



Residential Real Estate Market 2021:

WITH 21 TRANSACTIONS HALF THE VOLUME

In November, the transaction volume on the investment market for commercial and residential real estate amounted to around EUR 7.6 billion. The rolling twelve-month volume at the end of the month was around €113.0 billion, up 0.5% on the previous month. In the last twelve months, 2,400 individual and portfolio transactions were recorded. This is in line with the level recorded in 2020 as a whole, but 13.6% lower than in the pre-crisis year of 2019. Overall, the impression that the market is settling at a new level slightly below the pre-pandemic period in terms of transaction activity is becoming more firmly established.

While the number of transactions remains at a new, lower level, in terms of volume there is an increasing concentration in the market. Since the beginning of the year, for example, around 49% of the total volume has been accounted for by transactions and acquisitions in the volume range of 500 million euros and above. The previous record value from 2015 was 29%.

Accordingly, only 21 transactions and 22 investors were responsible for almost half of the capital invested in the German real estate market.

Only a few investors can manage such transactions. Since 2009, only 110 known buyers of products worth 500 million euros or more have been recorded. That is only around 4% of all known buyers. However, these few investors are also only matched by a small amount of product, so that the bidding war in this large-volume segment is on less intense than for smaller volumes.



Back and Forth on KfW Funding

KfW is Germany's leading development bank, providing subsidies to real estate investors, for example, if they build homes to a high energy-saving standard.

In future, KfW funding will focus on refurbishment projects to KfW 55 standard, because this is where the CO2 savings are highest. For new buildings, the EH 40 standard will be subsidized, but with a lower sum than before and initially until the end of 2022.

The 24,000 applications that were submitted before January 24, 2022, but for which prospective builders no longer received a decision, are now to be processed after all, in accordance with the criteria that have applied to date.

The background to the decision for the rapid end of funding is a massive oversubscription of the programs. The expiry of the EH 55 standard at the end of January, as decided by the previous government, had triggered a flood of applications that exceeded the funds made available in the budget many times over. The gap amounts to at least a higher single-digit billion amount. Robert Habeck, the federal minister of economics and environment, said the concession now costs about an additional 5 billion euros; and that these funds should come from the climate protection fund.

Of the 24,000 applications, 22,000 are for new buildings and the so-called Efficiency House 55. Private house builders are behind 4,000 of these, and companies and municipalities are behind the rest. In the future, buildings with EH 55 are to become the minimum standard in new construction. The specifications thus regulate what the market can do and must therefore also be the regulatory minimum standard. The ministry wants to pack the new stipulations into an amendment to the Building Energy Act.



New Building Passport Planned

At the same time, the German government is apparently working on a new building passport to replace the previous energy certificate. The KfW programs are also to be aligned with this seal for sustainable buildings. The key indicator would be the actual CO2 savings in relation to the square meter of living or office space, and no longer just efficiency. It remains to be seen whether the new German government's ideas are in line with EU plans, as primary energy consumption remains the key indicator for Brussels.



New Construction Targets at Risk: **KfW Funding Freeze Unsettles Real Estate Sector**

The back and forth over KfW funding was not only annoying for private individuals who had just applied for KfW funds. The communication disaster of the new federal government could also have a lasting impact on the confidence of real estate professionals. The industry is unsettled. This could lead to less investment in residential construction.

The ambitious goal of the government to build 400,000 new homes per year cannot be achieved in this way. The real estate industry needs long-term planning security. The subsidy measures would result in investments of around 80 billion euros in affordable and climate-friendly housing - provided investors can rely on the policy.

"The sudden halt in subsidies and the subsequent communication chaos has unsettled many investors. Politicians must create the right framework conditions. Otherwise, not only the climate targets but also the new construction targets will not be achieved,"

says Einar Skjerven,
Managing Director of the Skjerven Group.





bulwiengesa Real Estate Index Shows a Plus of 4.6% for 2021

The rapid rise in German residential prices continued to fuel bulwiengesa's real estate index in 2021. While the commercial segment presented a rather modest growth of 2.1%, residential prices and rents performed with +5.7%.

Both segments showed an even better performance in 2021 than in the previous year, when commercial property prices rose by 1% and residential property prices by 5.2%. In commercial real estate, it was the continued sluggishness in retail rents that slowed the sector overall. In the 1a locations, bulwiengesa recorded a 3% drop in prime rents in 2021. Commercial property prices held up strongly (+7.4%), while office rents entered the index with a moderate +1.9%. The individual components are included in the bulwiengesa index on an unweighted basis.



Modest Landlords of Existing Housing

In the booming residential segment, purchase prices for terraced houses (+7.8%) and land for single-family homes (+7.6%) proved to be the biggest drivers. However, purchase prices for new-build apartments (+6.4%) and new-build rents (+3.6%) also showed growth. Landlords in existing housing showed the most modest growth (+2.2%).



In contrast to many brokerage statistics, not only the top metropolises are included in the index, but the entire broad with the German real estate market. The figure of +4.6% therefore reflects the (unweighted) average development in 125 cities and districts.

The Investment Climate Remains Unaffected by Corona



The mood among professional investors in Germany, England and France is better than in the years before the start of the Corona restrictions. This is shown by Union Investment's Investment Climate Index, based on information from 150 participants.

Both current sentiment and the level of expectations for the future are above the comparable 2019 index level in the index in each of the nationalities surveyed. While sentiment in France and the U.K. improved in the second half of 2021, it fell in Germany and is now a razor-thin 0.8 points above the pre-Corona level. The situation is similar for expectations. These are several points above the pre-Corona level in France and the UK, and only 0.5 in Germany.



German Special Path

The Germans are also taking a special approach to the asset classes they are looking for in the coming twelve months. In this country, 45% of investors prefer residential real estate, while offices are in first place in the UK and France. Mixed-use concepts are also very popular (38% of all participants, 45% in Germany and the UK). However, hardly anyone among the respondents is aiming to convert monostructures to mixed-use; only 5% are actively involved in this.

The company's own portfolio is more likely to be tackled when it comes to meeting sustainability targets. 68% of all 150 respondents invest in the sustainable refurbishment of their portfolios or intend to do so. The Germans lead the field here with an approval rate of 73%, while the British have the lowest approval rate at 57%.