MARKET RESEARCH

European Listed Real Estate

Special Report

Reshaping Debt Profiles: A comprehensive analysis of the European Listed Real Estate industry

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Introduction

Since interest rates started to rise, real estate debt has become a hot prominent topic. The ECB highlighted increasing concerns, in particular on the CRE (commercial real estate) debt and its importance for financial stability. There is also an ongoing debate on the size of the CRE debt and the refinancing gap. Compared to the Global Financial Crisis (GFC) which was primarily triggered by excessive debt accumulation in specific residential markets, the fundamentals are different in the current environment and there are key lessons learned from the past crisis.

This report aims to look at the impact of monetary policy on the real estate sector and CRE debt, with a specific focus on the debt profile of listed real estate companies. It analyses key metrics and provides context for such discussions. The report also covers alternative financing options for property companies seeking to reduce debt or foster growth.

The key takeaways are summarized as follows:

Based on the consensus among economists, a sustained period of relatively high interest rates is predicted before gradually decreasing in the medium term. This implies that **LRE (listed real estate) companies need to adjust to a new macro-economic environment** based on a scenario where benchmark policy interest rates stabilise around the 3% mark, subsequently resulting in financing costs of approximately 5-7% in the mid-term.

Currently, the key financial metrics of LRE companies appear more favourable:

- **Declining trend in LTV and cost of debt since the GFC** - the average LTV ratio currently stands at 38% (with notable disparities among European countries)
- **Higher proportion of fixed-interest-rate debt** representing a substantial portion of the total debt within Europe - approximately 83.5%.
- **Lower debt-to-equity ratio** - even though it experienced a modest increase, reaching 0.93 in 2022, it has significantly decreased from the peak of 1.63 observed during the GFC.
- **Longer debt maturities** - the average bonds maturity is more than 2 years longer than it was 10 years ago. Approximately 34% of the debt issued by listed European real estate companies is set to mature within the 2024 to 2026 timeframe, falling within the 1 to 3-year horizon. Companies have time to adjust to new interest rate levels.
- **Modest debt funding gap** - the anticipated net debt funding gap (bank loans) within the top 108 public real estate corporations (over EUR 357 million) is distinctly different from the CRE net debt funding gap.
- **CDS levels** - the credit default swap rate markets (CDS) indicate that the substantial efforts made by listed real estate companies are beginning to yield positive results.
- In fact , not all listed property companies have overstretched balance sheets. For those aiming to reduce their leverage, there is a spectrum of **alternative financing options** available, including disposals, issuing green bonds, M&As, asset sales, capital increases.

The report is structured as follows: Section 1 focuses on change in monetary policies. Section 2 presents CRE debt in Europe covering challenges and the funding gap. Section 3 compares the and the current situation. Section 4 focuses on key debt profile metrics of LRE companies, and the final section (Section 5) concludes with alternative financing options.

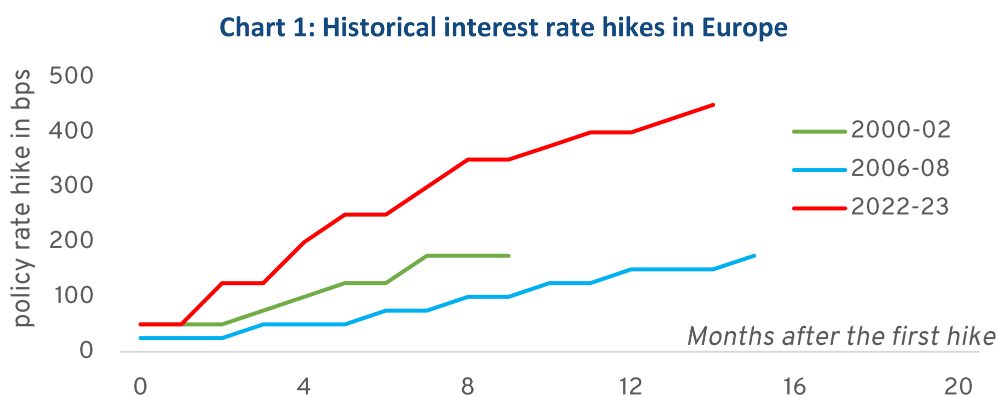
1. Monetary policy

1.1. Aggressive interest rate hikes not seen in decades

Listed real estate within Europe has faced significant challenges in recent years. The sector has experienced notable fluctuations, as reflected in the FTSE EPRA Nareit Developed Europe Total Return Index. This index underwent a substantial decline of -6.78% in the year leading up to 31 October, 2023, with an annualized decrease of -6.44% over the three-year period ending on the same date (EPRA).

The primary driver behind this tumultuous situation has been the escalation of nominal interest rates. Central banks across the Western world have abruptly shifted their monetary policies from accommodative to restrictive, leading to policy interest rates currently at levels unseen in the past 15 years. The ECB, akin to its American counterpart, launched the most aggressive series of policy rate hikes in decades, amounting to a total of 450 bps increase compared to 175 bps increase during the GFC (2006-2008) within the same period (12 to 15 months).

Chart 1: Historical interest rate hikes in Europe



Source: EPRA Research. Data is compiled from ECB (As of 31/10/2023).

Naturally, the emergence of a major geopolitical conflict on Ukrainian soil couldn't have been foreseen well in advance. Following extensive efforts to attain the 2% inflation target through accommodating quantitative policies (with limited success), central banks are now striving to curtail inflation to levels hovering around 2%[1].

The outcome of this monetary tightening strategy remains uncertain. Notably, headline inflation is undergoing a sharp decline due to factors such as fluctuating gas prices in Europe and the United States. However, the ease of a similar decline in core inflation remains an open question.

