

PRESS RELEASE

BF.Quartalsbarometer Q4 2022:

Sentiment among Real Estate Lenders Drops to New All-time Low

- 89 percent of the respondents aware of tighter financing terms
- Two in three respondents report decline in new lendings
- Margins reaching peak levels
- Refinancing costs levelling out slightly

Stuttgart, 12 December 2022 – Sentiment among German real estate lenders has continued to decline during the fourth quarter of 2022: The barometer score dropped from -16.91 points measured during the third quarter down to -18.21 points now. The score marked another all-time low, having already hit a record low the previous quarter. Most prominent among the many factors that sent the sentiment index on its downward trend is the fact that the overwhelming majority (89 percent of the poll respondents) reported tighter financing conditions. This is up from 82 percent who said as much during the third quarter of 2022.

Andreas Schulten, Generally Authorised Agent of bulwiengesa, commented: “The overall picture that the BF.Quartalsbarometer paints of the current situation on the financing market is bleak. For example, around 70 percent of the respondents stated that new lendings have kept decreasing or started to decrease lately. Then again, there are some bright spots, too. For instance, the number of respondents who believe that refinancing costs are rising was down to 55 percent (minus 8 percentage points). For the sake of comparison: In Q2 2022, nearly 80 percent had reported rising refinancing costs. Moreover, large-scale transactions are still being closed. In fact, more than 20 percent of the approved loans belong in the bandwidth of 50 to 100 million euros.”

Francesco Fedele, the CEO of BF.direkt AG, added: “In every-day business, we are also confronted with the glum sentiment when talking to lenders. Without doubt, it will take a few more quarters before the situation returns back to normal, relatively speaking.”

But how have the individual parameters been trending? Margins in property development financing have soared for several quarters now. During Q4 2022, they went up by another four basis points, up to 295 basis points. For the sake of comparison: In Q4 2021, they were significantly lower at 243 basis points. Conversely, the loan-to-cost ratio (LTC) has been falling

for the past few quarters. The modest increase to 68.5 percent (+1.4 pp) in Q4 2022 has done little to change this.

The situation for the financing of standing property presents a similar picture. Over the longer term, margins are rising and LTV ratios falling. “Lenders are also pricing the risk they perceive into the margins. It is higher today than it was a year ago. With that in mind, the rise in margins is plausible and rational,” commented Professor Dr. Steffen Sebastian, tenured chair of real estate finance at the International Real Estate Business School (IREBS) and academic advisor of BF.Quartalsbarometer.

The rise in lending rates is causing difficulties both for real estate investors and for lenders, and the latest question asked of participants this quarter suggests as much. The question was: “What sort of challenges does the recent rise in lending rates cause for your clients/borrowers?” The replies of many respondents emphasised the negative leverage effect and the need for higher equity ratios. Several interviewees argued that the circle of buyers has contracted as a result. One respondent observed that “capital expenditures on portfolio property [...] can no longer be financed from a property’s cashflow while still having to cover the loan servicing costs.” Several respondents stressed the fact that the need to “maintain your loan servicing capacity” has become a challenge lately.

Professor Sebastian on this aspect: “An important question in this context is, of course, which way the prices are trending. As far as I can see, there will be no slump in prices. If we had a real estate bubble on our hands, we would have felt it by now. In the longer term, prices will soften in many segments, but they will not collapse. We need to remember that an inflation rate of ten percent already implies a price drop by ten percent in real money terms, assuming that nominal prices remain stable. This in turn dampens the downside potential.”

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 110 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 lenders 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.

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*The Quartalsbarometer for Q4 2022 is available 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 institutional investors 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, bulwiengesa has supported its partners and clients in real estate industry issues by providing location and market analyses, detailed data services, strategic consultancy and bespoke expert opinions, among other deliverables. The company's proprietary information system RIWIS online provides well-informed microdata, time series, forecasts and transaction data. The data of bulwiengesa are used by Deutsche Bundesbank for the European Central Bank (ECB) and the Bank for International Settlements (BIS), among other clients.