MARKET SURVEY

# bulwiengesa Property Market Index 1975 - 2021

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

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

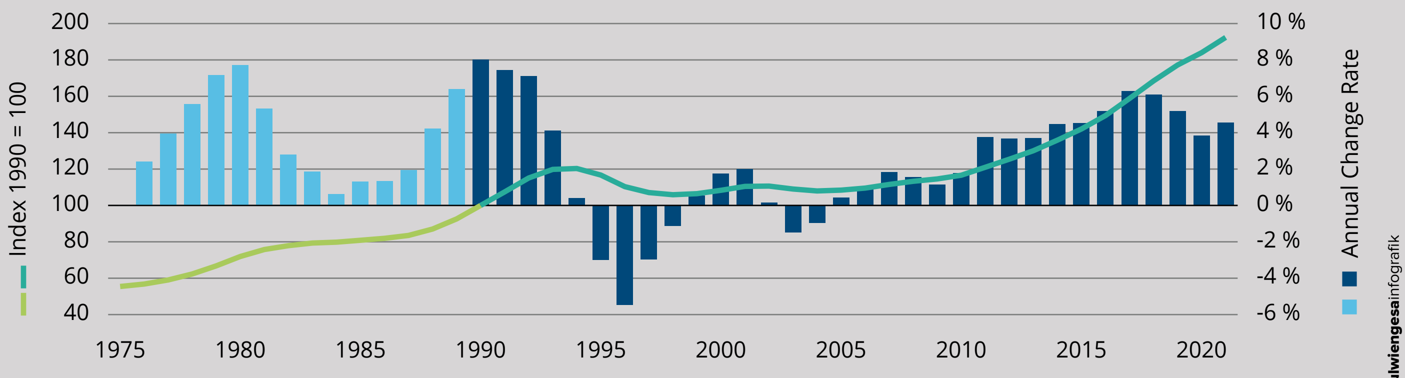
**» Despite Ongoing COVID-19 Crisis:**
**bulwiengesa Property Index gains +4.6 % in 2021**

Following a decline of the real GDP by -4.6 % and a private savings ratio of 16.1 % in 2020, the German economy was marked by pandemic-related restrictions, catch-up effects and supply bottlenecks in 2021. Consumer spending, economic output and wage levels have bounced back, yet slower than in other advanced economies. At the same time, the inflation risks were driven up by one-off factors (VAT hike, carbon levy, energy prices). Rising by +4.6 %, the bulwiengesa Property Index maintained its growth trajectory for the 17th year in a row while actually topping the growth rate of the previous year.

The key takeaways of the 2021 Property Index:

- The change rates of the Property Index returned to their level in 2014/2015 while falling short of the banner years of 2016 through 2019.
- All housing market variables show (sometimes significant) mark-ups, especially purchase properties.
- Prime retail rents have softened for the past 4 years, commercial properties follow a swift upward trend.
- The spread between the Property Index and the inflation narrowed to 1.4 %.

**bulwiengesa Property Market Index**
1975 to 2021 for Germany*




* until 1990 West-Germany, from 1990 Germany

## » Housing market shows sustained growth

At +5.7 % (prior year: +5.2 %), the **Residential** sub-index has increased steadily for the past three years, but lags behind the brisk growth rates seen 2016 through 2018. Year on year, three of the five analysed variables showed accelerating growth rates. The 5-year average is now at +5.9 % p. a., with properties for sale the main price drivers of the upward trend. Irrespective of the property type, be it attached houses (+7.8 %), land for detached homes (+7.6 %) or new-build ownership apartments (+6.4 %), selling prices keep going up. By contrast, the average German rental growth is moving at a rather moderate pace for flats both in new (+3.6 %) and in existing buildings (+2.2 %).

The construction of new residential accommodation has become the core issue of current housing policy discussions, which seek to address associated economic and social issues. Germany needs not just more housing but more residential units (RU) in line with demand (singularisation, subsidised housing, senior- and family-friendly floor plans). Although the construction output is at its highest (2020: c. 306,000 RU) since the early Zero Years, and although approval figures keep rising, the stated completion targets (400,000 RU p. a.) continue to be missed. Thus, the construction backlog rose to a level not seen since 1998 (> 800,000 RU) in 2021. Reasons for this include double-digit construction price hikes, the construction capacity crunch, and a massive surge in land prices. Indeed, price increases have long ceased to be an issue limited to conurbations, but extend into the peripheral regions now.

