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CORONA: The hour of the proptechs has come

The Corona crisis has also accelerated digitization in the real estate industry. Solutions from proptechs, previously seen as pure gimmicks, are now being viewed from a different angle. One example are proptechs like KIWI, which offers a digital locking system that allows all doors in the house to be opened with a smartphone or a transponder. These systems are becoming more attractive compared to earlier fingerprinted systems because contactless opening of doors fits better with a corona hygiene concept.

Greater awareness of digitalization

Digitalization has definitely arrived in the real estate industry. This is also the result of a survey conducted by data room provider Drooms from September 15 to 30, in which 538 companies participated. According to the survey, more than half of the participants believe that digitalization has had a strong impact on the commercial real estate markets in Europe over the past six months. The respondents also believe that the German real estate world has been affected by digitalization to an above-average extent compared with other countries.

COVID-19 has thus created awareness of the importance of digitalization. This currently makes it easier for proptechs to sell their products. Nevertheless, the potential for digitalization is still very high. Only 1% of the respondents stated that they had already completely digitized all processes, while 27% have shifted at least three-quarters of their business processes and 37% at least half of them to the digital sphere. The digital transformation is often still in its infancy.

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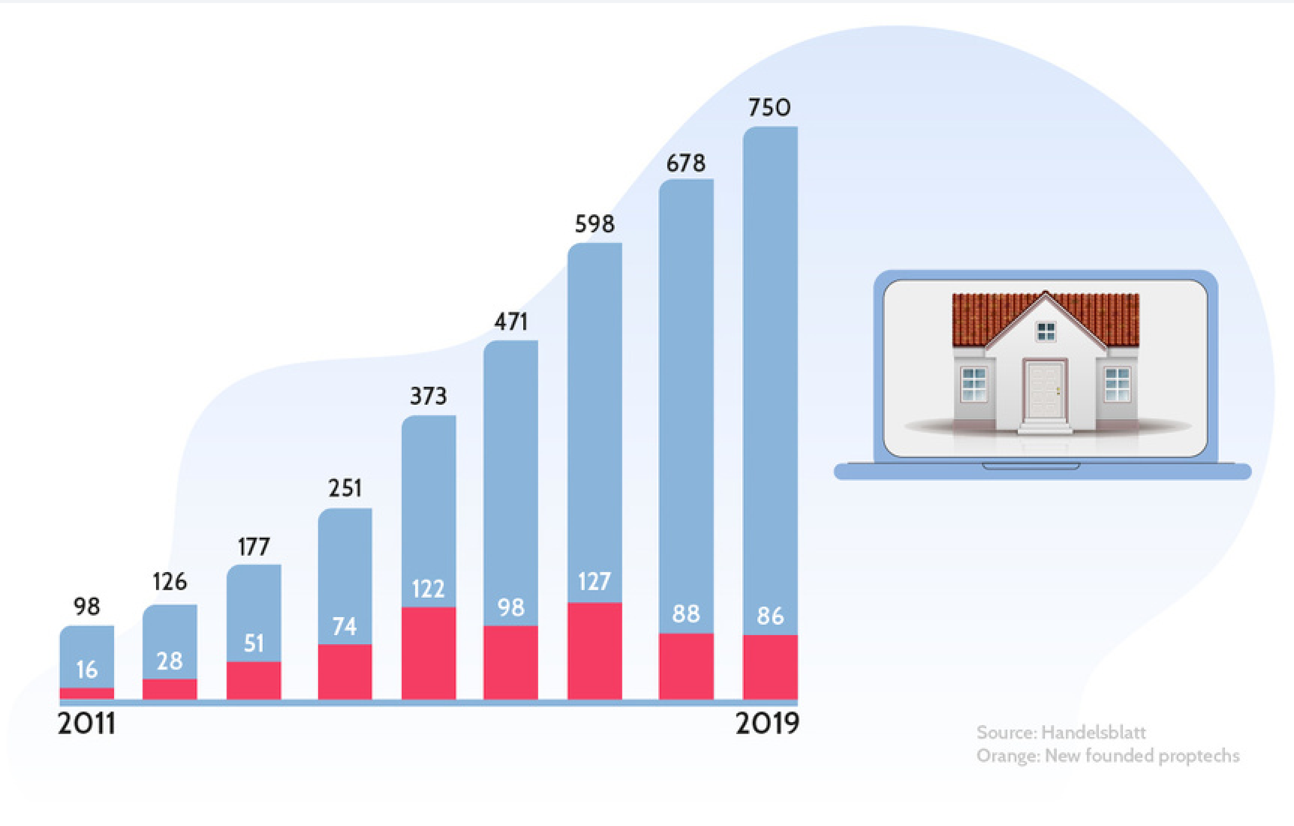
Proptechs continue to boom

