

New Business Report

Real Estate Financing

Germany | Full year 2019

Published in May 2020

New business figures and loan portfolios for commercial real estate financing by German banks

Although the current circumstances have changed everything, the past decade will justifiably go down in the history books as the „decade of real estate“. Growth in the investment market not only continued in 2019, but the final quarter once again produced a kaleidoscope of deals, unexpected in their form and dynamic. The market therefore looked back on a 10-year upswing that continued even in the first quarter of 2020. The effects of the COVID-19 pandemic were not felt in the first three months, nor was the continuing reality of geopolitical conflicts, global trade disputes or Brexit rifts. Over the last 10 years, more than ever before, real estate has acquired a firm place in the portfolios of institutional investors and has proven to be an anchor of stability and a performance driver.

Demand for real estate at an all-time high and transaction volumes in 2019 and Q1 2020 reach new record levels

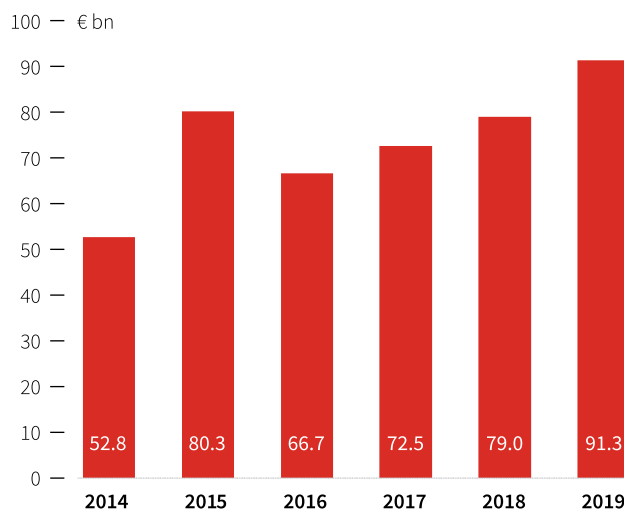
The end-of-year spurt saw a new record being set in the German investment market. At €34.0 billion, the final three months were stronger than any other previous quarter (previous record: €26.5 billion in Q4 2016). 73 transactions running into hundreds of millions of Euros or even billions were concluded in the last three months of the year alone.

The total transaction volume including the Living segment for the full year 2019 reached €91.3 billion with a total of 187 transactions above the €100 million mark. The same applies to the first quarter of 2020 and until a few weeks ago, all market participants were also talking about

a continuation of the real estate boom. That was before the Coronavirus. In fact a record investment volume was achieved in the first quarter of 2020, since the effects of the COVID-19 crisis had not yet been felt during this period. Numerous processes and transactions had already been initiated or were in the final stages of negotiations, and so a „deal freeze“ or slump in the investment market is not yet apparent, at least not in the figures. Nevertheless, March is likely to be a turning point and the effects will probably become apparent by the end of the second quarter.

Real Estate Transaction Volume in Germany

Status: April 2020; Source: JLL



The decisive factor for the rest of the year will be whether prices bottom out because, despite the Coronavirus, the global availability of capital and shortage of supply will remain constant. As a result, the route via the capital market is becoming increasingly important for investors, in addition to direct investments. Company participations or takeovers, or the acquisition of share packages, offer an interesting and rewarding alternative to secure real estate ownership in times of scarce supply. Consequently, indirect investments have so far accounted for around €12 billion this year. Office and residential real estate dominated

both in 2019 and the first few months of 2020. In each case, well over 60% of the transaction volume flowed into these real estate segments.

New business 5% above previous year

In order to assess the situation in the financing market for commercial real estate in Germany on a quantitative basis, JLL has analysed and evaluated current and planned new business figures and existing loan portfolios. In addition to the financing of commercially used properties, commercial real estate lending also includes the financing of

New commercial real estate financing business in Germany by selected banks

Bank	2018 in € billion	2019 in € billion	Change 2019 / 2018		Plan 2020 vs. 2019
DZ Hyp ²⁾	8.40	9.30	11%	↗	↘
Bayern LB	4.70	5.20	11%	↗	↘
Berlin Hyp ²⁾	4.60	5.10	11%	↗	↘
LBBW	6.00	5.00	-17%	↘	↘
Helaba ³⁾	4.90	4.60	-6%	↘	→
pbb Deutsche Pfandbriefbank	3.80	4.30	13%	↗	↘
Hamburg Commercial Bank ²⁾	4.30	3.60	-16%	↘	↘
Berliner Sparkasse ^{2) 4)}	2.45	3.43	40%	↗	↘
MünchenerHyp ²⁾	1.30	1.90	46%	↗	↘
Deutsche Hypo ²⁾	1.30	1.30	0%	→	↘
Aareal Bank ¹⁾	0.90	0.90	0%	→	n/a
DekaBank	0.50	0.46	-8%	↘	↘
Total	43.1	45.1	5%		

¹⁾ New business figures include qualified extensions

²⁾ Excluding extensions

³⁾ Medium and long-term new business

⁴⁾ New business under contract

Source: JLL, bank information

residential real estate used for investment purposes. This analysis comprises a selection of German banks, whose reports include a breakdown of figures from which comparisons can be drawn. New business figures refer to volumes in Germany, while loan portfolio data reflects the total volume in Germany and abroad. These figures do not include the raising of funds using capital market products such as increasing capital or the issuing of shares.

