No 152-2023

Analyses and synthesis

The financing of real estate professionals by French banks in 2022

Overview[1]

According to statistics published by CBRE[2], **at global level, investment in corporate real estate**, which had rebounded sharply in 2021 (+63.1%) after contracting in 2020 (-22.5%), **declined again in 2022** (-18.4%; Chart 1). This decline remains most marked in the area comprising Europe, the Middle East, and Africa (-24.1%).

In France, the commercial real estate market remained buoyant in 2022. According to BNP Paribas Real Estate, after two consecutive years of downturn in 2020 and 2021, investment in French corporate real estate rebounded in 2022 (+6.2% compared to 2021), with significant investment levels in the second and the third quarters (Q2 and Q3; Chart 2). According to data published by ImmoStat, take-up of office space in the Ile-de-France region continued to increase in 2022 (Chart 4). The immediate supply of office space also increased, albeit at a slower pace than demand (Chart 5), resulting in a shorter average time-to-market in 2022.

However, there is evidence of a market slowdown from Q4 2022 onwards. Amid continuing macroeconomic uncertainties and structural changes affecting the industry (including the emergence of remote working arrangements and e-commerce), financing conditions have tightened. Investment fell in Q4 2022 (-42.4% compared to Q4 2021) and this trend continued in Q1 2023 (-24.6% compared to Q1 2022). However, performance remains uneven across asset classes (Chart 3): investment in office property recorded a sharp drop compared to its 10-year average; similarly, investment in business premises and in logistics plummeted in Q1 2023. Conversely, investment in the retail sector is booming, and the hotel sector appears on a steady path to recovery, with an uptick in investment in Q1 2023.

Office take-up in the Île-de-France region also fell in Q4 2022 (-3.7% compared with Q4 2021) before dropping further in Q1 2023 (-38.8% compared to Q1 2021), while the immediate supply of office space in the Ile-de-France region reached its highest level in Q1 2023. This imbalance led to an increase in the average time-to-market in Q1 2023 (+3 months, reaching 2.3 years).

Lastly, according to statistics published by ImmoStat, **the price per square metre (sqm) of office investment in the Ile-de-France region fell by 2.5% in 2022 and this downward trend continued in Q1 2023** (-2.3 % compared to Q4 2022; Chart 7). Office rents remained high in 2022 (+1.7% for new or structurally renovated office property, and +5.8% for existing office property; Chart 8), thanks in particular to the sustained, very high rate of accompanying measures (24.4% on average in 2022; Chart 9). Office rents for existing office property, on the other hand, fell by 2.1% in Q1 2023.

In this context, according to data provided by the five main French banking groups[3] in the context of the survey conducted by the Autorité de contrôle prudentiel et de résolution (ACPR), **new loans to real estate professionals showed a slight increase in 2022** (+1.7% compared to 2021; Chart 10) thanks to record high production in the first quarter (Q1), despite a marginal decrease in Q2 (-4.8% compared to Q2 2021).

The evolution of the production structure reflects a certain degree of normalisation of the market, as the segments affected by the health crisis (real estate located abroad, offices and investors) saw their share of production increase:

- Real estate located in France continued to account for the majority of the production, but its relative share declined slightly (-2.7 percentage points (pts) to 62.3% compared with 2021; Chart 11) which benefitted real estate located abroad (+2.7 pts to 37.7%), especially in the rest of Europe (+2.5 pts, reaching 24.7%);
- Residential real estate remains predominant, but its share in the production declined (-2.8 pts reaching 40.6%; Chart 17). This benefitted business premises (+1.4 pt reaching 9.9%) and office real estate (+1.7 pt to reach 18.8%), although the share of the latter has yet to return to its pre-health crisis levels;

[1] Technical terms are defined in the glossary at the end of the study.

[2] Coldwell Banker Richard Ellis, an American commercial real estate group.

[3] BNP Paribas, Société générale, Crédit agricole Group, BPCE Group and Crédit mutuel Group. At the end of 2021, these 5 banking groups accounted for 91.3% of total commercial real estate loans by French banking groups, as reported in the FINREP F18.02 financial reporting statement.

- Investors still account for the largest share of the production. Their relative share increased (+0.6 pt to reach 53.3 %; Chart 14), while the share of real estate developers and property dealers went down (-0.8 pt to reach 45%).

The overall gross exposure of French banks to real estate professionals increased by 6.7% in 2022, compared to 9.3% in 2021 (Chart 20). This relatively sustained increase is mostly attributable to buoyant production in Q1 2022. In relative terms, these exposures continued to rise, comparatively to total own funds (+3.6 pts to reach 57.6 %; Chart 21), but still account for a **modest portion of total assets** (+0.1 pt at 3.3%).

Finally, risk indicators remain sound:

- The share of transactions for which the pre-sales interest rate is nil continued to decline after a peak in Q1 2021, reaching 26.4% in 2022 (-6.6 compared to 2021; Chart 44);
- The share of loans with a loan-to-value (LTV) ratio < 60% remains predominant, standing at 75.7% in December 2022 (Chart 55). Loans with an interest coverage ratio (ICR) ≥ 2 remain an overwhelming majority at 79.2% in December 2022 (Chart 58), as does the share of transactions with a debt-to-service coverage ratio (DSCR) ≥ 1.5 (60.5% in December 2022; Chart 61);
- The initial maturity of loans increased slightly (+1 month reaching 4.1 years; Chart 41) but remains relatively shorter than its recorded average since 2015. Meanwhile, residual maturity decreased marginally (-1 month reaching 3.7 years; Chart 46);
- The share of gross doubtful loans outstanding reached an all-time low overall (2% in December 2022, i.e. -7 basis points (bps) compared to December 2021; Chart 29) as did the share of restructured exposures (-17 bps reaching 1.16%; Chart 34);
- Over the same time frame, the provisioning rate also decreased by 1.3 pt, reaching 35.8% (Chart 36), notably owing to the write-off of old highly provisioned loans;
- Finally, the average risk weight applied to exposures decreased (1.7 pt to reach 55.8 %; Chart 64), mainly due to an increase in the share of exposures under the internal ratings-based approach. However, the risk weight applied to such exposures, which are more sensitive to underlying risks, increased by 4.8 pts over the period. Banks using internal models therefore consider that loan quality has deteriorated.

Despite the fact that the findings of the present analysis remain positive overall, banks should remain particularly vigilant in light of ongoing developments in the industry, which is clearly showing signs of a turnaround. Banks should in particular ensure that their risks are closely monitored, especially as regards the valuation and rental situation of the assets being financed, and that any deterioration in the quality of their exposures on real estate professionals is reflected without delay in their balance sheets and profit and loss accounts.

In order to paint a more accurate picture of the risks to which banks are exposed, with more frequent updates, and in order to comply with a recommendation from the European Systemic Risk Board[4], the ACPR has initiated an overhaul of its survey, which will come into force in the second quarter of 2023.

Study by Laurent FAIVRE and Pierre SARRUT

Keywords: real estate professionals

JEL codes: G21

[4] See Recommendation 2019/3 of the European Systemic Risk Board

TABLE OF CONTENTS

Key figures[5]

Exposure and production

		All geographical areas		France	
					
Exposure to real estate professionals	[1]	**EUR 267.2 billion**	***+6.7%***	**EUR 160.0 billion**	***+4.9%***
Share of housing	[1]	32.1%	*+0.7 pts*	39.1%	*+2.7 pts*
Share of offices	[1]	22.2%	*-0.6 pts*	22.4%	*-0.6 pts*
Share of commercial premises	[1]	14.2%	*-0.2 pts*	13.6%	*+0.2 pts*
% of total assets	[1]	3.3%	*+0.1 pts*		
% of total equity	[1]	57.6%	*+3.6 pts*		
Annual production of loans to real estate professionals	[2]	**EUR 88.7 billion**	***+1.7%***	**EUR 55.2 billion**	***-2.5%***
Share of housing	[2]	40.6%	*-2.8 pts*	49.1%	*-1.2 pts*
Share of offices	[2]	18.8%	*+1.7 pts*	17.5%	*+0.8 pts*
Share of commercial premises	[2]	8.9%	*-1.6 pts*	9.9%	*-1.0 pts*

Risk indicators and losses

		All geographical areas		France	
					
Risk indicators					
Average maturity at origination	[2]	4.1 years	*+1 month*	4.3 years	*+2 months*
Share of operations for which the pre-sales rate is nil	[2]			26.4%	*-6.6 pts*
Share of operations with a total equity ratio < 5%	[1]	14.2%	*+1.0 pts*	16.0%	*+1.1 pts*
Share of outstanding amounts with a LTV ratio during the life of the loan > 80%	[1]	6.8%	*-0.1 pts*	8.8%	*+0.2 pts*
Share of outstanding amounts with an ICR during the life of the loan < 1.5	[1]	14.8%	*+1.1 pts*	14.3%	*+3.9 pts*
Losses					
Gross doubtful and impaired exposures ratio	[1]	2.0%	*-0.1 pts*	1.5%	*-0.3 pts*
Provisioning ratio	[1]	35.8%	*-1.3 pts*	36.4%	*-1.3 pts*

Basis for comparison

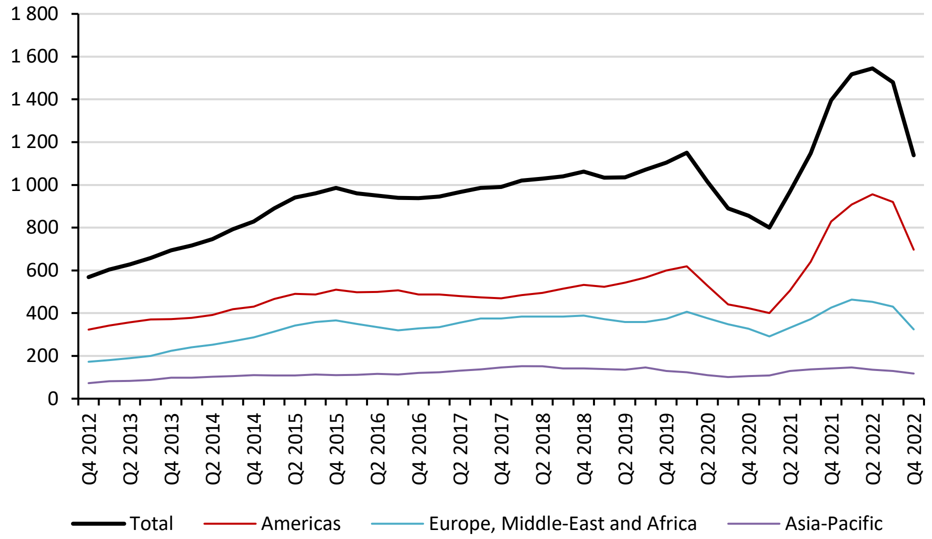
[1]	31/12/2021
[2]	2021

[5] New lending data for the whole year 2022, and exposure data as at 31 December 2022. See Glossary at the end of this paper for a definition of the various risk indicators.

THE COMMERCIAL REAL ESTATE MARKET IS SLOWING DOWN

1. Investments have slowed down in all regions of the world

Chart 1 Corporate real estate investment flows in USD billions

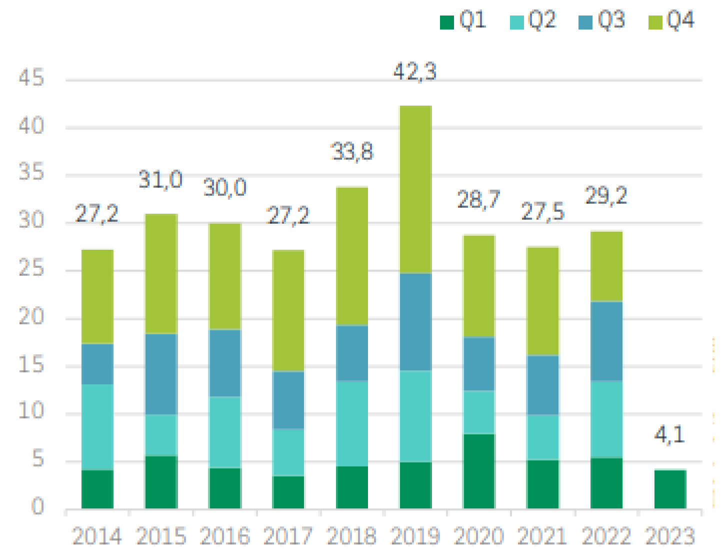


Source: CBRE; current exchange rates

2. The French market started to fell in Q4 2022

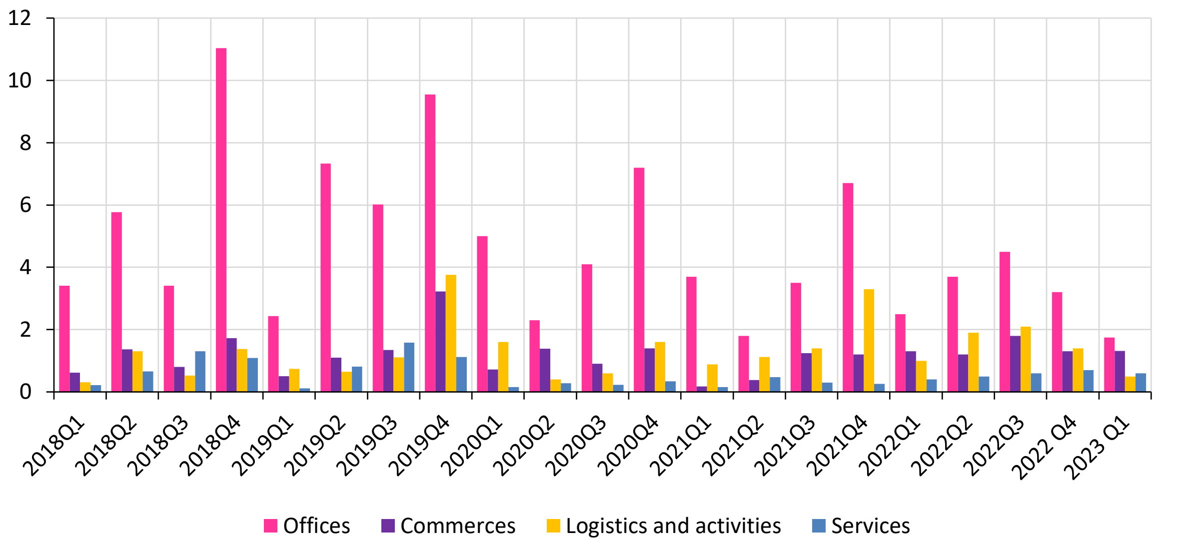
2.1. Investment in commercial real estate in France have decreased since Q4 2022

Chart 2 Corporate real estate investment in France in EUR billions



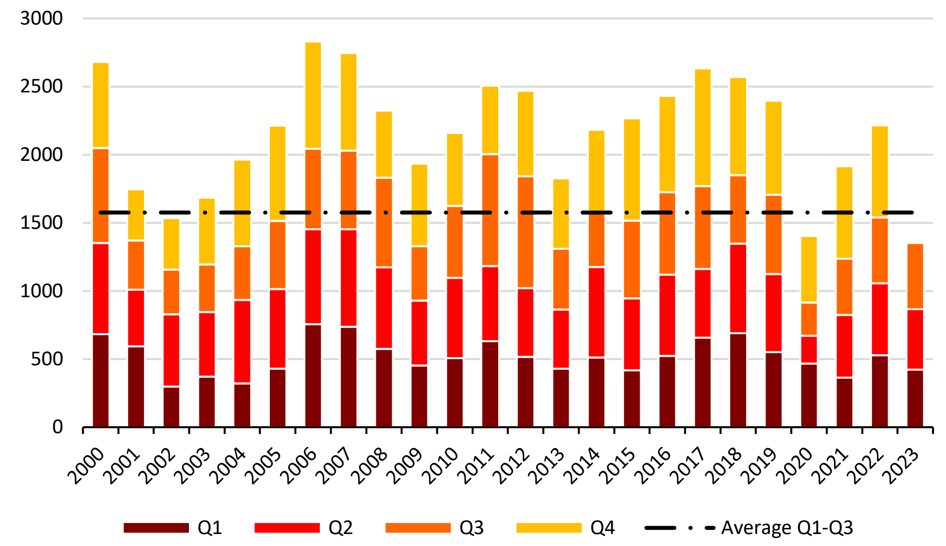
Source: BNP Paribas Real Estate

Chart 3 Corporate real estate investment volumes in France broken down by asset type, in EUR billions over 12 rolling months



Source: ACPR based on BNP Paribas Real Estate data

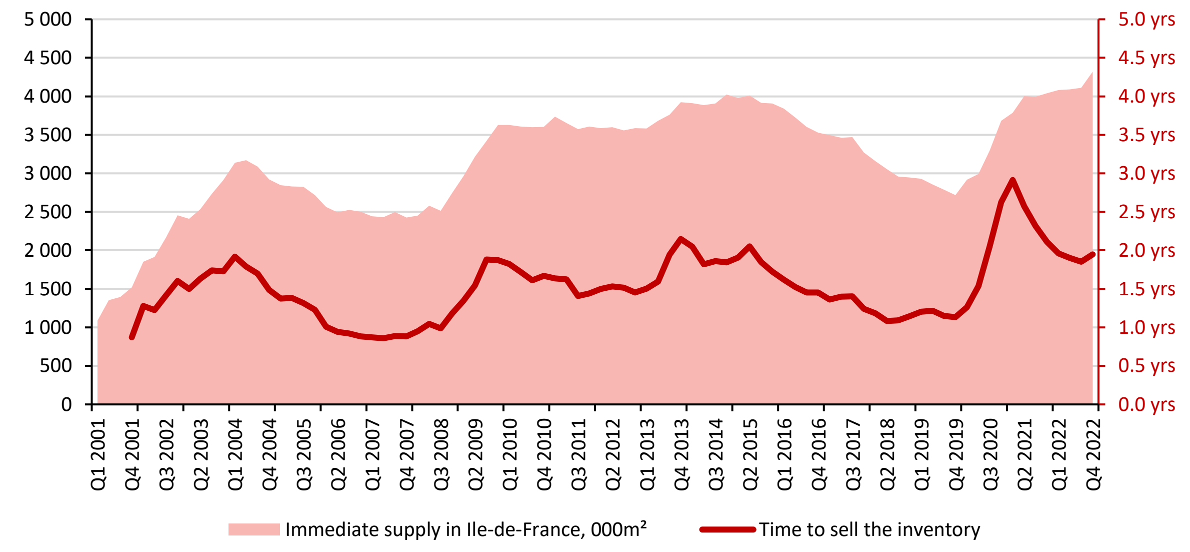
Chart 4 Office space take-up for the Île-de-France region, in thousands of square metres



