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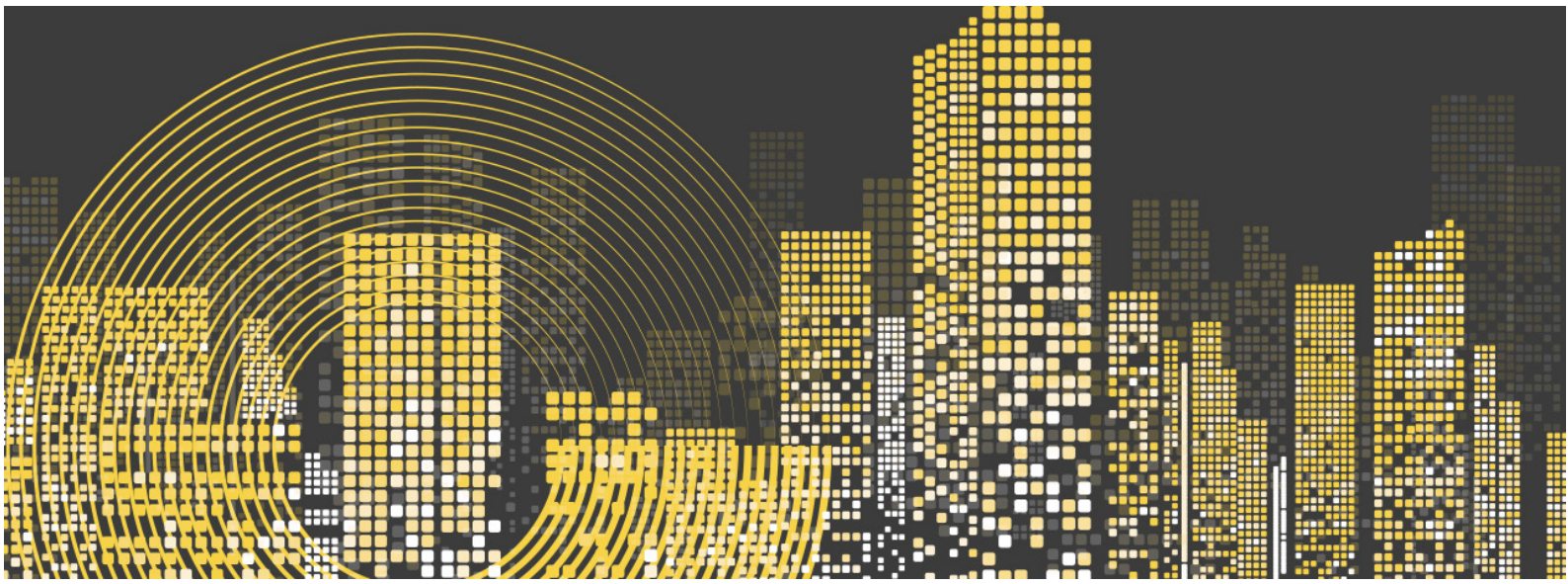


BF direkt
Unternehmensgruppe

While the Market is Facing Serious Issues, We Don’t Anticipate an NPL Wave

Insolvencies among property developers and property asset holders continue unchecked. Yet we see no sign of a major NPL wave. However, a real upturn is not in sight either, as far as we can see, even though many market players are getting their hopes back up.

What could force property developers and property asset holders to file for insolvency before the end of 2025? Answer: Chances are they used up their resources but were unable to remedy their problems. Many operators managed to stay afloat with interim solutions, loan renewals and disposals or part disposals, yet their options and their own resources are now exhausted. Especially imminent loan renewals among property asset holders are likely to pose serious challenges in the coming months.

However, even as things are coming to a head, we do not anticipate an NPL wave (anymore). To be sure, a wave is exactly what many market players have predicted for months, but the predictions will do little to speed up the process. Least of all if such forecasts are voiced by operators whose business model thrives on NPLs – and we are saying so while sitting in the proverbial glasshouse, because even the BF Group co-founded just such a company, Nova Fides.

