VIEWPOINT

FOUR QUADRANTS

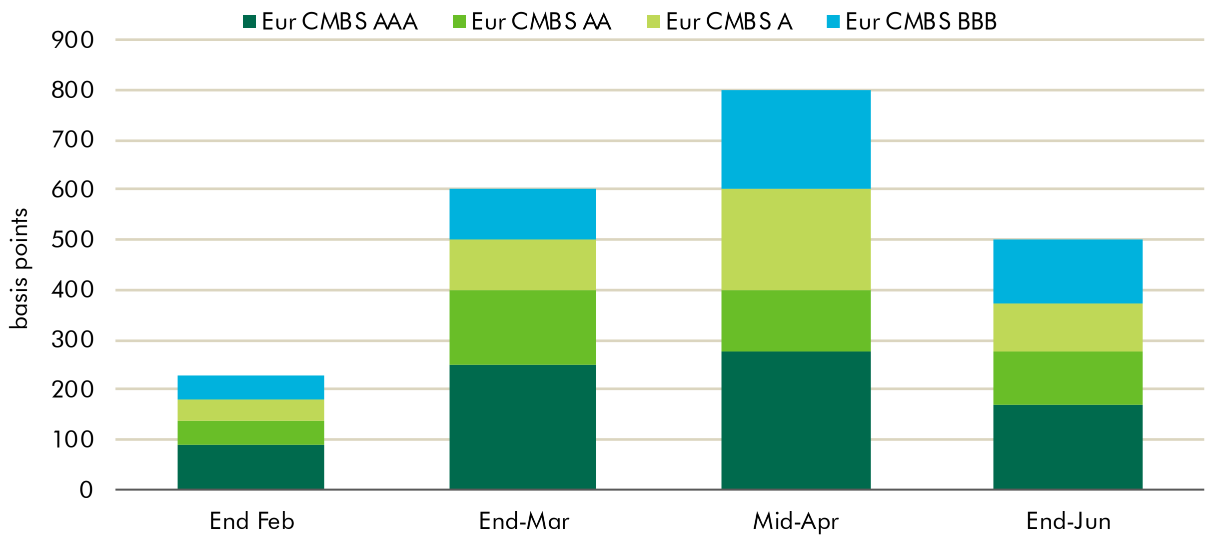
EMEA CAPITAL ADVISORS

Public Debt

Although we have covered Intu's entering administration in the Public Equity section, it is worth acknowledging that there are several public debt dimensions to the affair. Firstly, while shares are suspended, public debt instruments continue to be tradeable for those seeking opportunistic exposure. Secondly, it was ultimately the refusal by a key lender to one asset to accept wider restructuring terms, through a desire to take greater control of the asset underpinning its private debt, that lead to group-level collapse. That this might indicate greater liquidity, optionality and downside protection in the debt quadrants than the equity in times of crisis might be a surprising outcome – and not necessarily one that would always be replicated – but it shows the advantages of public and private debt.

This is perhaps why capital raising by European REITs was skewed towards debt in H1 2020, instead of equity. Investors have supported European REITs to the tune of €8.2bn of debt in 2020, versus €2.3bn of equity – compared to €15.2bn and €6.0bn respectively in H1 2019. With values hard to determine with absolute precision, the fact that debt issuance has been proportionately a little higher than 2019 levels, while equity issuance is running a little lower (despite significant equity raising in June 2020) is not surprising. A slight increase in weighted coupon rate to 2.06% in H1 2020 from 1.80% in 2019, is also testament to the demand for yield backed by strong income profiles in a world where Government bond yields range from negligible to negative.

Figure 1: CMBS spreads, Selected dates in 2020



Source: BofA Global Research.

Activity is more subdued in the CMBS market, where there has still been no issuance since the beginning of the lockdown period of the Covid-19 crisis; indeed, there seems to be only a slight prospect of any further issuance before 2021. Spreads have been on a steady decline since peaking in early April; according to BofA Global Research AAA European CMBS spreads were 170bps at the end of June, down from 275bps in early April but still considerably ahead of the 90bps at the end of February. Although these levels would be far above those required to make deals economically viable given pre-Covid debt pricing, there is currently uncertainty about whether they could be viable now, or whether further compression would be needed, given the lack of transparency around where private debt margins have settled.

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