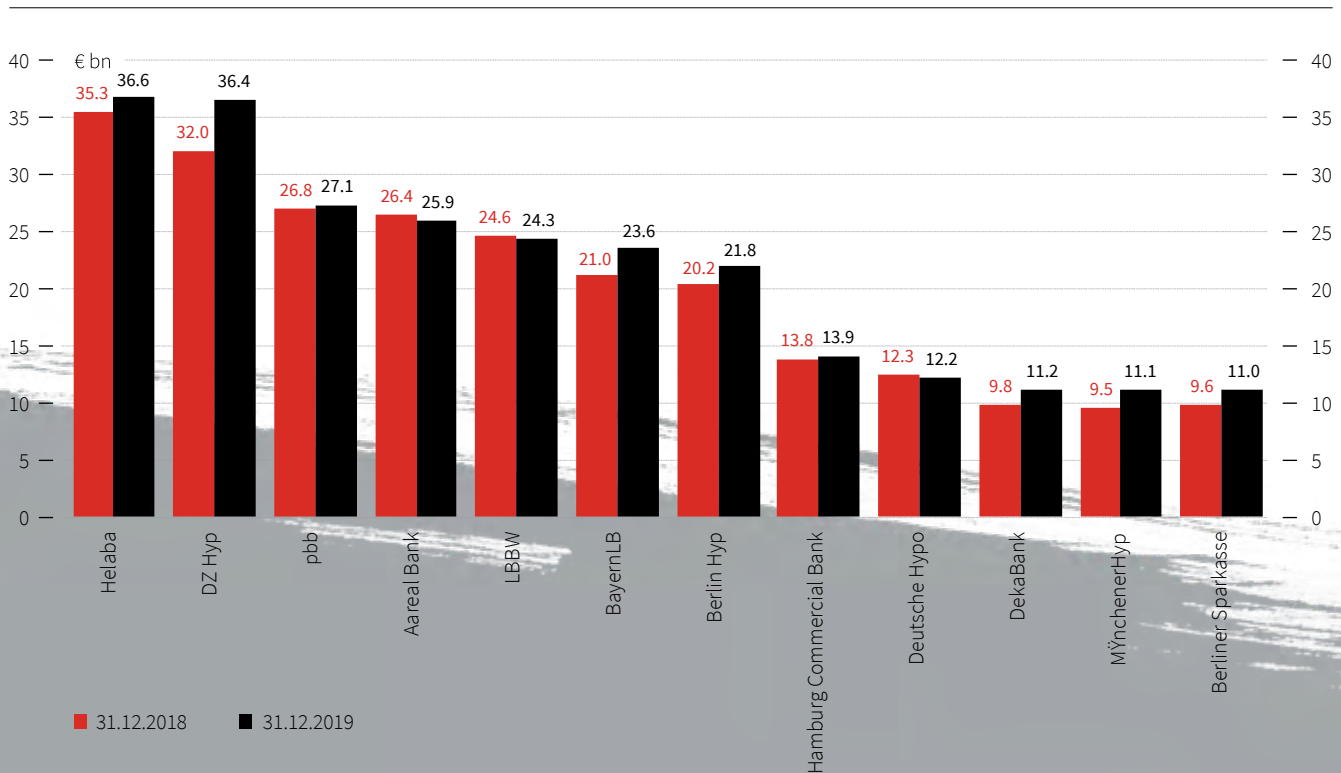
In view of the record result for the real estate investment market in 2019, the “mere” 5% increase in new business by institutions appears low. One reason for this could be that German investors in particular, who also handle large volumes, have increasingly acquired the properties using

