



INCREASED CONSTRUCTION COSTS CAUSE STRONG PRICE-INCREASES FOR NEW APARTMENTS

The new construction prices offered for residential real estate in Germany's ten largest cities climbed by up to 19% last year. At the same time, according to an analysis by Immoscout 24, increases of up to 20% were also recorded for owner-occupied homes in the surrounding areas.

Dusseldorf had the largest growth in advertised housing prices with a plus of 19.1% compared to the previous year. The asking price for a new three-bedroom apartment there averaged €449,180 in the fourth quarter of 2021, around €72,000 up on the prior-year figure. In Munich, asking prices rose the least at 3.4%, but the city nevertheless remains the most expensive with an average of €699,740 for the reference apartment.

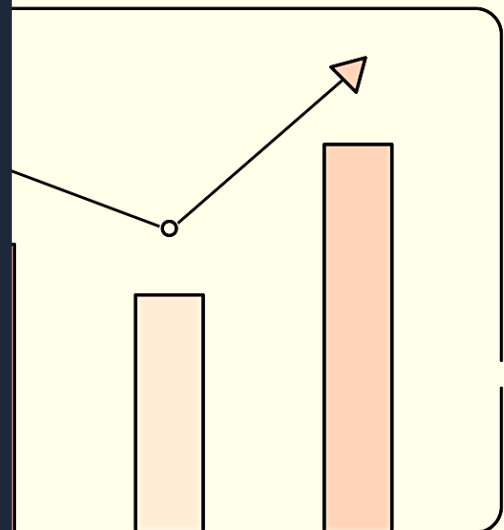
Leipzig, Bremen, Dresden and Cologne are despite price increases in the offers according to Immoscout 24 on average still below the threshold of 400,000 euros. But that might not stay that way for much longer.

Building Costs Drive the Prices

According to Immoscout 24, the continuing price increases are primarily the result of supply bottlenecks and the significant rise in prices for building materials such as wood and steel. The situation is also unlikely to ease in the foreseeable future due to the war in Ukraine.

The financing platform Europace also expects prices to continue rising. In the last twelve months the housing prices had climbed altogether by 14.71% upward. With in and two-family houses there was a plus of 16,09%, with owner-occupied dwellings of 13,8%. The metropolitan area is also covered by the strong price growth. With the advertisements for new building houses Immoscout 24 registers for instance in the citizen of Berlin surrounding countryside with 19,9% the highest price rise in the comparison to other metropolis edges. Around 13,8% the offer prices for houses rose in the Dresden surrounding countryside.

Problems could arise with the marketing of new buildings, warn already scientists, for example of the Institut Empirica, since the prices overtaxed increasingly buyers. For newly built rental apartments, the price calculation is also becoming more difficult. Admittedly, according to an analysis by the portal Immowelt, the increase in rents has dampened somewhat. But the housing costs altogether would be driven up by the energy prices. Alone for heating costs families in a 90-m²-flat paid at present in the 14 largest cities between 117 euro (Munich) and 72 euro (Hanover) monthly. According to the Federal Statistical Office, the price of gas for end consumers has risen by 8% in 2021, by 31% for oil and by 6% for district heating. **Due to the war in Ukraine, experts believe that these figures could double, meaning that heating costs could climb to as much as 234 euros per month.**





Statistical Office:

Strongest Increase in Residential Property Prices Since 2000

The Federal Statistical Office (Destatis) reports above-average price increases for residential property throughout Germany. **Prices are rising in the countryside as well as in metropolitan areas.**

In the fourth quarter of 2021, residential property prices rose by an average of 12.2% year-on-year, according to Destatis. This was the strongest price increase in residential property transactions since the start of the time series in 2000. Prices for detached and semi-detached houses in sparsely populated rural districts rose particularly sharply by 15.9% compared with the same quarter of the previous year. The price of condominiums there rose by 13.2%. In more densely populated rural counties, prices for detached and semi-detached houses climbed by 14.5% and those for condominiums by 11.2%.

Strong upward trend in metropolitan areas as well

However, the metropolitan areas (Berlin, Hamburg, Munich, Cologne, Frankfurt, Stuttgart and Düsseldorf) also recorded above-average price increases. There, prices for detached and semi-detached houses increased by 12.8% year-on-year in Q4 2021, while prices for owner-occupied apartments rose by 12.7%.

German Association
of Cities:

No Trend Reversal in Prices in Sight

A trend reversal in price increases is also not in sight according to a survey of 107 member cities with more than 50,000 inhabitants by the German Association of Cities for 2021. **In 88% of the cities, prices for apartments, houses and land have risen, according to figures from the local expert committees.** Only 3% noted falling real estate prices. In 9%, prices remained constant.



