



# ANALYSES ET SYNTHÈSES

-  French banks' lending to the professional real estate sector in 2017

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## Summary

- Against the backdrop of a still dynamic commercial real estate investment market, **new lending** to real estate professionals stood at EUR 73.1 billion in 2017, or a 9.8% rise on the previous year. Growth in new lending was particularly robust in France (+13.1%), which accounts for 64% of new issuance, and in the rest of the world (+23.8%), whereas in the rest of the European Union (EU) new lending slowed down by 7.3%.

The breakdown of new lending by borrower type was fairly stable, with the bulk still being allocated to investors, whose market share fell by 0.4 percentage point (pp) to 55.6%. Furthermore, residential property continued to account for the largest share of new lending, up 1.2% to stand at 37.7%, followed by new lending to offices which rose by 1.5% to 23%. The rise in these two main asset classes came at the expense of lending to retail outlets which fell by 0.7pp to 13.3%, business premises down 0.4pp to 5.9% and mixed assets down 1.8pp to 5.9%. Moreover, within the office segment, Île de France saw a decline of 1.7pp to 10.5% whereas the rest of France and foreign countries saw rises of 2pp and 1.2pp respectively to 3.9% and 8.5% of new lending in 2017.

The increase in new issuance came with prudent lending criteria that generally even improved:

- the initial maturity of new loans rose slightly from 4.9 to 5 years;
- the pre-sales rate improved on 2016, with a fall in the share of the most risky transactions, i.e. real estate construction or development programmes where none of the property had been pre-sold or pre-leased. These were down 1.5pp to stand at 17.6%, whereas transactions with a rate greater than or equal to 20% increased 2.9pp to 79.4%;
- this improvement in pre-sales/pre-leasing conditions is reflected in the decline in the size of the equity contribution provided by property dealers and development companies, with the share of transactions with a rate of less than 10% – considered relatively less risky – rising by 8pp in 2017 to 45%;
- this positive development was only tempered by the decline in property developers' capital ratios: the share of property developers with a ratio of 20% or more fell by 11.6pp year-on-year (y-o-y) to 44%, whereas the share of those with the lowest capital ratios (i.e. below 5%) increased by 9.2pp to 17.6%.

- **Gross exposures** to real estate professionals stood at EUR 184.2 billion, reflecting a y-o-y rise of 6.7%, concentrated in the second half of the year; as a share of banks' total assets and total capital, gross exposures rose by 28 basis points (bps) and 3pp respectively, to 3% and 48.8%. The different geographical areas, determined by the location of the property or the programme financed, nevertheless displayed mixed developments with growth of 7.8% in France and 11.7% in the rest of the EU but a decline of 5% in the rest of the world; France still concentrates the highest share of exposures, at 58.4%.

Investors continued by far to be the main recipients, even though their share fell slightly by 0.5pp to 63.8%, while property developers and dealers saw a rise of 0.9pp to 33.9% of exposures.

The breakdown of exposures by asset class shows that residential real estate (31.1%) and offices (22.8%) continued to account for the largest share of exposures, falling in the case of the former by 0.1pp and rising by 1.8pp for the latter. All other asset classes except "other assets" (whose share increased by 1.1pp), saw their share in total exposures come down, especially that of mixed assets which declined by 1.9pp to 11.2%. More moderate falls were seen for retail outlets (down 0.3pp to 17.2%) and business premises (down 0.5pp to 7.1%).

Similar to new lending, risk indicators generally show that banks are cautious about the sector:

- The average residual maturity of loans fell slightly from 4.7 to 4.6 years mainly due to the decline observed in the rest of the world (down 7.4 months to 3.5 years); France stood at 5.1 years and the rest of Europe at 4.2 years, almost unchanged on 2016 in both cases. Furthermore, loan amortisation plans do not suggest an excessive maturity concentration over the coming years;
- Indicators relating to investors suggest an improvement in the quality of exposures: the share of the least risky transactions, with a loan to value (LTV) ratio of below 60%, increased by 1.9pp to 75% and borrowers who displayed an interest coverage ratio (ICR) of 3 or over, also the least risky, accounted for 75.3% of exposures, compared with 66.8% one year earlier. As regards the latter criterion, the sharp improvement observed can mainly be attributed to France (up 13.8pp to 73.2%);
- Property developers' capitalisation levels nevertheless worsened as 33.3% of them had capital ratios below 10%, against 28.7% one year earlier (up 4.5pp).

In this context, the gross non-performing loan (NPL) ratio stood at 4.36% at end-2017 for all geographical areas combined (down 59bps). While this ratio fell in France (-54bps to 2.66%) and in the rest of the EU (-151bps to 9.46%), it rose slightly in the rest of the world (up 5bps to 1.66%). Moreover, the developer segment continued to display far higher NPL ratios than the investor segment.

The coverage ratio for its part rose, both as an average (up 2.2pp to 38.4%), and in the three regions (+2pp for France to 39%, +1.2pp for the rest of Europe to 35.5% and +13pp to 65.2% for the rest of the world).

Lastly, despite the increase in the share of exposures subject to the Standardised Approach (1.1pp to 43%), the average risk weight of exposures fell slightly (-1.7pp) mainly due to the decline in the risk weight of exposures subject to both the Standardised Approach (-2.4pp to 80.6%) and the Advanced Approach (-2pp to 37.9%).

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## Preliminary comments

- ❑ This release of *Analyses et Synthèses* is based on the data collected in the framework of the survey on lending to real estate professionals, conducted by the ACPR's General Secretariat and covers a sample of five French banking groups: BNP Paribas, Société Générale, Crédit Agricole Group, BPCE Group and Crédit Mutuel Group.
- ❑ Although all banks now provide data on all risk indicators for new lending and outstanding loans, some indicators are still difficult to analyse as data are "unavailable" for a large proportion of exposures. This is notably the case for the debt coverage service ratio (DSCR). In this respect, it should be noted that several charts (pre-sales rates, LTV, ICR, etc.) have been changed: the share of new issuance or outstanding loans for which information is not available is always given (grey histogram, "NB: not available") but the breakdown of outstanding loans by asset class is calculated by stripping out this "not available" share,<sup>1</sup> which enables us to obtain a risk profile that is more stable over time irrespective of changes in the quality of the banks' reporting.

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<sup>1</sup> For instance, for current LTV on we obtain the following breakdown for a given maturity: EUR 8.2 billion in exposures have an LTV greater or equal to 80%, EUR 16.1 billion have an LTV ranging between 60% (included) and 80% (excluded), EUR 17.1 billion have an LTV ranging between 50% (included) and 60% (excluded) and EUR 55.8 billion have an LTV strictly below 50%. Lastly, no information is available for EUR 12.2 billion in exposures.

The Chart gives the following values for this maturity:

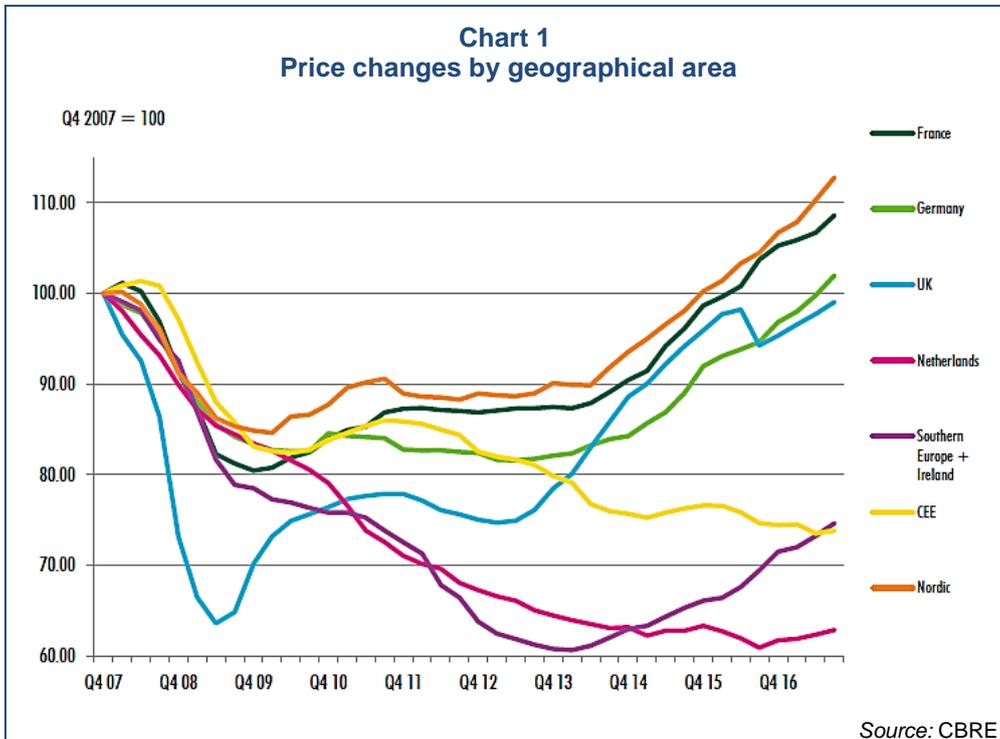
- "LTV ≥ 80%": 8.4% (or 8.2 / (8.2 + 16.1 + 17.1 + 55.8))
- "60% ≤ LTV < 80%": 16.6% (or 16.1 / (8.2 + 16.1 + 17.1 + 55.8))
- "50% ≤ LTV < 60 %": 17.6% (or 17.1 / (8.2 + 16.1 + 17.1 + 55.8))
- "LTV < 50%": 57.5 % (or 55.8 / (8.2 + 16.1 + 17.1 + 55.8))
- NB: not available": 11.2% (or 12.2 / (8.2 + 16.1 + 17.1 + 55.8 + 12.2))

## 1. Commercial real estate markets in 2017

### 1.1. The European corporate real estate market<sup>2</sup>

Commercial real estate investment in Europe reached in 2017 a total of EUR 291 billion, which represents a 11% growth compared to 2016. Activity in this segment was particularly strong in the Netherlands, the United Kingdom and Italy.

It was accompanied by sustained price growth in most countries other than those of Central and Eastern Europe (Chart 1).



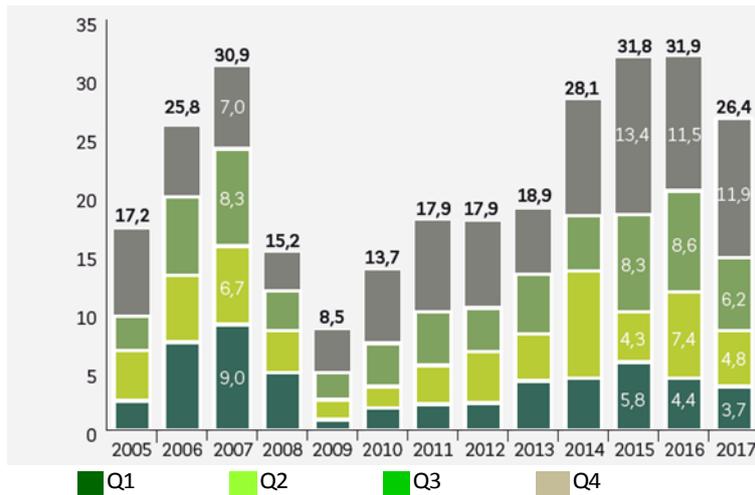
### 1.2. The French corporate real estate market

#### 1.2.1. Slight decline in investment

In contrast with the buoyancy of the European market, the French market fell sharply by 17%, with a volume of EUR 26.4 billion, despite a record level of activity in the fourth quarter (Chart 2).

<sup>2</sup> Corporate real estate mainly includes offices, retail premises, warehouses and service-related property, but excludes residential assets. It therefore covers a more limited scope than the ACPR survey.

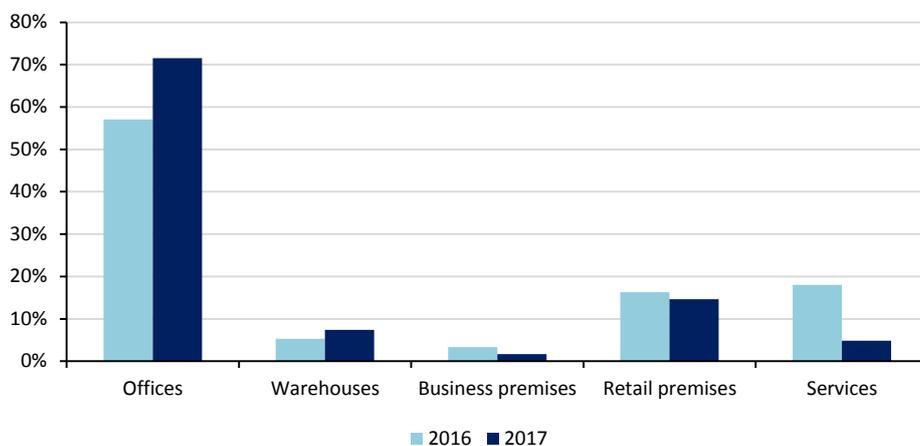
**Chart 2**  
Investment in French corporate real estate (EUR billions)



Source: BNP Paribas Real Estate

The breakdown of investments by asset type confirms the strength of the logistics sector, which, with investment growth of 15.9%, saw a 2.1pp rise in its market share to 7.4%. With the exception of offices, for which transactions rose by 3.7%, making them once again the preferred segment with 71.5% of investment volumes, all the other market segments declined significantly, ranging from -25.8% for retail premises to -77.8% for services (Chart 3). From a geographical point of view, investors in France yet again largely focused on goods located in the Paris region (Île de France), which accounted for 73.7% of transactions. This proportion was stable with respect to 2016.

**Chart 3**  
Investment in French corporate real estate by type of asset

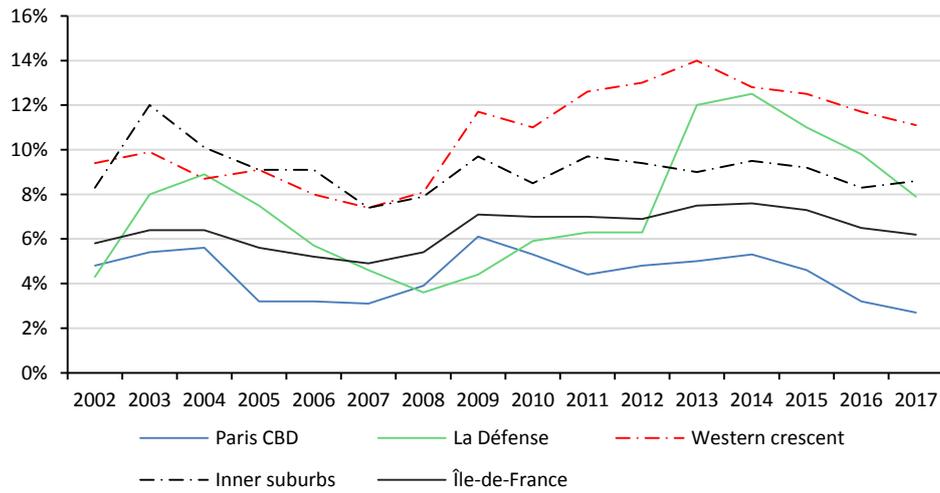


Source: ACPR, based on BNP Paribas Real Estate data

### 1.2.2. Decline in vacancy rates

The vacancy rates of the different sectors of Île-de-France all decreased except in the inner suburbs; overall, office vacancy rates in Île de France fell by 0.3pp to 6.2%. The sharpest falls (-0.5pp) were seen in the Paris Central Business District (CBD), which reached its lowest level in 15 years, and La Défense (-1.9pp) with vacancy rates of 2.7% and 7.9% respectively (Chart 4).

**Chart 4**  
**Office vacancy rates for Île de France**

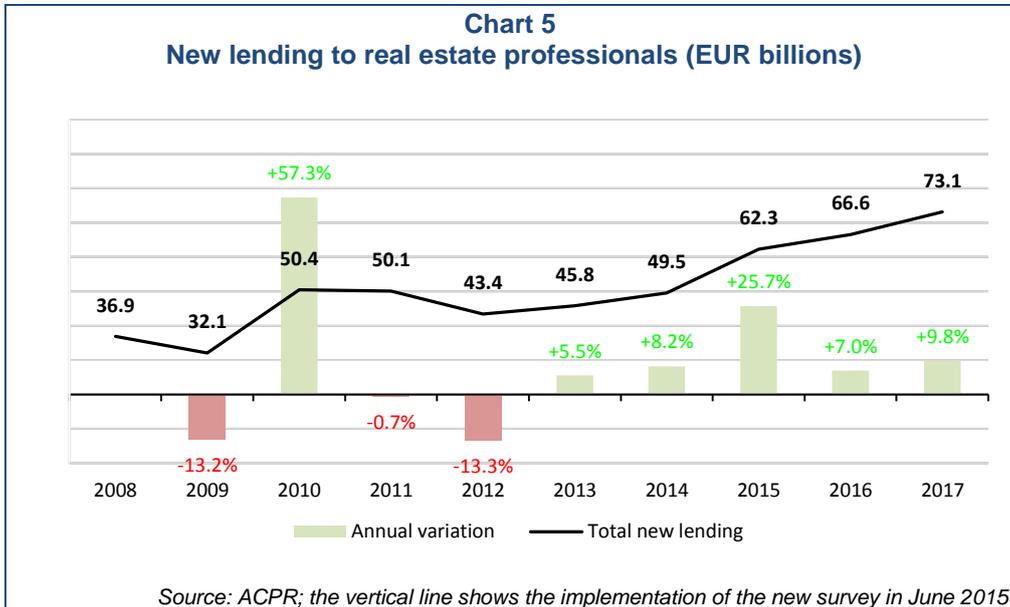


Source: Cushman & Wakefield

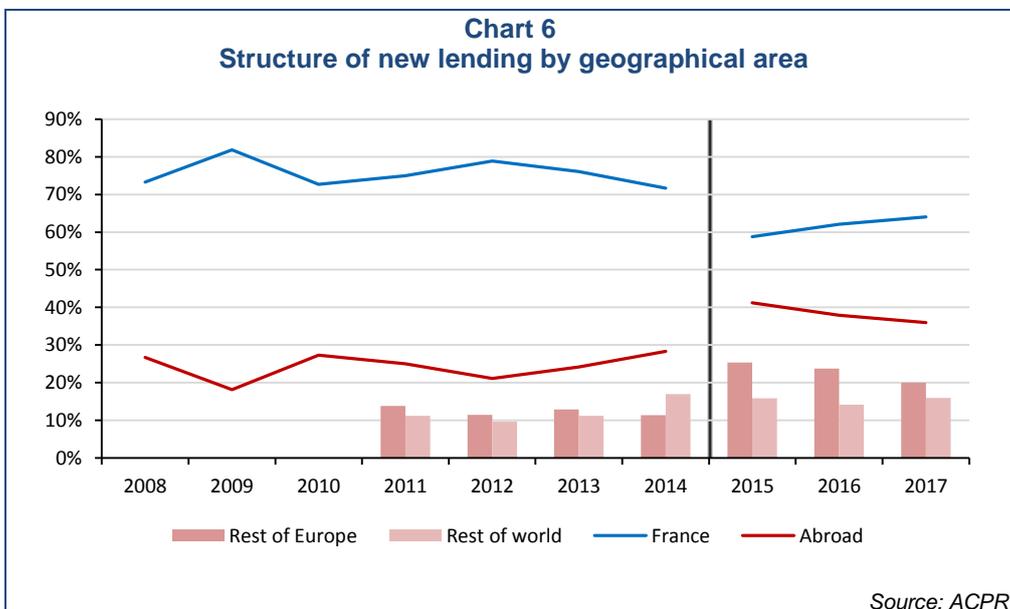
## 2. New lending to real estate professionals

### 2.1 An increase in new lending

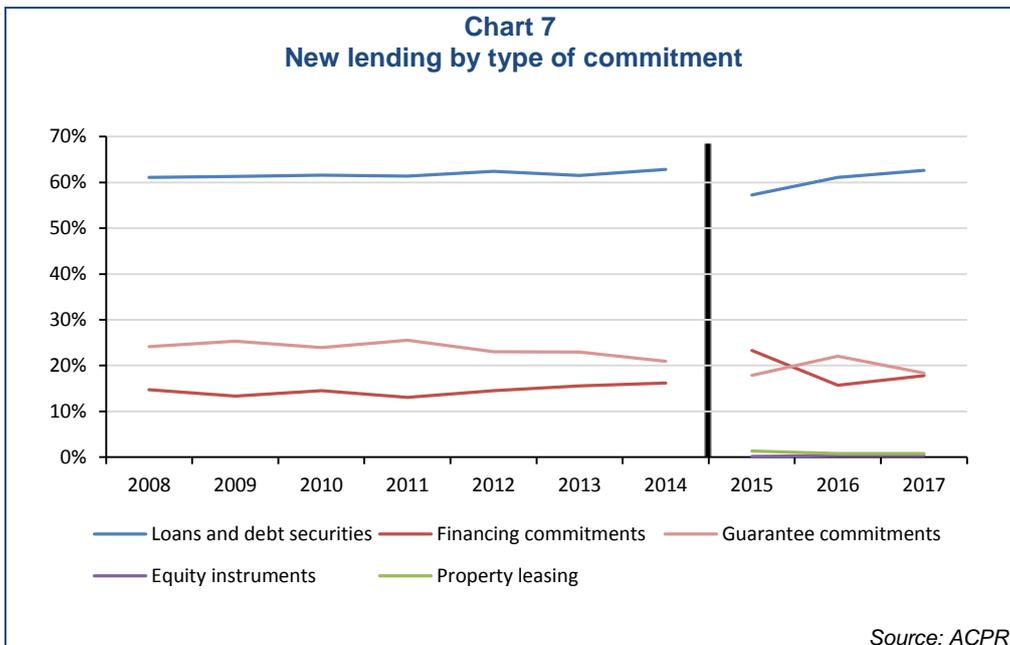
Total annual new lending stood at EUR 73.1 billion, up by 9.8%. It was particularly strong in France, rising by 13.3%, and in the rest of the world, up 23.8%. The rest of Europe, however, recorded a fall of 7.8% (Chart 5).



