Summary

Spring Real Estate Industry Report 2020

by the Immobilienweisen Expert Panel

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Dear Reader,

Affordable building and housing has been a hot topic of public discussion this year. A wide variety of ideas have been debated across all parties about how to regain control of the tense market situation. A common denominator for many of these measures was regulation instead of building, including changes relating to share deals, the rent cap, rent control, modernisation capping, exercising heritable building rights and demands for expropriation from real estate companies.

On the other hand, a completely unregulated market is not desirable for companies either. It would then be impossible to achieve the climate targets commitments which our industry has clearly acknowledged. However, the regulatory ideas are rarely thoroughly thought out.

As an alternative, we propose the supply of more building land, the harmonisation of building regulations, the acceleration of planning and building permit procedures and additional funding for the building authorities. The share of private stakeholders in new residential construction is at least 75%. This means that without private commitment, we will not be able to achieve the state-approved housing targets.

Politicians must not ignore the other segments either. For example, a large proportion of the gross value added is generated in office properties. Commercial real estate provide lively marketplaces in our cities and communities. Logistics real estate helps to ensure that goods traffic runs smoothly. Light industrial real estate has enormous economic potential which is far from being exhausted. Hotel real estate strengthens tourism as an industry. The retirement homes sector also faces the major challenges of demographic change.

All these types of use are discussed in this 2020 Spring Report by the Immobilienweisen Expert Panel. It is still the most important analysis of the German real estate markets. The report should once again be seen as a guide, decision-making aid and source of information during the year, helping to correctly classify the development of the real estate industry and its sub-markets.

817,000 companies, approximately three million employees and a share in gross value added of around 18% – this is the real estate industry in Germany. The Spring Report provides a well-founded insight into one of the most important industries in the Federal Republic.

I hope you find it an interesting and stimulating read.

Dr. Andreas Mattner

President of the ZIA German Property Federation

Spring Real Estate Industry Report 2020 – Summary

1. Macroeconomic development

In 2019, growth in the German economy lost considerable momentum, with an increase in **real gross domestic product (GDP)** of 0.6%. The economy narrowly avoided a technical recession in the third and fourth quarters of 2019. When adjusted for calendar effects, GDP growth is estimated at 0.5%. A higher growth rate of 0.9% is expected for 2020, but only due to the particularly high number of working days.

The situation in the **labour market** is still robust: The employment level rose by a further 0.8% year-on-year in the third quarter of 2019, reaching 45.4 million, the highest level since the reunification of Germany. The number of unemployed has stagnated at around 2.2 million people. The unemployment rate rose slightly to 4.9% in December 2019. Only partial use is made of short-time working and full employment exists in some regions.

Consumer price growth was less robust in 2019. The average inflation rate for the consumer price index (CPI) was 1.4%. The annual inflation rate for the harmonised index of consumer prices (HICP) was 1.4% on average. It remains below the monetary policy target of just under 2%. In November 2019, the HICP inflation rate of 1.2% was significantly below the target value compared to the previous month.

Financing conditions remain extremely beneficial in the euro area. The pronounced expansionary orientation of monetary policy based on a main refinancing rate of 0.0% has kept the general interest rate environment low. This supported the economy in 2019. The financial markets are expecting very low interest rates in the long term, as bond purchases will only expire if the (core) inflation rate justifies an early rate hike.

Banks left their **lending** guidelines almost unchanged for residential construction, while tightening them for corporate loans due to the general economic situation and industry or company-specific situations. Demand for residential construction and consumer loans from households continued to grow dynamically in 2019. One of the reasons for this is that favorable refinancing conditions have been passed on in the form of low interest rates. At 1.1%, credit growth in the private sector was roughly in line with the five-year average. At 2,840 billion euros, the total loan volume was 4.8% above the previous year‘s level. The ongoing low interest rate policy of the ECB suggests that this upward trend will continue in the near future.

The **key lending rate** remains at 0.0% in the euro zone. Interest rates are likely to remain low worldwide in 2020. Although the US Federal Reserve tightened the monetary reins somewhat in 2018, it cut its interest rate corridor back to 1.50% to 1.75% in 2019 due to the deteriorating economic outlook. The ECB‘s reticent response to changes in interest rates so far suggests that it will continue to act more cautiously than the US Federal Reserve in the event of rate hikes.

