# Global Credit Data
### by banks for banks

# Observed Recovery Rates Dashboard
# Real Estate Finance defaults recover 82% on average

As banks actively monitor their portfolios, factoring in the possible risks and impacts of Covid-19 pandemic scenarios, this dashboard dives into GCD's rich and high-quality data set to answer some of the key questions facing institutions with real estate-backed loans in their portfolios.

How much do banks typically recover from defaulted real estate-backed loans? How long does it take to recover the funds? And what kind of a haircut can you expect on the value of collateral in this sector?

Drawing on verified information – collected from 55 global or regional banks over almost 20 years and covering 1,471 defaulted facilities – the answers to these questions and more are unlocked here through **the power of GCD data**.

### Key findings

**82%**  GCD data confirms that **historical bank recoveries for defaulted Real Estate Finance loans average 82%**, a higher figure than for general corporate loans which average 76%.

In terms of recovery, real estate collateral is the most important driver of high recovery rates and low loss given default (LGD).

### New analytics

For the first time, this dashboard provides figures on the observed haircut and loan-to-value of defaulted aircraft-backed loans. Detailed methodology on how these figures are calculated are available in the appendix.

More so than ever in the current macroeconomic environment, banks must continuously assess and upgrade existing risk models. GCD data offers access to a comprehensive toolbox with which to analyse the effects of previous crises and other macroeconomic events and train and adapt their existing models accordingly.

### Find out more

This dashboard builds on the wider LGD Report for Large Corporate Borrowers released in June 2020, which is available here.

Explore our other dashboards, covering Corporate, Bank, Sovereign Shipping and Aircraft Finance defaults.

### About Global Credit Data

Global Credit Data (GCD) is a non-profit association owned by 50+ member banks. 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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## Observed Recovery Rates Dashboard Real Estate Finance loans

October 2020

| 55,251 | 82% | 1.5 |
|---|---|---|
| **Nr of Facilities** | **Observed Recovery Rate** | **Time to Peak Recovery** |

### 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 normal 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

The Covid-19 pandemic has impacted markets worldwide. However, it is hard to determine how much this crisis will influence the real estate sector without looking at the impact on a local level. Since the location of the property is fixed, the outcome of a default is subject to regional economies as well as country-specific political and regulatory decisions. 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. The final result of these defaults will be affected by the course of the virus and the levels of government support. They will ultimately be reported by banks over the next five years.

**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.

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

#### Lending Portfolio

| | Nr of Facilities | Observed Recovery Rate | Time to Peak Recovery |
|---|---|---|---|
| SME | 31,106 | 84% | 1.5 |
| Real Estate Finance SL | 18,735 | 79% | 1.6 |
| Large Corporates | 3,237 | 82% | 1.4 |
| Private Banking | 1,576 | 88% | 1.4 |
| Other | 597 | 82% | 1.6 |

#### Region

| | | | |
|---|---|---|---|
| Africa & Middle East | 454 | 94% | 1.3 |
| Asia & Oceania | 1,374 | 88% | 1.0 |
| Europe | 34,902 | 81% | 1.7 |
| Latin America | 861 | 75% | 1.8 |
| North America | 17,579 | 83% | 1.4 |
| Unknown | 81 | 79% | 0.9 |

