Press release

Market report

Hypoport SE: Assessment of the funding stop for energy-efficient buildings, the higher risk buffer required from banks for residential mortgage loans and a potential change of policy on interest rates

Berlin, 2 February 2022: Hypoport SE has assessed the impact that three political, regulatory and macroeconomic changes in January 2022 are likely to have on the German housing market, the most important market environment for the Hypoport Group.

Discontinuation of public funding for energy-efficient buildings: On the weekend of 22/23 January, Germany's Federal Ministry for Economic Affairs and Climate Action announced unexpectedly that the public funding programme for energy-efficient buildings (BEG) offered through the KfW development bank will be stopped with immediate effect due to high demand. The BEG is a funding programme for private house-builders and institutional property developers that aims to promote the construction of energy-efficient residential properties. The abrupt stop means that home-builders and developers will now have increased need for advice on how to adapt their construction projects to the change in funding conditions.

Hypoport SE can disclose that only around 20 per cent of all funding arrangements made through the Europace marketplace are intended for new construction projects and thus potentially affected by changes to the BEG. The vast majority of transactions on the platform relate to purchases or remortgage deals for existing residential properties and the termination of the BEG has no bearing on these types of transactions. In addition, one component of the BEG funding programme (KfW Efficiency House 55*) was scheduled to end at the end of January 2022 in any case, meaning that the impact of the unexpected discontinuation of the BEG programme will be limited to new construction projects using KfW Efficiency House 40* funding.

The government departments involved in the delivery of the BEG announced on 1 February that applications submitted prior to the sudden termination of the programme would still be processed. But home-builders and developers are nonetheless facing uncertainty about exactly what funding options will be available to them in the future. In most cases, German banks will step in and guarantee the funding while applicants await a decision on their case. A small number of home-builders and developers will adjust to the loss of funding by abandoning energy-efficient features of their construction project that are no longer being subsidised. On this basis, Hypoport does not expect the funding of construction projects that are already in progress to be significantly impacted.

Recently, only one in two construction projects had been realised in compliance with these high energy-efficiency standards due to the substantial additional administrative effort and cost involved. Hypoport estimates that the funding stop for KfW Efficiency House 40 will affect less than 3 per cent of the funding volume brokered through the Europace platform. Until a new, reliable follow-up funding format is put in place, most construction projects using KfW Efficiency House 40 funding will be realised with lower

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energy efficiency specifications, as home-builders and developers are keen to complete their projects to meet their housing needs. Energy-efficient construction is not an end in itself, and is not the purpose of a construction project. Hypoport therefore does not anticipate material changes in the growth rates of its platform-based business models in the market for owner-occupied residential real estate.

In addition, the public housing sector will offset the loss of BEG funding by negotiating alternative funding arrangements at local authority and federal state level or by adjusting the scope of energy efficiency measures in order to ensure that the construction of social housing can continue in accordance with their political mandate. It remains to be seen whether such negotiations will cause delays to construction projects in the public housing sector. The extent to which the funding stop will slow down private construction of build-to-rent properties, a sub-market that the business models of the Hypoport Group currently cover only tangentially, is difficult to estimate due to the highly segmented nature of this sub-market. However, Hypoport expects that projects in this sub-market will be postponed, leading to additional demand building up in the market segments for owner-occupied properties and rented social housing.

New risk buffer requirement for banks: In mid-January 2022, the Federal Financial Supervisory Authority (BaFin) announced that it will require German banks to maintain a 2 per cent 'sectoral systemic risk buffer' for residential mortgage loans as of February 2023. Hypoport believes that this announcement will have come as a surprise for lenders in the banking sector, but that it is unlikely to pose a serious challenge for most banks thanks to the generous 12-month notice period and the robust capital adequacy of German savings banks and cooperative banks. Moreover, some of the roughly 700 financial institutions that now use the Europace platform for funding purposes, for example insurance companies, are not affected by this rule at all. The main effect will therefore probably be a shift in relative competitiveness on the supply side of the Europace platform. German consumers continue to purchase properties for their own use based on their personal circumstances and, in some cases, urgent personal needs, but not as a speculative investment. Slightly higher interest rates may therefore have a minor impact on the size, location and specification of the properties they will purchase, but are unlikely to affect the volume and structure of the chosen financing solutions. On this basis, Hypoport believes that the implications of this regulatory change for its business model will be limited.

Potential change of policy on interest rates: In light of high levels of inflation and rumours that the ECB may call time on its policy of low interest rates, some experts anticipate a gradual upward trend in interest rates. Germany has had a conservative financing culture for many decades, characterised by high equity contributions, long fixed interest-rate periods and – in recent years – rising repayment rates. Against this backdrop, Hypoport believes that transactions to finance privately used residential properties in Germany are not subject to increased market risk. With regard to purchases of new properties, interest-rate increases typically have a greater influence on the decisions of investors. However, purchases for investment purposes account for only a marginal volume of transactions on the Europace platform. The vast majority of private mortgage finance transactions on Hypoport's marketplace are for owner-occupied properties. Hypoport therefore believes that a potential change of policy on interest rates will have only minor implications for its business models in private mortgage finance.

