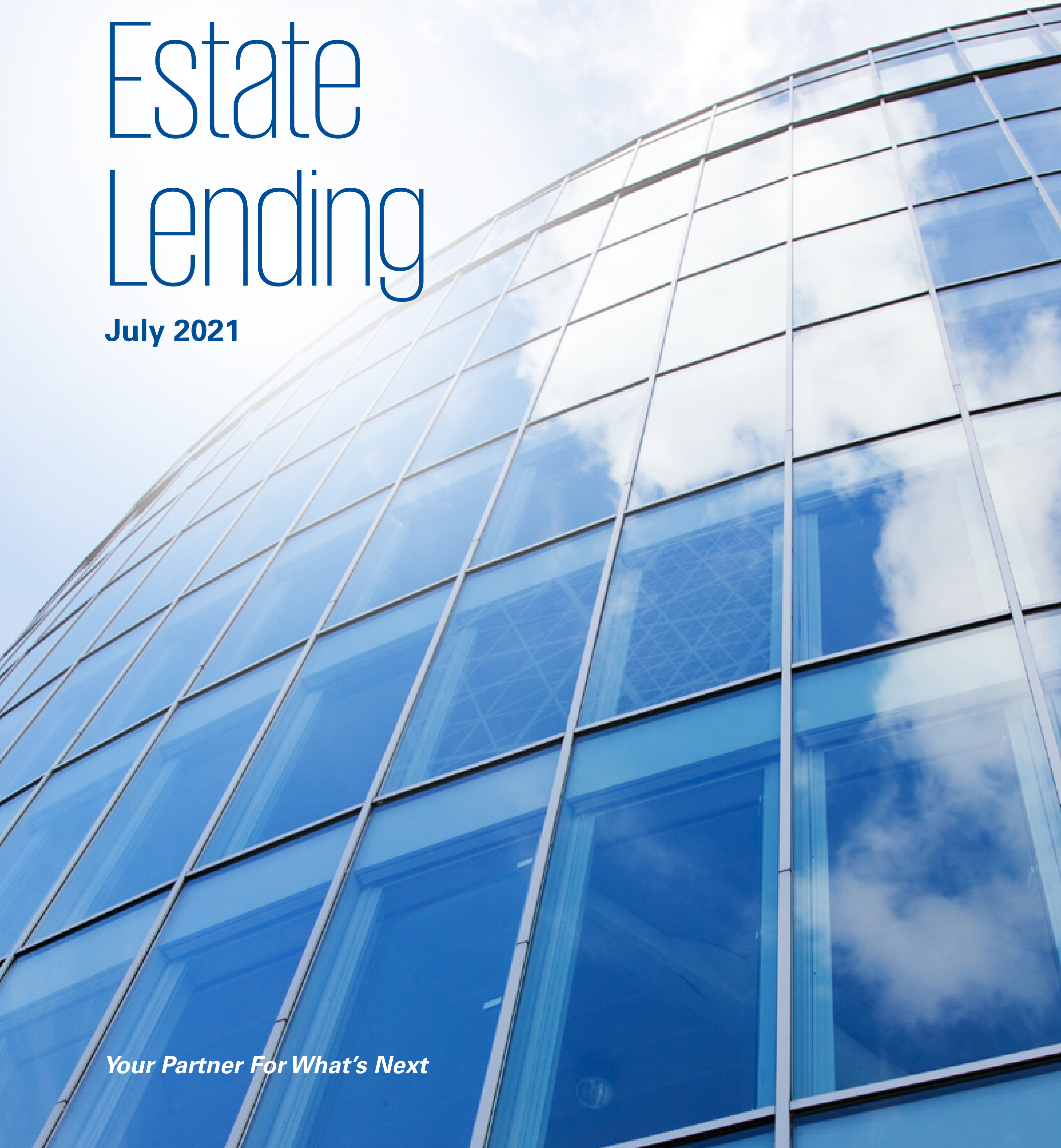
Irish Real Estate Lending

July 2021



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Introduction

We are pleased to present the KPMG Ireland Real Estate Lending Survey. This report provides insights on the Irish real estate lending market, including:

- Prospects and sentiment for financing in the real estate sector in Ireland;
- Respondents' geographic and asset class preferences;
- Market metrics and terms available; and
- Respondents' expectations for Irish real estate lending in the next 12-18 months.

The survey was carried out in March 2021, 12 months into the global Covid-19 pandemic and against the backdrop of a dynamic Irish lender landscape with Ulster Bank announcing its exit from the Irish market. With the exception of an expected softening of appetite for asset classes directly impacted by Covid-19 (retail and hospitality in particular); it is apparent from the analysis and insights that, at the time of publication, the initial uncertainty created by Covid-19 has largely subsided. Despite the delays induced by site closures, restricted travel and remote working lenders are keen to progress with deploying funding for quality assets in the Irish real estate sector.

