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SKJERVEN GROUP - *Monthly Newsletter*

Berlin - August 17, ISSUE #32/2022

BANK FINANCING SENTIMENT RUSHES INTO THE CELLAR

The financing markets are unsettled. The reasons include the sharp rise in interest rates and the uncertain economic outlook, which are triggering a mood of crisis. The German Real Estate Financing Index (Difi), compiled by JLL and the ZEW economic research institute, slumped by 51.7 points to -44.5 points in the second quarter. By way of comparison, shortly after the outbreak of the Corona crisis it stood at -56.7 points

The slump in sentiment affected all asset classes, most severely the residential real estate sector. The lowest bank-margins are still to be found in residential real estate - even though they recorded the highest increase compared with the fourth quarter of 2021. On average, banks charge a margin of 112 basis points for core products and 162 basis points for value-add products. Banks are taking the biggest margin-increase on hotel financing, with a margin of 213 basis points for core properties and 271 basis points in the value-add segment. Loan-to-value (LTV) ratios for residential properties in the core and value-add segments fell slightly compared with the fourth quarter of 2021.

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The housing stock growth in Germany is too slow

The housing stock in Germany increased by 280,000 units in 2021. This does not meet the demand of 400,000 additional apartments per year calculated by the government.

At the end of 2021, the Federal Statistical Office (Destatis) counted 43.1 million apartments in Germany. Compared with the previous year, the housing stock increased by 0.7% or around 280,000 apartments. In a ten-year comparison (as of the end of 2011), there are 2.5 million more apartments in Germany (+6%). However, the German government is hoping for an annual increase of 400,000 apartments.

Per capita floor space increased by 1.6 square meters in ten years

At the end of 2021, the living space per dwelling was 92.1 square meters on average, while the living space per inhabitant was 47.7 square meters. According to Destatis, this means that the area per capita has increased by 1.6 square meters (+ 3.5%) since 2011. The number of persons per dwelling decreased on average from 2 to 1.9 during this period.

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75% of tenants are comfortable with their rent level

Not all tenant groups feel squeezed by the high prices on the housing markets. According to a representative survey conducted every two years by the Analyse & Konzepte Institute, 25% of tenants in Germany rate their rent as "high" or "much too high. However, 75% feel their rent level is "reasonable" or even "low."

"The results show that we still have upside potential for rents".

says Einar Skjerven,
CEO of the Skjerven Group.

Among those who feel overwhelmed by the rent level are, according to the survey results of Analyse & Konzepte, mainly households with children. Single parents are particularly affected, with 35% of them classifying their rent as no longer or barely affordable. The institute pleads not to lose sight of the "disadvantaged", i.e. people with children. After all, they would be hit particularly hard by the high energy costs.

Long-term tenants are satisfied with prices

Tenants who have lived in their apartments for a very long time, in particular, rated their rent as rather low. Analyse & Konzepte sees this as evidence that existing rents in Germany have largely been kept low. These are subject to various regulations such as capping limits or rent brakes. But according to the survey, "young starter households" are also frequently satisfied with their rents. Although these are often paying higher rents due to the short period of residence, they have a different expectation than other tenants because they first compares market prices as part of their apartment search. Younger tenants are more likely to take for granted what many other tenants see as high price levels.

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Germany very transparent thanks to ESG

According to calculations by JLL, Germany is one of the most transparent real estate markets in the world. It ranks ninth in the Global Transparency Index 2022, which covers 94 countries.

The gap between transparent and non-transparent real estate markets worldwide has increased again. This is the conclusion of JLL's new Global Real Estate Transparency Index 2022. The reason is mainly that leading countries are raising their standards - from new regulations on energy efficiency and emissions standards for buildings and climate risk reporting, to raising anti-money laundering standards and providing more comprehensive data on office occupancy rates. In contrast, many conditionally transparent or barely transparent markets were stagnating or even regressing. This has a direct impact on the behavior of investors worldwide.

With a score of 1.76, Germany is one of the most transparent countries in the world. Above all, the greater data coverage of niche property types and the taxonomy had a positive effect. At the same time, Germany stands out because the differences between individual municipalities are very small - in contrast to China and the USA. This puts the Federal Republic on a par with Sweden in ninth place - ahead of New Zealand (1.77), Japan (1.88), Finland (1.96), Singapore (1.96) and Switzerland (1.97). Top of the ranking is Great Britain with an index value of 1.25, ahead of the United States and France with 1.34 each. Bringing up the rear of the 94 countries analyzed by JLL is Ethiopia with 4.60 points.

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"The pressure on the real estate industry to drive decarbonization has increased further. Sustainability and the pursuit of net zero emissions have become the cornerstone of transparency as investors, banks, tenants, governments and the public demand long-term targets and regulation. As a result, we see that sustainability has been the key driver for improving transparency in the markets."

