

# Foreword by the Board of Management

**Dear readers,  
Dear friends of Berlin Hyp,**

The Russian invasion of Ukraine and the effects of the war have clearly shown us that conditions which appear to be certain and normal can change dramatically virtually from one day to the next. In view of the unfathomable suffering of those directly affected by the war in Ukraine, the economic and social impact that we are feeling in Germany, and that people in other European countries are feeling, seems almost trivial – and yet this impact has been severe nevertheless.

Rising energy prices and the increase in the cost of living are hurting people with lower incomes especially. Many municipalities and local governments are being stretched to the limits of their capacity to care for, house and integrate the large number of refugees. The war has also exacerbated problems that have existed for quite some time now with regard to strained or interrupted supply chains, and the material scarcity that has resulted from this situation. The latter aspect is having a strong detrimental effect on the real estate industry as well.

## **Pragmatism and the will to search for solutions are still needed**

At the same time, many developments that offer hope can also be observed: for example, just a little over a year ago, only few people probably could have imagined that Germany would be able to compensate for the discontinuation of natural gas deliveries from Russia. Indeed, new liquefied natural gas terminals have been put into operation in an extremely short period of time for such an undertaking. Consumers and industrial companies also reduced their gas consumption, while the government cushioned the blow from higher prices by providing extensive assistance packages in some cases. Still, not all negative effects can be offset, and, more importantly, countermeasures also come at a price – in terms of money and in a figurative sense as well.

Nevertheless, what we have seen over the past year or so proves that a lot can be accomplished if everyone pulls together. Such pragmatism and the will to search for solutions together will continue to be needed as we move forward, and this also applies to the real estate industry. That's because the industry will play a key role in addressing at least two of the major and urgent challenges that we as a society currently face.

The first involves achieving climate targets – and the energy-related refurbishments that need to be undertaken for the existing building stock will require a huge amount of investment. Just mobilizing the financial resources will be a major challenge and will also give rise to the question as to how the burdens that will accompany the transformation can be shared in a socially responsible manner.

## **The creation of new residential housing remains the central task**

No less urgent are the issues that have arisen due to the situation on the housing market. Affordable housing is already scarce and a growing population and the need to house those who have fled Ukraine and other places will only serve to increase demand further. The housing supply cannot keep up with this development. Moreover, in the current environment marked by higher construction costs and more difficult financing conditions, it doesn't seem likely that the German government's goal of building 400,000 new apartments each year can be achieved any time soon. Higher interest rates are also making it difficult if not impossible for many households to purchase homes or apartments, which means such households are now further driving demand in what is already a tight rental market.

All participants in the real estate market must therefore make an effort to ensure that housing construction regains its previous momentum. We at Berlin Hyp wish to do our part here and are therefore working hard to develop appropriate products.

## **Underlying conditions are difficult and will remain so**

In terms of the investment market as a whole, uncertainty regarding the direction in which valuations will move as a result of the interest rate increases has led to a situation in which many transactions are taking much longer to complete or else are not being concluded at all. This development is clearly reflected by a decline in transaction volumes, particularly in the second half of 2022. Put simply, conditions are difficult and we have to assume that this will remain the case for the foreseeable future.

Additional challenges have also arisen in the various asset classes. For example, the new work trend of hybrid working arrangements in the office sector will continue to have an impact on demand for office space for some time to come. Demand is already focused at the moment on high-quality properties in central locations that display good energetic performance and have long lease terms and tenants with strong credit ratings. This type of polarisation will continue.

Development opportunities in the logistics sector are being held back by a lack of space, resources and personnel. At the same time, demand for modern logistics properties is strong and is being driven by, among other things, the fact that companies are once again using more warehouse space in response to the problems with supply chains.

Digital events and meetings continue to be held in large numbers and this is having a negative impact on utilisation rates in the business hotel segment. On the other hand, the need and desire to travel and meet others in person is quite high, now that the pandemic-related restrictions have been lifted.

### **Operational success and cooperation and interaction with LBBW are strengthening the business foundation**

A strong and stable foundation is particularly important in a volatile environment such as the one we are currently facing. Berlin Hyp has such a solid foundation – and it has gotten even stronger and broader over the last few months.

The completion of the teaming up process with LBBW on 1 July further increased the Bank's relevance and standing on the market. The integration process has created a powerful market player within which the two independent brands continue to develop their specific potential. Cooperation is also increasing at all levels. After the first few months of operation under one roof, it is clear that collaboration between Stuttgart and Berlin is functioning well and smoothly.

