



**FinLoop Quarterly Credit  
Liquidity Barometer**  
**Q2 2022**

## FinLoop Quarterly Credit Liquidity Barometer

### Key findings Q2 2022

- Without significant movements of property yields, and the continued increase in lending rates, debt affordability has been the main factor of declining debt market conditions for borrowers across European markets.
- Overall economic and lending conditions in the largest economies France and Germany have declined rapidly between Q1 2022 and Q2 2022.
- For the most prime properties leverage cuts off at 50% LTV to maintain prudent ICR covenant levels, especially logistics is still trading at high income multipliers.
- The EUR BBB IBOXX bond spread has increased by another 171bps over the 3 months in Q2 2022, prompting lenders to increase their real estate debt margins by 50 – 100bps.
- FinLoop recorded a clear reduction of lenders willing to look at hotels and student housing in the UK as well as in Germany between Q1 to Q2 2022. Generally, lender appetite for real estate debt as declined over Q2 2022.

### Market changes between Q1 2021 and Q2 2022

This section looks the changes across all markets quarter-on-quarter and analyses the key differences and reasons for changes over the period.

Across Europe countries have revised their GDP forecasts downwards. Many are now expecting almost no growth in Q2 and Q3 2022, or some already show negative growth, such as Italy.

The upwards adjustment of interest rates is also continuing, Germany and France government bond yields moved up by just over 100 basis points, but other markets such as Italy and Spain by 120 – 150 bps. The different levels of adjustment reflect the differences in perceived country and economic risks.

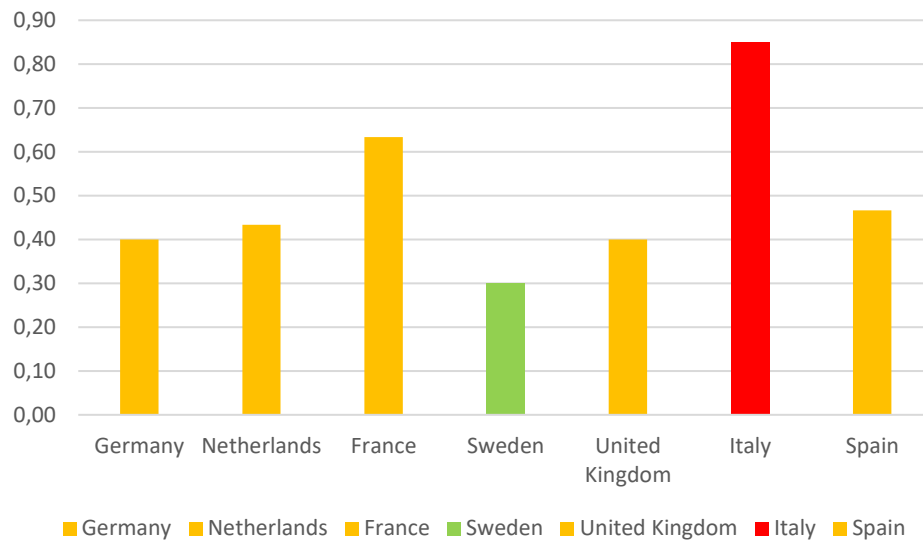
When adding the illiquidity risk for CRE debt using the IBOXX BBB bond yield indices as a benchmark, lending rates increased by another 170 bps in Q2 2022 resulting in a further squeeze of debt affordability for borrowers. While Italy shows the lowest debt affordability, also in Germany, which usually offers very competitive loan pricing for real estate assets, lenders have increased lending rates sharply.

Lenders have become very cautious about providing new loans, and their response time has also increased significantly when considering new financings. Many acquisitions are still trading at high income multiples or low yields, pushing debt affordability to minimum levels. For many prime properties, the amount of leverage is now below 50% LTV in order to cover interest payments under the loan. Lenders are carefully looking at LTV levels and may choose to step away altogether, when they feel the LTV is too high.

REITS markets have already responded to market value changes during Q2 2022 with the largest firms trading at increased discounts, especially those with exposure in office, key cities, and higher leverage

than their peers adding pressure on property yields to adjust.

