# Sentiment Survey Q1 2020

Preview Results for Known Participants

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February 2020

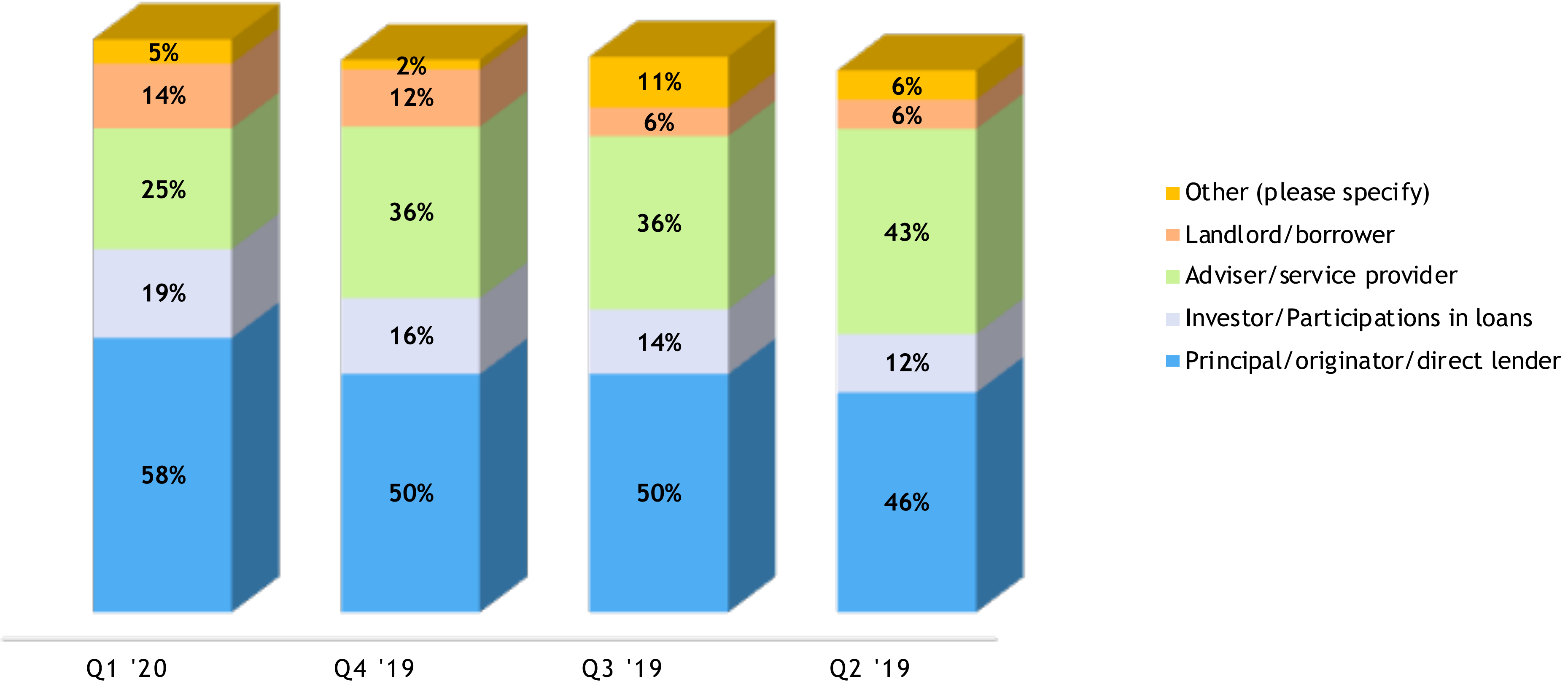
CREFC Europe

## Key message

- Views of UK market conditions have shifted considerably. Throughout 2019 at least 50% of participants believed that market conditions were worse than in the previous three months; this quarter, 55% feel that conditions are better. Views on market conditions in Europe continue to be positive.
- Views on the political environment seem to be a key factor behind the change in sentiment on UK market conditions (78% indicating that it is better than the previous quarter vs. 70-80% being negative in 2019). More political stability post election seems to have positive effect on other areas, e.g. economic environment, real estate fundamentals.
- Perhaps boosted by expected improvement in business confidence, views on the office sector are changing this quarter (56% optimistic vs. no more than 24% in 2019). Pessimism towards retail persists but perhaps with signs of stabilisation (63% being pessimistic is lowest level since early 2019). There is little change in sentiment towards other sectors.
- Views on the strengths of financial covenants remain largely unchanged across the UK and Europe.
- With a surge in optimism about market dynamics there is an accompanying expectation of increasing availability of real estate debt over the coming year, with 63% of respondents believing that there will be more debt available in the UK against no more than 12% in the past three surveys. There is little change in expectations for Europe.
- Overall, the general sense of improving conditions and positive sentiment is leading to expectations of better prospects for all market participants. For the first time since the survey was launched, there is consistency in positive views on the growth prospects of the different types of lenders.
- With anticipated improvements in market conditions, there appears to be a subtle shift in risk appetite, with a greater proportion of respondents identifying better risk-adjusted returns in higher risk assets and lending strategies. However, there is still consensus on being conservative with selection of locations.
- Diversity of lenders is influencing risk appetite across location of assets and lending strategies. However, there appears to be more convergence of views on risk/return expectations from different types of assets.

