JLL ZEW

Research & Debt Advisory Germany
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DIFI-Report

Assessment of the Real Estate Financing Market

DIFI continues recovery for the third quarter in succession

Retail segment suffering under the current lockdown

Special question: office property financing during the COVID-19 crisis

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.

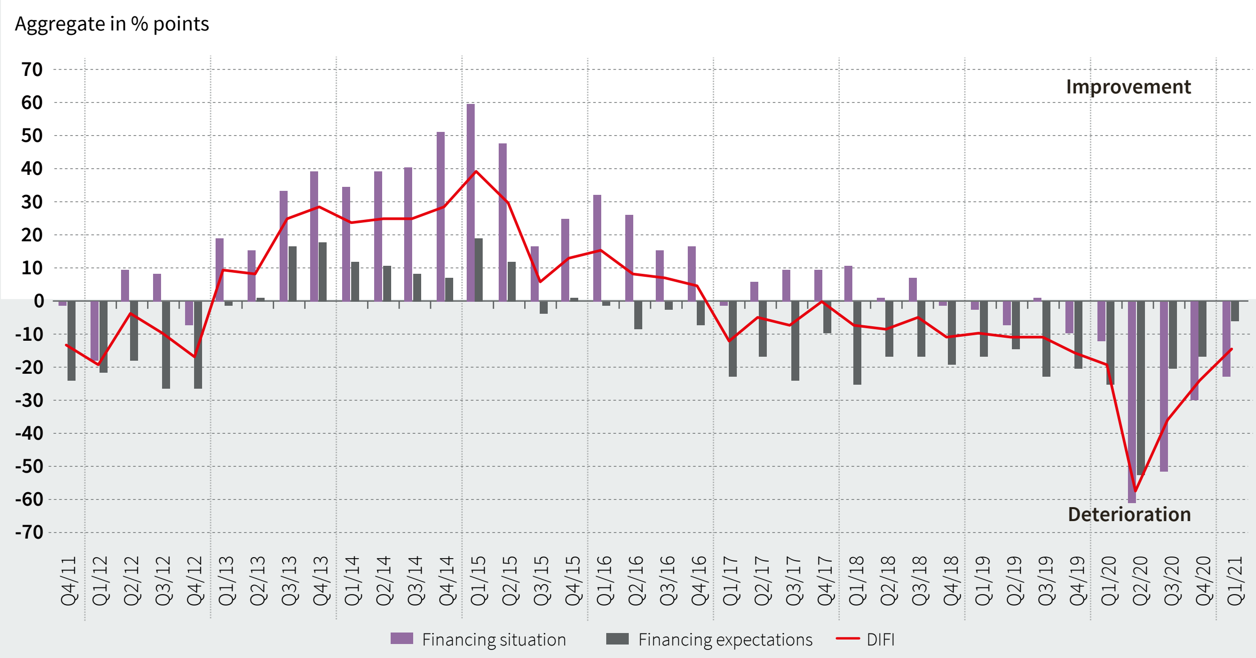
DIFI now past the low point

The positive trend continues
The **German Real Estate Financing Index (DIFI)** rose by 9.5 points in the 1st quarter of 2021 to its current level of **-14.0 points**, its highest point since the 3rd quarter of 2019. Our experts' assessments of the current financing situation over the last six months and the expectations relating to the financing situation over the next six months are both more positive than in the 4th quarter of 2020. However, the respective indicators remain negative. Whilst the indicator for the current financing situation over the last few months rose by 7.4 points to -22.2 points, the indicator for the financing expectations rose by 11.7 points to -5.7 points.

Retail segment suffering under the current lockdown
Over the 1st quarter of 2021, our experts' assessments of the current financing situation and the financing outlook for almost all real estate segments under review improved compared to the 4th quarter of 2020. The only exception is the retail real estate segment, which is suffering the effects of the current lockdown in Germany.

Our experts' assessments show that the segments benefiting from the current environment are still logistics and residential. Both use types showed positive aggregates in the 1st quarter of 2021 in terms of both the current financing situation and financing expectations.

