

PRESS RELEASE

BF.Quartalsbarometer Q1 2021:

Sentiment among Real Estate Lenders, while Brightening, Remains Negative

- Barometer score ascends from -8.08 to -4.86 points
- Almost every other respondent expects growth in new lendings
- Banks generally remain cautious – especially with shopping centres and hotel developments
- Average mark-ups show lateral trend on a high level
- Financiers expect stable demand for office accommodation

Stuttgart, 24 February 2021 – While the COVID-19 lockdown continues, sentiment among German real estate lenders brightened during the first quarter. Still, it remained in the negative range. The barometer score rose from -8.08 points in Q4 2020 by 3.22 points to a -4.68 score. The sluggish brightening in sentiment is attributable to the slightly improved assessment of financing conditions. Thirteen percent of the respondents (+5.5 pp) rate these as more progressive. What clearly improved is the assessment of the new-business situation. Here, almost one of two respondents (46.7 percent) see signs of growth. It is a clear increase since Q4 2020 (+19.7 pp).

Manuel Köppel, the CFO of BF.direkt AG, puts the scores into perspective: “While it is true that the BF.Quartalsbarometer has gone up, sentiment on the ground seems rather glum. To us, the banks continue to display a rather reticent attitude. My impression is that financial institutes have scaled back their expectations and adjusted them to the pandemic situation. So, we need to bear this muted outlook in mind when interpreting the latest poll returns.”

Waning Influence of the Risk Departments

The grave risk aversion of banks has softened slightly. One sign suggesting as much is the waning influence of the risk department on new deals. In Q1 2021, it was down to around 13 percent (Q4 2020: 29.6 percent). Nonetheless, the institutes continue to be wary of the use types hotel and physical retailing / shopping centres. The percentage of institutes still prepared to finance real estate of these use types sank to 10.7 percent (hotels) and 21.4 percent (retail / shopping centres).

The average mark-ups have gone up considerably in the wake of the coronavirus crisis, and have kept moving laterally since. In the case of standing properties, they average 146 basis points (Q4 2020: 150 basis points) while stagnating at 231 basis points for property developments (Q4 2020: 234 basis points). Striking to note is also that the loan-to-value (LTV) ratios for inventory financing remain low. These declined to 66 percent on average (-0.7 percentage points).

The topical question of this latest edition sought the institutes' estimate with respect to the future trend in home office use, and the associable impact on the demand for office accommodation. The gist of the replies: The majority of financiers are convinced that the trend to work from home will stabilise at two days a week. That being said, the respondents also believe that corporate demand for office accommodation will maintain its pre-crisis level, albeit with a stronger differentiation between central and peripheral locations.

Professor Steffen Sebastian, tenured chair of real estate financing at the International Real Estate Business School (IREBS) of the University of Regensburg and scientific advisor of Quartalsbarometer, had this to say on the subject: "The pandemic has accelerated many trends that were emerging anyway, among them a tendency to work from home. While the growing spread and acceptance of home offices has had a certain impact on the demand for office accommodation, the repercussions of the economic downturn to be expected will be much stronger. For the time being, many ramifications of the crisis are being defused by the measures the government has taken. But this cannot be sustained indefinitely. Just when and how quickly the economy will slump is hard to predict because of the high degree of uncertainty – depending not least on the sluggish progress of vaccinations and the unclear role that virus mutations play. However, the eroding faith in a rapid recovery manifests itself, for example, in the Federal Government's downward revision of its growth forecast for 2021 to around three percent. As recently as late October 2020, it had predicted a 4.4-percent increase. Today, no one even talks about a V-shaped economic trend anymore."¹

The BF.Quartalsbarometer index is published quarterly by BF.direkt AG, a specialist for real estate finance, and compiled by bulwiengesa AG. The index provides a comprehensive picture of the sentiment and business climate among real estate lenders in Germany. The quarterly barometer score is calculated on the basis of various individual line items.

Methodology

¹ <https://www.zeit.de/wirtschaft/2021-01/konjunkturprognose-bruttoinlandsprodukt-bundesregierung-deutsche-wirtschaft>

The BF.Quarterly Barometer surveys more than 120 experts, most of whom are directly responsible for lending to real estate companies. The panel comprises representatives of different banks and other financiers.

The BF.Quarterly Barometer score is a composite of various components of the survey. The components analysed include the respondents' assessment of changes in financing conditions, new business development, the volume of loan tranches newly granted, the risk propensity for lending by asset class, LTV/LTC scores, margin development, the relevance of alternative financing options and the development of liquidity costs.

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The BF.Quarterly Barometer can be downloaded in German here:

<https://www.bf-direkt.de>

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About BF.direkt AG

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on the market – debt, equity, or mezzanine. BF.direkt also invests in projects directly if required. Customers of BF.direkt include well-known developers and project developers as well as publicly-traded real estate companies, real estate funds, pension funds and family offices at home and abroad. BF.direkt brokered total lending of more than €1.1 million in the past financial year and supported over €1.6 billion in transactions.

About bulwiengesa

bulwiengesa is one of the largest independent real estate analysis companies in continental Europe. We have supported our partners and clients on matters relating to the real estate industry and location and market analysis for over 30 years. We offer in-depth data services, strategic consulting and bespoke reports. Our clients include project and property developers, institutional investors, banks, municipalities and asset managers.