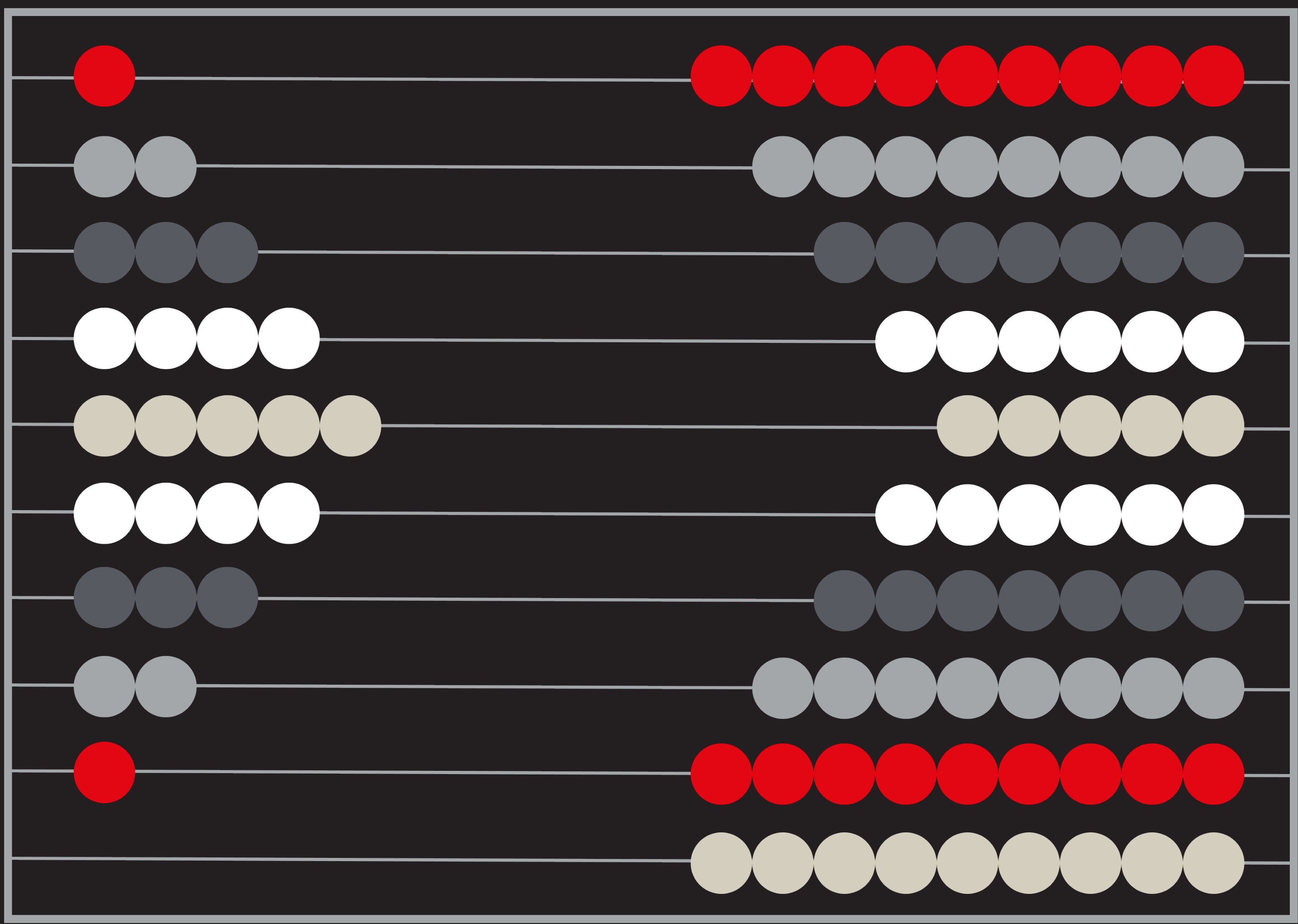
Research

New Business Report Real Estate Financing

1st Half 2023



New business figures and loan portfolios for commercial real estate financing by German banks

