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Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Primary market: New issue premiums remain on the low side

In total, six issuers have approached investors with seven deals over the past five trading days, issuing “fresh” bonds in the amount of EUR 6.25bn overall. Longer maturities (>5y) continue to dominate proceedings on the primary market, but deals with shorter terms by no means constitute an exception. With DBS Bank (SG), Banco Santander Totta (PT) and SR-Boligkreditt (NO), issuers from the jurisdictions of Singapore, Portugal and Norway also came to market for the first time in 2024. Last Wednesday, DBS Bank got the ball rolling by opening the books for its EUR benchmark (2.5y), which was guided at ms +36bp area. At the end of the marketing phase, orders totalling EUR 3.3bn had been racked up. The bond volume was eventually fixed at EUR 1.0bn and the reoffer spread stood at ms +29bp (new issue premium: ±0bp). Also on Wednesday last week, LBBW (DE) raised EUR 500m (10.0y; WNG) at ms +34bp. The following day, ING Belgium became the third Belgian bank to place a benchmark bond so far this year. The bond in the amount of EUR 1.0bn (7.0y) was issued at ms +38bp, a full seven basis points below the original guidance (new issue premium: +1bp). Again on Thursday, Banco Santander Totta launched a bond issue, which started out in the marketing phase at ms +73bp area. In the end, the bond volume amounted to EUR 1.0bn, with a reoffer spread of ms +67bp. The French issuer BPCE approached investors with a dual tranche (EUR 1.5bn; 5.0y & EUR 750m; 12.0y). The reoffer spreads for these two bonds stood at ms +36bp (5.0y) and ms +51bp (12y), which results in mathematical new issue premiums of ±0bp and +2bp respectively. The first deal from Norway in 2024, issued by SR-Boligkreditt, was guided at ms +48bp area. The issuer ultimately settled on a volume of EUR 500m, which was priced at ms +44bp. The trend towards lower NIPs continued over the past five trading days as well, with an average value of +1.3bp recorded for the seven deals outlined above.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
SR-Boligkreditt	NO	12.02.	XS2768185030	8.0y	0.50bn	ms +44bp	- / Aaa / -	-
Banco Santander Totta	PT	08.02.	PTBSPHOM0027	7.0y	1.00bn	ms +67bp	AA- / Aaa / -	-
BPCE SFH	FR	08.02.	FR001400NXE6	5.0y	1.50bn	ms +36bp	- / Aaa / AAA	-
BPCE SFH	FR	08.02.	FR001400NXK3	12.0y	0.75bn	ms +51bp	- / Aaa / AAA	-
ING Belgium	BE	08.02.	BE0390110733	7.0y	1.00bn	ms +38bp	- / Aaa / -	-
DBS Bank	SG	07.02.	XS2761174247	2.5y	1.00bn	ms +29bp	AAA / Aaa / -	-
LBBW	DE	07.02.	DE000LB39BP4	10.0y	0.50bn	ms +34bp	- / Aaa / -	-

Source: Bloomberg, NORD/LB Floor Research (Rating: Fitch / Moody’s / S&P)

Secondary market: Long maturities remain very much in demand

Even with the trend towards lower new issue premiums, the newly placed bonds are performing well. Nevertheless, turnover was down somewhat at the start of the new trading week in particular. In contrast, it was striking to see robust demand for longer-dated deals. In this context, current yield levels are likely to have been decisive for some investors.

CRE exposures in the cover pools of German Pfandbrief issuers

Since last week, an increasing number of German Pfandbrief issuers with high shares of commercial assets in their cover pools are coming onto the radar of market players again. Given the issue at hand, rather aptly the Association of German Pfandbrief Banks (vdp) recently published its Property Price Index. We have covered this topic in detail as part of a focus article in this present edition of our weekly publication. In the fourth quarter of 2023, the vdp Property Price Index recorded significant declines in capital values, particularly in the office and retail property sub-segments. Against this backdrop, we propose to delve deeper into the cover pool values of those Pfandbrief issuers that have a higher CRE exposure in their cover pools. Among Pfandbrief issuers with at least one outstanding EUR benchmark, we have identified ten issuers to which from our perspective this criterion applies. As at 31 December 2023, Aareal Bank had the highest proportion of commercial assets in the mortgage cover pools (91.8%), followed by Bayerische Landesbank (84.6%) and Hamburg Commercial Bank (82.8%). In geographical terms, more than 50% of the commercial cover assets of all issuers are attributable to EU member states. The cover pools of the issuers Aareal Bank (41.3%), Deutsche Pfandbriefbank (27.6%) and Landesbank Hessen-Thüringen (22.8%) have higher CRE exposures located outside of the EU.

Overview: Pfandbrief issuers with higher CRE exposures[1]

Issuer	Cover pool volume (in EURbn)	BMK outstanding (in EURbn)	OC	Share of CRE	Non-EU CRE-Share	Covered bond rating (Fitch / Moody's / S&P)	Moody's Collateral Score	Moody's TPI-Leeway	LTV (Mortgage lending value)	LTV (Market Value)
Aareal	16.46	8.13	13.1%	91.8%	43.1%	- / Aaa / -	15.1%	2 Notches	55.7%	33.5%
BayernLB	11.02	9.90	51.2%	84.6%	14.5%	- / Aaa / -	11.5%	5 Notches	57.7%	-
Berlin HYP[2]	19.14	14.50	5.1%	65.3%	0.0%	- / Aaa / -	17.9%	5 Notches	57.1%	-
DZ HYP	41.27	27.43	17.5%	41.4%	1.5%	/ Aaa / AAA	13.6%	6 Notches	54.0%	-
HCOB	3.27	2.50	22.9%	82.8%	1.3%	- / Aaa / -	21.7%	2 Notches	57.3%	-
Helaba	16.48	14.25	80.0%	69.8%	18.6%	- / Aaa / -	12.5%	5 Notches	59.0%	-
LBBW	18.81	14.35	51.2%	55.4%	22.8%	- / Aaa / -	10.6%	5 Notches	55.2%	-
Münhyp	37.55	16.43	6.6%	19.2%	7.0%	- / Aaa / -	8.4%	5 Notches	52.4%	-
NORD/LB	13.47	10.80	56.5%	63.9%	9.6%	- / Aa1 / -	17.1%	3 Notches	60.0%	-
PBB	20.91	9.91	23.3%	81.8%	27.6%	- / Aa1 / -	18.6%	Not published	56.8%	34.3%

Source: Issuers, market data, NORD/LB Floor Research;
[1] reporting date: 31 Dec. 2023; [2] reporting data 30 Sept. 2023

Significant risk apparent from cover pool values?

The vast majority of the selected Pfandbrief issuers have overcollateralisation (OC) ratios significantly well above of the legal minimum and have a Moody's Collateral Score of <20%. In our opinion, these features indicate that the credit quality in the issuers' cover pools is quite sufficient. As part of the cover pool reporting, all Pfandbrief issuers must also report the LTV (loan to value) ratio on the basis of the mortgage lending value. The German LTV approach is viewed by the rating experts at Moody's as a stricter requirement for credit quality and is consequently viewed as a "rating positive" factor. In order to facilitate an LTV approach that is more comparable in an international context, two Pfandbrief issuers also report the LTV on a market value basis. However, this information is provided voluntarily and results in significantly lower LTV values. A differentiation of the various LTV approaches can be found in the focus article of our Covered Bond & SSA View. In our view, the cover pools of the selected Pfandbrief issuers should have a sufficient buffer to mitigate against distortions on the real estate markets and not allow any significant risks to arise.

Moody's I: Portuguese covereds benefiting from mortgage market developments
The rating experts at Moody's recently commented on the implications of the Portuguese mortgage market with regard to the covered bonds and RMBS asset classes. Despite higher interest rates over the long term and the high share of variable-rate mortgage loans, the rating agency expects the Portuguese mortgage market to continue its strong performance. According to Moody's, the reasons for this development are the improved creditworthiness of borrowers and the stable situation on the Portuguese labour market. The rating experts are not expecting this trend to be reversed in 2024 either. However, according to Moody's, the effects of government support measures to reduce the adverse impacts of rising interest rates have mixed implications for the covered bonds and RMBS asset classes. For example, borrowers have the option of locking in a reduced interest rate for a period of two years. However, according to the rating experts, the effects of such support measures are extremely limited. We view Portugal as one of the covered bond jurisdictions in which issuance activities are likely to be far more dynamic over the coming months and years than it has been the case in the past. Last week, Banco Santander Totta became the first issuer from Portugal to approach investors with a benchmark-size deal (EUR 1.0bn; 7.0y) in 2024.

Moody's II: Debt levels of private households in Spain in the spotlight
The average debt level of private households in Spain continues to fall and, at 76.6% of gross disposable income, now stands at its lowest level since 2002 and a full 12% below the average for the eurozone. According to Moody's, Spanish covered bonds and other securities secured by residential real estate loans (RMBS) are benefiting from this development, despite the negative effects of rising variable mortgage interest rates. Although the average debt costs for households increased to 4.6% in November, the rating experts attest to the fact that the quality of mortgage loans remained stable, which is due to stable nominal income and the associated discipline of borrowers as well as greater reluctance to grant loans on the part of lenders. In addition, economic growth in 2023 further weakened the negative effect of interest rate hikes. The rate of payment defaults in connection with RMBS has only increased marginally compared with the previous year. Taken together with the high interest rate level, Moody's sees these positive developments as crucial to the sharp rise in early loan repayments by borrowers, which now stands at the highest level since 2009. Although this tends to reduce the cover pool values of Spanish covered bond issuers, it is generally expected that this gap will be rapidly filled by new lending. Moreover, on average, Spanish issuers have cover pools with a volume of suitable cover assets that is more than twice as high as the combined amount of covered bonds issued.

Issuer in focus: Banco BPM SpA

Italian issuers have been very active on the primary market so far in 2024. To date, we have seen five covered bonds in benchmark format, all of which were placed in January. In total, the deals amount to EUR 3.0bn, with well filled order books in the amount of EUR 10.6bn overall. Most recently, Banco BPM SpA (BAMIIM) approached investors with a 6y covered bond. This was originally guided at ms +83bp area, with a final size of EUR 750m and a reoffer spread of ms +77bp eventually achieved. For Banco BPM, this marks what is already a third EUR benchmark since June 2023, with the issuer having been active in June (EUR 750m; 5.0y) and September (EUR 500m; 3.0y) of last year. Recently, the bank also presented current figures for the 2023 financial year and, according to CEO Guiseppe Castagna, is fully on track to implement its own strategic plan covering the period 2023-2026. In this context, the integration of sustainability ambitions and ESG goals were again highlighted, while there is additionally a focus on increasing profitability, consolidating the capital position and improving the risk profile. In specific terms, the two aforementioned covered bond deals from 2023 were also issued in this context. In addition, the bank published its new “Green, Social & Sustainability Framework” in November 2023, which was revised in line with new market standards and also includes topical developments such as the EU taxonomy. From our point of view, the improvement in the financial profile of the banking group has also been reflected by the rating agencies: S&P has defined a long-term issuer rating of BBB- with a positive outlook, while Moody’s upgraded the senior LT rating by two notches to Baa2 (previously: Ba1). Banco BPM also highlights the progress it has made with regard to its ESG Risk Rating: for example, with a “low risk” classification, the ESG-focused rating agency Sustainalytics has included the bank among the “best Italian banks” since October 2023. Before this, Banco BPM had been assigned to the “mid risk” rating.

Market overview
SSA/Public Issuers

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SOGRPR: New wine in new bottles

Those of us of a certain vintage in Germany will surely recall the slogan "Raider is now called Twix – nothing else has changed", when the chocolate bar was renamed. Something similar has taken place with the former Société du Grand Paris (SGP). Although the ticker SOGRPR remains unchanged, the mandate no longer only covers Paris, but the whole of France. As a result, a new name had to be found that would ideally also match the bonds' ticker, namely **So**ciété des **Gr**ands **Pr**ojets. Previously, the French agency was only tasked with building the Grand Paris Express metro, but now its responsibilities have been extended to the whole of France. This proposal was already the subject of a bill in the French National Assembly in mid-2023. We will spare everyone involved the details of the RER métropolitains (RER M) being officially renamed "services express régionaux métropolitains" (SERM), except to say that it is "a multimodal range of collective public transport services based on strengthening rail connections". A project outside the borders of Paris has only now become possible thanks to an expansion of expertise in order to "participate in the planning and construction of the infrastructure required for the realisation of metropolitan regional express services." This was officially implemented on 18 December 2023. The idea from May 2023 was and is that the SGP could take care of new infrastructure, but also lines that no trains have travelled on for five years. Last week, SOGRPR issued its first benchmark bond since March 2023. The special thing about securities from this issuer is that they are always ESG bonds.

KfW development cooperation

It is exciting that KfW achieves a new funding record year after year. This year, the target range on the capital market is EUR 90-95bn. Of course, this does not only include funding programmes for new constructions, the purchase of existing properties, energy-efficient refurbishment, business start-ups or student loans. Another arm of KfW recently came into the media spotlight or, rather, was the subject of malicious gossip (buzz word: cycle paths in Peru). According to its homepage, KfW promotes projects and programmes in developing and emerging countries as well as increasingly also in countries involved in conflict which it identifies as developmentally sound and eligible of promotion on the basis of the development strategies and structures of the respective country. The programmes serve to create better prospects for people and the environment on the ground in Africa, Asia, Latin America and Southeast Europe. According to KfW, this creates better living conditions, while protecting the climate and the environment at the same time. According to KfW, the projects and programmes promoted by the bank are proposed by the governments of the partner countries; the respective country's development strategies and structures form the basis. On behalf of the German Federal Government (mostly for the Federal Ministry for Economic Cooperation and Development), KfW checks whether the projects and programmes are developmentally sound and eligible for promotion. Less than half of KfW Development Bank's commitments for projects in developing and emerging countries in recent years have come from the federal budget or taxpayers' money. The majority of these are loans. KfW raises the funds for this via the capital market. The borrowers – often the governments of the partner countries – pay back the loans with interest.

