



# ECB BMCG

## CRE impact on bond markets

*March 2024*

*Georgios Tsapouris*

# Disclaimer

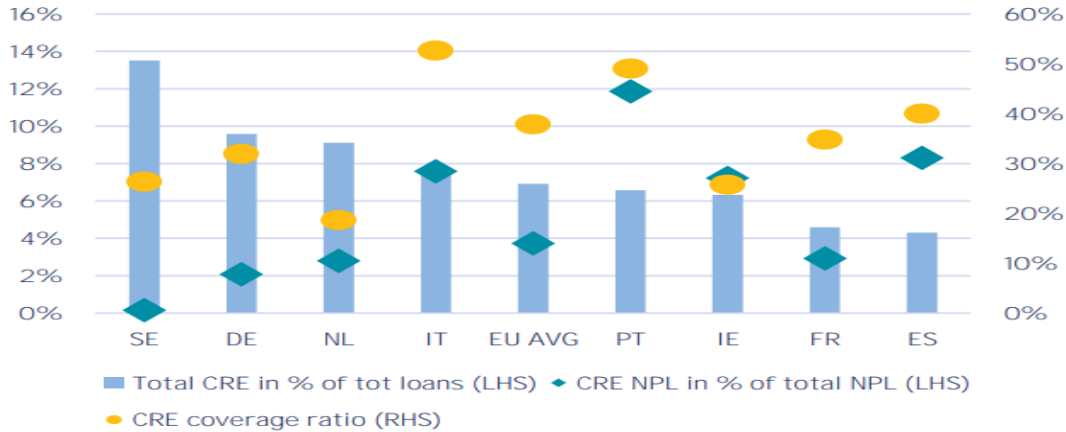
No reliance may be placed for any purposes whatsoever on the information contained in this presentation or any other material discussed verbally or on its completeness, accuracy or fairness. No representation or warranty, expressed or implied, is given by, or on behalf of, GIC Pte Ltd (“GIC”) or any of GIC’s, or any of its affiliates’, directors, officers or employees or any other person as to the accuracy or completeness of the information or opinions contained in this document and no liability whatsoever is accepted by GIC or any of GIC’s, or any of its affiliates’, directors, officers or employees or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith. The information in this presentation is subject to verification, completion and change.

This presentation is confidential and is being provided to you solely for your information, and may not be further distributed to any person, and may not be reproduced in any form, in whole or in part.

This presentation is not a prospectus or offering document and does not constitute or form part of and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities in any jurisdiction or an inducement to enter into investment activity in any jurisdiction. Neither this presentation nor any part thereof, nor the fact of its distribution, shall form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever.

# Investment funds are more exposed than banks in the European commercial real estate

COMMERCIAL REAL ESTATE LOANS AS % OF ALL LOANS, CRE NPL AS % OF ALL NPL LOANS & CRE COVERAGE RATIOS

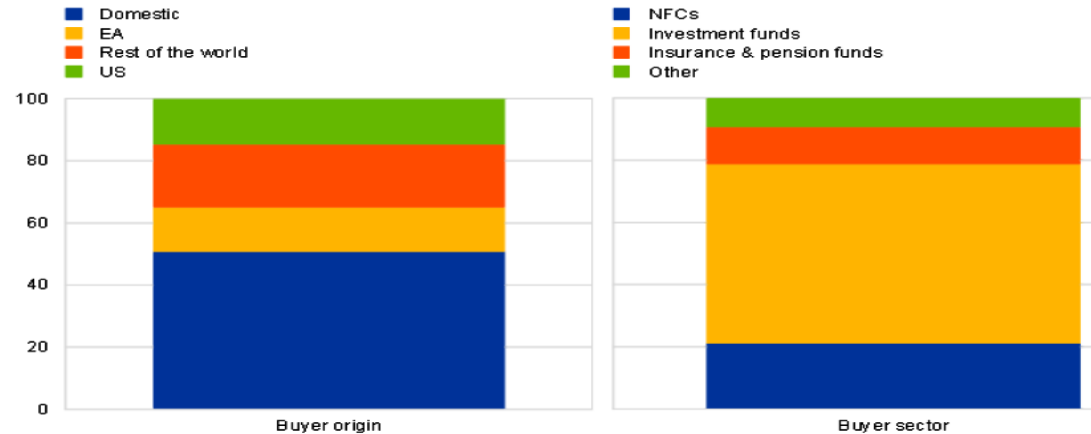


Sources: AEW Research & Strategy, European Banking Authority & Natixis Research as of year-end 2022

