Julius Bär

PROPERTY MARKET REPORT GERMANY

Residential and investment properties in Top 7 cities
along with indirect real estate investments
1st quarter 2025

Marketing material
Please note the important legal information at the end of this document.

Julius Bär

Contents

Current market environment

The German economy has not shown any growth momentum for over two years. The increase in economic strength at the beginning of 2024 could not be duplicated in the second quarter. In the third quarter, growth of 0.2 percent was registered. For the coming months, only a marginal improvement in the economic situation is forecast.

Structural problems are weighing on the economy

The current economic downturn cannot be attributed to cyclical factors alone. The transition to more sustainable production methods, demographic change and increasing competition from China are presenting Germany with profound challenges that are limiting long-term growth potential. In particular, manufacturers in energy-intensive industries are facing regional disadvantages due to rising energy costs.

Economic weakness is felt in the labour market

The ongoing economic stagnation manifests itself in a gradual increase in the unemployment rate. Although the number of short-time (Kurzarbeit) workers is rising, it remains comparatively low given the weak industrial development. This suggests that many companies expect the reduced demand for labour to be permanent and, as a result, are more likely to cut jobs or outsource production capacity abroad than to resort to short-time working. Despite all this, employment figures continue to rise, albeit at a slower pace.

ECB likely to continue interest rate cuts

After a period of intensive interest rate hikes, the European Central Bank (ECB) has begun to lower interest rates in moderate steps. In September and October of last year, the deposit rate was reduced by 0.25 percentage points in each month. As a result of a further reduction of 0.25 percentage points in December, a further five interest rate cuts to 1.75 % are expected by June 2025 due to the economic downturn.

Key figures at a glance

Forecast 2025

Real GDP growth	0.1%
ø last 10 years	1.2%
Inflation	1.5%
ø last 10 years	1.7%
Unemployment rate	6.2%
ø last 10 years	5.8%
Household growth	0.7%
ø last 10 years	0.4%
New construction rate (residential)	0.5%
ø last 10 years	0.6%

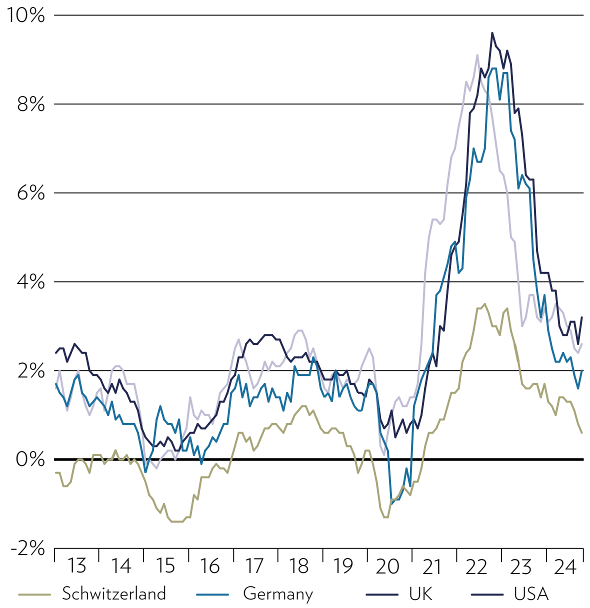
as of December 2024
Sources: Julius Baer Research, Federal Employment Agency, Federal Statistical Office (Destatis)

Opportunities and risks are balanced

An intensification of geopolitical conflicts could have a greater impact on demand for export goods than originally assumed. At the same time, however, there is a possibility that financing conditions could improve, thereby boosting investment demand. Furthermore, it cannot be ruled out that rising real incomes and a more rapid normalisation of savings behaviour will boost consumer spending by private households to a greater extent than taken into account in previous forecasts.

Inflation

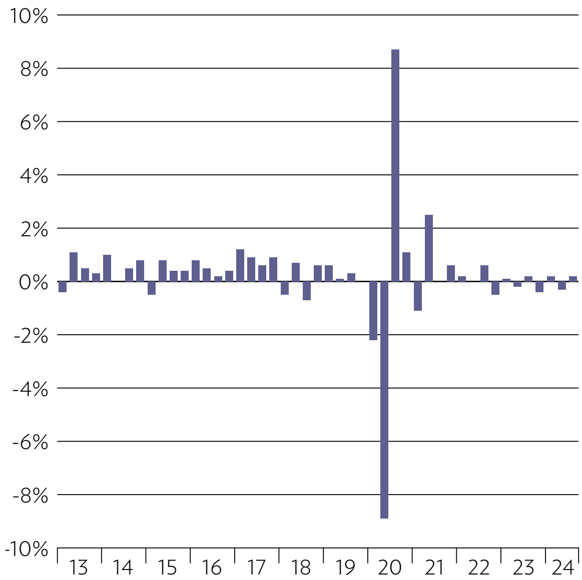
International comparison



As of December 2024 **Source:** OECD

Economic activity

Germany



GDP Germany (real, seasonally, and calendar-adjusted, compared to the same quarter of previous year)
Source: Federal Statistical Office

Interest rates

The 10-year Bund is the yield to maturity (YTM) of the most recent Federal bond with a 10-year term. The historical performance does not take into account any fees, commissions or other charges and is no guarantee of future performance. (ISIN: DE000BU2Z015)
Sources: Federal Statistical Office, Deutsche Bundesbank, mortgage interest rates between 2015 and 2024 as at March 1, June 1 and September 1 respectively. According to the sources, the levels here did not exceed 4 %.

Interest rate expectations

Base interest rates (in %)

	As of Dec. 2024	March 2025	June 2025	Dec. 2025
ESTR*	3.17	2.67	2.17	1.92
5Y SWAP	1.96	1.83	1.81	1.78
10Y SWAP	2.09	1.99	2.03	2.14

*** Euro short-term rate**
Source: Julius Baer Research

The forecasts made by Julius Baer regarding the future development of underlying assets, interest rates, prices and foreign exchange markets are subject to uncertainties in the current market environment.

Residential property market in the top 7 cities

There are growing signs that demand – from both large and small players, i.e. from private individuals and investors – is gradually recovering. Market observers are increasingly pointing out that reservation figures for new construction projects are on the rise and that concrete demand from institutional investors is thawing.

Market recovery is expected

After a phase of slight decline and stagnation, the average of new and existing prices in the top 7 cities is showing an initial positive trend. It is widely assumed that the bottom has thus been reached and that the market is now recovering. This is supported by the interest rate cut that has already been introduced and is expected to have a positive impact on investment and demand in the future. The rate of inflation, which has already reached the target level of around 2.0 %, is also having a supportive effect. This latest development is reflected in many surveys that mirror the real estate climate. The residential segment has been showing a constant upward trend here for several months, which underscores the above points.

