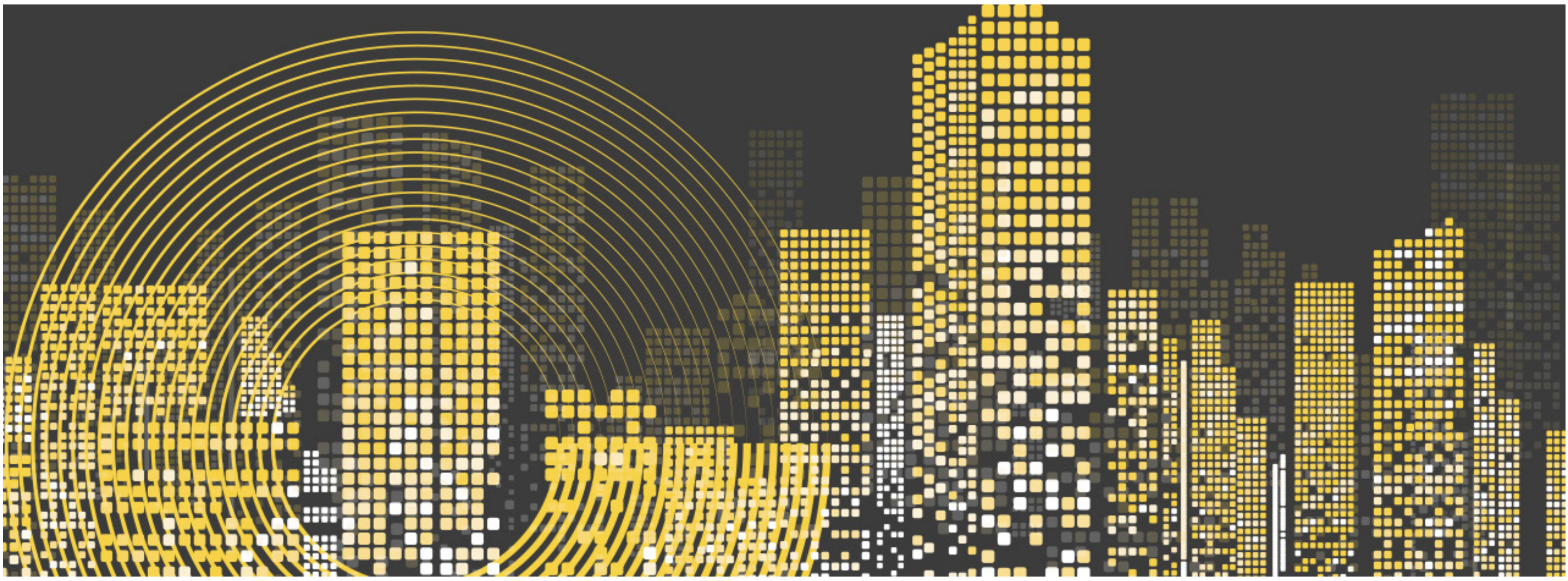
BF Marktradar



BF direkt
Unternehmensgruppe

Real Estate Companies Should Consider Entering the Infrastructure Business

The international capital market is currently shaken up by the capricious course of US politics. In Germany, the new federal government is settling in. Its primary tasks will be to cope with the political situation in Europe and to put the German economy back on track toward a growth trajectory. We do not anticipate any game-changing impulses for the real estate sector. Operators able to do so are well advised to expand their business model to include infrastructure. This is where massive investments are to be expected.

