# Sentiment Survey Q2 2020

Preview Results for Known Participants

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April 2020

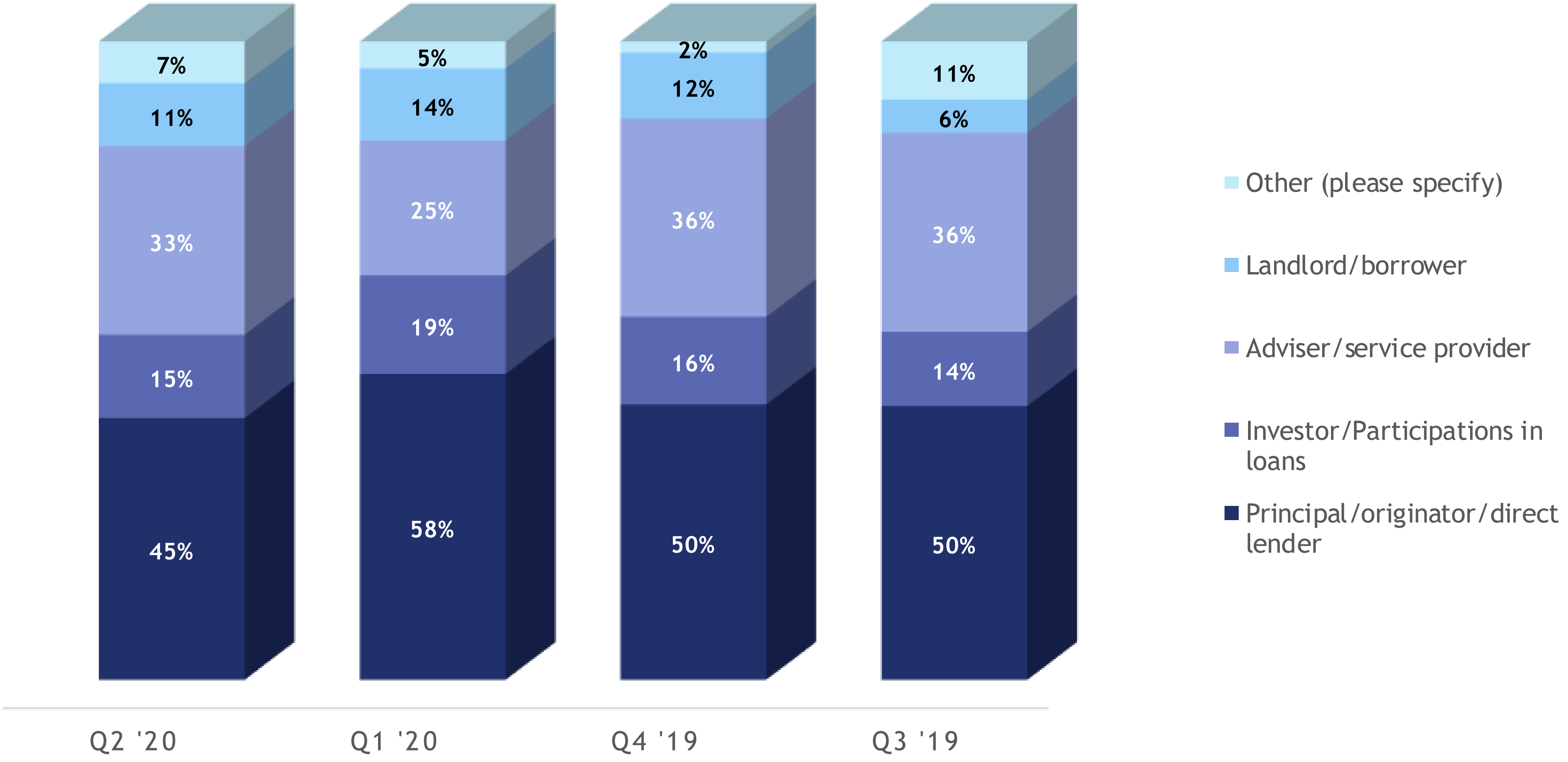
CREFC Europe

## Key messages

- The Q2 survey had 65 participants and was live between 13th of March and 3rd of April.
- The survey was running whilst most of Europe was under the Covid-19-induced lockdown. This clearly led to an unprecedented swing in opinion on market conditions. The huge gain in optimism in the UK last quarter, due to election results, has been eroded this quarter. Overwhelmingly, participants think conditions are worse this quarter (c. 97% for UK; 83% for Europe).
- With a more pessimistic perspective on market conditions, the majority of participants is expecting a meaningful contraction of debt availability over the next 12 months across the UK and Europe.
- Whilst there may be limited transaction activity in the current climate, with concerns over credit quality, there is also an expectation of financial covenants tightening.
- The primary driver of negative sentiment towards market conditions is the economic environment (98% of responses) and the knock-on impact on real estate fundamentals and liquidity (83% and 82% of responses respectively) in the market. Against this gloomy outlook, with reduced liquidity, likely deteriorating credit quality and less debt availability, a few participants expect improving margins and terms for lenders (29% and 27% respectively).
- In terms of underlying real estate, there is overwhelming pessimism about retail, hospitality and student living sectors (100%, 95% and 77% respectively), as expected given the direct impact of the lockdown on these sectors. Perhaps due to the impact on flexible office space and views on longer term trends, the office sector also carries negative sentiment (62%). Logistics and Alternatives remain resilient sectors (+25% and +16% net positive vs negative views respectively).
- Across the market, the expectation is of worsening growth prospects for all participants, especially for commercial banks and capital market participants (investment banks and CMBS buyers).
- Judging by views on most attractive risk-adjusted returns over the next quarter, in the current environment and market conditions, any transaction activity is likely to be for senior debt for less risky prime assets in prime locations.