The number of proptechs in Germany has grown exponentially in recent years. In 2011 there were 98, by the end of 2019 there were already 750, so the number has increased more than sixfold in the nine years. This was recently reported by the leading German business newspaper Handelsblatt. The growth will continue. The current crisis could even act as a kind of catalyst. Investors currently have the opportunity to enter this segment at attractive conditions. The hour of the proptechs has definitely come, it is only a question of time.

Numbers of Proptechs in Germany has increased by 661% since 2011



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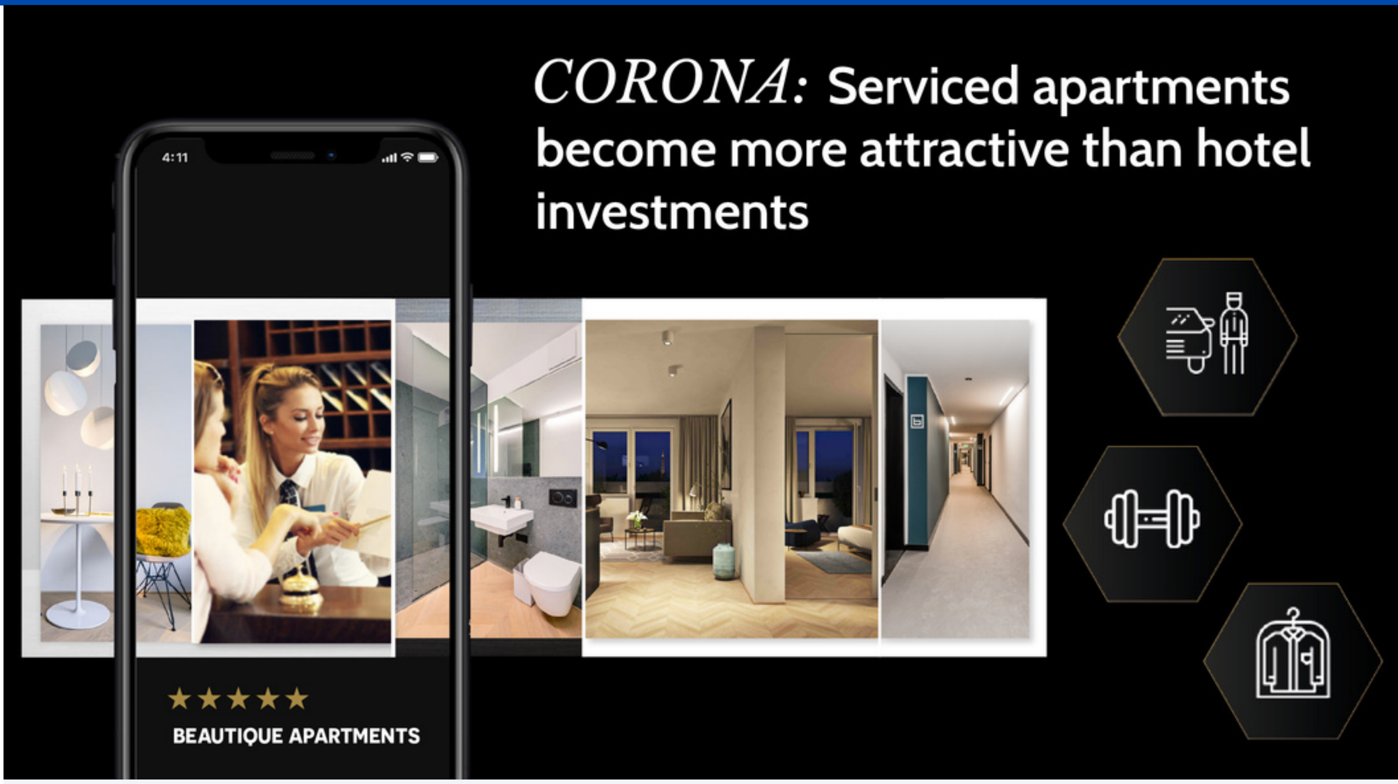

