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PRESS RELEASE

BF.Quartalsbarometer Q1 2022:
Sentiment Keeps Deteriorating among Real Estate Lenders

- For the time being, the market remains balanced
- Rising number of panel participants report tightening terms of financing
- Experts anticipate further construction cost and interest rate hikes
- Signs of recovery in new lending business
- Margins continue to rise, especially in inventory financing

Stuttgart, 22 February 2022 – Sentiment among German real estate lenders has continued to deteriorate slowly for the second quarter in a row during Q1 2022: The latest BF.Quartalsbarometer score shows a drop to -1.45 points. It is a level that makes it reasonable still to speak of a balanced market. The score remains well above the figure of -4.86 that was registered during Q1 2021, to say nothing of the all-time low of -15.24 points in Q2 2020. A key factor pushing the barometer down is that 23.1 percent of the survey participants reported tighter terms of financing, which is a 4.9 percentage point (pp) increase in the number of respondents who had said so since Q4 2021.

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 Quartalsbarometer, commented: “A number of uncertainty factors have dampened the mood among real estate lenders: The anticipated rise in lending rates, and the wide-spread inflation fears represent the biggest causes for concern in the market. The coronavirus pandemic is not yet overcome, and it continues to impact the real estate market, particularly the asset classes hotel and retail. The situation is compounded by the brisk rise in construction costs and raw material prices and by disrupted supply chains. In addition, the Federal Government’s suspension of its subsidy program for energy-efficient buildings has exacerbated the sense of uncertainty among market players.”

On the bright side, the Barometer score has been boosted by the recovering new lending business. Among the survey participants, 60 percent were aware of an elevated volume (+7 pp), whereas 36 percent reported a stagnant volume of new lendings (-5 pp) and 4 percent a decline (-2 pp). The question whether alternative financing instruments are currently more in demand than classic bank loans was answered affirmatively by 53.9 percent, and thus by a much higher number of respondents than the previous quarter (Q4 2021: 42.5 percent).

Trend toward Higher Mark-ups Continues

Following a short dip during the previous quarter, margins in inventory financing rebounded in the wake of the long-term trend, and have lately reached their highest level in two years. In Q1 2022, they averaged 168.0 basis points (Q4 2021: 154.2 bps). The average margin in project development financing went up slightly quarter over quarter, up to 245 bps (Q4 2021: 242 bps). The trend in loan-to-value ratios was not homogeneous: The average loan-to-value ratio in inventory financing increased by 2.1 bps to 67.5 percent, whereas the loan-to-cost ratio in project development financing decreased by 2.8 bps to 69.8 percent.

“The margin spread between asset classes has kept widening since the onset of the coronavirus pandemic,” emphasised Manuel Köppel, CFO of BF.direkt AG. “When you look at standing investments, there is now a gap of around 100 basis points between core shopping centres and multifamily apartment buildings. It goes to show that risk has its price.”

Construction Costs and Interest Expected to Rise

The extra question was used this time to ask the experts what the long-term ramifications of the current inflation-driven price growth are likely to be. Several panel participants expect construction costs to keep rising. Some even believe that the number of property developments will decline drastically or that forward deals will become unprofitable for developers and may be reversed.

Virtually all expert responses mentioned “interest rates” at some point. However, the respondents could not quite agree whether the anticipated interest rate hike should be seen as a good or a bad thing. “The barometer score is already influencing the interest rate forecast, specifically when it comes to the refinancing costs charged by banks. The proportion of experts who are convinced that costs will remain stable dropped by a quarter, down to 56 percent. Conversely, the share of those who brace themselves for growing costs increased by more or less the same percentage. In fact, 40 percent of the respondents now anticipate cost hikes,” said Manuel Köppel.

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 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 Q1 2022 is available in German language for download under the following link: https://www.bf-direkt.de/

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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 almost 40 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.