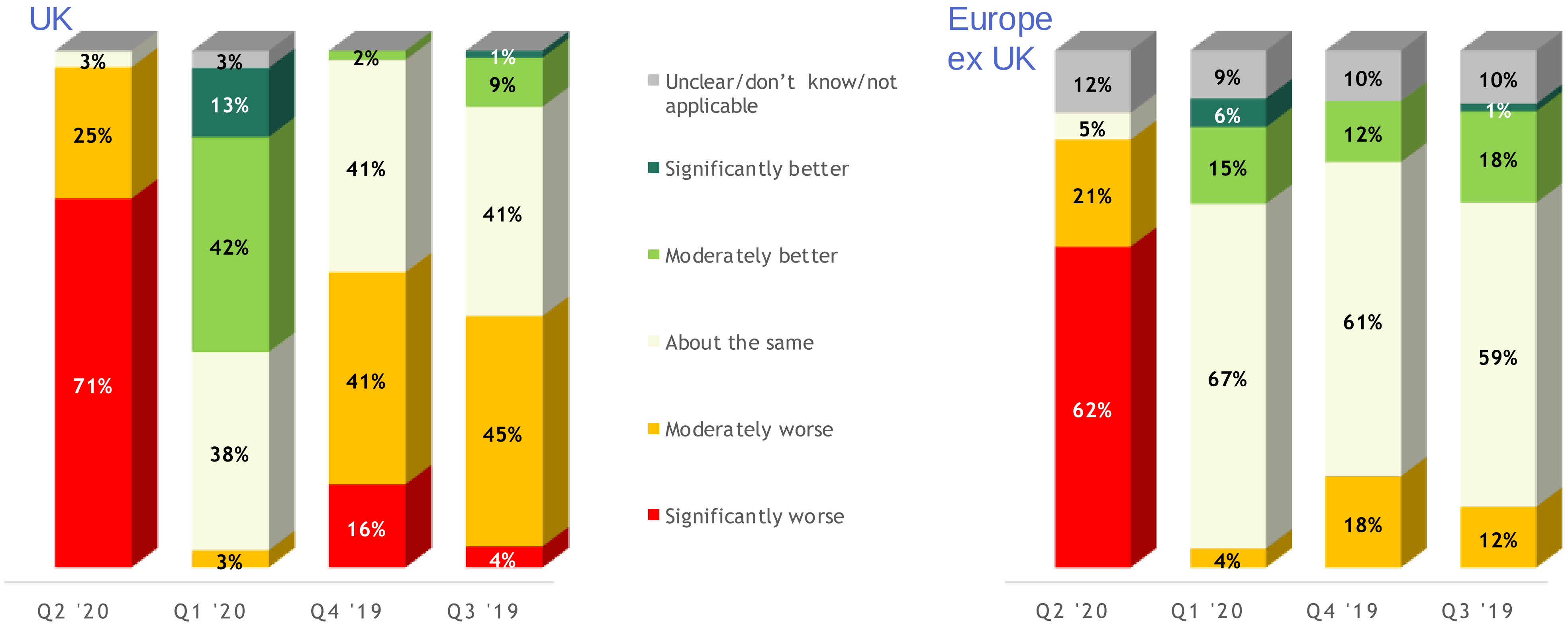
## Participation remains low relative to number of individuals (200+) invited to respond.

| | Q2 '20 | Q1 '20 | Q4 '19 | Q3 '19 |
|---|---|---|---|---|
| **Number of Participants** | 65 | 61 | 56 | 75 |
| **Who answered this question** *(multiple answers are possible)* | 55 | 59 | 50 | 66 |