Table 1 provides an overview of the recent assertive policies adopted by central banks in the Western Hemisphere, along with forecasts for anticipated policy interest rates and inflation rates in the approaching months. Encouragingly, benchmark interest rates have been stabilizing, albeit at relatively elevated levels. In the United States, the Federal Reserve might even initiate interest rate reductions early in the upcoming year.

[1] A current discourse is underway among economists and other market analysts regarding the persistence of central banks in adhering to the 2% target. In essence, this prompts the question of whether the target could potentially be established at a slightly elevated level. However, it is important to note that the exploration of this debate falls outside the scope of the present research report.

Table 1: Future rate expectation and CPI forecasts (as of 17 November 2023)

Region/country	Central Bank	Benchmark rate	Current rate (%)	date	Maximum expected (%)	Date	Current CPI (%)	Core inflation (%)	Date	CPI forecast (%)	Date
US	Fed	Federal funds rate	5.25-5.50	01/11/2023	5.50-5.75	1/11/2023	3.20	4.00	November 2023	2.30	3Q24
Eurozone	ECB	Deposit rate	4.00	26/10/2023	4.00	26/10/2023	2.90	4.20	November 2023	2.20	3Q24
UK	BoE	Bank rate	5.25	02/11/2023	5.25	2/11/2023	4.60	5.70	November 2023	3.00	3Q24
Sweden	Riksbank	Repo rate	4.00	21/09/2023	4.25	4Q23	6.50	4.00	November 2023	3.70	3Q24

Source: Various websites of central banks, TradingEconomics for the forecasts

We have observed that the CPI projections for the third quarter of 2024 no longer consistently remain below 3% for the US and the Eurozone, with analysts, for instance, projecting a 2.20% rate for the Eurozone. Although these projections represent a consensus, the key question pertains to the alignment of this consensus with the actual future outcomes.

Regarding the Eurozone, the UK and the US, a noteworthy phenomenon is the present scenario where core inflation surpasses headline inflation. The Eurozone headline inflation fell from 10.6% in October 2022 to 2.9% last October, yet core inflation of 4.2% in October was higher in the same period.

1.2. Monetary policy and real estate investors

A scenario characterized by declining nominal and real long-term interest rates, possibly combined with a soft economic landing, would be highly favourable. it is important to recognize that real estate investment encompasses more than just interest rate dynamics; the state of occupational markets holds significant sway too.

Regarding the increase in interest rates, it is apparent that real estate investors are grappling with complexity. Presently, the focus for many investors centres on the debt ratio—commonly referred to as the loan-to-value (LTV) ratio—paired with financing costs. Currently, investors are inclined towards LTV ratios significantly below 50%, and even dipping below 40%, a marked shift from years ago. During periods of zero-interest rates, the positive impact of leveraging debt on equity profitability was extended. However, the surge in nominal interest rates has expedited the potential for this leverage to be benign.

Investors, including those in the real estate sector, have undeniably been captivated by an extended phase of artificially low interest rates. This phenomenon has proven immensely favourable for the performance of both listed and unlisted real estate investments. However, with hindsight, it becomes evident that such a prolonged period might not have been inherently conducive to overall market health.

In a scenario where benchmark policy interest rates were to stabilise around the 3% mark, subsequently resulting in financing costs of approximately 5-7% in the mid-future (subject to property type differentials), in particular direct real estate markets would inevitably recalibrate themselves in response to this more pragmatic dataset. In essence, this recalibration should not be interpreted as detrimental.

Understanding how all possible factors affect the prices of listed real estate can be quite tricky. It seems that the rise in inflation is making nominal interest rates more important, possibly having the biggest impact[2].

[2] Exploring how six external factors, namely inflation, interest rates and monetary policy, currency rates, the pandemic and the war in Ukraine, influence the returns of Aedifica SA/NV, a listed healthcare-related REIT in Belgium; it is found that over the past 10 years, inflation and nominal interest rates have had an enormous effect on how much Aedifica's shares are worth (Gil Moeremans, 2023).

2. Uneasiness about commercial real estate debt in Europe

2.1. Challenging CRE markets

The ECB is quite concerned about the commercial real estate (CRE) markets in Europe. Property values have already dropped significantly or are currently in the process of declining, especially in sectors like offices, retail spaces and industrial properties. If this downward trend continues, it could create more problems for the CRE market and its investors, including institutional and retail investors. Furthermore, the residential sector is feeling the impact of changes in monetary policy as well. Some property developers are facing challenges with lower sales, and this is happening at a time when the costs of financing and construction are going up (ECB, 2022a, b).

While the pandemic was a temporary issue, it looks like higher interest rates are likely to remain relatively high in the long term, even if there's an expectation that interest rates will eventually stabilize (or fall slightly) [3].

The ECB also highlighted in its Financial Stability report that challenging real estate markets could pose problems for certain property investment funds (real estate investment funds or REIFs)[4]. This could increase the risk for banks that lend money when the value of the collateral is decreasing due to lower property values (2023a, b). So, the ECB examined how property investment funds and commercial real estate debt are connected (ECB, 2023b). In fact, REIFs play a significant role in the CRE markets of the euro area, representing about 40% of the overall CRE market. These are investment funds that primarily put their money into real estate, either through physical properties or real estate-related securities.

While it may be concerning that issues with CRE debt incurred by direct property players could potentially deter investors, it is important to recognize that such concerns do not automatically translate to similar risks in CRE, banking and corporate debt contracted by listed real estate.

