



First Decline in Purchase Prices since 2010

Prices for residential real estate in Germany decreased by an average of 3.6% year-on-year in the fourth quarter of 2022.

The last year-on-year price decline was seen at the end of 2010. According to preliminary figures from the Federal Statistical Office (Destatis) on the house price index, purchase prices fell by 5% compared with the third quarter of 2022. Lower demand due to increased financing costs and high inflation is likely to be responsible for the decline, according to Destatis. Purchase prices for detached and semi-detached houses tended to fall more sharply than for owner-occupied apartments.

House prices fell by 5.9% year-on-year, while apartment prices declined by 1%. In rural counties, house prices cheapened by 5.5%, while apartment prices rose slightly by 0.1%. The top 7 cities saw a 2.9% drop in houses and a 1.6% drop in apartments. On an annual average, the house price index still increased by 5.3% compared with 2021 thanks to the first three quarters.



Transaction turnover collapses in Berlin

For a long time, there has been very positive atmosphere on the Berlin real estate market. But this ebbed away last year. In the second half of 2022, prices fell in almost all market segments and sales were down by more than a quarter year-on-year at €17.3 billion.

The preliminary figures from the Valuation Committee for Property Values are likely to be a heavy damper for companies whose business model relies on rising prices. This is because, for the first time in years, the panel of experts, which evaluates all real estate purchase contracts concluded up to the end of 2022, has corrected the standard land values downwards. In particular with the yield-oriented submarkets a declining land guideline value level was observed, it is said by the appraisal committee. This led to discounts for building land for multi-storey residential construction and for office buildings in commercial locations of between 10% and 30%.

In the first half of 2022, there were already signs of falling sales of developed

land and residential and part-ownership. However, prices initially remained unaffected by this development and continued to rise. From mid-2022 onwards, however, the tide began to turn and appraisers not only recorded far lower cash sales than in 2021, but also falling sales prices.

This in turn led to a correction of the standard land values, as the market conditions at the end of each year are relevant for the standard land value determined as of the reporting date of January 1, 2023. This means that the appraisers attach greater significance to purchases close to the reference date than to purchases made in the first half of 2022. For this reason, the standard land values have been adjusted accordingly.



In the sale of residential and commercial properties (excluding package sales), the average selling price increased by 5% year-on-year (2021: 11%). The moderate increase reflects the high price level, which was almost €3,000/sqm for sales in the second quarter. In the fourth quarter, however, the sales price fell drastically and averaged only around 2,100 euros/sqm.

However, it was not only the purchase price that fell over the course of the year; cash turnover and the number of purchase cases were also significantly lower than a year earlier. While turnover in the residential and commercial property segment was still €7.46 billion in 2021, this fell to just under €3.63 billion last year, while the number of purchase cases fell by 23% in the same period. Cash turnover and the number of sales also fell by around a quarter in the case of office and commercial buildings, and by around 20% in the case of residential and part-ownership. In total, the expert committee counted 21,586 purchase cases in 2022; a year earlier, more than a fifth more properties changed hands.

Colliers: Favorable window for residential investors with equity

After a phase of annual price increases of between 6% and 12%, purchase prices for owner-occupied apartments had fallen in all seven A-cities (Berlin, Düsseldorf, Cologne, Frankfurt, Hamburg, Stuttgart and Munich).

This applies to both existing and newly built apartments. Between December 2022 and January 2023, Colliers registered a 9.5% decline in prices for existing listings in Munich. This is followed by Stuttgart (-9.3%) and Düsseldorf (-7.9%). In new construction, the largest decline was in Frankfurt (-10.1%), followed by Hamburg (-5.3%) and Munich (-5.2%). In Berlin the minus with 2% (new building) and/or 2,3% (existence) still turned out smallest.



This was offset by the significant increase in rents. According to data from the Association of German Pfandbrief Banks (Vdp), rents for new leases in the fourth quarter of 2022 rose by 6.6% year-on-year in the top 7 cities with an upward trend.

