European CRE/CMBS: bracing for more maturity extensions

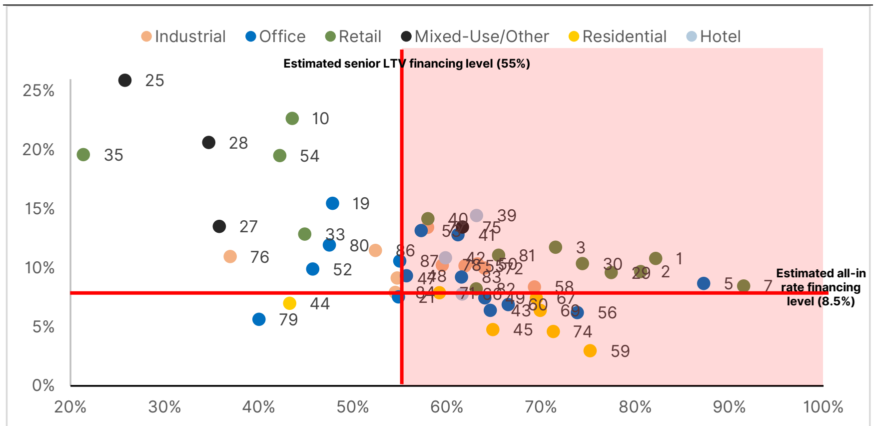
Almost 75% of CRE loans in European CMBS fail to meet bank refinancing requirements

Commercial real estate refinancing risk remains elevated, exacerbated by the higher-for-longer narrative and decreasing market values. We still believe that 40% of fully-extended securitised loans present high or very high refinancing risks in 2024. But moderate refinancing risk has materially increased to 41% from 23% based on recent borrower extension requests.

Almost 75% of CRE loans in European CMBS now fail to meet bank lenders' refinancing requirements[1], putting more pressure on borrowers to either fund the equity gap or to find refinancing solutions much earlier than previously anticipated (see **Error! Reference source not found.**).

That said, the refinancing of six industrial and logistics loans and the announcement of two CMBS (one secured against industrial assets and the other one data centres) proves, in the case of the former, that appetite from lenders for industrial assets is resilient and, in the case of the latter, that there is demand for an emerging asset type that features strong and stable cash flows.

Figure 1: European securitised CRE loans: latest LTV and debt yield ratios



Sources: Investor reports, Scope Ratings CMBS tracker

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Commented [KM1]: Benjamin: I'm not 100% clear about the sense of this clause. So refi risk remains elevated despite little to no issuance -- of what? And are you saying new issuance should support refinancing? Can you pse. clarify?

Commented [BB2R1]: Sigh. I removed it. Seems I was the only one on it.
In short: if you have an ABS fund, most of the assets will amortise through time. If there is no new MBS issuance it means you are sitting on the cash from previous amortisation (you cant generally invest too much away from ABS and generally have a small bucket for CMBS). As such, you are incentivised to reinvest the proceeds in a new CMBS deal (if any) which is supportive for spreads and should help refinancing a loan into a new CMBS.

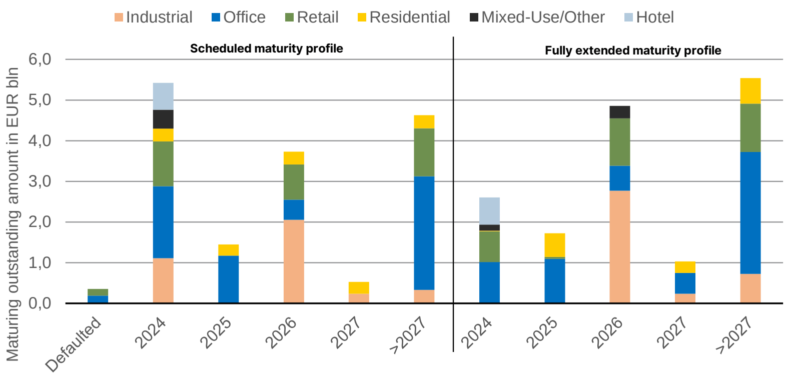
[1] Current estimated average senior bank loan LTV and debt yield are 55% and 8.5%. 40 of the 55 outstanding securitised loans have either lower debt yield (4 loans), higher LTV (21) or both (15).