Source: ImmoStat

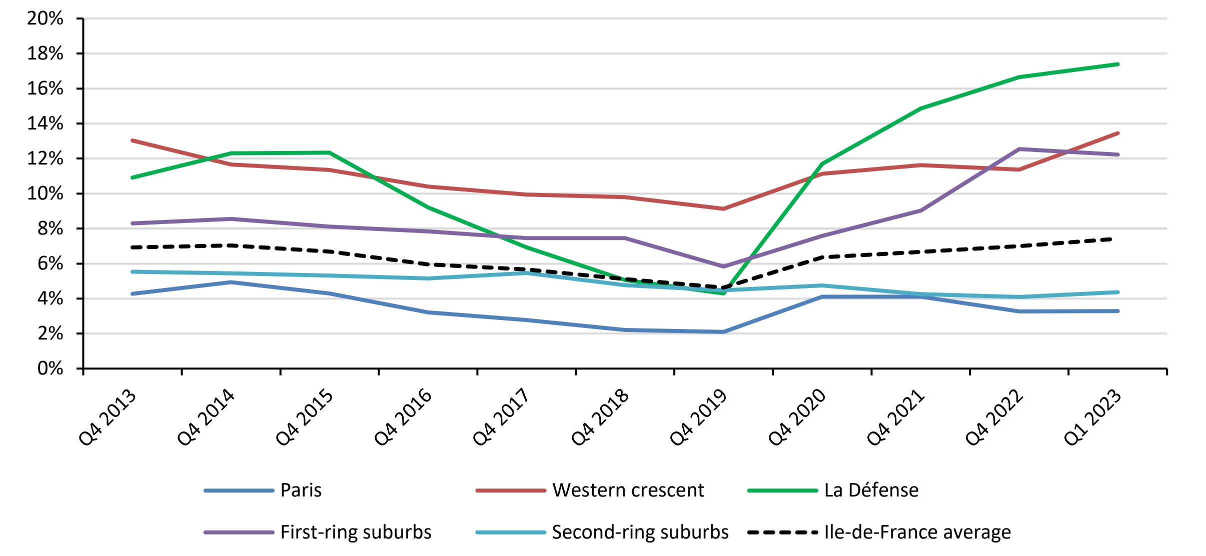
2.2. Immediate supply of office space were at peak levels in the Ile-de-France region

Chart 5 Immediate supply of floor space in the Île-de-France region, in thousands of square metres



Source: ImmoStat

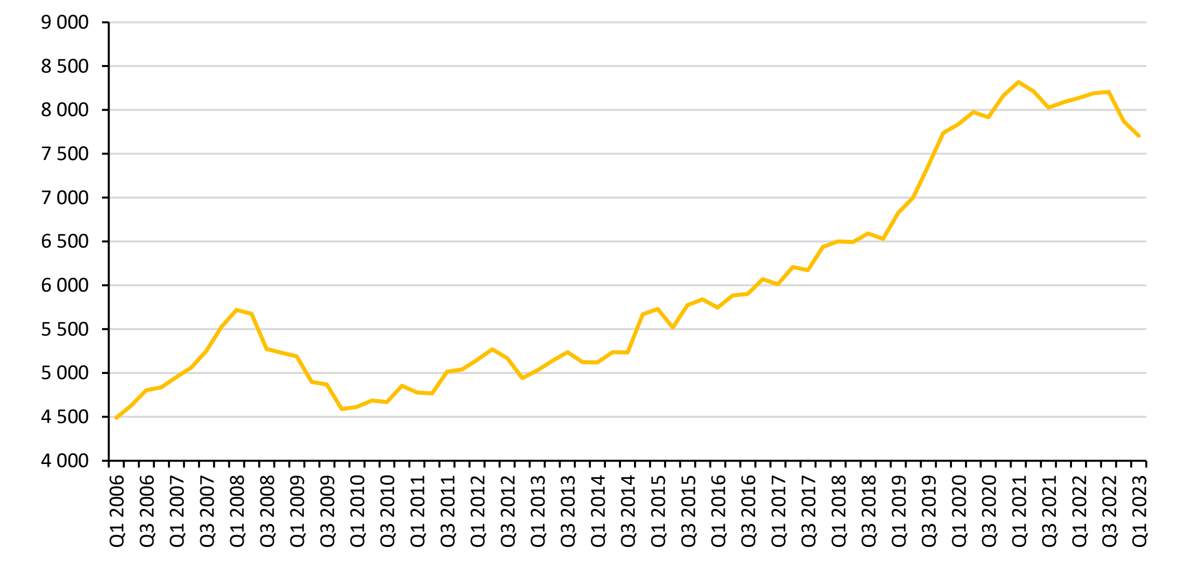
Chart 6 Office vacancy rate in the Île-de-France region



Source: Cushman and Wakefield

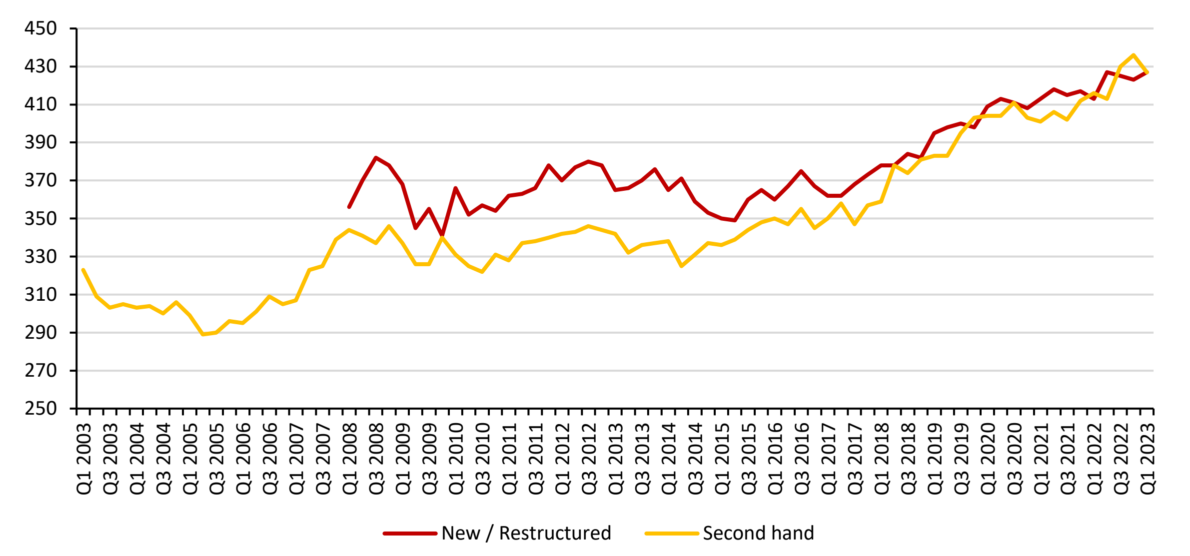
2.3. Office prices decreased while rental values remained high

Chart 7 Price per square metre of office space investments in the Île-de-France region



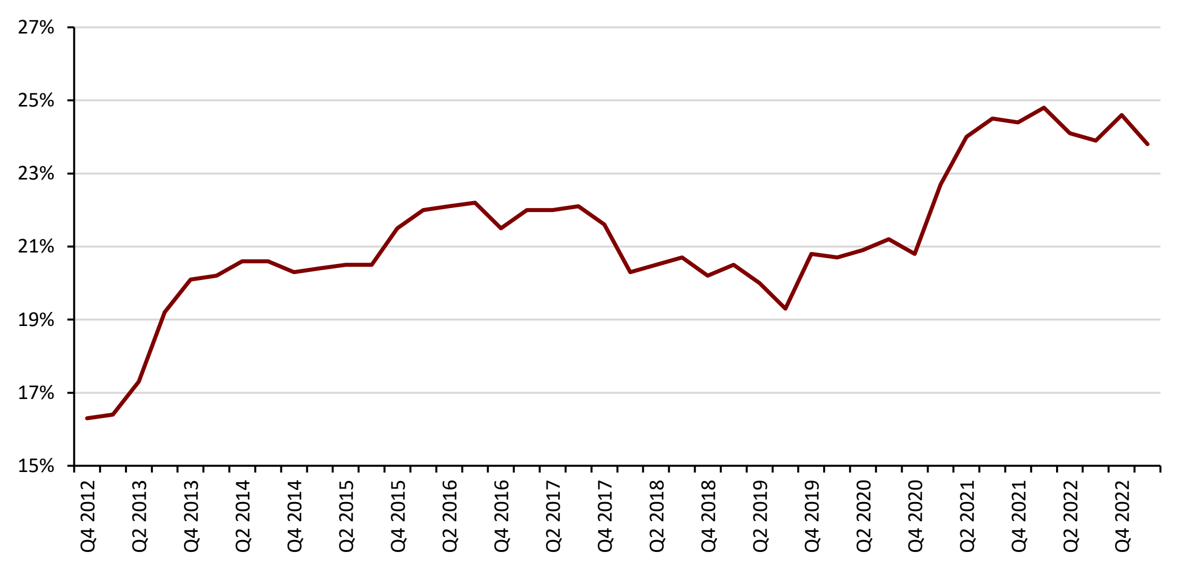
Source: ImmoStat, deed-in-hand prices in EUR

Chart 8 Average headline rent for office spaces in the Île-de-France region



Source: ImmoStat, rent expressed in EUR per square meter and per year excluding taxes and charges

Chart 9 Incentive rates in the Île-de-France region

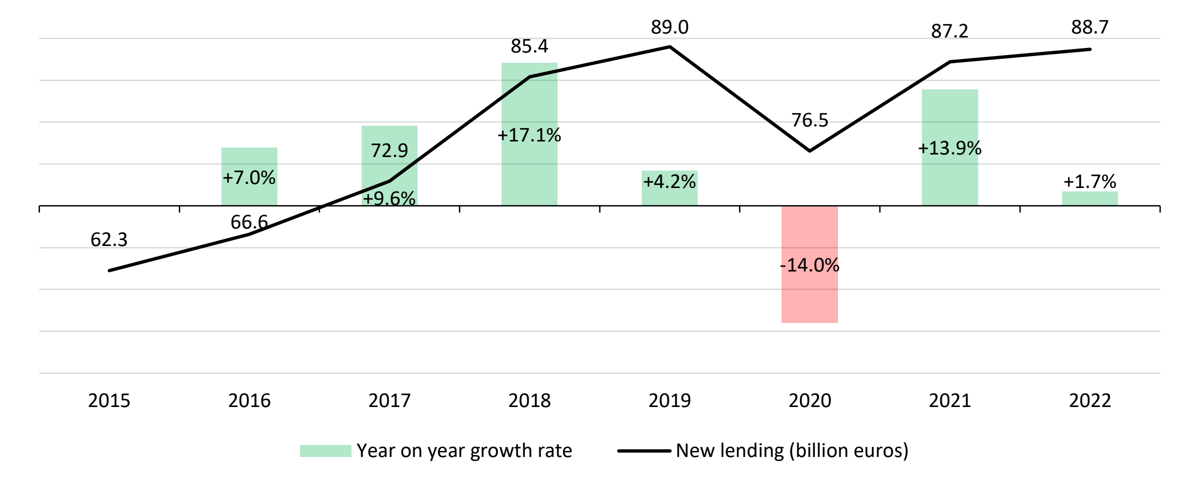


Source: ImmoStat

THE LOAN PRODUCTION SLIGHTLY INCREASED

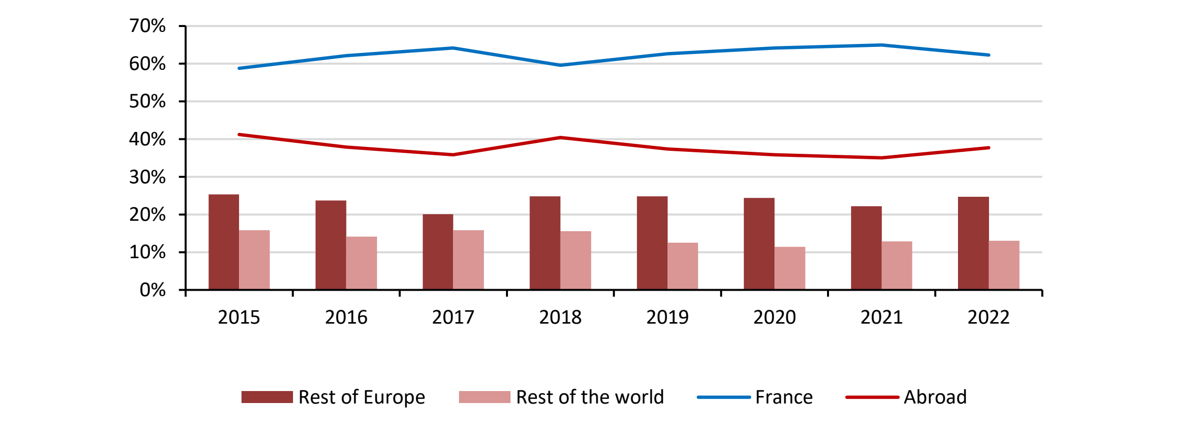
1. The slight increase in loan production in 2022 was primarily driven by assets located outside France

Chart 10 Annual changes in lending to real estate professionals, in EUR billion, all geographical areas



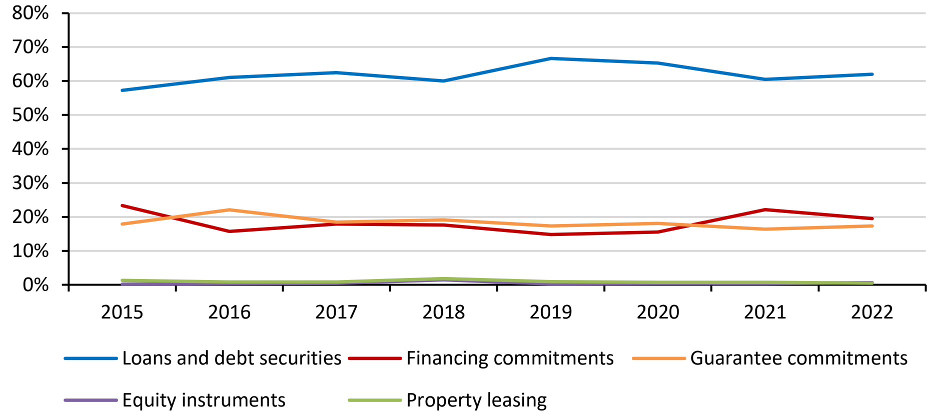
Source: ACPR

Chart 11 Structure of new lending according to geographical area



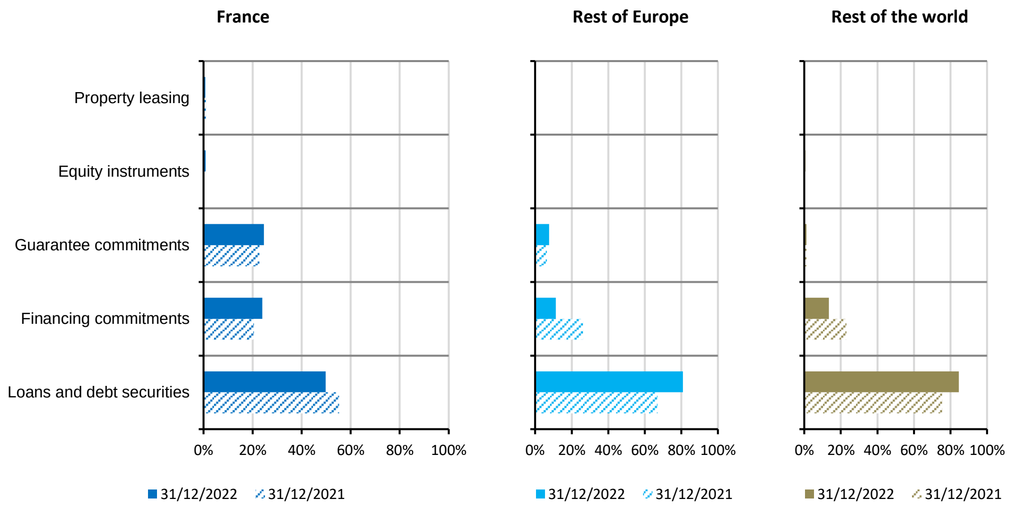
Source: ACPR

Chart 12 Structure of new lending according to type of commitment



Source: ACPR

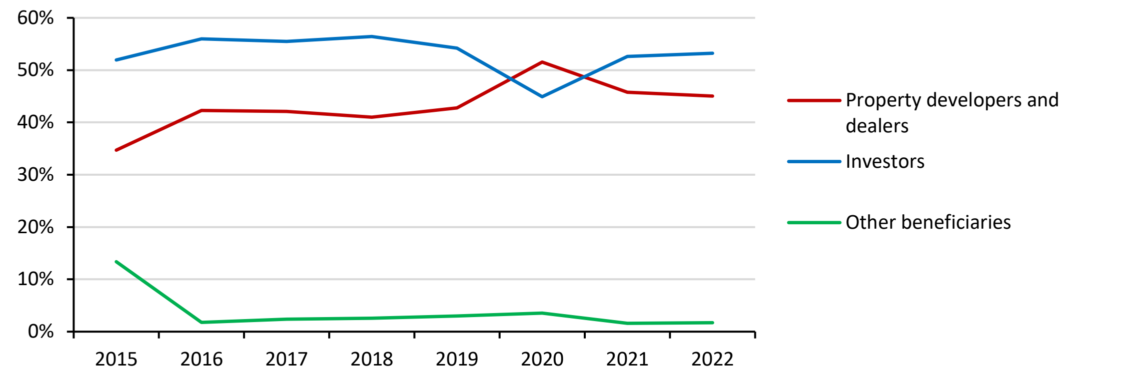
Chart 13 Structure of new lending according to type of commitment and geographical area



