SKJERVENGROUP

SKJERVEN GROUP - *Monthly Newsletter*

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Dear Readers,

In 2024, the real estate sector has suffered from the sharp rise in interest rates and, unfortunately, there have also been some market shakeouts among well-known real estate developers. At the same time, the interest rate policy of central banks around the world is pointing in the right direction and the crisis has also created attractive buying opportunities for investors with strong equity. Let us look forward to the new year with optimism.

In this last newsletter for this year, we would like to wish you a happy holiday season with your loved ones.

Have a good start to the new year!

Einar Skjerven and Skjerven Group Team.

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THE WORLD'S SUPER-RICH WANT TO BUY MORE REAL ESTATE

UBS, one of the world's largest asset managers, has published its tenth Billionaire Ambitions Report, which looks at the shifts in wealth among the super-rich.

According to UBS, the number of billionaires worldwide has risen from 1,757 to 2,682 over the past ten years. At the same time, their total wealth has more than doubled, from USD 6.3 trillion to USD 14 trillion (the MSCI World Index "only" rose by 73% at the same time). The highest growth in wealth was among tech billionaires, tripling from USD 789 billion to USD 2.4 trillion. By contrast, the real estate sector has lagged behind the wealth development of the overall group since 2017, writes UBS. The bank cites the Chinese real estate crisis, the Covid upheavals for office properties and the 2022 interest rate turnaround in the USA and Europe as possible causes. UBS puts the assets of the real estate billionaires at USD 692 million in 2024, almost 30% more than in 2015.

UBS not only collects data on the wealth development of its most important clients, but also conducts a survey among billionaires from the most important regions of the world on their future investment preferences. And real estate is at the top of the list: 43% intend to increase their real estate activities in the future.

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This asset class thus received the highest approval rating of all the segments surveyed. UBS recognizes an increased drive towards "safe havens" in the allocation plans. Although 42% of billionaires also want to buy more equities, the approval rates for gold/precious metals (40%), art/antiques (32%) and cash reserves (31%) are also very high. At the same time, more billionaires want to reduce their allocation to risky strategies such as hedge funds and private equity funds than there are super-rich who want to increase it.

The "safe haven" theme is also reflected in the concerns of the super-rich, which UBS also surveyed. Looking ahead to the next five years, only a minority of them see the issues of climate change (30% approval rating), food shortages and pandemics (20% each) as worrying. Instead, they are more concerned about possible geopolitical conflicts (53%), a global recession (53%), the risk of having to pay higher taxes and a global debt crisis (46% each). Only 19% fear risks from a further correction in real estate prices in this time horizon

PRIME YIELDS FOR OFFICE PROPERTIES IN GERMANY ARE NO LONGER RISING

Prime yields for German offices have bottomed out this year.

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For 2025, Gesellschaft für immobilienwirtschaftliche Forschung (Gif) and the Center for Real Estate Studies (Cres) are even forecasting minimal declines in yields here and there in the top 5. However, prime rents are no longer rising either.

Following the sharp corrections in office values over the past two years, particularly in the core segment, the researchers are calling for "at least a temporary end to the correction phase". In Dusseldorf and Munich, the forecasters have seen impressive prime rent increases of 8% and 11% this year. "Therefore, capital values are already rising again," writes the research group of the Gif and the Cres at Steinbeis University Berlin in a summary of the survey results.

According to the researchers, prime yields have bottomed out at well below 5%, in Munich and Berlin at around 4.2% to 4.3%. In Frankfurt, at the other end of the scale, prime yields are expected to reach 4.8% by the end of the year.

None of the real estate researchers surveyed by Gif and Cres expect yields to rise in 2025. On the contrary, they are seeing "the first tentative signs of a reversal in the trend". Some of the forecasters expect yields to fall by up to 20 basis points.

On the investment side, the sky is brightening - on the rental side, the sun is fading. In Munich and Frankfurt, they see potential for smaller increases of less than 2% and 1.5% respectively - that's essentially it.

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In addition to rapidly rising rents, purchase prices on the European residential markets are now also growing again, reports Catella in its Residential Market Analysis for the third quarter of 2024. The reasons are the same everywhere: Lower financing costs and hardly any new construction activity.

Catella looked at the development of residential values in 58 cities in 16 countries. According to the study, prices for condominiums rose in 45 of the 58 cities analyzed. The European average value is €5,666/sqm, which corresponds to an increase of 2.1% compared to the first quarter of 2024. Switzerland recorded the highest prices. The highest relative price increases were recorded in Polish cities. There, condominiums have become 13% more expensive in Warsaw, 16% more expensive in Krakow and 21% more expensive in Wroclaw since the first quarter. As expected, Munich leads the German market at EUR 9,950 per month. This is still slightly below the ten thousand mark, which it passed at the beginning of 2022. In second place is Frankfurt (€7,070/sqm) ahead of Hamburg (€6,800/sqm).

According to the Catella report, rents have risen in 53 of the 58 European cities surveyed. The (unweighted) average is EUR 19.70/sqm per month, which corresponds to an increase of 4.1% compared to the first quarter.