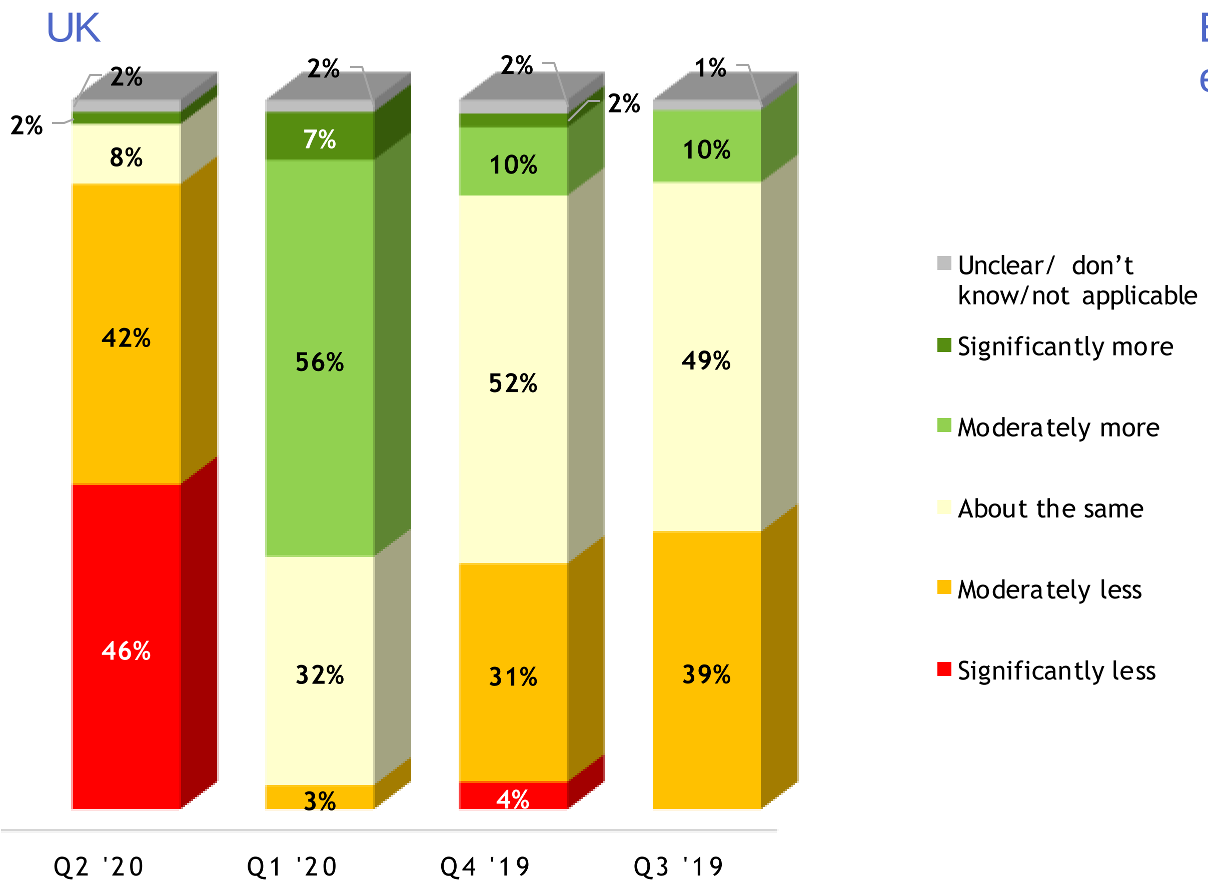
The survey was running whilst most of Europe was under the Covid-19-induced lockdown. This clearly led to an unprecedented **swing in opinion** on market conditions. The huge gain in optimism in the UK last quarter, due to election results, has been eroded this quarter. Overwhelmingly, participants think **conditions are worse** (c. **97% for UK**; **83% for Europe**).

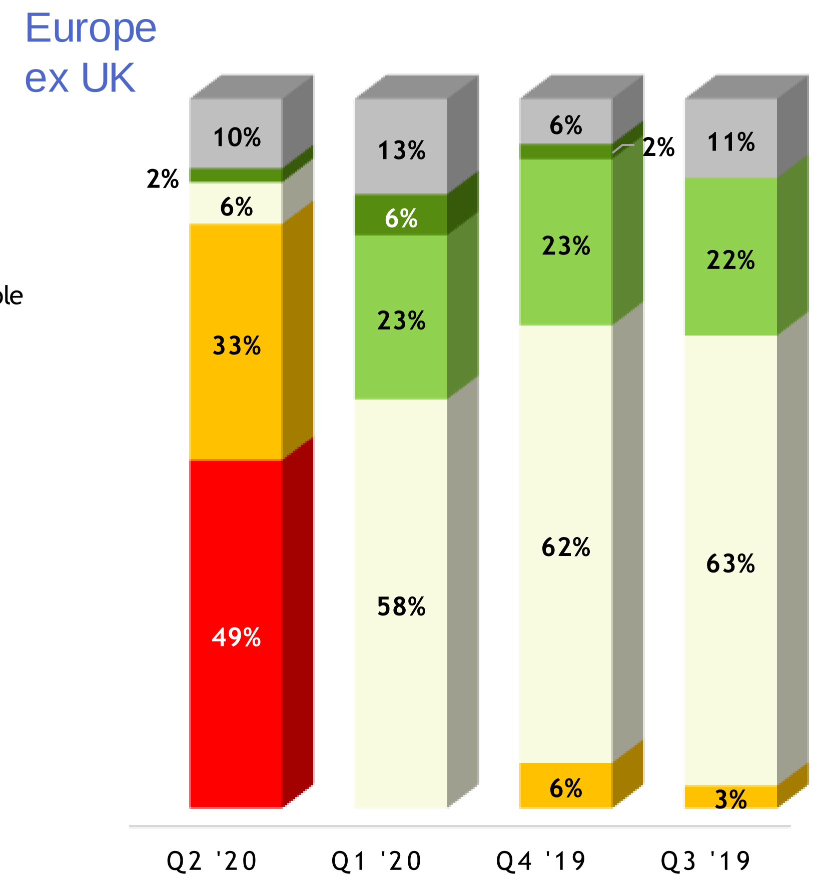
Question 1
From the perspective of your business or the business area in which you operate, how would you assess market conditions today compared with those of 3 months ago?



