Research findings of the survey into
THE UK COMMERCIAL PROPERTY
LENDING MARKET
2016

De Montfort University
Nicole Lux
• Trends in value of outstanding debt
• Loan originations
• Structure of outstanding loan books
• Loan terms
• Conclusions and Issues
Total Market Debt YE 2016

Total £233.9bn £235.3bn

Less undrawn:
£211.7bn (2015)
To £208.7bn (2016)
Decline 1.5%

Source: De Montfort
### DMU TOTAL DEBT YE 2016

<table>
<thead>
<tr>
<th></th>
<th>Total outstanding loans 2016</th>
<th>Senior</th>
<th>Junior &amp; Mezzanine</th>
<th>Undrawn amounts</th>
<th>Total book size 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Lenders</td>
<td>164,849</td>
<td>161,450</td>
<td>3,400</td>
<td>26,617</td>
<td>191,466</td>
</tr>
<tr>
<td>Other Non-bank Lenders</td>
<td>13,122</td>
<td>10,541</td>
<td>2,581</td>
<td>1,455</td>
<td>14,578</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>24,169</td>
<td>23,596</td>
<td>574</td>
<td>808</td>
<td>24,978</td>
</tr>
<tr>
<td>All Banks</td>
<td>127,558</td>
<td>127,313</td>
<td>245</td>
<td>24,354</td>
<td>151,911</td>
</tr>
</tbody>
</table>

Source: De Montfort
**TOTAL ORIGINATION BY LENDER**

Total £44.5bn

- Other Non-bank Lenders: 10%
- Insurance Companies: 10%
- North American Banks: 8%
- Other International Banks: 13%
- German Banks: 13%
- UK Banks & Building Societies: 47%

Total Origination 2016

- Other Non-bank Lenders: 9%
- Insurance Companies: 16%
- North American Banks: 14%
- Other International Banks: 14%
- German Banks: 13%
- UK Banks & Building Societies: 34%

**Source:** De Montfort
TYPE OF ORIGINATION BY PROJECT

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment</th>
<th>Commercial Development</th>
<th>Residential Development</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>YE 2014</td>
<td>83%</td>
<td>4%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>YE 2015</td>
<td>84%</td>
<td>4%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>YE 2016</td>
<td>77%</td>
<td>5%</td>
<td>13%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: De Montfort
TYPE OF ORIGINATION BY PROJECT

Source: De Montfort

UK Banks & BS
- Investment: 69%
- Commercial Development: 5%
- Residential Development: 7%
- Other: 20%

German Banks
- Investment: 88%
- Commercial Development: 9%
- Residential Development: 5%
- Other: 0%

Other International Banks
- Investment: 83%
- Commercial Development: 10%
- Residential Development: 5%
- Other: 0%

North American Banks
- Investment: 91%
- Commercial Development: 5%
- Residential Development: 4%
- Other: 0%

Insurance Companies
- Investment: 95%
- Commercial Development: 4%
- Residential Development: 0%
- Other: 9%

Other Non-bank Lenders
- Investment: 66%
- Commercial Development: 9%
- Residential Development: 24%
- Other: 0%
TOTAL SYNDICATION & PARTICIPATIONS

Source: De Montfort
WILLINGNESS TO LEND AT DIFFERENT TICKET SIZES (INVESTMENT)

Source: De Montfort
WILLINGNESS TO LEND AT DIFFERENT TICKET SIZES (DEVELOPMENT)

<table>
<thead>
<tr>
<th>Ticket Size</th>
<th>Yes</th>
<th>Maybe</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;£5m</td>
<td>14</td>
<td>2</td>
<td>54</td>
</tr>
<tr>
<td>&gt;5 - 10m</td>
<td>14</td>
<td>8</td>
<td>48</td>
</tr>
<tr>
<td>&gt;10 - 20m</td>
<td>19</td>
<td>8</td>
<td>43</td>
</tr>
<tr>
<td>&gt;20 - 50m</td>
<td>22</td>
<td>7</td>
<td>41</td>
</tr>
<tr>
<td>&gt;50 - 100m</td>
<td>25</td>
<td>4</td>
<td>41</td>
</tr>
<tr>
<td>above 100</td>
<td>22</td>
<td>6</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: De Montfort
OTHER NON BANK LENDERS: TICKET SIZES (INVESTMENT)

