

# Study: MICROLIVING IS THE HIT IN URBAN LOCATIONS



*Location is (almost) everything in Microliving. Compact forms of living in German inner cities are in demand, among young and old alike, as a report by the Cologne Institute for Economic Research (IW) shows. With the growing demand, purchase prices have risen everywhere, and so have rents in many places.*

Microliving has held its own in the corona crisis. Even if momentum is slowing slightly: Rents for the small apartments with one or one-and-a-half rooms rose by another 3.4% on average last year, and by 4.3% in 2019, notes the Cologne Institute for Economic Research (IW) in its "Compact Living Report."

The researchers examined 71 large cities (with more than 100,000 inhabitants) and their surrounding communities. Rent increases were observed for 70 cities (with the exception of Ingolstadt), with rents rising by more than one percent in 62 locations.

# Prices also growing faster than rents in the "Microliving" segment



Rents for compact apartments have risen faster than the 0.5 percent inflation rate in almost all cities. According to the IW report, rent dynamics still increased in 16 of 71 cities compared to the previous year's development: by 1.5 to 6.4 percentage points. In 32 locations, it remained relatively constant, with deviations ranging from minus 1.5 to plus 1.5 percentage points. And in 23 locations, it flattened out by 1.5 to 4.7 percentage points.

Purchase prices (excluding the influence of quality and location) rose much more sharply than rents in 2020: The IW calculated just under 10.5%. In 2019, the figure was 10.7%. Prices climbed in all the cities surveyed - the range of the rate of increase is wide, from 6% to 18%.

*The observed price increases among the 20 cities with the highest population were conspicuously high in Wuppertal (18%), Essen, Bonn, Mannheim (16% each) and Hannover (14%). A comparatively low but still significant increase of 6% was recorded in Berlin in the report.*



# Microliving is Particularly Popular in City Centers



According to the IW, compact forms of living are mainly offered in the "inner city area" (five minutes' drive to the city center) and in the "urban area close to the city center" (five to ten minutes' drive). In 2020, 45% of the advertised offers to buy were in or near the city center - the figure for offers to rent was 52%. Another 32% of the purchase offers and 28% of the rental offers are located in the wider city area.

In the city center area, purchase prices (by 13%) and rents (8%) increased the most, and in the city area close to the center by 9% (purchase prices) and 5% (rents), respectively.

**"The study confirms that our focus on microliving properties, like the Beautique project on Eisenbahnstraße, close to Kurfürstendamm is in strong demand,"**

**says Einar Skjerven, Managing Director of Skjerven Group.**

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According to the IW, the median rent for new apartments and for apartments in newer buildings in central locations is unsurprisingly highest in Munich in both sub-segments, at €31 and €32.20 per square meter respectively. It is striking that in Berlin in particular, rents in newer buildings in central locations are relatively expensive at 29.40 euros (rank 2) compared with new-build rents at 23 euros (rank 7). The comparable location of Hamburg is significantly cheaper at 23.20 euros (rank 7) and 18.50 euros (rank 14).



# STUDENT HOUSING SHOWS SURPRISINGLY STRONG GROWTH

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Contrary to many expectations, the investment market for student and micro apartments experienced a remarkable boom in the first half of 2021. CBRE registered a deal volume of EUR 738 million in the first six months. This is more than 4.5 times the half-year volume in 2020 and above the five-year average (€588 million).





According to CBRE, around 4,400 units in micro-apartment properties and student housing were traded in the first half of 2021, compared with just 1,500 in the first half of 2020. According to the researchers, one driver of the increase was international investors, who expanded their market share to 44%. In the first half of 2020, the figure was still less than 10%. However, the top yield was 3.36%, as in the same period last year. The market share of the top 7 cities was particularly large in the first half of 2021, at 63% in each case.

# Much better than Feared

CBRE identifies several trends as the reason for the strong increase despite pandemic times. Crucial to confidence in the asset class, it says, was that there was only a small decline in occupancy during the lockdown, which was less than market participants had expected.

There are also signs that micro apartment properties will benefit from changing commuter flows in the aftermath of the pandemic. The number of weekly commuters is increasing as more workers move to the periphery, comments CBRE.



# Consolidation Among Operators



The operator side of the market in particular is experiencing dynamic changes, according to CBRE. In the first half of the year, the strong consolidation process within the segment continued.

For example, Quarters/Medici and Homefully were acquired by Habyt. The largest net investors were asset and fund managers, which increased the volume of student residences and microapartments under their management by €280 million. Open-ended real estate funds and special funds increased by 170 million euros. With an increase of 65 million euros, real estate companies are in third place.

## High Volume, No Price Increase

CBRE expects strong transaction activity for the remainder of the year, with volumes of up to EUR 1.5 billion on the horizon by the end of the year. It is likely that the market will be increasingly dominated by international players. The prime yield of currently 3.36% for the top 7 locations will also remain stable towards the end of the year.