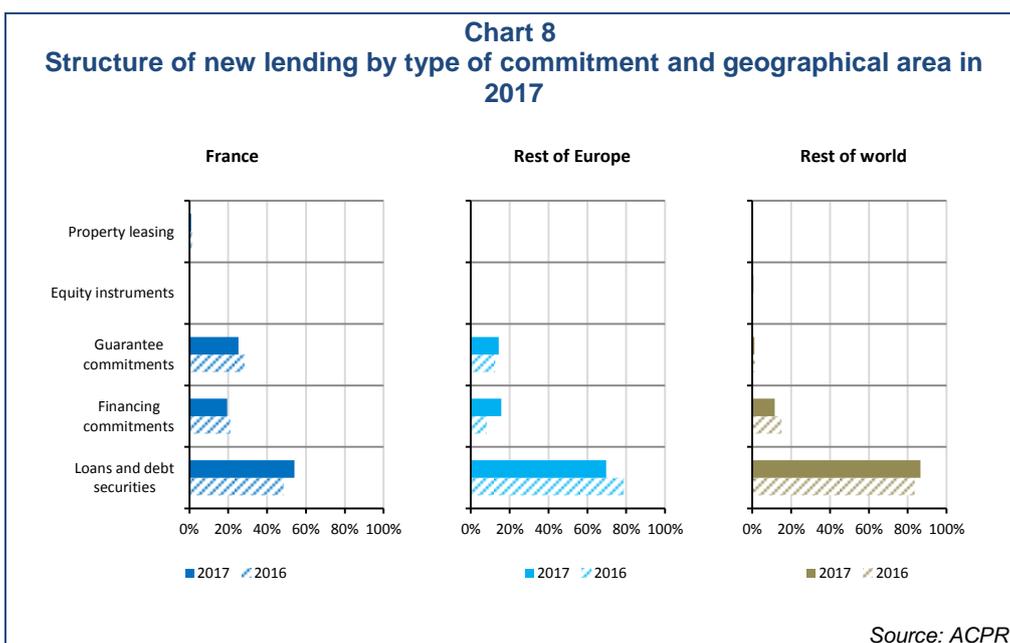
Consequently, the share of France in new lending continued to increase, reaching 64% (up 1.9pp); the share of the rest of Europe fell further (-3.7pp to 20%) while that of the rest of the world rose by 1.8pp to 16%, returning to its level of 2015 (Chart 6).



Loans and debt securities continued to account for the bulk of new lending, with its share increasing by 5.2pp to 54.4% over the year. Guarantee commitments represented 24% of new lending, down 6.4pp, whereas financing commitments rose by 1.3pp to 20%. Lastly, both equity instruments and leasing remained at very low levels (Chart 7).

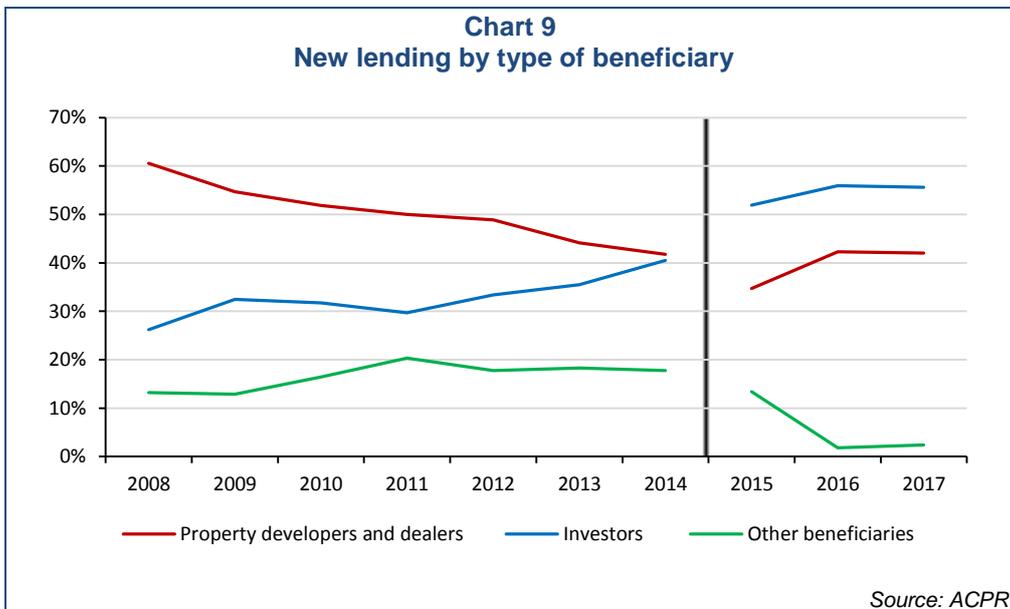


The share in new lending of loans and debt securities, which continued to finance the great majority of foreign assets or programmes, rose in both France, by 5.2pp, and in the rest of the world, by 3pp, while it declined by 9pp in the rest of Europe (Chart 8). Conversely, guarantee commitments increased sharply by 8pp to 16% in the latter geographical area.

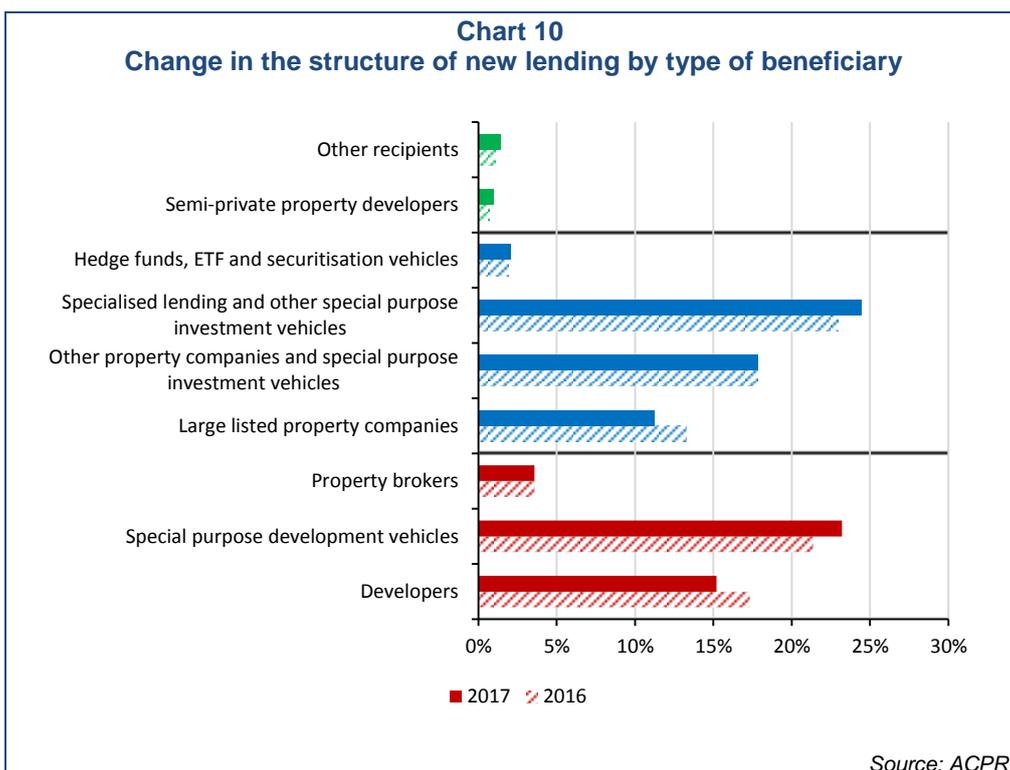


## 2.2 Lending to investors continued to account for the lion's share but declined slightly

The structure of new lending by type of beneficiary remained largely the same as in 2016, even though the share of lending to investors and property developers decreased slightly in 2017, by 0.4pp and 0.3pp respectively, in favour of other beneficiaries (up 0.6pp) (Chart 9).



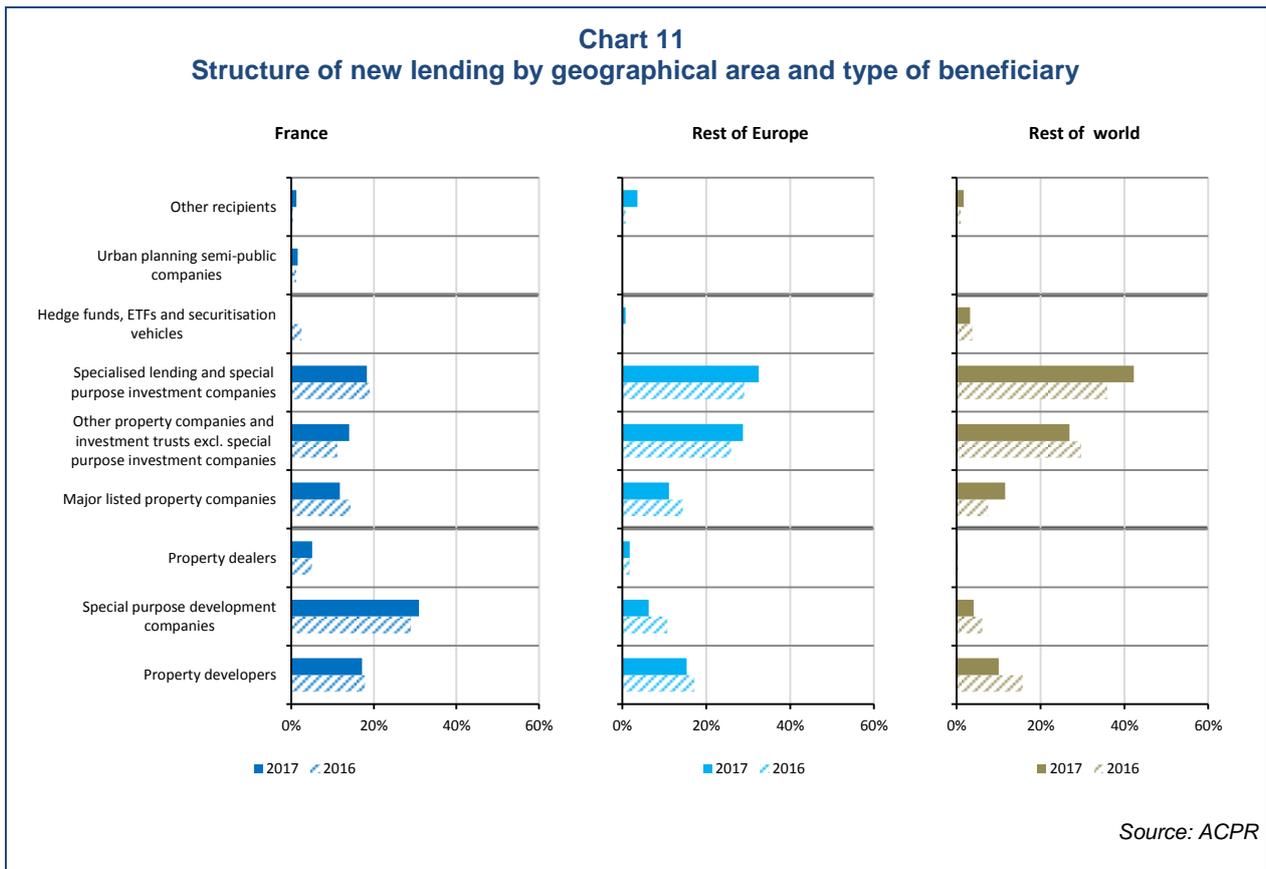
Within the investor category, the share of specialised lending increased for almost all asset classes. This rise nevertheless reflects the fact that one bank reclassified a number of its counterparties, hedge funds, exchange traded funds (ETFs) and securitisation vehicles<sup>3</sup> on the French market as specialised lending. Lending to property developers lost ground to the benefit of lending to special purpose development companies (Chart 10).



The increase in specialised lending chiefly reflects the sharp rise in the rest of the world (up 10.9pp to 38.5%) whereas this sector recorded moderate growth in the rest of Europe (up 2.4pp to 33%) but declined in France by 2.4pp to stand at 21.9%. The rise in the share of special purpose development companies was much more marked in the rest of Europe (up 5.7pp to 14.5%), with France seeing a much more moderate increase of 2pp to 30.9%, while the share of this category fell in the

<sup>3</sup> The reclassification concerned around 10% of new lending to this borrower category in the second half of au 2016 on the domestic market.

rest of the world by 6pp to 3.3%. Lastly, investors continued to attract by far the most new lending abroad, with the property development segment above all represented in France (Chart 11).

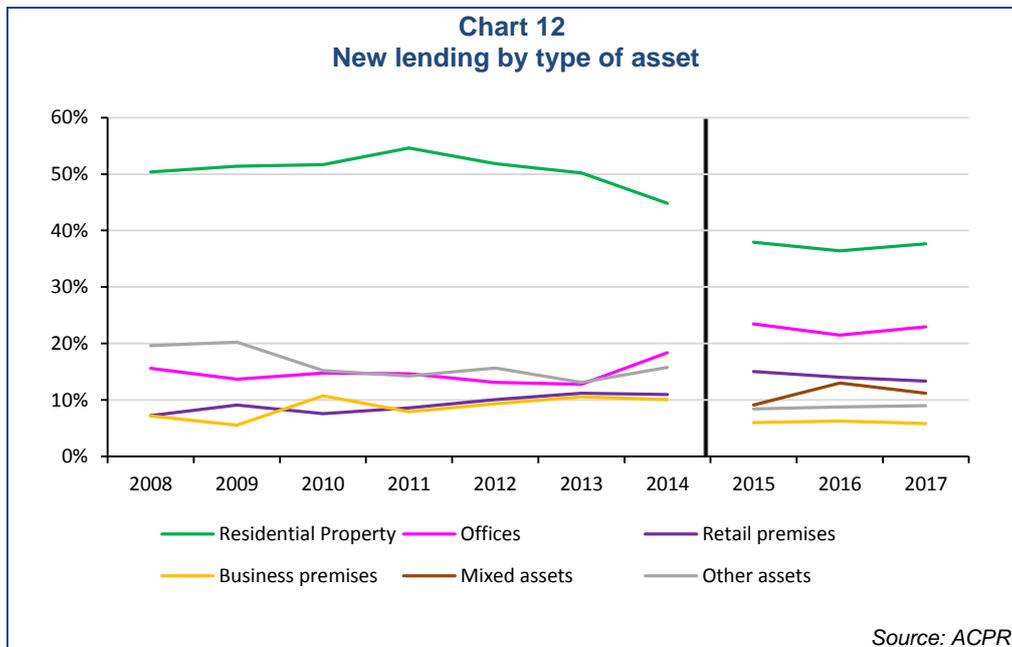


### 2.3 A reduction in the differential between lending to the residential property and office sectors

In most cases, the different types of assets financed displayed opposite developments from those of 2016: residential property and offices, whose share in new lending had declined, saw an increase in their market share with rises of 1.3pp and 1.5pp respectively, to 37.7% and 23.0% of new lending. The increase in the share of offices nevertheless masks a further fall in the contribution of Île-de-France (-1.8pp to 10.5% of new lending), while assets located in other regions (up 1.9pp to 3.9%) or abroad (up 1.2pp to 8.5%) supported this trend.

Conversely, mixed assets and business premises slowed down slightly (-1.8pp and -0.4pp respectively). Only retail outlets, whose share declined further by 0.7pp to 13.3%, and other assets,<sup>4</sup> which rose very slightly (up 0.2pp to 9%) followed the same trend as in 2016 (Chart 12).

<sup>4</sup> Hotels, land and warehouses are often the most widely mentioned assets in this category.



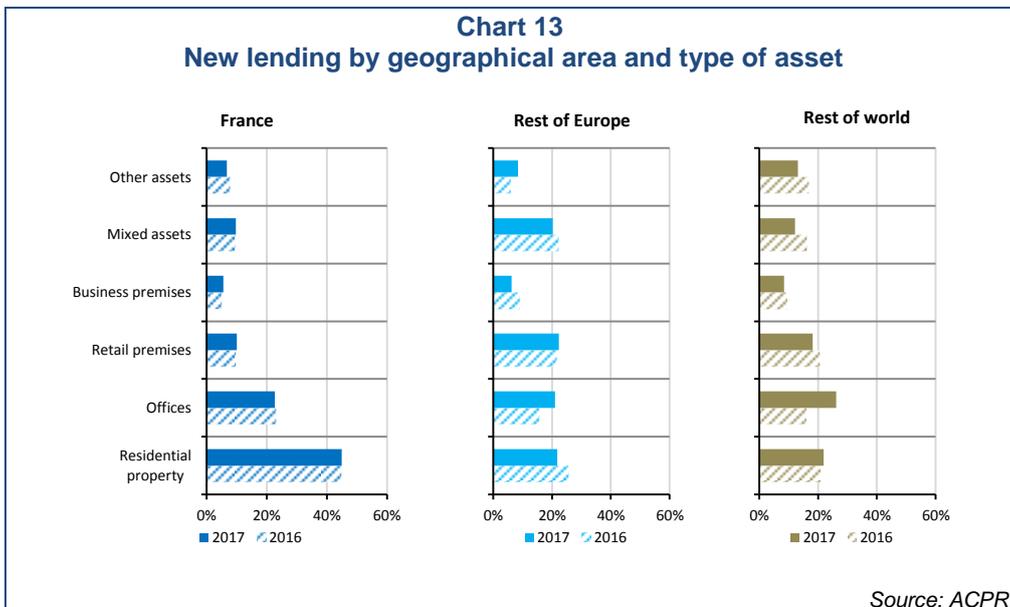
The share of residential property increased despite the significant decrease in that of property developers, which was offset by special purpose development companies; similarly, growth in offices masked the significant decline in major listed property companies in favour of other property companies and investment trusts excluding special purpose investment companies. As regards the latter segment, we observed a significant fall in the share of major listed property companies for assets located in Île de France, for which hedge funds, ETFs and securitisation vehicles also largely reduced their holdings (Table 1).

