



ZEW

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# DIFI-Report

Assessment of the Real Estate Financing Market



**DIFI reaches new low**



**Situation and outlook on the refinancing markets  
turn pessimistic**



**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.*

# DIFI reaches new low

## Financing situation and outlook again assessed more pessimistically

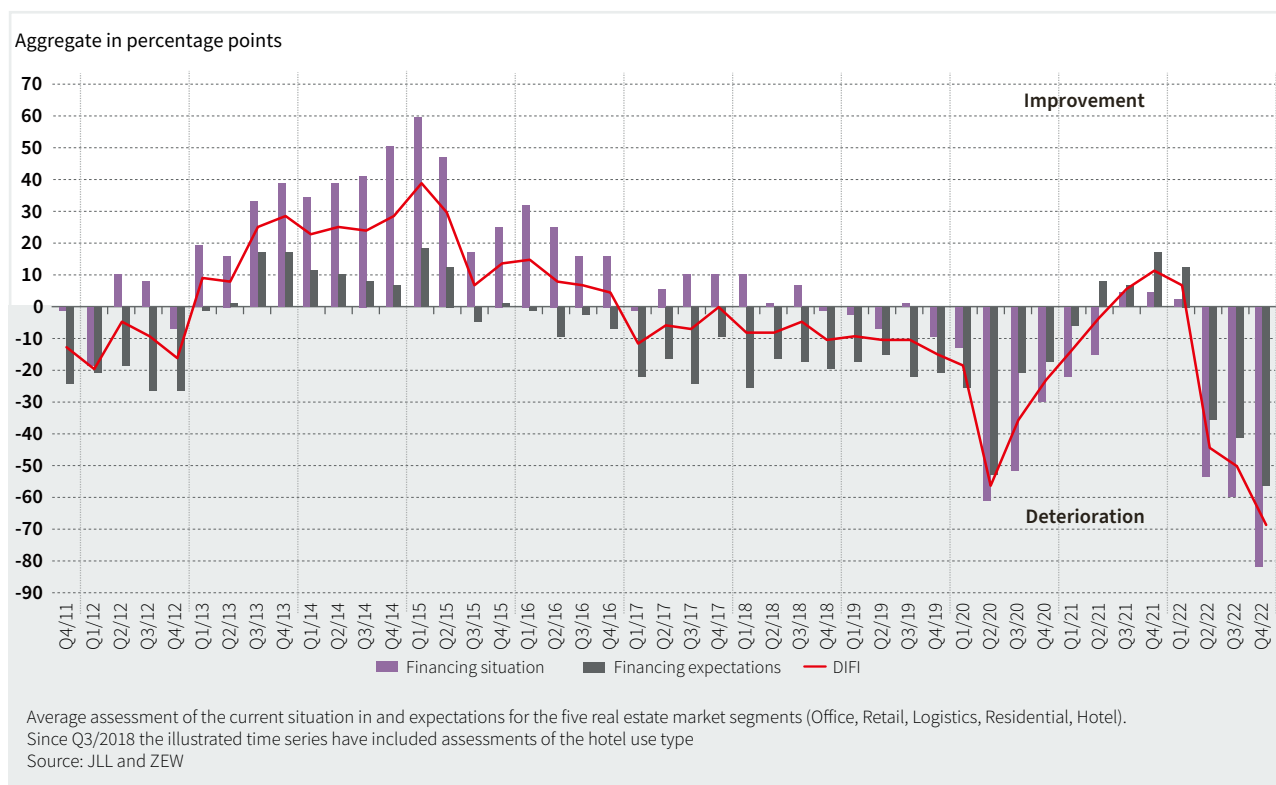
The German Real Estate Finance Index (DIFI) has fallen again in the final quarter of 2022, reaching a new low of minus 69.7 points. The indicator has fallen 19.2 points since the previous quarter, its fourth successive fall. The experts' assessment of the current financing situation of the last six months and the outlook over the coming six months has worsened in the final quarter of the year. The current situation indicator has fallen by 22.6 points to reach a new low of minus 82.3 points, while at minus 57.1 points, the financing outlook is a little less pessimistic than the financing situation. The corresponding indicator has lost 15.9 points compared to the previous quarter.