In the **German real estate market**, a trend reversal in price development is still deemed to be unlikely. However, there are initial signs of a more moderate increase than in recent years. In locations with high demand for living space and low supply, rents and prices are likely to continue to rise in 2020, particularly as financing options are expected to remain cheap and alternative forms of investment appear unattractive compared to real estate. In high-priced cities and regions, demand and price pressure are gradually shifting to the surrounding locations and rural areas. There have been isolated overvaluations and further price rises will increase the potential for corrections. The prices for scarce building land and building services continue to rise robustly. Political measures often have a counterproductive effect. Subsidies, such as child benefit and options for special depreciation, put further pressure on prices. In addition, the rent price control and rent price cap slow down the necessary investments.

2. Office, light industrial, logistics, hospitality and retirement real estate

In the **investment market for commercial real estate**, an investment volume of 72.6 billion euros was reached in Germany during 2019. Compared to 2018, this represents an increase of 19%. The result is even significantly higher than in the previous record year of 2007 (around 65 billion euros). The proportion of portfolio transactions increased slightly compared to the previous year. Around 21.4 billion euros (29%) was invested in commercial real estate portfolios in 2019. 15.2 billion euros (25%) was invested in 2018. The investment volume in the Class A cities reached around 45.1 billion euros. At 62%, the share of the total volume in these cities was roughly at the same level as the previous year. Berlin and Munich broke the 10 billion euros mark with 12.4 and 10.8 billion euros, respectively.

Office real estate

Differentiating the **investments** according to their asset class, office real estate has further expanded their leading position: The highest documented value was achieved in this class at 40 billion euros (2018: 28.8 billion euros). This corresponds to 55% (2018: 47.1%) of all investments in commercial real estate. This record result was supported by a high number of major transactions, both in portfolios and individual transactions. The investment peak is likely to have been reached in 2019, but a dynamic, highly active market activity is still expected in 2020.

In 2019, **take-up** in letting achieved a value 8.7% above the 10-year average in the 127 largest office markets with 6.1 million sqm of rental area for commercial use (RAC). The sales results of 2017 and 2018 (6.7 and 6.3 million sqm RAC) were not achieved due to a lack of availability in the Class A and B cities. Sixteen of the 21 Class A and B cities have office vacancy rates below a healthy supply reserve of 4% to 5%. At 3.7 million sqm RAC, 60% of the total volume was realised in the seven Class A cities of Berlin, Hamburg, Munich, Frankfurt, Düsseldorf, Cologne and Stuttgart – almost 100,000 sqm RAC or 2.4% more than in the previous year, Berlin (+26.6% year-on-year), Düsseldorf (+40.5%) and Stuttgart (+44.1%) achieved the largest sales increases, while Frankfurt (-13.5%), Hamburg (-5.3%), Cologne (-5.0%) and especially Munich (-32.0%) declined. The previous year‘s results were not achieved in the other city classes.

Rents (prime rents) have risen continuously since 2010. For the Class A cities, the weighted average of prime rents at the end of 2019 was around 33.90 euros/sqm RAC. Compared to the previous year this represents an increase of 9.7%. The highest prime rent of 41.00 euros/sqm RAC (+3.8% year-on-year) were still charged in Frankfurt am Main, followed by Munich at 39.50 euros/sqm RAC (+3.5%), Berlin at 39.00 euros/sqm RAC (a very significant increase of +16.4%), Hamburg at 29.00 euros/sqm RAC (+5.5%), Düsseldorf at 26.00 euros/sqm RAC (+2.0%), Cologne at 23.50 euros/sqm RAC (+6.8%) and Stuttgart at 23.00 euros/sqm RAC (+4.5%). In the Class B cities, the average value at the end of 2019 was 15.00 euros/sqm RAC, approximately 4.3% above the previous year‘s value. In the Class C and D locations, prime rents rose by 3.4% and 2.1% to 13.40 euros/sqm RAC or 10.50 euros/sqm. Rental growth will continue in

2020, although it may lose some momentum. Despite brisk new construction activity, the excess demand will remain perceptible and rents will remain at a high level.