Source: ACPR

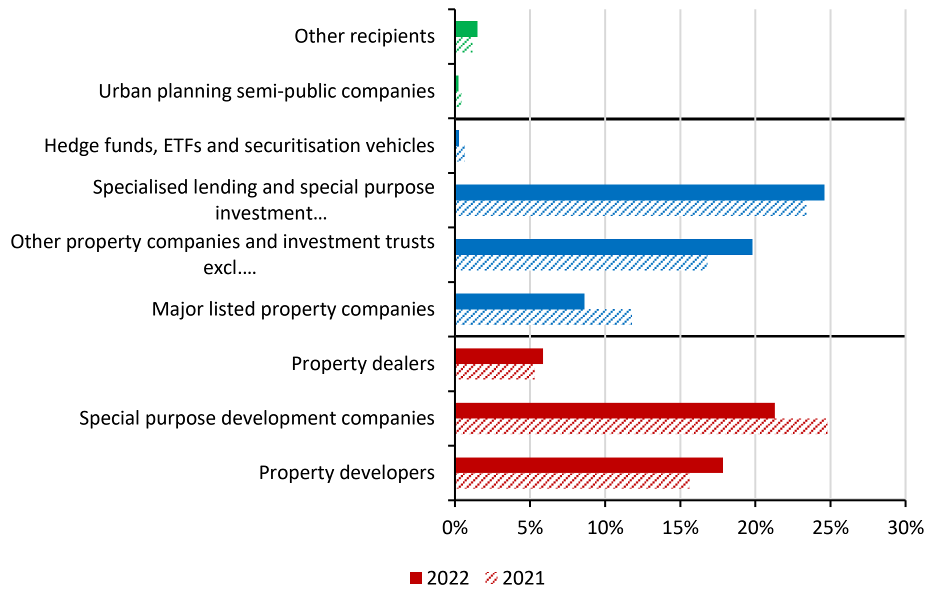
2. Loans continued to be primarily granted to investors

Chart 14 Structure of new lending according to type of beneficiary



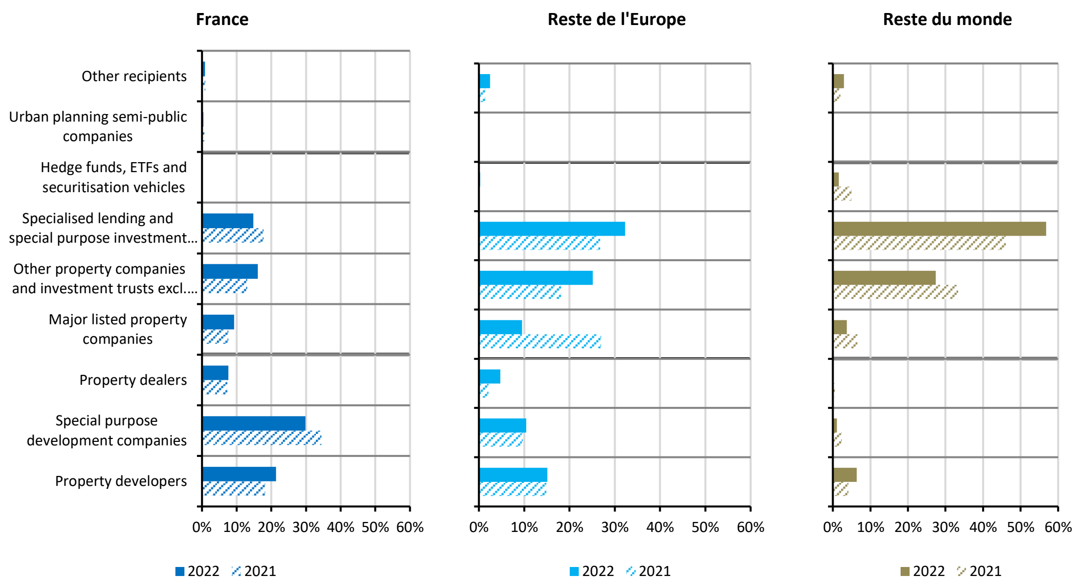
Source: ACPR

Chart 15 Structure of new lending according to type of beneficiary



Source: ACPR

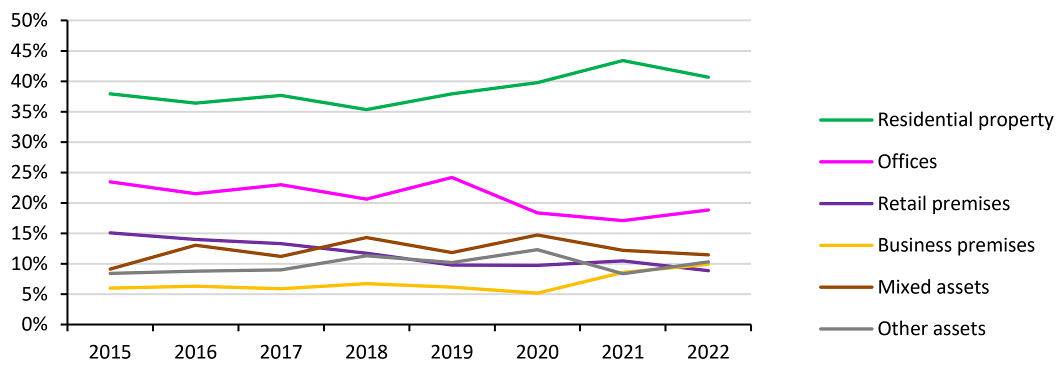
Chart 16 Annual changes in new lending structure according to commitment type and geographical area



Source: ACPR

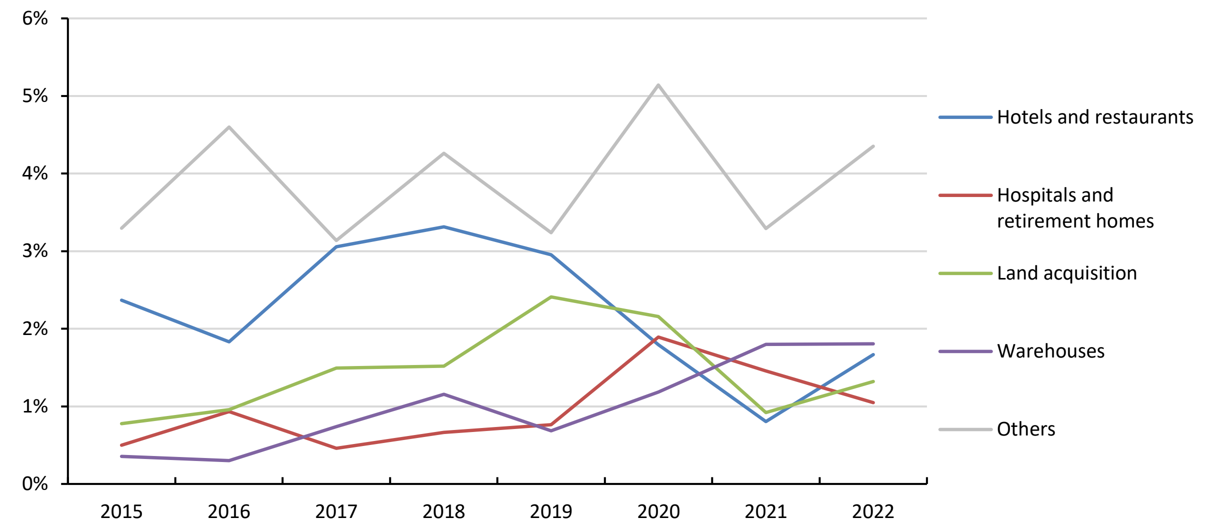
3. The share of investments in residential housing decreased while the share of investments in office property, business premises and other assets increased

Chart 17 Structure of new lending according to asset type



Source: ACPR

Chart 18 Structure of new lending according to asset type - focus on other assets



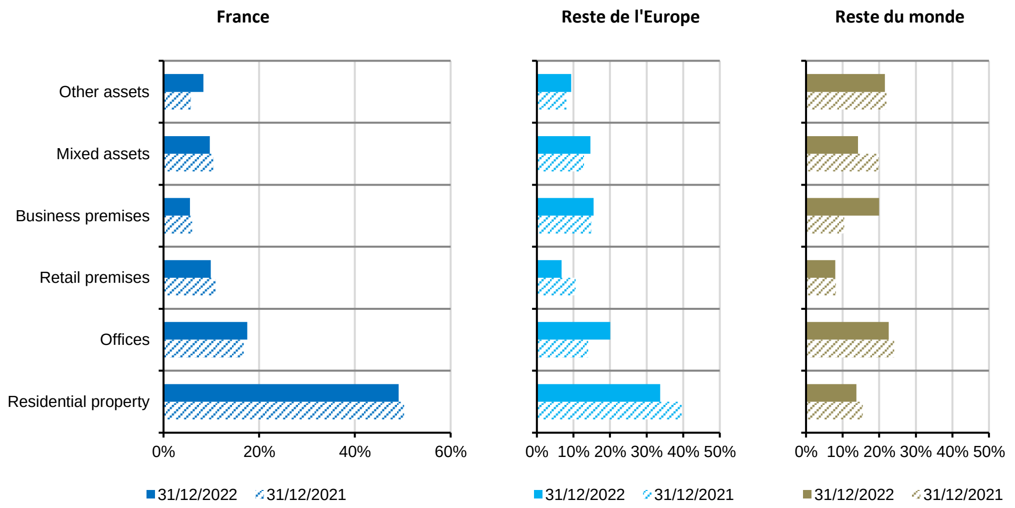
Source: ACPR; breakdown based on banks' clarification of their "other assets" category (open-ended answers); the "other" item in the chart above includes all "other assets" for which banks did not provide any clarification

Table 1 Annual changes in new lending structure according to beneficiary and asset types considered

2022 vs. 2021	Property developers	Special purpose development companies	Property dealers	Listed property companies	Other property companies	Specialised lending	Hedge funds and securitisation vehicles	Urban planning semi-public investment companies	Other recipients	**Total**
Residential property	+3.3 pp	+1.5 pp	+1.1 pp	-3.1 pp	+2.7 pp	+0.5 pp	+0.0 pp	-0.3 pp	+0.1 pp	**+6.0 pp**
Offices	+0.3 pp	-1.7 pp	+0.4 pp	+3.9 pp	-0.2 pp	+1.0 pp	-0.5 pp	-0.0 pp	-0.1 pp	**+3.1 pp**
o/w Île de France	*+0.1 pp*	*-1.0 pp*	*+0.4 pp*	*+3.5 pp*	*+0.5 pp*	*-1.3 pp*	*+0.0 pp*	*+0.0 pp*	*-0.0 pp*	***+2.3 pp***
o/w rest of France	*+0.3 pp*	*-0.7 pp*	*-0.0 pp*	*-0.3 pp*	*+0.3 pp*	*+0.3 pp*	*+0.0 pp*	*-0.0 pp*	*+0.0 pp*	***-0.2 pp***
Retail premises	+0.1 pp	-0.3 pp	+0.2 pp	-1.1 pp	+0.3 pp	+1.0 pp	+0.0 pp	-0.0 pp	-0.0 pp	**+0.1 pp**
Business premises	-0.2 pp	-0.8 pp	-0.1 pp	+0.5 pp	+0.1 pp	+0.5 pp	-0.1 pp	+0.0 pp	+0.0 pp	**-0.1 pp**
Mixed assets	+0.6 pp	-0.0 pp	+0.6 pp	+0.3 pp	+1.1 pp	+0.8 pp	-0.1 pp	-0.1 pp	+0.2 pp	**+3.4 pp**
Other assets	+1.4 pp	+0.5 pp	+0.0 pp	+0.1 pp	-0.1 pp	+2.4 pp	+0.0 pp	+0.1 pp	+0.2 pp	**+4.6 pp**
Total	+5.2 pp	-2.0 pp	+1.6 pp	-4.8 pp	+0.6 pp	-0.2 pp	-0.7 pp	-0.2 pp	+0.5 pp	

Source: ACPR

Chart 19 Structure of new lending according to type of asset and geographical area

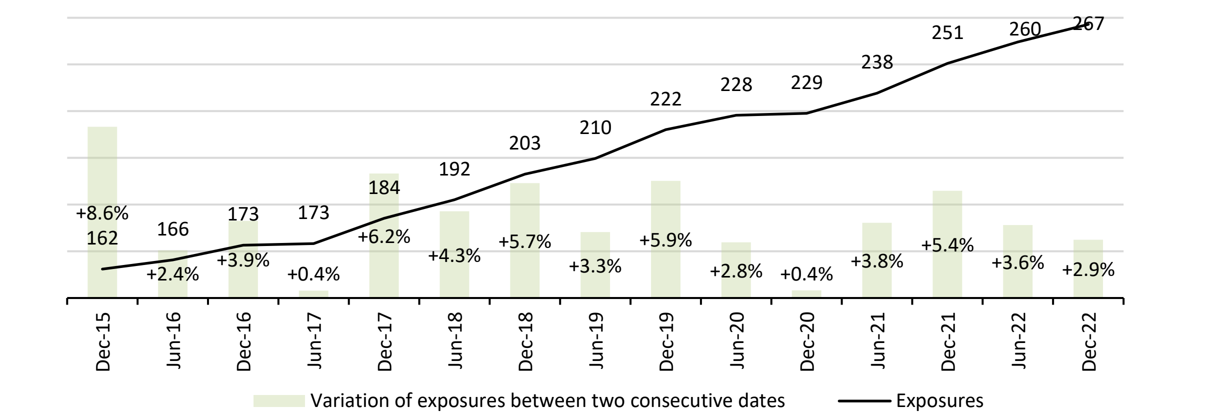


Source: ACPR

FRENCH BANKS' EXPOSURE TO REAL ESTATE PROFESIONALS GREW AT A SLOWER PACE

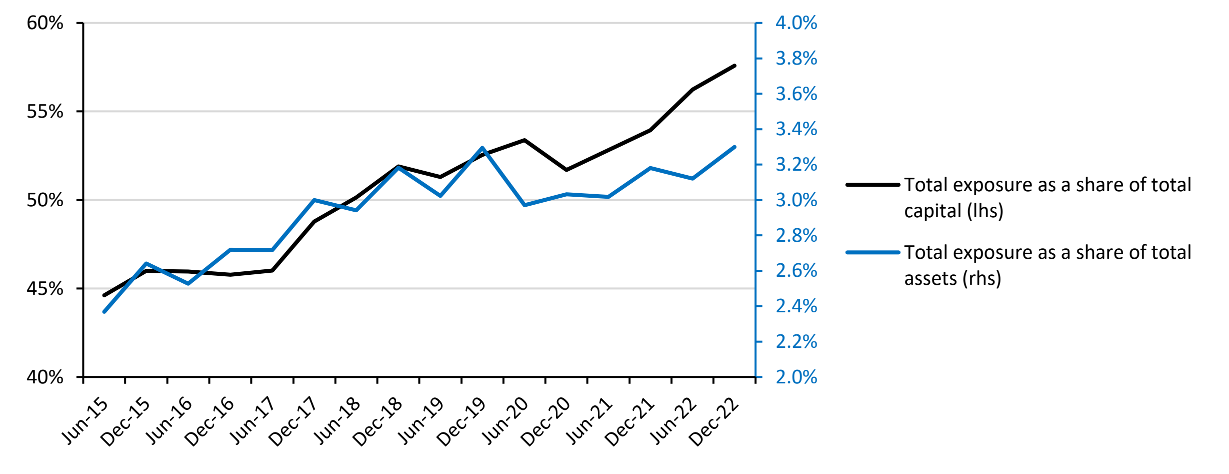
1. Exposure grew at a slower pace and remained modest when compared with French banks' total assets

Chart 20 Total gross exposure and changes compared with previous half-year figures



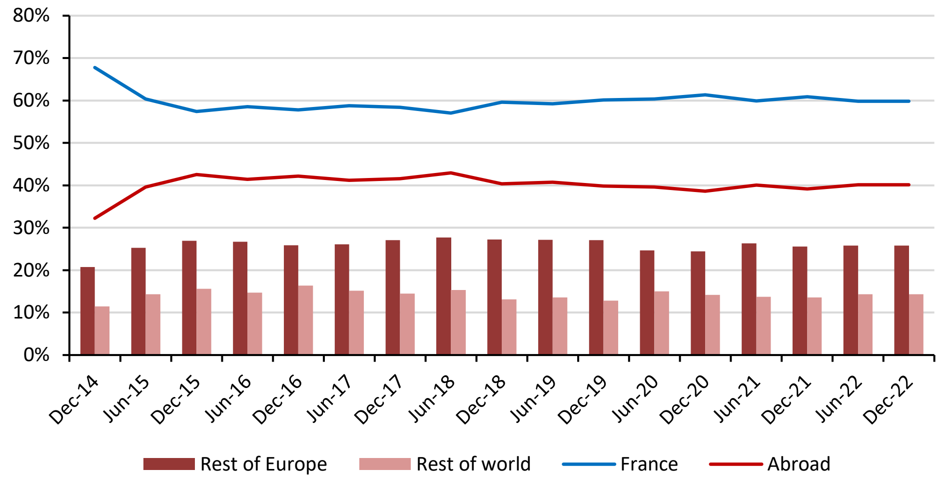
Source: ACPR; exposure in EUR billion

Chart 21 Total gross exposure as a proportion of banks' total assets (right-hand scale) and banks' total equity (left-hand scale)