With a more pessimistic sentiment towards market conditions, the majority of participants is expecting a **meaningful contraction of debt** availability over the next 12 months across the UK and Europe.

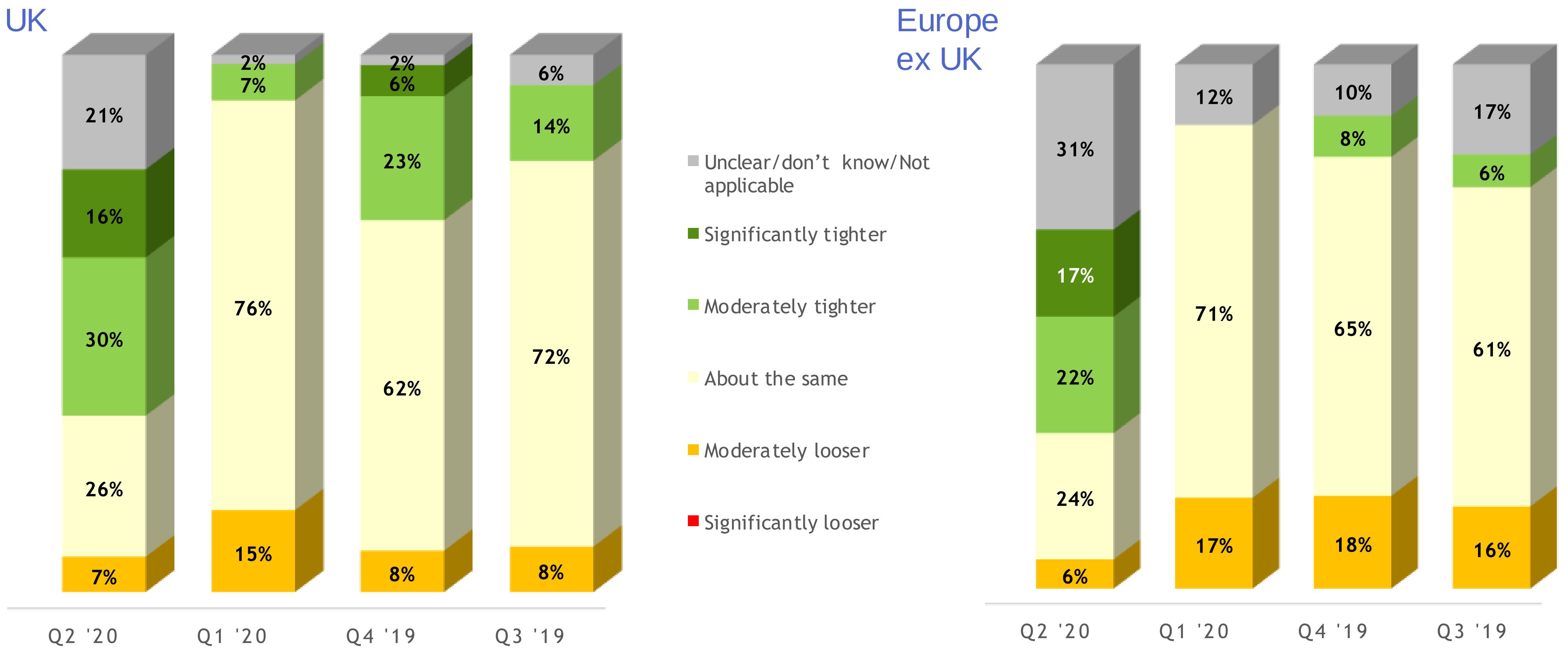
Question 5
What is your outlook for the availability of real estate debt over the next year, compared with the past 12 months?



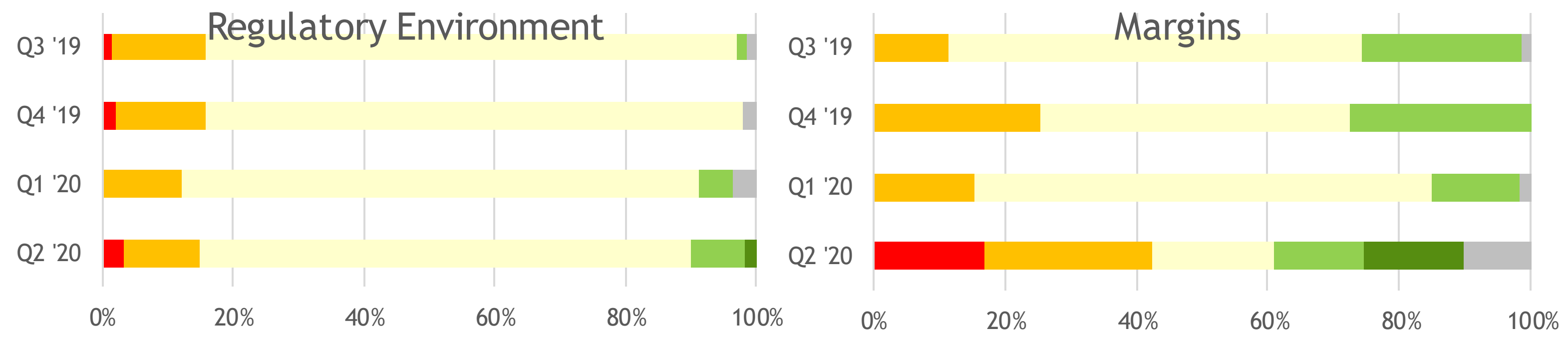
Whilst there may be limited transaction activity in the current climate, with concerns over credit quality, there is an expectation of **financial covenants tightening**.

