderate	
Sage AR 1	*Senior*	UK	Residential	1.1%	5.1%	64.9%	Low	↓
Taurus 2021-3 DEU	The Squaire	Germany	Office	19.0%	7.0%	68.1%	Very high	

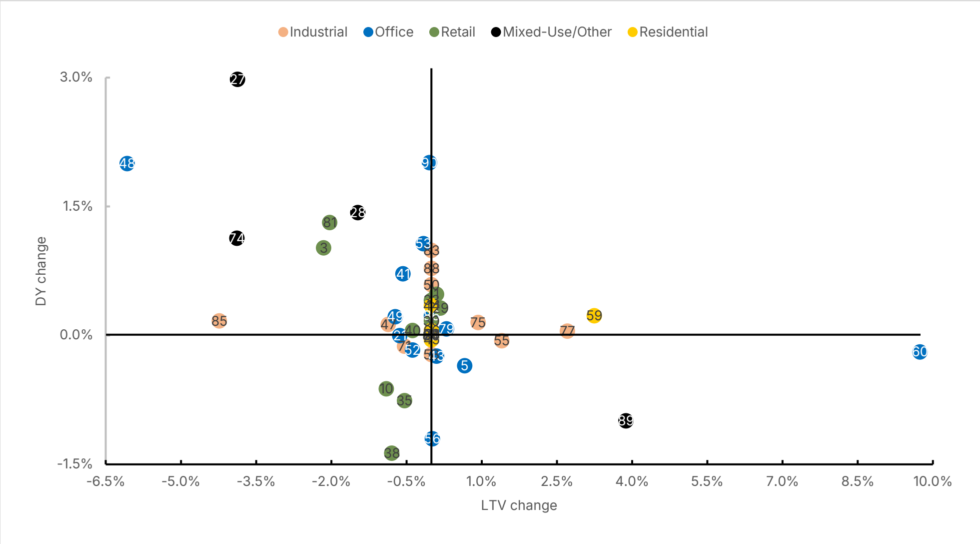
[1]Taking the reported price tag of the property the LTV jumps to 73.5%
Source: Scope Ratings, Scope CMBS tracker, investor reports, transaction notices

Metrics improving across all sectors but office continues to drag

Most loans have shown an improvement in one or both of debt yield or loan-to-value compared to December 2024. A total of 30 loans (58%) have improved on both key metrics and 16 (31%) on at least one. Of the six loans (12%) with both metrics deteriorating, four are secured by office properties, one by industrial properties, and one by a data centre (solely due to the drawing of the class A-1 VFN which increased the LTV and reduced the DY).

Most loans have shown an improvement in at least one of their key metrics, except office

Figure 10: Year-to-date change in the main loan metrics in percentage points (ppt)



Source: Scope Ratings, Scope CMBS tracker, investor reports

Digital ABS: the talk of the Outvie conference

Data centre ABS was the main discussion point of the Outvie conference

Most of the discussion at the recent Outvie securitisation conference in Amsterdam centred on data centres and digital ABS. Talk of a potential continental Europe data centre securitisation had hit the headlines the day before the conference.

As there have only been a few transactions in Europe to-date, whether data centres warrant a specific analytical approach is not yet clear. The transactions are real estate and secured by leases. Whether a sponsor targets hyperscalers (i.e. a concentrated tenant pool with generally good-quality companies renting out large power capacities over a very long period) or colocation (granular tenant pools of companies renting out smaller power capacities generally on a short-term or one-year rolling basis), data -centre transactions are not very different to office or retail transactions.

They are prone to tenant churn like offices, they need to be maintained to high ESG standards to operate like offices, while new technologies or changing consumer behaviour have the power, eventually, to disrupt the sector just like e-commerce did with retail.

Fundamentally, there is not much difference between the different asset classes even if structurally, every transaction is different. The advantage of the ABS format is that there is no loan to refinance at the ‘anticipated repayment date’ and the transaction benefits from a full cash-sweep mechanism that allows significant deleveraging– particularly for hyperscaler transactions that benefit from strong indexed-long-term cash flows.

However, the ABS set-up is complicated. It requires significant legal analysis and does not necessarily work for every jurisdiction. As such, it may not be long before we see a data centre CMBS – another format that exists in the US.

Together with data centres, fibre optic ABS transactions, another relatively nascent asset class in the US, were discussed. With Fibre-to-the-Home (FFTH) or Fibre-to-the-Building (FTTB) coverage of 74.6% and a take-up rate of 53%[1] in Europe, combined with some US private equity players such as KKR active in Italy, it is likely that fibre ABS transactions will emerge in Europe.

[1] FTTH Council Europe data as of March 2025

Appendix I: securitised loans facing high to very high refinancing risks

Salus loan of ELoC No. 33 DAC

This loan is secured against the CityPoint tower in the City of London. At closing, the property was stabilised (3.70% vacancy rate, 61.2% LTV and 8.1% DY). The loan was extended last year to allow for the debt yield to recover thanks to increased occupancy: prospective tenants were on the verge of signing new leases. Occupancy increased to 88.29% in January 2025, up from 79.85% a year before leading to a stronger debt yield of 8.6% compared to 7.6% in January last year. The sponsor put the property up for sale at a GBP 500m price tag – a 25% reduction on the latest valuation of GBP 670m and equivalent to a 73.5% LTV but it is now seeking to extend the loan (and notes) by three years.