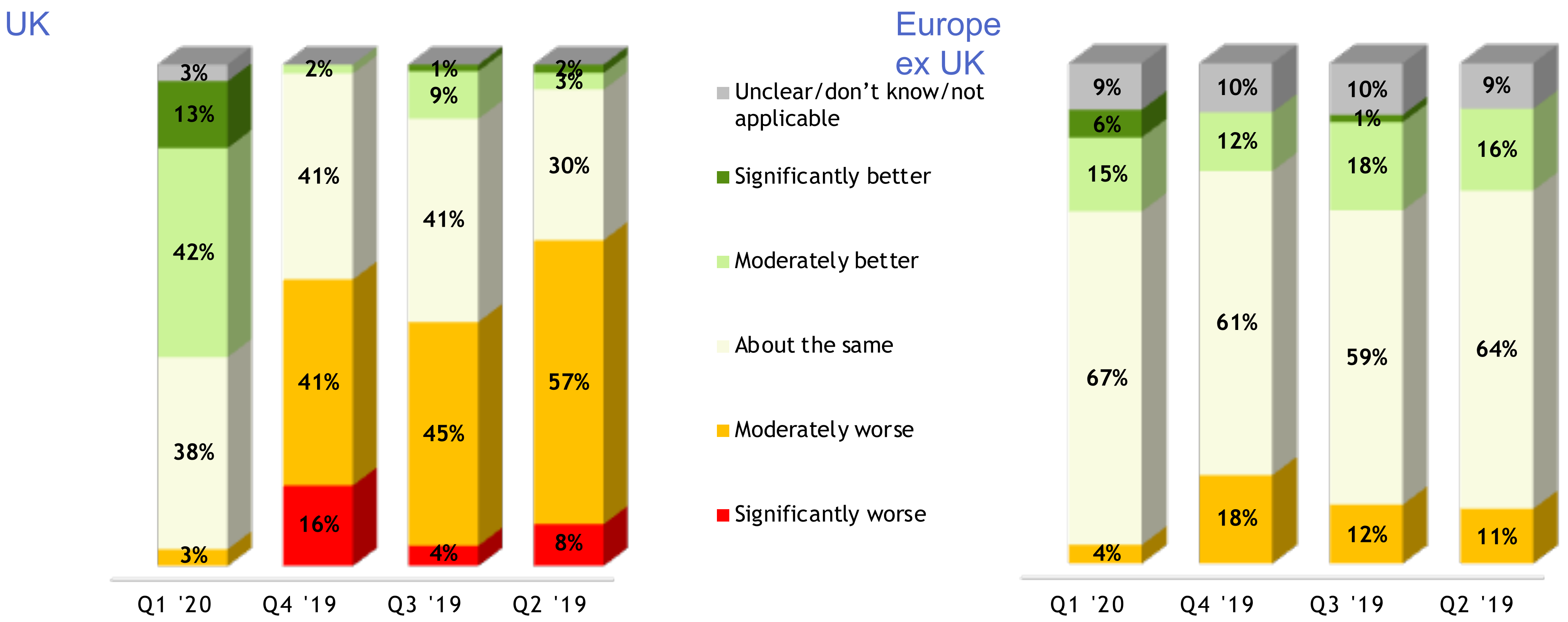
## Participation remains low relative to number of individuals invited to respond.

| | Q1 '20 | Q4 '19 | Q3 '19 | Q2 '19 |
|---|---|---|---|---|
| **Number of Participants** | 59 | 56 | 75 | 71 |
| **Who answered this question** | 57 | 50 | 66 | 65 |



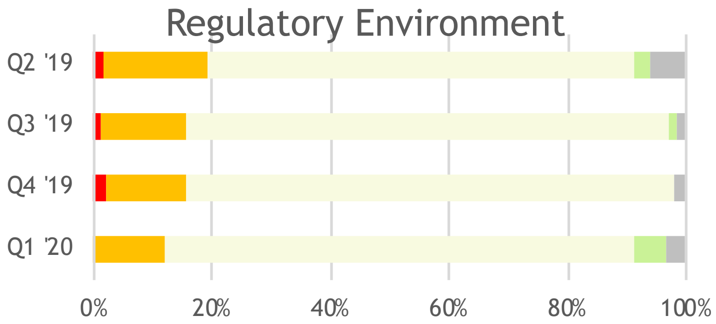
**Views of UK market conditions have shifted considerably. Throughout 2019 at least 50% of participants believed that market conditions were worse than in the previous three months; this quarter, 55% feel that conditions are better. Views on market conditions in Europe continue to be positive.**

