

The background of the entire page is a blue map of Germany. Overlaid on the map are various numerical values in a light blue, semi-transparent font, representing real estate data. These numbers are scattered across the map, with some appearing in larger, bolder fonts than others. A red circular badge with the word 'Summary' is positioned in the upper right corner.

Summary

Spring Real Estate Industry Report 2021

by the Immobilienweisen Expert Panel

Prof. Dr. Dr. h.c. Lars P. Feld

Sven Carstensen (bulwiengesa)

Michael Gerling (EHI)

Carolin Wandzik (GEWOS)

Prof. Dr. Harald Simons (empirica)

Commissioned by

 **ZIA**
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The Spring Real Estate Report is supported by:



Editorial staff: Dr. Michael Hellwig, Manuel Jahn, Peter Müller
Proofreading and typesetting: Immobilien Zeitung (Thomas Hilsheimer, Simone Scheurer)

ZIA Zentraler Immobilien Ausschuss e.V., Leipziger Platz 9, 10117 Berlin

Dear Reader,



The coronavirus pandemic has had the entire world in its grip for over a year. This also applies to the property sector. Some asset classes have been badly hit, while others have hardly been affected by the crisis at all.

The residential property asset class has come through the crisis very favourably. The only way to counter the continuing trend of rising rents is with more housing, specifically in large conurbations and university cities. The German Construction Land Mobilisation Act (Bauland-mobilisierungsgesetz), which actually introduces additional regulations, does not improve the regulatory framework. After the failure of

the Berlin rent cap before the Federal Constitutional Court, rising new construction activity must not now be slowed down with a federal rent cap.

The office property market is robust. A study by TU Darmstadt supported by ZIA shows: many employees want to return to the office from the home office. Many processes can only be satisfactorily implemented in the context of a team working at the same location. In times where there is a shortage of qualified workers, it will be important to be able to offer employees an attractive office workplace.

The situation remains difficult for retail property. Apart from shops selling basic necessities, the stationary retailers are suffering from considerable losses in turnover. The ZIA has developed a Code of Conduct with the HDE which led to a very high settlement rate of 80 per cent between landlords and tenants. However, that and the support programmes, continually improved in response to pressure brought to bear by the ZIA, are helpful but do not eliminate the problems. For the retail trade and also the economically hard-hit hotel and restaurant industry, opening with a testing and hygiene concept remains the best form of assistance!

Logistics property is expected to emerge as the winner from the crisis. The transaction volume has risen to a record-breaking level. Coronavirus is a catalyst for digitalisation and has also fired up online retail and the logistics behind it. Cities will therefore now change more rapidly than many would have thought possible two years ago. The ZIA will continue to work on the solutions for these challenges.

Parliamentary elections will be held this year. There may thus be new government coalitions after September. The ZIA has been engaged in lively communication with the parties for many years, contributing its expertise and an industry perspective. We thus provide one of the key system-relevant German industries with a major voice in the political arena. The Spring Report – the most important analysis of the German property markets – supports us with latest data and facts.

I hope you enjoy reading this report.

Dr. Andreas Mattner, President of the ZIA German Property Federation

Spring Real Estate Industry Report 2021 – Summary

1. Macroeconomic development

In 2020 the German economy contracted more than at any point since the financial crisis in 2009, with a decrease in **gross domestic product (GDP) in real terms** of 4.9%. Above all, it plunged into a deep recession, with a seasonal and calendar-adjusted decrease in GDP of 9.7% in the second quarter 2020 relative to the same quarter the previous year. While there was a rebound effect in the third quarter, with growth of 8.5%, it was halted in the fourth quarter (+0.3%).

Far-reaching monetary and fiscal policy support measures have prevented a deeper and more sustained economic collapse. For 2021, despite the initial difficulties, strong growth averaging almost 4% is forecast which, however, depends on the progress of the vaccination programme and the lifting of the restrictions.

Despite the coronavirus crisis, the **labour market** remains largely robust: according to preliminary estimates, the number of employees decreased relative to the previous year by 1.1% to 44.8 million. In January 2021 the number of unemployed stood at 2.9 million, which corresponds to an increase in the unemployment rate of 1.2 percentage points to 4.6%. Low-paid employees and the self-employed were particularly affected by the crisis, while the labour market for salaried employees is supported above all by short-time work.

Consumer prices increased in 2020 by +0.5%, the lowest rise since the financial crisis. The rate of inflation for the harmonised consumer price index (HICP) was even lower and stood at an annual average of +0.4%. It is way below the monetary policy target of almost 2%. At the beginning of 2021 the rate of inflation according to the HICP increased sharply by around two percentage points to 1.6%, due to CO₂ pricing and the expiry of the temporary VAT reduction.

