

Surveyors See Residential Prices Drifting Sideways

The heads of the appraisal committees in major German cities largely expect residential property prices to move sideways into 2024. However, in view of high demand and low supply, no one expects prices to fall. In the case of standard land values, the trend tends to point downward.

The Society for Geodesy, Geoinformation and Land Management (DVW) had invited the heads of the appraisal committees from Berlin, Hamburg, Düsseldorf, Cologne, Stuttgart, Munich, Frankfurt and Leipzig to a virtual exchange on the market situation. Those are the ones who know the prices have actually been paid.

The appraisers assess the year 2022 quite similarly: *In the first half of the year, markets went up, there were relatively many transactions and rising prices.* Then the slump in transactions in the second half of the year. But not necessarily in prices. In Munich, new construction prices have risen again somewhat on average, while the prices of existing properties have fallen slightly. In Frankfurt, new construction is showing a minimal downward trend. This is also due to the high-rise apartments, which are currently more difficult to sell. All in all, investors have to remain highly priced in view of the expensive properties, the high construction prices and interest rates. In Stuttgart the demand and thus easily the price height dwindled, because due to the high interest tenants could not become house builders or apartment buyers any longer. For Cologne a slump was reported around 50% with the number of the new apartments. The city had once planned 6,000 new units in the year and only scarcely half created. There is a slight drop in prices in the used sector.

In Berlin, the target of 20,000 new apartments was not achieved either. New construction prices there remained stable in the second half of the year - with a sharp drop in the number of transactions. The situation in Berlin is similar to that in Frankfurt and other top cities: Investors are stopping their projects out of fear, so no new projects are coming onto the market. Nothing is worse for investments than the situation of uncertainty caused by war and high interest rates, the heads of the appraisers know from discussions with investors.



The Trend in Standard Land Values is Downward in Many Cities

Out falls with the large city trend Leipzig. There a good first and second transaction half-year 2022 was registered with slightly damped prices. In view of comparatively moderate square meter values of around €3,000 on average and prospects for appreciation, investors may have shifted to Leipzig instead of entering the top 7. However, it is questionable whether this will continue. A key factor in the price calculation for new construction is land prices. Several expert committees are in the

process of determining the new standard land values. In Berlin, the trend is for land values to fall in relation to the previous year. This is also apparent in other major cities, such as Hamburg. However, all the appraisers have the problem that there were virtually no land deals last year, which makes the valuation much more difficult. In Cologne, there is an expectation that with rising construction costs and rents, the trend should be downward for land prices.



Deutsche Hypo: Residential Real Estate Climate Still Stable

The recent positive trend in the real estate climate surveyed on behalf of Deutsche Hypo/Nord LB did not continue in February. Only in the residential sector was there a small ray of hope; in all other types of use, the mood weakened, but remains better overall than at the end of 2022.

Sentiment among the approximately 1,200 real estate experts surveyed was again somewhat more subdued in the 182nd edition of the monthly survey conducted by Bulwiengesa. Compared with the previous month, the Real Estate Climate Index declined by 2.2% to 74.1 points. The main contributor to this was the investment climate, which fell by 4.4%, while the drop in the income climate was much smaller at 0.8%. However, both sub-indicators still showed higher values in February 2023 than at year-end 2022, with 53.2 and 96.7 index points respectively.

In terms of the individual asset classes, the trend was almost consistently weaker than in the previous month. Only the residential climate recorded a slight increase of 0.8% to 100.8 points. The range of declines in the other sector indices extends from 1.5% to 65.6 points for the office climate to 8.9% to 72.2 points for the hotel climate. The retail and logistics climate were 2.4% and 2.5% weaker, respectively, reaching 53.9 and 118.9 points.



Real Estate Wise Sees Construction Industry in Recession

At the start of the first Quo Vadis Congress in Berlin, the real estate wise Lars Feld gave an insight into his part of the spring report of the real estate experts. According to the report, the outlook for overall economic development remains better than that for the construction and real estate industry.

Accordingly, Germany is likely to largely avoid a recession, but inflation has become entrenched and will probably remain with the economy and politics for quite some time, predicts the real estate expert. Accordingly, Feld expects further interest rate hikes by the European Central Bank. And these will hit construction in particular. The construction industry is in recession, analyzes the personal representative of German Finance Minister Christian Lindner (FDP). To combat the problems, he is relying less on ever new subsidy programs and more on a reduction in the lengthy administrative processes at state and municipal level. However, the political uncertainty that has taken hold at the latest with the Russian war of aggression in Ukraine will not change. It will form the framework for action for politics and business in the coming years. The only areas in which the companies reported higher values were the digitization of planning processes and controlling as well as planning and costing in project operations. For the survey, PwC Germany interviewed 100 construction companies, planners and project managers by telephone in the fall of 2022.

The construction industry is not making any progress with digitization. This is the conclusion of a survey by the consulting firm PwC. According to the survey, companies see a clear need for action, particularly in the digitization of operational processes and digital applications.



VDP index up for the year, down for the quarter

The real estate price index of the Association of German Pfandbrief Banks (VDP) tracks the trend reversal that has taken place on the real estate market over the course of 2022. For the twelve-month period, the index value is at the level of the end of 2021 (+0.8%) thanks to long-stable prices for residential real estate. However, from the third to the fourth quarter, the market registered a 2% decline in prices, which did not even stop at the residential market.

The annual result of +0.8% for the VDP price index is made up of a 2.1% increase in the value of German apartments and a 4.4% decline in the value of office and retail properties (office: -2.6%, retail: -9.1%).

According to VDP, the market turned around in the second half of the year. The index fell both from the second to the third and from the third to the fourth quarter. For the final three months of 2022, residential was down 1.8% quarter-on-quarter and commercial was down 2.9%.



Berlin Better than Frankfurt, Office Better than Retail

Residential prices for Berlin hardly deteriorated, slipping only 0.7% in the fourth quarter. By contrast, the index for Frankfurt residential property prices fell by 4.8% in the quarter.

For the coming quarters of 2023, the VDP also expects minus figures across the board, but as before at a moderate level. The association is more optimistic for the office sector than for the retail sector. While new contract rents in the retail sector declined further by 2.5% in the final quarter of 2022, office rents continued to move upwards quarter-on-quarter (+1.7%).