

## Press release

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### **Pfandbrief banks report decrease in real estate financing business**

#### **vdp member institutions award EUR 158.5 billion of real estate loans in 2022**

Member institutions of the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken*, vdp) provided EUR 158.5 billion of real estate financing for the full year of 2022 – 11% less than in the previous year (EUR 178.0 billion). The trend was mixed: although it achieved a record volume of EUR 49.0 billion in the first quarter of 2022 (some borrowing having been brought forward due to expectations of higher interest rates) and even grew in the second quarter compared to the prior-year period, loan commitments declined significantly in the second half of the year with double-digit rates.

“The change in the real estate market is also reflected in the real estate financing business of the banks. The restraint shown by market players, in particular private borrowers, is a consequence of high inflation. On the one hand, private households’ room for manoeuvre has been reduced by the abrupt increase in the cost of living. On the other hand, the high rate of inflation is one of the reasons for the significantly higher interest rates we now see on loans,” explained **Jens Tolckmitt, vdp’s CEO**. For now, he expects loan demand to continue to be restrained this year. Private households’ inclination to buy real estate is likely to remain rather low due to decreases in real income. He also noted that, given the increase in the cost of capital, compared to other types of investments, real estate investments in residential and commercial properties have become less attractive. If the steps recommended by the Alliance for Affordable Housing (*Bündnis bezahlbarer Wohnraum*) – such as a more flexible real estate transfer tax – are implemented, that could provide the impetus for increasing demand. For housing firms, creating a reliable funding environment and accelerating planning and approval procedures would make it much easier to go ahead with new projects,” Tolckmitt said.

In 2022, the volume of **residential real estate financing business** generated by vdp members totalled EUR 98.2 billion, compared to EUR 118.4 billion in 2021 (-17.1%). Significant declines were seen in financing for condominiums (- 9.3%) as well as for single and two family houses (-18.2%). In contrast, the volume of loans to buy multi-family houses declined by only 5.5%.

The Pfandbrief banks' **commercial real estate financing business** was more stable last year: while the positive trend in all major segments in the first half of the year was in part attributable to the recovery from the COVID-19 pandemic, by year-end, in particular, the negative factors weighing on the economy were attracting attention, causing a significant decrease in lending activity in the fourth quarter of 2022. Nevertheless, the banks posted a volume of EUR 60.3 billion at the end of the year – a slight (1.2%) increase over the previous year (EUR 59.6 billion). In the process, financing volumes for commercial buildings (+10.3%) and hotels (+6.2%) increased when compared to the relatively low prior-year figures caused by the pandemic. On the other hand, measured by volume, the particularly significant financing for office properties did not quite manage to reach the prior-year level (-3.3%).

Commitments for properties located abroad played only a minor role, accounting for 5.9% of the entire 2022 residential real estate financing business of vdp's member institutions. Commercial real estate financing had a noticeably higher **foreign share** of 40.5%.

Because of the restraint demonstrated by new business, the performance of vdp member institutions' loan portfolio – which by nature is more sluggish – was also less dynamic than in previous years. At EUR 994.2 billion, it was 3.8% higher at year-end 2022 than the prior-year figure (EUR 957.5 billion). "In light of the continued restraint in the new real estate financing business, we expect the Pfandbrief banks' loan portfolio to grow somewhat more slowly this year, and possibly even to stagnate," Tolckmitt predicted.