## New lows for retail, logistics and residential

Most of the situation and expectations indicators considered have fallen in the fourth quarter of 2022. The differences between the use types are minimal, with hotels showing the highest aggregate value overall and residential the lowest. The DIFI sub-indicator values for the retail, logistics and residential use types, which comprise the average of the assessments of the current situation and expectations for the defined real estate market segments, have reached new lows in the final quarter of the year.

A look at the individual situation indicators shows that the respondents in the final quarter rate the financing situation for hotel properties slightly better than in the third quarter. The corresponding indicator has risen by 9.4 points but remains in negative territory at minus 60.1 points. The declines in the other situation indicators range from

## German Real Estate Finance Index (DIFI)



17.8 points (office) to 44.4 points (residential). With a new aggregate of minus 100 for the situation indicator for residential use, never before has there been such a strong consensus among respondents that the current financing situation for these properties has deteriorated in the past six months. The new indicator levels for the office, retail and logistics use types are minus 94.7, minus 77.8 and minus 78.9 points, respectively.

Among the expectations indicators, only the indicator for the retail use type performed better than in the previous quarter, rising by 8.4 points but remaining in negative territory at minus 43.8 points. When financing investments in retail properties however, the specific use type plays an important role. Properties with tenants that offer food or other everyday goods face more favourable financing conditions than, for example, properties with retail users from the textile or hospitality sectors. For hotel properties, there

is a small decline of 3.4 points to minus 53.3 points. The expectations indicator for office property has fallen by 22.3 points to reach minus 64.7 points in the final quarter, while logistics and residential real estate have registered declines of 28.0 and 33.9 points (respectively) to minus 58.8 points and minus 64.7 points.

**Situation and outlook in the refinancing markets turn pessimistic**

Despite the improvements seen in the previous quarter, the outlook in the German real estate refinancing markets has deteriorated again in the final three months of the year. The corresponding expectations indicators of all refinancing instruments that were considered have fallen compared to the previous quarter, and some are in freefall. Only the expectations indicator for capital deposits is still in positive territory at 14.3 points (compared to 18.2 points in the third quarter). For all other

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



refinancing types, the current indicators are well into negative territory, with mortgage bonds (minus 28.5 points), unsecured bonds (minus 73.3 points) and mortgage-backed securities (minus 71.5 points) at their lowest levels since the survey began in the fourth quarter of 2011. Expectations for real estate stock markets are also very poor at minus 50 points.

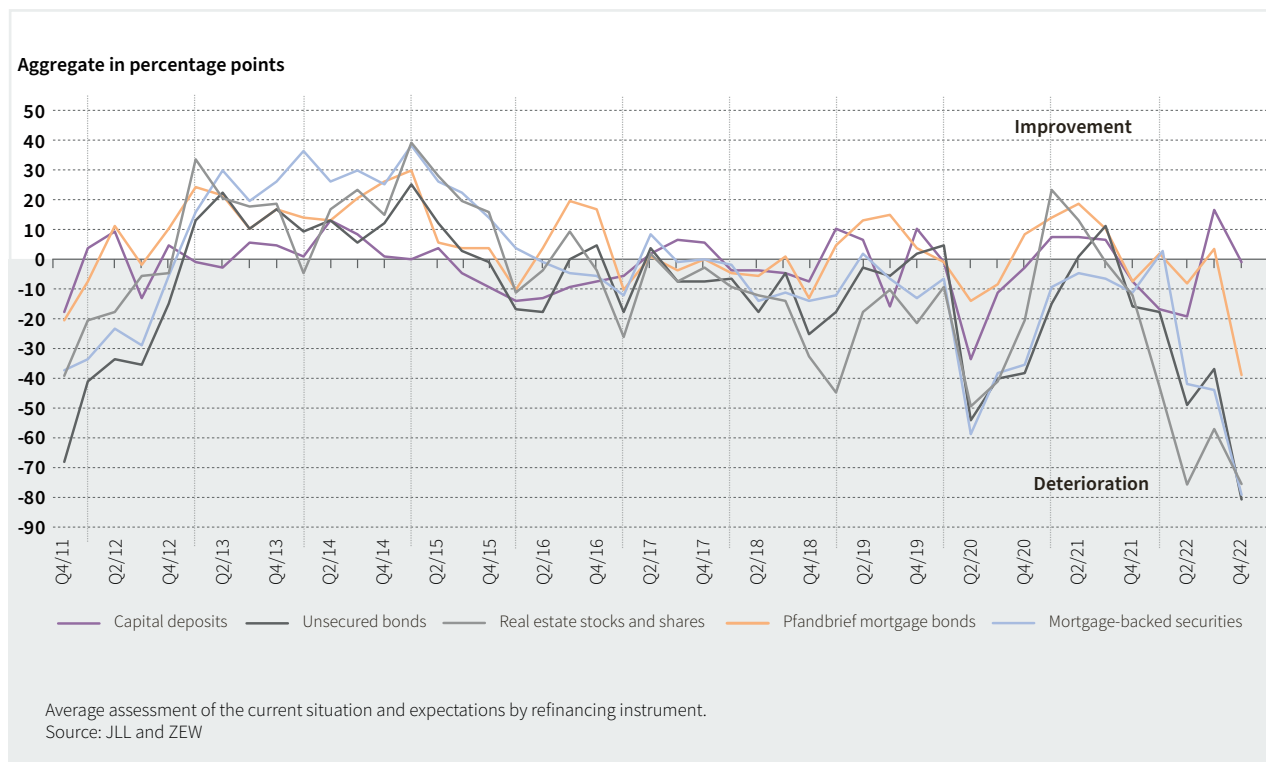
Assessments of the current situation in the German real estate refinancing markets have also fallen very sharply in the final quarter. Capital deposits continue to register the highest aggregate at minus 40 points, while the real estate stock markets have reached their lowest ever level of minus 100 points. With the exception of capital deposits, the aggregates of all refinancing markets in the fourth quarter have reached their lowest levels since the survey began.

