Real Estate Digest

Sept. 23, 2024

S&P Global Ratings

This report does not constitute a rating action.

The aim of this newsletter is to provide a periodic update of selected commentaries and rating actions from S&P Global Ratings related to real estate. This edition covers the period from Sept. 9, 2024, to 12:00 p.m. BST on Sept. 23, 2024.

If you have comments or feedback on this edition, please click here.

Analytical Contact

Osman Sattar
London
osman.sattar
@spglobal.com

Research Highlights

Global

Global Covered Bond Insights Q4 2024: On Course For A Strong Year (Sept. 18, 2024)

Practice: Structured Finance

Segment: Commercial Residential

As of September 2024, issuance remains consistent with the first half of the year, with volumes slightly lower than the same period in 2023. Reflecting increased investor appetite for longer maturities, issuers are now targeting tenors of seven years or more to reduce asset-liability mismatch on covered bond programs. Our mid-year outlook on covered bonds highlights why we believe that economic growth and stabilized interest rates are supporting sound collateral performance. Our ratings outlook remains stable for the rest of 2024.

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North America

U.S. Mortgage Revenue Bond Program Medians: Solid Foundations Underpin Strong Credit Quality (Sept. 19, 2024)

Practice: Structured Finance

Segment: Residential

U.S. housing finance agency mortgage revenue bond (MRB) program credit quality remained strong in 2024, with the median rating unchanged at 'AA+'. S&P Global Ratings did not make any rating or outlook changes on MRB programs in the past 12 months, reflecting stability across all 74 ratings. All MRB program rating outlooks are stable, the same as in 2023.

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U.S. Structured Finance Chart Book: September 2024 (Sept. 13, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

This chart book is a roundup of the latest credit developments and underlying performance indicators observed across U.S. structured finance sectors, including RMBS and CMBS. 2024 U.S. issuance eclipsed full-year 2023 volume in August despite slower deal flow.

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Non-QM Spotlight On Short-Term Rentals (Sept. 12, 2024)

Practice: Structured Finance

Segment: Residential

Debt service coverage ratio (DSCR) loans are mortgages on investor properties that are underwritten primarily based on the cash flow from the expected rental income. This market segment makes up roughly half (by balance) of the mortgages backing the non-qualified mortgage (non-QM) securitizations rated by us between July 2022 and July 2024. DSCR loans have traditionally been associated with long-term (12-month) leases. However, the growing prevalence of Airbnb-style investments has led to increased origination and securitization of short-term rental (STR) DSCR loans, which we also see in non-QM pools, though they make up a relatively small portion (less than 10%).

STR DSCR loans have distinct characteristics that differentiate them from typical long-term rental (LTR) DSCR loans. This article examines the differences between LTR and STR loans. All analyses therein are based on transactions rated by S&P Global Ratings.

Click here to access the report »

Real Estate Monitor: Rate Cuts Could Spur Sector Recovery (Sept. 11, 2024)

Practice: Corporates

Segment: Commercial, Residential

Pending interest rate cuts from the U.S. Federal Reserve are historically positive for real estate. We expect they will drive more transactions and price discovery.

The positive forecast relates to the sector's capital intensity. The 10-year treasury yield is already trending below 4% as inflation cools and in anticipation of rate cuts, improving access to capital.

Commercial real estate (CRE) remains under pressure due to cooling economic growth and consumer spending. Rent growth has generally slowed and occupancy ticked lower. Rated equity REITs reported resilient operating performance across most property types in the second quarter. Still, we maintain a negative rating bias for the sector; about 25% of ratings have negative outlooks. CRE finance companies' loan portfolios will remain under pressure given growing underperforming loans. For CRE services issuers, sales and leasing transactions may be at an inflection point while recurring property and facilities management business remain stable.

We still expect homebuilder revenues to increase through higher community counts and closings on average. We expect conditions for homebuilders will continue to normalize. We believe this will decline with anticipated interest rate cuts, which should renew the supply of resale homes in the market. Demand in the building materials sector will remain weak because of lower lumber prices and soft demand in certain commercial sectors such as office. However, price stability and some commodity deflations have helped mitigate some of the impact.

