Real Estate Digest

Dec. 16, 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 Dec. 2, 2024, to 10:30 a.m. GMT on Dec. 16, 2024.

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

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Research Highlights

Global

Data Centers: Can Infrastructure Developments Keep Up With The Increasing Demand? (Dec. 4, 2024)

Practice: Corporates

Segment: Commercial

Since the significant speed and extent of data center growth have taken many by surprise, there are only a few plans in place to provide the physical infrastructure that these power-hungry assets require. We expect sectors exposed to data centers will continue to benefit from favorable tailwinds in 2025. After that, pressure could likely increase as bottlenecks materialize.

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Credit FAQ: How We Rate ABS And RMBS Transactions In Non-Established Markets (Dec. 3, 2024)

Practice: Structured Finance

Segment: Residential

This FAQ covers our rating process and highlights some common credit considerations for transactions related to asset-backed securities (ABS) and residential mortgage-backed securities (RMBS) in jurisdictions with no or limited public structured finance transactions.

We generally define a non-established market as a market with no or limited precedent for securitization. Overall, the approach is mostly similar to that for developed ABS/RMBS markets. However, as the markets are not as developed from a securitization perspective, asset performance data, other relevant data, documentation, and legal frameworks are not as standardized, which we need to consider and account for in our analysis.

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North America

2025 U.S. And Canada Structured Finance Outlook (Dec. 13, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

We forecast $110 billion in new commercial mortgage-backed security (CMBS) issuance, up modestly from 2024. Single asset, single borrower transactions should continue to drive issuance volume. We expect collateral performance in 2025 to stabilize and begin to show signs of improvement on the expectation of further interest rate cuts. Still, uncertainty regarding the outlook on long-term rates (10-year Treasuries) given potential changes to fiscal policy may be a wildcard.

We expect national-level home price appreciation to be positive in 2025, supported by declines in the 30-year fixed rate mortgage, lingering supply constraints, and relatively low unemployment rates. Non-agency RMBS issuance will likely increase in 2025 as a forecasted fall in the 30-year fixed rate mortgage spurs purchase and refinance activity. We forecast private-label RMBS issuance of $160 billion for 2025, up from roughly $138 billion in 2024.

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U.S. Office Real Estate Investment Trust (REIT) Portfolio: How Credit Stories Have Evolved (Dec. 11, 2024)

Practice: Corporates

Segment: Commercial

Our outlook for real estate includes elevated interest rates and slower economic growth. Elevated rates in the near term heighten refinancing risk, particularly for struggling property types and properties. Demand for retail, housing, and industrial assets remain resilient. Weak office fundamentals led to multiple downgrades year to date in 2024, and we maintain a negative rating bias for office REITs. Tighter access to capital could pressure liquidity. Expected rate cuts in 2025 could bring more transaction volume and price discovery while improving access to capital.

Click here to access the report »

U.S. CMBS Delinquency Rate Rose 35 Basis Points To 5.6% In November 2024; Office Rate Is Nearing 10.0% (Dec. 10, 2024)

Practice: Structured Finance

Segment: Commercial

This report is our monthly summary update of U.S. CMBS delinquency trends. In it, we provide our observations and analyses of the U.S. private-label CMBS universe, which totaled $652.8 billion as of November 2024 (a net increase of $1.32 billion month over month). The overall U.S. CMBS delinquency (DQ) rate rose 35 basis points (bps) month over month to 5.6% in November and soared 139 bps year over year (a 36.9% increase by DQ balance). By dollar amount, total delinquencies grew to $36.7 billion, representing net month-over-month and year-over-year increases of $2.4 billion and $9.9 billion, respectively.

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A Review Of U.S. CMBS Exposure To U.S. General Services Administration's Office Leases Following Presidential Election (Dec. 9, 2024)

Practice: Corporates

Segment: Commercial

Our outlook for real estate includes elevated interest rates and slower economic growth. Elevated rates in the near term heighten refinancing risk, particularly for struggling property types and properties. Demand for retail, housing, and industrial assets remain resilient. Weak office fundamentals led to multiple downgrades year to date in 2024, and we maintain a negative rating bias for office REITs. Tighter access to capital could pressure liquidity. Expected rate cuts in 2025 could bring more transaction volume and price discovery while improving access to capital.