KfW promotional key figures 2023 – increased investments after crisis management

According to the KfW press release, 2023 was unsurprisingly another very strong promotional year – we were actually of the opinion that the Frankfurt-based bank could not jump from one record to the next year after year. This did not happen in every segment, but at least on the capital market. In order to fund its promotional business, KfW raised funds in a record volume equalling EUR 90.2bn on the international capital markets in 2023. One focus was naturally on the issue of EUR bonds, which accounted for 54% of KfW's total capital market funding (2022: 65%). The USD share of funding was comparatively high with a volume equivalent to EUR 26bn and a funding share of 29%. The reason for this was that KfW made greater use of its USD programme in the second half of 2023 in order to exploit the positive market conditions and further diversify the investor base. A total of 186 transactions in ten different currencies were carried out. Moreover, KfW finalised 22 green transactions in nine currencies (EUR, AUD, NOK, GBP, CAD, CNY, SEK, USD and HKD) in the past financial year, for an equivalent of EUR 12.9bn net, of which around EUR 10bn came from green EUR bonds. The total volume of all "Green Bonds – Made by KfW" issued since 2014 sits at over EUR 70bn. In the 2023 financial year, the financial markets business sector supported climate and environmental protection, and made investments in green bonds amounting to EUR 480m. Following its successful D7 bond at the end of 2022, KfW also made further progress in the area of digitisation and issued its first commercial paper via the Onbrane digital communications platform in the first half of 2023. The first transaction using the "transport currency" method in the derivatives business followed shortly thereafter in cooperation with LCH Swap Agent, a subsidiary of the London Stock Exchange. Further financial market innovations are planned for the 2024 financial year to contribute to successful funding. In the 2024 financial year, KfW expects to raise funds in the amount of EUR 90 to 95bn in the international capital markets for refinancing its promotional business. Of this, EUR 10 to 13bn is to be raised via "Green Bonds – Made by KfW". New business volume of EUR 111.3bn is the third highest since 2020 (2022: EUR 166.9bn). Domestic promotion amounted to EUR 77.1bn in 2023 (2022: EUR 136.1bn). This downturn is due in particular to a sharp decline in mandated transactions for energy companies to EUR 11.5bn (previous year: EUR 54.2bn) and the significantly lower commitments for Federal Funding for Efficient Buildings. For the latter, the switch from broad-based promotion to focused promotion with more demanding promotional conditions led to a downturn to EUR 16.1bn (2022: EUR 37.4bn), according to KfW. At the press conference, KfW CEO Stefan Wintels said: "On behalf of the German Federal Government, we are supporting the people in Germany to handle the climate-friendly transition in the building sector, step by step. And over the course of the year, we will use the budgetary resources made available to us to provide incentives for creating more affordable housing. The Federal Government intends to provide us with more funds for this than last year." In addition, the support of German SMEs continues to be a focus of KfW promotion. Among other things, key areas such as leasing, start-ups and the promotion of key technologies for the energy transition will receive more support. On the whole, KfW left the previous years' path of acute crisis aid on behalf of the Federal Government in 2023. Instead of immediate aid and supressing prices to secure the energy supply, the focus is now on strategic investments (see previous paragraph).

Anniversary of the first Berlin sustainability bond – impact report published

On 6 February 2024, the first sustainability bond issued by Berlin (ticker: BERGER) celebrated its first anniversary. The ten-year bond was issued a year ago with a volume of EUR 750m and a coupon of 2.75%. With an order book of EUR 5.25bn, the deal was seven times oversubscribed. The guidance was set at ms +1bp area and the final pricing was in the end set at ms -2bp. As of 8 February 2024, the yield on the bond is 2.8%. Induced by the high demand, sustainability criteria could also be taken into account in the selection of investors at the time. Consequently, two thirds of the bond volume went into the portfolios of investors who can be characterised as "active" in the ESG segment. In terms of utilisation of the issue proceeds, the Impact Report (German only) published on the occasion of the first anniversary provides detailed information on the allocation. In total, 18 social projects amounting to EUR 550.8m (73%) and a further 18 green projects amounting to EUR 199.2m (27%) were supported. The issue proceeds were allocated to social expenditure for the financial year 2022 and green expenditure for the financial years 2020 to 2022. Expenditure must be aligned with the UN Sustainable Development Goals (SDGs), with expenditure for social projects focusing on instruments for reducing inequalities (SDG 10) and expenditure for green projects on climate protection measures (SGD 13). As the impact report shows, the bulk of the issue proceeds went to the project for the construction, operation and maintenance of refugee accommodation with an allocation of EUR 176.6m. In particular, the expansion of existing capacities for the accommodation of Ukrainian war refugees was financed with this. Another project funded by the bond is access to free school lunches, with which Berlin has enabled every child in grades 1 to 6 to receive a healthy, hot meal. A total of EUR 147m of the issue proceeds were in turn used to achieve this goal. Projects financed in the green sector include the extension of the U5 underground line from Alexanderplatz to the main railway station, which was first discussed almost 30 years ago. The new construction will create three new underground stations, which, according to estimates, will transfer 20% of above-ground road traffic to rail. With an allocation amount of EUR 74.1m, 8.8% of the total project costs will be financed from the issue proceeds of the sustainability bond. Stefan Evers, Senator for Finance, looks back on the first year with great satisfaction: "Berlin is actively committed to the energy transition and has set itself ambitious targets for reducing greenhouse gas emissions. Berlin's first sustainability bond was an important signal in favour of a financial policy that is fair to all generations. The success of the bond shows that ecological and social investments are also valued on the financial market." The issue of the first sustainability bond goes back to the Sustainability Bond Framework adopted in December 2022, which – back then – made Berlin the fourth German state to develop and successfully introduce a corresponding framework for ESG bonds. For a summary of the ESG year 2023 for German Laender, please refer to our weekly publication from 17 January. In addition, you will find detailed information on the general capital market activities of Berlin and the other 15 German Laender in our corresponding Issuer Guide – German Laender 2023.

Primary market

The primary market was slightly less active in the past trading week, but a number of fresh deals were nevertheless brought to market again. Today we can report five new issues totalling EUR 10.2bn and one tap. Let's start at the beginning: as mandated, France's CADES (ticker: CADES) took to the trading floor first on 07 February with a long three-year bond in the amount of EUR 4bn and a social label. At the end of the marketing phase, the order book had filled up to an impressive EUR 21.1bn, so that with a final bid-to-cover ratio of 5.3x the transaction could be priced two basis points tighter at OAT +25bp (corresponds to roughly ms +8bp). This was already the second social bond deal by a French issuer this year. On the same day, a Spanish region, the Basque Country (ticker: BASQUE), also stepped into the limelight for the first time in 2024, seeking to raise a fresh EUR 600m with term of just over ten years. The sustainability bond was priced at SPGB +14bp (approx. ms +69bp) with a bid-to-cover ratio of 6.5x, enabling narrowing against the initial guidance by a full six basis points. Issuers from Germany have been particularly active in the past trading week. Baden-Wuerttemberg (ticker: BADWUR) made an appearance with a floater for the second time this year. As with its first FRN issue in January (see weekly publication of 17 January), EUR 600m was sought for a term of just over three years. Ultimately, the bond was successfully placed at ms -3bp against the six-month Euribor in line with guidance. Meanwhile, Berlin (ticker: BERGER) issued a benchmark with a volume of EUR 1bn and a term of ten years. The order book left little room for manoeuvre, so that the deal went through at ms +17bp in line with the guidance. One issuer from the German promotional bank segment also approached investors: by means of a dual tranche consisting of a new issue and a tap, KfW (ticker: KFW) raised a total of EUR 5bn in fresh funds. The new EUR 4bn bond with a seven-year term accounted for the lion's share of this. During the marketing phase, the order book filled up to an impressive EUR 22bn. As a result, the transaction could be priced two basis points tighter at ms +10bp. In addition, the KFW 0.875% 07/04/2039 was increased by EUR 1bn at ms +29bp (guidance: ms +30bp). The deal was more than five times oversubscribed. Due to the new mandate that has been issued, we expect to see the following transaction on the screen in the next few days: Investitionsbank Schleswig-Holstein (ticker: IBBSH) intends to issue a EUR benchmark in the amount of EUR 500m (WNG) with a ten-year maturity. In addition, the EU has sent an RfP to the relevant banking group for an upcoming transaction.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
KFW	DE	13.02.	DE000A382400	7.0y	4.00bn	ms +10bp	AAAu / Aaa / AAA	-
BERGER	DE	08.02.	DE000A351PJ6	10.0y	1.00bn	ms +17bp	AAA / Aa1 / -	-
BADWUR	DE	08.02.	DE000A14JZ04	3.5y	0.60bn	6mE -3bp	- / Aaa / AA+	-
BASQUE	ES	07.02.	ES0000106759	10.2y	0.60bn	ms +69bp	A / A3 / AA-	X
CADES	FR	07.02.	FR001400NWK5	3.6y	4.00bn	ms +8bp	AA-u / Aa2 / AA	X

Source: Bloomberg, NORD/LB Floor Research (Rating: Fitch / Moody's / S&P)

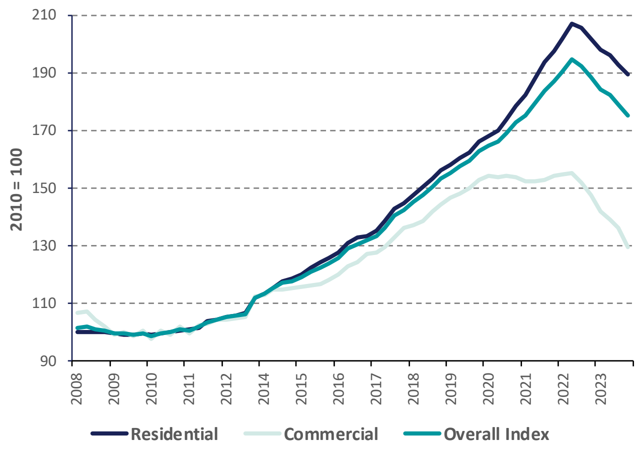
Covered Bonds
Development of the German property market (vdp Index)

Authors: Dr Frederik Kunze // Lukas Kühne

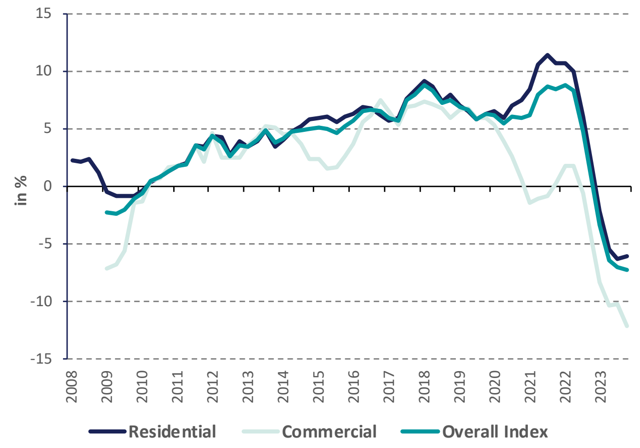
vdp Property Price Index continued its downtrend in Q4 2023

The downturn in the German real estate market continued in Q4 2023, as indicated by the latest data from the vdp Property Price Index. This vdp data is the subject of particular interest on the part of market participants in view of the current debate about the situation in the CRE segment. In Q4 2023, the index as a whole was down by 4.0 points, or -2.2 Q/Q. This was the fifth decline in a row and the index now stands at 175.2 points (baseline year 2010 = 100 points) and therefore at the level of Q1 2021. At the half-way stage in 2022, the vdp Property Price Index was still at an all-time high of 194.8 points. In July 2022, the ECB embarked on its interest-rate turnaround with a first step (hike of 50 basis points). Although the cycle of rate rises now seems to have come to an end, higher rates nevertheless continue to impact the German real estate market, with variations in the actual extent from one sub-segment to another. The commercial real estate market in particular remains unsettled and continues to dominate the public perception of the property market. In our view, the data published by the vdp on a quarterly basis, which is based on transaction figures from more than 700 credit institutions, gives a valuable insight into price trends in each sub-segment. Irrespective of this, it nevertheless remains true that the price trend in all sub-segments continues to point downwards.

Index level: Overall, residential and commercial



Y/Y change: Overall, residential and commercial



Source: vdp, NORD/LB Floor Research

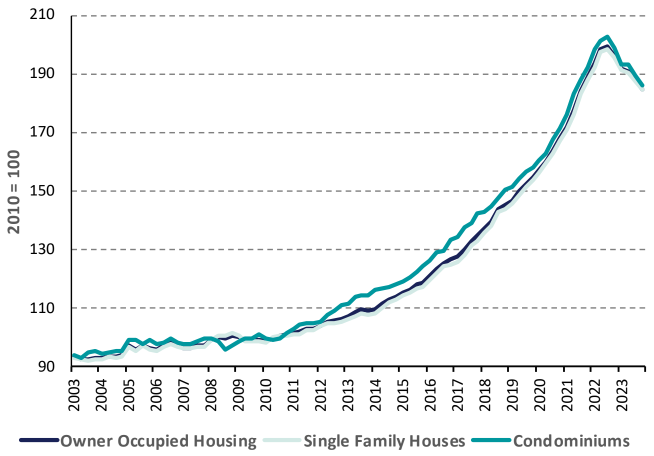
Residential: Prices down by 1.6% Q/Q

Prices in the residential segment fell by 1.6% Q/Q (-6.1% Y/Y). The price of owner-occupied properties fell by slightly less against the previous year (-5.8% Y/Y). The downturn reported for the sub-category of owner-occupied houses was -1.5% Q/Q and -5.6% Y/Y, while for owner-occupied flats the equivalents were -1.7% Q/Q and -6.5% Y/Y. As such, the price correction also continued to include the housing market. In a long-term analysis, the sub-index of owner-occupied housing is still at a very high level of 184.9 points, which is only around seven percentage points below its peak.