Lenders are positive about the Irish real estate sector with all survey participants expecting their real estate lending exposure both in Ireland and internationally to either grow or at the very least remain the same. We would like to take this opportunity to thank all of those who participated in this survey. Their cooperation was key to the success of this report.

Following the conclusion of this survey the Irish real estate sector has undergone further change with the exit of KBC Bank from Ireland and enhanced public and political scrutiny on foreign-fund equity investment in Irish PRS schemes. Notwithstanding the ever-altering nature of the Irish real estate environment; we believe the pent-up demand over the last 15 months will drive activity across all real estate asset classes, beginning most notably with the residential sector.

For further information and insights on the Irish real estate lending landscape, or to discuss specific real estate opportunities please get in touch at the below contact details.

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Contents

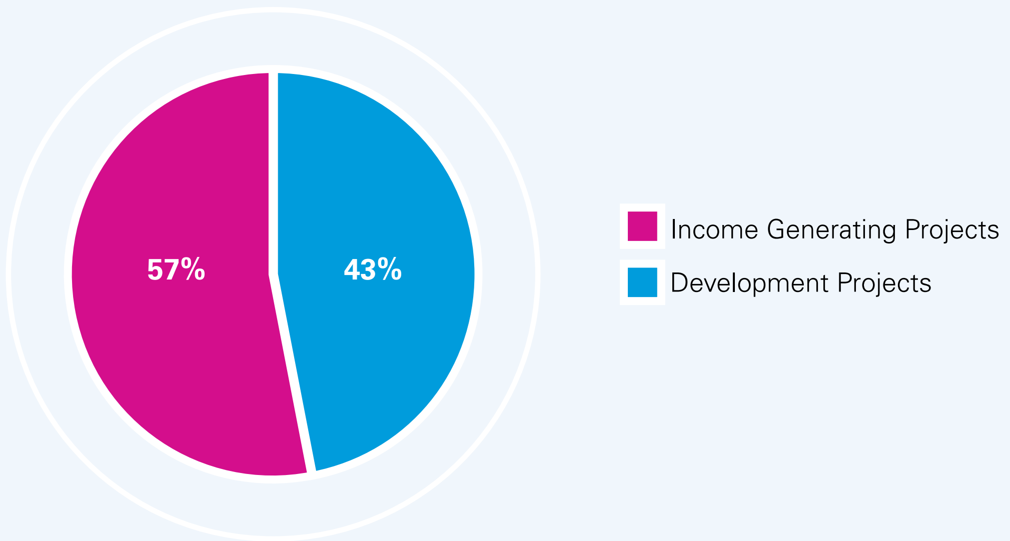
This report provides insights on the Irish Real Estate Lending Landscape across the following subsections:

01

Lending Appetite

The total lending activity by volume in Ireland over the past 12-18 months has seen slightly more activity in Income Generating projects than Development projects.

Volume of Real Estate Lending in Ireland over the last 12 -18 months



Lenders ranked their preference for real estate asset classes in order of attractiveness as follows:

Real Estate Asset Class Preference

1. Residential
2. Industrial / Logistics
3. Office
4. Hotel / Resort
5. Retail
6. Other

02

Development Lending

Lenders provided their view on leverage appetite and other credit metrics in the context of development lending.

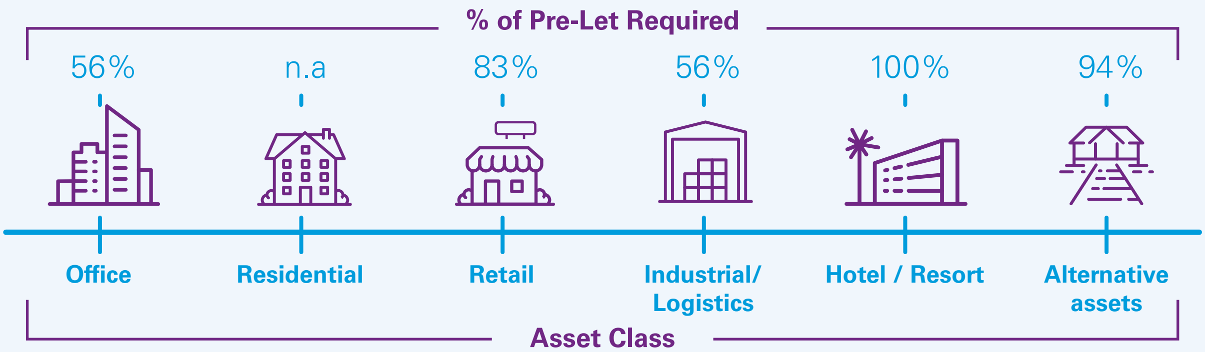
Loan to Cost

The below table reflects a consistency in credit appetite for asset classes considered to carry less risk in the current macroeconomic climate whilst also highlighting the diverging credit appetite for those asset classes more exposed to current market volatility.