Germany's economy experienced significant stagnation between January and July 2023. The inflation rate, which stood at 8.7 per cent at the beginning of the year, had a particularly negative impact on the private household sector. To counteract this, the European Central Bank continued its programme of interest rate rises which began in the second half of 2022. This was followed by significant rises in the key interest rate which continued in the second half of this year. In September, the main financing rate rose to 4.5 per cent. In response to higher financing costs and a simultaneous reduction in real household income, the economy continued to lose momentum across all sectors.

The real estate sector was affected by these challenging market conditions, particularly the investment market. With traditional investment products once again gaining traction due to the general rise in interest rates, the search for healthy returns on real estate investments has intensified. Higher operating and refinancing costs have increased the capital pressure on potential property sellers, but there is still a clear discrepancy between sellers and buyers, with many investors not prepared to invest at the current asking prices.

The German investment market remained very subdued in the first half of 2023

Investors held back significantly in the first six months of 2023, with just €14.9 billion invested in the real estate investment market. This is a fall of 59 per cent compared to last year and 53 per cent below the average of the past ten years. At €7.2 billion, the volume in the second quarter of 2023 was slightly lower than in the first quarter. The main reason for this slump in transaction volume was the lack of office transactions. At €14.4 billion and a share of 40 per cent, office deals were the dominant asset class in the first half of 2022. However, one year later, the transaction volume of these properties has shrunk by over €10 billion to around €3 billion. As such properties currently account for 21 per cent of the total transaction volume this year, this puts the segment behind living (34 per cent) and just ahead of retail (18 per cent and a volume of €2.6 billion). The significant decline in transactions worth €100 million or more reflects the continued tension in the investment market. While 69 deals of this size were concluded in the first half of 2022, just 23 transactions were recorded this year.

Investors are clearly focusing on safe investments, especially in these challenging times, with 88 per cent of the invested funds flowing into Core and Core-Plus properties in the first half of 2023. The current trend is underlined by the concentration of investment activity on Germany’s seven real estate strongholds, which together accounted for almost half of the investment volume at around €7 billion.

As with investors, lenders are showing a general reluctance to grant new loans, which is also evident from the prolongation of existing financing. Increasingly, available liquidity has been focused on resilient asset classes such as residential and logistics. Stable cash flows have proven to be decisive, particularly in terms of the ability to service debt. The expected market price corrections for the volume of newly granted loans and prolongations have already been priced in, intensifying the liquidity pressure, particularly for developments. This pressure will also be increasingly felt by portfolio owners.

New business shrinks by a quarter

To assess the situation for commercial real estate in the German financing market quantitatively, JLL has analysed and evaluated both current and projected new business and loan portfolio data from the participating banks.

New business figures and loan portfolios for commercial real estate financing of selected banks

