No. 138 - 2022 *Analyses et synthèses*

The financing of real estate professionals by French banks in 2021

BANQUE DE FRANCE

Overview

This *Analyses et Synthèses* release draws on the analysis of data provided by the five leading French banking groups[1] as part of the survey conducted by the Autorité de contrôle prudentiel et de resolution (ACPR).

After the Covid crisis, global commercial real estate markets bounced back in 2021, with the annual amount of investment reaching its highest level in ten years. However, the situation appears more contrasted in France, where investments were slightly lower than in 2020.

In this context, the production of loans to real estate professionals by French banks was nevertheless strong: it increased by 13.4% annually to reach EUR 86.8 billion, while exposures increased by 9.3% to reach 250.5 billion.

Besides, most risk indicators continued to reflect the good quality of the portfolios: for instance, the ratio of gross doubtful and impaired exposures continued to decrease to stand at 2.07% at the end of 2021 (-0.5 percentage point (pt) compared with end-2020). At the same time, the ratio of restructured loans in good standing increased significantly (+36 basis points (bps) at 1.34%) while transactions for which the pre-sales ratio is nil reached their highest level since 2015.

The macroeconomic context is however marked by higher interest rates and inflation, which notably affected construction costs. Structural changes were accelerated by the Covid crisis, which affected the office segment (expansion of teleworking) as well as the retail segment (growth of e-commerce). This could lead to an increase in short and medium term credit risks.

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Keywords: real estate professionals

JEL codes: G21

[1] 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 the commercial real estate loans of French banking groups, as reported in the FINREP F18.02 template.

The financing of real estate professionals by French banks in 2021[2]

Following the Covid-19 crisis, commercial real estate markets have recorded contrasting trends.

According to statistics published by CBRE, commercial real estate investments worldwide showed a sharp uptick after the low level recorded in the first quarter of 2021 (+66.4% over the last three quarters of the year), far above the peak observed in Q1 2020. This trend is mostly attributable to American markets where investments almost doubled (+93.7%), while the Europe, Middle East and Africa region recovered to its pre-crisis high level (+42.3%; Chart 1).

In France, however, commercial real estate investments remained sluggish according to BNP Paribas Real Estate, despite a gradual upturn in Q1 2021 with EUR 26.7 billion invested over the year (Chart 2). Excluding the logistics and business premises sectors, all business segments were affected by the continued slowdown in investment (Chart 3).

According to Immostat data, the office property market is starting to show early signs of rebalancing, even though office take-up, which had fallen by 41.2% in 2020, strongly recovered in 2021 (+34.7%) and returned to its pre-crisis level in Q1 2022 (Chart 4). Office immediate supply continued to grow above its late 2014 / early 2015 peak (Chart 5). Furthermore, vacancy rates for office spaces located in the Île-de-France region (as measured by Cushman and Wakefield) continued to rise, pursuing a trend started in 2020 (+0.6 pt at 7.10%; Chart 6). The increase is especially marked in La Défense business district (+3.1 pts to 13.6%), as well as in the first-ring suburbs of Paris (+2.3 pts to 10.1%).

Lastly, while office prices rose again, albeit marginally, starting from Q3 2021 (Chart 7), rents levelled off (Chart 8). The level of rent incentives rose sharply in Q1 2021, reaching its highest point since end-2012 (Chart 9).

In this environment, the annual production of new lending to real estate professionals showed sustained growth, almost reaching its pre-Covid crisis level.

In 2021, new lending to real estate professionals grew by 13.4% to reach EUR 87.2 billion, a slight decrease compared to 2019 (EUR 89 billion; Chart 10).

This upward momentum was particularly strong in France. In 2021 the share of assets located in France rose by 0.7 pt compared with 2020 to reach 64.8% of the loan production (Chart 11). A growing share of funding commitments (+3.8 pts at 21.9%; Chart 12) is also observed.

After a sharp rise in 2020, the share of developers and property dealers in the production fell significantly in 2021 (down 5.8 pts at 45.7%) to the benefit of investors (+7.8 pts at 52.7%; Chart 14). Within the latter category, the sustained growth recorded by major listed real estate companies (+4.2 pts at 11.8%), specialised lending companies and other special purpose investment companies (3.2 pts, 23.6%) stood out (Chart 15). This evolution is particularly noticeable in the case of financings granted in Europe, which is partly due to a sizeable one-off transaction in Germany. Other major transactions, in Australia and in the United States in particular, also contributed to the increase in the share of listed real estate companies observed worldwide (+7.1 pts).

Lastly, production was increasingly concentrated in residential real estate (+3.4 pts compared to 2020 at 43.2%) while the share of office spaces continued to decrease, nevertheless maintaining its second position (-1.2 pt at 17.1 %). Diversified assets and other assets, which had risen sharply in 2020, saw their relative share decline (to 12.3% and 8.4% respectively), while the share of business premises and of retail outlets increased (+3.3 pts and +0.8 pt; Chart 17). The growth of residential property financing is particularly marked in France, while this asset class is down in the rest of Europe and stagnating in the rest of the world. The increase in business premises financing is concentrated in the rest of Europe, while the increase in retail outlet financing is observed in France and in the rest of Europe (Chart 19).

Exposures continued to grow at a steady pace and reached their highest level since June 2015. They however still represent a

[2] Please refer to the glossary appended at the end of this document for a definition of the various concepts and technical terms used.

relatively small share of the loan portfolios of French banks.

In December 2021, global gross exposures reached EUR 250.5 billion, a 9.3% increase compared to December 2020 (Chart 20). They also rose as a proportion of total equity (+2.7 pts, 54.4%) and as a proportion of banks' total assets (+13 bps, reaching 3.18%; Chart 21).

The structure of exposures remained relatively unchanged compared to 2020: assets located in France (-0.5 pt, down to 60.9%; Chart 22), loans (+0.5 pt, 70.5%), investors (+0.5 pt, 63.4%; Chart 24) and residential real estate (+1.9 pt, 31.4%; Chart 26) remain predominant.

According to the indicators collected by the ACPR survey, credit risk continued to decrease in 2021:

- The ratio of gross doubtful and impaired exposures fell by 48 bps between December 2020 and December 2021 to stand at 2.07%; the improvement concerned commitments in the rest of Europe (-1.9 bps), while the ratio of gross doubtful and impaired exposures was virtually stable in France at 1.7% (Chart 29);
- Gross doubtful loans and debt securities ratio fell by 65 bps to reach 2.35% over the year at end-2021 (Chart 31);
- Gross non-performing and impaired exposure ratios decreased in 2021 for most beneficiaries, especially for real estate developers (down 1 pt at 2.9%) and other real estate companies and investment trusts excluding special purpose investment vehicles (down 0.8 pt at 1.7%; Chart 32);
- The rate of forborne exposures increased by 36 bps, reaching 1.34% despite a slight drop in the second half of 2021 (Chart 34). Among the various categories of beneficiaries, real estate developers, specialised lending companies and other special-purpose investment companies accounted for most of the increase in restructured debt (Chart 35), with year-on-year changes amounting to +71 bps for the former and +80 bps for the latter;
- However, the average provisioning rate decreased slightly (-0.9 pt at 37.1%; Chart 36); this decline was mainly due to the lesser coverage of financing commitments, for which the provisioning rate fell by 3.8 pts to 1.5%, a much lower rate than the one recorded for guarantee commitments (49.3 %; Chart 38); this decrease in the provisioning rate also reflects that observed for specialised lending companies and other special-purpose investment companies (down by 7.9 pts, standing at 32.7% at end-2021) as well as that of major listed real-estate companies, to which banks no longer report any doubtful exposure (Chart 39).

Other risk indicators nonetheless show signs of strain

Regarding new loans, banks continued to reduce the initial maturity of their lending, in line with the steady downward trend that started in 2017 (Chart 41). Major listed real estate companies recorded the most significant decrease (-1.6 year, down to 3.8 years; Chart 43). Shorter maturities at origination may indicate a contraction of banks' risk appetite. In the context of construction material shortages, this evolution potentially makes real estate projects more strained and more vulnerable to delays in delivery, which may force borrowers to refinance their debt more frequently.

Additionally, in the market segments comprising special purpose development companies and property dealers, the share of transactions for which the pre-sales ratio is nil continued to grow in 2021 (+5.4 pts compared to 2020 at 32.8%, its highest level since 2015; Chart 44). Moreover, the share of real estate developers with a capital ratio below 5% at origination increased significantly (+2.6 pts at 15.4%), although it remains below its 2018 peak (Chart 45).

Such market tensions are also observed when looking at the risk indicators associated with outstanding loans:

- In conjunction with the decrease in initial maturity, the average residual maturity decreased from 4.1 to 3.8 years between December 2020 and December 2021, with a particularly sharp drop in France (-0.4 year; Chart 46). At the same time, the share of loans and debt securities with a residual maturity exceeding 5 years continued its downward trend (-4.2 pts at 25.3%; Chart 48). Lastly, real estate developers and property dealers recorded the steepest drop in terms of average residual maturity (Chart 49);
- The pace of exposure renewal slowed down for the second consecutive year, reaching 3.5 years. In other words, an increased share of beneficiaries repaid their loans

later than they used to. This suggests that the physical market became less liquid (i.e. it was more difficult to sell a property) or that the financial situation of beneficiaries deteriorated (i.e. beneficiaries needed more time to repay). The trend is particularly significant for loans and debt securities (Chart 51), as well as for other real estate companies and investment trusts excluding special purpose investment vehicles (Chart 53);

- Exposures with an LTV ratio below 50% remained predominant at end-2021 (+1.0 pt at 57.7%), despite a slight increase in the share of LTV ratios above 80% (+0.7 pt at 6.9%; Chart 55). Overall, the proportion of LTV ratios lower than 60% still accounted for a preponderant share of exposures (75.6% compared with 76.4% at end-2020);
- The share of loans with an ICR greater than 3 was down 1.6 pt compared to the end of 2020, but remained high (65%; Chart 58). However, the share of loans with an ICR below 1.5, which are the riskiest, also went down by 0.8 pt to 13.7%. In addition, the share of loans with a DSCR greater than 2 increased (+4 pts at 38%);
- The financial situation of real estate developers deteriorated slightly: among them, those presenting equity ratios above 20% saw their share decrease (down 3.6 pts at 38.2%), while those with equity ratios comprised between 10% and 20% increased by 7.4 pts at 36.5%. However, the riskiest exposures, i.e. those for which the developer's equity ratio is lower than 5%, fell by 2.2 pts to reach 13.1%, their lowest level since June 2015 (Chart 62).

Lastly, the average risk weight applied to exposures increased by 1.3 pt to 57.5% (Chart 64), mainly as a consequence of the slight deterioration in the credit quality of international exposures (Chart 65 and Chart 69).

Despite this generally favourable outlook, the risks to which the commercial real estate sector and its financing remain exposed should not be overlooked.

The full effects of the Covid crisis may not have yet materialised (impact of the expansion of teleworking on the demand for office space, growth of e-commerce etc.). In addition, uncertainties about the evolution of the macroeconomic environment in the short and medium term against a background of rising interest rates and inflation should also be factored in. These developments could affect the repayment capacity of borrowers and their ability to refinance, leading to higher default rates. They could also impact the valuation of assets, which would increase losses in the event of default.

It is therefore particularly important that banks remain vigilant to developments in the sector over the coming months. In particular banks are encouraged to maintain strict lending standards and to reflect any deterioration in the quality of their exposures to real estate professionals in their balance sheets and income statements without delay. In order to have a more accurate view of their risks, the ACPR has initiated a revision of its survey which will come into effect in 2023.

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Key figures[3]

Risk indicators and loss ratios

All areas

France

		All areas		France	
Risk indicators					
Initial maturity of commitments	[2]	4.0 yrs	-3 mths	4.1 yrs	-1 mth
Share of transaction without any pre-sales	[2]			33.0%	+5.6 pts
Share of transactions with an equity ratio < 5%	[1]	13.1%	-2.2 pts	14.9%	+1.7 pt
Share of exposures with a current LTV ratio > 80 %	[1]	6.9%	+0.6 pt	8.6%	+0.2 pt
Share of exposures with a current ICR ratio < 1.5	[1]	13.7%	-0.8 pt	10.4%	-1,6 pt
Loss ratios					
NPE rate	[1]	2.07%	-0.5 pt	1.72%	+0.0 pt
Provisioning rate	[1]	37.1%	-0.9 pt	37.7%	-0.9 pt

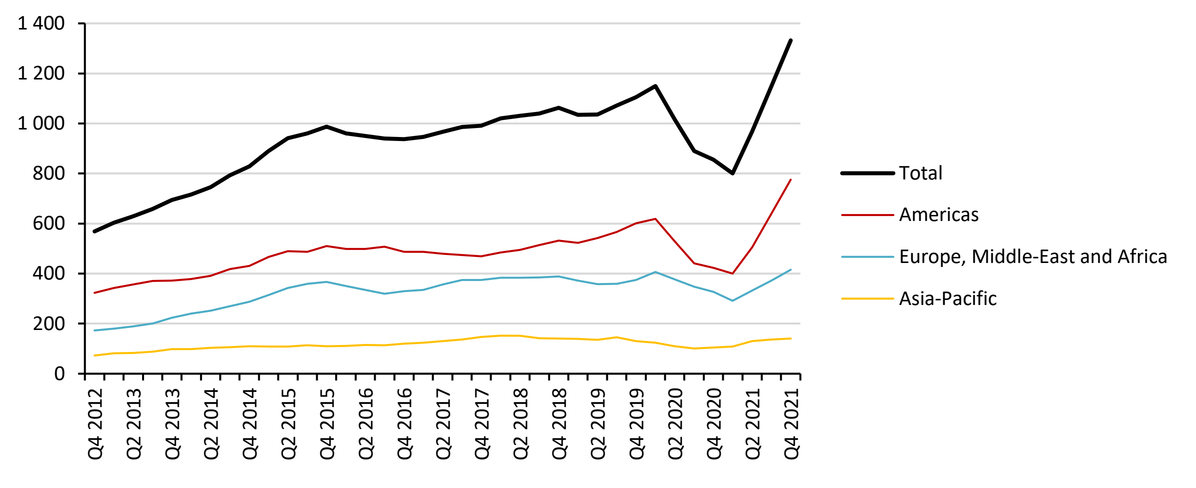
Basis for comparison:
[1] 31/12/2020
[2] 2020

[3] New lending data for the whole year 2020, and exposure data as at 31 December 2020. See Glossary at the end of this paper for a definition of the various risk indicators.

CORPORATE REAL ESTATE INVESTMENTS CAUGHT UP

1. The investment market returned to pre-crisis levels in Europe

Chart 1 **Corporate real estate investment flows expressed in USD billions**

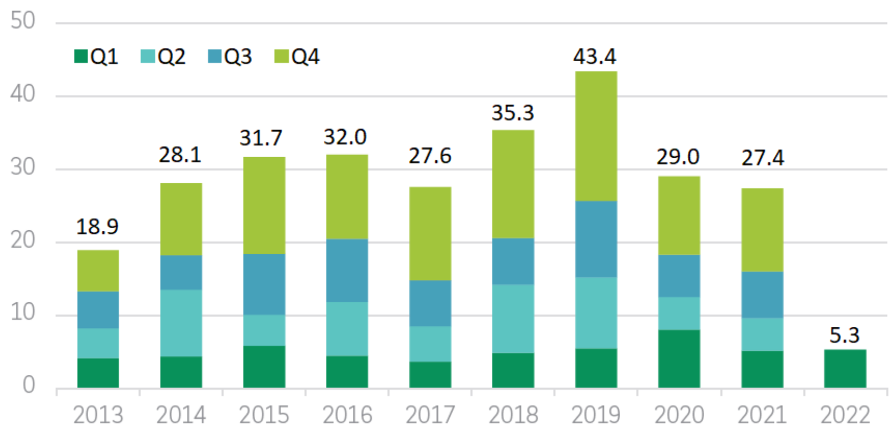


Source: CBRE,: current exchange rates

2. The French investment market continued to decline

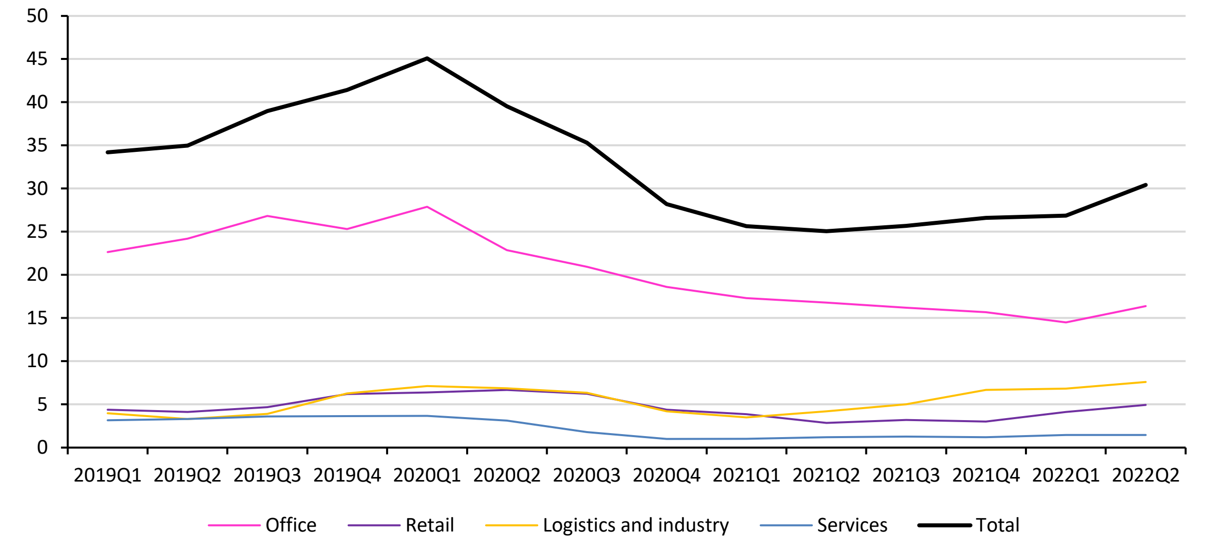
2.1. Corporate real estate investments remained sluggish in France