Figure 1: Q2 2022 individual market scores

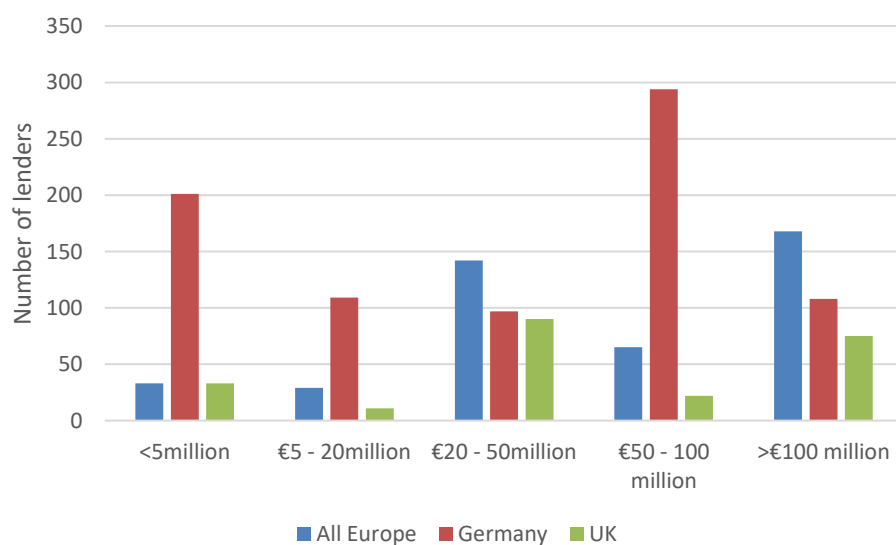


Source: Eurostat, Cushman & Wakefield

## Debt availability Q2 2022

While it becomes more difficult for borrowers to find suitable debt offers, FinLoop's market depth of lender coverage especially brings transparency into the smaller to mid-size loan markets across Europe, providing borrowers with access to regional lenders. This market is particularly large in Germany with its many regional banks and bank branches.

Figure 2: FinLoop's lender base covering loans by size

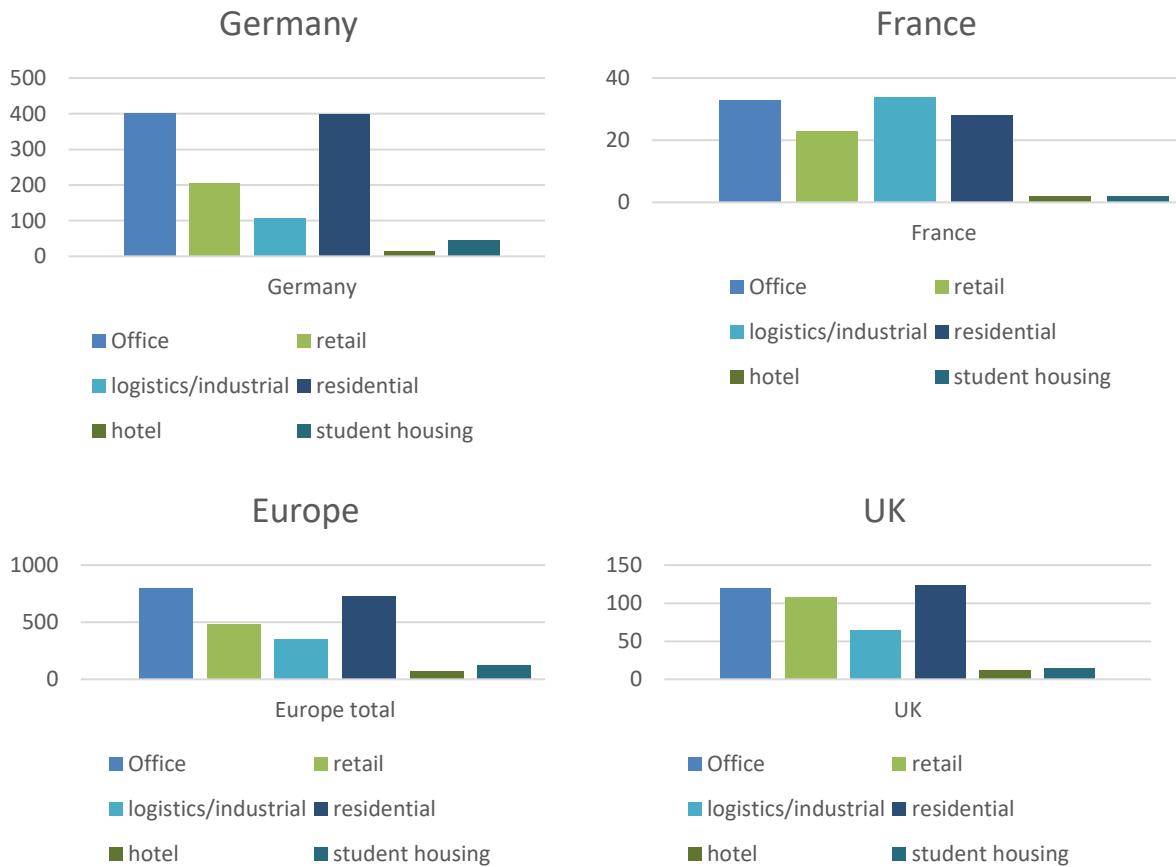


Lenders are still focusing primarily on two popular asset classes; office and residential, however approval times for loans are getting longer. Furthermore, FinLoop recorded a clear reduction of lenders

willing to look at hotels and student housing in the UK as well as in Germany between Q1 to Q2 2022.

FinLoop's outlook for Q3 and Q4 2022 is a further decline in debt availability overall, due to lenders risk appetite. Especially for value-add properties and development assets lending costs are going to increase further with fewer lenders interested to lend.