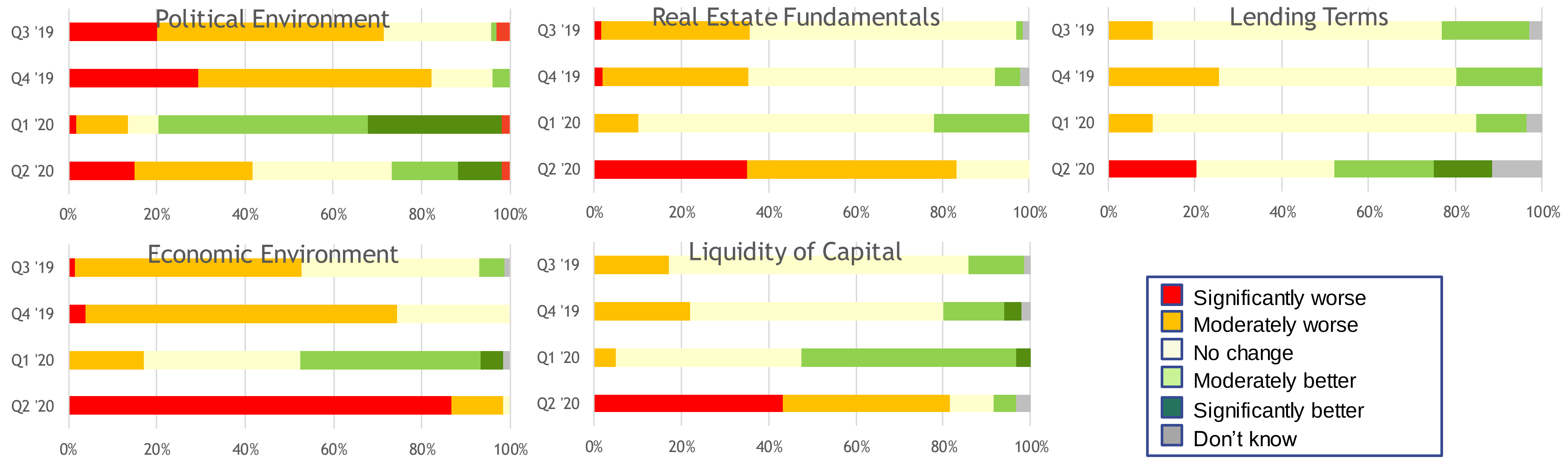
Question 2
From the perspective of your business or the business area in which you operate, how would you assess financial covenants (LTVs and ICRs) today compared with those of 3 months ago?



The primary concern is the **economic environment (98%** of responses) and the knock-on impact on **real estate fundamentals** and **liquidity** (**83%** and **82%** of responses respectively) in the market. Against this gloomy outlook, with reduced liquidity, likely deteriorating credit quality and less debt availability, a few participants expect **improving margins** and **terms for lenders** (**29%** and **27%** respectively).

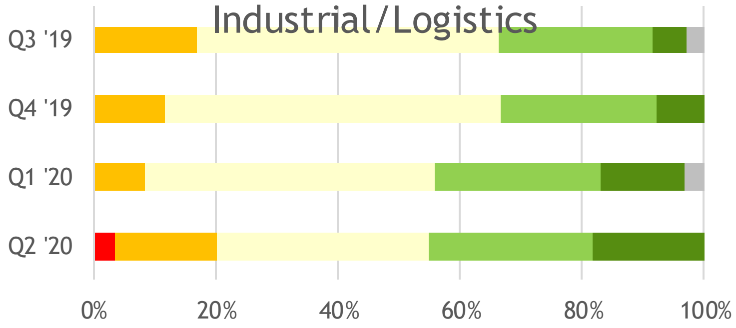
Question 4
From a generic lender's perspective, do you think that the situation is worse or better in each of these areas, compared with 3 months ago?