Chart 2 **Corporate real estate investments in France, in EUR billions**



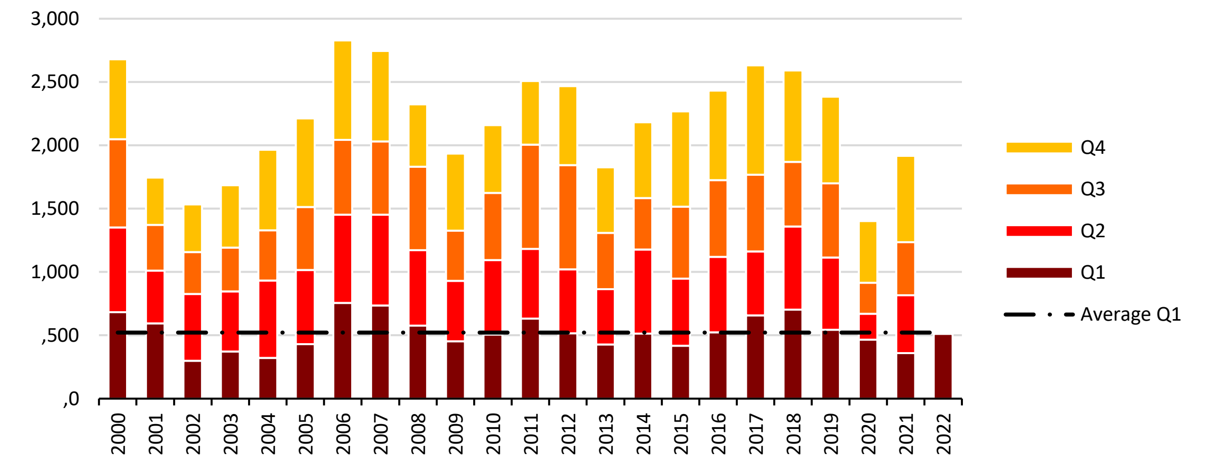
Source: BNP Paribas Real Estate

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

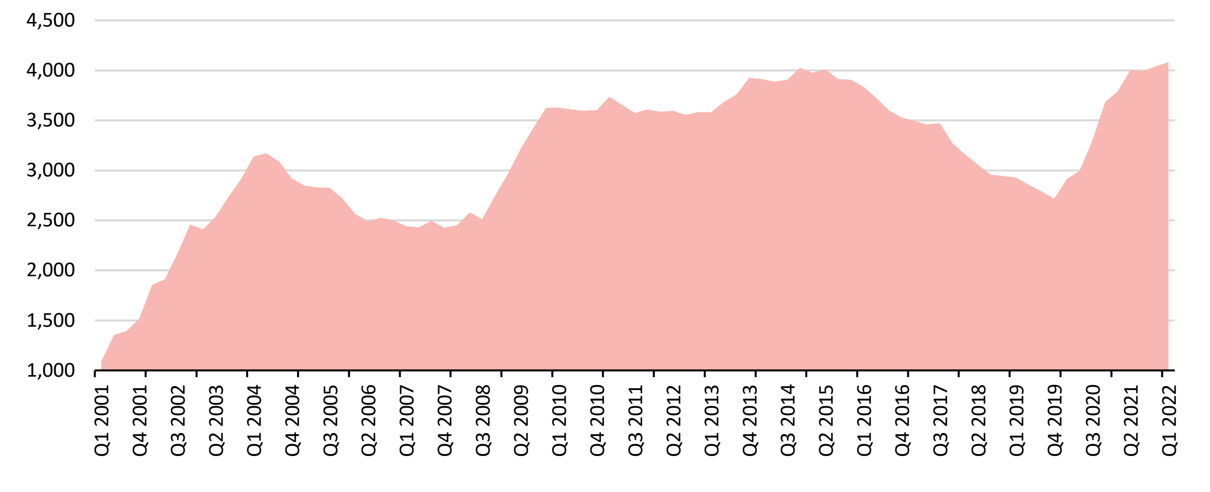
Chart 4 Office space take-up for the Île-de-France region, in thousands of square metres



Source: Immostat

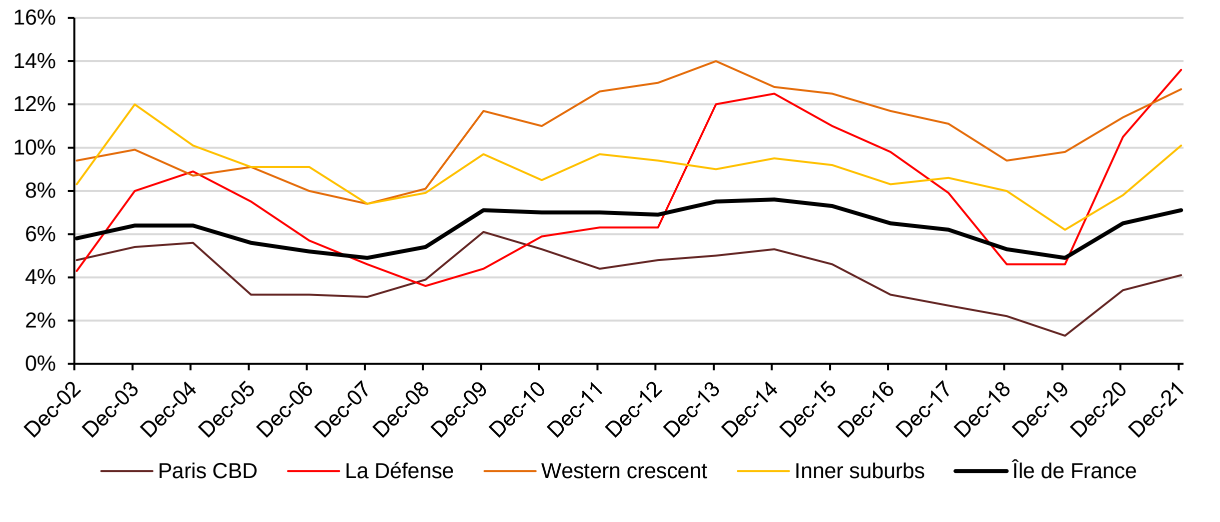
2.2. The office vacancy rate increased in the Île-de-France region

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



Source: Immostat

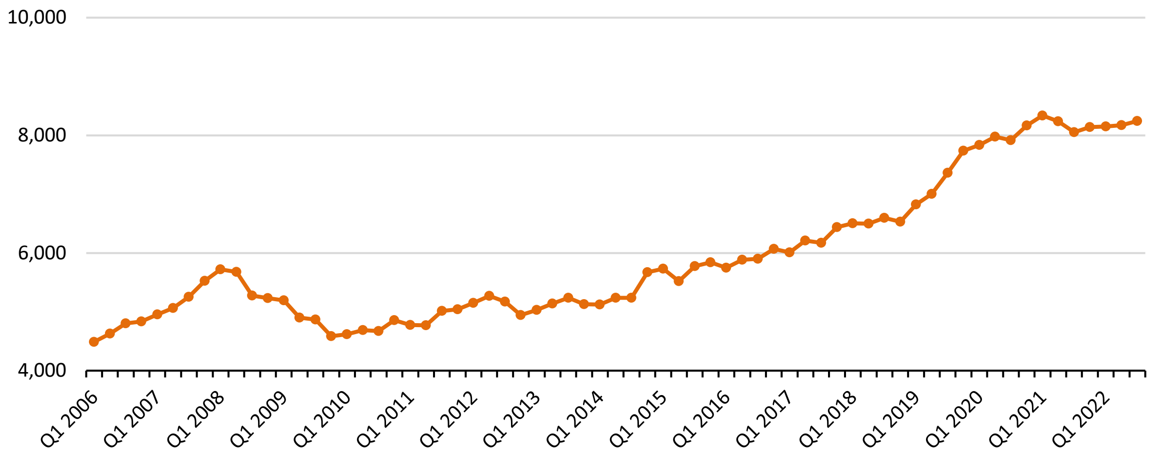
Chart 6 **Office vacancy rate in the Île-de-France region**



Source: Cushman and Wakefield

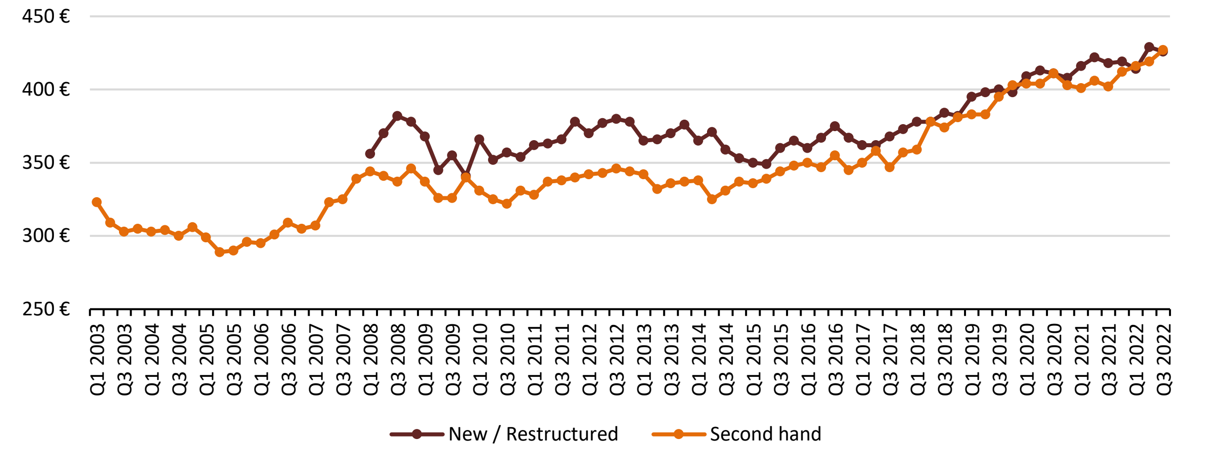
2.3. Average office prices stalled while rental values remained high

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



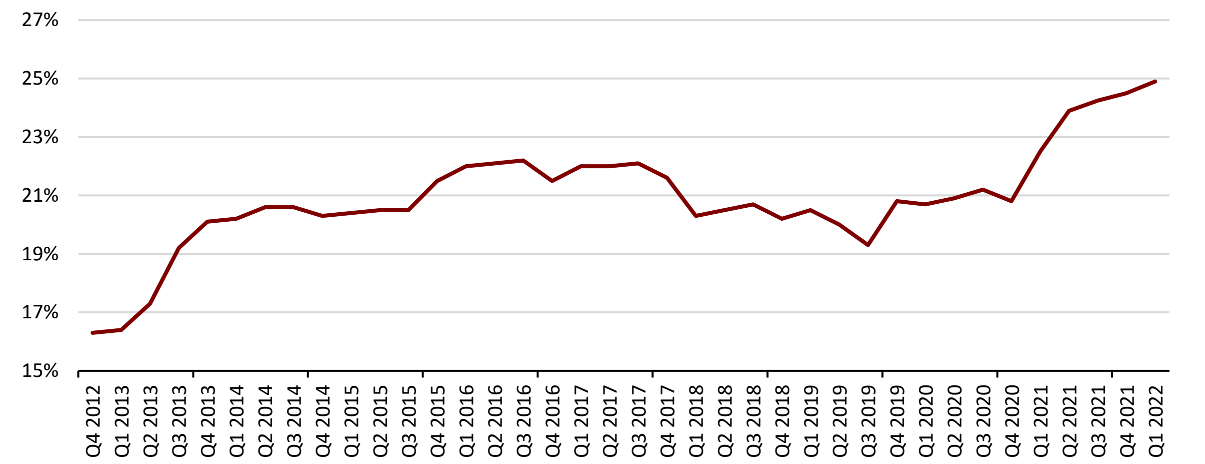
Source: Immostat, deed-in-hand prices in EUR

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



Source: Immostat, rent expressed in EUR per square metre and per year excluding taxes and charges

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

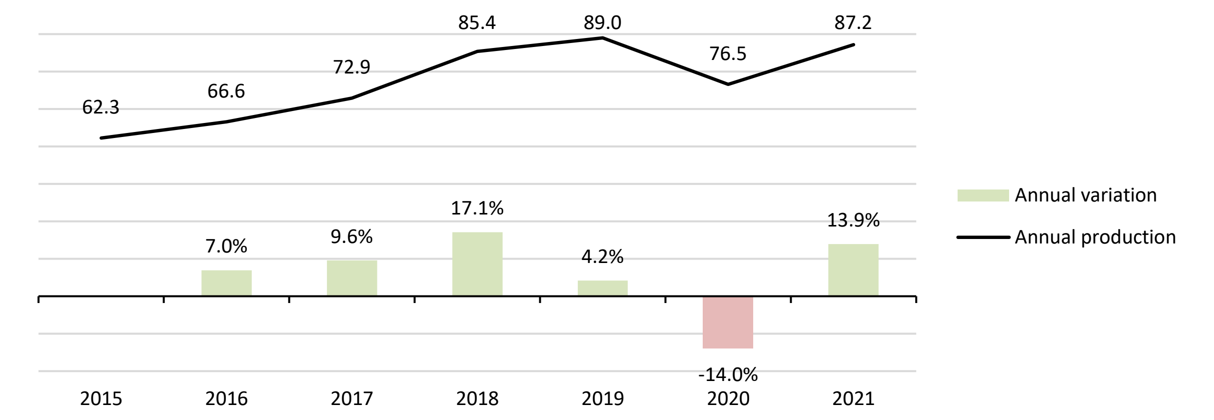


Source: Immostat

LOAN PRODUCTION BACK TO PRE-CRISIS LEVELS

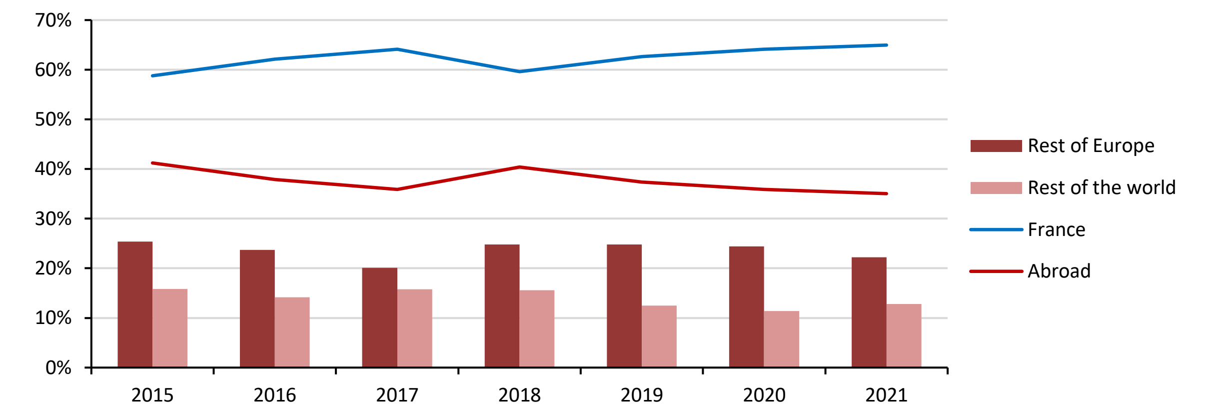
1. Strong pick-up in new lending driven by financing commitments

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



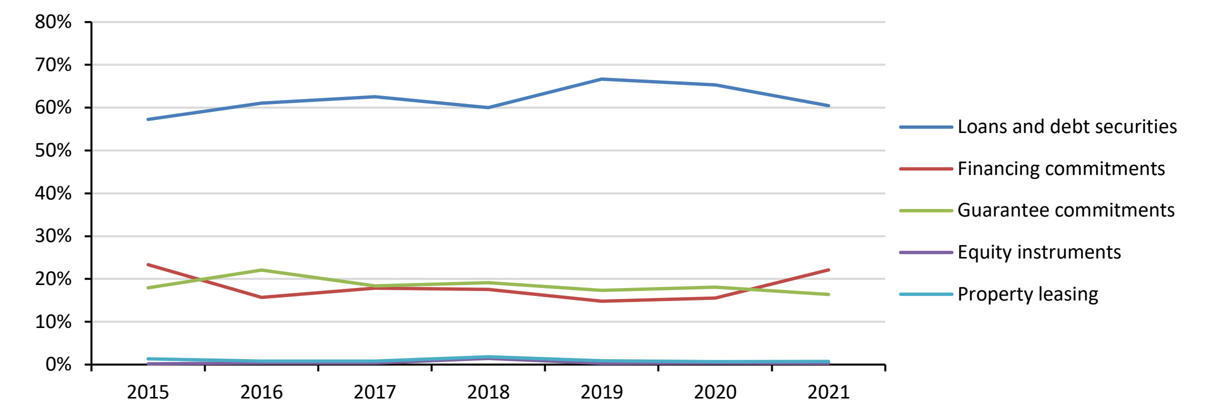
Source: ACPR

Chart 11 Structure of new lending according to geographical area



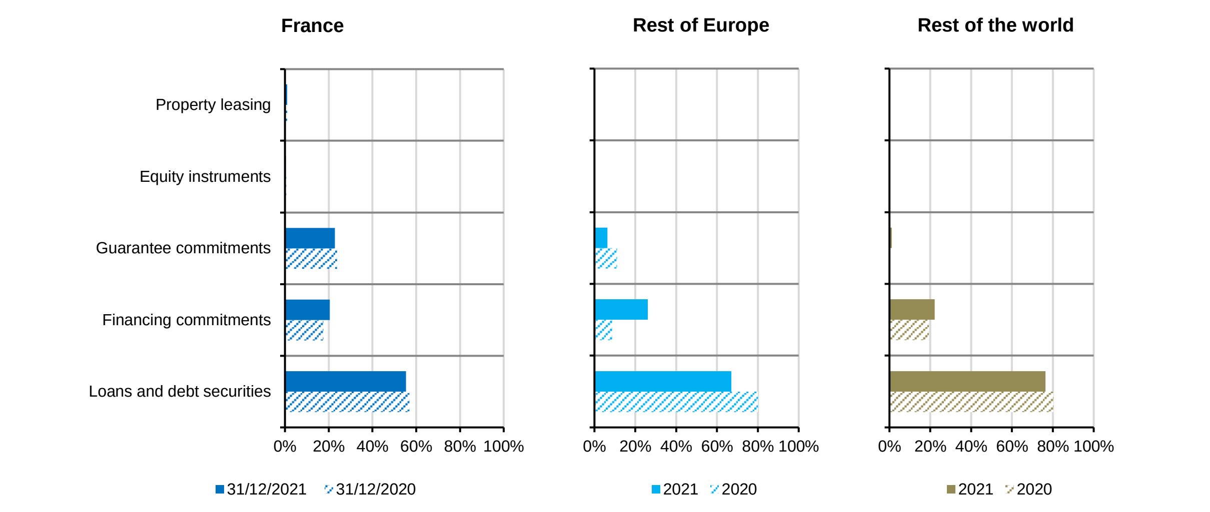
Source: ACPR

Chart 12	Structure of new lending according to type of commitment



Source: ACPR

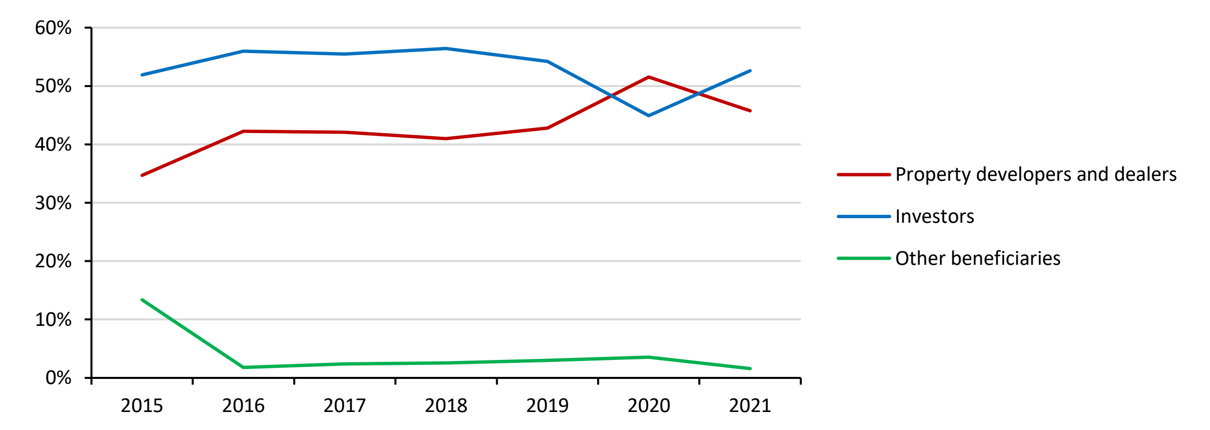
Chart 13	Structure of new lending according to type of commitment and geographical area



