

## Latest UK, EU CRE Finance Trends Highlighted in New Reports



The past year has been a tough time for UK real estate finance and UK financial markets in general. We've seen predictions calling for a prolonged crash, and on-going ripple effects from the country's rapid switch in finance (and prime) ministers.

Since those events, the UK has faced the same recession worries that have settled in elsewhere across the globe, though there are new predictions suggesting the country will avoid recession in 2023.

Despite that silver lining, however, there are still some large outstanding risks for commercial real estate (CRE) in the UK.

### Stressed Loans

In a recent article, CRE news outlet Bisnow notes that there were over GBP7 billion in loans at risk in the UK at the end of 2022, stating: "Loans in default rose from £2.4B to £2.7B, while loans in breach of covenant hit £4.6B, meaning £7.3B of loans are facing some form of financial stress."

The Bisnow article quotes data from the most recent City, University of London's Bayes Business School report on UK CRE lending.

Other highlights (or perhaps lowlights) from the report include that lenders increased loan margins and dropped loan-to-value ratios (LTV) on office loans. The report states that office LTV (a measure of what percentage of financing lenders are prepared to provide on an acquisition) dropped from 56.8% in 2021 to just 54.8% in 2022.

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### Rapid Refinancing

Interestingly, in the midst of all the financial turmoil, refinancing activity for commercial properties stayed high. Bisnow notes that, faced with further potential rate hikes, the second half of 2022 saw UK borrowers: “[refinancing] early rather than waiting until 2023 or extending loans into 2024.”

They add: “Across the year, 65% of new debt originated was for refinancing existing loans. The historical average is about 50%.”

### European Snapshot

In addition to their UK report, Bayes Business School has also recently released the first edition of their European CRE Lending report examining lending trends on the continent.

One of the report’s chief findings, according to a Real Estate Capital Europe analysis, was that interest rates across Europe are as high as 6% for loans on prime properties.

The report also highlights some interesting LTV differences in the region, including much higher values on offer from German banks and a sharp LTV drop-off across Europe for riskier assets, like opportunistic buys or assets slated for repositioning.

For those interested in EU markets, we highly recommend giving this inaugural edition of Bayes’ pan-European report a read for additional country-specific information.

