Berlin Hyp

Press information dated 8 January 2024

The Berlin Hyp Trendbarometer survey:
Cautious attitude as the year begins – uncertainty remains, hope for declining interest rates

- **Continued focus on underlying political conditions**
- **Experts hope to see an interest rate cut in the new year**
- **Limited willingness to make investments and provide financing**
- **German real estate market becoming less attractive**

These are the key findings of the latest Trendbarometer – a digital survey among approximately 250 real estate professionals.

Trend reversal or "survive until 25"?
"The results of our latest Trendbarometer clearly reflect the rather muted expectations in the sector with regard to the new year", says Sascha Klaus, Chair of the Board of Management of Berlin Hyp AG. "The mood seems to remain very cautious and one is hoping for some type of stimulus from outside the industry. Government support measures and possible interest rate reductions are certainly important, but they're not a cure-all. If the market is to regain momentum, the available opportunities will have to be systematically seized. In 2024, we therefore need to move on from neutral to at least back to first gear."

Survey details:

"What will be important in 2024?"
This was the first question in the latest Berlin Hyp Trendbarometer survey. The responses given show the dilemma that the sector faces: on the one hand, the sector is pinning its hopes to a large extent on external circumstances or decisions over which it has only limited influence. On the other hand, the possibilities the sector does have to influence the situation are hardly noticed.

For example, the respondents consider the externally determined factors of "Interest rate levels" (71%), "Underlying political conditions" (56%) and "Construction costs" (54%) to be most important. A far lower number of respondents said they believed "Shortage of skilled labour" (22%) and "Digitalisation" (4%) were the most important issues.

Hopes for a change in underlying political conditions appear to be risky, as was most recently demonstrated by the Constitutional Court ruling on the German government's Climate and Transformation Fund. Indeed, many of the planned projects for stabilising the construction and real estate sector are to be financed using this fund. Agreement has now been reached on a federal budget for 2024. Nevertheless, this situation has demonstrated that even a firm commitment does not guarantee that what is promised will actually be delivered. In addition, the Growth Opportunities Act, which contains provisions for degressive depreciation for residential buildings, is currently being addressed by the Mediation Committee of the Bundesrat – the legislative chamber representing the federal states. This means, the sector continues to wait for a decisive positive signal from politics.

Hopes are resting on interest rate reductions
"What gives reason for optimism in 2024"? was another question Berlin Hyp asked in its survey. The dominant response here: interest rates. Indeed, the ECB most recently decided not to raise key interest rates, which many took to be a sign that a trend reversal was on its way and could be expected in the middle of the year. This might explain why 74% of the respondents cited possible interest rate reductions as a key factor giving them cause for optimism regarding the development of the real estate sector in 2024. Other options were chosen much less frequently: "Expertise of those who work in the sector" (29%), "Capital strength" (28%) and "Resilience" (27%).

Transaction volume stagnation expected
Opinions regarding transaction volume are very clear, as a majority of respondents (56%) expect transaction volume to amount to somewhere between €30 billion and €40 billion in 2024. This corresponds more or less to the figure recorded in 2023. This would be due to the anticipated ongoing limited market activity caused by, among other things, the fact that market price adjustments have not yet been made.

Willingness to make investments versus willingness to provide financing
This lack of movement will likely not change much in 2024 either, as the respondents believe that both companies and banks will remain cautious over the next 24 months.

As a result, 41% of the respondents described their company's willingness to make investments as "Balanced", 36% as "Limited" and 4% as "Very limited". This might be due to a lack of available funds for investment. A total of 19% of the respondents believe that their company's willingness to make investments is "High" or "Very high".

The situation is even clearer with regard to the willingness to provide financing. Here, 19% of the respondents described the willingness of commercial real estate financiers to provide financing as "Unchanged", while 53% said it "Will be limited" and 4% said it "Will be much more limited".

