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DIFI-Report

Assessment of the Real Estate Financing Market

Third consecutive fall in the DIFI

The outlook for all refinancing markets is getting brighter; the assessment of the current situation is mixed

Current LTVs and margins

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.

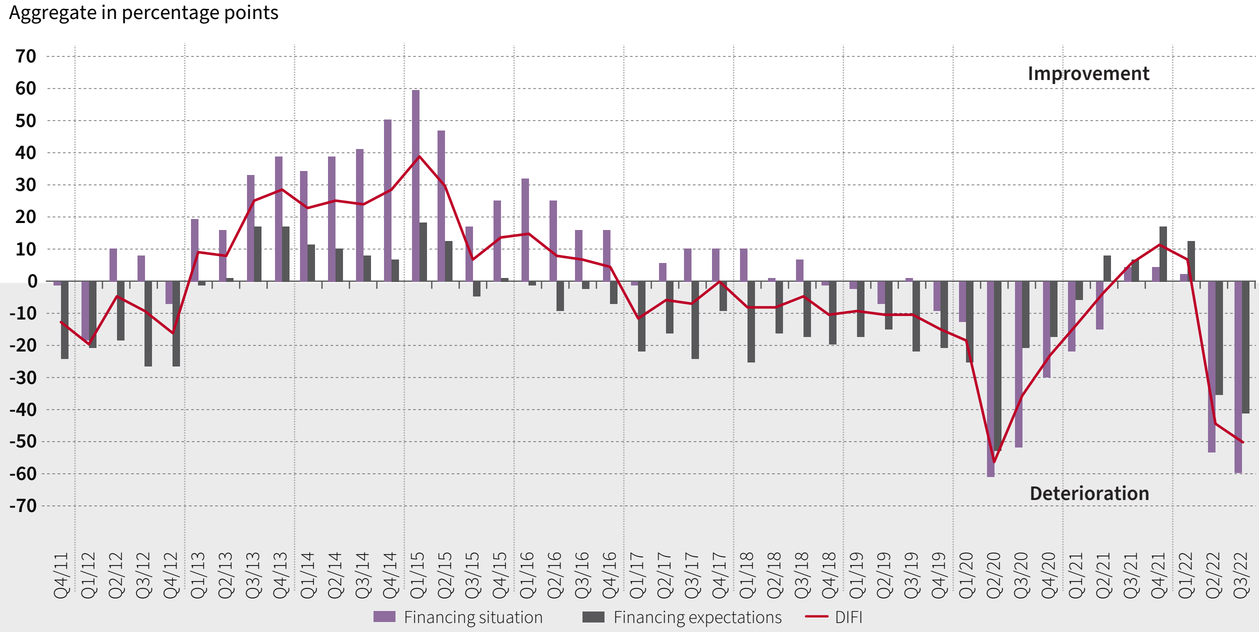
Third consecutive fall in the DIFI

Financing situation and outlook again viewed negatively
The **German Real Estate Financing Index (DIFI)** fell again in the 3rd quarter of 2022 to an aggregate of minus 50.5 points. The indicator has fallen by 6.0 points since the previous quarter. This is the third successive fall. The experts' assessment of the current financing situation of the last six months and the outlook over the coming six months has worsened in the 3rd quarter of 2022. The current situation indicator fell by 6.3 points to its new level of minus 59.7 points. At minus 41.2 points or 5.7 points down on the previous quarter, the financing outlook is a little less pessimistic than the financing situation.

Residential and logistic properties come out best
All current situation and expectation indicators across all use types remained negative in the 3rd quarter of 2022. Office, retail and hotel properties were assessed more negatively than in the previous quarter, but the residential use type was rather more positive. The logistics use type remains at around the previous level. The DIFI sub-indicator values, which comprise the average of the assessments of the current situation and expectations, show that logistic and residential properties are viewed most positively at minus 36.6 points and minus 43.2 points, respectively. Office and hotel properties bring up the rear, both at minus 59.7 points.

