

COMMERCIAL PROPERTY DATA RESPONSE



29th October 2009

Lending to commercial property (2009Q3)

Property lending weak again, outlook still downbeat

- Net lending flows to property were negative again in Q3 and, given that lenders' exposure to the sector remains very high, it would be no surprise to see property lending remaining weak for the next two to three years, perhaps longer.
- Total net lending by banks and building societies was £8bn in September, but the figure for Q3 as a whole remained negative at -£5bn. Net lending flows were also substantially negative in Q2 (-£26bn), the first time since 1994 that there have been two consecutive quarters of negative net lending. This was almost certainly driven both by weak gross lending and increased repayments by borrowers.
- In the property sector specifically, net lending flows were -£2.2bn in September and -£1.7bn for Q3 as a whole. (Net flows were slightly negative in July and positive in August). Over 2009 to date, net property lending has been -£0.8bn, a dramatic turnaround from the figure of £23bn in the first nine months of 2008.
- Looking ahead, the prospects for lending to commercial property remain subdued. For a start, the latest Credit Conditions Survey from the Bank of England showed that lenders intend to reduce the availability of property finance further in the near-term. What's more, as the Chart below shows, lenders still have much more work to do to lower their exposure to commercial property to a more normal level over the longer term. Indeed, we think that property's share of outstanding loan books could fall from 12% to around 7% over the next 3-4 years.
- Admittedly, as we noted in a recent Update, "Lenders begin to return, but outlook for lending activity still subdued" (7th Oct.), the news is not all bad. Recent Savills research showed a higher – but still low – number of lenders at least willing to consider new property loans. On balance, however, we think it is more likely than not that net property lending flows will remain negative in the coming quarters, especially since the outlook for GDP growth and tenant defaults remains a concern.

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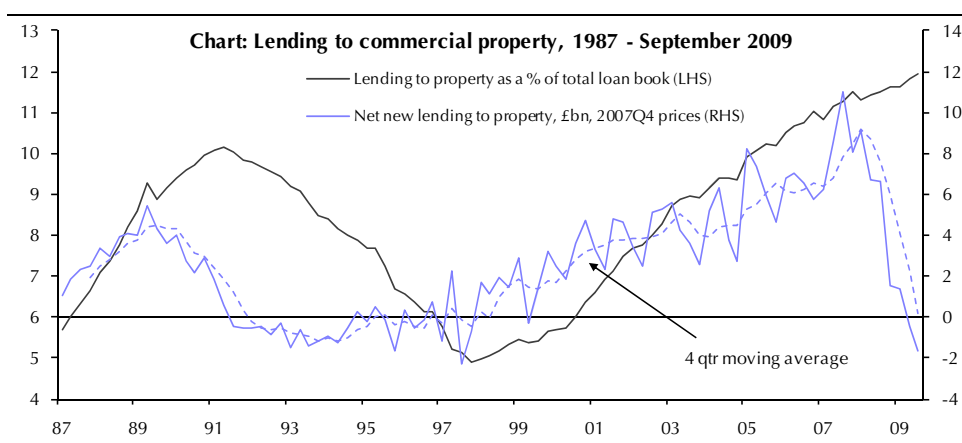
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UK BANK LENDING INCLUDING LENDING SECURED ON COMMERCIAL PROPERTY

	2006		2007		2008				2009			
£bn, not seasonally adjusted	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total outstanding bank debt	1,461	1,542	1,571	1,650	1,676	1,986	2,030	2,087	2,079	2,098	2,086	2,076
– outstanding debt to property	161	167	175	186	193	225	232	240	242	244	247	244
Property as a % of total outstanding debt	11.0	10.8	11.2	11.3	11.5	11.3	11.4	11.5	11.6	11.6	11.8	11.8
Total new lending	19.3	50.8	29.4	75.8	28.3	60.3	44.7	52.5	-4.4	45.4	-25.8	-4.8
– new lending to property	5.6	6.1	8.4	10.9	8.1	9.2	6.9	6.9	1.6	1.4	-0.5	-1.7
5-yr swap rate (% end-qtr)	5.12	5.47	5.99	5.95	5.25	4.96	5.66	5.19	3.52	3.05	3.38	3.33
IPD all-property income return (% end-qtr)	5.17	5.04	4.96	4.91	4.94	5.14	5.36	5.70	6.13	6.64	7.29	7.88

Sources – Thomson Datastream, Bank of England, IPD