Figure 3: Active lenders by country, Q2 2022

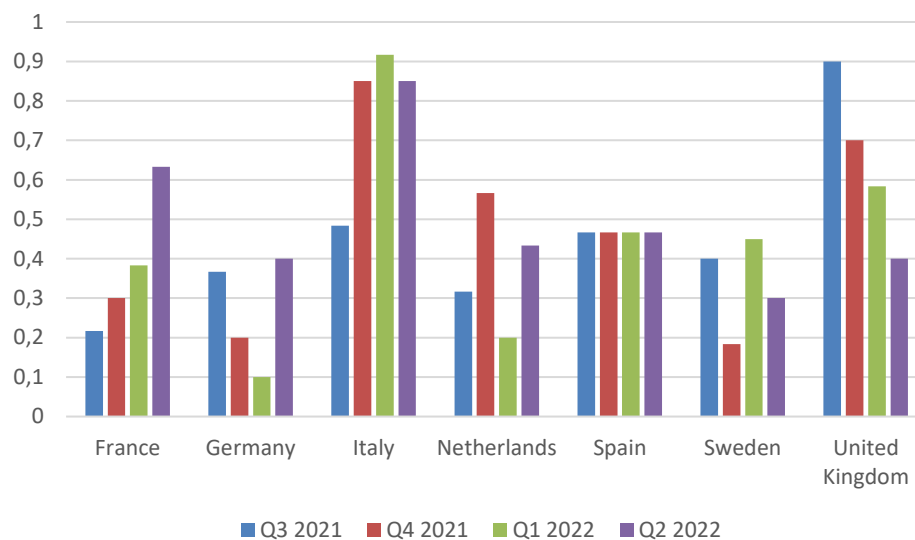


Source: FinLoop

## Long-term market movements

The UK market is now the only market where market conditions seem to have been improving or at least have remained stable. The UK has been the first country to increase interest rates in 2021 and some property yields are reflecting fair value with affordable leverage. Across other European markets, the interest rate increases have had a much larger effect on debt affordability combined with highly priced properties, which are still trading at high income multiples. The European EPRA index recorded a quarterly return of -23%. REITS exposed to office markets and key cities are trading at discounts of 17 – 30% to NAV. This increases the pressure to revise property yields upwards over the coming quarters. Especially the key indicators in the German economy have declined in Q2 2022, reducing lenders appetite to new CRE lending. Overall, Germany, Sweden, and the Netherlands are now worse off than in 2021 in terms of their economic & credit market outlook.

Figure 4: Long-term quarterly performance of markets



Source: Eurostat, Cushman & Wakefield

## Caveats

The author(s) note that, for each individual real estate market, unexpected trends or events could significantly disrupt everyone's outlooks and forecasts. Unforeseen and unforeseeable shifts could rapidly change current prospects. For example, the property market cycle is equally linked with the economy while the CRE lending market is correlated with other banking markets.

Further, every market offers high and low risk opportunities representing properties of a large range in yields and quality. Each individual transaction has to be assessed on an individual basis.

## Methodology

The new European credit liquidity barometer for real estate debt markets by FinLoop is based on relative market performance for 8 selected European markets, and is published on a quarterly basis. It tries to assess the credit environment and debt availability for real estate investors in each market based on economic, financial and property market indicators.

The barometer consists of five variables

- Absolute 10yr government bond yields as indicator for interest rates in each market.
- Change of 10yr government bond yield as indicator of change in interest rate terms, showing how quickly interest rates are changing in each market.
- Quarterly GDP growth estimate as indicator of general market and economic health supporting real estate markets.
- Quarterly REIT performance by premium/discount of market cap as an early sentiment indicator of real estate pricing. REITS trading at a premium is an indicator of confidence of investors in the future of the underlying property market while REITS trading at a discount tend to indicate bearish sentiment on the outlook for the underlying real estate.
- Debt affordability ratio, income over cost of debt, calculated as the net income yield over the cost of debt for a 60% LTV loan, representing an estimated interest-cover ratio (ICR). The pricing is derived from the local risk-free government rate + BBB Iboxx bond yield to provide an indication of debt pricing versus potential income.

Each quarter all eight markets are ranked on all 5 indicators. The final score is weighted between the 5 indicators and normalised to a score from 0 to 1. Overall a score of 0 – 0.33 is regarded as a market with high debt affordability and positive overall economic stability (green), markets with a score 0.34 – 0.66 are regarded to be of good debt affordability on a selected basis with moderate economic performance expectations (yellow). Markets with a score of 0.67 – 1.00 are considered of low debt affordability with the risk of increasing lending rates, and below average economic performance (red).

Further, FinLoop reports lender appetite on specific asset classes and types of loan to provide additional insight into each market in terms of debt availability.

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**Contact**

Dr. Nicole Lux – UK & Southern Europe,  
email: [nicole@finloop.com](mailto:nicole@finloop.com)  
Dr. Thomas Schneider – Germany & Western  
Europe,  
email: [thomas@finloop.com](mailto:thomas@finloop.com)