A look at the individual assessments of the current situation shows that the respondents have a more pessimistic view of the financing situation for office, retail and hotel

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).
Since Q3/2018 the illustrated time series have included assessments of the hotel use type
Source: JLL and ZEW

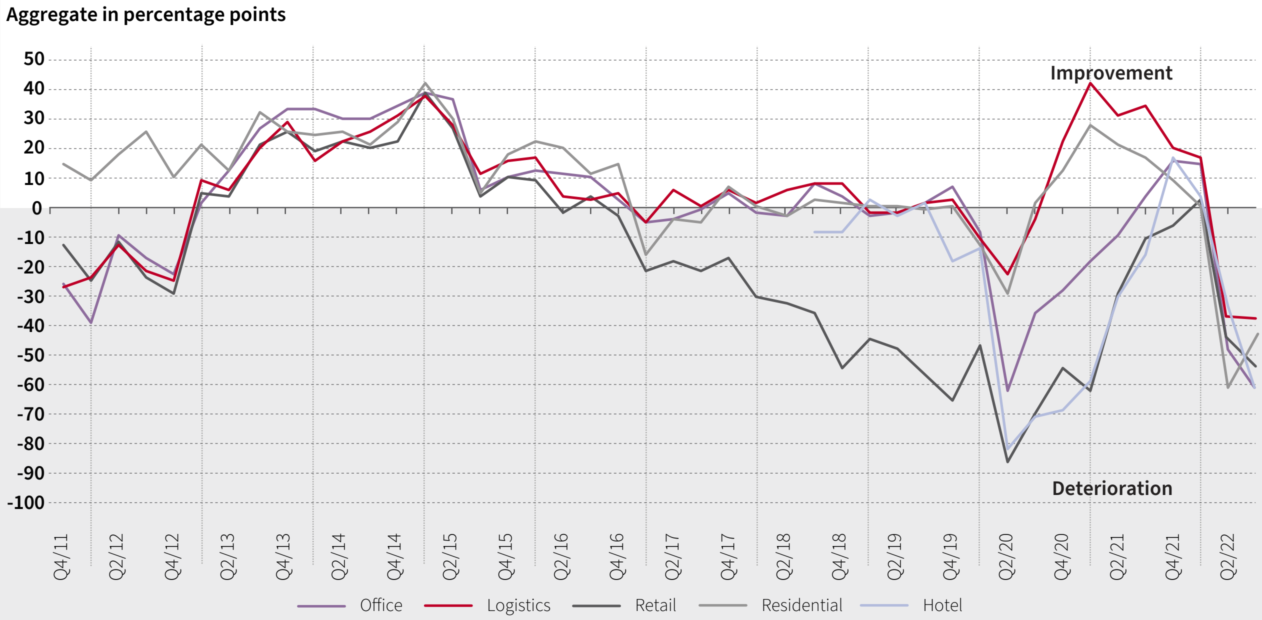
properties in the 3rd quarter than in the previous quarter, but regard logistics and residential more positively. The fall of 1.7 points in the case of retail properties was rather more moderate. The assessment of the current situation for office and hotel properties fell by 24.9 and 17.4 points, respectively. Whilst the relevant indicator for logistic properties rose by 1.6 points, the indicator for residential properties grew by 11.1 points. With an aggregate of minus 76.9 points, the current financing situation for office properties is the most negative. The assessment for logistic properties is most positive with an aggregate of minus 42.4 points.

There was a marginal improvement in the assessment of financing expectations for office properties, but a significant upshift in the case of residential. The relevant indicators rose by 3.4 points to an aggregate of minus 42.4 points for office and 23.4 points to an aggregate of minus 30.8 points for residential. The financing expectations were more pessimistic for the retail, logistics and hotel use types than in the previous quarter. Whilst the relevant indicator for logistic properties fell by just 1.7 points, the other two use types suffered greater downturns. The expectation indicator for retail properties fell by 17.5 points to a new aggregate of minus 52.2 points. The indicator for hotels fell by 36.2 points to minus 49.9 points. The 3rd quarter financing outlook for retail properties was the most pessimistic, and the outlook for residential and logistic properties came out best.

Outlook for all refinancing markets is getting brighter; the assessment of the current situation is mixed

The outlook in the German real estate refinancing markets brightened in the 3rd quarter of 2022. The relevant expectation indicators of all refinancing instruments have improved since the previous quarter. The aggregates for capital deposits and mortgage bonds are back in

