bulwiengesa

MARKET SURVEY

bulwiengesa Property Market Index 1975 - 2020

Commercial & Residential – Rents & Prices – 125 German Cities – since 1975

Owner-Occupied Apartments • Terraced Houses • Residential Rents • Building Land • Retail Rents • Office Rents

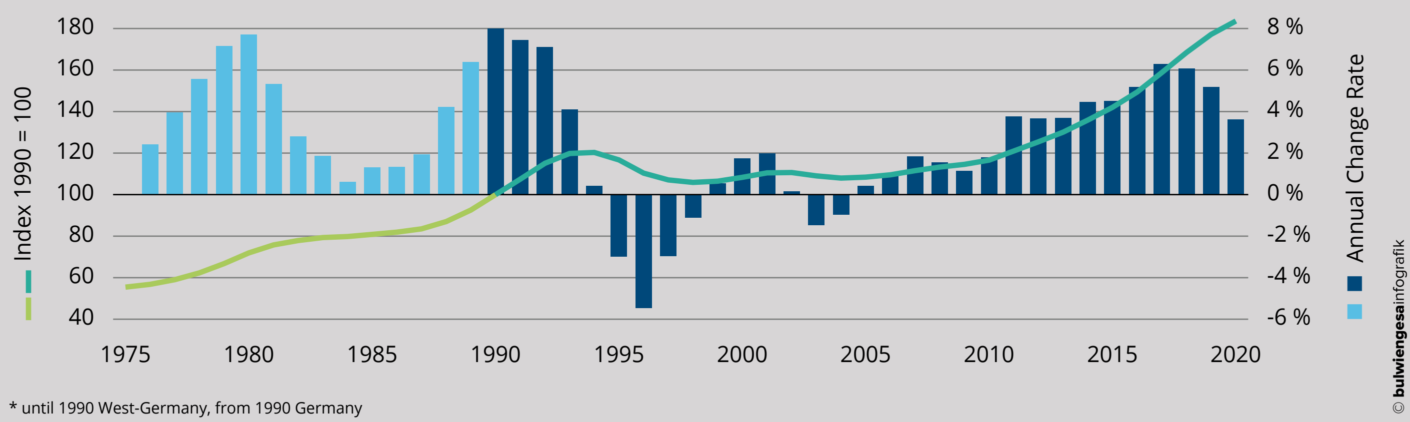
» Price Hikes despite COVID-19: bulwiengesa Property Index Gains +3.6 % in 2020

Germany experienced a historic economic slump (GDP: -5.4 %) in 2020 due to coronavirus. Accommodative monetary and fiscal policy measures have been taken since to cushion the external shock. The labour market has thus remained far more robust than during the economic and financial crisis from 2007-2010. Industrial output is strong enough to make up for setbacks in the service sector. In addition, global demand, still intact, has stabilised the business cycle. At +3.6 %, the bulwiengesa Property Index continued its growth trajectory for the 16th year straight. Yet the growth rate, which has been slowing since 2018, slowed more rapidly yet.

The key findings of the 2020 Property Index:

- The change rates of the Property Index drop back to the growth rates of the years 2011-2013 while remaining well above those of the Lehman crisis years.
- All housing market indicators show (occasionally hefty) premiums, esp. for properties for sale.
- Office and retail rents are following a regressive trend in many cases, whereas commercial land prices are going up.
- The spread between the Property Index and the inflation narrowed marginally to 3.1 %.

bulwiengesa Property Market Index
1975 to 2020 for Germany*



* until 1990 West-Germany, from 1990 Germany

» Housing Market Sustains Growth Trend

The **Residential** sub-index kept moving up at +5.0 % (previous year: +5.8 %) but fell short of the brisk rates of increases seen 2016 to 2018. Year on year, four of the five analysed variables showed slowing growth rates. Overall, the 5-year average is now at +6.5 % p.a., with properties for sale the main price drivers of the lasting upward trend. Irrespective of the property type, be it terraced houses (+7.5 %), land for single-family detached homes or new-build condominiums (+5.8 % each), selling prices keep going up. By contrast, the average German rental growth is moving at a rather moderate pace for flats both in new (+3.4 %) and in existing buildings (+2.3 %).

„People always need a place to live“ is an almost cynical thing to say during the coronavirus crisis. However: Low mortgage rates in combination with pent-up demand and strained rental housing markets in the conurbations have defined the German housing market for years. Unlike the market cycles of the 1980s and 1990s, construction output has continuously trailed demand – never creating the kind of oversupply typically preceding a bubble. Moreover, there have been no large-scale rent collection losses so far. Since the level of interest rates is more or less flatlining, and since the building activity makes price drops a negligible risk, residential property prices are likely to increase slightly in the years ahead, albeit at slower growth rates.