German Real Estate Finance Index (DIFI)

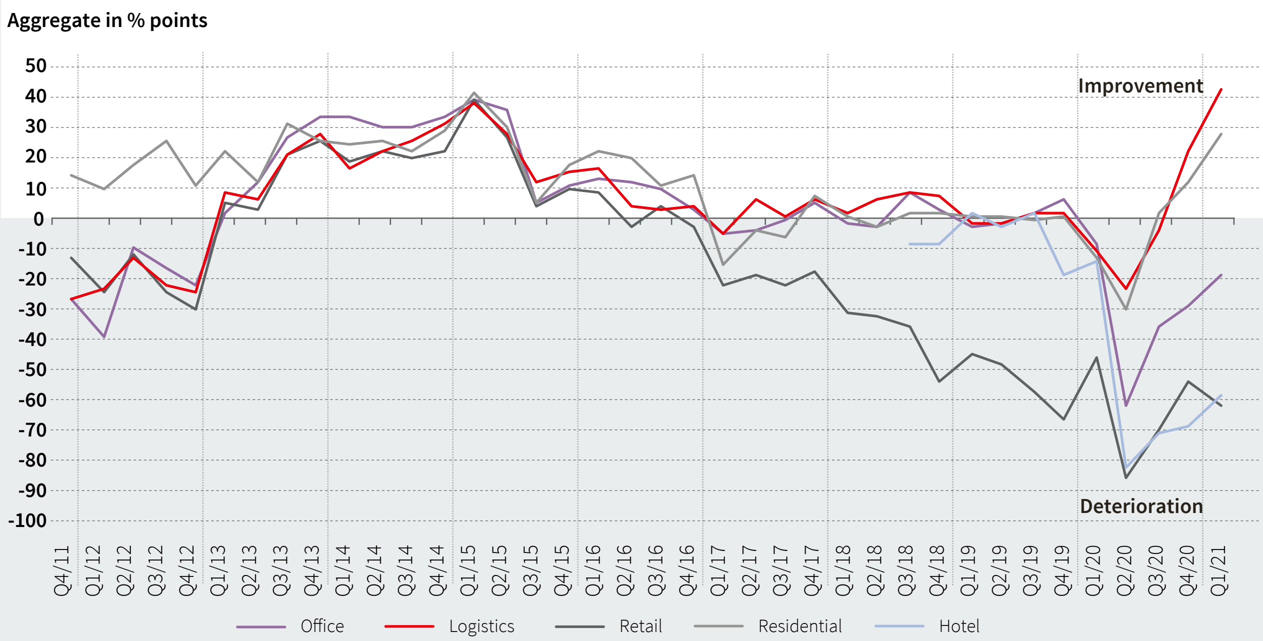


Average assessment of the current situation in and expectations for the five real estate market segments (Office, Retail, Logistics, Residential, Hotel).
Source: JLL and ZEW

The improvement of 23.5 and 21.1 points respectively are the strongest in terms of the current financing situation. Our experts expect the positive trend to continue in both segments over the coming six months. The sub-indicators show increases in the expectation indicators of 16.6 points (logistics) and 9.7 points (residential). In fact, the indicators relating to the logistics real estate segment reached their highest point since the start of the survey in the 1st quarter of 2021 in terms of both the current financing situation and financing expectations.

In our experts' view, the office, retail and hotel segments are still negatively affected by the COVID-19 pandemic. With a score of -84.4 points, the assessment of the current financing situation in the hotel segment is the most pessimistic of all real estate segments under review in the 1st quarter of 2021. The retail and office segments followed with -75.8 and -37.1 points, respectively. The experts view the office segment most optimistically in terms of financing expectations, with an increase of 20 points compared to the 4th quarter of 2020. Even the hotel segment scored a significant increase with +16.7 points in terms of financing expectations in the 1st quarter of 2021. The majority of respondents now expect that the financing conditions for hotel properties will either remain unchanged or will improve over the next six months. However, these expectations are dependent on the success of the ongoing vaccination campaigns and the corresponding hope that life can return to normal.

