Global Credit Data

by banks for banks

Observed Recovery Rates Dashboard Real Estate

May 2022

Lending Portfolio

Real Estate is a very common collateral present in most asset classes. Most of the loans are in the small and medium-sized enterprise (SME) asset class, with good quantities in large corporates, real estate or private banking. Generally, real estate backed defaults have higher recoveries than other corporate loans.

Region of Jurisdiction

The regional spread reflects the number of defaulted cases in the GCD database, with high number of defaults from Europe and North America. The location of the collateral has a significant effect on recovery rates (see next page), but also the legal system where the borrower resides may affect the workout and recovery.

Deal Structure

The most common deal structures include normal term loans and overdrafts or revolving credit facilities. Bridge loans show a lower recovery rate than other deal structures.

Recoveries and Losses in Crisis Times

Looking at the historical defaults in the GCD database on a global level, the financial crisis is clearly visible with defaults rising in 2008 and peaking in 2009. The recovery rates show an all-time low for defaults incurred in 2008. The impact of the current Covid-19 economic crisis is as yet unknown and likely to vary both on a regional level and by property-specific elements. For recent years estimated recoveries for yet unresolved defaults have been included (green line) providing first insights into the Covid-19 crisis impact.

Note on Terms Used (see Appendix for more details)

Observed Recovery Rate refers to the historically observed nominal average recovery cash flows divided by outstanding amount at default. In the time series graph below the blue line include resolved defaults only. In the most recent years short workout periods with higher recovery rates are naturally overrepresented (resolution bias). the green line includes estimated recoveries for unresolved defaults and provides therefore a more comprehensive picture of recent developments.

Time to Peak Recovery is calculated as the center point of recovered cash flow.

65,057	82%	1.5
Nr of Facilities	**Observed Recovery Rate**	**Time to Peak Recovery**

Lending Portfolio

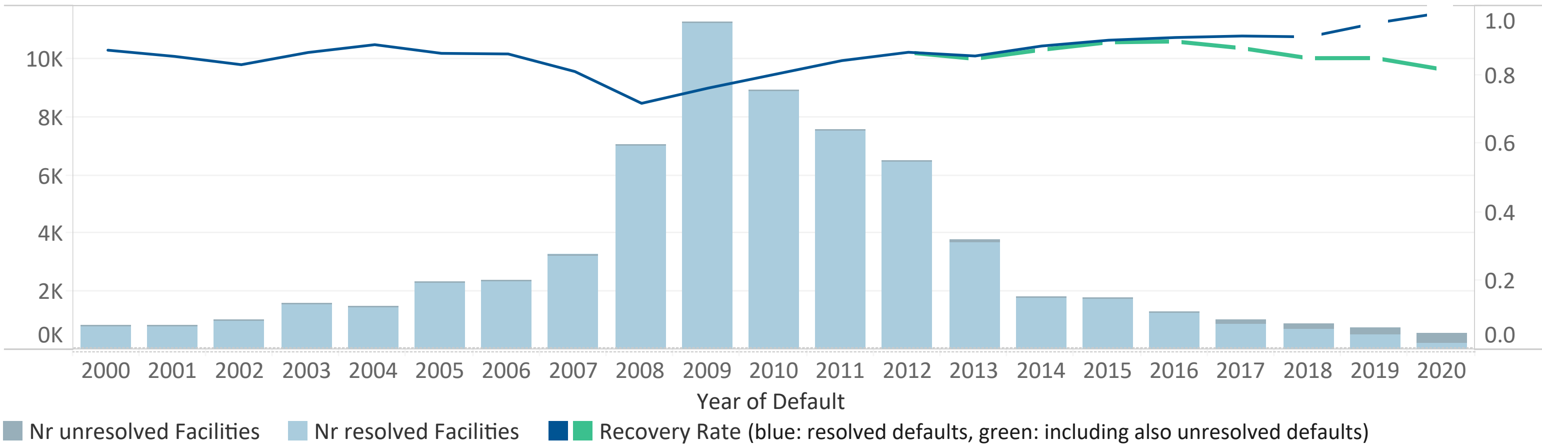
	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
SME	39,578	83%	1.5
Real Estate Finance SL	19,593	79%	1.6
Large Corporates	3,588	82%	1.4
Private Banking	1,590	88%	1.4
Other	708	80%	1.6