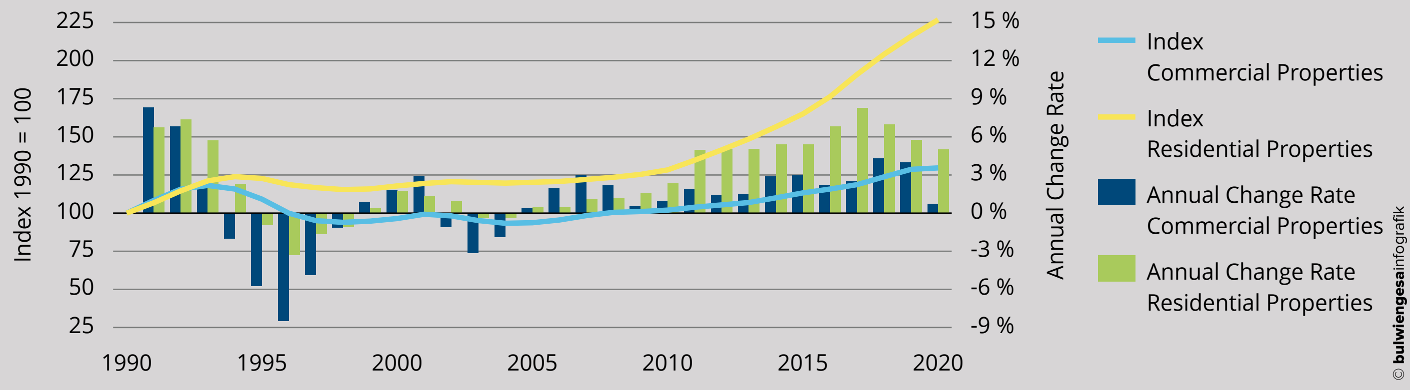
» Commercial Property Index Stagnantes at +0.7 %

The lockdowns caused revenues in the **retail sector** to take a nosedive, forcing a number of retailers out of business. Product groups fashion and footwear as well as hardware/personal needs were particularly hard hit, as they suffered revenue losses of 10 % to 20 % in in-store retail. That said, signs of a deeper structural change within the retail landscape began to emerge years ago, well before the corona effect. As a result, retail rents in prime high-street locations softened slightly during the past two years and dropped more sharply by -2.2 % in 2020. Further long-term rent reductions are likely in high-street pitches because the costs of goods sold and staff costs leave little potential for savings. Lowering rents and ancillary rental costs in analogy to the sales index may stabilise the effort rate. Secondary locations have seen a more favourable development, with key figures flatlining so far. Physical retailers in the convenience (esp. food) and DIY/gardening/leisure segments reported revenue increases of up to 5 % in 2020.

The **office market** presents a structurally different picture: The steady rise in office rents has persisted since 2010, most recently with a very dynamic +9.1 % in 2019. Vacancies are virtually zero in some cities, and requests for office accommodation were often hard to meet. On the office real estate market, the coronavirus pandemic has caused expansion plans to be shelved and triggered a shift toward working from home. As a result, office rents in downtown locations softened for the first time since 2009, by -0.8 %. The main factor here is plummeting demand. The office take-up of 2020 was down to a year-end total of 4.6 million sqm RAC (-28.3 % year on year). At the same time, new office space increased by +22.7 % to 2.6 million sqm RAC, the largest figure since 2003. Especially in the more cyclical A and B Class markets, vacancy figures are now pushing up, whereas the smaller Class D cities registered barely any change. The average drop in office take-up exceeded 25 % in the markets of the A and B Class cities, whereas C and D Class markets merely reported a 10 % decline. These figures should be seen in a long-term context: Even now, the office take-up figures of the A and B Class cities still match the 30-year mean since 1990, and vacancy rates in these cities are only 40 % of what they were in the last crisis peak in 2010 (4.1 million vs. 10.4 million sqm RAC). So far, the office market has just been shaken up badly, but remains largely robust in its fundamental structures.

