

PRESS RELEASE

BF.Quartalsbarometer Q4 2021:

Sentiment among Real Estate Lenders has Darkened again

- First setback after five consecutive quarters of growing confidence
- Rising number of market players aware of tightening terms of financing
- New lendings show slightly muted dynamic
- Increase in financing arrangements in the retail sector
- Margins remain high, and reach peak level in property development financing

Stuttgart, 15 December 2021 – Sentiment among Germany’s real estate lenders deteriorated slightly during the fourth quarter of 2021. The latest BF.Quartalsbarometer returned a moderately negative score of -0.31 points. This comes in the wake of an uninterrupted ascent over five consecutive quarters that reached 1.61 points by Q3. Then again, the latest index score remains well above the negative figures seen last year, including the trough of -15.24 points reported in Q2 2020.

Professor Dr. 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 BF.Quartalsbarometer, commented: “The recent surge in COVID-19 incidences probably had a negative impact on the current barometer score, not least because the emergence of the new omicron variant was already common knowledge by the time of the survey. However, this latest crisis was less surprising than previous ones. Although sentiment among lenders has somewhat darkened lately, the situation is far better than it was a year ago, when the terms of financing were rated as much more restrictive and when the new lendings volume was significantly lower.”

A major factor contributing to the downward trend of the barometer is that the number of market players reporting tighter terms of financing has noticeably increased, being 5.3 percentage points (pp) higher than in Q3. That said, it should be added that 15.2 percent believe that terms are more progressive (+2.2 pp). The muted sentiment is also apparent in the new lendings business, with only half of the respondents (53.1 %, -8.2 pp) reporting rising volumes, whereas 40.6 % (+8.4 pp) stated that their new lendings business is stagnating. The question as to what types of existing properties are being financed at the moment returned a virtually unchanged loan portfolio share of 22.3 % each for office and residential assets, which thus retained their lead position. The biggest change with an increase by 4.1 pp up to 12.9 % was registered for

shopping centres and other retail properties. With a +2.2 pp growth, this segment actually reported the largest gains in the refinancing category, too.

Trend toward Higher Margins and Lower Loan-to-Value Ratios

Margins present a mixed performance: As far as inventory financing arrangements go, they dropped by 4.2 basis points (bps) to now 154.2 bps. Inversely, project finance margins gained 6 bps and climbed to 243 bps. Loan-to-value ratios also followed a converse trend: While the average loan-to-value ratio in inventory financing declined by 1.7 bps to 65.4 percent, the loan-to-cost ratio in project financing increased by 1.3 bps to 72.6 percent. “Apart from modest fluctuations during the past quarters, we are seeing a continuation of the trend toward higher margins and lower loan-to-value ratios when compared to the time before the onset of the coronavirus pandemic. The margins in property development financing actually achieved the highest level since 2013. Risk tolerance has its price again,” said Manuel Köppel, the CFO of BF.direkt AG.

Refinancing Costs could Rise

Refinancing premiums are not likely to experience major changes, or so 80.6 percent of the panel participants believe. The share of those who anticipate falling liquidity costs dropped by 14.0 pp to now 3.2 %. By contrast, the percentage of those who predict cost hikes grew by 5.8 pp to 16.1 percent. Prof. Dr. Sebastian commented: “The market is currently expecting a rise in long-term interest rates. Add to this that the refinancing costs charged by the bank were extremely low in recent months. In some cases, covered bonds were issued at negative interest rates, and the European Central Bank helped banks during the Corona crisis with TLTRO III loans for which they charged negative interest as well.”

About the Methodology

The BF.Quartalsbarometer is compiled on behalf of BF.direkt AG, a specialist for real estate finance, by analytics firm bulwiengesa AG. The index provides a comprehensive picture of the sentiment and business climate among real estate lenders in Germany.

For the survey underlying the BF.Quartalsbarometer, a total of about 100 experts are polled four times a year, most of whom are directly responsible for granting loans to real estate companies. The panel is staffed with representatives of diverse banks and other types of financiers. The latest survey involved 33 respondents.

The BF.Quartalsbarometer score is compiled from diverse questionnaire components: the assessment of changes in the terms of financing, the trend in new lendings, the amount of loan tranches granted, the risk tolerance of financing arrangements by asset class, the level of LTV/LTC ratios, the development of margins, the importance of alternative funding options, and the trend in liquidity costs.

Download

The Quartalsbarometer for Q4 2021 is available for download in German language under the following link: <https://www.bf-direkt.de/news-und-studien>

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About BF.direkt

BF.direkt AG is an independent specialist for the funding of residential and commercial real estate projects. As one of Germany's leading financing advisers, the company develops innovative funding strategies and finds suitable finance partners for them. In addition, the company acts as asset manager for real estate debt investments. The BF.direkt Group is familiar with any financing component available on the market, including debt, equity and mezzanine capital. On occasion, the Group will invest in projects in its own right.

BF.direkt AG acts as holding company. The Group's operating activities are handled by its member companies BF.real estate finance GmbH, BF.capital GmbH, CoRE Solutions GmbH, BF.services GmbH and BF.solutions GmbH. Among the Group's clients are renowned contractors, property developers, listed real estate companies, real estate funds, pension funds and family offices domiciled inside and outside Germany. BF.direkt regularly arranges lending volumes of more than 1 billion euros a year, thereby facilitating an annual transaction volume of over 1.5 billion euros. The AuM in the real estate debt business add up to 500 million euros.

In addition to its head office in Stuttgart, the Group maintains branch offices in Berlin, Frankfurt and Munich, and employs a total of 40 staff.

About bulwiengesa

bulwiengesa is one of the major independent analytics firms for the real estate industry in Continental Europe. For more than 30 years, we have supported our partners and clients in any issue involving the analysis of real estate industry, locations and markets. We provide research-based data services, offer strategic consultancy, and compile bespoke expert opinions. Our clients include property developers, principals, institutional investors, banks, municipalities, and property asset holders.