Region

Africa & Middle East	1,219	84%	1.3
Asia & Oceania	1,530	88%	1.0
Europe	41,584	81%	1.6
Latin America	1,024	75%	1.8
North America	19,699	84%	1.3

Deal Structure

Term Loan	40,097	82%	1.6
Overdraft	12,760	80%	1.5
Revolver/Line	4,950	82%	1.3
Demand Loan	1,095	86%	1.2
Transactional Trade Finance	340	87%	0.7
Capital & Operating Lease	960	92%	1.2
Bridge Loan	173	60%	2.0
Other	4,682	84%	1.4



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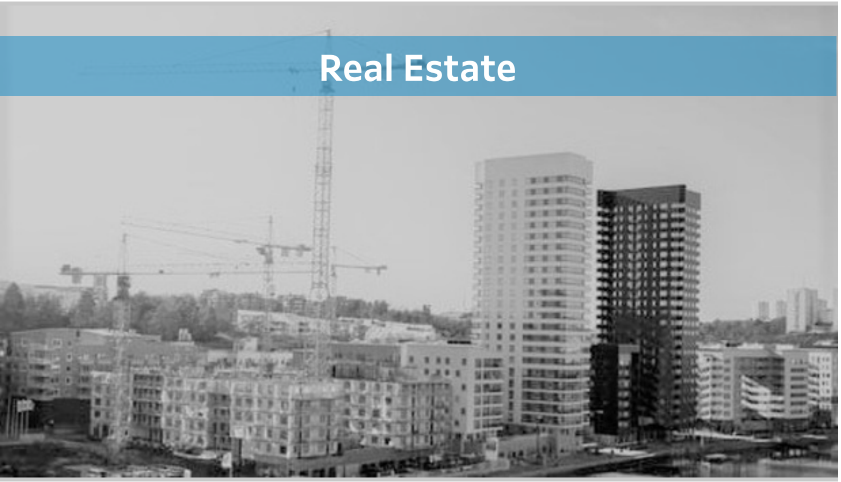
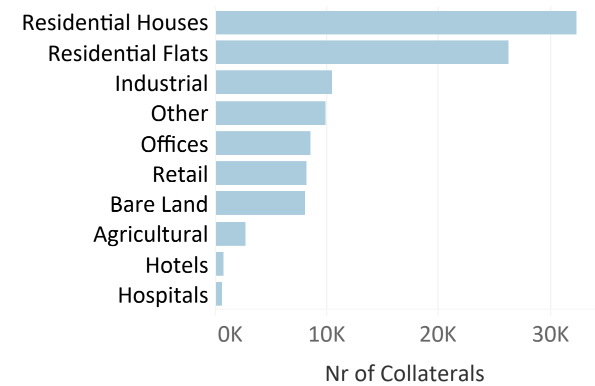


107,641	-24%	62%
Total Real Estate	**Observed Haircut**	**Loan-to-Value**

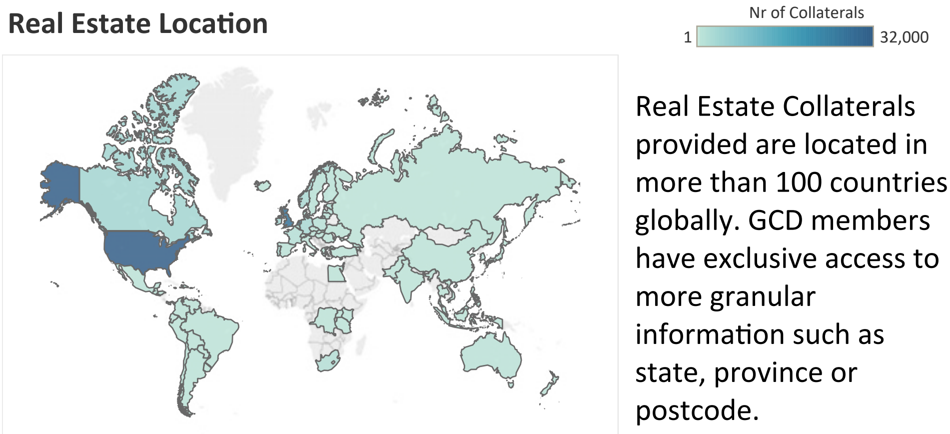
This section explores the collateral dimension of the defaulted facilities from the previous page. A single loan can be secured by multiple real estate and a single real estate can be used as collateral for multiple loans. Therefore, the number of real estate collaterals and the number of loans will not be equal. At the same time, where there are real estate industry facilities without a real estate collateral then these cases are excluded.