The **net initial yields** have been declining in all city classes for ten years. However, the decline is decreasing in intensity, especially in major cities. The slight decline in the weighted average of net initial yields across all Class A cities by 20 basis points to 2.8% in 2019 indicates that the curve is bottoming out. The lowest yield level and therefore the highest selling prices were found in Berlin at 2.6%, followed by Munich (2.7%), Hamburg and Frankfurt (both 2.8%). In Stuttgart, Düsseldorf and Cologne, the yield level is still 10 or 20 basis points above 3%. Among the Class B markets, Bonn and Nuremberg have now achieved the highest prices with a net initial yield of 3.7%. The price level is similar in Hannover, Leipzig, Münster and Wiesbaden. In Essen and Mannheim, the net initial yields are still slightly above 4%. The yields in individual Class C locations sometimes fall well below 4%, mainly in university cities and cities in metropolitan regions. Freiburg (3.5%), Heidelberg and Mainz (both 3.7%) and Potsdam (3.8%) are examples of this. The tendency to relocate to smaller cities is increasing: The drop in yields in Class B, C and D cities is somewhat stronger at 30 basis points each than in the A locations.

Vacancies decreased further in 2019. 6.6 million sqm RAC are vacant in the largest 127 office locations. The rate of 3.5% is almost 60 basis points below the previous year‘s level. As in the previous year, the net absorption in 2019 was 1.1 million sqm RAC. In the Class A cities, the vacancy rate of 2.8% has fallen significantly below traditional fluctuation reserves. The situation remains particularly critical in Berlin and Munich, where the vacancy rate of 1.3% and 1.4% is only marginally above 1%. The space available in Hamburg (2.9%), Cologne (2.3%) and Stuttgart (1.9%) is also below a healthy supply reserve. Only Frankfurt (6.5%) and Düsseldorf (6.0%) have higher vacancies, although these are also gradually falling. In the Class B cities, the vacancy rate averages 3.1%, 70 basis points below the previous year. Münster and Wiesbaden have extremely low vacancies below 2%. The situation is different in Dresden (5.1%) and Leipzig (6.2%), but the trend is falling sharply. In the Class C and D cities, the vacancy rates were 3.9% and 5.1% respectively, a decrease of 60 and 30 basis points compared to the previous year.

Light industrial

Light industrial real estate refers to commercial real estate that in Germany is known as “Unternehmensimmobilien”. Light industrial properties differ from logistics real estate 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).

On the **investment market** in 2019, the investment volume reached a new record high of 3.1 billion euros, which was almost 20% above the previous year (2.6 billion euros) and more than 33% above the long-term average. With an investment volume of 1.3 billion euros, industrial parks were particularly popular among investors. The production properties mainly adapted to individual user requirements remain dominated by owner-occupiers, but still achieved an investment volume of just over 1 billion euros.

The **gross initial yields** continue to fall, with a slight time lag compared to other types of use, especially in the case of transformation properties (converted, revitalised, re-densified commercial properties) and business parks. Their usual range of yields is currently 4.4% to 5.9% and 5.7% to 8.7%. Small-scale warehouse/logistics properties and production properties recorded a comparatively lower yield compression and recently reached ranges of between 4.5% and 6.4% and 5.6% and 7.8%.

Rents have risen slowly and consistently. They vary depending on the accommodation type: In the 2nd half of 2019, the average rent for office and social space was 9.43 euros/sqm, while the monthly rent for flex spaces was 8.10 euros/sqm, and production space has most recently been available for an average of 5.90 euros/sqm per month. Floor space is currently scarce, which is why occupiers remain willing to conclude contracts with longer terms.

Logistics real estate

In the **investment market**, logistics real estate recorded a transaction volume of 4.6 billion euros. The share of portfolio transactions increased to 55% in 2017 in recent years but has recently declined slightly in favour of individual transactions. Investor demand remains high and continues to exceed the available supply.

Rents reflect the importance of proximity to large sales markets: The top rents for logistics properties in Class A cities reached 6.40 euros/sqm per month. In these areas, they have achieved an above-average dynamic increase since 2017, starting from 5.70 euros/sqm. In Class B cities, logistics space is available for up to 5.10 euros/sqm, while in Class C cities they peak at 5.00 euros/sqm and in Class D cities at 4.30 euros/sqm.

The **new construction** of logistics space decreased in 2018 for the first time since 2015 compared to the previous year. In 2019, completed surface area increased significantly and, at 4.7 million sqm, almost reached the previous record level of 2017. At the moment, around a quarter of the total inventory of 150 million sqm consists of modern, newly constructed space. In relation to the 70 million sqm of logistics space which is considered to be eligible for investment, the proportion of new, modern space is almost 47%. The demand for additional space will remain high, as will new building activity: 5.5 to 6.0 million sqm is in the project pipeline for the next two years.