bulwiengesa-Index for Commercial and Residential Properties

1990 to 2020



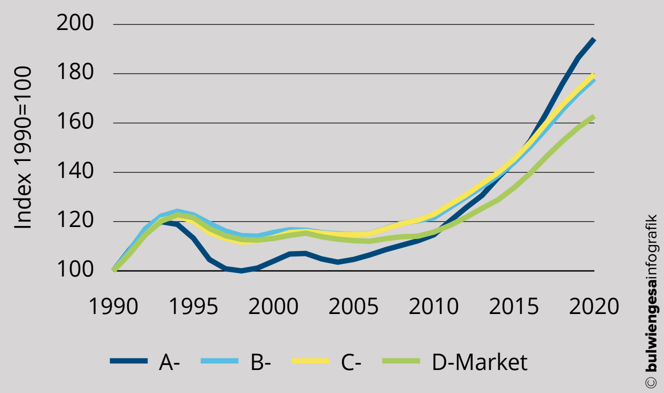
The commercial property index registered a dynamic growth in **land prices** at a rate of +4.5 %. Since 2014, growth rates have consistently maintained a high range of +4.0 % to +8.7 %. The strong demand for commercial-zoned plots is explained by the persistently keen property investment demand, as well as by the specific demand for logistics real estate. The crisis has, at long last, brought out the system-critical role of this economic sector. Commercial business and society at large are equally dependent on interference-free supply chains. Moreover, e-commerce got a tremendous boost (about +15 % in 2020) from the lockdown. The volume of new logistics property construction has soared in response, and not just in previously sought-after locations but also outside the top regions, sometimes built on speculation. The trend is reflected not least in a high transaction volume for logistics assets and multi-use and multi-let commercial real estate (Unternehmensimmobilien).

» ABCD Class Cities in 2020: Growth across the Board

In the overall index, Germany's „Big Seven" cities showed the highest score among the various city types at +4.0 %, and have retained their lead in the overall index since 1990 (194.23 points). Growth in the B, C and D Class cities transpired on a relatively uniform and high level of +3.6 % to +3.5 %. At 162.80 points, growth during the reference period was slowest in Class D cities.

Property Market Index by Market Type

1990 to 2020



The fastest growth among the **housing market** variables was achieved by property and land prices in Class A cities, specifically for terraced houses (+9.9 %) and for new-build condominiums (+7.0 %). When taking all of the city classifications into account, however, even the lowest change rate among the property or land price variables is as high as ever at +4.2 % (condominiums in Class C cities). New-build rents kept seeing the fastest growth in Class A cities (+4.4 %) while rents for flats in existing buildings grew fastest in Class C cities (+2.4 %).

Commercial market variables suggest a downturn in high-street retail rents in cities of every category (ranging from -1.9 % to -3.2 %) and stagnant rent levels in secondary retail locations. Office rents suffered a substantial correction by –3.1 % in the more volatile Class A cities, by -0.4 % in Class B markets. Rents in C and D Class cities continue to rise slowly. The big winners are commercial-zoned plots in B and C Class markets (+6.2 and +5.7 %). Class A markets (4.1 %) and Class D markets (+2.7 %) also followed an upward trend.

Rank of Average Change Rates

since 1975 – all Segments

Rank	City	Ø p. a.	Rank	City	Ø p. a.
1	München	4.1 %	40	Bochum	2.2 %
2	Regensburg	3.5 %	41	Essen	2.2 %
3	Rosenheim	3.4 %	42	Wuppertal	2.2 %
4	Frankfurt (Main)	3.3 %	43	Bremen	2.1 %
5	Wiesbaden	3.3 %	44	Bielefeld	2.1 %
6	Augsburg	3.2 %	45	Duisburg	2.1 %
7	Mainz	3.1 %	46	Krefeld	2.0 %
8	Heidelberg	3.1 %	47	Saarbrücken	2.0 %
9	Stuttgart	3.1 %	48	Hildesheim	1.9 %
10	Trier	3.0 %	49	Siegen	1.9 %

Note: only cities in West-Germany

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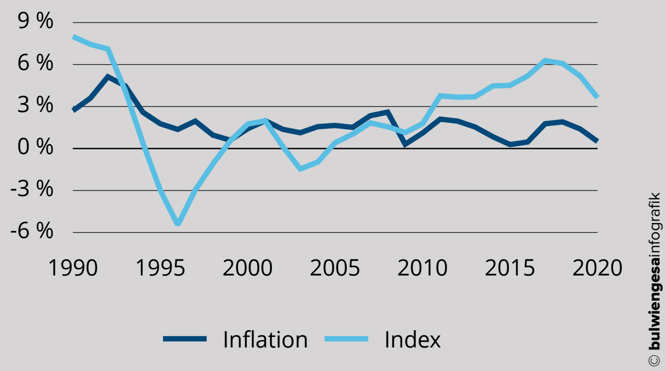
» Gap Closing between Inflation and Property Index

The temporary value-added tax cut helped to keep the inflation rate 90 basis points lower than last year. Thus, the spread between the Property Index and the inflation rate (2020: 3.1 %) still tops the 3 % mark although the Property Index declined noticeably. This means that residential real estate has acted as an inflation safeguard (+4.5 %) since 2009, while commercial real estate pulled level for the first time since 2013 (+0.2 %). With a view to the end of the VAT tax holiday, the inflation rate is predicted to go up to around 1.5 % in 2021.

