SKJERVEN GROUP - *Monthly Newsletter*
Berlin - June 26, ISSUE #41/2023

Major Cities:

KI FORECASTS RENTS OF €30 / SQM

Rents in new construction will rise to 30 euros/sqm and more. And in the modernized stock, rents could reach up to 25 euros/sqm. Investment consultant Prea has used its AI-driven Mercury analysis platform to forecast future rent trends in the German residential market.

In the past twelve months, Prea has registered an increase in rental prices in the existing stock (year of construction 1945 to 2014) in 124 of 127 major and larger German cities surveyed in categories A to D. The increase in rental prices is expected to continue in the coming years. Growth in all city categories exceeded the average of the past ten years.

In the old-building segment (all years of construction before 1945), rents continue to rise in cities with a high level of excess demand, as in the A cities in the old building segment.

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Rents for new builds rise by 24.1% in Berlin

On average across all A-cities, rents for new builds climbed by 8.9% last year. However, there are regional differences. While rents for new builds in Berlin, Hamburg and Munich grew by 24.1%, 19.1% and 9.3% respectively year-on-year, they fell slightly in Düsseldorf, for example.

On balance, however, rents in existing and new buildings are currently on a clear upward trend in the cities, with a few regional exceptions. The forecast for the future predicts further strong rental growth for the cities as a whole. According to the Prea forecast, expensive furnished accommodation will also drive up prices in the major cities.

Foreign professionals moving in are already paying the high prices because they are used to them in other European cities. In recent years, furnished housing has developed from a niche segment into an established factor. In Berlin, for example, every second apartment advertisement already relates to this market. And there is also a boom in Frankfurt, Hamburg and Munich. Housing providers benefit from the fact that furnished living is less regulated than the ordinary rental housing market. Accordingly, the square meter prices in Berlin (30.90 euros/sqm), Frankfurt (32.60 euros/sqm), Hamburg (29.70 euros/sqm) and Munich (32.70 ejuros/sqm) would already be at the level of other European metropolises such as Amsterdam (32.10 euros/sqm), Milan (32.10 euros/sqm) or Lisbon (30.80 euros/sqm). In Paris, rents are still significantly higher at 42.80 euros/sqm.

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Climate protection as a price driver for existing buildings

Climate protection will be the main price driver for rents in existing and new buildings, predicts Prea. In particular, this development will promote the German government's goal of achieving a climate-neutral building stock by 2045. To realize this goal, the CO_2 levy on tenants and landlords was revised in January 2023, for example: The lower the energy efficiency of the building, the higher the share of the levy that landlords have to pay. According to Prea, this increases the incentive to invest in modernization.

Office: Yields to finally settle down in 2024 - but so will rents

Yields in Germany's five largest office markets are expected to rise by an average of 50 basis points to 3.8% to 4% by the end of 2023 - that's the prediction of the 15 brokerage houses, investment managers and banks that recently participated in the semi-annual Gif Cres Consensus Forecast. Next year, after two years of significant increases - by a total of well over one percentage point - the rise in yields is finally expected to largely come to an end. But prime rents will not continue their climb in 2024 either.

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This year, prime rents in the major cities are still expected to rise more or less significantly: According to the Consensus forecast, Munich will see a median increase of 3.3%. Berlin (2.3%), Düsseldorf (2%) and Hamburg (1.8%) follow at some distance. For Frankfurt, the joint forecast still envisages an increase of 0.5% in prime rents. For 2024, on the other hand, almost pure stagnation is the order of the day: with the exception of Munich, where there will be a small increase of 0.3%, prime rents are expected to stagnate everywhere - as are prime yields, which will not move from the spot in the median in any of the five cities, after increasing by exactly half a percentage point everywhere in 2023.

The vacancy rate is expected to increase sharply, especially in Berlin and Frankfurt. For the capital, the augurs expect a noticeable increase in the vacancy rate of a further percentage point in 2023, with the vacancy rate expected to reach around 5% by the end of the year. For Frankfurt, the forecasts have worsened significantly: the already high rate is expected to rise again and probably arrive at 9% (up 90 basis points). For 2024, expectations are brightening somewhat: For Berlin, brokers, investment managers and bankers expect a significant increase of 70 basis points.

Investment market:

No commercial portfolio deal for the first time since 2009

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In May, players on the German real estate investment markets only traded properties for EUR 1.9 billion. This is hardly more than in April with 1.8 billion euros - the second weakest investment month since 2009 according to Savills. The good news: The deals are increasing again - but they are also becoming much smaller.

Because although the transaction volume in May has treaded water, the number of deals recorded by Savills has almost doubled - so the tickets have roughly halved on average. Up to about 50 million euros purchase price, comparatively many transactions take place, above which the activity decreases significantly. In principle, there are willing buyers and sellers even for larger volumes - but the current owners in particular are hesitant to initiate sales processes for their larger properties in the current environment. Instead, they are testing the market with smaller properties first.

