DIFI-Report

Assessment of the Real Estate Financing Market

Germany | 3rd Quarter 2020
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The worst seems to be over

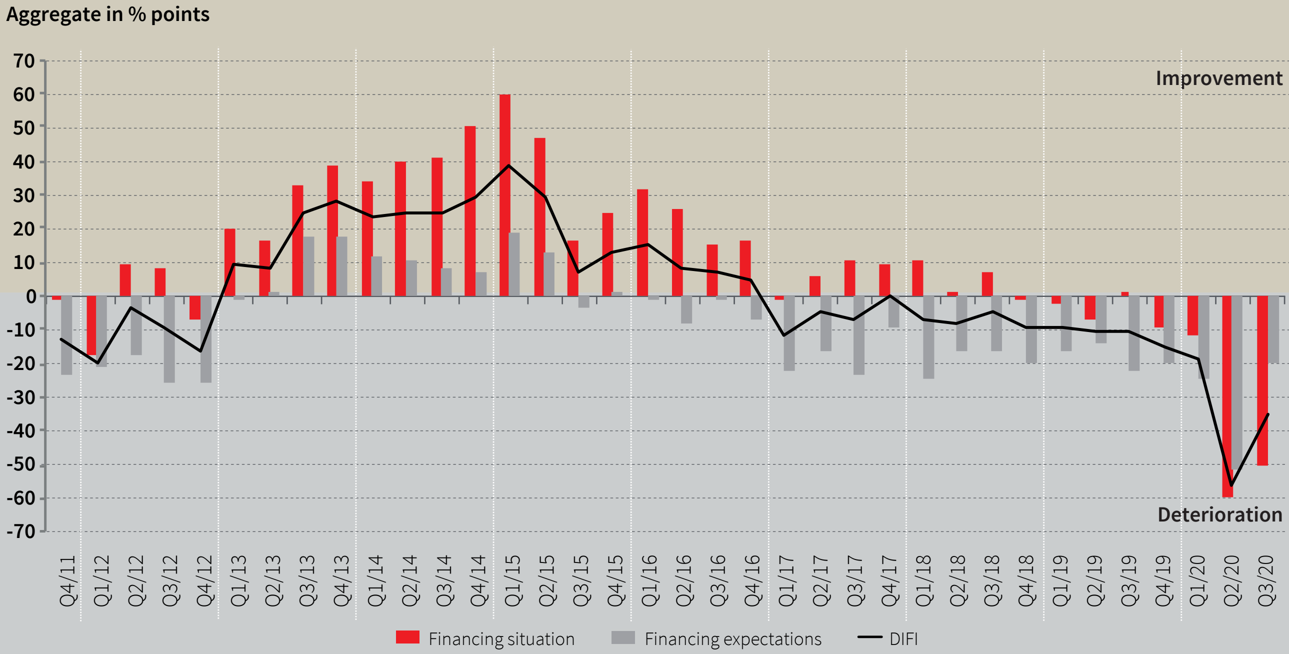
Offices and hotels will recover noticeably

Special question: The effects on new business for various real estate segments

The German Real Estate Finance Index (DIFI) reflects survey participants' assessments of the current situation (the last six months) and expectations (the coming six months) for the German real estate financing market. DIFI is produced quarterly and is calculated on the basis of an average of the results for the real estate market segments office, retail, logistics, residential and hotel. These figures reflect the percentage of positive and negative responses received from survey participants relating to the current situation in, and financing expectations for, the German real estate market. DIFI is produced and published in cooperation with JLL and ZEW (Zentrum für Europäische Wirtschaftsforschung – Centre for European Economic Research) in Mannheim.

The DIFI Index takes a leap forward

German Real Estate Finance Index (DIFI)



Average assessment of the current situation in and expectations for the five real estate market segments (Office, Retail, Logistics, Residential, Hotel).
Source: JLL and ZEW