Source: ACPR

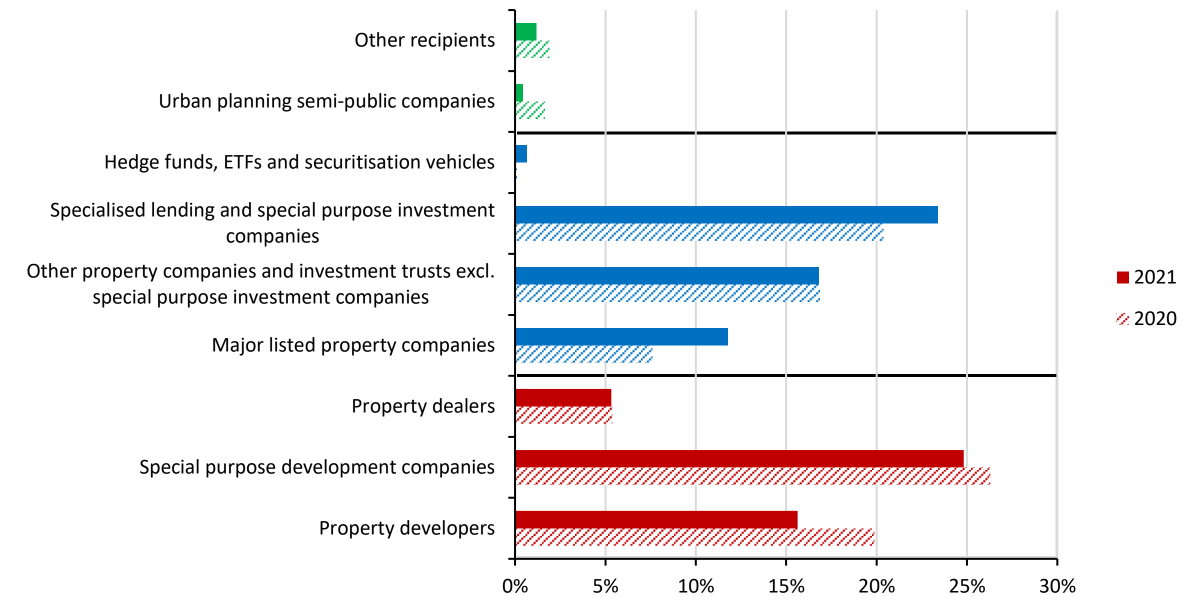
2. French real estate developers took up a predominant share of new lending

Chart 14	Structure of new lending according to type of beneficiary



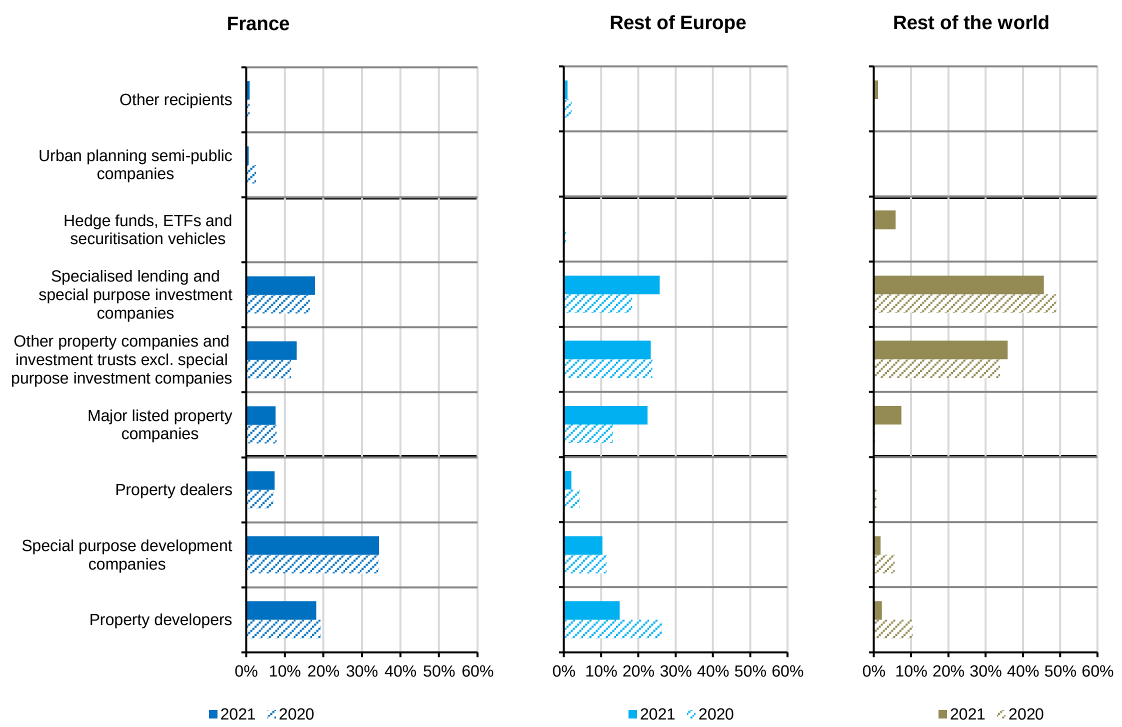
Source: ACPR

Chart 15 Breakdown of new lending per type of beneficiary



Source: ACPR

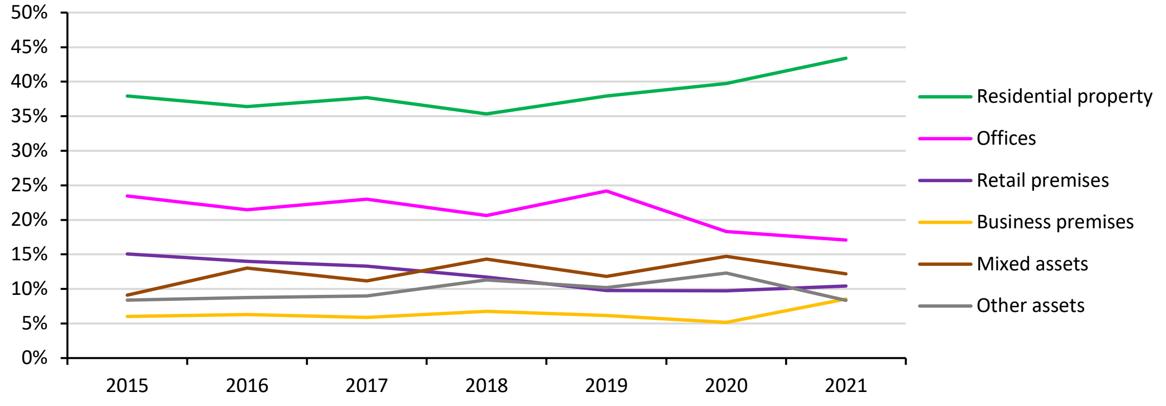
Chart 16 Annual changes in new lending structure according to commitment type and geographical area



Source: ACPR

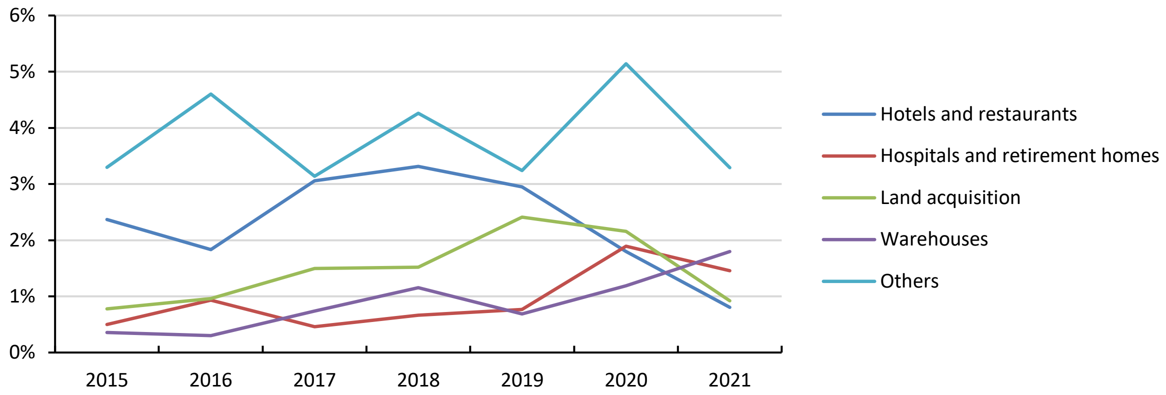
3. Confirmed drop in corporate real estate investments to the benefit of the residential property segment

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



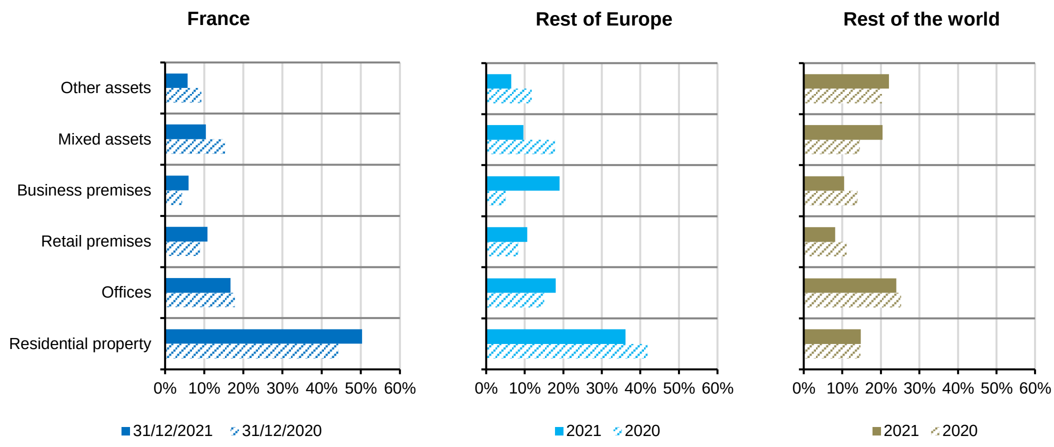
Source: ACPR; breakdown based on banks' clarification of the "other assets" category (open-ended answers); the "other" item in the chart above corresponds to "other assets" for which banks did not provide any clarification

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

2021 vs. 2020	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	+0.9 pp	+2.3 pp	+0.5 pp	+4.7 pp	+0.2 pp	+0.5 pp	+0.0 pp	-0.7 pp	-0.3 pp	**+8.1 pp**
Offices	-0.0 pp	-0.2 pp	+0.1 pp	+0.3 pp	+0.8 pp	+0.2 pp	+0.6 pp	+0.0 pp	+0.1 pp	**+1.9 pp**
o/w Île de France	*-0.1 pp*	*-0.4 pp*	*+0.0 pp*	*+0.2 pp*	*-0.9 pp*	*+0.4 pp*	*+0.0 pp*	*+0.0 pp*	*-0.0 pp*	***-0.8 pp***
o/w rest of France	*-0.1 pp*	*+0.5 pp*	*+0.1 pp*	*+0.0 pp*	*+0.5 pp*	*-0.1 pp*	*+0.0 pp*	*+0.0 pp*	*+0.0 pp*	***+0.9 pp***
Retail premises	+0.0 pp	+0.2 pp	-0.3 pp	+2.7 pp	+1.5 pp	+0.2 pp	+0.0 pp	-0.0 pp	-0.1 pp	**+4.1 pp**
Business premises	+0.2 pp	+2.1 pp	+0.1 pp	-0.2 pp	+1.5 pp	+3.7 pp	+0.1 pp	-0.1 pp	-0.1 pp	**+7.4 pp**
Mixed assets	-0.5 pp	-3.2 pp	-0.2 pp	-0.9 pp	+1.3 pp	+0.1 pp	+0.1 pp	-0.4 pp	+0.1 pp	**-3.4 pp**
Other assets	-0.9 pp	-0.2 pp	+0.0 pp	-0.9 pp	+0.1 pp	-0.1 pp	+0.0 pp	-0.0 pp	+0.0 pp	**-2.0 pp**
Total	-0.6 pp	-1.6 pp	-0.1 pp	+4.4 pp	+1.1 pp	-2.0 pp	+0.2 pp	-1.2 pp	-0.4 pp	

Source: ACPR

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

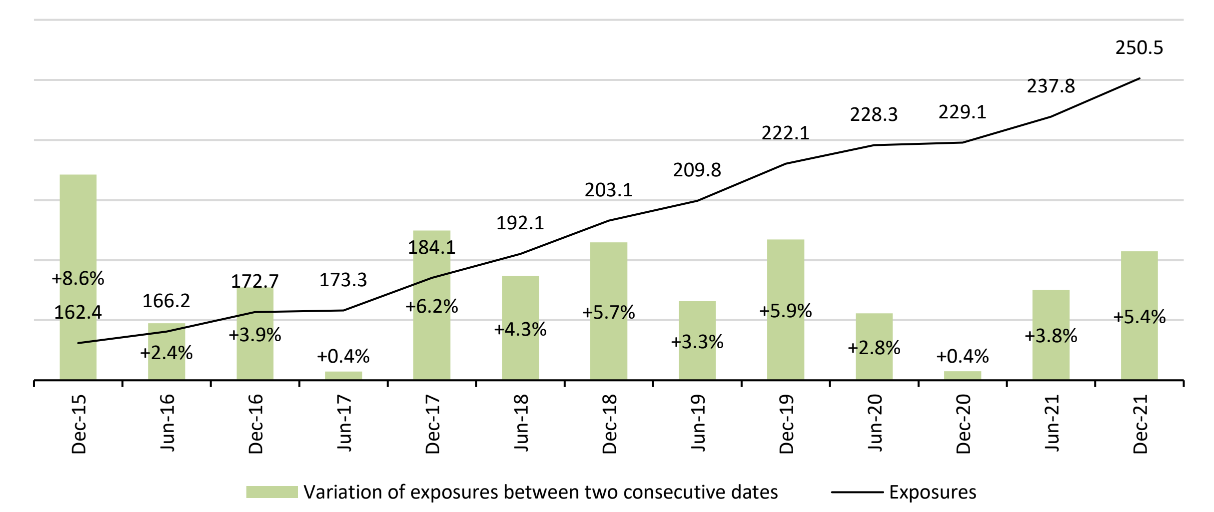


Source: ACPR

EXPOSURE GROWTH BACK TO PRE-CRISIS LEVELS

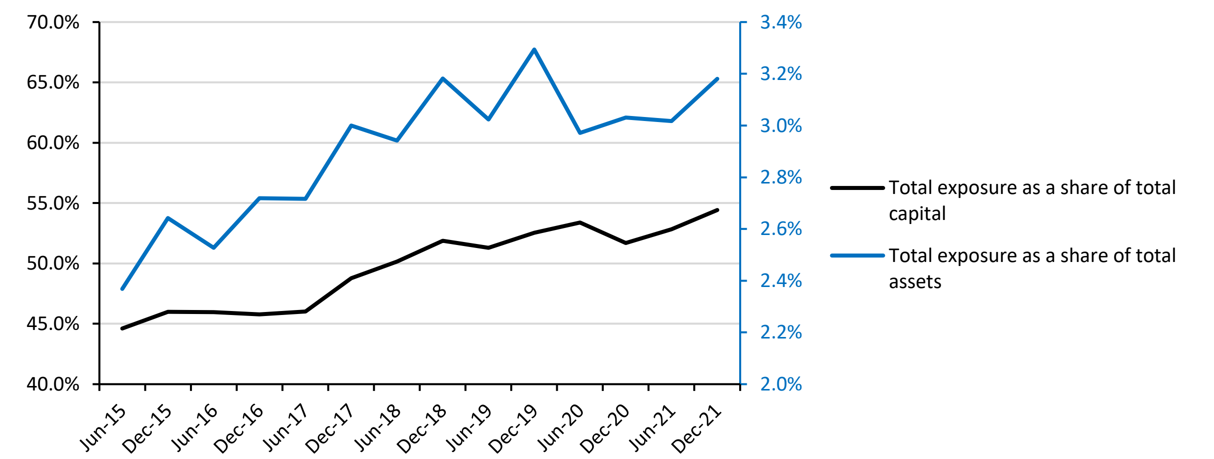
1. Exposures grew again at a steady pace