Looking at the situation and expectations indicators together, the refinancing market for capital deposits is rated best overall at minus 1.7 points, while unsecured bonds are rated worst overall at minus 80.8 points. The mortgage bonds, unsecured bonds and mortgage-backed securities refinancing markets have reached all-time lows. A direct comparison of the aggregates of the situation and expectation assessments for each refinancing market shows that the situation assessment is lower than the expectation assessment in every single case. With great caution, this can be interpreted to mean that the experts expect the downward momentum to slow down.

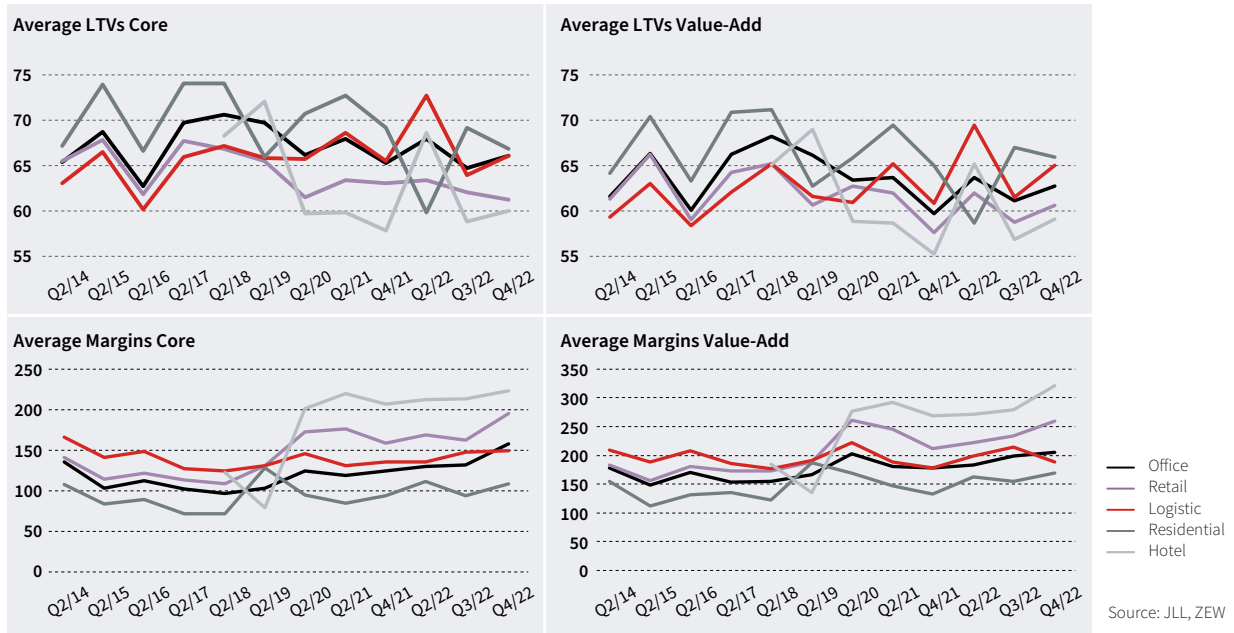
### Loan-to-value ratios and margins rise