Berlin Hyp's successful business activities also contribute to its stable foundation. Berlin Hyp maintained its position in the second half of 2022, which is the short financial year that is the subject of this report. At €3.8 billion, new business volume during the second half of 2022 was higher than the figure recorded in the first half of the year (€3.1 billion). The combined new business volume for 2022 as a whole thus amounted to €6.9 billion, which is only slightly lower than the very high figure of €7.1 billion

recorded in 2021. At €69.7 million, profit before income tax in the second short financial year (01.07.2022 to 31.12.2022) was also above the figure recorded in the first half of 2022 (€30.0 million). Despite the clear deterioration of underlying conditions, Berlin Hyp did not have any significant loan defaults, nor was it necessary to make any valuation allowances. This in turn offers evidence of the strength of the foundation of our loan portfolio. At the same time, we increased risk provisioning compared to the previous year in response to the volatile environment.

Given the challenging and unreliable planning environment, as well as the demanding regulatory requirements that continue to prevail, Berlin Hyp expects new business volume in 2023 to be lower than the combined figure for 2022. Profit before income tax will likely be higher than in 2022, however.

### **Strong business foundation and potential are recognised on capital markets**

Berlin Hyp's strong business foundation and potential are recognised on the capital market, as our issues attract major interest among both domestic and international investors. With its first Green Bond mortgage Pfandbrief in Swiss francs and its first green Jumbo Pfandbrief, Berlin Hyp has expanded the range of green bond issues and thus strengthened its position as one of the leading bond issuers. One of our objectives is to use this role, and both the assets and liabilities sides of our business, to continue to actively shape the development of our markets. On the liabilities side, this can be seen in our ongoing commitment in the area of ESG-based instruments. Indeed, between now and 2025, we plan to increase the share of ESG-based products in our refinancing mix to 40 per cent. This involves both green products and issues that include the consideration of social goals (i.e. the S in ESG).

### **An ever-greener portfolio**

In terms of the asset side, Berlin Hyp's ESG vision stipulates that green buildings should account for at least one-third of the loan portfolio by 2025. In addition, plans call for the carbon footprint of all properties financed by Berlin Hyp to be reduced by 40 per cent by 2030 as compared to the base year of 2020. An important milestone here is the achievement of complete transparency with regard to the carbon footprint of our financed buildings by the end of 2023. At the end of the short financial year in 2022, Berlin Hyp had a 30 per cent share of green buildings and a CO<sub>2</sub> transparency rate of 65.4 per cent. A science-based approach for managing the business portfolio is also being developed and will

be implemented in 2023. This approach will make it possible to achieve carbon neutrality by 2050 at the latest.

We issued our first taxonomy loan in September 2022. This product consists of loans that address the first EU taxonomy target of environmentally friendly financing, thereby making use of one of the key instruments for improving the environmental and climate performance of the building stock in Germany. Other key areas of focus for our ESG implementation agenda in 2022 included the expansion of the risk methodology in the ESG context, the implementation of an ESG data project and our signing of the UN Principles for Responsible Banking.

We are also involved in initiatives that seek to firmly incorporate ESG aspects into daily business activities in the real estate industry. We do this because we are convinced that addressing social aspects of real estate financing will be one of the most important issues in our sector in future.

### **Our goal: To be the most modern commercial real estate financier in Germany**

Our commitment and our expanding range of ESG products and solutions play a key role in terms of achieving our goal of becoming the most modern real estate financier in Germany. Other components of our strategy here include the complete digitalisation of our core processes and the modernisation of the IT system environment, with which we have made further progress over the last few months. Ensuring a modern working environment for our employees is another element in our approach, and the construction of our new corporate headquarters, which is moving ahead nicely, marks a major step in this direction.

The new building will set standards for environmental compatibility – not just in terms of building operations that conserve resources but also with regard to the way it was designed in the first place. For example, we have registered in a cadastre all the materials used to build the property and all the materials that are installed in it. This will make it easier to re-use the materials later on down the road.

Despite challenging market conditions, increasing regulatory requirements and additional work that needed to be performed as part of the process for teaming up with LBBW, Berlin Hyp was able to continue in 2022 on its path to becoming the most modern real estate financier in Germany. Our philosophy is to effectively address key issues and continue to move forward – even if, and especially because, we know that there are no ready-made solutions here.

This philosophy will continue to guide our actions in 2023.



Sascha Klaus  
CEO



Maria Teresa Dreö-Tempsch  
Chief Risk Officer



Alexander Stuwe  
Chief Risk Officer

Any use of the generic masculine form naturally also includes individuals of all other genders.