DIFI-Report

Assessment of the Real Estate Financing Market

Germany | 4th Quarter 2019
Published in November 2019

Sentiment remains subdued

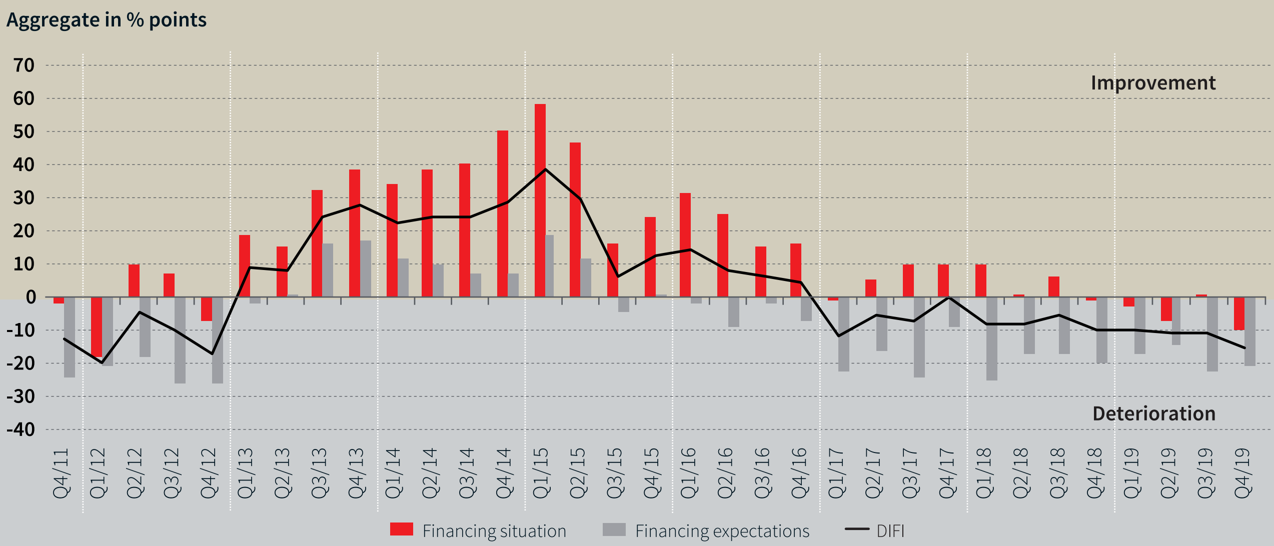
Real estate stocks now an even less attractive proposition

Special question: global trends are having some significant effects on the real estate market

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 (since the 3rd quarter of 2018) 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.

Poor sentiment has prevailed for over two years

German Real Estate Finance Index (DIFI)

