Real Estate Digest

Feb. 12, 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 Jan. 29, 2024, to Feb. 11, 2024.

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

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Research Highlights

North America

Bulletin: CBRE Group Inc.'s Acquisition Of J&J Worldwide Services Raises Leverage Modestly, Expands Facilities Management Business (Feb. 5, 2024)

Practice: Financial Institutions

Segment: Commercial

CBRE Group Inc.'s (CBRE) announced acquisition of J&J Worldwide Services (J&J) will increase its size and scale in facilities management and raise leverage modestly. CBRE (BBB+/Stable/--) announced a definitive agreement to acquire J&J--a provider of engineering services, base support operations, and facilities maintenance for the U.S. federal government--for approximately $800 million in cash and a potential earn-out of up to $250 million. The acquisition will be financed with CBRE's cash and revolver capacity. CBRE expects the transaction to be completed in the coming months, subject to regulatory approvals.

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North And Latin American REITs And Real Estate Operating Companies Ranking--Strongest To Weakest (Feb. 5, 2024)

Practice: Corporates

Segment: Commercial, Residential

We have released our issuer ranking list of all the North and Latin American real estate investment trust companies that we rate. We rank the companies by rating, outlook, stand-alone credit profile, business and financial risk profile.

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U.S. CMBS Overall Delinquency Rate Rose 21 Bps To 4.3% In January 2024; Office Saw The Highest Increase (Jan. 31, 2024)

Practice: Structured Finance

Segment: Commercial

The U.S. CMBS overall delinquency rate increased by 21 basis points month over month to 4.3% in January. Seriously (60-plus-days) and 120-plus-days delinquent loans represented 86.9% and 16.3% of all delinquent loans, respectively. Special servicing rates increased for retail, office, and industrial loans, and decreased for lodging and multifamily loans.By balance, delinquency rates increased for office, multifamily, retail, and lodging loans, and decreased for industrial loans.

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Europe, Middle East, Africa

Bulletin: URW's Cash Distribution Is Rating Neutral Thanks To A Strong Operating Performance And Deleveraging Plan (Feb. 8, 2024)

Practice: Corporates

Segment: Commercial

Global real estate investment company Unibail-Rodamco-Westfield SE's (URW's) cash distribution payment to shareholders is neutral for its credit quality thanks to its strong operating performance and deleveraging plan. URW posted a solid operating performance in 2023, including strong tenant sales and leasing activity across regions. The vacancy rate improved back to 2019 levels, dropping to 5.4% at the end of 2023 from 6.5% at the end of 2022. In this context, reported net rental income was up 6.1% on a like-for-like basis, driven by high indexation and leasing activity, with shopping center income in particular up 8.0%.

Shopping center asset devaluation came in at -4.0% for 2023. This included -4.2% for continental Europe, which accounts for 73% of the gross market value (GMV), -4.7% for the U.S. (20% of the GMV), and +0.6% for the U.K. (7% of the GMV). This is slightly better than our valuation assumptions for 2023. While we anticipate some potential further corrections, at least in the first half of 2024, we believe that valuations should stabilize in late 2024 as interest rates have peaked.

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A Primer On Spain's RMBS Market (Feb. 6, 2024)

Practice: Structured Finance

Segment: Residential

Spanish housing and mortgage markets are robust and have strong fundamentals. Spain boasts some of the highest home ownership levels in Europe. Almost all mortgages are fully amortizing, with most recently originated mortgages paying a fixed-rate for life rather than a variable rate. Outstanding issuance totaled €84 billion as of the end of Q3 2023, and only 20% was investor-placed. Total delinquencies stood at 6.51% in the overall rated portfolio versus 1.3% in prime rated transactions.

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Unraveling Irish Reperforming RMBS Uncertainty (Jan. 30, 2024)

Practice: Structured Finance

Segment: Residential

Increasing arrears in Irish reperforming loan (RPL) RMBS transactions show no sign of slowing down, meaning there could be more pain for borrowers to come. Variable-rate mortgages continue to feel the brunt of rate rises leading to increasing payments. As a result, prepayments are increasing by borrowers capable of doing so. Nevertheless, our outstanding ratings in this sector have remained resilient to deteriorating arrears performance over the past 18 months, with nine transactions reviewed of which our ratings on 61 tranches all remained unchanged. In our view, this is due to several factors: Rising house prices partially offsetting the credit deterioration from arrears, sequential payment structures, which increased credit enhancement particularly for senior notes, and protection to notes currently provided by reserve funds. Furthermore, because we incorporated an expectation of higher arrears in our analysis at closing for these transactions which has been observed, we reduce the stress applied. Higher arrears over the next 12 to 18 months for these transactions may lead to pressure on ratings, in particular on the junior notes which are first to bear losses. In this report, we take a closer look at factors underpinning the Irish RPL RMBS market's dynamics amidst prevailing uncertainty.