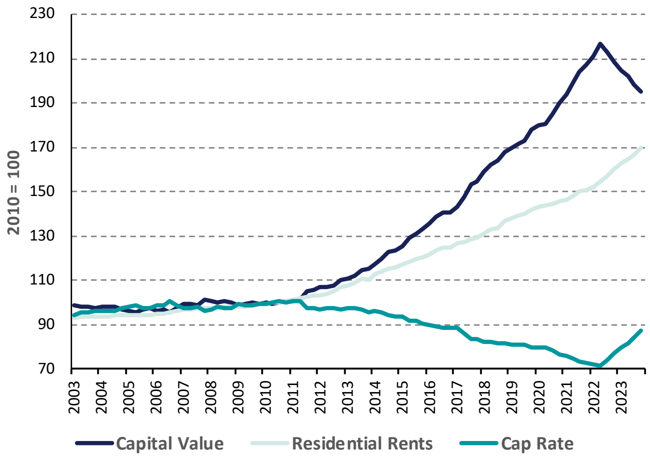
Residential property: rents continue to rise

Jens Tolckmitt, Chief Executive of the Association of German Pfandbrief Banks (vdp), also addressed a topic which is increasingly the subject of public discussion. In the latest press release, he predicted that the housing shortage is set to increase further in the next few years, a fact which, according to him, reflects weakening housing construction. The shortage is also pushing up new contract rents for multiple occupancy dwellings, which are showing an increase of 5.8% Y/Y. Capital values continue to decline, with the latest reading coming in at 195.2 points (-1.6% Q/Q and -6.3% Y/Y). Consequently, the capitalisation rate as a measure of return on investment on multiple occupancy dwellings has continued to rise and now stands at 86.9 index points (+12.9% Y/Y). The last time the index was this high was in the second half of 2017.

Owner-occupied properties



Multiple occupancy dwellings



Source: vdp, NORD/LB Floor Research

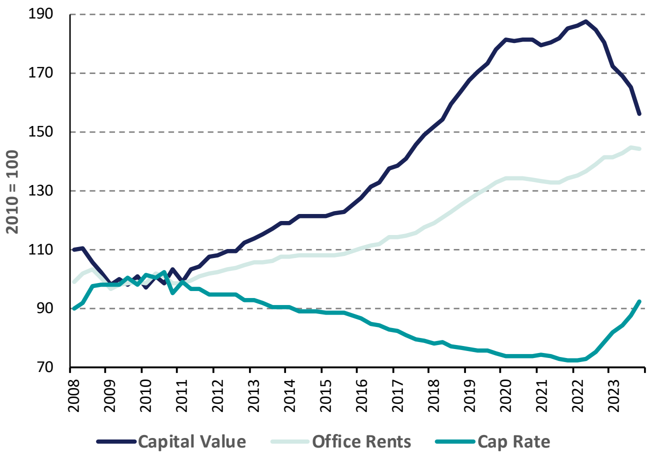
Top 7 housing markets: Slightly less pronounced downturn

The separate index tracking the performance of the housing market in the top 7 cities was also down (-5.1% Y/Y and -1.4% Q/Q). However, the vdp has made it clear that the fall in residential property prices in the top 7 cities in Q4 was slightly less pronounced than it was across Germany as a whole. The sharpest falls were in Munich (-6.3% Y/Y) and Frankfurt (-6.1% Y/Y); the lowest were in Cologne (-4.4% Y/Y) and Düsseldorf (-4.8% Y/Y). The highest growth rates for new rental contracts and capitalisation rates were reported in Berlin (rents: +6.7% Y/Y and capitalisation rates: +12.5% Y/Y) and Munich (+5.5% Y/Y and +12.4% Y/Y).

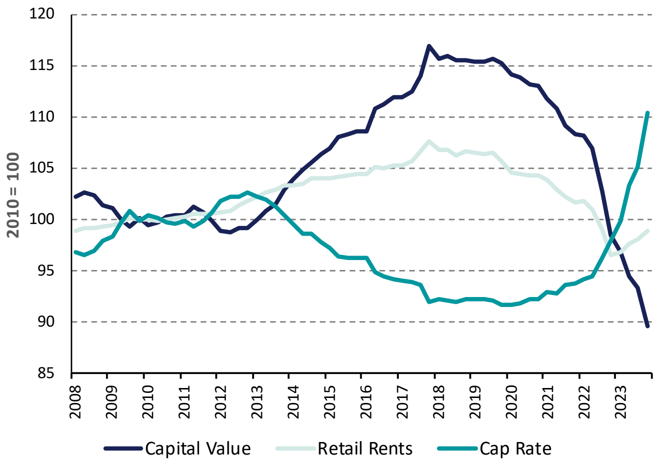
Office buildings versus retail space: New rent contracts in retail show record growth

The sub-index for commercial real estate fell by 12.1% Y/Y in Q4 2023 (or 4.9% Q/Q). This includes a sharp fall of 13.3% Y/Y for office buildings (-5.2% Q/Q), which is much more pronounced than in the case of retail premises (-9.0% Y/Y; -3.9% Q/Q). In its press release, however, the vdp draws attention to the fact that the downtrend in the retail segment has been going on for much longer. Whereas new contract rents for retail space are in positive territory again for the first time since 2019 with a 2.5% increase against the previous year and simultaneously the strongest growth since index records began, the increase in office rents (+1.9% Q/Q) was slightly less pronounced. According to the vdp, the trend reflects greater investor demand.

Office buildings



Retail premises



Source: vdp, NORD/LB Floor Research

Conclusion

The downturn in real estate markets in Germany continues. The extent of the trend has varied across the sub-markets and sub-indices. A detailed analysis shows some differences in the fall in prices. As regards the commercial real estate segment, which is increasingly becoming the focus if interest, the ongoing decline in the capital values of office and retail space is especially noticeable. In our view, this is not really surprising. After all, the price correction for retail space reflects specific factors. Structural breaks such as the pandemic or the ECB interest-rate turnaround led to significant changes in this sub-market. However, there are first signs that the downward cycle in the market for retail property has reached a much more advanced stage. According to Jens Tolckmitt, the first rise in new contract rents is an reference to this. In the case of the office market and some properties in this segment in particular, higher and growing requirements in terms of sustainability and new realities in the working world are major factors. At present, it is still impossible to predict what actual impact these trends will have on the office market. In fact, some real estate is likely to benefit from a change in demand structure, while there will be much less interest from tenants and/or investors in other types or property. In its preview, the vdp does not expect to see any stabilisation in residential prices before mid-2024; in the case of commercial real estate, it could be the end of the year before we see any turnaround. In this context, Jens Tolckmitt concludes as follows: “As things currently stand, 2024 can be expected to be a challenging year for the property market overall, although the downward trends that started in mid-2022 will likely ease considerably as the year goes on. ”At least, according to the vdp, this is what is suggested by the stabilisation in interest rates, rising yields and ongoing rent increases, among other factors”.

SSA/Public Issuers
Update: Joint Laender (Ticker: LANDER)

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese

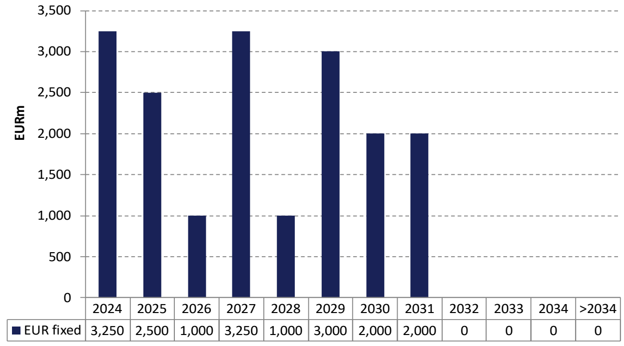
Introduction

An idiosyncrasy of the bond market in general, and one specific to the German sub-sovereign market, is the Gemeinschaft deutscher Laender issuance vehicle. Within this framework, several German Laender issue joint bonds (known as "Laender jumbos"; issuance volumes starting from EUR 1bn), whereby each federal state assumes several (but not joint) liability for the issuance overall. As a result, joint and several liability structures do not exist for such deals. The first time that several Laender grouped together to issue a joint bond of this kind was in 1996. Since then, the Joint Laender has become an established issuer on the bond market, with several Laender joining forces to place joint bonds on a semi-regular basis (mostly twice per year). The large-volume Laender jumbos enable these issuers, which are characterised by comparatively low refinancing requirements, to generate economies of scale that are reflected in lower interest expenses.

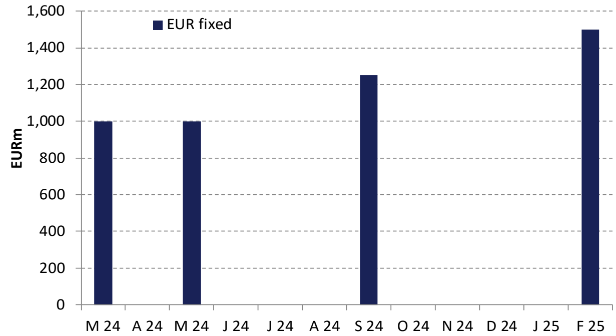
Participants, structure and rating

Seven Laender (G7) are (still) involved in the bond issuances currently in circulation. While Saxony-Anhalt, Hesse and North Rhine-Westphalia ceased to use Laender jumbos as a funding instrument after the first issuance in 1996, with Berlin subsequently opting not to participate in the joint issuing body since 2002, the following issuers have at times made use of Laender jumbos as key funding instruments (prior to the coronavirus pandemic): Brandenburg, Bremen, Hamburg, Mecklenburg-Western Pomerania, Rhineland-Palatinate, Saarland and Schleswig-Holstein. In fact, these Laender have raised substantial amounts of their respective funding volumes on the basis of bonds from the joint issuance vehicle currently in circulation. Thuringia has therefore dropped out of the "group of eight" (G8). As a result of the structure of the Joint Laender, there is no issuer rating. Instead, the rating agency Fitch rates each individual issuance in order to take account of the differing participation structures (several – but not joint – liability basis). However, this does not lead to any differences: since Laender jumbo No. 11, Fitch has awarded a rating of AAA to all bonds of this kind. As justification for the rating, Fitch cites the system comprising the principle of federal loyalty and the new system of federal financial equalisation payments (VAT distribution calculated on a per capita basis in full), in which it generally sees an exceptionally low default risk (AAA).

Overall maturity profile



Bond amounts maturing in the next 12 months

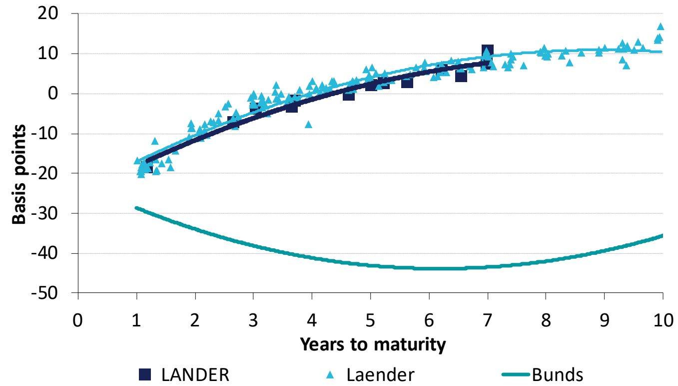


Source: Bloomberg, NORD/LB Floor Research

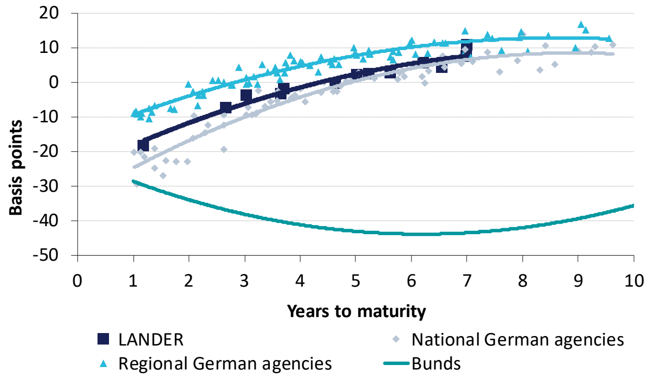
Outstanding volumes

In total, the Joint Laender issuance vehicle (ticker: LANDER) accounts for an outstanding volume of EUR 18.0bn split between 17 bonds, making it an important player within the German Laender bond market. The outstanding volume is fully EUR-denominated and features a fixed coupon. Other instruments such as Schuldscheindarlehen (SSD) are not jointly issued. Having issued a Laender jumbo in the form of a floating rate note (FRN; floater) in 2008, the Joint Laender has subsequently refrained from using this instrument for joint refinancing. Here, too, the coupon was at times in region of between 0.0% and 0.01%. The first year in which a zero preceded the decimal point was 2015. There have now been 64 separate bond deals issued by the Joint Laender (cf. Weekly publication from 07 February); this most recent deal is simultaneously the longest-dated outstanding bond and is set to fall due in February 2031, while the largest bond (No. 47) comprises a volume of EUR 1.5bn. A look at the maturity structure shows that further new issues are likely this year, since three bonds are set to mature in 2024 (No. 52 in March; No. 45 in May and No. 46 in September). This does not necessarily mean that there will be the same number of new issues. Firstly, according to a ruling by the Federal Constitutional Court of 15 November 2023, Laender borrowing is still under review and secondly, we currently lack an essential part of the puzzle with figures on credit authorisations. Nevertheless, we are firmly convinced that the LANDER ticker will be seen on our screens again this year on at least one occasion.