To provide a consistent picture, the experts have been regularly asked for their assessments of typical market

## Development of the refinancing markets



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



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 since 2014. The participants can select what in their view is the most likely scenario from a prescribed list of bandwidths.

The current assessments of typical market LTVs in the Core and Value-Add categories have risen slightly in the fourth quarter compared to the previous quarter, with the exception of the residential use type in which they have fallen slightly. In terms of the Core category, the increases in the office, retail, logistics and hotel use types were between 0 and 3 basis points on average. Conversely, the average assessment for residential properties has fallen by 1 basis point. In terms of the Value-Add segment, the office, retail, logistics and hotel use types have risen by between 2 and 3 basis points on average. The average assessment for residential properties has fallen by 1 basis point. LTVs remain highest for residential properties and lowest for hotels. In the Core segment, LTVs are now roughly at the level of the second quarter of 2020, but in some cases still significantly below the values recorded before the pandemic began.

According to the respondents' estimates, the typical market margins for commercial financing of real estate of various use types in the Core and Value-Add segments have increased significantly for the most part compared to the previous quarter, even reaching their highest levels in most cases. In the Core segment, margins for office, retail, residential and hotel use types have increased by an average of 12 to 34 basis points compared to the previous quarter. Only the logistics use type is relatively unchanged with an increase of 2.5 basis points. The highest value is 225 for the hotel use type, the lowest is 118 for the residential use type.

In the Value-Add segment, margins for the office, retail, residential and hotel use types have risen by an average of between 15 and 53 basis points, while the margin for the logistics use type has fallen by around 19 basis points. At 331 basis points, the highest margin is demanded for the financing of hotel properties, significantly higher than for the other four use types, while the lowest margin is registered for residential properties with 171 basis points.