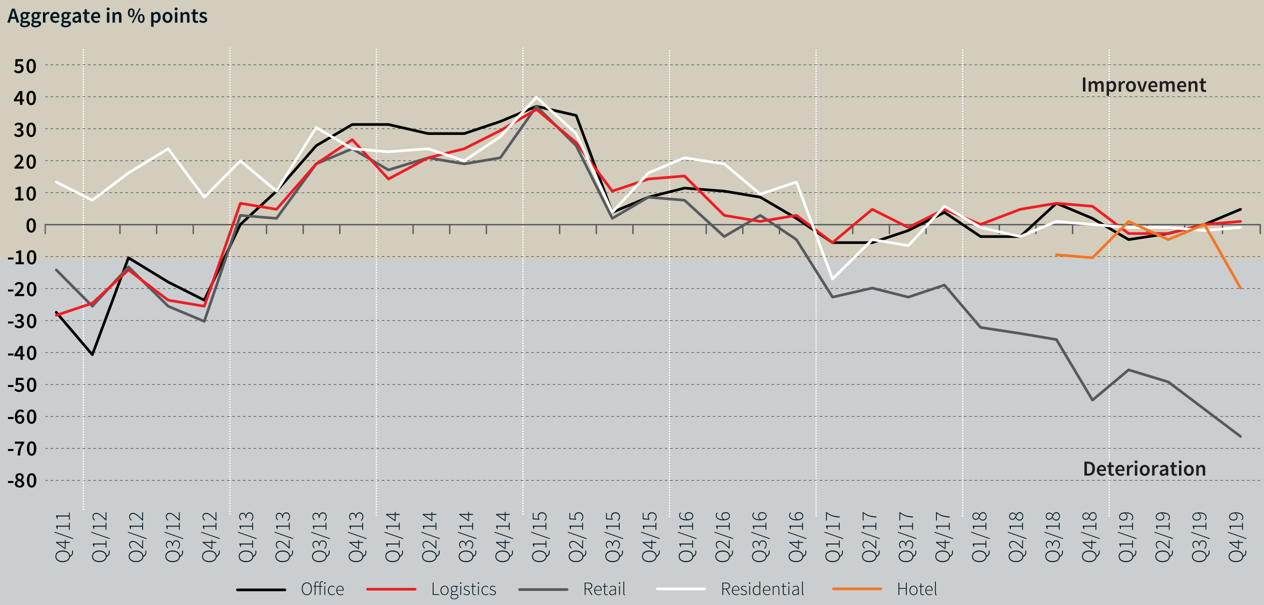


Average assessment of the current situation in and expectations for the five real estate market segments (Office, Retail, Logistics, Residential, Hotel).
Source: JLL and ZEW

When will the real estate financing market recover?
The **German Real Estate Finance Index (DIFI)** is continuing to fall in the 4th quarter of 2019. The sentiment indicator for commercial real estate financing in Germany fell by 4.4 points to its current level of **-15.2 points**. The downward trend has prevailed over the past two years. The assessments of the financing situation over the last six months and the expectations for the coming six months are both distinctly gloomy. Although expectations across all real estate segments have improved marginally compared to the previous quarter (+1.6 points), the overall assessment relating to the current financing situation is significantly negative: this sub-indicator fell by a further 10.4 points in this quarter. Only the office sector is in good shape and is the only real estate segment to experience an upswing in terms of both the current financing situation (+2.5 points) and expectations (+7.9 points) compared to the previous quarter. The index reflects the prevailing general business sentiment. Modest signals heralding an easing of tensions in the Brexit situation and potential trade wars may help improve the outlook in the next quarter.

Mixed picture emerging from the assessments of the real estate financing market
The assessments relating to future expectations have been unable to offset the downturn in the current financing situation: the principal driver is the retail segment which is at an all-time low of -68.2 points. Our real estate experts concur that there will be no improvement during this quarter and over two-thirds are of the opinion that financing conditions will actually get worse. This is the worst result since the start of the survey in 2011. The hotel real estate segment is also contributing to the negative sub-balance relating to expectations: although 13.6% of

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

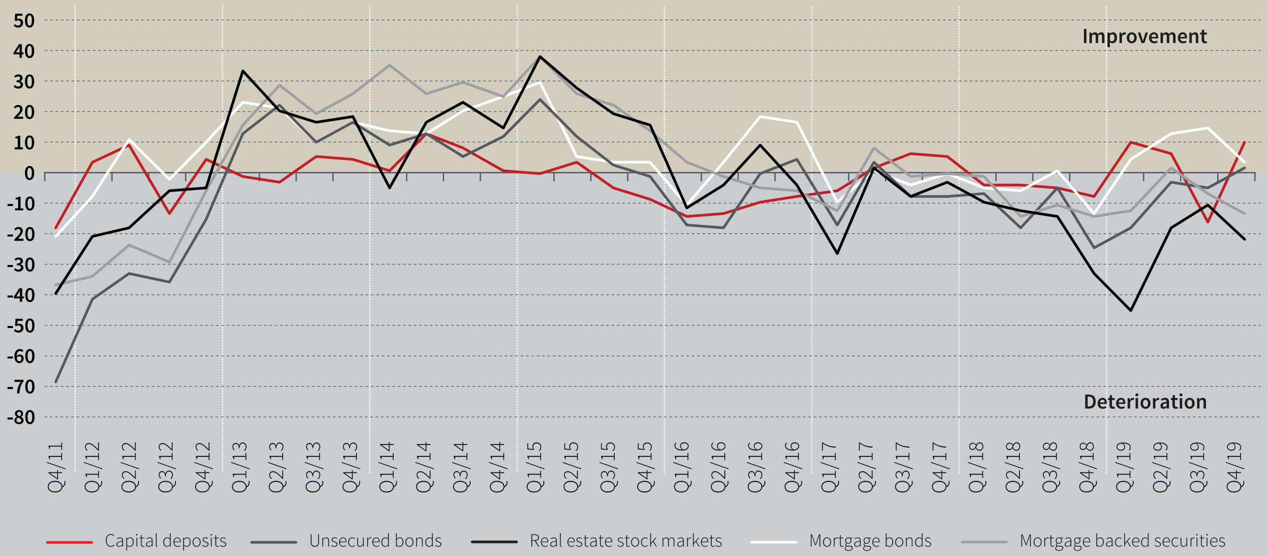
the respondents are of the opinion that conditions will improve in this segment, almost three times as many expect the situation to get worse. The DIFI has been steered in a slightly different direction by the residential and logistics segments with rises of 11.7 and 8.9 points respectively compared to the previous quarter. No significant changes are expected in the office segment over the next half-year. The sub-balance relating to the financing situation over the last six months has been affected to a great extent by the poor sentiment in the retail sector, now seen as the all-time problem child in the survey; this sector fell by a further 11.8 points compared to the previous quarter. By contrast, financing conditions in the office segment were much improved over the second half of the year (now at 16.7 points). This has resulted in increased letting activity in the Big 7 cities. Whether this trend will continue in the light of the economic downturn is questionable.