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Latin America

Brazilian Mid-To-High-Tier Homebuilders Find Their Footing After Sluggish Post-Pandemic Recovery (Sept. 18, 2024)

Practice: Corporates

Segment: Residential

We expect that Brazilian mid-to-high-tier developers' margins are likely to rebound in the coming years but at a slower pace. Despite slower growth in housing starts, the companies are likely to reduce leverage through cash generation, improving their financial metrics in 2024 and 2025.

High interest rates have reduced the savings deposits, the primary funding source of mortgages, leading banks to diversify their funding through residential credit letters (LCIs) and securitizations. Changes in Brazil's federal housing program Minha Casa, Minha Vida have been boosting housing starts and homebuilders' sales since 2023, attracting higher-tier developers. In order to sustain the higher pace of project launches, homebuilders might need to allocate a larger portion of their operating cash toward land spending.

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Europe, Middle East, Africa

Bulletin: Alstria's Loss Of REIT Status May Further Weaken Credit Ratios Despite Limited Cash Impact (Sept. 20, 2024)

Practice: Corporates

Segment: Commercial

Alstria Office REIT-AG (Alstria)'s impending loss of its status as a real estate investment trust (REIT), announced Sept. 18, could further weaken Alstria's credits metrics. In particular, we anticipate a weaker debt-to-debt-plus-equity ratio, although this depends on mitigating measures Alstria may take, as well as majority shareholder Brookfield Corp.'s support and decisions on upstreaming dividends.

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Bulletin: CTP's Equity Raise Provides Financial Flexibility To Pursue Its Growth Plans (Sept. 18, 2024)

Practice: Corporates

Segment: Commercial

CTP N.V.'s recently completed €300 million equity increase provides financial flexibility and creates headroom under our current rating thresholds, thus enabling CTP to fund its plans to grow through additional development projects and opportunistic acquisitions. Europe-based logistics real estate player CTP N.V. (BBB-/Stable/--) continues to expand its portfolio toward 20 million square meters (sqm), its target for 2030, from 12.4 sqm as of end-June 2024. In our view, the equity raise will give it the financial flexibility to advance these plans. The transaction will also mean an immediate improvement in CTP's credit metrics, but we don't expect a material deviation from our recently published base case (see "CTP N.V.," published on Sept. 13, 2024) over the next 24 months. This is because we understand that CTP will deploy the capital over the next 12-24 months to make opportunistic acquisitions and undertake additional development projects.

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French Covered Bond Market Insights 2024 (Sept. 18, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

As of 2024, France remains the largest market for covered bond issuance, with local banks increasingly depending on covered bonds as a funding source. Improved affordability is contributing to the recovery of new home loan origination. The downgrade of France reduced the number of unused notches in some of our rated programs.

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Bulletin: PNC Investments LLC’s Sukuk Add-On Is Neutral To Its Credit Position (Sept. 17, 2024)

Practice: Corporates

PNC Investments LLC's $230 million tap to its outstanding $270 million sukuk--due July 2028 and issued via Sobha Sukuk Ltd.--will not significantly affect its credit ratios. PNC Investment LLC (PNCI, BB/Stable/--) plans to use the net proceeds from the issuance for general corporate purposes, including for pre-payment of some loans and land acquisition. At the end of June 2024, the company's capital structure comprised UAE dirham (AED)1 billion of unsecured sukuk maturing in July 2028 (that will be upsized to AED1.8 billion after the tap issuance), a shareholder loan of AED1 billion, and other bank debt of AED247 million. This compares with about AED2.4 billion in cash at the end of the first-half 2024, of which about AED1.5 billion was in an escrow account.

Click here to access the report »

EMEA Structured Finance Chart Book: September 2024 (Sept. 13, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

This chart book is a roundup of the latest credit developments and underlying performance indicators observed across EMEA structured finance sectors, including RMBS and CMBS. Year-to-date EMEA securitization issuance is running at a multiyear high of €92 billion, thanks to strong U.K. RMBS and CLO activity.

