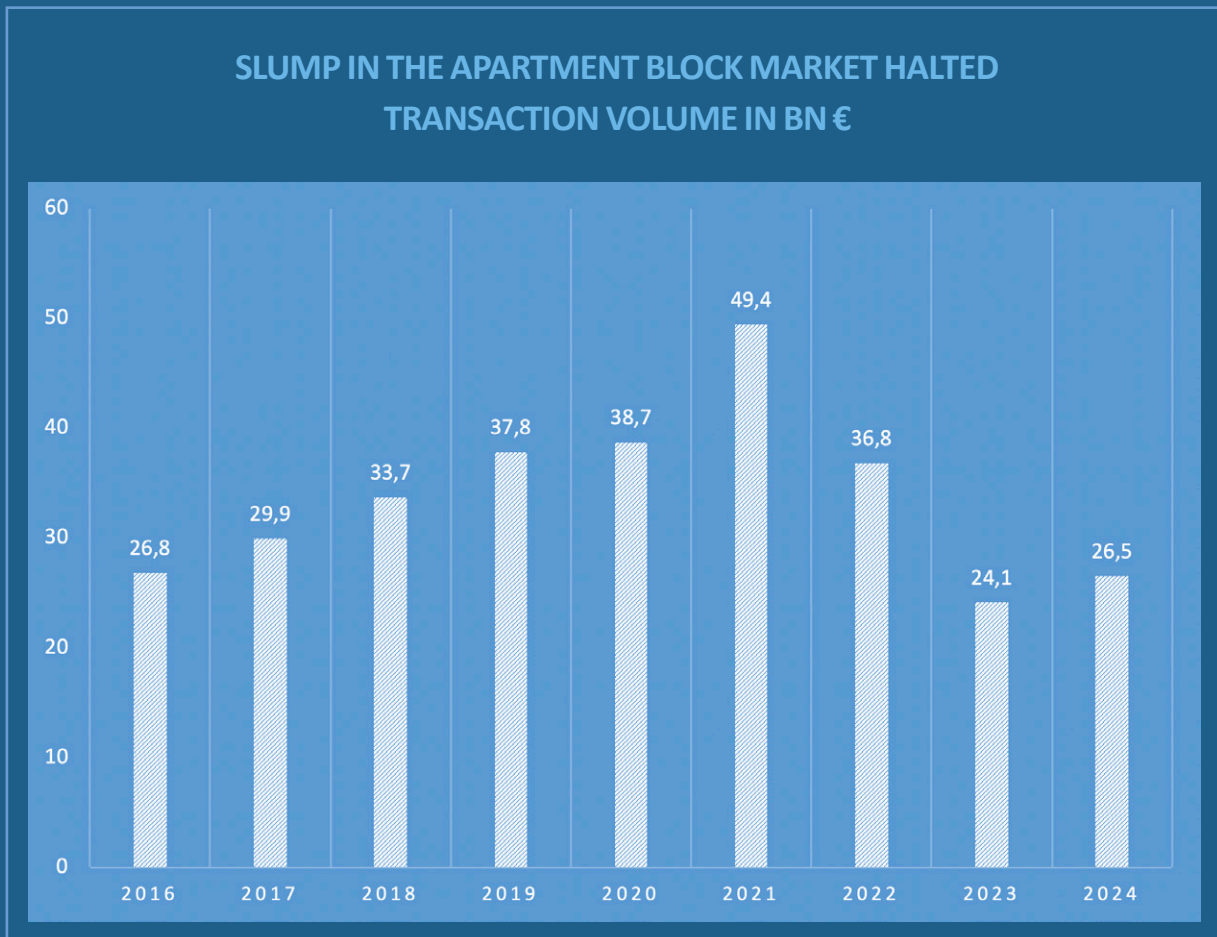


RESIDENTIAL & COMMERCIAL PROPERTIES IN DEMAND AGAIN



In pre-crisis times, mixed-use properties were also celebrated as a lucrative investment in B and C locations. The crash was then huge. The transaction volume halved from 2021 to 2023. The first signs of a market recovery were then reported by major cities such as Berlin and Munich in the last quarter of 2024. Deals were suddenly being done again. Confidence in the initially hyped and then ignored niche seemed to have returned. The nationwide trend is now also confirmed by the estate agent and consultancy firm Engel & Völkers (E&V) in its balance sheet for the past year. It shows a volume of 26.5 B euros in mixed-use properties transactions.

This exceeds the previous year's figure (€24.1 B), but is still well below the peak figures of 2021 (€49.4 B) and 2022 (€36.8 B).



Source: Engel & Völkers

However, E&V is observing further growth in the mixed-use property market. This started in the metropolises in the course of 2024 and also spread to the surrounding areas. Currently, it is mainly private investors, but increasingly also institutional investors, who are taking advantage of the improved financing conditions in combination with more moderate prices. According to E&V, international investors have also rediscovered the German market for mixed-use property.