Demand pressure on the rental market remains

Although the interest rate correction that has already been initiated has again affected financing interest rates in favour of demand, financing conditions remain difficult for the majority of potential buyers. This was expressed, among other things, in a shift in demand to the rental market and a resulting continuous increase in rents. According to forecasts, the low completion figures of around 294,000 apartments in recent years will be undercut in 2024, which will not reduce the tension in the housing market. These underlying conditions are seen as a major factor for further rent increases, not only in the top 7 cities. A shift of some of the demand to the condominium market will not solve this problem entirely.

Classification of locations

The RIWIS locations are divided into 4 classes by bulwiengesa AG according to their functional importance for the international, national, regional or local real estate market.

A-Cities

Most important German centers with national and in some cases international significance. Large, functional markets in all segments. The A-cities are named in the following report »Top 7 cities«.

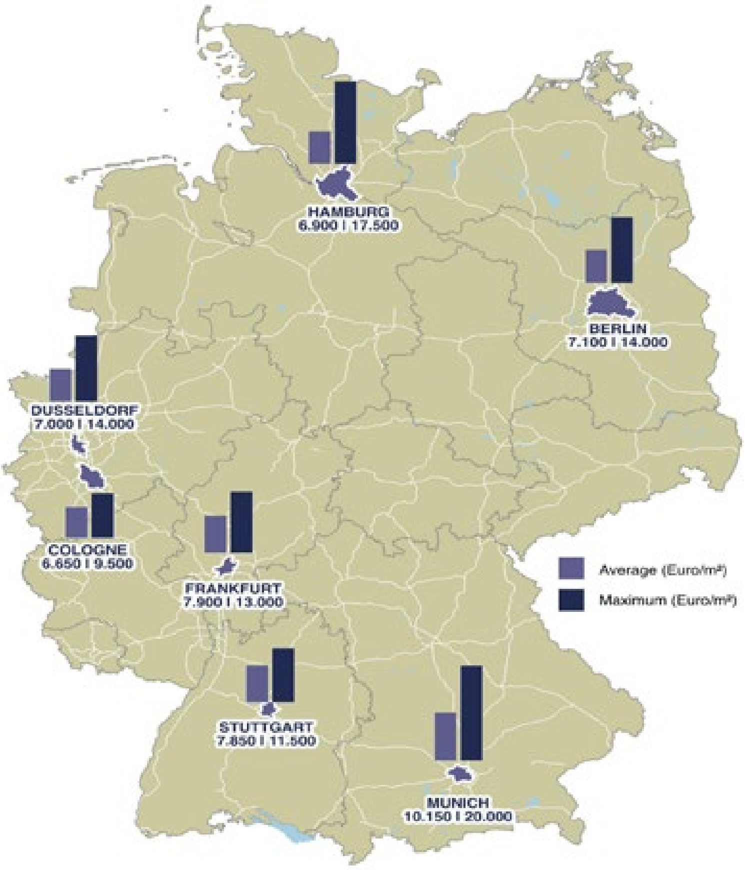
Key figures

Condominiums: Price development 3rd quarter 2023 – 3rd quarter 2024	0.4 %
Previous year´s value	-3.4 %
Owner-occupied apartments: Average listing period In days, 3rd quarter 2024	50
Single-family homes: Price development[1] 2023 – 2024	-2.7 %
Previous year´s value	-5.4 %
Single-family homes: Average listing period In days, 3rd quarter 2024	44

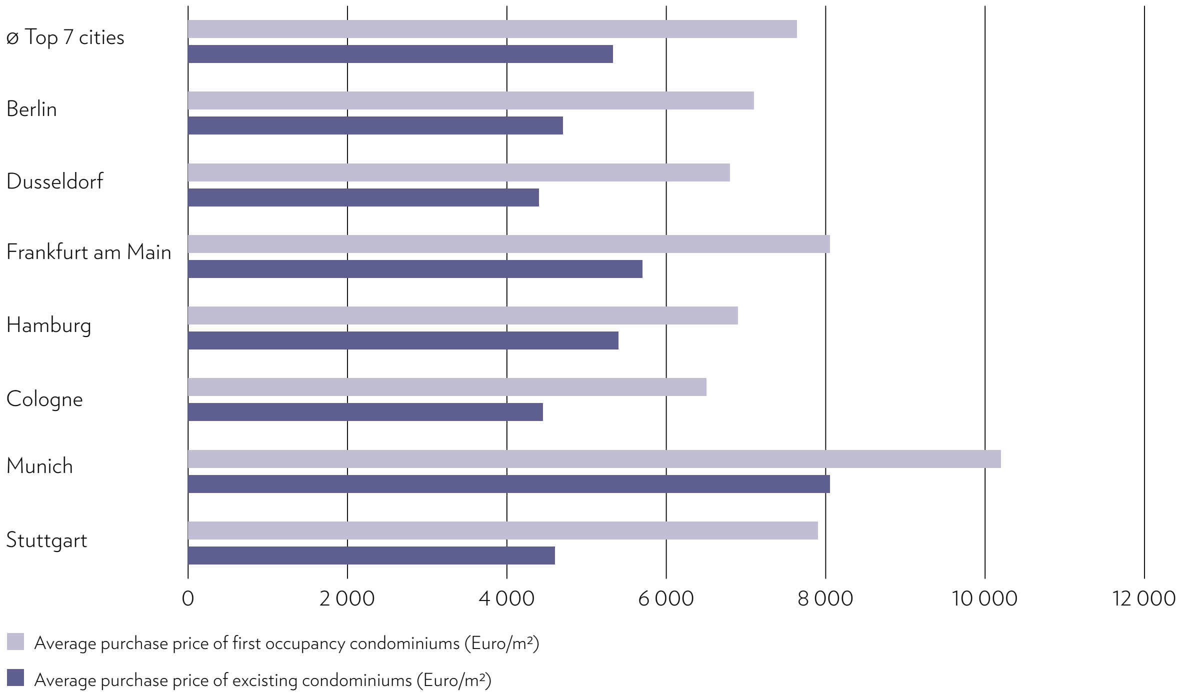
[1] Only annual values available for single-family homes

Source: bulwiengesa AG

Price level for condominiums 2024
Annual values



Price level for first occupancy and existing condominiums
Q3/2024



Source: bulwiengesa AG

Positive trends are increasingly being registered

Compared to the previous quarter, four cities are now reporting slight increases in prices for condominiums in first-time occupancy. These include Frankfurt, Hamburg, Munich and Stuttgart. By contrast, stagnation was registered in Berlin and Cologne. Düsseldorf recorded a slight decline. In terms of prices for existing condominiums, Stuttgart is stable. A slight increase was also registered in all other cities. At EUR 10,200/m^2 for a newly built condominium, Munich is the top performer for both new and existing condominiums (EUR 8,050/m^2).