JLL

Helge Scheunemann,
Head of Research JLL Germany

However, he said, a multitude of different standards, measures and regulations at local, national and international levels make comparability and measurability much more difficult. Despite the current positive developments, sustainability is thus still one of the most opaque areas, but in the medium term, according to JLL, ESG data will play a much stronger role in real estate investment decisions for especially institutional investors and will be at least on an equal footing with traditional data such as rent or vacancy.

Transparency level	Composite rank 2022	Market	Composite score 2022
High	1	United Kingdom	1.25
	2	United States	1.34
	3	France	1.34
	4	Australia	1.38
	5	Canada	1.44
	6	Netherlands	1.54
	7	Ireland	1.69
	8	Sweden	1.76
	9	Germany	1.76
	10	New Zealand	1.77
	11	Belgium	1.84
	12	Japan	1.88
Transparent	13	Finland	1.96
	14	Singapore	1.96
	15	Switzerland	1.97
	16	Hong Kong SAR	1.98
	17	Denmark	2.01
	18	Spain	2.06
	19	Italy	2.12
	20	Poland	2.15
	21	Czech Republic	2.27
	22	Norway	2.27
	23	Hungary	2.34
	24	Portugal	2.37
	25	Luxembourg	2.39
	26	South Africa	2.40
	27	Slovakia	2.44
	28	South Korea	2.49
	29	Chinese Taipei	2.52
	30	China – SH/BJ	2.54
	31	UAE - Dubai	2.56
	32	Romania	2.58
	33	Malaysia	2.61
	34	Thailand	2.63
Semi	35	Israel	2.66
	36	India	2.73
	37	Greece	2.73
	38	Turkey	2.83
	39	Indonesia	2.86
	40	Mexico	2.87
	41	Bulgaria	2.89
	42	Philippines	2.91
	43	Croatia	2.95
	44	Brazil	2.97
	45	UAE - Abu Dhabi	2.98
	46	Chile	3.10
	47	Peru	3.22
	48	Kenya	3.27
	49	Saudi Arabia	3.27
	50	Slovenia	3.30
Semi	51	Mauritius	3.35
	52	Vietnam	3.36
	53	Serbia	3.42
	54	Botswana	3.46
	55	Macao SAR	3.46
	56	Argentina	3.48
Low	57	Colombia	3.51
	58	Morocco	3.55
	59	Puerto Rico	3.57
	60	Nigeria	3.60
	61	Egypt	3.60
	62	Malta	3.64
	63	Costa Rica	3.64
	64	Sri Lanka	3.67
	65	Zambia	3.67
	66	Bahrain	3.80
	67	Cayman Islands	3.91
	68	Pakistan	3.91
	69	Jordan	3.93
	70	Kuwait	3.95
	71	Qatar	3.98
	72	Bahamas	4.00
	73	Uruguay	4.08
	74	Kazakhstan	4.09
	75	Rwanda	4.11
	76	Ghana	4.13
Opaque	77	Oman	4.18
	78	Ecuador	4.27
	79	Angola	4.30
	80	Tunisia	4.36
	81	Uganda	4.40
	82	Mozambique	4.41
	83	Panama	4.42
	84	Lebanon	4.43
	85	Iran	4.43
	86	Ivory Coast	4.44
	87	Algeria	4.46
	88	Senegal	4.49
	89	Honduras	4.50
	90	Tanzania	4.52
	91	Dominican Republic	4.54
	92	Iraq	4.59
	93	Guatemala	4.59
	94	Ethiopia	4.60

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Family living is becoming more and more expensive

It is precisely in growth regions that the highest rents per square meter are charged for family housing, according to a study by Empirica. The problem is growing because of a low volume of new construction.

"Those who have apartments with 5 or more rooms in their stock can rejoice. Particularly little is being built in this segment. "The low supply is driving up achievable rents,"

says Einar Skjerven,
CEO & Founder of the Skjerven Group.

In the metropolises (A-cities), large families are asked to pay more than other tenants. They pay for apartments with five or even more rooms 13.71 euros per square meter, one-room apartments are available for 13.50 euros per square meter. According to the survey, both are above the average rent of 12.79 euros per square meter. Two-room apartments (12.21 euros per square meter), three-room apartments (12.05 euros per square meter) and four-room apartments (12.77 euros per square meter) are cheaper. The figures are based on processed data from Empirica Regio.

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These rents are driving more and more families out of the big cities. However, similar patterns are now emerging in the B-cities as well, since large apartments in these cities are also relatively the most expensive for families. The same also applies to single apartments, for which the comparatively highest prices per square meter have to be paid even in shrinking regions.

According to Empirica, the high price trend for family living will become even more pronounced, since nothing will come of new construction. According to the analysis, construction completions of apartments with four or more rooms (here including one/two-family houses) in A-cities declined from an average of 8,500 apartments per year to 6,700 apartments per year when comparing the five-year periods 2011 to 2015 and 2016 to 2020. In addition, apartments with four or more rooms accounted for only 15% of total housing completions instead of 29%.