How to navigate through a dislocated capital market environment with a challenging financing backdrop?

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JLL SEE A BRIGHTER WAY

Real Estate M&A Market Update

A challenging environment…

- Recessionary concerns are shifting focus to cyclical risks (i.e. lower consumer spending, increased inflation, rising interest rates, etc.)
- Dislocated public markets hindering access to equity and debt
- Valuation gap between public and private markets near all-times high
- Lack of accretive financing for opportunistic PE strategies

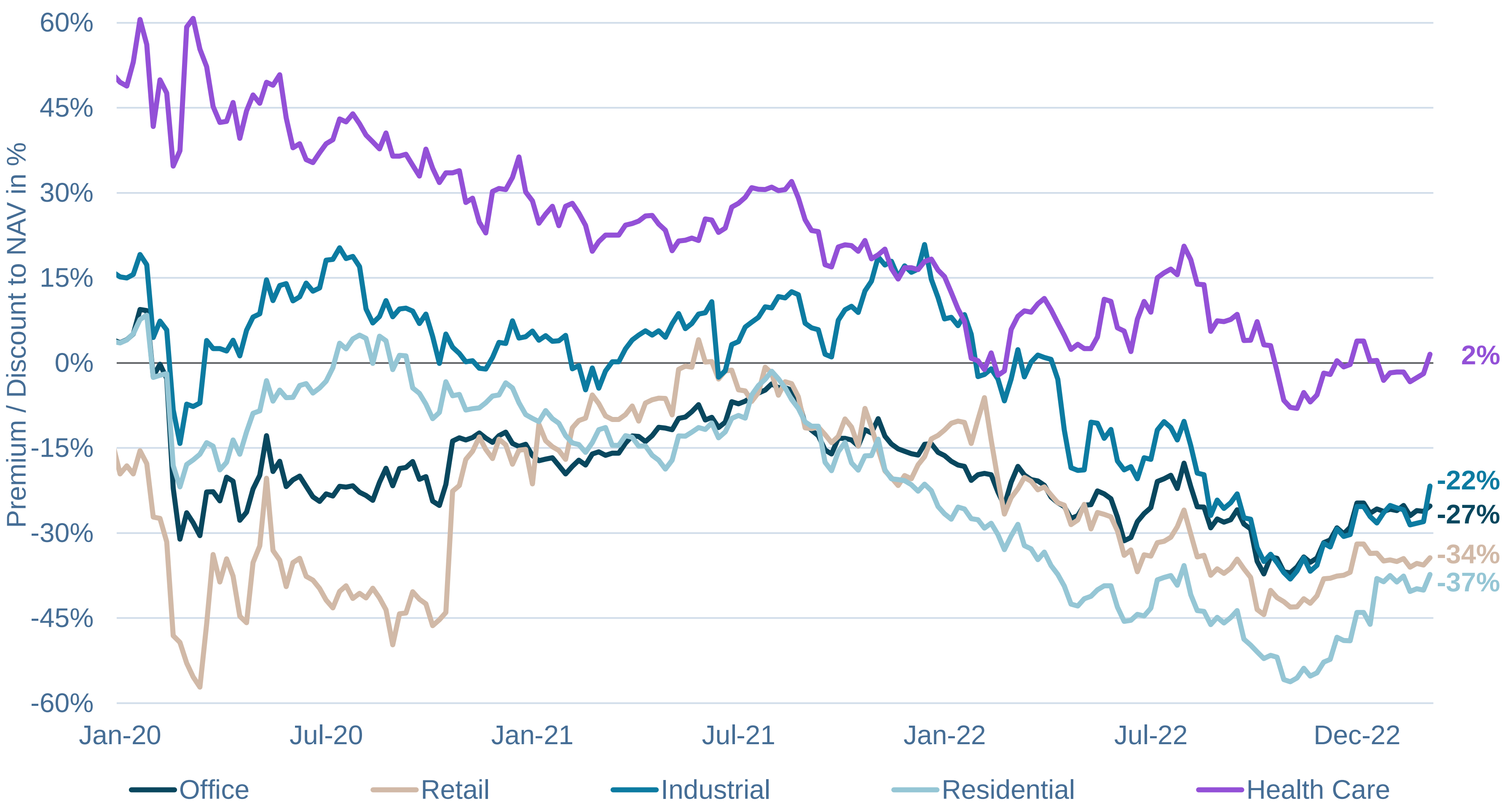
…resulting in reduced corporate activity…

- M&A volumes subdued in 2022 (c.75% down y-o-y)
- Selected landmark transactions include
  - Greystar and GIC acquisition of Student Roost for c.€3.9bn
  - Brookfield take private of Befimmo and Hibernia for a total of c.€4.0bn
  - ECE and Oaktree acquisition of Deutsche Euroshop for c.€2.3bn
- Ample liquidity, dry powder available for strategies across the risk spectrum but awaiting price stabilization

… but with positive mid-term prospect

- Conviction on long-term positive fundamentals for certain sectors (e.g., living, logistics, hospitality)
- Pockets of opportunity remain - Structured deals (JVs, preferred equity, etc.) and take privates at attractive valuations increasingly likely
- Efficiency and scale objectives will also foster M&A activity

L3Y NAV Premiums / (Discounts)



- Wide spreads between public and private market valuations accelerated at the onset of the pandemic
- Since then, the most extreme valuation differentials have been seen in Healthcare (>60% premium to NAV in Feb 2020) and residential (c. 56% discount to NAV in Oct 2022)

Source: Green Street as of 10 Jan 2023.