Slight purchase price increases forecast

The forecast from autumn 2024 assumes a slight increase in new-build prices in the condominium segment in the top 7 cities over the next few years. Of the seven cities, Munich stands out in particular with the highest relative increase (+11.9 %) over the next five years. Munich is already the most expensive city in Germany, followed by Frankfurt am Main and Stuttgart, and will continue to maintain this position. The price correction should therefore be complete for the time being and should ease the pressure on the housing market to some extent.
However, a significant acceleration in demand is not to be expected. In this context, uncertainties regarding economic development play a central role. The calculations are based on various assumptions regarding inflation, wage development, GDP development and interest rate development.

Residential construction targets will be missed by a wide margin

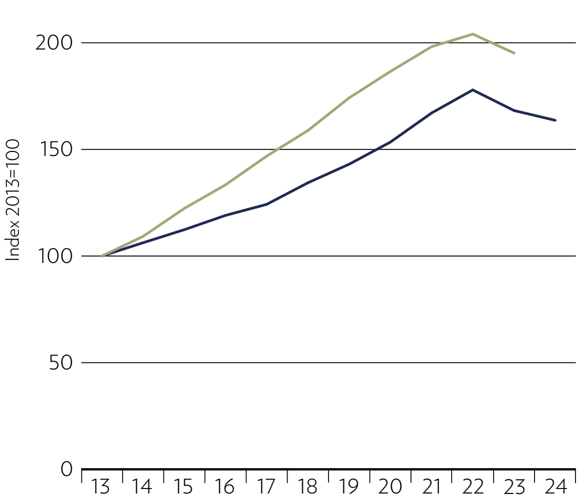
New residential construction faces major challenges. Declining approval figures, combined with many project delays or even complete construction halts, suggest lower completion figures for the next few years. On the other hand, the demographic trend as the basis for demand for living space will be positive due to the predicted influx. In addition, the demand is increasing due to the trend towards single-person households, which is further exacerbating the supply deficit.

Current environment for upmarket residential property

Further price increases of around 7 % to 13 % are expected in the upmarket residential property market in all cities by 2028. At around EUR 20,100/m^2, maximum prices in Munich are significantly higher than in Hamburg (EUR 17,000/m^2). Berlin, Düsseldorf and Frankfurt (Main) are at a similar level, with EUR 13,400 to 14,100/m^2, while Cologne and Stuttgart are significantly lower again, at EUR 9,200 and 11,400/m^2.

Development of purchase prices: condominiums and single-family homes

average of the top 7 cities

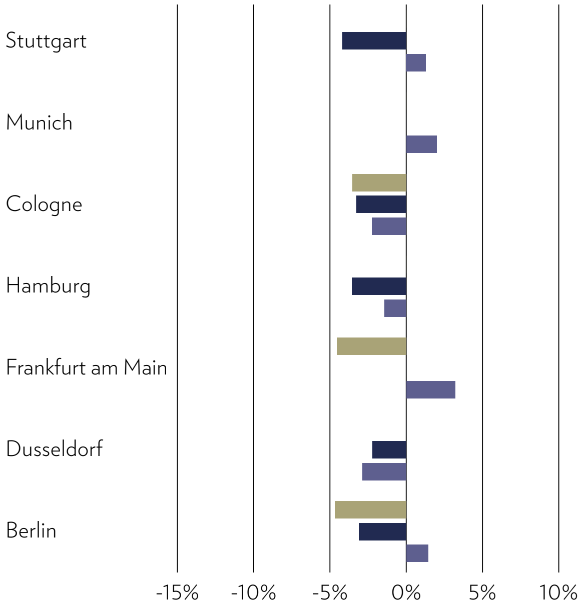


Purchase price of condominiums (average)

Purchase price single-family homes (average)

Source: bulwiengesa AG

Price trends in the top 7 cities



Average purchase price of single-family home (Euro/m²): Change compared to previous year

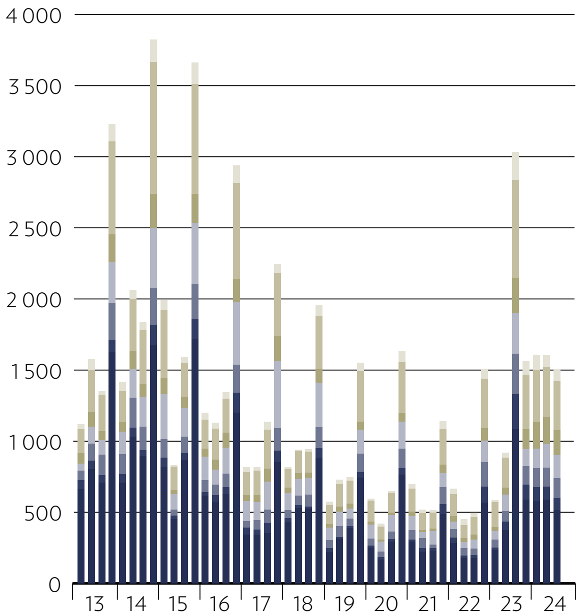
Average purchase price of resale condominium (Euro/m²): Change compared to previous year

Average purchase price of condominium first occupancy (Euro/m²): Change compared to previous year

Source: bulwiengesa AG

Offers: owner-occupied property

Number of advertised condominiums in the top 7 cities, quarterly



Berlin, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Munich, Stuttgart

Source: IS24

Price expectations 2025

for condominiums in the top 7 cities

↗ Berlin, Munich, Frankfurt am Main, Cologne, Stuttgart

→ Hamburg, Dusseldorf

↘ Price decline: <-1 %

→ Stability: -1 % bis 1 %

↗ Price increase: >1 %

Investment properties

Key figures top 7 cities, as of Q3 2024

ø Residential multiplier*	23.5
previous year´s figure	25.4
Net initial yield, office	4.5 %
previous year´s figure	4.0 %
Vacany rate, office space	6.7 %
previous year´s figure	5.2 %

Market activity and, with it, demand from private and institutional market players is picking up slightly again, as evidenced by an increased number of reservations or a slight overall increase in transaction activity. As a result, sentiment is more positive again, even though a certain amount of caution is still clearly evident.

* These refer to the annual net cold rent.