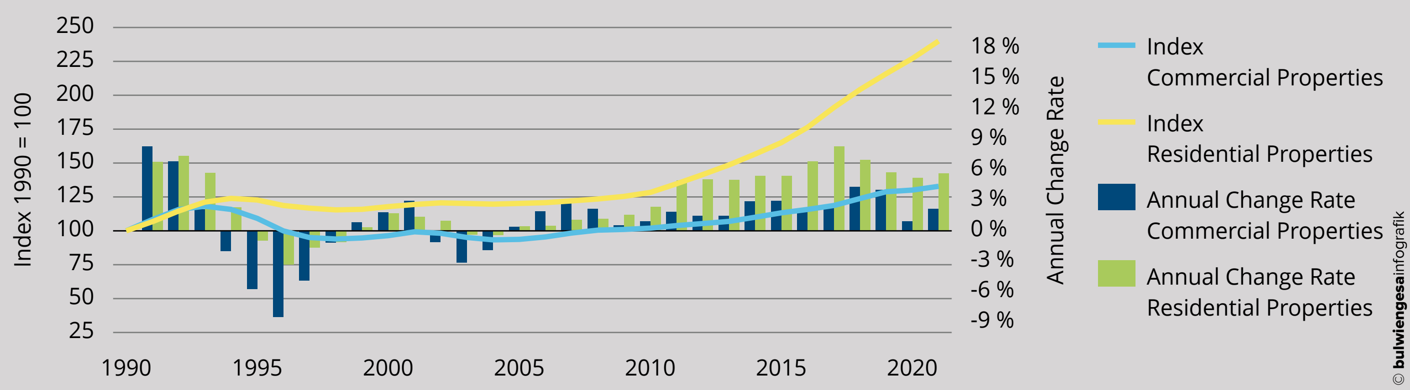
## » Commercial Property Index rises by +2.1 %

Lockdown, access restrictions, low customer footfall, the continued shift in retail sales toward online retailing – 2021 was quite evidently off to an unfavourable start for the physical **retail** sector. The situation brightened during the second half of the year, prompting the Federal Statistical Office to report a nominal revenue increase by around +2.7 % (by November 2021). But in-store fashion (-8.3 %) as well as home-furnishings and building material (-7.9 %) suffered a year-on-year drop in sales. It needs to be remembered that the temporary VAT cuts (from 19 % to 16 %, and from 7 % to 5 %) during the second half-year are likely to have triggered advance purchases of costly goods. Overall, retailing presented a comparatively stable picture during the second year of the pandemic. That being said, the persistent pressure on earnings in the physical retail sector, elevated expenditures toward safety measures among other things, a difficult procurement situation because of the sometimes-limited availability of goods, etc., are all reflected in the softening retail rents. Prime rents in high-street pitches declined further (-3.0 %) across all city categories, continuing the previous year's trend. Secondary and district locations (0.0 %) were less affected.

Modest rental uplift coincides with rising vacancy rates: What seemed implausible initially became reality for the **office market** in 2021. Office rents increased by +1.9 %, although they clearly failed to keep up with the inflation. Price hikes are mainly reported from new-build development projects, whose construction costs have soared and which must satisfy above-average quality requirements, prompted not least by occupier demands and ESG criteria. At the same time, take-up gradually normalised (+8.5 % compared to 2020) while the completions volume increased significantly (+10.2 %) in 2021. Forecasts suggest the pipeline is well filled, too. While planning delays are to be expected here and there (material shortages, lack of construction capacity), the implementation of most projects appears to be secure. The ongoing transformation of the office work environment (remote working, flexible workspace, etc.) pushed vacancies up by more than +12 %. But this should be no cause for concern, as the vacancy rate in many markets remains at the level of the fluctuation reserve, i. e. between 4 % and 5 %.

**bulwiengesa-Index for Commercial and Residential Properties**

1990 to 2021



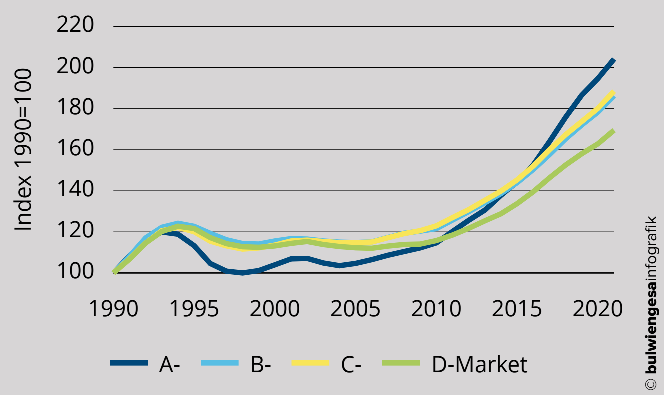
Once again, **commercial plots** registered the steepest price hikes (+7.4 %) among the various commercial variables analysed. The price of such land has been rising unchecked since 2009, and principally reflects the current economic model and the urban and regional development that sets the scene for it. Consumption requires space (manufacturing, distribution, storage), and the supply of such space is contracting steadily. Bearing in mind that greenfield soil sealing is to be reduced, it is also getting more difficult to have new development land zoned. Although brownfield developments are steadily gaining in significance, and although seemingly peripheral logistics regions report growing project volumes, the demand for logistics space exceeds available supply. As a result, logistics rents are successively going up as well, especially in major conurbations and urbanised regions with convenient transport links.