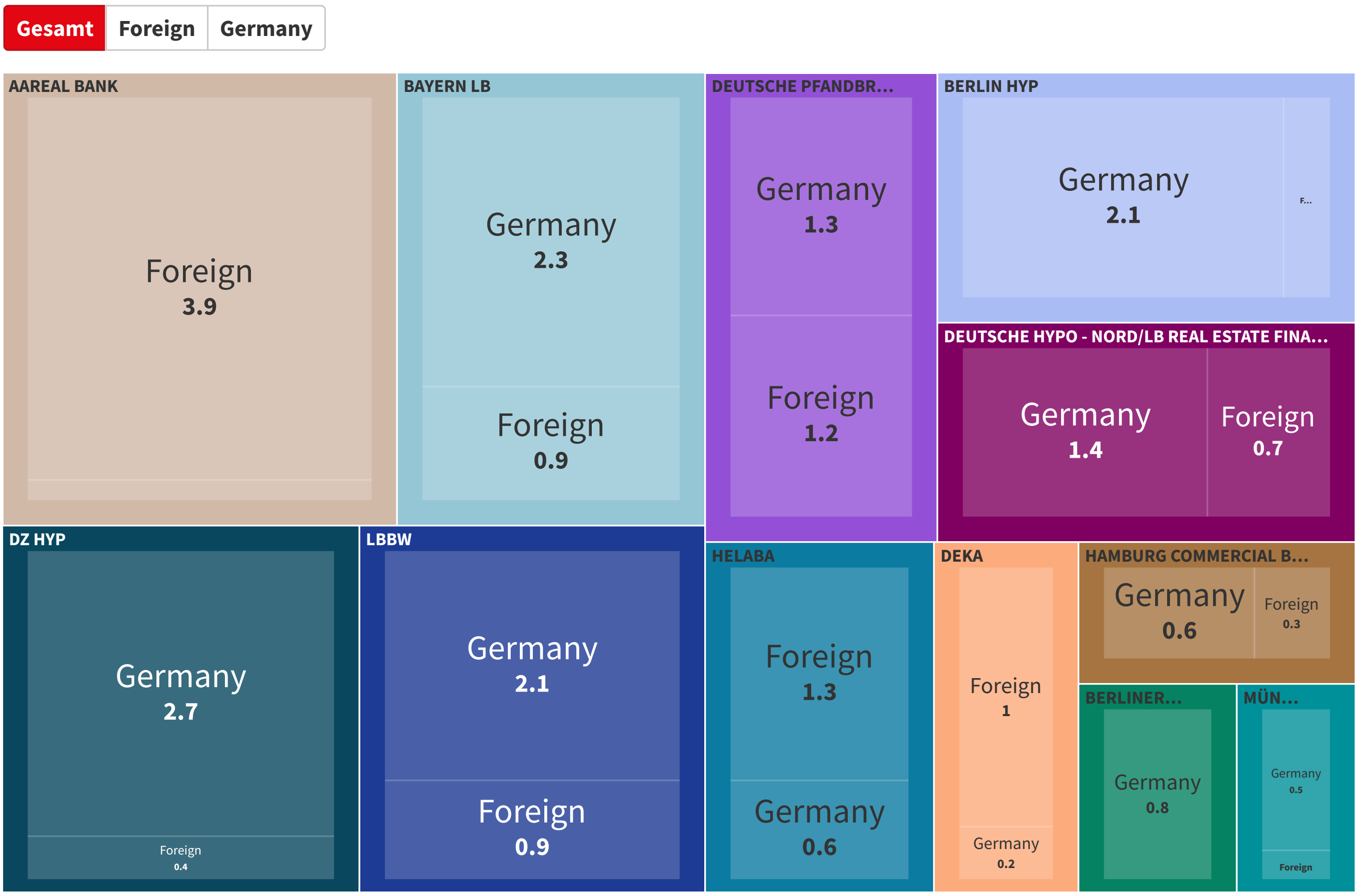
Bank	1st HY 2022 (bn €)	1st HY 2023 (bn €)	Change (in %)	Plan 2023 zu 2022
DZ Hyp 2)	3,8	2,7	-29%	↓
Bayern LB	3,0	2,3	-23%	↓
LBBW 1)	2,1	2,1	0%	↓
Berlin Hyp 2)	2,0	2,1	5%	↓
pbb Deutsche Pfandbriefbank	2,0	1,3	-35%	↓
Helaba 3)	1,8	0,6	-67%	↓
Berliner Sparkasse 2)	1,1	0,8	-27%	↓
MünchenerHyp 2)	1,0	0,5	-50%	↓
Deutsche Hypo - NORD/LB Real Estate Finance 2)	0,7	0,7	0%	↓
Hamburg Commercial Bank 2)	0,5	0,4	-20%	→
Aareal Bank 1)	0,5	0,2	-60%	→
DekaBank	0,0	0,2	/	↓
Summe	18,5	13,9	-25%	

Status: June 2023; Source: JLL, bank information
1) New business figures include qualified extensions
2) Excluding extensions
3) Medium and long-term new business

Financing of commercially used real estate and of residential properties used as investment vehicles is referred to as “commercial real estate financing”. New business and loan portfolio data was provided by selected banks for the analysis. This data was specifically identified in the respective reports, enabling JLL to conduct a comparative analysis. The data on contracted new business describes business within Germany, while the data on loan portfolios refers to the volumes in Germany and abroad. Measures to raise capital such as capital increases or bond issues are excluded from this market analysis.

