



NAS

REAL INVESTMENTS

# REAL ESTATE FINANCE UPDATE

ISSUE APR 2024

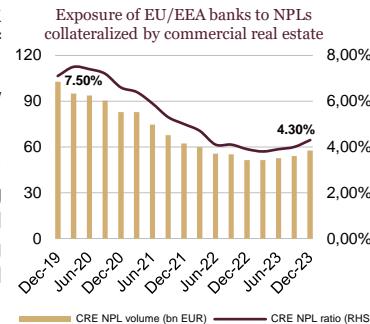


## TOP NEWS

### EBA identifies first signs of a deterioration in EU banks' credit quality

European Banking Authority's quarterly risk dashboard for Q4 2023 shows first signs of deterioration in credit quality. NPL ratio of CRE loans increased to 4.3%, remaining well below historically high levels.

Asset and loan growth remained subdued, still affected by banks' tightening of lending standards and lower demand. Risk weighted assets (RWAs) have increased slightly – driving RWA density higher mainly due to increased operational risk.



Source: EBA supervisory reporting data

## LENDERS ENVIRONMENT

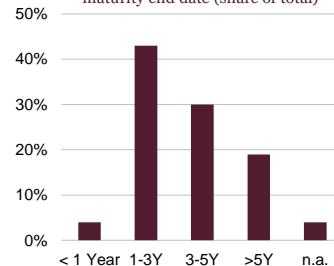
### Banks busy with refinancing, in persistent focus of banking supervision

Increase in interest rates/cost of debt, higher construction costs and changing demand dynamics (i.e. remote working, energy efficient retail/office space) are main factors weighing on valuations with repricing still ongoing.

Although debt capital markets are at their peak of the refinancing wave, bullet type structures maturing in the next two years accounted for only 8% of all CRE loans.

Lenders' focus on exposures' collateral values and cashflow capability to cover debt service.

Breakdown of CRE loans on varying repayment type structures by maturity end date (share of total)



Source: AnaCredit (data as of Q2/23)

## DEAL INSIGHT

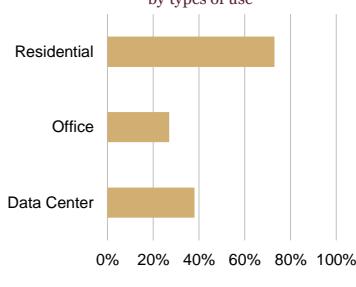
### PE investors' appetite for German RE with preference shift in use type

According to INREV survey, investor appetite for real estate has slowed due to ongoing macroeconomic uncertainty impacting the market last year.

Following survey results, 78% of investors intend to deploy capital in Europe with the majority (55%) preferring value added strategies in 2024.

Our recent discussions with PE investors show clear shift in preferred use type with residential / affordable housing being the most favorable.

Private equity investors' preference in German real estate investments by types of use



Source: NAS Invest Group

## ACTIVITY INDEX

### Demand (Trend)

Low (↗)

Super Senior (LTV ≤ 40%)

Senior (LTV ≤ 65%)

Whole Loan

Mezzanine

Preferred Equity

Equity

### Pricing<sup>2</sup>

4.55% – 5.20%

5.25% – 6.15%

6.50% – 8.90%

10.50% – 14.00%

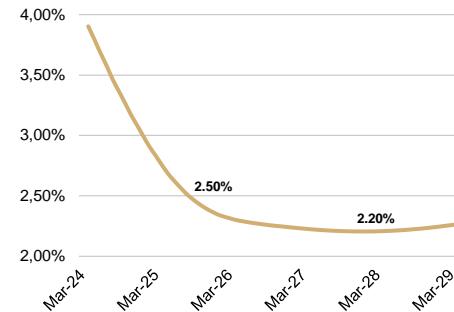
12.50% – 15.50%

15%+

<sup>2</sup> Senior Gross Margin incl. 3M-EURIBOR, otherwise IRR

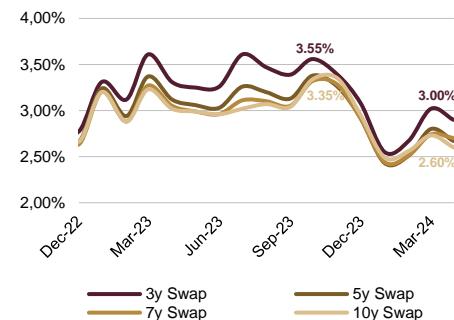
+++ ECB key interest rates remain unchanged +++

## 3M-EURIBOR Forward Curve (5 Years)



Source: Chatham Financial

## European Mid-Swap Rates (3 – 10 Years)



Source: Bloomberg

## Macro-Economic Key Data<sup>1</sup>

	Q3/23	Q4/23	Q1/24	Q2/24
ECB MRF	4.00%	4.50%	4.50%	4.50%
FED EFFR	5.08%	5.33%	5.33%	5.33%
€-M3 MONEY	16.01bn	15.97bn	16.12bn	16.10bn
3M-EURIBOR	3.60%	3.95%	3.91%	3.88%
10Y Bund	2.62%	2.93%	2.00%	2.40%
10Y Treasury	3.86%	4.69%	3.94%	4.35%
iBOXX€CORP	4.34%	4.55%	3.50%	3.63%
iTRAXXEURO	4.00%	4.35%	3.13%	3.02%

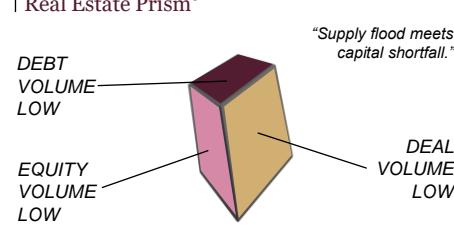
<sup>1</sup> Figures at beginning of quarter

## Key Lending Parameters (New Business)

	Q3/23	Q4/23	Q1/24	Q2/24
S-LTV	62%	60%	62%	60%
S-GrossMargin	2.05%	2.20%	1.95%	1.90%
M-LTV	73%	70%	70%	68%
M-IRR	11.75%	12.50%	12.50%	12.40%

S – Senior | M – Mezzanine

## Real Estate Prism<sup>3</sup>



"Supply flood meets capital shortfall."

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