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

Refinancing markets on the up

Over the 1st quarter of 2021, the situation and the outlook in the refinancing markets were viewed significantly more optimistically than in the 4th quarter of 2020. With increases between 15.8 points (capital deposits) and 59.4 points (real estate stocks), all indicators for the refinancing markets under review have improved significantly. The most optimistic experts' assessment of the current financing situation is related to real estate stocks. With an aggregate of 28.6 points, the indicator rose by 72.4 points from its low point in the 2nd quarter of 2020 to its highest level since the 2nd quarter of 2015.

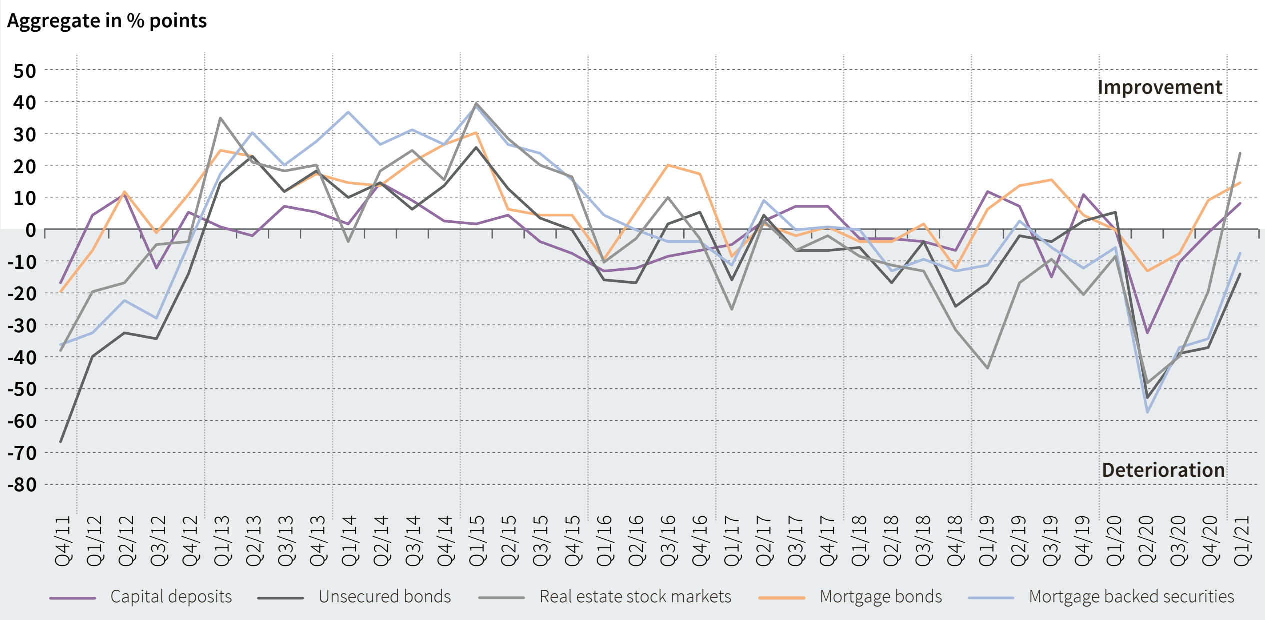
Our experts expect the positive developments in the refinancing markets to continue over the next six months.

The proportion of respondents who expect the financing situation to deteriorate over the next six months has fallen across all refinancing markets under review. All indicators relating to future expectations were up, with the exception of the refinancing instrument mortgage bonds. The strongest growth in expectation indicators compared to both the previous quarter and against the all-time high was attributable to the refinancing instrument real estate stocks with 27.3 points and 19.0 points, respectively.

