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STREET VIEW

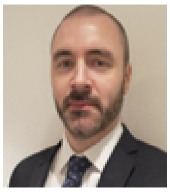
Ramblings on Real Estate

Real Estate Finance - The Return

As a third party Commercial Real Estate servicer, we are lucky enough to not only be on the front line of loan operations but also to see large cross-sections of deals, sponsors, lenders and asset classes. Our role is never more valuable than when there is a downturn in the market and 2020 certainly put us to the test. Our clients relied on us more than ever to protect their positions and to coordinate waivers and amendments with their borrowers. We also became a reliable source for spotting market trends and Mount Street found itself regularly speaking on panels and advising clients what was happening across the market.

The same can be said for the "bounce back" in CRE lending. Whilst some of our clients weathered the storm and continued to lend against all odds, it's fair to say that most were holding back until 2021. At Mount Street, we have been lucky enough to be appointed on a considerable number of both balance sheet and securitised loans so far this year as the market makes up for the lost time.

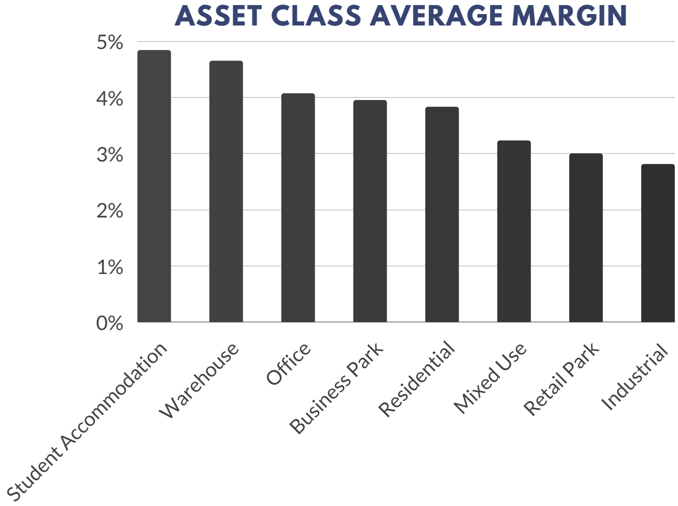
Serenity Morley
Managing Director, Loan Servicing



Matthew Murray
Executive Director, Loan Servicing

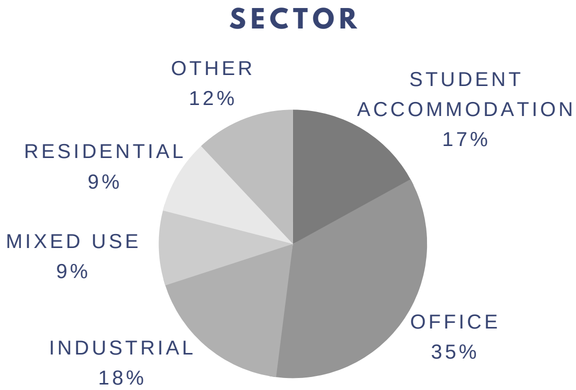
Noticeable Trends

In a busy first quarter, we have seen a plethora of deals but with some noticeable trends. (The following trends are based on the transactions boarded by Mount Street from 1st July 2020 up until 30th April 2021).



Despite the ongoing uncertainty around post-pandemic working arrangements, we've seen Lenders continue to originate deals to the office sector. Just over a third of the new deals (by total commitment) we've been appointed on were secured on offices, tracking a little ahead of the c25% historic exposure we have across our wider book. As expected, larger ticket deals with long term income have been typical and we've seen an average LTV of 62% with a margin of just over 4.0%. Whether home working does indeed become the norm or turns out to be a more temporary arrangement, we believe well located, functional and flexible office space will continue to be a critical part of the business mix for the foreseeable future.

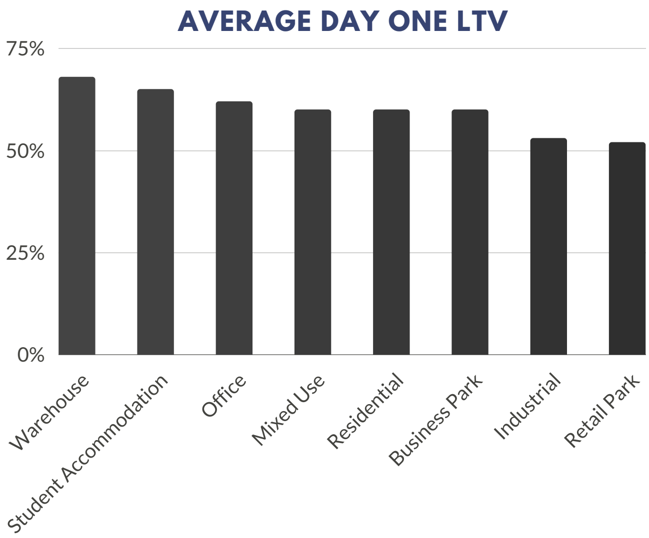
It's well documented that "Beds and Sheds" are the flavour of the month and indeed 22% of our new deals were secured on Logistics or Warehouse space assets. The market may view logistics deals as the safest bet, but margins reflect this with the average deal attracting sub 3% coupon.