ASW spreads vs. Laender & Bunds

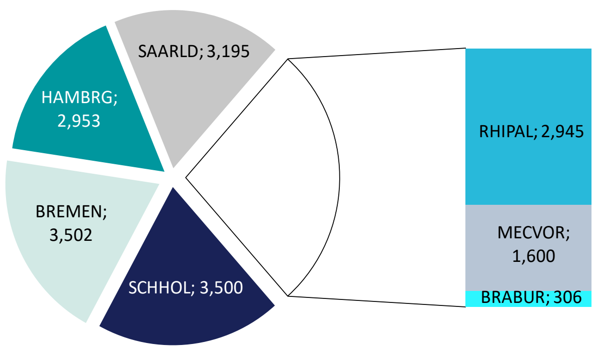


ASW spreads vs. German promotional banks & Bunds

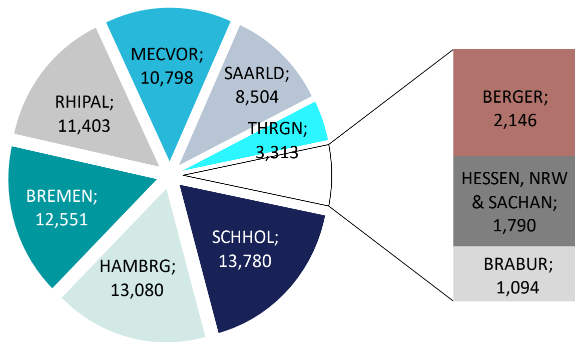


Source: Bloomberg, NORD/LB Floor Research

Laender share of current outstanding volume (EURm)



Cumulative share of total issuance volume since 1996 (EURm)



Source: Ministry of Finance of Rhineland-Palatinate, NORD/LB Floor Research

Strengths

+ Includes smaller issuers
+ More liquid bond volumes

Weaknesses

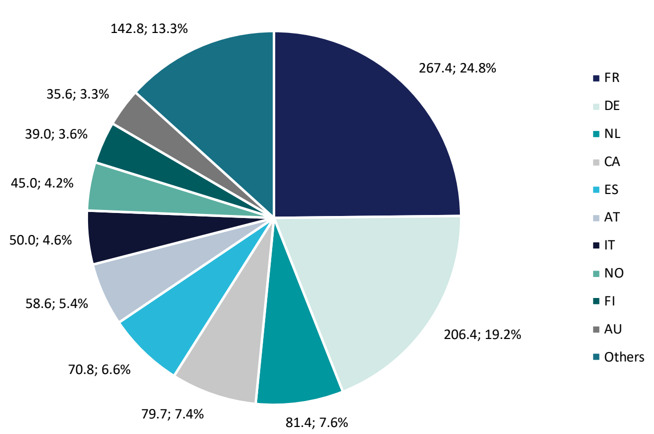
– Participants are primarily Laender with budgetary problems, high-level dependency on the federal financial equalisation system and/or below-average economic output
– Complex structure
– Several (but not joint) liability

Conclusion

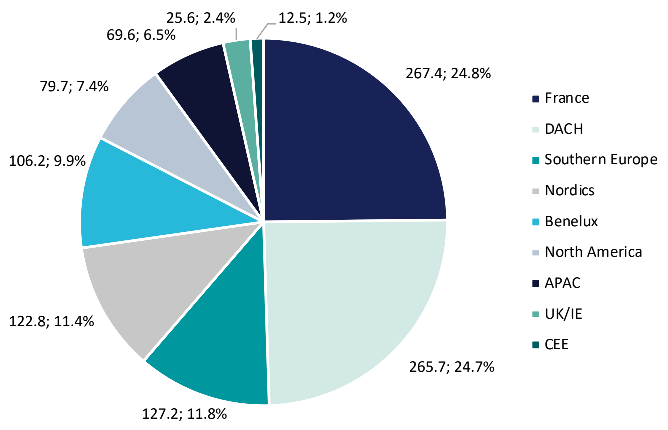
After the one and only BULABO bond matured on 15 July 2020, the Joint Laender has since constituted the most complex construct remaining in the German sub-sovereign market. With an outstanding volume of EUR 18.0bn in 17 bonds, the LANDER ticker is one of the most liquid in the market. There is no joint and several liability for these Laender jumbos, which is why this construct requires an explanation. However, this does not lead to any differences: all Laender jumbos are rated AAA by Fitch. As justification for the rating, Fitch cites the system comprising the principle of federal loyalty and the new system of federal financial equalisation payments, in which the rating agency generally sees an exceptionally low default risk. Looking at the maturity calendar and based on both historical context and our gut feeling, we believe that at least one other bond deal of this kind could well be in the offing for the rest of this year. As things stand at present, we do not yet have any firm information on credit authorisations for the Laender, since their borrowing is still under review as a result of the Federal Constitutional Court's ruling of 15 November 2023. However, recently, the Federal Ministry of Finance's provisional Federal Budget statement for 2023 published at the end of January suggested that, in spite of high inflation, tax revenue of the Bund, Laender and municipalities (excl. municipal taxes) only rose by 1.8% and was therefore well below expectations. As such, the Laender could well turn their attention towards the capital market for funding purposes. We consider this realistic, also regarding further Laender jumbo issues. In terms of pricing, the last deal (No. 64) with a volume of EUR 1bn (7y) was placed at the end of January at ms +12bp and attracted an order book of EUR 1.45bn.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



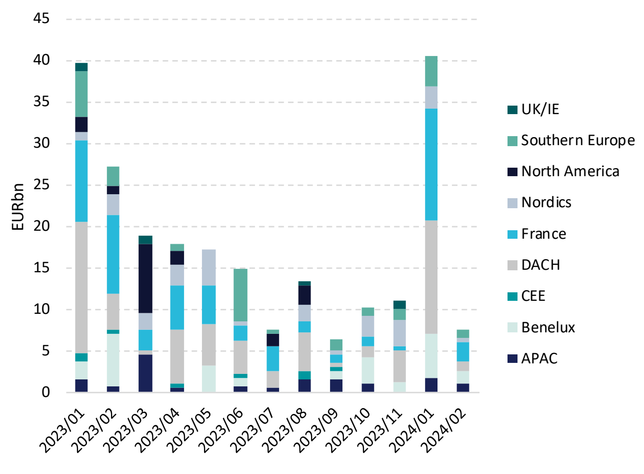
EUR benchmark volume by region (in EURbn)



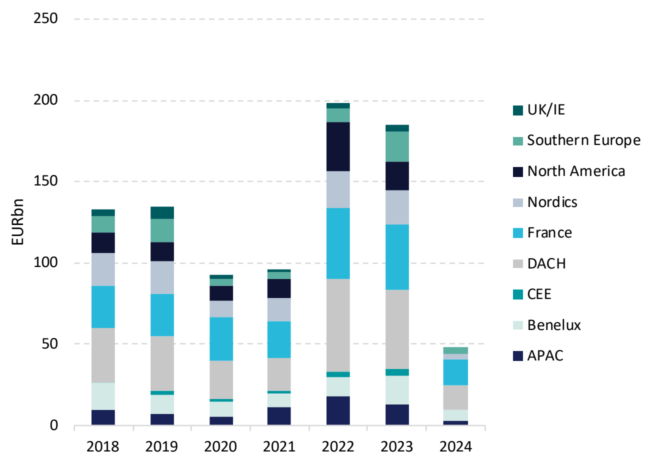
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	267.4	257	24	0.97	9.3	4.8	1.36
2	DE	206.4	294	39	0.65	7.8	4.1	1.33
3	NL	81.4	82	3	0.93	10.4	6.1	1.24
4	CA	79.7	59	0	1.33	5.5	2.7	1.17
5	ES	70.8	56	5	1.15	11.0	3.3	2.05
6	AT	58.6	99	5	0.58	8.1	4.5	1.45
7	IT	50.0	62	4	0.78	8.5	3.7	1.69
8	NO	45.0	55	12	0.82	7.4	3.6	0.83
9	FI	39.0	43	4	0.89	6.9	3.6	1.56
10	AU	35.6	34	0	1.05	7.2	3.3	1.60

EUR benchmark issue volume by month

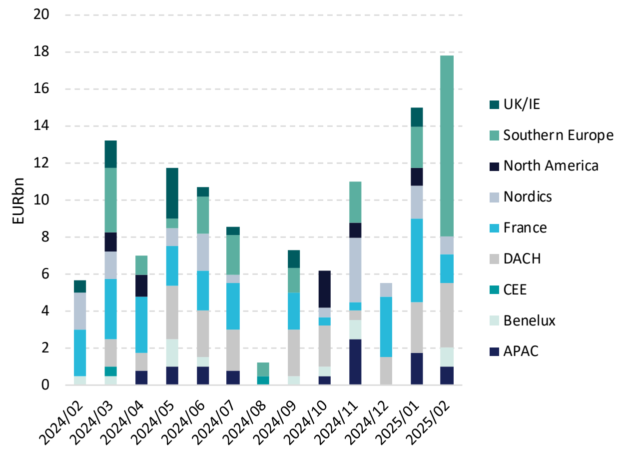


EUR benchmark issue volume by year

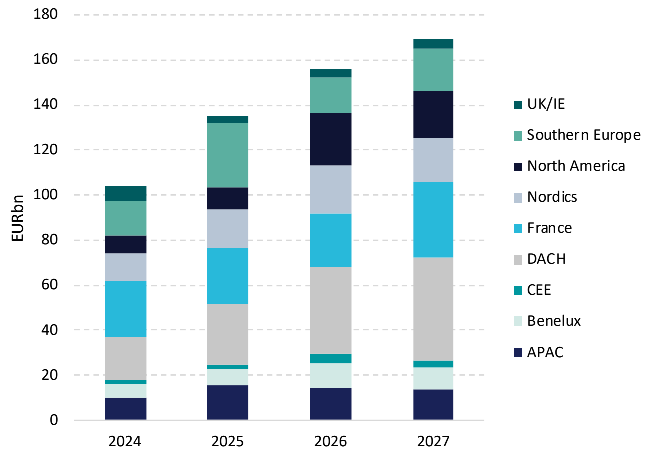


Source: market data, Bloomberg, NORD/LB Floor Research

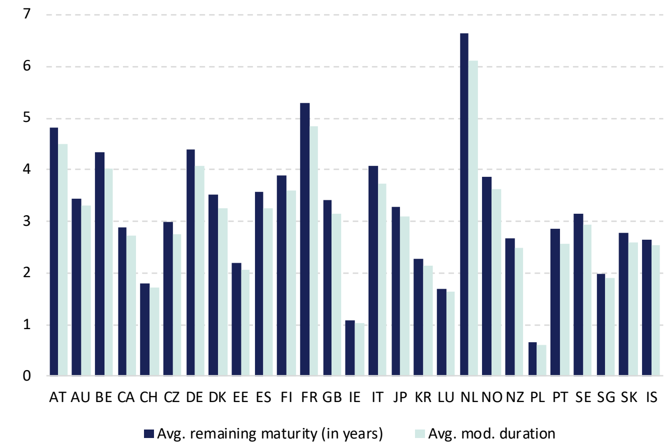
EUR benchmark maturities by month



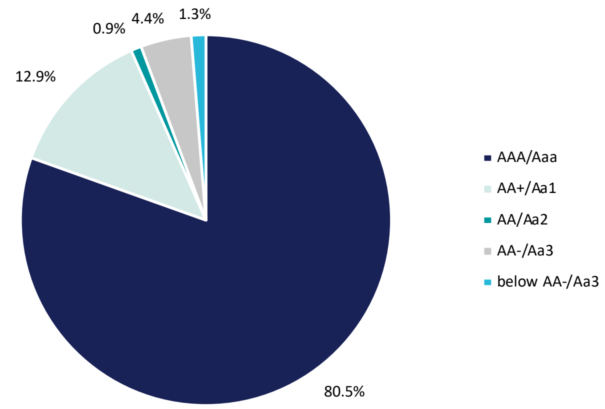
EUR benchmark maturities by year



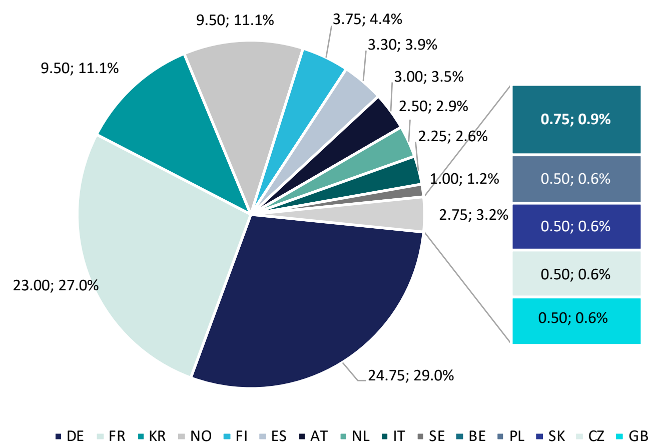
Modified duration and time to maturity by country



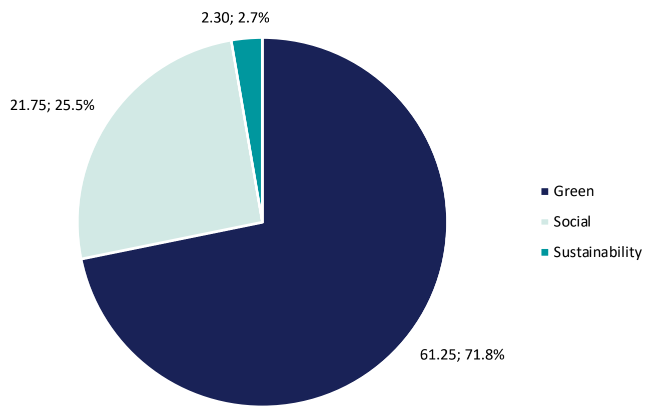
Rating distribution (volume weighted)