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



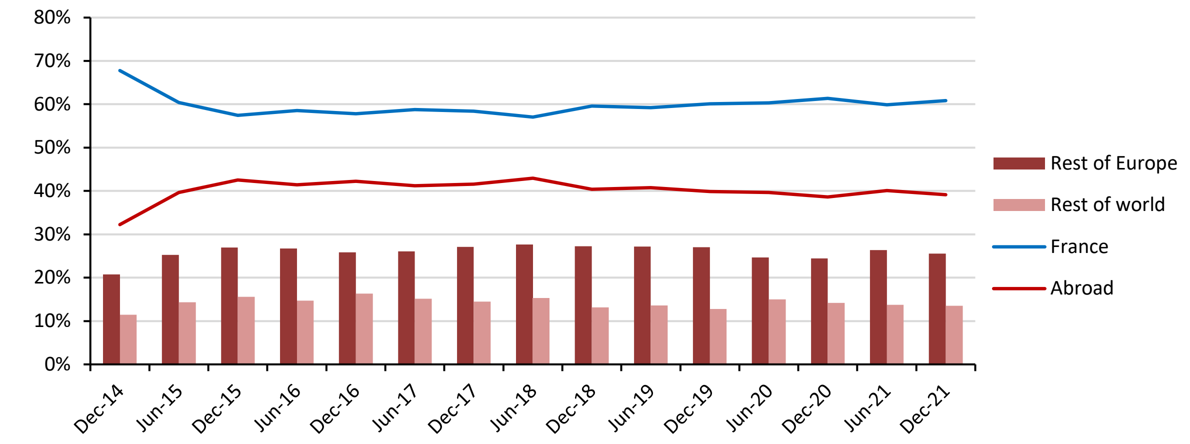
Source: ACPR

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



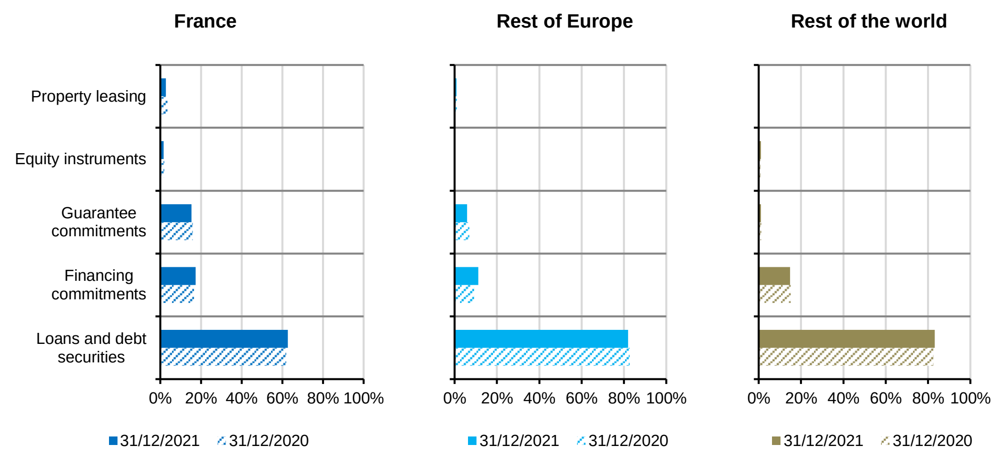
Source: ACPR

Chart 22 Structure of total gross exposure according to geographical area



Source: ACPR

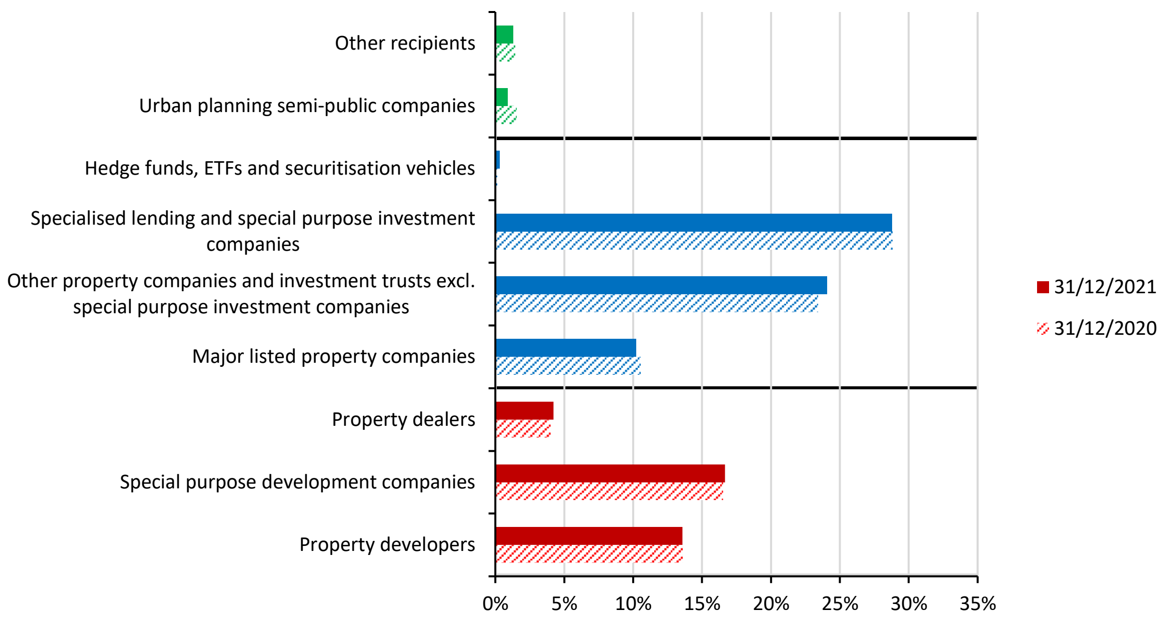
Chart 23 Structure of total gross exposure according to type of commitment and geographical area



Source: ACPR

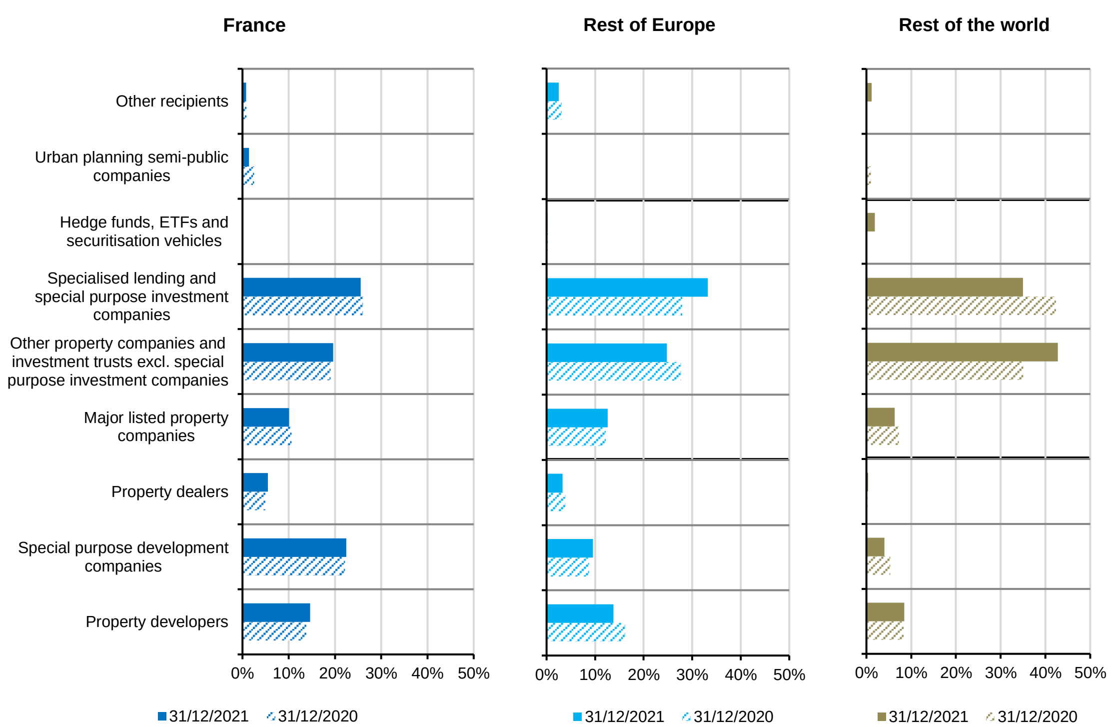
2. The structure of the exposure according to type of beneficiary was almost unchanged compared to 2020

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



Source: ACPR

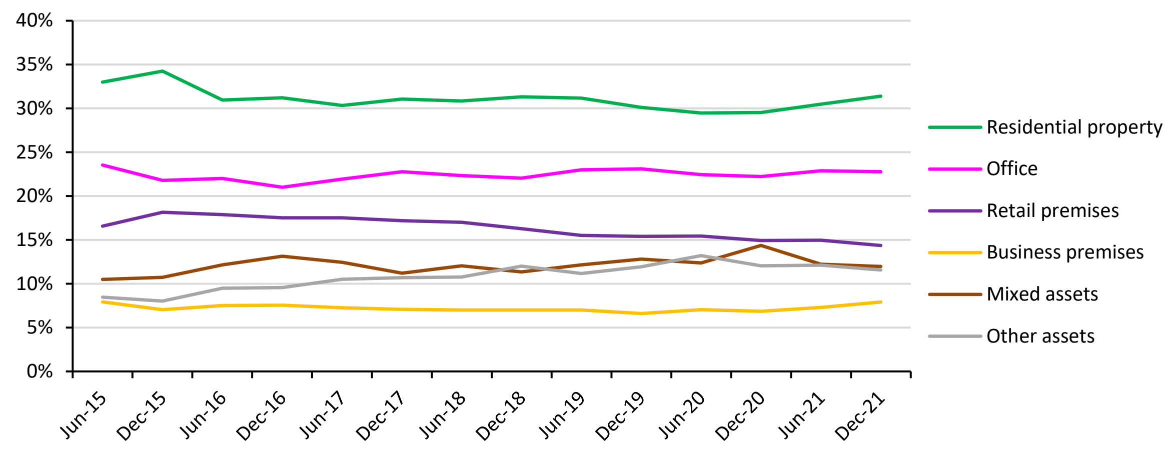
Chart 25 Changes in the structure of total gross exposure according to type of beneficiary and geographical area



Source: ACPR

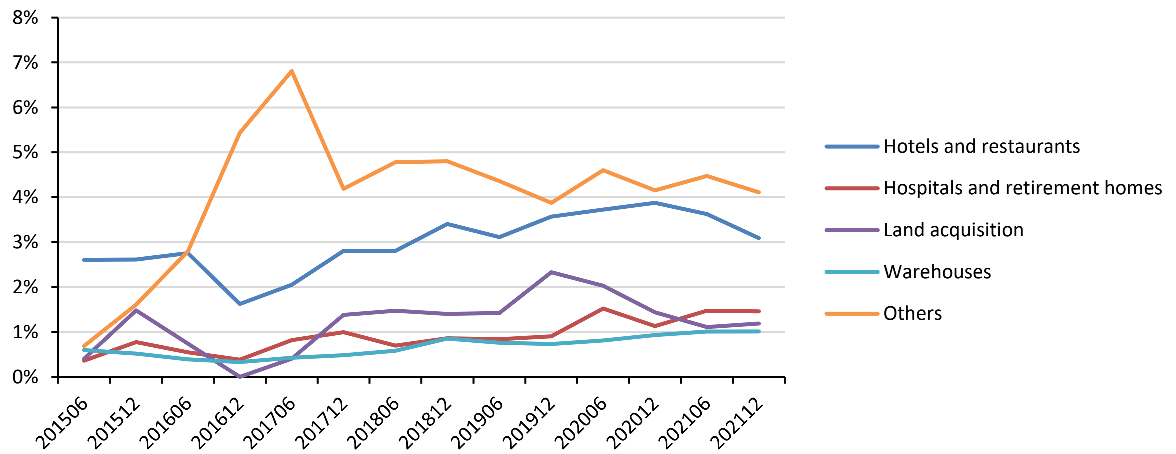
3. Increased exposure to residential assets and business premises

Chart 26 Structure of total gross exposure according to asset type



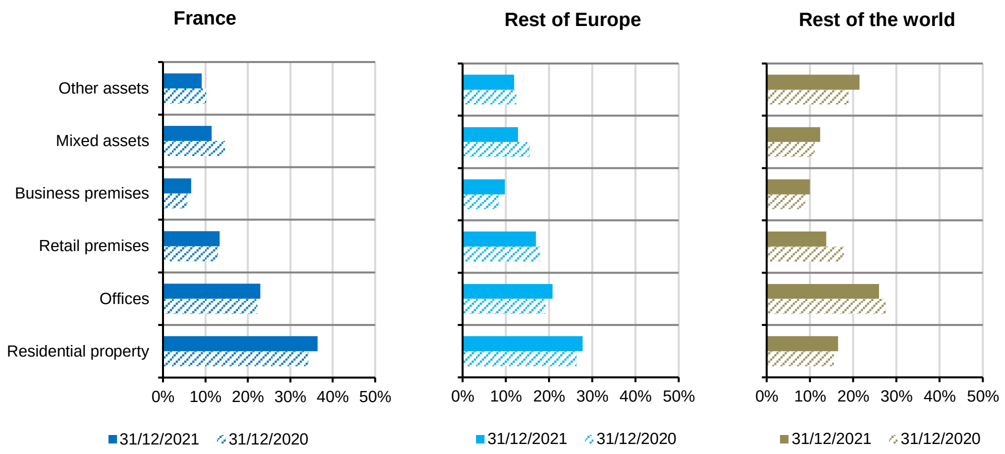
Source: ACPR

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



Source: ACPR; breakdown based on banks' clarification of the "other assets" category (open-ended answers); the "other" item in the chart above corresponds to "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 considered



Source: ACPR

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

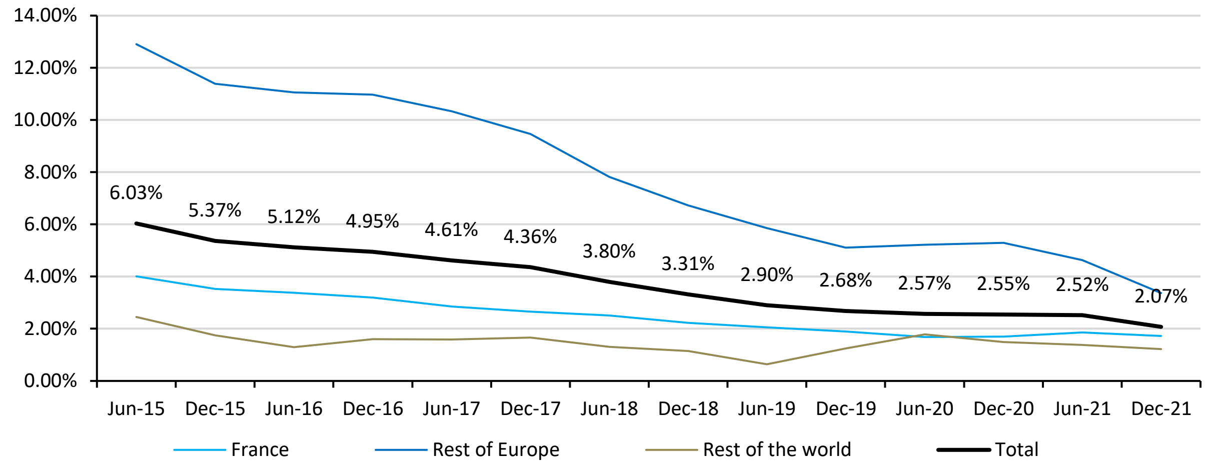
202112 vs 202012	Property developers	Special purpose development companies	Property dealers	Listed property companies	Other property companies	Specialised financing	Hedge funds and vehicles	Urban planning semi-investment companies	Other beneficiaries	**Total**
Residential property	+0.2 pp	+0.8 pp	+0.3 pp	+0.7 pp	+0.1 pp	+0.2 pp	-0.0 pp	-0.3 pp	-0.1 pp	**+1.9 pp**
Offices	+0.1 pp	+0.3 pp	+0.0 pp	-0.4 pp	+0.4 pp	+0.1 pp	+0.1 pp	-0.0 pp	-0.0 pp	**+0.5 pp**
o/w Île de France	*+0.0 pp*	*+0.2 pp*	*+0.0 pp*	*-0.1 pp*	*-0.1 pp*	*+0.4 pp*	*+0.0 pp*	*-0.0 pp*	*+0.0 pp*	***+0.4 pp***
o/w rest of France	*-0.0 pp*	*+0.2 pp*	*+0.0 pp*	*-0.1 pp*	*+0.1 pp*	*-0.2 pp*	*+0.0 pp*	*-0.0 pp*	*-0.0 pp*	***-0.1 pp***
Retail premises	-0.1 pp	+0.1 pp	+0.0 pp	-0.1 pp	-0.1 pp	-0.4 pp	-0.0 pp	-0.0 pp	-0.1 pp	**-0.6 pp**
Business premises	+0.1 pp	+0.4 pp	+0.0 pp	-0.2 pp	+0.4 pp	+0.5 pp	+0.0 pp	-0.0 pp	-0.0 pp	**+1.1 pp**
Mixed assets	-0.4 pp	-1.4 pp	-0.1 pp	-0.1 pp	-0.1 pp	-0.1 pp	+0.1 pp	-0.3 pp	+0.0 pp	**-2.4 pp**
Other assets	-0.0 pp	-0.1 pp	-0.0 pp	-0.2 pp	-0.0 pp	-0.2 pp	+0.0 pp	-0.0 pp	+0.0 pp	**-0.5 pp**
Total	**-0.2 pp**	**+0.1 pp**	**+0.2 pp**	**-0.2 pp**	**+0.7 pp**	**+0.2 pp**	**+0.2 pp**	**-0.7 pp**	**-0.2 pp**	

Source: ACPR

EXPOSURES REMAINED SOUND

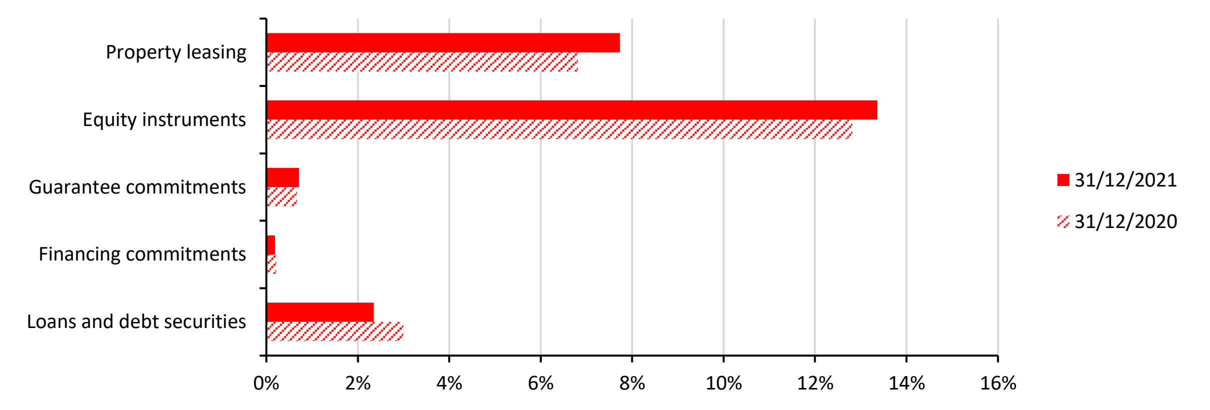
1. The doubtful exposure rate continued to decline

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



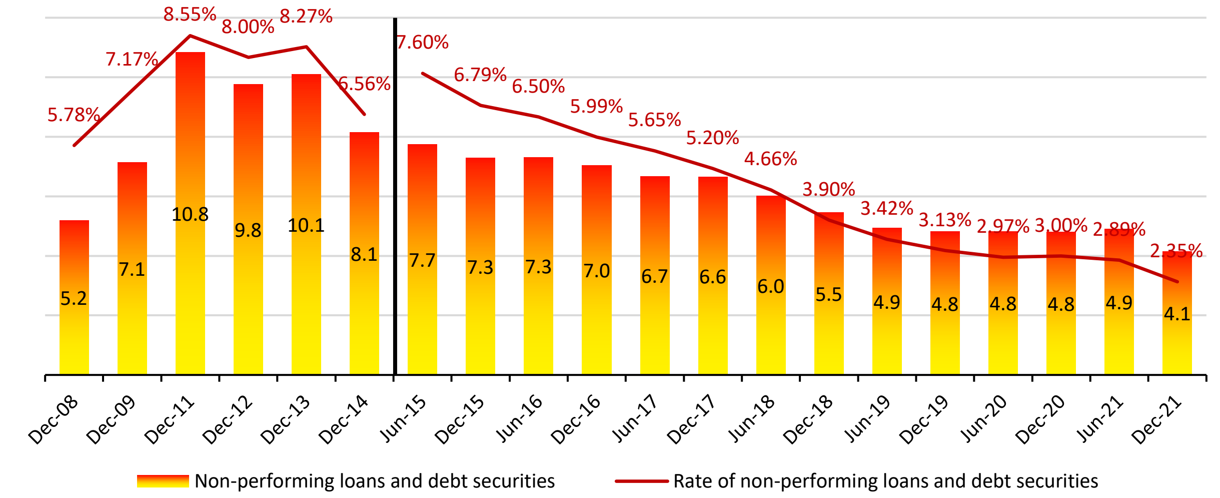
Source: ACPR

Chart 30 Gross doubtful and impaired exposure rate according to type of commitment and geographical area



