



A Lender's Market in 2023

Reduced competition is leading to greater choice and better terms

Executive Summary

The last 12 months has seen a significant change in market dynamics and sentiment for European commercial real estate. Gone are the days of ultra-low cap rates, excess liquidity and cheap debt. Traditional lenders (i.e., banks) are tightening their belts and growing increasingly selective regarding the type and amount of lending opportunities they pursue. As a result, alternative lenders are capturing increased market share and benefiting from greater choice when it comes to which opportunities they pursue.

This increased choice is resulting in a material upgrade to the average quality and risk/return profile of investments being made by alternative lenders in Europe.

Historic Catalyst

As we highlighted in our last piece the “(Re)emerging Funding Gap in Europe”, banks’ existing regulatory regime, combined with the current rising rate environment, is the catalyst for reducing bank lending volume and risk appetite. And while this dynamic is at play in nearly every market and asset class globally, its effects are felt more acutely in the European commercial real estate debt market due to the sector’s continued overreliance on banks as the primary source of funds.

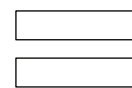
Quantifying the opportunity set for alternative lenders, with banks representing c. 90% market share, a 10% reduction in their lending appetite would translate to a near doubling of the market share for alternative lenders.

Bank Lending Market Share

90%



81%



10%

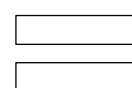
Reduction

Alternative Lender Market Share

10%



19%



90%

Growth

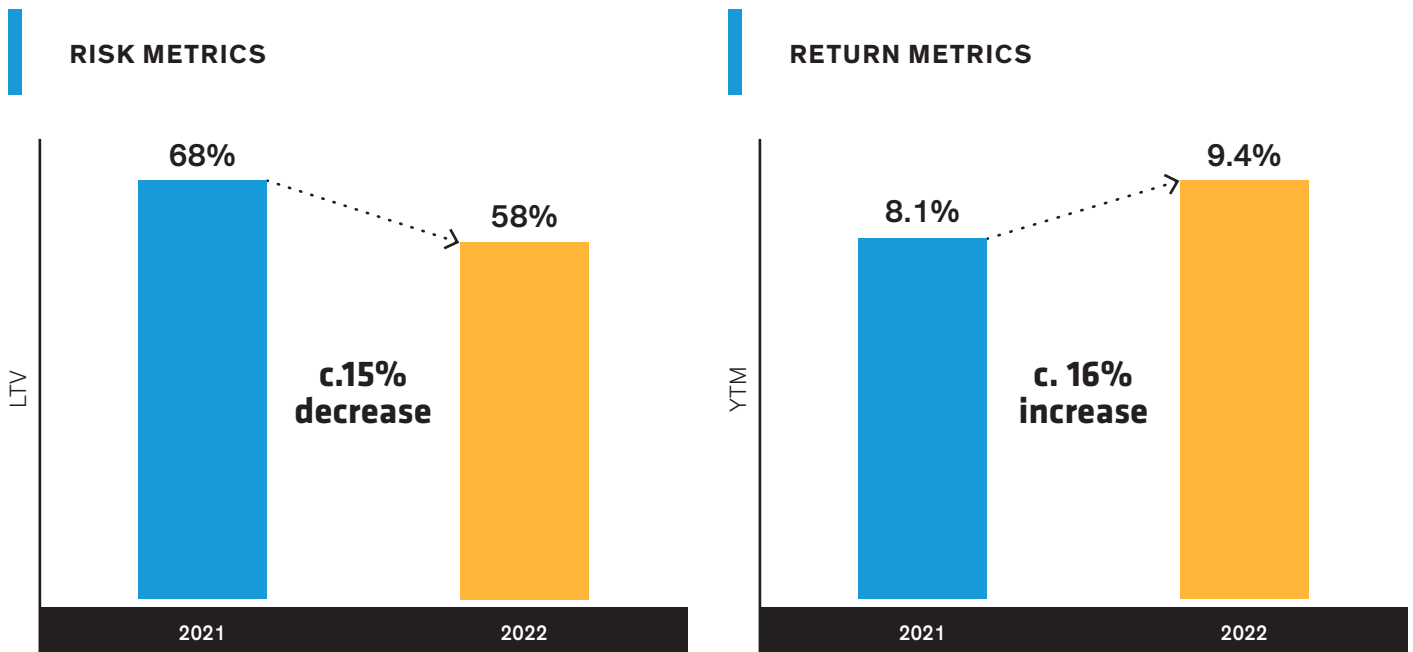
Key Impacts

Current market dynamics are having a positive impact on new lending activity for alternative lenders in three key areas:

- 1. Economics**—returns are increasing. This is in part due to most European loans being floating rate and as base rates rise, this benefit is passed onto investors. In addition, and due to reduced liquidity in the market, lenders are also able to charge increased risk and illiquidity premia, driving total returns higher.
- 2. Risk**—credit metrics and structure (covenants) are improving. Lenders have greater negotiating power, resulting in more protected positions (e.g., lower LTVs) with greater equity cushions to insulate the lender's position.
- 3. Quality**—as alternative lenders have the luxury of greater choice, the profile of the average borrower, business plan and collateral that lenders choose to back is being upgraded. Banks are shedding market share and with it letting go of higher quality opportunities which were once out of reach of alternative lenders.

Case Study

Our thesis can be demonstrated when comparing key risk/return metrics of loans originated on AB's European Commercial Real Estate Debt platform between 2021 and 2022:



Historical analysis and current forecasts do not guarantee future results.

As of December 31, 2022 | Source: AB

Conclusion

It is an attractive time to be an alternative lender in Europe. Banks' rapid retreat from the market is creating a significant funding gap. Alternative lenders, who are not constrained by the same regulatory frameworks as banks, are well placed to fill this gap and provide the much-needed flexibility and certainty of execution to the borrower community. European commercial real estate debt remains a nascent market with respect to the presence of alternative lenders. Unlike the US, there are relatively few