Inflation und Index

Change Rates 1990 to 2020



Rents and Prices for Residential and Commercial Property in Germany

	WEST-GERMANY incl. Berlin (West)				GERMANY				
	Value		Change (nominal)		Value		Change (nominal)		
	1975	1990	1975 - 1990		1990	2020	1990 - 2020		2019 - 2020
(Euros/sqm)			total	p. a.			total	p. a.	
O-o* Apartments	1,313	2,053	56.3 %	3.0 %	2,026	4,974	145.5 %	3.0 %	5.8 %
Terraced houses (Euros)	128,310	212,295	65.5 %	3.4 %	206,087	471,874	129.0 %	2.8 %	7.5 %
Rents (new)	4.12	6.81	65.3 %	3.4 %	6.79	12.62	85.9 %	2.1 %	3.4 %
Rents (existing)	2.54	5.17	103.5 %	4.9 %	4.49	9.95	121.6 %	2.7 %	2.3 %
Sites for family homes	106	235	121.5 %	5.4 %	152	384	152.1 %	3.1 %	5.8 %
Prime pitch retail rents	33.80	68.74	103.4 %	4.8 %	55.67	76.12	36.7 %	1.0 %	-2.2 %
Suburban retail rents	10.74	18.39	71.2 %	3.7 %	16.47	14.70	-10.7 %	-0.4 %	0.1 %
City office rents	6.21	10.99	77.0 %	3.9 %	12.33	14.43	17.0 %	0.5 %	-0.8 %
Commercial land	69	123	79.3 %	4.0 %	106	186	75.6 %	1.9 %	4.5 %
bulwiengesa Property Market Index			**80.3 %**	**4.0 %**			**83.6 %**	**2.0 %**	**3.6 %**
		Residential	79.1 %	4.0 %			126.8 %	2.8 %	5.0 %
* Owner-occupied Apartments		Commercial	81.9 %	4.1 %			29.6 %	0.9 %	0.7 %

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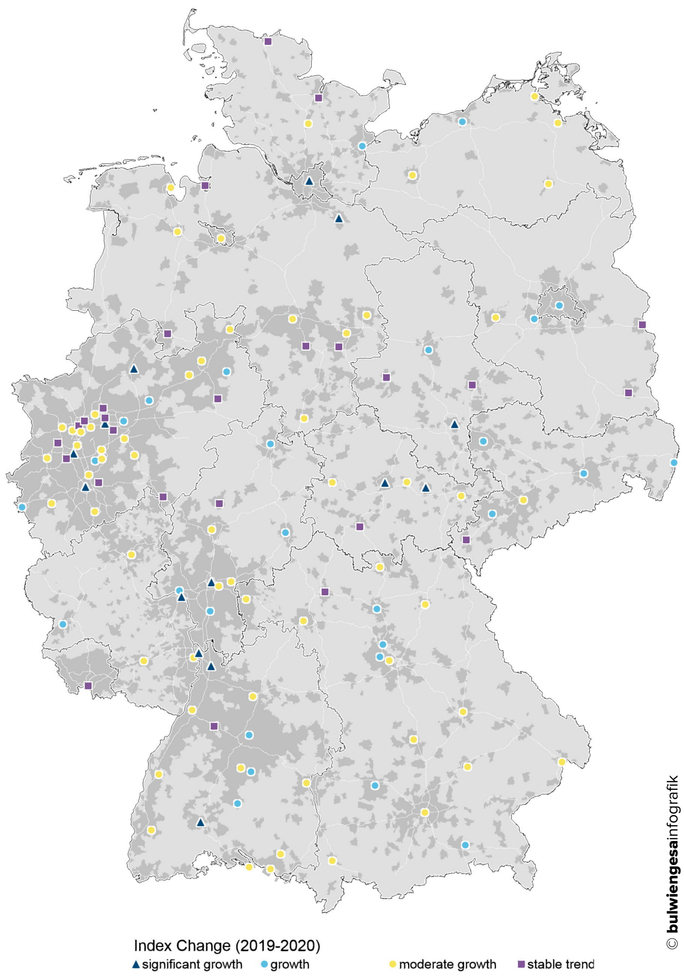
» Expectations for the future

In many areas, 2020 was a year of diverging developments. Among the segments of the real economy hardest hit by the coronavirus crisis were the manufacturing industry and the hospitality business. Finance and insurance service providers had a much easier time coping with 2020, as did the information and communication sectors.

Within the real estate industry, the residential and logistics segments emerged as stable growth markets. Now as in the years ahead, the segments residential, office and logistics are likely to be the lower-risk asset classes in the real estate market. By contrast, the hotel segment and in-store retailing count among the casualties of the crisis due to the contact restrictions. A comparison of the various cities suggests that repositioning inner cities and shopping centres are the key to resilience in this asset class. In addition to the largely stable retail trade for daily needs, bringing in additional components for mixed-use properties are key to a commercial real estate market with fresh growth prospects.



» More Details

Detailed information, data series and evaluations are available separately. If you are interested, please get in touch with us.

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