Investment opportunities to rise as banks ‘rip plasters off’ bad debt in 2023, say Castleforge

LONDON, UNITED KINGDOM, January 6, 2023 /EINPresswire.com/ -- The coming year will bring strong debt-led buying opportunities for European investors, according to leading property investment firm Castleforge.

Michael Kovacs, Co-Founder of Castleforge

In its new research note, [Distressed Opportunities in European Real Estate](), Castleforge finds the headwinds of an impending recession will create near-term investment opportunities.

The firm analysed how this year’s recession will play out very differently to the last financial crisis in 2008, with banks likely to react differently to defaults. Lenders are set to force borrowers to work out loans in default via repossessions, Non-Performing Loan (NPL) trades, forced asset sales or refinancings.

Ahead of the Global Financial Crisis of 2008, banks were highly leveraged and loan-to-value (LTV) ratios against properties were equally high. At the same time, the interest rate environment saw the overnight rate crash from 6% to less than 1%, leaving banks with little incentive to call in bad loans.

The ratio of total assets to equity for UK banks had reached 48x by 2008, roughly double the rate ten years earlier. Banks had also accumulated significant exposures to risky assets during the preceding decade, with maximum commercial LTV ratios standing at an average 83% and residential loans less secure still at an average 90% LTV ratio. Undercapitalised at the corporate level and overexposed to risky assets, most banks could not afford to realise additional losses on bad real estate loans.

Castleforge's research demonstrates that market conditions are drastically different today, with banks' total assets to equity ratio down below 20x, maximum commercial property LTV ratios having declined to around 65%, and central bank interest rates on the rise the world over.

Michael Kovacs, Co-Founder of Castleforge, said:

"Market conditions in 2008 meant banks had an incentive to 'extend-and-pretend' around bad debt, leaving it on the loan book and hoping for eventual repayment. But there are much greater incentives for banks to 'rip the plaster off' this time.

"Our research demonstrates that conditions today are pretty much the polar opposite of those 15 years ago. While there is going to be a lot of pain on the ground when banks call in loans, smart investors should be prepared for opportunities to come much more promptly than last time round.

"We are already seeing evidence of this in the market, with strong investment opportunities in the UK real estate market across commercial, residential and hospitality assets."

Castleforge is currently in discussions on a number of debt-led real estate deals. Since the firm was established in 2010, Castleforge has invested approximately £1 billion, gaining a reputation for research-backed investment across the UK and Europe.

The firm predicted a rise in the popularity of high-quality flexible office spaces, despite a pandemic surge in remote working. It has expanded its portfolio of commercial office locations across the UK and Europe, operated by its in-house flexible workspace provider Clockwise.

Castleforge has also acquired hotels in Cardiff, Bath and Edinburgh and continues to seek hotel investments as business travel and the tourism industry bounces back.

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