- Bank direct CRE loans are about 5% to 7% of outstanding loans. The IMF estimates that CRE-related debt is nearly 12 percent in Europe and 18 percent in the US.
- Country divergence: Germany more exposed than France or Spain. LTVs are the lowest in France, Spain and Germany and the highest in Finland, Ireland and Italy.
- Local and CRE specialised lenders more exposed than the larger banks. CRE loans used as collateral; indirect exposure means credit conditions with lower CRE prices.
- The ECB calculates: 16% of loans exposed to CRE by purpose and collateral. A further 12% of loans use CRE as collateral for non-CRE loans.
- The ESRB defines a “CRE loan” as a loan whose purpose or collateral is associated with CRE. 25% of NFC loans were exposed to CRE through the credit risk channel.
- Investment funds higher direct exposure than banks, accounting for for 58% of CRE purchases between 2015-19 .

## CRE market transactions by buyer type and origin - 2015-2019

(% total value of transactions)



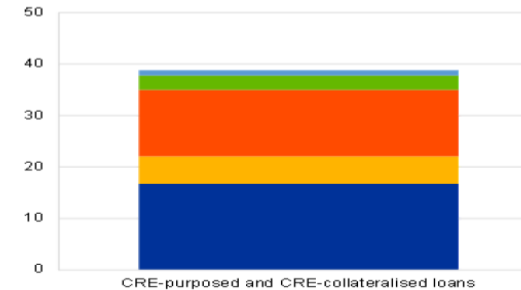
Source: Real Capital Analytics (RCA)



## a) Euro area bank CRE loans by loan collateral and purpose – June 2022

(% of NFCs exposures)

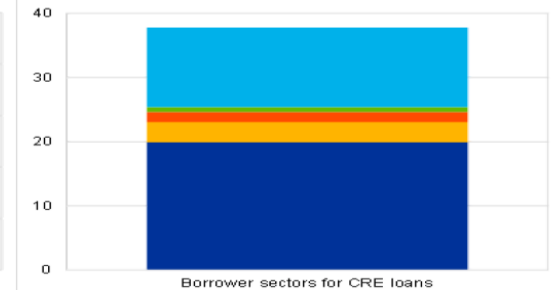
- CRE purpose, CRE collateral
- CRE purpose, non-CRE collateral
- non-CRE purpose, CRE collateral
- CRE purpose, unsecured



## b) Euro area bank CRE loans by borrower sector – June 2022

(% of NFCs exposures)

