New Business Report
Real Estate Financing

Germany | H1 2016
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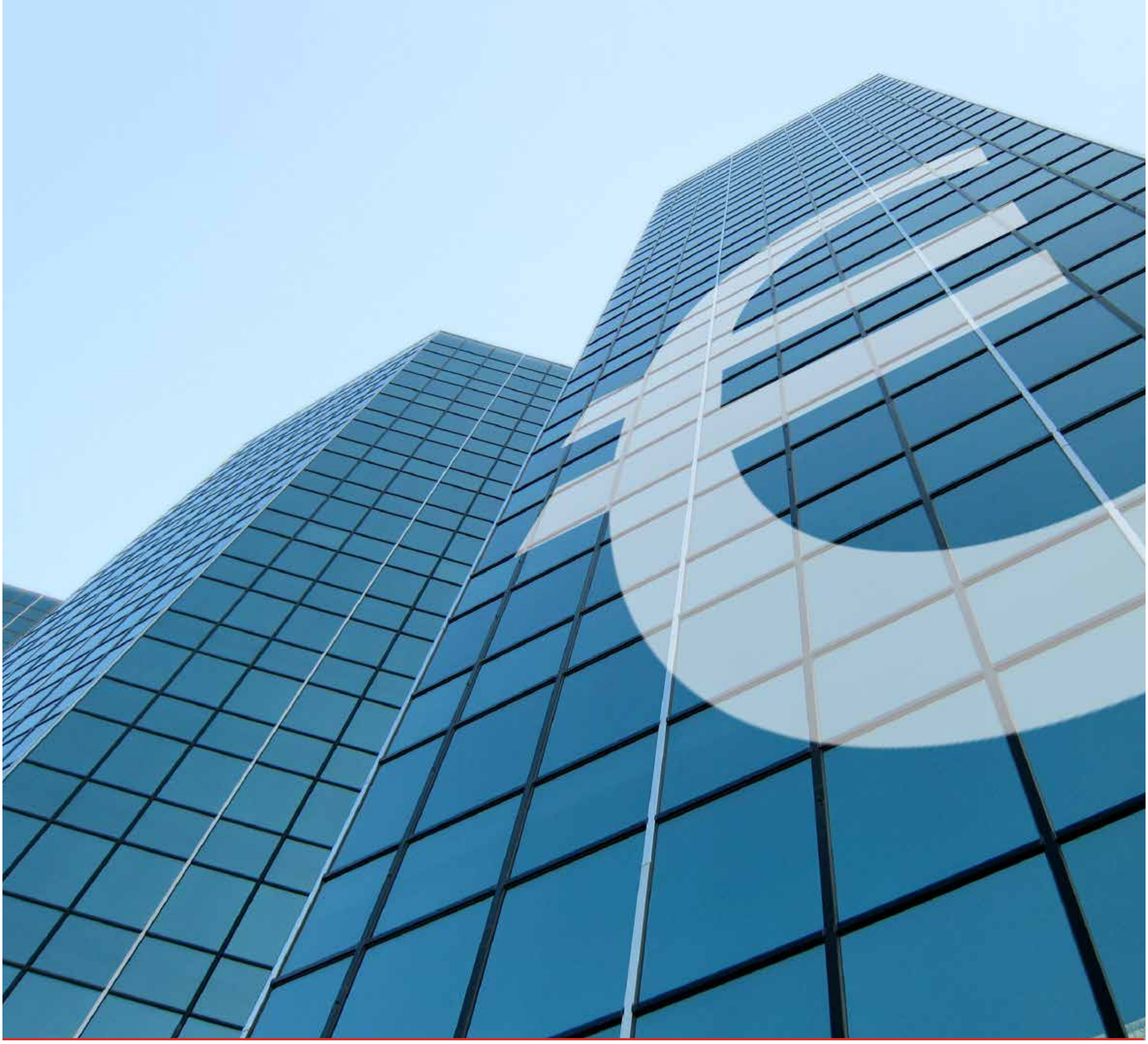
New business figures and loan portfolios of commercial real estate financing by German banks

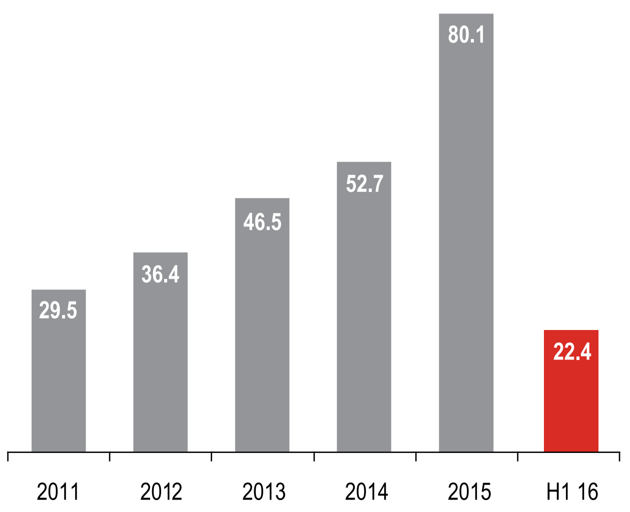


Real estate investment markets weaker at the mid-point of 2016

In order to analyse new business deals by banks, it is necessary to take a look at the investment markets.