The biggest chunk in April was the sale of shares in a package of apartments by the housing company Vonovia for around EUR 1 billion. Vonovia also topped the hit list in May: The Bochum-based company with liquidity requirements sold a package of apartments comprising new buildings to CBRE Global Investors for around €560 million. In the three-digit million euro range, Savills has otherwise registered only three other transactions. While there were still a few deals involving residential portfolios, package sales in the commercial real estate segment were completely absent for the first time since June 2009.

Savills is encouraging: In recent weeks, the willingness to sell has increased again. The brokers are seeing more sales processes again or those that are in the offing.

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Prices for housing with poor energy efficiency fall by up to 36% in major cities

A price reduction of up to 51% in relation to the top standard must cope with sellers of residential properties of the low energy efficiency classes F, G and H in rural areas. There are also losses in the metropolises, where the minus can amount to up to one third, says a survey of the German real estate portal Immoscout 24.

Discounts with lacking energy efficiency determine massively the price finding with inventory real estates. After an evaluation of the current offer prices Immoscout 24 states: **The heat turn is thereby to divide the market again and leaves already now clear traces with the offer prices. The uncertainty, which will stand finally at editions and promotions in the new building energy law, leads to an immense uncertainty - both on salesmen and buyer side.**

According to Immoscout 24, the price reductions in offers for residential properties with a poor energy efficiency class compared to class A are greatest in small and medium-sized towns with no districts and in rural areas. Already objects with energy standard B registered a minus of 16% in the rural area. In small and medium-size cities it would be a minus of 19%. For real estates with energy efficiency class C the offer prices sink in the country around 25% and in the cities around 30%. For energy class D, the price discount is about 33% compared to properties with energy class A. For residential properties with the worst energy efficiency class H, the offer prices in small and medium-sized cities are on average 45% lower. In rural areas, they are even 51% lower.

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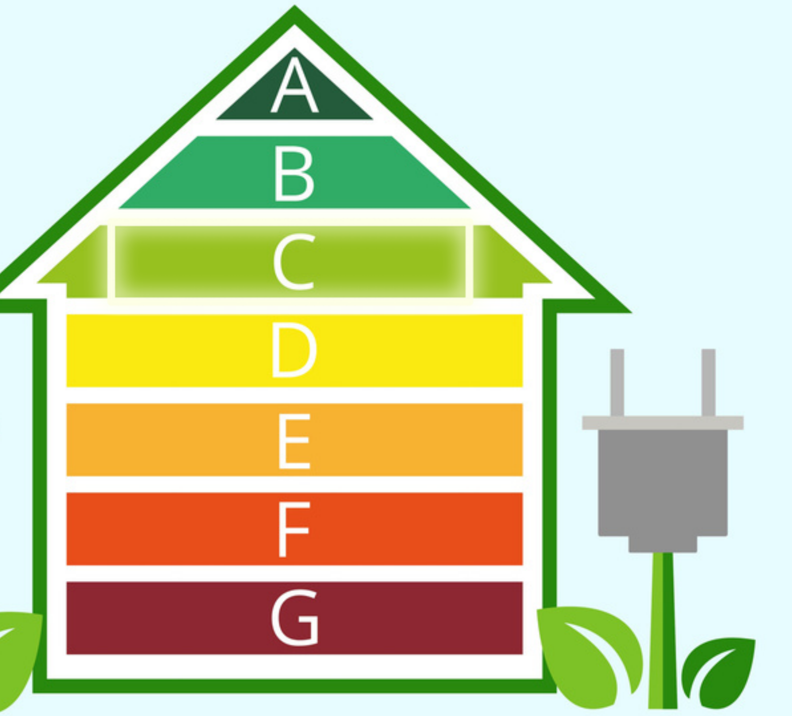

Falling prices from energy class C

Even in the average of Germany's seven metropolitan areas, residential properties with a lower energy efficiency class than A are seeing price reductions. That applies likewise to residential properties in large cities starting from 100,000 inhabitants and in the Metropolenumland.

The minus for properties with energy class B is 5% in metropolitan areas. In the remaining large cities and in the Speckgürtel it is approximately 10%. According to Immoscout 24, the price reductions for energy class C and higher are similar in all urban regions. For energy classes F to H, they range from 30% to 36%, depending on location.

In Berlin, poor energy values have no impact on prices

The brokerage house von Poll has taken a look at the price development by energy class in the A-cities in the first quarter of 2023 compared to the first quarter of 2022.

According to this, in Munich the purchase prices for condominiums and houses in the energy class E to H have fallen the most in comparison with -12.1% (to 8,438 euros/sqm). In Frankfurt and Stuttgart the prices sink in the annual comparison with residential properties with a low energy class by 11.9% to 5,370 euro/sqm and/or by 10% to 4,863 euro/sqm. In Hamburg and Düsseldorf, property buyers will pay an average of 8.8% and 7% less, respectively, for a condominium or house with an energy rating between E and H in the first quarter of 2023 than they did in the first quarter of 2022. von Poll finds no impact at all on prices for low-efficiency housing in Berlin. There is even a minimal increase there.