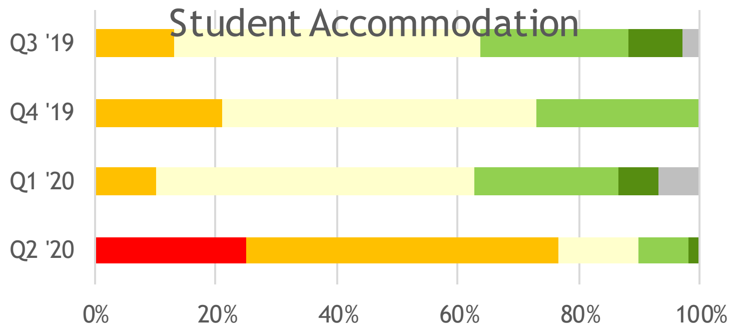


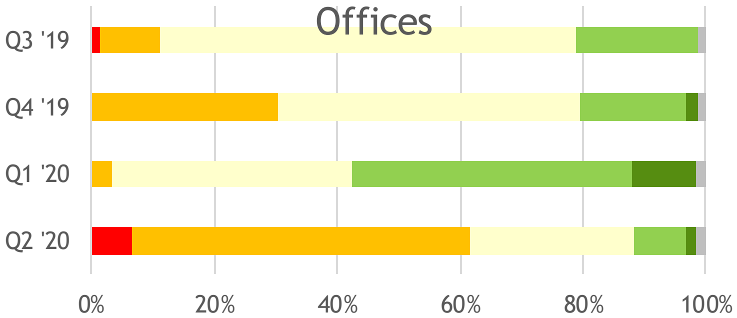



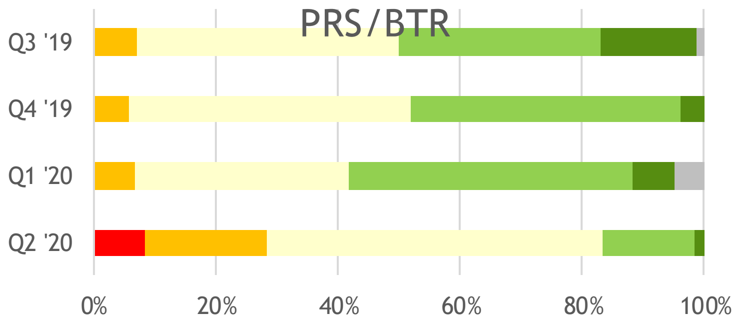
In terms of underlying real estate, there is overwhelming pessimism about **retail**, **hospitality** and **student living** sectors (100%, 95% and 77% respectively), as expected given the direct impact of the lockdown on these sectors. Perhaps due to the impact on flexible office space and views on longer term trends, the **office sector** also carries negative sentiment (62%). **Logistics** and **Alternatives** remain resilient sectors (+25% and +16% net positive vs negative views respectively).

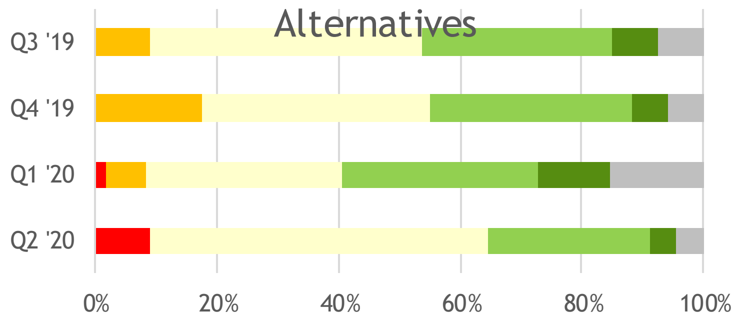
Question 3
From the perspective of your business or the business area in which you operate, how optimistic/pessimistic are you about fundamentals in the following segments, compared with 3 months ago?

