PRESSEMITTEILUNG

BF.Quarterly Barometer:

Sentiment among German property finance providers reaches annual high

- Barometer score rises from 0.02 to annual high of 0.6 in Q4 2017
- LTVs (72.0%) and LTCs (74.5%) climb to new highs
- Institutions can push through higher margins
- Experts do not expect a fundamental change to expansionary monetary policy
- Outlook: Alternative property financing instruments will remain in high demand in 2018

Stuttgart, 7 November 2017 – Sentiment among German property finance providers is improving: The BF.Quarterly Barometer has risen from 0.02 to an annual high of 0.6 points in Q4 2017. The barometer score therefore indicates a balanced financing market. Overall, more institutions (39%; + 4 percentage points) have a positive assessment of the situation than in the previous quarter. Conversely, none of the experts expects more restrictive financing conditions. No drastic changes in interest rate policy are expected from the European Central Bank (ECB) in the medium term. The Central Bank is still increasing its investment – it just reduced the rate of the increase somewhat at the end of October 2017. Against this backdrop, investor demand for alternative property financing instruments such as bonds or mezzanine capital will remain high in 2018.

These were the key messages of yesterday's online press conference, **"New players and alternative instruments in real estate financing: Which trends will dominate the market in 2018?"**, featuring Andreas Schulten, member of the Board of Directors at bulwiengesa AG, Prof. Steffen Sebastian, holder of the Chair of Real Estate Finance IREBS at the University of Regensburg, and Francesco Fedele, CEO of BF.direkt AG.

Firstly, Andreas Schulten presented the key findings of the Quarterly Barometer: "An important trend in this quarter is that banks are taking higher risks again. Both loan-to-values (LTV) for existing properties and loan-to-costs (LTC) for project developments are increasing considerably. The average LTV has reached 72.0%, the highest figure in the barometer's history, while LTC averages 74.5% and thus the highest figure since Q4 2014." However, the banks are also succeeding in getting these risks to pay off. Margins for project development financing have risen – as in the previous quarter – to 207 basis points (up 8 basis points). The increase for existing properties amounts to 140 basis points (up 4 basis points).

Despite this growth in risk, responsibility for lending decisions at most banks is shared equally between the new business department and the risk department (67.5% of those surveyed indicated this).

There have been shifts in the usage types being financed. This applies equally to project developments and existing properties. The focus on niche areas in project development financing has waned somewhat. The proportion of institutions financing the traditional core segments is increasing. The proportion financing residential property developments has grown by 6.1 percentage points to 84.8%. The same pattern is emerging for existing properties. Schulten explained: "Here, too, the financing focus is shifting towards traditional asset classes. Accordingly, the proportion of institutions financing office properties has climbed by 5.3 percentage points to 97.4%, residential properties by 2.8 percentage points to 94.9% and retail properties by 5.7 percentage points to 84.6%." In contrast, the proportion of institutions financing niche products is sinking. The strongest declines are in the proportion financing hotel properties, falling by 9.2 percentage points to 48.7%, and micro-apartments/student housing, falling by 9 percentage points to 43.6%.

ECB fundamentally continues its expansionary monetary policy

Prof. Steffen Sebastian then talked about the monetary policy conditions for finance providers. "At the bottom line, the ECB's monetary policy will continue to support the favourable financing environment. At its interest rate meeting at the end of October, the ECB resolved to reduce its monthly bond purchasing volume from EUR 60 billion to EUR 30 billion. However, this does not mean a withdrawal from the bond market or even a reduction in the ECB's investment, as expiring loans will first be replaced and then an extra EUR 30 billion will be invested. The expansion of the ECB's balance sheet is therefore merely being slowed down, but the ECB's investment will continue to increase for now." Furthermore, a renewed expansion of the programme is possible at any time, and key interest rates remain at a very low level. "The ECB is therefore fundamentally continuing its expansionary monetary policy. I expect only cautious corrections even over the course of next year," Sebastian concluded.

Demand for alternative financing instruments still high in 2018

Francesco Fedele from BF.direkt AG reported on the topic of alternative real estate financing from a practical perspective: "We are seeing increasing numbers of institutional investors of all kinds acting as property finance providers. They are involved in both senior and subordinate loans and are nearly all professional investors. Retail investors play no role in this segment."

Fedele expects that alternative property financing instruments will remain in high demand in 2018. "The ECB's expected interest rate policy will support this. There are hardly any alternative options for investors with a comparable risk/reward profile. In addition, it is foreseeable that the boom in project developments, and thus the high demand for mezzanine capital, will persist."

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 conditions, 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 full Quarterly Barometer for Q3 2017 can be downloaded in German from the following link: https://www.bf-direkt.de/fileadmin/fe_files/2017/BF.QB_Q4_2017_EXTERN.PDF

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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 million in the past financial year and supported over €1.5 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 developers, institutional investors, banks, municipalities and asset managers.