



**Interview with Gero Bergmann,**  
Member of the Board of Management

**Sustainability is no longer a trend. Rather, it is an established investment strategy and is firmly integrated into the Green Strategy of Berlin Hyp. The successes of this strategy are clearly evident. Gero Bergmann, member of the Berlin Hyp Board of Management, explains in an interview how, at the same time, Berlin Hyp is facing up to new challenges.**

**If you look at new lending in real estate financing in 2018, there are fewer reasons to be cheerful at first glance. Compared to the previous year, 2017, your lending is down by about 1 billion euros. Why is that? Why only 4.9 billion?**

We are quite satisfied with the 2018 financial year. Given that we are in the final phase of an unprecedented megacycle, critical risk assessment is becoming increasingly important. We have to review carefully and be selective in our approach. And this, of course, is against a backdrop of ever-increasing regulatory requirements. This will naturally have an impact on the development of margins,

which in our view definitely will and must increase. Berlin Hyp is synonymous with a conservative risk policy and a carefully selective approach because we work with our customers on a long-term basis in an ethos of partnership. This also applies to project developments, which tend to involve more risk. In addition, construction costs are rising considerably, and we are observing increasing capacity utilisation in the construction industry. Here we look at each project separately based on individual risk criteria.

### **Transaction volumes have remained high for years. When will the cycle end?**

For some years now, increasing investment pressure and an increasing shortage of core real estate have been reflected in declining margins. This and the strong competitive pressure have already led some real estate financiers to change their strategy – towards more risk. This is reflected in concessions in liability, waivers of redemption, higher loan-to-value ratios and much more. But are the margins still risk-adequate? This can only be the case if the need for risk provisioning remains low over the long term. Abrupt changes in the underlying conditions, whether they are political, economic or property-related, can result in an unplanned rise in the need for risk provisioning.

### **The past few years have shown how great the challenges posed by digitalisation and regulation are. How are you dealing with them?**

In view of the future challenges facing Berlin Hyp, we have made changes to our organisational structure and created a new Portfolio Management division. The objective is to make portfolio management within the Bank even more active. We are aiming to achieve timely and equity-optimised management of the loan portfolio – for both new and existing lending.

The Portfolio Management division is also working on the implementation of new products. As an S-Group partner and competence centre for commercial real estate financing



for the German savings banks, we always endeavour to offer the savings banks added value. In addition to the existing range of syndicated loans and support with valuation and restructuring, we offer the savings banks the ImmoSchuldschein, which enables the savings banks to participate in the yield opportunities offered by commercial real estate financing, and the ImmoAval product, which provides for co-liability via a guarantee with simple documentation. We will offer ImmoAval via a portal solution in the future, which will make it even easier to handle for the savings banks.

The constant advance of digitalisation is also forcing real estate financiers to question themselves again and again. Customers are becoming increasingly critical. With the onset of the financial crisis, this trend has intensified significantly. It has resulted in decreasing loyalty and an increased willingness to change. In order to survive here, the scope and quality of services must be able to keep up with customers' expectations. All the experiences we are making in our personal lives online are being transferred to business life, too. Fast, direct and paperless are at the top of the wish list. This means that real estate financiers have to see things from the customer's perspective and adapt their business models.

**Returning to the topic of sustainability and future-oriented action, a total of 12 % of the real estate portfolio already consisted of green financing in 2017. According to your annual report, the loan portfolio for green building financing is to be increased to 20 % by 2020. What makes you believe that you will achieve this goal?**

Sustainable action ensures long-term success. For this reason, we attach great importance to sustainability and expand the concept into a holistic approach. Green is no longer a megatrend or hype, but an established investment philosophy.

One example of this is the rapid development on the Green Bond market. After the record year of 2017, around 137 billion US dollars were placed on the market via new green bonds in 2018. For comparison: in 2012, it was only 5 billion US dollars. In absolute terms, these may not be earth-shattering amounts yet, but the increase speaks for itself. Green Bonds have established themselves as a serious investment instrument and have conquered their own market – worldwide. Today, we support a large number of customers that are committed to sustainability, on both the assets and the liabilities side. We will also be able to welcome on board further investors that are committed to sustainability in other European countries, especially as Berlin Hyp is perceived as a highly professional partner in the field of energy efficiency. I'm firmly convinced that we will achieve our 20 % target by 2020.



For us, however, sustainability means more than just financing green real estate. We want to embed this fundamental idea at an even deeper level within the company in order to be able to operate sustainably with a targeted approach. This is why our economic and social sustainability management measures are implemented at all levels of the company and affect all employees. Sustainability is an essential component of our corporate strategy – it's almost in our DNA.

**With a feel for modern forms of financing, a focus on green finance and an approach centred on sustainability, the Bank has earned itself a leading position with rating agencies in recent years. But you don't take the time to enjoy your successes, do you?**

Berlin Hyp is a first-class institution, which can be seen from the spread development in particular, especially when compared to the market. We are the industry leader when it comes to sustainability rankings. We are also a pioneer on the capital market with the world's first Green Pfandbrief in 2015. In 2018, we were the first German bank to launch a senior preferred bond on the market. We can be proud of that. But we also have a future obligation to continue to follow this path consistently. We invest our time in implementing our strategic goals, maintaining our market position, and remaining close to our customers, and we are naturally delighted when our work is recognised and rewarded.

**Question: How do you see the German real estate financing market developing? Is the end of the ECB's purchase of government bonds and covered bank bonds already having an impact?**

The ECB's pullback at the end of 2018 led to rising refinancing costs in the covered bank bond segment at the beginning of this year. Refinancing costs for uncovered bonds also rose in tandem. However, the increase will be limited by the fact that the ECB will reinvest the not insignificant maturities from the purchase program over a longer period of time. If the underlying conditions remain unchanged, the pullback would result in rising interest

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rates on loans. However, the effect is currently being offset by the renewed decline in general interest rates.

I assume that many investors will try to take advantage of the current low interest rate environment and to secure these rates for themselves in the long term. In addition, Germany continues to be regarded as a “safe haven” and is therefore one of the preferred investment locations for both domestic and foreign investors. This being the case, we expect to see lively transaction activity on the investment market again in 2019. The only limiting factor here could be a supply bottleneck, which is becoming increasingly apparent.

**Listening to you, you get the impression that real estate banks must be doing brilliantly. Do you still see risks? How well are the banks prepared for a volatile market?**

The biggest uncertainties the banks are currently facing seem to lie outside the financing universe. We’ve often seen in the past how far-reaching the effects of exogenous shocks can be. Interest rate cuts, economic stimulus packages, but also natural disasters, wars and stock market crashes have the potential to trigger imbalances due to abrupt changes in demand and prices. But the tricky thing about this is that no one can predict the effects of exogenous shocks.

Populism and the growing protectionist tendency will continue to occupy us in future. If we were able to relax a little after the last major elections in the EU, we are now looking to the US with anticipation. But the instability of other EU states, which have not yet recovered from the last major crisis, could also influence the real estate market in Germany.



The decisive factor moving forward will now be the development of global trade disputes. There is still a threat of further import tariffs and trade barriers, which could cause construction costs to rise sharply, for example. Germany is still achieving economic growth – and this despite the continuing intensification of conflicts. However, this growth was primarily driven by consumers’ continued propensity to consume. The favourable conditions on the labour market and rising wages mean citizens can be generous with their spending. But no one knows how long this will last. The challenges for the German economy and with it also for the real estate industry will grow rather than decline. Recent events show that geopolitical risks are always to be expected.