

RISING INTEREST RATES CREATE MARKET TURBULENCE



Rising interest rates, exploding construction costs and ever more stringent energy efficiency requirements: this mix is making it increasingly difficult to finance housing developments and putting investors into a state of shock.

The high transaction volume and hence following high demand for loans in recent years was mainly due to low interest rates. That phase is now over.



"Institutional investors always formed a large part of the demand for residential real estate. As this demand is currently slumping, I expect prices in the real estate market to fall significantly,"

says Einar Skjerven,
CEO & Founder of the Skjerven Group.

There has also been a lot of uncertainty among private real estate buyers since the turnaround in interest rates, and financing is becoming increasingly difficult due to increased equity requirements. Thus the few willing buyers may fail in the long run at the financing hurdle. Whoever has the necessary equity available, has a clear competitive advantage in the current market.

After all, no one wants to try to catch a falling knife, but when the market bottoms out, investors will have large opportunities for significant profit when the market again normalises.

Large Portfolio Holders Sell

For many years, large portfolio holders such as Vonovia or LEG Immobilien tended to be on the buying side. This now appears to be changing. For example, Vonovia has identified around 65,600 residential units for a longer-term sales program. The expected proceeds are around 13 billion euros. Of the apartments marked for sale, just under 30,000 units are attributable to the regular individual privatization program (€5.5 billion), and a further 12,390 to non-core holdings (€1.2 billion). Last year, the company had still announced that it no longer owned any non-strategic apartments.

What is new are the 23,300 apartments in multi-family buildings worth €6.3 billion that Vonovia has now additionally added to its list for sale. Demand and prices for such apartment buildings are good, the Management Board notes. The main properties up for sale are those in locations in which Vonovia does not own any quarters. Solutions relating to the energy transition are particularly effective in quarters.



LEG Immobilien will also be a net seller this year after a long phase of expansion. With the exception of a few portfolio roundings, the Düsseldorf-based housing group is not aiming to make any acquisitions, it announced when it presented its half-year figures. As before, the plan is to sell 5,000 units this year, one third of which are from the portfolios acquired by Adler in Thuringia and Saxony, at book values. The revaluation of the real estate portfolio resulted in an increase of 1.17 billion euros or 6.1%. However, the average value of 1,828 euros/m² is still well below the replacement cost.



Advertised Apartment Purchase Prices Fall in Most Cities with Populations of 100,000 or More



Purchase prices for condominiums offered on ImmoScout24 have been falling since the beginning of the year (January to July) in a large proportion of German cities and rural districts (173 out of 312 municipalities) with more than 100,000 inhabitants. A similar but slightly weaker trend can be observed for houses for sale.

On average, prices per square meter for advertised owner-occupied apartments in the cities surveyed fell by 6.2% between January and July. Among the metropolises, Munich has recorded the largest price decline since the beginning of the year at -7%, followed by Frankfurt (-5.9%) and Hamburg (-4.5%). In Berlin and Cologne, on the other hand, there has been a slight price increase since January.



Prices falling everywhere except Berlin

The price declines for advertised single-family houses are on average 4.8%. Munich registers with -3,1% the largest decrease under the metropolises since beginning of the yearly, Berlin drives against the trend a plus of 9,8% in. In Potsdam, which kept pace with Berlin for a long time, a negative trend is now also apparent with -8.3% for apartments and -7.7% for single-family houses, according to ImmoScout24.