Financing conditions in the euro area remain historically favourable. The ECB continues to keep the base rate at a record low of 0.0%. In addition, it reacted quickly and decisively to the crisis in spring 2020 and increased liquidity, including such measures as the temporary bond purchasing programme and the Pandemic Emergency Purchase Programme (PEPP). Significantly higher inflation forecasts in spring 2021 are currently increasing the likelihood that the interest rate will already increase in the medium term.

With regard to **loans**, due to the higher credit risk and lower risk tolerance in 2020 the banks have tightened their lending requirements for corporate loans. Mortgages were not yet affected by these precautions in the last quarter of 2020. However, the banks plan to further tighten requirements in both credit segments in the first six months of 2021. The granting of consumer loans and other loans to private individuals was initially handled much more restrictively but has recently been relaxed again. The rate for mortgages with an initial fixed interest rate with a term of over ten years has recently (in February 2021) decreased slightly to approximately 1.2%.

The situation on the **German property market** is diverse. In the housing segment, a turnaround in the price development is hardly foreseeable. Financing conditions are still attractive and foregone earnings are of a temporary nature. To some extent, households were also able to accumulate substantial savings due to coronavirus.

Continuing reductions of capacity in the construction sector, lengthy planning and permit procedures and a shortage of construction land in conurbations are increasing property prices, as are greater requirements in terms of energy efficiency, complex regulations for new buildings and measures such as the “rent brake”.

On the other hand, commercial property has been greatly affected by the coronavirus crisis, and rents and prices are unlikely to rise as strongly as in past years in the short term. Liquidity boosting assistance has so far cushioned the short-term effects of the pandemic. As a result, there has not yet been a substantial decrease in rents and property prices for commercial property. However, insolvencies in the corporate sector could lead to defaults on commercial property loans, particularly in the high-street retail segment. If the vacancy rate increases, that would also have an impact on the banks.

2. Office, light industrial, logistics and hotel property

While the mood in the market for commercial property differs greatly depending on the type of use as a result of the coronavirus crisis, it has greatly declined overall. However, the **investment market for commercial property** has so far remained robust. While in 2020 the transaction volume of 59.6 billion euros was below the level for the previous year (72.6 billion euros), it exceeded by almost a quarter the ten-year average of 48.2 billion euros. This was ensured by a strong first and last quarter (18.2 / 18.8 billion euros). Office property trading was significantly down compared with the previous year (39.9 billion euros), amounting to 25.1 billion euros. Logistics property transactions reached a new peak in 2020, with revenues of 9.2 billion euros (2019: 7.1 billion euros), while the hotel investment market came to an almost complete standstill in the second quarter of 2020, and reached only 2.3 billion euros for the whole of 2020 (2019: 5.0 billion euros). The transaction volume for care property almost doubled to 3.2 billion euros (2019: 1.7 billion euros).

Office property

On the whole, the market for office property is robust despite the coronavirus pandemic. Rents, vacancy rates and investment activities are at a stable level. The prospect of a greater home office share in the future is accompanied by new, more space-intensive office concepts.

The **floor-space turnover** in 2020 in the 127 largest office markets, with 4.7 million square metres of rental area for commercial use (RAC), was approximately a third lower than in 2019. Adjustments as a result of the higher home office share and the employees’ technical equipment had priority over relocations or expansions. In the Class A cities of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart floor-space turnover in 2020 fell by an average of 37% to 2.4 million sqm compared with 2019. Its share in total revenues in Germany decreased from 60% to 50%. In the other locations, revenue decreases were also significant but less pronounced (Class B cities: -23%, Class C cities: -12%, Class D cities: -10%).

New construction reached a record value in 2020 in the 127 office markets of 2.6 million sqm RAC – almost 2.4 million sqm RAC more than in the previous year. The pipelines for Class A and Class B locations also mean a very high completion volume for 2021. While the coronavirus pandemic caused construction delays, these

did not have a major impact on completion numbers, as many projects were already at an advanced stage of construction. Longer delays are to be expected after 2021.

The **vacancy rate** has increased slightly overall but at 3.8% remains low and corresponds to a healthy fluctuation reserve. The Class A and Class B cities recorded slight increases to 3.4% and 3.7%. There are no changes in the Class C and Class D cities (3.9% / 4.6%).

