VIEWPOINT

FOUR QUADRANTS

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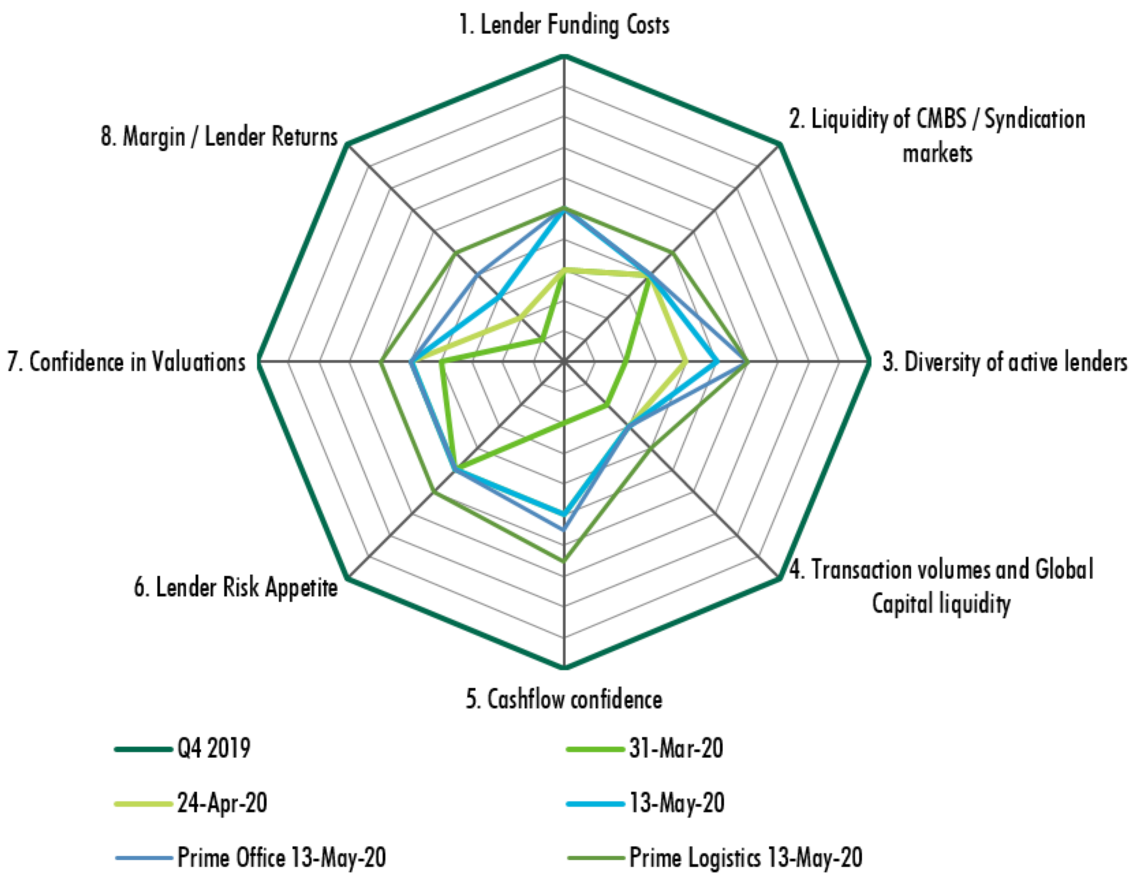
EMEA CAPITAL ADVISORS

Private Debt

The most stark indication of the state of the private debt market that we could give at the end of Q1 2020 was that we felt unable to provide end-quarter pricing information for lending terms for our Debt Map resource. Deals were still progressing, but these were exclusively those already significantly advanced when the crisis struck; for those yet to launch, or in very early stages, term sheets were not forthcoming, and there were plenty of examples of deals that fell through.

Six weeks on, we are still not quoting pricing for the Debt Map, but rather than have a binary "one or zero, it's open or it's closed" approach we have produced analysis looking at different indicators of lender sentiment, and charting how progress is being made in each of these, so that we can understand how close we are to seeing the reopening of parts or all of the market.

Figure 1 CBRE Lender Sentiment Indicators Web



Source: CBRE Research.

On the upside, we have seen notable improvement in a number of Indicators, and it is worth highlighting several of these. Firstly, there is greater certainty around lender funding costs; volatility in Pfandbrief spreads, CDS spreads and corporate bonds has reduced, and levels have been settled on that are higher than before but at least, for the moment, stable. Secondly, we note a greater number and variety of lenders making moves to return to new business activity, rather than purely focussing inwardly on portfolio and risk management. Thirdly, with end quarter reporting of rent collection data, lender sentiment has also improved with regards predicting short and medium term cashflows. And finally, sentiment with regards valuations is on the up, as uncertainty clauses are starting to be removed in some areas of the market (e.g. in the UK on long income assets and supermarkets).

Greater resilience at the property level in the office and industrial sectors has, we believe, fed through to improved lender sentiment (as shown by the progressively larger webs moving from all property, to office, to logistics). Prime offices score more positively than the market average on three indicators – the diversity of the lender pool, confidence in cashflows and margins / lender returns. More lenders are willing to commit to the office sector, we believe, because they have greater certainty in future rental payments underpinning loans, which in turn underpins faith in pricing. The prime logistics market is even further advanced however, with lender sentiment stronger on just about every indicator, reflecting the fact that the decrease in or volatility around underlying cashflows, transactional activity and valuations has been less severe in logistics, which in turn feeds through to supporting confidence in other areas.

We make no bold claims about the analysis above. It is, of necessity, not as scientific as our Debt Map. However, we believe it a useful guide for the times, capable of starting informed debate and critique, and perhaps enlightening borrowers to lenders' collective challenges. With that enlightenment may come a greater focus on assuaging those concerns, allowing considerate borrowers to gain an advantage in securing debt in these extreme market conditions.

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