Refinancing risk: mind the extensions!

Industrial and logistics assets remain attractive for lenders

Six loans amounting to EUR 2.5bln equivalent were refinanced early in Q1 2024 including three due later this year but with low to no refinancing risk thanks to their strong metrics. All were secured by industrial and logistics properties. None have been refinanced through a new CMBS to-date, but a new transaction secured against UK industrial assets was announced last week. Combined with the continuous trend of borrowers exercising loan-extension options, this decreased the EUR 3.4bn 2024 refinancing wall to a more manageable EUR 2.6bn.

Figure 2: Scheduled vs fully extended maturity profile of the European securitised CRE loans



Source: Investor reports, Score Ratings CMBS tracker

Extensions come at a cost while financing conditions remain challenging

Nine loans have been extended beyond their initial fully-extended loan maturity in the last 12 months to give borrowers more time to find refinancing solutions. However, these extensions come at a cost: hedging costs, discouraging investors, prolonged exposure to macroeconomic tail risks or even a deterioration in transaction performance. Financing conditions remain challenging as the higher-for-longer narrative is eclipsing rate-cut expectations. Both three-month Euribor and 3-month compounded SONIA are still close to their recent peaks.

Office transactions suffering from a decline in valuation

The first post-GFC office loan secured in River Green Finance 2020 defaulted earlier this year when the borrower did not exercise its last remaining extension option despite healthy metrics at the time. It subsequently emerged that a valuation had been commissioned showing a 60% decline in the value of the asset[2]. Another office transaction, Canary Wharf Finance II, showed a 13% decline in its property values in December 2023 from a year earlier (-25% since March 2020) but the loan-to-value remains below 50% as a property was sold, deleveraging the transaction.

40% of the securitised loan to face high or very high refinancing risk

We still expect that 40% of the number of loans face high to very high refinancing risks. While refinancing risk for the Squaire transaction increased to high (driven by further erosion in its office rental income and exposure to Atos SA), Phoenix's refinancing risk decreased to moderate (thanks to its successful deleveraging to EUR 45m or a 36.9% LTV albeit achieved through the sale of a fully-occupied property thus increasing the loan's vacancy rate to c25%).

More loan modifications expected

The refinancing risk of all the ERNA S.R.L. loans has increased to moderate despite very healthy loan metrics, following the borrower's request for a two-year extension beyond their maturities, among other modifications. Less of a surprise following the decision by the servicer last year to extend the loans by a year, Pietra Nera Uno S.R.L.'s borrower is also seeking a three-year extension of all three loans. The transaction's metrics remain robust with a debt yield of 11.07%

[2] Based on an average value of EUR 120.5m (lower and upper estimation of EUR 66m and EUR 175m respectively) compared to the previous value of EUR 307m.

and an occupancy of 91.35% in February 2024 compared to 9.90% and 85.19% in May 2023. However, the LTV remains above 80% compared to 75% following the shopping centres' latest revaluation to EUR 469m in April 2024 from EUR 522m in May 2023.

