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Real Estate Finance – A take on the lending landscape in 2024

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The Loan Market Association recently hosted its annual Real Estate Finance Conference. The conference brought together participants from across the market to discuss matters including what's next for the lending landscape in 2024, distressed debt and sustainability, each within the context of real estate finance (REF). As we look ahead to the second half of 2024, we expect to see a number of key themes across the REF market, many of which were identified by the insightful panels:

1. **the REF lending landscape in 2024:** the REF lending market has evolved to adapt to the pressures of the current macro-economic and geopolitical climate, with its elevated rates of inflation and "higher for longer" interest rates. In particular, there is a good diversity in capital available, the resilience of borrowers has been demonstrated by their ability to manage high interest rates - in the region of 5%, the operational real estate market remains buoyant and there has been an increase in the number of refinancings. Whilst the REF lending landscape has been far from stable, the general consensus is that the markets are performing better than they did during the Global Financial Crisis, supported today by a more conservative regulatory backdrop which has allowed market participants to better navigate current economic pressures.

   Conversely the current key challenges include difficulties in raising capital (although this is expected to pick up towards the end of 2024), the influence of macro-politics such as the economic shock waves triggered by the Russian invasion of Ukraine, continued political uncertainty as half of the world's adult population gears up to head to the polls this year, and the differentiation in asset classes - prime and secondary property are increasingly seen as more similar but sectors such as office and retail are set apart from other areas in the market and are currently experiencing difficulties with yields and the availability of debt;

2. **distressed debt:** there is currently a general lack of appetite among REF lenders to enforce security over property and ultimately seek to control and/or sell assets themselves. This reticence is largely due to a lack of buyers in the market, triggered by the "wait-and-see" approach often adopted as the market bottoms out. However, it is expected that sales will start occurring in the next year as lenders look to dispose of certain assets, which have been on their books for too long. Once these properties come to market, this should provide comparable data of where prices stand which is crucial to create more certainty around valuations; and

3. **sustainability:** ESG is having a profound effect on the office space and how businesses are focusing their attention on newer assets in an effort to better satisfy their corporate social responsibility criteria. It was noted for example, that the way buildings are insulated and powered has changed drastically over the past 15 years and consequently, businesses are looking to future proof their buildings for longer periods of time to avoid having re-modernise in the near future.

On the whole, views on the current lending landscape were optimistic, albeit with some reservations about the forecasts for the coming year.

Macfarlanes LLP has a leading real estate finance practice which has established an outstanding reputation for complex real estate finance transactions across a range of real estate asset classes. We provide a cohesive and flexible service across the wide range of disciplines that are fundamental to modern real estate finance transactions. Please do contact us if you would like to know more.