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European Annual CMBS Monitor 2023 (Jan. 29, 2024)

Practice: Structured Finance

Segment: Commercial

This publication summarizes European CMBS rating trends over 2023, based on our reviews of transactions that we rate and analysis of newly rated transactions. Our report includes a downloadable data set covering surveillance actions, new ratings, rating transitions, and a list of our recent publications.

Click here to access the report »

European CMBS Monitor Q4 2023 (Jan. 29, 2024)

Practice: Structured Finance

Segment: Commercial

Our monitor report provides data for the CMBS transactions that we rate, including maturities, delinquencies, and specially serviced loans, as well as rating and note-level matters. All information is as of Dec. 31, 2023, unless stated otherwise.

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Asia-Pacific

China Securitization Performance Watch 4Q 2023: Slow Issuance Should Linger; Asset Performance Remains Stable (Feb. 8, 2024)

Practice: Structured Finance

Segment: Residential

China's securitization issuance saw another year of declining volume amid a weak property market and slow auto sales. New securitization issuance decreased by 7% to Chinese renminbi (RMB) 1.9 trillion (US$264 billion) in 2023, and it will likely remain flat in 2024. We believe delinquency trends are gradually stabilizing. The delinquency ratios in residential mortgage-backed securities

(RMBS) have dropped following a one-off spike, and auto loan asset-backed securities (ABS) have also seen a decline in severe delinquency ratios. In 2024, we believe our ratings on auto ABS and RMBS transactions will remain stable, based upon our projections for China's economy.

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Asia-Pacific Financial Institutions Monitor 1Q 2024: Property Exposures Will Chart The Course (Feb. 7, 2024)

Practice: Financial Institutions

Segment: Commercial, Residential

Deepening property-sector malaise is the key downside risk for financial institutions in Asia-Pacific in 2024. We continue to monitor downside risks, particularly property-related ones arising from China and Vietnam. Nonbanks in Korea could also face challenges from real estate project financing. We estimate that banks' credit losses for the region hit US$490 billion last year and will increase by 7% in 2024. If underlying real estate markets weaken beyond our base case, then property-related nonperforming loans would likely be higher than our estimates, and lead to higher credit losses.

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Bulletin: Shinhan Financial Group Can Withstand Asset Quality Strain (Feb. 8, 2024)

Practice: Financial Institutions

Segment: Commercial, Residential

Shinhan Financial Group Co. Ltd. (SFG) will likely navigate headwinds over the next one to two years thanks to its adequate underwriting and risk management. Preliminary results for 2023 announced today highlight the Korea-based group's efforts to strengthen its loss-absorption buffer amid a sluggish property market and elevated domestic interest rates.

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Bulletin: DGB Financial Group's Weak Nonbanks Weigh On Its Asset Quality (Feb. 7, 2024)

Practice: Financial Institutions

Segment: Commercial, Residential

GB Financial Group's nonbank subsidiaries are vulnerable to the current weakness in Korea's property market. Elevated domestic interest rates make things worse for them. These entities, Hi Investment & Securities Co. Ltd. (unrated) and DGB Capital Co. Ltd. (unrated), have a sizable exposure to real-estate project financing relative to their size. Hi Investment & Securities' real estate project financing exposures including guarantees were about 70% of its shareholders' equity at end-2023. This ratio is significantly higher than the domestic industry average of about 33%, based on our estimate. Commercial projects at an early stage of development are at particular risk.

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Bulletin: Busan Bank's Profitability Could Face Property Market Headwinds (Feb. 6, 2024)

Practice: Financial Institutions

Segment: Commercial, Residential

A sluggish property market in Korea and elevated domestic interest rates will likely continue to weigh on Busan Bank and its parent group. The bank's moderately high exposure to construction companies and real estate project financing will add to its asset quality burden. At the group level, the weak financial performance of nonbank subsidiaries such as BNK Capital Co. Ltd. (unrated) and BNK

Securities Co. Ltd. (unrated) could also weigh on the overall asset quality. This is despite these entities' moderate presence within BNK Financial Group, accounting for about 10% of the group's total assets as of end-2023. We believe these nonbanks are highly exposed to real estate projects that are at early stages of development; we deem such exposure as risky.