A clear picture of new business for commercial real estate financing began to emerge in the third quarter of 2023. The volume of €13.9 billion achieved by the participating banks was 25 per cent lower year-on-year, reflecting the challenges faced by traditional debt financing. Only Berlin Hyp AG and Deka Bank were able to record a positive result in the period under review compared to last year, increasing their new business volumes by €100 million and €200 million, respectively. Two of the 12 participating banks were at least able to maintain their 2022 levels. For most banks, however, the volume of new business has declined. HELABA recorded the most significant decline, with its volume falling from €1.8 billion to €600 million. At €2.7 billion, DZ Hyp also recorded the largest share of loans granted in the first half of 2023 but, here too, the volume was down 29 per cent year-on-year.

New business figures Germany and abroad 1st half of 2023



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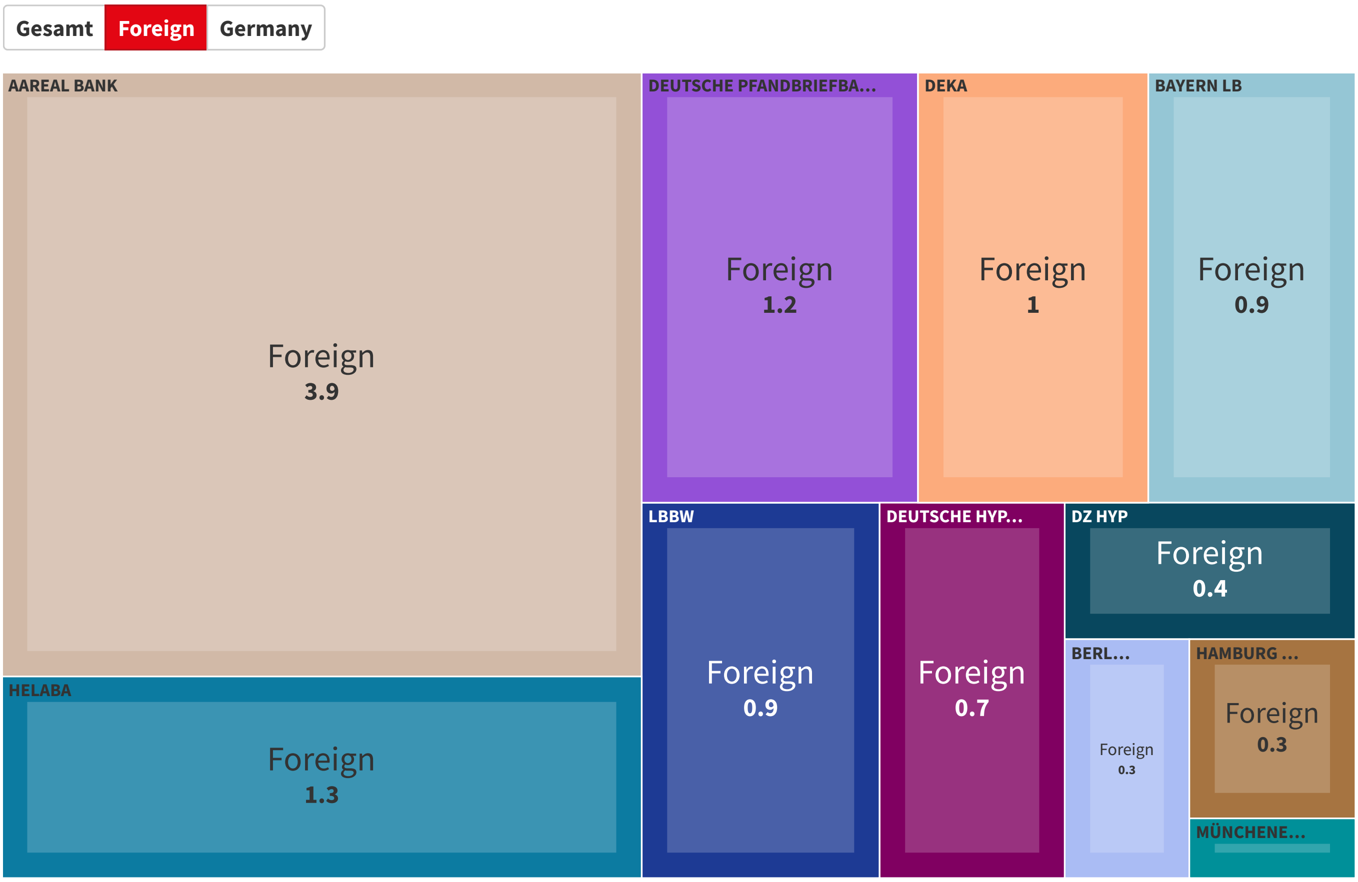