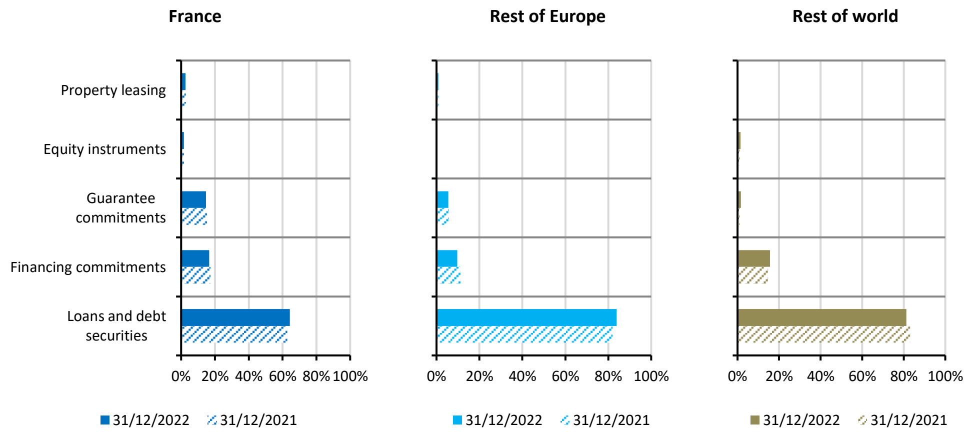
Source: ACPR

Chart 22 Structure of total gross exposure according to geographical area



Source: ACPR

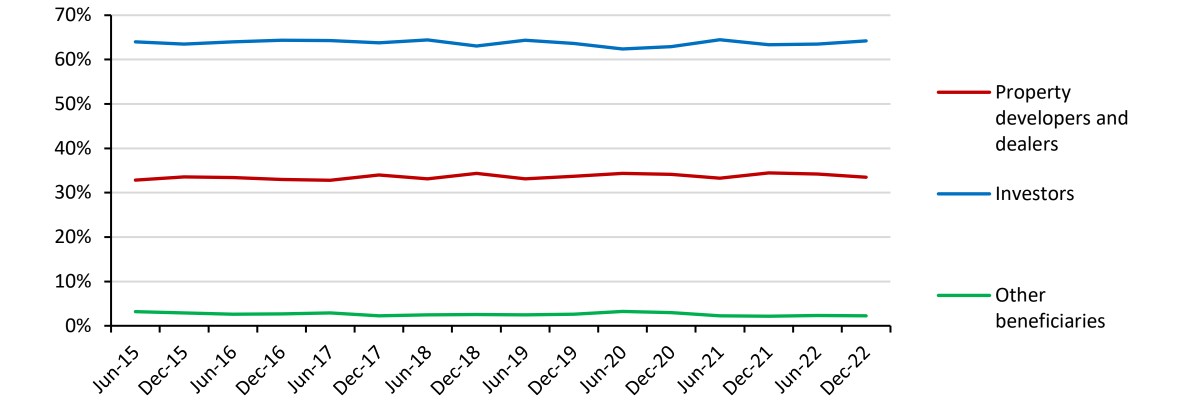
Chart 23 Structure of total gross exposure according to type of commitment and geographical area



Source: ACPR

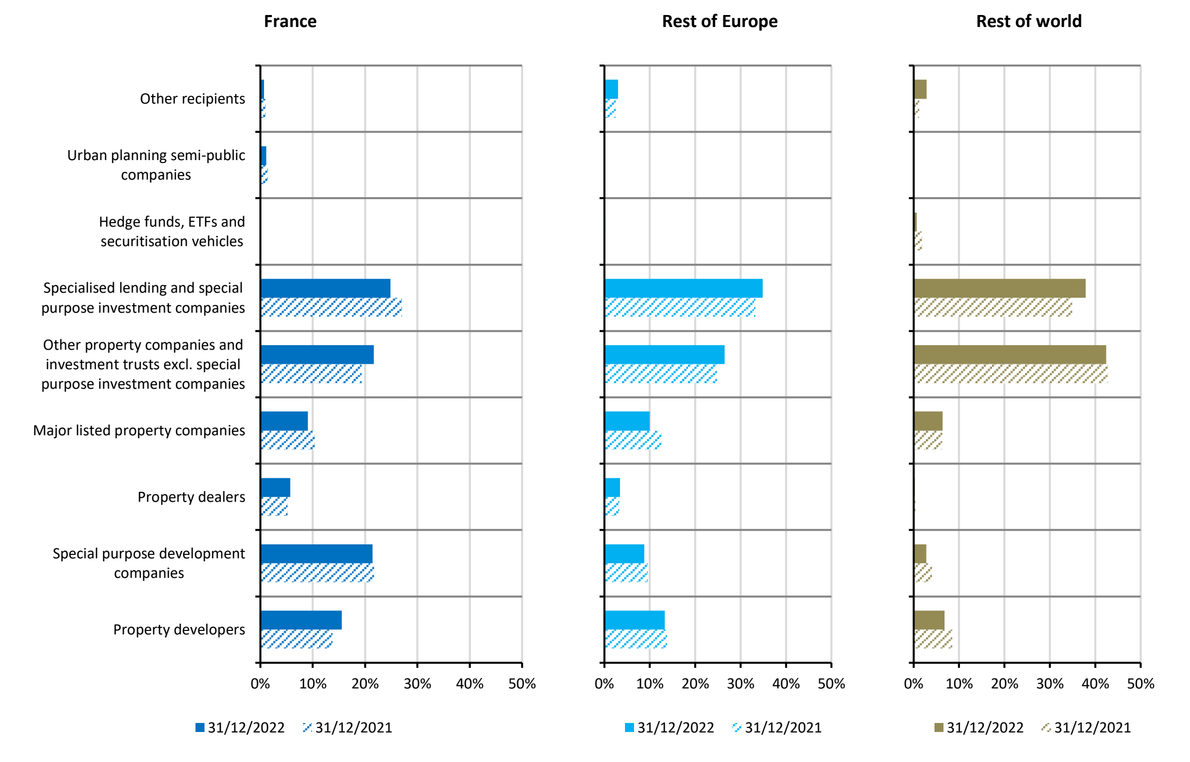
2. The structure of exposures according to type of beneficiary remained stable compared to 2021

Chart 24 Changes in the structure of total gross exposure according to type of beneficiary



Source: ACPR

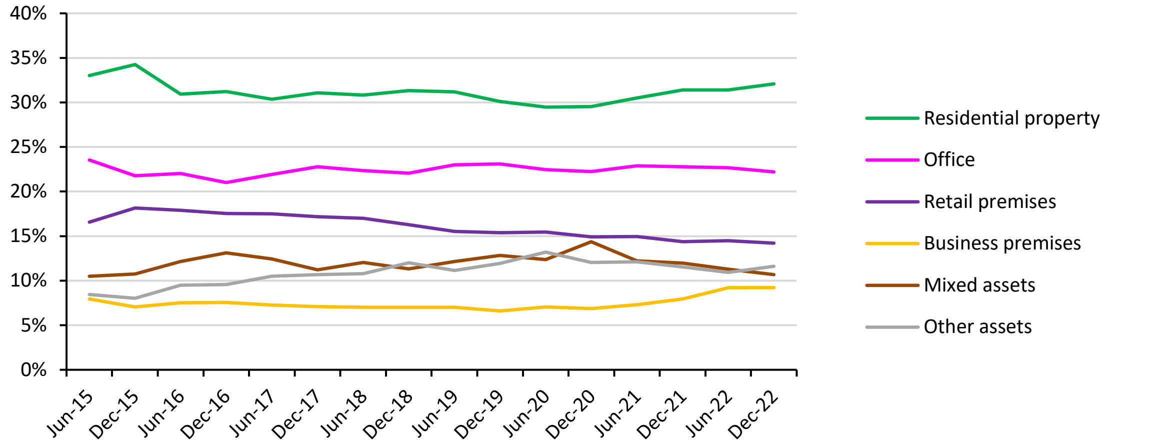
Chart 25 Changes in the structure of total gross exposure according to type of beneficiary and geographical area



Source: ACPR

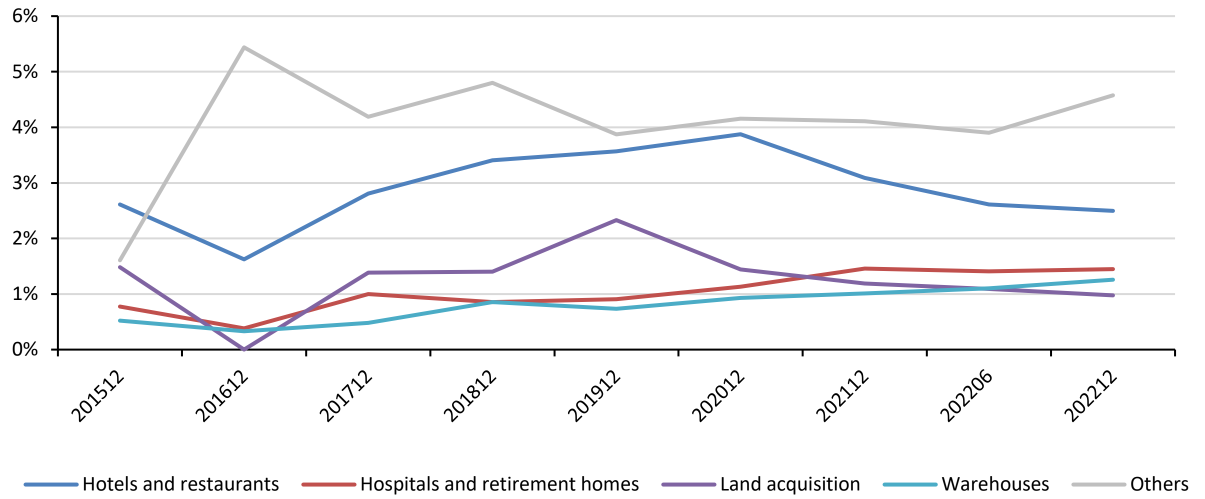
3. Investment in residential assets and business premises located abroad increased

Chart 26 Structure of total gross exposure according to asset type



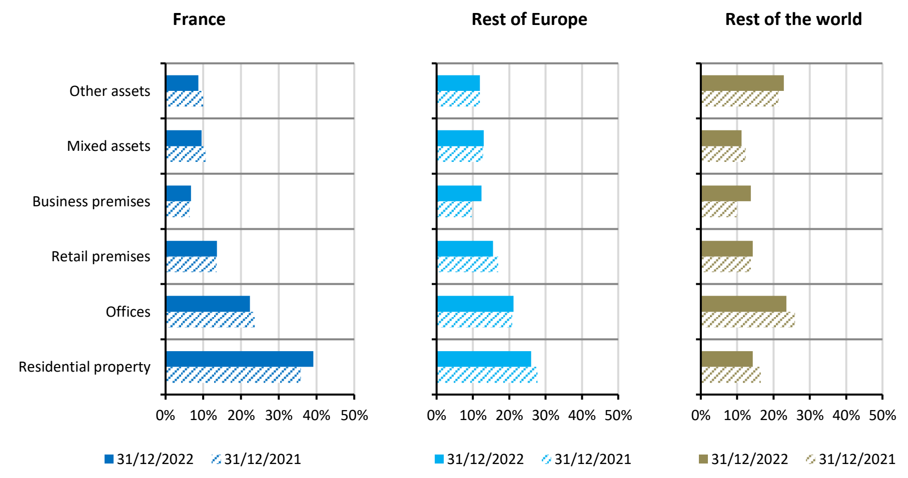
Source: ACPR

Chart 27 Structure of total gross exposure according to asset type - focus on other assets



Source: ACPR; breakdown based on the clarification provided by banks on their "other assets" category (open-ended answers); the "other" item in the chart above comprises "other assets" for which banks did not provide any clarification

Chart 28 Structure of total gross exposure according to type of asset and geographical area



Source: ACPR

Table 2 Changes in total gross exposure according to beneficiary and asset types

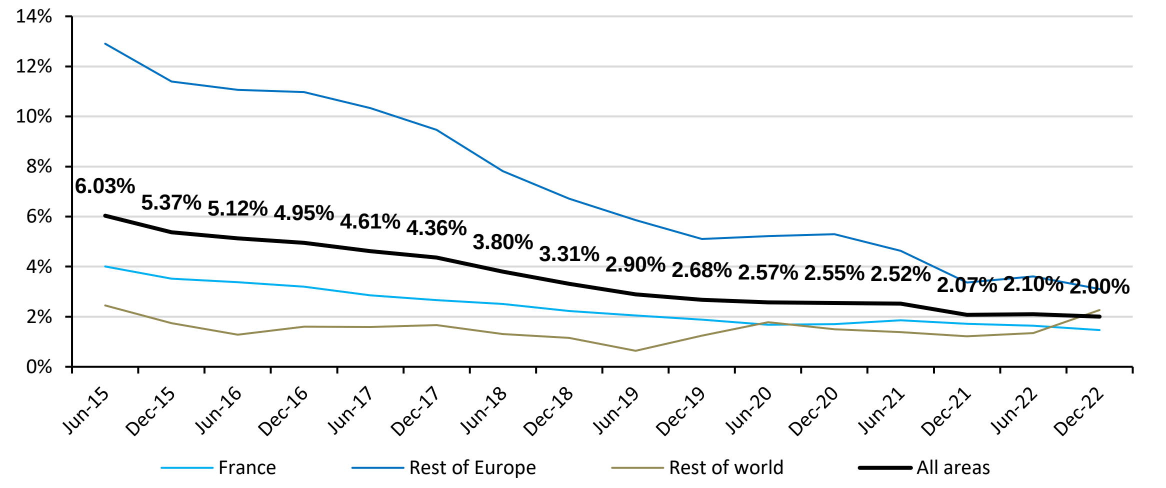
202212 vs 202112	Property developers	Special purpose development companies	Property dealers	Listed property companies	Other property companies	Specialised financing	Hedge funds and vehicles	Urban planning semi-investment companies	Other beneficiaries	**Total**
Residential property	+0.2 pp	-0.3 pp	+0.2 pp	-0.5 pp	+0.8 pp	+0.4 pp	+0.0 pp	-0.1 pp	-0.1 pp	**+0.7 pp**
Offices	-0.1 pp	-0.5 pp	+0.1 pp	-0.0 pp	+0.3 pp	-0.4 pp	-0.1 pp	-0.0 pp	+0.2 pp	**-0.6 pp**
o/w Île de France	*-0.1 pp*	*-0.4 pp*	*+0.1 pp*	*+0.0 pp*	*+0.2 pp*	*-0.5 pp*	*+0.0 pp*	*+0.0 pp*	*+0.1 pp*	***-0.6 pp***
o/w rest of France	*+0.0 pp*	*-0.1 pp*	*-0.0 pp*	*-0.1 pp*	*+0.3 pp*	*-0.0 pp*	*+0.0 pp*	*-0.0 pp*	*+0.0 pp*	***+0.0 pp***
Retail premises	-0.1 pp	-0.0 pp	-0.0 pp	-0.2 pp	+0.3 pp	-0.3 pp	+0.0 pp	+0.0 pp	+0.1 pp	**-0.2 pp**
Business premises	-0.0 pp	-0.1 pp	-0.0 pp	+0.1 pp	+0.4 pp	+0.9 pp	-0.0 pp	+0.0 pp	-0.0 pp	**+1.3 pp**
Mixed assets	-0.2 pp	-0.3 pp	-0.1 pp	-0.3 pp	-0.1 pp	-0.1 pp	-0.1 pp	-0.0 pp	-0.1 pp	**-1.3 pp**
Other assets	+0.3 pp	-0.1 pp	+0.0 pp	-0.3 pp	+0.1 pp	-0.1 pp	+0.0 pp	-0.0 pp	+0.2 pp	**+0.1 pp**
Total	**+0.1 pp**	**-1.3 pp**	**+0.1 pp**	**-1.3 pp**	**+1.8 pp**	**+0.5 pp**	**-0.2 pp**	**-0.2 pp**	**+0.3 pp**	

Source: ACPR

CREDIT RISK REMAINS LIMITED

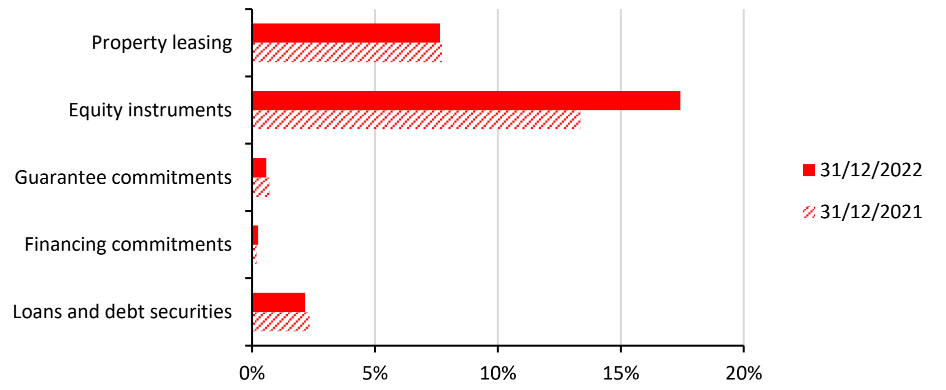
1. The share of doubtful and impaired exposures stabilised at a low level

Chart 29 Gross doubtful and impaired exposure ratio according to geographical area



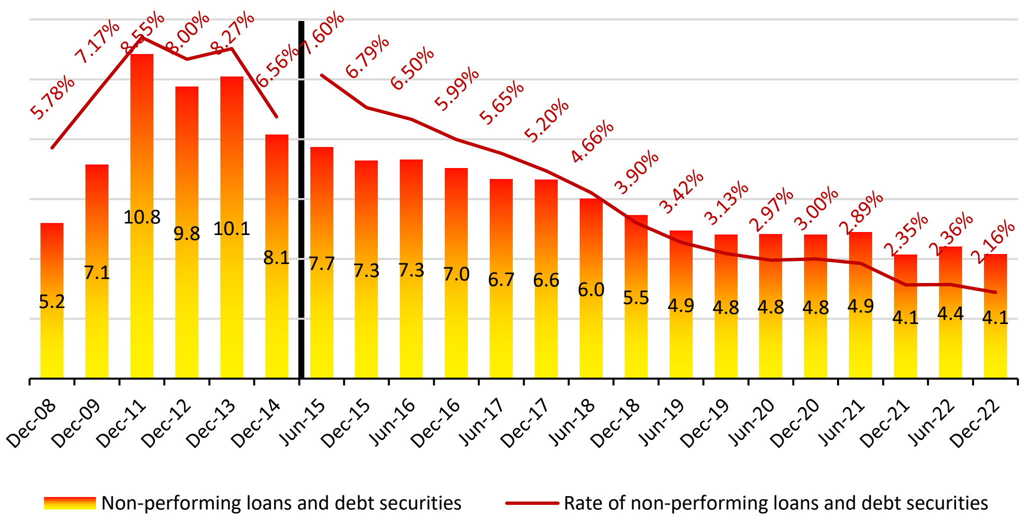
Source: ACPR

Chart 30 Gross doubtful and impaired exposure ratio according to type of loan and geographical area



