95% of Banks still lending in UK post Brexit

European Lending Trends - October 2016

- Brexit not impacting willingness to lend in the UK
- Lending conditions remain positive with originations and refinancing set to expand
- Majority of lenders remain risk averse with limited appetite for financing speculative development
- Average LTVs have fallen across the board with margins up. All-in cost stable as swap rates fall

Lending conditions remain positive across Europe with a positive balance of lenders reporting an increase in originations and refinancing in the coming six months. For loan originations 80% of lenders expect activity to be the same or up compared with the last six months. This rises to over 90% for refinancing.

Majority of lenders are providing senior loans. Whole loans and stretch senior are the next most common reflecting the preference in the market for a single loan provider, albeit some lenders will seek to syndicate part of the loan.

We continue to see a risk averse attitude towards some forms of lending. The focus remains on prime and non-prime standing investments in top tier markets. In second tier markets there is an increased appetite to provide development finance on pre-let schemes at the expense of secondary assets. This highlights a focus on better quality assets in lower tier markets. Lending on speculative development remains the preserve of very few lenders.

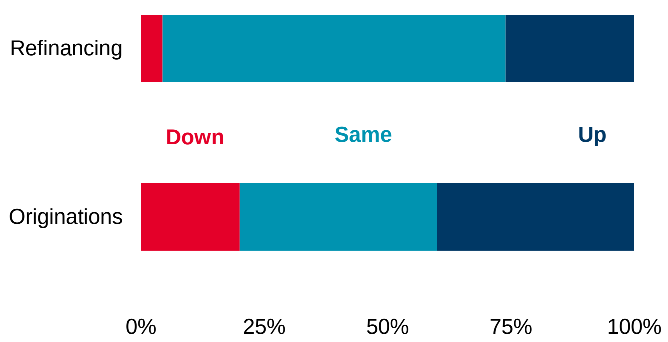
Average LTVs at the all property level have fallen since our last survey in January and are now below 60% in all markets. LTVs now range from 59% in Amsterdam, Frankfurt, London and Paris to 53% in Milan.

Margins have risen since January by an average 50bps across the centres we monitor. At the same time the five year European swap rate has fallen by close to 50bps to stand at –0.16bps effectively leaving the overall cost of borrowing at similar levels. The UK is no different to the continent with margins in London edging out 50bps since our last survey, effectively neutralising the ca 50bps drop in the UK swaps.

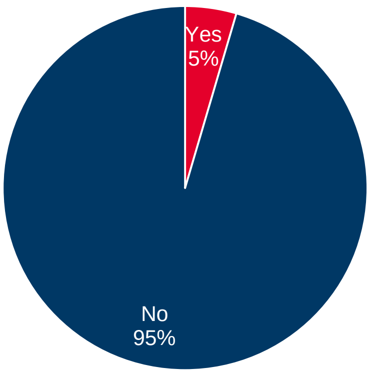
Commercial banks and institutions are typically lending in the 50-60% bracket, with debt funds most willing to lend up to 70-80%. Similarly margins are typically lower from commercial banks and institutions relative to debt funds. These trends reflect the willingness of debt funds to operate further up the risk curve.

Brexit is having little impact on the willingness to lend in the UK. A significant majority of lenders (95%) remain active in the UK, with only 5% saying they have stopped lending in the UK. Lenders report that Brexit has had no impact on the UK lending market, although some are marginally more positive for the continent. On average lenders think LTVs have shrunk from an average of 65% to nearer 60%, with margins up 20bps.

Outlook for financing



Has Brexit stopped you lending in the UK?



Cushman & Wakefield have a dedicated Structured Finance Team with a strong European presence. The team pride themselves on the key challenges to any financing: Understanding real estate; Complex transaction structuring; Banking relationships; and understanding lenders requirements.

Contacts

James Spencer Jones
Head of EMEA Structured Finance
james.spencer-jones@eur.cushwake.com

Edward Daubeney
EMEA Structured Finance
edward.daubeney@cushwake.com

Nigel Almond
EMEA Research
nigel.almond@cushwake.com