BRIEFING Interest rate hikes pose biggest risk for real estate debt borrowers

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The impact of future interest rate hikes is well above political risk on the list of factors that are causing sleepless nights in the real estate sector, according to market professionals.

'The key question is who is going to be the new president of the European Central Bank and what stand he or she will take on interest rates,' said Alexander Fischbaum, managing director, AF Advisory. 'If they start rising I don't expect a doomsday scenario, but the environment will change and we must be aware of that.'

Fischbaum was addressing delegates at the PropertyEU Debt Finance & Investment briefing, which was held at Mipim in Cannes in mid-March.

After expecting a hike for the last few years, everyone has got used to the low rate environment and hopes it will not end abruptly, said Christoph Wagner, director of debt strategies, origination & structuring, TH Real Estate: 'A sudden jump would have a negative impact, but I believe a measured and gradual normalisation of rates over time would not affect us at all.'

Game changer?

Interest rate hikes, however gradual, have the potential to change the market fundamentally by undermining the very reason that drives investors' interest in property, said Fischbaum.

'The reason we see demand from the investor side is that they cannot get the returns they need elsewhere. Investors are piling into real estate and prices go up, while companies like AEW and TH have built debt teams because it is a way of gaining exposure on a less risky basis, taking the income element without having the capital risk attached to it if you are a lender to real estate' he said. 'That is attractive, but both are actually sourced from the same pool of money which currently cannot find a good home in bonds or equities. That is why any interest rate changes are a concern. If bonds become more attractive, the market could shift rapidly.'

The real estate sector can do very little about interest rates, but it has learned how to manage or indeed ignore political risk, panellists agreed. 'We know that markets are very resilient to political risk, they don't care who is in power provided there is not too much uncertainty,' said Assem El Alami, head of REF, international key accounts & syndication, Berlin Hyp.

'Uncertainty and unfriendly regulations worry us much more than political risk,' said Cyril Hoyaux, head of debt fund management, AEW France. 'We can live with political uncertainty because we know that in countries like Italy there is a disconnect between the economy and the politics. Poland is the only place in Europe where the politics could actually have a negative impact on the economy and the market.'

Source:https://propertyeu.info/Nieuws/BRIEFING-Interest-rate-hikes-pose-biggest-risk-for-real-estate-debt-borrowers/d76297ce-1025-431b-9a3d-bba40b66a29d#