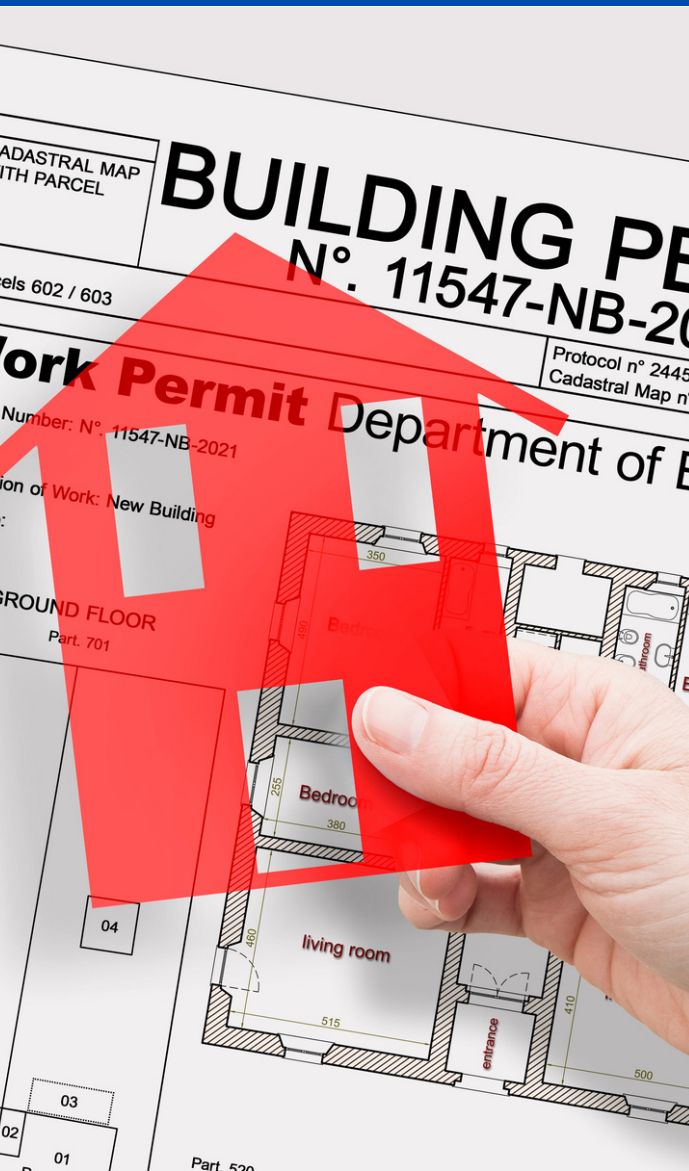
BNP Paribas Real Estate (BNPPRE) also recorded an increase in median asking rents in the portfolio for all German cities in 2022. However, this was somewhat lower in the A-cities (2%) and in the student cities (+3%) than in the other large and medium-sized cities (5% and 6%). However, median rents in the top 7 cities were still around 54% higher than in the other major cities, according to BNPPRE. In the medium term, rents are likely to rise further, particularly in the high-demand swarm cities.



The favorable constellation of falling prices, growing rents, and excess demand due to declining new construction offers a favorable investment climate right now, Colliers says. Investors could cushion the higher interest burden by investing more equity. However, Colliers is confident that prices will soon bottom out. In the long-term view, house and apartment prices have risen in line with inflation. Researchers at Deutsche Bank (DB Research) also predict the same. The current favorable time window should therefore be exploited.

Number of housing permits decreased

As expected, the balance for residential building permits in 2022 has not turned out well. As reported by the German Federal Statistical Office (Destatis) according to preliminary results, the registered number of 354,400 approved apartments represents a decline of 6.9% compared with 2021, which, however, showed a peak value (380,700). The decline was particularly large for owner-occupied homes.



Only slight decline for multi-story apartments

The situation is different for multi-family houses. Due to the still high approval figures in the first half of 2022, 190,400 apartments were approved in the year as a whole, only 1.6% fewer than in 2021.

In particular, the last six months of 2022 developed negatively, according to Destatis. While only 2.1% fewer homes were approved in the first half of 2022 than in the first half of 2021, the figure was then 12.6% lower in the second half of 2022. Since May 2022, fewer applications for new housing units have been approved than in the same month of the previous year. In December, which was seasonally strong, the level was 20% below the previous year's figure. According to Destatis, the main reasons for the lower figures are a shortage of materials and high costs for building materials, a shortage of skilled workers in the construction sector and increasingly poor financing conditions. The 2022 figure is the worst since 2018 (346,800 homes).