# New Record for Private Construction Financing in Germany

According to the Construction Financing Trend Indicator published by financial services company Dr. Klein, the average construction financing amount reached 308,000 euros in July. This is a new record.



The trend indicator is calculated from Europace data. It is based on around 35,000 loan transactions a month with a volume of around EUR 6 billion.

In July 2021, the average loan amount for a private construction financing was 308,000 euros. This was around 17,000 euros more than a year earlier. The EUR 300,000 mark had been exceeded for the first time at the end of 2020. The German mortgage broker Dr. Klein does not expect this figure to fall below in the short term.

# The Monthly Standard Rate Proves the Low Interest Rate Level



## LOW INTEREST RATES

The monthly standard rate for construction financing was 399 euros in July, only slightly below the 400-euro mark, which had been exceeded in June for the first time in two years. Dr. Klein calculates this standard rate using the parameters 150,000 euros loan amount, 2% repayment, 80% loan-to-value ratio and ten years fixed interest rate. It is thus essentially a measure of the interest rate level. Construction financing interest rates had recently fallen again slightly.

**At 83.8%, the average loan-to-value ratio in July remained below the average value for 2020 (84.25%), despite further increases in property prices. The average initial repayment rate was virtually unchanged in July at 2.72%, with fixed interest rates averaging 13 years and two months.**

## KfW Funding not Particularly in Demand so Far

Although the federally owned development bank KfW greatly expanded its range of subsidies for climate-friendly buildings on July 1, this has not yet been reflected in the statistics. While in January 8.27% of the loans brokered via the Europace lending platform came from KfW, in July the figure was only 5.55%.



# F+B expects "Trend Reversal" in rental prices in Germany



Rent

Following a comparative analysis of asking rents in the 2nd quarter of 2021, the consultancy F+B concludes that the two-and-a-half-year stagnation phase in new contract rents has apparently come to an end. A trend reversal on the rental price market is to be expected.

The called housing rents rise again. And that will remain the case. Compared with Q1 2021, advertised rents are again recording growth of 1.1% across Germany, according to F+B. In a year-on-year comparison with Q2 2020, the growth rate of advertised rents was still 0.5%.

Further evidence of the aforementioned trend reversal:

Rents for new leases had fallen in only twelve of Germany's 50 most expensive cities, whereas this was still the case in 17 cities in the previous three-month period. Compared with the same quarter of the previous year, 2020, there were real rent declines in eleven of the most expensive 50 cities, compared with 25 cities previously, according to the analysis.

# In the Top 7, Asking Rents are Picking Up in Particular

*In the top seven cities in particular, the momentum in asking rents picked up again between the first and second quarters, says the F+B analysis. Munich has risen by 1.9%, Berlin by 1.2% and Frankfurt by as much as 3%.*

F+B explains that the interim easing of the Corona pandemic in the 2nd quarter of this year apparently led to increased demand for rental apartments, which was met by a 23% reduction in the volume of advertisements. This gap between supply and demand has resulted in the unusually high rate of increase in asking rents on a national average, it said. F+B expects the trend reversal to hold.



# Support Program for Housing Cooperatives Stopped

***An important element of the German government's housing offensive was to promote housing cooperatives in Germany. But the Federal Ministry of the Interior is now turning a deaf ear. The cooperatives are angry.***

There are around 2,000 housing cooperatives in Germany, which in turn manage around 2.2 million homes in Germany and usually offer very favorable rents. As part of its housing initiative, the German government had also thought of the cooperatives and launched a KfW subsidy program. This provided for households that participate in cooperative new construction projects with shares in the business to take out a loan and receive a repayment subsidy of 15% as a funding component.



## Launch Already Decided in **2019**

**This was originally decided as early as 2019, but after corona-related delays, the launch had been announced for October 2021.**

The Federal Ministry of the Interior has stopped the program, it is said by the Gima. It is an association of 30 housing cooperatives in Munich and the surrounding area, which, according to its own information, have 3,000 new apartments in planning in the coming years. The reasons for the halt to the program, which was drawn up jointly by the Federal Ministry of Finance and the Federal Ministry of the Interior and Construction and with the participation of the Federal Ministry of Economics, are unclear.



# Two ministries at odds



The Federal Ministry of the Interior is apparently to blame. Because according to a letter from the Ministry of Finance in mid-July, the Federal Ministry of the Interior has not allocated any funds for 2022 to support housing cooperatives. And without money, no program start. Once a total of 5 million euros was planned, which the cooperatives could have called up from a funding pot until 2025. How it is to continue with it, is uncertain, the building ministry gives so far no statement in addition.

The Ministry of Finance, in turn,

**"would welcome it, in view of the housing policy significance, if the Federal Ministry of the Interior were to review its assessment of the start of the program once again," it writes. The Finance Ministry would "advocate starting the program."**