Hotel real estate

On the **investment market**, the transaction volume for hotel real estate is set to reach almost 5 billion euros in 2019. After the record year of 2016 (5.2 billion euros), this corresponds to the second highest value ever recorded. Hotel availability relevant to investment comprises 396,400 rooms, the market value of which is around 57.5 billion euros. The transaction share in 2019 was a comparatively high 8.7%. The high proportion of forward deals at 30% of the volume signals high investor confidence. Hotels with at least 100 rooms in A and B cities are the most in demand among investors. However, the number of hotels viable for investment has also increased in medium-sized cities.

Overnight stays in Germany rose for the tenth year in a row in 2019. At around 494.2 million overnight stays (2018: 477.6 million) they are already approaching the 500 million mark. 82% of the demand is domestic, while the proportion of foreign guests is 18%. European countries are the strongest foreign source market at 13%, particularly the Netherlands, Switzerland and Great Britain. Almost 25% of overnight stays are in the 14 largest cities. More than 50% of foreign guests prefer cities, while 75% of German tourists stay in rural regions and smaller communities.

Yields decreased further in 2019: The prime yield is now below 4.5% in all Class A cities. The level in Munich was 3.7%, just below the previous year‘s level (3.75%). However, Hamburg and Frankfurt also fell below the 4% threshold at 3.75% each. Stuttgart and Cologne are just over 4.1% each, Düsseldorf and Berlin at 4.3% and 4.4%, respectively.

Prices for hotel rooms have risen again, but the cost of hotel rooms in Germany remains low when compared to international prices. According to the Hotel Valuation Index published by HVS London (this only shows the upscale segment), even Munich, Germany‘s most expensive hotel location, reached a comparatively modest level in 2018 with a purchase price of just over 324,500 euros per room. Paris, by contrast, is Europe‘s most expensive metropolis where a room can cost 724,000 euros. One of the reasons for this is the relatively low profitability of the German chain hotel industry compared to international standards. The monthly leases per room in Germany range from 360 euros for budget accommodation to 620 euros for a midscale room and 930 euros in the upscale category to 1,680 euros per room in the luxury segment.

Retirement homes

Retirement homes cover a range of options, from classic living in an apartment or a house with no care services to full in-patient accommodation in a legally regulated care facility with all care services.

Assisted living refers to everything that lies between these two poles. The market share of assisted living for households with people over the age of 65 in Germany is 2%. The prospective need is high: In 2018, The Federal Statistical Office determined that 85% of households with an occupant aged 65 or older do not have stair-free access to their homes. Only 2% of apartments in Germany were barrier-free in 2018, i.e. enough areas of movement without obstacles, sufficiently wide doors and corridors and a walk-in entrance to the shower. Around 39% of those over the age of 70 still live in a single-family home. Availability is low: An average of 1.8% of the population over the age of 65 require a residential unit in assisted living. Depending on the region, the degree of coverage is between 0% and 8%.

The **availability** of assisted living currently consists of around 7,000 different types of housing with around 300,000 apartments. Around 600 projected residential complexes and apartments under construction are in the project pipeline. 85% of the residential complexes are small and have an average of 44 and a maximum of 80 residential units, which are on average 45 sqm in size. The total fee consists of classic rent plus additional costs averaging 9.00 euros/sqm living space, as well as a service fee (average 60 euros without meals), the level of which depends on the service concept. Smaller residential units with fewer than 30 residential units are usually connected to a residential nursing home, which is the case for approximately 20% of the housing stock in assisted living.

There is already a **lack of supply** in 95% of all German municipalities. Most of this lack of supply will continue to grow in the foreseeable future, as the proportion of senior citizens continues to increase along with demand for long-term care, while numerous structurally weak regions have been affected by depopulation, leaving the elderly behind. In light of these developments, the provision of housing for the elderly requires a rethink.

3. Residential real estate

In 2019, the German average **residential rent rates** (quoted rents) rose further by 3.5% year-on-year to 8.13 euros/sqm. The increase slowed slightly compared to the previous year (3.8%). In 2018, average rents on new leases in Germany rose more slowly than wages per employee or the disposable income per capita for the first time since 2014. This appears to have also been the case in 2019. After deducting the general inflation rate, the real rent increased by 1.9% in 2019.