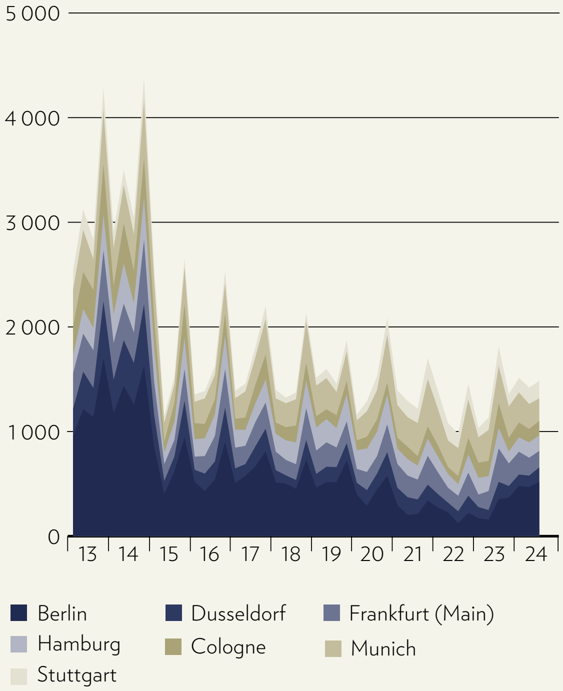
Multi-family homes

Further rent increases in the coming years

Further rent increases were registered in all cities in the third quarter of 2024. Berlin recorded the largest increase since the beginning of 2022, at 19.4 %, while Stuttgart showed the lowest growth rate, at 6.5 %. However, the continuous rise in rents due to high demand, combined with interest rates that have already fallen, may generally lead to a renewed increase in the attractiveness of a purchase. One weak point in this line of argument is the continuing uncertainty about economic developments. In particular, concerns about job stability can severely curb demand. Another limiting factor, and thus one that drives up rents, is the insufficient supply resulting from the low number of completions, which will further exacerbate affordability. Low-income households are particularly affected, as access to affordable housing is becoming increasingly difficult for them.

Supply development

Number of advertised rental apartments per quarter in the top 7 cities



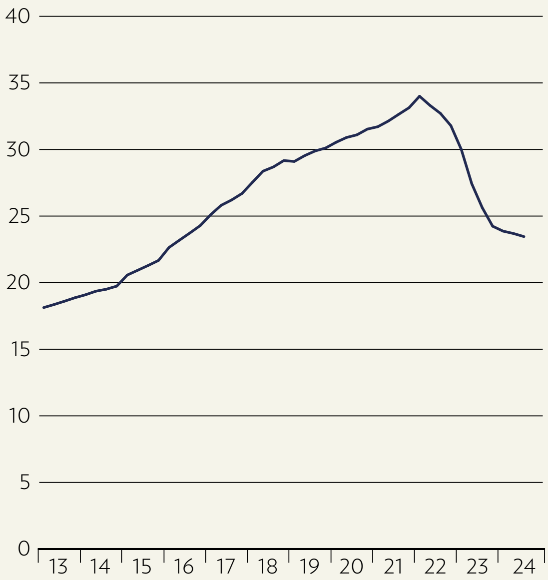
Source: IS24

Multipliers are largely stable

The largely stable level of multipliers shows that the price level has become established. A revival in market activity, which is still in its early stages, went hand in hand with this development. The first properties and portfolios are being sold again, with young and ESG-compliant properties in particular showing greater fungibility. Nevertheless, transaction activity in the residential property market is still not reaching the level of previous years. All too often, the gap between the yield and purchase price expectations of sellers and those of potential buyers is still too wide and represents the biggest obstacle to a noticeable improvement in the market. However, the expected further interest rate cuts should lead to a further improvement in conditions and financing terms for both commercial and private investors.

Multiplier multi-family homes

average



Source: bulwiengesa AG

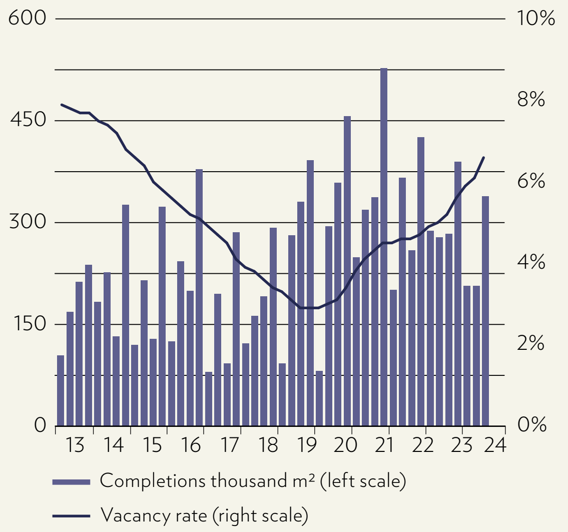
Office property market in the top 7 cities

Despite the lack of economic tailwind, the office market showed the first signs of a slight recovery in some cities in the third quarter. After the first half of the year was still characterised by uncertainty and a wait-and-see attitude, positive impulses are increasingly being felt – albeit with significant regional differences.

New construction volume expected to peak in 2024

A new build volume of around 760,000 m² was registered in the top 7 cities up to and including the third quarter of 2024. The third quarter accounts for around 338,000 m², or around 45 % of the new build volume. The largest volume of completions was registered in the capital city of Berlin, with 170,300 m², followed by Munich with around 63,000 m². According to forecasts, the volume of new construction in the top 7 cities will slightly exceed the previous year's figure of around 1.2 million m² at 1.3 million m².

Supply situation in the top 7 cities



Source: bulwiengesa AG

Last year probably marked the peak in completions for the time being, and in the medium term, the ongoing uncertainties in the office market with regard to future demand for office space and the ongoing crisis in the project development market are likely to result in a thinned-out pipeline. As a result, significantly fewer projects are being launched. In addition, there are the numerous insolvencies of project developers. However, it can be assumed that projects in good to very good locations can be completed with a new investor and that the space will be added to the market in a timely manner.

Vacancy rate continues to rise

The increase in vacancies continued in the third quarter of 2020. On average, the top 7 cities recorded a vacancy rate of 6.7 %. This represents an increase of around 1.2 percentage points compared to the same quarter of the previous year. The federal capital Berlin continues to show the sharpest increase, up 2.2 percentage points to 6.7 %, followed by Düsseldorf, which saw an increase of 1.6 percentage points to 9.8 %. The capital of North Rhine-Westphalia thus continues to have the second-highest vacancy rate, behind the Main metropolis of Frankfurt, at 10.1 %. Compared to the second quarter of 2024, Hamburg and Stuttgart show the smallest increases, with 0.1 and 0.2 percentage points respectively, to 4.7 % and 5.2 % respectively. The lowest vacancy rates are in Hamburg and Cologne at 4.7 % and 4.6 % respectively, which is still within the range of a healthy fluctuation reserve of around 5 %.

The pipeline, which was still well stocked in 2024, resulted in further increases in vacancies. The rental decisions that are currently on hold will contribute to a general revival on the demand side as the economy brightens – although it is difficult to predict when that will be. High-quality and ESG-compliant space in urban locations will benefit from this in particular.

Munich helps top 7 cities post good take-up result in Q3

The top 7 cities were once again able to slightly increase their office space turnover in the third quarter of 2024 compared to the previous quarter, with around 578,000 m². In the first three quarters, a total of around 1.7 million m² of space was taken up, which represents an increase of 6.7 % over the previous year. Compared to the same quarter of the previous year, an increase of 16 % was recorded.