Source: De Montfort
### OTHER NON BANK LENDERS: TICKET SIZES (DEVELOPMENT)

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>Maybe</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;£5m</td>
<td>3</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>&gt;5 - 10m</td>
<td>5</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>&gt;10 - 20m</td>
<td>9</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>&gt;20 - 50m</td>
<td>9</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>&gt;50 - 100m</td>
<td>8</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>above 100</td>
<td>7</td>
<td>2</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: De Montfort
# AVERAGE LOAN SIZE ORIGINATED

<table>
<thead>
<tr>
<th></th>
<th>Max</th>
<th>Average</th>
<th>Min</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Banks and BS</td>
<td>88</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>German Banks</td>
<td>144</td>
<td>68</td>
<td>28</td>
</tr>
<tr>
<td>Other International Banks</td>
<td>83</td>
<td>33</td>
<td>16</td>
</tr>
<tr>
<td>North American Banks</td>
<td>321</td>
<td>164</td>
<td>51</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>122</td>
<td>56</td>
<td>14</td>
</tr>
<tr>
<td>Other non-bank Lenders</td>
<td>61</td>
<td>28</td>
<td>14</td>
</tr>
<tr>
<td>All Lenders</td>
<td>108</td>
<td>46</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: De Montfort
• Trends in value of outstanding debt
• Loan originations
• Structure of outstanding loan books
• Loan terms
• Conclusions and Issues
BANKS’ BOOKS CONTRACT Y-O-Y IN 2016

Source: De Montfort
UK BANKS & BS STABILISE MARKET SHARE

Source: De Montfort

UK Lenders and Building Societies
German Lenders
Other International Lenders
North American Lenders
Insurance Companies
Other Non-bank Lenders

Source: De Montfort
LOAN-TO-VALUE EXPOSURE BY LENDER

Only 3% of loans are above 100% LTV at YE 2016 (4% at YE 2015)

Source: De Montfort
LOAN-TO-VALUE EXPOSURE BY LENDER

Source: De Montfort
MATURITY PROFILE OF LOAN BOOKS

Source: De Montfort
Total development finance increased to £20.2bn in 2016 from £16.2bn in 2015 on loan books

- Total of loan book allocated to commercial speculative and part pre-let development
- Total of loan book allocated to residential development for sale
- Total of loan book allocated to fully pre-let commercial

Source: De Montfort
PROPERTY TYPE EXPOSURE OVER TIME

Source: De Montfort
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UK LOAN MARGINS MOVED UP DURING 2016

Average margin for Prime Office Loan at 65% LTV

Source: De Montfort University
## Loan Margins for Prime Office

<table>
<thead>
<tr>
<th>Year</th>
<th>Senior Debt</th>
<th>Junior Debt</th>
<th>Mezzanine</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Max LTV%</td>
<td>Margin bps</td>
<td>Max LTV%</td>
</tr>
<tr>
<td>2008</td>
<td>55</td>
<td>170</td>
<td>60</td>
</tr>
<tr>
<td>2009</td>
<td>65</td>
<td>224</td>
<td>72.5</td>
</tr>
<tr>
<td>2010</td>
<td>68</td>
<td>209</td>
<td>75</td>
</tr>
<tr>
<td>2011</td>
<td>64</td>
<td>350</td>
<td>78</td>
</tr>
<tr>
<td>2012</td>
<td>65</td>
<td>331</td>
<td>70</td>
</tr>
<tr>
<td>2013</td>
<td>66</td>
<td>267</td>
<td>73</td>
</tr>
<tr>
<td>2014</td>
<td>64</td>
<td>173</td>
<td>74</td>
</tr>
<tr>
<td>2015</td>
<td>64</td>
<td>183</td>
<td>70</td>
</tr>
<tr>
<td>MY 2016</td>
<td>60</td>
<td>185</td>
<td>74</td>
</tr>
<tr>
<td>YE 2016</td>
<td>59</td>
<td>198</td>
<td>73</td>
</tr>
</tbody>
</table>

