



CONSTRUCTION COSTS RISE SHARPLY

Heating systems have become more than 18% more expensive. This is shown by figures from the German Federal Statistical Office. Construction prices for new residential buildings increased by a good 15%.

In February of this year, the cost of new residential construction was 15.1% higher than in the same month last year. The increase was thus somewhat lower than last determined for November 2022: At that time, statisticians reported a 16.9% year-on-year increase. Looking only at the three months from November 2022 to February 2023, inflation was 2.7%.

The strongest increase over the year to February this year was recorded by the Federal Office for heating systems and central water heating systems (18.2%). This is followed by prices for carpentry (17.3%) and roofs (17.1%). The prices for thermal insulation composite systems went up by 16.5%, and those for concrete and masonry work by 15.2% and 12.7%, respectively.



Offices are becoming scarce in Berlin

From 2025, Berlin's strong office market is threatened with a significant decline. This is the result of an analysis by Colliers, in which 550 new office construction projects in the capital were analyzed.

Only 134 properties with a combined 1.5 million sqm of office space will be completed in Berlin by 2027. 1.35 million sqm of this is expected to be available by the end of 2025. For them, the pre-letting rate is currently 40% across Berlin. For 2023 and 2024, the completions are still relatively transparent. Currently under construction with planned completion in 2025, however, are only 17 projects with a total of 335,900 sqm of office space. 32 other projects with a total area of 233,000 sqm could also be completed by December 2025 if construction starts within the next six months. Here, however, the pre-lease rate is only 28%. Colliers expects a maximum of one-third of these projects to be completed by the end of 2025.



Eight buildings are currently under construction with a projected completion date of 2026. However, there are concrete plans for almost 90 more with a total of 800,000 sqm of rental space. In addition to planning permission, the main prerequisite for the start of construction is sufficient pre-letting and thus secure financing. From 2025 onwards, there is a risk of a supply gap, as only very limited new projects will be started. In addition, there are only a few buildable areas left within Berlin's S-Bahn ring. However, it is precisely these locations that are in particularly high demand.

The pre-letting rates in easily accessible locations, such as Südkreuz station, are strikingly high. Of 33,400 sqm there, 97% has already been let. Between the main station and Europacity in the Mitte district and on the Mediaspree in Friedrichshain, 170,000 sqm of office space is under construction in each case. In Mitte, an occupancy rate of 69% before completion is cited, while in Friedrichshain it is 60%. In the eastern outskirts of the city, only 29% of the 143,000 sqm under construction there has been pre-let. Demand in the area around BER airport in Schönefeld also remains limited. Only 9% of the space under construction there has been let.



Bank index shows decline of a good % in Real Estate prices

The property price index of the German Pfandbrief banks fell by 3.3% in the first quarter of 2023 compared to the previous year. While the decline in residential property was moderate at 2.1%, commercial property (office and retail) went down by 8.3%. However, retail properties are expected to bottom out soon.

Compiled by the Association of German Pfandbrief Banks (VDP), the property price index is based - unlike many other indices - on transactions actually carried out. It differentiates between prices for owner-occupied residential property and apartment buildings as well as between office and retail properties.

Among residential properties, prices for rented multi-family houses (-3.1%) fell more sharply than those for owner-occupied properties (-1%). The seven top metropolises recorded a slightly smaller price decline than the overall market (-1.4% versus -2.1%). In the commercial sector, prices for office buildings fell by 7.5% within one year, those for retail properties by as much as 10.5%.



In contrast, office rents declined in the course of the first quarter, while purchase prices fell by 5% within three months - i.e. from the fourth quarter of 2022 to the first quarter of 2023. According to the VDP, the downward trend in all asset classes will "continue for several more quarters". This is a normal cyclical correction after ten years of rising prices. There are no signs of an "abrupt price decline".



The Südewo deal took place in April - and accounted for more than half of the total transaction volume in this month, as Savills has calculated. In total, only commercial and residential properties were traded for just under 1.8 billion euros in these four weeks. The average deal turnover of the previous twelve months - already marked by war and the turnaround in interest rates - was more than twice as high at 3.8 billion euros.

Savills:

April was the second worst investment month ever

Savills has been recording the investment figures on the German real estate market every month since January 2009 - since then, the transaction volume in Germany has almost never been lower than last month. Despite the emergence of optimistic prospects, the investment market is still a long way from being in a secure position.

Two major deals by Vonovia have recently raised hopes that the German transaction market could slowly pick up again: On the one hand, the housing company sold around 30% of the shares in the Südewo portfolio in Baden-Württemberg with around 21,000 flats to the financial investor Apollo for around 1 billion euros. The other time, the company sold 1,350 new flats in Munich, Frankfurt and Berlin to the fund manager CBRE Investment Management for 560 million euros.

Only 14 years ago were there fewer deals. So there is still no sign of a trend reversal, on the contrary: fewer than 50 transactions mean the second-lowest value in the recording history of Savills - undercut only by April 2009.