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Latin America

2023 Annual Mexican Structured Finance Default And Rating Transition Study (Dec. 11, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

The Mexican structured finance national scale ratings default rate remained at 0% for the second consecutive year in 2023. The upgrade rate increased significantly to 13.2% in 2023 from 0.0% in 2022. Meanwhile, the downgrade rate nearly tripled to 7.5% in 2023 from 2.9% in 2022. All four downgrades in 2023 came from the RMBS sector, while the seven upgrades were mixed among the CMBS, RMBS, and ABS sectors.

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Europe, Middle East, Africa

European Structured Finance Outlook 2025: Up In The Air (Dec. 11, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

European securitization issuance looks set to remain high at €135 billion in 2025, given a broadening base of originators and sponsors, a better outlook for most areas of underlying lending, and rising market engagement from bank originators motivated by both funding and risk transfer requirements.

RMBS volumes were up about 60% to €46 billion in 2024, with growth in most subsectors. Volumes should remain strong in 2025. In 2024, European CMBS issuance remained subdued at less than €2 billion, in line with our expectations at the beginning of the year. Our outlook for 2025 assumes that gradually falling interest rates and a bottoming out of commercial real estate prices will lead to a further modest pickup in volumes.

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Covered Bonds Outlook 2025: Lower Rates, Higher Uncertainty (Dec. 6, 2024)

Practice: Structured Finance

Segment: Commercial, Residential

Our covered bonds rating outlook remains stable, underpinned by the ample credit enhancement available to most of the programs that we rate and the presence of unused rating notches, both of which reduce the risk of downgrades. Benchmark European covered bond issuance ebbed slightly in 2024 but remained close to recent highs. The drivers of new supply look slightly weaker in 2025, as scheduled covered bond redemptions remain flat and bank deposits bounce back while lending remains lackluster. We therefore expect Benchmark European covered bond issuance of about €140 billion.

House price corrections and increasing income have returned affordability to 2015 levels. Higher-for-longer mortgage rates are taking their toll on residential mortgage performance, but it remains strong thanks to tight labor markets. Easing interest rates and a return to growth will limit the risk of further deterioration.

High interest rates, e-commerce, and working from home have produced unprecedented levels of stress in European commercial real estate (CRE). Some sectors now face market value declines that exceed those during the global financial crisis. While we believe that overall CRE asset performance will remain weak in 2025, the availability of significant excess credit enhancement remains a key strength.

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Asia-Pacific

Australian Prime Home Loan Arrears Fell In October, Report Says (Dec. 11, 2024)

Practice: Structured Finance

Segment: Residential

Arrears decreased modestly in October for Australian prime and nonconforming home loans. The Standard & Poor's Performance Index (SPIN) for Australian prime mortgage loans excluding noncapital market issuance fell to 0.87% in October from 0.89% in September. Strong new issuance is diluting the SPIN in percentage terms, masking debt serviceability pressures to some extent.

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

Click here to access the reports »

Selected Rating Actions

Non-Financial Corporations

- Link REIT 'A' Ratings Affirmed On Sufficient Financial Buffer Against Softer Hong Kong Retail Sentiment; Outlook Stable, Dec. 16, 2024
- CareTrust REIT Inc. Upgraded To 'BB+' On Increased Scale, Low Leverage; Outlook Stable, Dec. 12, 2024
- Branicks Group AG 'CCC' Ratings Affirmed On Still Tight Liquidity; Outlook Negative, Dec. 12, 2024
- Flamingo II Lux (Emeria) Outlook Revised To Negative On Weaker Cash Flows And High Leverage; 'B-' Rating Affirmed, Dec. 11, 2024
- Willhem AB Outlook Revised To Stable On Stabilizing Credit Metrics; 'A-/A-2' Ratings Affirmed, Dec. 10, 2024
- Arabian Centres Co. (Cenomi) Assigned 'BB-' Rating; Outlook Stable, Dec. 6, 2024
- Retail Property Co. IGD Siiq SpA On CreditWatch Negative On Liquidity Pressure And Shortening Debt Maturity Profile, Dec. 5, 2024
- Adams Homes Inc. Outlook Revised To Negative On Weaker-Than-Expected Earnings, Ratings Affirmed, Dec. 4, 2024
- Planet Financial Group Assigned 'B-' Rating, Outlook Stable; $400 Million Proposed Senior Unsecured Notes Rated 'B-', Dec. 3, 2024

