PRESS RELEASE

BF.Quarterly Barometer Q4 2018:
Margins in real estate finance sink to all-time low

- Barometer score increases slightly to -0.43 (+0.49)
- Margins on financing for existing properties have fallen by 62.8 basis points over the past five years, while margins on project development financing have fallen by 45 basis points.
- LTV and LTC ratios decrease slightly to 70.9 per cent and 73.5 per cent respectively.
- Assessment of new business improves and high volume loans increase

Stuttgart, 12 November 2018 – Sentiment among German real estate financiers has improved moderately, but remains somewhat subdued overall. In Q4 2018 the BF.Quarterly Barometer rose by +0.49 points compared to the previous quarter, to -0.43 points. The barometer score is therefore slightly below zero, signalling a balanced finance market.

Despite the slight recovery in the barometer score, financiers are suffering from the effects of extremely low margins – affecting both financing for existing properties and project development financing. Margins on financing for existing properties have, above all, been falling consistently for years and in Q4 2018 reached their lowest level in the history of the barometer. Between Q4 2013 and Q4 2018 they fell by 62.8 basis points to 122 (Q4 2013: 184.8 basis points). In the same period, average margins for project development financing fell by 45 basis points to 198 points in Q4 2018 (Q4 2013: 243 basis points). Compared to Q3 2018, the decreases with regard to financing for existing properties and project development financing were 9 and 4 basis points respectively.

Prof. Dr. Steffen Sebastian, Chair of Real Estate Finance at IREBS and academic adviser to the BF.Quarterly Barometer comments: “Interbank competition continues to be very strong – particularly with regard to financing for existing properties, which involve less risk than project development financing. That also shows that Germany is “overbanked”. It is becoming increasingly difficult for banks to make money on real estate loans. There is ever greater pressure on banks to become more efficient.”

Manuel Köppel, CFO of BF.direkt AG, comments: “The margins on project development financing have not fallen as much as those on financing for existing properties. The spread between the margins for the two types of properties is growing. While five years ago the returns on project developments were between 20 and 40 basis points higher, today the gap is between 70 and 80 basis points. That is one of the reasons why an increasing number of banks – particularly smaller banks – are starting to finance project developments."

"However, those lower margins have also been accompanied by slightly lower LTV (loan-to-value) and LTC (loan-to-cost) ratios," adds Prof. Sebastian. The average LTV ratio for financing for existing properties has fallen to 70.9 percent (-0.6 percentage points), while the average LTC ratio for project development financing has decreased to 73.5 percent (-0.3 percentage points). "While the banks get lower returns on their loans, they also take on slightly reduced risks," concludes Sebastian.

New business improves and more large loans

Aside from historically low margins, the survey also produced positive results that led to improvement in the barometer score. The number of banks that consider new business development as "recently increasing" or "still increasing" rose by 5.9 percentage points to 38.2 percent. Banks are also issuing growing numbers of large loans, which also had a positive effect on the barometer. Loans with a volume of between EUR 50 million and EUR 100 million grew by 4.2 percentage points and will represent 23.5 percent of all new loans in Q4. The share of very large deals (more than EUR 100 million) also increased slightly (+2.9 percentage points to 2.9 percent).

A further reason for the recovery of the barometer score are the more positive assessments of refinancing costs. Only approximately a quarter of those surveyed said that refinancing premiums are rising (-5.0 percentage points compared to Q3 2018).

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 BF.Quarterly Barometer can be downloaded in German here:

https://www.bf-direkt.de/unternehmen/quartalsbarometer

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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 €1.1 million in the past financial year and supported over €1.6 billion in transactions.

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