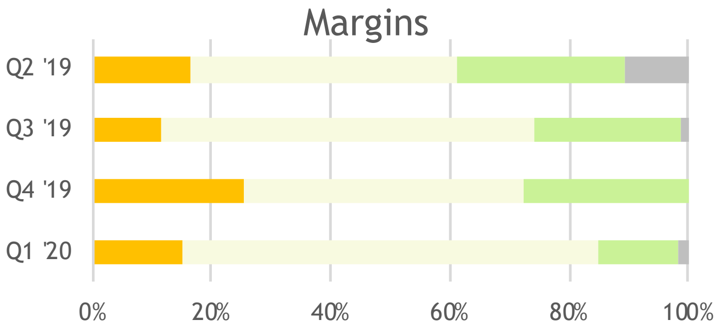
Question 1
From the perspective of your business or the business area in which you operate, how would you assess market conditions today compared with those of 3 months ago?

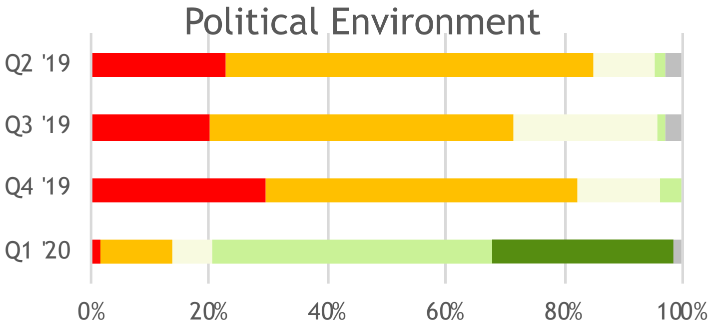


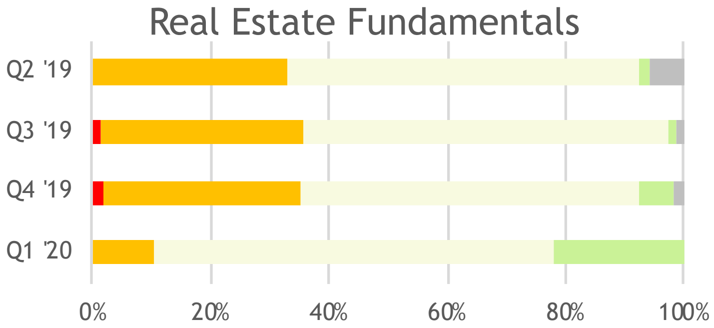
**Views on the political environment seem to be a key factor behind the change in sentiment on UK market conditions (78% indicating that it is better than the previous quarter vs. 70-80% being negative in 2019). More political stability post election seems to have positive effect on other areas, e.g. economic environment, real estate fundamentals.**

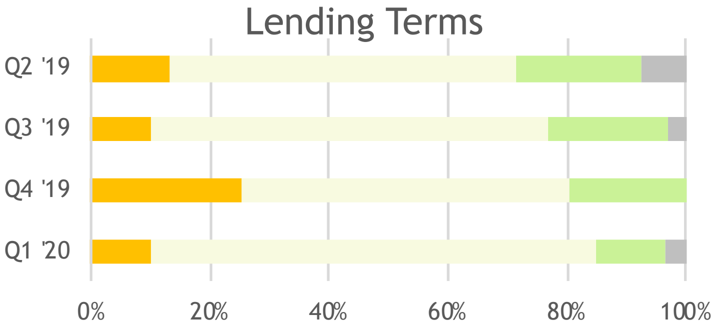
Question 4
From a generic lender's perspective, do you think that the situation is worse or better in each of these areas, compared with 3 months ago?