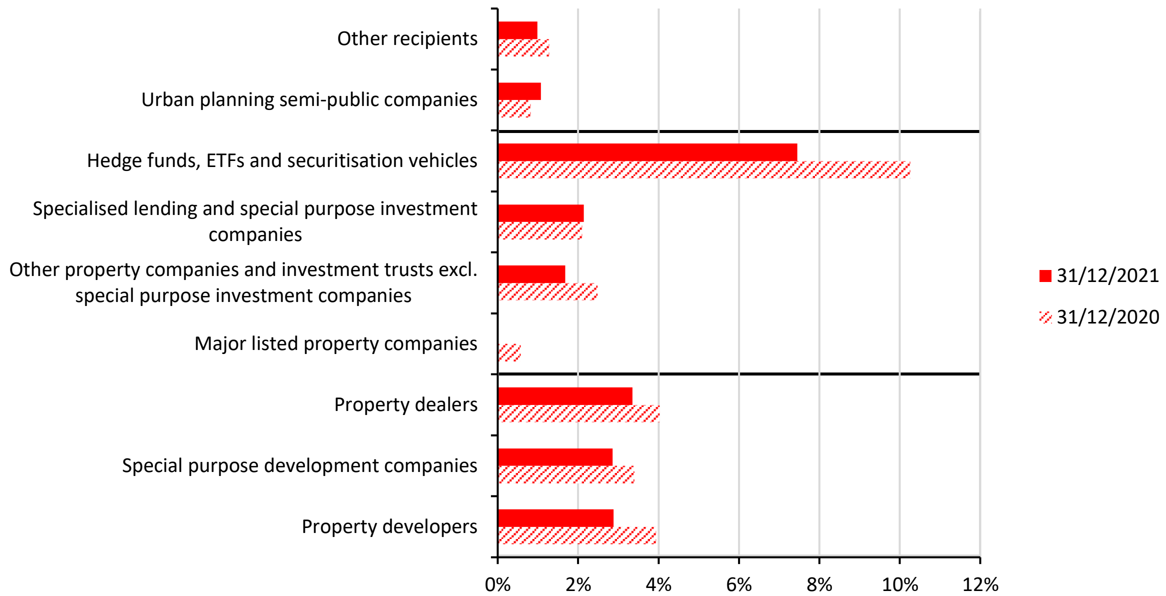
Source: ACPR

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



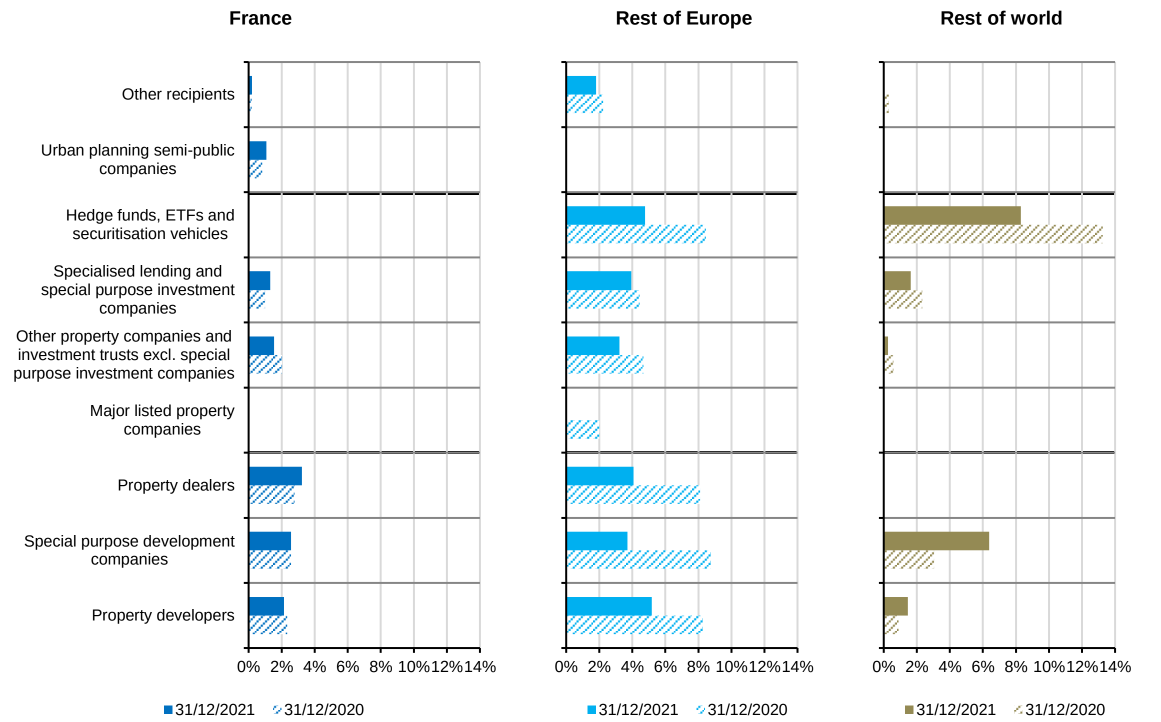
Source: ACPR

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



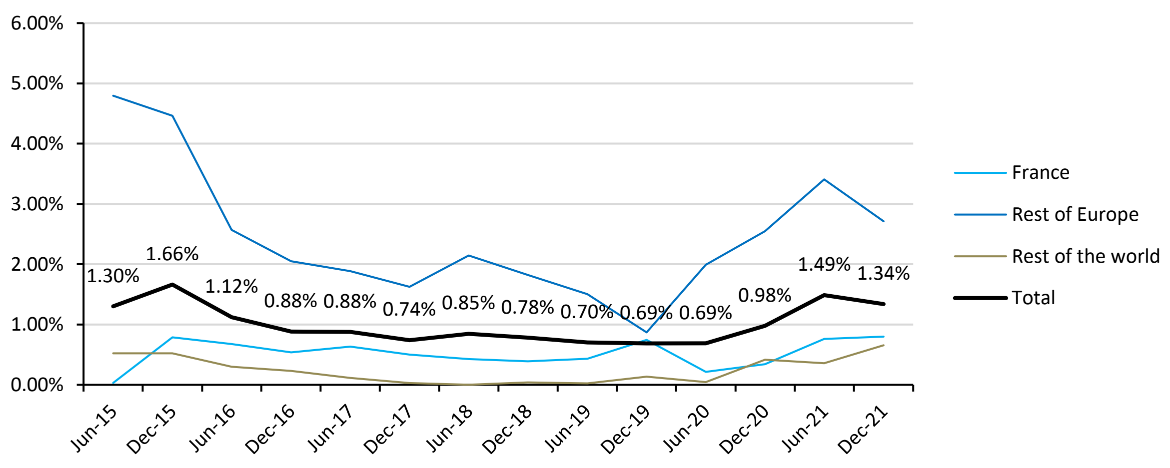
Source: ACPR

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



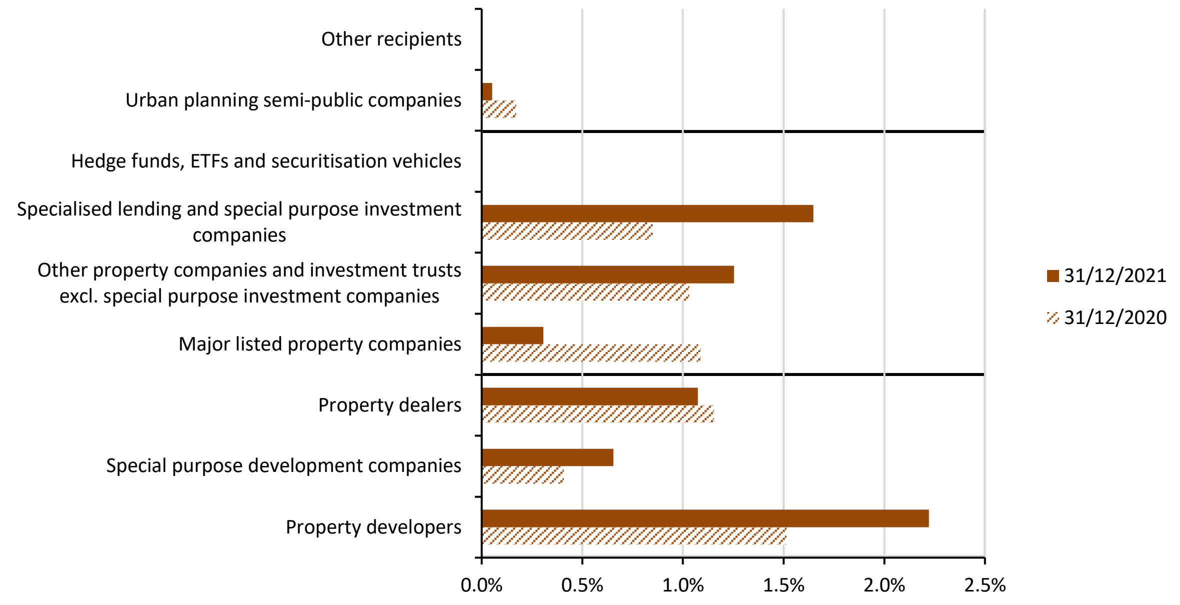
Source: ACPR

Chart 34 **Share of forborne exposures according to geographical area**



Source: ACPR

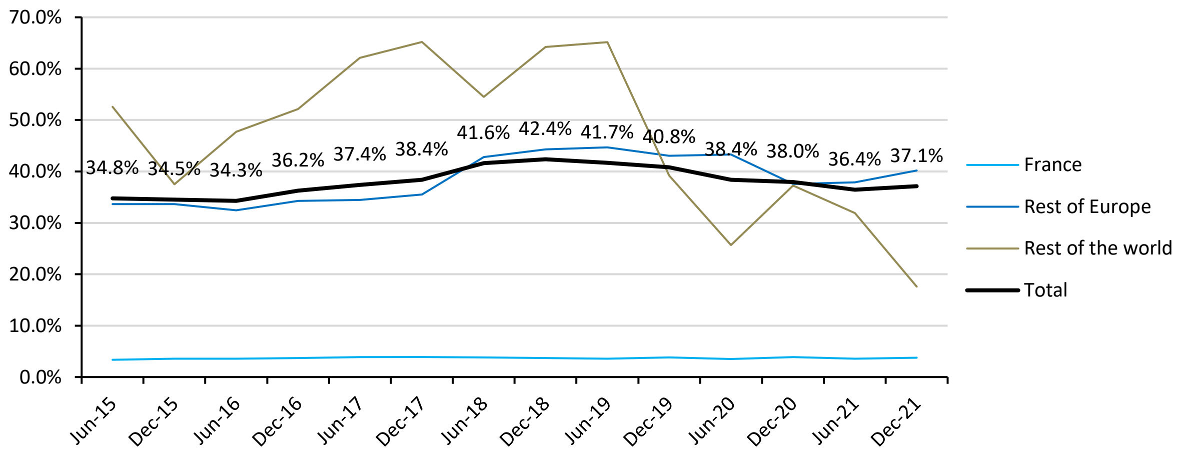
Chart 35 Share of forborne exposures according to type of beneficiary



Source: ACPR

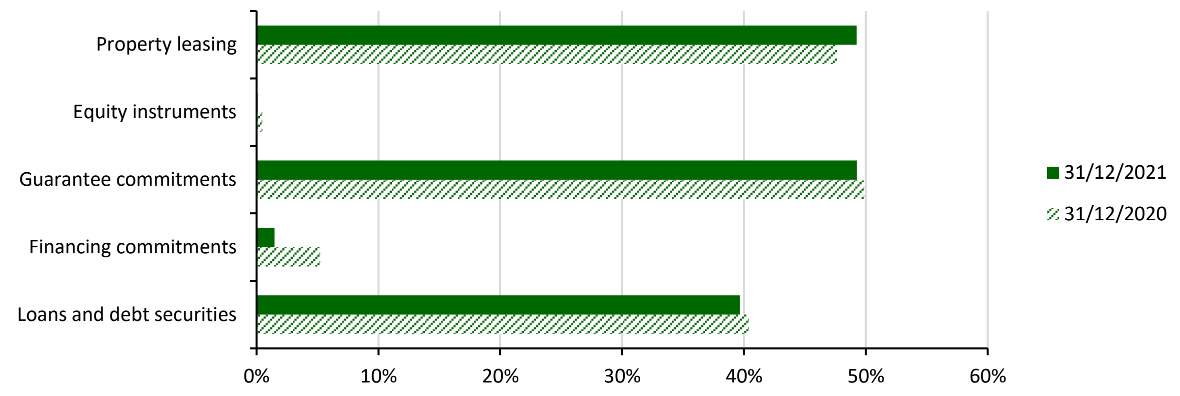
2. The provisioning rate for doubtful exposures remained on a slightly downward trend

