CREFC Europe market sentiment survey – Q2 2019

Background and methodology

This comment piece accompanies publication of the second quarterly CREFC Europe sentiment survey, which was introduced at the start of 2019 to offer insights into a CRE lending market that has grown more diverse over the last few years, especially in the UK, but remains largely private and opaque.

A short survey is sent to the key contact at each firm in the [CREFC Europe membership](). Each firm may designate up to two additional respondents, and some have done so. Some information is collected to aid analysis and classification, but the survey is completely anonymous. Responses to the Q2 2019 survey were up slightly on Q1, but broadly similar in coverage. While well over half of respondents indicated that their firm is UK headquartered, a substantially larger majority defined their firm's focus as multi-country European or global, and a wide range of lending strategies and lender types, as well as advisory roles, was represented. We believe that respondents account for an aggregated CRE loan book of more than £130 billion.

Responses to our Q2 2019 market sentiment survey were collected between 28 March and 15 April, a period that offered no relief from Brexit uncertainty as the can was, as expected, firmly kicked down the road. Three questions allowed different responses for the UK and the rest of Europe **[Q1] [Q2] [Q5]**, but the survey was otherwise unchanged.

Overall, sentiment remains cautious, especially about retail. We still can't ignore politics, but the pervasive pessimism of three months ago has moderated a little with a drift towards "no change" (or even "moderately better") in relation to the political and economic environment, real estate fundamentals, capital liquidity and lending terms **[Q4]**. There were no great shifts in how the prospects of different lender types of lender are perceived, with non-banks still viewed more positively than banks **[Q6]**.

Attitudes to market conditions in the UK and the rest of Europe diverged strongly. UK pessimism appears to be matched by tightening credit conditions: 65% thought UK market conditions had worsened **[Q1]** and almost half said financial covenants had tightened over the last three months **[Q2]**. By contrast, substantial majorities reported market conditions **[Q1]** and financial covenants **[Q2]** broadly unchanged in the rest of Europe, with the balance in each case skewing the opposite way from the UK. Only 10% of respondents expressing a view expected more debt to be available in the UK next year, compared to 41% for the rest of Europe **[Q5]**.

Retail remains in the doldrums, albeit there was some good news, with 20% of respondents (up from 5% last time) reporting that their view had not changed. However, as last time, everyone else had grown more pessimistic. The subsectors attracting the greatest levels of optimism remain build-to-rent and PRS, student accommodation and other alternatives **[Q3]**.

In what are widely seen as tricky, late-cycle conditions, views about where the most attractive risk-adjusted returns are to be found trended towards lower risk, especially in terms of asset location and type of lending **[Q7] [Q8] [Q9]**. Commercial bank respondents bucked that trend somewhat, seeing the case for a little more risk compared to their conservative assessment three months ago, particularly on asset type.

In terms of the words used to describe the state of the market, caution and uncertainty remain the dominant theme, with many complaining about static, confused or frustrating conditions. However, fewer specifically mentioned politics and Brexit, and a larger number expressed optimism or even enthusiasm for the opportunities available in this environment **[Q10]**.

Peter Cosmetatos, CREFC Europe chief executive (18 April 2019)