The hotel industry has already suffered greatly from the Corona pandemic and its consequences in spring. The second lockdown will also put hotels under heavy pressure. As so often in life, there are winners in the crisis as well as losers. Serviced apartments were able to continue operating even during the crisis and did not record any significant drop in income that would have been triggered by COVID-19.

This shows that serviced apartments have more in common with the residential asset class than with hotels that are commercial properties.

The decisive difference is the focus on long stay guests. Own kitchenettes, limited or no additional catering areas and a small number of apartments or rooms in the respective buildings contribute to the fact that the distance regulations can be kept without any problems even on vacation or business trips.

The hybrid between residential and hotel thus offers not only more security for guests, but also for its employees. Even before COVID-19, apartments have gained in popularity, especially for business travelers they offer a welcome change to the standard hotel room.

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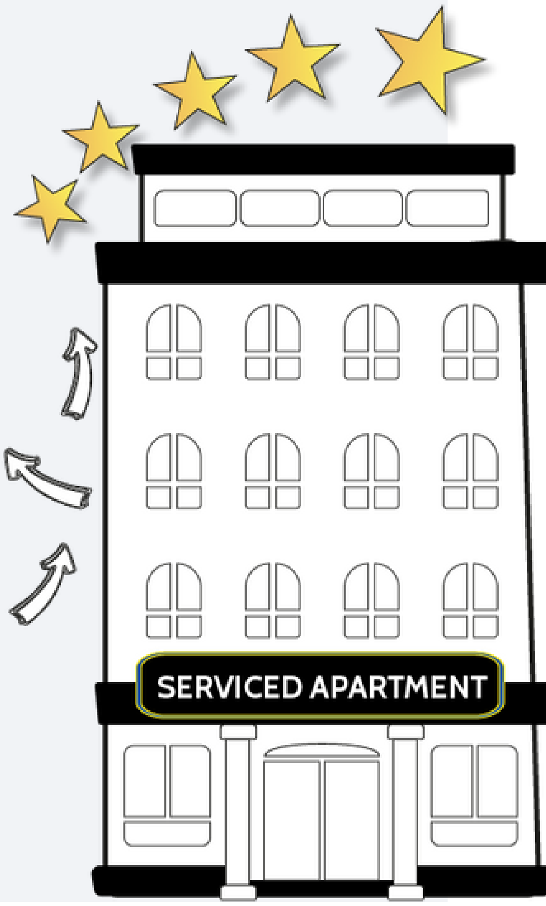
Offer for investors increases

Serviced apartments are therefore currently becoming even more attractive for investors than before the crisis. In the past, the shortage of supply on the market in particular made it a challenge for investors to find suitable properties. In addition, the number of operators, especially those with a larger track record, is still quite manageable. However, this could change in the future as project development activity in this segment remains high.

The second lockdown at the latest will trigger a rethink among some hotel operators. It can be assumed that attempts will be made to convert hotels into long-stay products. This should please many investors. Even if this is likely to increase competition in the long-stay segment, the apartments with their above-average occupancy rates, comparatively low operating costs and good long-term fundamental data represent an attractive investment.