Ronald Slabke, Chief Executive Officer of Hypoport SE, assesses the latest developments in the German housing sector: "The sudden BEG funding stop means that private home-builders and developers will feel less incentivised or pressured to realise construction projects in compliance with high energy efficiency standards. But we do not currently expect this to have a tangible impact on the total lending volume going forward.”

However, Slabke does believe that there will be implications for climate change mitigation and the rental market: “The new German government has pledged to do more to combat climate change and to build new homes. Hypoport absolutely welcomes these intentions, but unfortunately, the latest emergency stop manoeuvre runs completely counter to them. When it comes to achieving climate goals, every week matters. Otherwise, more and more private construction projects will be realised with reduced energy efficiency specifications or even planned without considering energy efficiency in the first place. The German government really has to deliver now and its new programmes should be measured against the effectiveness of the funding scheme that has just been discontinued. Home-builders and developers will need to see a substantial increase in the overall volume offered in order to feel confident that the funding will not run out again before they have completed their planning process. After all the talk, the government now needs to walk the walk in order to make the existing housing stock and new residential construction greener.“

With regard to the new risk buffer for banks, he adds: “Much like the termination of BEG, this measure seems neither logical nor well thought-out. German consumers have traditionally adopted very conservative solutions to finance residential properties for their personal use. On Europace, the largest credit platform for the provision of finance products to private clients in Germany, mortgage finance deals are currently brokered with an average fixed interest rate period of almost 14 years, an annual repayment rate of 2.6 per cent and a loan-to-value ratio of 80–85 per cent. Germany is a long way away from the housing bubble that some instituts have been claiming to see for more than seven years. In fact, quite the opposite is true: cities across the country that attract a net population inflow, especially among younger people, continue to report severe housing shortages.“

On the subject of a potential change in policy on interest rates, Slabke adds: “German consumers do not base the decision to purchase their first home on the current interest-rate level. What matters is whether the property suits their personal circumstances. If interest rates and construction costs seem set to rise progressively, potential property buyers will act sooner rather than later and may be willing to compromise a little more on aspects such as the size and location of the property. However, we do not believe that a gradual upward trend in interest rates will lead to a structural decline in demand for owner-occupied residential properties. There is currently a lot of pent-up demand, especially in metropolitan areas.“

**The numbers in KfW Efficiency House 40 and KfW Efficiency House 55 indicate how energy-efficient a property is relative to a reference building. The lower the number, the more energy-efficient the building is and the higher the amount of KfW funding it is eligible for.*

About Hypoport SE

Hypoport SE is headquartered in Lübeck (Germany) and is the parent company of the Hypoport Group. The Group is a network of technology companies for the credit. real-estate and insurance industries with a workforce of approx. 2.500 employees. It is grouped into four segments: Credit Platform. Private Clients. Real Estate Platform and Insurance Platform.

The Credit Platform segment operates Europace. which is an online B2B financial marketplace and the largest German platform offering mortgages. building finance products and personal loans. A fully integrated system links more than 750 partners – banks. insurers and financial product distributors. Several thousand loan brokerage advisors execute more than 35.000 transactions per month on Europace. generating a volume of more than €8 billion. Besides Europace. the FINMAS and GENOPACE sub-marketplaces and the B2B distribution companies Qualitypool and Starpool support the growth of the credit platform. REM CAPITAL AG provides specialist advice on the arrangement of complex public-sector development loans for companies and financing for SMEs in Germany. At fundingport GmbH a corporate finance marketplace is being established.

The Private Clients segment. made up of the web-based. non-captive financial product distributor Dr. Klein Privatkunden and the consumer comparison portal Vergleich.de. brings together all business models aimed at directly advising consumers on mortgages. insurance or pension products.

All real estate-related activities of the Hypoport Group. with the exception of mortgage finance. are grouped together in the Real Estate Platform segment (previously Institutional Clients) with the aim of digitalising the sale. valuation. financing and management of properties.

The Insurance Platform segment operates SMART INSUR. a web-based B2B platform for advice. comparison of tariffs and the administration of insurance policies. The segment also incorporates the insurance unit of Qualitypool. a B2B distribution company as well as ePension. a digital platform for the administration of occupational pension schemes.

The shares of Hypoport SE are listed in the Prime Standard segment of the Frankfurt Stock Exchange (Deutsche Börse) and have been included in the MDAX since September 2021.

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