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



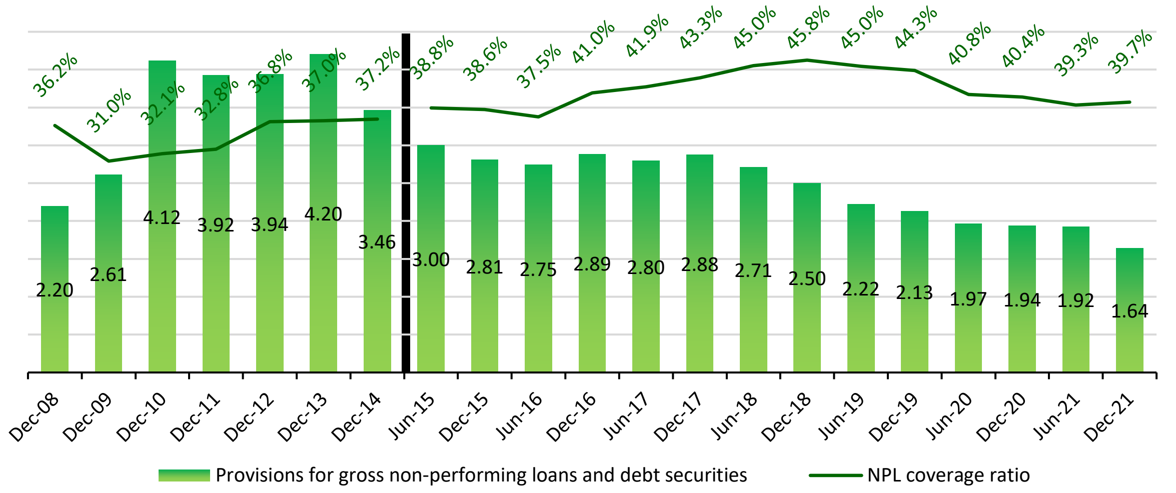
Source: ACPR

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



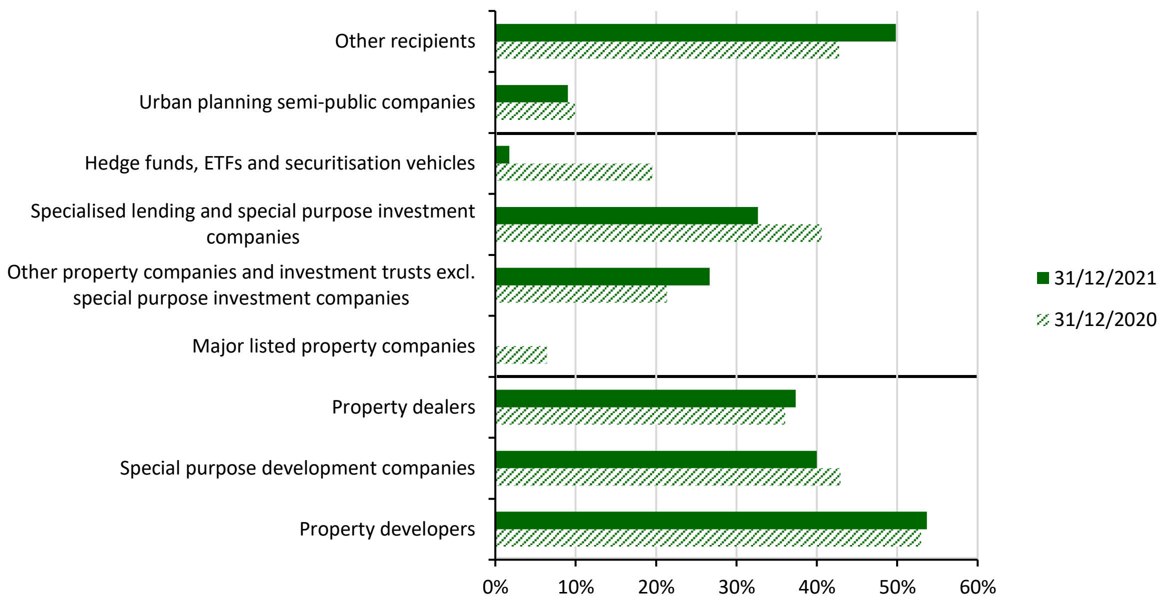
Source: ACPR

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



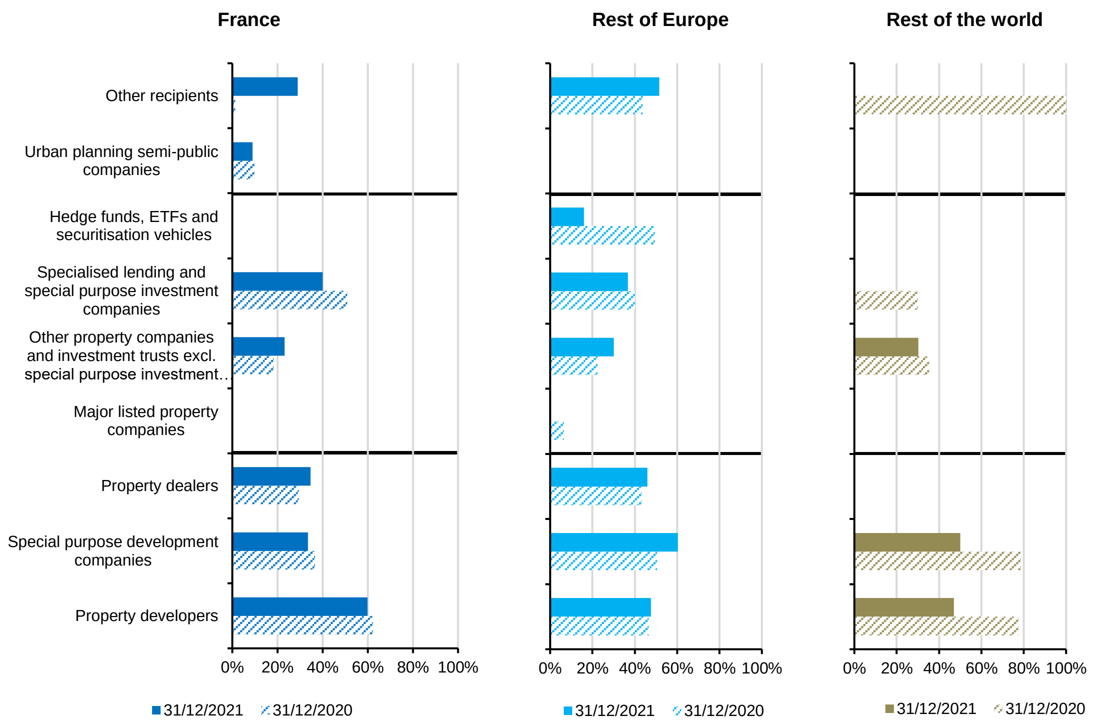
Source: ACPR

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 considered

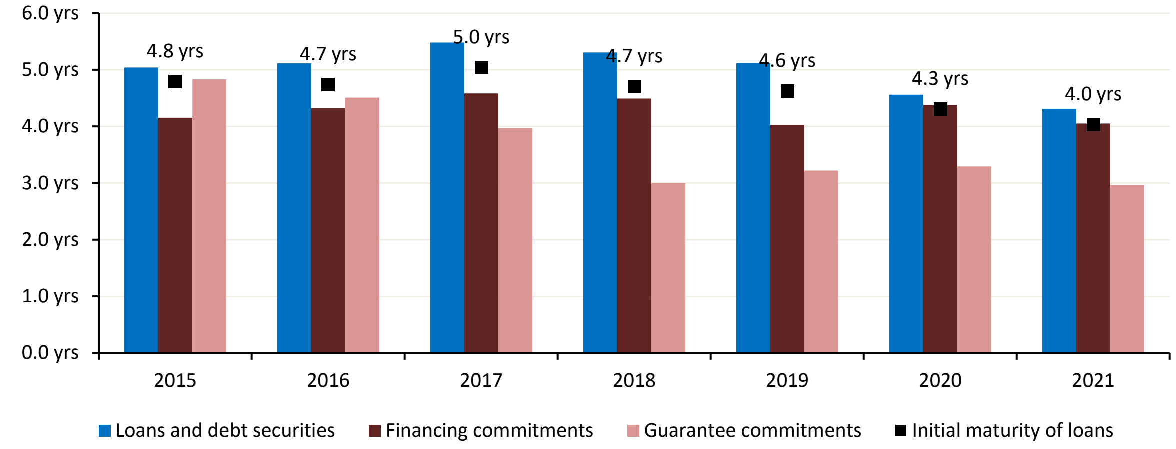


Source: ACPR

3. Risk indicators stayed on target

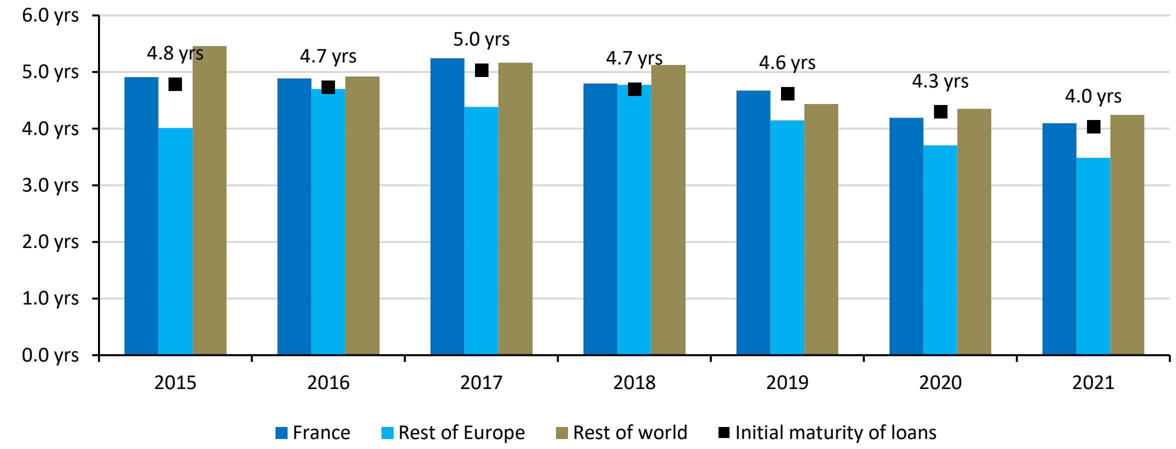
3.1. Initial maturity for new lending recorded a marginal increase

Chart 41 Initial maturity according to commitment type



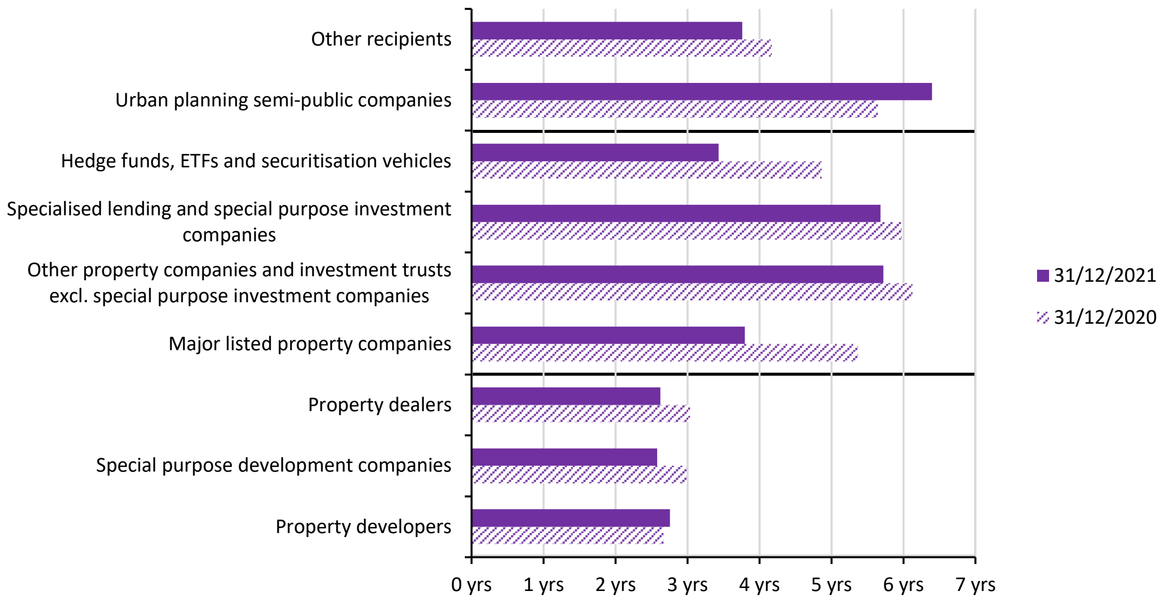
Source: ACPR

Chart 42 Initial maturity according to geographical area



Source: ACPR

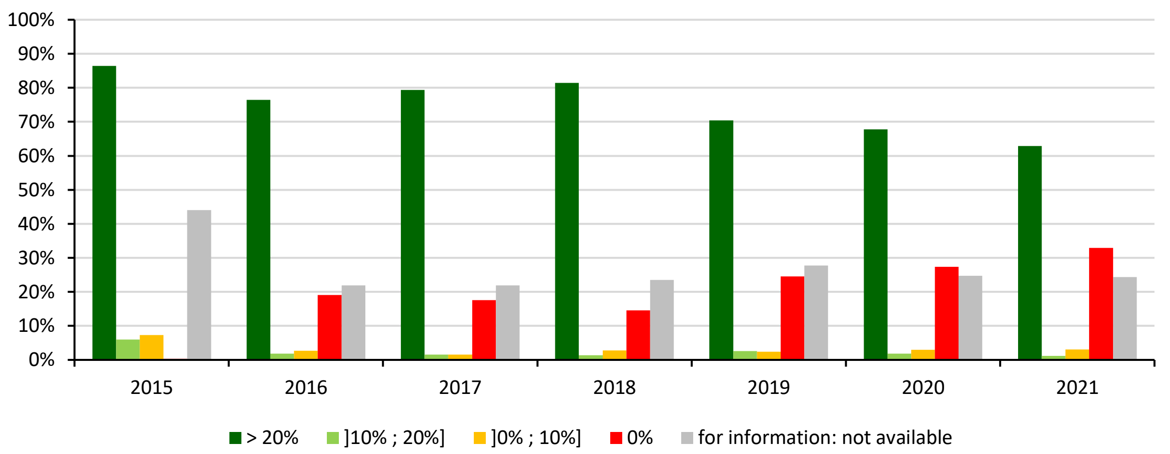
Chart 43 Initial maturity according to beneficiary



Source: ACPR

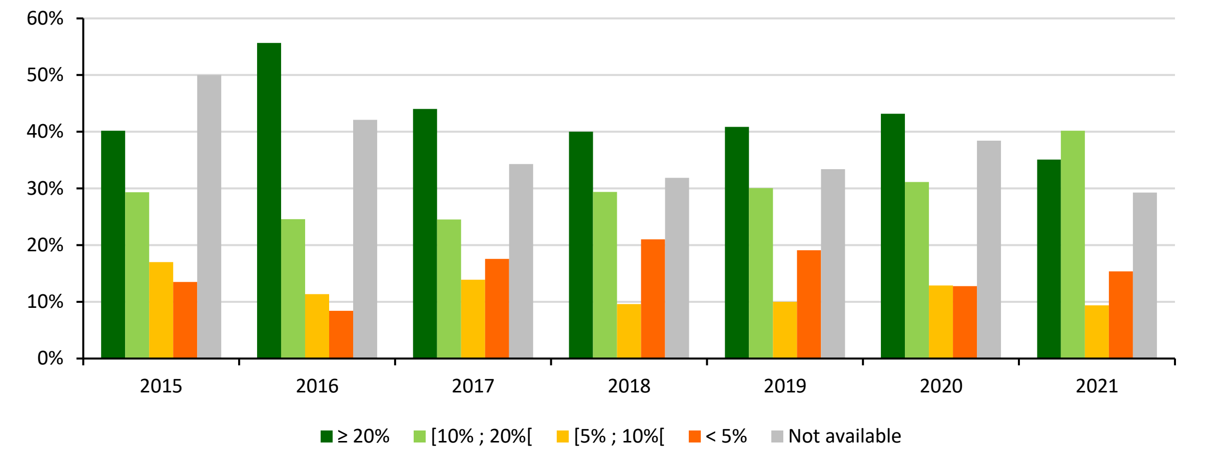
3.2. The share of transactions for which the pre-sales ratio is nil, reflecting higher risks, has increased steadily since 2018.

Chart 44 Pre-sales ratio



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

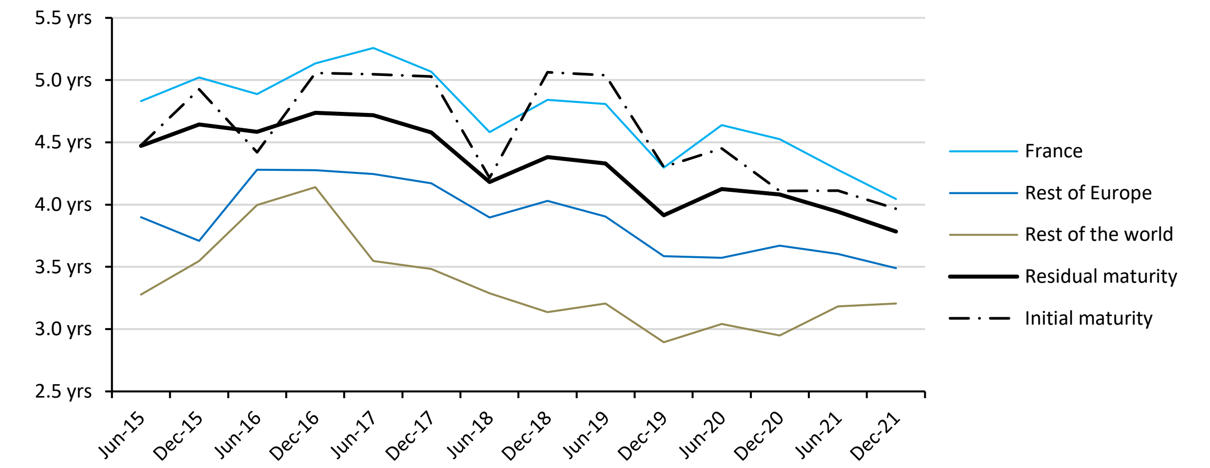
Chart 45 Equity ratio at origination



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

3.3. Residual maturity 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**

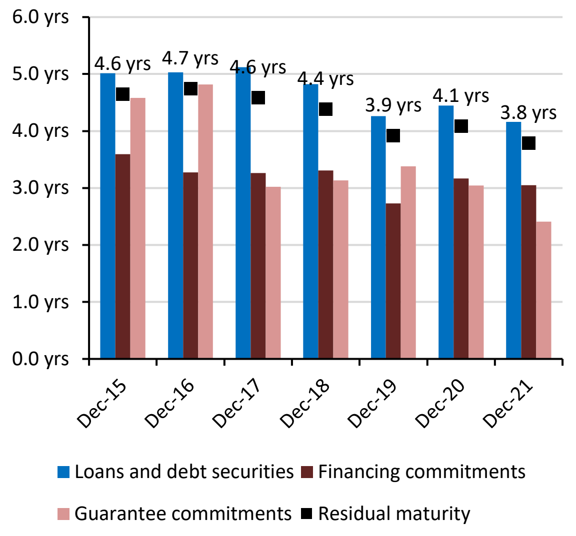
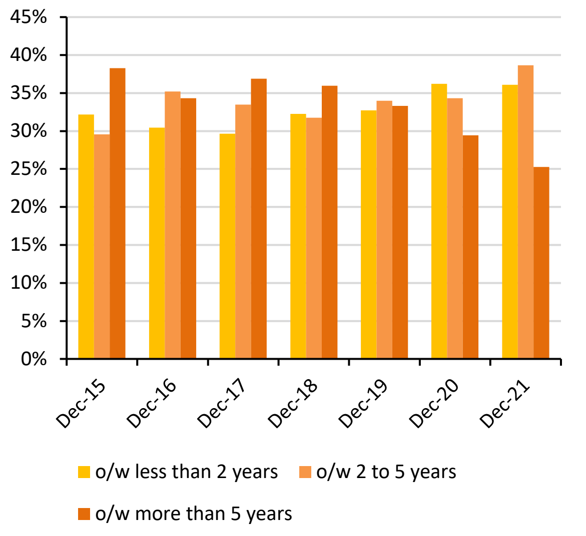


Chart 48 **Residual period to maturity of loans and debt securities according to tranche**

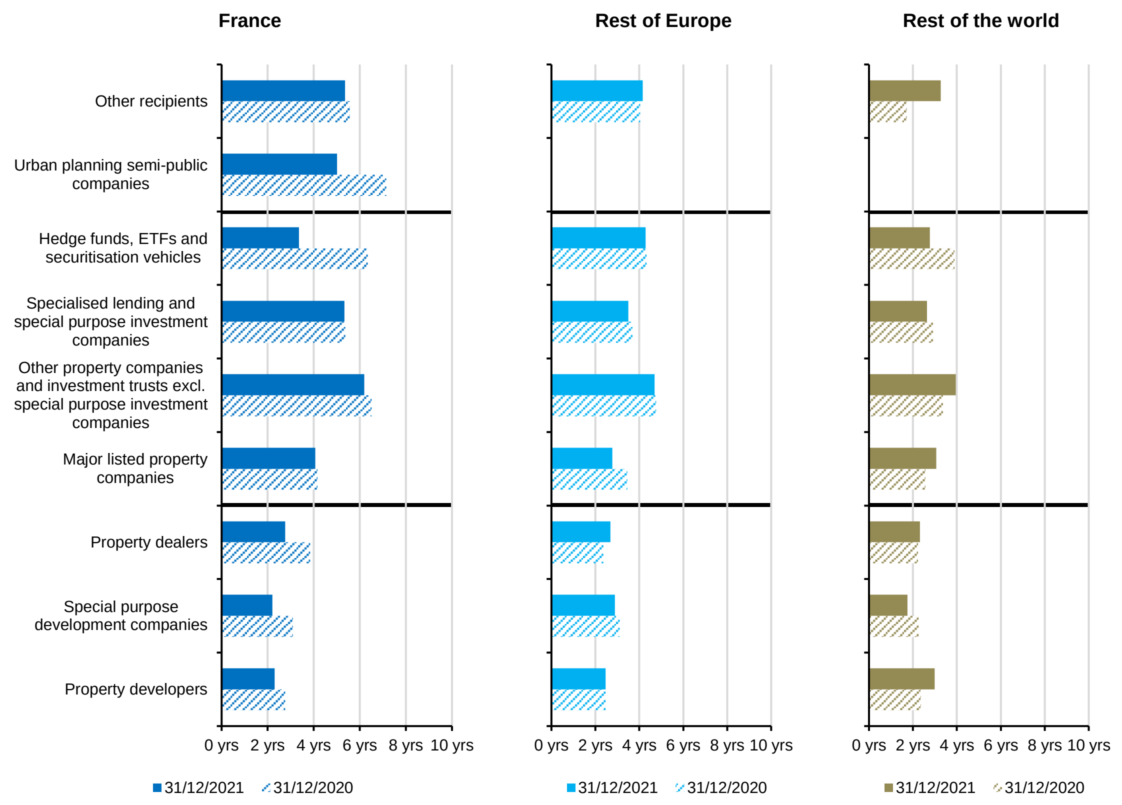


Source: ACPR

Chart 49 **Residual maturity according to type of beneficiary**

Source: ACPR

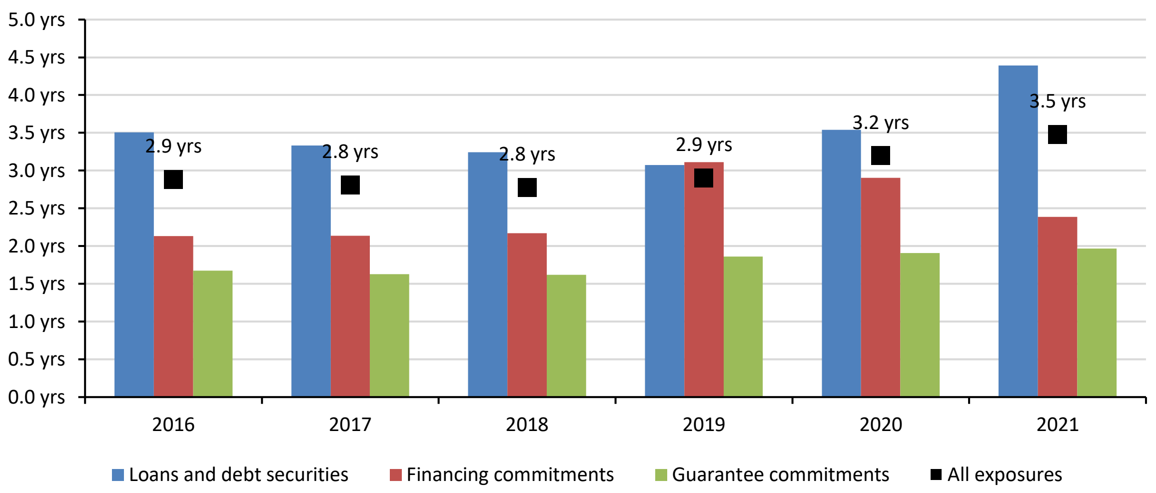
Chart 50 Residual maturity according to type of beneficiary and geographical area