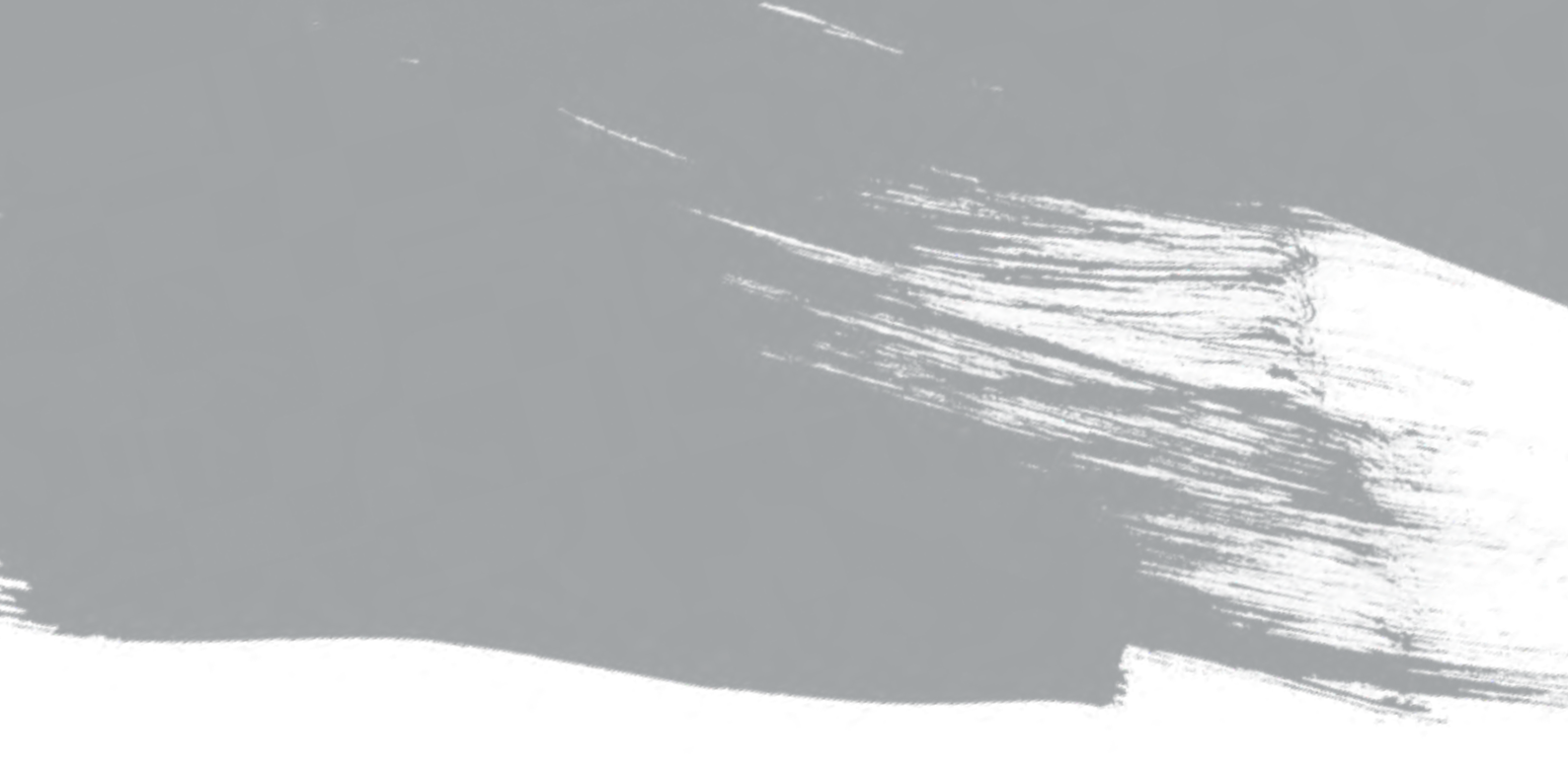
equity. Foreign investors who, after all, accounted for just under 34% of the transaction volume in 2019, are bringing some of their capital with them. Moreover, LTVs are declining slightly. At least half of the 12 institutions above increased their new business compared to 2018. DZ Hyp achieved a result close to a double-digit billion Euro figure. New business remained stable at two banks, while it declined at four. Just two banks recorded a double-digit percentage decline, albeit from a high absolute level.

Loan portfolios grew faster than new business

The loan book increased year-on-year at nine institutions, most notably at MünchenerHyp with an increase of 17%. Overall, portfolios increased by 6%, and thus somewhat

Loan portfolios for commercial real estate financing (Germany and abroad) by selected banks





more strongly than new business. Once again therefore, the volume of new business is likely to have exceeded the volume of repayments on maturing loans in some cases.

The new business and loan portfolios analysed here were created before the Coronavirus. Nonetheless, the impact of the virus is being reflected in the latest forecasts by the banks.

Underlying conditions and outlook

General conditions for financing had already deteriorated by the beginning of 2020, as shown by the current German Real Estate Financing Index (DIFI), the sentiment indicator for commercial real estate financing in Germany published by JLL and ZEW. Both the financing situation and expectations were affected. Financing expectations for all types of real estate use were even significantly lower than the assessment of the situation. The DIFI surveys took place from early to mid-February, i.e. the effects of the Coronavirus were not as evident at that time as they were a few weeks later. Since then, the world has changed significantly. However, for the purposes of this new business report, banks were asked for their anticipated figures for 2020 in April, i.e. at a time when the Coronavirus was already clearly showing its effects. According to these figures, most banks assume that new business will be lower. This points to a further deterioration in the already negative sentiment reported by DIFI. Nonetheless, banks continue to provide financing, and liquidity is available for new business, although this has become much more difficult for some types of real estate such as hotels or textile-an-

chored retail. In addition, margins are expected to rise due to higher liquidity costs, which is likely to have a particularly significant impact on Pfandbrief banks. There is also a redistribution of resources in the banks, at least temporarily, currently underway. The assessment and analysis of the effects of the COVID-19 crisis on the books points to a downturn in the volume of new business. Due to the crisis there are also signs that banks are increasingly turning their attention to their existing customers.

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