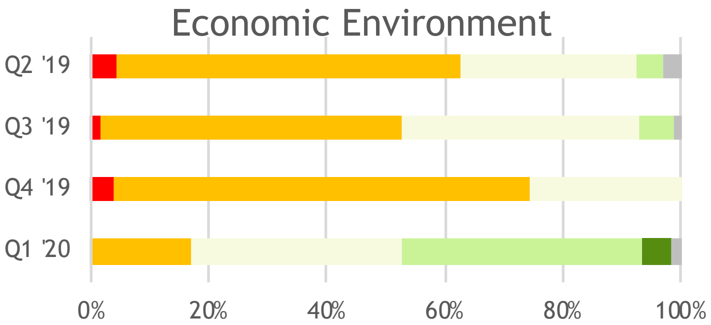


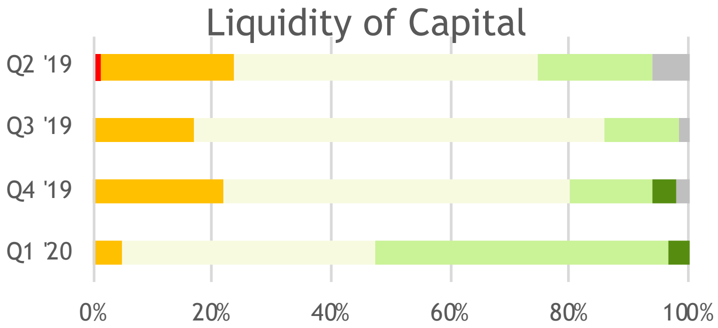



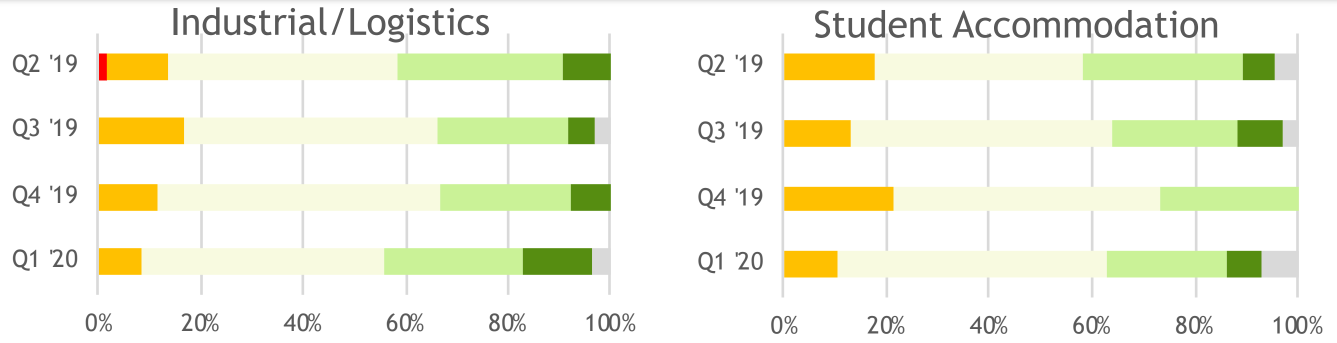



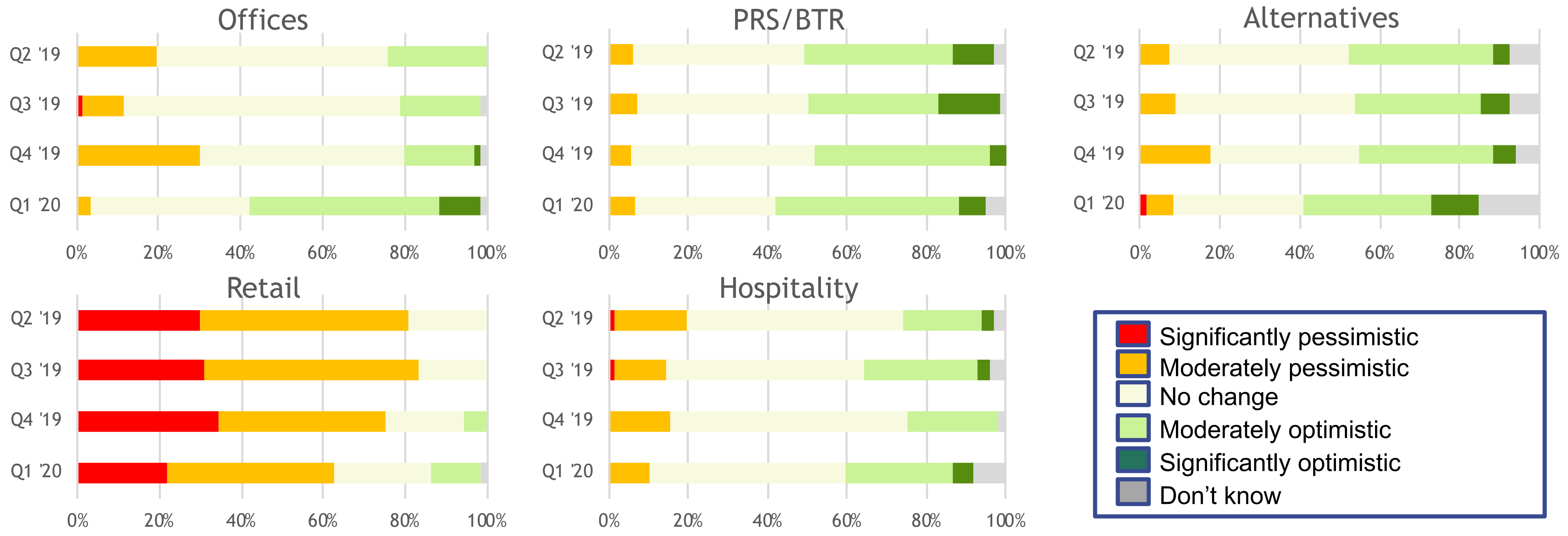




- Significantly worse
- Moderately worse
- No change
- Moderately better
- Significantly better
- Don’t know