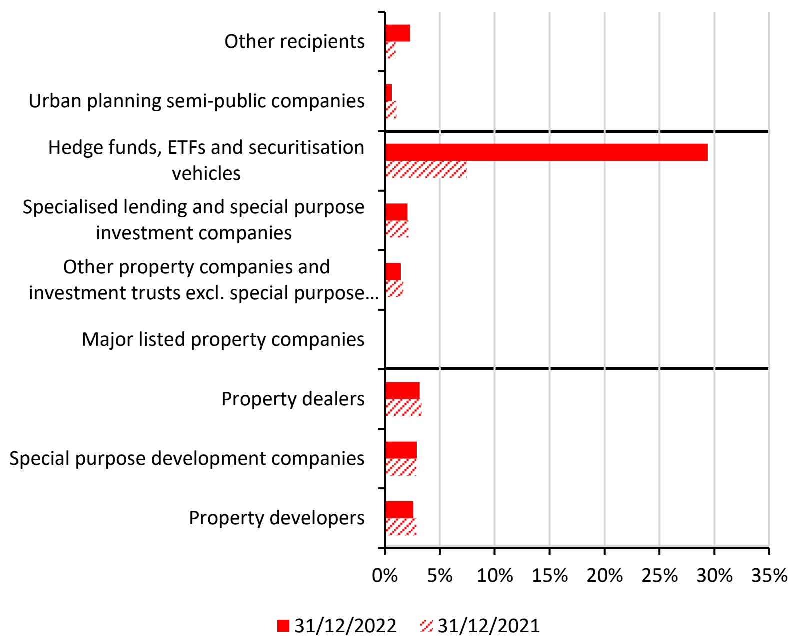
Source: ACPR

Chart 31 Gross doubtful loans and debt securities expressed as an amount (histogram) and as a % of total gross exposure



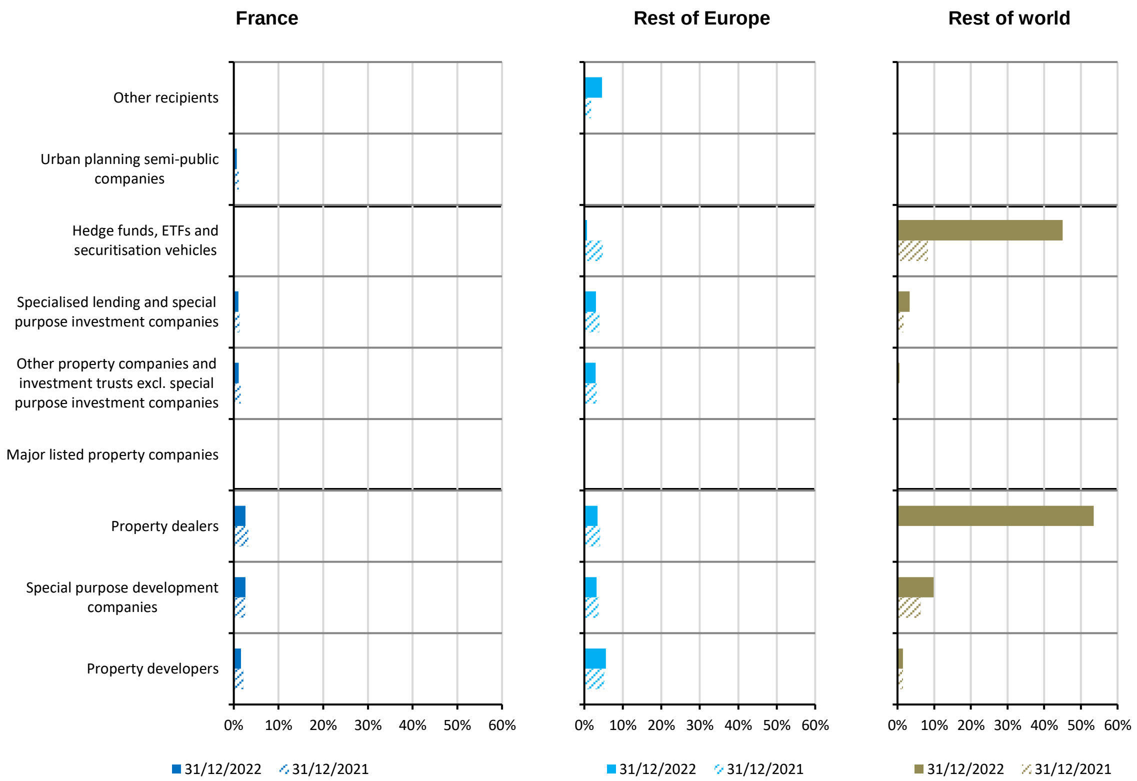
Source: ACPR

Chart 32 Gross doubtful and impaired exposure ratio according to type of beneficiary



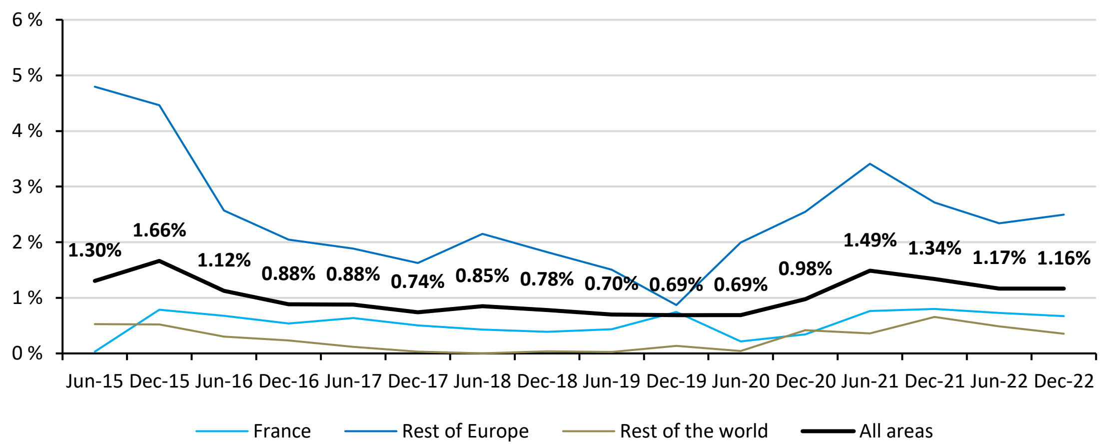
Source: ACPR

Chart 33 Gross doubtful and impaired exposure ratio according to type of beneficiary and geographical area



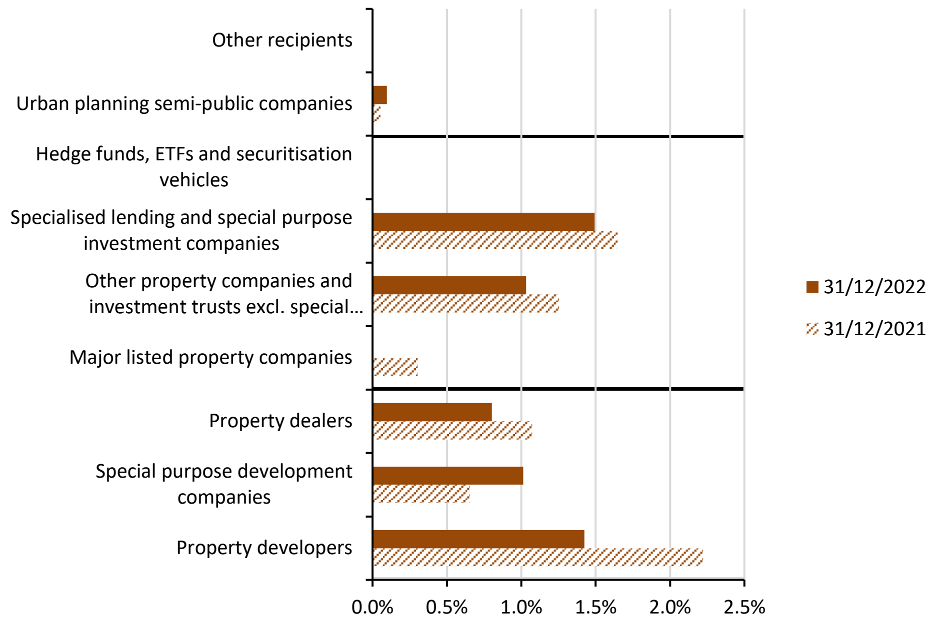
Source: ACPR

Chart 34 Share of forborne exposures according to geographical area



Source: ACPR

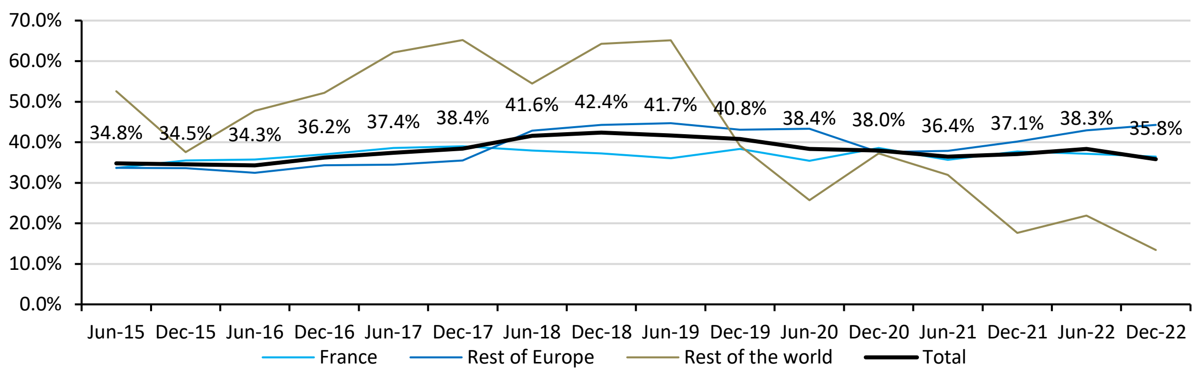
Chart 35 Share of forborne exposures according to type of beneficiary



Source: ACPR

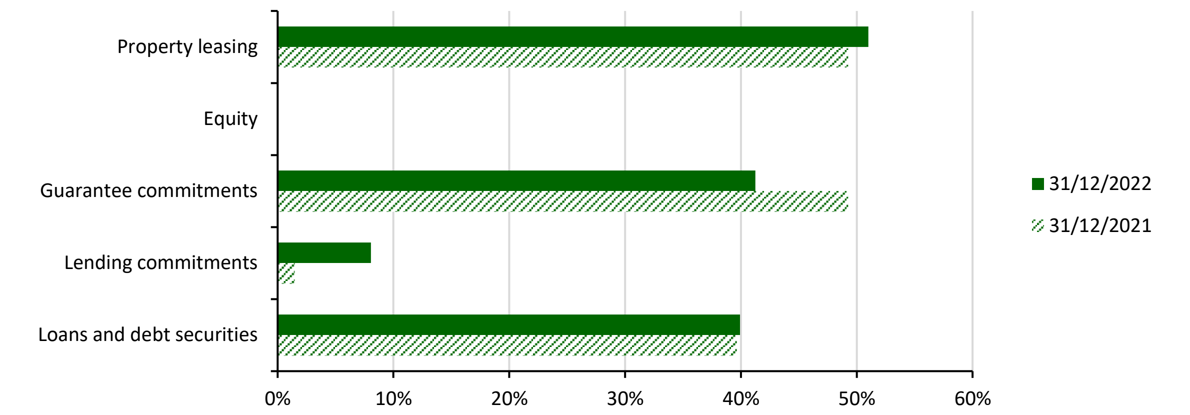
2. The provisioning rate for doubtful exposures continues to decrease

Chart 36 Provisioning rate for gross and impaired loans and debt securities according to geographical area



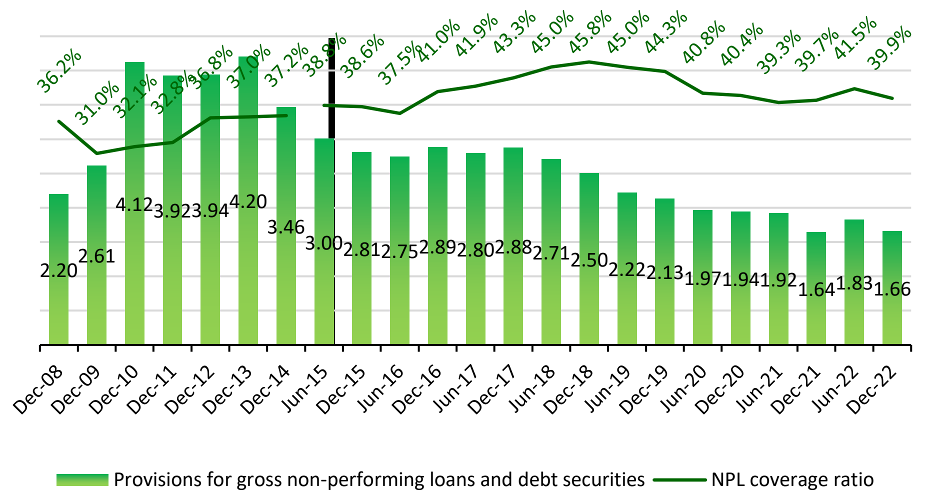
Source: ACPR

Chart 37 Provisioning rate for gross doubtful and impaired exposures according to type of commitment



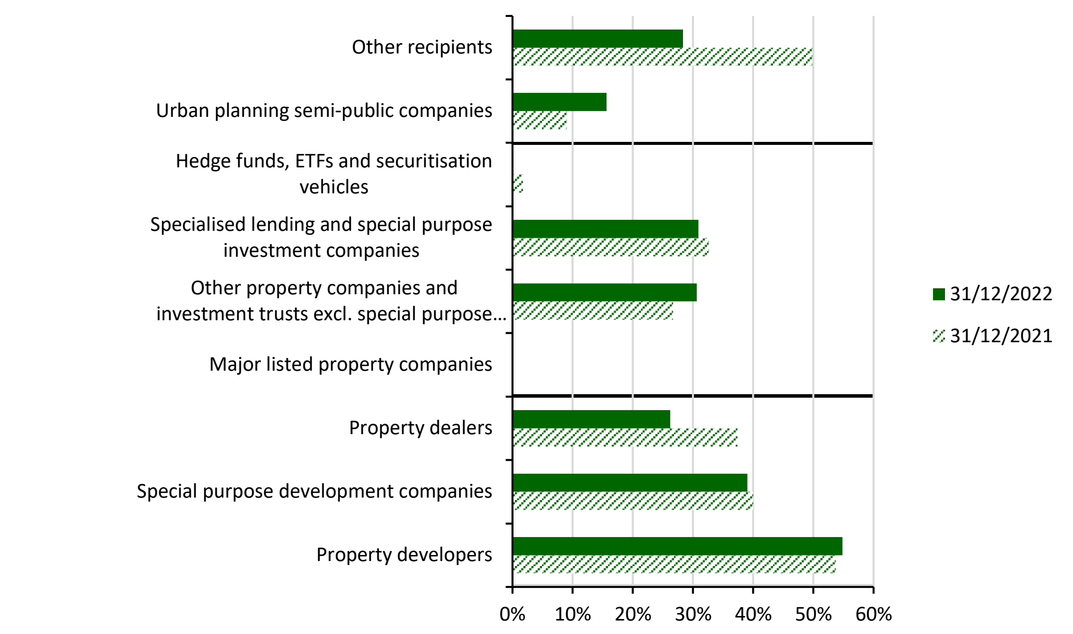
Source: ACPR

Chart 38 Amount of provisions (histogram) and provisioning rate for gross doubtful and impaired exposures



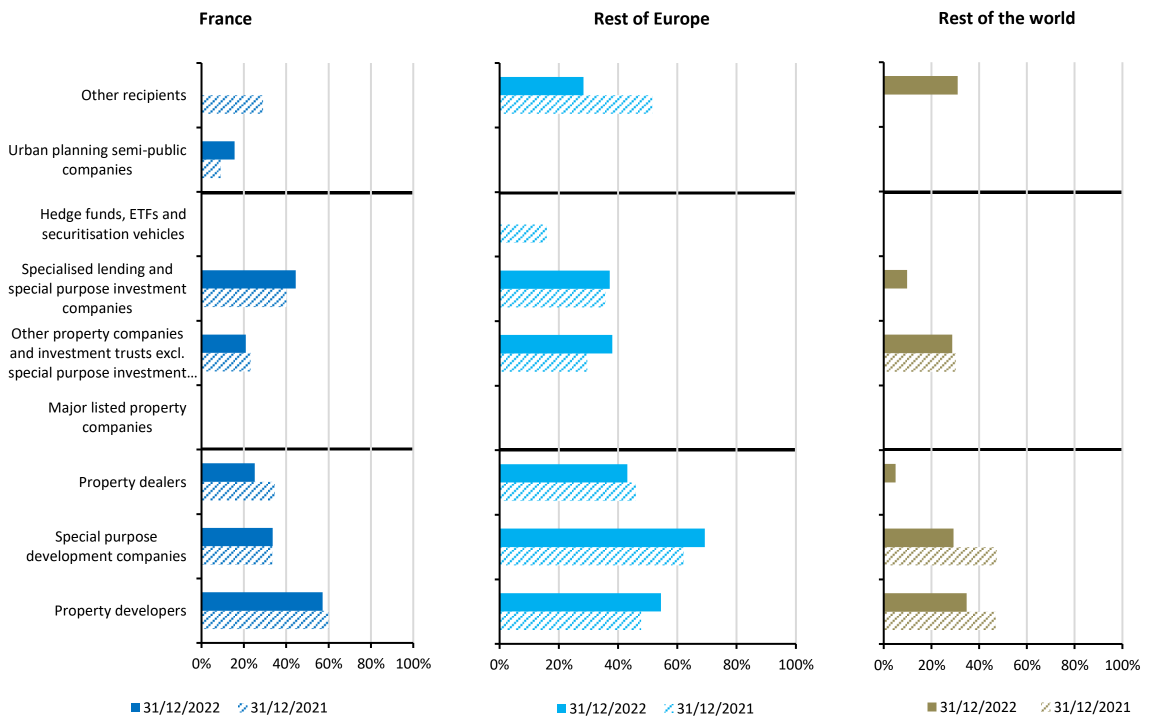
Source: ACPR

Chart 39 Provisioning rate for gross doubtful and impaired exposures according to type of beneficiary



