



# 2021 PEAK FOR RESIDENTIAL INVESTMENT

Researchers at Savills expect record transaction volumes in the German residential investment market in 2021. The reason for this is the almost perfect underlying conditions: Falling bond yields, accompanied by comparatively strong growth in population figures and household incomes, as well as very low housing completion figures.

## No Impact from Corona

Bond yields, which will now be low for even longer. On population growth, the pandemic had a negative impact only in the short term, because international immigration was lower. It had virtually no effect at all on housing construction, and the negative impact on household incomes was largely

The COVID-19 pandemic has had a lasting effect on only one of the four fundamentals mentioned above:

offset by government measures such as short-time working benefits. The bottom line is that the COVID 19 crisis tended to increase the attractiveness of residential as an asset class, and in this respect it is only logical that it has not slowed down the residential investment market, but rather fueled it.

# Residential far ahead of office

One consequence of this: Savills expects a transaction volume of more than EUR 50 billion on the German residential market in 2021. That is double the previous record figure from 2015. For the first time, residential real estate is thus also the strongest type of use in terms of turnover, far ahead of offices, according to Savills.

## Bond-like character

According to Savills, the rising popularity of residential properties among investors is essentially due to their bond-like characteristics. They offer stable income with very low default risk and also exhibit low value fluctuations and high liquidity. Over the years, these characteristics have made residential real estate a substitute for bonds for many risk-averse investors, the lower their yields have been. And it is precisely these bond yields that have been in steep decline since the financial crisis.

**But that's not all:**

The falling bond yields were accompanied by comparatively strong growth in population and household income as well as very low housing completion figures. All in all, the German housing market thus offered investors almost perfect conditions, which are likely to be unparalleled even by historical standards.

The only negative factor is the increasing intensity of regulation. But even this has its positive side for risk-averse investors, because it tends to reinforce the scarcity in the regulated part of the market, thereby stabilizing rental development and in turn further reinforcing the bond character of residential real estate.

# 83% HIGHER TURNOVER IN BERLIN RESIDENTIAL INVESTMENTS



**By 42% in the first half of 2021, the number of transactions with Berlin apartment houses has increased compared to the same period in 2020, the money turnover by 83%.**

And the figures from the Berlin Property Valuation Committee for the first half of 2021 compared with the first six months of 2020 show: Particularly for residential and commercial buildings as well as condominiums, both the increases in transaction numbers and in money turnover go well beyond the 2020 dip, reaching and exceeding 2019 levels.

Thus, the number of transactions of residential and commercial buildings has increased by 42% to 406, the turnover achieved with them by 83% to 2.28 billion euros. The expert committee notes an increase in the median purchase price of 11%. At around 2,400 euros/m<sup>2</sup> value-relevant floor area, the highest price is achieved in a second quarter since 2017. This price level is also achieved for pure rental houses in the portfolio, marking a new record.



There was also a significant surge in demand for condominiums in the first half of the year. 9,202 condominiums were sold, 42% more than in the first half of 2020, with volume sales rising by 66% to EUR 3.79 billion. The appraisal committee reports a 12% increase in the median purchase price. The price of vacant owner-occupied apartments without occupancy clearly broke through the €5,000/m<sup>2</sup> barrier for the first time in the first half of the year, while rented owner-occupied apartments landed at around €3,800/m<sup>2</sup> in the second quarter - also a new record.



## MICROLIVING OPERATORS EXPECT NORMALIZATION IN 2022

**In the micro-apartment market, some key figures are again approaching those that were normal before Corona. As of next year, operators are therefore hoping for rising rents and continued stable occupancy.**

There is unanimity among microliving operators. In 2022, they believe, the road will lead back to normal business as it once was before Corona dominated everyday life. At least, that's what emerges from the survey for the fourth market report of the Micro-Living Initiative, conducted by Bulwiengesa. The analysis included operating data from 26,233 residential units, spread across 132 apartment buildings throughout Germany.

# Calming down in occupancy rates

*The data already show that business for operators of small apartment units has calmed down again, at least in part.*



For example, the occupancy rate of the residential units surveyed has remained at 86% without change compared with the last edition of the market report from the spring of this year. Students are still the most important target group with 43%. Apparently, operators continue to be troubled by international travel restrictions, which discourage students and workers from abroad in particular from coming to Germany.

***Accordingly, more than 85% of operators rate renting to non-students as well as students from outside Europe as very challenging. Among the target groups from Europe and especially Germany, the challenges of renting are seen as less significant.***





# Rents have risen

Most operators should be pleased that the current survey recorded the highest average all-in rent to date. Accordingly, it is 19.30 euros per m<sup>2</sup>. Also computed on the individual housing units an increase is to be registered. On average, 538 euros were recently paid for a micro apartment. However the range is large. It was between 243 euros and 2,588 euros.