**Table 1**  
**Change in the structure of new lending by borrower type and asset type between 2016 and 2017**

2017 vs. 2016	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	
Residential property	-1.4 pp	+1.7 pp	+0.1 pp	+0.4 pp	-0.6 pp	+0.6 pp	+0.2 pp	+0.1 pp	+0.2 pp	+1.3 pp
Offices	-0.1 pp	+0.5 pp	+0.1 pp	-1.6 pp	+1.9 pp	+0.8 pp	+0.0 pp	-0.0 pp	+0.1 pp	+1.5 pp
o/w Île de France	-0.0 pp	+0.5 pp	+0.1 pp	-1.8 pp	+0.7 pp	+0.1 pp	-1.3 pp	+0.0 pp	+0.0 pp	-1.7 pp
o/w rest of France	+0.2 pp	-0.1 pp	-0.0 pp	+0.3 pp	+1.0 pp	+0.7 pp	+0.0 pp	-0.0 pp	+0.0 pp	+2.0 pp
Retail premises	+0.1 pp	-0.2 pp	-0.0 pp	+0.5 pp	-0.7 pp	+0.0 pp	-0.1 pp	+0.0 pp	-0.3 pp	-0.7 pp
Business premises	-0.1 pp	+0.3 pp	+0.0 pp	-0.2 pp	-0.4 pp	-0.2 pp	+0.1 pp	+0.0 pp	+0.0 pp	-0.4 pp
Mixed assets	-0.3 pp	-0.0 pp	-0.1 pp	-0.7 pp	-0.6 pp	-0.5 pp	+0.1 pp	+0.2 pp	+0.1 pp	-1.8 pp
Other assets	-0.3 pp	-0.4 pp	-0.0 pp	-0.0 pp	+0.4 pp	+0.5 pp	-0.1 pp	+0.0 pp	+0.2 pp	+0.2 pp

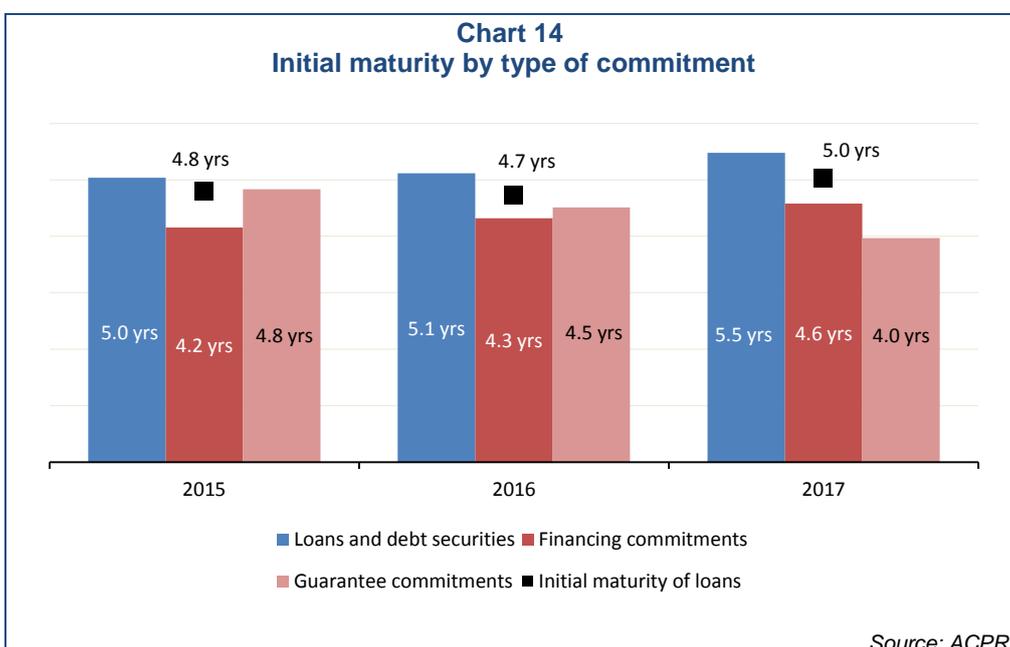
*Source: ACPR*

Lastly, while the structure of new lending by asset type remained broadly unchanged in France between 2016 and 2017, the rest of Europe and the rest of the world saw some considerable changes: for instance, the share of residential property rose sharply in the former region (up 7pp to 30.9%) whereas it fell in the latter (-4.2pp to 17.1%). Furthermore the contribution of offices rose in the rest of the world (up 9pp to 29.3%) while that of other assets increased by 4.1pp to 11.2% in the rest of Europe. Lastly, while the decline observed overall for business premises mainly stems from the rest of Europe (-3.4pp to 4.3%), that of retail outlets and other assets impacted both the rest of Europe and the rest of the world (-2.3pp and -1.3pp for the former, -6.1pp and -3pp for the latter) (Chart 13).



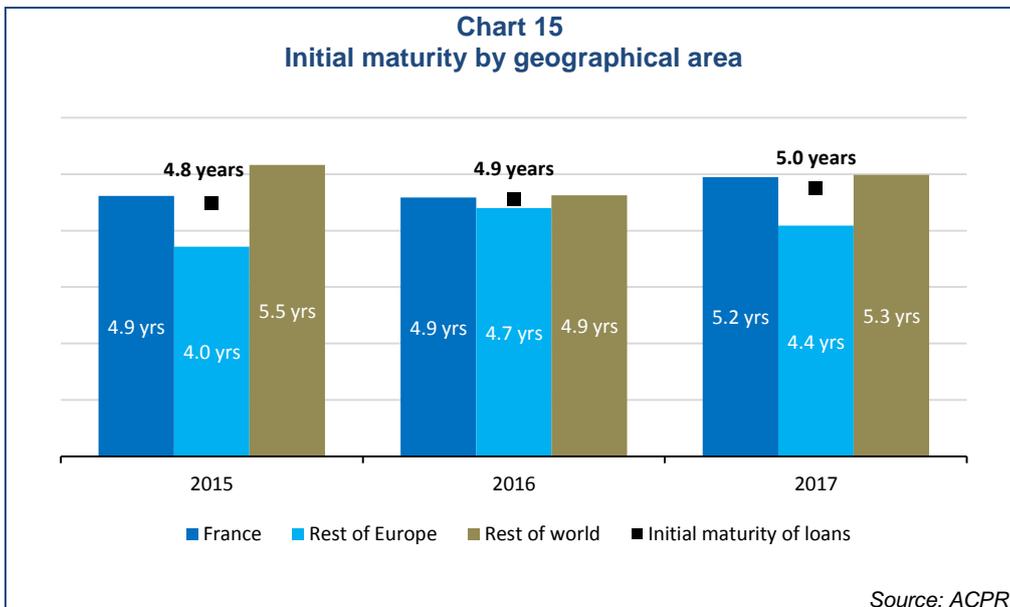
## 2.4 Slight rise in the initial maturity of loans

The initial maturity of new lending extended by 2.3 months in 2017, to just over 5 years. The further increase in the initial maturity of loans (up 4.6 months to 5.5 years) largely contributed to this rise, which was also driven by the lengthening of the initial maturity of financing commitments (up 3.1 months to 4.6 years). Conversely, that of guarantee commitments contracted further (-6.5 months to 4 years). Part of this contraction nevertheless reflects the refinement of the measurement of the maturity of permanent guarantees<sup>5</sup> (Chart 14).

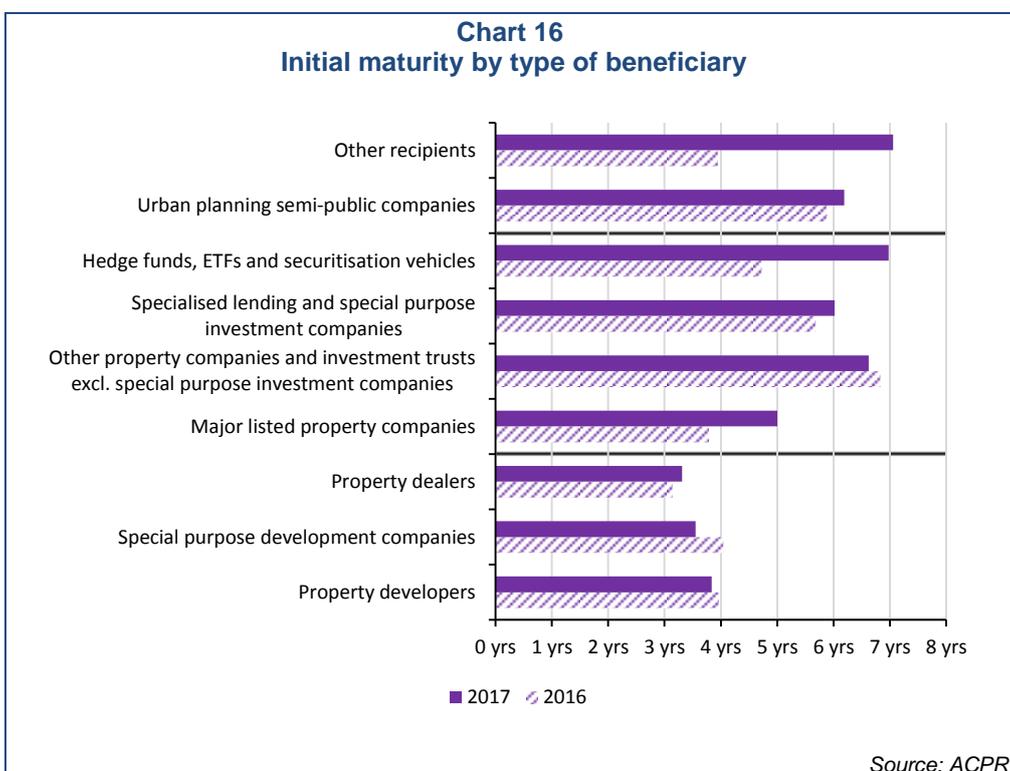


This slight rise in the initial maturity solely reflects the increase observed in France (up 4.3 months to 5.2 years), with the rest of Europe almost unchanged while the rest of the world saw a decline of 4.4 months to 5.1 years (Chart 15).

<sup>5</sup> One bank started work to improve the reliability of the initial maturities of permanent guarantees by replacing a probable economic maturity by a defined maturity in the IT system by default.



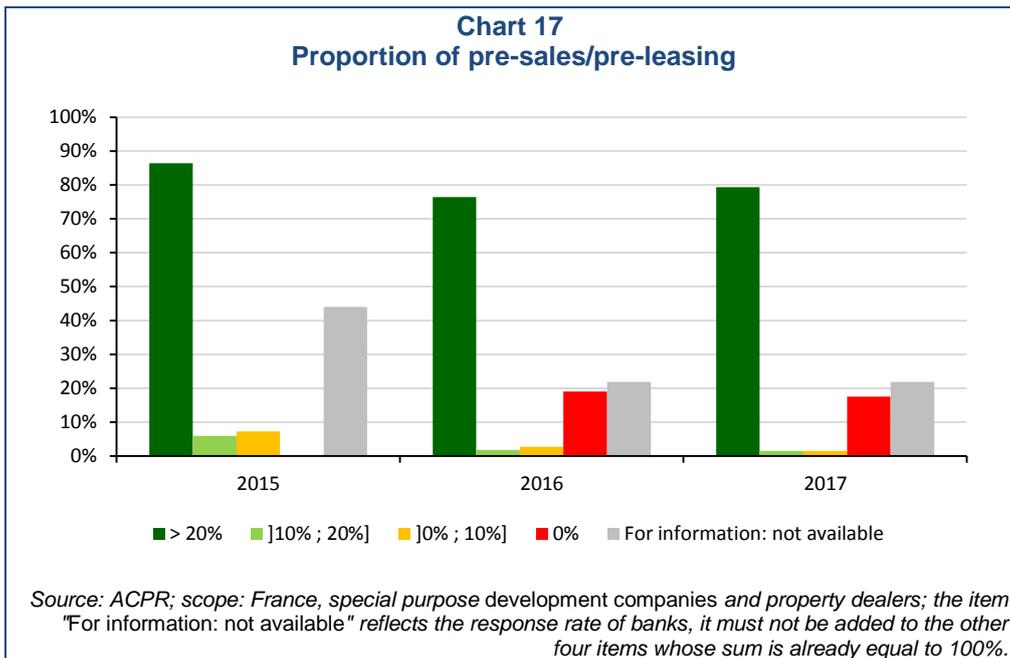
Lastly, the average initial maturity rose despite the decrease in the share of investors to whom loans are traditionally granted at longer maturities. This development can mainly be attributed to the sharp rises in loans to major listed property companies (up 1.2 year to 5 years), specialised financing and other special purpose investment companies (up 4.5 months to 6.1 years) and to some very minority segments such as hedge funds, ETFs and securitisation vehicles (up 2.3 years to 7 years) or other beneficiaries (up 3.2 years to 7.1 years) (Chart 16). In this context, lending to special purpose development companies differed in that its average initial maturity fell, by 5.9 months to 3.6 years.



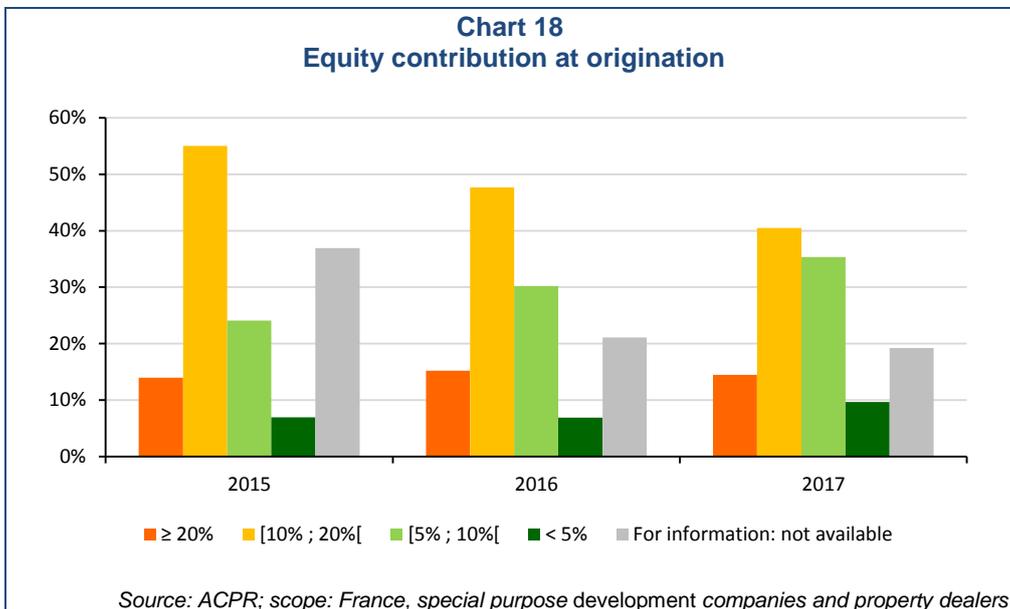
## 2.5 An improvement in the risk profile of transactions in the property developer sector in France

Firstly, pre-sales/pre-leasing conditions for transactions financed by banks in France improved in 2017: the share of transactions with a rate greater than or equal to 20%, which accounted for the great majority of loans granted by banks to special purpose development companies and property dealers, rose in 2017 by

3pp to 79.4%. At the same time, the share of the most risky transactions, i.e. real estate construction or development programmes where none of the property had been pre-sold or pre-leased, declined by 1.4pp to 17.6% (Chart 17).



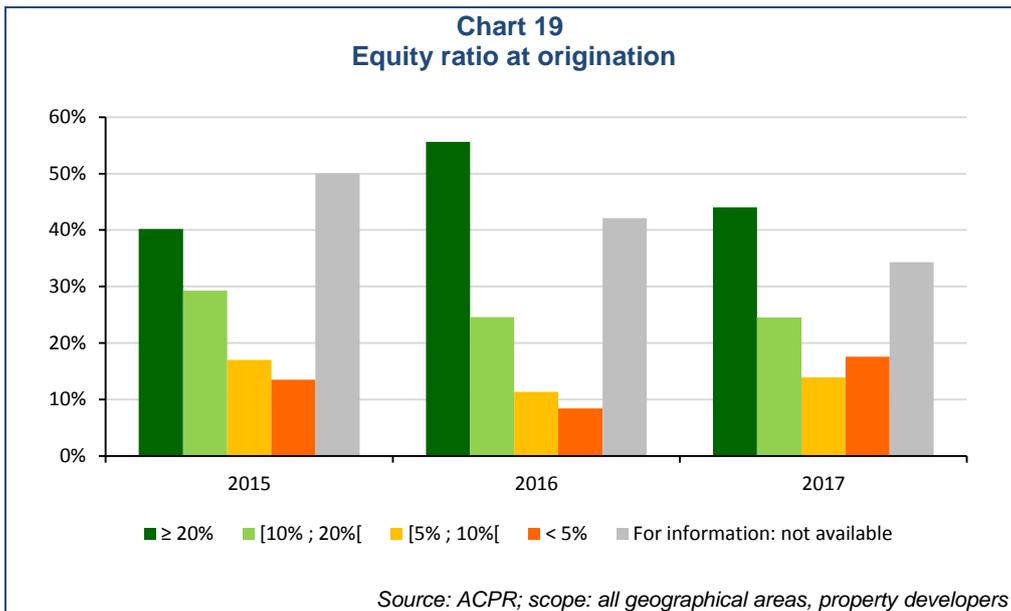
This improvement in pre-sales/pre-leasing conditions allowed special purpose development companies and property dealers to reduce their equity contribution<sup>6</sup>: the share of transactions for which this contribution is over 10% (and which are hence more risky) fell sharply from 62.9% to 55% (-7,9pp) while that for which the contribution is less than 10% rose to 45% (Chart 18).



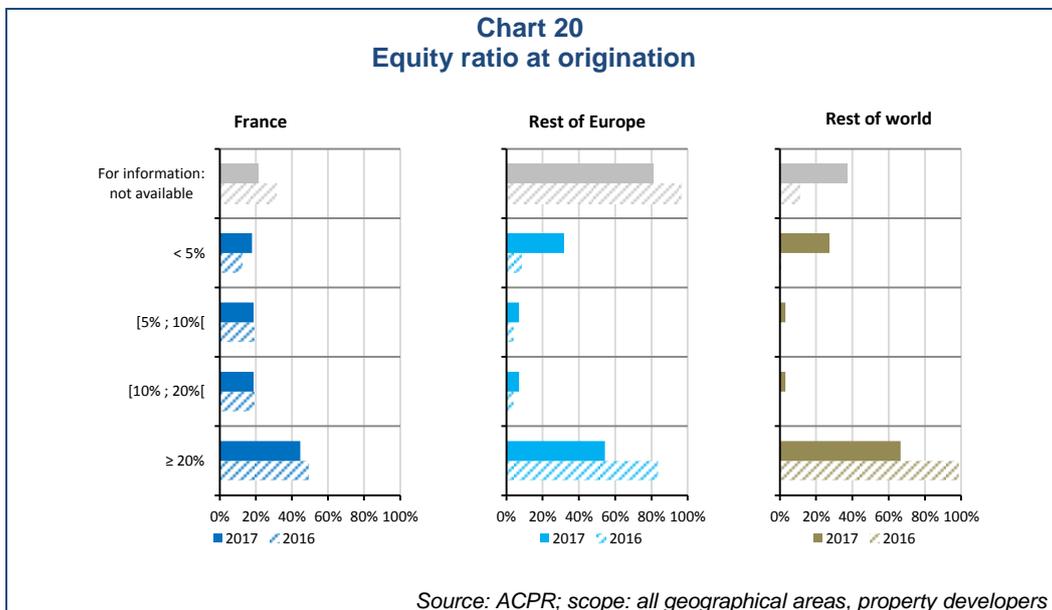
Conversely, the overall risk profile of financial transactions (for all geographical areas), measured by the equity ratio of developers at loan origination, worsened; in particular, the share of new lending for which equity ratios were over 20% fell from 55.6% to 44% (-11.6pp) while the share of new loans with equity ratios of less than

<sup>6</sup> The equity contribution rate of development companies is interpreted in the opposite way to that of the pre-sales/pre-leasing rate: the lower it is, the less the transaction is risky (as it measures the developer's own contribution – with the rest stemming from client advances on construction programmes).

5% rose significantly, from 8.4% to 17.6% (up 9.2pp) (Chart 19). Given that data are still incomplete for a significant share of the loans granted, these developments should nevertheless be considered with caution.