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Highlights From S&P Global Ratings' European Structured Finance Conference 2024 (Sept 9, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

S&P Global Ratings' European Structured Finance Conference in London on Sept. 5, 2024, attracted a record number of more than 420 attendees, a 40% increase compared with 2023. The prevailing sentiment at the event was one of optimism, fueled by solid issuance growth and resilience in the face of performance pressures.

The structured finance market is seeing strong issuance growth, led by collateralized loan obligations (CLOs) and U.K. residential mortgage-backed securities (RMBS). Credit performance across sectors remains largely unperturbed by higher rates and rising corporate defaults. Pockets of weakness include commercial mortgage-backed securities (CMBS), though there are signs of stabilization.

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Asia-Pacific

Credit FAQ: Can Operators Navigate Pitfalls In Asia-Pacific's Data Center Boom? (Sept. 17, 2024)

Practice: Corporates

Segment: Commercial

Asia-Pacific data centers are swinging into investors' view. We estimate more than US$100 billion will be invested in such facilities in the region over the next five years. The spending will capitalize on strong data growth and the rise in AI, cloud computing and digitalization. Rated telecom companies in the region are also increasingly investing in, and operating, data centers. They will be the growth engine for many telecoms and real estate companies.

According to estimates from S&P Global Market Intelligence 451 Research, data center capacity in Asia-Pacific will likely grow 17% annually (compounded) through to 2029. Through this data center boom, operators will need to manage operating risks, cost volatility, obsolescence, resource constraints and evolving regulations.

Investors are asking us about the risks of investing in this relatively new asset class. In this report, we consider some of these queries from a corporate rating perspective.

Click here to access the report »

RMBS Arrears Statistics: Australia (Sept. 11, 2024)

Practice: Structured Finance

Segment: Residential

Arrears declined in July for Australian prime home loans and rose for nonconforming home loans. The Standard & Poor's Performance Index (SPIN) for Australian prime mortgage loans excluding noncapital market issuance declined to 0.94% in July from 0.95% in June. This reflects strong new issuance activity, which is diluting the SPIN in percentage terms. When measured in dollar terms, the amount of prime RMBS loans in arrears increased during the month. Nonconforming RMBS arrears rose to 4.19% from 4.04% in June.

"RMBS Arrears Statistics: Australia" provides a comprehensive analysis of arrears statistics on loans underlying Australian RMBS. The latest report which is in two parts.

Click here to access the reports »

Selected Rating Actions

Non-Financial Corporations

- Brandywine Realty Trust Outlook Revised To Stable From Negative, Ratings Affirmed On Steady Operating Performance, Sept. 20, 2024
- Vornado Realty Trust 'BB+' Rating Affirmed As Solid Leasing Is Offset By Elevated Leverage; Outlook Negative, Sept. 17, 2024
- SL Green Realty Corp. Rating Lowered To 'BB' On Sustained Elevated Leverage; Outlook Negative, Sept. 16, 2024

- Brixmor Property Group Inc. Ratings Affirmed On Continued Solid Operating Performance; Outlook Stable, Sept. 12, 2024
- Kimco Realty Corp. Outlook Revised To Positive On Greater Scale, Solid Operating Performance; Ratings Affirmed, Sept. 11, 2024

Financial Institutions

- Saudi Real Estate Refinance Co. Outlook Revised To Positive After Similar Action On Sovereign; 'A-' Rating Affirmed, Sept. 18, 2024

Structured Finance – CMBS

- Ratings Lowered On 11 Classes From Natixis Commercial Mortgage Securities Trust 2017-75B And Three Affirmed, Sept. 19, 2024
- Six Ratings On GS Mortgage Securities Corp. Trust 2018-TWR Lowered,
- Ratings Lowered On Five Classes From GSCG Trust 2019-600C, Sept. 18, 2024
- Two BANK 2018-BNK13 Ratings Lowered And Six Affirmed, Sept. 16, 2024
- Two Ratings Lowered And Five Affirmed From JPMDB Commercial Mortgage Securities Trust 2019-COR6, Sept. 12, 2024
- Ratings Lowered On Five Classes From Natixis Commercial Mortgage Securities Trust 2018-OSS, Sept. 12, 2024
- Three Ratings On 5 Bryant Park 2018-5BP Mortgage Trust Lowered And Three Affirmed, Sept. 12, 2024
- Ratings Lowered On Four Classes From Four U.S. CMBS Transactions Due To Interest Shortfalls; One IO Class Rating Lowered, Sept. 10, 2024