Rents (prime rents) are stagnating in general following a continual increase over the last ten years. Incentives for contract completions have gained in significance once again. Only the Class A cities recorded a further slight increase in 2020, by 0.8% to 34.20 euros/sqm of RAC per month. Among them, there were slight increases in Hamburg and Stuttgart to 30.50 euros/sqm / 24.00 euros/sqm. Frankfurt remains the most expensive office location at 41.00 euros/sqm, followed by Munich (39.50 euros/sqm) and Berlin (39.00 euros/sqm). Düsseldorf (26.50 euros/sqm) and Cologne (24.50 euros/sqm) remain in the middle of the ranking for the Class A cities. The trend is similar in the Class B, C and D cities: the average prime rent is stagnating, and there are slight increases and decreases in individual cases. Realistically, the overall outlook is stagnation. The quality of the site and location will again be reflected more clearly in rent levels.

Net initial yields developed similarly to rents. In the case of the Class A cities, the trend bottoms out at an average of 2.8%. Berlin (2.6%), Munich (2.7%), Hamburg and Frankfurt (2.8% each) remain below the 3% mark and in Stuttgart, Düsseldorf and Cologne the selling price level remains slightly lower, with yields of between 3.0% and 3.2%. Among the Class B locations there are individual locations with slight increases in yield, resulting from evasive reactions on the part of investors who can no longer find investments suitable for them in the Class A cities.

Light industrial property

Light industrial property refers to commercial property that in Germany is known as “Unternehmensimmobilien”. Light industrial properties differ from logistics property in terms of their size, location and structural parameters, in addition to their tenant or occupier line-up. Real estate property of large industrial companies is comparable in terms of its structure, but tend to be labelled as corporate real estate, unless they are heavy industry assets (e. g. steel mills, refineries).

In the **investment market** for corporate property the investment volume decreased in 2020 to 2.1 billion euros from 3.1 billion euros in the previous year. Industrial estates were traded by far the most frequently, accounting for 65% of all transactions. Production property and warehouse property reached revenue shares of approximately 22% and 14%. In a new development, no transformation property was traded in 2020. So far revenue shares have reached between 20% and 30%. Industrial enterprises now exploit the reuse potential of their former production and industrial facilities themselves and designate them for commercial use instead of selling them.

Gross initial yields decreased further in 2020. The largest decrease, at minus 30 basis points, was for industrial estates, to the current level of 5.3%. Yield for warehouse property stands at 4.3% (2019: 4.5%). For transformation property, it is also estimated at 4.3% (2019: 4.4%), and production property reached 5.5%.

Rents for corporate property were subject to a further slow increase. They vary according to the type of space: in 2020 the average rent for office space reached 9.95 euros/sqm, the monthly rent for flex spaces stood at 8.15 euros/sqm, production spaces finally commanded an average of 9.10 euros/sqm, and warehouse spaces of size class 100 to 500 sqm cost 5.60 euros/sqm.

Logistics property

The market for logistics property is indisputably profiting from the coronavirus crisis, above all due to the shifting of retail revenue from high street retail to online retail and crisis-proof supply chains. In the **investment market**, the transaction volume for logistics property reached a new peak of 7.1 billion euros / (2019: 5.1 billion euros). The increasing market share of online retail and the sceptical attitude to other types of use increases investors' trust in that segment, who expect further increases in rent and an ongoing positive demand situation. Sustainability factors are emphasised increasingly strongly.

Yields decreased further due to the high demand. Prime yields begin at 3.77% in Class A locations, stand at 4.95% in the Class B locations and reach 5.79% / 6.48% in Class C and Class D locations. The greatest yield compressions were noted in the Class A and Class C locations, with decreases by 10 basis points each compared to the previous year.

Rents are slightly higher in 2020 than in the previous year in all location categories. The same principle applies as before: the closer the large sales markets, the more expensive. Prime rents in Class A cities reached 6.50 euros/sqm per month (2019: 6.42 euros/sqm), in the environs of B and Class C cities they stand at 5.11 / 5.02 euros/sqm (2019: 5.08 and 4.95 euros/sqm), and in the area of the smaller Class D locations, the asking price is 4.30 euros/sqm (2019: 4.26 euros/sqm).

New construction of logistics space still concentrates on the large long-established German logistics locations in or near the environs of Frankfurt, Berlin, Düsseldorf, Rhine-Ruhr, Hamburg, Dortmund and Hanover/Braunschweig. In each of those areas over 1 million sqm of new logistics space has been completed in the last five years. The sum total of all new logistics space in Germany increased again relative to 2019 (4.9 million sqm), despite or due to the coronavirus crisis, to 5.2 million sqm. For 2021 once again over 5.0 million sqm is expected.

Hotel property

The coronavirus crisis has hit the hotel industry like no other. After ten years of growth and a good result for the first two months of 2020, tourism dramatically collapsed from March 2020.

