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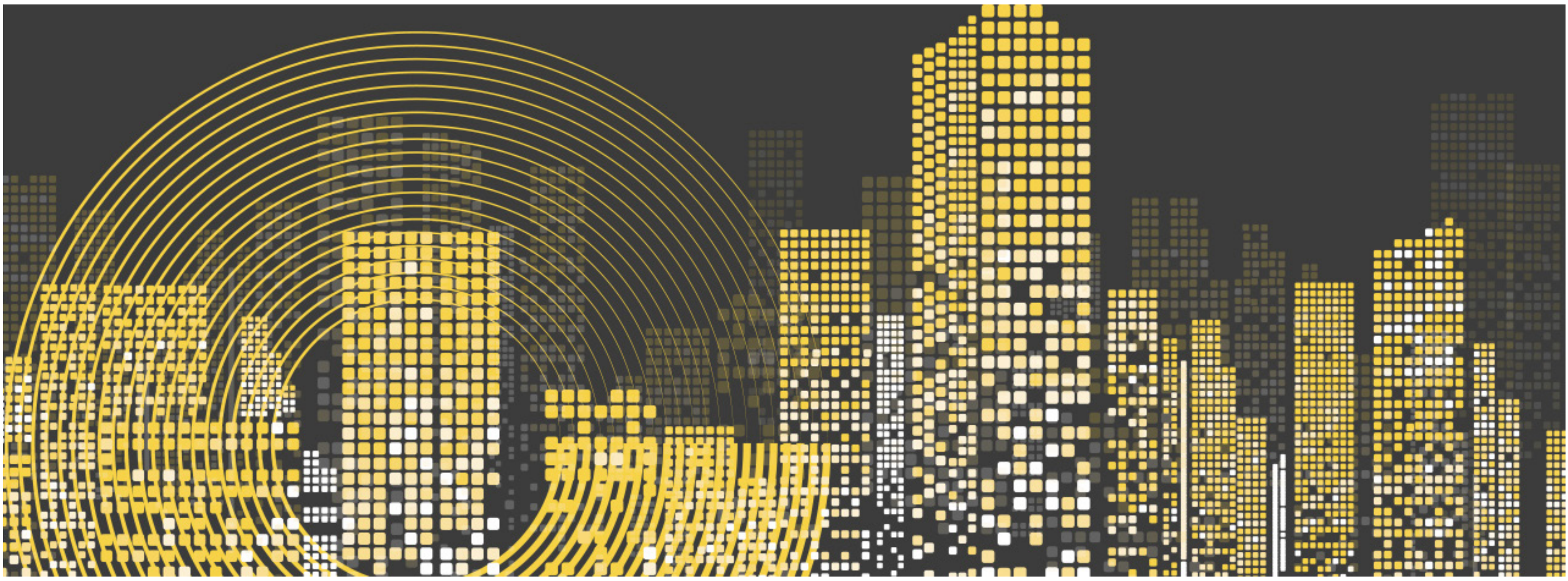


BF direkt
Unternehmensgruppe

No Actual Bank Balance Sheet Adjustments before 2025

The Expo Real trade fair revealed: Real estate pricing has become more and more realistic – not least because property owners are increasingly prepared to recognise losses. The recent realism is augmented by the fact that banks and other lenders have already set aside the necessary provisions in their balance sheets and are preparing for the resolution of non-performing loans.

