



High Interest Rates, Construction Costs  
and Inflation:

## GERMAN PROJECT DEVELOPERS UNDER PRESSURE

2  
0  
2  
3

**German project developers are currently in difficult waters. Interest rates, construction costs and inflation have risen to a high level and have dramatically changed the general conditions on the real estate market. Recently, 25 real estate developers were interviewed in an anonymous survey by Quin Investment about the current situation. Among them were renowned companies such as GBI AG, Arcadia Investment, Art Invest and Profi Select as well as smaller and medium-sized developers.**

Two-thirds (approximately 66%) of the companies surveyed attribute influence to the increased interest rates on current investment decisions. More than one in ten companies (11%) rate the rise in interest rates as a strong factor - only just under a quarter (22%) rate the influence of rising interest rates as moderate. In addition to insufficient government subsidies (8.7%), construction costs (39%) are a particular burden on the industry.

Quin Investment also asked the companies which challenges are the greatest for the coming twelve months. Interest rates also worry more than one in four (26%) project developers for the future - construction costs 21%. According to the survey, just under one-fifth (16%) of respondents still see inflation as critical for 2024 - it increases operating costs and affects the purchasing power of consumers, which will continue to have an impact on demand in the real estate market, they say.

Optimization or consolidation:

## THE FUTURE OF PROJECT DEVELOPERS

According to the survey, almost all (89%) project developers expect new construction activity to decline further in the next two years, while 11% think it will remain the same. On the bank side, risk appetite for real estate projects has declined, it said. From the second or third quarter of 2024, the majority (67%) of project developers expect a slight recovery in interest rates.



...

The industry is in a state of upheaval, the survey initiators conclude, with project developers facing one of the biggest challenges in recent decades. For some, this will lead to optimization of operations and processes, according to Quin Investment. At the same time, there is likely to be consolidation in the market. More companies will have to give up or move into completely different business areas.

The industry will have to adapt, according to the experts. The survey shows that project developers are now primarily looking at more efficient processes (around 37%) and want to change business strategies (21%). They are also increasingly looking for alternative financing options (26%).

LaSalle:

## GERMAN CITIES REMAIN IN DEMAND

**In LaSalle's European Cities Growth Index (ECGI), German cities perform surprisingly well despite the multi-crisis. One reason: their lower susceptibility to extreme weather.**

One result of LaSalle's European Cities Growth Index (ECGI) 2023: Germany has among the most cities in the European top 20. Munich occupies the top spot within Germany with 7th place. Berlin is the big winner in the year-over-year improvement, achieving its highest ranking yet at 13th. The city's employment growth and economic performance improvement moves Berlin close to Stuttgart (12), which scores as the home of Mercedes Benz. Frankfurt (29) and the Mannheim-Karlsruhe region (34) also score well. London comes out on top, ahead of Paris and Stockholm.

Another factor in favor of a new investment in Germany is its location in the center of Europe and the associated lower susceptibility to the effects of climate change. This aspect is included in the assessment for the first time: Great heat will mainly affect the economy in southern Europe in the next few years, while storms and severe weather will tend to hit coastal areas in the west and north.



Empirica:

PRICES FOR  
NEW RENTAL  
AND OWNER-  
OCCUPIED  
APARTMENTS  
BECOME MORE  
STABLE





...

*The Berlin-based Empirica Institute reports a stabilization in offered purchase prices for newly built apartments in the third quarter of 2023.*

Compared with the previous quarter, an increase of 0.2% in advertised prices for new owner-occupied apartments is registered across Germany. In the independent cities, purchase prices are currently 0.4% above the level of the previous quarter. In the counties, they are 0.1% higher.

Newly built rental apartments are even experiencing growth of 1.2% in the third quarter, according to Empirica. For new detached and semi-detached houses, however, the trend in listings continues to point downwards at -0.9% compared with the previous quarter





# RISE IN CONSTRUCTION PRICES FOR RESIDENTIAL BUILDINGS LEVELS OFF

The rise in construction prices is slowing. According to the German Federal Statistical Office, prospective builders had to pay 6.4% more for the construction of a new residential building in August than in the same month of the previous year. In May, this increase was still 8.8%, in February more than 15%.

In the case of structural work, the services of roofers cost more again, 7.2%, according to the data. Earthworks became 7.6% more expensive. More favorably available were however carpenter and timber construction work with a minus of 2,5%. This is also a continuation of a trend seen in the spring. The price increase was stronger for finishing work. Carpenters for instance demanded 8,0% more for their achievements, as the office communicates on Tuesday further. For heating systems, thus also heat pumps, 12.1% more were charged, the prices for thermal insulation composite systems increased by 9.9%.