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



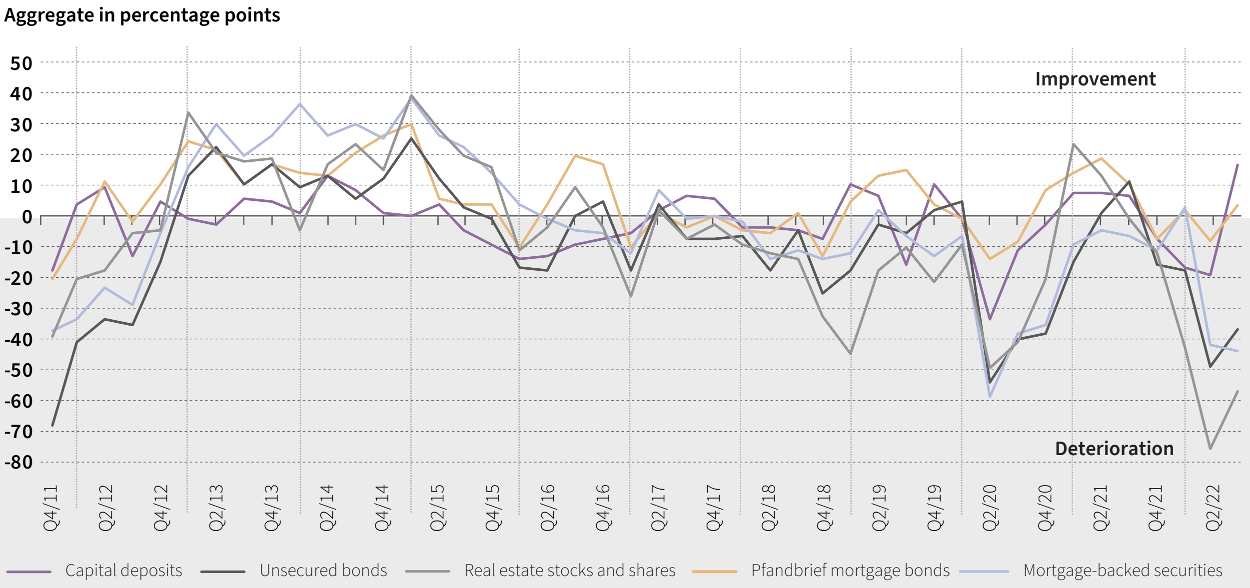
Average assessment of the current situation and expectations by defined real estate market segment.
Source: JLL and ZEW

positive territory. The lowest rise in the indicator was for refinancing through mortgage-backed securities, which rose by 5.7 points to minus 27.7 points. The greatest upswing of 45.1 points up to minus 30.0 points was in the expectation indicator for refinancing through new real estate stocks and shares.

The assessment of the current situation in the German real estate refinancing markets is mixed in the 3rd quarter of 2022. Whilst the situation assessment for capital deposits (plus 42.4 points), mortgage bonds (plus 14.6 points) and unsecured bonds (plus 0.1 point) has improved since the previous survey, the assessment for mortgage-backed securities (minus 10.1 points) and share issues (minus 6.9 points) has deteriorated. As with the respective expectation indicators, the current situation assessments for mortgage bonds and capital deposits returned to positive territory in the 3rd quarter of 2022. With an aggregate of 16.0 points, the assessment of mortgage bond refinancing is best. With an aggregate of minus 83.4 points, the situation indicator for the real estate stock markets reached a new all-time low in the 3rd quarter of 2022 with the quarter's most negative assessment of all situation indicators under review.

