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Residential Investment Market:

BROKERS EXPECT UPSWING

Last year, the residential investment market saw the lowest investment volume in ten years. The leading brokers expect that business will now start cautiously, but will pick up in the second half of the year when there is more clarity on interest rate developments. According to them, the topic of energy efficiency continues to gain in importance, and what comes from the legislature is also important.

The JLL market researchers come with 12.2 billion euros transaction volume at the lower end of the range determined by brokerage houses. At the upper end are the 13.5 billion euros in total turnover determined by CBRE. According to JLL the usual year-end rally failed to materialize, citing a turnover of just under €2 billion for the fourth quarter.

Compared with the transaction record year of 2021, in which the takeover of Deutsche Wohnen by Vonovia pushed the volume to around €50 billion, turnover contracted sharply by around two-thirds.

However, it was well below the five-year average of €25 billion calculated by JLL. One reason for this is that large deals worth hundreds of millions of euros largely failed to materialize. And this was also because listed companies hardly bought any more.

Higher interest rates, less demand - this also had an impact on prices. According to BNP Paribas Real Estate (BNPPRE), prime yields in new construction rose by 15 to 25 basis points and ranged in the seven top cities from 2.8% in Munich to 2.9% in Hamburg, Düsseldorf and Cologne.

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JLL expects yields to continue rising probably through the second quarter. BNPPRE also expects a slight increase. According to the brokerage house, there is much to suggest that the phase of interest rate increases will end in the course of the second quarter, that buyers and sellers will thus find each other in terms of prices and that there will be more trading again - although more dependent than before on the location and quality of the properties.

Apartment Sales: MARKETING takes longer

More residential properties were advertised in 2022. At the same time, the marketing time has increased significantly, says an evaluation of the institute Analyse & Konzepte.

Analyse & Konzepte tries to track the situation of supply and demand on the residential real estate market with the parameter of the insertion period. This refers to how long the offer is displayed as available on various real estate portals. According to the study, the average length of time for which residential properties are **advertised for sale has increased significantly over the course of 2022.** In September 2021 it was still at 87 days, one year later already at 109. That meant a **plus of 25,3%.**

Particularly striking is also the significant increase in the number of sales advertisements over the course of the year. There Analyse & Konzepte registers between November 2021 and November 2022 a plus of 92% (from 181,148 to 347,207 objects).

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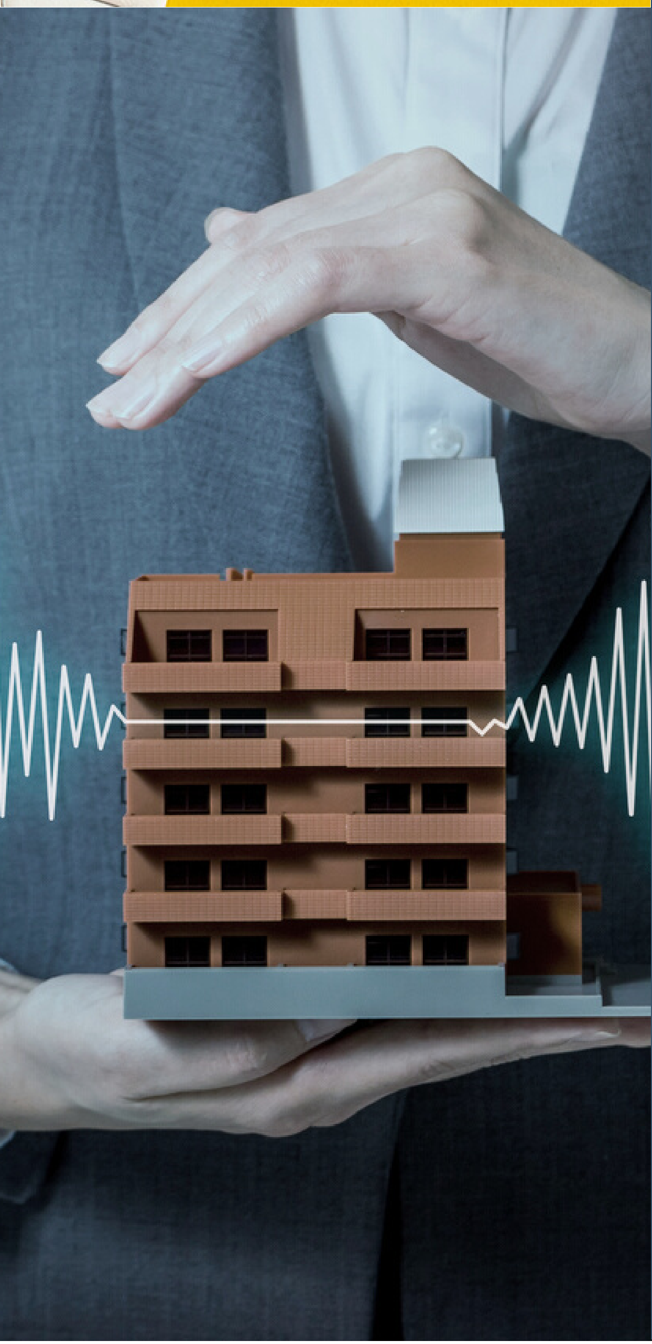
The analysis admits that the marketing period is not always identical with the insertion period. **Advertisements could still be online despite sales.** But the bottom line is that sales take longer. In some places, Analyse & Konzepte even speaks of properties for sale as slow sellers. **Among the large cities Hamburg (+37,5%) and Stuttgart (+36,9%) stand out with longer marketing times.**