All that glitters is not gold

After a slight recovery in the sub-balance relating to refinancing via real estate stocks over the last six months, the respondents' assessments deteriorated again during this quarter. At -29.4 points in terms of the current financing situation and -12.5 points for future expectations, real estate stocks are the least attractive refinancing instrument according to the current survey. The possible reason for the continued downturn could be the recent decision to introduce a rental price cap in Berlin and the associated discussions relating to the expropriation of housing companies.

Development of the refinancing markets

Aggregate in % points



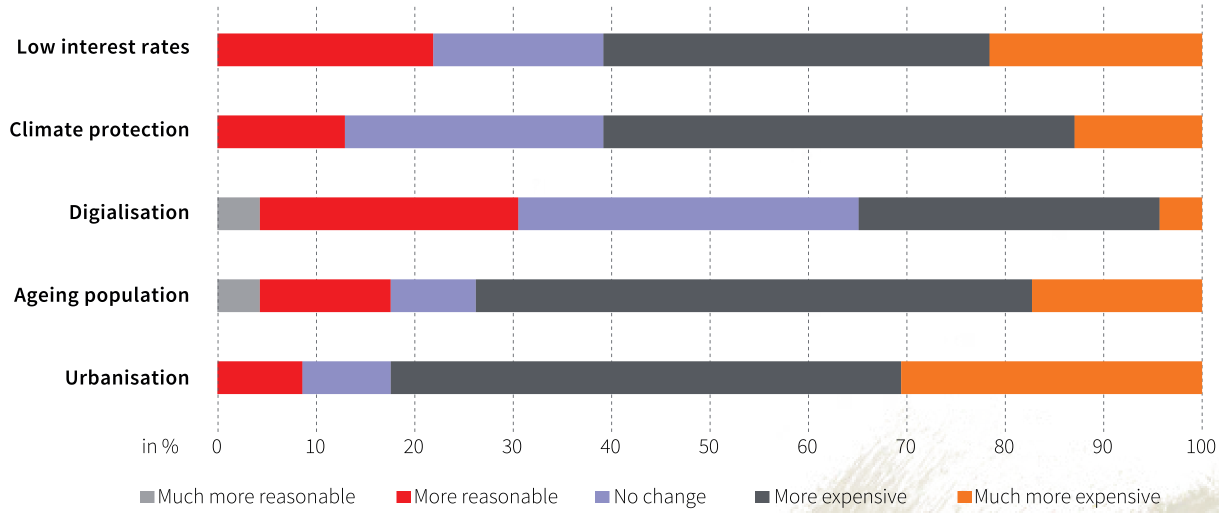
Average assessment of the current situation and expectations by refinancing instrument.
Source: JLL and ZEW

By contrast, there is an extremely positive balance in the assessment of bonds. After two and a half years in the doldrums, this instrument has now returned to a marginally positive balance of 2.7 points. Capital deposits are also experiencing a minor comeback with a significant upswing compared to the previous quarter: The score of +21.6 points in terms of the current situation and +30.3 relating to future expectations have combined to produce a robust balance, leaving all other refinancing instruments trailing behind over the current quarter.