Asset Class	Senior Bank		Senior NBL		Mezzanine	
	No. of Responses	Loan to Cost	No. of Responses	Loan to Cost	No. of Responses	Loan to Cost
Office	100%	Up to 69%	100%	Up to 69%	50% 50%	Up to 69% Up to 79%
Residential	100%	Up to 69%	25% 75%	Up to 69% Up to 79%	100%	Up to 79%
Retail	50% 25% 25%	0% Up to 40% Up to 59%	67% 33%	0% Up to 59%	75% 25%	0% Up to 59%
Industrial/ Logistics	100%	Up to 69%	67% 33%	0% Up to 69%	100%	Up to 79%
Hotel / Resort	25% 25% 25% 25%	0% Up to 40% Up to 59% Up to 69%	33% 33% 33%	0% Up to 59% Up to 69%	25% 50% 25%	0% Up to 59% Up to 79%
Alternative assets	25% 75%	Up to 49% Up to 69%	67% 33%	Up to 69% Up to 79%	25% 75%	Up to 59% Up to 79%

Pre-Let

When deploying development finance in a non-residential context, lenders, typically have a preference for a level of pre-let. The survey shows pre-lets increasing in line with the heightened cash flow risk associated with asset classes in the current environment.



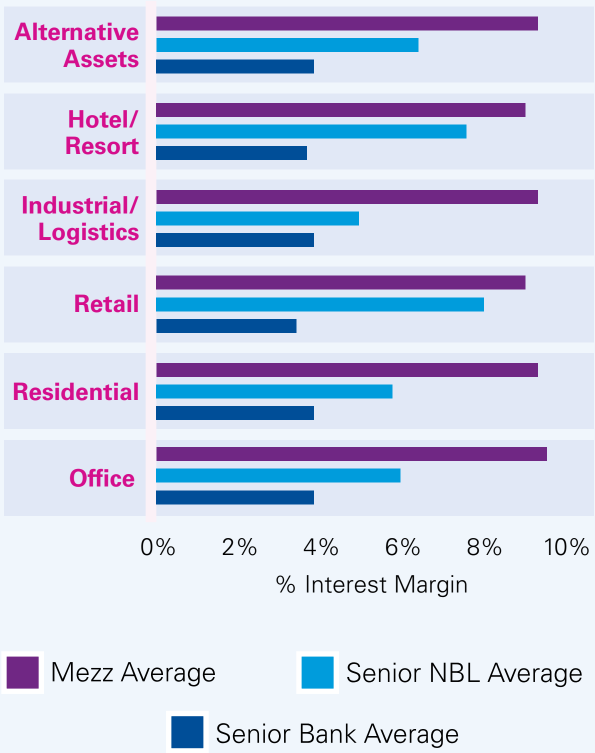
Development Finance Pricing

Based on the foregoing LTCs and pre-lets the below graph represents average pricing (above a 3 month Euribor) for each of the asset classes across the lender categories.

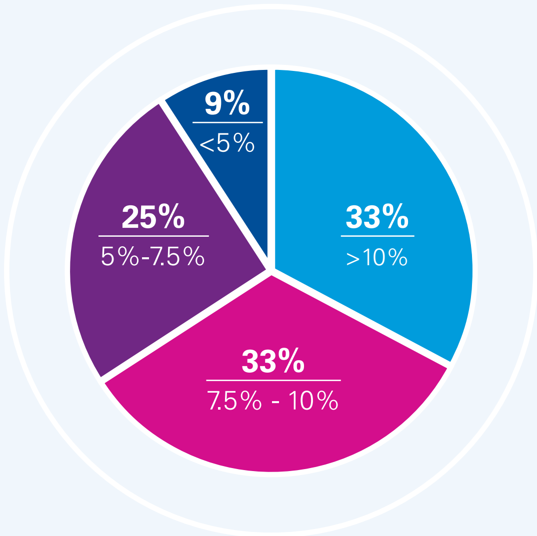
Cost Over-Run Facility

The level of cost over-run facilities required by lenders varied across lenders, with the majority requiring greater than 7.5%.

Average Interest Margin



Level of Cost Over-Run Facility



Lenders were asked to indicate their appetite for both residential and non-residential development lending by location.

