

German Real Estate:

THE COMEBACK OF INTERNATIONAL CAPITAL

2024
2023
2022
2021
2020

The transaction volume on the German real estate market was a whopping 111 billion euros. According to JLL, this represents an increase of 36% compared with 2020. This new all-time high impressively documents the attractiveness of German real estate across all types of use, with residential investments clearly dominating, of course. The signs are good that this trend will continue. This is because international investors have so far held back during the pandemic years. That is likely to change in 2022.

"We feel that the capital pressure from international investors has increased further"

says Einar Skjerven,
Managing Director of the Skjerven Group

But German investors also continue to face enormous capital pressure, and this will not change in the coming years.



Over the next four years, German government bonds with a total volume of almost one trillion euros will mature. A large part of this will be reinvested in real estate. Rising inflation is also boosting demand for tangible assets such as real estate.

Residential Investments Increasingly Dominant

52.2 billion euros were invested in German residential real estate, nursing homes or student housing complexes. That is around 47% of the total transaction volume.

"Even the discussions about expropriation and rent caps could not stop the triumphal march of residential real estate", Skjerven sums up.

Construction Ministry as a Positive Signal

At the federal level, the new federal government consisting of the SPD, Greens and FDP promises stable framework conditions and more new construction as well as more innovation and digitization for the time being. With a target of 400,000 new homes per year, the new coalition is even ahead of the previous government's goals. The reinstatement of the Federal Ministry of Housing, Urban Development and Construction has sent a clear signal that the government is serious about implementing its housing market goals.

Berlin the Benchmark

With a volume of EUR 70.7 billion, the seven real estate strongholds account for 64% of the transaction volume. This corresponds to growth of 75% compared to 2020. Berlin has significantly expanded its dominance as a national and international investment destination. At more than EUR 37 billion, the transaction volume of real estate in Berlin has tripled compared with 2020. Rents will continue to rise in 2022, as demand for residential space remains high and supply low.

2020 WAS THE YEAR OF RESIDENTIAL REAL ESTATE DEALS



Despite the pandemic, investment in the purchase of real estate reached a new record level of EUR 310 billion in 2020 (previous year: EUR 307 billion). This is shown by the collected figures published very late by the appraisal committees on notarized transactions in Germany. The main contributor to this was the residential real estate business.

While the residential market continued to boom and residential property accounted for around three quarters of all property sales in 2020, the market for commercial property was more subdued, says the Real Estate Market Report Germany 2021, which the Working Group of the Higher Expert Committees published today together with the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR). The report is based on the approximately one million notarized sales contracts concluded in Germany in the pandemic year 2020.

Sales doubled within eight years

In total, owners sold around 752,000 residential properties in 2020, according to the report. In the process, they turned over around 217 billion euros. That is twice as much as in 2012. Compared with the previous year 2019, investments in the acquisition of residential real estate increased by 7%.

For single-family and two-family homes in the portfolio, the average price across Germany was 2,140 euros/sqm. This is 80% more than in 2010 (1,190 euros/sqm). The highest price was paid in the Munich district with an average of 11,220 euros/sqm. In contrast, the price in the Kyffhäuserkreis district in Thuringia and the Mansfeld-Südharz district in Saxony-Anhalt averaged 500 euros/sqm.



Wide Spread Between South and East

The situation is similar for existing owner-occupied apartments: The nationwide average purchase price was 1,940 euros/sqm, 85% more than in 2010 (1,050 euros). In regions where prices were already high, the average values rose particularly sharply. The average price of residential space in Munich in 2020 was 8,150 euros/sqm. At the end of the list is the district of Greizin Thuringia (495 euros/sq m).

The general rule in 2020 was that average values rose particularly sharply in regions where prices were already high.

Sharp Rise in Building Land Prices

However, the number of transactions involving residential building land stagnated in 2020 compared with the previous year. Nevertheless, sales of building land for owner-occupied homes rose by 8% to EUR 15.7 billion.

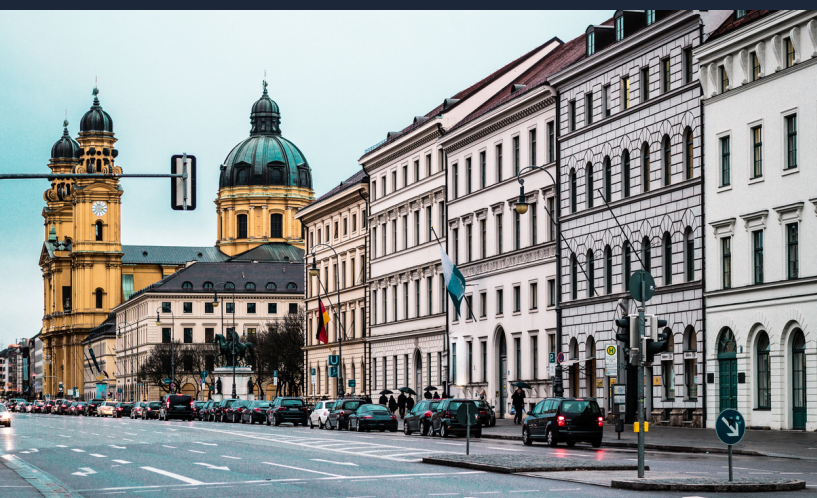
The report calls this an indication of the further sharp rise in prices in this segment. The national average price per square meter in 2020 was 165 euros. Top prices were again in the city of Munich with an average of 2,200 euros/sqm. At the other end of the scale is the Sonneberg district in Thuringia with a price per square meter of 16 euros.



