New Business Report
Real Estate Financing

Germany | Full year 2015
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JLL

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

Record volumes on the commercial real estate investment market in Germany

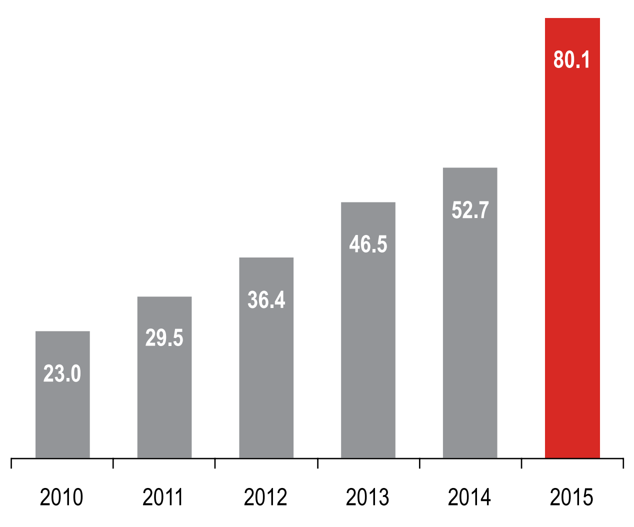
The main driver for the sizeable investment demand from institutional investors was and remains the continued low interest rates. In 2015, the volume invested in commercial real estate increased for the sixth time in a row to reach a record €55.1 billion, exceeding the previous record from 2007. The total transaction volume for the seven property strongholds (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart – the 'Big 7') was €31 billion, a rise of 35% year-on-year. However, there was also an above-average increase in investments concluded outside the Big 7 which totalled €24 billion, a rise of more than 43% since 2014. This indicates a greater propensity of investors to assume risk, due in part to the insufficient supply of Core products in all seven cities. Although Core investments (i.e. potential low-risk investments) are still responsible for around half of the market volume, the willingness of investors to assume greater investment risks is growing. There was a registered, albeit moderate fall in yields in most real estate segments in response to this investment pressure. Following a prolonged period of stability, even yields for properties in secondary locations or with an element of vacancy or shorter unexpired lease terms were under downward pressure. Whilst yields decreased, there was a slight rise in office rents and thus capital values. In the case of prime office properties for example, capital values have increased by a nominal 50% since reaching rock bottom after the onset of the global financial crisis at the end of 2009.

Volume of new business almost unchanged

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 provision of finance to legal entities holding residential real estate for commercial purposes. This analysis comprises a selection of nationally active German banks whose reports include a breakdown of figures which allow comparisons to be made. The banks with new business analysed here account for almost 70% of the new business volume in the German market. New business figures refer to volumes in Germany, while loan portfolio figures reflect 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.

Despite the record high volume of transactions in the property investment market, the volume of new business generated by property lenders has stagnated. Even taking into account the WL-Bank which appears in the new business report for the first time, there was very little difference in the volume of new business generated in 2015 compared to 2014. The greatest percentage growth since 2014 was recorded for the HypoVereinsbank at 41% and the biggest reduction was recorded for the Düsseldorf Hypothekenbank with a minus of around 75%, due to the bank deliberately limiting its new business

Transaction volume: commercial real estate and commercially-held residential real estate in € billion



Source: JLL

activities. Several banks reported high volumes of early loan repayments by their customers in 2015 and some banks responded to this by expanding their new business activities. Nonetheless, the fact that the total volume of new business has hardly changed is due to the more cautious approaches being adopted by banks.

Two banks recorded new business volumes in excess of €5 billion. In 2014, only Helaba managed to cross the €5 billion threshold. In 2015, DG Hyp recorded its highest ever volume of new business and HSH Nordbank managed to achieve its second highest volume since the onset of the financial crisis. As mentioned in our previous report, due to its acquisitions of WestImmo and Corealcredit, the Aareal Bank data on new business will continue to be reported on a consolidated basis. So far, the Frankfurt Hypothekenbank (Eurohypo's successor) has been focused on reducing its portfolio and has therefore not undertaken any new business activity. In 2016, the bank has handed back its banking licence as part of the Commerzbank settlement.