During the lockdown months the **number of overnight stays** decreased due to travel restrictions by over 90% in many places. Over the whole of 2020, German holiday regions recorded lower declines in overnight visitors than urban regions, as the peak season fell into a phase of temporarily relaxed coronavirus measures and travel warnings for abroad were in place. At the North Sea and Baltic Sea, for example, losses ranged from -14.0% to -22.5%, while overnight stays in Berlin (-64.0%), Munich (-61.5%) and Hamburg (-55.4%) plummeted many times more.

In the **investment market** many investors gave hotel and recreation property a wide berth. Where possible project development was halted. The transaction volume decreased for hotel investments from 5.0 billion euros (2019) by approximately 60% to approximately 2.0 billion euros. Half of that was generated in the first quarter of 2020 alone. Due to the still highly unpredictable situation there is barely any supply or demand for city hotels. Primarily holiday and resort hotels were traded. But care is also required with regard to investments in the holiday hotel sector, which seems to be recovering more quickly: Growth in supply and therefore competition will cease, particularly near the coast.

The **prospects** for the hotel property market are unclear. Despite the provision of considerable aid, many hotels face the possibility of going out of business. The owner-run medium-sized hotel groups in particular are falling through the cracks in the funding programme, with losses running into hundreds of millions of euros. The funding limit permissible under the laws on state aid – a maximum of 12 million euros – does not come close to covering the continually increasing losses. The demand on the part of domestic and foreign business tourists, so important for the city hotel sector, will remain below the pre-crisis level for at least another two to three years. However, due to the need to pay off and service debts the financial recovery of the hotel industry will take years, and hotel values will decrease. The extent to which they do so depends on both the location, concept and operator, as well as the further course of the pandemic.

In economically weaker areas, hotel closures will not only lead to high unemployment and trade tax losses, but will also be accompanied by a loss of the public function that they perform regionally with their catering services and event facilities.

3. Retail property

The **consumer climate** suffered a greater decline in 2020 than ever before due to the coronavirus crisis and the first lockdown. It recovered slowly between June and August, as low infection rates enabled the retail, catering and hotel sectors to open with comparatively few restrictions. After that there was a cool down as a result of protective measures being ramped up again, another significant fall in the second wave of the pandemic and another slight upward trend in spring 2021.

The **retail sector**, as a whole, generated a marked increase in revenues of 31.2 billion euros or 5.7% compared with 2019, reaching 577.4 billion euros in 2020. That growth was covered by the development of online retail, whose revenues grew by 24.1% – the average growth rate for online retail over the last ten years was 13.5%. While the balance of growth for high-street retailing was also positive at +18.9 billion euros or +3.9%, a distinction must be made between groups of goods.

While full-range providers and the food trade achieved revenue growth figures in 2020 amounting, in some cases, to a double-digit percentage, the temporary closures in the fashion sector and among the department stores led to significant falls in revenues (-23.4% and -12.8% respectively). Despite the suspension of the insolvency declaration requirement and state aid for coronavirus, in 2020 approx. 3,300 companies filed for insolvency (2019: 3,900). Companies like Galeria Karstadt Kaufhof, Esprit, Sinn, Bonita or Hallhuber had to shut stores, in some cases to a great extent, and reassess its branch network.

The **investment market** for retail property was relatively stable in 2020, with a transaction volume of 12.3 billion euros and an increase of 21% compared with 2019 (10.1 billion euros). With a transaction volume of 4.6 billion euros, the first quarter was extraordinary lively, also due to business from 2019, which only later affected results. 2020 was also characterised by large volume portfolio sales. There was also a significant shift of revenues in favour of grocery stores and food-anchored retail parks and local supply centres. While inner-city commercial buildings were particularly severely affected by the consequences of the pandemic, due to the purchase of department store portfolios / major share takeovers, the total sales volume remained stable. The transaction volume also remained largely unchanged for shopping centres. These have been traded relatively little since 2018.

Yields developed heterogeneously depending on the type of retail property. In the case of the popular supermarkets, prime yield declined relative to the previous year by 0.4 percentage points to 4.8%. It only decreased slightly, from 4.75% to 4.7% for hypermarkets. Retail parks and specialist retailers remained stable at 4.15% and 5.25% respectively. The yield for DIY stores and garden centres decreased by 0.1 of a percentage point to 5.1%. In the case of shopping centres, the yield for first-class properties in 1a locations increased significantly by 1 percentage point to 5.0%, and the yield for centres in B-locations increased equally sharply to 6.0%. For commercial buildings too, increasing uncertainty regarding further prospects was reflected in an increasing yield, which rose in the top locations of the Class A cities by 0.2 percentage points to 3.3%.