Debt market themes

The Debt Market is Open

Unlike other periods of uncertainty, lenders are still open for business, albeit with a focus on high calibre sponsorship and asset quality. As we approach the new year, lenders have visibility on their allocations and expect to remain open, but cautious in Q1, and projected to commence full activity in Q2.

Interest Rates

Interest rate indices have increased by 200-400 bps over the past 12 months, however, have now stabilised and beginning to ease off. This is driven by the central banks' (US Fed/BoE/ECB) reaction to higher global inflation and subsequent rate hikes. As inflation rates slow, it is expected future changes in base rate will be smaller than previous estimates.

Consistent Liquidity

Although lenders are more cautious and underwriting is taking longer, their allocations continue to change daily due to deals that fail to close. In addition, there continues to be new entrants into the market such as equity groups who can achieve higher risk adjusted returns.

Successful Lenders

Origination targets remain robust for 2022 and 2023. Interestingly, many of the winners of our YTD 2022 financings have been new market entrants or historically less competitive groups who are trying to make up for "lost time". Recently, the most successful lenders are those who are being the most flexible on ICR sizing / tests and meet timelines.

Cost of Hedging

Various solutions are in high demand to help manage Day-1 hedging costs (e.g. selling caps, selling floors, lowering the % of notional, reducing initial cap term, buying down swaps), however in most cases, the cost of hedging is 2-4x previous levels.

£/€

Deal Size Matters

The field for large loans (>£150m) has become less liquid, with projects in the £30-£100m range now considered the "sweet spot" for single underwrites. Larger loans will likely require a club approach, or at minimum, require comfort around the syndication market which is proving to be available.

Fixed / Floating

More borrowers are considering fixed rate debt given concerns around future rises in interest rates and high Day-1 hedging costs for floating loans, however the Spens prepayment penalty remains restrictive.

Valuations

Outward pressure on cap rates (100-150 bps) has seen lenders evaluate Day-1 and exit assumption valuations in greater detail. As valuations continue to decrease, there is greater risk of breaching LTV default covenants and/or creating an equity gap upon refinancing.

Covenants

Borrowers and lenders are becoming increasingly conscious of covenant levels for new and existing loans. Existing loans with springing hedging covenants may result in increased defaults in the market.

EMEA Debt & Structured Finance

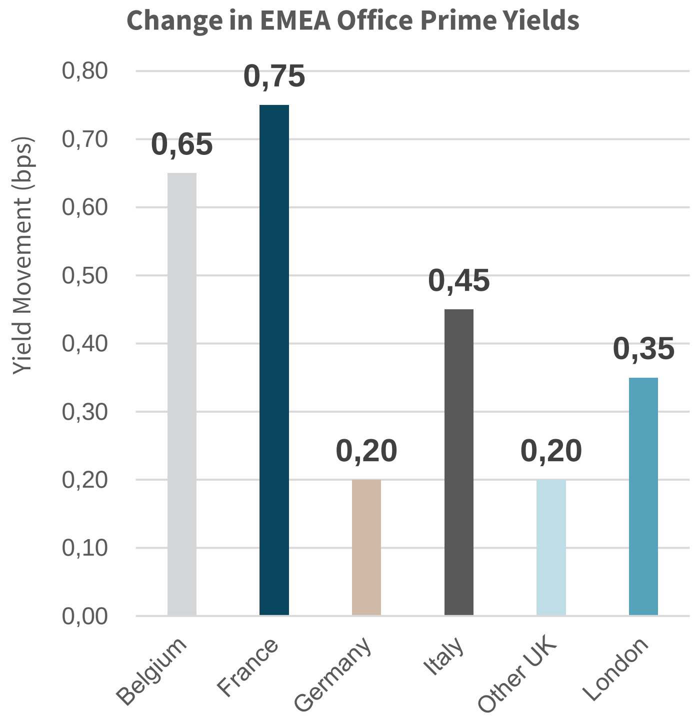
Key Takeaways

- As of November 2022, the JLL EMEA Debt & Structured Finance Team has completed $12.0Bn of financings across over 100 deals, of which over $3.0Bn completed in Q3 2022
- Furthermore, the JLL EMEA Debt & Structured Finance Team is currently marketing and/or closing in excess of $12.0Bn of financings across Europe – unparalleled access to market intel
- Since 2018, the JLL EMEA Debt & Structured Finance Team has placed over $25.0Bn of non-domestic capital and has transacted with 125+ lenders – demonstrating that the debt market in Europe is very fragmented