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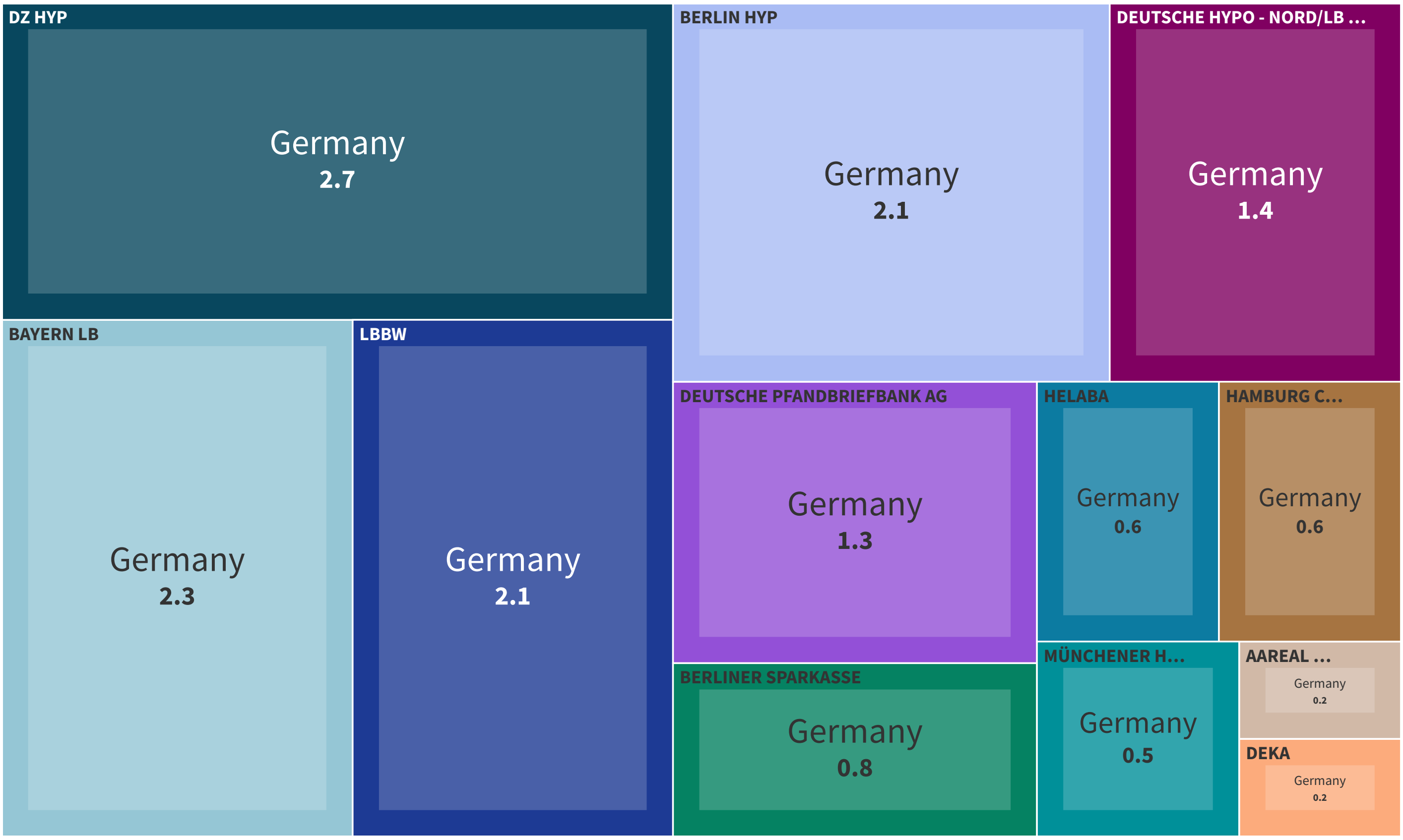
Gesamt Foreign Germany