Increasingly popular with users

Serviced apartments are becoming increasingly popular not only among investors. Also the users appreciate the advantages compared to the classic hotel. Above all, guests appreciate the generous space and individual freedom that the apartments offer. AirBnB is the best proof that rentable apartments enjoy a very high demand. Although this is not entirely new, it has regained attention due to travel and contact restrictions and the cancellation of typical foreign travel.

The first lockdown and the restrictions of the following months already caused the number of tourists in Germany, Austria and Switzerland to increase significantly. The second lockdown will further strengthen the trend towards domestic vacations and thus the importance of serviced apartments will also increase.

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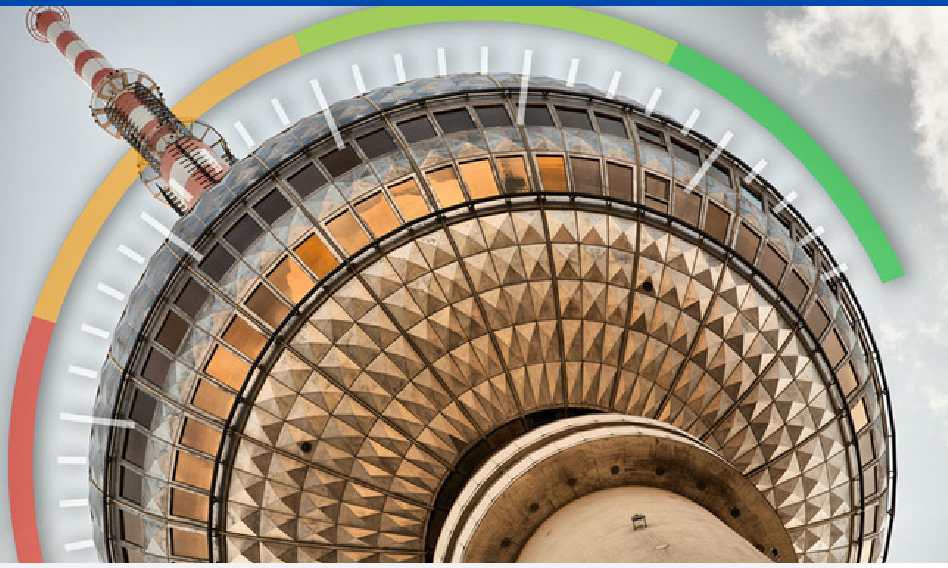
HOUSING MARKET BAROMETER OF THE IBB:

No relaxation on the Berlin housing market



The Berlin housing market will remain very tense in the coming years. This is the result of the current housing market barometer of the Investitionsbank Berlin (IBB), for which around 200 experts were surveyed. The survey included representatives of cooperatives, housing companies, politicians at senate and district level, market researchers and property management companies, landowners and tenant representatives.

Scarce building land, resistance to new building projects and the insufficient number of large apartments are among the three biggest problems on the Berlin rental housing market. The experts also see problems in the low income of people looking for housing, rents that do not cover costs, and the lack of financing for modernization and renovation through marketable rents. In contrast to the surveys in previous years, rising net cold rents and too little construction activity currently play only a minor role.

Rental housing scarce almost everywhere

Rented apartments in the low and middle segment are and remain extremely scarce, the study says. 7 to 10 euro per m² expensive dwellings are particularly in demand in the districts Friedrichshain-Kreuzberg, Steglitz-Zehlendorf, Spandau, Reinickendorf and Pankow. The demand clearly exceeds the supply. The prefabricated housing district in the east of the German capital is the only district where supply and demand are keeping pace to some extent. The demand for quarters cheaper than 7 euros per m² was higher than supply everywhere in the city - including Marzahn-Hellersdorf.

The market situation for home ownership also showed supply deficits, but at a lower level than in the rental sector. According to the IBB housing market barometer, there are initial signs of a slight improvement in some sub-sectors over the next three years. The situation in the mid-range segment could improve somewhat.