**Perhaps boosted by expected improvement in business confidence, views on the office sector are changing this quarter (56% optimistic vs. no more than 24% in 2019). Pessimism towards retail persists but perhaps with signs of stabilisation (63% being pessimistic is lowest level since early 2019). There is little change in sentiment towards other sectors.**

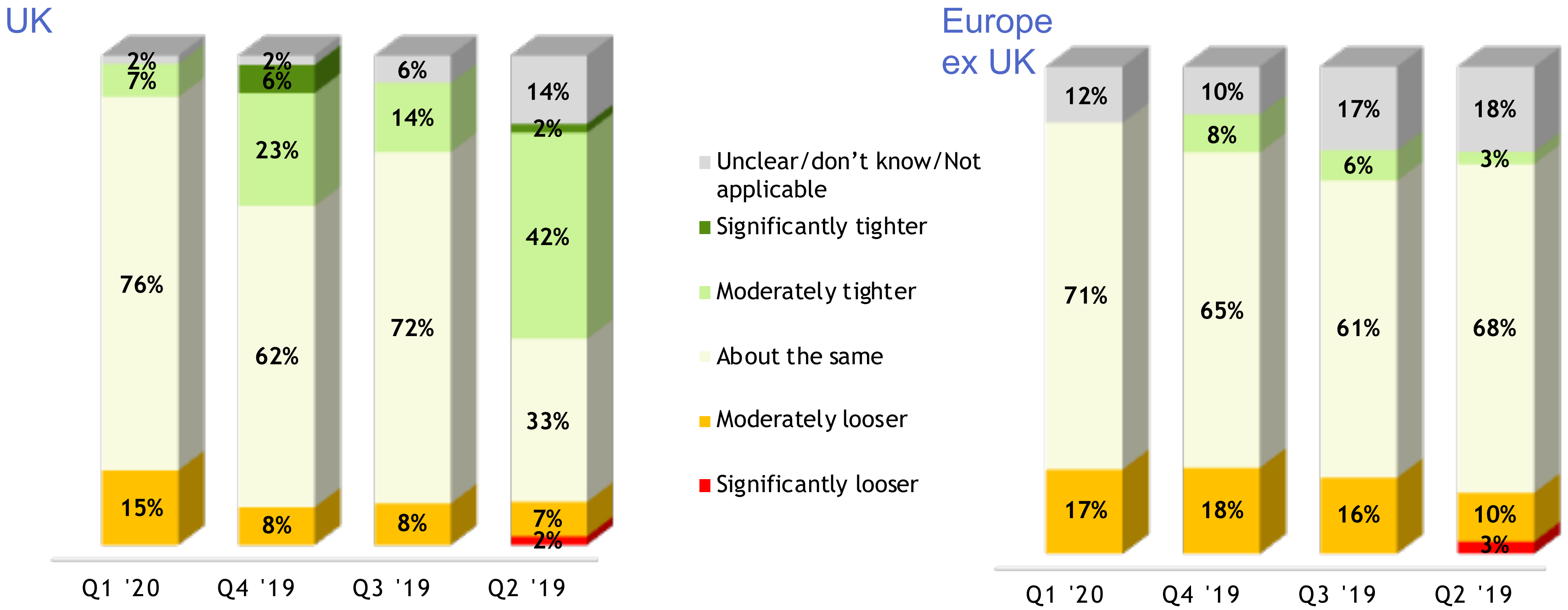
Question 3
From the perspective of your business or the business area in which you operate, how optimistic/pessimistic are you about fundamentals in the following segments, compared with 3 months ago?