In the future, competition among institutional investors for the few attractive portfolio offers will further intensify and a further decrease in yields is to be expected. Furthermore, the demand for DIY stores will likely remain high. By contrast, a decrease in the transaction volume is to be expected for high street properties and shopping centres. The uncertainty will continue in sectors characterised by acyclical demand.

Further **vacancies** will appear in the urban landscape. Further losses of up to 700 million euros are incurred for each shutdown day of sales. The reserves have been used up; the maximum reimbursement amount of 12 million euros for Interim Aid III is insufficient for chain-affiliated companies. Inadequate cash flow in retail companies also has an impact, though lost rent payments, on the client assets of retirement pension schemes and insurance companies, which typically invest in property funds – with possible consequences for the financial sector.

The top seven retail property markets

The following key figures for 2020 should be taken with a pinch of salt, as it has not yet been possible to fully take the second lockdown into account. Prime rents and new leases often have a lead time of several years and do not yet reflect the crisis.

Berlin, compared with the other Class A cities, has a relatively high unemployment rate and, with an index value for retail revenues per inhabitant of 102.0, low retail purchasing power, also in comparison with the national average. Nevertheless, due to the high population, in 2020 the retail sector in the capital generated high revenues of over 18.8 billion euros. While prime retail rents increased up to 2019, standing at 340 euros to 380 euros/sqm for smaller shop spaces between 80 and 120 sqm, they fell again in 2020. Nevertheless, among the Class A cities, Berlin still generates the highest prime rents for space in that category, ahead of Munich. The top rents for larger spaces of 300 to 500 sqm are located in the mid-range of the Class A cities. A declining price trend is expected for both space sizes for 2021.

Hamburg recorded retail revenues of 11.3 billion euros in 2020. With that figure the Hanseatic city ranked second compared with the Class A cities. Monthly rent of 240 euros to 310 euros/sqm is being asked for smaller shop spaces. The price level for those spaces (2019: 310 euros/sqm) is only in the mid-range among the Class A cities. For the larger spaces of 300 to 500 sqm, Hamburg is in second place behind Munich, at 165 euros to 180 euros/sqm (2019: 190 euros/sqm). The trend for both space categories is one of continued decline. Hamburg's inner city is currently characterised by higher vacancies as a result of the closures of Galeria Karstadt Kaufhof on Mönckebergstraße and Karstadt Sport across the street.

Munich remains a top location for retail. The state capital regularly generates top values for tax-free revenues and also tops the ranking of all seven Class A cities with a retail revenue index value of 146.0. Small retail spaces are relatively expensive with monthly rent of 340 euros to 360 euros/sqm (2019: 370 euros/sqm) and with the price level for larger spaces of 300 to 500 sqm the Class A cities command the highest rents, at 200 euros to 230 euros/sqm (2019: 240 euros/sqm). The selling price factor increased in Munich to reach a new peak value of 40-42 (2019: 39-41). Both the gross initial yield of 2.4% to 2.5% and the purchase price factor are likely to remain stable in the top locations, while the negative trend for prime rents is likely to continue.

Cologne, thanks to good pedestrian zone locations, is among the cities with the highest pedestrian frequencies across several shopping streets. From a retail perspective the relatively high rate of unemployment and below average per capita purchasing power is compensated for by good accessibility and the city's attractiveness. The retail revenue index reached a solid value of 127.5 in 2020. Prime rents for retail space decreased in Cologne: in 2020 they were between 201 euros and 235 euros/sqm for smaller spaces (2019: 255 euros/sqm) and also for large spaces a lower price is demanded than in the previous year (130 euros/sqm), at 110 euros to 115 euros/sqm. Further price decreases are expected.

Frankfurt is one of the most important international financial centres, a key transport hub and a trade fair location, resulting (among other things) in a share in nationwide tax-free revenues of almost 20% in the year before coronavirus. With an index value of 115.3, above average retail revenues are generated. While prime rents are decreasing in many locations, one exception is Goethestraße. The location commands top rents 295 euros to 305 euros/sqm (2019: 290 euros/sqm) for small retail spaces of 80 to 120 sqm. Larger spaces cost 145 euros to 155 euros/sqm. The overall rent level is considered to be stable.

Stuttgart has a low unemployment rate and a relatively high-revenue retail sector, with an index value of 127.8. Prime rents for retail space are the lowest here among the Class A cities. Small spaces fetch rent of between 150 euros and 170 euros/sqm, for larger spaces the monthly rent amounts to 75-85 euros/sqm. In Stuttgart too, a continuing slightly falling trend for prime rents is to be expected.