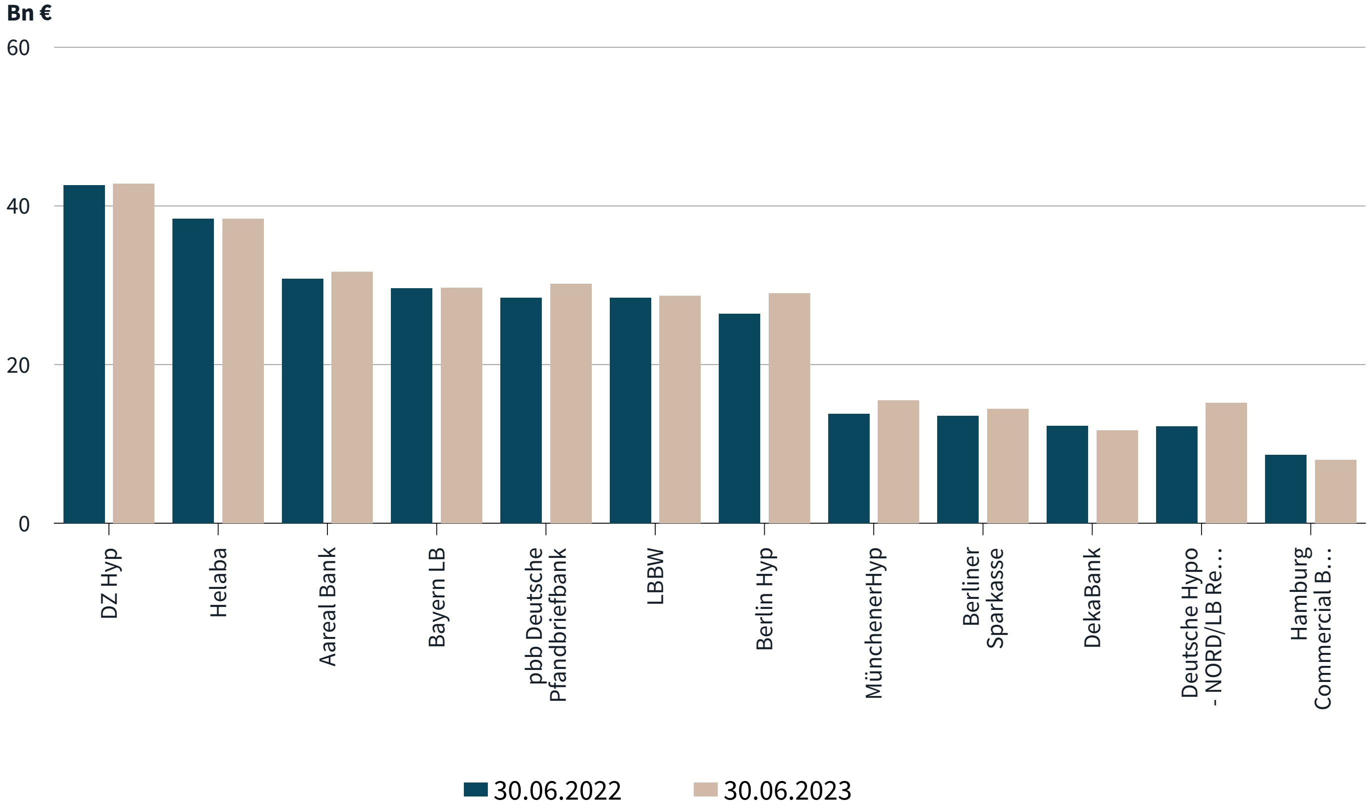
Status: June 2023; Source: JLL, bank information

