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Eurohypo lending stop shows RE debt tops 2012 challenges - PIE panel

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After the announced stoppage of all new property lending ordered by Germany's Commerzbank for its Eurohypo unit, other European banks are likely to curtail lending, making this a major challenge for 2012, a PIE panel at Mapic heard.

Markus Leininger, Head of Central European Property Lending for Eurohypo, told a PIE panel discussion at the Mapic retail property trade fair in Cannes that banks' urgent need to re-build equity means that many are now forced to cut property lending drastically. While alternative debt finance is available, this is nowhere near sufficient to bridge the gap so that the impact on property and its pricing in Europe next year will be significant. As well, sale of property loans off balance sheets – which often imply discount to face value even for performing assets – are difficult.

“We can't go to the market and say let's place a billion-euro portfolio here and a billion there give a discount of 50% to get rid of this and the problem is solved,” Leininger told the panel. “The problem is we don't have 50% discount of these amounts on our balance sheet as equity. We have to work these out as well as we can and that's the reason why an institution like ours says now we have to stop and sort out the issues before we start again.”

Commerbank at the start of November announced the temporary suspension of all new Eurohypo business, pending a review, and re-focus of its existing portfolio on Germany and Poland. Retail in the latter nation comprises 80% of the portfolio, Leininger said. Eurohypo has a property loan book of €72bn. German newspaper Die Welt also reported, citing sources familiar with the matter, that it is considering a breakup of Eurohypo, which it is required to sell by 2014 under a European Union-mandated restructuring plan.

Yann Guen, vice-president of Polish retail developer Mayland Real Estate, told the panel that the majority stake held in the firm by giant French supermarket chain Casino supported debt financing, but independent developers will have a very difficult time. “It will be difficult for them first to get equity as well, but secondly they will have to ensure they have a track record to complete the project on time and in a proper way. So it's going to be a long, long process.”

Colin Campbell, Chairman of UK-based property fund manager Pradera Europe, said debt finance will be very hard to find in 2012, citing the closure of the debt market in Italy in September for new business, without any sign of it reopening. “I think next year is going to be a very good market for equity, and sovereign wealth funds, pension funds and others will have the market to themselves for the first time in 10 or 15 years,” he said. “The biggest question for them will be pricing.” At the moment markets are not pricing in all macro-economic risks. “Shopping centre can be very cheap at 5% yield, offering good returns compared to equities and bonds, but on the other hand why 5% and why not 7% if there are no buyers?”

Added Alice Breheny, head of European property research at Henderson Global Investors: “It's hard to imagine new equity coming into the market from funds, but where there might be equity it will be sovereign wealth funds that have the pick of the opportunities that arise. Debt is going to be very

hard to find." HGI institutional clients in any case invest at lower levels of gearing but the challenge will be to find assets that provide reasonable returns since core assets are becoming so expensive, she told the panel..

Ben Alogo from Madrid-based outlet centre developer Neinver agreed that returns earned in the past will be hard to repeat in an environment where debt finance becomes excessively expensive. "What we see at Neinver is that at the beginning we were able to work on LTV at 75% but now where it is only possible to get something like 50% or below it is much more difficult to get the IRR working in our favour. You are consuming a much higher amount of equity and the return on that is becoming more difficult to drive."