ECB BMCG

CRE impact on bond markets

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

- 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 58% of CRE purchases between 2015-19.
CRE prices are pointing to further NPL rise ahead. Vacancy rates, maturity profile and size of market better in Europe than in the US.
Covered bonds widened with CRE exposed banks, but overall bank credit spreads stable

- 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.

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?