- Real estate
- Construction
- Accommodation
- Retail
- Other

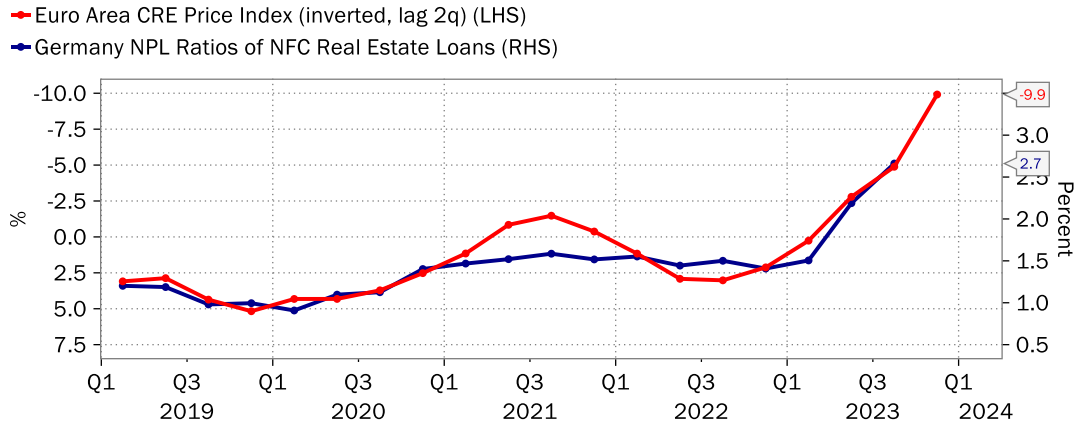


Sources: ECB calculations and AnaCredit.

Notes: A loan is considered to be CRE-purposed if it is flagged as a CRE purchase, an RRE purchase or a construction purchase. A loan is considered to be CRE collateralised if its collateral is flagged as CRE, RRE or Offices and commercial premises. It should be borne in mind that RRE purchased by non-households is considered to be a CRE purchase (see [lead article](#)).

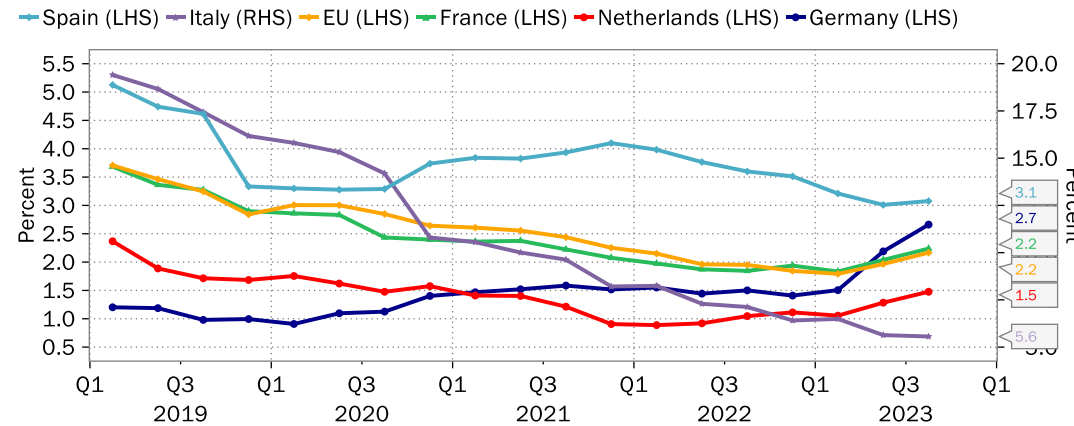
# CRE prices are pointing to further NPL rise ahead. Vacancy rates, maturity profile and size of market better in Europe than in the US.