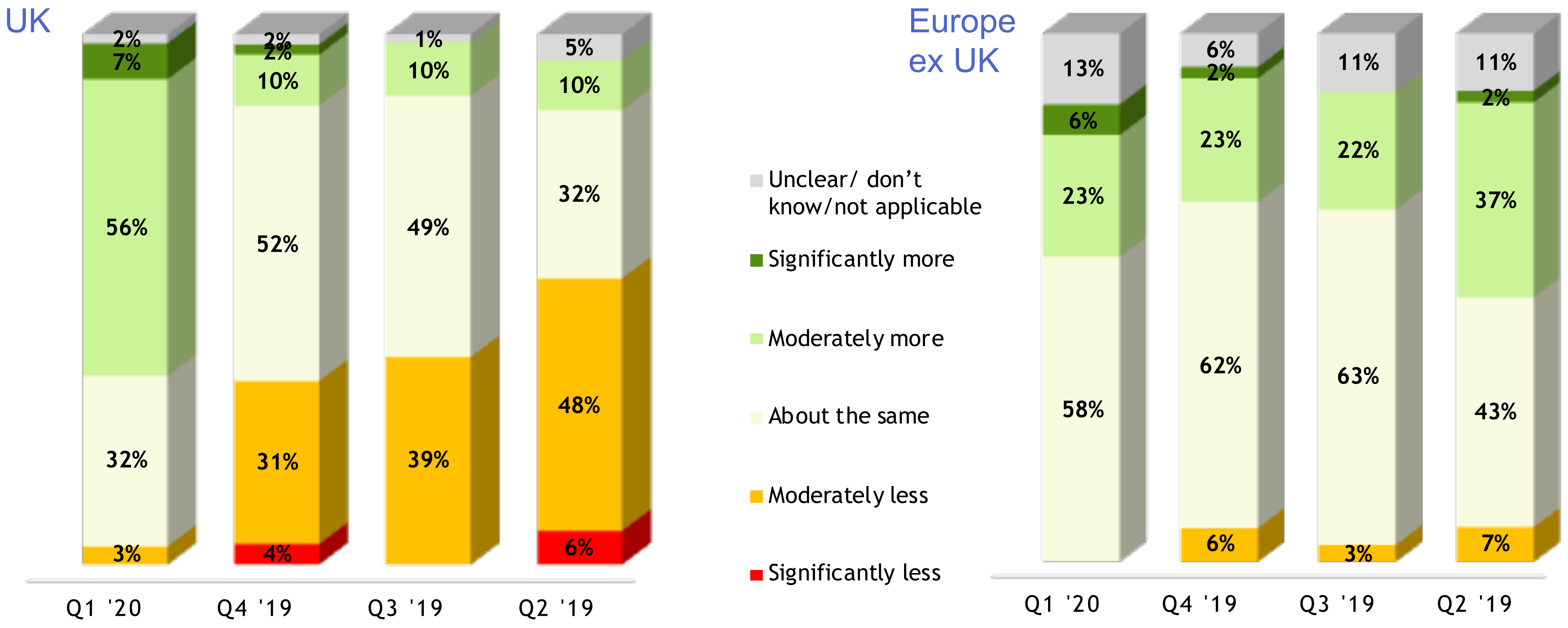
## Views on the strengths of financial covenants remain largely unchanged across the UK and Europe.

Question 2
From the perspective of your business or the business area in which you operate, how would you assess financial covenants (LTVs and ICRs) today compared with those of 3 months ago?



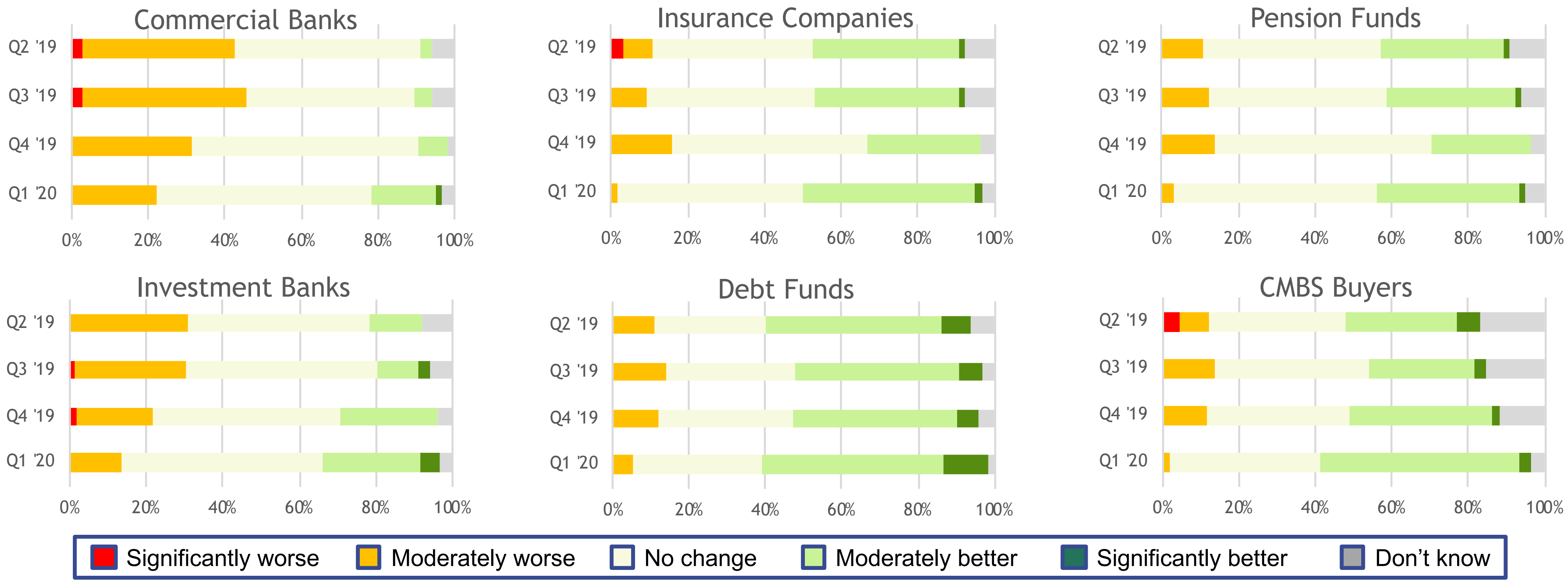
**With a surge in optimism about market dynamics there is an accompanying expectation of increasing availability of real estate debt over the coming year, with 63% of respondents believing that there will be more debt available in the UK against no more than 12% in the past three surveys. There is little change in expectations for Europe.**

