

Press Release

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GfK GeoMarketing publishes white paper on the causes of the real estate financing crisis.

The authors of the paper – real estate financing and retail experts Manuel Jahn and Olaf Petersen – urge banks and investors to focus on sustainability and temper financial mathematical models with applied real estate knowledge.

Blind faith in ratings and numbers combined with a lack of real estate knowledge contributed significantly to the current crisis, say Jahn and Petersen. This combination led to the real estate bubble because vigorous assessments of the actual value and sustainability of property investments were compromised for the sake of short-term profits. "Real estate objects are not fast-moving commodities, but they were treated as such," write Jahn and Petersen. After the bubble burst, property values plummeted on paper, but in many cases these devaluations were no more accurate than the wildly inflated numbers that preceded the crash.

Jahn and Petersen argue that the banking crisis was ultimately a crisis in trust that had far-reaching psychological repercussions that, themselves, caused additional real-world problems: Some property renters simply could not cope with the inflated appraisals and prices, resulting in a breach of covenant as well as a significant threat to rental cash flow for banks and investors. This led to a state of stagnation, creating particular difficulties for shopping center developers in search of financing for planned or already underway projects.

Threatened or stagnated rental cash flows require a level of personnel and specialist resources that banks simply do not have their disposal. The strict division between the appraisal process and customer service common in some banks further complicates attempts to find pragmatic solutions.

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Solution already on the horizon, but not yet implemented sector-wide

Jahn and Petersen propose numerous potential solutions to these problems, at the heart of which is an urge for greater reliance on real estate expertise and recognition of the so-called "sustainable value," a fundamentally sounder and more transparent variable than the highly volatile "fair value".

"By focusing more on 'sustainable value,' banks need not fear endless write-offs," explains Manuel Jahn. "Instead, this new approach gives them the opportunity to prudently evaluate the quality and future prospects of real estate objects and their locations, analyze success factors, boost customer and product benefit, secure cash flows and ensure that objects hold their value." Jahn and Petersen thus recommend that banks and investors adopt a new mind-set when it comes to real estate, which they summarize as "less number-crunching on balance sheets and more focus on long-term customer and product benefits".

The real estate experts also see a way out for banks and investors whose business models focus mostly on trading real estate portfolios rather than actively developing and managing real estate objects: By using the services of external experts, banks and investors can ensure that crucial factors such as cash flow sustainability, rentability and planning law restrictions are taken into account. "Cash flows can only be secured and sustained with sound real estate knowledge, not mere number ratings," emphasizes Jahn. In the absence of trust between investors and developers, the real estate branch suffers. Neutral real estate appraisers bring stability to this equation and play an important role as objective intermediaries.

"Trust is money," writes Jahn. "The crisis has proven that the building of trust, sustainability and a good grasp of real estate is more important than pure number ratings that often are not even being interpreted by those who actually developed and understand them." Companies that have been relying on a combination of quantitative and qualitative appraisals (i.e., number ratings) backed by genuine real estate appraisals continue to fare well and are even profiting indirectly from the mistakes of others. However, the crisis in trust is of course disadvantageous to all involved.

Conclusion

Jahn and Petersen emphasize that quick, short-term real estate “deals” or tradings are not a negative practice per se - the economy can profit significantly from the various levels of added value associated with real estate as a commodity. However, it's essential to address the core problem that lies at the heart of the issue and whose resolution can directly contribute to the restoration of trust: namely, the lacking real estate knowledge and expertise that have characterized the sector thus far.

Additional information on Manuel Jahn and Olaf Petersen's white paper can be obtained from Cornelia Lichtner, GfK GeoMarketing, public relations: c.lichtner@gfk-geomarketing.com or +49 (0)7251 9295270.

About Manuel Jahn

Manuel Jahn heads the investment and financing branch of GfK GeoMarketing's Real Estate Consulting division. He has been with GfK GeoMarketing since 2004 and has extensive knowledge of the state of the real estate sector as a result of conducting real estate appraisals throughout Europe.

About Olaf Petersen





Olaf Petersen is a member of GfK GeoMarketing's management board and the head of the company's Real Estate Consulting division. He has been active in location and real estate research at GfK since 1998.

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Print-quality photos of the authors can be found at www.gfk-geomarketing.de/authors_white-paper.

About GfK GeoMarketing

GfK GeoMarketing is one of the largest providers of geomarketing services in Europe for customers and users from all branches of trade. Key business areas include:

-  Consultancy and reports
-  Market data
-  Digital maps
-  Geomarketing software RegioGraph

GfK GeoMarketing is one of the leading independent providers of consultancy services in the area of real estate and location research. The company produces studies and reports for customers from the retail, public authority, investment, banking and project development sectors.

The company is a subsidiary of the international GfK network. Ranked fourth among the world's market research institutes, the GfK is represented in 100 countries with over 115 subsidiaries and 10,000 employees.