In particular, the Bavarian capital Munich increased its turnover by around 92 %, putting it in second place behind Berlin (130,000 m²), the largest office market in Germany. The good result was due, among other things, to a number of large deals, such as the pre-letting to the Bavarian Parliament of 18,000 m² in the 'Lehels' renovation project in a very good city-centre location, and the pre-letting of 16,000 m² in the Bruckmann Creative Center in a central location. The other deals were primarily in the small to medium-sized segment. By contrast, take-up fell in Berlin (-18.8 %), Düsseldorf (+23.8 %) and Frankfurt (-15.3 %).

In Cologne, the take-up result increased to 65,000 m² compared to the same quarter of the previous year (+27.5 %) and in particular compared to Q2 of the past year (+160 %), which is primarily due to the start of construction of the City of Cologne's 24,500 m² »Rossio« project in the up-and-coming Deutz district, where the building will be used by the city itself. While the Hamburg office market recorded a decline of 16.2 % to 98,000 m² compared to the previous quarter, Stuttgart was able to increase its take-up result by 42.9 % due to the city's major deal of over 27,000 m² in the Green Roof Office on the edge of the city.

The positive signs of a revival in the letting market in the top 7 cities can be attributed to major deals. In view of the stagnating economy and the uncertainties regarding future economic developments - also in the wake of the change of government in the USA - it is difficult to make sales forecasts. There may be positive impetus from the upcoming elections in Germany, which are scheduled for February 2025.

Düsseldorf and Munich see sharpest growth in rents

In the third quarter of 2024, the development of prime rents showed a mixed picture. While Düsseldorf and Munich continued to see strong rental momentum, with growth of 2.5 % and 2.9 % respectively to EUR 41.00/m² and EUR 53.00/m² compared to Q2 2024, the capital Berlin, Frankfurt and Hamburg are likely to see a slowdown in the rate of growth, with increases of 1.1 % to EUR 45.00/m² and EUR 47.00/m², and by 0.6 % to EUR 35.00/m² in Q3.

The significant rent increases in Düsseldorf and Munich are mainly the result of project lettings in central locations, where tenants show little price sensitivity. It is clear that users have higher demands in terms of location, property quality and sustainability and are willing to accept higher prices for these. In Cologne and Stuttgart, rents continue to stagnate at the previous quarter's level of EUR 32.00/m² and EUR 33.00/m² respectively. It should be noted that

Office market figures top 7 cities

	Berlin	Dusseldorf	Frankfurt	Munich	Hamburg	Cologne	Stuttgart	Top 7 cities
Stock[1]	21.5	7.8	10.3	14.6	14.2	8.0	8.2	**84.6**
Vacancy rate[2]	6.7	9.8	10.1	5.9	4.7	4.6	5.2	**ø 6.7**
Prime rent[3]	45.00	41.00	47.00	53.00	35.00	32.00	33.00	**40.9**
NIY central location[4]	4.4	4.6	4.6	4.3	4.5	4.5	4.5	**4.5**

[1] m² MF-GIF in million
[2] in percent
[3] Euro/m² MF-GIF/month
[4] Net initial yield in %

Source: bulwiengesa AG, as of Q3 2024

Cologne city centre is now virtually out of new-build quality space and that the potential for new space is almost exhausted. The demand for office space and the resulting rent development in Q3 2024 shows that the sector structure of a city and the respective price sensitivity of tenants currently cause stagnation or upturn in the individual markets.

Yield levels stabilise

Net initial yields for office properties in central locations in the top 7 cities remained stable at 4.5 % in the third quarter of 2024, but were thus around 50 basis points higher than in the same quarter of the previous year. Munich remains the most expensive location with 4.3 %, followed by Berlin with 4.4 %. They are followed by Hamburg, Cologne and Stuttgart with 4.5 %, and Frankfurt and Düsseldorf bringing up the rear at 4.6 %. There are currently increasing signs that the price formation process in the top 7 cities will have come to an end in 2024.

Deutsche Hypo Real Estate Climate

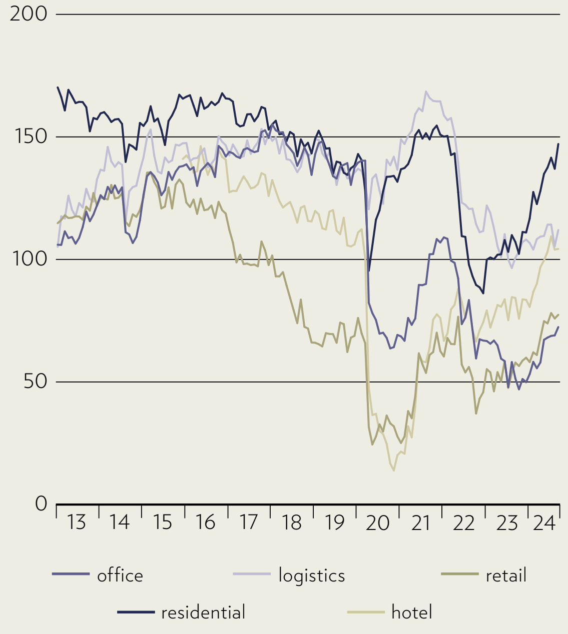
At the end of the third quarter, the first signs of recovery on the residential and commercial property markets emerged in line with the brightening property climate. While demand for space, particularly in the office sector, is still far from pre-crisis levels due to the ongoing uncertainty regarding economic development, despite increasing activity, the interest rate cut has led to a revival in the residential segment in particular. The continued strong demand for living space and the associated rent increases are making buying an attractive option again for many – especially for smaller apartments in metropolitan areas.

The September survey shows a positive trend in all segments. The residential and logistics climate improved particularly significantly: after a decline in the previous month, the residential climate recovered with an increase of 7.4 % to 147.1 points. The logistics climate also made up for its losses and rose by 6.3 % to 112.0 points. The office climate also saw positive momentum, climbing by 5.0 % to 72.4 points. This means that it has crossed the 70-point mark again for the first time since September 2022, but it remains at the bottom of the league among the asset classes shown.

The smallest increases compared to the previous month were seen in the retail climate, which rose by 2.0 % to 77.4 points, and the hotel climate, which improved slightly by just 0.2 % to 104.3 points.