Expectations at pre-crisis level

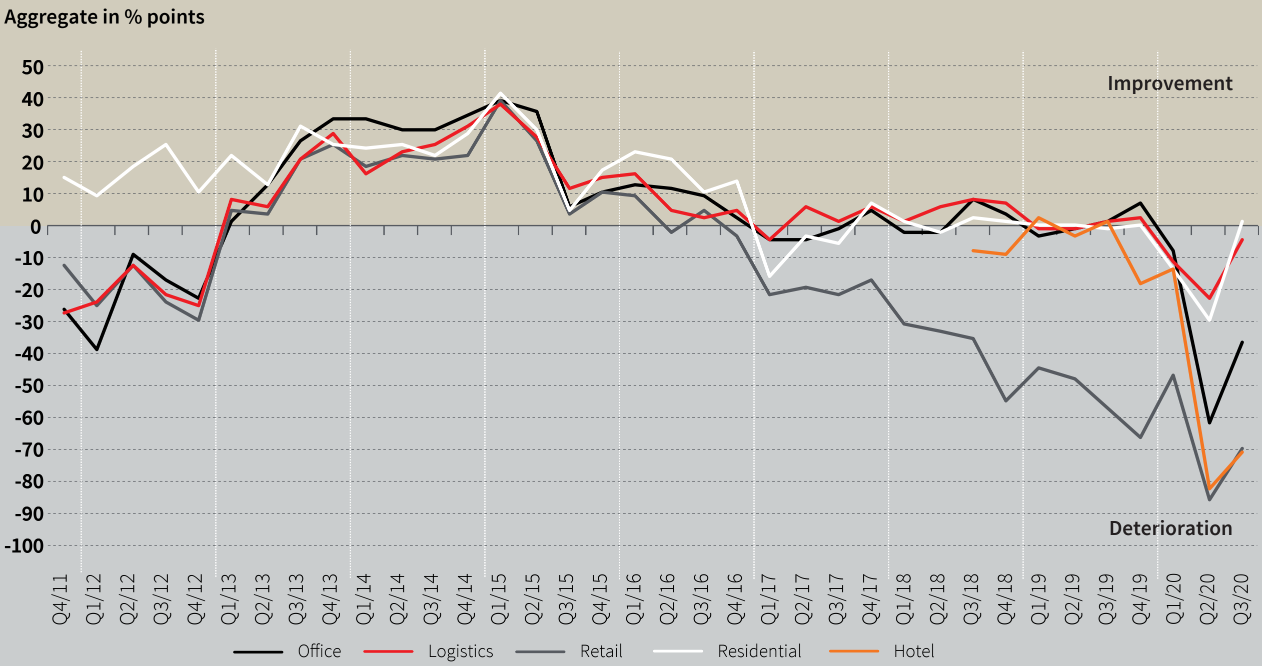
Six months after the start of the pandemic, the worst seems to be over. In the third quarter of 2020, the **German Real Estate Finance Index (DIFI)** reached **-36.0 points**. Although the index is twice as low as it was at the beginning of the year (-18.9 points), it has recovered by just over 20 points since the previous quarter. The financing expectations for the first half of the year have been the decisive factor for this upward trend: here, the sub-aggregate has risen from -52.6 points to -20.4 points and lies in a similar range as before the crisis. However, the situation over the past six months has been greatly overshadowed by the effects of the pandemic, with the sub-aggregate now standing at -51.6 points, just 9.2 points above the previous quarter's value. This is the second worst overall result since DIFI's launch in 2011.

Expectations for offices and hotels are recovering

There was a sharp fall in experts' assessments for all real estate segments in the previous quarter, both for the past and coming six months; however, most sub-aggregates are now rising again. In terms of the financing situation, the hotel segment is the clear loser as a result of the pandemic with a further drop of 13.4 points to a sub-aggregate of -97.4 points. With a sub-aggregate of -87.2 points, retail is also significantly in the red, albeit with a marginal improvement. The largest increases are to be observed in the residential segment, in which the sub-aggregate has risen by 36.0 points. People need homes, especially during a pandemic lockdown.

Significantly fewer people make their way to the office or travel. In the previous quarter, there was a significant de-

Assessment of the real estate financing market by real estate market segment



Average assessment of the current situation and expectations by defined real estate market segment.
Source: JLL and ZEW

terioration in the financing expectations for office and hotel properties. This assessment is now being revised in the current survey: over the next six months, the office (+46.5 points) and hotel segments (+35.6 points) will recover significantly, but the aggregate remains in negative territory. More respondents anticipate a further deterioration rather than an improvement. Our respondents have been taking a more optimistic view of the future for bricks-and-mortar retail for a long time (+32.0 points) and this figure has almost returned to its pre-pandemic level.