Source: ACPR

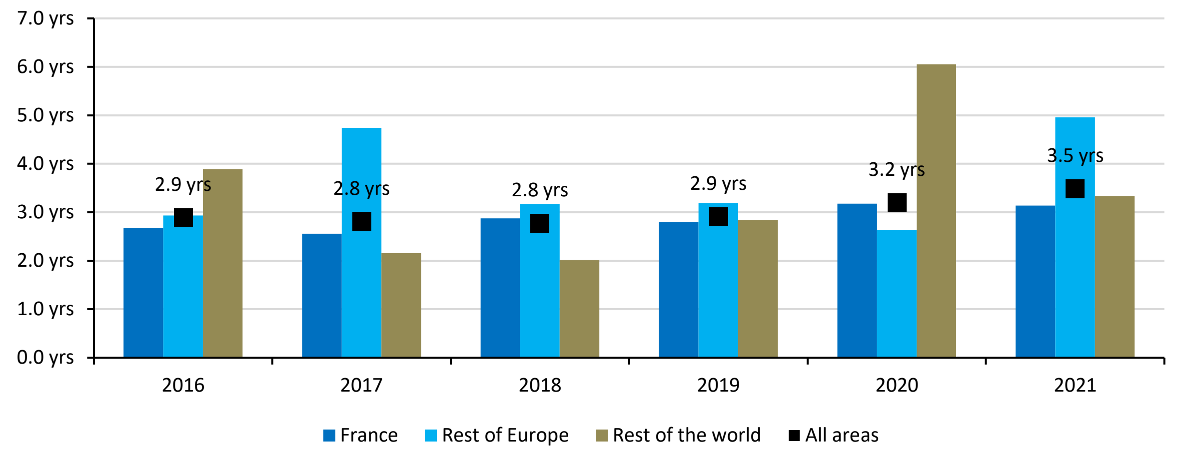
3.4. Exposures remained on banks' balance sheets longer

Chart 51 Exposure renewal rate according to type of commitment



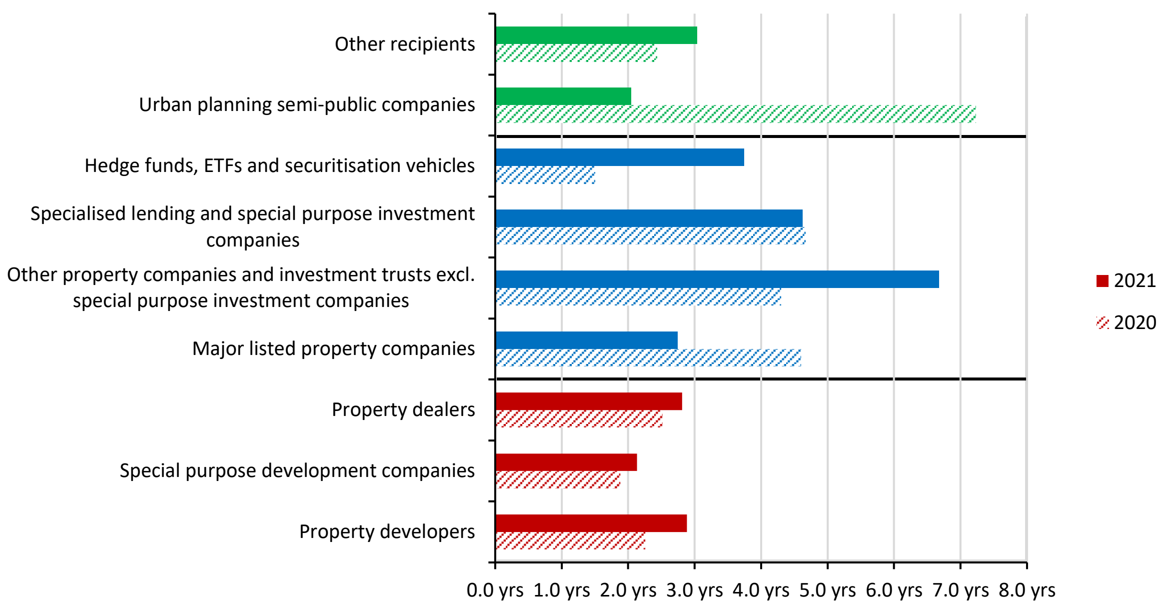
Source: ACPR

Chart 52 **Exposure renewal rate according to geographical area**



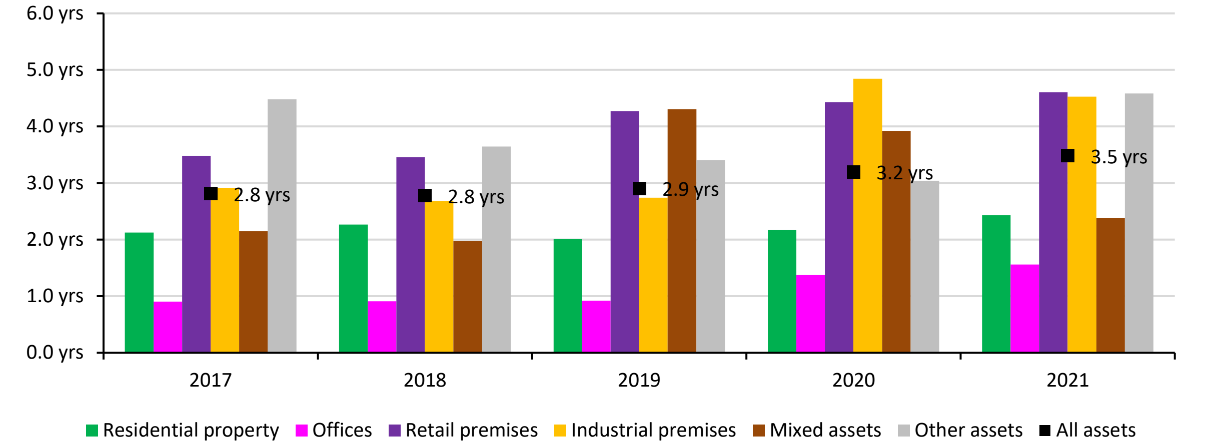
Source: ACPR

Chart 53 **Exposure renewal rate according to type of beneficiary**



Source: ACPR

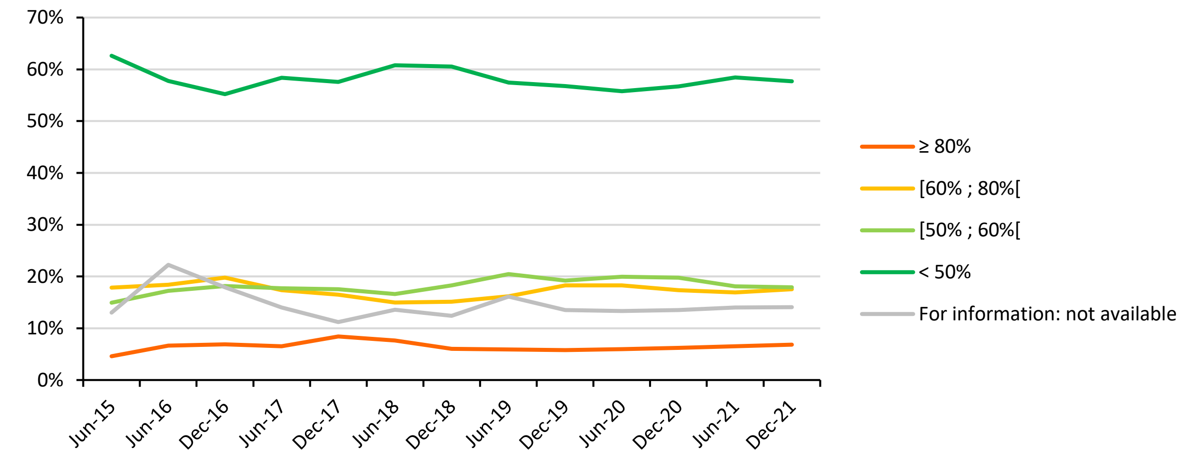
Chart 54 Exposure renewal rate according to asset type



Source: ACPR

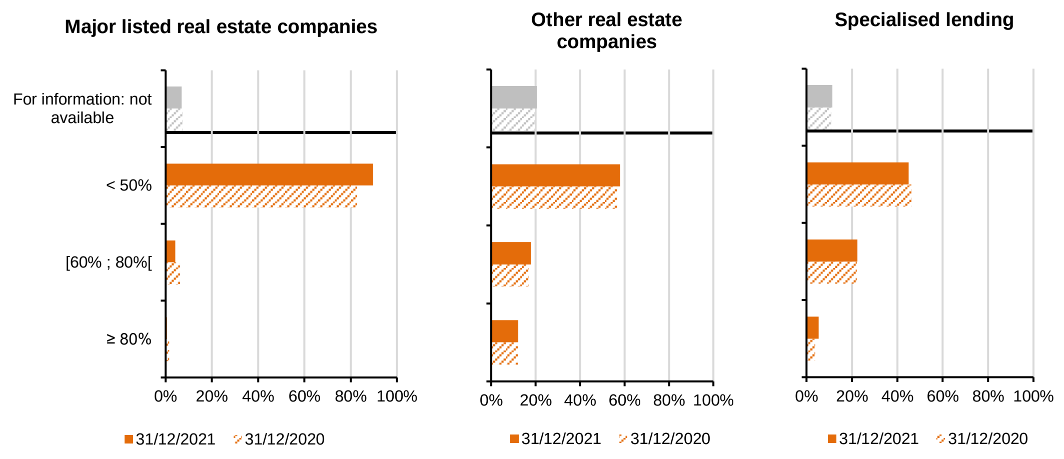
3.5. The structure of exposures according to LTV ratio remained relatively stable

Chart 55 Current LTV ratio of outstanding exposures



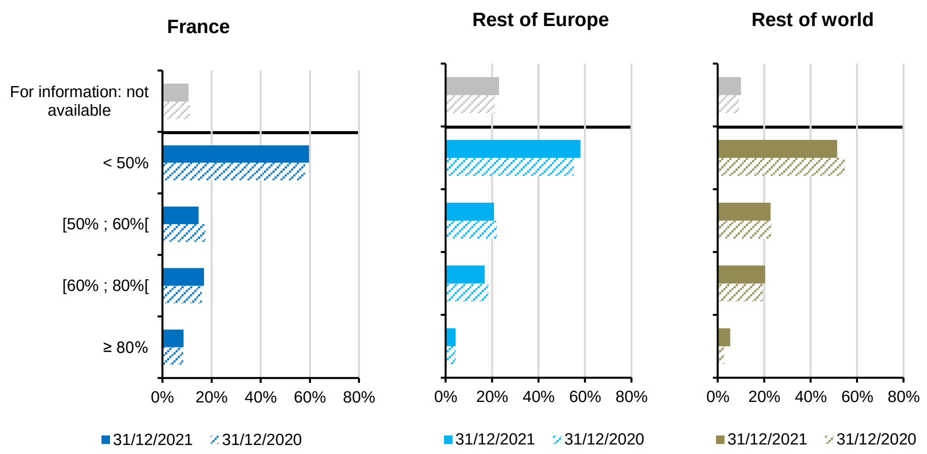
Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special purpose investment companies

Chart 56 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

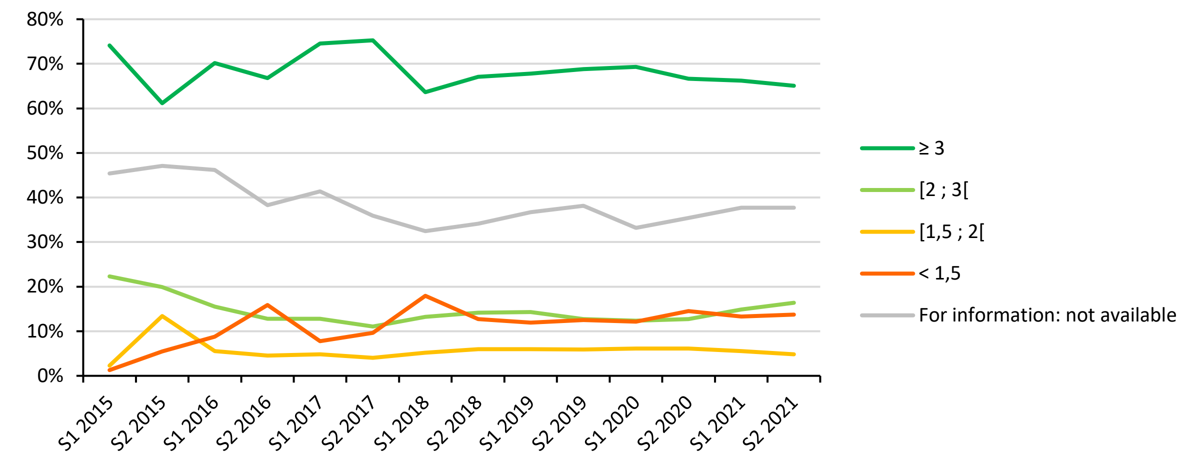
Chart 57 Current LTV ratio of outstanding exposures according to geographical area



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

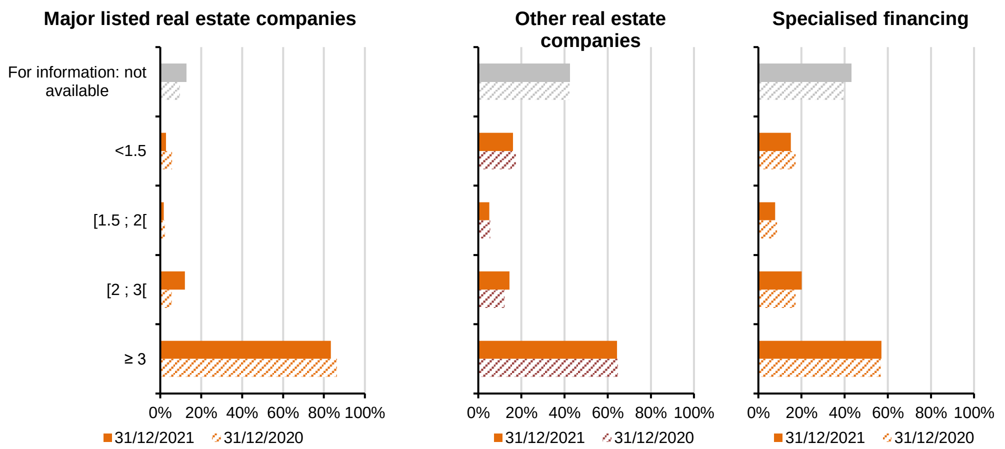
3.6. The breakdown of transactions according to ICR and DSCR for outstanding exposures does not indicate deteriorating risk levels

Chart 58 ICR



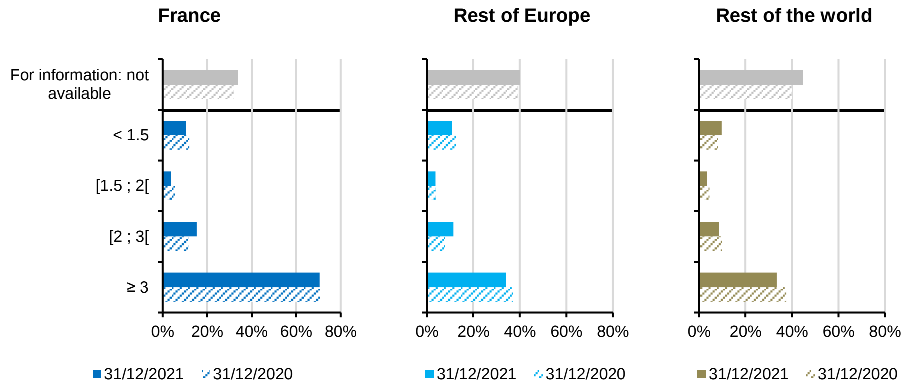
Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special purpose investment companies

Chart 59 ICR according to type of beneficiary



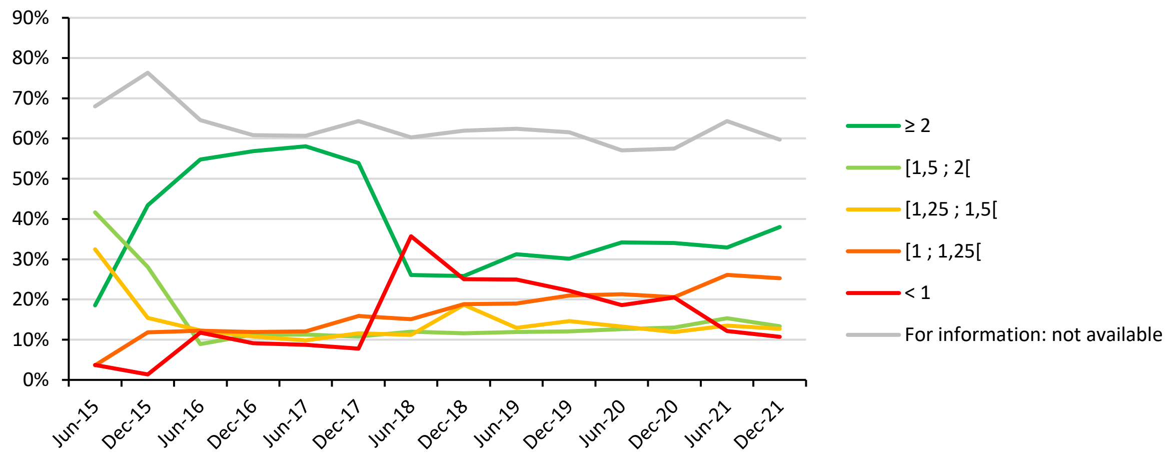
Source: ACPR; scope: major listed real estate companies, other real estate companies and investment trusts, specialised financing and special purpose investment companies