institutional debt platforms which have the ability to scale to meet the current opportunity set. Fund raising—even for the largest platforms—takes considerable time and thus we believe that the current market dynamics are likely to persist until such time as (i) interest rates fall considerably (which we do not anticipate in the near term) and/or (ii) material new capital is raised by alternative lenders to return the debt markets to equilibrium. Until this occurs, we expect that established alternative lenders, such as AB, will be well positioned to capture increased market share and deliver premium returns for their investors.

A WORD ABOUT RISK

This profile is confidential, for informational purposes only and for your exclusive use. By accepting this profile, you agree that you will not (a) provide this profile to any person other than your legal, tax, financial and accounting advisors for the purposes of making an assessment of the transaction or (b) use (or allow any of your advisors to use) the profile for any purpose other than to make an assessment of the transaction.

The ECRED strategy may be considered to involve a high degree of risk and are designed for investors who understand and are willing to accept these risks. There can be no assurance that Fund II will achieve its investment objectives. Prospective investors should consider the following factors when determining if an investment is suitable. A more detailed discussion of risk factors can be found in the applicable offering document(s), which you should read carefully before you decide to invest.

Investment Risks Generally: The ECRED strategy may involve speculative investment practices, which include investments in illiquid assets, may increase the risk of investment loss. An investor could lose all or a substantial portion of his or her investment. **Illiquidity:** Interests in the ECRED strategy are an illiquid investment in that voluntary withdrawals of Interests will not be permitted, and any sale, assignment or transfer of an Interest is not permissible without the prior written consent of the General Partner in its sole discretion. There is no active secondary market, and none may develop. **Absence of Regulatory Oversight:** The ECRED strategy is not expected to be registered with securities regulators and therefore would be subject to little or no regulatory oversight. **No Assurance of Investment Returns:** Past activities of investment entities sponsored by AB provide no assurance of future results. **Limited Operating History:** The ECRED strategy is being newly deployed and has a limited operating history upon which prospective investors can evaluate its anticipated performance. **Disclosures on investment examples:** Any references to specific investments are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AB. Any specific investments identified and described in this material do not represent all of the investments purchased, sold or recommended for the portfolio, and it should not be assumed that investments in the investments identified were or will be profitable.