Opposite the development on the renting housing market runs. Here, the insertion period declined by 20.6% nationwide from September 2021 to September 2022.



Empirica: Housing shortage on the rise again

According to Empirica, vacancy rates have fallen in growth regions. For Munich, Frankfurt, Münster and Freiburg, the consulting firm has determined vacancy rates that were only just above zero at the end of last year. And things are not likely to get any better for the time being.

According to the Empirica analysis, around **607,000 apartments were vacant in Germany** at the end of 2021. The analysis covered apartments that are unrented but could be offered for sale within less than six months (market-active vacancy). Their share of the housing stock at the end of 2021 was 2.8%, no higher than the year before. Nevertheless, the consultancy identified **around 4,000 fewer such vacant apartments nationwide than at the end of 2020.**

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For eastern Germany (excluding Berlin), the analysis shows a vacancy rate of 6.1%, for the west 2.1%. The difference between regions with declining and with rising populations is even more pronounced: In shrinking regions, the vacancy rate has risen from 6.2% to 7.4% over the past seven years. In growth regions, by contrast, it has fallen since 2006 from 3.1% to 1.4% most recently.

The highest vacancy rate among the federal states was recently recorded in Saxony-Anhalt at 8.1%, followed by Saxony (6.6%) and Thuringia (6.1%). By contrast, the lowest vacancy rates were in the city states of Hamburg (0.4%) and Berlin (0.8%), followed by Bavaria (1.2%) and Baden-Württemberg (1.3%).

In the future, it will probably be even more difficult to find a rental apartment. Rising interest rates and high construction costs are putting the brakes on new construction at a time when more immigrants could fuel demand, says Empirica.

Berlin recorded the strongest growth in rents (+15.5% to EUR 16/m²), followed by Leipzig and Hamburg (8.9% and 7.0% respectively). It is lowest in Munich (+2.4% to 21.40) and Stuttgart (+1.7%).

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DZ Bank expects falling housing prices

While the price increase for apartments was still around 7% last year, DZ Bank expects a decline of 4% to 6% this year. The decline is likely to be somewhat weaker in the case of owner-occupied housing and somewhat stronger in the case of multi-family houses, it says. From 2024, the bank forecasts that prices will stabilize - provided Germany does not slip into a prolonged recession.

Unlike prices, the institute sees rents increasing significantly in the coming year. As a reason, it cites the rising demand for housing due to more war refugees and skilled workers from abroad expected in the future, with less new construction than in previous years.

DZ Bank expects that the number of completed apartments and owner-occupied homes could fall to just over 200,000 units by 2024 inclusive. The German government's already ambitious target for **new construction - 400,000 homes per year, including 100,000 social housing units - would have to be regarded as utopian in view of the sharp rise in construction and financing costs.**

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Fewer orders in residential construction

Last November, significantly fewer orders were received in the residential construction sector, according to data from the Federal Statistical Office. They were 18% below the prior-year level for 2021.

In real terms, this even represents a decline of 29%. The Zentralverband des Deutschen Baugewerbe (German Construction Federation) points out that orders in residential construction have been falling at an ever faster rate since July 2022. The sharp rise in the cost of interest, cost of living and construction would have wiped out the plans of many willing to build. Across the construction sector, new orders fell 8.2% in January to November compared with the same period a year earlier for 2021, adjusted for calendar and price changes, while rising 6.6% in nominal terms. Sales decreased by 5.3% in real terms and increased by 10.5% in nominal terms to 97.4 billion euros. The first quarter of 2022, in which sales were 20% higher year-on-year in nominal terms and 6% higher in real terms, had a supporting effect here.