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China's Distressed AMCs: Government Support Will Be There (Feb. 2, 2024)

Practice: Financial Institutions

Segment: Commercial, Residential

China's "big four" distressed asset management companies (AMCs) are in a tough position. China Cinda Asset Management Co. Ltd. (BBB+/Stable/A-2), China Orient Asset Management Co. Ltd. (BBB/Stable/A-2), China Citic Financial Asset Management Co. Ltd. (formerly China Huarong AMC, BBB-/Stable/A-3) and China Great Wall Asset Management Co. Ltd. have been asked to strengthen their support to distressed sectors at a time when their capital bases are eroding. That means their credit quality increasingly hinges on government support. S&P Global Ratings' view is that government support will stay very high, given these national AMCs continue to play an important role in resolving financial system risks.

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Credit FAQ: China Rules Easing Gives Developers A Shot Of Liquidity (Feb. 1, 2024)

Practice: Corporates

Segment: Commercial

Select Chinese developers are getting a shot of liquidity. In late January, China's central bank and the National Financial Regulatory Administration relaxed its rules on how the companies can use proceeds from commercial-property loans. S&P Global Ratings believes the easing will help developers manage capital and repay debt. The eligible developers will be able to put the borrowed funds to an array of uses, including settling maturing bonds. This policy loosening is favorable, and it's just the latest in a series. We believe the latest action signals Beijing's intention to ease its rules governing property firms, including private ones, with an eye on restoring liquidity to these entities. Further relaxation could follow if such policies are not effective. We address key investor questions on the implications of this guideline, its impact on the sector, and how it might help rated entities.

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Japan's 2023 Securitization Market: RMBS Issuance Down 15% (Feb. 1, 2024)

Practice: Structured Finance

Segment: Residential

Japanese securitization issuance is down for a second straight year. Issuance totaled about ¥5.7 trillion in 2023, down about 5% and driven by a 15% reduction in RMBS issuance, despite 7% growth for ABS; we expect slightly less issuance in 2024.During surveillance of Japanese securitization transactions we rate, we did not raise or lower any ratings in 2023. In the J-REIT market, volume and the number of bond issuances remained substantially below those of the past few years; rent and occupancy rates in office properties will likely remain under pressure in 2024.

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Evergrande Liquidation To Amplify Subordination Risk On China Property Bonds (Jan. 31, 2024)

Practice: Corporates

Segment: Residential

The second shoe has finally dropped for China Evergrande Group. The Hong Kong court has ordered the giant developer to enter into liquidation, after lengthy restructuring talks yielded little. S&P Global Ratings expects the winding-up will highlight the arduous task of liquidation of a large corporate, and reset expectations about recovery rates on defaulted Chinese speculative-grade bonds in the offshore market. The liquidation is a milestone for China's biggest corporate defaulter, with US$337 billion in liabilities. But much of this story is yet to be told. The bulk of the issuer's assets and liabilities are in mainland China, outside of the purview of the Hong Kong court.

We assume offshore bondholders will get a few cents on the dollar once the liquidation plays out. Moreover, they will likely yet have to wait years even for this thin payout. We find that in-court cash recovery rates average 2.8% in offshore default cases involving Chinese developers. The recovery rate on onshore defaults for the same issuer type is 8.3%. We fully expect a similar gap in recovery rates to play out in the Evergrande liquidation.

We still believe mainland China's property market is charting an extended L-shape recovery, and that national sales will drop again in 2024, by 5%. Evergrande has been in default for more than two years. We don't believe its liquidation will have much more negative impact. Homebuyers, however, will turn to financially sound developers for new homes, further exacerbating the divergence among the developers. That assumes, of course, that Evergrande's onshore operating entities continue to work on completing the hundreds of thousands of presold homes. If the winding-down of the parent somehow derails that initiative, the domestic property market may be set for much more pain.

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Bulletin: Hana Securities Drags The Parent Group's Profits (Jan. 31, 2024)

Practice: Financial Institutions

Segment: Commercial

Sizable exposure to commercial real estate will likely weigh on the financial performance of Hana Securities Co. Ltd. over the next 18-24 months. Based on preliminary results announced on Jan. 31, 2024, the securities firm reported a net loss of Korean won (KRW) 271 billion mainly due to material provisions and impairment losses related to the exposure, which built up rapidly in the past several years. Nonetheless, we believe Hana Securities (A-/Stable/A-2) will remain critical to its parent, Hana Financial Group (unrated), for greater diversity in its nonbanking operations. As a core subsidiary, the securities firm will likely receive strong support from the group, if needed, for at least the next two years. A series of capital injections into the subsidiary, totaling KRW 2.7 trillion between 2018 and 2022, indicate the group's commitment.

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Rated Singapore REITs Will Stay Resilient In 2024 (Jan. 26, 2024)

Practice: Corporates

Segment: Commercial

Leasing conditions for Singapore REITs will split along office and retail lines in 2024. The retail sector will benefit from the modest pick-up in real GDP growth and an ongoing tourism recovery. In the office sector, high supply will keep a lid on demand, but rated landlords will be more protected from supply imbalances. We expect all rated Singapore REITs to maintain their leverage profiles.