Chart 60 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

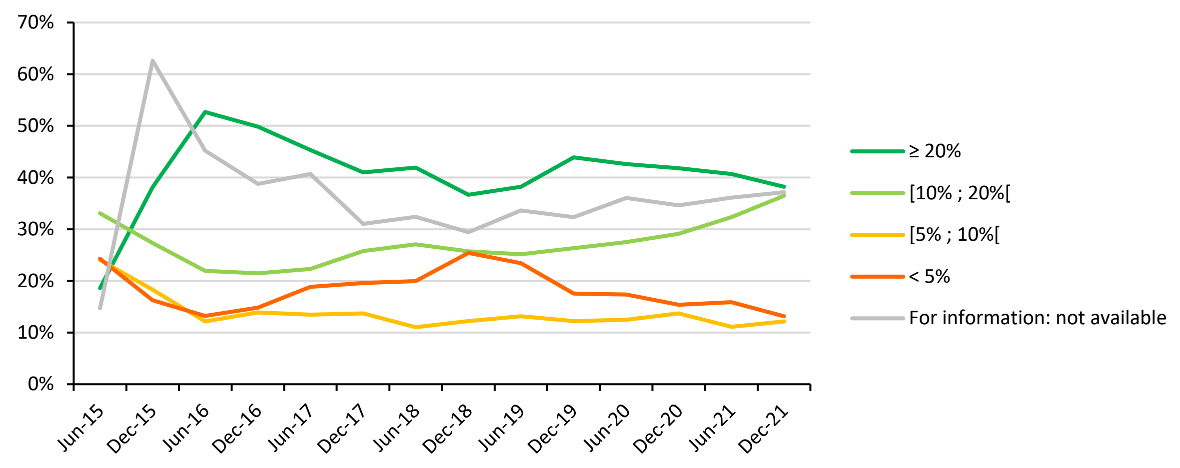
Chart 61 DSCR



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

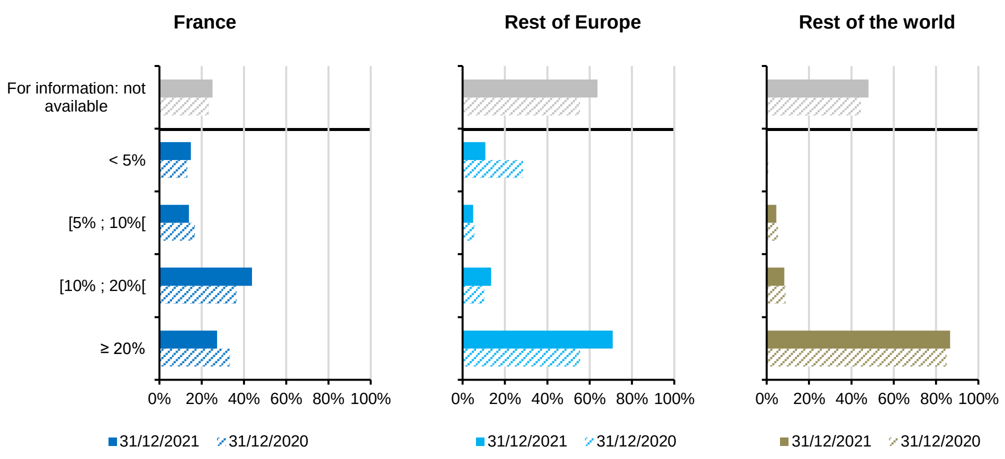
3.7. The equity ratios of property dealers stayed high

Chart 62 Equity ratios associated with outstanding exposures to real estate developers



Source: ACPR

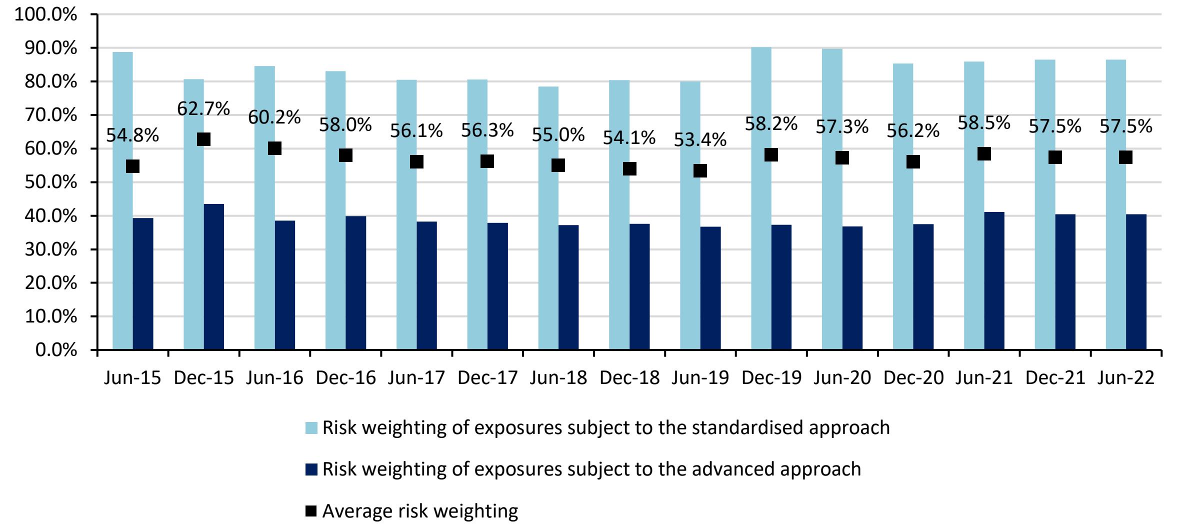
Chart 63 Equity ratios of real estate developers with amounts outstanding according to geographical area



Source: ACPR

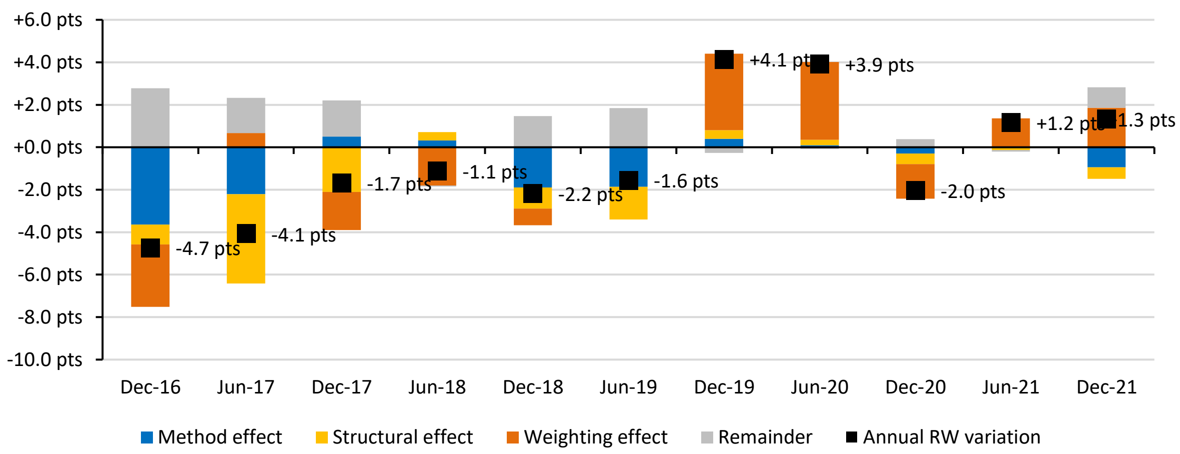
3.8. The risk weights applied to exposures increased slightly over the financial year, which indicates increased risk abroad

Chart 64 Risk weights applied to exposures



Source: ACPR

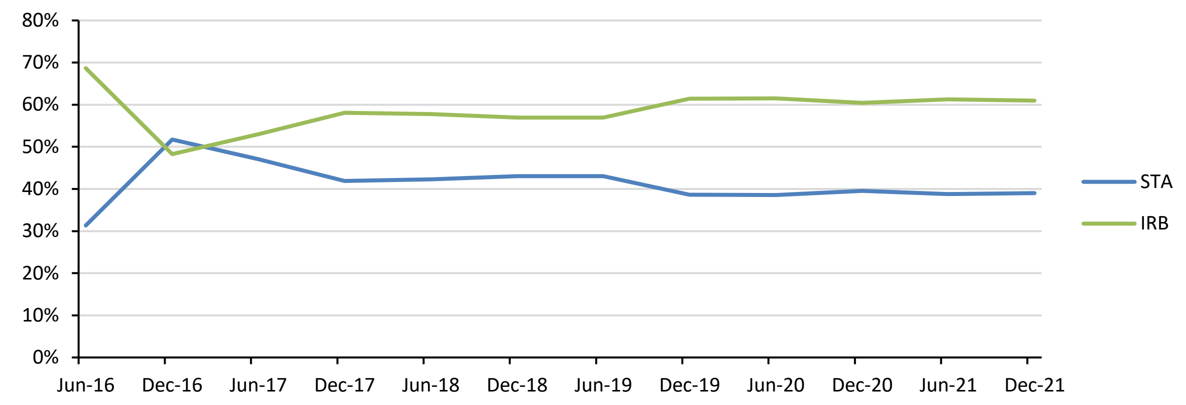
Chart 65 Factors explaining changes in the average risk weight applied to exposures over 12 rolling months[4]



Source: ACPR

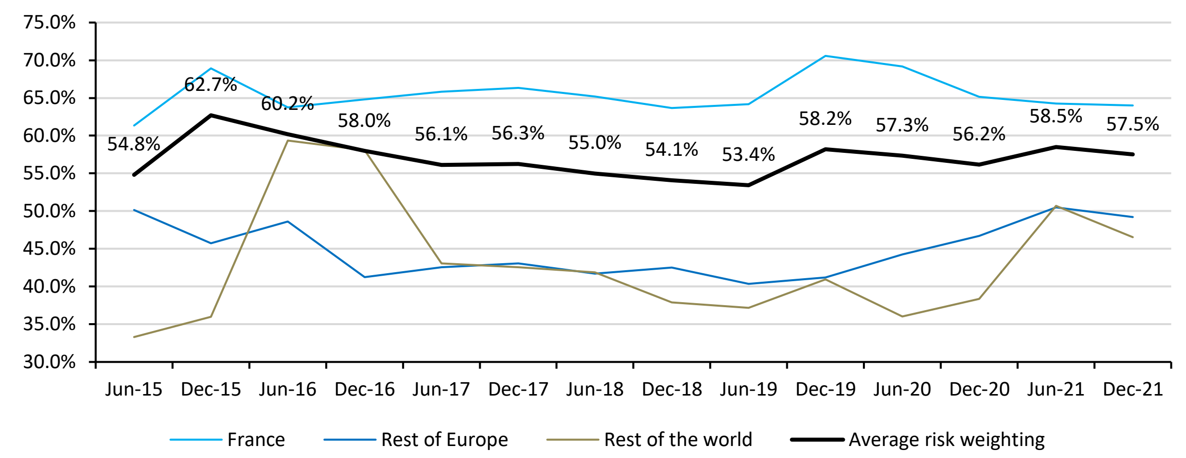
[4] Effect stemming from the method used: impact of a change in the breakdown of exposures between standardised approach and advanced approach, all other things being equal (a more extensive use of the advanced approach results in a negative approach effect, meaning a decrease in the average risk weight).
Structural effect: the impact of a change in the structure of exposures by type of beneficiary on the average risk weight, all other things being equal (a negative (positive) structure effect will reflect an increase (decrease) in the share of exposures with a lower (higher) risk weight than the average).
Weighting effect: impact of a change in risk weights with the same breakdown of exposures by approach and type of beneficiary.
Remainder: changes in the average risk weight applied to exposures that are not explained by the three effects mentioned above.

Chart 66 Structure of exposures according to the method used for the calculation of the solvency ratio



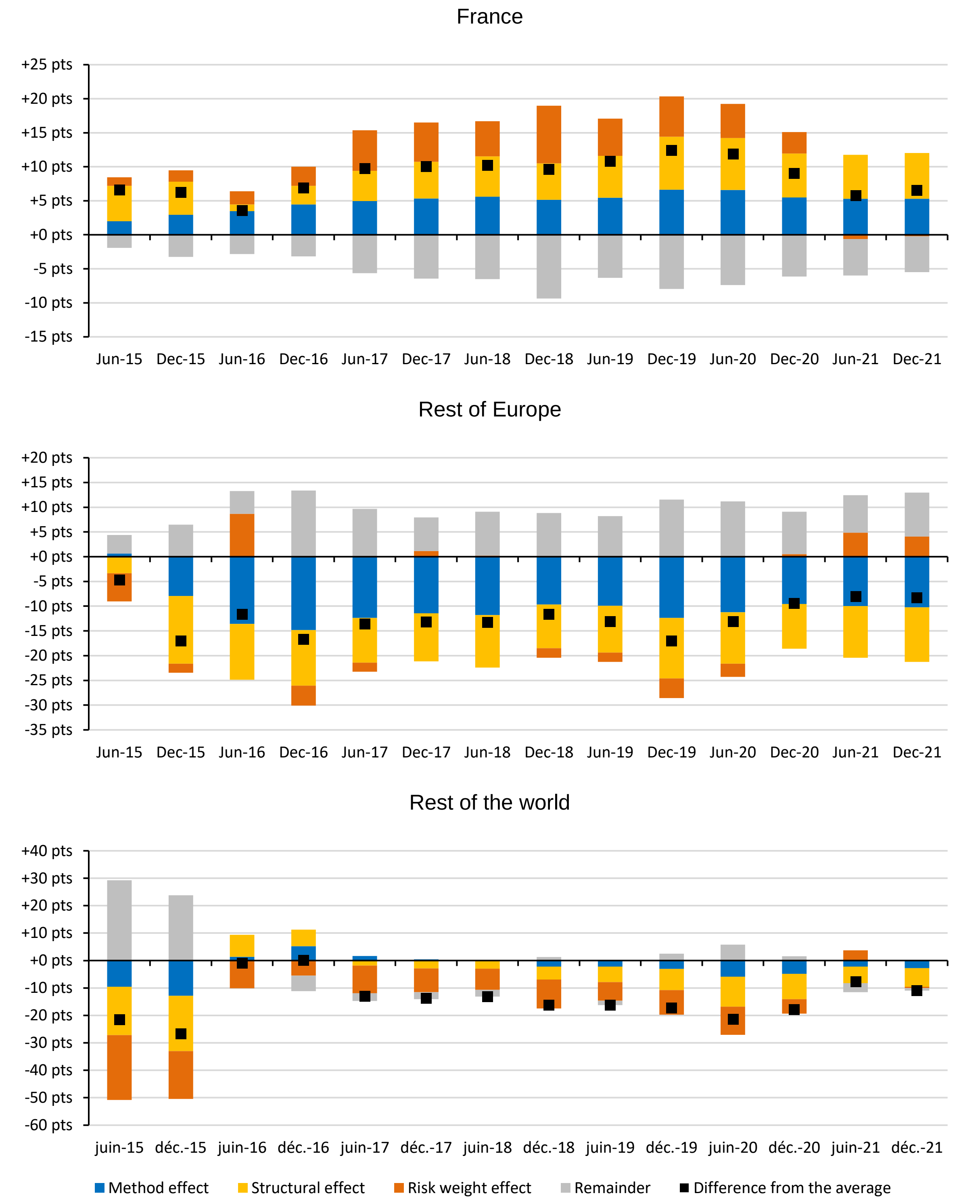
Source: ACPR

Chart 67 Right weights applied to exposures according to geographical area



Source: ACPR

Chart 68 Factors explaining the differences in risk weights between the various geographical areas compared to the average

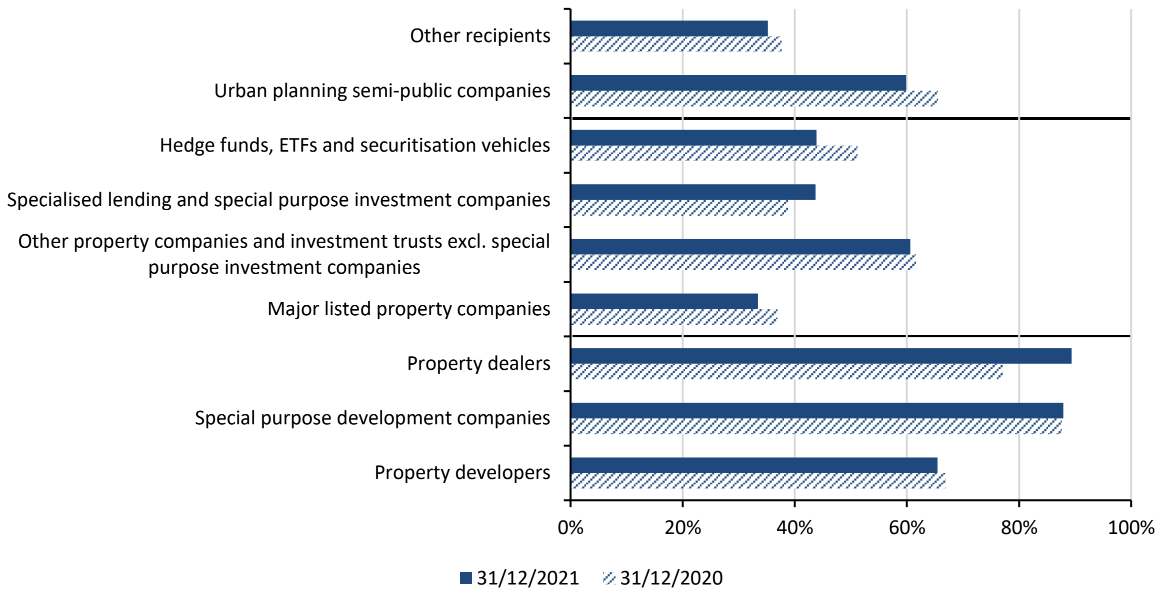


Source: ACPR

Chart 69 Factors explaining changes in the average risk weight applied to exposures according to geographical area over 12 rolling months

Source: ACPR

Chart 70	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]

- Office space take-up: The office take-up represents the cumulated floorspace 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 metres of usable floorspace.

  The indicator only takes into account newly signed leases with a duration exceeding 12 months. Therefore, lease renegotiations and sales to present occupier are excluded.

- Average rent: The average headline rent is expressed in Euro excluding taxes, excluding charges, per square metre per year (€ / sqm / yr, taxes and charges excluded) for second-hand offices on one side and new/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 less than 3 references available for one of these calculations, the result of the previous quarter is used to supplement the sample.

  In order to obtain an average rent, one must regroup the three averages according to their respective weight in past take-up numbers.

  Such imposed structure is designed to clean the indicator from all variations that would solely arise due to changes in the various market activity profiles.

- Incentive rate: Incentive rates rely on four types of concession:

  1° rent free periods,

  2° capital payments for works,

  3° step-up rents,

  4° made available periods.

  The incentive rate represents the weight of those concessions when compared to the total income that would have been obtained based on the headline rent over the secured length of the lease.

  The incentive rate is only calculated for rental transactions representing at least 1,000m².

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

- Price per square metre of office space investments: The price of office investments is expressed in euros "deed in hand" per m² (€ DIH / m²).

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

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

Local results are aggregated based on a predefined distribution to obtain higher level series, like the overall price in the Ile-de-France region. This method avoids variations that would solely arise due to changes in the various market activity profiles.

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

- Immediate supply: Immediate supply represents the cumulated floorspace 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 property.

2. Type of beneficiary [ACPR survey]

- Real-estate developers: companies that build or renovate buildings with the aim of selling or reselling them to make a profit. Also falling within the developer category are land developers[5] and urban development corporations[6].

  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)) the aim of which 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 real estate 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 or 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 the purpose of which is to sell financial products that enable investors to acquire an indirect exposure to the property sector. As regards

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

[6] 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.

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

3. Geographical areas [ACPR survey]

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 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]

Wherever possible, when information is available, the breakdown of loans by asset type is 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.

5. Risk indicators [ACPR survey]

- Average initial duration: amount-weighted average of the terms of the loan, credit line or guarantee agreements;
- Average residual maturity: average, weighted by the amounts outstanding, of the remaining maturities of each loan on the basis of the maturities provided for in the initial contracts;
- Pre-sales / pre-leasing ratio: value of the space sold or leased at the time of granting of the loans divided by the total anticipated turnover 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: capital outstanding 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 $Vitesse\ de\ renouvellmement_n = Encours_{n-1}/Amort_n$(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: $Amort_n = Prod_n\ -\ (Encours_n - Encours_{n-1})$).