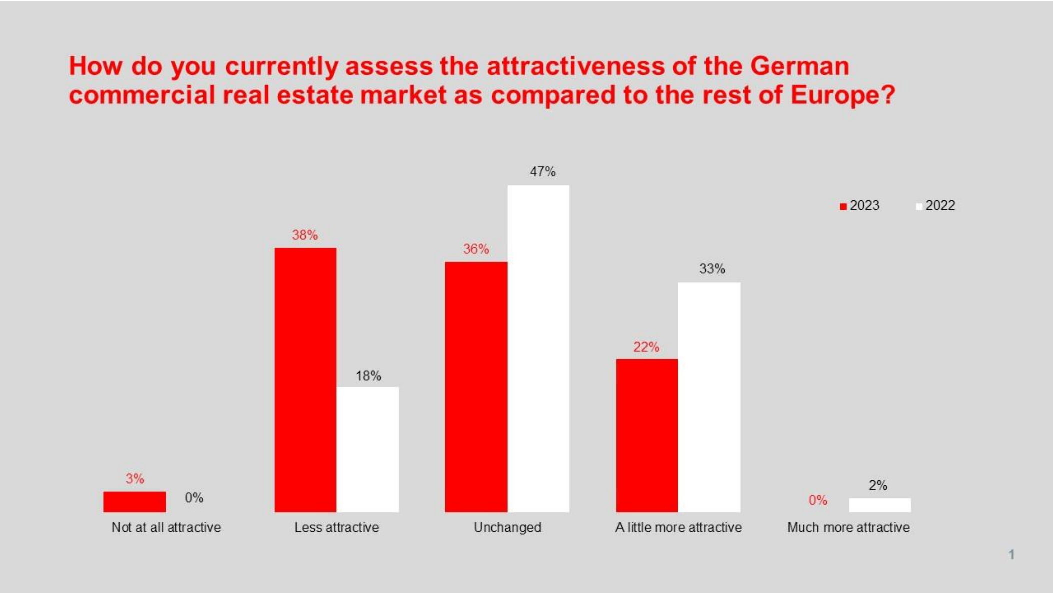
Back in 2022, 36% of the respondents described this willingness to provide financing as "Unchanged", while 46% said it "Will be limited". Banks have in fact been forced to adopt more restrictive lending policies as of late and demand a higher equity contribution from their borrowers.

Sascha Klaus: "Willingness to provide financing exists"
"In the coming months, all of us will need to firmly grasp the opportunities that arise", says CEO Sascha Klaus. "At Berlin Hyp, we are in constant dialogue with our clients and fully up-to-speed on their projects. For our part, the willingness to provide financing exists – after all, it's the foundation of our business."

German market becoming less attractive compared to the rest of Europe
Opinions on the German market as compared to the rest of Europe present an interesting picture. Here, the survey's respondents believe that the German commercial real estate market is currently "Unchanged" (36%) regarding its attractiveness, while

38% believe it is “Less attractive” and 3% even describe it as “Not at all attractive” compared to the rest of Europe. Apparently, the situation in Germany is viewed in a more negative light as compared to neighbouring countries, possibly due to the current economic situation in Germany.

Opinions on this were different a year ago, however: in December 2022, 47% of survey's respondents said the attractiveness of the German commercial real estate market had remained “Unchanged”, while 35% described it as “A little more attractive” or “Much more attractive”. Only 18% said it was “Less attractive” and 0% said it was “Not at all attractive”.



ESG remains very important
A total of 51% of the real estate professionals view ESG as an important issue for 2024 as well, despite recent criticism of regulatory requirements and extensive reporting obligations.

For example, the respondents believe the transformation of infrastructure needs to move ahead if the climate targets are to be achieved. As a result, the dominant responses to the question “How can Germany still achieve its climate targets?” were “Expand capacities for wind and solar power” (62%), “Accelerate the transformation of the stock of existing buildings” (35%) and “Invest more in rail transport and infrastructure” (34%). Also popular were the responses “Start using more nuclear energy again”(47%) and “Raise CO_2 prices” (30%).

Little change in opinions on asset classes
The views of the real estate professionals regarding the development of the various asset classes are mixed. Opportunities are perceived in “Residential”, “Logistics” and “Student housing”, which around 30% of the respondents believe will experience positive development in each case. “Retail” and “Office” remain a cause for concern, however, as 54% and 47% of the respondents, respectively, believe the situation in those asset classes will deteriorate.

You can view the detailed results of the Berlin Hyp Trendbarometer survey in the attached presentation.

About the Berlin Hyp Trendbarometer survey:
Berlin Hyp has been publishing the “Trendbarometer” expert survey for nine years now. Within the framework of this survey, real estate experts from Germany and abroad comment on their expectations for the real estate business in the coming year. The survey provides an assessment of the German real estate market in the current year and an outlook on the market’s further development. Just under 250 real estate experts participated in the most recent survey, which was conducted in mid-December.

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Berlin Hyp is a wholly owned subsidiary of LBBW and specialises in large-volume real estate financing for professional investors and housing companies. It also provides German savings banks with a comprehensive range of products and services. Sustainability has been a central component of the Bank’s business strategy for years. Berlin Hyp plays a pioneering role on the capital market in the development of sustainable refinancing products. At the same time, the Bank also promotes the financing of sustainable real estate in order to help drive the transformation of the real estate market and contribute to achieving the goal of climate neutrality. Berlin Hyp’s clear focus, more than 155 years of experience and the ability to actively shape digital transformation in the real estate sector characterise the Bank as a leading German real estate and Pfandbrief bank.