Rental price growth rates have decreased in the independent cities of both West and East Germany (excluding Berlin) and in West German districts. Rents have only risen from their low level of 2019 in the East German regions. The highest growth rates – in each case the average in each region – were recorded in the regions of West Germany.

By contrast, the rise in **selling prices for condominiums** did not slow down last year and is still well above the growth rate of rents on new leases at 9.7%. Condominiums in Germany cost an average of around 2,660 euros/sqm. Since 2011, the selling prices for condominiums have been increasing year by year at a higher rate than rents on new leases. The selling prices rose the most in East German independent cities at 10.7% (to 2,070 euros/sqm), but the other types of region are also all between 9% and 10% (East German districts: 1,510 euros/sqm, West German independent cities: 3,380 euros/sqm, West German districts: 2,470 euros/sqm). The price increase is worrying, especially because rents on new leases have in no way kept pace with the rise in selling prices despite the increase, which has rightly been criticised. The decline in interest rates against the backdrop of deteriorating economic expectations is likely to have been responsible for the current rise in selling prices. Future price performance in the residential property market is therefore completely dependent upon how interest rates progress in the future.

Selling prices for detached and semi-detached houses rose by 9.3% on average in Germany in 2019 to approximately 2,800 euros/sqm. House prices rose at about the same rate last year as in the previous year (2018: +8.9% compared to 2017). Since 2010, the increase in selling prices at 63% has been significantly slower than the increase in selling prices for condominiums (+93%). However, regional differentiation follows the same pattern as for condominiums.

The **new construction** of residential property rose again in 2018 to 287,400 units, albeit only slightly with +2,500 units compared to the previous year. However, this slower increase is due to the decline in the completion of residential accommodation (-3,500), construction work on existing buildings (-3,800) and detached houses (-2,600). In the core area of new builds – flats in new residential buildings – just under 10% or 12,100 more apartments were completed in 2018 (at a total of 135,000 units) than in 2017. The trend during the first months of 2019 indicates a further slowdown of issued building permits. Between January and August 2019, a total of 228,500 flats were approved, of which 116,000 were in new residential buildings. There were 234,200 and 120,100 flats respectively during the previous year. Overall, the number of building permits has been stagnating since 2016, although at around 350,000 in total or 175,000 in new apartment buildings, this figure is still significantly higher than the number of completions at 287,000 (135,000), so the construction backlog is still rising. At the end of 2018, 692,000 flats had been approved but were not yet completed. The further increase in the construction backlog indicates that the number of building completions in 2019 should have risen further to just under 300,000 flats.

The housing markets in the seven Class A cities

Rents in the Class A cities (quoted rents) have increased by 19% to 60% since 2010 as a reflection of the high level of immigration and continued low volume of residential construction. Rents rose the most in Berlin (+60%), followed by Munich (+53%) and Stuttgart (+51%). In Hamburg (+19%), Düsseldorf (+23%) and Cologne (+27%), however, the increase was weaker than the national average (+32%). In real terms, i.e. taking into account the general price development, rents in these areas rose by around 15 percentage points more slowly, with values between 6% and 42%.

However, the different growth rates must be viewed against the background of the very different starting values. Despite the swift increase in Berlin, the average asking rent of 9.60 euros/sqm in 2019 remains the cheapest among the German Class A cities, while Hamburg continues to be 1 euro/sqm more expensive than Berlin despite the comparatively small increase. In 2010, the difference between Berlin and Hamburg was almost 3 euros/sqm.

Munich is still the most expensive German metropolis at 16.40 euros/sqm, followed by Frankfurt (13.10 euros/sqm) and Stuttgart (12.60 euros/sqm). Hamburg, Cologne and Düsseldorf are around 10.50 euros/sqm and a medium-sized existing flat with good facilities can only be rented for less than 10 euros/sqm in Berlin.

The sometimes turbulent increases appear to be coming to a stop in some cities, reflecting the changes to the development of supply and demand. This is particularly evident in Berlin, but also in Hamburg. From 2018 to 2019, the average quoted rent in Berlin fell slightly by 0.7% on an annual basis. Deducting the general price increase, this corresponds to a decrease of 2.1% in real terms. In Hamburg, the hedonic quoted rent also rose slightly by a nominal 0.7%, or in real terms by 0.8%.