Real Estate climate by segment

Index value up to September 2024



Source: Deutsche Hypo Real Estate Climate Index

Explanation Index/base: 100=neutral, 200=maximum positive expectation, 0=maximum negative, monthly survey of around 1200 market players from the real estate sector

In Focus – Investment market

Slight recovery tendencies recognisable in 2024 after the slump in 2023

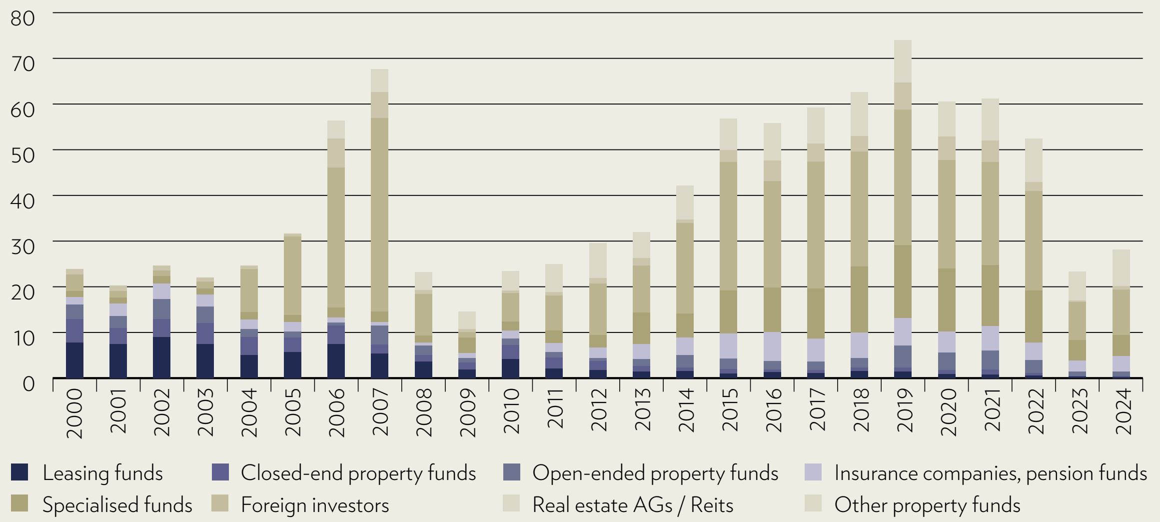
In 2023, the German real estate investment market recorded a significantly lower transaction volume than in previous years, following the adjustment of the framework conditions on the capital markets. With a total volume of around EUR 23 billion in commercial real estate, the market reached a level last seen in 2011. This represented a decline of around 56 % compared to 2022, when the volume was still 51.8 billion.

By the third quarter of 2024, the market is showing the first signs of a slow stabilisation, with a transaction volume of around EUR 17 billion in the commercial real estate segments. This represents a slight increase compared to the same period last year. The situation is similar for residential real estate: by the end of September 2024, around 6.7 billion euros had been invested in apartment buildings (> 30 units). Although this is still below the residential investment volume of around 8 billion euros for the whole of 2023, the final quarter is likely to be strong and lead to a better year-end result. For the second year in a row, the industrial asset class (logistics, light industrial, production, business parks, etc.) accounts for the largest share of commercial investment turnover.

With a result of around EUR 4.6 billion by the end of the third quarter of 2024, it was able to place itself just ahead of the retail asset class. Office investments continue to lag well behind the transaction figures seen before the crisis. The low momentum in the user markets and the ongoing discussion about the future demand for office space are leading to significant investor restraint. While investor interest continues to focus on logistics and residential real estate, turnover in the office segment remained stable at a low level. These shifts in recent years indicate a change in investor confidence in the individual asset classes and reflect the need for more crisis-resistant forms of investment such as logistics and residential.

Commercial property investments

billion euros, by buyer type, 2000 to Q3/2024



Source: bulwiengesa AG

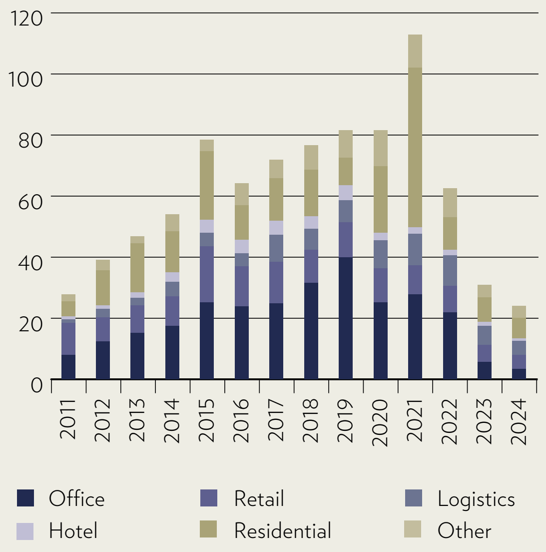
Single asset and portfolio transactions

In 2023, the market for commercial investments was characterised by small-scale transactions, with single asset transactions accounting for the majority of activities. Portfolio transactions in 2023 accounted for only 25 % of the total volume. In 2024, single asset transactions continued to dominate and, due to their size, led to a further decline in the share of portfolio transactions.

The Kaufhaus des Westens (KaDeWe) in Berlin was one of the largest real estate transactions of 2024. A Thai investor acquired the iconic department store for around 1 billion euros. This transaction underlines the attractiveness of premium properties in top locations, even in economically challenging times. Another significant transaction was the sale of a substantial residential portfolio by Germany's largest real estate group. Berlin-based housing companies Howoge and Berlinovo acquired this portfolio for around 700 million euros. This deal reflects the continued demand for residential property in the capital. In the logistics sector, the sale of an Amazon property in Helmstedt stood out. An insurance group acquired this property for a low triple-digit million amount. This transaction underscores the stable interest of institutional investors in modern logistics real estate. The purchase fits with the strategy of many insurance companies to invest in stable properties with long-term leases.

Transaction volume* by asset class

billion euros, 2000 to Q3/2024



* Excluding leasing, for residential property taking into account IPOs and takeovers, as at Nov. 2024

Source: bulwiengesa AG, estate agent reports

Investment market for office property

The transaction volume in the office property market has experienced a significant downward trend since 2021. After the investment volume in 2021 was EUR 27.8 billion, it fell to EUR 21.8 billion in 2022 and dropped drastically to just EUR 5.6 billion in 2023. In the third quarter of 2024, the transaction volume for office real estate amounted to EUR 3.4 billion, which shows that the market remains cautious and continues at a low level.

In addition to the higher interest rates and the changed financing environment, the development of the office property market is significantly influenced by other factors that have led to a significant decline in the transaction volume. One decisive factor is the change in the structure of demand for office space, which has been accelerated by the coronavirus pandemic and the introduction of hybrid working models. Many companies now rely on flexible working models that allow employees to work both in the office and remotely. This adjustment has reduced or changed the demand for office space in many companies, as fewer fixed workstations are needed and flexible or temporary solutions are increasingly preferred instead. The declining demand for space has a direct impact on the demand for office real estate as an investment product. Office property is less often considered a classic core investment. Investors prefer only highly attractive locations and properties that offer greater future security through flexible usage options or sustainability standards. Office properties in less desirable locations with quality deficits will continue to be less in demand in the future.

Overall, the office property market is undergoing a reorientation, which is characterised by the increasing demands of users for flexibility and sustainability, while investors are being more cautious in view of the increased market uncertainty.

Development of the transaction volume for retail real estate

The investment market for retail real estate in Germany has experienced a significant decline in transaction volume since 2015. In 2015, the volume reached an all-time high of EUR 18.4 billion. This decline intensified again in 2023, when the transaction volume fell to EUR 5.7 billion. By the end of the third quarter of 2024, the volume was EUR 4.5 billion, higher than office real estate for the second year in a row.