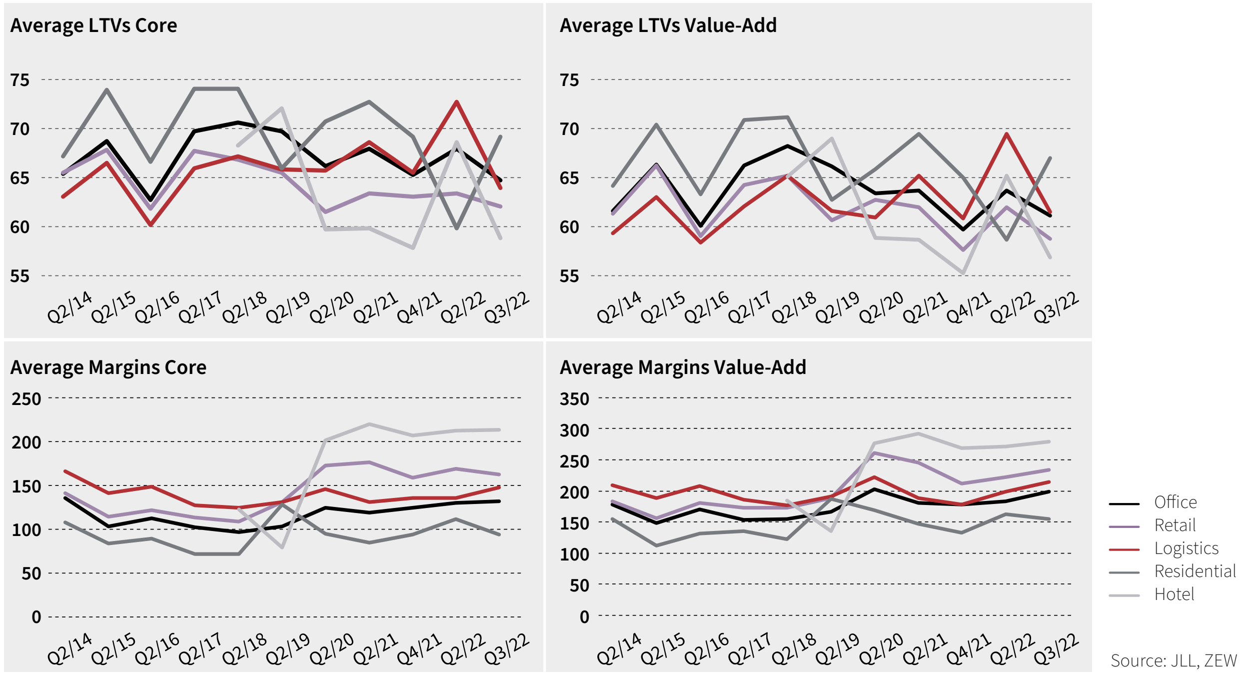
Looking at the situation and expectation indicators together, the refinancing market for capital deposits comes out best, and the assessment of real estate stocks and shares fairs worst overall. As a result of the improved outlook in the 3rd quarter of 2022, the average value of the situation and expectation indicators for the real estate stock markets has been able to rise from its 2nd quarter all-time low to minus 56.7 points. The relevant average aggregate for capital deposits is 35.9 points.

Development of the refinancing markets



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

Assessment of typical market loan-to-value ratios and margins



Source: JLL, ZEW

To provide a consistent picture, the experts have been regularly asked for their assessments of typical market loan-to-value ratios (LTV = proportion of debt financing based on market value) and margins for real estate financing in the Core and Value-Add risk categories. The participants can select what in their view is the most likely scenario from a prescribed list of bandwidths.

The assessments of typical market LTVs in the Core and Value-Add categories fell in the 3rd quarter of 2022 compared to the previous quarter with the exception of the residential use type. In terms of the Core category, the average downturns in the office, retail, logistics and hotel use types were 3 bps, 1 bp, 9 bps and 10 bps respectively. The average assessment for residential properties rose by 9 bps. In terms of the Value-Add category, the average falls in the office, retail, logistics and hotel use types were 3 bps, 3 bps, 8 bps and 8 bps respectively, while the average assessment for residential properties rose by 8 bps. The average assessment from the 3rd quarter of 2022 is approaching the results of the 4th quarter 2021 survey.

As in the 4th quarter of 2021, the lowest LTVs are for hotels and the highest are for residential properties.

According to the respondents' assessments, the typical market margins for the commercial financing of properties in the various use types in the Core and Value-Add categories have changed only slightly since the previous quarter. Whilst the average margins for retail and residential properties in the Core category fell by 7 bps and 18 bps respectively since the 2nd quarter, the margin for logistic properties rose by 11 bps. The average assessment for office and hotel properties was almost unchanged. According to the experts' assessments, with the exception of the residential use type, average margins in the Value-Add category have increased slightly for all use types. Whilst the average assessment for residential properties has fallen by 8 bps, the remaining use types in the Value-Add category have risen by 15 bps for office, 12 bps for retail, 16 bps for logistics and 7 bps for hotel. The highest score in both margin categories in the 3rd quarter of 2022 is for hotel properties and the lowest is for residential properties.