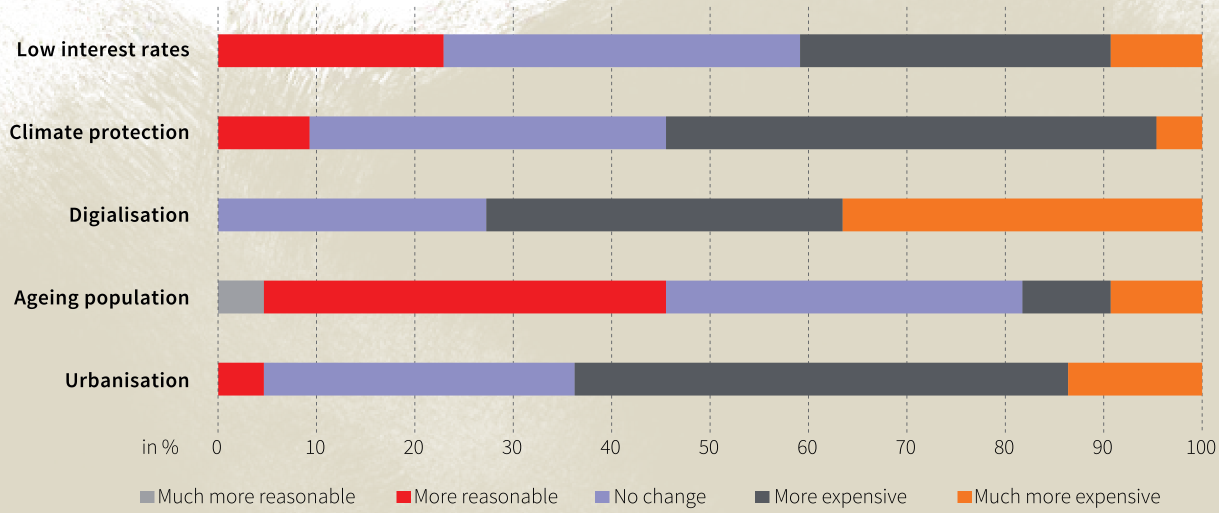
Global trends: residential property most affected

Global trends such as digitalisation, migration into the cities and demographic changes have had both short-term and sustainable effects on the real estate markets. For the special question in the 4th quarter of 2019, we have asked survey participants for their opinions on the effects of five such trends on the financeability and financing conditions in the individual real estate segments in the Big 7 cities. The first part of the special question asked for participants' opinion on the magnitude of the short-term effect on financeability. A very small number of respondents said that the five trends under review had no effect or only a very small effect. The majority expected that such megatrends would have a significant effect across all real estate segments. The assessments are rather divergent in the case of residential and logistics assets. Urbanisation is viewed as the most relevant trend in the case of both segments, whilst almost two-thirds of respondents expect digitalisation to have the greatest effect on the logistics sector. By contrast, digitalisation is expected to have little effect on the financeability of residential property. The question to what extent the individual trends are expected to have long-term effects on financing conditions shows a rather more consistent picture: respondents agree that financing costs will not change dramatically across most real estate segments. The only exception is climate protection: in this case, respondents expect this will result in a significant or highly significant tightening of financing conditions across all real estate segments.

Effect of various global trends on the financeability of residential properties in the Big 7 cities



Effect of various global trends on the financeability of logistics properties in the Big 7 cities



Source: JLL and ZEW

DIFI-Report: Results of Responses, 4th Quarter 2019

	improved	Δ Q3	unchanged	Δ Q3	deteriorated	Δ Q3	aggregate	Δ Q3
German Real Estate Finance Index	**10.0**	**(- 0.4)**	**64.8**	**(- 3.6)**	**25.2**	**(+ 3.9)**	**-15.2**	**(- 4.4)**
Financing situation	**improved**	**Δ Q3**	**unchanged**	**Δ Q3**	**deteriorated**	**Δ Q3**	**aggregate**	**Δ Q3**
Office	16.7	(- 1.1)	83.3	(+ 4.7)	0.0	(- 3.6)	16.7	(+ 2.5)
Retail	4.5	(+ 0.8)	27.3	(-13.4)	68.2	(+12.6)	-63.7	(-11.8)
Logistics	8.3	(- 6.0)	87.5	(+ 5.4)	4.2	(+ 0.6)	4.1	(- 6.6)
Residential	17.4	(- 0.4)	69.6	(- 9.0)	13.0	(+ 9.4)	4.4	(- 9.8)
Hotel	14.3	(- 6.5)	61.9	(-13.1)	23.8	(+19.6)	-9.5	(-26.1)
All real estate segments	**12.2**	**(- 2.7)**	**65.9**	**(- 5.1)**	**21.8**	**(+ 7.7)**	**-9.6**	**(-10.4)**
Financing expectations	**improve**	**Δ Q3**	**remain unchanged**	**Δ Q3**	**deteriorate**	**Δ Q3**	**aggregate**	**Δ Q3**
Office	4.2	(+ 0.2)	87.5	(+ 7.5)	8.3	(- 7.7)	-4.1	(+ 7.9)
Retail	0.0	(+/- 0.0)	31.8	(- 5.7)	68.2	(+ 5.7)	-68.2	(- 5.7)
Logistics	12.5	(+ 8.5)	75.0	(- 9.0)	12.5	(+ 0.5)	0.0	(+ 8.0)
Residential	8.7	(+ 0.7)	78.3	(+10.3)	13.0	(-11.0)	-4.3	(+11.7)
Hotel	13.6	(+/- 0.0)	45.5	(-13.6)	40.9	(+13.6)	-27.3	(-13.6)
All real estate segments	**7.8**	**(+ 1.9)**	**63.6**	**(- 2.1)**	**28.6**	**(+ 0.2)**	**-20.8**	**(+ 1.6)**