2.2. Debt margins

The market for commercial real estate debt (referred to as CRE debt) comprises financial institutions such as banks, insurance and pension funds, as well as debt funds. Although numerous debt funds are operational throughout Europe, banks have, since 2012, significantly realigned their lending activities predominantly towards their respective national or domestic markets. For example, German banks now extend approximately EUR 20 - 25 billion in loans beyond their home market, compared to the EUR 60 - 70 billion in 2007/2006. (Bayes Business School, 2023).

Loan terms may display significant disparities depending on the type of lending institution. Banks, for instance, offer introductory lending rates as low as an average of 1.9% for variable-rate loans with a 5-year term. In contrast, fixed-rate loans typically encompass margins ranging from 60 to 80 basis points above variable rates. Debt funds cater to specific funding requirements where traditional banks may not participate. They may offer debt solutions within the double-digit interest

[3] This situation is commonly denoted as the "South African Table Mountain scenario," wherein benchmark interest rates have exhibited a sharp ascent before starting to stabilize at a plateau.

[4] The ECB warned that CRE represents 10% of bank loans in the eurozone, so signs of stress in CRE sector could play a significant amplifying role in the event of broader market stress. Eurozone real estate companies might have difficulties to pay off their debts due to their losses (the average debt of larger European property companies had increased to 10x their earnings, 'close to or above pre-global financial crisis levels), as a result of significantly rising financing costs, declining CRE values and rental income, and growing worries about cost for the energy efficiency of buildings.' (ECB, *Financial Stability Review, November 2023*).

rate range. Moreover, they often accommodate higher loan-to-value (LTV) ratios varying from 83% to 88%. The average margin charged by financial institutions is contingent upon several factors, including the nature of the property, loan size, loan structure (variable or fixed interest rate), and geographical location. Properties categorized as opportunistic command the most substantial margins, while smaller-scale loans attract relatively less interest from lenders, resulting in higher margins.

2.3. Funding gap

The concept of the net debt funding gap can cause anxiety within the real estate sector. In essence, it raises questions about a property company's capacity to roll over previously incurred debt set to mature in the near future. The key consideration revolves around whether the company possesses an adequate cash buffer to facilitate such extensions and whether new debt could be easily contracted at a reasonable cost.

According to AEW, there's an estimated funding gap of EUR 93 billion in European real estate debt (excluding bonds). This gap represents the difference between the original amount of secured commercial (CRE) and residential real estate debt that was generated between 2018 and 2021 and the amount available for refinancing when these loans mature between 2023 and 2026. This applies to various property sectors including offices, retail spaces, industrial properties, and residential properties in six European countries: France, Germany, Italy, the Netherlands, Spain, and the United Kingdom (AEW Research, 2023).

In reference to the projected net debt funding gap for public real estate companies comprising the FTSE EPRA Nareit Developed Europe index as of Sep/23, it is noteworthy that this disparity is quite marginal. The aggregate value of loans maturing between 2023 and 2026 stands at EUR 14,013 million, while the total sum of accessible loans within the same timeframe is forecasted at EUR 14,370 million. Consequently, the discrepancy equates EUR 357 million. When including commercial papers and other types of short-term liabilities, the net funding gap rises to EUR 11 billion, which is still moderate compared to the figure for all the CRE debt (EUR 93 billion).

3. Parallels between GFC and actual situation?

In addition, numerous market participants are drawing parallels between the global financial crisis of 2008-2010 (GFC) and the present economic circumstances. However, it is worth noting that a direct comparison between these two periods may not be appropriate. The GFC was primarily triggered by excessive debt accumulation in the property sector, with a particular focus on specific residential property markets across Europe, such as Spain and Ireland, and the US.

In contrast, our current situation is characterized not by overleveraging, but by a significant and sudden upswing in nominal interest rates, driven by an abrupt shift in monetary policy across multiple countries. This phenomenon is an external factor that affects not only the real estate sector, but all sectors of the economy. Consequently, due consideration must be given to navigating this environment.

As financing costs steadily escalate (which may not necessarily align proportionally with policy interest rate hikes timewise), there is a growing emphasis on generating sufficient cash flows. These cash flows are essential not only for meeting financing expenses but also for debt repayment. Consequently, the focus is shifting towards the analysis of financial metrics, such as the debt-to-

EBITDA ratio. This shift in emphasis, particularly noticeable in Europe, may be a departure from the traditional focus of certain analysts who typically concentrate on specific real estate ratios, such as discounts-to-net asset value.

4. The debt universe of listed real estate

In this section, we provide a concise outline of the primary factors characterizing the European real estate debt landscape. It is crucial to underscore the substantial expanse of this domain. Real estate companies possess the capacity to incur debt irrespective of their listing status. Within this context, we delve into various metrics pertaining to listed real estate companies. Data is sourced from EPRA's comprehensive database.

4.1. General status

The current debt profile of listed real estate demonstrates a notable improvement when compared to previous financial crises. To put it concisely, debt-to-equity ratios have remained stable, and in many instances, the LTV ratios for listed real estate properties are relatively conservative (38.4%). Furthermore, a significant portion of the debt has been secured at fixed interest rates, which holds considerable importance. On average, the interest expenses are approximately 2.62%.

Although there are expectations of rising financing costs in the near future, there's a positive development to note: the average bond maturity has extended by two years compared to a decade ago. In essence, this means that the potential repercussions of increased costs will be somewhat limited in most cases. Even when considering the possibility of a more stringent monetary policy in the short term (Table Mountain scenario), the general consensus among economists and investors is that policy rates will begin to decline from 2024 and gradually normalize by 2026.

It is also worth mentioning that approximately 39% of all bond debt is scheduled to mature between 2026 and 2028. Consequently, it is far from sure that real estate companies would need to issue new bonds at significantly higher interest in the medium-term rates than those currently in place. Section 5 highlights the ongoing trend of real estate companies actively reducing their debt burdens through various means. Consequently, the Credit Default Swap (CDS) markets are already showing a resurgence in confidence.