Historically High Order Backlog in Main Construction Sector

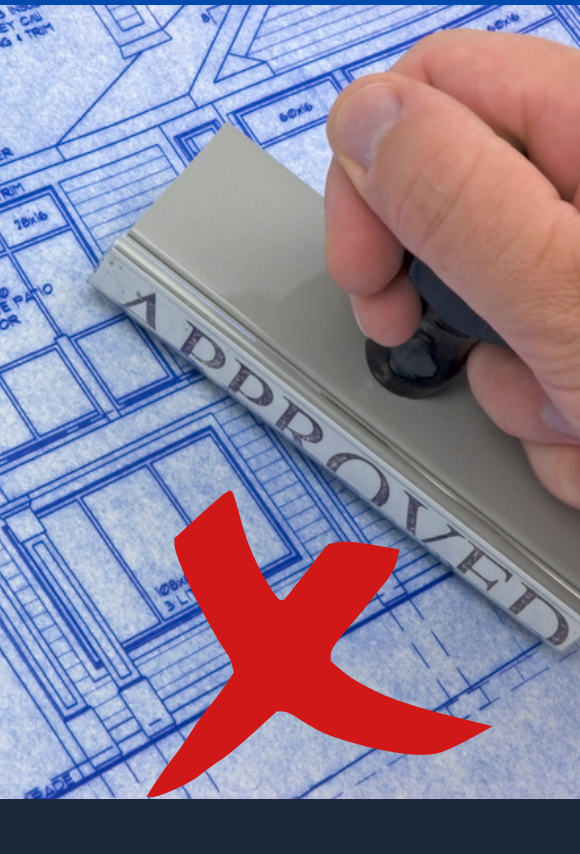
In view of a historically high order backlog coupled with supply bottlenecks, the construction association warns of difficult conditions on construction sites in Germany, as one in three construction companies sources building materials from Russia or Ukraine. According to the Federal Statistical Office, the backlog stood at EUR 64.3 billion at the end of 2021.



Companies still have good capacity utilization, but the construction association fears that the sharp rise in construction prices could soon impact the order situation. After all, in an association survey, almost one in four affected construction companies reported that clients had put projects on hold. Contractors, in turn, often only see themselves in a position to submit a bid if the client accepts price escalator clauses - a way of adjusting prices retrospectively in the event of rising material costs.

In January 2022, price-adjusted new orders in the main construction sector were reportedly 10.8% lower than in the previous month and 4.4% lower than in the same month a year earlier, after adjusting for calendar and seasonal effects.

Not adjusted for price, new orders reached a volume of EUR 7 billion, the highest value ever measured in a January since the start of the time series in 1991, the Federal Statistical Office added.



Building Permits in Berlin and Brandenburg Develop in Opposite Directions

Last year, for the fifth time in a row, fewer housing units were approved in Berlin than in the previous year. This was reported by the Berlin-Brandenburg Statistics Office. In Brandenburg, on the other hand, the figures increased.

Last year, the building supervisory authorities in Berlin permitted the construction of 18,716 apartments in the German capital. That was 8.5% fewer than in the previous year. In Brandenburg, notices for 15,465 apartments left the authorities. That is a handsome increase of 16.3% within a year.

28% Fewer Conversions

17,005 of the approved apartments in Berlin will be newly built. That is 5.9% fewer than in 2020.

4,465 of all apartments are planned as condominiums, a good quarter of the total. 15,322 apartments are being built in apartment buildings. Compared with the previous year, this is a decrease of 7.3%. By contrast, the number of permits for new housing through loft conversions and the conversion of commercial properties into apartments plummeted by 28% within the space of a year.

Federal Government Agrees on How to Share The CO2 Price for Heating

The new German government has decided how the CO2 price for heating is to be divided between landlords and tenants.

The distribution will be staggered in ten stages. The worse the energy balance of a building, the more costs the landlord has to take on.

With the model, CO2 costs would in future be apportioned proportionately according to the areas of responsibility and thus fairly between tenants and landlords, according to a joint press release from the Federal Ministries of Construction, Economics and Justice. The basis for the calculation is the CO2 emissions per square meter and year. Here, the lowest level for residential buildings is less than 12 kg of CO2 emissions, which according to the information corresponds to the EH55 standard. Then tenants would have to pay the entire CO2 heating costs. If emissions exceed 52 kg, on the other hand, their share would be only 10%.

With the proposal, the government is differentiating from an earlier key points paper, in which tenants were to take the 10% share from emissions of more than 45 kg. In addition, protests against a formulation from the first draft seem to have had an effect, which did not provide for any exceptions for owners of listed buildings. Now it says: **"Exceptions may exist if landlords, for example in listed buildings or in milieu protection areas, cannot contribute to energy refurbishment."** The CO2 price is currently 30 euros per ton of emitted CO2 and is set to rise gradually to as much as 55 euros by 2025.