EUR benchmark volume (ESG) by country (in EURbn)

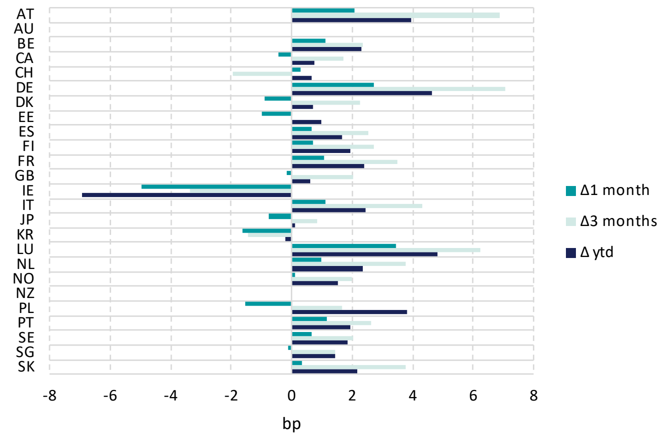


EUR benchmark volume (ESG) by type (in EURbn)

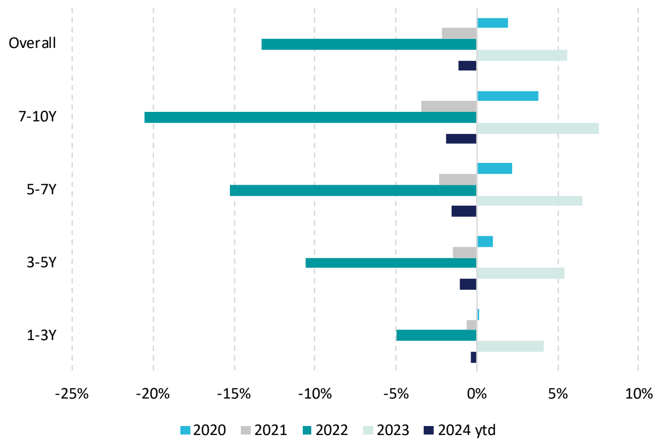


Source: market data, Bloomberg, NORD/LB Floor Research

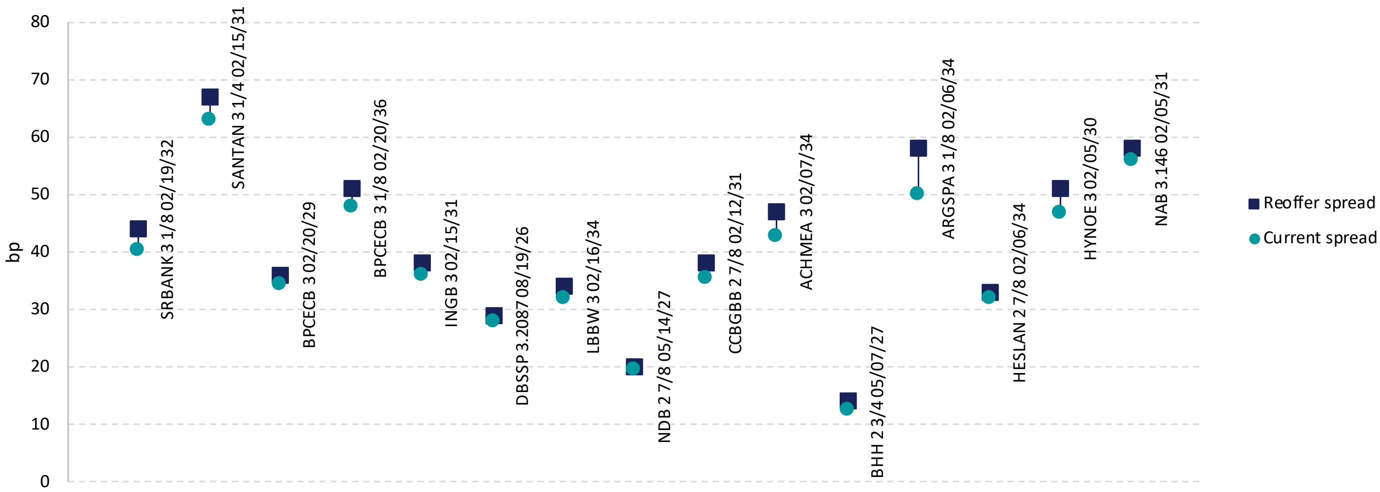
Spread development by country



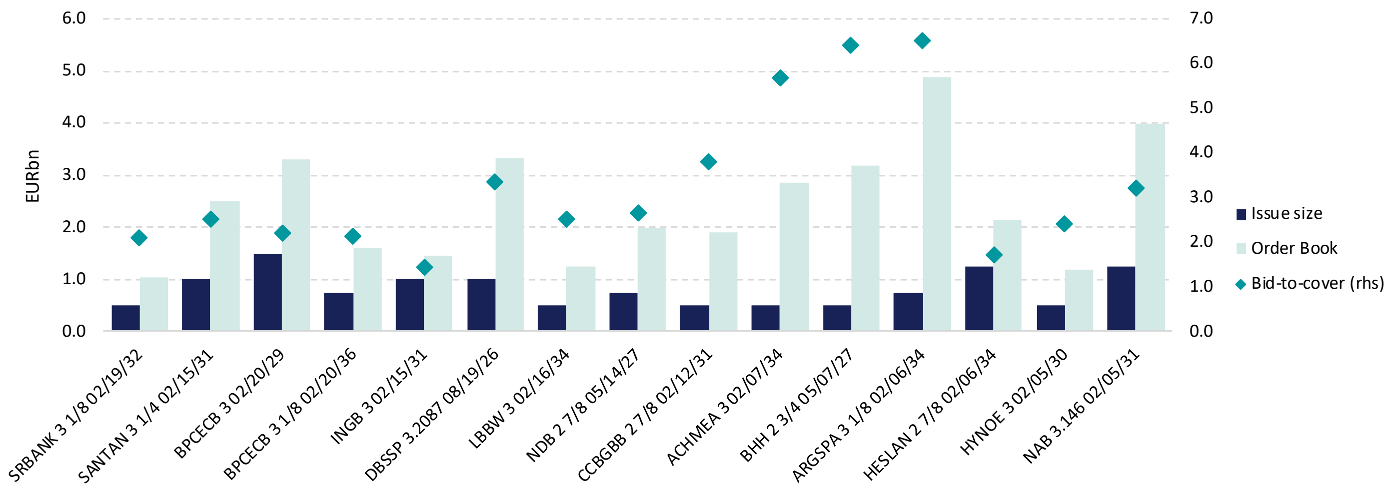
Covered bond performance (Total return)



Spread development (last 15 issues)



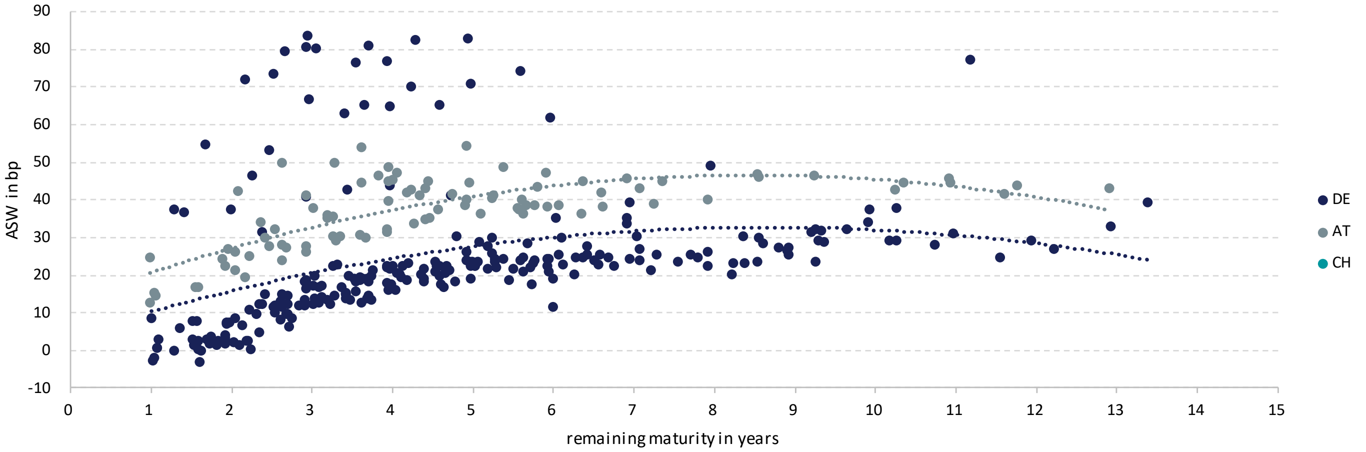
Order books (last 15 issues)



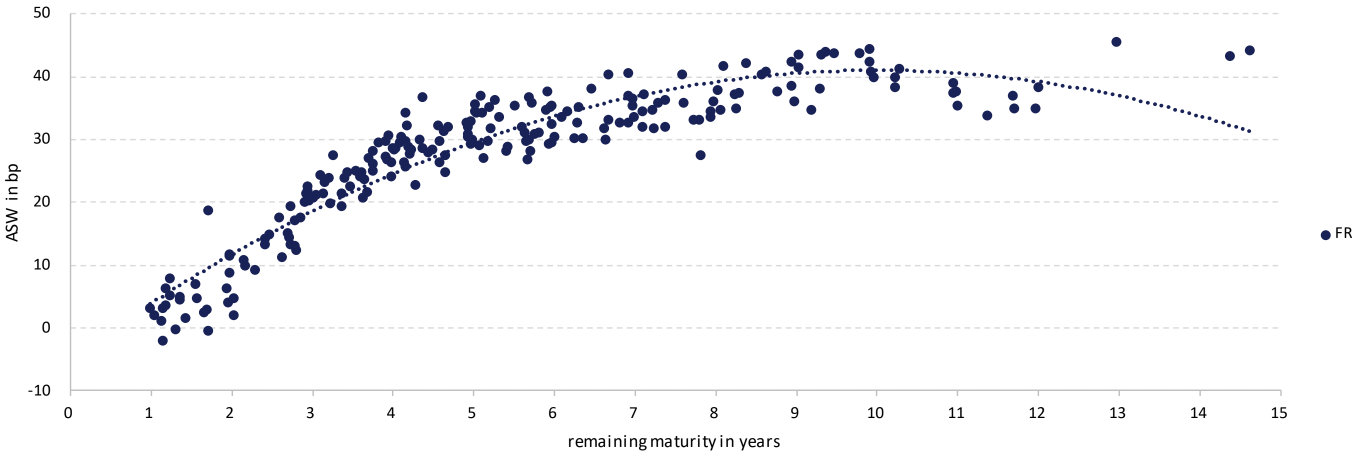
Source: market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