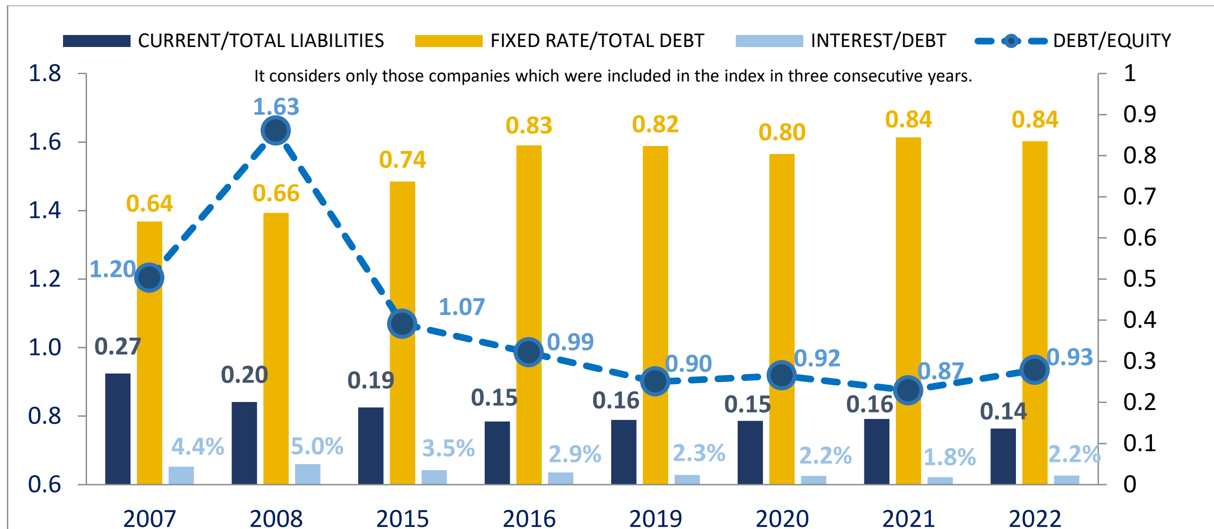
4.2. A closer look at debt profile metrics

4.2.1. Lower LTV and cost of finance since the GFC

Fixed-interest-rate debt constitutes a substantial portion of the total debt within Europe, accounting for approximately 83.5% as of the close of 2022. The average interest payments associated with this debt stood at approximately at 2.2% in 2022. Over the years, there has been a notable shift in the composition of debt, with the ratio of current liabilities (maturing within one year) to total debt declining from 27% in 2008 to 14% by 2022.

Despite the fact that the debt-to-equity ratio experienced a modest increase, reaching 0.93 in 2022, it is worth noting that this figure has significantly decreased from the peak of 1.63 observed during the GFC. It is noteworthy that both leverage and the cost of debt have shown a declining trend over the past decade. The cost of borrowing funds, for instance, remained relatively stable, oscillating within the range of 4-5% until 2015, eventually stabilizing at the current levels.

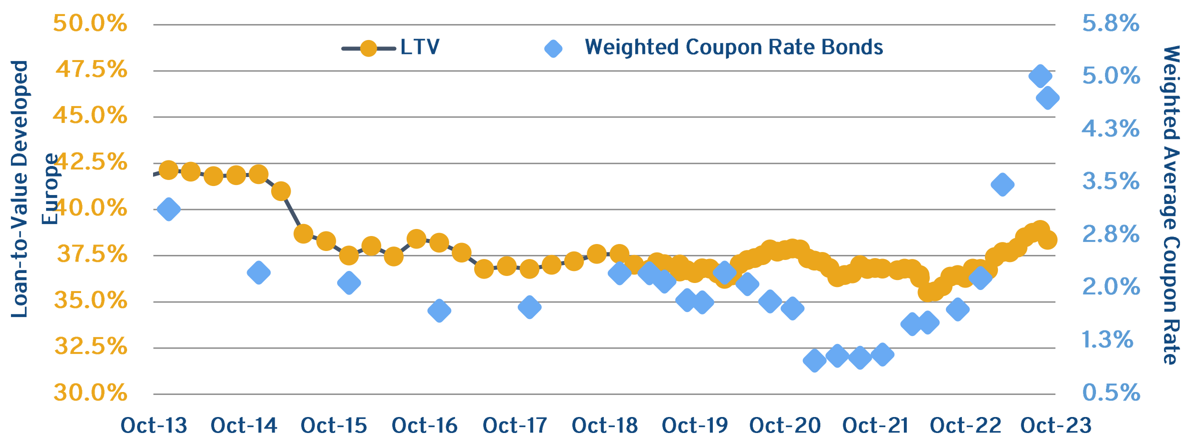
Chart 2: FTSE/EPRA/Nareit Developed Europe Index: Debt profile metrics



Source: EPRA Research.

Chart 3 shows that the LTV ratio currently stands at roughly 38.35% (5y average of 37.1%), with a coupon rate bond on new bonds averaging 4.71%.

