

PRESS RELEASE

BF.Quarterly Barometer Q1 2019:

Sentiment among German real estate financiers has dropped to an all-time low

- Barometer falls to a low of -3.88
- Financiers in a cost trap: 40% believe refinancing costs will rise
- Pessimistic assessment of new customer business and situation on the financing market
- Demand for alternative financing at a new all-time high

Stuttgart, 5 February 2019 – Sentiment among German real estate financiers has worsened significantly. In the first quarter of 2019, the BF.Quarterly Barometer fell to -3.88 points (Q3 2018: 0.43). That constitutes an all-time low value for the barometer. Numerous factors contributed to the significant drop. The proportion of individuals questioned who assessed the situation on the financing market as progressive reached its lowest level. Margins, which had already reached a low last quarter, decreased further to a very weak level. Meanwhile, refinancing costs increased for many institutions, with banks also increasingly facing competition from alternative financiers.

Manuel Köppel, CFO of BF.direkt AG, comments: “Following a property boom that lasted for years, and relatively positive sentiment among financiers, many market participants take a significantly more pessimistic view of the future. A whole series of factors that affect the banks’ business have worsened.”

Prof. Steffen Sebastian, Chair of Real Estate Finance at IREBS and academic adviser to the BF.Quarterly Barometer explains: “New business is becoming increasingly difficult for financiers. On the one hand, that is partially due to the constantly decreasing number of properties available on the market that meet the banks’ risk criteria. On the other, very strong competition is playing a role. A third of all loans are not being concluded because demand is too high and competitors are winning the contracts.”

The barometer's results in detail: The surveyed banks assess the general situation on the financing market as worse. Compared to the previous quarter, the proportion of those questioned that have a progressive view of the situation halved from 36.1 to 17.6 percent – a new low. The banks surveyed also have a significantly more pessimistic assessment of new business development. Only approximately 25 percent (-13 percentage points) expect an increase in new business. That is the lowest value since the quarterly barometer has been recorded. More than 56 percent of those questioned expect development to stagnate, while just under 20 percent (+7 percentage points) expect new customer business to decrease. Ratings of the importance of generating the greatest possible volume of new business rose accordingly, by 3.6 percentage points.

Lower volumes of financing

That went hand in hand with a decrease in the size of new customer business by volume. The proportion of financing with a volume greater than € 50 million decreased to 18.8 percent (-7.7 percentage points), its lowest level in three years. Meanwhile the proportion of loans with a volume between € 10 million and € 50 million increased to 46.9 percent (+5.7 percentage points).

Financiers in a cost trap: increasing liquidity costs

A second factor in the all-time low BF.Quarterly Barometer score was the rise in liquidity costs for financiers. Approximately 40 percent of institutions (+14.3 percentage points) reported an increase in refinancing costs. A year ago that figure was just around 10 percent. Meanwhile, only approximately 13 percent (+0.7 percentage points) expect liquidity costs to decrease.

Prof. Sebastian comments: "Financiers are getting stuck in a vicious cycle. Their refinancing costs are increasing, but they can't pass those costs on to their customers in the form of higher margins."

Margins and LTC/LTVs are moving laterally

Margins and loan-to-values (LTVs), as well as loan-to-costs (LTCs), are largely developing laterally in the first quarter of 2019. LTVs for existing properties increased slightly to 71.7 percent (+0.8 percentage points). LTCs for project developments stagnated at a high level of 73.7 percent (+0.2 percentage points). Starting from a very low level, average margins for

existing properties increased by 5 basis points to 127 basis points. Average margins for project developments remained almost unchanged at 197 basis points (-1 basis point).

Demand for alternative financing doubles

While traditional financiers are facing various problems, demand for alternative financing instruments increased further, to a new all-time high. Approximately 60 percent (+9.4 percentage points) of the surveyed banks observed greater demand for alternative forms of financing. That represented almost doubled demand since the second quarter of 2017. Mezzanine capital continues to be in the greatest demand, accounting for a proportion of 36.7 percent (-0.1 percentage points), followed by equity capital (e.g. private equity or joint ventures), with a proportion of 28.6 percent (+7.5 percentage points).

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 BF.Quarterly Barometer can be downloaded in German here:

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

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 billion 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 developers, institutional investors, banks, municipalities and asset managers.