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Study:

RENTS ARE RISING FASTER IN BERLIN THAN IN ANY OTHER MAJOR CITY

Unbroken demand for residential space, a crisis in new construction, and a wait-and-see approach: Pressure has increased on the rental market in major German cities. This is shown by an analysis by Jones Lang LaSalle (JLL).

On average, asking rents in eight major cities climbed by 6.7% in the first half of 2023:

Berlin (up 16.7%)	Düsseldorf (up 5.3 %)
Leipzig (up 11.1%)	Munich (up 5.0 %)
Cologne (up 8.4%)	Frankfurt (up 1.9 %)
Hamburg (up 6.8 %)	Stuttgart (down 1.3 %)

In the same period of the previous year, according to the study, the increase in rents for the new and existing apartments under consideration was still 3.7%. Germany lacks 700,000 apartments and only a fraction of the planned social housing has been completed, the study found.

"There is an enormous shortage of supply in all the metropolitan areas under review, which will be exacerbated by faltering residential construction. "

Einar Skjerven, Managing Director of the Skjerven Group, explaining the current market situation.

An end to rent increases is therefore not in sight. Asking rents increased particularly strongly in Berlin and Leipzig, where double-digit percentage growth was recorded according to the study - in the capital, JLL saw an increase of 16.7%. In Berlin, there had been a net influx of 86,000 people in 2022, while only a good 17,000 apartments had been completed.

In addition, people with favorable leases are reluctant to move. This increases the pressure on the few apartments that become available. According to JLL, the rise in rents in the metropolitan areas was stronger than in the independent cities and rural districts, although the increases there were also noticeable at plus 2.7% and 4.9% respectively.
The study also shows how expensive housing is in the eight metropolitan areas mentioned: At €15.38 per square meter, rental apartments were offered there on average around 50% more expensive than in independent cities (€10) and 79% more expensive than in the districts (€8.61).

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German Residential Property Prices Fall Most Sharply

Despite a slight stabilization trend, Germany has recorded the sharpest decline in asking prices for residential real estate among seven European countries. This is the result of a year-on-year comparison by the German online platform Immowelt.

Across Europe, interest rates for construction loans have risen over the past year and a half. But the impact on residential property prices differs significantly, according to Immowelt's AVIV Housing Market Report for the second quarter of 2023. According to the report, in five of the seven countries surveyed, average prices on offer have become more expensive despite poorer financing conditions. The major exception is Germany, where prices fell by 6.2% year-on-year. This is the sharpest decline among the countries surveyed, namely Germany, France, Belgium, Luxembourg, Italy, Spain and Portugal.

According to Immowelt, the largest price increase for advertised residential properties is in Spain (+7%) and Portugal (+6.4%). Italy has an increase of 2%. However, the price level in these countries is significantly below that of Central European countries. The high interest rates have less of an impact on the monthly burden for smaller loan amounts. According to the study, this is also reflected in the number of loans granted: While in Germany, according to data from the European Central Bank, the number of loans granted to private households has slumped by 50% within a year, in the southern European countries it has remained stable or even increased slightly.

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Bulwiengesa Counts Slump of 54 % In Housing Construction Starts

Construction starts for project developments declined by around 47% in the second quarter of 2023 compared with the same quarters of the previous two years. This is shown by Bulwiengesa's Development Monitor. The residential segment was hit hardest with -54%.

In the first half of 2023, Bulwiengesa counted construction starts for 1.7 million sqm in the largest German metropolises (the so-called A-cities), of which around 0.6 million sqm was residential and 0.65 million sqm office space. In the A-cities, the volume of newly launched projects fell by 28% compared with previous years, and by 61% in the B- and C-cities. The total German project volume - i.e. the sum of planned space, space under construction and recently completed space - decreased by only 1.6% to 183 million sqm.

At present, according to Bulwiengesa's figures, the provinces beyond the large to medium-sized cities are proving to be a pillar of the economy. While project volumes declined by 3.9% in A-cities and by 6% in B-cities, they remained stable (-0.6%) in D-cities and slightly positive (+1.2%) in the countryside, driven by growth in the residential and logistics subsectors. Bulwiengesa also counted a total of 2.7 million sqm in construction starts in the rural rest of the republic in the first half of 2023 - that is more than in the A and B cities combined (2.3 million sqm). Here, space-intensive logistics with its locations outside urban areas is the determining factor.

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Insurers and Pension Funds Brace Themselves for Sharp Losses in Value

Insurance companies and pension funds expect total returns on their real estate investments to shrink significantly in the current year. In the event of direct real estate portfolios, the total return will fall significantly from 4.5% in 2022 to 3.8% due to losses in value. In case of their indirect investments, life insurers and reinsurers, as well as pension funds and provident funds, anticipate an even sharper drop in returns from 5.5% to 4.2%. This is shown by the 16th and most recent Real Estate Investment Trend Barometer of the insurance industry by consultants EY.