Compared with spring 2021, rents have risen by around 10% on average. The informative value of this figure is limited, however, because according to Bulwiengesa the portfolio composition has changed over time. What remains positive for the operators, however, is that the operating costs of the properties are obviously developing in a positive direction for them. Whereas in spring 2021 these were still at an average of 6.11 euros per square meter of living space, the current survey recorded an average of 5.97 euros per square meter of living space.



## Skepticism about the policy

Skeptically makes the operators however the view after Berlin and thus on the newly formed “traffic light” government as well as their plans:

*20% of the asked ones count on a worsening regarding the building right creation, 33% see worsenings with the basic conditions for the management to draw up. Just as many fear for fiscal concerns. And a whopping 66% are worried about the new federal government's rental legislation.*

# LIVING IN BERLIN IS BECOMING MORE AND MORE EXPENSIVE



**Housing is becoming increasingly expensive in Berlin. There is still significantly more demand for affordable rental apartments than there is supply. And the run on home ownership is also unbroken.**

The strong demand for real estate emerges from the latest price survey of the IVD Berlin-Brandenburg. Basis of the number mirror are actually obtained purchase prices, conditions 21 October 2021, instead of the otherwise usual offer prices of on-line portals.

The view into the future is also rather gloomy for tenants and buyers, but rosy for sellers and landlords. Following the lifting of the rent cap in the wake of the ruling by the Federal Constitutional Court, the supply situation on Berlin's rental housing market has hardly improved. At the same time, there is a continuing reluctance to sell houses and condominiums, despite high realizable capital gains compared with purchases in previous years.

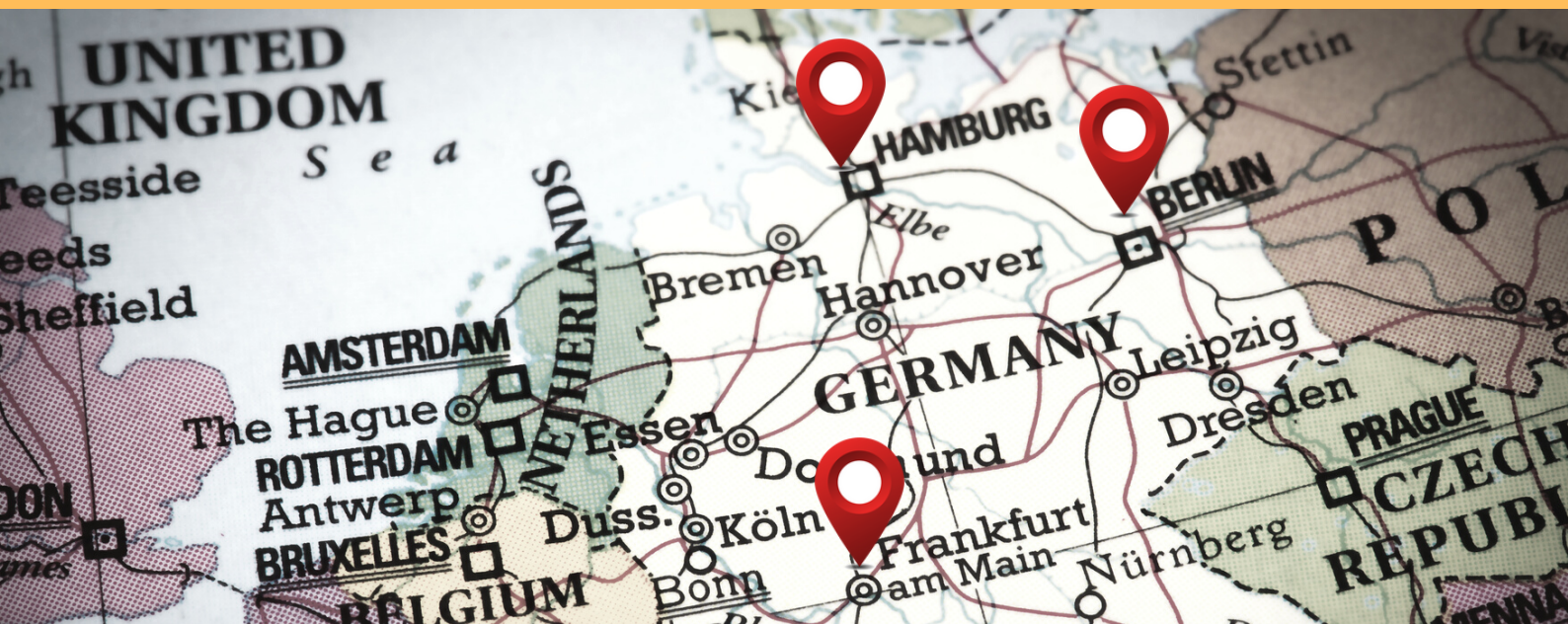
**Average rents in standard locations have risen by 5.3% since 2019 to 10 euros/m<sup>2</sup>. In preferred locations, the increase amounted to 9.1% and currently reaches 12 euros/m<sup>2</sup>. In new construction, average rents are 13 euro/m<sup>2</sup> in simpler areas and 15.25 euro/m<sup>2</sup> in better neighborhoods. Condominiums in normal neighborhoods currently cost 3,400 euro/m<sup>2</sup>. This is 7.9% more than in 2019. In fine neighborhoods, sellers are achieving 4,100 euro/m<sup>2</sup> or 6.5% more. Buyers in the Mitte district have to pay the highest prices of 10,000 euro/m<sup>2</sup>.**