The continuous decline in the transaction volume for retail real estate can be attributed to a number of structural and economic factors. One key reason is the sweeping changes in the retail sector itself: growing competition from online retail and changing consumer habits have significantly weakened interest in traditional retail real estate.

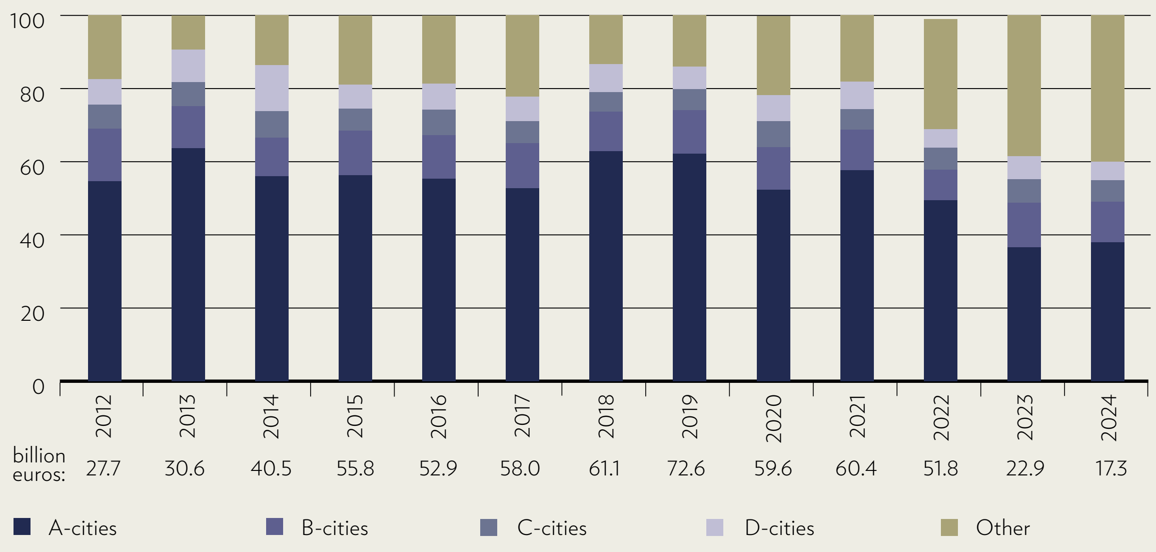
Shopping centres are confronted with higher vacancy rates and declining visitor numbers, which increases the risk for investors and reduces the attractiveness of such properties.

At the same time, investor preferences have shifted. While retail properties, particularly in high-traffic locations, were once considered a stable investment, interest is now focusing more on crisis-resistant and food-oriented concepts. The focus is increasingly on supermarkets and retail parks, which show more stable demand and are less susceptible to economic fluctuations.

The uncertain market environment, characterised by inflation and rising financing costs, is an additional complicating factor. These macroeconomic uncertainties have further dampened the willingness to invest in retail real estate, as many investors are waiting to see how developments in the brick-and-mortar retail sector stabilise. Overall, the retail property market is showing a clear shift away from traditional shopping centres and towards smaller, food-anchored concepts that are considered more robust and future-proof.

Commercial property investments

by city type, share of annual investment volume 2000 to Q3/2024



Source: bulwiengesa AG

Investment market for healthcare properties

Healthcare properties (nursing homes, retirement homes, clinics, etc.) continue to be a niche segment. By the third quarter of 2024, the investment volume in this segment was still well below the pre-crisis level at 800 million euros. However, there are signs of a slight recovery, which has so far been concentrated mainly on existing properties. Prices for existing care homes have become more attractive for investors and the market offers a few interesting investment opportunities. New-build projects, on the other hand, continue to face the challenge that vendors' asking prices are often still higher than potential investors' willingness to pay.

Another factor influencing investment interest is the negative image that has been attached to the sector since several operator insolvencies at the beginning of 2023. During the boom years from 2018 onwards, the operator risk was often underestimated. Investors focused exclusively on the 'long-term' leases. However, they overlooked the fact that care homes are heavily dependent on their operators. Investors are now paying more attention to this responsibility as owners. They are focusing on active asset management, comprehensive market know-how and intensive dialogue with operators. These measures enable investors to better assess and manage the operator risk.

Further challenges for the asset class include, in particular, the strict regulation of the care sector and its dependence on legal requirements. In addition, the strained personnel situation could affect the long-term operation and profitability of the facilities. From an investor's perspective, the asset class continues to offer attractive opportunities, both in terms of social demand and with regard to ESG criteria. Nursing care properties are also considered to be largely resilient, which is particularly evident in times of crisis. During the coronavirus pandemic and the recent real estate crisis, the segment recorded significantly lower rent losses than other asset classes.

Investment market for logistics real estate

Logistics real estate remains comparatively popular with investors. Although the transaction volume of EUR 6.1 billion in 2023 was significantly lower than in the previous year (EUR 10 billion, down 40 %), the logistics segment as a whole proved to be the most robust and was the top asset class for the first time, apart from residential real estate. This trend is set to continue in 2024. By the end of the third quarter, logistics and industrial real estate were just ahead of retail real estate at EUR 4.6 billion.

The high investor demand is explained by the general conditions, with intact user markets and excess demand for modern space. Despite poor growth figures in e-commerce, retailers' needs for modern distribution properties and fulfilment centres are not yet met. However, a further normalisation of demand can be assumed for the future.

Investment market for hotel real estate

The hotel investment market suffered the smallest percentage decline in the wake of the interest rate turnaround, but the market had not yet recovered from the coronavirus crisis. The volume recorded an increase of almost 50 % compared to 2023 and was around EUR 0.9 billion by the end of the third quarter of 2024.

Investment market for apartment buildings/ residential complexes

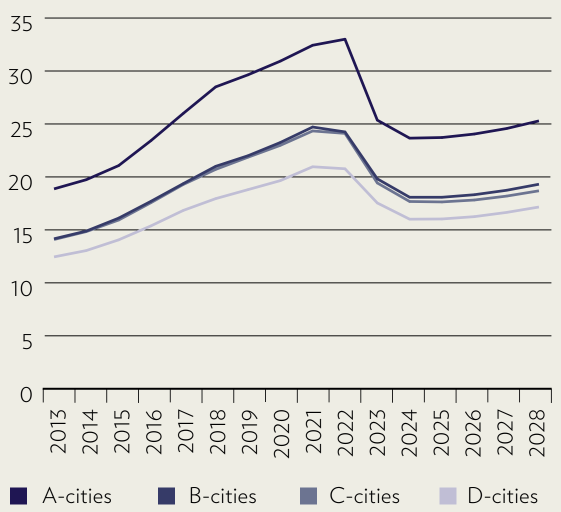
The investment market for residential real estate in Germany is showing clear signs of stabilising and recovering in 2024. After a relatively weak first quarter, the market experienced a significant upturn from the second quarter onwards, which continued into the third quarter. In total, around 6.7 billion euros were invested in apartment buildings in the first three quarters. This means that the volume of the same period of the previous year has already been exceeded. This development shows that investors' interest in residential property is returning and that the market is picking up again. In addition, the decline in prices has been stopped. From 2025 onwards, a renewed, albeit modest, price momentum is to be expected.