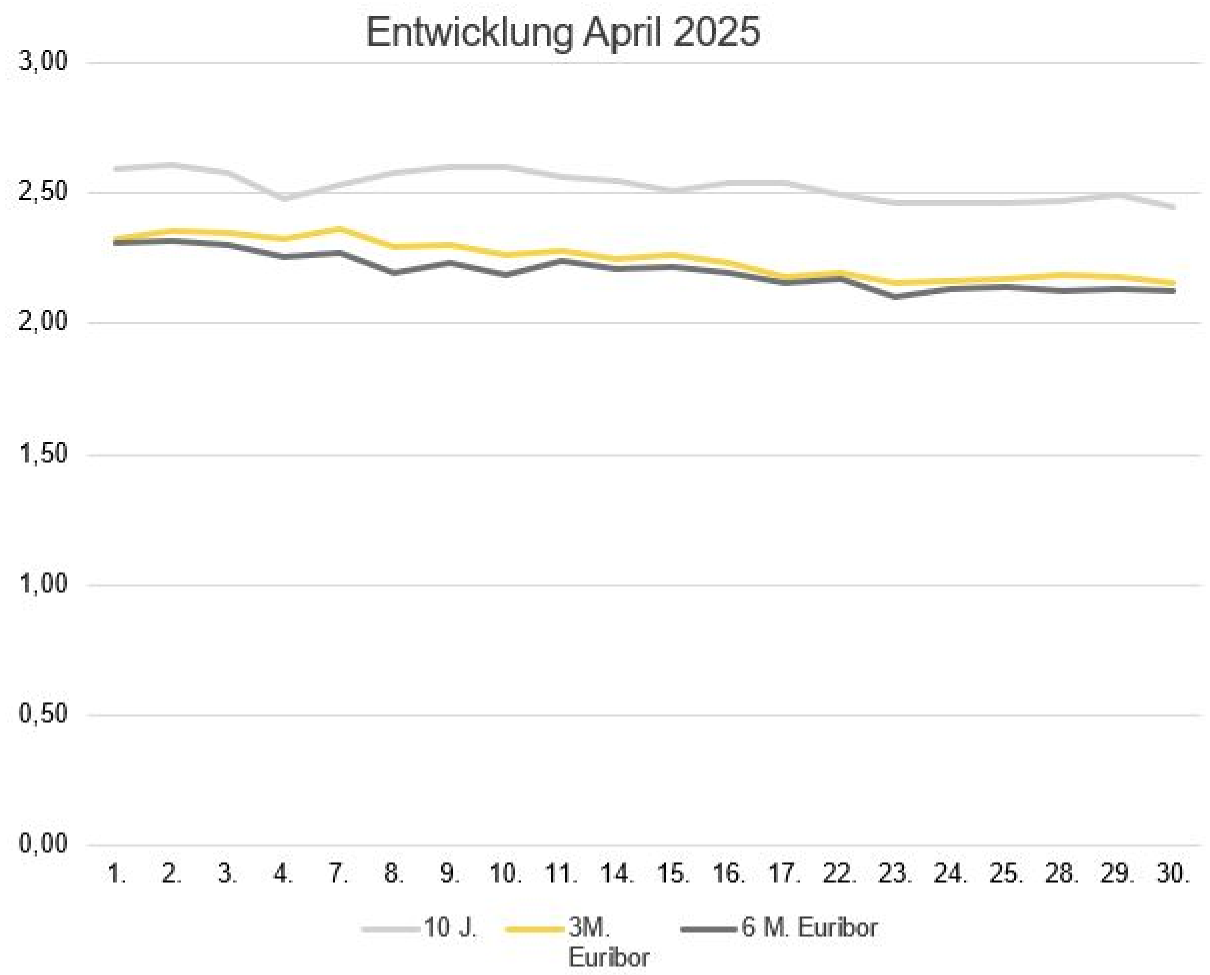
President Trump is dishing out fresh scandals to the world on an almost daily basis. Yet he keeps walking back his latest proposals just as quickly. It is all part of a strategy: The more he floods the systems with his outrageous suggestions, the less opposition he is likely to face in general. In the case of his planned tariffs, however, the strategy does not seem to have worked. A massive upheaval has apparently been averted. But the trade with China has virtually come to a standstill for now, at least wherever it was not rerouted through third countries.

Similarly, the ramifications for the capital markets are long-term in nature. Capital has always been, and continues to be, an elusive species. And it is not just the stock markets that showed a drastic response. Investments are simply shelved in times of uncertainty. The US economy is now moving toward a recession. The dollar is softening and many international investors are already reducing their dollar positions because they expect what is still the leading international reserve currency to weaken further. From a political, including a geopolitical, point of view, such a development may actually be welcomed because it undermines the Trump administration. However, the situation also has repercussions for the German and European economies. The anyway sluggish business cycle can no longer hope for overseas impulses from a globalised economy. It is to be hoped that the new German government manages to implement significant stimuli.

That said, the key factor for the situation on Germany's real estate market is not so much Donald Trump but the level of interest rates. The ECB's most recent cut of its key lending rates prompted a drop in the Euribor and thereby lowered the financing costs for property developers and contractors. At the same time, lending rates in the long-term segment have also recovered. Having initially surged after the revision of the debt cap provision in the German constitution, they gradually went back down later on. Even Europe's inflation rate is declining steadily and makes further interest rate cuts a plausible prospect. However, there are no signs that this has stimulated the real estate market in any major way.

Interest Rate Development

Short-term interest rates continued to go down in April. The 3-month Euribor fell by 17 basis points from 2.32 to 2.16 percent. The 6-month Euribor followed a more or less analogous trend. It dropped by 18 basis points from 2.31 to 2.13 percent. In the long-term segment, the 10-year swap rate fell from 2.59 percent at the end of the month to now 2.45 percent, thereby returning approximately to the level seen in early March.



Outlook

In the foreseeable future, government activities in Germany and elsewhere in Europe will focus on the geopolitical vicissitudes. For Germany, the economic policy is equally important. One major task of the new government will be to put the German economy back on a growth trajectory. That includes infrastructure redevelopment. Nor have political efforts to combat the climate change vanished from the agenda. But the real estate industry and with it the short supply in affordable housing will be of negligible importance for the body politic until further notice. Any company able to do so will therefore expand its spectrum of activities to include infrastructure deliverables.