Significant Declines in Commercial Properties

The surveyors note a different trend in the commercial property market, which suffered from the pandemic. In 2020, around 11% less office property was traded than in the previous year.

Investments decreased by 15% to 20.8 billion euros. The number of commercial property transactions also decreased (minus 4%). Cash turnover decreased by 14% year-on-year to €23 billion.



NEW RECORD FOR HOUSE PRICE INDEX



Residential real estate prices have continued to rise, according to the German Federal Statistical Office. Accordingly, prices rose by an average of 12% year-on-year in the third quarter of 2021. This means that the statistics office has recorded the second record increase in a row for the house price index since the start of the time series in 2000, after prices had already risen by 10.8% year-on-year in the second quarter of this year.

Significant Price Increases also Away from the Metropolitan Areas

A significant rise in prices could be observed both in the major cities of Berlin, Hamburg, Munich, Cologne, Frankfurt, Stuttgart, and Düsseldorf and in sparsely populated rural districts. Prices for detached and semi-detached houses and owner-occupied apartments in the major cities rose by 14.5% year-on-year. Prices for detached and semi-detached houses in sparsely populated rural districts rose even more sharply, by 15.5% year-on-year. Condominiums also became more expensive there, namely by 11.2%. And the price increase did not stop at more densely populated rural districts either. Single-family and two-family houses there cost an average of 12% more than in the prior-year quarter, and condominiums 12.3%.



IMPACT ON CONSTRUCTION SALES GROWTH IN 2022

The construction industry is brimming with self-confidence: Sales and personnel are growing, and orders are plentiful. Added to this is the conviction that there is no way around the industry when it comes to residential construction and climate protection in the building sector.

The main construction industry is confident. After an expected nominal sales growth of 0.5% or 500 million euros to 143.5 billion euros for 2021, the companies still want to increase in 2022. The industry expects an increase to 151 billion euros (+5.5% nominal, 1.5% real). As in 2021, this is likely to be driven by residential construction, in addition to climate protection

modernization and investment in infrastructure. According to the forecast of the German Construction Industry Federation (HDB) and the Central Association of the German Construction Industry (ZDB), this sector will account for more than half (EUR 59.3 billion) of the targeted growth.

The construction industry remains the mainstay of the German economy.

The associations assume that this will also be the case in the future. Their optimism is based in particular on a further increase in demand in the housing sector. This is supported by the new German government's plan to create around 400,000 housing units per year. In 2021, it is estimated that 310,000 apartments were completed. In 2022, the figure could be 320,000 units.

In order to drive forward housing construction, the construction industry is calling on politicians to ease planning regulations. One example is the still outstanding type building permit for serial and modular construction. It is time for the federal government to come to an agreement with the states. In addition, discussions about restrictions such as rent caps and rent brakes scare off investors. And the conditions should be created to be able to bring more construction workers from the Western Balkans to Germany by making it easier to issue work permits.

Overall, the construction industry employs around 905,000 people, with 10,000 more expected in 2022.



Otherwise, the construction associations assess the plans of the traffic light coalition positively and are pleased with the new construction ministry. Construction will remain expensive in 2022. Although the industry expects supply chains to start functioning again in the second quarter and materials to no longer be in such short supply. However, the price increase is not expected to reverse completely, it said. This year, construction prices rose by 6.5%, with 4% calculated for 2022. The price increases for wood, steel and insulation materials were particularly strong.

Develop and Hold is Becoming More Attractive in Germany

Residential development for own portfolio hold is rapidly gaining importance in Germany, according to a study by Bulwiengesa.

The market share of the develop and hold segment in the total residential project pipeline in German A-cities climbed to a record 35% in 2021. According to the study, project volume increased by 12% to just under EUR 42 billion. In 2020, the increase was only 7%.

A total of 6.2 million m² of residential space is being developed in A-cities as part of develop-and-hold projects (with planned completion by 2025), the analysis has calculated. Two years ago, the level was 5.4 million m² (by 2024). Per year, this corresponds to a completion volume of 1.2 million m² in develop and hold. This figure has now risen slightly by 155,000 m² compared with 2020. By contrast, the project area for trading development - i.e., space that is being developed in order to sell it - fell by 195,000 m² to 1.9 million m² per year.

The Vonovia Group takes first place among developers. Otherwise, public sector companies dominate the business. These include Degewo and Gewobau (both Berlin) and ABG Frankfurt Holding. The share of private players is stable at around 30%. The private sector would like to see more. This is because institutional investors now also like to see project developments as a value-added product. They are increasingly entering project developments at an earlier stage, so that a forward deal can sometimes turn into a complete project takeover.