Chart 3: LTV vs. Weighted coupon rate bonds

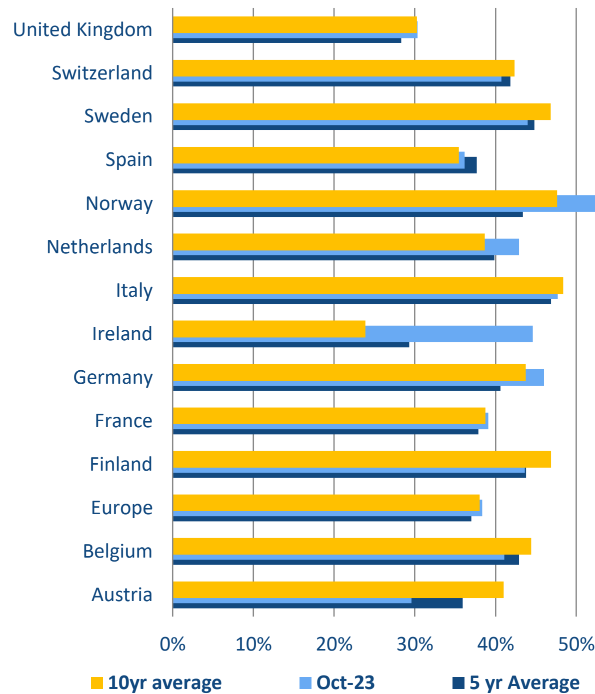


Source : EPRA Research.

However, averages alone do not provide a complete picture. In the UK, the LTV ratio barely exceeds 30%, while certain Scandinavian[5] countries approach the 50% mark. Italy presents a similar scenario. Norway, on the other hand, stands out with the highest LTV, well exceeding 50%.

[5] The latest Swedish Financial Stability report stated that many commercial real estate firms have high levels of debt, making them particularly vulnerable to higher interest rate, so rising borrowing costs. They should reduce their debt and strengthen their balance sheets by offloading assets and raising new equity to cope with rising costs (Finansinspektionen, 2023).

Chart 4: LTV 10-year average breakdown by country



Source : EPRA Research (31/10/2023).

4.2.2. Longer debt maturities

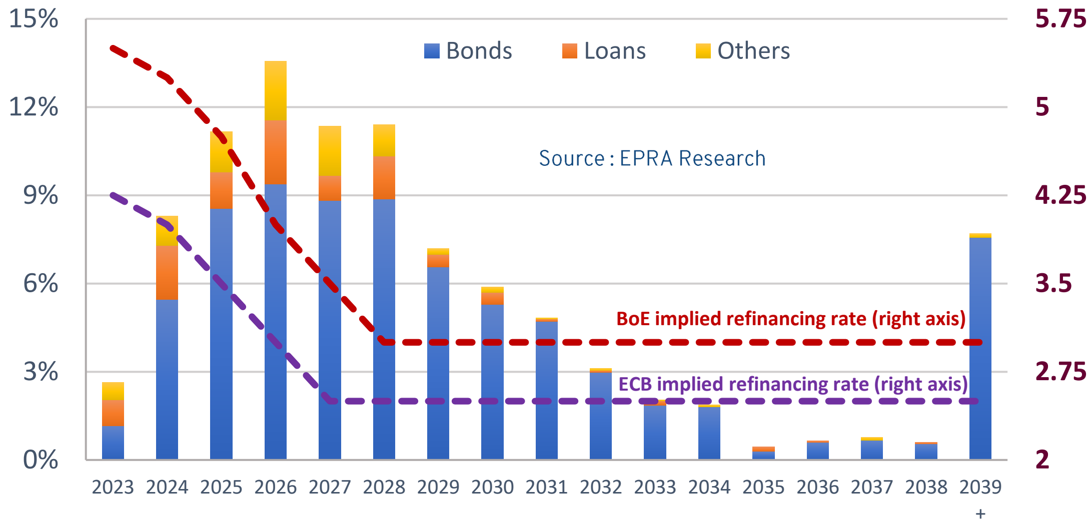
Property companies – listed REITs and non-REITs of which some 95% are pure landlords – have increased the maturity of their debt. The remaining 5% refers to property developers. In 2023, the average bonds maturity is more than 2 years longer than 10 years ago (and also a year ago) for the constituents of the FTSE EPRA Nareit Developed Europe index. Several companies have divested properties to settle short-term liabilities, consequently extending the average outstanding debt maturity.

Chart 5: Historical weighted bonds maturity across Europe

Source : EPRA Research (30/09/2023).

Approximately 39% of the debt issued by listed European real estate companies are set to mature within the 2024 to 2026 timeframe, which falls within the 1 to 3-year horizon. There will be a notable peak in maturities in 2026, accounting for 14.7% of the total. Consequently, property companies are poised to refinance their bonds at a reduced interest expense compared to the current rates, as benchmark interest rates are anticipated to undergo a moderate decline in the near-term.

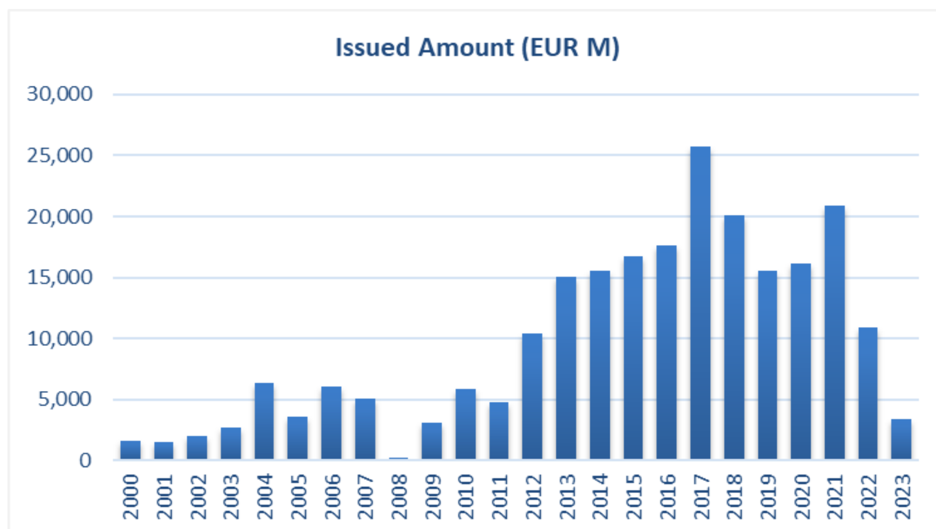
Chart 6: Current debt maturity schedule



* Top50 constituents of the FTSE EPRA Nareit Developed Europe Index
** Bloomberg computation on implied rates derived from the derivatives market
Source : EPRA Research (30/09/2023).