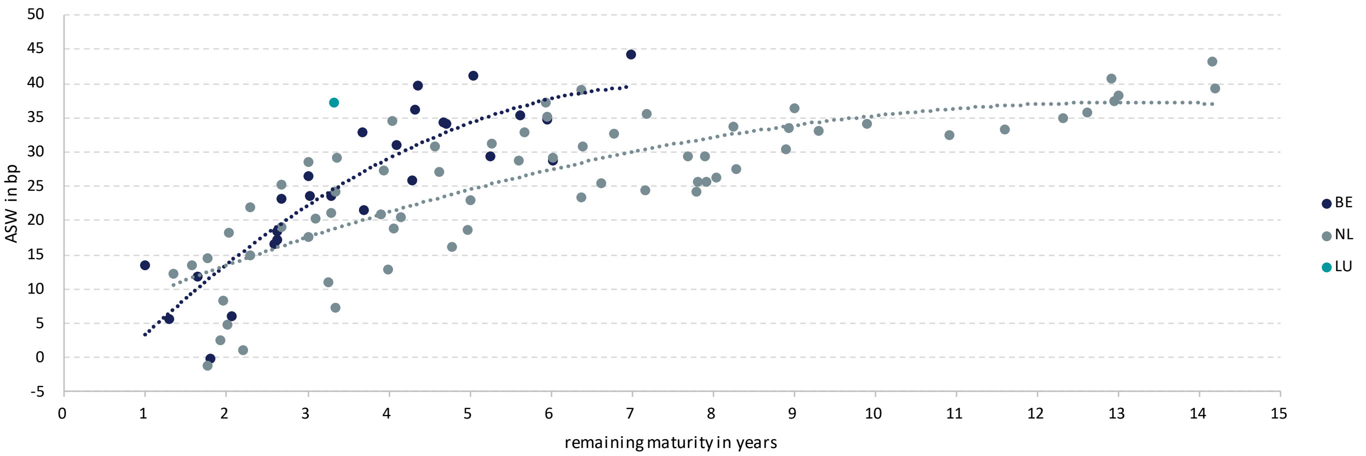
DACH



France

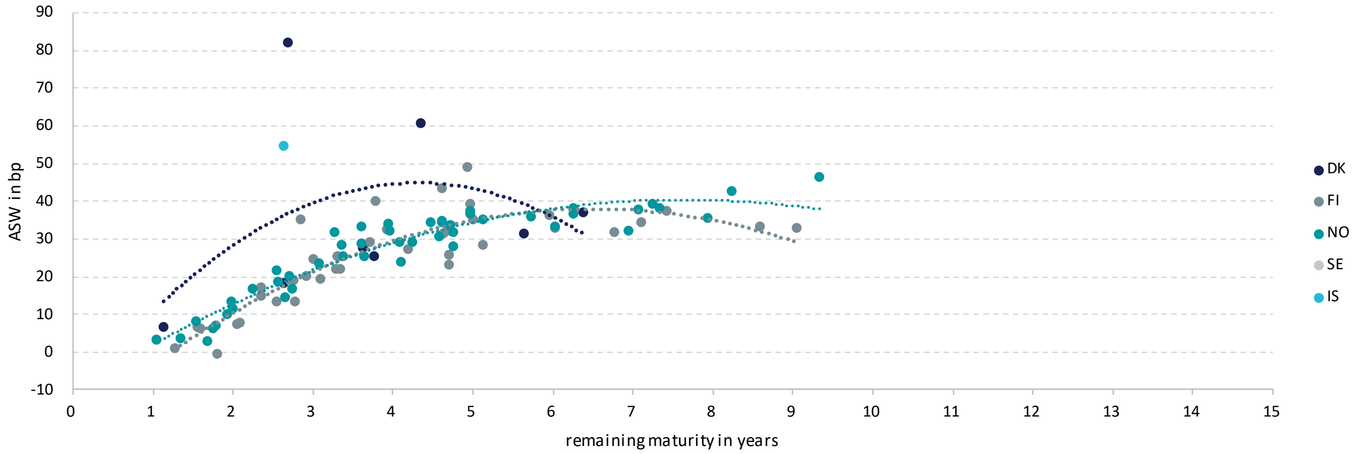


Benelux

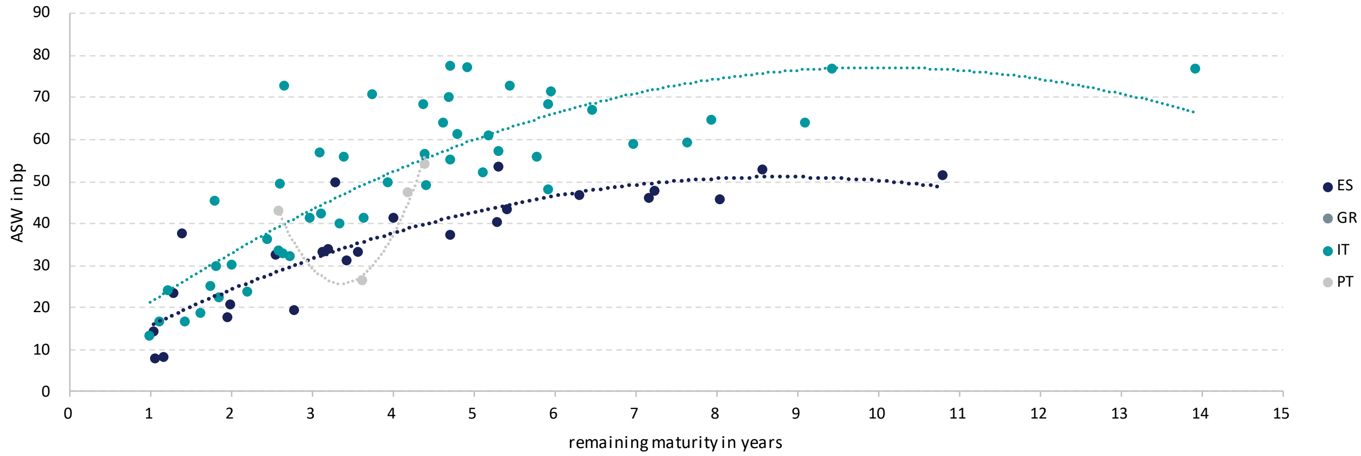


Source: market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

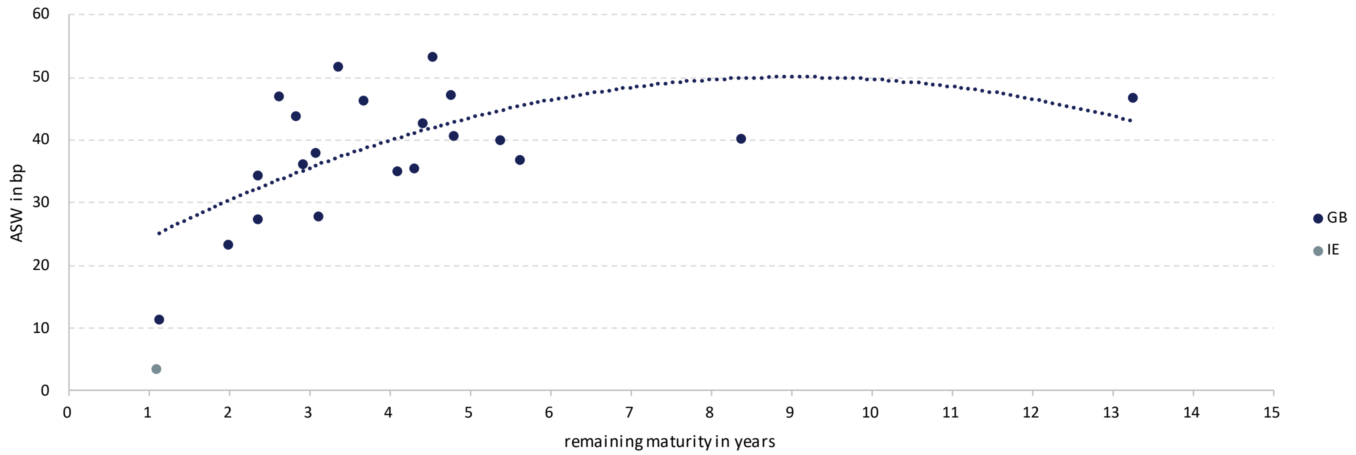
Nordics



Southern Europe

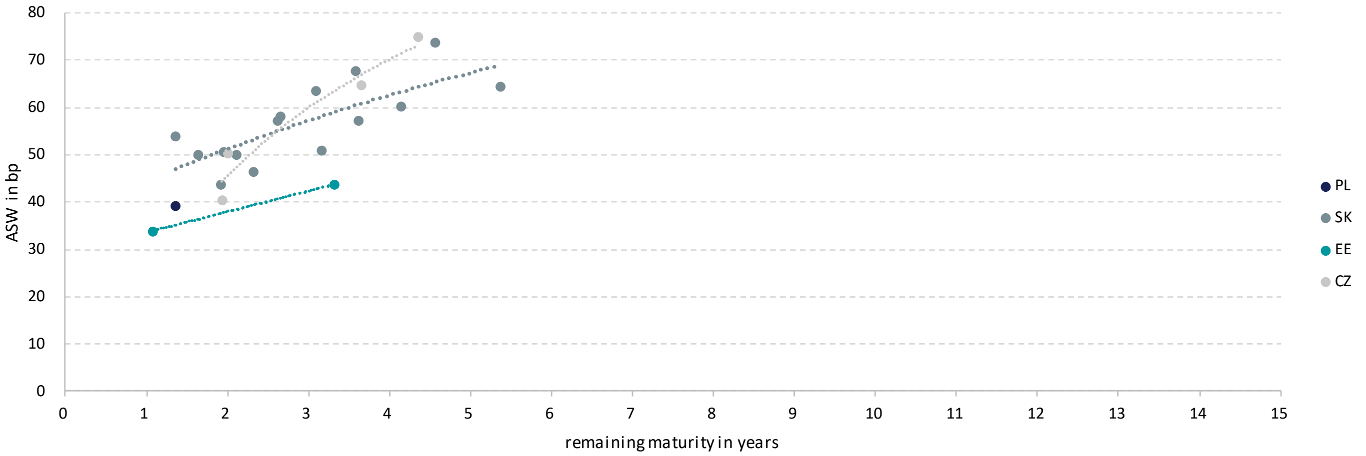


UK/IE

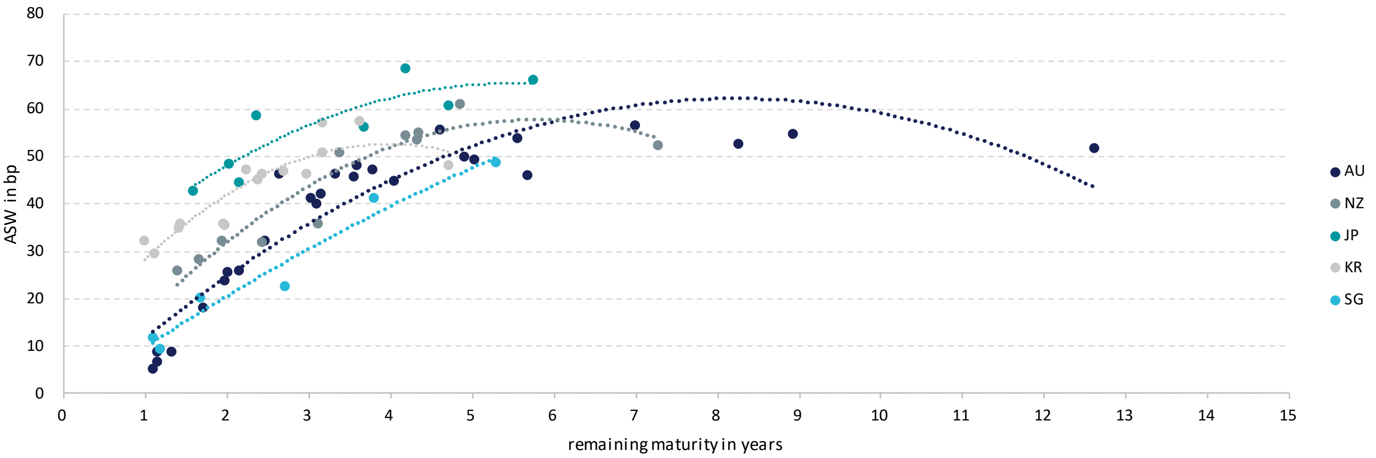


Source: market data, Bloomberg, NORD/LB Floor Research

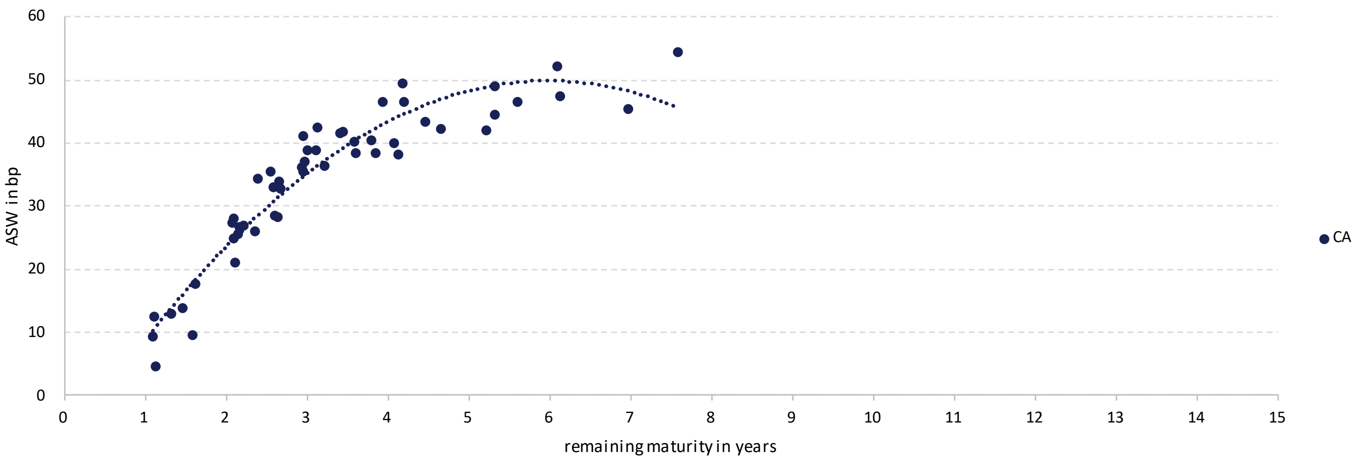
CEE



APAC



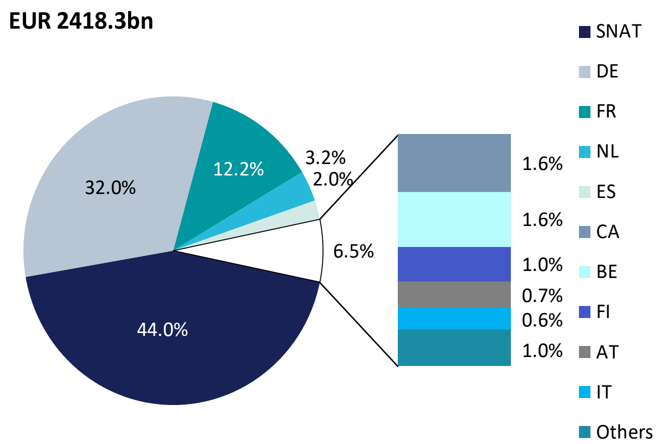
North America



Source: market data, Bloomberg, NORD/LB Floor Research

Charts & Figures
SSA/Public Issuers

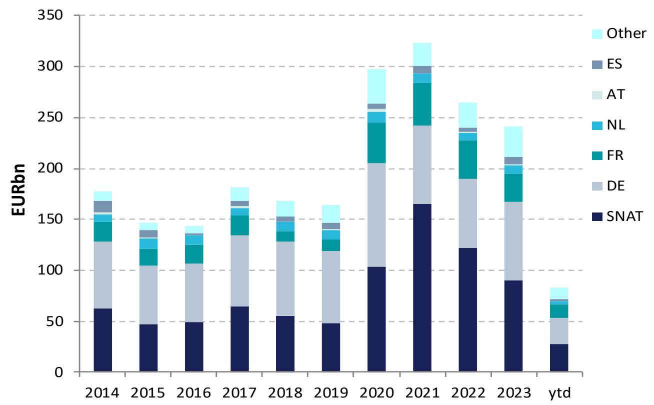
Outstanding volume (bmk)