Location Options

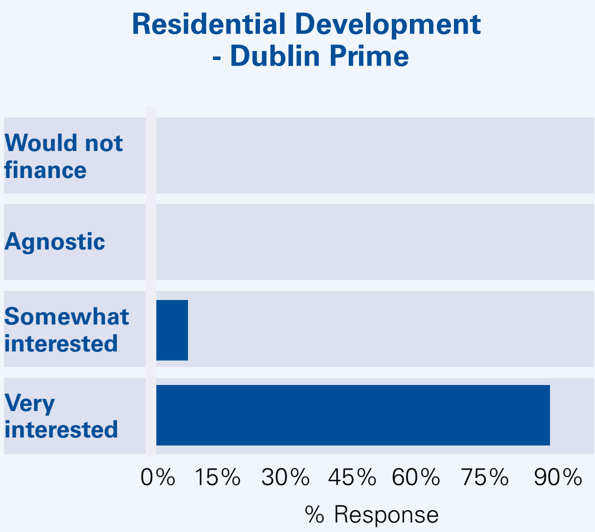
- Dublin (Prime);
- Dublin (Other) and Surrounding Areas (Kildare, Meath, Wicklow);
- Regional Cities (Cork, Galway, Limerick); and
- Tertiary Urban Centres (Waterford, Athlone, etc.).

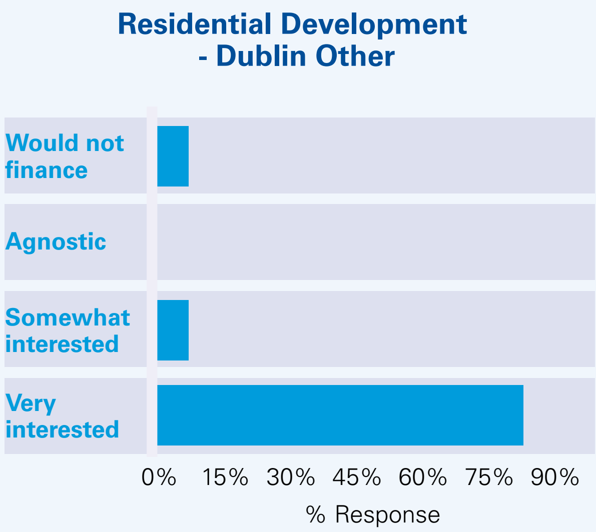
Response Options

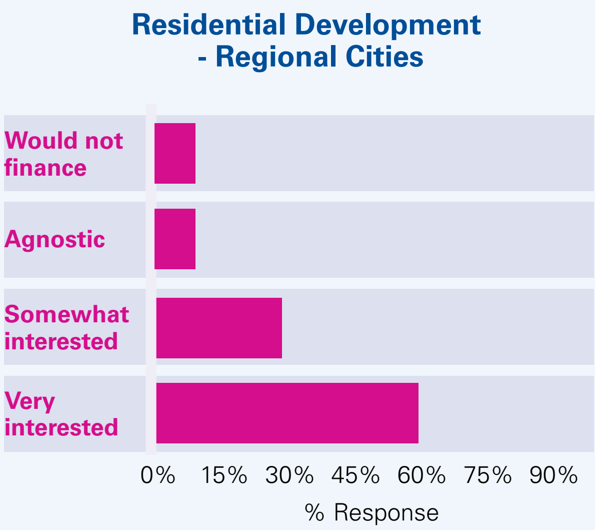
- Very interested;
- Somewhat interested;
- Agnostic; or
- Would not finance.

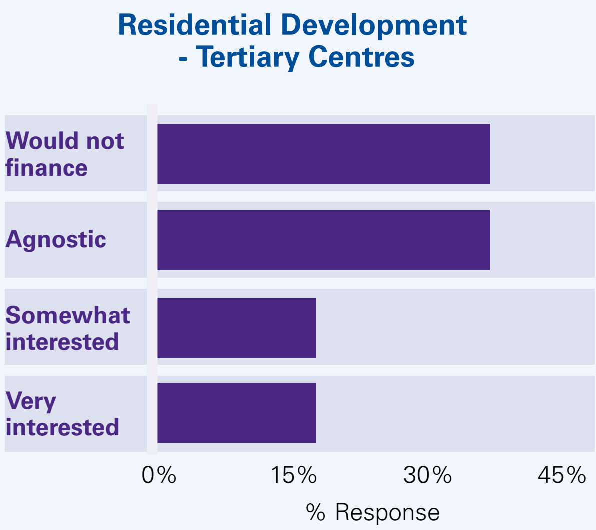
The majority responses of the Lenders' preferences are shown in the following graphs:

Residential



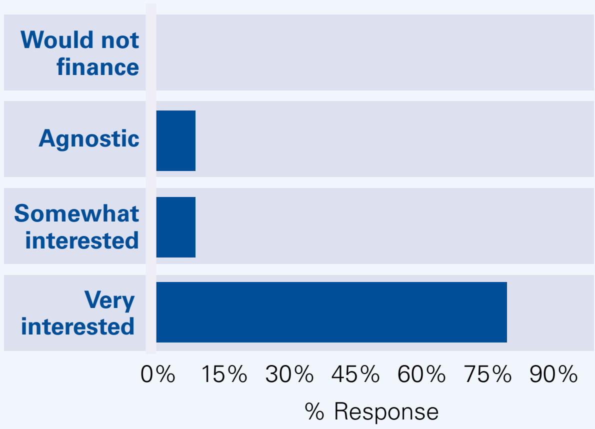




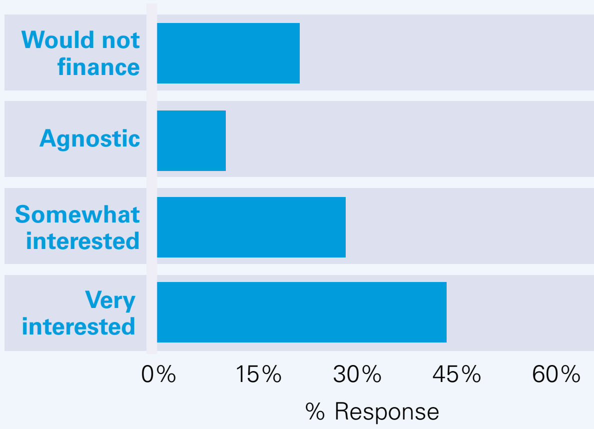


Non-Residential

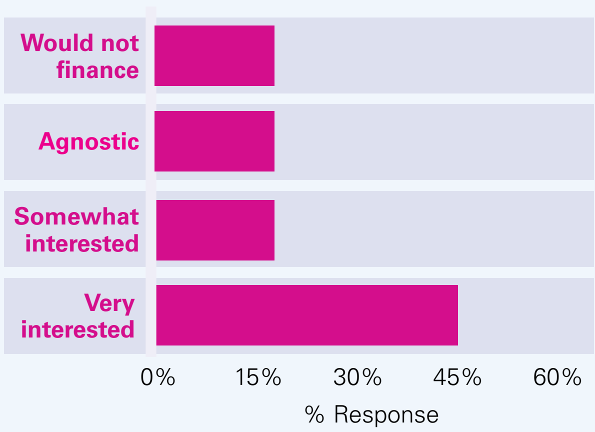
Non-Residential Development - Dublin Prime



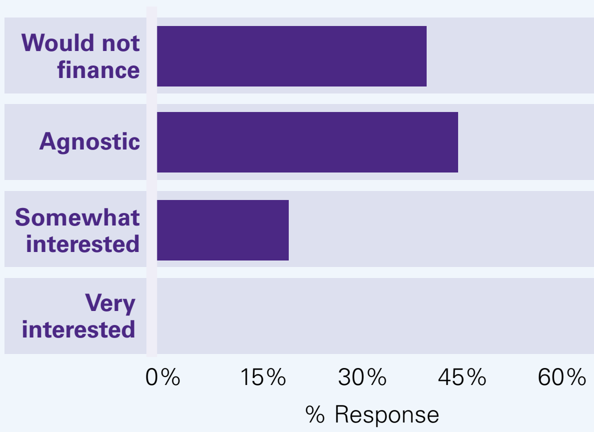
Non-Residential Development - Dublin Other



Non-Residential Development - Regional Cities



Non-Residential Development - Tertiary Centres



03

Investment Lending

Lenders provided their view on leverage appetite and other credit metrics in the context of investment lending.

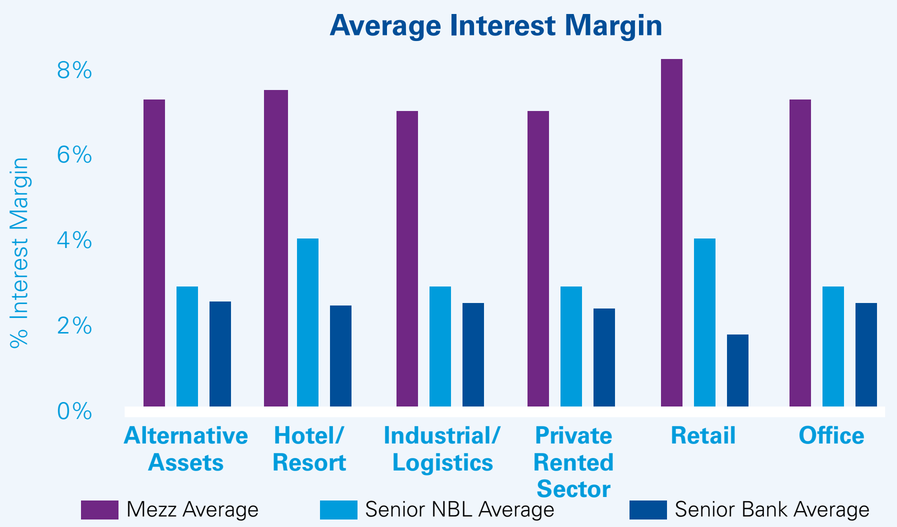
Loan to Value

Similar to development lending, the Lenders' appetite for investment lending deviates from majority responses for asset classes most exposed to macroeconomic threats.

