



Press release

IREBS Study - German Debt Project 2023: „Navigating stormy waters“

- All banks report that the total financing volume has declined significantly since the second quarter of 2022 and that this development has continued until now. The trough is expected to be reached in the course of 2024 with a subsequent (at best) moderate upswing.
- The stability and reliability of the cash flows realisable from properties are currently of decisive importance for financing decisions; therefore, project developments in particular are being viewed more carefully than in the past.
- Due to the recession, office properties are suffering from lower overall demand and the change in work structure (home office). Accordingly, core properties are preferred by the banks, as in previous recessionary phases.
- Mezzanine lenders could serve as a natural outlet for reduced bank lending. However, the market for mezzanine financing is also likely to experience market cleansing in the short to medium term.
- The requirements of the different regulatory authorities are currently perceived by the banks as very burdening. The associated transaction costs and uncertainties are described as considerable. Some measures are perceived as exacerbating the crisis.

Eltville, 22 September 2023. The German Debt Project study by the International Real Estate Business School (IREBS) will be presented for the eleventh time by Video on Youtube by Prof. Dr. Tobias Just, FRICS, Chair of the program in Real Estate Economics and Managing Director of the IREBS Real Estate Academy, with the support of the Association of German Pfandbrief Banks (vdp) and renowned representatives from the real estate industry.

The study provides detailed information on the commercial and residential real estate financing market in Germany.

The real estate financing markets performed well until 2021 despite the Covid pandemic. This positive momentum ended abruptly in 2022 given rising interest rates, the war in Ukraine and rapidly rising construction costs. The real estate markets are in a significant downturn, with a double-digit drop in new business expected for 2023. Profitability calculations are more difficult due to inflation, even though material shortages peaked in 2022. This easing in the markets for building materials is also due to the fact that some project developers are having to withdraw and that numerous orders are being cancelled.

Competitive pressure among banks is decreasing because many banks are withdrawing from many market segments. This leaves room for higher margins. However, competition in the sought-after core segments remains intense. Banks are increasingly acting cautiously, are currently lowering their loan-to-value ratios and, as in previous crises, are focusing on core properties. When granting loans, the reliability of the achievable cash flows is considered the most important information.

The situation is aggravated by a tight-knit net of regulation, which is expressed, among other things, in higher energy efficiency requirements for the properties to be financed, more reporting obligations as well as higher capital requirements.

The positive message is that the banks are going into this crisis with a strong buffer. Their ratings are at good levels and non-performing loans remain at comparatively low levels. This is especially true for residential portfolios; commercial real estate is already showing an increase in non-performing loans, albeit starting from a low level. Overall, the banks expect that the next twelve months will still offer a predominantly challenging market environment and that there will only be a moderate market recovery in the course of the second half of 2024.

What can you expect? The study analyses the changes in new financing business as well as changes in portfolio growth: Which asset classes were in the spotlight? Which regions are popular? Will property developments continue to be financed or will more existing properties be financed? How have margins and other financing terms evolved recently? What are the industry's expectations for the future? For which asset classes is ESG-compliant financing predominant? How great are the differences in the financing spread between green and non-green real estate?

The results will be presented by Prof. Dr. Tobias Just by Video on Youtube [here](#).

About the German Debt Project study

The German Debt Project study was initiated by the market research and consulting firm Real Capital Analytics (now MSCI) and has been supported from the start by the Association of German Pfandbrief Banks. 23 German financing institutions took part in the survey. The volume of credit analysed in the study stood at € 248 billion. The aim of the study is to increase transparency for the German commercial and residential real estate financing market and to enable meaningful comparisons, especially in risk analysis. The study was first carried out in 2013.

As in previous years, these analyses were only made possible because of the financial support for the study provided by our sponsors. The sponsors of the survey are in alphabetical order: bulwiengesa, Commercial Real Estate Finance Council Europe (CREFC), Greenberg Traurig, INTREAL, MSCI and the German Property Federation (ZIA). The results of the study have not been aligned contextually with the sponsors. We would also like to thank the vdp, who supported us once again, and of course we would like to thank all the participating bank representatives for the data they provided and the time they invested as interviewees. The project was led by Prof. Dr. Tobias Just from IREBS, while Simon Wiersma, Chair of the Real Estate Economics programme at the University of Regensburg, was co-author. The Association of German Pfandbrief Banks (vdp) supported the study as in previous years.

German Debt Project study website

The study can be purchased [here](#) in the online store at a cost of € 450 + VAT.

About the IREBS Real Estate Academy

The IREBS Real Estate Academy is the further education academy of the IREBS International Real Estate Business School and part of the Faculty of Economics at the University of Regensburg. The International Real Estate Business School comprises the IREBS Institute for Real Estate Management and the IREBS Real Estate Academy. The IREBS Real Estate Academy offers in-service training for managers, junior managers and specialists. In addition to companies from the real estate, construction and finance sectors, it also caters for the industrial, trade and service companies as well as the public sector.

The seal guarantees participants that the courses offered by the IREBS Real Estate Academy are designed on the basis of labour market requirements and are constantly being updated.

The refresher course Real Estate Economics and the Executive MBA in Real Estate path of excellence of the IREBS Real Estate Academy have been accredited by the renowned real estate association "The Royal Institution of Chartered Surveyors" (RICS). Further information can be found at www.irebs-immobilienakademie.de.

Press contact for the German Debt Project

Prof. Dr. Tobias Just (FRICS)

IREBS Real Estate Academy

Barocketage Kloster Eberbach | 65346 Eltville

Telephone: +49 6723 995030

Email: tobias.just@irebs.de