Question 5
What is your outlook for the availability of real estate debt over the next year, compared with the past 12 months?



**Overall, the general sense of improving conditions and positive sentiment is leading to expectations of better prospects for all market participants. For the first time since the survey was launched, there is consistency in positive views on the growth prospects of the different types of lenders.**

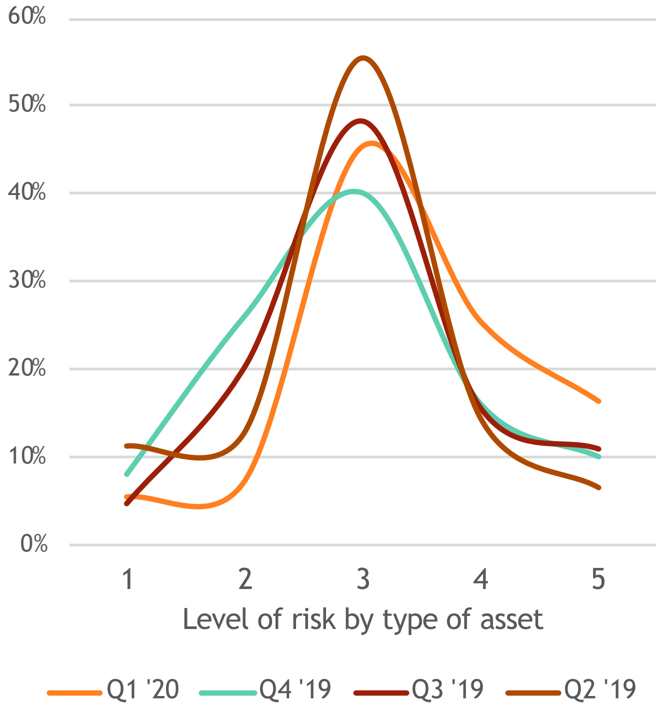
Question 6
Where you have a view, do you think that the growth prospects of the following categories of market participant are worse or better compared with 3 months ago?



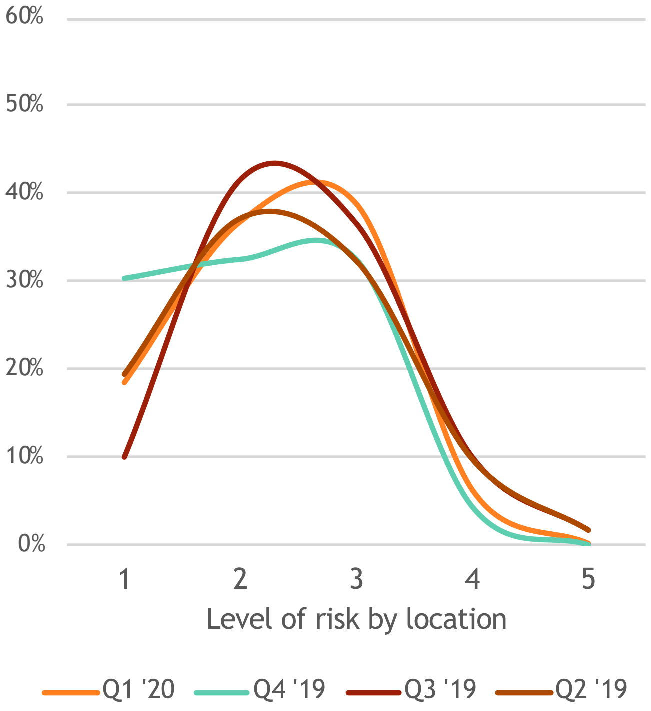
**With anticipated improvements in market conditions, there appears to be a subtle shift in risk appetite, with a greater proportion of respondents identifying better risk-adjusted returns in higher risk assets and lending strategies. However, there is still consensus on being conservative with selection of locations.**

Questions 7-9
Where do you see the most attractive risk-adjusted returns over the next 3 months, on a scale of 1 to 5, where 1 = low risk and 5 = high risk?