Source: ACPR

Chart 40 Provisioning rate for gross doubtful and impaired exposures according to type of beneficiary and geographical area

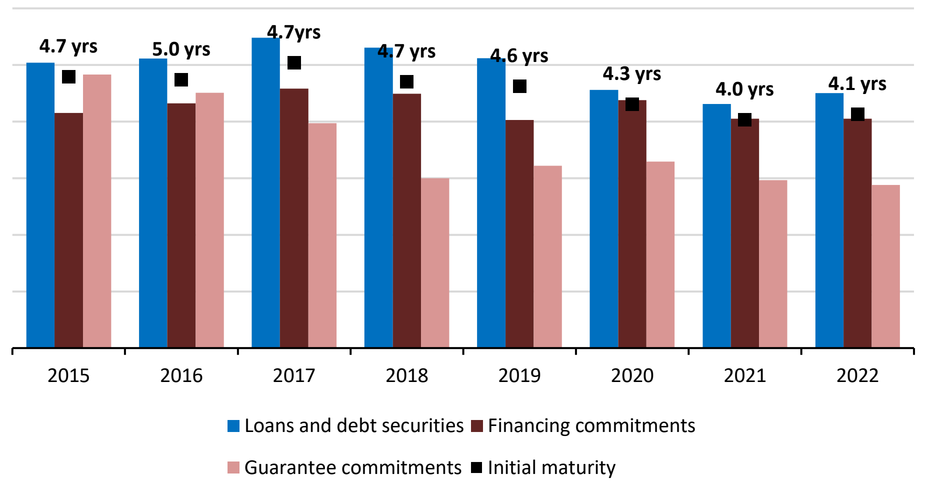


Source: ACPR

3. Risk indicators remain sound overall

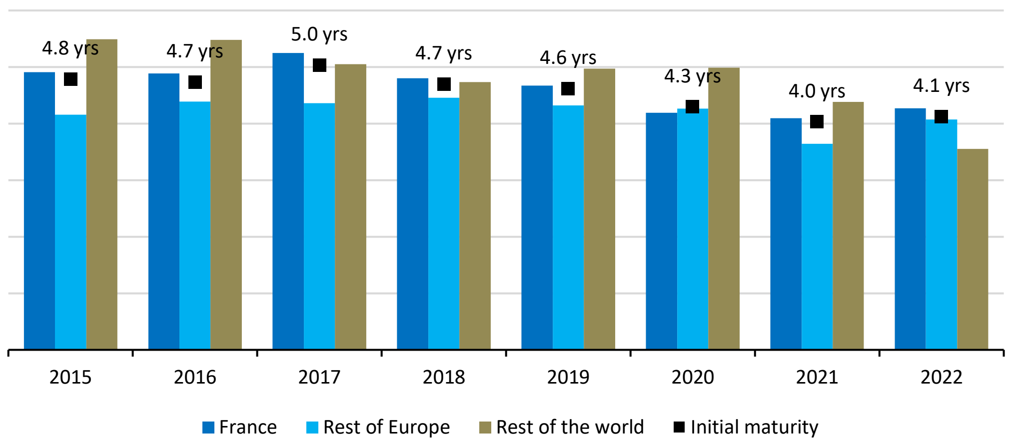
3.1. The initial duration of new loans recorded a marginal increase

Chart 41 Initial maturity according to commitment type



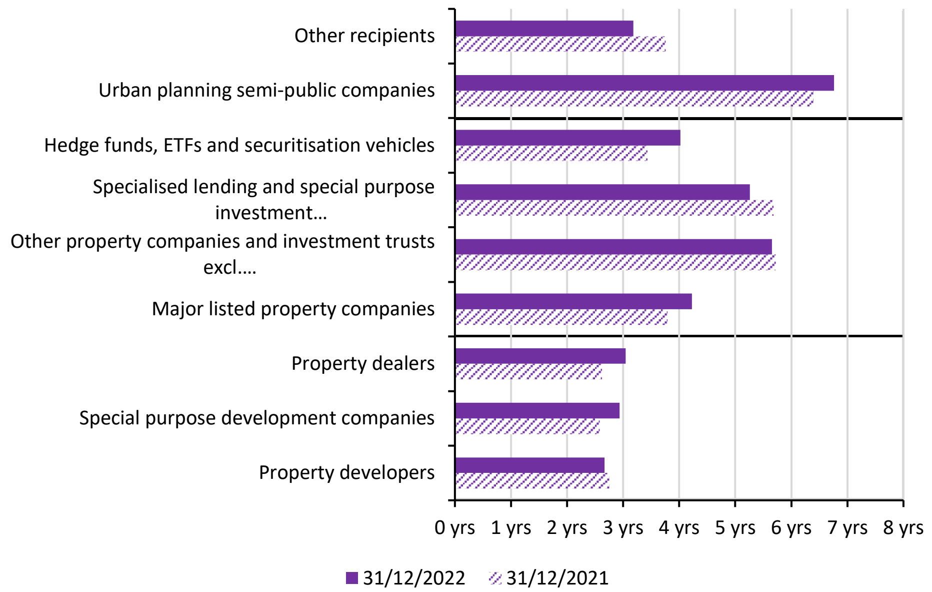
Source: ACPR

Chart 42 Initial maturity according to geographical area



Source: ACPR

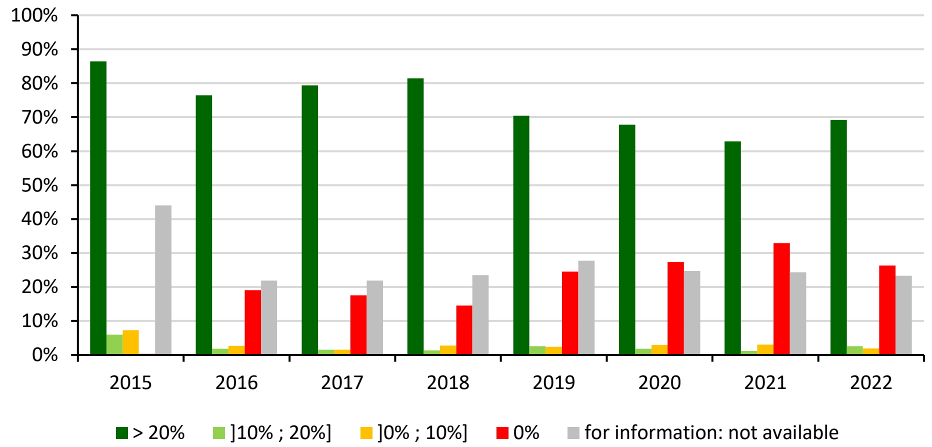
Chart 43 Initial maturity according to beneficiary



Source: ACPR

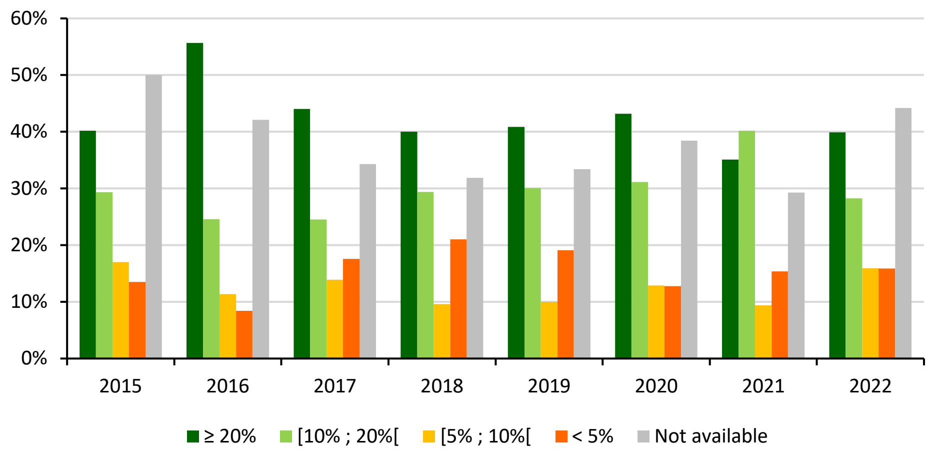
3.2. The share of transactions for which the pre-sales rate is nil contracted for the first time since 2018

Chart 44 Pre-sales ratio



Source: ACPR; scope: France, special purpose development companies and property dealers

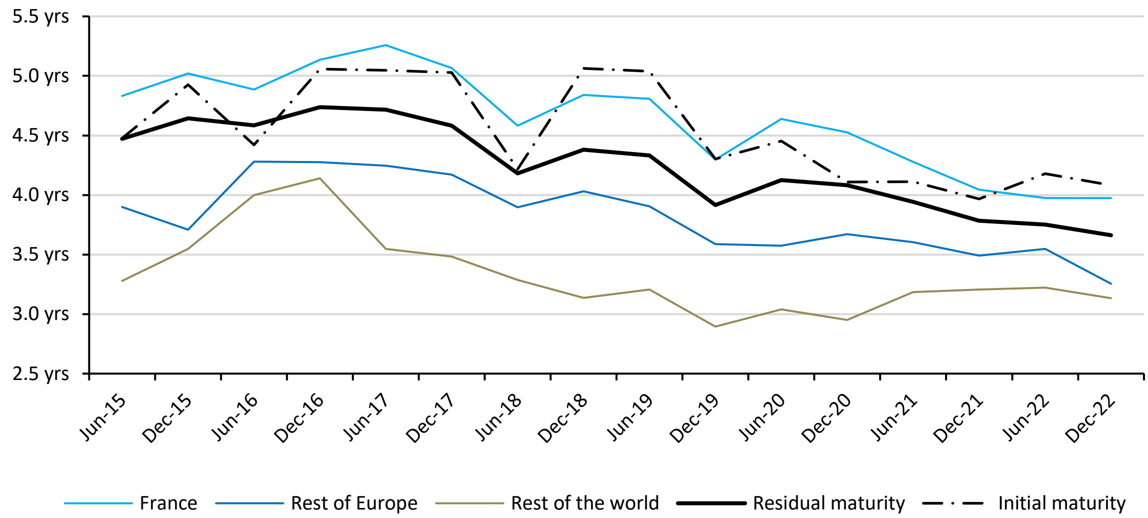
Chart 45 Equity ratio at origination



Source: ACPR; scope: all geographical areas, property dealers

3.3. Residual maturities remained on a downward trend

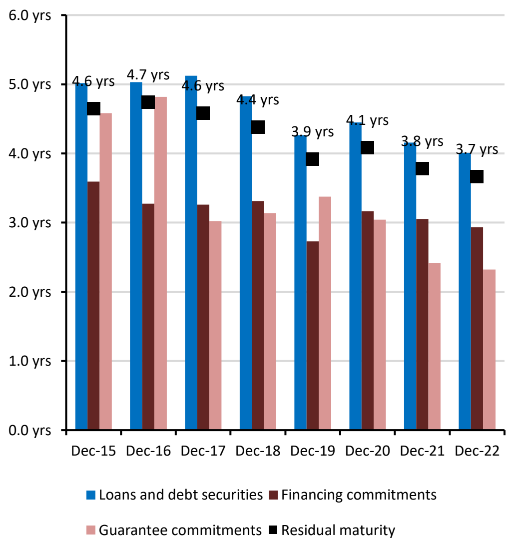
Chart 46 Residual maturity of exposures according to geographical area

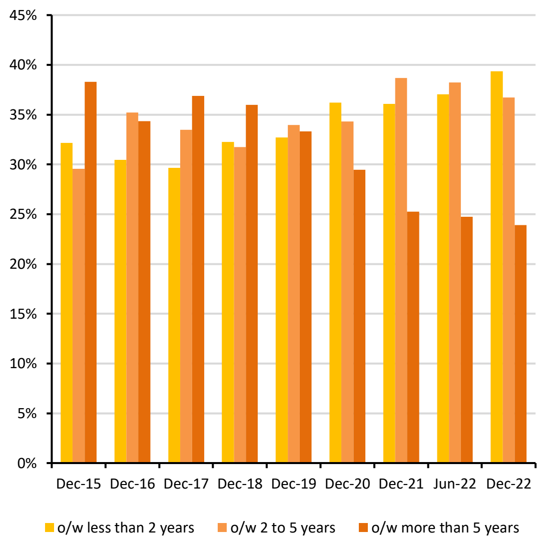


Source: ACPR

Chart 47 Residual maturity according to commitment type

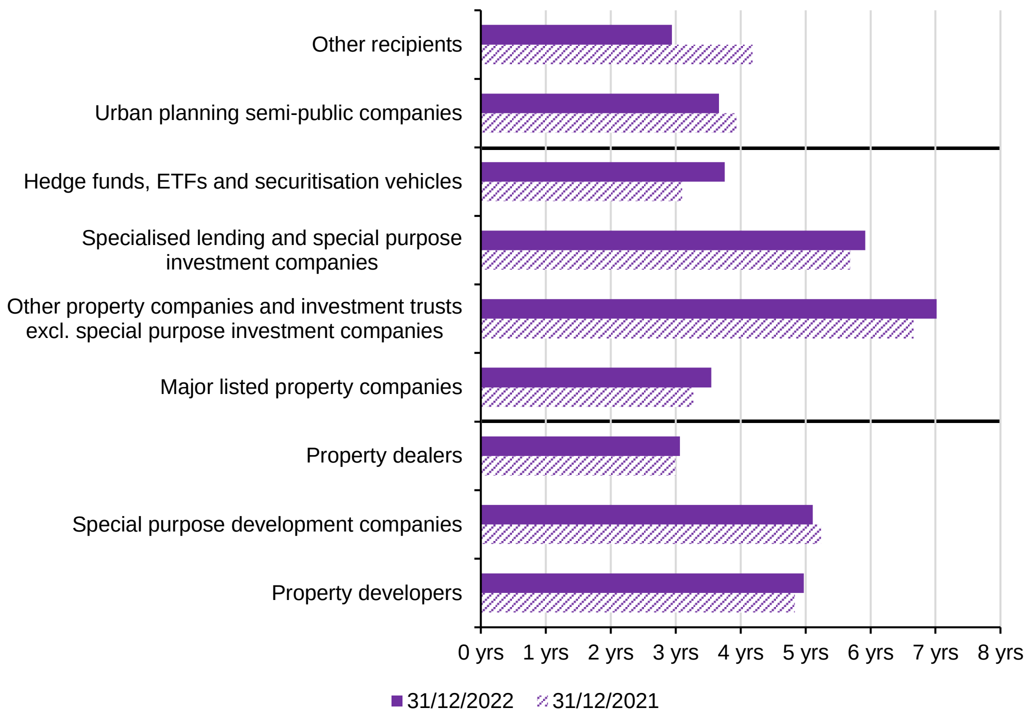
Graphique 1 Residual maturity of loans and debt securities broken down by tranche





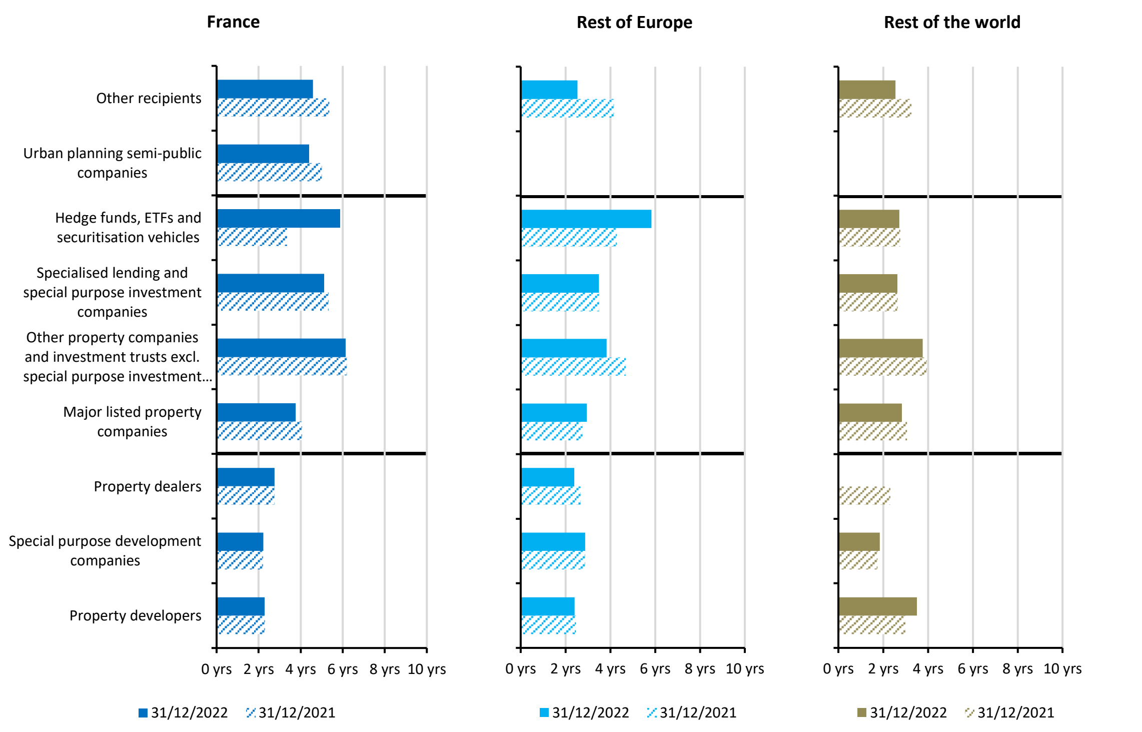
Source: ACPR

Chart 48 Residual maturity according to type of beneficiary



Source: ACPR

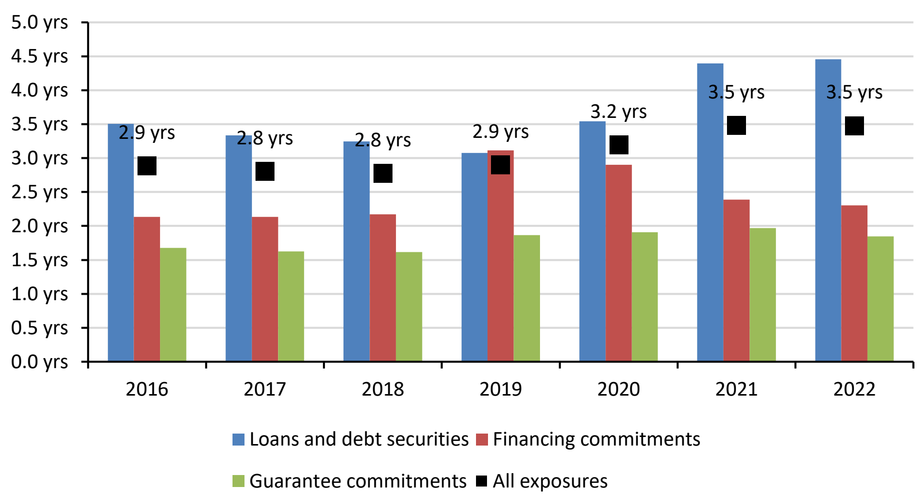
Chart 49 Residual maturity according to type of beneficiary and geographical area