Asset Class	Senior Bank		Senior NBL		Mezzanine	
	No. of responses	Loan to Value	No. of responses	Loan to Value	No. of responses	Loan to Value
Office	40% 60%	Up to 59% Up to 69%	100%	Up to 69%	25% 75%	Up to 69% Up to 79%
Private Rented Sector	40% 60%	Up to 59% Up to 69%	100%	Up to 69%	100%	Up to 79%
Retail	20% 40% 20% 20%	0% Up to 40% Up to 59% Up to 69%	100%	Up to 49%	25% 25% 50%	0% Up to 59% Up to 69%
Industrial/ Logistics	20% 80%	Up to 59% Up to 69%	100%	Up to 69%	100%	Up to 79%
Hotel / Resort	20% 20% 20% 40%	0% Up to 40% Up to 49% Up to 69%	100%	Up to 59%	75% 25%	Up to 69% Up to 79%
Alternative assets	20% 40% 40%	Up to 40% Up to 59% Up to 69%	100%	Up to 69%	25% 75%	Up to 59% Up to 79%

Investment Lending Pricing

Based on the foregoing LTVs the adjacent graph represents average pricing (above a 3month Euribor) for each of the asset classes.

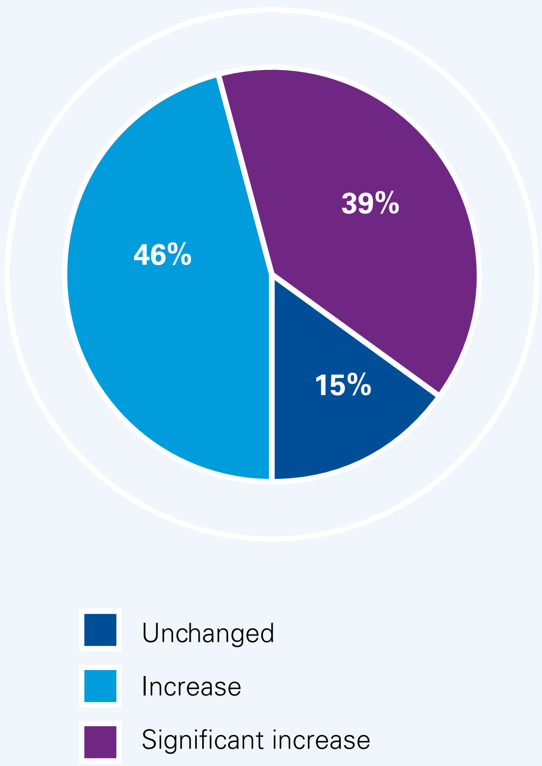


04

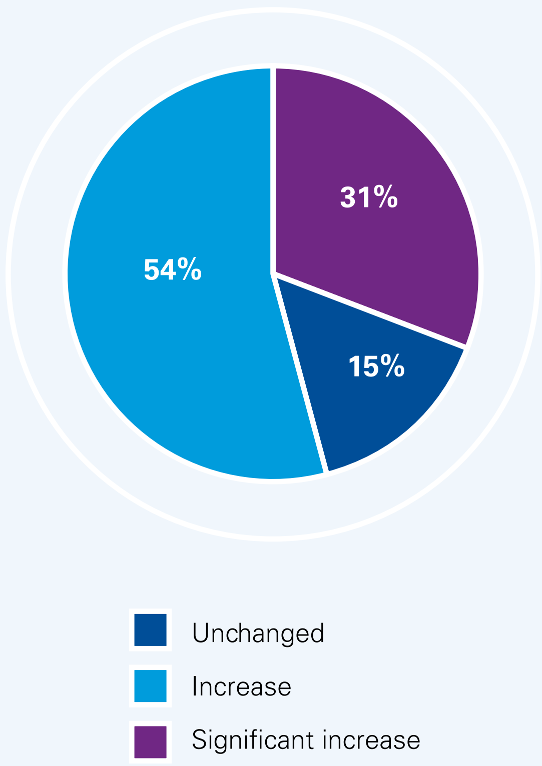
Future Prospects for Real Estate Lending

Lenders forecasted the expected change, over the next 12 months, in their overall real estate lending portfolio both generally and specific to Ireland. In both instances the responses were positive with the expectation that real estate lending will predominantly increase or significantly increase.