Office property financing during the COVID-19 crisis

In our experts' opinion, the participants in the market for office property financing still view the future with some caution, despite the light at the end of the tunnel. In our special question, we asked the respondents for

Development of the refinancing markets



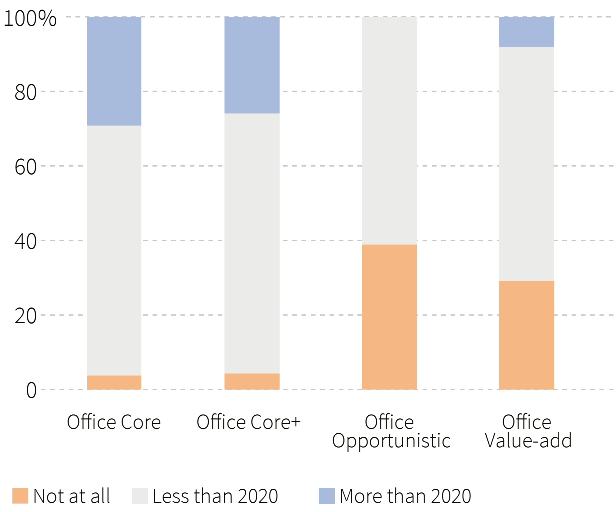
Average assessment of the current situation and expectations by refinancing instrument.
Source: JLL and ZEW

their expectations relating to their new business in 2021 in terms of financing conditions in the various segments in the office property financing market. The segments under review were Core, Core+, Value-add and Opportunistic.

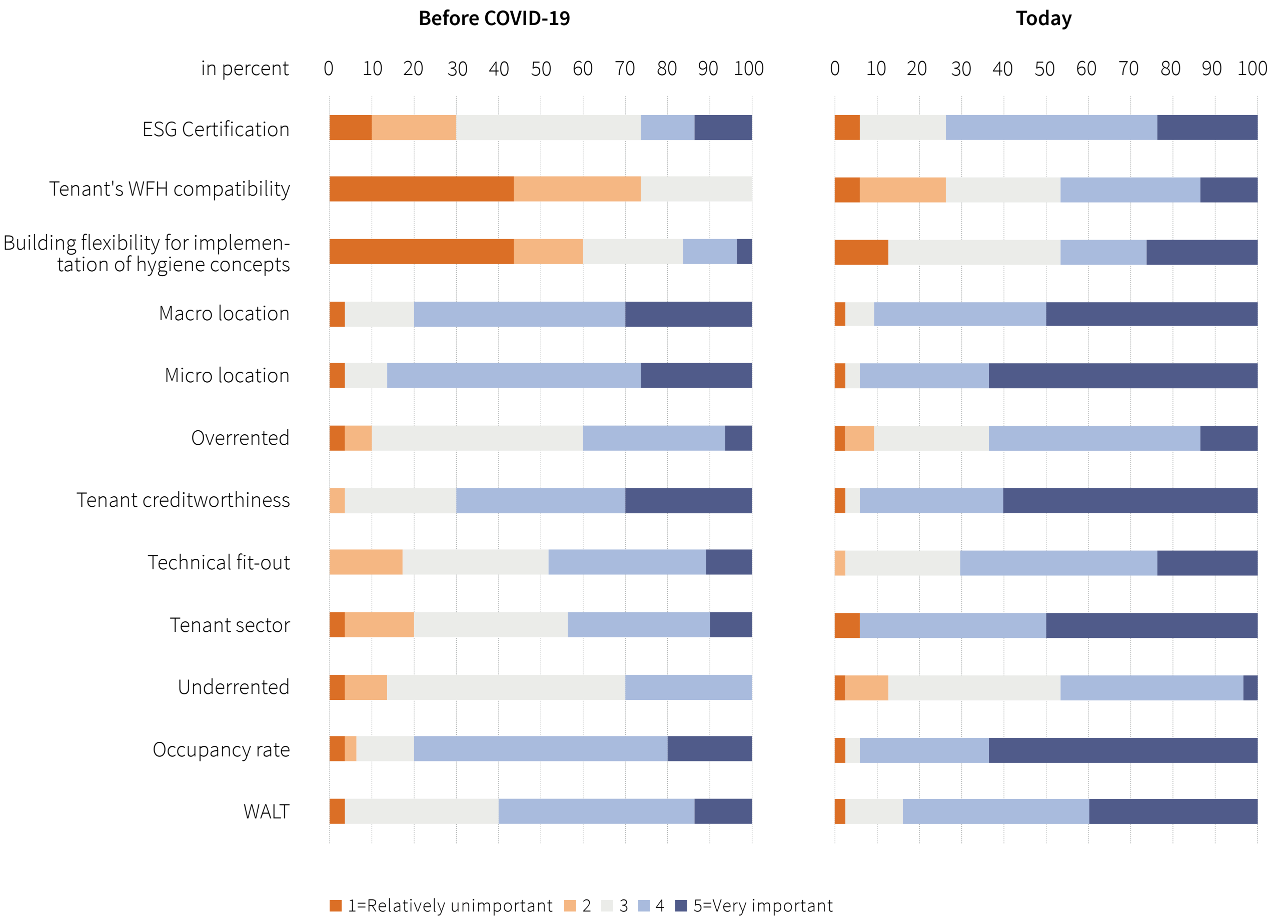
The majority of participants responded that they would like to reduce their engagement in the four segments in 2021 compared to 2020. The least attractive segment appeared to be Opportunistic, in which no respondent said they would want to increase financing compared to 2020. The general tendency was “less than 2020” (39.1%) to “not at all” (60.9%). The respondents view the greatest opportunities in the Core and Core+ segments. 29.2% and 26.1%, respectively, said that they would like to increase the volume of their new business in these two segments in 2021.