The break in the trend in the form of rent stagnation seems to have started at the lower end of the market (but there are still increases at the upper end). However, it is unclear whether this development is a consequence of the tightening of rent controls. In Berlin and Hamburg, the stagnation of rents began before the rental controls were tightened in 2018. Quoted rents in the other Class A cities also continued to rise in 2019 and there is no reason to see why the tightening of rent controls would have less of an impact here than in the other cities. In fact, the willingness of households to pay for a rented flat appears to have increased thanks to positive economic growth. A slight relaxation on the housing markets will then result in households being able to demand higher quality in terms of location and facilities.

The **selling prices for condominiums** continued to increase in 2019 in all Class A cities. These increases were still significant in all cities at around 10% or more. Only n Munich was the price increase somewhat weaker at almost 7%. Compared to the previous year‘s growth rate (2018 to 2017), the price increase was more pronounced in Hamburg, Düsseldorf, Cologne and Stuttgart and weakened somewhat in Berlin, Frankfurt and Munich. However, since prices in the latter three cities had increased particularly sharply in the previous year, this reversal of the ranking should not be regarded as particularly significant. In fact, selling prices in all Class A cities have continued to rise fairly uniformly over the past two years. The upcoming Brexit may have played a role in the particularly strong growth in Frankfurt am Main (+ 20% 2018, +12% 2019). Since 2010, hedonic selling prices have increased by 101% in Düsseldorf, 113% and 114% in Hamburg and Cologne. Stuttgart followed at 128%, Frankfurt at 156% and the front runners were Munich (171%) and Berlin (177%).

Yields have fallen further due to the disproportionately high increase in selling prices in relation to the rent increases. The gross initial yield of rented condominiums available in Berlin and Munich in 2019 is 2.5% and 2.6% respectively. The other Class A cities followed at 3.0% to 3.6%. These are median values, meaning that the yield is even lower in half of the cases. If we take the ancillary purchase costs and maintenance costs into account, the median net initial yield in Berlin and Munich is only just over 1% and is no higher than 2.5% in all of the Class A cities.

4. Residential real estate in rural areas

The growth cores and real estate markets in **rural areas** are getting more attention from politics, the public and investors. This is due in part to the high price levels in the metropolitan areas and the political aim of preventing living conditions in the cities and countryside from drifting apart.

In terms of **transactions** in 2018, 46% of the approximately 216,000 residential property sales related to detached and semi-detached houses. Their share of sales was 56% of a total of 35.5 billion euros. 30% of the purchase cases and 31% of the turnover related to condominiums and other partial ownership. 24% of the purchase cases, but only 13% of the turnover, related to building plots for residential real estate.

Rents rose by 3% in Germany in the third quarter of 2019 compared to the previous year. The same was the case in rural areas for municipal districts and independent cities as well as for the stagnating rural districts. In the growing rural districts, however, quoted rents rose at an above-average rate of 4%. The price increase was only 1% in the shrinking rural districts. 80% of rural districts have an average rent level between 5.20 euros/sqm and 7.50 euros/sqm. Rents below 5.00 euros/sqm are only recorded in areas where the demand for housing is declining or stagnating. Rents in excess of 8.00 euros/sqm are requested in growing rural areas, urban areas and independent cities.

The **selling prices for condominiums** also increased between the third quarter of 2018 and the third quarter of 2019 in line with their location category, i.e. moderately by 2% in shrinking rural areas, significantly by 8% and 10% in growing and stagnating rural areas. The highest prices are reported at 2,092 euros/sqm in growing rural areas, followed by urban districts and independent cities at 2,070 euros/sqm. Cheaper condominiums can be found in stagnating and shrinking rural areas at 1,457 euros/sqm or 1,000 euros/sqm. For comparison, the average purchase price for a condominium in Germany is 1,819 euros/sqm.

The spectrum of **selling prices for detached and semi-detached houses** starts at less than 200,000 euros, mainly in shrinking and stagnating regions. The mid-price range segment of 200,000 to 350,000 euros is found in the stagnating and growing rural districts. The upper price level of more than 350,000 euros, on the other hand, is almost only found in the growing rural districts, urban districts and independent cities. The median price per square meter starts at 1,216 euros in shrinking rural areas and ends at 2,651 euros in urban areas and independent cities. The rate of increase varies between 2% and 6% depending on the location (third quarter 2019 compared to the previous quarter). Across Germany, prices average 2,313 euros/sqm, with a 5% increase rate in the same period.