Source: ACPR

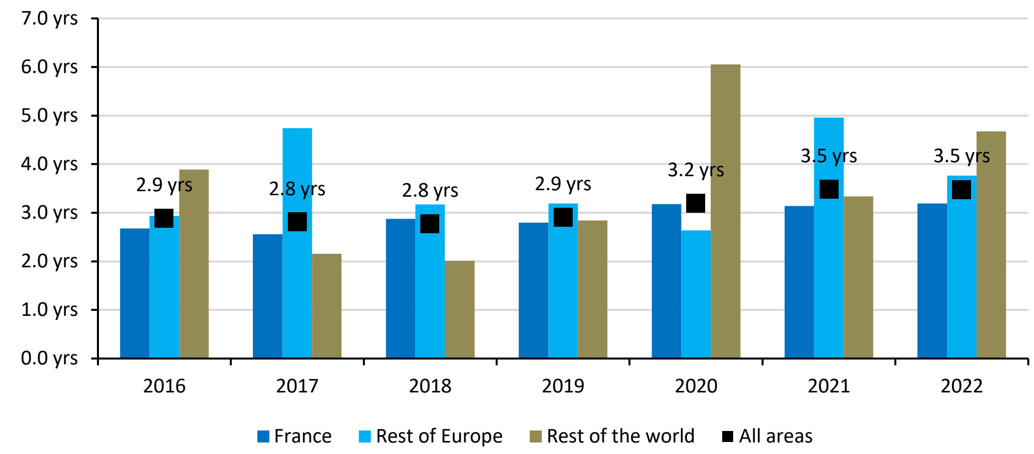
3.4. The renewal rate levels off

Chart 50 Exposure renewal rate according to type of commitment



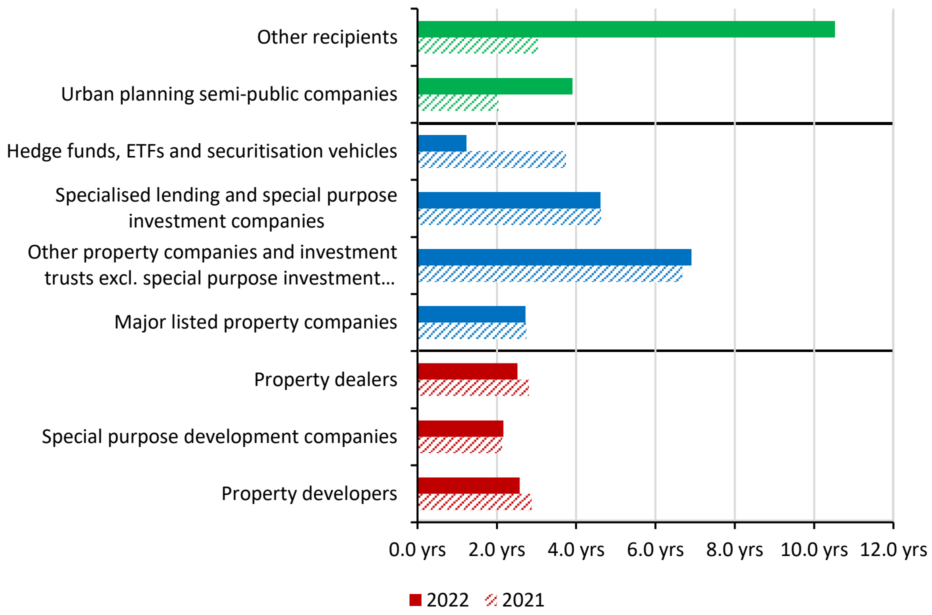
Source: ACPR

Chart 51 Exposure renewal rate according to geographical area



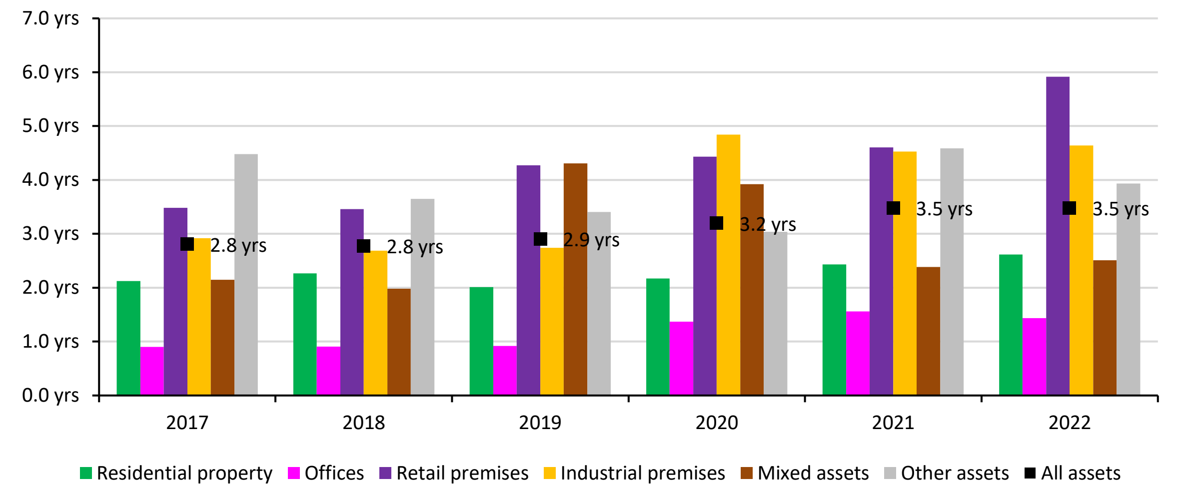
Source: ACPR

Chart 52 Exposure renewal rate according to type of beneficiary



Source: ACPR

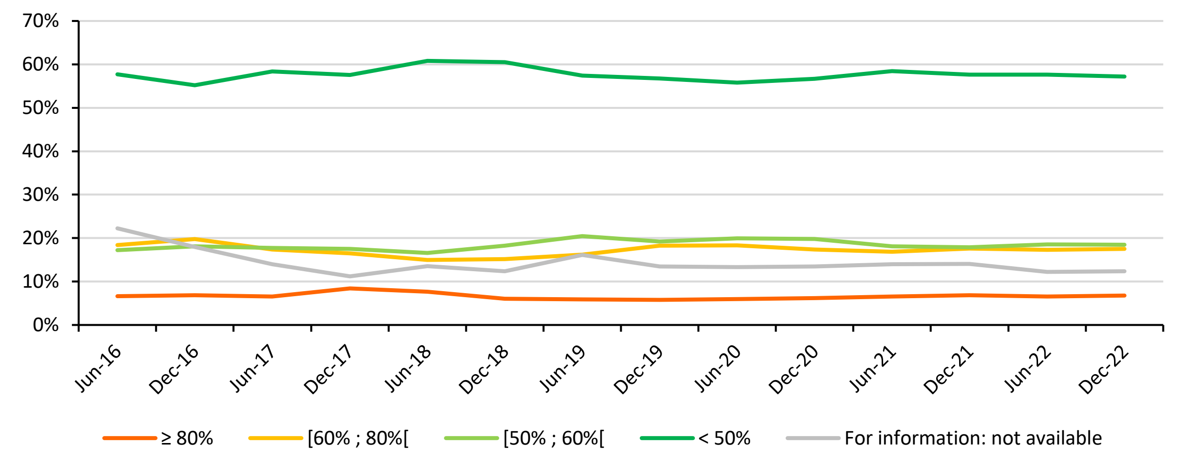
Chart 53 Exposure renewal rate according to asset type



Source: ACPR

3.5. The structure of exposures according to LTV ratio remained stable

Chart 54 Current LTV ratio of outstanding exposures

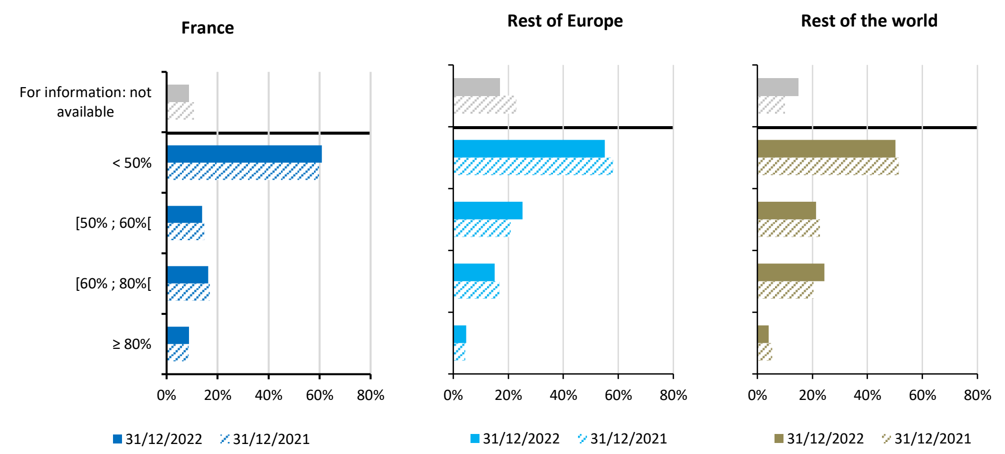


Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special-purpose investment companies

Chart 55 Current LTV ratio of outstanding exposures according to type of beneficiary

Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special-purpose investment companies

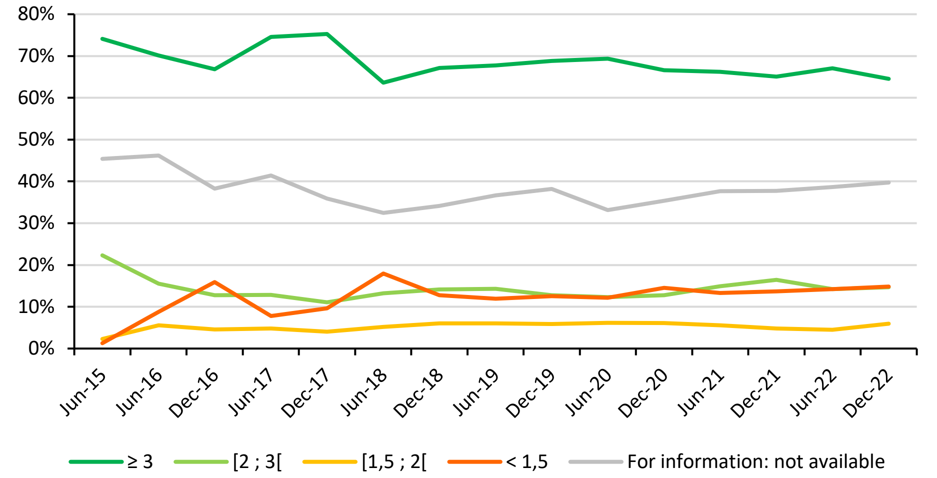
Chart 56 Current LTV ratio of outstanding exposures according to geographical area



Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special-purpose investment companies

3.6. Interest coverage ratios (ICR) and debt-to-service service coverage ratios (DSCR) remained sound

Chart 57 Interest coverage ratio (ICR)

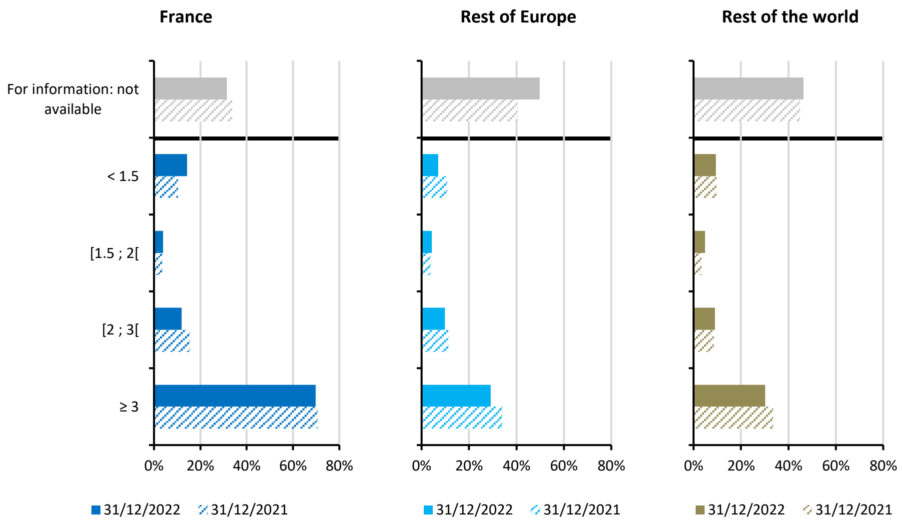


Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special-purpose investment companies

Chart 58 ICR according to type of beneficiary

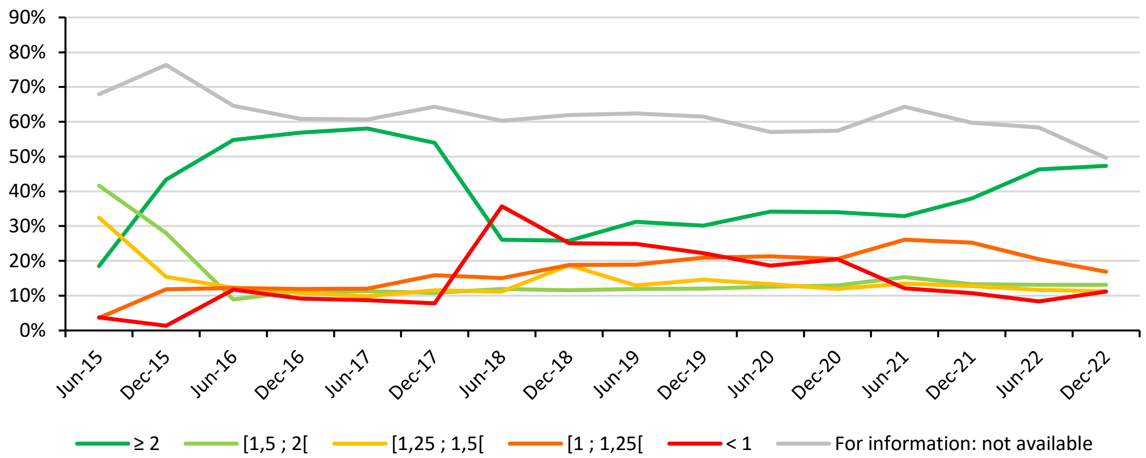
Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special-purpose investment companies

Chart 59 ICR according to geographical area



Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special-purpose investment companies

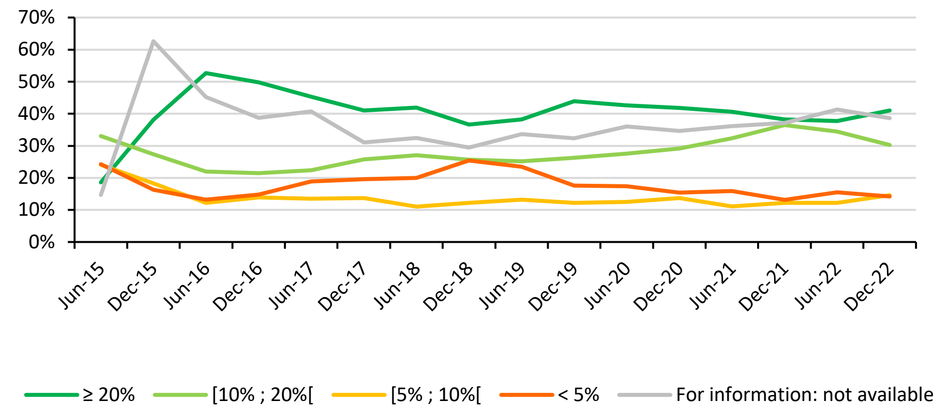
Chart 60 Debt service coverage ratio (DSCR)



Source: ACPR; scope: specialised financing and special-purpose investment companies