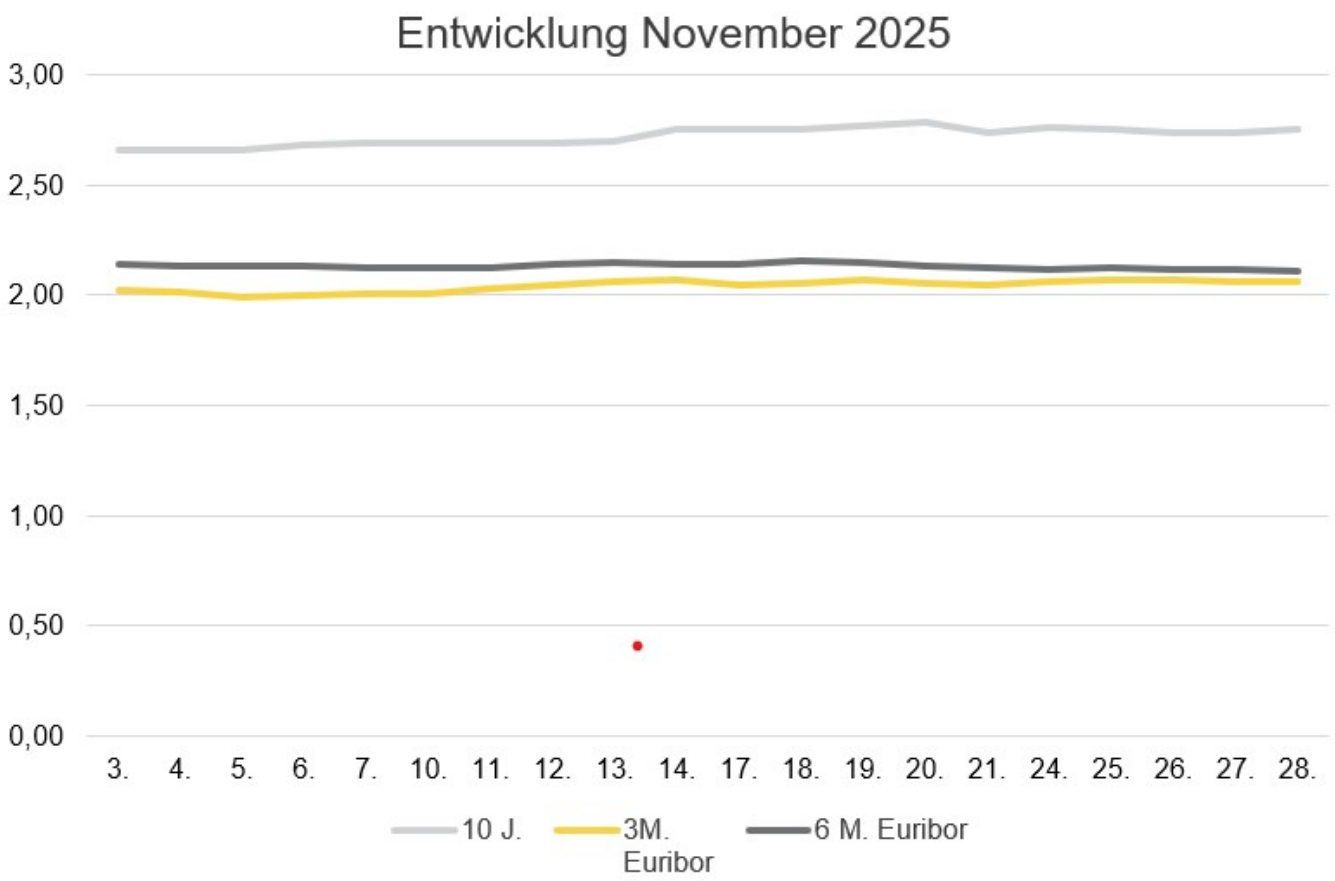
Banks actually seem to have solved the issue internally, namely by restructuring such loans or writing them down, where applicable. Instead of disposing of non-performing loans on a large scale, the underlying physical assets are increasingly sold directly, especially whenever senior loan providers get their way. In some cases, the mezzanine lender will actually take over the property, assuming sufficient liquidity.

We therefore expect to see an increase in product on the market, especially office real estate in peripheral areas, and continued pressure on prices. The shake-out will continue until new groups of buyers with realistic price expectations become active in these peripheral markets.

Interest Rate Development

Money market and capital market rates more or less flatlined in November. The 3-month Euribor increased from 2.02 to 2.06 percent, the 6-month Euribor dropped slightly from 2.14 to 2.11 percent. On the long-term side, the 10-year swap rate made modest gains, ascending from 2.66 to 2.75 percent. This means it continued the sideways trend observed over the past months. Markets have priced in neither major interest rate cuts nor interest rate hikes for the coming months. While the price pressure in the services sector remains high, the inflation in general is closing in on the target mark of two percent. The ECB continues to exercise restraint: It prioritises stability over rash action.

This has made the level of interest rates predictable for the real estate industry; there is no reason to expect any interest rate cuts. New financing arrangements are available only on the basis of robust debt service profiles and at conservative loan-to-value ratios, and yet this sort of predictability makes it slightly safer to plan ahead.



Outlook

Many market players seem to believe that the crisis has already been overcome, and expect prices to go up. We do not fully share this optimistic view. The previous real estate cycle unfolded in two virtually symmetrical phases: a 13-year downturn from 1995 through 2009, followed by a 13-year upturn from 2009 through 2022, the latter culminating in an historically unprecedented price rally. If the ongoing crisis were indeed about to end, it would have been an exceptionally short down cycle.

We assume instead that it will take a while yet for the market to recover, and that it will noticeably differ in pace depending on use class and location. While logistics and residential continue to benefit from stable demand and available funding options, office and special real estate is likely to stay under pressure.

For well-heeled investors, this opens up opportunities: If you take a long-term approach, you may take advantage of this market cycle to acquire properties whose value could substantially appreciate after the market shake-out.

In general, it is safe to say: Without a wave, the crisis is bound to cast a long shadow. Even though the market functions, it will keep waiting for the cycle to conclude.