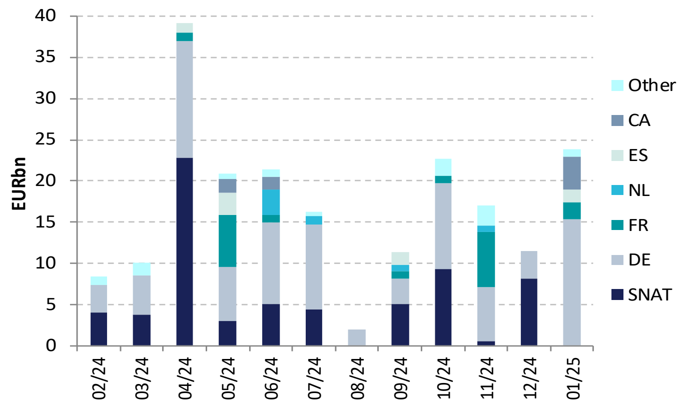
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1,064.3	231	4.6	8.0
DE	774.0	576	1.3	6.2
FR	295.2	198	1.5	6.0
NL	78.3	67	1.2	6.7
ES	48.6	66	0.7	4.6
CA	38.8	27	1.4	4.5
BE	37.8	41	0.9	10.6
FI	23.5	25	0.9	4.7
AT	17.8	22	0.8	4.3
IT	15.2	19	0.8	4.5

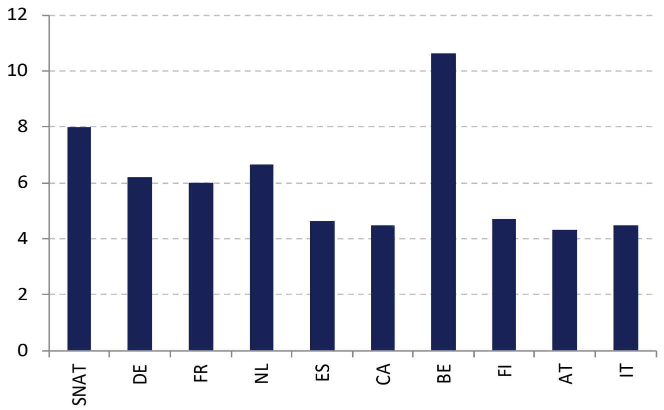
Issue volume by year (bmk)



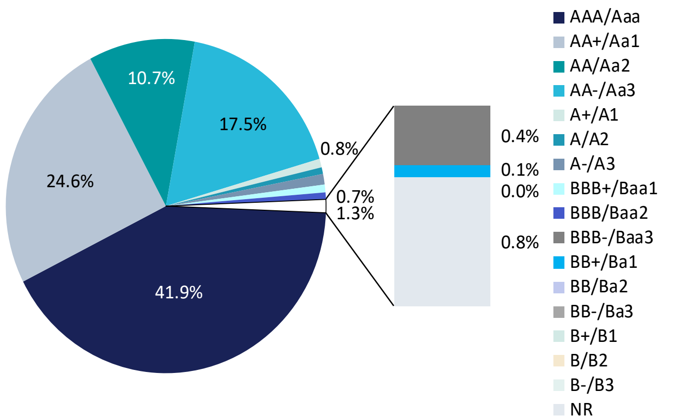
Maturities next 12 months (bmk)



Avg. mod. duration by country (vol. weighted)

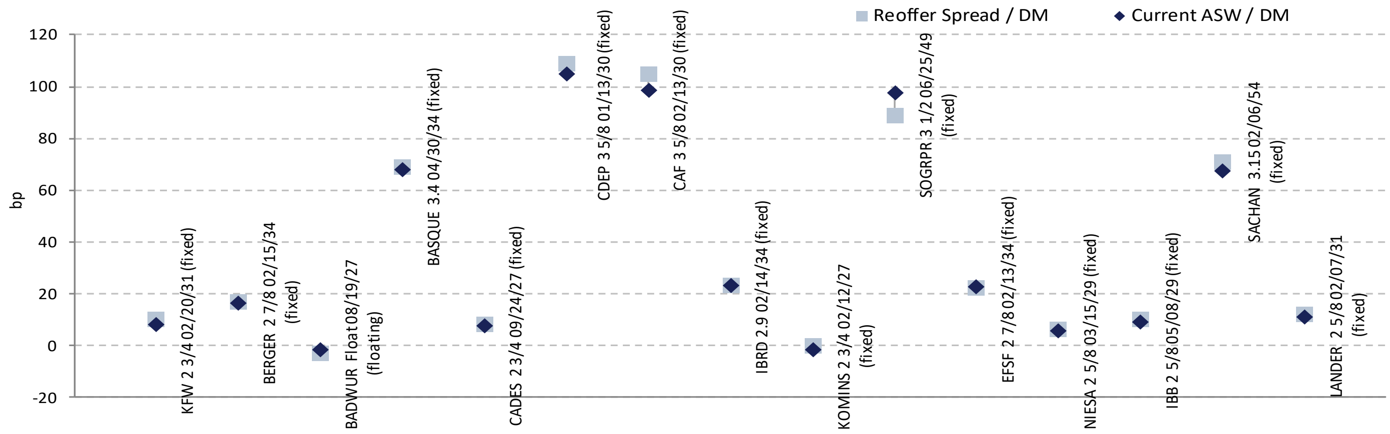


Rating distribution (vol. weighted)

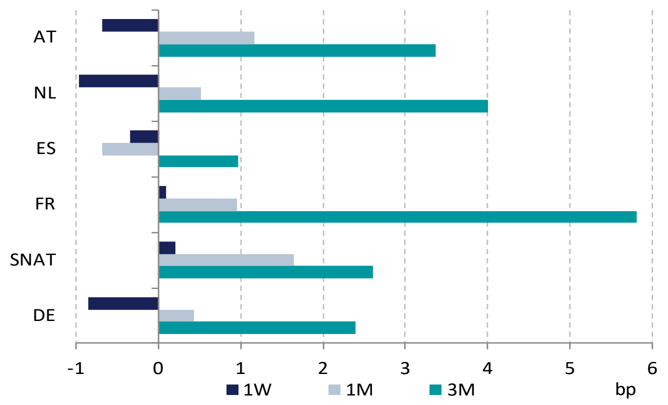


Source: Bloomberg, NORD/LB Floor Research

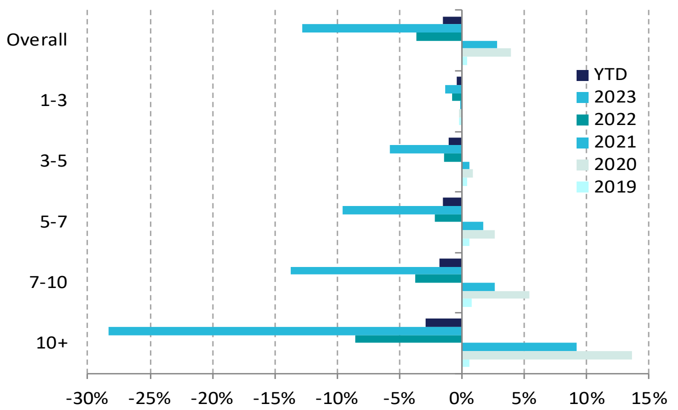
Spread development (last 15 issues)



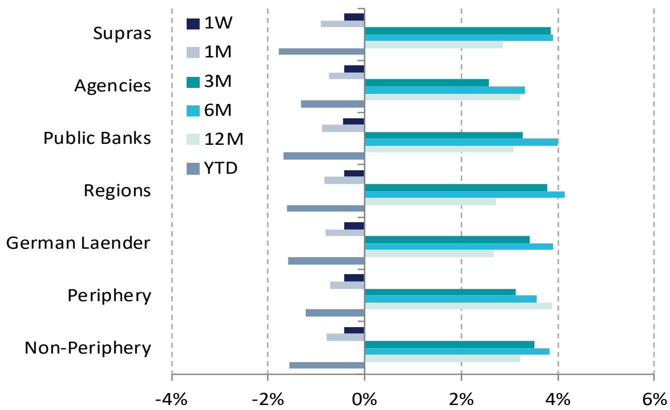
Spread development by country



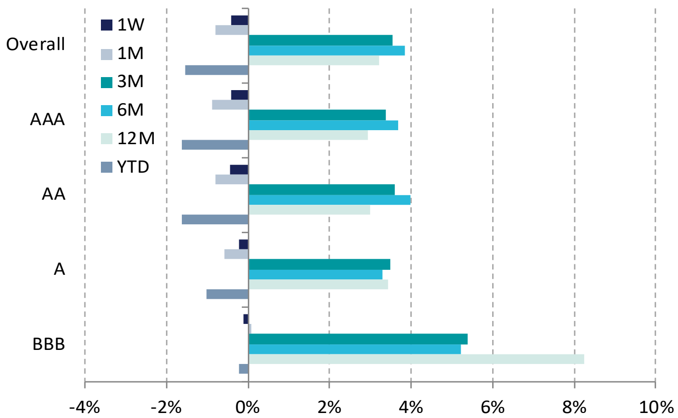
Performance (total return)



Performance (total return) by segments



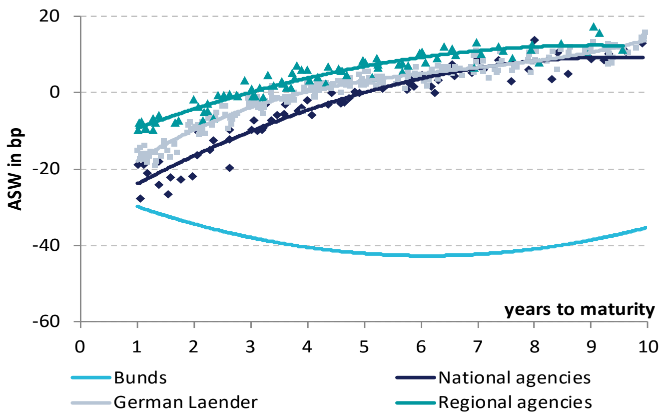
Performance (total return) by rating



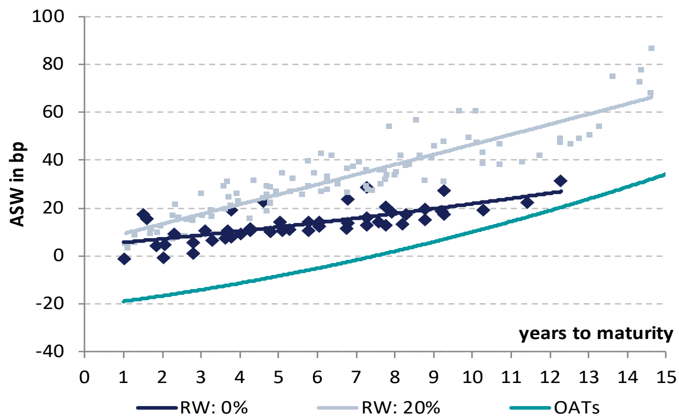
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

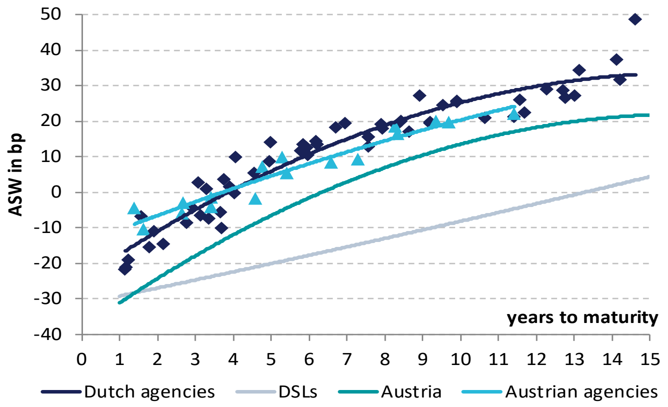
Germany (by segments)



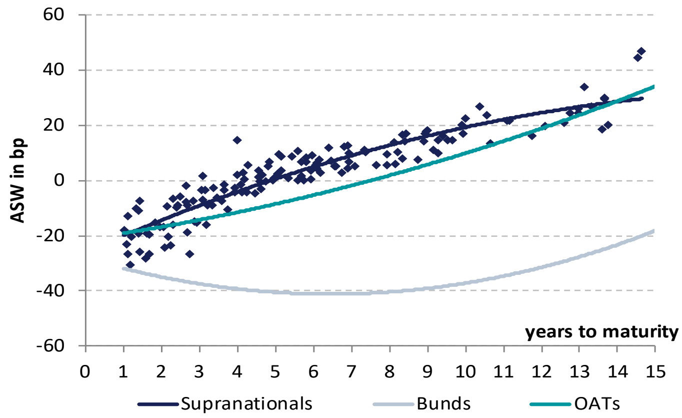
France (by risk weight)