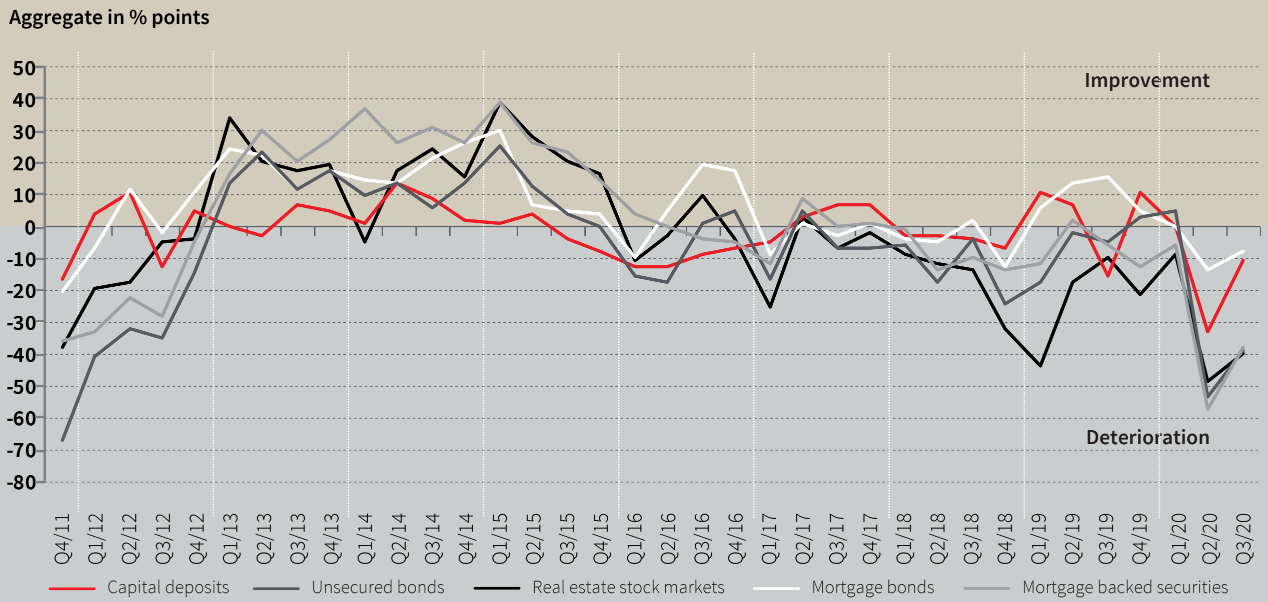
The refinancing markets are also recovering

Our experts are largely in consensus regarding the refinancing markets, with the aggregates of all instruments increasing overall. In their assessments of the situation over the past six months, most respondents pointed to a deterioration in the situation for unsecured bonds, mortgage-backed securities and real estate shares. Three-quarters of those surveyed perceive no changes for deposits and Pfandbrief mortgage bonds, while the rest see a deterioration rather than an improvement. As in the case of the financing markets, the respondents are generally optimistic about trends for the coming six months. Worthy of particular note are the sub-aggregates of mortgage-backed securities (+24.6 points) and unsecured debt securities (+20.8 points). Pfandbrief mortgage bonds have lost 13.0 points since the previous quarter but are the only refinancing instrument to record a positive sub-aggregate over the past six months.

Reduced mobility affects new business across real estate segments

The Corona Crisis is in full swing and is causing anxiety in the global economy. The real estate sector has also been af-

Development of the refinancing markets



Average assessment of the current situation and expectations by refinancing instrument.
Source: JLL and ZEW

fected. In the special question for the third quarter of 2020, we asked our experts about the possible effects on the usual real estate segments. We also examined two sub-categories each for the retail and hotel categories: food and non-food retail, and hotels with a focus on business guests or tourists. When asked about their assessments of the effects on new business over three time horizons (up to the survey date, up to the end of 2020 and up to the end of 2021), it is apparent that respondents are not concerned about the residential segment: over all three periods, few of the experts perceive negative effects. In the non-food retail and both hotel categories however, the survey participants attest to consistently negative effects. In the former, the assessments are particularly devastating: here, 94% state that so far, the crisis has had an extremely negative impact on new business for the non-food retail segment. The two hotel categories show similarly disappointing values of 91% and 90%. Since the onset of the crisis, both tourism and business travel have declined massively. In the office segment too, slightly more than half of those surveyed expect a decline in new business. This reflects the opportunity for many employees to work from home.

However, the further into the future one looks, the more likely some of the experts are to see positive developments in some of the real estate segments. Negative assessments for the office segment in particular have fallen to just under half. Growth is expected in the logistics sector but despite the slightly positive assessments, the expected new business with non-food retailers is still rated poorly. This is because local lockdowns and other measures to contain the Coronavirus have encouraged even more consumers than before to switch to online retail. The two hotel categories will at least not see any further losses in new business until the end of 2020 and 2021, but the outlook remains predominantly bleak.

Effects of the Corona Crisis on new business up to the survey date, the end of 2020 and the end of 2021