Expected Change in Overall Real Estate Lending Portfolio



Expected Change in Overall Real Estate Lending Portfolio in Ireland



05

Competition in the Market

Lenders were asked who they consider to be their greatest competitors when providing finance to Development and Income Generating projects.

The tables below are ranked from most to least and represent the majority response across Lenders.

DEVELOPMENT FINANCE

1. Local Commercial Bank
2. Private Equity/ Debt Fund
3. Non-Local Commercial Bank
4. Investment Bank
5. Insurer / Pension Fund

INCOME GENERATING

1. Local Commercial Bank
2. Investment Bank
3. Non-Local Commercial Bank
4. Private Equity/ Debt Fund
5. Insurer / Pension Fund

06

Underwriting

Lenders were asked to rank a list of pre-set criteria in terms of most to least important when considering a new real estate underwrite.

The following table is reflective of the majority responses in order of preference.

UNDERWRITING CRITERIA

1. Strong business model and quality of the asset
2. Reputation and references of the developer/operator
3. Financial background of the developer/investor
4. Level of owner's equity
5. How well the project is planned, status of planning process
6. Pre-let / Pre-sale

In addition to ranking pre-set criteria Lenders were asked to identify any other areas of focus that would be classed as priority when considering the financing of real estate projects. The responses below are not in any order of preference.

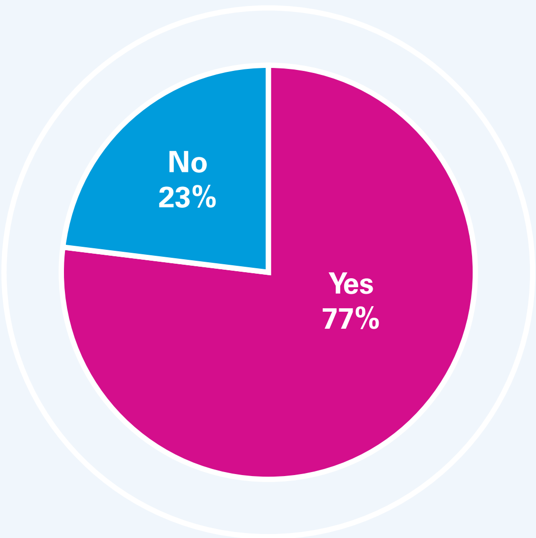
Additional Priority Factors Considered When Underwriting			
✓	Transaction metrics	✓	Longevity of income
✓	Cashflow	✓	Tax structure
✓	Lender's exit	✓	Overall IRR return
✓	Transaction size	✓	Transaction structure
✓	Asset delivery method	✓	Underlying rental profile

07

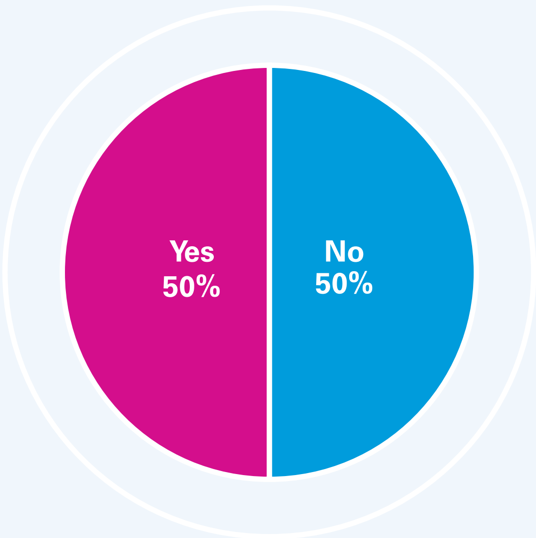
ESG

ESG is an increasingly important agenda item for both lenders and borrowers with many lenders publishing green lending frameworks. Over 75% of Lenders surveyed said they were actively looking for ESG linked lending opportunities and 50% indicated loan pricing could be linked to ESG targets.