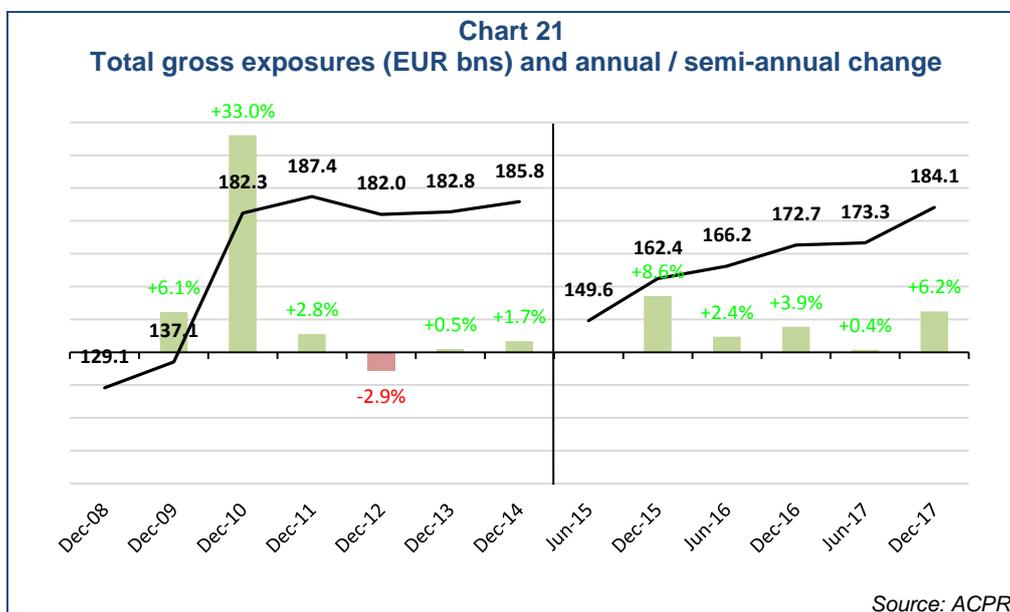
The worsening of lending conditions to developers was much more marked in the rest of the world, where the share of loans with equity ratios of over 20% (the least risky) declined by 31.9pp to 66.7% and in the rest of Europe by 29.3pp to 54.3%. In both these geographical areas, however, the share of transactions for which information was not provided by banks was either extremely high (81.4% in the case of the rest of Europe), or climbing sharply (up 26pp for the rest of the world). Developments in France were much more moderate, with a decline of just 4.7pp for transactions with an equity ratio greater than or equal to 20% (Chart 20).



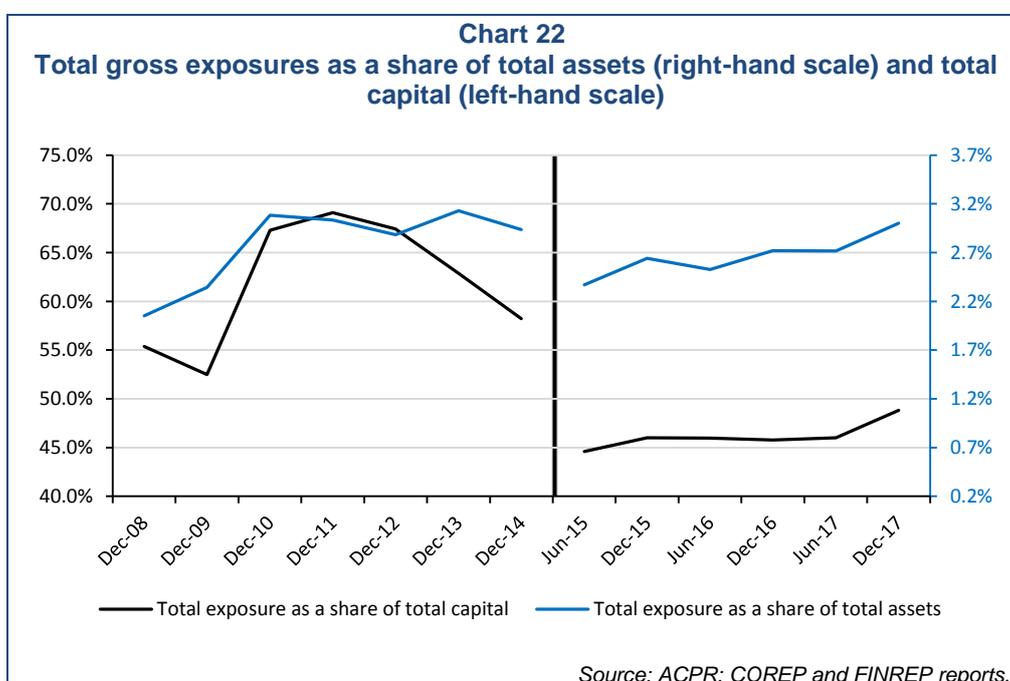
### 3 French banks' exposures to real estate professionals

#### 3.1 Exposure growth comparable to that of 2016

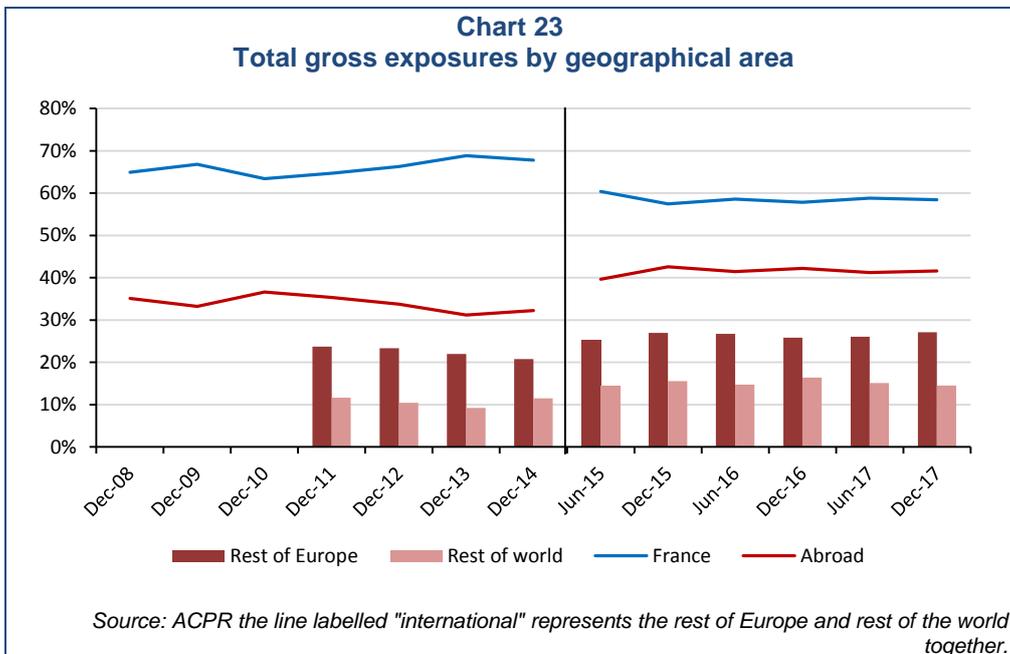
Total gross exposures stood at EUR 184.1 billion at 31 December 2017, up 6.6% on end-2016, and 6.2% higher than those observed the previous semester (Chart 21).



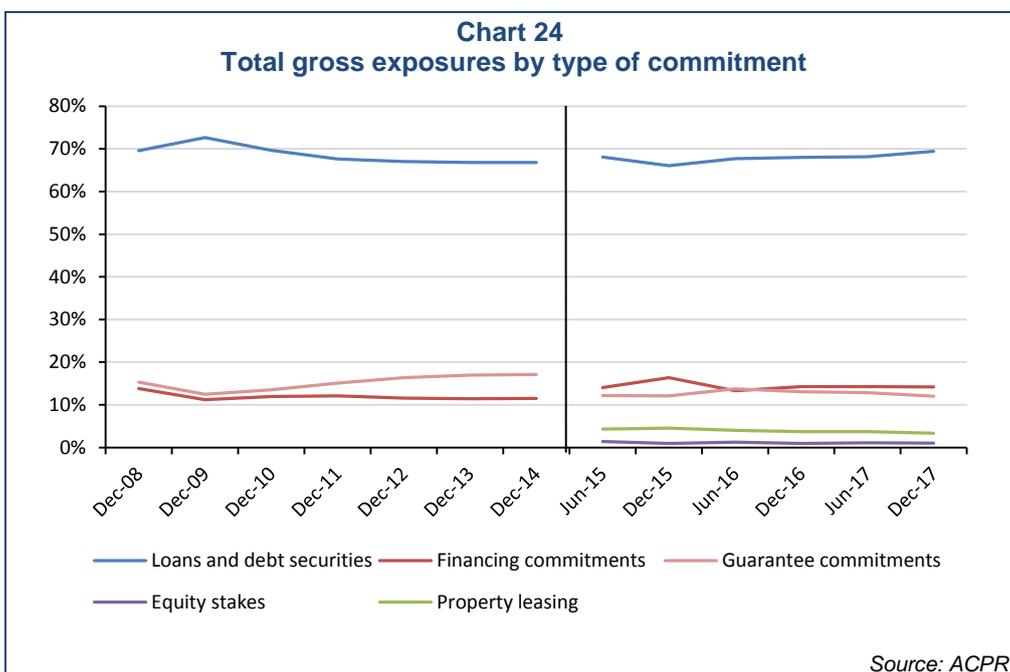
Exposures were also up as a proportion of both the total assets of reporting banks, which fell by 3.4% compared with 2016 (up 0.3pp to 3%), and of their capital, which remained stable (up 2,8pp to 48.8%) (Chart 22).



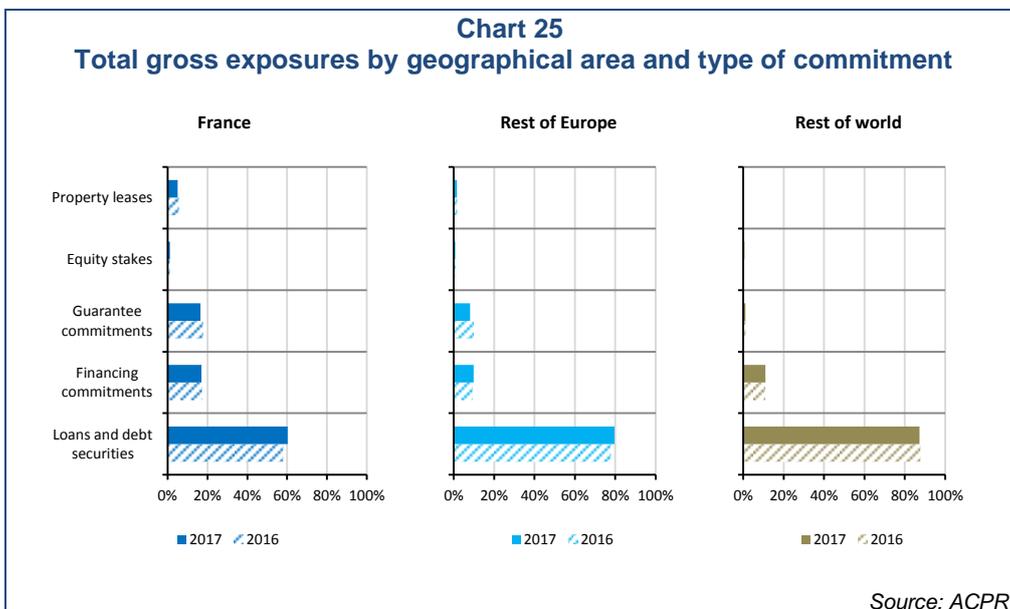
The structure of exposures by geographical area has changed little since December 2015, with exposures to France standing at slightly below 60% and inching up by 0.6pp in 2017, to 58.4%. The decline in foreign exposures mainly stems from exposures to the rest of the world, which decreased by 1.8pp to 14.6%, while the share of those to the EU rose by 1.2pp over the year to stand at 27.1% (Chart 23).



The structure of exposures by type of commitment confirms the preponderance of loans and debt securities, whose share increased by 1.3pp year-on-year to 69.4%. At the same time, the share of guarantee commitments fell by 0.8pp to 12% while that of financing commitments was relatively stable at 14.2% of exposures (-0.1pp), as was that of leasing (-0.4pp to 3.3%) and equity instruments (up 0.1pp to 1%) (Chart 24). Differences with the structure of new lending reflect the shorter effective maturity of guarantee commitments and above all of financing commitments (see below).

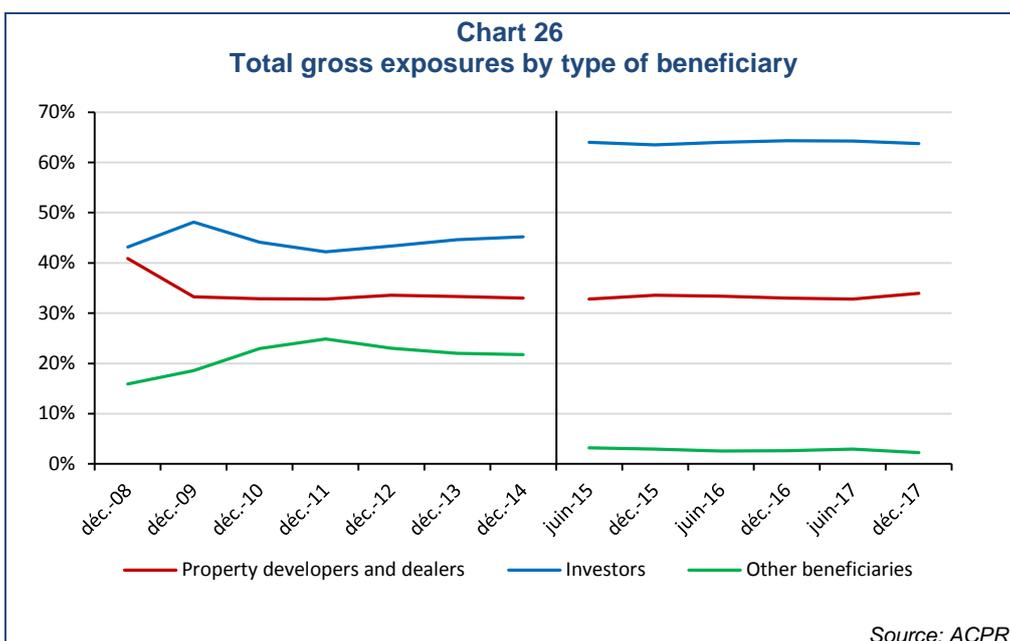


Lastly, the breakdown of exposures by geographical area and by type of commitment remained relatively unchanged, even though loans and debt securities, which already accounted for the bulk, increased their share in France by 2.3pp, and in the rest of the world by 1,8pp whereas the latter inched down by 0.4pp (Chart 25).

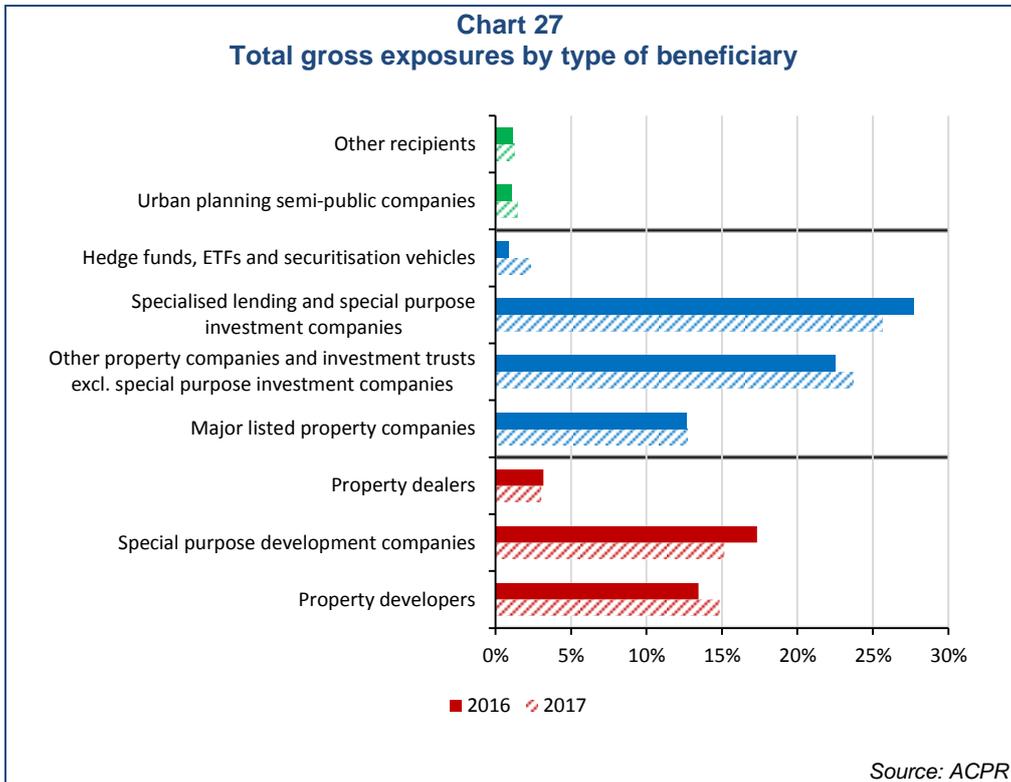


### 3.2 Growth recorded for property developers and dealers

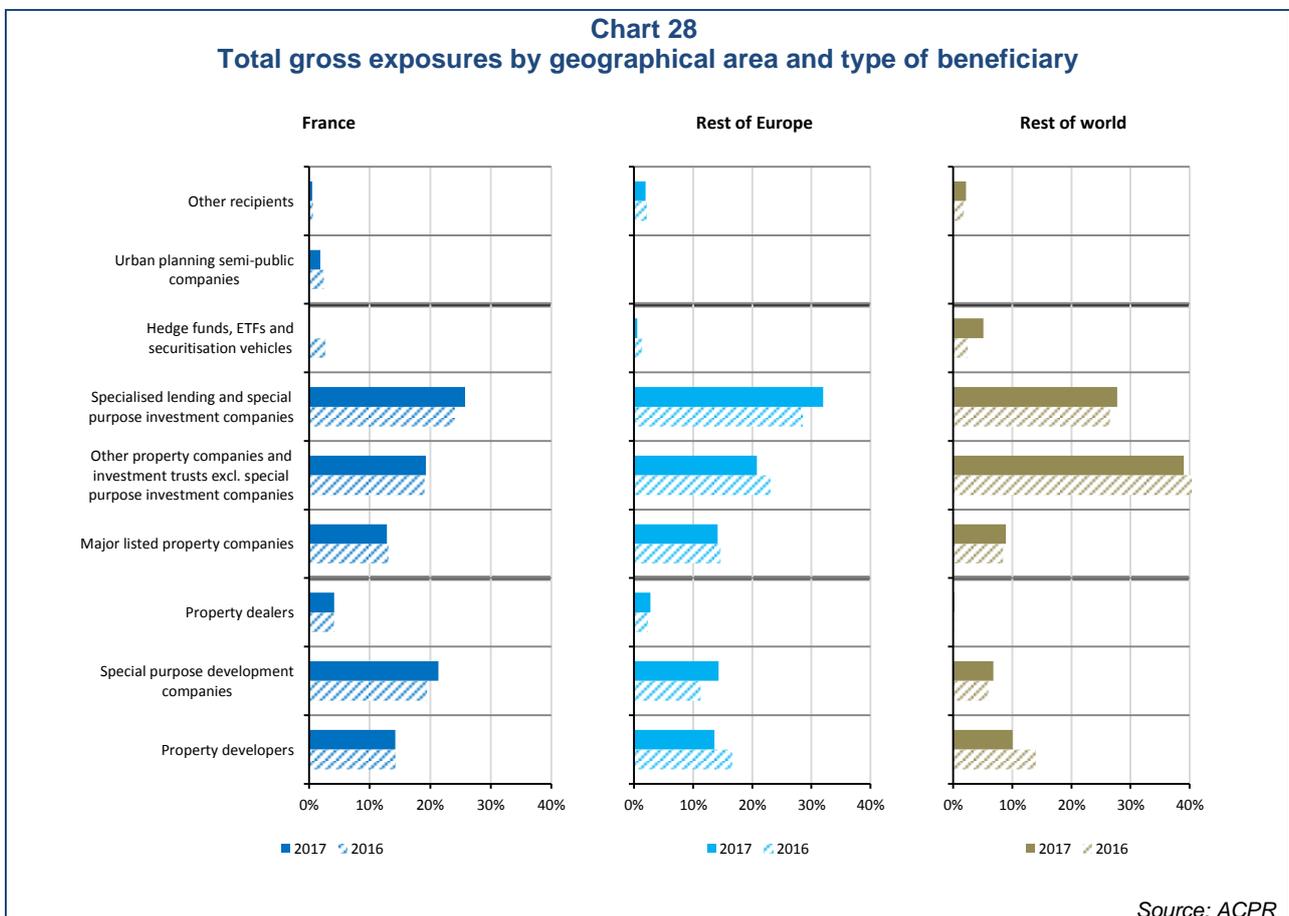
The breakdown of exposures by beneficiary type remained stable compared with end-2016: the share of investors in outstandings remained high (63.8%) albeit slightly down on the previous year (-0.6pp), while the share of property developers and dealers rose by 0.9pp to 33.9% (Chart 26). Conversely, the share of other beneficiaries fell for the second consecutive year to 2.2% (-0.4pp).



