



# APARTMENT RENTS AND PRICES ARE RISING AGAIN

**A historic increase in advertised rents was registered by Immoscout 24's (IS24) residential barometer for the first quarter of 2023. Offered purchase prices are also moving slightly upwards again.**

According to figures of the German real estate portal, asking rents for newly built apartments rose significantly more strongly than those for existing apartments in the first quarter. With an increase of 8.8%, Berlin not only recorded the highest price growth of all metropolitan areas, but also the highest price growth in a quarter since the start of the survey in 2007.

The average asking rent for new apartments in Berlin in the first quarter is 17.64 euros per square meter, exceeding the threshold of 17 euros per square meter for the first time. Only in Munich the offer rent is higher: After an increase of 4,3% in the first quarter this amounts to 22,30 euro/sqm. Stuttgart comes with a plus of 7.5% to 17.55 euros/sqm on average. Cologne (+2.7%) and Düsseldorf (+2.8%) bring it to 14.05 euros/sqm and 14.02 euros/sqm respectively. In Frankfurt (+2.3%) it is 16.02 euros/sqm, in Hamburg (+1.5%) 15.20 euros/sqm.

With the existing apartments, Berlin has to register the clearest growth (+5,3% on 12,55 euro/sqm). Munich has only an increase of 2,6%, comes however on 18,44 euro/sqm. The German on-line portal Immowelt determines in addition, in the existence a true rent price explosion. Thus in Berlin compared with the previous quarter the offered rent prices for existence would have increased in price by whole 22%. Immowelt computes an average price of up-to-date 12,41 euro/sqm - before three months it would have been still 10,17 euro/sqm.



# Purchase price for apartments pull again upward

After the offer prices for apartments experienced price corrections of up to 10% downward according to IS24 in the fourth quarter 2022, they increased again in the first quarter 2023 Germany.

According to IS24, prices had already bottomed out and were now foreseeably moving upwards again. Across Germany, asking prices for condominiums in both existing and new buildings grew by 2.3% in the first quarter of 2023. From the third to the fourth quarter of 2022, a minus of 4.3% was still registered for existing housing prices and a minus of 6.4% for new housing prices. **Residential real estate is cheaper than it has been for a long time. This opens up a short window of opportunity for investors.**



"I think it's the right time to invest. Prices for residential portfolios in Berlin have fallen from over 30 times to arounds 22 times. And given the uncertainty on the financial markets, it can't be wrong to invest capital in tangible assets with appreciation potential,"

Einar Skjerven,  
Managing Director of the Skjerven Group





immowelt price compass:

## Downward trend stopped

Real estate prices rose very sharply for a decade before falling again for the first time last year and now gradually leveling off. This is illustrated by the current asking prices for existing apartments from the immowelt price compass

For this purpose, existing apartments offered on immowelt.de (75 square meters, 3 rooms, 1st floor, built in the 1990s) were examined. Between December 2022 and March 2023, the asking prices of existing apartments fell in only 4 of the 14 major cities surveyed. In 4 cities, purchase prices have even risen slightly again, while in the remaining 6 cities the price level has remained stable. The slowdown in momentum becomes clear when looking at the previous quarters: in Q4 2022, asking prices still fell in all 14 cities. In Q3 2022, too, all the major cities surveyed still recorded declining purchase prices. In some cases, prices slumped by 5% within a quarter. In the past three months, however, the maximum decline is now only 2%.



One possible reason for the stabilization of purchase prices is the simultaneous stabilization of interest rates. In addition, although demand declined last year, it has stabilized in the meantime. Buyers without a lot of equity are looking for alternatives in the surrounding areas of the major cities or are accepting compromises in the standard of living. **For investors with a lot of equity, the purchase can be worthwhile despite increased interest rates due to the further increase in rents.** Another plus is that the number of offers on the open market and thus the choice have increased, while competition is significantly lower than during the low-interest phase.



The Berlin real estate market thus appears to have generally reacted more robustly to the changed conditions. This may be due to the fact that interest in real estate in the capital - particularly from wealthy foreign investors - is greater or has declined less than in other cities. This is because the price level is still comparatively low for the size and importance of the city.

# Stable prices in major cities

In the four cities with over a million inhabitants, there have been no further price falls recently, although prices are significantly lower than a year ago. For example, asking prices in Munich, Hamburg and Cologne remained virtually stable in the 1st quarter. The Bavarian capital continues to be the most expensive: existing apartments currently cost EUR 8,778 per square meter, compared with EUR 8,822 a quarter ago. However, a year-on-year comparison shows that the trend is reversing: A year ago, the price level in Munich was still at 9,535 euros and thus 8% higher than at present. A similar picture can be seen in Hamburg, where buyers currently have to pay 6,404 euros for the square meter. Also in the Hanseatic city the price peak had been reached one year ago with 6,785 euro. With the exception of the 1st quarter of 2022, prices have fallen since then - by a total of 6%.

The general price level is somewhat lower in the other two metropolises, Cologne and Berlin. In the Rhine metropolis, the asking price has also not changed significantly and currently stands at 5,123 euros for the square meter. The German capital, on the other hand, is the only metropolis in which prices are actually rising again in a quarter-on-quarter comparison. Following an increase of 2%, the square meter in Berlin currently costs €5,150 and is on a par with the previous year.





**On the supply side, the transaction volume could easily rise into double-digit billions this year. The question is whether there will be enough demand, because the current offer prices on the residential investment market are often unaffordable for leveraged investors. This explains the selective action of many players, although many fund vehicles continue to look for properties for their portfolios.**

# Family offices benefit from small-scale real estate market

According to Savills, residential real estate in Germany was traded for around EUR 1.2 billion in the first quarter of 2023. Such a low quarterly volume was last recorded at the beginning of 2011. This volume is spread over only around 20 transactions. By way of comparison, the average number of sales per quarter over the past ten years was three times as high.

The fact that the volume climbed to more than one billion euros despite the few transactions at all was due to two portfolio sales in the triple-digit million range. Together, these accounted for almost half of the volume. Apart from this, the market was predominantly small-scale. Sales in the mid and lower double-digit million range dominated. Smaller and medium lot sizes are currently attracting more interest than large-volume products, where the field of bidders has thinned out. Equity buyers in particular, such as private investors or family offices, can act more offensively in the current environment and have a relatively large number of purchase options in view of the temporarily thinned-out field of bidders. As a rule, they are focusing on high-quality properties that promise stable capital values and rental payments over the long term.

Further developments on the residential investment market will depend to a large extent on the speed of the price adjustment process and the actions of policymakers. In the case of new construction, demand among institutional investors is generally brisk and prices are expected to stabilize soon. This should facilitate transactions. This will also have a positive impact on transaction volumes. However, because institutional investors are increasingly refraining from buying portfolios, residential real estate companies have switched to the sell side, and hardly any owners have responded to the bids of private equity funds to date, transaction volumes could remain below average for some time yet. In the value-add segment, the decisive factor will be whether owners are prepared to make greater price reductions.