## EZ CRE Price & German Real Estate NPL Ratio



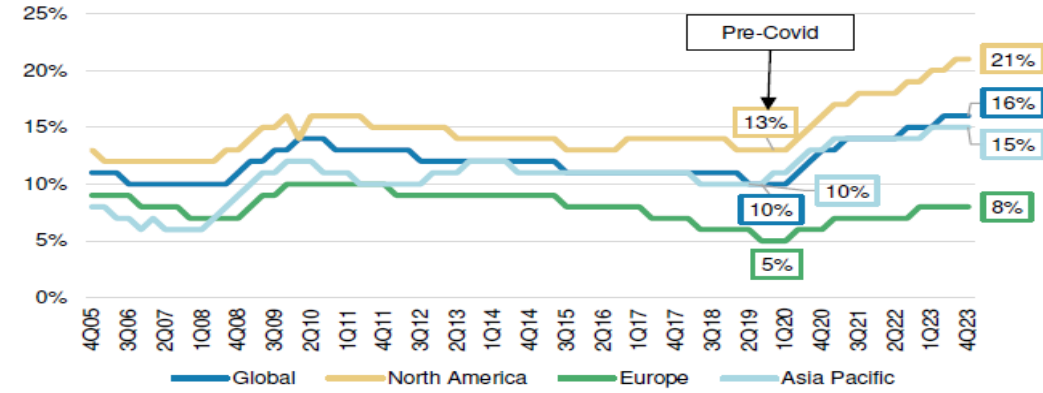
Source: Macrobond, EBA

## Real Estate NPL Ratios



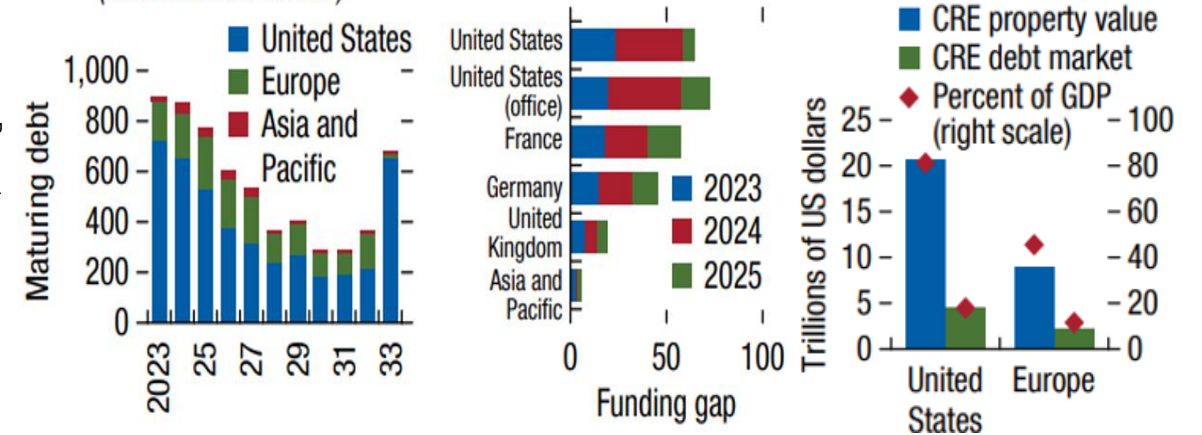
Source: Macrobond, EBA

## Office Vacancy Rate (%)



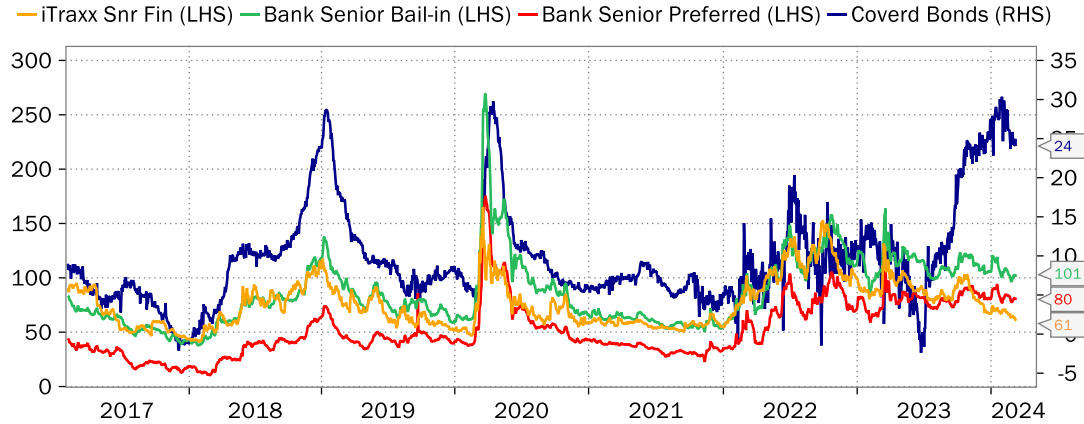
Source: JLL Research, January 2024. Note: Data based on 65 markets in the U.S. and Canada; 23 markets in Europe; 25 markets in Asia Pacific