The decline in the number of building permits for single-family homes was particularly sharp in 2022. For example, building authorities gave positive decisions to 78,100 new applications for single-family homes, 16.8% fewer than in 2021, reflecting the expiry of the Baukindergeld in March 2021, Destatis explains. The number of approved new units in two-family houses also declined at an above-average rate in 2022: -13.8% compared with the previous year.

However, private individuals in particular were apparently deterred in the course of last year. In this group, there is a minus of 12.6% in the number of permits compared with the previous year. Here, too, the end of the "Baukindergeld" is probably having an impact. In the case of private companies, Destatis registers a decline of 3.3%. In contrast, the number of building permits for apartments, which are based on building applications from the public sector, rose by 17.8%.



"Sharply rising interest rates, material and construction prices, halted new construction subsidies and falling disposable incomes have braked new residential construction,"

says Einar Skjerven, managing director of the Skjerven Group, commenting on the figures.

Studies show: Housing prices level off



Housing price trends are a daily concern for the industry. Researchers use a wide variety of methods to make predictions. Overall, there are signs of stabilization.

Researchers at Deutsche Bank (DB Research) predict that residential property prices will stabilize soon. One reason: Over the past five decades, residential properties have always offered inflation protection. In the long term, DB Research sees a trend toward price growth.

The nominal interest rate shock, which has been in effect since the end of 2021, has ended the long phase of the house price boom. But for residential real estate it is true that they usually increase in the long term with inflation, explains DB Research, looking far back into the past. For example, consumer prices in Germany rose by 64% between 1970 and 1980, and nominal housing prices increased by around 85% during this period. As a result of the reunification boom, consumer prices grew by just over 20% from 1989 to 1994 and house prices by almost 30%. However, there was a very long phase before the claimed inflation protection took effect, starting in 1995, which did not end until 2012. DB Research nevertheless assumes that there is effective inflation protection in the current phase. This is because there would have to be special circumstances if prices in an economy as a whole were to rise sharply and prices in the asset class with the highest investment volumes, which is the most important in many respects, were to stagnate or fall over the long term.

DB Research expects the rise in interest rates to end in mid-2023, after which the negative short-term effects should subside. In the long term, prices should reach new highs.

The Institute Analysis & Concepts is trying a different approach to price developments. The researchers have looked at subsequent price corrections for properties offered for sale in 2022. At the beginning of 2022, a total of around 30% of the offers for sale were still corrected downwards in price after they were published online. From February 2022, the figure rose continuously and peaked at 37% in August 2022. In December 2022, there was a turnaround: The proportion of houses that had to be corrected in price had fallen again to 34%, and that of apartments even to 31%. That showed: Real estate in Germany is again more often offered from the outset at fixed marketable conditions, says Analyse & Konzepte. This can have many reasons. For example, sellers may have already corrected prices downward beforehand. Or buyers may have given up hopes of falling prices and fear higher interest rates.



The brokerage house von Poll, which uses a survey of 212 real estate experts in January 2023, makes the price decline in housing primarily in the older stock. Around 81% of respondents indicate a drop in prices of between 20% and 30% for this segment. In its analysis based on financing data from the Association of German Pfandbrief Banks (VDP), BF direkt also blames the existing stock. In the fourth quarter of 2022, prices had fallen by 1.8% quarter-on-quarter. However, there was no nationwide slump. Prices of new builds were stable, while older existing properties fell more sharply due to investors' concerns about energy efficiency costs.



Furnished living is booming

More and more apartments are being rented furnished. There are now more furnished than unfurnished apartments on offer in Berlin.

The share of furnished apartments among rental offers has increased by 5 percentage points since 2018 from 8% to 13% in 2022, says an evaluation by Immoscout 24. In Hamburg, Munich, Berlin, Cologne and Frankfurt, more than one in three rental apartments on offer is already furnished on average. In the comparison of the large cities (conditions: fourth quarter 2022) Hamburg has with 24% the smallest ratio. However, there has been supply growth there of 13 percentage points since 2018.

In Cologne, furnished rental apartments account for around 25% of the offers, an increase of 12 percentage points since 2018. Frankfurt has a quota of 33%, Munich of 30%. The most significant increase and by far the highest proportion of furnished rental apartments is recorded in Berlin. There, the share has jumped from 13% in the fourth quarter of 2018 to 51% in the fourth quarter of 2022.