Structured Finance – RMBS

- Various Rating Actions Taken On Shamrock Residential 2022-2 DAC Irish RMBS Notes, Sept. 23, 2024
- Various Rating Actions Taken On 16 Classes From Two RESIMAC Bastille Trust RMBS Transactions, Sept 23, 2024
- Ratings Raised On 15 Classes Of Australian RMBS; 151 Affirmed; 90 Removed From UCO, Sept. 23, 2024
- Tamar Trust Repo Series No.1 RMBS Class A Rating Affirmed After Additional Note Issuance And Removed From UCO, Sept. 19, 2024
- PUMA Series 2019-1 Class A-R Notes Assigned Rating, One Rating Withdrawn, Sept. 17, 2024
- Ratings Raised On Two Classes Of Australian Prime RMBS; 34 Affirmed; 20 Ratings Removed From UCO, Sept. 17, 2024

- Various Rating Actions Taken On 53 Classes From Nine U.S. RMBS Transactions, Sept. 16, 2024
- Series 2023-1 Harvey Trust RMBS Assigned Ratings; One Note Class Affirmed; Five Ratings Withdrawn, Sept. 16, 2024
- Ratings On 23 Classes Of New Zealand RMBS Affirmed; 16 Removed From UCO, Sept. 13, 2024
- Ludgate Funding PLC Series 2008-W1 U.K. RMBS Ratings Affirmed Following Review, Sept. 12, 2024
- Ratings Raised On 37 Classes Of Australian Nonconforming And Prime RMBS; 59 Affirmed; 60 Removed From UCO, Sept. 12, 2024
- Ratings Raised On 17 Classes Of Australian Prime RMBS; 26 Affirmed; 26 Removed From UCO, Sept. 12, 2024
- Various Rating Actions Taken On 57 Classes From 13 U.S. RMBS Transactions, Sept. 11, 2024
- Cheshire 2021-1 PLC Class B-Dfrd To Class E-Dfrd RMBS Ratings Lowered; Class A And Class F-Dfrd Ratings Affirmed, Sept. 9, 2024

Public Finance

- German Public Housing Provider degewo AG 'A+' Rating Affirmed; Outlook Positive, Sept. 19, 2024
- The Housing Finance Corp. Ltd. Upgraded To 'A+'; Outlook Stable; Off UCO On Implementation Of Revised PSFA Criteria, Sept. 19, 2024
- U.K.-Based Social Housing Provider Notting Hill Genesis Outlook Revised To Negative; 'A-' Rating Affirmed, Sept. 13, 2024

Covered Bonds

- Transaction Update: Danske Bank A/S (Cover Pool D Mortgage Covered Bonds), Sept. 20, 2024
- Transaction Update: Nordea Kredit Realkredit A/S (Capital Center 1 Mortgage Covered Bonds), Sept. 16, 2024
- Transaction Update: Sparbanken Skane (Mortgage Covered Bond Program), Sept. 16, 2024

Upcoming Events

- U.S. Public Finance Housing Hot Topics Event, Nov. 19, 2024

Webinar Replays

- Asia-Pacific Quarter 3 2024 Banking Update: A Choppier Ride For The Rest Of The Year, Aug. 21, 2024
- U.S. Banking Update, Aug. 20, 2024
- Australian Property Spotlight 2024, July 30, 2024
- S&P Global Ratings' Analytical Approaches To Data Center Ratings, Aug. 1, 2024
- Q3 2024 European Structured Finance Insights: Basel 3.1, Data Center Securitizations, And IO Risk In RMBS, July 17, 2024
- Australian Property Spotlight Seminar 2024, July 24, 2024

Previous Edition Of Real Estate Digest

- Real Estate Digest, Sept. 9, 2024