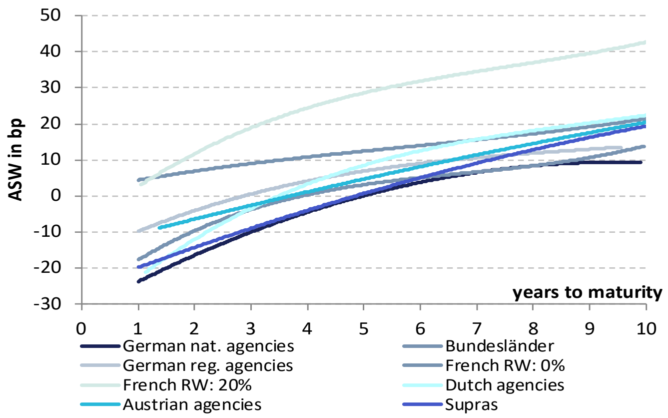
Netherlands & Austria



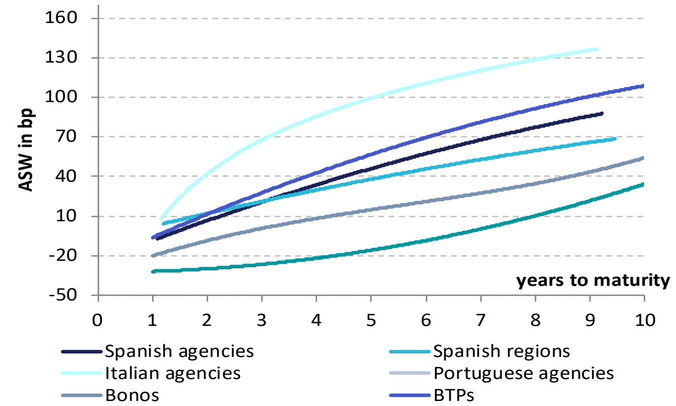
Supranationals



Core



Periphery



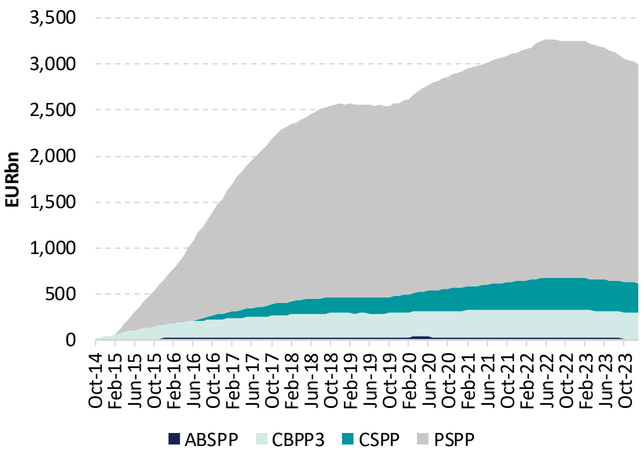
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

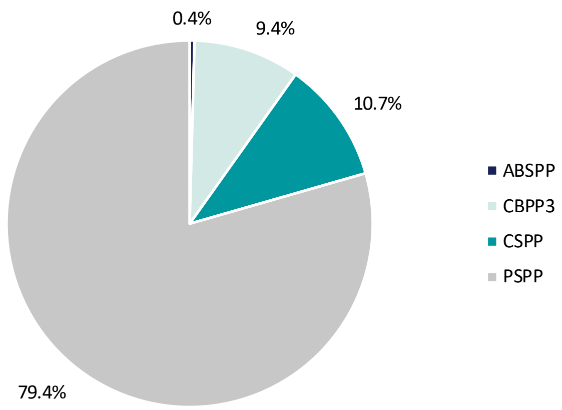
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Dec-23	13,348	285,620	323,921	2,403,035	3,025,924
Jan-24	12,896	281,510	320,763	2,377,495	2,992,664
Δ	-452	-4,109	-3,159	-25,539	-33,259

Portfolio development

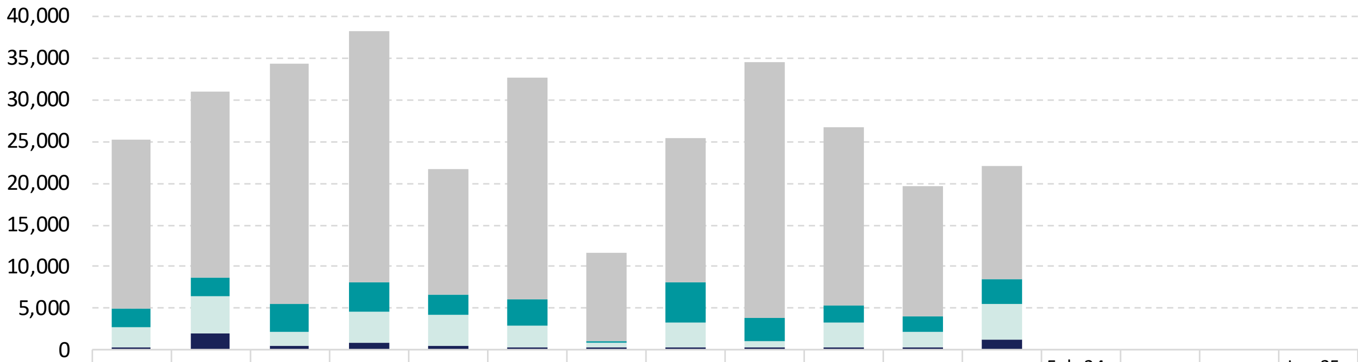


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

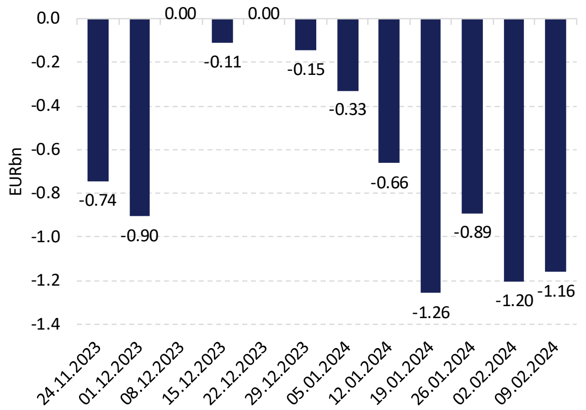


	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-24 - Jan-25	2023	2024	Jan-25 - Jan-25
APP	25,254	31,039	34,262	38,283	21,632	32,721	11,589	25,493	34,447	26,697	19,618	22,056	323,091	331,565	334,221	334,221
PSPP	20,372	22,413	28,712	30,194	14,974	26,620	10,533	17,416	30,578	21,298	15,557	13,463	252,130	255,025	264,191	264,191
CSPP	2,075	2,188	3,316	3,463	2,462	3,204	244	4,738	2,720	2,031	1,944	2,973	31,358	31,251	31,486	31,486
CBPP3	2,449	4,434	1,814	3,836	3,777	2,558	541	2,993	736	3,136	1,790	4,335	32,399	35,147	32,173	32,173
ABSPP	358	2,004	420	790	419	339	271	346	413	232	327	1,285	7,204	10,142	6,371	6,371

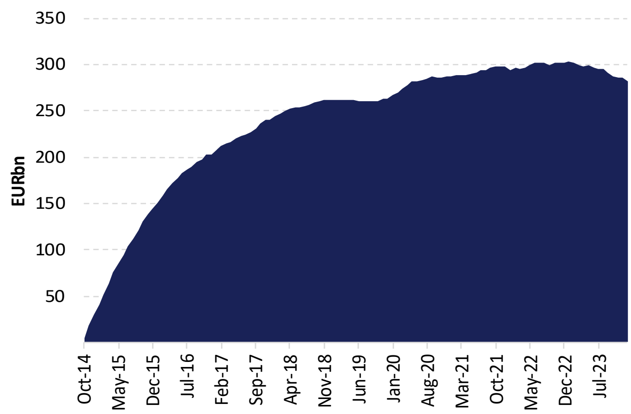
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

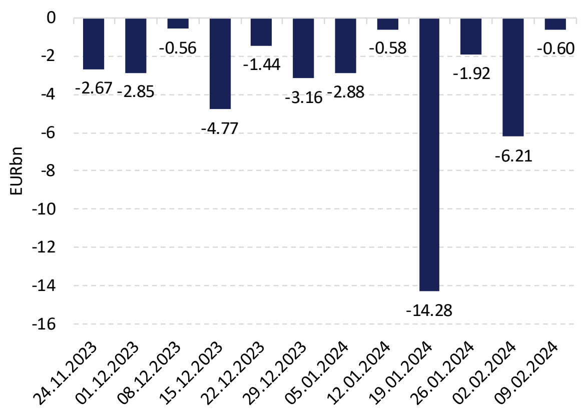


Development of CBPP3 volume

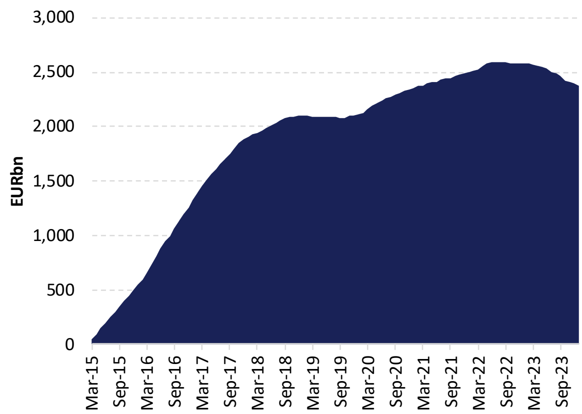


Public Sector Purchase Programme (PSPP)

Weekly purchases



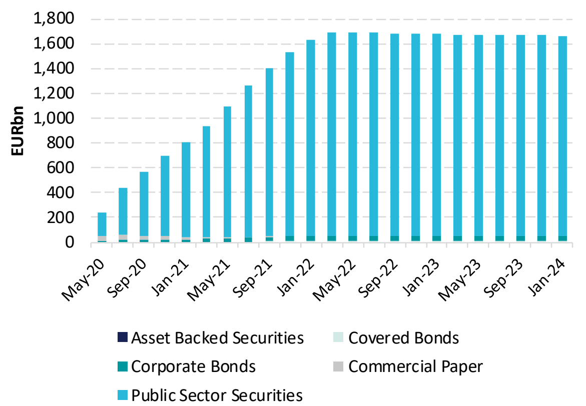
Development of PSPP volume



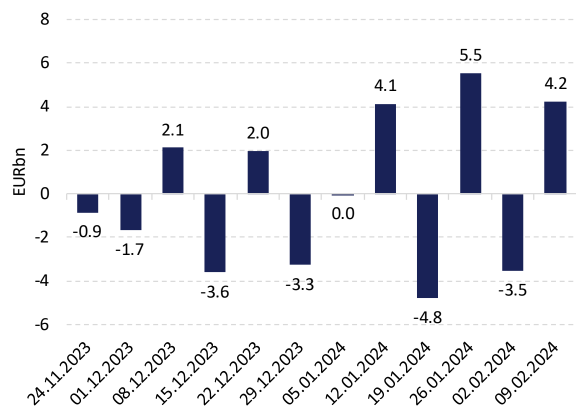
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
05/2024 ♦ 07 February	▪ January 2024: Record start to the new covered bond year ▪ SSA January recap: issuance volume at record level
04/2024 ♦ 31 January	▪ The Pfandbrief market at the start of 2024: caution thrown to the wind ▪ Teaser: Issuer Guide - Other European Agencies 2024
03/2024 ♦ 24 January	▪ The "V" in the LTV calculation: Differing approaches persist despite EU Directive ▪ 28th meeting of the Stability Council (December 2023)
02/2024 ♦ 17 January	▪ Pfandbrief market: potential newcomer Evangelische Bank ▪ Review: EUR-ESG benchmarks 2023 in the SSA segment
01/2024 ♦ 10 January	▪ ECB: Annual review of 2023 – no end to high rates? ▪ Covered Bonds: Annual review of 2023 ▪ SSA: Annual review of 2023
37/2023 ♦ 13 December	▪ Our view of the covered bond market heading into 2024 ▪ SSA outlook 2024: ECB, NGEU and the debt brake in Germany
36/2023 ♦ 06 December	▪ The covered bond universe of Moodys: an overview ▪ Teaser: Issuer Guide – Nordic Agencies 2023
35/2023 ♦ 29 November	▪ ESG covered bonds: a look at the supply side ▪ Current risk weight of supranationals & agencies
34/2023 ♦ 22 November	▪ Transparency requirements §28 PfandBG Q3/2023 ▪ Teaser: Issuer Guide – German Agencies 2023
33/2023 ♦ 15 November	▪ Development of the German property market ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
32/2023 ♦ 08 November	▪ Norway: creation of SpareBank 1 Sor-Norge ▪ ECB: PEPP versus TPI – or: (re)investing where others like to go on holiday
31/2023 ♦ 25 October	▪ Banks in Europe: the EBA Risk Dashboard in Q2 2023 ▪ Teaser: Issuer Guide – Spanish Agencies 2023
30/2023 ♦ 18 October	▪ Focus on covered bond jurisdictions: Canada in the spotlight ▪ A closer look at Newfoundland and Labrador
29/2023 ♦ 11 October	▪ A covered bond view of Belgium ▪ Funding of Canadian provinces – an overview
28/2023 ♦ 27 September	▪ The covered bond universe of Moody's: an overview ▪ Update on DEUSTD – Joint German cities (bond No. 1)
27/2023 ♦ 20 September	▪ Newcomer to the EUR benchmark segment: Bendigo and Adelaide Bank set to expand issuer base in Australia ▪ Teaser: Issuer Guide – Austrian Agencies 2023
26/2023 ♦ 13 September	▪ ECBC publishes annual statistics for 2022 ▪ Teaser: Issuer Guide – Dutch Agencies 2023

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuers Research

Bloomberg:
RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

- **Issuer Guide Covered Bonds 2023**
- **Covered Bond Laws**
- **Covered Bond Directive: Impact on risk weights and LCR levels**
- **Risk weights and LCR levels of covered bonds** (updated semi-annually)
- **Transparency requirements §28 PfandBG Q3/2023** (quarterly update)
- **Covered bonds as eligible collateral for central banks**

SSA/Public Issuers:

- **Issuer Guide – German Laender 2023**
- **Issuer Guide – German Agencies 2023**
- **Issuer Guide – European Supranationals 2023**
- **Issuer Guide – French Agencies 2023**
- **Issuer Guide – Dutch Agencies 2023**
- **Beyond Bundeslaender: Belgium**
- **Beyond Bundeslaender: Greater Paris (IDF/VDP)**
- **Beyond Bundeslaender: Spanish regions**

Fixed Income Specials:

- **ESG-Update 2023**
- **ECB decision: Council versus market**
- **ECB preview: New year, new luck?!**
- **ECB: Scarf, dry cough and with less liquidity unwell into 2024**

Appendix
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Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
Frequent Issuers	+49 511 9818-9640

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Origination Corporates	+49 511 361-2911

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Time of going to press: 14 February 2024 (08:46)