Figure 3: Updated refinancing risks for securitised loans maturing in 2024

Transaction	Loan	Country	Sector	Vacancy	DY	LTV	Refinancing risk	Trend
Pietra Nera Uno	Fashion District	Italy	Retail	16.0%	10.8%	82.2%[3]	Very high	→
Pietra Nera Uno	Palermo	Italy	Retail	4.8%	9.7%	80.6%[4]	Very high	→
Pietra Nera Uno	Valdichiana	Italy	Retail	5.9%	11.8%	71.5%[4]	Very high	→
Deco 2019 Vivaldi	Franciacorta	Italy	Retail	10.9%	9.6%	77.5%	Very high	→
Deco 2019 Vivaldi	Palmanova	Italy	Retail	10.5%	10.4%	74.4%	Very high	→
ELOC 38	Viridis	UK	Office	14.5%	6.2%	73.9%	Very high	→
Starz 2021-1	Node	Ireland	Residential	3.9%	6.4%	69.9%	High	→
Taurus 2021-3 DEU	The Squaire	Germany	Office	16.6%	7.5%	64.0%	High	↑
Starz 2021-1	Sellar	UK	Hotel	16.6%	7.8%	61.6%	Moderate	→
ELOC 37	Helios	UK	Hotel	18.6%	14.5%	63.2%	Moderate	→
Magenta 2020	Mauve	UK	Hotel	20.5%	10.9%	59.9%	Moderate	→
Taurus 2021-2 SP	Figo	Spain	Office	17.6%	9.4%	55.7%	Moderate	→
ELOC 32	Phoenix[4]	Netherlands	Office	21.9%	15.5%	47.9%	Moderate	↓
ERNA S.R.L.	Nucleus	Italy	Mixed-use	25.2%	13.5%	35.8%	Moderate	→
ERNA S.R.L.	Raissa	Italy	Mixed-use	0.0%	20.6%	34.7%	Moderate	↑
ERNA S.R.L.	Aries	Italy	Mixed-use	0.1%	25.9%	25.8%	Moderate	↑
ERNA S.R.L.	Ermete	Italy	Mixed-use	0.0%	46.3%	14.9%	Moderate	↑
Taurus 2019-4 FIN	Senior	Finland	Office	7.5%	14.2%	58.0%	Low	→

Source: Investor reports, Score Ratings CMBS tracker

[3] Pietra Nera Uno loans' LTVs do not take into consideration the April 2024 revaluation.
[4] Phoenix's metrics do not consider the April 2024 asset sale and reduction in the loan amount.