Refinance market situation	improved	Δ Q3	unchanged	Δ Q3	deteriorated	Δ Q3	aggregate	Δ Q3
Capital deposits	20.0	(+15.8)	65.0	(-10.0)	15.0	(- 5.8)	5.0	(+21.6)
Mortgage bonds	18.2	(+ 3.4)	68.2	(- 9.6)	13.6	(+ 6.2)	4.6	(- 2.8)
Unsecured bonds	21.1	(+ 4.4)	68.4	(+ 5.9)	10.5	(-10.3)	10.6	(+14.7)
Mortgage backed securities	11.7	(+ 1.7)	76.5	(- 3.5)	11.8	(+ 1.8)	-0.1	(- 0.1)
Real estate stock markets	5.9	(- 3.2)	58.8	(- 9.4)	35.3	(+12.6)	-29.4	(-15.8)
Refinance market expectations	**improve**	**Δ Q3**	**remain unchanged**	**Δ Q3**	**deteriorate**	**Δ Q3**	**aggregate**	**Δ Q3**
Capital deposits	22.2	(+17.7)	72.2	(- 5.1)	5.6	(-12.6)	16.6	(+30.3)
Mortgage bonds	9.5	(-14.5)	85.7	(+ 9.7)	4.8	(+ 4.8)	4.7	(-19.3)
Unsecured bonds	5.3	(- 8.3)	84.2	(+16.0)	10.5	(- 7.7)	-5.2	(- 0.6)
Mortgage backed securities	6.2	(- 4.9)	62.5	(- 4.2)	31.3	(+ 9.1)	-25.1	(-14.0)
Real estate stock markets	12.5	(- 3.2)	62.5	(- 0.7)	25.0	(+ 3.9)	-12.5	(- 7.1)
Segment development	**increase**	**Δ Q3**	**remain unchanged**	**Δ Q3**	**decrease**	**Δ Q3**	**aggregate**	**Δ Q3**
Mortgage bonds	9.1	(- 8.7)	68.2	(+ 0.3)	22.7	(+ 8.4)	-13.6	(-17.1)
Unsecured bank bonds	30.4	(- 2.9)	60.9	(+ 5.3)	8.7	(- 2.4)	21.7	(- 0.5)
Segment development	**increase**	**Δ Q3**	**remain unchanged**	**Δ Q3**	**decrease**	**Δ Q3**	**aggregate**	**Δ Q3**
Syndication business (volume)	41.7	(+12.1)	45.8	(-20.9)	12.5	(+ 8.8)	29.2	(+ 3.3)
Underwriting (volume)	8.3	(- 2.8)	54.2	(-12.5)	37.5	(+15.3)	-29.2	(-18.1)

Comment: The German Real Estate Finance Index survey was carried out between 16.10.2019 – 04.11.2019 and involved 25 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

Contacts JLL

Anke Herz
Team Leader Debt Advisory Germany
Frankfurt
+49 (0) 69 2003 1943
anke.herz@eu.jll.com
jll.de

Helge Scheunemann
Head of Research Germany
Hamburg
+49 (0) 40 350011 225
helge.scheunemann@eu.jll.com
jll.de

Contact ZEW

Dr. Carolin Schmidt
Department International Finance
and Financial Management
+49 (0) 621 1235 287
carolin.schmidt@zew.de
zew.de | zew.eu