The number of **building completions** of flats in rural areas rose sharply between 2011 and 2018 by around 63% to approximately 87,500 residential units, with 60% of all completions being new builds, especially in the growing districts. The condominium and rental flat segments recorded the strongest growth. The dynamic development of new residential construction is therefore not an exclusive phenomenon in the urban growth regions. In recent years, however, there has been a slowdown in the rural regions.

5. Retail real estate

Consumer confidence cooled off slightly in 2019. The economic expectations of consumers have deteriorated, mainly due to the global economic downturn, trade conflicts and concerns about Brexit. Income expectations also fell over the course of the year. The economic downturn is leaving its mark and employment growth is losing momentum, particularly in export-oriented industries and in the supply industry. Job cuts have been announced or already taken place in these industries. Despite these uncertainty factors, consumer propensity to buy remained relatively stable in 2019. Consumers see little point in saving due to the prospect of negative interest rates and are still in a buying mood.

Retail trade has benefitted from unbroken consumerism, but not across the board. Many large chain stores are still expanding and intend to increase their number of branches, while others plan to thin out their branch networks. The latter group includes suppliers of shoes and accessories, consumer electronics telecommunications and clothing. The strong expansion in the past few years with branch networks that have grown too large, online trading, competition from successful domestic and foreign concepts and changes to consumption and communication habits have had a noticeable impact.

10.1 billion euros were invested in **retail real estate** in 2019. The transaction volume decreased for the second year in a row, with a decline of 4.1% compared to the previous year, but at a much slower pace. Retail properties continue to be the third most sought-after asset class after office and residential properties with a share of 12%. Properties in the best locations in large cities remain in short supply. The transaction volume of the five Class A cities fell below the 2 billion euros mark for the first time since 2010. Specialist stores and retail centres remained the most dynamic segment with 44% of the transaction volume. Food-related properties in particular benefit from their e-commerce resilience and are still in high demand. Compared to 2018, the proportion of prime retail properties on the high street fell significantly from 37% to 28% in 2019, although some large-volume department store acquisitions took place in 2019, as in the previous year. The share of shopping centres rose slightly from 14% to 17%. Trading once again increased here, particularly in Class B locations.

In terms of **yield**, there were only a few changes in 2019: The prime yield of 1A retail properties in the seven Class A cities rose by +0.06% to 3.12%. Shopping centre yields rose by 0.2 percentage points to 4.0%, while in Class B locations they rose by 0.5 percentage points to 5.0%. There was a marginal decrease of 0.1 percentage points for specialist stores and retail centres (4.15%).

Online retail sales continue to rise. A steady growth of in-store retailing is nevertheless forecast for 2020, at least for all German **Class A cities**. Classic local shops in particular are expanding extremely quickly. The top three retail locations are Berlin, followed at quite some distance by Munich and Hamburg. Ranking the cities according to their tax-free turnover shows a different picture. Munich is then in first place with 24% of German tax-free turnover, followed by Frankfurt am Main with 18.2% and Berlin with 15.9%. The most popular shopping streets in Germany are in Munich, Cologne and Düsseldorf.

The seven top retail real estate markets

Berlin stands out compared to the other Class A cities with a relatively high unemployment rate of 7.7%. Berlin‘s retail centrality is above average compared to the rest of Germany with an index of 106.7, but it is the lowest among all Class A cities. The retail purchasing power of 5,684 euros per capita is also below average compared to the other Class A cities. On the other hand, Berlin achieves high retail sales, partly because of the large number of tourists. With 400 euros/sqm prime rent for smaller shop units (80-120 sqm), Berlin is ahead of Munich and is the nationwide leader. With the highest rents for shop floors from 300 to 500 sqm, the federal capital is average among the Class A cities (170 euros/sqm). A further increase in prime rents is expected for smaller retail spaces in 2020 and is set to remain unchanged for medium-sized retail spaces. Numerous flagship stores, new openings and refurbishments confirm Berlin‘s attractiveness as a retail location and trendsetter. International retailers often open their first shop in Germany in the capital. Berlin is also a popular place to test pop-up stores.

In comparison to the other Class A cities, **Hamburg** is characterised by a relatively high proportion of residents under the age of 18, while the proportion of 18 to 65 year olds is slightly below average. The retail centrality of 112.1 is slightly above average among the Class A cities, as is the retail turnover. The retail purchasing power of 6,468 euros per capita is above the national average, but comparatively low among the Class A cities. The prime rents of 310 euros/sqm for smaller shop spaces and 190 euros/sqm for shops from 300 to 500 sqm are comparatively high. The smaller areas will presumably remain price-stable in 2020, while rents for larger shop spaces will decrease. Hamburg is a popular location for flagship stores of big brands and an attractive location for clothing stores with a demanding clientele. The city centre will gain in importance as a commercial location.

