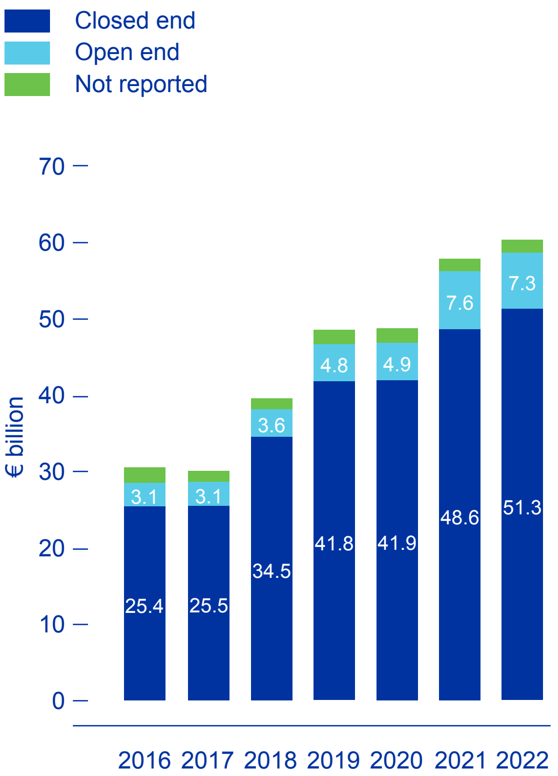
European non-listed debt market keeps growing, led by the UK

- INREV Debt Vehicles Universe grew to €60.3 billion across 98 funds
- Closed end vehicles dominate the European non-listed debt landscape
- Multi country funds tend to be larger in size and account for 70% of the total target equity
- Good spread of planned terminations of 80 vehicles with closed end structure

Figure 1: Market Size: INREV Debt Vehicles Universe



The European non-listed real estate market has evolved significantly in recent years. At the beginning of October 2022, the INREV Debt Vehicles Universe stood at 98 funds, with total target equity of €60.3 billion.

Over the last three years, ten newly launched vehicles were added, with a combined target equity of €6.78 billion or 11.2% of the overall total.

According to the ANREV / INREV / NCREIF Capital Raising Survey, the total capital raised for European debt vehicles reached a record high €12.2 billion in 2021, representing a year-on-year increase of 26.7% (€9.6 billion raised in 2020).

The latest data from the UK, Europe's most developed non-listed real estate debt market, reveals that, at 38%, the H1 2022 non-bank lending surpassed that of banks and building societies for the first time on record[1].

1 Bayes Business School, Commercial Real Estate Lending Report H1 2022

The reporting and regulatory frameworks are pushing traditional lenders away from retrofit at a time when the European real estate market is under enormous pressure to decarbonise. This presents a strategic opportunity for the ESG-focused debt proposition and yet another opening for non-traditional lenders to fill a growing funding gap.

Overall, the majority (85.1%) of the €60.3 billion total target equity in the INREV Debt Vehicles Universe is concentrated in closed end vehicles and 64.3% is focused on a senior debt loan strategy. The number of closed end vehicles grew consistently over the last seven years, from 37 in 2016 to 80 in 2022, with only 16 open end vehicles on record, including one of the 10 recently launched funds.

Senior debt funds make up the largest share of the Universe, with 54 of the 98 vehicles in total and €38.8 billion (64.3%) of the €60.3 billion total target equity.

Further 26 funds follow mixed strategies, accounting for €13.7 billion (22.8%) of the total target equity.

Only a small proportion of the Universe, 18 funds, representing 13.0% of the total target equity, follows a subordinated: junior + mezzanine strategy. This risk profile reflects broader investor appetite, and given the current market circumstances, we expect this preference for less risky strategies to persist in the near future.

Multi country and multi sector vehicles dominate the Universe. The 52 multi country funds tend to be larger in size and account for 70.1% of the total target equity. Their average size is more than double of those with a single country strategy, €840 million and €420 million, respectively.

Only 15 funds in the Universe follow a single sector strategy. These are very small in size, at around €180 million on average. Residential, be it standing assets or development, is the most common single sector strategy, with 12 funds of the 15 single sector vehicles in total.

Combined, mixed loan generation strategies and direct lending dominate with 83 vehicles and €54.3 billion in target equity, representing 84.7% and 90.0% of their respective totals.

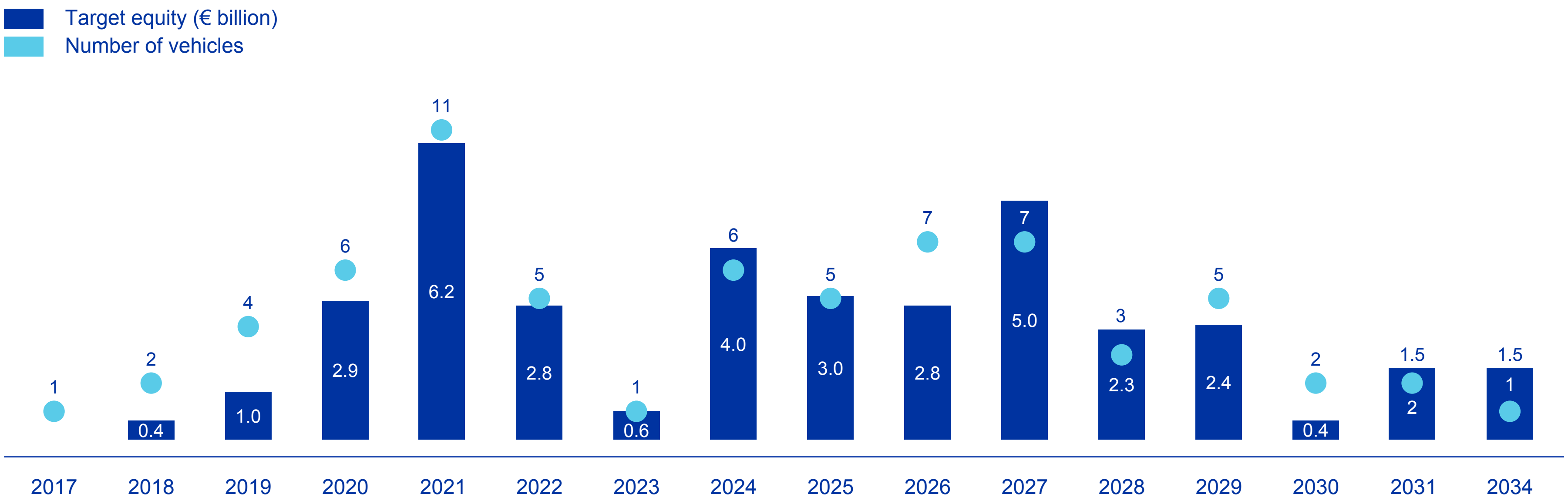
Vehicles with pure loan acquisition strategy are still rare, which is no surprise given the relatively small size of the European non-listed real estate market.

Of 80 vehicles with closed end structure in the INREV Debt Vehicle Universe, 60 reported that they have a provision to extend their termination date. This equates to 78.8% of the target equity of all closed end funds covered.

Good spread of planned terminations and the extent to which provisions for extension are in place give a lot of comfort as these can be enabled as a risk mitigating mechanism, should there be a significant correction in the market or a rapid change in investor sentiment.

For further details contact research@inrev.org The full report is available to members at inrev.org/research

Figure 2: Planned termination year



Sample size of 68 vehicles as no information reported for 12 vehicles with closed end structure