## 4. Estimated Maturing CRE Debt and Debt Funding Gap (Billions of US dollars)



# Covered bonds widened with CRE exposed banks, but overall bank credit spreads stable

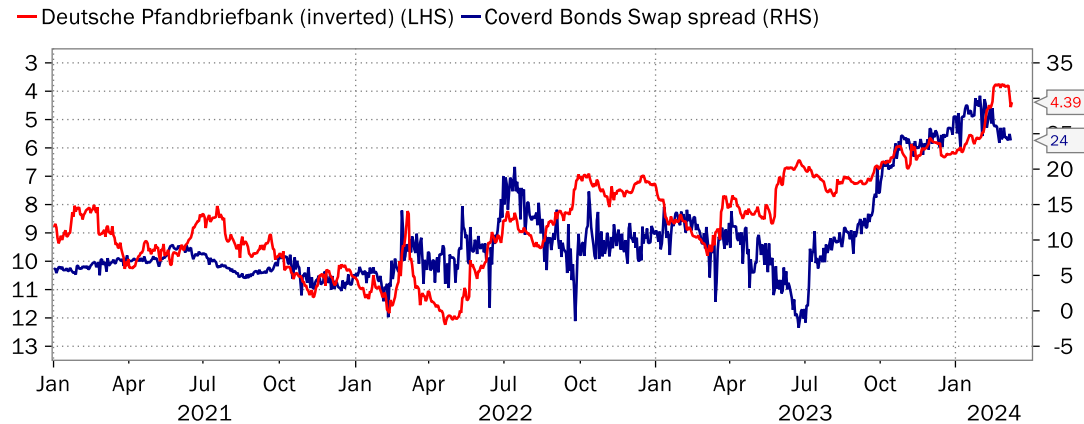
## Covered Bonds & Bank Funding Costs



Source: Macrobond, Bloomberg

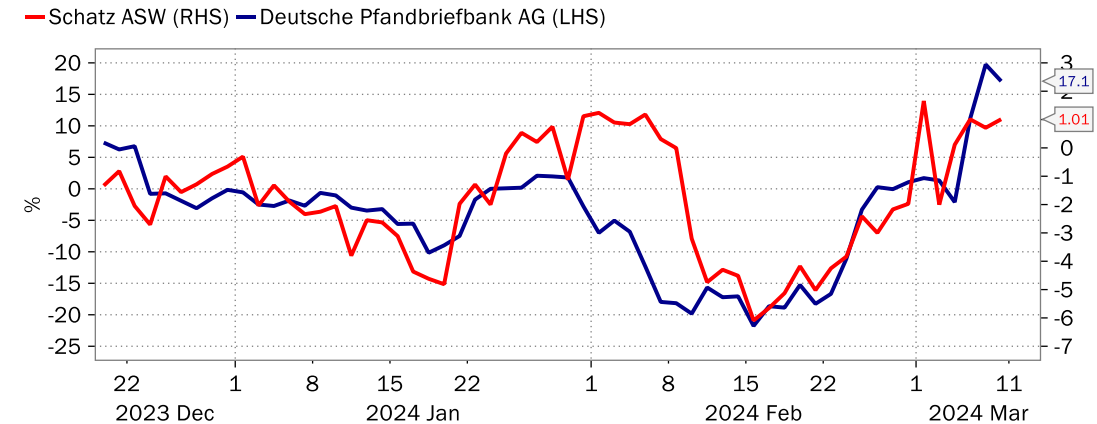
- Covered bond swaps spreads have widened, with some of the widening coinciding with CRE exposure fears.
- Bank credit spreads have not followed wider, not showing general market stress.
- Covered bonds asset pool mostly residential loans, not commercial real estate.
- Investors potentially limited by internal risk limits, which can be temporary.
- Some signs of investors running to safety when CRE fears spike, but other factors likely to be more meaningful drivers for ASW.

## Covered Bonds & PBB



Source: Macrobond, Bloomberg

## PBB & Asset Swap Spread (weekly changes)



Source: Macrobond, Bloomberg

## Topics for discussion

- CRE indirect exposures via the collateral channel to hinder banks' lending willingness?
- CRE risks limiting investors' appetite or risk limits in investing in covered or bank bonds?
- Risks from CRE contagion and a run to safe haven assets?