

PRESS RELEASE

BF.Quarterly Barometer Q2 2020:

Sentiment among Real Estate Lenders Plummets to All-Time Low during Coronavirus Crisis

- Barometer drops 11.4 points to a score of -15.24
- General business performance and new lendings get extremely bleak ratings
- Bank refinancing costs pushing up
- Rising margins, declining loan-to-value ratios, and increase in borrowing costs

Stuttgart, 17 April 2020 – The second quarter of this year saw sentiment among German real estate lender take an unprecedented nosedive as it dropped to an all-time low. From -3.81 points in the first quarter 2020, the Barometer score plunged to -15.24 points during Q2. It is the most dramatic quarter-over-quarter shift on record. The coronavirus crisis and its repercussions have caused a significant deterioration of all major parameters.

Decisive for the steep drop in sentiment is the general assessment of the situation on the financing market, among other reasons. Eight out of ten respondents (+72 pp) rate the situation as more restrictive. This is up from just 8 percent the previous quarter. The ramifications of the crisis also dominate the trend in new lendings. More than half of the banks (58 percent: +46.3 pp) brace themselves for a dip in new lendings. Refinancing costs represent a third key factor that radically deteriorated. 83.3 percent of the respondents expect to see refinancing premiums. For the sake of comparison: This is up from just 25 percent the previous quarter.

Manuel Köppel, CFO of BF.direkt AG, commented: “The Barometer’s strong motion reflects that massive impact of the coronavirus crisis on real estate financing. That being said, it captures just a snapshot. The lockdown in Germany is an external shock event that the industry will have to cope with. This time around, the survey took place at the height of the crisis, between 30 March and 10 April. I’m quite convinced that this very bleak sentiment is unlikely to persist for many months, but will improve again, although it may take time.”

Professor Steffen Sebastian, tenured chair of real estate financing at the International Real Estate Business School (IREBS) at the University of Regensburg and scientific advisor of Quartalsbarometer, commented: “Banks have by no means turned their backs on commercial real estate financing. But especially the commercial banks are currently strained, not least because they have to process a flurry of funding applications under the KfW development bank

scheme. Then again, it is becoming perfectly clear that few banks are in a position to handle both the classic real estate risk and the currently high level of uncertainty.”

Margins Rising while LTVs and LTCs Decline

Margins jumped up noticeably during the second quarter. In inventory financing, they rose from 131 to 147 basis points, and in property development financing, from 220 to 231 basis points. Conversely, loan-to-value (LTV) ratios in inventory financing and loan-to-costs (LTC) in property development financing were lowered significantly. The average LTV ratio dropped to 65.6 percent (Q1/2020: 69 percent) and the LTC ratio to 71.1 percent (Q1/2020: 73.4 percent).

Professor Sebastian had this to say: “Banks have become more cautious during the crisis and lowered their loan-to-value ratios. At the same time, they seek remuneration for the increased exposure by raising their margins. For borrowers, this means that loans are becoming more expensive at the bottom line.”

Manuel Köppel added: “We have noticed in day-to-day business that contract clauses are being adjusted within the framework of ongoing negotiations. Lenders, for example, require that higher interest-rate buffers are built into financing arrangements or that more equity capital or extra collateral, e.g. in the form of surety bonds, is provided. Banks generally prefer to collaborate with renowned and experienced developers in times of crisis who bring a robust track record to the table along with a sound equity capital basis. What matters in the current situation is that developers have ways to cope with difficulties—which may be triggered by construction delays, for example—but also that financing banks have the necessary experience to deal with covenant breaches.”

BF.direkt AG, the specialist for real estate project financing, publishes the BF.Quarterly Barometer as prepared by bulwiengesa AG every quarter. The index offers a detailed insight into the sentiment and business climate among property finance providers in Germany. The quarterly barometer is calculated as the composite of various individual scores.

Methodology

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 condi-

tions, 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.

Download

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

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

Press contact

c/o RUECKERCONSULT GmbH

Daniel Sohler

Phone: +49 30 28 44 987 49

Mail: sohler@rueckerconsult.de

Contact at BF.direkt AG

Manuel Köppel, CFO

Phone: +49 711 22 55 44 136

Mail: m.koeppel@bf-direkt.de

Contact at bulwiengesa AG

Andreas Schulten, Vorstand

Tel: +49 30-278768-0

Mail: schulten@bulwiengesa.de

About BF.direkt AG

BF.direkt AG is an independent specialist for financing residential and commercial real estate projects. As a leading financing consultant, BF.direkt develops innovative financing strategies and identifies suitable financing partners. BF.direkt knows all financing components available 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 develop-ers, institutional investors, banks, municipalities and asset managers.