For Consultants, the release of these requested materials is approved on an information only basis. Provided materials are for personal use only (expressly not for onward distribution) in order to assess the product for the benefit of our mutual clients in their country of domicile.

NOTE TO ALL READERS

Australia: This document has been issued by AllianceBernstein Australia Limited (ABN 53 095 022 718 and AFSL230698). Information in this document is only intended for persons that qualify as "wholesale clients," as defined in the Corporations Act 2001 (Cth of Australia) and should not be construed as advice. **Hong Kong:** This document has been issued by AllianceBernstein Hong Kong Limited (聯博香港有限公司). This document has not been reviewed by the Securities and Futures Commission ("SFC"). The AB European Commercial Real Estate Debt Fund II has not been registered with the SFC for public distribution. The Fund is only available to Professional Investors within the definition under the Securities and Futures Ordinance only. **Japan:** This document has been provided by AllianceBernstein Japan Ltd. AllianceBernstein Japan Ltd. is a registered investment management company (registration number: Kanto Local Financial Bureau no. 303). It is also a member of the Japan Investment Advisers Association, the Investment Trusts Association, Japan, the Japan Securities Dealers Association and the Type II Financial Instruments Firms Association. The product/ service may not be offered or sold in Japan; this document is not made to solicit investment. **Korea:** The interests have not been registered under the Financial Investment Services and Capital Market Act of Korea and, accordingly, no interests may be offered or sold, directly or indirectly, in Korea or to any resident of Korea, except as permitted by applicable Korean laws. **Singapore:** This document has been issued by AllianceBernstein (Singapore) Ltd. (Company Registration No. 199703364C). AllianceBernstein (Singapore) Ltd. is regulated by the Monetary Authority of Singapore. The Fund has not been registered for sale in Singapore and there is currently no public offering of the shares in Singapore. This document and any other material in connection with the offer, sale, or invitation for subscription or purchase of Interests may not be circulated or distributed, nor may Interests be offered for or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) an institutional investor (as defined in section 4A of the SFA) pursuant to Section 304 of the SFA, (ii) pursuant to and in accordance with section 302C or (iii) pursuant to and in accordance with the conditions of any other applicable offering exemption of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore. **Note to Readers in Europe:** This information is issued by AllianceBernstein (Luxembourg) S.à r.l. Société à responsabilité limitée, R.C.S. Luxembourg B 34 305, 2-4, rue Eugène Ruppert, L-2453 Luxembourg. Authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier (CSSF). **Note to Readers in the United Kingdom:** This information is issued by AllianceBernstein Limited, 60 London Wall, London EC2M 5SJ. Registered in England, No. 2551144. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Conduct Authority. **Note to Swiss Readers:** This information is directed at Qualified Investors only. Issued by AllianceBernstein Schweiz AG, Zürich, a company registered in Switzerland under company number CHE-306.220.501. AllianceBernstein Schweiz AG is a financial service provider within the meaning of the Financial Services Act (FinSA) and is not subject to any prudential supervision in Switzerland. Further information on the company, its services and products, in accordance with Art. 8 FinSA can be found on the Important Disclosures page at www.alliancebernstein.com **Note to Canadian Readers:** This publication has been provided by AB Canada, Inc. or Sanford C. Bernstein & Co., LLC and is for general information purposes only. It should not be construed as advice as to the investing in or the buying or selling of securities, or as an activity in furtherance of a trade in securities. Neither AB Institutional Investments nor AB L.P. provides investment advice or deals in securities in Canada.

The [A/B] logo is a registered service mark of AllianceBernstein and AllianceBernstein® is a registered service mark used by permission of the owner, AllianceBernstein L.P.

© 2023 AllianceBernstein L.P.



ICN2023542
INS-8297-0323

AllianceBernstein.com