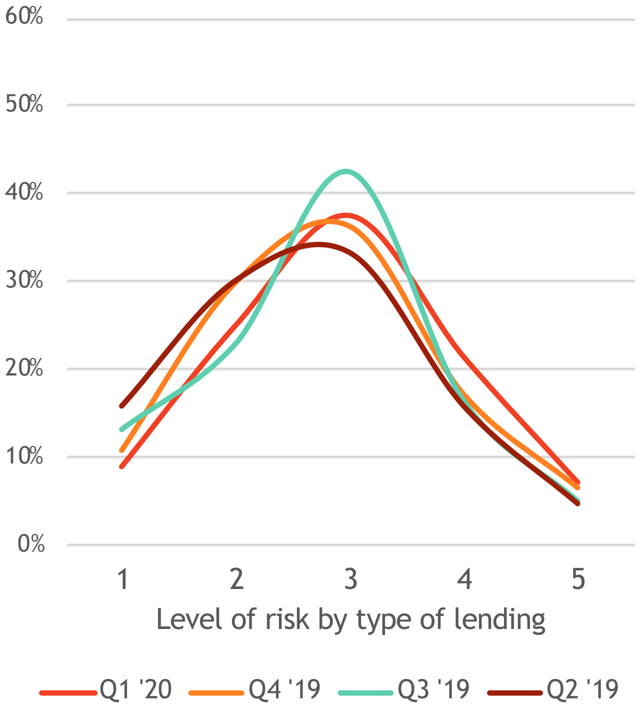
## By Type of Asset




## By Location




## By Type of Lending



**Diversity of lenders is influencing risk appetite across location of assets and lending strategies. However, there appears to be more convergence of views on risk/return expectations from different types of assets.**

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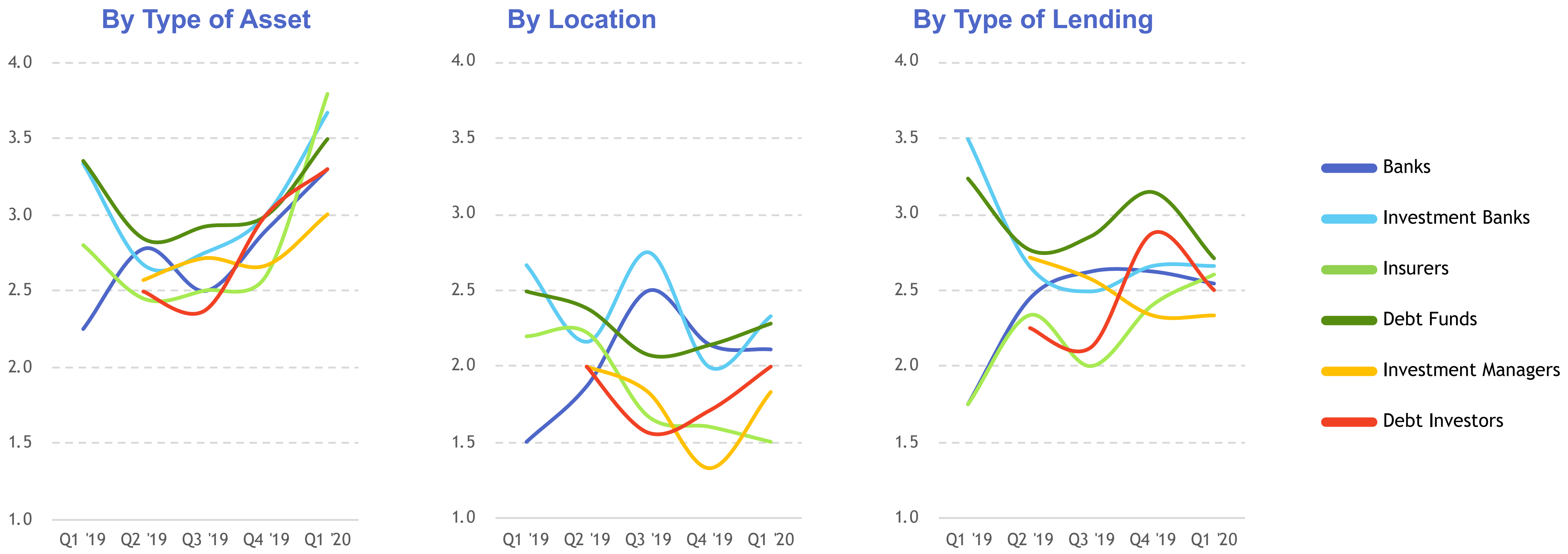

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