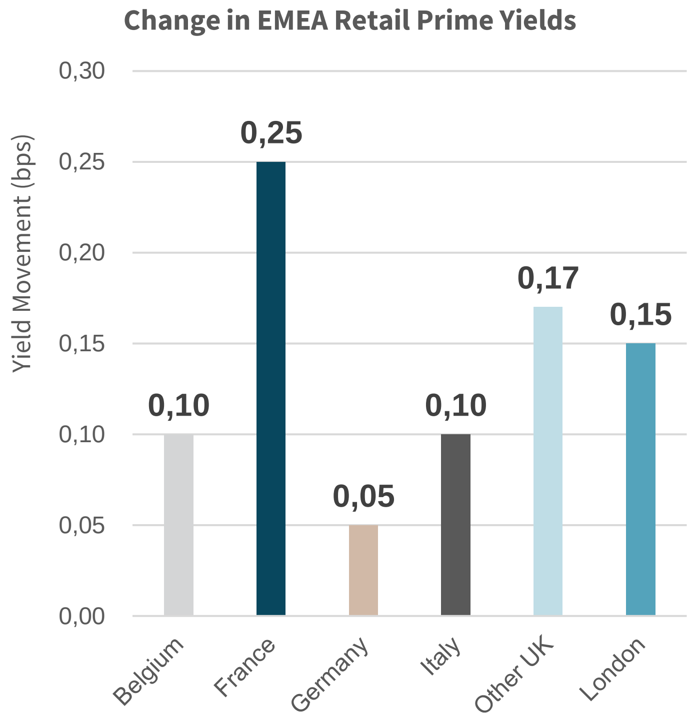
	As of 12/12/2022	Previous Month
UK SONIA	2.93% ●	2.93%
3Y SONIA Swap	3.93% ↓	4.08%
5Y SONIA Swap	3.66% ↓	3.85%
3M EURIBOR	2.08% ↑	1.80%
3Y EURIBOR Swap	2.66% ↓	2.74%
5Y EURIBOR Swap	2.55% ↓	2.69%

Investment Market | EMEA Prime Yield

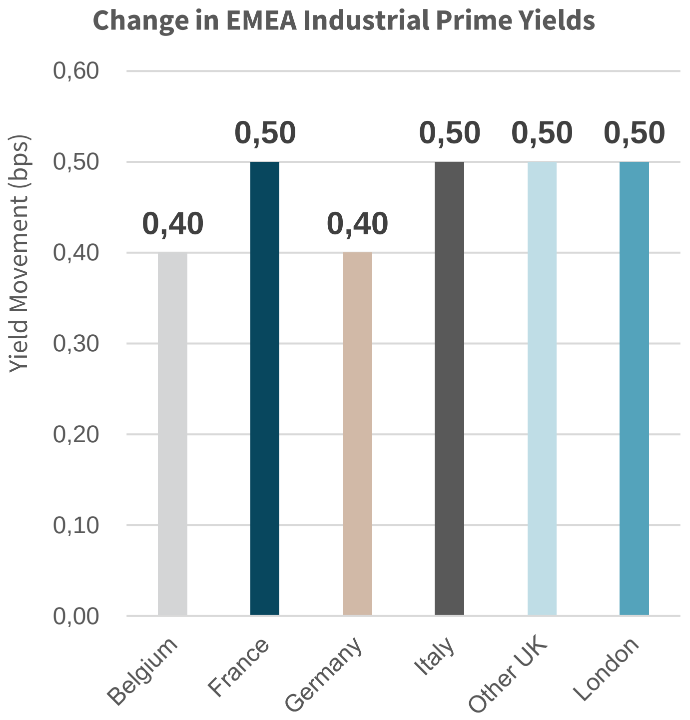
Q4 2021 to Q4 2022 Forecast



	Belgium	France	Germany	Italy	Other UK	London
Q4-21	3.35%	2.50%	2.50%	3.05%	4.85%	3.63%
Q4F-22	**4.00%**	**3.25%**	**2.70%**	**3.50%**	**5.05%**	**3.98%**



	Belgium	France	Germany	Italy	Other UK	London
Q4-21	4.25%	3.00%	2.60%	3.60%	6.25%	2.50%
Q4F-22	**4.35%**	**3.25%**	**2.65%**	**3.70%**	**6.42%**	**2.65%**



	Belgium	France	Germany	Italy	Other UK	London
Q4-21	3.85%	3.25%	3.00%	3.60%	4.00%	3.00%
Q4F-22	**4.25%**	**3.75%**	**3.40%**	**4.10%**	**4.50%**	**3.50%**

Source: JLL Research.
Note: EMEA Prime Yields are derived from the top market in that region (i.e. Brussels, Paris, Berlin and Milan).

Thank you