Source: De Montfort
# Loan Margins by Property Type

<table>
<thead>
<tr>
<th>Senior margins (bps)</th>
<th>Margin (average)</th>
<th>65% LTV</th>
<th>Arrangement fee (average)</th>
<th>Average LTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime office</td>
<td>198</td>
<td>223</td>
<td>89</td>
<td>59%</td>
</tr>
<tr>
<td>Prime retail</td>
<td>207</td>
<td>240</td>
<td>92</td>
<td>57%</td>
</tr>
<tr>
<td>Prime Industrial</td>
<td>224</td>
<td>255</td>
<td>94</td>
<td>57%</td>
</tr>
<tr>
<td>Secondary office</td>
<td>263</td>
<td>270</td>
<td>106</td>
<td>57%</td>
</tr>
<tr>
<td>Secondary retail</td>
<td>270</td>
<td>281</td>
<td>106</td>
<td>58%</td>
</tr>
<tr>
<td>Secondary industrial</td>
<td>291</td>
<td>349</td>
<td>109</td>
<td>57%</td>
</tr>
<tr>
<td>Residential investment</td>
<td>223</td>
<td>223</td>
<td>95</td>
<td>58%</td>
</tr>
<tr>
<td>Hotel</td>
<td>264</td>
<td>220</td>
<td>102</td>
<td>57%</td>
</tr>
<tr>
<td>Student Housing</td>
<td>237</td>
<td>233</td>
<td>99</td>
<td>57%</td>
</tr>
</tbody>
</table>

Source: De Montfort
HISTORIC MARGINS BY PROPERTY TYPE

Source: De Montfort
LOAN MARGIN FOR DEVELOPMENT

Source: De Montfort
REAL ESTATE LENDING & RELATIVE VALUE


West End (property yield)
Greater London (property yield)
Banks’ mortgage interest received (floating)
Borrower's total lending cost (fixed)
# Borrower Cost of Debt

<table>
<thead>
<tr>
<th></th>
<th>Assumption</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Value V</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income Return IR</td>
<td>Assumption</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Interest Rate rD</td>
<td>Margin + swap</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>DSCR</td>
<td>Covenant</td>
<td>1.20</td>
<td>1.20</td>
<td>1.25</td>
<td>1.30</td>
<td>1.35</td>
</tr>
<tr>
<td>LTV</td>
<td>Debt</td>
<td>60.00</td>
<td>60.00</td>
<td>60.00</td>
<td>60.00</td>
<td>60.00</td>
</tr>
<tr>
<td>ICR/DSCR</td>
<td></td>
<td>1.94</td>
<td>1.46</td>
<td>1.17</td>
<td>0.97</td>
<td>0.83</td>
</tr>
</tbody>
</table>

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KEY CONCLUSIONS

• Origination volume was down 17% from previous peak in 2015, but UK Banks & BS Increased volume of origination, regaining market share, but more refinancing than acquisition

• Extended property cycle due to low interest rests and support of the general economy and keep loan margins low, despite Increase in 2016, but narrowing of prime versus secondary

• Current LTV lending is conservative, 55% - 60% LTV, but property yields are ultra low: What is going to happen when the 60% LTV loan becomes 80% LTV when yields rise? What about mezzanine positions?

