

PRESS RELEASE

BF.Quarterly Barometer Q3 2019:

Sentiment among property finance providers improves significantly but remains slightly negative

- Barometer score rises by 2.1 points to -1.3 points
- Market and new business are rated more positively
- Margins remain stable, LTV hits low
- Conflicts between senior and junior investors impeding projects in some cases

Stuttgart, 19 August 2019 – Sentiment among German property finance providers has risen sharply in the third quarter. However, it remains in slightly negative territory. The BF.Quarterly Barometer climbed from -3.4 points in Q2 to -1.3 points in Q3 (an increase of 2.1 points). The recovery is mainly due to three improved assessments: Firstly, more banks – 28.1 of respondents (up 5.5pp) – consider the market to be more progressive again. Secondly, the share of finance providers expecting growth in new business has increased significantly to 42% (up 14.3pp). Thirdly, considerably fewer banks – 19.4% (down 4.8pp) – state that liquidity costs (refinancing premiums) are rising.

Prof. Steffen Sebastian, holder of the Chair of Real Estate Finance at the IREBS business school and scientific adviser for the BF.Quarterly Barometer, explains: “Overall, a wide-scale improvement in sentiment can be observed. This is also reflected in the latest press releases from various finance providers on the first half of 2019.”¹

Margins remained relatively stable in Q3. The margins for existing properties saw a slight decline to 119 basis points (down 3bp), whereas the project development margins increased slightly to 203 basis points (up 3bp). Francesco Fedele, CEO of BF.direkt AG, adds: “It is striking that the average loan-to-value (LTV) has fallen significantly to 68.3% (down 1.6pp) and has almost reached an all-time low. In my opinion, however, this is not attributable to a more conservative approach by the banks, but rather to the significantly increased prices in the past. The banks’ collateral values are lagging behind the price increase, resulting in lower LTVs.”

¹ <https://www.immobilien-zeitung.de/1000063881/pbb-macht-mehr-neugeschaeft>

In addition, the follow-up question about the reasons why some financing transactions did not happen brings to light another interesting problem from practical experience: The different interests of senior and junior investors are repeatedly causing problems. Some finance providers complain of the high collateralisation claims of mezzanine capital providers, who sometimes demanded collateralisation through entries in the land register or the pledging of company shares to the project company.

Francesco Fedele comments: “By their nature, these concerns on the part of the banks are based on their subjective viewpoint. In my opinion, however, senior finance providers certainly have the scope to accommodate junior investors. We are observing considerable differences in the way this is handled. If the providers of senior and junior tranches really want to implement a project, then usually a solution will always be found. For example, senior finance providers can agree to company shares being pledged. There are also options for more flexible handling when it comes to land charges.”

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 pro-pensity 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.

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.