Real Estate Collateral Characteristics

Real Estate Types



Real Estate Location



Real Estate Collaterals provided are located in more than 100 countries globally. GCD members have exclusive access to more granular information such as state, province or postcode.

Haircut and Loan-to-Value

Haircut

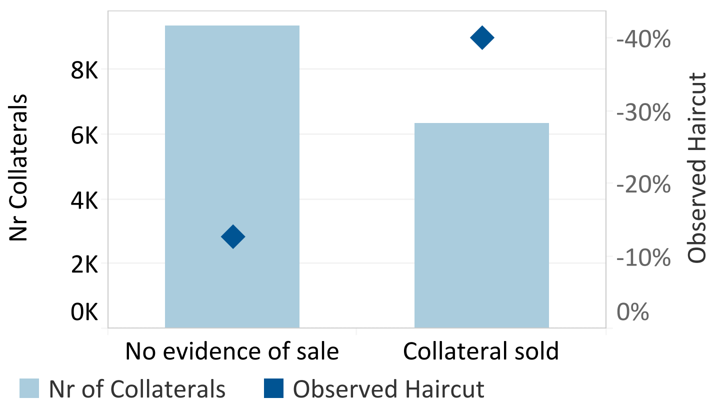
Typically the value of collateral declines during the default and workout process. On average, this decline (haircut) is observed as 24%. When the collateral is not sold, the decline can be interpreted as representing the general market decline for second-hand real estates due to age depreciation and market circumstances. The low number of sold collaterals shows that a sale is not the most likely workout scenario.

Loan-to-Value

A typical real estate financing case involves a long-term loan which amortizes as the value of the real estate financed declines. The data shows that cases with high loan-to-value prior to default produce higher LGD. Real Estate is recognized as a high-quality collateral. For lenders, this results in generally high recovery rates after default, even when lending at approximately 62% loan-to-value.

GCD members receive detailed data enabling them to create loan-to-value and haircut-based real estate financing models.

Collateral Haircut



Note on Terms Used (see Appendix for more details)

Observed Haircut is the collateral value after default (e.g. date of sale or resolution) minus the collateral value prior to default (max. 2 years prior) divided by the collateral value prior to default.

Loan-to-Value (LTV) refers to the ratio of the outstanding amount of a loan to the value of the collateral at the default date.

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Global Credit Data maintains the world's highest quality, most exhaustive member-bank contributed data source for credit risk.

More from Global Credit Data

This dashboard draws on verified information collected from 50+ global or regional banks over 20 years and covers over 300,000 defaulted facilities in total. Find more information on our website.

Explore our other dashboards. They provide an instant insight into observed Recovery Rates and other key benchmarks for various exposure classes, industry sectors and collateral types:
Corporates, Banks and Financial Institutions, Sovereigns, Real Estate Finance, Shipping Finance, Aircraft Finance.

GCD has continously reinforced a framework that is used to measure and monitor data quality as required by global regulations (BCBS239).

About

Established in 2004 as a non-profit association, GCD's Mission is to help banks understand and model credit risks. Membership has grown to 50+ member banks across Europe, Africa, North America, Asia and Australia. Activities include pool credit loss data, directly from banks' books.

GCD operates pooled databases on a "give to get" basis, meaning that members who supply high quality data and receive detailed data in return. The robustness of GCD's data collection infrastructure helps place the GCD databases as the global standard for credit risk data pooling.

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