It is crucial to emphasize the issuance of European bonds has experienced a significant decline for two years, and there is some ambiguity surrounding as to the degree to which the maturity of European bank debt has evolved over the same period.

Chart 7: Volumes of bond issued by listed property companies over 2000-2023



Source : EPRA Research for companies of the FTSE EPRA NAREIT Developed Europe index

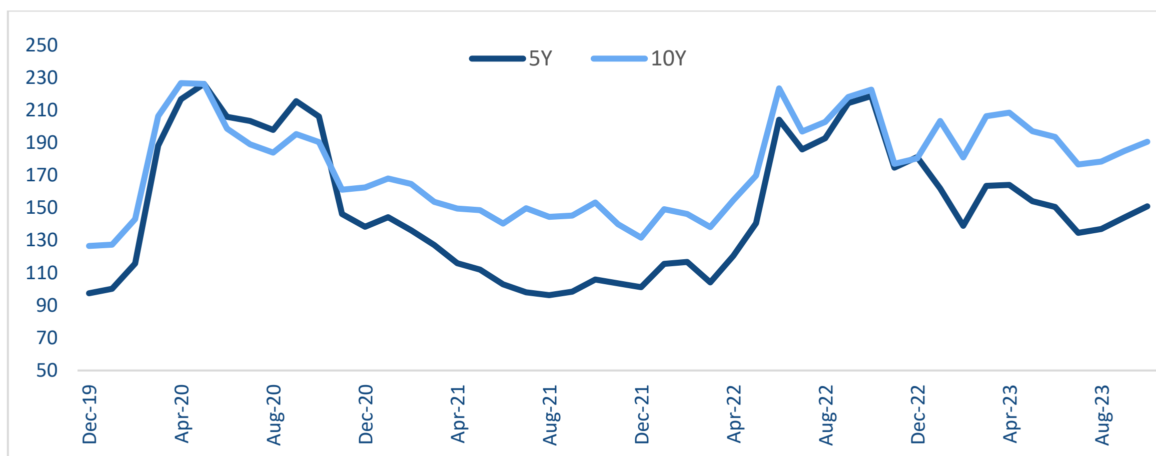
In 2017, European bond issuances achieved a remarkable milestone, totalling nearly EUR 26 billion. However, the bond volume also exceeded EUR 20 billion in 2021. Last year, the European bond volume underwent a 50% reduction, and as of the end of October this year, approximately EUR 3.5 billion worth of bonds has been issued. The current year's volume is anticipated to be significantly below the EUR 11 billion recorded last year.

4.3. CDS Markets signalling improved credit risk for listed property companies

A Credit Default Swap (CDS) is a financial derivative instrument or contract designed to provide protection to fixed income investors against potential bond-related risks. It offers investors the ability to transfer or "swap" their credit risk by entering into an agreement with another investor.

For example, if investors are concerned that a borrower may default on a bond, they can utilize a CDS to effectively mitigate this risk. To offset the risk of a default, an investor can purchase a CDS from a third party who commits to compensate the investor in the event the borrowing company defaults. In many cases, CDS contracts involve ongoing premium payments, similar to those paid for traditional insurance policies. Much like insurance, a CDS serves as a safeguard for investors against rare yet potentially catastrophic events (Weaver, 2021).

Chart 8: Average CDS cost (Top European property companies)



Source : EPRA Research. Data compiled from Bloomberg.

Nowadays, the CDS markets are indicating that the substantial efforts made by listed real estate companies are beginning to yield positive results. Notably, the CDS market is already reflecting a reduced credit risk for the largest property companies. As a point of reference, CDS costs reached record levels in 2020, but returned to pre-pandemic levels in 2021. However, they began to rise once more in 2022. Nevertheless, it is worth noting that the average cost of 5-year and 10-year CDS has decreased by 46 basis points and 49 basis points, respectively, since reaching their peak in 2022.

It is evident that the CDS markets recognize and value the actions undertaken by listed property companies in recent years to enhance their debt profiles. Despite a notable reduction in corporate bond issuance since 2022 compared to prior periods, a number of listed firms have begun to re-engage in bond offerings. It is worth noting that listed property companies also have access to alternative financing paths.

5. Financing alternatives

Present market conditions may not readily accommodate a high LTV ratio. However, various methods can be explored to mitigate this ratio, including divesting assets or injecting additional capital. Moreover, robust real estate firms operating with a standard LTV ratio have the opportunity to diversify their financing strategies. This could involve considering innovative financial instruments such as emerging green bonds.

Companies of this calibre can use the proceeds from such instruments to instantly reduce debt and/or make strategic property acquisitions at higher net rental yields. Alternatively, they may also gain synergies across their operations with other real estate firms through mergers.