ESG Linked Opportunities



ESG Targets Linked to Loan Pricing



08

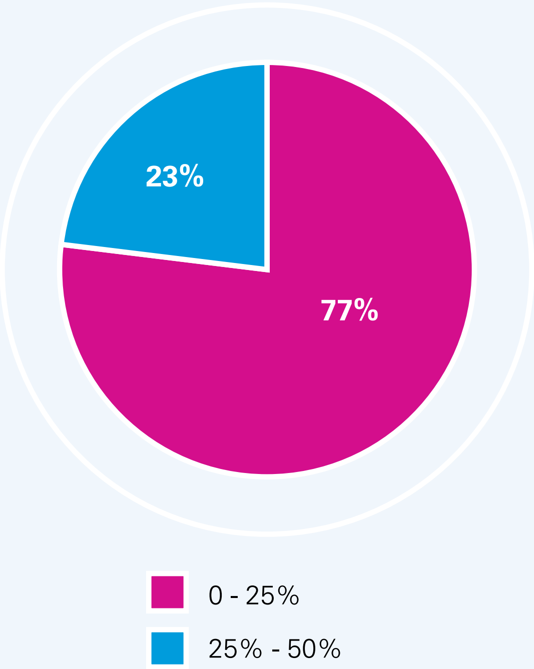
Covid-19

Lenders were asked to provide an estimate of the percentage of their borrowers that availed of a Covid-19 specific payment moratorium. In all cases it was estimated that less than 50% availed of payment breaks and overall, the majority stated it was less than 25% of borrowers.

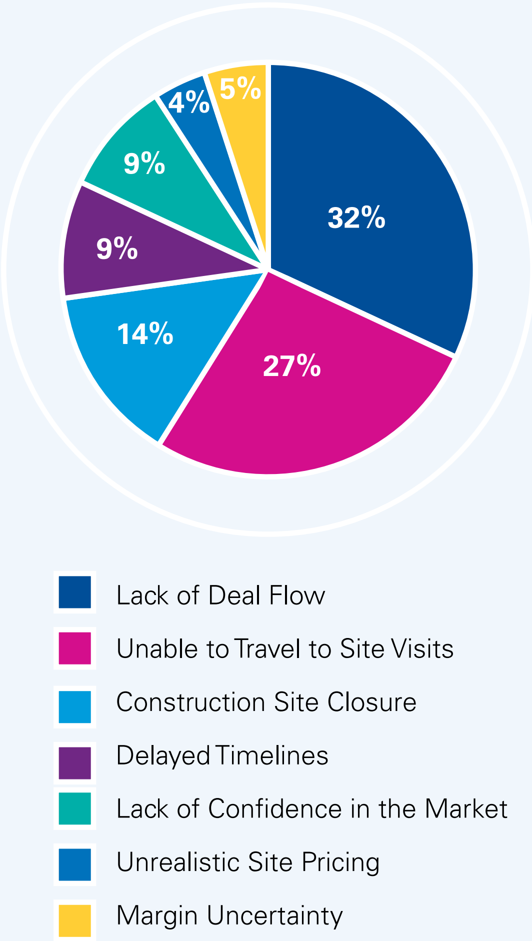
In the case of Covid-19 related covenant breaches, over 90% were addressed with covenant waivers and covenant re-sets.

Lenders were also asked what, in their view, are the greatest impediments to deal activity in a Covid-19 environment. Lack of deal flow, inability to perform site visits and site closures accounted for over 70% of responses.

Estimated Percentage of Borrowers that Availed of a Payment Moratorium



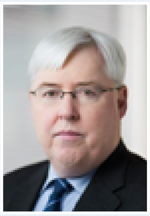
Covid-19 Related Deal Impediments



KPMG Insights

"The lender appetite to support residential development in an urban context correlates with the market demand. However, a more informed understanding of the underlying demand characteristics is key to unlocking the housing supply and affordability issues; for example concepts such as 15 minute cities are gaining more traction. Developers and lenders are increasingly relying on the detailed evidenced based analysis We produce to support and future proof investment decisions. This data is critical to understand the mix and type of residential unit required based on evolving demographics and future infrastructure such as transport links, access to healthcare and education etc."

William Hynes, Managing Director
Corporate Finance – Future Analytics



"It is clear that although appetite for residential development in the residential space remains high amongst bank and non-bank lenders, the relative cost of debt unfortunately remains high by international terms and serves as a drag on residential delivery. With the capital base of indigenous Irish developers still substantially constrained from the recession of the noughties, there is an increasingly compelling case for increased Government intervention (possibly administered via the mainstream banks) in funding Ireland's residential delivery pipeline."

David Kennedy, Partner
Corporate Finance – Real Estate

"The survey results are in line with our experience, with lenders increasingly focused on the green / sustainability credentials of real estate loans for fear of being left with stranded / impaired assets as building energy standards continue to tighten in line with the Irish Government's net zero carbon commitment."

Russell Smyth, Partner
Corporate Finance –Sustainable Futures

Glossary

ESG	Environmental Social and Corporate Governance
LTC	Loan to Cost
LTV	Loan to Value
Mezz	Mezzanine
NBL	Non-Bank Lender
PRS	Private Rented Sector

Notes

We asked survey participants to respond to the survey questions based on a borrower with a good reputation and strong business plan.

Alternative Assets for the purpose of this survey comprise assets such as Primary Care Centres, Student Housing, Nursing Homes etc.

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