SKJERVEN GROUP - *Monthly Newsletter*
BERLIN - NOVEMBER 16, ISSUE #23/2021

SOON 100 BILLION EUROS IN TRANSACTION VOLUME AGAIN?

In the first three quarters of 2021, real estate in Germany changed hands for around EUR 58.9 billion. Of this, commercial properties accounted for around EUR 38.3 billion and residential properties for around EUR 20.6 billion. This is the result of a report by Savills.

In September, real estate was traded for 13.5 billion euros. This is the third highest monthly value recorded so far. The transaction volume in the last twelve months amounted to approximately 81.3 billion euros and was thus 12% lower than a year ago. However, the twelve-month volume is expected to reach the EUR 100 billion mark again by the end of the year. This would be the first time since July 2020.

Investment Pressure Increases

Over the past year and a half, there has been a reassessment of risk in the commercial investment market. At the same time, investment pressure from investors has increased further.

CONTINUE TO P. 02

Many investors have re-sharpened their purchasing profile and are now focusing on achieving their investment targets. Meanwhile, a greater willingness to sell can also be observed on the owner side, which forms the basis for a further increase in transaction activity.

More stringent requirements for core properties

Although international investors have recently shown a lower presence due to the pandemic, competition for core properties in particular remains intense. However, the requirements that a property must meet to fall into the core segment have increased compared to the pre-pandemic period. As a result, there is now even less product available for the same amount of risk-averse money. As a result, prime yields continued to decline in Q3 in segments considered low-risk.

CONTINUE TO P. 03

Record in sight for residential

The residential investment market will end 2021 with a new record. With major transactions and investments on the horizon, the volume is likely to exceed the EUR 30 billion mark for the first time ever. Since the beginning of the year, around 107,500 apartments have been traded nationwide, resulting in an average price per traded residential unit of circa EUR 191,400. This figure also represents a new record and is around 54% above the five-year average. In addition to a general increase in prices and a continued high proportion of project development purchases, the rise is primarily explained by a disproportionately high volume share of A-cities in portfolio sales.

Overall, the German Real estate investment market appears to be increasingly leaving the pandemic-related crisis behind. As a result of the social changes accelerated by the pandemic and rising environmental requirements, a growing number of properties are no longer meeting requirements.

Conversely, there has never been so much investment capital available for properties that meet current and expected future user needs and thus promise long-term returns. This should also contribute to a significant market revival in the non-core segment in perspective and provide room for more opportunistic players.

CONTINUE TO P. 04

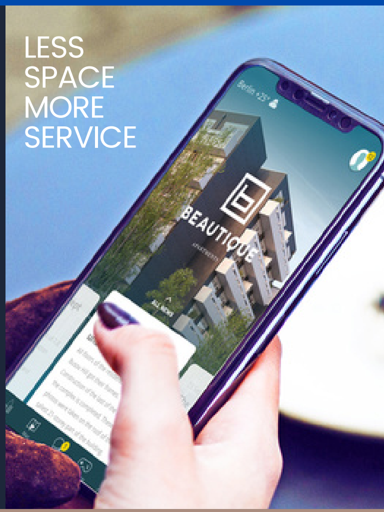
MONEY FOR SERVICED APARTMENTS INSTEAD OF HOTELS

The market for serviced apartments is growing rapidly. Fueled by the Corona pandemic, the number of rooms in this segment is also rising in Germany. For investors and project developers, serviced apartments have long since become a genuine alternative to flagging hotels.

The brokerage firm Colliers expects the number of serviced apartments in Germany to grow from around 33,900 to more than 50,000 units by 2022. After that, the boom will level off for the time being. By 2030, however, growth to 100,000 serviced apartments is conceivable. By way of comparison, according to the German Federal Statistical Office, there were a total of 1.8 million beds in hotels, inns and guesthouses in Germany in 2020. This would mean that the serviced apartment segment would still be relatively small; however, the properties are becoming increasingly attractive for project developers, operators and investors.

CONTINUE TO P. 05

High occupancy rates



Operators would be able to calculate with lower costs for operation and staff, as service can be limited and many offers can be digitized. As a result, smaller properties with fewer rooms are also economical. In addition, occupancy rates are higher than for traditional hotels. According to Colliers, serviced apartments in the Corona year 2020 had an average occupancy rate of more than 50%; in hotels, rooms were only occupied between 15% and 30%.

Such figures also convince investors. Above all, classic investment funds, asset managers and other capital accumulation institutions such as pension funds or specialized investment vehicles invest their money in this type of property. Depending on the concept, banks are also becoming more willing to finance such properties.

There is no shortage of concepts and types of operations. There are houses with ten units and properties with more than 250 apartments. There are serviced apartments, coliving, aparthotels, student accommodation, senior & assisted living, microapartments and branded residences. And there is often overlap. The length of stay of guests varies - depending on the concept - from one day to lifetime.

www.maison-frederic.de

CONTINUE TO P. 06

The target groups

Users of the apartments are primarily business travelers who spend several weeks or months working on projects, as well as people who have newly moved to the city and use serviced apartments as a temporary home until they have found a permanent place to stay.