## » ABCD class cities in 2021: growth across the board

Germany's A- and C-class cities achieved the fastest growth in the comprehensive index with a rate of +4.9 %, and also retained their lead in the comprehensive index since 1990 (A: 204.2 points, C: 188.5 points). Growth in the B and D Class cities maintained a virtually uniform high level of +4.4 % and +4.1 %, respectively. At 169.5 points, growth during the reference period was slowest in Class D cities.

### Property Market Index by Market Type

1990 to 2021




Among the residential market variables, terraced houses (+9.0 %) and new-build apartments (+7.2 %) in Class A cities saw the strongest growth. Land prices for detached homes also increased in cities of all categories at rates of 7.0 % to 9.0 %, increasing most rapidly in Class B cities. Class A cities remained the growth leader in new-build rents (+4.8 %), while passing rents increased at moderate rates of +2.0 % (D city) to +2.4 % (A city). As in previous years, the percentage changes in the Class A cities outperformed smaller towns.

**Commercial market variables** reveal a sustained decline in high-street retail rents in cities of every category (ranging from -2.5 % to -3.5 %) and stagnant-to-decreasing rent levels in secondary retail locations (-0.7 to +0.1 %). Office rents increased faster in B- and D-Class cities (about +2.0 %) than in A- (+1.7 %) and C-Class cities (+1.5 %), if by a slim margin only. The costs of commercial-zoned land are still the main price driver, esp. in Class C markets (+10.7 %), but obviously elsewhere too (+6.2 to +7.3 %).

### 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 | 2.3 % |
| 2 | Rosenheim | 3.5 % | 41 | Bremen | 2.2 % |
| 3 | Regensburg | 3.4 % | 42 | Essen | 2.2 % |
| 4 | Wiesbaden | 3.3 % | 43 | Wuppertal | 2.2 % |
| 5 | Frankfurt (Main) | 3.3 % | 44 | Bielefeld | 2.2 % |
| 6 | Mainz | 3.3 % | 45 | Duisburg | 2.1 % |
| 7 | Augsburg | 3.2 % | 46 | Krefeld | 2.0 % |
| 8 | Heidelberg | 3.2 % | 47 | Saarbrücken | 2.0 % |
| 9 | Stuttgart | 3.1 % | 48 | Hildesheim | 2.0 % |
| 10 | Freiburg | 3.0 % | 49 | Siegen | 1.9 % |

Note: only cities in West-Germany

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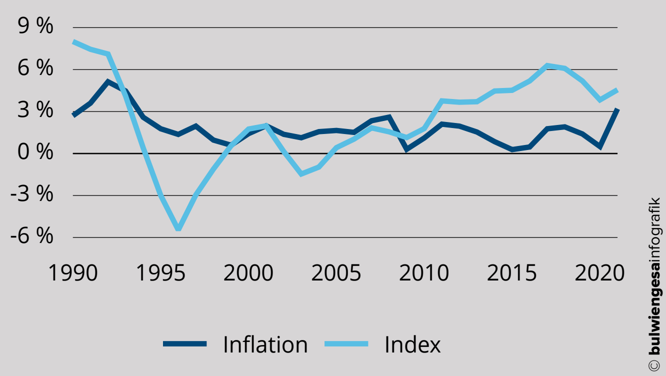
## » Gap closing between inflation and property index

Driven by one-off factors, the inflation rate has accelerated since the start of 2021. In addition to the adjustment of the VAT rates, supply bottlenecks and the rise in energy commodity prices caused the inflation rate to accelerate to 3.2 % in 2021. This implies a sustained, if modest, inflation protection for residential real estate (+2.5 %) but a negative rate of -1.1 % for commercial real estate. Short-term, the real estate market will have to cope with an increased inflation rate in 2022/2023, too.