The Loonie loan of Taurus 2020-1 NL

Despite continuous property disposals (two more in the three months to February 2025), the loan metrics remain weak: 74.1% LTV and 6.9% DY, up from 74.0% and down from 7.15% compared to November 2024, respectively. Occupancy now stands at 76.9%, down from 80.7% a year ago. EUR 18.6m sits in the cash-trap accounts and could be used to reduce the debt load, but an equity injection from the sponsor will likely be needed for the loan to refinance.

Squaire loan of Taurus 2021-3 DEU

The loan secured an 11th-hour extension in exchange for an extension reserve of EUR 14.5m, all the surplus from the hotels' operations to be transferred into the rental income account, and increased reporting obligations in respect of the sponsor's recapitalisation plans, among other items. However, with two of the five main tenants paying around half the rent they paid in December 2023, little traction on the leasing of vacant office space (still down 2.8% from a year ago), the DY continues to deteriorate while the LTV increases. A disposal of the hotels may improve the refinancing prospects.

Appendix II: Outstanding securitised CRE loans

Loan ID	Loan name	Transaction ID	Transaction name	Asset type	Reporting date	Status
65	Sellar	60	Starz Mortgage Securities 2021-1	Hotel	February 2025	Repaid
76	Jupiter	69	Cassia 2022-1	Industrial	February 2025	
77	Thunder II	69	Cassia 2022-1	Industrial	February 2025	
71		64	Frost CMBS 2021-1	Industrial	February 2025	
83		76	Last Mile Logistics 2023-1 UK	Industrial	February 2025	To repay
55		55	Last Mile Logistics Pan Euro Finance	Industrial	February 2025	
50		51	Last mile Securities 2021-1X	Industrial	February 2025	
75		68	Logicor 2019-1 UK	Industrial	February 2025	
94		85	Sequoia Logistics 2025-1	Industrial	February 2025	New
85		78	Stark Financing 2023-1	Industrial	February 2025	
47		47	Taurus 2021-1 UK	Industrial	February 2025	
58	United IV	57	Taurus 2021-4 UK	Industrial	February 2025	
95		86	Taurus 2021-5 EU	Industrial	February 2025	New
87	St Modwen	80	UK Logistics 2024-1	Industrial	February 2025	
88	Mileway	80	UK Logistics 2024-1	Industrial	February 2025	
92	Indurent	84	UK Logistics 2024-2	Industrial	December 2024	
93	Mileway	84	UK Logistics 2024-2	Industrial	December 2024	
98		87	UK Logistics 2025-1	Industrial	March 2025	New
99		87	UK Logistics 2025-1	Industrial	March 2025	New
100		87	UK Logistics 2025-1	Industrial	March 2025	New
91		83	Thunder Logistics 2024-1	Industrial	February 2025	
25	Aries	26	ERNA S.R.L.	Mixed-Use/Other	January 2025	
27	Nucleus	26	ERNA S.R.L.	Mixed-Use/Other	January 2025	
28	Raissa	26	ERNA S.R.L.	Mixed-Use/Other	January 2025	
74		66	Highways 2021 PLC	Mixed-Use/Other	March 2025	
96	Wildcat	88	Taurus 2025-2 UK	Mixed-Use/Other	March 2025	New
89		81	Vantage DC UK 2024-1	Data Centre	March 2025	
60		59	Atom Mortgage Securities	Office	January 2025	
52	Sirrocco	52	BERG Finance 2021	Office	January 2025	
78		71	Broadgate Financing	Office	January 2025	
53		53	Bruegel 2021	Office	February 2025	
79		72	Canary Wharf Finance II	Office	December 2024	
21	Salus	23	ELoC No. 33	Office	January 2025	
56	Viridis	56	ELoC No. 38	Office	January 2025	To repay
101		89	Pine Finance 2025-1	Office		New
5	Polar	13	FROSN 2018-1	Office	February 2025	
90	For a	82	HERA Financing 2024-1	Office	February 2025	
86		79	Magritte CMBS	Office	January 2025	
41		40	River Green Finance 2020	Office	January 2025	
43	Loonie	42	Taurus 2020-1 NL	Office	February 2025	
48	Figo	48	Taurus 2021-2 SP	Office	February 2025	
49	The Squaire	49	Taurus 2021-3 DEU	Office	March 2025	
82		75	Vita Scientia 2022-1	Office	February 2025	
59	Haus	58	ELoC No. 39	Residential	January 2025	
44	Folio	44	Folio Residential Finance No. 1	Residential	January 2025	
73		65	Sage AR Funding 2021	Residential	February 2025	
45		45	Sage AR Funding No. 1	Residential	February 2025	
66	Zamek	60	Starz Mortgage Securities 2021-1	Residential	February 2025	
35	Derby	34	Deco 2019-RAM	Retail	January 2025	
29	Franciacorta	28	Deco 2019-Vivaldi	Retail	February 2025	
30	Palmanova	28	Deco 2019-Vivaldi	Retail	February 2025	
7	Maroon	15	Elizabeth Finance 2018	Retail	January 2025	
38	Everest	37	Emerald Italy 2019	Retail	March 2025	
80		73	Meadowhall Financing	Retail	January 2025	
1	Fashion District	11	Pietra Nera Uno	Retail	February 2025	
3	Valdichiana	11	Pietra Nera Uno	Retail	February 2025	
84		77	Taurus 2017-1 IT	Retail	February 2025	
10	Bel Air	17	Taurus 2018-1 IT	Retail	February 2025	
40		39	Taurus 2019-4 FIN	Retail	February 2025	
97	Silverburn	88	Taurus 2025-2 UK	Retail	March 2025	New
81		74	The Trafford Centre	Retail	January 2025	
33		32	Westfield Stratford City No.2	Retail	January 2025	

Source: Scope Ratings, Scope CMBS tracker

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