#### Deal Structure

| | | | |
|---|---|---|---|
| Term Loan | 34,631 | 82% | 1.6 |
| Overdraft | 9,352 | 80% | 1.6 |
| Revolver/Line | 4,316 | 81% | 1.3 |
| Demand Loan | 950 | 87% | 1.2 |
| Transactional Trade Finance | 324 | 88% | 0.8 |
| Capital & Operating Lease | 228 | 88% | 1.3 |
| Bridge Loan | 168 | 60% | 2.0 |
| Other | 5,282 | 84% | 1.4 |
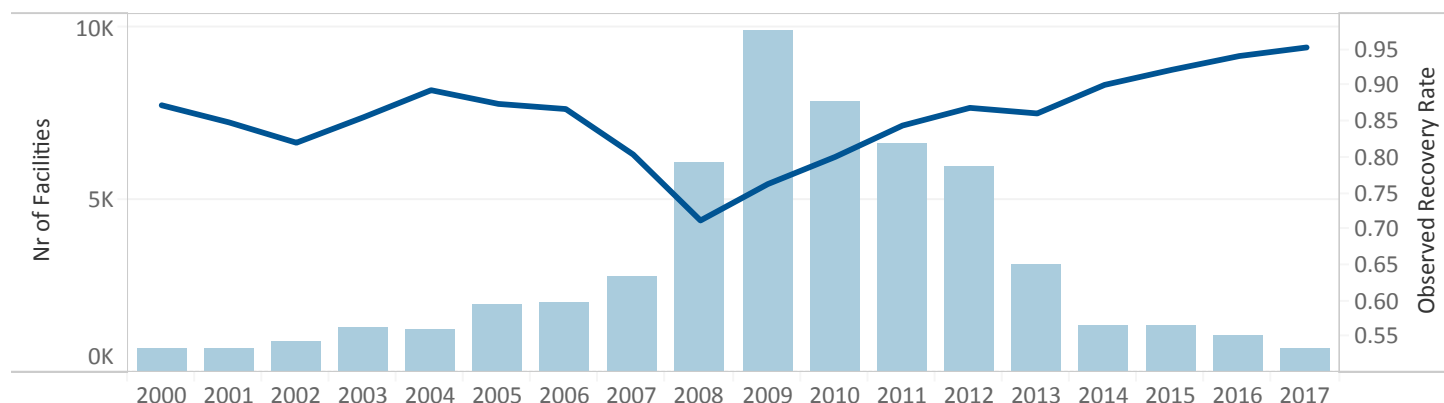
## Real Estate

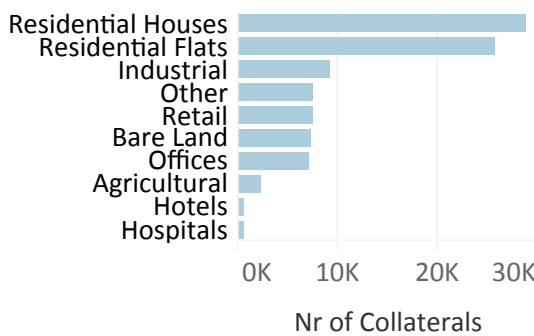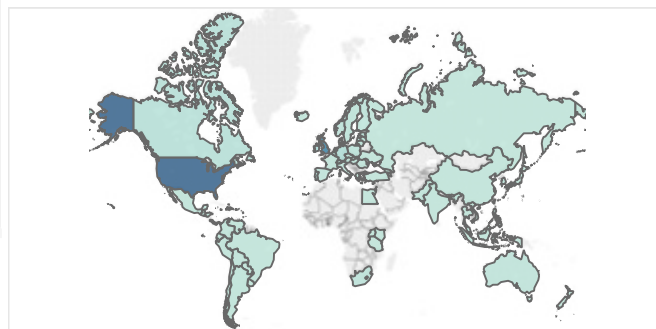| 96,239 | -26% | 64% |
|---|---|---|
| **Total Real Estate** | **Observed Haircut** | **Loan-to-Value** |

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**



Nr of Collaterals (chart: Residential Houses, Residential Flats, Industrial, Other, Retail, Bare Land, Offices, Agricultural, Hotels, Hospitals)

**Real Estate Location**



Nr of Collaterals  1 — 32,000

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 26%. 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 65% loan-to-value.

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

**Collateral Haircut**
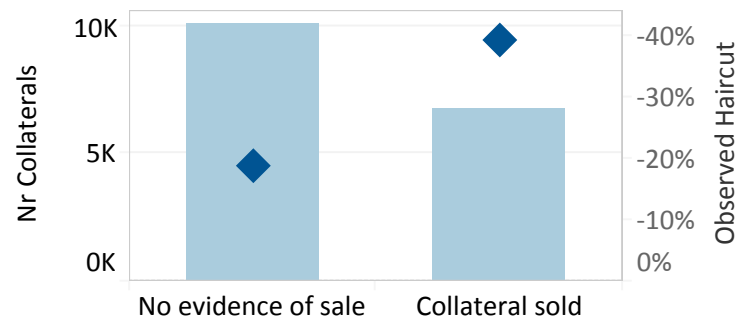


Measure Names
Nr of Collaterals    Observed Haircut

**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 after 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.