A more detailed breakdown shows that the structure of exposures nevertheless saw a number of changes (Chart 27): exposures to developers fell by 1.4pp in favour of special purpose development companies (up 2.2pp) and the share of specialised lending increased by 2.2pp to the detriment of other property companies (-1.2pp).

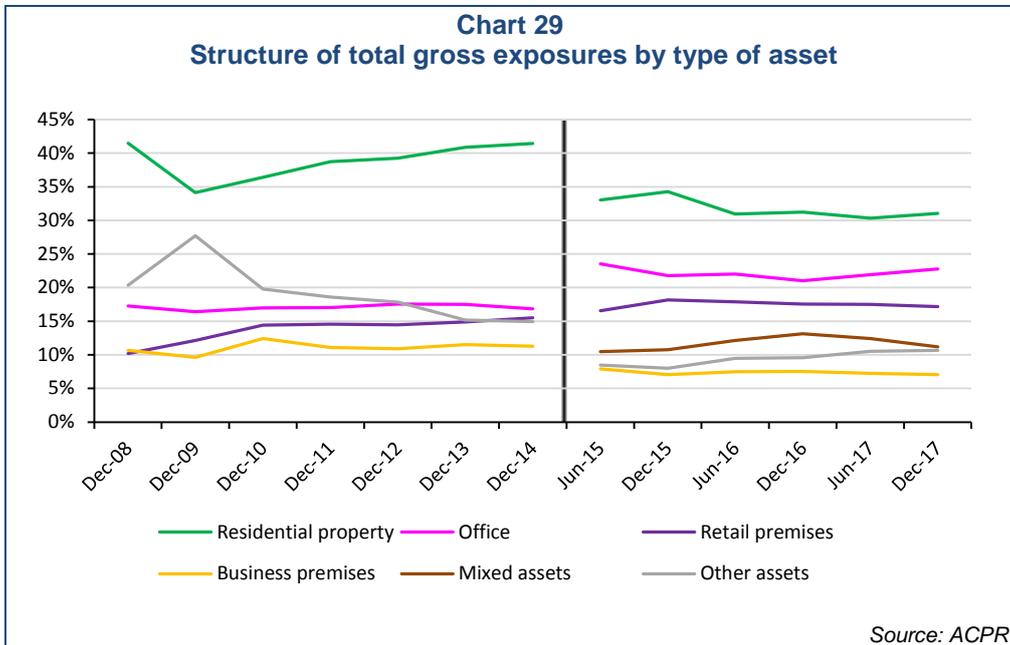


The share of specialised financing increased in France (up 1.6pp), the rest of Europe (up 2.3pp) and the rest of the world (up 1.7pp). However, the share of loans to special purpose development companies rose only in France (by 1.9pp) and, to a lesser extent in the rest of the world (up 0.9pp), with this share decreasing in the rest of the world (-1.1pp) (Chart 28).



### 3.3 The share of offices in exposures rose

The structure of exposures by type of asset changed somewhat between 2016 and 2017: the share of offices (22.8%) and other assets (10.7%) in exposures increased year-on-year by 1.8pp and 1.1pp respectively. Conversely, retail outlet (17.2%), mixed assets (11.2%) and business premises (7.1%) declined by 0.3pp, 1.9pp and 0.5pp respectively. The share of residential property remained stable at 31.1% (-0.1pp) (Chart 29).



The decline in the share of mixed assets between 2016 and 2017 can be attributed to property companies (-1.1pp) and, to a lesser degree, to specialised financing and other special purpose investment companies (-0.6pp), which explains the increase in other assets (up 1.2pp) and offices (up 0.9pp). The decrease in the share of retail outlets stems from other property companies (-1pp) and hedge funds, ETFs and securitisation vehicles (-0.5pp). Lastly, the stability of the share of residential property masks decline in property developers (-0.9pp) and other property companies (-0.6pp) to the benefit of special purpose development companies (up 1.4pp) (Table 2).

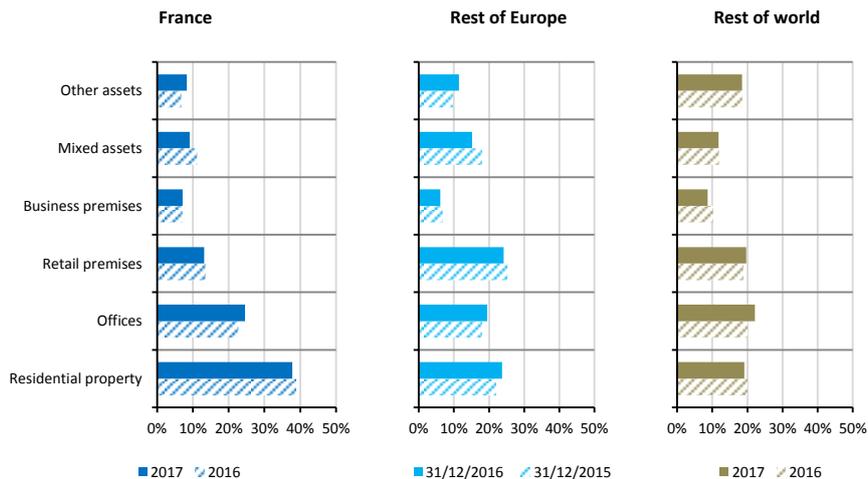
**Table 2**  
**Change in structure of exposures by borrower type and asset type from end-2016 to end-2017**

2017 vs 2016	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
Residential property	-0.9 pp	+1.4 pp	+0.2 pp	+0.1 pp	-0.6 pp	+0.2 pp	-0.0 pp	-0.3 pp	-0.3 pp
Offices	-0.2 pp	+0.3 pp	+0.1 pp	+0.6 pp	+0.5 pp	+0.9 pp	-0.4 pp	+0.0 pp	+0.0 pp
<i>o/w Île de France</i>	-0.1 pp	+0.3 pp	-0.0 pp	+0.3 pp	+0.1 pp	+0.2 pp	-0.7 pp	+0.0 pp	+0.0 pp
<i>o/w rest of France</i>	+0.0 pp	-0.1 pp	+0.0 pp	+0.1 pp	+0.7 pp	+0.5 pp	-0.0 pp	+0.0 pp	+0.0 pp
Retail premises	-0.0 pp	-0.1 pp	+0.0 pp	+0.2 pp	-1.0 pp	+1.0 pp	-0.5 pp	+0.0 pp	-0.0 pp
Business premises	-0.2 pp	+0.1 pp	-0.0 pp	+0.0 pp	-0.2 pp	-0.2 pp	-0.0 pp	-0.0 pp	+0.1 pp
Mixed assets	-0.2 pp	+0.2 pp	-0.1 pp	-1.1 pp	-0.0 pp	-0.6 pp	-0.2 pp	-0.0 pp	+0.0 pp
Other assets	-0.1 pp	+0.2 pp	-0.0 pp	-0.1 pp	+0.1 pp	+1.2 pp	-0.2 pp	-0.0 pp	+0.1 pp

*Source: ACPR*

Lastly, the increase in the share of offices and other assets and the decrease in that of mixed assets were observed in all geographical areas to differing degrees (Chart 30). However, while the share of retail outlets financed in France and in the rest of Europe declined, its share in exposures increased in the rest of the world.

**Chart 30**  
Structure of total gross exposures by geographical area and asset type



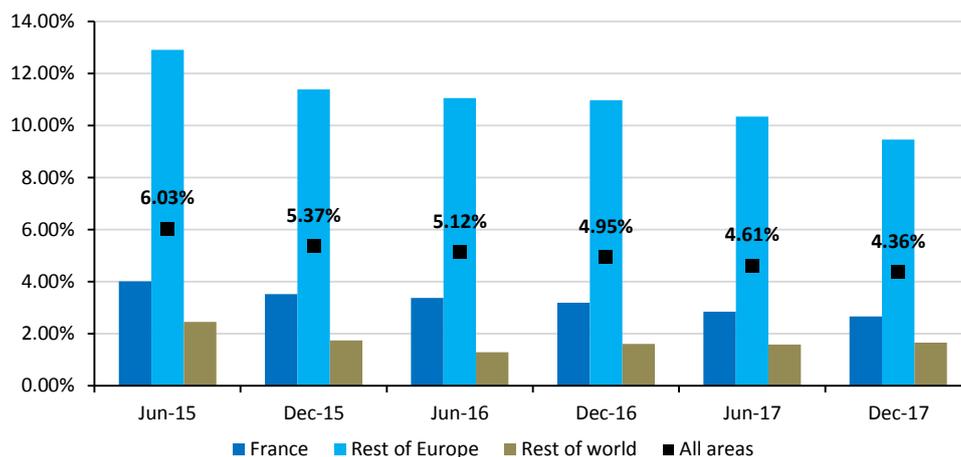
Source: ACPR

### 3.4 Overall risk indicators Improved

#### 3.4.1 A further improvement in the quality of exposures

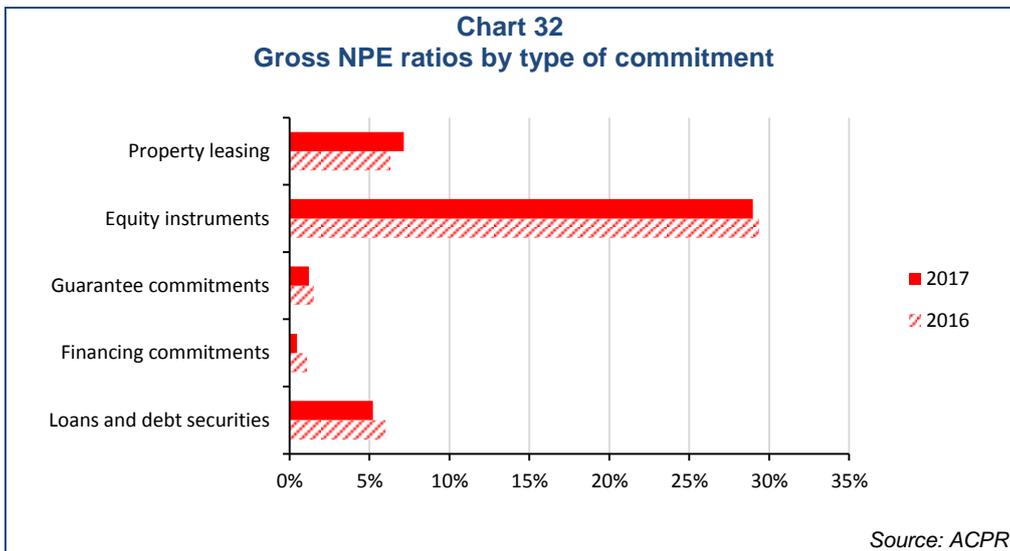
For the third consecutive year, **the gross non-performing exposure (NPE) ratio fell to reach 4.36%, or a decline of 59 bps y-o-y (Chart 31)**. This decline reflects both the contraction in the volume of defaulted exposures, for all types of instrument (-8%), and the rise in total gross exposures (up 6.7%). While the gross NPE ratio fell in France (-54bps) and in the rest of Europe (-151bps), it nevertheless rose very slightly in the rest of the world by 5bps, due to the more rapid drop in total exposures (-5%) than that of gross NPEs (-2.6%). Lastly, all banks in the sample saw a reduction in their gross NPE ratios.

**Chart 31**  
Gross NPE ratio by geographical area

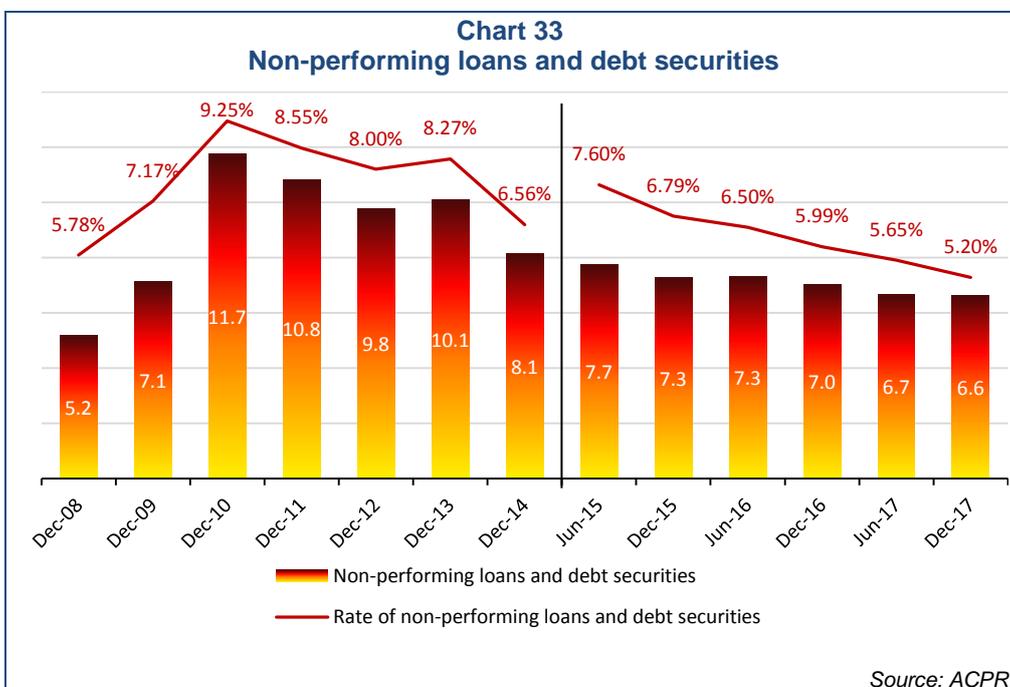


Source: ACPR

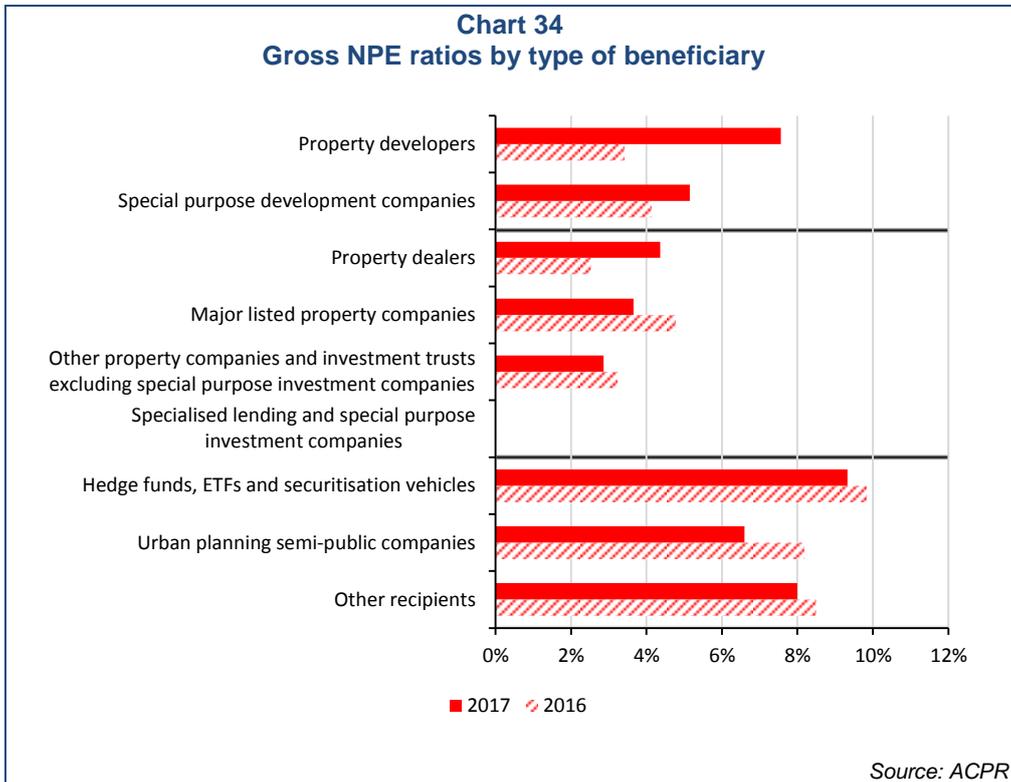
With the exception of property leasing whose gross NPL ratio increased to 7.13% (up 83bps), all categories of loans contributed to the decline in the loss ratio. This is most apparent for loans and debt securities (-79bps), followed by financing commitments (-61bps), equity instruments (-38bps) and lastly guarantee commitments (-31bps) (Chart 32).



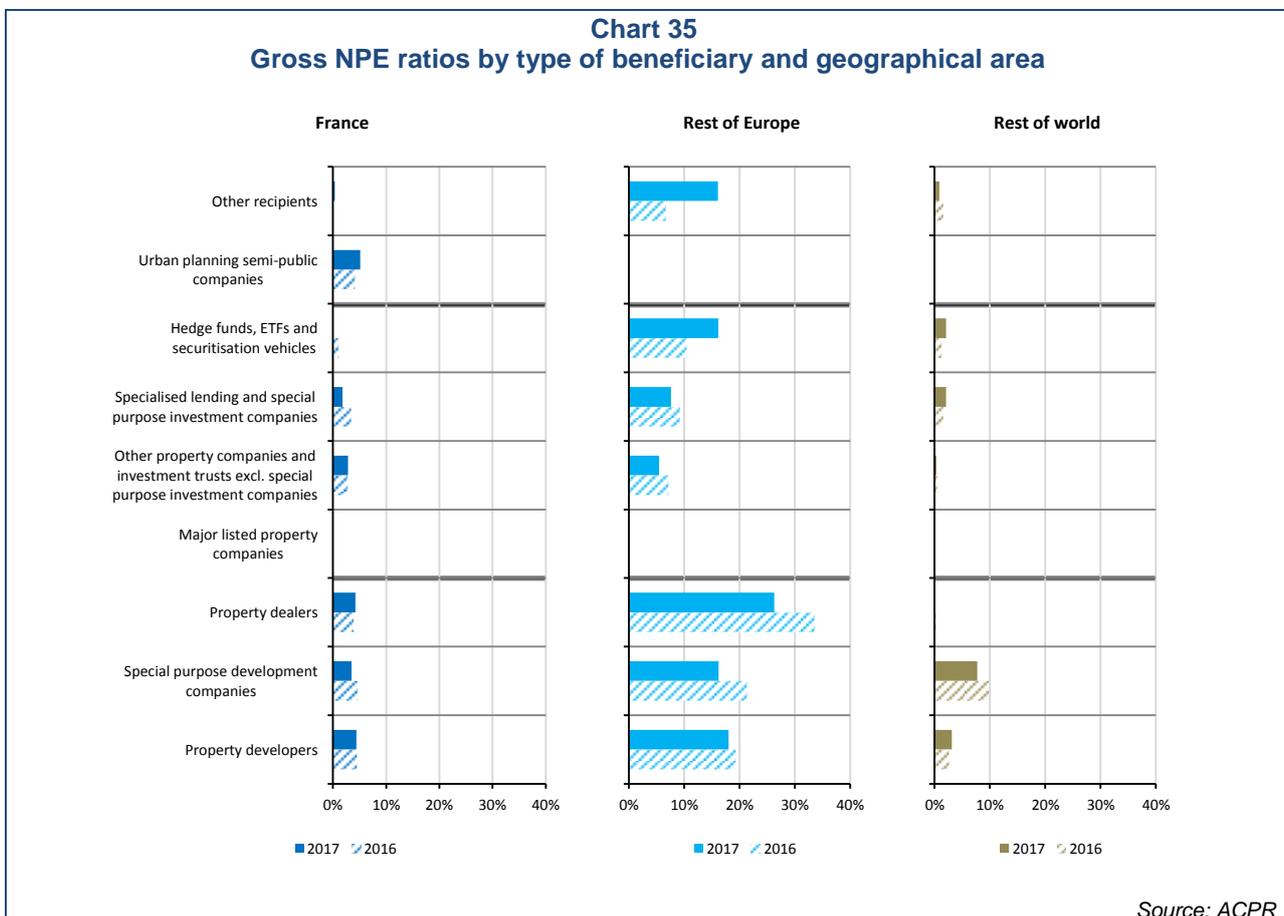
Like at the overall level, the decline in the share of non-performing loans and debt securities reflects both a contraction in the gross outstanding stock of non-performing loans (-5.5%) and a rise in performing exposures (up 9.9%) (Chart 33).