• Increasing specialisation of lenders, such as Insurance Companies and Other NBL

• ICRs under pressure despite low interest rates due to low yielding properties – should debt yield be a more important measure to size debt?
MANY THANKS TO ALL OUR PARTICIPANTS

Aalto Invest LLP  Cornerstone Real Estate Advisers Europe LLP  Metropolitan Life Insurance Company
Aareal Bank AG  Coutts and Company  Morgan Stanley
Aeriance Investments S.A.R.L  Credit Agricole Corporate & Investment Bank  Münchener Hypo Bank EG
AgFe  DB Realisations Building Society  N M Rothschild and sons
AIG Asset Management (Europe) Limited  DekaBank  Nationwide Building Society
Allied Irish Bank (GB)  Deutsche Bank AG  Newcastle Building Society
Aldermore  Deutsche Hypothekenbank AG  Och Ziff Capital Management
Aviva Investors Real Estate Finance  DG Hyp  Oversea-Chinese Banking Corporation Limited
Axa Real Estate  DRC Capital LLP  Pacific Life
Bank of America Merrill Lynch  Dunbar Bank plc  Partners Group (UK) Ltd
Bank of Ireland Group  Europa Capital Mezzanine Ltd  Partnership Life Assurance Company
Barclays  GAM International Management Limited  pbb Deutsche Pfandbriefbank
Bayern LB London Branch  GreenOak Real Estate  Pluto Finance
Berlin Hyp AG  Helaba Landesbank Hessen-Thüringen  Pramerica Real Estate Investors (Europe)
Blackstone Real Estate Debt Strategies  HSBC Bank plc  Pricoa Mortgage Capital (incl Friends Provident)
BNP Paribas  ICG-Longbow  Principality Building Society
Bristol & West Property Finance  ING Real Estate  Santander Corporate & Commercial Banking
Cain Hoy Enterprises (UK) Limited  Investec Bank (UK) Ltd  Standard Life Insurance
Cambridge and Counties Bank  J P Morgan Securities  Starwood Capital Europe Advisers LLP
Canada Life Ltd  Laxfield Capital  Société Générale
Chenavari Investment Managers  Landesbank Baden-Württemberg  Sumitomo Mitsui Trust Bank Limited
Cheyne Capital Management (UK) LLP  LaSalle Investment Management  TH Real Estate
Citi Group  Leeds Building Society  The Royal Bank of Scotland
Close Brothers Property Finance  Legal & General  UBS Asset Management
Contour Capital  Lloyds Banking Group  Urban Exposure Limited

West Bromwich Commercial Ltd
MANY THANKS TO OUR SUPPORTERS

At year-end 2016, data was received from a total of 77 lending teams operating out of 76 lending organisations. The lending teams comprised of 43 Banks and Building Societies, 12 Insurance Companies and 22 Other Non-bank Lenders.

News about the survey, new analysis available and presentation dates can be found under http://cplr.org.uk

The authors gratefully acknowledge the generous financial support provided by Allen & Overy, Association of Property Lenders, the Bank of England, Bilfinger GVA, British Property Federation, Canada Life Ltd, Capita Asset Services, Commercial Real Estate Finance Council Europe, Fitch Ratings, GIC Real Estate, Helaba, Jones Lang LaSalle Corporate Finance Limited, Kingfisher Property Finance Finance Limited, Savills and The Royal Bank of Scotland
THE PANEL

Chair: Marc Mogull – Managing Partner, Benson Elliot Capital Management and Senior Fellow, Land Economy, Cambridge University and Chairman, Bank of England Commercial Property Forum

- Amy Aznar – Head of Debt and Special Situations, LaSalle Investment Management
- Paul Coates – Managing Director, UK Real Estate Finance, The Royal Bank of Scotland
- Emma Huepfl – Co-Principal, Laxfield Capital
- Michael Kenney – Managing Director, Head of UK Clients, pbb Deutsche Pfandbriefbank
- Cameron Spry – Senior Partner and Head of Investments, Tristan Capital Partners