Appendix I: Outstanding securitised CRE loans

Loan ID	Loan name	Transaction ID	Transaction name	Asset type	Reporting date	Status
77	Jupiter	69	Cassia 2022-1 S.R.L.	Industrial	February 2024	
78	Thunder II	69	Cassia 2022-1 S.R.L.	Industrial	February 2024	
31	Scorpio	29	ELoC 34 Scorpio	Industrial		Repaid
32	EOS	31	ELoC 35 EOS	Industrial		Repaid
37	Usil	36	ELoC 36 Usil	Industrial		Repaid
72	Senior loan	64	Frost CMBS 2021-1 EUR/GBP	Industrial	February 2024	
55	Senior loan	55	Last Mile Logistics Pan Euro Finance	Industrial	February 2024	
50	Senior loan	51	Last mile Securities 2021-1X	Industrial	February 2024	
84	Senior loan	76	Last Mile Logistics 2023-1 UK	Industrial	February 2024	
76	Senior loan	68	Logicor 2019-1	Industrial	February 2024	
46	Senior loan	46	Pearl Finance 2020	Industrial		Repaid
86	Senior loan	78	Stark Financing 2023-1	Industrial	February 2024	
34	Senior loan	33	Taurus 2019-2 UK	Industrial		Repaid
47	Senior loan	47	Taurus 2021-1 UK	Industrial	February 2024	
57	Fulham	57	Taurus 2021-4 UK	Industrial		Repaid
58	United VI	57	Taurus 2021-4 UK	Industrial	February 2024	
88	*St Modwen*	*81*	*UK Logistics 2024-1*	*Industrial*		*Marketed*
89	*Mileway*	*81*	*UK Logistics 2024-1*	*Industrial*		*Marketed*
60	Senior loan	59	Atom Mortgage Securities	Office	January 2024	
52	Sirocco	52	BERG Finance 2021	Office	January 2024	
79	Senior loan	71	Broadgate Financing	Office	September 2023	
53	Senior loan	53	Bruegel 2021	Office	February 2024	
80	Senior loan	72	Canary Wharf Finance II	Office	December 2023	
19	Phoenix	20	ELoC 32 Oranje	Office	February 2024	Extended +1
21	Salus	23	ELoC 33 Salus	Office	January 2024	Extended +1
56	Viridis	56	ELoC 38 Viridis	Office	January 2024	
5	Senior loan	13	FROSN 2018-1	Office	February 2024	Corrected +2+1
87	Senior loan	79	Magritte 2023-1	Office	Match 2024	
41	Senior loan	40	River Green Finance 2020	Office	January 2024	Defaulted
85	Senior loan	77	Taurus 2017-1 IT	Office	February 2024	Extended +1+1
43	Senior loan	42	Taurus 2020-1 NL	Office	February 2024	
48	Senior loan	48	Taurus 2021-2 SP	Office	February 2024	
49	Senior loan	49	Taurus 2021-3 DEU	Office	March 2024	
83	Senior loan	75	Vita Scientia 2022-1	Office	February 2024	
54	Senior loan	54	Agora Securities UK 2021	Retail	January 2024	
35	Senior loan	34	Deco 2019-RAM	Retail	January 2024	
29	Franciacorta	28	Deco 2019-Vivaldi S.R.L.	Retail	February 2024	
30	Palmanova	28	Deco 2019-Vivaldi S.R.L.	Retail	February 2024	
7	Maroon	15	Elizabeth 2018-1	Retail	February 2024	Defaulted
38	Everest	37	Emerald Italy 2019 SRL	Retail	March 2024	Defaulted
81	Senior loan	73	Meadowhall Finance PLC	Retail	September 2023	
1	Fashion District	11	Pietra Nera Uno S.R.L.	Retail	February 2024	Extended +1

2	Palermo	11	Pietra Nera Uno S.R.L.	Retail	February 2024	Extended +1
3	Valdichiana	11	Pietra Nera Uno S.R.L.	Retail	February 2024	Extended +1
10	Bel Air	17	Taurus 2018-1 IT	Retail	February 2024	Extended +1+2
40	Senior loan	39	Taurus 2019-4 FIN	Retail	February 2024	
82	Senior loan	74	The Trafford Centre	Retail	January 2024	
33	Senior loan	32	Westfield Stratford City No.2	Retail	January 2024	
25	Aries	26	ERNA S.R.L.	Mixed-Use/Other	January 2024	
26	Ermete	26	ERNA S.R.L.	Mixed-Use/Other	January 2024	
27	Nucleus	26	ERNA S.R.L.	Mixed-Use/Other	January 2024	
28	Raissa	26	ERNA S.R.L.	Mixed-Use/Other	January 2024	
75	Senior loan	66	Highways 2021	Mixed-Use/Other	March 2024	
90	*Vantage*		*Vantage Data Centers UK 2024-1*	*Mixed-Use/Other*		*Marketed*
59	Haus	58	ELoC 39 Haus	Residential	February 2024	
44	Folio	44	Folio Residential Finance No. 1	Residential	January 2024	
45	Senior loan	45	Sage AR Funding No. 1	Residential	February 2024	
74	Senior loan	65	Sage AR Funding 2021	Residential	November 2023	
69	Node	61	Starz Mortgage Securities 2021-1 ('Starz 2021-1') EUR	Residential	February 2024	Extended +1
67	Zamek	60	Starz 2021-1 GBP	Residential	February 2024	
71	Senior loan	62	Taurus 2021-5 UK	Residential	February 2024	
39	Helios	38	ELoC 37 Helios	Hotel	February 2024	
42	Senior loan	41	Magenta 2020	Hotel	March 2024	
66	Sellar	60	Starz 2021-1 GBP	Hotel	February 2024	

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