The decrease in the NPE ratio is observed among the main categories of beneficiaries, above all special purpose development companies (-159bps) and specialised financing and other special purposes investment companies (-113bps) (Chart 34). The significant increase in the NPE ratio for the more marginal categories (hedge funds, ETF and securitisation vehicles (up 184bps), urban planning semi-public companies (up 101bps) and other beneficiaries (up 414bps)) did not have an impact on the gross NPL ratio. In this respect, we note that, while the deterioration observed for other beneficiaries stems from the strong y-o-y increase in the gross NPE ratio (up 123.5%) against the backdrop of almost stable performing exposures (up 1.1%), the trend observed among urban planning semi-public companies and hedge funds, ETFs and securitisation vehicles stems mainly from the sharp contraction in performing exposures (-1.5% and -58.5% respectively), with gross NPEs either rising slightly (up 1.5% in the first case), or falling more rapidly (-28.2% in the second case). Moreover, the developer segment continued to display far higher NPE ratios than the investor segment.

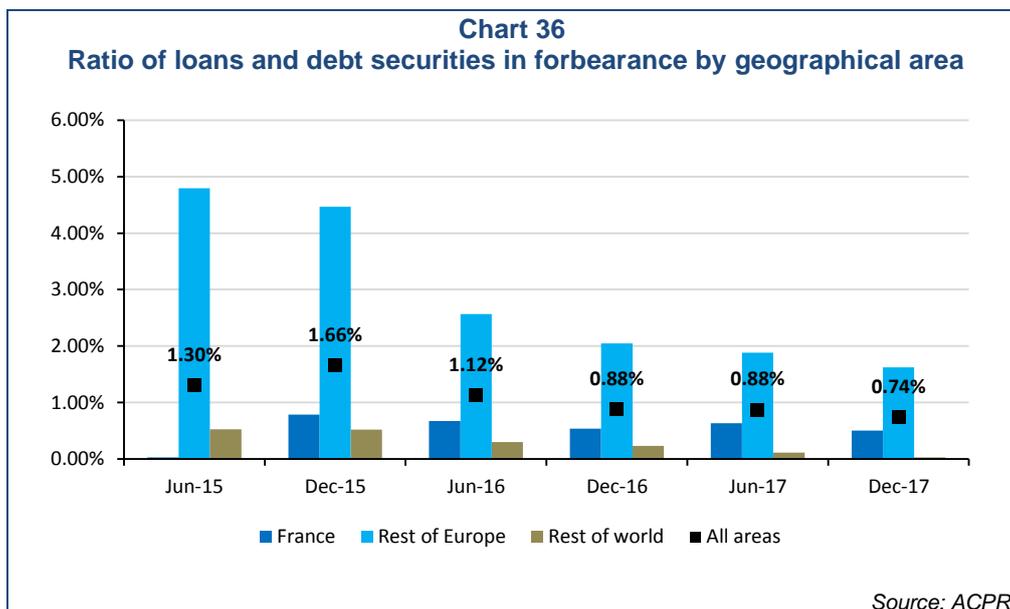


In this respect, the rest of Europe displayed much higher gross NPE ratios than France or the rest of the world regarding nearly all beneficiaries, with the greatest differences concerning the investor category, notably specialised financing and other special purposes investment companies and investment trusts excluding special purpose investment companies (Chart 35).



This improvement in the quality of exposures is also reflected by the ongoing

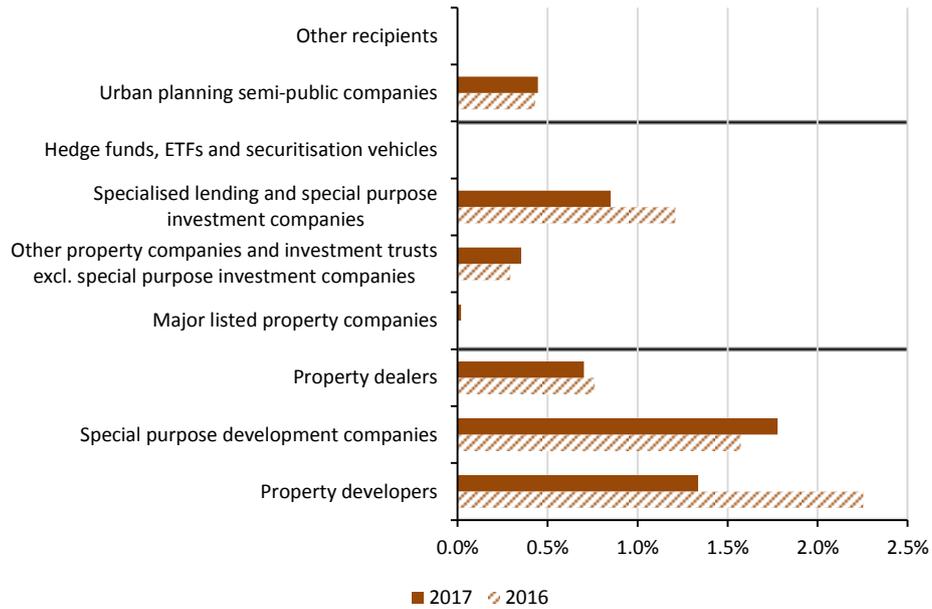
**decline in the ratio of loans and debt securities in forbearance<sup>7</sup>** (-14bps y-o-y to 0.74%). This trend can be observed in all geographical areas, even though levels still remain very heterogeneous, with that of debt securities in forbearance being 50 times higher than in the rest of Europe (1.63%) than in the rest of the world (0.03%), with France in a median position (0.5%) (Chart 36).



The decline in the ratio of loans and debt securities in forbearance nevertheless masks very mixed developments across types of beneficiary: while developers and specialised financing or special purpose investment vehicles saw relatively significant decreases (-91bps and -0.36 bp), the ratio of loans and debt securities in forbearance increased for other categories with the exception of property dealers, with the strongest rise, although modest, being recorded by special purpose development companies (up 21bps). Lastly, in the major listed property company segment restructured exposures were observed, although the proportion remained marginal (0.02%) (Chart 37).

<sup>7</sup> This concept describes debt rescheduling generally at the request of the borrower when anticipating repayment difficulties or in some cases at the lender's behest when for example a breach of covenant is observed vis-à-vis a listed property company.

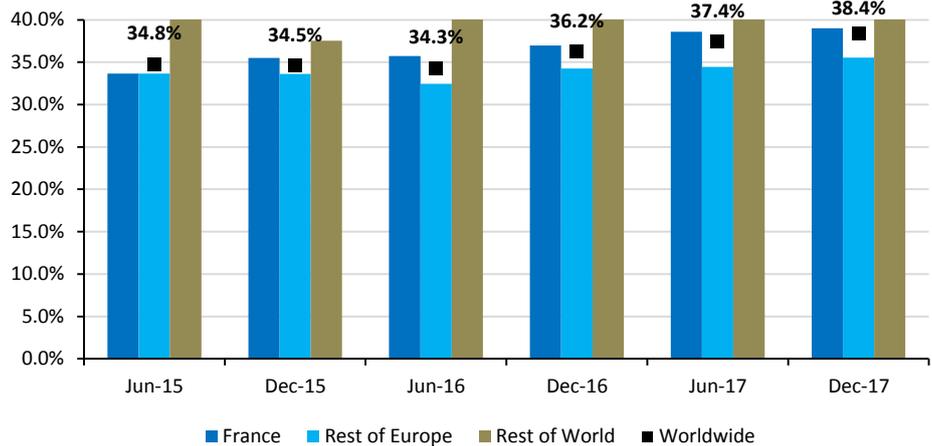
**Chart 37**  
**Ratio of loans and debt securities in forbearance by type of beneficiary**



Source: ACPR

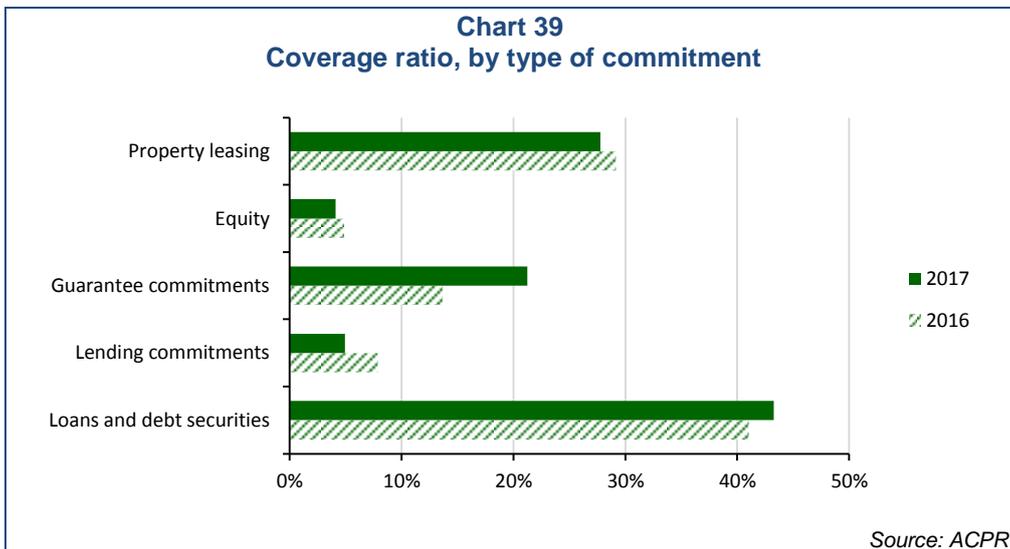
The average coverage ratio (CR) for gross non-performing exposures finished the year up 2.2pp compared with end-2016 to stand at 38.4%, or a slightly faster increase than that of the previous year (up 1.7pp). The volume of provisions fell y-o-y by 0.4% to EUR 3.1 billion but this decline is far smaller than that of gross NPEs (-6%). Lastly, this rise in the provisioning rate was chiefly observed in the rest of the world (up 13pp) then, to a lesser extent in France (up 2pp) and the rest of Europe (up 1.2pp) (Chart 38).

**Chart 38**  
**Overall coverage ratio, by geographical area**

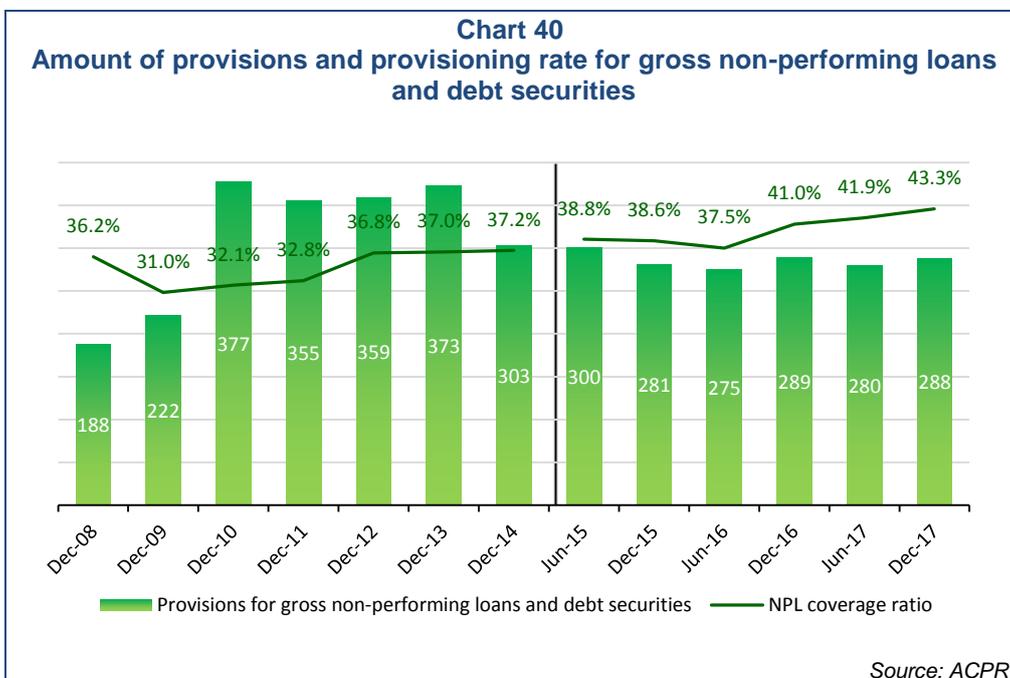


Source: ACPR

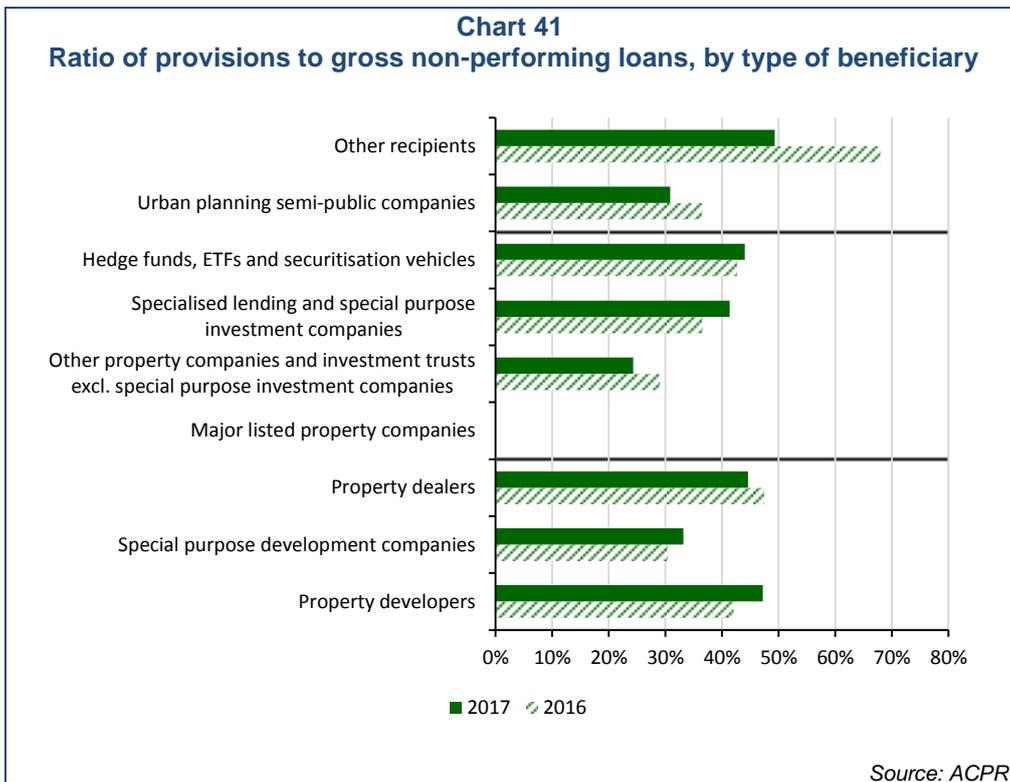
The average provisioning rate continued to vary significantly across commitment types and displayed contrasting developments (Chart 39): while it rose for guarantee commitments (up 7.6pp to 21.3%) and, to a lesser degree, for loans and debt securities (up 2.2pp to 43.3%), it fell for less financing commitments (-2.9pp to 5%), property leasing (-1.4pp to 28%) and equity instruments (-0.7pp to 4.1%).



In particular, the provisioning rate for loans and debt securities reached its highest level in 2017 to 43.3% driven by the much slower decline in provisions (-0.3%) than that of NPLs (see above) (Chart 40).

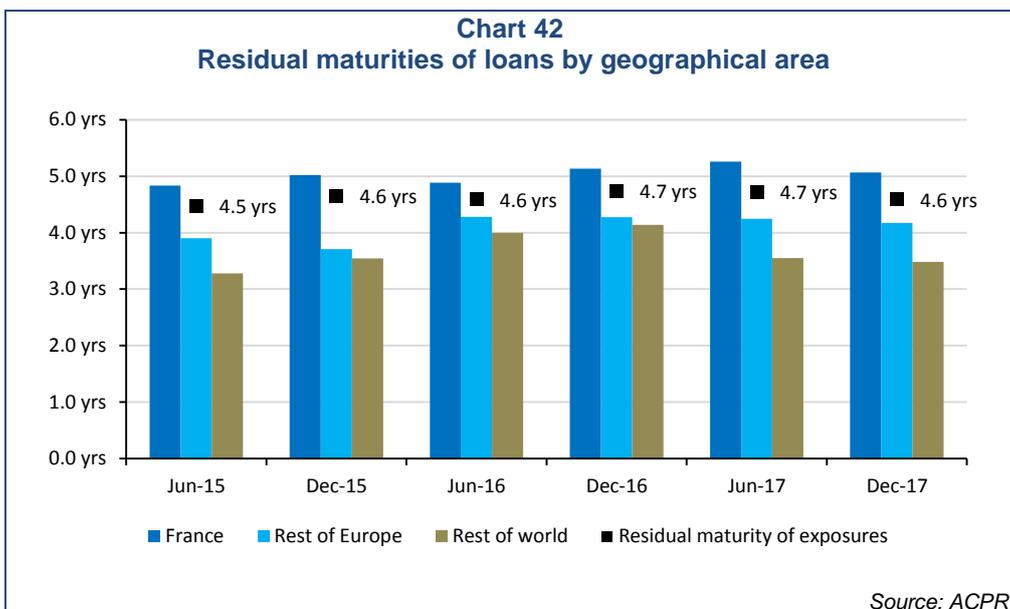


While, with the exception of the most marginal categories, provisioning rates by beneficiary type generally rose (developers up 5.2pp and specialised financing and other special purpose investment companies up 4.8pp), they nevertheless fell for other property companies and investment trusts excluding special purpose investment companies (-4.7pp) and property dealers (-2.8pp) (Chart 41).



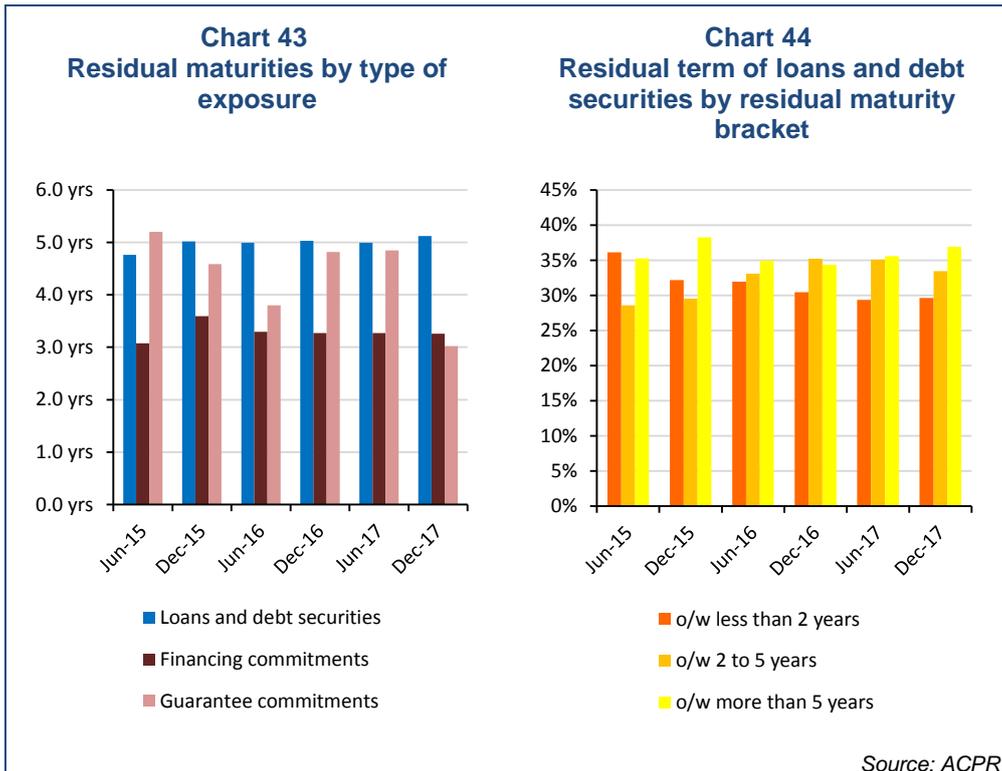
### 3.4.2 Stable residual maturity

In 2017, the residual maturity of loans granted to real estate professionals fell slightly (-1.8 month compared with 2016) but remained within a narrow range of 4.47 years to 4.72 years and continued to remain very close to the initial maturity (Chart 42). While the three geographical areas saw a decline in the residual maturity of loans, the fall was most marked for the rest of the world (-7.4 months between 2016 and 2017), while France (-0.7 month) and the rest of Europe (-1.3 month) saw more moderate decreases.