In addition, there are so-called bleisure or workcation guests. These are users who combine their business stay with private interests in the region, as well as guests who work from another location for a certain period of time without necessarily having to travel there for professional reasons. But also families with children appreciated the possibility of self-catering in serviced apartments, provided that kitchen and washing machine are part of the inventory.

Due to changing lifestyles and a high degree of flexibility in the working world, the trend among users toward serviced apartments is expected to continue even after the crisis.

CONTINUE TO P. 07

GERMAN GOVERNMENT CANCELS SUBSIDIES FOR EFFICIENCY HOUSES *55* (KFW *55*)

The German government will soon no longer subsidize new buildings constructed to the KfW Efficiency House 55 standard. Housing industry associations criticize the decision as contradicting the goal of creating affordable housing.

The federal government will phase out funding for new buildings built to KfW Standard 55. Applications can still be submitted until January 31 next year. The date on which the application is submitted is decisive. The same applies to the even more heavily subsidized 55 classes Renewable Energies (EE) and Sustainability (NH). New buildings under KfW Class 40 and the corresponding EE and NH classes remain in the subsidy system.

The Federal Ministry of Economics justifies the decision by saying that existing subsidies should be targeted where they are most useful: in the refurbishment of existing buildings. So far this year, about one third of the subsidies have been allocated to the new-build subsidy class Efficiency House 55.

CONTINUE TO P. 08

12 billion euros in climate protection funding for new and existing buildings to date

According to the ministry, 12 billion euros in building subsidies were approved in the first nine months of this year. Of this, around €5.8 billion was for new buildings and €6.2 billion for refurbishments. By the end of the year, 18 billion euros could be approved.

To promote climate-friendly construction and renovation, the German government had revised the subsidy system and made more funds available. Since the beginning of the year, the federal subsidy for energy-efficient buildings (BEG) has replaced previous programs. In addition to loans, grants can also be called up, the subsidies have been increased, and non-residential buildings are included. The fact that funding for the Efficient House 55 class is now being cut does not come as a surprise. The German government already stated in an immediate climate protection program formulated in the middle of the year that all new buildings should be built to the KfW 55 standard from 2023, and then to the KfW 40 standard from 2025. The immediate program that was finally adopted no longer contained these plans, but the direction of travel had already been indicated.

CONTINUE TO P. 09

8.5 million people in Germany live in apartments that are too small

In Germany, more than one in ten (8.5 million people) lived in an overcrowded apartment in the pandemic year 2020. According to the new statistics from the Federal Statistical Office, households of single parents with children in cities are particularly hard hit.

According to the European definition in the Survey on Income and Living Conditions in Europe (EU-SILC), there must be two rooms available for two adults (such as a living room and a bedroom), and there must be an extra room for two children under the age of twelve so that the apartment is not considered overcrowded. In the cities, this is apparently often not possible. About 15% live in an overcrowded apartment there.

Among households with children, the rate was highest for single parents: 29.9% of single parents and their children lived in overcrowded, i.e. too small, apartments in Germany in 2020. A comparison with previous years is not possible, as this type of survey is new.

CONTINUE TO P. 10

SURVEY SHOWS RISING OPTIMISM AMONG EUROPEAN REAL ESTATE MANAGERS

European real estate managers are more optimistic than they have been since 2014. This is shown by the annual trend survey conducted by PwC and Urban Land Institute (ULI) among 844 decision-makers in the industry. In the ranking of European investment locations with the best prospects for the future, London, Berlin and Paris make up the top three.

Frankfurt, Munich and Hamburg are also among the ten most promising metropolises. This means that Germany is the most strongly represented of all countries. The study cites the robust economic condition of Germany as well as the comparatively short commuting times for employees as the reason for this.

London's first place is attributed to its comparatively better prospects for returns and hopes for a new post-Brexit upswing. In total, the ranking includes 31 cities. Moscow occupies last place due to the weak quality of its office stock and a lack of investors willing to buy.

CONTINUE TO P. 11

Better business, worries about inflation

The annual survey also captures the general mood among real estate professionals. This is proving to be better than it has been for a long time. 53% of respondents say they have increasing confidence in business performance looking ahead to 2022. 53% will have more employees next year than they do now and 49% will increase profits. All figures are above the previous two years and represent the best sentiment picture in seven years.

In contrast, the industry is concerned about cybersecurity (67%), inflation (59%) and interest rate volatility (55%). In terms of cyber security, the main threat seen is possible blackmail attacks on modern, high-tech office buildings, but also attacks against the company's own business. On the political side, the focus is on climate change (76%) and affordable housing (68%).