

Meet McGuireWoods LONDON

What Lies Ahead?

As the world emerges from lockdown, McGuireWoods' real estate finance team considers the top three issues real estate lenders and borrowers should be considering.

The State of the Real Estate Lending Market

The real estate lending market is currently dominated by loan extensions (typically two to three years) and refinancings. According to a recent Business School report, LTV ratios reached a new historic low in 2020, averaging between 50 and 55 percent. They also reported that margins rose across all property types by between 20 and 80 bps apart from logistics. The residential development pipeline remained high, but lender appetite for lending against secondary retail and shopping centres was low. The concern for borrowers is that real estate lending will become more expensive and require further capital, due to increasing maintenance and improvement requirements to meet environmental, social and governance (ESG) standards, as well as necessary conversions or repurposing and increased capital costs of banks.

ESG Costs

ESG, sustainable loan principles and green loan principles continue to gain prominence in the market, as real estate developers and investors come under pressure from occupiers and lenders alike to deliver projects and real estate assets that meet their ESG requirements. This can add significant cost to a development or upgrade, and the calculation for borrowers is how far the reduction in margin as a result of achieving ESG targets will offset those increased costs.

LIBOR Transition

LIBOR transition continues to dominate the lives of finance lawyers who find themselves busy explaining the commercial and operational consequences of LIBOR transition to lenders and borrowers alike. The new risk-free rate (RFR) language in loan agreements is complex and requires some "cold towel" reading. The key point, though, is that LIBOR will cease to be published at the end of the year, and all USD and GBP loan agreements going forward will need to adopt the new RFR language. Market participants can no longer use the transition language that has been commonplace in the last few years, but which simply kicks the can down the road. EURIBOR for EUR denominated loans will continue to be published for the time being.

Meet the Team



ALAN HOLLIDAY
PARTNER
aholliday@mcguirewoods.com
+44 20 7632 1650



CALLUM HASSALL
PARTNER
chassall@mcguirewoods.com
+44 20 7632 1613

McGuireWoods' London real estate finance team represents clients on all types of real estate development and investment finance, including senior debt, mezzanine debt, equity funding, construction and development facilities and portfolio acquisitions. We have extensive experience in transactions involving all types of commercial real estate, including office, retail, hotel, industrial and mixed-use developments. We have particular sector expertise in logistics, data centres, student accommodation, energy and pharmaceuticals and care homes/senior living.

For more information, please contact [Alan Holliday](#) or [Callum Hassall](#).