An analysis by type of commitment shows more contrasting situations: while the residual maturity of financing commitments remained stable y-o-y, it nevertheless fell very sharply for guarantee commitments (-1.8 year) but increased slightly for loans and debt securities (up 1.2 month), due to the significant rise in the share of financing with a remaining maturity of more than 5 years (up 2.6pp y-o-y to 37%) (Chart 43 and Chart 44). Like previously, the breakdown of loans and debt

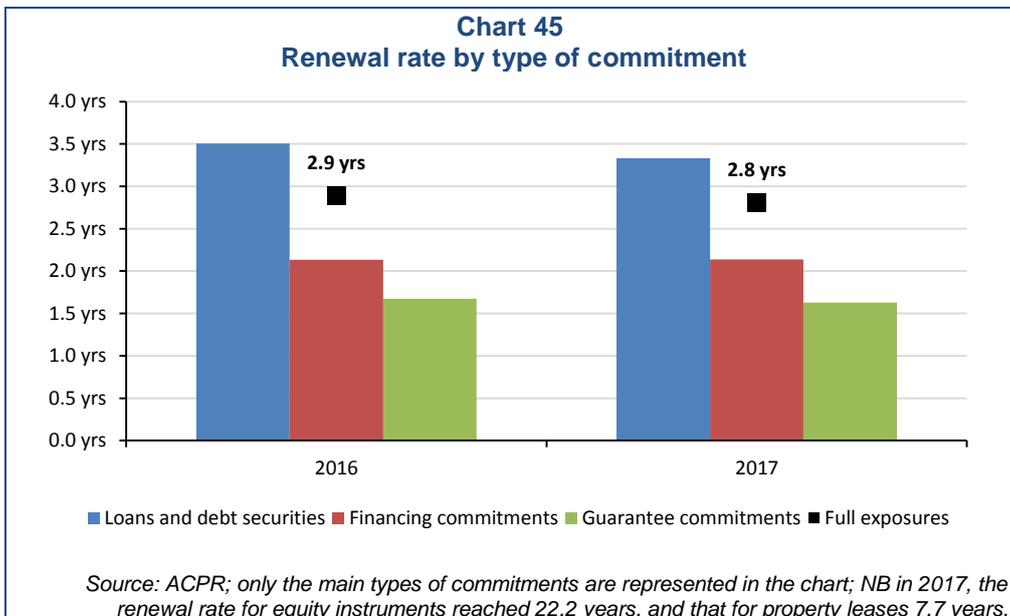
securities by residual maturity does not show a concentration of forthcoming repayments ("debt wall").



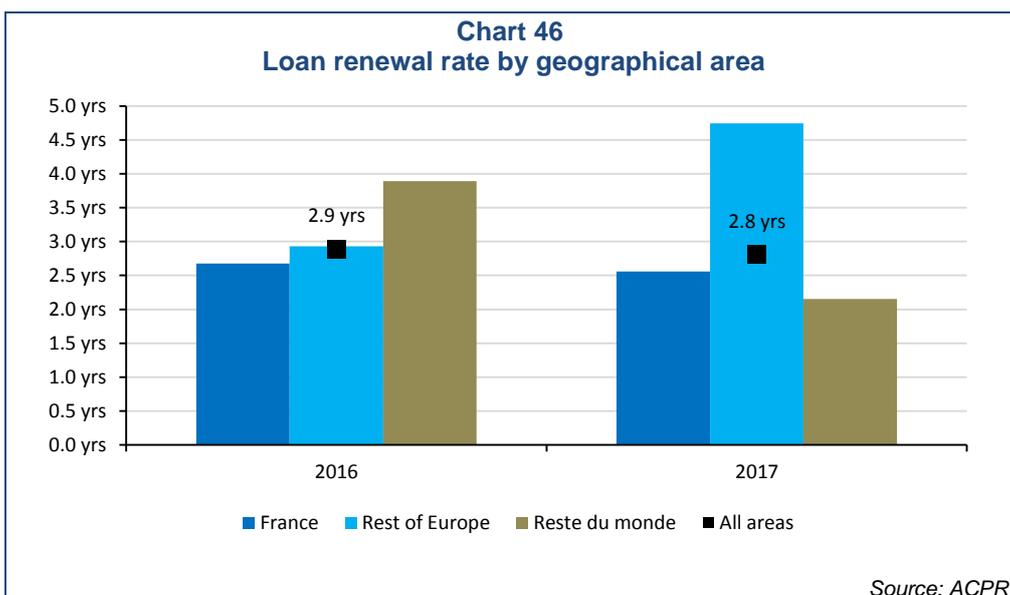
By comparing annual new lending with changes in outstandings over the same period, we can estimate the exposure renewal rate.<sup>8</sup> We thus observe that for all types of commitments, exposures are renewed on average in just under 3 years (Chart 45). The significant differential with the remaining maturity (see above) suggests that, in reality, a sizeable share of the loans mature well before their contractual maturity.

Furthermore, outstanding financing commitments (2.1 years in 2017) and above all guarantee commitments (1.6 year) have a far more rapid renewal rate than loan outstandings (3.3 years).

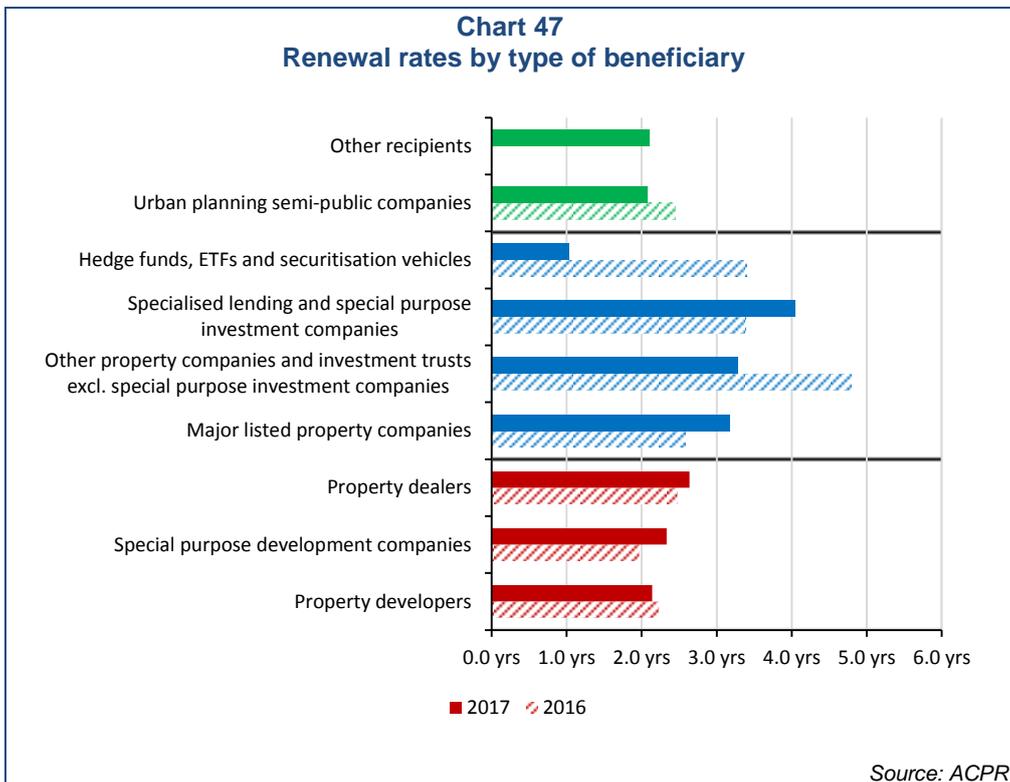
<sup>8</sup> We first calculate the amortisation for one year by taking the difference between new lending in the year in question and the change in outstandings with the previous year:  $Amortisation_n = New\ lending_y - (Outstandings_y - Outstandings_{y-1})$ ; the exposure renewal rate is then defined as the ratio of outstandings at the end of the previous year to the y-o-y amortisation  $Speed\ of\ renewal_y = Outstandings_{y-1} / Amortisation_y$ .



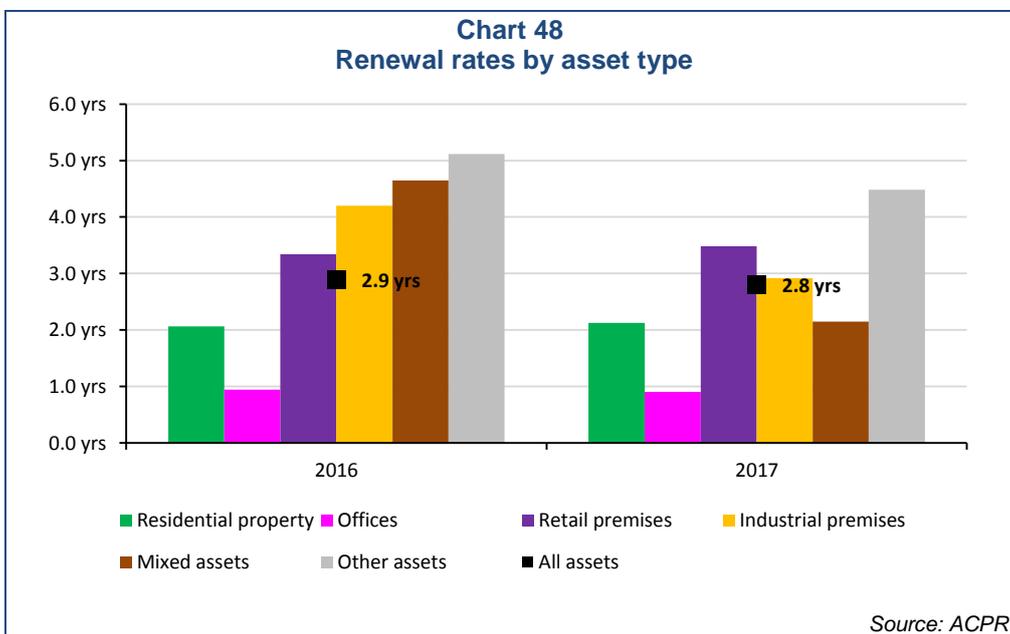
While renewal rates were relatively stable for the three main commitment categories, we nevertheless observe significant volatility in the rest of Europe and the rest of the world, suggesting the presence of a number of high-value transactions in the stock and/or new lending (Chart 46). In France, however, the loan renewal rate was just over 2.5 years.



In general, loans in the developer segment are renewed more rapidly than those in the investor segment, with rates of below 3 years for the former but over 3 years for the latter, with the only exception being for hedge funds, ETFs and securitisation vehicles (Chart 47). With the exception of developers (-0.1 year to 2.1 years) and other special purposes investment companies and investment trusts excluding special purpose investment companies (-1.5 year to 3.3 years), the renewal rate for loans for the different categories of beneficiaries tended to lengthen, in particular for specialised financing and other special purpose investment companies (up 0.7 year to 4.1 years) and major listed property companies (up 0.6 year to 3.2 years).

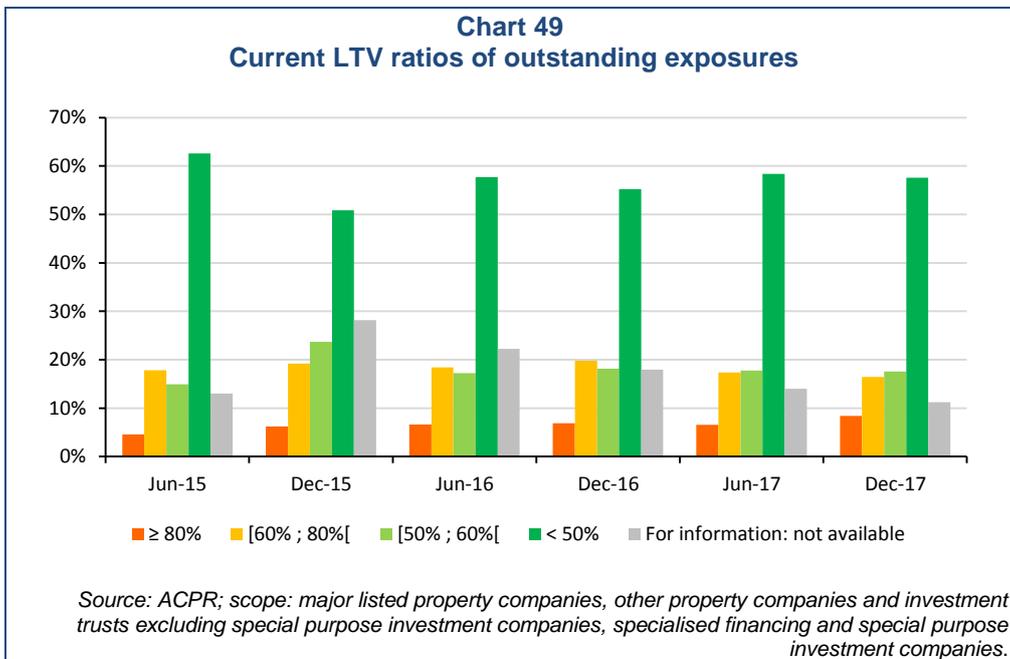


Lastly, renewal rates in the offices sector were very high, i.e. below 1 year in 2016 and in 2017. While they were relatively stable for residential property at a little over 2 years and around 3.5 years for retail outlets, they were much more volatile on the smaller segments. The latter three segments nevertheless saw a sharp rise in renewal rates, particularly pronounced for mixed assets (-2.4 years to 2.2 years in 2017) (Chart 48).

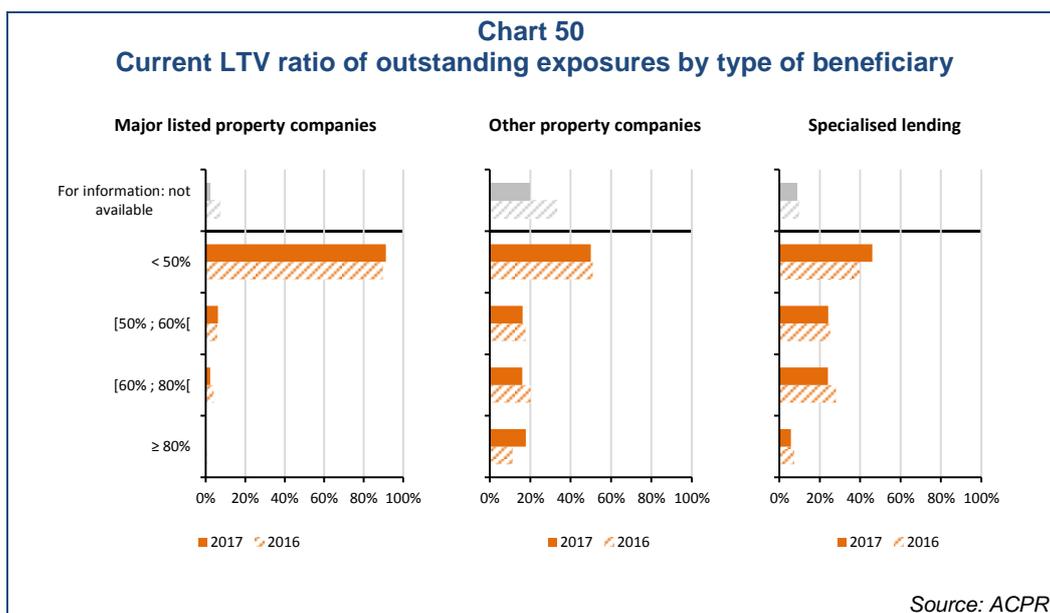


### 3.4.3 Credit standards improved overall

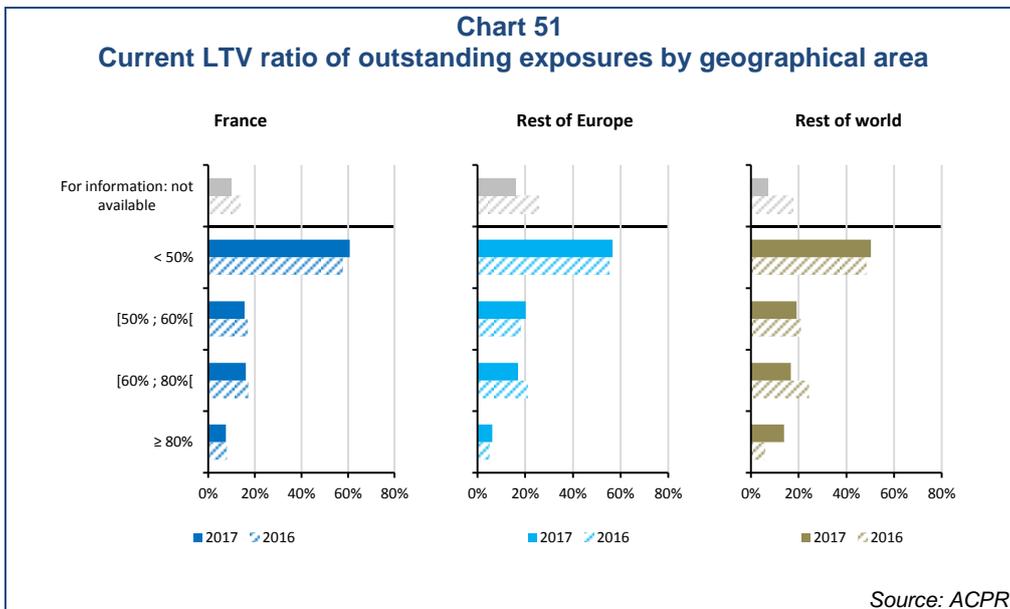
The share of transactions with a loan to value (LTV) ratio below 60% (i.e. the least risky) rose by 1.8pp compared with 2016 to stand at 75.1% (Chart 49). This increase reflects the rise in transactions with an LTV of below 50% (up 2.3pp to 57.5%). At the same time, the share of the most risky transactions, i.e. those whose LTV is over 80%, also rose slightly y-o-y, increasing from 6.9% in 2016 to 8.4% in 2017 (up 1.5pp).



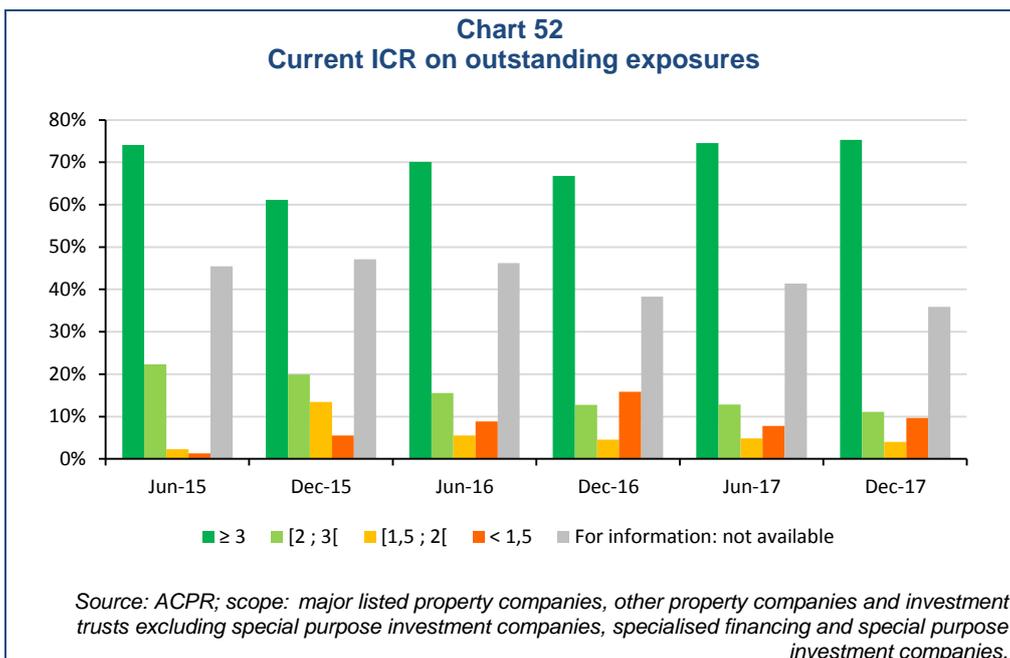
While the growth in exposures with an LTV of lower than 50% concerned both listed property companies (up 1.6pp) and specialised financing and other special purpose investment companies (up 6.3pp), the rise in the share of the most risky transactions stemmed exclusively from other property companies (up 6.5pp) (Chart 50).