In the first two quarters of 2016, there was a significantly reduced transaction volume compared to the same period last year. A major contributor to the weak result was the residential property and residential portfolio segment. Whilst in H1 2015, this segment accounted for around EUR 18 billion of the total volume, this dropped to only EUR 4.4 billion in the first six months of the current year. The total transaction volume in the first half 2016 was EUR 22.4 billion, compared to around EUR 42 billion during the same period in 2015. This performance is principally due to the shortage of suitable properties on offer. There were no indications of weakening demand at the mid-point of the year. Quite the reverse: for example, the currently well performing office letting markets are a good basis for investments

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



Source: JLL

in the office real estate segment, attracting an increasing number of investors willing to assume greater risks in terms of location and occupancy rate. Even the flow of capital, particularly from institutional investors looking for investment opportunities, is sustained due to the increasing appeal of the German residential investment market. It is a fact, however, that transaction processes take considerable time and properties are being investigated carefully.

The respite for yields observed in the first quarter followed a period of strong yield compression in the months from April to June. An end to the current price rises is not in sight for the short to medium term and, the rise is expected to continue at least until the ECB end their pursuit of the zero interest rate policies. However, the Brexit vote has now created a situation where the easing of monitory policies may be postponed indefinitely. This, in combination with the resulting uncertainties, is steering investors towards safe investment havens such as real estate.

New business defies a weak investment market

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 around 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.

The volume of new business concluded in the commercial real estate financing segment in Germany increased slightly in the first six months of 2016 compared to the same period last year, by around 11% to EUR 22.8 billion. We see this as a ripple effect since the 2015 record investment volume. This corresponds to a perceptible strategy, particularly by institutional investors looking to refinance an investment retrospectively, after having purchased with 100% equity capital.

Compared to the same period last year, two banks exceeded the EUR 3 billion mark: HypoVereinsbank and DG Hyp, whereby the HypoVereinsbank figures include the special effect of short-term bridging finance with a volume of around EUR 900 million. At EUR 6.8 billion, these two banks alone account for almost one third of the total volume of new business over the past six months.

Nonetheless, even banks with lower volumes of new business have reported some substantial growth. The highest growth rates were reported by banks with a new business volume of less than EUR 1 billion: Aareal Bank with growth of 300% and Postbank with an uplift of 200%. Berliner Sparkasse achieved significant growth of around 85%.

Because Frankfurt Hypothekenbank (successor of Eurohypo) handed back its banking licence, this bank is no longer considered. Düsseldorf Hypothekenbank is also not included in the current edition. On the other hand, Berliner Sparkasse is included as a new bank and the historic reported figures have been incorporated to reflect this fact.

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

Bank	H1 2015 in € billion	H1 2016 in € billion	Change H1 2015/H1 2016		Plan 2016 compared to 2015
HypoVereinsbank[2)]	2.9	3.5	21%	↗	n. a.
DG Hyp[2)]	2.2	3.3	50%	↗	↗
Bayern LB	2.0	2.5	25%	↗	→
pbb	2.4	2.3	-4%	↘	↘
Helaba[1)]	2.2	2.0	-9%	↘	↘
HSH Nordbank[2)]	2.9	1.9	-34%	↘	↘
Berlin Hyp[2)]	1.8	1.8	0%	→	→
Berlin Sparkasse[2)]	1.0	1.8	85%	↗	↗
Deutsche Hypo[2)]	0.9	1.1	22%	↗	→
Deutsche Postbank	0.3	0.9	200%	↗	↗
Aareal Bank	0.2	0.8	300%	↗	↘
Münchner Hypo[2)]	0.5	0.5	0%	→	→
WL Bank[3)]	0.2	0.3	50%	↗	↗
DekaBank	1.0	0.1	-90%	↘	↘
Total	**20.5**	**22.8**	**11%**		