Detached and semi-detached houses are also in demand in the tenant city of Berlin. A detached single-family house costs an average of 620,000 euro in good locations. In standard locations, but excluding the Charlottenburg-Wilmersdorf district, the average price is 480,000 euro. Most expensive with on the average 790,000 euro are houses in Steglitz Zehlendorf. Those looking to build also have to dig deep into their pockets. Building plots for homes became more expensive within a year in average neighborhoods by 10% to 550 euro/m<sup>2</sup>. In more attractive locations the price is closer to 900 euro/m<sup>2</sup>.

Residential and commercial properties with a low commercial component rose slightly in value in standard locations to 2,250 euro/m<sup>2</sup>. That is an increase of 2.3%. In preferred locations, 2,800 euro/m<sup>2</sup> or 3.7% more was paid than in the same period last year. Prices rose most sharply in the central districts, with an increase of 8.6% in Mitte, followed by Friedrichshain-Kreuzberg, where owners were able to add 7.1% to the price.



# Study: HIGH DEMAND FOR HOUSING IN FRANKFURT, BERLIN AND HAMBURG



**The Cologne-based Institut der Deutschen Wirtschaft (IW) warns against building too much housing. The SPD's target of 400,000 apartments per year is set too high, the economists explain in a study. In addition, new construction threatens to occur in the wrong places.**

Every second district is currently building more than necessary, explain the authors of the study. For the country as a whole, the Cologne Institute estimates that 308,000 new homes are needed annually. The target of 400,000 apartments proclaimed by politicians is therefore too high. In addition, it is unrealistic to build so many apartments per year in view of the material bottlenecks and the capacity utilization in the construction industry.

The authors estimate that 320,000 apartments will be completed this year, which means that the outgoing federal government will have missed its target of 1.5 million apartments in the legislative period. The Cologne Institute for Economic Research (IW) arrives at 1.21 million apartments for the four-year period.

# Creating false incentives

*The scientists find the signal sent out by the 400,000 target particularly problematic: Such a policy runs the risk of triggering undesirable developments in the medium to long term. Building is likely to exceed demand, and there are too few incentives to make efficient use of vacant apartments and land in general. More space per capita ultimately means more infrastructure costs for everyone.*



In this context, IW Köln points to the different distribution of demand: Metropolitan regions would remain in strong demand, while other parts of the country would shrink. Accordingly, they advise using the existing stock in counties with declining populations. Metropolitan areas should be made larger and surrounding communities better connected by public transport; fast internet is important to strengthen the locations of surrounding communities as places of work. A dual strategy is needed that addresses the expansion of housing supply in tight markets on the one hand and promotes non-tight markets on the other, concludes IW Köln.





# Berlin among the Top 3 Metropolises

*They see the greatest demand by 2025 in the Upper Bavarian districts of Landshut (10 apartments per 1,000 inhabitants), Erding (8.1) and Dachau (8). Among the major cities, Frankfurt am Main (7.5) is ahead of Berlin (6.1) and Hamburg (5.7).*



It is noteworthy that in the three cities mentioned above with the highest needs, housing requirements are once again higher than in the previous five-year period. In the other top 7 cities, demand is lower because people are increasingly moving to the surrounding areas. This applies above all to Munich, where, according to the Cologne Institute, fewer apartments are needed than previously thought due to the dynamic development of the surrounding area.