## DIFI-Report: Results of Responses, 4<sup>th</sup> Quarter 2022

	Improved	Δ Q3	Unchanged	Δ Q3	Deteriorated	Δ Q3	Aggregate	Δ Q3
<b>German Real Estate Financing Index (DIFI)</b>	3,7	(+ 0.1)	22,9	(-19.5)	73,4	(+19.3)	-69,7	(-19.2)
<b>Financing situation</b>	<b>Improved</b>	<b>Δ Q3</b>	<b>Unchanged</b>	<b>Δ Q3</b>	<b>Deteriorated</b>	<b>Δ Q3</b>	<b>Aggregate</b>	<b>Δ Q3</b>
Office	0,0	(+/- 0.0)	5,3	(-17.8)	94,7	(+17.8)	-94,7	(-17.8)
Retail	0,0	(- 3.8)	22,2	(-16.3)	77,8	(+20.1)	-77,8	(-23.9)
Logistics	0,0	(- 3.8)	21,1	(-28.9)	78,9	(+32.7)	-78,9	(-36.5)
Residential	0,0	(+/- 0.0)	0,0	(-44.4)	100,0	(+44.4)	-100,0	(-44.4)
Hotel	6,6	(+ 2.2)	26,7	(+ 5.0)	66,7	(- 7.2)	-60,1	(+ 9.4)
<b>All use types</b>	<b>1,3</b>	<b>(- 1.1)</b>	<b>15,1</b>	<b>(-20.4)</b>	<b>83,6</b>	<b>(+21.5)</b>	<b>-82,3</b>	<b>(-22.6)</b>
<b>Financing expectations</b>	<b>Will improve</b>	<b>Δ Q3</b>	<b>Will not change</b>	<b>Δ Q3</b>	<b>Will deteriorate</b>	<b>Δ Q3</b>	<b>Aggregate</b>	<b>Δ Q3</b>
Office	5,9	(+ 2.1)	23,5	(-26.5)	70,6	(+24.4)	-64,7	(-22.3)
Retail	6,2	(+ 6.2)	43,8	(- 4.0)	50,0	(- 2.2)	-43,8	(+ 8.4)
Logistics	5,9	(- 1.8)	29,4	(-24.4)	64,7	(+26.2)	-58,8	(-28.0)
Residential	5,9	(- 1.8)	23,5	(-30.3)	70,6	(+32.1)	-64,7	(-33.9)
Hotel	6,7	(+ 2.1)	33,3	(- 7.6)	60,0	(+ 5.5)	-53,3	(- 3.4)
<b>All use types</b>	<b>6,1</b>	<b>(+ 1.3)</b>	<b>30,7</b>	<b>(-18.6)</b>	<b>63,2</b>	<b>(+17.2)</b>	<b>-57,1</b>	<b>(-15.9)</b>
<b>Situation in the refinancing markets</b>	<b>Improved</b>	<b>Δ Q3</b>	<b>Unchanged</b>	<b>Δ Q3</b>	<b>Deteriorated</b>	<b>Δ Q3</b>	<b>Aggregate</b>	<b>Δ Q3</b>
Capital deposits	29,4	(-10.6)	23,5	(-12.5)	47,1	(+23.1)	-17,7	(-33.7)
Pfandbrief mortgage bonds	6,2	(-13.8)	37,5	(-26.5)	56,3	(+40.3)	-50,1	(-54.1)
Unsecured bonds	0,0	(- 8.4)	11,8	(-21.5)	88,2	(+29.9)	-88,2	(-38.3)
Mortgage-backed securities	0,0	(-10.0)	13,3	(- 6.7)	86,7	(+16.7)	-86,7	(-26.7)
Real estate stocks and shares	0,0	(- 8.3)	0,0	(+/- 0.0)	100,0	(+ 8.3)	-100,0	(-16.6)
<b>Expectations in the refinancing markets</b>	<b>Will improve</b>	<b>Δ Q3</b>	<b>Will not change</b>	<b>Δ Q3</b>	<b>Will deteriorate</b>	<b>Δ Q3</b>	<b>Aggregate</b>	<b>Δ Q3</b>
Capital deposits	35,7	(+ 8.4)	42,9	(-20.7)	21,4	(+12.3)	14,3	(- 3.9)
Pfandbrief mortgage bonds	7,2	(- 5.3)	57,1	(-22.1)	35,7	(+27.4)	-28,5	(-32.7)
Unsecured bonds	6,7	(- 6.9)	13,3	(-36.7)	80,0	(+43.6)	-73,3	(-50.5)
Mortgage-backed securities	7,1	(+ 1.5)	14,3	(-46.8)	78,6	(+45.3)	-71,5	(-43.8)
Real estate stocks and shares	12,5	(+ 2.5)	25,0	(-25.0)	62,5	(+22.5)	-50,0	(-20.0)
<b>Spreads compared to German Government Bonds</b>	<b>Will increase</b>	<b>Δ Q3</b>	<b>Will not change</b>	<b>Δ Q3</b>	<b>Will reduce</b>	<b>Δ Q3</b>	<b>Aggregate</b>	<b>Δ Q3</b>
Pfandbrief mortgage bonds	84,6	(+24.6)	7,7	(-32.3)	7,7	(+ 7.7)	76,9	(+16.9)
Unsecured bonds	100,0	(+ 8.7)	0,0	(- 8.7)	0,0	(+/- 0.0)	100,0	(+ 8.7)
<b>Development of segments</b>	<b>Will increase</b>	<b>Δ Q3</b>	<b>Will not change</b>	<b>Δ Q3</b>	<b>Will reduce</b>	<b>Δ Q3</b>	<b>Aggregate</b>	<b>Δ Q3</b>
Syndication business (volume)	11,8	(-24.6)	17,6	(- 5.1)	70,6	(+29.7)	-58,8	(-54.3)
Underwriting (volume)	0,0	(-14.3)	11,8	(-16.8)	88,2	(+31.1)	-88,2	(-45.4)

Comment: The German Real Estate Finance Index survey was carried out between 10.31.2022 – 11.11.2022 and involved 19 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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