Structured Finance – CMBS

- Four BANK 2019-BNK19 Ratings Lowered And Five Affirmed, Dec. 13, 2024
- Four Ratings Lowered On Morgan Stanley Capital I Trust 2017-ASHF; Three Affirmed, Dec. 13, 2024
- Ratings Lowered On Five Classes From Four U.S. CMBS Transactions Due To Interest Shortfalls; One IO Class Downgraded, Dec. 13, 2024
- FREMF 2024-K167 Mortgage Trust/Freddie Mac SPC Series K-167 Certificates Assigned Ratings, Dec. 12, 2024
- Five WFRBS Commercial Mortgage Trust 2013-C11 Ratings Lowered And One Affirmed, Dec. 11, 2024
- Ratings On Eight BMO 2022-C3 Mortgage Trust Certificates Affirmed, Dec. 9, 2024
- Four CLNY Trust 2019-IKPR Ratings Lowered, Dec. 5, 2024
- Seventeen Citigroup Commercial Mortgage Trust 2017-P8 Ratings Lowered And Four Affirmed, Dec. 4, 2024
- Elizabeth Finance 2018 DAC Class B To E U.K. CMBS Ratings Lowered; Class A Notes Affirmed, Dec. 4, 2024

- Five BFLD Trust 2020-EYP Ratings Lowered, Dec. 3, 2024
- Juturna (European Loan Conduit No. 16) PLC Class A SPUR Corrected To 'A+' from 'AA-'; Class A Rating Affirmed, Dec. 3, 2024

Structured Finance – RMBS

- Various Rating Actions Taken On Five Classes From Five U.S. RMBS Reverse Mortgage Transactions, Dec. 13, 2024
- TS EULE UG (haftungsbeschränkt) Class A German RMBS Rating Affirmed, Dec. 13, 2024
- OBX 2024-NQM18 Trust Notes Assigned Ratings, Dec. 12, 2024
- Sapphire XXXI Series 2024-3 Trust RMBS Assigned Ratings, Dec. 12, 2024
- Shamrock Residential 2024-1 DAC Irish RMBS Notes Assigned Ratings, Dec. 11, 2024
- Various Rating Actions Taken On 100 Classes From 40 U.S. RMBS Transactions, Dec. 10, 2024
- Four Ratings Affirmed From Sixteenth Mortgage-Backed Notes Trust And La Hipotecaria Panamanian Mortgage Trust 2021-1, Dec. 10, 2024
- Crimson Bond Trust 2024-1 Prime RMBS Assigned Ratings, Dec. 8, 2024
- Fastnet Securities 17 DAC Class D-Dfrd And E-Dfrd Irish RMBS Ratings Raised; Other Classes Affirmed, Dec. 6, 2024
- Finance Ireland RMBS No. 5 DAC Class B-Dfrd To E-Dfrd Ratings Raised; Class A Notes Affirmed, Dec. 6, 2024
- Southern Pacific Financing 05-B PLC Class E U.K. Nonconforming RMBS Rating Lowered; Other Ratings Affirmed, Dec. 5, 2024
- MADRID RMBS I And II Ratings Raised On Class C, D, And E Spanish RMBS Notes; Other Classes Affirmed, Dec. 3, 2024

Public Finance

- U.K.-Based Social Housing Provider Aster Group Ltd. 'A' Ratings Affirmed; Outlook Stable, Dec. 12, 2024
- U.K. Public Sector Funding Agency MORhomes PLC 'A-' Rating Affirmed; Outlook Negative, Dec. 6, 2024

Covered Bonds

- Transaction Update: Sp Mortgage Bank PLC CBA Mortgage Covered Bond Program, Dec. 9, 2024
- Transaction Update: Landshypotek Bank AB (Mortgage Covered Bonds), Dec. 3, 2024

Upcoming Events

- U.S. Public Finance 2025 Outlook Series, Jan. 7-23, 2025

Webinar Replays

- U.K. Public Sector Outlook After The Autumn Budget, Nov. 12, 2024
- Housing Affordability in the United States, an Economic and Credit Perspective, Nov. 14, 2024
- North America Non-Bank Financial Institutions Update, Nov. 14, 2024
- Request For Comment: Global Methodology And Assumptions: Assessing Pools Of Residential Loans (U.S.), Oct. 30, 2024
- China Property Watch: Charting A Path To Stabilization, Oct. 24, 2024

Previous Edition Of Real Estate Digest

- Real Estate Digest, Dec. 2, 2024