DIFI-Report: Results of Responses, 3rd Quarter 2020

	improved	Δ Q2	unchanged	Δ Q2	deteriorated	Δ Q2	aggregate	Δ Q2
German Real Estate Finance Index	**9.3**	**(+ 7.0)**	**45.5**	**(+ 6.9)**	**45.3**	**(-13.8)**	**-36.0**	**(+20.7)**
Financing situation	**improved**	**Δ Q2**	**unchanged**	**Δ Q2**	**deteriorated**	**Δ Q2**	**aggregate**	**Δ Q2**
Office	0.0	(+/- 0.0)	40.0	(+ 5.4)	60.0	(- 5.4)	-60.0	(+ 5.4)
Retail	0.0	(+/- 0.0)	12.8	(+ 0.8)	87.2	(- 0.8)	-87.2	(+ 0.8)
Logistics	13.5	(+ 5.8)	59.5	(+ 5.7)	27.0	(-11.5)	-13.5	(+17.3)
Residential	10.8	(+10.8)	78.4	(+14.4)	10.8	(-25.2)	0.0	(+36.0)
Hotel	0.0	(+/- 0.0)	2.6	(-13.4)	97.4	(+13.4)	-97.4	(-13.4)
All real estate segments	**4.9**	**(+ 3.4)**	**38.7**	**(+ 2.6)**	**56.5**	**(- 5.9)**	**-51.6**	**(+ 9.2)**
Financing expectations	**improve**	**Δ Q2**	**remain unchanged**	**Δ Q2**	**deteriorate**	**Δ Q2**	**aggregate**	**Δ Q2**
Office	15.4	(+11.7)	56.4	(+23.1)	28.2	(-34.8)	-12.8	(+46.5)
Retail	5.3	(+ 5.3)	36.8	(+21.4)	57.9	(-26.7)	-52.6	(+32.0)
Logistics	20.5	(+16.6)	64.1	(-12.8)	15.4	(- 3.8)	5.1	(+20.4)
Residential	13.2	(+ 9.2)	76.3	(+ 8.3)	10.5	(-17.5)	2.7	(+26.7)
Hotel	13.9	(+ 9.9)	27.8	(+15.8)	58.3	(-25.7)	-44.4	(+35.6)
All real estate segments	**13.7**	**(+10.6)**	**52.3**	**(+11.2)**	**34.1**	**(-21.7)**	**-20.4**	**(+32.2)**

Refinance market situation	improved	Δ Q2	unchanged	Δ Q2	deteriorated	Δ Q2	aggregate	Δ Q2
Capital deposits	7.1	(+ 7.1)	75.0	(+15.0)	17.9	(-22.1)	-10.8	(+29.2)
Mortgage bonds	3.1	(+ 3.1)	75.0	(+17.3)	21.9	(-20.4)	-18.8	(+23.5)
Unsecured bonds	3.1	(+ 3.1)	28.1	(+ 1.2)	68.8	(- 4.3)	-65.7	(+ 7.4)
Mortgage backed securities	0.0	(+/- 0.0)	40.7	(+15.7)	59.3	(-15.7)	-59.3	(+15.7)
Real estate stock markets	0.0	(- 8.7)	37.9	(+20.5)	62.1	(-11.8)	-62.1	(+ 3.1)
Refinance market expectations	**improve**	**Δ Q2**	**remain unchanged**	**Δ Q2**	**deteriorate**	**Δ Q2**	**aggregate**	**Δ Q2**
Capital deposits	6.5	(+ 6.5)	77.4	(+ 2.4)	16.1	(- 8.9)	-9.6	(+15.4)
Mortgage bonds	12.1	(-19.9)	78.8	(+26.8)	9.1	(- 6.9)	3.0	(-13.0)
Unsecured bonds	15.6	(- 1.1)	56.3	(+23.0)	28.1	(-21.9)	-12.5	(+20.8)
Mortgage backed securities	7.7	(+ 7.7)	69.2	(+ 9.2)	23.1	(-16.9)	-15.4	(+24.6)
Real estate stock markets	14.3	(+ 0.7)	53.6	(+12.7)	32.1	(-13.4)	-17.8	(+14.1)
Segment development	**increase**	**Δ Q2**	**remain unchanged**	**Δ Q2**	**decrease**	**Δ Q2**	**aggregate**	**Δ Q2**
Mortgage bonds	26.5	(-25.5)	73.5	(+45.5)	0.0	(-20.0)	26.5	(- 5.5)
Unsecured bank bonds	54.1	(-13.9)	40.5	(+20.5)	5.4	(- 6.6)	48.7	(- 7.3)
Segment development	**increase**	**Δ Q2**	**remain unchanged**	**Δ Q2**	**decrease**	**Δ Q2**	**aggregate**	**Δ Q2**
Syndication business (volume)	43.3	(+11.3)	32.4	(+ 8.4)	24.3	(-19.7)	19.0	(+31.0)
Underwriting (volume)	22.2	(+ 9.7)	36.1	(+15.3)	41.7	(-25.0)	-19.5	(+34.7)

Comment: The German Real Estate Finance Index survey was carried out between 27.07.2020 – 17.08.2020 and involved 42 experts. These experts were asked for their assessments of the market situation (preceding six months) and market expectations (coming six months). The results shown are the percentages of the response categories and the changes in per cent compared to the previous quarter (Δ previous quarter). The aggregates are calculated from the difference between the positive and negative response categories (such as 'improved' and 'deteriorated'). DIFI is calculated as an unweighted average from the aggregates of the financing situation and financing expectations for all use types.

Source: JLL and ZEW

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