Düsseldorf is the smallest of the Class A cities based on the number of inhabitants. Nevertheless, the retail revenue index reached the second highest value after Munich, at 131.4. Despite the currently difficult situation the city remains attractive for retailers. Small retail spaces of 80 to 120 sqm command prime rents of 300 euros to 310 euros/sqm, the rate for larger spaces being 160 euros to 170 euros/sqm. As in the case of Frankfurt it should be assumed that prime rents will remain stable for the time being.

4. Residential property

Residential property markets have been stable during the pandemic. **Housing rents** (quoted rents) have continued to increase. New rental contracts for existing apartments in Germany reached, in the fourth quarter of 2020, a monthly basic rent averaging 7.57 euros/sqm. That means an increase of 3.3% relative to the same quarter of the previous year. As before, rents in the West German independent cities and rural districts are the highest, at 8.84 / 7.59 euros/sqm. They increased here the most again in 2020, at +3.6% / +3.4%. Rents in the independent cities (excluding Berlin) and rural districts in the east increased less, at +2.4% / +2.2%, and reached 6.87 euros/sqm / 5.99 euros/sqm on average. With the exception of the East German rural districts, where catch-up effects are still apparent, rent growth has diminished slightly in all types of region in the course of 2020.

Selling prices for condominiums have increased significantly more sharply than rents, as in previous years. In the fourth quarter of 2020, prices for existing apartments, as a national average, increased by 8.6% to approximately 2,280 euros/sqm relative to the fourth quarter of the previous year. Relative to 2019 (+8.9%), the nationwide price increase lost a little momentum. Condominiums rose in price the most in the West German rural districts at +8.9%, followed by the East German independent cities (excluding Berlin) with an increase of 8.6% and the West German independent cities at +8.2%. The price level is still highest in the West German cities at 2,900 euros/sqm. The East German rural districts show a slight increasing price trend over the course of 2020 but starting from a below average level.

The **selling prices for one and two-family houses** increased last year as a national average by 7.3% to 2,750 euros/sqm. For private homes too, the price trend is declining slightly (2019: +7.9%). The West German independent cities reached by far the highest price level in the fourth quarter of 2020, with 3,775 euros/sqm (+7.1% relative to the same quarter of the previous year). Prices increased most in the eastern independent cities (excluding Berlin), by +9.1% to 2,375 euros/sqm. The East German rural districts reached the lowest rate of increase – starting from a still very low level (+6.1% to 1,515 euros/sqm).

The upwards trend for **new construction** of apartments also continued in 2019. Approximately 293,000 apartments were completed. The figure for the previous year was thus again slightly exceeded, by 5,600 apartments or 2.0%. The peak value is still that for 2001, when 326,200 apartments were completed. However, assuming nationwide demand for at least 350,000 new apartments per annum, the excess demand increased further in 2019 despite increasing new construction activities.

Private home construction continues to stagnate and in 2019 reached approximately 103,100 new housing units in one and two-family houses. By contrast, apartment building construction increased again relative to 2018, by 6.0%, with approximately 143,100 new apartments in apartment buildings. This is three times as many as in 2009, when the lowest level for new construction of apartment buildings for the period from 2001 was reached. Since 2018, completions of rented apartments have predominated in apartment building construction. Their number increased by 11.0% to approximately 77,800 in 2019. By contrast, the number of completed condominiums apartments increased only slightly by 0.6% to approximately 65,300. In 2020 approximately 300,000 new apartments have been completed. A figure 310,000 is to be expected in 2021.

The number of **building permits** increased in 2020 by 2.2% to 368,400 apartments. For the first time since 2002, permit issuing activity once again developed more positively in the private home segment in 2020 than in apartment building construction: while permits for new private homes increased last year by 5.9% to 118,800, the rate of increase in apartment building construction amounted to only +0.4%. The approximately 189,300 approved units in apartment blocks to be newly constructed included 80,100 condominiums (-5.4% relative to 2019). The construction backlog has considerably increased in recent years. For 2020, it is estimated at almost 790,000 approved but not yet completed apartments. One possible explanation for this may be capacity limits for construction services.

The housing markets in the seven Class A cities

Rent levels in the Class A cities (new contract rent) increased further in 2020. If we compare the fourth quarters of 2020 and 2019, the rent increased most in Frankfurt (+4.5%, 13.33 euros/sqm) and Hamburg (+4.5%, 11.49 euros/sqm), followed by Munich (+4.4%, 17.38 euros/sqm), Berlin (+4.3%, 10.61 euros/sqm) and Cologne (+4.3%, 11.16 euros/sqm). The smallest increases were recorded by Düsseldorf (+4.3%, 11.22 euros/sqm) and Stuttgart (+3.7%, 13.68 euros/sqm). The increases were above the national average in all the Class A cities (+3.3%).