DIFI-Report: Results of Responses, 3rd Quarter 2022

	Improved	Δ Q2	Unchanged	Δ Q2	Deteriorated	Δ Q2	Aggregate	Δ Q2
German Real Estate Financing Index (DIFI)	3.6	(- 1,7)	42.4	(- 2,7)	54.1	(+ 4,4)	-50.5	(- 6,0)
Financing situation	**Improved**	**Δ Q2**	**Unchanged**	**Δ Q2**	**Deteriorated**	**Δ Q2**	**Aggregate**	**Δ Q2**
Office	0.0	(- 4,0)	23.1	(-16,9)	76.9	(+20,9)	-76.9	(-24,9)
Retail	3.8	(+ 3,8)	38.5	(- 9,3)	57.7	(+ 5,5)	-53.9	(- 1,7)
Logistics	3.8	(- 0,2)	50.0	(+ 2,0)	46.2	(- 1,8)	-42.4	(+ 1,6)
Residential	0.0	(+/- 0,0)	44.4	(+11,1)	55.6	(-11,1)	-55.6	(+11,1)
Hotel	4.4	(- 8,7)	21.7	(+/- 0,0)	73.9	(+ 8,7)	-69.5	(-17,4)
All use types	2.4	(- 1,8)	35.5	(- 2,7)	62.1	(+ 4,5)	-59.7	(- 6,3)
Financing expectations	**Will improve**	**Δ Q2**	**Will not change**	**Δ Q2**	**Will deteriora-te**	**Δ Q2**	**Aggregate**	**Δ Q2**
Office	3.8	(+ 3,8)	50.0	(- 4,2)	46.2	(+ 0,4)	-42.4	(+ 3,4)
Retail	0.0	(- 4,4)	47.8	(- 8,7)	52.2	(+13,1)	-52.2	(-17,5)
Logistics	7.7	(+ 3,5)	53.8	(- 8,7)	38.5	(+ 5,2)	-30.8	(- 1,7)
Residential	7.7	(+ 7,7)	53.8	(+ 8,0)	38.5	(-15,7)	-30.8	(+23,4)
Hotel	4.6	(-18,1)	40.9	(+/- 0,0)	54.5	(+18,1)	-49.9	(-36,2)
All use types	4.8	(- 1,5)	49.3	(- 2,7)	46.0	(+ 4,2)	-41.2	(- 5,7)
Situation in the refinancing markets	**Improved**	**Δ Q2**	**Unchanged**	**Δ Q2**	**Deteriorated**	**Δ Q2**	**Aggregate**	**Δ Q2**
Capital deposits	40.0	(+34,8)	36.0	(-27,2)	24.0	(- 7,6)	16.0	(+42,4)
Pfandbrief mortgage bonds	20.0	(+ 9,5)	64.0	(- 4,4)	16.0	(- 5,1)	4.0	(+14,6)
Unsecured bonds	8.4	(+ 8,4)	33.3	(-16,7)	58.3	(+ 8,3)	-49.9	(+ 0,1)
Mortgage-backed securities	10.0	(+ 2,8)	20.0	(-15,7)	70.0	(+12,9)	-60.0	(-10,1)
Real estate stocks and shares	8.3	(+ 8,3)	0.0	(-23,5)	91.7	(+15,2)	-83.4	(- 6,9)
Expectations in the refinan-cing markets	**Will improve**	**Δ Q2**	**Will not change**	**Δ Q2**	**Will deteriora-te**	**Δ Q2**	**Aggregate**	**Δ Q2**
Capital deposits	27.3	(+10,7)	63.6	(+ 8,0)	9.1	(-18,7)	18.2	(+29,4)
Pfandbrief mortgage bonds	12.5	(+ 7,2)	79.2	(- 5,0)	8.3	(- 2,2)	4.2	(+ 9,4)
Unsecured bonds	13.6	(+ 8,3)	50.0	(+ 7,9)	36.4	(-16,2)	-22.8	(+24,5)
Mortgage-backed securities	5.6	(- 2,7)	61.1	(+11,1)	33.3	(- 8,4)	-27.7	(+ 5,7)
Real estate stocks and shares	10.0	(+ 3,8)	50.0	(+37,5)	40.0	(-41,3)	-30.0	(+45,1)
Spreads compared to German Government Bonds	**Will increase**	**Δ Q2**	**Will not change**	**Δ Q2**	**Will reduce**	**Δ Q2**	**Aggregate**	**Δ Q2**
Pfandbrief mortgage bonds	60.0	(+ 5,0)	40.0	(+ 5,0)	0.0	(-10,0)	60.0	(+15,0)
Unsecured bonds	91.3	(+ 0,9)	8.7	(+ 3,9)	0.0	(- 4,8)	91.3	(+ 5,7)
Development of segments	**Will increase**	**Δ Q2**	**Will not change**	**Δ Q2**	**Will reduce**	**Δ Q2**	**Aggregate**	**Δ Q2**
Syndication business (volume)	36.4	(+ 0,1)	22.7	(- 4,6)	40.9	(+ 4,5)	-4.5	(- 4,4)
Underwriting (volume)	14.3	(+ 5,2)	28.6	(+ 1,3)	57.1	(- 6,5)	-42.8	(+11,7)

Comment: The German Real Estate Finance Index survey was carried out between 08.08.2022 – 15.08.2022 and involved 28 experts. These experts were asked for their assess-ments 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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