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Corona slows down supply

The deterioration of the investment climate in new and existing buildings continued in 2020 and must be seen above all in connection with the rent cap (Mietendeckel) and the corona crisis, says Jürgen Allerkamp, Chairman of the Board of Management of IBB. As a result of the cap and the pandemic, IBB is registering bottlenecks in construction capacities, especially in building applications and building permits. According to Allerkamp, these bottlenecks will increase further in the next two years. Real estate investments would rather decline.

BERLIN: 60% fewer rent-cover apartments on offer

The rent cap (Mietendeckel) further exacerbates the tense situation on the Berlin housing market. A study by the real estate portal ImmoScout24 has now shown that the demand for apartments that fall under the Berlin rent cap has risen sharply within a year. At the same time, the supply has fallen drastically.

The period under investigation was the period from September 2019 to September 2020, and it was found that the number of rental apartments advertised fell by 41.5% during this period. According to ImmoScout24, this effect is almost entirely caused by existing apartments that were completed before 2014: The supply in this segment even decreased by almost 60%, while 6.7% more new apartments were advertised for rent.

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Difference to other metropolises

This development contrasts with that in the other six top cities in Germany: in Hamburg, Dusseldorf, Frankfurt am Main, Cologne, Munich and Stuttgart, ImmoScout24 has registered an increase in the supply of rental apartments over the same period. In these six cities together, the number of rental apartments has increased by a good third within a year. The supply of apartments completed before 2014 increased by 38.5%.

Demand last year 175% higher

The demand for existing apartments in Berlin, on the other hand, went up significantly, the analysis showed: The number of contact inquiries per advertisement has increased in the three-digit percentage range compared to the previous year - in September it was 175% higher than in the same month last year. The rent for apartments affected by the rent cap was 12.26 euros per m² in September - a 5% decrease compared to the same month last year.

More purchase offers for Berlin rent-cover apartments

It turns out that many private owners of apartments that fall under the rent cap sell their properties, most likely as soon as the current tenant moves out. As a result, the rental market loses many apartments. In total, the number of apartments advertised on ImmoScout24 for purchase rose by 13.2% from September 2019 to September 2020. The number of condominiums that fall under the rent cap even rose by 23%. The purchase prices offered for these existing apartments also rose by 5.8%, to 5,068 Euros per m² in September 2020.

The rent cap (Mietendeckel)

Since February 23 this year, the law on rent caps in the housing sector, known as rent cap in short, has been in force in Berlin. In preparation for this, the Berlin Senate has already frozen rents by state law as of June 18, 2019. This was intended to prevent a drastic increase in rents.

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Study shows:

Purchase price trend for condominiums continues to point upwards

The prices for condominiums continue to point in only one direction, namely upwards. The previous trend is also confirmed in the third quarter of 2020: the prices of condominiums as well as of one or two-family houses continue to rise.

According to an analysis by the research house empirica, the purchase prices for condominiums as well as for single and two-family houses have increased by 3.5% compared to the previous quarter. Rents (+1%) continue to rise at a slower rate than purchase prices. According to Immoscout24's analysis for the third quarter, the price growth for condominiums continues. The strongest increase compared to the second quarter is in the existing stock segment (2.4%) and not in new construction (1.4%).

Prices will continue to rise in the 4th quarter

The price increases varied in the major cities. According to empirica, the sharpest quarter-on-quarter price increases were seen in Frankfurt (7.1%) and Hamburg (6.8%). With growth of 3.9%, Cologne and Dusseldorf are at the same level. At 2.7%, Stuttgart is ahead of Munich (1.6%) and Berlin (1.2%). According to empirica, the upward trend will probably not change in the last quarter either.

Germans' buying mood unbroken

One driver is likely to be the fact that Germans are still in a buying mood. Many want to buy residential property despite the Corona crisis. This is shown by a Statista survey commissioned by mortgage broker Interhyp. 1000 people were surveyed online in December 2019 and at the end of July 2020.

Almost two thirds currently live in rented accommodation. Of these, 48% would like to buy a condominium or a house - the same number as in December, i.e. before the outbreak of the pandemic. 38% of the tenants surveyed are even planning to buy in the next five or ten years, while only 35% do not want to own a home.