New business in Germany for commercial real estate financing by selected banks

Bank	Total 2014 in € billion	Total 2015 in € billion	Change 2014/2015		Plan 2016
HypoVereinsbank[1]	4.1	5.8	41%	↗	→
DG Hyp[1]	4.7	5.6	19%	↗	→
pbb	4.1	4.9	20%	↗	→
Bayern LB	4.1	4.6	12%	↗	→
HSH Nordbank[1]	4.1	4.5	10%	↗	↘
Helaba[2]	5.5	4.2	-24%	↘	→
Berlin Hyp[6]	3.2	3.4	6%	↗	→
Deutsche Hypo[1]	2.1	2.2	5%	↗	↗
Aareal Bank[3]	2.4	1.2	-50%	↘	↘
Münchener Hypo[1]	0.9	0.7	-22%	↘	→
WL Bank[4]	0.6	0.6	0%	→	→
DekaBank	1.3	0.4	-69%	↘	↗
Düsseldorfer Hyp.bank	0.4	0.1	-75%	↘	→
Deutsche Postbank	n.a.	n.a.	n.a.	-	n.a.
Total	**37.5[5]**	**38.2**	**2%**	→	

Source: JLL, press releases, financial reports, bank data

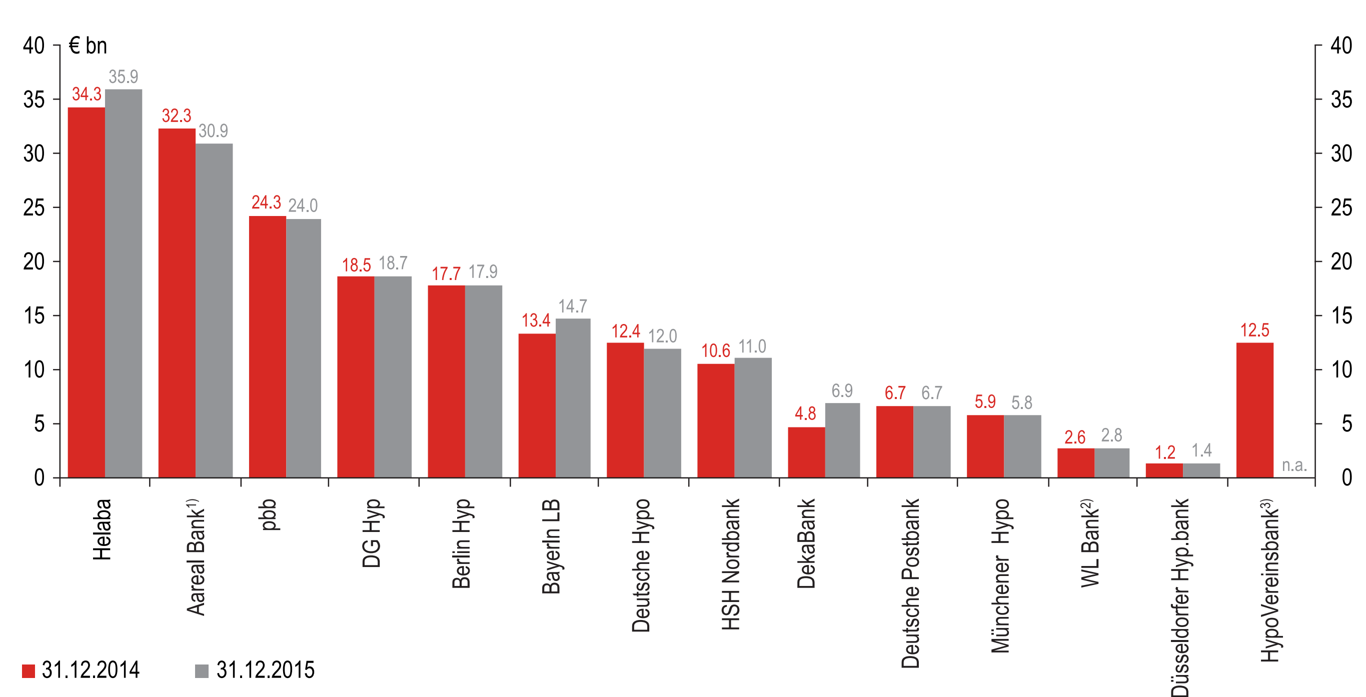
Note: Trend pointer ('Plan 2016') mainly for new business in Germany and abroad