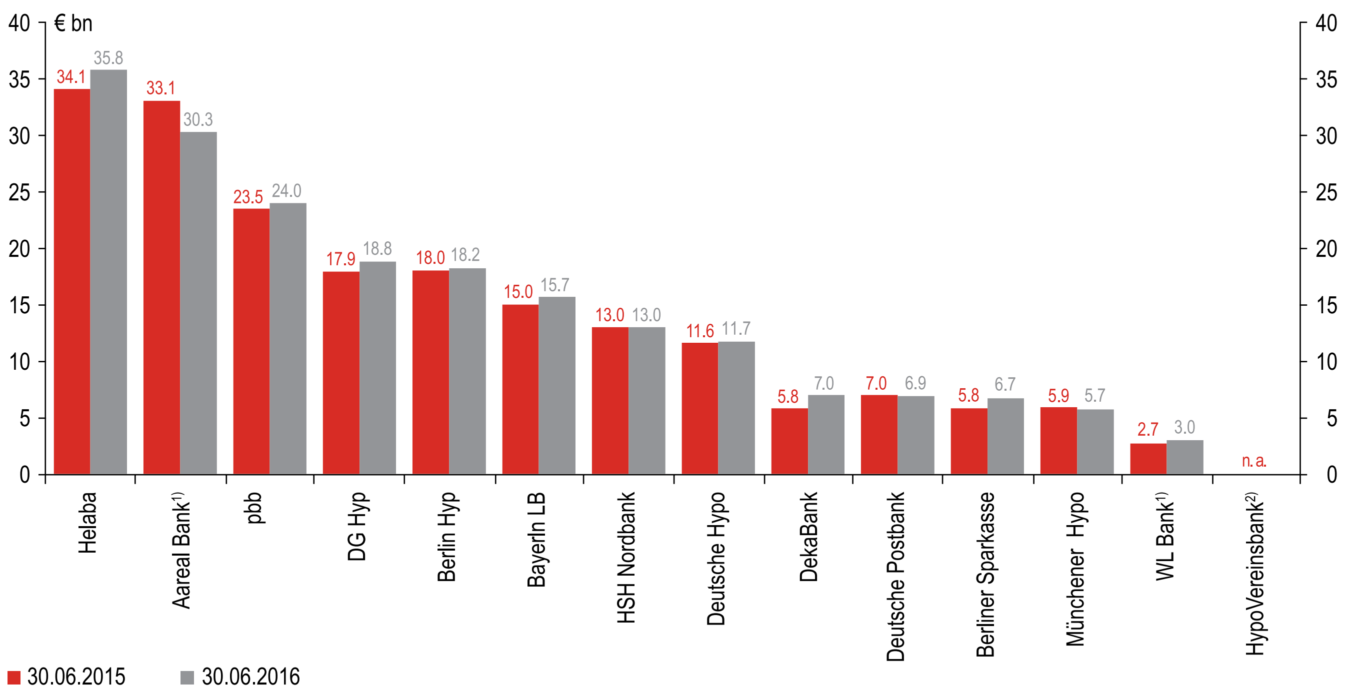
Source: JLL, press releases, financial reports, bank data
[1)] Medium to long-term new business
[2)] Without prolongation
[3)] Values here refer only to commercial real estate

Loan portfolios increase slightly

As new business exceeds budgeted loan amortisations and repayments, there has been a slight increase in the loan portfolios in the books of the analysed banks. Nine of the 14 banks which participated in the current report reported higher loan portfolios, compared to three with reduced loan books. As before, the biggest loan book is held by Helaba. This bank has even seen the volume increase by 5% over the past 12 months to its current level of €35.8. Despite reducing its loan portfolio by 8% (partly by disposing of non-strategic portfolios), Aareal Bank remains in second place with EUR 30.3 billion. DekaBank reported the highest percentage increase, of 21%.

In this respect, the willingness to lend is assessed as positive for the majority of banks. Nevertheless, from the specific loan approvals there is a clear trend towards creating a mainstream process in terms of the selection criteria of the financing banks. Given the further increase in regulatory requirements for the calculation of equity backing, many banks tend to focus their lending on standard loan structures. In cases of over complexity, deviations from standard assumptions in terms of the market, location or building factors, and high LTVs, loan applications are mostly denied. Hence, the increase in loan portfolios can be attributed primarily to the high transaction volumes during the investment year 2015.

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



Source: JLL, press releases, financial reports, bank data
1) Values here refer only to commercial real estate;
2) Volume of loan portfolio not published.

Cautious outlook, with strong competition for low risk profiles

In contrast to the investment market, the financing market has seen its momentum accelerate in the first half of the year. From the banks' accompanying press releases however, it is evident that the new business projections for the full year are cautiously optimistic, given that performance in the second half of the year tends to be weaker. This would be consistent with a ripple effect in response to the weaker investment market in 2016. The Brexit vote is not yet reflected in the market parameters for lending in Germany.

Competition for the best lending risks in commercial real estate financing remains intense. Therefore, margins in this segment are still under pressure and, the financing market remains favourable to borrowers. Given the zero/negative interest rate environment, an increasing number of banks are determined to continue to pursue their conservative strategies and risk-adjusted lending standards. This strategic positioning is reinforced by the likelihood of ever increasing regulatory requirements.

Unlike at the events of the last peak phase in the market cycle, banks are strictly adhering to the boundaries between acceptable lending and equity capital risks in real estate transactions. Therefore, exceptional property characteristics which could lead to value or cash flow risks must logically be paid for by equity capital.

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