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Selected Rating Actions

Non-Financial Corporations

- Agree Realty Corp. Outlook Revised To Positive On Sound Operating Performance; Ratings Affirmed, Feb. 9, 2024
- Park Hotels & Resorts Inc. Upgraded To 'BB-' On Reduced Leverage, Improving International Travel; Outlook Stable, Feb. 8, 2024
- Office Properties Income Trust Downgraded To 'CCC' On Near-Term Refinancing Risk, Outlook Negative, Feb. 6, 2024
- Research Update: doValue SpA Rating 'BB' Rating Affirmed Despite Weaker Performance And Prospects; Outlook Stable, Feb. 1, 2024
- SL Green Realty Corp. Outlook Revised To Negative On Elevated Leverage Metrics; 'BB+' Ratings Affirmed, Jan. 30, 2024
- STL Holding Co. LLC Upgraded To 'B+' From 'B' On Consistent And Solid Credit Metrics, Outlook Stable; Notes Rated 'BB-', Jan 29, 2024

International Public Finance

- Grand Delta Habitat Outlook Revised To Positive On Improving Operational Performance Since Merger; Affirmed At 'A/A-1', Jan. 29, 2024

Structured Finance – CMBS

- Three CLNY Trust 2019-IKPR Ratings Lowered And One Affirmed, Feb. 9, 2024
- Three CORE 2019-CORE Mortgage Trust Ratings Affirmed, Feb. 8, 2024
- BWAY 2013-1515 Ratings Affirmed On 10 Classes, Feb. 8, 2024
- CWCapital Asset Management LLC STRONG Ranking Affirmed; Ranking Outlook Stable, Feb. 7, 2024
- One Morgan Stanley Capital I Trust 2021-230P Rating Lowered And Four Affirmed, Feb. 1, 2024
- Two BSST 2021-1818 Mortgage Trust Ratings Lowered And Two Affirmed, Feb.1, 2024
- CBRE Loan Services Ltd. Commercial Mortgage Loan Rankings Affirmed; Ranking Outlooks Stable, Jan. 30, 2024
- Three CSWF 2021-SOP2 Ratings Lowered And Three Affirmed, Jan. 29, 2024
- Five BFLD Trust 2020-EYP Ratings Lowered, Jan. 29, 2024

Structured Finance – RMBS

- Ratings Lowered On Seven Classes From Six U.S. RMBS Transactions, Feb. 7, 2024
- Various Rating Actions Taken On 410 Classes From 136 U.S. RMBS Transactions, Feb. 5, 2024
- GS Mortgage-Backed Securities Trust 2021-NQM1 Class B-2 Rating Lowered, Off Watch; Five Affirmed, Feb. 1, 2024
- Various Rating Actions Taken On 10 Classes From One U.S. RMBS Re-REMIC Transaction, Jan. 31, 2024
- BPCE Master Home Loans FCT Class A-2024-01 Through A-2024-03 French RMBS Notes Assigned Ratings; Other Ratings Affirmed, Jan. 31, 2024
- Bridgegate Funding PLC Ratings Lowered On Class B To X-Dfrd U.K. RMBS Notes Following Error Correction And Review, Jan. 30, 2024
- Various Rating Actions Taken On 518 Ratings From 13 U.S. RMBS Credit Risk Transfer Transactions, Jan. 30, 2024
- Cheshire 2020-1 PLC Class E-Dfrd and F-Dfrd U.K. Nonconforming RMBS Ratings Lowered; Other Ratings Affirmed, Jan. 29, 2024
- GC Pastor Hipotecario 5 Spanish RMBS Ratings Raised On One Class; Three Classes Affirmed, Jan 29, 2024

Covered Bonds

- Transaction Update: Argenta Spaarbank N.V. (Mortgage Covered Bonds), Feb. 5, 2024
- Transaction Update: Swedbank Mortgage AB Covered Bond Program, Feb. 5, 2024
- Transaction Update: Ibercaja Banco S.A. Mortgage Covered Bonds, Jan. 31, 2024
- Transaction Update: Eiendomskreditt AS (Commercial Mortgage Covered Bonds Program), Jan. 31, 2024

Webinars And Events

Upcoming Events

- CRE Credit Outlook: CMBS, REITs and Banks Update, Feb. 14, 2024

Webinar Replays

- Asia-Pacific Sector Trends 2024, Jan. 30, 2024
- Australia & New Zealand Structured Finance Outlook 2024, Feb. 8, 2024

Previous Edition Of Real Estate Digest

- Real Estate Digest, Jan. 29, 2024