The decreasing attractiveness of office property financing is the result of the changing overall conditions during the current crisis, which must be considered when granting loans. In a further special question, we asked the respondents how the COVID-19 pandemic is affecting their award of loans in the office property financing segment. According to our experts, all criteria under review have increased in importance during the COVID-19 crisis. Award criteria which may have played an immaterial role prior to the pandemic and have now become important to very important in the current situation include tenants’ affinity with working from home and the flexibility of the building for the implementation of hygiene concepts. Only 27.7% and 13.3% of the respondents respectively currently view these criteria as unimportant. With shares of just under 73.3% and 60.0%, the same group of experts would have viewed these two criteria as unimportant prior to the crisis. As a result of the overall economic developments, there is even greater focus on the criteria for the better assessment of credit risk which were already relevant prior to the onset of the pandemic. There have been some significant shifts amongst the various sectors to which the office tenants belong, which is not surprising as the degree to which companies are affected is highly dependent upon the business sector. Prior to the crisis, some 43.3% of respondents would have attached high or very high importance to the tenants’ sector. Now 93.3% of respondents view this as highly relevant.

Office Property Financing Intentions in 2021



Suggested solutions in the event of rising NPL ratios



DIFI-Report: Results of Responses, 1st Quarter 2021

	improved	Δ Q4	unchanged	Δ Q4	deteriorated	Δ Q4	aggregate	Δ Q4
German Real Estate Finance Index	17.0	(+ 4.8)	52.1	(+/- 0.0)	30.9	(- 4.8)	-14.0	(+ 9.5)
Financing situation	**improved**	**Δ Q4**	**unchanged**	**Δ Q4**	**deteriorated**	**Δ Q4**	**aggregate**	**Δ Q4**
Office	2.9	(+/- 0.0)	57.1	(+/- 0.0)	40.0	(+/- 0.0)	-37.1	(+/- 0.0)
Retail	0.0	(- 3.0)	24.2	(- 5.2)	75.8	(+ 8.2)	-75.8	(-11.2)
Logistics	52.9	(+17.6)	47.1	(-11.7)	0.0	(- 5.9)	52.9	(+23.5)
Residential	33.3	(+18.1)	66.7	(-15.1)	0.0	(- 3.0)	33.3	(+21.1)
Hotel	0.0	(+/- 0.0)	15.6	(+ 3.5)	84.4	(- 3.5)	-84.4	(+ 3.5)
All real estate segments	17.8	(+ 6.5)	42.1	(- 5.7)	40.0	(- 0.9)	-22.2	(+ 7.4)