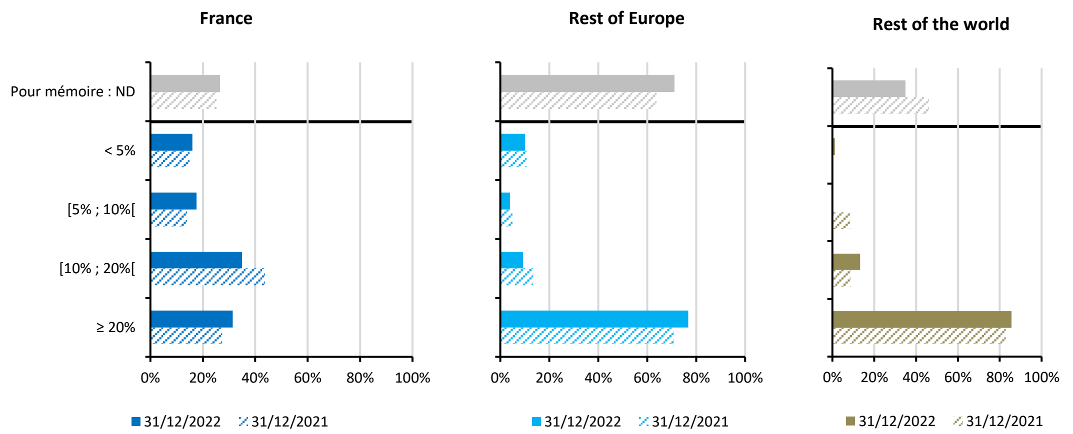
3.7. The equity adequacy ratios of property dealers remained high

Chart 61 Equity ratios associated with outstanding exposures to real estate developers



Source: ACPR

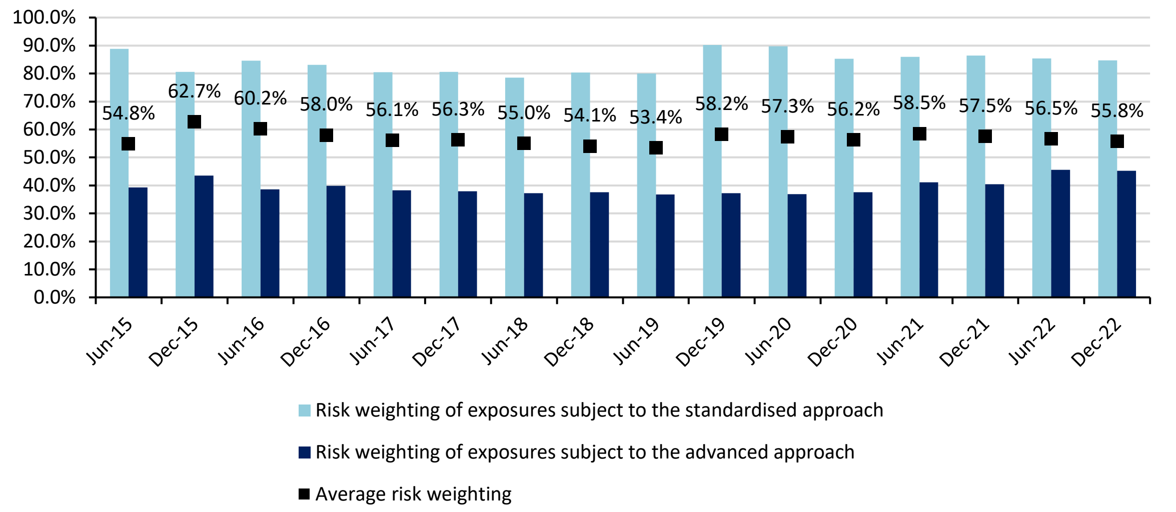
Chart 62 Equity ratios of real estate developers with amounts outstanding according to geographical area



Source: ACPR

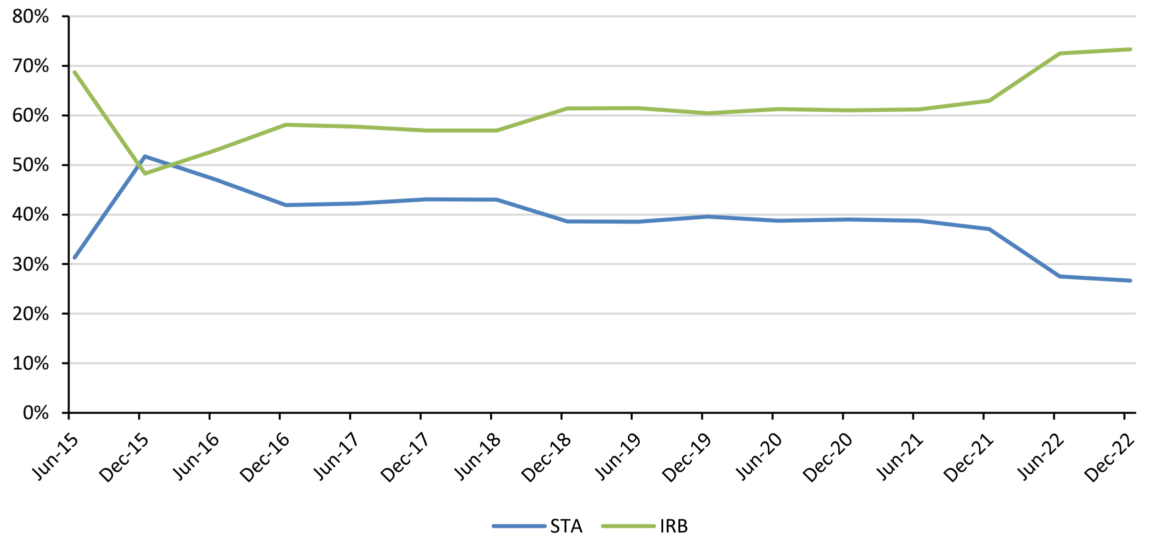
3.8. The average risk weight decreased

Chart 63 Risk weights applied to exposures



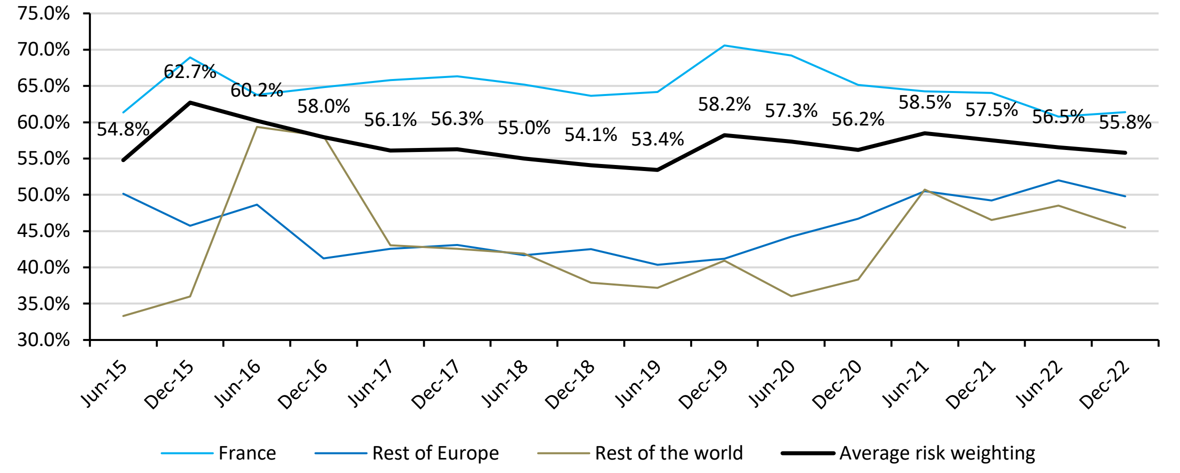
Source: ACPR

Chart 64 Structure of exposures according to the method used for the calculation of the solvency ratio



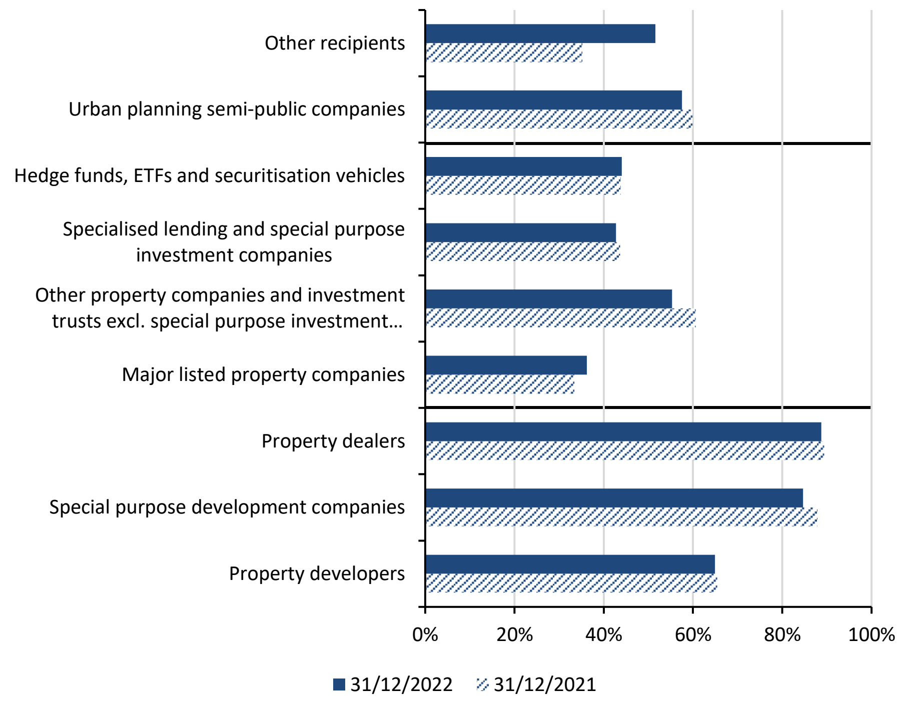
Source: ACPR

Chart 65 Right weights applied to exposures according to geographical area



Source: ACPR

Chart 66 Risk weights applied to exposures according to type of beneficiary



Source: ACPR

GLOSSARY

1. Indicators for the corporate real estate market in the Ile-de-France region [ImmoStat]

- Take-up of office space: office take-up refers to the cumulated floor space of all new leases or sales to occupiers (as opposed to sales to investors) that will be used as offices. It is expressed in square meters of usable floor space.

  This indicator only takes into account new leases signed for a term exceeding 12 months. Therefore, lease renegotiations and sales to existing tenants are excluded.

- Average rent: average rents are expressed in euros, excluding taxes and charges, per square metre per year (€/sqm/yr, tax and charges excluded) for second-hand offices on one side and new/structurally restructured offices on the other.

  For each type of property and each market segment, ImmoStat calculates a simple average for small, medium and large transactions, based on a market-specific breakdown. When there are fewer than 3 references available for one of these calculations, the result for the previous quarter is used to complete the sample.

  In order to obtain an average rent, these three averages are consolidated according to their respective weighting in past take-up numbers.

  This imposed structure is designed to prevent the indicator from varying as a result of changes in the various market activity profiles.

- Incentive rate: incentive rates are based on four types of concessions:

  1° rent-free periods,

  2° capital payments for works,

  3° step-up rents,

  4° provision of premises.

  The incentive rate represents the weight of these adjustments in relation to the total income that would be obtained at headline rent price over the firm term of the lease.

  The incentive rate is only calculated for rental transactions with a floor space at least equal to 1,000 sqm.

  Each quarter, the incentive rate is calculated for the previous 12-month period.

- Price per sqm of office space investments: the price of office investments is expressed in euros "deed in hand" per sqm (€ DIH/sqm).

  This indicator is calculated as a simple average of the prices recorded over the last twelve months, within each geographical sub-sector of the ImmoStat breakdown.

  In order to ensure representativeness and confidentiality, however, each result is only updated if it is based on at least three distinct transactions.

Local results are aggregated according to a fixed breakdown to obtain higher level series, such as the whole Ile-de-France region. This approach makes it possible to offset variations that might arise due to changes in the various market activity profiles.

It should be noted that this indicator only reflects average prices observed for offices acquired for investment purposes, for a nominal amount of at least EUR 4 million “deed in hand”.

- Immediate supply: immediate supply represents the cumulated floor space of all offices that are currently available on the market. This indicator is obtained by calculating the average of estimates provided by ImmoStat members, with separate figures for first- and second-hand properties.

  The ACPR calculates another indicator (take-up time) by relating, for a given period, the immediate supply of office space to the take-up of office space. This estimates the theoretical number of years needed to absorb all the available space.

2. Type of beneficiary [ACPR survey]

- Real estate developers: companies that build or renovate buildings with the aim of selling or reselling them at a profit. Land developers[6] and urban development corporations[7] also fall in this category.

  However, loans to semi-public companies and public development corporations are reported under a separate items column (see below).

- Special-purpose property development companies: *ad hoc* legal structures (in France, usually a non-trading real estate company - *Société civile immobilière* (SCI) or a particular form of building-sale non-trading companies – *Société civile de construction-vente* (SCCV)) the aim of which is to build and sell a specific real estate programme.

- Property dealers: real estate professionals who buy property assets for profit, in their own name and on a regular basis, with or without work required, with a view to reselling them. They may also acquire units or shares in real estate companies, again with the view to resale. Property dealers who carry out major restructuring work with a real added value however fall under the same category as developers.

- Major listed real estate companies: major listed property companies specialise in property investment, generating income through real estate portfolios that are usually diversified in terms of assets and geographical areas.

- Other property companies and investment trusts excluding special-purpose investment companies (real estate collective investment funds - OPCI, professional private equity funds - FPCI, real estate investment trusts - REITs, etc.): legal entities carrying out recurring real estate transactions that consist in acquiring property (existing or planned) with the aim of holding it on a long-term basis in order to generate rental income from third parties.

  This category mainly includes:

  - Investment funds specialised in real estate that may adopt a specific status (REITs, OPCI, SCPI, etc.);
  - Specialised real estate subsidiaries of insurance firms;
  - Private property companies (listed or unlisted).

- Specialised financing and special-purpose investment companies: companies created to hold a building (or a block of buildings) with the aim of renting and/or using it in the best interests of the company, increasing its value, keeping it, or reselling it. The shareholders of these companies may be investment funds, real estate companies, insurance funds, as well as other investors defined above. This item also covers exposures subject to Article 147-8 of Regulation (EU) No 575/2013.

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[6] Land developers buy land, ensuring that it is viable to build on, then sell it on divided in plots.

[7] Urban development corporations in France include professionals who conduct urban development initiatives or projects such as those referred to in Article L-300-1 of the French Town Planning Code.

- Hedge funds, ETFs and securitisation vehicles: companies the purpose of which is to sell financial products that enable investors to acquire indirect exposure to the property sector. With regard to securitisation, this category only covers commercial mortgage-backed securities (CMBS) and liquidity lines granted to conduits. Loans awaiting securitisation remain included in their initial category.

- Semi-public companies: specialise in urban development, as defined above.

- Other beneficiaries: beneficiaries that cannot be listed under any of the abovementioned items.

3. Geographical areas [ACPR survey]

When information is available, the breakdown of new lending and exposures is based on the location of each of the financed assets.

This survey distinguishes between the following three mutually exclusive areas:

- “France"
- “Rest of Europe”: UE28 excluding France, Iceland, Norway, Switzerland and Lichtenstein;
- “Rest of the world”: all countries not listed under the two previous items.

Where information is not available, all new loans/exposures are assigned to the geographical area that contains the bulk of the assets (in terms of the total value of assets).

4. Type of asset [ACPR survey]

Where the information is available, the breakdown of loans by type of asset is made as a % of the total value of assets financed. When this breakdown is not available, loans are allocated to the asset category that represents the majority of assets (i.e. accounting for more than 50%) within the beneficiary's asset portfolio.

Business premises include all types of retail premises (from shops on the ground floor to shopping centres) whereas business premises are used to design and produce goods.

The term diversified assets refer to situations where the whole asset portfolio may be used as collateral in the event of borrower default (e.g. certain major listed property companies when they do not operate in a specific market segment).

Lastly, other types of assets includes notably green field sites and property under construction where it can be clearly identified, hotels and hotel residences, logistics warehouses and healthcare facilities.

5. Risk indicators [ACPR survey]

- Average initial term: average, weighted by the amounts outstanding, of the terms set of the loan, credit line or guarantee agreements;
- Average residual term: average, weighted by the amounts outstanding, of the remaining maturities of each loan on the basis of the maturities dates provided for in the initial contracts;
- Pre-marketing / pre-leasing rate: value of the space sold or leased at the time of granting of the loans, divided by the total anticipated sales for the property programme concerned.
- Equity (investment) ratio: the equity investment ratio is the amount of equity contributed by the real estate developer to the overall budget of the financed operation (=1-LTV- % of buyers' contribution);
- Equity ratio: ratio of equity to the promoter's balance sheet total, on a consolidated basis if available, on an individual basis if it is not;
- Current LTV ratio of exposures: outstanding capital on loans granted as a proportion of the market value of the property financed; the current LTV ratio of outstanding exposures can be calculated at the level of the beneficiary (Major listed real estate companies, Other property companies and investment trusts excluding special-purpose investment companies (real estate collective

investment funds - OPCI, professional private equity funds – FPCI, real estate investment trusts - REITs)) or at the level of the transaction (specialised lending and special-purpose investment companies).

- Interest coverage ratio (ICR): gross operating surplus (or EBITDA) of the borrower divided by the annual amount of interest on the debt instrument, all types of loans included.
- Debt service coverage ratio (DSCR): gross operating surplus (or EBITDA) of the borrower divided by the annual debt repayments (capital + interest), all types of loans included. This item is only filled in for specialised lending and other special-purpose investment companies for which the ICR is not available.
- Ratio of restructured exposures in good standing: restructured exposures in good standing include exposures that, while not classified as doubtful, have given rise to an adjustment of the original terms of the contract because of difficulties that the debtor is experiencing or likely to experience in meeting his or her commitments.
- Renewal rate of exposures: ratio between the outstanding amount at the end of the previous year and amortisation for a given year, expressed as follows $Renewing\ pace_n = Outstanding\ Amount_{n-1}/Depreciation_n$(amortisation for a given year being calculated as the difference between new lending figures for that year and the change in debt outstanding compared to the previous year: $Depreciation_n = Prod_n - (Outstanding\ Amount_n - Oustanding\ Amount_{n-1})$).