[1] Without prolongation
[2] Medium-to long-term new business
[3] Including new business by Corealcredit, excl. WestImmo, as it is not actively pursuing new business
[4] Values here refer only to commercial real estate
[5] Retrospective corrections in new business figures for 2014
[6] Subsequent correction after JLL's press release dated from 13.06.2016

Slight reduction in loan portfolios

Despite the high volume of investment transactions and increased volume of new business secured by various lenders, loan portfolios have altogether changed little over the past year (disregarding the HypoVereinsbank for which there were no 2015 figures available). This is due to the high volume of unscheduled repayments. The increase in the number of capital market transactions in which banks have not been involved has also led to repayments in the segment of traditional financing. Helaba still has the biggest loan portfolio and the volume of its loan book increased by around 5% year-on-year. Contributors to this included the financing of the acquisition of the “Deutsche Bank Triangle” in Frankfurt by Groß & Partner at the end of 2015. The Düsseldorf Hypothekenbank’s loan portfolio increased only marginally. This was due to its take-over by the Association of German Banks’ (Bundesverband deutscher Banken) Deposit Protection Fund in 2015 following problems with its bonds of the Austria-based Hypo Alpe Adria. In line with the new owner’s policies, only selective new business is being pursued. Commercial real estate loans held by the Frankfurt Hypothekenbank, Eurohypo’s successor, are held by the Commerzbank’s Non-Core-Assets (NCA) internal wind-down division. The loan portfolio was significantly reduced in 2015 due to the dissolution of this unit and its transformation into LSF Loan Solutions Frankfurt GmbH, and the Frankfurt Hypothekenbank is therefore no longer listed in the current report.

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



Source: JLL, press releases, financial reports, bank data
[1)] Including Corealcredit and WestImmo loan portfolio; [2)] Values here for commercial real estate only; [3)] Volume of loan portfolio not published in 2015.
Retrospective corrections in loan portfolio volumes for 2014

Some forecasts are being deliberately toned down

There is greater sensitivity to risk evident with some lenders. The pressure on margins is increasing as a result of the zero interest rate policy and new players in the market of property financing, as well as an increase in regulatory requirements. However, not everything is being financed: the volume of new business is likely to be decoupled from the sustained dynamic investment volume. Although the volume invested in commercial real estate in 2016 is expected to almost match the record level achieved in 2015, a number of real estate banks are deliberately reducing their lending this year compared to last. This is due to a shift in focus towards low-risk investments and is also reflected in the German Real Estate Finance Index (DIFI) by ZEW and JLL for the first quarter of 2016. Here, the assessment of the lending situation for the coming months is slightly less optimistic. A cautious approach is being adopted in the selection of exposures, even if this means less new business but also lower risk in the loan book. In this regard, some of Germany's biggest commercial real estate lenders are suggesting that profits could reduce compared to the record year 2015 as a result of the heated market conditions in 2016. This situation could intensify further in the next few years if the increase in the regulatory equity capital requirements currently being discussed amongst policymakers is actually implemented under the standard approach for commercial real estate loans.

Strong investment demand is driving property yields down still further, which is evident from the increased purchase prices of transactions. The robustness of German banks' loan books is partly due to mortgage lending values being determined in accordance with the German Income Capitalization Approach and the Regulations for the Determination of Mortgage Lending Value (BelWertV). By undertaking a sustainable valuation of the real estate acting as collateral, the volatility of market values is being reduced. Appropriate risk-based mortgage lending limits have the effect of increasing lending risks only up to a manageable degree, even where there is a downturn in market conditions. Contrary to the perceptions of lending policy in the years before the financial crisis, the loan books of German banks can be perceived as being more risk-aware under the current record market conditions. Banks are therefore equipped with comfortable risk buffers against any fluctuations in market value which, in conjunction with covenants agreed in the loan contracts, can trigger a regulatory 'event of default'.

Therefore, despite a tendency towards a perceivable reduction in the volume of bank credit, the investment market retains a high level of liquidity. The record volume of equity capital available for investment which can generate negative interest rates by being held in bank accounts can certainly close the gap between purchase prices and banks' conservative lending policies. This is the biggest difference with the years before 2007, when record investment volumes were achieved due inter alia to the generous availability of bank finance.

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