Financing expectations	**improve**	**Δ Q4**	**remain unchanged**	**Δ Q4**	**deteriorate**	**Δ Q4**	**aggregate**	**Δ Q4**
Office	18.2	(+ 3.9)	63.6	(+12,2)	18.2	(-16.1)	0.0	(+20.0)
Retail	0.0	(+/- 0.0)	51.5	(- 4.4)	48.5	(+ 4.4)	-48.5	(- 4.4)
Logistics	31.4	(+ 7.8)	68.6	(+ 1.0)	0.0	(- 8.8)	31.4	(+16.6)
Residential	21.9	(+ 6.7)	78.1	(- 3.7)	0.0	(- 3.0)	21.9	(+ 9.7)
Hotel	9.1	(- 3.4)	48.5	(+23.5)	42.4	(-20.1)	-33.3	(+16.7)
All real estate segments	16.1	(+ 3.0)	62.1	(+ 5.8)	21.8	(- 8.7)	-5.7	(+11.7)
Refinance market situation	**improved**	**Δ Q4**	**unchanged**	**Δ Q4**	**deteriorated**	**Δ Q4**	**aggregate**	**Δ Q4**
Capital deposits	12.5	(+ 5.8)	87.5	(+ 4.2)	0.0	(-10.0)	12.5	(+15.8)
Mortgage bonds	22.2	(+ 5.6)	74.1	(+ 7.4)	3.7	(-13.0)	18.5	(+18.6)
Unsecured bonds	26.0	(+22.2)	48.1	(- 1.9)	25.9	(-20.3)	0.1	(+42.5)
Mortgage backed securities	11.1	(+11.1)	72.2	(+14.3)	16.7	(-25.4)	-5.6	(+36.5)
Real estate stock markets	38.1	(+30.4)	52.4	(- 1.4)	9.5	(-29.0)	28.6	(+59.4)
Refinance market expectations	**improve**	**Δ Q4**	**remain unchanged**	**Δ Q4**	**deteriorate**	**Δ Q4**	**aggregate**	**Δ Q4**
Capital deposits	4.2	(- 3.0)	95.8	(+10.1)	0.0	(- 7.1)	4.2	(+ 4.1)
Mortgage bonds	11.1	(-13.9)	88.9	(+21.0)	0.0	(- 7.1)	11.1	(- 6.8)
Unsecured bonds	4.0	(+/- 0.0)	64.0	(+ 4.0)	32.0	(- 4.0)	-28.0	(+ 4.0)
Mortgage backed securities	10.5	(+ 5.3)	68.4	(+ 5.2)	21.1	(-10.5)	-10.6	(+15.8)
Real estate stock markets	23.8	(+11.3)	71.4	(+ 4.7)	4.8	(-16.0)	19.0	(+27.3)
Segment development	**increase**	**Δ Q4**	**remain unchanged**	**Δ Q4**	**decrease**	**Δ Q4**	**aggregate**	**Δ Q4**
Mortgage bonds	12.9	(-11.3)	87.1	(+17.4)	0.0	(- 6.1)	12.9	(- 5.2)
Unsecured bank bonds	46.9	(-22.1)	50.0	(+25.9)	3.1	(- 3.8)	43.8	(-18.3)
Segment development	**increase**	**Δ Q4**	**remain unchanged**	**Δ Q4**	**decrease**	**Δ Q4**	**aggregate**	**Δ Q4**
Syndication business (volume)	51.6	(+ 9.1)	41.9	(+17.7)	6.5	(-26.8)	45.1	(+35.9)
Underwriting (volume)	20.7	(+11.3)	51.7	(+14.2)	27.6	(-25.5)	-6.9	(+36.8)

Comment: The German Real Estate Finance Index survey was carried out between 01.02.2021 – 15.02.2021 and involved 35 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 ca-tegories 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 cate-gories (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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