Munich is ranked top for tax-free sales in Germany. The city stands out among all major cities with excellent key retail figures. The unemployment rate is extremely low at 3.4%, and according to some definitions, there is almost full employment. The retail purchasing power of 7,694 euros per capita is extremely high and makes the city an attractive location for brands in the luxury segment. At 370 euros/sqm for small shops, Munich only ranks second behind Berlin, although top rents of up to 240 euros/sqm are possible for larger stores (300-500 sqm). Industry experts expect a stable market for retail real estate for Munich and Greater Munich. This development is supported by Munich‘s economic performance, which has been stable for many years, and by immigration and tourism.

Cologne is one of the cities with the highest pedestrian footfall on several shopping streets due to good pedestrian zones. As the fourth largest city in Germany and with a population of over a million, the city is by far the highest-scoring compared to the other cities, with a retail centrality of 120.9, although both retail purchasing power (6,379 euros per capita) and retail sales are comparatively below average. The unemployment rate is relatively high at 7.6%. In terms of the highest rents for smaller and slightly larger retail spaces, Cologne is below average compared to prices in the other Class A cities, at 255 euros/sqm (80-120 sqm) and 130 euros/sqm (300-500 sqm) respectively. Further falls are forecast for 2020.

Frankfurt is one of the most important international financial centres, an important transport hub and trade fair location, which is reflected in its share in the nationwide tax-free turnover of approximately 20%. The retail purchasing power of Frankfurters is comparatively high at 6,770 euros per capita. At 102.0, retail centrality is below the average of the Class A cities. The same applies to retail sales and prime rents. For smaller retail spaces (80-120 sqm), rent is approximately 290 euros/sqm. 150 euros/sqm is charged for slightly larger shop floors (300-500 sqm). No price change is expected for the smaller shop floors, but larger shops may become slightly cheaper in 2020.

Stuttgart stands out due to its above-average centrality and retail purchasing power, while at the same time, its retail sales are below average when compared to the other cities. The city has a high number of commuters and the unemployment rate is very low. The city's top rents are lowest among the Class A cities. Rents are expected to fall further in 2020. At present, the rents are 190 euros/sqm for small retail spaces between 80 and 120 sqm and 90 euros/sqm for retail spaces sized 300 to 500 sqm. Stuttgart is under great pressure to find innovative traffic solutions. As it is located in a basin, the access roads become bottlenecks and particulate matter levels are regularly the highest of all German cities. Solutions are required here which also work for retailers.

Düsseldorf is comparatively small in terms of its population and number of employees, but is very attractive as an employer location, which is evident from factors including the high commuter inflow. Düsseldorf has an above-average level of centrality compared to the other cities (113.8) and its retail purchasing power is also above average at 6,940 euros per capita. In 2019, Düsseldorf achieved the lowest retail turnover compared to the other A cities. The city is attractive for investors and landlords, as prime rents are at 295 euros/sqm for small (80-120 sqm) and 160 euros/sqm for larger (300-500 sqm) retail spaces, which is the average of all seven A cities. However, they are on an upward trend.

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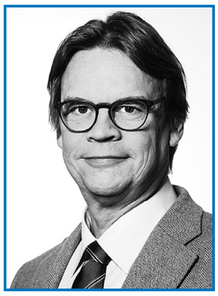

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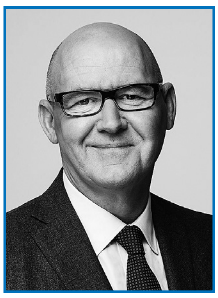

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About the publisher

The **ZIA German Property Federation (ZIA)** is the leading professional association and the regulatory-policy and economic-policy interest group for Germany's entire real estate industry, and is based in Berlin. Through its members, including 28 associations, it speaks on behalf of around 37,000 companies in the industry along the entire value chain.

The ZIA represents the diverse interests within the real estate industry in the form of unified, integrative positions which correspond to the industry's significance for the national economy. As an association of entrepreneurs and associations, it gives the entire real estate industry a voice at national and European level – and in the Federal Association of the German Industry (BDI).

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