In the case of Berlin, it should be noted that the calculation of rents and their development also includes apartments from the construction years 2014 to 2017, which were excluded from the so-called **rent price cap**. (If they were excluded the result would be a decrease in the average new contract rent in Berlin in the above-mentioned comparison period of 6.0%). The rent price cap, which was found to be invalid by the Federal Constitutional Court, was greeted with general hostility among landlords and investors and in the construction industry. The loss of income jeopardised the profitability of investments, because rental income was no longer sufficient to cover costs, despite hardship provisions. Above all, the measure affected buyers who had purchased apartments at high prices, anticipating rental income, which could no longer be generated due to the rent price cap. While existing tenants profited from the rent price cap, the situation for those seeking housing worsened, as the number of advertised apartments plummeted by -40%.

The Berlin rent price cap did initially succeed in halting the increase in rent and bringing about rent reductions. However, because there was no differentiation of the rent price cap according to income, particularly tenants in good locations with higher rents and corresponding income profited from the rent reductions. Low-income tenants living predominantly in simple locations in lower-price existing apartments often paid rent that fell below the established rent ceilings even before the introduction of the rent price cap. They therefore do not necessarily benefit from the instrument. The tension in the housing market can only be eased by expanding the supply of housing. However, expropriation demands are dampening the willingness to become involved in housing construction. This does not only apply to the Berlin housing market - in view of the current discussions about a nationwide rent cap, a similar decimation of supply would have to be feared in many places.

The **selling prices for condominiums** also increased further in 2020 in all the Class A cities. In Berlin, the increase was again particularly high, at +10.7% relative to the fourth quarters of 2020 and 2019 (2019: +10.2%). In the capital the price per square metre now amounts to an average of 4,158 euros. High price increases were also to be seen in Frankfurt (+10.6%, 5,238 euros/sqm) and Cologne (+10.5%,

4,071 euros/sqm) in 2020. However, housing prices largely increased less last year than in the previous year. Particularly in Munich (+4.9%, 7,328 euros/sqm) selling prices now appear to have reached a level that only permits moderate further increases. Hamburg (+7.7%, 4,552 euros/sqm), Düsseldorf (+9.3%, 4,213 euros/sqm) and Stuttgart (+7.9%, 5,084 euros/sqm) are in the middle of the ranking among the Class A cities in terms of their growth rates. For comparison: as a national average, selling prices increased by 8.6% to 2,278 euros/sqm.

Yields further decreased, as the gap between selling prices and rents broadened. The median gross initial yield – calculated from purchase adverts for rented condominiums with information on the actual rent – ranged in 2020 (I to IV 2020) in the Class A cities between 3.5% in Cologne and 2.6% in Berlin and Munich. In Berlin and Munich, almost 39 annual net basic rent payments are necessary to recoup the selling price for a rented condominium through rental income. In almost all the Class A cities, yields decreased in 2020 compared with the previous year, particularly significantly in Düsseldorf, with a decrease of -0.2 percentage points to 3.3%. For Germany, this value stood at 3.8%. According to a conservative estimate, initial gross yields of at least 4.0% are acceptable for property investments.

5. Residential property in rural areas

Rural areas have again become more attractive as a place to live, at least to some extent and for particular social groups, a process which has been underway for many years. The coronavirus pandemic is strengthening that trend. The decisive factor for the supply of housing in rural areas is the market for one and two-family houses. Rented apartments play a less important role.

The national average **selling prices for one and two-family houses** (stock) stood at 402,000 euros in 2020. With the exception of sought-after holiday regions, they strongly depend on the distance from the centre of the nearest major city. Median selling prices increased by 15% between 2012 and 2016. In the major conurbations the price increase was above average at +37%, while the price increase at 60-70 minutes' travel time to the nearest centre only amounted to +9.5%. This pattern has changed in recent years: from 2016 to 2020 the growth rates have converged upwards more independently from the distance to major city centres. The attractiveness of more remote areas has increased relative to the more central locations.

The reason for this is a change in **migratory behaviour**. The rural areas first lost a considerable number of inhabitants, a process which took place from around the middle of the noughties. Primarily young, mobile people moved to selected fashionable cities and left both rural areas and unattractive cities. The pattern of migration has now reversed to some extent. Between 2015 and 2019 the populations of most districts increased by over 0.5% per annum. Exceptions to this rule are individual districts in West Germany and, as before, most of the more remote regions of East Germany, though that trend is weaker.

The natural population development, i.e. the difference between births and deaths, was negative in the last five years in 349 of the 401 rural districts and independent cities, particularly in those most affected by external migration. The total population nevertheless grew thanks to inward migration in 272 of these 349 districts.