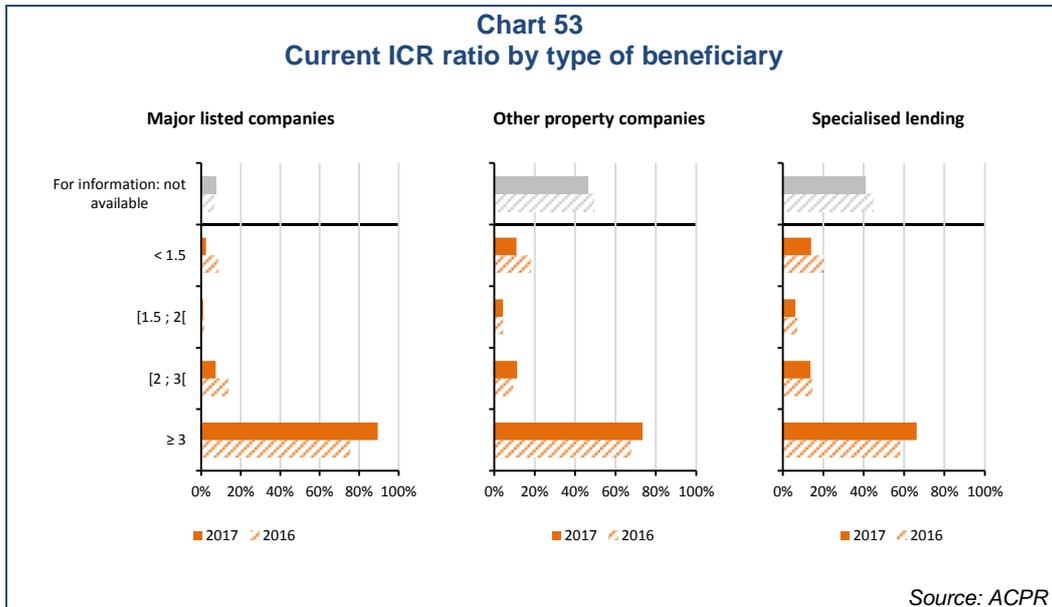
Moreover, while the share of transactions with an LTV of less than 50% rose in all areas and continued to account for a very large share of exposures, France alone saw a decline in transactions with an LTV of over 80% (-0.4pp to 7.6%). This latter category nevertheless grew in the rest of the world (up 7.7pp to 13.8%) and, to a lesser degree, in the rest of Europe (up 1.1pp to 6.2%) (Chart 51).



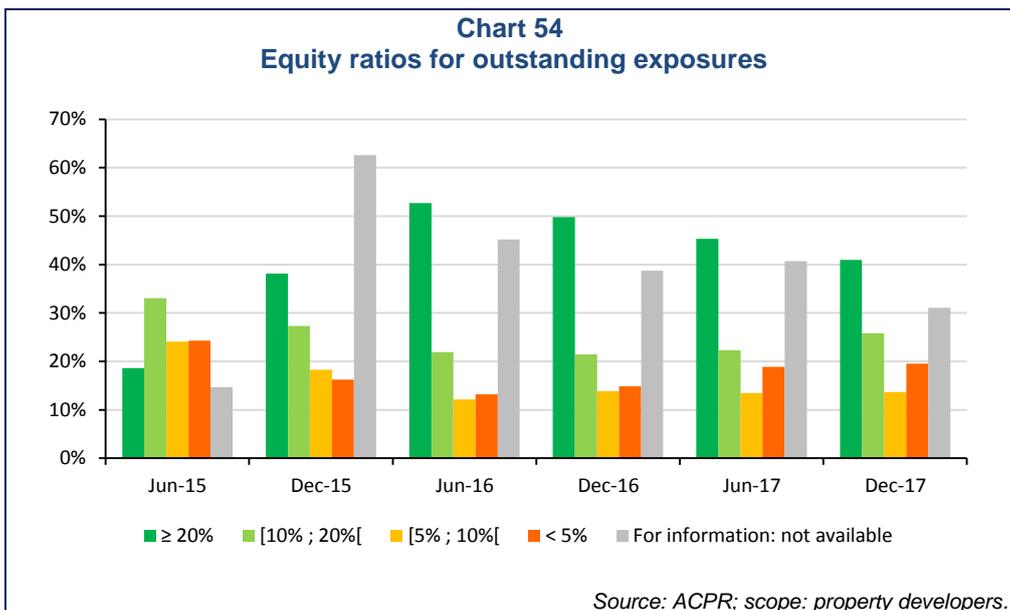
The analysis of the structure of exposures in terms of the interest coverage ratio or ICR shows, in the same way, an improvement in banks' risk profile: between 2016 and 2017, the share of transactions with an ICR of 3 or over increased by 8.5pp to stand at 75.3%. At the same time, the most risky transactions (i.e. with an ICR of less than 1.5) declined significantly by 6.3pp to 9.6% (Chart 52).



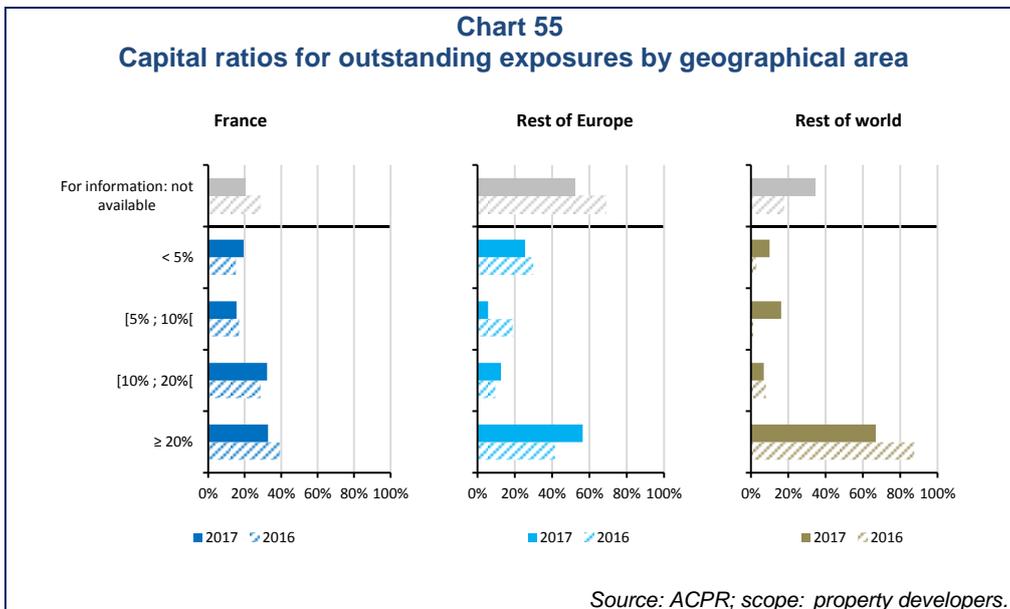
All categories of beneficiaries contributed to this improvement, as the share of transactions with an ICR of 3 or over increased for the major listed property companies (up 13.8pp to 89.4%) as well as for other special purposes investment companies and investment trusts excluding special purpose investment companies (5.6pp to 73.4%) and specialised financing and other special purpose investment companies (up 8.2% to 66.2%). Similarly, the most risky transactions declined across the board (Chart 53).



Lastly, in contrast to the favourable developments observed on the investor segment for LTVs and ICRs, **property developers' equity ratios worsened in 2017**, following a similar trend to that seen for new lending (see above). For instance, the share of exposures with capital ratios of above 20% fell by 8.8pp y-o-y to 41% while loans with a ratio of between 10% and 20% rose by 4.3pp to 25.8% (Chart 54). The share of the riskiest transactions (i.e. for which developer's equity ratios were less than 5%) also rose significantly (up 4.8pp to 19.6%).

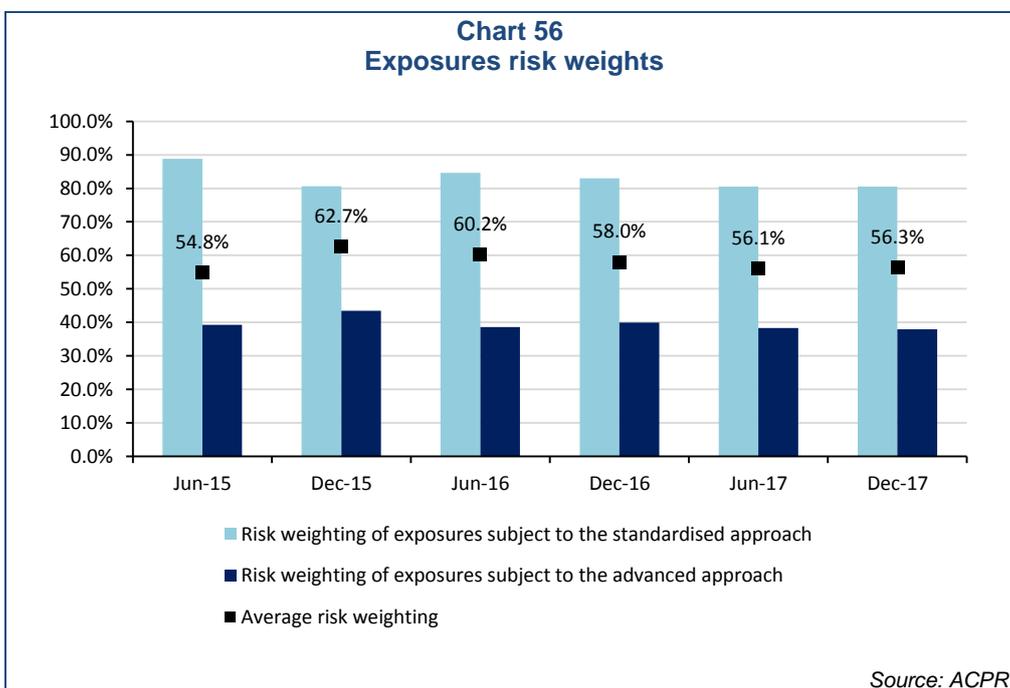


The decrease in the share of developer transactions with an equity ratio of over 20% can mainly be attributed to the rest of the world (-20.7pp to 66.9%) and, to a lesser extent, France (-6.5pp to 32.7%). Furthermore, both areas saw a rise in the share the most risky exposures (up 4.2pp to 19.4% for France and up 6.9pp to 10% for the regions of the world). In this context, the rest of Europe saw a sharp rise in exposures to developers with an equity ratio of over 20% (up 14.9pp to 56.4%), while there was a decline in loans with a ratio of under 5% of 4.6pp to 25.4% (Chart 55).

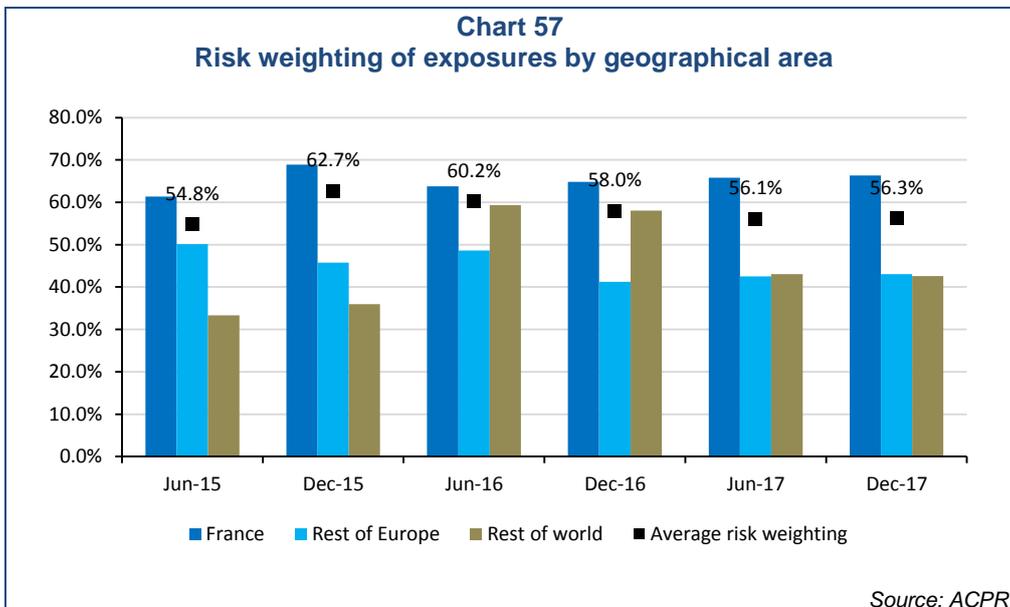


### 3.4.4 Risk weights continued to fall

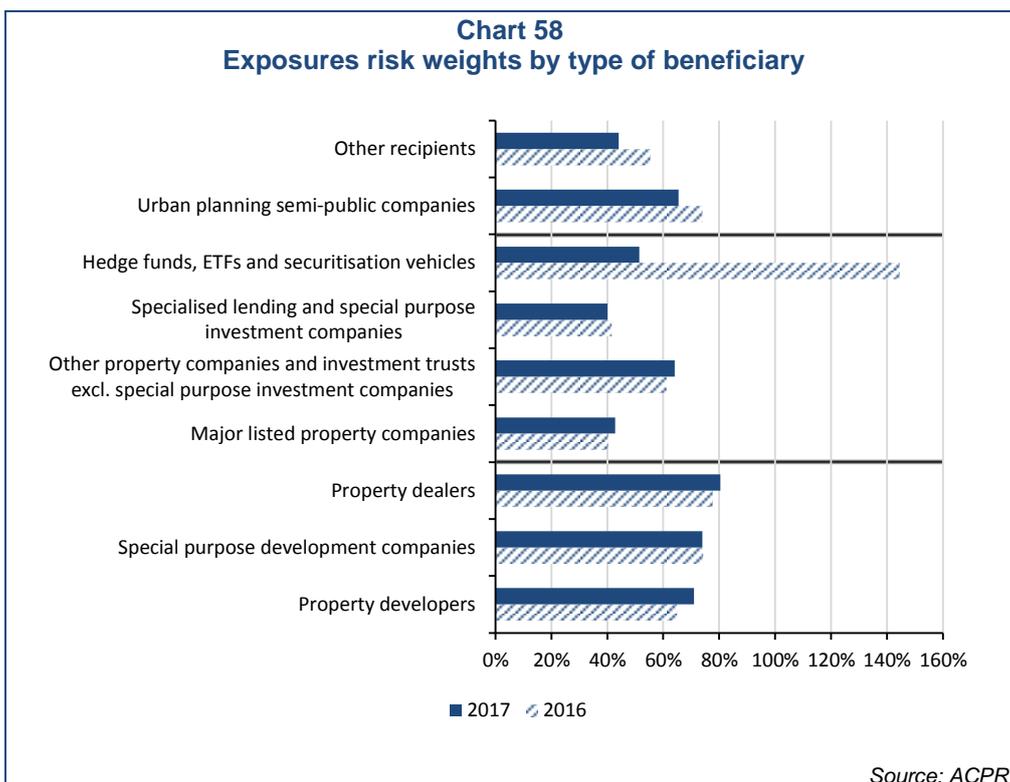
After a decrease of 4.7pp between 2015 and 2016, the average risk weighting for exposures (all approaches combined), fell by a further 1.7pp in 2017 to reach 56.3% (Chart 56). This decline reflects a risk effect of -2.2pp (decrease in risk weights of exposures subject to the Standardised Approach of -2.5pp to 80.6%) and subject to the Advanced Approach (-1.9pp to 37.9%) and structural effect of 0.5pp stemming from the rise in the share of exposures subject to the Standardised Approach (up 1.1pp to 43%), which are more heavily weighted.



The different geographical areas nevertheless displayed contrasting developments (Chart 57): France and the rest of Europe showed first a slight rise in exposure risk weights (up 1.5pp to 66.3% and up 1.8pp to 43.1%), whereas they fell in the rest of the world (-15.5pp to 42.6%). Then, while the rise in risk weights for the rest of Europe stemmed from a positive structural effect that only partially offset a risk effect (up 4.9% and -2.7% respectively), in the case of France however it reflected the amplification of the structural effect due to a positive risk effect (up 1.1% and 0.3% respectively).



Similarly, the slight decline in the exposure average risk weighting between 2016 and 2017 masks the rises observed for nearly all of the main beneficiary categories, with the exception of specialised financing and other special purpose investment companies (Chart 58). This trend thus almost exclusively stemmed from the sharp contractions observed in the smaller segments, especially hedge funds, ETFs and securitisation vehicles (-79.7pp), which have nevertheless been highly volatile since mid-2015.



### 1. Categories of beneficiaries

- **Developers:** companies that construct or renovate buildings with the aim of selling or reselling them to make a profit. Also falling within the developer category are land developers<sup>9</sup> and urban development corporations.<sup>10</sup> Lending to semi-public companies and to public development corporations is nevertheless reported as specific items (see below).
- **Special purpose property development companies:** *ad hoc* legal structures (in France, generally 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)) for which the aim is to build and sell a specific real estate programme.
- **Property dealers:** real estate professionals who buy for profit, in their name and on a regular basis, property assets, with or without work required, with a view to reselling them. They can also acquire units or shares in real estate companies, with the same aim of resale. Property dealers who carry out major restructuring work with a real value added nevertheless come under developers.
- **Major listed property companies**  
Major listed property companies are specialised property investment firms, which generate income through real estate portfolios that are generally 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 conducting regular real estate transactions that consist in acquiring a property (existing or planned) with the aim of holding it long term in order to generate rental income from third parties.  
This category mainly includes:
  - Specialised real estate investment funds that may have a specific status (REITs, OPCI, SCPI, etc.);
  - Specialised real estate subsidiaries of insurance firms;
  - Private property firms (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 its best interests, make it appreciate, keep it, or possibly resell it. The shareholders of these companies include investment funds, real estate funds, insurance funds, as well as other investors defined above. This item covers notably exposures subject to Article 147-8 of Regulation (EU) No 575/2013.
- **Hedge funds, ETFs and securitisation vehicles:** companies whose purpose is to sell financial products that enable investors to acquire an indirect exposure to the property sector. As regards securitisation, this category mainly includes commercial mortgage-backed securities (CMBS) and lines of liquidity granted to conduits. Loans awaiting securitisation remain in their initial category.
- **Semi-public companies:** specialise in urban development, as defined above.

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<sup>9</sup> Land developers buy land, ensuring that it is viable to build on, then sell it on in plots

<sup>10</sup> Urban development corporations in France are professionals who conduct urban development initiatives or projects such as those referred to in Article L-300-1 of the French Town Planning Code.

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

## 2. Geographical areas

When information is available, the breakdown of new lending and exposures must be made on the basis of the location of each of the financed goods.

Three mutually exclusive areas are under review here:

- France
- Rest of Europe: UE28 minus 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).

## 3. Types of assets

Wherever possible, when information is available, the breakdown of loans by asset type must be made as a % of the total value of assets financed. When this breakdown is not available, loans will be assigned to the majority asset category (i.e. accounting for over 50%) within the beneficiary's asset portfolio.

Retail outlets include all types of retail premises (from local stores to shopping centres) whereas business premises design and produce merchandise.

Mixed assets reflect situations in which the whole asset portfolio may be used as collateral against a borrower default (e.g. certain major listed property companies when they are not present on a specific market segment).

Lastly, other types of asset covers notably greenfield sites and property under construction when it can be clearly identified, hotels and aparthotels, logistics warehouses and health care facilities.

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