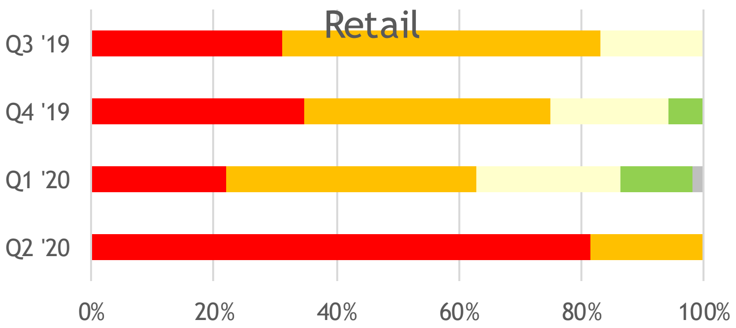


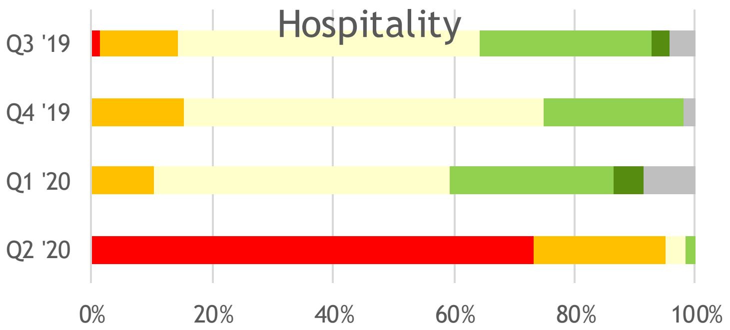



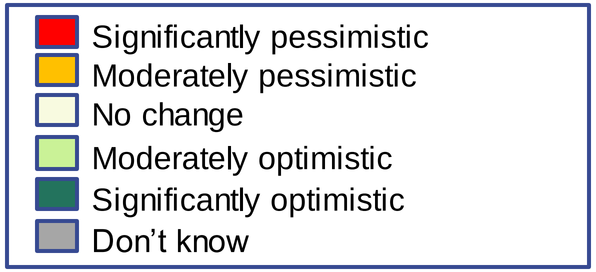



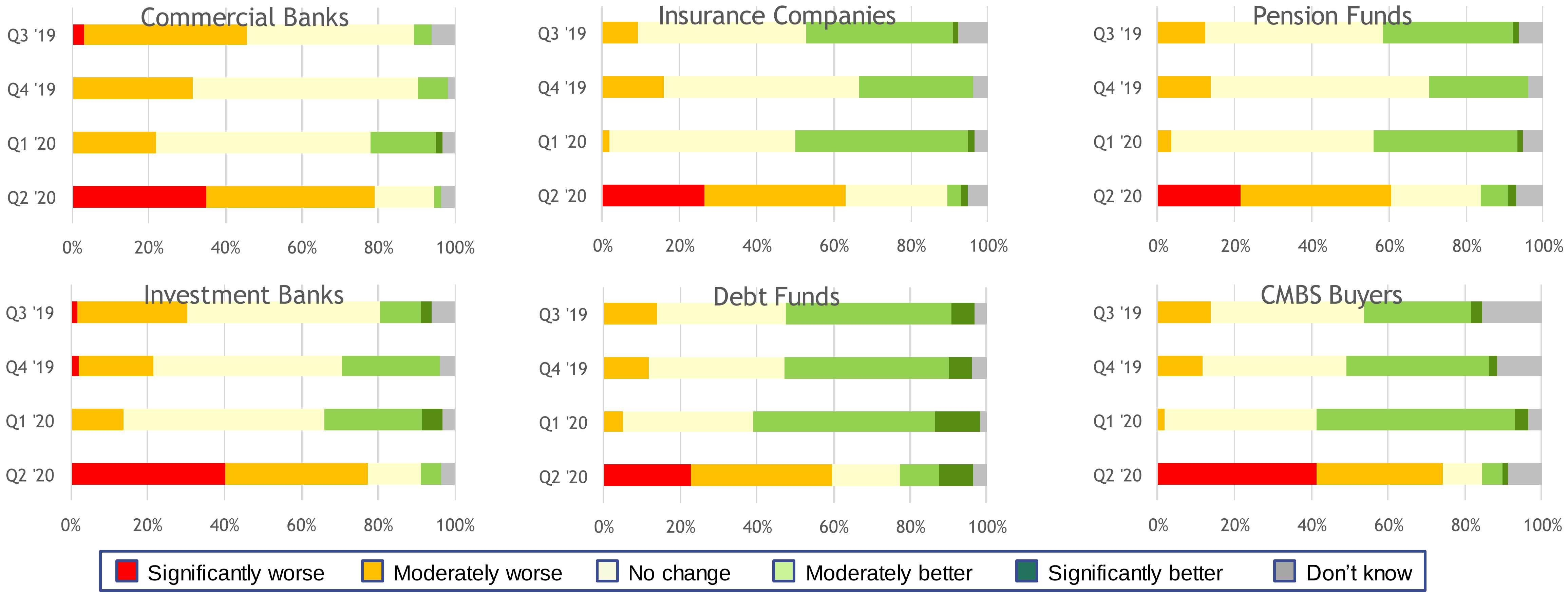



Across the market, the expectation is of **worsening growth prospects for all participants**, especially for commercial banks and capital market participants (investment banks and CMBS buyers).

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?