An initial cautious analysis of migratory behaviour shows two aspects with regard to the **choice of residence in urban or rural areas**. Firstly, the flocking behaviour

continues unabated: upcoming young inhabitants (with German citizenship) are still leaving rural areas up to the age of around 30 to move to large conurbations and fashionable cities. On the other hand, the migration balance for German citizens has not only increased, as expected, in districts located in the environs of the major conurbations, but also in more remote regions. Particularly from the age of around 30, people are again increasingly moving to rural areas, including to regions further away from big cities.

Particularly families are now tending to more frequently opt for rural areas over cities. The coronavirus crisis and its protection measures have reinforced that trend. Many of the advantages of life in the city no longer apply – at least temporarily – while the disadvantage of high housing costs remains.

For rural areas, this trend provides an opportunity for economic, social, cultural and demographic stabilisation, which should be sympathetically supported by politicians.

Authors of the Spring Real Estate Industry Report 2021

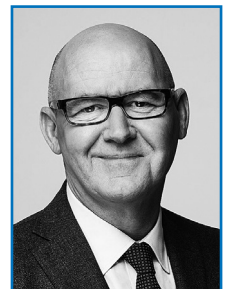
Professor Lars P. Feld, author of the chapter “Macroeconomic Development“, is a university professor for economics, particularly economic policy and constitutional economics at the University of Freiburg and Director of the Walter Eucken Institute. He is a member of the Scientific Advisory Board at the Federal Ministry of Finance among other positions. He has been a member and recently the chair of the Council of Experts for the Assessment of Macroeconomic Development from 2011 to 2021. Co-author: **Patrick Hirsch, M. Sc.**, Research Associate at the Walter Eucken Institute in Freiburg and Research Fellow at the Chair of Economic Policy and Constitutional Economics at the University of Freiburg.



Sven Carstensen, author of the chapter “Office, light industrial, logistics and hotel property“, has been a member of the executive board at bulwiengesa AG since 2020 and is responsible for the office and commercial department. As a certified property surveyor, he is also managing director of the subsidiary bulwiengesa appraisal GmbH. Co-authors: **Alexander Fieback, Dierk Freitag, Oliver Rohr, Patrik Völtz** and **Alexander Wiegner** from bulwiengesa AG.



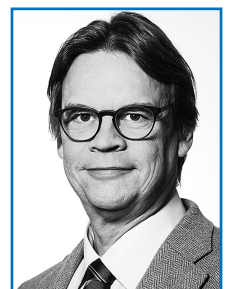
Michael Gerling, author of the chapter “Retail property“, has been managing director of the EHI Retail Institute in Cologne since 1999. He has also run MLF Mittelständische Lebensmittel-Filialbetriebe e.V., the umbrella organisation for independent traders in the German food retail sector since 2004. Co-authors: project managers **Lena Knopf** and **Kristina Pors** of the EHI research unit Real Property and Expansion, as well as Jan Schwarze (CBRE).



Carolyn Wandzik, author of the chapter “Residential property“ has been managing director of GEWOS Institut for Stadt- Regional- and Wohnforschung (institute for city, regional and housing research) since 2017. She is responsible for the housing and property market departments, as well for demographics and public services. As a trained moderator she also designs municipal strategy projects. Co-author: **Sebastian Wunsch**, a consultant from GEWOS.



Professor Harald Simons, author of the chapter “Residential property in rural areas“, studied political economy in Bamberg, Colchester (UK) and Bonn and was granted a doctorate in Magdeburg in 2008. He has worked at empirica ag since 1993 and as a member of the executive board since 2002. Since 2010 he has also held a professorship in microeconomics at Leipzig University of Applied Sciences. Co-authors: **Constantin Tielkes** and **Malte Scharrenberg**, both scientific employees at empirica.



About the publisher

The **ZIA German Property Federation (ZIA)** is the leading umbrella association for the property sector. With its registered office in Berlin and a European office in Brussels, it speaks through its more than 300 members, including 28 associations, on behalf of approximately 37,000 industry companies right across the value chain. The ZIA provides comprehensive, unified representation for the interests of the real estate sector in all its diversity at both national and European level, including as a member of the Federation of German Industries (BDI) and the German Economic Institute (IW). The President of the association is Dr Andreas Mattner.

With more than 837,000 companies and approximately 3.3 million employees, the real estate sector is one of the largest and most dynamic in Germany. It generated approximately 619 billion euros in 2020, approximately 20% of Germany's gross value added and therefore more than the automotive sector, for example. The sector is aware of its role in climate protection and therefore reduced its CO₂ emissions from 209 to 120 million tons per annum between 1990 and 2020.

www.zia-deutschland.de

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