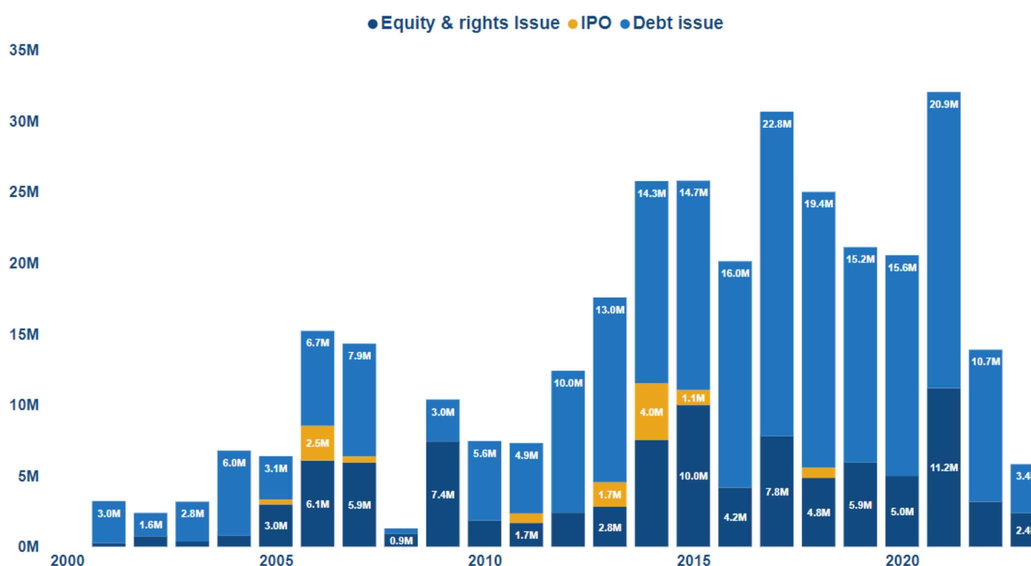
5.1. Asset sales

Exploring the sale of non-essential assets can serve as a strategic approach to mitigate the debt ratio. However, this matter is far from straightforward. Divesting assets not only entails a potential loss of rental income, but also hinges on a critical consideration: whether the sales value of these properties surpasses or falls short of their most recent estimated market value.

5.2. Capital increase

An alternative approach involves capital increase, although the implementation of such a measure is not always straightforward. It is notable that many REITs as well as non-REIT entities frequently trade at a significant discount to their net asset value, a phenomenon not uncommon in other sectors. Consequently, these capital increases may exert a dilutive impact on existing shareholders due to the fact that the net asset value of the company does not necessarily increase in tandem with the expansion of the share count, and the value of the new shares is way below the value of previously acquired shares.

Chart 9: Historical capital increases across the sector



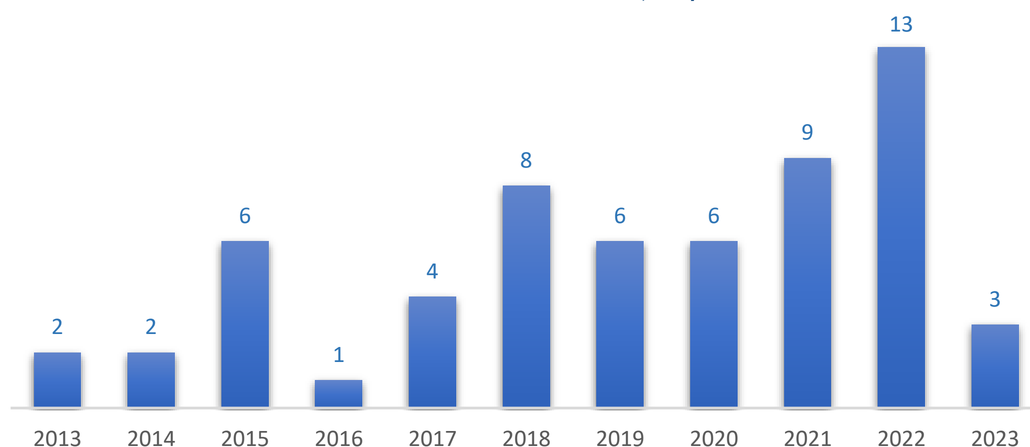
Source : EPRA Research.

The funds raised through a capital increase are frequently allocated to debt reduction, or temporarily directed towards lower-yield cash investment products, with the intent of subsequent reinvestment in higher-yield buy-to-rent assets. Moreover, dilution may escalate if existing investors either fail to fully utilize their preferential rights to subscribe in the case of a rights issue or choose not to participate at all. Sometimes they cannot participate (even if they wanted to) as is the case with private placements. It is noteworthy that private capital increases tend to be executed with greater expediency, involve fewer administrative formalities, and are typically more cost-effective.

5.3. Mergers between listed property companies

Mergers between listed real estate companies are another possibility to strength the corporate and financial structure of small caps and midcaps, generate synergies, reduce operations costs and secure resources for further investments. The overall M&A activity in European listed real estate implied a modest number of deals in the last few years: 9 in 2021, 13 in 2022 and 3 (so far) in 2023.

Chart 10: Number of M&As per year



Source : EPRA Research.