### Inflation und Index

Change Rates 1990 to 2021



## 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 | 2021 | 1990 - 2021 | | 2020 - 2021 |
| (Euros/sqm) | | | total | p. a. | | | total | p. a. | |
| O-o* Apartments | 1,313 | 2,053 | 56.3 % | 3.0 % | 2,026 | 5,289 | 161.0 % | 3.1 % | 6.4 % |
| Terraced houses (Euros) | 128,310 | 212,295 | 65.5 % | 3.4 % | 206,087 | 510,628 | 147.8 % | 3.0 % | 7.8 % |
| Rents (new) | 4.12 | 6.81 | 65.3 % | 3.4 % | 6.79 | 13.07 | 92.5 % | 2.1 % | 3.6 % |
| Rents (existing) | 2.54 | 5.17 | 103.5 % | 4.9 % | 4.49 | 10.17 | 126.5 % | 2.7 % | 2.2 % |
| Sites for family homes | 106 | 235 | 121.5 % | 5.4 % | 152 | 415 | 172.2 % | 3.3 % | 7.6 % |
| Prime pitch retail rents | 33.80 | 68.74 | 103.4 % | 4.8 % | 55.67 | 74.04 | 33.0 % | 0.9 % | -3.0 % |
| Suburban retail rents | 10.74 | 18.39 | 71.2 % | 3.7 % | 16.47 | 14.67 | -10.9 % | -0.4 % | 0.0 % |
| City office rents | 6.21 | 10.99 | 77.0 % | 3.9 % | 12.33 | 14.89 | 20.8 % | 0.6 % | 1.9 % |
| Commercial land | 69 | 123 | 79.3 % | 4.0 % | 106 | 200 | 88.5 % | 2.1 % | 7.4 % |
| **bulwiengesa Property Market Index** | | | **80.3 %** | **4.0 %** | | | **92.4 %** | **2.1 %** | **4.6 %** |
| Residential | | | 79.1 % | 4.0 % | | | 140.0 % | 2.9 % | 5.7 % |
| Commercial | | | 81.9 % | 4.1 % | | | 32.8 % | 0.9 % | 2.1 % |

* Owner-occupied Apartments

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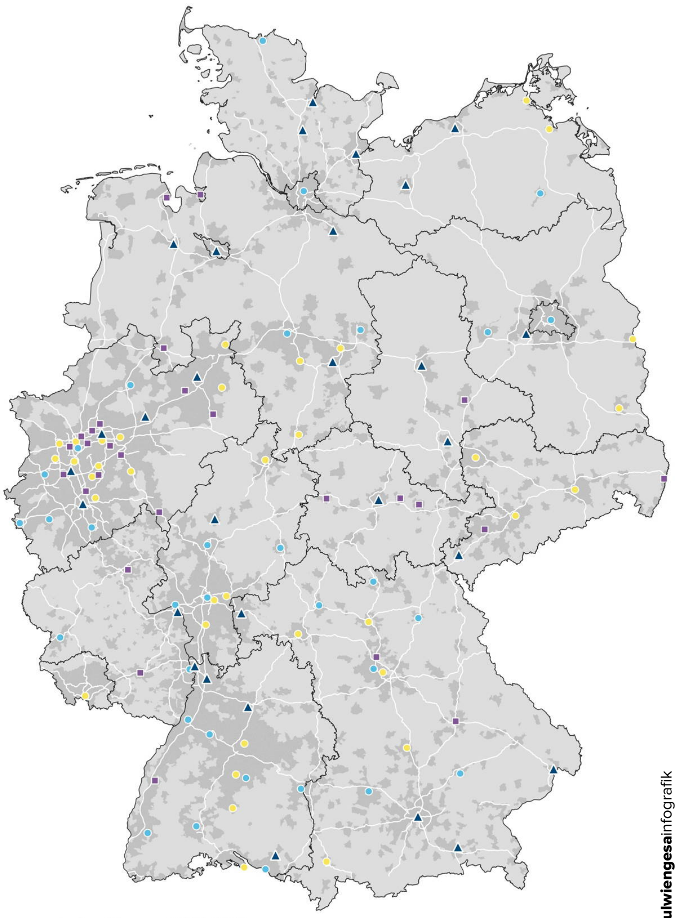
### » Expectations for the future

According to experts, the pandemic seen so far will evolve into an endemic situation. While this may keep causing certain fluctuations (new virus variants, delivery and transport bottlenecks, energy prices) in economic strength, it will eventually transition to a sustainable normalisation of economic life.

Yet climate change requires the real estate economy to embrace sustainability in a different sense, too. In the future, a much stronger focus will have to be on „impact investing". Even now, ESG conformity has become an important criterion in addition to classic search profiles such as core location or high occupancy rates. Regions with a high level of building activity and high modernisation quotas will experience a gradual transition to certified properties. But price-sensitive locations, property types with low profit expectations or, in general, properties with uncertainty factors that compromise their value-in-use could, at worst, degrade into stranded assets if they fail to meet the EU guidelines. Since the goal of carbon neutrality will necessitate costly new construction and the transformation of the building stock, and since demand for real estate will remain strong, persistent price growth is to be expected.

### » More Details

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



**Index Change 2020-2021**

▲ significant growth • growth • moderate growth ▪ stable trend

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