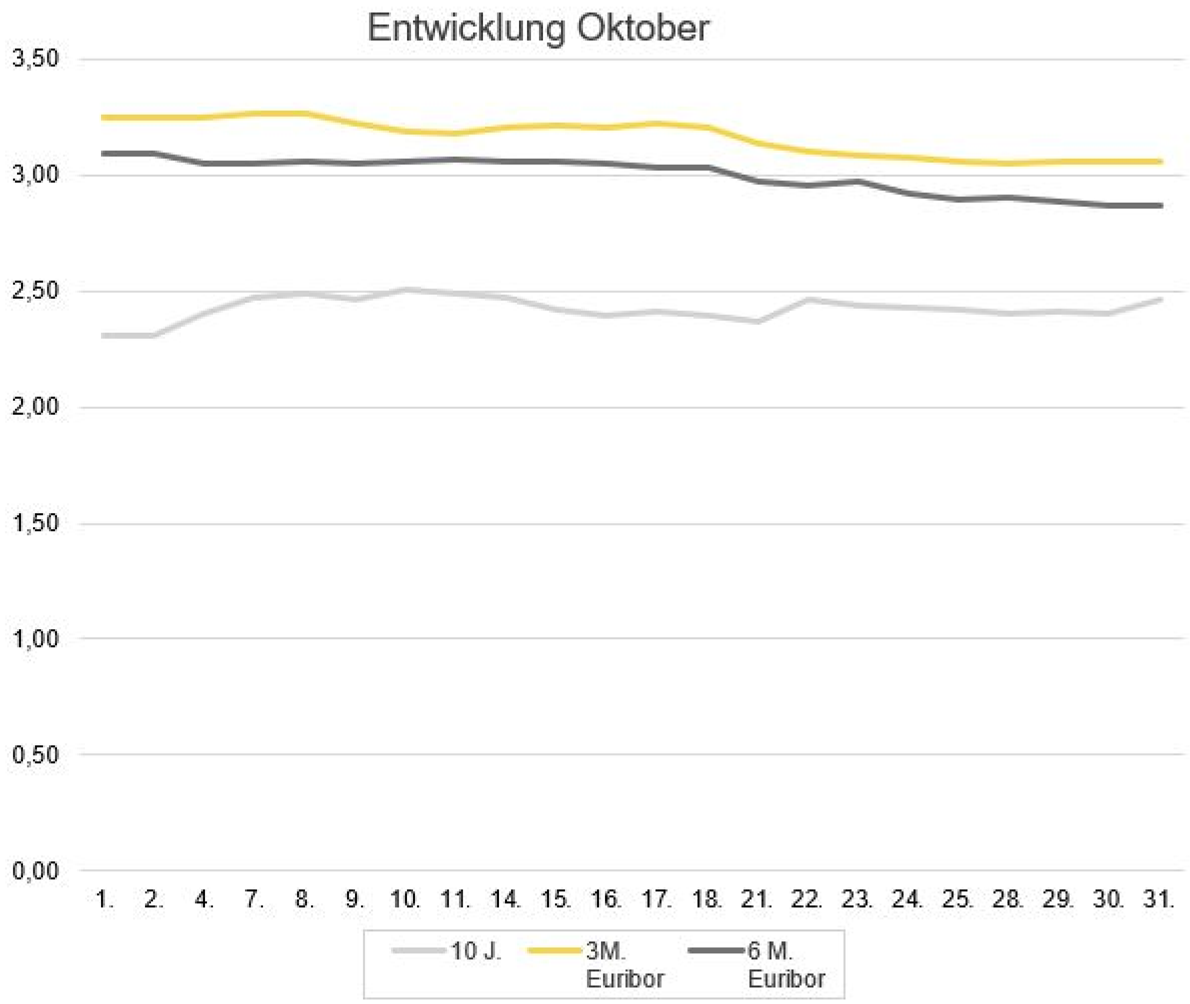
We had not expected any major transactions to be initiated at the Expo Real fair. And events on the ground did vindicate our modest expectations, as far as we can see. Yet we were left with the impression that market players have come to terms with the realities of the market. Price expectations among sellers and buyers keep closing in on each other. Proprietors are increasingly willing to recognise losses – waiting any longer would simply be too costly. On the other side, buyers have largely given up hope of picking up premium products at bargain prices. There have been very few fire sales so far because banks rarely ever call in their loans and because, even if they did, administrators are unwilling to sell at all costs in a cash-starved market.

In addition to this pragmatic realism, a potential recovery of the market is facilitated by the fact that banks and other lenders have already set aside the necessary provisions in their balance sheets and are now preparing for the resolution of non-performing loans. However, we are unlikely to see actual adjustments before 2025. Balance sheet adjustments are becoming more attractive not least because more and more new lending opportunities are emerging.

Meanwhile, the decline in inflation proved short-lived, just as we had assumed. By October 2024, Germany’s inflation rate was back up at 2.0 percent. In fact, the so-called core inflation, meaning the price growth rate for things other than groceries and energy, went all the way up to 2.9 percent.

Interest Rate Development

Having dropped by 16 basis points down to 2.40 percent in September, swap rates for ten-year interest rates nudged back up to 2.46 percent in October. Short-term interest rates, by contrast, continued their gradual decline in October. The six-month Euribor fell from 3.09 to 2.86 percent and the three-month Euribor from 3.25 to 3.06 percent.



Outlook

Despite its slight resurgences and the persistently strong price trends in the services sector, inflation has hovered around the level targeted by the European Central Bank (ECB). There is reason to expect the ECB to lower its lending rates further on 12 December, i.e. the next monetary policy decision date. Doing so would keep bringing down the reference interest rates, most notably the three-month Euribor. Although this will have no major impact on the real estate markets, it will at least provide further cost relief for property developers by the first quarter of 2025. However, the most likely scenario for long-term interest rates is that borrowing conditions will essentially remain unchanged, aside from minor fluctuations. We are not aware of any recent surveys on real estate prices. That said, our feeling is that the majority of experts expect real estate prices to start perking up in the course of 2025 even if long-term interest rates fail to come down.