PRESS RELEASE

BF.Quartalsbarometer Q1 2023:
Sentiment Index for Real Estate Lenders Hits Another All-Time Low

- Main reasons: low lending volumes and growing refinancing costs
- No further deterioration of the trend in new lending
- Margins continue to grow strongly

Stuttgart, 21 March 2023 – With the trend of previous quarters persisting, sentiment among Germany's real estate lenders has not brightened during the first quarter of 2023 either: The Barometer score kept deteriorating, from its previous all-time low of -18.21 points of the fourth quarter of 2022 down to now -19.44 points. What is weighing down the score more than anything else are low lending volumes and rising liquidity costs. The share of loans worth less than ten million euros has grown to almost 40 percent lately, whereas loans over more than 50 million euros account for only 12.5 percent. More than half of all survey respondents are forced to spend more on refinancing.

Andreas Schulten, Generally Authorised Agent of bulwiengesa, commented: "The Barometer level has continued to go down, albeit at a slower pace. This matches the impression I got during the MIPIM property trade fair. The mood among financiers at the fair was rather subdued."

Three out of four of the respondent financing experts rate the current situation on the financing market as more restrictive, while one in four considered it unchanged. As recently as Q4 2022, the ratio had been nine to one. Similarly, the trend in new lendings did not deteriorate any further. While about 70 percent of the respondents had stated during the fourth quarter of 2022 that their new lendings had recently begun or continued to decline, that percentage was down to 38 percent. No less than 14 percent are actually reporting an increase in new lendings.

Margins continued their upward surge. The average rate in portfolio financing rose significantly, from 190.6 basis points (bps) the previous quarter to now 235.1 bps. The average margin for property developments pushed up from 295.1 to 337.1 bps. Francesco Fedele, the CEO of BF.direkt AG, commented: "I expect margins to keep rising, because the market situation makes them acceptable, and the heightened risk level has its price. At the same time, several parameters of our analysis show that market players are taking a very risk-averse approach."

For the second time in a row, loan-to-cost (LTC) and loan-to-value (LTV) ratios perked up slightly as they ascended to 69.2 and 65 percent, respectively. “This development is more likely to be connected to valuation effects than to higher gearing ratios. In most cases, the slightly elevated LTV ratios actually imply a substantially lower borrowing amount than was standard even in the most recent quarters. This makes it more of an increase by appearance only,” elaborated Manuel Köppel, CFO of BF.direkt AG.

Meanwhile, alternatives to traditional bank loans continue to trend. The increased demand has been diagnosed by 45.5 percent of the experts lately. The most popular alternative financing format is mezzanine capital, followed by private equity and senior secured debt instruments. “These findings of the quarterly barometer cover the demand side. On the supply side, the funding volume among junior lenders has noticeably contracted over the past few months. Especially mezzanine lenders move with caution now when disposing of their remaining liquid funds. The main reason is that exits have become more difficult,” explained Professor Dr. Steffen Sebastian, tenured chair of real estate finance at the International Real Estate Business School (IREBS) and academic advisor of BF.Quartalsbarometer.

During the last quarter, panel participants were asked for their assessment of the economic significance of CO_2 pricing in financing practice. Although very few of the respondents have seen any downstream consequences yet, most anticipate them going forward. Some survey respondents pointed out that the CO_2 levy already plays a decisive role in loan approvals as it is.

“Even though the environment for new financing and refinancing arrangements remains difficult, we have not seen a wave of loan defaults so far. Nor do we have a credit crunch on our hands, because the German banking sector is principally willing to finance. The main difficulty is that supply and demand are currently out of step with each other,” said Fedele in his assessment of the situation.

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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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, Munich and Düsseldorf, and employs a total of 50 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.