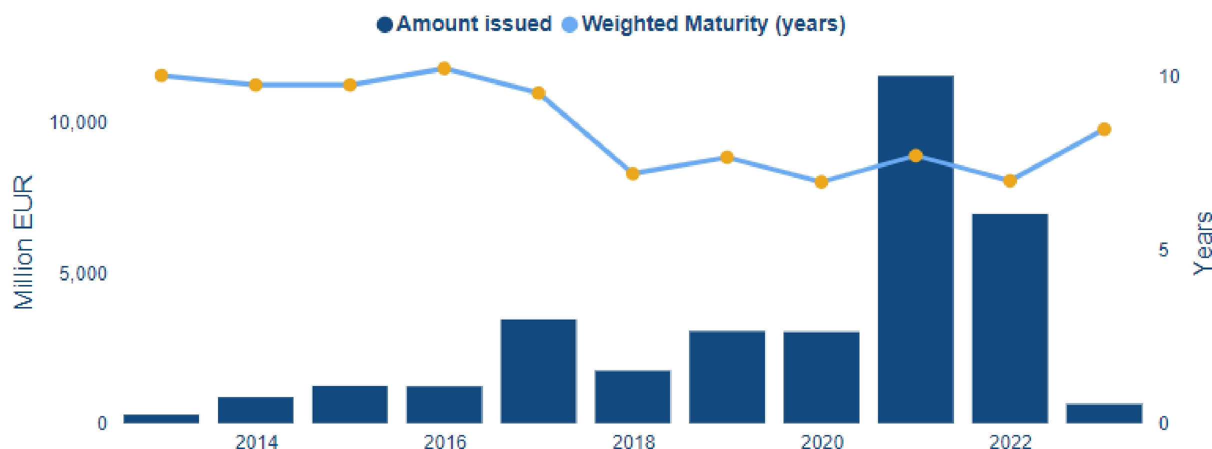
5.4. Green bonds

An additional and potentially more favourable option involves the issuance of green bonds. These bonds could be made available to all type of investors, in particular to those who are dedicated to the Environmental, Social, and Governance (ESG) principles, such as pension funds. The real estate sector holds the potential to play a distinctive role in CO2 reduction.

While the green bond market is presently lacking standardization, efforts are underway to address this gap. The European Commission is actively engaged in establishing a unified framework. The question at hand relates to the precise scope of the Commission's definition for sustainability or "greenness."

In early May 2023, the definitive consolidated version of the EU Green Bond Standard Regulation (EU GBS) was released, subsequent to the provisional consensus achieved between the European Parliament and the Council of the European Union on February 28. The EU GBS framework is scheduled to come into force in 2024; however, it is important to note that compliance with this regulation is not obligatory. The average weighted maturity of green bonds in the European market currently exceeds 8 years.

Chart 11: Amount and weighted maturities of green bonds issued per year



Source : EPRA Research.

While sustainable bonds command a higher interest rate (as green projects tend to be more expensive), it remains uncertain whether certain investors would effectively require higher returns as a result. It is plausible that due to the environmentally conscious nature of the green bonds, investors might be more willing to accept a lower return (consequently reducing costs for the real estate firm). The eventual progression of the green bond market depends on the creation of the European framework.

6. Conclusions and recommendations

The GFC presented a different context in relation to monetary policy and its impact on the listed real estate industry. During 2008-2010, numerous European property companies were overleveraged. Presently, the financial metrics of publicly traded real estate companies appear more favourable, particularly when considering critical metrics such as LTV ratios and the proportion of fixed versus floating debt. Both of these parameters have shown positive trends in recent years. However, there are notable disparities among European countries, such as The UK (31%) versus Norway (52%). LTV ratios appear to reflect a conservative stance when assessed against current market valuations.

The listed real estate sector has been well-prepared for rising interest rates. Property companies have decreased leverage and cost of debt in the last decade, managing to reach low interest payments compared to size of debt and increasing the proportion of fixed interest rate payments. Most of companies have implemented plans for managing their debt profile under new market conditions, decreasing their D/E ratio and the short-term labilities as well as increasing the maturity of their debt.

The prevailing consensus among economists is a scenario akin to the Table Mountain model, suggesting a sustained period of relatively high interest rates before gradually going down over the long term. At the same time, looking at the debt maturity for listed property companies, around 34% of the debt issued by properties companies will mature between 2026 and 2028, therefore, most property companies should be able to roll-over bonds at lower interest cost than current levels. This will allow the listed real estate industry to continue to adjust and improve its debt profile.

When taking into account key benchmark metrics like the 5-year swap rate and the 3-month Euribor rate, which currently range between 2.5% and 4%, in conjunction with additional bank margins, the total financial expenditure is projected to average between 5% and 7% in the mid-term (depending on the type of property). While it is true that the expenses related to debt refinancing may surpass the initial borrowing costs incurred by listed real estate companies from previous years, this does not necessarily indicate a catastrophic scenario.

There is growing anxiety within the commercial real estate debt market, as indicated by the ECB and other key market participants. Attention is focused on the net debt funding gap, which totals EUR 93 billion when considering both the commercial and residential sectors in major European countries (depending on the source used for the calculation of this gap).

However, the anticipated net debt funding gap within the top 108 public real estate corporations is distinctly different from the CRE net debt funding gap, particularly, the shortfall is very modest, totalling slightly over EUR 357 million (excluding corporate bonds & other liabilities).

For property companies seeking to reduce debt or foster growth, it is crucial to consider alternative financing paths. As a matter of fact, not all listed property companies have overstretched balance sheets. There is a spectrum of alternative financing options at their disposal, including:

- ***Issuance of Green Bonds*** - companies can raise funds through the issuance of green bonds, which are specifically reserved for environmentally sustainable projects. Moreover, it is worth noting that the issuance of traditional bonds is on the decline, while the market for green bonds is experiencing growth. This shift reflects an increasing emphasis on sustainability (for instance energy-efficient buildings).
- ***Mergers Between Listed Property Companies*** - companies can explore the possibility of merging with other listed property firms by exchanging shares.
- ***Sale of Properties for Reinvestment*** - companies can consider selling underperforming or non-core properties to reinvest in higher yield properties.
- ***Capital Increases*** - raising additional capital through mechanisms such as rights issues or private placements can bolster a company's financial position, enabling it to pursue growth opportunities. Regarding capital increases, it is important to acknowledge that they often have a dilutive effect on existing shareholders, primarily because new shares are typically issued at prices well below the net asset values or the cost of previously acquired shares. This impact can be exacerbated through private placements compared to rights issues. The primary objective is to quickly reinvest the proceeds in higher-yielding properties and/or reduce debt.

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