Student accommodation continues to feature highly despite the obvious challenges around occupation with 17% of new deals being secured on PBSA, often with additional development or refurbishment facilities included.

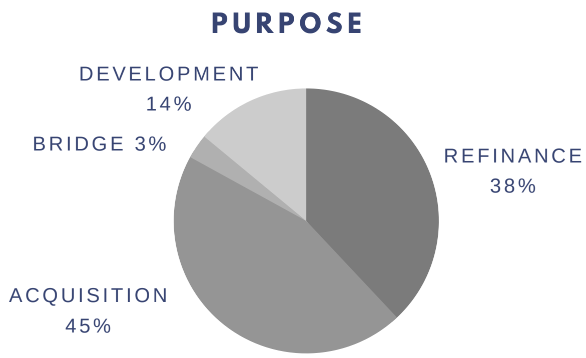
Residential, mixed-use and business park deals round out the remainder of the deals on which we've been appointed. We're hardly breaking news that the Retail space continues to struggle, but we have seen some deals in the pipeline for out of town retail parks, usually anchored by Supermarkets and other big-box retailers that have performed relatively well in the crisis and are trading at attractive yields.

Borrowers will be pleased that LTV covenants have benefited from the gradual ease of lockdown with average LTV increasing from around 60% in October last year to a more pre-pandemic level of 64%of April 2021. However, Borrowers may not be quite as enamoured by the introduction of increased Interest and Capex reserve requirements that we've seen on just over a quarter of our recent portfolio.



Pre-Covid, our European book was split broadly 50% UK / 50% Western Europe but it's fair to say we've seen a shift towards the UK side of the market this year with Lenders expressing more confidence in the success of the vaccine rollout programmes. Of the transactions we've been appointed on in the period, approximately 60% (by Facility) have been secured on the UK only assets.

Development financing for both ground-up and refurb projects is an area we continue to see growth in. Lenders are continuing to support well-located projects and whilst Residential and Logistics have been leading the way, we've seen new PBSA projects in both the UK and Europe, and some regional office plays. From our conversations with Lenders and Sponsors, we expect to see further growth in the construction space as the economy recovers and Mount Street is well placed to support Lenders on both the loan and asset monitoring aspects of development finance. As Agent, we're appointed on almost 70 Development deals across over £6.0bn of commitments in the UK and Europe and our Asset Diligence team provides Due Diligence, Project Monitoring, Draw Monitor and Costs Assessment services across numerous assets in all sectors.



Overall 45% of transactions represented acquisitions, 38% refinance, 14% development and 3% bridging facilities. The average loan term (including extension options) was 4.2 years.

LIBOR Replacement

We are continuing to board SONIA loans as we understand them, can account for them in our systems and have seen multiple deals closing at the new benchmark rate. With the help of LMA guidance, we've seen a broad consensus in how the calculation itself will be done (5-day lookback without observational shift) and typical credit adjustment spreads to be applied. We're also helping our Clients manage the transition process for both balance sheet and CMBS loans and expect activity to pick up materially as we enter the summer months, ahead of the cessation of LIBOR publication at the end of 2021.

Environmental, Social and Governance

Another interesting trend we've seen this year is the emergence of ESG considerations in new lending with increased reporting requirements and even deals that have linked margin directly to ESG goals. Whilst not currently widespread amongst the new deals we've boarded, from our conversations with Lenders we expect to see these requirements becoming more common throughout 2021 and beyond. At Mount Street, we're able to integrate ESG and other bespoke requirements into CreditHub, our in-house loan servicing system. Lenders can see progress to targets via regular reports or by logging in to their portal for real-time updates from our Asset Managers.

Thoughts for the future

Our overall view at Mount Street is that the positive trends we've seen so far in 2021 will continue into H2. We expect an increase in activity to reflect the underlying re-opening of the economy, removal of restrictions, true 'pent-up' demand and the low-interest-rate environment. If the last 15 months have taught us anything though it's to expect the unexpected and the potential re-emergence of Covid or one of its variants, together with a possible inflation spike are key risks as the economic recovery gathers pace. The best way for us to support our clients to mitigate these and other risks is to ensure they receive best-in-class reporting including a full "look through" to the performance of the underlying asset.