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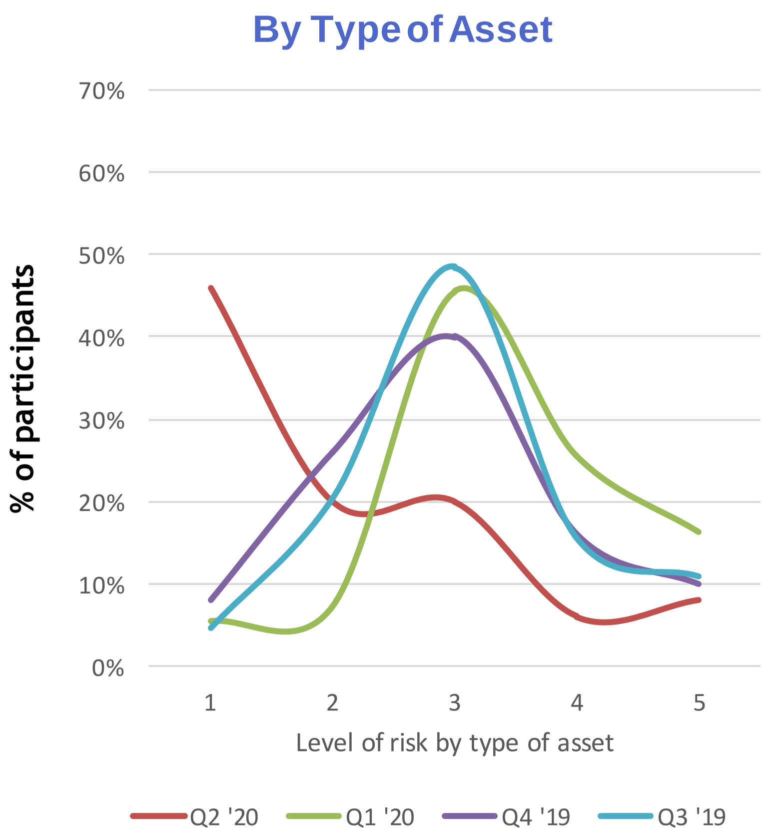
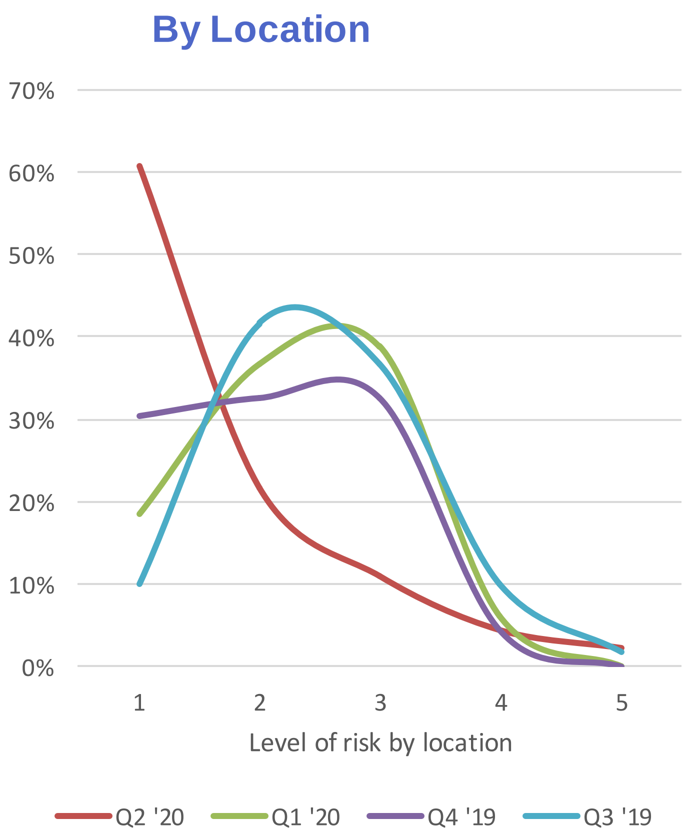
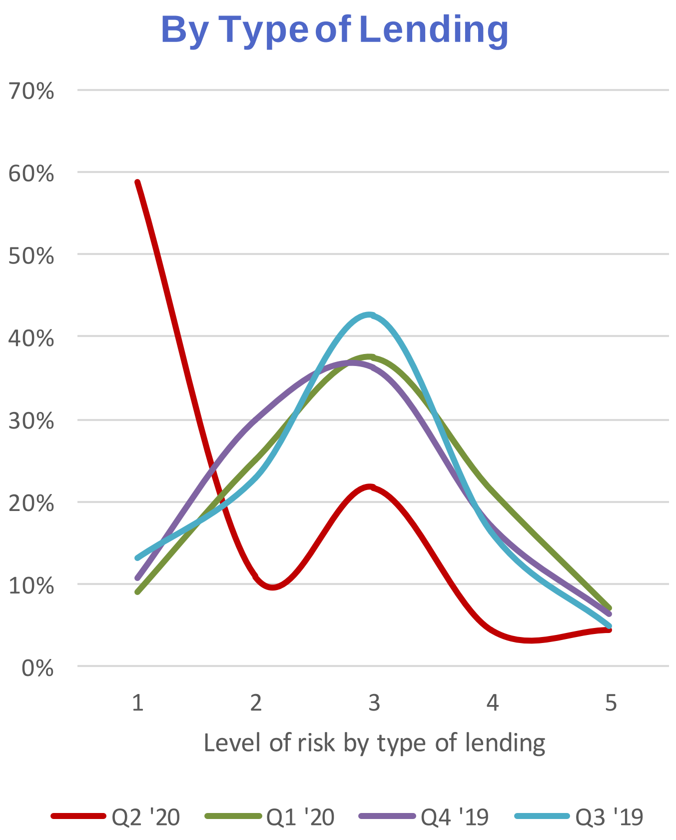
Judging by views on most attractive risk-adjusted returns over the next quarter, in the current environment and market conditions, any transaction activity is likely to be for senior debt for less risky prime assets in prime locations.

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?



# A few selected comments about the market and the impact of the Covid-19 outbreak

The market is fundamentally strong, but doing business is quite restricted. There are significant opportunities for risk tolerant investors

I am really concerned and I am still not sure about the level of market decline in the upcoming months

Efforts concentrated on monitoring for the next 2 Qs

Lenders will need to focus on issues in their loan book. There will be little appetite for new deals except for prime assets or assets held by "winners" in the post-COVID world, such as warehouses/logistics

Covid 19 will be a short-term impact, expect to see the market and the economy back within 6 months

Fragile. Overriding uncertainty around rental collection and the survival of tenants which will filter down to the RE market / significantly impact landlords. Retail in particularly remains in a fragile and precarious position

Covid 19 will be a short-term impact, expect to see the market and the economy back within 6 months.

Default risk rising, credit spreads widening, values declining and business operationally paralysed

It is currently very difficult to assess how far reaching the impact of Covid-19 will be.

Nervous about the impact on the CRE and CMBS market

negative office long term as home working successful, will serviced offices rise again ?

Reduced lending liquidity should lead to increased spreads

From a commercial viewpoint, I am extremely pessimistic and concerned about the long lasting impact that the pandemic will have on both the economy and the property market

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