Investors remain particularly focused on the top 7 cities, which account for an above-average 55 % of the investment volume. Berlin stands out, recording the highest investment volume up to the third quarter at EUR 2.4 billion. Large-scale transactions (over EUR 100 million) dominated the market in 2024, accounting for almost 60 % of the total volume. This indicates the continued interest of institutional investors. Another noteworthy trend is the increase in so-called value-added deals. These are investments in properties with potential for value appreciation through modernisation, restructuring or adding storeys, etc. At the same time, core deals are regaining in importance. This increase shows that a more stable pricing structure has been re-established in the market, giving investors confidence in long-term investments. In addition, investors are increasingly prioritising ESG-compliant and energy-efficient properties. Not only do they meet the increasing regulatory requirements, but they also offer advantages in terms of operating costs and attractiveness for tenants. Investors are therefore focusing on properties that already meet modern energy standards or offer the potential for energy-efficient renovation.

The high rental price dynamics also contribute to the attractiveness of the residential property market. The lack of new buildings and the strong population growth in the conurbations has further increased the demand for rental apartments in Germany, which is leading to noticeable rent increases, particularly in the top 7 cities. Investors are also increasingly turning to affordable housing, which promises stable tenant demand and thus long-term returns. Overall, large-volume deals in central locations, a focus on ESG-compliant properties and sustained high rental demand are shaping the current market dynamics. The existing demand overhang and limited new construction activity create an environment that continues to position residential real estate as an attractive asset class.

Multiplier multi-family homes

Average annual rents, from 2024 Forecast Q3/2024



Source: bulwiengesa AG

Trends for 2025

Several key trends are expected in the real estate investment market in 2025, shaped by economic and regulatory conditions as well as changing investor preferences. A stabilising or falling interest rate environment will reduce financing costs and further improve planning for investors. Residential and logistics real estate will continue to be seen as comparatively low-risk asset classes. Food-anchored retail properties such as supermarkets are also likely to benefit.

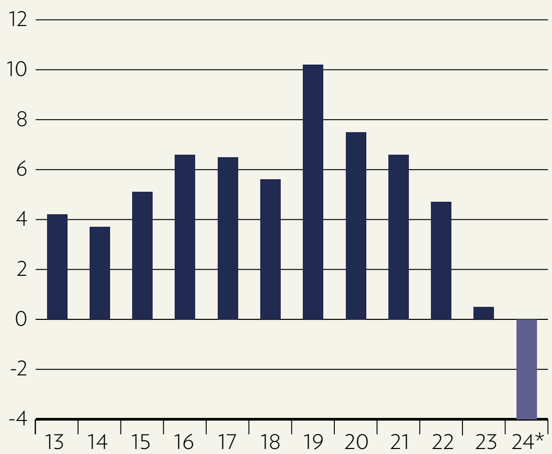
ESG criteria and sustainability will play an increasingly important role. Investors prefer energy-efficient and sustainable properties that retain their value over the long term and meet regulatory requirements. By contrast, the future of properties that do not meet modern environmental standards will depend to a large extent on further regulatory developments. Institutional investors, in particular, will increasingly demand ESG-compliant new buildings and modernised existing properties.

In the residential sector, demand for affordable housing remains a key issue, now that significantly more units have fallen out of rent control than have been created. Investments in affordable housing in metropolitan areas are attractive because they offer stable rental income and low vacancy risks. Subsidised social housing programmes could further drive capital into this area. In parallel, value-add and core-plus strategies will gain importance in all segments. Investors will increasingly seek out properties with potential for improvement, with a view to boosting their yields through renovation and repositioning. In summary, 2025 will be characterised by a mixture of caution and new opportunities.

Indirect real estate investments

While the European public real estate index EPRA recorded a negative total return in 2024, German real estate stocks ended the year with a positive performance for the most part. By contrast, open-ended real estate funds continued to face outflows that totalled EUR 4.0 billion by the end of September 2024. Around half of this – or EUR 1.9 billion – was attributable to the third quarter of 2024. Including the devaluations posted, this led to a further year-on-year decline in the fund assets of open-ended real estate funds from EUR 132.3 billion to EUR 124.8 billion as of the end of September 2024.

Open-ended real estate funds:
net inflow of funds (billion euros)



Source: BVI, *as at Q3 2024

A return to growth is expected for property companies

The year 2024 can be described as a period of deleveraging and sales for indirect investment vehicles in Germany. In particular, the property companies were able to implement their programmes as planned and reduce their debt to such an extent that a return to investment mode can be expected in 2025. The largest German real estate company has already announced its intention to resume the new construction programme. The aim is to realise a potential of 70,000 new apartments on vacant plots, as well as densification and top-ups. In addition, the focus on serial renovation and modular (timber) new builds should help to keep construction costs under control. In terms of portfolio valuations, the majority of companies focused on residential real estate expect property values to stabilise by the end of 2024. This should also stabilise the debt situation, with net asset values expected to grow again in 2025. On the earnings side, the real estate companies are also confident. Some companies that did not distribute a dividend to shareholders in 2024 plan to resume doing so in 2025. Nevertheless, financing costs are likely to continue to weigh on the income statement in 2025, which we believe will limit the dividend potential.

Open-ended real estate funds still in sales mode

Due to the 30 percent debt ceiling, higher financing costs are less of an issue for real estate funds than for real estate companies. However, the ongoing redemption of fund units is forcing open-ended real estate funds – unlike real estate companies – to remain in sales mode. In the still tense European transaction market, these commercial transactions cannot yet be carried out at book values in some cases. This implies potential for further devaluation pressure and declining net asset values, and leads us to believe that investor confidence in this asset class is not likely to return quickly. By contrast, lower yields in the bond market (10-year Bund: 2.4 % yield) could provide some relief, making the distribution yields of open-ended real estate funds more attractive again. For private investors, the ongoing sales of open-ended funds create opportunities to purchase larger building complexes that were previously reserved primarily for institutional investors (e.g. the sale of ‘Fünf Höfe’ in Munich from an institutional investor to a family office).

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Sources

Data sources are the Federal Statistical Office, the Federal Employment Agency, the Deutsche Bundesbank, Immoscout 24, Deutsche Hypo Immobilienklimaindex, OECD and BVI, the databases of bulwiengesa AG and Bank Julius Baer & Co. Ltd.

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