The fact that many private owners are looking to sell because they do not feel able to cope with the potentially high costs of energy-efficient refurbishment is contributing to the revitalisation of the market. Institutional investors, on the other hand, are increasingly active in order to optimise their portfolios. All in all, this resulted in a 12% increase in the number of properties sold (around 31,900) in 2024. According to E&V, the national average asking price for residential and commercial properties was €1,941/sqm. The current level is therefore roughly the same as three years ago. Price reductions, such as those seen in 2022/23, are now generally no longer to be found on this market.

Yields for the mixed-use property market remain at an attractive level. In good locations in A cities, it was 3.4% to 5.7%. In addition to stable prices, rising rents were the determining factor in 2024.

The average asking rent for flats in mixed-use buildings in Germany was EUR 10.04/sqm in the fourth quarter of 2024, up 5.4% on the same quarter of the previous year.

BERLIN OFFICE MARKET WITH THE HIGHEST INCREASE IN VACANCY IN EUROPE



In European cities, the vacancy gap between offices in CBDs and those on the outskirts is widening. This is the result of an analysis by BNP Paribas Real Estate.

According to an analysis by BNP Paribas Real Estate (BNPPRE), the overall vacancy rate for offices in Europe was 9.1% at the end of 2024, 90 basis points higher than at the same time in the previous year. This increase in the average vacancy rate for European offices occurred despite stable take-up: at 7.96 M sqm, take-up for offices in the 18 largest markets was almost unchanged from 2023. In a European comparison, the German capital recorded the strongest increase in vacancies: In Berlin, the ratio of vacant



office space increased by 280 basis points year-on-year. Dublin follows in second place with an increase of 240 basis points. Take-up in Berlin increased by 7% in 2024 and in Dublin by a massive 58% (albeit after a dismal previous year). The large increases in Berlin and Dublin are due to extensive completions of new buildings in recent quarters.

The good news for all Berlin office landlords:

At 6.9%, the vacancy rate in Berlin is still well below the European average despite everything. The same applies - more or less - to Hamburg (5.2%) and Munich (7.4%).

In Frankfurt (10.9%) and Düsseldorf (11.5%), on the other hand, there are even more empty offices. However, at 140 basis points, the increase in vacancies in Frankfurt was only half as significant as in Berlin.

A SHARP DROP IN BUILDING PERMITS

In 2024, the construction of 215,900 flats was approved in Germany. According to the Federal Statistical Office (Destatis), this was 16.8% or 43,700 fewer homes than in the previous year 2023.

This means that the number of building permits fell for the third year in a row. The last time fewer new homes were approved was in 2010 (187,600 units). The Destatis figures include building permits for flats in both new and existing buildings.

However, the decline slowed over the course of 2024. While 21.1% fewer flats were applied for and approved in the first half of 2024 compared to the same half of the previous year, this figure was only 12.5% lower in the second half of the year compared to the same period of the previous year. This could be interpreted as the first sign of an upturn. The public sector appears to have intervened less in the process. According to Destatis, the number of building permits resulting from their building applications fell by 19.8% to just 8,800 units over the course of the year.



RESIDENTIAL FUNDS ON A SHOPPING SPREE IN EUROPE



The European Residential Investment Market is picking up again. According to JLL, the transaction volume in 2024 rose by 19% year-on-year to around EUR 53 B. The lively final quarter in particular pushed the market forward. The annual figure for 2024 is still nowhere near the five-year average (€93 B) (-43%). The trend looks set to continue in 2025.

According to a CBRE survey, the residential asset class is the most important investment target for cross-border property investments in Europe, ahead of logistics. Investors have already followed up these announcements with action at the start of 2025. Invesco Real Estate, for example, has acquired a British forward-funded residential rental project in the English county of Essex with 99 units for a German mandate, while Catella is purchasing a

new residential complex with 235 units in Madrid for the Catella European Residential III Article 9 fund at a price of €60 M. Patrizia and Revive Fund Management launched a joint venture and are investing EUR 75 M in the conversion of offices into affordable housing in the **Benelux countries**.

Patrizia sees the residential segment as one of the key growth areas towards the goal of increasing assets under management from the current level of around EUR 56 B to EUR 100 B by 2030: Residential property is expected to contribute EUR 6 B to the EUR 44 B needed to achieve this.

Patrizia is currently marketing a new Residential property fund. It continues the Trans European Property value-add product series and is being marketed under the name Trans European Living (TEP Living). So far, Patrizia has said as much: **The fund is expected to have a target investment volume of more than 1 B euros, invest within Europe and focus on the energy modernisation of residential buildings, among other things. Target returns (total return) of well over 10% are being aimed for.**



Investment manager M&G Real Estate also has a lot in store for this asset class in Europe: With the capital already committed, around EUR 500 M is to be invested in residential property in continental Europe over the next two years.

What is driving the topic of housing in almost all growth cities in Europe is the low level of new construction activity in the face of high demand. According to a Catella market report, building permits in Europe have fallen massively over the last two years (2022/2023) compared to the previous period - by 23% on average, with the sharpest declines in Finland (-52%), Sweden (-48%) and Germany (-37%). According to the report, rents have risen accordingly in 53 of the 58 cities analysed. By an average of 4.1% in the first three quarters of 2024 alone. And prices are also slowly picking up again, rising by an average of 2.1% in 45 cities.