Most participating banks are in agreement when it comes to estimating the volume of new business for 2023 as a whole compared to 2022. Ten of the 12 participating banks assume that fewer loans will be granted this year than last year. Hamburg Commercial Bank and Aareal Bank expect a similar result to the previous year.

Loan portfolios remain stable

Unlike the volume of new business, loan portfolios remain stable. After six months, the selected banks reported a total loan portfolio volume of around €295 billion, which is an increase of 4 per cent compared to the previous year's result. Nine of the 12 banks were able to grow their portfolios. Deutsche Hypo - NORD/LB Real Estate Finance recorded the most significant growth of €3 billion. At €38.4 billion, HELABA's loan portfolio remained at last year's level. Only DEKA and Hamburg Commercial Bank reduced their portfolios, each by €600 million. DZ Hyp continues to hold the largest loan portfolio of the participating banks at €42.8 billion.

Commercial real estate financing loan portfolios (German and foreign) of selected banks



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Alongside the reported volumes of new business and loan portfolios, our most recent survey also asked questions about the current lending process.

When asked how the margins on renewals of existing loans have developed over the past six months, the participating banks present a clear picture. Margins increased slightly at eight banks, while Deutsche Hypo - NORD/LB Real Estate Finance have kept their margins stable. However, three banks did not provide any information.

Most of the participating banks believe that new development business will be more difficult in 2023 compared to last year. Only HELABA expects to achieve a comparable volume of new development business. Eight banks expect the volume of new development business to reduce, while Berlin Hyp anticipates a significant slump. Two banks did not provide any information.

General conditions and outlook

The current tense situation in the real estate market will continue until at least the end of this year. Although the European Central Bank decided against a further rise in the key interest rate in October 2023 after ten consecutive interest rate hikes, the high interest rate level now poses major challenges for many market participants and is hampering market activity. The trend seen so far in 2023 continued in the third quarter. At around €8 billion, the investment volume was slightly above the results of the two previous quarters, but after nine months of business the result was down by more than half to €22.9 billion in a year-on-year comparison.

The German Property Financing Index (DIFI) suggests that there will be a slight easing in the financing market. This index, which is compiled in cooperation with JLL and the Hamburg Institute of International Economics (Hamburgisches WeltWirtschaftsinstitut), describes the current situation of the real estate financing business and its future expectations. At minus 33.5 points, the DIFI is clearly still in negative territory. However, the experts surveyed expect the financing business to brighten considerably.

The increasing liquidity bottlenecks are enabling international investors in particular to access the German real estate market. As German portfolio holders are now also faced with higher margins from domestic lenders, there is a much greater willingness to utilise more flexible international banks or alternative lenders. But here too, the same factors regarding the financial viability of individual projects play a significant role. Stable cash flows, sustainability criteria and price stability of the asset classes are decisive for the available loan amount.

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